

Sacramento Suburban Water District

Budget Policy

Adopted: September 15, 2014

Approved with changes on: July 16, 2018

100.00 Purpose of the Policy

The District's annual budget, as approved by the Board, will serve as the basis for operating the District. The budget includes a number of specifically identified projects, their attendant costs, as well as projected costs for operations and maintenance activities.

200.00 Policy

The District's Strategic Plan will serve as a guide/tool in the development of the District's annual Budget. The District will establish and maintain separate operations & maintenance (O&M), operating capital, capital improvement and debt service budgets (collectively – District Budget) in order to provide for proper fund management, financial planning and long-term solvency of the District.

On a combined basis, the Budget will comprise or include the following:

- A. Self-Supporting – The District will be self-supporting, such that current revenues fully fund current expenses and any fund balance or debt service coverage requirements.
- B. Prioritization – In concert with the adopted District's Strategic Plan, Asset Management Plans, Urban Water Management Plan and all other District planning documents and as recommended by staff, the Board will prioritize projects and expenditures within the constraint of expected revenues.
- C. Capital Accounts – Capital revenues from rates, grants, loans and other financing mechanisms will be accounted for separately in capital accounts, such that funds dedicated for capital purposes are expended only for capital purposes.
- D. Adequate Funding to Preserve System Assets – Total operating expenditures will be funded at a level that will preserve the intended life and functional requirements of the District's water system.
- E. Evaluation and Monitoring of Costs – Costs will be evaluated and monitored through monthly and annual reporting to ensure that the District is operated in a cost effective and economically prudent manner.
- F. Maintenance of Sufficient Reserves – The District will maintain sufficient reserves in accordance with the District's Reserve Policy (PL Fin 004.).
- G. Positive Annual Net Income - The District will strive to achieve positive annual net income (total revenue less O&M expenditures, debt service and capital projects funded from rates) greater than or equal to zero on a cash basis.

- H. Bond/COP Rate Covenant Requirements – The District will budget such that it will exceed the Rate Covenant obligations of its indebtedness, which is a minimum of 115% of the District’s annual debt service costs.
- I. Strive for Rate Stability - Rate stability reinforces the concept that costs are being managed and controlled. Rates should be stable in their ability to generate sufficient revenues.
 - 1. Needed rate adjustments will attempt to minimize impacts to customers by phasing-in or transitioning large rate adjustments over time where possible.
 - 2. Where possible and deemed appropriate, excess fund balances will be used to offset rate increases with any remaining balances being used for approved capital purposes. The use of fund balances (reserves) will not compromise the Reserve Policy regarding minimum targeted reserve levels or adequate funding on a long-term self-sustaining basis.
 - 3. Annual rate reviews will consider a five-year projected period in an attempt to stabilize and minimize rates over time.
 - 4. A comprehensive rate study will be conducted at least every five years by an outside party as determined by the Board in order to assess the fairness of the rates to the District’s ratepayers and to verify that necessary revenue is available for the District’s operating and capital needs.

Rate stability shall be maintained in line with established District policies and its mission statement.

300.00 Budget Presentation

The budget will be comprised as follows:

- 1. Key Assumptions – To include expected water production and source.
- 2. Revenue Projections – To include projected net income.
- 3. Projected debt service coverage ratio.
- 4. Reserve Balance Projections.
- 5. Trend and/or Comparative Information

The four budgets will include the following:

- 1. Operations and Maintenance Budget (O&M):
 - a. Incorporates all District O&M expenses, including:
 - b. Expected Other Post Employment Benefit costs and funding to be separately identified and approved.
 - c. Annual labor budget and its components per the Employee Compensation Policy (PL – HR 002) section 300.00
 - d. Segregated by department and function.
- 2. Operating Capital Budget (OCB):
 - a. Will include all Information Technology capital projects, vehicle and fleet capital costs, capitalizable office furniture, and capitalizable costs for operations. Capitalizable costs in the OCB Budget are distinguished from those in the Capital Improvement Program Budget based, generally, on the shorter expected life of the asset and the asset is not part of the general water delivery system.

3. Capital Improvement Program Budget (CIP):

- a. Will be based primarily on the District's Asset Replacement Management Plans and/or the Water System Master Plan.

4. Debt Service Budget:

- a. Will be based on contractual obligations for all principal and fixed-rate interest obligations. Adjustable-rate interest obligations will be forecast based on best available market data at budget preparation time.

District Reserves:

1. The District's Reserve Policy (PL – Fin 004) will be reviewed annually commensurate with the budget preparation and adoption process.

400.00 Authority

The General Manager will have authority to reallocate specific budgeted amounts within a particular budget (O&M, OCB or CIP) during the year with subsequent reporting to the Board. Amounts to be transferred between budgets (e.g., O&M to CIP) will be approved by the Board prior to the transfer. The General Manager and District Treasurer are responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of budget-to-actual expenditures during the year and review of this Policy.

500.00 Policy Review

This Policy will be reviewed at least biennially.