

MEMORANDUM

To: SFSWMA Joint Powers Board Members
From: Randall Kippenbrock, P.E., Executive Director ^{RLK}
Date: May 13, 2025
Subject: Request for Approval to Transfer \$2,900,000 to Capital Improvements Reserve Fund from Cash Balance within the Operating Fund as set Forth in the Agency's Reserve Fund Policy

SUMMARY

The Agency is requesting the Board approve transferring \$2,900,000 from the Operating Fund cash balance to the Capital Improvements Reserve Fund to meet the appropriate funding levels set forth in the Agency's Reserve Fund Policy.

The Agency also requests approval of a \$2,900,000 budget increase, transferred from the Operating Fund's cash balance, to the Capital Improvements Replacement Reserve Fund.

BACKGROUND

On March 17, 2016, the Board approved Resolution 2016-2, which established the reserve fund policy. The Board also approved the reserve funds and recommended funding levels described in the NewGen Strategies and Solutions memorandum dated March 14, 2016.

The Operating Fund is the Agency's principal operating fund, and its purpose is to record daily financial activities (i.e., revenues and expenditures). The Operating Fund cash balance is not designated for a specific purpose and can be reallocated to reserve funds as necessary, as long as sufficient money remains to accommodate day-to-day cash needs. The cash balance at the end of each fiscal year should be maintained at 25% to 30% of operating expenditures.

For illustrative purposes, the total operating expenses budgeted for FY 2026 is \$10,324,258. Based on this, the Operating Fund should have between \$2.4 and \$2.9 million at the end of FY 2025 to be fully funded. Any amount above that can be transferred to reserve funds. The Executive Director identifies the need to transfer money from the Operating Fund cash balance to a reserve fund and confirms that any transfer is consistent with the purpose of the reserves, as described in the reserve fund policy.

On June 30, 2025 (the end of FY 2025, the Operating Fund (810.100700) cash balance is projected to be \$5.9 million. Subtracting 30% of the proposed FY 2026 operating budget (\$3,097,277) leaves \$2,831,360 available to transfer from the Operating Fund. Of that amount, \$2.9 million will be transferred to the Capital Improvements Reserve Fund.

The six reserve funds with number and designation are as follows:

1. Equipment Replacement Reserve (8110855.655810) - Internally Designated
2. Landfill Gas Collection Reserve (8120855.655810) - Internally Designated
3. Cell Development Reserve (8130855.655810) - Internally Designated
4. Emergency Cash Reserve (8140855.655810) - Internally Designated
5. Closure/Post-Closure Care Reserve (8150855.655810) - Restricted
6. Capital Improvements Reserve (8160855.655810) - Internally Designated

The Equipment Replacement Reserve funds the replacement of the heavy equipment and rolling stock used at the landfill and BuRRT. The recommended funding level for the reserve in FY 2026 is \$2 million.

The Landfill Gas Collection Reserve is to fund the expansion and maintenance of the landfill gas (LFG) collection system. The recommended funding level is \$635,000 to accommodate the installation of 13 new landfill gas wells in Cell 6B in FY 2026.

The Cell Development Reserve is to fund the design, development, and construction of new landfill cells for the Agency's Landfill. The recommended funding level in FY2034 is \$8M for future Cells 7 and 8. The basalt drainage/protective cover material for future Cells 7, 8 and 9 was purchased in FY 2022.

The Emergency Cash Reserve is designated to be at least 10% of the operating budget to ensure the continuation of services during non-routine and unforeseen circumstances such as a significant decrease in tonnage at the landfill, an increase in regulatory compliance costs, unexpected operating expenses due to natural disasters, or other emergency conditions that create a threat to public health, welfare, safety, or property. The Emergency Cash Reserve is not intended to be used for operating budget shortfalls, to fund new programs, or for personnel costs. The recommended funding level for the reserve is \$1,032,426.

Unlike the other reserve funds, the Closure/Post-Closure Care Reserve is a restricted fund that is required by state and federal laws to pay for the costs of closing cells and to perform post-closure care of the landfill for 30 years. The reserve also covers the closure of BuRRT. The closure/post-closure care liability is recalculated annually by a professional engineer. Approvals by the New Mexico Environment Department and Joint Powers Board are required prior to expending funds from the reserve. The recommended funding level for the reserve is \$11.3 million.

The Capital Improvements Reserve is funded to support capital improvement projects that are non-rolling stock or equipment-related. Examples of anticipated capital improvements for the Agency include, but are not limited to, adding inbound scales at BuRRT and Landfill, repairing the BuRRT transfer station floor, constructing a new concrete bunker for glass storage at BuRRT, and constructing a new MRF. The recommended funding level for the reserve is \$6,000,000.

Table 1 shows the reserve fund levels before and after the transfers. The total amount to be transferred from the Operating Fund cash balance to the Capital Improvements Replacement Reserve is \$2.9 million.

It is important to recognize that funding levels may fluctuate year to year for the Equipment Replacement Reserve, Landfill Gas Collection Reserve, and Capital Improvements Reserve, which are based on future expenditures. Others, such as the Closure/Post-Closure Care and Cell Development reserves, should accumulate funds over time for a specific purpose or event.

ACTION REQUESTED

The Agency is requesting the Board approve a \$2,900,000 transfer from the Operating Fund's cash balance to the Capital Improvements Reserve Fund to meet the appropriate funding levels set forth in the Agency's Reserve Fund Policy.

The Agency also requests approval of a \$2,900,000 budget increase to Capital Improvements Reserve Fund (816) from Cash Balance within the Operating Fund (810.100700).

Attachments: 1) Budget Adjustment Requests (BAR)
2) Resolution 2016-2
3) NewGen Strategies and Solutions Memorandum dated March 14, 2016

Table 1. Summary of SFSWMA Reserves

<i>Operational Budgets (8100851 Landfill, 8100852 BuRRT)</i>	
FY 2026 Proposed Budget	\$ 10,324,258
Cash Balance Operating Fund at end of FY 2025 (June 30, 2025)	\$ 5,928,637
Operating Reserves @ 30% of Operational Budgets	\$ 3,097,277
Available for Transfer (Cash Balance-Operating Reserve)	\$ 2,831,360
<i>Emergency Cash Reserve Fund (814)</i>	
Recommended 10% of Operating Fund	\$ 1,032,426
Cash balance as of June 30, 2025	\$ 816,354
FY 2026 Inter-Fund Transfer In	\$ 1,200,000
Fund Transfer	\$ -
Fund Balance After Transfers	\$ 2,016,354
<i>Equipment Replacement Reserve Fund (811)</i>	
Recommended Level	\$ 2,000,000
Cash balance as of June 30, 2025	\$ 596,523
FY 2026 Inter-Fund Transfer In	\$ 1,200,000
Fund Transfer	\$ -
Fund Balance After Transfers	\$ 1,796,523
<i>Landfill Gas Collection Reserve Fund (812)</i>	
Recommended Level	\$ 635,000
Cash balance as of June 30, 2025	\$ 1,325,113
FY 2026 Inter-Fund Transfer In	\$ -
Fund Transfer	\$ -
Fund Balance After Transfers	\$ 1,325,113
<i>Cell Development Reserve Fund (813)</i>	
Recommended Level	\$ 8,000,000
Cash balance as of June 30, 2025	\$ 1,041,717
FY 2026 Inter-Fund Transfer In	\$ 300,000
Fund Transfer	\$ -
Fund Balance After Transfers	\$ 1,341,717
<i>Closure/Post Closure Reserve Fund (815)</i>	
Recommended Level	\$ 11,300,000
Cash balance as of June 30, 2025	\$ 9,300,626
FY 2026 Inter-Fund Transfer In	\$ 300,000
Fund Transfer	\$ -
Fund Balance After Transfers	\$ 9,600,626
<i>Capital Improvement Reserve Fund (816)</i>	
Recommended Level	\$ 6,000,000
Cash balance as of June 30, 2025	\$ 1,120,511
FY 2026 Inter-Fund Transfer In	\$ 950,000
Fund Transfer	\$ 2,900,000
Fund Balance After Transfers	\$ 4,970,511

ATTACHMENT 1

Budget Adjustment Requests (BAR)

Log # {Finance use <u>only</u> }:	
Batch # {Finance use <u>only</u> }:	

City of Santa Fe, New Mexico

BUDGET AMENDMENT RESOLUTION (BAR)

DEPARTMENT / DIVISION NAME SFSWMA	DATE 5/13/2025
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ITEM DESCRIPTION	ORG	OBJECT	PROJECT	INCREASE	DECREASE
<u>EXPENDITURES</u>				{enter as <u>positive</u> #}	{enter as <u>negative</u> #}
Transfer out to Fund 816	8100851	755816		2,900,000	
<u>REVENUES</u>				{enter as <u>negative</u> #}	{enter as <u>positive</u> #}
Tranfer in from Fund 810	8160890	655810		(2,900,000)	

JUSTIFICATION: (use additional page if needed)
 --Attach supporting documentation/memo

0	\$ -
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<i>{Complete section below if BAR results in a net change to ANY Fund}</i>	
To tranfer funding from SWMA Operating Cash Fund to the Capital Improvements Reserve	
Fund as set forth in the Agency's Reserve Fund Policy	
Cash is available in the Operating Cash Fund (810.100700)	
TOTAL:	0

Thomasina Chavez	5/13/2025	{Use this form for Finance Committee/ City Council agenda items ONLY}	
Prepared By {print name}	Date	CITY COUNCIL APPROVAL	Budget Officer
Division Director Signature {optional}	Date		Finance Director {≤ \$5,000}
Department Director Signature	Date		City Manager {≤ \$60,000}
		JPB Approval Date	Date
		Agenda Item #:	Date

ATTACHMENT 2

Resolution 2016-2

RESOLUTION 2016-2

**A RESOLUTION OF THE JOINT POWERS BOARD OF THE
SANTA FE SOLID WASTE MANAGEMENT AGENCY
APPROVING A RESERVE FUND POLICY**

WHEREAS, the Santa Fe Solid Waste Management Agency was formed in 1995 by a Joint Powers Agreement executed by the City of Santa Fe and the County of Santa Fe, New Mexico; and

WHEREAS, the Agreement delegated the Agency the power to plan for, operate, construct, maintain, repair, replace or expand the Caja del Rio Landfill and the Buckman Road Recycling & Transfer Station (BuRRT).

WHEREAS, the Agency operates as an enterprise fund and utilizes a separate self-balancing fund called an “operating fund” to record its daily financial activities; and

WHEREAS, the Agency considers the cash balance within the operating fund to be “internally designated” so it is not committed to a particular use and can be made available to address emergencies or reallocated to reserve funds as necessary to provide fiscal stability; and

WHEREAS, the reserve funds are prudent fiscal management tools for the Agency and are a cornerstone of long-term financial planning to ensure the Agency is prepared for unexpected events, large capital expenditures and compliance with regulatory requirements; and

WHEREAS, the Agency has had a reserve fund policy since 1999; and

WHEREAS, the Agency has conducted a review of the reserve funds maintained by the Agency, whether any additional funds would be advisable as well as the funding levels established for each of the reserve funds.

NOW, THEREFORE, BE IT RESOLVED by the Joint Powers Board of the Santa Fe Solid Waste Management Agency as follows:

1. The Agency adopts the Reserve Funds, the Reserve Levels and the Authorizations for each fund as described in NewGen Strategies and Solutions memorandum dated March 14, 2016, as the Agency’s reserve fund policy.
2. The Agency will maintain the cash balance within the operating fund, at a minimum, equal to 25%-30% of operating and maintenance expenditures (based on the two Agency operational budgets – Landfill and Recycling).
3. The Agency shall maintain the five existing reserve funds: Emergency Cash Reserve, Equipment Replacement Reserve, Landfill Gas Collection Reserve, Cell Development Reserve and Closure/Post-Closure Care Reserve and establish one new reserve fund: Capital Improvements Reserve.

SFC CLERK RECORDED 04/13/2016

4. The Agency will maintain the Emergency Cash Reserve at no less than 10% of operating and maintenance expenditures (based on the two Agency operational budgets – Landfill and Recycling).
5. The Joint Powers Board shall approve annual transfers from the cash balance within the operating fund to fund the reserve funds in sufficient amounts to meet the appropriate funding level of each reserve.
6. The Joint Powers Board shall approve any expenditure of funds from the Emergency Cash Reserve, Equipment Replacement Reserve, Landfill Gas Collection Reserve, Cell Development Reserve and Capital Improvements Reserve.
7. The Joint Powers Board and New Mexico Environment Department shall approve any expenditure of funds from the Closure/Post-Closure Care Reserve.
8. The Agency shall dissolve the unused insurance deductibles reserve and complete a one-time transfer of these funds to the Capital Improvements Reserve.
9. The Agency shall dissolve the construction-in-progress reserve and the landfill permitting reserve at the conclusion of the current permitting process and complete the transfer of these funds to the Cell Development Reserve.
10. The Joint Powers Board approves the recommended reserve fund target level listed in the NewGen Strategies and Solutions memorandum.
11. The Agency and the Joint Powers Board understand that the reserve amounts recommended in the NewGen Strategies and Solutions memorandum, are minimums, and that the reserve levels can, and will, fluctuate over time as operations dictate.

BE IT FURTHER RESOLVED, that the Joint Powers Board directs that the Executive Director of the Agency is hereby authorized and directed as follows:

1. Identify the need for transfer of any amounts from the cash balance within the operating fund to reserve funds and confirm that the transfer is consistent with the purpose of the reserves as described in the reserve fund policy.
2. Identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in the reserve fund policy.
3. Approve emergency purchases not to exceed fifty thousand dollars (\$50,000), excluding applicable state and local gross receipts taxes and freight from the cash balance within the operating fund.

APPROVED, ADOPTED AND PASSED this 17th day of March, 2016, at a regularly called meeting of the Joint Powers Board of the Santa Fe Solid Waste Management Agency.

SANTA FE SOLID WASTE MANAGEMENT AGENCY:

Joseph M Maestas 3-17-16
Joseph M Maestas Date
Chairperson

ATTEST

Yolanda 3-18-16
Yolanda Date
Santa Fe County Clerk

APPROVED AS TO FORM:

Nancy R. Long 3-17-16
Nancy R. Long Date
Agency Attorney

SFC CLERK RECORDED 04/13/2016

COUNTY OF SANTA FE) SOLID WASTE RESOLUTION
STATE OF NEW MEXICO) ss PAGES: 3

I Hereby Certify That This Instrument Was Filed for Record On The 13TH Day Of April, 2016 at 09:32:01 AM And Was Duly Recorded as Instrument # 1791067 Of The Records Of Santa Fe County

Witness My Hand And Seal Of Office
Deputy Laura Hernandez County Clerk, Santa Fe, NM
Geraldine Salazar



ATTACHMENT 3

NewGen Strategies and Solutions Memorandum dated March 14, 2016

Memorandum

To: Mr. Randall Kippenbrock, P.E., Executive Director
Santa Fe Solid Waste Management Agency (SFSWMA)

From: Mr. David S. Yanke, President – Environmental Practice
NewGen Strategies and Solutions, LLC

Date: March 14, 2016

Re: Reserve Fund Policy for the Santa Fe Solid Waste Management Agency

Introduction

The Santa Fe Solid Waste Management Agency (SFSWMA or Agency) retained NewGen Strategies and Solutions, LLC (NewGen) to assist in the development of a formal, documented reserve fund policy for the Agency. This memorandum report details NewGen’s analysis and recommendations concerning the types of reserves the Agency should maintain, as well as the minimum funding levels that each reserve should maintain, to ensure the financial integrity of the Agency.¹

Purpose

The purpose of this reserve fund policy is to assist the Agency in the establishment of the necessary types of reserves as well as clearly identify the funding levels for the reserves, which are consistent with the Agency’s mission to be an innovative, responsive, and integrated solid waste organization that provides safe, cost-efficient and environmentally-sound management of solid waste generated by its customers, while educating the public regarding the importance of waste diversion programs.

Since 1999, the Agency has had a reserve fund policy with regard to the type of reserves established by the Agency as well as the funding levels established for each of the reserves. Financial policies regarding reserves for solid waste utilities, including the Agency, have many benefits and represent a critical element of sound fiscal management. Reserves are prudent fiscal management tools for the Agency and are a cornerstone of long-term financial planning.²

Additionally, reserves ensure the Agency is prepared for:

- Unexpected events which may have an adverse impact on the Agency’s cash flow – such as an unexpected decrease in tonnage for disposal;
- Large capital expenditures – such as the purchase of equipment or the funding of cell construction; and

¹ The findings and recommendations concerning the types of reserves and funding levels associated with these reserves are based on standard practices within the solid waste industry, as well as Mr. Yanke’s 20 plus years of experience within the industry dealing with these types of financial and policy related issues.

² For purposes of this memo, the term reserve and reserve fund will be used interchangeably.

- Compliance with regulatory requirements – such as closure/post-closure care costs, a landfill gas collection system, and groundwater monitoring wells.

Background

The Agency operates as an enterprise fund and utilizes a separate self-balancing fund called an “operating fund” to record its daily financial activities, (i.e., revenues and expenditures). The Agency is responsible for the operation of the Caja del Rio Landfill (Landfill) and the Buckman Road Recycling and Transfer Station (BuRRT).

The Landfill receives approximately 150,000 tons per year of waste for disposal. The BuRRT facility receives approximately 6,800 tons per year of recyclables which are currently collected and long-hauled by the Agency to Friedman Recycling’s Materials Recovery Facility (MRF) in Albuquerque, NM, for processing. The BuRRT facility also receives approximately 16,000 tons of waste, which is hauled to the Landfill for disposal; 2,200 tons of glass for processing and recycling; and 7,400 tons of green waste which is mulched and subsequently sold as mulch to customers or composted at the Landfill by a third-party contractor. In addition, the Agency provides a number of diversion programs that include, but are not limited to, the collection of electronic waste, appliances, scrap metals, mercury lamps, batteries, and household hazardous waste (HHW).

The majority of the Agency’s revenue is generated through the tipping fees charged at the Landfill and BuRRT. The Agency is subject to numerous state and federal regulations due to the environmental aspect of its operations. Additionally, in the solid waste industry it is common to incur large capital expenditures for equipment, cell construction, building repairs/upgrades, the landfill gas collection system, and environmental monitoring (e.g., stormwater, methane, groundwater). These large capital outlays require that the Agency be continually updating its long range financial forecast to ensure sufficient funds are set aside to pay for these capital projects when they occur. The establishment of a reserve fund policy and funding of these reserves will ensure that the Agency is able to fund these large capital outlays as they arise.

The Agency currently receives revenue from two primary sources and four secondary sources as listed below:

Primary Revenue Sources

- Landfill tipping fees
- BuRRT tipping fees

Secondary Revenue Sources

- Sale of recyclables
- Sale of compost and mulch
- Sale of basalt rock
- Miscellaneous

Furthermore, within the Agency’s operating fund, it utilizes two separate operational budgets to capture appropriated expenditures: Landfill and Recycling (BuRRT).

Cash Balance within the Operating Fund

The Agency considers the cash balance within the operating fund to be “internally designated” so it is not committed to a particular use; however it can be made available to address emergencies or reallocated to reserves as necessary to provide fiscal stability.

Types of Reserve Funds

The Agency has two types of reserves: restricted and internally designated.

Restricted Reserve Fund

Restricted reserves are limited in terms of what the funds may be used to pay for and are associated with a specific purpose. Restrictions are required and enforced by third parties or legal requirements. For example, a bond reserve is a common reserve with restricted use per the applicable bond ordinance. Cash set aside in such a reserve can only be used to retire the bond.

Another example is the Agency’s restricted reserve that was established in 1999 as an allowable financial assurance mechanism for closure/post-closure care costs, phase I or phase II assessments, or corrective action at a solid waste facility (i.e., landfills, transfer stations), per 20.9.10.20 of the New Mexico Administrative Code (NMAC). Withdrawals of funds from the restricted reserve must have prior approval by the Secretary of the New Mexico Environment Department (NMED).

Internally Designated Reserve Fund

Internally designated reserves are often more flexible and allow a solid waste utility such as the Agency to apply funds to a wider range of purposes within predefined limits. Internally designated reserves are reserves that are set up by the solid waste utility and are not required by a third party or regulatory authority. The establishment of internally designated reserves may be defined by a solid waste utility’s reserve policy; however, the governing body of the solid waste utility can change or re-purpose its use of these funds, if necessary. Thus, the Joint Powers Board can establish a reserve fund policy that identifies a reserve as “internally designated,” such as the Equipment Replacement Reserve.³

Reserve Management

The Agency should evaluate the financial position of the operating and reserve funds on a continuous basis and at the midway point of each fiscal year (e.g., January) compute the projected end of year cash balances (i.e., June 30) for each of the funds. By forecasting cash balances, the Agency can evaluate the sufficiency of cash in each reserve and whether any adjustments need to be made to any of the reserves.

The Executive Director of the Agency will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this reserve fund policy.

NewGen notes that the reserves discussed in this memo are designed to serve a variety of purposes, and as a result, should be managed differently. For example, the Equipment Replacement Reserve will be

³ NewGen notes that it is important to clarify the difference between restricted reserves that are required by a third party, versus internally designated reserves that are established by the Joint Powers Board.

affected by the purchase of equipment as indicated in the Agency's replacement schedules. After such purchases, the Equipment Replacement Reserve will require additional funding to achieve the recommended balance. The Equipment Replacement Reserve will fluctuate as a result of the expenditures and forecasted needs of the Agency on a year to year basis.

Conversely, the funding level for the Closure/Post-Closure Care Reserve is accumulated over time to account for the closure of a section of the Landfill, the final closure of the entire Agency's facilities (Landfill and BuRRT) or the post-closure care of a closed Agency facility. The amount in this reserve will not fluctuate nearly as much as the Equipment Replacement Reserve. The funding level for the Closure/Post-Closure Care Reserve should be re-calculated annually by a professional engineer. It is important that the forecasted cost of this liability is fully funded within this reserve.

Similar to the Closure/Post-Closure Care Reserve, the Cell Development Reserve should accumulate funds over time to address future cell development needs, and the funding for this reserve should reflect those estimated costs.

It is important to note that the reserve levels described in this memo are minimum amounts that NewGen recommends for each type of reserve. It is equally important to understand that the required reserve levels – as well as the actual reserve balances – can, and will, fluctuate over time depending upon the purpose of the reserve. At any given point in time, the actual reserve level may be above or below the recommended target reserve level, depending on the outgoing expenditures and the accumulation of funds.

Description of the Operating Fund and Reserve Funds

The following sections describe the purpose of the operating fund and six reserve funds that NewGen recommends for the Agency as well as the recommended funding levels. It should be noted that five reserves have already been established by the Agency. The only reserve that NewGen has added is the Capital Improvements Reserve. NewGen emphasizes that the formal establishment and funding of these types of reserves is the norm, not the exception, within the solid waste industry. Listed below are the recommended reserves.

Internally Designated Reserve Funds

- Emergency Cash Reserve
- Equipment Replacement Reserve
- Landfill Gas Collection Reserve
- Cell Development Reserve
- Capital Improvements Reserve (new)

Restricted Reserve Fund

- Closure/Post-Closure Care Reserve

Operating Fund

Type: Internally Designated

Purpose: The Operating Fund is the principle operating fund of the Agency and its purpose is to record the daily financial activities, (i.e., revenues and expenditures). The cash balance within the operating fund is not designated to a particular use or purpose. The cash balance within the operating fund can be reallocated to reserves as necessary to provide fiscal stability, as long as sufficient funds remain within the operating fund to accommodate day-to-day operating cash needs.

Proposed Reserve Level: The cash balance within the operating fund should be maintained at 25% to 30% of the operating expenditures (based on the two Agency operational budgets) as of July 1st of each fiscal year. For illustrative purposes, total current operating expenses for FY 2016 are budgeted at \$6,535,162.⁴ Based on those expenditures, the Operating Fund should have approximately \$1.6 million to \$2.0 million at the end of the fiscal year, which is June 30, 2016, to be fully funded. Any amount above the 25%-30% of the operating expenditures could be transferred to the other reserve funds.⁵

The Executive Director of the Agency will identify the need for the transfer of any amounts from the cash balance within the operating fund to reserve funds and confirm that the transfer is consistent with the purpose of the reserves as described in this reserve fund policy.

Authorization: The Joint Powers Board approval shall be required for the transfer of any amounts within the operating fund to one or more of the reserve funds.

Emergency Cash Reserve Fund

Type: Internally Designated

Purpose: The purpose of the Emergency Cash Reserve is to maintain a reserve to ensure the continuation of services to the public during non-routine and unforeseen incidents such as a significant decrease in tonnage at the Landfill, an increase in costs associated with regulatory compliance, unexpected operating expenses linked to damage caused by natural disasters or other emergency conditions. Emergency conditions are conditions that create a threat to public health, welfare, safety, or property. The existence of the emergency condition creates an immediate and serious need for services, construction, or items of tangible personal property that cannot be met through normal procurement methods and the lack of which would seriously threaten the functioning of the Agency, the preservation or protection of the Agency, the Agency's property, or the health and safety of any person.

⁴ Per Agency staff. Number obtained from Agency financial model, Fund Summary Tab, cell S16.

⁵ There are some utilities and cities that fund this reserve at 50% to 100% of the O&M costs of the utility.

The Emergency Cash Reserve is not intended for operating budget shortfalls or to fund new programs or pay for personnel costs.

Proposed Reserve Level: The Emergency Cash Reserve should be maintained at no less than 10% of operating expenditures (based on the two Agency's operational budgets), as of July 1st of each fiscal year. For illustrative purposes, total current operating expenses for FY 2016 are budgeted at \$6,535,162.⁶ Based on those expenditures, the Emergency Cash Reserve should have approximately \$650,000 at the end of the fiscal year, which is June 30, 2016, to be fully funded.

Authorization: The Joint Powers Board approval shall be required for annual transfers from the cash balance within the operating fund to the Emergency Cash Reserve and prior to the expenditure of funds from the Emergency Cash Reserve.

The Executive Director of the Agency is authorized to approve emergency purchases not to exceed fifty thousand dollars (\$50,000), excluding applicable state and local gross receipts taxes and freight from the Emergency Cash Reserve. When it is practicable to do so, emergency purchases of more than fifty thousand dollars (\$50,000) from the Emergency Cash Reserve shall be approved by the Joint Powers Board in advance. When obtaining advance approval from the Joint Powers Board is not practicable, the Joint Powers Board shall be informed of the emergency purchase at its next scheduled meeting.

Equipment Replacement Reserve Fund

Type: Internally Designated

Purpose: The purpose of the Equipment Replacement Reserve is to fund the replacement of the Agency's equipment. This fund can be further separated by specifying replacement schedules for landfill equipment versus recycling equipment, if desired. Examples of such replacements include, but will not be limited to, the following:

- **Landfill:** compactors, dozers, scrapers, wheel loaders, water wagons, and vehicles.
- **Recycling/BuRRT:** roll-off trucks, transfer trucks/trailers, wheel loaders, vehicles, MRF equipment, balers, crushers, and grinders.

Proposed Reserve Level: Annual transfers from the cash balance within the operating fund will fund the Equipment Replacement Reserve. Funds should be accumulated in sufficient amounts to replace equipment as needed after maximizing maintenance and repair of current equipment. This reserve should be funded until it reaches a level of \$1,250,000 to accommodate the replacement of equipment as indicated in the

⁶ Per Agency staff. Number obtained from Agency financial model, Fund Summary Tab, cell S16.

Agency's equipment replacement schedules.⁷

Authorization: The Joint Powers Board approval shall be required for annual transfers from the cash balance within the operating fund to the Equipment Replacement Reserve and prior to the expenditure of funds from the Equipment Replacement Reserve.

Landfill Gas Collection Reserve Fund

Type: Internally Designated

Purpose: The purpose of the Landfill Gas Collection Reserve is to fund the expansion and maintenance of the landfill gas (LFG) collection system. Costs include the installation of new landfill gas wells in Cells 5B and 6B, annual operation and maintenance of the LFG collection system, engineering reporting and air quality permit renewals. Costs can also include the replacement of existing landfill gas wells.

Proposed Reserve Level: Annual transfers from the cash balance within the operating fund will fund the Landfill Gas Collection Reserve. Funds should be accumulated in the Landfill Gas Collection Reserve until they achieve a level of \$400,000.⁸

Authorization: The Joint Powers Board approval shall be required for annual transfers from the cash balance within the operating fund to the Landfill Gas Collection Reserve and prior to the expenditure of funds from the Landfill Gas Collection Reserve.

Cell Development Reserve Fund

Type: Internally Designated

Purpose: The purpose of the Cell Development Reserve is to fund the design, development, and construction of new landfill cells for the Agency's Landfill. This is oftentimes one of the largest reserves for a solid waste utility that operates a landfill (other than the Closure/Post-Closure Care Reserve), and is critical that it be fully funded so debt does not need to be issued to fund the construction of a new cell.

Proposed Reserve Level: Annual transfers from the cash balance within the operating fund will fund the Agency's Cell Development Reserve. Funds should be accumulated until they reach a reserve level of approximately \$2.2 million for Cell 6B by FY 2018.⁹

⁷ Six year average for Agency equipment replacement expenditures (FY 2016 – FY 2021) is \$950,000. NewGen recommends the reserve be established with an additional \$300,000 (total of \$1,250,000) to protect against unexpected capital expenses and/or unforeseen cost increases. Low year forecasted expenditures (FY 2018) = \$80,000; High year forecasted expenditures (FY 2019) = \$1.8 million.

⁸ Six year average for Agency landfill gas collection expenditures (FY 2016 – FY 2021) is approximately \$225,000. NewGen recommends funding the reserve at \$400,000 to have sufficient funds available in case a landfill gas collection well needs to be unexpectedly replaced or reconfigured. Low year forecasted expenditures (FY 2017) = \$110,210; High year forecasted expenditures (FY 2021) = \$465,000

Authorization: The Joint Powers Board approval shall be required for annual transfers from the cash balance within the operating fund to the Cell Development Reserve and prior to the expenditure of funds from the Cell Development Reserve.

Capital Improvements Reserve Fund

Type: Internally Designated

Purpose: The Capital Improvements Reserve is funded to support a variety of capital improvement projects, that are non-rolling stock or equipment related.

Funds should be accumulated to support capital projects as detailed by the Agency. Examples of anticipated capital improvements for the Agency include, but may not be limited to, the following:

- Roof replacement for the transfer station at BuRRT;
- Water line replacement and dust control (misting) system at BuRRT;
- Liner replacement for the wetland system at BuRRT; and
- Wildlife Way Road Improvements.

Proposed Reserve Level: Annual transfers from the cash balance within the operating fund will fund the Capital Improvements Reserve. Funds should be accumulated in sufficient amounts to address the planned and budgeted projects as deemed necessary by the Agency during their budgetary process. Funds should be accumulated until they reach a reserve level of approximately \$600,000.¹⁰

Authorization: The Joint Powers Board approval shall be required for annual transfers from the cash balance within the operating fund to the Capital Improvements Reserve and prior to the expenditure of funds from the Capital Improvements Reserve.

⁹ Numbers obtained from Agency financial model, cell development reserve tab. Accounts for engineering/designing for Cell 5B (FY 2016), Landfill/BuRRT permitting (FY 2016), and the design/construction of Cell 6B (FY 2018).

¹⁰ NewGen notes that this proposed reserve level does not account for the paving of Wildlife Way. It reflects a one-time transfer of \$104,818 from the Insurance Deductibles Reserve which will be dissolved after the transfer of funds.

Closure/Post-Closure Care Reserve Fund

Type: Restricted

Purpose: The Closure/Post-Closure Care Reserve is a critical reserve that the Joint Powers Board should ensure is fully funded. The Agency is required by state and federal law to monitor and maintain the Caja del Rio Landfill for 30 years after the Landfill is closed. This includes maintaining and monitoring the ground water monitoring wells and methane gas wells and conducting any additional work to ensure the structural integrity of the Landfill (e.g., slope stabilization, etc.). This fund is used to pay for those post-closure care costs, as well as to pay for the costs of closing various sections of the Landfill as cells are closed and new cells are opened. The closure/post-closure care liability is to be re-calculated annually by a professional engineer, and it is important that the forecasted cost of this liability is fully funded within this reserve.¹¹

Similarly, the Closure/Post-Closure Care Reserve is a reserve to meet the closure cost requirements for the BuRRT facility. The closure liability is to be re-calculated annually by a professional engineer, and it is important that the forecasted cost of this liability is also fully funded within this reserve.

Proposed Reserve Level: Annual transfers from the cash balance within the operating fund will fund the Closure/Post-Closure Care Reserve. The reserve should be maintained at a required amount determined annually. As of June 30, 2015 the total estimated liability for closure/post-closure care costs for the Agency Landfill is \$6,841,746 and \$155,692 for the closure of the BuRRT facility, for a total of \$6,997,438.¹² By 2021 the total estimated liability for the Landfill and BuRRT facilities will be approximately \$7,150,000.

Authorization: The Joint Powers Board approval shall be required for annual transfers from the cash balance within the operating fund to the Closure/Post-Closure Care Reserve.

The New Mexico Environment Department and Joint Powers Board approvals shall be required prior to the expenditure of funds from the Closure/Post-Closure Care Reserve.

¹¹ Mr. Yanke has worked with municipal clients that had insufficient funds to cover the post-closure care costs after they have closed their landfills, and have had to issue bonds that were paid for by the general fund (e.g., ad valorem taxes, sales tax, etc.).

¹² Number obtained from page 39 (Note 14. Closure and Post-Closure Care Costs) of the Agency's *Financial Statements and Required Supplementary Information with Accompanying Auditor's Reports (June 30, 2015)*. While the liability for the Agency's closure/post-closure activities is currently estimated at \$6.99 million, and the reserve is funded at approximately \$7.02 million, NewGen recommends the Agency keep these funds in the reserve, as this future liability is projected to increase.

Summary of Reserve Funds

A summary of the Agency's reserve funds, at their current funding level as well as the level that NewGen recommends the reserve funds be funded at, is provided in Table 1.

Table 1
Summary of SFSWMA Reserves

Description	Current Reserve Fund Level (estimate for end of FY 2016)	Reserve Fund Level after Transfer from Dissolved Reserves	Recommended Reserve Fund Target Level (end of FY 2016)
Active Reserves/Funds			
Cash Balance within the Operating Fund	\$6,535,162	\$6,535,162	\$3,788,358
Emergency Cash Reserve	\$487,811	\$487,811	\$650,000
Equipment Replacement Reserve	\$419,852	\$419,852	\$1,250,000
Landfill Gas Collection Reserve	\$178,810	\$178,810	\$400,000
Cell Development Reserve	\$1,152,946	\$1,161,905	\$2,200,000
Capital Improvements Reserve	\$0	\$104,818	\$600,000
Closure/Post-Closure Care Reserve	\$7,024,648	\$7,024,648	\$7,024,648
Subtotal	\$15,799,229	\$15,913,006	\$15,913,006
Reserves/Funds to be Dissolved			
Insurance Deductibles ¹	\$104,818	\$0	\$0
Construction-in-Progress ²	\$8,959	\$0	\$0
Landfill Permitting ³	\$0	\$0	\$0
Subtotal	\$113,777	\$0	\$0
Total	\$15,913,006	\$15,913,006	\$15,913,006

Notes:

1. Insurance Deductibles Reserve Fund balance to be transferred to Capital Improvements Reserve Fund and subsequently closed.
2. Construction-in-Progress Reserve Fund balance to be transferred to the Cell Development Reserve Fund and subsequently closed.
3. Landfill Permitting Reserve Fund balance, if any, (at conclusion of the current permitting process) to be transferred to the Cell Development Reserve Fund and subsequently closed.

Findings and Recommendations

Based on the analysis completed by NewGen during the course of our examination of the Agency's current reserves and capital improvement plan, as well as our familiarity with the Agency's operations, NewGen provides the following findings and recommendations.

- 1. Create a Capital Improvements Reserve Fund.** In reviewing the Agency's reserves, NewGen finds the number of reserves (five) to be adequate, but recommends the addition of one more reserve titled Capital Improvements Reserve Fund. This reserve while similar to the Equipment Replacement Reserve, would set aside funds that are specifically associated with non-rolling stock and equipment related assets. Examples include the repair of roadways, repairs, and improvements to existing buildings, etc.
- 2. Establish a Debt Service Reserve Fund if debt is issued in the future.** At present the Agency does not have any debt on its balance sheet, nor does it currently plan on issuing any debt. However, if at some time in the future the Agency issues debt other than from the New Mexico Finance Authority (NMFA) or New Mexico Environment Department (NMED), a reserve equal to at least one year's principal and interest should be established. The NMFA specifies these amounts in the loan agreement and maintains these separately in the name of the Agency in a separate bank controlled by NMFA. The NMED offers low interest rural infrastructure revolving loans.
- 3. Fund the reserve funds that are not fully funded at the recommended reserve level (see Table 1) with surplus funds from the cash balance within the operating fund.** As noted in Table 1 of this memo, total funds within the reserves are approximately \$15.9 million. NewGen recommends that the reserves be fully funded to the levels recommended in Table 1, and the remaining "surplus" funds of approximately \$1.78 million remain in the operating fund.¹³ NewGen notes that the recommended funding levels listed in Table 1 are minimum funding levels for each reserve. The reserve amounts can, and will, fluctuate in comparison to the recommended target level on a year to year basis. This fluctuation is due to the occurrence of large capital related expenditures which will cause some reserve balances to move "within a range" from month to month.
- 4. Dissolve unused reserves/funds.** NewGen recommends that the Agency dissolve the following three unused reserves, and complete a one-time transfer of these funds to the recommended reserves as indicated in Table 2 below:

¹³ Cash balance of the operating fund after reallocation of funds to other reserves is \$3,788,358. Recommended minimum balance for the operating fund, per this memo, equals \$2.0 million. Remaining "surplus" funds is \$1,788,358.

Table 2
Summary of Reserves to Dissolve

Reserve to Dissolve	Amount to Transfer¹	Reserve to Receive Transfer
Insurance Deductibles ²	\$104,818	Capital Improvements Reserve
Construction in Progress	\$8,959	Cell Development Reserve
Landfill Permitting	\$0	Cell Development Reserve (at conclusion of current permitting process)

Notes:

1. Amounts as listed in the Agency's *Financial Statements and Required Supplementary Information with Accompanying Auditor's Reports* (June 30, 2015).
2. First established in FY 1999. The insurance deductibles and assessment are now accounted for in the Landfill operating budget.

5. **Monitor on-going financial performance of the Landfill and BuRRT.** NewGen recommends that the Agency closely monitor the revenues generated by the Landfill and BuRRT, as well as the expenses incurred by these operations. It is important that the Executive Director of the Agency monitors all six reserves, as funds are withdrawn, especially from the Equipment Replacement Reserve, Landfill Gas Collection Reserve, Cell Development Reserve and the Capital Improvements Reserve. It is important that the tipping fees generated at the Caja del Rio Landfill and BuRRT are sufficient to replenish these reserves. If current revenues are insufficient, then the "excess" \$1.78 million that is in the cash balance within the operating fund will need to be used to replenish those reserves. It will then be essential for the Agency to determine how it will fund these reserves on a "going-forward" basis to ensure the financial stability of the Agency's operations.

It is equally important for each reserve to be managed appropriately, according to its intended use. For example, reserve funding levels may fluctuate on a year to year basis for several of the reserves discussed in this memo (e.g., Equipment Replacement Reserve). However, there are other reserves that should accumulate funds over time for a specific purpose and/or event, such as the Closure/Post-Closure Care Reserve and the Cell Development Reserve.

It is critical that the Agency and the Joint Powers Board understand that the reserve amounts recommended in this memo are minimums, and that the Reserve levels can, and will, fluctuate over time as operations dictate.