

TO: FINANCE AND AUDIT COMMITTEE
FROM: MARIO IGLESIAS
GENERAL MANAGER
DATE: JULY 13, 2018

AGENDA ITEM

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JULY 19, 2018

REVIEW SOLID WASTE FUND #300 CASH RESERVE POLICY AND EVALUATE USE OF FUNDS

ITEM

Review Solid Waste Fund #300 Cash Reserve Policy and evaluate use of funds
[RECOMMEND REVIEW POLICY, CONSIDER USE OF FUNDS AND DIRECT STAFF]

BACKGROUND

At your Board's July 11, 2018 Board Meeting, President Eby assigned the Finance and Audit Committee ("Committee") with the task of: (1) evaluating the Cash Reserve Policy for Solid Waste Fund #300, and (2) review appropriate uses for monies received in Fund #300. The Committee is then to provide recommendations to the Board for any changes to the policy and/or how the funds should be used.

The Cash Reserve Policy ("Policy") for Solid Waste Fund #300 ("Fund #300") is found in Nipomo Community Services District's Resolution No. 2017-1435 [attached]. The Policy includes "Targeted Criteria" cash reserve levels for the Operating Funds. The purpose of cash reserves is to ensure the District maintains a reserve of cash "at all times to have sufficient funding available to meet its operating, capital, and debt service obligations" as stated therein.

CASH RESERVE POLICY

The estimated cash balance as of July 1, 2018 for Fund #300 is \$244,000. The Cash Reserve Level for Fund #300 is set in the Policy at \$115,000. This level of reserves was established by the Board:

"To ensure sufficient cash resources are available to fund solid waste programs, rate stabilization and to cover operating costs in the event that the District may find itself operating solid waste collection, disposal, and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted during an extended disruption to service provider."

The annual cost for solid waste collection in the District's service area is approximately \$1.5 million. Should the District's business partner now franchised to do these functions be unable to continue providing these services, the District would need to find a vendor able to take on these functions temporarily. The time frame for "temporarily" has not been defined, but the current cash reserve level of \$115,000 would most likely cover the first three weeks of services.

Staff has reached out to different solid waste-collection service providers requesting an estimate for services on a temporary basis in the event necessary. As of the date of this staff report, no service provider has responded. Without an estimate by a service provider, staff can only estimate the cost of providing similar services from a different service provider would be

more expensive. This would be due to the nature of an agreement that includes startup costs such as route planning and customer billing records development. It may be prudent to consider adding 50% of the current cost of service with the current business partner to the estimate for temporary, emergency waste collection services.

When discussing cash reserve levels for Fund #300, the Committee may want to address the following questions:

- Are cash reserve levels appropriate
- Should language be modified to the existing policy
- Is there a need for additional factors – definitions, limitations on funds

FUND #300 PROGRAMS

The District currently receives approximately 5% of the 10% Franchise Fee identified in the original agreement – currently, about \$62,000/year. Over the years, the District used approximately 5% of the Franchise Fee to reduce customer rate increases imposed by the franchisee. Of the \$62,000 annually the District does retain, funding is directed towards programs that remove, reduce, or recycle solid waste in the community. In the past, these programs have included:

- Grant funding for monthly solid waste street patrols, collection and removal
- Creek Day – Annual event to remove solid waste from Nipomo Creek
- Highway litter removal Cal-Trans Program
- Nipomo Clean-up Day – a one-day large item removal program
- Old Town monthly trash receptacle pickup

Additionally, the District has provided solid waste rate holidays, where the District pays for a month of waste collection service for customers. This happens when Fund #300 has accumulated sufficient monies such that reserve levels are maintained above the Targeted Criteria after the expenditure of a rate holiday. This program is the single greatest expenditure, costing up to \$125,000 per rate holiday.

The second highest expenditure program, historically, is the Grant awarded to the Nipomo Chamber of Commerce for monthly monitoring and removal of solid waste on the streets of the community. Below is the history of the program including periods the program was in place, the award dates for the Grants, and those periods within each year's Grant.

Year of Grant	Amount	Awarded	Grant Period	No. of Months
2012	\$6,556	Oct. 10, 2012	Nov. 2012 – Oct. 2013	12
2013	\$4,010	Mar. 13, 2013	Mar. 2013 – Jun. 2013	4
2014	\$24,552	Mar. 26, 2014	May 2014 – Apr. 2015	12
2015	\$30,000	Feb. 11, 2015	Dec. 2014 – Nov. 2015	12
2016	\$35,000	Jan. 13, 2016	Dec. 2015 – Nov. 2016	12

The District cancelled this program in 2016 due to a lack of performance by the Chamber. There are no funds in the current budget dedicated to renewing the program with a different business partner.

District's General Counsel has provided a legal opinion limiting the use of funds collected by this enterprise. Monies collected through Fund #300 must be directed back to programs that specifically support reducing, removing, or recycling solid waste in the District. Any program your Honorable Board would consider supporting that relies on funding in part or in whole from Fund #300 must meet the intent of this premise.

When discussing the appropriate use of Fund #300 monies, the Committee may want to address the following questions:

- Build in Automatic Spending – Rate Holidays – when cash balances reach a threshold
- Schedule more services to community – large item collections, HazWaste extended hours, add waste receptacles
- Lower rates

FISCAL IMPACT

The District has an estimated cash balance of \$289,000 at the end of Fiscal Year 2018-19. The impact of maintaining this balance exceeds the current cash reserve level and may be unwarranted.

STRATEGIC GOAL

Goal 4. FINANCE. Maintain conservative, long-term financial management to minimize rate impacts on customers while meeting program financial needs.

- B.1 Evaluate, plan for and maintain finances that are adequate for all needs, stable, and reliable over the long-term.

Goal 6. GOVERNANCE AND ADMINISTRATION. Conduct District activities in an efficient, equitable and cost-effective manner.

- A.1 Periodically review, update and reaffirm District policies and procedures.

RECOMMENDATION

Staff recommends the Finance and Audit Committee review and discuss the Cash Reserve Policy for Solid Waste Fund #300 and to consider appropriate uses of these funds, for the purpose of preparing a recommendation for the District's Board of Directors consideration.