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MONTEREY REGIONAL
WASTE MANAGEMENT DISTRICT
Home of the Last Chance Mercantile
FINANCE COMMITTEE MEETING
AGENDA

TIMOTHY S. FLANAGAN
General Manager
GUY PETRABORG, P.E., G.E.
Director of Engineering & Compliance
PETER SKINNER
Director of Finance & Administration
TIM BROWNELL
Director of Operations
ZOE SHOATS
Director of Communications
ROBERT WELLINGTON
Legal Counsel

Wednesday, July 7, 2021

Bales Boardroom

9:00 a.m.

14201 Del Monte Blvd., Monterey County, CA

Please Note: Meeting will be held virtually via zoom compliant with Governor Newsom's executive Order N-29-20 which allows local legislative bodies to hold public meetings via teleconference and to make public meetings accessible telephonically or otherwise electronically to all members of the public seeking to observe and address the local legislative body to avoid public gatherings, and which suspended all contrary provisions of the Brown Act. To join the zoom webinar, click on this link: <https://us02web.zoom.us/j/83112537125> copy/paste the link into your browser, or type the link into your browser. If your computer does not have audio, you will also need to join the meeting via phone. To participate via phone, please call: 1-669-900-9128; **Meeting ID: 831 1253 7125** Public Comments: if you are unable to participate via telephone or virtually, you may also submit your comments by e-mailing them to igonzales@mrwmd.org with one of the following subject lines "Public Comment Item #" (insert the item number relevant to your comment) or "Public Comment - Non Agenda Item". Comments must be received by 4:00 p.m. on Tuesday, July 6, 2021. All submitted comments will be provided to the Committee and may be read into the record or compiled as part of the record. Public comment will also be accepted during the meeting.

CALL TO ORDER

ROLL CALL AND ESTABLISHMENT OF QUORUM

PUBLIC COMMUNICATIONS

Anyone wishing to address the Committee on matters *not* appearing on the Agenda may do so now. *Please limit comments to a maximum of three (3) minutes.* The public may comment on any other matter listed on the agenda at the time the matter is being considered by the Board.

ITEMS FOR COMMITTEE CONSIDERATION, DISCUSSION AND ACTION

1. Update on EV Charging Station
2. Bond Restructuring
3. Updating Reserve Policy
4. Request for Additional Funds for Illegal Dumping from Supervisor Phillips

GENERAL MANAGER COMMUNICATIONS

CLOSED SESSION

As permitted by Government Code Section 54956 et seq., the Board may adjourn to a Closed Session to consider specific matters dealing with litigation, certain personnel matters, property negotiations or to confer with the District's Meyers-Milias-Brown Act representative.

1. Conference with Property Negotiators
Property: Landfill Site Space/Capacity
District Negotiators: Tim Flanagan, Timothy Brownell, Guy Petrabor, Peter Skinner and Zoe Shoats
Negotiating Parties: Green Waste Recovery of San Jose, CA

RETURN TO OPEN SESSION WITH ANY REQUIRED ANNOUNCEMENTS FROM CLOSED SESSION

Please note: A report out and announcement concerning the closed session will be provided to anyone requesting same by emailing igonzales@mrwmd.org.

ADJOURNMENT

NEXT MEETING DATE: Wednesday, August 4, 2021 9:00 a.m.

This agenda was posted at the District offices at 14201 Del Monte Blvd, Monterey County, CA. Staff reports and additional information regarding these agenda items are available on the District website (www.mrwmd.org) and at the District offices during regular business hours (additional fee for copying). All meetings are open to the public. The District does not discriminate against persons with disabilities and the Boardroom is wheelchair accessible. Recordings of meetings can be provided upon request. To request assistive listening devices, sign language interpreters, readers, large print agendas or other accommodations, please call Ida Gonzales at (831) 384-5313 or e-mail: igonzales@mrwmd.org. Requests must be made at least 48 hours in advance of the meeting.



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: July 2, 2021
TO: Finance Committee
FROM: General Manager
SUBJECT: Finance Committee Meeting of July 7, 2021

ITEMS FOR COMMITTEE CONSIDERATION, DISCUSSION AND ACTION

1. **Update on EV Charging Station** – Guy Petraborg, Director of Engineering and Compliance successfully submitted and the District received grant funding for the construction of an electric vehicle charging station from MBARD and the California Energy commission. Staff will present a brief PowerPoint presentation at the meeting relating to the construction and completion of the station.

Recommendation: Information Only

2. **Bond Restructuring**

Please refer to the enclosed information from Peter Skinner, Director of Finance and Administration. Staff is requesting general direction from the Committee and the Board to see if pursuit on the bond restructuring is desired from the Board.

Recommendation: For Discussion and Provide Direction to Staff

3. **Updating Reserve Policy**

Please refer to the enclosed memo from Peter Skinner, Director of Finance and Administration. Staff will discuss with Finance committee the approach towards the development of a Capital Reserve Policy that supports the type of necessary and required capital expenditures our District routinely plans and budgets.

Recommendation: For Discussion and Provide Direction to Staff

4. **Request for Additional Funds for Illegal Dumping from Supervisor Phillips**

Staff has received a verbal request from Supervisor Phillips office for an increase in expenditures for the County Litter Abatement Program. The Supervisor indicated that the program is requiring additional funding as the needs for illegal dumping grow. The Board can expect a formal request from the County through supervisor Phillips office in the coming weeks.

Recommendation: Information Only

GENERAL MANAGER COMMUNICATIONS

LCM Reopening – KSBW Channel 8 did a very nice story on July 1, 2021 of the re-opening of LCM. Staff and VTC personnel both indicated their respective excitement for the re-opening. No date certain has been set, but all parties are shooting for an early August/early September opening.

August Board Meeting - Staff anticipates the need for an August Board meeting. In the past three years we have been “dark” for August. Topics will include update on GM recruitment, LCM re-opening, Capital reserves, and former Director Gary Bales in-person retirement event and resolution.

CLOSED SESSION

As permitted by Government Code Section 54956 et seq., the Board may adjourn to a Closed Session to consider specific matters dealing with litigation, certain personnel matters, property negotiations or to confer with the District's Meyers-Milias-Brown Act representative.

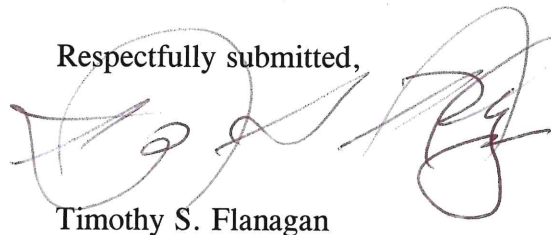
1. Conference with Property Negotiators
Property: Landfill Site Space/Capacity
District Negotiators: Tim Flanagan, Timothy Brownell, Guy Petraborg, Peter Skinner and Zoe Shoats
Negotiating Parties: Green Waste Recovery of San Jose, CA

RETURN FROM CLOSED SESSION

ADJOURNMENT

NEXT MEETING DATE: August 4, 2021 at 9:00 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Timothy S. Flanagan', is written over the typed name below.

Timothy S. Flanagan



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: July 2, 2021
TO: Finance Committee
FROM: Director of Finance & Administration
SUBJECT: Debt Refunding Opportunities

RECOMMENDATION: For discussion and direction to staff

In 2015 and again in 2018 the District issued revenue bonds to fund major capital improvement projects. The District borrowed a total of \$54 million dollars and is currently paying approximately \$4.2 million per year in debt service (principal and interest). Each debt issuance was for a 20-year term. This debt will have funded the re-development of the MRF, the building of the truck yard and CNG fueling facility, the building of multiple landfill modules, improvements to landfill gas treatment and many other recent capital projects.

Despite current year increases in interest rates, costs for borrowing remain near historic lows and staff is exploring the possibility of bond refunding. Staff has been advised that provisions within the federal infrastructure legislation wending its way through Congress may present new and compelling opportunities to take advantage of lower rates.

Debt refunding would be through a process known as 'advance refunding' whereby new bonds are issued to pay off the callable portion of previously issued debt. The new bonds would be at a lower interest rate than the older ones and would be placed in an escrow account until bond call dates are reached. Bonds are first callable in 2026. The new bonds would not extend the District's total period of indebtedness.


Investment bankers estimate that refinancing could result in a total debt service savings of \$1-\$2 million over the remaining life of the existing bonds. Transaction costs are estimated to be approximately \$350,000, which is included in the total savings projections. The transaction would take about 90 days to complete; we do not yet have an estimate of staff time required. Bond principal amounts subject to being called (refinanced) are shown below.

Issuance	Issue Amount	Outstanding	Callable Portion
2015	\$31M	\$24M	\$19M
2018	\$23M	\$21M	\$15M



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: 
General Manager

Date: 7/2/2021

DATE: July 2, 2021
TO: Finance Committee
FROM: Director of Finance & Administration
SUBJECT: Updating Reserve Policy

RECOMMENDATION: For discussion and guidance only.

BACKGROUND

The current District Reserve Policy (attached) stipulates that the District maintain a minimum cash reserve designed to serve as a rainy-day fund in the event that revenue flow or operating expenses are impacted by unexpected occurrences. The policy was adopted in 2002 and set a minimum reserve balance of 25% of operating cash. In 2009 the minimum balance was reduced to 20%. Since the time this policy was adopted, a reserve balance has been designated each year during the budget process.

Staff supports continuation of the current cash reserve policy and recommends updating the policy statement as it contains descriptions of conditions that are no longer present at the District and lacks certain elements that could add clarity to the policy's administration. In addition, staff recommends the District consider adding a capital reserve element to the policy to address the funding of capital replacement costs.

DISCUSSION

During strategic planning activities conducted over the past few years, staff and the Board have discussed the value of adopting a capital reserve policy. The purpose of such a policy would be to designate funds on an ongoing basis that are dedicated to funding future capital investment. The main benefits of doing so are: 1) increasing the likelihood funds are available for investment when needed, and 2) spreading the cost of replacing assets over the life of the assets as they are used or depleted. Sequestering funds in this way will help the District pursue a 'pay-as-you-go' investment practice, thereby reducing reliance on debt or the imposition of extreme fee increases during times of high capital investment.

Policy considerations of adding a capital reserve:

- The existence of the current operating cash reserve has, from time to time, 'forced' the District to adjust the budget to ensure it generates adequate cash to fund the reserve. Adding a second reserve for capital will exert further pressure on cash generation and may result in the need to increase fees at times when otherwise it would not be necessary for cash flow purposes.
- In past years, some special districts have been criticized for maintaining large reserves because they have not adequately communicated their purpose and the process for utilizing them. The District would need to be mindful of the need to avoid a similar public reaction to the accumulation of designated cash balances.

- A capital reserve policy will require the Board to determine a target reserve balance on an annual basis and contribute toward that balance. Because of the District's diversity of capital projects and the sometimes very high level of spending, establishing a methodology to administer the reserve could become unwieldy. However, there are several approaches the District could take to make the administration of such a reserve manageable, which staff will review at the meeting.

A Draft Capital Reserve Policy is attached to this memo. The policy will require further specificity regarding establishing funding levels and target balances.

FINANCIAL IMPACT

Updating the existing Reserve Policy results in no change to the District's financial position. Establishing a new capital reserve would result in a more accurate representation of the true cost of District operations. Successful implementation of this reserve could have the effect of reducing the District's reliance on debt or the use of unusually high fee increases during times of heavy capital spending. However, the addition of this new reserve specifically for capital investments may have an impact on routine rate setting as it would recover more cost of operations than has historically been done.

STRATEGIC PLAN

Updating the existing Reserve Policy and adopting a new capital reserve will assist the District in planning and fulfilling its commitment to providing cost-effective and efficient public services to the communities it serves.

CONCLUSION

Staff seeks to discuss these reserve policy considerations. Staff envisions formalizing a proposal for future review by the Finance Committee and, ultimately, approval by the Board.



Peter Skinner

Attachments



Monterey Regional Waste Management District

RESERVE POLICY

Adopted November 2002 (amended February 2009 to 20%)

Policy

The District has a reliable cash flow and a solid historical basis for reasonably accurate revenue projections. Future expenditures are less predictable especially in later years. Staff's five-year financial projections, presented as part of the annual budget, will provide staff and the Board information to assess, and if needed, alter rate changes. Staff recommended and the Board adopted a minimum reserve policy of 90 days (25%) of operating cash.

Background

The District has two types of reserves: Restricted Reserves and Unrestricted reserves. Restricted reserves are determined by legislative or contractual action. Unrestricted reserves can be designated by the board for a particular purpose, but for accounting reports are still considered unrestricted.

Since the mid 1990's, the District has been operating under an unwritten reserve policy of building up reserves and then using these reserves for operational and capital expenditures in lieu of rate increases. Determining prudent cash reserves generally takes into consideration the following:

- 1) anticipated monthly cash receipts
- 2) known cash obligations
- 3) contingencies for unexpected expenses

Almost half of the District's cash comes from just three customers: Waste Management, Monterey Disposal, and PG&E. While the disposal companies are not likely to stop paying their bills, and the delayed PG&E payments were for unusually high electricity prices, it is appropriate to take into consideration the possibility of a short delay in payments when determining a minimum cash reserve.

Future revenue projections in the District's budget use tonnage figures based on consistent historical trends. The annual budget for the District includes a projected five-year budget with accompanying cash flow analysis. This provides the District with the means to project cash obligations and provide for an annual analysis of reserve levels. Projected outlays may change and setting low minimal reserve levels may hinder timely implementation of worthwhile projects.

Tied to the issue of reserve balances are two financial ratios the District must maintain to comply with the terms of our bond. The first is that annual revenue minus maintenance and operating costs must equal or exceed 100% of annual debt service on the bond (plus any new bond debt service). The second ratio is very similar – annual revenues plus any necessary transfers from the rate stabilization fund must equal or exceed 125% of annual debt service on the bond (plus any new bond debt service). The impact of this is that even with a high reserve balance, we may need to raise rates for revenues to exceed operating and maintenance costs. This possibility is projected in advance with our 5-year budget.

Minimum cash reserves are usually presented as a percentage of annual operating expenditures. Percentages vary among jurisdictions but the majority seem to be between 15 and 25 percent. Standard & Poor's prefers to see enterprises like the District have 30 – 90 days (8% - 25%) of operating cash on hand.

While annual rate increases have a smaller annual impact on customers, unless jurisdictions pre-approve annual increases for the haulers, this becomes a major administrative burden for the haulers to annually apply to the jurisdiction for rate increases. Also, while many of the jurisdictions permit haulers to apply for a rate increase annually, based on cost of living increases, this is often not done to generate goodwill within the community and avoid the extensive administrative effort for a small increase. With annual tipping fee increases, the haulers will be forced to apply for the annual rate increases. A rate increase planned to last several years is administratively much simpler but does have a larger initial impact on customers.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT CAPITAL RESERVE POLICY

Purpose

The purpose of the District's Capital Reserve Policy is to help the District maintain its commitment to funding the repair, maintenance, replacement and enhancement of the District's infrastructure assets. Adequate reserves, along with sound financial policies, provide financial flexibility and help support 'pay-as-you-go' investment practices. Establishing a capital investment reserve allows the cost of large infrastructure expenditures to be spread over time rather than impacting just one budget year, when the assets necessary to operate the District need to be repaired or replaced. The Reserve Policy helps ensure equity between current and future ratepayers, as a portion of each year's revenue is reserved for the replacement of assets that are currently in use and for qualified capital repairs. Customers who receive the benefit of the District's infrastructure thereby contribute to the replacement of those assets as the assets age.

Definitions and Goals

The Capital Reserve is defined as a designated reserve fund, or funds, set aside by action of the Board of Directors. The Capital Reserve can be reviewed and adjusted in response to internal and external changes upon approval of the Board.

The District's goal is to set aside funds for qualified capital repairs, maintenance, replacement and enhancement of the District's infrastructure in alignment with the District's strategic goal of delivering solid waste management services in a financially responsible and sustainable manner.

Accounting for Reserve

The Capital Reserve will be recorded in the financial records as a Board-designated capital investment reserve. The Board may choose to designate multiple reserve funds to segregate funds associated with different categories of investment. The reserve fund(s) will be funded in cash or cash equivalent funds, which will be commingled with the general cash and investment accounts of the District but accounted for separately. All investment accounts will be in accordance with the District's Investment Policy, which is reviewed and approved annually by the Board of Directors.

Funding of Reserve

The Capital Reserve will be funded with gains in unrestricted net position as determined annually by the audited financial statements. The amount of net gain allocated to the Capital Reserve will be at the discretion of the Board of Directors. In addition, the Board of Directors may, from time to time, direct that a specific source of revenue be set aside for the Capital Reserve.

Target Reserve Balance

The target balance will be calculated annually as part of the annual budget process. The Board may choose to set a balance amount above or below the calculated target.

Use of Funds

The use of the Capital Reserve will be for the replacement or enhancement of qualified MRWMD infrastructure and for major capitalized repairs of qualified assets. Examples of projects eligible for use of the funds include, but are not limited to, heavy equipment and vehicle replacements, new equipment and vehicle purchases, capitalized equipment maintenance, facilities maintenance and upgrades, and new infrastructure deemed necessary to deliver on the District's mission.

A schedule of approved Capital Reserve fund requests and balances will be maintained by the District Accounting Manager.