

# AMADOR WATER AGENCY

## Board of Directors

### Regular Meeting

12800 Ridge Road, Sutter Creek, CA 95685

**MARCH 25, 2021**

9:00 a.m.

### BOARD OF DIRECTORS

Susan Peters, President	District 4
Gary Thomas, Vice President	District 2
Richard Farrington, Director	District 3
Paul Molinelli, Jr., Director	District 1
Randy Livingston, Director	District 5

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*Please Note: Members of the public will have the opportunity to directly address the Agency Board of Directors concerning any item listed on the Agenda below before or during consideration of that item.*

*There is a three minute time limit per person*

*The Board President may take items out of order to accommodate the public or to promote the order of the meeting.*

**In order to accommodate the social distancing practices required to reduce the risk of spreading COVID-19 and provide for the safety of the public, our employees and Board of Directors, the Agency will conduct its public meetings via teleconference until further notice.**

*This meeting will be recorded*

#### **1. OPEN SESSION WILL BE CALLED AT 9:00 a.m.**

The Board President will call for public comment on each agenda item at the appropriate time to ensure that the public may be heard and all votes by the Board will be taken by roll call.

Members of the public who wish to participate in the meeting may do so by using the information below:

Join Zoom Meeting

<https://us05web.zoom.us/j/89922344025>

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**2. CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

**3. ADDITIONS TO AGENDA**

- A. Items added to the agenda must be approved by the Board pursuant to Government Code Section 54954.2

**4. PUBLIC COMMENT FOR MATTERS NOT ON THE AGENDA**

Any person may address the Board at this time upon any subject within the jurisdiction of Amador Water Agency; however, no action may be taken on matters not on this agenda. Any matter that requires action will be referred to Staff for a report and action at a subsequent Board meeting. Please note there is a three (3) minute time limit per person

**5. CONSENT AGENDA**

Items listed on the consent agenda (see attached) are considered routine and may be enacted by one motion. Any item may be removed for discussion and made a part of the regular agenda at the request of a Board member(s).

**6. SAFETY TOPIC**

**7. AGENCY GENERAL**

**A. Financial Policies Review and Update**

The Board will consider adopting revised versions of AWA Financial Policies 001, 002, 004, 005, 010, 011, 012, and 013, and consider action related to AWA Financial Policy 009.

**B. Raftelis Water Rate Study Update**

Staff will provide an update on the progress of the rate study for the Board's information.

**C. Grants Services Request for Proposals**

The Board will consider approving issuance of a Request for Proposals for grant services.

**8. GENERAL MANAGER REPORT**

**9. BOARD OF DIRECTOR DISTRICT REPORTS, COMMITTEE REPORTS AND DIRECTOR COMMENTS** - The Board Members may report on various activities, meetings, etc. that they have been involved in. Discussion only, no formal action will be taken. Any matter requiring action will be placed on an upcoming agenda for consideration.

**Budget & Finance Committee (3/18/21)**

**10. FUTURE AGENDA TOPICS-** This item is to provide the Board Members an opportunity to request items to be placed on future agendas.

**11. ADJOURNMENT - the estimated adjournment time for this meeting is 11:00 p.m.**

**AMADOR WATER AGENCY  
CONSENT AGENDA  
March 25, 2021**

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Items listed on the consent agenda are considered routine and may be enacted by one motion. Any item may be removed for discussion and made a part of the regular agenda at the request of a Board member(s).

**1. MINUTES**

- A. Approval of minutes of the Regular Board Meeting of March 11, 2021

*In compliance with the Americans with Disabilities Act, if you are a disabled person and you need a disability-related modification or accommodation to participate in this meeting, then please contact Karen Gish at (209) 223-3018 or (209) 257-5281 (fax). Requests must be made as early as possible, and at least two-full business days before the start of the meeting.*

*Documents and materials relating to an open session agenda item that are provided to the Amador Water Agency Board of Directors less than 72 hours prior to a regular meeting will be available on the Agency's website at [www.amadorwater.org](http://www.amadorwater.org)*

**AMADOR WATER AGENCY  
Board of Directors  
Regular Meeting**

**March 11, 2021**

**MINUTES**

**In order to accommodate the social distancing practices required to reduce the risk of spreading COVID-19 and provide for the safety of the public, our employees and Board of Directors, the Agency will conduct its public meetings via teleconference until further notice.**

**OPEN SESSION**

**CALL TO ORDER at 9:04 a.m.**

**Pledge of Allegiance**

**ROLL CALL**

**Board of Directors:**

Director Peters, President  
Director Thomas, Vice President  
Director Molinelli, Jr.  
Director Livingston  
Director Farrington

**Staff in Attendance:**

Larry McKenney, General Manager  
Karen Gish, HR Risk Management Manager/Clerk of the Board  
Brandt Cook, Resident Engineer  
Lucy Hackett, Public Relations  
Elizabeth Atkins, Customer Service Supervisor  
Rick Roussan, Accountant

**ADDITIONS TO THE AGENDA-Supplemental packet information posted**

**PUBLIC COMMENT FOR MATTERS NOT ON THE AGENDA- none**

Regular Board Meeting  
March 11, 2021

**CONSENT AGENDA (0:01:58)**

**MOTION:** It was moved by Director Molinelli, Jr., seconded by Director Livingston, to approve the consent agenda by the following roll call vote:

**Roll Call Vote:**

AYES: Directors Farrington, Livingston, Molinelli, Jr., Thomas, Peters  
NOES: None  
ABSENT: None  
ABSTAIN: None

**SAFETY TOPIC (0:03:18)**

Top safety hazards for AWA

**AGENCY GENERAL**

**Amador Canal – Board consideration and possible approval of Kheng Lam’s request to connect to the Amador Canal raw water system for agricultural purposes (0:07:32)**

**Public Comment:**

Dana Cart

**MOTION:** It was moved by Director Molinelli, Jr., seconded by Director Thomas, to approve Kheng Lam’s request to connect to the Amador Canal raw water system for agricultural purposes and carried by the following roll call vote:

**Roll Call Vote:**

AYES: Directors Molinelli, Jr., Thomas, Livingston, Farrington, Peters  
NOES: None  
ABSENT: None  
ABSTAIN: None

**Risk Management Program Action Plan – Approve Action Plan for development and implementation of the Risk Management Program (0:15:25)**

**MOTION:** It was moved by Director Farrington, seconded by Director Molinelli, Jr., to approve the Action Plan for the development and implementation of the Risk Management Program and carried by the following roll call vote:

**Roll Call Vote:**

AYES: Director Molinelli, Jr., Thomas, Livingston, Farrington, Peters  
NOES: None  
ABSTAIN: None  
ABSENT: None

**AWA Hydropower Units – Presentation on the history, status and outlook for Tanner and Lone Hydropower Units (0:25:55)**

Staff presented a PowerPoint presentation on the topic for informational purposes.

**RECESS** was called at 10:55 a.m.; **SESSION RESUMED** at 11:01 a.m.

**Capacity Fee Development – Discussion and direction to staff regarding capacity fee adoption (1:51:22)**

Following discussion, the Board directed staff to separate and move forward with the Capacity Fee Development separately from the rest of the rate study, with a progress update at the next regular Board meeting.

**LEGAL COUNSEL’S REPORT (2:24:20)**

**Legislative Report**

Counsel Horowitz updated the Board and Staff on the current legislative bills and their status.

**Other Legal Matters**-none

**DEPARTMENT REPORTS (2:34:30)**

**Customer Service/Finance**

**Human Resources/Risk Management**

**Operations & Engineering**

**GENERAL MANAGER REPORT (2:53:55)**

The General Manager updated the Board on current activities of the Agency

**BOARD OF DIRECTOR DISTRICT REPORTS, COMMITTEE REPORTS AND DIRECTOR COMMENTS (3:08:05)**

Planning Operations Engineering Committee (3/10/2021)

Jackson Valley Irrigation District-Director Thomas

**FUTURE AGENDA TOPICS (3:19:20)**

**ADJOURNMENT**

President Peters adjourned the meeting at 12:30 p.m.

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Karen L. Gish  
Clerk of the Board of Directors

Regular Board Meeting  
March 11, 2021

Approved: \_\_\_\_\_

## STAFF REPORT: PROPOSED FINANCIAL POLICY REVISIONS

**Requested Action:**

Adopt revised versions of AWA Financial Policies 001, 002, 004, 005, 010, 011, 012, and 013.

**Report:**

Bell Burnett & Associates (BB&A) has reviewed the Financial Policies in the Agency's Administrative Policy Manual and have recommended a number of revisions. The recommended revisions vary from minor to important.

BB&A further suggested that some level of review of all the financial policies should occur near the beginning of each budget cycle, making this a very timely review now.

The attached redlined versions of the policies reflect the suggested changes, as well as input from Raftelis, Jeff Meyer, and staff. These drafts were reviewed by the Budget & Finance Committee on Mar 18; the Committee recommends approval.

FIN 009 Water and Wastewater Service Charges and Rate Setting Policy is included, but not redlined, as the BB&A recommendation was to consider whether the policy is needed in this form at all.

**Prepared by:** Larry McKenney, General Manager



Amador Water Agency

**Engagement of Auditor Policy**  
Reviewed and Adopted ~~09-10-2003~~25-21

**100.00 Purpose of the Policy**

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The purpose of this policy is to ensure objective auditing of the Agency's financial statements by an external independent auditor. Independence requires that the Agency's auditor maintain the highest level of independence at all times as defined by the U.S. General Accountability Office's "Government Auditing Standards."

As an audit is dependent on the individual auditor's assessment of risk in the Agency's control procedures and financial statement disclosures and is designed to provide reasonable, but not absolute, disclosure of such risk, changing auditors periodically may provide the Agency with a different risk assessment and, perhaps, a different approach to testing risk in the Agency's control procedures and financial statement disclosures as defined in the Statements on Auditing Standards (SAS) "risk assessment" standards No. 122 and 128.

The Budget and Finance Committee is responsible for recommending the Agency's auditor to the full Board of Directors (Board) for appointment and compensation, and administering the relationship between the Agency and auditor during the course of the audit.

**200.00 Maintaining Auditor Independence**

The Board recognizes the importance of ensuring the independence of the Agency's auditor and ensuring effective communication between the auditor and the Board and Budget and Finance Committee. The Budget and Finance Committee shall evaluate the auditor's independence annually in connection with its determination to engage the auditor for the ensuing year.

To ensure the auditor's independence from the Agency, the Budget and Finance Committee shall, at least annually, obtain and review a formal written statement from the auditor delineating all relationships between the auditor and the Agency and discuss with the auditor the auditor's methods and procedures used for ensuring independence.

### 300.00 Auditor Services

The Budget and Finance Committee shall recommend the auditor provide only Audit and Audit-Related Services for the Agency. The Budget and Finance Committee shall pre- approve all Audit and Audit-Related Services, in order to assure that the provision of such services do not impair the auditor's independence.

Audit Services means all services and accounting consultation necessary to perform an audit of the Agency's financial statements, and other attest services required by statute, regulation, contracts, agreements or grants.

Audit-Related Services means assurance and related services that are reasonably related to the performance of the annual audit of the Agency's financial statements or that are traditionally performed by the auditor, including employee benefit plan audits, due diligence related to mergers, accounting consultations, internal control reviews and attest services not required by statute or regulation.

### 400.00 Prohibited Services

The following accounting, finance and professional services shall not be performed for the Agency by the auditor.

1. Bookkeeping or other services related to accounting records.
2. Financial Information Systems design and implementation.
3. Appraisal or valuation services.
4. Actuarial services.
5. Internal audit outsourcing services.
6. Management functions.
7. Human resource functions.
8. Broker-dealer or investment advisory functions.
9. Legal services.
10. Expert services unrelated to the audit, except as Board may request in writing and agreed to by the Auditor.

### 500.00 Auditor Rotation

In order to avoid ~~the any~~ appearance of an ~~single~~-auditor's loss of objectivity in relation to the Agency, the Budget and Finance Committee shall periodically seek proposals from potential auditors. ~~no greater than every three years with a one-time option of a 3-year extension.~~ The Agency's current auditor shall be considered in the proposal process if the past performance of the auditor has proven satisfactory to the Agency. Selection of an auditor shall be performed in accordance with the Agency's Procurement Policy requirements (AWA PL – FIN 005) . Contracts with auditors will not be for a term longer than 5 years and one possible 3 year extension. Audit contracts should include a provision allowing the Agency to elect to change audit partners within the firm, if exercising the option to extend the contract for 3 years.

**600.00 Policy Review**

This policy shall be reviewed at least every two years.

## Amador Water Agency

**Capital Asset Policy**Reviewed and Adopted ~~09-10-2003-25-21~~**100.00 Purpose of the Policy**

The purpose of this policy is to establish guidance in identifying, capitalizing, depreciating, and accounting for Agency capital assets.

**100.10 Definitions**

A capital asset is defined under this Policy as an asset owned by the Agency that – 1) is acquired for use in Agency operations, 2) is long-term in nature (i.e., useful life exceeds 2 years), 3) is subject to depreciation, and 4) has a minimum value of \$10,000 (see section 200.20).

**200.00 Policy**

It is the policy of the Agency that the following types of assets will be considered Capital Assets of the Agency. If an asset does not meet the capitalization requirements listed in this policy, then it is to be expensed in the year acquired.

**200.05 Capital Assets**

The Agency operations program will be maintained at a level that assures system reliability and efficiency. A well planned out Preventative Maintenance program will extend the life of all capital assets and in turn reduce infrastructure costs in the long-term.

- A. Funding to Meet Regulations and Standards - The Agency will adequately fund costs to meet current industry standards and regulations (e.g. Safe Drinking Water Act, etc.) in the annual budgeting process.
- B. Capital Improvement Plan - The Agency, as part of its routine planning process, will develop the following:
  1. 5-year Water System and Wastewater System Master Plans with review and updates every 5 years.
  2. Asset Management Plans for both Water and Wastewater Systems.
  3. Adopt a 5 year Capital Improvement Plan to be reviewed by the Board of Directors annually.
- C. Types of Capital Projects - The Agency's capital improvement program will consider mandated capital, capacity related capital, ~~and~~ renewal and replacement capital, and software that is critical to the overall functioning of the Agency.

D. Financing of Capacity-Related Projects - The financing of capacity-related capital projects may be funded from any of the available Agency funding sources. ~~The use of long-term debt to finance capacity-related projects will be minimized.~~ When necessary, long-term debt will be issued to allow the Agency to better match the financing of these facilities to the timing of the customers as they connect to the system.

#### **200.10 Unused Capital Asset Categories**

~~Capital assets shall be segregated into the following categories:~~

- ~~A. Land and Land Improvements with a limited life, such as driveways, walks, fences, landscaping, and parking areas.~~
- ~~B. Buildings and Building Improvements, such as HVAC equipment, interior remodeling features, and landscaping.~~
- ~~C. Hydrants, pressure modulating facilities, Valves and related appurtenances.~~
- ~~D. Transmission and Distribution pipelines.~~
- ~~E. Water Storage Facilities.~~
- ~~F. Wastewater Facilities~~
- ~~G. Hydro Generation Facilities~~
- ~~H. Groundwater Wells, Flow Meters, Etc.~~
- ~~I. Pumps, Motors and Water Treatment Facilities~~
- ~~J. Water Meters and Appurtenances.~~
- ~~K. Machinery and Equipment, such as generators, compressors, jackhammers, tools, trimmers, etc.~~
- ~~L. Fleet Equipment, such as cars, trucks, trailers and backhoes.~~
- ~~M. Office Equipment such as furniture and fixtures.~~
- ~~N. Computer Systems, Purchased Software and Telephones.~~
- ~~O. Intangible Assets, such as easements and internally generated computer software.~~
- ~~P. SCADA, including location and mapping features.~~

#### **200.20 Capitalization Thresholds**

Capital assets eligible for capitalization, must have:

- 1) an estimated useful life of at least two years from the date of acquisition
- 2) and a minimum value of \$10,000, and
- 3) Such criteria shall be applied to individual assets and not to groups of assets.

#### **200.30 Valuation of Capital Assets**

The value assigned to capital assets shall be determined as follows:

#### **200.32 Purchased Capital Assets**

The capitalized value of purchased Capital assets shall be determined using the original cost of the asset. Specific costs eligible for capitalization are identified under section 200.40.

## **200.34 Agency-Constructed Capital Assets**

Agency-constructed water and wastewater system infrastructure assets intended to be used in Agency operations or internally generated computer software are eligible for capitalization. The capitalized value of such assets shall be determined using direct and material costs associated with the construction up until the time the asset is complete and ready for use.

## **200.36 Donated Capital Assets**

The capitalized value of donated assets shall be determined using the fair market value at the time of donation. If the fair market value of the asset is not available or cannot be reasonably determined, an estimated cost may be determined using the best available information. The value of donated intangible assets shall be accounted for separate from donated tangible capital assets.

## **200.40 Capitalizable Costs**

Costs eligible for capitalization under this policy are:

For land:

- Purchase price or appraised value, whichever is more readily determinable;
- Closing costs, such as title fees, attorney's fees, environmental assessments, appraisals, taxes and recording fees;
- Costs necessary to get the land ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Assumptions of liens, encumbrances or mortgages;

For purchased assets other than land:

- Purchase price, including all taxes
- Freight, handling and in-transit insurance charges
- Assembling and installation charges
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Applicable purchase discounts or rebates

For Constructed Assets:

- Direct labor costs (to include wages and benefits);
- Direct materials cost;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.; and outside construction costs
- Insurance premiums and related costs incurred during construction;
- Costs necessary to get the site ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Costs for intangible assets as determined in accordance with Governmental Accounting Standards Board, Statement No. 51 "Accounting and Financial Reporting for Intangible Assets."

For donated Capital assets:

- Fair Market or Appraised Value at date of donation;
- Installation costs;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Other normal or necessary costs required to place the asset in its intended location and condition for use.

#### **200.50 Capitalization of Costs Subsequent to Acquisition**

Additional costs incurred after a capital asset is placed in use shall be accounted for as follows:

#### **200.52 Additions**

An “Addition” is defined as an expenditure that either significantly extends the useful life or productivity of the existing capital asset or creates a new capital asset. All “Additions” to existing capital assets should be capitalized as long as the asset meets the criteria of section 200.20 above.

#### **200.54 Improvements and Replacements**

“Improvements and Replacements” are defined as expenditures that involve substituting a similar capital asset, or portion thereof, for an existing one. All “Improvements and Replacements” to existing capital assets should be capitalized as long as the asset meets the criteria of section 200.20 above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books at the time the replacement is recorded. If the existing asset is not separately identifiable, then the replacement should still be capitalized as the existing asset’s book value is assumed to be negligible.

#### **200.56 Rearrangement or Reinstallation**

“Rearrangement or Reinstallation” costs are defined as expenditures that involve moving an existing asset to a new location or reinstalling a similar asset in place of an existing asset. All “Rearrangement or Reinstallation” costs should be expensed in the period incurred.

#### **200.58 Repairs and Maintenance**

“Repairs and Maintenance” costs are defined as expenditures that involve maintaining the asset in good or ordinary repair. All “Repairs and Maintenance” costs should be expensed in the period incurred.

**200.60 Depreciation or Amortization of Capital Assets**

Capital assets shall be depreciated or amortized on a straight-line basis beginning the first day of the month following acquisition in accordance with the following schedule:

<b>Category</b>	<b>Depreciation/Amortization Period</b>
Land	None
Land Improvements	15 Years
Buildings	40 Years
Building Improvements	20 Years
Hydrants, PRV Stations, Valves and similar assets	30 Years
Transmission and Distribution pipelines	80 Years
Sewer Collection and Manholes	50 Years
Storage Facilities STEEL/CONCRETE	60 Years
<b>Water and Wastewater Treatment Plants, Pump Stations and Wells</b>	
SCADA, pumps, electrical, membranes, etc	See next three rows
Mechanical/Structures	10-20 Years
Well Casings	40 Years
Water Meters and Appurtenances	15 years
Generators	20 Years
Machinery and Equipment ( compressors, jackhammers, tools and equipment)	30 Years (if maintained properly)
Fleet Equipment (backhoes, other mobile motorized equipment)	15 Years
Trucks/ Cars	7



Office Furniture and Fixtures	7 Years
Computer Equipment, Servers, Purchased Software and Telephones	5 Years
Intangible Assets, such as easements and internally generated computer software	5 Years
Permanent Easements – None;	

**200.70 Physical Inventory of Capital Assets**

A physical inventory of the following categories of capital assets shall be performed at least annually:

- Inventory Items
- Machinery and Equipment
- Fleet Equipment
- Office Furniture and Fixtures
- Computer Equipment, Purchased Software and Telephones

The results of the physical inventory shall be reconciled with the Agency’s asset inventory system. Differences will be reported, along with explanations, to the Board of Directors.

**200.80 Disposal of Capital Assets**

Capital assets that have become obsolete shall be disposed in accordance with Agency’s Policy on “Disposing of Surplus Agency Real Property, Vehicles and Large Equipment and Other Personal Property (PL - Adm 003).”

**300.00 Policy Review**

This policy shall be reviewed at least every two years

## Amador Water Agency

**Reserve Policy**

Reviewed and Adopted

~~09-10-2003-25-21~~**100.00 Purpose of the Policy**

The Agency will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

Collectively, reserve funds enable the Agency to operate in a prudent manner, while allowing for transparency of reserve fund balances.

**200.00 Policy**

In order to provide adequate funding to meet the Agency's short-term and long term plans, the Agency will have reserve accounts to:

- Minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures, thus minimizing the possibility of unplanned service fees or rate fluctuations.
- Strengthen the financial stability of the Agency against present and future uncertainties in an ever-changing environment.

**200.10 Reserve Fund**

The Agency shall maintain two reserve funds that collectively comprise the Agency's reserve fund balance. The reserve funds will be classified as – Operations and Maintenance Reserve Fund and Capital Replacement Reserve Fund with distinction among the funds that determines how reserve amounts can be spent. Such financial assets are to be utilized only as directed by the Board.

**200.20 Operations and Maintenance Reserve Fund**

Financial assets held primarily in the form of cash and cash-equivalents for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The Agency shall target to maintain a reserve equal to 2-3 months of annual operating expenses.

**200.30 Capital Reserve Fund**

Financial assets held for purposes of funding Agency capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. Through the annual budget process, staff shall recommend capital replacement

projects and any necessary appropriations from this fund. The Agency shall target to maintain a Capital Reserve Fund of 1% of asset value (net of depreciation).

### **300.00 Authority**

The General Manager is responsible for the appropriate accounting and regular reporting of the Agency's reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

### **400.00 Procedure**

Agency staff will report reserve fund balances to the Board of Directors on a quarterly basis.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five-~~(5)~~-year period to the established or re-established target as directed by the Board.

Reserves falling below target may also result in Board action to increase rates. If so, the rate increase will be developed with a target of restoring reserves to target minimums within two years.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of revenue dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

### **500.00 Policy Review**

This Policy will be reviewed annually as part of the budget adoption process.

## Amador Water Agency

**Procurement Policy**

Reviewed and Adopted

~~10-08-2003-25-21~~

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**100.00 Purpose of the Policy.** The purpose of this Policy is to define the practices and policies governing the procurement of supplies, materials, equipment, and services, including construction and capital improvements, for Agency use. This Policy is the written rule and regulation required by California Government Code § 54202 and serves as the Agency's administrative policies and procedures governing procurement activities. This Procurement Policy complies with Title 2 of the Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

By adopting this Policy, the Board is empowering the General Manager (GM) with certain duties and responsibilities that are essential for the day-to-day operation of the Agency. The GM

delegates and shares the function of procurement of goods, materials and services with the Financial Services Manager (FSM) and those staff members given specific authority under this Policy. Throughout this Policy, “General Manager” or “GM” includes the GM’s temporary designee during the GM’s absence.

## **200.00 General Policy Statements.**

**200.10** The Amador Water Agency Board of Directors desires to purchase supplies, equipment and materials locally when possible and prudent to do so. The Agency shall strive to purchase supplies, equipment, and materials within Amador County for items that do not exceed 105% of the costs to purchase items outside the County of Amador (including taxes, shipping, and handling).

**200.20** All purchases, agreements, and contracts for materials, supplies, equipment, and services shall be made in accordance with this Policy. Procurement practices shall comply with laws, regulations and guidelines of the State of California and the provisions of grant or funding agreements, if applicable. Any employee affecting any procurement action outside of the requirements of this Policy and without Board authorization, may be subject to disciplinary action, up to and including termination. Splitting or separating of material, supply, equipment, or service orders or projects for the express purpose of evading the requirements of this Policy is strictly prohibited.

**200.21** Purchasing authority for the acquisition of materials, supplies, equipment and services, except public works construction, shall be centralized under the Purchasing Agent (PA) and in such persons who are officially designated within this Policy. The PA will ensure compliance with the guidelines prescribed by law and applicable Agency policies and procedures.

**200.22** The Operations & Engineering Manager will be responsible for all specifications, bidding, and contracts for public works projects and will ensure compliance with the guidelines prescribed by law and applicable Agency policies and procedures. See section 500 of this Policy.

**200.30** Purchase Orders (POs) shall be issued prior to ordering supplies, equipment, and service and not after work is done or materials ordered. Except for emergencies or other authorized exemptions stated in this Policy, no purchase of supplies, services, or equipment shall be made without an authorized PO. Otherwise:

- Such purchases are void and not considered an obligation of the Agency;
- Invoices without an authorized PO may be returned to the vendor unpaid; and
- The person ordering the unauthorized purchase may be held personally liable for the costs of the purchase or contract and may be subject to discipline, up to and including termination.

**200.40** Use of Agency credit cards, proper management of travel expenses and reimbursement, and acquisition of real property interests are addressed in other Agency policies.

### **300.00 Procurement Authority, Responsibilities and Procedures.**

**300.10** Subject to approval of the GM and available budgeted funds, Department Managers and PA are authorized to:

- Enter into contractual obligations on behalf of the Agency for the acquisition of supplies, materials, equipment, and services necessary to support the Agency’s functions in accordance with this Policy;
- Obtain full and open competition in accordance with prescribed policies and procedures in a manner that obtains the best overall value to the Agency;
- Provide for the uniform, fair, and courteous treatment of vendors, suppliers, and contractors;
- Prepare and recommend revisions and amendments to procurement policies and requirements governing the purchase of materials, supplies, equipment, and services when required or recommended, and submit them to the GM to seek Board approval;
- Supervise the receipt and inspection of all materials, supplies, equipment, and services purchased to ensure conformance with specifications;
- Recommend the disposition of surplus or unused supplies, materials, equipment, and scrap through sale or other means; and
- Maintain necessary records for the efficient operation of the Agency’s procurement system.

**320.00 Warehouse and Inventory Management.** The PA shall operate a centralized warehouse to efficiently manage commonly used supplies and materials as required to support Agency functions. Inventory management is addressed in AWA PL FIN 016.

### **330.00 Procurement Approval Levels.**

\$5,000	Department Supervisors
\$25,000	Department Managers
\$50,000	GM

If there is an immediate need to make a procurement and the designated staff member authorized under this Policy to make the procurement is absent, authorization for the procurement must be obtained from the next higher authority in accordance with the above ~~“Procurement Authorization Table”~~approval levels listed above.

**340.00 Purchasing Procedures.****340.10 Purchase Requisitions.**

**340.11** Purchase Requisitions (Requisitions) communicate to the PA, in clear and explicit terms, the needs of the requestor. The requisitioning process also provides a mechanism for obtaining the approvals necessary to authorize the PA to proceed with the acquisition.

**340.12** A completed Requisition will be submitted electronically by the requestor to the PA. For purchases up to \$5,000, informal quotes must be obtained, per section 410 below. If the requestor has received quotes, they are to be attached to the Requisition electronically or emailed to the PA to evaluate and move forward with the procurement of the goods or service. If no quotes are provided, the PA will obtain quotes, ~~but this may delay the processing of the Requisition.~~

**340.13** For purchases greater than \$5,000, requisitions should be prepared and submitted to the PA prior to attempting to obtain any materials, supplies, equipment, or services. Requisitions must be submitted far enough in advance to enable the PA to meet the competition requirements specified in this Policy and to properly prepare the contract documents.

**340.14** Based on one or more requisitions, the PA will create a PO.

**340.15** Procurements that require approval by the Board do not require electronic requisitions. The PA will create the PO after the Board of Directors has approved and signed the contract or delegated authority to the GM. The PO will then be delivered to the related Department.

**350.00 PO Accounting.**

**350.10** In general, POs will be closed at the end of each fiscal year. Purchases are expensed from the fiscal year budget in which materials, supplies, equipment, or services are received, not the fiscal year in which POs are issued.

**350.20** POs representing multiple year contracts will remain open until projects are completed and Finance is notified to close the PO.

**400.00 Competitive Procurement Processes.** All procurements for materials, supplies, equipment, or services shall employ an appropriate competitive selection process as set forth below unless an exception in this Policy applies.

Purchase Amount Requirements	
\$ 0 - \$5,000	Informal Quotes
\$ 5,001 - \$50,000	Formal Quotes
\$ 50,001 +	RFP/Sealed Bids

**410.00 Informal Quotes.** For purchases of materials, supplies, equipment, or services of less than \$5,000, quotes may be obtained through an informal process (e.g. web browsing or phone calls) and documentation of the bids is recommended but not required. Notes and other documents related to informal bids ~~shall~~may be appended to the Requisition and PO ~~if by~~ the staff member making the purchase ~~wishes to do so~~.

**420.00 Formal Quotes.** For all procurement of materials, supplies, equipment, or services of \$5,000 up to \$50,000, at least three vendors must be contacted for price quotations and the purchase shall be made from the lowest satisfactory quote. Quotes may be solicited from prospective bidders by written request, telephone, legal advertising or public notice (including Agency website). Regardless of solicitation method, all vendors must receive the same information about specifications and requirements of the product or service, and all quotes submitted shall not be shared with any other vendor until the purchase is made. Vendors may be advised that they will be notified only if the purchase is made from them. All quotes received must be documented and scanned into the Laserfiche Document Repository by the requesting department.

**430.00 Professional Services: Request for Proposal/Qualifications.** Professional Services include architectural, landscape architectural, engineering, environmental, land surveying, construction project management, and planning services, and other services requiring special training or certification, including but not limited to finance, accounting, law, economics, translation, and technical writing. Non-professional services do not require a high degree of professional certification or specialized skill, such as janitorial services, landscape maintenance services, and non-public works construction, and may be procured through the standard procurement procedures in this Policy.

**430.10** The selection of professional services shall be based upon the experience of the provider, knowledge of the subject matter, demonstrated ability to perform similar services within budget and the time allowed, any other factors identified in the solicitation, and the total estimated cost to the Agency. These criteria are intended to ensure that a competitive environment is created to ensure the Agency achieves the best value.



**430.20** For budgeted work, the Agency may issue an RFP or RFQ without specific Board action. The Board may approve the issuance of an RFP or RFQ in advance of budgeting or appropriating funds for the proposed work.

**430.30** The GM may execute contracts for consultant services up to \$50,000 when funds have been approved in the budget for such services and up to \$~~1025~~,000 without prior Board authorization if the work is not specifically itemized in the approved budget. For work estimated to cost more than \$50,000, Board approval is required for award. Staff will make reasonable efforts to obtain at least three proposals or statements of qualification to evaluate. All proposals and statements of qualifications shall be submitted in writing, including electronically. The Agency may require in the RFP or RFQ that submittals be electronic.

**430.40** The evaluation and a subsequent recommendation to the GM for consultant services shall be conducted by the staff member requesting the services. Before a recommendation is made to the Board, if the services are estimated to cost in excess of \$50,000, the fee for the services shall be negotiated. If a mutually satisfactory fee cannot be agreed upon, negotiations shall be terminated; thereupon another consultant shall be selected, and fee negotiations undertaken.

**430.50** Award of a contract to a consultant shall be made only when sufficient funds have been appropriated for the work, except where the services relate to the processing of development plans that will be paid for by a developer.

**430.60** If authorized by the Board or approved in the budget, the Agency may issue an RFP or RFQ stating that is for on-call services of specified types and that one or more proposals may be accepted. If multiple consultants are selected, the total award is subject to the approval limits stated above for the amount budgeted for the work, not divided among the awardees. Contracts will be executed with all awardees. When specific work is needed, the GM will execute an agreement with one of the awardees for the specific work. The GM may select among the contracted consultants based on applicable skill and experience, or may call for abbreviated proposals from multiple contracted consultants and evaluate them competitively. Individual agreements to perform specific work will not require Board action regardless of amount, but the GM may not exceed the approved budget for all such work.

**440.00 Federal Procurement Requirements.** For contracts funded with federal awards, the Agency must comply with the procurement requirements provided in the Uniform Guidance, Title 2 U.S. Code of Federal Regulations (CFR) § 200.318. These requirements, such as records retention and required documentation, are detailed in **Appendix A** and include, but are not limited to:

**440.10** Verification that procurement provides for full and open competition.

**440.20** Documentation for the cost or price analysis resulting in contractor selection.

**440.30** Grantee and subgrantee procedures will provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items.

**440.40** Proof that the Agency has verified, via the Federal EPLS website ([www.sam.gov](http://www.sam.gov)), that each contractor has not been suspended or debarred from bidding on federally funded projects.

**440.50** Certification from the contractor that subcontractors used by the approved contractor have not been suspended or debarred.

**440.60** Justification for lack of competition when competitive bids are not obtained.

#### **450.00 Exceptions to Competitive Solicitation Requirements.**

The competitive solicitation/bid process will not be required for the acquisition of goods and services under the following circumstances.

**450.10 Non-Discretionary Payments.** These payments are not readily adaptable to the open market and competitive selection process. Non-discretionary payments do not require the issuance of a PO, and are typically paid upon claim or invoice alone. Payments for budgeted or recurring items do not require Board approval for each item even in excess of the GM authorization limit. Examples of non-discretionary payments include, but are not limited to:

- Bank charges and fees
- One-time fees and permits
- Debt Service payments
- Pension and OPEB payments
- Employee expense reimbursements
- Utilities
- Insurance claims and premiums
- Advertisements and Legal Notices
- Payroll related tax liabilities
- Medical reimbursement payments
- Water purchases
- Budgeted memberships, dues, and subscriptions

**450.20 Cooperative Procurement.** The Agency may participate in purchases and contracts established by other political jurisdictions, provided the cooperative agreement is established following a sufficient competitive process. The cooperative purchase may be authorized according to the amounts stated in the Procurement Authorization Table in section 330.00 of this Policy.

**450.30 Inventory Replenishment.** Purchases by the PA consistent with PL FIN 016 to replenish the Agency's warehouse inventory within established inventory re-order levels require no prior authorization, provided that the vendor being utilized has been selected within the last twenty-four months as the designated vendor for the items, or class of items, to be purchased.

**450.40 Sole Source.** Materials, supplies, equipment, or services which can be obtained from only one vendor are exempt from competitive bidding. Sole source purchases may include, for example, proprietary items sold directly from the manufacturer, equipment which has been standardized by the Agency, items which have only one distributor authorized to sell in the local area, agreements for maintenance of computer software the Agency owns, or a certain product that has been proven to be the only product acceptable. The requestor must provide documentation justifying the sole source exception to the approval authority, and the documentation will be retained on file.

**450.45 Professional Services.** Professional services may be acquired without competition where the approving authority finds that the provider possesses such unique advantages in knowledge or experience to perform the desired work efficiently that an RFQ or RFP process would be unfair to other possible proposers.

**450.50 Emergency Purchases.** Emergency purchases may be made without competitive processes when a sudden, unexpected occurrence presents an immediate risk of:

- harm or hazard to life, public health, safety, or welfare;
- damage to Agency property; or
- serious interruption of Agency essential services.

**450.51** In an emergency, the GM may acquire materials, supplies, or services (not construction) without competitive process and up to \$100,000, per AWA PL BOD 008.

**450.51** Since emergency purchases do not normally provide the Agency an opportunity to obtain competitive quotes, sound judgment shall be used in keeping such orders to an absolute minimum. In addition, the following requirements shall apply:

- The Finance Department shall be contacted as soon as possible to obtain a PO number;
- A completed purchase Requisition shall be submitted within two working days, or as soon as the information is available;
- Documentation explaining the circumstances and nature of the purchase shall be maintained by the applicable department supervisor or manager; and

- If the emergency purchase causes any budget line item to exceed the approved budget, the department requesting the purchase shall provide supporting information to the GM to obtain subsequent Board of Directors' approval for reserve funding or to make a budget transfer to cover the purchase.

**450.60 Change Orders.** The GM may approve change orders to contracts for the procurement of supplies, equipment, contracts for professional services, and other goods and services provided:

**450.61** The change order is within the scope of the approved contract and the cost of the changed work does not exceed the adopted budget;

**450.62** Taxes, shipping, and handling may cause the PO to exceed the authorized amount. These items do not require a change order, even if they exceed 20% of the original PO amount.

**500.00 Construction.** For construction to be performed by Agency staff, the normal provisions related to procurement of materials, supplies, and professional services apply. For construction contracts, the Agency operates according to §§ 21450-21451 and other applicable provisions of the Public Contract Code (PCC). Any agreement for the erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind is a public works contract (PCC, § 1101). Construction does not include routine, recurring, and usual maintenance and repair performed on existing public facilities to keep them operational.

**510.00 Force Account.** The Agency may choose to perform any construction work with its own employees. If the Agency chooses to contract for the work, it may later decide to proceed with its own employees if the work is advertised and no bids are received or the work is advertised and the Agency rejects all bids. If the Agency contracts for the work, the following processes will be used.

**520.00 Contracts for public work estimated to cost \$12,500 or less.** Contracts for public work estimated to cost \$12,500 or less may be awarded by informal bids. Bids may be solicited from prospective contractors by written request, telephone, legal advertising or public notice (including Agency website). Bids will be submitted in writing, including by email or response to email. Staff will make reasonable efforts to receive at least three bids. Regardless of solicitation method, all bidders must receive the same information about specifications and requirements of the product or service. Bids shall not be shared with any other bidders or the public until the award is made. Bidders may be advised that they will be notified only if a contract is awarded to them. All bids received must be retained by the requesting department and scanned into the Laserfiche Document Repository.

**530.00 Contracts for public work exceeding \$12,500.** Contracts for public work estimated to cost more than \$12,500 shall comply with PCC § 21451, including:

- Contracts shall be let to the lowest responsible bidder or bidders.
- The Board shall determine whether the contract shall be let as a single unit or divided into severable parts.
- The call for bids shall be advertised by three insertions in a daily newspaper of general circulation or by two insertions in a weekly newspaper of general circulation, and on the Agency’s website, stating whether the work shall be performed in one unit or divided into parts.
- The work may be let under a single contract or several contracts, as stated in the call for bids.
- Successful bidders shall file with the Agency payment and performance bonds as required by with Civil Code § 9550 et seq. and the contract documents.
- The Board may reject any bid.
- The agency may purchase in the open market without advertising for bids, materials and supplies for use in any work under contract.
- The Agency will retain all bid documents per the Document Retention Policy.

**530.10** Unless the bid process utilizes different criteria, and unless an exemption applies, bids shall be awarded to the “responsive” and “responsible” bidder who submits the lowest bid.

- Responsive shall mean a bidder whose bid is in conformance with the requirements of the bid solicitation, including specifications and the Agency’s terms and conditions. Bidders who substitute terms and conditions or who qualify their bids in such a manner as to limit their liability may be considered non-responsive.
- Responsible refers to the ability of the bidder to successfully fulfill a contract. Prospective bidders may be requested to furnish proof of financial resources, appropriate insurance coverage, a list of current or previous customers, and other pertinent data. Such action may be taken after receipt of bids.

**530.20** If there are questions about whether the lowest bidder is “responsible” or “responsive”, advice of legal counsel shall be sought.

**540.00 Change Orders, Claims, Disputes.** The GM may approve change orders for public works construction projects as long as increases do not exceed the Board-approved project costs, change the approved scope, or extend the contract completion date. Changes

beyond the approved scope, cost, or scheduled completion date shall be brought to the Board for approval. (See PL BOD 008).

### **550.00 Exceptions to Public Works Bidding.**

**550.10 Emergency.** In the case of an emergency, the Agency, pursuant to a four-fifths vote of the Board, may repair or replace a public facility, take any directly related and immediate action required by that emergency, and procure the necessary equipment, services, and supplies for those purposes, without giving notice for bids to let contracts. Before and after the Board takes such action, it must make special findings and follow the procedures provided in PCC § 22050.

**550.20 Where Public Works Bidding is Not Advantageous** To the extent permitted by law, AWA may enter into a public works contract regardless of the amount without competitive bids if the Board has determined that the bid process would be unavailing or would not produce an advantage to AWA, and the advertisement for competitive bids would thus be undesirable, impractical, or impossible. The Board must then also find that the contract is based on the competence and qualifications of the contractor and the contract represents a fair and reasonable price for the work under all of the circumstances. Legal counsel shall be consulted prior to seeking Board approval for such a procurement.

### **600.00 Ethics and Conflicts of Interest.**

No member, officer, or employee of the Agency, or their designees or agents, and no public official who exercises authority over or responsibility with respect to purchasing during his or her tenure, or for one year thereafter, shall have any interest, direct or indirect, in any purchase, agreement or sub agreement, or the proceeds thereof, for any purchase or purchase agreement. Per AWA PL BOD 003. The GM, Department Managers, Engineering Supervisor, Resident Engineer, and PA shall attend ethics training complying with AB 1234 at least once every two years.

### **700.00 Policy Review.**

This Policy shall be reviewed at least every two years.

**APPENDIX A – § 200.318 General procurement standards**

- (a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (b) Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
- (c)
- (1) The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent must participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the non-Federal entity must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. However, non-Federal entities may set standards for situations in which the financial interest is not substantial, or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the non-Federal entity.
- (2) If the non-Federal entity has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian tribe, the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest mean that because of relationships with a parent company, affiliate, or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization.
- (d) The non-Federal entity's procedures must avoid acquisition of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase. Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.
- (e) To foster greater economy and efficiency, and in accordance with efforts to promote cost-effective use of shared services across the Federal government, the non-Federal entity is encouraged to enter into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services.
- (f) The non-Federal entity is encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs.
- (g) The non-Federal entity is encouraged to use value engineering clauses in contracts for construction projects of sufficient size to offer reasonable opportunities for cost reductions. Value

engineering is a systematic and creative analysis of each contract item or task to ensure that its essential function is provided at the overall lower cost.

(h) The Non-Federal entity must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(j)

(1) The non-Federal entity may use time and material type contracts only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk. Time and material type contract means a contract whose cost to a non-Federal entity is the sum of:

(i) The actual cost of materials; and

(ii) Direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit.

(2) Since this formula generates an open-ended contract price, a time-and materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, each contract must set a ceiling price that the contractor exceeds at its own risk. Further, the non-Federal entity awarding such a contract must assert a high degree of oversight in order to obtain reasonable assurance that the contractor is using efficient methods and effective cost controls.

(k) The Non-Federal entity alone must be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. These issues include, but are not limited to, source evaluation, protests, disputes, and claims. These standards do not relieve the non-Federal entity of any contractual responsibilities under its contracts. The Federal awarding agency will not substitute its judgment for that of the non-Federal entity unless the matter is primarily a Federal concern. Violations of law will be referred to the local, state, or Federal authority having proper jurisdiction.



## Amador Water Agency

**Water and Wastewater Service Charges and Rate Setting Policy**

Revised and Adopted

09-10-20

**100.00 Purpose of the Policy**

It is important for the Agency to have cost-based rates that are fair, equitable, and defensible. The basis for establishing water and wastewater rates that are fair, equitable, and defensible has traditionally been cost of service principles and methodologies.<sup>1</sup> At the same time, some courts have historically allowed municipal entities to include a wider range of costs in the cost of service when establishing rates (e.g., conservation, efficient use, ability to pay, accrual of prudent reserves, etc.). The people of California, however, have established certain legal constraints on setting water rates pursuant to Proposition 218. Therefore, this policy has been developed to provide guidance and consistency in Agency financial planning and the rate setting decision-making process for the Board and staff. Also, this policy provides a foundation for the long-term financial sustainability of the Agency, while providing the outside financial community with a better understanding of the Agency's commitment to managing the Agency in a financially prudent and sustainable manner.

**200.00 Policy**

The Agency's water and wastewater service charges and rates will be assessed annually by staff, to confirm sufficient funding, and to assess needed adjustments to reflect inflation, construction needs, maintain bond covenants, and/or to avoid immediate or major rate adjustments. This does not imply that rates will be adjusted annually, simply that the rates are reviewed and a determination is made of their adequacy in funding the Agency.

The Agency will establish water and wastewater rates and charges using "generally accepted" rate setting and costing methodologies, including establishing appropriate cost bases for any existing or future water and or wastewater rate structure imposed or proposed to be imposed on Agency ratepayers, and in compliance with all appropriate laws (i.e., Proposition 218). The Agency will be viewed on a "stand-alone" basis to help assure self-sufficiency and sustainability. The analyses associated with "generally accepted" rate-setting techniques include the following analyses:

- A. Revenue Requirement Analysis** – Establishes the overall level of financial needs of the Agency. In developing the revenue requirements for the Agency, the Agency will consider the following:
1. Revenue requirements, including anticipated external funding, will be established on a "cash basis" approach that will include all Agency

<sup>1</sup> Generally-accepted cost of service principles and methodologies are best defined and discussed within the American Water Works Association M-1 Manual, Principles of Water Rates, Fees and Charges.

programs, operation & maintenance expenses, any applicable taxes/transfer payments, debt service (P&I), and capital improvements funded from rates.

2. Revenues and costs will be annually projected for a five year period (the proposed budget year plus four additional projected years).
3. Projections of Operations & Maintenance (O&M) costs should include any estimated incremental O&M costs associated with increased service levels (or future capital improvements.)
4. Agency staff will review the five year capital improvement plan and update it regularly by way of its Asset Management Plans and Water and Wastewater System Master Plans.
5. On an annual basis, the Agency will fund, through its rates and other available revenues, an amount to adequately maintain the existing infrastructure of the Agency. To achieve this goal, the Agency will fund selected capital projects based on the Agency's Capital Asset Replacement Management Plans and the Water and Wastewater System Master Plans.
6. The system's capital improvement program will consider growth related capital improvements, and replacement capital improvements.
7. The level of any proposed rate adjustment(s) will reflect all of the above costs (direct, indirect and costs of administration), such that rates will be cost-based and provide for full cost recovery of providing water and wastewater services to customers and to other local water retailers.

**B. Cost of Service Analysis** – Determines the equitable allocation of costs (revenue requirements) between the various customer groups.

1. When possible, a cost of service study will be utilized to equitably allocate the Agency costs to the customer classifications of service.
2. The cost allocation methodology will utilize techniques that are "generally accepted" by the industry (e.g. American Water Works Association) including conservation-based methodologies. The cost of service for the Agency will consider the specific circumstances and unique characteristics of the Agency in the cost allocation methodology.
3. A cost of service analysis will be conducted at least once every five years to determine if rates remain equitable between different customer classes of service.

**C. Rate Design Analysis** – The Agency will design rates to collect the appropriate level of revenue that reflects the rate design goals, objectives and policies of the Agency, including water conservation policies established by the Agency Board.

1. Rate designs will be reflective of system needs, and also reflect the greater public purpose and policy goals of the Agency Board.
2. Rate structures will be developed to promote understanding by the Agency's customers (e.g. bills that are easy to understand).
3. Rates will be set at a level that recovers necessary costs, by customer classification, yet flexible enough to accomplish the Agency's objectives.

As deemed appropriate, rate structures will be designed to reward the preservation of valuable resources (conservation), the efficient use of resources, while discouraging excessive or wasteful usage. (e.g. public purpose programs).

4. Rates will be designed to be equitable, and detailed to a level to reflect the service provided (e.g., private fire protection, multi-family services, etc).
5. Rates will balance the overall goals and objectives of the rate design process with any administrative or Agency billing issues. Providing rates that are easy to understand and administer is beneficial to both the customer and the Agency.
6. It shall be the policy of the Agency to set rates at the lowest responsible rate.

**300.00 Revenue Diversification**

The Agency has limited ability for revenue diversification. Where possible, the Agency will explore additional revenue sources such as grants, contract services, developer contributions, etc.

**400.00 Reviews and Updates**

The Agency will closely monitor the financial/rate performance of the Agency to help maintain adequate rates and charges through:

- A. Annual Reviews - Agency rates will be reviewed annually as part of the budget process, to determine the adequacy of revenues, and, as necessary, adjustments made to reflect inflation, construction needs, maintain bond covenants, and avoid major increases.
- B. Comprehensive Rate Studies - Agency rate studies will be conducted at least every five years to update assumptions and plan for the long-term solvency and viability of the Agency's water and wastewater services.

**500.00 Authority**

The General Manager and Financial Services Manager are responsible for adherence to this policy and regular reporting of the Agency's financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

**600.00 Policy Review**

This Policy will be reviewed at least every two years.

## Amador Water Agency

**Capacity Fee Development Charge Setting Policy**

Reviewed and Adopted

10-08-20

**100.00 Purpose of the Policy**

Capacity Fee Charges (CFCs) are one time charges that provide the means of balancing the benefits of the Agency's ~~cost requirements for new~~ infrastructure investments between existing customers and new customers. The portion of existing infrastructure that will provide service (capacity) to new customers is included in the computation of the Agency's CFCs. ~~(In contrast, the Agency has future capital improvement projects that are related to renewal and replacement of existing infrastructure. These infrastructure costs are typically included within the rates charged to the Agency's customers, and are not included in the CFCs.)~~ Foreseen capital improvements intended to benefit planned growth will also be included in the development of CFCs. CFCs will implement the Agency's ~~By establishing cost-based CFCs, the Agency will continue its policy of having "growth pay for growth," and existing Agency customers, for the most part, be sheltered from the financial impacts of growth. The establishment of CFCs will include consideration of:~~

- ~~A. Growth-Related Capital Projects—Within the Agency's capital improvement plans and rate studies, growth-related capital projects and portions of projects that are attributable to growth will be clearly identified.~~
- ~~B. Growth-Related Capital—The Agency's intent is for the cost of growth-related assets to be paid for by the use of CFCs.~~
- ~~C. Use of CFC Proceeds—CFC revenues will only be used for two purposes—to pay for growth-related debt service or to directly pay for growth-related capital improvements.~~

**200.00 Policy**

CFCs are intended to reflect the benefit afforded to~~cost of growth and capacity expansion to serve~~ new customers from previous Agency investments in system and additional capacity requirements. CFCs are also commonly used ~~a common method of~~ assessing the cost of expansion and its additional capacity requirements. In establishing CFCs, the following factors will be considered:

- ~~A. Meeting Legal Requirements – CFCs will be established and administered to cover the infrastructure cost associated with new system demands according to a current cost-of-service~~nexus study, in compliance with applicable law including Government Code Section 66000 – 66025 ("AB 1600 Requirements")~~and rates adopted in compliance with Proposition 218, and in consultation with legal counsel. CFC revenue will be deposited in a separate fund for system improvements.~~

- B. Methodologies – CFCs will be established using generally accepted methodologies and will include a debt service credit to fairly account for the method of financing used for growth and expansion projects.
- C. Determination of Cost-Basis – As appropriate, CFCs will be calculated to determine the cost-based levels for customers seeking to connect to the Agency’s water and wastewater system
- D. Establishing Final CFCs – The Board will establish the final CFCs, taking into consideration the cost-based levels of the charges and the Board’s policy or decisions as it relates to the sharing of growth-related costs between existing rate payers and new customers connecting to the water or wastewater system. At no time will the Board establish or adopt CFCs greater than the calculated cost-based CFCs.
- E. Adjustments – CFCs will be adjusted annually to reflect cost changes in materials, labor or real property applied to projects or project capacity using the Engineering News-Record Construction Cost Index for San Francisco. A comprehensive review and update of the CFC methodology shall occur at least every five years.
- F. Master Plan and CFCs –~~Every three to five years, or w~~Whenever the Water ~~and~~-or Wastewater System Master Plan is updated, the Agency may update the CFCs ~~will be updated~~ to reflect the changes in planning, infrastructure, and capital financing.

**300.00 Authority**

The General Manager and Financial Services Manager are responsible for adherence to this policy and regular reporting of the Agency’s financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

**400.00 Policy Review**

This Policy will be reviewed at least every two years.

**Amador Water Agency**  
**External Debt Management Policy**

Reviewed and Adopted  
~~09-10-2003-25-21~~

**100.00 Purpose of the Policy**

This policy sets forth comprehensive guidelines for the financing of capital expenditures [in accordance with Government Code Section 8855\(i\)](#). It is the objective of this policy that – 1) the Agency obtain financing when necessary, 2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, 3) the most favorable interest rate and issuance costs be obtained, and 4) when appropriate, future financial flexibility be maintained.

**200.0 Policy**

The issuance of long-term debt is a valuable funding resource for the Agency. Used appropriately and prudently, long-term debt can stabilize the Agency's charges and rates over time. Long-term debt is defined as financing greater than 5 years. Short term debt is defined as 5 years or less and will be used for short term financing of equipment, hardware, software and other items where long term financing might otherwise exceed the asset life.

To minimize dependency on debt financing for capital projects, annual renewal and replacement capital projects should be adequately funded from rates and [participation fees/capacity charge](#). Funding levels for capital investments will be sufficient to meet capital improvement projections needed as outlined in the current budget and five year Capital Improvement Plan (CIP). Long-term debt will be considered only for large capital improvement projects. The Agency will ~~be managed to meet to at least meet, and potentially exceed,~~ the minimum and target Debt Service Coverage (DSC) requirements as imposed by bond covenants. The Agency will not issue long-term debt to support operating costs.

- A. Use of Long-Term Debt As a Funding Mechanism – Use of long-term debt will be minimized. The Agency may consider the use of long-term debt financing when it appears that a capital project, or other expenditures as deemed appropriate by the Board, is of such a magnitude that it will negatively impact the Agency's rates in the short-term. The benefit of long-term debt financing is that it will spread the costs of the capital asset over a longer period of time and will, therefore, approximate the useful life of the asset, and over time, charge those customers that benefit from that asset more equitably.
- B. Types of Long-Term Debt – The Agency will strive to utilize the type of debt that has the lowest costs, while not imposing any burdensome covenants or reporting requirements. [Types of long-term debt to be used by the Agency include: revenue bonds, certificates of participation, installment purchase agreements or direct](#)

[placement debt with a bank or government agency.](#)

- C. Legal Covenants – The Agency will manage its operations and maintenance to meet all bond covenants associated with the long-term debt. Bond covenants are legal obligations of the Agency.
- D. Debt Service Coverage Covenants – Long-term debt issuances typically contain legal covenants regarding DSC. A DSC ratio is an important financial measure of the Agency’s ability to repay the outstanding debt obligation, and is reviewed for adequacy by banks and rating agencies. Generically, the DSC ratio is the Agency’s net operating income divided by the total annual debt service payment. For financial planning purposes, the targeted annual DSC ratio will be greater than or equal to 1.25-50 on all outstanding debt that carries such a covenant.
- E. Reporting Standards – The Agency will fully adhere to all applicable Government Accounting Standards Board (GASB) requirements and recognized best practices for the accounting treatment and disclosure of debt obligation transactions in its audited financial statements and other relevant publications.
- F. Revenue-Bonded Debt Capacity – The issuances of debt are supported by the revenues of the Agency. The ability of the Agency to fund and support revenue bonded debt will financially establish a debt level and capacity for revenue-bonded debt.

### **300.00 Conditions for Debt Issuance**

When the Agency determines that debt issuance is necessary, the Agency will assess the market conditions and timing for debt issuance to include issuing debt – 1) in times of favorable market conditions, 2) when Bond ratings would qualify Agency issuances to be investment grade, and 3) when revenues are sufficient to adequately cover expected debt service and issuance costs.

Bond credit enhancements will be considered when necessary for market acceptance and when costs are favorable to the Agency.

### **400.00 Conditions for Debt Refinancing**

Debt refinancing (refunding) is an important debt management tool for the Agency. There are three key concepts that must be taken into consideration when evaluating a debt for refunding:

1. Financial and Policy Objectives
2. Financial Savings/Results of Financing
3. Bond Structure and Escrow Efficiency

A. Financial and Policy Objectives – The Agency may undertake a refinancing for a number of financial and/or policy objectives, including to achieve debt service savings, eliminate restrictive debt/legal covenants, restructure the stream of debt service payments, or to achieve other policy objectives. Although in most circumstances the Agency may undertake a refunding to obtain economic savings, it may refund an issue to restructure its debt portfolio in order to obtain budgetary/cash flow relief or to address exposure to other costs/liabilities ~~and to extend the maturity.~~

Refunding debt may not be used to extend the maturity of existing debt.

B. Financial Savings/Results of Financing - The financial framework regarding the evaluation of refunding opportunities is to be developed and evaluated by the Agency. Such evaluation will be conducted by the

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~~B. Financial Services Manager or Executive Management staff, typically to include the efforts of outside financial advisors. It is important to note that federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue. As such, the Agency must take greater care (i.e., require a higher savings threshold) when evaluating an advance refunding opportunity.~~

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C. In certain circumstances, lower savings thresholds may be justified but must be approved explicitly by the Board. ~~For example, when an advance refunding is being conducted primarily for policy reasons (other than economic savings), interest rates are at historically low levels or the time remaining to maturity is limited, and as such, future opportunities to achieve greater savings are not likely to occur.~~

D. Bond Structure and Escrow Efficiency – The Agency’s debt management practices should anticipate the potential for future refundings. When debt is issued, careful attention should be paid to the bond structure to address features that may affect flexibility in the future. To that end, upon debt issuance the Agency shall consider: optional redemption provisions, bond coupon characteristics giving up call rights for certain maturities in exchange for a lower interest rate on the bonds, call provisions that permit the redemption of bonds in any order of maturity or on any date, call provisions that permit the issuer to call bonds at the earliest date without incurring a significant interest-rate penalty, and coupons on callable bonds priced as close to par as possible at the time of original issue.

#### **500.00 Internal Controls**

To ensure that proceeds of any debt issued in accordance with its governing documents and this Policy no disbursements shall be made without the approval of the General Manager or Financial Services Manager. For Capital improvement Plan projects, the draw request shall be provided to the Finance Manager for budget approval by the project engineer with the consent of the Agency’s inspector. Draw request approval shall only be provided when the General Manager is in receipt of the Financial Services Manager’s budgetary approval and an appropriate certification from the construction project manager with supporting invoices from suppliers and/or contractors evidencing appropriate expenses in connection with the project.

In the case of an issue of bonds, the proceeds of which will be used by a governmental entity other than the Agency, the Agency may rely upon a certification by such other governmental entity that it has adopted the policies described in SB 1029.

#### **600.0 Interest Rate Swaps**

~~600.0~~ The Agency will not use interest rate swaps as a method to reduce bond

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~~costs or manage interest rate risk. The size of the Agency's resources and the complexity of financial derivative products are not deemed appropriate.~~

~~The incurring or carrying of variable rate debt obligations by the Agency involves a variety of interest rate payments and other risks that interest rate swaps are available to offset, hedge, or reduce. It is the policy of the Agency to utilize such interest rate swaps to better manage its debt portfolio. The Agency will consider executing an interest rate swap transaction if it expects the swap transaction will result in any of the following:~~

- ~~A. Reduce exposure to changes in interest rates on a financial transaction;~~
- ~~B. Result in a significantly lower net cost of borrowing with respect to the Agency's debt consistent with an established target; or~~
- ~~C. Manage variable interest rate exposure consistent with prudent debt practices and guidelines as approved by the Board.~~

#### **Savings Target**

~~Interest rate swaps will require a significant financial benefit or savings versus traditional fixed rate debt. For an interest rate swap intended to produce the effect of a synthetic fixed rate transaction, the swap transaction must generate 5% or greater net present value savings compared to standard fixed rate bonds which have the same optional redemption features.~~

#### **Restrictions**

~~The Agency will not enter into any swap transaction~~

- ~~a) for speculative purposes;~~
- ~~b) if the swap presents an extraordinary risk to the Agency's liquidity to terminate the agreement due to unforeseen events;~~
- ~~c) if there is insufficient price transparency to allow for fair market valuation.~~

#### **Provider Requirements**

~~The transaction provider will have a credit rating of AA (or equivalent) or better from at least two nationally recognized credit rating agencies (at the time of agreement execution). The transaction provider will have a demonstrated record of successfully executing derivative transactions and have a minimum capitalization of \$2 billion.~~

#### **Use of Independent Advisor**

~~The Agency will use a professional advisor or designated swap representative ("Swap Advisor") to assist in the assessment, structuring, and pricing of proposed or existing interest rate swaps. The Swap Advisor will be a firm which:~~

- ~~i. is a Municipal Advisor registered with the Securities and Exchange Commission;~~
- ~~ii. has sufficient knowledge to evaluate the swap transaction and risks;~~
- ~~iii. is not subject to a statutory disqualification;~~
- ~~iv. is independent of the swap dealer or major swap participant;~~
- ~~v. undertakes a duty to act in the best interests of the Agency;~~
- ~~vi. provides appropriate and timely disclosures to the Agency; and~~

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~~vii. — evaluates fair pricing and the appropriateness of the swap.~~

**700.00 Authority**

The General Manager and Financial Services Manager are responsible for adherence to this policy and regular reporting of the Agency's financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

**800.00 Policy Review**

This Policy will be reviewed at least every 2 years.



Amador Water Agency

**Budget Policy**

Reviewed and Adopted

~~10-08-2003-25-21~~

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**100.00 Purpose of the Policy**

The Agency's annual budget, as approved by the Board, will serve as the basis for operating the Agency. The budget includes a number of specifically identified projects, their attendant costs, as well as projected costs for operations and maintenance activities.

**200.00 Policy**

The Agency's Strategic Plan will serve as a guide/tool in the development of the Agency's annual Budget. The Agency will establish and maintain separate operations & maintenance (O&M), operating capital, capital improvement and debt service budgets (collectively – Agency Budget) in order to provide for proper fund management, financial planning and long-term solvency of the Agency.

On a combined basis, the Budget will reflect the following:

- A. Self-Supporting – The Agency will be self-supporting, such that current revenues fully fund current expenses and any fund balance or debt service coverage requirements.
- B. Consistent with the adopted
  - Agency Strategic Plan,
  - Water and Wastewater Master Plans,
  - 5 year Capital Improvement Plan,
  - Water and Wastewater Rate Studies
  - Asset Management Plans
  - Urban Water Management Plan
  - All other Agency planning documents
  - Board prioritization of projects and expenditures within the constraint of expected revenues.
- C. Capital Accounts – Capital revenues from rates, fees, grants, loans and other financing mechanisms will be accounted for separately in capital accounts, such that funds dedicated for capital purposes are expended only for capital purposes.
- D. Adequate Funding to Preserve System Assets – Total operating expenditures will be funded at a level that will preserve the intended life and functional requirements of the Agency's infrastructure.

- E. Evaluation and Monitoring of Costs – Costs will be evaluated and monitored through monthly and annual reporting to ensure that the Agency is operated in a cost effective and economically prudent manner.
- F. Maintenance of Sufficient Reserves – The Agency will maintain sufficient reserves in accordance with the Agency’s Reserve Policy.
- G. Positive Annual Net Income - The Agency will strive to achieve positive annual net income (total revenue less O&M expenditures, debt service and capital projects funded from rates) greater than or equal to zero on a cash basis in order to support adequate reserves and minimize rate impacts in the future.
- H. Bond/COP Rate Covenant Requirements – The Agency will budget such that it will exceed the Rate Covenant obligations of its indebtedness and strive, which is a minimum of 125% of the Agency’s annual debt service costs, to meet the targeted debt service coverage ratio set out in the adopted External Debt Management Policy.
- I. Strive for Rate-Budget Stability Through Rate Setting - Rate-Budget stability reinforces the concept that costs are being prudently managed and controlled. Rates should be stable set to in their ability to generate sufficient revenues to meet the service needs of the Agency. Rate policies are addressed in detail in AWA PL FIN 009.
1. Needed rate adjustments will attempt to minimize impacts to customers by phasing-in or transitioning large rate adjustments over time where possible.
  2. Where possible and deemed appropriate, excess fund balances will be used to offset rate increases with any remaining balances being used for approved capital purposes, rehabilitation needs, and . The use of fund balances (reserves) will not to fully funding the Agency’s compromise the Reserve Policy regarding minimum targeted reserve levels or adequate funding on a long-term self-sustaining basis. After those objectives are met, and fund balance will be used to offset future rate increases.
  3. Annual rate reviews will consider a five-year projected period in an attempt to stabilize rates and spread rate adjustments over time. Rates adjust annually to reflect inflationary increases.
  4. A comprehensive rate study will be conducted at least every five years by an outside party as determined by the Board in order to assess the fairness of the rates to the Agency’s customers and to verify that necessary revenue is available for the Agency’s operating and capital needs.

Rate stability shall be maintained in line with established Agency policies and its mission statement.

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Staff will provide the Board with a synopsis of budget drivers, including:

1. Key Assumptions – expected water production and source, labor cost projections, and key drivers of capital and operating expenses such as projected power and chemical costs;
2. Revenue Projections – forecasted water demand and projected net income;
3. Projected debt service coverage ratio;
4. Reserve Balance Projections; and
5. Trend and/or Comparative Information
6. Five-year Financial Forecast

The proposed budget will include the following components:

1. Operations and Maintenance Budget (O&M):

- a. Planned Agency O&M expenses for operations, programmed maintenance, forecasted materials and supply costs, and contingencies for incident response.
- b. Annual labor budget and its components per the Employee Compensation Policy, including projected unfunded actuarial liabilities for pensions (PERS) and other post-employment benefits (OPEB).
- c. Projected expenses will be shown in total and segregated by department and function.

2. Operating Capital Budget (Fixed Assets):

- a. Information Technology capital projects;
- b. Vehicle and fleet capital costs;
- c. Capitalizable office furniture; and
- d. Capitalizable costs for operations.

Capitalizable costs in the Fixed Asset Budget are distinguished from those in the Capital Improvement Program Budget based, generally, on the shorter expected life of the asset and that the asset is not part of the general water delivery system.

3. Capital Improvement Program Budget (CIP):

- a.—Expenses will be planned primarily on the Agency’s Asset Replacement Management Plans and the Water/ Wastewater System Master Plans.
- b.—The Agency will determine with each budget how to project revenue from anticipated development.
- c.—Staff will seek input from the County and cities regarding anticipated timing of planned development.

4. Debt Service Budget:

- a.—The budget will plan to meet all contractual obligations for all principal and fixed-rate interest obligations. Adjustable-rate interest obligations will be forecast based on best available market data at budget preparation time.

5. Agency Reserves:

- 1.—The Agency’s Reserve Policy will be reviewed annually

during the budget preparation and adoption process.

**400.00 Authority**

The General Manager has authority to reallocate specific budgeted amounts within a particular budget (O&M, Fixed Asset or CIP) during the year with subsequent reporting to the Board, as long as the overall approved budget is not affected. Amounts to be transferred between budgets (e.g., O&M to CIP) will be approved by the Board prior to the transfer. The General Manager and Financial Services Manager are responsible for adherence to this policy and regular reporting of the Agency's financial status. Board oversight will be accomplished through regular reporting of budget-to-actual expenditures during the year and review of this Policy.

**500.00 Policy Review**

This policy will be reviewed at least every two years-





## STAFF REPORT: GRANT SERVICES REQUEST FOR PROPOSALS

**Recommended Action:**

Approve issuance of Request for Proposals for grant services.

**Report:**

The topic of using consultant support for grant services has been raised in previous Board meetings. The intent is to seek proposals for services including identifying and tracking grant opportunities, assisting in prioritizing opportunities, writing grant applications, grant-related advocacy, and grants management.

The Agency is interested in federal and state grants, and will explore the potential value of private or nonprofit organization philanthropy. The RFP will invite proposers also to describe how they could assist the Agency in identifying or developing other strategies for innovative project financing in conjunction with grants.

While the Board has generally expressed support for this idea previously, this recommended action is being brought forward to comply with the Procurement Policy (FIN Policy 005) regarding issuing an RFP for unbudgeted actions.

The RFP will allow proposers to educate staff on the type of services and approaches for providing them that are available. Proposers may provide input on whether all of the services in which the Agency is interested can be provided, or whether the proposer's expertise is in only some of the subject areas. The RFP will seek cost proposals, as well.

It is unknown before reviewing proposals whether one consultant should be engaged for all of these services, or multiple consultants should be engaged. It is difficult accurately to estimate the cost of specific contracts that might be desired. Staff's intent is to identify cost savings elsewhere in the current approved budget to get this work started, and to budget specifically for these services in the forthcoming budget. Individual contracts will be brought to the Board for approval as required by the Procurement Policy.

Once proposals are received and reviewed, staff will also evaluate the potential for discussing regional use of these services with partner agencies in the service area or surrounding region.

**Prepared by:** Larry McKenney, General Manager

Amador Water Agency

**Debt Obligation Continuing Disclosure Policy**

Reviewed and Adopted

~~09-10-2003-25-21~~**100.00 Purpose of the Policy**

The purpose of this Debt Obligation Continuing Disclosure Policy (“Policy”) is to memorialize and communicate procedures in connection with obligations, including notes, bonds and certificates of participation, issued by or on behalf of the Amador Water Agency (the “Agency”) so as to ensure that the Agency continues to comply with all applicable disclosure obligations and requirements under the federal securities laws.

**200.00 Policy**

The Agency from time to time issues revenue bonds, notes or other obligations or causes certificates of participation to be executed and delivered (collectively, “Obligations”) in order to fund or refund capital investments or other long-term programs and working capital needs. In offering Obligations to the public, and at other times when the Agency makes certain reports, the Agency must comply with the “anti-fraud rules” of federal securities laws. (“Anti-fraud rules” refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934, and regulations adopted by the Securities and Exchange Commission under those Acts, particularly “Rule 10b-5” under the 1934 Act.)

The core requirement of these rules is that potential investors in Obligations must be provided with all “material” information relating to the offered Obligations. The information provided to investors must not contain any material misstatements, and the Agency must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the Agency’s financial condition. In the context of the sale of securities, a fact is generally considered to be “material” if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the securities being offered.

When Obligations are offered, the two central disclosure documents which are prepared are a preliminary official statement (“POS”) and a final official statement (“OS”, and collectively with the POS, “Official Statement”). The Official Statement generally consists of (i) the forepart (which describes the specific transaction including maturity

dates, interest rates, redemption provisions, the specific type of financing, the leased premises (in certificate of participation financings) and other matters particular to the financing, (ii) a section which provides information on the Agency, including its financial condition as well as certain operating information ("Agency Section"), and (iii) various other appendices, including the Agency's audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking. Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding the Obligations.

### **DISCLOSURE PROCESS**

When the Agency determines to issue Obligations directly, the Agency General Manager and Financial Services Manager requests the involved departments to commence preparation of the portions of the Official Statement (including particularly the Agency Section) for which they are responsible. While the general format and content of the Official Statement may not normally change substantially from offering to offering, except as necessary to reflect major events, the Agency General Manager and ~~Finance~~ Financial Services Manager and other relevant staff are responsible for reviewing and preparing or updating certain portions of the Agency Section which are within their particular areas of knowledge.

Once the draft POS has been substantially updated, the entire draft POS is shared with the General Manager for review and input. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire draft POS.

Members of the financing team, including the Bond Counsel and a financial advisor, if one is engaged with respect to the Obligations (the "Financial Advisor"), assist staff in determining the materiality of any particular item, and in the development of specific language in the Agency Section. Members of the financing team also assist the Agency in the development of a "big picture" overview of the Agency's financial condition, included in the Agency section. This overview highlights particular areas of concern. Bond Counsel has a confidential, attorney-client relationship with officials and staff of the Agency.

The Financial Services Manager or a member of the financing team at the direction thereof schedules one or more meetings or conference calls of the financing team (which includes Agency officials, General Counsel, Bond Counsel and the Agency's ~~Financial~~ Financial-Municipal Advisor (and the underwriters of the Obligations, and the underwriters' counsel, if the proposed financing is being undertaken as a negotiated transaction)), and new drafts of the forepart of the draft POS and the Agency Section are circulated and discussed. Such communications may occur via electronic means rather than by meetings or conference calls. During this part of the process, there is substantial contact among Agency staff and other members of the financing team to

discuss issues which may arise, determine the materiality of particular items and ascertain the prominence in which the items should be disclosed.

Prior to distributing a POS to potential investors, there is typically a formal conference call which includes Agency officials involved in the preparation of the POS and members of the financing team (and the underwriters and the underwriters' counsel, if the financing is a negotiated transaction) during which the POS is reviewed in its entirety to obtain final comments and to allow the underwriters, if any, to ask questions of the Agency's senior officials. This is referred to as a "due diligence" meeting.

A substantially final form of the POS following review by the General Manager is provided to the Agency Board of Directors. The substantially final form of the POS is approved by the Board of Directors which generally authorizes certain senior staff to make additional corrections, changes and updates to the POS in consultation with General Counsel and Bond Counsel.

At the time the POS is posted for review by potential investors, senior Agency officials execute certificates deeming certain portions of the POS complete (except for certain pricing terms) as required by SEC Rule 15c2-12.

Between the posting of the POS for review by potential investors and delivery of the final OS to the underwriter for redelivery to actual investors in the Obligations, any changes and developments will have been incorporated into the POS, including particularly the Agency Section, if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published.

In connection with the closing of the transaction, one or more senior Agency officials execute certificates stating that certain portions of the OS, as of the date of each OS and as of the date of closing, does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the Official Statement in light of the circumstances under which they were made, not misleading. General Counsel also provides an opinion letter (generally addressed to the underwriters) advising that information contained in the Agency Section of the OS (or specified portions thereof) as of its date did not, and as of the date of the closing, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. General Counsel does not opine to the underwriters or to other third parties as to any financial, statistical, economic or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and certain other customary matters.

## AGENCY SECTION

The information contained in the Agency Section is developed by personnel under the direction of the General Manager and Financial Services Manager, with the assistance of the financing team. In certain circumstances, additional officials will be involved, as necessary. The following principles govern the work of the respective staffs that contribute information to the Agency Section:

- Agency staff involved in the disclosure process are responsible for being familiar with its responsibilities under federal securities laws as described above.
- Agency staff involved in the disclosure process should err on the side of raising issues when preparing or reviewing information for disclosure. Officials and staff are encouraged to consult General Counsel, Bond Counsel or members of the financing team if there are questions regarding whether an issue is material or not.
- Care should be taken not to shortcut or eliminate any steps outlined in this Policy ~~procedures~~ on an ad hoc basis. However, the ~~P~~procedures are not necessarily intended to be a rigid list of ~~procedural~~ requirements, but instead to provide guidelines for disclosure review. If warranted, based on experience during financings or because of additional SEC pronouncements or other reasons, the Agency should consider revisions to the ~~P~~procedures or to this Policy.
- The process of updating the Agency Section from transaction to transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the Agency Section at the time of each update, everyone involved in the process should consider the need for revisions in the form, content and tone of the sections for which they are responsible at the time of each update.
- The Agency must make sure that the staff involved in the disclosure process is of sufficient seniority such that it is reasonable to believe that, collectively, they are in possession of material information relating to the Agency, its operations and its finances.

## TRAINING

Periodic training for the staff involved in the preparation of the Official Statement (including the Agency Section) is coordinated by the finance team and the General

Manager and Financial Services Manager. These training sessions are provided to assist staff members involved in identifying relevant disclosure information to be included in the Agency Section. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the Official Statement and the Agency Section, a description of previous SEC enforcement actions and a discussion of recent developments in the area of municipal disclosure. Attendees at the training sessions are provided the opportunity to ask questions of finance team members, including Bond Counsel concerning disclosure obligations and are encouraged to contact members of the finance team at any time if they have questions.

### **ANNUAL CONTINUING DISCLOSURE REQUIREMENTS**

In connection with the issuance or execution and delivery of Obligations, the Agency has entered into contractual agreements ("Continuing Disclosure Undertakings") to provide annual reports related to its financial condition (including its audited financial statements) as well as notice of certain events relating to the Obligations specified in the Continuing Disclosure Undertakings. The Agency must comply with the specific requirements of each Continuing Disclosure Undertaking. The Agency's Continuing Disclosure Undertakings will generally require that the annual reports be filed within nine months after the end of the Agency's fiscal year, and material event notices are generally required to be filed within 10 business days of their occurrence.

Specific events which require "material event" notices are set forth in each particular Continuing Disclosure Certificate.

The General Manager and Financial Service Manager shall be responsible for preparing and filing the annual reports and material event notices required pursuant to the Continuing Disclosure Undertakings. Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations).

#### **300.00 Policy Review**

This Policy shall be reviewed at least every two years.

