



Cochise County Solid Waste Department

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Recommendation for Solid Waste Tipping Fee and possible future half cent sales tax options.

Originally, at Board direction, analysis was performed on three options for an infusion of half cent sales tax funds for capital expenses starting in FY 2017. Prior to finalizing the tentative budget, a review of expenditures to determine that the tentative budget is within the expenditure limit for the FY is completed and as a result of that review, the infusion does not appear to be an option for 2017. A discussion of the sales tax options is included at the end of this summary. The Board needs to decide, in the absence of any half cent infusion in 2017, what the tipping fee will be. Our recommendation for tipping fee follows:

Tipping Fee recommendation: Implement the Rate Review and Advisory Board's recommendation of \$64/ton tipping fee for the remainder of FY2017.

As you recall, the Rate Review and Advisory Board (RRAB) in May of this year recommended 3-1 to increase the tipping fee starting in FY 17 to \$64/ton (Bisbee, Sierra Vista, Cochise County in favor; Douglas opposed). The Board held a joint work session with the RRAB in June. City of Benson who was not present at the May RRAB meeting was at the joint work session and indicated that they would support increasing the tipping fee to \$64. Before the end of the work session Douglas too indicated that they could support \$64/ton. If a RRAB vote were taken at that time, unofficially the vote would have been 5-0 in favor of raising the tipping fee to \$64. Neither Willcox nor Tombstone attended either the RRAB or the joint work session so did not vote.

Raising the rate to \$64/ton by September 2016 would result in:

- The Solid Waste system showing a profit for FY17 of approximately \$3,000
- Approximately \$650,000 of Cell 4 construction would need to be financed (total cost estimate of \$2.15 million). This rate would allow for the Solid Waste system to repay the loan in two years and continue to allocate adequate funds for estimated Cell 5 design and construction costs by 2022.
- There would be no transfer station replacement funding for FY17 and \$50,000/year beginning in FY18.
- However, for the above to happen and for the enterprise system to break even each year, the tipping fee would need to increase to \$66 in FY18, and incrementally thereafter to \$70.75 by 2022 .

If the tipping fee stays at \$60.50 (already approved to begin in FY17), the consequences would be:

- The Solid Waste system would show a loss for FY 17 of approximately \$98,000
- Approximately \$650,000 of Cell 4 construction would need to be financed (total cost estimate of \$2.15 million). This rate would allow for the Solid Waste system to repay the loan in two years and continue to allocate adequate funds for estimated Cell 5 design and construction costs by 2022.
- There would be no transfer station replacement funding for FY17 and \$50,000/year beginning in FY18.
- However, for the above to happen and for the enterprise system to break even each year, the tipping fee would need to increase to \$66 in FY18, and incrementally thereafter to \$71.75 by 2022 .

When we were directed by the Board to investigate the use of half cent sales tax to support some portion of capital costs for the Solid Waste system, this seemed like a plausible idea. Upon further investigation we must report the following:

- As mentioned above, the tentative budget for FY17 is approaching the expenditure limit which precludes infusion of additional half cent sales tax or other County funding this fiscal year.
- Solid Waste was originally set up to be an enterprise fund which means that all of the costs to operate the solid waste program are to be covered by the fees that it charges and no other county funds are to be used to support the

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operations of the program. If other County funding is used to support Solid Waste, questions could be raised during the annual financial audit which could lead to a determination that solid waste is not an enterprise fund and should be considered a part of general government which then will have to be included when assessing whether the county has operated within the expenditure limitation. Financially, this is not a use of funding as a long term solution that is consistent with County government financial constraints.

- Diverting substantial funds from the half cent sales tax fund, which is experiencing shrinking annual revenues without any foreseeable improvement, would result in less funding available for other needed capital expenses county-wide such as aging facilities, roadways and other infrastructure and for new capital expenses. It would also result in a continuing reduction in the unencumbered balance available for emergencies.

However, since the Board did request these options, they are presented briefly below. The Board can see what effect they would have if circumstances would allow this use of funding as support for the system in the future.

Additional half cent options starting in FY18, assuming a tipping fee of \$64 in FY17.

Option 1. \$1 Million one-time infusion from half cent sales tax in FY18

Tipping fee could remain at \$64 for FY18, increasing to \$65 in FY19 & 20, reaching \$68 in 2022.

All else remains relatively the same as the \$64/ton only option.

Option 2. Cover half of capital expenses annually from half cent sales tax and leave half in the Operations budget beginning in FY18 and through 2022.

In this scenario, \$546,174 from half cent sales tax would be allocated to capital expenses beginning in FY 18 with the other half continuing to be budgeted in the Operations budget. (At 1.5% inflation this would grow to \$584,905 in 2022).

The effects would be:

- The tipping fee could be held at \$64/ton through 2022.
- over \$200,000/year could be put toward transfer station replacement.
- Adequate funding for Cell 5 would be accumulated about a year earlier than with \$64 tipping fee alone.

Option 3. Cover all capital expenses for Solid Waste from half cent sales tax annually beginning in FY18 and through 2022.

In FY 18 \$1,046,174 would cover all capital expense. We assumed 1.5% inflation annually for expenses, so revenues would need to grow at this rate as well. By 2022 the annual capital contribution would be \$1,084,905. The items covered are Heavy Fleet equipment replacement, Transfer Station Infrastructure Replacement, WRL and ERL Closure fund, Landfill Development (new cell design and construction throughout the landfill life—12 cells planned).

- The tipping fee could be held at \$64/ton through 2022.
- The effect is that we build funds that surpass anticipated needs in both transfer station replacement and cell development lines. Therefore the amount contributed could be reduced sometime between FY 18 and FY22.

Please be aware that the tipping fee and half cent sales tax options analyses looked at the effects out through 2022 in order to determine the effect on Cell 5 development funding. Changing funding amounts in those years would give different results than presented here. All options assumed only 1.5% inflation of costs, no growth of annual tonnage, no growth of the staff or fleet and assumed no changes in rural transfer station hours or operation. None of the analyses attempted to reduce the cumulative negative contingency (\$2.5 million) that exists now.