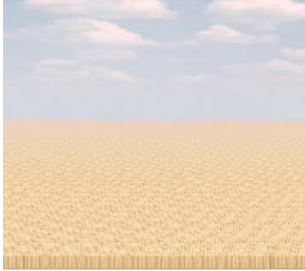


# Chapter 10 Resources and Funding

Close-up.



CHRIS JORDAN  
**Running the Numbers**  
An American Self-Portrait  
*Cell Phones, 2007*  
60"x100"

Like other Olympia utilities, Waste ReSources operates as an Enterprise Fund; it is managed like a business but without the profit motive. The Utility raises revenues from fees for service and does not receive funding from taxes or levies. Some services — the drop box program and a few commercial recycling services — are offered in a competitive environment. In the long term, the Utility strives to:

- Recover its expenses – and only its expenses
- Maintain a sufficient cash balance
- Charge its customers fairly

This chapter reviews the Utility's financial and risk management policies and practices; summarizes revenues and expenditures, assets and liabilities. The chapter concludes with the results of a financial analysis showing the additional resources and revenue required to implement the Plan over the next six years.

This information shows that the Utility is financially healthy. Continued health depends on sound management, good financial planning, customer growth, general inflation, regional economic health, general transportation costs, wages and benefit rates, and disposal fees.

## SERVICES AND CUSTOMER CLASSES

As described in **Chapter 4**, Waste ReSources offers four major services:

- Drop box (or compactor) collection and hauling
- Curbside collection of residential waste (garbage and recyclables)
- Curbside collection of commercial garbage
- Curbside collection of yard waste

Other services include operation of a Saturday yard waste drop-off site, recycling coordination at community events, downtown litter control and cleanup of illegal dumping.

The four major services parallel the four major customer classes:

1. Large-volume waste generators for whom it is cost-effective to use a large container such as a drop box or compactor, either occasionally and short-term or frequently and long-term.
2. Single-family or multi-family residential dwellers who need frequent curbside collection of relatively small volumes.

3. Businesses that need frequent curbside collection of relatively small volumes.
4. Yard waste customers who generate regular, yet relatively small, volumes and want curbside collection.

**Table 2.1** in **Chapter 2** gives statistics on customer and service characteristics.

The Utility delivers these services through two main programs (see **Chapter 4** for details), and prepares an operating budget and cash flow projection annually for each. They are:

- **Collections** – also referred to as Operations, responsible for the day-to-day collection services.
- **Waste Prevention and Reduction** – responsible for strategic planning, policy formulation and new service implementation.

## EXPENDITURES AND REVENUES

As a matter of State law and local policy, the City is required to report its financial information on the accrual basis. This means that revenues are recorded when earned and expenditures are recorded when incurred. The alternative is a cash basis, where revenues are recorded when received and expenditures are recorded when paid.

### Expenditures

**Table 10.1** summarizes Utility expenditures as shown in the preliminary 2008 budget, before inclusion of the additional expenditures required by this Plan.

**Table 10.1**  
Waste ReSources Preliminary 2008 Operating Budget – Expenditures

Program/ Service	Drop Box	Residential Curbside Waste Collection	Commercial Curbside Garbage Collection	Yard Waste Curbside Collection	Program Total
Collections	\$ 2,154,467	\$ 2,481,157	\$ 2,378,468	\$ 537,386	<b>\$ 7,551,478</b>
Waste Prevention and Reduction	\$ 37,049	\$ 163,569	\$ 139,512	\$ 35,809	<b>\$ 375,939</b>
<b>Service Total</b>	<b>\$ 2,191,516</b>	<b>\$ 2,644,726</b>	<b>\$ 2,517,980</b>	<b>\$ 573,195</b>	
<b>Utility Total</b>					<b>\$ 7,927,417</b>

The major expenditure categories in all services are:

- Compensation (including wages, salaries and benefits).
- Disposal costs.
- Equipment operation, maintenance and replacement.

## Revenue

Nearly all of the Utility's revenue is from customer fees and charges. Smaller revenue sources, such as the sale of scrap metal and investment earnings, are insignificant by comparison.

**Table 10.2** summarizes Utility revenue as shown in the preliminary 2008 budget, before the inclusion of any additional revenue sources for implementation of this Plan and before implementation of customer rate increases in 2008 for 2007 levels of service. These additional revenue sources, listed in **Table 10.7**, will help close the gap between preliminary revenues and expenditures.

**Table 10.2**  
Waste ReSources Preliminary 2008 Operating Budget – Revenue

Program/ Service	Drop Box	Residential Curbside Waste Collection	Commercial Curbside Garbage Collection	Yard Waste Curbside Collection	Revenue Total
Customer Fees and Charges	\$ 1,935,600	\$ 2,489,650	\$ 2,632,700	\$ 536,300	<b>\$ 7,594,250</b>
Investment Earnings	\$ 20,000	\$ 20,000	\$ 28,000	\$ 3,000	<b>\$ 71,000</b>
Other		\$ 2,000		\$ 11,500	<b>\$ 13,500</b>
<b>Service Total</b>	<b>\$ 1,955,600</b>	<b>\$ 2,511,650</b>	<b>\$ 2,660,700</b>	<b>\$ 550,800</b>	
<b>Utility Total</b>					<b>\$ 7,678,750</b>

## Customer Rates

Waste ReSources customers are billed bi-monthly for garbage collection. Residential customers have a rate incentive to recycle more. Separate fees are charged for yard waste collection. Current monthly fees can be found in the Olympia Municipal Code, Section 04.24.010 C.

**Volume-based rates.** Garbage collection rates are based on container type and size and pick-up frequency. Charging by volume (size and type of container) provides an incentive to recycle more and generate less garbage. The “pay-as-you-throw” system means drop box, residential and commercial customers who throw out less can downsize their garbage containers and pay less. Current technology is not yet reliable enough to allow the Utility to charge by weight.

**Recycling rate incentive.** Garbage collection fees are 20 percent lower for single-family residential customers who subscribe to recycling collection service. This incentive is possible because the cost of garbage disposal is partially offset by revenue from the sale of recyclable materials.

Almost 99 percent of Olympia's single-family residential customers subscribe to collection with recycling. They source-separate traditional recyclables (glass and plastic bottles and jars, tin and aluminum cans, paper and cardboard) from their garbage.

This rate incentive has probably been one reason for the success of Olympia's residential recycling program. The Utility would like to extend this type of incentive to multi-family and commercial customers.

**Yard waste collection rates.** Separate fees are charged for curbside collection of yard waste. The Utility collects a 95-gallon cart every other week for an additional fee of \$7.35 per month (2007 rate). This service is promoted primarily to residential customers, although it is available to commercial customers on request. The fee increases proportionately for more frequent collection.

### ***65% Recycling Requirement as an Incentive***

Subscription to recycling services is voluntary for commercial customers and, with a few exceptions, Waste ReSources does not collect recycled materials from commercial customers. Private recycling collectors prefer to collect only materials such as paper, cardboard and aluminum that have the highest value and provide the highest margin. The City's goal is to recycle as much as possible of materials for which a market exists, high margin or not.

The 65 percent recycling requirement in this Plan for commercial and multi-family residential customers, including those with residential units in commercial buildings, is a first step to giving them an added incentive to subscribe to recycling collection services. It also gives Waste ReSources staff a tool to require private collectors to begin offering a full complement of recycling services, possibly using lower fees as an incentive.

## **ASSETS AND LIABILITIES**

State law requires utilities to account for net assets on a fund-wide basis. The Utility reports assets and liabilities classified as current or long-term. Since 1995 the Utility's financial position in terms of net assets and cash has held steady. **Table 10.3** summarizes selected information from the Statement of Net Assets in the City of Olympia's Comprehensive Annual Financial Reports.

**Table 10.3**  
Waste ReSources Net Assets – Highlights from Annual Financial Reports

Assets/Liabilities	1995	2000	2005	2006
Cash and Residual Investments/ Cash Equivalents	\$ 1,076,153	\$ 1,163,440	\$ 1,698,006	\$ 1,891,688
Other Current Assets	\$ 591,430	\$ 834,794	\$ 897,642	\$ 1,067,192
Long-Term Assets	\$ 706,983	\$ 32,578	\$ 23,096	\$ 21,394
<b>Total Assets</b>	<b>\$ 2,374,566</b>	<b>\$ 2,030,812</b>	<b>\$ 2,618,744</b>	<b>\$ 2,980,274</b>
Current Liabilities	\$ 192,798	\$ 266,299	\$ 620,485	\$ 647,817
Long-Term Liabilities	\$ 61,540	\$ 997,195	\$ 151,821	\$ 219,344
<b>Total Liabilities</b>	<b>\$ 254,338</b>	<b>\$ 1,263,494</b>	<b>\$ 772,306</b>	<b>\$ 867,161</b>
<b>Net Assets</b>	<b>\$ 2,120,228</b>	<b>\$ 767,318</b>	<b>\$ 1,846,438</b>	<b>\$ 2,113,113</b>

## FINANCIAL AND RISK MANAGEMENT

Sound financial management is important for any public utility. This section reviews Waste ReSources' financial management policies and practices, and how the Utility plans to handle risks due to fluctuations in markets for recyclables and uncertainties in organic material processing.

### Policies and Practices

Financial management is primarily the responsibility of the Waste ReSources Director and Supervisors of the two Programs, Collections and Waste Prevention and Reduction. In addition to their extensive review process, the citizens' Utility Advisory Committee annually reviews expenditures, revenues and rates.

**Extensive annual budgeting process.** Each year the Director and Supervisors prepare a detailed budget for the following year that serves as a planning and cost control tool. When approved by City Council the budget also represents the Utility's spending authority. Any excess spending requires additional justification and authority from Council.

**Interim financial reviews.** The Director and Supervisors review actual revenues and expenditures in relation to the budget on several occasions throughout the year. This helps plan for the following year, detect possible problems early and make course corrections if needed.

**Year-end financial review.** At the end of each year, after all the year’s activity has been recorded, the Director and Supervisors perform another financial review. This review is to analyze and explain large variances between budgeted and actual expenditures, and to evaluate the adequacy of reserves and cash balances.

**Annual review by a citizen advisory committee.** The City’s Utility Advisory Committee (UAC) reviews operating costs, operating revenues and cash position in relation to customer rates. The UAC wants to make sure that customers receive value commensurate with the fees; that the Utility provides reliable long-term service; and that customers are charged fairly. The UAC reviews proposed rate increases and makes recommendations informing the City Council whether or not a rate increase is justified from the citizens’ point of view.

**10-year cash flow planning.** Waste ReSources uses a sophisticated 10-year cash flow model that incorporates certain economic indicators to project future cash inflows, outflows, need for debt financing, and adequacy of revenues and cash balances.

## Reserve Funds

All Olympia utilities are required to begin each year with a minimum cash balance of 10 percent of that year’s estimated revenues. This reserve fund strengthens the Utility’s financial position and serves as a buffer between slow cash inflows and fast cash

outflows. It maintains liquidity for about 36 days of general unforeseen expenditures without a corresponding cash inflow. This type of reserve and its level are common among utilities and are deemed reasonable and appropriate. Waste ReSources has maintained this reserve since its inception.

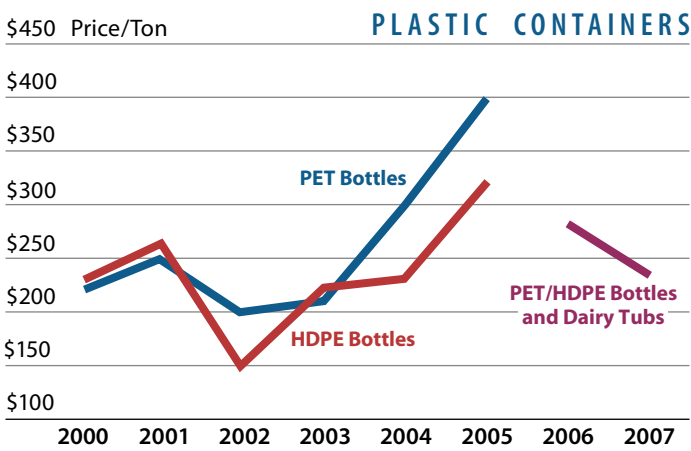
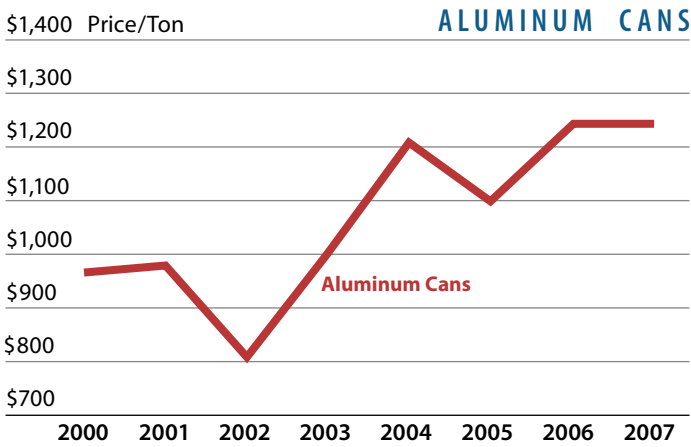
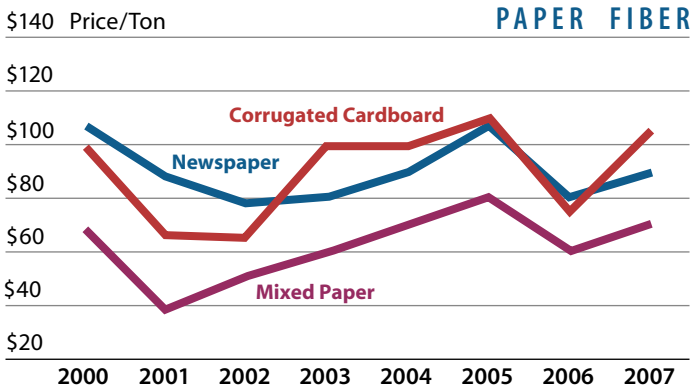
Another reserve fund is maintained to allow for year-to-year rate smoothing. Based on the 10-year cash projection model, the Utility is allowed to temporarily accumulate or use this reserve to avoid spikes in customer rates.

**Table 10.4** shows that the Utility’s cash position as of January 1, 2007 was sufficient to meet required cash reserves.

**Table 10.4**  
Equivalence of Cash Assets and Reserve Funds

Cash and Cash Equivalents as of January 1, 2007 (per Net Asset Table 10.3)	\$ 1,891,688
Minus 2006 Vendor Bills and Other Current Liabilities	( \$ 647,817 )
<b>Total Available Cash</b>	<b>\$ 1,243,871</b>
10% Required Operating Reserve	\$ 729,400
Planned Rate Smoothing Reserve	\$ 400,000
Additional Reserve Available for Emergencies	\$ 114,471
<b>Total Available Reserve</b>	<b>\$ 1,243,871</b>

**Figure 10.1**  
Price Fluctuation in Markets for Paper Fiber, Aluminum Cans and Plastic Containers, January 2000 – September 2007



Note: Almost all plastic bottles are made of Polyethylene Terephthalate (PET) or High Density Polyethylene (HDPE). Prices for 2006 and 2007 were only available for plastic bottles mixed with dairy tubs.

Source: Sound Resource Management Northwest Price Histories and City of Olympia Recycle Contract. Gaps in graph for plastic bottles indicate information is not available.

## Exposure to Risk

Aside from exposure to unforeseen general cash flow fluctuation, Waste ReSources is also exposed to financial risks due to fluctuating prices for recycled materials and reliance on a single provider for processing of organic material (including food debris, yard waste and compostable paper).

- **Prices for recycled materials.** Prices for recycled materials can fluctuate wildly. **Figure 10-1** shows fluctuations for paper fiber, aluminum cans and plastic containers between 2000 and September 2007. The prices are determined through negotiation between private business partners. An open market exchange, such as for other commodities, does not exist at this time. As a result, disposal costs for residential collection of recycled materials can increase and decrease significantly.
- **Single-source provider.** Under Waste ReSources' planned new program to collect food debris mixed with yard debris, organic waste will be taken to a composting facility in southeast Thurston County (see **Chapter 4**). This facility is the only one of its kind in reasonably close proximity; should it cease operations for any reason, Waste ReSources has to be prepared to either discontinue collection of organics or find an alternate composting facility that can handle food waste. An alternate composting facility would, no doubt, be farther away, and transportation and disposal costs would rise significantly.

Both types of risk could be alleviated. While Waste ReSources does not have control over the prices of recycled materials, it could set aside additional reserve funds during years of favorable price fluctuations and designate them specifically for use during unfavorable price periods. The Utility also could extend the use and amount of such a reserve to prepare financially for the second contingency, which could help cover unexpected transportation to and disposal cost at an out-of-County composting facility.

Strategy 3.1 includes two actions oriented to such contingency planning: preparing a contingency plan for waste management in local emergencies, and considering other system efficiency and effectiveness improvements in the City and countywide waste management system.

## RESOURCES NEEDED FOR PLAN IMPLEMENTATION

During the next six years (2008 – 2013), Waste ReSources will follow six strategies for waste reduction, increased recycling and operational effectiveness (see summary in [Appendix 5](#)). The strategies include 23 actions, of which seven build on existing programs and the remaining 16 require additional staff time and expertise. This section reviews the staffing changes and additional revenue required for implementation of this Plan. Additional revenue will be generated from customer rate increases, an expanded customer base, and an anticipated grant for organics collection.

### Staffing Changes

Waste ReSources intends to implement the Plan without any net increase in employees, by shifting budgeted positions from Collections to Waste Prevention and Reduction.

**Table 10-5** shows this transition in staffing levels from 2007 to 2008 and beyond.

**Table 10.5**

Waste ReSources Staffing Changes, 2007 – 2008

Program Staffing	2007	2008
Line of Business Director	1	1
Operations Supervisor	1	1
Lead Worker	1	1
Refuse Collector	20	19
Maintenance Worker I	2	1
Accounting Technician	1	1
Program & Planning Supervisor	1	1
Program/Senior Program Specialist	1	2
Program Assistant	0	1
<b>Total</b>	<b>28</b>	<b>28</b>

The changes are:

- Expansion of the Waste Prevention and Reduction Program from one Supervisor and one Program Specialist to one Supervisor, two Senior Program Specialists and one Program Assistant.
- Contraction of the Collections Program by one Maintenance Worker I and one Refuse Collector position. These positions are not needed due to automation and routing efficiencies; they have been vacant during all of 2007.
- Upgrade of one Maintenance Worker I and one Collector to one Program Assistant and one Program Specialist or Senior Program Specialist. An existing Program Specialist position is also being considered for a possible upgrade.

## Additional Funding Requirements

Implementation of the planned strategies and actions will require additional resources in two major phases, 2008 and 2009. These resources are needed for startup of the new programs, including upgrading two positions, design and printing of new educational materials, and consulting fees for assistance with garbage surveys and rate structures.

As shown in **Table 10-6**, additional revenue for these resource needs will come from customer rate increases, new customers and grant funding for the expanded organics collection program.

Small increases in labor costs, mostly due to overtime, will occur each year from 2010 to 2013. These are to be funded through fees paid by the new customers added to the residential organics collection service.

Cost evaluations to be performed as part of this Plan may lead to identification of additional resource needs and revenue sources. To implement any such changes, a Plan amendment would be needed; for example, if Waste ReSources recommends that the City collect source-separated commercial recyclables. Also, the per-ton disposal fees for organic waste at the composting facility are yet to be negotiated.

**Table 10.6**  
New Expenditures for Plan Implementation – Summarized by Service

Service	Phase I - 2008	Phase II - 2009	Funding Source
Drop Box	\$ 365	( \$ 365 )	Customer rates
Residential Curbside	\$ 21,510	\$ 9,680	Customer rates
Commercial Curbside	\$ 65,410	\$ 133,050	Customer rates
Organics Curbside	\$ 90,515	( \$ 34,760 )	Growth and grant
<b>Total</b>	<b>\$ 177,800</b>	<b>\$ 107,605</b>	

## Rate Increases

The anticipated impact of the new services on 2008 customer rates will be an additional 1 percent for residential curbside collection, 1.5 percent for commercial curbside collection, none for drop box service, and none for the new residential organics program. Rate increases to be implemented in 2008 are shown in **Table 10.7**.

In 2009 and thereafter, additional revenue requirements and increases in customer rates are expected to be 0 to 2 percent above general inflation rates.

**Table 10.7**  
Waste ReSources 2008 Rate Increases

Service	Current Services	New Services	Total Increase
Drop Box*	13.0 %	None	13.0 %
Residential Curbside	5.5 %	1.0 %	6.5 %
Commercial Curbside		1.5 %	1.5 %
Organics Curbside (previously yard waste only)	5.0 %	None	5.0 %

\* This represents an average and combines delivery, hauling and disposal fees. Different customers will experience different increases – some more and some less – depending on size and weight of container.

### ***New Revenue from Expanded Residential Organics Collection***

With the expansion of the residential yard debris collection to include food debris and compostable paper, the Utility expects to add about 500 customers each year for six years. This would result in approximately \$42,000 more in revenues annually.

Also, Waste ReSources has applied for a Coordinated Prevention Grant through Thurston County to help pay for startup costs such as additional carts and pails. The Utility has received informal confirmation that it will receive \$49,000 in 2008. Staff will apply for additional grant funding whenever possible.