**Definition per California Waterboards**

**Budget/Capital Improvement Plan** - A water system must develop a 5-year budget projection that lists all of the expenses and revenues of the water system. The total expenses include the operations and maintenance expenses of the system such as salaries, power, chemicals, monitoring, and other costs. Expenses also include the administrative expenses such as insurance and debt service
as well as funded reserve accounts. These reserve accounts include the reserve for the capital improvement plan (CIP), operations and maintenance reserve, contingency reserve, and other reserve accounts needed to manage the system. Revenues are all of the sources of funds the system receives including income from billing, assessments, hookup charges, reserve fund withdrawals, grants
and loans, and other income.
The budget is the financial plan for how an organization will receive and spend money. It is important that the budget accurately reflects all of a systems expenses, including anticipated capital expenditures. Additionally, a system needs to have a rate structure in place which covers their expenses along with a rate plan for setting rates and implementing them to ensure revenues are sufficient to meet expense now and in the future. The budget and rate plan should be reviewed annually.