

NEW RIVER SOLID WASTE ASSOCIATION
FINANCE COMMITTEE MEETING MINUTES
May 8, 2014

The New River Solid Waste Association Finance Committee met on May 8, 2014 with the following members present:

Commissioner Mark Hartley, Chairman
Commissioner Karen Cossey, Vice-Chairman
Commissioner Doyle Thomas, Secretary/Treasurer
Commissioner Gordon Crews
Commissioner Jimmy Tallman

Others present were: Darrell O’Neal, Executive Director
 Perry Kent, Assistant Director
 Melissa Waters, Chief Finance Officer
 Lydia Greene, Office Manager/Admin. Assistant

Chairman Hartley called the finance meeting to order.

Chairman Hartley asked Mr. O’Neal to discuss the proposed budget for FY 2014-2015.

Mr. O’Neal referred to a packet that had been distributed for the finance committee meeting with the first page being the financial report showing accounts as of March 31, 2014. Mr. O’Neal said that before getting started, he would like to comment that for the past several years the amount of host fees taken out by the counties has increased significantly. Since the Phase II project had been down the road at the time the money was requested his comments had been along the lines that if extra host fees were to be taken out, now would be the time to do so in order to allow enough time to make it up in those accounts before the money was needed. Mr. O’Neal said that in 15 years, New River will need to have enough money set aside to pay cash for Phase II like we have done for Cells 3 through 7, or borrow money and make payments. This is what is intended to be reflected in the financial report provided which shows the balance in each fund, the percentage funded, amount underfunded to reach 100%, date the funds will be needed, the number of years before the funds will be needed and the rate for funding for each of those years.

Mr. O'Neal said that the Closure account is typically funded at \$450,000 per year and is calculated annually by our engineers and DEP to determine how much money is required to be deposited in the escrow account each year.

The Long Term Planning account allows for our funds to be used without restriction, however the Long Term Care account does not. Mr. O'Neal said that the ruling for Long Term Care requires funds to be set aside yearly for the care of the landfill after closure and every year for 30 years after closure. The engineers calculate long term care costs with DEP annually and use actual costs for dirt, sod, monitoring and lab expenses which is multiplied by 30. Mr. O'Neal said that the money for Closure will not be needed until we close, but if this money is set aside now, Long Term Care will be 100% funded and no money from tipping fees, future tax dollars, or future customers of the landfill will be needed to be spent on the long term care.

Mr. O'Neal said the Depreciation account includes equipment, buildings and also air space in the cells. These funds are basically the same as for Phase II development and funding this account will allow us to pay for Phase II. The 15 years shown for funding at \$582,000 per year added to current the balance of \$6.3 million will result in the balance of \$14.5 million available for the Phase II project.

Mr. O'Neal said for Cell Construction account, \$300,000 was taken out for additional host fees last year and we have 3 years left before we begin Cell 7 construction, so this account needs to be funded for 3 years at \$985,000 per year in order to build Cell 7 for cash as we have done since Cell 3.

Mr. O'Neal said the next page in the packet shows budget projections for the next 4 years, which is the amount of time left on our contract with Alachua County. The average revenue received by New River per year is \$7 million and goes up and down based on volume of waste received. Operations Expenditures averages \$4 million per year over the past 10 years. Other Expenditures show the Escrow accounts as discussed along with the LFG O&M Expansion and Bioreactor Expansion. Those expenditures come to approximately \$3.7 million. This makes New River about \$700,000 short annually, which needs to be planned for and will be discussed later in this presentation.

Mr. O'Neal said the next page in the packet shows the gas project timeline and is what we can do if we took all the funds from Long Term Planning and invested the money in the LGTE project, which will be discussed with the board by Alan Beer, FEP, tonight. The revenue shown

comes from the energy company represented by a Letter of Interest from Duke Energy, which is not a PPA, but does show their interest in doing business with New River. Mr. O'Neal said the proforma shows a revenue amount to New River of approximately \$400,000 for the first 4 years with a big increase in the 5th year as we will then receive payments for line capacity which will be explained in detail by Mr. Beer, FEP. Mr. O'Neal said that if we only pay interest for the first 4 years, and then for the next 11 years we make payments for interest and principal and set it aside for Long Term Planning where it was borrowed from, at the end of that 15 year period we will be 100% funded without having to add any additional funds from tipping fees in that account plus have around \$7 million in profits. Mr. O'Neal said if we continue to collect gas and run engines, we will need to set money aside for the engine replacement in the Depreciation Account.

The next page is a 4 year plan for Equipment Replacement. This shows the traditional rotation of the landfill equipment that makes us money. Mr. O'Neal said at the end of the next 4 years if we no longer have Alachua County as a customer, this replacement plan will leave us with good, nearly new, equipment. If not, we'll end up with junk and not enough money to replace it. This information is for future budget planning consideration.

Mr. O'Neal said he would like to go through highlights of the proposed budget.

For Income:

These numbers show tipping fees with an estimated CPI since that isn't known until October 1st. Also, the In-Region tipping fee rate is shown at \$26 per ton which is an increase of \$2 per ton and income shown is an estimate based on an anticipated volume of waste. Also, instead of adding money to Depreciation, which will be the funds for building Phase II, this account has been reduced by \$544,000 to make this budget work.

Mr. O'Neal stated for Expenditures:

Salaries are shown to include a \$1 per hour increase for all employees except for himself due to his contract. Workman's Comp and Unemployment are placeholders and depends on whether we actually get a claim. For Engineering there were some adjustments made and is approximately \$363,000 less than budgeted last year. For Operations Expenses: Recycling was reduced by \$5000, Communications was increased some, Freight was reduced some, Rentals and Leases was raised slightly and depends on whether repairs are needed. The Environmental Insurance required for Alachua County is a 3 year payment and we are in the second year so nothing is shown for this expense. Operating Supplies was reduced

by \$22,000. This comes to approximately \$287,000 overall less than last year's budget for expenses for operations.

For Escrows: Funding for Closure is calculated at \$400,000 for this year. Cell 7 Construction funds are shown at \$725,000 which is not the full amount needed but we are working toward fully funding this account. For Long Term Planning, \$350,000 is the minimum funding needed to be able to do the LGTE project as proposed. For Depreciation, this year's money was taken from this account to make the budget work. The Phase II Development account is the \$2.35 per ton surcharge that is received from Alachua County and is escrowed in that account.

The budget also includes purchasing the following pieces of Equipment: D8 at \$630,000; Fusion Welder at \$60,000 which was in the budget last year but not purchased. The fusion welder will be necessary to have on hand for the LGTE project. LF Gas O&M is the same. Nothing is shown for Daily Cover next year due to the new borrow and the Asbestos Removal project will be completed this budget year. Gas Expansion expense is the same. Borrow Pit for Phase II is shown at \$50,000 and does not represent any additional funds. Compaction Analysis is required by permit but has not been increased.

For Host Fees: They are same as budgeted last year minus the \$300,000 additional host fees taken from Cell Construction.

The budget overall shows an increase of \$335,555 with the funds moved from Depreciation Escrow to make the budget balance.

Mr. O'Neal said that he wanted to discuss the future tipping fee projections handout. This isn't a tipping fee analysis but shows a scenario of the rates that we will be looking at if the contracts with Alachua and Levy Counties are not renewed and less waste is received. Mr. O'Neal said that it has been a few years since the last tipping fee analysis was completed. Mr. Woolsey confirmed that the last one was done back in 2011. Mr. O'Neal said he would suggest that we do a current tipping fee analysis with current data in order to look at what will happen if we lose the Alachua contract and other scenarios regarding the waste stream.

Mr. O'Neal asked for any questions from the board about the proposed budget. Commissioner Thomas asked how many years was left on the Alachua County contract. Mr. O'Neal said the contract expires December 2018 and that by contract we are to be notified one year before the end of the contract as to whether they intend to renew or not. Commissioner Cossey asked when we would need to look at doing a new

tipping fee analysis. Mr. O'Neal said that this is something he had planned to be discuss with the full board during the regular board meeting and asked Mr. Woolsey how long he anticipated it would take to complete a new tipping fee analysis. Mr. Woolsey said it would be completed within a couple of months. Mr. O'Neal said we would also know Putnam County's decision about the sale of their county landfill soon which could possibly impact New River's waste flow. Commissioner Hartley asked the life of Cell 7 once we get into that new cell. Mr. O'Neal said that a typical cell has a 5 year lifespan but Cell 7 will have a different geometry that will allow us to go over the top of other cells and will also accommodate steeper slopes. The next cell will provide about 9 years of current waste disposal volumes which includes the whole footprint, not just Cell 7. Mr. O'Neal said that if Alachua County does not continue with their contract, this lifespan will be extended well past that number of years which will be shown in the new tipping fee analysis. The Alachua contract will also affect Phase II development timeline and that all of our current projections are based on keeping Alachua County's waste. Commissioner Crews asked about the tipping fee projection numbers and the factors for the rates shown. Mr. O'Neal said that these rates are not to be used to show what a true tipping fee analysis will reflect and that these rates were used for a different purpose which was to show general budgeting trends about 5 years ago. Mr. O'Neal added that a comparison of tipping fees at other landfills that are about our size without Alachua County's waste are: Putnam County's rate is currently \$46 per ton, Aucilla's is \$43 per ton and Columbia County's rate is in the \$60 per ton range.

Mr. O'Neal said that concerning Alachua County, he continues to discuss the contract with Ms. Palmi at every opportunity and he feels that she understands the benefit to Alachua County to re-negotiate their contract now rather than at the end of the contract. Mr. O'Neal added that they may be waiting on Putnam County's decision before addressing their contract with New River. Mr. O'Neal said that the history of contamination at Putnam County may be an issue for Alachua County's Comp Plan requirements. Chairman Hartley added that Alachua County should think about the risk of going to that facility. Mr. O'Neal added that Alachua County would not have the preferred customer status at Putnam like they do here at New River.

Commissioner Thomas asked to talk about the Long Term Planning account and asked if \$650,000 was the amount needed every year to fund that account. Mr. O'Neal said that this depends on the LGTE project. As we get payments from selling energy, we could use that revenue to take care

of deposits to our Long Term Planning account, which would also mean not having to use any additional tipping fees to fund this account. Mr. O'Neal said that something to think about is the amount that may be needed after the 30 year closure period and for any unforeseen expenses then. Commissioner Thomas said that there was a comment made about daily cover and that we wouldn't need it in the future. Mr. O'Neal said he meant, in the future, we would not have to buy daily cover from offsite since we will have our own borrow.

Commissioner Crews said that the host fees is something that the audit brought up and today's discussion covers this and other things that we need to be doing. Mr. O'Neal said he feels everyone recognizes that host fees to member counties need to come down although he agreed it would be unreasonable to reduce them drastically right now and that for next year's budget planning we need to think about how much the host fees can be reduced. Commissioner Tallman said he feels that the counties need to focus on the goal of eliminating the additional host fees and Chairman Hartley agreed. Mr. O'Neal said he feels that unanticipated revenue sources should be used for additional money for the member counties and that taking money for the counties from New River's escrow accounts routinely is not good policy because it has to be paid back either by the counties or from another source other than tipping fees. Commissioner Thomas added that he remembers the years when the host fees the counties received were very small. Mr. O'Neal said that when the proforma was done for Alachua County to come up with their tipping fees, the only host fee that was included was the \$100,000 for Union County for hosting the landfill in Union County. Mr. O'Neal added that New River has done well and has been able to pay cash for construction projects and equipment along with disbursements of increased host fees to the member counties while not increasing the tipping fees in 18 years. The counties have also not raised solid waste assessments in 25 years which reflects well on the board. Commissioner Thomas said that the member counties should realize they can't fool themselves and continue to take the host fees without impacting the future because in the end, these funds need to be in New River's accounts to meet future obligations. Commissioner Cossey said she felt the counties need to learn to stand on their own without continuing to take host fees out of the system. Chairman Hartley said that the counties need to look at eliminating or greatly reducing host fees for member counties starting with next year's budget. He added that everyone probably knows that taking the host fees the way that has been done in the past needs to be stopped. Mr. O'Neal said that host fees should probably come from a different source,

like unanticipated revenue or if extra revenue is generated by the gas to energy plant, etc.

Commissioner Thomas asked how many more employees will be needed for the LGTE plant and will this be a normal 8-10 hour day for those employees. Mr. O'Neal said that we aren't sure and this is part of the negotiations with FEP. Mr. O'Neal said that if we do take over operations of the gas plant, he would prefer to take over this responsibility later after we have gained the experience needed. An analysis can be done down the road to determine the cost effectiveness of running the plant ourselves. Mr. Woolsey said that the gas plant will probably require one full-time employee and one part-time employee with an on-call responsibility for the rest of the 24 hour day but this will depend on requirements for our specific plant.

Chairman Hartley called for any further discussion. There was none. Chairman Hartley asked for a recommendation from the Finance Committee on the proposed budget. Commissioner Cossey made a motion to recommend approval of the budget as presented but would refrain from including the raise portion in her recommendation as her husband is an employee at New River. Commissioner Thomas seconded the motion. Chairman Hartley said the Finance Committee was in agreement to recommend the budget as presented to the full board for approval.

Mr. O'Neal said that Matt Bryant was here tonight to discuss the draft investment policy and has spent a lot of time working on the parameters for making investments for each of our accounts along with identifying risk tolerances. Mr. Bryant distributed the draft policy which reflects financial goals and what he has been working on since the last meeting. Mr. Bryant said that since each of our accounts have different timeframes and objectives, the idea was to come up with a master investment policy which basically sets processes for investments and goals for each account so that the investment manager selected would have a good understanding of appropriate investment choices. Mr. Bryant said that he and Mr. Wade will get together to make sure that the master plan meets the guidelines set by State of Florida statutes. Each goal or account has a basic framework as to how the funds should be invested and when the funds will be needed.

Mr. Bryant said that the Closure Account is regulated by DEP and there aren't a lot of options in the way that money can be invested. Those funds must be liquid and available and therefore invested in short term securities. For Long Term Planning there is more than one possible scenario and if we end up borrowing money for the LGTE project, this may change the objectives for these funds.

Mr. Bryant added that the board will need to decide for each account goal the risk tolerance along with types of investments that should and should not be allowed by the policy. Mr. Bryant said that he had his home office include parameters and definitions for the different types of investment risks and that right now models are changing in the industry. Mr. Bryant said that this investment policy will show what to expect when selecting certain types of investments. Objectives and goals by types of accounts have also been included. Mr. Bryant said that if we decide to borrow from Long Term Planning account to pay for the LGTE project, there are some suggestions for setting up for payments to repay the money from the account and to separate the funds and a repayment schedule based on the revenue schedule. Mr. Bryant said that once he knows the board's risk tolerance for the goals, he would be able to indicate a relative expectation for interest rates.

Mr. Bryant asked if there were any questions about the framework that has been put together for the draft investment policy. Commissioner Thomas asked about the discussion about borrowing from Long Term Planning and paying ourselves back at a certain rate of interest. Mr. O'Neal said it was his understanding that payments would be made to the Long Term Planning account from the LGTE project and if any money was left over after the re-payments were made it would be placed in the Operating account. The purpose would be to ensure that enough funds would be set aside to cover future responsibility for Long Term Care and that everything over that amount could help pay for expansion projects for the LGTE. Mr. Wade said that a pay yourselves back commitment would ensure there is a mechanism in place to replace the funds that will be needed in the future. Chairman Hartley said he sees this as a way to make sure that we pay ourselves back first from LGTE profits.

Mr. Bryant said that the board could keep the books distributed tonight containing the draft investment policy and updates will be made as developments and decisions are made. This policy should also help with auditors and any concerns that may come up. Mr. O'Neal said that there are many variables that have yet to be determined but that this is a good start. He added that if we are unable to keep the Alachua County contract, the investment timeframes will be much longer, another reason for adopting an investment policy.

Mr. Wade added to the discussion to say that we are looking down the road at what we know in order to achieve the goals for each account and that meetings have been held with engineers and staff to set dates when the

money will be needed and to determine how much will be needed. He added that the goal is to find the mix of investments that is right for New River.

Mr. O'Neal said he sees the need for another workshop in the future and that the board would be advised when it is time to meet again

Chairman Hartley said that the Finance Committee meeting would recess to be followed by the regular board meeting at 5:30 p.m.