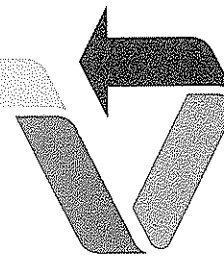


VENTURA REGIONAL SANITATION DISTRICT

1001 PARTRIDGE DRIVE, SUITE 150 • VENTURA, CA 93003-0704



A Public
Waste
Management
Agency

January 27, 2011

Board of Directors
Ventura Regional Sanitation District
Ventura, California

MODIFICATION TO THE DISTRICT'S RESERVE LEVEL POLICY

The District is an enterprise public waste management agency and recovers the cost of providing service to its customers through fees and charges. The District requires adequate reserves to ensure the District maintains adequate level of resources to mitigate current and future risks. Adequate reserves are essential to the District's financial stability to withstand economic downturns, protect against catastrophic events, unforeseen revenue declines, short-term capital improvements, and operating cash flow needs.

Consistent with Title 27 of the California Code of Regulations, and to demonstrate financial assurance to the CalRecycle, the District holds cash reserves for closure, postclosure, corrective action, and operating liability at its closed and operating landfills.

The District's Reserve Level Policy was adopted in November 6, 2003. The recent changes in the Title 27 of the California Code of Regulations (CalRecycle) and Governmental Accounting Standards Board (GASB) Statement No. 54 were perfect timing to revisit and modify the District's Reserve Policy. The major change from the Title 27 of the California Code of Regulations for the closed landfills (Bailard and Coastal) is to hold fifteen (15) years of financial assurance in perpetuity while GASB Statement No. 54 developed various categories to account for the different types of fund balance/reserves (Restricted, Committed, and Assigned).

In reviewing the policy, significant future capital projects, future facilities, six months of annual operating expenses and one year of debt service obligations were added to enable the District to level out the impact of significant future capital projects, to finance its operations for six months and debt service obligations without having to raise fees or incur short-term debt. In addition, future facilities category was added to set aside funds for the development of the next viable facility to replace the Toland Road Landfill or to develop waste-to-energy capital projects that will continue to serve the waste management requirements of the District's service area.

Please contact me at vickiedragan@vrzd.com or 658-4646 if you have any questions.

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Recommendation

It is recommended the Board adopt the District's Reserve Level Policy.

Vickie Dragan
VICKIE DRAGAN – DIRECTOR OF FINANCE & ADMINISTRATION

Enc.

APPROVED FOR FEBRUARY 3, 2011 AGENDA *Vickie Dragan for*
Mark Lawler – General Manager

Reserve Level Policy

PURPOSE

Ventura Regional Sanitation District (District) is an enterprise public waste management agency and recovers the cost of providing service to its customers through fees and charges. The District does not receive any property tax monies and solely relies on revenues derived from fees and charges. Consistent with Title 27 of the California Code of Regulations, and to demonstrate financial assurance to the CalRecycle, the District holds cash reserves for closure, postclosure, corrective action, and operating liability at its closed and operating landfills. In addition, the District requires adequate reserves to ensure the District maintains a prudent level of financial resources to offset cyclical variations in revenues and expenses and to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unexpected one-time expenses. Adequate reserves are essential to the District's financial stability to withstand economic downturns, protect against catastrophic events, unforeseen revenue declines, short-term capital improvements, and operating cash flow needs.

POLICY

It is the policy of the Ventura Regional Sanitation District that all funds held in reserve be designated to specific uses, and to take into consideration the minimum level necessary to maintain the District's credit worthiness and adequately provide for operating reserves, mandated closure and postclosure funding, future debt or capital obligations, cash flow requirements, and legal requirements. This policy is in conformity with Generally Accepted Accounting Practices (GAAP), Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB) Guidance. Reserve levels will be set as follows:

A. Restricted Reserves

The District will maintain reserves in an amount equal to funds restricted by legal requirements, contractual agreements, and trustee requirements. The District is limited in the means in which it may use restricted cash reserves due to legal requirements and contractual agreements.

1. Closure and Postclosure financial assurance requirements

Consistent with Title 27 of the California Code of Regulations (CCR) for demonstrating financial assurances to CalRecycle, the District holds cash reserves for closure, postclosure, corrective action, and operating liability at its closed and operating landfills as specified by CalRecycle in conjunction with Title 27 of the CCR.

2. Bond Covenants

Cash is held as a surety that the annual bond payment and interest will be made. Established and maintained as prescribed by the bond covenants adopted at the time of the issuance of debt.

3. Closed landfill maintenance reserves

The District hold funds donated by the Tierra Rejada Consortium to be used specifically for the maintenance of the Tierra Rejada closed landfill.

4. Conditional Use Permits and other deposits

The District issued Certificates of Deposit as a requirement from regulatory and/or governmental agencies for conditional use permits and possible interconnection fees tax liability.

B. Committed Reserves

These funds are made available for other uses only by the express authorization of the Board of Directors.

1. Closure and Postclosure funds

Funds in excess of the financial assurance requirements specified by CalRecycle in conjunction with Title 27 of the CCR for the closed landfills and active landfill will be maintained in this category.

2. Comprehensive Environmental Response Compensation & Liability Act (CERCLA)

The District will set aside funds for possible future legal actions and judgments against closed landfills.

3. Significant Future Capital Projects

The District shall establish funds to adequately meet the needed cash flow for significant future capital projects. The funds will be established in the committed reserves based on a schedule of funding which may be adjusted annually by the Board.

For example, for fiscal year 2011, funding for the first component of the Phase 4 Liner project (\$8 Million) shall be:

<u>Schedule of Funding</u>	<u>Balance shall be:</u>
Year one	10%
Year two	20%
Year three	30%
Year four	40%
Year five	50%
Year six	60%
Year seven	70%
Year eight	80%
Year nine	90%
Year ten	100%

4. Future Facilities

The District shall set aside funds for the development of the next viable facility to replace the Toland Road Landfill or to develop waste-to-energy capital projects that will continue to serve the waste management requirements of the District's service area. The funds will be established in the committed reserves based on a schedule of funding to be adjusted annually by the Board.

C. Assigned Reserves

The District will have available cash reserve to cover operating shortfalls to be used for both short term cash flow and contingency planning for unforeseen situations such as unexpected increases in costs or declines in revenues, legislative or judicial mandates, new or expanded services or programs, natural disaster emergencies, one-time Board approved non-capital expenditures or capital needs, and interruptions in billing process to customers.

1. Replacement Fund for Equipment, Vehicles, Facilities, and Furnishings

The District will maintain reserves for replacement of equipment, computers, furnishings, software, and vehicles equal to 100% of accumulated depreciation to fund replacement of these items when they reach the end of their useful lives. The funds will be established based on the schedule of funding as follows:

<u>Schedule of Funding</u>	<u>Balance shall be:</u>
Year one	50%
Year two	60%
Year three	70%
Year four	80%
Year five	90%
Year five	100%

2. Capital Improvement Fund

The District shall establish and maintain funds to adequately meet the needed cash flow for the next fiscal year's capital improvement projects outlined in the Five-Year Capital Improvement Plan.

3. Insurance Fund

The District will maintain funds in the insurance fund to cover deductibles, self-insurance retentions and claims not covered by insurance. The target for this fund is one percent (1%) of the total net value of capital assets that are insured less the value of land.

4. Operating Fund

The District will maintain cash in the operating fund at a level equal to six months of its annual operating expenses plus one year's debt service obligations. The funds will be established as follows:

<u>Schedule of Funding</u>	<u>Balance shall be:</u>
Year one	20%

Year two	40%
Year three	60%
Year four	80%
Year five	100%

GUIDELINES

Finance shall perform a reserve analysis to be submitted to the Board of Directors as follows:

- Board of Directors' deliberation of the annual budget,
- midyear budget review, and
- when a major change in conditions threatens the reserve levels established within this policy.