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July 29, 2016

Common Council
West Allis, WI

Dear Council Members:

The purpose of this communication is to present to the members of Council a Financial Analysis of the purchase of 22,795 recycling carts for the Solid Waste Fund at a total amount of \$1,093,230.00.

At the end of the Fiscal Year 2015 the Solid Waste Fund had a Cash balance of roughly 3.1 million dollars, and a Net Position of roughly 4 million dollars. The Net Position takes into account the cash on hand, Net receivables (Assets – Liabilities) and the capital equipment less depreciation within the fund.

Below are three scenarios as to how the Recycling Carts may be purchased. As you can see in all three scenarios, there is no impact on the Net Operating Gain(Loss) except in the first year the carts are purchased.

These scenarios assume no increase in the quarterly fee charged to the citizens and a 2% increase per year on operating expenses.

All scenarios listed below do not have a detrimental financial impact on the fund, so any of the options will be viable.

SCENARIO #1 (APPENDIX A)

This scenario assumes that the citizens will not be responsible for any portion of the initial cart(s). Should a cart be lost, stolen, damaged and needs to be replaced the citizen will be responsible for the full price of the replacement cart.

Industry standard is to have 6 to 9 months of operating expenses in cash reserves. Currently for the City this equates to 1.2 million if using the 9 month reserve. In this scenario the cash reserve at the end of the year will see a decrease from 3.3 million to 2.7 million. This ending cash balance would still be sufficient enough to allow for the 9 month reserve and to continue replacing capital equipment at the scheduled pace. After the initial year of purchase we would anticipate a small decrease in the quarterly rate to our customers to reflect the \$200,000 savings in dumping fees that are anticipated.

SCENARIO #2 (APPENDIX B)

This scenario assumes that the citizens will be responsible for half of the cost of the cart. Should a cart be lost, stolen, damaged and needs to be replaced the citizen will be responsible for the full price of the replacement cart.

As mentioned in scenario 1, cash reserves should be 1.2 million to cover 9 months of operating expenses. In this scenario, the ending cash balance in the initial year of purchase will drop slightly from

3.3 million to 3.2 million. This amount is still enough to cover the 9 month operating expenses and to continue replacing capital equipment at the scheduled pace. We would recommend possibly decreasing the quarterly rate slightly in the initial year to reflect the potential \$200,000 savings in dumping fees. This would be dependent on the new contract with the disposal company starting in 2017.

SCENARIO #3 (APPENDIX C)

This scenario assumes that the citizens will be responsible for all of the cost of the cart. Should a cart be lost, stolen, damaged and needs to be replaced the citizen will be responsible for the full price of the replacement cart.

In this scenario there is an increase in the year end cash balance due to the operating income projected. This again leaves a sufficient cash balance to cover 9 months of operating expenses and to continue replacing capital equipment at the scheduled pace. We would recommend reducing the quarterly rate in the initial purchasing year to reflect the potential \$200,000 savings in dumping fees. This again would be dependent on the new contract with the disposal company starting in 2017.

In conclusion, scenario's 1 and 2 will see a small decrease in the cash reserve. There will still be a sufficient amount of cash reserves in both scenarios to cover 9 months of operating expenses and to continue replacing capital equipment at the scheduled pace. There is no significant negative financial impact in any of the scenarios listed. Rates would be adjusted accordingly to reflect any savings that the fund would recognize in dumping fees or other expenses. Rates would not be able to be established until a new contract has been approved with the dumping site.

I will be happy to answer any questions or provide any further information.

Sincerely,

Shawn Hart
Deputy Treasurer

APPENDIX A

SCENARIO # 1

	2015	2016	2017	2018	2019
	2015	Projected	Projected	Projected	Projected
Operating Revenue	1,914,221	1,880,600	1,880,600	1,880,600	1,880,600
Recycling Cart Revenue					
Recycling Grant	254,268	241,535	241,535	241,535	241,535
TOTAL REVENUES	2,168,489	2,122,135	2,122,135	2,122,135	2,122,135
Operating Costs	1,815,938	1,823,172	1,655,667	1,688,780	1,722,556
Recycling Cart Expense			1,093,230		
TOTAL EXPENDITURES	1,815,938	1,823,172	2,748,897	1,688,780	1,722,556
NET OPERATING GAIN(LOSS)-BUDGETARY	352,551	298,963	-626,762	433,355	399,579
Conversion to Cash Basis					
add back non Cash - depreciation	42,448	45,000	45,900	46,818	47,754
less dollars banked future Equip	-100,000	-100,000	-100,000	-100,000	-100,000
NET OPERATING GAIN(LOSS)-CASH BASIS	294,999	243,963	-680,862	380,173	347,333
Retained Earnings-beg of Year	3,561,077	4,060,612	4,274,741	3,593,879	3,974,052
Ending Retained Earnings	3,913,628	4,359,575	3,647,979	4,027,234	4,373,631
Net Assests					
Cash	3,130,778	3,374,741	2,693,879	3,074,052	3,421,385
Net Receivables	636,696	600,000	600,000	600,000	600,000
Machinery and Equip Net Depr	293,138	300,000	300,000	300,000	300,000
TOTAL NET ASSETS	4,060,612	4,274,741	3,593,879	3,974,052	4,321,385

APPENDIX B

SCENARIO #2

	2015	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Operating Revenue	1,914,221	1,880,600	1,880,600	1,880,600	1,880,600
Recycling Cart Revenue			546,615		
Recycling Grant	254,268	241,535	241,535	241,535	241,535
TOTAL REVENUES	2,168,489	2,122,135	2,668,750	2,122,135	2,122,135
Operating Costs	1,815,938	1,823,172	1,655,667	1,688,780	1,722,556
Recycling Cart Expense			1,093,230		
TOTAL EXPENDITURES	1,815,938	1,823,172	2,748,897	1,688,780	1,722,556
NET OPERATING GAIN(LOSS)-BUDGETARY	352,551	298,963	-80,147	433,355	399,579
Conversion to Cash Basis					
add back non Cash - deprectiation	42,448	45,000	45,900	46,818	47,754
less dollars banked future Equip	-100,000	-100,000	-100,000	-100,000	-100,000
NET OPERATING GAIN(LOSS)-CASH BASIS	294,999	243,963	-134,247	380,173	347,333
Retained Earnings-beg of Year	3,561,077	4,060,612	4,274,741	4,140,494	4,520,667
Ending Retained Earnings	3,913,628	4,359,575	4,194,594	4,573,849	4,920,246
Net Assests					
Cash	3,130,778	3,374,741	3,240,494	3,620,667	3,968,000
Net Receivables	636,696	600,000	600,000	600,000	600,000
Machinery and Equip Net Depr	293,138	300,000	300,000	300,000	300,000
TOTAL NET ASSETS	4,060,612	4,274,741	4,140,494	4,520,667	4,868,000

APPENDIX C

Scenario #3

	2015	2016	2017	2018	2019
	2015	Projected	Projected	Projected	Projected
Operating Revenue	1,914,221	1,880,600	1,880,600	1,880,600	1,880,600
Recycling Cart Revenue			1,093,230		
Recycling Grant	254,268	241,535	241,535	241,535	241,535
TOTAL REVENUES	2,168,489	2,122,135	3,215,365	2,122,135	2,122,135
Operating Costs	1,815,938	1,823,172	1,655,667	1,688,780	1,722,556
Recycling Cart Expense			1,093,230		
TOTAL EXPENDITURES	1,815,938	1,823,172	2,748,897	1,688,780	1,722,556
NET OPERATING GAIN(LOSS)-BUDGETARY	352,551	298,963	466,468	433,355	399,579
Conversion to Cash Basis					
add back non Cash - depreciation	42,448	45,000	45,900	46,818	47,754
less dollars banked future Equip	-100,000	-100,000	-100,000	-100,000	-100,000
NET OPERATING GAIN(LOSS)-CASH BASIS	294,999	243,963	412,368	380,173	347,333
Retained Earnings-beg of Year	3,561,077	4,060,612	4,274,741	4,687,109	5,067,282
Ending Retained Earnings	3,913,628	4,359,575	4,741,209	5,120,464	5,466,861
Net Assests					
Cash	3,130,778	3,374,741	3,787,109	4,167,282	4,514,615
Net Receivables	636,696	600,000	600,000	600,000	600,000
Machinery and Equip Net Depr	293,138	300,000	300,000	300,000	300,000
TOTAL NET ASSETS	4,060,612	4,274,741	4,687,109	5,067,282	5,414,615