

## FINANCE OFFICER'S REPORT

May 26, 2006

TO: Board of Directors

FROM: K. Suha Kilic, Finance Officer

SUBJECT: **Fiscal Year 2006-07 Preliminary Budget**

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### RECOMMENDATIONS

1. Consider approval of the Preliminary Budget for Fiscal Year ("FY") 2006-07 with the understanding that final decisions on all proposed user fees and capital outlays will be made after public notification and upon conclusion of Final Budget hearings on July 28, 2006.
2. Adopt the following Resolutions relating to the FY 2006-07 Preliminary Budget:
  - Resolution No. 06-08 approving District positions, job classifications and pay schedule for FY 2006-07;
  - Resolution No. 06-09 determining the Appropriations Limit for FY 2006-07; and
  - Resolution No. 06-10 adopting the Preliminary Budget for Fiscal Year 2006-07 and setting the Final Budget Hearing, including user fees, for July 28, 2006 at 9:40 a.m.

### SUMMARY OF PROPOSED FY 2006-07 BUDGET

<u>EXPENSES</u>	<u>Budget</u>	<u>Change fm FY 2005-06 Budget</u>		
Operations & Maintenance	\$ 8,800,000	2.8%	or,	\$ 240,000
Capital Outlays	3,580,000	(73.6%)	or,	(9,963,000)
<b>Total</b>	<b>\$12,380,000</b>	<b>(44.0%)</b>	<b>or,</b>	<b>(\$9,723,000)</b>
<u>REVENUES</u>				
Current Revenue - District	\$10,808,500	15.1%	or,	\$ 1,413,500
Current Revenue - Recl.Prj	498,000	(94.8%)	or,	(9,134,000)
District Reserves	508,500	(75.1%)	or,	(1,583,500)
Carry Over Appropriations	565,000	(42.6%)	or,	(419,000)
<b>Total</b>	<b>\$12,380,000</b>	<b>(44.0%)</b>	<b>or,</b>	<b>(\$9,723,000)</b>

The table above provides a summary of the Fiscal Year 2006-07 Preliminary Budget. The

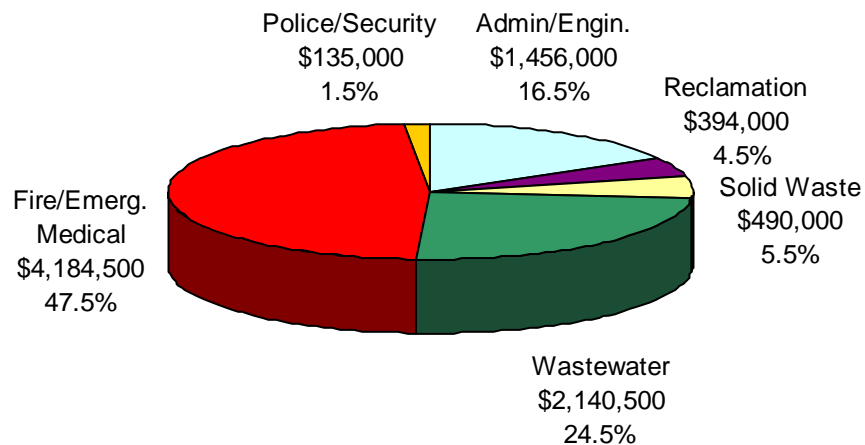
\$9,723,000 decrease in the budget is due to completion of Forest Lake Reservoir construction. The anticipated revenues, proposed appropriations for ongoing operations and maintenance (“O&M”) expenses, as well as capital outlays and construction projects for all activities of the District have been provided in detail in the attached line item budget report. This narrative report provides a summary of the highlights of the proposed budget.

**O&M Expenses**

*The total amount proposed for all ongoing operations and maintenance (“O&M”) expenses is \$8,800,000, which is \$240,000 or 2.8% more than the previous year’s budget. The budget includes a \$241,000 increase in the District’s Reclaimed Water Distribution System O&M expenses mainly due to the operation of the recently constructed Forest Lake Reservoir. This increase will be financed by the Reclamation Project. Therefore, there is no increase in the O&M expenses which will be financed by the District’s own resources from the previous fiscal year. In addition, the budget includes a first-time \$135,000 allocation for the contractual Police Protection/Security service. This new service is anticipated to be implemented in the FY 2006-07. Excluding this item, there is a \$136,000 or 1.6% decrease in the amount proposed for the four other activities of the District.* The following table summarizes the amounts budgeted for Operation and Maintenance (O&M) expenses including the changes from the previous year’s budget:

Administration/Engineering	\$1,456,000	2.8%	or,	\$ 40,000
Fire/ Emergency Medical	4,184,500	(1.1%)	or,	(44,500)
Police/Security	135,000	N/A	or,	135,000
Wastewater/Maintenance	2,140,500	(7.1%)	or,	(163,500)
Solid Waste	490,000	6.9%	or,	32,500
Reclamation	394,000	157.5%	or,	241,000
<b>TOTAL O&amp;M</b>	<b>\$8,800,000</b>	<b>2.8%</b>	<b>or,</b>	<b>\$240,000</b>

*The chart below displays O&M expenses by the activities of the District:*



The proposed O&M expenses are provided in detail on pages 5 through 10 of the attached line item budget report. The highlights of the O&M appropriations are:

- Following increases totaling more than 50% over the previous three fiscal years, the amount budgeted for the California Department of Forestry and Fire Protection (“CDF”) contractual fire protection services is proposed to increase nominally in the next fiscal year by \$36,500 or 1.1%, from \$3,403,000 to \$3,439,000. There are no changes in the number of 38 regular full-time contract positions (20 fully-funded, 18 cost-share, for a total of 28 regular full-time fully-funded positions). During the three years preceding FY 2006-07, the amount paid to CDF had increased significantly as a result of the adjustments made to raise previously constrained CDF firefighter salaries to a level comparable with other city and special district fire departments.
- The amount budgeted for the Quick Response Vehicle (QRV) Advanced Life Support Paramedic Service has decreased by \$60,000 or (17.6%), reflecting the lower price obtained from the new County-wide ambulance service provider, Westmed Ambulance Service. As a result the total amount budgeted for Fire Protection and Emergency Medical Services is proposed to decrease by \$44,500 or (1.1%), from \$4,229,000 to \$4,184,500.
- The budget includes a \$135,000 appropriation for a Police Protection and Security Service which is expected to be implemented in the later part of 2006 and will be financed with available property tax revenue.
- The amount budgeted for wastewater operations has decreased by \$163,500 or (7.1%) from \$2,304,000 to \$2,140,500. The reduction is a result of an anticipated

decrease in the District's share of the Carmel Area Wastewater District ("CAWD") Treatment Plant O&M expenses. The amount paid to CAWD in the FY 2005-06 included approximately \$200,000 for one-time financing of the CAWD employees' pension plan modifications. As a result, in the FY 2006-07, the District's share of the Treatment Plant O&M expenses is estimated to be \$1,050,000, representing a \$200,000 or (16%) reduction from the previous year. According to the contract between the two agencies, the District's share of the CAWD Treatment Plant O&M expenses is calculated based on the District's wastewater flow as a percentage of the total Plant inflow, plus an additional fixed 7.5% in administrative charges. The budgeted amount has been determined based on 41% of the estimated Treatment Plant O&M expenses (using a historical average of 33.5% flow ratio plus fixed 7.5%).

- The amount budgeted for wastewater collection service includes a new \$90,000 "Contractual Maintenance Services" line item. The District plans to employ outside contractor(s) for certain routine maintenance tasks currently being performed by the District's maintenance crew, thus freeing up the District staff to undertake Forest Lake O&M activities. Therefore, it is anticipated that this amount will be offset by the payments of the Reclamation Project for District staff services.
- The amount budgeted for garbage residential basic service has increased by \$32,000 or 7.1%, from \$453,000 to \$485,000. This amount represents the fee for basic service which will be collected by the District from the property owners on the property tax rolls and paid to the franchise holder. The increase is mainly due to a proposed 6.8% increase in garbage collection fees as explained in the "Charges for Services" section of this report.
- The preliminary budget includes a 3.1% Cost-of-Living Adjustment ("COLA") for the District staff salaries as follows:

### Salary Policy

***The Preliminary Budget includes a recommended cost-of-living salary adjustment (COLA) of 3.1% for District staff*** (with the exception of the General Manager's salary which is normally considered in November following the annual performance review by the Board). Cost-of-living salary adjustments have typically been made effective with the beginning of each fiscal year on July 1. The Board's policy has been to use the annual change in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose region in determination of the COLA. The adjustments normally have been made based on the average of the annual changes in CPI for the months of February (2.9%) and April (3.2%) which amounts to 3.1% for the current year.

*Of the \$8,800,000 in budgeted O&M expenses, \$394,000 will be financed by Reclamation Project contributions. The remaining \$8,406,000 will be financed from the District's other current revenue explained below.*

**FY 2006-07 Current Revenue**

It is estimated that current revenue, including Reclamation Project contributions, will decrease by \$7,720,500, from \$19,027,000 to \$11,306,500. The decrease is mainly due to a \$9,134,000 decrease in Reclamation Project contributions reflecting completion of the construction of Forest Lake Reservoir. Excluding Reclamation Project contributions, the current revenue of the District is expected to increase by \$1,413,500, from \$9,395,000 to \$10,808,500. The following table summarizes the estimated current revenue, and the changes from the previous year's budget:

Property Taxes	\$8,600,000	+ 17.0%	or,	\$1,250,000
Charges for Services	1,402,000	+ 2.3%	or,	32,000
Interest Revenue	550,000	+ 22.2%	or,	100,000
Other Revenue	256,500	+ 14.0%	or,	31,500
<b>Subtotal</b>	<b>\$10,808,500</b>	<b>+ 15.1%</b>	<b>or,</b>	<b>\$1,413,500</b>
Reclamation Prj Contrib.	498,000	(94.8%)	or,	(\$9,134,000)
<b>Total Current Revenue</b>	<b>\$11,306,500</b>	<b>(40.1%)</b>	<b>or,</b>	<b>(\$7,720,500)</b>

**Property Taxes**

Budgeted property tax revenue is estimated to increase by \$1,250,000, from \$7,350,000 to \$8,600,000, mainly due to termination of the \$850,000 two-year property tax revenue shift to the State. Proposition 1A, approved in November 2004, temporarily shifted \$1.3 billion in property tax revenue from counties, cities and special districts to the State for each of the fiscal years 2004-05 and 2005-06. Of that amount, \$350 million per year was paid by mainly enterprise special districts (i.e. water, wastewater and waste disposal

districts) and this District lost \$850,000 in each of those years. According to the law, this property tax shift will be discontinued beginning with fiscal year 2006-07. In addition, the property tax revenue has been conservatively increased by 2.5% over the previous year due to increased property values.

### Charges for Services

#### Sewer User Fees

*There are no changes proposed in the annual residential and commercial sewer user fees. Residential sewer user fees are proposed to remain at \$14.62 per month (or \$175.44 per year). Commercial sewer user fees are based on multiples of equivalent residential units. This is the eighth year in which sewer user fees are proposed to remain the same.*

*The estimated annual revenue that will be generated by the proposed fees is \$724,000. The amount budgeted for wastewater O&M expenses and capital outlay is \$3,461,000. The \$2,737,000 difference between the expenses and the user fee revenue is proposed to be financed from current revenue, mainly property taxes.* When the Board considered this matter in previous fiscal years, the consensus of directors was not to raise sewer user fees if the District's priorities and available current revenue permits doing so, and unless the State Legislature changes the laws which currently allow property tax revenue to be used to support enterprise services. The question whether it is appropriate to use property tax revenue to finance enterprise operations such as wastewater service (which can be fully financed with user fees) frequently becomes a point of discussion by the State Legislature, and at times those revenues have been targeted for reallocation to the State or other local agencies. In the FY 2006-07, there are no current or proposed laws that would reallocate special district property tax revenues, or ban special districts from using property tax revenue to finance enterprise services. Therefore, it is still discretionary for the District to subsidize the cost of sewer service with property tax revenue and to keep sewer user fees unchanged in FY 2006-07.

Notwithstanding the above, as a result of this ongoing District policy, the Board should be aware that the amount financed by user fees is becoming a smaller portion of the total cost of providing wastewater service, as costs continue to increase over the years. While the current law restricts the reallocation of property taxes to the State, it still leaves the possibility that the legislature could adopt a law (enacted by a two-thirds vote of each house) that could allow reallocation of property taxes within a county, and potentially the County Board of Supervisors could do the same thing the State legislature could previously do; i.e. reallocate property taxes used for "enterprise" operations such as sewer services. The impact of that loss, if the reallocation occurred in one fiscal year, would require sudden and

significant increases in the District’s sewer service fees. In addition, if the annual increase in property values levels off, future increases in property tax revenues may be lower than the historical trends. In that case, and especially if the inflationary pressures cause higher increases in the cost of providing service, the current policy may result in using a larger portion of the District’s discretionary revenue to finance the wastewater service in future years. ***Therefore, it is recommended the Board continue to regularly review and monitor its sewer user fee policy and its implications. It is suggested that the matter also be reviewed and discussed when the District’s strategic plan policies are next updated.***

The California State Water Resources Control Board Clean Water Programs Division annually compiles and publishes a state-wide sewer user fee summary. Using the information in the latest report, the table below has been prepared to provide a comparison of the District’s residential fee of \$14.62 per month with rates charged by other similar agencies in the State in the past fiscal year. (Locally, PBCSD’s subsidized rate of \$14.62/month compares to CAWD’s non-subsidized rate of \$24.54/month)

FY 2005-06 STATE-WIDE  
 MONTHLY SEWER USER FEE SUMMARY  
 FOR SINGLE FAMILY DWELLINGS  
 (Compared to PBCSD’s proposed FY 2006-07 Rate of \$14.62)

	<u>No. of Agencies</u>	<u>Average</u>	<u>Median</u>	<u>Lowest</u>	<u>Highest</u>
<b>BY POPULATION</b>					
Population 1,000-9,999	233	\$27.55	\$25.00	\$0.00	\$82.50
<b>BY TREATMENT LEVEL</b>					
Tertiary	130	\$31.98	\$27.50	\$5.00	\$149.58
<b>BY COUNTY</b>					
Monterey	17	\$23.37	\$22.30	\$9.70	\$50.00

### **Fire Protection Special Tax**

***No changes are proposed in the annual fire protection assessment of \$51.20 per residence and \$25.60 for unimproved parcels.*** The estimated amount of revenue to be raised by this special tax is about \$193,000, the same as last year. This revenue will finance approximately 5% of the operating costs of the fire department.

Pursuant to a District ordinance adopted in 1982, a special fire protection tax has been imposed based on assigned units of benefits for each type of property. According to the ordinance, developed parcels are assigned 20 units of benefit and undeveloped parcels are assigned 10 units of benefit, with a maximum authorized limit of \$5.23 per unit of benefit. The District Board has historically limited the annual assessment to \$2.56 per unit of benefit which is approximately half of the amount permitted by the authorizing ordinance. The special tax was approved by more than two-thirds of District voters, and, at the discretion of the Board, it can be levied up to the authorized limit without a confirming election.

### **Garbage Collection and Disposal Fees**

***The annual fee for basic residential garbage service is proposed to be increased by \$0.96 per month or 6.8%, from \$14.15 (or \$169.80 per year) to \$15.11 (or \$181.32 per year) effective July 1, 2006. These services are provided by the District through a franchise agreement with Waste Management Inc (“WM”). The components of the proposed increase are: a landfill disposal rate increase offset (\$0.57), a COLA (\$0.26), and an extraordinary gasoline price increase offset (\$0.14).***

On April 25, 2006, the District Manager of WM submitted a request for a 9.15% rate increase. The District staff reviewed the request and suggested to WM that a 6.8% increase would be more appropriate in consideration of the terms of the franchise agreement. The WM District Manager has subsequently concurred with the PBCSD staff's conclusions. Copies of the WM's request and the District staff's response dated May 1, 2006, addressing each component of the rate increase request are attached to this report. According to the franchise agreement, the District Board at its discretion, may approve requested annual rate adjustments in order to provide a fair return to WM.

In FY 2006-07, the mandatory basic residential service is proposed to remain the same. It includes a 96-gallon cart for yardwaste, 38-gallon cart for regular trash and a 64-gallon cart for mixed recyclables. Those residents who require more garbage and trash disposal capacity than is provided in the basic service level may request the garbage company provide extra 38, 64 or 96-gallon capacity carts for garbage and trash at additional costs.

The costs for any additional services above the basic service level are billed directly to the residents by the garbage company.

### Interest Revenue

The budgeted interest revenue of \$550,000 is \$100,000 more than the previous year. In consideration of the recent increases in interest rates, the revenue has been calculated at 4.75%.

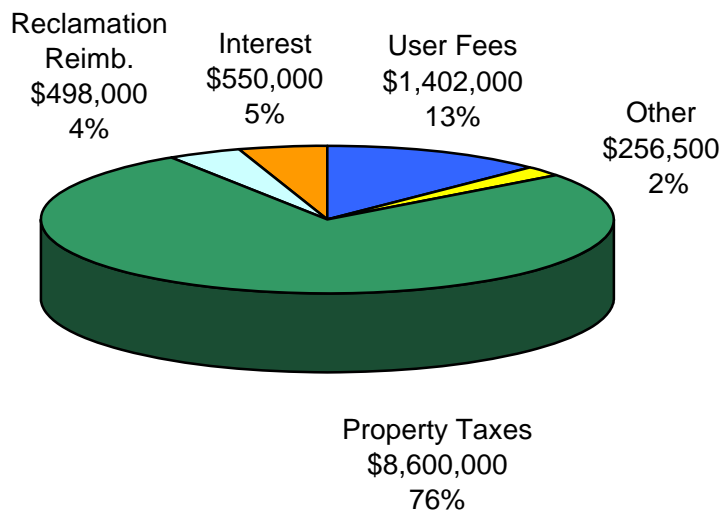
### Other Revenue

The \$256,500 “other” revenue includes: \$128,000 in Proposition 172 public safety sales tax revenue, \$74,000 in garbage franchise fees (5% of the revenue collected by the franchise holder within the District) and \$30,000 in sewer connection and permit fees.

### Reclamation Project Reimbursement

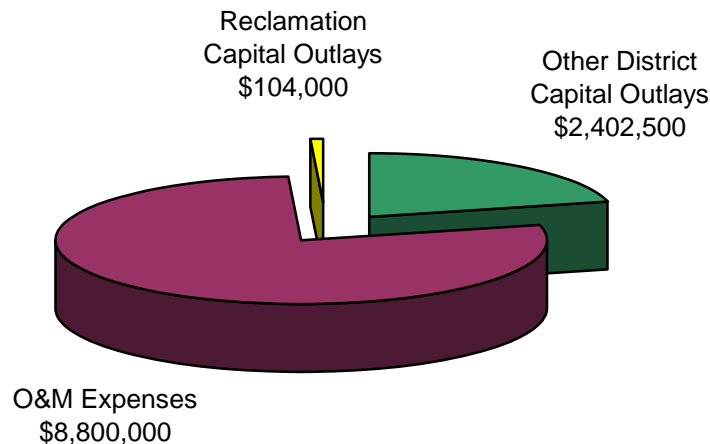
Reclamation Project reimbursement has decreased by \$9,134,000, from \$9,632,000 to \$498,000, mainly due to the completion of construction of Forest Lake Reservoir. However, reimbursement for O&M expenses is proposed to increase by \$241,000, from \$153,000 to \$394,000, to finance operating expenses of the Reservoir. The Reclamation Project will reimburse the District for all of its project-related expenses.

*The following chart displays the District’s \$11,306,500 current revenue by source:*



Of the \$11,306,500 estimated current revenue, \$8,800,000 is proposed to be allocated to finance the budgeted O&M expenses which were summarized earlier. The remaining \$2,506,500 is proposed to be earmarked to finance a large portion of the District's budgeted capital outlays (\$104,000 for Reclamation Project capital outlays and \$2,402,500 for the capital outlays financed by the District).

*The following chart displays the allocation of current revenue for the O&M expenses and Capital Outlays:*



### **Allocation From Reserves to Finance Capital Outlays**

The budget includes a \$3,580,000 allocation for capital outlays. As explained above, \$2,506,500 of that amount is proposed to be financed from the District's current revenue, which will include \$104,000 in contributions from the Reclamation Project and \$2,402,500 from the District's own current revenues. The remaining \$1,073,500 is planned to be financed from the following sources:

- \$565,000 from the Capital Outlay Acquisition Fund balance for items carried over from FY 2005-06 budget.
- \$508,500 from the Special Projects Reserve Fund.

The allocations are within the amounts specified in the District's long-term financial plan.

### **Summary of Capital Outlays**

*A list of all capital outlays can be found in pages 11 through 15 of the attached line item detail Preliminary Budget. Items over \$25,000 are summarized below.*

#### **Administration/Engineering**

\$40,000: Modifications and enhancement of Geographic Information Systems (GIS) and database information systems to continue improving staff efficiency in performing various day-to-day operations. The enhancements include moving the databases to a web-based system from the current Microsoft Windows and Access software platforms; developing a more efficient and user-friendly interface with computerized maps; and increasing the accuracy of certain infrastructure information. The enhancements will also help achieve more cost effective maintenance and administration of information systems over the long-term.

#### **Wastewater / Maintenance**

- 1) \$600,000: 2006 and 2007 Sewer Replacement Projects (\$500,000 and \$100,000, respectively). The District has an on-going program to replace or rehabilitate wastewater lines and manholes which are annually identified and prioritized by condition. The PBCSD Long-Term Capital Outlay Program includes \$500,000 annual allocations for these capital improvement projects. Of the \$500,000 budgeted for the 2006 Sewer Line Replacement Project, \$170,000 has been carried over from the FY 2005-06 budget. As it is anticipated that the 2007 Sewer replacement project will only be partially completed at the end of FY 2006-07, the budget includes only \$100,000 for this project (and, the remaining actual costs will be budgeted in FY 2007-08).
- 2) \$245,000: Wastewater pump stations rehabilitation, including \$185,000 for improvements at the District's largest pump station, P-3, located on 17 Mile Drive near Seal Rock. The P-3 improvements include a new 2000-gallon underground diesel fuel tank that will provide extra storage to accommodate the new larger capacity (400kw) generator, which replaced the smaller generator installed when the pump station was originally constructed. Other improvements to the facility include: replacement of the solids grinder (\$60,000) and the magnetic flow meter (\$50,000). \$110,000 of the amount budgeted for P-3 improvements has been carried over from the FY 2005-06 budget. The budget

also includes \$50,000 for replacement of the diesel fuel tank at pump station P-7 located near the 18<sup>th</sup> Fairway of Pebble Beach Golf Links.

- 3) \$212,500: Wastewater/Maintenance equipment. The budget includes \$85,000 to replace a 19-year old sewer line power rodder used to clear stoppages and to perform routine root removal maintenance of wastewater lines. Of this amount, \$65,000 has been carried over from the previous year. \$55,000 has been budgeted to replace a 60 KW portable generator with a noise reduction enclosure which provides power to the District's smaller wastewater pump stations P-1, 2, 4 and 6 during power outages. \$30,000 has been budgeted to replace a 9-year old half-ton four-wheel utility pickup truck used in maintenance activities.
- 4) \$200,000: Relocation of a damaged sewer line located on the shoreline behind 1470 Cypress Drive and two adjacent properties. \$95,000 of the amount budgeted has been carried over from the previous year's budget.

### **Fire Department**

- 1) \$1,750,000: Fourth Priority Water Main Replacement Project. The first, second and third priority water replacement projects included in the Long-Term Plan for fire protection water system improvements have been completed. Currently, an engineering analysis is being conducted to re-assess the impacts of the previous improvements on water distribution system, re-prioritize water lines which may need to be replaced, and determine the scope of a possible fourth priority water main replacement project. Upon determination of the justification and scope of this project, a decision will be made by the Board whether the project will yield sufficient fire protection benefit to proceed with it.
- 2) \$178,400: Fire department equipment. The budget includes \$55,000 to replace the Quick Response Vehicle ("QRV") used by the contracted paramedics to provide advanced life support services, and \$26,000 to modify two engine-mounted 1000 GPM master nozzles ("deck guns") to improve safety.

### **Reclamation Project**

\$100,000: Inspection and rehabilitation of the interior of the 2.5 million-gallon water storage tank, including replacement of any damaged roof structure and installation of a new protective coating on the inside surface. The cost of this item will be reimbursed by the Reclamation Project.

### **Appropriations Limit**

The Preliminary Budget is **\$4,763,000 or approximately 39% below the "Appropriations Limit" or the "Gann Limit"**, as it is sometimes referred to, which was established pursuant to Article XIII-B of the State Constitution. The appropriation limit is calculated based on the limit adopted in the prior fiscal year, modified to reflect changes in cost-of-living and population. This year's calculation indicates the District will continue to be in full compliance with the law by a wide margin. The attachments to the Resolution No. 06-09 display the calculations for the FY 2006-07 appropriations limit.

Adoption of the annual appropriations limit is an important fiduciary/public trust responsibility of the Board. The adopted appropriations limit is subject to an annual independent audit review and must be submitted to the State Controller by September 30.

### **Budget Schedule**

***It is recommended the FY 2006-07 preliminary budget be adopted on May 26, and a public hearing on user fees and the District's Final Budget to be scheduled on July 28<sup>th</sup>. This will allow adoption of the fees for fire, sewer and garbage disposal services prior to the County Auditor's August 1<sup>st</sup> deadline for placing them on property tax statements. The Preliminary Budget provides interim financial authorization and serves as a study document for the Board and the public prior to the Final Budget hearing which District policy requires be completed by August 1st.***

Enclosures: (1) PBCSD Preliminary Line Item Budget Report for FY 2006-07.  
(1) Letter from WM District Manager dated April 25, 2006 and the District Finance Officer's Response dated May 1, 2006, re: garbage service rates.  
(1) Resolution Nos. 06-08, 09 and 10.

Concur:

General Manager: RA Date: 5/19/06

c: Richard Andrews, General Manager  
Rob Wellington, District Legal Counsel  
George Hanes, CDF Ranger Unit Chief  
Michael Niccum, District Engineer  
David Drewien, District Field Operations Manager  
Nancy Johnson, District Accountant