



**Central Marin Sanitation Agency**

# **Financial Policies Manual**

*Adopted by the CMSA Board of Commissioners on October 10, 2023*





# Central Marin Sanitation Agency

## FINANCIAL POLICIES MANUAL

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<b>POLICY #:</b>	<b>501</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL POLICIES</b>
<b>SUBJECT:</b>	<b>Policy Framework</b>
<b>DATE:</b>	<b>10/10/2023</b>

**PURPOSE**

Financial policies are key components of sound fiscal management and direct proactive steps toward effectively managing and conducting financial operations. This policy’s framework provides guidance and direction for developing and maintaining financial policies.

The CMSA Financial Policy Manual guides the Board of Commissioners, General Manager, and Agency staff (i.e., all stakeholders) in shaping financial decisions and actions. These policies give directions for making informed choices regarding important aspects of high-quality public services, and on effectively handling and safeguarding financial and physical assets. They define, promote, control, and ensure participation by each stakeholder on their roles, responsibilities, and relationships with respect to financial matters and administration.

**POLICIES VS. PROCEDURES**

Financial policies provide concise and comprehensive direction from the Board with respect to the proper actions to take in managing and conducting the Agency’s financial affairs. Each policy is organized to provide succinct, explicit, and current direction to designated stakeholders. These policies are linked to and complement financial procedures. Some procedures are included in the policies, while others are separately detailed with specific directions and steps for implementing the policies. Generally, policies tend to be less specific than procedures. Policies should pass the test of time, while procedures, keeping with the intent of the policies, may change more frequently to adapt to changes in operational needs, regulations, and technology. Financial procedures are maintained by the Finance/Administration Department.

**POLICY FRAMEWORK**

Agency staff shall develop, and the Board shall approve, financial policies that promote accountability, stability, and continuity. The policy development process also encourages active participation by specific stakeholders who have a vested interest in the Agency’s financial planning, management, and operations.

Financial policies shall be actionable and shall set controls to be used for prudent financial decision-making, and shall standardize financial operations by defining roles and responsibilities. They shall define and outline appropriate financial management and behavior. In their intent, they shall promote and incorporate long-term perspectives and strategic thinking by framing overall operational policies, goals, and objectives.

Agency staff shall periodically bring the financial policies to the Board for review and consideration of making recommended changes.

All Agency employees may be subject to disciplinary actions under Personnel Policy *Progressive Discipline* for violation of any financial policies.

<b>POLICY #:</b>	<b>502</b>
<b>SECTION:</b>	<b>FINANCIAL – INTERNAL CONTROLS</b>
<b>SUBJECT:</b>	<b>Internal Controls and Fraud Prevention</b>
<b>DATE:</b>	<b>10/10/2023</b>

## **POLICY**

The Agency shall maintain a system of internal controls to safeguard assets, to properly manage assets, and to ensure reliable data.

## **PROCEDURES**

This policy provides direction on managing the Agency’s internal accounting methods and practices and to prevent fraudulent activities and misuse of Agency funds in accordance with California Government Code Section 6500, et seq.

### **I. Internal Controls**

Agency staff shall establish and maintain procedures, documents, and systems of internal control to safeguard financial assets, to manage financial assets in an accountable, secure, efficient, and effective manner, and prevent or detect errors thereby to ensure accurate financial data. The Administrative Services Manager shall be responsible for this function.

### **II. Internal Accounting Practices**

Agency staff shall perform internal accounting practices in accordance with *Generally Accepted Accounting Principles (GAAP)* for government agencies, including applicable *Financial Accounting Standards Board (FASB)* pronouncements, and all relevant *Governmental Accounting Standards Board (GASB)* pronouncements.

Agency staff shall ensure that:

- A. Each employee understands their role, responsibility, and accountability when conducting financial transactions for the Agency;
- B. All transactions are properly authorized;
- C. All accounting records and documentation are properly maintained;
- D. Access to both assets and records are effectively controlled; and
- E. General ledger accounts are periodically reviewed for their reasonableness, and updated annually for the validity and accuracy of the underlying items they represent.

If any of these practices are found to be improperly implemented or maintained, Agency staff shall take immediate remedial action to improve and/or change the practice.

### **III. Internal Review and Recommendations**

The Agency's executive team shall perform a periodic review of all financial policies, procedures, and practices. As appropriate, the General Manager shall make policy change recommendations to the Board of Commissioners for its review and approval, and/or direct Agency staff to make appropriate procedural changes.

### **IV. Public Fiduciary Liability**

The General Manager shall recommend, for Board review and approval, methods for reducing and mitigating risks, when they become known, associated with potential public fiduciary liabilities such as claims made against the Agency for any alleged wrongful fiduciary act and/or breach of fiduciary duties for which the Agency might be responsible. The General Manager shall consult with the California Sanitation Risk Management Authority and other respected resources to make recommendations regarding the procurement of public official bonds, fiduciary liability insurance, and establishing other mechanisms for reducing and mitigating such risks.

### **V. Audits**

Internal control and financial audits shall be performed annually by an independent firm of certified public accountants and coordinated by the Administrative Services Manager in accordance with *Generally Accepted Auditing Standards*, the Agency's Joint Powers Agreement, and applicable State laws. The Administrative Services Manager shall incorporate the financial audit results into the financial section of the Annual Comprehensive Finance Report (ACFR). Agency staff shall implement auditor recommendations for improved internal controls. The Board shall annually review and approve the audits and accept the ACFR.

In addition, based on the recommendation of the General Manager from an evaluative process, the Board shall periodically review and approve the selection of the independent auditor to perform the annual financial audit. The Agency shall not use the same auditing firm for more than six consecutive years.

### **VI. Segregation of Duties**

In implementing this policy and related procedures, Agency staff shall segregate financial transaction roles, responsibilities, and duties to the extent possible to safeguard assets against the risk of loss, mishandling, misuse, and fraud.

### **VII. Operating Fund Account**

The Board shall approve the selection of a federally insured banking institution that would be entrusted to securely handle and transact, at Agency staff direction, any funds deposited in the Agency's Operating Fund Account. The General Manager shall periodically recommend to the Board the selection through an evaluative process of a

new banking institution due to changes in current banking institution performance, banking market conditions, or for other benefits or advantages to the Agency. The evaluation shall include, but is not limited to, qualifications associated with banking services provided, fees charged, and financial and administrative benefits for the Agency. The Administrative Services Manager shall maintain a set of procedures to manage the daily and routine operations of the account and its cash balances.

#### **VIII. Authorized Check Signers**

Agency staff shall require that all checks disbursed from the Agency's operating account have two signatures and be for valid, documented, and approved expenses of the Agency. Authorized check signers shall review checks for reasonableness before signing. At no time or occasion shall blank checks be signed. The Board shall designate authorized check signers who may include the General Manager, Board members and alternates, and Agency staff. For internal control purposes, the Administrative Services Manager will not sign Agency checks. The General Manager shall seek Board authorization to update authorized check signers whenever a previously designated check signer is no longer affiliated with the Agency.

#### **IX. Wire Transfers and ACH Payments**

The Agency utilizes an operating account and several investment accounts to properly manage its funds. The General Manager, Administrative Services Manager, and Agency staff appointed by the General Manager shall be authorized to transfer funds between these accounts. Agency staff shall accept wire transfer payments to its operating account for services rendered after review and approval by the Administrative Services Manager. Wire transfers and ACH payments from the operating account require authentication and approval by the Administrative Services or General Manager before making such payments. The Administrative Service Manager initiates the wire transfers while the General Manager approves them.

#### **X. Vault Security**

Agency staff shall store vital Agency financial and administrative records, all cash, blank check stock, processed and voided checks, and spare door keys in the vault, which is a fire-resistant locked closet located in the front office area of the Administration building. The General Manager shall designate which Administration and Finance staff shall be given possession of the key to the vault.

#### **XI. Payments to Agency and Bank Deposits**

Agency staff shall deposit in the bank all payments to the Agency on a weekly basis based on appropriate financial procedures. Deposit of cash receipts shall be performed by designated staff and verified by the appropriate finance staff. Prior to the time in which the receipts are processed for bank deposit, Agency staff shall store checks and cash in the Agency vault.

## **XII. Petty Cash**

Agency staff shall securely maintain petty cash funds for small cash transaction purposes. Disbursements from petty cash shall be pursuant to the *Purchasing policy*, and associated procedures. At no time or occasion shall checks be cashed out of petty cash currency, or petty cash funds borrowed for any purpose. Agency staff shall keep petty cash in a locked box in the Agency vault and replenish it at least monthly.

## **XIII. RV Disposal Receipts**

Agency staff shall securely maintain funds to conduct payment transactions for Recreational Vehicle (RV) customers utilizing the Agency facilities to discharge wastewater. Payments for use of the RV disposal site are received in the Agency's Administrative Office by cash, check, or credit card and recorded into the financial software cashiering system. Payments by check become part of the daily deposit while payments by cash are stored in a cash box within the Agency vault, and are deposited in the bank once per month. At no time is the cash in the box to be used for any purpose.

<b>POLICY #:</b>	<b>503</b>
<b>SECTION:</b>	<b>FINANCIAL – INTERNAL CONTROLS</b>
<b>SUBJECT:</b>	<b>Ethics</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Agency shall follow ethical standards in its financial matters to avoid inappropriate practices that could occur in both fact and appearance.

**PROCEDURES**

The Board of Commissioners, General Manager, and Agency staff shall serve as stewards of the public’s resources, trust, and confidence, and thus shall be held to the high standards of ethical fiscal conduct in the public’s interest as opposed to personal interests.

**I. General**

The Board shall establish and maintain financial policies for standards of ethical responsibility. Commissioners and Agency staff should understand that improper financial and contractual activities could damage the reputation of, and confidence in, the Agency and its employees, and could result in serious adverse financial and legal consequences for the Agency.

Each Board member and Agency staff shall conduct their official business dealings in practice and appearance according to ethical fiscal standards, regulatory requirements, and the public trust. Agency staff shall develop and implement methods and controls for preventing, avoiding, and reducing potential ethical fiscal improprieties, conflicts, and fraudulent behavior, and to ensure procedures and structures are in place to properly implement this policy. The General Manager, as necessary, will periodically schedule appropriate ethics training for Commissioners and designated Agency staff as required by the California Government Code.

**II. Violation of this Policy and Related Financial Policies**

The General Manager or designee shall investigate any allegation and/or observation of improprieties that would violate this policy and or other financial policies. If a violation is determined to have occurred, the General Manager shall handle the matter under the Agency’s Personnel Policies, which may result in disciplinary action.

**III. Reporting Unethical and Fraudulent Behavior**

Agency staff shall report any observation in practice or appearance of a violation of the Agency’s financial policies and procedures, including this policy, to their supervisor or the General Manager, who will investigate the matter. A verbal or written report will be considered a personnel matter and will be handled with strict confidentiality under the

Agency's Personnel Policies. If the suspect employee is the General Manager, Agency staff have a responsibility to contact the Chairperson of the Board of Commissioners.

#### **IV. Whistleblower Provision**

Agency staff who report unethical or fraudulent behavior are protected by the provisions in the California Government Code Sections 8547-8547.12, Article 3, known as the "California Whistleblower Protection Act."

#### **V. Use of Public Funds**

Agency staff shall make expenditures of Agency funds only after the transaction has been properly reviewed, approved, and authorized as established by *Internal Controls, Expenditure Management, Financial Planning, Procurement Management, and Asset Management* policies, and related procedures. Agency staff shall only receive funds for authorized and approved Agency activities as established by *Internal Controls, Revenue Management, and Financial Planning* policies, and related procedures. Agency staff shall not spend or receive public funds for any "public purposes" they choose; all funds of the Agency shall be utilized solely for Board adopted purposes (California Government Code section 8314).

Agency staff shall be prohibited from the practice and appearance of potentially fraudulent activities that could involve, and are not limited to, the following activities: borrowing Agency funds, accounting or recordkeeping that results in borrowing schemes, contract or bid rigging, pilfering or petty theft, unapproved reimbursement of funds, unauthorized disposal or taking possession of surplus or unused Agency property and supplies, double accounting or making double payments, false claims, payroll and benefit fraud, and false programming or hacking of electronic and automated financial systems and transactions.

Each Board member shall comply with the Reimbursement Policy for Travel/Expenses for Commissioners.

#### **VI. Conflict of Interest**

Government Code section 87300 requires every state and local government agency to adopt a Conflict of Interest Code to prohibit and prevent financial conflicts of interest. In addition to this *Ethics* policy, the Board has also adopted a Personnel Policy that addresses conflicts of interest.

Commissioners and Agency staff shall not make, participate in making, or in any way attempt to use their official positions to influence an Agency decision in which they know or have reason to know that they have a financial interest (California Government Code section 87100, et seq.). In addition, Commissioners and Agency staff shall not be financially interested in contracts they approve on behalf of the Agency. Commissioners and Agency staff shall avoid contractual improprieties that could occur both in practice and appearance (California Government Code section 1090, et seq.).

Commissioners and Agency staff shall not engage in any employment or enterprise for compensation that is inconsistent, incompatible, or in conflict with their official duties and responsibilities associated with the Agency (California Government Code section 1126). Each Commissioner and designated Agency staff, as stated in the Agency’s Conflict of Interest Code, shall file *Form 700: Statement of Economic Interests* with the Marin County Office of Elections. The General Manager shall make the statements available for public inspection and reproduction (California Government Code section 81008).

**VII. Bribery and Extortion**

Federal and California law both prohibit bribery and extortion of or involving public officials and employees. Commissioners and Agency staff shall not ask, receive, or agree to receive a bribe, and shall not demand or extort money in return for the performance of their official duties. A bribe involves asking for, giving, receiving, and accepting anything of value for gaining present or prospective advantage, performance, and/or influence in any affairs of the Agency (California Penal Code sections 7(6) and 68).

**VIII. Extra Compensation**

Commissioners and Agency staff shall explicitly uphold the California Constitution, Article XI, section 10 that prohibits “*extra compensation*”:

*“...A local government body may not grant extra compensation or extra allowance to a public officer, public employee, or contractor after service has been rendered or a contract has been entered into and performed in whole or in part, or pay a claim under an agreement made without authority of law.”*

**IX. Gifts to Employees and Officials**

Commissioners and Agency staff shall explicitly follow the California Political Reform Act (Government Code sections 86203, 89503, and 89506) that set forth the rules and provisions that must be followed by public employees and officials related to the receipt of gifts. These state laws limit the value of gifts that may be accepted by the Board and Agency employees. These government codes cover a broad subject area regarding gifts including, but not limited to, the maximum amount of gifts that public employees and officials may receive (amounts are set by the California Fair Political Practices Commission), lobbyist limitations, special rules for gifts of travel, exceptions to the gift limitations, and other regulations regarding gifts. See website [www.fppc.ca.gov](http://www.fppc.ca.gov) for more information.

**X. Honoraria Ban**

Commissioners and Agency staff shall explicitly follow California Government Code 89502, which prohibits public officials from accepting honoraria. Honoraria is defined as any payment made in consideration for any speech given, article published, or

attendance at any public or private conference, convention, meeting, social event, meal, or like gathering.

**XI. Gifts of Public Funds**

Commissioners and Agency staff shall explicitly uphold California Constitution, Article XVI, section 6 that prohibits public agencies from making gifts of public funds:

*“... shall have no power... to make any gift or authorize the making of any gift of any public money or thing of value to any individual, municipal or other corporation whatever the purpose...”*

**XII. Receiving Private Donated Funds**

The Board shall receive donated funds and/or property of value from private individuals, corporations, and organizations on behalf of the Agency when such funds or property are directly related to the mission, public purpose, and operations of the Agency. The Board shall not receive such donations in exchange for compensation, services, and/or any item of value that would benefit the donator in fact, practice, or appearance, other than those derived from tax-exempt donations prescribed in federal and state tax laws. The General Manager shall review, approve, and accept items of de minimus value on behalf of the Agency. The Board shall review and consider accepting all other donations.

<b>POLICY #:</b>	<b>510</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL REPORTING</b>
<b>SUBJECT:</b>	<b>General</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Agency shall prepare Comprehensive and Popular Annual Financial Reports for submittal to the Government Finance Officers Association (GFOA), and prepare various other financial, payroll, and debt reports.

**PROCEDURES**

**I. Comprehensive and Popular Annual Financial Reports**

The Annual Comprehensive Financial Report (ACFR) shall be prepared in accordance with *Generally Accepted Accounting Principles (GAAP)* for government agencies and relevant Governmental Accounting Standards Board (GASB) statements. It shall be produced in three sections: introductory, financial, and statistical. The financial section shall include the Agency’s audited financial report that was prepared by an independent firm of certified public accountants in accordance with *Generally Accepted Auditing Standards (GAAS)* and is required by the California Government Code, Section 6505.

The Agency will also prepare a Popular Annual Financial Report (PAFR) as a companion to the ACFR. The ACFR and PAFR will be submitted to the GFOA for evaluation and consideration of the Certificate of Achievement for Excellence in Financial Reporting and the Award for Outstanding Achievement in Popular Annual Financial Reporting, respectively.

The Board of Commissioners shall review and accept the ACFR and PAFR by no earlier than the date of the auditor’s opinion letter to the Agency, and no later than December 31 of the fiscal year end for which the report is prepared.

**II. External Filings and Reporting**

Agency staff shall comply with the required external filings and reports as listed in the table below.

<b>Report Category/Report</b>	<b>Frequency</b>
<b>Financial Reporting:</b>	
ACFR with audited financial statements	Annual
PAFR	Annual
Forms W2 (Federal) / W3 (Federal) / DE 7 (State)	Annual
State Controller’s Government Compensation of California Report	Annual
State Controller’s Special Districts Financial Transactions Report	Annual

Report Category/Report	Frequency
<b>Payroll Reporting:</b>	
Federal and State Tax Withholding Deposits	Bi-weekly
Forms 941 (Federal) / DE 6 (State)	Quarterly
<b>Debt Reporting:</b> (Financial Policy #511: <i>Continuing Disclosure Procedures for Agency-Issued Debt</i> )	
Audited Financial Statements from CMSA and each JPA member agency required by the Municipal Rulemaking Securities Board (MSRB) to file electronically through the Electronic Municipal Market Access (EMMA)	Annual
Disclosures to bondholders and other interested parties required by the MSRB and filed through EMMA	Annual or Event Driven
<b>Other Reporting:</b>	
Diesel fuel taxes (State)	Annual
Forms 1099 (Federal) / 1096 (Federal)	Annual

### III. Board Member Compensation Report

At the beginning of each fiscal year, Agency staff will prepare a Board member compensation report and place it on the governing Board page of the Agency website. The report will show the amount of meeting stipends and travel expenses for each Board member for the prior fiscal year.

<b>POLICY#:</b>	<b>511</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL REPORTING</b>
<b>SUBJECT:</b>	<b>Continuing Disclosure Procedures for Agency Issued Debt</b>
<b>DATE:</b>	<b>10/10/2023</b>

## **POLICY**

The Agency shall comply with all debt-related continuing disclosure requirements by supplying certain financial information to credit rating agencies and other interested parties.

## **PROCEDURES**

Each debt issued by the Central Marin Sanitation Agency (Agency) will have its own specific set of Continuing Disclosure Undertakings. This policy ensures that the Agency satisfies all debt-related disclosure requirements and identifies the responsible Agency staff.

The continuing disclosure procedures of the Agency, presented below, are intended to (a) ensure that the Agency’s Continuing Disclosure Documents are accurate and comply with all applicable federal and state securities laws, and (b) promote best practices regarding the preparation of the Agency’s Continuing Disclosure Documents.

### **I. Definitions**

Continuing Disclosure Documents -- Any documents filed with the Municipal Securities Rulemaking Board (MSRB) pursuant to Continuing Disclosure Undertakings or otherwise, including: (a) annual continuing disclosure reports filed with the MSRB and (b) event notices and any other filings with the MSRB.

Continuing Disclosure Undertakings -- Any continuing disclosure agreements or certificates entered into by the Agency in order to assist an underwriter for the Agency’s bonds or other evidences of indebtedness in complying with Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

Official Statements -- Preliminary and final official statements, private placement memoranda and remarketing memoranda relating to the Agency’s securities, together with any supplements, for which a continuing disclosure obligation is required.

### **II. Disclosure Coordinator**

- A. The Administrative Services Manager shall serve as the Disclosure Coordinator for the Agency. The Administrative Services Manager, with the approval of the General Manager, may designate another member of the Agency staff to serve as the Disclosure Coordinator.
- B. The Disclosure Coordinator is responsible for:
  - 1) Preparing and filing the Continuing Disclosure Documents, to the extent such filings are not prepared and filed by the Disclosure Consultant. The

Disclosure Consultant may be the Agency's Bond Counsel, Financial Advisor, or Trustee.

- 2) Soliciting audited financial statements from CMSA's JPA member agencies and other "material" information (as defined in Securities and Exchange Rule 10b-5) from Agency departments.
- 3) Following up with others, including management of outside consultants assisting the Agency (if any), in the preparation and dissemination of Continuing Disclosure Documents to make sure that assigned tasks have been completed, made on a timely basis, and are accurate.
- 4) Ensures the timely filing of the Agency's Continuing Disclosure Undertakings with the MSRB by the Disclosure Coordinator, Consultant, or other party.
- 5) Serves as a point person for personnel to communicate issues or information that should be or may need to be included in any Continuing Disclosure Document.
- 6) Monitors compliance by the Agency with these Continuing Disclosure Procedures, including timely dissemination of the annual report and event filings as described in the Agency's Continuing Disclosure Undertakings.
- 7) Recommends changes to these Continuing Disclosure Procedures to the General Manager as necessary or appropriate.
- 8) Maintains records documenting the Agency's compliance with these Continuing Disclosure Procedures.
- 9) Reviews compliance with and providing appropriate certifications in connection with the various covenants in bond documents, such as maintenance of revenues and coverage tests. The Disclosure Coordinator shall review the bond documents to determine which covenants require an annual or regular certification and maintain a list.

### **III. Continuing Disclosure Filings**

#### **A. Overview of Continuing Disclosure Filings**

Under the Continuing Disclosure Undertakings, the Agency is required to file annual reports for the Agency and each JPA member agency with the MSRB's Electronic Municipal Market Access ("EMMA") system in accordance with such agreements in each year. Such annual reports are required to include certain updated financial and operating information, which varies among the different obligations issued by the Agency, and the Agency's audited financial statements.

The Agency is also required under the continuing disclosure undertakings to file notices of certain events with EMMA, such as adverse events.

**B. Annual Reports**

The Disclosure Coordinator shall ensure that the preparation of the Agency's annual report shall commence as required under each specific continuing disclosure obligation. Before the Agency's annual report is submitted to EMMA, the Disclosure Coordinator shall verify its content and accuracy. This is done through the annual audit process and preparation for the GFOA Certificate of Achievement Award. Prior to each filing, the Disclosure Coordinator will discuss any questions or concerns regarding the annual report with the General Manager and outside consultants.

**C. Event Filings**

If the Disclosure Coordinator, General Manager, or Administrative Services Manager becomes aware of any of the material events listed in any of the Continuing Disclosure Undertakings, such person shall notify the others and discuss the event to determine whether a filing is required or is otherwise desirable. The Disclosure Coordinator may contact outside consultants with any questions.

**D. Uncertainty**

The Disclosure Coordinator may, after consultation with the General Manager and Administrative Services Manager, direct questions regarding this policy or disclosure to the disclosure counsel, bond counsel, Agency counsel, or such other counsel or consultant they deem appropriate.

**IV. Document Retention**

The Disclosure Coordinator shall be responsible for retaining records demonstrating compliance with these Continuing Disclosure Procedures. They shall also retain an electronic or paper file (Disclosure File) for each continuing disclosure annual report that the Agency completes. Each Disclosure File shall include final versions of Continuing Disclosure Documents; written confirmations, certifications, letters, and legal opinions described herein; and copies of these Continuing Disclosure Procedures and a list of individuals to whom they have been distributed and the dates of such distributions. The Disclosure File shall be maintained by the Agency for a period of five (5) years from the later of the date of delivery of the securities referenced in the Continuing Disclosure Document, or the date the Continuing Disclosure Document is published, posted, or otherwise made publicly available, as applicable.

**V. Education**

The General Manager and the Administrative Services Manager shall ensure that the Disclosure Coordinator is properly trained to understand and perform their responsibilities. Such training may include sessions conducted by consultants with

expertise in municipal securities disclosure, attendance at conferences, or other appropriate methods identified by the General Manager or the Administrative Services Manager such as review of past practice.

**VI. Amendments**

Any provision of these Continuing Disclosure Procedures may be waived or amended at any time by written confirmation of the General Manager upon consultation with the Administrative Services Manager, as the changes meet the disclosure requirements set forth in the debt issue covenants.

<b>POLICY #:</b>	<b>520</b>
<b>SECTION:</b>	<b>FINANCIAL – REVENUE MANAGEMENT</b>
<b>SUBJECT:</b>	<b>General</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Board shall establish a multi-year revenue program to fund the Agency’s operating, debt service, and capital improvement program needs.

**PURPOSE**

To provide staff direction on the management of the Agency’s revenues with respect to its organizational budget, strategic plan, and Board direction.

**REVENUE SOURCES**

CMSA’s service charges are established by the Board of Commissioners based on the Agency’s total funding requirements. These requirements consider the Agency’s operational and capital expenses, other revenue sources, the use and level of reserve cash, debt service requirements, and long-term financial forecasts, among other considerations.

**I. Service Charges (Regional Charge)**

The majority of Agency revenues are from Regional Service Charges collected from its JPA member agencies and contract revenues for wastewater services provided to San Quentin State Prison. In accordance with the JPA, the Board can base these charges on the number of equivalent dwelling units (EDUs), measured flow volume, or measured flow volume and wastewater quality (strength).

EDUs are determined by each member agency for each residential, commercial, and industrial property in its service area. A residential EDU is an estimation of an average wastewater flow discharged from one single-family household.

Each member agency provides the total EDU count for its service area to CMSA.

Collection agency flows are continuously measured by flow meters and recorded by the CMSA data management system, and can be totalized for any period of time. Flow measurements from existing flow meters on influent forcemains are used to quantify each collection agency’s influent volumes. Flows are continuously measured for San Rafael Sanitation District, the Ross Valley interceptor, Sanitary District No. 2 of Marin County, and San Quentin State Prison, and are calculated for Ross Valley Sanitary District.

## **II. All Other Revenues**

Other Agency revenues consist of capacity charges, contract service revenues, investment interest income, environmental compliance permit and inspection fees, septic hauler disposal fees, organic waste hauler tipping fees, program expense reimbursements, federal and state grant funding awards, and miscellaneous charges for other services.

## **PROCEDURES**

### **I. Service Charges**

Service charges shall be billed to the member agencies at the beginning of each quarter, set at one-fourth of the annual budgeted amount. A service charge adjustment will be made with the fourth quarter invoice to reflect any changes between the service charge allocation amounts used to develop the budget and the actual amounts for each member agency, as described in each allocation procedure below.

The Board and its Finance Committee will review the Regional Charge allocations during the development of the Agency's budget. The budgeted service charge amount will be set to equal the net revenue needed to fund the Agency's annual operations and maintenance expenses, and a capital fee to fund the Capital Improvement Program. Budgeted service charge revenues do not include revenues for debt service and capacity charges.

#### **A. Service Charge Allocation using Equivalent Dwelling Units (EDU)**

Member agency service charge payments to CMSA may be based on each member's previous year's actual EDU count that is reported to CMSA. The Board shall set the exact EDU rate for the Agency's service charge during the budget development process for the upcoming fiscal year(s).

During the development of the budget, CMSA will use the prior year's reported actual EDU count to develop the revenue budget. By March 15, the Member Agencies report their actual count of EDUs to CMSA for that fiscal year. Member Agencies will provide supporting documentation to substantiate their reported counts. These documents must include:

- 1) Reports from the Marin County Auditor-Controller that summarize the number of EDU (sanitary units) that each district has placed on the property tax roll.
- 2) Listing of EDUs for governmental or other entities that each district bills directly for sewer services charges. Typically, these are entities that are not on the County's property tax rolls.

- 3) Any variances between the reported actual EDU and the sum of EDU count from items 1 and 2. These could be EDU adjustments that the district granted to its ratepayers after the EDUs were placed on the property tax rolls.

Staff will analyze the EDU count and supporting information received from each Member Agency and consult with each as appropriate. In the event complete EDU information is not available, staff will seek Board direction on how to calculate the fourth quarter invoices.

Once Agency staff has verified the reported actual EDU counts in the supporting documents, Finance staff will reconcile the EDU counts used in the budget with the actual reported EDU counts, and invoice each Member Agency accordingly.

**B. Service Charge Allocation using Flow Volumes**

The Board will establish the measurement period for using flow volumes to determine the service charge allocation. The minimum measurement period will be 12 months and longer periods will be in 12-month increments.

- 1) Allocation of Regional Charges by Flow Volume

Once the upcoming revenue budget has been developed, Finance staff prepares an allocation of the service charges based on the prior flow volumes in 12-month increments. Each Member Agency’s allocation for the upcoming fiscal year will be included in the draft and adopted Agency budgets.

Percentage allocations are based only on volumetric flow measurements as recorded by CMSA flow meter data. The allocations are determined using the equations below:

$$Volume_{Total} = Volume_{SRSD} + Volume_{SD1} + Volume_{SD2}$$

$$\% Allocation_{Agency} = \frac{Volume_{Agency}}{Volume_{Total}}$$

$$Regional\ Charge\ Allocation_{Agency} = \% Allocation_{Agency} \times CMSA\ Net\ Revenue_{Total}$$

- 2) Collection of Regional Charge

Once the Agency’s budget has been adopted, the Agency will invoice each Member Agency for its respective portion of the regional charge on a quarterly basis starting on July 1 of each fiscal year. Each quarterly invoice will represent one-fourth of the allocated annual regional charge.

Prior to the issuance of the fourth quarterly invoice, the Administration staff will recalculate the current fiscal year’s regional charge allocation

based on the flow volumes for the most current April 1 to March 31 measurement period. The adjustment between the budgeted and current regional charge allocation will be reflected on the invoice for the fourth quarter.

**C. Service Charge Allocation using Volume/Quality (Flow/Strength)**

1) Calculation of annual volume and quality of the wastewater generated from each satellite collection entity

Each April, Technical Services (TS) will provide Administration staff with the annual volume and quality of wastewater generated from each Member Agency for the previous April 1 to March 31 periods.

Quality is defined as the amount (lbs.) of Total Suspended Solids (TSS) and Biological Oxygen Demand (BOD) in a collection agency’s wastewater transported to CMSA. Quality samples will be periodically collected and analyzed in the CMSA laboratory.

2) Allocation of regional charges by flow volume and strength

The Agency’s service charge will be assigned to flow, BOD and TSS based on the allocations developed in 2013 Bartle Wells Updated Allocations for Regional Charge Report: Flow – 50.6%, BOD – 24.7%, and TSS – 24.7%

Using these percentage allocations and influent flow and quality data, unit costs (i.e., \$/1,000 gallons of flow, \$/lb of BOD and \$/lb of TSS) are then used to allocate the service charge to each Member Agency based on its respective flow, BOD, and TSS costs, using the following equations:

$$Net\ Revenue_{Total} = Revenue_{Flow} + Revenue_{BOD} + Revenue_{TSS}$$

$$Unit\ Cost_{Flow} = \frac{Revenue_{Flow}}{Total\ Gallons}$$

$$Unit\ Cost_{BOD} = \frac{Revenue_{BOD}}{Total\ Pounds\ BOD}$$

$$Unit\ Cost_{TSS} = \frac{Revenue_{TSS}}{Total\ Pounds\ TSS}$$

$$Regional\ Charge\ Allocation_{Agency} = Unit\ Cost_{Flow} \times Flow_{Agency} + Unit\ Cost_{BOD} \times BOD_{Agency} + Unit\ Cost_{TSS} \times TSS_{Agency}$$

3) Collection of regional charge

Once the Agency's budget has been adopted, the Agency will invoice each Member Agency for its respective portion of the regional charge on a quarterly basis starting on July 1 of each fiscal year. Each quarterly invoice will represent one-fourth of the allocated annual regional charge.

Prior to the issuance of the fourth quarterly invoice, Administration staff will recalculate the current fiscal year's regional charge allocation based on the flow volumes and quality for the most current April 1 to March 31 period. The adjustment between the budgeted and current regional charge allocation will be reflected on the invoice for the fourth quarter.

**II. Debt Service Charge**

Per the Payment Agreements for Treatment Services (debt service agreements) between CMSA and the Member Agencies, each Member Agency's proportional EDU share of the debt service shall be billed and collected semi-annually during each fiscal year. The payment shall be based on the EDU counts referenced in the Memorandum of Understanding, dated September 21, 2016, that uses the 10-year average fixed EDU counts per member for debt service cost allocation purposes. Each Member Agency's semi-annual payment share shall be calculated to include the actual debt service amount and bond coverage requirements.

**III. Capacity Charge**

A one-time capacity charge shall be collected by the appropriate Member Agency for an initial connection to the wastewater collection system or additional fixture units on existing connections in the CMSA service area. This charge shall be set by the Board by ordinance. Each member agency shall collect both the CMSA capacity charge and the member agency's connection fee. After collection, the member agency shall remit the capacity charge portion to CMSA within 45 days.

The number of connections that occur each fiscal year is unpredictable because connections vary due to new construction or other activities that would trigger a connection fee. Agency staff shall account for use of capacity charges to fund capital projects per California Government Code Section 66006.

**IV. Permit and Inspection Fees**

The Board shall set by ordinance specific fees that Agency staff will collect for services related to environmental, public health, and regulatory responsibilities under the Agency's jurisdiction--see the *Fee Ordinance*. When setting a fee, the timeframe in which the fee is valid shall be set and the fee will be calculated to recover the full cost of the services.

**V. Fees for Service**

Fees charged to outside agencies for Agency provided services under contract shall be based on mutually agreed-to terms, under which the Agency recovers the full cost of providing such services. The principles of cost accounting shall apply for recovery of direct materials, direct labor, and administrative overhead. Labor charges shall be recovered using the weighted labor rate that includes the cost of salaries and benefits. Contract revenues shall be billed pursuant to the terms in each specific agreement.

**VI. Accounts Receivable**

According to *Generally Accepted Accounting Principles (GAAP)*, Agency staff shall record a receivable for sewer service charges, capacity charges, permit and inspection fees, and other fees for service when the revenue is due to the Agency. Sewer service charges and debt services charges are billed at the beginning of the quarter when due.

Administration staff will conduct a monthly reconciliation of accounts receivable and identify outstanding payments due to CMSA. Accounts receivable shall be accrued to the proper accounting period based upon the date the services were performed.

<b>POLICY #:</b>	<b>521</b>
<b>SECTION:</b>	<b>FINANCIAL – REVENUE MANAGEMENT</b>
<b>SUBJECT:</b>	<b>Agency Service Contracts with Public Agencies</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

All Agency service contracts shall sufficiently recover the full cost of providing such service.

**PROCEDURES**

The General Manager will receive all written requests from public agencies for CMSA services and will ask the appropriate department manager to conduct a feasibility review for the provision of the requested services. The General Manager will then determine if the Agency has the resources, staff expertise, and capacity to provide the services being requested. The Agency will recover the full costs for all services provided, including staff compensation, benefits, and administrative overhead. If a mutually beneficial contract is feasible, a proposal will be brought to the Board of Commissioners for review, discussion, and consideration of authorization to negotiate an agreement with the public agencies requesting CMSA’s services.

The General Manager will present the negotiated agreement to the CMSA Board for consideration. Once approved by the Board, the agreement will be provided to each party for signing.



<b>POLICY #:</b>	<b>530</b>
<b>SECTION:</b>	<b>FINANCIAL – TREASURY</b>
<b>SUBJECT:</b>	<b>General</b>
<b>DATE:</b>	<b>06/10/2025</b>

**POLICY**

The Board shall appoint a Treasurer to oversee the management and reporting of financial assets in accordance with Agency policy and California law.

**PROCEDURES**

This policy provides direction for managing the Agency’s treasury and investments, and to ensure fiduciary responsibility and prudent review, planning, and approval of treasury transactions.

**I. Treasurer Appointment**

Based on the General Manager’s recommendation, the Board of Commissioners shall appoint a Treasurer to manage, secure, control, account, audit, report, and develop effective procedures for controlling and handling financial assets and investments to the benefit of the Agency in accordance with the CMSA Joint Exercise of Powers Agreement and California Government Code Section (CGC) 6505.5, et seq.

**II. Treasurers’ Report**

Agency staff shall prepare a monthly Treasurer’s Report that contains summary financial information in the following five areas:

- a) Cash and Investments: These schedules list all cash and investment account balances by book value and market value with interest rates where applicable.
- b) Operating and Capital Reserves: This schedule lists the month-to-month activity for all operating and capital reserves. The Board Committed reserve targets are to be shown for comparison following applicable Financial Policy.
- c) Cash Receipt and Disbursement Detail: This report contains information with respect to cash receipts and disbursements and month-end account balance for all of the Agency’s cash and investment accounts.
- d) Fiscal Year-to-Date Budget-to-Actual (Cash Basis): This schedule lists the consolidated cash flow activity on a fiscal year-to-date basis and comparison to the annual budget.
- e) Disbursement Register: The report lists and describes all cash disbursements during the reporting month for payments paid by check or electronic payment.

The Board shall review and approve the Treasurer's Report each month.

**III. Bank Reconciliation**

Agency staff shall perform a monthly reconciliation of the Agency's operating bank account, investment accounts, and bond fund accounts. The Agency staff person preparing the accounts payable shall not perform the bank reconciliation.

<b>POLICY #:</b>	<b>531</b>
<b>SECTION:</b>	<b>FINANCIAL – TREASURY</b>
<b>SUBJECT:</b>	<b>Investments</b>
<b>DATE:</b>	<b>03/10/2026</b>

**POLICY**

The Agency shall invest public funds in a prudent manner that achieves its three objectives of Safety, Liquidity, and Yield while meeting its daily cash flow requirements and complying with federal, state and local statutes. Every spring, the General Manager and Treasurer shall submit to the Board of Commissioners this *Investments* policy, where the Board shall review any changes in the policy and approve it at a public meeting.

**SCOPE**

This policy provides guidelines for prudent investment of the Agency’s cash. This policy covers all funds and investment activities under the direction of the Agency in accordance with California Government Code Sections 53600, et seq. This policy does not cover funds held in trust for the following activities:

**I. Debt Proceeds**

Proceeds from debt issuance shall be invested in accordance with the permitted provisions of the specific bond indenture agreements.

**II. Proceeds Held in Trust for Retirement Purposes**

Funds held and invested in either the Agency’s pension, OPEB, or employee deferred compensation funds shall be invested following the permitted investments pursuant to California Government Code Section 53609.

**PRUDENCE**

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with aims, to safeguard the principal and maintain the liquidity needs of the agency.

## **OBJECTIVES**

The Agency shall design and manage investments with a high degree of professionalism worthy of the public trust. The primary objectives, in order of priority of the Agency's investment activities, shall be:

### **I. Safety**

Safety of principal is the foremost objective. All investments of the Agency shall be made in a manner that seeks to ensure preservation of capital.

### **II. Liquidity**

The investment portfolio shall remain sufficiently liquid to enable the Agency to meet any cash flow requirements which might be reasonably anticipated.

### **III. Yield**

Investment return becomes a consideration only after the basic measurements of safety and liquidity have been met.

## **DELEGATION OF AUTHORITY**

The Board of Commissioners shall delegate authority to invest the Agency's funds for a one-year period to the Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the Board may renew the delegation of authority each year. No person may engage in an investment transaction except as provided under the limits of this policy.

The Treasurer may delegate day-to-day investment decision-making and execution authority to an Investment Advisor. The Advisor shall follow this policy and such other written instructions as are provided.

The Treasurer and the delegated staff acting in accordance with this policy and associated procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## **ETHICS AND CONFLICTS OF INTEREST**

All participants in the investment process shall seek to act responsibly as custodians of the public trust according to this policy and the *Ethics* policy. Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment recommendations and decisions.

## **INTERNAL CONTROLS**

The Treasurer shall establish a system of internal controls to ensure that the assets of the Agency are safeguarded from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that the policy objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the Agency, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

## **AUTHORIZED INSTITUTIONS, DEPOSITORIES AND SECURITIES BROKERS/DEALERS**

To the extent practicable, the Treasurer, in consultation with the General Manager, shall endeavor to complete investment transactions using a competitive bid process whenever possible. The Treasurer, in consultation with the General Manager, will determine which financial institutions are authorized to provide investment services to the Agency. It shall be the Agency's policy to purchase securities only from authorized institutions and firms.

The Treasurer, in consultation with the General Manager, shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions, which are approved for investment purposes that are selected through a process of due diligence as determined by the Agency. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the Agency are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the Agency include:

- I. Institutions licensed by the state as a broker-dealer as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.
- II. Institutions that are members of a federally regulated securities exchange.

- III. Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- IV. Nationally or state-chartered banks.
- V. Savings or federal association (as defined in Section 5102 of the Financial Code).
- VI. The Federal Reserve Bank.
- VII. Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the discretion of the Agency, except where the Agency utilizes an external investment advisor in which case the Agency may rely on the advisor for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment advisor) must supply the Agency with audited financial statements and a certification that the institution has reviewed the California Government Code, Section 53600 *et seq.* and the Agency's investment policy. The Treasurer, in consultation with the General Manager, will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation (FDIC), or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

For investments made by an investment advisor, the Board authorizes the investment advisor to use broker/dealers and financial institutions that the investment advisor has reviewed and approved for investment purposes. The investment advisor's approved list shall be made available to the Agency upon request.

### **AUTHORIZED AND SUITABLE INVESTMENTS**

The Agency shall be governed by California Government Code Sections 53600, *et seq.* Within the investments permitted by the Government Code, the Agency seeks to further restrict eligible investments to those listed below. In the event an apparent discrepancy is found between this policy and the Government Code, the more restrictive parameters shall take precedence.

The Agency's portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.

**I. United States Treasury Issues**

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.

**II. Federal Agency Obligations**

Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, not more than 30 percent of the portfolio shall be placed in any one Agency. Furthermore, purchases of callable Federal Agency obligations are limited to a maximum of 20 percent of the portfolio. In addition, purchases of Federal Agency mortgage-backed securities issued by or fully guaranteed as to principal and interest by government agencies are limited to a maximum of 20 percent of the portfolio.

**III. Medium-Term Notes**

Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States. Eligible investment shall be rated AA/Aa by one or more nationally recognized statistical-rating service. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in medium-term notes with any one issuer in combination with any other investments from that financial institution or issuer shall not exceed 10 percent of the portfolio.

**IV. Municipal Securities**

Bonds, notes, warrants, or other evidences of indebtedness issued by the State of California or any California local agency. Securities eligible for purchase shall be rated AA/Aa, as rated by one or more nationally recognized statistical-rating organization. A maximum of 30 percent of the Agency's portfolio may be invested in this category.

**V. Negotiable Certificates of Deposit**

Negotiable certificates of deposit (NCD) issued by a nationally- or state-chartered bank, a savings association or a federal association, a state or federal credit union, or a state-licensed branch of a foreign bank. No investments shall be made in a bank or credit union if a member of the Board, or any person with investment decision-making authority also serves on the board of directors, or any committee appointed by the board of directors of the bank or credit union issuing the NCD. Purchases are limited to institutions which have long-term debt rated AA/Aa or higher with a nationally

recognized statistical-rating service; and/or have short-term debt rated at least A-1/P-1 with a nationally recognized statistical-rating service. NCD may not exceed two years in maturity. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCD with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

## **VI. Banker's Acceptances**

Banker's Acceptances, otherwise known as bills of exchange or time drafts, are those which are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Banker's Acceptances cannot exceed a maturity of 180 days. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in Banker's Acceptances with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

## **VII. Commercial Paper**

Commercial paper of prime quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

- A. The entity meets the following criteria:
  - 1) Is organized and operating in the United States as a general corporation.
  - 2) Has total assets in excess of five hundred million dollars (\$500,000,000).
  - 3) Has debt other than commercial paper, if any, that is rated AA/Aa or higher by a nationally recognized statistical-rating organization.
  
- B. The entity meets the following criteria:
  - 1) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
  - 2) Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
  - 3) Has commercial paper that is rated A-1/P-1 or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in commercial paper with any one issuer in combination with any other investments from that financial institution or issuer shall not exceed 10 percent of the portfolio.

## **VIII. Repurchase Agreements**

- A. Repurchase agreements are to be used solely as short-term investments not to exceed 30 days. The Agency may enter into repurchase agreements with primary government securities dealers rated AA/Aa or better by two nationally recognized statistical-rating services. Counterparties should also have:
- 1) A short-term credit rating of at least A-1/P-1;
  - 2) Minimum assets and capital size of \$25 billion in assets and \$350 million in capital;
  - 3) Five years of acceptable audited financial results; and
  - 4) A strong reputation among market participants.
- B. The following collateral restrictions shall be observed:
- 1) Only U.S. Treasury securities or Federal Agency securities are acceptable collateral. All securities underlying repurchase agreements shall be delivered to the Agency's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement.
  - 2) The total market value of all collateral for each repurchase agreement shall equal or exceed 102 percent of the total dollar value of the money invested by the Agency for the term of the investment.
  - 3) For any repurchase agreement with a term of more than one day, the value of the underlying securities shall be reviewed on an on-going basis according to market conditions. Market value shall be calculated each time there is a substitution of collateral.
  - 4) The Agency or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The Agency shall have properly executed a Public Securities Association agreement with each counterparty with which it enters into repurchase agreements. A maximum of 25 percent of the portfolio may be invested in this category.

## **IX. Time Certificates of Deposit**

Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder's equity of the financial institution. To be eligible for purchase, the financial institution shall have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630, et seq.

The Agency, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The Agency shall have a signed agreement

with the depository per Government Code Section 53649. TCDs may not exceed one year in maturity. A maximum of 20 percent of the portfolio may be invested in this category.

**X. Passbook Savings Accounts**

Passbook savings accounts placed with commercial banks and savings and loans. To be eligible to receive deposits, the financial institution shall have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. Passbook savings accounts are required to be collateralized as specified under Government Code Section 53630 et. seq.

The Agency, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The Agency shall have a signed agreement with the depository per Government Code Section 53649. A maximum of 20 percent of the portfolio may be invested in this category.

**XI. Money Market Funds**

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

A. The company shall have met either of the following criteria:

- 1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.
- 2) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

A maximum of 10 percent of the portfolio may be invested in this category.

**XII. California Asset Management Program (CAMP)**

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive of Government Code Section 53601. There is no limitation as to the percentage of the portfolio that may be invested in this category.

**XIII. State of California Local Agency Investment Fund (LAIF)**

There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF.

**XIV. Authorized Investments**

The Treasurer and/or the authorized Investment Advisor shall have the authority to invest the Agency’s financial resources as shown in the table below.

Investment Type	Authorized for Investment Advisor	Authorized for Agency Treasurer	Authorized Investment Allocation
United States Treasury Issues	X	X	100%
Federal Agency Obligations	X	X	30% <sup>(1)</sup>
Medium-Term Notes	X		30% <sup>(3)</sup>
Municipal Securities	X	X	30%
Negotiable Certificates of Deposit <sup>(2)</sup>	X	X	30% <sup>(3)</sup>
Banker’s Acceptances	X		25% <sup>(3)</sup>
Commercial Paper	X		25% <sup>(3)</sup>
Repurchase Agreements	X		25%
Time Certificates of Deposit <sup>(2)</sup>	X	X	20%
Passbook Savings Accounts <sup>(2)</sup>	X	X	20%
Money Market Funds	X	X	10%
CAMP	X	X	100%
LAIF	X	X	100%

- (1) The maximum is 20% if the portfolio is comprised of callable Federal Agency Obligations or mortgage-backed securities guaranteed by principal and interest payments.
- (2) The maximum allowable limit is up to the FDIC limit of \$250,000.
- (3) The maximum allowable limit is reduced if all invested into one single issuer. Please refer to the specific section for the allocation percentage.

## **PROHIBITED INVESTMENTS**

Any investment in a security not specifically listed above, but otherwise permitted by the California Government Code, is prohibited. Section 53601.6 of the Government Code specifically disallows investments in invoice floaters, range notes, or interest-only strips that are derived from a pool of mortgages. In addition to the limitations in Government Code Section 53601.6, this policy further restricts investments as follows:

- I. No investment shall be made that has either (a) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (b) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.
- II. No investment shall be made that could cause the portfolio to be leveraged.
- III. Any security that could result in zero interest accrual if held to maturity shall not be made, except for securities backed by the U.S. government.

## **REVIEW OF INVESTMENT PORTFOLIO**

The securities held by the Agency must be in compliance with the “Authorized and Suitable Investments” section at the time of purchase. Because some securities may not comply with this section subsequent to the date of purchase, the Agency should at least annually review the portfolio to identify those securities that do not comply. The Agency should establish procedures to report to the Board, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

## **INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS**

The Agency must conduct a thorough investigation of any pool or mutual fund before making an investment, and on a continual basis thereafter. The Treasurer, in consultation with the General Manager, shall develop a questionnaire which will answer the following questions:

- I. A description of eligible investment securities, and a written statement of investment policy and objectives.
- II. A description of interest calculations and how it is distributed, and how gains and losses are treated.
- IV. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- V. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- VI. A schedule for receiving statements and portfolio listings.
- VII. Are reserves, retained earnings, etc. utilized by the pool/fund?

- VIII. A fee schedule, and when and how is it assessed.
- IX. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

## **COLLATERALIZATION**

### **I. Certificates of Deposit (CD)**

The Agency shall require any commercial bank or savings and loan association to deposit eligible securities with any agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53630, et seq., pledged against a Certificate of Deposit shall be equal to 110% of the face value of the CD for all other classes of security.

### **II. Collateralization of Bank Deposits**

This is the process by which a bank or financial institution pledges securities, other deposits for the purpose of securing repayment of deposited funds. The Agency shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53630, et seq.

### **III. Repurchase Agreements**

The Agency requires that Repurchase Agreements be collateralized with only securities authorized in accordance with California Government Code:

- A. The securities with collateralize the repurchase agreement shall be priced at market value, including any accrued interest plus a margin. The market value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- B. Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- C. The Agency shall receive monthly statements of collateral.

## **SAFEKEEPING AND CUSTODY**

All security transactions entered into by or on behalf of the Agency shall be conducted on a delivery vs. payment basis. All securities shall be held in the Agency's name by a third-party custodian designated by the Treasurer. The custodian shall act as the Agency's agent under the terms of a custody agreement, of which includes generation of safekeeping receipts or acknowledgments for each security trade and monthly account statements sent to the Agency.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with:

- I. Local government investment pools;
- II. Time certificates of deposit, and,
- III. Money market mutual funds since the purchased securities are not deliverable.

Evidence of each of these investments shall be held by the Treasurer.

### **TERM OF INVESTMENTS**

It is the objective of the Agency to accurately monitor and forecast revenues and expenditures so that the Agency can invest funds to the fullest extent possible. Funds of the Agency shall be invested in accordance with sound treasury management principles.

Where this policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

### **DIVERSIFICATION AND RISK MANAGEMENT**

#### **I. Mitigating Credit Risk in the Portfolio**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to real or perceived change in the ability of the issuer to repay its debt. The Agency will mitigate credit risk by adopting the following strategies:

- A. The diversification requirements included in the “Types of Agency Investments” section of this policy are designated to mitigate credit risk in the portfolio.
- B. No more than the maximum allowed percent allocation for each security type may be deposited with or invested in issued securities. Any allowable security classification is exempt from this strategy if otherwise specified.
- C. The Agency may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity, or yield of the portfolio in response to market conditions of the Agency’s risk preferences.
- D. The investment advisor shall monitor the ratings of all investments in their portfolio on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing

investment's rating drops below the minimum allowed for new investments made pursuant to this investment policy, the investment advisor shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.

- E. If a security owned by the Agency is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps are to be performed:
  - 1) Any actions taken related to the downgrade by the investment advisor will be communicated to the Treasurer, in consultation with the General Manager, in a timely manner.
  - 2) If a decision is made to retain the security, the credit situation will be monitored and reported to the Agency's Board of Commissioners.

## **II. Mitigating Market Risk in the Portfolio**

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Agency recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Agency will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The Agency further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Agency, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- A. The Agency will maintain a target of at least the amount of its operating reserve plus its emergency reserve in short-term investments to provide sufficient liquidity for expected disbursements.
- B. The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- C. The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a market benchmark, and index selected by the Agency based on the Agency's investment objectives, constraints and risk tolerances.

## **PERFORMANCE**

The Agency seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety objectives and cash flow consideration. The Treasurer shall continually monitor and evaluate the portfolio's performance.

## **REPORTING**

The Treasurer shall submit a monthly Treasurer's report to the Board that lists the Agency's individual investments, if any, and pooled investments in short-term investment pools. The report shall include the following information for each individual investment: description of investment instrument, issuer name, maturity date, credit rating, yield to maturity, purchase price, par value, current market value, and the source of the valuation. Investments in pools managed by other governments or mutual funds shall include the following information for each pool: pool name, valuation date, yield at valuation date, cost basis if materially different from market value, and market value of the Agency's share of the pool at date of valuation of pool using the pool's valuation method.

The report also shall:

- I. State compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance,
- II. Include a description of any of the Agency's funds, investments or programs that are under the management of contracted parties, including lending programs, and
- III. Include a statement denoting the ability of the Agency to meet its expenditure requirements for the next six months or provide an explanation as to why sufficient money may not be available.
- IV. The report shall include a list of monthly investment transactions. The requirement for disclosure of monthly investment transactions does not apply to investment pools. This monthly report shall be submitted with the Board's monthly meeting agenda for public review.

## **GLOSSARY**

**Agencies:** Federal agency securities and/or Government Sponsored Enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

**Asset Backed Securities:** Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

**Banker's Acceptance (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Benchmark:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Broker:** A broker brings buyers and sellers together for a commission.

**Callable:** A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue at a lower interest rate.

**Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large denominated CD's are typically negotiable.

**Collateral:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper:** Short-term and unsecured debt issued by very large corporations.

**Coupon:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.

**Debenture:** A bond secured only by the general credit of the issuer.

**Delivery versus Payment:** There are two methods of delivery securities: (1) delivery versus payment and (2) delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt of securities with an exchange of a signed receipt for the securities.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns.

**Duration:** A measure of sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per entity.

**Financial Industry Regulatory Authority (FINRA):** A non-profit and self-regulatory organization authorized by the U.S. government to protect investors and ensure the integrity of the U.S. securities markets by overseeing broker-dealers, registering brokers, and enforcing industry rules.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked prices is narrow and reasonable size can be done at those quotes.

**Market Value:** The price at which a security is trading and could presumably be purchased or sold.

**Master Purchase Agreement:** A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

**Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.

**Medium Term Notes:** Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

**Money Market:** The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

**Portfolio:** Collection of securities held by an investor.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**Prudent Person Rule:** A standard of responsibility which applies to fiduciaries. In California, the rule is “Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes.”

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be amortized yield to maturity on a bond or the current income return.

**Repurchase Agreement (Repo):** A holder of securities sells these securities to an investor with

an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate them for this.

**Reverse Repurchase Agreement (Reverse Repo):** A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a form of borrowing.

**Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

**Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission (SEC):** An agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC Rule 15c3-1:** An SEC rule setting capital requirements for brokers and dealers. Under the Rule, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer’s total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with the current client.

**Treasurer:** Per Agency *Financial Policy #530 – Treasury General*, the Board of Commissioners appoints and delegates a Treasurer to manage the Agency’s cash and investments following applicable internal policies and laws. The Board appoints the Administrative Services Manager to serve this position and perform the duties therein.

**Treasury Bills:** A noninterest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**Treasury Notes:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

**Treasury Bonds:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

**Yield:** The rate of annual income return on an investment, expressed as a percentage. (a) Income yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.



<b>POLICY #:</b>	<b>532</b>
<b>SECTION:</b>	<b>FINANCIAL – TREASURY</b>
<b>SUBJECT:</b>	<b>Reserves</b>
<b>DATE:</b>	<b>7/22/2025</b>

**POLICY**

To maintain liquidity, stabilize regional sewer service charges, and provide for contingencies and emergencies, the Agency shall maintain reserves in accordance with the procedures below. The Agency shall report reserve balances by designation in its monthly Treasurer’s report to the Board.

**PROCEDURES**

Establishment of reserves ensure that the Agency has sufficient funding available to meet its operating and capital obligations, and provide better alignment of the Agency’s resources identified in long-term financial plans to the funding requirements for the 10-Year Capital Improvement Program (CIP). Adequate reserves promote the Agency’s bond ratings in the capital markets; provide financing flexibility; avoid potential restrictive debt covenants; mitigate current and future risk; and ensure the JPA member agencies have stable regional service charges.

**I. General**

The Agency’s reserves shall be managed either as short-term or long-term investments in accordance with the Agency’s *Investment* policy.

**II. Reserve Fund Designations**

Reserve designations better delineate the Agency’s available cash and investment resources, as reported in the Agency’s Budget and Treasure’s Report. The integration of reserve designations makes the budget a more comprehensive document because it accounts for the accumulation and usage of all available resources instead of just the anticipated revenues and expenditures for a given fiscal year. This expanded budget view can be used to explain future sewer service charges or capital borrowing to all interested stakeholders. The establishment of reserve designations also enhances long-term planning and management of the Agency’s financial resources.

**III. Development, Management, Oversight, and Reporting of Reserves**

The development, management, and oversight of Agency reserves is intended to be aligned with the development, management, and oversight of the Agency budget. During the budget development process, the Treasurer prepares an initial projection of the Agency expenditures and revenues for the upcoming year. The General Manager and Treasurer will propose allocations to and from the reserves based on this reserve policy, Agency priorities, and/or direction from the Board. The accumulation and uses of

the reserves are a component of the budget and are subject to Board review and approval.

Consistent with the established *Budget* policy, the General Manager, with approval from the Board Chair, is authorized to expend up to \$500,000 directly from the emergency reserve account in the event of an unforeseen situation that would directly and critically affect the Agency's operations. The General Manager shall report to the Board the circumstances requiring the expenditures at its next meeting. Otherwise, Board approval is required prior to any transfer or expenditures of reserve funds that were not previously budgeted.

Board authorization is required to establish any new reserve designations.

#### **IV. Reserve Types**

Three major categories of reserve funds have been established to best capture the operating and capital activities: Restricted Reserves, Committed Reserves and Unassigned Reserves.

##### **A. Restricted Reserves**

These reserves represent assets that are legally or contractually obligated for a specific purpose. The Board does not have the authority to modify or remove these restrictions from legally obligated reserves.

##### **B. Committed Reserves**

These reserves represent assets to maintain internal liquidity purposes as designated by Board policy. Funds can be transferred from these accounts to cover for expenditures in the unassigned category; however, it is the priority of the Agency to maintain its Board policy targets for each classification.

##### **C. Unassigned Reserves**

These reserves represent the primary funding accounts used to cover the Agency's operating and capital activity spending plans. Each spending plan is given an independent unassigned reserve balance to track its specific sources and uses.

Deductions from any reserve type shall follow documented Agency administrative and procurement policies and procedures. Any addition of new or removal of existing reserve types will require an update to this policy and Board approval.

#### **V. Designations for Reserves**

The Agency has established the following designations for the restricted, committed and unassigned reserves.

##### **A. Designations for Restricted Reserves**

- 1) Debt Trusts: This reserve tracks funds related to newly issued project fund debt proceeds and monies transferred to it for payment of debt service.

Any interest earned on project proceeds can be transferred to the unassigned capital reserve for funding use; otherwise, it is to remain in the account for payment of debt service. The pension obligation bond debt trust relates to an operating activity reserve, and the capital debt trust relates to a capital activity reserve.

- 2) Section 115 Pension Trust: This operating reserve tracks the Agency's pre-funded pension plan savings to use for future pension obligation payments. Funding into the account follows the *Pension Funding* policy.
- 3) Capital Reserve: This capital activity reserve tracks specific funding sources that relate to capital improvement program funding needs. The two sources are capacity charges and debt service coverage fees.
  - i. Capacity Charges: The CA Government Code requires separate accounting of capacity charges and the application of interest to outstanding balances. The Agency shall use capacity charges on a first-in-first-out basis to finance current year CIP. In the event that the amount collected in any given year exceeds CIP expenses, the Agency would have to hold the excess funds for future use. Should this situation occur, the excess funds will be kept in this reserve. Staff would then recommend these funds as a proposed funding source for the following fiscal year's CIP.
  - ii. Debt Service Coverage Fees: This is a contractually obligated requirement from revenue bond rate covenants and represents 25% of the debt service payment that is collected from the JPA members. The expenditure of these funds is solely for CIP.

Funds are added to this reserve after each debt service contribution from the JPA member agencies. Funds received in the fiscal period collected cannot be expended in that same fiscal year. Funds remain in this reserve until budgeted, and funds are exclusively used to fund approved projects from the CIP.

#### B. Designations for Committed Reserves

The Agency maintains specific funding targets to track specific sources of funds, or meet internal liquidity needs. Reserves that meet these needs are the following:

- 1) Operating Reserve: This operating activity reserve represents three months funding for general Agency operations. Funding will be adjusted annually to maintain three months operational funding.
- 2) Emergency Reserve: This operating activity reserve serves as a contingency for unforeseen or unanticipated emergencies and other to-be-determined items. The funding level is \$500,000.

C. Designations for Unassigned Reserves

These reserves shall track all sources and uses unless otherwise specified in the other reserve categories. The Agency shall expend available resources from these accounts to cover its operating and capital funding plans and/or transfer funds to another reserve to meet specific policy or legal requirements.

- 1) Unassigned Operating Reserve: This reserve represents the accumulated excess funds available from the operating funding plan. Monies in this account shall be used for paying all operating activity expenditures, transfer between the operating activity restricted reserves for debt service or pension prefunding, or transfer excess funds to the unassigned capital reserve for CIP.
- 2) Unassigned Capital Reserve: This reserve represents the accumulated excess funds available from the capital funding plan. Monies in this account shall be used for paying all capital activity expenditures or transfer between the capital activity restricted reserves for debt service and collected bond proceeds. The Agency shall target a funding level for this account ~~is~~ at the annual average of the 10-year CIP in accordance with the *Multi-Year Revenue Plan* policy.

<b>POLICY #:</b>	<b>540</b>
<b>SECTION:</b>	<b>FINANCIAL – EXPENDITURE MANAGEMENT</b>
<b>SUBJECT:</b>	<b>General</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

Provide for authorized transactions only in accordance with expense categories in the Agency budget.

**PROCEDURES**

The budget adopted by the CMSA Board serves as the financial plan governing Agency expenditures. Operating expenditures are managed and categorized by department, and by major or special funding sources as applicable as shown in the Budget.

**I. Employee Compensation and Benefits**

Agency staff shall follow applicable federal and state laws and regulations for administering the Agency’s employee compensation and benefits. The specifics of Agency compensation and benefits are defined in Agency documents, such as:

- A. Personnel Policies and Procedures manual;
- B. Memorandums of Understanding and other agreements with employee groups;
- C. Agreements with CalPERS for health and retirement benefits; and
- D. Agreements with other benefits providers.

Agency staff shall perform payroll processing on a bi-weekly basis covering a two-week period beginning on Sunday, ending on Saturday, with payment on the following Friday. Other types of payroll transactions such as leave cash-out may also be processed in conjunction with the bi-weekly payroll schedule. All payroll changes shall require a completed personnel action form with authorization by the appropriate managers and employees, where applicable, prior to any changes being made in the payroll system.

**II. Accounts Payable**

Agency staff shall adhere to the following policies when conducting Agency procurement and expenditure activities: *Signature Authority, Contracting, and Purchasing.*

All expenditures will include the appropriate support documentation (e.g., purchase order, invoice, account statement, receipt, and packing slip) and shall be approved by the appropriate Agency representative. According to *Generally Accepted Accounting Principles* (GAAP), Finance staff shall review and record in a timely manner all accounts payable and accrued items, to ensure the proper recognition of expenses and liabilities. Finance staff shall charge payables to the proper accounting period based upon the date

the goods were received or the services were provided and perform a monthly reconciliation of accounts payable.

**III. Petty Cash**

Agency staff shall maintain a petty cash fund that can be used for cash transactions. Disbursements from petty cash shall be pursuant to the *Purchasing* policy.

<b>POLICY #:</b>	<b>541</b>
<b>SECTION:</b>	<b>FINANCIAL – EXPENDITURE MANAGEMENT</b>
<b>SUBJECT:</b>	<b>Travel, Training, and Other Business Expense Reimbursements</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Agency shall reimburse employees for authorized business-related expenses for travel, training, and other business purposes using authorized amounts.

**PROCEDURES**

This policy defines the authorization, payment, and reimbursement of travel, training, and other business expenses incurred by Agency staff while conducting Agency business.

**I. General**

The General Manager shall establish procedures for authorizing, paying, restricting, and reimbursing employees for travel, training, and other business-related expenses. Travel per diem rates shall be adjusted at the beginning of each calendar year based on the change in the Consumer Price Index-Urban/San Francisco-Oakland-San Jose for the prior February-to-February period, rounded up to the nearest \$0.50. The Board shall review and approve the per diem rates when they exceed 120% of the February 2023 rates.

The per diem rates for meals, gratuities, and incidentals as of February 1, 2023 are as follows:

<b>TRAVEL PERIOD</b>	<b>FEBRUARY 1, 2023 PER DIEM</b>	<b>MAXIMUM PER DIEM RATE (120% of FEB. 2023)</b>
Overnight Travel per 24-hour period	\$115.00	\$138.00
Travel between 12 and 24 hours	\$86.00 or 75% of Overnight Travel Rate	\$103.00
Daily travel less than 12 hours	Breakfast \$17.50 Lunch \$22.00 Dinner \$33.00	Breakfast \$21.00 Lunch \$26.00 Dinner \$40.00

An employee who has been issued a State of California Purchase Card (Agency credit card) shall also comply with the *Purchasing* policy, when using the purchase card for travel and training related expenses. Each employee is responsible for the expenses that he/she incurs while traveling on Agency business. The employee is encouraged to consult with their supervisor should they have any questions about travel related expenses.

## **II. Required Authorization**

Agency staff shall obtain supervisory, department manager, and/or General Manager approval, as prescribed in the established procedures, prior to incurring any Agency expenses related to travel or other business functions. When alternatives are available, the Agency will pay for the lowest cost alternative.

All Agency staff shall provide a full accounting for all meeting and travel related expenses, with receipts, regardless of whether the expense was advanced or prepaid by the Agency or incurred directly by the employee. The accounting will be submitted to the employee's supervisor, department manager, Administrative Services Manager, and/or General Manager for approval. The Administrative Services Manager will review the accounting and determine the reimbursement to the employee or the repayment for advances to the Agency, whichever is applicable.

The decision of the General Manager shall be final in situations where there are conflicts of opinion regarding the appropriateness of reimbursements.

## **III. Federal Income Tax Withholding (FITW)**

This policy and related procedures shall comply with the IRS definition of reimbursements and accountable expenditures per *IRS Publication 463*. Advances or reimbursements made to employees for purposes specified in this policy are generally not subject to FITW, and thus not reported as other compensation on the employee's annual W2-Wage and Tax Statement. Any employee who does not follow this policy when requesting an advance and/or reimbursement will be solely responsible for any federal and state tax liabilities that result from the receipts of Agency funds.

<b>POLICY #:</b>	<b>550</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Agency Budget</b>
<b>DATE:</b>	<b>5/12/2026</b>

**POLICY**

The Board of Commissioners shall adopt a comprehensive balanced operating budget for the Agency prior to the start of the fiscal year (July 1 to June 30).

**PROCEDURE**

The budget is a document specifying the allocation of Agency resources for the operating and capital priorities approved by the Board of Commissioners. The adoption of a budget by the Board is a statutory requirement for California public agencies, and is also specified in the Agency’s Joint Powers Agreement.

The budget that is presented to the Board for adoption shall include the following components:

- Departmental budgets with three-year budget comparisons: prior fiscal year, current fiscal year approved budget and projected expenditures, and proposed budgets for the upcoming fiscal year(s);
- Descriptions and explanations of specific revenues and expenditure accounts;
- Identification of Agency staff responsible for routinely monitoring, tracking, and making transaction decisions with respect to specific budget accounts within each department budget;
- Allocation of Regional Sewer Service Charges to JPA Members;
- Allocation of Debt Service Charges to JPA Members;
- 10-Year Capital Improvement Program with budget allocations for capital and maintenance projects and initiatives;
- 10-Year Financial Forecast with proposed accumulations and uses for Agency reserves;
- San Quentin wastewater and debt service fees

**I. Budget Development**

The budget represents the Agency’s financial blueprint to maintain effective operations. The budget describes the funding requirements and operating costs associated with providing wastewater services, and the maintenance, replacement, and improvement of the facility infrastructure and assets.

It shall include, but is not limited to, the following sections:

A. Revenue Budget

The Revenue Budget shall detail and describe each revenue category, including, but not limited to, sewer service charges, capacity charges, permit fees, revenues from contract and program services, fees for wastewater and organic waste disposal at Agency facilities, revenues for debt service payments and coverage, interest on investments, and other revenue sources.

B. Expenditure Budget

The Expenditure Budget shall be organized by department. Specific accounts for each department shall be detailed, described, and explained for each operating expenditure category, including, but not limited to, salaries, benefits, professional services and studies, permits and fees, materials and supplies, facilities maintenance, equipment, facility operations, and miscellaneous administrative expenses.

C. 10-Year Capital Improvement Program (CIP)

The CIP shall include the proposed capital expenditure budget for the upcoming fiscal years as well as the planned projects and initiatives for the future fiscal years. Each project shall be clearly described. The Board shall approve the fiscal year(s) proposed projects as part of the budget approval, and conceptually approve the projects shown in the following fiscal years.

D. 10-Year Financial Forecast

The Forecast shall present a multi-year comparison of the previous fiscal year's actual performance, current fiscal year's projected performance, and a ten-year projection of future revenues by all sources, expenditures, and the accumulation and use of reserves. The forecast shall guide the Board in determining current and future operating and CIP funding to meet the Agency's financial and operational needs and objectives.

At the discretion of the Board, the budget may also include policy statements, directives, and funding plans that explain and describe operational, capital, and/or organizational approaches for managing and handling the Agency's business and assets. Statements regarding performance accomplishments, objectives, and measurements may be included.

The General Manager shall present a draft budget to the Board for review no later than the May Board meeting, prior to the start of the fiscal year. The Board shall consider approving the budget by the June Board meeting, prior to the start of the fiscal year, and if multi-year budget, consider proposed budget adjustments by the June meeting.

## **II. Budget Reporting**

During the fiscal year, the Agency's actual revenues and expenditures shall be tracked to the appropriate budget accounts to manage the Agency's financial and operational condition. A semi-annual budget status report of revenues, and operating and capital expenditures by category shall be provided to the Board for its review by the February Board meeting.

## **III. Budget Transfers**

The General Manager shall maintain procedures for department managers to (1) request budget transfers within the adopted operating and capital budgets that do not increase the total aggregate fiscal year budget, and (2) to request budget amendments that would increase the total aggregate fiscal year budget subject to the General Manager's and/or Board's review and approval.

## **IV. Budget Amendments**

In the event of unforeseen or unanticipated circumstances, amendments to the adopted fiscal year budget may be necessary. Budget amendments shall be considered when funds are justified, available, and necessary to maintain the Agency's ongoing operational and financial performance, and service expectations as directed by the Board.

The Board shall approve budget amendments that would increase the total aggregate fiscal year budget, based on the evaluation and recommendation of the General Manager that the proposed amendment meets the intent and purpose of this policy.

In the event of an emergency, the General Manager can approve budget amendments that would increase the Agency annual budget, with the conditions that (1) these amendments are necessary to maintain the Agency's ongoing and routine operations, and (2) the aggregate amounts of the amendments cannot exceed \$500,000. The General Manager shall notify the Chair of the Board about the situation and the reason for the budget amendment, obtain authorization for the amendments, and report the actions to the Board at its next scheduled meeting.



<b>POLICY #:</b>	<b>551</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Capital Improvement Program</b>
<b>DATE:</b>	<b>10/10/2023</b>

## **POLICY**

A Capital Improvement Program shall be prepared as an integral part of each adopted budget.

## **PROCEDURE**

The Capital Improvement Program (CIP) describes and explains the Agency’s capital and maintenance projects and expenses, delineated by type of project and funding source, if applicable, over ten fiscal years. The CIP is a planning document that provides the Agency with an opportunity to evaluate and assess its capital needs from financial, engineering, operational, and planning perspectives.

### **I. General**

The Agency’s CIP Committee will prepare an updated 10-year CIP during the budget development process for each budget or amended budget. A 10-year CIP provides the Board, JPA member agencies, customers, public financing institutions, and other stakeholder groups with a long-term perspective on CMSA’s infrastructure and asset improvements and capital financial needs. It also acts as a planning document that projects future project costs on a reasonably escalated basis for the fiscal years in which the costs are planned to be expended. The Board shall review the 10-Year CIP as part of the budget development process, and it shall be incorporated into the Agency’s budget for adoption. The later years of the 10-Year CIP will be incorporated into the Agency’s 10-Year Financial Forecast.

### **II. CIP Schedules, Project Descriptions, and Reporting**

The CIP Committee shall prepare a CIP schedule which will include a description of each capital activity, an explanation of the need for the project, estimated project costs, and proposed project delivery method. During the fiscal year, Agency staff shall track and monitor monthly actual capital expenditures against the appropriate budgeted projects and adjusted to assist in managing the individual capital accounts. Agency staff shall provide quarterly CIP status reports to the Board for its information, review, and possible management direction.

The projects and initiatives in the CIP are grouped into the following four categories:

- A. Facilities Improvements: roofing, paving, coating/sealing, etc.
- B. General Equipment: vehicles, lab and communications equipment, etc.
- C. Treatment of Liquids: flow meters, tanks, pumps, etc.

- D. Treatment of solids and energy generation: digesters, sludge pumps, heat exchangers, cogeneration system, emergency generator, biogas treatment systems, boilers, etc.

The determination of the types of projects, initiatives and activities that are included in the CIP can be based on the following characteristics:

- A. Procurement of equipment, vehicles, or fixed assets
- B. Replacement of existing equipment/infrastructure with similar items
- C. Engineering study, pre-design work, and design of new processes, assets, or facilities
- D. New modifications to existing facilities

<b>POLICY #:</b>	<b>552</b>
<b>SECTION:</b>	<b>FINANCIAL - FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Financial Forecast</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Agency shall update the 10-year Financial Forecast (Forecast) annually.

**PROCEDURE**

The Forecast is a long-term examination of the Agency’s projected operating and capital status. It provides a strategic perspective and direction for the development of the Agency’s multi-year revenue plan and serves as a long-term financial planning document.

Agency staff shall update the Forecast with a status and projection of revenues by source, expenditures, capital requirements, and accumulation and use of reserves. The Forecast is a comparison of actual revenues and expenditures from the prior fiscal year, a projection of the current fiscal year revenues and expenditures, and a 9-year projection of future resources and expenditures. Agency staff shall present the Forecast for Board review as part of the budget development process and the Forecast shall also be included in the Agency’s budget.

**Guidance**

The Forecast will delineate revenues by source, operating expenditure by category, and total annual capital expenditures. Projections and analytical assumptions that are used in the Forecast will be guided by Board directives, analyses of anticipated operating and/or capital changes, Agency contract obligations, economic trends and indices, and financial data from prior fiscal years, along with other relevant financial and analytical metrics. Balances of revenue and expenditures will be evaluated to determine application and availability of restricted and unrestricted cash reserves in the Forecast as well as to meet Board directives regarding the reserve fund balances.

The Forecast will assist the Board in determining the required current and future regional service charge revenues to meet the Agency’s financial needs. The forecast shall be updated annually before meeting with the Board’s Finance Committee to review either the new draft budget or mid-term budget adjustments.

The Board may request periodic revisions to the Forecast apart from the budget development process to assist with decisions on the future direction of the Agency’s financial position.



<b>POLICY #:</b>	<b>553</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Debt Financing and Management</b>
<b>DATE:</b>	<b>6/11/2024</b>

**POLICY**

The Agency may use debt to fund the capital improvement program or to refund existing debt.

**PROCEDURE**

This policy is designed to ensure that when the Agency issues debt, or borrows from private or governmental sources, that the debt load is managed prudently to maintain the Agency’s sound fiscal condition and protect its credit quality.

**I. General**

The General Manager shall make recommendations to the Board concerning debt financing to fund the Agency’s capital improvement program needs and to refund existing debt. Recommendations shall be presented during the Agency’s multi-year revenue plan development process. Recommendations may be made at other times during the fiscal year to meet immediate Agency capital improvement needs, and/or as relevant advantageous debt financings are made available to the Agency.

The Administrative Services Manager shall be responsible for managing, implementing, and overseeing debt management and disclosure in the Agency ACFR. These duties shall include, but are not limited to, developing an effective debt management program, accounting and analyzing debt, and coordinating with the General Manager and department managers to determine and recommend the need for debt financing to meet the Agency’s capital improvement needs. Agency staff shall ensure that the Agency’s debt financing and issuances are consistent with the Agency’s Joint Powers Agreement, and applicable federal and state financing and tax laws.

**II. Conditions for Debt Financing**

Based on the recommendation of the General Manager, the Board shall approve borrowing or debt issuance to finance major capital projects and/or the Agency’s capital improvement program. The Board shall consider debt financing mechanisms as appropriate to meet the objectives of the Agency’s capital needs. The Board shall limit debt to financing the costs of planning, design, engineering, regulatory permit requirements, land acquisition, environmental review, infrastructure, equipment, and any other project costs permitted by federal, state, and local laws for public agencies.

Based on the recommendation of the General Manager, the Board may approve borrowing or debt issuances to refinance existing debt.

When making a determination to proceed with debt financing, the Board shall consider the Agency's financial condition, sources of funding for the annual debt service payment, the Agency's ability to repay the debt without fiscal disruption to its effective operations and maintenance, economic trends affecting the Agency, and any existing Agency debt. The Board shall consider the least costly financing mechanisms available, such as federal and state loan programs, when planning debt issuances and financing opportunities to take advantage of financial market conditions when possible.

The Board will approve debt financing for capitalized expenditures based on the economic value and useful life of a major asset or capital project. The term or the maturity of the debt financing should be consistent with the useful life of the asset to be financed.

The Board shall consider and approve cost-effective credit enhancements such as debt insurance or letters of credit as mechanisms to improve credit ratings and guarantees for principal and interest payments.

The Board shall consider debt refunding to refinance outstanding debt that would reduce interest costs to the Agency, and/or remove any burdensome, restrictive, or irrelevant debt covenants. When approving debt refunding, the Board shall consider present value savings and other benefits to the Agency of restructuring the debt.

### **III. Investment of Debt Proceeds**

Agency staff shall explicitly follow its *Investments* policy and any indenture documents or debt issuance agreements that are part of the debt financing program when investing debt proceeds.

### **IV. No Commingling of Debt Proceeds with Operating Funds**

Debt proceeds shall not be commingled with operating funds.

### **V. Types of Debt**

#### **A. The following types of debt are allowable under this Policy:**

- Installment sale agreements, loans, and similar debt-financing contracts
- Loans and contracts with State or Federal agencies
- Lines of credit
- Bond or grant anticipation notes (BANs)
- Revenue bonds
- Pension obligation bonds
- Refunding bonds, notes, loans, and other obligations
- Commercial paper

The Agency's Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

B. Long-Term Debt Parameters

- 1) New Money Issuances: The Agency will also consider credit issues, market factors (e.g. bank qualification) and tax law when sizing the Agency's debt issuance.
- 2) Refunding Bond Issuances: The sizing of refunding securities will be determined by the amount of money that will be required to cover the principal of, accrued interest (if any) on, and redemption premium for the bonds to be defease on the call date and to cover appropriate financing costs.
- 3) Debt Coverage: The Agency shall set minimum debt coverage at 125% to provide funding for pay-as-you-go recurring capital replacement.
- 4) Maximum Maturity: All debt issued by the Agency shall mature within 30 years of the issuance date. The Agency may consider a separate series of bonds to fund projects with an average useful life of less than 10 years.
- 5) Callability: All new publicly issued long-term debt should be callable
- 6) The Agency shall not issue variable rate debt. The Agency will not utilize derivative products.
- 7) Maximum Repayment Ratio: The maximum repayment ratio, where total future debt service payments are divided by the principal of the bonds issued, shall be within three to one each series of bonds and for each issuance.
- 8) Capital Appreciation Debt: The Agency shall issue all debt as current interest securities. Specifically, the Agency will not issue any capital appreciation securities or any hybrid structures such as convertible capital appreciation securities.

C. Refunding Parameters

Whenever deemed to be in the best interest of the Agency, the Agency shall consider refunding or restructuring outstanding debt (including pension and other post-employment benefits) when financially advantageous or beneficial for debt repayment and structuring flexibility. The General Manager or Administrative Services Manager shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.

- 1) The minimum net present value savings as a percentage of the refunded aggregate principal amount to be considered for refunding shall be no less than 3% in aggregate unless, at the discretion of the General

Manager or Administrative Services Manager, a lower percentage is more applicable, for situations including, but not limited to, maturities with only a few years until maturity or COPs being defeased or redeemed from proceeds of Bonds or other structuring considerations.

- 2) The final maturity of the refunding debt shall be no longer than the final maturity of the refunded debt.
- 3) The refunding of unfunded pension liabilities via pension obligation bonds or some other debt instrument will comport with the Agency's Pension Funding Policy.

## **VI. Terms of Debt Issuance**

- A. The Agency shall comply with all covenants, coverage tests and arbitrage requirements.
- B. Debt Structure: Preference for level debt service payments (principal and interest).
- C. Minimum Amount: Minimum debt to be issued is \$2,000,000.
- D. Debt Issuance Process: The Agency shall select a financing team for its debt issuance needs.
- E. Sale Type: Debt may be sold via negotiated or competitive sale, depending on the nature and use of the debt. The Agency has a preference for competitive sales.
- F. Prohibited Uses: The Agency shall not use long-term debt to fund current operating costs. The Agency shall not refinance long-term debt with short term debt due to exposure risk.

## **VII. Annual Review**

The General Manager or Administrative Services Manager will be involved in the annual review of the Agency's debt portfolio and this Policy. The annual review will occur in conjunction with the filing of the Agency's annual continuing disclosure report.

## **VIII. Tax Certificate Compliance**

The Agency understands that issuing tax-exempt bond obligations for eligible projects usually reduces the cost of borrowing. However, the Agency must then comply with the Tax Certificate relating to such tax-exempt obligations. Further, the Agency has established Procedures for Post-Issuance Compliance with Federal Tax Law. The Agency is to confer with its Bond Counsel when questions arise concerning tax matters and obtain advice to maintain its tax law compliance.

<b>POLICY #:</b>	<b>554</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Risk Management and Insurance</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Agency shall maintain appropriate insurance coverage for all its insurance needs.

**PROCEDURE**

The General Manager shall be responsible for managing all aspects of risks encountered by the Agency. As such, Agency staff shall coordinate and obtain appropriate levels of insurance coverage and implement other risk management and mitigating strategies and safety management approaches, as recommended by the California Sanitation Risk Management Authority (CSRMA). Acceptable risk management strategies need to comply with applicable federal and state laws and California Occupational Safety and Health Administration (CalOSHA) regulations. Insurance coverage and risk management strategies shall include, but are not limited to, liability, property, vehicles, Workers’ Compensation, hazards, general safety, and loss control, and may consist of self-insurance programs when economical and cost-effective.



<b>POLICY #:</b>	<b>555</b>
<b>SECTION:</b>	<b>FINANCIAL - FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Multi-Year Revenue Plan</b>
<b>DATE:</b>	<b>10/10/2023</b>

## **POLICY**

CMSA shall develop and adopt a multi-year revenue plan to provide adequate funding for Agency operations, capital activities, and debt service, as well as maintaining Board designated reserve levels.

## **PROCEDURE**

- I. Beginning in the last year of the current Board adopted revenue plan, staff and the Board's Finance Committee will prepare a revenue plan development schedule that is designed so that a new revenue plan will be adopted prior to each JPA agency Board's consideration of their next draft budget.
  
- II. The Committee will consider using the following revenue plan guiding principles when developing the Agency's revenue plan alternatives.
  - Use a 5-year revenue planning period based on a 10-year rolling financial forecast for adoption purposes
  - Balance the operating budget over the planning period
  - Maintain the operating reserve at 25% of the annual operating expenses
  - Ensure adequate funding for the capital improvement program during the planning period
  - Maintain a CIP reserve at an amount equal to the annual average value of the 10-year CIP
  - When feasible, use current revenues to fund CIP projects
  - Obtain grant funding, secure low-interest State Revolving Fund loans, or issue debt to fund the balance of CIP projects
  - Target a CMSA average EDU rate increase of 4% or less per year, if feasible
  - Keep the CMSA Board and JPA managers briefed on the Finance Committee's work
  
- III. Revenue plan alternatives, considering the above guiding principles or Board amended principles, will be developed by the Committee, and presented to the Board for review and discussion, and ultimately, selection of a preferred alternative.
  
- IV. The Board adopted revenue plan will be communicated to the JPA member agencies, and incorporated into the Agency's budget and revised 10-year financial forecast.



<b>POLICY #:</b>	<b>556</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Pension Funding Policy</b>
<b>DATE:</b>	<b>10/11/2023</b>

## **POLICY**

The Agency’s policy is to make its required annual contributions to CalPERS, to pay its annual pension obligation bond’s debt service, and to contribute as available to the pension reserve fund.

### **I. Pension Obligations Bonds**

The Agency issued pension obligation bonds with the following characteristics:

- Such bonds have expected savings using borrowing costs and CalPERS’ discount rate.
- Such bonds will not extend the final payment of the Agency’s current amortization schedule based on the most recent CalPERS Annual Valuation Report.

### **II. Pension Reserve Fund**

This policy formalizes a funding mechanism for the establishment of a Pension Reserve Fund (PRF) to be used at the Agency’s discretion to help offset future pension cost increases or to defease callable outstanding pension obligation bonds with or without applicable call premium.

- Annual savings generated through the issuance of a pension obligation bond may be deposited into the fund. Savings are defined as the difference between the debt service on the Agency’s pension obligation bonds and the scheduled annual payments of any under-funded amount had pension obligation bonds not been issued.
- This Fund is in the form of a Section 115 Trust.

#### **A. The Fund may be used to:**

- Defease callable outstanding pension obligation bond maturities at any time, in whole or part for maturities with or without call premium.
- Pay annual debt service on pension obligation bonds.
- Make additional discretionary payments to CalPERS.
- Reduce annual UAL costs.
- Make Normal Costs payments.

- B.** In the event of an economic hardship, or other unanticipated fiscal emergency, the Agency’s Board of Commissioner’s may make an emergency declaration to reduce the annual transfer to the PRF.

### **III. Contributions as a Manageable Budget Expense**

The Agency will always make its required annual contributions to CalPERS. Contributions should be stable and a manageable portion of revenue.

The Agency may:

- Make additional discretionary contributions directly to CalPERS.
- Make discretionary contributions to a pension reserve fund.
- Make discretionary withdrawals from a pension reserve fund to make payments to CalPERS.
- Call, or refund the pension obligation bonds.

### **VI. Transparency and Reporting**

Funding of the Agency's pension plans should be transparent to vested parties including plan participants, annuitants, the Agency Board, and residents. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the Agency's CalPERS plans shall be made available to the Agency Board.
- The Agency's financial audit shall be published on its website. This report includes information on the Agency's annual contributions to the pension systems and their funded status.
- The Agency's annual operating budget shall include the Agency's contributions to CalPERS.

### **VII. Review of Funding Policy**

The Agency will review this policy every three years in accordance with its standard review of its financial policies to determine if changes to this policy are needed.

<b>POLICY #:</b>	<b>557</b>
<b>SECTION:</b>	<b>FINANCIAL – FINANCIAL PLANNING</b>
<b>SUBJECT:</b>	<b>Other Post Employment Benefit (OPEB) Funding Plan</b>
<b>DATE:</b>	<b>10/10/2023</b>

**POLICY**

The Agency will maintain an OPEB Trust Fund to pay future retiree medical benefits.

**PROCEDURE**

The OPEB trust is maintained with the California Employers’ Retiree Benefit Trust (CERBT). The purpose of the CERBT is to provide future funding of post-retirement medical benefits for eligible retirees. Transfers to the CERBT are irrevocable and monies in it may only be used to pay eligible medical benefits.

The OPEB Funding Plan includes funding, investment earnings, and medical expense transactional activity by year for a 20-year period. The Plan will require annual monitoring to ensure it is meeting the objectives of CERBT earnings paying future medical benefits, while not becoming overfunded. Overfunding is anticipated when the CERBT has greater than \$2.2 million in 20 years.

**CERBT Funding:** The CERBT may be funded annually with the Net ADC amount from the current GASB 75 Actuarial Valuation Report. Agency funding may continue until the CERBT has adequate projected funds to pay future retiree medical expenses, without becoming overfunded.

**CERBT Use:** At the discretion of the Board, the CERBT may be used to fund retiree medical benefits which include CalPERS medical premiums and retiree medical expense reimbursements.

**Plan Adjustments:** Based on the annual monitoring, staff in consultation with the Board’s Finance Committee may adjust the investment earnings interest rate, retiree medical cost, projected medical expense rate increase, and medical reimbursement amounts, and make necessary Plan funding and/or investment strategy changes to meet the Board approved objectives.



<b>POLICY #:</b>	<b>560</b>
<b>SECTION:</b>	<b>FINANCIAL – PROCUREMENT MANAGEMENT</b>
<b>SUBJECT:</b>	<b>Signature Authority</b>
<b>DATE:</b>	<b>11/13/25</b>

**POLICY**

This policy establishes signature authority for the Agency’s procurement transactions.

**PROCEDURES**

This policy defines the signature approval levels within the Agency for the following types of procurement transactions:

- Purchase Orders
- Professional Services Agreements
- Maintenance Service Agreements and Contracts
- Equipment Procurement
- Materials & Supply Contracts
- Construction Contracts and Change Orders

**I. Procurement Transactions**

The General Manager shall approve procurement transactions equal to the amount specified by the California Uniform Construction Cost Accounting Commission (CUCCAC) for utilizing alternative bidding procedures for public project work. The table below shows each procurement transaction type with its governing CUCCAC Tier and the General Manager’s signature authority for each transaction type. By ordinance, the Agency established bid cost thresholds and procedures in accordance with CUCCAC. Dollar amounts indicated are the CUCCAC limits as of the effective date of this policy, and will be adjusted over time as the CUCCAC limits are updated.

<b>Transaction Type</b>	<b>CUCCAC Tier</b>	<b>General Manager Authority</b>
Purchase Orders	Tier I	Less than \$75,000
Professional Services Agreements	Tier I	Less than \$75,000
Maintenance Service Contracts	Tier I	Less than \$75,000
Equipment Procurement	Tier I	Less than \$75,000
Material & Supply Contracts	Tier I	Less than \$75,000
Construction Contracts – Administrative	Tier I	Less than \$75,000
Construction Contracts – Informally Bid	Tier II	Between \$75,000 and \$220,000
Construction Contracts – Formally Bid	Tier III	Must be approved by CMSA Board

The Board of Commissioners shall approve procurement transactions greater than the current CUCCAC Tier amounts and shall approve all formally bid construction contracts. The General Manager shall establish the signature authority amount limits for Agency staff.

The Board Chair has the authority to approve non-construction Tier 1 procurement transactions above the General Manager’s authority limit, if the Board Chair and General Manager agree that the transaction is needed to respond to an emergency situation, address urgent Agency business, or has been approved by the representative of an agency contracting with CMSA for services. The procurement decision will be presented to the CMSA Board for approval at the subsequent Board meeting.

**II. Construction Change Order Limits**

The construction change order (CCO) approval and signatory authority limits shall be as indicated in the table below:

<b>Construction Amount Tier</b>	<b>General Manager Change Order Limits</b>
1) <u>Less Than \$500,000</u> a) Change Order Limit b) CCO limit if schedule impacted*	\$50,000 \$75,000
2) <u>\$500,000 to \$2,000,000</u> a) CCO limit b) CCO limit if schedule impacted*	10% of construction contract amount 20% of construction contract amount
3) <u>Greater Than \$2,000,000</u> a) CCO limit b) CCO limit if schedule impacted*	\$200,000 \$400,000
4) Emergency situations for any size project	CMSA Board Chair approval if schedule impacted,* with subsequent ratification by CMSA Board

\* As determined by CMSA staff.

**A. Reporting to the Board**

The Board shall receive the following change order reports from the General Manager, as appropriate:

- 1) CCO aggregate amount if it approaches the specified limit;
- 2) Periodic change order and contract update; and
- 3) An economic analysis of the project costs at the construction contract’s completion.

**III. Payment Transactions**

The General Manager or designee shall approve payments up to the signature authority limits under *Procurement Transactions*, above.

Agency staff designated as responsible for specific accounts in the adopted budget shall be responsible for reviewing single payments, which are related to the transactions covered by this policy, other procurement management policies, and related procedures. These Agency staff shall approve single payments up to the signature authority established by the General Manager. Approval shall be based on verifying that work, services, and/or materials are completed per the procurement document.



<b>POLICY #:</b>	<b>561</b>
<b>SECTION:</b>	<b>FINANCIAL – PROCUREMENT MANAGEMENT</b>
<b>SUBJECT:</b>	<b>Contracting</b>
<b>DATE:</b>	<b>1/14/2025</b>

## **POLICY**

The Agency shall award contracts using appropriate and transparent procedures that comply with state laws and other Agency policies and procedures.

## **PROCEDURE**

This policy provides direction regarding how contracts and purchase orders shall be awarded, processed, amended, and approved to ensure integrity and consistency with established Agency policies and legal requirements. It also ensures that efficient, cost-effective, transparent, and accountable processes are used to select the most qualified service provider, and the most cost-effective materials and supplies vendor.

### **I. Approval**

This *Contracting* policy is used in conjunction with the *Signature Authority* policy.

### **II. General Procedures**

The General Manager shall establish the contracting procedures for the Agency. The Agency standardized the contract development and engagement process to ensure that the selection of a contractor and/or supplier meets the purpose of this policy and complies with relevant laws.

These procedures will ensure proper contract awarding, and negotiated and sole source procurements, which include, but are not limited to, scope of work, quotations, proposals, bids, determining contractor and vendor qualifications, selecting proprietary sources, and emergency procurement.

The General Manager shall ensure that the contracting and purchase order processes are conducted in an efficient, transparent, and cost-effective manner. In doing so, effective and appropriate planning, timing, specifications, terms and conditions, pricing strategies, risk management, consolidating, and multiple quoting of contracts and purchases shall be considered. At the General Manager's discretion, the contract terms, conditions, and forms may be reviewed by legal counsel before the contract is executed.

### **III. Construction Projects**

Agency staff shall follow contracting processes according to the Uniform Public Construction Cost Accounting Act (UPCCA and California Public Contract Code 20800), et seq. for Sanitary Districts. Construction projects performed under contract shall be evaluated under the following bidding parameters:

- A. If the estimated cost of a project is less than the Tier I amount (refer to the *Signature Authority* policy) the General Manager will execute a Maintenance Contractor Service Agreement for the defined services.
- B. If the estimated cost of a project is within the Tier II amount, the project will be informally bid and the General Manager has the authority to execute a construction contract agreement.
- C. If the estimated cost of a project exceeds the Tier II amount, the project will be formally bid and the construction contract is subject to Board approval.

**IV. Professional Services Agreements**

Agency staff shall follow the following parameters for evaluating professional services agreements. Selection of consultants shall be based upon demonstrated experience and competence, and shall consider and evaluate the consultant’s suggested approach, scope of work, proposed team members and availability, proposed fees, relevant experience, and other qualifications that are in the best interest of the Agency.

- A. For those services within the General Manager’s signature authority, the General Manager has the discretion to negotiate an agreement directly with a consultant unless they determine that it is in the best interest of the Agency to conduct a formal request for qualification (RFQ) or proposal (RFP) process.
- B. For those services that exceed the General Manager’s signature authority, the consultant shall be selected by an RFQ and/or RFP process. The contract shall be awarded to the most qualified service provider by the CMSA Board.

The table below links the professional services agreement fee, selection process, and contract approval authority with the UPCCAA’s financial tiers.

UPCCAA Tier	Professional Services Agreement Fee*	Approval	Service Provider Selection Process
Tier I	Less than \$75,000	General Manager	GM discretion – task order, single proposal, or multiple proposals
Tier II	Between \$75,001 and \$220,000	Board	Letter RFQ and/or RFP issued to at least two firms with selection based on evaluative process
Tier III	Greater than \$220,000	Board	Formal RFQ and/or RFP package issued to at least three firms with selection based on evaluative process

\* Fee ranges will automatically adjust as the UPCCAA tiers are changed by the state legislature.

## **V. Maintenance Service Contracts**

Agency staff shall comply with the following parameters for evaluating maintenance service contracts. Maintenance services are those activities defined by UPCCAA as, (1) routine, recurring and usual work for the preservation or protection of a publicly owned or operated facility for its intended purposes, (2) minor repainting, (3) landscape maintenance, or (4) work performed to keep, operate, and maintain publicly owned waste disposal systems.

- A. For those UPCCAA Tier I maintenance services within the General Manager's signatory authority, the General Manager has the discretion to negotiate an agreement directly with a service provider for a specific scope of work unless they determine that it is in the best interest of the Agency to conduct a request for quotes from multiple service providers.
- B. For those maintenance services that exceed the General Manager's signature authority, the service provider shall be selected by a request for quotes or bidding process. The maintenance contract shall be awarded by the CMSA Board to the service provider with a reasonable cost that can provide the defined scope of services and meet CMSA's qualification requirements.

## **VI. Equipment, Materials, and Supplies Procurement**

Agency staff shall conduct the following processes for procuring equipment, materials, and supplies.

- A. For the purchase of equipment, materials, and/or supplies whose costs are within the General Manager's signatory authority, such procurements shall be performed under the *Purchasing* policy.
- B. For the purchase of equipment, materials, and/or supplies that require the Board's approval, contracts or purchase orders shall be awarded to a vendor/supplier using the *Agency's Equipment Procurement and Material Procurement* policies, unless sole source procurement is justified and approved by the Board.

## **VII. Cooperative Agreements**

The General Manager shall determine when the Agency may enter into intergovernmental cooperative agreements to achieve economies of scale, promote Agency goals and objectives, or where it is financially advantageous.

Cooperative agreements may be used when the Agency can join contractually with other public agencies to meet mutual contractual needs. Such agreements may be bid or negotiated together with the cooperating agencies, or utilize new or existing contracts that allow for cooperative arrangements.

## **VIII. Organic Waste Disposal Agreements**

Agency staff have the authority to negotiate and approve disposal agreements with public agencies or private haulers of organic waste materials, for digestion and the production of biogas for use in the Agency's Organic Waste and Power Delivery Programs. The terms and conditions of each new agreement shall be comparable to those in the Agency's most current Central Marin Food-to-Energy Program Agreement with Marin Sanitary Service, and the fee structure will align with the provisions in current Fee Ordinance.

When a new agreement is executed, staff will inform the Board at its subsequent meeting and provide information on the delivery frequency and the projected monthly revenue.

## **IX. Contract Amendment Authority**

Agency staff shall have the following authority to amend or modify terms, conditions, and provisions in approved contracts and agreements, if the change benefits the Agency.

- A. Staff approved contracts: Administrative and technical changes are authorized if they do not impact the total contract cost. If there is a cost impact, the sum of the contract amount and the additional cost does not exceed the limits in the Signature Authority Policy.
- B. Board approved contracts: In construction contracts, any change is authorized if it doesn't result in a cost impact that exceeds the contract's construction change order authority limit in the Signature Authority Policy. For all other contracts, any change is authorized if it doesn't result in the contract's total cost being greater than the contracting authority in the Signature Authority Policy.

Amendments that exceed the staff delegated signature authority shall be brought to the CMSA Board for consideration.

<b>POLICY #:</b>	<b>562</b>
<b>SECTION:</b>	<b>Financial – Procurement Management</b>
<b>SUBJECT:</b>	<b>Purchasing</b>
<b>DATE:</b>	<b>6/10/2025</b>

## **POLICY**

Procurement shall use appropriate non-contracted selection methods for purchasing activity as described below.

## **PROCUREMENT METHODS**

This policy is associated with the *Signature Authority* policy. The process for complying with each method of procurement is explained below.

### **I. Blanket Purchase Order**

At the beginning of each fiscal year, finance staff shall establish and distribute a list of blanket purchase order (open account) numbers, based on requests by department managers, to be used for purchases less than \$2,500. Agency staff shall communicate to the vendor the specific assigned purchase order (PO) number when making purchases to ensure the number is on all vendor invoices and related documents.

In lieu of creating an open account, vendors may provide business credit cards to the Agency. With discretion, the General Manager shall approve applications for these types of cards after review by the Administrative Services Manager. The cards shall be used for purchases of less than \$2,500, and may only be used at the business where the card was issued. Department managers shall designate the employees who are allowed to use these types of cards when purchases need to be made. Until an invoice is received, the designated employees or finance staff shall keep a record of the purchase to provide supporting documentation for payment processing. These cards shall be governed by the Use of Card policies stated under the Purchase Card section below.

### **II. Purchase Order**

Agency staff shall use a purchase order for purchases for, (1) vendors with open accounts in amounts greater than or equal to \$500, or (2) vendors without open accounts. All purchase orders shall be in writing using the appropriate form and documentation, have the appropriate approvals, and be submitted to the vendor for processing.

### **III. Petty Cash**

Agency staff may use petty cash for purchases of \$50 or less with vendors unable to establish an open account with the Agency and for necessary small infrequent expenses. These expenses may include supplies, parts, bridge tolls, attendance at offsite meetings

and trainings, and multi-Agency meetings. All requests for petty cash disbursements shall be in writing using the appropriate form and approved by the department manager. The General Manager may authorize a petty cash disbursement greater than \$50 if it is determined to be a prudent and appropriate payment or reimbursement method, and in the best interest of the Agency. Petty cash disbursements are made by the designated Administrative/Finance staff.

#### **IV. State of California Purchase Card Program**

The Board of Commissioners shall approve the number and type of positions that are authorized to use purchase cards as shown in Attachment "A". The General Manager shall issue the cards to the specific employees and establish procedures for the appropriate use for making Agency-specific purchases when the above purchasing methods are impractical, inefficient, or not applicable. Monthly credit limits shall be set at \$3,000 for supervisors/designated staff and \$5,000 for department managers.

The Administrative Services Manager will serve as the administrator of the Agency's purchase cards, and will manage the Agency's account in accordance with the requirements of the Purchase Card Program and the Agency's policies, including, but not limited to, assigning purchase cards and purchase limits to authorized employee card holders, collecting and cancelling cards as needed, and reviewing purchase card transactions.

##### **A. Use of Card**

The cardholder shall be the only person authorized to sign for purchased items and shall be the only person to authorize telephone and online transactions using the purchase card. Cardholders shall not give or authorize use of their card to another employee without the General Manager's approval. The employee who is assigned a purchase card is responsible for safeguarding the card as well as ensuring proper use of the card.

Department managers ensure that purchase card use in their respective departments is consistent with this policy and other related procedures. Each cardholder is responsible for keeping a record of the purchase on the purchase card's account statement. An approved purchase order is required before using the purchase card for any transactions over \$500, except for employee-related travel where a *Pre-Authorization for Employee Travel* form is required. An approved travel preauthorization is required when using the purchase card for transactions related to training or travel on Agency business. Department managers are ultimately responsible for monitoring and approving all purchase card transactions within their department.

The Purchase Card shall not be used for the following purchases:

- 1) Professional services (labor costs)
- 2) Contract services

- 3) Capital/construction costs
- 4) Cash advances/personal use
- 5) Purchase of firearms, liquor, or cigarettes
- 6) Per diem meal allowance
- 7) Items for personal, non-Agency use

B. Lost or Stolen Card

If an Agency purchase card is lost or stolen, the cardholder shall immediately report this to the Administrative Services Manager so that they can notify the Purchase Card Program.

C. Misuse of the Card

Any misuse of the purchase card or violations of the Purchase Card Program guidelines or this policy, including, but not limited to, personal use of the purchase card, may result in the loss of purchase card privileges. All cardholders are subject to disciplinary actions for misuse and misappropriations of Agency funds. Cardholders who use or allow use of the card for personal purposes shall reimburse the Agency for all incurred charges.

**ATTACHMENT A**

**Positions Authorized to Have Purchase Card**

<b><u>Department</u></b>	<b><u>Position</u></b>	<b><u>Limit</u></b>
Administration	General Manager	\$10,000
Administration	Administrative Services Manager	\$5,000
Administration	Treatment Plant Manager	\$5,000
Administration	Health and Safety Manager	\$3,000
Administration	Information System Administrator	\$3,000
Technical Services	Technical Services Manager	\$5,000
Technical Services	Regulatory Compliance Manager	\$3,000
Technical Services	Laboratory Analyst II (1)	\$3,000
Technical Services	Environmental Services Analyst (3)	\$3,000
Maintenance	Maintenance Supervisor	\$3,000
Maintenance	Assistant Maintenance Supervisor	\$3,000
Maintenance	Lead Mechanical Technician (2)	\$3,000
Maintenance	E/I Technician (1)	\$3,000
Operations	Operations Supervisors (2)	\$3,000

<b>POLICY #:</b>	<b>570</b>
<b>SECTION:</b>	<b>FINANCIAL - ASSET MANAGEMENT</b>
<b>SUBJECT:</b>	<b>General</b>
<b>DATE:</b>	<b>10/10/2023</b>

## **POLICY**

The Agency shall utilize asset management systems to properly manage its capital assets.

## **PROCEDURES**

### **I. General**

The General Manager or designee shall ensure that Agency staff utilizes the established asset management systems and asset management procedures in an effective and efficient manner.

### **II. Asset Plans**

Agency staff shall develop asset plans for the Agency's infrastructure assets and equipment for the cost-effective operation, maintenance, and management of these assets. Asset plans shall be developed and maintained within the asset management system for all assets with an original cost equal to or greater than the capitalization threshold. An asset plan shall include asset age, service history, optimum preventive maintenance and rehabilitation/renewal during its lifecycle, standard maintenance/operations procedures, cost of operating, and other salient asset attributes. The asset plans shall be used as the basis to develop and implement specific operations and maintenance, and capital improvement plans, and to analyze long-term funding and prepare condition assessments.

For new assets that are procured or constructed, Agency staff shall retain all relevant asset plan data (i.e., cost, manufacturer, type, size, operations and maintenance manuals, and standard operating/maintenance procedures). Agency staff shall ensure that contractors and/or consulting engineers provide necessary asset management information prior to the filing of Notice of Completion and approving final payment to the contractor.

### **III. Capital Asset Condition**

Agency staff shall periodically assess the condition of capital assets. The assessment shall provide physical and financial information concerning the condition of assets, estimated remaining useful life, estimated operations and maintenance costs, and projected replacement costs (if applicable). The data shall be used when developing the Agency's annual Capital Improvement Program update, and other financial models for analyzing and determining future funding of capital assets.

**IV. Asset Inventory Control**

The Administrative Services Manager, along with department managers, shall maintain effective procedures and systems to inventory and track the Agency's capitalized assets.

**V. Facilities Maintenance**

Agency staff shall perform effective planning and maintenance of capital assets, which shall include preventive and corrective maintenance and repair of equipment, facilities, and infrastructure to protect the Agency's capital investments and minimize future maintenance and replacement costs.

**VI. Materials Management**

Agency staff shall maintain inventories of parts, materials, and supplies to effectively meet its maintenance and repair needs. The Agency has developed and implemented inventory management procedures. Procurement of parts and supplies that are placed into inventory shall conform to the *Purchasing Management and Expenditure Management* policies.

**VII. Disposal of Surplus Assets**

Agency staff shall recommend to the General Manager the disposal of assets when they have exceeded their service life, are obsolete, where the value of replacement is less than rehabilitation costs, and/or they no longer serve the Agency's operational needs. The Board shall establish the General Manager's asset disposal authority.

<b>POLICY #:</b>	<b>571</b>
<b>SECTION:</b>	<b>FINANCIAL – ASSET MANAGEMENT</b>
<b>SUBJECT:</b>	<b>Assets Accounting</b>
<b>DATE:</b>	<b>10/10/2023</b>

## **POLICY**

All Agency capital assets shall be accounted for following *Generally Accepted Accounting Principles* (GAAP).

## **PROCEDURE**

### **I. General**

The General Manager and Administrative Services Manager shall ensure that capital assets are appropriately accounted for by funding source and asset category and that appropriate procedures are developed and implemented to meet the requirements of this policy. Department managers and Agency staff shall ensure proper budgeting and purchasing guidelines are followed for capital assets, and that these assets are adequately controlled, secured, and used for appropriate Agency purposes.

### **II. Capitalization Threshold**

For financial accounting and reporting purposes, the capitalization threshold shall be \$5,000 or higher for each asset with an expected life of at least five years following the date of acquisition, construction, or rehabilitation.

### **III. Assets**

Agency staff shall account and report all assets with an original cost equal to or greater than the capitalization threshold. Such assets include those newly constructed, installed, or acquired items or significant additions, improvements, or replacements to existing assets which would significantly prolong the asset's useful life. All costs associated with purchase, design, planning, permitting, construction, installation, and acquisition shall be considered including, but not limited to, direct labor, materials and supplies, design, engineering, other professional fees, contractor charges, legal fees, site preparation, installation, associated overhead and administrative costs, taxes, freight and transportation, applicable CMSA staff time, and other expenditures and charges directly attributable to asset acquisition.

For assets acquired through debt financing methods, expenses associated with costs of issuance shall be considered. Capital assets donated to the Agency shall be capitalized at their estimated fair market value plus any associated costs, as described above, at the date of receipt.

Expenditures related to routine repairs that maintain the existing condition of the asset or restores it to normal operating efficiency shall not be capitalized, regardless of the amount, and shall be recorded as repair and maintenance expenses in that fiscal year.

