

Amador Water Agency

Budget Policy

Reviewed and Adopted

10-08-20

100.00 Purpose of the Policy

The Agency's annual budget, as approved by the Board, will serve as the basis for operating the Agency. The budget includes a number of specifically identified projects, their attendant costs, as well as projected costs for operations and maintenance activities.

200.00 Policy

The Agency's Strategic Plan will serve as a guide/tool in the development of the Agency's annual Budget. The Agency will establish and maintain separate operations & maintenance (O&M), operating capital, capital improvement and debt service budgets (collectively – Agency Budget) in order to provide for proper fund management, financial planning and long-term solvency of the Agency.

On a combined basis, the Budget will reflect the following:

- A. Self-Supporting – The Agency will be self-supporting, such that current revenues fully fund current expenses and any fund balance or debt service coverage requirements.
- B. Consistent with the adopted
 - Agency Strategic Plan,
 - Water and Wastewater Master Plans,
 - 5 year Capital Improvement Plan,
 - Water and Wastewater Rate Studies
 - Asset Management Plans
 - Urban Water Management Plan
 - All other Agency planning documents
 - Board prioritization of projects and expenditures within the constraint of expected revenues.
- C. Capital Accounts – Capital revenues from rates, fees, 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.
- D. 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 Agency's infrastructure.

- E. Evaluation and Monitoring of Costs – Costs will be evaluated and monitored through monthly and annual reporting to ensure that the Agency is operated in a cost effective and economically prudent manner.
- F. Maintenance of Sufficient Reserves – The Agency will maintain sufficient reserves in accordance with the Agency’s Reserve Policy.
- G. Positive Annual Net Income - The Agency will strive to achieve positive annual net income (total revenue less O&M expenditures, debt service and capital projects funded from rates) greater than or equal to zero on a cash basis in order to support adequate reserves and minimize rate impacts in the future.
- H. Bond/COP Rate Covenant Requirements – The Agency will budget such that it will exceed the Rate Covenant obligations of its indebtedness, which is a minimum of 125% of the Agency’s annual debt service costs.
- I. 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. Rate policies are addressed in detail in AWA PL FIN 009.
 - 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 five-year projected period in an attempt to stabilize rates and spread rate adjustments 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 Agency’s customers and to verify that necessary revenue is available for the Agency’s operating and capital needs.

Rate stability shall be maintained in line with established Agency policies and its mission statement.

300.00 Budget Presentation

Staff will provide the Board with a synopsis of budget drivers, including:

1. Key Assumptions – expected water production and source, labor cost projections, and key drivers of capital and operating expenses such as projected power and chemical costs;
2. Revenue Projections – forecasted water demand and projected net income;
3. Projected debt service coverage ratio;
4. Reserve Balance Projections; and
5. Trend and/or Comparative Information

The proposed budget will include the following components:

1. Operations and Maintenance Budget (O&M):

- a. Planned Agency O&M expenses for operations, programmed maintenance, forecasted materials and supply costs, and contingencies for incident response.
- b. Annual labor budget and its components per the Employee Compensation Policy, including projected unfunded actuarial liabilities for pensions (PERS) and other post-employment benefits (OPEB).
- c. Projected expenses will be shown in total and segregated by department and function.

2. Operating Capital Budget (Fixed Assets):

- a. Information Technology capital projects;
- b. Vehicle and fleet capital costs;
- c. Capitalizable office furniture; and
- d. Capitalizable costs for operations.

Capitalizable costs in the Fixed Asset Budget are distinguished from those in the Capital Improvement Program Budget based, generally, on the shorter expected life of the asset and that the asset is not part of the general water delivery system.

3. Capital Improvement Program Budget (CIP):

- a. Expenses will be planned primarily on the Agency's Asset Replacement Management Plans and the Water/ Wastewater System Master Plans.
- b. The Agency will determine with each budget how to project revenue from anticipated development.
- c. Staff will seek input from the County and cities regarding anticipated timing of planned development.

4. Debt Service Budget:

- a. The budget will plan to meet all 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.

5. Agency Reserves:

1. The Agency's Reserve Policy will be reviewed annually during the budget preparation and adoption process.

400.00 Authority

The General Manager has authority to reallocate specific budgeted amounts within a particular budget (O&M, Fixed Asset or CIP) during the year with subsequent reporting to the Board, as long as the overall approved budget is not affected. Amounts to be transferred between budgets (e.g., O&M to CIP) will be approved by the Board prior to the transfer. The General Manager and Financial Services Manager are responsible

for adherence to this policy and regular reporting of the Agency's financial status. Board oversight will be accomplished through regular reporting of budget-to-actual expenditures during the year and review of this Policy.

500.00 Policy Review

This policy will be reviewed at least every two years.