



Chittenden Solid Waste District

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To: Board of Commissioners  
From: Sarah Reeves, Executive Director  
Date: May 22, 2020  
RE: FY 2021 Budget Proposal

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The FY 2021 budget as being proposed to the Board of Commissioners is somewhat different from what the Manager team and I thought it would be back in February. The budget as proposed must be viewed through the lens of a strong caveat. All budgets are a snapshot in time based on a best guess of the next twelve months. The caveat for FY 2021 is this: ***This is our best understanding of where the numbers are right now. FY 2021 will require constant monitoring of, and potential adjustments to, the budget*** as we learn more over the coming months.

No one can predict how, or how quickly, the economy will recover from the effects of the all-sector closures and shut-downs related to COVID-19 containment. Solid waste generation is highly responsive to economic conditions, as we've seen over the past five years of low unemployment/high waste generation in Chittenden County. Our assumptions in this budget are conservative and anticipate reduction in waste generation in every sector: residential, commercial, industrial, and institutional. Solid waste will continue to be generated, with each sector recovering at a different rate.

### **SOURCES OF REVENUE**

CSWD's revenue has three main components: Solid Waste Management Fees (SWMF), User Fees (tip fees), and Material Sales. Each component comprises roughly 30% of the overall revenue. The remaining revenue comes from rental income, license fees, bin sales, grants, and Extended Producer Responsibility reimbursements. **CSWD receives no payments (assessments, per capita fees, tax payments, etc.) from our member communities.**

- **Solid Waste Management Fees:** \$27/ton charged on each ton destined for disposal. Four material types make up the tons subject to the SWMF—municipal solid waste, construction & demolition debris (C&D), construction & demolition debris fines, and material eligible to be used as alternate daily landfill cover (ADC). C&D fines and ADC are charged 25% of the SWMF, or \$6.75/ton.
- **Tipping/User Fees:** Fees charged for material disposal at Drop-Off Centers, the Materials Recovery Facility, the Organics Diversion Facility, and the Environmental Depot.
- **Material Sales:** Revenue generated from the sale of products we make—compost products, Local Color paint, baled recyclables—or products we purchase on behalf of the public and then resell, like compost bins.

*The assumptions presented to the Finance Committee in February and early March have been adjusted in light of COVID-19 effects, and revenue and expense projections have been reduced accordingly.*

**REVENUE SNAPSHOT**

	FY18 Actual	FY19 Actual (Unaudited)	FY20 Budget	CY19 Actual	FY21 Budget	Change from FY20 Budget	Change from FY19 Actual
Revenue (in thousands)							
Tip Fees	\$4,950	\$6,243	\$7,034	\$6,873	\$7,706	+10.8%	+12.13%
Material Sales	\$2,782	\$1,946	\$1,584	\$1,777	\$1,420	-8.4%	-20.11%
SWMF	\$3,363	\$3,421	\$3,496	\$3,495	\$2,575	-26.92%	-26.34%
All Other	\$464	\$565	\$514	\$551	\$531	+3.3%	-3.7%
<b>TOTAL</b>	<b>\$11,559</b>	<b>\$12,175</b>	<b>\$12,628</b>	<b>\$12,696</b>	<b>\$12,232</b>	<b>-3.26%</b>	<b>-3.66%</b>
Cost of Goods Sold	\$207	\$135	\$99	\$131	\$143	+31.8%	+8.4%
Gross Profit	\$11,353	\$12,040	\$12,530	\$12,565	<b>\$12,089</b>	-3.6%	-3.8%

**Assumptions in calculating the SWMF:**

The SWMF is the source of revenue most impacted by a recession and where we have spent the most time refining projecting.

Starting with April 2020 Chittenden County tonnage reports, which we consider to be the county generation nadir, staff developed the FY 2021 estimates using additional information gleaned from (among other sources) statewide economic impact projections, Chittenden County specific economic impact estimates, estimates from the restaurant industry, CSWD commercial database information, and anecdotal information gathered from haulers and large commercial generators. The majority of the MSW reductions are commercial tons and include events that attract hundreds or thousands of people (we’ve assumed zero events through September). UVM, Champlain College, and St. Michael’s College have announced they intend to reopen to students in the fall, however we’ve moderated the waste generation assumptions in the event this does not happen. The medical center is assumed to be resuming “normal” activity by August. Major construction projects, like Finney Crossing, resumed activity in May however we are assuming projects that were slated to begin in April or May will not. We’ve assumed that 40% of Chittenden County restaurants will not reopen to full capacity, with 10-15% not reopening at all.

We are assuming residential waste generation will slow, as it is expected that not all job losses are temporary. Basic level trash and recycling generation will continue, and we’ve held that generation rate steady to slightly depressed. Special waste and bulky waste generation is expected to slow considerably as people constrict spending on durable goods.

## **Tip Fees, User Fees, and Material Sales Assumptions:**

Tip fees are up primarily due to the MRF tip fee increase to cover the cost of processing recyclables.

- MRF tip fees were raised in March 2020 to \$80/ton and we are not proposing raising the tip fee in FY 2021. The average commodity revenue value for April and May 2020 is \$50/ton, up from \$30/ton average over the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. Cardboard and mixed paper pricing increased due to increased demand and processing capacity at domestic paper mills. This increased demand is expected to continue through the 1<sup>st</sup> quarter of FY 2021.
- Organics Diversion Facility (ODF) tip fees are being held at \$60/ton. We've reduced anticipated food scraps tons inbound to 5,300 tons, just above FY 2018 levels. This is a reduction of nearly 20% of pre-COVID tonnage expectations. As of the writing of this memo, the July 1, 2020 food scrap landfill disposal ban had not been delayed or removed from law. We are anticipating seeing increased tons of food scraps brought to the Drop-Off Centers (DOCs) and a significant reduction in food scraps from the commercial and education sectors. The DOC increases will not completely compensate for the losses from the commercial sector, however the reduced inbound allows for savings in excess material movement to out of state processors. We will be able to easily manage the reduced tonnage onsite.

ODF product sales through May 2020 were astonishing, with Garden Mix selling 661% (not a typo) above FY 2019. Sales for FY 2020 will be more than 50% over budget. We are projecting a significant increase in sales budget-over-budget, based on current year demand in a suppressed economy. The increase to the Cost of Goods Sold is because for the first time in 10 years we need to purchase sand (part of our Garden Mix recipe), and we are also planning to purchase additional woodchips to ensure adequate odor control and material porosity.

- DOC user fees are being held when viewed as an average. Meaning, the flat-fee rates that were implemented due to COVID-19 may be kept in place for a short time into FY 2021. FY 2021 anticipates an increase in mattress fees due to a proposed increase for mattress disposal at the All-Cycle (Casella) transfer station. Several materials management contracts expire in FY 2021 and will be either rebid or will be taken in-house. The analysis is ongoing and is in part dependent on revenues through the 1<sup>st</sup> and 2<sup>nd</sup> quarters.

**EXPENSES SNAPSHOT**

	FY18 Actual	FY19 Actual (Unaudited)	FY20 Budget	CY19 Actual	FY21 Budget	Change from FY20 Budget	Change from FY19 Actual
Expenses (in thousands)							
Salary/Wages	\$2,721	\$2,767	\$3,050	\$2,652	\$2,872	-6.45%	+8.30%
Benefits	\$1,054	\$1,153	\$1,230	\$1,070	\$1,228	-.2%	+14.72%
Travel/Training	\$48	\$54	\$124	\$63	\$61	-117.77%	-3.29%
Administrative	\$101	\$95	\$129	\$83	\$142	+13.05%	+69.85%
Professional Services	\$222	\$189	\$302	\$211	\$180	-64.62%	-14.89%
Equip/Fleet	\$544	\$460	\$569	\$435	\$556	-2.75%	+27.8%
Gen. Supplies	\$121	\$85	\$109	\$79	\$84	-29.98%	+6.26%
Mat'l Management	\$4,499	\$5,125	\$5,261	\$5,624	\$6,128	+16.91%	+8.96%
Property Management	\$418	\$403	\$504	\$192	\$498	-1.71%	+26.82%
Promotion & Education	\$164	\$169	\$169	\$127	\$88	-48.19%	-31.26%
Maintenance				\$104			
TOTAL*	\$9,895	\$10,501	\$11,450	\$10,844	<b>\$11,837</b>	+3.68%	+9.16%

*\*Expenses shown are before capital contributions and contributions to overhead.*

**Key Points:**

- Compared to FY20 budgeted, most FY21 expenses have decreased with budget cuts as described below. One area where costs are expected to increase dramatically is materials management. Materials management is how we refer to hauling services we use to move materials we produce (compost, recyclables) to market, and move materials we collect (MSW from Drop-Off Centers, HHW we process, trash we generate, etc) to disposal. The largest single increase in materials management (\$300k+) is the cost to transport glass and/or processed glass aggregate from the MRF to market.
- Salaries and wages increased modestly and the cost of benefits increased as expected. We switched the District's health insurance provider mid-year from Blue Cross/Blue Shield to MVP precisely because BCBS's proposed rate hike was extremely high.
- Administrative costs are higher because website licensing, maintenance, and development expenses were moved to the IT Systems budget from Outreach & Communications.

## CUTS SNAPSHOT

The following programs implemented the following cuts to reduce expenses in FY 2021:

Program	Program Estimates (Jan/Feb)	Cuts	Percent Reduction	Significant Items (not all-inclusive)
Wages & Benefits	\$4,414,716	\$333,319	7.6%	Two vacancies not filled; One new position not filled; O&C seasonal staff cut; ½ year Depot seasonal staff cut
Outreach & Communication	\$1,050,523	\$168,622	15.2%	Advertising cut 50%; bin subsidy eliminated; grants reduced
Operations**	\$6,143,134	\$208,701	3.4%	Reduced transportation costs
Admin, Finance, Property Mgmt	\$444,262	\$47,100	10.6%	Travel & Training reduced by 75%; Achievement Award cut by 1/3; meetings meal budget cut 40%
Compliance	\$24,030	\$10,150	42.2%	Mileage cut by 50%; database development postponed
<b>TOTAL</b>	<b>\$12,076,665</b>	<b>\$767,892</b>	<b>6.4%</b>	

\*\*Operations includes MRF, compost, DOCs, Depot, and Maintenance. The Biosolids program is a pass-through whose components are agreed upon by the participating member towns and is not included in this calculation.

### Key Points:

- In addition to the above, cuts were made to travel and training budgets across all programs, legal services in individual programs were reduced or eliminated, we reduced signage for facilities, subscriptions and dues were curtailed or eliminated, transportation charges were cut, waste reduction grants reduced by 60%, advertising cut by 50%. Subsidies for bins and buckets were eliminated, Green Up Vermont contribution was cut by 50%, consultant fees and projects have been cut across the board, hauler container grants were eliminated, and printing costs were reduced by 1/3. Capital program cuts and project/purchase deferrals are addressed in the capital budget memo.
- These cuts to services, operations, and wages and benefits are in line with cuts being proposed in some of CSWD's member cities and towns. CSWD does not rely on one source of revenue. The diversification of revenue sources allows the District to weather storms and continue to provide essential services. If this budget proves too rosy, rather than management's current view of the budget as conservative, there are additional measure that can be taken to reduce operational expenses. The plan for managing a catastrophic reduction in all sources of revenue is underway, however **the FY 2021 budget proposal is realistic, and conservative given what is known on the date of delivery to the Board of Commissioners.**

## **BOTTOM LINE**

Each year, we need to “get to zero”. Municipal budgets should net zero, and budgets being what they are, some years municipalities are over and some years they’re under. For CSWD, this means any income in excess of revenue must be transferred to specific reserves or funds. Excess solid waste management fees are transferred to the SWMF rate stabilization fund, excess MRF income is transferred to the MRF capital reserve, etc. For the past three fiscal years CSWD has been transferring excess SWMF to the rate stabilization fund. The rate stabilization fund was created to maintain balance in the solid waste management fee across multiple fiscal years, to minimize the need for annual adjustments up or down to accommodate changeable economic conditions. Because we are anticipating a small shortfall in the FY 2021 budget due to the lowered expectations for SWMF revenue, and because management feels strongly that we should not add to the public’s financial difficulties during this stressful time, I am proposing in this budget that we make up the shortfall out of the SWMF rate stabilization fund. The anticipated shortfall is \$80,500 or .7% of the overall budget.

Also notable in the calculation of the bottom line is a contribution to overhead from the programs that do not use solid waste management fee monies—the MRF, the Biosolids program, and the Closed Landfill program. The MRF contributed 10% of its program budget to overhead, and Biosolids and Closed Landfill contributed 1% each. These percentages were arrived at by evaluating the general support needs of the programs from Administration and Outreach & Communications. The MRF is the only program this year contributing to capital.

Annual anticipated expenses for managing the closed landfill are reimbursed out of the landfill post-closure reserve (LFPC).

Revenue	\$12,232,485	
Cost of Goods Sold	\$143,310	
Gross Profit		<b>\$12,089,175</b>
Expenses		<i>\$11,836,939</i>
<b>Income from Operations</b>		<b>\$252,236</b>
Capital Contribution	\$416,296	
Contribution to Overhead	\$371,800	
<b>Income After Capital &amp; Allocations</b>		<b>(\$535,860)</b>
Overhead Offset	\$371,800	
Transfer from LFPC Reserve	\$83,561	
Transfer from SWMF Rate Stabilization Fund	\$80,499	
<b>Net</b>		<b>\$0</b>