

# **PEBBLE BEACH COMMUNITY SERVICES DISTRICT**

# **LONG-TERM FINANCIAL PLAN**

**March 25, 2022**



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**OBJECTIVES**

The Long-Term Financial Plan of the Pebble Beach Community Services District (PBCSD) has been prepared with the following objectives:

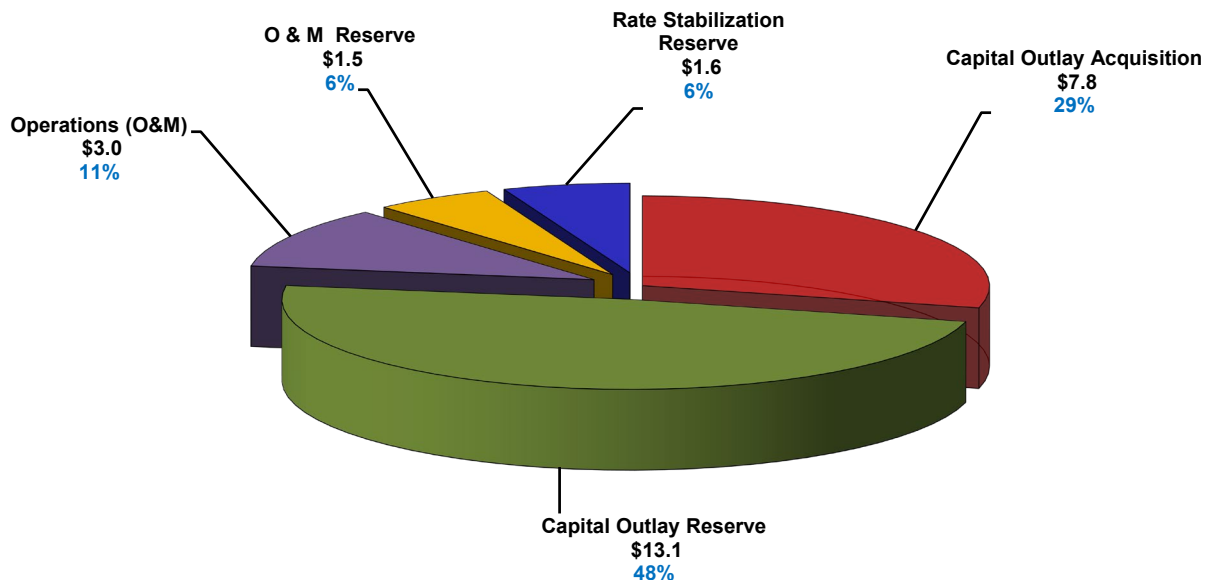
- Identify the District’s current and estimated future resources to finance operations (O&M) and capital outlays.
- Provide a funding method for the District’s 15-Year Capital Outlay Program (COP) on a “pay-as-you-go” basis.
- Set criteria and target levels for reserves designated for various purposes.
- Provide a projection of the District's long-term financial position.

**SUMMARY**

**CURRENT RESOURCES AND DESIGNATIONS**

The District has approximately **\$27 million** in cash and investments as of March 1, 2022. This amount is proposed to be designated as presented in the chart below and explained as follows:

**DESIGNATION OF CURRENT \$27 MILLION CASH BALANCE**



### 1. Operations (O&M)

The **\$3 million** designated for operations is based on the cyclical revenue flow and O&M expenses. The revenue inflow to the District does not evenly match monthly the O&M expenses. The District receives most of its annual revenue twice a year, in December and April. The recommended amount is expected to finance the operations for March through December 2022. A short-term cash flow projection is provided in **Appendix A**.

### 2. Capital Acquisition Fund

The capital outlays and other construction projects that are planned to be completed in the remaining part of the current fiscal year or rolled over to the next fiscal will be financed with the **\$7.8 million** allocated to the Capital Acquisition Fund. This amount includes \$2.8 million for sewer pump station rehabilitations, sewer line replacements, and other equipment; \$1.6 million for the PBCSD 1/3 share of Carmel Area Wastewater District (CAWD) Treatment Plant capital improvements; and \$3.4 million for undergrounding projects.

### 3. Reserves

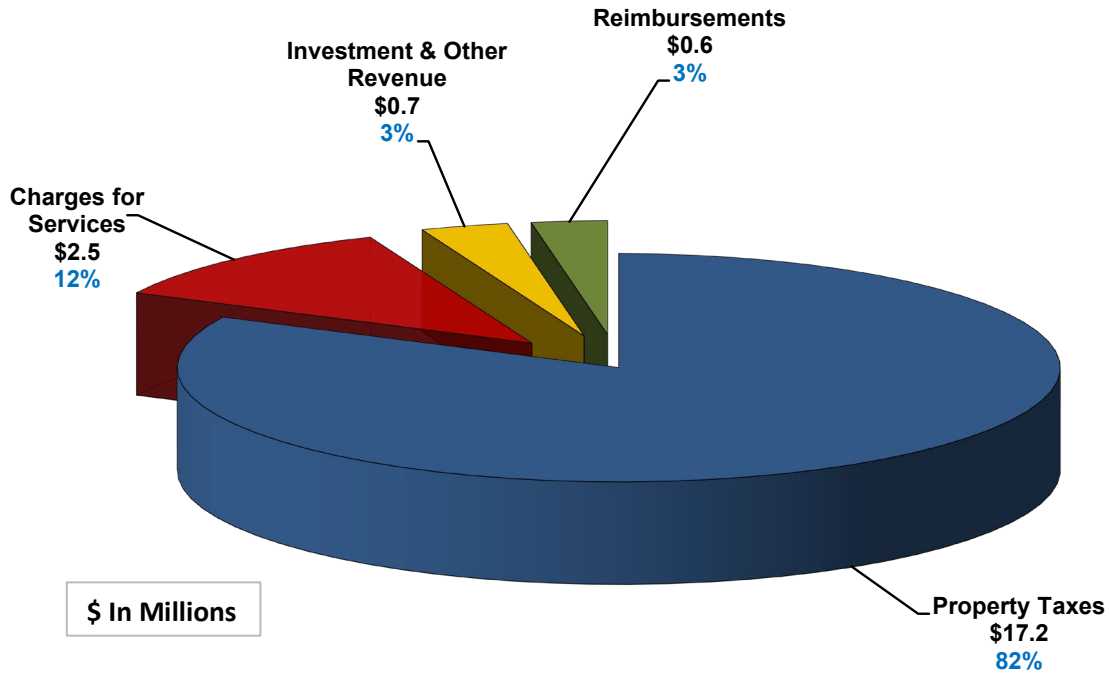
According to District policies, the **Operating (O&M) Reserve** is set at **\$1.5 million** which is **10%** of the current O&M Budget. The **Rate Stabilization Reserve** is at **\$1.6 million** which is **50%** of the amount budgeted for wastewater operations.

The **Capital Outlay Reserve** amount of **\$13.1 million** has been determined by a methodology using estimated cost and useful life of the capital outlays, with the exception of undergrounding projects, as explained in more detail in this report.

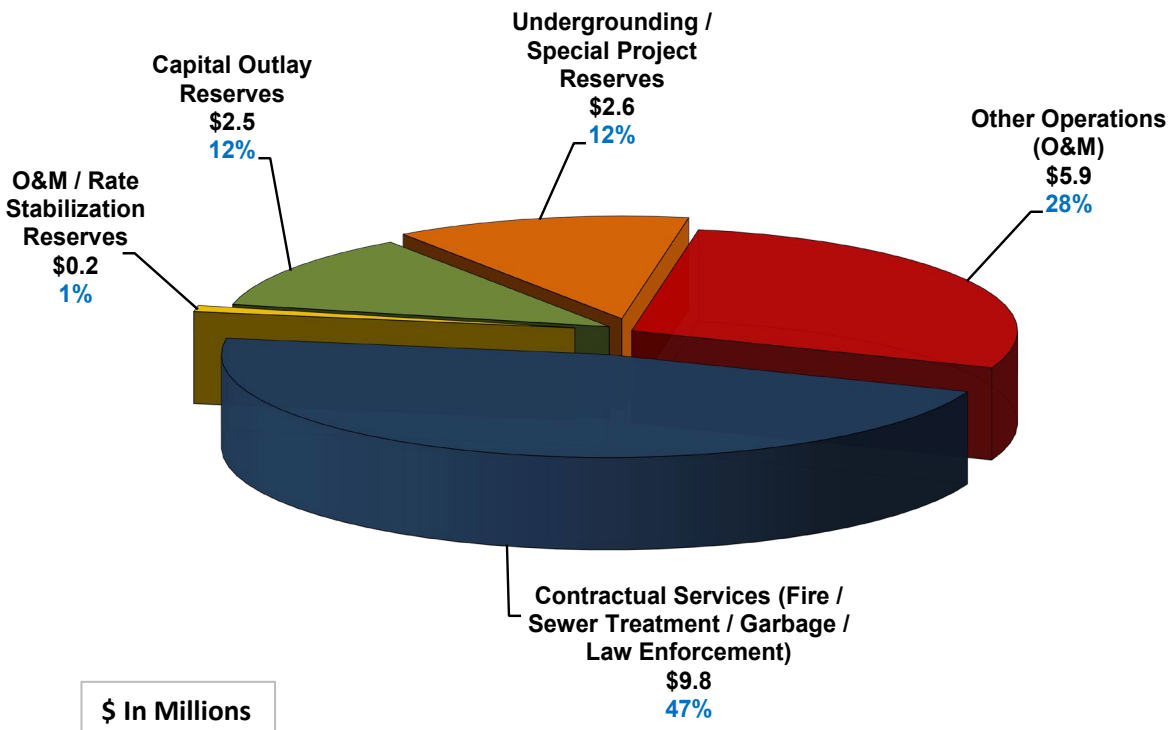
In addition to the \$3.4 million in the Capital Acquisition Fund, the 2022 Long-Term Capital Outlay Plan (COP) includes \$30 million of undergrounding. This amount is **\$11.5 million** less than the prior year's plan allocation of \$41.5 million due to adjustments made for the remaining three phases of main line undergrounding. The District may accomplish these projects on a pay-as-you-go basis as illustrated in this report.

**ESTIMATED FUTURE REVENUE AND DESIGNATIONS**

The following chart displays the District’s estimated \$21 million annual revenue by source.



The proposed allocation of \$21 million future annual revenue is presented in the chart below and explained as follows:



Currently, District's annual revenues exceed its annual O&M expenses (excluding depreciation) by **\$5.1 million**. A portion of this amount will be needed to maintain the reserves and to pay for required capital outlays, and a portion is expected to be available to finance special projects such as undergrounding of overhead utilities.

### **Operations (O&M)**

The District's annual revenue is sufficient to finance its contractual services (\$9.8 million) and other O&M expenses (\$5.9 million) over the next 15 years. The revenue in excess of the O&M expenses can be allocated as described in the following "Reserves" section.

#### **1. Reserves**

The plan includes an annual allocation of **\$100,000** each to the **O&M Reserve** and the **Rate Stabilization Reserve** to maintain them at 10% of the O&M budget and 50% of the wastewater operations budget, respectively.

An annual allocation of **\$2.5 million** calculated for the **Capital Outlay Reserve** using the cost and useful life of each item included in the Long-Term COP. The methodology used is further explained in the "Background" section in this report.

**Special Projects/Undergrounding/Building Reserves:** It is estimated that **\$2.6 million** in annual revenue will be available that may be used to finance the \$30 million in undergrounding projects over the 15-year term. The Long-Term COP includes three phases of \$10 million main line undergrounding projects every four years (at annual costs of \$200,000, \$200,000, \$4.8 million, and \$4.8 million). These projects can be financed with the understanding that in some years the reserves may temporarily fall below the fully funded requirement, identified in this Long-Term Financial Plan, while the money is saved for the next undergrounding project. These temporary deficits are reported as negative numbers in the following table under the column heading "Excess / (Deficient) Funding for Special Projects Reserve."

<b>Fiscal Year Ending</b>	<b>Required Capital Reserve based on Proposed Plan *</b>	<b>Capital Reserve Balance</b>	<b>Excess / (Deficient) Funding for Special Projects Reserve</b>
<b>\$ In Millions</b>			
2021-22	\$14.5	\$13.1	(\$1.4)
2022-23	\$11.7	\$12.6	\$1.0
2023-24	\$11.4	\$14.8	\$3.4
2024-25	\$9.8	\$11.0	\$1.2
2025-26	\$8.4	\$7.4	(\$1.0)
2026-27	\$8.2	\$9.6	\$1.4
2027-28	\$9.0	\$12.8	\$3.8
2028-29	\$10.0	\$11.6	\$1.6
2029-30	\$11.0	\$10.3	(\$0.6)
2030-31	\$11.7	\$13.5	\$1.8
2031-32	\$12.1	\$16.3	\$4.2
2032-33	\$12.7	\$14.7	\$2.0
2033-34	\$13.3	\$13.1	(\$0.2)
2034-35	\$12.9	\$15.3	\$2.4
2035-36	\$13.9	\$18.8	\$5.0
2036-37	\$15.0	\$22.5	\$7.6

\* Required Capital Reserve based on pay-as-you-go financing of capital outlays provided in the Long-Term COP (including Undergrounding Projects).

The **Appendix B** on page 12 provides the estimated annual revenues, capital expenditures, and balances for the District reserve balances over the term of the proposed Long-Term Financial Plan. The **Appendix C** on page 14 is a visual representation of the table above.

### CONCLUSION

The District is expected to maintain financial stability while continuing with its increased undergrounding program without material risk over the next 15 years. Due to various economic factors, assumptions used, and the length of the time period, it is recommended the District continue with its practice of updating its Long-Term Capital Outlay Program and Financial Plan annually and make adjustments as needed.

### ASSUMPTIONS MADE

The following are the assumptions and concepts used to develop the Plan:

- All capital outlays, with the exception of Reclamation assets, will be financed with the District's own resources on a pay-as-you-go basis (no debt financing).
- A total of \$8.2 million in Reclamation assets (Distribution System and Forest Lake Reservoir) will be fully financed by the Reclamation Project.
- At the end of the 15 years, the District will continue to be in existence and adequate reserves will be available for future periods.
- The costs included in the Long-Term COP are based on estimated current costs and the revenues and expenditures projected in the Long-Term Financial Plan have not been increased over time. If the District revenues increase at the same rate as its O&M expenditures, the amount available for the required capital outlays, undergrounding, and other discretionary projects will also increase at the same rate.

### GASB 54 REPORTING IMPLEMENTATION

The Governmental Accounting Standards Board (GASB) Statement 54 requires the District to report the fund balance (the difference between assets and liabilities) of the *governmental funds* in the following categories on its annual financial statements.

- 1) **Non-spendable Fund Balance:** Amounts that cannot be spent due to form; for example, inventories and prepaid amounts.
- 2) **Restricted Fund Balance:** Amounts constrained for a specific purpose by external parties (i.e. creditors, debt covenants, grantors, contributors, laws and regulations of other governments), as well as enabling legislation.
- 3) **Committed Fund Balance:** Amounts constrained for a specific purpose by a formal action of a government's highest level of decision-making authority. In

contrast to the “restricted” fund balance, the amounts in the committed fund balance can be removed or changed by a formal action of the same authority.

- 4) **Assigned Fund Balance:** Amounts constrained by the government’s intent to use funds for a specific purpose that are not otherwise non-spendable, restricted or committed. The decision to assign amounts can be made by a governing board or a body or official that has been delegated authority. Actions to remove or modify assignments therefore are not as strict.
- 5) **Unassigned Fund Balance:** The residual amount which represents the fund balance that has not been classified as non-spendable, restricted, committed or assigned.

*Since GASB 54 applies only to the Financial Statements of the Governmental Funds, the amounts have been separately presented for the governmental and proprietary funds in the table below. The adoption of the plan will include the reporting of governmental funds in the below categories in the District’s annual financial statements.*

Board Designation	Amount on 3/1/2022	Proprietary Funds	Governmental Funds	GASB 54 Reporting
<b>\$ In Millions</b>				
Operations	\$3.0	\$1.1	\$1.9	Unassigned
O&M Reserves	\$1.5	\$0.5	\$1.0	Committed
Rate Stabilization Reserves	\$1.6	\$1.6	\$0.0	N/A
Capital Outlay Acquisition	\$7.8	\$4.2	\$3.6	Committed
Capital Outlay Reserves	\$13.1	\$8.1	\$5.0	Committed
<b>Total</b>	<b>\$27.0</b>	<b>\$15.5</b>	<b>\$11.5</b>	

### BACKGROUND

#### METHOD USED IN ALLOCATION OF DISTRICT RESOURCES FOR CAPITAL OUTLAYS

The following is an explanation of the District’s fund structure used in the allocation of resources for the District’s activities:



### **PBCSD FUND STRUCTURE**

State laws and accounting regulations require the local governments to use fund accounting, which involves maintaining and reporting resources and financial transactions separately for different types of activities. Accordingly, the District's accounting record statements are kept and annually reported in its financial statements in two main categories:

1. **Governmental Funds** are used to account for and report the activities which are mainly financed through property taxes. The District's general government (administration and engineering), fire protection/emergency medical, supplemental law enforcement, and utility undergrounding services comprise its governmental fund activities.
2. **Proprietary Funds** are used to account for and report the 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, and recycled water distribution services.

The assets and liabilities of each of the two main categories explained above are kept in separate subcategories either based on restrictions imposed by external sources (i.e. law, debt covenants, creditors, contributors, etc.), or designations made by the District Board pursuant internal policies. Currently, there are no external restrictions imposed on District resources. Internally, the District's cash and investments are accounted for in six subcategories designated according to the District's operational needs and reserve policies.

### **PBCSD DISCRETIONARY INTERNAL FUND DESIGNATIONS**

The purpose of the internal designations is to identify necessary financial resources to meet current operational and capital outlay needs; and to set aside necessary resources for future needs (reserves) for sustained economic stability of the District. The District's internal policies apply to both governmental and proprietary funds. To provide clarity in understanding the District's overall financial position, the funds are combined in the Long-Term Financial Plan.

The designations and the current reserve policies are as follows:

- 1) **Operations:** Designated to pay for ongoing operations and maintenance (O&M) expenses.
- 2) **O&M Reserve:** Maintained to be used in the case of catastrophic or unforeseen events. The O&M Reserve is maintained at 10% of the current year O&M budget.

Every year upon adoption of the final budget, the O&M Reserve balance is adjusted to meet the 10% criteria by transferring the necessary amount from Operations. If the O&M Reserve is used during a fiscal year, it is replenished to the appropriate level 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 and adjusted annually upon adoption of the final budget.
- 4) **Capital Outlay Acquisition:** Designated for the committed construction projects and other capital equipment included in the current fiscal year's budget. During the year, the amounts required for the budgeted capital projects are transferred from the Capital Outlay Reserve and the Special Projects Reserve funds described below into the Acquisition fund.
- 5) **Capital Outlay Reserve:** Established to set aside funds to finance the future capital outlays identified in the Long-Term COP with the exception of reclamation assets, which are financed by the Reclamation Project, and special projects described below.
- 6) **Special Projects Reserve:** Designated to hold the resources available to finance discretionary projects such as the undergrounding of overhead utilities and addition/expansion of services.

### **FINANCING METHOD FOR CAPITAL OUTLAYS**

The long-term plan is based on financing the capital outlays with a combination of current cash resources and future annual revenue.

The following method has been used in determining the capital outlay reserve amount:

- An annual allocation for each Long-Term COP item has been determined using the estimated cost and useful life of each item (current replacement cost divided by useful life).
- An initial deposit has been calculated by multiplying the annual allocation determined above by the age of each the item. The intent is to ensure that monies for all prior year allocations have been set aside for each COP item.

This methodology is based on financing the capital outlays on a “pay-as-you-go” basis. When future annual contributions are added to the initial deposit, monies needed for each item will

be ready in the scheduled acquisition year. The following example illustrates this concept:

The Long-Term COP, Exhibit "B", fiscal year 2024-25 includes replacement of Fire Medic Truck 22. The cost of the truck is \$1.4 million, and the useful life is 10 years. Therefore, the recommended annual savings is \$140,000 ( $\$1,400,000/10$  years). Since the current truck is eight years old, an initial allocation of \$1,120,000 ( $\$140,000 \times 8$  years) is placed in Capital Outlay Reserve for this item. When the annual \$140,000 contribution is added over the next two years, the full replacement amount will be available in the year 2024-25. Thereafter, annual contributions will continue to finance future replacements. Similar calculations have been made for all items listed in the COP.

### **VARIABLES TO MONITOR**

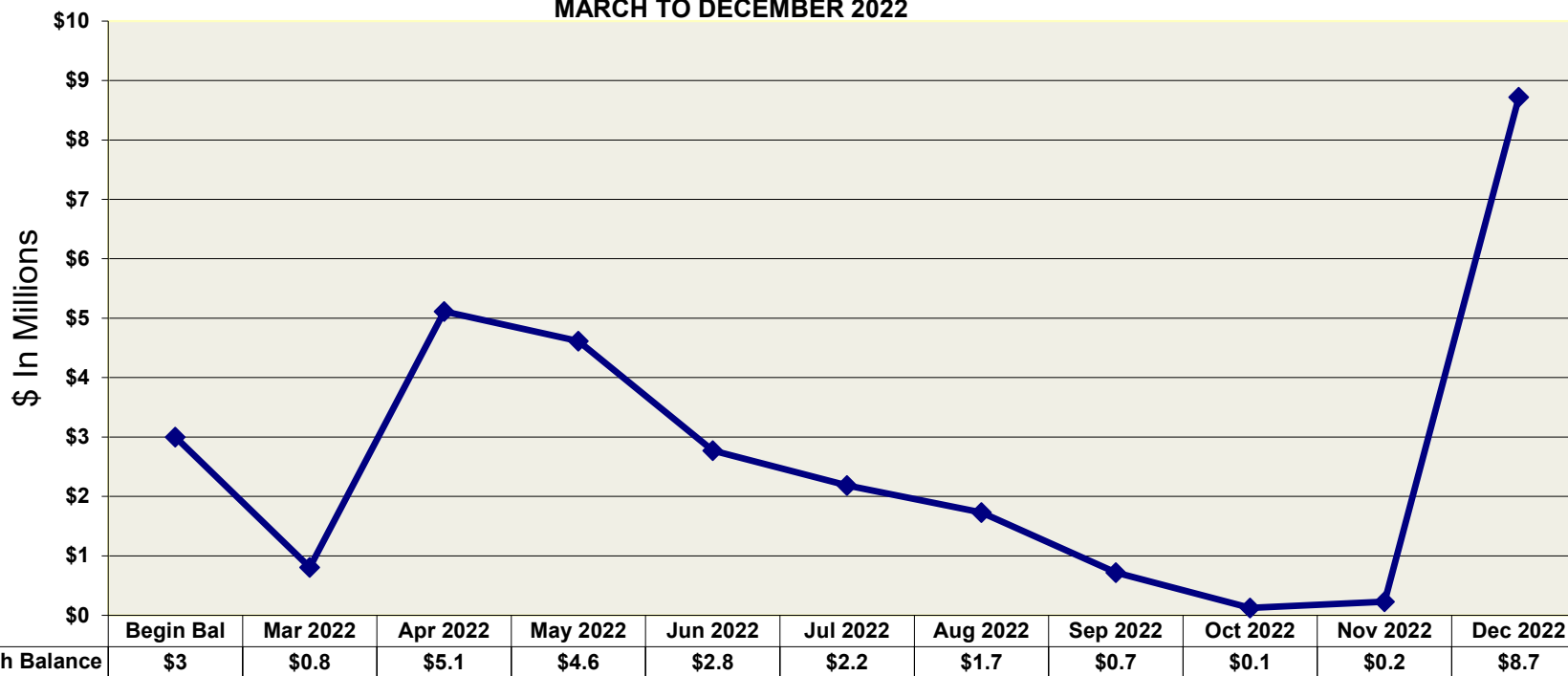
The resources that will be available for undergrounding of utilities and other discretionary projects may be impacted depending on changes in priorities and the following factors:

- 1) Availability of property taxes: The main revenue source of the District, property tax, makes up 82% of total current revenue. On two different occasions, the State shifted property tax revenue from enterprise special districts to help with its financial problems. The first shift, in fiscal year 1993-94, resulted in the permanent loss of over \$1 million in annual property tax revenue for the District. Another shift, resulted in a loss of an additional \$1.7 million over a two-year period (fiscal years 2004-05 and 2005-06) and ended in the beginning of fiscal year 2006-07 with constitutional protection for special districts thereafter. Since then, the State Legislative Analyst's Office had one unsuccessful proposal to authorize the counties to receive a portion of the water and wastewater district property taxes to finance certain responsibilities transferred to the counties from the State. Such a shift would have been allowed under the current law. Although lessened, there may always be the risk of property tax revenue loss for the District.

In addition to the State takeaways, the economy, in particular the changes in real estate market impact the District's property tax revenue. In fiscal year 2010-11 the property tax revenue declined as a result of the decline in the market and adjustments made in property valuations. The property tax revenue increased continually since then following the national expansionary monetary and fiscal policies. The future policies of the Federal Government and the Federal Reserve; as well as other economic conditions may impact assessed values and resulting property tax revenue which needs to be monitored and considered in future decision making.

- 2) The rate of change in other revenues and expenses: Over the last decade, the expenditures increased due to the expansion and addition of services. The District undertook new programs including: addition of a fourth firefighter on a fire truck (requires three personnel positions), 24/7 paramedic service from both fire stations, water rescue program, increased fire command personnel, additional fire ladder truck, increased commitment for open space clearance for fire protection, one additional maintenance department position, a traffic enforcement program, SCADA and other technology investments, community service events (i.e. annual household hazardous waste collection and emergency preparedness events), and undergrounding of utilities. The cost of fire service was also impacted due to changes in labor laws which prescribe the overtime rules and regular work hours for firefighting personnel and increases in pension and other retirement benefit costs. The increase in property tax revenue, the main funding source of the District, was high enough to finance the above-mentioned expansions in services.

**Appendix A**  
**PBCSD LONG-TERM FINANCIAL PLAN**  
**SHORT-TERM CASH FLOW PROJECTION**  
**MARCH TO DECEMBER 2022**



	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022
Beginning Balance	\$ 3,000,000	\$ 805,000	\$5,113,000	\$ 4,616,000	\$ 2,770,000	\$ 2,187,000	\$ 1,731,000	\$ 718,000	\$ 125,000	\$ 231,000
Revenue	427,000	6,500,000	79,000	435,000	151,000	131,000	152,000	73,000	653,000	10,897,000
Total Expenditures	2,622,000	2,192,000	576,000	2,281,000	734,000	587,000	1,165,000	666,000	547,000	2,410,000
Ending Balance	\$ 805,000	\$ 5,113,000	\$ 4,616,000	\$ 2,770,000	\$ 2,187,000	\$ 1,731,000	\$ 718,000	\$ 125,000	\$ 231,000	\$ 8,718,000

**APPENDIX B  
ANNUAL REVENUES, CAPITAL EXPENDITURES, AND RESERVE BALANCES**

	FISCAL YEAR							
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
<b>CAPITAL RESERVE BEGINNING BALANCE</b>		\$ 13,065,000	\$ 12,628,000	\$ 14,786,000	\$ 10,966,000	\$ 7,372,000	\$ 9,585,000	\$ 12,787,000
<b>REVENUES:</b>								
Annual Revenue Allocation								
Capital Outlays & Special Projects		5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000
<b>TOTAL REVENUES</b>		<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>
<b>CAPITAL EXPENDITURES:</b>								
Long-Term Capital Outlay								
Plan Items (*)		5,337,000	2,742,000	4,120,000	3,894,000	2,687,000	1,698,000	1,481,000
Undergrounding Projects		200,000	200,000	4,800,000	4,800,000	200,000	200,000	4,800,000
<b>TOTAL EXPENDITURES</b>		<b>5,537,000</b>	<b>2,942,000</b>	<b>8,920,000</b>	<b>8,694,000</b>	<b>2,887,000</b>	<b>1,898,000</b>	<b>6,281,000</b>
<b>REVENUES OVER EXPENDITURES</b>		<b>(437,000)</b>	<b>2,158,000</b>	<b>(3,820,000)</b>	<b>(3,594,000)</b>	<b>2,213,000</b>	<b>3,202,000</b>	<b>(1,181,000)</b>
<b>CAPITAL RESERVE ENDING BALANCE:</b>	<b>\$ 13,065,000</b>	<b>\$ 12,628,000</b>	<b>\$ 14,786,000</b>	<b>\$ 10,966,000</b>	<b>\$ 7,372,000</b>	<b>\$ 9,585,000</b>	<b>\$ 12,787,000</b>	<b>\$ 11,606,000</b>
Required Capital Outlay Reserve	14,500,000	11,663,000	11,421,000	9,801,000	8,407,000	8,220,000	9,022,000	10,041,000
Excess / (Deficient) Funding for Special Projects Reserve	(1,435,000)	965,000	3,365,000	1,165,000	(1,035,000)	1,365,000	3,765,000	1,565,000

**Notes:**

(\*): Recycled Water Distribution System Assets are financed through Reclamation Project reimbursements and are not included.

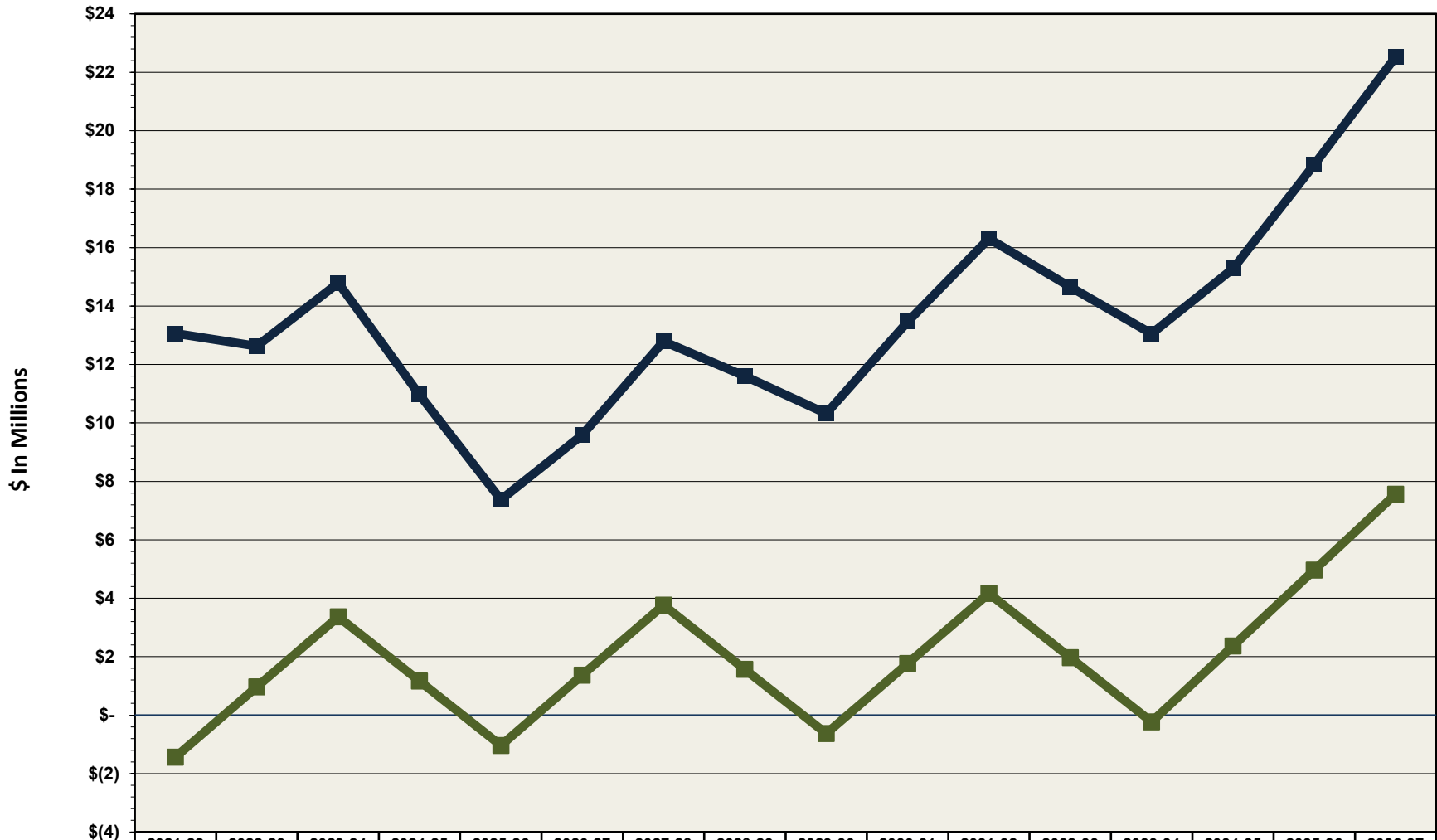
**APPENDIX B  
ANNUAL REVENUES, CAPITAL EXPENDITURES, AND RESERVE BALANCES**

	FISCAL YEAR							
	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37
<b>CAPITAL RESERVE BEGINNING BALANCE</b>	<b>\$ 11,606,000</b>	<b>\$ 10,320,000</b>	<b>\$ 13,467,000</b>	<b>\$ 16,303,000</b>	<b>\$ 14,655,000</b>	<b>\$ 13,056,000</b>	<b>\$ 15,278,000</b>	<b>\$ 18,844,000</b>
<b>REVENUES:</b>								
Annual Revenue Allocation								
Capital Outlays & Special Projects	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000
<b>TOTAL REVENUES</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>	<b>5,100,000</b>
<b>CAPITAL EXPENDITURES:</b>								
Long-Term Capital Outlay								
Plan Items (*)	1,586,000	1,753,000	2,064,000	1,948,000	1,899,000	2,878,000	1,534,000	1,417,000
Undergrounding Projects	4,800,000	200,000	200,000	4,800,000	4,800,000	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>6,386,000</b>	<b>1,953,000</b>	<b>2,264,000</b>	<b>6,748,000</b>	<b>6,699,000</b>	<b>2,878,000</b>	<b>1,534,000</b>	<b>1,417,000</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>(1,286,000)</b>	<b>3,147,000</b>	<b>2,836,000</b>	<b>(1,648,000)</b>	<b>(1,599,000)</b>	<b>2,222,000</b>	<b>3,566,000</b>	<b>3,683,000</b>
<b>CAPITAL RESERVE ENDING BALANCE:</b>	<b>\$ 10,320,000</b>	<b>\$ 13,467,000</b>	<b>\$ 16,303,000</b>	<b>\$ 14,655,000</b>	<b>\$ 13,056,000</b>	<b>\$ 15,278,000</b>	<b>\$ 18,844,000</b>	<b>\$ 22,527,000</b>
Required Capital Outlay Reserve	10,955,000	11,702,000	12,138,000	12,690,000	13,291,000	12,913,000	13,879,000	14,962,000
Excess / (Deficient) Funding for Special Projects Reserve	(635,000)	1,765,000	4,165,000	1,965,000	(235,000)	2,365,000	4,965,000	7,565,000

**Notes:**

(\*): Recycled Water Distribution System Assets are financed through Reclamation Project reimbursements and are not included.

### Appendix C District Reserve Balances



Required Capital Outlay Reserve	\$13.1	\$12.6	\$14.8	\$11.0	\$7.4	\$9.6	\$12.8	\$11.6	\$10.3	\$13.5	\$16.3	\$14.7	\$13.1	\$15.3	\$18.8	\$22.5
Excess / (Deficient) Funding for Special Projects Reserve	\$(1.4)	\$1.0	\$3.4	\$1.2	\$(1.0)	\$1.4	\$3.8	\$1.6	\$(0.6)	\$1.8	\$4.2	\$2.0	\$(0.2)	\$2.4	\$5.0	\$7.6