

SMUD BOARD POLICY

Category: Board-Staff Linkage	Title: Delegation To The General Manager With Respect To Real and Personal Property Policy
Date of Adoption: September 21, 2006	Policy Number: BL-10
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	Resolution No. 06-12-03

The following are anticipated outcomes of normal business operations of the District: (i) acquisition, disposition, and lease of interests in real property; (ii) disposition of surplus personal property; (iii) purchase, sale, and/or exchange of air emission credits (“ERCs”); and (iv) lease of the unused capacity on the District’s fiber optic infrastructure (“Dark Fiber”).

It is the District’s policy that such transactions be administered in a manner that is operationally and economically sound, serves the best interests of the District’s ratepayers, comports with sound business practices, and does not expose the District to unreasonable risk.

Delegations of Authority:

The General Manager is delegated authority to perform the activities within the approved policy of the Board within the parameters established for the four categories below.

Prudent Judgment:

It is the District’s policy that due diligence and prudent judgment be exercised in the making of decisions related to real and personal property of the District, including conducting a risk assessment. If the General Manager reasonably determines that an activity related to these transactions presents, regardless of the size of the financial commitment, either: (i) a unique and significant operational risk to the District; or (ii) a significant impact to customers, the General Manager shall inform the Board.

Reporting:

The General Manager shall report annually to the Board a summary of the actions taken with respect to the categories of transactions within this policy.

Category 1: Real Estate Transactions

The General Manager or his/her delegate is authorized to negotiate and enter into agreements on behalf of the District with third parties for the purchase, exchange, sale, or lease of real property interests of any type or description wherein the amount of the transaction does not exceed \$5 million, subject to the following conditions:

1. The price for a purchase or acquisition of the real property interest is for fair market value and within 115% of the District's appraisal of the value of the interest to be acquired;
2. If the agreement is for an exchange of property interests, SMUD shall remain "whole" and there shall be no conflicts among interested groups of residents/owners;
3. The sale of property shall be at fair market value after first offering the property interest to local agencies; then to the prior owner if able to be identified and located; and third to general public for maximum sale amount by listing the property on the open market or through a licensed real estate broker under a listing agreement, which agreement may be exclusive or nonexclusive;
4. The Board shall retain authority to approve any sale of a real property interest that is for less than fair market value based upon the District's appraisal of the value of the interest proposed for sale;
5. Leases shall be for terms of not more than five (5) years, shall not interfere with the District's use of the property, must be for a safe and lawful purpose, and shall provide a benefit to the public; and
6. Easements may be granted across or along District real property holdings provided that granting such an easement will not adversely impact District operations and will provide public benefit with no public opposition.

Category 2: Purchase, Sale, or Exchange of Air Emission Reduction Credits (ERCs)

1. **Purchase of ERCs:** The General Manager or his /her delegate is authorized to negotiate and execute agreements to purchase ERCs that are: (a) operationally needed or anticipated to be needed for existing or future gas-fired generation or to provide additional operational flexibility for existing

District gas-fired power plants; (b) the ERCs are purchased at or below fair market value; and, (c) the purchase price for the ERCs does not exceed Five Million Dollars (\$5,000,000).

2. **Sale of ERCs:** The General Manager or his/her delegate is authorized to negotiate and execute agreements to sell ERCs that are: (a) verified surplus to the District's needs; (b) for use by a new or current District customer; (c) sold at or above fair market value; and (d) the sale does not exceed Fifty Thousand Dollars (\$50,000).
3. **Exchange of ERCs:** The General Manager or his /her delegate is authorized to negotiate and execute agreements to exchange ERCs if the exchange: (a) provides the District present or future operational flexibility; (b) the ERCs obtained through any exchange are of equal or better quality as judged by applicable regulations; (c) the net value of the ERCs exchanged provides a net economic benefit to the District; and (d) the exchange does not exceed an aggregate fair market value of Fifty Thousand Dollars (\$50,000).

Category 3: Sale or Donation of Surplus District Personal Property

The General Manager or his/her delegate is authorized to dispose of personal property owned by the District within the following policy guidelines:

A. Compliance with the District's Environmental Protection Policy (SD-7)

The District shall develop a process to ensure that all surplus, scrap, or obsolete personal property sold, abandoned, or donated has been evaluated to ensure that the Board's Environmental Protection Policy (SD-7) has been met, and that any potential risks have been identified and have been determined reasonable by the District's Legal Department and/or Risk Department and/or Protection, Safety, and Environmental Department.

B. Determining If District Property is Suitable for Disposition Under This Policy

Personal Property will be considered "surplus" and subject to disposition under this policy if the property fits within one or more of the following categories:

1. **Surplus Property:** Personal property that is determined to no longer be necessary for District operations or that remains when the District's use or need for such property is satisfied. This category includes personal property which is no longer required by District operations, is deemed no longer appropriate for District use, or is no longer useful or suitable for the intended requirement and cannot be used elsewhere in the District operations.

2. **Scrap Property:** Personal property, materials, and/or supplies that are fragments or of unusable quantity or quality, rejected or discarded materials that are useful only as material for reprocessing such as waste, discarded metals, plastics, paper, or similar materials or recyclables.
3. **Obsolete Property:** Personal property is old, outdated, superseded, no longer current, has been taken out of use because it is no longer of a kind or type that is practical or useful to District operations, or that fails to meet the District's then current operational or technical requirements.

C. Sale of Surplus, Scrap, or Obsolete District Personal Property

In disposing of surplus, scrap, or obsolete personal property, the General Manager may use any or all of the following methods:

1. **Sale by Public Auction to the Highest Bidder.** The District shall use established local auction facilities that enable ratepayers the opportunity to view and bid for the purchase of surplus, scrap, or obsolete District personal property offered for sale in this manner. The District may use non-local facilities to sell specialized surplus, scrap, or obsolete equipment or such surplus, scrap, or obsolete personal property subject to disposal hereunder for which there is a limited market.
2. **Sale by Internet Auction.** The District may utilize publicly accessible Internet auctions, such as "eBay" to dispose of surplus, scrap, or obsolete personal property when in the District's best interests to do so.
3. **Sale by Sealed Bids, After Informal Requests for Bids, to the Highest Bidder.** The District may utilize the District's Electronic Bid Solicitation System for the disposition of surplus, scrap, or obsolete personal property when in the District's best interests to do so. The District shall reserve the right to reject any and all bids received for any item.
4. **Sale by Incidental Sale.** After a public offering upon advertising in such means as newspapers, District bulletins, notices, or directed solicitations, etc., the District may dispose of surplus, scrap, or obsolete personal property through incidental sales. The sale of any surplus, scrap, or obsolete personal property must be completed at a price that is acceptable to the District based on the best estimates of current fair market value.
5. **Sale by Direct Negotiations.** Negotiate sales for low dollar value items which, through good sound business practices, cannot be disposed of by reliance on using methods 1 through 4 above. Included in this category is the sale of surplus scrap materials or equipment to employees and the public when the cost to sell any of the materials or equipment by using any of the

methods listed above would exceed the estimated fair market value of the materials and/or equipment.

6. **Sale by Direct Negotiations (Specialized or Limited Market)**. Negotiate sales for highly specialized equipment no longer required by or necessary to District operations when the demand for such equipment is so limited (such as equipment at District power plants or substations) that methods 1 through 4 would be futile and would not meet the time constraints of requesting purchasers. Sales of surplus materials in this category will be made to meet urgency requirements by utilities or other public agencies. Sale would be conducted utilizing method 5 as stated above.

D. Donation of Surplus, Scrap, or Obsolete District Personal Property

Surplus, scrap, or obsolete personal property may be disposed of by abandonment or donation, if the property has no value, or after review and consideration, the General Manager or his/her delegate has determined that the intrinsic value of a donation exceeds the anticipated revenue from a sale utilizing assumptions of current fair market value.

Abandonment or donation of surplus, scrap, or obsolete personal property must serve the interests of the District's ratepayers, or enhance or improve the District's public perception in the eyes of its ratepayers. As a pre-condition of a donation:

1. The organization to which the surplus, scrap, or obsolete personal property is donated is a public agency, such as the State Department of Education or local school districts, or some other legitimate secular charitable, educational, or welfare association, or organization.
2. The surplus, scrap, or obsolete personal property has been determined to have no value after attempting to utilize methods 1 through 6 above or, a full and complete explanation of intrinsic value and the method used to determine fair market value has been delineated.
3. A process has been established to ensure the fair and open access to surplus assets to public or charitable organizations utilizing eligibility lists, lotteries, etc.
4. Sufficient outreach has been conducted by the District to ensure open access to or notice of surplus scrap or obsolete personal property.

Category 4: Leasing of Access to Use the District's Fiber Optic Network

The District is frequently approached by various governmental agencies seeking to use the District's unused capacity on its fiber optic infrastructure ("Dark Fiber") within the

District's service territory. The General Manager or his/her delegate is authorized to lease the District's Dark Fiber to governmental agencies within the following policy guidelines:

1. Dark Fiber will only be made available to lease upon the request of a public agency;
2. The lease must provide benefit to the District and its ratepayers;
3. The lease price charged must be based upon fair market value for the service provided and be consistent with the District's applicable pricing policies and guidelines;
4. The lease price charged may be offset, in whole or in part, by the "in-kind" exchange of goods and/or services, which to be acceptable to the District must provide the District comparable value to a fair market price based lease rate for the services provided;
5. The lease agreement shall guarantee the District the right to terminate the lease should the District need the Dark Fiber to satisfy its operational requirements;
6. No lease agreement, nor any extension or renewal thereof, whether automatic or negotiated, may exceed a term of ten (10) years.

Monitoring Method: Board Report
Frequency: Annually