

Response to Questions on the FY 2005 Advertised Budget Plan

Request By: Chairman Connolly

Question: Fund 110, Refuse Disposal has an ending balance of \$3.8 million and a General Fund subsidy of \$2.5 million. Is it possible to reduce the General Fund subsidy by a certain amount, or is there a fiscal need to maintain the ending balance of Fund 110 at the FY 2005 amount?

Response: Fund 110, Refuse Disposal is a special revenue fund responsible for management of solid waste disposal within the County. Program costs can vary significantly from year to year due to outside influences such as weather, rising fuel costs or unforeseen environmental problems. Prior to the mid-1990's, larger reserves were maintained to react to these outside influences, provide rate stabilization for our customers and to implement new initiatives. Following a 1994 Supreme Court decision that struck down the County's ability to control the waste flow within its boundaries, the County's waste stream began migrating to less expensive landfills in southern Virginia. Due to this and the contractual requirement to deliver 930,750 tons of refuse to the County's Energy/Resource Recovery Facility (E/RRF), the County implemented a discounted contractual rate with the area's private haulers. This helped stabilize the amount of waste being delivered to the E/RRF, but caused the program not to fully recover costs. As a result, the transition of the program to a discounted contractual rate caused the reserves to be drawn down.

Furthermore, Fund 110 delivers the majority of its waste to the E/RRF where it is incinerated by Covanta, a private contractor which uses the waste to generate approximately 78 kilowatts of power that is sold to Dominion Virginia Power. Beginning in FY 2005, Dominion Virginia Power will pay less for the electricity pursuant to a 1987 agreement between Covanta and Dominion Virginia Power, and this will result in \$750,000 less in revenues in FY 2005 and \$4,500,000 less in revenues in FY 2006. The loss of electricity revenues will prompt rate increases charged by Fund 112 for waste disposed at the E/RRF. As a result, these rate increases are passed to Fund 110 and puts increased financial pressure on the fund.

Due to the discounted contractual rate and higher costs associated with delivering waste to the E/RRF, Fund 110's ending balance has decreased as seen in the table below:

| Fiscal Year | Ending Balance |
|--------------------------------|----------------|
| FY 2001 Actual | \$5,584,739 |
| FY 2002 Actual | \$10,507,641 |
| FY 2003 Actual | \$9,007,618 |
| FY 2004 Third Quarter Estimate | \$4,881,813 |
| FY 2005 Advertised Budget Plan | \$3,815,147 |

The proposed FY 2005 Advertised Budget Plan ending balance is less than the minimum reserve level of \$4,163,507 recommended by solid waste staff based on reserve projection requirements. The \$2,500,000 General Fund transfer helps maintain a level of fund balance and supports elements of the Solid Waste Management Program considered to be public benefit programs. These are programs that are strongly supported by the Board of Supervisors and community, but do not fully recover program costs. These

programs have a net cost of \$2.65 million and include the recycling program, the household hazardous waste program and the ordinance enforcement program.

Maintenance of the minimum reserves in the FY 2005 Advertised Budget Plan allows the Solid Waste Management Program to be in a position to react to unforeseen or unusual events such as Hurricane Isabel. For example, the *FY 2004 Third Quarter Review* proposes a \$269,942 decrease in the ending balance primarily associated with Hurricane Isabel. Furthermore, the agency is currently renegotiating the contract disposal rates with private haulers. Should negotiations not reach projected higher contract rates for disposal fees, the fund will need reserves to meet operational requirements that would otherwise be recovered from the higher contract rates.

In addition, maintenance of construction and environmental reserves allows the County to react quickly to any unforeseen problems that can arise that could jeopardize the County's continued ability to manage the waste that is generated on a daily basis, or impact the environment at the I-66 Transfer Station. Should an environmental incident arise, reserves are dedicated for the program and the County can move forward quickly since funding is available in its reserves. The fund also retains an equipment replacement reserve which is approximately \$2.1 million of the \$3.8 million ending balance. This reserve helps stabilize capital equipment expenditures over the years, since equipment replacement needs can vary significantly from year to year for the specialized equipment used by the fund. The equipment reserve needs are calculated based on the value and expected life of the agency's fleet, which is approximately \$15,500,000 and eight years on average.

Furthermore, due to the continued decreases in the ending balances, a reduction in the current year General Fund transfer would likely require a significant increase in the General Fund transfer for future years to maintain current service levels. In summary, reserves maintained in Fund 110, Refuse Disposal have been significantly reduced and staff recommends that the General Fund transfer not be reduced and that the ending balance remain at the current level.