

Solid Waste & Recycling (SWR) Fund Reserve Policy

INTRODUCTION

Objective

This Solid Waste & Recycling (SWR) Reserve Policy (or “Policy”) establishes policy parameters to guide the City’s SWR Fund’s long term fiscal stability, including parameters for establishing and implementing the SWR Fund Reserves. This Policy is intended to provide direction for the management of the City’s SWR Enterprise Fund finances to establish reserves necessary to meet known and unknown future obligations.

Policy Areas

This Policy addresses the following areas:

1. Fiscal Policy Overview
2. Definitions
3. General Reserve Policies
4. SWR Fund Liability (Emergency) Reserve Account
5. SWR Fund Capital Improvement Project (CIP) Reserve Account
6. SWR Fund Rate Stabilization (Unassigned) Reserve Balance

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1. Overview of Purpose and Scope of this Policy

- a. The purpose of this Policy is to establish appropriate reserve levels for the City's SWR Fund.
- b. **Applicability.** This Policy applies solely to the SWR Fund for the City of Napa.

2. Definitions. The definitions set forth below shall apply to this Policy. Unless otherwise defined in this Policy, the definitions and interpretations set forth in the Budget shall apply to this Policy.

- a. "Budget": An annual plan approved by the City Council of financial activity including anticipated expenditures and the estimated means to finance those expenditures. Budget appropriations are authorized by formal City Council action with any budget adjustments approved in accordance with the provisions of the City's Fiscal Policy.
- b. "Capital Improvement Program (CIP) Project Budget": The Budget includes a listing of all planned capital improvement projects by category.
- c. "Fund": An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities.
- d. "Fund Balance": The difference between assets and liabilities reported in a governmental fund.
- e. "Fund Balance Categories" per current governmental accounting standards (GASB 54):
 - i. "Non-Spendable": Cannot be readily converted to cash or cannot legally be spent
 - ii. "Restricted": External imposed (by granting agencies, governmental entities, etc.) restrictions on spending
 - iii. "Committed": City Council formally-imposed (by resolution or other action) restrictions on spending
 - iv. "Assigned": Funds reserved by Council direction or City Manager for designated purposes
 - v. "Unassigned": Residual balance not classified in any of the above categories
- f. "Non-Recurring": Revenues or expenditures not expected to recur on a regular basis; not to be included in the regular operating budget.
- g. "SWR Fund": A proprietary enterprise fund operated by the City for the purpose of providing solid waste and recycling collection and material processing services to the community.
- h. "SWR Fund Operating Budget": Total SWR Fund expenditure budget less transfers to SWR Fund Capital Improvement Project Reserve, SWR debt service, and

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transfers to the City's street resurface program to mitigate impact of heavy refuse and recycling collection vehicles on City streets.

3. General Reserve Policies

- a. It is the intent of the City to establish and maintain reserve funds in the SWR Fund to ensure the continued delivery of SWR services to address emergencies, address a temporary revenue shortfall or provide stability during economic cycles. Sufficient reserve funds will be managed to provide adequate cash flow, stabilize the City's interest rates, and provide continuity in service delivery. The City shall maintain adequate cash reserves in the SWR Fund to maintain a positive cash position at any time during a fiscal year and at year-end.
- b. If fiscal changes require staff to recommend funding reserves that differ from the amounts identified in this Policy, staff will bring this recommendation to Council as a specific action for approval.
- c. The City will maintain Fund reserves to protect the essential services provided under the fund.
- d. The following types of reserves will be maintained, each with a target funding amount, as described in Table 1:

Table 1. Summary Table for Solid Waste & Recycling (SWR) Fund Reserves

Reserve	Purpose	Funding Level
Operating	To cover unforeseen revenue shortfalls, increases in expenses, and potential environmental compliance expenditures	20% of projected operating expenditures (less debt service, capital improvement projects, and street repair and maintenance)
Rate Stabilization	To stabilize collection rates generally at the time of rate setting to avoid wide swings in rates over time	10% of projected SWR Operating Fund revenue with target of 1% for FY25/26, 2% for FY26/27, 5% for FY27/28, 7% for FY28/29, and 10% for FY29/30 and thereafter
Capital Improvement Projects (CIP)	To provide for major renovation, modernization and/or rebuilding of the Napa MDF; allocated for projects that are \$200,000 or more	Based on approved year-to-year Council approved SWR CIP budget.
Liability (Emergency)	To fund liabilities of the City for items related to solid waste, including the final fulfillment of the City's legal obligations with regard to Hidden Glenn Landfill or natural disasters	Current funding target of \$350,000

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- e. The following is the order of priority for funding and replenishment of the SWR reserves: (1) Liability (Emergency), (2) Capital Improvement Projects, and (3) Operating. The SWR Rate Stabilization reserve account is drawn upon and replenished at the discretion of the City Council.

4. SWR Operating Fund Reserves

- a. Operating Reserve. The City Council hereby authorizes the City Manager to maintain a SWR Fund Operating Reserve in accordance with this Policy. The primary purpose of this SWR Fund Operating Reserve is to cover day-to-day expenses and maintain sufficient funds to cover accounts payable if there are supplier issues, periods of low material sales, or unforeseen cost increases such as labor disruptions or natural disasters.
 - i. The SWR Fund Operating Reserve shall be maintained at a minimum level 20 percent of the SWR Fund Operating Budget.
 - ii. The use of the SWR Fund Operating Reserve must be approved by the City Council.
 - iii. Each fiscal year, the SWR Fund will include in the Budget a transfer from the SWR Fund Operating Budget to the SWR Fund Operating Reserve to bring the reserve balance to the minimum required level. However, this transfer may be excluded from the Budget to the extent necessary to avoid a budgeted deficit.
 - iv. Approved use of SWR Fund Operating Reserve funds may cause the balance of the reserve to drop below the minimum percent level. The City will begin to restore reserves used under this Policy within 24 months after their first use if it below the minimum 20% threshold. The proposed timing of repayment of reserves will be subject to approval by the City Council and will be included in the SWR Fund Budget.
- b. Liability (Emergency) Reserve. The City Council hereby authorizes the City Manager to maintain a SWR Fund Emergency Reserve in accordance with this Policy. The primary purpose of this SWR Fund Liability (Emergency) Reserve is to protect the City's SWR Fund during significant events such as (but not limited to) liability from City owned properties related to current or historical SWR services (e.g., Hidden Glen Landfill and City's Materials Diversion Facility), economic downturns/recessions/pandemics that impact SWR Fund revenues, natural disasters, declared emergencies (as defined by Napa Municipal Code Chapter 2.89), state government reductions or takeaways of SWR Fund revenues, or other situations that could not be reasonably foreseen during preparation of the budget.
 - i. The SWR Fund Liability (Emergency) Reserve shall be maintained at a fixed \$350,000 balance unless or until adjusted by separate Council Action.

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- ii. In the event the City Manager declares that action is needed to be taken to resolve an emergency, in accordance with Napa Municipal Code Section 2.91.040, the City Manager is authorized to encumber and spend the SWR Fund Liability (Emergency) Reserve to pay the costs of the action to resolve the emergency. These actions shall be reported to the City Council at their next meeting after the declaration of the emergency, and during the duration of the declared emergency in accordance with Napa Municipal Code Section 2.91.040.
- iii. In the case of natural disasters, the SWR Fund Liability (Emergency) Reserve may be used to pay for FEMA-approved projects. If used, the project total amount shall be transferred from the Emergency Reserve and deposited into the appropriate project fund.
 - 1. The City Manager is authorized to deposit any reimbursement funds received from FEMA and CalOES, into the Emergency Reserve to replenish the fund.
 - 2. The City Manager is authorized to initially fund the Water Fund's portion of FEMA projects from the SWR Fund Liability (Emergency) Reserve. The proposed timing of repayment will be included in the SWR Fund Budget.
- iv. The use of the SWR Fund Liability (Emergency) Reserve must be approved by the City Council. As an exception, in the situations described in 4.b.i and 4.b.ii above, the City Manager is authorized to use the SWR Fund Liability (Emergency) Reserve and then report to the City Council. All other situations require advanced approval from the City Council.
- v. Each fiscal year, the City will include in the Budget a transfer from the SWR Fund Operating Budget to the SWR Fund Liability (Emergency) Reserve to bring the reserve balance to the target funding level of \$350,000. However, this transfer may be excluded from the Budget to the extent necessary to avoid a budgeted deficit.
- c. Rate Stabilization (Unassigned) Reserve. The City Council hereby authorizes the City Manager to maintain a SWR Fund Rate Stabilization Reserve in accordance with this Policy. The primary purpose of this SWR Fund Rate Stabilization Reserve is to provide funding to absorb revenue shortfalls due to short-term decreases in material sales revenue due to market volatility or other unanticipated circumstances.
 - i. The SWR Fund Rate Stabilization Reserve shall be funded when the SWR Operating Reserve exceeds the minimum target (currently 20%).
 - ii. The use of the SWR Fund Rate Stabilization Reserve must be approved by the City Council.

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- iii. Each fiscal year, the City will include in the Budget a transfer from the SWR Fund Operating Budget to the SWR Fund Rate Stabilization Reserve to bring the reserve balance to a maximum of 10 percent of that year's SWR Fund Operating Budget Revenues. However, this transfer may be excluded from the Budget to the extent necessary to avoid a budgeted deficit.
- iv. Approved use of SWR Fund Rate Stabilization Reserve funds may cause the balance of the reserve to drop below the targeted 10 percent level. The SWR Fund Rate Stabilization Reserve may be drawn upon or replenished at the discretion of the City Council.

5. SWR Capital Improvement Program (CIP) Fund Reserve

- a. The City Council hereby authorizes the City Manager to maintain a SWR Fund CIP Reserve in accordance with this Policy. The primary purpose of this SWR Fund CIP Reserve is to provide funding for ongoing and future Capital Improvement Projects at the City's Materials Diversion Facility (MDF).
 - i. The SWR Fund CIP Reserve shall be funded in accordance with City CIP Budget process for SWR CIP projects exceeding \$200,000. SWR Capital projects that cost between \$5,000 and \$200,000 will generally be funded each year out of the SWR operating budget.
 - ii. The use of the SWR Fund CIP Reserve must be approved by City Council, generally through the City's CIP Budget adoption.

6. SWR Rate Stabilization (Unassigned) Fund Balance

- a. The City Council hereby authorizes the City Manager to maintain a Rate Stabilization (Unassigned) Fund Balance in the SWR Fund Operating and SWR Non-Recurring Funds for the purpose of cash-flow and unforeseen changes in revenues and/or expenditures, particularly year-to-year materials sales revenue due to market volatility.
 - i. Funding for the SWR Rate Stabilization reserve is only available once the minimum reserve levels for the SWR Liability (Emergency) reserve, SWR Capital Improvement Project reserve and SWR Operating reserve have been achieved at the end of each City fiscal year.
 - ii. If there is adequate net revenue to fund the SWR Rate Stabilization reserve at the end of a given fiscal year, the funding targets are as follows: 1% of SWR Operating Revenue for FY2025/26, 2% of SWR Operating Revenue for FY2026/27, 5% of SWR Operating Revenue for FY2027/28, 7% of SWR Operating Revenue for FY2028/29 and 10% of SWR Operating Revenue for FY2029/30 and thereafter.
 - iii. The SWR Rate Stabilization Fund Reserve is drawn upon and replenished at the discretion of the City Council.