



Agenda Report

TO: CCCSWA BOARD OF DIRECTORS
FROM: JANELLE CAMERON, EXECUTIVE ASSISTANT/ACCOUNTING AND BUSINESS OPERATIONS AND AUTHORITY STAFF
DATE: APRIL 10, 2010
SUBJECT: PROPOSED OPERATIONS FUND BUDGET AND DIVERSION INCENTIVE FUND BUDGET FOR FISCAL YEAR 2010/11

SUMMARY

In April of each year, Staff presents a proposed Operations Fund Budget in draft to the Finance Committee for their comments and input as the first step in presenting the Board of Directors with a proposed budget at the regularly scheduled May Board meeting. Any input from either the Finance Committee and/or the Board is then included for presentation and recommended adoption of the final budget at the regularly scheduled June Board meeting. For the first time this year, Staff has prepared a Two Year Diversion Incentive Fund (DIF) and Operations Fund Budget for presentation to the Finance Committee and the Board for the upcoming budgeting cycle. By projecting the budget over two years staff is better able to forecast and respond to future funding and expense variables. Staff would encourage the Board to institutionalize the 2-year budget forecasting to provide a better picture of the Authority's needs. **Comments and recommendations from the Finance Committee are set forth in this staff report in bold-face type. Moreover, any information that has surfaced and required a change in the budget, subsequent to the Finance Committee's meeting of early April 2010 has been set forth in bold face type, as well.**

The 2010/11, draft proposed Operations Fund Budget expenses (Attachment A) are estimated to total \$1,258,381, or 5% less than budgeted in the 2009/10 fiscal year. These expenses would result in an end-of-year balance of \$248,679 or a 17% reserve. It is projected that the 2009/10 budget will come in at \$1,307,299 expended, which is 3% less than anticipated, leaving a \$312,318 reserve—or fund balance—at fiscal years end.

RECOMMENDED ACTION

1. Review the Staff proposed FY 2010/11 budgets and provide input.
2. Direct Staff to place the Budget, with any input from the Board on the June 24, 2010 Board Meeting Agenda for final Board review and formal adoption.
3. Provide direction to Staff regarding continued development of a two-year Budget process for the DIF and Operations Budget in future budgeting cycles.

DISCUSSION

Background

The Operations Fund Budget is one of the CCCSWA's two funding sources for the agency's day-to-day operations, baseline program design and implementation, as well as ongoing projects. Operations fund monies are primarily generated from Administrative Fees and the Source Reduction and Recycling Element Fees that are contained in the residential and commercial solid waste rates set by the Board of Directors each year and collected by Allied Waste Services. These Funds are periodically supplemented by grants from state agencies and other sources. The CCCSWA's fiscal year runs from July 1st through June 30th. **The Finance Committee recommended that the School Program expenses be moved from the Operations Budget to the Diversion Incentive Fund where other School Program expenses (such as the Wastebusters program) are currently placed; it is felt that placing all schools related items in the same budget is more in line with CCCSWA policy of budgeting special recycling programs in the DIF.**

The second funding source is the Diversion Incentive Fund (DIF) which is funded through the sale of residential recyclables collected and processed from our service area. Although these monies are used primarily to fund one-time expenses and start-up and/or pilot recycling programs, they are also used to pay for special recycling and diversion expenses such as the Wastebusters Schools Program (**the total Schools program has been moved to the DIF per the recommendation of the Finance Committee**) and the Reuse and Cleanup Days incentive payment to Pacific Rim Recycling. The DIF is also occasionally used for other special purposes as approved by the Board. In October/November 2008 revenues from the sale of recyclables literally vanished. Within two months recyclable commodities were able to be sold, however the market rebounded as a shadow of its former self. During the current 2009/10 fiscal year the sale of these commodities have grown at a small but steady pace. Staff budgeted to receive \$420,000 in revenues from Pacific Rim Recycling for the sale of recyclables. To date the Authority has received \$1,125,760.64, 268% more than originally forecasted when the 2009/10 Budget was approved.

In 2008/09, \$375,000 was budgeted in the DIF to begin the process of finding a new location for the Walnut Creek Recycling Center (WCRC). The Board concluded that if their decision was not to seek a new recycling center, the \$375,000 was to be distributed to the City of Walnut Creek and the County to further the settlement of the reserve issue. The Board subsequently decided not to undertake the effort of finding, permitting and building a new center but asked that the monies continue to be held in the DIF to be distributed to the County and Walnut Creek when the sales of recyclables rebounded. Now, as we set next fiscal year's budget, Staff is confident that at the end of the 2009/10 fiscal year, due to increased revenues, there will be enough funds in the DIF to disperse the \$375,000 which will (save any other instruction from the Board) be allocated in June 2010. The first installment of the DIF Reserve Settlement which is planned to be continued throughout this franchise contract period can now, with the increased recyclables revenue, begin to be disbursed; Staff estimates the amount available for use in RY 7 will be \$276,619 and allocated in September 2010.

Draft proposed Operations Fund Budget

a. Revenue

As stated above, the revenue for the Operations Fund is primarily derived from fees contained in the solid waste rates. The fees approved by the Board in January 2010 for Rate Year 6 totaled \$1,126,326. In addition, the Operations Fund receives revenue from interest bearing accounts and other miscellaneous sources. As shown in Attachment A, total funds available for the year are estimated to be \$1,507,060.11. Estimated revenue by source is also shown in Attachment A. Miscellaneous revenues have increased for FY 2010/11 totaling \$20,000 due to recording higher income after price reductions for the bio-stack home composters in our compost bin sales program.

b. Expenses

The proposed budget includes the following expenditures:

1. **Personnel Services** expenses include staff salaries and benefits, potential workers compensation and unemployment payments, Board Member remuneration, temporary help and intern salaries as well as scheduled merit increases for regular employees.

Expenses for this category total \$762,826, which is a 7% increase from this year's budget. The increase is primarily due to Staff's recommendation to add an entry-level Waste Prevention and Recycling Program Manager position to our small staff of six. The need for this position has been evaluated and found, at this time, to be necessary. Previously, we have attempted to enhance our staff efforts by budgeting for and using two interns to largely handle the waste diversion programs for Office Buildings and the Multi-family sector. This approach has not worked. Accordingly, we recommend eliminating these two positions and using the cost savings to help in funding a new Program Manager position which will enable us to focus our attention on these two recyclables rich sectors.

2. **Materials and Supplies** expenses include memberships and subscriptions, office supplies, postage, reprographics, travel and training and capital purchases such as computer equipment.

Expenses for this category total \$60,373, which is a 17% increase from this year's budgeted amount. This increase is primarily due to Staff adding \$1,000 more to the Office Supplies line item since the Finance Committee presentation due to the impending move to new offices and the anticipated need for miscellaneous additional supplies because of this event. Because our office move was budgeted for this fiscal year and not spent for this purpose, \$12,500 has been allocated for moving expenses in next fiscal year's budget (office move is now anticipated for July 2010).

3. **Rent and Utility** expenses include insurance, office rent and telephone charges.

Expenses for this category total \$92,057, which is \$2,455 less than this year. The decrease is due to SDRMA, with whom The Authority is insured, taking into consideration the current economic climate and not raising their rates for the 2010/11 fiscal year and the experience of the current fiscal year's expenditure history.

4. **Professional Services** expenses include legal services, computer troubleshooting and maintenance, financial and auditing services, accounting services provided by the City of Walnut Creek and other consulting expenses generally not associated with a specific program.

Expenses for this category total \$207,502, which is an 15% increase from last year's budget. This increase is primarily due to increasing the legal services budget from \$60,000 to \$75,000. Staff is also budgeting for an "indexed rate" review at \$67,502 which is in keeping with our current approach to rate setting allowing individual member agency workshops to determine rates. This creates increased interface between the rate consultants and Board members to foster a better and more complete understanding of issues and details affecting each member agency. Also this line item includes \$12,000 to conduct a classification study to insure that positions are appropriately classified and compensated. This project was presented to the Personnel Committee at their February 2010 Meeting.

5. **Program and Information** expenses include residential and commercial outreach, the quarterly *Diversions* newsletter, the Home Composting Program, Schools Program and other public outreach programs.

Expenses for this category total \$135,622.28, which is a 56% decrease from last year's budget. This decrease is primarily due to **moving the schools program to the Diversion Incentive Fund** and

decreases in outreach materials for commercial (multi-family and office building), residential and universal waste programs. All other components of this line item were carefully estimated based on actual experience over the last two years to provide a more accurate and precise budget forecast. Outside of Personnel Services, this line item is among our largest expenditure categories and received very close attention in this years budgeting to insure that we have a reserve to fall back on should FY 2010/11 present us with under-budgeted challenges.

6. **Overall expenses** for all five budget categories totaled \$1,246,381 which is an 8% decrease over last year's total budgeted expenses.

Balance Statement

Based on the above estimated revenue and proposed expenditures, the Operations Fund balance at the end of the 2010/11 fiscal year is estimated to be \$260,799. This balance—our reserve—equals 17% of the general funds available. The proposed Operations Fund Balance Statement for FY 2010/11 is provided in Attachment C.

Diversion Incentive Fund

a. Revenue

Revenue into the DIF comes from the sales of recyclable commodities at the Davis Street facility in Alameda County that processes materials for Valley Waste Management (VWM) collected in the Lamorinda area. Revenues are also collected from the Pacific Rim Recycling (PRR) facility in Benicia that processes materials for VWM's collections in the 680 corridor. In the case of VWM, after a guaranteed amount of annual revenues are applied to annual solid waste rates, the Authority shares in revenues above a baseline amount. With PRR, the Authority shares revenue from recyclables above a prescribed amount and credits PRR if revenues fall below a specified amount.

By the end of FY 2009/10, CCCSWA will realize an estimated (by June 30, 2010) \$1,305,728 in recyclables revenue from PRR and \$284,326 from VWM which (this amount is higher than usual because of organizational changes at WM new unfamiliar staff did not disperse the prior year 's funds to the authority; Staff recovered these funds and they are included in this FY's funding), when added to the FY's beginning balance of \$1,718,581 made a total of \$3,308,635 in funding available, as outlined in Attachment B.

During the Reserve Balance Settlement of 2008, it was decided that at the end of every year, after all expenses have been paid and a \$1.5 million DIF reserve set aside, the remaining funds were to be split amongst all member agencies except Orinda. As a result of the increase of recyclable material sales in FY 10/11 the Authority will be able to disperse funds in pursuit of the settlement. After \$1.5 million is deposited into the DIF Reserve account, Staff has forecasted that there will be \$308,592 to deposit into the member agencies reserve accounts based on the approved formula and allocated in September 2011 for use in RY 8.

For FY 2010/11, we have budgeted items and programs that we feel have the highest priority in order to keep the Authority focused on increasing the diversion rates and aligning our programs with the FY 2010/11 goals and objectives in the short, medium and long term.

b. Expenses

During fiscal year 2010/11, it is projected that expenditures in pursuit of diversion from the DIF will total \$932,408 for the programs and activities listed on the attached chart (Attachment B). The draft budget for the DIF includes proposed expenditures as follows:

1. **Household Battery Collection on Reuse and Clean-up Days** is proposed in the amount of \$22,000 to cover the cost of processing this commodity @ \$.90 per lb. from curbside pick-up. Collection costs are not applicable to household batteries because they are collected curbside along with other commodities from the Reuse and Cleanup Day program. Therefore, the collection costs are included in the yearly rate setting for AWS.
2. **Retail Battery Collection Program** costs are proposed in the amount of \$120,000 to cover the expenses of both collections at our retail sites throughout the service area, as well as the costs associated with the processing of these batteries for shipment to the recycling facility.
3. **Commercial Food Waste Pilot Program** costs for continuing the program for June through August 2010 and expanding the program by adding new participants are proposed in the amount of \$147,000. This program began two years ago and is currently generating food waste by over 100 participating restaurants (expansion of this program will continue in September 2010 when the program will begin to be funded through the rates as approved during setting Rate Year 6 rates). The additional funding allocated to AWS will pay for collection, transfer, grinding, and disposal at EBMUD during the first two months of the new fiscal year. The funds allocated to our training consultant, ESA, will support the additional participant assessment and training requirements for new food waste generators beginning in September 2010.
4. **Home Food Scrap Program for Walnut Creek** is proposed in the amount of \$30,452 to cover the cost of outreach about the program and the distribution of the indoor collection containers that are to be purchased in this fiscal year. There are no collection costs for the Authority because all forecasted tonnages for Walnut Creek will fit within the current franchise agreement.
5. **Increase in Compost Capacity** may be necessary due to recurring legislative efforts to discontinue the AB 939 diversion credit for green waste when used as daily cover in landfills. When this happens there will be a “land rush” to find destinations for green waste recycling that can be counted as credit in California cities’ and counties’ Cal Recycle diversion reports. Indeed, with the addition of home food scraps into the green waste stream (which more and more jurisdictions are doing) daily cover usage is not allowed. \$45,000 is proposed for this effort which will fund a feasibility study.
6. **PRR Incentive Bonus (Reuse)** is an incentive provided each year to encourage maximum collection of reusable items in the Curbside Re-use and Clean-up Program. Staff estimates, based on past experience, a budget amount of \$87,896 for this purpose. This bonus has usually increased but staff believes that people tend to hold on to items during a recession, therefore this amount has decreased in FY 2009/10. Staff has decided to average the 2008/09 and 2009/10 amount to forecast the 2010/11 amount of useable materials diverted for reuse.
7. **Reusable Bags/Special Events** is a program that was created out of our efforts to decrease the use of single use bags and brand ourselves as the “go to” place for information on recycling and waste diversion in the Central Contra Costa community. This year we budgeted \$2,000 for reusable bags but we would like to go a step further by distributing more and using more attractive and durable bags. As a result we have increased this line item to \$7,000.
8. **“Wastebusters” Program** is a part of our schools program that certifies schools within the Authority’s service area for their participation in recycling programs and provides cash rewards for schools that earn this title. Due to these awards being given at the end of the school year—generally in May—it is unknown how many schools will qualify, so the \$30,000 budgeted will provide for all schools that are eligible.

9. **Sharps Collection Program** is a necessary program for disposing of medical sharps which are banned by the State from being disposed in landfills. In order to allow ratepayers access to convenient and proper disposal, Staff recommends spending **\$45,000** on implementing sharps drop-off containers in CCCSWA communities. **In discussions with the Finance Committee it was determined to add one more drop-off container to be located at the Central County HHW Facility to provide a convenience to CCCSWA residents who often bring their used sharps with them when they travel to the Martinez site for disposal of their HHW. Additional funds in the amount of \$5,000 have been added for this purpose.**

10. **Strategic Marketing / Commercial** is proposed at \$46,500 in an effort to further the Authority's stated objective of relevant and consistent outreach. Staff is recommending that a professional overall marketing campaign for commercial programs be established to further brand our agency. The amount stated for this item will pay for the Riezebos Holzbaur Group (RHDG) to develop an overall strategy, concept and product, including: website pages, survey, advertising, bill inserts, and press activities to begin our marketing efforts to increase the low numbers of recyclables from commercial entities.

11. **RecycleBank** budgeted at \$102,000, is a program to increase the single family residential recycling numbers which have declined over the past few years. Staff is recommending rolling out the RecycleBank program in Moraga and Orinda to test the systems ability to increase monthly collection by 100-200 lbs/residence. A RecycleBank approach is geared to providing rewards to households that increase recycled materials. An advantage to this program is that actual experience regarding increased recyclables tonnage can be precisely measured. This will allow Staff to ascertain if the program could be recommended for roll-out to other member agencies.

12. **Commercial Food Waste Recognition's** proposed budget of \$19,000 is to show our appreciation for and recognition of the participants of the pilot program throughout our service area. The recognition will consist of a decal for participants to display in their businesses and local media advertisement of their participation. We are hoping that this effort will serve two purposes; the first being, it will illustrate to the participants that CCCSWA appreciates their assistance with reducing waste and secondly, encourage non participating businesses to begin recycling food waste as we increase the program beginning in September.

13. **Universal Waste Newspaper Ad's** \$9,000 budget is to advertise our batteries program and new programs that are being recommended by staff including medical sharps and fluorescent light collection. Advertising will help to educate the public about the availability of these programs.

14. **Cart Lid Program** was suggested that utilizing the solid waste carts to further educate ratepayers would be beneficial. The \$20,000 budgeted would pay for the printing and placement of stick-on decals on carts for two recycling routes (approximately 4,500 to 5,000 homes). We would attempt to measure the effectiveness of this effort after emplacing the new lidded carts. **In discussions with the Finance Committee it was determined that this possible project be dropped from the budget and rather implemented in the coming new franchise period when the heat-set decals can be added to new carts (or lids) with no additional cost for this signage when new carts (or lids) will likely be purchased. The heat-set decals can be emplaced on lids when ordered new.**

15. **Fluorescent Pilot Program** under the California Universal Waste Rule, spent fluorescent lamps are banned from the landfill. Local retailer collection programs are sporadic and poorly advertised. In order to help ratepayers adhere to this mandate, staff is recommending that partnering retailers be granted a flat sum of money to start up collection programs for fluorescents. The \$20,000 will be used to fund the start up of approximately eight retail collection programs.

16. **Plastics Reduction/“Bring Your Own Bag”** budget of \$25,900 is part of an integrated plan the CCCSWA will implement as an education campaign in response to concerns with one-time plastic bag use. This campaign will be supported by the website and newsletter but will primarily be used to design and place signage and advertisements to compel residents to use the reusable bags thus reducing the use of one-time plastic bags.
17. **Develop and Test Replacement for Biostack Composters** proposed budget of \$5,100 is to initiate the search for a comparable compost bin to replace the Biostack composter. Compost bins will be tested by CCCSWA staff and compost workshop instructors and samples or photographs will be shown at compost workshops to gain public input in this decision.
18. **Special Events’** proposed budget of \$8,000 is for staff to participate in one large special event for each member city and distribute waste reduction and recycling information. Staff is also recommending the purchase of shirts possessing CCCSWA name/logo for use by staff at special events and outreach meetings. Funds will also be used for new booth displays, setup materials and organization of informational brochures.
19. **School Recycling Program** at \$135,560 pays for the services of TRG Associates who coordinate, with direction from staff, activities geared towards developing a recycling ethic in students within the Authority’s service area. Additionally, costs for the “performers” such as Earth Team who provide recycling oriented assembly performances at schools are included here. Finally, the cost of green waste recycling at schools is covered. Each year, usually in January, a report on the year’s activities is provided to the Board. **After discussion with The Finance Committee this line item was moved from the Operations Budget to the DIF Budget.**
20. **Student Reusable Bag Program** budgeted at \$20,000 is to begin a program where Mount Diablo High School’s Digital Safari students provide the CCCSWA with an opportunity to build a media campaign through an internship program. The campaign, produced by high school seniors, is aimed at educating middle school students about the benefits of reusable bags

Total Expenses for distribution are \$932,408 which will leave a \$1.5 million DIF reserve and an estimated balance of \$308,592 at fiscal year’s end which will be available for Member Agency’s Reserve Fund distribution

ATTACHMENTS

- A. Proposed Operations Fund Budget for FY 2010/11
- B. Diversion Incentive Fund Budget for FY 2010/11
- C. Proposed Operations Fund Balance Statement for FY 2010/11