

CHAPTER 6

Budget Policy

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Policy Statement

The purpose of this statement is to set forth the policy for the development of fiscally sound budgets in an efficient and timely manner, with adequate public participation, and accountability. The Agency Budget shall serve as a financial plan to promote financial stability, while accomplishing the Board's goals and objectives.

Policy Scope

This policy applies to all Agency funds.

Agency Budget

The Agency Budget is comprised of Budget Schedules, which detail projected revenue and authorized operating and capital expenses for each Budget Unit and shall serve as the Agency's annual financial plan. Budget Units include: Agency Wide, Water Division and Power Division. The Agency's fiscal year is from January 1 through December 31.

The Agency Budget is intended to be flexible, and may be changed as the activity levels change with appropriate Department Head, Director of Financial Services, General Manager or Board approval, as described in this Budget Policy. Whenever possible, the Agency Budget will be balanced, meaning that current year authorized expenses do not exceed projected current year revenue. At year-end, if actual annual revenue exceeds actual annual expenses, the net funds will be directed to that Budget Unit's Reserve accounts.

Budget Schedule

Each Budget Unit's annual financial plan shall be documented in a Budget Schedule. The Budget Schedule shall be segregated into ~~in~~ four sections: Revenue, Operations, Capital Projects and Summary. The Revenue section shall include projected revenue for each funding source. The Operations section shall include departmental expenses, service level support allocation, debt service (if any) and routine capital. The Capital Projects section includes the total of the anticipated construction projects for the upcoming year, plus debt service, if any. The Summary section will summarize the Revenue, Operations and Capital Projects amounts and indicate the amount to or from Reserves.

Budget Format

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The Agency Budget shall be comprised of each Budget Unit's Budget Schedules, associated supporting schedules and notes to provide understanding and transparency. Also included in the Agency Budget shall be the budget amounts in financial statement format, a schedule of reserves, the Annual CIP, the Five-year CIP, and CIP project descriptions.

Funding Appropriation

Upon Board approval, the budgeted expenses shall be deemed to be appropriated and authorized from the funding sources indicated in the adopted Agency Budget. The Agency Budget may be amended by the Board to accommodate changes in the Agency's financial plan. Agency expenditures shall be limited to the Board approved budgeted amounts (original budget and amendments).

Budgeted operating expenses are authorized only for the fiscal year identified. Expense authority does not carry forward into the subsequent fiscal year without an authorized encumbrance.

Upon Board of Directors approval, the Annual CIP is authorized and appropriated and may be funded to specific projects, in which case funds shall be carried forward until the project is complete. At the end of the year any remaining CIP budget balance not funded to specific projects may be carried forward into the subsequent year at the category level at the discretion of the Director of Financial Services.

The Director of Financial Services shall report to the Board of Directors the check register of issued payments since the last report on each Board agenda.

Budget Process

The Agency's budget process includes activities that encompass the development, public review, and implementation of the Agency Budget. The General Manager and Director of Financial Services shall annually prepare the Agency Budget for consideration by the Board of Directors as provided herein:

Agency Budget Development and Timeline

The Director of Financial Services shall coordinate the Agency's annual budget process which shall commence in the mid-to-late Spring with each department developing a

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proposed budget for the next year and concluding later in the year with the Board consideration of the recommended Agency Budget.

Finance Committee

Each year the Chair of the Board shall appoint a Finance Committee consisting of two directors. At the request of the General Manager, the Finance Committee shall meet at least twice to provide direction in the preparation of the proposed Agency Budget. The public shall have an opportunity to provide input on the proposed budget at the Finance Committee meetings.

The General Manager shall schedule the Finance Committee meetings such that the Board of Directors may consider the approval and adoption of the next year's proposed Agency Budget no later than the first regular meeting in December of each year.

East Slope Meeting

At a minimum, Agency staff shall invite representatives of all East Slope public water agencies to meet as a group with such staff at least twice during the budget preparation process before a proposed budget is submitted to the Agency Board. The Agency shall use its best efforts to hold at least one meeting each year on the East Slope to provide an opportunity for at least 2 Board members to hear input from East Slope representatives regarding their needs prior to budget adoption.

Notice of Budget Hearing

The Agency shall give broad public notice throughout its jurisdiction of the time and place of the budget hearing, and where copies of the proposed Agency Budget may be obtained. Such notice shall be published at least ~~fourteen~~10 days prior to the public hearing date and be transmitted to any person who has filed a written request for such notice with the Agency. Any requests for notice shall be valid for one year from the date it is received by the Agency. The Agency may charge a reasonable fee for photocopies related to such notices if they are required to be mailed.

Budget Hearing

The Board shall hold at least one public hearing each year on the proposed Agency Budget. At the public hearing, any member of the general public may appear and be heard regarding any item in any of the proposed Budget Schedules or request more

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detailed information. The hearing may be continued from time to time as determined by the Board.

Consideration for Approval of Budgets

After the conclusion of the public hearing, the Board may consider revisions to the proposed Agency Budget that the Board deems appropriate, whereupon the Board shall adopt the Agency Budget. In the event the Board does not adopt an Agency Budget by December 31st for the following fiscal year, the current fiscal year's adjusted Agency Budget shall serve as the financial plan until the Board adopts a new budget.

Special Conditions

Agency Wide

- Historically, the Agency Wide budget unit does not have sufficient annual revenues for capital appropriations, thus it is expected to use reserve funds for this purpose. For this same reason, the Capital Improvement Plan budget will be approved at the project level.
- The Agency Wide budget will not include estimated revenue from Out-of-County water sales or Middle Fork Project Finance Authority (Authority) net revenue distributions because the events producing these amounts are not known at the time the budget is drafted. When and if received, such funds shall be directed to the Agency Wide Reserve accounts until consideration or appropriation by the Board of Directors during the Budget Process.
- The stewardship function of Agency Wide is such that its funds may be devoted to programs and purposes throughout the Agency's jurisdiction. Requests for appropriations of Agency Wide funds from any Agency Zone or local water district shall be considered on a competitive basis. The Agency's Financial Assistance Program was established to support this purpose. Any appropriation to the Financial Assistance Program shall be included in the Agency Wide budget.

Water Division

- The Water Connection Charge (WCC) revenue use is restricted by Government Code for capacity enhancing capital projects or related debt service. Thus, WCC revenue and expenses are not included on the Water Division Budget Schedule.

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Instead, the Agency Budget shall include the WCC revenue and expense in a separate schedule in the Water Division section.

Power Division

- Per Authority Policy, the Reserves for the Middle Fork Project are held by the Authority not the Agency, hence, no reserves are held by the Agency or presented in the Agency's Budget Schedules for the Power Division.

Capital Improvement Plan (CIP) Budget

- The Agency's Capital Improvement Plan budget shall be comprised of two components: A Five-year CIP and an Annual CIP. The Annual CIP shall be the basis for the current year's Budget Schedule and capital appropriation. The Five-year CIP is for planning purposes, not for spending authorization or appropriation.

Budget Responsibility and Approval

Budget Responsibility

It is the responsibility of the Department Director to prepare the annual departmental operating budget and the capital budget, authorize expenditures and monitor budget compliance for his/her department.

Budgetary Control and Accountability

The departmental operating budgets shall be approved by Budget Unit at the departmental level. The Board adopted budgets will be monitored at the total department level by Budget Unit for budgetary compliance.

The CIP budget shall be approved and monitored at the category level (for example: Treated Water Transmission & Distribution Projects). This approach is intended to provide the flexibility, as conditions change, to use appropriated funds to complete any capital project that falls within this Category.

Budget and Budget Amendment Authority and Approval

The Director of Financial Services shall coordinate, and is responsible for the accurate processing of the budget and budget amendments. This includes ensuring that all amounts are appropriately authorized, processed and correctly recorded. Department

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Directors shall be responsible for initiating amendments within their operating and capital budgets.

The Director of Financial Services shall be responsible to monitor and, if needed, enforce, budgetary compliance regarding adherence to the Board of Directors approved Agency Budget including the individual departmental operating budgets and capital project budgets.

Board of Directors - The Board of Directors has the sole authority to approve the Agency Budget, and to increase the budget after its adoption. In addition, all capital project transfers greater than \$100,000 between Annual CIP categories shall require Board approval.

General Manager – Within the spending authority authorized by the approval of the Agency Budget, and any amendments thereto, by the Board, the General Manager has the authority to make or approve administrative adjustments to the budget, including all delegated authority granted to Department Directors, listed below:

Director of Financial Services - The Director of Financial Services has the authority to make or approve administrative adjustments to the budget as follows:

- Operating budget amendments involving two or more departments.
- Operating budget amendments involving adjustments to routine capital.
- Capital project transfers between CIP Categories up to and including \$100,000. The Board shall be notified of the amendment(s) within 90 days.
- Capital project transfers within CIP Categories exceeding \$100,000. The Board shall be notified of the amendment(s) within 90 days.
- New capital projects within a CIP Category. The Board shall be notified within 90 days.

Director of Administrative Services - The Director of Administrative Services has the authority to request adjustments to the salary and benefit (personnel services) accounts, except those under the specific plan and control of departmental budget, (such as temporary labor, overtime, standby labor, overtime meal, educational reimbursement or similar), and shall coordinate and recommend additional appropriations to the Board. The Director of Financial Services and General Manager shall approve of any administrative adjustments or supplemental appropriations to ensure accurate processing.

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Department Director Level - Each Director has the authority to make administrative adjustments to their department budgets within the same Budget Unit.

Key Terms

“Administrative adjustment” means an adjustment to the budget which does not increase the budget.

“Agency Budget” means the financial plan and expense appropriations to carry out Agency operations, maintenance, and capital projects.

“Balanced budget” means a Budget Unit’s sources (revenue) equal or exceed its uses (expense appropriations).

“Budget Unit” means the fund or business unit such as Agency Wide, Power Division or Water Division.

“Capital Improvement Plan” or “CIP” means anticipated resource needs for capital infrastructure projects.

“Capital Project” means a construction project for the Capital Improvement Plan.

“Category Level” means grouping of projects based on the nature of the project, i.e. Treated Water Storage Projects.

“Department Level” means the total department budget amount in a Budget Unit.

“New Project” means a project which is not presented in the Annual CIP.

“Reserves” are funds held by the Agency for designated purposes.

“Routine Capital” shall mean equipment and similar items necessary for routine Agency operations, in accordance with the Agency’s Capital Asset Policy.