



Date: June 6, 2022

To: Honorable Board of Directors

From: Javier Chagoyen-Lazaro
Acting Treasurer

Subject: Adoption of IERCA Budget for Fiscal Year 2022/23

RECOMMENDATION

It is recommended that the Board of Directors;

1. Adopt the Inland Empire Regional Composting Authority (IERCA) budget for fiscal year 2022/23;
2. Increase the tipping fee from \$58 to \$59 per wet ton; and
3. Approve a capital call of \$2 million to be shared equally by the Inland Empire Utilities Agency (IEUA) and Los Angeles County Sanitation Districts (LACSD) to support capital improvement project costs and meet the minimum reserve balance, as needed.

BACKGROUND

Pursuant to the Inland Empire Regional Composting Authority Joint Powers Agreement (JPA), an annual operating and capital budget is to be presented and adopted by the JPA Board prior to June 30 each year. The proposed FY 2022/23 budget is based on the following key assumptions:

Revenues

- Increased the tipping fee from \$58 to \$59 per wet ton,
- Increased biosolids receipts from 145,000 tons to 148,500 tons, and
- \$2 million capital call to support the proposed capital improvement plan (CIP).

O&M Expenses

- Maintain staffing at 25 full time equivalent (FTE) positions

Capital Improvement Plan (CIP)

The proposed FY 2022/23 capital improvement plan of \$2.3 million is funded by a combination of reserves and capital call. A summary of the CIP is shown below in Table 1.

Table 1: FY 2022/23 Proposed Capital Improvement Plan

(\$ 000's)	Actual FY 2020/21	Amended Budget FY 2021/22	Proposed Budget FY 2022/23
Replacement & Rehabilitation (R&R)	\$0.798	\$1,545	\$2,275
Capital Expansion	0	0	0
Total	\$798	\$1,545	\$2,275

The proposed FY 2022/23 CIP of \$2.3 million includes the replacement of two Front-End Loaders, Active Hopper, and HVAC and Fire Sprinkler Upgrade improvement projects. Capital replacement and rehabilitation (R&R) continues to be the emphasis of the proposed CIP.

FY 2022/23 Budget Summary

The following section summarizes the proposed FY 2022/23 budget for total revenues, expenses, and capital expenditures.

FY 2022/23 total revenues of \$11.6 million, as shown in Table 2 below, are \$0.5 million higher than FY 2021/22 amended budget, due to the projected increase of biosolids receipts.

Table 2: FY 2022/23 Revenues

REVENUES	\$ 000's	Assumptions
Tipping Fees	\$8,761	Based on 148,500 wet tons per year @ a rate of \$59/ton
Contributed Capital	2,000	Capital call equally shared by IEUA and LACSD to support capital process improvements
Compost Sales/ Organics Waste Recycling/Compost Deliveries	710	100% sales of compost products compost delivery service and green waste recycling.
Biosolids Administration Fees	20	Tipping fee surcharge paid by third party biosolids suppliers.
Interest Income & Other Revenues	64	Assumes 1.0% annual interest rate.
Total Revenues	\$11,555	

Total operating expenses of \$9.3 million proposed for FY 2022/23 are approximately \$0.2 million higher than FY 2021/22 amended budget of \$9.1 million. The key driver for the increase is employment costs related to cost of living adjustment, merit increases, and higher pension and health benefit costs. No change in the authorized staffing level of 25 full time equivalent (FTE) position is proposed. A summary of the FY 2022/23 operating expenses is reported in Table 3.

Table 3: FY 2022/23 Expenses

OPERATING EXPENSES	\$ 000's	Assumptions
Employment	\$4,595	Maintain 25 FTE operation support provided by IEUA/ LACSD.
Materials & Supplies	1,371	Includes facility maintenance supplies, fuel, and biofilter media replacement reserve.
Utilities	1,182	Includes power purchases from the grid, solar renewable energy, and disposal service.
Professional Services	1,190	Includes compost transport and contracted services.
Office & Admin/Insurance	738	Includes software license fees, memberships, insurance and office supplies.
Other Expenses	209	Includes leases/rental and financial expenses, operating fees (Non-Reclaimable Wastewater charges, permits and licenses.)
Total Expenses	\$9,285	

Major capital includes loader and hopper replacements, and HVAC and fire sprinkler upgrades. A capital replacement contingency project of \$500,000 is also proposed to support unforeseen expenditures. Schedule C provides a detailed listing of the proposed CIP.

Table 4: FY 2022/23 Capital Improvement Plan

CAPITAL PROJECTS	\$ 000's	Project Description
Front End Loader Replacement	\$1,200	Procure 2 new Liebherr L-566-wheel loaders to reduce the need for repairs or down time and increase efficiency.
Capital Replacement	500	For minor construction projects and unforeseen capital expenditures.
Active Hopper Replacement	200	Replacement or rehabilitation of the active hopper due to its end of useful life.
Fire Sprinkler Upgrades	200	Replacement of seven Post Indicator Valves (PIV) as recommended during annual inspection.
South MCC HVAC Upgrade	175	Project is necessary to keep regulated temperatures in South MCC Building, needed to protect sensitive electrical equipment.
Total Capital Improvement Plan	\$2,275	

Fund Balance

Based on the proposed budget, the total ending fund balance is estimated to be \$4.2 million at the end of FY 2022/23; no change from the FY 2021/22 amended budget ending balance of \$4.2 million.

Designation of Fund Balance

Maintaining an adequate fund balance is essential in ensuring the JPA's ability to support day-to-day operations and near term operating and capital requirements. Table 5 below summarizes the proposed designation for the estimated fund balance of \$4.2 million at the end of FY 2022/23, along with the intended funding sources. The projected ending reserves meet the minimum required level as defined in the Board adopted Reserve Policy.

Table 5: FY 2022/23 Fund Balance

Fund Balance Category	Description	Estimated Ending Balance as of 6/30/2023 (\$ 000's)	Funding Source
Operating Contingency	Equal to three months of operating expenses to address unforeseen events	\$2,259	Tipping fees
Bio-Filter Replacement	Replacement of one sector per year	350	
Commercial Insurance	Self-insurance program	250	
Capital/Replacement/Rehabilitation	Projected R&R costs over the next 5 years averages about \$8.80 per wet ton	1,338	Capital Call and Tipping Fees
Total		\$4,197	

PRIOR BOARD ACTION

The Board adopted the FY 2021/22 budget on May 3, 2021.

IMPACT ON BUDGET

None.

Attachments:

Attachment A – 2022/23 IERCA Budget Summary (Schedule A)

Attachment B – 2022/23 IERCA Budget Details (Schedule B)

Attachment C – 2022/23 IERCA Budget Project Lists (Schedule C)

Attachment D – 2022/23 IERCA Budget Presentation