Region 2000 Services Authority

Location
Citizens Services Bldg.
47 Courthouse Lane
Rustburg, VA 24588

Date | Time
January 10, 2018
2:00 p.m.

Minutes

Board Members Present

Susan Adams....................Appomattox County
Steve Carter .... Nelson County
Frank Rogers, *Chair*.................... Campbell County
Bonnie Svrcek....................City of Lynchburg

Others

Emmie Boley ....Region 2000
Gary Christie....................Region 2000
Susan Cook ....Region 2000
Clarke Gibson ....Region 2000
Gaynelle Hart....................City of Lynchburg
Bill Hefty ....Hefty, Wiley & Gore
Lynn Klappich ....Draper Aden Assoc.
Rosalie Majerus ....Region 2000
Candy McGarry .... Nelson County
Clif Tweedy .... Campbell County

1. **Welcome**
   Frank Rogers welcomed everyone and called the meeting to order at 2:00 p.m.

2. **Background and Discussion on Excess Revenue**
   The meeting was called to give Authority members an opportunity to better understand how excess revenues work.

   Gary Christie began the overview by identifying two types of payments that were/are made to Campbell and Lynchburg as host localities. First, these localities are paid for the infrastructure that they contribute to the landfill operations, described by R. W. Beck as the "landfill capacity and land" which would include land, liners, engineering, permits. This payment was made at the beginning of the Services Authority from bond funds. Next, these localities receive payment for the airspace each year from excess revenue payments, which is a surcharge on Private Haulers and special contract holders. The surcharge has traditionally been a $10 differential over the actual cost of service. These excess revenue payments will continue until the total amount of contributed airspace is filled which is estimated to be FY 2021 or 2022.

Mr. Carter noted that R.W. Beck's reports were contradictory with references to airspace and references to "lost revenue". Mr. Carter noted former City Manager Kim Payne's letter of July 20, 2012 discussed the payments made by the Authority for landfill capacity. Mr. Carter also noted that correspondence from R.W. Beck and Solid Waste Director Clarke Gibson state the premise for excess revenues is to compensate Lynchburg and Campbell for "Lost Revenues". Mr. Carter noted that neither jurisdiction was generating excess revenue before the merger and therefore there should be no lost revenue to compensate.

The Beck studies, such as the Lynchburg true-ups, especially the schedules in the back, clearly show the cubic yards of airspace available and the amount that the Authority paid. He asked if the Authority has paid for this airspace then why would the Authority make Excess Revenue payments. If we bought the airspace as the schedules indicate, then Mr. Carter noted that he doesn't agree that we owe again for the landfill capacity.

Mr. Christie explained that R.W. Beck's reports are consistent through the years that infrastructure and airspace are two different payments. The R.W. Beck reports define "Landfill Capacity and Land" as the infrastructure which is to be paid at the beginning of the merger with Bond funds. The charts at the back of the reports use available airspace as part of the formula to determine the remaining life, or depreciated value, of the infrastructure. Another section of the R.W. Beck reports discuss the payments for airspace.

Mr. Carter pointed out that the R.W. Beck reports contradict themselves consistently so who knows if they are right or wrong. The schedules accompanying the reports clearly show that the Authority paid for airspace when we bought the "Landfill Capacity and Land". Mr. Carter then asked Clarke Gibson or Lynn Klappich to respond instead of Mr. Christie.

Mr. Gibson replied that the Working Group of local government representatives took a step-by-step approach to determining a move forward or not decision on a regional landfill operation, including meeting with Local Government Managers/Administrators along the way. Eventually we hired a consultant. The entire time one of the guiding principles throughout the thinking of the Working Group was that we wanted to create a fair system that would be fair to all of our members. For example, each member regardless of size would have an equal voice on the Board.

Mr. Gibson pointed out that in those early days the Working Group recognized the value of the permitted landfill space available in Lynchburg and Campbell because permitted space is very difficult to secure since all permitted landfills have a finite number of cubic yards of permitted airspace. So it was decided that we would purchase both facilities and operate Lynchburg first. Once Lynchburg reached capacity we would move onto Campbell County.

Mr. Gibson noted that at that point we began an inventory of all of the assets at the two localities. That turned out to be a long list of equipment and land from riding mowers to compactors, including buildings and real estate, even road improvements and pipes. The most valuable asset is that empty airspace in a permitted site. We had long discussions on how to fairly compensate Campbell County and the City of Lynchburg for that unused airspace that we needed to operate.

In an effort to fairly compensate Lynchburg and Campbell for the airspace the Working Group came up with the concept of Excess Revenue. In order to fund the Excess Revenue, the Working Group recommended a $10 differential above the cost of service to be charged to Private Haulers and Contract Holders. The Working Group recommended that Excess Revenue be distributed to Lynchburg and Campbell based on their proportional share of the total permitted airspace contributed. We have used that distribution formula since 2009.

Mr. Carter thanked Mr. Gibson for his comments and reiterated his question about the charts at the end of many of the R.W. Beck reports which contain information about the value of each infrastructure component. If we paid according to these charts, which contain information related to available airspace, then what is that?

Mr. Christie responded that the charts identify the value of the depreciated asset that the Authority would be purchasing. Those assets such as the trucks and equipment were not brand new. Instead, R.W. Beck used the available airspace as part of the formula to determine the remaining life of the equipment and land. The airspace in those charts is used as part of the methodology to determine the value of the physical and engineering assets remaining.

Mr. Carter said that there is no explanation like that in the Beck reports.

Mr. Carter then asked Mr. Gibson whether, based on the Beck reports of 2005-2007 and beyond isn't the real purpose of the Excess Revenue to compensate Lynchburg and Campbell for "Lost Revenue"? Mr. Gibson responded that he apologized if e-mails from 4 or 5 years ago weren't clear. He said he had asked the consultants to help him frame an answer and maybe we could have been a little clearer. Mr. Gibson continued that it is my understanding that the purpose of the Excess Revenue has always been to pay Campbell County and the City of Lynchburg for that unused airspace. Seth Cunningham with Burns and McDonnell has repeatedly said that.

Mr. Carter noted that several R. W. Beck reports point to "Lost Revenues" as the purpose of the Excess Revenue payments. Mr. Christie pointed out that those reports refer to "future revenues" not lost revenues. If the jurisdictions had continued to operate independently they would have received future revenues as the airspace was consumed. Mr. Carter asked what future revenues would have been lost?

Mr. Christie noted that lost revenues are not in the R. W. Beck formulas and are not part of the consideration for payments either for infrastructure or for airspace and not part of the Member Use Agreement that we follow for payments.

Chairman Frank Rogers compared the infrastructure to buying a glass to hold contents and the airspace as the contents that would fill the glass. We bought the glass but the glass still has space. Filling up that glass has value, that air space is a commodity that has value. The Excess Revenue is a way to compensate these jurisdictions for the future value that would go unrealized as it is transferred to the Services Authority.

Mr. Rogers noted that as the glass is filled, there is a $10 surcharge levied on commercial tonnage and that basically pays for how much is consumed. That is a direct result of market forces, a demand for that resource. Lynchburg and Campbell then take their share of the Excess Revenue based on what percentage of the glass they originally brought.

Mr. Carter said that he doesn't think the information provided is clear.

Mrs. Adams noted that many of the documents are conflicting. Mrs. Adams discussed a May 1, 2015 memorandum from Seth Cunningham. Part of the problem is that the Authority has been communicated so many different things and that much of it opinion rather than fact. The document refers to future payments and I think that's where we are with Excess Revenue. In the study it is confusing because the study leads you to believe that the Authority was paid up front for that capacity and that it would be optional if we wanted to vote annually to pay Excess Revenue. This memorandum of 5-1-15 pretty much says that the process for Excess Revenue in the Member Use Agreement is the appropriate process.

Mrs. Adams asked a question about the cost of service in section 3.2.1 of the Member Use Agreement and whether the full $10 surcharge goes to Lynchburg and Campbell or if there is a formula which is used. Mrs. Adams noted that the Authority needs to know what the cost of service is.

Mr. Carter noted that former Manager Kim Payne's letter of 2012 clearly states that the payment made by the City to the Authority is for capacity. If this letter is incorrect then it speaks that no one knew what Excess Revenue was being paid for or how it was established. The letter definitely says that the City is re-paying the Authority for landfill capacity.

Mr. Rogers noted that at that time a new assessment of capacity had been done and it was determined that Lynchburg had been overpaid for their contributions of the glass, the infrastructure. It was separate from the airspace capacity volume covered by Excess Revenue.

Mrs. Adams noted that the Authority votes annually on Excess Revenue and the Member Use Agreement has language that allows the Authority to pay all, some or none of the Excess Revenue as it is decided each year.

Rosalie Majerus noted that Mr. Christie had distributed an Excess Revenue Summary of 1-4-18 which on page 7 has a chart showing the history of Excess Revenue, percentages, and a calculation of how Excess Revenue is determined. It is taken from Schedule 1 and Schedule 2 of the monthly report which shows the Cost of Service on Schedule 2. Because Cost of Service may in any given year be higher than budgeted, there may be a differential in the amount distributed. It's the difference between the Market Rate and the Cost of Services. Rosalie also noted that the $10 differential was selected by the Authority at one point in time. It could be anything as determined by the Authority.

3. FY 19 Budget Overview and Workshop

Clarke Gibson reviewed the preliminary budget for 2019, beginning with a proposed rate increase from $30.25/ton to $32.00/ton. This would be the member rate. There are no significant changes in tonnage expected in revenue from members or private haulers. About 12,000 tons is being projected from the Roanoke agreement, beginning in July 2018. On the expenditure side a 2% merit based pay increase has been included. Overtime has also been built into the budget for Saturday hours.

Mr. Gibson reviewed the rest of the preliminary budget. Next steps for the budget would be to consider whether or not there would be a rate increase. If a rate increase is approved, advertising the market rate would be authorized, and approval of the budget at the March meeting.

Frank Rogers asked that staff look again at the rate increase, and look for options for the rate structure.

Emmie Boley added that what the health insurance cost increase is still unknown. Rates for Local Choice will not be published until March.

Bonnie Svrcek asked to be provided with a difference in the preliminary FY19 budget and the current FY18 budget at the next meeting.

11. Adjourn – Next meeting: January 31, 2018, 2:00 p.m. Haberer Building, Rustburg

There being no further business, the meeting adjourned at 3:00 p.m.