

What's in Your Wallet?

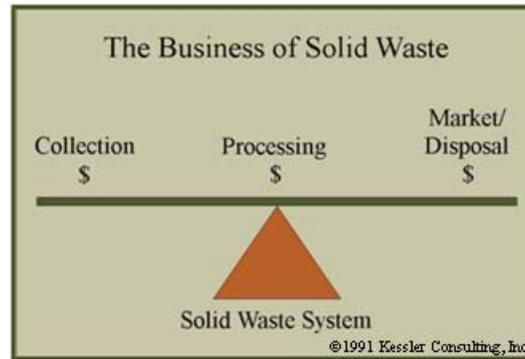
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Have you ever heard the adage that “budgeting is the art of predicting the unpredictable?” Effective budgeting is more than simply escalating revenues and expenses year over year. Developing an effective budget requires analyzing revenue and expense patterns and incorporating planned or potential changes in a system. Financial stability requires developing a forecast that accurately predicts changes in revenue, provides decision-making tools for managing expenses, and maintains a reserve fund to protect the system from unplanned changes.

How financially stable is your solid waste system? A comprehensive rate study is an effective way for any organization to evaluate its system and ensure financial stability. A rate study typically includes a cost of services evaluation, revenue and expenses analysis, schedule of fees, and the development of a forecasting model that integrates all the pieces. A rate study should be conducted regularly as an operational best practice to ensure cost recovery, vitality, and sustainability to a solid waste system.

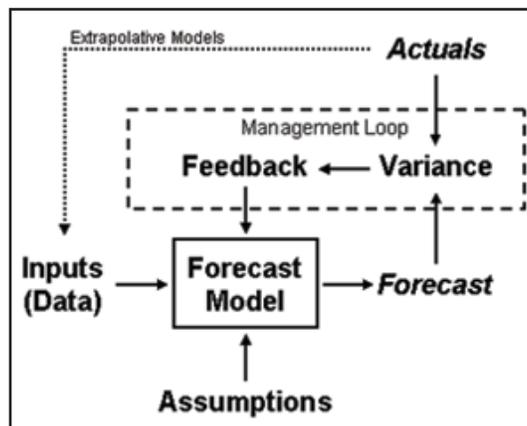
Regardless of your solid waste system design – how it is funded (Enterprise fund vs. General fund), source of revenue (service fees/non-ad valorem assessments, tip fees, processing revenue share, franchise fees, etc.), or categories of expenses

(collections, transfer station, landfill, material recovery facility, waste-to-energy plant, education and outreach programs, various “cadillac” services, etc.), a cost of services evaluation helps to equitably determine the cost to provide each type of service to various customer groups. Cost of



services can be used to benchmark current operations and is a great decision-making tool for managing expenses.

A revenue and expense analysis provides a picture of how all the moving parts in a solid waste system



work together. Key internal and external drivers are identified and how they impact the system financially quantified. In a healthy system, all

sources of revenue are sufficient to meet annual revenue requirements, including operation and maintenance expenses, payments on existing and proposed debt service, and capital projects. In addition, adequate reserves should be maintained to meet unexpected needs or emergencies and unplanned opportunities.

Fee schedules should not only be designed to equitably charge for services provided but should also incorporate organizational goals and objectives. Financial incentives can encourage behavior or actions that otherwise would not take place. For instance, if waste diversion is an organizational goal, an incentive to recycle as well as a disincentive to generate large volumes of waste, will encourage customer behavior toward that goal.

Finally, a dynamic forecasting model provides the hands-on tool that integrates all the parts of a rate study. An effective model provides the flexibility to adjust key internal and external drivers as changes occur, so that the impact on the system can be understood and managed. The forecasting model is what helps to ensure a vital, healthy system by identifying the implication of changes on the system and consider “what-if” scenarios when considering solid waste management alternatives. When is the last time your organization conducted a rate study for its solid waste system? There is no better time than now to plan for the future!