



**MEMORANDUM**

**TO:** Harbor Commission

**FROM:** Steve McGrath, Harbor Manager  
Julie van Hoff, Business Manager  
Heather Zacker, Accountant

**DATE:** June 25, 2013

**SUBJECT:** **Fiscal Year 2013/14 Final Budget – Adopt Final Budget;  
Resolution 13-10**

**Recommendation/Proposed Motion**

- Recommendation: Approve Final Budget for Fiscal Year 2013/14, Five Year Major Maintenance & Capital Project Plan, Specified Reserve Funding and Use and Staff Authorization.
- Motion: Adopt Resolution 13-10 approving the Final Budget for Fiscal Year 2013/14.

**Policy Implications**

District Policy 3020 and 3022 provide guidance for development of the annual budget. District policy 3022 establishes Fiscal Goals for the District.

**Fiscal Implications**

The District's annual budget is the main fiscal planning tool used throughout the year. The 2013/14 Consolidated Budget shows a balanced budget. Funding for major maintenance and capital projects uses \$216,900 of current year profit, anticipated grant funding of \$501,000 and \$565,000 of prior year specified reserves. In addition, the budget proposes the setting aside of current year resources of \$45,000 in a specified reserve to fund one-half of the anticipated costs for the 2014 elections and an additional \$45,000 into a specified facilities reserve.

**Alternatives Considered**

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

- None at this time.

**Discussion**

**Recap of Budget activities to date:**

On February 26, 2013, the Harbor Commission approved the 2013/14 Budget Calendar. On March 13, 2013 staff presented the first Preliminary Budget draft to the Finance Committee and to this Harbor Commission on March 26, 2013.

On April 11, 2013 staff presented the Consolidated 2013-14 Preliminary Budget to the Finance Committee (Commissioner Brandy and Commissioner Barrow). The Finance Committee recommended that staff continue to enhance revenue and grant opportunities while reducing costs including a donation program, cost sharing with other governmental entities, and reduction of fuel/oil costs.

On April 23, 2013, the Harbor Commission adopted the Preliminary 2013/14 Budget. Total preliminary budget revenues of \$4,307,900 exceeded total operating expenditures (not including major maintenance and capital project costs) of \$4,051,500 by \$256,400. The preliminary budget used the \$211,400, and specified reserve usage of \$431,100 to fund Major Maintenance and Capital Project costs. In addition, \$45,000 was proposed to be set-aside to "smooth" the funding of the District election.

On June 20, 2013 staff presented the 2013-14 Final Budget to the Finance Committee.

### **Summary:**

Following is a brief introduction to the final budget and summary of key variances between the final and adopted preliminary budget.

The final budget is being presented at the consolidated level and fund level for the enterprise fund and general fund.

The first attached worksheet is a summary of the major categories of revenue and expenditures which includes last year's budget and actual amounts; current year's budget and projection amounts; 2013/14 preliminary budget amounts and 2013/14 final budget amounts.

Each major category of revenues and expenditures is identified in a supporting Exhibit. The exhibits are attached to the summary and provide detail information by budget line item.

The final budget is very similar to the preliminary budget with a couple of key differences including the following:

- 1) Parking revenue, shown in Service Revenue summary figures, was increased \$15,800 based on the actual 2012/13 numbers to date.
- 2) Utilities reimbursement revenue, shown in Leases & Licenses summary figures, was decreased by \$3,500 to account for the closure of the trailer park and reduction of water costs.
- 3) Diesel sales revenue was decreased \$5,300 based on updated current year projections.
- 4) Lopez water, shown in Utilities Expenditures summary figures, was decreased \$43,500. \$13,000 of this decrease is expected to be an ongoing savings to the District. The remaining amount is due to one-time savings incurred.
- 5) Major Maintenance expenditures were increased by \$17,000 for dredging permitting. \$11,500 of this is budgeted in 2012/13 however will not be spent prior to the end of the fiscal year. This amount will be placed into a specified reserve to partially offset the \$17,000 expense.

- 6) Capital Project expenditures were increased by \$218,400. Of this, \$156,900 is for the Olde Port Restroom construction to be funded by a \$96,000 grant and \$60,900 in insurance proceeds received in 2012/13 and placed into a reserve. Expenditures were also increased to include the purchase of a new rescue vehicle for Harbor Patrol which is funded by reserves from the unanticipated property tax revenue increase in 2012/13. Finally, \$25,000 was added for the sewer lift station project budgeted for in 2012/13. Funds for this project will not be spent prior to the close of this fiscal year and therefore the they will be placed into a specified reserve and spent in 2013/14.

Total final budget revenues of \$4,314,900 exceed total operating expenditures (not including major maintenance and capital project costs) of \$4,008,000 by \$306,900.

This final budget uses \$216,900 of this, and specified reserve usage of \$565,000 to fund Major Maintenance and Capital Project costs. In addition, \$45,000 is proposed to be set-aside to "smooth" the funding of the District election while an additional \$45,000 is proposed to fund a specified facilities reserve.

**Assumptions:**

Assumptions used to estimate budget include the following:

- 1) The majority of the budget line items assume that projected 2012/13 amounts will be reflected in the 2013/14 amounts.
- 2) Mooring revenues will stabilize and the proposed increase in fees will slightly increase mooring revenues.
- 3) There will be a 1.3% increase in property tax revenues. This assumption has been updated from 1.0% based on information received from the County Auditor-Controller.
- 4) Health care costs will increase by 5% in January 2014.
- 5) The Major Maintenance and Capital Projects include items that were presented to the Harbor Commission as in poor condition. The Harbor District Office Remodel, the Mobile Hoist Pier, and repaving of the parking lot are budgeted using a phased approach to reduce required use of unassigned/operating reserves in 2013/14.

**Summary Recommendation:**

Staff believes that certain outstanding projects will provide additional revenue and/or additional spending reductions. The following projects are anticipated to improve the budgetary position of the District after the 2013/14 budget.

1. Parking fees for District
2. Harford Pier restoration project
3. Harbor Terrace project
4. Avila revenue
5. Sponsorships
6. Continue to analyze costs to identify reduction opportunities

The above opportunities will enable the District to fund more major maintenance and capital projects.

An “All Hands” meeting was held on May 21, 2013. Following is a listing of a few of the suggestions made by staff.

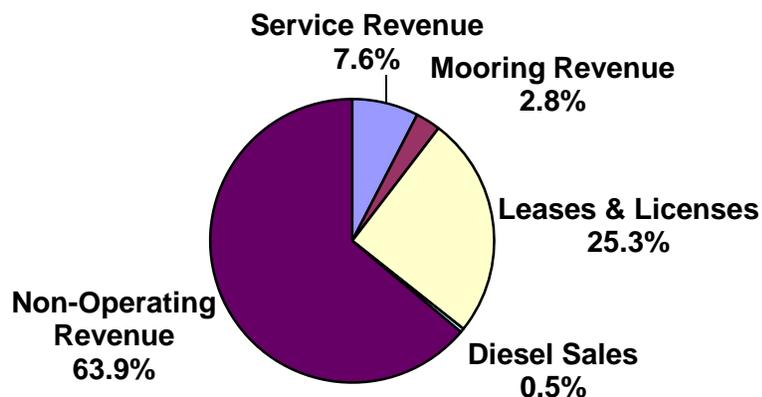
1. Targeting fitness clubs to sponsor lifeguard towers.
2. Coin operated dog wash.
3. Installing timers on lights.
4. Investigate shared service agreements with PG&E and Avila Community.
5. Studying opportunities for upgrading boating services including breakwater.
6. Renting fire pits.
7. Allowing more flamboyant activities such as parasailing and ziplines.
8. Balancing of overstretching resources and getting extra revenues.
9. Advertising with new home developments, especially retiree developments.
10. Limiting consulting services and legal services.
11. Raise parking fees.
12. Increase areas to camp.
13. Study opportunities to increase boatyard revenue and services.
14. Research opportunities to receive grants for historical structure maintenance.

**Detailed Information:**

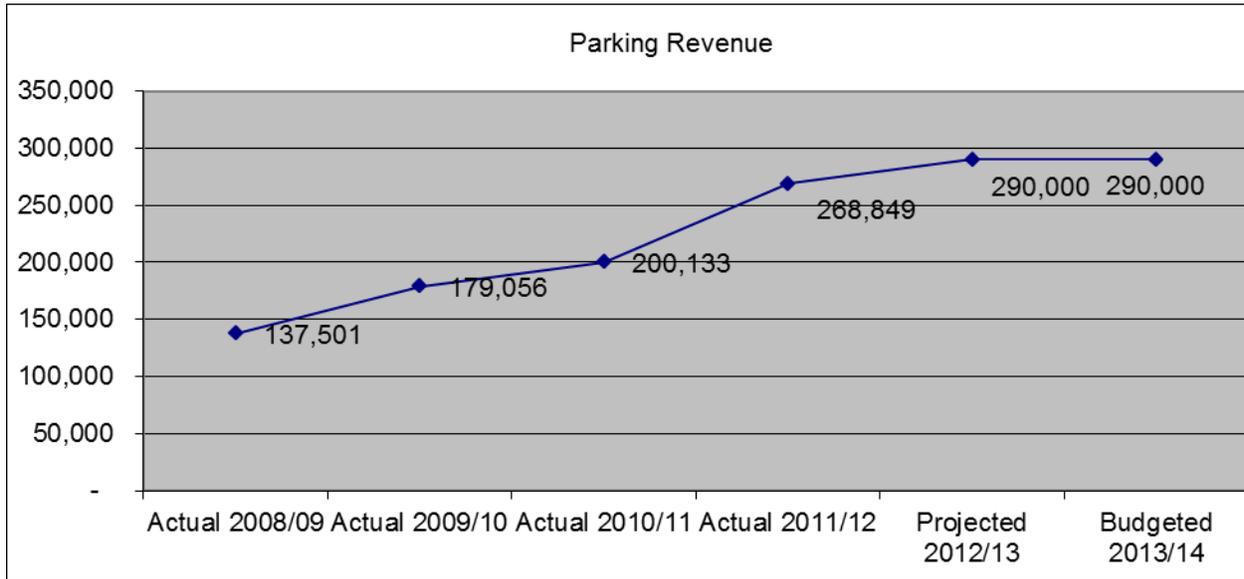
The refinancing of the CalPERS retirement side fund of \$1,116,400 is shown as a non-operating revenue offset by additional pension expense in the 2012/13 Projected column. The following analysis excludes this amount for comparison purposes.

**REVENUE ANALYSIS**

The final 2013/14 budget presents revenues of \$4,314,900 which are \$209,100 below current year projections of \$4,524,000 or a 4.8% decrease. The following chart identifies the percentage of budgeted revenue for each major category of revenue.



Service Revenue, which primarily consists of Avila Parking revenue, is budgeted at \$326,700, a \$35,500 or 9.8% decrease from current year projections. The Service Revenue 2012/13 projection includes one-time revenue sources including fees for assignment of two leases, Amgen Tour land use fees and a film permit for a car commercial. The following chart shows the increase in Avila Parking revenue.



Mooring revenue is budgeted to stabilize and increase slightly due to the anticipated increase in fees as previously approved by the Harbor Commission.

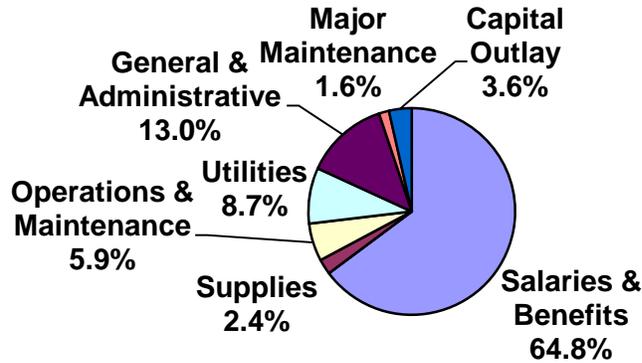
Lease & License revenue is budgeted at \$1,090,300 or a \$20,900 or 1.9% less than current year projections due to the closure of Pete's Pierside Café and the Trailer Park.

Staff is estimating that 2013/14 diesel sales will match the 2012/13 projection of \$19,500.

Non-Operating Revenue includes budgeted property tax revenue of \$2,734,800, interest income of \$18,000 and finance charge income of \$3,500. Total non-operating revenue of \$2,756,300 is expected to be below the 2012/13 projection of \$2,912,800 (adjusted for side fund financing) by \$156,500 or 5.4% due to the 2012/13 projection including one-time revenues of \$92,500 Redevelopment Agency funds and insurance proceeds for the Olde Port Beach Bathroom of \$94,100. Property tax revenues are expected to increase by 1.3% in 2013/14 fiscal year.

### EXPENDITURE ANALYSIS

Expenditures (*net of grant revenues and use of prior year reserves*) for the 2013/14 final budget are expected to be \$4,224,900 as compared to current year projections of \$4,241,900 (adjusted by side-fund pension expense) which is a \$17,000 or 0.4% decrease. The following is a chart depicting the percentage of funds spent on each major category of expenditure.



Salaries/Wages and Benefits are budgeted to increase approximately \$78,700 or 3.0% over current year projections. The budget assumes a full staff (less the two currently unfunded positions) for the entire fiscal year and includes annual cost of living and equity adjustments per the memoranda of understanding between the District and bargaining units, and managers' employment contracts. Salary costs are expected to increase by \$46,700, and health insurance premiums are expected to increase by 5% beginning January 2014. Increases in health insurance premiums are offset by employee contributions to health plans. In addition, the District is anticipating a decrease in Worker's Compensation insurance. Staff anticipates this expense to return to prior levels in subsequent years.

Supplies are budgeted to remain the same as the 2012/13 projection of \$101,900.

Operations & Maintenance costs are expected to increase by \$13,200 or 5.6% over current year projections. Amounts previously budgeted in Major Maintenance categories for Harbor Patrol Boats and the Water & Sewer System are on-going maintenance costs and have been moved from major maintenance to Operations & Maintenance.

Utilities are budgeted to be \$35,200 or 8.7% below current year projections due to the Lopez water savings discussed above.

General and Administrative expenditures are budgeted to exceed current year projections by \$18,000 or 3.4%. The increase is primarily due to the fact that the projection does not include further use of the budget contingency.

Major maintenance (*net of grants and prior year reserve funding*) are budgeted at \$66,900 and \$98,300 below current year projections of \$165,200 partially due to on-going maintenance costs being moved to Operations & Maintenance. Capital Projects (*net of grants and prior year reserve funding*) are budgeted at \$150,000 versus 2012/13 projection of \$143,400. Capital projects and asset replacements are becoming crucial to mitigate the risks of future potential liabilities. "Today's deferred maintenance is tomorrow's capital expense."

Enterprise Fund Budget (Exhibit 1 yellow paper)

The proposed Enterprise Fund Budget includes \$1,565,700 in revenues which is a 3.3% decrease below current year projections of \$1,618,300; and \$1,322,500 in expenditures (net of grants and prior year reserve spending) which is a 0.3% decrease from current year projections of \$1,326,150. Budgeted revenues are \$355,800 over budgeted operating expenses. Major Maintenance and Capital Projects are funded by

current year operations of \$112,600, \$148,650 in prior year specified reserve usage and \$190,500 in anticipated grant revenue.

General Fund Budget (Exhibit 1 green paper)

The proposed General Fund Budget includes \$2,749,200 in non-operating revenues which is a 5.4% decrease below current year projections of \$2,905,700; and \$2,902,400 in expenditures (net of specified reserve spending) which is a 0.5% decrease from current year projections of \$2,915,750. Budgeted expenditures are \$153,200 over budgeted revenue. Major Maintenance and Capital Projects are funded by \$416,350 in prior year specified reserve usage and \$310,500 in anticipated grant revenue.

Conclusion

The Finance Committee and staff recommend the approval and adoption of the Final Budget for Fiscal Year 2013/14. Ongoing efforts to identify future expenditure reduction opportunities and revenue enhancements should continue with input from the Finance Committee, District Treasurer and Harbor Commission.

- Attachment(s):
1. 2013/14 Final Budget including Exhibit 1
  2. 5 Year Major Maintenance and Capital Projects Exhibits 2A, 2B
  3. Specified Reserve Funding and Use Exhibit 3
  4. Staff Authorization- Exhibit 4
  5. Resolution 13-10