

CITY OF SANTA BARBARA WATERFRONT DEPARTMENT

MEMORANDUM

Date: February 19, 2015
To: Harbor Commission
From: Scott Riedman, Waterfront Director
Subject: **Budget Overview for Fiscal Year 2016 and Fiscal Year 2017**

RECOMMENDATION: That Harbor Commission:

- A. Receive a report on the status of the Fiscal Year 2016 and Fiscal Year 2017 Waterfront operating and capital budget; and,
- B. Provide comments on the various components of the draft budget proposal.

DISCUSSION:

The City of Santa Barbara is currently preparing a two-year budget which includes Fiscal Year 2016 (July 1 2015-June 30, 2016) and Fiscal Year 2017 (July 1, 2016-June 30, 2017). As an Enterprise Fund, the Waterfront Department is not assigned budget targets as is the case with City General Fund Departments. Instead, the Department balances its budget by increasing user fees (if needed) and reducing expenditures, including capital expenditures, to maintain emergency and capital development reserves at required levels.

To continue to meet expenditures, the Department is proposing to adjust a number of fees including adjusting slip fees upward by 2% similar to Fiscal Years (FY) 2014 (2% increase) and 2015 (2% increase), and adjusting the slip transfer fee upward by \$25 per foot to \$400 per foot (excluding 20 foot and 25 foot slips which remain frozen at \$200 and \$350 per foot).

Staff met with one member of the Harbor Commission Budget Subcommittee (Harbor Commissioner Sloan) on February 5, 2015 to discuss the FY 2016 and 2017 budgets including program expenditures and capital projects. Harbor Commissioners MacIntosh and Power were both unavailable to meet on that date. Staff will be conducting one additional publicly-noticed meeting of the Budget Subcommittee in the coming weeks.

Significant Issues Affecting FY 2016 and FY 2017 Budgets

For the most part, 2016 and 2017 budgets will remain status quo with relatively small adjustments in the overall projected revenues and expenditures of FY 2015. Overall, expenditures are expected to increase FY 2016 by 1.3% and in FY 2017 by 3.4%. Revenues are projected to climb by 4.6% and 1.7% for the same period.

An increase in employee salaries due to new labor agreements will increase that line item by 1.9% (\$153,654) in FY 2016 and 4.1% in FY 2017. Benefit expenditures will see significant increase in both years by 7.6% and 7.2%. These increases are accounted for in the FY 2016 and FY 2017 budget proposals.

The continued presence of cruise ships making stops in Santa Barbara (for a total of 13 for the spring season and 14 in the fall season) will continue to be an important revenue source for the Waterfront Department and its Property Management program.

Revenue Analysis for Fiscal Year 2015

As recently reported in the Mid-Year Budget Report presented to the Harbor Commission on January 22, 2015, the Property Management program is tracking above budget expectations. Both Harbor and Wharf commercial revenues are at 14.38% and 10.18% above budgeted estimates. Harbor and Wharf food service are both exceeding budgeted revenue estimates by over 15%. The Financial Management program consists of interest earned on the Department's reserves. Interest revenue is not meeting budget projection and is nearly 29% lower than this time last year primarily due to less money being held as a security and available to collect interest revenues which resulted from refinance of the Department's bond debt. Interest income projections are provided by the Finance Department as part of the budget development process. The Parking Services program is on track to meet or exceed budget expectations and is up 4.33% or \$62,419 over Fiscal Year 2014. The great weather last summer coupled with a warm fall and winter season have proven, again, to be a significant factor for another strong year in Parking Services. Marina Management revenue is expected to finish the year above budget expectations, and includes a significant increase in visitor fees, up over 24% over last year at the same time. Slip transfer fees are tracking well above budget estimates and has included 48 transfers as of December 31, 2014 for total revenues of \$628,775. It is anticipated that Marina Management will meet and exceed budget expectations.

Expenditure Analysis for Fiscal Year 2015

Overall, the Department spent or encumbered approximately 49.33% of its Fiscal Year 2015 budget as of December 31, 2014, as shown on the following table:

**Table 1: Waterfront Department Expenditures
 By Program as of 12/31/14**

Program	FY 15 Budget	YTD Expenditures as of 12/31/14	FY 15 % of Budget
Admin & Community Relations	\$ 2,065,155	\$ 888,080	43.00%
Property Management	\$ 414,199	\$ 255,127	61.60%
Financial Management	\$ 263,384	\$ 143,047	54.31%
Parking Services	\$ 933,547	\$ 464,931	49.80%
Harbor Patrol	\$ 2,171,847	\$ 1,063,436	48.96%

Marina Management	\$ 322,157	\$ 124,773	38.73%
Harbor Maintenance	\$ 3,055,785	\$ 1,412,644	46.23%
Wharf Maintenance	\$ 1,020,938	\$ 487,844	47.78%
Facilities Design & Capital Programs	\$ 3,448,425	\$ 1,915,944	55.56%
Total	\$ 13,695,437	\$ 6,755,826	49.33%

Table 1, above, includes encumbrances, which are funds that were “promised” by entering into a contract at the beginning of the fiscal year but are actually expended throughout the year, usually on a monthly basis. If unspent encumbrances are backed out, the Department has expended just over 44% of its budget as of mid-year. The encumbrance and debt service amounts are shown on Table 4. As of December 31, 2014, the Department is on track to stay within its budgeted expenditures.

Proposed Changes in Fees for FY 2016

The Department is considering the following fee adjustments for FY 2016 and will be reviewed by the Harbor Commission on February 19, 2015. These slip fee adjustments would be the same as slip fee adjustments that were made in FYs 2013, 2014 and 2015:

- Slip transfer fee increase of \$25 per foot (except 20’ and 25’ vessels) in FY 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 FY 2016 (projected revenue increase of \$84,095). Annual slip fee increases are a requirement of the Marina 1 construction loan agreement with the Division of Boating and Waterways.

As with previous years, a survey of 18 marinas is underway and will help 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.

Revenue Assumptions for Fiscal Year 2016

Proposed revenues for FY 2016 appear in Table 2, below. Overall, staff is proposing a 6.2% increase in revenues over the FY 2015 budgeted amounts. However, it should be noted that the FY 2016 revenues are equal to a 1.2% 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 increase in interest earnings for FY 2016. Parking

Services: Parking revenues continue to remain strong and we have proposed a 13.1% increase in Parking Services revenue for FY 2016. However, it should be noted that the proposed amount is less than a 1% increase over the FY 2015 projected revenue. Marina Management continues to post steady revenues and we are proposing a 2% increase for FY 2016.

**Table 2: Waterfront Department Programs
 FY 15 Budgeted Revenue vs. FY 16 Proposed Budget**

Program	FY 2015 Projection	FY 2015 Budget	FY 2016 Proposed	% Change FY 15 Budget vs.16 Proposed
Property Management	5,222,433	4,737,609	5,091,282	7.5%
Financial Management (1)	92,462	117,000	134,640	15.1%
Parking Services	2,611,616	2,327,416	2,631,934	13.1%
Marina Management	5,650,173	5,453,512	5,564,682	2.0%
Totals	13,576,684	12,635,537	13,422,538	6.2%

(1) Interest Income

Proposed Changes in Fees for FY 2017

The Department is considering the following fee adjustments for FY 2017. These slip fee adjustments would be the same as slip fee adjustments that were made in FYs 2013, 2014, 2015 and proposed for 2016:

- Slip transfer fee increase of \$25 per foot (except 20' and 25' vessels) in FY 2017. The slip transfer fee proposed for 2016 currently stands at \$400 per foot and would move to \$425 per foot; and,
- Slip fee increase of 2% in FY 2017 (projected revenue increase of \$85,777).

Revenue Assumptions for FY 2017

Proposed revenues for FY 2017 appear in Table 3, below. Overall, staff is proposing a 2.2% increase in revenues over the FY 2016 budgeted 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 2% 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 3: 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)	134,640	137,333	2.0%
Parking Services	2,631,934	2,677,342	1.7%
Marina Management	5,564,682	5,654,616	1.6%
Totals	13,422,538	13,717,929	2.2%

(1) Interest Income

A detailed presentation of revenue assumptions, including cruise ship forecasts and revenues as well as Slip Transfer Fees and their variability will take place at the Harbor Commission meeting on February 19.

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 1.3% and 3.4% in FY 2017.

As mentioned earlier in this report, 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 slightly 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 decreases slightly in FY 2016 (-2.4%) before leveling off in FY 2017 with a 1.7% 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 \$70,000 decrease and then a \$40,000 increase slightly in FY 2017. The capital program is detailed for both fiscal years in Attachment 1: Proposed Fiscal Year 2016 and 2017 Capital Program.

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 oldest Luke Systems were installed nearly 4 years ago and exposure to the salt air and elements is beginning to show with various pieces and components of the individual Luke Systems likely needing replacement in the coming years. Overall expenditures related to the Waterfront Department's debt service program will increase by 6% or, \$112,580 in FY 2016 and level off with a slight increase of 0.4%, or \$7,266, in FY 2017.

**Table 4: Waterfront Requested Expenditures
 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%
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	\$ 1,312,144	\$ 1,353,144	-5.3%	3.1%
Non-Capitalized Transfers	\$ 82,759	\$ 110,500	\$ 85,500	33.5%	-22.6%
<i>Subtotal</i>	\$ 11,884,199	\$ 11,944,391	\$ 12,403,730	0.5%	3.8%
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	\$ 3,687,639	\$ 13,886,011	\$ 14,352,616	1.4%	3.4%

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

(2) Transfer to fund capital projects

Staff will provide additional details regarding the proposed expenditures for both Fiscal Years 2016 and 2017 at the Harbor Commission meeting on February 19.

Attachment: Proposed Fiscal Year 2016 and 2017 Capital Program

Prepared by: Brian Bosse, Waterfront Business Manager

Proposed Fiscal Year 2016 and 2017 Capital Program

Proposed Capital Program for FY 2016

The Department is prepared to proceed with the following capital projects in FY 2016. Funding will come from surplus operating revenue at the end of FY 2015, reserves above policy in Fund 5800, a loan from the California Division of Boating and Waterways (DBW), with any necessary additional funds drawn from the Department's capital reserve (Harbor Preservation Fund).

Table 1: Waterfront Capital Program FY 2016

Project	FY 2016 Recommended
Marina One Replacement (Loan)	\$1,690,000.00
Marina Renovation Program	\$250,000.00
Parking Lot Maintenance Program	\$105,000.00
Stearns Wharf Heavy Timber/Pile Replacement	\$425,000.00
Replace Hoists 1, 2, 3, 4	\$50,000.00
Seawall ADA Handrail & Sidewalk Replacement	\$50,000.00
Parking Equipment Infrastructure Replacement	\$200,000.00
Repower Harbor Patrol Vessels (Patrol Boat #1)	\$110,000.00
Sea Landing Gangway ADA	\$125,000.00
Subtotal	\$3,005,000.00
DBW Loan	-\$1,690,000.00
Total	\$1,315,000.00
Capital Outlay Transfer	\$1,315,000.00

The Department's capital program is focused on improving the Waterfront area for locals and visitors while at the same time maintaining and improving the working harbor for many years to come. The Department will draw down an additional \$1,690,000 of the loan from the California Division of Boating and Waterways (DBW) for the construction of Phase 6: H and I fingers.

The proposed projects in Table 1 total \$3,005,000 before the DBW Loan is factored in and will be funded from the Waterfront Department's capital fund. The capital fund is also known as the Harbor Preservation Fund. Existing projects that will continue in FY 2016 include the Marina Renovation Program and the re-decking of Marina 4; The Parking Lot Maintenance Program (\$105,000) will focus on the Harbor Main parking lot; the Stearns Wharf Heavy Timber and Pile Replacement Program (\$425,000); The replacement of all four fishing hoists on the City Pier (\$50,000); and, The Sea Wall ADA Handrail and Sidewalk Repair project which will focus on the area between Marina 2 and 3 (\$50,000).

New projects include an expansion of the Luke Pay and Display Parking System into Leadbetter Beach Parking Lot and additional machines at Garden Street and Chase Palm Parking Lots along with a new kiosk at Stearns Wharf (\$200,000); Repowering of Harbor Patrol Boat #1 (\$110,000); and the Sea Landing Gangway ADA improvements (\$125,000).

Proposed Capital Program for FY 2017

Table 2: Waterfront Capital Program FY 2017

<u>Project</u>	FY 2017 Recommended
Marina One Replacement (Loan)	\$1,950,000.00
Marina Renovation Program	\$250,000.00
Parking Lot Maintenance Program	\$85,000.00
Stearns Wharf Heavy Timber/Pile Replacement	\$425,000.00
Seawall ADA Handrail & Sidewalk Replacement	\$50,000.00
Repower Harbor Patrol Vessels	\$130,000.00
Harbor ADA Restroom Remodel (Marina 2)	\$200,000.00
Marina 2, 3, 4 End Tie Replacement	\$150,000.00
Subtotal	\$3,240,000.00
DBW Loan	-\$1,950,000.00
Total	\$1,290,000.00
Capital Outlay Transfer	\$1,290,000.00

Similar to FY 2016, the 2017 capital program is focused on improving the Waterfront area for locals and visitors while at the same time maintaining and improving the working harbor for many years to come. The Department will draw down an additional \$1,950,000 of the loan from the California Division of Boating and Waterways (DBW) for the construction of Phase 7: E, F, and G fingers.

The proposed projects in Table 2 total \$3,240,000 before the DBW Loan is factored in and will be funded from the Waterfront Department's capital fund. Existing projects that will continue in FY 2017 include the Marina Renovation Program which includes the continued re-decking of Marina 4; Stearns Wharf Heavy Timber and Pile Replacement Program (\$425,000); and, the Parking Lot Maintenance Program (\$85,000) which will focus on the Leadbetter Beach parking lot. The Sea Wall ADA Handrail and Sidewalk Repair project (\$50,000) will focus on the area between Marina 3 and 4 of the Harbor and repowering of Harbor Patrol Boat #2 (\$130,000).

New projects include Marina 2 Restroom ADA Remodel (\$200,000) and the Marina 2, 3, and 4 End Tie Replacement project (\$150,000).