

## Sacramento Suburban Water District

**Budget Policy**

Adopted: September 15, 2014  
Ratified without changes on: August 19, 2024

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**100.00 Purpose:**

The District's annual budget, as approved by the Board of Directors, will serve as the basis for operating the District financially. The Revenue and Other Sources of Funds, Operating, Capital and Debt Service Budgets are developed on an annual basis utilizing the District's Strategic Plan, Asset Management Plans, Urban Water Management Plan, debt documents and all other District planning documents and as recommended by staff. Together, these documents and activities provide a comprehensive plan to deliver efficient water service to the customers and stakeholders of the District in a manner that aligns resources with the policy, goals, mission and vision for the District.

The formulation of the Revenue and Other Sources of Funds, Operating, Capital and Debt Service Budgets (Annual Budget) is one of the most important financial activities that the District undertakes each year. This policy is intended to provide guidelines to assist in the formulation of the District's Annual Budget.

**100.10 Applicability and Scope:**

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

**100.20 Definitions and Terms:**

Adopted Budget – The formal budget document approved by the Board of Directors which shows budgeted revenues and expenditures/expenses for the subject calendar year.

Amended Budget – The approved budget after a Board of Directors approved budget amendment.

Budget Amendment – Any adjustment that changes the amount of a budget (operating, capital, debt service or revenues and sources of funds). Budget amendments must be approved by the Board of Directors.

Budget Rollover – Budget amounts allocated to specific capital projects (not master budget amounts) that are unspent at year-end will roll over to subsequent years and be available for spending on the project. Rollover funds may not be transferred to other projects. Unspent rollover funds will be transferred to reserves at project completion.

Capital Budget - The Capital Budget is comprised of two components, Capital Improvements Program (CIP) and Operating Capital Program (OCP). Projects will be segregated and managed separately within these two categories.

Capital Improvement Program (CIP) – The CIP is a component of the Capital Budget and includes a number of general along with specifically identified projects and their projected costs. Projects in the CIP are comprised of the long-term assets generally associated with the water delivery system.

Debt Service – The annual amounts required to satisfy the District’s legal requirements for repaying debt principal, payment of interest and other debt related costs.

Full Accrual Basis of Accounting – Transactions and events are recognized as revenues and expenses when they occur regardless of the timing of related cash flows. This method is consistent with how the District accounts for its normal operational transactions.

Level of Control – The level of budgetary accountability at which the District’s Budget Managers may not reassign resources without approval of the Board of Directors.

Operating Budget – The Operating Budget is comprised expenditures/expenses used to pay for daily operations such as labor costs, materials and supplies, outside services, etc.

Operating Capital Program (OCP) – The OCP will include all Information Technology capital projects, vehicle and fleet capital costs, capitalizable office furniture, and capitalizable costs for operations. Capitalizable costs in the OCP are distinguished from those in the Capital Improvement Program based, generally, on the shorter expected life of the asset and the asset is not part of the general water delivery system.

Rate Covenant – Legal conditions placed on the District as part of obtaining and maintaining debt.

**100.30 Related Documents and References:**

- Capital Asset Policy PL Fin 002
- Reserve Policy PL Fin 004
- Debt Management Policy PL Fin 011
- Employee Compensation Policy PL – HR 002

**200.00 Policy:**

It will be the policy of the District to prepare an Annual Budget each year that will be approved by the Board of Directors before the budget year begins. The following sections outline the specific requirements of this policy.

**200.10 Basis of Budgeting:**

- A. Full Accrual Basis of Accounting will be used for budgeting purposes with the following exceptions:
  1. Changes in fair value of investments are not treated as adjustments to revenue in the annual budget.

2. Debt principal payments are treated as expenditures in the annual budget.
3. Capital lease payments are treated as expenditures in the annual budget.
4. Amortization of debt premiums, discounts and defeasance costs are not recognized in the annual budget.
5. Depreciation expense is not recognized in the annual budget.
6. Capital purchases are recognized as expenditures in the annual budget.
7. Material increases/decreases in holding accounts such as inventory, prepaid expenses, compensated absences, etc. can be recognized as expenditures or sources of funds in the annual budget.
8. Non-cash expenses related to pension, OPEB, and Asset Retirement Obligations are not recognized in the annual budget.
9. Reserve uses or contributions will be recognized as sources of funds or expenditures in the annual budget, respectively.

**200.20 Budgetary Control:**

- A. The Adopted Budget is not a legally binding appropriation as with other municipal entities. The budget is for cost control and management reporting purposes only. The approved budget is a one-year budget only, however, a subsequent year forecasted budget may be prepared and included for comparison purposes.
- B. Budget Managers will have the authority to reallocate budget amounts within their department/project category budgets without subsequent reporting to the Board. Transfers between departments or project categories must be approved by the General Manager and reported as described in item C below.
- C. The General Manager will have authority to transfer specific budgeted amounts within a particular budget (Operating, Capital, or Debt Service) during the year with subsequent reporting to the Board of Directors.
- D. Amounts to be transferred between budgets (e.g., Operating to Capital) will be approved by the Board of Directors prior to the transfer by means of a Budget Amendment. The General Manager may also request to increase or decrease a specific budget by means of a Budget Amendment.
- E. Unspent budgeted funds at year-end will be transferred to reserves except for planned and active capital projects. Planned and active capital projects with unspent budgeted funds at year-end will have their unspent budgeted funds rollover to the subsequent year.
- F. 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.

**200.30 Balanced Budget:**

- A. The District shall adopt a balanced budget. A budget is balanced when the sum of estimated revenues and appropriated reserves is equal to planned expenditures (including reserve contributions).
- B. Minimum reserve levels shall be maintained unless reserves are being used in accordance with purposes permitted by District policy.

**200.40 Development of the Budget:**

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 revenue and sources of funds, operating, capital and debt service budgets (collectively – Annual 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. 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 of Directors will prioritize projects and expenditures within the constraint of expected revenues and appropriated reserves.
- B. Capital Accounts – Capital sources of funds from facility development charges, 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.
- C. 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 and allow the District to remain in compliance with all applicable regulations.
- D. Adequate Funding to Replace System Assets – Total capital expenditures will be funded at a level that will meet the requirements of the District's Asset Replacement Management Plans and/or the Water System Master Plan.
- E. Maintenance of Sufficient Reserves – The District will maintain sufficient reserves in accordance with the District's Reserve Policy (PL Fin 004.).
- F. Annual Net Income – The District will strive to achieve positive annual net income (total revenue less operating expenditures, debt service and capital projects funded from rates) greater than or equal to zero.
- G. 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.

- H. 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 minimum three-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.
  5. 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:

- A. Key Assumptions – To include expected water production and source.
- B. Revenue Projections – To include projected net income.
- C. Projected debt service coverage ratio.
- D. Reserve Balance Projections.
- E. Trend and/or Comparative Information
- F. Detailed Annual Budget Data including the following sections:
  1. Revenues and Sources of Funds
  2. Operating Expenditures: Incorporates all District operating expenses, including:
    - a. Expected Other Post Employment Benefit costs and funding to be separately identified and approved.
    - b. Annual labor budget and its components per the Employee Compensation Policy (PL – HR 002) section 300.00
    - c. Other budget categories as required by the Board.
  3. Capital Expenditures (CIP and OCP): Incorporates all the District capital expenditures, including:

- a. Capital Improvement Program expenditures.
  - b. Operating Capital Program expenditures
  - c. Comprised of both general and specific program projects.
4. Debt Service: 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.

**400.00 Budget Reporting:**

- A. Evaluation and Monitoring of Costs – Costs will be evaluated and monitored through monthly and annual reporting to Board of Directors to ensure that the District is operated in a cost effective and economically prudent manner.
- B. Rollover budget funds will be tracked and reported.

**500.00 Authority:**

The Board of Directors are responsible for policy formulation and overall direction setting 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 the policy directives of the Board of Directors and managing the day-to-day operations of the District. This policy shall be administered on behalf of the General Manager by the Assistant General Manager and the Director of Finance and Administration.

**600.00 Policy Review**

This policy shall be periodically reviewed by the Board of Directors in accordance with its established policy review schedule.