Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: The Carryover package indicates that the FY 2012 ending balance for Fund 112, Energy/Resource Recovery Facility (E/RRF,) will be $35.6 million. Are any General Funds being expended in FY 2012 for costs that could be paid from this reserve? Can any portion of this reserve be transferred to the General Fund? What is the proposed use of this reserve?

Response: Fund 112, Energy/Resource Recovery Facility (E/RRF), is a special revenue fund established for the specific purpose of solid waste management. User fees collected for solid waste disposal fund the County's waste-to-energy facility which annually processes over 1 million tons of waste. The County charges a tip fee to all users of the E/RRF and subsequently pays the contractual disposal fee to Covanta Fairfax, Incorporated (CFI) from these revenues. The $29 per ton fee is set at the level necessary to accommodate plant operations and maintenance costs, other pass through costs, and provide sufficient reserve funding as noted below. As a result, there are no available funds in these reserves that could be used to cover General Fund expenditure requirements.

In previous years, a General Fund transfer in the $1.5 million range was approved to subsidize the real estate tax liability for the E/RRF; however, at the recommendation of the Auditor to the Board, this practice is not being continued in FY 2012 and was reflected as such in the FY 2012 Adopted Budget Plan.

The majority of the available reserves in this fund are held in the Rate Stabilization Reserve ($24.1 million), which is used to buffer against a long term adjustment to tip fees. As of this writing, the long-term arrangement for solid waste disposal is still being determined. The current disposal arrangement with Covanta extends until 2016. Long term options include the extension of the current agreement for use of the ERRF or pursuit of alternate disposal options. The FY 2012 budget was prepared assuming the current contract arrangement which provides for a below market disposal rate through February 2016. Extending the current agreement or use of alternate disposal arrangements will most likely result in a significant increase in disposal fees (up to 175 percent), once the current agreement expires. As a result – and in order to mitigate the impact to customers if a transition to market rates occurs in 2016, the disposal fee is being kept at its current rate with savings generated being transferred to the Rate Stabilization Reserve for future use.

Other reserved funds include the Tipping Fee Reserve ($1.5 million) which is used to buffer against sharp annual changes in tip fees that could result from issues such as tax changes regarding energy sales, power deregulation, state or EPA environmental fees, and/or contract changes. Additional funds are held in the Operations and Maintenance Reserve ($10.0 million) which is necessary to support ongoing improvements and enhancements to the E/RRF including emissions control efforts. Future projects may include additional retrofits to the air pollution control systems for reductions in nitrogen oxides. The reserve will fund the County's share of the initial capital expenditures on the improvements.