



EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE – SEPTEMBER 25, 2008

SUBJECT: 2008 Midyear Budget Review and Amendments
Report Prepared by: Patti Henry, Acting CFO/Controller and
Dave Collins, AGM Finance and Management Services

ATTACHMENTS: General Fund Budget to Actual Report 2007/2008
General Fund Projected Year End Results

RECOMMENDATION: Review and Accept 2008 Midyear Budget Amendments and
Recommend Approval by the Board of Directors

DESCRIPTION:

Each year after the issuance of the June 30th interim financial statements, the District takes a hard look at the revenue and expenditure assumptions used in the budget as compared against actual results. This is a critical checkpoint in the District's fiscal planning and provides an opportunity to make mid-course corrections for significant variances in general fund revenues and expenditures prior to year end.

This year District staff delayed the process in order to evaluate any potential impact on the District's revenues as a result of the extended State budget process. As of September 19th, the State Budget is expected to be signed by the Governor, and our understanding is that there will not be serious direct impacts on the District in the 2008 calendar year. Therefore, staff has prepared this update to the Finance Committee, and will again update the Board Finance Committee in November.

The primary purpose of this review is to note any areas of concern or significant budget adjustments which may be necessary in order to finish the year in the black. A secondary purpose of this process is to examine the use of available fund balance to consider appropriations to fund deferred maintenance, capital improvements, reserves or unexpected operating expenses.

Summary of 2008 Midyear Review

Overall, the 2008 revenues and expenditures are on track with the budget for the District's General Fund. The District has budgeted conservatively, and as a result, should be ending the year with a positive variance in the General Fund. *The details of this financial review are shown in the attached spreadsheet. The line item references below tie to numbered lines on the attachment.*

For the first 8 months of the year, the District received \$60.3 million in actual receipts, which represents 56.5% of the total 2008 revenue budget of \$106.8 million (*Line 10*). In comparison, the District's receipt of actual revenue for the first 8 months of 2007 was 60% of budgeted revenue, a slightly higher percentage that demonstrates that revenue growth is slowing in 2008. A few items to highlight include the following:

- Property Taxes (*Line 1*) – The District has received 53.1% of its \$81.6 million estimate for this revenue. Actual revenues have increased \$3.7 million or 8.3% over the prior year’s actual tax receipts to date, but are lagging when compared with last year’s budget to actual revenue to date. Due to the real estate slump, the Counties project very low growth for the second half of the 2008 calendar year; therefore, the estimate for year end 2008 is that property tax revenues will only exceed budget by less than \$3 million.
- Interest Revenue (*Line 2*) – After 8 months, or 66.6% of the year, the actual interest revenue to date is 7.4 million or 82% of the budgeted \$8.9 million. This positive variance should carry through to the end of the year. Staff is projecting that actual interest will exceed budget by \$826,757 at year end.
- Personnel Services (*Line 13*) – This category is the largest budget expenditure in the General Fund budget. For the first 8 months (66% of the year), 60% of the budget for personnel has been expended on salaries, wages, employment taxes, and benefits. In comparison, during the prior year, the District had expended 57.9% in the first 8 months. Overall, from a budget standpoint, personnel services are within budget parameters and are projected to be \$2.4 million under budget by year end. This cost savings is primarily due to the time it takes to fill new or vacated positions during the year.
- Overtime – Included in the Personnel Services category, the total budget for overtime is \$2 million and the District has already expended \$2.3 million in the first 8 months. The reason for the excess expenditure is the Fire Assistance Overtime that is over expended by \$384,000 due to the District’s extensive support in fighting the California fires this summer.
- Supplies, Services and Equipment (*Lines 14,15,16*) – The combined budget for these categories totals \$24.2 million, of which 62% has been expended so far in the first 8 months of the year, an amount consistent with last year’s expenditures. District staff projects that expenditures in these categories may be under expended by \$1.5 million at year end.

Should the projections above bear out, it is projected that the District’s year-end performance will result in an \$8.9 million positive variance (*Line 31*).

Proposed Midyear Adjustments:

Projections for 2009 suggest a very conservative approach with the use of available funds at this time. Staff has reviewed the status of individual divisions and has identified four proposed adjustments to the 2008 budget as the minimum correction for events during the year. Further considerations for appropriation of the remaining General Fund balance will be discussed in association with the 2009 Budget Projections and budget review process.

The recommended minimum mid-year adjustment of \$785,000 for the following items:



EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE – September 25, 2008

SUBJECT: 2009 General Fund Preliminary Budget Summary
Report by: Dave Collins, AGM Finance and Management Services

ATTACHMENT: 2009 Preliminary Budget Review
Draft Capital Budget Recommendations

RECOMMENDATION: This item is informational only

The purpose of this item is to brief the Board Finance Committee on the status of the budget process and provide an overview of the 2009 General Fund budget.

The District's projections for 2009 revenues and expenditures are effected by a number of factors, including the resolution of the 2009/10 State Budget, the trend of property values in the District, monetary inflation, labor negotiations, the increasing cost of benefits, pension and post-employment actuarial calculations, fuel prices, interest rates and other factors.

As of this date, staff has prepared initial projections of revenues, and calculated the estimated costs of personnel and other services based on the continuation of existing operations. This information will serve as the preliminary base budget, and staff is now collating requests for new appropriations and budget revisions for consideration should revenue estimates allow for any growth in 2009.

Our financial climate for 2009 is expected to be characterized by continuing weakness in the real estate market - including low sales prices, high foreclosure rates and stagnant sales rates. Additionally, the volatility of the financial markets will contribute to a lack of predictability in interest, inflation, and investment rates of return. Finally, the continuing structural instability of the State's budget process provides a high risk of a reduction in revenues due to "borrowing" from local revenues under the provisions of Proposition 1A. For these reasons, staff's base assumptions for the 2009 budget are conservative. These assumptions are discussed below. *Details of these projections are included on the attached spreadsheet and are referenced by line number.*

Despite this conservative structural approach, the initial budget projection for 2009 is that expenditures will exceed revenues by nearly \$800,000 (*Line 32*), and that adjustments will need to be made to reduce expenditures to balance to the expected revenues. *This budget estimate does not include any additional set-aside to compensate for possible imposition of Proposition 1A borrowing by the State.*

The 2009 budget projection assumptions include the following:

- Property Taxes (*Line 3*) -- Based on County projections, the District is anticipating only a 4% growth in taxes and assessments. This is a combination of Contra Costa County's projection of a .06% growth rate and Alameda's estimate of a 5% growth rate. There is no assurance that these growth rates will be met, or that they will extend into the 2009/10 tax year.
- Interest (*Line 6*) – Based on a review of 2008 actual returns, and the anticipated amount of funds invested, interest revenue is budgeted to increase by 9% over that budgeted for 2008. However, interest revenue is subject to market and economic changes, which may change significantly over the course of the year.
- Personnel services (*Line 15*) – The cost of personnel services, including retention of all existing staff and the addition of projected “Pipeline” positions, are expected to increase this budget category by 9%, or \$6.6 million. This increase is primarily due to increases in CPI and benefit costs, although new “Pipeline” positions are projected to be nearly \$700,000 of this total. At this time the District does not know the actuarial contribution rates that will be recommended for Post Employee Benefit (OPEB) funding, the District retirement programs and workers compensation, all of which are expected to increase due to higher costs and investment losses. Also, the current amount budgeted reflects small cost adjustments for staff in anticipation of 2009 labor contract negotiations with 2428 and POA, which is subject to change based on the outcome of these processes.
- Supplies, Services and Capital Equipment Expenses (*Lines, 16,17,18*) – Supplies and capital equipment costs were increased by 5%, but services were only increased by 5% of projected 2008 actual costs due to anticipated cost savings in 2008.
- Transfers from the General Fund to other funds (*Line 21*) -- includes the annual transfers to the Two County Trails fund and a \$3.3 million estimate of transfers for ongoing programs such as ADA, Service Yards, Paving Maintenance, Fire Fuels Management, and one-time appropriations as may be required to complete necessary capital projects. Specific recommendations on these appropriations and amounts are being developed by Staff.
- As noted above, the preliminary sources of funds include a 5% increase; whereas, uses of funds includes a 6% increase. Consequently, the preliminary budget is currently \$786,044 over budget (*Line 25*).

Staff is proceeding with the budget preparation process, evaluating budget requests and considering options and alternatives for presenting a balanced budget to the Committee.

These considerations include:

- Review of Budget Requests – Staff is currently reviewing the over \$10 million in new capital appropriation requests and \$4.5 million in new operational appropriations requested as a part of the annual budget process. Clearly, this year’s budget will require us to focus only on required expenditures (regulatory, utility, etc.) and may require offsetting reductions in existing budgets to fund required expenditures.
- Capital Appropriations – New capital appropriations will likely be very limited for 2009. Passage of Measure WW would provide additional alternative funding for consideration during the year.
- Pipeline Projects – Staff may recommend delaying certain Pipeline projects that either may not take place in 2009 (opening of Vargas Plateau) or may be re-scheduled at the District’s discretion (Mobile Visitor Center). The projected 2009 cost of these two operations totals approximately \$500,000.
- Reserve Funds – Staff will be considering recommendations regarding reservation of portions of the existing and projected General Fund balance to address both the possibility of a revenue shortfall in 2009/2010 due to economic conditions and state actions, and/or a reservation of funds for office expansion or purchase to accommodate Public Safety and other District staff.

Despite these potentially difficult decisions, the District’s financial situation is sound, and continued conservative budgeting will ensure that we can continue to fulfill our commitments to the public and maintain our current operations intact.

As the budget process continues, District staff will keep the Board Finance Committee up to date and expects to bring forward a balanced 2009 Budget for consideration.

ITEM No. 2: 2009 Preliminary Budget Review

East Bay Regional Park District					
2009 Preliminary Budget Review					
A B C D E					
		2008	2009		Percentage
1	SOURCES	Budget	Budget	Increase	Change
2					
3	Taxes & Assessments	91,837,000	95,736,279	3,899,279	4%
4	Charges for Services	8,962,788	9,789,545	826,757	9%
5	Rents & Leases	1,554,964	1,528,612	(26,352)	-2%
6	Interest	3,000,000	3,872,299	872,299	29%
7	Grants & Govt Aid	489,889	489,889	0	0%
8	Misc Revenue	560,929	217,420	(343,509)	-61%
9	Other Sources		0	0	0%
10	Transfers In	397,334	397,334	0	0%
11					
12	TOTAL SOURCES	106,802,904	112,031,378	5,228,474	5%
13					
14	USES				
15	Personnel Services	73,784,339	80,401,308	6,616,969	9%
16	Supplies	6,627,210	6,958,571	331,361	5%
17	Services	14,957,925	14,009,848	(948,077)	-6%
18	Capital Outlay/Equip	2,659,302	2,768,696	109,394	4%
19	Grants to Local Agency	200,000	200,000	0	0%
20	Debt Service/Leases	795,000	795,000	0	0%
21	Transfers Out	7,683,999	7,683,999	0	0%
22					
23	TOTAL USES	106,707,775	112,817,422	6,109,647	6%
24					
25	Sources Less Uses	95,129	(786,044)	(881,173)	
26					
27	Notes				
28	3 Tax Revenue for Jan-July 2009 based on County Growth Estimates, Aug-Dec = 0% growth from prior year				
29	4-10 Other revenue at 2008 estimated actuals				
30	15 Personnel Services based on existing and Pipeline staff, 3% CPI and Est. Benefit costs				
31	16 Supplies inflated at 5%				
32	17 Services inflated at 5% of 2008 estimated actuals as of 12/31/08				
33	18-21 Capital, Grants, Debt and Transfers at 2008 levels				



EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE – September 25, 2008

SUBJECT: Recommended Changes to Project Personnel Budgets
To Satisfy GASB 34 Requirements
Report Prepared by: Pam Burnor, Budget Manager

RECOMMENDATION: Budget all of selected employee's salary and benefits costs within the capital funds 333 and 336.

BACKGROUND

The District's 2007 CAFR marked the completion of the valuation process for existing infrastructure to satisfy GASB 34 requirements and brought about a greater awareness of key requirements of the statement that still need to be resolved. One of those requirements is to identify an efficient method of capturing costs associated with capital projects that are a "work in progress," so that when that project is completed, the full cost of the work will be capitalized on the District's books. A key component in this process is to further refine the District's capitalization definition, in particular the means by which value may be added to an existing asset. This definition requires policy definitions establishing the following:

- Defining the cost level at which renovations/repairs/additions are deemed to be material increases in value to the asset. Staff recommends that the dollar threshold be the same as for a new capital asset, i.e.: \$25,000.
- The District's intention to "Write down" the existing value of the original asset that has been renovated (essentially replaced) by the new repair or renovation.
- Adjusting the total value of the asset by reversing or adjusting depreciation that has already been recorded.
- Determining which personnel costs to include as project expense. Staff recommends that all costs expended on capital or OTA projects, including staff time, be budgeted and charged directly to a project.

These policy changes need to be reflected in the 2009 budgetary process, specifically that certain expenses, primarily wages and benefits, currently budgeted in the District's General Fund will be instead budgeted directly to the Capital Fund, and an annual transfer-out made to compensate for this change. This change will not change the overall funding level appropriated for staffing, but will change where these funds are budgeted for certain Divisions.

There are implications to several District Divisions, and to phase the transition to this process, it is proposed that the 2009 Budget be modified to accommodate these changes for the Design and Construction Departments, and the Maintenance Department which will capture the large majority of Capital project expenditures. Land Acquisition already follows budgetary practices similar to the new proposal, and minor adjustments are expected to bring them into full compliance with this policy.

IMPLEMENTATION IN THE 2009 BUDGET:

In 2009, it is proposed that Design and Construction staff appropriate their personnel budget, less the budget for general management oversight, in the 336 Other-Than-Asset (OTA) fund. Projects in the OTA fund are not considered capital, and are therefore not booked on completion as a District asset. However OTA projects may, based on the evolution of individual renovation projects, exceed the policy threshold for the definition of an asset, and be transferred to the Capital fund upon completion (or sooner) to ensure that the full project cost is then recognized correctly on the District's asset schedule. The District's current practice of funding staff in the General Fund does not allow these expenses to be efficiently captured and booked.

During 2009, as Design and Construction personnel work on preliminary or generic tasks that do not relate to a specific project, they will charge their time to: 336-7120-000-4021/599900, (insert name of account...) with an appropriate task code to describe the work they did. This will be staffs' default org key in the Human Resources/Payroll system, causing the same project to be charged when staff uses vacation or sick leave.

The AGM and Chief of Design and Construction will have authority to request that the Finance department set up new 333 or 336 project numbers for projects that are identified as the year progresses. Up to \$25,000 DS10 budget may be transferred from project 599900 to the new number, to allow for preliminary costs to be covered as the staff begins to charge their time to the new project.

The benefits of budgeting in this manner include:

1. Opportunity to use "other peoples' money" for a greater portion of project costs, including those costs that may not have been captured in the capital fund in the past.
2. Minimizing the year-end frenzy of transferring expenditures from the General Fund to project funds.
3. Tracking tasks associated with the preliminary stages of a project, detail of which was lost in the general fund in the past, will be available for future project budget projections.
4. Functional flexibility is provided to the Design and Construction department, allowing early set up of up to \$25,000 budget without prior Board approval.
5. Data collected in the "Preliminary Design Project, 599900", may be used to determine an overhead rate to be charged to all projects in the future, if the District decides to go that route.

Other considerations:

1. Some supply and services budget from Design and Construction's base budget may also need to be budgeted in the "Preliminary Design Project".
2. We may ask that other departments/divisions consider budgeting staff time in this manner, representing the staff hours that are chiefly charged to projects.
3. Unspent DS10 budget that remains in 599900 at year end may be moved back to the General Fund, before the funding is placed in the project for the new fiscal year.