



# ADMINISTRATION AND FINANCE



## STAFF REPORT

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**To:** SBWMA Board Members  
**From:** Joe La Mariana, Executive Director  
Farouk Fakira, Finance Manager  
**Date:** November 17, 2016 Board of Directors Meeting  
**Subject:** Update on Bond Covenant Impacts with tipping Fee Increases Effective 1/1/17

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### Recommendation

This report is informational and no action is required by the Board. The following Shoreway tipping fee adjustments were approved in June 2016 by the Board with approval of FY16/17 Budget.

#### Effective July 1<sup>st</sup>, 2016:

- Increase public solid waste disposal rates from \$36/cubic yard to \$38/cubic yard (5.6% or \$2/cubic yard)
- Increase public clean plant material and wood from \$25/cubic yard to \$27/cubic yard (8% or \$2/cubic yard)
- Increase public C&D rate from \$33/cubic yard to \$35/cubic yard (6.1% or \$2/cubic yard)

#### Effective January 1<sup>st</sup>, 2017:

- Increase franchised solid waste disposal rate from \$94/ton to \$104/ton (10.64% or \$10/ton)
- Increase franchised organics from \$96/ton to \$106/ton (12.77% or \$10/ton)
- Increase public inerts from \$81/ton to \$91/ton (12.35% or \$10/ton)
- Increase public solid waste disposal from \$38/cubic yard to \$41/cubic yard (7.89% or \$3/cubic yard)
- Increase public clean plant material and wood from \$27/cubic yard to \$29/cubic yard (7.4% or \$2/cubic yard)
- Increase public C&D rate from \$35/cubic yard to \$38/cubic yard (8.57% or \$3/cubic yard)

### Analysis

When evaluating potential adjustments to the Shoreway facility tipping fees, staff prepares and reviews the following information:

- Updated calendar year 2016 and 2017 financial projections to capture any changes in forecasted inbound tonnage and yardage from franchise and non-franchise customers, commodity revenue, and operating expenses.
- Review the projected net operating surplus/shortfall for 2017 assuming various tipping fee adjustment (per ton and per yard rates) scenarios. We start first with the base case scenario of what tipping fees were assumed in the Board adopted FY16/17 budget and then "test" this and other scenarios against compliance with bond debt covenant requirements (i.e., break even test and debt coverage ratio of 1.4). Basically, we see if using the base case tipping fees still keep us in compliance with the bond covenants and to what extent any changes are needed or can be made to the base case tipping fees.

In completing the updated financial projections, we also take a preliminary look at how the projected net income affects our cash reserve balances. Undesignated cash reserve is tracking above what we last projected per the adopted FY16/17 Budget figures due to the tipping fees increases from the prior fiscal year.

## Updated SBWMA Financial Projections for Calendar Year 2016 and 2017

Updated financial projections for calendar year 2016 and 2017 are shown in **Table 1** below. The 2017 projection for franchise and public revenue is based on the recommended tipping fees for 2017. See the notes below the table that explain notable variances in the table.

Table 1

estimate	Calendar Year		% Change	% of Total
	2016 Projection	2017 Projection		
<b>Operating Revenue</b>				
<sup>1</sup> Franchise Revenue	27,279,739	30,206,881	10.7%	61.1%
<sup>2</sup> Public Revenue	8,503,843	9,496,457	11.7%	19.8%
<sup>3</sup> Commodity Material Sales	6,771,391	8,820,697	30.3%	18.4%
<sup>4</sup> Commodity Revenue Sharing	(305,599)	(897,639)	193.7%	-1.9%
Buyback Payment (moved from Shoreway)	(877,781)	(877,780)	0.0%	-1.8%
Commodity Sales, Net	5,588,011	7,045,278	26.1%	14.7%
<sup>5</sup> HHW Program	658,128	836,128	27.0%	1.7%
Other Revenue	308,646	446,912	44.8%	0.9%
<sup>6</sup> Insurance reimbursement	1,499,133	-	-100.0%	0.0%
<b>Total Operating Revenue</b>	<b>43,837,499</b>	<b>48,031,656</b>	<b>9.6%</b>	<b>100.0%</b>
<b>Operating Expenses</b>				
<sup>7</sup> SBR Operating Expense	17,769,772	18,621,128	4.8%	41.6%
<sup>8</sup> Disposal Expense	16,059,982	16,755,068	4.3%	37.5%
Shoreway Facility & Maintenance	207,072	226,563	9.4%	0.5%
<b>Total Operating Expense</b>	<b>34,036,827</b>	<b>35,602,758</b>	<b>4.6%</b>	<b>74.1%</b>
<sup>9</sup> SBWMA Program Budget	2,869,256	3,411,279	18.9%	7.6%
Franchise Fee	1,704,000	1,891,000	11.0%	4.2%
HHW Program	658,128	836,128	27.0%	1.9%
Ed Center Operations	57,107	62,818	10.0%	0.1%
Insurance & Sewer	273,294	272,409	-0.3%	0.6%
Other Expense	330,401	335,227	1.5%	0.7%
<b>Total Other Expense</b>	<b>5,561,786</b>	<b>6,473,634</b>	<b>16.4%</b>	<b>14.5%</b>
<b>Total Expense</b>	<b>39,598,613</b>	<b>42,076,392</b>	<b>6.3%</b>	<b>94.1%</b>
<b>Non-Operating</b>				
Interest (Income)	(91,858)	(92,024)	0.2%	-0.2%
Interest Expense	2,793,446	2,739,175	-1.9%	6.1%
Subtotal	2,701,588	2,647,151	-2.0%	5.9%
<b>Total Expense</b>	<b>42,300,201</b>	<b>44,723,543</b>	<b>5.7%</b>	<b>100.0%</b>
<b>Net Operating Income</b>	<b>\$ 1,537,299</b>	<b>\$ 3,308,112</b>	<b>115.2%</b>	
<b>Other Payments</b>				
Shoreway Capital Expenditures	322,804	567,250	75.7%	
Miscellaneous	-	-	0.0%	
Bond Principal Payments	1,270,000	1,310,000	3.1%	
<b>Net Cash Flow</b>	<b>(55,505)</b>	<b>1,430,862</b>	<b>-2677.9%</b>	
Designated Reserve Funding	500,966	443,725		
<b>Undesignated Cash Flow</b>	<b>(556,471)</b>	<b>987,138</b>		
<b>Bond Covenant Requirements</b>				
Break Even Test (greater than 1.0)	1.00	1.04		
Debt Coverage Test - Greater than 1.4)	1.46	1.93		
Foot Notes:				
1 - Franchise price increase of 10.6% for 2,885K and volume increase of .2% for \$42K.				
2 - Public price increase of 10.9% for \$924K and volume increase of .8% for \$69K.				
3 - Commodity revenue is lower due to loss of revenue due to the fire in September, 2016.				
4 - Due to no revenue sharing for the months of September thru December, 2016 due to the fire in September, 2016.				
5 - HHW is higher Due to 27% increase in rate.				
6 - Lost income due to fire and expected reimbursement from the insurance company				
7 - SBR operating cost is higher due to Lower adjustment of -.95% for (\$169.4K); volume increase of 5.74% for \$1,704,000.				
8 - Disposal Rate increase of 6.4% for \$970KK and (1.8%) volume decrease for (\$274.9K).				
9 - SBWMA Program is higher by \$341.3K due to employee salary savings, \$135k for Recology contract negotiations.				

The projected net income for calendar year 2017 results in meeting both bond covenant tests of break-even ratio of 1.04 and debt coverage ratio of 1.93. This leaves us in a secure and comfortable position.

**Attachment A** provides a series of tables with back-up detail on operating revenue and expense information used in the 2016 and 2017 financial projections.

**Table 2** shows the revenue generated from each rate category. Overall, the lion share of our tipping fee revenue comes from franchise sources at nearly 76% with self haul customers delivering materials to our Shoreway facility making up the balance at 24%.

**Table 2**

	2017 PROJECTION			
FRANCHISE	Yards	Tons	Revenue	% of Total
Solid Waste		182,364	\$ 18,966,575	47.8%
Residential Organics		101,666	\$ 10,776,609	27.1%
Commercial Food Waste		0	\$ -	0.0%
Inerts		4,404	\$ 402,430	1.0%
Other		614	\$ 61,266	0.2%
<b>Total Franchise</b>		<b>289,048</b>	<b>30,206,881</b>	<b>76.1%</b>
<b>SELF-HAUL</b>				
Solid Waste	58,778		\$ 2,409,822	6.1%
Green Waste	48,855		\$ 1,416,892	3.6%
C&D	97,795		\$ 3,715,835	9.4%
Public Dirt		5,694	\$ 540,888	1.4%
Non-SBWMA SW (Tons)		3,077	\$ 338,428	0.9%
Non-SBWMA SCRAP (Tons)		171	\$ 10,260	0.0%
Non-SBWMA FOOD (Tons)		1,054	\$ 124,358	0.3%
Non-SBWMA C&D (Tons)		5,705	\$ 593,368	1.5%
Non-SBWMA ORGANIC (Tons)		22	\$ 2,365	0.0%
Non-SBWMA Assphalt Roofing		1,251	\$ 130,085	0.3%
Non-SBWMA Clean Wood		16	\$ 1,232	0.0%
Public Other Misc			\$ 212,924	0.5%
<b>Total Public</b>	<b>205,427</b>	<b>16,990</b>	<b>9,496,457</b>	<b>23.9%</b>
<b>TOTAL</b>	<b>205,427</b>	<b>306,038</b>	<b>39,703,338</b>	<b>100.0%</b>

### Background

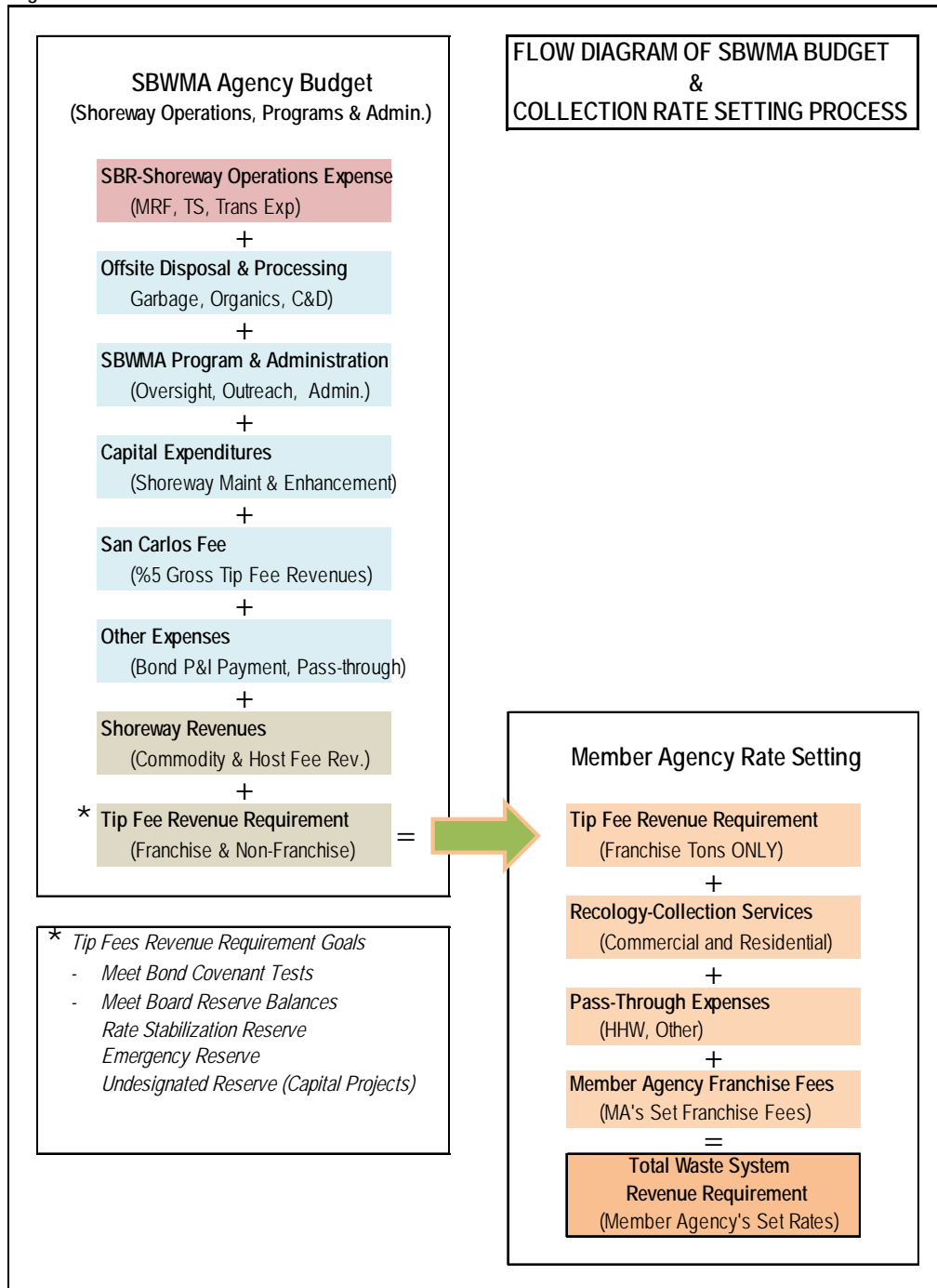
These tipping fee adjustments are the same as what was assumed in the adopted FY16/17 Budget for franchise rates.

Overall, we are forecasting flat tonnage and volumes in 2017 vs. 2016 but also higher than expected SBR operating costs of \$1,146,367 due to disruption to MRF processing of commodities due to the fire for four months in 2016, and which was offset by a saving of \$242,000 due lower transportation compensation due to a favorable fuel index forecast of 38.3% compared to 2016.

Disposal and processing rates (for garbage, organics, and C&D) are also increasing on average 4.3% for 2017. Net operating income is projected to increase 115.2% (see **Table 1** on p. 2 of the staff report). Given all of the above, the assumed tipping fee increases are needed to maintain our minimum bond debt covenant requirements (i.e., break even test and debt coverage ratio of 1.4) and to maintain a healthier undesignated cash reserve balance.

The assumed franchise tipping fees in the adopted FY16/17 Budget are the same tipping fees used in the disposal and processing expense projection in the SBWMA Final Report on Review of 2017 Recology Compensation Application, approved by the Board in September. **Figure 1** on the next page captures how tipping fees are incorporated into the collection revenue requirement for Member Agency annual solid waste rate setting.

Figure 1



Historical tipping fees at the Shoreway facility are summarized below. There was a rate increase on July 1<sup>st</sup>, 2016, and a proposed tipping fee increase on January 1<sup>st</sup>, 2017.

**Table 3**

Effective Dates:	1/1/2011	7/1/2011	1/1/2012	1/1/2013	1/1/2014	1/1/2015	1/1/2016	7/1/2016	1/1/2017
Description/Rates								Approved	Approved
Franchised Solid Waste (Ton)	\$90	No Change	\$88	\$91	\$92	No Change	\$94	No Change	\$104
Franchised Organics (Ton)	\$79	No Change	\$89	\$92	\$94	No Change	\$96	No Change	\$106
Franchised Food Waste (Ton)			\$101	\$104	\$107	No Change	\$107	No Change	\$118
Public Solid Waste (Cyd)	\$40	\$35	\$33	\$34	\$35	No Change	\$36	\$38	\$41
Public C&D (Cyd)	\$29	\$29	\$29	\$30	\$32	No Change	\$33	\$35	\$38
Public Green Waste (Cyd)	\$25	No Change	\$22	\$23	\$24	No Change	\$25	\$27	\$29

**Fiscal Impact**

The recommended tipping fee adjustments have the effect of increasing SBWMA franchise revenue by \$2,783,766 which has an approximate 2.8% impact on residential customer solid waste collection rates,

Table 4 below shows the 2.8% impact of franchise tip fee increases on total collection rates and each Member Agency's estimated rate impact. The table also shows the potential impact on the residential 32-gallon cart size rates. (Note: only Member Agencies set rates so this table is hypothetical and uses 2016 collection rates).

**Table 4**

<b>Shoreway Franchise Tip Fee Increase: January 1, 2017 - 10.43% - \$10.00 Estimate</b>			
<b>2016 Collection Rate Impact</b>	<b>% Increase *</b>	<b>Residential Monthly Rate Impact (32 gal.) Cost/Month</b>	<b>2016 32 gal. rate / mo</b>
Atherton	3.1%	\$ 1.72	\$ 55.00
Belmont	2.3%	\$ 0.81	\$ 35.17
Burlingame	2.8%	\$ 0.67	\$ 23.85
East Palo Alto <sup>1</sup>	3.5%	\$ 1.44	\$ 40.77
Foster City	2.8%	\$ 0.61	\$ 22.00
Hillsborough	2.3%	\$ 1.19	\$ 50.80
Menlo Park	2.8%	\$ 0.66	\$ 23.40
N. Fair Oaks	3.2%	\$ 0.87	\$ 27.31
Redwood City	3.0%	\$ 0.81	\$ 27.30
San Carlos	2.5%	\$ 0.79	\$ 31.18
City San Mateo	2.7%	\$ 0.58	\$ 21.08
West Bay Sanitary	2.7%	\$ 1.00	\$ 37.60
County San Mateo (CFA)	2.6%	\$ 0.92	\$ 35.90
<b>TOTAL SBWMA AVERAGE</b>	<b>2.8%</b>	<b>\$ 0.93</b>	
<sup>1</sup> All residential accounts receive a 96-gallon garbage cart.			
* The rate increase % is for total collection revenue. Member Agencies decide how to allocate the actual rate increase across residential and commercial account service levels.			

**Attachments:**

Attachment A - Back-up Financial and Operational Data

## Attachment A

### Back-up Financial and Operational Data

This attachment provides additional supporting data for the 2016 and 2017 financial projections in the staff report.

#### Operating Revenue

1. Table 1 provides tonnage, yardage and weighted average tip fee data for 2016 and 2017.

Table 1

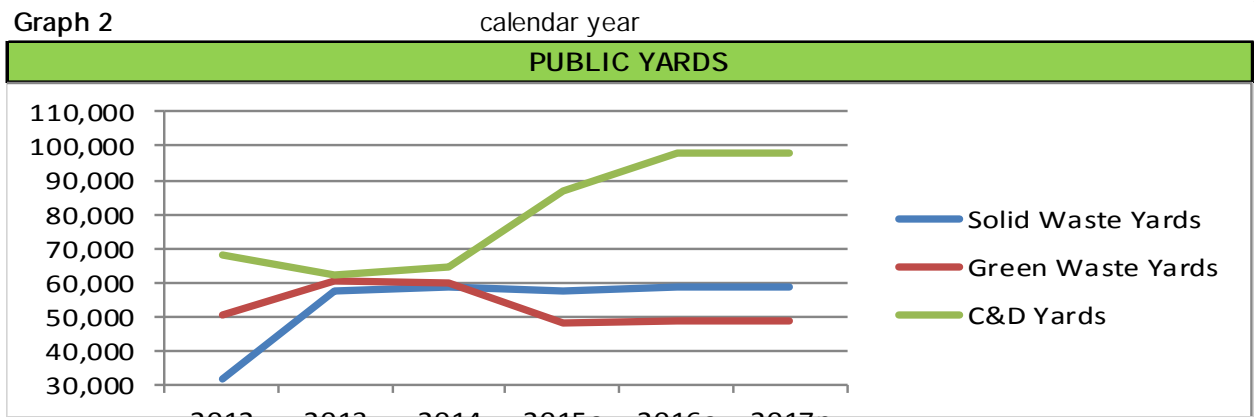
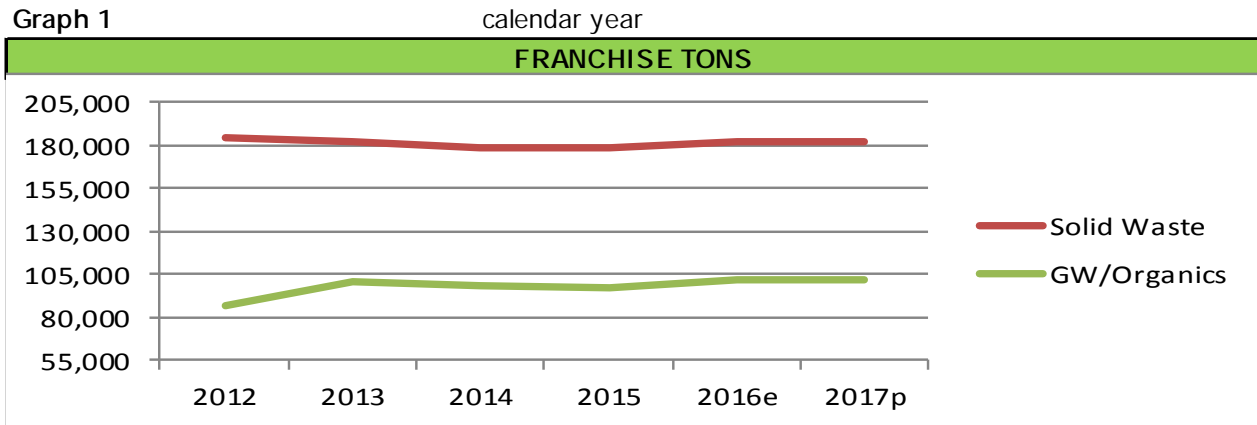
<b>TIP FEE REVENUE</b>		<b>2016</b>	<b>2017</b>	<b>17 vs 16</b>	<b>%</b>
<b>Franchise</b>					
Tons		289,048	289,048	0	0.0%
Wtd Avg. Tip Fee		\$ 94.39	\$ 104.51	\$ 10.13	10.7%
Franchise Revenue		\$ 27,279,739	\$ 30,206,881	\$ 2,927,142	10.7%
<b>Public</b>					
Yards		205,427	205,427	0	0.0%
Wtd Avg. Tip Fee		\$ 41.40	\$ 46.23	\$ 4.83	11.7%
Public Revenue		\$ 8,503,843	\$ 9,496,457	\$ 992,615	11.7%
<b>Total Tip Fee Revenue</b>		<b>\$ 35,783,581</b>	<b>\$ 39,703,338</b>	<b>3,919,757</b>	<b>11.0%</b>

2. Table 2 provides historical and projected detail on inbound tonnage and yardage by material type to the Transfer Station (excludes recyclables tonnage to MRF).

Table 2

<b>Total TS Tonnage and Yardage</b>			<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>16 vs 15</b>	<b>17 vs 16</b>
<b>Franchise</b>								
SBWMA Solid Waste	tons		178,215	179,008	182,364	182,364	1.9%	0.0%
SBWMA Green Waste	tons		98,772	97,243	101,666	101,666	4.5%	0.0%
SBWMA Food Waste	tons		526	0	0	0	0.0%	0.0%
SBWMA Dirt	tons		3,468	4,043	4,291	4,291	6.2%	0.0%
SBWMA C&D & Concrete	tons		0	0	2	2	0.0%	-7.7%
SBWMA Wood	tons		140	111	111	111	-0.2%	-0.1%
SBWMA Other, BI	tons		310	475	614	614	29.2%	0.0%
<b>sub-total Franchise</b>			<b>281,430</b>	<b>280,879</b>	<b>289,048</b>	<b>289,048</b>	<b>2.9%</b>	<b>0.0%</b>
Non-SBWMA SW	tons			1,663	3,076	3,077	0.0%	0.0%
Non-SBWMA SCRAP	tons			135	172	171	0.0%	-0.1%
Non-SBWMA FOOD	tons			59	587	1,054	0.0%	79.6%
Non-SBWMA C&D	tons			1,809	5,705	5,705	0.0%	0.0%
Non-SBWMA ORGANIC	tons			12	22	22	0.0%	1.4%
Non-SBWMA Assphalt Roofing	tons			0	1,251	1,251	0.0%	0.0%
Non-SBWMA Clean Wood	tons			0	12	16	0.0%	37.1%
Public Dirt (tons)	tons		5,044	8,467	5,694	5,694	-32.8%	0.0%
<b>Total Tons</b>			<b>286,473</b>	<b>293,024</b>	<b>305,566</b>	<b>306,038</b>	<b>4.3%</b>	<b>0.2%</b>
<b>Public</b>								
Public Solid Waste Yards	yards		58,889	57,403	58,778	58,778	2.4%	0.0%
Public Green Waste Yards	yards		60,095	48,479	48,855	48,855	0.8%	0.0%
Public C&D	yards		64,747	86,494	97,795	97,795	13.1%	0.0%
<b>Total Yards</b>			<b>183,730</b>	<b>192,375</b>	<b>205,427</b>	<b>205,427</b>	<b>6.8%</b>	<b>0.0%</b>

3. The following tables chart the change in volume from Graph 1.



4. Table 3 provides supporting data on commodity revenue projections.

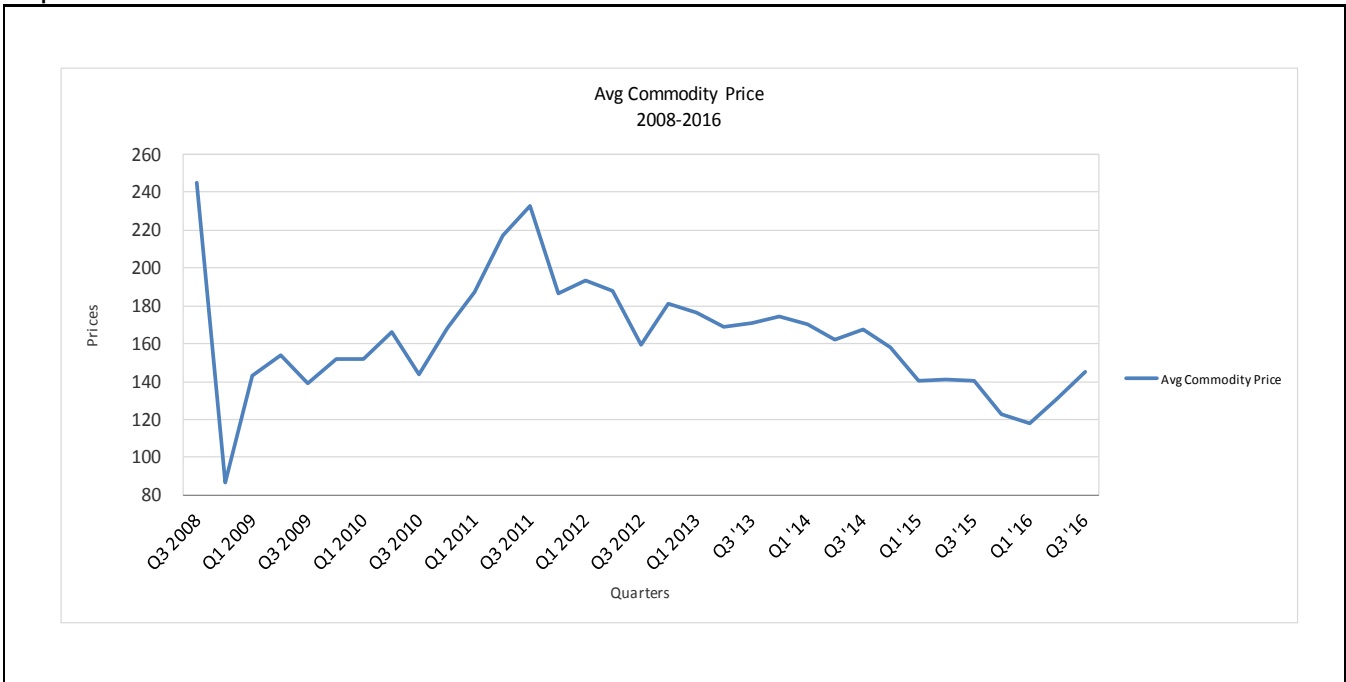
Table 3

COMMODITY REVENUE		2016	2017	17 vs 16	%
	Tons	71,723	71,723	0	0.0%
	Wtd Avg. Price	\$ 94.41	\$ 122.98	\$ 28.57	30.3%
	Gross Revenue	\$ 6,771,391	\$ 8,820,697	\$ 2,049,306	30.3%
	Revenue Share w/ SBR	(305,599)	(897,639)	(592,040)	-393.7%
	Buyback Payments	(877,781)	(877,780)	1	0.0%
	Net Commodity Revenue	\$ 5,588,011	\$ 7,045,278	\$ 1,457,267	17.7%

5. The following Graph 3 provides a history of commodity prices per ton by quarter. The figures shown are the blended average price per ton for all commodities sold in a given quarter.



Graph 3



**Operating Expenses**

6. **Table 4** provides supporting data for SBR’s operating expense.

Table 4

<b>SBR OPERATING &amp; TRANSPORTATION EXPENSE</b>					
<b>a. Summary</b>		<b>2016</b>	<b>2017</b>	<b>17 vs 16</b>	<b>%</b>
MRF <sup>1</sup>		\$ 5,158,065	\$ 6,285,072	\$ 1,127,006	21.8%
Transfer Station		\$ 4,871,655	\$ 4,905,205	\$ 33,550	0.7%
Transportation <sup>2</sup>		\$ 7,365,102	\$ 7,089,088	\$ (276,015)	-3.7%
Other		\$ 374,950	\$ 341,764	\$ (33,186)	-8.9%
<b>TOTAL SBR EXPENSE</b>		<b>\$ 17,769,772</b>	<b>\$ 18,621,128</b>	<b>\$ 851,356</b>	<b>4.8%</b>
<b>b. Detail</b>		<b>2016</b>	<b>2017</b>	<b>17 vs 16</b>	<b>%</b>
<b>MRF</b>					
Tons		57,088	82,521	\$ 25,433	44.5%
Rate		\$ 75.26	\$ 76.16	\$ 0.91	1.2%
Expense		<b>\$ 4,296,211</b>	<b>\$ 6,285,072</b>	<b>\$ 1,988,861</b>	<b>46.3%</b>
<b>Transfer Station</b>					
Tons		379,471	379,428	\$ (43)	0.0%
Rate		\$ 12.84	\$ 12.93	\$ 0.09	0.7%
Expense		<b>\$ 4,871,655</b>	<b>\$ 4,905,205</b>	<b>\$ 33,550</b>	<b>0.7%</b>
<b>Transportation</b>					
Tons		379,471	379,428	\$ (43)	0.0%
Rate		\$ 19.41	\$ 18.68	\$ (1)	-3.7%
Expense		<b>\$ 7,365,102</b>	<b>\$ 7,089,088</b>	<b>\$ (276,015)</b>	<b>-3.7%</b>
<b>Other</b>		<b>\$ 374,950</b>	<b>\$ 341,764</b>	<b>\$ (33,186)</b>	<b>-8.9%</b>
<b>TOTAL SBR EXPENSE</b>		<b>\$ 16,907,918</b>	<b>\$ 18,621,128</b>	<b>\$ 1,713,211</b>	<b>10.1%</b>

<sup>1</sup> MRF cost is lower in year 2016 due to the fire disruption for the months Sept thru Dec.

<sup>2</sup> Transportation cost for 2017 is lower due to 6% savint in transportation cost due 38.6% reduction in fuel index.

7. Table 5 provides supporting data for the disposal and processing expense.

Table 5

<b>DISPOSAL &amp; PROCESSING EXPENSE</b>					
		<b>2016</b>	<b>2017</b>	<b>17 vs 16</b>	<b>%</b>
<b>Summary</b>					
	TS Tons	379,471	379,428	-43	0.0%
	Wtd Avg.Rate	\$ 42.32	\$ 44.16	\$ 1.84	4.3%
	<b>Disposal Expense</b>	<b>\$ 16,059,982</b>	<b>\$ 16,755,068</b>	<b>695,085</b>	<b>4.3%</b>
<b>Detail - 2017</b>					
				<b>Expense</b>	
	Ox Mountain MSW	220,252	\$ 40.69	\$ 8,961,726	
	Ox Mountain Aggregates	-		\$ -	
	Organics	112,137	\$ 40.30	\$ 4,519,452	
	Food	-		\$ -	
	C&D	47,039	\$ 68.69	\$ 3,231,167	
	Other			\$ 42,722	
	<b>TOTAL - 2016</b>	<b>379,428</b>	<b>\$ 44.16</b>	<b>\$ 16,755,068</b>	

Operating Margin for Transfer Station Only

8. Table 6 details the operating margin for the various rate categories (material types) for the Transfer Station only.

Table 6

<b>Transfer Station Margin</b>					
<b>FRANCHISE</b>	<b>2017 Cost / Ton (Estimated)</b>	<b>2017 Tip Fee / Ton (Proposed)</b>	<b>Net Income / Ton (Estimated)</b>	<b># Tons</b>	<b>2017 Total Operating Margin (Estimated)</b>
Solid Waste	\$ 87.60	\$ 104.00	\$ 16.40	182,364	\$ 2,990,537
Residential Organics	\$ 99.24	\$ 106.00	\$ 6.76	101,666	\$ 687,165
Commercial Food Waste	\$ 112.41	\$ 118.00	\$ 5.59	-	\$ -
Inerts	\$ 74.04	\$ 91.00	\$ 16.96	4,291	\$ 72,775
<b>SELF-HAUL</b>	<b>2017 Cost / Yard (Estimated)</b>	<b>2017 Tip Fee / Yard (Proposed)</b>	<b>Net Income / Ton (Estimated)</b>	<b># Yards</b>	<b>2016 Total Operating Margin (Estimated)</b>
Solid Waste	\$ 21.90	\$ 41.00	\$ 19.10	58,778	\$ 1,122,635
Green Waste	\$ 22.84	\$ 29.00	\$ 6.16	48,855	\$ 300,768
C&D	\$ 34.90	\$ 38.00	\$ 3.10	97,795	\$ 302,986
Public Dirt (tons)	\$ 74.04	\$ 95.00	\$ 20.96	5,694	\$ 119,335
Non-SBWMA SW (Tons)	\$ 87.60	\$ 104.00	\$ 16.40	3,077	\$ 50,452
Non-SBWMA Food (Tons)	\$ 112.41	\$ 118.00	\$ 5.59	171	\$ 958
Non-SBWMA C&D (Tons)	\$ 74.04	\$ 91.00	\$ 16.96	5,705	\$ 96,760
Non-SBWMA Organic (Tons)	\$ 99.24	\$ 106.00	\$ 6.76	22	\$ 149
Non-SBWMA Assphalt Roofing (Tons)	\$ 74.04	\$ 104.00	\$ 29.96	1,251	\$ 37,474
Non-SBWMA Clean Wood (Tons)	\$ 47.13	\$ 77.00	\$ 29.87	16	\$ 478
Other Drop Off, etc				n/a	\$ 212,924
<b>Total Transfer Station</b>					<b>\$ 5,995,396</b>