

## **Napa Vallejo Waste Management Authority**

### **Capital Replacement Reserve Policy**

#### Policy

Establish and maintain a capital replacement reserve for the purpose of ongoing rehabilitation and eventual replacement of Authority capital assets.

Minimum Capital Replacement Reserve – ~~\$500,000~~ \$1,000,000

Maximum Capital Replacement Reserve – ~~\$37,000,000~~

#### Use of Reserve

The capital replacement reserve is to be used for major repairs or replacement of Authority capital assets. Capitalization of repairs shall occur when the amount is over \$5,000 and the useful life of the original asset is extended for a period greater than one year. Repairs that do not satisfy these two requirements shall be budgeted and expensed in the year the repair occurs. Increasing appropriations to draw on these reserves requires board approval either during the annual budget process or through official board action at regularly scheduled meeting.

#### Establishing and Maintaining Reserve

- Each fiscal year, to the extent that surplus revenues are available, the capital replacement reserve will be increased by an amount up to the annual depreciation expense of current capital assets.
- At the end of each fiscal year, the Authority Executive Director shall analyze the financial position of the Authority and determine if there are additional surplus funds available. If, after fulfilling the operating reserve requirement, there are additional funds available, the Executive Director will recommend to the Board an action item to designate the specific amount as Capital Replacement Reserve. This provides the necessary authority to the Auditor to record such transaction on the Authority's financial statements.
- If the capital replacement reserve is below the minimum, the Authority Executive Director shall propose a budgeted surplus for the following year to fulfill the minimum requirements.
- If the capital replacement reserve achieves the maximum, the Authority Executive Director shall make recommendations to the Board for appropriate action. Examples include: increasing appropriations to purchase prior year deferrals of necessary capital projects or equipment; adjusting the capital replacement reserve maximum; issuing a short-term or one time discount to rate payers.

#### Policy Review

This policy shall be reviewed by the Authority Executive Director and Auditor annually with recommendations to the Authority Board to maintain the policy as is, or enhance the policy, at least once every five fiscal years.