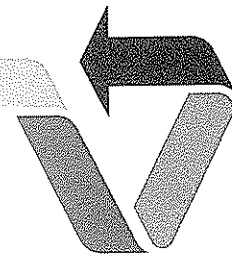


VENTURA REGIONAL SANITATION DISTRICT

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A Public
Waste
Management
Agency

February 10, 2011

Board of Directors
Ventura Regional Sanitation District
Ventura, California

TOLAND ROAD LANDFILL FEES

Staff presented "Toland Road Landfill Fee Increase Options" report to the Personnel & Finance (P&F) Committee on February 8, 2011. The report included a revenue and expense review along with a range of options funding to cover the reserve policy approved by the Board and their impact on rates. The P&F Committee recommended that the full Board review the four scenarios presented by staff.

It is the solid waste industry standard for landfills to recover the cost of their operation through disposal or "tipping fees". A tipping fee is the *per ton* charge to dispose of refuse. The current average tipping fee for refuse received at Toland is \$32.51 per ton. Ventura Regional Sanitation District (VRSD) staff developed the \$32.51 tipping fee in February of 2010 utilizing a rate model developed for the landfill. Staff utilizes a tipping fee model to develop rates for Toland that incorporate all operational costs and to ensure that the landfill is operated as a "revenue neutral" enterprise (revenues equal expenses). Assumptions in the tipping fee model take account of all operational costs including salaries and wages, depreciation, supplies and services, equipment usage, debt service, and required closure and postclosure reserve funding.

An important *assumption* or *component* of the \$32.51 tipping fee is the expectation that Toland will receive about 300,000 tons of refuse on an annual basis from its customers. This is significantly down from the initial 10 years of operation, of approximately 370,000 tons, primarily due the economic downturn that started in October of 2008. This reduction in consumer consumption has resulted in a net decrease of revenues of approximately \$2.1M.

During last year's rate modeling studies, the Board was advised that a fee increase of approximately 27% would be required to generate a revenue neutral budget. The VRSD Board voted for a 10% rate increase and directed staff to continue to look at trimming costs internally. In addition the Board wanted to take a gradual approach to rate increases in anticipation of an economic upturn.

Staff reported to the P&F Committee that the effect of the newly forecasted tonnage estimate (approximately 300,000 tons/yr for FY 11) will likely not change for FY12. Staff identified additional savings of approximately \$900K of internal savings that will be realized on a continual basis in the model. The current model is reflecting a shortfall of approximately \$560K for FY 12.

This past year has seen several key parameters change in terms of determining operating expenses for the landfill, some of which have been incorporated in the baseline modeling, but some that are discretionary by the Board. The primary parameters that have changed are as follows:

- A. Title 27 requirements for mandatory restricted reserve requirements changed on July 1, 2010. These changes were presented to the Board at the February 3, 2011 meeting.
- B. The District placed into service significant capital assets that require depreciation.
- C. The District has seen significant debt service obligations in relation to the capital expenses.

These three parameters have prompted a review and revision of the District's financial reserve policy. This policy was formulated in the P&F Committee and reviewed and approved by the Board at the February 3, 2011 meeting. Based on the Board's Reserve Policy, staff has developed four variations for funding reserve levels and the impact this will have on rates. These options will be presented to the Board at the February 17, 2011 meeting. Keep in mind that the Reserve Policy is a goal to be achieved and does not have to be completely funded at the offset, especially in light of the newer facilities being placed on the asset sheet.

Staff also provided the Committee with analysis of the impact on rates of anticipated future capital improvement projects and future facility funding for Toland landfill. Staff will present the report to the Board at its February 17, 2011 meeting with the additional analysis and discussion requested by the P&F Committee.

FINANCIAL IMPACT ANALYSIS

Barring rapid short-term recovery of landfill tonnage available for disposal at the Toland Road landfill, operational costs, including required set asides for landfill closure and postclosure, will be recovered over a significantly reduced base of tonnage. The effect of this circumstance is that the cost *per unit* (or tipping fee) to operate the landfill will go up disproportionately in comparison to the percentage increase of total operational costs.

Staff has forecasted, through the use of a tipping fee model, rate increase options for Board consideration. The options for consideration include internal expense reductions realized from last year's discussion and varying degrees of funding of the District reserves and Reserve Policy. If VRSD does not implement a tipping fee increase for FY12, it stands to lose approximately \$560K which will be drawn from the assigned reserves which currently stand at \$8.5M.

ALTERNATIVES

1. Direct staff to move forward with a rate increase and work with staff from local agencies and refuse haulers regarding implementation.
2. Defer a rate increase at this time.
3. Alternate direction by the Board.

RECOMMENDATION

It is recommended the Board receive a report from staff regarding fee options at the Toland Road landfill and direct as appropriate.

MARK LAWLER – GENERAL MANAGER

APPROVED FOR THE FEBRUARY 17, 2011 AGENDA


Mark Lawler – General Manager