RESOLUTION NO. 01-15

RESOLUTION OF THE BOARD OF DIRECTORS OF RUNNING SPRINGS WATER DISTRICT ADOPTING A BUDGET POLICY

WHEREAS, the Board of Directors desires to adopt a Budget Policy; and

WHEREAS, the objective of the Policy is to provide staff the procedures and guidelines upon which to prepare the annual budget; and

WHEREAS, a Budget Policy has been presented to the Board of Directors of the Running Springs Water District in the form attached to this Resolution and marked Exhibit "A".

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Running Springs Water District as follows:

SECTION 1. Adopt and approve the District "Budget Policy" set forth in Exhibit "A" attached hereto, which Exhibit is by this reference incorporated herein.

ADOPTED this 21st day of January, 2015. I, the undersigned, hereby certify that the foregoing Resolution was duly adopted by the Running Springs Water District.

President of the Board of Directors
Running Springs Water District

ATTEST:

Secretary of the Board of Directors
Running Springs Water District

BUDGET POLICY

January 21, 2015
Resolution No. 01-15
Final

BUDGET POLICY
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1.0 Introduction

This general Budget Policy is the basis upon which staff develops budget recommendations and establishes funding priorities within the limited resources the Running Springs Water District ("District") has available to provide Fire, emergency medical, water and wastewater services.

The budget is a strategic planning document agreed to by the District's Board of Directors and the General Manager. It will contain information and data regarding the goals and priorities of the District and its revenue requirements for expected expenditures / expenses (throughout this document collectively known as expenditures). Adopted budgets will comply with this budget policy. The General Manager has the primary responsibility for formulating and implementing the budget proposals in line with the Board of Director's priority directions. The budget is prepared by District staff with input from the Finance Committee.

1.1 Budget Preparation

County Water District Law does not have a provision that specifically requires the adoption of an annual budget for the Running Springs Water District but the District's practice is to do so. In January of each year the District will hold a Budget Workshop to discuss the strategic direction and planning for the upcoming fiscal year as well as any updates to its Strategic Plan and Five Year Capital Improvement Plan.

1.2 Public Meetings

The District will hold several public meetings between January and May to discuss, plan and develop the District budget. A Public Hearing will be held in June and the District will publish the required notices according to law. Any person may appear and be heard regarding any item in the budget or regarding the addition of other items. Because the District's budgets may contain items that require notices to customers, a Draft Budget will be presented to the District's Board of Directors in advance, giving staff the authorization to move forward with noticing requirements. A copy of the Draft Budget will be made available for public inspection on the District's website and at the District's main office.

1.3 Budget Calendar and Deadlines

The General Manager will prepare and present the Budget Calendar to the Board of Directors and staff in January in the calendar year that a budget is to be adopted. Because the District's fiscal year begins July 1st, the budget will be approved before the end of June to allow for the authorization of expenditures.

1.4 Accounting Method

The budget will be prepared using the same accounting methodology as the District's Annual Financial Report to allow for consistency and transparency between the two documents. The accounting method used for both documents will be the accrual method of accounting for the Water, Wastewater and Ambulance enterprises and the modified accrual method for the Fire Department.

1.5 Budget Elements

The budget will include all of the elements listed below. It will be presented in a public-friendly format. All of the schedules will be consistent in format and the total amounts will agree throughout the document. The budget will contain comparisons to prior budgets and actual data.

- Executive Summary
- Statement of Revenues, Expenditures and Changes in Net Position / Fund Balance
- Cash Considerations
- Five Year Forecast
- Fund Balance/Net Position Analysis
- Financial Plans
- Rates and Fees
    - Department Functions and Goals

Debt Service Analysis
- Capital Expenditure Descriptions
- Organizational Chart
- Statistical Section
- Glossary

1.6 Budget Amendments

If a significant change to operations occurs after the budget has been adopted, the District may propose an amendment to the budget. The Board of Directors may adopt a resolution amending the budget and/or ordering the transfer of funds between categories, other than transfers from the designated reserve for capital outlay and the designated reserve for contingencies. The Board of Directors may authorize the General Manager to transfer funds between budget categories, other than transfers from the designated reserve for capital outlay and the designated reserve for contingencies.

2.0 Fiscal Integrity

The District recognizes that long-term fiscal stability ensures that high quality fire, emergency medical, water and wastewater services will continue uninterrupted. It is the District's intention to maximize the level of service provided. The most critical planning tool is an accurate and fiscally responsible budget. Ongoing operating expenditure budgets should not exceed the amount of ongoing revenue budgets that finance these costs. Cash balances will be allocated in accordance with the District's Cash Reserve Policy. The District will maintain the fiscal integrity of its operating and capital improvement budgets which provide services and maintain the District's infrastructure.

2.1 Best Practices

The Government Finance Officers Association and the National Advisory Council on State and Local Budgeting provide guidance on budgeting best practices and should be referred to for updated information.

2.2 Balanced Budget Definition

The District considers a budget as balanced if there are sufficient net revenues to cover the cost of operations and debt service. The District will always adopt a budget that is balanced. The District considers a budget as fully funded if the budget is balanced and there is sufficient cash from operations to contribute the amounts necessary towards operating reserves, capital improvements and the Rate Stabilization Funds as outlined in the District's Cash Reserve Policy. The District will strive toward a fully funded budget. If there is a revenue gap, the budget will indicate how and when this gap will be eliminated.

2.3 Community Involvement

Public involvement during the budget process will be encouraged. The District will hold a budget workshop in an informal setting to encourage input from the public. The budget will be discussed in advance in open session and will be included in the posted agenda.

2.4 Periodic Reporting

The General Manager will provide comparison reports to the Board of Directors on a quarterly basis at a minimum, to monitor revenues and expenditures and to provide information regarding any major variances from budget. Additionally, monthly comparison reports will be provided to all department supervisors to monitor expenditures and to plan the year as it progresses in an effort to stay within the adopted budget in accordance with the District's policies.

3.0 REVENUE

3.1 Guidelines for Revenue Budget

Revenue will be budgeted conservatively. Generally, revenue estimates shall not assume growth rates in excess of inflation and scheduled rate increases. Any revenue that carries a level of uncertainty should not be included in the budget.

3.2 Assumptions

Staff will consult with the General Manager and the Board of Directors regarding the revenue assumptions to be used in the budget. The basis for these assumptions will include cost estimates, water consumption estimates and District priorities.

3.3 Operating Revenue

Operating revenue is defined as ongoing charges and fees for services provided.

3.4 Rates and Fees

The rates and fees for all services will be clearly listed. Rates will be set with guidance from the Board of Directors and the General Manager. Rates will not be higher than the cost of service delivery, including capital requirements and cash reserve requirements.

3.5 Non-Operating Revenue

The budget should not include non-operating revenue because it cannot be relied on. Non-operating revenue is defined as income that is one-time and/or not expected to continue.

4.0 EXPENSES / EXPENDITURES

4.1 Guidelines for Expenditure Budget

Expenses will be budgeted bottom up, meaning every line item detail will be reviewed and estimated. Input from department supervisors will be utilized to provide operational knowledge.

4.2 Assumptions

Expense assumptions will be discussed with the General Manager and the Board of Directors. An external indicator such as inflation will be used as a benchmark.

4.3 Operating Expenditures

Operating expenses are the ongoing costs required to provide services. The categories from the District's annual financial report will be utilized to provide consistency and transparency between the two documents. Large variances compared to prior actuals and budgets must be identified.

4.4 Non-Operating Expenditures

Non-operating expenses are defined as costs that are not expected to continue and/or cannot be reliably forecasted. Unanticipated expenses should not be included in the budget but all expenses that can be identified should be accounted for.

4.5 Personnel Expenditures

Personnel related expenditures will be clearly detailed with a corresponding organizational chart. Staffing level changes will be clearly communicated.

5.0 CAPITAL EXPENDITURES

5.1 Guidelines for Capital Expenditure Budget

The Capital Expenditure Budget will be coordinated with the District's current Infrastructure Replacement Plan or Capital Improvement Plan. Capital expenditures will include five years of anticipated expenditures and must not exceed the cash available as shown in the five year forecast.

5.2 Infrastructure Plan

The District will prepare a plan for capital improvement projects. This plan will provide the basis for the Capital Expenditure Budget.

5.3 Project Descriptions

Every project will include a detailed description of the work to be done and the funding source.

5.4 Effects on Operating Costs

All projects will be analyzed to determine the effect on either operating expenses or operating revenues.

5.5 Equipment Purchases

Significant capital equipment purchases will be planned. Information regarding the District's fleet with anticipated replacement year and cost will be provided.

BEST PRACTICE

Government Finance Officers Association

Structurally Balanced Budget Policy (Budget) (2013)

Background. Most state and local governments are subject to a requirement to pass a balanced budget. However, a budget that may fit the statutory definition of a "balanced budget" may not, in fact, be financially sustainable. For example, a budget that is balanced by such standards could include the use of non-recurring resources, such as asset sales or reserves, to fund ongoing expenditures, and thus not be in structural balance. A true structurally balanced budget is one that supports financial sustainability for multiple years into the future. A government needs to make sure that it is aware of the distinction between satisfying the statutory definition and achieving a true structurally balanced budget.

Recommendation. GFOA recommends that governments adopt rigorous policies, for all operating funds,[1] aimed at achieving and maintaining a structurally balanced budget. The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.

As a first step, the government should identify key items related to structural balance. These include: *recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves*.

Recurring revenues are the portion of a government's revenues that can reasonably be expected to continue year to year, with some degree of predictability. Property taxes are an example of recurring revenue. A settlement from a lawsuit is a good example of non-recurring revenue.

Some revenue sources may have both non-recurring and recurring components. These sources require finance officials to exercise judgment in determining how much of the source is truly recurring. For instance, a government may regularly receive sales tax revenues, but a large part of its base may be made up of retailers with highly volatile sales. In this case, it may be prudent to regard unusually high revenue yields as a non-recurring revenue under the assumption that such revenues are unlikely to continue, making it imprudent to use them for recurring expenditures. Another example might be building permit revenues in a period of high growth in the community. Governments should review their revenue portfolio to identify non-recurring revenues and revenues with potentially volatile components, such as the examples above.

Recurring expenditures appear in the budget each year. Salaries, benefits, materials and services, and asset maintenance costs are common examples of recurring expenditures. Capital asset acquisitions are typically not thought of as recurring because although some capital assets may be acquired every year, they are not the same assets year after year. In general, recurring expenditures should be those that you expect to fund every year in order to maintain current/status quo service levels. In general, a government has a greater degree of flexibility to defer non-recurring expenditures than recurring ones.

Reserves are the portion of fund balance that is set aside as hedge against risk. The government should define a minimum amount of funds it will hold in reserve.[2] This serves as a "bottom line measure" to help determine the extent to which structural balance goals are being achieved – if reserves are maintained at their desired levels, it is an indication that the organization is maintaining a structurally balanced budget. If reserves are declining, it may indicate an imbalance in the budget (e.g., if reserves are being used to fund on-going expenditures). It should be noted that reserves levels are not a perfect measure of structural balance, but are a good and readily available measure.

With the forgoing terms defined, a government should adopt a formal policy calling for structural balance of the budget. The policy should call for the budget to be structurally balanced, where recurring revenues equal or exceed recurring expenditures. The policy should also call for the budget presentation to identify how recurring revenues are aligned with or not aligned with recurring expenditures.[3]

For a variety of reasons, true structural balance may not be possible for a government at a given time. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken. Further, the plan should be clear about the time period over which returning to structural balance, replenishing reserves, and remediating the negative impacts of balancing actions are to occur.[4]

Approved by the GFOA's Executive Board, February, 2012.

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[1] Note that this Best Practice excludes non-operating funds like capital and debt funds. While governments should ensure that these funds are financially sustainable as well, the specific recommendations found in this Best Practice may not always be a match to the circumstances of non-operating funds.

[2] See GFOA Best Practice "Appropriate Level of Unrestricted Fund Balance in the General Fund" (2002 and 2009). GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures

[3] Please note that the best practice is not advocating that recurring revenues be formally allocated or "earmarked" to recurring expenditures, but rather is advocating that the budget presentation provide transparency as to whether recurring revenues and recurring expenditures are balanced.

[4] See GFOA Best Practice "Replenishing Fund Balance in the General Fund." (2011).

BEST PRACTICE

Budgeting for Results and Outcomes (2007) (BUDGET)

Background. The National Advisory Council on State and Local Budgeting (NACSLB) has identified four essential principles of effective budgeting. The specific principles include: (1) set broad goals to guide decisions, (2) develop strategies and financial policies, (3) design a budget supportive of strategies and goals and (4) focus on the necessity of continually evaluating a government's success at achieving the goals that it has set for itself (i.e., performance). The Government Finance Officers Association (GFOA) has officially adopted the recommendations of the NACSLB. GFOA also has issued separate recommended practices on strategic planning and performance measurement. All of these documents underscore GFOA's longstanding support of strategic planning and performance measurement as part of the budget process.

Consistent with the NACSLB principles, a growing number of governments use the budgeting for results and outcomes approach. Rather than starting with the prior period's budgeted programs and activities, they begin with available revenues, continue with a consideration of desired results and strategies, and then conclude by deciding what activities and programs can best achieve desired results.

This approach is a marked departure from the incrementalism often characteristic of budgeting. Budgeting for results and outcomes links strategic planning, long-range financial planning, performance measures, budgeting, and evaluation. It also links resources to objectives at the beginning of the budgetary process, so that the primary focus is on outcomes rather than organizational structure.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments consider budgeting for results and outcomes as a practical way to achieve the NACSLB objective of integrating performance into the budgetary process. GFOA believes that the following steps should help a government in making this successful transition:

(1) *Determine how much money is available.* The budget should be built on expected revenues. This would include base revenues, any new revenue sources, and the potential use of fund balance.

(2) *Prioritize results.* The results or outcomes that matter most to citizens should be defined. Elected leaders should determine what programs are most important to their constituents.

(3) *Allocate resources among high priority results.* The allocations should be made in a fair and objective manner.

(4) *Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.*

(5) *Budget available dollars to the most significant programs and activities.* The objective is to maximize the benefit of the available resources.

(6) *Set measures of annual progress, monitor, and close the feedback loop.* These measures should spell out the expected results and outcomes and how they will be measured.

(7) *Check what actually happened.* This involves using performance measures to compare actual versus budgeted results.

(8) *Communicate performance results.* Internal and external stakeholders should be informed of the results in an understandable format.

Budget professionals may play a number of roles in budgeting for results and outcomes, including the following:

- Facilitating government-wide results and analytic support.
- Providing "reality checks" on budget allocations and expected revenues in the light of adopted financial policies.
- Advising on allocations for administrative support functions, which provide necessary organizational infrastructure for achieving community goals, but do not typically emerge as high priorities on their own.
- Analyzing work product to evaluate the process of budgeting for results and outcome.
- Serving as an advocate for outcomes and the process in general rather than for any particular department.

Budgeting for results and outcomes is not just a one-year exercise, but also a multi-year effort that should improve the budget process.

References

- GFOA Best Practice, "Performance Management: Using Performance Measurement for Decision Making (2002) - Updated Performance Measures," 1994.
- GFOA Best Practice, "Recommended Budget Practices of the National Advisory Council on State and Local Budgeting (NACSLB)," 1998.
- GFOA Best Practice, "Adoption of Financial Policies," 2001.
- GFOA Best Practice, "Establishment of Strategic Plans," 2005.
- GFOA Best Practice, "Managed Competition as a Service Delivery Option," 2006.

Approved by the GFOA's Executive Board, March 2, 2007.

4.5 Develop Policy on Balancing the Operating Budget

Principle: Develop Approaches to Achieve Goals

Element: Adopt Financial Policies

Practice: A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

Rationale: A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means. At a minimum, balance should be defined to ensure that a government's use of resources for operating purposes does not exceed available resources over a defined budget period. A more stringent definition requires that a government maintain a balance between operating expenditures and operating revenues over the long term, not just during the current operating period. This latter definition of balance is referred to as structural balance, and is the goal of this practice.

Outputs: The policy should provide clear definition as to how budgetary balance is to be achieved. Definitions of items to be counted as operating resources (e.g., revenues) and operating resource uses (e.g., expenditures) should be explicitly identified. All funds should be included. Statutory and other legal "balanced" budget requirements should be met, but this practice recommends additional policies and practices, if necessary, to achieve and report on structural balance. The policy should explicitly note and, if necessary, explain the relevant constitutional, statutory, or case law provisions that impose a balanced budget requirement upon the government. The policy also should identify the circumstances when deviation from a balanced budget may occur. The policy should be written in nontechnical language or have a nontechnical summary. Because of its importance in budget decisions, it should be readily available to stakeholders and publicly discussed at key points in the budget process. Compliance with the policy should be reviewed and disclosed during each budget period.

Notes: Some states and local governments define resources and resource uses to include fund balance or changes to fund balances. There may be statutory or other requirements that a budget must be balanced based on this definition. These types of statutory balanced budget requirements are a component of and not in conflict with the goal of achieving structural balance. Additional or even separate reporting may be required to demonstrate that both statutory balance and structural balance have been achieved.

This practice does not directly apply to capital budgets. Capital budgets are often funded at least partially from one-time resources. However, the ongoing maintenance or replacement of capital equipment or facilities is an important part of the budget process. Such items, particularly maintenance or equipment replacements, are often defined as operating items to ensure their inclusion in operating budget decisions.

A balanced budget policy may include the following:

- Identification of and rationale for what operating resources and resource uses are included or excluded from the definition of a balanced budget calculation. For example, does the calculation include operating revenues and expenditures only; does it include capital maintenance or replacement; does it include interfund transfers; and does it include highly variable components of ongoing revenues (such as the volatile component of sales tax revenues or development-related revenue).
- The circumstances when fund balances may be used as a resource.
- The point(s) at which the budget must be balanced, e.g., upon adoption, throughout the year, or at year-end.
- The accounting basis (cash, accrual, other) that is used to define revenues and expenditures.
- The circumstances in which noncompliance with the balanced budget policy is permitted (e.g., during the early stages of an economic downturn so that services can be reduced in an orderly fashion).
- The official, agency, or legislative body (or combination of authorities) responsible for making any necessary decisions on whether or not a budget is in balance.
- The authority that must take action to bring the budget into balance if adjustments are needed in the course of a fiscal period.