

M E M O R A N D U M

TO: Board of Trustees

THROUGH: Indra Winqest
General Manager

FROM: Paul Navazio
Director of Finance

SUBJECT: FY2021/2022 Budget Workshop #2

DATE: February 18, 2021

Introduction

The Board of Trustees has scheduled a series of budget workshop to inform development of the District's FY2021/2022 budget. The first budget workshop, held on January 20, 2021 reviewed the existing Board Fiscal and Budget Policies as well as a discussion of the budget development timeline and process for developing baseline budgets for each of the District's major funds. Tonight's workshop is intended to:

- 1) Provide the Board with an update on the initial budgets being developed for FY2021/2022, and
- 2) Review and discuss a framework for updating the District's pricing structure, consistent with Board Policy 6.1, to ensure that rates charged for access to District venues and activities are set to fully-recover the cost of providing services while also establishing appropriate discounts for District parcel owners.

A third budget workshop, planned for March, will focus on updating the Districts Capital Improvement Program budget and Five-Year Capital Improvement Plan as well as a discussion of the Recreation and Beach Facility Fees to be assessed for next fiscal year.

1) Update on the District's Budget Development Process for FY2021/22

In providing the Board with an update on the development of the District's budget for FY2021/22, staff will review the assumptions being used to develop the initial "baseline" revenue and expenditure estimates for each major fund supporting

district operations and, in so doing, is seeking Board feedback. The initial budget projections are based on assumptions related to venue utilization, fees and charges for services, as well as staffing and service levels supporting District activities.

In addition, there are a number of issues that impact the development of the District's FY2021/22 budget and are expected to be incorporated into the Tentative Budget to be approved in mid-April and the Final Budget to be approved in late May: These include, but are not limited to:

- Ongoing impacts of COVID-19 pandemic and protocols impacting availability of and access to District venues and activities.
- Transitioning of the District's Community Services and Beach activities from Special Revenue to Enterprise Fund accounting for financial reporting
- Consideration of modification to budgeting for Charges for Services, parcel owner discounts and punch cards
- Updating Central Services Cost Allocation Plan
- Review of Professional Services Contracts (ex. Marketing/Promotions)
- Review of capital projects that are more appropriately reflected as operating costs (ex. repairs and maintenance)
- Implementation of best practices for Capital Project Budgeting

Board feedback on these issues is an important element to ensure that the budget to be presented for Board approval is consistent with Board direction.

2) Discussion of Pricing Policy Framework to Ensure Appropriate Level of Cost Recovery

As discussed at the January Budget Workshop, among the Board policies that directly impact development of the District's budget is Policy 6.1 that states, in part, that:

"the District shall adopt a process to identifies the manner in which fees and charges for service are set and the extent to which they cover the cost of the service provided."

Full-cost Recovery. Given the variety of activities, programs, and products that are available to parcel owners, residents, their guests and the general public, it is critical that that fees and charges are set to ensure that, in the aggregate, these cover the cost of services provided. In this analysis it is important that venue and program budgets reflect the full cost of operations, including capital and debt. This

is among the stated goals of transitioning to enterprise fund accounting (which includes depreciation of capital assets as part of operating costs).

There are a number of issues to consider in establishing a robust pricing policy for District charges for services. These include:

Role of Facility Fees Assessed on District Parcels. The first is the recognition that all parcel owners within the District are assessed an annual Recreation Facility Fee to support recreation facilities and activities and, in addition, those properties within the District with Beach access are also assessed a Beach Facility Fee. The Facility Fees are set annually by the Board and “allocated” in support of specific District cost through the budget process and, as such, do not naturally align with the utilization of specific venues by residents.

Differential Pricing / Discounts. The second issue involves the differential pricing that is afforded to residents (picture pass holders) and, in many cases, their guests. The discounts applied to residents vary from venue to venue, apply to some “products” but not others. In addition, in some cases the rates offered to picture pass holders are often “discounted” from the non-resident rates; however, in some cases these products are sold to residents at a lower resident rate, without a “discount” applied as part of the transaction.

Punch Cards and Pricing. The use of punch cards as a means to allow guests to access venues at the “discounted” resident rates further complicates not just the District’s pricing structure, but also the accounting for charges for services collected as a consequence of utilization of specific venues. At present, the General Manager’s Ordinance 7 Advisory Committee is considering recommendations related to use and function of punch cards. Staff is also evaluating eliminating punch cards as a “form of payment” in order to both clarify how punch cards can be used across District venues as well as simply the accounting for punch card utilization. Simply stated, will punch cards be used to buy-down non-resident rates to either resident or “guest” rates, or will punch cards simply provide access to a reduced rate?

By reviewing and updating the District’s current pricing policy and related framework for establishing charges for services, not only can the District ensure full cost-recovery for services provided, but in addition, also ensure that residents and, where appropriate, their guests, are afforded appropriate differential pricing by virtue of their property rights as well as the payment of Facility Fees. Through its pricing policy, it is also important for the District to establish what revenue sources are covering what portion of costs, which recreation programs revenue may be used to appropriately support costs across other programs and venues, and

importantly, demonstrate that residents fees and charges for services are not used to subsidize non-resident access.

Dynamic Pricing for Non-Resident Rates. In reviewing the District's overall pricing policy, it is important to note that, traditionally, the Board of Trustees annually approves selected "Key Rates" that are generally focused on pass-holder rates for season passes, golf passes and daily access to venues and selected programs,. The Board has also provided management with a degree of flexibility to establish and modify non-resident rates through a practice of "dynamic" pricing, based on venue utilization/capacity, and market rates for comparable (and competing services). It is through this dynamic pricing approach to non-resident rates that venue manager are able to maximize revenues that contribute to the ability to provide discounts to residents while, at the same time, ensuring the highest level of customer service and experience for that the District is known for, and is expected by our residents.

Conclusion

Through the Budget Workshop, Staff is seeking feedback from the Board of Trustees related to 1) development of the District's tentative budget – which will be presented for Board approval in early April – as well as, 2) refinement of District's pricing policy and framework for establishing resident, guest and non-resident rates for charges for services supporting the District's recreation and beach activities.

**IVGID Board of Trustees
FY2021/2022 Budget Development Workshop(s)**

WORKSHOP #1 – January 20, 2021

Introduction

Workshop Goals
Budget Development Calendar

1) Review of Board Policies (Fiscal / Budget)

- a. Financial Standards (Policy 2.1.0)
- b. Budgeting For Results and Outcomes (Policy 5.1.0)
- c. Adoption of Financial Practices (Policy 6.1.0)
 - i. Policy 6.1.2.0 – Revenues
 - ii. Policy 6.1.3.0 - Expenditures
- d. Appropriate Level of Fund Balance (Policy 7.1.0) / (Practice 7.2.0, Practice 19.2.0)
- e. Establishing the Estimated Useful Lives of Capital Assets (Policy 8.1.0)
- f. Establishing Appropriate Capitalization Thresholds of Capital Assets (Policy 9.1.0)
- g. Multi-Year Capital Planning (Policy 12.1.0)
- h. Capital Project Budgeting (Policy 13.1.0) / (Practice 13.2.0)
- i. Central Services Cost Allocation Plan (Practice 18.2.0)

2) Baseline FY2021/22 Operating Budget

- a. Baseline Revenue Assumptions
- b. Baseline Expenditure Assumptions
- c. Preliminary Baseline Budget, by Venue / Fund
- d. Approach to planning for uncertain future

3) Baseline Five-Year Forecast for Each Major Fund Types

- a. General Fund
- b. Utility Fund
- c. Community Services Fund(s)
- d. Beach Funds

RELATED TOPICS:

- Fund Accounting – Enterprise vs Special Revenue
- Fund Structure – Resolution No. 1838
- Parcel Owner Allowances
- Accounting for Punch Cards

WORKSHOP #2 – February 24, 2021

4) Review of Venue / Program Budgets and Expectations

- a. Baseline Revenues / Fee Structure
 - b. Staffing and Service Levels
 - c. Professional Service Contracts
 - d. Net Operating Revenues(Expenses) – “Financial Bottom Line”
- Administration
 - Utilities
 - Community Services
 - Beaches

5) Discussion of Framework for District Pricing Policy

- a. Policy 6.1.2.0 – Revenues
- b. Cost-Recovery Framework for Venue Pricing

**IVGID Board of Trustees
FY2021/2022 Budget Development Workshop(s)**

WORKSHOP #3 – MARCH (TBD)

6) CAPITAL IMPROVEMENT PLAN (CIP)

- a. Capital Project Budgeting Policies / Practices – UPDATE
 - i. Project Justification / Scope / Funding Sources
 - ii. Capital vs Operations / Maintenance
- b. Review / Update of Priority Capital Projects and Funding Strategies
- c. Preliminary FY2021/2022 Capital Budget
- d. Updated Five-Year Capital Improvement Plan

7) FACILITY FEE – FY2021/2022 RECREATION ROLL

- i. Community Services
- ii. Beach