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DATE: February 8, 2018

TO: Programs and Administration Committee
Planning Committee/Recycling Board

FROM: Wendy Sommer, Executive Director
Pat Cabrera, Administrative Services Director

SUBJECT: Multi-year Fiscal Forecast

SUMMARY

Starting in 2016, staff committed to presenting a revised multi-year forecast on an annual basis in preparation of budget development. At both the February 8, 2018 Programs and Administration Committee and the Planning Committee/Recycling Board meetings, staff will present a revised multi-year forecast based on new core revenue estimates and a reduced core expenditure plan.

DISCUSSION

In Fiscal Year 2016-17 we spent about 93% of the core budget, and collected 26% more revenue than projected at the beginning of the fiscal year. The surplus is due to several reasons: an increase in tonnages (explained more below), salary savings, hard cost savings from consolidation of projects and scopes of work, and reduction in end-of-year encumbrances as we move away from the "use it or lose it" mindset of past budget practices. We anticipate this surplus to shrink over the years as we improve our budgeting processes.

Category	FY 16-17 Budget	FY 16-17 Actuals	Difference
Core expenditures	**$11,444,555**	**$10,685,144**	**-$759,411**
Core revenues			
Tonnage: facility (in-county)	$4,069,961	$5,056,005	$986,044
Tonnage: mitigation	$289,581	$382,842	$93,261
Tonnage: Measure D	$3,473,064	$4,313,982	$840,918
Tonnage: fee enforcement (out of county)	$200,000	$476,915	$276,915
Benchmark	$798,376	$927,963	$129,587
Property and interest	$586,023	$685,724	$99,701
Miscellaneous and citations	$15,000	$49,253	$34,253
Total core revenues	**$ 9,432,005**	**$11,892,683**	**$2,460,678**

Based on actuals, the revised ending core fund balance (more accurately described as available working capital) including transfers and closed contracts totaled approximately $13.7M in FY 16-17.

Even with loss of revenues from San Francisco's import mitigation fee and the discontinuation of the Benchmark Fee (totaling approximately $3.3 million annually), the Agency continues to accumulate fund balances/working capital and reserves to cover any shortfalls and to make any pension related lump sum payments as we proceed with our long-term expenditure plan. This approach will ensure the ongoing operation of the agency without the need to increase fees in the near future.

Tonnage Revenue Projections

For the past two years we have been using a simpler model to project tonnages, as the previously used statistical model was no longer viable. Upon examining tonnages going back to 1999 and based on those trends, we chose to implement a modest annual tonnage decline averaging approximately 3%. However, we have seen an uptick in tonnages starting in FY 15-16. While the one-time disposal tonnages from salt impacted soils in FY 16-17 and other special wastes in FY17-18 can explain some of the upturn, disposal in general has increased. Part of this increase can be explained by population growth and a strengthening regional economy, which is also supported by statewide disposal trends.

In FY 16-17, tonnage-based fees comprised over 86% of the Agency's core revenues. The remaining 14% came from property-related revenues, interest, mandatory recycling enforcement activities and the now rescinded benchmark fee. For the current fiscal year (FY 17-18), we are estimating that actual tonnage revenues (not including import fees) will total $9.8 million, which represents an increase of approximately $800,000 (8.9%) compared to the budgeted amount. As such, total core revenues in FY 17-18 are now estimated to total approximately $11.1 million.

Alameda County's population has increased from 1.4 million in 2000 to 1.5 million in 2010 and just under 1.7 million today. In addition, the attached tonnage trend graph (Attachment B) shows the recent uptick in disposal activity. As such, the new baseline for future projections are reset starting with FY 17-18. From that baseline, and after adjusting for the one-time tonnages (salt pond cleanup, special wastes, etc.), we have decreased the projected FY 18-19 tonnage estimates by 8% in anticipation of reduced tonnages due to the new Organics Materials Recovery Facility (OMRF) at Davis Street, San Leandro. From that point, are estimating that tonnages will continue to decline modestly through FY 21-22. This forecast could be revised if there is a major downturn in the economy during this period or an additional waste reduction focus area surfaces, contingent upon the results of the waste characterization study. Based on these projections, at the end of FY 21-22 disposal will total approximately 1.1 million tons. While this number does not reflect our "less than 10% good stuff in garbage" goal (which would translate into roughly 600,000 tons of waste disposal), it is a more reasonable target based on the OMRF at Davis St., our increased focus on food waste prevention, and continued mandatory recycling ordinance efforts. As always, we will continue to monitor disposal trends carefully and apprise the boards as needed. Given that we also have a fiscal reserve of $2.1 million (that we have never had to use for revenue shortfalls) we feel there is sufficient cushion should revenues fall significantly below projections.

Core Expenditures

Staff is in the process of developing the FY 18-19 budget in alignment with the Board-approved guiding principles and with a focus on cost synergies. The FY 18-19 core budget goal is approximately $10.6 million, which reflects a reduction of $400,000 or a 3.6% reduction compared to the FY 17-18 budget. As shown in the following multi-year forecast (Attachment A2), the expenditure projections from FY 18-19 to FY 21-22 show a reduction of core expenditures of $400,000 annually. We chose a figure that we felt was realistic in terms of reducing our expenditures while still maintaining sufficient resources to fund our programs.

Salary savings and CalPERS

Salary savings from the recent retirements totaled over $500,000 this year, even after certain positions were backfilled as needed. We included this amount in the projections, but did not include savings that may result from future retirements. The one-time cost to CalPERS for the retirement service credit of approximately $500,000 would occur in FY 19-20, and will be paid from fund balance. We are aware that changes in the retirement discount rate and health care cost could also affect our multi-year forecast. However, we are planning to make a sizeable lump sum payment towards our unfunded liability (UL) to meet the 90% funded status goal adopted by the WMA Board. Based on a recent discussion with our CalPERS actuary, a $3.4 million payment towards our UL based on the current discount rate should result in a funded status of close to 90%. This payment will also reduce our annual retirement related operating costs by approximately $200,000 per year. We believe we can make this payment using a combination of the NextERA conservation easement payment and the Transportation Improvement Program (TIP) reserve, which is not needed for roadway improvements since San Francisco refuse is no longer being transported for disposal at the Altamont landfill.

Multi Year Fiscal Forecast

Attachment A1 (Prior Year Multi-Year Forecast) shows a core revenue shortfall of $600,000 at the end of FY 20-21. Based on the revisions discussed above, at the end of FY 20-21 the forecast now shows core revenue aligning with core expenditures as well as a small surplus of $200,000 at the end in FY21-22 (Attachment A2).

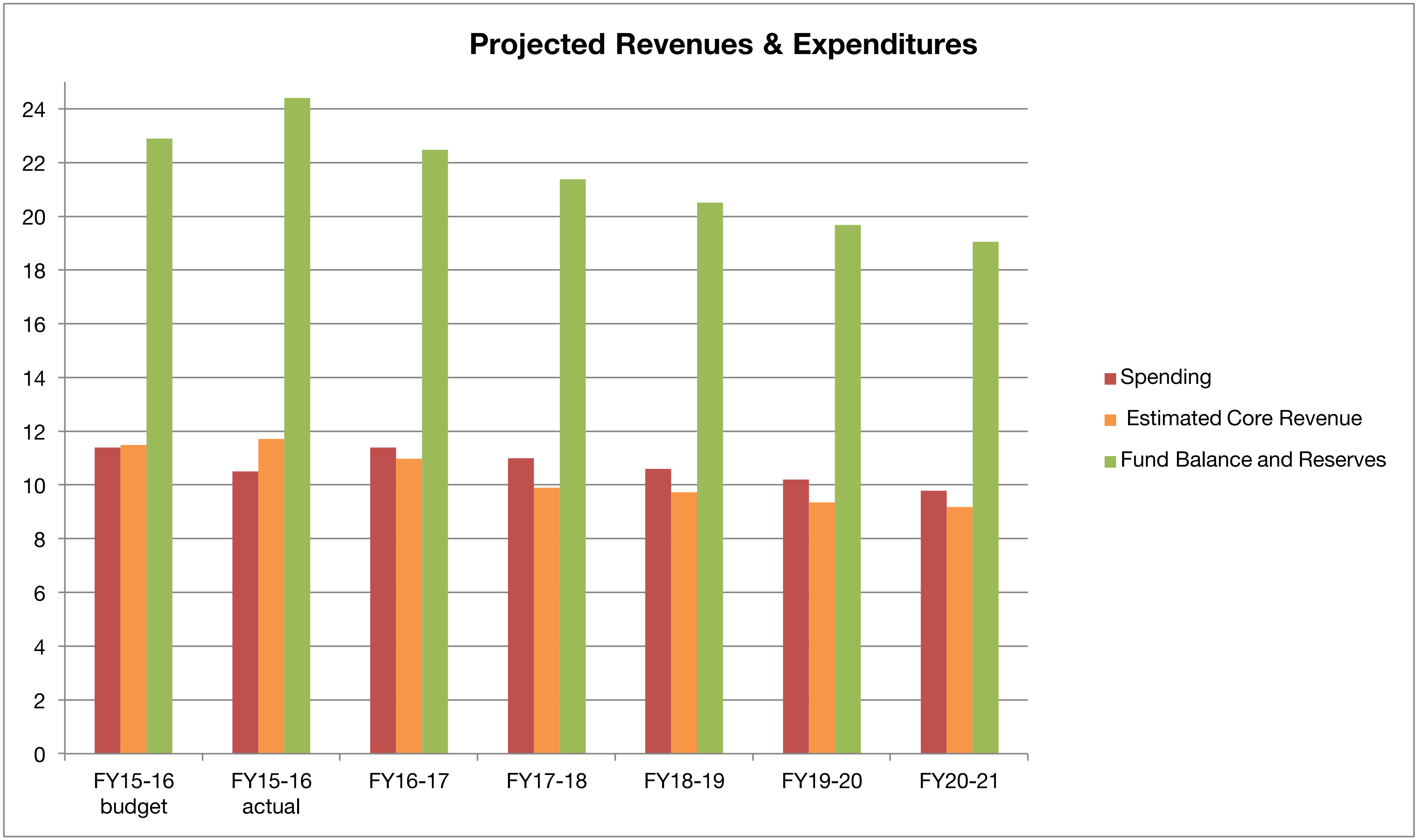
Assuming we make a $3.4 million payment towards our UL, there would still be more than $20.7 million of combined fund balance and reserves in FY 21-22 that could bridge any funding gap for one time or limited term projects if needed. While fiscal forecasts are excellent planning tools, the further out the forecast, the higher the likelihood of imprecision given multiple assumptions and variables. Since we will be presenting a multi-year forecast on an annual basis, we will be able to make timely adjustments to our assumptions and projections as needed.

RECOMMENDATION

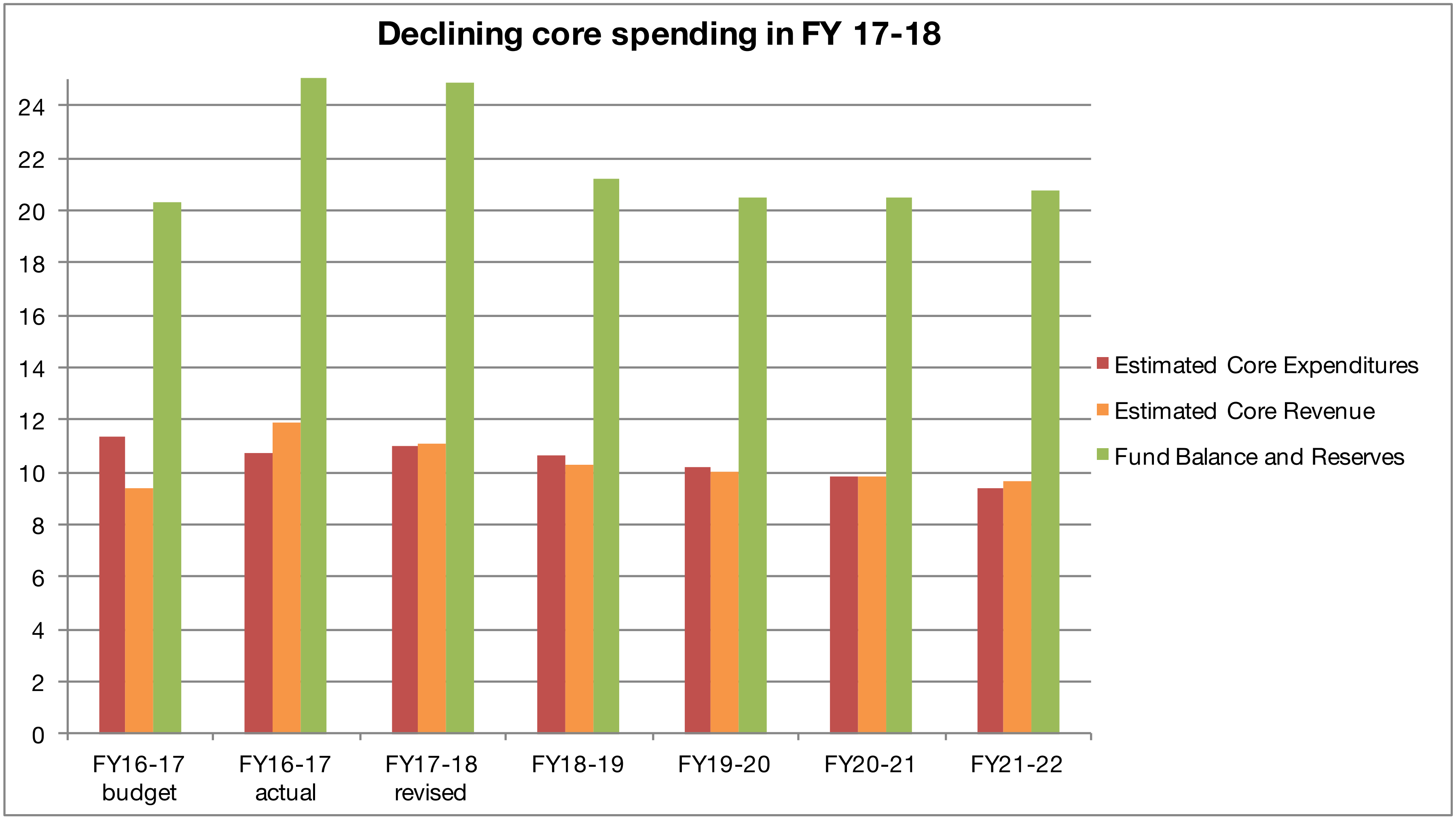
This item is for information only.

Attachment A1: Prior Year Multi-Year Forecast through FY 20-21
Attachment A2: Revised Multi-Year Forecast through FY 21-22
Attachment B: Disposal Trends in Alameda County

Attachment A1: Prior Year Multi-Year Forecast through FY 20-21



Attachment A2: Revised Multi-Year Forecast through FY 21-22



Attachment B: Disposal Trends in Alameda County