BUDGET & FINANCE COMMITTEE

SUPPLEMENTAL STAFF REPORT

REVIEW OF FINANCIAL POLICIES

Requested Action:

Discuss FIN-002 Capital Asset Policy, FIN-004 Reserve Policy, and FIN-012 Budget Policy, and recommend updates for the Board of Directors.

Background:

Since the posting of the Committee packet, Eide Bailly was able to review the three attached policies and provide recommended edits, which staff has also reviewed and adjusted.

Clean and redline versions of the three draft policies are attached.

Prepared by: Larry McKenney, General Manager

Amador Water Agency

Capital Asset Policy

Reviewed and Adopted April 14, 2022

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), and 3) has a minimum value of $5,000 (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, 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. 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.

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 $5,000, 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 acquisition value at the time of donation (the *acquisition value* is the cost which the Agency would incur to acquire the asset at the date of donation). If the acquisition 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."

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:

Category	**Depreciation/Amortization Period**
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
Water and Wastewater Treatment Plants, Pump Stations and Wells	
SCADA, pumps, electrical, membranes, etc	See next four rows
SCADA	20 Years
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 periodically and reconciled with the Agency's asset inventory system. Differences will be reported, along with explanations, to the General Manager.

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 013)."

200.90 Capital Assets Acquired with Federal Funds

Federal capital expenditures are allowable provided the Agency has prior written approval of the Federal awarding agency or pass-through entity.

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal Award Identification Number), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

300.00 Policy Review

This policy shall be reviewed at least every two years

Amador Water Agency

Capital Asset Policy

Reviewed and Adopted ~~March 25~~April 14, 2022~~1~~

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 3~~4~~) has a minimum value of $5~~10~~,000 (see section 200.20).

Commented [KB1]: Some capital assets do not depreciate – Land for example

Commented [KB2]: To be consistent with the Federal standards – see 2 CRF 200.1

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   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, 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. 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.

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- 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.~~

Commented [KB3]: Duplicative to 200.36

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SCADA	20 Years
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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 periodically and ~~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~~General Manager.

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 01~~0~~3)."

200.90 Capital Assets Acquired with Federal Funds

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Federal capital expenditures are allowable provided the Agency has prior written approval of the Federal awarding agency or pass-through entity.

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Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal Award Identification Number), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

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300.00 Policy Review

This policy shall be reviewed at least every two years

Amador Water Agency

Reserve Policy

Reviewed and Adopted
April 14, 2022

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.

A properly designed Board adopted reserve policy sends a positive signal to the community of ratepayers, bondholders, rating agencies, and regulatory agencies that the Board is committed to the Agency's long-term financial health and viability.

Prudent financial management and best practices dictate that the Agency maintain appropriate reserves for emergency use, capital projects, obligations accruing on a current basis that will be paid in the future, and those required as a result of legal or external requirements. The challenge for a governmental agency is to set reserve levels that are sufficient to meet the needs of the agency now and in the future, while following the concept of inter-period equity, which means that ratepayers pay for the services provided and used by them in the current period.

200.0 Objectives of the Policy:

- Establish sound formal fiscal reserve policies to ensure strong fiscal management and guidance for future Agency decisions.
- Build adequate reserves over time in order to provide the Agency with resources to help stabilize its finances and position it to absorb economic downturns or operational emergencies.
- The funding and subsequent use of reserves helps smooth rates from year to year and promotes equity over the years to ratepayers.
- Help the Agency to meet its short-term and long-term obligations and ensure that the District maintains the highest possible credit rating.

The main areas of risk useful for determining appropriate Reserve levels are:

1. Revenue Source Stability:

The Agency derives a significant part of its revenue from its usage rate, which puts it at a high level of risk to revenue instability in times of conservation. The Agency is subject to the risk of drought, changing fees from the State, changing regulations on water treatment, all which can cause lower net revenues to the Agency. In a scenario where the Agency expenses exceed the revenues, the Agency's reserves could be used to balance the budget.

2. Infrastructure:
Aging infrastructure presents a higher risk that a failure will require the use of Operating Reserves for repair or replacement. Water Districts are infrastructure intensive and are subject to the risk of unplanned failure and related costs in many parts of the distribution system.

3. Vulnerability to Extreme Event and Public Safety Concern:
The Agency is also subject to the risk an extreme event such as an earthquake or fire could seriously damage infrastructure that will need to be repaired or replaced immediately to protect the public health and safety. Even though such damage might be subject to reimbursement from the Federal Emergency Management Agency (FEMA), the Agency would need to have sufficient cash on hand for needed repairs.

00.10 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 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 event where the reserves are drawn below target minimums, a report shall be prepared containing the reasons for withdrawals and any impact to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five-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 minimum 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

Reserve Policy

Reviewed and Adopted
~~March 25~~April 14, 2022~~1~~

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.

A properly designed Board adopted reserve policy sends a positive signal to the community of ratepayers, bondholders, rating agencies, and regulatory agencies that the Board is committed to the Agency's long-term financial health and viability.

Prudent financial management and best practices dictate that the Agency maintain appropriate reserves for emergency use, capital projects, obligations accruing on a current basis that will be paid in the future, and those required as a result of legal or external requirements. The challenge for a governmental agency is to set reserve levels that are sufficient to meet the needs of the agency now and in the future, while following the concept of inter-period equity, which means that ratepayers pay for the services provided and used by them in the current period.

200.0 Objectives of the ~~a reserve p~~Policy:

- Establish sound formal fiscal reserve policies to~~, which will be the foundation that~~ ensure~~s~~ strong fiscal management and ~~policies that~~ guid~~e~~ance for future Agency decisions.
- Build adequate reserves over time in order to ~~. This action will~~ provide the Agency with resources to help stabilize ~~the agency's~~its finances and position it to ~~easily~~ absorb economic downt~~ow~~urns or ~~large-scale~~operational emergencies.
- The funding and subsequent use~~s~~ of reserves helps smooth rates from year to year and promotes equity over the years to ratepayers.
- Help the Agency to meet its short-term and long-term obligations and ensure that the District maintains the highest possible credit rating.

The main areas of risk useful ~~the GFOA recommend reviewing~~ for determining appropriate Reserve levels are:

1. Revenue Source Stability:

The Agency ~~is dependent upon~~derives a ~~large~~significant part of its revenue from its usage rate~~the commodity charge~~, which puts it at a high level of risk to revenue instability in times of conservation. The Agency is subject to the risk of drought, changing fees from the State, changing regulations on water treatment, all which can cause lower net revenues to the Agency. In a scenario where the Agency expenses exceed the revenues, the Agency's reserves c~~w~~ould ~~have to~~ be used to balance the budget.

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The Agency is also subject to the risk an extreme event such as an earthquake or fire could seriously damage infrastructure that will need to be repaired or replaced immediately to protect the public health and safety. Even though such damage might be subject to reimbursement from the Federal Emergency Management Agency (FEMA), the Agency would need to have ~~ample~~sufficient cash on hand for needed repairs.

~~Given the increasing state regulations and unfunded mandates, along with aging infrastructure and facility needs, the Agency has determined that minimum reserves should be maintained at all times.~~

~~Collectively, A Board adopted reserve policyfunds demonstrates the Agency's commitment to their long-term financial health and viability. It enables the Agency to operate in a prudent manner, while allowing for transparency of reserve fund balances.~~

~~Reserve fund levels are established to meet the needs of the Agency now and in the future, while following the concept of inter-period equity, whereby ratepayers pay for the services provided and used by them in the current period.~~

~~**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

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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 minimum~~s~~ ~~balances, or~~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

Budget Policy

Reviewed and Adopted
April 14, 2022

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 fund by fund 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 to meet the targeted debt service coverage ratio set out in the adopted External Debt Management Policy.

I. Strive for Budget Stability Through Rate Setting - Budget stability reinforces the concept that costs are being prudently managed. Rates should be set 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.
2. Where possible and deemed appropriate, excess fund balances will be used for approved capital purposes, rehabilitation needs, and to fully funding the Agency's Reserve Policy regarding minimum targeted reserve levels or adequate funding on a long-term self-sustaining basis. After those objectives are met, excess fund balance can be used to offset future rate increases or used on non-recurring expenses such as additional discretionary payments to reduce the agency's unfunded actuarial liability.
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 in accordance with the board adopted rate study
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.

300.00 Budget Presentation

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:

    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.

Amador Water Agency

Budget Policy

Reviewed and Adopted

~~March 25~~April 14, 202~~1~~2

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 fund by fund ~~-~~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 to meet the targeted debt service coverage ratio set out in the adopted External Debt Management Policy.

I. Strive for Budget Stability Through Rate Setting - Budget stability reinforces the concept that costs are being prudently managed. Rates should be set 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.
2. Where possible and deemed appropriate, excess fund balances will be used for approved capital purposes, rehabilitation needs, and to fully funding the Agency's Reserve Policy regarding minimum targeted reserve levels or adequate funding on a long-term self-sustaining basis. After those objectives are met, excess fund balance can~~will~~ be used to offset future rate increases or used on non-recurring expenses such as additional discretionary payments to ~~CalPERS on~~reduce the agency's unfunded actuarial liability. ~~.~~
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~~ in accordance with the board adopted rate study~~.~~
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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