

REQUEST FOR BOARD ACTION

HENDERSON COUNTY BOARD OF COMMISSIONERS

MEETING DATE: August 2, 2010

SUBJECT: Materials Recovery Facility (MRF) Update
FY2010 Solid Waste Capital Improvement Projects

ATTACHMENTS: No

SUMMARY OF REQUEST:

The Engineering Department is concerned that the risk associated with developing the County MRF has grown significantly since the Solid Waste Feasibility Study was completed in July 2009 and approved on October 21, 2009. The Feasibility Study is the analysis from McGill and Associates that developed the Solid Waste Capital Improvement Plan (CIP) projects. In turn, the study also developed the financial analysis to show that the Solid Waste Enterprise Fund can afford to pay for CIP. The following are a list of points to support this concern:

- Capital Improvement Estimates: The Stoney Mountain Transfer Facility (SMTF) improvements are estimated at approximately \$2 million with the MRF at \$1 million. The improvements at SMTF are tracking close to the initial budget estimate with additional funding brought into the project from NCDOT. However, the MRF project budget has increased about 25% to \$1.25 million due to up-fit costs associated with the possible leased building.
- Capital Improvement Funding: The CIP is proposed to be paid for from approximately \$2 million from the Solid Waste Fund balance and \$1million from borrowed funds. These borrowed funds will add debt service of about \$100,000 to the annual operational budget. Funding improvements from the Fund balance will obviously have less of an impact on the annual operating budget than borrowed funds. With the improvements at the SMTF being safety driven, it is logical to associate them as a higher priority and also to associate the less risky funding from the fund balance with these improvements. Therefore, the MRF would be the portion of the CIP associated with borrowed money and additional debt service.
- Annual Operating Budget for the Solid Waste Enterprise Fund: Prior to FY2010, the Solid Waste Enterprise Fund was generating about 10% revenues over expenses (about \$500,000) annually. This is what has grown the Fund's fund balance to over \$2,000,000 to pay for a majority of the CIP. Unfortunately due to an approximate 15% decrease in volume of trash received and a significant reduction in interest income, these retained earnings have not materialized for FY2010. We are tracking to generate revenues to meet expenses with only a small amount retained. The reduction in volume of trash is affecting all jurisdictions and the recovery of this volume is expected to occur with the recovery of the economy. This recovery may be beyond even FY2011. In short, the buffer of \$500,000 in the operating budget is likely gone for the foreseeable future.

- MRF Operating Budget: In addition to the additional debt service mentioned above associated with the MRF of \$100,000, there is additional operating expenditures to run the facility: lease payment, labor, utilities, etc. This is currently budgeted at approximately \$300,000. At the time of the Feasibility Study, the “buffer” mentioned above would have covered the debt service and the MRF operating expenditures in the unlikely event that the recycling markets fall off substantially. Obviously during the typical and current market, the MRF revenue would cover its own expenses with the possibility to supplement the Enterprise Fund balance but market fluctuations are possible as discussed below.
- Recycling Material Markets: Recycling Markets are a typical commodity market that experiences fluctuations in pricing. A substantial decrease in the market price was experienced after the initial downturn in the Economy which would have put a MRF in a deficit revenue position. However, the market quickly recovered and has returned to 2007 levels for the past year.
- Current County Process for Recycling: Currently the partially separated material from our convenience center and the single-stream material from the private haulers is outsource to private MRF's. For the volume the County is currently generating (about 5,000 tons) the associated cost for processing and handling is about \$50,000 net or 1% of the operating budget. While this is not a significant expense and easily absorbed in the budget, it does not reflect the lost revenue from processing the material at an in house facility. Also it is important to note that with the recent and future State regulations and increased Citizen participation in recycling, this volume will grow. In turn the expense of out sourcing the material will grow to the point that more funds are expended than would be required to operate an in house MRF. The loss of revenue compounds this point. However, for the near future out sourcing is a feasible option.
- MRF Competition: Currently there is only one MRF in the region and the prices it charges / pays reflect the lack of competition. Its prices are significantly higher than other nearby regions. With the current demand communicated to us by other jurisdictions and businesses, it seems possible that another private MRF could be successful in the region should Henderson County not pursue a MRF at this time. While this may represent a lost opportunity for the County, it may also drive the price / cost of out sourcing to a more feasible and sustainable option for the County.

The above points indicate that even with the recycling markets generating typical revenues from a proposed County MRF, the room for error is currently very small due to the decrease revenues from the current Solid Waste operations. Should the recycling markets decline significantly, the Enterprise fund will be put in a deficit position. Requiring a possible increase in tipping fees or at some point should the tipping fees become non-competitive, a supplement from the General fund.

In the near future, out sourcing the County recycling is feasible. Also, suspending the development of a County MRF may give the trash volume time to recover, and in turn the “buffer” in the Enterprise Fund, or may give the private industry time to develop and offer a sustainable out sourcing option. Furthermore, additional time will allow the fund balance to grow (hopefully) and reduce the amount of debt service needed for a MRF in the future. Lastly, next calendar year, we will know the magnitude of any cost increases due to our new Hauling Contract for Waste.

BOARD ACTION REQUESTED: Direct the County Engineer to delay the Solid Waste Capital Improvement Project for the Materials Recovery Facility until at least Fiscal Year 2011-2012.

Suggested Motion:

I move that the Board direct the County Engineer to delay the Solid Waste Capital Improvement Project for the Materials Recovery Facility until at least Fiscal Year 2011-2012.