2016-2017 BUDGET QUESTION

Response to Request for Information

DEPARTMENT: Austin Resource Recovery

REQUEST NO.: 83

REQUESTED BY: Gallo

DATE REQUESTED: 7/19/16

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REQUEST: Over the last four fiscal years, Austin Resource Recovery (ARR) total expenses have exceeded total revenues. Over this period, ARR has also added 16 positions while residential and commercial customer's fees and services have increased. Please explain how the ending balance in FY 2012 of $21.1 million was drawn down to $3.2 million in FY 2015 and what is driving the excess of expenditures over revenues over this period?

RESPONSE:

The primary reason for drawing down the fund balance (by allowing expenses to exceed revenues) was to use funds that had built up over time to minimize bill impacts for Austin Resource Recovery (ARR) customers. In other words, financial staff, with Council's guidance and assent, made the decision to gradually use those surplus funds to offset what would otherwise have been far larger rate increases.

The ending balance of the ARR Fund has decreased from a peak of $24.3 million at the end of FY 2011 to its FY 2016 budgeted level of $5.5 million as a result of a deliberate action plan on the part of City financial staff, City management, and the City Council to balance three goals:

- To continue steps towards achieving our City's zero-waste goal by 2040;
- To pursue this goal while limiting the impact to ARR's ratepayers; and
- To comply with State law concerning fees charged by City departments that requires that these fees not exceed the City's cost of providing the services in question.

The second-most salient factor contributing to the status of ARR's revenue and its Fund balance is a comprehensive and ongoing City-wide effort to ensure compliance with State law requiring that the fee charged for a service not exceed a municipality's cost of providing that service. As part of this comprehensive effort, in 2012 City staff conducted a thorough review of ARR's services and fees and to develop a model for accurately tying these fees to the Department's cost to provide specific services. Corporate Budget staff work each year with ARR financial staff to reevaluate this cost-of-service model, ensuring that it reflects any realignment of ARR service delivery and is updated with current budgetary data. Once properly vetted and updated, staff use the model to generate the rates that would achieve full cost recovery for the Department. As noted above, City policy over the past several years was to limit increases in these rates to a level below full cost recovery, relying on a drawdown in Fund balance in order to mitigate the impact to ratepayers as the department expanded services and incentivized behavior aimed at achieving zero waste.

The following unanticipated costs also impacted the ending balance:

- Less recyclable sales revenue as a result of depressed commodities market resulted in a total of $5.8M of less recyclable sales revenue collected from FY 2013 to FY 2015;
- Increasing uncollectable utility account balances also resulted in increased expense than anticipated by an additional $1.3M in FY 2013 and $2.0M in FY 2014;
- Flood damage to the FM812 Landfill Letdown Structures required utilizing $1.2M from anticipated ending balance to the Department's CIP budget.

Summary

Austin Resource Recovery had a large ending balance at the end of FY 2011 ($24.3 million), much more than required by financial policy. Financial staff, with Council's guidance and assent, made the decision to gradually reduce the ARR Fund's ending balance in order to offset what would otherwise have been far larger rate increases.