Santa Clara Valley Water District

MEMORANDUM

FC 14 (01-02-07)

TO: Darin Taylor, Chief Financial Officer
Joanne Jin, Budget Manager (Acting)

FROM: Mike Stoliker

SUBJECT: Biennial Budgeting

DATE: February 13, 2018

The purpose of this memorandum is to provide a brief overview of the District's current budgeting process as well as an analysis of the benefits and drawbacks associated with various types of biennial budgeting.

OVERVIEW

The District currently prepares both the Operating and Capital Budgets on an annual basis. The Capital Improvement Plan (CIP) is also prepared annually, but it outlines projections for five years of capital project spending. While the District has experimented with a two-year budget in the past, a one-year budget cycle is adhered to as the Board and staff currently believe it most adequately meets the District's needs. The Board has asked staff to examine the merits of adopting a two-year budget cycle to allow Directors to have more flexibility and time to focus on other responsibilities. Findings are presented below.

TYPES OF BIENNIAL BUDGETING

There are three types of biennial budgets that can be adopted. They are:

- Traditional Biennial Budget: In a traditional biennial budget, staff submits and the Board approves a 24-month appropriation. The budget is prepared in odd-years and oversight is conducted in even years. Changes and adjustments are tracked and used to refine budgetary priorities during the next budget cycle. Cost and revenue increases are generally limited to 3-5% year-over-year.
- Biennial Financial Plan: A biennial financial plan is a non-binding spending plan that outlines District priorities and spending assumptions per year. Under a biennial financial plan, the Board continues to approve an annual budget, but adopts a tentative spending plan for the following year.
- Rolling Biennial Budget: Under a rolling biennial budgeting system, staff prepares and the board approves a true biennial spending plan, but appropriations are made on an annual basis and adjustments are made between years one and two.

It is important to differentiate between biennial financial plans and rolling budgets. Essentially, a biennial financial plan consists of two one-year spending documents, with the first document serving as a binding budget and the second acting as a "draft" budget to guide spending decisions for the second year. A rolling budget is a single document outlining two years of spending, but utilizing an annual appropriations cycle to allow for corrections and adjustments between years.[1]

[1] Blom, Barry and Solomon Guajardo. "Multi-year Budgeting: A Primer for Finance Officers". *Government Finance Review*. Government Finance Officers Association. Chicago, February 2000. https://rockmail.rockvillemd.gov/clerk/egenda.nsf/d5c6a20307650f4a852572f9004d38b8/8b550fa29dc798b085257a5b0068b406/$FILE/AttachA_Primer_Multi-YearBudgeting.pdf

CURRENT USERS

Utilities currently practicing biennial budgeting include the Metropolitan Water District of Southern California (MWD), East Bay Municipal Utilities District (EBMUD), and the San Francisco Public Utilities Commission (SFPUC). In speaking with representatives of these utilities, each expressed similar motivations for adopting a biennial budget process. Primary reasons cited include a desire to reduce staff time dedicated to budget and rate development and allowing the respective governing bodies to focus on other priorities while maintaining involvement in budget development. MWD utilizes a traditional biennial budget as well as a biennial rate-setting process and a ten-year capital improvement plan (CIP). EBMUD utilizes a biennial financial plan that allows the governing body to "reaffirm" the second year of the budget in accordance with the Municipal Utilities District Act. EBMUD also has a 5-year CIP with multi-year appropriations lasting the life of the project. SFPUC's budget is unique in that it is adopted as part of the larger city/county budget proposed by the Mayor and approved by the Board of Supervisors.

CONSIDERATIONS

- Systems: The District is currently using the vena budgeting system on an annual basis. This program was implemented last year and continues to be refined. Furthermore, financial information is currently synced with PeopleSoft by fiscal year. Should the district adopt a biennial budget, there will likely be significant upfront costs associated with Vena revisions, user training, and ERP integration, as well as ongoing expenditures related to Vena modifications.
- Time Commitment/Costs Vs. Benefits: While a biennial budget ostensibly will allow the Board to allocate more time to other priorities, time spent processing and approving budget adjustments could be significant. Monitoring expenditures will consume a significant amount of staff time, as will preparation of the second year appropriation in the event of an emergency or a mid-year shift in spending priorities should the Board adopt a biennial spending plan with annual appropriations.
- Policies: The Board is statutorily compelled by The District Act, Section 20, to convene annually and solicit public input in order to adopt a yearly budget. The District Act will require amendment prior to the implementation of biennial budgeting. Additionally, policies should be reviewed to ensure that the goals of a more efficient budget process, decreased time commitment, and more flexibility are met. Should the Board decide to adopt a traditional biennial budget, the criteria for budget deviations and adjustments should be revised to allow District staff to properly redirect funds without consuming a disproportionate share of the Board's time. For example, EBMUD allows the General Manager discretion to transfer up to 5% of funds between the operating and capital budgets for each system (water & wastewater), as long as the total budget for each remains unchanged.[2]
- Budgetary Uncertainty: Budgetary uncertainty is a particularly acute consideration if utilizing a traditional biennial budget. Under this process, staff begins preparing budgets as far as 30 months in advance of the end of the budget cycle, and the entire two-year appropriation is made at once. While it may be easier to project straight line growth with a traditional biennial budget, the lead time and size of the appropriation may not accurately reflect funding priorities or allow the district to properly respond to emergencies in a timely fashion.

[2] East Bay Municipal Utilities District. "Proposed Biennial Budget: Fiscal Years 2016-2017". East Bay Municipal Utilities District. Oakland, CA, March 2015. http://www.ebmud.com/files/3414/3223/8715/fin-fy16-17-budget-rates-charges-032415-attachment-vol-1.pdf

CONCLUSIONS

There are benefits and drawbacks to each approach. A biennial budget may afford staff and Board members more time to pursue other tasks, whereas an annual budget cycle may offer greater flexibility. Additionally, both annual and biennial budgets will require ongoing staff oversight and Board input to accommodate adjustments and various circumstances that may arise. In adopting a biennial budget, an entity must also consider whether to pursue a traditional, biennial plan, or rolling budget. Should the District ultimately decide to make a transition to biennial budgeting, it is not recommended that the Board immediately adopt a traditional biennial budget. The aforementioned considerations as well as economic uncertainty warrant a rolling biennial budget or biennial financial plan.

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