



**LOS ANGELES COUNTY  
SANITATION DISTRICTS**  
*Converting Waste Into Resources*

# **SOLID WASTE**

---

# **FINANCIAL RESERVE POLICY**

*Adopted by All Boards November 2022 through February 2023*

# Table of Contents

1.	Policy Statement .....	1
2.	Treasurer; Administration.....	1
3.	Types of Funds/Reserves .....	1
4.	System Funds .....	2
5.	Unrestricted Funds .....	2
6.	Designated Reserves.....	4
7.	Restricted Reserves.....	6
8.	Solid Waste Financial Reserve Policy Adoption .....	10

# Solid Waste Financial Reserve Policy

## SECTION 1. POLICY STATEMENT

The Los Angeles County Sanitation Districts Solid Waste System is comprised of the facilities owned by the 15 Sanitation Districts signatory to the Sanitation Districts' Solid Waste System Agreement (System Agreement). County Sanitation District No. 2 of Los Angeles County ("District") acts as the administrative district for the Districts Solid Waste System, as described in the System Agreement. This Policy provides guidance for the management of the reserves for the Districts Solid Waste System. This Policy does not apply to contract landfills, and other contract facilities or funds (e.g., equipment pools, the Southeast Resource Recovery Facility, Los Angeles County Refuse Disposal Fund, etc.).

The Districts Solid Waste System provides essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Maintaining prudent financial reserves provides the resources to allow the continued delivery of reliable and high-quality service. Financial reserves provide significant benefits including:

- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the Solid Waste System to effectively respond to economic, environmental, and regulatory changes;
- Allows the Solid Waste System to meet long-term post-closure maintenance costs associated with solid waste landfills.

Unless otherwise noted, all reserves and funds described herein refer to Districts Solid Waste System reserves and funds, which are separate and distinct from those of the District.

## SECTION 2. TREASURER; ADMINISTRATION

- 2.1 The District, through its Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) in accordance with the requirements of law and this Policy.

## SECTION 3. TYPES OF FUNDS/RESERVES

The District will maintain Solid Waste financial assets in various "Funds" as described in this Policy. To the extent possible, Fund balances will be maintained in amounts sufficient to meet appropriate targeted goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The Solid Waste Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

### 3.1 Unrestricted

Unrestricted Reserve Funds include all monies collected or generated by or on behalf of the Districts Solid Waste System except those that have been deemed to be Designated or Restricted.

### 3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities and land acquisition. These monies are not otherwise legally restricted, and the Board has the discretion to re-designate the actual or intended usage of these monies.

### 3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

## **SECTION 4. SYSTEM FUNDS**

Each District may participate with other members of the Los Angeles County Sanitation Districts (Districts) in separate agreements (e.g., the Joint Administration and Joint Outfall System). Funds necessary for operations related to these agreements will be pooled. The Districts have separately adopted a Wastewater Financial Reserve Policy. The Joint Outfall System Funds are subject to a separate Joint Outfall System Financial Reserve Policy that is adopted by the Joint Outfall Districts pursuant to the Joint Outfall Agreement. Pooled funds described in this policy represent funds that are applicable to the District Joint Refuse System.

## **SECTION 5. UNRESTRICTED FUNDS**

### 5.1 Operating Fund

#### 1. Applicability

Separate Operating Funds are applicable to the District Joint Refuse System, the Puente Hills Landfill, and the Spadra Landfill.

#### 2. Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements, and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted.

For the District Joint Refuse System: The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

For the Puente Hills Landfill and Spadra Landfill: These funds are only spent on post-closure operations and maintenance of each respective landfill and, in general, come from the restricted Fee-in-Lieu Fund.

### 3. Targeted Goal

For the District Joint Refuse System, the targeted goal balance will be six months of projected operating expenses. For the Puente Hills Landfill and Spadra Landfill, the minimum targeted goal balance for each Facility's Operating Fund must be sufficient to meet any anticipated expenses in accordance with budgetary projections for each landfill.

### 4. Review Timeline

The targeted goal shall be reviewed annually. At any time, if the operating fund balance of the District Joint Refuse System is less than one and a half months of projected operating expenses, the Treasurer will notify the District's Board of Directors at the next regularly scheduled Board meeting and present a plan to resolve the issue.

### 5. Funding

For the District Joint Refuse System, all revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund. For the Puente Hills Landfill and Spadra Landfill, the only significant sources of revenue are transfers of interest earnings from the Designated or Unrestricted Reserves of the District Joint Refuse System, the Fee-in-Lieu Fund, and/or the Post Closure Contingency Fund.

## 5.2 Districts Business Funds

### 1. Purpose

The Districts maintain several pooled funds for time sensitive cash-flow purposes. These funds are listed in Table 1 of Appendix A.

### 2. Targeted Goal

There is no targeted goal for these funds.

### 3. Review Timeline

These funds are regularly reviewed to ensure that sufficient funds are available for the business need of each fund.

### 4. Funding

Funding for these reserves comes from various Districts Operating Funds based on each District's share of expenses for the business purpose of each fund.

## **SECTION 6. DESIGNATED RESERVES**

### **6.1 Natural Disaster and Self-Insured Retention (SIR) Fund**

#### **1. Purpose**

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue Districts operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount; 4) costs incurred due to an insurance claim that exceeds the Districts' insured limit; 5) costs incurred due to a loss or claim against the Districts for facilities or events for which the Districts are self-insured. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled and available to all of the Districts, not just those party to the Solid Waste Agreement, and the Districts Solid Waste System.

#### **2. Targeted Goal**

The current targeted goal balance for the pooled Natural Disaster and SIR Fund is \$25 million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements.

#### **3. Review Timeline**

The targeted goal balance will be reviewed and adjusted every five years with the next review to be completed by June 30, 2027.

#### **4. Funding**

At the end of each five-year review period, the Treasurer will make a transfer to the SIR Fund, as necessary, for their share of any increase in the targeted goal. For significant increases, the Treasurer may elect to make a series of transfers as long as the SIR Fund will meet its targeted goal prior to the next five-year review

### **6.2 Capital Projects Financial Stability Fund**

#### **1. Applicability**

This Fund is applicable to the District Joint Refuse System.

#### **2. Purpose**

The size and scope of capital projects (and the associated cost) varies from year to year. Additionally, many projects may occur over multiple years. This Fund will ensure that monies are available to meet capital expenses over the next two years.

3. Targeted Goal

The targeted goal for this fund is equal to the next two year's planned, cash-funded capital expenses, not including the current fiscal year.

4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

5. Funding

Once the District Joint Refuse System Operating Fund meets its targeted goal, the Treasurer will annually transfer an amount necessary to reach the targeted goal from its Operating Fund to this Fund.

6. Additional Monies

The District may place additional monies into this Fund at any time so that the balance exceeds the targeted goal based upon long-term capital needs. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization.

6.3 Rate Stabilization Fund

1. Applicability

This Fund is applicable to the District Joint Refuse System.

2. Purpose

The purpose of this fund is to hold District Joint Refuse System funds in excess of targeted balance of the Operating Fund and Capital Projects Financial Stability Fund.

3. Targeted Goal

The minimum targeted goal is the remainder of the Districts' final Park Funding payment as described in the Settlement Agreement and Mutual Release of All Claims between the District and Los Angeles County regarding the Puente Hills Landfill (Park Settlement) which is currently \$20 million.

4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

5. Funding

Once the District Joint Refuse System Operating Fund and the Capital Project Financial Stability Fund meet their targeted goal, the Treasurer will annually transfer the amount above the

targeted goal to the District Joint Refuse System Rate Stabilization Fund. In the event that the District Joint Refuse System Operating Fund or the Capital Project Financial Stability Fund are below their targeted goal, monies will be transferred from this Fund.

#### 6.4 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the Districts Solid Waste System. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

### **SECTION 7. RESTRICTED RESERVES**

#### 7.1 Other Post-Employment Benefits (OPEB) Reserve Fund

##### 1. Purpose

The Sanitation Districts of Los Angeles County collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third-party trustee.

##### 2. Targeted Goal

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' actuarially determined contribution (ADC) as determined by a qualified actuarial consultant.

##### 3. Review Timeline

The actuarial review is required at least biennially.

##### 4. Funding

Each year the Treasurer will collectively transfer the ADC to the third-party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Districts Solid Waste System Entities in proportion to the salaries incurred by the Wastewater District or Districts Solid Waste System since the previous transfer was made.

#### 7.2 Fee-in-Lieu Fund

##### 1. Purpose

The Fee-in-Lieu Fund is used to fund Post Closure operations and maintenance expenses at the Puente Hills Landfill and Spadra Landfill pursuant to the Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California



Public Employees' Retirement System (UAL Agreement). Payments made into the fund are in lieu of payments toward the Districts UAL.

2. Targeted Goal

The targeted goal balance is the projected post closure operations and maintenance costs for the Puente Hills Landfill and Spadra Landfill for the following fiscal year (typically transferred to each landfill's operating fund during June) plus any additional amounts necessary to replenish the Post Closure Contingency Fund, described below.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

4. Funding

Funding for the Fee-in-Lieu Fund will be provided by the Sanitation Districts that are party to the (UAL agreement). Additionally, net revenues from the District Joint Refuse Operating Fund and any other revenues pledged to CalRecycle for the post closure operations and maintenance for the Puente Hills Landfill and Spadra Landfill may be transferred to this fund.

7.3 Post Closure Contingency Fund

1. Purpose

The purpose of the Post Closure Contingency Fund is to provide funds for unforeseen or unplanned expenses related to post closure operations and maintenance of the Puente Hills Landfill and Spadra Landfill.

2. Targeted Goal

The targeted goal will be equal to one year of operations and maintenance expenses of the Puente Hills Landfill and Spadra Landfill.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget for the Puente Hills Landfill and Spadra Landfill.

4. Funding

In the event that the Post Closure Contingency Fund drops below the targeted goal, a plan will be developed to replenish the fund within ten years through additional funding in the Fee-in-Lieu Fund.

#### 7.4 Corrective Action Trust Fund

##### 1. Applicability

Separate Corrective Action Trust Funds are applicable to the Puente Hills Landfill, the Spadra Landfill, and the Mesquite Regional Landfill.

##### 2. Purpose

CalRecycle requires operators of solid waste disposal facilities to demonstrate adequate financial assurances for costs of known or reasonably foreseeable corrective action.

##### 3. Targeted Goal

The targeted goal for these Trust Accounts is determined after consultation with a third-party consultant to project the cost of any known or reasonably foreseeable corrective action.

##### 4. Review Timeline

The minimum targeted goal shall be reviewed every five years by the District and CalRecycle.

##### 5. Funding

If additional funding is required, a transfer from the Districts Joint Refuse System Operating Fund would be made to meet the required fund balances.

#### 7.5 Site Development Fund (Puente Hills Park Settlement)

##### 1. Purpose

The monies in this Fund are restricted to Park Funding as described in the Park Settlement Agreement.

##### 2. Targeted Goal

The targeted goal is the total of the remaining Park Funding payments except any amounts held in the District Joint Refuse System Rate Stabilization Fund to make the final Park Funding payment.

##### 3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

##### 4. Funding

Except for interest on Fund investments, no additional monies will be transferred to this Fund.

## 7.6 UAL Payment Fund

### 1. Purpose

The monies in this Fund are restricted to pay for Unfunded Accrued Liability (UAL) payments as described in Section II.B of the Joint Agreement For The Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System (UAL Agreement). The fund will be closed when the UAL payments have been completed.

### 2. Targeted Goal

The targeted goal is the difference between the maximum allowable UAL payment described in the UAL agreement and the amount of UAL payments that have been paid.

### 3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

### 4. Funding

Except for interest on Fund investments, no additional monies are anticipated to be transferred to this Fund.

## 7.7 Trust Funds

### 1. Purpose

The Districts maintain several trust funds required to be held for specific purposes and governed by agreements and/or legal requirements. These funds are listed in Table 2 of Appendix A.

### 2. Targeted Goal

There is no targeted goal for these funds.

### 3. Review Timeline

These funds are regularly reviewed to ensure that sufficient funds are available for the business need of each fund.

### 4. Funding

Funding for these reserves comes from various Districts Operating Funds based on each District's share of expenses for the business purpose of each fund or from Districts' customers.

## 7.8 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District in its capacity as administrator of the Districts Solid Waste System is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

## **SECTION 8. SOLID WASTE FINANCIAL RESERVE POLICY ADOPTION**

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. After each review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this 14<sup>th</sup> day of November 2022.

## Appendix A

**Table 1. Current Districts Business Funds**

Fund	Purpose
Payroll	Payroll funding
Workers Comp	Workers Compensation Claims
Vacation/Sick Leave	Vacation and sick leave payments
Carl Warren Fund	Settle Non-Workers Compensation Claims
Flexible Benefits	Employee payments for Flexible Benefits (e.g., Health Savings Accounts)
Transfer	Pass through fund for received monies. Monies are transferred to the respective District or Solid Waste entity monthly
Suspense	Pass through fund used to facilitate wire transfers from the County to the Payroll Account currently held by Bank of America
Undistributed Receipts	Pass through fund for unknown receipts until the correct receiver can be determined
Petty Cash	Petty Cash
Revolving Funds (Various)	Funds to pay for meal benefit checks

**Table 2. Current Districts Trust Funds**

Fund	Purpose
Refuse Bonds	Draw down fund for monies deposited by solid waste customers
Miscellaneous	General trust fund for smaller trust account monies (e.g., sewer inspection fee estimates, restitution with a specific purpose, etc.)
Property Security Deposits	Holding fund for deposits for required in Districts' leases
Districts Store	Pass through fund for employee purchases of Districts' merchandise