

**PEBBLE BEACH
COMMUNITY SERVICES DISTRICT**

LONG-TERM FINANCIAL PLAN

APRIL 2009



DEPUTY GENERAL MANAGER/CFO REPORT

April 24, 2009

To: Board of Directors

From: Suha Kilic, Deputy GM/CFO

Subject: **2009 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. The Plan is based on a pay-as-you-go method of financing the capital outlays which are included in the District’s Long-Term Capital Outlay Plan (“COP”). In addition, the Plan establishes various reserve funds for the Board’s consideration and includes recommended allocations of the District’s current financial resources into the reserve funds and future revenue projections for them.

As summarized on Page 7, under the “Long-Term Outlook” section of the attached Plan, it is projected that the District will be able to maintain its ability to finance its ongoing operations and possibly the capital outlays necessary to meet its required responsibilities while maintaining adequate capital outlay reserves during the next 15-year period.

RECOMMENDATION

It is recommended the Board approve the District’s 2009 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:
 - 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 to allocate future District 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 method of allocation of current and future resources.

Agenda Item No: 7B

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 which may be restricted in use by external sources (i.e. law, debt covenants, contributors etc.) as well as resources designated for special purposes at the discretion of the governing body. 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 and emergency medical; and 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.

Each of these funds is reported in two sub-categories; the General Fund (used for on-going operations) and the Capital Outlay Fund, based on the purpose of the resources they hold. Furthermore, the money within each sub-category is classified and maintained separately based on the external restrictions and/or Board designations. Currently, there are no external restrictions imposed on any of the District funds. However, the District's General and Capital Outlay Fund resources are kept in six separate groups internally based on the designations made by the Board. The purpose of such designations is to identify and set aside financial resources necessary to achieve the goals established in the District's Long-Term Capital Outlay Program (COP), and to establish internal reserves to for the continued economic stability of the District. The six designations are described below:

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 unplanned and extraordinary O&M expenditures. According to the Board's policy, 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 the 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 Reserves and/or the Special Projects Reserves 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 like 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 \$13,678,000 in cash as of April 1, 2009. The recommended allocation of this amount among the funds is presented in this section (and summarized in **Appendix A**).

- 1) **Operations:** The District will receive a major property tax revenue allocation in April that will be deposited into this fund and will provide sufficient working capital until December 2009. Therefore, no initial allocation has been recommended for this fund as of April 1, 2009. A short-term cash flow

projection for this fund for the period of April through December 2009 is presented in **Appendix B**. As can be reviewed in the appendix, 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.

- 2) **O&M Reserve:** The recommended initial balance is **\$986,000 or 10%** of the current Operating Budget.
- 3) **Rate Stabilization Reserve:** Established at **\$1,079,000 or 50%** of the amount budgeted for wastewater operations in the current year.
- 4) **Capital Outlay Acquisition:** The recommended amount is **\$4,200,000** 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 2008-09) or rolled over into the next fiscal year (FY 2009-10).
- 5) **Capital Outlay Reserve:** The recommended initial balance is **\$7,413,000**. 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, money 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 "2013-14" includes replacement of Fire Engine 6621. The cost of the fire engine is \$450,000 and the useful life is 20 years. Therefore, 1) the recommended annual savings for replacement of the fire engine is \$22,500 ($\$450,000/20$ years) and, 2) because the current fire engine is 16 years old, it is recommended to place an initial allocation of \$360,000 ($\$22,500 \times 16$ years) in the capital outlay reserve fund for this item. When future annual contributions of \$22,500 over the next four years are added to the initial allocation, the full cost of replacement will be available in the year 2013-14. Annual allocations will continue in order to finance future replacements thereafter.

Similar calculations have been made for all items listed in the COP except:

- 1) Annual sewer replacement projects: The Long-term COP includes annual Sewer and Manhole Replacement Projects (Long-Term COP, Exhibit "C", \$600,000 beginning 2009-10). 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.
- 2) One-time items: Wastewater Pump Stations P-1, P-2, P-4, P-6 and P-7 are planned to be converted into submersible pump stations with increased pumping and storage capacity. These projects are new additions to the long-term capital outlay program. The one-time costs associated with these projects amount to \$1,050,000 and have been placed in the capital outlay reserve fund due to proximity of schedules.

Based on these assumptions the required **initial allocations** for the Capital Outlays as of April 1, 2009 are identified by function as follows:

	<u>Allocation</u>
Wastewater	\$4,356,000
Fire and Emergency Medical	1,336,000
Administration/Engineering	623,000
CAWD Treatment Plant	<u>1,098,000</u>
Total	<u>\$7,413,000</u>

The detailed calculations of 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. Normally, after the allocations made to other reserves as described above, the balance of the District's current money is designated as "Special Projects Reserves". It is determined that as of April 1, 2009, there are no resources available for the Special Projects Reserves. This is because the funds required for the final water system improvements-Spruance Tank Project are being held in the Capital Outlay Acquisition fund. It is anticipated that beginning the next fiscal year 2009-10, the District will be in a position to rebuild reserves for Special Projects. Potential utilization of these reserves will be the topic of the District's upcoming 2009 Strategic Planning meeting. 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 the District's property tax revenue.

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 \$2,900,000. 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 **\$50,000** is required to maintain the reserves at 10% of the O&M budget.

- 3) **Rate Stabilization Reserve:** An annual allocation of approximately **\$50,000** 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 **\$1,500,000**. 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 function are:

	<u>Annual Allocation</u>
Wastewater	\$ 920,000
Fire and Emergency Medical	260,000
Administration/Engineering	160,000
CAWD Treatment Plant	<u>160,000</u>
Total	<u>\$1,500,000</u>

- 5) **Special Projects Reserve:** It is estimated that in the FY 2009-10, approximately **\$1,300,000** 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 issue).
- A total of \$759,000 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.
- A "going concern" principle has been used in the capital outlays financing methodology. The principle assumes the District will be a continuing organization, thus 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 expenditures, the amount available for the required capital outlays and discretionary projects may also increase at the same rate (barring no other impacts such as State takeaways). To enhance 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

During the next 15 years, it is likely the District's current financial position combined with anticipated future revenue is expected to be adequate to accomplish all projects and to purchase the equipment identified in the COP for the District's required responsibilities. It is also likely that there will be some funds available for discretionary special projects. The amount available for discretionary projects will depend on various factors outside the District's control including the following:

- 1) Availability of property taxes: The District heavily relies on property tax revenue (83% 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. The last 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.
- 2) The rate of change in revenues and expenses: Over the past 10 years, the revenues increased at an average annual rate of 9%. During that period, there were considerable real estate sales activity; and residential and commercial property values continually increased. Consequently, property tax revenue increased significantly. The District's O&M expenditures (exclusive of the Reclamation Project) also increased at an average annual rate of 9%, mainly

due to expansion and addition of services. Over the past 10 years, the District added one associate engineer, and six full-time firefighter and paramedic positions; and implemented a supplemental traffic enforcement service.

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 a result of the downturn in the real estate market and the overall economy, it is anticipated that the District's property tax revenue will not increase at all in the next fiscal year; and the increases may be at lower rates thereafter. On the other hand, it is possible that the current financial downturn may be followed by an inflationary period during which O&M expenses may increase at high rates. 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 same amount available for discretionary projects over the next 15 years. However, if for example, O&M expenses increase at a rate which is 3% higher than the increase in revenues, then in approximately 10 years there would be no annual discretionary revenue available.

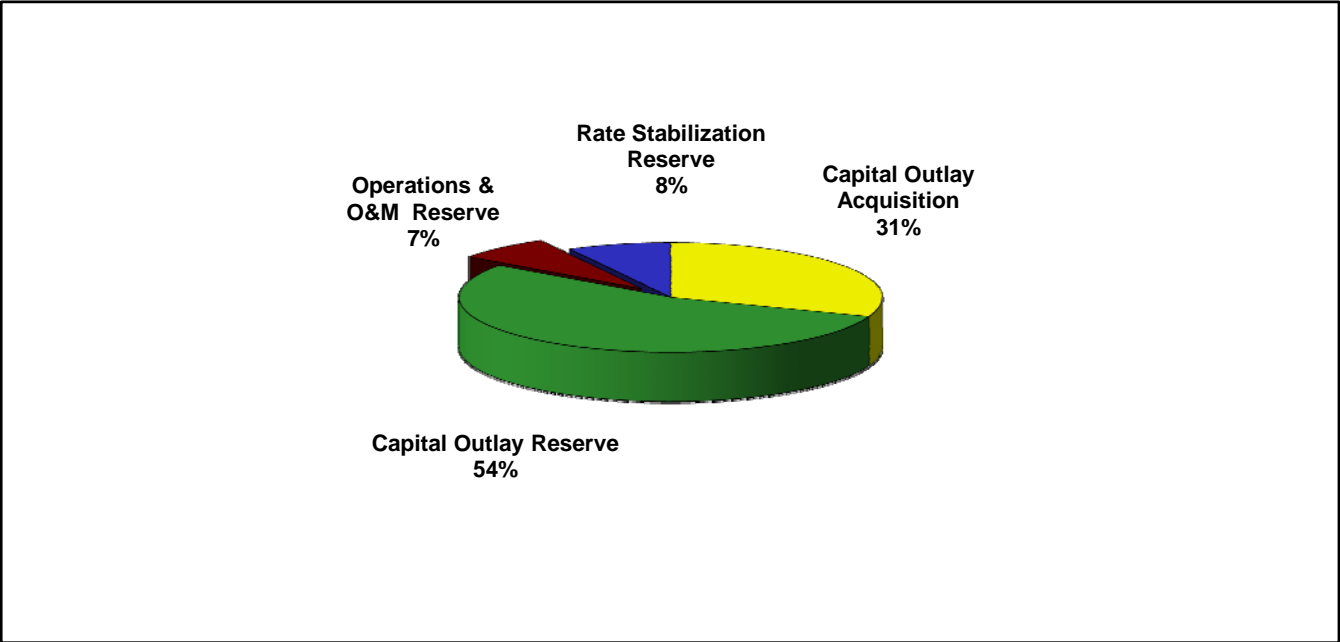
Appendix A
PBCSD LONG TERM FINANCIAL PLAN
DESIGNATION OF CURRENT \$13,678,000 CASH BALANCE

1. General Funds:

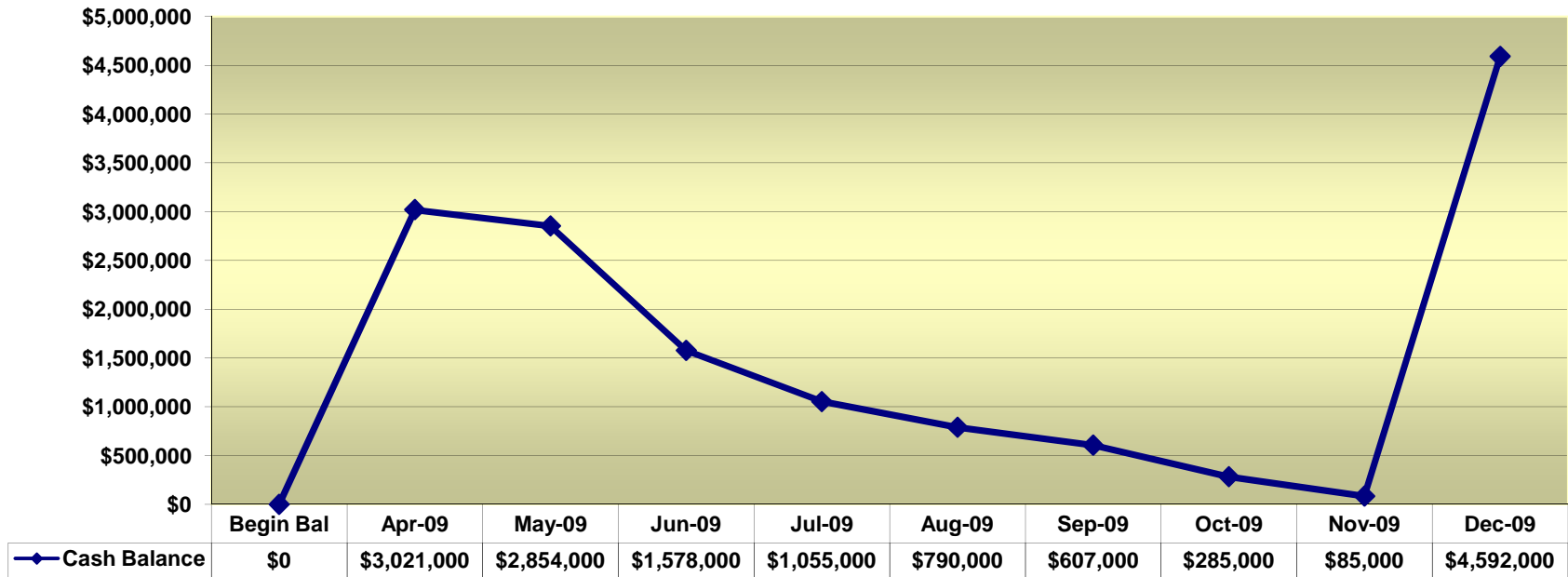
A. Operations	\$0
B. O&M Reserve	986,000
C. Rate Stabilization Reserve	<u>1,079,000</u>
Total	<u><u>\$2,065,000</u></u>

2. Capital Outlays:

A. Capital Outlay Acquisition Fund	\$ 4,200,000
B. Capital Outlay Reserve	7,413,000
C. Special Projects Reserve	<u>0</u>
Total	<u><u>\$11,613,000</u></u>



**Appendix B
PBCSD LONG TERM FINANCIAL PLAN
GENERAL FUND SHORT TERM CASH FLOW PROJECTION
APRIL - DECEMBER 2009**



	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Beginning Balance	\$0	\$3,021,000	\$2,854,000	\$1,578,000	\$1,055,000	\$790,000	\$607,000	\$285,000	\$85,000
Revenue	4,418,000	150,000	248,000	163,000	200,000	310,000	113,000	150,000	6,040,000
Total Expenditures	1,397,000	317,000	1,524,000	686,000	465,000	493,000	435,000	350,000	1,533,000
Ending Balance	\$3,021,000	\$2,854,000	\$1,578,000	\$1,055,000	\$790,000	\$607,000	\$285,000	\$85,000	\$4,592,000

Appendix C

ANNUAL CASH FLOW PROJECTION AND ALLOCATION OF FUTURE REVENUE

REVENUES:	FY 2009-10
<hr/>	
Property Taxes	\$ 10,000,000
User Fees:	
Sewer	735,000
Fire	195,000
Solid Waste	540,000
Interest	300,000
Other	255,000
Reimbursements	<hr/> 450,000
TOTAL REVENUES	12,475,000
O&M EXPENDITURES:	
<hr/>	
Personnel	1,830,000
Other O&M	1,750,000
Contractual Services:	
Fire Protection	4,200,000
Sewer Treatment	1,080,000
Garbage Basic Service	540,000
Supp Vehicle Code Enforcement	<hr/> 175,000
TOTAL O&M EXPENDITURES	9,575,000
REVENUES OVER O&M EXP.	<hr/>\$ 2,900,000
AVAILABLE FOR CAPITAL OUTLAYS / RESERVE FUNDS:	
<hr/>	
O&M RESERVE	\$ 50,000
RATE STABILIZATION	50,000
CAPITAL OUTLAYS	1,500,000
SPECIAL PROJECTS/ ADDITIONAL SERVICES	<hr/> 1,300,000
TOTAL	<hr/>\$ 2,900,000

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

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	FISCAL YEAR							
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
BEGINNING BALANCE	\$7,413,000	\$7,730,000	\$6,954,000	\$6,754,000	\$6,867,000	\$6,563,000	\$6,391,000	\$6,558,000
REVENUES:								
Annual Revenue Allocation	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Reimb/Contributed Capital	120,000	55,000	0	90,000	12,000	95,000	65,000	95,000
TOTAL REVENUES	1,620,000	1,555,000	1,500,000	1,590,000	1,512,000	1,595,000	1,565,000	1,595,000
EXPENDITURES:								
Long-Term Capital								
Outlay Plan Items (*)	1,303,000	2,331,000	1,700,000	1,477,000	1,816,000	1,767,000	1,398,000	1,414,000
TOTAL EXPENDITURES	1,303,000	2,331,000	1,700,000	1,477,000	1,816,000	1,767,000	1,398,000	1,414,000
REVENUES OVER EXP.	317,000	(776,000)	(200,000)	113,000	(304,000)	(172,000)	167,000	181,000
ENDING BALANCE	\$7,730,000	\$6,954,000	\$6,754,000	\$6,867,000	\$6,563,000	\$6,391,000	\$6,558,000	\$6,739,000

Notes:

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

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

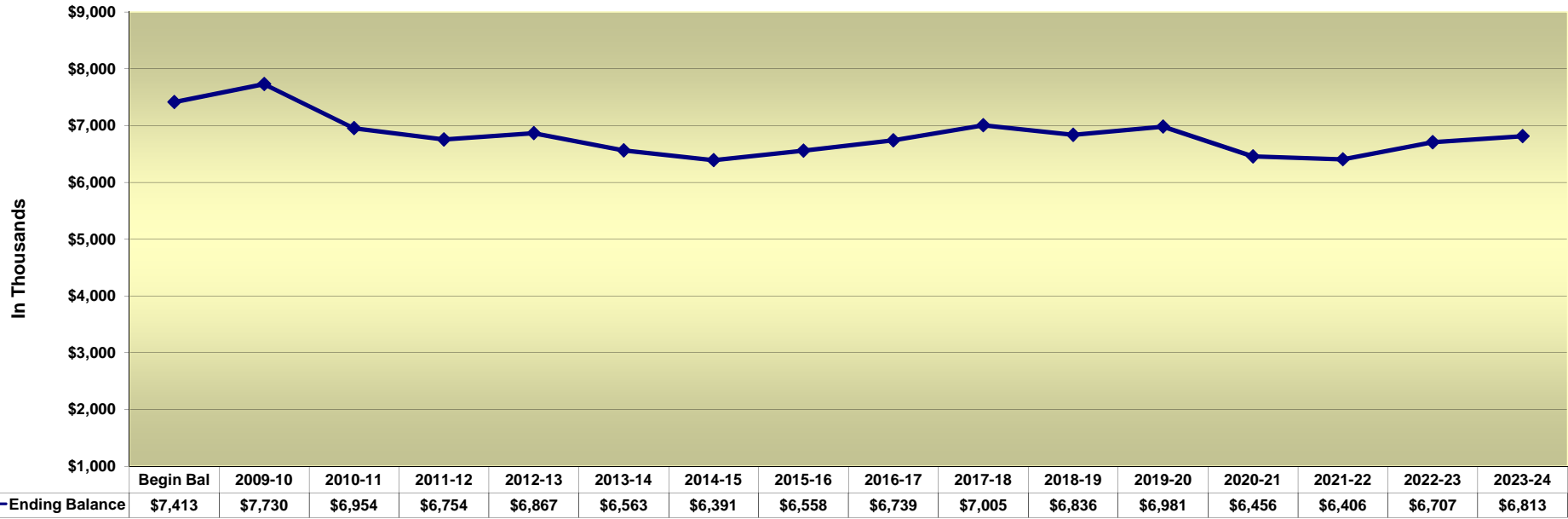
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	FISCAL YEAR						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
BEGINNING BALANCE	\$6,739,000	\$7,005,000	\$6,836,000	\$6,981,000	\$6,456,000	\$6,406,000	\$6,707,000
REVENUES:							
Annual Revenue Allocation	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Reimb/Contributed Capital	95,000	0	42,000	0	0	40,000	50,000
TOTAL REVENUES	1,595,000	1,500,000	1,542,000	1,500,000	1,500,000	1,540,000	1,550,000
EXPENDITURES:							
Long-Term Capital							
Outlay Plan Items (*)	1,329,000	1,669,000	1,397,000	2,025,000	1,550,000	1,239,000	1,444,000
TOTAL EXPENDITURES	1,329,000	1,669,000	1,397,000	2,025,000	1,550,000	1,239,000	1,444,000
REVENUES OVER EXP.	266,000	(169,000)	145,000	(525,000)	(50,000)	301,000	106,000
ENDING BALANCE	\$7,005,000	\$6,836,000	\$6,981,000	\$6,456,000	\$6,406,000	\$6,707,000	\$6,813,000

Notes:

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

**Appendix D
PBCSD LONG TERM FINANCIAL PLAN
CAPITAL OUTLAY RESERVE FUND BALANCES, REVENUES AND EXPENDITURES
FY 2009-10 THROUGH FY 2023-24**



	2009-10	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
Beginning Balance	\$7,413,000	\$7,730,000	\$6,954,000	\$6,754,000	\$6,867,000	\$6,563,000	\$6,391,000	\$6,558,000	\$6,739,000	\$7,005,000	\$6,836,000	\$6,981,000	\$6,456,000	\$6,406,000	\$6,707,000
Revenue	1,620,000	1,555,000	1,500,000	1,590,000	1,512,000	1,595,000	1,565,000	1,595,000	1,595,000	1,500,000	1,542,000	1,500,000	1,500,000	1,540,000	1,550,000
Total Expenditures	1,303,000	2,331,000	1,700,000	1,477,000	1,816,000	1,767,000	1,398,000	1,414,000	1,329,000	1,669,000	1,397,000	2,025,000	1,550,000	1,239,000	1,444,000
Ending Balance	\$7,730,000	\$6,954,000	\$6,754,000	\$6,867,000	\$6,563,000	\$6,391,000	\$6,558,000	\$6,739,000	\$7,005,000	\$6,836,000	\$6,981,000	\$6,456,000	\$6,406,000	\$6,707,000	\$6,813,000

Appendix E
Revenue and Expenditure Projection over 15 years
Under Two Assumptions

