

CHWD Staff Installing A Service line

**C I T R U S**  
**H E I G H T S**  

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**W A T E R**  
**D I S T R I C T**  

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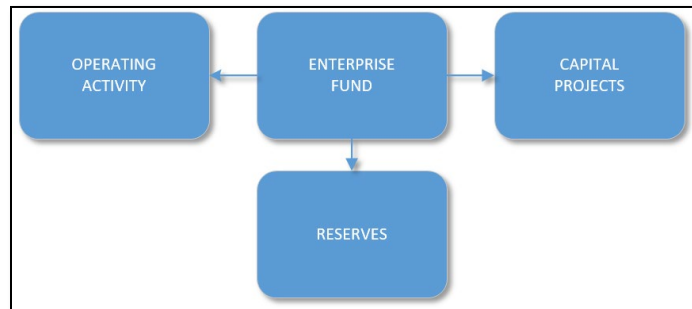


# Financial Policies & Goals

## Accounting and Budget Structure

### Fund Structure

CHWD operates as an enterprise fund with a fiscal year that begins January 1 and ends on December 31. The District operates with one major fund on the accrual basis of accounting. Generally accepted accounting principles (GAAP) require local governments to use a proprietary-type fund, such as an enterprise fund, to account for business-type activities similar to



CHWD Fund Structure

those found in the private sector. An enterprise fund is one in which the expenditures are supported by fees collected primarily through charging users in exchange for services. CHWD operations are supported almost entirely by fees collected from customers in exchange for providing water service, including providing customer service, continuously working to maintain and repair the District's infrastructure, and providing a dependable supply of clean, safe water.

CHWD's management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). CHWD's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

CHWD's Board annually adopts a budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations, accountability for CHWD's enterprise operations, and capital projects. The budget is presented on the accrual basis of accounting and is consistent with the presentation of CHWD's Annual Comprehensive Financial Report. As part of the budget process the financial model is updated annually to analyze revenue and expenses along with capital improvements; more information regarding the District's financial model is provided in the "Financial Model" section. The District defines a balanced budget as one where current revenues are equal to or greater than current expenditures. The District also

allows a balanced budget to use reserves to augment current revenues.

## Financial Model

The Government Finance Officers Association of the United States and Canada (GFOA) recommends that government agencies complete a forecast of revenues and expenditures that extends several years into the future. The GFOA considers this to be a best practice for the budget preparation process.

In 2013, the District partnered with NBS Government Finance Group to develop a 10-year financial model. This model was first used to develop the 2014 Annual Budget. A financial model takes into account past revenues and expenditures, revenues and expenditures projected for the current and future years, economic and demographic trends, as well as expected cash flows, and produces an estimate on the financial position of the District based on these variables.

The financial model can be used to determine the appropriate service rates needed to achieve the desired financial result. This type of budgeting, commonly referred to as priority-based budgeting, is used to clearly define goals, set priorities, and deliver the best possible value to ratepayers.

In 2019, the District updated its financial model with Raftelis Financial Consultants (Raftelis). This model was further refined since 2019 with IB Consulting. As years pass, it is a best practice to update the assumptions and factors in a financial model, as assumptions used in prior models may no longer apply. In addition to updating assumptions, CHWD desired to reevaluate its rate structure and ensure a reasonable rate allocation ratio, which will be 66% fixed to 34% variable income for 2024. The final goal of the model update was to evaluate the current rate schedule and ascertain whether a recalibration of the rates was necessary.

As a result, the District determined that the fixed portion of the rate needed a recalibration in order to ensure that costs allocated to meters of different sizes accurately reflected the demand and usage each meter size placed on the District's water system. The rebuild of the financial model was presented to the Board of Directors at the August 2019 Board Meeting, which included a rate calibration component.

## Five Year Forecast

Table 2 outlines the District's five-year forecast of revenues and expenditures spanning from 2023 through 2027. The forecast is grounded in an assumption of relatively stable revenues, as we do not anticipate any rate increases. Increased operating costs based on the Consumer Price Index (CPI) 10-Year Average for San Francisco, and increased construction costs based on the Engineering News Record Construction Cost Index

(ENRCCI) (ENR CCI) 5-Year average for San Francisco.

|  | 2022<br>Actual       | 2023<br>Estimated    | 2024<br>Proposed     | 2025<br>Projected*   | 2026<br>Projected    | 2027<br>Projected   |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| <b>Revenues</b>                        |                      |                      |                      |                      |                      |                     |
| Water Sales                            | \$ 17,745,107        | \$ 17,125,156        | \$ 18,499,502        | \$ 18,500,000        | \$ 18,500,000        | \$ 18,500,000       |
| Connection and Other Fees              | 499,297              | 373,877              | 157,000              | 113,000              | 116,000              | 119,000             |
| Project 2030 Designated Charge         | 1,189,350            | 1,327,336            | 1,372,000            | 1,372,000            | 1,372,000            | 1,372,000           |
| Grant Revenue                          | -                    | -                    | 3,107,000            | -                    | -                    | -                   |
| Investment and Other Income            | (92,411)             | 485,113              | 400,000              | 400,000              | 400,000              | 400,000             |
| <b>Total Revenues</b>                  | <b>19,341,343</b>    | <b>19,311,481</b>    | <b>23,535,502</b>    | <b>20,385,000</b>    | <b>20,388,000</b>    | <b>20,391,000</b>   |
| <b>Expenses</b>                        |                      |                      |                      |                      |                      |                     |
| Salaries and Benefits                  | 4,481,946            | 5,918,861            | 6,764,454            | 7,021,503            | 7,288,320            | 7,565,276           |
| Water Purchases                        | 2,785,929            | 2,733,834            | 3,167,500            | 3,325,875            | 3,492,169            | 3,666,777           |
| Other Operating & Maintenance Cost     | 3,634,940            | 4,187,081            | 4,532,578            | 4,695,400            | 4,695,158            | 4,695,158           |
| Debt Service                           | 174,338              | 174,338              | 174,088              | 170,788              | 172,488              | 171,450             |
| <b>Total Operating Expenses</b>        | <b>11,077,153</b>    | <b>13,014,114</b>    | <b>14,638,620</b>    | <b>15,213,566</b>    | <b>15,648,135</b>    | <b>16,098,662</b>   |
| Transfers to Reserves                  | 1,589,350            | 1,727,336            | 1,374,099            | 1,374,099            | 1,374,099            | 1,374,099           |
| <b>Total Expenses</b>                  | <b>12,666,503</b>    | <b>14,741,450</b>    | <b>16,012,719</b>    | <b>16,587,665</b>    | <b>17,022,234</b>    | <b>17,472,761</b>   |
| Operating Income before Capital Outlay | 6,674,840            | 4,570,031            | 7,522,783            | 3,797,335            | 3,365,766            | 2,918,239           |
| Capital Outlay                         | 2,536,268            | 4,021,267            | 13,808,790           | 9,815,203            | 10,553,099           | 11,081,027          |
| <b>Beginning Net Position</b>          | <b>18,007,549</b>    | <b>23,735,469</b>    | <b>26,011,568</b>    | <b>21,099,661</b>    | <b>16,455,892</b>    | <b>10,642,658</b>   |
| Operating Revenues                     | 19,341,343           | 19,311,481           | 23,535,502           | 20,385,000           | 20,388,000           | 20,391,000          |
| Operating Expenses                     | (11,077,153)         | (13,014,114)         | (14,638,620)         | (15,213,566)         | (15,648,135)         | (16,098,662)        |
| Capital Outlay                         | (2,536,268)          | (4,021,267)          | (13,808,790)         | (9,815,203)          | (10,553,099)         | (11,081,027)        |
| <b>Ending Net Position</b>             | <b>\$ 23,735,469</b> | <b>\$ 26,011,568</b> | <b>\$ 21,099,661</b> | <b>\$ 16,455,892</b> | <b>\$ 10,642,658</b> | <b>\$ 3,853,969</b> |

Table 2

Furthermore, this forecast considers the moderating effect of cooling inflation on operational costs, while acknowledging inflation is still at an elevated level compared to prior years. At the same time, construction costs are expected to rise, primarily due to increased materials costs. These factors play a vital role in shaping the financial outlook of the District.

The core objectives of this forecast remain consistent, including the strengthening of the Water Main Replacement Reserve to mitigate the financial implications of initiating the main replacement plan, as envisioned in the Project 2030 Study. The forecast also maintains its focus on ensuring that designated reserves are maintained at healthy levels and facilitating the construction of the District's seventh and eighth groundwater wells.

## Budget Process

The District's budget process begins with its Strategic Planning meeting, typically held in May of the preceding year. The Board adopted the current Strategic Plan in August 2023. Using the 10-year financial model, the Administrative Services department prepares the District's revenue budget, with the input of department managers and supervisors throughout CHWD. The Engineering and Operations departments review the 30-year capital improvement plan, and short-term needs to produce the annual capital budget.

Using the goals and objectives identified by members of the Board of Directors, CHWD leadership, and vested members of the community, each department prepares a draft operating budget, which is then reviewed by the General Manager. Once draft budgets are completed, they are presented to the Board in August or September in a study session, along with any recommended rate adjustments.

The Board then provides direction to District staff. This can either be a request for revision, or authorization to proceed with the budget process. Once the Board gives the authorization to proceed, staff will finalize the budget and, if necessary, issue a notice to its customers, pursuant to California Proposition 218 (Prop 218) including the maximum rate adjustment that the Board will consider at a scheduled public hearing. The Board then approves the budget in a public hearing held in November or December.

## Budget Amendments/Adjustments

During the year, it may be necessary to amend line items in the operating or capital budgets, or to transfer budgeted dollars between operating budget accounts, between capital projects, or between capital and operating budgets. Budgetary control rests with the General Manager up to the limits prescribed in CHWD's Purchasing Policy. When the amount exceeds the General Manager's authority, budgetary control rests with the

Board of Directors, and Board approval is required for any budget transfers.

### Budget Controls

The budget is monitored regularly by the Administrative Services department using budget-to-actual reports for both operating and capital budgets, as well as using purchase orders for large purchases. Budget reports are also reviewed by the General Manager and executive team. These reports are submitted monthly to the Board of Directors.



CHWD's Budget Process

## Budget Calendar

| Item   | Start Date    | Due Date     |
|--|---------------|--------------|
| Strategic Planning   | 5/23/2022     | 5/23/2023    |
| Departments work on 2024 Operations & Maintenance (O&M) Budget   | 06/27/23      | 07/17/23     |
| Regional Rate Survey   | 06/27/23      | 07/17/23     |
| Departments begin to create 2024 Capital Improvement Projects (CIP) list and work on CIP forecast for Financial Plan | 07/03/23      | 07/17/23     |
| General Manager reviews O&M Budget   | 07/18/23      | 07/24/23     |
| Create detail CIP worksheets for 2024  | 08/21/23      | 08/31/23     |
| Board of Director (BOD) Budget and Rate Study/Review   | 08/21/23      | 08/21/23     |
| Final adjustments to Budget & Rate Model   | 09/05/23      | 09/14/23     |
| Public Outreach  | Mid-September | Late October |
| Work on 2024 Misc. Charges & Fees and present to BOD   | 09/05/23      | 10/18/23     |
| Revisions to detail budget and rates/fees per BOD direction  | 10/19/23      | 11/07/23     |
| Present Proposed Budget and rates/fees to BOD at Public Hearings   | 11/14/23      | 11/14/23     |
| Prepare binders / report / resolutions for Public Hearing  | 11/01/23      | 11/07/23     |
| Preparation / distribution of final budget binders / 2024 rate schedule  | 11/20/23      | 11/29/23     |

Table 3

## Financial Policies

The CHWD financial policies include many of the District's financial management practices that are used for operational and strategic decision making. These policies also allow the Board of Directors and community stakeholders to monitor how effectively the District is managing its financial responsibilities, as well as providing a means for holding the District fiscally accountable. These policies are reviewed annually to incorporate minor changes to existing policy, or major shifts in financial priorities at the discretion of the Board of Directors. The financial policies underwent a comprehensive review and update during 2020, and have been reviewed and modified each year thereafter to reflect the most recent changes.

**Basis of Presentation - Fund Accounting:** The District's basic financial statements are prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The more significant District accounting policies are described below.

**Investment Policy:** The Board has adopted an investment policy that conforms to state law, CHWD's ordinances and resolutions, prudent money management, and the "prudent person" standards. The objectives of the Investment Policy are safety, liquidity, and yield. Currently, funds are invested in various securities as authorized by CHWD's Investment Policy. The District will continue to look at ways to maximize return and account for changing markets within the limitations of local government investment rules.

**Reserves Policies:** The District has 10 Reserve accounts with supported policies to balance ongoing operations to capital improvement programs. These funds are allocated to the maintenance, repair, replacement, or improvement of water system infrastructure. Adequate reserves, along with sound financial policies, provide financial flexibility to counter unanticipated expenditures or revenue fluctuations.

**Basis of Accounting:** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of this fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are

recorded when earned and expenses are recorded at the time liabilities are incurred. When funds are received but not earned, they are recorded as unearned revenue until earned. Earned but unbilled water services are accrued as revenue.

Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District, and are capitalized as donated pipelines at acquisition cost.

Operating revenues and expenses consist of revenues and expenses that result from the ongoing principal operations of the District. Primary operating revenues are from charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements:** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months

or less to be cash equivalents. Cash and cash equivalents held include bank deposits and restricted and unrestricted investments authorized by CHWD’s Investment Policy.

**Restricted Assets:** Certain proceeds of the District’s long-term debt are classified as restricted investments on the balance sheet when applicable because their use is limited by applicable debt covenants.

**Investments:** Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

**Inventory:** Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued on a first-in, first-out basis.

**Prepaid Assets:** Prepaid assets consist primarily of insurance, maintenance agreements and other prepaid assets.

**Capital Assets:** Capital assets are tangible, personal property with a value of at least \$5,000 and a useful life of more than two years; any addition to the District’s infrastructure for conveyance, treatment, pumping, or production of water with a value greater than \$15,000 and a useful life of more than two years; or any construction project, building, land, or improvement upon land with a value greater than \$15,000 and a useful life greater than two years.

Capital assets are recorded at historical cost. Donated capital assets, works for art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction calculated using the straight-line method, using the estimated useful lives in *Table 3*.

| Description                 | Useful Life   |
|-----------------------------|---------------|
| Pipeline and Infrastructure | 20 - 40 years |
| Equipment and Machinery     | 5 - 10 years  |
| Buildings                   | 15 - 40 years |
| Well Improvements           | 40 years      |
| Donated Pipelines           | 40 years      |
| Improvements                | 40 years      |

*Table 4*

**Bond Premiums and Bond Issuance Costs:** Bond premiums are deferred and amortized

over the lives of the bonds. Long-term liabilities are reported in net of the applicable bond premiums. Bond issuance costs are recognized as an expense in the period incurred.

## Debt Management

CHWD funds capital improvement requirements primarily on a pay-as-you-go basis. However, there have been instances when the District has issued debt to fund significant capital projects. The District's debt instruments are secured by net revenues derived from the operation of the water system. The District may not issue or incur any new debt obligations that are superior to the installment or parity obligations under existing debt covenants. The District has no legal debt limit, and no immediate plans to issue debt for 2024.

**2012 Revenue Refunding Bonds:** In April 2012, the District issued \$2,275,000 of Revenue Refunding Bonds with interest rates ranging from 3.00% to 5.25%. These 2012 Revenue Refunding Bonds were issued to retire the 2003 Certificates of Participation, which were issued to finance the cost of certain capital improvements to the District's water system. The District is required to collect rates and charges from its water system that will be sufficient to yield net revenues equal to 110% of debt service payments on any future debt issued, and to deposit the net revenues in a revenue fund pledged for such future debt service payments. Annual principal payments, ranging from \$70,000 to \$160,000 are due on February 1 through February 1, 2033, and semi-annual interest payments, ranging from \$4,200 to \$48,600 are due on February 1 and August 1, through February 1, 2033.

## Debt Service Schedule

| Series 2012B |                    |                  |                    |
|--------------|--------------------|------------------|--------------------|
| Year         | <u>Principal</u>   | <u>Interest</u>  | Total Payment      |
| 2023         | \$105,000          | \$69,338         | \$174,338          |
| 2024         | 110,000            | 64,088           | 174,088            |
| 2025         | 110,000            | 60,788           | 170,788            |
| 2026         | 115,000            | 57,488           | 172,488            |
| 2027-2031    | 665,000            | 190,575          | 855,575            |
| 2032-2033    | 315,000            | 24,935           | 339,935            |
| Total        | <u>\$1,520,000</u> | <u>\$541,548</u> | <u>\$2,061,548</u> |

Table 5