

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2009-10

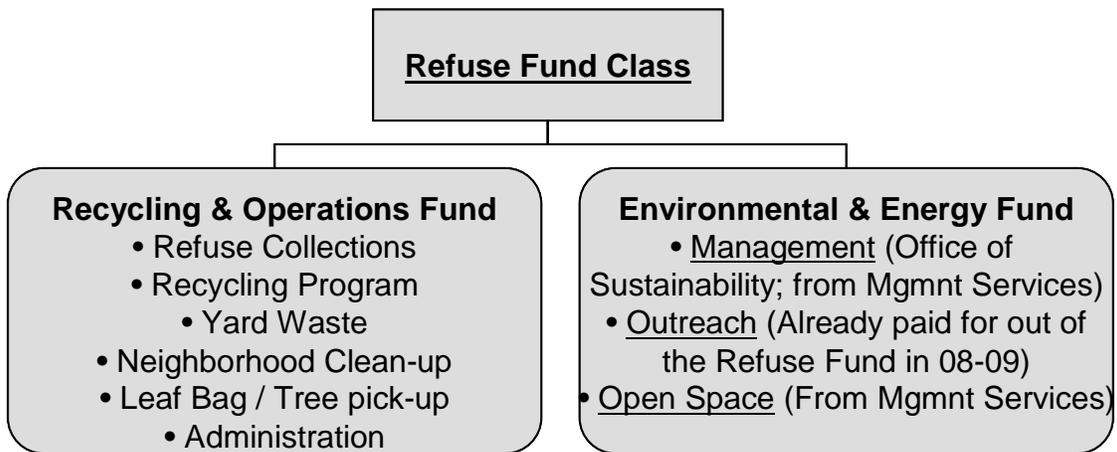
DATE: May 19, 2009
SUBJECT: **REFUSE COLLECTION FUND CLASS**
STAFF REPORT BY: Lehua Weaver
CC: David Everitt, Lyn Creswell, Rick Graham, Kevin Bergstrom, Parviz Rokhva, Greg Davis, Nancy Sanders, Gina Chamness, Randy Hillier, Vicki Bennett

Salt Lake City provides a refuse program of weekly trash collection, curbside recycling, curbside yard waste collection, centralized glass recycling, annual neighborhood cleanup, holiday tree pickup, and leaf removal (half of the leaf bag expense is funded by the Stormwater Fund). The Refuse Fund operates as an enterprise fund, so the General Fund does not subsidize these services.

REFUSE FUND CLASS				
Operations Fund & Environmental Fund Combined				
PROPOSED BUDGET				
	Adopted 2008-09	Proposed 2009-10	Difference	% Chg
Revenue & other sources				
Service Fee Revenues	\$6,976,041	\$7,606,256	\$630,215	9.0%
Landfill annual revenue dividends	\$605,000	\$700,000	\$95,000	15.7%
Interest Income	\$200,000	\$172,500	(\$27,500)	-13.8%
Other Sources	\$1,782,724	\$1,877,658	\$94,934	5.3%
Landfill One-Time Distribution	\$0	\$7,000,000	\$7,000,000	n/a
Total revenue & other sources	\$9,563,765	\$17,356,414	\$7,792,649	81.5%
Operating Expenses				
Operations Fund	\$7,070,569	\$7,179,637	\$109,068	1.5%
Environmental Fund	\$219,148	\$597,104	\$377,956	172.5%
Total Operating Expenses	\$7,289,717	\$7,776,741	\$487,024	6.7%
Capital Outlay	\$3,204,688	\$3,685,400	\$480,712	15.0%
Total expenses & capital outlay	\$10,494,405	\$11,462,141	\$967,736	9.2%
Appropriation of reserves	(\$930,640)	\$5,894,273	\$6,824,913	733.4%

OVERALL KEY ISSUES:

- The Administration is proposing a consolidation of environmental functions into the Refuse Fund Class. This will combine functions and funding for sustainability projects, and environmental and energy initiatives. According the Administration, the proposal includes shifting items that support creating a healthier environment. This consolidation will require transferring employees and some non-personnel costs from the General Fund into the Refuse “Fund Class” and creating two funds (similar to divisions, but with independent revenue and expenditure accounting).



In addition to discussing the general proposal to move the environmental functions into a separate enterprise fund, the Council may also wish to discuss the more specific reasons behind creating it as a separate cost accounting fund just for environmental pieces. An option could be to group the environmental functions with the waste collection functions, which would raise less concern about the future of funding in the “Environmental Fund”.

Following is a list of the items that will be transferred into the Refuse Fund Class from the General Fund:

**Items being transferred from the General Fund to the Environmental Fund, except for Tree Planting*

	2008-09	2009-10	Difference
Staffing Amount - all from the former CAO Office to the Environmental Fund	\$ 475,740	\$ 468,928	\$ (6,812)
Sustainability Director			
Environmental Program Mgr.			
Open Space Land Manager			
Health / Safety Pgm Mgr*			
Recycling Education Coord*			
Materials & Supplies - all from the former CAO Office to the Environmental Fund	\$ 11,912	\$ 11,912	\$ -
Charges for Services - all from the former CAO Office to the Environmental Fund	\$ 44,510	\$ 52,010	\$ 7,500
Telephone, Computer, and travel			
Blue Sky - from Public Services to the Environmental Fund	\$ 12,400	\$ 12,500	\$ 100
Blue Sky electricity budget			
Tree Planting & Related - from Public Services to the Operations Fund	\$ 46,884	\$ 101,200	\$ 54,316
Planting, Tipping, & Increase			

*These two positions were already funded out of the Refuse Fund beginning in 2008-09 using a transfer to the general fund for \$161,764.

Please note: this chart does not address budget items changing within the Refuse Fund, or identify budgets that would have increased regardless of the staff transfers.

- For fiscal year 2009-10, the Administration anticipates the receipt of \$7 million from the Salt Lake Valley Solid Waste Management Facility (“Landfill”) as a one-time distribution payment from the “Post-Closure Fund” (designated cash account). The Council may recall discussing this possibility during the Landfill’s annual budget discussions in November last year. As part owner with the County of the Landfill, any withdrawal from this account is split between the two entities. Some steps need to be completed in order for the money to be disbursed, including an amendment to the Interlocal Cooperation Agreement adopted by both governing bodies.

Pending the successful execution of these steps, the Administration anticipates receiving the \$7 million into the Refuse Fund Class, although there is no legal requirement to place the money into that Fund. The Administration intends to forward a proposal for use of the money later this summer. However, at a minimum this proposed budget includes splitting the money between the Operations Fund, \$1.5 million, and the Environmental Fund, \$5.5 million. The money would be held in each of the Funds’ cash reserves until the Council appropriates the funds for a specific use. ***To keep all options open for the use of the money, the Council may wish to consider an option of receiving the money into the General Fund’s Fund Balance until the plans for the money are settled. This would also allow for the interest revenue to come to the General Fund.***

Based on preliminary information from the Administration, the \$5.5 million would be used toward a larger environmental project or projects administered from the Environmental Fund staff. The \$1.5 million would be used in the Recycling & Operations Fund to offset the use of the annual landfill dividend toward the Environmental Fund functions. For more information on this piece, please see the Fund write-ups below.

- The Administration proposes a fee increase this year for the refuse collection programs, but not for the yard waste collection.
- For the purposes of this report, the changes and budgets for each fund will be addressed separately.

RECYCLING & OPERATIONS FUND

REFUSE FUND CLASS				
RECYCLING & OPERATIONS FUND				
PROPOSED BUDGET				
	Adopted 2008-09	Proposed 2009-10	Difference	% Chg
Revenue & other sources				
Refuse fees	\$6,535,395	\$7,214,120	\$678,725	10.4%
Recycling fees	\$46,350	\$58,656	\$12,306	26.6%
Yard Waste fees	\$394,296	\$333,480	(\$60,816)	-15.4%
Landfill annual revenue dividends	\$0	\$0	\$0	n/a
Interfund Reimbursements	\$282,224	\$269,258	(\$12,966)	-4.6%
Sale of vehicles	\$96,500	\$35,000	(\$61,500)	-63.7%
Interest income	\$200,000	\$70,000	(\$130,000)	-65.0%
Sundry revenue	\$0	\$11,000	\$11,000	n/a
Landfill One-Time Distribution (operations)	\$0	\$1,500,000	\$1,500,000	n/a
Bond Proceeds	\$1,404,000	\$1,562,400	\$158,400	11.3%
Total revenue & other sources	\$8,958,765	\$11,053,914	\$2,095,149	23.4%
Operating Expenses				
Weekly trash collection & Administration	\$4,060,383	\$3,842,331	(\$218,052)	-5.4%
Curbside recycling	\$1,019,752	\$1,231,924	\$212,172	20.8%
Glass, Cardboard, E-Waste	\$89,345	\$88,239	(\$1,106)	-1.2%
Annual neighborhood cleanup	\$1,507,606	\$1,612,866	\$105,260	7.0%
Yard Waste Collection	\$393,483	\$404,277	\$10,794	2.7%
Total Operating Expenses	\$7,070,569	\$7,179,637	\$109,068	1.5%
Capital Outlay				
New facility debt service	\$105,686	\$291,318	\$185,632	175.6%
Debt service	\$1,262,096	\$1,537,792	\$275,696	21.8%
Equipment purchases	\$1,836,906	\$1,856,290	\$19,384	1.1%
Total expenses & capital outlay	\$10,275,257	\$10,865,037	\$589,780	5.7%
Appropriation of reserves	(\$1,316,492)	\$188,877	\$1,505,369	114.3%

The major matters reflected in the proposed budget for the Recycling & Operations Fund include:

Revenues

- Landfill Annual Dividends - shift full \$605,000 to the Environmental Fund – Each year, the Landfill pays a dividend to both the County and City based on Landfill revenues generated from tipping fees. Historically, this payment was used as a revenue source toward the costs of waste collection services, but the Administration proposes shifting this to the newly formed Environmental Fund to fund those functions. This results in \$605,000 less revenue for the Recycling & Operations Fund.

Some Council Members may recall that this dividend was initially intended to offset the cost of providing recycling services to single-family residences at no charge. According to the Administration, this shift is consistent with the policy of supporting recycling and environmental initiatives, because the money will

continue to be used to advance environmental programs and related educational efforts.

- Collection Service Fee Revenues (\$630,215 increase)

1. \$691,031 increase in refuse collection fee revenue - The Administration proposes raising fees for general garbage collection (all-sizes of cans) and the multi-family / business recycling fees. This rate increase was planned prior to the development of the proposal to shift the annual dividend revenue to the Environmental Fund.

The yard waste collection fees are not proposed to change.

	FY08-09 Fee	FY09-10 Proposed Fee	\$ Difference
90-Gallon	\$11.25	\$12.50	\$1.25
60-Gallon	9.25	10.25	1.00
40-Gallon	8.25	9.00	0.75
Multi-Family/ Business Recycling*	3.75	4.00	0.25

*Single-family recycling cans and service are included in the base general garbage fee.

These rates apply to each can customers request. ***The Council may wish to inquire about charging higher rates for more than one general garbage can.***

As of March 2009, 89% of residential cans in use were the 90-gallon sized general garbage can. 5.5% were the 60-gallon size, and 5.7% were the 40-gallon size. ***The Council may wish to ask about the planned education efforts to encourage residents to switch to smaller sizes.***

2. (\$60,816) decrease in yard waste fee revenue - The new yard waste collection began in March of 2008, and recorded higher than expected enrollment. (Enrollment began in late 2007, cans were distributed in the beginning of 2008, and the pick-up began in March.) Over this past year, the program has seen only a moderate increase in participation, which is lower than what was previously estimated.

Currently, there are 7,361 yard waste cans – this is approximately 15% of the general waste cans in service. This is up from 6,709 in July of 2008.

The Council may wish to ask about the planned education efforts to increase participation in the yard waste program, or other plans to expand participation.

- Landfill One-time “Post Closure” Distribution Payment (\$1.5 million) - The loss of the landfill annual dividend will reduce the operating revenue for the Recycling & Operations Fund. For 2009-10, the Administration proposes to utilize the Operation Fund’s cash reserves as they have in previous years to fill the resulting funding gap. Once the “Post-Closure” payment is received, the Administration proposes holding the \$1.5 million in the cash reserve account in the Operations Fund until the Council formally approves an appropriation. The Administration expects that it would not be needed toward Operations until 2011-12.

The Council may wish to consider the option of increasing rates in the Operations Fund rather than using the \$1.5 million toward replenishing cash reserves. A scenario to not use the \$1.5 toward the Operations Fund would keep the full \$7 million payment in the Environmental Fund for sustainability projects.

According to the Administration, rate increases are already planned for future years, and could be adjusted to generate revenue needed in lieu of using either cash reserves or the \$1.5 million. Option B (below) reflects a steeper increase in years beginning in 2011-12, because cash reserves could be used in 2009-10 and 2010-11, while still maintaining a sensible reserve balance. However, if the Council were interested in this type of approach, a more gradual rate increase could be implemented earlier, or other fee structures could be considered.

	OPTION A - Planned WITH \$1.5M from SLVSWMF	Option B WITHOUT \$1.5M from SLVSWMF
FY0910		
90 Gallon Yardwaste	\$3.50	\$3.50
90 Gallon WPU	\$12.50	\$12.50
60 Gallon WPU	\$10.25	\$10.25
40 Gallon WPU	\$9.00	\$9.00
90 Gallon MF/Business Recycling	\$4.00	\$4.00
FY1011		
90 Gallon Yardwaste	\$3.50	\$3.50
90 Gallon WPU	\$13.75	\$13.75
60 Gallon WPU	\$11.50	\$11.50
40 Gallon WPU	\$10.25	\$10.25
90 Gallon MF/Business Recycling	\$4.25	\$4.25
FY1112		
90 Gallon Yardwaste	\$3.50	\$3.50
90 Gallon WPU	\$15.00	\$15.50
60 Gallon WPU	\$12.75	\$13.25
40 Gallon WPU	\$11.50	\$12.00
90 Gallon MF/Business Recycling	\$4.50	\$4.50
FY1213		
90 Gallon Yardwaste	\$3.50	\$3.50
90 Gallon WPU	\$16.25	\$17.00
60 Gallon WPU	\$14.00	\$14.75
40 Gallon WPU	\$12.75	\$13.50
90 Gallon MF/Business Recycling	\$4.75	\$4.75
FY1314		
90 Gallon Yardwaste	\$3.50	\$3.50
90 Gallon WPU	\$17.50	\$18.50
60 Gallon WPU	\$15.25	\$16.25
40 Gallon WPU	\$14.00	\$15.00
90 Gallon MF/Business Recycling	\$5.00	\$5.00
FY1415		
90 Gallon Yardwaste	\$3.50	\$3.50
90 Gallon WPU	\$18.75	\$19.75
60 Gallon WPU	\$16.50	\$17.50
40 Gallon WPU	\$15.25	\$16.25
90 Gallon MF/Business Recycling	\$5.25	\$5.25

- Interest Revenue (decrease of \$130,000) – due to a lower cash reserve amount, and dropping interest rates.

- Sale of Vehicles (decrease of \$61,500) – the Administration plans to sell \$35,000 worth of vehicles. The amount expected from the sale of vehicles has declined drastically over the past several years, because of the ability of the Administration to continue using the heavy equipment and extending their useful life. For example, in the current year, \$95,000 in revenue was budgeted for sales, but none have occurred year-to-date. It is expected, however, that a few vehicles could be sold through the auction by fiscal year-end.

Expenses

- Staffing Changes – The Council may recall that last year, the Refuse Fund assumed the cost of 2 FTEs for recycling coordination, outreach and education efforts. This was paid for as a transfer to the General Fund. This year, those two positions will be moved to the Environmental Fund. This results in a \$161,764 decrease in the Operations Fund from eliminating the General Fund transfer.
- Salary Suspension – the proposed 1.5% salary suspension applies to employees in the Operations Fund.
- Changes to Recycling Contract – The contracted price per can is expected to increase by \$0.26 per can per month. This plus possible additional participation would cause the contract to increase by \$212,171.
- Other Recycling Services (\$1,106 decrease) – In addition to the curbside recycling service, the Operations Fund also provides glass, cardboard, and electronics recycling. The Administration has added sites for cardboard recycling, and proposes sponsoring two additional events for electronic waste drop-off.

The Council may recall that in the current year's budget, the Administration had funding to expand glass recycling services by establishing sites in various Council Districts. According to the Administration, they were not able to expand the glass recycling sites because of the difficulty in finding suitable locations for the large glass receptacles (space, access, broken glass, etc.). The funding for this expansion is being removed in 2009-10, while other glass recycling options are explored. ***The Council may wish to ask about the plans to expand glass recycling.***

- Tree Purchases and Planting Funds – Of the items moved from the General Fund to the Refuse Fund Class, the budget for tree purchases and planting is the only item to be placed in the Operations Fund rather than the Environmental Fund. The transfer includes establishing a budget for \$94,000 (a \$54,000 increase from what was in the general fund) for tree planting costs, plus \$7,200 for general Forestry type tipping fee costs. The \$94,000 would fund the purchase and planting of 600 additional trees per year. According to the Administration, the rationale for shifting this budget to the Refuse Fund Class is that planting trees is one of services provided by the City that supports a healthier environment. ***The Council may wish to ask about some past legal concerns with funding trees out of this fund.***

The Council may recall that part of the current year's budget was intended to start a voucher program. According to the Administration, it was determined that City employees would continue to plant the trees to ensure proper planting, placement and long-term care.

- Fleet Fuel (\$220,200 decrease)

- Bond Payment (\$185,632 increase) – this is the second debt payment toward the Fleet Facility, where Refuse will also be housed. \$291,318 includes both interest and principal, whereas last year’s payment was interest only. The sales tax bond is a 20-year term, and payments will be shared with the Fleet Fund and the General Fund.
- Equipment Purchase – The Refuse Fund uses a lease purchase program for the replacement of vehicles. The Fund has a fleet of 22 refuse packers on a five-year replacement cycle (16 are used for general garbage and six are for yard waste) and 14 trucks on a six-year replacement cycle. This year, \$1.5 million is budgeted for the purchase of several packers, flat bed trucks, pick-up trucks, leaf trucks, and a loader. ***The Council may wish to ask about the Administration’s plans for purchasing alternative fuel vehicles.***
Each year, the Refuse Fund also budgets for replacement expense of the cans for weekly pick-up, recycling, and yard waste cases on a cash basis.
- Use \$1,311,123 of Reserve Funds – According to the chart above, the Operations Fund will drop \$188,877 to fund balance. However, this assumes the receipt of the \$1.5 million landfill payment. Without considering the landfill payment, \$1,311,123 will actually be used from cash reserves this year.

Use of available reserve funds allows the Administration to keep the garbage fees to residents low. Available cash (cash less current liabilities) in the Refuse Collection Fund was \$5,097,987 as of June 30, 2008, which represents 72% of the Fiscal Year 2008-09 annual operating expenses. There is a plan to draw down some of this available cash over the next six years on capital and operational costs, resulting in a remaining balance of \$2,700,278 in fiscal year 2014-15, which is approximately 3-months of current operating expenses. ***The Council may wish to have a discussion about the standard amount of reserve funds they wish to see maintained for funds dependent upon monthly payment of bills by residents / property owners. For example, in the event of a serious disaster, would 3 months of reserves be adequate or might payment and collection efforts be temporarily disrupted for a longer period and create cash flow problems? In addition, would expenses be higher for these funds in disaster and disaster recovery situations and is access to adequate reserves an important part of emergency management and recovery?***

The \$1.5 million landfill payment will be received and held in cash reserves, but will not be appropriated until the Administration and Council agree on the plans for the full \$7 million. The Council will formally adopt an appropriation for the funds before the funds can be spent. This is the same for the \$5.5 proposed to be received in the Environmental Fund.

ENVIRONMENTAL & ENERGY FUND

REFUSE FUND CLASS				
ENVIRONMENTAL & ENERGY FUND				
PROPOSED BUDGET				
	Adopted 2008-09	Proposed 2009-10	Difference	% Chg
Revenue & other sources				
Landfill annual revenue dividends	\$605,000	\$700,000	\$95,000	15.7%
Interest income	\$0	\$102,500	\$102,500	n/a
Landfill One-Time Distribution (environmental)	\$0	\$5,500,000	\$5,500,000	n/a
Total revenue & other sources	\$605,000	\$6,302,500	\$5,697,500	941.7%
Operating Expenses				
Environmental - management	\$31,647	\$299,287	\$267,640	845.7%
Environmental - outreach	\$187,501	\$200,057	\$12,556	6.7%
Environmental - open space	\$0	\$97,760	\$97,760	n/a
Total Operating Expenses	\$219,148	\$597,104	\$377,956	172.5%
Appropriation of reserves	\$385,852	\$5,705,396	\$5,319,544	1378.6%

The major matters reflected in the proposed budget for the Environmental & Energy Fund include:

Revenues

- Annual Landfill Dividend (shift and increase \$95,000) – As discussed above, the Environmental & Energy Fund will use the annual landfill dividend as revenue. The Administration also proposes increasing the budget for the expected dividend from \$605,000 to \$700,000.

This may be an aspect of the proposal that the Council wishes to discuss further. Theoretically, with the success of the environmental staff initiatives – such as increased recycling and yard waste usage - this annual dividend amount (based on tipping fees) will likely decrease. It is also probable that the costs associated with environmental initiatives will increase (both staff and non-staff costs). However, as indicated by the chart above, the primary source of revenue will be the dividend. ***The Council may wish to about the Administration’s ideas and plans to generate other revenue sources.***

The Council may also wish to discuss the decision to create two separate funds based on this factor.

- Interest Income – The Administration anticipates earning \$102,500 in interest income on the \$5.5 million balance in the Environmental Fund.
- Landfill One-time “Post Closure” Distribution Payment (\$5.5 million) – As discussed above, the Administration anticipates receiving \$7 million from the Landfill’s “Post-Closure” account. \$1.5 million is proposed to be placed in the Operations Fund as discussed above and \$5.5 million is proposed to be held in the Environmental Fund until a formal proposal is made by the Administration and an appropriation is approved by the Council.

Expenses

- Salary Suspension – the proposed 1.5% salary suspension applies to employees in the Environmental Fund.

- Travel & Memberships – the Administration proposes an increase of \$5,000 for out of town travel, and \$1,000 for membership expenses.
- Blue Sky Electricity – the general fund currently pays \$12,400 in Blue Sky electricity payments. The Administration proposes transferring this to the Environmental Fund and increasing it by \$100. The additional \$100 will allow the City to purchase an additional 126 Blue Sky blocks.
- Reserve Funds – According to the chart above, the Environmental Fund will drop \$5,705,396 to fund balance. However, this assumes the receipt of the \$5.5 million landfill payment. Similar to with the Operations Fund, the \$5.5 million landfill payment will be received and held in cash reserves, but will not be appropriated until the Administration and Council agree on the plans for the full \$7 million. The Council will formally adopt an appropriation for the funds before the funds can be spent.

QUESTIONS FOR CONSIDERATION

1. According to information from the Administration, the proposal to shift specific programs and functions into the Refuse Fund Class comes from a desire to consolidate services provided by the City which promote a healthier environment.
 - a. The Council may wish to ask how it was determined to select the items currently being proposed. Some of the items to be shifted are only a portion of larger operations (for example, the tree purchase and planting service is only approximately 2% of the total Urban Forestry budget remaining in the general fund).
 - b. The Council may wish to further ask whether there are other services or programs that would make sense to be shifted as well.
2. The Council may wish to ask about the various environmental efforts in the Operations Fund – for example, future plans for purchasing alternative fuel vehicles, using biodegradable leaf bags, and other recycling expansion efforts.
3. The Council may wish to ask about efforts to expand the yard waste program, and plans to remind residents of the smaller general garbage containers.
4. During various discussions over the past year, the Administration mentioned that there were other options being explored for encouraging recycling practices in the business community. The Council may wish to ask about programs and plans to incentivize businesses to expand recycling efforts.

BACKGROUND INFORMATION

The operations of the Landfill are not part of the Refuse Fund budget. The Solid Waste Facility administers the Landfill, coordinates the transfer station and the long range planning for future landfill sites. However, the Salt Lake City Council reviews and adopts the budget for the Solid Waste Facility on a calendar year basis, which affects

the revenue and expenditures of the Refuse Fund. For instance, an increase in material collection through the curbside recycling program will result in less garbage collection and lower tipping fee expenditures in the Refuse Fund. It also reduces the over-all revenue to the landfill, impacting the dividend that the City receives as a result of landfill revenue.

LEGISLATIVE INTENT STATEMENTS

No legislative intent statements are outstanding for the Refuse Fund.

During the briefing on the proposed budget, the Council may wish to identify legislative intents relating to the Refuse Fund.

During the briefing, the Council may wish to identify potential programs or functions to be added to the Council's list for future audits.