

CITY OF SANTA BARBARA WATERFRONT DEPARTMENT

MEMORANDUM

Date: November 19, 2009
To: Harbor Commission
From: John N. Bridley, Waterfront Director
Subject: **Six-Year Capital Improvement Plan**

RECOMMENDATION:

That Harbor Commission review and approve the proposed Waterfront Department Six-Year Capital Improvement Plan for Fiscal Years 2011 through 2016.

DISCUSSION:

The purpose of the Capital Improvement Plan (CIP) is to create a planning tool for developing and evaluating capital projects funding needs over the next six years. Section 604 of the City Charter requires departments to, "prepare and submit to the City Council a Five-Year Capital Program at least three (3) months prior to the date for submission of the budget." The FY2011 budget must be filed by May 1 of each year and therefore the CIP is due by February 1. Capital Improvement projects that are scheduled to fund and be implemented in FY 2011 will be included in this new budget. Final approval of the specific CIP projects that are scheduled to fund in FY 2011 will occur when Council adopts the City's budget in June 2010. Future year projects (FY 2012-2016) will not be funded as part of the upcoming budget process but are included in the six-year CIP for advance planning purposes.

Existing Capital Projects

There are a total of 25 capital projects identified, 19 of which have been carried over from the existing CIP that was developed during the FY 2009/2010 budget process. Thirteen (13) of these projects are scheduled to be funded during the next budget cycle. These include annual renovation and replacement projects such as the Marinas Renovation program, Stearns Wharf Heavy Timber and Pile Replacement program, and Parking Lot Maintenance program. Other "carryover" projects include Harbor ADA Restroom Remodel, Marina 1 Replacement, and West Beach Dredging. A complete list is shown on the attached spreadsheet (Attachment 1).

Phases 2– 6 of the Marina One Replacement Project are included in the six-year CIP. Cost estimates have been revised and the schedule for construction has been modified from the previous CIP to increase the frequency of phased construction. Construction of Phase 1 is scheduled for completion in FY2010, Phases 2-4 in FY2012/14, and Phases 5-6 in FY2015/16. Phases 1-4 will be constructed with a loan from the Department of Boating

and Waterways (DBAW). Funding for future phases may be available through refinancing the Waterfront's Certificates of Participation (COPs) or an additional loan from DBAW.

New Capital Projects

A total of six new projects are proposed in the 6-Year CIP. These include the following:

1. Replace Patrol Boat #3 (\$400,000/FY16)
2. Breakwater Cap Replacement Project – Phase 4 (\$700,00/FY16)
3. Renovate Maintenance Shop (\$100,000/FY12)
4. 119 Building Elevator (\$350,000/FY15)
5. Waterfront Center Renovation (\$75,000/FY11)
6. 125 Building Elevator (\$350,000/FY16)

Unfunded Capital Projects

Staff considers a wide variety of projects when preparing the CIP. Only projects that can reasonably expect to be funded and constructed are included in the CIP. Funds available for CIPs are determined by first estimating revenues, operating expenses and ensuring that policy reserves are met. A six-year cash flow model is prepared and funding for CIPs is identified. In addition, staff applies certain criteria such as completing a phased project, structural needs, maintaining utility infrastructure, improved efficiency, meeting building codes, City Council policy, and public input, in prioritizing projects. Projects that meet the criteria and for which adequate funds are available are included in the CIP.

Projects that meet the criteria but cannot be funded have traditionally not been included in reports to the Harbor Commission or City Council. At the direction of the City Administrator, unfunded projects are now to be identified and presented to advisory and decision-making bodies. The following projects meet the criteria for Capital Improvements but there are not adequate funds when considering the six-year cash flow model to include in the CIP.

Maintenance Shop Remodel	(\$100,000)
Breakwater Cap Phase 4	(\$700,000)
Replace Patrol Boat 3	(\$400,000)
119 Building Elevator	(\$350,000)
125 Building Elevator	(\$350,000)

These projects will be considered in future CIPs or as funds become available.

Six-Year Cash Flow Projection

Citywide, the Capital Improvement Plan (CIP) is being developed and submitted in advance of the overall budget process. Unlike General Fund Departments, the Waterfront Department is an Enterprise Fund and must finance its own capital improvement projects.

For this reason, it is important to consider the fiscal effect the CIP will have on the Department's capital reserve fund (Harbor Preservation Fund). The Harbor Preservation Fund (HPF) is required to be maintained between \$2 million and \$5 million pursuant to Section 17.40.030 of the Municipal Code. Commissioners should also keep in mind that since the establishment of the HPF, City Council has also required Enterprise Funds to establish operating and economic contingency reserve funds. Currently, the Department has approximately \$5.2 million total in the HPF and Operating Reserve Funds. In addition, the Department carries substantial property insurance on all waterfront facilities.

The Department's six-year cash flow projection (Attachment 2) has been updated to show the relationship between the Operating Fund, Capital Improvement Program (CIP) and Operating Reserve Fund together with the Harbor Preservation Fund. The cash flow projection is tentative, pending receipt of budget instructions from the City Administrator's Office and the Finance Department. As the next two-year budget is prepared, the six-year cash flow model will be revised. Funding levels for annual maintenance at both the wharf and marinas may be revised at that time to reflect expected increased costs annually. The attached spreadsheets show projected revenue, expense, and reserve balance figures for FY 2011 through FY 2016, and adopted budget figures for FY 2010.

The cash flow projection makes the following basic assumptions:

1. 1% growth in lease revenue in FY 2011, 2% growth thereafter;
2. 4% increase in slip fees in FY 2011, 3% increase in 2012, a 2% per year thereafter;
3. \$25 per foot increase in transfer fees annually;
4. 1% growth in parking revenue in FY 2011, 2% growth thereafter;
5. 5% salary furlough in 2011;
6. No increase in Salaries and Benefits in FY 2011, 3% increase thereafter;
7. 2.5% inflation factor increase in Supplies and Services annually; and
8. \$5,550,000 for Phases 1, 2, 3, and 4 for the Marina 1 Replacement project will be obtained from the CA Dept of Boating and Waterways loan.

The draft cash flow projection shows that the CIP as submitted is reasonable in relationship to forecasting future Department revenues/expenses and the ability to maintain the required minimum of \$2 million in the Harbor Preservation Fund. It is important to keep in mind that this is **not a budget proposal**; details of the Department's operating budget will be developed and recommendations on any potential fee increases finalized over the next several months.

Process

The CIP must be submitted to the City's Public Works Department in November in preparation for the upcoming FY 2011 budget cycle. The Capital Improvement Plan will be reviewed by the City Administrator and Finance Department in December, and will be forwarded to the Finance Committee and City Council in February 2010.

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Attachments: 1. Six-Year Capital Improvement Plan
2. Draft Six-Year Cash Flow Projections

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