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QUARTERLY REPORT January 2017

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Board of Trustees
SOCRRA

Subject: Quarterly Report - January 2017

Board Members:

Attached is a copy of SOCRRA's Quarterly Report covering the first six months operation of the 2016/17 fiscal year. The report contains a financial statement of SOCRRA's operation and an outline of projects in progress or completed during the quarter. The report also contains statistical information and other information of general interest to the members of the Board of Trustees, and the members of the governing body of each of the member municipalities of this Authority.

FINANCIAL STATEMENT

The total net income for the first 6 months of 2016/17 was \$1,238,295 before depreciation. This is an increase from the net income of \$547,238 that was recorded for the first 6 months of 2015/16. The net income for the first 6 months was \$819,895 more than budgeted.

	<u>Actual</u>	<u>Compared to Budget</u>
Revenue	\$11,531,250	+\$ 1,596,990
Expenses	\$10,292,955	+\$ 777,095
Net Income	+\$1,238,295	+\$ 819,895

Revenue was higher than planned due to increased non-member refuse from Advanced Disposal, Car Trucking, Dinverno, Rizzo Services and Tringali Sanitation and our other cash customers (+\$728,000), the member surcharge for the conversion to single stream recycling which was not included in our budget (+\$658,000), regular revenue from the member communities (+\$139,000), non-member yard waste revenue (+\$41,000) and compost sales (+\$64,000). These increases were partially offset by lower than planned prices for our recycled materials (-\$35,000) and by lower than planned miscellaneous revenue (-\$5,000).

Expenses were greater than budget primarily due to higher than planned costs for non-labor Administrative and General Expenses (+\$288,000), labor (+\$34,000), contractor expenses (+\$557,000) and supplies (+\$10,000) which were partially offset by lower than planned costs for maintenance (-\$89,000) and utilities (-\$16,000). The non-labor Administrative and General Expenses are primarily due the costs of borrowing money for the conversion of the MRF to single stream operation, see discussion below. The accounting of these costs is being reviewed by our auditors.

Total revenue for the first six months of 2016/17 increased by \$1,630,000 compared to the first six months of 2015/16. This increase was due to increased revenue from the member communities surcharge (+\$658,000), routine member services (+\$522,000), non-member refuse revenue (+\$290,000), increased revenue from the sale of recyclables (+\$85,000), increased compost sales (+\$50,000), increased rental revenue (+\$19,000) and increased interest (+\$4,000).

Operating expenses for the first six months of 2016/17 were \$945,000 higher compared to the first six months of 2015/16. The increase in expenses was primarily due to higher contractor costs and higher administrative and general costs associated with the cost of borrowing money for the conversion of the MRF to single stream operation.

Additional financial detail is attached.

MATERIAL HANDLED

SOCRRA processed 123,897 tons of refuse, yard waste and recyclables during the first six months of the current fiscal year. This represents an increase of 5.9% or 6,932 total tons compared to the same period last year. Member refuse increased by 1.3% and member recycling increased by 3.0% from the previous year. Non-member refuse increased by 46% compared to last year due to several problems at the Detroit Incinerator and our continuing efforts to attract more tonnage to the Troy Transfer Station.

Our recent history of tonnage handled for the first half of the fiscal year is displayed in the table below:

	2012/13	2013/14	2014/15	2015/16	2016/17
Member Refuse	53,039	54,400	77,447	55,460	56,159
Non-Member Refuse	14,600	16,169	19,389	18,985	27,723
Member Recycling	8,986	9,273	9,005	9,729	10,018
Non-Member Recycling	261	261	263	227	257
Yard Waste	<u>29,581</u>	<u>32,947</u>	<u>30,362</u>	<u>32,564</u>	<u>29,739</u>
TOTAL	106,467	113,050	136,466	116,965	123,897

CAPITAL EXPENDITURES

Capital expenditures for the first six months of the fiscal year totaled \$763,600 and were almost entirely the initial costs associated with the conversion of the MRF to single stream operation (\$751,000). In addition, we spent \$7,000 to replace ventilation louvers at the Troy Transfer Station and \$5,000 to paint and carpet one of our rental homes adjacent to the Compost Site.

MAJOR PROJECTS

MRF SINGLE STREAM RECYCLING

During this quarter we made substantial progress on converting SOCRRA's curbside recycling program to single stream operation.

SOCRRA successfully sold revenue bonds on October 7, 2016 in order to finance the conversion of the MRF to single stream operation and to purchase recycling carts for all households in the SOCRRA communities. The sale amount was \$12.47 million. The all-in-true interest was 2.50%. We were able to receive an interest rate a little lower than the 2.66% we used for our financial analysis. The 2.50% interest rate will save SOCRRA over \$128,000 in interest costs over the life of the bond. Our underwriter, MCM Capital Markets, did an outstanding job in marketing the bonds and obtaining a great interest rate. Overall, this transaction proceeded very smoothly.

The details of the transaction are as follows:

1. The \$12.47 million amount of revenue bonds were sold at a premium with coupon rates of 1.3% to 4.00% with an average coupon of 3.71%.
2. SOCRRA will be receiving \$12.873 million.
3. The premium served the following purposes:
 - a. Paid for all issuance costs including underwriting and legal expenses, etc.
 - b. Funded a \$500,000 bond reserve account that will be maintained by Zion Bank, the paying agent for the bonds. This account, which is approximately equal to 6 months of principal and interest costs, serves as some security for the bond holders. SOCRRA will be receiving interest on this account.
 - c. Prepaid approximately \$400,000 in bond principal. This served to reduce our interest costs.
4. The all-in-true cost of interest was 2.50%. This is a calculated number that takes into account the prepaid principal amounts discussed above.
5. Our initial principal and interest payment of \$477,791.17 was due on January 1, 2017. We will have generated this payment through the monthly surcharge revenue before the payment is due.
6. Subsequent principal and interest payments of approximately \$650,000 will be due every January 1 and July 1 until 2027.

Machinex, the MRF construction contractor, has been working on the design of the MRF and on a construction schedule. The construction will require the shutdown of our recycling operations for about 6 months. We are working on alternative plans to continue our recycling programs during the MRF shutdown. We anticipate that there will be no effect on our curbside recycling program and that our recycling drop off center will probably continue to operate during the construction.

We have also begun working on a detailed project plan for the purchase and delivery of 110,000 recycling carts to all households in the SOCRRA communities. Part of this project plan will be an extensive communication plan to our residents. Our tentative plan is to deliver the carts during the summer of 2017.

SOCRRA has received grants from the MDEQ (totaling \$450,000) and from The Recycling Partnership (\$150,000) toward the purchase of the recycling carts.

RECYCLED COMMODITY PRICES

The prices that we receive for our recycled paper and metal products have recovered somewhat from the low levels that we have experienced over the last 2 years. Plastic prices remain stable at a low level. Revenue from the sale of recyclables increased by \$85,000 (19%) from last year but was \$35,000 (6.1%) below budget. Prices have been consistently below the level used to prepare our budget. It appears that recycled commodity prices will remain low at least for the remainder of this fiscal year.

PROCESSING MATERIALS FROM OTHER COMMUNITIES

Car Trucking, Rizzo Services, Tringali Sanitation, Advanced Disposal and Dinverno are continuing to bring us a significant amount of refuse from outside of the SOCRRA communities. The incremental revenue from Rizzo and Tringali helps us to offset the fixed costs of running the Troy Transfer Station.

FALL LEAF SEASON

The recently completed fall leaf season went very well. Our municipal crews and contractors were able to completely clean up the leaves before the middle of December. During the winter months, residents of the SOCRRA communities can bring in up to 10 kraft paper bags of yard

waste to our Troy Transfer Station for disposal. We will be continuing this service until curbside pickup of yard waste begins again in April.

COLLECTION AND DISPOSAL CONTRACTS

The Board approved the extension of SOCRRA's current collection through June 30, 2027. We are also negotiating an extension of our disposal contract with Advanced Disposal through June 30, 2017. This extension should be completed early in 2017.

STYROFOAM RECYCLING

Styrofoam recycling has proven to be a very popular addition to our recycling drop off center in Troy. We recently extended our no cost/no credit Styrofoam recycling contract through 2017. We recycled 13 tons of Styrofoam in 2016 compared with 10 tons recycled in 2015. We are generating enough Styrofoam to fill a semi-trailer every other week. Our facility is now one of the largest Styrofoam recycling centers in the state.

PENSION FUNDING

The SOCRRA Board approved some additional funding for the MERS pension plan that provides pension benefits for the retired and active salaried employees that provided services to both SOCRRA and SOCWA. This pension plan was significantly underfunded and we had a plan to increase the funding level to about 100% over a five year period. This was the fifth year of incremental funding in that five year plan. Due to the recent changes that MERS made to their actuarial assumptions, all of which served to decrease the level of plan funding, this contribution will not be enough to reach the 100% funding level. Future incremental pension contributions will be required to achieve 100% funding.

SALARIED STAFF CHANGES

Karen Bever, SOCRRA's Executive Assistant/Recycling Coordinator and the Board Secretary for both SOCWA and SOCRRA for many years, retired as of January 1, 2017. We wish Karen well in her retirement. SOCRRA staff is in the process of determining how to replace Karen.

ANNUAL AUDIT

The audit report for the 2016/17 fiscal year was completed by our auditors, Plante & Moran. This was the first audit performed by Plante & Moran under our new five year agreement. The audit found the Authority to be in complete conformity with generally accepted accounting practices. The auditors concluded that the Authority's level of working capital decreased slightly over the previous year to a level of 4.6% annual expenditures, which is below the goal level of 7.5%. The net position of SOCRRA decreased by \$90,000 during 2015/16.

Respectfully submitted,

Jeffrey A. McKeen, P.E.
General Manager

SOCRRA
STATEMENT OF INCOME
JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>REVENUES</u>	<u>ESTIMATED</u>	<u>ACTUAL</u>	<u>VARIANCES</u>
MEMBER SERVICES	\$8,865,660.00	\$9,004,369.06	\$138,709.06
MEMBERS SURCHARGE	\$0.00	\$658,074.00	\$658,074.00
NON-MEMBER REFUSE	346,000.00	1,073,808.01	727,808.01
NON MEMBER YARD WASTE	42,000.00	82,835.71	40,835.71
	<u>\$9,253,660.00</u>	<u>\$10,819,086.78</u>	<u>\$1,565,426.78</u>
<u>RECYCLING</u>			
NEWSPAPERS	\$246,000.00	\$228,218.67	(\$17,781.33)
BOXBOARD	\$90,000.00	\$165,540.35	\$75,540.35
CARDBOARD	\$25,000.00	\$2,304.75	(22,695.25)
PLASTIC	\$167,000.00	\$104,814.88	(62,185.12)
SCRAP METAL	\$12,500.00	\$16,965.98	4,465.98
TIN CANS	\$17,500.00	\$10,713.69	(6,786.31)
NON FERROUS METAL	\$5,000.00	\$2,769.48	(2,230.52)
GLASS	\$4,500.00	\$0.00	(4,500.00)
BATTERIES	\$1,600.00	\$2,778.00	1,178.00
USED ELECTRONICS	0.00	0.00	0.00
	<u>\$569,100.00</u>	<u>\$534,105.80</u>	<u>(\$34,994.20)</u>
<u>OTHER</u>			
REVENUES-COMPOST	\$34,500.00	\$98,950.00	\$64,450.00
INTEREST ON INVESTMENTS	10,000.00	12,706.11	2,706.11
RENTAL INCOME	54,000.00	58,868.00	4,868.00
GRANTS	0.00	0.00	0.00
MISC. INCOME	13,000.00	7,532.98	(5,467.02)
	<u>\$111,500.00</u>	<u>\$178,057.09</u>	<u>\$66,557.09</u>
TOTAL REVENUES	<u>\$9,934,260.00</u>	<u>\$11,531,249.67</u>	<u>\$1,596,989.67</u>
<u>EXPENSES</u>			
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCES</u>
	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>	
MADISON HEIGHTS FACILITY	\$87,200.00	\$99,676.93	\$12,476.93
TROY TRANSFER FACILITY	1,163,300.00	1,477,248.97	313,948.97
MATERIAL RECOVERY FACILITY	645,300.00	614,449.28	(30,850.72)
HOUSEHOLD HAZARDOUS WASTE	172,400.00	190,882.51	18,482.51
COMPOST/LANDFILL FACILITY	270,100.00	221,788.64	(48,311.36)
ADMINISTRATIVE & GENERAL	692,850.00	973,203.21	280,353.21
COLLECTION FEES	4,661,876.00	4,669,163.66	7,287.66
COLLECTION & DISPOSAL FEES IN TRANSIT	1,822,834.00	2,046,541.43	223,707.43
	<u>\$9,515,860.00</u>	<u>\$10,292,954.63</u>	<u>\$777,094.63</u>
REVENUES OVER EXPENSES	\$418,400.00	\$1,238,295.04	\$819,895.04
NET INCOME BEFORE DEPRECIATION	<u>\$418,400.00</u>	<u>\$1,238,295.04</u>	<u>\$819,895.04</u>

SOCRRA
STATEMENT OF INCOME
JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>REVENUE</u>	<u>TOTAL TONS</u>	<u>AMOUNT</u>
MEMBER SERVICES	56,159.44	\$9,004,369.06
MEMBERS SURCHARGE	0.00	\$658,074.00
NON-MEMBER REFUSE	27,723.19	1,073,808.01
<u>YARD WASTE</u>		
MEMBERS	28,433.27	0.00
OTHERS	1,306.19	82,835.71
<u>RECYCLABLES</u>		
MEMBERS	10,018.02	0.00
OTHERS	256.90	0.00
	123,897.01	\$10,819,086.78
<u>RECYCLING</u>		
NEWSPAPERS		\$228,218.67
BOXBOARD		165,540.35
CARDBOARD		2,304.75
PLASTIC		104,814.88
SCRAP METAL		16,965.98
TIN CANS		10,713.69
NON FERROUS METAL		2,769.48
GLASS		0.00
BATTERIES		2,778.00
USED ELECTRONICS		0.00
		\$534,105.80
<u>OTHER</u>		
COMPOST SALES		\$98,950.00
INTEREST ON INVESTMENTS		12,706.11
RENTAL INCOME		58,868.00
GRANTS		0.00
MISC. INCOME		7,532.98
		178,057.09
TOTAL REVENUE		\$11,531,249.67
<u>EXPENSES</u>		
MADISON HEIGHTS FACILITY		\$99,676.93
TROY TRANSFER FACILITY		1,477,248.97
MATERIAL RECOVERY FACILITY		614,449.28
HOUSEHOLD HAZARDOUS WASTE		190,882.51
COMPOST/LANDFILL FACILITY		221,788.64
ADMINISTRATIVE & GENERAL		973,203.21
COLLECTION CONTRACT EXPENSES		4,669,163.66
COLLECTION & DISPOSAL FEES IN TRANSIT		2,046,541.43
		\$10,292,954.63
NET INCOME BEFORE DEPRECIATION		\$1,238,295.04
DEPRECIATION		214,399.08
NET INCOME		\$1,023,895.96

SOCRRA
STATEMENT OF REVENUES & EXPENDITURES
COMPARED WITH TOTAL BUDGET
JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>REVENUES</u>	TOTAL BUDGET <u>2016/2017</u>	ACTUAL <u>6 MONTHS</u>	<u>BALANCE</u>	
MEMBERS SERVICES	\$17,731,324.00	\$9,004,369.06	\$8,726,954.94	51%
MEMBERS SURCHARGE	\$0.00	\$658,074.00	(\$658,074.00)	
NON-MEMBER REFUSE	660,000.00	1,073,808.01	(413,808.01)	163%
<u>YARD WASTE</u>				
NON-MEMBERS	70,000.00	82,835.71	(12,835.71)	118%
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	\$18,461,324.00	\$10,819,086.78	\$7,642,237.22	
<u>RECYCLABLES</u>				
NEWSPAPERS	\$595,000.00	\$228,218.67	\$366,781.33	38%
BOXBOARD	214,000.00	165,540.35	48,459.65	77%
CARDBOARD	56,000.00	2,304.75	53,695.25	4%
PLASTIC	405,000.00	104,814.88	300,185.12	26%
SCRAP METAL	31,000.00	16,965.98	14,034.02	55%
TIN CANS	43,000.00	10,713.69	32,286.31	25%
NON FERROUS METAL	13,000.00	2,769.48	10,230.52	21%
GLASS	10,000.00	0.00	10,000.00	0%
BATTERIES	4,000.00	2,778.00	1,222.00	69%
USED ELECTRONICS	0.00	0.00	0.00	0%
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	\$1,371,000.00	\$534,105.80	\$836,894.20	39%
<u>OTHER</u>				
COMPOST SALES	\$90,000.00	\$98,950.00	(\$8,950.00)	110%
INTEREST ON INVESTMENTS	20,000.00	12,706.11	7,293.89	64%
RENTAL OF HOMES	108,000.00	58,868.00	49,132.00	55%
GRANTS	0.00	0.00	0.00	0%
MISC. INCOME	25,000.00	7,532.98	17,467.02	30%
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	\$243,000.00	\$178,057.09	\$64,942.91	73%
TOTAL REVENUES	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$20,075,324.00	\$11,531,249.67	\$8,544,074.33	57%

SOCRRA
 STATEMENT OF REVENUES & EXPENDITURES
 COMPARED WITH TOTAL BUDGET
 JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>EXPENSES</u>	<u>TOTAL BUDGET 2016/2017</u>	<u>ACTUAL 6 MONTHS</u>	<u>BALANCE</u>	
MADISON HEIGHTS FACILITY	\$107,200.00	\$99,676.93	\$7,523.07	93%
TROY TRANSFER FACILITY	3,170,327.00	1,477,248.97	1,693,078.03	47%
MATERIAL RECOVERY FACILITY	1,293,400.00	614,449.28	678,950.72	48%
HOUSEHOLD HAZARDOUS WASTE	340,100.00	190,882.51	149,217.49	56%
COMPOST/LANDFILL FACILITY	461,800.00	221,788.64	240,011.36	48%
ADMINISTRATIVE & GENERAL	1,326,000.00	973,203.21	352,796.79	73%
COLLECTION & DISPOSAL FEES	12,183,640.00	4,669,163.66	7,514,476.34	38%
COLLECTION & DISPOSAL FEES IN TRANSIT	0.00	2,046,541.43	(2,046,541.43)	0%
	<u>\$18,882,467.00</u>	<u>\$10,292,954.63</u>	<u>\$8,589,512.37</u>	
TOTAL EXPENDITURES	<u>\$18,882,467.00</u>	<u>\$10,292,954.63</u>	<u>\$8,589,512.37</u>	55%
NET INCOME	<u>\$1,192,857.00</u>	<u>\$1,238,295.04</u>	<u>(\$45,438.04)</u>	104%

S O C R R A
 COMPARATIVE STATEMENT
 JULY 1, 2016 THROUGH DECEMBER 31, 2016

	<u>2016/2017</u>	<u>2015/2016</u>	<u>VARIANCES</u>
<u>REVENUES</u>			
MEMBER SERVICES	\$9,004,369.06	\$8,481,962.46	\$522,406.60
MEMBERS SURCHARGE	\$658,074.00	\$0.00	\$658,074.00
NON MEMBER REFUSE	1,073,808.01	782,986.03	290,821.98
<u>YARD WASTE</u>			
MEMBERS	0.00	0.00	0.00
OTHERS	82,835.71	83,211.17	(375.46)
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	\$10,819,086.78	\$9,348,159.66	\$1,470,927.12
<u>RECYCLABLES</u>			
NEWSPAPERS	\$228,218.67	\$182,850.18	\$45,368.49
BOXBOARD	165,540.35	80,971.70	84,568.65
CARDBOARD	2,304.75	21,124.75	(18,820.00)
PLASTIC	104,814.88	119,804.46	(14,989.58)
SCRAP METAL	16,965.98	15,726.97	1,239.01
TIN CANS	10,713.69	13,348.36	(2,634.67)
NON FERROUS METAL	2,769.48	4,339.55	(1,570.07)
GLASS	0.00	368.00	(368.00)
BATTERIES	2,778.00	1,940.00	838.00
USED ELECTRONICS	0.00	8,288.22	(8,288.22)
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	\$534,105.80	\$448,762.19	\$85,343.61
<u>OTHER</u>			
COMPOST SALES	\$98,950.00	\$49,430.43	\$49,519.57
INTEREST ON INVESTMENTS	12,706.11	8,807.22	3,898.89
RENTAL OF HOMES	58,868.00	40,017.57	18,850.43
GRANTS	0.00	0.00	0.00
MISC. INCOME	7,532.98	6,090.78	1,442.20
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	\$178,057.09	\$104,346.00	\$73,711.09
TOTAL REVENUES	\$11,531,249.67	\$9,901,267.85	\$1,629,981.82
OPERATING EXPENSES	\$10,292,954.63	\$9,347,555.40	\$945,399.23
EXCESS	<hr/>	<hr/>	<hr/>
	\$1,238,295.04	\$553,712.45	\$684,582.59

SOCRRA
TOTAL SERVICE CHARGES
JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>MUNICIPALITY</u>	<u>TOTAL TONS</u>	<u>SERVICE CHARGES</u>
BERKLEY	5,252	\$506,839.86
BEVERLY HILLS	3,238	\$347,670.00
BIRMINGHAM	9,279	\$780,753.09
CLAWSON	4,299	\$438,080.14
FERNDALE	8,223	\$948,316.28
HAZEL PARK	4,883	\$589,037.88
HUNTINGTON WOODS	2,936	\$176,357.75
LATHRUP VILLAGE	1,906	\$155,772.39
OAK PARK	8,429	\$902,534.49
PLEASANT RIDGE	1,479	\$98,808.64
ROYAL OAK	21,381	\$2,393,404.55
TROY	23,304	\$2,324,867.99
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SUB-TOTAL	94,611	\$9,662,443.06
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OTHER CUSTOMERS	29,103	\$1,156,643.72
DROP OFF CENTERS	184	
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TOTAL	123,897	\$10,819,086.78

SOCRRA
IMPROVEMENT FUND
JULY 1, 2016 THROUGH DECEMBER 31, 2016

FIXED ASSETS

EXPENDITURES

TS remove/install louvers	6,765.00
MRF Conversion Project	750,635.22
Paint/Carpet Final Downpayment	2,600.00
Paint/Carpet 50% Payment	2,600.00
Bond Filing Fee	1,000.00
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	\$ 763,600.22