

DELAWARE COUNTY SOLID WASTE AUTHORITY

2023 Budget Narrative

Overview: For the second consecutive year, the Authority is adopting a budget that will generate substantial Net Operating Income (NOI). In 2023, NOI is budgeted at \$10.2 million which will be enough to cover all Capital Expenses of \$6.2 million, pay Debt Service of \$731K, contribute \$1.2 million to its landfill Closure/Post Closure Fund, and contribute \$2.1 million to its cash reserves which are estimated at \$11.0 million at the end of FY '23. After operations and debt, the Authority's contribution margin is 19% (forecasted at 17.8% in '22).

Revenue: The Authority's budgeted gross revenue is \$49.77 million. Of that amount, \$31.1 million (62.5%) will come from its Delaware County customers and the remaining \$18.67 million (37.5%) will be from its Rolling Hills Landfill (RHL) operations. The budget contains very modest price increases for its Delaware County customers. Municipal (residential) Waste will increase from \$78/ton to \$83/ton, an increase of 6%. Commercial Waste will increase from \$80/ton to \$83/ton, an increase of 3.6%. This will be the first time there is parity in the residential and commercial waste fee. It is important to note commercial waste is subject to market conditions and does not have to be delivered to Authority facilities. Residential Waste delivered directly to Covanta will be credited with a \$5/ton discount thereby having an effective rate of \$78/ton. All waste received at RHL is subject to negotiated contract having terms not exceeding one year. Contribution margin is scheduled at 9.8% for the Delaware County system and 38.6% at RHL (see p.8).

Expenses: Total expenses are budgeted at \$39.57 million. Of this amount, \$2.93 (7.4%) are administrative and the vast majority equal to \$36.63 (92.6%) are from operations. Some of the largest operating costs include Contact Hauling (costs for trucking waste from transfer stations to disposal) at \$9.66 million (26.4% of ops), Covanta Waste Processing at \$15.85 million (43.3% of ops), Host/DEP Fees (\$5.32 million (14.5% of ops) and RHL Leachate Trucking and Treatment at \$3.0 million (8.3%). Together, just these four items account for 92.5% of all operating expenses.

Capital Expenses: CAPEX will again be paid for through surplus operating income. As a note, in 2022, CAPEX of \$11.7 million (85% being Phase 1 on the RHL expansion) has been covered by \$9.7 in operating surplus and a draw of \$2.0 million from the capital reserve account. CAPEX

spending '23 is categorized into three areas: 1.) Projects at \$4.62 million, 2.) Equipment at \$880k and 3.) Consulting/Engineering at \$700k. Almost all of the CAPEX is related to the RHL with the exception of \$400k in Consulting/Engineering which is related to development of two new transfer stations in Delaware County and \$100K in Finance Consulting to address future debt issuance.

Other: Payroll/Staffing. The Authority's budget includes a modest payroll of \$1.85 million in salary and wages (4.7% of all ops/admin expenses). Staffing currently exists of 31 full-time employees, 3 at Delco transfer stations, 3 at the Rose Tree office and 25 at the RHL.

Short Term Outlook (2 years): The Authority has been stabilized in 2022 through the combination of hiring of an experienced waste industry executive as their Interim CEO and substantial tip fee increases that became effective the beginning of 2023. Numerous administrative and operational changes have been implemented, and most necessary management changes have made. The current financial model allows for modest capital improvements without additional indebtedness, contributions to a depleted landfill closure account and modest additions to cash reserves. These conditions could last through 2024 depending on the speed of transfer station development.

Long Term Outlook (3-10 years): Short-term stability will assist the Authority to be better positioned for longer term challenges. The Authority will need to issue debt to build two new transfer stations in 2024/2025. Construction of Phase 2 at RHL must begin in 2025. These two projects may cost as much as \$50 million. The Authority's current model shows it could support debt service on this amount of investment. Attention must be given to the Authority's current disposal fees in Delco. The commercial fee of \$83 is near the market "top" and further needs to raise this price more than alternative disposal facilities could lead to commercial waste displacement and add more burden to municipal waste customers to cover fixed costs within the system. Others long-term challenges will include continuing to shift waste away from Covanta, incorporating Zero Waste initiatives into the Delco system and operating the RHL with a changing ash/trash ratio. While these challenges need to be identified, they can all be managed successfully with sound insight, collaborative decision making and prudent financial management.

Source: JW/DCSWA 10/14/22