



2023-2024 Budget

Solid Waste Fund

Reserve Policy



Solid Waste Reserve Policy

2023-2024 Administrative Updates

The Solid Waste Reserve Policy reflects the following proposed updates as part of the 2023-2024 Budget process.

Working Capital

No change is made to the Council-adopted policy. Discussion is updated to clarify accounting for grant funds.

Target Solid Waste Reserves

No change is made to the Council-adopted policy. Summary of Target Solid Waste Reserves is updated to reflect proposed 2023-2024 budget.



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Reserve Levels

Consistent with other Utility funds, this policy recommends that some resources be budgeted as reserves to provide funding for working capital and emergencies. Setting aside reserves will help to ensure continued financial rate stability in future Solid Waste operations, and protect customers from service disruptions that might otherwise result from unforeseen economic or emergency events. While included in the total operating budget, these reserves will only be available for use pursuant to these reserve policies.

The Solid Waste Fund provides funding for two main functions:

1. Administration of the Solid Waste Collection Contract (Contract) and related outreach, education and technical assistance activities; and,
2. Administration of waste prevention and recycling grant-funded projects.

The fund's two sources of income are fees and grant monies, as described below:

1. **Administrative Fees:** These are paid into the Solid Waste Fund by the solid waste collection contractor per the terms of the Contract. These funds provide the base funding for personnel, supplies, programs and activities.
2. **Grants:** The Solid Waste Fund receives grant dollars from several agencies for waste prevention and recycling projects. Grant agencies reimburse the Solid Waste Fund for project expenses quarterly or annually, depending on the terms of the grant agreement.

Reserve components are as follows:

1. Working Capital

Working capital reserves are necessary to accommodate normal cyclical fluctuations within the Solid Waste fund. There are two elements for this reserve component; one element supports Solid Waste Management and the other supports the grant-funded programs.

The solid waste collection/disposal and recycling programs have predictable revenues and expenditures. However, the Solid Waste Fund has a single revenue source, its solid waste collection contractor. Two consecutive withheld payments would deplete and exceed a typical 45-day reserve. Therefore the reserve is set at 75 days.

The grant-funded programs are pre-funded through the Operating Grants/Donations fund and reimbursement requests are made quarterly or annually, depending on the grant agency agreement. While most grant agencies pay reimbursement requests within 45 days of receipt, the existing reimbursement billing schedule can result in carrying project expenses for up to a year before funds are received. For this reason,



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reserves equal to 100% of anticipated grant funding are included to support cash-flow. Although grant revenues and expenses are accounted for in the Operating Grants/Donations fund, sufficient reserves are maintained in the Solid Waste fund to ensure programs have sufficient funding to continue uninterrupted.

2. Emergencies

A reserve component has historically been used by the Solid Waste Fund to pay for recovery from emergencies such as windstorms, and therefore has been viewed as a necessary element of the Solid Waste Fund Reserve Policy. While the Emergency Reserve portion of the Solid Waste Fund is too small to fully support debris management in a major disaster, it is reasonable to expect to use it for smaller recovery efforts. The Solid Waste Fund has been used three times for windstorm recovery in the past two decades. The cost of these activities has ranged from \$30,000 to \$75,000 on a per event basis. It seems prudent to prepare for a “reasonable worst case” scenario rather than a least cost scenario. Therefore, a \$75,000 (in 2012 dollars) plus inflation target has been selected. The basis for this component is the cost of a supplemental windstorm debris pick-up by a contractor. This reserve level amount is adjusted by the annual CPI.

3. Consolidated Reserve

A consolidated reserve that compensates for duplicate reserves could be used to reduce the target reserve level. The emergencies reserve and the working capital reserve are consolidated at the working capital reserve level, which is the higher of the two. Further consolidation is not recommended as the grant cash flow reserve is in use constantly throughout the year.

4. Other Reserve Components

No reserve components are necessary for capital expenditures, operating contingency, debt service, liability or asset replacement since the majority of the operations are contracted and are not the City’s responsibility. Reserves will be updated at each biennial budget development period.

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Target Solid Waste Reserves			
<u>Type of Reserve</u>	<u>Basis</u>	<u>2023 Level</u>	<u>2024 Level</u>
WORKING CAPITAL – Reserves against revenue and expense fluctuations			
- Solid Waste collection/disposal and recycling programs	75 days of budgeted O&M	\$212,095	\$227,511
- Grant funded programs	100% of anticipated grant budget	\$320,962	\$409,932
EMERGENCIES	\$75,000 (2012 dollars) adjusted for annual CPI	\$95,364	\$98,931
CONSOLIDATED RESERVE ADJ		(\$95,364)	(\$98,931)
Target Reserve		<u>\$532,786</u>	<u>\$637,442</u>

Management of the Reserve

The current Solid Waste Fund Reserve Policy is premised on the expectation that the reserves are to be used and reserve levels will fluctuate. It is therefore important to plan for managing the reserves within a working range. There may be situations in short-range financial planning where reserves are maintained above or below target levels.

The target reserve level will be established during the budget development process. Related to the recommended target reserve levels, a working range of reserves is established with minimum and target levels. Management of the reserves will be based on the level of reserves with respect to these thresholds, as follows:

Above Target

Since the Solid Waste Fund does not have a Renewal & Replacement (R&R) account to transfer excess funds to, reserve levels will be held in the Solid Waste Fund until sufficient amount has accumulated to be budgeted and used for one of the following:

- Return funds to customers through decreased rates
- Provide additional services to customers
- Fund a high priority project



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Between Minimum and Target

Rate increases would be implemented sufficient to ensure that:

- Reserves would not fall below the minimum in an adverse year; and
- Reserves would recover 50% of the shortfall from target levels in a normal year.

Depending on the specific circumstances, either of these may be the constraint that describes the rate increase needed.

Below Minimum

Rate increases would be implemented sufficient to ensure that even with adverse financial performance, reserves would return at least to the minimum at the end of the following year. To meet this “worst case” standard, a year of normal performance would be likely to recover reserve levels toward target levels.

Negative Balance

Reserves would be borrowed from another fund within the City to meet working capital needs. As with the “below minimum” scenario, rate increases would be implemented sufficient to ensure that even with adverse financial performance, reserves would return from the negative balance to at least the minimum target at the end of the following year, which would allow for loan repayment within that time frame.

Surplus funds are those funds over and above the target reserve level. As part of the biennial budget review, Council would direct the use of excess reserves.

The reserve minimum is the amount needed to maintain cash flow needs over the course of the year. This would be the amount of the grant cash flow reserve, plus the working capital reserve.