

My section of today's presentations concerns the need for additional revenue for the e-cycles program – why and how much?

As Loretta indicated, the statute creating the E-Cycles program in 2007 authorized registration fee to fund DEQ's administration of the program. DEQ agreed to use SW disposal fees to pay for the first year of program development, but after that the expectation was that the fees would be sufficient to cover DEQ's costs.

Law set the initial fee schedules in 4 tiers, with different fees paid depending on the payer's market share.

This fee schedule was to be in effect for first few years of operation, giving the Environmental Quality Commission the authority to raise fees, beginning in 2012, to cover actual costs.

That's what we're here to discuss today.

My presentation describe the costs – what we've incurred to date and our estimates for the future. I'll also talk about revenues the fee schedule has generated.



E-Cycles Registration Fee

Need for Revenue Increase

- Revenue in first three years insufficient to cover start-up costs and on-going operations
- Revenue collected in current year insufficient for reduced operating costs
- Cost of adequate registration and invoicing system
- Adequate cash balance

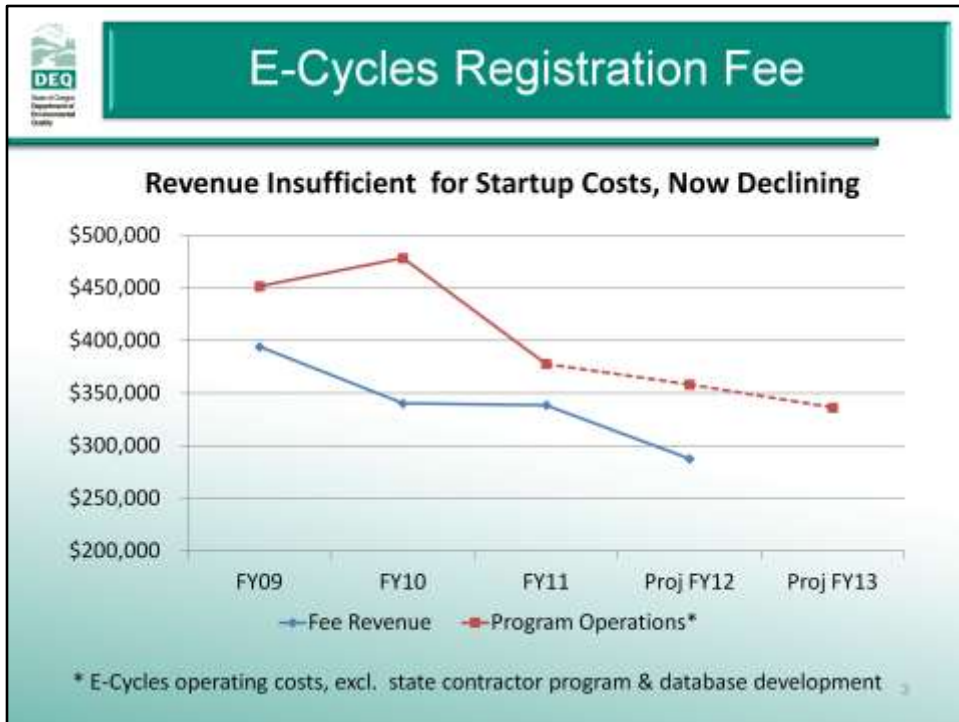
Four main reasons we are proposing the fee schedule be changed to produce more revenue:

First, the revenue collected in the first three years hasn't been enough to cover start-up cost and program operations. To pay for the excess costs we have had to loan funds from the state's SW disposal fees.

Second, even though start-up costs are behind us and the program has substantially reduced its operating costs, the revenue produced this year from the existing schedule will not be enough to cover the reduced costs.

Third, the program needs funds to replace the existing computer system. The program has been limping along with the temporary database that was developed for the first registration and invoicing cycle, and it isn't adequate for the program's needs. DEQ's information technology staff has completed a good portion of the design for a new system and again, it has been funded with borrowed SW disposal fees.

Finally – in addition to needing sufficient revenue for regular operations and to repay loans, the program should have an adequate balance to allow for potential future revenue declines.



This chart illustrates the first two points – that revenue has been insufficient to cover start-up costs and because revenue has fallen further, it’s not even enough to cover reduced costs.

Red line is the cost to operate the E-Cycles program. To be clear, as indicated in the footnote, the chart does not include either costs of the state contractor program or development costs for the new database. The dotted portion is the projection for the current fiscal year, FY12, and for next year. The blue line is revenue collected through the last billing cycle – the fees that were due on July 1.

In FY09 & FY10, program costs were high. We had anticipated start-up costs, but they were higher than anticipated. Some of the costs included:

- Public education and information provision
- Conversion & maintenance of temporary registration/invoicing system mentioned on the previous slide
- Legal consultation for interpretation of statute
- Designing sampling protocol, as well as the system to capture data
- Additional costs of legislative issues – for example, the change that allows carrying forward a credit for excess collection to subsequent years.

Revenue began decline in FY10. Significantly reduced costs in FY11, the fiscal year ended last June, as promised at the advisory comm mtg of June 2010.

- Down to near \$360,000/year, about the amount of projected revenue
- Reduced staff from 2.7 to 1.7 FTE and significantly reduced all the high cost areas mentioned above

But revenue decreased again to approximately \$293,000.

Revenue less because the tiered fee structure generated less – not due to collection issues. Have collected all but a few hundred due. Result of fewer manufacturers falling into the higher fee tier. Jordan will discuss the reasons for the decline.



E-Cycles Registration Fee

Size of the Deficit	
Deficit as of June 2011	(\$234,947)
Estimated July 2011 – June 2012:	
Revenue	\$287,605
Expenditures	<u>346,763</u>
Additional Deficit, FY 2012	(\$59,158)
Total Projected Deficit at June 2012	(\$294,105)

This chart summarizes the size of the program's deficit – what we've had to borrow from disposal fees.

First part shows the total of revenue and expenditures through June 2012 in previous graph

Deficit as of last June about \$235k

With revenue falling more in current year, even though we expect expenditures to continue to decline – will add \$59,000 to the deficit – for a total of \$294,000.



E-Cycles Registration Fee

Reduced Operating Costs – Current Two-Year Budget

2011-13 Biennium	Current Estimate
E-Cycles staff - FTE	1.70
E-Cycles staff - Cost*	\$ 428,549
Other DEQ staff support	91,959
Rule-making support	20,193
Inspections	10,325
Hotline	14,500
Marketing data, association dues	46,500
Legal Consultation	10,000
Prorated services	<u>72,513</u>
Total 2011-13	\$ 694,540

* Includes salaries and benefits, overhead, services & supplies, agency indirect charges.

Chart shows projected costs for current 2-year budget period – this year and next. Shows breakdown of significant cost categories.

Total budget of ~\$695k, or less than \$350k/annually less than FY11 actual, despite higher cost factors (modest wage increases). Assumes same-sized E-cycles staff – 1 FTE less than FY10 & 11. The cost of staff includes sal & ben, services (e.g., bldg rent) and agency indirect charges for services such as accounting, human resources, etc.

We have now identified some additional savings (for example further hotline reductions), so that the total costs are down despite additional costs:

- costs of administrative rule-making process to change the fee schedule
- inspections of collection/recycling programs



E-Cycles Registration Fee


Projected operating costs from FY2013 – 2018:

\$360,000/year

- On-going reductions (e.g. rule-making)
- Offset by increasing cost factors

In planning the fee schedule, however, we need look at costs more than the next two years.

Have estimated about \$360k/yr. Allows for increase in cost factors, partly offset by some additional cost savings (such as the cost of this rule-making)



E-Cycles Registration Fee

E-Cycles Revenue Needs – 5 Year Horizon	
Annual operating costs	\$360,000
Other Needs:	
Projected operating deficit (repay loan)	294,105
Database development	350,000
Create 3 month operating balance	90,000
Total Other Needs	\$734,105
Propose funding other needs over 5 years	\$146,821/year
Total Annual Funding Needs	\$506,821

This chart quantifies the four items covered on the first slide. Annual administrative costs, as I just indicated, we're estimating at \$360,000.

And the fee increase needs to cover other items:

- The deficit from administrative costs already mentioned – the \$234k to date plus projected for the current year totaling \$294,000.
- Database development
 - Need a system for registration, invoicing that is more reliable, more effective/efficient for staff to operate, consistent with DEQ platform
 - Design work essentially completed – as mentioned earlier, funded by additional SW tipping loan
 - We do not yet have a final cost estimate, but we are currently assuming \$350,000, including costs to date

The last item is establishing a 3 month operating balance -

- The 3-month balance is standard goal for DEQ fee-funded program
- Provides cushion against low revenue years; helps to absorb future cost increases
- \$90,000 on \$360,000 annual budget

The total of these "other needs" is \$734,000. We recognize that is a sizable figure and we have proposed that we try to generate that amount over a five year period. \$734k spread over 5 years is just under \$147,000 a year.

Operating budget (\$360k) + \$147k = the program's annual revenue needs about \$507,000.



E-Cycles Registration Fee

Funding Scenarios Considered

	1	2	3
Annual Operating Costs	\$360,000	\$360,000	\$360,000
<u>Other Needs – annual amount</u>			
Percent financed by registration fee*	100%	75%	50%
Amount financed by registration fee	\$146,821	\$110,116	\$73,411
Total Annual Fee	\$506,821	\$470,116	\$433,411

* Balance funded by solid waste disposal fees

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Proposed Scenario

However, even the \$507k is a significant increase over the amount that the current schedule has been generating.

As a result, we considered various alternatives:

- At a minimum, the fee needs to pay for current administrative costs, but we looked at other scenarios for funding the “other needs”
- For example, if the registration fee were to fund only 75% of the \$734k, fees that would add only \$110k to the \$360k for a total of \$470k.
- For the purposes of the fee scenarios that Jordan is going to show you, we are proposing to set the fees such that they would cover 50% of the “other needs.” Essentially, about ½ of the funds loaned from the SW disposal fee would not be repaid. This amount would be invested to help establish the e-cycles program.
- The total on this chart is \$433k – we used a target of \$425k.