
Tuolumne Utilities District

POLICY HANDBOOK

POLICY TITLE: Budgeting Policy

POLICY NUMBER: 3020

Adopted/Amended Date(s): May 24, 2016

3020.1 Tuolumne Utilities District, like any other business, strives to maintain financial stability over time. Financial stability is not only a prudent financial management goal; it can also minimize financial costs in the long-term (e.g. unnecessary borrowing). Above all, financial stability will provide adequate funding for long term infrastructure investments that will result in service rate predictability, reliable high quality services, regulatory compliance and community development. Coupled with a high level of transparency, financial stability provides the community with the confidence of knowing a strong, consistent management team is managing the utility.

The approved annual budget document provides the spending limits by fund for the fiscal year. The District will follow administrative policy and state regulations on all expenditure line items. Management and staff will follow the philosophy of cost control and responsible financial management. The annual expenditures will be balanced with the annual revenues. The District will not use short-term borrowing to finance current operating needs without a financial analysis showing rate impacts to the District as a whole.

- 3020.2.1 The primary budget objective is to provide the highest possible level of service to the District customers while maintaining a sound financial condition. Continual efforts will be made to improve productivity, lower costs and enhance services.
- 3020.2.2 The District will prepare an annual budget document each fiscal year (July 1 to June 30) that provides a basic understanding of the District's planned spending for the coming fiscal year. Copies of the proposed and final budget will be made available to all interested parties and opportunities will be provided for public input prior to final adoption of the budget. The District may also prepare a biennial budget. [Amended: May 24, 2016]
- 3020.2.3 The budget will be based on generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) and the interpretations contained in the Governmental Finance Officers Association publication *Governmental Accounting, Auditing and Financial Reporting*.
- 3020.2.4 Laws and regulations limiting use of revenue sources must be explicitly addressed in the budget process.
- 3020.2.5 Focusing on policy issues, the District's annual budget will be presented for each enterprise fund, and will summarize expenditures at the personnel, operating and maintenance, project and capital improvement levels. The budget document for each fund will also be presented for discussion and review by the Board of Directors and the public. Where practical, the District's annual budget will include standards of workload, efficiency and effectiveness.
- 3020.2.6 Indirect (overhead) costs common to both the water and wastewater services of the District shall be allocated between enterprise funds based upon an approved Cost Allocation Model that utilizes appropriate criteria (e.g. labor ratios, number of customers, asset value, work stations, square footage, FTE's, CIP load, regulatory or contractual obligations, etc.). The specific allocation method for the Indirect cost should be the method that the District deems to be most appropriate and equitable. The Indirect cost allocation should be reviewed during the annual budget process.

- 3020.2.7 The District will endeavor to keep current expenditures less than current revenues. Current expenditures are defined as operating expenses, debt payments, and project and capital improvement expenditures. Except under extraordinary circumstances approved by the Board, the District will strive to operate within the approved budgetary amounts to avoid deficit spending.
- 3020.2.8 The District should have annual net income (total revenue less O&M, debt service and capital projects funded from rates) greater than or equal to zero. The District will not budget for depreciation, but will prepare capital investment/reserves to depreciation ratio statement as a schedule in the budget. The District will also record depreciation annually in conformance GAAP. [Amended: May 24, 2016]
- 3020.2.9 The District will maintain a budgetary control system to ensure adherence to the overall budget for each enterprise fund and will prepare regular reports comparing actual revenues and expenditures/expenses for each service.
- 3020.2.9.1 For the purpose of tracking financial performance to budget, a Financial Report comparing budgeted to actual expenses and revenue shall be prepared for the Board of Directors on a quarterly basis. [Amended: May 10, 2016]
- 3020.2.10 The District will for each new program to be developed and implemented, project the necessary funding to accomplish those objectives. Examples of programs or initiatives include: Participation of the District in the IRWMP Joint Powers Authority; Fats, Oils and Grease Reduction; Sanitary Sewer Overflow Reduction; Ditch Patrol, etc. All such new operating programs or initiatives submitted for policy decision should include a five-year estimate of anticipated annual operating costs, revenues and their associated impacts on rates.
- 3020.2.11 At mid-year, there will be a comprehensive review of the operations to date in comparison to the existing budget. Projections of revenues and expenditures through the end of the fiscal year will be prepared and reviewed by management staff with a report to the Board of Directors by February of the operating fiscal year. At that time, the board of Directors will adopt the budget schedule for the forthcoming fiscal year.
- 3020.2.12 The operating budget will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may, in the Board's discretion, be used to increase reserves, fund capital improvement projects, or be carried forward to fund future year's operating budgets when necessary to stabilize services.
- 3020.2.13 The District will avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets. The Budget document will clearly identify:
- a) Appropriation of reserves
 - b) Transfers between funds
 - c) Use of connection and capacity fee revenue
- 3020.2.13.1 The following financial transactions require separate Board action:
- a) Appropriation of any unanticipated revenues
 - b) Inter-fund loans
 - c) Creation of new CIP projects and appropriation increases in existing CIP projects
- 3020.2.14 Budget items delegated to the General Manager: transfers between budgeted activities or departments within a fund.
- 3020.2.15 Budget items delegated to Department Heads: Within the budgeted category, line item transfers are the responsibility of the Department Heads, subject to approval of the Finance Director and the General Manager.

- 3020.2.16 All appropriations, except for selected capital expenditures and capital outlay projects, shall lapse at the end of the fiscal year to the extent that such appropriation has not been expended, except for:
- a) Subject to the approval of the Finance Director and the General Manager, encumbered capital outlay appropriations shall carry forward until expended or repealed by action of the General Manager;
 - b) All capital improvement project appropriations shall be deemed to be abandoned if three years pass without disbursement from or encumbrance against the appropriation.