Presentation of Kevin M. Bronner, Ph.D.

Governmental Accounting Standards Board

“Economic Condition Reporting: Financial Projections”

104-04 Ditmars Blvd.
East Elmhurst, New York

April 17, 2012

Contact:
Kevin M. Bronner, Ph.D.
4 Georgian Terrace
Loudonville, NY 12211
(518) 489-5252
(518) 424-0083 cell
kbroner@nycap.rr.com
VIA ELECTRONIC MAIL

Re: Comments on Project 13-3 Preliminary Views of the Governmental Accounting Standards Board on major issues related to Economic Condition Reporting: Financial Projections.

Dear Mr. Bean,

Section 1: Introduction

These comments fully support the economic and financial planning as proposed in the above referenced preliminary views document.

The Governmental Accounting Standards Board (GASB) issued a preliminary views document on November 29, 2011 entitled Preliminary Views of the Governmental Accounting
Standards Board on major issues related to Economic Condition Reporting: Financial Projections.\(^1\) One of the projected accounting and finance related schedules can be seen in Illustration 2. This includes a five year projection of cash inflows and outflows. These projections would be part of the Required Supplementary Information (RSI) for the government being examined. Illustration 2 and the related schedules of the preliminary views document include a five year projection of major cash inflows such as property taxes for the general fund. It also includes a five year projection of major cash outflows for programs such as education, public safety, and public works. Illustration 2 also shows major cash flows for business type activities such as waste water treatment fees and parking fee revenues. The document also shows the cash expenses for the business type activities.

Illustration 4 shows activity related to bond financing and other liabilities for both the governmental fund activities and business type activities. This is a useful illustration but it should be modified to include the levels of short term debt used by governmental activities and business type activities.

These comments support the use of such a schedule and framework and encourage the Governmental Accounting Standards Board to adopt the entire preliminary views document.

Section 2: There are important issues with the governmental funds and business types activities for many governmental units that mandate that better financial forecasting be implemented.

Recent events such as the bankruptcies of the City of Harrisburg, Pennsylvania, and of Jefferson County in Alabama show that there is a necessity to implement improved financial and economic forecasting for governments. In the case of Harrisburg the city ran into financial difficulties by incurring $300 million in debt tied to a trash incinerator. In Jefferson County the financial issue was caused in part by business activity debt related to sewer construction. The use of the type of financial forecasting in the preliminary views document would have helped those jurisdictions study the long term effects of proposed investments.

GASB should recognize that some governments may sell, lease, or make other arrangements where the relationships between governmental funds and business type activities will be modified or changed. A good example of this type of activity occurred during 2011 in the Town of Colonie, New York. The Town of Colonie operated a landfill and decided to enter into an arrangement in 2011 where a private entity would operate the landfill for a 25 year period. Prior to entering into the new landfill arrangement, the existing landfill had operated at a profit where about $3 million of funds were transferred yearly to subsidize operations of certain governmental funds. Additionally, the existing landfill operations had outstanding long term bonds and short term debt.

\(^1\) Hereinafter referred to the preliminary views document.
The Town of Colonie produced a document in 2010 entitled *Colonie Landfill Exploratory Committee Facility Recommendation Report*. Page 4 of this document made reference to the fact that the landfill operation had been providing a subsidy to the town’s general fund. Note the following language:

“The Town of Colonie Landfill has been in operation for approximately 30 years and has provided tremendous financial benefits to the Town. Over the past 6 years the Town’s landfill has supplemented the Town’s general fund budget with an average annual payment of $3.1 million.”

While this report made reference to a financial analysis, the actual presentation was historic in nature showing the amounts of revenues, expenses, profits, transfers to the general fund, and some operating statistics for 2005 to 2010 estimated. It made no future projections as recommended in the GASB preliminary views document.

The *Annual Budget 2011 for the Town of Colonie* which was in effect when the agreement was examined and negotiated illustrated that in 2010 there was a $2.8 million transfer from the landfill to other funds. Likewise, the transfer from the landfill to the other funds was approximately $3.2 million in the 2011 budgetary projection.

The Town of Colonie closed on the arrangement during 2011 claiming that the new transaction was beneficial to the citizens and taxpayers of the Town of Colonie. This occurred with little reference to any cost benefit analysis for the transaction. Furthermore, there was little discussion of how the cash inflows and outflows of the Town of Colonie would be affected by the transaction over the long term. While some discussion occurred about future cash flows, the discussion lacked structural rigor that is required to conduct a professional accounting and finance analysis. Many simple questions were left unanswered, such as how the long and short term debt of the landfill debt securities would be serviced if the transaction was completed. This has led to much concern over the project including formal litigation which is still in progress.

One of the areas of contention in the landfill agreement concerns the cash flow provided through the new landfill arrangement and how it would affect the finances of the governmental funds and business type activities. Under the landfill agreement the Town of Colonie received a $23 million initial payment and will receive five annual payments of $2.3 million yearly in the future. After that 5 year period, payments would be made to the Town on Colonie in the amount of $1.1 million yearly. Additional amounts may be paid to the Town of Colonie if the landfill

---

2 See the 2010 Town of Colonie Report entitled *Colonie Landfill Exploratory Committee Facility Recommendation Report*.

3 Ibid., p. 4.

expands in the future. The management of the Town of Colonie lauded the agreement by referencing the above payments and some other benefits from the proposal. The managerial officials went so far as to claim that the $23 million in initial payments and the ongoing yearly payments would solve financial issues in the governmental funds.

Due to the lack of comprehensive financial planning by the Town of Colonie officials, questions have arisen about the landfill proposal even though the Colonie Town Board voted to approve the transaction. In addition to the proposed cash flow payments, the existing landfill had significant liabilities that had to be analyzed as part of the transaction. Prior to the landfill proposal the latest financial statements for the Town of Colonie were dated December 31, 2010. These financial statements indicated that the landfill operation had approximately $14 million in bonds payable and $12.2 million in bond anticipation notes. These total approximately $26.2 million in debt related securities.

The transaction was presented to the public with optimism that it would generate $23 million in cash flow to the Town of Colonie governmental funds from the initial payment from the private contractor. This claim was questioned due to the existence of the $26.2 million in outstanding landfill debt and the Town of Colonie officials never reconciled this issue as to whether the securities had to be paid off now. Appendices 1 and 2 illustrate the type of vague accounting and financial information that was presented to the public concerning the landfill proposal.

The new landfill agreement had implications for the yearly cash flow of the Town of Colonie’s governmental funds, and for the business type activities. Since the landfill had been generating about $3 million in excess revenues as a subsidiary to the governmental funds, it is not clear how the future annual payments of $2.3 million for the next five years, and $1.1 million thereafter would affect the status of the governmental funds. Unfortunately, much of the analysis conducted by the Town of Colonie during 2011 was clouded in the formality of legalistic freedom of informal requests, public forums with very limited information and little comprehensive financial analysis as proposed in the preliminary views document.

5 For instance, the agreement claims to provide full funding for the landfill post closure cost liability which is essentially unfunded at this time.

6 References were made to an escrow arrangement to keep some of the funds to service landfill related debt service but the presentation left much uncertainty about the transaction and was subject to interpretation.
The Town of Colonie presented a 32 page draft “Solid Waste Facility Operating Agreement Between The Town of Colonie, New York and Capital Region Landfills, Inc.” This document had numerous line items of quantitative information that could have been presented in the type of comprehensive analysis as proposed in the GASB preliminary views document. Had the Town of Colonie been required by GASB to present a comprehensive economic and financial analysis the process to study the proposed transaction would have been greatly improved. This analysis would have provided schedules to show how the governmental funds and the business-type enterprise fund would have been influenced over time.

In addition to the draft landfill agreement the Town of Colonie produced a five page analysis in June 2011 which attempted to show how much revenue might be generated in the future if the Colone landfill expanded. Unfortunately, this document included only one short financial planning chart which produced some revenue projections. To exacerbate the situation, it appears that the analysis and chart was a key factor in the development of formal litigation in the proceeding.

The proposed framework offered by GASB in the preliminary views document would have helped the Town of Colonie to conduct a professional analysis of the proposed landfill transaction before approving it. The preliminary views document would have assisted the interested parties in the case to see how the finances of the governmental and business type activities would have been affected. Moreover, it would have clarified the issues associated with the outstanding long and short term debt associated with the landfill operation. Instead, the process used by the Town of Colonie relied on a vague reference to an escrow account for debt services purposes. The accounting and finance projections included in the preliminary views document would have enabled the Town of Colonie to systematically study a number of important issues such as:

1. How would the existing long term debt of the landfill be serviced?

---

7 Numerous appendices were attached to this draft document. The draft document has 46 specific sections, and 14 exhibits. None of the material included a comprehensive financial analysis as proposed in the preliminary views document.

8 See letter of Mr. Frank LaVardera of CHA to the Town of Colonie dated June 22, 2011. CHA is a consulting engineer used by the Town of Colonie.

9 See the following language from Appendix 1: “A $23 million signing payment means the Town can immediately eliminate both landfill deficit and the governmental funds deficit. The remainder will be held in escrow for landfill debt service payments.” Many observers were skeptical of this statement since the landfill debt itself exceeded $26 million, supra.
2. How would the existing short term debt of the landfill be paid off?

3. How would the cash flows from the new landfill arrangement be used?

4. How would the governmental funds currently being subsidized by $3 million yearly be affected.

5. What types of expenditures would have been needed to expand the landfill in the future, and how would it affect post closure landfill costs and financing.

6. How could a third party entity expand the landfill by issuing bonds and other securities when it did not actually own the facility?10

Unfortunately, the present system of governmental accounting does not require state and local governments to consider important issues that may affect the government in the future. GASB’s requirement that RSI include projections of future inflows and outflows and financial projections will help to correct this deficiency in the current governmental accounting reporting system.

Section 3: Summary and Conclusions

Due to the complexity of governmental accounting and especially the interconnection between governmental and business type activities, there is a need to formally introduce long term economic forecasting into the Required Supplementary Information for state and local governments. The accounting and financial projections presented in the preliminary views document will assist interested parties in evaluating business type activities and how that may affect governmental fund operations.

10 The current landfill proposal left the issue of financing any landfill in doubt with a vague statement that “Any potential Landfill expansion shall be determined in consultation between Town and Company.”
There are many examples of governments experiencing financial difficulties because of the interrelationship of governmental funds with business type activities that have a great amount of risk. The City of Harrisburg, Pennsylvania is experiencing this type of difficulty with the use long term bonds associated with a trash incinerator. Jefferson County Alabama experienced similar problems with business type activities affecting its governmental fund stability. The Town of Colonie in upstate New York recently approved an elaborate landfill transaction without the benefit of comprehensive accounting and financial forecasting as proposed in the GASB preliminary views document.

The planning framework in the preliminary views document should be adopted in full so that interested parties can fully evaluate the financial status of governmental and business type activities.

Respectfully submitted,

s/s

Kevin M. Bronner, Ph.D.
4 Georgian Terrace
Loudonville, NY 12211

(518) 489-5252
(518) 423-0083 (cell)
News From the Town of Colonie

Paula A. Mahan
Town Supervisor

Landfill Operating Agreement: Questions and Answers

Note: On July 28, 2011, the Town Board approved an agreement authorizing Waste Connections, Inc. to operate the landfill on behalf of the Town. Below are answers to some questions about what the agreement means to the Town of Colonie and its residents. The agreement has been posted at: www.colonie.org. If you have any questions, please feel free to call me at 783-2728.

- Town Supervisor Paula A. Mahan

How does the operating agreement with Waste Connections, Inc. benefit Colonie taxpayers?
The landfill agreement saves taxpayers millions of dollars in current and future financial obligations.

Did you sell the Landfill?
We did not sell the landfill. We still own it. Waste Connections, Inc. will operate the landfill on behalf of the Town.

Will my rates increase for curbside trash pick-up?
For the first time ever, annual curbside rate increases will be capped for Town residents who are customers of Waste Connections and for the Village
of Colonie and the Village of Menands. Previous to the agreement, there were no such safeguards.

Can I still bring trash to the landfill?
Residents can still bring trash to the landfill. Annual rate increases at the gate will be capped.

Will I still be able to get free compost?
The landfill will still provide free compost.

Will I still get free curbside lawn and leaf pickup?
The Town’s free curbside lawn and leaf pick-up will continue as before.

Will the landfill still be open on Saturday?
Yes. The landfill will be open on Saturday.

Will I still be able to dispose of hazardous waste?
Residents will still be able to drop off hazardous household waste for free on designated days.

Will landfill employees lose their jobs?
Landfill employees are part of the Town’s Department of Public Works and will be allowed to continue working within the DPW. Waste Connections will also interview those preferring to remain at the Landfill.

What if Waste Connections doesn’t do a good job?
The agreement contains many safeguards. If Waste Connections does not perform as stipulated, the Town may terminate the agreement and retain all prior payments. If warranted, the agreement also provides for negotiation of higher payments to the Town after 15 years.

What if Waste Connections brings in hazardous waste?
Hazardous waste is prohibited under the Town’s landfill permit, under which Waste Connections will operate. The agreement also prohibits importing waste from outside the region.
Why is Waste Connections a good fit for Colonie?
Waste Connections successfully manages landfills for several municipalities similar in size and demographics to Colonie. It is a publicly traded company with a strong credit rating. Waste Connections was also willing to cap rate increases for residents, which was important to us.

What will the Town receive from this agreement?

• **Deficit:** A $23 million signing payment means the Town can immediately eliminate both the landfill deficit and the governmental funds deficit. The remainder will be held in escrow for landfill debt service payments.

• **Landfill Closure Costs:** More than $20 million in landfill closure and post-closure costs mandated by New York State will be paid on the Town’s behalf. This relieves taxpayers of a significant tax obligation that would otherwise stretch far into the future.

• **Guaranteed Annual Income:** The Town receives guaranteed annual payments over the 25 years of the agreement totaling a **minimum** of $33.5 million ($2.3 million annually for the first five years and $1.1 million annually for the remainder of the contract.)

• **Waste-to-Energy Revenue:** The Town will now receive the revenue from its waste-to-energy operation, conservatively estimated at $700,000 a year, for a total of $17.5 million over 25 years. Previously this revenue was used to support landfill operations.

• **Landfill Debt:** Future capital improvements at the landfill will be paid for by Waste Connections, Inc. The Town need not take on new debt for needed upgrades.

• **Bond Rating:** Elimination of landfill and general fund deficits could result in an opportunity for an upgrade to the Town’s bond rating, yielding further savings.
Colonie Town Board Approves Operating Agreement
Waste Connections, Inc. Named to Manage Landfill

Newtonville, N.Y. -- The Colonie Town Board on July 28, 2011 voted to approve a landfill operating agreement that guarantees more than $85 million to Town coffers and has the potential to generate more than $100 million over 25 years.

The Town will continue to own the landfill, and the company will operate it. When the contract with Waste Connections, Inc. is signed, the Town will receive a $23 million upfront payment and guaranteed payments each year for the term of the contract.

According to Town Supervisor Paula A. Mahan, the Town’s first priority will be to eliminate the landfill deficit and the general fund deficit.

“This agreement is a great opportunity for the Town. I am proud that in spite of challenging economic times, we have found a solution that will return the Town to firm economic footing,” Mahan said.

The agreement caps annual curbside rate increases for Town residents who are customers of Waste Connections and for residents of the Village of Colonie and the Village of Menands. It also maintains current gate operations and other existing services for Town residents.

Waste Connections, Inc. was selected by the Town as the preferred proposer to operate the landfill following an extensive RFP process which began in June 2010.

“Waste Connections along with our employees working in the Capital Region look forward to a great partnership with the Town of Colonie,” said Ron Mittelstaedt, Chairman and CEO of the company. “This agreement benefits the Town and their residents both short and long term not only financially, but by allowing Waste Connections to work within the Town and Villages as
community partners,” Mittelstaedt said. “Our company philosophy has always been to support and enhance the communities we work in with both financial support and our own employees’ commitments. And in an environmentally responsible manner. We have committed to the Town to bring this relationship to the community through this agreement,” said Mittelstaedt.

Under terms of the agreement, Waste Connections will also make guaranteed annual payments to the Town of $2.3 million annually for the first five years and $1.1 million annually for the remainder of the contract.

In addition, the Town will continue to receive the revenue generated by its waste to energy operation. That revenue is valued at $17.5 million over 25 years.

The agreement also stipulates that Waste Connections, Inc. will assume the more than $20 million of landfill Closure and Post-Closure liability that looms on the horizon for Colonie taxpayers. Closure and Post-Closure costs are mandated by New York State as areas of the landfill are closed.

Waste Connections will also pay for all landfill capital improvements under the agreement. “This agreement also allows us to reap the benefits of renewed capital investment, which the Town simply cannot afford. But capital investment is necessary to keep the landfill profitable in an increasingly competitive waste management environment,” Mahan said.

It has become increasingly difficult for landfills to remain profitable. Colonie’s landfill is permitted to take in 170,500 tons of Municipal Solid Waste per year (MSW), but in recent years volumes have dropped as low as 133,000 tons. In 2010 the landfill’s MSW total was 143,500 tons.

The Town could also realize a lump sum payment of between $2 million and $10.8 million and royalty payments of $6.00 per ton over current volume limits in the event landfill operations are expanded at some point in the future.

The agreement also contains provisions to protect the Town going forward. “I am confident that Waste Connections will be an excellent partner in operating our landfill. However, Colonie taxpayers should know that the interests of the Town are safeguarded by the agreement,” Mahan said.

Approval of the agreement by the Town Board culminated a process which began in June 2010, when it voted to establish a Landfill Exploratory Committee. The Board’s charges to the committee were to recommend the best options for eliminating long-term taxpayer liability and providing relief from landfill obligations in addition to looking at reasonable options for extending the landfill’s useful life.

By April, six providers submitted proposals as a result of the RFP process. Subsequently, the Town interviewed all preliminary respondents and completed preliminary negotiations, finally identifying Waste Connections, Inc. as the preferred proposer.
Among options the Landfill Exploratory Committee analyzed were maintaining the current operating model, selling the landfill, imposing flow control, and partnering with a professional operating firm.
Improving Local Government Performance With Improved Financial and Economic Forecasting

Presentation of Kevin M. Bronner, Ph.D.

Governmental Accounting Standards Board
April 17, 2012

Governmental Accounting Standards Board (GASB) Project #13-3

- Preliminary Views of the Governmental Accounting Standards Board on major issues related to Economic Condition Reporting: Financial Projections.

- GASB document: November, 2011

- Support the proposal (January 3, 2012)

Major Local Bankruptcies

Recent events such as the bankruptcies of the:

1. City of Harrisburg in Pennsylvania, and
2. Jefferson County in Alabama
3. There is a necessity to implement improved financial and economic forecasting for governments.

Harrisburg Pennsylvania and Jefferson County Alabama

- City of Harrisburg incurring $300 million in debt related to a trash incinerator.

- Jefferson County burdened by over $4 billion in sewer construction debt.

- The use of improved financial forecasting would help those jurisdictions study the long term effects of proposed investments.

GASB Proposal

- Five year projection of major cash flows.
- Relationship between governmental funds and business funds to be reviewed.
- Debt levels to be shown.
- GASB statements in use need to be improved to illustrate future events.

Improved Economic & Financial Forecasting

- Part of its annual Required Supplementary information (RSI) which is a type of managerial accounting presentation often required by GASB.

- Analysis could be used to study the effects of sales of assets or increased spending on infrastructure.