

CENTRAL CONTRA COSTA SOLID WASTE AUTHORITY

POLICY TITLE: General Fund Minimum Fund Balance Reserve and Application of Funds in Excess of the Reserve

A. Purpose

The purpose of this Policy is to set forth (1) the appropriate level of unrestricted fund balance (“Reserve”) that the Authority plans to maintain in the General Fund (“General Fund”) to mitigate current and future financial risks, and the procedures by which Reserve funds may be used, and (2) the procedures the Authority will follow when considering how to apply any funds in excess of the Reserve.

B. Background

The General Fund provides the funds for the day-to-day operations of the Authority. The General Fund expenditures typically primarily include administration of the Authority; processing recyclables generated within the jurisdiction; and diversion programs provided in the jurisdiction. The General Fund revenues are primarily derived from a portion of the solid waste rates, and also include revenues from the sale of recyclables, settlement proceeds, liquidated damages, and other miscellaneous sources. Occasionally there may be a one-time/nonrecurring or special revenue or expenditures item in the General Fund.

The Board of Directors annually adopts the General Fund budget for the ensuing fiscal year. Typically the Board Finance Committee reviews and recommends a draft budget in early April, and the full Board adopts the budget by Board Resolution in April or May (but no later than July 1).

Historically, the Authority’s revenues have been predictable and expenditures have been stable. Revenues and expenditures typically have been smooth over the course of a fiscal year. The Authority does not anticipate significant risk of exposure to significant one-time outlays because, among other things, it does not own any capital improvements. Likewise, the Authority does not perceive significant risk of dramatic reduction in revenue because, among other things, its franchise agreements put the burden of market fluctuations on the franchisee, the base of ratepayers is not highly concentrated, and the Authority does not rely on discretionary federal, state, or local grants as a significant revenue stream. It is possible, however, that revenues and expenditures could be subject to significant fluctuation as a result of other unanticipated events.

Consistent with recommendation from the Government Finance Officers Association (GFOA) and best practices of local public agencies, direction was given by the Board to establish this minimum fund balance reserve policy. The primary objective is to ensure that should any unanticipated event occur, the Authority would have sufficient resources to continue operations for a period time of time subsequent to the event. The GFOA has identified this as a best practice for maintaining

financial stewardship over governmental resources and promoting long-term financial stability by establishing clear and consistent reserve guidelines.

Additionally, after the close of each fiscal year, the Authority is audited by an independent auditor. The auditor typically completes the audited financial statements in January and presents the statements to the Board in February. Based on the historic predictability and stability of the Authority's revenues and expenditures, the Authority does not expect that actual fiscal year operating revenues will regularly be materially greater than actual fiscal year operating expenditures. Occasionally, however, the Authority may experience revenues in excess of budgeted expenditures as a result of, among other things, cost-savings opportunities realized throughout the fiscal year or unanticipated sources or amounts of revenue. This could potentially create a residual fund balance that is in excess of the Reserve. The Board has determined that it is prudent to establish this Policy regarding application of such funds in excess of the Reserve.

Upon adoption of this Policy, the Board's Recycling Revenue Financial Policy (adopted January 2016) shall be rescinded.

C. Policy

1. General Fund Minimum Fund Balance Reserve

- **Establishment:** The Authority will establish a Reserve in the General Fund.
- **Purpose:** The purpose of the Reserve is to ensure that sufficient operating funds are available in the event of an unanticipated circumstance (e.g., natural disasters; unforeseen liabilities caused by federal, state, or local legislative action; unanticipated revenue shortfalls; unanticipated and unavoidable expenditure needs). The Board, however, may elect to use the funds in the Reserve for other purposes in its discretion.
- **Target Level:** It is the goal of the Authority to maintain a balance in the Reserve that is equal to twenty percent (20%) of the Authority's annual General Fund budgeted expenditures, excluding any one-time/nonrecurring or special budgeted expenditures. This amount will approximate 2-1/2 months of working capital.
- **Source of Funds:** The Reserve may be funded from any revenue sources, including, but not limited to, solid waste rates, revenues from the sale of recyclables, interest and investment earnings, settlement proceeds, liquidated damages, and other miscellaneous eligible funds.
- **Draws:** Any draw on Reserve funds that would reduce the balance in the Reserve below the target established by this Policy (and/or any adoption of an annual General Fund budget that would set a target balance for the Reserve at less than the target established by this Policy) must be approved by a Board Resolution.
- **Replenishment:** In the event the Board approves a draw on Reserve funds that would reduce the amount of Reserve funds below the target established by this Policy (and/or adopts an annual General Fund budget that sets a target balance for

the Reserve at less than the target established by this Policy), the Board intends to seek to replenish the Reserve fund balance in no more than three (3) years after such event.

- **Reporting:** The financial records of the Authority will segregate the Reserve by recording activity in a separate account within the General Fund. The Authority shall incorporate the budgeted and actual Reserve amounts into the financial reports submitted to the Board.

2. Application of Funds in Excess of the Reserve

- **Definition:** For purposes of this Policy, “Funds in Excess of the Reserve” or “Excess Funds” is any excess fund balance held by the Authority at the conclusion of a fiscal year after accounting for the Authority’s debts and liabilities and assuming full funding of the General Fund Reserve at the target level established by this Policy (or otherwise approved by the Board).
- **Report:** The Authority will determine whether it has retained Excess Funds based on the audited financial statements for the prior fiscal year. At the Board meeting where the auditor presents the audited financial statements, the auditor shall report to the Board whether the audited financial statements indicate the Authority has retained Excess Funds.
- **Application:** The Board retains discretion regarding the application of any Excess Funds. Among other things, the Board may (a) distribute all (or a portion) of these funds to the Member Agencies reserves for uses consistent with law and Board Policy, or (b) apply all (or a portion) of these funds to one-time/nonrecurring or special expenditures or capital projects. Any decision to apply these funds must be approved by a Board action. In absence of Board direction, the Authority will maintain the Excess Funds in unassigned fund balance to be utilized for future expenditures as the Authority deems necessary.
- **Allocation to Member Agencies Reserves** To the extent the Board elects to distribute all (or a portion) of the Excess Funds to the Member Agencies reserves, it shall be allocated based on the proportion that the total tonnage of solid waste (garbage, recycling, and organics) collected within the jurisdiction of each Member Agency bears to the total tonnage of solid waste collected within the jurisdiction of all members of the Authority for the fiscal year immediately preceding the date of the Board decision to allocate such funds. Solid waste collected from areas of a Member Agency located outside of the jurisdictional boundaries of the Authority are not included in these calculations. The allocation shall be based on the solid waste tonnages for the fiscal year immediately preceding the distribution, regardless of whether the Excess Funds were received over a period in excess of one (1) fiscal year. Table 1 below provides an example of how these funds will be split based on the tonnage allocations.

Table 1 – Funds in Excess of the Reserve Allocation Example

- Funds in Excess of the Reserve based on audited financial statements = \$200,000
- Board action approving allocation of \$170,000 to Member Agencies reserves and allocation of \$30,000 to a special non-recurring expense.

| Member Agency | % Allocation of Solid Waste Tons in prior FY * | Distribution to Member Agencies Reserves |
|----------------------|---|---|
| County | 21% | \$35,700 |
| Danville | 20% | \$34,000 |
| Lafayette | 12% | \$20,400 |
| Moraga | 6% | \$10,200 |
| Orinda | 8% | \$13,600 |
| Walnut Creek | 33% | \$56,100 |
| Total | 100% | \$170,000 |

* The example % allocations noted in Table 1 are based on actual solid waste (garbage, recycling, and organics) tonnages in FY20-21.

D. Policy Adoption and Amendment

This Policy must be adopted by Board Resolution. Any modifications to this Policy must be approved by Board Resolution.