2016-2017 BUDGET QUESTION

Response to Request for Information

DEPARTMENT: Austin Resource Recovery

REQUEST NO.: 27

REQUESTED BY: Gallo

DATE REQUESTED: 5/20/16

DATE POSTED: 6/7/16

REQUEST: Please provide a cash flow analysis of the organics program for the five-year implementation period provided to Council in the at the May 18th work session.

RESPONSE:

When an analysis of the organics program is undertaken, most of the items included are self-explanatory. However, the capital expense component may not be as apparent as the other ones due to the difference between cash flows and the accounting treatment or classification of capital expenditures.

The resources required to accomplish the organics program includes the typical human and equipment resources. Equipment includes both vehicles and carts (capital equipment) that are utilized to transport or store the organics materials. Austin Resource Recovery (ARR) is planning to use debt financing as means of funding the capital equipment required to establish the organics program.

*** The following discussion assumes that all necessary City Council approvals have been provided as required ***

ARR forecasts its debt funding requirements during the budgeting process. The City of Austin Treasury department coordinates debt financing for ARR as it does for other City of Austin departments. After Council approves the annual Capital Budget, ARR utilizes the normal procurement process and executes delivery orders for equipment. After delivery of the equipment, ARR authorizes the City to remit payment to the vendor. Payment is made to the vendor from the City's primary disbursing account and cash moves from the City to the vendor.

The Treasury department also arranges for issuance / sale of the debt instruments which results in cash inflows to the City. In the case of ARR, the type of debt instrument that is used by Treasury is referred to as a contractual obligation and has a maturity term of seven years. The ARR portion of debt sale proceeds replenishes the cash used to pay for the previously acquired equipment and the cash moves from investors to the City.

The table on the following page titled "Program Requirements" references the $3.1M in FY 2017 for capital expenses. This number represents the amount of cash required to procure all of the equipment for that particular year. It is cash that moves from the City to the vendor and because it is debt funded, the City receives that amount of cash back from investor resources, as described above. Thus, the City is made whole from a cash perspective.

Because ARR is utilizing debt financing with a seven-year term for capital equipment procurement, the **cash** outlay is not the same as the **expense** amount that is recognized for that particular year or accounting cycle. Accounting principles guide the classification and recording of capital expenditures.

As a result of spreading the $3.1M in the FY 2017 capital expenses table over a period of seven years, the FY 2017 rate impact of $1.00 includes only a fraction of the $3.1M total cash outlay. The rest of the $3.1M is spread out over the remaining years, with each year recognizing its portion of the total expenditure. Therefore, a particular year's expense for capital equipment procurement does not equal the rate impact for that same year arising from the cash that actually changed hands.

On the second table located on page three of this response titled "ARR 5-year Curbside Organics Expansion Cash Flow Projections", the line item titled "Debt Payment" represents that year's expense for debt service on all debt financed equipment. That amount is the actual impact to rate calculations relating to the capital equipment procurement for any debt that was taken on.

Upon the conclusion of each fiscal year and the subsequent purchase of additional capital equipment financed with debt, the annual debt servicing requirement increases. This is because the total amount financed increases as new equipment is added. Also evidenced by the second table, annual debt service lags one year from the onset of the actual procurement of capital equipment. This lag relates to the schedule that Treasury uses to sell the debt.

Table from 5/18 presentation

Program Requirements						
Organics Program Implementation	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**Total**
Operating Budget – Personnel and Operations	$1.1M	+$1.7M	+$1.9M	+$1.6M	+$0.2M	**$6.5M**
Staffing	12 FTEs	+15 FTEs	+16 FTEs	+12 FTEs	0 FTEs	**55FTEs**
Capital Expenses – vehicles and organics carts (debt financed)	$3.1M	+$4.9M	+$4.5M	+$4.2M	$0M	**$16.7M**
Rate Impact (64 gallon trash cart)	$1.00	+$1.85	+$1.40	+$1.15	$0	**$5.40**

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The table below displays the cash flow projections that represent the actual expenses we would expect to post to the department's budget. The projected revenue totals are based on the increased revenue amounts as the rate is increased each year. For example, we project $1.9 million in revenue from the $1.00 rate in FY 2017, $6.0 million for the $2.85 ($1.00 + $1.85 increase in FY 2018) rate in FY 2018, and so on. These expenses represent the projection for hiring the necessary operational staff for the rollout, which includes increased personnel expenses based on the addition of new positions. The projected revenue may slightly exceed the expense in a given year, but any excess will be carried forward to the ending balance to be utilized the next fiscal year for projected expansion expenses. Additionally, the debt payments for equipment purchased in FY 2017 will begin in FY 2018.

ARR 5-year Curbside Organics Expansion Cash Flow Projections					
	FY17 Projected	FY18 Projected	FY19 Projected	FY20 Projected	FY21 Projected
Carryover		$0.0M	$0.1M	$0.1M	$0.1M
Revenue from rate increase	$1.9 M	$6.0M	$9.5M	$12.4M	$13.0M
Total Available Funds	**$1.9M**	**$6.0M**	**$9.6M**	**$12.5M**	**$13.1M**
Personnel Expense	$1.1M	$2.9M	$4.8M	$6.3M	$6.5M
Debt Payment	$ -	$0.6M	$1.5M	$2.2M	$2.6M
Indirect Expense	$0.7M	$2.5M	$3.2M	$3.9M	$3.8M
Total Expense	**$1.9M**	**$5.9M**	**$9.5M**	**$12.4M**	**$12.9M**
Surplus Carryover	$0.0M	$0.1M	$0.1M	$0.1M	$0.1M