

# **BUDGET POLICY**

## **POLICY STATEMENT**

The Santa Fe Irrigation District Board of Directors has adopted a Strategic Plan that includes the financial objective of maintaining a strong financial condition, establishing reasonable water rates, and achieving a prudent balance between District revenues, expenses, and reserves. This document addresses those objectives by setting forth policies to guide and support the development and implementation of the District's annual budget.

### **I. BALANCED BUDGET**

The District will maintain an annual balanced budget. This means that:

1. Operating revenues are equal to or exceed operating expenses. User fees and charges will be evaluated and set via the Long Range Financial Plan.
2. Capital expenditures will be based on the District's 5 Year Capital Improvement Program as well as its Long Range Financial Plan and will be funded through either internal funding or debt financing.
3. Reserve fund balances must meet minimum policy levels.

Under this policy, operating revenues in certain years can fall short of operating expenses as long as there is sufficient beginning balance in the District's reserve funds that can be utilized to avoid unacceptable rate increases and fund unanticipated operating and capital expenditures, while ensuring that at the same time the ending fund balance will meet minimum policy levels. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.

Any year end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or "one-time only" expenditures.

Maintaining a balanced budget will ensure that revenues are sufficient to cover operating and maintenance expenses, fund debt service, maintain liquidity reserve levels, and pay capital expenditures.

### **II. BUDGET DOCUMENT**

The budget will serve as the annual financial plan for the District. It will represent the annual policy document of the Board of Directors for implementing Board goals and objectives. The budget defines the resources necessary to accomplish Board determined service levels.

The General Manager shall annually prepare and present a proposed budget to the Board of Directors no later than the regular Board meeting in May of each year; and the Board will adopt

such budget no later than June 30 of each year. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Board.

The District's annual budget will be presented by department, with a logical breakdown of programs and proposed expenditures. A budget document will be presented for discussion and review by the Board and the public. This document will focus on policy issues and will summarize expenses at the personnel, operating and maintenance, and capital levels.

### **III. BUDGET PROCESS**

The District's budget schedule consists of the following steps:

1. Department budget development by managers
2. Review of economic, financial, and industry impacts
3. Review of capital projects based on Asset Management Master Plan
4. Coordination and review of joint facilities' budgets with co-owner, San Dieguito Water District
5. Board review of relevant sections of the budget by the following committees: Finance Committee, Organization and Personnel Committee, and Water Resources Committee
6. Adoption of the budget by the Board of Directors at a public hearing no later than June of each year

### **IV. BUDGET CONTROL AND ACCOUNTABILITY**

Budget control is maintained at the departmental level. The General Manager has the authority to approve appropriation transfers between programs or departments. In no case may total expenses of the District exceed what is appropriated by the Board, without a budget adjustment.

Budget accountability rests primarily with the General Manager of the District.

### **V. BUDGET ADJUSTMENTS**

During the year, if projects or expenditures are needed that fall outside the adopted budget, the item(s) will be placed on the next Board meeting agenda. The Board will consider the allocation of additional funds from the Operating Reserve Fund to cover the costs, if approved.

Annually, staff prepares a mid-year budget status report for the Board. At this point, if there are any budget adjustments that merit consideration, they will be presented at the Board meeting to be approved by the Directors. Funds are then allocated from the Operating Reserve Fund to be used for those specific requests for the remainder of the fiscal year.

### **VI. CAPITAL PLANT AND EQUIPMENT**

The annual budget will provide for adequate maintenance and replacement of capital assets. The District will develop an annual five-year plan for capital expenditures, including equipment and improvements. All capital improvements will be made in accordance with an adopted and funded

capital improvement program. Cost tracking for components of the capital improvement program will be updated regularly to ensure project completion within budget and established timelines.

The development of the capital improvement budget will be coordinated with the development of the operating budget. It is the District's objective to maintain all of its assets at a level adequate to protect the District's capital investments and minimize maintenance and replacement costs.