

CITY OF SANTA BARBARA WATERFRONT DEPARTMENT

MEMORANDUM

Date: March 19, 2015
To: Harbor Commission
From: Scott Riedman, Waterfront Director
Subject: **Fiscal Year 2016 and 2017 Operating Budget Recommendation**

RECOMMENDATION: That Harbor Commission:

- A. Receive a staff presentation on the Waterfront Department's proposed Fiscal Year 2016 and Fiscal Year 2017 budget submittal;
- B. Recommend approval of a \$25 per linear foot slip transfer fee increase in Fiscal Year 2016 and Fiscal Year 2017 on all slip categories except 20 and 25 foot slips;
- C. Recommend approval of a 2% slip fee increase in Fiscal Year 2016 and Fiscal Year 2017;
- D. Recommend approval of a \$5 increase to the cost of Annual Waterfront Parking Permits;
- E. Recommend approval of a \$0.10 per foot increase in the Visitor Slip Fee;
- F. Recommend the establishment of a Harbor Patrol Vessel Replacement Fund; and,
- G. Forward a recommendation to City Council for approval of the Waterfront Department's proposed Fiscal Year 2016 and Fiscal Year 2017 budgets and incorporation into the City budget process.

BACKGROUND:

The Harbor Commission reviewed and approved the Waterfront Capital Program for Fiscal Year 2016 and Fiscal Year 2017 at the meeting of October 23, 2014.

The Harbor Commission received a Fiscal Year 2015 Mid-Year Budget review on January 22, 2015, including a status report on actual revenues and expenditures from July 1 - December 31, 2014, as well as a seasonally adjusted estimate for year-end revenue totals.

Staff met with Harbor Commission Budget Subcommittee Member Sloan on February 5, 2015 to discuss the Fiscal Year 2016 and 2017 budgets including program expenditures and capital projects.

On February 19, 2015, the Harbor Commission received a written report and presentation providing an overview of the Fiscal Year 2016 and 2017 budgets. The presentation included information on the current fiscal year, revenue and expenditure projections, funding sources for the department's capital projects, and approved capital projects for Fiscal Year 2016 and 2017.

On March 2, 2015, Department staff reviewed the draft budget submittal with the City Administrator and Finance Department staff.

On March 6, 2015, the Harbor Commission Budget Subcommittee (Commissioners Sloan, Power, and MacIntosh) met to review and discuss the proposed budget for Fiscal Year 2016 and 2017 including proposed fee adjustments and debt service obligations.

DISCUSSION:

As mentioned above, proposed revenue projections and proposed expenditures for Fiscal Year 2016 and 2017 were presented and discussed with the Harbor Commission Budget Committee and the Harbor Commission. A Summary of the proposed revenue projections and proposed expenditures can be found in Attachment 1.

The Department is proposing the following fee adjustments for Fiscal Year 2016:

- Slip transfer fee increase of \$25 per foot (except 20' and 25' vessels) in Fiscal Year 2016. The slip transfer fee currently stands at \$375 per foot and would move to \$400 per foot; and,
- Slip fee increase of 2% in Fiscal Year 2016. Annual slip fee increases are a requirement of the Marina 1 construction loan agreement with the Division of Boating and Waterways.
- Parking permit fee increase of \$5 for general public (\$100) and slip holders (\$75). The annual Parking Permit fee was last increased in Fiscal Year 2008.
- Visitor Fee Increase of \$0.10 per foot. The current visitor fee stands at \$0.90 and would move to \$1.00 per foot. The Visitor Fee was last increased in Fiscal Year 2010.

The Department is proposing the following fee adjustments for Fiscal Year 2017:

- Slip transfer fee increase of \$25 per foot (except 20' and 25' vessels) in Fiscal Year 2017; and,
- Slip fee increase of 2% in Fiscal Year 2017. Annual slip fee increases are a requirement of the Marina 1 construction loan agreement with the Division of Boating and Waterways.

Marina Survey

As with previous years, a survey of 18 marinas was conducted in February and is used to determine how City of Santa Barbara slip rental rates and various other fees compare with other publicly-operated harbors. Santa Barbara marina fees are generally lower

than other harbors surveyed, particularly harbors south of Point Conception. More details of the survey will be presented at the Harbor Commission meeting.

Draft Six-Year Cash Flow Model

As with all budget submittals, staff includes a draft six-year cash flow model to identify Fiscal Year positive or negative trends, particularly to maintain compliance with the Department's loan coverage requirements and reserve requirements. The draft six-year cash flow model can be found as Attachment 2 and shows the Harbor Preservation Fund/Reserve for Capital remaining above the \$2 million required minimum. Staff is not recommending making any additional fee adjustments for Fiscal Year 2016 and 2017 beyond those mentioned above as Waterfront Department year-end revenues are expected to exceed budget expectations which could further improve the cash flow model. In general, the cash flow model was developed to include a 2% growth rate in revenues and expenditures in future years. The Waterfront Department will continue to pursue the idea of paying for Phase 8 of the Marina One Replacement Program in 2018 rather than using Division of Boating and Waterways loan funds.

Proposed Vessel Replacement Fund

The Waterfront Department proposes the establishment of a Vessel Replacement Fund in an effort to spread the cost of Harbor Patrol boat replacement over the long term. The idea is not a new one as the City's Motor Pool Division uses a formula to calculate replacement costs of all vehicles in the City fleet and develops a corresponding annual allocation for each department in order to fund those replacements. However, this Motor Pool approach, which is focused on automobiles, does not lend itself to accurately predicting replacement costs of Harbor Patrol Boats. Nevertheless, establishing a Vessel Replacement Fund now would be a good start and a vessel replacement formula could be established in the future to refine the annual allocation.

Harbor Patrol Boats 1 and 2 are over 30 years old and Boat 3 is over 15 years old. Most boats used with the frequency that Harbor Patrol uses its fleet would have exceeded their useful life by now. However, the vessels have been repowered and undergone significant hull maintenance periodically to extend their useful life. The proposed repower and hull work included in the FY 2016 – 2021 CIP will continue this effort and ensure reliable vessels for Harbor Patrol for the next several years.

At some time in the future these vessels will need to be taken out of service and replaced with new vessels. The capital outlay for vessel replacement would be at least \$500,000 even for the smallest boat which presents a significant impact on the Department's capital reserves. The establishment of a Vessel Replacement Fund would spread the cost out over a number of years and thus reduce the financial strain. The Fund could be established by creating a line item in the Facilities Harbor budget allocating \$50,000 a year to a reserve account established in the Waterfront's Reserve Fund.

If the Harbor Commission concurs, Staff will work with the Finance Department to establish the Fund and will report back to the Commission on its progress.

SUMMARY

The City's overall budget development and review process continues for several more months. City Council is expected to receive the submitted City Budget on April 21, 2015. Council review of City Department budgets will continue into May and early June with Council tentatively scheduled to adopt a final budget on June 23, 2015.

Attachments: 1. Summary of Projected Revenues and Expenditures
2. Draft Six-Year Cash Flow Model

Prepared by: Brian Bosse, Waterfront Business Manager

Proposed Revenue Projections and Expenditures
Fiscal Years 2016 and 2017

Revenue Assumptions for Fiscal Year 2016

Proposed revenues for FY 2016 appear in Table 1, below. Overall, staff is proposing a 6.6% increase in revenues over the FY 2015 budgeted amounts. However, it should be noted that the FY 2016 revenues are equal to a 0.8% decrease when compared to FY 2015 projected revenues.

Property Management: Both Harbor and Stearns Wharf Commercial have seen jumps in revenues of over 10% in the first six months of the fiscal year while food service at the Harbor and Stearns Wharf are up approximately 15% during the same period. Revenues from Cruise Ships will increase to approximately \$420,000 due to a slight increase in the number of cruise ships visiting Santa Barbara. Overall, Property Management is projected to increase by nearly 7.5%% next fiscal year.

Financial Management: The Finance Department has provided the Department with a projected slight decrease in interest earnings for FY 2016.

Parking Services: Parking revenues continue to remain strong and we have proposed a 13.9% increase in Parking Services revenue for FY 2016. However, it should be noted that the proposed amount is less than a 1.5% increase over the FY 2015 projected revenue.

Marina Management continues to post steady revenues and we are proposing a 2.9% increase for FY 2016.

Table 1: Waterfront Department Programs
FY 15 Budgeted Revenue vs. FY 16 Proposed Budget

| Program | FY 2015 Projection | FY 2015 Budget | FY 2016 Proposed Budget | % Change FY 15 vs.16 |
|--------------------------|-----------------------|-------------------|-------------------------------|----------------------------|
| Property Management | 5,222,433 | 4,737,609 | 5,091,282 | 7.5% |
| Financial Management (1) | 92,462 | 117,000 | 116,540 | -0.4% |
| Parking Services | 2,636,154 | 2,327,416 | 2,651,934 | 13.9% |
| Marina Management | 5,650,173 | 5,453,512 | 5,609,682 | 2.9% |
| Totals | 13,601,222 | 12,635,537 | 13,469,438 | 6.6% |

(1) Interest Income

Revenue Assumptions for FY 2017

Proposed revenues for FY 2017 appear in Table 2, below. Overall, staff is proposing a 2.2% increase in revenues over the FY 2016 proposed budget amounts.

Property Management: Property Management revenues look to remain steady in FY 2017 and are projected to increase by approximately 3%.

Financial Management: It is anticipated that the Department will see a slight increase in interest income of about 1.4% for FY 2017.

Parking Services: Parking revenues are expected to continue to increase in FY 2017 by a conservative 1.7%. The proposed capital project to add Luke Self-Pay stations in the Leadbetter, Chase Palm, and Garden Street Parking lots may add significantly to this revenue projection, but again, Parking Services revenues are heavily reliant on good weather.

Marina Management Similar to the other revenue programs, Marina Management is projected to continue to post steady revenues and we are proposing a modest 1.6% increase for FY 2017.

Table 2: Waterfront Department Programs
 FY 16 Proposed Budget vs. FY 17 Proposed Budget

| Program | FY 2016 Budget | FY 2017 Proposed | % Change FY 16/17 |
|--------------------------|-----------------------|-------------------------|--------------------------|
| Property Management | 5,091,282 | 5,248,638 | 3.1% |
| Financial Management (1) | 116,540 | 118,213 | 1.4% |
| Parking Services | 2,651,934 | 2,697,342 | 1.7% |
| Marina Management | 5,609,682 | 5,699,616 | 1.6% |
| Totals | 13,469,438 | 13,763,809 | 2.2% |

(1) Interest Income

Expenditure Assumptions for Fiscal Year 2016 and Fiscal Year 2017

Expenditures for Fiscal Year 2016 and 2017 are detailed at the consolidated level in Table 4 below. Overall the Waterfront Department is looking at a slight overall increase in expenditures in FY 2016 of 1.9% and 2.9% in FY 2017.

There will be a small increase, approximately 2% in FY 2016 and 4% in FY 2017 in salaries due to existing labor agreements in the various represented employee groups of the Waterfront Department. Significant increase of over 7% will take place in both 2016 and 2017 due to planned increases in CalPers rates. It is anticipated that CalPers rates will continue to climb beyond the next two budget years.

Allocated Costs will decrease by approximately 2% in FY 2016 before increasing nearly 5.5% in FY 2017. The increase in FY 2017 is partially due to increased costs associated with the City's property insurance program and overhead allocations. Supplies and Services decrease slightly in FY 2016 (-2.4%) before rising in FY 2017 with a 5.4% increase. Special Projects and Community Promotions expenditures are estimated to increase by 2%, or approximately \$5,000 in FY 2016 and 4%, or \$9,500 in FY 2017. The increases are primarily due to existing labor agreements with the lifeguards and an estimated 2% increase in costs associated with the Shuttle Bus program. Transfers to Capital are the monies that are used to fund the Department's capital projects and vary by year depending on what capital projects will be undertaken by the Department. FY 2016 will see a \$6,000 decrease and then a \$25,000 decrease in FY 2017.

Non-Capitalized transfers are proposed to increase by approximately \$25,000 in FY 2016 before decreasing back to FY 2015 levels in FY 2017. The increase is due to the need to set aside funding for replacement parts and components of the Luke Pay and Display System in the various Waterfront Parking Lots. The Luke systems are operating well and have been a great addition to the Waterfront parking operation. The oldest Luke Systems were installed nearly 4 years ago and it would be prudent to have a supply of replacement parts in case components need to be repaired or replaced. By providing routine maintenance on the machines and having a back-up supply of replacement parts we anticipate many years of operation out of the Luke System. Overall expenditures related to the Waterfront Department's debt service program will increase by 6.5% or, \$112,580 in FY 2016 and level off with a slight increase of 0.4%, or \$7,266, in FY 2017.

Table 3: Waterfront Department Proposed Expenditures FY 15
Consolidated FY 15 vs. FY 16 & FY 17

| Description | FY 15 Budget | FY 16 Requested Budget | FY 17 Requested Budget | % Change FY 15 vs 16 | % Change FY 16 vs 17 |
|---|----------------------|------------------------|------------------------|----------------------|----------------------|
| Salaries | \$4,219,099 | \$ 4,298,578 | \$ 4,473,906 | 1.9% | 4.1% |
| Benefits | \$1,831,592 | \$ 1,971,497 | \$ 2,113,548 | 7.6% | 7.2% |
| Allocated Costs | \$1,277,239 | \$ 1,250,822 | \$ 1,318,830 | -2.1% | 5.4% |
| Total Supplies & Services | \$2,827,004 | \$ 2,760,261 | \$ 2,808,558 | -2.4% | 1.7% |
| Special Projects & Community Promotions (1) | \$235,906 | \$ 240,589 | \$ 250,244 | 2.0% | 4.0% |
| Transfers to Capital (2) | \$1,385,000 | \$ 1,378,144 | \$ 1,353,144 | -0.5% | -1.8% |
| Non-Capitalized Transfers | \$82,759 | \$ 110,500 | \$ 85,500 | 33.5% | -22.6% |
| <i>Subtotal</i> | \$ 11,858,599 | \$ 12,010,391 | \$ 12,403,730 | 1.3% | 3.3% |
| Other | | | | | |
| Principal | \$1,000,441 | \$ 1,085,888 | \$ 1,126,632 | 8.5% | 3.8% |
| Interest | \$728,599 | \$ 755,732 | \$ 722,254 | 3.7% | -4.4% |
| Appropriated Reserves | \$100,000 | \$ 100,000 | \$ 100,000 | 0.0% | 0.0% |
| <i>Total Other</i> | \$ 1,829,040 | \$ 1,941,620 | \$ 1,948,886 | 6.2% | 0.4% |
| Total | \$ 13,687,639 | \$ 13,952,011 | \$ 14,352,616 | 1.9% | 2.9% |

(1) July 4th fireworks, lifeguards, and Waterfront Shuttle

(2) Transfer to fund capital projects

WATERFRONT DEPARTMENT

Cash Flow Analysis

Fiscal Years 2013 - 2022

March 19, 2015

#7

As of March 9, 2015

\$14,874,967 loan from DBW at 4.5%/ \$25 per foot slip transfer fee increase every year

| | Actual | Actual | Projected | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 | 2014 | Budget | | | | Projected | | | |
| | | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Operating Revenue | | | | | | | | | | |
| Leases | | | | | | | | | | |
| Commercial | \$ 1,383,716 | 1,455,190 | 1,509,021 | 1,416,787 | 1,445,122 | 1,474,024 | 1,503,505 | 1,533,575 | 1,564,247 | 1,595,531 |
| Food Service | 2,345,263 | 2,597,229 | 2,659,350 | 2,510,942 | 2,561,161 | 2,612,384 | 2,664,632 | 2,717,924 | 2,772,283 | 2,827,729 |
| Waterfront Center | 786,937 | 400,915 | 389,292 | 362,191 | 362,191 | 362,191 | 362,191 | 362,191 | 362,191 | 362,191 |
| Leases- Other | 186,120 | 221,046 | 192,604 | 200,161 | 204,164 | 208,247 | 212,412 | 216,660 | 220,994 | 225,414 |
| Ice Machine | 20,168 | 26,393 | 31,962 | 30,600 | 31,212 | 31,836 | 32,473 | 33,122 | 33,785 | 34,461 |
| Misc. Revenue (Cruise Ships/Harbor Festival) | 247,093 | 679,174 | 347,000 | 476,792 | 549,102 | 560,084 | 571,286 | 582,711 | 594,366 | 606,253 |
| CAM Reimbursements | 82,650 | 88,072 | 93,204 | 93,809 | 95,686 | 97,600 | 99,552 | 101,543 | 103,574 | 105,645 |
| Total Leases | 5,051,947 | 5,468,019 | 5,222,433 | 5,091,282 | 5,248,638 | 5,346,367 | 5,446,050 | 5,547,727 | 5,651,438 | 5,757,223 |
| Service Charges | | | | | | | | | | |
| Slip Fees | 4,063,048 | 4,138,316 | 4,204,739 | 4,288,834 | 4,374,610 | 4,462,103 | 4,551,345 | 4,642,372 | 4,735,219 | 4,829,923 |
| Slip Transfer Fees | 649,825 | 672,450 | 750,000 | 575,000 | 575,000 | 600,000 | 630,000 | 635,000 | 640,000 | 645,000 |
| Visitor Fees | 419,053 | 454,520 | 455,000 | 500,000 | 500,000 | 510,000 | 520,200 | 530,604 | 541,216 | 552,040 |
| Other | 254,251 | 262,691 | 240,434 | 245,848 | 250,006 | 255,006 | 260,106 | 265,308 | 270,614 | 276,026 |
| Total Marina Management | 5,386,177 | 5,527,977 | 5,650,173 | 5,609,682 | 5,699,616 | 5,827,108 | 5,961,650 | 6,073,283 | 6,187,049 | 6,302,990 |
| Parking Fees | 2,333,087 | 2,773,690 | 2,611,616 | 2,651,934 | 2,697,342 | 2,751,289 | 2,806,315 | 2,862,441 | 2,919,690 | 2,978,084 |
| Interest/Financial Mgmt | 150,685 | 142,375 | 117,000 | 116,540 | 118,213 | 120,577 | 122,989 | 125,449 | 127,958 | 130,517 |
| Rebates (Expense Reductions) | | | | | | | | | | |
| Other Revenue | | | | | | | | | | |
| Change in FMV | (52,083) | 15,102 | | | | | | | | |
| Total Operating Revenue | 12,869,813 | 13,927,163 | 13,601,222 | 13,469,438 | 13,763,809 | 14,045,341 | 14,337,004 | 14,608,900 | 14,886,135 | 15,168,814 |
| | Actual | Actual | Budget | Projected | | | | | | |
| Salaries | 3,804,554 | 3,910,204 | 4,219,099 | 4,298,578 | 4,473,906 | 4,563,384 | 4,654,652 | 4,747,745 | 4,842,700 | 4,939,554 |
| Benefits | 1,799,821 | 1,752,511 | 1,831,592 | 1,971,497 | 2,113,548 | 2,155,819 | 2,198,935 | 2,242,914 | 2,287,772 | 2,333,528 |
| Supplies & Services | 2,195,770 | 2,357,941 | 2,597,679 | 2,526,349 | 2,569,968 | 2,621,367 | 2,673,795 | 2,727,270 | 2,781,816 | 2,837,452 |
| Allocated Costs | 1,154,700 | 1,190,232 | 1,277,239 | 1,250,822 | 1,318,830 | 1,345,207 | 1,372,111 | 1,399,553 | 1,427,544 | 1,456,095 |
| Parks Landscape Maintenance | 229,655 | 237,708 | 229,325 | 233,912 | 238,590 | 243,362 | 248,229 | 253,193 | 258,257 | 263,422 |
| Life Guards/FASB 45 | 86,501 | 90,438 | 98,963 | 101,337 | 108,615 | 110,787 | 113,003 | 115,263 | 117,568 | 119,920 |
| Fireworks | 40,295 | 39,900 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 |
| MTD Waterfront Shuttle | | 33,412 | 76,943 | 79,252 | 81,629 | 83,262 | 84,927 | 86,625 | 88,358 | 90,125 |
| Debt Service (Princ & Int) | 1,285,947 | 1,274,944 | 1,160,104 | 1,155,646 | 1,162,911 | 1,278,913 | 1,277,575 | 1,278,438 | 1,276,825 | 1,272,738 |
| Other Transfers (FMS) | 90,978 | 99,155 | - | | | | | | | |
| Debt Service for Chandlery | 123,503 | 123,503 | 123,503 | 123,503 | 123,503 | 123,503 | 123,503 | 123,503 | 123,503 | 123,503 |
| Debt - Service - Repay GF | 107,718 | 107,718 | 107,718 | 107,718 | 107,718 | 107,718 | 107,718 | 107,718 | 107,718 | 107,718 |
| Debt - Service - Marina One/DBW | 332,027 | 337,715 | 337,715 | 454,753 | 454,753 | 506,867 | 604,253 | 717,192 | 717,192 | 717,192 |
| Equipment & Software | 81,845 | 44,569 | 82,759 | 110,500 | 85,500 | 87,210 | 88,954 | 90,733 | 92,548 | 94,399 |
| Other/Appropriated Reserves | - | 2,798 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Total Operating Expenses | 11,333,314 | 11,602,747 | 12,302,638 | 12,573,867 | 12,999,471 | 13,387,398 | 13,707,654 | 14,050,148 | 14,281,801 | 14,515,645 |
| Net operating gain / (loss) | \$ 1,536,499 | 2,324,416 | 1,298,584 | 895,571 | 764,338 | 657,943 | 629,350 | 558,752 | 604,333 | 653,168 |

| | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Coverage Ratio - Bond | 2.73 | 3.38 | 2.75 | 2.51 | 2.38 | 2.22 | 2.27 | 2.30 | 2.34 | 2.38 |
| Coverage Ratio - Bond+DBW (target 1.5) | 2.09 | 2.59 | 2.09 | 1.76 | 1.68 | 1.55 | 1.51 | 1.45 | 1.47 | 1.49 |