

2023 Environmental Commission Finance Questions

1. **Financial Responsibility:** For the commission's understanding, who is ultimately responsible for understanding, budgeting, monitoring and achieving SW financial targets? Otherwise asked, is SW staff / management responsible and accountable for **all** SW-related issues, where financial staff provides financial (finance, accounting and controlling) expertise and consulting services to SW staff, or is SW staff just responsible for SW operations?
 1. The reason I ask is because SW leadership was unable to answer basic, high-level SW budget-related questions when they last presented to the Environmental Commission in October 2022.

ANSWER: Collaborative effort, budget responsibilities are shared between Public Works staff and Finance staff.

2. **Climate Millage Spending:** SW / circular economy climate millage revenue spending
 1. Given the fact that the Administrator just presented the FY 24-25 budget proposal to City Council, more detailed plans should be now available to the commission and residents.
 1. Slide 15 of the March 20, 2023 Public Services budget presentation (<https://www.a2gov.org/departments/city-administrator/Documents/PSA%20FY24-25%20Budget%20Overview%20Presentation.pdf>) lists only two uses (I am unable to find any other more detailed FY 24-25 budget information on Legistar or the City's website):
 1. \$450,000 for a Front Loading Recycling Dumpster Truck as a 1x expense; and
 2. \$450,000 for Creating, Implementing, and Managing a Commercial Compost Program including a temp FTE as an ongoing expense.
 2. The first question is - What are the exact plans in the final budget proposal?

ANSWER: Written reply was provided by OSI before this meeting. The budget lists only two uses, which is correct, one truck for the expansion of commercial recycling collection budgeted at \$450,000, and one for creating, implementing, and managing a commercial compost program for the same amount. However, one correction to the amount for the compost program development, that amount is \$400,000 not \$450,000. Further, there is flexibility in how that is to be spent under the program development. We do not at this time have full knowledge of how the money will be spent exactly – there are options in front of us, and we want to bring a person on to help us flush out what that plan looks like. We want to be strategic in how this money should be spent. It is premature at this time to detail out how the funding will be spent because part of the funding is to bring on a person to help flush out how that money will be spent.

1. If plans changed vs. the original two-year allocation plan, when and why was the Environmental Commission and the (SW) community not consulted before the budget proposal was finalized?

ANSWER: Our plan did not change.

2. How many dumpster trucks will be needed in total? If it is more than one, why is the truck a 1x expense? Will the truck be an EV consistent with A2ZERO Plan?

ANSWER: We have one truck budgeted. Truck will not be EV because the technology is not there for EV.

3. Why is the FTE a temp if the commercial compost program is supposed to be operated on an ongoing basis?

ANSWER: The temp position is intended to develop and start the program, but get to a place where it can be managed on-going by existing staff.

4. What are the SMART goals for the Commercial Compost Program and any other planned SW- / CE-related spending? Otherwise said, what are metric targets by year that will indicate whether or not the program is a success?

ANSWER: The measures of success for the Commercial Compost Program are not yet defined. Part of the work of the temp employee hired to do the program development will include identifying how the program will be tracked and measured.

3. **SW Budget Variances:** Actual expenditures in the Solid Waste Fund FT 22 4th Finance Report were given as \$13,552,088 in FY21 and \$16,625, 902 in FY 22 but the new memo states they were \$18.6 and \$17.6 million, respectively. Specifically, why were there multi-million-dollar changes in the operating budget between these two reports?

ANSWER: The "Solid Waste Fund FT 22 4th Finance Report" includes the non-operating expenses from the memo sent on 3/17/23. This is at least in part due to two things:

1. A difference in the way the expenses are listed in each report. The 4th Quarter report lists total expenses, which is inclusive of both "operating" and "non-operating" expenses; whereas the annual report splits those two categories.
2. Finalized FY22 figures were not complete until after the October 27th meeting and there were significant changes between what was reported at that time and the final figures. The annual summary report for FY22 is post audit, and the

FY 22 4th Quarter report is pre-audit - which did not end for FY22 until late December 2022.

2. The final FY 21 and 22 budget shared have budget-to-actual spending variances on a category basis that amount to hundreds of thousands of dollars and are over 15% of the budgeted amount. What caused the variances between FY21 and 22 and what were the drivers of these variances and how will they be reduced in the future?

ANSWER: Revenue variances are due to the recycling processing credit: reflective of an unanticipated rebound in a volatile market. (For example, the basket value per ton for recycling was high of \$99 in April 2022, and low of \$7 in November 2022, back up to around \$25 as of February 2023) All other: reflective of investment losses.

1. We are more than 3/4 through FY 23. What is the YTD operating budget status and what is the projected YE results (assuming that 1x impacts not yet booked can be reasonably forecasted)?

ANSWER: Provided before the meeting - budget to actual reports that reflect through 3/31/2023. Rounded to the nearest hundred thousand, projected revenues are \$20M and projected expenses are \$18M.

2. The big positive variances in FY21 and 22 were in non-operating expenses. They added \$9.3 million to the SW Fund balance.
 1. Are significant non-operating expense variances expected in FY 23 -25 and, if so, why?

ANSWER: These changes are primarily reflective of the year end net present value of future liabilities. A significant factor in the change in liability calculation is a singular data point, the 30-year treasury note rate at the time of the calculation. Due to this, the changes in liabilities are difficult to predict but we are currently projecting increases of \$225K annually for FY23-25.

4. SW Reserve Fund

1. Can the SW reserve fund be used for any purposes other than for SW-related expenses?

ANSWER: No. And for clarity we have a singular solid waste fund, there is no separate reserve fund.

2. Can the fund only be used to cover *unanticipated* variances or 1x expenses?

ANSWER: Not necessarily, however, it is best practice for operating revenues to meet or exceed operating expenses. Therefore, it would be counter to that practice to use fund balance to add recurring expenses to the budget without an outside revenue source. The budget would reach a point where fund balance could no longer cover, and expenses would exceed revenues.

3. What are likely intended future uses of 'excess' SW reserve funds, i.e., the amount in reserve which exceeds the minimum 25%-of-the-operating-budget threshold (currently ~ \$ 14 million), the amounts and the expenditure dates?

ANSWER: Capital projects such as the Drop Off Station (which is estimated to be between \$6.5-\$8M) and potential increases to liabilities mentioned above.

4. Is it acceptable practice that available excess reserve funds sit in a bank or investment account for years and earn a return that is not allocated specifically for SW purposes?

ANSWER: No, returns gained on Solid Waste funds are allocated specifically for Solid Waste purposes.

Upcoming Budget Cycles: There was also a question about what spending is proposed in the upcoming budget cycles,

ANSWER: The solid waste fund operating budget largely stays fairly consistent year to year. Unless a new program is added, there's not a great deal of variability in the budget.