

Current Budget Processes and Consideration of Biennial Budgeting

August 11, 2020

Agenda

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- **Definition of Biennial Budgeting**
- **Current Process**
- **Pros and Cons**
- **Biennial Budget Process**
- **Recommendation**

Biennial Budgeting

Should Valley Water prepare a budget every two years rather than every year?

Board Request: Staff to explore a Biennial Budget including potential benefits and drawbacks compared to current Annual Budget process

Biennial Budget Definition:

- The practice of preparing and adopting budgets for two-year periods
- Central rationale: would improve efficiency of budget process
- Assumes annual budget process is time-consuming
- Could reduce budget process repetition and free time for other activities

Operating and Capital Budget Process Options

There are several options depending on the objective

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- A. Traditional biennial budget with mid-cycle update
- B. Rolling biennial budget updated annually
- C. One-year budget with time saving options
- D. One-year budget, maintain status quo

Valley Water Budget Process Overview

Operating Budget, Capital Budget, and Rates are approved on an annual basis

Timeframe of current budget process includes these Board contributions:

- | | |
|-----|---|
| Dec | Board Budget Update |
| Dec | Preliminary CIP to Committee |
| Jan | Preliminary CIP to BOD |
| Feb | First Pass Budget Update presented to BOD |
| Feb | Draft CIP to BOD |
| Mar | Preliminary Budget to BOD (Second Pass) |
| Apr | Board Workshop on Proposed Budget and Rates |
| May | Board Approval of: <ul style="list-style-type: none">– Operating and Capital Budget– Groundwater Production Charges (rates)– 5 Year CIP |

Valley Water Budget Process Overview

Government Code and District Act require annual Board actions

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Guiding State, District Act and Valley Water Policies

- California Government Code (§ 65403) – Requires special districts to convene annually, soliciting stakeholder and public input for adoption of a five-year CIP
- The District Act, Section 20 and 26 – Requires Board to convene annually and solicit public input to adopt budget and water rates
- Valley Water Governance policies – May require review and adjustment to incorporate biennial budget

Pros and Cons Analysis – Annual vs Biennial

No clear advantage either way

	Annual Budget	Biennial Budget
Pros	<ul style="list-style-type: none">• Budgeting is habitually an annual process• Organization is familiar with annual budget process• Ability to quickly address changes in economic cycles, such as revisions to revenue	<ul style="list-style-type: none">• Reduction in number of Board presentations• Improve efficiency of budget process and reduce repetition of Board presentations• Flexibility and time to focus on other responsibilities, such as priority setting• Conducive to long-term planning
Cons	<ul style="list-style-type: none">• Short-term planning• Frequent meetings and time commitment of the Board	<ul style="list-style-type: none">• Dated assumptions and increase of uncertainty• Adjusting to rapidly changing budgetary and economic conditions becomes more difficult

Biennial Process Comparison – Water Agencies

Processes vary across agencies to best serve budgeting needs

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Valley Water	East Bay Municipal Water District	Metropolitan Water District of Southern California	Contra Costa Water District
<ul style="list-style-type: none">• Adopts Operating and Capital Budgets each year• Adopts Rates annually• Multi-Fund• FY21 budget totals \$610 million	<ul style="list-style-type: none">• Adopts Operating and Capital Budgets in the same year Biennially• Adopts Rates Biennially• Two funds• FY21 budget totals \$1,036 million	<ul style="list-style-type: none">• Adopts Operating and Capital Budgets in the same year Biennially• Adopts Rates annually• Multi-Fund• FY21 budget totals \$1,936 million	<ul style="list-style-type: none">• Alternates adoption of Operating and Capital Budgets each year• Adopts Rates annually• Single fund• FY21 budget totals \$200 million

Transitioning to a Biennial Budget Process

Possible, at appropriate time, with investment of time and resources

- Implies long-term, strategic planning approach requiring more upfront effort
 - Biennial budgeting should allow flexibility to respond to uncertainty in dynamic economic environments
- Budget System Impact
 - Significant implementation cost to modify Vena budget system
 - Significant effort to integrate with ERP system
 - Finance resources currently devoted to ERP implementation
 - Most efficient to modify Vena budget system upon completion of Infor ERP implementation
 - Not efficient to modify Vena budget system now and integrate with Peoplesoft

Potential Time Savings Considerations

Additional budget solutions to consider

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- 1) Move majority of budget process to a committee level
- 2) Increase CEO, CFO, Budget office approval limit for appropriation adjustments to reduce number of meetings to accommodate budget changes

Staff Recommendation

Pursue a rolling biennial budget process

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- Implement rolling biennial budget, updated annually, with the following considerations:
 - After Infor ERP system go-live and demonstrated stability
 - Consider budget review at committee level
 - Consider increasing budget adjustment approval limits

QUESTIONS

