

DEPUTY GENERAL MANAGER/CFO REPORT

April 30, 2010

To: Board of Directors

From: Suha Kilic, Deputy GM/CFO

Subject: **2010 PBCSD Long-Term Financial Plan**

SUMMARY

The attached Long-Term Financial Plan (“Plan”) provides an overview of the District's estimated financial position over the next 15-years based on a pay-as-you-go method of financing its capital outlays. In addition, the Plan establishes various reserve funds for the Board’s consideration and includes recommended allocations of the District’s current and future financial resources into those reserve funds.

RECOMMENDATION

It is recommended the Board approve the District’s 2010 Long-Term Financial Plan, and authorize the Staff to make necessary inter-fund transfers to implement the Plan.

DISCUSSION

The PBCSD Long-Term Financial Plan is prepared annually to meet the following objectives:

- 1) Determine and allocate the District’s current resources to finance each of the following specific functions and to fund its reserves:
 - a) Operations and Maintenance (O&M) including O&M Reserves.
 - b) Rate Stabilization Reserves.
 - c) Required Capital outlays identified in the Long-Term COP.
 - d) Discretionary Projects including Water System Improvements for Fire Protection.
- 2) Establish criteria and provide estimates of available resources to finance the same functions in the future.
- 3) Provide a projection of the District's financial position over a 15 year-period based on a proposed allocation of current and future resources.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT

LONG-TERM FINANCIAL PLAN

April 30, 2010



PBCSD FUND STRUCTURE

Fund accounting system is used by state and local governments to maintain and control their resources separately for their various functions. This system allows separate accounting of resources for different activities. As required by the State Controller's Office and the Governmental Accounting Standards Board (GASB) the District's financial statements are reported in two main categories as follows:

1. Governmental Funds which are mainly financed through property taxes. The District's general government (administration/engineering); fire protection/emergency medical and supplemental law enforcement services comprise its governmental fund activities.

2. Proprietary Funds are used to report business-type activities which are financed, in whole or part, by fees paid by those who directly benefit from the service. The District's business-type activities include wastewater collection and treatment, solid waste collection, and reclaimed water distribution services.

In addition, to the two general categories, resources are accounted for separately for each activity based on the restrictions imposed by external sources (i.e. law, debt covenants, contributors etc.), and internal designations made by the governing body at its discretion. Currently there are no restrictions imposed by external sources on District resources. However, the District's cash and investments within each activity are kept in six separate different categories based on the designations made by the District Board. The purpose of such designations is to identify and set aside necessary financial resources to meet current operational and capital outlay needs; to establish reserves for the continued economic stability of the District; and to achieve the goals established in the District's Long-Term Capital Outlay Program (COP). Although, the cash and investments for each activity are kept and accounted for separately under six categories (designations) described below, they are reported in a combined manner in this Long-Term Financial Plan for simplicity and clarity in understanding the District's overall financial position.

PBCSD FUND DESIGNATIONS

- 1) **Operations:** Includes the resources designated to finance ongoing operations and maintenance ("O&M") expenditures.
- 2) **O&M Reserve:** Maintained to finance unexpected and unbudgeted O&M expenditures. The O&M Reserves are maintained at 10% of the annual O&M

Budget; and if at anytime during a fiscal year the O&M Reserve is used, it is replenished to meet the 10% criteria as soon as sufficient revenue is available.

- 3) **Rate Stabilization Reserve:** Established to help offset the impact of increases in wastewater service rates which may result from revenue fluctuations. It is maintained at 50% of the amount budgeted for wastewater operations.
- 4) **Capital Outlay Acquisition:** Designated to keep the money necessary to finance the construction projects and capital equipment which are included in the current year's budget. During the year, the amounts required for the budgeted capital projects are transferred from the Capital Outlay Reserve and/or the Special Projects Reserve funds described below.
- 5) **Capital Outlay Reserve:** Established to accumulate funds and to finance the future capital outlays necessary for the District's required operations as identified in the Long-Term Capital Outlay Plan ("COP") on a pay-as-you-go basis.
- 6) **Special Projects Reserve:** Designated to hold the resources available to finance special capital projects such as fire protection water system improvements and/or addition or expansion of services.

FINANCING OF THE LONG-TERM CAPITAL OUTLAY PROGRAM

The following two-step process has been used to allocate the District's current and future resources among the six fund designations described above:

- 1) Determination of an allocation from the District's current cash balance to each fund and,
- 2) Determination of estimated revenue that can be allocated to each fund in future years.

Step 1. Allocation of Current District Cash Balance to the Funds:

The District has approximately \$16,700,000 in cash as of April 1, 2010. The recommended allocation of this amount among the funds is presented in this section (and summarized in **Appendix A**).

- 1) **Operations:** The recommended initial amount set aside for operations as of April 1, 2010 is **\$1,310,000**. This amount has been determined based on the annual cyclical flow of property tax and user fee revenues and estimated

monthly O&M expenditures. The revenue inflow to the District does not evenly match monthly O&M expenses because the District receives most of its annual revenue twice a year, in December and April, while the expenditures follow a more uniform pattern. The recommended initial amount is expected to provide sufficient working capital until December 2010. A short-term cash flow projection for this fund for the period of April through December 2010 is presented in **Appendix B**.

- 2) **O&M Reserve:** The recommended initial balance is **\$1,061,000 or 10%** of the current O&M Budget.
- 3) **Rate Stabilization Reserve:** Established at **\$1,136,000 or 50%** of the amount budgeted for wastewater operations in the current year.
- 4) **Capital Outlay Acquisition:** The recommended amount is **\$3,600,000** which is necessary to finance the capital outlays and outstanding commitments which will be paid during the remaining part of the current fiscal year (FY 2009-10) or rolled over into the next fiscal year (FY 2010-11).
- 5) **Capital Outlay Reserve:** The recommended initial balance is **\$8,193,000**. This amount will be used over the next 15 years to finance the capital projects and equipment identified in the Long-Term COP with the exception of reclaimed water distribution system assets which will be financed by contributed capital from the Reclamation Project. In determining the initial allocation for this purpose, the following method has been used:
 - a) An annual allocation for each item included in the Long-Term COP has been determined using the estimated current cost and useful life of each item (current replacement cost divided by useful life).
 - b) An initial amount deposit representing prior year allocations has been calculated by multiplying the annual allocation determined above by the age of each the item. This amount is recommended to be placed into the Capital Outlay Reserve Fund.

The methodology used is based on financing the capital items on a pay-as-you-go basis using the initial allocation described above in combination with the future annual contributions. When the future annual contributions are added to the initial deposit, funds to finance each item included in the Long-Term COP will be available in the scheduled acquisition or replacement year. The following

example illustrates this concept:

The Long-Term COP, Exhibit "B", year "2019-20" includes replacement of Fire Ladder Truck 6671. The cost of the fire truck is \$600,000 and the useful life is 15 years. Therefore, 1) the recommended annual savings for replacement of the fire truck is \$40,000 (\$600,000/15 years) and, 2) because the current fire truck is 6 years old, it is recommended to place an initial allocation of \$240,000 (\$40,000 x 6 years) in the capital outlay reserve fund for this item. When future annual contributions of \$40,000 over the next nine years are added to the initial allocation, the full amount for replacement will be available in the year 2019-20. Annual allocations will continue in order to finance future replacements thereafter. Similar calculations have been made for all items listed in the COP except the annual sewer replacement projects: The Long-term COP includes annual Sewer and Manhole Replacement Projects in the amount of \$600,000. These projects are assumed to be financed in their scheduled year. Nevertheless, \$1,200,000 (amount sufficient to finance these projects for a two-year period) is included in the initial allocation placed in the capital outlay reserve fund.

Based on these assumptions the required **initial allocations** for the Capital Outlays as of April 1, 2010 are identified by function as follows:

	<u>Allocation</u>
Wastewater	\$4,767,000
Fire and Emergency Medical	1,827,000
Administration/Engineering	672,000
CAWD Treatment Plant	<u>927,000</u>
Total	<u>\$8,193,000</u>

The detailed calculations made in determining the amounts recommended above are not included in this report and are available for review.

6) **Special Projects Reserve:** Designated to separately keep the resources which may be available for discretionary projects. The **\$1,400,000** balance remaining after allocations to other reserve funds is recommended to be allocated to the Special Projects Reserve Fund. Potential uses of these reserves may include:

- discretionary capital projects
- addition or expansion of District services
- stabilization of user fees, if a need arises, as a result of a reduction in District revenues.

Step 2. Designation of Future Revenue and Long-Term Outlook:

Future Annual Revenue and Expenditures

The District's annual revenue and expenditure profile and apportionment of future revenue for O&M expenditures and various reserves are provided in the attached "Appendix C". Currently, District's annual revenues exceed its annual operating expenses by \$2,050,000. Portion of this amount will be needed to maintain the reserves described above and to finance required capital outlays; and a portion is expected to be available to finance discretionary special projects at least over the near-term.

Apportionment of Future Annual Revenue

- 1) **Operations:** Over the next 15-year period, it is likely that District's current annual revenues will be sufficient to finance the District's current level of operations. It is recommended that the District continue to determine its financing requirements annually and designate revenue in excess of O&M expenditures in the following order: 1) Maintenance of O&M Reserve and Rate Stabilization Reserve 2) Capital Outlay Reserve and, 3) Special Projects Reserve.
- 2) **O&M Reserve:** An annual allocation of approximately **\$40,000** is required to maintain the reserves at 10% of the O&M budget.
- 3) **Rate Stabilization Reserve:** An annual allocation of approximately **\$40,000** is required to maintain these reserves at 50% of the wastewater operations budget.
- 4) **Capital Outlay Reserve:** The recommended future annual allocation into this fund is **\$1,470,000**. This amount has been determined using the cost and useful life of each item included in the Long-Term COP as explained above.

The calculated **annual allocations** to Capital Outlays by activity are:

	<u>Annual Allocation</u>
Wastewater	\$ 910,000
Fire and Emergency Medical	272,000
Administration/Engineering	148,000
CAWD Treatment Plant	<u>140,000</u>
Total	<u>\$1,470,000</u>

- 5) **Special Projects Reserve:** It is estimated that in the FY 2010-11, approximately \$500,000 in annual revenue can be allocated for special projects. In future years, the amount of revenue that may be available for special projects may vary based on various factors which would impact the District revenues and expenditures.

Assumptions Made

The following are the assumptions and concepts utilized in development of the Plan:

- All capital outlays, with the exception of Reclaimed Water Distribution System assets, will be financed with the District's own resources on a pay-as-you-go basis (no debt financing).
- A total of \$699,000 in Reclaimed Water Distribution System and Forest Lake Reservoir capital outlays will be financed with contributed capital over the next 15-year period. No District funds are allocated for these assets.
- It is assumed that the District will be continue to be in existence (going-concern principle) and at the end of the 15-year period adequate reserves will be available for the longer future.
- The costs included in the Long-Term COP are based on estimated replacement costs (this is a major difference from establishing reserves based on depreciation which uses the acquisition cost).
- The costs included in the Long-Term COP as well as the revenues and expenditures projected in the Long-Term Financial Plan have not been escalated over time. If the District revenues increase at the same rate as its expenditures, the amount available for the required capital outlays and discretionary projects may also increase at the same rate. Because 15-year is a very long time to predict, in order to improve reliability both the Long-Term COP and the Financial Plans are updated and costs of the scheduled capital projects and equipment are adjusted annually.

Long-Term Outlook and Conclusions

During the next 15 years, it is likely that the District's current financial position combined with anticipated future revenue will be adequate to accomplish all projects and to purchase the equipment identified in the COP for the District's required responsibilities. There may also be funds available for discretionary special projects.

The amount for these projects will depend on various factors including those outside the District's controls as follows:

- 1) Availability of property taxes: The District heavily relies on property tax revenue (84% of total revenue). On two different occasions in the previous 15 years, the State shifted property tax revenue from enterprise special districts to help with its financial problems. A shift occurred in 1993-94 resulted in a loss of over \$ 1 million in annual property tax revenue for the District on a permanent basis. A more recent temporary shift resulted in the District losing \$1,700,000 over a two-year period (fiscal years 2004-05 and 2005-06). The property tax revenue shift ended beginning 2006-07 with constitutional protection for special districts thereafter. However, since then the Legislative Analyst's Office made one unsuccessful proposal to shift a State responsibility to the Counties; and to authorize the Counties to receive a portion of the water and wastewater district property taxes to finance this change. Such a shift would have been allowed under the current law. Therefore, although lessened, there may always be the risk of property tax revenue loss for the District.

In addition to the State takeaways, other economic factors may significantly impact the District's property tax revenue. The District's property tax revenue is expected to decrease by about **6% or \$650,000** annually. The decrease is due to the anticipated adjustments that will be made on assessed values of commercial and residential properties by the County Assessor's office, as a result of the recent decline in the real estate market.

- 2) The rate of change in revenues and expenses: For the past 10 years, the revenues increased at an average annual rate of 7%. During the first 8 years of that period, there were considerable real estate sales activity; and residential and commercial property values continually increased within Del Monte Forest. Consequently, property tax revenue increased significantly. The District's O&M expenditures (exclusive of the Reclamation Project) increased at an average annual rate of 9% mainly due to expansion and addition of services over the past 10 years. During that period, the District added six firefighter and paramedic positions (initiated a paramedic and a 4-person fire engine programs at the Pebble Beach and Carmel Hill Fire stations) and incurred large increases in fire service costs due to changes in the manner the State firefighters' overtime rate is calculated. The District also implemented a supplemental traffic enforcement service, an annual household hazardous waste collection program and initiated an annual fire

defense clearance program.

In future years, the amount of available funding for discretionary projects will be subject to the rate of change in revenues and O&M expenditures. As displayed in the attached Appendix E, if the revenues and O&M expenses continue to increase at the same annual average rate, the District may have the \$500,000 (in current dollars) available for discretionary projects over the next 15 years. However, if for example, O&M expenses increase at a rate which is 1% higher than the increase in revenues, then in approximately 5 years there would be no annual discretionary revenue available.

Appendix A

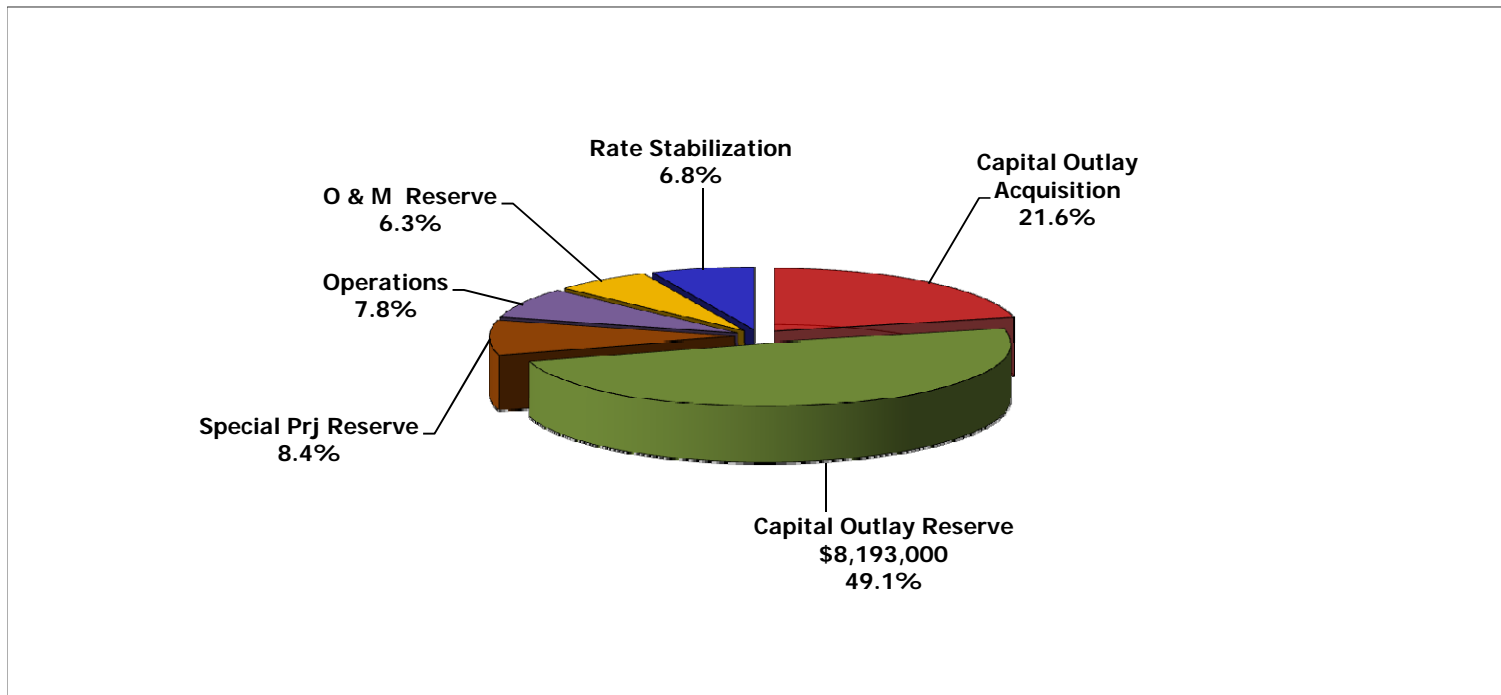
DESIGNATION OF CURRENT \$16,700,000 CASH BALANCE

1. Operations / Reserves:

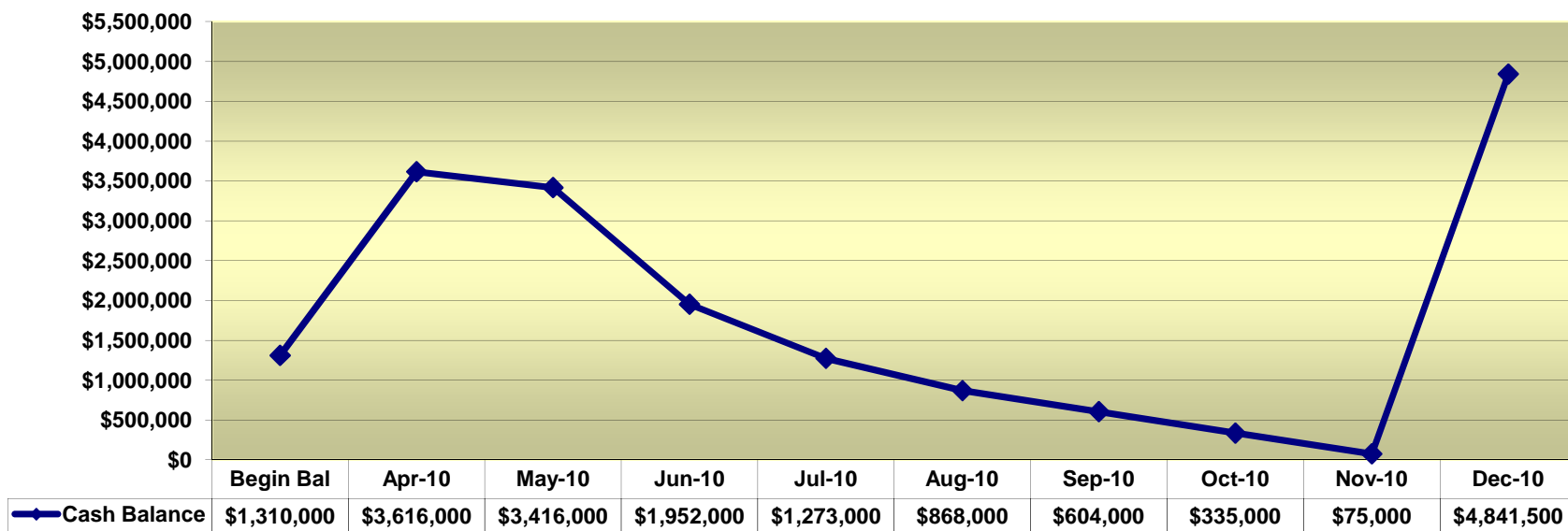
A. Operations	\$ 1,310,000
B. O&M Reserve	1,061,000
C. Rate Stabilization Reserve	1,136,000
Total	\$ 3,507,000

2. Capital Outlays / Reserves:

A. Capital Outlay Acquisition Fund	\$ 3,600,000
B. Capital Outlay Reserve	8,193,000
C. Special Projects Reserve	1,400,000
Total	\$ 13,193,000



**Appendix B
PBCSD LONG TERM FINANCIAL PLAN
GENERAL FUND SHORT TERM CASH FLOW PROJECTION
APRIL - DECEMBER 2010**



	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Beginning Balance	\$ 1,310,000	\$ 3,616,000	\$ 3,416,000	\$ 1,952,000	\$ 1,273,000	\$ 868,000	\$ 604,000	\$ 335,000	\$ 75,000
Revenue	4,611,000	152,000	98,000	116,000	160,000	232,000	166,000	140,000	6,363,000
Total Expenditures	2,305,000	352,000	1,562,000	795,000	565,000	496,000	435,000	400,000	1,596,500
Ending Balance	\$ 3,616,000	\$ 3,416,000	\$ 1,952,000	\$ 1,273,000	\$ 868,000	\$ 604,000	\$ 335,000	\$ 75,000	\$ 4,841,500

Appendix C

ALLOCATION OF ANNUAL REVENUE TO O&M EXPENDITURES AND DISTRICT RESERVES

REVENUES:

Property Taxes	\$ 9,750,000
User Fees:	
Sewer	735,000
Fire	195,000
Solid Waste	540,000
Interest	250,000
Other	250,000
Reimbursements	450,000
TOTAL REVENUES	12,170,000

O&M EXPENDITURES:

Personnel	1,932,000
Other O&M	1,943,000
Contractual Services:	
Fire Protection	4,400,000
Sewer Treatment	1,130,000
Garbage Basic Service	540,000
Supp Vehicle Code Enforcement	175,000
TOTAL O&M EXPENDITURES	10,120,000
REVENUES OVER O&M EXP.	\$ 2,050,000

**AVAILABLE FOR CAPITAL
OUTLAYS / RESERVE FUNDS:**

O&M RESERVE	\$ 40,000
RATE STABILIZATION	40,000
CAPITAL OUTLAYS	1,470,000
SPECIAL PROJECTS/ ADDITIONAL SERVICES	500,000
TOTAL	\$ 2,050,000

Appendix D
PBCSD LONG TERM FINANCIAL PLAN
CAPITAL OUTLAY RESERVE FUND REVENUES, EXPENDITURES AND BALANCES

April 30, 2010
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	FISCAL YEAR							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
BEGINNING BALANCE	\$ 8,193,000	\$ 7,136,000	\$ 6,383,000	\$ 6,551,000	\$ 6,660,000	\$ 6,599,000	\$ 6,792,000	\$ 6,919,000
REVENUES:								
Annual Revenue Allocation	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000
Reimb/Contributed Capital	110,000	0	40,000	62,000	95,000	65,000	90,000	70,000
TOTAL REVENUES	1,580,000	1,470,000	1,510,000	1,532,000	1,565,000	1,535,000	1,560,000	1,540,000
EXPENDITURES:								
Long-Term Capital								
Outlay Plan Items (*)	2,637,000	2,223,000	1,342,000	1,423,000	1,626,000	1,342,000	1,433,000	1,734,000
TOTAL EXPENDITURES	2,637,000	2,223,000	1,342,000	1,423,000	1,626,000	1,342,000	1,433,000	1,734,000
REVENUES OVER EXP.	(1,057,000)	(753,000)	168,000	109,000	(61,000)	193,000	127,000	(194,000)
ENDING BALANCE	\$ 7,136,000	\$ 6,383,000	\$ 6,551,000	\$ 6,660,000	\$ 6,599,000	\$ 6,792,000	\$ 6,919,000	\$ 6,725,000

Notes:

(*): Reclaimed Water Distribution System Assets are financed through Reclamation Project Reimbursements.

Appendix D
PBCSD LONG TERM FINANCIAL PLAN
CAPITAL OUTLAY RESERVE FUND REVENUES, EXPENDITURES AND BALANCES

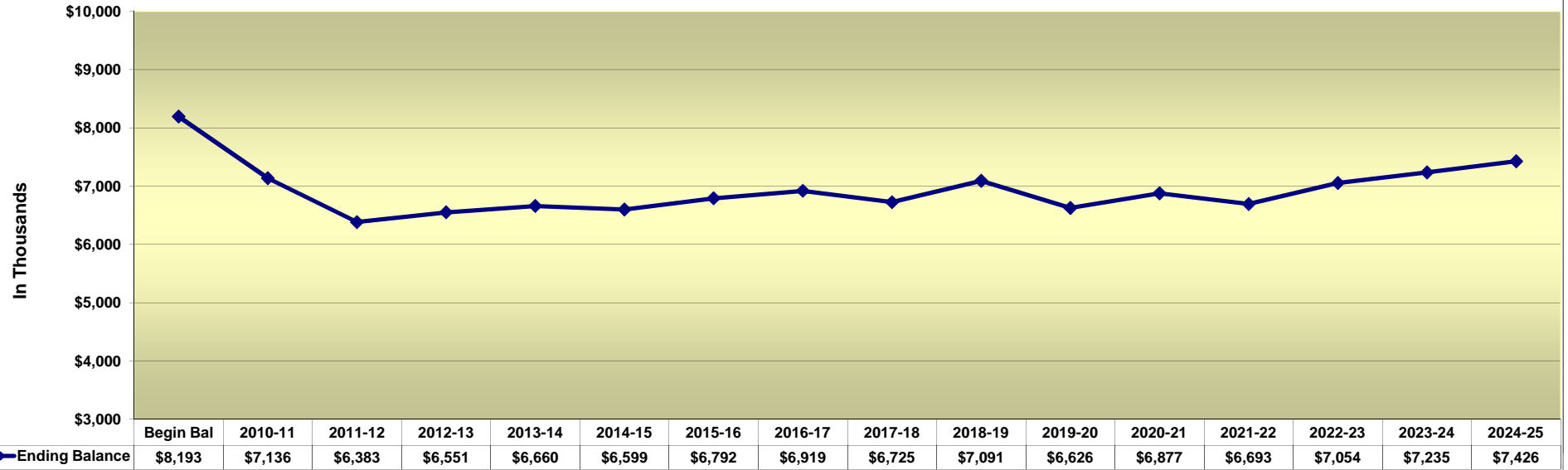
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	FISCAL YEAR						
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
BEGINNING BALANCE	\$ 6,725,000	\$ 7,091,000	\$ 6,626,000	\$ 6,877,000	\$ 6,693,000	\$ 7,054,000	\$ 7,235,000
REVENUES:							
Annual Revenue Allocation	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000
Reimb/Contributed Capital	0	12,000	35,000	0	40,000	50,000	30,000
TOTAL REVENUES	1,470,000	1,482,000	1,505,000	1,470,000	1,510,000	1,520,000	1,500,000
EXPENDITURES:							
Long-Term Capital							
Outlay Plan Items (*)	1,104,000	1,947,000	1,254,000	1,654,000	1,149,000	1,339,000	1,309,000
TOTAL EXPENDITURES	1,104,000	1,947,000	1,254,000	1,654,000	1,149,000	1,339,000	1,309,000
REVENUES OVER EXP.	366,000	(465,000)	251,000	(184,000)	361,000	181,000	191,000
ENDING BALANCE	\$ 7,091,000	\$ 6,626,000	\$ 6,877,000	\$ 6,693,000	\$ 7,054,000	\$ 7,235,000	\$ 7,426,000

Notes:

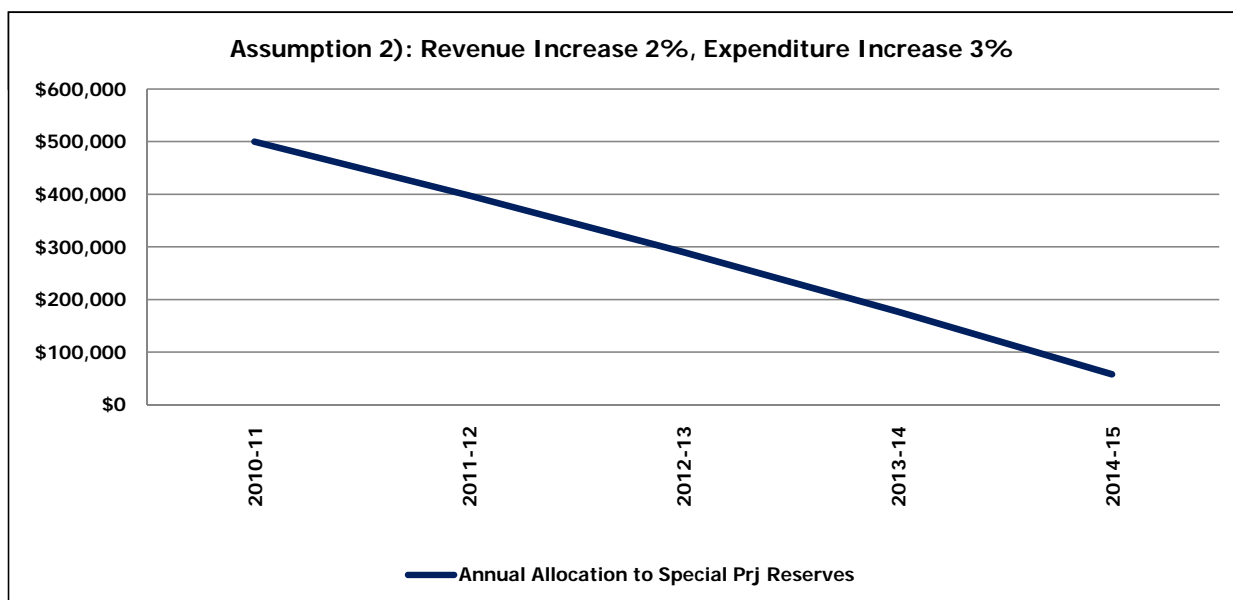
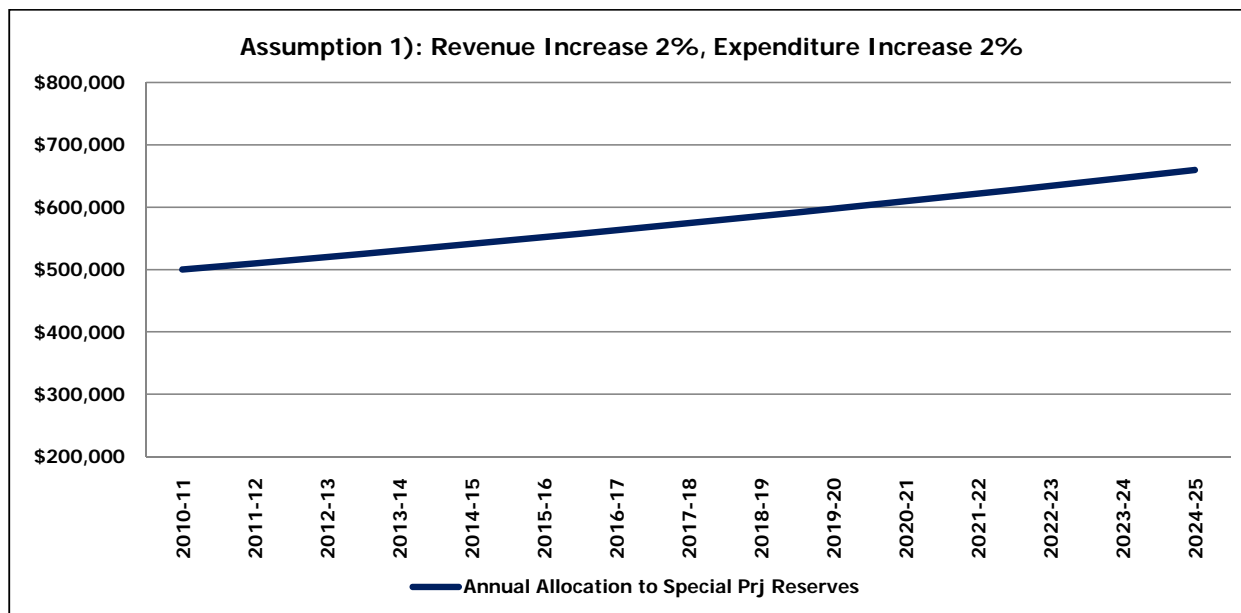
(*): Reclaimed Water Distribution System Assets are financed through Reclamation Project Reimbursements.

**Appendix D
PBCSD LONG TERM FINANCIAL PLAN
CAPITAL OUTLAY RESERVE FUND REVENUES, EXPENDITURES AND BALANCES
FY 2010-11 THROUGH FY 2024-25**



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Beginning Balance	\$8,193,000	\$7,136,000	\$6,383,000	\$6,551,000	\$6,660,000	\$6,599,000	\$6,792,000	\$6,919,000	\$6,725,000	\$7,091,000	\$6,626,000	\$6,877,000	\$6,693,000	\$7,054,000	\$7,235,000
Revenue	1,580,000	1,470,000	1,510,000	1,532,000	1,565,000	1,535,000	1,560,000	1,540,000	1,470,000	1,482,000	1,505,000	1,470,000	1,510,000	1,520,000	1,500,000
Total Expenditures	2,637,000	2,223,000	1,342,000	1,423,000	1,626,000	1,342,000	1,433,000	1,734,000	1,104,000	1,947,000	1,254,000	1,654,000	1,149,000	1,339,000	1,309,000
Ending Balance	\$7,136,000	\$6,383,000	\$6,551,000	\$6,660,000	\$6,599,000	\$6,792,000	\$6,919,000	\$6,725,000	\$7,091,000	\$6,626,000	\$6,877,000	\$6,693,000	\$7,054,000	\$7,235,000	\$7,426,000

Appendix E Annual Allocation to Special Projects Reserves over 15 years Under Two Assumptions



Under Assumption 2 no allocation will be available for special projects beginning 2015-16.