



# Memorandum

## MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: April 13, 2018  
 TO: Board of Directors  
 FROM: Dennis Allion  
 SUBJECT: Summary of Finance Committee Meeting of April 4, 2018

The Finance Committee met on April 4<sup>th</sup> at 9:00 a.m., at the District administrative offices. Committee members in attendance were Board Chair Delgado and Directors Bales and Laska. Staff members in attendance were Tim Flanagan, Peter Skinner, Jeff Lindenthal, Tim Brownell, Garth Gregson, Rosa Marcelo, and Becky Aguilar. Rob Wellington was also in attendance. The purpose of the meeting was to review the preliminary budget for Fiscal Year 2018/19.

1. **Preparation of Preliminary Budget for Fiscal Year 2018/19.** Peter Skinner gave a presentation on the preliminary operating budget for the 2018/19 fiscal year. The presentation included discussion about the revenue projections for the next fiscal year. There was discussion about increasing tip fees in some categories for next year. The impact of tip fee increases was discussed, including the impact they would have on the District's projected capital spend for next fiscal year and future years. The Committee commented and asked questions about the effect of tip fee increases on constituent waste collection fees. There was discussion about the District's ability to grow reserves to meet future capital spend requirements. There was discussion about the operating expense budget and the impact of the Materials Recovery Facility (MRF) operations on revenue and expenses in 2018/19. The Committee commented and asked questions about budgeted operating expenses for next year. The preliminary capital spend was presented by Peter Skinner and there was discussion about various projects and the prioritizing of projects. The Committee commented and asked questions about various projects in the capital budget with staff providing additional information about projects and their impact on the District's operations.
2. **General Manager Comments.** There were no General Manager comments.
3. **Next Meeting Date:** Wednesday, May 2, 2018 at 9:00 a.m.

Dennis Allion



# Memorandum

## MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: DA Date: 4/13/18  
General Manager

DATE: April 13, 2018  
 TO: General Manager  
 FROM: Director of Finance & Administration  
 SUBJECT: Preview of Preliminary Budget for Fiscal Year 2018/19

Staff is developing a Preliminary Budget for Fiscal Year 2018/19, in consultation with the Board's Finance and Personnel committees, for presentation to the full Board at the May meeting. Given the significant changes underway at the District, this year's budget will not be 'business as usual'. For that reason, staff believes that providing this budget preview to Board members now will give members more time to consider the assumptions and changes that will affect the District's budget and will result in a more informed discussion when the budget is presented in May.

The biggest challenges facing the District this coming year are managing new MRF operations and fully funding the extensive capital requirements in front of us. Scaling up to a full year of MRF operations is driving significant increases in operating costs, including headcount additions, use of temporary labor, new operating supplies and new maintenance expenses. Capital investment is driven by the need to build a new landfill module to handle increased volumes, the requirement to meet compost area storm water regulations, and the on-going need to replace existing mobile equipment.

Increased revenues from MRF product sales, disposal fees and surplus power sales provide an off-set to increasing costs. The draft budget projects a positive net income. However, cash flow generated from operations will not cover capital needs and staff is proposing the issuance of \$10M in follow-on bond financing to cover a portion of the projected capital spending. Below are key assumptions and elements of the draft budget:

**Disposal Tonnage.** In-District waste volumes are projected to remain unchanged from the FY17-18 budget. Out-of-District tons are projected to grow. GWR-San Jose contract tons are assumed at 300,000 tons, up from 240,000 tons in last year's budget. This change comports with recent GWR-San Jose contract experience but is not guaranteed. Volumes delivered through other Regional contracts are projected to increase by 10,000 tons due to changes in City of Watsonville waste management practices.

**Disposal Rates.** Staff is proposing an increase in the following disposal rates:

MATERIAL	CURRENT	PROPOSED	% CHANGE	RATIONALE
Refuse	\$56.00	\$62.00	10.7%	MSW fees are the lowest in the region and will remain so after this increase. This rate supports the delivery of other MRWMD services offered either for free or priced below cost. No fees adequately reflect on-going capital obligations.
Yard Waste	\$32.50	\$40.00	23.1%	Direct costs for processing this material are estimated at \$34 per ton. Indirect costs add an additional \$20 per ton.
Food Waste	\$45.50	\$54.00	18.7%	Direct costs alone for this pilot program are estimated at \$70 per ton.
Sludge	\$30.00	\$35.00	16.7%	Sludge rate has remained unchanged since 2008. At that time, a 3 <sup>rd</sup> -party rate study estimated a processing cost of \$30 per ton. The cumulative inflation rate (national) for the ensuing period equals 16%.

For a household with a 32-gallon waste, 65-gallon recycling and 65-gallon yard waste service, these disposal rate increases would raise the monthly bill by approximately 2.4%. This equals an average monthly rate change of \$0.53, from \$22.17 to \$22.70, holding other collection cost factors constant. Self-haul customers will experience cost increases directly proportional to the material rate changes based on their own disposal material mix.


**Revenue.** Total revenue is projected to increase 25% over last year's budget to over \$34M. Contributors to this increase are: 1) a full year of MRF operations, adding \$3M; 2) GWR Contract & Regional waste tonnage increases at contractual rate increases, adding \$2M; 3) District disposal rate increases, adding \$1.2M; and 4) Power sales increases due to operating capacity improvements, adding \$0.5M.

**Personnel & Other Operating Expenses.** MRF operations are driving an overall Operating Expense increase of 23%. The draft budget proposes an increase of 11 positions related to staffing the sort lines and maintaining the new equipment. Those additions, plus normal healthcare, pension and COLA hikes, result in a 13% increase in personnel costs. Other Operating Expense increases come in the form of temporary MRF staffing costs, a change in the handling of yardwaste, and increases in supplies and maintenance required for MRF operations.

**Capital Outlay.** Staff has identified \$16.3M in capital needs for FY18/19. On-going capital equipment replacement (compactor, dozer, pickup trucks) make up \$3M of this spending. The remainder is in support of capital improvement projects, the two largest being development of a new landfill module (\$6.5M) and meeting regulatory compliance obligations related to the compost facility (\$5.5M). Staff is continuing to explore alternatives to full investment in the compost facility.

**Use of Debt.** This budget will propose conducting a follow-on Revenue Bond issuance of \$10M. Executing such a financing should be achievable within 6 months of a decision to proceed and is likely to result in interest rates at or below the 2015 issuance. This new debt would be used to fund a portion of the Capital Outlay discussed above.

**Cash.** The draft budget generates sufficient cash to fund the District's 20% Cash Operating Expense Reserve fund requirement and provides approximately \$0.8M in surplus that could be designated to a Capital Reserve fund, should such a policy be approved.

  
\_\_\_\_\_  
Peter K. Skinner