



Central Marin Sanitation Agency

FINANCE COMMITTEE MEETING AGENDA

Wednesday, October 15, 2025, 12:00pm
1301 Anderson Drive, San Rafael CA 94901

AGENDA

1. **Call Meeting to Order**
2. **Pledge of Allegiance**
3. **Roll Call**
4. **Agenda Review & Approval**
5. **Open Period for Public Participation**
Open time for public expression, up to two minutes per speaker, on items within CMSA's jurisdiction and not on the agenda.
6. **Capital Improvement Plan Funding Options**
Recommendation: Discuss the Capital Improvement Plan funding options and provide direction to staff, as appropriate.
7. **FY26 Debt Issuance Tasks**
Recommendation: Informational.
8. **FY26 Regional Charge Allocation Options**
Recommendation: Discuss the FY26 Regional Charge Allocation options, and provide direction to staff as appropriate.
9. **FY25 Annual Comprehensive Financial Report – Introductory Section**
Recommendation: Consider changes to the financial information in the FY25 ACFR Introductory Section.
10. **Committee Oral Reports***
11. **Items for Next/Future Agendas**
12. **Schedule Next Meeting**

*Information not furnished with Agenda

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Central Marin Sanitation Agency at 415-459-1455. For auxiliary aids or services or other reasonable accommodations to be provided by the Agency at or before the meeting, please notify the Agency at least 3 business days in advance of the meeting date (meeting is the second Tuesday of each month). If the Agency does not receive timely notification of your reasonable request, the Agency may not be able to make the necessary arrangements by the time of the meeting.

**FINANCE COMMITTEE MEMORANDUM**

October 13, 2025

To: CMSA Finance Committee

From: Corey Spray, Administrative Services Manager
Jason Dow, General Manager

Subject: **Capital Improvement Plan Funding Options**

Recommendation: Discuss the Capital Improvement Plan funding options and provide direction to staff, as appropriate.

Summary: At the September 16, 2025 meeting, the Committee reviewed the revised CIP funding model with the planned FY26 debt issuance, and asked staff to prepare two alternate funding plans. The first is comprised of essential CIP projects with contingent or low priority projects removed, and the second postpones low priority projects for two years and assumes no debt issuance in FY26. The revised and two alternate plans are attached and summarized below.

Discussion: The three CIP funding plan alternatives are presented below.

Alternative 1 – Base scenario: This is the plan that was presented to the Committee at the 9/16/25 meeting and shows the planned \$13M debt issuance this year and the unassigned CIP reserve being exhausted in FY29.

	<i>BUDGET YR1</i> 2026	<i>BUDGET YR2</i> 2027	<i>FORECAST YR3</i> 2028	<i>FORECAST YR4</i> 2029	<i>FORECAST YR5</i> 2030
SCENARIO 1 - BASE					
CIP Expenditure (<i>excl Nutrient Const</i>)	15,130,850	8,250,100	9,365,500	12,463,800	6,943,800
Debt Issuance, net	12,675,000	-	-	-	-
Unassigned operating transfer in	19,787	-	-	3,911,900	1,354,400
Unassigned capital surplus/(usage)	19,787	(6,049,300)	(6,511,000)	(5,420,200)	(2,206,500)
Ending unassigned capital reserve	17,941,796	11,900,696	5,398,196	-	(847,704)

Alternative 2 – Essential CIP: Several projects that staff believes are lower priority, may not be implemented due to the future nutrient removal project scope, or are contingent on condition assessments have been removed from the essential CIP. Some removed projects include rehabilitation of the effluent pond (\$1.7M), replacement of the odor control scrubbers (\$7.5M), biotower distributor replacement (\$2.8M), and electrical system rehabilitation (\$13.7M) due to the recent positive results of the biannual condition assessment of the main electrical switchgear and motor control centers in headworks, chlorine contact tanks, and chemical storage building.

Removal of the non-essential projects results in a healthy unassigned CIP reserve balance through year 10, and the amount of a future debt issuance for a nutrient removal project is reduced.

	<i>BUDGET YR1</i> 2026	<i>BUDGET YR2</i> 2027	<i>FORECAST YR3</i> 2028	<i>FORECAST YR4</i> 2029	<i>FORECAST YR5</i> 2030
SCENARIO 2 - ESSENTIAL CIP					
CIP Expenditure (<i>excl Nutrient Const</i>)	12,910,620	8,128,980	6,122,200	2,028,900	2,175,400
Debt Issuance, net	12,675,000	-	-	-	-
Unassigned operating transfer in	19,787	-	-	-	-
Unassigned capital surplus/(usage)	19,787	(5,928,180)	(3,267,700)	-	-
Ending unassigned capital reserve	20,162,026	14,212,846	10,848,146	11,665,946	12,475,946

Alternative 3 – Deferred CIP: Several projects were deferred from FY26 and FY27 to future years. Similar to the alternative 1, unassigned CIP reserves are also exhausted in FY29.

	<i>BUDGET YR1</i> 2026	<i>BUDGET YR2</i> 2027	<i>FORECAST YR3</i> 2028	<i>FORECAST YR4</i> 2029	<i>FORECAST YR5</i> 2030
SCENARIO 3 - DEFERRED CIP & NO DEBT ISSUANCE					
CIP Expenditure (<i>excl Nutrient Const</i>)	10,291,320	6,191,180	9,971,100	8,079,300	7,747,000
Debt Issuance, net	-	-	-	-	-
Unassigned operating transfer in	141,787	-	983,954	4,282,346	-
Unassigned capital surplus/(usage)	(7,074,096)	(3,990,380)	(6,132,646)	(665,254)	(4,364,100)
Ending unassigned capital reserve	10,106,326	6,124,146	-	-	(3,651,354)

Attachments:

- 1) Reviewed CIP Funding Plan
- 2) Essential CIP Funding Plan
- 3) Deferred CIP Funding Plan

CENTRAL MARIN SANITATION AGENCY
CAPITAL IMPROVEMENT PROGRAM (CIP) FUNDING PLAN - SCENARIO 1 (BASE)
FOR FISCAL YEARS ENDED 2024 THROUGH 2034

Attachment 1

		YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
		ACTUAL	ACTUAL	BUDGET	BUDGET	FORECAST						
		6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034
1	Total annual CIP to fund	\$ 5,362,279	\$ 6,056,973	\$ 15,130,850	\$ 8,250,100	\$ 9,365,500	\$ 12,463,800	\$ 6,943,800	\$ 7,260,600	\$ 6,702,300	\$ 8,583,500	\$ 4,978,900
2	Nutrient Removal construction cost (Note 5)	-	-	-	-	-	31,734,300	33,348,000	-	-	-	-
3	Total annual CIP to fund (w/ NR cost)	\$ 5,362,279	\$ 6,056,973	\$ 15,130,850	\$ 8,250,100	\$ 9,365,500	\$ 44,198,100	\$ 40,291,800	\$ 7,260,600	\$ 6,702,300	\$ 8,583,500	\$ 4,978,900
CIP funding sources:												
4	Other financing sources - grants	\$ 1,556,349	\$ 2,962,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Other financing sources - bonds, net COI	-	-	12,675,000	-	-	-	-	-	-	-	-
6	Other financing sources - bond interest	-	-	122,000	-	-	-	-	-	-	-	-
7	Other financing sources - loans	-	-	-	-	-	-	-	-	-	-	-
8	Capacity charges	986,988	641,969	40,500	41,700	43,000	44,300	45,600	47,000	48,400	49,900	51,400
9	Debt service coverage fees (PY source)	1,124,141	1,093,418	1,131,437	1,124,300	1,365,800	1,354,400	1,354,400	1,364,000	1,364,900	1,364,300	367,900
10	Capital fees (Note 2)	1,289,186	1,359,361	1,161,913	1,034,800	1,445,700	1,733,000	1,982,900	2,286,400	2,608,400	7,169,300	4,559,600
11	Unassigned op transfer in (Note 3/4)	-	3,043,571	19,787	-	-	3,911,900	1,354,400	-	-	-	-
12	Total available funding	\$ 4,956,664	\$ 9,100,544	\$ 15,150,637	\$ 2,200,800	\$ 2,854,500	\$ 7,043,600	\$ 4,737,300	\$ 3,697,400	\$ 4,021,700	\$ 8,583,500	\$ 4,978,900
13	Unassigned capital surplus / (usage) - CIP	\$ (405,615)	\$ 3,043,571	\$ 19,787	\$ (6,049,300)	\$ (6,511,000)	\$ (5,420,200)	\$ (2,206,500)	\$ (3,563,200)	\$ (2,680,600)	\$ -	\$ -
14	Unassigned capital reserve, beginning	\$ 14,407,989	\$ 13,830,983	\$ 17,175,809	\$ 17,941,796	\$ 11,900,696	\$ 5,398,196	\$ -	\$ (847,704)	\$ (4,401,504)	\$ (7,074,204)	\$ (7,311,104)
15	Surplus / (deficit)	(577,007)	3,344,827	765,986	(6,041,100)	(6,502,500)	(5,398,196)	(847,704)	(3,553,800)	(2,672,700)	(236,900)	3,704,200
16	Unassigned capital reserve, ending	\$ 13,830,983	\$ 17,175,809	\$ 17,941,796	\$ 11,900,696	\$ 5,398,196	\$ -	\$ (847,704)	\$ (4,401,504)	\$ (7,074,204)	\$ (7,311,104)	\$ (3,606,904)
17	Policy target	\$ 8,105,877	\$ 7,477,169	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600	\$ 8,573,600

Note 1: The unassigned capital reserve surplus / (deficit) - CIP balance can be different from the actual change in the unassigned capital reserve balance due to funds transfers to/from other reserve accounts to fund CIP expenditures, pay debt service, and meet specific reserve requirements.

Note 2: Capacity charges are conservatively estimated following current budget practice. However, actual collections may significantly differ.

Note 3: The Agency's operating surplus may be higher than forecasted due to conservative estimates being used for cash inflows and outflows. This thereby increases the amount of unassigned reserves that can be transferred from operating activities to fund the capital program. Years 1 and 2 also includes one-time funds transfer in from unassigned operating to bring down unassigned operating down to \$500,000 per internal discussion.

Note 4: Year 5 includes all available operating reserves, emergency reserves, and unassigned operating reserves are being transferred into the unassigned capital reserve to help fund the capital program. Furthermore, all current year (in year 6) debt service coverage fee collections are expected to be transferred into the unassigned capital reserve--as included in the net surplus/(deficit) balance for the unassigned capital reserve balance. Starting in year 5, the Agency is expected to exhaust all available resources due to the intensity of the capital program's spending. This transfer, however, is spread across fiscal year 2029 and 2030 for purposes of presentation of needed aggregate funding. A breakdown of the transfer is the following:

Operating Reserve	\$ 4,562,300
Emergency Reserve	500,000
Unassigned Op Reserve	204,000
Total Unassigned Cap Transfer In	<u>\$ 5,266,300</u>

Note 5: Included for presentation only with a complete representation of expected costs on the capital program. Better cost figures are expected in future periods. The funding plan, however, does not consider this additional cost due to the uncertainty of the figures and plan design. Funding for this cost specifically will be reviewed at a later period. As such, the funding plan only considers the cost figures in line 1.

CENTRAL MARIN SANITATION AGENCY
CAPITAL IMPROVEMENT PROGRAM (CIP) FUNDING PLAN - SCENARIO 2 (ESSENTIAL CIP)
FOR FISCAL YEARS ENDED 2024 THROUGH 2034

		YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
		ACTUAL	ACTUAL	BUDGET	BUDGET	FORECAST						
		6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034
1	Total annual CIP to fund	\$ 5,362,279	\$ 6,056,973	\$ 12,910,620	\$ 8,128,980	\$ 6,122,200	\$ 2,028,900	\$ 2,175,400	\$ 4,005,900	\$ 4,700,600	\$ 3,704,700	\$ 2,900,400
2	Nutrient Removal construction cost (Note 4)	-	-	-	-	-	31,734,300	33,348,000	-	-	-	-
3	Total annual CIP to fund (w/ NR cost)	\$ 5,362,279	\$ 6,056,973	\$ 12,910,620	\$ 8,128,980	\$ 6,122,200	\$ 33,763,200	\$ 35,523,400	\$ 4,005,900	\$ 4,700,600	\$ 3,704,700	\$ 2,900,400
CIP funding sources:												
4	Other financing sources - grants	\$ 1,556,349	\$ 2,962,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Other financing sources - bonds, net COI	-	-	12,675,000	-	-	-	-	-	-	-	-
6	Other financing sources - bond interest	-	-	122,000	-	-	-	-	-	-	-	-
7	Other financing sources - loans	-	-	-	-	-	-	-	-	-	-	-
8	Capacity charges (Note 2)	986,988	641,969	40,500	41,700	43,000	44,300	45,600	47,000	48,400	49,900	51,400
9	Debt service coverage fees (PY source)	1,124,141	1,093,418	73,120	1,124,300	1,365,800	1,354,400	1,354,400	1,364,000	1,364,900	1,364,300	367,900
10	Capital fees (Note 5)	1,289,186	1,359,361	-	1,034,800	1,445,700	630,200	775,400	2,286,400	2,608,400	2,290,500	2,481,100
11	Unassigned op transfer in (Note 3)	-	3,043,571	19,787	-	-	-	-	-	-	-	-
12	Total available funding	\$ 4,956,664	\$ 9,100,544	\$ 12,930,407	\$ 2,200,800	\$ 2,854,500	\$ 2,028,900	\$ 2,175,400	\$ 3,697,400	\$ 4,021,700	\$ 3,704,700	\$ 2,900,400
13	Unassigned capital surplus / (usage) - CIP	\$ (405,615)	\$ 3,043,571	\$ 19,787	\$ (5,928,180)	\$ (3,267,700)	\$ -	\$ -	\$ (308,500)	\$ (678,900)	\$ -	\$ -
14	Unassigned capital reserve, beginning	\$ 14,407,989	\$ 13,830,983	\$ 17,175,809	\$ 20,162,026	\$ 14,212,846	\$ 10,848,146	\$ 11,665,946	\$ 12,475,946	\$ 11,818,846	\$ 10,844,546	\$ 16,287,846
15	Surplus / (deficit)	(577,007)	3,344,827	2,986,216	(5,949,180)	(3,364,700)	817,800	810,000	(657,100)	(974,300)	5,443,300	5,703,700
16	Unassigned capital reserve, ending	\$ 13,830,983	\$ 17,175,809	\$ 20,162,026	\$ 14,212,846	\$ 10,848,146	\$ 11,665,946	\$ 12,475,946	\$ 11,818,846	\$ 10,844,546	\$ 16,287,846	\$ 21,991,546
17	Policy target	\$ 8,105,877	\$ 7,477,169	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500	\$ 5,273,500

Note 1: The unassigned capital reserve surplus / (deficit) - CIP balance can be different from the actual change in the unassigned capital reserve balance due to funds transfers to/from other reserve accounts to fund CIP expenditures, pay debt service, and meet specific reserve requirements.

Note 2: Capacity charges are conservatively estimated following current budget practice. However, actual collections may significantly differ.

Note 3: The Agency's operating surplus may be higher than forecasted due to conservative estimates being used for cash inflows and outflows. This thereby increases the amount of unassigned reserves that can be transferred from operating activities to fund the capital program. Years 1 and 2 also includes one-time funds transfer in from unassigned operating to bring down unassigned operating down to \$500,000 per internal discussion.

Note 4: Included for presentation only with a complete representation of expected costs on the capital program. Better cost figures are expected in future periods. The funding plan, however, does not consider this additional cost due to the uncertainty of the figures and plan design. Funding for this cost specifically will be reviewed at a later period. As such, the funding plan only considers the cost figures in line 1.

Note 5: Expected collections are higher per forecast, but the schedule is built from the perspective of needed funding for the CIP plan. As such, amounts presented in the schedule may be lower than forecasted as not as much of the source is deemed to be needed. Excess amounts are placed in reserve until needed in a future period.

CENTRAL MARIN SANITATION AGENCY
CAPITAL IMPROVEMENT PROGRAM (CIP) FUNDING PLAN - SCENARIO 3 (DEFER CIP & NO DEBT ISSUANCE)
FOR FISCAL YEARS ENDED 2024 THROUGH 2034

Attachment 3

		YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
		ACTUAL	ACTUAL	BUDGET	BUDGET	FORECAST						
		6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034
1	Total annual CIP to fund	\$ 5,362,279	\$ 6,056,973	\$ 10,291,320	\$ 6,191,180	\$ 9,971,100	\$ 8,079,300	\$ 7,747,000	\$ 13,954,600	\$ 6,701,000	\$ 8,504,700	\$ 5,230,000
2	Nutrient Removal construction cost (Note 5)	-	-	-	-	-	31,734,300	33,348,000	-	-	-	-
3	Total annual CIP to fund (w/ NR cost)	\$ 5,362,279	\$ 6,056,973	\$ 10,291,320	\$ 6,191,180	\$ 9,971,100	\$ 39,813,600	\$ 41,095,000	\$ 13,954,600	\$ 6,701,000	\$ 8,504,700	\$ 5,230,000
CIP funding sources:												
4	Other financing sources - grants	\$ 1,556,349	\$ 2,962,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Other financing sources - bonds, net COI	-	-	-	-	-	-	-	-	-	-	-
6	Other financing sources - bond interest	-	-	-	-	-	-	-	-	-	-	-
7	Other financing sources - loans	-	-	-	-	-	-	-	-	-	-	-
8	Capacity charges	986,988	641,969	40,500	41,700	43,000	44,300	45,600	47,000	48,400	49,900	51,400
9	Debt service coverage fees (PY source)	1,124,141	1,093,418	1,131,437	1,124,300	1,365,800	1,354,400	1,354,400	1,364,000	1,364,900	1,364,300	367,900
10	Capital fees (Note 2)	1,289,186	1,359,361	1,903,500	1,034,800	1,445,700	1,733,000	1,982,900	2,286,400	2,608,400	7,090,500	4,810,700
11	Unassigned op transfer in (Note 3/4)	-	3,043,571	141,787	-	983,954	4,282,346	-	-	-	-	-
12	Total available funding	\$ 4,956,664	\$ 9,100,544	\$ 3,217,224	\$ 2,200,800	\$ 3,838,454	\$ 7,414,046	\$ 3,382,900	\$ 3,697,400	\$ 4,021,700	\$ 8,504,700	\$ 5,230,000
13	Unassigned capital surplus / (usage) - CIP	\$ (405,615)	\$ 3,043,571	\$ (7,074,096)	\$ (3,990,380)	\$ (6,132,646)	\$ (665,254)	\$ (4,364,100)	\$ (10,257,200)	\$ (2,679,300)	\$ -	\$ -
14	Unassigned capital reserve, beginning	\$ 14,407,989	\$ 13,830,983	\$ 17,175,809	\$ 10,106,326	\$ 6,124,146	\$ (0)	\$ (0)	\$ (3,651,354)	\$ (13,900,554)	\$ (16,573,354)	\$ (16,732,854)
15	Surplus / (deficit)	(577,007)	3,344,827	(7,069,484)	(3,982,180)	(6,124,146)	-	(3,651,354)	(10,249,200)	(2,672,800)	(159,500)	3,451,700
16	Unassigned capital reserve, ending	\$ 13,830,983	\$ 17,175,809	\$ 10,106,326	\$ 6,124,146	\$ (0)	\$ (0)	\$ (3,651,354)	\$ (13,900,554)	\$ (16,573,354)	\$ (16,732,854)	\$ (13,281,154)
17	Policy target	\$ 8,105,877	\$ 7,477,169	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700	\$ 8,272,700

Note 1: The unassigned capital reserve surplus / (deficit) - CIP balance can be different from the actual change in the unassigned capital reserve balance due to funds transfers to/from other reserve accounts to fund CIP expenditures, pay debt service, and meet specific reserve requirements.

Note 2: Capacity charges are conservatively estimated following current budget practice. However, actual collections may significantly differ.

Note 3: The Agency's operating surplus may be higher than forecasted due to conservative estimates being used for cash inflows and outflows. This thereby increases the amount of unassigned reserves that can be transferred from operating activities to fund the capital program. Years 1 and 2 also includes one-time funds transfer in from unassigned operating to bring down unassigned operating down to \$500,000 per internal discussion.

Note 4: Year 4 & 5 includes all available operating reserves, emergency reserves and unassigned operating reserves being transferred into the unassigned capital reserve to help fund the capital program. Furthermore, all current year (in year 6) debt service coverage fee collections are expected to be transferred into the unassigned capital reserve--as included in the net surplus/(deficit) balance for the unassigned capital reserve balance. Starting in year 6, the Agency is expected to exhaust all available resources due to the intensity of the capital program's spending. A breakdown of the operating transfer is the following:

Operating Reserve	\$ 4,434,400
Emergency Reserve	500,000
Unassigned Op Reserve	331,900
Total Unassigned Cap Transfer In	<u>\$ 5,266,300</u>

Note 5: Included for presentation only with a complete representation of expected costs on the capital program. Better cost figures are expected in future periods. The funding plan, however, does not consider this additional cost due to the uncertainty of the figures and plan design. Funding for this cost specifically will be reviewed at a later period. As such, the funding plan only considers the cost figures in line 1.



FINANCE COMMITTEE MEMORANDUM

October 13, 2025

To: CMSA Finance Committee

From: Corey Spray, Administrative Services Manager
Jason Dow, General Manager

Subject: FY26 Debt Issuance Tasks

Recommendation: Informational.

Discussion: The Committee reviewed the FY26 debt issuance tasks at the September 16 meeting. Staff will update the tasks prior to each Committee meeting and present them for information and discussion.

The following tasks need to be completed prior to initiating a debt issuance.

- 1) Committee to review Capitol Improvement Program (CIP) funding model and decide on any revisions.
Status: In-progress. Two funding alternatives selected by Committee on 9/16.
- 2) Staff revision of the funding CIP funding model and the Committee accept it.
Status: In-progress. Three funding alternatives prepared for review
- 3) Committee to prepare debt issuance plan for Board consideration: NTE debt issuance amount, issuance type, financial advisor, bond/disclosure counsel, issuance method.
- 4) Board discussion and decision on debt issuance plan.
- 5) Financial advisor and bond/disclosure contracts approval by Board.
- 6) Financial advisor prepares debt issuance structure alternatives for Committee review and decision.
- 7) Bond counsel prepares debt issuance documents.
- 8) Board approves debt issuance.

**BOARD MEMORANDUM**

October 13, 2025

To: CMSA Commissioners and Alternates

From: Corey Spray, Administrative Services Manager
Jason Dow, General Manager

Subject: **FY26 Regional Charge Allocation Options**

Recommendation: Discuss the FY26 Regional Charge Allocation options, and provide direction to staff as appropriate.

Summary: The Board will discuss the current 36-month flow/strength, proposed 20-month flow/strength, and 12-month flow allocations and their respective FY26 charges at its 10/14 meeting, and answer several questions raised at the 9/16 Committee meeting. The Committee will review Board comments, decisions, and any direction at its 10/15 meeting.

Discussion: The FY26 Regional Charge allocation is based on 3-years of flow and strength data, from April 2022 – March 2025. The first year's strength data is from the original sample port on both interceptors, and the following two year's strength data are from the new sample ports. Due to some of the data from the original sample ports not being representative of the collection systems' strength, RVSD is proposing to use data from the new sample locations, July 2023 – March 2025. The current and proposed FY26 flow/strength allocation percentages are shown below in Table 1, and the associated FY26 charges are shown in Table 2.

FY26 Flow/Strength Allocations	RVSD	SRSD	SD2
Current Allocation	48.64	40.18	11.18
Proposed Allocation	44.66	41.21	14.13

Table 1

FY26 Flow/Strength Charges	RVSD	SRSD	SD2
Current Charge	\$7,659,389	\$6,327,184	\$1,760,525
Proposed Charge	\$7,032,655	\$6,489,380	\$2,225,065
Difference	<\$626,734>	\$162,195	\$464,539

Table 2

If the FY26 flow/strength allocation is based on data obtained from the new sample ports, RVSD will overpay and both SRSD and SD2 will underpay their FY26 charges.

The Committee asked the JPA managers to consider flow based alternatives for the Regional Charge, and those discussions are underway. The Committee asked staff to present the strength data for each satellite collection agency which is shown in Table 3 below.

Statistic	RVSD		SRSD		SD2		SQ	
	BOD	TSS	BOD	TSS	BOD	TSS	BOD	TSS
	mg/L	mg/L	mg/L	mg/L	mg/L	mg/L	mg/L	mg/L
Minimum	55	65	69	75	68	31	81	50
Maximum	273	234	316	280	408	748	232	532
Average	190	159	207	157	223	257	168	218

Table 3 – BOD and TSS data since July 2023

The 12-month and 36-month flow allocations are shown below in Table 4, the current flow/strength and 12-month flow allocation charges are shown in Table 5, and the current flow/strength and 36-month flow allocation charges are shown in Table 6.

FY26 Flow Allocations	RVSD	SRSD	SD2
12-month Flow Allocation	48.19	40.35	11.46
36-month Flow Allocation	48.51	40.23	11.26

Table 4

FY26 Charges: 12-month flow	RVSD	SRSD	SD2
Current Flow/Strength Charge	\$7,659,389	\$6,327,184	\$1,760,525
12-month Flow Charge	\$7,638,918	\$6,335,058	\$1,773,123
Difference	<\$70,862>	\$26,770	\$44,092

Table 5

FY26 Charges: 36-month flow	RVSD	SRSD	SD2
Current Flow/Strength Charge	\$7,659,389	\$6,327,184	\$1,760,525
36-month Flow Charge	\$7,638,918	\$6,335,058	\$1,773,123
Difference	<\$20,471>	\$7,874	\$12,598

Table 6

The Board will consider the following questions at its 10/14 meeting, and the Committee will review Board comments, decisions, and any direction at its 10/15 meeting.

- 1) Should the FY26 Regional Charges use the proposed 20-month flow/strength allocation?
- 2) Should RVSD be credited for any current FY26 overpayments?
- 3) Should SD2 and SRSD be charged for any FY26 underpayments?
- 4) If the answer to question 3 is Yes, direct the Finance Committee to consider underpayment invoicing alternatives.
- 5) Should future Regional Charges use a flow-based allocation?



FINANCE COMMITTEE MEMORANDUM

October 13, 2025

To: CMSA Finance Committee

From: Corey Spray, Administrative Services Manager
Jason Dow, General Manager

Subject: **FY25 Annual Comprehensive Financial Report (ACFR) – Introductory Section**

Recommendation: Consider changes to the financial information in the FY25 ACFR Introductory Section.

Discussion: Staff is in process of completing its external financial audit with Maze & Associates by preparing the FY25 Financial Statements. Concurrently, staff are also preparing the FY25 Annual Comprehensive Financial Report (ACFR) with the Introduction and Statistical sections. Last year, staff expanded the Management Discussion and Analysis (MD&A) section of the Financial Statements to include more substantive and comprehensive financial information. The MD&A, financial statements, and notes are components in the Financial Section of the ACFR. While preparing the draft FY25 ACFR, staff noted that there is duplicative financial information in the ACFR Introductory section and the MD&A, and is seeking Finance Committee thoughts on removing the duplicative information in the Introductory Section.

Attachments:

- 1) FY24 ACFR Introduction Section – Finance Information
- 2) FY24 ACFR Financial Section – Management’s Discussion & Analysis

Attachment 1**FINANCIAL INFORMATION**

Accounting System and Budgeting Controls: The Agency's executive team is responsible for establishing and maintaining a system of internal controls over financial reporting. In fulfilling this responsibility, they make decisions to assess the expected benefits and related costs of control procedures. The objectives of the system are (1) to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and (2) to ensure that transactions are executed in accordance with management and Board authorization, and are properly recorded in accordance with generally accepted accounting principles of the United States of America (US GAAP). CMSA believes that its internal controls over financial reporting adequately address both goals.

CMSA accounts for its financial activities in a single enterprise fund proportionately charging for wastewater treatment services to its JPA members who charge full service wastewater collection and treatment fees to service connections within their respective service areas. The Agency's account structure, insofar as is practical, and in accordance with GAAP, follows the California State Controller's System of Accounts for a Waste Disposal Enterprise. This is a set of procedures that provides general accounting and reporting guidelines to be used by California Special Districts performing waste disposal enterprise activities.

The Agency's Board of Commissioners adopts a biennial budget to serve as the approved financial plan for each of the two fiscal years. Provisions within the JPA agreement authorize the Board to set the regional service charge to the JPA member agencies. Total revenues received by CMSA from the JPA members, as well as several other revenue sources, fund the Agency's annual operations, capital programs, and debt service. The budget is used as a key control device to ensure Board oversight for operations and capital expenditures, monitor expenses and project their progress. All operating and capital activities of the Agency are included in the approved biennial budget, along with a 10-year CIP and 10-year financial forecast model.

Financial Condition: The maintenance of adequate cash reserves is an essential element of the Agency's prudent financial management practices and is a key component of the Agency's sound financial position. An appropriate level of reserves ensures that resources are available for unforeseen emergencies, future capital improvement projects, and unanticipated revenue fluctuations. The Board has adopted a comprehensive reserve policy that includes specific guidance on reserve designations, funding levels, and the accumulation and uses for the established reserves. The accumulated balance in each reserve designation is reported in the monthly Treasurer's Reports to the Board and is available in the Board meeting Agenda Packet that is posted on the website at <http://www.cmsa.us/board/agendas-and-minutes>.

Cash Management: The Agency utilizes the services of Westamerica Bank, the Local Agency Investment Fund (LAIF), and the California Asset Management Program (CAMP) to manage its cash and cash equivalent assets. Westamerica Bank serves the Agency's general banking requirements in processing Agency receipts and disbursements. LAIF is a pooled investment

FINANCIAL INFORMATION (Continued)

fund, administered by the Office of the State Treasurer of California and available to California local government agencies. LAIF investments are considered liquid and provide competitive short-term rates.

Additionally, the Agency invests a portion of its budgeted reserves in CAMP, a JPA established in 1989 to provide professional investment services to public agencies at a reasonable cost. Specifically, CAMP offers its investors a money market trust for the investment of public funds.

Total interest income earned and recognized from these accounts during FY24 was \$904,937. The increase is attributable to an inflationary interest rate environment on pooled investments held in LAIF and CAMP.

Agency Funding: The Agency began its FY24 and FY25 two-year budget development process with the review of the funding requirements for salaries, benefits, materials, supplies, debt service, reserves, and capital project activities. It next assessed the different sources of revenues to fund those requirements.

Regional service charges to JPA members and the contract services revenues received for providing wastewater services to SQSP account for the two major sources of Agency revenues. These charges are set annually by the Board or through contractual agreement. Guided by a revenue management financial policy, the Agency allocates sewer service charges to each JPA member based on the three-year rolling average of their volume and strength of delivered wastewater. This methodology represents a measurable and fair assignment of treatment costs, using the cost-of-service principal as applied.

An EDU rate of \$108.11 was used to allocate debt service to each JPA member for FY24. Historic EDU rates for the last ten years are displayed in Schedule 8 of the Statistical Section. During FY24, the Agency received a total of \$13,941,551 for sewer service charges and \$5,626,258 for debt service.

Significant Non-Cash Transactions: While most financial transactions involve the receipt or payment of cash, some transactions known as accruals involve the recognition of revenue or expense on a different time-period than with the receipt or payment of cash. In FY24, the Agency recorded non-cash pension expense that was the result of CalPERS both recognizing and amortizing the pension obligation bond refunding. The amount and change is listed below:

Non-Cash Transactions	FY Ended June 30, 2024	Increase from FY23	Percent (Decrease)
GASB 68 non-cash pension accrual	\$4,899,629	\$3,216,901	191 %

FINANCIAL INFORMATION (Continued)

Operating & Non-Operating Revenues: The table below shows a summary of revenues by source in FY24 and compares dollar and percentage changes over FY23. The amounts shown in the table below differs from the audited Statement of Revenues and Expenses as it provides additional detail for revenues by source and excludes non-operating revenues.

Operating & Non-Operating Revenues	Fiscal Year Ended June 30, 2024	FY24 Percent of Total	Increase (Decrease) from FY23	Percent Increase (Decrease)
Regional Service Charge	\$ 13,941,551	60.0 %	\$ 774,549	5.9 %
Debt Service Charge	5,626,258	24.2 %	(26,281)	(0.5) %
Contract Maintenance Revenue	1,694,712	7.3 %	(162,177)	(8.7) %
Property Use & Energy Resource Revenue	134,955	0.6 %	10,561	8.5 %
Permit and Inspection Fees	85,650	0.2 %	(4,802)	(5.3) %
Source Control Program Revenues	96,291	0.4 %	(2,717)	(2.7) %
Revenue from Haulers & RV	411,939	1.8 %	114,397	38.4 %
Public Education & Safety Program	134,746	0.6 %	18,907	16.3 %
Interest and Investment Income	1,159,918	5.0 %	681,620	142.5 %
Total Revenues	22,242,576	100.0 %	1,394,749	6.4 %

Note: The above schedule is corrected to show receipt of grant proceeds as a capital contribution.

Total operating and non-operating revenues, excluding capital contributions, increased by \$1,394,749. Increases and decreases in each revenue category is summarized as follows:

- Regional service charges include a user fee and a capital fee. These charges increased 4% in total per a scheduled increase for FY24.
- Debt service charges include the principal and interest for the base debt service, plus a 25% debt coverage fee used for capital funding. Debt service charges slightly decreased due to declining balances on the 2015 and the 2020 Revenue Bonds.
- Contract maintenance revenues decreased \$162,177 due to completion of one-time extra work asset management projects for SQSP.
- Property use and energy resource revenues increased \$10,561 due to increased sales of excess renewable energy to Marin Clean Energy from acceptance of more organic waste.
- Revenue from haulers increased \$114,397 from receiving more septic and FOG waste.
- Public education and safety program revenues increased \$18,907 primarily from a normal cost-of-living adjustment on payroll costs for the Safety program.
- Interest and investment income increased \$681,620 primarily from larger interest earned by the Local Agency Investment Fund.

FINANCIAL INFORMATION (Continued)

Capital Contributions: The following schedule presents a summary of capital contributions in FY24, with a dollar and percentage comparison for changes over FY23.

Capital Contributions	Fiscal Year Ended June 30, 2024	FY24 Percent of Total	Increase (Decrease) from FY23	Percent Increase (Decrease)
Capacity charges	\$ 1,152,938	41.1 %	\$ 511,604	79.8 %
Grants	1,650,501	58.9 %	723,803	78.1 %
Total Capital Contributions	\$ 2,803,439	100.0 %	\$ 1,235,406	78.8 %

Note: The above schedule is corrected to show receipt of grant proceeds as a capital contribution.

Total capital contributions increased by \$1,235,406. Increases and decreases in each category is summarized as follows:

- Capacity charges increased \$511,604 due to increased construction activity from new residential, commercial or additional drainage fixture connections. These fees are collected by the JPA members and remitted to CMSA.
- Grants increased \$723,803 due to completion of the Liquid Organic Waste Removal rehabilitation capital project. Costs for this project are reimbursable under the CalRecycle grant program.

The California Government Code requires certain disclosures regarding capacity charges. The Code requires separate accounting of capacity charges and the application of interest to outstanding balances at year end. The Agency's practice is to utilize capacity charges received on a first-in-first-out basis to finance capital projects during the fiscal year. No interest was posted to capacity charges and there was no outstanding balance of capacity charges at year end. Other required disclosures for FY24 are as follows:

- Total amount of capacity charges collected \$ 1,152,938

Listing of FY24 capital improvement projects for which capacity charges were applied:

- Secondary clarifier #2 rehabilitation \$ 546,505
- Primary clarifier #1 rehabilitation 542,282
- FY24 pavement repair project 64,151

FINANCIAL INFORMATION (Continued)

Expenses Related to General Operations: The following schedule presents a summary of general operating expenses, excluding non-operating expenses, capital assets, depreciation, and debt service expenses, for FY24. It also includes a comparison of dollar and percentage changes over FY23.

Operating Expenses	Fiscal Year Ended June 30, 2024	FY24 Percent of Total	Increase (Decrease) from FY23	Percent Increase (Decrease)
Salaries and Benefits	\$ 14,654,485	70.9 %	\$ 3,733,685	34.2 %
Biosolids Management	412,515	2.0 %	(27,450)	(6.2) %
Chemicals and Fuel	1,911,621	9.2 %	252,658	15.2 %
Repairs and Maintenance	1,753,981	8.5 %	1,089,128	163.8 %
Permit Testing and Monitoring	206,743	1.0 %	2,638	1.3 %
Insurance	570,090	2.8 %	159,655	38.9 %
Utilities and Telephone	427,641	2.1 %	(18,379)	(4.1) %
General and Administrative	737,774	3.6 %	(62,545)	(7.8) %
Total Operating Expenses	\$ 20,674,851	100.0 %	\$ 5,129,391	33.0 %

Total operating expenses increased by \$5,129,391 and are summarized as follows:

- Salaries and benefits increased \$3,733,685 from the prior year due to a 4.5% cost-of-living adjustment, a 9.8% increase of medical expenses, and a large non-cash accrued pension expense of approximately \$4,899,629.
- Biosolids management decreased \$27,450 due to the limited availability of the biosolids land application sites. Biosolids were instead delivered to the landfill which has lower transportation costs.
- Chemicals and fuel increased \$252,658 due to continued inflationary pressures and supply chain issues in the fiscal year.
- Repairs and maintenance increased \$1,089,128 due to the Agency performing more in-house routine repairs versus performing full replacement of machinery and equipment.
- Insurance increased \$159,655 due to continued cost pressures from both the property insurance and workers' compensation policies. The overall risk in property insurance policies increased because of recent natural disasters, property market values, and financial market turbulence. Similarly, the risk within the Agency's workers' compensation insurance policy increased because of more claims were being filed.
- Utilities and telephone costs decreased \$18,379 primarily due to the Agency generating the majority of the power it needs with only purchases of natural gas performed on an as needed basis.
- General and Administrative expenses decreased \$62,545 due to its Microsoft software license being on a three-year cycle and a lower number of conferences being attended.

FINANCIAL INFORMATION (Continued)

Revenue Bonds Assets and Liabilities: The Agency issued Refunding Revenue Bonds Series 2015 in the principal amount of \$49,310,000 at a premium of \$5,344,174 in an advance refunding to prepay the outstanding principal of 2006 Revenue Bonds, purchase a surety policy to replace the previous cash funded reserve, and pay certain costs of issuing the bonds. The Bonds are fully registered, with principal due annually on September 1, and interest payable semi-annually on March 1 and September 1 and bear an interest rate ranging from 2.5 to 5.0 percent. The bonds are callable at par anytime after September 1, 2025.

The Agency issued \$9,115,000 in Series 2020 Revenue Bonds during FY21 at a premium of \$215,574 and discount of \$70,982 with an interest rate ranging from 2.0 to 2.25 percent. The Bonds were used primarily for improvements to the Agency's treatment facilities, for certain other maintenance projects to replace capital assets at end of their service life, and to make other capital improvements as approved by the Board of Commissioners. The Bonds are fully registered with principal due annually on September 1 and interest payable semi-annually on March 1 and September 1. The bonds are callable at par anytime on or after September 1, 2030.

Each JPA member is obligated to pay its share of the semi-annual debt service and 25% debt coverage payments to CMSA, pursuant to a Debt Service Payment Agreement between CMSA and the JPA members, and the Master Indenture between CMSA and the Bond Trustee. The allocation of the debt service payment and coverage to each member is based on the number of EDUs reported for the member's service area. Debt Service Charges per EDU are fixed for each member's service area for consistency beginning with FY18. Service Charge Revenue reflects the actual semi-annual debt service payments received from the JPA members and is based solely on 125% of the scheduled semi-annual debt payments to the bond holders.

The following schedule is a summary of debt service activities related to Refunding Revenue Bond Series 2015 and Revenue Bond Series 2020 for the fiscal year ended June 30, 2024.

	Fiscal Year Ended June 30, 2024
Revenue Related to Debt Service	
Service charge revenue - principal	\$ 3,175,000
Service charge revenue - interest	1,326,006
Service charge revenue - coverage	1,125,252
Service Charge Revenue: Debt Service	<u>\$ 5,626,258</u>
Outstanding Debt	
Current Maturity (due in one year)	3,325,000
Long-term debt (greater than one year)	<u>32,170,000</u>
Total Outstanding Debt	<u>\$35,495,000</u>

FINANCIAL INFORMATION (Continued)

Pension Obligation Bonds: On April 28, 2022, the Agency issued \$9,432,000 in private placement Series 2022 taxable Pension Obligation Bonds (POBs) with an interest rate of 3.36%. The POBs were used solely for reducing the Agency's unfunded actuarial accrued pension liability (UAAL) by paying off a significant portion of the balance. The POBs are fully registered with principal due annually on September 1 and interest payable semi-annually on March 1 and September 1. The POBs are callable at par anytime on or after September 1, 2030.

	Fiscal Year Ended June 30, 2024
Expenditures Related to Debt Service	
Debt service expenditure - principal	\$ 130,000
Debt service expenditure - interest	309,154
Debt service expenditure: total	<u>\$ 439,154</u>
Outstanding Debt	
Current Maturity (due in one year)	248,000
Long-term debt (greater than one year)	<u>8,888,000</u>
Total Outstanding Debt	<u>\$ 9,136,000</u>

The POBs were set to pay off 98% of the UAAL with CalPERS. Funding for the POBs comes from the former annual scheduled UAAL payment with CalPERS. Annual POB debt service is lower than the scheduled annual UAAL payment. The Agency will continue to budget for the annual scheduled UAAL payment with the excess of the UAAL payment amount over the debt service payment amount contributed to a Section 115 pension trust. Monies accumulated in the trust currently in the amount of \$904,043 are accounted for as assets of the Agency and restricted net assets and may be used for pension benefit purposes only. The POB debt service is not separately invoiced to the JPA members with a coverage requirement like the 2015 and 2020 revenue bonds. The debt service is covered by the operating revenues collected. \$675,370 was contributed to the trust in FY24.

Capital Assets: The following schedule presents a summary of capital assets for the fiscal year ended June 30, 2024, with a dollar and percentage comparison for changes over FY23.

Capital Assets	Fiscal Year Ended June 30, 2024	Increase (Decrease) from FY23	Percent Increase (Decrease)
Plant and facilities at cost	\$180,624,865	\$1,090,970	0.6 %
Accumulated depreciation and amortization	<u>(100,292,399)</u>	<u>(1,582,040)</u>	<u>1.6 %</u>
Net Plant and Facility	\$ 80,332,466	\$ (458,685)	(0.5) %

The Agency's investment in capital assets as of June 30, 2024 totaled \$80,332,466, net of accumulated depreciation. The investment in capital assets includes land and land improvements, construction-in-progress, wastewater treatment facilities, wastewater disposal

FINANCIAL INFORMATION (Continued)

facilities, general plant and administrative facilities, and right-of-use assets. During FY24, the Agency acquired \$4,798,568 in capital assets, transferred approximately \$4,489,955 from construction-in-progress into service, and recorded an additional amount of approximately \$4,113,017 for depreciation of capital assets in service. Depreciation expense increased by \$308,070, as there were more assets placed in service in FY24 versus FY23. Major capital asset transactions including amounts spent during the fiscal year include the following:

- Completed the FY24 Pavement Repair Project, \$284,541
- Completed the 2023 Andersen Hillside Slope Repairs, \$289,207
- Completed the Secondary Clarifier #2 Rehabilitation, \$546,505
- Completed the Biosolids Hopper Structural Repairs, \$236,588
- Completed the Liquid Organic Waste Facility project, \$3,126,471
- Ongoing capital costs for the Primary Clarifier #1 Rehabilitation, \$542,282
- Ongoing capital costs for the Centrifuge Replacement, \$177,536
- Ongoing capital costs for the Headworks Grit Classifiers Replacement, \$150,197
- Purchased and placed in service various pumps and wastewater facilities, \$217,055
- Purchased and placed in service various laboratory and general equipment, \$91,854
- Purchased and placed in service a new vehicle, \$32,481

Pension Benefits: Retirement costs have been under scrutiny in recent years due to increasing costs in connection with CalPERS and the financial performance of CalPERS. Total employer pension obligation has been reduced for new employees hired after January 1, 2013 under what is known as the Public Employees' Pension Reform Act (PEPRA). CalPERS is now essentially a two-tiered system for Classic members hired before January 1, 2013 and PEPRA members for those hired on or after January 1, 2013. CalPERS continues to revise its pension-related actuarial assumptions, such as the discount rate and life expectancy, among others, that often leads to increased employer contribution rates. Due to the sensitivity of rates and their relationship as a percentage of revenue, the Agency has elected to disclose this information on its website for transparency (See Table of CalPERS Pension Contributions as Percentage of Revenue at www.cmsa.us/finance/documents/). Approximately 71% of Agency employees were hired under the lower-cost PEPRA plan.

One of the requirements of a recent governmental accounting pronouncement, GASB 68, is to reflect a liability for total pension obligation on the face of the Statement of Net Position and for increases or decreases in the obligation to flow through the Statement of Revenues and Expenses and Changes in Net Position. Differences between the total change in obligation and actual cash paid are an accounting procedure known as accruals. For transparency, the Agency describes details of significant cash versus accrual items when they occur to ensure clarity for large changes in benefit expenses.

FINANCIAL INFORMATION (Continued)

<u>Fiscal Year</u>	<u>Base Pension Contributions</u>	<u>UAL Pension Contributions</u>	<u>Pension Accrued</u>	<u>Total Pension</u>
FY24	\$ 720,700	\$ 21,243	\$ 4,899,629	\$ 5,641,620
FY23	647,909	518,633	1,682,728	2,849,270
FY22	639,170	975,377	(669,921)	944,626
FY21	687,250	831,045	690,696	2,208,991
FY20	596,587	724,668	1,058,022	2,379,277
FY19	533,164	598,231	310,173	1,441,568
FY18	347,760	619,899	1,040,765	2,008,424
FY17	553,681	403,722	1,174,900	2,132,303
FY16	607,041	352,583	(256,509)	703,115
FY15	927,186	(1)	(731,956)	195,230
FY14	2,724,054	(1)	(2)	2,724,054

Note ¹ UAL pension contributions formerly included in employer base contributions rate.

Note ² Pension accruals became effective with GASB 68.

Other Post-Employment Benefits (OPEB): The Agency provides other post-employment benefits (OPEB) for eligible employees also on a two-tiered basis. Tier-1 employees hired before July 1, 2010 receive a fully paid lifetime medical insurance benefit for the employee only, while Tier-2 employees hired after July 1, 2010 may receive a lifetime medical insurance benefit, currently in the amount of \$157 per month and adjusted annually thereafter, with the remainder of the monthly insurance premium paid by the retiree. During active years, Tier-2 employees also receive an employer provided health reimbursement account (HRA) used to accumulate funding to pay for medical costs after retirement. The Agency contributes 1.5% of gross base salary to the HRA plan, that is not taxed as compensation, upon transfer to the trust, or upon receipt of benefits from the trust.

The Agency is subject to an accounting pronouncement known as GASB 75 that became effective in FY18 for its post-retirement health care plan. Like pensions, the total obligation for the OPEB plan, net of plan assets, will be reflected as a liability on the Statement of Net Position. The plan is approximately 63% funded with an unfunded liability remaining in the amount of \$1,819,874. Increases or decreases in the obligation will now flow through the Statement of Revenues and Expenses and Changes in Net Position and, if material, will be described in its two components of cash payments made as well as non-cash accruals recorded. For transparency, the Agency has also elected to post its OPEB actuarial valuation reports on the website at www.cmsa.us/finance/documents.

The Agency uses the California Employers' Retirement Benefit Trust (CERBT) to hold its plan assets for distribution to eligible retirees and beneficiaries. The table below reflects the Agency's retiree count, plan contributions, and total OPEB expense by year.

FINANCIAL INFORMATION (Continued)

<u>Fiscal Year</u>	<u>Number Retirees</u>	<u>OPEB Contributions</u>	<u>OPEB Accrued ⁽¹⁾</u>	<u>Total OPEB</u>
FY24	39	\$ 193,621	\$ 292,155	\$ 485,776
FY23	38	170,046	(29,583)	140,463
FY22	35	176,458	(195,119)	(18,661)
FY21	34	209,974	(50,917)	159,057
FY20	32	226,958	(39,025)	187,933
FY19	31	224,526	21,772	246,298
FY18	32	292,033	(38,862)	253,171
FY17	30	286,875	15,912	302,787
FY16	30	289,977	19,997	309,974
FY15	30	314,006	(1)	314,006
FY14	31	307,370	(1)	307,370

Note ¹ OPEB accruals became effective with GASB 43 later superseded by GASB 75.

Risk Management: The Agency maintains a comprehensive risk management program which encompasses risk retention and/or transfer, and risk reduction or avoidance. In the area of risk retention and/or transfer, the Agency transfers risk using insurance policies, while retaining a manageable portion of risk through deductibles. The Agency is a member of the California Sanitation Risk Management Authority, a JPA with 59-member wastewater agencies in the state, that was established for the operation of common risk management and loss prevention programs for its Workers' Compensation, general liability and auto liability, employment practice, and property insurance needs. Risk is transferred whenever possible using hold harmless (indemnification) clauses in all Agency-related contracts and agreements.

In the area of risk reduction or avoidance, the Agency utilizes a safety officer, a safety committee comprised of employees from different department and work groups, the cooperative Health & Safety Program, and outside risk management and safety consultants. Much attention is focused on safety at CMSA. Training is provided to educate employees on all aspects of workplace safety. It includes required Cal-OSHA safety training, and proper workplace performance procedures for everyday duties such as the proper usage of tools and machinery and safe driving programs for employees using Agency vehicles. Additional recognition is given to the safety committee and safety officer for their ongoing efforts to ensure workplace safety.

Independent Audit: State statutes require an annual audit by independent Certified Public Accountants. The accounting firm of Maze & Associates Accounting Corporation performed the audit of the Agency's FY24 financial statements. Maze & Associates Accounting Corporation specializes in governmental and non-profit audit engagements. In addition to meeting the requirements set forth in state statutes, the auditor also reviewed the Agency's financial policies and procedures, as well as the Agency's adherence to them in conducting financial transactions. The auditor's report on the general-purpose financial statements and accompanying notes are included in the financial section of this report.

Central Marin Sanitation Agency
Management's Discussion and Analysis (*Unaudited*)
June 30, 2024

Attachment 2

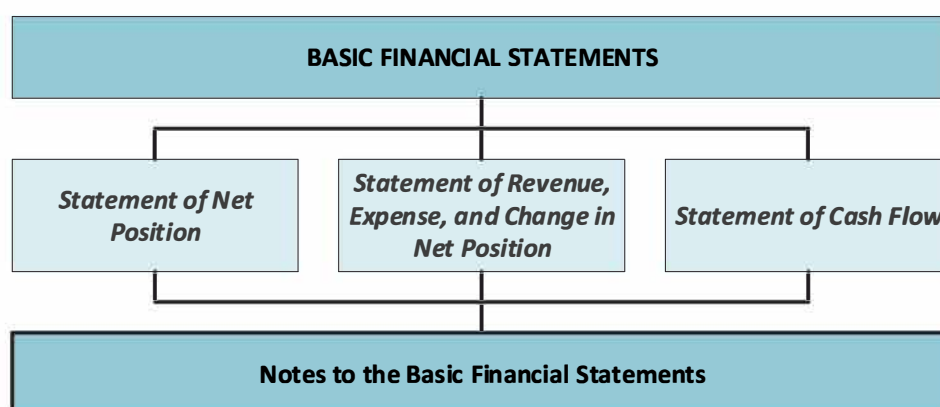
The purpose of management's discussion and analysis (MD&A) is to help Agency customers and other readers understand what the financial statements and notes in this financial report say about the Agency's financial health and why it changed since last year. It contains information drawn from those other parts of the report, accompanied by explanations informed by the Administration Department staff's knowledge of the Agency's finances.

If you have questions about this report or would like further information, please contact the Agency located at 1301 Andersen Drive San Rafael, CA 94901 or by calling (415) 459-1455.

Overview of the Financial Statements

The Agency's financial statements contain two components, *Basic Financial Statements* and *Notes to the Basic Financial Statements*.

Figure 1 – Contents of the Agency's Financial Statements



The *Basic Financial Statements* have three individual statements:

- ***Statement of Net Position:*** This statement presents information on the Agency's assets, deferred outflows, liabilities, and deferred inflows as year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or worsening.
- ***Statement of Revenues, Expenses and Changes in Net Position:*** This statement presents the results of the Agency's operations over the course of the fiscal year and information as to how net position changed during the year. These statements can be used as an indicator of the extent to which the Agency successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement from items that will result in future cash flows.

Central Marin Sanitation Agency
Management's Discussion and Analysis (*Unaudited*)
June 30, 2024

- **Statement of Cash Flows:** This statement presents the changes in cash and cash equivalents resulting from operational, capital financing, non-capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt, and excludes non-cash accounting measures of depreciation or amortization.

The *Notes to the Basic Financial Statements* delve deeper into the Agency's finances as reported in the *Basic Financial Statements*. The information in the *Notes to the Basic Financial Statements* is as important to understanding the Agency's finances as the information in the *Basic Financial Statements*. The Agency uses this component to (1) present information in greater detail than is possible within the *Basic Financial Statements* themselves, (2) explain the nature of amounts in the *Basic Financial Statements* and how those amounts were determined, and (3) report certain information that does not meet the requirements for inclusion in the *Basic Financial Statements* (such as certain contingencies).

Types of Information in the Financial Statements

The Agency's financial report uses the *economic resources measurement focus* and *accrual basis of accounting*. In other words, they comprehensively report all of the below elements:

- **Assets:** Resources the Agency controls, from short-term assets like cash to long-term assets like equipment and treatment facility infrastructure.
- **Liabilities:** Amounts the Agency owes, from short-term liabilities such as salaries payable to long-term liabilities such as outstanding debt and net amounts owed to employees for pensions.
- **Deferred Outflows of Resources and Deferred Inflows of Resources:** Flows that occurred during the year, or in prior years, that will not be reported as expenses and revenues until the future year to which they are related.
- **Revenues and Expenses:** Inflows and outflows of economic resources, respectively, related to the current year.

More detail about the measurement focus and basis of accounting can be found in *Note 2 – Summary of Significant Accounting Policies*.

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Analysis of the Agency's Finances

Table 1 - Comparative Condensed Statement of Net Position
June 30, 2024 and 2023
(Amounts expressed in thousands)

	2024	(Restated) 2023	\$ Change	% Change
Total assets:				
Cash and cash equivalents	\$ 22,711	\$ 21,868	\$ 842	3.9 %
Other current assets	4,818	4,349	469	10.8 %
Restricted cash and investments	905	209	696	332.7 %
Capital assets, net	80,332	80,863	(530)	(0.7) %
Other noncurrent assets	317	381	(64)	(16.9) %
Total assets	109,083	107,670	1,413	1.3 %
Deferred outflows of resources	8,317	12,945	(4,628)	(35.8) %
Total liabilities:				
Current liabilities	6,428	5,144	1,283	24.9 %
Bonds payable, net	43,325	47,254	(3,929)	(8.3) %
Other noncurrent liabilities	9,493	9,558	(65)	(0.7) %
Total liabilities	59,246	61,957	(2,711)	(4.4) %
Deferred inflows of resources	7,965	7,468	497	6.7 %
Net position:				
Net investment in capital assets	43,446	40,733	2,713	6.7 %
Restricted net position	905	209	696	332.7 %
Unrestricted net position	5,837	10,248	(4,411)	(43.0) %
Total net position	\$ 50,189	\$ 51,191	\$ (1,001)	(2.0) %

The Agency's total net position decreased \$1 million, or 2%, between fiscal year 2024 and 2023. The overall decrease is attributable to total assets increasing \$1.41 million, or 1.3%, offset by total deferred outflows of resources decreasing \$4.63 million, or 35.8%, and total liabilities decreasing \$2.71 million, or 4.4%. Each total category is further detailed out below:

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- Cash and cash equivalents overall increased by \$0.84 million, or 3.9%, from conducting essential operation of the wastewater treatment plant facility and following through on the capital improvement program (CIP). Significant drivers of the net increase include greater regional service charge (RSC) collections paid for by the joint powers authority (JPA) members, more interest income received due to higher interest rates, and collection of \$1.5 million in CalRecycle grant proceeds. The greater collections, however, were offset by routine payments to its employees, vendors, and bondholders. Further detail on the Agency's cash flow activity can be reviewed on the *Statement of Cash Flows*.
- Restricted cash and investments increased by \$0.69 million, or 332.7%, primarily from the Agency's annual contribution to its Internal Revenue Code Section 115 pension trust following its pension funding plan.
- Deferred outflows of resources decreased by \$4.63 million, or 35.8%, primarily due to the California Public Employees Retirement System (CalPERS) fully recognizing and beginning amortization of the Agency's \$9.43 million pension obligation bond (POB) contribution. Actuarial recognition of Agency contributions is performed on a two-year lag due to when CalPERS performs their assessment of Agency pension investments and liability calculations. Amortization of excess contributions follow a five-year period.
- Current liabilities increased by \$1.28 million, or 24.9%, primarily due to an increase of approximately \$0.81 million in CIP activity in May 2024 and June 2024 that were paid in July 2024, an increase of approximately \$0.21 million in accrued leave payments due to several retirements expected in early fiscal year 2025, and further principal paydown of the Agency's bond obligations of approximately \$0.27 million.
- Bonds payable decreased by \$3.93 million, or 8.3%, due to the Agency paying down its bond obligations following the relevant bond indenture agreements.
- Deferred inflow of resources increased by \$0.49 million, or 6.7%, primarily due to CalPERS earning approximately 5.8% on the pension plan assets in fiscal reporting year 2024. This positive return increased the pension plan's assets that sufficiently funded the current year benefit payments. Positive rates of return, however, are recognized as a current year long-term liability and amortized over a five-year period. For further detail on CalPERS' investment rate of return, please refer to CalPERS' fiscal year 2023 Annual Comprehensive Financial Report (ACFR) located at <https://www.calpers.ca.gov/>.

The activity within the various components of net position, i.e., net investment in capital assets, restricted net position, and unrestricted net position, reflect the above changes impacting the components.

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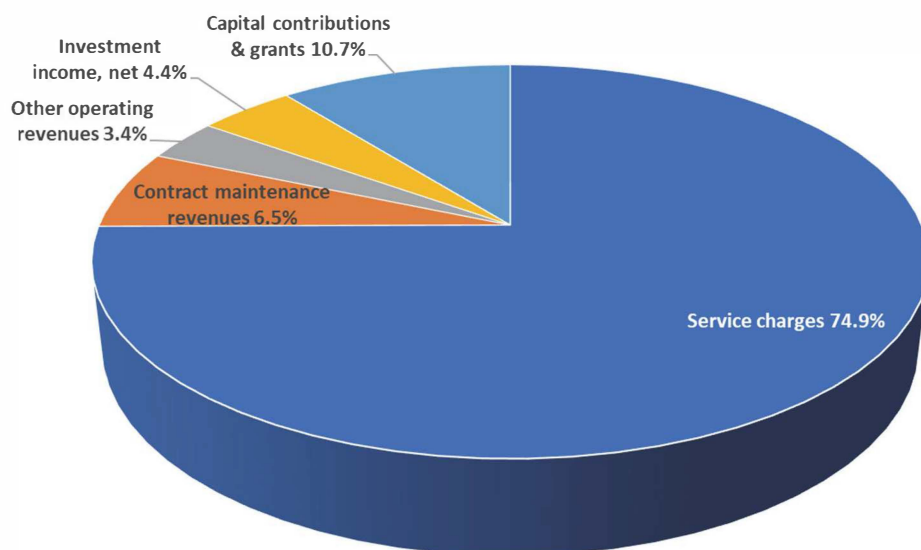
Table 2 - Comparative Statement of Revenue, Expense and Changes in Net Position
June 30, 2024 and 2023
(Amounts expressed in thousands)

	2024	(Restated) 2023	\$ Change	% Change
Revenues:				
Service charges	\$ 19,568	\$ 18,820	\$ 748	4.0 %
Contract maintenance revenues	1,695	1,857	(162)	(8.7) %
Contract safety & education	135	116	19	16.3 %
Leasing income	109	69	39	57.0 %
Renewable energy sales	64	55	9	15.5 %
Discharge permit fees	42	56	(14)	(25.1) %
Source control inspection fees	96	99	(3)	(2.7) %
Waste hauler service fees	412	298	114	38.4 %
COVID & illegal substance sampling fees	43	34	9	27.3 %
Investment income (expense), net	1,160	478	682	142.5 %
Other non-operating rev (exp)	(115)	29	(145)	(491.9) %
Total revenue	23,208	21,911	1,297	5.9 %
Expenses:				
Salaries & benefits	14,654	10,921	3,734	34.2 %
Biosolids management	413	440	(27)	(6.2) %
Chemicals & fuel	1,912	1,659	253	15.2 %
Repairs & maintenance	1,754	665	1,089	163.8 %
Permit testing & monitoring	207	204	3	1.3 %
Insurance	570	410	160	38.9 %
Utilities & telephone	428	446	(18)	(4.1) %
General & administrative	738	800	(63)	(7.8) %
Depreciation & amortization	4,893	4,497	396	8.8 %
Interest expense	1,445	1,540	(95)	(6.1) %
Total expenses	27,013	21,582	5,431	25.2 %
Income / (loss) before cap contributions	(3,805)	329	(4,134)	(1255.6) %
Capital contributions & grants	2,803	1,568	1,235	78.8 %
Change in net position	(1,001)	1,897	(2,899)	(152.8) %
Net position - beginning	51,191	49,293	1,897	3.8 %
Net position - ending	\$ 50,189	\$ 51,191	\$ (1,001)	(2.0) %

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The Agency's total change in net position decreased by \$1 million between fiscal year 2024 and 2023. The decrease is primarily attributable to the year-over-year increases in total revenue of \$1.3 million and capital contributions of \$1.24 million offset by increases in total expense of \$5.43 million. Significant changes within total revenue and capital contributions are discussed together with significant changes within expenses being discussed separately.

Figure 2 – Revenue By Source



Note 1: "Other operating revenues" includes contract safety & public education, leasing income, renewable energy sales, wastewater discharge permit fees, source control inspection fees, waste hauler service fees, and COVID & illegal substance sampling fees.

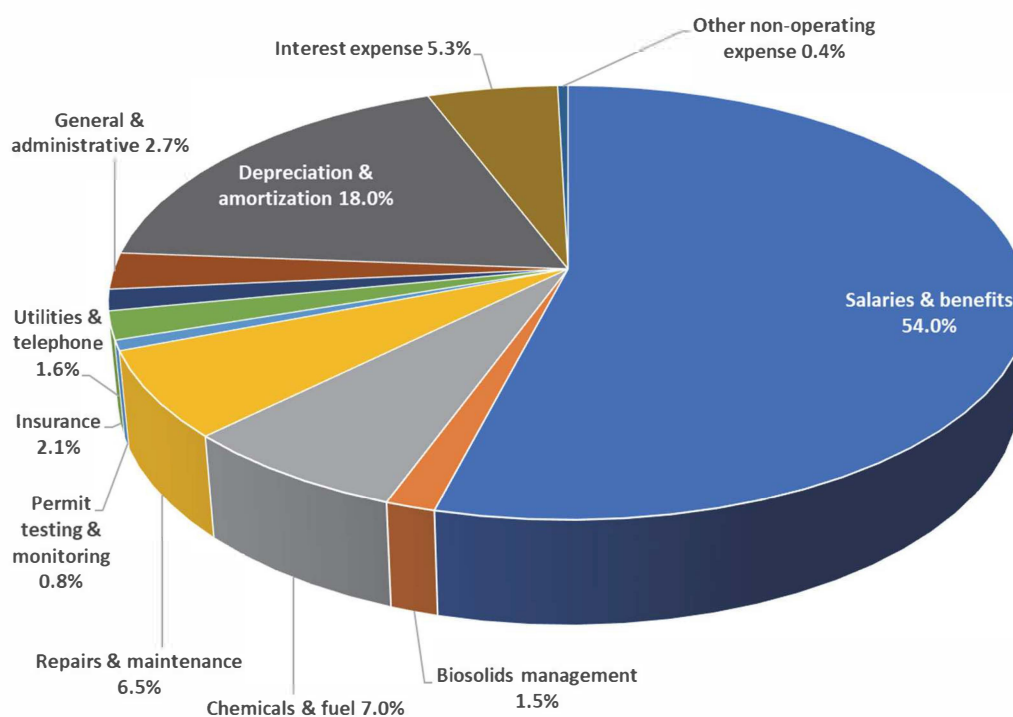
Note 2: Other non-operating revenue (expense) is included in the Expense By Source chart due to it being a net expense balance.

- Service charges, which account for 74.9% of the Agency's total current year revenue, increased \$0.75 million, or 4%, between fiscal year 2024 and 2023. The increase is driven by the Agency's Board of Commissioner approved Revenue Plan in November 2023. Total service charges are comprised of RSCs, capital fees, debt service charges, and debt coverage fees, of which were all approved in the aggregate to increase by 4% going into fiscal year 2024.
- Contract maintenance revenues, which account for 6.5% of the Agency's total current year revenue, decreased \$0.16 million, or 8.7%, between fiscal year 2024 and 2023. The decrease is attributable to completion of capital projects at the San Quentin pump station. The cost of the capital project activity is reimbursable to the Agency and will likely re-occur in the future as the San Quentin representatives approve of the Agency's recommended capital asset rehabilitation or improvement projects.

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- Investment income (expense), net, which account for 4.4% of the Agency's total current year revenue, increased \$0.68 million, or 142.5%, between fiscal year 2024 and 2023. The increase is attributable to both the Local Investment Agency Fund (LAIF) investing its portfolio into higher coupon Treasury securities thereby earning more interest and a recovery in the fair market value of the same portfolio. Market interest rates have steadily been declining due to the United States Federal Reserve's interest rate policy thereby causing the fair market value of Treasury securities to increase in value. The fair value of Treasury securities increase when market interest rates decrease.
- Capital contributions & grants, which account for 10.7% of the Agency's total current year revenue, increased \$1.24 million, or 78.8%, between fiscal year 2024 and 2023. The increase is attributable to both collecting more capacity charges from the JPA members and invoicing the next reimbursement request to the State of California under the CalRecycle grant program. Capacity charge collection is tethered to building activity within the service area, which began to increase as borrowing rates began to decrease leading to increased home improvement activity. The next CalRecycle reimbursement request was submitted at completion of the Liquid Organic Waste Receiving Facility capital project.

Figure 3 – Expense by Use



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- Salaries & benefits, which account for 54% of the Agency's total current year expense, increased \$3.73 million, or 34.2%, between fiscal year 2024 and 2023. The increase is primarily attributable to CalPERS actuarially recognizing the POB contribution resulting in additional pension expense as the excess contribution is being amortized following accounting policy. Amortization of excess contributions follows a five-year plan. Salaries & benefits also increased because of the 4.5% cost-of-living adjustment (COLA) approved within the employee collective bargaining agreements as well as a 6.6% cost escalation observed in the health insurance markets as a result from higher medical costs. Otherwise, the Agency's personnel count as well as benefits plan offerings and structure have remained fairly consistent year-over-year.
- Chemicals & fuel, which account for 7% of the Agency's total current year expense, increased \$0.25 million, or 15.2%, between fiscal year 2024 and 2023. The increase is primarily due to persistent cost inflation permeating throughout the US economy in selected areas. In particular, there is greater demand for the disinfecting chemical, Sodium Hypochlorite, for industrial cleaning and sanitation purposes.
- Repairs & maintenance, which account for 6.5% of the Agency's total current year expense, increased \$1.09 million, or 163.8%, between fiscal year 2024 and 2023. The increase is primarily due to the Agency performing process piping condition assessments at the Biotowers, Primary Clarifiers, Primary Effluent and Secondary Effluent areas, as well as an assessment at the Outfall area, and entering into a multi-year servicing agreement with Northeast-Western for the Jenbacher cogeneration engine. For further detail, please refer to the *Major Initiatives* subsection within the *Introduction* section of the ACFR.
- Insurance, which account for 2.1% of the Agency's total current year expense, increased \$0.16 million, or 38.9%, between fiscal year 2024 and 2023. The increase is primarily driven by insurance premium increases in both the property and workers' compensation policies. Property insurance is heavily swayed by the economic activity of the property market, of which has been experiencing severe turbulence because of natural disasters (hurricanes, flooding, wildfires, etc.), property market values, as well as financial market interest rates, resulting in greater pooled losses. The workers' compensation insurance premium increased due to the Agency experiencing more claims leading to greater losses needing to be made up by the insurance pool participants.
- Depreciation & amortization, which account for 18% of the Agency's total current year expense, increased \$0.39 million, or 8.8%, between fiscal year 2024 and 2023. The increase is due to the Agency continuing to rehabilitate and improve its wastewater treatment facility infrastructure and place into service newly purchased equipment following its approved CIP. For further detail on capital asset activity, please refer to section *Significant Capital Asset and Long-Term Financing Activity*.

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Significant Capital Asset and Long-Term Financing Activity

The discussion thus far has only touched upon certain significant transactions and events during fiscal year 2024 that may impact capital assets and long-term debt. The below subsections discuss in further detail significant capital asset project activity, equipment procurement, and long-term debt activity used for funding the CIP.

Capital Assets

The Agency has allocated a significant amount of resources into a variety of capital assets for performing its essential operations. This includes land and associated improvements, wastewater treatment and disposal infrastructure, equipment, and software applications.

Table 3 - Comparative Capital Assets, Net of Accumulated Depreciation and Amortization
June 30, 2024 and 2023
(Amounts expressed in thousands)

		(Restated)		
	2024	2023	\$ Change	% Change
Land and land improvements	\$ 5,800	\$ 5,511	\$ 289	5.2 %
Construction-in-progress	1,011	1,958	(947)	(48.4) %
Wastewater treatment facility	67,584	66,861	723	1.1 %
Wastewater disposal facility	1,574	1,857	(283)	(15.3) %
General, plant and admin facilities	4,239	4,505	(266)	(5.9) %
Intangible right-of-use assets	4	11	(8)	(66.7) %
Intangible right-of-use subscriptions	122	160	(38)	(23.8) %
Total capital assets, net	<u>\$ 80,332</u>	<u>\$ 80,863</u>	<u>\$ (530)</u>	<u>(0.7) %</u>

The Agency's total capital assets, net of accumulated depreciation and amortization, decreased \$0.53 million, or 0.7%, between fiscal year 2024 and 2023. The primary drivers for this decrease are continued depreciation and amortization of the wastewater treatment facility infrastructure and associated equipment, along with disposals of rehabilitated capital assets. Depreciation and amortization are ongoing costs to estimate wear-and-tear of a capital asset from its usage, and the current year experienced an increase from completion of capital projects and placing into service new equipment. Capital asset disposals are a routine part to the Agency's operations in so far as the replacement of older equipment is re-occurring.

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Regarding new capital additions during the fiscal year, the Agency annually prepares a CIP plan that details the Agency's capital projects, equipment procurement, and needed maintenance programs. Some of the capital projects are completed throughout the fiscal year, while others are carried forward. Once completed, depreciation begins reducing the carrying value. Significant capital projects that were completed and purchased equipment placed into service during fiscal year 2024 are:

Capital Project / Equipment Purchase Activity	Amount (in thousands)
FY24 Pavement Repair Project	\$ 285
2023 Andersen Hillside Slope Repairs	289
Secondary Clarifier #2 Rehabilitation	547
Biosolids Hopper Structural Repairs	237
Liquid Organic Waste Removal Facility Rehabilitation	3,126
Wastewater facility improvements	296
Wastewater facility equipment	561
General & administrative equipment	124
Total completed capital asset additions	<u>\$ 5,465</u>

The capital projects that are still in progress are carried forward as construction in progress are the following:

Capital Project Activity	Amount (in thousands)
Primary Clarifier #1 Rehabilitation	\$ 542
Diesel Underground Storage Tank Replacement	40
Nutrient Removal	8
Centrifuge Replacement	270
Headworks Grit Classifiers Replacement Project	150
Total ongoing capital projects	<u>\$ 1,011</u>

For further detail on the Agency's capital assets, please refer to *Note 7 – Plant and Facilities (Capital Assets)*. For further detail on the Agency's CIP plan, please refer to the CIP project descriptions within the Budget located here: <https://www.cmsa.us/finance/documents/>.

Long-Term Debt

The Agency has issued several bond obligations, both through the public marketplace and via private placement, to carry out its operations. The publicly issued tax-exempt revenue bonds were sold at a combination of a premium and a discount on certain tranches in 2015 and 2020. The 2015 issuance was used to refund the original 2006 revenue bond into a lower costing obligation, and the 2020 issuance was used to fund several CIP projects. The original 2006 revenue bond was publicly issued with the proceeds being used for funding capital projects. Meanwhile, the private placement bond was sold at par in 2022, and was used to refund the Agency's unfunded actuarial pension liability into a lower costing fixed debt obligation.

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Table 4 - Comparative Outstanding Bond Obligations, Net of Unamortized Premium and Discount
June 30, 2024 and 2023
(Amounts expressed in thousands)

	2024	2023	\$ Change	% Change
2015 refunding revenue bond	\$ 29,674	\$ 32,808	\$ (3,134)	(9.6) %
2020 revenue bond	8,088	8,485	(397)	(4.7) %
2022 pension obligation bond	9,136	9,266	(130)	(1.4) %
Total outstanding bonds, net	<u>\$ 46,898</u>	<u>\$ 50,559</u>	<u>\$ (3,661)</u>	<u>(7.2) %</u>

The Agency's total outstanding bond obligations, net of unamortized premiums and discounts, decreased \$3.66 million, or 7.2%, between 2024 and 2023. This decrease is due to the Agency continually repaying its debt obligations following the terms of the debt agreements. The current year annual debt service on the principal balance is \$3.31 million for all obligations, and the current year net non-cash bond premium and discount amortization resulted in \$0.36 million following accounting policy. The Agency otherwise did not issue any new bond obligations. For further detail, please refer to *Note 8 – Long-Term Obligations*.

All bond obligations are subject to periodic review by various credit agencies, such as Standard & Poor's (S&P) and Moody's. As of fiscal year 2024, the Agency's credit ratings on its bonds from S&P and Moody's respectively are "AA" and "Aa2".

Furthermore, all revenue bond obligation indenture agreements include covenants which require the Agency to collect sufficient net revenues each fiscal year for payment of debt service. The benchmark threshold for all bond obligations is at least 1.25 times annual debt service. The annual debt service ratio for fiscal year 2024 is 2.28 times, meaning the Agency has collected sufficient funds to meet its required rate covenant under the terms of the indenture agreements.

The Agency lastly is not subject to any debt limitations.

Additional details concerning the Agency's indenture agreements and offering statements are available at <https://www.emma.msrb.org>.

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Currently Known Facts, Decisions, or Conditions

The Agency is aware of six developments that will have either an impact on the Agency's financial position or a significant impact on next year's results. Many of these expected events were built into the upcoming budget for long-term planning:

- 1) Updated revenue plan
- 2) Salaries and benefits COLA update
- 3) Persistent cost inflation in procurement activities
- 4) Deferred capital projects
- 5) OPEB plan assumption changes
- 6) Pension plan funding

Updated Revenue Plan

In November 2023, the Board adopted an updated multi-year Revenue Plan where the Agency's total service charges, which includes regional service charges, capital fees, debt service charges, and coverage fees, were to all increase at an annual rate of 4.5% instead of 4% going into fiscal year 2025. The intent of the upward revision was to provide relief to the Agency's forecasted operating budget shortfall given the rising cost of chemical procurement noted.

Salaries and Benefits COLA Update

Going into the upcoming fiscal year, the salary COLA for all Agency employees was determined to be 3.667% following the annual calendar year average consumer price index (CPI) for all urban consumers within the San Francisco-Oakland-Hayward, CA area. The collective bargaining agreements allow for annual COLA updates following the annual percentage change in the CPI with a minimum of 1% and an allowable maximum of 4.5%.

In addition to the salary COLA, the Agency is further expecting an average 6.6% cost increase in Agency employee health insurance costs. The cost is driven by significantly higher healthcare medical costs from plan retirees for the entire health insurance pool. Health insurance is purchased through CalPERS' health insurance exchanges.

Persistent Cost Inflation in Procurement Activities

The US and global economy are still weathering the impacts of persistent inflation. As of June 2024, the US Bureau of Labor Statistics reported CPI with all items, food, energy, rent, and all other goods and services, growing at an average rate of 3%. This is still below the average rate of 9.1% reported in June 2022; however, inflation is still above the US Federal Reserve's target inflation rate of 2% that the institution deems to be sustainable. This effects the Agency's procurement activities, especially with its purchasing of routine chemicals for disinfecting purposes. The Agency, as such, is budgeting for further cost increases.

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procurement activities, especially with its purchasing of routine chemicals for disinfecting purposes. The Agency, as such, is budgeting for further cost increases.

Deferred Capital Projects

Over fiscal year 2024, the Agency completed and worked on several capital projects resulting in growth in the Agency's gross capital asset balance. However, the Agency had to defer several of the planned project activities due to longer equipment delivery schedules, regulatory approvals, and rescheduling of capital projects. The Agency annually updates a ten-year CIP plan that allocates resources to each fiscal year based on the Agency's risk assessment of which specific areas within the Treatment Plant facility requiring attention. The original adopted fiscal year 2025 capital budget, the second year within the two-year biannual budget cycle, was adjusted from \$6.65 million to be \$10.11 million because of these impacts. This \$3.45 million budgetary increase will impact the Agency's upcoming financial net position.

OPEB Plan Assumption Changes

The Agency has elected to decrease the discount rate applied for the calculation of the net OPEB liability from 7.28% to 6.75%. The decrease is to conservatively account for CalPERS' forecasted drop in the California Employers' Retirement Benefit Trust (CERBT) net return in the investment portfolio. This change in assumption results in both lowering the projected fiduciary net position of the OPEB plan and increasing the total OPEB liability on an actuarial basis. So, the Agency's non-cash OPEB expense is projected to increase impacting the change in net position. For further detail, please refer to *Note 14 – Other Post Employment Benefits (OPEB)* and the *Required Supplementary Information* for a historical view.

Pension Plan Funding

In fiscal year 2022, the Agency refunded the majority of its unfunded actuarial pension liability (UAL) into a fixed rate POB. The Agency further set up a pension reserve trust fund in fiscal year 2022 following *Financial Policy #556 – Pension Funding Policy* to either offset its future pension cost or defease callable outstanding POB debt service. Total contributions to date to the pension trust is \$0.88 million with the current year contribution being \$0.67 million. Contributions are based on budgetary savings between the original twenty-year CalPERS UAL amortization schedule at the point of refunding less any debt service on the POB and actual UAL payment made to CalPERS. The Agency's current year US GAAP pension funding ratio is 88% and 89.6% on a pro forma basis with the pension trust demonstrating an improvement in financial position from the prior year. Contributions to the pension trust are expected to decrease to \$0.36 million going into the upcoming fiscal year due to escalating debt service cost on the POB following the amortization schedule. However, the Agency's total pension funded position is going to remain within the 90% pro forma funded range, especially given CalPERS achieving a preliminary 9.3% rate of return on its PERF C portfolio.

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Table 5 - Comparative Pension Funding
June 30, 2024 and 2023
(Amounts expressed in thousands)

	2024	2023	\$ Change	% Change
Total pension liability	\$ 57,033	\$ 54,807	\$ 2,226	4.1 %
Fiduciary net position (PERF C)	50,188	47,855	2,333	4.9 %
Net pension liability (asset) - <i>US GAAP</i>	6,845	6,952	(106)	(1.5) %
Funding ratio - <i>US GAAP</i>	88.0 %	87.3 %	<i>n/a</i>	0.7 %
Section 115 pension trust	904	208	696	335.1 %
Net pension liability (asset) - <i>pro forma</i>	\$ 5,941	\$ 6,744	\$ (803)	(11.9) %
Funding ratio - <i>pro forma</i>	89.6 %	87.7 %	<i>n/a</i>	1.9 %

As shown above, the Agency's pension funding ratio has improved over the past fiscal year due to both CalPERS achieving a positive investment rate of return of 5.8% and the Agency continuing to fund its pension trust. As such, the Agency's financial position is expected to improve because of its pension funding situation. For further detail, please refer to *Note 13 – Defined Benefit Pension Plan* and the *Required Supplementary Information* for a historical view.

The succeeding sections of the Financial Statements include the *Basic Financial Statements*, *Notes to the Basic Financial Statements*, and *Required Supplementary Information* that support the analysis within the MD&A.