TOWN OF RAYMOND

Pay-As You Throw Transition

Liabilities and Risk Mitigation Options

(August 9, 2021)

Pay-As-You Throw (PAYT)Transition Discussion

This paper discusses some of the basic factors of the PAYT program and how this factors translate into increased liabilities during a transition. Because it is likely some of the strategies put forward could see early migration from the program, this analysis was conducted to capture the potential scope of the liabilities and help shape strategies for consideration.

1) On average the cost of the program exceeds annual revenues by 104%-109%; this creates an existing and sustained end of year liability (paid out of Operational Budget) of $52,000-$64,0000

2) Program Cost are in a basic form derived from three sources:
    a. Collection (makes of 66%-74% of Program Cost)
        i. Collection is the largest program cost and is fixed and not impacted by usage
    b. Disposal (makes up 21%-27% of Program Cost)
        i. Disposal is the second largest program cost and is directly impacted by usage
    c. Bag Purchases (makes up 6%-7% of Program Cost)
        i. Bag Purchase is the least costly and however, consumption (rate of user purchase) are bought on projected average usage and most not likely would not go down consistent with an un-forecasted drop in usage dropped

3) However, Revenue is basically sourced from two sources
    a. Bag Sales (makes up on average 89% of Revenue)
        i. Directly impacted by usage
    b. Transfer Station (makes up on average 11% of Revenue)
        i. Not impacted by usage

Analysis and Liability Exposure: There is a significant liability exposure in a transition of PAYT, because the majority of the program cost is associated with the fixed cost of Collection (66%-74%) and this cost exist even if there is a drop off in program users.

Vignette Model: Running a model of the liability exposure, it is realistic to assume that a 10% loss in users would translate into an additional program shortfall of 6% (approximately $43,000).

This is because, although there would most likely be a direct correlation cost reduction in Disposal equal to that of the loss in users, there would also be a direct correlation in a drop in Bag Sale Revenue, which is approximately 89% of the funds needed to pay for the program.

However, because the largest part of the program cost (Collection) would not go down with a drop in users; it is reasonable to project that a 10% loss in users would result in a 10% loss in Bag Revenue but only a 3% reduction in Program Cost. And this model was bulti assuming that Bag Purchase cost would be reduced the same 10%, which is highly unlikely in a short-term program reduction, meaning this liability are most likely higher.

Put it in perspective, when the current program shortfalls are accounted for and added to a 30% in users it is estimated, liabilities could rise to if not exceed a $200,000 program shortfall.

Basic Options and Associated Risk: There are four basic options and an evaluation of their short-term and long-term risks.

Option 1: Complete Departure from Program Through Privatized Contracts: This option creates potentially the greatest short-term liabilities because users would most likely depart from the program early in larger numbers. This option also has one of the lowest long-term liabilities because it would eliminate the annual program subsidy of 4%-9% of the overall cost.

Option 2: Continue the Program as Currently Designed: This option creates potentially the least short-term liabilities the migration from the program would be less likely in the short-term. However, this option also has one of the highest long-term liabilities because it would not eliminate the annual program subsidy of 4%-9% of the overall cost and efforts to raise prices to eliminate the subsidy could create migration from the program and result in the situation outlined in the Vignette Model.

Option 3: Continue the Yellow Bag Program With Modification: In this option, the Town could continue with the PAYT Program but eliminate the recycle portion and the associated Collection Cost for recycling. Residents wishing to recycle could purchase the Transfer Station Permit and Recycle through that program.

This would dramatically reduce the overall cost of the program and allow for the reduction in current of rates but still create cashflow positive program and eliminate the liabilities caused by the instabilities in the Recycling Commodities Market.

It is reasonable to assume, the liabilities for this option are low-moderate for both long and short term. However, the discontinuance of recycling could upset some residents and we could see an increased migration of the program resulting in increased cost.

Option 4: Seek Private Contractor to Adopt Current Model and Assume Direct Billing and Customer Support: This option would have a private contractor assume all aspects of the program and continue Bag Sales until a time they wished to migrate to another system. They would assume all billing, customer support, be responsible for establishing program cost and assume losses.

This model provides the least short-term and long-term liability for the Town, but it is also the least likely to be able to be executed by a private contractor. The liability here is, if the contractor was unsuccessful in sustaining the program and departed, then by RSA the Town would be required to establish contract or method to provide residents with access to a Waste Management Facility.

Recommendation: See what the Market will provide; it is recommended submit a Request for Proposal (RFP)l with all options identified and see what the market will support. Bidders would be asked to identify if they could support each option and identify the cost associated (including direct billing cost to users). Knowing what is actual will greatly assisted the Board in not only deciding an option but better understanding the scope of liabilities.