



MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

RESERVE POLICY

Adopted by Board of Directors on June 17, 2022

This Policy replaces the previous Board approved policy of November 2002 as amended in February 2009.

Reserves are essential to ensuring fiscal responsibility, a key organizational goal of the District. They can also provide the savings necessary to balance budgets during periods of fiscal constraint, allow for emergency preparedness, assist in maintaining stable solid waste service rates, provide for a well-maintained infrastructure, and demonstrate a commitment to investing in the future. The Government Finance Officers Association recommends adopting a policy governing the amount of resources to be held in reserve and conditions under which those reserves can be used. A reserve policy is central to a strategic, long-term approach to financial management.

This Reserve Policy defines that the District maintains reserves in three designated categories: an Operating Reserve, a Capital Equipment Reserve, and a Capital Infrastructure Reserve. These reserves are described below and are considered “unrestricted” funds meaning that they are not encumbered by a third party and can be used for the District based on Board approval of use. Note that the general purpose of a reserve policy is to establish reserve funds to help meet known and estimated future obligations or unknown events causing economic or physical disruption. This policy establishes the level of fund balances and the process whereby funds may be spent. The source of all District funds are tip fee revenue, commodity revenue, and service revenue.

This Policy will be reviewed annually during the budget process to ensure conformance with the District’s goals and objectives and compliance with any changes in regulations or standards.

After meeting all normal operating and debt service obligations of the District, the following reserve accounts shall be funded in the order of priority as shown below:

1. Operating Reserve

Purpose

The purpose of the District’s Operating Reserve is to ensure that the District will at all times have sufficient funding available to meet annual operating costs. The Operating Reserve serves as a rainy-day fund in the event that revenue or operating expenses are impacted by unexpected occurrences. Operating Reserves will be managed in a manner that allows the District to fund expenses consistent with the annually updated Budget. Adequate reserves, along with other sound financial policies, provide financial flexibility in the event of unanticipated expenditures or revenue fluctuations.

Definitions and Goals

The Operating Reserve is defined as the designated funds set aside by action of the Board of Directors. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The District’s goal is to replenish funds used within twelve months to restore the Operating Reserve balance to the target minimum amount. To the extent possible, the District will control operating expenditures and direct budget surpluses to replenish the reserve balance.

Target Reserve Balance

The minimum Operating Reserve balance target is 20% of cash operating expenses, equal to approximately 2.5 months of spending. Cash operating expenses are outlined in the annual budget, identified as all operating expenses less routine non-cash expenses. In a typical year, depreciation & amortization and closure/post closure costs are the largest non-cash operating expenses in the budget.

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.

Accounting for Reserve

The Operating Reserve will be recorded in the financial records as a Board designated operating reserve. The Reserve will be funded in cash or cash equivalent funds which will be commingled with the general cash and investment accounts of the District. All investment accounts will be managed in accordance with the District's Investment Policy, which is reviewed and approved annually.

Funding of Reserve

The Operating Reserve will be funded with surplus unrestricted cash generated from operations. The Board of Directors may from time to time direct that a specific source of revenue be set aside for the Operating Reserve.

Use of Funds

The use of Operating Reserve funds will be for unanticipated operating costs or revenue shortfalls and for unplanned repairs, improvements and fixed asset acquisitions. Staff will identify the need to access the reserves and will submit written requests to the Board at a public meeting. Requests for reserve funds will include the amount of funds needed, confirmation that the use is consistent with the purpose of the reserve funds as described in this Policy, and the reason for the shortfall. The funds can only be used with specific Board approval.

A schedule of approved reserve funds requests will be maintained by the District Accounting Manager.

2. Capital Equipment Reserve

Purpose

The District's operations are very capital-intensive and can result in significant swings from year to year in the funds required for capital investment. The District has historically funded capital spending using cash generated from operations and, at times, through the use of debt. The purpose of the District's Capital Equipment Reserve is to ensure that cash is available to fund the repair, maintenance, or replacement of the District's mobile equipment most routinely used and replaced capital assets. At this time, the Capital Equipment Reserve is not designed to set aside funds for all future capital equipment investments. Establishing a Capital Equipment Reserve allows the cost of certain capital mobile equipment expenditures to be spread over time rather than impacting just the budget year in which the assets necessary to operate the District are repaired or replaced.

Definitions and Goals

The Capital Equipment Reserve is defined as designated funds set aside by action of the Board of Directors. The 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 future capital mobile equipment repairs, maintenance, replacement and enhancement of the District's equipment in alignment with the District's strategic goal of delivering solid waste management services in a financially responsible and sustainable manner.

Target Reserve Balance

The target balance of the Capital Equipment Reserve will be calculated based on the following methodology:

1. Assets subject to Capital Equipment Reserve contribution: This reserve is designed to provide funding for the heavy mobile equipment used extensively in District operations. This includes dozers, compactors large trucks and other rolling stock identified as Mobile Equipment in the annual Capital Equipment Spending Plan that is included in the budget. Reserves will be established for all such equipment costing \$100,000 or more.
2. Initial Capital Equipment Reserve balance calculation: Develop a schedule of qualifying Mobile Equipment, including estimated replacement cost and years remaining to replacement. Initial reserve balance will be calculated as the total replacement cost times the percentage of life consumed. Example: a 5-year old dozer with a 10 year life and \$400,000 replacement cost would result in a calculated initial reserve balance of \$200,000.
3. Annual update of target balance: Each year the reserve balance is increased by the sum of all annual contributions to the reserve and decreased by the use of reserve funds. Annual contributions are calculated by dividing the total replacement cost of an asset by its estimated useful life. Example: a dozer with a 10-year life and \$400,000 replacement cost would result in a \$40,000 annual contribution to the Capital Equipment Reserve. The balance would be reduced by the amounts spent on scheduled mobile equipment replacements in the year.

The target balance will be calculated annually as part of the annual budget process and maintained in a Capital Equipment Reserve balance schedule. The Board may choose to set a balance amount above or below the calculated target.

Accounting for Reserves

The Capital Equipment Reserve will be recorded in the financial records as a Board designated operating and capital improvement reserve. The Capital Equipment Reserve will be funded in cash or cash equivalent funds which will be commingled with the general cash and investment accounts of the District. All investment accounts will be in accordance with the District's Investment Policy, which is reviewed and approved annually.

Funding of Reserves

The Capital Equipment Reserve will be funded with surplus unrestricted cash generated from operations. The Board of Directors may from time to time direct that a specific source of revenue be set aside for the Capital Equipment Reserve.

Use of Funds

The use of the Capital Equipment Reserve will be for the maintenance, repair or replacement of qualified capital mobile equipment assets unless otherwise specifically directed in writing by Board approval. Staff will identify the need to access the reserves and will submit written requests to the Board at a public meeting. The funds can only be used with specific Board approval. Reserve fund requests will include the amount of funds needed, confirmation that the use is consistent with the purpose of the reserve funds as described in this Policy, and a description of the capital asset. Use of Capital Equipment Reserve funds for another specific purpose may also be requested and approved by the Board during the budget process, at the discretion of the Board.

A schedule of approved reserve funds requests will be maintained by the District Accounting Manager.

3. Capital Infrastructure Reserve

Purpose

The District's disposal and recycling operations are very capital-intensive and can result in significant swings from year to year in the funds required for capital investment. The District has historically funded capital spending using cash generated from operations and, at times, through the use of debt. The purpose of the District's Capital Infrastructure Reserve is to ensure that cash is available to fund new or replacement infrastructure and reduce the magnitude of debt associated with major infrastructure funding. At this time, the Capital Infrastructure Reserve is not designed to set aside funds for all future capital investments. Establishing a Capital Infrastructure Reserve allows the cost of certain capital expenditures to be spread over time rather than impacting just the budget year in which the infrastructure assets necessary to operate the District are constructed or replaced.

Definitions and Goals

The Capital Infrastructure Reserve is defined as designated funds set aside by action of the Board of Directors for capital infrastructure improvements. The 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 future capital infrastructure 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.

Target Reserve Balance

The target balance of the Capital Infrastructure Reserve will be calculated based on the following methodology:

1. Assets subject to Capital Infrastructure Reserve contribution: This reserve is designed to provide funding for capital infrastructure required in District operations. This includes buildings, roads, landfill base liner systems, environmental control systems, waste processing facilities, fixed equipment, and other major infrastructure identified in the annual Capital Infrastructure Spending Plan that is included in the budget. Reserves will be established for all such infrastructure projects costing \$1,000,000 or more.

2. Initial Capital Infrastructure Reserve balance calculation: Develop a schedule of qualifying capital infrastructure from the fiscal year budget plan. Initial reserve balance will be calculated as the total capital infrastructure budget amount multiplied by ten percent (10%). Example: a fiscal year budgeted capital infrastructure amount of \$4,750,000 would result in a calculated initial reserve balance of \$475,000.
3. Annual update of target balance: Each year the reserve balance is increased by the sum of all annual contributions to the reserve and decreased by the use of any reserve funds. Annual contributions are calculated as the total capital infrastructure budget amount for that fiscal year multiplied by ten percent (10%). Example: a \$5,400,000 capital infrastructure budget cost would result in a \$540,000 annual contribution to the Capital Infrastructure Reserve. The balance would be reduced by any Board approved amounts withdrawn from the reserve account in the year.

The target balance will be calculated annually as part of the annual budget process and maintained in a Capital Infrastructure Reserve balance schedule. The Board may choose to set a balance amount above or below the calculated target, or by changing the ten percent contribution rate factor used herein.

Accounting for Reserves

The Capital Infrastructure Reserve will be recorded in the financial records as a Board designated capital infrastructure improvement reserve. The Capital Infrastructure Reserve will be funded in cash or cash equivalent funds which will be commingled with the general cash and investment accounts of the District. All investment accounts will be in accordance with the District's Investment Policy, which is reviewed and approved annually.

Funding of Reserves

The Capital Infrastructure Reserve will be funded with surplus unrestricted cash generated from operations. The Board of Directors may from time to time direct that a specific source of revenue be set aside for the Capital Infrastructure Reserve.

Use of Funds

The use of the Capital Infrastructure Reserve will be for the capital maintenance, repair or replacement of qualified capital infrastructure assets. Staff will identify the need to access the reserves and will submit written requests to the Board at a public meeting. The funds can only be used with specific Board approval. Reserve fund requests will include the amount of funds needed, confirmation that the use is consistent with the purpose of the reserve funds as described in this Policy, and a description of the capital asset. Use of Capital Infrastructure Reserve funds for another specific purpose may also be requested and approved by the Board during the budget process, at the discretion of the Board.

A schedule of approved reserve funds requests will be maintained by the District Accounting Manager.