Resolution – Approval of Budget Policy Updates

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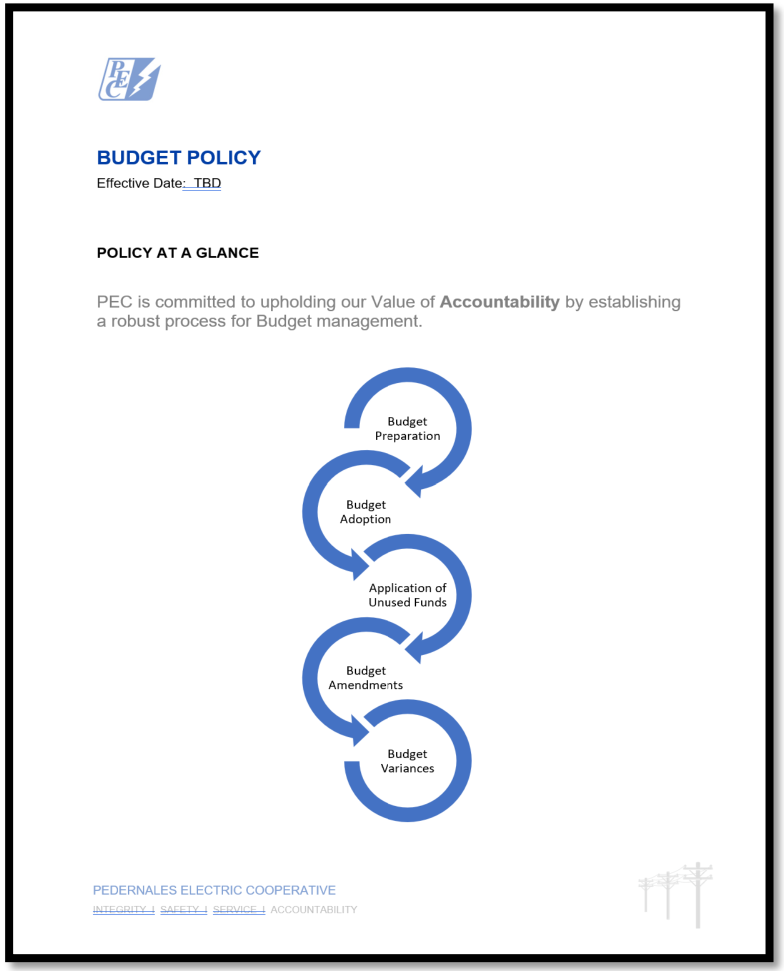
Purpose

The proposed edits to PEC's Budget Policy are designed to reduce the number of budget amendments due to smaller budget variances while maintaining staff's reporting requirements to the Board's directives and PEC's Bylaws.



BUDGET POLICY

Effective Date: TBD

POLICY AT A GLANCE

PEC is committed to upholding our Value of **Accountability** by establishing a robust process for Budget management.

PEDERNALES ELECTRIC COOPERATIVE

~~INTEGRITY | SAFETY | SERVICE |~~ ACCOUNTABILITY

PEC Bylaws, Article III, Directors

PEC Bylaws, Article III, Section 11. **Accounting System and Reports**. The Board of Directors shall <u>**cause**</u> to be established and maintained a complete accounting system which, among other things, subject to applicable laws and rules and regulations of any regulatory body, shall conform to such accounting system as may from time to time be designated by the Public Utility Commission of Texas. **Financial statements of the Cooperative shall be examined monthly by the Board of Directors at Regular Board Meetings**. The Board of Directors shall also after the close of each fiscal year cause to be made a full and complete audit of the accounts, books and financial condition of the Cooperative as of the end of such fiscal year by an independent certified public accountant.

§3.1 Budget Preparation and Adoption

This edit mirrors the Boards requirements in the Bylaws (Art III, Section 11) and falls within the purview of this project by removing an implied requirement for the Board to review the *entire* "PEC accounting system and all financial reports," each month, including the small amendments at issue here.

This edit allows the Board to continue receiving the same regular reports it currently reviews but also allows for the Board to request additional reports.

Original:

3.1.4. PEC's accounting system and reports shall be kept and examined monthly by the Board in accordance with federal and/or state law, the PEC Articles of Incorporation, and the PEC Bylaws.

Proposed:

3.1.4. PEC's accounting system and reports shall be maintained by staff in accordance with this policy, federal and/or state law, the PEC Articles of Incorporation, and the PEC Bylaws. The Board shall examine the Cooperative financial statements and reports on a monthly basis or as requested.

§3.2. Unused Funds

This edit removed the restriction on moving Board approved amounts between approved CIP Category Budgets within a CIP Category Type while requiring notice to the Board when amounts are moved.

CIP Category Budget/Type are new defined terms and will be addressed in a later slide.

Original:

3.2.1. Approved amounts within a Capital Improvement Plan ("CIP") Budget that is not used may not be transferred from one CIP Category Budget to another CIP Category Budget without Board approval; however, unused approved amounts within a CIP Category Budget may be transferred among approved projects that were budgeted within the same CIP Category Budget with approval from Executive Management over the Department.

Proposed:

3.2.1. Unused Board approved amounts within a CIP Category Type may be transferred to other Board approved CIP Category Budgets, within the same CIP Category Type, with approval from Executive Management and notice to the Board.

§3.2. Unused Funds

3.2.2 This edit removes the automatic rollover within a CIP Individual Project Budget within a fiscal year. Operations will review all individually approved projects with Finance to ensure projects are still moving forward, costs are updated and explanations provided for changes rather than keeping original budgets.

3.2.3 This edit cleans up some unnecessary language which is already implied in the Policy.

Original:

3.2.2. Approved amounts within a CIP Individual Project Budget not used within one fiscal year will automatically roll into the next fiscal year until the CIP project is completed. Amounts within a CIP Individual Project Budget may not be transferred to another CIP Individual Project Budget or CIP Category Budget without Board approval.

3.2.3. Unused amounts within the Operating Budget may be transferred from one Activity Code Group to another Activity Code Group with approval from Executive Management over the Department.

Proposed:

3.2.2. Approved amounts within a CIP Individual Project Budget not used within one fiscal year are eligible to roll into the next fiscal year until the CIP project is completed. Amounts within a CIP Individual Project Budget may not be transferred to another CIP Individual Project Budget or CIP Category Budget without Board approval.

3.2.3. Unused amounts within the Operating Budget may be transferred from one Activity Code Group to another Activity Code Group with approval from Executive Management.

§3.3 Budget Amendments

This edit was made to incorporate the new defined terms that will be addressed in later slides.

Original:

3.3.1. Each Department's Management is responsible for obtaining a Budget Amendment before obligating PEC to an expenditure that will create a Major CIP Category Budget Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.

Proposed:

3.3.1. Each Department's Management is responsible for obtaining a Budget Amendment before obligating PEC to an expenditure that will create a Major CIP Category Type Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.

§3.4 Budget Variances

3.4.1 Variance reports to staff are provided through our accounting system and may be accessed at any time. This edit aligns the policy with the much more accessible nature of the reports.

3.4.3 This section was struck and the new reporting section, discussed below, was added.

3.4.2 This new section will require staff to provide a monthly variance report, including variances less than the new 10% threshold, to the Board. This will allow for ongoing transparency and visibility to the Board.

Original:

3.4.1. The Finance Department will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.

3.4.3. Minor Variances are not required to be reported to the Board.

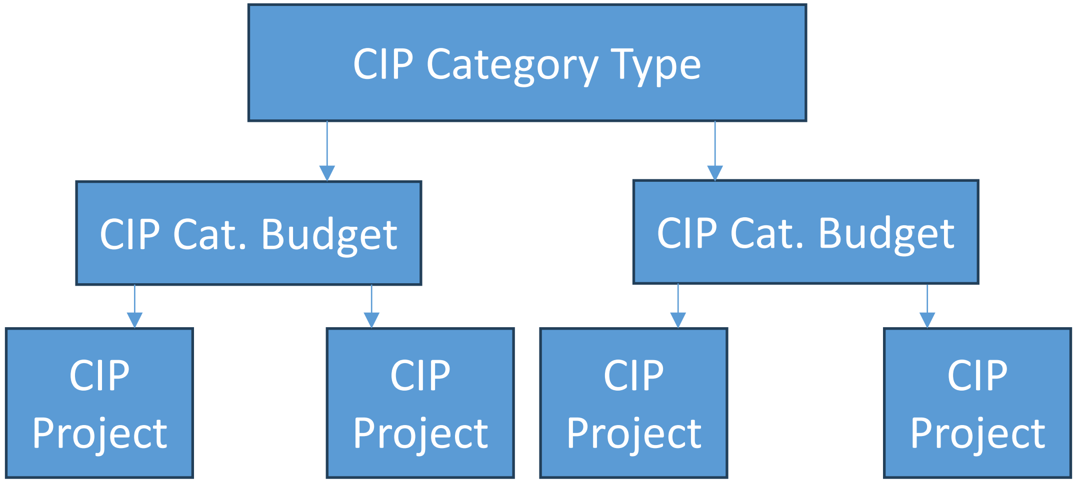
Proposed:

3.4.1. The Finance Department will provide access to variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.

3.4.2. The Finance Department will provide a monthly variance report, which shall include Minor Variances, to the Board outlining actual spend as compared to the CIP Budget and Operating Budgets.

§4 DEFINITIONS

These proposed edits redefine the budget tiers to better structure the types of items that still require Board approval for amendments or transfers.



Original:

4.6. CIP Category Budget – A group or category of CIP projects. The listing of CIP Category Budget Codes is provided in Appendix B.

4.7. CIP Individual Project Budget – An individual CIP project Budget that is approved by the Board in total, spanning more than one fiscal year.

Proposed:

4.6. CIP Category Budget – The budget for a category or group of CIP projects which fall within the list of CIP Category Budget Codes as provided in Appendix B.

4.7. CIP Category Type – The CIP Category Types are Distribution, Substation, Transmission and General Plant. Each CIP Category Type is made up of groups of CIP Category Budgets.

§4 DEFINITIONS

Variance thresholds for Board Approval

These proposed edits adjust the threshold that will trigger a Board required review and amendment to the relevant budget categories.

(Continued on next slide)

Original:

4.12. Major CIP Category Budget Variance – An unfavorable fiscal year-end CIP Category Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance of $100,00 or 3.0% of the CIP Category Budget, whichever is greater.

4.13 Major CIP Individual Project Budget Variance – An unfavorable CIP Individual Project Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable, cumulative variance of $100,000 or 5.0% of the CIP Individual Project Budget regardless of year in which variance is incurred, whichever is greater.

Proposed:

4.12. Major CIP Category Budget Variance – An unfavorable fiscal year-end CIP Category Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance of $250,000 or 10.0% of the CIP Category Budget, whichever is greater.

4.13 Major CIP Individual Project Budget Variance – An unfavorable CIP Individual Project Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable, cumulative variance of $250,000 or 10.0% of the CIP Individual Project Budget regardless of year in which variance is incurred, whichever is greater.

§4 DEFINITIONS

Variance thresholds for Board Approval

These proposed edits adjust the threshold that will trigger a Board required review and amendment to the relevant budget categories.

Original:

4.14. Major Operating Budget Variance – An unfavorable fiscal year-end Operating Budget expense variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance at the Activity Code Group level of $100,000 or 3.0%, whichever is greater.

Proposed:

4.14. Major Operating Budget Variance – An unfavorable fiscal year-end Operating Budget expense variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance at the Activity Code Group level of $250,000 or 10.0%, whichever is greater.

Appendix B

This edit aligns the newly defined budget types and categories with the activity codes in the Budget Policy.

Original:

Distribution and Substation

100	Lines – New (i.e., Extensions)
200	Tie-Lines
300	Conversion and Line Changes
400	Substations, Switching Stations, Metering Points, etc. - New
500	Substations, Switching Stations, Metering Points, etc. - Changes
600	Miscellaneous Distribution Equipment
700	Other Distribution Items

Transmission

800	Lines - New
900	Substations, Switching Stations – New
1000	Line and Station - Changes
1100	Other Transmission Lines

General Plant

2000	Facilities
3000	IT Framework
4000	Tools & Equipment
5000	Vehicles

Proposed:

CIP Category Type	CIP Category	Category Description
Distribution	100	Distribution Line Extensions
	200	Distribution Lines New
	300	Distribution Lines Change
	600	Distribution Misc Equipment
	700	Distribution Other Items
Substation	400	Substations New
	500	Substations Change
Transmission	800	Transmission Lines New
	1000	Transmission Lines Change
General Plant	2000	Facilities
	3000	Information Technology
	4000	Tools & Small Equipment
	5000	Vehicles & Power Operated Equipment

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