

# *City of Brisbane*

## *Agenda Report*

To: City Council via City Manager

From: Administrative Services Director

Subject: Separation of Parks and Recreation from Marina

Date: September 12, 2012

### **Purpose:**

Provide for a secure funding source for both our Parks and Recreation programs and Marina capital improvements.

### **Recommendation:**

Discuss the financial issues related to separating Parks and Recreation and the Marina and provide direction to staff for the development of the FY 2013/14 budget.

### **Background:**

In 2002 the City financially and administratively combined the Parks and Recreation Department with the Marina and created the Parks and Recreation Fund to account for the all the financial activity.

During the budget discussions for FY 2012/13 the issue was raised as to whether or not we should separate out the Parks and Recreation function from the Marina function.

### **Discussion:**

The Marina was originally built using Redevelopment money. The Redevelopment financed the construction of the Marina using tax increment financing. In 1984 the Redevelopment Agency (RDA) sold \$14,850,000 of bonds to finance the construction of the Marina. The payment sources for the bonds were to be Tax Increment from RDA Area 1 or lease payments from MetLife (which would be repaid from future increment). In 2001 the RDA refinanced these bonds and the accumulated debt owed to MetLife with a \$15,000,000 bond issue at 12% interest sold the City's Financing Authority which took that stream of income and sold a \$26,300,000 bond. The difference between the original bond and the new bond was the accumulated payments owed to MetLife. By refinancing the original bond, the RDA was able to generate excess revenue and pay for additional needed improvements within the RDA including its portion of the new pump station and Tunnel Avenue Bridge.

The Marina generates about \$1,500,000 a year on slip fees, electricity reimbursement and miscellaneous other fees. It costs about \$1,100,000 to operate including \$240,000 of depreciation. As presented at other times, depreciation is a non-cash expense but funding it is important for maintaining facilities over a longer period of time. The Parks and Recreation programs generate about \$500,000 in revenues and costs about \$2,100,000 a year to operate including indirect costs and depreciation.

The Parks and Recreation Fund as of July 1, 2012 had a net cash position of approximately \$630,000. In addition, the Fund is owed about \$2,300,000 from the RDA as part of the 2001 bond refinancing. With the passage of AB 1434 it seems likely that this debt will be recognized and at some future date will be repaid.

If the two functions were split part again there are a number of questions which would need to be answered. First, would Marina continue to make a contribution to other City expenses? The downside to this is it would reduce the amount of money available to maintain the marina and do the necessary capital repairs as provided by the Director of Marina and Aquatic Services. Conversely, a reduction in the support of the Parks and Recreation programs would require either additional revenue, reduction in services or some other change within the General Fund.

A basic question which could be asked as a follow-up is; should the Marina users pay the residents of the community for the use of the tax money which went into the construction of the Marina. For example, in private enterprises investors anticipate a return of 10 to 20 percent of their investment capital. The annual bond payment is about \$2,300,000 every year, if we were to accept the 10 – 20 percent range as the amount of return on investment, for the taxpayer paying for the Marina, then a transfer to the General Fund between \$230,000 and \$460,000 is reasonable.

The second question which needs be answered is; how will the Marina pay for maintenance and capital repairs above what is already in the budget if the City does not separate the funding from Parks and Recreation. According to the Director of Marina and Aquatic Services the Marina needs an additional \$228,000 a year for maintenance and repairs (for 3 years) as well as setting aside \$325,000 a year for additional long-term capital projects. Without changing the distribution of revenues from the Marina this would mean there would need to be a 20% rate increase for current maintenance and repair needs as well as a another 32% for long-term needs.

One way to solve the Marina needs would be to separate the Marina funding from the Parks and Recreation funding. This would allow \$400,000 a year to be put back into the Marina for its maintenance plus setting aside \$240,000 for depreciation. This would offset a need for a rate increase and leave about \$90,000 available for other purposes. However, this would then create a \$600,000 hole in either the Parks and Recreation programs or the General Fund if Council would like to reincorporate the Parks and Recreation programs into the General Fund as was the case prior to 2002.

Currently, the Parks and Recreation Commission is reviewing the fees charged for programs offered by the City. It is anticipated that this review will recommend some increases in the rates charged for some programs and potentially the realignment or elimination of other programs. It is doubtful that new fees would generate the full \$600,000 since overall fees are estimated to bring in only \$500,000 a year. A \$600,000 in revenue would require a 120% increase in fees which would decrease the number of participants potentially reducing the overall amount of fees collected and programs offered. A \$600,000 reduction in costs would also be difficult to achieve since we have already eliminated two of the higher paying positions in the department Parks and Recreation Director and Recreation Supervisor (over \$300,000 in savings) and anticipate going to ½ time clerical support after the current Administrative Assistant retires. Any further reductions in staff will mean a reduced level of service for our residents either through reduction in number of programs, hours offered, or number of participants.

City Council may desire to look at a combination of the above alternatives; separating the Parks and Recreation programs from the Marina programs and putting Parks and Recreation back into the General Fund. The General Fund would then charge the Marina a reasonable rate of return on for the

use of taxpayer money (in the range of \$300,000-\$400,000 a year), increase General Fund revenues or decrease expenditures by \$200,000 - \$300,000 to offset the loss from the Marina, increase Marina Fees to cover the cost of maintenance over a three year period or 6% a year, and use available cash reserves within the Marina Fund to offset any operating deficit for the first three years.

**Fiscal Impact:**

As previously discussed the Marina provides approximately \$600,000 a year for various Parks and Recreation programs. If this support was no longer provided the City would need to either increase parks and recreation fees to cover the difference, reduce costs within Parks and Recreation to make up the reduction, or change some other aspect of the General Fund revenues or expenditures to ensure the continuation of Parks and Recreation programs. Or, a combination of the three methods could be used.

**Measure of Success**

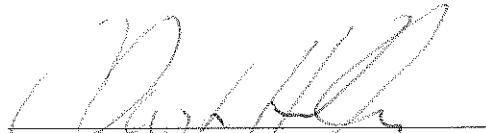
Long-term financial viability of the Marina while maintaining parks and recreation services.

**Attachments:**

Marina and Parks and Recreation Fund split



Stuart Schillinger  
Administrative Services Director



Clay Holstine  
City Manager

Marina

	Actual FY 2011/12	Budget FY 2012/13	Projected FY 2013/14	Projected FY 2014/15	Projected FY 2015/16	Projected FY 2016/17
Revenues	1,524,776	1,515,060	1,530,211	1,545,513	1,560,968	1,576,578
Expenditures	1,077,556	1,116,971	1,080,236	1,085,993	1,089,723	1,093,258
Net Revenue	447,220	398,089	449,974	459,520	471,245	483,319
Depreciation	239,554	240,000	240,000	240,000	240,000	240,000
Net Cash Gain	686,774	638,089	689,974	699,520	711,245	723,319

Parks and Recreation

	Actual FY 2011/12	Budget FY 2012/13	Projected FY 2013/14	Projected FY 2014/15	Projected FY 2015/16	Projected FY 2016/17
Revenues	516,075	496,900	501,869	506,888	511,957	517,076
Expenditures	2,222,345	2,146,654	1,997,639	2,009,931	2,016,870	2,023,338
Indirect Costs	295,807	254,656	309,739	312,836	315,964	319,124
Expenditures net of Indirect Costs	1,926,538	1,891,998	1,687,900	1,697,095	1,700,906	1,704,214
Net Cost	(1,410,463)	(1,395,098)	(1,186,031)	(1,190,207)	(1,188,949)	(1,187,138)
Depreciation	161,862	161,862	161,862	161,862	161,862	161,862
Net Cash Loss	(1,248,601)	(1,233,236)	(1,024,169)	(1,028,345)	(1,027,087)	(1,025,276)