

RESOLUTION NO. 21-1030

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE JOSHUA BASIN WATER DISTRICT
ADOPTING BUDGET POLICY INTO ADMINISTRATIVE CODE**

WHEREAS, the Administrative Code as adopted and amended memorializes various policies as approved by the Board of Directors; and

WHEREAS, the Joshua Basin Water District's Strategic Plan calls for maintenance and enhancement of Finance Department protocols; and

WHEREAS, the Joshua Basin Water District Board of Directors has reviewed, and has endorsed to adopt the Budget Policy attached hereto;

NOW, THEREFORE BE IT RESOLVED, that the attached "Budget Policy" be adopted and incorporated into Article 12 of the Administrative Code.


FURTHER RESOLVED, this resolution is effective immediately upon adoption.

ADOPTED this 21st day of April 2021.

By



Rebecca Unger, President



Mark Hill, General Manager and Board Secretary



BUDGET POLICY

Purpose

The Joshua Basin Water District (District) Operating, and Capital Budgets are developed on an annual basis through the establishment of District-wide goals based on Strategic Planning, the Capital Improvement Plan, and program/departmental goals and objectives. Together, these goals and activities provide a comprehensive plan to deliver efficient services to customers and other stakeholders of the District in a manner that aligns resources with the vision of the District.

The formulation of the Operating and Capital Budgets, including the publication of a comprehensive budget document, is one of the most important financial activities that the District undertakes each year.

Authority

The Board of Directors is responsible for establishing policies that guide the District in meeting the mission and vision of the District. This includes the approval of financial policies which establish and direct the operations of the District. The General Manager is responsible for carrying out these policies and managing the day-to-day operations of the District. This policy shall be administered on behalf of the District by the General Manager with the assistance of the Director of Finance.

Scope

This policy shall apply to all Funds under the budgetary and fiscal control of the Board of Directors.

Responsibilities and Calendar

The District's fiscal year runs from July 1 through June 30. Preparation and monitoring of the District's budget is a collaborative effort among the Department Heads, Finance Department, and General Manager. With assistance from the Director of Finance, the General Manager solicits input from Department Heads, appropriate District Committees, the Board of Directors, and other stakeholders and guides the budget development, especially for new or non-routine needs. The Director of Finance is responsible for the compilation, analysis, preparation, and presentation of the District's Operating and Capital budgets.

The Director of Finance shall submit or cause to be submitted annually to the Board of Directors no later than June 30 during a public Board Meeting, a proposed operating budget governing revenues and expenses of all District Funds, for the following year. The Capital Budget shall be adopted as close to the beginning of the fiscal year as possible, but no later than August 1, since budget reports are due to the County by August 31. The budget, after being reviewed and adopted, shall constitute the Board of Directors' authorization of all Funds for such fiscal year and further Board authorization to use funds as outlined in the approved budget is not required (refer to Administrative Code and current Purchasing/Bidding Policy for further guidance).

Quality Control and Quality Assurance

The Director of Finance, in consultation with the General Manager, shall review and assess the applicability and efficiency of the components and direction provided by this Policy on a regular basis

to ensure its guidance is applicable to the formulation and adoption of each annual budget. Required or recommended changes shall be brought before the Board for consideration and approval.

Stakeholder Participation

The District shall provide meaningful opportunities, whenever possible, for the stakeholders to provide input into the financial planning and budget process.

POLICY

A) Basis of Budgeting

1. Budgeting is done on an accrual basis (i.e. costs *paid* in the year subsequent to the year in which they were *incurred*, are accrued or posted to the year in which they were incurred), with the following exceptions:
 - a. Compensated absence liabilities are expensed when paid.
 - b. Pension expense is budgeted based on employer contribution rates.
 - c. Principal payments on long-term debt are treated as expenses in the annual Operating Budget.
 - d. Depreciation expense is not recognized in the annual Operating Budget
 - e. Overhead expense is not recognized in the annual Operating or Capital Budgets.
 - f. Changes in the fair market value of investments are not treated as adjustments to revenue in the annual Operating Budget.
 - g. Capital purchases are classified as an expense in the annual Capital Budget.

B) Budgetary Control

1. The District shall adopt an annual balanced Operating Budget on or before June 30 of each year.
2. The Capital Budget shall be adopted as close to the beginning of the fiscal year as possible, but no later than August 1. Funding for capital projects already in progress continues until the new Capital budget is adopted. Funding for new capital projects is not available until the new Capital Budget is adopted. This does not include projects or purchases approved by the Board under special circumstances (such as emergencies) outside of the normal budgeting process.
3. The Director of Finance will provide updates of the District's financial position by regularly reporting to the Board of Directors the status of actual expenditures, expenses, and revenues compared to the adopted operating budget.
4. Capital budget updates will be provided as requested by the Board of Directors but are typically reported on in conjunction with the progress of the related expenditure or project.

C) Balanced Budget

1. Under normal circumstances, the District shall make every attempt possible to adopt a structurally balanced budget for each Fund which this policy covers. A budget is structurally balanced when it does not spend more on ongoing services than it receives in ongoing revenues. A structurally balanced budget is a necessary component of good financial management and financial discipline and helps sustain the consistent delivery of services to our customers. Abnormal circumstances that would allow for an unbalanced budget may include, but are not limited to: program or maintenance start-up funding in which initial costs may exceed the annual revenue, however long term funding of such a program allows for a balanced budget to occur in subsequent years; the one-time purchase of information technology in which the Board and staff understands to be vital to the District's operations; the unforeseen repair, installation or purchase of a facility or piece of equipment that is necessary to provide water to and/or protect the health of the District's

customers; or the intentional, planned, "spend-down" of reserves as provided for by an approved rate study or the like.

2. Except under certain circumstances, as provided above, the adoption of an unbalanced budget (spending more than is received) may undermine the District's ability to deal with financial problems, is unsustainable, and may lead to reduced services in the future and inhibit the District's ability to take advantage of opportunities that periodically occur. A structurally unbalanced budget will include an explanation and describe the expected approach and timeframe for achieving structural balance within the context of official revenue and expenditure projections. It is not a violation of this policy to use funds previously set aside in reserve to mitigate temporarily higher costs or lower revenues.
3. Operating Revenues and other funding sources must fully cover Operating Expenditures/Expenses, including debt service. Operating Expenditures/Expenses for the purposes of balancing the annual budget shall include that year's contribution to the various Reserve and Replacement Reserve Funds as determined in the Reserve Policy and as funded by the effective Rate Study.
4. One-time revenue sources and development fees must not be used to fund ongoing operational costs, and thus, are not budgeted.
5. Minimum Reserve Policy levels must be maintained and used in accordance with the purposes permitted by the District's Reserve Policy (see Reserve Policy for further guidance.)
6. The balancing of Operating Revenues with Operating Expenditures (as defined above) is a goal that should be applied over a period of time which extends beyond the current budget. Temporary shortages or operating deficits can and do occur, but they will not be permitted as extended trends.

D) Budget Development

1. Vision – The budget shall be constructed around the Board of Directors' vision for the long-term direction of District services and the associated desired culture and environment. When appropriate, the General Manager shall utilize a Strategic Planning process, including a needs assessment of priorities, challenges, and opportunities to assist with the establishment of both short-term and long-term goals.
2. Departmental Budgeting - The budget shall be based on Departments, which closely mirror the various District Programs, in order to provide insight into the costs of service that the District provides.
3. Financial Information – The budget shall display estimated beginning Cash Balances, estimated revenues and expenses and the estimated year-end Cash Balances.
4. Rate Study – The Finance Department will review the applicable Rate Study with the General Manager at the time each budget is developed. The Rate Study provides projected revenues and expenses based on needs identified as rates were developed, but the Rate Study does not place any automatic restrictions on the budget. Any variance between projected and actual revenues and expenses will impact the reserve balances and could potentially impact long-term operations. As such, it should be the goal of the General Manager to present a budget for approval that adheres as close as possible to the approved rate study but ensures that actual revenues and expenses are reflected within the budget.

E) Revenue Policies

1. Revenues should be conservatively and reasonably estimated.

2. Revenue projections shall be based upon Rate Study information, whenever available. In addition, the District may utilize historic trend analysis to establish baseline estimates of major revenues including incorporating proposed rate increases where applicable.
3. Rate studies shall be considered every five years to update assumptions and ensure that revenues are sufficient to recover operating costs and to provide for annual capital work. The completion of rate studies and the consideration of rate adjustments are important to address on a timely basis. In doing so, the District can adopt rate adjustments that match the continued level of service provided, slowly over time, rather than creating reactionary adjustments that are abrupt and much harder for its customers to adjust to.
4. Interest revenue earned will be distributed among the legally restricted funds named below, proportionate to their balances when interest was earned:
 - a. Water Capacity fund;
 - b. Wastewater Capacity fund;
 - c. CMM Reserve fund;
 - d. CMM Redemption fund; and
 - e. CMM Prepayment fund.
5. Grant/loan revenues related to Capital projects shall be categorized as Capital Revenues.
6. Grant/loan revenues related to Operating projects shall be categorized as Operating Revenues.
7. Meter installation fees, capacity fees, plan check and inspection fees, and mainline reimbursement fees, etc. are not budgeted due to their unpredictable, customer-initiated nature and the legally restricted status of some of these revenues.
8. Development customers (from single new meter purchases to major projects) shall contribute revenue to match 100% of costs related to their project, including applicable overhead. One-time exceptions must be approved by the General Manager.
9. One-time revenues will be used only for one-time purposes (i.e. specific grant revenues will be used for the project for which they are granted).

F) Expense Policies

1. The Operating Budget contains regular, recurring, and maintenance-type expenses.
2. The General Manager shall have the authority to move budgets among Operating accounts.
3. The Board of Directors must approve moving budgets between Operating and Capital accounts, except where the original designation was incorrect (i.e. sometimes purchases don't rise to the level of an asset).
4. The District shall coordinate development of the Capital Budget with development of the Operating Budget. Project Managers shall ensure that future operating and maintenance costs associated with new capital improvements are projected and included in Operating Budget forecasts.
5. Overhead accounts are not budgeted.
6. The Equipment Clearing Account is not budgeted, unless that account is utilized to offset equipment costs included in a budgeted capital project.
7. 01-6-XX-XXXXX "asset expense" accounts are utilized in lieu of asset accounts to enable income statement reporting for assets acquired during the year when the balance sheet is omitted from regular reporting. Such accounts are not budgeted.
8. The Capital Replacement Expense account (depreciation) is not budgeted.

9. Allocations of Benefits, Field, and Office costs are performed on a percentage-of-payroll basis to affected Departments.

G) Salary and Benefits Policies

1. Salary budgets are prepared by the Director of Administrative (Human Resources) in consultation with the Finance Department.
2. Salaries are budgeted at the top step available within the budget cycle, including any contracted or projected CPI adjustments. If such contracted adjustments reflect a range to be determined at a later date, the budget shall reflect the highest possible cost.
3. Standby pay and Callback OT/DT pay are divided equally among all Departments which serve Standby.
4. Salaries are allocated by Department. Some employee salaries are divided among multiple departments when the work performed spans multiple departments, such as for managers that oversee more than one department/function.
5. A projection of Compensated leave pay is deducted from regular salary and budgeted separately.
6. CIRP salary and benefits are budgeted in both the capital project costs and operating costs. To avoid duplicating the expense, the portion attributable directly to the capital CIRP project is budgeted to a clearing account in the CIRP Department.

H) Capital Expenditures

1. The Capital Budget is independent from the Operating Budget.
2. A multi-year water system infrastructure Capital Improvement Plan shall be developed and updated periodically at the discretion of the General Manager, including anticipated funding sources, which shall serve as guidance for capital expenditures. In addition, other non-water system capital improvement projects must be considered each year during the budget cycle.
3. The Capital Budget is approved annually and **costs for ongoing work must be re-budgeted**. An exception may occur where a contract has been executed, thus committing the district to the expenditure.
4. The General Manager shall have the authority to move funds among existing budgeted Capital projects.
5. The Board of Directors must authorize moving of funds between Capital and Operating budgets, except where the original designation was incorrect (i.e. sometimes purchases don't rise to the level of an asset).
6. The District shall coordinate development of the capital budget with development of the operating budget.
7. Prior to undertaking a capital project, all ongoing operational and maintenance costs shall be identified and included as part of the budgeting discussion.

I) Cross Year Policy

Each year's budget is independent and does not carry forward. Any projects in progress at year end must be re-budgeted, for any balance required to complete, in the subsequent year(s). An exception may occur where a contract has been executed, thus committing the district to the expenditure, and the responsible budget manager has not re-budgeted the project or work.

J) Estimates of Revenue, Expenditures, and Expenses

1. Estimates – The District shall take an objective and analytical approach to forecasting revenues, expenditures, and expenses as accurately as possible. Though the District will use the best information available to estimate revenues, absolute certainty is impossible. Should revenues be overestimated, the spending plans and priorities established during the budget process shall be used to propose options to bring the budget into balance.
2. Monitoring – The Finance Department shall monitor revenue incomes and expense outflows to assess the implications of the annual budget in order to provide timely updates on actual financial performance.
3. Long-Term Forecasts – The Finance Department will monitor and update the long-term financial forecasts developed during each Rate Study, in order to help the District assess its long-term financial sustainability.

K) Long-Term Liabilities

The District shall fully fund current portions of long-term liabilities in order to maintain the trust of creditors and shall avoid accumulating excessive long-term liabilities. The Finance Department shall analyze long-term liabilities to determine if opportunity for savings exists, such as by using savings to pay off debt early, or by refinancing.

L) Debt Policies

See Article 10 of the District's Administrative Code for the entire text of the Debt Management Policy

1. Long-term debt shall not be used to finance ongoing operational expenditures.
2. Whenever possible, alternative sources of funding shall be identified and examined for availability in order to minimize the use of debt financing.
3. Pay-as-you-go financing of capital improvements shall be utilized whenever feasible.

M) Budget Amendments & Adjustments

1. An **amendment** is a specific change to the overall budget, increasing or decreasing the net revenue. Amendments not falling within the authority of the General Manager (refer to Administrative Code), shall be considered, and adopted by the Board of Directors during a public Board meeting.
2. An **adjustment** is a change within the existing account lines, generally resulting in no increase or decrease in net revenue. A net revenue decrease (additional cost) requires authorization from the Board as described above under the term "amendment." Adjustments may be made for account balance variances of \$5,000 or more to eliminate or reduce line-specific over/underbudget situations by moving funding among various account lines. The net revenue should not decrease but may increase if savings are identified. Smaller variances may be adjusted upon the Finance Department's discretion.
3. Salary and benefit adjustments will only be made in certain situations due to their complexity. Overbudgeted salaries may generally only be transferred to other salary and benefit accounts. If savings must be identified, salaries will be adjusted for vacancies. If outside labor is substituted for internal labor, funds may be moved to the Temporary Labor account. If salary and benefit adjustments result in a net revenue increase (cost savings), specific salary accounts may remain unadjusted. Only the most cost-significant benefits will be adjusted (I.e. CalPERS, Cafeteria, FICA) as needed.

N) Reserves

Adequate Emergency and Operating Reserves Will be Maintained.

See Article 9 of the District's Administrative Code for the entire text of the Reserve Policy.

Maintaining adequate reserves is a basic component of a financially strong District. Adequate reserves help sustain the District operations when adverse or unexpected circumstances impact the District. The District has adopted a Reserve Policy including recommended reserve levels.

The District will maintain Emergency Capital Reserve, Operating Reserve, and other Reserve accounts in accordance with the funding recommendations of the Reserve Policy. If emergency or operating reserve levels are drawn below the Reserve Policy funding recommendations, a plan will be developed to replenish them, generally from future surpluses or the next Rate Study.

All Reserve budgets designated in the Rate Study and/or the Reserve Policy shall be budgeted for funding through the Operating budget.

O) Grants

Grants are an essential component of District resources. All grants have rules that must be followed, including how the grant funds may be used. Failure to follow the rules may require a return of funds, even after they have been spent, and potential disqualification from future grants. Grants often require a funding match. Grants typically require that the grant-funded project be maintained for a specific timeframe, usually the life of the project, typically decades. A grant may be inappropriate for the District for a number of reasons:

- large matching fund requirement; or
- excessive maintenance costs for the life of the grant-funded project; or
- disallowed or limited ability to recover administrative costs; or
- excessive restrictions on expenditures, compliance risk (return of funds if in non-compliance); or
- incompatibility with other District priorities.

The District will seek grants that address District priorities and are felt to provide a benefit to the District substantially in excess of the cost of applying for and administering the grant, and the risk of unintentional non-compliance. The District will not seek grants if the purpose does not provide a significant net benefit to the District for existing priorities. Before applying for any grant, staff shall ensure that the above conditions have been met. The General Manager shall provide the Board of Directors with an opportunity to hear the terms and conditions of each grant prior to entering into an agreement. While the issuing agency of most large grants require Board authorization, this will allow the Board the opportunity to reject or encourage the use of grants that do not. The District shall maintain the necessary administrative support and training to ensure compliance with grant terms and requirements. Grants will only be budgeted once appropriate commitments have been made by granting agency.

P) General Fund

All normal and routine activity not applicable to any Reserve Funds described herein shall be transacted via the General Fund and LAIF Operating/Cash Flow Funds.