

SALINAS VALLEY BASIN GROUNDWATER SUSTAINABILITY AGENCY

FINANCIAL POLICY

1. Revenues

1.1 General

The Salinas Valley Basin Groundwater Sustainability Agency (“Agency”) will implement and maintain funding mechanisms consistent with state law that assure a reliable, equitable, and predictable revenue stream to support Agency’s operating and project costs, and avoid a dissolution of Agency.

1.2 Operating Costs

Agency may establish and collect fees, taxes or assessments in compliance with state law, to cover the annual operating costs of Agency. Agency’s Board of Directors (“Board”) will determine the appropriate funding mechanism and level. Where legal, feasible and desirable, Agency will seek to recover full direct and indirect costs. Fees, taxes or assessments shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary.

1.3 Project Costs

Agency may implement fees, taxes or assessments in compliance with state law to pay the costs of projects that Agency may choose to pursue and implement. Agency will ensure that such fees, taxes or assessments recover the full cost of any project.

1.4 One Time Revenues

One-time revenues will be used only for one-time expenditures, unless otherwise authorized by a specific funding agreement or approved by a super-majority vote of the Board.

1.5 Revenue Estimates

Agency will use a conservative, objective, and analytical approach when preparing revenue estimates. The process may include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and thus avoid mid-year service reductions.

1.6 Revenue Collection and Administration

Agency will pursue to the full extent allowed by state law all delinquent fee, tax or assessment payers overdue in payments to Agency. Agency will strive to control and reduce administrative collection costs.

2. Expenditures

2.1 General

Agency will assure fiscal stability, and the effective and efficient conduct of operations, through the identification of necessary operational requirements, establishment of appropriate service levels and careful administration of the expenditure of available resources.

2.2 Funding Basis

Agency will operate on a fiscal year basis with the period starting July 1 and ending June 30. Expenditures will be budgeted and controlled so as not to exceed revenues in the applicable fiscal year.

2.3 Avoidance of Operating Deficits

Agency will take immediate corrective actions if at any time during the fiscal year expenditure and revenue estimates are such that an operating deficit (i.e., expenditures in excess of revenues) is projected for fiscal year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of reserves. Expenditure deferrals into the following fiscal year, short-term loans as allowed by state law, or use of one-time revenue sources will be avoided to balance the budget, unless absolutely necessary.

2.4 Review

Agency's General Manager will undertake periodic staff and third-party reviews of Agency programs and operations for both efficiency and effectiveness. Privatization and contracting with other governmental agencies will be evaluated as alternative approaches to service delivery. Programs which are determined to be inefficient or ineffective may be reduced in scope or eliminated.

3. Fund Balance/Reserves

3.1 General

Agency will maintain a fund balance at a level sufficient to protect Agency's creditworthiness as well as its financial position from unforeseeable emergencies.

3.2 Operating Reserve

Agency will strive to maintain an operating reserve sufficient to cover any dry periods in its revenue stream and, to provide sufficient reserves for unforeseen occurrences and revenue shortfalls. Operating expenditures for reserve purposes is defined as the total budget less capital project expenditures. The appropriate level of the operating reserve will be evaluated as part of the budget development process.

3.3 Use of Operating Reserve

The operating reserve will be used only for its designated purpose - emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. Should such use reduce the balance below the appropriate level set as the objective, restoration recommendations will accompany the decision to utilize said reserve.

3.4 Litigation Reserve

Agency will strive to maintain a litigation reserve sufficient to cover the reasonably expected cost of litigation that may be filed against Agency or its officers. The appropriate level of the litigation reserve will be evaluated as part of the budget development process.

3.5 Review

As part of the budget process, Agency will review the target amount and the status of each of the reserves.

4. Investments

4.1 General

Agency's cash will be invested in such a manner so as to ensure the absolute safety of principal and interest, meet the liquidity needs of Agency, and achieve the highest possible yield after meeting the first two requirements.

4.2 Authority

Agency Treasurer is authorized and required to promulgate Agency's Investment Policy which is reviewed by the Board from time to time. The Board may choose for Agency to use independent investment vehicles or invest in the County of Monterey's Treasury Pool.

4.3 Interest Earnings

Interest earned from investments will be distributed to the funds from which the money was provided.

5. Grants

5.1 General

Agency will seek, apply for and effectively administer federal, state and foundation grants that address Agency's current priorities and policy objectives.

5.2 Guidelines

Agency will apply, and facilitate the application by others, for only those grants that are consistent with the objectives of Agency and approved by the Board. The potential for incurring ongoing costs, to include the assumption of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

5.3 Indirect Costs

Agency will recover full indirect costs unless the funding agency does not permit it. Agency may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant,

5.4 Review

All grant submittals will be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the Agency's policy objectives. The General Manager shall seek Board approval prior to submission of a grant application. Should time constraints under the grant program make this impossible, the General Manager shall at the earliest feasible time, seek formal Board approval. If there are cash match requirements, the source of funding shall be identified prior to application. An annual report on the status of grant programs and their effectiveness shall also be prepared.

5.5 Termination

Agency will terminate grant-funded programs and associated positions when grant funds are no longer available unless alternate funding is identified.

6. Fiscal Monitoring

6.1 General

Agency staff will prepare and present to the Board regular reports that analyze, evaluate and forecast Agency's financial performance and economic condition.

6.2 Status and Performance Reports

Periodic reports comparing expenditures and revenues to current budget, noting the status of fund balances, and outlining any remedial actions necessary to maintain Agency's financial position will be prepared for review by the Board.

6.3 Forecast of Revenues and Expenditures

A longer term (five-year) forecast of revenues and expenditures, to include a discussion of

major trends affecting Agency's financial position, will be prepared in anticipation of the annual budget process. The forecast will examine critical issues facing Agency, economic conditions, and the outlook for the upcoming budget year. The document provides insight into Agency's financial position and alert the Board to potential problem areas requiring attention.

6.4 Compliance with Policy

The Financial Policy will be reviewed periodically by the Board and updated, revised or refined as deemed necessary.

7. Accounting, Auditing and Financial Reporting

7.1 General

Agency's accounting, auditing and financial reporting will comply with prevailing local, state, and federal regulations, as well as current professional principles and practices as promulgated by authoritative bodies.

7.2 Accounting Principles

Agency's accounting practices and financial reporting will conform to generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA).

7.3 Reporting

Agency will issue an annual financial report in conformity with GAAP.

8. Internal Controls

8.1 General

Agency will establish and maintain an internal control structure designed to provide reasonable assurance that Agency assets are safeguarded and that the possibilities for material errors in the Agency's financial records, and fraud and misappropriation, are

minimized.

8.2 Authorization

Agency staff will prepare, implement and maintain appropriate procedures to ensure that financial transactions and activities are properly recorded, reviewed and authorized. The procedures will ensure that adequate safeguards exist over the access and use of financial assets and records.

8.3 Separation of Duties

Job duties will be adequately separated to reduce, to an acceptable level, the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of assigned duties.

8.4 Independent Checks

Independent checks and audits will be made on staff performance to ensure compliance with established procedures and proper valuation of recorded amounts.

8.5 Costs and Benefits

Internal control systems and procedures must have an apparent benefit in terms of reducing and/or preventing losses. The cost of implementing and maintaining any control system should be evaluated against the expected benefits to be derived from that system.

9. Operating Budget

9.1 General

Agency's operating budget will support the implementation of the Board approved work plan. It will provide a clear picture of Agency's resources and their use.

9.2 Format

The budget will provide a complete financial plan of all Agency funds and activities for the ensuing fiscal year and shall be in such form as the General Manager deems desirable or that the Board may require.

The budget will show in detail all revenues, carry-over fund balances and reserves, and expenditures, including debt service, for the ensuing fiscal year. The total of proposed expenditures shall not exceed the total of estimated revenues plus the un-appropriated fund balance, exclusive of reserves, for any fund. The budget will be organized on an activity/task level format and show line-item details as necessary.

9.3 Revenues

Agency's main revenue source is its Regulatory Fee which must be approved by Board no later than July each year. If projected revenue shortfalls will create a deficit, efforts will be made first to reduce the deficiency through budgetary reductions. If appropriate reductions are insufficient, the Board may decide, on an exception basis, to use an appropriate existing reserve, which is in excess of minimum reserve requirements.

9.4 Appropriations

In evaluating the level of appropriations for activities/task, Agency will consider the following principles in the priority order given:

- a) Essential services, to support the Agency and its objectives.
- b) Activities, which are self-supported by dedicated revenues.
- c) Activities, which are funded by regulatory fees.

The General Manager may transfer appropriations between activities and tasks, within a specific fund, Board approval is required for transferring appropriations between funds or from reserves.

Appropriations, which are encumbered by approved agreements will continue in force until expended, revised, or cancelled.

Agency will endeavor to budget an appropriated contingency account equal to at least five percent of the annual operating budget to meet changing operational requirements during the fiscal year. Such contingency will be calculated on and applied only to the activities that are funded uniformly by all subbasins (Tier 1).