



Midpeninsula Regional  
Open Space District

R-11-28  
Meeting 11-05  
February 23, 2011

## **AGENDA ITEM 5**

### **AGENDA ITEM**

Consideration of the Controller's Report on the Proposed Fiscal Year 2011-12 Budget

#### **GENERAL MANAGER'S RECOMMENDATIONS**

Approve the Controller's report for the Proposed Fiscal Year 2011-12 Budget.

#### **SUMMARY**

The District will begin the new fiscal year with an estimated cash balance of \$21.23 million. Projected income and available cash are adequate to cover budgeted debt service and reserve requirements, operating expenses, capital projects, and up to \$15 million of cash for the purchase of new land. The District also expects to complete the previously authorized issuance of \$20.5 million of new lease revenue bonds as soon as the municipal bond market stabilizes. District long-term financial projections indicate that the Proposed Fiscal Year 2011-12 (FY2011-12) Budget is prudent and consistent with District plans and objectives.

#### **DISCUSSION**

The following cash flow projection shows the impact of the proposed FY2011-12 budget on the District's cash position. The District will begin the new fiscal year with estimated cash balances totaling \$21.23 million. Approximately \$1.4 million of this cash is not available to meet operating needs as it represents the reserve requirements of the District's outstanding public notes. Projected income and available cash are adequate to cover budgeted debt service and reserve requirements, operating expenses, capital projects, and up to \$15 million of cash for the purchase of new land. The budget also includes the completion, by mid-year, of the sale of \$20.5 million of lease revenue bonds. The net proceeds of this debt issue would be used to fund land purchases over the next three years. Also included in the budget is an expected gift of land, which was last appraised in the amount of \$11 million. This acquisition will include an endowment, estimated at approximately \$1.9 million at the time of the transfer, to cover the future costs of managing the structures on this property.

ANNUAL CASH FLOW PROJECTION  
FISCAL YEAR 2011-12 BUDGET  
(\$Thousands)

Estimated Beginning Cash Balance		21,228
Plus:		
Tax Revenue	27,641	
Santa Clara County Parks Income	294	
Acquisition Grants	2,270	
Development Grants	921	
Interest Income	330	
Rental Income	1,076	
Other Income	225	
Total Cash Income		32,757
Proceeds from Planned Debt Issues (net)		20,000
Endowment for Structures on Expected Gift of Land (net of FY11-12 spending)		1,765
Minus:		
Property Management Expense	210	
Capital Projects	5,084	
Land Acquisition Expenses	264	
Operating Expenses	14,613	
Debt Service	9,729	
Land Purchased (excluding gift of land)	13,700	
Total Cash Expenditures		<u>43,600</u>
Ending Cash Balance		<u>32,150</u>

Income

1. Tax Revenue for FY 2011-12 is budgeted at \$27.64 million (67% from Santa Clara County and 33% from San Mateo County), an increase of 1.1% over the prior fiscal year. Property tax growth turned negative in the 2010-11 tax year (ending in June 2011), forecast to be down by 1.5%. The decline in the real estate market has caused the assessed value of many properties to drop, resulting in an unprecedented level of refunds for previously collected supplemental taxes in Santa Clara County. Consequently, the County will not be distributing any SB813 supplemental tax revenue in 2010-11, which results in a reduction of the projected property tax revenue that was included in the FY2010-11 Mid-Year Budget. The District will continue to receive this depressed level of tax revenue in the April to June 2011 period. In the next tax year, beginning in July, county assessor reports indicate secured property tax growth, within our District boundaries, in the 1.5% to 2.0% range. This includes a 0.753% increase from the California Consumer Price Index, as measured in the twelve months ending October 2010. Combining the 1.5% negative growth in the first three months with a forecasted 2.5% growth in the last nine months, the overall budgeted growth for the District's FY2011-12 property tax revenue is 1.0%. Distributions of supplemental tax revenue in Santa Clara County are expected to resume, at a below-average level, in the 2011-12 tax year.
2. Santa Clara County Parks Income is budgeted at \$293,550, up 3% from FY2010-11, as specified in the contract signed in 2010.

3. Grant Income is budgeted at \$3.19 million; \$2.27 million for specific land acquisitions and \$921,000 for preserve development projects. Budgeted land acquisition grant income includes \$0.50 million from the California Habitat Conservation Fund, \$0.50 million from the Coastal Conservancy and \$1.25 million from Santa Clara County. The amount budgeted for preserve development is principally federal reimbursements for the Mt. Umunhum project.
4. Interest Income is projected at \$0.33 million, assuming the sale of 2011 Revenue Bonds in August 2011 and average investment rates of 4.2% on bond reserve funds and 1.0% on other funds.
5. Rental Income is projected at \$1.08 million, up 13% from FY2010-11.
6. Other Income is estimated at \$225,000 for various reimbursements, fines, fees, cash donations, and loan repayments.

### Debt Capacity

As of March 31, 2011, the District will have bonded indebtedness equal to approximately 42% of its statutory debt limit.

### Proposed Debt Issue

The budget includes the issuance of \$20.5 million of Financing Authority lease revenue bonds. The board authorized this debt issue, rated AA by Standard & Poors and Fitch, in November 2010, but the sale was delayed due to a sharp downturn in the municipal bond market in December and January. The current plan is to watch the market closely and sell into any recovery that emerges. The assumption is that the bond proceeds will be received by August. The bond proceeds are not required to finance any land purchases included in the FY2011-12 budget.

### Debt Service

Debt service requirements for FY2011-12 total \$9.73 million, a 20% increase over FY2010-11. This includes a half year of debt service for the planned sale of 2011 Revenue Bonds. Debt service represents 35% of estimated tax revenue, up from 29% in FY2010-11, but is consistent with the average for the first eight years of the last decade. The currently scheduled payments are detailed in the Debt Service Annual Claims List, to be presented with the final budget presentation in March.

### Other Expenditures

1. Capital Expenditures: The budget includes \$5.08 million for capital expenditure projects, including \$1.09 million for the Mt. Umunhum project, \$0.88 million for public access facilities, \$0.75 million for staff facilities, \$0.41 million for field equipment, \$0.43 million for a financial management software system and reshingling the Administrative Office, \$0.12 million for planning projects, and \$1.37 million to complete the radio upgrade project. This compares to FY2010-11 capital spending of approximately \$2.13 million.
2. Property Management Expenses are budgeted at \$0.21 million.
3. Land Acquisition Expenses are budgeted at \$0.26 million.

4. Operating Expenses are budgeted at \$14.61 million, or 52.9% of projected tax revenue. If the District spends 97% of this operating budget in FY2011-12, which would be a higher percentage than usual, operating spending will be at 51% of tax revenue, which was the budget guideline. At this level, operational spending would be up 4.0% over the latest staff forecast for FY2010-11. This compares to an average annual increase in operating spending of 8.2% over the last ten years.
5. The budget assumes \$13.70 million of Land Acquisitions for cash. In addition, one gift of land is projected, with a current expected value of \$11.0 million.

### Reserves

If all revenues, expenditures, and debt issues occur as budgeted, the District's cash balances would total \$32.15 million at the end of FY2011-12. This would include \$1.42 million of debt service reserve funds and \$1.77 of endowment funds. This assumes that \$135,000 would be spent in FY2011-12 against the projected \$1.9 million endowment accompanying the budgeted land gift.

### Long-Term Cash Projections

Also attached is a fifteen-year cash flow projection covering the period through FY2025-26. The projection assumes the issuance of \$20.5 million of lease debt in FY2011-12 and \$20.5 million of lease debt and promissory notes in FY2014-15. For FY2011-12, the projection is the budget with the exceptions that operating expenses are shown at about 97% of budget. Beyond FY2011-12, the projection assumes modest tax revenue growth in the following two years—2.6% in FY2012-13, 3.5% in FY2013-14, and rebounding to a 5% growth track thereafter. Operating expense growth is assumed at 6% in FY2012-13, 6.5% in FY2013-14, and 7% thereafter. Capital expenditures, net of associated grant income, are projected below the guideline level of 10.5% of tax revenue. The debt issuance in FY2014-15 is expected to include the refinancing of the 1999 Bonds, improving the debt service profile. Including the \$40 million of proceeds from this planned new debt, the model would allow the spending of approximately \$63 million for new land over the next six years. However, after that point, the higher levels of operating expense (relative to tax revenue) and debt service would permit only about \$7 million of land purchases over the next nine years.

Overall, the long-term projections indicate that the proposed budget is prudent and consistent with District plans and objectives.

### **FISCAL IMPACT**

There are no unbudgeted fiscal impacts associated with this agenda item.

### **PUBLIC NOTICE**

Public notice was provided as required by the Brown Act. No additional notice is required.

### **CEQA COMPLIANCE**

This agenda item is not a project under the California Environmental Quality Act (CEQA) and no environmental review is required.

**NEXT STEP**

Consider adopting the FY2011-12 Budget in view of the information contained in the Controller's report.

Attachment:

MROSD 15-Year Cash Flow Projection – \$40 million New Debt

Prepared by:

Michael L. Foster, Controller

Contact person:

Same as above

# MROSD 15 YEAR CASH FLOW PROJECTION

**\$40M New Debt**

2/9/11

(\$Millions)

TAX GROWTH: budget IN 10-11, +1.1% in 11-12, +2.6% in 12-13, +3.5% in 13-14, +5% THEREAFTER

EXPENSE GROWTH: estimate in 10-11, +5.25% in 11-12, +6% in 12-13, +6.5% in 13-14, +7% THEREAFTER

CAPEX: forecast IN 10-11, budget in 11-12, 10.5% (net) of TAX REV THEREAFTER

FISCAL YEAR:	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	2011-26
BEGINNING CASH	22.38	21.20	32.52	22.86	13.56	23.98	13.37	7.75	7.28	7.31	7.11	6.89	7.55	6.92	6.77	6.65	
TAX REVENUE	27.36	27.64	28.36	29.38	30.85	32.39	34.01	35.71	37.50	39.37	41.34	43.41	45.58	47.86	50.25	52.76	576.4
COUNTY PARKS INCOME	0.29	0.29	0.30	0.31	0.32	0.33	0.34	0.35	0.36	0.37	0.38	0.39	0.41	0.42	0.43	0.44	5.5
INTEREST INCOME	0.31	0.33	0.45	0.40	0.53	0.59	0.40	0.31	0.31	0.31	0.31	0.31	0.30	0.30	0.30	0.30	5.4
OTHER INCOME	<u>1.27</u>	<u>1.30</u>	<u>1.32</u>	<u>1.34</u>	<u>1.36</u>	<u>1.38</u>	<u>1.40</u>	<u>1.42</u>	<u>1.44</u>	<u>1.47</u>	<u>1.49</u>	<u>1.51</u>	<u>1.53</u>	<u>1.56</u>	<u>1.58</u>	<u>1.60</u>	<u>21.7</u>
OPERATING REVENUES	29.22	29.57	30.43	31.43	33.06	34.69	36.15	37.80	39.61	41.52	43.52	45.62	47.82	50.13	52.56	55.11	609.0
OPERATING EXPENSES	13.53	14.24	15.09	16.07	17.19	18.40	19.69	21.06	22.54	24.12	25.80	27.61	29.54	31.61	33.82	36.19	353.0
<i>Operating Exp/Tax Revenue</i>	<i>49%</i>	<i>51%</i>	<i>53%</i>	<i>55%</i>	<i>56%</i>	<i>57%</i>	<i>58%</i>	<i>59%</i>	<i>60%</i>	<i>61%</i>	<i>62%</i>	<i>64%</i>	<i>65%</i>	<i>66%</i>	<i>67%</i>	<i>69%</i>	
PROP MGMT+ACQ SUPPORT	0.32	0.47	0.45	0.46	0.47	0.47	0.48	0.39	0.40	0.41	0.42	0.43	0.44	0.45	0.46	0.46	6.7
CAPEX PROJECTS (NET)	1.76	4.15	2.98	3.08	3.24	3.40	3.57	3.75	3.94	4.13	4.34	4.56	4.79	5.03	5.28	5.54	61.8
<i>Net Capex/Tax Revenue</i>	<i>4.4%</i>	<i>8.9%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	<i>10.5%</i>	
CURRENT DEBT SERVICE	8.09	9.08	8.91	8.45	8.68	10.02	9.77	9.94	10.11	9.81	10.22	10.42	12.15	10.80	11.05	11.04	150.5
NEW DEBT SERVICE	<u>0.00</u>	<u>0.64</u>	<u>1.23</u>	<u>1.24</u>	<u>1.62</u>	<u>1.58</u>	<u>1.54</u>	<u>1.80</u>	<u>1.75</u>	<u>1.69</u>	<u>1.63</u>	<u>1.56</u>	<u>1.48</u>	<u>1.41</u>	<u>1.32</u>	<u>1.23</u>	<u>21.7</u>
OPERATING SPENDING	<u>23.69</u>	<u>28.58</u>	<u>28.66</u>	<u>29.31</u>	<u>31.21</u>	<u>33.87</u>	<u>35.04</u>	<u>36.94</u>	<u>38.73</u>	<u>40.16</u>	<u>42.41</u>	<u>44.58</u>	<u>48.40</u>	<u>49.29</u>	<u>51.93</u>	<u>54.46</u>	593.6
<b>OPERATING CASH FLOW</b>	<b>5.52</b>	<b>0.99</b>	<b>1.77</b>	<b>2.13</b>	<b>1.85</b>	<b>0.82</b>	<b>1.11</b>	<b>0.85</b>	<b>0.88</b>	<b>1.36</b>	<b>1.11</b>	<b>1.04</b>	<b>-0.58</b>	<b>0.84</b>	<b>0.63</b>	<b>0.65</b>	15.5
NOTE PROCEEDS (NET)	0.85	20.00			20.00												
LAND ACQUIRED	<b>7.58</b>	<b>24.70</b>	<b>12.00</b>	<b>12.00</b>	<b>12.00</b>	<b>12.00</b>	<b>7.00</b>	<b>1.25</b>	<b>0.75</b>	<b>1.50</b>	<b>1.25</b>	<b>0.25</b>	<b>0.00</b>	<b>1.00</b>	<b>0.75</b>	<b>0.75</b>	87.2
GIFTS OF LAND		11.00															11.0
ACQUISITION GRANTS	<u>0.02</u>	<u>2.27</u>	0.72	0.72	0.72	0.72	0.42	0.08	0.05	0.09	0.08	0.02	0.00	0.06	0.05	0.05	6.0
<b>NET CASH FOR LAND</b>	<b>7.56</b>	<b>11.43</b>	<b>11.28</b>	<b>11.28</b>	<b>11.28</b>	<b>11.28</b>	<b>6.58</b>	<b>1.18</b>	<b>0.71</b>	<b>1.41</b>	<b>1.18</b>	<b>0.24</b>	<b>0.00</b>	<b>0.94</b>	<b>0.71</b>	<b>0.71</b>	
ENDOWMENT		<u>1.77</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.15</u>	<u>-0.05</u>	<u>-0.05</u>	<u>-0.05</u>	<u>-0.05</u>	
ENDING CASH	21.20	32.52	22.86	13.56	23.98	13.37	7.75	7.28	7.31	7.11	6.89	7.55	6.92	6.77	6.65	6.54	
REQUIRED RESERVES	<u>1.42</u>	<u>3.19</u>	<u>3.04</u>	<u>2.89</u>	<u>2.74</u>	<u>2.59</u>	<u>2.44</u>	<u>2.29</u>	<u>2.14</u>	<u>1.99</u>	<u>1.84</u>	<u>1.69</u>	<u>1.64</u>	<u>1.59</u>	<u>1.54</u>	<u>1.49</u>	
AVAILABLE CASH	19.78	29.34	19.83	10.68	21.24	10.79	5.32	5.00	5.17	5.12	5.06	5.87	5.29	5.19	5.11	5.06	
<b>CUMM NEW LAND</b>	<b>0.00</b>	<b>24.70</b>	<b>36.70</b>	<b>48.70</b>	<b>60.70</b>	<b>72.70</b>	<b>79.70</b>	<b>80.95</b>	<b>81.70</b>	<b>83.20</b>	<b>84.45</b>	<b>84.70</b>	<b>84.70</b>	<b>85.70</b>	<b>86.45</b>	<b>87.20</b>	
CUMM CASH FOR NEW LAND	0.00	11.43	22.71	33.99	45.27	56.55	63.13	64.31	65.01	66.42	67.60	67.83	67.83	68.77	69.48	70.18	
<i>DS/TR</i>	<i>30%</i>	<i>35%</i>	<i>36%</i>	<i>33%</i>	<i>33%</i>	<i>36%</i>	<i>33%</i>	<i>33%</i>	<i>32%</i>	<i>29%</i>	<i>29%</i>	<i>28%</i>	<i>30%</i>	<i>26%</i>	<i>25%</i>	<i>23%</i>	