

A.

To: Board of Commissioners
From: Sarah Reeves, Executive Director
Nola Ricci, Director of Finance
Date: April 21, 2022
RE: Fiscal Year 2023 Budget Proposal

OVERVIEW

In Fiscal Year 2022 (FY22) CSWD transitioned into a more robust financial system that allows us to better support decision making as we consider the future of our operations. Updates to the accounting, payroll and budgeting software now provide managers with better access to system data. The system also improves transparency, enables true comparison with previous years' finances, and provides a clear picture of the financial position of CSWD in an easy-to-read format.

Programs are grouped into three categories:

- **Administrative:** this collection of programs includes departments needed to manage State requirements and are financed by the Solid Waste Management Fee. This category includes Administration, Compliance & Safety, Engineering, Finance, Outreach & Communications, and houses the Solid Waste Management Fee.
- **Operating:** this collection of programs is comprised of what we call our "facilities", or those programs that actively receive, manage, and/or process municipal solid waste. This category includes the Organics Diversion Facility, the Materials Recovery Facility, the Environmental Depot and Rover, and six Drop-Off Centers.
- **Self-Funded:** this collection of program consists of non-active reception or management of municipal solid waste. This category includes the Closed Landfills, Biosolids, and the allocated cost of Maintenance and Roll-Off.

The proposed budget for FY23 remains conservative and acknowledges some of the increases we've experienced, and those we anticipate, as costs rise. The first and second quarters of Fiscal Year 2022 (FY22) are maintaining a similar trend we observed in Fiscal Year 2021 (FY21): by the end of December 2021, revenue reached over 80% of projections. This increase in excess income has encouraged us to rethink how we distribute excess income. Our redistribution procedure is described in more detail under the Reserve Highlights. Capital construction projects at the Organics Diversion Facility will be completed by the end of the second quarter of FY23, while construction of a new Administration building is anticipated to begin as early as Q2.

Materials Recovery Facility Highlight

In April 2022 the Board of Commissioners voted to ask the voters of Chittenden County to approve issuance of municipal bonds by CSWD to fund the construction of a new Materials Recovery Facility on Redmond Road in Williston. The Board approved a not-to-exceed bond amount of \$22,000,000. We are working to reduce this burden through a combination of grants and zero-interest loans. If the request is voter approved, permitting for a new MRF would commence in Q3 of FY23 with potential ground-breaking in late Q4. Preliminary engineering and design work for the new MRF is budgeted in FY23 as a capital expense and would be reimbursable through bond proceeds. Debt service is unknown as of the date of this memo because the financing package is still being developed, however a revenue sufficiency study performed for the project shows tip fees and commodity sales revenue generated by the facility to be sufficient to pay annual operating costs + debt service of \$1,200,000.

CSWD SOURCES OF REVENUE

CSWD’s revenue has three main components: Solid Waste Management Fees (SWMF), User Fees (tip fees), and Material Sales. The remaining revenue comes from rental income, license fees, bin sales, grants, and Extended Producer Responsibility program reimbursements. **CSWD receives no municipal 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. **In FY23, SWMF are 26% of the revenue budget.**
- **Tipping/User Fees:** Fees charged for material disposal at Drop-Off Centers (DOCs), the Materials Recovery Facility (MRF), the Organics Diversion Facility (ODF), and the Environmental Depot. **In FY23, Tip/User Fees are 54% of the revenue budget.**
- **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. **In FY23, Materials Sales are 17% of the revenue budget.**

REVENUE SNAPSHOT

Revenue (in thousands)	FY20 Actual	FY22 Budget	FY23 Budget	Change from FY22 Budget	Change from FY20 Actual	% of Overall Revenue
Tip Fees	6,930	7,045	7,724	8.80%	10.28%	53.6
Material Sales	1,777	2,175	2,541	14.38%	30.06%	16.6
SWMF	3,328	3,372	3,382	.30%	1.60%	25.7
All Other	611	541	386	-61.14%	-58.6%	4.1
TOTAL	12,646	13,132	14,032	6.41%	9.88%	100%
Cost of Goods Sold	329	177	172	-3.01%	-91.04%	
Gross Profit	12,317	12,955	13,860	6.53%	11.13%	

Tip Fees, User Fees, and Material Sales Assumptions:

- MRF tip fees were raised in March 2020 to \$80/ton and **we are not proposing raising the tip fee in FY23**. The fiscal year average commodity revenue (ACR) value from material sales through February 2022 was \$134/ton, up from approximately \$84/ton average through the same period in FY21. Cardboard and mixed paper pricing increased due to high demand from domestic paper mills. This increased demand is expected to continue through at least the 2nd quarter of FY23. Plastics pricing is stable, with high demand for HDPE-Natural (milk jugs) and for PET. We have budgeted MRF materials sales very conservatively at \$80/ACR and will likely exceed budget expectations. The rationale for not budgeting higher sales is because the ACR is highly dependent upon the paper mills to which Casella markets our materials. Fiber products represent 75% of our MRF material stream and paper pricing, while stabilizing, is still variable. We are assuming 47,500 tons of inbound recycling, and marketing 38,000 of those tons.
- The MRF Operating contract with Casella expires on June 30, 2022 and is currently in renegotiation. MRF expenses could rise as a result of the new terms (an increase in the processing fee), or commodity revenue fall should the revenue share be affected.
- Organics Diversion Facility tip fees are increasing from \$60/ton to \$65/ton starting July 1. Food scraps brought to the Drop-Off Centers (DOCs) by smaller, niche haulers continue to grow. We saw a significant reduction in food scraps from Casella in FY22 as they diverted most of their collected food scraps to their depackaging facility. This reduction represents approximately 30% of the inbound compost feedstock and, while welcomed at the time to help alleviate processing concerns, the reduction places downward pressure on the FY23 revenue forecast. We've budgeted anticipated food scraps tons inbound to 4,400 tons. This is approximately 77% of our operational comfort level of between 5,500-6,000 tons of food scraps each year.

We are not expecting pandemic-level product sales in FY23 and instead have budgeted a normalized (to FY18-19 levels) sales expectation. The increase to the Cost of Goods Sold is due largely to a need to purchase sand for incorporation into a product blend.

- Revenue is down at the DOCs in large part due to the loss of the Richmond facility and the continued limited use at the Burlington site. There is not yet an agreement to construct a permanent facility in Burlington, however discussions with the City continue in earnest. The new goal is to have a facility constructed by FY26. Additional DOC revenue pressure is due to the many items managed at the DOCs that do not have adequate (or any) revenue associated with them, meaning we are subsidizing the collection and management of certain materials such as universal waste, some electronics, and leaf and yard debris. Recycling and food scraps are bundled in the pricing of trash when brought together as a unit, and we are currently not recovering the full cost of all three of those material streams. When the tip fees increase at the MRF and ODF, we do not always adjust DOC pricing to accommodate the increases. The DOC pricing structure will be analyzed in FY23 for potential changes in FY24.

Solid Waste Management Fee:

Solid Waste Management Fee revenue is projected to be slightly higher than FY22 budgeted amounts, representing a continued return to “normal”. We used the Solid Waste Disposal and Diversion Trends Model developed for CSWD by SERA, Inc to generate our projections for FY23. The model estimates the SWMF to be 0.5% higher than FY22 estimates and 2.1% higher than CY21 actuals resulting in revenue slightly higher than FY20 actuals levels. Supporting the model’s output, the state’s Joint Fiscal Office is projecting favorable economic conditions in FY23 as new infrastructure spending begins.

EXPENSES SNAPSHOT

Expenses (in thousands)	FY20 Actual	FY22 Budget	FY23 Budget	Change from FY22 Budget	Change from FY20 Actual	% of Overall Expenses
Salary/Wages	2,644	3,286	3,345	1.76%	20.97%	25%
Benefits	1,106	1,411	1,455	2.95%	23.99%	10.7%
Travel/Training	58	96	97	.58%	40.36%	.7%
Administrative	472	173	123	-39.93%	-282.68%	1.3%
Professional Services	312	208	268	22.59%	16.15%	1.6%
Equip/Fleet	370	664	773	14.02%	52.17%	5.1%
Gen. Supplies	67	95	120	20.73%	43.64%	.7%
Mat’l Management	5,575	5,020	6,151	18.38%	9.36%	38.2%
Property Management	417	507	490	-3.38%	14.81%	3.9%
Promotion & Education	93	155	163	5.11%	43.02%	1.2%
Community Support	39	26	106	75.73%	63.41%	.2%
Maintenance	509	681	718	5.11%	29.07%	5.2%
TOTAL*	11,662	12,322	13,809	10.76%	15.55%	

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

Key Points:

- Expenses in FY23 are reflecting a “return to normal”. When looking at the percent change, keep in mind that the dollar amounts changing may be small and are not reflective of large overall expenses. The converse is also true. Even with a return to normal activities and an increase in staffing, our overall expenses have only slightly increased.
- Salaries and wages increased slightly in this budget. Although a 2% COLA is budgeted, the increase was moderated in part due to recent retirements, the elimination of some seasonal positions, and a decrease in on-call staff hours. A Total Compensation Study was completed in FY22 (see accompanying memo). This budget does not include the recommendations of the study and the subsequent Ad Hoc Committee because the Finance Committee felt additional study on the long-term ramifications was warranted. The impact of the Ad Hoc Committee recommendations are presented in an additional memo allowing the full Board to determine if the step changes should be put into practice beginning FY23.

- Administrative costs are lower now that the new budgeting, accounting and payroll software systems have been implemented.
- General Supplies are higher, corresponding to a physical return to the office.
- The Community Clean Up Fund (CCUF) is budgeted at the full liability balance as an expense per recommendation of the FY20 Auditors and is a new primary expense account under Community Support. The expense is housed in the Finance Department instead of in Outreach & Communications. Management is recommending changing the District CCUF Policy to eliminate banking and/or carrying over unused funds, and instead fully fund the CCUF each year with five years' worth of allotment. The goal is to facilitate member communities' use of the funds each year, instead of waiting 3-5 years to build up enough money to fund meaningful community-wide projects. If a member community doesn't use their allotment within a fiscal year, the allotment is retained by the CCUF Reserve. The CCUF Reserve would not exceed \$95,000 unless the per-community allotment is adjusted by the Board of Commissioners. The amount budgeted, \$95,000, represents the maximum total of all District member communities' five-year funds carried over and "banked" as currently allowed by the CCUF Policy.
- Travel and Training assumes a return to attending conferences, workshops, and trainings in person; How much will occur remains to be seen. Where we can continue to attend events remotely, we will do so. We have promoted several employees to new leadership positions and will be providing training to them to support their growth and success.
- Materials Management is up significantly. 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, trash we generate, etc.) to disposal. Most of the expenses are at the MRF where we are anticipating increased costs to move processed glass aggregate to markets outside the Northeast and increased operating costs with a new operator contract.

RESERVE FUNDS

In FY22, the District revised the Reserve Fund policy and structure. The new structure establishes a priority funding mechanism, minimum and maximum balances, and proposes to restrict certain funds (Closed Landfill, Facility Closure, and Biosolids). As each priority reserve reaches its maximum, remaining excess revenue flows (“waterfalls”) to the next priority reserve fund in order, as illustrated below:

Reserve Type	Reserve Name	Minimum Carry Value	Maximum Carry Value
Restricted	Biosolids Reserve	Current depreciation of Biosolids Trailers, as contracted	\$650,000 or cost of replacing Biosolids trailers
Restricted	Landfill Post Closure Reserve	Original cost of calculated closure less operating reduction	Original cost of calculated closure
Restricted	Facilities Solid Waste Termination Reserve	Calculated cost of facility solid waste termination	Highest past calculated cost of facility solid waste termination
Assigned	Facilities Decommission Reserve	Calculated cost of facilities decommissions	Highest past calculated cost of facilities decommissions
Assigned	General Fund	3 months of budgeted administrative expenses	6 months of budgeted administrative expenses, or highest past calculated cost
Assigned	Community Clean Up Fund	Current balance due to communities	Maximum carry over allowed to communities
Assigned	Operating Reserve	3 months of budgeted operating expenses	6 months of budgeted operating expenses, or highest past calculated cost
Assigned	Capital Reserve	Current value of fully depreciated assets	Current value of total asset depreciation
Unrestricted	Undesignated Fund	5% of budgeted revenue	10% of budgeted revenue

Assigned FUNDS

Capital Reserve

In FY21 we moved to a single Capital Reserve fund rather than separate capital reserves for each program. This was done to reflect the reality of our accounting and banking system, to improve strategic planning efficiency, and to eliminate proprietary feelings over capital funds. CSWD is one singular fund, and as such all “reserve funds” exist merely on paper – although some long-term reserve dollars are held in interest-bearing accounts, in general funds are not deposited into separate bank accounts. There are no separate pots of money destined for use in particular programs. The District

formerly budgeted individual capital reserve fund contributions and tracked each program’s contribution and total, albeit not precisely. This practice gave the impression that separate funds existed.

The single Capital Reserve remedies the past practice of programs internally subsidizing each other. When a program generates revenue in excess of expenses, it contributed that excess to “their” capital reserve. Occasionally those contributions exceed the program’s need, such as in the case of the MRF in most years. Because we had internally separated the capital reserves of each facility, if the DOCs or ODF had capital needs that exceeded their funds’ balance, they would “borrow” capital funds from the MRF and then would “reimburse” that reserve account. This practice was unnecessarily burdensome, required extensive tracking and caused internal resentment among managers reluctant to let go of “their” capital funds. We no longer silo our operations; We have one District capital plan. We will continue to track each program’s ability to contribute, and the amount, as a check on the program’s economic health. Each program’s capital needs will be analyzed and evaluated in the context of the needs of the entire District. In FY23, the MRF is the primary program contributing to the capital reserve; however we are anticipating that in FY25 the ODF will begin to contribute to capital.

Beginning in FY22 we no longer budgeted for programs to contribute to the capital reserve if the program is being subsidized by the District’s Undesignated Fund. In previous budgets, each program that used capital funds would budget a capital fund contribution. This would occur as an expense. When the revenues, expenses, and allocations were tallied, nearly every operating program would be “in the red” and require subsidized support from the Undesignated Fund, which is funded through solid waste management fees. This practice did not support transparent accounting of the individual operations programs’ relative economic health. Subsidies are now accounted for “below the line” so that the operating health of each program is clear.

Operating Reserve

Related to recognizing one capital reserve for the District, new in this budget is the **addition of an Operating Reserve**. This new reserve is necessary to provide a buffer against unexpected events (such as we experienced with COVID-19) or large unbudgeted but necessary operating expenses, such as if outside vendor contracts that are deemed necessary change without notice. This reserve will allow us to weather the unanticipated and provide time to discuss and implement a new direction without resorting to snap decisions. In FY23, the Operating Reserve is being seeded with excess MRF revenue.

Solid Waste Management Fee Rate Stabilization Reserve proposed name change to General Fund

CSWD hasn’t raised the Solid Waste Management Fee (SWMF) in nearly 10 years and continues to contribute excess SWMF revenue to this reserve. The SWMF reserve has functioned as a de facto Operating Reserve, but this will change with the implementation of a true Operating Reserve. The CSWD Charter states that the District may establish a “management fee structure” for the purpose of generating revenues from sources other than assessments to member municipalities. The Charter is less clear on the specific uses of the management fees but the District has in practice used the fees to fund administrative program costs, state mandated education and outreach program costs, and to

subsidize certain operational expenses, such as those associated with the Environmental Depot.

Renaming this reserve “General Fund” brings it in line with standard Municipal naming conventions used to describe an unrestricted and undesignated fund used for routine business activities.

Facilities Closure Reserve proposed to split into Facilities Solid Waste Management Termination Reserve and Facilities Decommission Reserve

Initially established to provide funding in the event the District may need to decommission facilities. In FY23 we have created two distinct funds to account for the State mandated solid waste management termination and the cost of decommissioning a facility. Due to its requirement by the State of Vermont, the Facilities Solid Waste Management Termination Reserve will be considered restricted. The Facilities Decommission Reserve will remain assigned as it is intended primarily for internal costing in event a facility closes.

RESTRICTED FUNDS

The Biosolids, Closed Landfill, and Facilities Closure reserve funds will be considered Restricted Funds, beginning with the FY23 budget. They currently are not formally restricted, but this is not considered a best practice. We manage the Biosolids Reserve as a restricted fund, but it is unrestricted. Restricting these reserves means that the funds attributed to these programs may be used only for the expenses of these programs. Excess funds after their restricted use may be redistributed as deemed appropriate by management.

BOTTOM LINE

Each year, we need to “get to zero”. In FY23, we are projecting \$768,607 in income after capital and allocations needing to be transferred to reserves.

Revenue	\$14,031,725	
Cost of Goods Sold	\$172,197	
Gross Profit		\$13,859,528
Expenses		<i>\$13,808,706</i>
Income from Operations		\$50,822
Capital Contribution	-	
Maintenance Allocations	\$717,785	
Income After Capital & Allocations		\$768,607
Transfer from (to) Closed Landfill Reserve	\$188,919	
Transfer from (to) SWMF Reserve	(\$429,225)	
Transfer from (to) Biosolids Reserve	(\$46,375)	
Transfer from (to) Operating Reserve	(\$30,617)	
Transfer from (to) Capital Reserve	(\$451,309)	
Net		-