



## **STAFF REPORT**

**TO:** Board of Commissioners  
**FROM:** Linda Hendy, Accountant  
**DATE:** August 27, 2019  
**SUBJECT:** **2018/19 and 2019/2020 Reserve Funding and Use**

### **Recommendation / Proposed Motion**

- Recommendation: Review and recommend final reserve funding and use for 2018/19 fiscal year and adjustment for 2019/20 fiscal year.
- Motion: Approve final reserve funding and use as shown on Attachment 1.

### **Policy Implications**

Governmental Accounting Standards Board (GASB) Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions require approval of assigned fund balance.

### **District Major Objective/Goal**

Objective #2 Expand Money Generated Opportunities to Support Harbor Operations that are Consistent with Affordability and Accessibility for the Public.

Objective #4 Plan for Long-term Financial Sustainability

### **Fiscal Implications / Budget Status**

**Preliminary** financial statements indicate that operating reserves will increase by \$920,100 (prior to any specified funding by the Board) for the recently completed 2018/19 fiscal year. This amount, as adjusted for final entries, will be available to fund specified and/or operating reserves. This is an improvement of \$1,265,700 over the revised budget that projected a use of (\$345,600) of operating reserves prior to specified use and reserve funding. The projection presented with the 2019/20 budget document shows we would generate \$50,269 prior to reserve designations being placed in operating reserves.

### **Alternatives Considered**

- None at this time.

### **Background**

The Harbor District has exceeded expectations as compared to the budget with excess cash flow of approximately \$920,100 as follows:

- Revenues above budget amounts of \$409,000 received by the District were primarily due to:
  - Non-Operating Revenue (primarily property taxes & interest income) exceeded budget by \$302,500 or 7.94%. Operating Revenue exceeded budget by \$106,500 or 4.67%, including a \$15,000 Chevron Environmental permit.
- Operating expenses were kept below budget by \$326,200 or 6.93%.
  - Salary/Wages/Benefits were kept below budget by \$99,400 or 3.06%
- Additional savings of \$530,500 were achieved as major maintenance and capital project costs were less than budget.
  - Additional NPP Grant funds of \$25,000 were received for participating in Port-wide FEMA drill.

*See 2018/2019 4<sup>th</sup> Quarter Comparative Profit & Loss Statement Consolidated and Special Project & Capital Project Activity Report, Consent Item G, for a more detailed analysis of preliminary 2018/2019 operations.*

### **Discussion**

During the 2018/19 budget process, the Board of Commissioners determined to set-aside available funds as specified reserves (aka “assigned funds”). These reserves are allocated to the Enterprise and General Fund as determined by an annual allocation of revenues and expenditures according to activity type.

Based on 2018/19 preliminary financial statements, the District’s estimated amount generated from 2018/2019 is \$920,100 and is available to place into reserves. Such amounts are assigned to operating reserves, unless the Board allocates amounts to specified reserves.

### **Reserve Use (Staff’s Recommendation):**

#### **2018/2019**

We budgeted to use \$278,600 of specified reserves for 2018/2019 expenses. Actual expenditures relating to the use of these budgeted specified reserves were less. Accordingly, we used \$136,983, a reduction of \$141,617.

#### **2019/2020**

The approved budget uses \$736,500 of specified reserves. It is recommended that we present any budget changes related to uses at a later point in time when we have more perspective on the 2019/2020 operations.

### **Reserve Funding (Staff’s Recommendation):**

#### **2018/2019**

The 2018/2019 revised budget approved \$85,000 of additional funding of specified reserves.

Based on preliminary reports, we propose the unused balance of reserve funds from the 2018-19 budget be carried over to 2019-20 as follows:

- \$32,900 Utility Replacement Reserve: Sewer Treatment Plant

- \$25,000 Facilities Reserve: Gear Storage
- \$20,000 Facilities Reserve: Water/Sewer Rate Study
- \$50,000 New reserve account, Harbor Vessel Replacement

Additionally, per our Code of Ordinances, Chapter Four 4.330, 25% of the gross income from moorage and anchorage shall be set aside to fund LCM Reserve (maintenance and eventual replacement). Net income of \$156,820 for mooring revenue would result in \$39,205 total reserve funding.

- \$39,205 LCM Maintenance Reserve

Commissioners Discretionary has unused funds in the amount of \$600. It was recommended to have these funds placed in Commissioners Discretionary Reserve Fund for use in 2019-20 for the "History Book" project.

**This results in reserve funding in the amount of \$167,705 for 2018-2019.**

### **2019/2020**

The 2019/2020 approved budget identified funding of additional specified reserves.

- \$150,000 Underground Storage Tank

**This results in reserve funding in the amount of \$150,000 for 2019-2020.**

**Total Identified combined Reserve Funding in the amount of \$317,705 for 2018/19-2019/20.**

The District has many needs in addition to the 2019/2020 budgeted items, which include:

- Loss of revenue related to decommissioning of PG&E
- Avila Beach Sewer Treatment Plant
- Employee Pension Liabilities
- Funding of the Health insurance for retired employees' obligation (OPEB)
- Additional funding of our PERS obligations
- Pier improvements
- Projects identified as "Unfunded" on pages 58-59 of the 2019-2020 Budget

### **Conclusion**

The Board has the final decision as to the reserve funding/use. Staff is recommending a carryover of unused reserve funds, Commissioners discretionary fund balance, LCM required reserve funding, and 2019-20 budgeted reserve funding listed above. It is recommended that the Board consider the other items after our financial workshop or mid-year review to make decisions as to the use of or the additional funding of specified reserves.

Attachment(s): 1. Staff's Recommended Reserve Funding and Use  
2. 4<sup>th</sup> Qtr. Financial with Staff recommended Reserve Funding and Use  
3. Reserved Funding Itemized Projections  
4. "Unfunded Major Maintenance and Capital Projects" as listed in the 2018-19 Budget