

SACRAMENTO CENTRAL GROUNDWATER AUTHORITY

Financial Policy

1. Purpose

The purpose of this Financial Policy is to ensure that the Sacramento Central Groundwater Authority (SCGA) maintains sound fiscal management practices that:

- Comply with applicable federal, state, and local laws and regulations.
- Support fiscal stability and the effective and efficient conduct of operations.
- Provide transparency and accountability in financial management.
- Ensure reliable, equitable, and predictable revenue streams to support SCGA operating and project costs.
- Protect SCGA creditworthiness and financial position.

This Policy establishes the framework SCGA uses to manage revenues, expenditures, reserves, investments, grants, budgeting, procurement, and financial reporting.

2. Rules and Guidance

This Policy is adopted pursuant to, and shall be interpreted consistently with:

- The SCGA Joint Powers Agreement and any Board-adopted governance documents.
- California Government Code provisions governing local agency fiscal management, investments, and procurement.
- Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).
- Standards established by the American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA).
- Applicable state laws relating to financial management, auditing, and reporting for local agencies.
- Relevant administrative, legal, and regulatory requirements associated with groundwater management.

If any provision of this Policy conflicts with mandatory legal requirements, such legal requirements shall control.

3. Roles and Responsibilities

3.1 Board of Directors

The Board of Directors adopted this Policy and shall approve any necessary amendments to the Policy. The Board is responsible for:

- Approving the annual operating budget.
- Adopting fees and assessments.
- Approving contracts for services or supplies over \$50,000.
- Approving grant applications with cash match requirements.
- Authorizing use of reserves.
- Reviewing and approving regular financial reports.

3.2 Executive Director

The Executive Director provides overall oversight of SCGA financial management program and is responsible for:

- Ensuring implementation of the Policy.
- Preparing and presenting the annual operating budget to the Board.
- Undertaking periodic program and operational reviews for efficiency and effectiveness.
- Executing contracts within authorized limits.
- Seeking Board approval for grant applications.
- Preparing regular financial reports for Board review.

3.3 Treasurer

The Treasurer is responsible for:

- Investing available cash in accordance with this Policy.
- Maintaining a list of approved financial institutions.
- Periodically reviewing the investment portfolio for compliance with state law.
- Filing applicable financial disclosures as required by the Fair Political Practices Commission.
- Establishing and maintaining internal controls over investments.

3.4 Staff and Consultants

All SCGA staff and consultants involved in financial activities must:

- Comply with this Policy and applicable procedures.
- Maintain accurate and complete financial records.
- Protect confidential or sensitive financial information.
- Follow internal control procedures and authorization requirements.

4. Financial Management Standards

4.1 Operating Budget

General

The operating budget shall support the implementation of the Board approved work plan and provide a clear picture of the available resources and their use.

Format

The budget shall provide a complete financial plan for the ensuing fiscal year. The budget shall show in detail all revenues, carry-over fund balances and reserves, and expenditures for the ensuing fiscal year. The total of proposed expenditures shall not exceed the total of estimated revenues and carryover unrestricted fund balance. The budget shall be organized in an activity/task level format and show line-item details as necessary.

Process

Budget development begins in February after the prior year's audited annual financial statements are completed. The ending fund balances from the preceding year serve as the beginning balances for the current year. Using this information as a starting point, staff develop projections for revenues and expenditures for the remainder of the current fiscal year.

At the beginning of the budget process, staff determine how much potential funding is available in the budget year and beyond through revenue sources such as member and GSA contributions, special assessments, and state grants. This effort is central to determining cash flows for the budget year and is based, in part, on Board adopted contribution rates and fees.

Once the revenues for the budget year have been established, staff begin aligning expenditures with the available resources and their respective expenditure requirements. The expenditures baseline consists of professional consulting services, audit and other fiscal services, and overhead. The Authority executes multi-year contracts with many of its consultants who provide technical, operational, and administrative services. As such, staff work with each vendor to determine priority tasks so that the costs of those tasks can be incorporated into the budget.

The budget process is fluid. Staff continually monitor regional factors with potential implications to the Agency and Program. Pursuing funding is a strategic effort that, when successful, often requires timely planning to ensure the funds are spent according to law and contractual requirements.

During the budget hearing in April, the Board and members of the public may ask questions, make comments, or provide direction to staff. If any substantive budget revisions are required in response to comments, they will be incorporated into the final

budget which will be presented to the Board in June for its consideration and adoption. If there are material changes to the budget after its adoption, the Executive Director will confer with the finance team to determine if budget amendments are needed. As necessary, the adopted budget will be amended accordingly and presented to the Board for consideration and adoption.

Over the longer term, if Board direction leads to significant new projects or responsibilities, staff will work to identify financial resources to fund the increased workload. Staff monitors grant opportunities to offset the cost of existing or new initiatives.

Budget Calendar

Date	Activity
February	Staff begin developing estimates for revenue and expenditures for the remainder of the current year based on actual year-to-date information. Staff also begin developing expenditure projections for the budget year and beyond.
March	Staff work with the Treasurer finalize the draft budget.
April	Executive Director/Treasurer present draft budget to Board. Comments and desired changes are noted.
May	Prepare Final Budget and staff report. Incorporate recommended changes from April meeting. Updated revenue projections are provided by the Executive Director.
June	Executive Director/Treasurer present Final Budget with a staff report and resolution to the Board for adoption.
Subsequent to June	The Executive Director may recommend amendments to the Final Budget after adoption if revenues or expenditures do not materialize as planned subsequent to the adopted budget.

4.2 Revenues

General

SCGA shall implement and maintain funding mechanisms consistent with state law that assure a reliable, equitable, and predictable revenue stream to support SCGA's operating and project costs.

Revenue Estimates

SCGA shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process may include analysis of probable economic changes and their

impact on revenues, historical collection rates, and trends in revenues.

Revenue Collection and Administration

SCGA shall pursue to the full extent allowed by state law all overdue fees and assessments.

4.3 Expenditures

General

SCGA shall assure fiscal stability, and the effective and efficient conduct of operations, by identifying necessary operational requirements, establishing appropriate service levels and careful expenditure oversight.

Funding Basis

SCGA shall operate on a fiscal year basis with the period starting July 1 and ending June 30. Expenditures shall be budgeted and controlled so as not to exceed revenues and unrestricted fund balance carried over from a prior year. In evaluating the level of appropriations for activities/task, staff shall determine the essential services that support the SCGA and its objectives and activities, which are self-supported by dedicated revenues. The Executive Director may transfer appropriations between activities and tasks, within a specific fund; however, Board approval is required for the utilization of reserves. Appropriations, which are encumbered by approved agreements shall continue in force until expended, revised, or cancelled.

Avoidance of Operating Deficits

SCGA shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue estimates are such that an operating deficit (i.e. expenditures exceed revenues and unrestricted fund balance) is projected. Corrective actions can include expenditure reductions, fee increases, or use of reserves. Expenditure deferrals into the following fiscal year and short-term loans or use of one-time revenue sources shall be avoided to balance the budget, unless necessary.

Review

SCGA's Executive Director shall undertake periodic program and operational reviews for efficiency and effectiveness. Privatization and contracting with other governmental agencies shall be evaluated as an alternative approach to service delivery.

4.4 Fund Balance and Reserves

General

SCGA shall maintain a fund balance at a level sufficient to protect its creditworthiness and financial position from unforeseeable shortfalls.

Operating Reserve

SCGA shall strive to maintain an operating reserve sufficient to cover any anticipated shortfall in its revenue stream or unforeseen expenditure increases. SCGA shall endeavor to budget for a reserve account equal to at least three months' revenue as projected in the annual operating budget to meet changing operational requirements and economic uncertainties during the fiscal year.

Use of Operating Reserve

The operating reserve shall be used only for its designated purpose, emergencies and non-recurring expenditures. Should such use reduce the reserve balance below the appropriate level, restoration recommendations shall accompany the decision to utilize said reserve.

4.5 Grants

General

SCGA may seek, apply for and effectively administer federal, state and local grants that address current priorities and policy objectives.

Guidelines

SCGA shall apply, and facilitate the application by others, for only those grants that are consistent with the objectives approved by the Board. The potential for incurring ongoing costs shall be considered prior to applying for a grant.

Indirect Costs

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

Review

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet Board objectives. The Executive Director shall seek Board approval prior to submission of any grant application. If there are cash match requirements, the source of funding shall be identified prior to grant application. An annual report on the status of grant programs and their effectiveness shall also be prepared.

4.6 Fiscal Monitoring

General

Staff shall prepare and present to the Board regular reports that analyze and evaluate SCGA's financial performance and economic condition.

Status and Performance Reports

Periodic reports comparing expenditures and revenues to current budget, noting the status of fund balances, and outlining any remedial actions necessary to maintain an appropriate

financial position shall be prepared for review by the Board.

Forecast of Revenues and Expenditures

A longer term (five-year) forecast of revenues and expenditures, to include a discussion of major trends affecting SCGA's financial position, shall be prepared in anticipation of the annual budget process. The forecast shall examine critical issues such as economic conditions and the outlook for the upcoming budget year. The document provides insight into the anticipated financial position and communicates potential problem areas requiring Board attention.

4.7 Accounting, Auditing and Financial Reporting

General

Accounting, auditing and financial reporting shall comply with prevailing local, state, and federal regulations, as well as current professional principles and practices as promulgated by authoritative bodies.

Accounting Principles

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

Reporting

SCGA shall issue an annual audited financial report in conformity with GAAP.

4.8 Internal Controls

General

Staff shall establish and maintain an internal control structure designed to provide reasonable assurance that assets are safeguarded and that the possibilities for material errors in financial records, and fraud and misappropriation, are minimized.

Authorization

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

Separation of Duties

Duties shall be adequately separated to reduce, to an acceptable level, the opportunities for any person to be able to perpetrate and conceal errors or irregularities in the normal course of assigned duties.

Independent Checks

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

Costs and Benefits

Internal control systems and procedures must have an apparent benefit in terms of reducing and/or preventing losses. The cost of implementing and maintaining any control system should not exceed the expected benefits derived from that system.

4.9 Investments

General

SCGA shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; and provide for daily cash flow requirements.

Scope

The following applies to all investable funds identified in the annual financial report.

Objectives

The primary investment objectives, in order of priority, are:

- Safety - Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio shall and to mitigate credit and market risks.
- 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. The portfolio shall be diversified so that the failure of any one issuer does not harm the capital base and cash flow.
- Market 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.
- Liquidity - maintaining a sufficiently liquid investment portfolio to meet all reasonably anticipated operating needs.
- Yield - seek investments with a market rate of return throughout budgetary and economic cycles.

Delegation of Authority

SCGA's Treasurer is assigned the responsibility of investing available cash. The Treasurer is required to annually file applicable financial disclosures as required by the Fair Political Practices Commission. The management responsibility of the investment program may be

delegated to other individuals who may establish appropriate procedures consistent with this Policy.

Ethics and Conflicts of Interest

Individuals involved in investment activities must refrain from personal business activity that conflicts with proper execution of this Policy or impairs their ability to make impartial decisions.

Authorized Financial Institutions

The Treasurer shall maintain a list of approved financial institutions authorized to provide investment services to the SCGA.

The Treasurer may conduct a periodic review of the financial institution's financial condition.

Authorized and Suitable Investments

Investments are 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:

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.

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.

Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by California State Law.

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 total portfolio. Principal and accrued interest on these investments must not exceed the \$250,000 FDIC insurance limit. A maturity limitation of five years is applicable.

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. Effective January 1, 2026, the maximum percentage of the investment portfolio made pursuant to Government Code Section 53635.8 is limited to 30 percent of the portfolio.

Money market funds administered for or by trustees, paying agents and custodian banks

contracted by SCGA may be purchased as allowed under California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be used.

The following table presents the limits, by instrument,

Authorized Investment Type	Government Code	Maximum Maturity	Maximum in Portfolio	Maximum Investment in One Issuer
Treasury Obligations (bills, notes, & bonds)	53601(b)	5 Years	100%	N/A
US Government Agency and Federal Agency Securities	53601(f)	5 Years	100%	N/A
Local Agency Investment Fund (LAIF)	16429.1	Upon Demand	As permitted by LAIF	N/A
Negotiable Certificates of Deposit	53601(i)	5 Years	30%	N/A
Placement Service Deposits	53601.8 53635.8	5 Years	30%	N/A

Review of Investment Portfolio

The Treasurer shall periodically review the investment portfolio to ensure that all investments comply with California state law. The Treasurer shall establish procedures to report any major and critical incidents of noncompliance identified through the review of the portfolio.

Collateralization

Full collateralization shall be required on two types of investments: non-negotiable certificates of deposit and investments tied to pooled investment funds such as the Local Agency Investment Fund (LAIF). Collateralization requirements may be waived for any portion of the deposit that is covered by Federal Deposit Insurance.

Diversification

Investments within the portfolio shall be diversified or deposited in an investment pool to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. To support 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.

Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure assets are protected from loss, theft, fraud or misuse. Separation of functions between the Treasurer and other designated staff is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

4.10 Procurement of Services and Supplies

General

Professional and consulting services are of a technical and professional nature, and, due to the nature of the services to be provided, do not fall within the “low bid” competitive bidding process.

When considering the acquisition of outside services, the SCGA shall consider the consultant’s demonstrated experience and competence, insurability, understanding of the scope of work, financial ability, resources to perform the work, willingness to cooperate with the SCGA’s representatives and other consultants, and proposed methods to ensure timely and acceptable performance and management of the work. An award of a contract shall be made to a qualified consultant whose proposal shall be most advantageous to SCGA, with price and other factors considered. The selection for professional services shall be based on demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required, pursuant to Government Code Section 4526.

Selection of the successful vendor of supplies or equipment shall be based on the proposal that is most advantageous to SCGA, with price and other factors considered.

Contracting authority - \$50,000 or Less

The Executive Director may, by negotiated contract or purchase order, enter into contracts for services or supplies in the amount of \$50,000 or less, provided there are funds in the approved budget for such services or supplies. The Executive Director shall inform the Board of such contracts as soon as practicable.

Contracting authority - Over \$50,000

The Executive Director, after seeking written proposals and Board approval, may enter into contracts for services or supplies of more than \$50,000 provided there are funds in the approved budget for such services or supplies.

Exceptions

SCGA is not required to obtain competitive proposals in the following circumstances:

- When competitive procurement would fail to produce an advantage and when the procurement process is undesirable, impractical, or impossible. Examples include situations when the services or supplies are to be performed in partnership with

other public agencies or nonprofit organizations; or are to be paid for with private dollars.

- When the services or supplies are either: (i) available from only one source, or (ii) unique due to the specialized skill or experience of the contractor, consultant or supplier, or (iii) proprietary in nature.
- When the services or supplies are required to match, integrate or be compatible with an existing project or program and the work.
- When the services or supplies are obtained by cooperative procurements or “piggyback” on the procurement process of another agency. SCGA shall have the authority to join with other public jurisdictions in cooperative purchasing plans, programs or pricing agreements. SCGA may also contract for services and supplies at a price established by competitive procurement by another public jurisdiction in substantial compliance with that public agency’s competitive procurement process. SCGA may also contract with any federal, state, municipality or other public agency.

Renewals or Extensions

The Executive Director may amend, extend or renew contracts for services or supplies with existing contractors, consultants or suppliers without seeking competitive proposals, provided the total not to exceed amount of the contract with the amendment, extension or renewal is less than \$50,000, and further provided there are funds in the approved budget for such services or supplies.

Any amendment, extension, or renewal that increases the contract’s total not-to-exceed amount above \$50,000 shall require Board approval.

Compliance with Policy

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

Policy Information and Version History

Policy Title	Financial Policy
Approved By	SCGA Board of Directors
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