

AGENDA

ROSSMOOR COMMUNITY SERVICES DISTRICT

BUDGET COMMITTEE MEETING

RUSH PARK
West Room

3001 Blume Drive
Rossmoor, California

Wednesday, November 27, 2018
9:00 a.m.

A. ORGANIZATION

1. CALL TO ORDER: 9:00 a.m..
2. ROLL CALL: Directors DeMarco, Maynard
3. PLEDGE OF ALLEGIANCE

B. PUBLIC FORUM

Any person may address the members of the Budget Committee at this time upon any subject within the jurisdiction of the Budget Committee of the Rossmoor Community Services District.

C. REGULAR CALENDAR

1. DISCUSSION WITH GENERAL MANAGER REGARDING THE 2018 UPDATE OF THE 5-YEAR PLAN

D. ADJOURNMENT

CERTIFICATION OF POSTING

I hereby certify that the attached Agenda for the Tuesday, November 27, 2018 9:00 a.m. Budget Committee Meeting of the Rossmoor Community Services District was posted at least 24 hours prior to the time of the meeting.

ATTEST:



Joe Mendoza
General Manager

Date 11/29/18

ROSSMOOR COMMUNITY SERVICES DISTRICT

AGENDA ITEM C-1

Date: November 27, 2018
To: Budget Committee
From: General Manager
Subject: 2018 UPDATE OF THE RCSD FIVE-YEAR FISCAL PLAN

RECOMMENDATION:

Review and possible action based on the 2018 Update of the Five-Year Fiscal Plan (Plan).

BACKGROUND:

The Plan's tenants were accepted by the Board by its adoption of the Specific Recommendations. A principal tenant was that the Plan would serve as a tool in the development of the District's Annual Budget. More importantly, the Plan's Specific Recommendations set forth guiding principles for maintaining a prudent reserve.

As called for in the Plan, HTGroup has updated it for 2018. The Update is based on audited 2018 data. Moreover, projections for the next five years are provided. These projections are based on past trends and an overview of the current economic conditions.

The matter before the Board is to review the update and to provide general guidance for the development of the FY 2019-2020 Annual Budget. As a guide to your review of the Update, an analysis of the differences between the projected 2018 revenues expenses and reserves and the actual figures for 2018 is attached. The Update tests the assumptions made in the development of the Plan versus actual outcomes.

ATTACHMENTS:

1. 2018 Update of RCSD Five-Year Fiscal Plan.
2. Table A 2013-2018 Actual Revenue.
3. Table D-1 2013-2018 Actual Expenses.

4. Table F-1 Actual Total Revenue vs Expenses 2013-2018.
5. Table H 2019-2023 Projected Revenue.
6. Table I 2019-2023 Projected Expenses.
7. Table J Projected Revenues vs Expenses 2019-2023.
8. Table G 2012-2018 Fund 10 Reserves.
9. Graph A 2013-2017 Actual Revenue/Expenses/Revenue.
10. Graph B Reserves Actual 2006-2018 and Projected 2019-2023.
11. Specific Recommendations Based on the Five-Year Fiscal Plan.

HTGROUP, LLC
MANAGEMENT CONSULTING
239 Campo Drive
Long Beach, CA 90803

November 27, 2018

Mr. Joe Mendoza, General Manager
Rossmoor Community Services District
3001 Blume Drive
Rossmoor CA, 90720

Dear Mr. Mendoza:

HTGroup, LLC is pleased to transmit our updated Five-Year Fiscal Plan. This analysis has found that the Rossmoor Community Services District is currently in a sound financial position. Future projected revenues and expenses are based on the growing property tax revenue based on increasing housing prices and a continuation of the District's control of its expenses.

This analysis was based on audited numbers for the years 2013-2018. Projections are based on a trend analysis of the last five years, along with other economic factors affecting the District's revenue and spending history. It should be kept in mind that as new information becomes available during each of the next five years, that the analysis be updated for actual performance.

Thank you for the opportunity to serve the Rossmoor Community Services District. I am available at your convenience to respond to any questions.

Sincerely,



Henry Taboada
Principal

**2018 UPDATE OF THE RCSD
FIVE-YEAR FISCAL PLAN**

Following is a depiction of actual revenues and expenses for 2018 versus those projected in 2017. The projections were based on 2011-2016 trend analysis and other relevant factors. What will be dramatically evident are the unanticipated increased in actual revenues and decreases in expenses.

<u>2017 Projections</u>	<u>2018 Actuals</u>	<u>2018 Delta</u>
<u>REVENUE</u>		
\$1,436,981	\$1,545,879	\$108,892
<u>EXPENSES</u>		
\$1,343,480	\$1,369,694	(-) \$26,214
<u>NET 2016-2017</u>		
\$93,501	\$176,185	\$82,684

Projections in 2017 understated revenue for 2018 in the amount of \$108,892. The increase in projected revenue was primarily based on the five-year 2012-2017 trend of a 4.4% average increase. Revenue for 2018 actually increased by 7.58% for a net difference of 3.18%. This amount is considered within a reasonable margin of error. The increase is primarily attributed to a continuing robust housing market which has increasingly added to property tax revenue. Moreover, lighting assessment revenue has correspondingly added to total revenue. Further, additional fee revenue is attributed to increases in all revenue categories other than Intergovernmental (Street sweeping which a stable County reimbursement).

Projected expenses on the other hand, were understated by -\$26,214 or a net difference of 2.0%. This increase is minimal and is due to a continuing diligent effort by the District's staff to control costs. This amount is considered well within the margin of error.

As a result of proper fiscal management, reserves increased from \$833,116 to \$1,009,301 for an additional \$176,185. This level of Fund 10 reserves is the highest amount since 1910.

Attached are a series of updated tables which correlate to relevant tables in the original Plan and which have been updated for the 2013-2018 five-year timeframe.

Table H 2018-2023 Projected Revenue assumes a 4.0% average increase over the next five years. This estimate is primarily based on a continuing robust housing market for Orange County. However, budget Estimates to Close (ETC's) indicate a more modest increase in property tax amount. Although housing prices have continued to increase every year since 2012 (by as much as 7%), median current prices are now pegged at 3.6% while housing sales have decreased by 18%. While the cost of housing is an impediment to an increase in sales, the increasing mortgage rates (currently in the 5% range) are also a relevant factor. It must also be kept in mind that while housing prices have increased steadily, approximately 90% of the housing stock will only see the annual 2.0% property tax increase authorized by Proposition 13. Nonetheless, higher housing costs over the next five years are considered more likely due to a continuing housing shortage. Thus, an increase of 4.0% in annual revenue is considered prudent with a caveat that a housing crash is not currently contemplated and the housing market will stabilize. The 2019 Update will provide a test of these assumptions.

Table I 2018-2023 Projected Expenses assumes a 3.46% average annual increase. This projection is based on the expense trend line for the last five years. There is also an assumption that the current reductions on expenses cannot be sustained in the longer term. It is also anticipated that the largest expense category (salaries and benefits) will continue to track CPI which have only grown at a snail's pace. But will now be influenced by the rising Fed interest rates. Also, the cost of water will likely stabilize due to more normal usage as weather patterns return to more typical rainfall totals.

Table J Projected Revenues vs Expenses 2018-2023 depicts an average of \$136,131 per year or a total of \$816,788 for the five year period. This projection is highly influenced by the current housing market's affect on property tax revenue. It should be kept in mind, however, that as in 2009 there could be another housing price slump. The 2019 Fiscal Analysis should be a better test of the revenue/expense gap.

Table G 2010-2018 Fund 10 Reserves depicts a historical display of reserve levels. No fund transfers were recorded for 2017 and 2018 and

coupled with a wider positive gap between revenue over expenses accounts for a significant increase in reserve levels.

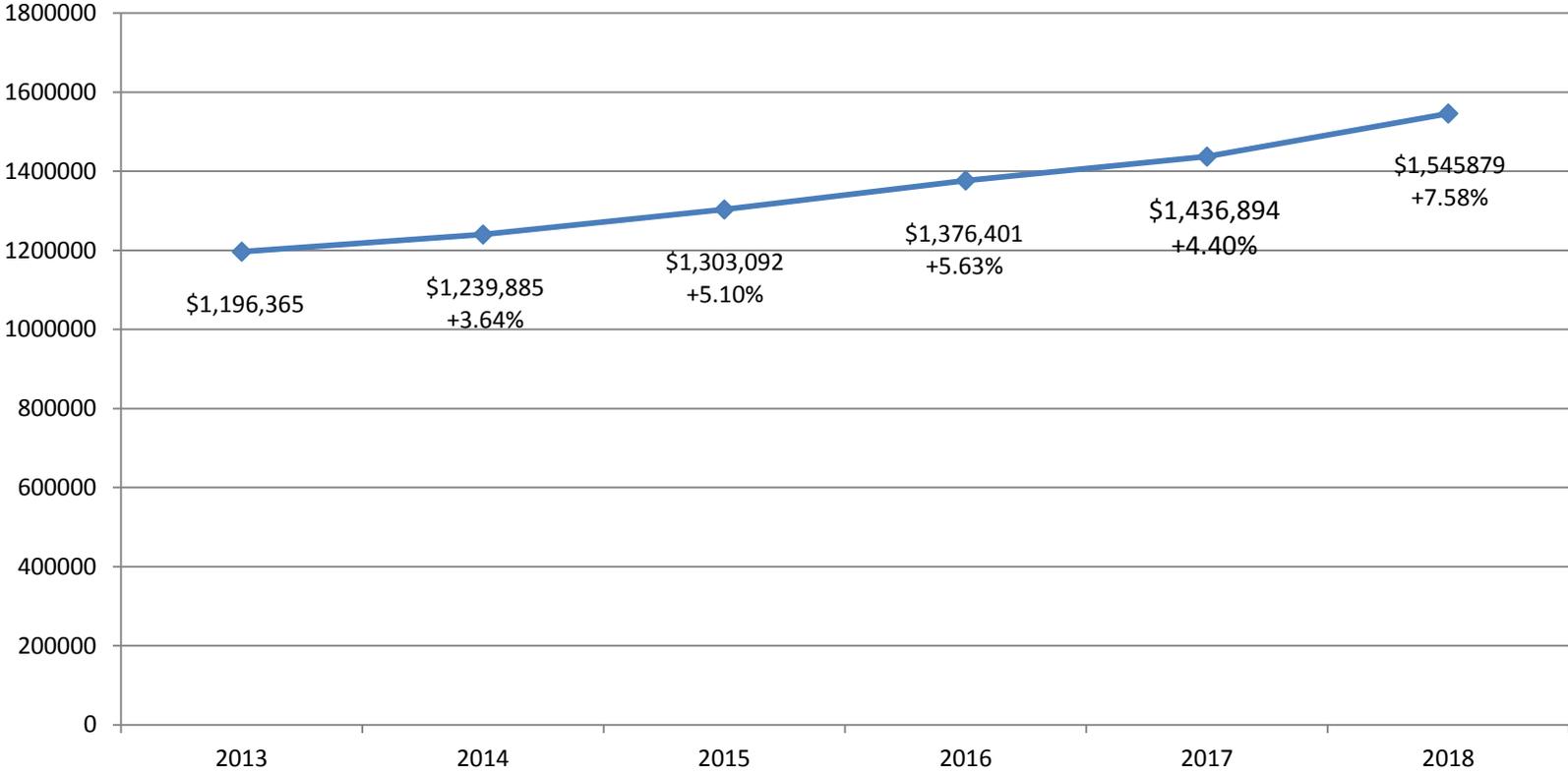
Graph A 2013-2018 Revenues/Expenses/Reserves depicts the historical relationships among the three categories.

Graph B Reserves Actual 2006-2018 and Projected 2019-2023 depicts a trend line of actual and projected reserves based on a limited CIP. Should the Board elect to undertake high cost projects such as the Rush Park parking lot rehabilitation and a Rossmoor Park upgrade, reserve levels could decrease accordingly or not depending on the method of financing for these projects.

SPECIFIC RECOMMENDATIONS BASED ON THE RCSD FIVE-YEAR FISCAL PLAN previously adopted by the Board is attached for your information.

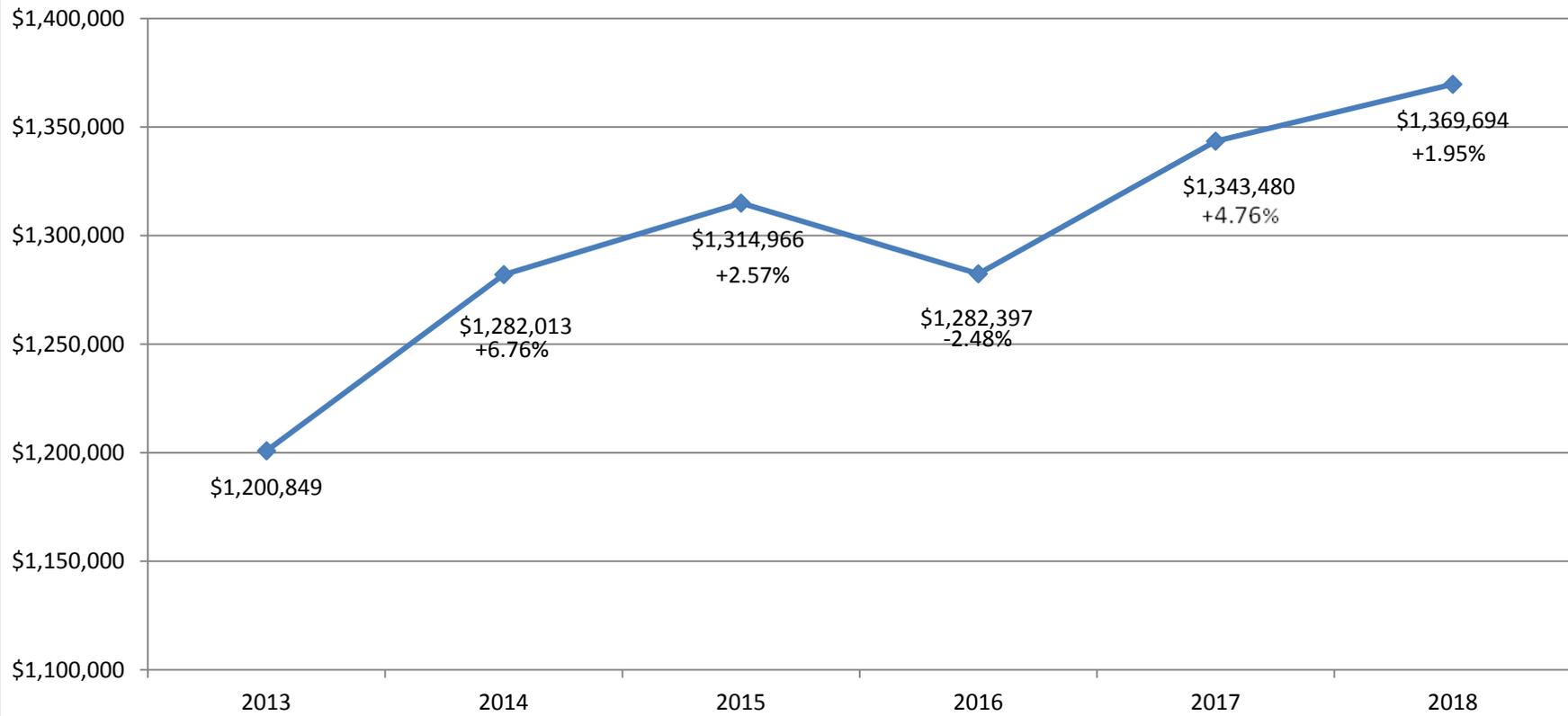
Hopefully, the information provided herein will prove useful to Board and staff with the development and assessment of the forthcoming FY 2019-2020 Annual Budget and guide future financial decisions.

Table A
2013-2018 Actual Revenue



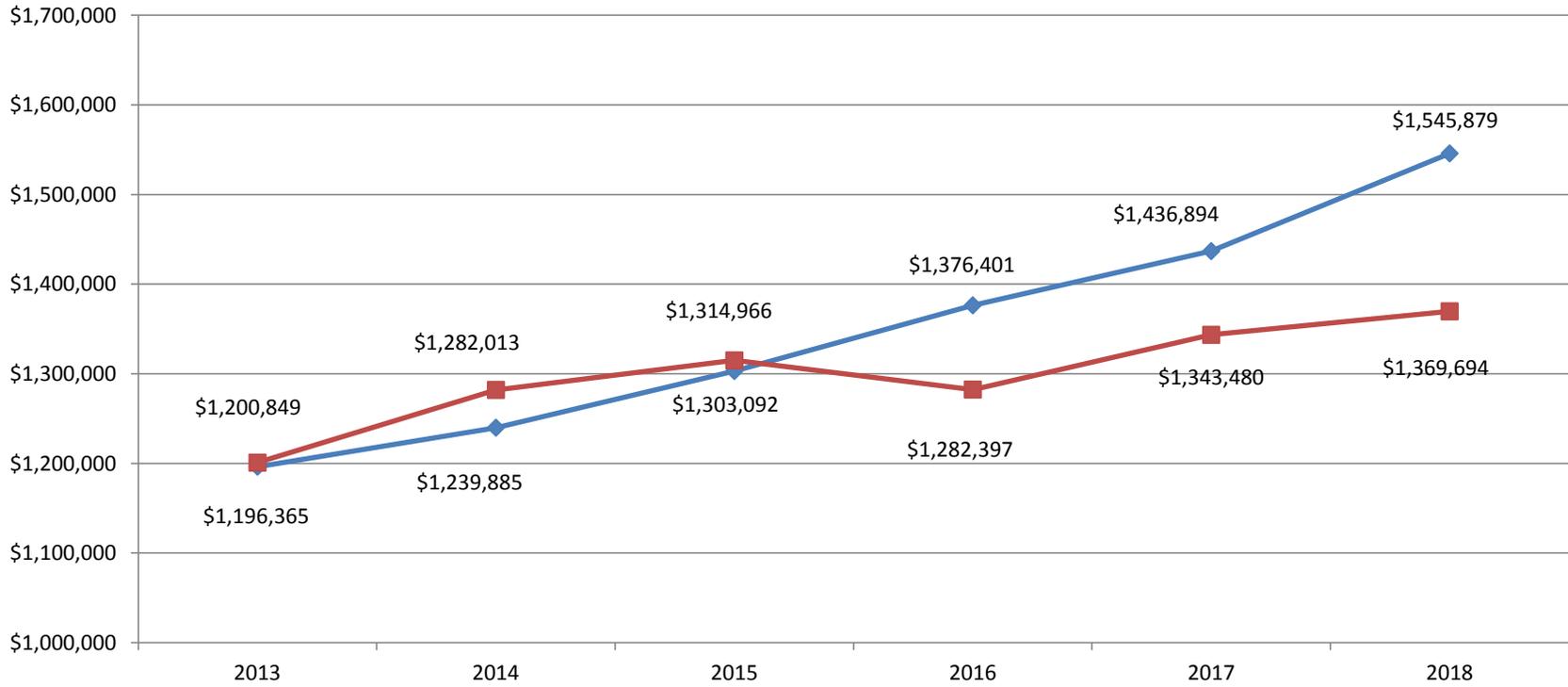
Total Increase \$349,514 +29.2%
Average Annual Increase \$69,903 +5.27%

Table D-1
2013-2018 Actual Expenses



Total Increase \$168,805 +14.1%
Average Annual Increase \$33,769 +2.81%

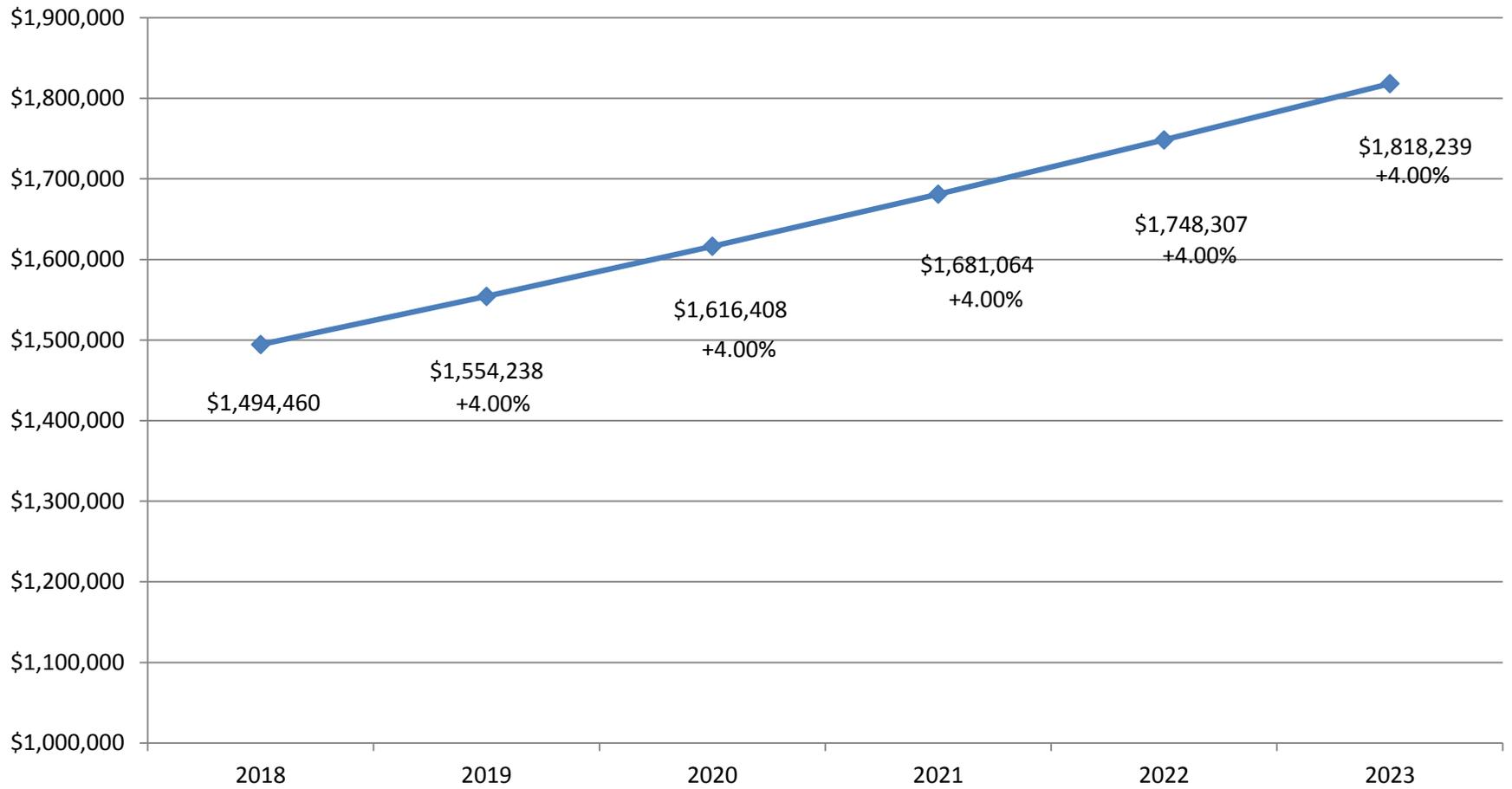
**Table F-1
Actual Total Revenues vs Expenses 2012 - 2018**



**Total Revenue over Expenses from 2013 through 2018 +305,117
Average Revenue +\$50,853 over Expenses per year**

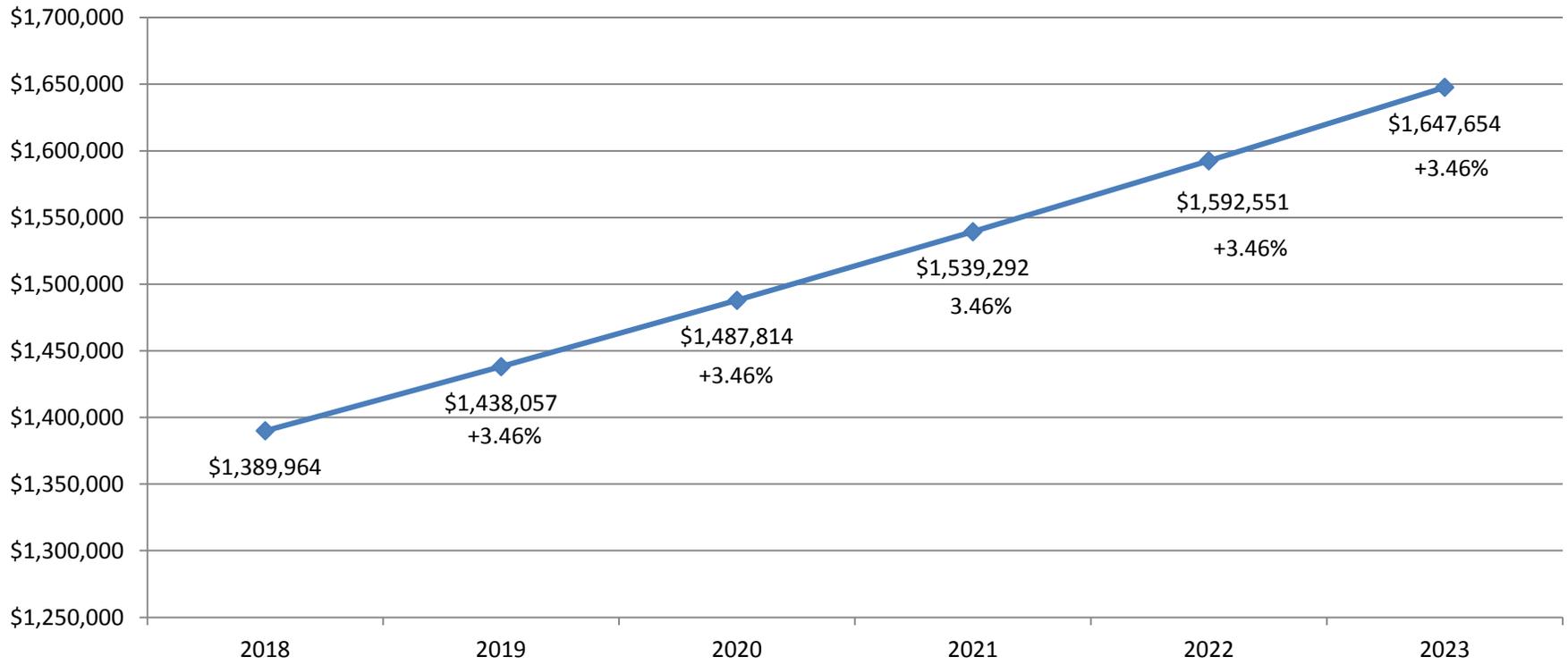
◆ Revenues ■ Expenses

Table H 2018-2023 Projected Revenue



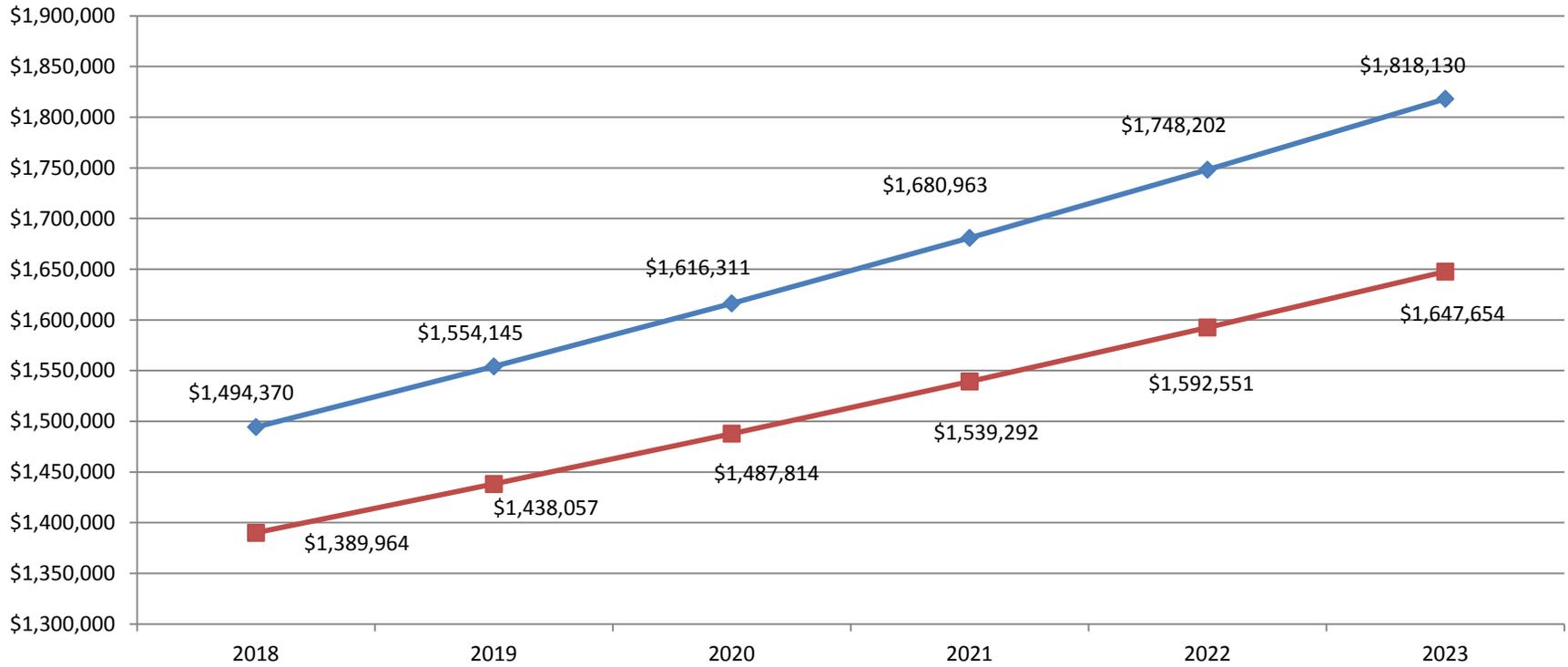
Total Increase \$323,779 +21.7%
Average Annual Increase +\$64,756 +4.0%

Table I
2018-2023 Projected Expenses



Total Increase + \$257,690 +18.5%
Average Annual Increase +\$51,538 +3.46%

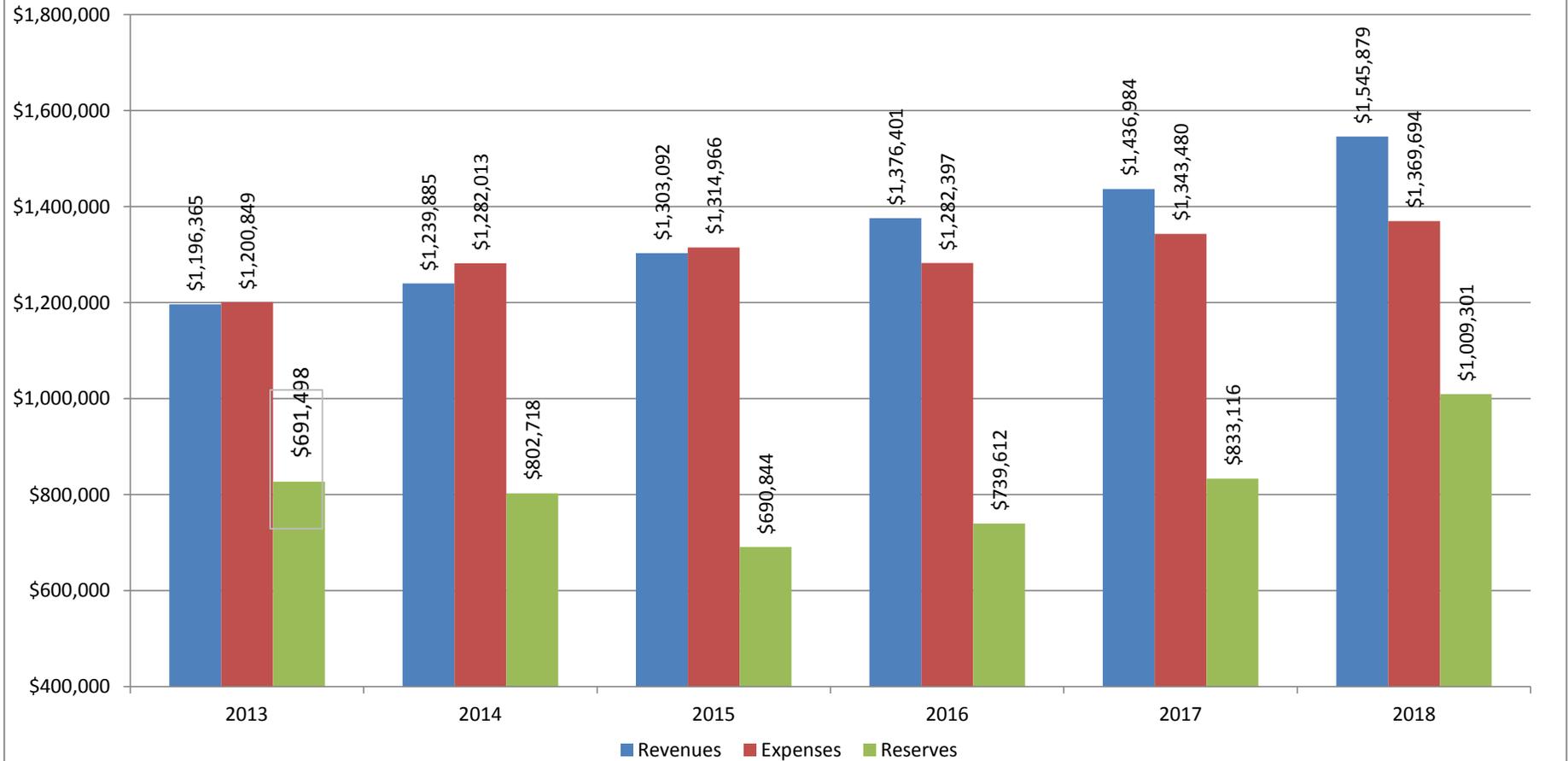
Table J
Projected Revenues vs Expenses 2018 - 2023



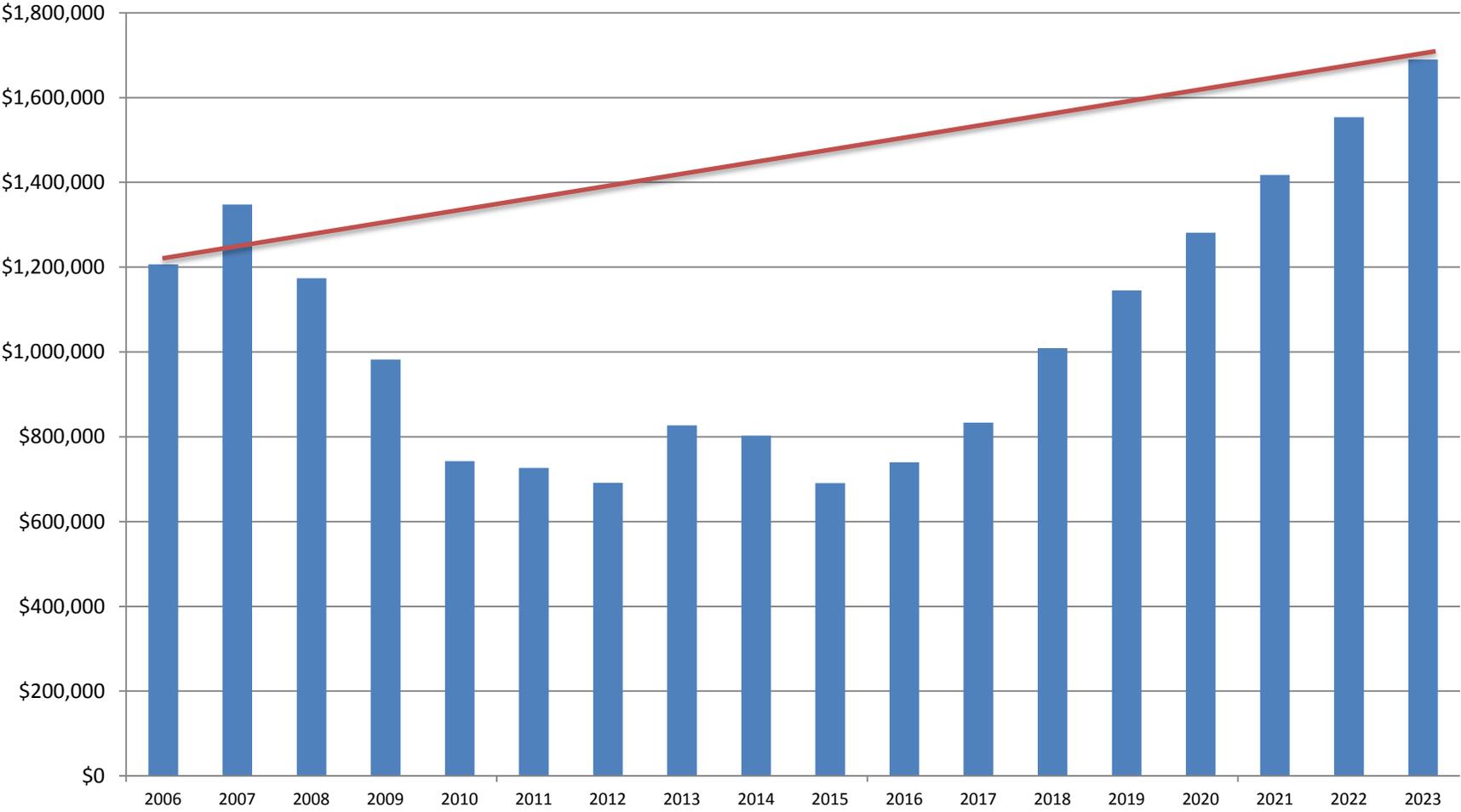
Total Revenue over Expenses from 2018 through 2023 +\$816,788/ Average Revenue +\$136,131 over Expenses per Year

◆ Revenues ■ Expenses

Graph A
2013-2018 Revenues/Expenses/Reserves



Graph B Reserves
Actual 2006 - 2018 and Projected 2019 - 2023



**SPECIFIC RECOMMENDATIONS BASED
ON THE
RCSD FIVE-YEAR FISCAL PLAN**

1. Establish a minimum reserve level of \$500,000 which includes the \$250,000 “rainy day” amount.
2. Establishing Board policy for review by the Board of any unbudgeted initiative proposed by the Board which would draw down reserves by more than \$5,000 for each occurrence with a maximum of \$25,000 annually subject to emergency situations.
3. Update the Fiscal Plan by staff on an annual basis prior to the development of the Preliminary Annual Budget.
4. Establish Board policy stating that Fund transfers to Fund 10 be allocated to Fund Balance (reserves), not revenue except as indicated in No. 5, below.
5. Eliminate the budgeting or transfer of one-time monies from other Funds or unanticipated windfalls into Fund 10 revenue without a specific review by the Board to determine if such transfers would result in an on-going rather than one-time expenditures.