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May 11, 2011

Board of Directors

The fiscal year (FY) 2011-12 Operations and Capital Plan Budget has been prepared to meet the needs of the District while at the same time complying with the District's mission, goals & objectives, and financial policies. The budget is the District's financial work plan and serves as the spending plan supported by revenues for the upcoming fiscal year. The budget contains estimated expenses for the fiscal year and the proposed means of financing those expenses.

This executive summary provides a high-level overview of the District's Budget, Budget Highlights and Goals & Objectives. The District's Operating Budget and Capital Plan are adaptable documents and may change based on unforeseen and/or unanticipated events during the fiscal year by Board of Directors' approval.

The District continues to face financial challenges posed by declining revenue growth, low public tolerance for rate increases and continued cost increases of doing business. Since the economic downturn, and to address the District's structural deficit, the District has been taking steps to reduce costs and increase revenue growth. Steps taken to date included: deferred capital and maintenance costs; offered early retirement incentives; increased rates/fees; increased insurance premiums paid by employees and investigated reduction of District paid retirement costs. Unfortunately, even with the above cost reductions, the District continues to experience a budget deficit. Although Executive Management team has delayed as long as possible recommending examination of staffing levels in the hopes that the District's financial picture would improve, it has become unavoidable. To help address the structural deficit, we are recommending an organizational redesign by eliminating five management/administrative positions and downgrading one management position to an administrative analyst position.

BUDGET HIGHLIGHTS

- No tipping fee increase is proposed for the FY2011-12 for the Toland Road Landfill. The total annual tonnage is expected to remain at approximately 301,600 tons of refuse.
- A five percent increase in the District's hourly rates was approved by the District Board effective July 1, 2011.
- The District expects to receive \$975,000 in grant revenue from Southern California Edison (SCE) for the Electrical Generation Project.
- The District's capital plan includes equipment purchase and reconfiguration, vehicle purchases and capital improvements. Appropriations for the capital plan totals \$1.6 million of which 75% of the entire appropriations will be spent on the Toland Landfill Phase 3B Liner project. This project is expected to be completed by mid 2011 and is projected to provide landfill capacity until year 2020. This is the last major project anticipated at the District until the next liner project sometime in 2020.
- A reduction of five full-time equivalents (FTEs) is included in the budget. The reduction of five management/administrative positions, downgrading one management position to an administrative analyst position and outsourcing of Information Technology will result in an estimated \$612,000 savings.

- The composite employer contribution rate for the Ventura County Employees' Retirement Association (VCERA) retirement contributions increased from 12.62% to 14.85% of covered payroll at a cost of approximately \$67,000.
- The District anticipates meeting the 1.25x debt service coverage target to comply with the loan agreements.

BUDGET OVERVIEW

The FY2012 Proposed Operating Budget has a net increase of \$528,939. This includes operating revenue, operating expenses, and non-operating revenue and expenses. The District is relying heavily on the anticipated grant revenue (\$975,000) from SCE for the Electrical Generation Project. The Board also approved a 5% increase in the hourly billable rates. In addition, the District also anticipates saving approximately \$612,000 from the reduction of five management/administrative position allocations.

Operating Revenues

The operating revenues for FY2012 will be approximately \$19,711,965 which is basically the same as in FY2011. The three most notable revenues of the District include the Biosolids Drying and Electric Generation Project, Toland Road Landfill municipal solid waste and Water & Wastewater contract services.

Biosolids Drying and Electric Generation Facility

This project has been the largest capital expense in the District's history. The District responded to the challenge of providing a local solution for the disposal of approximately 48,000 tons of Biosolids per year. Previously, roughly 90 percent was trucked to Kern County for disposal, more than 150 miles away.

Biosolids Drying Facility

The Biosolids Drying Facility converts Biosolids from local wastewater treatment facilities into EPA Class A recyclable material, using landfill gas to heat two 80-ton-per-day batch dryers. The end product is applied as alternative daily cover for refuse deposited at the landfill. It has other approved uses, such as an organic fertilizer or an alternative fuel. The grand opening of the project was in November 2009. The FY2012 Biosolids revenue is estimated at \$2,878,900 or 33,370 tons of biosolids. The current customers are Fillmore, Ventura, Santa Paula, Thousand Oaks and Oxnard.

Electrical Generation Project

The Electric Generation Project consists of nine low emission microturbines that use compressed landfill gas to generate 2.32 megawatts of electricity. Approximately one-third is used to power the Biosolids facility and the remainder is delivered to the local power grid. The estimated FY2012 revenue is anticipated in the amount of \$785,000 plus a one-time Self Generation Incentive Program grant revenue of \$975,000 from Southern California Edison.

Toland Road Landfill

Starting in 2008, solid waste disposal tonnage began to decline from an average of approximately 375,000 tons per year to an anticipated 301,600 tons in FY2011. The decline in disposal tonnage (approximately 75,000 tons per year) represents an annual decrease in revenue to VRSD of approximately \$2.2M. The decline in disposal tonnage is primarily associated with economic factors, although there are additional reductions in solid waste disposal due to diversion programs, including source reduction, recycling, and composting.

No tipping fee increase is anticipated in FY2012. The projected disposal revenue for FY2012 is \$9,640,900 and the annual tonnage is expected to remain at 301,600 tons. Additional revenue of \$200,000 is anticipated from drilling muds, green waste and other daily alternative covers.

Water & Wastewater

The District's Water & Wastewater Division (WWW) is currently providing water and wastewater services to more than twenty cities and special districts in Ventura County. These services include collection system cleaning, engineering and permitting support, repair and protective coatings, industrial source control, groundwater sampling and monitoring. There is a close correlation between WWW revenue and expenses. FY2012 revenue is estimated at \$5,422,400. The District Board approved a five percent (5%) increase in hourly rates effective July 1, 2011. Revenue is generated by charging external customers billable rates for the services provided. Labor is charged at an hourly billable rate developed for each classification or job title. In addition, materials, supplies and other charges are billed at cost plus fifteen percent (15%) with the exception of customer capital purchases which are billed at cost plus 10%. Several partnering cities and special districts requested additional services in FY2012. For more information, please see page 4-2 of the FY2012 Proposed Budget.

Operating Expenses

The total operating expense is estimated at \$19.4 million including depreciation. There are three main expense line items that contribute to the bottom line amount of the operating expenses. They are Salaries & Employee Benefits, other operating expenses and depreciation.

Salaries & Employee Benefits: The Board has been engaged in cost-savings discussions since September 2009. The key component of the cost-savings has been the reduction of staff through retirement incentives. Twelve District staff accepted the early retirement incentive plan. Out of the twelve staff who retired, five were replaced. For FY2012, a reduction of six management/administrative position allocations and an addition of one Management Analyst position is being proposed as part of addressing the District's budget deficit. The estimated cost savings impact of the position allocation reductions for FY2012 is approximately \$612,000. However, increases in retirement costs, health insurance, workers' compensation and liability rates, and the use of overtime and extra-help to cover for billable staff unable to work, provides total estimated savings of \$360,000.

Other Operating Expenses: The other operating expenses include costs associated with management and administration, materials and supplies, contract services expenses, professional services, facility maintenance, permits and fees. Despite the continued upward costs of doing business, staff reassessed the District's budget needs, identified potential efficiencies and delayed projects which resulted in the increase of only \$150,300 in the operating expenses compared to FY2011 budget.

Depreciation: There is no significant increase in depreciation expense.

Non-Operating Revenues & Expenses

Net non-operating revenues decreased by \$773,600 compared to the FY2011 adopted budget. This is mainly due to the decrease of post closure expenses of the Bailard and Coastal landfills.

Capital Projects

Capital projects are usually multi-year processes and expenses are determined by what phase the project is in. The capital spending detail in FY2012 is included in Section 9 of the FY2012 Proposed Budget. The capital expenditure summary includes the Toland Road Landfill Phase 3B Liner (\$1,187,600), Malibu Bay Club equipment reconfiguration (\$38,300), organic vapor analyzer (\$14,000), biosolids landfill gas skid (\$300,000) and internal service fund equipment purchases (\$35,000).

GOALS & OBJECTIVES

In February 2011, the District Board conducted a Goals and Objectives setting session with the assistance of Ed McCombs as the facilitator. In March 2011, the District Board adopted the District's FY2011-12 Goals & Objectives.

FINANCIAL PLANNING. Long-term financial planning (five years) including debt management.

NEW SERVICES. Expand contract services and business opportunities (i.e., TMDL, stormwater monitoring, etc.). Look at potential opportunities in/out of county. Stay current with regulatory changes. Include in budget the investigation of opportunities at Navy base. Develop portfolio of external services with emphasis on marketing – distribute materials to cities, HOAs, and similar organizations within the County.

BIOSOLIDS FACILITY. Achieve reliable, consistent operation. Evaluate uses of biosolids end product.

PUBLIC IMAGE. Include funding for outreach and public information efforts in FY 2011-12 budget. Specifically:

- Meet with member City Councils at least once during the year;
- Meet with community organizations (Chambers of Commerce, Rotary, Kiwanis, etc.) to increase VRSD visibility/support; and
- Create a video profile of VRSD services for presentation/distribution to community organizations and potential clients.

TOLAND ROAD LANDFILL. Maximize value/capacity of landfill by communicating benefits of Toland Road Landfill to constituents, and inform communities of issues related to solid waste disposal, including financial and environmental benefits.

INTERGOVERNMENTAL RELATIONS. Establish connection with City Managers Association to increase VRSD visibility and evaluate potential opportunities for partnerships.

SUCCESSION PLANNING. Implement an organizational evaluation of District's ability to provide existing and proposed services. Evaluate staffing allocations and adequacy, and organizational development.

FUTURE OF SOLID WASTE DISPOSAL. Maintain a publicly owned and operated solid waste disposal system. Participate in prescribed solid waste facilities needs reviews. Communicate District capabilities to provide service in this area. Look at future options including existing facilities and new technologies including waste-to-energy projects. Evaluate the assets and energy requirements within Ventura County and determine need for facilities and energy-related services. Determine how needs relate to District facilities and programs.

VRSD FACILITY. Evaluate opportunities and needs for a "one roof" concept (including complementary agencies). Home for all District operations including operations and administration. Bring to Facilities Committee for review and deliberation. Use outside assistance to research available market. Simultaneously contact other public agencies who might be interested in sharing space.

SUMMARY

It is anticipated that the Ventura Regional Sanitation District will remain in good financial condition throughout the next fiscal year. The District has been committed to establishing and maintaining good fiscal health and will continue to look at different alternatives in cutting costs and generating revenue.

The budget is the result of the dedication and thoughtful consideration of your staff of the resources needed to accomplish the District's Goals & Objectives, quality service, and stewardship of District funds.

I want to thank the Board of Directors for providing the vision and resources necessary to respond to the challenges and improve the District's financial outlook in the years ahead. I also want to thank the members of the Personnel & Finance Committee for their enormous efforts in assessing the District's financial needs, reviewing the various financial policies and making a series of recommendations to the District Board. Their recommendations serve as a critical component of this budget and the District's rates and fees.

The development of this budget has been particularly difficult due to the financial challenges posed by declining revenue growth, upward cost pressures from health care, pensions and service demands, the low public tolerance for rate increases, and the unfortunate and unavoidable proposed reduction of staffing allocations. I want to recognize staff's dedication and hard work in assessing their budgetary needs, continuing to identify opportunities for efficiencies, and for supporting the restructuring of resources to where they are most needed. Although the District is faced with various and difficult challenges, I believe with the excellent and committed staff, we are well prepared to take on these challenges and any other issues that may come in the future.

Respectfully submitted,

Thickie Dragon for
Mark Lawler
General Manager
