



**ALTADENA LIBRARY DISTRICT | BUDGET POLICY MANUAL**

**SUBJECT:** Budget Policy

**SECTION:** Table of Contents

**BOARD APPROVED: 05/23/2022**

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## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Budget Policy

**SECTION:** 1-0

**BOARD APPROVED:** 05/23/2022

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### **1-1 Purpose of the Policy.**

In keeping with its mission of providing opportunities for lifelong learning, the Altadena Library District (hereinafter referred to as the Library) offers public access to computers, laptops, and Internet free of charge under the following policy and guidelines.

### **1-2 Budget Policy.**

The District's strategic plan shall serve as a guide in the development of the Annual Operating Budget. The Board is responsible for adoption of the Budget on or before September 1<sup>st</sup> each year in compliance with Division I, Part 11, Chapter 9, Section 19655, of the California Education Code. By practice, the District adopts the annual budget before June 30<sup>th</sup> in time for the upcoming fiscal year.

The Director and the Board may consider requests for budget modifications through the mid-year budget review process. Additional requests for budget modifications necessitated by changes in circumstances unforeseen at the time of the original budget and/or the mid-year review, shall be submitted to the Director for consideration.

Department heads are expected to maintain control of expenditures to properly administer their programs. The Director may approve budget modifications of less than \$10,000. Board approval is required for budget modifications of \$10,000 or greater.

### **1-3 Authority.**

The Director is responsible for adherence to this policy and regular reporting of the District's financial status. The Board provides oversight through reporting of Budget to Actual Expenditures during regular Board meetings.

### **1-4 Policy Review.**

The Budget Policy shall be reviewed annually as part of the Budget adoption process. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Reserve Policy

**SECTION:** 2-0

**BOARD APPROVED:** 05/23/2022

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### **2-1 Purpose of the Policy.**

The Reserve policy establishes guidelines for the Altadena Library District to maintain appropriate reserve levels as required by legal or external requirements, to provide the necessary cash flow for normal operations and the ability to address unplanned events or emergencies.

### **2-2 Reserve Policy.**

The District shall maintain an Operating reserve fund equal to six months of budgeted operating expenditures, as required by California Government Code Section 53646(B)(3).

The Board may, at its discretion, require the District to maintain additional reserve funds such as Capital, to be used for future planned or unplanned events.

### **2-3 Authority.**

The Director is responsible for overseeing the maintenance and reporting of the District's Reserve balance. The Director shall identify and report to the board plans to replenish the reserve fund, should it fall below the required level. The Board provides oversight through monthly reporting.

### **2-4 Policy Review.**

The Reserve Policy shall be reviewed annually as part of the budget adoption process. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Audit Policy

**SECTION:** 3-0

**BOARD APPROVED:** 05/23/2022

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### **3-1 Purpose of the Policy.**

The Altadena Library District recognizes the need to maintain its overall integrity, financial credibility, and long-term viability. An external audit provides transparency and demonstrates responsible financial management, accurate financial statement presentation and compliance with laws and regulations.

### **3-2 Policy.**

The Board requires an annual audit of District funds and financial records be performed by an independent public accounting firm, licensed by the California State Board of Accountancy. The board shall be responsible for engaging the auditor and receiving directly, the independent auditors' report.

A formal request for proposal process shall be conducted at least once every five years. The selected auditing firm's contract shall be for a period not to exceed three years with an option to extend for up to two additional years, for a total period not to exceed five years.

### **3-3 Authority.**

The Director is responsible for establishing operating objectives and goals, implementing control procedures, and accomplishing desired operating results. The Director works with the auditors to complete the annual audit. The Board provides oversight by reviewing and approving monthly financial reports and the annual audit report.

### **3-4 Policy Review.**

The Audit Policy shall be reviewed at least every five years. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Investment Policy

**SECTION:** 4-0

**BOARD APPROVED:** 05/23/2022

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### **4-1 Purpose of the Policy.**

The Investment Policy applies guidance to all financial assets of the Altadena Library District. Funds in any deferred compensation plan and/or in a trust for retiree benefits are not included.

### **4-2 Policy.**

The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code Section 53600.6).

The legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 5920 and 53600 et. seq.

The Director shall annually prepare and submit a statement of investment policy and such policy, and any changes, shall be considered by the legislative body (Board) at a public meeting (California government Code Section 53646(a)).

### **4-3 Prudence.**

Investments shall be made with judgment and care, under circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the District, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### **4-4 Objectives.**

As specified in California Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

- A. **Safety:** Safety of principal is the foremost objective of the Policy. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- B. **Liquidity:** The investment portfolio shall remain sufficiently liquid to enable the District to meet all operating requirements that might be reasonably anticipated.
- C. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and the cash flow characteristics of the portfolio.

#### **4-5 Delegation of Authority.**

Authority to manage the Policy is derived from California Government Code Section 53600, *et. seq.* Management responsibility for the Policy is delegated to the Director. No person may engage in an investment transaction except as provided under the terms of this Policy. The Board shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Director or any other subordinate officials. Under the provisions of California Government Code Section 53600.3, the Director is a trustee and a fiduciary subject to the prudent investor standard.

#### **4-6 Ethics and Conflict of Interest.**

Officers and employees involved in the investment process shall fully comply with the District's Conflict of Interest Code in the execution of this policy. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict or appear to conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

#### **4-7 Authorized Financial Institutions and Dealers.**

The Director may maintain a list of financial institutions, selected on the basis of credit worthiness financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list may also be maintained of approved

security brokers/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Director shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers, or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Director shall have received from said firm a signed certification form. This form shall attest that the individual responsible for the District's account with that firm has reviewed the District's Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the District that are appropriate under the terms and conditions of the Policy.

Where all funds of the District not placed in FDIC-insured accounts are invested through the State of California Local Agency Investment Fund (LAIF), the District need not investigate the qualifications of those financial institutions and broker/dealers with whom LAIF transacts business.

#### **4-8 Authorized and Suitable Investments.**

- A. Permitted Investments: District funds may be invested as authorized by, and subject to the limitations and special conditions of California Government Code Section 53601 *et. seq.*
- B. Prohibited Investments: Under the provisions of California Government Code Section 53601.6, the District shall not invest any funds covered by this Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero-interest accrual if held to maturity.

#### **4-9 Collateralization.**

All certificates of deposits must be collateralized by U. S. Treasury obligations. Collateral must be held by a third-party trustee and valued monthly. The percentage of collateralization on repurchase and reverse repurchase agreements shall adhere to the amount required under California Government Code Section 53601(i)(2).

#### **4-10 Safekeeping and Custody.**

All security transactions entered by the District shall be conducted on a delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery or by third party custodial agreement as required by California Government Code Section 53601.

#### **4-11 Diversification.**

The District shall diversify its investments by security type and institution. It is the policy of the District to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply

- A. Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- B. Maturities selected shall provide for stability of income and liquidity.
- C. Disbursement and payroll dates shall be covered through maturities investments, marketable U.S. Treasury Bills, or other cash equivalent instruments such as money market mutual funds

#### **4-12 Reporting.**

In accordance with California Government Code Section 53646(b) (1), the Director shall submit to each member of the Board a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values on current market values of each component of the portfolio, including funds managed for the District by third party contracted managers, if applicable. The report shall also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Policy and, (2) the District shall meet its expenditure obligations for the next six months as required by California Government Code Sections 53646(b)(2) and (3), respectively. The Director shall maintain a complete and timely record of all investment transactions.

#### **4-13 Policy Review.**

The Investment Policy shall be reviewed on an annual basis. Any modifications shall be presented to and approved by the Board of Trustees.





## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Contracts and Agreements Policy

**SECTION:** 5-0

**BOARD APPROVED:** 05/23/2022

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### **5-1 Purpose of the Policy.**

The Contracts and Agreements Policy provides guidance for the Altadena Library District to enter into legally binding agreements that define and govern the rights and responsibilities between two or more parties.

### **5-2 Policy.**

The Director is authorized to enter into contracts or agreements for less than \$10,000 for any item in the current fiscal year Operating Budget.

The Board must approve all contracts and agreements for \$10,000 or greater.

All contracts and agreements must be reviewed and approved by general counsel.

### **5-3 Services Contracts and Professional Service Agreements.**

For service contracts and professional service agreements, the Director shall prepare, issue, and evaluate appropriate requests for proposals no less than every five years, unless otherwise directed by the Board. The objective is to re-assess the price, utility, and service received to ensure the District is receiving quality service at a competitive price. The results of such review shall be reported to the Board for contracts and agreements of \$10,000 or greater.

### **5-4 Personnel Contracts.**

- A. The Board is responsible for selecting and contracting with a Director, establishing the salary, benefits and terms of employment, and completing an annual review. The Director's termination shall be tendered to or directed by the Board.
- B. The Board is responsible for reviewing and determining employee wages, benefits, terms of employment and working conditions. Please see the Altadena Library District Personnel Policies and Rules.

### **5-5 Authority.**

The Director is responsible for administering contracts and agreements.

**5-6 Policy Review.**

The Contracts and Agreements Policy shall be reviewed at least every five years. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Purchasing Policy

**SECTION:** 6-0

**BOARD APPROVED:** 05/23/2022

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### **6-1 Purpose of the Policy.**

The Purchasing Policy provides The Altadena Library District with guidance in purchasing quality products and services. The District strives to purchase from the lowest responsible bidder. However, cost shall not be the sole factor in selecting vendors to provide products and services necessary for operations. Value, future costs, and quality of service shall be given equal weight.

### **6-2 Policy.**

Purchases are made by employing a Bid process or a Request for Proposal (RFP) process. A Bid process implies that the lowest price shall be the sole criteria in the award selection if the minimum state requirements are met. The RFP process allows for selection based on stipulated award criteria in addition to price.

If products or services are deemed available only from a sole source, the Director may waive the requirements set forth in Section 6.3 Purchase Limitations.

### **6-3 Purchase Limitations.**

- A. A budgeted purchase of \$5,000 or less for any one item may be accomplished by negotiated agreement between the Director and one or more vendors.
- B. A budgeted purchase of greater than \$5,000 and less than \$10,000 shall be awarded to the successful vendor after obtaining informal quotes from at least three independent vendors.
- C. A budgeted purchase of \$10,000 or greater shall be made after successful employment of a Bid or RFP process. Board approval is required.
- D. General fund monies shall be used to support the normal and necessary operations of the District. Purchases such as alcohol, promotional items, prizes, and gifts shall be purchased with grant and/or other donated monies.

**6-4 Emergency Purchases.**

- A. The Director has the authority to enter into purchasing agreements for products or services, in the event of an emergency involving potential loss of life or property.
- B. If time permits, the Director is to inform the President of the Board, or in the absence of the President, to inform the Secretary of the Board.
- C. When the authority is exercised, the Board must be notified no later than the next regular meeting.

**6-5 Authority.**

The Director has the authority to enter into contracts for the purchase of any product approved in the current fiscal year budget in accordance with the above policies.

**6-6 Policy Review.**

The Purchasing Policy shall be reviewed at least every five years. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Capital Asset Policy

**SECTION:** 7-0

**BOARD APPROVED:** 05/23/2022

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### **7-1 Purpose of the Policy.**

The Capital Asset Policy establishes guidance in identifying, capitalizing, depreciating, and accounting for capital assets of the Altadena Library District.

### **7-2 Policy.**

The District defines capital assets under this policy as tangible assets owned by the District, with a value of \$5,000 or greater and a useful life of more than one year.

If an asset does not meet the capitalization requirements set forth in 10.3 Capitalization, it is to be expensed in the year acquired. The District treats library books and other media resources as current period expenditures rather than a composite capital asset.

Repair and Maintenance costs are defined as expenditures that maintain an asset and keep it in good order. All Repair and Maintenance costs are expensed in the period incurred.

### **7-3 Capitalization and Valuation.**

The District uses the following capital asset classifications and capitalization criteria:

- A. Infrastructure - as defined by GASB 34, these are “long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.” Typically, these assets would include pavement, curbs and gutters, sidewalks, streetlights, sewers, traffic controls, etc.
- B. Land - includes all costs associated with the acquisition of land as well as costs incurred in preparing the land for its intended purpose. These costs include, but are not limited to, purchase and closing costs.
- C. Land Improvements – includes but is not limited to, landscaping, parking lots and parking structures.

- D. Buildings – includes all costs associated with the purchase or construction of a new building.
- E. Building Improvements – includes costs that improve the useful life of the building, substantially change the useful life of the original space, or expand the total space of the building. Repairs, which are distinguished from improvements, are rarely capitalized because they usually do not extend the useful life of the asset and are classified as operational.
- F. Artwork – includes all costs associated with the purchase.
- G. Donated Assets – capitalized at acquisition value at the time of the donation. Acquisition value is the cost which the District would incur to acquire the asset at the time of the donation. If the acquisition value is not available or cannot be reasonably determined, an estimated cost may be applied using the best available information.
- H. Furniture and Equipment – includes but is not limited to, furniture, and computers. The total capitalized includes all costs associated with the purchase, delivery, transportation, and insurance while in transit, installation, and similar costs.
- I. Information Technology Infrastructure – includes software and hardware such as servers,
- J. Vehicles – includes costs associated with the purchase and delivery.
- K. Construction-in-Progress (CIP) – capital improvement projects are capitalized as CIP until completed. Costs include labor, materials, transportation, engineering, and construction management.

#### **7-4 Depreciation.**

Depreciation is computed monthly using the straight-line method over the estimated useful lives of the capital assets. Items purchases shall be depreciated for the full month of the month of purchase. Constructed assets shall be depreciated beginning in the first month the asset is put into use.

Land, construction-in-progress, and artwork are not depreciated.

Estimated useful lives for the asset classifications are as follows:

Infrastructure	50 years
Buildings	50 years
Building Improvements	20 years
Furniture and Equipment	5 years
Information Technology Infrastructure	7 years
Vehicles	7 years

**7-5 Disposal of Capital Assets.**

The District may determine that a capital asset is no longer of use in daily or future operations and/or the cost of achieving usefulness is greater than the benefit. The Director shall make a recommendation to the Board for approval of one of the following methods:

- A. Gift to the Altadena Library District Friends of the Library.
- B. Discard or sell at a public auction for the benefit of the District.

The Director has discretion to dispose of other non-capitalized items without Board approval.

**7-6 Reporting.**

Capital Assets shall be reported in accordance with GASB 34 in the annual audited financial statements.

**7-7 Policy Review.**

The Capital Asset Policy shall be reviewed at least every five years. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Debt Policy

**SECTION:** 8-0

**BOARD APPROVED:** 05/23/2022

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### **8-1 Purpose of the Policy.**

The Debt policy (“Policy”) establishes guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the Altadena Library District (“District”) and its related entities (such as Altadena Library District Community Facilities District No. 2020-1 (Facilities and Services)) and is intended to comply with California Government Code Section 8855(i).

As used in this Policy, the “District” shall mean the Library District and/or its related entities, as the context may require. As used in this Policy, “debt” shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation fall within exceptions to such legal limitation. This Policy shall govern all debt issued by the District.

The District and its related entities are 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 improve the quality of decisions, assist with the determination of the structure of debt issuance, identify policy goals, and demonstrate a commitment to long- term financial planning. Adherence to a local debt policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

### **8-2 Purposes for Which Debt Proceeds May Be Used.**

Debt may be issued to: (a) finance the acquisition, rehabilitation, replacement, or expansion of capital assets (including but not limited to capital improvements, facilities and equipment), for the following purposes: (i) acquisition or improvement of land, right-of-way or long terms easements; (ii) acquisition of a capital asset with a useful life of five or more years; (iii) construction or reconstruction of a facility; (iv) although not the primary purpose of the financing effort, project reimbursables that include project planning design, engineering and other preconstruction efforts, project-associated furniture fixtures and equipment, capitalized interest, original issue discount, underwriter’s discount, other costs of issuance and other costs as permitted by law and



(b) refund, refinance or restructure debt, subject to refunding objectives and legal parameters.

The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized. Debt may only be issued under Library District Board of Trustees ("Board") authorization and when the District has identified sufficient funds to pay the obligation of principal and interest. No debt shall be issued with a maturity date greater than the expected useful life of the facilities or improvements being financed.

### **8-3 Types of Debt That May Be Issued.**

Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and the laws of the State of California (the "State"). Various types of debt may be issued, including, but not limited to special tax bonds, special tax refunding bonds, revenue bonds, revenue refunding bonds, certificates of participation and lease-purchase obligations. Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why variable rate debt would be beneficial to the District in a specific circumstance.

### **8-4 Relationship of Debt to Capital Improvement Program.**

The District shall issue debt for the purposes set forth in this Policy and to implement policy decisions incorporated in the District's capital budget and capital improvement plan ("Master Plan"). The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of general funds of the District, available revenues from the District's parcel tax and the services component of the CFD No. 2020-1 special tax.

### **8-5 Policy Goals Relating to Planning Goals and Objectives.**

The District is committed to following sensible practices in governance, management and budget administration. The District shall issue debt for the purposes stated in this Policy and to implement policy decisions incorporated into the District's budget. It is a policy goal of the District to protect taxpayers by utilizing conservative financing methods and techniques. The District shall comply with applicable State and federal law as it pertains to the maximum term of debt.

### **8-6 Internal Control Procedures.**

One of the District's priorities in the management of debt is to ensure that debt proceeds shall be directed to the intended use for which they were issued. In furtherance of this priority, the following procedures shall apply:

The Director or the designee of the Director shall retain a copy of each annual report filed with the California Debt and Investment Advisory Commission (“CDIAC”) pursuant to Section 8855(k) of the California Government Code conserving (i) debt authorized during the applicable reporting period (whether or not issued), (ii) debt outstanding during the reporting period, and (iii) the use during the reporting period of proceeds of issued debt.

In connection with the preparation of each annual report to be filed with CDIAC pursuant to Section 8855(k) of the California Government Code, the Director or the designee of the Director shall keep a record of the original intended use for which the debt has been issued, and indicate whether the proceeds spent during the applicable one- year reporting period for such annual report comport with the intended use (at the time of original issuance or as modified pursuant to the following sentence). If a change in intended use has been authorized subsequent to the original issuance of the debt, the Director or the

designee of the Director shall indicate in the record when the change in use was authorized and whether the Board has authorized the change in intended use. The Director shall consult with legal counsel and report apparent deviations from the intended use in debt proceeds to the Board.

When debt has been issued to finance a capital project and the project timeline or scope of project has changed in a way that all or a portion of the debt proceeds cannot be expended on the original project, the Director shall consult with legal counsel as to available alternatives for the expenditure of the remaining debt proceeds (including repayment of the debt).

Proceeds of debt shall be held either (a) by a third-party trustee or fiscal agent, which shall disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the District, or (b) by the District, to be held and accounted for in a separate fund or account, the expenditure of which shall be carefully documented by the District.

When issuing debt, in addition to complying with the terms of this Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment and expenditure of debt proceeds. The District shall periodically review the requirements of and remain in compliance with the following: (i) any federal tax compliance requirements; (ii) any State requirements related to debt issuance; (iii) any continuing disclosure undertakings entered into by the District in accordance with Securities and Exchange Commission Rule 15c2-12; and (iv) the District’s investment policies as they relate to the use and investment of debt proceeds.

#### **8-7 Policy Review.**

The Debt Policy shall be reviewed at least every five years. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY Manual

**SUBJECT:** Disclosure Policy

**SECTION:** 9-0

**BOARD APPROVED:** 05/23/2022

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### 9-1 Purpose of the Policy.

The Disclosure Policy (“Policy”) establishes a framework for compliance by the Altadena Library District and its related entity (Altadena Library District Community Facilities District No. 2020-1 (Facilities and Services)) (together, the “District”) with its disclosure and/or contractual obligations with respect to the municipal securities it issues pursuant to the requirements of the Securities Exchange Act of 1934, as amended (the “1934 Act”), and the Securities Act of 1933, as amended, including, in particular, Rule 15c2-12, as amended, promulgated under the 1934 Act, and other applicable rules, regulations, and orders.

The policy ensures compliance with federal securities laws relating to disclosure in order to:

- A. Comply with Law and Contract. To facilitate compliance with applicable law when preparing and distributing Disclosure Documents in connection with Bond offerings and Continuing Disclosure Documents;
- B. Reduce Liability. To reduce exposure (of the District and its officials and employees) to liability for damages and enforcement actions based on misstatements and omissions in Disclosure Documents by reducing the risk that actual material misstatements and omissions occur and make it less likely that any misstatement or omission that does occur was a result of intentional, reckless or negligent conduct;
- C. Reduce Borrowing Costs. To reduce borrowing costs by promoting good investor relations; and
- D. Protect the Public. To avoid damage to residents of the District and other third parties from misstatements or omissions in Disclosure Documents.

The Disclosure Policy is intended for the internal use of the District only and is not intended to establish any duties in favor of or rights of any person other than the District.

The officers and employees charged by the Disclosure Policy with performing or refraining from any action may depart from the Disclosure Policy when they and the Disclosure Officer in good faith determine that such departure is in the best interests of the District and consistent with the duties of the District under federal and State securities laws. Any deviation from the Disclosure Policy shall be reported to the Oversight Committee and the Board.

## **9-2 Definitions.**

Certain terms used in the Disclosure Policy have the meanings specified below.

**Annual Filing** means an annual report of the District filed pursuant to a Disclosure Agreement.

**Board** means the Board of Trustees of the District.

**Bonds** means bonds, notes, certificates of obligation, certificates of participation, and other debt obligations or securities of the District, or the payment of which the District is obligated to support by a lease, contract, or other arrangement, that are sold to or otherwise held or traded in by the public.

**Continuing Disclosure Documents** means financial and operating data and event notices filed with the MSRB through EMMA pursuant to Disclosure Agreements.

**Disclosure Agreement** means the provisions of each agreement of the District by which the District undertakes to provide financial and operating data periodically, and timely notices of certain events, to the MSRB, whether expressly or as the only nationally recognized municipal securities information repository under SEC Rule 15c2-12.

**Disclosure Counsel** means counsel engaged from time to time by the District to give advice to the District in accordance with the Disclosure Policy and assist the District in preparing Disclosure Documents.

**Disclosure Documents** means Offering Documents, Continuing Disclosure Documents or Other EMMA Filings.

**Disclosure Officer** means the officer(s) of the District charged with exercising the responsibilities of a Disclosure Officer under the Disclosure Policy, i.e., the Director or another employee of the District specifically designated by the Director.

**Disclosure Working Group** for any Disclosure Documents means the officers or employees of the District charged with exercising the responsibilities of the Disclosure Working Group in preparing or checking the Disclosure Documents under the Disclosure Policy, as described in Section 4 of the Disclosure Policy.

**Dissemination Agent** means a consultant engaged by the District to assist with the ongoing continuing disclosure filings required under the Disclosure Agreement.

**EMMA** means the Electronic Municipal Market Access System maintained by the MSRB.

**Material** when used with respect to a fact included in a Disclosure Document means, generally, that a reasonable investor likely would attach significance to it in making a decision to buy, hold, or sell Bonds of the District. When questions of materiality arise, Disclosure Counsel should be consulted.

**MSRB** means the Municipal Securities Rulemaking Board.

**Municipal Advisor** means person or firm registered with the SEC engaged by the District from time to time to provide advice to or on behalf of the District with respect to municipal financial products or the issuance of municipal securities.

**Offering Documents** means preliminary and final Official Statements and other documents by which Bonds are offered to the public by the District as well as solicitation statements by which the District offers to purchase its Bonds or requests consents or waivers regarding Bonds.

**Oversight Committee** means the Community Facilities District (CFD) Committee of the Library District.

**SEC** means the United States Securities and Exchange Commission.

**State** means the State of California.

### 9-3 Policy.

It is the policy of the District to comply fully with applicable securities law regarding disclosure in connection with the issuance of Bonds and with the terms of its Disclosure Agreements.

The District expects to issue Bonds in the public debt markets and, in connection therewith, to issue offering documents and to enter into continuing disclosure undertakings to update financial and operating information contained in the offering documents at least annually and to file timely notices of certain events with the MSRB through EMMA. Investors in the District's Bonds rely on the filings in deciding whether to buy, hold, or sell the District's Bonds.

Under federal securities laws, the District must exercise reasonable care to avoid material misstatements or omissions in preparing Official Statements that are used to sell Bonds in primary offerings, and it may not knowingly or recklessly include material misstatements or misleading statements in Disclosure Documents while its Bonds are outstanding. Knowledge of any officer or employee of the District as well as information in files of the District may be imputed to the District. Disclosure Counsel opinions may help to establish care but are no defense to an action for failing to disclose or misstating a known material fact.

### 9-4 Procedures.

The following officials and employees of the District shall implement the following procedures in preparing, checking, or issuing the following Disclosure Documents.

#### A. Official Statements.

(i) Working Group. The Disclosure Working Group for preliminary and final official statements (collectively, "Official Statement") issued in primary offerings shall consist of the following: the Director and Disclosure Counsel and the Municipal Advisor, each acting in an advisory capacity.

(ii) Establishing Scope and Process. At the beginning of the disclosure process, the Disclosure Working Group shall (a) determine (with input from the District's underwriter(s), in the case of a negotiated offering) what information should be disclosed in the Official Statement to present fairly a description of the source of repayment and security for the securities being offered, including related financial and operating information (which may include a discussion of material risks related to investment in the securities), (b) assign responsibilities for assembling and verifying the information, and (c) establish a schedule for producing the information and the Official Statement that shall afford sufficient time for final review by the Disclosure Working Group and the Disclosure Officer and the approvals required by the Disclosure Policy.

(iii) Review for Accuracy, and Completeness. The members of the Disclosure Working Group shall review the Official Statement drafts to determine whether, based on information known or reported to them, (a) the material facts in the Official Statement appear to be consistent with those known to the members of the Disclosure Working Group, and (b) the Official

Statement omits any material fact that is necessary to be included to prevent the Official Statement from being misleading to investors. The Disclosure Officer shall take such action as may be necessary, based on feedback from the Disclosure Working Group, to enable the Disclosure Working Group to conclude that the Disclosure Policy was followed and that the Official Statement is accurate and complete in all material respects.

(iv) Final Approval. The Oversight Committee and the Board of Trustees shall approve a substantially final form of the preliminary Official Statement. The Disclosure Working Group shall approve the preliminary and final Official Statement.

(v) Documentation of Procedures. The Disclosure Officer shall compile and retain a file of the actions taken to prepare, check, and approve the Official Statement.

B. Annual Filing

(i) Working Group. The Disclosure Working Group for the Annual Filing shall consist of the Director and the Dissemination Agent with Disclosure Counsel review, if necessary.

(ii) Preparation, Review and Approval. The Disclosure Officer, with the assistance of the Dissemination Agent, shall prepare a draft Annual Filing no later than [30 days] prior to the deadline for filing the Annual Filing. The members of the Disclosure Working Group shall review the Annual Filing drafts to determine whether, based on information known or reported to them, (a) the Disclosure Policy was followed, (b) the material facts in the Annual Filing appear to be consistent with those known to the members of the Disclosure Working Group, and (c) the Annual Filing omits any material fact that is necessary to be included to prevent the Annual Filing from being misleading to investors. The Disclosure Working Group shall conclude that the Disclosure Policy was followed and that the Annual Filing is accurate and complete in all material respects

The Disclosure Working Group shall approve the final draft of the Annual Filing. The Annual Filing shall not be issued until approved by the Disclosure Working Group.

(iii) Posting and Documentation. The Dissemination Agent, on behalf of the District, shall file the Annual Filing with the MSRB through EMMA by the deadline established by the Disclosure Agreements. The Dissemination Agent, on behalf of the District, shall exercise reasonable care to file the Annual Filing in the format and with the identifying information required by the Disclosure Agreements, including applicable CUSIP numbers for the District's Bonds. The Disclosure Officer shall compile and retain a file of the actions taken to prepare, check, and approve the Annual Filing, and approvals of the Disclosure Working Group.

C. Event Notices.

(i) 9. Identification of Reportable Events and Preparation of Event Notices. The Disclosure Officer shall maintain a list of events of which the District is required to provide notice to the MSRB pursuant to the Disclosure Agreements. The Disclosure Officer shall assess the materiality of any reported event with the assistance of legal counsel (reportable under the Disclosure Agreements only if material) and, if notice of the event must be given (or if no materiality standard applies to that particular event and prepare, or cause to be prepared, an Event Notice giving notice of the event.

(ii) Posting and Documentation. The Disclosure Officer or Dissemination Agent shall file the Event Notice with the MSRB through EMMA by the deadline established by the Disclosure Agreements or, if the facts cannot be correctly and fairly described by the deadline, then as soon thereafter as possible. The Disclosure Officer or Dissemination Agent shall exercise reasonable care to file the Event Notice in the format and with the identifying information required by the Disclosure Agreements, including CUSIP numbers for the applicable Bonds. The Disclosure Officer shall compile and retain a file of the actions taken to report each event and prepare, check, and approve the notice of the event.

**9-5 Training.**

The Disclosure Officer and each officer or employee designated as a source of data for a Disclosure Document pursuant to the Disclosure Policy shall undergo initial training prior to each Bond issue and periodic training as necessary to address any changes in law. The training program and materials shall be prepared by or with the assistance of Disclosure Counsel. The training program shall impart the requirements of federal and State securities laws and the Disclosure Agreements, the meaning of “material,” and the duties of such officers and employees under the Disclosure Policy.

**9-6 Policy Review.**

The Disclosure Policy shall be reviewed at least every five years. Any modifications shall be presented to and approved by the Board of Trustees.





## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Tax Policy

**SECTION:** 10-0

**BOARD APPROVED:** 05/23/2022

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### **10-1 Purpose of the Policy.**

The Tax Policy and post-issuance compliance procedures (“Tax Policy”) describes the courses of action to be taken by the Altadena Library District to: (i) maximize the District’s compliance with the federal tax law requirements applicable to tax-exempt bonds; and (ii) identify and resolve any noncompliance matters, on a timely basis, to preserve the tax-exempt status of tax-exempt bonds.

The approval of the Tax Policy by the District shall be treated by the District as the establishment of written procedures to: (i) ensure that any Bonds that no longer qualify for tax- exempt status are identified and remediated in accordance with the requirements of the Code and applicable regulations, including the remediation provisions of Treas. Reg. Sec. 1.141-12 or other remedial actions authorized by the Commissioner of the Internal Revenue Service under Treas. Reg. Sec. 1.141-12(h); and (ii) monitor compliance with the requirements of Section 148 of the Code (which include arbitrage, yield restriction and rebate requirements) and related regulations.

### **10-2 Definitions.**

Certain terms used in the Disclosure Policy have the meanings specified below.

**Board** means the Board of Trustees of the District.

**Bond Counsel** means a firm of nationally recognized bond counsel engaged from time to time by the District to give advice to the District with respect to the Tax Policy.

**Bond Documents** means documents relating to Bonds, including, but not limited to the fiscal agent agreement and tax certificate.

**Bonds** means bonds, notes, certificates of obligation, certificates of participation, and other debt obligations or securities of the District, or the payment of which the District is obligated to support by a lease, contract, or other arrangement, that are sold to or otherwise held or traded in by the public.

**Code** means the Internal Revenue Code of 1986, as amended.

**10-3 Authority.**

The Director, or another employee of the District specifically designated by the Director, shall be responsible for ensuring post-issuance and remedial action compliance with the requirements of any tax and financing documents for the District's outstanding Bonds.

The Director shall consult with Bond Counsel and other professionals as needed and may delegate certain duties, such as assisting with arbitrage compliance, to professionals as needed.

**10-4 Compliance with Covenants in Bond Documents and Regular Due Diligence Reviews.**

The Director shall ensure compliance with all covenants made by the District in the Bond Documents which must be complied with to maintain the preferential tax status of the Bonds, including, but not limited to use of Bond-financed facilities, timely completion of arbitrage rebate calculations, required filings and restrictions on investment of Bond proceeds. The Director shall review the Tax Policy and the Bond Documents at least annually for the purposes of identifying any possible violation of federal tax requirements related to Bonds and to ensure timely correction of any possible violations. If any possible violation is identified, the Director shall notify Bond Counsel so any expected or existing violation can be corrected.

**10-5 Federal Tax Law Compliance.**

- A. Proper Use of and Allocation of Bond Proceeds. The Director shall ensure that Bond proceeds are allocated to expenditures in a manner that is consistent with the purpose for each Bond issue as set forth in the Bond Documents. The Director shall also ensure that allocations of Bond proceeds to expenditures are timely made in accordance with the applicable tax regulations. As of the date of adoption of the Tax Policy, for each Bond issue, allocations of Bond proceeds to expenditures must be made within 18 months after the later of the date the expenditure was made or the date the project was placed in service, but not later than the earlier of five years after the Bonds were issued or 60 days after the Bond issue is retired.
- B. Investment of Bond Proceeds. The Director shall ensure that Bond proceeds are invested in investments that are permissible under the Bond Documents, and any applicable State laws and federal tax laws (e.g., federal tax law requires that investments purchased with Bond proceeds must be purchased and sold at fair market value).
- C. Arbitrage Calculations. The Director shall ensure the timely completion of arbitrage yield restriction and rebate calculations and filings for each issue of Bonds. The Director shall retain a rebate calculation agent to perform the rebate calculations.

- D. Yield Reduction/Rebate Payments. The Director shall ensure the timely payment, if applicable, of yield reduction payments and/or rebate, for each issue of Bonds. As of the date of adoption of the Tax Policy, rebate payments are due as follows: (i) 60 days after the end of the fifth Bond year; (ii) 60 days after the end of every fifth bond year thereafter; and (iii) 60 days after retirement of the last Bond of an issue.
- E. Use of Bond-financed Facilities. The Director shall review any agreement or other arrangement for the sale, lease or use of any portion of any Bond-financed facilities, including, but not limited to service, vendor and management contracts, research agreements, licenses to use Bond-financed property or naming rights agreements for compliance with federal tax laws and the Bond Documents. The Director shall consult with Bond Counsel for further guidance if deemed necessary.
- F. Post-Issuance Transactions. A significant modification of the terms of Bonds may result in Bonds being deemed refunded or “reissued.” Such an event shall require, among other things, the filing of new information returns with the federal government and the execution of a new arbitrage certificate. The Director shall consult with Bond Counsel before making any changes or amendments to Bond Documents for a Bond issue, including, but not limited to entering into investment agreements; making any change in security for the Bonds; terminating or appointing a successor trustee; releasing any liens; or reissuing a Bond issue.
- G. Remedial Action. If at any time during the life of a Bond issue, the Director discovers that a violation of federal tax law requirements applicable to that issue may have occurred, the Director shall consult with Bond Counsel to determine whether any such violation actually has occurred. If the Director determines that a violation has in fact occurred, the Director shall inform the Board of the same and shall take prompt action to accomplish an available remedial action under applicable regulations or to enter into a closing agreement with the Internal Revenue Service under the Voluntary Closing Agreement Program or other future published guidance.

#### **10-6 Record Retention.**

Management and retention of records related to the District’s Bonds shall be supervised by the Director. The Director shall retain for the life of Bonds plus the life of any refunding Bonds plus ten years records relating to: (i) general information regarding the Bond issue; (ii) expenditure of Bond proceeds; (iii) use, ownership and disposition of Bond-financed facilities; and (iv) investment of gross proceeds of Bonds. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.

**10-7 Training.**

Training for the Director and for any persons at the District to whom the Director specifically delegates any duties in the Tax Policy shall undergo initial training with Bond Counsel prior to each Bond issue and periodic training as necessary to discuss monitoring compliance with applicable federal tax laws relating to Bonds.

**10-8 Policy Review.**

The Tax Policy shall be reviewed annually. Any modifications shall be presented to and approved by the Board of Trustees.



## ALTADENA LIBRARY DISTRICT | FINANCIAL POLICY MANUAL

**SUBJECT:** Unfunded Accrued Liability Policy

**SECTION:** 11-0

**BOARD APPROVED:** 05/23/2022

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### 11-1 Purpose of the Policy

The purpose of this Unfunded Accrued Liability Pension Management Policy (the “Policy”) is to strategically address the existing and any future unfunded accrued liability (the “UAL”) associated with the Altadena Library District’s (the “District”) 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 District strives to reduce its UAL and the associated financing costs in the most cost-efficient and fiscally responsible manner possible.

The District 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 District 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 District is required to continually monitor its Pension Plans and the corresponding UAL.

### 11-2 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 District'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

### 11-3 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 District 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. In order 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 District 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.* In order to fund its employees' pension benefits, the District 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 District 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 District 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 District 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 District's Pension Plans wherein it calculates the District'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 District 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.

#### **11-4 Funding Level Objective**

It is the District's policy to strive to achieve and maintain a Pension "Funded Ratio" (being the ratio by which the Market Value of Assets—as set forth in the most recently published Valuation Report--exceeds the Entry Age Normal Accrued Liability or "EANAL"—as set forth in the most recently published Valuation Report) for each Pension Plan of 90%, Recognizing that, to achieve this objective while maintaining healthy reserves and provide sufficient funding for ongoing operations, thus this objective needs to be achieved over a period of time, the following Incremental Funding Level Targets are established.

##### **Incremental Funding Level Objectives**

By year 2025 – 80% but not below 75%

By year 2028 – 85% but not below 80%

By year 2031 and beyond – 90% but not below 85%

Achieving and maintaining the 90% Funding Level Objective ensures that the ongoing contributions of the District 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 the intergenerational equity. Falling short of this funded level forces future Board of Trustees to pay the costs of the poor planning and execution of today's Pension Plans. The reason for a Funding Level Objective of 90% rather than 100% is to allow some cushion for the possibility that good investment returns by CalPERS 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 District and its employees had contributed into the Pension Plan more than was necessary. Thus, while the District 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 by creating the “Section 115 Trust Fund” discussed herein.

**Guidance:** To achieve the Funding Level Objective, this Policy provides the following guidance options that should be considered in each year. The potential actions, individually noted below, may or may not be recommended to the Board for consideration each year based upon the status of the plans and fiscal needs of the District in that year while ensuring that the Funding Level Targets are maintained:

**Pre-Pay the Entire Annual UAL Payment by July 31<sup>st</sup> of each year.** On or before July 1st of each year, the District receives its annual CalPERS UAL invoice. The District has two payment options. The invoice can (1) be paid in equal monthly increments or (2) 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 District can concurrently save approximately 3.3% 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.

**Pre-Pay UAL from Reserves, One-Time Revenues and Fund Surpluses.** Reserves (typically invested in the Los Angeles County Investment Pool) 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. CalPERS does not apply any prepayment penalties to ADPs. Therefore, during each budget cycle, the District 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 District.

**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 District) 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 Board of Trustees 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.

**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 District to determine whether a refunding of such debt might result in net present value (NPV) savings of greater than 3%, and if so, consider a structure and strategy that frontloads the savings from such debt refunding, 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 NPV savings of greater than 3% are achieved by the Town.

**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, 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.

**Pension Obligation Financing.** The District 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 10%, 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 Board of Trustees.

**Annual Review of the CalPERS Actuarial Valuation Reports and Associated Tasks.** The District staff shall review or cause to be reviewed the annual CalPERS actuarial valuation reports within 30 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 District’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 District 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.

## 11-5 Establishment of a Section 115 Trust Fund

1. **Establishment of a Section 115 Trust Fund.** The District shall establish a Section 115 trust fund managed by a third-party investment manager (the “Investment Manager”). The Section 115 trust 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 Board of Trustees, based on recommendations made by the District staff during the annual budget process. Funds in the Section 115 Trust Fund should only be used to manage the District’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.

### 2. **Funding the Section 115 Trust Fund**

(a) **Sequestered Savings.** Upon the issuance of each series of Pension Obligations, for each of the next ten (10) consecutive years (or such other period of years as deemed appropriate by the Board of Trustees 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 Board of Trustees 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 Section 115 Trust Fund until such time that the Section 115 Trust Fund reaches the Section 115 Trust Fund Maximum (as outlined in section B3 below), and thereafter all Sequestered Savings will be directed to a “Pension Obligation Prepayment Fund” which will be established and maintained by District for the purpose of prepaying any outstanding Pension Obligations

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

$$\text{Annual Sequestered Savings} = \text{SSP} \times \left( \frac{\text{UALDS} - \text{DS}}{Y} \right)$$

SSP = Sequestered Savings Percentage

UALDS = Scheduled UAL debt service 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 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 District elected to sequester 50% of the total savings over a 10-year period (Y), which in this example results in an Annual Sequestered Savings of \$50,000.

$$\begin{aligned} \text{Annual Seq. Savings} &= 0.5 \times \left( \frac{8,000,000 - 7,000,000}{10} \right) \\ &= \$50,000 \end{aligned}$$

(b) Sequestered Surplus. Each Fiscal Year during the District’s normal budget adoption process, if the Funding Level Objective, as defined in Section 4(a), has been achieved and the 115 Trust Maximum, as defined in 4(b)3, has not been achieved, a percent between 0% and 50% of any available surplus from the prior Fiscal Year (the “Sequestered Surplus”) shall be set aside, transferred and deposited into the Pension Rate Stabilization Fund.

**3. Operation of the Section 115 Trust Fund**. Sequestered Surplus and Sequestered Savings (and any other amounts contributed by the District) shall be deposited in the Section 115 Trust 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 Section 115 Trust 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, District staff shall calculate, or cause to be calculated, the upcoming Fiscal Year’s estimated Funded Ratio by taking into account the most recent Valuation Report’s statement of Funded Ratio and adjusting for the estimated UAL amortization base that will be either added or subtracted due to the prior Fiscal Year’s investment result of either exceeding or falling short of the then current Discount Rate for that Fiscal Year (the “Estimated Funded Ratio”). If the Estimated Funded Ratio is estimated to be less than the Funding Level Objective, to the extent funds are available in the Section 115 Trust Fund, the appropriate member of staff 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, if sufficient funds are available in the Section 115 Trust Fund, staff shall assess whether to fully amortize any new UAL amortization bases in order to reduce the long-term interest costs associated with the “ramping” procedures used by CalPERS.

Moneys in the Section 115 Trust 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 110% (the "Section 115 Trust Fund Maximum"). To the extent monies in the Section 115 Trust Fund on June 31st exceed the Section 115 Trust 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), any accrued surplus over 110% may be used to offset the District's Normal Cost payment made to CalPERS in such Fiscal Year, and any Sequestered Savings will be directed to the Bond Call Fund.

**4. *Fiscal Hardship.*** In the event of a Fiscal Hardship (as defined below), transfers of Sequestered Savings may be abated and/or the Section 115 Trust 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, that has been declared by resolution of the Board of Trustees.

#### **11-6 Transparency and Reporting**

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

#### **11-7 Annual Budget to Contain Policy Directed Information**

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

#### **11-8 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 review to consider changes in the City's financial position and Pension Plan funded status over time. As such, District staff will review the policy for implementation of new best practices and will provide to Board of Trustees for adoption on an as needed basis, not to exceed 5 years.