ROCKLAND GREEN
CAPITAL EXPENDITURES

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I. Introduction

The Rockland County Solid Waste Management Authority d/b/a Rockland Green (hereinafter "Rockland Green") may fund Capital Expenditures (defined below) through a number of different channels, including tax-exempt bonds, operating revenue, available funds balances, state or federal grants, funds from other governments, and Rockland Green reserves.

This procedural document sets forth the guidelines for Capital Expenditures that are funded through any of these channels, as well as the guidelines for capitalizing such Capital Expenditures. This procedural document is intended to supplement the Bond Resolution and any Supplemental Resolutions (both as defined herein). If a Capital Project or Acquisition of a Capital Asset is to be funded by the proceeds of any Bonds and there is a conflict between this procedural document and the Bond Resolution and/or any Supplemental Resolutions, the terms of those documents shall govern.

This procedural document is also intended to be implemented in accordance with Applicable Law. It is Rockland Green's intent not to take any action which would conflict with federal, state or local law, including IRS rules, regulations, procedures or notices.

II. Definitions

Capitalized terms used herein, but not defined, shall have the meaning ascribed to them in the Bond Resolution.

"**Act**" means the Rockland County Solid Waste Management Authority Act, Title 13-M of Article 8 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended from time to time.

"**Acquisition**" means the purchase of Capital Asset(s) for Rockland Green ownership.

"**Applicable Law**" means any law, rule, code, standard, regulation, requirement, procedure, notice, policy, consent decree, consent order, consent agreement, permit, guideline, action, determination or order of any governmental body having jurisdiction, applicable from time to time to any activities associated with the subject matter of this procedural document, including for example, the Internal Revenue Code, Treasury Regulations, IRS Revenue Procedures and IRS Notices.

"**Bond Resolution**" means the Solid Waste Management System Bond Resolution adopted by Rockland Green on November 30, 1995, as amended and supplemented.

"**Capital Asset**" means an asset acquired by Rockland Green that has a Total Cost of more than Twenty Thousand Dollars ($20,000.00) and that has a minimum Estimated Useful Life of greater than one year and/or consistent with the requirements of the Bond Resolution, the Internal Revenue Code and Treasury Regulations, or as specified herein. Capital Assets may be acquired as part of a Capital Project or as a standalone acquisition.

“**Capital Costs**” means (a) Costs of any System Improvement; (b) Costs of Issuance of any Bonds issued to provide funds to pay Capital Costs; (c) to the extent properly attributable to Construction or the period of Construction the costs incurred for labor and materials and payments made to contractors, builders and materialmen in connection with Construction; (d) initial fees and expenses of the Trustee, initial host community payments, taxes or other governmental charges lawfully agreed to, levied or assessed on any property acquired; (e) amounts which are payable by Rockland Green in connection with (i) capital improvements and related capital expenses for which Rockland Green is responsible under any Solid Waste Management Contract, (ii) the voluntary termination, or other termination without cause, of any Solid Waste Management Contract, or (iii) any damages, judgments, awards, fines, penalties, assessments, or settlement comments arising out of any Solid Waste Management Contract or otherwise; and (f) costs reasonably related to any of the foregoing and designated by Rockland Green as being “Capital Costs”. Rockland Green may also designate any of the foregoing as not constituting Capital Costs, to the extent otherwise permitted herein and by Applicable Law.

“**Capital Expenditure**” means a Capital Project (or contemplated Capital Project) or the Acquisition (or contemplated Acquisition) of a Capital Asset that provides a benefit beyond one year.

“**Capital Costs of a Capital Asset**” means Capital Costs, and the total cost of the Capital Asset, which includes (in addition to what is otherwise described in this procedural document) the cash outlay or its equivalent that is necessary to acquire the asset and put it in operating condition, including, the contract price, freight, sales tax, licensing fees, handling and assembling, installation and testing, direct labor and material, indirect labor and materials, benefit and overhead allocations as well as any construction period interest cost, and professional fees (engineering, legal, appraisals, etc.) that are related to the Acquisition (or contemplated Acquisition) of the Capital Asset, as well as any other costs identified herein to be included.

“**Capital Costs of a Capital Project**” means Capital Costs, and, in addition to any other costs identified by Rockland Green, Rockland Green’s actual costs of the Capital Project (or contemplated Capital Project) to the extent those costs are (a) Capital Costs of a Capital Asset, (b) reasonable, necessary and related to the Capital Project, and (c) costs permitted by generally accepted accounting principles to be capitalized to an asset that is part of the Capital Project.

“**Capital Project**” means the Construction of a Solid Waste Management Facility.

“**Construction**” means the acquisition, erection, building, alteration, improvement, increase, enlargement, extension, reconstruction, renovation or rehabilitation of a System Improvement; the inspection and supervision thereof; and the engineering, architectural, legal, fiscal and economical investigation and studies, surveys, designs, plans, working drawings, specifications, procedures and other actions incidental thereto and may include the start-up of a System Improvement, the initial testing and acceptance of the System Improvement and the administration and management by Rockland Green of any Solid Waste Management Contract during the period prior to completion and commercial operation of the System Improvement.

“**Depreciation**” means the systematic and rational allocation of the estimated historical cost of a Capital Asset over its Estimated Useful Life. Rockland Green uses the straight-line depreciation method (historical cost divided by Estimated Useful Life).

“**Estimated Useful Life**” means the period of time over which an asset’s cost will be depreciated. A qualified engineer, architect, information technology specialist, or other professional with specific knowledge of the Capital Asset or Capital Project must provide estimates of useful life, unless such estimates of useful life are otherwise prescribed by the Internal Revenue Service.

“**Improvement**” means a renovation, rehabilitation, or reconstruction of buildings, structures, machinery, equipment or other tangible assets owned by Rockland Green.

“**Land**” means the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs and trees. Land is characterized as having an unlimited life (indefinite) and is not subject to depreciation.

“**Solid Waste Management Contract**” means all contracts, leases and agreements with any person to which Rockland Green including, but not limited to, contracts, leases or agreements with persons to construct or operate Rockland Green-owned Solid Waste Management Facilities and contracts, leases or agreements with persons to construct or operate Solid Waste Management Facilities not owned by Rockland Green for the purpose of providing solid waste management services to Rockland Green, and contracts, leases or agreements with persons to provide solid waste management services to Rockland Green, whether nor not utilizing the services of a Solid Waste Management Facility.

“**Solid Waste Management Facility**” means, in accordance with the terms of the Act, any facility, plant, works, system, building, structure, improvement, machinery, equipment, rolling stock, fixture or other real or personal property which is to be used, occupied or employed for, or in furtherance of, the collection, receiving, transporting, storage, processing, treatment or disposal of Solid Waste or the recovery by any means of any material or energy product or resource therefrom including but not limited to recycling centers, material recovery facilities, mixed waste processing facilities, household hazardous waste facilities, transfer stations, shredding facilities, bailing facilities, rail haul or maritime facilities, processing systems, resource recovery facilities, steam and electric generating and transmission facilities, including auxiliary facilities to supplement or temporarily replace such generating facilities, steam distribution facilities, sanitary landfills, plants and facilities for compacting, composting or pyritization of solid waste or manufacturing or enhancing the value of materials or commodities recovered from solid waste incinerators, and other solid waste disposal, reduction or conversion facilities and resource recovery equipment, source separation equipment and disposal equipment as defined in subdivisions four and five of Section 51-0903 of the State Environmental Conservation Law.

“**Supplemental Resolution**” means any resolution of Rockland Green authorizing the issuance of a Series of Bonds or supplementing or amending the Bond Resolution, adopted by Rockland Green in accordance with the Bond Resolution.

"**System Improvement**" means any Solid Waste Management Facility, the planning, development, financing, construction, operation, or maintenance of which is authorized to be undertaken in whole or in part by Rockland Green pursuant to the Act, and constituting facilities, improvements and extensions to the Solid Waste Management System to be constructed with the proceeds of a Series of Bonds or funds from another source.

"**Total Cost**" means, with regard to a Capital Asset, the total amount of Capital Costs of a Capital Asset and with regard to a Capital Project, the total amount of Capital Costs of a Capital Project.

III. Capital Costs

In addition to the Capital Costs of a Capital Asset and Capital Costs of a Capital Project described herein, to the extent permitted by Applicable Law and generally accepted accounting principles, it is Rockland Green's policy to capitalize any cost that is specifically identified by Rockland Green in connection with a planned (or contemplated) Capital Project or Capital Asset Acquisition (or contemplated) Capital Asset Acquisition. Rockland Green may also specifically identify certain costs that will not be considered Capital Costs, as permitted by Applicable Law.

Capital Projects may span a number of years from initial concept to project completion (or in some cases, a determination not to proceed with a project). As such, Capital Projects may involve Capital Costs incurred over an extended period of time.

IV. Capitalizing Capital Assets

a. Capital Asset Categories.

The following Capital Asset categories are used by Rockland Green:

i. Land
ii. Buildings
iii. Improvements
iv. Machinery and Equipment
v. Construction in Progress

b. Aggregate Purchases

Although, in general, the threshold of $20,000 applies to each unit purchased, consideration should also be given to the aggregate amount of large quantities of like units, which individually would not be capitalized. Capitalization of such aggregate amounts would be determined on a case by case basis.

c. Leased Equipment

Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.

- The lease term is equal to 75% or more of the estimated economic life of the leased property.
- The present value of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease. This criterion will be updated following the implementation of GASB Statement No. 87 *Leases*, effective for fiscal years beginning after June 15, 2021.Depreciating Capital Assets

Capital Assets should be depreciated over their Estimated Useful Lives in accordance with this procedural document, unless they are inexhaustible. One half of a year of depreciation will be included in the first year following the completion or acquisition of the asset.

d. Residual Value

Residual value is the estimated fair value of a Capital Asset remaining at the end of its Estimated Useful Life. In order to calculate depreciation for an asset, the estimated residual value must be established before depreciation can be calculated. The use of historical sales information becomes a valuable method for determining the estimated residual value. Proceeds from sale of assets must be netted against residual value in computing net gain or loss from sale.

Rockland Green generally purchases assets with the intent to use such assets until its usefulness is exhausted. Therefore, Rockland Green will estimate residual value to be zero for all Capital Assets.

V. Capital Expenditures

a. Bond Proceeds Funding

Capital Expenditures that are funded through bonds, including tax-exempt bonds must meet the requirements of the Bond Resolution, the applicable Supplemental Resolution, and Applicable Law , including, but not limited to the Internal Revenue guidelines governing the allowable uses of bond proceeds in order to maintain tax-exempt status, as applicable, and this procedural document.

The criteria for determining whether expenditures or obligations may be funded with bond proceeds are set forth in the Bond Resolution, Supplemental Resolutions and this procedural document. To the extent that the Bond Resolution and Supplemental Resolution do not address what constitutes an eligible Capital Expenditure or what costs may be included in the Total Cost of the Capital Expenditure, this procedural document provides guidance.

b. Acquisition, Construction and Improvements

Normally, expenditures that result in the ***acquisition, construction, or improvement*** of Rockland Green owned Capital Assets are eligible for use of bond proceeds and are eligible to be capitalized.

i. Acquisition

Acquisition refers to the purchase of Capital Assets, including Land, buildings, equipment or machinery for Rockland Green ownership.

Capital Costs related to Acquisition generally include, but are not limited to, the cost of preparing plans and specifications and obtaining appraisals and legal assistance related to acquisition. Planning studies, including master plan studies and feasibility studies, may be capital when such studies are an intrinsic part of a design or appraisal process that is required prior to acquisition (or the contemplated acquisition) of a Capital Asset.

1. *Land:* Examples of Costs to be included in the Cost of Land include, but are not limited to: (1) purchase price or fair market value at time of acquisition; (2) professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.); (3) accrued and unpaid taxes at date of purchase; (4) other costs incurred in acquiring the land; and (5) right-of-way or easement payments.

2. *Buildings:*

    - Examples of Costs to be included in the Cost of *purchased buildings*, include, but are not limited to: (1) original purchase price; (2) expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired; (3) environmental compliance; (4) professional fees (legal, architect, inspections, title searches, etc.); (5) payment of unpaid or accrued taxes on the building to date of purchase; (6) cancellation or buyout of existing leases; and (7) other costs required to place the asset into operation.

    - Examples of Costs to be included in the Cost of *constructed buildings*, include, but are not limited to: (1) completed project costs; (2) cost of excavation or grading or filling of land for a specific building; (3) expenses incurred for the preparation of plans, specifications, blueprints, etc.; (4) professional fees (architect, engineer, management fees for design and supervision, legal, etc.); (5) costs of temporary buildings used during construction; (6) unanticipated costs such as rock blasting, piling or relocation of the channel of an underground stream; (7) permanently attached fixtures or machinery that cannot be removed without impairing the use of the building; and (8) additions to buildings (expansions, extensions or enlargements). In accordance with accounting principles generally accepted in the United States of America, employee costs rendered in connection with the construction of assets are not included in capital costs.

3. *Machinery and Equipment:* Examples of Costs to be included in the Cost of machinery and equipment include, but are not limited to: (1) original contract or invoice price; (2) freight charges; (3) handling and storage charges; (3) in-transit insurance charges; (4) any taxes imposed on the acquisition; (5) charges for testing and preparation for use; (5) costs of reconditioning used items when purchased; (6) computer software and hardware; (7) parts and labor associated with the construction of equipment; and (8) professional fees

(engineer, legal, appraisals, etc.) **Note:** Costs of extended warranties and/or maintenance agreements, which can be separately identified from the equipment, should not be capitalized.

All of the Capital Costs of a Capital Asset are included in the Total Cost of the particular asset that is acquired, as well as any other costs that are specifically identified by Rockland Green as Capital Costs in connection with a Capital Project or Capital Asset Acquisition (or contemplated Capital Project or Capital Asset Acquisition), and are required by generally accepted accounting principles or general Federal income tax principles to be capitalized to that type of asset, including any costs identified in the applicable Supplemental Resolution.

ii. **Construction**

The costs that may be capitalized as part of Construction, include but are not limited to, professional fees (engineer, architect, legal, surveys, appraisals, etc.), the cost of preparing plans and specifications that are required for Construction; the cost of legal assistance related to the Construction; planning studies, including master plan studies and feasibility studies (when they are an intrinsic part of a design process that is required prior to Construction of a Capital Asset); the cost of soil tests, borings, and other architectural or engineering tests required to ensure competent Construction; site preparation expenditures, such as demolition, that are directly related to a Construction project; and the removal of and/or testing for hazardous materials.

The cost of purchasing necessary furniture, fixtures, and equipment to operate the facility being constructed may be eligible for capitalization provided that the furniture and equipment have a life expectance in excess of 1 year and the equipment, fixtures or furnishing must be an integral part of or directly related to the basic purpose or function of the facility.

All of the Capital Costs of a Capital Project are included in the Total Cost of a Construction project, as well as any other costs that are specifically identified by Rockland Green as Capital Costs in connection with a planned Capital Project and are required by generally accepted accounting principles or general Federal income tax principles to be capitalized, as well as any costs identified in the applicable Supplemental Resolution.

Capital Projects may span a number of years from initial concept to project completion (or in some cases, a determination not to proceed with a project). As such, Capital Projects may involve Capital Costs incurred over an extended period of time that are deemed construction in progress until completion or abandonment of the Capital Project. Construction in progress reflects the economic construction activity status of Capital Projects, buildings and other structures, additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete. Upon completion or abandonment, construction in progress will be reclassified to its appropriate asset classification and depreciated over its Estimated Useful Life.

iii. **Improvements**

Improvements refers to renovation, rehabilitation, or reconstruction of buildings, structures, machinery, equipment or other tangible assets owned by Rockland Green. Improvements funded by bond proceeds must result in extending the Estimated Useful Life of a Capital Asset or substantially increase the asset value.

Improvements do not include routine maintenance and repairs. Bond proceeds may not be used to fund routine maintenance and repairs, even when those repairs require major expenditures. Maintenance includes a recurring activity necessary to maintain the operation, functionality, appearance, or safety of a piece of equipment, building or structure. Repairs are maintenance projects that fix a problem but do not extend the Estimated Useful Life of an asset. Maintenance and repairs generally include any project with the objective of returning or restoring an item back to its original intended use or state. Examples of maintenance and repairs include: fixing a part or component of the heating or cooling system, fixing a leaky pipe, patching a wall, repainting, sealing windows or floors, mold remediation, replacing sections of flooring or ceiling tiles, and glass replacement, resetting exterior walkways, and replacing roofing shingles to fix a leak.

All of the Capital Costs of a Capital Project are included in the Total Cost of an improvement project, as well as any other costs that are specifically identified by Rockland Green as Capital Costs in connection with a planned Capital Project and are required by generally accepted accounting principles or general Federal income tax principles to be capitalized, as well as any costs identified in the applicable Supplemental Resolution.

1. Examples of expenditures to be capitalized as improvements

Examples of expenditures to be capitalized as improvements to buildings, include, but are not limited to: (1) installation or upgrade of heating and cooling systems, including ceiling fans and attic vents; (2) original installation/upgrade of wall or ceiling covering, such as carpeting, tiles, paneling, or parquet; (3) structural changes, such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids or other interior framing; (4) installation or upgrade of window or door frames, upgrading of windows or doors, built-in closet and cabinets; (5) interior renovation associated with casings, baseboards, light fixtures, ceiling, trim, etc.; (6) exterior renovation, such as installation or replacement of siding, roofing, masonry, etc.; (7) installation or upgrade of plumbing and electrical wiring; (9) installation or upgrade of security system, phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building).

Other expenditures for an improvement project include, but are not limited to the cost of purchasing furniture, fixtures, and equipment provided that the furniture, fixtures, and equipment have a life expectancy in excess of 1 year; professional fees (architect, engineer, management fees for design and supervision, legal, inspections, etc.) the costs of preparing plans and specifications that are required for improvement purposes; planning studies, including master plan studies and feasibility studies (when such studies are an intrinsic part of a design process that is required prior to improving a tangible asset); soil tests; borings and other architectural or engineering tests required to ensure competent improvements; legal assistance related to the improvement; site preparation expenditures, such as demolition, that are directly related to an improvement project; and the removal of and/or testing for hazardous materials.

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or Estimated Useful Life of the building. A replacement may also be capitalized if the new item/part is of significantly improved quality or higher value compared to the old item/part, such as replacement of an old shingle roof with a new fireproof tile roof.

Examples of expenditures to be capitalized as Land improvements include, but are not limited to: (1) site improvements such as excavation, fill, grading, and utility installation; (2) removal, relocation, or reconstruction of property of others (railroad, telephone and power lines); (3) fencing; (4) landscaping; (5) parking lots; and (6) retaining walls.

A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement meets the capitalization threshold, or the expenditure increases the Estimated Useful Life or value of the building.

VI. Exempt Status of Tax-Exempt Bonds and Record Retention

a. Exempt Status of Tax-Exempt Bonds

A tax-exempt municipal bond is a debt security issued by Rockland Green to finance its Capital Expenditures. Interest income received by holders of municipal bonds is often excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code, and may be exempt from state income tax as well, depending on the applicable state income tax laws. In order to keep the tax-exempt status of the bonds, there are many federal regulations that must be followed. Some of the regulations include, in addition to the Capital Expenditure requirement: limiting the amount of non-governmental use of the bond-financed property, limiting the amount of arbitrage earned on the investment of the bond proceeds, allowing only qualifying costs to be paid with bond proceeds, and spending the proceeds in a timely manner. Additional federal regulations required to maintain the tax-exempt status of bonds are described in Sections 103, and 141-150 of the Internal Revenue Code 1986, as amended, and the regulations and other guidance promulgated thereunder.

It is Rockland Green's intent to always comply with these authorities with respect to assets financed with tax-exempt bonds, such that it maintains its tax-exempt status; and therefore it consistently and closely reviews the terms and conditions of its contractual relationships to ensure they are structured in a way that complies with the regulations.

b. Record Retention

For all tax-exempt bond-financed assets, Rockland Green must maintain copies of invoices, contracts, leases and any other records demonstrating the expenditure of the bond proceeds and the uses of the project for a period ending not earlier than three (3) years after the maturity date or the redemption date, if earlier, of all the original bonds or refunding bonds. These documents will be needed if an IRS audit is conducted on the bonds to maintain tax exempt status.

Examples of documents to retain, include:

- Bond reimbursement requests
- Requisitions, draw schedules, draw requests, invoices, bills and documents that relate to how the bond proceeds were spent
- Leases that relate to the use of the financed assets
- Management contracts that relate to the use of the financed assets
- Service contracts that relate to the use of the financed assets
- Construction contracts that relate to the use of the financed assets
- Any other contracts that relate to the use of the financed assets
- Private business use that relates to the use of the financed assets
- Records regarding the purchases or sales of bond financed assets

VII. **Effective Date and Retroactive Treatment**

This procedural document is effective as of January 1, 2019. Assets with no remaining book value as of December 31, 2020 will be removed from the fixed asset tracking schedule. Depreciation methodology and categorization of any remaining assets as of December 31, 2020, will not be adjusted upon the adoption of this procedural document.