

Internal Monitoring Report

Policy: EL-2C Financial Planning/Budgeting

Frequency: Twice a year (May and August)

Date: May 27, 2019

Policy Language:

The General Manager shall not cause or allow financial planning to deviate materially from the board's Outcomes priorities, risk financial jeopardy or fail to be derived from a multiyear plan.

Accordingly, the General Manager shall not cause or allow conditions, procedures or decisions that:

1. Allow budgeting which would risk incurring those situations or conditions described as unacceptable in the Financial Condition and Activities policy (EL-2D).
2. Fail to provide the full amount established by the board according to the Agenda Planning to Achieve Board Outputs policy (BP-2C).
3. Fail to provide the board with an opportunity for one month's deliberation prior to approval of cost increases in excess of 15% of the established budget for a project.
4. Fail to provide the board with an estimated impact on the rate increase for capital projects with the annual presentation of the capital budget.

General Manager's interpretation and its justification:

This Executive Limitations policy recognizes that financial planning and sound budgeting are necessary for the achievement of the board's Outcomes priorities and in order to avoid financial jeopardy. Sound budgeting is also necessary for the board to invest resources in improving its own governance capacity. The Utility has the responsibility to establish, manage and plan for the necessary water rates and debt to fund all expenditures to meet identified capital and operational requirements, and to budget accordingly.

Data directly addressing the General Manager's interpretation:

The proposed Water Utility Capital Budget and Capital Improvement Plan is aligned materially with the board's Outcomes priorities and projects capital expenditures through the year 2025. However, due to the water utility's current financial condition, facility projects to accomplish Water Quantity, Water Quality, and Reliability Outcomes have been postponed in 2019 and 2020. The Capital Budget for 2020 provides primarily for pipeline projects and miscellaneous equipment replacements. A copy of this document is attached.

The proposed 2020 Capital Budget of \$9.93 million will be funded through the use of internal reserves and the sale of revenue bonds. Funding and additional debt levels for the 2020 capital

budget will be dependent upon 2019 operating results and realization of budgeted goals. The rate impact for each project is included in the attachment for two scenarios; 1) the estimated rate increase applying only cash reserves and, 2) the estimated increase funding 2020 capital projects entirely with revenue bonds.

The utility is evaluating the potential for refinancing its 2009 revenue bonds with its municipal advisor. Any potential savings from the refinancing would free up cash flows for future capital projects.

The utility uses a financial planning model developed by Springsted Financial to evaluate and project funding required for financing infrastructure and operating needs. This model is being used to plan the budget, revenue bond offerings, and develop future rate requirements.

The 2012 Operating Budget is a master agenda item for the August board meeting.

In the past year, the board has always been provided with a one month period of time for review and deliberation of cost increases in excess of 15% of the established budget for a project.

I report compliance.

Attachments:

Proposed 2020-2025 Capital Budget
2020 Capital Budget Rate Change and Debt Needs Analysis