

COST MANAGEMENT POLICY

SECTION 2 – APPENDIX 4

The Budget

The annual budget is the primary tool for setting rates and controlling costs over a given year. The budget is separated for accounting purposes into operating and non-operating components.

Revenues

Rates: Little Thompson Water District's rates will be based upon the cost of service approach to reflect full distribution of costs to appropriate rate classes in order to effect equitable sharing of costs. Rates shall be established and maintained at a level sufficient to maintain positive net income after paying the full cost of operating and maintaining District infrastructure and keeping it in good repair and working order. Rates shall also be sufficient to provide debt service coverage and ensure adequate levels of reserves and working capital. If for any reason, revenue from rates does not appear to be sufficient to cover the above needs, the Board may consider rate adjustments at any time. For budgeting purposes, revenue from water sales shall be estimated based on average year consumption. The Cash Flow Fund provides the buffer as revenues fluctuate due to weather.

Plant Investment Fees: Little Thompson Water District's plant investment fees will be based upon the approach that growth and new development will pay for itself. Existing tap holders should not bear the financial burden to fund growth or new development. Plant investment fees will be in compliance with State Law and be based on defensible methodology.

Expenditures

Cost management procedures involve the monthly review of variances from the authorized budget by the Management Team. The Management Team consists of the District Manager and direct reports. Within the operating and non-operating components of the budget, the District Manager has the authority and responsibility to determine to what degree unfavorable variances in one area or project can be offset by favorable variances in another. If expenditures are still projected to exceed authorized budgets in spite of such offsets, the District Manager will determine what activities will be curtailed in order to remain within authorized spending levels.

In its totality, the annual budget is the absolute maximum level of expenditures authorized by the Board. Conditions may arise during any given budget year that cause projected expenditures to be higher than those approved by the Board. In the following circumstances the District Manager is required to propose a budget amendment:

1. Expenditures in the operating budget are projected to exceed the authorized budget amount.
2. Expenditures in the non-operating budget are projected to exceed the authorized budget amount.
3. The total District labor and benefits expenditures are expected to be more than the budgeted labor and benefit costs.
4. To transfer appropriations in either direction, regardless of availability, between the operating budget and the non-operating budget.

5. In addition, the District Manager is required to obtain Board authorization before executing a contract for any single capital project exceeding \$100,000.

The Board will consider each proposed budget amendment and either approve or disapprove. In the event of disapproval, the District Manger will exercise established authorities in taking actions necessary to curtail spending within authorized levels.

Net Change in Working Capital

Irrespective of how actual expenditures compare to budgeted amounts, the District Manager shall apprise the Board of any situation where due to a downward trend in revenue, either an unanticipated or larger than expected decrease in working capital appears likely.