

April 15, 2021

Board of Directors  
Ventura Regional Sanitation District  
Ventura, California

## **PROPOSED REVISION OF DISTRICT 2.1.05 RESERVE LEVEL POLICY**

### **RECOMMENDATION:**

- A. Approve the Proposed Revision to District 2.1.05 Reserve Level Policy.
- B. Provide direction, if any, to District Staff on any further revisions to District 2.1.05 Reserve Level Policy

### **FISCAL IMPACT**

While the changes recommended reduce the total reserves to be maintained and provide the District with the flexibility it needs to ensure long-term fiscal sustainability, they do not affect statutorily-required reserves for closed and operating landfills.

### **BACKGROUND**

The District's current reserve policy was last modified in December 2016. During the March 11, 2021 Board meeting, options related to reserves were presented for Board consideration as part of the Hourly Rate setting process. At that meeting the Board indicated its support for revisions to the Reserve Level Policy and directed staff to return with a proposed reserve policy for formal approval.

During the March 11 meeting, staff's recommendations centered around changes to Assigned Reserves, which the Board has sole discretion over and which should not be confused with statutorily-required reserves. However, after further review of the existing policy, a few more changes were identified that warrant Board consideration. Those additional changes are identified in the proposal below as items 4 through 6.

As additional information for the Board and public, it should be noted that the District has held and continues to hold funds to meet its Closure/Post Closure financial assurance requirements as mandated by state law and regulations. These funds are identified in the District's Reserve Level Policy as Restricted Reserves. The Closure/Post Closure reserve amounts are calculated based on the CalRecycle requirements, which incorporate the estimates needed for closure and post closure maintenance. Those costs are required to be funded annually to a level equal to the percentage of the landfill capacity used at that time. The calculation is included in the attestation form filed by District and reviewed by CalRecycle annually, ensuring that sufficient funds are held in reserves to

meet the mandatory requirements.

The table below indicates the balances held with a third-party trustee over the last four years in fulfillment of the District's Closure/Post Closure financial assurance requirements.

**VRSD Closure/Postclosure Financial Assurance  
Restricted Reserve Balances**

	<b>6/30/2017</b>	<b>6/30/2018</b>	<b>6/30/2019</b>	<b>6/30/2020</b>
Bailard	5,050,986	4,272,438	4,366,432	4,445,027
Coastal	3,642,291	3,703,652	3,785,132	3,853,265
Toland	11,563,297	7,664,592	9,057,061	9,985,186
<b>Total</b>	<b>\$ 20,256,574</b>	<b>\$ 15,640,682</b>	<b>\$ 17,208,625</b>	<b>\$ 18,283,478</b>

**PROPOSAL**

The proposed Reserve Level Policy includes the following:

1. The elimination of reserves for capital project and debt service because they are redundant in nature. Both Capital and Debt Service requirements for each year are included in the proposed budgets each year. Therefore, maintaining a reserve for the same amounts puts unnecessary constraints on the District's resources.
2. Segregating an operating reserve for Solid Waste operations which would be limited to maintaining a 3-month Operating Reserve for Solid Waste operations. This helps ensure that established Solid Waste rates adequately meet the cashflow requirements of the Solid Waste operation.
3. Changing the amount set-aside for insurance reserve related to financial assurances required on the closure/post-closure funding of the District landfills to \$1 million instead of the previous target for this reserve amount of one percent (1%) of the total net value of capital assets that are insured less the value of land. This modification ensures that the District has the funds necessary to cover its self-insurance assurance with CalRecycle.
4. Allowing for the establishment of an Operating Reserve for Water/Wastewater operations from excess revenues generated from Water/Wastewater operations. This reserve would be limited to a 2-month Operating Reserve for Water/Wastewater operations. This reserve could be built up by excess revenues at the end of each fiscal year, thereby not incorporated into the rate

setting process or affecting customer rates. It would also help meet the cashflow requirements of the Water/Wastewater operation.

5. Elimination of the Restricted-Closed Landfill Maintenance Reserve which was designated to account for funds belonging to the Tierra Rejada Consortium for the maintenance of the closed Tierra Rejada landfill. As of FY 2018-19, all of those funds have been expended. In accordance with amendment #6 to Agreement 91-89 which formed the Tierra Rejada Consortium, future funding for the maintenance of the Tierra Rejada landfill will be provided annually by each consortium member, thereby making this reserve obsolete.
  
6. Elimination of the Committed-Closure and Post closure 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. This reserve was originally established to account for excess reserves on hand during the transition of CalRecycle's change in reserve requirement. That change shifted the 30-year reserve requirement to 15-years kept in perpetuity. Since VRSD had maintained 30-years of reserves up to the point of CalRecycle's change, it had excess reserves, which it then designated as a Committed Reserve to distinguish between the Restricted Reserve. The Board subsequently approved the discontinuance of this reserve in its approval of the FY 2016-17, recognizing that these funds could help the District meet its capital funding needs. Maintaining this reserve also puts unnecessary constraints on the Districts resources.

This letter has been reviewed by VRSD legal counsel as to form.

If you should have any questions or need additional information, please contact me at (805) 658-4646 or via email at TinaRivera@vrsd.com.

ALVERTINA RIVERA - DIRECTOR OF FINANCE

APPROVED FOR AGENDA

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Chris Theisen, General Manager

Attachments: 1. Reserve Level Policy -Proposed Clean  
2. Reserve Level Policy -Proposed Redline

## **2.1.05 Reserve Level Policy**

Date Last Revised: 04/01/21

### **2.1.05 Reserve Level Policy**

#### **PURPOSE**

Ventura Regional Sanitation District (District) is an enterprise-based, municipal solid waste and wastewater management agency that recovers the cost of providing these services to its municipal customers through contract and ordinance-based 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, the District demonstrates financial assurance to the California Department of Resource Recovery and Recycling (CalRecycle), for closure, postclosure, corrective action, and operating liability costs associated with its closed and operating landfills by holding cash reserves or acceptable financial instruments. In addition, the District needs 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.

In summary, the District's Reserve Level Policy is a fiscal management guideline with goals to be achieved over a period of time. Fiscal reserves are essential to: maintain the District's credit worthiness; offset cyclical variations in revenue and expenses; withstand economic downturns; and provide for 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, legally-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 statutory and regulatory requirements, contractual agreements, and trustee requirements. The District is limited in the means by which it may use restricted cash reserves for District operations 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 shall hold cash reserves or acceptable financial instruments 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. Conditional Use Permits and other deposits**

The District issued Certificates of Deposit as a requirement from regulatory and/or governmental agencies for conditional land 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 District Board of Directors.

**1. Comprehensive Environmental Response Compensation & Liability Act (CERCLA)**

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

**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. 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 \$1,000,000 (one million dollars).

**2. Operating Fund – Solid Waste**

The District will maintain cash in the Solid Waste operating fund an amount equal to three months of the annual operating expenses for Solid Waste operations,

excluding depreciation. This reserve bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers. The fund will ensure continuity of service regardless of cash flow.

**3. Operating Fund – Water/Wastewater**

The District may retain any excess operating revenues from Water/Wastewater operations up to two months of the annual operating expenses for Water/Wastewater operations, excluding depreciation. This reserve bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers.

**RESERVE PROCEDURES**

The Finance Department will perform an annual reserve analysis as part of the annual budget to be submitted to the Board of Directors during budget deliberations, midyear budget review, and when a major change in conditions threatens the reserve levels established in the policy.

**CONCLUSION**

The Reserve Level Policy is intended to serve as a guide to the District Board of Directors, management and staff for decisions and recommendations related to the District's financial profile.

## **2.1.05 Reserve Level Policy**

~~Date Adopted: 11/ 6/03~~

~~Date Revised: 02/03/11~~

Date Revised: 4204/4501/4621

## **2.1.05 Reserve Level Policy**

### **PURPOSE**

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In summary, the District's Reserve Level Policy is a fiscal management guideline with goals to be achieved over a period of time. Fiscal reserves are essential to: maintain the District's credit worthiness; offset cyclical variations in revenue and expenses; withstand economic downturns; and provide for operating cash flow needs.

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## **A. Restricted Reserves**

The District will maintain reserves in an amount equal to funds restricted by statutory and regulatory requirements, contractual agreements, and trustee requirements. The District is limited in the means by which it may use restricted cash reserves for District operations 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 shall hold cash reserves or acceptable financial instruments 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. Closed landfill maintenance reserves~~

~~The District shall hold funds provided by the Tierra Rejada Consortium (i.e., Simi Valley Sanitation District, County of Ventura, Simi Valley Parks and Recreation District and the District) to be used specifically for the maintenance of the Tierra Rejada closed landfill.~~

### **3-2. Conditional Use Permits and other deposits**

The District issued Certificates of Deposit as a requirement from regulatory and/or governmental agencies for conditional land 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 District 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. 1. Comprehensive Environmental Response Compensation & Liability Act (CERCLA)~~

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

## **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. 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. The calculation of funds maintained in this category will exclude any funding obtained from outside sources such as loans, grants, or bond funding.~~

#### **2.1. 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 \$1,000,000 (one million dollars).

#### **3.2. Operating Fund – Solid Waste**

The District will maintain cash in the Solid Waste operating fund at a minimum level an amount equal to three months of its the annual operating expenses for Solid Waste operations and a maximum level equal to six months of its annual operating expenses, excluding depreciation. This reserve bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers. The fund will ensure continuity of service regardless of cash flow.-

#### **3. Operating Fund – Water/Wastewater**

~~4. The District may retain any excess revenues from Water/Wastewater operations up to two months of the annual operating expenses for Water/Wastewater operations, excluding depreciation. This reserve bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers.~~ **Debt Service Reserve Fund**

~~The District shall establish and maintain funds equivalent to one year's debt service obligations. This fund will provide additional security for the payment of annual debt service if rates and other funds are insufficient or not available.~~

### **RESERVE PROCEDURES**

The Finance Department will perform an annual reserve analysis as part of the annual budget to be submitted to the Board of Directors during budget deliberations, midyear budget review, and when a major change in conditions threatens the reserve levels established in the policy.

### **CONCLUSION**

The Reserve Level Policy is intended to serve as a guide to the District Board of Directors, management and staff for decisions and recommendations related to the District's financial profile.