

RESOLUTION NO. 2023-10
RESOLUTION OF THE BOARD OF DIRECTORS OF
THE PHELAN PIÑON HILLS COMMUNITY SERVICES 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 Phelan Piñon Hills Community Services District in the form attached to this Resolution and marked "Budget Policy."

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Phelan Piñon Hills Community Services District does hereby adopt and approve the District "Budget Policy" attached hereto, which the Policy is by this reference incorporated herein.

APPROVED, SIGNED, AND ADOPTED by the Board of Directors of the Phelan Piñon Hills Community Services District at a special meeting held on the 5th day of April 2023, by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

President, Board of Directors
Phelan Piñon Hills Community Services
District

ATTEST

Secretary,
Phelan Piñon Hills Community Services
District and of the Board of Directors

BUDGET POLICY

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SECTION 1. INTRODUCTION

1.1 **Introduction** - This general Budget Policy is the basis upon which staff develops budget recommendations and establishes funding priorities within the limited resources the Phelan Piñon Hills Community Services ("District") has available to provide services.

1.2 **Budget Parameters** - The budget is a plan 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. 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 Directors priority directions. The budget is prepared by District staff in the Finance Department with input from District management.

1.3 **Government Code** - California Government Code 61110 states the following regarding budgets for special districts.

- A. On or before July 1 of each year or, for districts using two one-year budgets or a biennial budget, every other year, the Board of Directors may adopt a preliminary budget that conforms to generally accepted accounting and budgeting procedures for special districts.
- B. The Board of Directors may divide the preliminary budget into categories, including, but not limited to, the following:
 - 1. Maintenance and operation
 - 2. Services and supplies
 - 3. Employee compensation
 - 4. Capital outlay
 - 5. Interest and redemption for indebtedness
 - 6. Designated reserve for capital outlay
 - 7. Designated reserve for contingencies
- C. On or before July 1 of each year or, for districts using two one-year budgets or a biennial budget, every other year, the Board of Directors shall publish a notice stating all of the following:
 - 1. Either that it has adopted a preliminary budget or that the general manager has prepared a proposed final budget which is available for inspection at a time and place within the district specified in the notice.

2. The date, time, and place when the board of directors will meet to adopt the final budget and that any person may appear and be heard regarding any item in the budget or regarding the addition of other items.
3. The Board of Directors shall publish the notice at least two weeks before the hearing in at least one newspaper of general circulation in the district pursuant to Section 6061.
4. At the time and place specified for the hearing, any person may appear and be heard regarding any item in the budget or regarding the addition of other items. The hearing on the budget may be continued from time to time.
5. On or before September 1 of each year or, for districts using two one-year budgets or a biennial budget, every other year, the board of directors shall adopt a final budget that conforms to generally accepted accounting and budgeting procedures for special districts. The general manager shall forward a copy of the final budget to the auditor of each county in which the district is located.

1.4 **Public Hearing** - In accordance with California Government Code 61110 stated above, the District will hold a public hearing and will publish the required notice at least two weeks before the hearing. 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 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.

1.5 **Budget Calendar & Deadlines** - Finance Staff will prepare and present the Budget Calendar to the General Manager, the Board of Directors, and staff before the beginning of March in the calendar year that a budget is to be adopted.

The California Government Code requires the District to adopt a final budget on or before September 1st in the year 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.

1.6 **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 account method used for both documents will be the accrual method of accounting.

1.7 **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.

- A. Budget Message
- B. Budgetary Control and Financial Practices
- C. Financial Policies
- D. Sources of Revenue
- E. Rates and Fees
- F. Organizational Chart
- G. Staffing Levels
- H. Department Functions and Goals
- I. Financial History and Budget Comparison
- J. Budget Overview
- K. Statement of Revenues and Expenditures
- L. Fund Balances and Cash Flow Projections
- M. Reserves Schedule
- N. Debt Service Analysis
- O. Capital Expenditure Descriptions
- P. Five Year Forecast
- Q. Statistical Section
- R. Glossary

1.8 **Budget Amendments** - If a significant change to operations occurs after the budget has been adopted, the District should propose an amendment to the budget. California Government Code 61111 states the following regarding budget amendments for special districts.

- A. At any regular meeting or properly noticed special meeting after the adoption of its final budget, the Board of Directors may adopt a resolution amending the budget and ordering the transfer of funds between categories, other than

transfers from the designated reserve for capital outlay and the designated reserve for contingencies.

- B. 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.

1.9 **Budgetary Control – Level of Control** – The General Manager can go over or be under budget on a line-item basis, with explanation, as authorized in the District Purchasing Policy, provided it does not impact the overall Budget.

Section 2. FISCAL INTEGRITY

The District recognizes that long-term fiscal stability ensures that authorized 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 to fund the Operating Funds, the Capital Improvement Funds 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 **Public 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. A Public Hearing will be held and proper publishing requirements will be met at a minimum.

2.4 **Periodic Reporting** - Staff will provide comparison reports to the General Manager and 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. Monthly comparison reports will be provided to all department managers 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 Purchasing Policy.

SECTION 3. 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 **Budget Assumptions** - The basis for budget assumptions will include water meter estimates, water consumption estimates, franchise fees, leases, property taxes, approved rate studies, and District priorities.

3.3 **Operating Revenue** - Operating revenue is defined as ongoing charges and fees for services provided.

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

SECTION 4. EXPENSES

4.1 **Guidelines for Expense Budget** - Expenses will be budgeted bottom up, meaning every line item detail will be reviewed and estimated. Input from department managers and supervisors will be utilized to provide operational knowledge.

4.2 **Budget Assumptions** - The basis for staff budget assumptions will be established by known increases (such as Edison increases), COLA, and market fluctuations (such as gasoline prices).

4.3 **Operating Expenses** - 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-Recurring Expenses** - Non-recurring 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.

SECTION 5. 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 ten 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 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.

SECTION 6. DISTRICT RESERVES

6.1 **Guidelines for Reimbursement of Reserves** – It is the goal of the Board to reimburse reserves by an amount equal to 10% of the amount borrowed. Consideration for this goal will be utilized in preparation of the Budget.