



MEMORANDUM

TO: Board of Commissioners

FROM: Steve McGrath, Harbor Manager
Patrick O'Reilly, Business Manager
Roberta Wilkinson, Accounting Supervisor

DATE: June 23, 2009

SUBJECT: **Adoption of 2009-10 Final Budgets**

Recommendation / Proposed Motion

- Convene Public Hearing and take public comment regarding proposed final budgets.
- Close the Public Hearing and adopt attached budget resolution.
- Motion: Adopt Resolution 09-10 approving the Fiscal Year 2009-10 General Fund, Enterprise Fund, and Capital Fund Budgets.

Policy Implications

Section 6093 of Harbors and Navigation Code requires the District, on or before June 15th of each year, to "...estimate and adopt a Preliminary Budget." The Code also requires the District to publish a legal notice throughout the District stating that the Preliminary Budget has been adopted and is available for public inspection, and that on a specified date (June 23rd this year) the Commission will meet to receive public comments prior to adopting the Final Budget.

District Policy 3020 stipulates that the Preliminary Budget will be adopted prior to June 15th of each year, the annual budget will be adopted before June 30th each year and adopts Budget Procedures and Guidelines for adoption of the annual budget. Those procedures and guidelines recommend that:

- the Preliminary Budget should be adopted in April;
- a cash reserve level of \$1,100,000 should be maintained;
- no new services or facilities will be undertaken unless they are self-supporting;
- fees will be increased, where reasonable and where all cost savings options have been explored, before service levels will be reduced; and
- 3.75% of revenues will be allocated into contingency accounts.

District Policy 3022 stipulates that cash generated from operations and property taxes should equal 100% of operating costs and provide \$400,000 for capital projects.

Section 6093.3 of Harbors and Navigation Code requires that the final budgets be reported to the County Board of Supervisors not later than July 31st each year.

Fiscal Implications / Budget Status

The Commission adopted the Preliminary Operating Budgets (General Fund and Enterprise Fund) and Capital Budget for Fiscal Year 2009-10 on April 28, 2009. Both budgets are balanced with anticipated sources of funds equaling budgeted uses of funds.

The Preliminary Operating Budgets (General Fund and Enterprise Fund) provide for revenues and expenditures of \$3,999,354. The Enterprise Fund Operating Budget has a deficit of \$104,820 while the General Fund Operating Budget has a surplus of \$104,820.

The Preliminary Capital Budget provides for expenditures of \$743,500 on capital projects. As discussed in detail below, staff recommends increasing expenditures for capital projects by \$105,000 to pay for required improvements by the Avila Community Services District to sewer infrastructure. That will bring total capital expenditures to \$848,500 with \$540,500 coming from grants, \$149,500 coming from specified reserves and \$158,500 coming from unencumbered reserves.

Alternatives Considered

The following actions were considered but are not recommended at this time:

- None

Discussion

On April 28, 2009 the Board adopted the Fiscal Year 2009-10 Preliminary Budgets.

A public notice (Notice of Adoption) was published on May 2nd announcing that the District had adopted the Preliminary Budgets for Fiscal Year 2009-10, that the budgets are available for review in the District office, that the Commission will take public input on the budgets at its regularly scheduled meetings on May 26th and June 23rd, and that Final Budgets will be adopted at a Public Hearing on June 23rd.

OPERATING BUDGETS. Staff recommends that the Preliminary Operating Budgets (General Fund and Enterprise Fund) for Fiscal Year 2009-10 be adopted as the Final Operating Budgets for Fiscal Year 2009-10. The combined operating budgets are balanced with anticipated sources of funds equaling budgeted uses of funds. The Enterprise Fund Operating Budget has a deficit of \$104,820 while the General Fund Operating Budget has a surplus of \$104,820. Special Projects are included in the operating budgets. The budgets are provided as the following attachments:

- the Consolidated Final Operating Budget is provided as Attachment A;
- the Enterprise Fund Final Operating Budget is provided as Attachment B;
- the General Fund Final Operating Budget is provided as Attachment C; and
- Special Projects included in the operating budgets are provided as Attachment D.

SUMMARY OF EXPENDITURE REDUCTIONS. Budgeted expenditures for the proposed operating budgets are \$22,391 less than budgeted expenditures last fiscal year. Overall expenditures have been reduced despite significant increases in personnel costs, supplies and reserve contributions. Overall expenditures were reduced by substantial decreases in expenses for Operations and Maintenance, Utilities, General Administration and Special Projects.

Operations and Maintenance expenses decreased 15%. Reducing the scope of operation of the ice facility saved \$12,500 in operations and maintenance expenses and another \$14,400 in electrical expenses. Water and sewer system maintenance expenses were reduced \$15,000 and maintenance of patrol boats was reduced \$3,500. Dredge maintenance was reduced \$5,000 and fuel and oil expenditures were also reduced by \$5,000.

General and Administrative expenses decreased 25% which included decreases in bad debts expense of \$12,800, consultants expense of \$8,000, legal fees of \$16,000, and treasurer fees of \$9,500.

Expenditures for Special Projects were decreased by 66% or a total of \$112,750. This reduction was primarily due to the fact that we do not have to replace a Harbor Patrol boat this year, which cost \$117,500 last year.

In addition, contingencies were reduced by 24% to \$74,140. The procedures contained in District Policy 3020 recommend that a total of 3.75% of revenues be budgeted as contingency funds. It recommends that 1.75% of revenues be allocated as contingencies in each expense category and that another 2.0% of revenues be allocated as a general contingency. In order to develop a balanced budget without eliminating essential expenses, staff only included a general contingency of 2% in the proposed Final Operating Budget. This contingency is included in the General and Administrative section of the budget.

A more detailed discussion of revenues and expenditures is provided in Attachment H.

CAPITAL BUDGET. The Preliminary Capital Budget authorizes \$743,500 in expenditures for capital projects. After that budget was adopted, two things have happened to cause staff to recommend changes for next fiscal year.

First, the Avila Community Services District (ACSD) advised staff that our District will be required to provide \$135,000 to ACSD next year for sewer improvements. Since the Preliminary Budget for FY 09-10 includes only \$30,000 for sewer improvements, the District needs to increase funds budgeted for sewer repair by \$105,000. Staff recommends that the Final Capital Budget include \$105,000 more than the Preliminary Capital Budget to fund the sewer improvements. \$73,000 of these funds will come from the Utility Replacement Reserve and the remaining \$62,000 will come from Unencumbered Reserves.

Second, grants have been received for improvements to the administrative building that improve energy efficiency in that building. \$18,000 has been received from PG&E and \$20,000 has been received from the County in an Energy Efficient Community Development Block Grant. Therefore, staff recommends increasing the budget for improvements to the administrative building from \$25,000 to \$63,000.

The Final Capital Budget will then authorize expenditure of \$886,500 with \$578,500 coming from grants, \$149,500 coming from specified reserves and \$158,500 coming from unencumbered reserves. The capital budget is provided as the following attachments:

- the Final Capital Budget is provided as Attachment E;
- a detailed analysis of the sources of funds for Capital Projects is provided as Attachment F; and
- an analysis of District Reserve Funds is provided as Attachment G.

A more detailed discussion of revenues and expenditures is provided in Attachment H.

Attachment(s): A: Preliminary 2009-10 Consolidated Budget (white)
 B: Enterprise Fund Budget (green)
 C: General Fund Budget (yellow)
 D: Special Projects Budget (blue)
 E: Capital Budget (grey)
 F: Capital Projects Budget (detailed) (white)
 G: Port San Luis Harbor District Reserve Analysis (white)
 H: Notes to Preliminary 2009-10 Budgets
 Resolution No. 09-10