

**RESOLUTION NO. 2025-25**  
**ADOPTING UPDATED CONSOLIDATED CITY OF COTATI FINANCIAL  
POLICIES AND PROCEDURES**

**WHEREAS**, the City of Cotati wishes to establish a comprehensive set of financial policies that will serve as a guideline for operational and strategic decision making related to financial matters; and

**WHEREAS**, the City currently has a comprehensive set of financial policies, adopted separately over time; and

**WHEREAS**, financial policies are intended to establish guidelines for the City's overall planning and management; and

**WHEREAS**, regular policy review and revision are an important part of every policy and procedure management plan and allows the City to maintain and enhance a more sound fiscal condition.

**NOW THEREFORE BE IT RESOLVED**, that the City Council of the City of Cotati does hereby approve and adopt the attached Financial Policies and Procedures; and

**IT IS FURTHER RESOLVED** that the following resolution for the prior consolidated policies are rescinded:

Resolution 2024-34: Adopting Updated and Consolidated City of Cotati Financial Policies and Procedures

**IT IS HEREBY CERTIFIED** that the foregoing resolution was duly adopted at a regular meeting of the City Council of the City of Cotati held on June 10, 2025, by the following vote, to wit:

**RESULT:**           **Approved [5-0]**  
**MOVER:**           Susan Harvey, Councilmember  
**SECONDER:**       Laura Sparks, Councilmember  
**AYES:**             Ford, Lemus, Harvey, Sparks, Savage  
**NAYS:**             None

Approved: Ben Ford

Mayor

Attest: Kevin Patterson

Kevin Patterson, Deputy City Clerk

Approved as to form:   
City Attorney

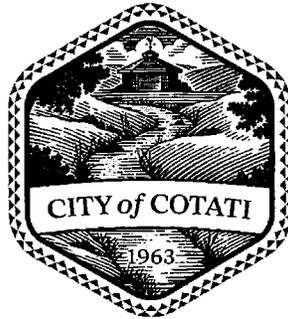
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# CITY OF COTATI

## Financial Principles and Policies

A Summary of the City's Financial  
Mission Statements and Guiding Principles



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## Overview

This document establishes policies of overall fiscal management, budget development, and fiscal administration for the City of Cotati. Included herein are statements and principles designed to guide the City in maintaining its financial stability and delivering high-quality services to the public.

Formally adopted financial policies assist elected officials and city staff in the development of fiscal management practices, save time and provide structure for financial decisions, promote public confidence, enhance transparency, and provide continuity over time. These policies will be updated periodically but are designed with a long-term perspective and provide the basic framework and road map for addressing a wide variety of financial and economic conditions that the City will encounter. Fiscal policies support long-term planning and enhance the City's effectiveness in implementing long-term strategies to deliver efficient services to the public.

This document provides a structured, central repository for a variety of fiscal policies and is organized into the following categories.

## Guiding Financial Principles

The following are the guiding principles to be adhered to and used as a conceptual framework for the City of Cotati:

- 1) Manage financial resources in a responsible and prudent manner allowing for uncertainties and maintaining a posture of financial flexibility while maintaining responsiveness to citizens input and guidance.
  - a) Integrate long-term operating and capital resources planning into the budget process.
  - b) Develop programs in a manner that supports the City's long-term ability to cover costs and provide the level and quality of service required by its citizens.
  - c) Provide financial information in a relevant, thorough, and timely manner, and in a format that effectively communicates financial status to the Council, citizens, and City employees.
  - d) Establish and maintain prudent fund balance levels
  - e) Manage debt responsibly.
- 2) Maintain financial reporting in compliance with current governmental accounting standards.
  - a) Promote and implement a relevant and robust system of internal financial controls to manage significant risks and monitor the reliability and integrity of financial and operating reporting.
  - b) Uphold investment policies in accordance with the City Policy and State law.

## Policies

This document provides a structured, central repository for a variety of fiscal policies and is organized into the following categories:

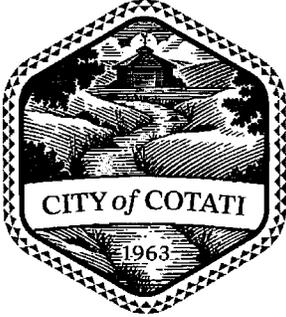
- 1) Financial Reporting and Budgeting Policies (Section A)
- 2) Fiscal Resiliency Policies (Section A.1)
- 3) Revenues Control and Management Policies (Section B)
- 4) Expenditure and Purchasing Policies (Section C)
- 5) Credit Card Management Policies (Section C.1)
- 6) Environmentally Preferable Purchasing Policies (Section C.2)
- 7) Capital Assets Policies (Section C.3)
- 8) Grant Management Policy (Section C.4)
- 9) Investment Management Policies (Section D)
- 10) Debt Management Policies (Section E)
- 11) Unfunded Pension Liability Policies (Section E.1)

## Review and Approval

These policies shall be reviewed on a regular basis by the City Manager and Administrative Services Director and updated as necessary through approval by the City Council to ensure best practices are in effect for proper fiscal management.

# Section A

## Financial Reporting & Budgeting Policies



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## Description of Funds and Accounting Methods

The City receives revenue from numerous sources, many of which have restrictions on how they can be used. Separate funds are established to account for the diverse types of revenues and the allowable uses of those revenues. The Annual Financial Statements presents the City's finances on a Generally Accepted Accounting Principles (GAAP) basis and the City's budget is prepared in conformance with these standards.

**Governmental Funds Type** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This type of fund includes such funds as the General Fund where Revenues are recognized as soon as they are both measurable and available. Revenues are available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, revenues are considered available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental fund types include the general fund, special revenue funds, capital projects funds, and debt service funds. GASB has defined these funds and the GFOA has further summarized these funds as follows:

### General Fund

This is the chief operating fund of a local government. GASB Codification Section 1300.104 states that the general fund is used "to account for all financial resources except those required to be accounted for in another fund". In other words, all a government's financial activities should be accounted for in the general fund unless there is a compelling reason to report them in some other fund type. The government may never report more than one general fund per Codification, Section 1300.106. In practice, typically the general fund is of chief interest to financial statement users.

### Special Revenue Funds

These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund and instead report the fund's remaining

resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

#### Capital Projects Funds

As local governments often undertake significant capital acquisitions and construction projects, they often account for the activities separately from their other general operations. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

#### Debt Service Funds

Governments set aside monies to meet current and future debt service requirements on general government debt. As such, these funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest, even if it is being accumulated for future years' payments. Debt service funds should be used to report resources if legally mandated.

**Proprietary Fund Types** are reported on a full-accrual basis of accounting. These include such funds as the Water and Sewer Enterprise Funds, distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of providing services, administration costs and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Enterprise Funds

Enterprise Funds are for specific services that are funded directly through user fees. As the second largest fund type in the City, the Enterprise Funds are fully self-supporting and are not subsidized by tax money from the General Fund. Cotati's Enterprise Funds include Water Operating and Capital Funds (401 & 402) and Sewer Operating and Capital funds (404 & 405).

#### Internal Service Funds

Internal Service Funds account for activities that provide goods and services to other departments or funds on a cost-reimbursement basis.

**Fiduciary Fund Types** track assets held by the City in trust which are presented using the economic resources measurement focus and the accrual basis of accounting. Economic resources

measurement focus is a method of financial reporting where statements report all inflows, outflows, and balances affecting or reflecting an entity's net position including all assets that are available to the entity, not just cash or soon to be cash assets. This type of fund includes the City's Successor Agency Fund and the Custodial fund for South Sonoma Business Park Assessment District.

## Financial Reporting Policies

The City's accounting and financial reports are to be maintained in conformance with Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). To ensure compliance an annual financial audit will be performed by an independent public accounting firm familiar with municipal government activities. The independent auditor will issue an audit opinion to be included in the City's Annual Financial Statements Report. Unless extraneous circumstances occur, the City will rotate audit service providers every five years. If an auditor is being retained for longer than five years, the reason must be included in a staff report to the City Council at the time of the contract execution or renewal. Additionally, the Director of Administrative Services will present the Audited Financial Statements and the Auditors' Letter to the City Council and the Independent Auditors report on Internal Control Over Financial Reporting and Compliance.

### **External Financial Reporting**

The City is subject to Federal, State, County, and Debt Lendor requirements for recurring annual reporting.

The City is required to generate an Audited Financial Statement but is encouraged to generate an Annual Comprehensive Financial Report (ACFR) which represents a set of financial statements. One of the most significant purposes of a comprehensive financial report is that it provides valuable insight into how City officials manage public finances. This annual report consists of five parts - management discussion and analysis (this section), the basic financial statements, required supplementary information, a supplemental informational section that presents combining statements for non-major governmental funds as well as the schedule of Measure S revenues and uses, and the statistical section. City Staff shall strive to submit the Annual ACFR to State and/or national government finance professional organizations (Governmental Finance Officers' Association's Certification of Achievement for Excellence in Financial Reporting, California Society of Municipal Finance Officers ACFR Award) for independent review and evaluation.

Staff shall also comply with all other mandated state financial reporting including but not limited to the California State Controller's Office (SCO) Report for the City Financial Transactions, SCO Report for Compensation, SCO Street Expenditure Report, Federal and State OMB Circular A-133 (Single Audit) Grant Compliance Reporting, County Maintenance of Effort Reporting,

### **Internal Financial Reporting**

Provided on a periodic and timely basis, as needed: These reports are used to help the City Council, the public, and management to monitor budgetary compliance and evaluate financial status as of a point in time. Internal financial reports often provide more detail on individual departments than general purpose external financial reporting and does not require an independent auditor review and audit. Reports to be generated include but are not limited to the following:

- Internal financial reporting for all funds is to be issued on a periodic and timely basis - no less than semi-annually and no more than 60 days after the close of the period. The report will provide detailed information for the General, Water, and Wastewater Funds and summary information for all funds will be included as attachments to the report.
- An end of the fiscal year unaudited report will be issued no more than 60 days after the close of Q4 with end-of-year estimates for revenues and expenditures/expenses for all funds.
- Long Range Financial Forecasts (LRFF) for the City's General Fund will be presented to the City Council annually. The LRFF provides a current and long- range financial assessment of revenues, expenditures, fund balance, and emergency reserves. The primary objective is to provide the City Council and the community with a financial forecast and identify any significant issues that may need to be addressed in the annual budget development process.

### **Budgetary Policies**

The City is legally required to adopt the municipal budget. The budget development process is the formal method through which the City establishes its program priorities, goals, and service levels for the upcoming fiscal periods. Through the budget development process, programs are established, service levels are expressed, performance measures are articulated, and resources are identified. This planning tool uses forecasted expenditures and revenues the City will incur in the upcoming fiscal period and is neither actual revenue nor actual expenditures. The budget must be continuously monitored and reported back out through periodic internal reporting.

### **Budget Proposal and Adoption**

The budget is to be prepared in accordance with GAAP and is to be prepared using the modified accrual basis. The modified accrual basis recognizes expenditures at the point in time when the related fund liability is incurred, not necessarily when the liability is actually paid. Revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Each fund is estimated prior to the end of the fiscal year utilizing the same basis of accounting that is used for the same fund within the final audited financial statements once the Fiscal Year is closed.

City Management will develop and present a draft operating budget for consideration by the full City Council and public. The prepared budget should present a budget where projected expenditures do not exceed total estimated revenues and one time revenue sources are not to be relied upon to fund on-going operations. In specific situations, such as with significant one- time capital expenditures, the City Council may approve a planned use of accumulated fund balances in prior years for inclusion in the budget.

The City Council will adopt an operating budget no later than June 30 of each fiscal cycle. The budget will include appropriations that provide expenditure authority to public officials responsible for operating their respective departments to fulfill obligations to provide public services as delegated by the City Council.

The City budget must comply with the annual determination of the City's appropriations limit calculated in accordance with Article XIIB of the Constitution of the State of California and an annual resolution should be adopted to this effect.

### **Controlling and Adjusting the Annual Budget**

The City structures and controls its budget by using funds.

- 1) City Council: The City's budget is controlled at the fund level by the City Council. The City Council, as representatives of the public, is the sole authority for establishing City priorities and creating or increasing expenditure appropriations of a general fund department (cost center) or a fund, as approved in the final adopted budget. The City Council approves:
  - a) All increases in appropriations of a department or fund, as approved in the final adopted budget.
  - b) All transfers of appropriations between funds.
  - c) All decreases in appropriations, with the exception that the City Manager may direct Department Heads to suspend expenditure pending Council consideration of decreases in appropriations, needed to respond to fiscal emergency.
- 2) City Manager: Holds all department heads responsible and accountable for their respective budgets as originally adopted by the City Council or as thereafter revised in accordance with this policy. The City Manager has authority to approve:
  - a) Transfers of appropriations between expenditure line items within departments or project budgets, up to \$25,000.
  - b) The City Manager may make budget transfers between departments or projects if those changes do not increase overall appropriations within any one department or fund. Transfers between funds, overall increases in department or fund appropriations, and overall increases in project budgets can only be made through City Council action. Transfers between departments should be reported to the City

- Council as part of the budget amendment process, either at mid-year or during budget adoption for the new fiscal year.
- 3) City Department Heads: The level of expenditure control for departments is at the fund and department level, as approved in the final adopted budget. Departments that operate programs among different departments or funds are limited to the appropriation levels within any department or fund, as approved in the final adopted budget.
  - 4) Administrative Services Department: Shall coordinate the overall administrative responsibility for planning, coordinating, analyzing, preparing, and issuing the budget.

## Expenditure Appropriations Budgetary Carryover

All operating expenditure appropriations not spent during the fiscal year lapse at year-end, except for:

- 1) Encumbrances or commitments, as in the form of finalized purchase orders or agreements, made during the fiscal year that have not been completed at year-end.
- 2) Appropriations for capital improvement projects and ongoing grants with a life cycle beyond one year.

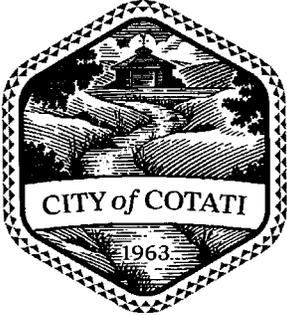
## Fund Balance Reserve

The Reserve Policy is intended to maintain a healthy fund contingency to ensure continued operations during major emergencies or financial disruptions. The fund reserve goals set are:

- 1) General Fund: 25% of annual operating expenditure or no less than two months of regular general fund operations.
- 2) Water/Sewer Funds: 33% of annual operating expenditure.

# Section A. 1

## Fiscal Resilience Policies



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## Policy

In accordance with the Municipal Code of the City of Cotati and under authority granted by the City Council, the City Manager, working closely with the Administrative Services Director, is responsible for keeping the city council fully apprised of the financial condition and needs of the city (Cotati Municipal Code [CMC] 2.12.140).

The goal of this policy is to provide guidance in effectively identifying and preemptively managing potential or existing financial shortfalls, while prioritizing core essential services and maintaining financial stability. The core functions of the City are:

- 1) Protecting life, health, and safety.
- 2) Administration of zoning and building.
- 3) Maintaining City-owned infrastructure, including assets in the public right of way, parks, City buildings, and water/sewer infrastructure.

## Objectives

This policy is established to standardize a process for regular evaluations of the City's financial position to identify potential threats as early as possible, as well as providing a suite of potential actions to address shortfalls.

The Reserve Policy are intended to maintain a healthy fund contingency to ensure continued operations during major emergencies or financial disruptions. The fund reserve goals set are:

- 1) General Fund: 25% of annual operating expenditures or no less than two months of regular general fund operations.
- 2) Water/Sewer Funds: 33% of annual operating expenditures.

The City's primary objective is to maintain a prudent level of financial resources to protect against reducing core service levels or raising taxes and fees due to temporary revenue shortfalls or unexpected one-time expenditures. The City also seeks to maintain the highest possible credit ratings, which are dependent, in part, on the City's maintenance of a healthy fund balance.

## Scope

While the objective of the policy is to address fiscal emergencies that impact the City's overall financial position, the focus of this policy is on major funds for the City, including the General Fund, Water Fund, and Sewer Fund. These funds are primarily responsible for funding the core functions that serve our community directly. Most other funds, while possibly financially significant, do not pose a significant risk to operations.

## Regular Evaluation

The City shall generate regular financial reports including, but not limited to, quarterly financial reports, mid-year reports, and long-range financial forecasts. Within the reports, in addition to the existing reserve policies, staff shall incorporate a summary of the financial standing, utilizing ratios analysis, threshold maintenance, and observations of economic conditions for Financial Considerations included, but not limited to the following:

- 1) General Fund Fiscal Health Analysis:
  - a) Maintain a minimum cash coverage ratio equivalent to 25% of annual operating expenditures or no less than two months of regular general fund operations. This metric is used as a surrogate for evaluations of the General Funds Minimum Reserve ratio throughout the year.
  - b) Ensure the liquidity ratio (quick ratio = liquid assets/current liabilities) stays above 1.0, with a goal of 2.0 or higher.
  - c) Total Revenues compared to the budget or prior year have not had a negative change by more than 10%.
  - d) An increase in overall General Fund expenses of more than 10%, caused by any one of the above factors or other unexpected factors.
  - e) Significant Revenue Sources including, but not limited to, Property Tax and Sales Tax, declined individually by more than 10% from budget or the prior year.
  - f) Identification of any significant community event such as the closure of a top- 10 sales tax producing commercial activity.
  - g) Ratio of operating revenue to operating expenses drops below 1.1, to ensure continued ability to save 10% of annual revenue for reserves or infrastructure projects.
- 2) Water and Sewer Funds Fiscal Health Analysis:
  - a) Each operating fund must support a minimum cash coverage ratio equivalent to 33% of annual budgeted operating expenses, including estimated capital improvements.
  - b) Ensure the liquidity ratio (quick ratio) stays above 1.0, with a goal of 2.0 or higher.
  - c) A reduction in revenues compared to the budget the prior year exceeding 15%.
  - d) An increase in overall expenses of more than 15%, caused by either of the above factors or other unanticipated factors.
  - e) Confirmation from Sonoma County Water Agency or City of Santa Rosa Wastewater Treatment of a tentative rate increase more than 2% above the expected rates included within the City adopted rate study.

- f) Ratio of operating revenue to operating expenses drops below 1.1, to ensure continued ability to save 10% of annual revenue for reserves or infrastructure projects.
- 3) 5 Year Moving Community Fiscal Health Analysis:
  - a) Community Growth Trends: -
    - i) Evaluating the population growth to project possible increased service demand and operational costs.
    - ii) Evaluating housing and commercial building growth, to project possible increased service demand and operational costs.
  - b) Property Valuation Trends. This indicates the overall value of properties within the city and can give insight into the changes in the potential tax revenue base.
  - c) Business Formation and Closure Trends: Evaluating the rates of new business formations and closures provides insights into the entrepreneurial activity and overall business climate within the community. A high rate of new business formations suggests a dynamic economy, while a high rate of closures may indicate challenges for businesses.
  - d) Consider US, Statewide, or Regional Economic Factors:
    - i) US Personal Savings Rate, as reported by the US Bureau of Economic Analysis.
    - ii) Unemployment Rates Measurement. A low unemployment rate indicates a healthy job market and suggests that residents have stable sources of income, which can positively impact tax revenue and consumer spending.

## Steps to Address Shortfalls

Some primary indicators require immediate action, while other secondary indicators could be indicative individually or collectively of trends that could present a near or medium-term risk to the City.

### **Primary Indicators**

Primary indicators include dropping below target fund reserve levels, the closure of the top ten revenue producing commercial activity, or unbudgeted drops in revenue or increase in expenses above 10% in the general fund and 15% in the water or sewer funds, as described above.

If a Primary Indicator indicates an issue, the City will immediately freeze any new non-essential contract services and will not issue any new capital improvement contracts and will prepare a recommendation for the next steps to the City Council within thirty calendar days

### **Secondary Indicators**

If, during the evaluation period, it is noted that more than one (1) Secondary Indicator suggests there is current or projected fiscal uncertainty to the detriment of the City, the following

assessment will be performed and presented to the City Council at the next quarterly financial update to address possible fiscal shortfalls.

- 1) Assessment:
  - a) Upon reaching the defined thresholds, initiate an immediate assessment of the complete financial situation.
  - b) Review quarterly financial presentations to analyze the breakdown and identify the cause of any shortfall.
  - c) Evaluate the indicator to identify the projected magnitude and duration of the fiscal impact.

### **Potential Measures to Consider**

The following measures are intended as a general outline of the triage process to consider when addressing an acute financial situation, in priority order. However, the City Council should consider the order and implementation of measures based on the current conditions as they present themselves.

Each measure that is considered should be evaluated with the focus on prioritization of core essential services. Identified essential services will be prioritized for operations and other non-essential services during evaluations for potential adjustments. More specifically, core essential services include distribution of clean reliable water, effective wastewater system management, ability to maintain city zoning and building services, maintenance of public spaces in a safe condition, and police services which directly provide public safety and emergency response. The city will strive to allocate reasonable resources to critical areas to maintain uninterrupted service delivery.

To identify Non-Critical Expenditures, the City will evaluate contracts, including capital project contracts, professional services contracts, and other services/subscriptions/fees to determine their necessity to maintain the City's core services and relative budgetary and service impact. While staff will initially identify, categorize, and make recommendations on these expenses, the City Council will decide where, and in what order, to reduce expenditures based on the fiscal needs of the City.

- 1) Outside Contract Freezing or Renegotiation and Cost Reduction:
  - a) Consider freezing any new capital expenditures and related "soft" costs.
  - b) Consider freezing any design services for future capital projects.
  - c) Consider freezing or reducing any service contracts.
  - d) Initiate renegotiation with outside contracts and explore any potential cost- saving measures.
- 2) Excess Asset Liquidation:

- a) If the financial issue is expected to be relatively short in duration, to manage cash flow shortfalls, assess available physical and financial assets and explore opportunities for asset monetization, liquidity of investments, loans, or privatization of assets to inject additional funds
  - i) Consider selling or leasing surplus or underutilized properties or equipment.
  - ii) Evaluate long-term investments for liquidation prioritization to meet cashflow needs.
- 3) Staffing & Training Freeze and Union Negotiations:
  - a) Consider implementing a hiring freeze on all positions. Extended hiring freezes may need to be lifted for certain positions essential to conduct the City 's core functions.
  - b) Consider freezing non-essential training, particularly training that requires air travel or hotel stays.
  - c) Consider engaging in dialogue with labor unions to seek collaborative solutions.
- 4) New Revenue:
  - a) Consider exploring new revenue sources, particularly when the financial situation appears to be a long-term issue that is expected to continue to negatively affect core City service levels.
- 5) Debt Management:
  - a) Consider working with lenders, including CalPERS, to renegotiate loans or other unfunded liability payment terms such as extending maturity dates, adjusting interest rates, or restructuring debt payments to better align with cash flow projections.
  - b) Evaluate internal debt service payments to delay or expedite payments to restructure cash flow for operations.

When implementing cost reduction measures, communication and transparency with the community will be key. This should include communicating the financial challenges and proposed measures transparently to stakeholders and the community and providing regular updates on the status of budget shortfalls and actions taken to address them.

- 1) Monitoring and Adjustments:
  - a) Establish a monitoring framework to track the implementation and effectiveness of cost-saving measures.
  - b) Conduct regular reviews to assess the impact of actions taken and adjust strategies as needed.
- 2) Documentation and Reporting:
- 3) Document all budget decisions, negotiations, and financial projections meticulously.
- 4) Provide comprehensive reports to the City Council and stakeholders to maintain transparency and accountability.

## Review and Approval

This policy shall be reviewed with the City Financial Policies on a regular basis by the City Manager and Administrative Services Director and updated as necessary through approval by the City Council to ensure its effectiveness in identifying and addressing budget shortfalls.

# Section B

## Revenues Controls and Management Policies



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## Purpose

The purpose of the Revenue Control and Cash Management Policy is to establish a framework from which the City Commission, City Manager, and all city departments may work to maintain effective revenue controls and cash management practices, including compliance with federal, state, and local requirements and industry standards.

## Revenues Management

- 1) The City will strive to maintain a diversified and stable revenue base to minimize the impact of economic fluctuation.
- 2) The City shall make a prudent effort to collect revenues and perform audits to ensure that funds due to the City are accurately received in a timely manner.
- 3) The City will fund current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- 4) The City has established various special revenues, capital projects, debt service, and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures, and fund equity.
  - a) Any transfers between funds for operating purposes are clearly set forth in the annual budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from inter-fund borrowings, which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.
- 5) The City will seek reimbursements for State mandated costs whenever possible.
- 6) The City will adopt user fees with appropriate levels of cost recovery.
  - a) User-fee studies should be performed and updated to ensure the proper balance of costs and service charges. The City should strive to cover the full cost of providing non-tax and discretionary fee-based service operations except to the extent the City Council approves defined subsidy levels by program area.
- 7) Operating departments are to review public services to identify and determine those appropriate for fee collection. Recommendations for new fees are to be presented to the City Council as fees are updated to ensure they reflect all the direct and reasonable indirect costs of providing such services.
- 8) Enterprise operations will be self-supporting and shall reimburse the General Fund for all materials and services provided on their behalf.
- 9) The City will seek out, apply for, and effectively administer federal, state, and other grants that address the City's current operating and capital priorities. Prior to

accepting grant funding, the Grants Management policy will be reviewed to ensure the grant being applied for meets those requirements.

## Revenues Controls

- 1) City Management shall be responsible for establishing a reasonable internal control environment that all aspects of cash receipting and accounts receivables should be subject to proper processing including:
  - a) Segregation of duties such as initiation and authorization of transactions, execution of transactions (receipting and disbursement), recording transactions, reconciliation, and maintaining custody.
  - b) Daily processing and timely deposit of receipts. Ideally, all funds should be deposited within 24 hours of receipt.
  - c) Timely reconciliation to applicable ledgers.
  - d) Physical security procedures.
  - e) Fraud reporting procedures.
  - f) Use of integrated receipt and accounting systems wherever practical and cost-effective.
- 2) Accounting practices - All receipts and receivables should be recorded in accordance with our financial reporting framework and generally accepted accounting principles (GAAP).
- 3) Billing and collection practices - Accounts receivable should be established for services provided in advance of payment and terms for collection should be established. In accordance with established procedures, bills should be initiated, recorded in an accounts receivable system, and accounted for within the financial reporting system if different. All invoices for payment should be generated within an established timely manner after initial service delivery. Efforts should be made to ensure that receivables are collected in a timely fashion.
- 4) Methods of payment - The City shall offer as many payment types and methods as possible that can be reasonably administered. These payment types should be standardized across City Services where possible. Electronic forms of payment methods should be promoted due to the increased timeliness and cost-effectiveness while providing reduced overall risk and increased cash flow. Merchant servicers who process credit cards shall be PCI Compliant.
- 5) Depositing of received funds - Administrative Services should serve as the primary recipient for all revenue collection. There should be timely recognition and depositing of revenue collected. Any payments collected in secondary locations should be properly recorded within the Financial Reporting System and transferred to the Administrative Services Department as soon as possible and for a period of not more than 24 hours.

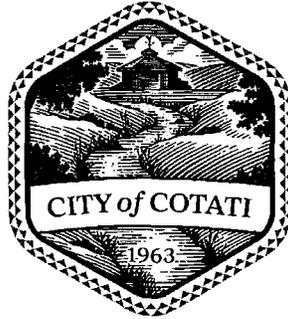
- 6) Returned checks - The Administrative Services Department, in coordination with the relevant service department, shall process timely and initiate collections for any returned checks. The City Council and State Law shall establish fees for returned checks.
- 7) Accounts receivable management - All accounts receivable, invoicing, should be recorded in a manner that allows for aging analysis according to GAAP. Department management along with the Administrative Services Department should establish available collection options that maximize collection efficiency. Collection agencies that are familiar with federal, state, and local notice requirements and regulations should be considered when their use proves cost-effective.
- 8) Bad Debts - An allowance for doubtful accounts and a write-off procedure should be established. Bad debt expenses should be estimated based upon a documented method of calculation. An allowance for doubtful accounts should be recorded. Write-offs should be performed periodically to ensure that accounts receivable and allowance balances are not overstated. Efforts should be made to pursue the timely collection of delinquent accounts.
- 9) Budgetary review responsibilities - Revenue collections and accounts receivable should be monitored in a timely manner. Both actual and budgeted or forecast revenues should be monitored. Any significant variance of the actual from the forecast or budgeted revenues should be investigated thoroughly.

## Review and Approval

This policy shall be reviewed with the City Financial Policies on a regular basis by the City Manager and Administrative Services Director and updated as necessary through approval by the City Council to ensure its effectiveness in identifying and addressing budget shortfalls.

# Section C

## Expenditure Planning and Purchasing Policies



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## Purpose and Scope

This policy provides purchasing guidelines for all City purchases.

It is the goal of the City Council to encourage fair and competitive selection of goods and services for the benefit of the citizens of Cotati. As in accordance with the policy framework set forth in Chapter 3.36 of the City of Cotati Municipal Code (CMC), City purchases and contracts (excluding rentals and leases) will be made pursuant to these guidelines.

## Definitions

- "Professional services" means services such as, but not limited to, those defined in Government Code §4525, including architectural, landscape architectural, engineering, environmental, construction project management, and land surveying services, as well as incidental services that members of these professions and those in their employ may logically or justifiably perform.
- "Public Project" shall be defined in accordance with the Uniform Public Construction Cost Accounting Act (Public Contract Code [PCC] §22002).
- "Responsible bidder" means a person or entity with the capability in all respects to fulfill the contract requirements.
- "Services" means any and all work performed, or service rendered by independent contractors, with or without the furnishing of material, excluding contracts for public works projects or professional services.
- "Supplies", "materials", and "equipment" mean any and all articles or things which shall be furnished to or used by any department of the City, including those items purchased by the City and furnished to contractors for use in public works projects.
- "Emergency"; is defined as the following;

In accordance with Government Code (GC) §8558(c), as may be amended from time to time, a "Local emergency" means the duly proclaimed existence of conditions of disaster or of extreme peril to the safety of persons and property within the territorial limits of a county, city and county, or city, caused by conditions such as air pollution, fire, flood, storm, epidemic, riot, drought, cyberterrorism, sudden and severe energy shortage, plant or animal infestation or disease, the Governor's warning of an earthquake or volcanic prediction, or an earthquake, or other conditions, other than conditions resulting from a labor controversy, which are or are likely to be beyond the control of the services, personnel, equipment, and facilities of that political subdivision and require the combined forces of other political subdivisions to combat, or with respect to regulated energy utilities, a sudden and severe energy shortage requires

extraordinary measures beyond the authority vested in the California Public Utilities Commission.

An "Emergency," under PCC §1102 can also mean a sudden, unexpected occurrence that poses a clear and imminent danger, requiring immediate action to prevent or mitigate the loss or impairment of life, health, property, or essential public services.

## Provisions / Procedures

- 1) **Budget Requirements**  
Expenditures are to be budgeted and controlled to not exceed estimated revenues and the approved and planned use of fund balances accumulated in prior years.
- 2) **Minor Non-Recurring Purchases**
  - a) **Petty Cash:** Only to be utilized for minor purchases up to \$100.00 per person per transaction. All claims must be approved by the appropriate department head and accompanied by supporting documentation.
  - b) **Credit Card:** The Administrative Services Department may issue City credit cards as directed by the City Manager only. Issued cards shall be used in accordance with the procedures for use of City credit cards as included within the Administrative Purchasing Manual. City of Cotati credit cards should never be used to circumvent established competitive purchasing procedures.

## Purchasing Limits

- 1) **City Employees:** \$1,000 limit per purchase with prior approval from Department Head or City Manager.
- 2) **Department Head:** \$5,000 limit per purchase unless previously authorized by City Manager with a supporting purchase order/contract.
- 3) **City Manager:** \$25,000 limit per purchase (CMC 2.12.122)
- 4) **City Council:** Any purchase above \$25,000 requires City Council approval, except in limited circumstances, including:
  - a) *The City Manager may authorize purchases if all of the city funds to be spent for the special and professional services (architects, engineers, attorneys, planning consultants, environmental consultants and other specialized consultants) will be fully reimbursed by another party (CMC 2.12.122); or*
  - b) *If there is an emergency, in accordance with Section G of this policy.*

## Purchases Generally

- 1) **Budget Requirements:** All purchases must have a City Council approved budget and requisite funds available.

- 2) Insufficient Funding: If the needed funds are not available for a purchase, then the purchase shall require separate City Council appropriation.
- 3) Due Diligence: Any official of the City authorized to make purchases shall, before making the purchase, secure accurate and comparative cost information concerning the articles to be purchased and shall act to procure for the City the needed quality and quantity of supplies, materials and equipment at the least expense to the City.
- 4) Best Practices: All purchasers should follow the City Administrative Purchasing Practices and direct any questions about this Policy or supporting Administrative Purchasing Manual to the Administrative Services Department.
- 5) Vendor Relations: City employees will conduct all purchasing functions in a professional manner and shall promote equal opportunity and fairness in all vendor relations.
  - a) Ethics and Standards of Behavior: All purchasing functions shall be conducted impartially to assure fair competitive access by responsible vendors. In addition, public employees should conduct themselves in a manner that will foster public confidence in the procurement process.
  - b) Business License Requirements: Any person or company providing services to the City must have a City business license, in accordance with CMC 5.04. The department making the purchase or contracting for the service is responsible for checking that the vendor or contractor has a business license.

## Purchase of Inventory, Materials, Supplies, Equipment, & Non-Professional Services

- 1) Minor Purchases of five thousand (\$5,000.00) dollars or less may be made based on informal quotes.
- 2) Other than Minor Purchases: Purchases greater than five thousand (\$5,000.01) dollars up to twenty-five thousand (\$25,000.00) dollars shall be made based on written formal quotations from vendors.
- 3) Significant Purchases: For purchases greater than twenty-five thousand (\$25,000.01) dollars, the purchase shall be approved by the City Council through a competitive bid process.

## Travel

All expense payments or reimbursements for travel and/or subsistence expenses must meet the requirements set forth in the City of Cotati Personnel Rules, which establishes policy and procedure related to obtaining travel authorization, advance travel funds, and expenditure or reimbursement for travel and subsistence expenses incurred in conduct of business of the City.

## Information Technology Purchases

All Information Technology (IT) purchases must be approved in advance by the City Manager and/or designee to ensure compliance with City hardware and system standards. Similarly, IT is required to be consulted for any planned purchases of software and hardware arising during the budget process and in the development of system specifications.

## Purchase of Professional Services

Agreements for Professional Services will be awarded pursuant to the following guidelines:

- 1) Agreements for Professional Services estimated to cost up to twenty-five thousand dollars (up to \$25,000.00) may be awarded, based on up to three proposals whenever practical.
- 2) For professional services estimated to be twenty-five thousand dollars (\$25,000.00) or greater, Requests for Quotation (RFQ) or Requests for Proposal (RFP) should be highly considered. Awarding of the agreement may be issued by the City Manager provided a budget appropriation for the service has been approved by the City Council. If no RFP or RFQ is issued, three proposals shall be solicited.

Contracts for Professional Services estimated to cost more than twenty-five thousand (\$25,000.01) dollars will generally be awarded pursuant to the following guidelines; however, it is recognized that the City's need for consultant services will vary from situation to situation, and accordingly, flexibility will be provided in determining the appropriate evaluation and selection process to be used in each specific circumstance. As such, cost shall not be the sole criterion in selecting the successful bidder. Consultant proposals will be evaluated based on a combination of factors that result in the best value to the City, including but not limited to:

- *Understanding of the work required by the City*
- *Quality and responsiveness of the proposal*
- *Demonstrated competence and professional qualifications necessary for satisfactory performance of the work required by the City*
- *Recent experience in successfully performing similar services*
- *Proposed methodology for completing the work*
- *References*
- *Background and related experience of the specific individuals to be assigned to the project.*
- *Proposed compensation*

## Contracts, Agreements, Mou's with Other Public Agencies or Non-Profits

Must go to City Council for approval, regardless of dollar amount, unless under \$25,000 and normal process is waived by the City Manager and City Attorney.

### Annual and Multi-Year Agreements

- 1) Annual Agreements: For annual agreements with a single vendor for repeated or "as-needed" purchases throughout a year, the procurement procedures used shall be consistent with the estimated cumulative expenditures during that fiscal year.
- 2) Multi Year Agreements: A contract may be entered into for any period deemed to be in the best interest of the City, (Typically not longer than 5 years), provided that the initial term of the contract and renewal provisions are included in the original solicitation process. Multi-year contracts are subject to the purchasing procedures required for each fiscal year under contract. Adequate funds must be available to fulfill the first fiscal year's obligation at the time of contract execution, except for "standby" agreements that are for emergency services only and not used during the normal course of business. Subsequent year's appropriations are subject to authorization by the City Council, with the exception for "standby" emergency agreements. Standard termination of a contract language must be included within all multi-year agreements.

### Exemptions for Bid Requirements

- 1) Sole Source Purchases Exemption: Commodities and services, which can only be obtained from one vendor, are exempt from competitive bidding. Sole source purchases may include proprietary items sold directly from the manufacturer, items that have only one distributor authorized to sell in this area, or a certain product that has been proven to be the only product that is acceptable. All sole source purchases shall be supported by written documentation signed by the purchasing Department Head and City Manager. An example of a sole source is where equipment, supplies or materials are required in order to be compatible with existing equipment or to perform a complex or unique function. The final determination that an item is a valid sole source purchase will be made by the City Manager and shall not be delegated.
- 2) Emergency Contracting Exemption: In all cases, when the City declares a "Local Emergency", in accordance with GC §8558(c) it is also an emergency under the PCC§1102. In some cases, such as sudden loss of critical infrastructure, it may only be an emergency under the public contract code. However, in either case, the following emergency contracting provisions apply.

*In accordance with PCC §22050, as may be amended from time to time, the City Manager or designee, as the Director of Emergency Operations (CMC 2.24.060), shall have the authority to 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. This includes "public works", as authorized under PCC §22035.*

- a) The City Manager shall report to the City Council at its next meeting the reasons justifying why the emergency will not permit a delay resulting from a competitive solicitation for bids and why action is necessary to respond to the emergency
- b) The City Council shall initially review the emergency procurement at its next regularly scheduled meeting (no more than 14 days following the action), and at least at every regularly scheduled meeting thereafter until the procurement is terminated by the City Manager. The purpose of the City Council review is to determine, by a four-fifths vote, that there is a need to continue any on-going emergency procurement.
- c) The City Manager shall terminate the emergency procurement at the earliest possible date that conditions warrant so that the remainder of the emergency action may be completed by giving notice for bids to let contracts.

## Federal Procurement Policy

When the City procures goods and services utilizing funds through Federal grants, the City will follow all guidance and ensure proper financial stewardship of taxpayer resources. This document serves to outline the City's procurement policy to include all Federal grant funded projects and purchases. These policies and procedures reflect applicable state and local laws and their conformity to the applicable Federal laws and standards identified in the Uniform Guidance, Procurement Standards (2 CFR 200.317-.326). The City's compliance, and notification thereof, are indicated here, in Chapter 1, and throughout this Purchasing Manual by referencing the applicable Uniform Guidance section. Additionally, the Uniform Guidance Procurement Standards (2 CFR 200.317-.326) are included in the Appendix.

All City employees procuring goods and/or services utilizing Federal grants are responsible for complying with the Federal Procurement Standards referenced throughout the Purchasing Manual and attached in the Appendix. Federal grant funds include funds that are Federal in origin that are passed through the state or other agencies. Employees obtaining grants are responsible for determining the source of funds and notifying the Finance Department Accountant Auditor responsible for grant reporting of any Federal funds awarded. Legal Agreements where the City provides services to the federal government, such as the

Intergovernmental Service Agreement (IGSA), are contracts for services, not grants, and as such follow each Agreement's purchasing guidelines, not the Federal grant procedures.

Where thresholds differ between City and Federal procurement policies, City employees utilizing Federal grants will follow the most restrictive rule. For example, currently the Federal "micro-purchase" (informal bid) threshold is \$10,000 whereas the City's is \$5,000. In this instance formal bids/quotes would be obtained starting at the City limit of \$5,000. (2 CFR 200.320 (a))

For Federal grant funded contracts, the City solicitation and contract documents must comply with requirements regarding small and minority businesses, women's business enterprises, and labor surplus area firms.

## Cooperative Purchasing

The City will endeavor to utilize the State Cooperative Purchasing; the League of California Purchasing Pool; and other public agencies operating local pools or allowing piggyback purchasing. When utilizing such pools, bidding requirements set forth herein shall be deemed to be met.

## Local Vendor and Environmentally Preferable Purchasing Preference

This preference is used as a guide for both the promotion of local business activity, which may result in increased jobs and increased revenue. As well as promotion of environmentally conscious procurement to help address our impacts to climate change. The City will allow for a five percent (5%) preference to local or ten percent (10%) for environmentally preferable vendors in those City purchases using competitive bidding

Guidelines for determination are as follows:

- 1) Local vendors must have their principal place of business within the City of Cotati.
  - a) To qualify for the preference, local bidders must submit proof of the address of their principal place of business and a copy of their current City Business License.
- 2) The total preference amount granted shall not exceed \$5,000 (i.e. 5% of \$100,000). Preferences only apply to the procurement of material, equipment, supplies, and non-professional services as set forth in this policy. They do not apply to purchases procured under Federal or State requirements, State Cooperative Purchasing, cooperative purchases with other agencies, or Public Works projects subject to the PCC. For professional services, vendor selection is based primarily on qualifications and project schedule, with cost as a secondary criterion.
- 3) Preference provisions may be waived by the City Manager when the conditions of Federal, State, or private grant monies prohibit such preference or otherwise conflict with this policy.

- 4) Bidders must bid with the same or comparable specifications as required of non-local bidders.

## Public Project Contracts

In accordance with Cotati Municipal Code Chapter 3.4, the City follows the procedures in the Uniform Public Construction Cost Accounting Act (PCC §22000 et seq.), as may be amended from time to time. For convenience, the following thresholds exist as of the date of this policy for Public Projects in accordance with PCC §22032:

- 1) Public projects of seventy-five thousand dollars (\$75,000) or less may be performed by the employees of a public agency by force account, by negotiated contract, or by purchase order.
- 2) Public projects of two hundred twenty thousand dollars (\$220,000) or less may be let to contract by informal procedures, as defined by PCC §22034.
- 3) Public projects of more than two hundred twenty thousand dollars (\$220,000) shall be let to contract by formal bidding procedures.

## Insurance and Bonds

City policy is to require contractors providing services, materials, or construction to the City to indemnify, defend, and hold the City harmless for claims arising from their performance of the contract and supply proof of insurance coverage to the City. The proof the City requires is usually in the form of certificates of coverage and endorsements provided by the contractor's insurance broker or carrier. All insurance requirements made by the contractor must appear in the City agreement, and in the case of a competitive bid, they must also be in the Request For Bid (RFB) or Request For Proposal (RFP).

# Section C.1

## Credit Card Management Policies



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## Purpose

It is the policy of the City to provide employees with credit cards as an alternative method of payment for goods and services. The credit card represents the City's trust in a responsible employee to safeguard and protect the City's assets.

Cardholders assume the responsibility of the protection and proper use of the City issued card at all times. This policy provides guidelines on requesting a card and the responsibilities associated with card use.

## Policy

- 1) The City may make credit cards available to designated staff to make purchases or payments in order to facilitate the operations of the City department.
- 2) The Finance Department will issue cards to employees as requested by the employees' Department Head.
- 3) Employees will not use City-issued credit cards for personal expenses even if the intent is to reimburse the City later. Charging personal expenses on the credit card is a misuse of City funds and doing so may result in disciplinary action.
- 4) Purchases made with City-issued credit cards must be made in compliance with the City's Purchasing Policy.
- 5) Purchases should not be "split" to circumvent credit card transaction limits. Split purchases are when the vendor is asked to split a single purchase into two separate transactions by a single employee credit, or by multiple employee credit cards.

## Responsibilities

- 1) Administrative Services Department
  - a) Administer the City's credit card program including establishing procedures also including issuing payments to the credit card company.
  - b) Maintain a log of all new credit card requests, credit limit adjustment requests, activations, and deactivations. Cardholders are encouraged to contact the Program Administrator whenever they have any questions.
- 2) City Manager
  - a) Authorize requests for new credit cards to be issued or for adjustments to existing credit card purchasing limits.
- 3) Department Heads or Direct Supervisors
  - a) Ensure that employees of their respective departments who make credit card transactions are aware of this Credit Card Policy and the Purchasing Policy.
  - b) Retrieve credit cards, receipts, packing slips, and the monthly statement prior to employees leaving the City and return them to the Program Administrator.
- 4) Cardholders

- a) Utilize the credit card in compliance with this policy, including the related processes and procedures. Cardholders are responsible for the purchases made on their City-issued credit cards.
- b) Do not permit others to use the card, except when a duty has been delegated to office staff (e.g., to make City business travel and hotel arrangements).
- c) Reconcile the receipts and packing slips to the monthly credit card statement within prescribed timelines.
- d) Secure credits from suppliers when items are returned, or billing errors are found.
- e) Resolve disputes and any fraudulent charges on the monthly statement.
- f) Notify the bank, your Department Head, and the Administrative Services Department immediately if the credit card is lost or stolen

## Section C.2

# Environmentally Preferable Purchasing Policies



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## Statement of Policy

The Environmentally Preferable Purchasing Policy will commit the City to:

- 1) Protect and conserve natural resources, water, and energy;
- 2) Minimize the contribution to climate change, pollution, and solid waste disposal;
- 3) Institute practices that reduce waste by increasing product efficiency and effectiveness;
- 4) Purchase products that minimize environmental impacts, toxics, pollution, and hazards to workers and community safety;
- 5) Purchase products that include recycled content, are durable and long-lasting, conserve energy and water, use agricultural fibers and residues, use unbleached or chlorine free manufacturing processes, are lead-free and mercury-free, and use wood from sustainably harvested forests; and
- 6) Comply with State requirements as contained in the SB 1383 procurement regulations to procure a specified amount of Recovered Organic Waste Products to support Organic Waste disposal reduction targets and markets for products made from recycled and recovered Organic Waste materials.

## Purpose

The purpose of the policy is to incorporate considerations that include the following:

- 1) Conserve natural resources;
- 2) Minimize environmental impacts such as pollution and use of water and energy;
- 3) Eliminate or reduce toxics that create hazards to workers and our community;
- 4) Support a strong recycling market and circular economy;
- 5) Incorporate environmental considerations including recycled-content and recovered Organic Waste product use into purchasing practices and procurement;
- 6) Reduce materials that are landfilled;
- 7) Increase the use and availability of environmentally preferable products that protect the environment;
- 8) Identify environmentally preferable products and distribution systems;
- 9) Reward manufacturers and vendors that reduce environmental impacts in their production and distribution systems or services;
- 10) Create a model for successfully purchasing environmentally preferable products that encourages the use of agricultural fibers, chlorine-free manufacturing processes, wood from sustainably harvested forests, and other environmentally friendly practices, and that encourages other purchasers in our community to adopt similar goals.

## Definitions

- **Annual Recovered Organic Waste Product Procurement Target** means the amount of Organic Waste in the form of a Recovered Organic Waste Product that the City is required to procure annually under 14 CCR Section 18993.1. This target shall be calculated by multiplying the per capita procurement target, which shall be 0.08 tons of Organic Waste per California resident per year, times the City's residential population using the most recent annual data reported by the California Department of Finance. Annually, CalRecycle will provide notice to each City of its Annual Recovered Organic Waste Product Procurement Target by posting such information on CalRecycle's website and providing written notice directly to the City.
- **American Society for Testing and Materials** means ASTM International, an open forum for the development of high quality, market relevant international standards used around the globe.
- **Bay Area Green Business Program** is a partnership of governments and businesses that certifies the environmental performance of government agencies and businesses.
- **Bio-Based Products** means commercial or industrial products (other than food or feed) that utilize agricultural crops or residues but does not include products made from forestry materials
- **Biodegradable Products Institute (BPI)** is a multi-stakeholder association of key individuals and groups from government, industry and academia, which promotes the use, and recycling of biodegradable polymeric materials (via composting). BPI does not create standards but certifies products that demonstrate they meet the requirements in ASTM D6400 or D6868, based on testing in an approved laboratory.
- **Buyer** means anyone authorized to purchase or contract for purchases on behalf of the City and its departments.
- **The Carpet and Rug Institute (CRI)** is the national trade association representing the carpet and rug industry. CRI has developed and administered the Green Label indoor air quality testing and labeling program for carpets, adhesives, cushion materials and vacuum cleaners. The Green Label Plus testing program incorporates additional requirements to meet California's Collaborative for High Performance Schools low-emitting materials criteria
- **Compost** means the product resulting from the controlled biological decomposition of organic solid wastes that are source separated from the municipal solid waste stream or which are separated at a centralized facility or as otherwise defined in 14 CCR Section 17896.2(a)(4). Compost eligible for meeting the Annual Recovered Organic Waste Product Procurement Target must be produced at a compostable material handling operation or facility permitted or authorized under 14 CCR Chapter 3.1 of Division 7 or produced at a large volume in-vessel digestion facility that composts on-site as defined and permitted under

14 CCR Chapter 3.2 of Division 7. Compost shall meet the State's composting operations regulatory requirements

- **Compostable plastic** means a polymer that is made from plants such as corn or soybeans, and breaks down during composting to yield carbon dioxide, water and inorganic compounds and biomass, at a rate consistent with other known compostable materials and leaves no visually distinguishable or toxic residues
- **Contractor** means any person, group of persons, business, consultant, designing architect, association, partnership, corporation, supplier, vendor or other entity that has a contract or serves in a subcontracting capacity with an entity having a contract for the provision of goods or services.
- **Direct Service Provider** means a person, company, agency, district, or other entity that provides a service or services to City pursuant to a contract or other written agreement or as otherwise defined in 14 CCR Section 18982(a)(17).
- **EcoLogo** is a third-party, multi-attribute eco-labeling program founded by the Canadian government in 1988 and part of UL Environment since 2010. The Program compares products / services with others in the same category, develops rigorous and scientifically relevant criteria, and awards the EcoLogo to those that are environmentally preferable throughout their entire lifecycle.
- **Electronic Product Environmental Assessment Tool (EPEAT)** is a procurement tool to help institutional purchasers in the public and private sectors evaluate, compare and select personal computers, displays, imaging equipment and televisions based on their environmental attributes.
- **Electricity Procured from Biomass Conversion** means electricity generated from biomass facilities that convert recovered Organic Waste, such as wood and pruning from the municipal stream, into electricity. Electricity procured from a biomass conversion facility may only count toward the City's Annual Recovered Organic Waste Product Procurement Target if the facility receives feedstock directly from certain permitted or authorized compostable material handling operations or facilities, transfer/processing operations or facilities, or landfills, as described in 14 CCR Section 18993.1(i).
- **Energy Star** means the U.S. EPA's energy efficiency product labeling program.
- **Energy-Efficient Product** means a product that is in the upper 25% of energy efficiency for all similar products, or that is at least 10% more efficient than the minimum level that meets Federal standards.
- **Environmentally Preferable Purchasing** means EPP is the procurement of goods and services that have a reduced impact on human health and the environment compared to competing products serving the same purpose. It is an essential part of our search for high quality products and services at competitive prices.

- **Federal Energy Management Program** is a program of the Department of Energy that issues a series of Product Energy Efficiency Recommendations that identify recommended efficiency levels for energy-using products.
- **Forest Stewardship Council** is a global organization that certifies responsible, on-the-ground forest management according to rigorous standards developed by a broad variety of stakeholder groups.
- **Green Seal** is an independent, non-profit environmental labeling organization. Green Seal standards for products and services meet the U.S. EPA's criteria for third-party certifiers. The Green Seal is a registered certification mark that may appear only on certified products.
- **Integrated Pest Management** is an ecosystem-based strategy that focuses on long-term prevention of pests or their damage through a combination of techniques such as biological control, habitat manipulation, modification of cultural practices, and use of resistant varieties. Pesticides are used only after monitoring indicates they are needed according to established guidelines, and treatments are made with the goal of removing only the target organism. Pest control materials are selected and applied in a manner that minimizes risks to human health, beneficial and nontarget organisms, and the environment.
- **City** means the City of Cotati or a regional agency with the responsibility for meeting Integrated Waste Management Act requirements. City's may utilize a Joint Powers Authority (JPA) to comply with the requirements of SB 1383, however, the City shall remain ultimately responsible for compliance.
- **LEED Rating System** means the most recent version of the Leadership in Energy and Environmental Design (LEED) Rating System, approved by the U.S. Green Building Council, and designed for rating new and existing commercial, institutional, and residential buildings.
- **NSF/ANSI** means NSF International follows the American National Standards Institute (ANSI) standards development process. Standards are developed by joint committees (balanced stakeholder groups of public health, industry and user representatives).
- **Organic Pest Management** prohibits the use and application of toxic chemical pesticides and strives to prevent pest problems through the application of natural, organic horticultural and maintenance practices. All pest control products shall be in keeping with, but not limited to, those products on the approved list of California Certified Organic Farmers (CCOF).
- **Organic Waste** means Solid Wastes containing material originated from living organisms, such as food scraps and yard debris. This designation shall be made by the authorized collector based on good public practice, ability to receive an acceptable economic return, and feasibility of composting the waste stream.
- **Paper Products** include, but are not limited to, paper janitorial supplies, cartons, wrapping, packaging, file folders, hanging files, corrugated boxes, tissue, and toweling;

- **Post-consumer Material** means a finished material which would normally be disposed of as a solid waste, having reached its intended end-use and completed its life cycle as a consumer item, and does not include manufacturing or converting waste.
- **Pre-consumer Material** means material or by-products generated after manufacture of a product is completed but before the product reaches the end-use consumer. Pre-consumer material does not include mill and manufacturing trim, scrap, or broke which is generated at a manufacturing site and commonly reused on-site in the same or another manufacturing process.
- **Printing and Writing Papers** include, but are not limited to, copy, xerographic, watermark, cotton fiber, offset, forms, computer printout paper, white wove envelopes, manila envelopes, book paper, note pads, writing tablets, newsprint, and other uncoated writing papers, posters, index cards, calendars, brochures, reports, magazines, and publications;
- **Postconsumer Content** means any product which has served its intended use by a business or a consumer, which has been disposed and subsequently separated from solid waste for use as a constituent in a new product.
- **Procurement of Recovered Organic Waste Products** shall mean purchase or acquisition (e.g., free delivery or free distribution from a hauler or other entity via a written agreement or contract), and end use by the City or others. The City's Annual Recovered Organic Waste Product Procurement Target can be fulfilled directly by the City or by Direct Service Providers through written contracts or agreements for Procurement of Recovered Organic Waste Products at the City's behest.
- **Post-manufacture Content** means waste that is created by a manufacturing process, and that is subsequently only used as a constituent in another manufacturing process.
- **Recovered Material** means fragments of products or finished products of a manufacturing process, which has converted a resource into a commodity of real economic value and includes pre-consumer and post-consumer material but does not include excess resources of the manufacturing process.
- **Recovered Organic Waste Products** means products made from California, landfill-diverted recovered Organic Waste processed at a permitted or otherwise authorized operation or facility, or as otherwise defined in 14 CCR Section 18982(a)(60). Products that can be used to meet the Annual Recovered Organic Waste Product Procurement Target shall include Compost, SB 1383 Eligible Mulch, Renewable Gas from an in-vessel digestion facility, and Electricity Procured from Biomass Conversion as described herein and provided that such products meet requirements of 14 CCR, Division 7, Chapter 12, Article 12.
- **Recordkeeping Designee** means the public employee appointed by the City Manager or their designee to track procurement and maintain records of Recovered Organic Waste Product procurement efforts both by the City and others, if applicable, as required by 14 CCR,

Division 7, Chapter 12, Articles 12 and 13. In Sonoma County, Zero Waste Sonoma will be considered the Recordkeeping Designee.

- **Recyclability** means that the Paper Products and Printing and Writing Paper offered or sold to the City are eligible to be labeled with an unqualified recyclable label as defined in 16 Code of Federal Regulations Section 260.12 (2013).
- **Recycled-Content Paper Products and Recycled-Content Printing and Writing Paper** means such products that consist of at least thirty percent (30%), by fiber weight, postconsumer fiber, consistent with the requirements of Sections 22150 to 22154 and Sections 12200 and 12209 of the Public Contract Code, and as amended.
- **Recycled Content Standard** means the minimum level of recovered material and/or post-consumer material necessary for products to qualify as recycled products.
- **Recycling** means using waste as material to manufacture a new product. Recycling involves altering the physical form of an object or material and making a new object from the altered material.
- **Renewable Gas** means gas derived from Organic Waste that has been diverted from a landfill and processed at an in-vessel digestion facility that is permitted or otherwise authorized by 14 CCR to recover Organic Waste.
- **Reuse** means using an object or material again, either for its original purpose or for a similar purpose, without significantly altering the physical or chemical form of the object or material.
- **Remanufactured Product** means any product diverted from the supply of discarded materials by refurbishing and marketing said product without substantial change to its original form.
- **Reused Product** means any product designed to be used many times for the same or other purposes without additional processing except for specific requirements such as cleaning, painting or minor repairs.
- **Russian River Friendly Landscaping** means working with the natural ecosystems of the Russian River region to foster soil health, to reduce runoff and pollution, prevent and reuse plant waste, and conserve water and other natural resources. The Russian River-Friendly Landscape Guidelines are a revision of the Bay-Friendly Landscape Guidelines by the Russian River Watershed Association (RRWA), originally published by StopWaste.Org.
- **Source Reduction Section 40196 of the California Public Resources Code** defines source reduction as any action which causes a net reduction in the generation of solid waste. Source Reduction includes, but is not limited to, reducing the use of nonrecyclable materials , replacing disposable materials and products with reusable materials and products, reducing packaging, reducing the amount of yard wastes generated , establishing garbage rate structures with incentives to reduce the amount of wastes that generators produce , and

increasing the efficiency of the use of paper , cardboard, glass, metal , plastic, and other materials.

- **SB 1383** means Senate Bill 1383 of 2016 approved by the Governor on September 19, 2016, which added Sections 39730.5, 39730.6, 39730.7, and 39730.8 to the Health and Safety Code, and added Chapter 13.1 (commencing with Section 42652) to Part 3 of Division 30 of the Public Resources Code, establishing methane emissions reduction targets in a statewide effort to reduce emissions of short-lived climate pollutants, as amended, supplemented, superseded, and replaced from time to time.
- **SB 1383 Regulations or SB 1383 Regulatory** means or refers to, for the purposes of this policy, the Short-Lived Climate Pollutants (SLCP): Organic Waste Reductions regulations developed by CalRecycle and adopted in 2020 that created Chapter 12 of 14 CCR, Division 7 and amended portions of regulations of 14 CCR and 27 CCR
- **State** means the State of California.
- **Water-Saving Products** are those that are in the upper 25% of water conservation for all similar products, or at least 10% more water-conserving than the minimum level that meets the Federal standards.
- **WaterSense** means a partnership program by the U.S. Environmental Protection Agency. Independent, third-party licensed certifying bodies certify that products meet EPA criteria for water efficiency and performance by following testing and certification protocols specific to each product category. Products that are certified to meet EPA specifications are allowed to bear the WaterSense label.

## Strategies For Implementation

- 1) Source Reduction
  - a) Institute practices that reduce waste, encourage reuse, and result in the purchase of fewer products.
  - b) Purchase remanufactured products such as toner cartridges, tires, furniture, equipment and automotive parts, when feasible.
  - c) Consider short-term and long-term costs in comparing product alternatives. This includes evaluation of total costs expected during the time a product is owned, including, but not limited to, acquisition, extended warranties, operation, supplies, maintenance and replacement parts, disposal costs and expected lifetime compared to other alternatives.
  - d) Purchase products that are durable, long lasting, reusable or refillable and avoid purchasing one-time use or disposable products.
  - e) Request vendors eliminate packaging or use the minimum amount necessary for product protection. Vendors shall be encouraged to take back packaging for reuse.

A vendor's willingness to take back packaging will be used as part of the consideration in the procurement process.

- f) Specify a preference for packaging that is reusable, recyclable, or compostable, when suitable uses and programs exist.
  - g) Encourage vendors to take back and reuse pallets and other shipping materials.
  - h) Encourage suppliers of electronic equipment, including but not limited to computers, monitors, printers, and copiers, to take back equipment for reuse or environmentally sound recycling when discarding or replacing such equipment, whenever possible. Suppliers will be required to state their take-back, reuse or recycling programs during the procurement process.
  - i) Consider provisions in contracts with suppliers of non-electronic equipment that require suppliers to take back equipment for reuse or environmentally sound recycling when discarding or displacing such equipment, whenever possible. Suppliers will be required to state their take back, reuse or recycling programs during the procurement process.
  - j) Promote electronic distribution of documents rather than printing or copying.
  - k) When producing paper documents, print and copy all documents on both sides to reduce the use and purchase of paper. Printers and copiers shall be set to default to duplex.
  - l) Ensure all imaging equipment is installed with energy and resource- efficient settings set as default.
  - m) Reduce the number and type of equipment needed to perform office functions to save energy and reduce purchasing and maintenance costs. Eliminate desktop printers, redundant network printers and reduce the number of fax machines leased or owned. Consider lease or purchase of multi-function devices.
- 2) Recycled Content Products
- a) Requirements for City Departments
    - i) Price preference: If fitness and quality of Recycled-Content Paper Products and Recycled-Content Printing and Writing Paper are equal to that of non-recycled items, all departments and divisions of City shall purchase Recycled-Content Paper Products and Recycled- Content Printing and Writing Paper that consists of at least thirty percent (30%), by fiber weight, postconsumer fiber, whenever the total cost is the same or a lesser total cost than non-recycled items or whenever the total cost is no more than 10 percent ( 10%) of the total cost for the non-recycled items.
    - ii) All Paper Products and Printing and Writing Paper shall be eligible to be labeled with an unqualified recyclable label as defined.
    - iii) Provide records to Zero Waste Sonoma of all Paper Products and Printing and Writing Paper purchases annually no later than June 30 of the purchase

(both recycled-content and non-recycled content, if any is purchased) made by the City. Records shall include a copy of the invoice or other documentation of purchase, written certifications, vendor name, purchaser name, quantity purchased, date purchased, and recycled content (including products that contain none), and if non-Recycled-Content Paper Products and/or non-Recycled-Content Printing and Writing Paper are provided, include a description of why Recycled-Content Paper Products and/or Recycled-Content Printing and Writing Paper were not provided.

b) Requirements for Vendors

- i) All vendors that provide Paper Products (including janitorial Paper Products) and Printing and Writing Paper to the City shall:
- ii) Provide Recycled-Content Paper Products and Recycled-Content Printing and Writing Paper that consists of at least thirty percent (30%), by fiber weight, postconsumer fiber, if fitness and quality are equal to that of non-recycled item.
- iii) Only provide Paper Products and Printing and Writing Papers that meet Federal Trade Commission Recyclability standard as defined in Title 16 Code of Federal Regulations Section 260.12 (2013).
- iv) Certify in writing, under penalty of perjury, the minimum percentage of postconsumer material in the Paper Products and Printing and Writing
- v) Paper offered or sold to the City. This certification requirement may be waived if the percentage of postconsumer material in the Paper Products, Printing and Writing Paper, or both can be verified by a product label, catalog, invoice, or a manufacturer or vendor internet website.
- vi) Certify in writing, under penalty of perjury, that the Paper Products and Printing and Writing Paper offered or sold to the City is eligible to be labeled with an unqualified recyclable label as defined
- vii) Provide records to Zero Waste Sonoma of all Paper Products and Printing and Writing Paper purchased from the vendor annually no later than June 30 of the purchase (both recycled-content and non- recycled content, if any is purchased) made by the City. Records shall include a copy of the invoice or other documentation of purchase, written certifications as required in Section 4.2.A.3-4 for recycled- content purchases, purchaser name, quantity purchased, date purchased, and recycled content (including products that contain none), and if non-Recycled-Content Paper Products and/or non-Recycled-Content Printing and Writing Paper are provided, include a description of why Recycled-Content Paper Products and/or Recycled-Content Printing and Writing Paper were not provided.

- viii) All vendors providing printing services to the City via a printing contract or written agreement, shall use Printing and Writing Paper that consists of at least thirty percent (30%), by fiber weight, postconsumer fiber.
- c) Recovered Organic Waste Product Procurement
  - i) Procurement Target
    - (1) City will annually procure for use or procure through Zero Waste Sonoma Recovered Organic Waste Products that meets or exceeds its Annual Recovered Organic Waste Product Procurement Target.
    - (2) To be eligible to meet the Annual Recovered Organic Waste Product Procurement Target, products that may be procured include the following SB 1383 eligible Compost, SB 1383 eligible Mulch, Renewable Gas (in the form of transportation fuel, electricity, or heat), and Electricity Procured from Biomass Conversion.
  - ii) Requirements for City Departments
    - (1) Compost and SB 1383 Eligible Mulch procurement. Departments responsible for landscaping maintenance, renovation, or construction shall:
      - (a) Use Compost and SB 1383 Eligible Mulch produced from recovered Organic Waste, as defined in Section 2.B and 2.R of this Policy, for landscaping maintenance, renovation, or construction, as practicable, whenever available, and capable of meeting quality standards and criteria specified. SB 1383 Eligible Mulch used for land application must meet or exceed the physical contamination, maximum metal concentration and pathogen density standards specified in 14 CCR Section 1 7852(a)(24.5)(A)(1) through (3).
      - (b) When the City uses Compost and SB 1383 Eligible Mulch and the applications are subject to the City's Water Efficient Landscaping Ordinance (WELO), pursuant to City Code Section 17.34, comply with the City's WELO, City Code Section 17.34.
      - (c) For all mulch that is land applied, procure SB 1383 Eligible Mulch that meets or exceeds the physical contamination, maximum metal concentration, and pathogen density standards for land applications. The mulch must also be produced at a permitted composting facility, transfer station, or landfill. The procured mulch cannot be from a chipping and grinding operation, as specified in 12 CCR Section 18993.1 (f)(4).
    - (2) Keep records, including invoices or proof of Recovered Organic Waste Product procurement (either through purchase or acquisition), and submit

records to Zero Waste Sonoma, annually no later than June 30. Records shall include general procurement records, including:

- (a) General description of how and where the product was used and applied, if applicable;
  - (b) Source of product, including name, physical location, and contact information for each entity, operation, or facility from whom the Recovered Organic Waste Products were procured;
  - (c) Type of product;
  - (d) Quantity of each product; and,
  - (e) Invoice or other record demonstrating purchase or procurement
- (3) For Compost and SB 1383 Eligible Mulch provided to residents through giveaway events or other types of distribution methods, keep records of the Compost and SB 1383 Eligible Mulch provided to residents. Records shall be maintained and submitted to Zero Waste Sonoma annually no later than June 30.
- (4) When Procurement of Recovered Organic Waste Products occurs through a Direct Service Provider, enter into a written contract or agreement or execute a purchase order with enforceable provisions that includes: (i) definitions and specifications for SB 1383 Eligible Mulch, Compost, Renewable Gas, and/or Electricity Procured from Biomass Conversion; and, (ii) an enforcement mechanism (e.g., termination, liquidated damages) in the event the Direct Service Provider is not compliant with the requirements.
- d) Renewable Gas procurement (used for fuel for transportation, electricity, or heating applications). For Renewable Gas procurement, City shall:
- i) Procure Renewable Gas made from recovered Organic Waste for transportation fuel, electricity, and heating applications to the degree that it is appropriate and available for the City and to help meet the Annual Recovered Organic Waste Product Procurement Target.
  - ii) Keep records in the same manner for the amount of Renewable Gas procured and used by the City, including the general procurement record information specified in Section 3.2.A.3.a, and submit records to Zero Waste Sonoma on a quarterly schedule. The quarterly schedule shall be as follows: Renewable Gas records are to be provided to Zero Waste Sonoma annually no later than June 30. City shall additionally obtain the documentation and submit records specified.
- e) Electricity Directly Procured from Biomass Conversion. This section applies to Electricity Procured directly from a Supplier that uses Biomass Conversion. In this case, the City shall:

- i) Procure electricity from a biomass conversion facility that receives feedstock from a composting facility, biosolids, transfer/processing facility, a solid waste landfill, and/or receives feedstock from the generator or employees on behalf of the generator of the Organic Waste and to the degree that it is available and practicable for the Jurisdiction and to help meet the Annual Recovered Organic Waste Product Procurement Target, which requires compliance with specified.
  - ii) Maintain records and conduct the following recordkeeping activities:
  - iii) Keep records in the same manner indicated in this Policy for the amount of Electricity Procured from Biomass Conversion facilities, including the general procurement record information specified.
  - iv) Receive written notification by an authorized representative of the biomass conversion facility certifying that biomass feedstock was received from a permitted solid waste facility.
- f) Provide these records to Zero Waste Sonoma annually no later than June 30. The City is not required to provide records from public utility provided electricity, such as PG&E or Sonoma Clean Power.
- g) Requirements for Direct Service Providers
- i) Direct Service Providers of landscaping maintenance, renovation, and construction shall:
    - (1) Use Compost and SB 1383 Eligible Mulch, as practicable, produced from recovered Organic Waste, as defined in Section 2.B and 2.R of this Policy, for all landscaping renovations, construction, or maintenance performed for the City, whenever available, and capable of meeting quality standards and criteria specified. SB 1383 Eligible Mulch used for land application shall comply with 14 CCR, Division 7, Chapter 12, Article 12 and must meet or exceed the physical contamination, maximum metal concentration and pathogen density standards specified in 14 CCR Section 1 7852(a)(24.5)(A)(1) through (3).
    - (2) If the Direct Service Provider is subject to the City's WELO pursuant to City Code Section 17.34, the Direct Service Provider must comply with this section.
    - (3) For all mulch that is land applied, procure SB 1383 Eligible Mulch that meets or exceeds the physical contamination, maximum metal concentration, and pathogen density standards for land applications specified.
    - (4) Keep and provide records of Procurement of Recovered Organic Waste Products (either through purchase or acquisition) to Recordkeeping Designee, upon completion of projects. Information to be provided shall

include general description of how and where the product was used and if applicable, applied; source of product, including name, physical location, and contact information for each entity, operation, or facility from whom the Recovered Organic Waste Products were procured, type of product, quantity of each product; and invoice or other record demonstrating purchase or procurement.

- ii) Direct Service Provider of Organic Waste collection services shall:
  - (1) Keep and provide records to the City including the following dates provided, source of product including name, physical location and contact information for each entity, operation or facility from whom the Recovered Organic Waste Products were procured, type of product, quantity provided; and invoice or other record or documentation demonstrating purchase, procurement, or transfer of material to giveaway location.
- iii) Renewable Gas procurement by Direct Service Providers shall:
  - (1) Direct Service Providers transporting solid waste, organic materials, and/or recyclable materials shall procure a portion of their fuel as Renewable Gas if required to do so in Franchise Agreements, RFPs, or RFQs released by the City for such services or as required by permit, license, written agreement, or written contract with the City.
  - (2) Departments releasing RFPs and RFQs for contractors that procure fuel in the course of their services to the City shall include a price preference to contractors that propose to use the amount or percentage of Renewable Gas specified in the RFP or RFQ to be eligible for said price preference. Such use, if it occurs, shall be documented in a written contract or agreement. Guidance: City shall specify the percentage of the price preference or may remove the percentage leaving sentence to read ...shall include a price preference to contractors ....
  - (3) If Renewable Gas made from recovered Organic Waste is used by Direct Service Providers, Direct Service Providers shall submit information on a schedule to be determined by City, but not less than annually to Zero Waste Sonoma.
- iv) Renewable Gas used by Direct Service Providers shall comply with criteria specified.
- h) Energy Efficient and Water Saving Products
  - i) Purchase energy-efficient equipment with the most up-to-date energy efficiency functions. This includes, but is not limited to, high efficiency space heating systems and high efficiency space cooling equipment.
  - ii) Replace inefficient interior lighting with energy-efficient equipment.

- iii) Replace inefficient exterior lighting, street lighting and traffic signal lights with energy-efficient equipment. Minimize exterior lighting where possible to avoid unnecessary lighting of architectural and landscape features while providing adequate illumination for safety and accessibility.
- iv) Purchase U.S. EPA Energy Star certified products when available. When Energy Star labels are not available, choose energy-efficient products that are in the upper 25% of energy efficiency as designated by the Federal Energy Management Program.
- v) Purchase U.S. EPA WaterSense labeled water-saving products when available. This includes, but is not limited to, high-performance fixtures like toilets, low-flow faucets and aerators, and upgraded irrigation systems.
- i) **Green Building Products and Practices for City Facilities**
  - i) Consider Green Building practices for design, construction, and operation as described in the CalGreen, LEED, local requirements and other current Green Building best practices for all City building and renovations undertaken.
  - ii) In accordance with California Public Contract Code, Sec. 10409, purchase re-refined lubricating and industrial oil for use in its vehicles and other equipment, as long as it is certified by the American Petroleum Institute (API) as appropriate for use in such equipment. This section does not preclude the purchase of virgin-oil products for exclusive use in vehicles whose warranties expressly prohibit the use of products containing recycled oil.
  - iii) When specifying asphalt, concrete, aggregate base or portland cement concrete for construction projects, use recycled, reusable or reground materials to the greatest degree possible.
  - iv) Specify and purchase recycled content traffic control products, including signs, cones, parking stops, delineators, channelizers and barricades.
- j) **Landscaping Products and Practices on City Facilities**
  - i) Employ Russian River Friendly Landscaping or sustainable landscape management techniques for all landscape renovations, construction and maintenance, including workers and contractors providing landscaping services, including, but not limited to, integrated pest management, grass cycling, drip irrigation, computerized central irrigation linked with the local weather station, composting, and procurement and use of mulch and compost that give preference to those produced from regionally generated plant debris and/or food scrap programs.
  - ii) Select plants to minimize waste by choosing species for purchase that are appropriate to the microclimate, species that can grow to their natural size

in the space allotted them, and perennials rather than annuals for color. Native and drought-tolerant plants that require no or minimal watering once established are preferred.

- iii) Hardscapes and landscape structures constructed of recycled content materials are encouraged. Limit the amount of impervious surfaces in the landscape. Permeable substitutes, such as permeable asphalt or pavers, are encouraged for walkways, patios and driveways.
- k) Household Hazardous Waste and Pollution Prevention Products and Practices at City Facilities
- i) Manage pest problems through prevention and physical, mechanical and biological controls when contractors maintain buildings and landscapes. Either adopt and implement an Organic Pest Management (OPM) policy and practices or adopt and implement an Integrated Pest Management (IPM) policy and practices using the least toxic pest control as a last resort. Anticoagulant rodenticides shall never be used.
  - ii) Use products with the lowest amount of volatile organic compounds (VOCs), highest recycled or reused content, low or no formaldehyde and no halogenated organic flame retardants when purchasing building maintenance materials such as paint, carpeting, adhesives, furniture and casework.
  - iii) Purchase or require janitorial contractors to supply industrial and institutional cleaning products that meet Green Seal, EPA Safer Choice, or UL/EcoLogo certification standards for environmental preferability and performance.
  - iv) Purchase, or require janitorial contractors to supply, vacuum cleaners that meet the requirements of the Carpet and Rug Institute Green Label/Seal of Approval Program for soil removal, dust containment and carpet fiber retention for indoor air quality protection and performance cleaning standards. Other janitorial cleaning equipment should be capable of capturing fine particulates, removing sufficient moisture so as to dry within 24 hours, operate with a sound level less than 70dBA, and use high-efficiency, low-emissions engines.
  - v) Purchase paper, paper products, and janitorial paper products that are unbleached or are processed without chlorine or chlorine derivatives.
  - vi) Prohibit the purchase of products that use polyvinyl chloride (PVC) such as, but not limited to, furniture and flooring.
  - vii) Prohibit the purchase of food service ware containing per- and polyfluoroalkyl substances (PFAS).

- viii) Purchase products and equipment with no lead or mercury whenever possible. For products that contain lead or mercury, preference should be given to those products with lower quantities of these metals and to vendors with established lead and mercury recovery programs. In addition, whenever lead- or mercury-containing products require disposal, products will be disposed of in the most environmentally safe manner possible. All fluorescent lamps and batteries will be recycled.
- ix) Purchase or specify personal computers, displays, imaging equipment and televisions that meet, at a minimum, all Electronic Product Environmental Assessment Tool (EPEAT) environmental criteria designated as required as contained in the IEEE 1680 family of Environmental Assessment Standards.
- x) Purchase or specify office furniture that meets the California Bureau of Household Goods and Services (BHGS) standard Technical Bulletin 117-2013 for testing upholstered furniture flammability without the use of flame- retardant chemicals.
- xi) Purchase or specify commercial carpeting that meets NSF/ANSI 140 Standard for Sustainable Carpet Assessment and require old carpet that is removed be recycled.
- xii) Purchase or specify non-carpet floor coverings that meet NSF/ANSI 332 Standard for Resilient Flooring including vinyl, linoleum, and rubber flooring.
- xiii) In conjunction with California State agency requirements, at least 50 percent of the quantity of paint used for architectural projects should contain reused or recycled paint with a recycled content consisting of at least 50 percent post-consumer paint. Reused paint can be acquired from the Sonoma HHW Facility by either visiting the reuse lockers or by pre-arranging remixed paint in 5-gallon containers in off-white, tan, light grey, or light green.
- xiv) When replacing vehicles, consider less-polluting alternatives to diesel such as compressed natural gas, bio-based fuels, hybrids, electric batteries, and fuel cells, as available.
- 1) Fiber-only Products at City Facilities
  - i) Use paper, paper products and construction products made from non-wood, plant-based contents such as agricultural crops and residues.
  - ii) Priority should be given to reusable food service ware, however, if single-use food service ware is purchased, it is to be fiber only and BPI certified
  - iii) Ask vendors to provide proof of compliance with ASTM standards for compostable, biodegradable and degradable plastic products upon request.

One acceptable proof of compliance for compostable plastic products will be certification by the Biodegradable Products Institute (BPI).

- m) Forest Conservation Products at City Facilities
  - i) To the greatest extent practicable, do not procure wood products such as lumber and paper that originate from forests harvested in an environmentally unsustainable manner. When possible, give preference to wood products that are certified to be sustainably harvested by a comprehensive, performance- based certification system. The certification system shall include independent third-party audits, with standards equivalent to, or stricter than, those of the Forest Stewardship Council certification.
  - ii) Encourage the purchase or use of previously used or salvaged wood and wood products whenever practicable

## Recordkeeping Responsibilities

- 1) The City Manager's department will be the responsible department and will select an employee to act as the Recordkeeping Designee that will be responsible for organizing records pertaining to Procurement of Recovered Organic Waste Products and Recycled- Content Paper Products and Recycled-Content Printing and Writing Paper. The Recordkeeping Designee shall communicate frequently with Zero Waste Sonoma to transfer all the required documentation for reporting to CalRecycle.
- 2) The Recordkeeping Designee will do the following to track Procurement of Recovered Organic Waste Products, Recycled-Content Paper Products, and Recycled-Content Printing and Writing Paper:
  - a) Collect and collate copies of invoices or receipts (paper or electronic) or other proof of purchase that describe the procurement of Printing and Writing Paper and Paper Products, including the volume and type of all paper purchases; and, copies of certifications and other required verifications from all departments and/or divisions procuring Paper Products and Printing and Writing Paper (whether or not they contain recycled content) and/or from the vendors providing Printing and Writing Paper and Paper Products. These records must be kept as part of the City's documentation.
  - b) Collect and collate copies of invoices or receipts or documentation evidencing procurement from all departments procuring Recovered Organic Waste Products and invoices or similar records from vendors/contractors/others procuring Recovered Organic Waste Products on behalf of the City to develop evidence of City meeting its Annual Recovered Organic Waste Product Procurement Target. These records must be kept as part of the City's documentation.

- c) Collect, collate, and maintain documentation submitted by the City, Direct Service Providers, and/or vendors, including the information reported to the Recordkeeping Designee.
- d) Compile an annual report on the City's direct procurement, and vendor/other procurement on behalf of the City, of Recovered Organic Waste Products, Recycled-Content Paper Products, and Recycled-Content Printing and Writing Paper, consistent with the recordkeeping requirements contained in 14 CCR Section 18993.2 for the Annual Recovered Organic Waste Product Procurement Target and 14 CCR Section 18993.4 for Recycled-Content Paper Products and Recycled-Content Printing and Writing Paper procurement. This report shall be made available to Zero Waste Sonoma annually by June 30 for compiling the annual report to be submitted to CalRecycle (which will include a description of compliance on many other SB 1383 regulatory requirements).

## Responsibilities

Nothing contained in this policy shall be construed as requiring a department, purchaser, or contractor to procure products that do not perform adequately for their intended use, exclude adequate competition, risk the health or safety of workers and citizens, or are not available at a reasonable price in a reasonable period of time.

Nothing contained in this policy shall be construed as requiring the City, department, purchaser, or contractor to take any action that conflicts with local, state or federal requirements.

The City has made significant investments in developing a successful recycling system and recognizes that recycled content products are essential to the continuing viability of that recycling system and for the foundation of an environmentally sound production system.

Therefore, to the greatest extent practicable, recycled content shall be included in products that also meet other specifications, such as chlorine free or biobased.

## Implementation

The City Manager shall implement this policy in coordination with other appropriate personnel.

Include businesses certified by the Bay Area Green Business Program in purchasing requests for products and services.

Encourage vendors, contractors, and grantees to comply with applicable sections of this policy for products and services provided.

## Program Evaluation

The City Manager shall periodically evaluate the success of this policy's implementation.

## Exceptions

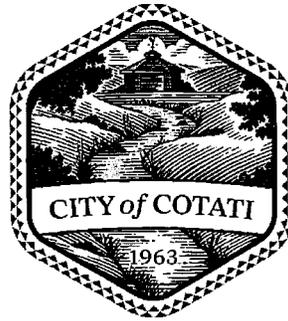
Every effort will be made to adhere to the Environmentally Preferable Purchasing Policy to the extent possible, recognizing that certain procurement decisions such as for cleaning products, janitorial equipment, and electronics may be outside of the City's authority.

## Effective Dates

This policy shall be reviewed with the City Financial Policies on a regular basis by the City Manager and Administrative Services Director and updated as necessary through approval by the City Council to ensure its effectiveness in identifying and addressing budget shortfalls.

# Section C.3

## Capital Assets Policies



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## General Information

The City of Cotati's policies for the acquisition, valuation, and disposition of capital assets are contained within this document. These policies are designed to aid City departments, offices, and institutions under the control of the City Council by clarifying the City's definition of capital assets. Relevant State Government Codes and Accounting Standards are incorporated within the policies. Proper capital asset accounting provides the City with the data necessary to:

- Prepare financial reports.
- Safeguard sizable investments.
- Identify custodial responsibility.
- Assist with risk management /insurance activities.
- Formulate future asset acquisition and retirement policies.
- Recover costs from Federal and State programs or fee reimbursement programs.

To set the highest possible standard, we will continue to compare the asset policy as described herein against the recommended Government Finance Officers Association (GFOA) Best Practices Guide on Capital Asset Procedures. Current recommendations included within the GFOA guide that are included herein include the following:

- Potentially capitalizable items should only be capitalized only if they have an estimated useful life of at least two years following the date of acquisition;
- Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g. books of a library district);
- In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item;
- In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds more than certain specified maximum amounts (i.e., currently \$5,000) for purposes of federal reimbursement; and
- Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold.

### **Administration Services Responsibility**

It is the responsibility of the Administrative Services Department to ensure capital assets are all properly accounted for by fund and asset category on the Capital Asset List.

### **Departmental Responsibility**

Departments are responsible for protecting and controlling the use of City assets assigned to their department. Each department shall appoint a representative to work with the Administrative

Services Department to maintain accurate and up-to-date capital asset accounting records. This representative will be required to validate their department's fixed asset listing for its accuracy and completeness on a regular basis.

In addition, an annual year-end inventory is required to be completed by July 10 for each fiscal year ending June 30. To facilitate the fulfillment of the requirements of this section and in order to prepare accurate financial reports, Departments are also responsible for safeguarding assets that are not defined as capital assets by the Policy Guidelines.

## Overview

Capital assets are broadly defined as financial resources that are tangible or intangible in nature and have a useful life greater than two (2) years. Examples of capital asset categories are Land, Land Improvements, Buildings, Building Improvements, Infrastructure, and Equipment. The Capital Asset Policy defines capital assets under each classification, addresses useful life ranges, sets minimum capitalization thresholds, and gives examples of costs to include in the value of the capital asset. Additionally, the policy discusses the treatment of unique items such as Computer Software, Capital Leases, Self-Constructed Assets, Works of Art, Donated Assets, Construction in Progress, Costs incurred Subsequent to Acquisition, and Transfers of Assets between Funds.

Capital assets are to be accounted for at historical cost, or if cost is not determinable, at estimated fair market value at the time acquired or placed into service. Generally, cost includes all expenses associated with the acquisition, construction, and installation of a capital asset. If appropriate, salvage/residual values should be determined prior to recording an asset.

If the funding source of an asset is a grant, or the asset is acquired by gift or donation, the source or donor should be identified. If multiple funding sources apply, all sources should be identified.

For historical assets, if the funding source cannot be determined, the asset shall be recorded under the general fund.

### Summary of Capitalization Thresholds

Although the service life of certain buildings, improvements, and equipment, may extend beyond two (2) years, the City has established minimum capitalization thresholds for administrative purposes. All purchases below the applicable class threshold are to be made in the current period.

<u>Class Capitalization Threshold</u>	
Land	\$0.00
Land Improvements	\$100,000
Buildings	\$100,000
Building Improvements	\$25,000
Infrastructure	\$25,000
Equipment Furniture & Vehicles	\$25,000
Intangible Assets	\$25,000

Capital Leases	\$35,000
Leasehold Improvements	\$25,000
Works of Art/Historical Treasures	\$5,000
Construction in Progress for Year End Reporting Projects expected to exceed \$100,000 at completion	

The classes above are further defined in Section 4.

## Useful Life Ranges

Useful lives are determined by suggested useful life tables and professional judgment, since similar capital assets may have different useful lives depending on how and where they are used. Questions about the useful life of a specific asset should be decided upon jointly by department personnel and the Administration Services Department. Items that have useful lives of less than two (2) years are not to be capitalized.

### Overview of Standard Useful Lives by Asset Type

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30
Public Domain Infrastructure	50
System Infrastructure	10-40
Vehicles & Equipment	5-10
Other Assets	2+

## Budgetary Control

Annually, the City Council considers capital asset acquisitions as part of the budget process. Please refer to the budgetary policy for further understanding of the procedures performed.

<u>Capital Accounts - Governmental Activities</u>	
Land	Vehicles
Construction in Progress	Improvements
Buildings	Other Assets
Infrastructure	Intangibles
Machinery & Equipment	Capital Leases

<u>Capital Accounts – Business-Type Activities</u>	
Land	Pipelines & Collection Systems
Construction in Progress	Machinery & Equipment
Water Wells	Reservoirs
Other Assets	Buildings & Improvements
Intangibles	Capital Leases

## Acquisition of Capital Assets

### **Definitions:**

#### **Land and Land Improvements**

Land includes all investments in real property other than structure and land improvements

Land Improvements are non-building assets that enhance the quality or facilitate the use of land.

Examples of depreciable land improvements include parking lots, driveways, sidewalks, retaining walls, fencing, outdoor lighting, landscaping, irrigation systems, recreation areas, athletic fields and courts, and fountains. Land improvements such as fill, grading, and excavation that provide permanent benefits and incur limited deterioration with use or the passage of time are to be classified with land as non-depreciable.

Capitalization: All Land is to be capitalized. Land Improvements valued at or over the threshold defined in Table 3A above will be capitalized.

Valuation: The cost of land includes all expenditures in connection with acquisition and preparation for use such as, but not limited to: Purchase Price Appraisal and negotiation fees Title search and filing/recording fees Relocation costs, costs of consents Clearing, filling, and grading land for use, condemnation costs, demolishing or removing structures, surveying fees, hazardous waste clean-up. (Receipts from the sales of salvage should be credited against the land cost.) In the case of land and buildings acquired as a single parcel, the value of the land and buildings should be determined individually and recorded separately into their respective capital accounts.

#### **Construction In Progress**

Construction in Progress includes new construction or improvements to land, buildings, or infrastructure that have not been physically completed or have not had all project costs processed by fiscal year-end and the final cost of which is expected to exceed the threshold defined in Table 3A above. Construction in Progress expenditures shall be reported to the Administration Services at the end of each fiscal year as the sum of the expenditures to date by project, to be classified under Construction in Progress account.

#### **Infrastructure**

Infrastructure is categorized as community service assets that are long-lived, generally stationary in nature, and normally preserved for a significantly greater number of years than most capital assets. Examples are pavements, curbs, gutters, and sidewalks associated with roadways, bridges, sewer systems, water distribution systems, and water drainage systems. Expansions and Improvements to infrastructure are those capital

outlays that increase the asset's capacity or level of service, such as adding lanes to a road.

Capitalization: Infrastructure and infrastructure improvements valued at or over the threshold defined in Table 3A above will be capitalized. Refer to the "Treatment of Costs Subsequent to Acquisition" section of this document for more specific information.

Valuation: The cost of infrastructure includes the purchase price, contract prices, internal costs (see Self-Constructed Assets paragraph), and any other expenditures necessary to put the infrastructure into its intended state of operation. Refer to the Buildings paragraph for examples of costs to include.

Land purchased for infrastructure projects shall be capitalized into the Land account.

Preservation costs that significantly extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity of the asset, are generally capitalized. Examples are seismic retrofitting bridges and reconstructing, recycling, or overlaying pavement.

Maintenance costs allow an infrastructure asset to continue to operate at its intended level of service during its originally established useful life and are not to be capitalized.

### **Building and Building Improvements**

**Buildings** are structures that are physical property of a permanent nature that enclose people, equipment, services, or functions. Buildings may include major high-cost components such as boilers, elevators, HVAC systems, and roofs. If practical, these components should be recorded separately in the capital asset system to simplify future replacement transactions and because their useful lives can differ from buildings.

**Building Improvements** are additions or improvements to buildings that increase the value or extend the useful life of a building. Refer to "Treatment of Costs Subsequent to Acquisition" section of this document for more specific information. Examples include replacing major building components, structural additions to a building, major energy conservation projects, installation of upgraded plumbing or electrical systems, and major renovations of exterior structural deterioration.

Capitalization: Buildings and Building Improvements valued at or over the threshold defined in Table 3A above will be capitalized.

Valuation: The cost of Buildings and Building Improvements includes all expenditures in connection with acquisition or construction, such as:

- Purchase price or construction costs
- fixtures attached to the structure
- filing and other closing costs
- inspections and tests
- architects' fees
- payment of damages
- cost of permits and licenses
- accident or injury costs
- insurance during construction.

The cost shall be reduced for Sale of salvage from materials charged against the construction, discounts, allowances, and rebates secured, amount is recovered through surrender of liability and casualty insurance.

For Proprietary Funds only, the actual or imputed interest costs associated with the construction, period shall be capitalized in accordance with Financial Accounting Standards Board (FASB), Statement No. 34, FASB Statement No. 62, and supplemental updates.

### **Equipment**

Equipment includes physical moveable personal property such as machines, tools, furniture, vehicles, aircraft, mobile home/office trailers, and computer servers. Equipment does not include major systems integrated into a building or structure such as elevators, boilers, roofs, or HVAC. Software capital assets are managed within the Equipment capital account (see Computer Software paragraph).

Capitalization: Individual units valued at or over the threshold defined in Table 3A above.

The group method for capitalization may apply in limited circumstances for equipment. Grouping includes a number of different units purchased at the same time whose defined purpose is to work in conjunction with one another, their independent operation is not feasible, and replacement of which is intended as a whole. Purchase of multiple identical units (e.g. 4 printers @ \$1,850 ea.) rarely represents valid grouping. Examples of valid grouping are:

- Computer systems comprised of hardware and software components designed to work exclusively with one another
- Unique multi-device systems for communications or vehicles

**Valuation**: The cost of equipment includes all costs necessary to acquire and place the equipment into service, such as:

Purchase or construction price, less discounts, Installation Costs, Freight or other carriage charges Initial operational training, Sale, use, or transportation taxes.

The cost of new equipment should not be reduced by the value of trade-ins. Trade-ins shall be retired from the capital asset and financial systems, and any resultant gain or loss for the asset being traded-in should be recognized on its disposition for Proprietary Funds.

### **Intangible Assets**

Intangible assets are financial assets that lack physical substance. Common examples of intangible assets are easements, rights-of-way, and computer software.

Software Capitalization: An individual software application or license purchased for City use shall be capitalized if it meets the criteria for capitalization at Section 2. Software

Valuation: Software purchased as a component of a system designed to work exclusively with specific hardware shall be capitalized with the hardware using the group method as noted in the equipment paragraph above. Computer software developed or obtained for internal use shall follow the capital asset guidance provided in the AICPA SOP 98-1. Vendor modifications, such as patches and version upgrades, used to keep software in a usable state as opposed to adding significant new capabilities, should be charged as maintenance expense.

### **Capital Leases**

Capital lease is a lease that transfers substantially all the benefits and risks of ownership of property to the City at the end of the lease term. If the cost of the property exceeds its class's capitalization threshold and the lease meets one of the four requirements listed below, as defined by Financial Accounting Standards Board (FASB) Statement 13, then it shall be considered a capital lease and accounted for as a capital asset:

- 1) The lease transfers ownership of the property to the City by the end of the lease term.
- 2) The lease contains a bargain purchase option.
- 3) The lease term equals 75% or more of the estimated economic useful life of the leased property.
- 4) The present value of the minimum lease payments exceeds 90% or more of the fair market value of the lease property at the date of the lease agreement.

(The last two criteria do not apply when the asset is already in the last quarter of its economic life, which includes the asset's economic life prior to the lease.)

For Proprietary Funds only, the actual or imputed interest costs associated with capital leases shall also be capitalized in accordance with FASB Statement No. 34, FASB Statement No.62, and supplement updates.

### **Leasehold Improvements**

Leasehold Improvements are improvements to buildings or structures that the City leases to be used during the term of that lease. Leasehold improvements are permanent in nature in that they involve physical modifications to a leased property. As such, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

Leasehold improvements do not have a residual value as they revert to the lessor at the expiration of the lease.

Leasehold improvements are capitalized by the City and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent shall not be capitalized. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the life of the initial lease term or useful life of the improvement, whichever is shorter.

### **Eminent Domain**

Eminent Domain is the acquisition of private property for public use. The value of a capital asset obtained through eminent domain shall include all direct costs included in reaching a settlement with the seller.

### **Works of Art and Historical Treasures**

Works of Art and City Historical Treasures are defined as collections of works of art, historical treasures, and similar assets as one or more items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain.

These types of assets shall be capitalized and recorded at historical cost and are not to be depreciated. Items that require major renovations exceeding the thresholds established in this policy should be depreciated.

### **Donated Assets**

Donated Assets to the City are to be recorded at their fair market value as of the date of acceptance by the City Council plus any ancillary costs necessary to place those assets into service. The department receiving the donation is responsible for obtaining and

providing written information required to create a Capital Asset record. Surplus property purchased at nominal prices far below actual value are in part a donation and shall be valued at the estimated fair market value at the time of acquisition.

## Additional Capital Asset Issues

### **Treatment of Costs Subsequent to Acquisition**

Major expenditures that increase future benefits from an existing capital asset beyond its previously assessed standard of performance shall be capitalized. After a capital asset has been placed into service, subsequent expenditures are capitalized if they meet the asset's class threshold and:

- 1) Extend the estimated life or increase the value of the asset as per established thresholds defined in this document, or
- 2) increase the future service potential, (capacity, or efficiency) of the asset, or
- 3) Are for a new major fixture of a building (e.g. elevator, boiler, HVAC, roof), or
- 4) For depreciated roads, the 'base' has been impacted by a recycle, reconstruction, overlay or other maintenance treatments that extend the life of the asset as per established threshold defined in Table 3A under Infrastructure.

The determination as to whether expenditures meet any of these factors shall be made by an evaluation of engineering design, physical condition, cost, and other relevant factors.

Alteration or remodeling of buildings, costs to change the physical structure or arrangement of capital assets that do not extend the building's useful life shall not be capitalized.

### **Repairs and Maintenance**

Repairs and Maintenance are defined as expenditures, which neither materially add to the value of property nor prolong its life, but merely maintain its original level of service or condition. Maintenance costs are not to be capitalized.

### **Depreciation**

Depreciation is the process of allocating the cost of depreciable capital assets over a period of time, rather than incurring the entire cost as an expense in the year of acquisition. This process recognizes an asset's periodic cost of use and declining usefulness over time. Land, certain land improvements, and certain works of art and historical treasures are inexhaustible and are therefore not depreciated.

As a matter of policy, the City has elected to adopt the straight-line method of depreciation, unless there is clear evidence indicating that the expected consumption of an asset will significantly change as the asset ages.

The calculation of depreciation expense for assets with a straight-line life is as follows:

$$\frac{\text{Asset Cost} - \text{Residual Value}}{\text{Expense Estimated Useful Life in Years}} = \text{Annual Depreciation}$$

**Residual value** is the amount that can be anticipated to be recovered when the asset is no longer useful for its intended purpose. Useful life should approximate the time an asset will provide service to the City.

Capital assets that become fully depreciated and are still in use must remain in the financial capital accounts and identified within a capital asset system until they are disposed of.

### **Asset Dispositions, Transfers, and Sales**

Surplus items are those that are no longer required by the asset's custodial department. These assets may be traded in for new assets, transferred to other departments, or transferred to Public Works for classification as surplus and for subsequent redistribution to other departments, sale, or disposal. Any sale, transfer, donation, disposal, or dismantling of a capital asset must receive approval from the City Manager.

All transfers and sales require an update in the capital asset system. This includes transfers and sales between funds, transfers between departments, and site location changes. In addition to a capital asset system update, a financial transaction is necessary for the transfer or sale between funds.

A transfer would remove the asset from the giving fund and record it in the receiving fund at the original acquisition cost with depreciation incurred to date.

A sale would remove the asset from the giving fund and record it in the receiving fund at the agreed upon amount.

Stolen or missing assets must be reported to the Administration Services Department immediately.

### **Controlled Capital-Type Assets**

Capital-Type Assets are those assets that individually do not meet the capitalization threshold as discussed above, however they meet one of the requirements below and as such require special attention and management oversight.

- 1) Items that require special attention to ensure legal compliance. Legal or contractual provisions may require a higher than ordinary level of accountability over certain capital-type items (e.g., items acquired through grant contracts);

- 2) Items that require special attention to protect public safety and avoid potential liability. Some capital-type items by their very nature pose a risk to public safety and could be the source of potential liability (e.g., police weapons);
- 3) Items that require special attention to compensate for a heightened risk of theft (walk away items). Some capital-type items are both easily transportable and readily marketable or easily diverted to personal use (e.g., sound equipment, tablet or laptop computers, Cell Phones, etc.).

Each department is required to maintain their own listing of their specific types of Capital Type Assets and maintain custody over the assets. The individuals responsible for controlled capital-type items for each department should prepare and maintain a complete list of those items each year within the department. At the close of each fiscal year, every individual assigned responsibility for controlled capital-type items should prepare a report (to be maintained within the department) that provides a complete list of those items along with an explanation of changes from the previous year.

Departments shall provide each year by June 30 an updated list of controlled Capital Type Assets to Administrative Services. The Administrative Services Department should periodically verify the data on controlled capital-type items in each department. No less than once every five years on a rotating basis (more frequently for particularly sensitive items), Administrative Services should verify the reliability and completeness of the data on file in each department concerning controlled capital-type items.

# Section C.4

## Grant Management Policy



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## Overview

The City of Cotati continues its practice of taking advantage of granting opportunities to support operations, programs, and capital improvement projects. Major sources of grant awards are federal, state, local agencies, and private organizations. A grant's scope is determined by the policy goals of the grantor, and the grantee is obligated to provide deliverables based on the terms and conditions of the grant. Grants differ based on the funding source, scope of work, requirements, and timelines. This policy provides a general guidance to managing grants which may not be pertinent to manage all grants awarded to the City.

## Purpose

The purpose of the Grants Management Policy is to develop, implement, and maintain meaningful grant oversight and coordination for the City Council thereby increasing grant-related revenue, limiting the City Council's exposure to grant-related legal liability, and improving the efficiency and impact of programs and services funded through grants.

## Defining A Grant

Grants are externally-funded activities in which a formal written agreement, i.e., a grant, contract, or cooperative agreement, is entered into by the City and a granting agency. The following conditions characterize a grant and distinguish grants from donations and contributions:

### Statement of Work/ Application

Grants are typically awarded in response to a request, application, detailed statement of work and commitment to a specified project plan. The statement of work and budget are usually described in a written proposal submitted by the City to the granting agency for competitive review.

### Detailed Financial Accountability

The grant agreement generally defines the level of financial accountability associated with a grant funded project. While not all of the following conditions are necessary to define a grant project, they are collectively indicative of the increased level of financial accountability associated with such projects:

- a line-item budget related to the project plan. The terms of the agreement may specify allowable or unallowable costs, requirements for prior approvals for particular expenditures, etc.
- a specified period of performance, typically defined with "start" and "end" dates.
- a requirement to return any unexpended advance funds at the end of that period.

- requires draw down requests to receive funds related to allowable expenditures under the grant agreement.
- regular financial reporting and audit, including, for federal and state awards, or accountability under the terms of the Uniform Guidance Single Audit.
- grant agreements may also include terms and conditions for the disposition of tangible or intangible property acquired or constructed using grant funds.

## General Information

The City shall only seek grants when sufficient staff resources are available to effectively administer the program in compliance with grant requirements and successfully perform the grant work scope and provide any necessary matching requirements. The City may pursue funding from federal, state, and other sources, for expenses consistent with identified City goals and priorities. All grants and other federal and state funds shall be managed to comply with the regulations and requirements of the granting agency. No grant shall be applied for or accepted without first being reviewed and approved by the City Manager or Designee.

## Pre-Application Evaluation

City staff will continuously identify grants in all functional areas in general but specifically in funding capital projects. City staff must review grant requirements to validate the feasibility of undertaking the responsibility of grant deliverables and the alignment of the scope with the City's and the community's mission before applying, accepting, and committing to any grant opportunity.

### Short Term Revenues vs. Long Term Costs

Special attention must be paid to evaluate if a grant opportunity is viable to the City and that one time or short-term grant revenues are not adding to the fiscal burden of unprecedented permanent or long-term expenditures. For example, a grant funded project may require the City to hire additional staff, in this situation it is necessary to review the grant to assure that the City is clear about the requirement of additional staff, temporary or permanent. If permanent staff is required, the long-term labor cost must be evaluated and analyzed before applying for the grant. The viability consideration is not limited to labor cost; it must be evaluated for all types of costs such as ongoing operations and maintenance.

### Required Resources

A grant opportunity must be evaluated based on required resources versus available resources in the City before moving forward with the application process. This applies to resources such as: staff support, local funding match, or in-kind match. If a funding match is required by a grantor, the City Manager must approve the funding source in writing before submitting the grant application.

### Indirect Costs

During the grant application process the City staff shall include the cost of administering the grant program when possible and wherever it is allowable by the grantor in the grant terms and conditions. For example, some grantors may have a fixed percentage for indirect costs that can be reimbursed.

### **Cost Benefits Analysis**

The overall cost benefit analysis is required to confirm that the grant is in alignment with the City's general mission and strategic goals and is in the best interest of the residents of the City.

### **Public Private Partnership**

In a situation where the City is working in partnership with another organization (local or public) the solicitation process must be transparent. City Council approval is required prior to submitting the grant application. If the pre-approval step is missed in such a partnership, there must be an explanation provided to the City Council upon the grant acceptance.

## Grant Cycle

### 1) Grant Application

Department staff are required to follow the grantors' determined application processes. Department staff seeking and administering the grant are responsible for compiling the grant application, and the Administrative Services Department shall provide certain information that is required to be submitted with the proposal.

- a) If a local funding match is required for a grant, obtain the City Manager approval for the funding source before submitting the grant application.
- b) The Administrative Services Department must be notified upon submission of a grant application within ten (10) business days.

### 2) Grant Award

Grant award is the notification that is provided to the applicant upon the acceptance of the grant application. The notification must be in writing and/or it can also be in a grant agreement format.

### 3) Council Approval

Each grant must be formally accepted by the City Council before moving to the execution phase. Department staff are responsible for preparing the City Council agenda item. The recommended action must include the words "accept and appropriate" in the agenda report to ensure budget appropriation for execution. Some grants may require City Council authorization before a grant application is submitted and, in that case, recommended action may include the language about the acceptance and appropriation of funds upon grant award.

4) Grant Set-Up

Department staff are responsible for submitting grant documents to the Finance department within ten (10) business days to be set up in the City's financial system, which may require creating special account strings to fully track the related activity.

Required documents are:

- a) Grant Award Letter/Agreement
- b) Approved Council Minutes, and/or Resolutions
- c) Appropriate Grant Funds

5) Grant Execution

It is the Department staff's responsibility to deliver agreed upon deliverables, generate status reports, exercise careful examination of the costs being incurred, and file for reimbursements from the grantor in a timely fashion. The Finance department assists as needed in terms of setting up account strings, budgets, and preparing monthly reports etc. Department staff shall maintain a comprehensive project file for the records and send all documents to the Administrative Services Department for record keeping in the financial system.

6) Reimbursements/Reporting

Department staff shall submit reimbursements and other periodic reports in a timely manner depending upon the grantor specified timeline. Many grants are on a reimbursement basis. Therefore, the City covers the expenditures from the cash reserve before the grant funds are reimbursed, which limits the City's ability to fund other operations and city services. It is crucial that the reimbursement requests are submitted to the grantor in a timely manner to alleviate undue burden from the City's cash reserves. Department staff shall communicate and forward documentation for reimbursement requests to the Administrative Services Department at the time of submission to the grantor.

7) Close-Out

Department staff are responsible for following the specified close out procedure provided by the grantor. Grant funded project files and records are required to be maintained per the City Retention policy or the Grant Terms whichever is longer. Final close-out reports shall be sent to the Administrative Services Department within ten (10) business days.

## Recordkeeping and Reporting

Department staff must maintain all documents (purchasing, bidding, and communications with the grantor) even after the grant completion. Department staff shall also forward all documents to the Administrative Services Department for saving and retention in the financial system to ensure city- wide availability as needed. This is primarily for audit purposes.

Appropriate audit facilitator is determined depending on the nature of the audit including the Annual Single Audit. The Finance department facilitates all financial audits and may reach out to Department staff for assistance if warranted.

## Pass-Through Grants

Pass through grants are those grants that are received by the City to transfer or spend on behalf of a beneficiary recipient. The City may enter into a project development and administration agreement with a third party to administer the grant, however the City remains responsible for ensuring compliance with the terms of the grant. Any third-party administrator assigned to manage a pass-through grant shall be responsible for complying with the requirements outlined in this Chapter. Pass-through grants shall be processed and managed in the same manner as any other City grant covered under this policy. Pass-through grants shall be accounted for in Compliance with GASB Statement No. 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

## Roles and Responsibilities

### City Council

- Provides policy guidance to City staff to seek grants in certain categories and authorizes staff to apply for grants, and upon grant award, accepts and appropriates funds.

### City Manager's Office

- Executes grant agreements and directs/assigns staff to seek and execute grants.

### Finance Department

- Provides guidance to Department staff about tracking costs appropriately.
- Sets up account strings in the financial system.
- Assists in day-to-day financial operations.
- Generates periodic reports stating sources and uses of the grant funds.
- Maintains project master in the financial system.
- Maintains the City's general information regarding tax ID and tax-exempt status letter.
- Maintains the City's accounts with federal grant portals such as [www.grant.gov](http://www.grant.gov) , [www.sam.gov](http://www.sam.gov) , etc.
- Maintains the City's CAGE code and Unique Identifier Number, formerly known as DUNS number.
- Generates Schedule of Expenditures of Federal Awards (SEFA) annually after fiscal close.
- Facilitates financial audits.

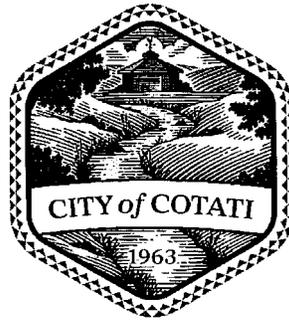
- Provides training on grant management and financial systems to improve the grants program.

#### Department Staff

- Applies for the grant.
- Takes awarded grant to the City Council for approval (Council action must read "Accept and appropriate funds...").
- Prepares budget amendments based on the City Council approval.
- Executes the grant. Delivers the grant deliverables under the terms and conditions.
- Monitors costs and makes sure the costs are allowable and within the grant award.
- Communicates and reports to the grantor/s regarding status, periodic, and close out reports, and any other communication regarding modifications to the scope or changes in timeline.
- Follows the procurement and other City policies in the process of issuing contracts.
- Maintains complete project file during and after beyond project completion.
- Assists finance/audit coordinator as needed during audits

# Section D

## Investment Management Policies



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## Policy and Scope

### **Policy**

The City of Cotati shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment. In accordance with the Municipal Code of the City of Cotati and under authority granted by the City Council, the City Administrative Services Director, in coordination with the City Manager, is responsible for investing the surplus cash in the City pooled funds.

### **Scope**

The investment policy applies to all investment activities and financial assets of the City of Cotati as accounted for in the Annual Comprehensive Financial Report (ACFR). This policy is applicable, but not limited to, all funds listed below:

- General Fund
- Capital Funds
- Enterprise Funds
- Other Special Revenue Funds, Debt Service Funds, Internal Service Funds
- Any new fund created by the City Council unless specifically exempted.

## Prudence

The standard of prudence to be used by the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency".

The City Manager, Administrative Services Director, and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures, and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

## Objectives

The City's primary investment objectives, in order of priority, shall be:

- 1) **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City shall seek to preserve the principal by mitigating the two types of risk: credit risk and market risk.
  - a) Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in issuers that carry the direct or implied backing of the U.S. Government (including, but not limited to, the U.S. Treasury, U.S. Government Agencies, and federally insured banks). The portfolio will be diversified so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.
  - b) Market risk, (aka "interest rate risk") defined as market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation. Moreover, it is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all principal dollars invested. Limited exceptions will be granted for security swaps that would improve the portfolio's yield and/or credit quality.
- 2) **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City of Cotati to meet all operating requirements, which might be reasonably anticipated.
- 3) **Return on Investments:** The City's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in this Investment Policy and the cash flow characteristics of the portfolio.
- 4) **Social and Political Considerations:** In addition to State requirements, the City recognizes that it has an equal obligation to be aware of the social and political impacts of its investments, and subsequently to act responsibly in making its financial decisions.

## Delegation of Authority

The Municipal Code of the City of Cotati and the authority granted by City Council assign the responsibility of investing unexpended cash to the City Manager and Administrative Services Director. The Administrative Services Director, or their designee, shall have the daily

management responsibility of the investment program and shall establish procedures for the operation consistent with this investment policy.

## Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the Administrative Services Director and their designee are required to annually file applicable financial disclosures as required by the Fair

Political Practices Commission (FPPC). Furthermore, Investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City.

## Authorized Dealers and Institutions

The Administrative Services Director will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

Best practices include the following:

- 1) A determination that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy;
- 2) the broker/dealer firms should have the ability to meet all their financial obligations in dealing with the Public Agency;
- 3) the firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved;
- 4) no public deposit shall be made except in a qualified public depository as established by the established state laws;
- 5) all financial institutions and broker/dealers who desire to conduct investment transactions with the public agency may supply the Administrative Services Director with audited financial statements, proof of FINRA certification, trading resolution, proof of State of California registration, a completed broker/dealer questionnaire, certification of having read the Public Agency's investment policy and depository contracts.

The Administrative Services Director may conduct an annual review of the financial condition and registrations of qualified dealers & institutions.

## Authorized and Suitable Investments

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

- 1) United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
- 2) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- 3) Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, and Sonoma County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.

Additionally, shares of beneficial interest issued by a joint powers authority (JPA) organized pursuant to CA Code (Section 6509.7) that invests in the securities and obligations in compliance with CA Code 53601 (subsection 'a' to 'r', inclusive) are also authorized. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all the following criteria:

- The adviser is registered or exempt from registration with the Securities and Exchange Commission.
  - The adviser has not less than five years of experience investing in the securities and obligations authorized in CA Code (subsection 'a' to 'r', inclusive).
  - The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- 4) Negotiable Certificates of Deposit issued by nationally or state-chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of the total portfolio. Principal and accrued interest on each investments must not exceed the \$250,000 FDIC insurance limit. A maturity limitation of five years is applicable.
  - 5) Time deposits or placement service deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 50% of the investment portfolio

may be invested in this investment type. A maturity limitation of five years is applicable. Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.

- 6) Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the City of Cotati may be purchased as allowed under the State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be used.

The following summary of maximum percentage limits, by instrument, are established for the City's investment portfolio:

Authorized Investment Type	Government Code	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Treasury Obligations (bills, notes, & bonds)	53601(b)	5 Years	N/A	100%	N/A
US Government Agency and Federal Agency Securities	53601(f)	5 Years	N/A	100%	N/A
Local Agency Investment Fund (LAIF)	16429.1	Upon Demand	N/A	As permitted by LAIF (currently \$65 million per account)	N/A
Sonoma County Investment Pool (SCIP)	53684	Upon Demand	N/A	As permitted by County Treasurer (currently no limit)	N/A
Joint Powers Authority Pool	53601(p)	N/A	See § 8.3 (above)	None	N/A
Negotiable Certificates of Deposit	53601(i)	5 Years	N/A	30%	N/A
Placement Service Deposits - Deposits or	53601.8 and 53635.8	5 Years	N/A	50%	N/A

- An investment term or remaining maturity is to be measured from the settlement forward date to final maturity. A security purchased pursuant to government code 53601 is prohibited from having a settlement date exceeding 45 days from the time of investment.

## Review of Investment Portfolio

The securities held by the City of Cotati must be compliant with Section 8.0 "Authorized and Suitable Investments" at the time of purchase. The Administrative Services Director should review the portfolio of assets held in investments (at least annually) to identify non-compliant securities.

The Administrative Services Director should establish procedures to report any materially adverse impact on the performance of the portfolio or to the agency.

## Investment Pools / Money Market Funds

A thorough investigation of the investment pool/money market fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities is safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how it is assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

## Collateralization

Collateralization will be required on two types of investments: non-negotiable certificates of deposit and repurchase (and reverse repurchase) agreements. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for non-negotiable certificate of deposit and 102% for reverse repurchase agreements of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The City may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance.

## Safekeeping and Custody

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Administrative Services Director and evidenced by safekeeping receipts.

## Diversification

The City shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type, excluding U.S. Treasuries, federal agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

## Maximum Maturities

To the extent possible, the City of Cotati will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. Any investment longer than five (5) years must be done with advance permission from City Council.

## Internal Controls

The Administrative Services Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Cotati are protected from loss due to theft, fraud, or misuse.

Separation of functions between the City Manager, Administrative Services Director and any designee is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the Administrative Services Director, executed by the Administrative Services Director or City Manager, and documented and confirmed by the designee. All wire transfers must have segregation of duties whereby approval cannot be performed by the initiator. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is processed by an accountant or other designee who is outside of the investment management delegation to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the City's cash and investments that have a material impact on the financial statements. The Administrative Services Director shall review and confirm compliance with investment process and procedures.

## Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City intends to spread its investments relatively evenly between 0 and 5 years and hold those investments to maturity, also known as laddering. The City is limiting its authorized investments to the safest end of the investment spectrum-debt issued by the U.S. Treasury, U.S. Government Agencies, and debt that is federally insured (see section 8.0 Authorized and Suitable Investments, above, for a complete list of authorized investments).

Therefore, an appropriate performance benchmark will be a Constant Treasury Maturity Rate consistent with the weighted average maturity of the portfolio. The City recognizes that benchmarks may change over time based on changes in market conditions or cash flow requirements.

## Reporting

The City Administrative Services Director may review and render quarterly reports to the City Council that include the following information:

- Investment type (e.g. U.S. Treasury Note, U.S. Government Agency Bond)
- Name of the issuer (e.g. Federal Farm Credit Bank, Federal Home Loan Bank)
- Maturity date
- Yield to maturity
- Current market value and source of market value
- Par and dollar amount for each security the City has invested in
- Par and dollar amount on any money held by the City (e.g. LAIF balance, Cash Balance).
- Description of any of the City's funds, investments, or programs that are under the management of contracted parties, including lending programs.
- Statement of compliance or non-compliance of the portfolio to the investment policy
- A statement denoting the ability or inability of the City to meet its expenditure requirements for the next six months

When provided, quarterly reports shall be placed on the City Council meeting agenda for its review and approval no later than 45 days after the quarter ends. If there are no Council meetings within the 45-day period, the quarterly report shall be presented to the Council at the soonest possible meeting thereafter.

## Investment Policy Adoption

The City of Cotati investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

The Administrative Services Director shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to the people responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City of Cotati.

## Glossary of Terms in this Policy

- **Accrued Interest:** Interest earned but not yet received.
- **Annual Comprehensive Financial Report (ACFR):** The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).
- **Bond:** A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.
- **Bond Swap:** Selling one bond issue and buying another at the same time to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.
- **Broker:** In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.
- **Certificate of Deposit:** A deposit insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) at a set rate for a specified period of time.
- **Collateral:** Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.
- **Constant Maturity Treasury (CMT):** An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.
- **Custody:** A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement that also calls for the bank to collect and pay out income, to buy, sell, receive, and deliver securities when ordered to do so by the principal.

- **Delivery vs. Payment (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.
- **Diversification:** Dividing investment funds among a variety of securities offering independent returns and risk profiles.
- **Federal Deposit Insurance Corporation (FDIC):** Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.
- **Interest Rate:** The annual yield earned on an investment, expressed as a percentage.  
**Liquidity:** Refers to the ability to rapidly convert an investment into cash.
- **Market Value:** The price at which a security is trading and could presumably be purchased or sold.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Portfolio:** Collection of securities held by an investor.
- **Primary Dealer:** A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.
- **Purchase Date:** The date in which a security is purchased for settlement on that or a later date.
- **Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.
- **Risk:** Degree of uncertainty of return on an asset. **Safekeeping:** See Custody.
- **Settlement Date:** The date on which a trade is cleared by delivery of securities against funds.
- **Time Deposit:** A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.
- **Treasury Obligations:** Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.
- **U.S. Government Agencies:** Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the agency.
- **Yield:** The rate of annual income returns on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.
- **Yield to Maturity:** The rate of income returns on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

## Glossary of General Investment Terms

- **Active Deposits:** Funds that are immediately required for disbursement.
- **Amortization:** An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.
- **Asked Price:** The price a broker dealer offers to sell securities. **Basis Point:** One basis point is one hundredth of one percent (.01). **Bid Price:** The price a broker /dealer offers to purchase securities.
- **Book Entry Securities:** Securities, such stocks held in "street name," that are recorded in a customer's account, but are not accompanied by a certificate. The trend is toward a certificate-free society to cut down on paperwork and to diminish investors' concerns about the certificates themselves. All the large New York City banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the "book-entry" custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity for the City. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now affected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds up the completion of transactions.
- **Book Value:** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.
- **Bullet Bond:** See "Non-callable Bond."
- **Callable Bond:** A debit obligation where the bond issuer (i.e. borrower) has the option to call the bond or pay it off early (before the scheduled maturity date). For instance, a 5-year bond might be "callable quarterly"-- meaning that, although the bond has a scheduled end date 5 years from now, it could end in 3 months (and every 3 months after that, until the scheduled maturity date).
- **Coupon:** The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.
- **Credit Analysis:** A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.
- **Current Yield:** The interest paid on an investment expressed as a percentage of the current price of the security.
- **Discount:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.
- **Duration:** The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an

investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow timeline.

- **Fannie Mae:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.
- **Federal Reserve System:** The central bank of the U.S. that consists of a seven-member Board of Governors, 12 regional banks and approximately 8,000 commercial banks that are members.
- **Fed Wire:** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.
- **Freddie Mac:** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.
- **Investment Agreements:** An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.
- **Nationally Recognized Statistical Rating Organizations (NRSRO):** A U.S. Securities & Exchange Commission registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services.
- **New Issue:** Term used when a security is originally "brought" to market.
- **Non-callable Bond:** Also known as, "Bullet Bond". A non-callable bond is a debt obligation where the bond issuer does not have the option to "call the bond" i.e. - end the bond before the scheduled maturity date.
- **Perfected Delivery:** Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.
- **Repurchase Agreement (REPO):** A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.
- **Reverse Repurchase Agreement (REVERSE REPO):** A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.
- **Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.
- **Yield Curve:** The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

# Section E

## Debt Management Policy



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## Policy Purpose

These Debt Management Policies (the "Debt Policy") establishes the parameters within which debt may be issued and administered by the City, the Cotati Facilities Financing Authority, and the Successor Agency to the Cotati Community Redevelopment Agency (collectively, the "Covered Entities"). Additionally, these policies apply to debt issued by a Covered Entity on behalf of assessment, community facilities, or other special districts, and conduit-type financing by a Covered Entity for multifamily housing or industrial development projects.

The Debt Policy may be utilized by staff of the Covered Entities with the discretion to deviate as determined appropriate by the City Manager or Director of Administrative Services, and may be amended by the governing board of the applicable Covered Entity as it deems appropriate from time to time in the prudent management of the debt and capital financing needs of the Covered Entities.

The City will make every effort to use pay-as-you-go financing for capital improvement projects. Debt financing for a project can be used if the overall project cost exceeds anticipated available resources and/or if the cost of financing is favorable as compared to the use of City investment holdings over the financing term.

This Debt Policy is intended to comply with Government Code Section 8855(i) and shall govern all debt undertaken by a Covered Entity.

The Covered Entities hereby recognize that a fiscally prudent debt policy is required in order to:

- Ensure that the use of debt is in a manner that sustains financing payments at manageable levels.
- Maintain the Covered Entities' sound financial position.
- Ensure the Covered Entities have the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Covered Entities' credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Covered Entities.
- Ensure that the Covered Entities' debt is consistent with their planning goals and objectives and capital improvement program or budget, as applicable.

## Purposes for Which Debt May Be Issued

Generally, the City will make every effort to use pay-as-you-go financing for capital improvement projects. Debt financing for a project can be used if the overall project cost exceeds anticipated available resources and/or if the cost of financing is favorable as compared to the use of City investment holdings over the financing term.

- 1) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land to be owned and operated by the City.
  - a) Long-term debt financings are appropriate when the following conditions exist:
    - i) When the project to be financed it is necessary to provide basic services.
    - ii) When the project to be financed to provide benefit to constituents over multiple years.
    - iii) When total debt does not constitute an unreasonable burden to the Covered Entities and the City's taxpayers and/or ratepayers, as applicable.
    - iv) When the debt is used to refinance outstanding debt to produce debt service savings or to realize the benefits of a debt restructuring.
  - b) The Covered Entities may use long-term debt financings subject to the following conditions:
    - i) The project to be financed must be approved by the governing board of the Covered Entity.
    - ii) The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
    - iii) The Covered Entity estimates that sufficient revenues will be available to service the debt through its maturity.
    - iv) The Covered Entity determines that the issuance of the debt will comply with the applicable state and federal law.
    - v) The City will not issue long-term debt to finance current operations.
    - vi) The City will not incur general obligation indebtedness for public improvements, which exceed in aggregate 15% of the assessed value of all real and personal property of the City as specified in the California Government Code Section 43605.
- 2) Short-term debt. Short-term debt may be issued to provide financing for the Covered Entities' operational cash flows to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the Covered Entities may undertake lease-purchase financing for equipment.
- 3) Financing on Behalf of Other Entities. The Covered Entities may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties to further the public purposes of Covered Entities. In such cases, the Covered Entities shall take reasonable steps to confirm the financial feasibility of the project to be financed, and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

## Types of Debt

The following types of debt are allowable under this Debt Policy:

- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs)
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Lease-purchase method of financing for equipment (should be used if the lease rates are more favorable than the City's expected overall investment rate of return)
- Tax and revenue anticipation notes (TRANs)
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Tax increment financing to the extent permitted under State law
- Conduit financings, such as financings for affordable rental housing and qualified 501(c)(3) organizations

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

## Relationship of Debt to Capital Improvement Program and Budget

The City and Covered Entities are committed to long-term capital planning. The City and Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the capital budget and the capital improvement plan.

The City and Covered Entities shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The City and Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Covered Entities shall integrate their debt issuances with the goals of the capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of their public purposes.

The Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The Covered Entities shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

## Policy Goals Related to Planning Goals and Objectives

The City and Covered Entities are committed to long-term financial planning, maintaining appropriate reserves levels, and employing prudent practices in governance, management and budget administration. The Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the annual operations budget.

It is a policy goal of the City and the Covered Entities to protect taxpayers, ratepayers (if applicable) and constituents by utilizing conservative financing methods and techniques to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City and the Covered Entities will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates, and charges.

When refinancing debt, it shall be the policy goal of the Covered Entities to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

## Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the Covered Entities shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post- issuance compliance, and investment of bond proceeds.

Without limiting the foregoing, the Covered Entities will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the Covered Entities in accordance with SEC Rule 15c2-12.
- The City will diligently monitor its compliance with bond covenants.
- Any federal tax compliance requirements, including, without limitation, arbitrage, and rebate compliance.
- Investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the Covered Entities upon the submission of one or more written requisitions by the City Manager or Director of Administrative Services, or his or her written designee, or (b) by the Covered Entity, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the Covered Entity.

# Section E.1

## Unfunded Pension Liability Policies



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## Purpose

The purpose of this Unfunded Accrued Liability Management Policy (the "Policy") is to strategically address the existing and any future unfunded accrued liability (the "UAL") associated with the City of Cotati's (the "City") California Public Employees' Retirement System (CalPERS) pension plans (the "Pension Plans"). This Policy also addresses some of the principal elements and core parameters central to the policy objectives discussed in this Policy. In the development of this Policy, the City strives to reduce its UAL and the associated financing costs in the most cost- efficient and fiscally responsible manner possible.

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting. This Policy is intended to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and to demonstrate a commitment to long-term financial planning. Adherence to this Policy signals to rating agencies and capital markets that the City is well managed and able to meet its obligations in a timely manner.

The Policy is intended to reflect a reasonable and conservative approach to managing the UAL costs associated with the Pension Plans. This Policy recognizes that the Pension Plans are subject to market volatility and that actual economic and demographic experience of the plans will differ from the actuarial assumptions. Accordingly, it is intended to allow for adaptive responses to changing circumstances, providing flexibility to address such volatility in a financially sound manner. As such, the City is required to continually monitor its Pension Plans and the corresponding UAL.

## Policy Goals and Objectives

The overarching goals and objectives of this Policy are as follows:

- Establish, attain, and maintain targeted pension plan funding levels
- Provide sufficient assets to permit the payment of all benefits under the Pension Plans
- Seek to manage and control future contribution volatility to the extent reasonably possible
- Strive to make Annual Discretionary Payments to accelerate UAL pay-down, reduce interest costs, and stabilize future payments
- Maintain the City's sound financial position and creditworthiness
- Provide guidance in making annual budget decisions
- Create sustainable and fiscally sound future budgets
- Demonstrate prudent financial management practices
- Ensure that pension funding decisions protect both current and future stakeholders

- Create transparency as to how and why the Pensions Plans are funded

## Background and Discussion

### In General

Each Pension Plan is a multiple employer defined benefit pension plan administered by the California Public Employee Retirement System ("CalPERS"). All full-time and certain part-time City employees are eligible to participate in the CalPERS retirement and disability benefits, annual cost of living adjustments and death benefits offered to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. To assure its financial soundness and sustainability, the plan should accumulate adequate resources in a systematic and disciplined manner to ensure sufficient resources are available to meet employee benefit requirements. This Policy outlines the practices the City will utilize to address its actuarially determined contributions to fund the long-term cost of benefits to the Pension Plan participants and annuitants.

### Pension Costs and Liabilities

To fund its employees' pension benefits, the City is required to make contributions (a portion of which may come from the employees) to CalPERS. CalPERS then invests these contributions to generate returns to help fund the pension benefits. The regular required contributions, known as the "normal cost," are calculated as a percent of salaries and represent the annual cost of service accrual for the upcoming fiscal year for active employees. If, for any reason, the actual Pension Plan experience and investment performance fall short of the actuarial assumptions, the Pension Plan can become underfunded (i.e., the Pension Plan's Normal Accrued Liability exceeds the Plan's market value of assets). This shortfall is known as the Unfunded Accrued Liability (the "UAL") and usually has to be covered by the City through a series of UAL Payments, which are above and beyond the "normal cost" contributions. The UAL Payments are calculated in total dollar amounts, not as a percent of salaries.

The UAL can be caused by multiple factors, including but not limited to, changes to CalPERS' actuarial amortization policy, retroactive pension benefit enhancements, investment underperformance, actuarial assumption changes, demographic factors, and discount rate reductions.

### UAL is Debt

The UAL balance at any given point in time is a debt of the City owed to CalPERS which is amortized over a set period of time with interest accruing at the then current CalPERS discount rate (the "Discount Rate"). However, this debt can be prepaid at any time without penalties. Recognizing the UAL as debt helps the City identify proper steps to address it and minimize the associated financing costs.

### Ongoing CalPERS Practices

Every year CalPERS prepares updated actuarial valuation reports for each of the City's Pension Plans wherein it calculates the City's total pension liability as of the end of the prior fiscal year (each a "Valuation Report"). If the investment performance during that fiscal year was different from the Discount Rate, or if CalPERS made any changes to its actuarial assumptions, or if the actual demographic or compensation experience within the Pension Plans was different from the actuarial assumptions, new line items, or UAL amortization "bases," may be added to the plan and result in a change to the UAL balance. Such UAL amortization bases may be positive (indicating funding shortfall for the Pension Plans) or negative (indicating funding surplus for the Pension Plans). Since CalPERS can add new UAL amortization bases every year, the Pension Plans must be monitored annually and managed continually - there is no one-time solution.

CalPERS has adopted the UAL amortization methods that were meant to help public agencies "ease into" paying for the UAL increases. New UAL amortization bases are implemented incrementally, with a five-year ramp-up period, and at times include additional small increases in each of the subsequent years. The ramp-up period, while reducing the cash flow impact in the near term, increases the overall UAL repayment costs for the City by delaying repayment. Since the UAL balances accrue interest at the rate that is equal to the then current Discount Rate, the delayed payments prior to the commencement of the amortization and the reduced payments during the ramp-up period that do not fully cover the interest costs result in negative amortization, causing further increases to the UAL balance. To help reduce the overall costs of the UAL repayment, this Policy encourages level annual payments (i.e., no ramp-up) whenever possible.

### Funding Level Objective

It is the City's policy to strive to achieve and maintain a UAL "Funded Ratio" (being the ratio by which the Market Value of Assets-as set forth in the most recently published Valuation Report-exceeds the Present Value of Projected Benefits or "PVB"- as set forth in the most recently published Valuation Report) for each Pension Plan of 90%, but never dropping below 80% (the "Funding Level Objective").

Funding Level Objective = 90%

Achieving and maintaining the Funding Level Objective ensures that the ongoing contributions of the City and its employees, and therefore the taxpayer funds, are properly and adequately funding the retirement benefits of retirees and today's workers. This concept is commonly referred to as intergenerational equity. Falling short of this funded level forces future City Councils to pay the costs of the poor planning and execution of today's Pension Plans. The reason for a Funding Level Objective less than 100% is to allow some cushion for the possibility that good investment returns in a given year might push the Funded Ratio of a Pension Plan above 100% (commonly referred to as "superfunded status"), which means that the City and its employees contributed into the Pension Plan more than was necessary. Thus, while the City remains committed to maintaining a 100% funded level, it shall manage the 10% differential (i.e., the difference between 90% and 100%) through its own investment process which may include creating the "Pension Rate Stabilization Fund" discussed herein.

### Guidance

To achieve the Funding Level Objective, this Policy provides the following guidance:

- 1) Pre-Pay the Entire Annual UAL Payment by July 31st of each year. On or before July 1st of each year, the City receives its annual CalPERS UAL invoice. The City has two payments options. The invoice can be paid in equal monthly increments or be fully pre-paid at the beginning of the fiscal year by July 31st. By prepaying the entire invoice amount due by July 31st, the City can concurrently save approximately 3.2% compared to making the monthly payments. As such, every effort should be made to pre-pay the UAL payment upon receipt of the annual invoice.

However, during periods of higher interest rates, the City may consider whether monthly payments allow for interest earnings that exceed the prepayment discount through investment of reserves and make appropriate changes to the timing of payments.

- 2) Pre-Pay UAL from Reserves, One-Time Revenues and Fund Surpluses. Reserves (often invested in LAIF) regularly do not earn returns that can offset the interest rate that CalPERS charges on the outstanding UAL balance. Supplemental contributions into the Pension Plans from available reserves, one-time revenues and fund surpluses can generate substantial long-term net savings. Each supplemental contribution, referred to by CalPERS as an Additional Discretionary Payment (ADP), reduces the UAL balance, the Annual Required Contributions (ARC) for future years, and the total interest costs associated with the UAL. Therefore, during each budget cycle, the City staff shall review all available reserves, one-time revenues, and fund surpluses to determine whether any such funds could be used to make an ADP to pay down the UAL, keeping in mind operational and capital budgetary constraints while

- maintaining adequate reserves and balancing the fiscal soundness of eliminating the high-interest UAL debt. ADPs should not adversely affect the general operations and fiscal soundness of the City.
- 3) Capital Financing. When considering capital projects, staff regularly reviews and plans for reserving capital to cash fund current and future projects. When considering how to pay for current and future capital projects, staff should review the current tax-exempt market to assess if it would be more cost effective to borrow at tax-exempt rates to pay for the capital projects and redirect the reserved funding (and/or such other appropriate funds of the City) to make ADPs to CalPERS. If there are projected cost savings by using this method, and a capital financing strategy is to be implemented, the City Council would need to approve of the ADPs being paid to CalPERS prior to the financing to ensure that the annual savings generated by implementing the strategy are applied to UAL paydowns.
  - 4) Utilize Savings Achieved from Refunding Outstanding Non-Pension Related Debt to Pre-Pay UAL. During each budget cycle, staff should review all outstanding long-term non-pension related debt of the City to determine whether a refunding of such debt might result in net present value savings of greater than 3%, and if so, consider a structure and strategy that frontloads the savings, which can then be used to pay down the UAL. This strategy should only be used if the interest rates on the currently outstanding debt is sufficiently below the then-current Discount Rate to ensure that overall savings are achieved by the City.
  - 5) Sources of Revenue. All fees, rates and charges should incorporate full allocation of pension costs for employees providing associated services. While some funds cannot contribute more than their fair share (i.e., enterprise funds), they should not contribute less than their fair share. Staff shall review allocation of labor costs to proprietary and other funds to ensure full reimbursement of the pension cost burden. Staff shall provide, or cause to be provided, consistent and well-documented methodology for pension cost allocation to all funds.
  - 6) Pension Obligation Financing. The City shall consider issuing taxable municipal debt obligations (generically hereafter referred to as "Pension Obligations") to refinance the UAL, in part or in whole, if such bond obligations are expected to produce minimum cash flow savings of at least 5%, taking into account all debt service and costs of issuance associated with such bond obligations, in comparison to CalPERS' respective UAL amortization schedule and the then-current Discount Rate. Pension Obligations shall not utilize swaps or derivatives of any kind and should be structured with reasonable and flexible call provisions (with a maximum of 10-year call provision). Pension Obligations shall be used only to prepay the UAL liabilities and shall not be used to finance normal cost payments. The issuance of Pension Obligations must be voted upon and approved by the City Council.

- 7) Annual Review of the CalPERS Actuarial Valuation Reports and Associated Tasks.  
The City staff shall review or cause to be reviewed the annual CalPERS actuarial valuation reports within 90 days of their release by CalPERS, which usually takes place during the month of August. The review should focus on identifying the annual changes to each of the Pension Plans UAL and quantifying the associated cost implications and the corresponding impact on the Funded Ratio. Staff should annually reach out to the City's CalPERS actuary to request a calculation of flat payments (rather than ramp-up payments) for all outstanding and new UAL amortization bases. In making ADPs, the City staff shall determine or cause to be determined the optimal application of the ADPs to the outstanding UAL amortization bases to achieve the Funding Level Objective as well as desired budgetary outcomes.
- 8) ADPs Shared Between All Benefiting City Funds. Whenever an ADP is made, the City will endeavor to ensure that all benefitting funds (the "Benefiting Funds") contribute their fair share in accordance with the City's allocation method of charging off its pension costs for each City fund.

## Establishment and Operation of a Pension Rate Stabilization Fund.

The City shall establish a Pension Rate Stabilization Fund, either self-managed or a Section 115 trust fund managed by a third-party investment manager (the "Investment Manager"). The Pension Rate Stabilization Fund will receive Sequestered Savings (defined below) and Sequestered Surplus (defined below) as well as any other funds deposited into it at the discretion of the City Council, based on recommendations made by the City staff during the annual budget process. Funds in the Pension Rate Stabilization Fund should only be used to manage the City's pension benefits costs to maintain each of the Pension Plans at the Funding Level Objective in accordance with the goals and objectives set forth in this Policy.

### Funding the Pension Rate Stabilization Fund

- 1) Sequestered Savings. Upon the issuance of each series of Pension Obligations, and for each of the 10 succeeding years (or such other period of years as deemed appropriate by the City Council at the time of any subsequent issuances of Pension Obligations) following such issuance, a fixed dollar amount equal to 50% (or such other percentage as deemed appropriate by the City Council at the time of any subsequent issuances of Pension Obligations) of the "Total Sequestered Savings" (as calculated in the manner set forth below) achieved by issuing Pension Obligations (the "Annual Sequestered Savings Savings"), shall be transferred from the Benefiting Funds (as established in section A8 above) and deposited into the Pension Rate Stabilization Fund until such time that the Pension Rate Stabilization Fund reaches the Pension Rate Stabilization Fund Maximum (as outlined in section B3 below), and thereafter all Sequestered Savings will be directed to a "Pension Obligation Bond Call

Fund" which will be established and maintained by the City for the purpose of prepaying any outstanding Pension Obligations.

$$\text{Total Sequestered Savings} = \text{UALDS} - \text{DS}$$

$$\text{Annual Sequestered Savings} = .05x \left( \frac{\text{UALDS} - \text{DS}}{Y} \right)$$

UALDS - Scheduled CalPERS UAL being paid off by the Pension Obligations

DS - Total principal amount of Debt Service on the Pension Obligations

Y - Number of years to pay back Sequestered Savings

### Example of Annual Sequestered Savings Calculation

A \$5M Pension Obligation was issued in 2022 for the purpose of prepaying CalPERS UAL. The total UAL debt service (UALDS) paid off with the Pension Obligation was \$8,000,000 and the total debt service (DS) on the Pension Obligation is \$7,000,000. The City elected to sequester 50% of the total savings over a 10-year period (Y).

$$\begin{aligned} \text{Annual Sequestered Savings} &= .05x \left( \frac{8,000,000 - 7,000,000}{Y} \right) \\ &= \$100,000 \end{aligned}$$

- 2) Sequestered Surplus. Each Fiscal Year during the City's normal budget adoption process, beginning with the 2022-23 Fiscal year budget, and for each of the following 10 years, a best practice is to set aside between 0% and 5% of any available surplus from the prior Fiscal Year (the "Sequestered Surplus") and deposit into the Pension Rate Stabilization Fund.

## Operation of the Pension Rate Stabilization Fund.

Sequestered Surplus and Sequestered Savings (and any other amounts contributed by the City) shall be deposited in the Pension Rate Stabilization Fund and used solely for the purpose of making ADP's (and Normal Cost payments during a Fiscal Hardship, and/or to the extent the amount therein exceeds the Pension Rate Stabilization Fund Maximum, as described below) to CalPERS for the purpose of achieving and maintaining Funding Level Objective.

With the goal of achieving and maintaining the Funding Level Objective, each year during the budget cycle, City staff shall calculate, or cause to be calculated, the upcoming Fiscal Year's estimated Funded Ratio by considering the most recent Valuation Report's statement of Funded Ratio and anything else that is known but not yet official from CalPERS that is expected to change the UAL valuation. If the Funded Ratio is estimated to be less than the Funding Level Objective, to the extent funds are available in the Pension Rate Stabilization Fund, the City Manager, or designee, shall either make, or shall direct the Investment Manger to make, an ADP

to CalPERS in the amount necessary to bring the Funded Ratio back up to the Funding Level Objective. Additionally, staff shall assess whether to fully amortize any new bases to reduce the long-term interest costs associated with the "ramping" procedures used by CalPERS.

Moneys in the Pension Rate Stabilization Fund shall not be used for normal costs until such time as the amount therein, when combined with the Market Value of Assets (as set forth in the most recently published Valuation Report) exceeds the Entry Age Normal Accrued Liability (as set forth in the most recently published Valuation Report) by 10% (the "Pension Rate Stabilization Fund Maximum"). To the extent monies in the Pension Rate Stabilization Fund on June 30st exceed the Pension Rate Stabilization Fund Maximum (after consideration has been given to the amounts therein required to be paid to CalPERS for the ensuing Fiscal Year to maintain the Estimated Funded Ratio at or above the Funding Level Objective), of accrued surplus over 10%, these may be used to offset the City's Normal Cost payment made to CalPERS in such Fiscal Year, and any Sequestered Savings will be directed to the Bond Call Fund.

## Fiscal Hardship

In the event of a Fiscal Hardship (as defined below), transfers of Sequestered Savings may be abated and/or the Pension Rate Stabilization Fund may be utilized for either normal or UAL costs until the Fiscal Hardship is no longer in effect.

"Fiscal Hardship" means an economic hardship, or other unanticipated fiscal emergency, which has been declared by resolution of the City Council.

## Fiscal Transparency and Reporting

Funding of the Pension Plans should be transparent to all stakeholders, including plan participants, annuitants, the City Council, and City residents. To achieve this Policy objective, copies of the annual actuarial valuation reports for each Pension Plan shall be made available to the City Council and shall be posted on the City's website. The City's audited financial statements shall also be posted on the City's website because they include, among other things, information on the City's current and future annual Pension Plan contributions as well as the funded status of each Pension Plan.

## Annual Budget to Contain Policy Directed Information

The City's annual operating budget shall consider the items specified in this Policy for inclusion in each such annual budget.

## Review of Policy

Funding a defined benefit pension plan requires a long-term horizon planning approach. This Policy is intended to provide general objectives and guidelines, which will require periodic

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review and constant update to consider changes in the City's financial position and Pension Plan funded status over time. As such, City staff will review the policy for implementation of new best practices and will provide to Council for adoption on an as needed basis.