

May 16, 2019

TO: San Joaquin Area Flood Control Agency
FROM: Chris Elias, Executive Director
SUBJECT: **RESOLUTION TO APPROVE THE PROPOSED FISCAL YEAR 2019/20 BUDGET FOR THE SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

RECOMMENDATION

It is recommended the Board of Directors of the San Joaquin Area Flood Control Agency adopt a resolution to approve the proposed fiscal year (FY) 2019/20 budget for the San Joaquin Area Flood Control Agency.

DISCUSSION

Background

On May 29, 2018, the Board adopted SJAFCA Resolution No. 18-10 approving the Agency's proposed budget for FY 18/19 (Exhibit A). Also, shown on Exhibit A is an updated budget with revised beginning fund balances, revenues, and the following modification:

- Shifted \$30,000 from SJAFCA Employee Services to Other Services to cover costs for assistance with development of a recruitment and benefit package for the Director of Engineering Services position

As of March 31, 2019, with 75 percent of the FY lapsed, the Agency has spent about 62% of the operating budget (see table below). Overall operating costs are expected to come in under budget and this is mainly due to vacant positions in SJAFCA.

FY 18/19 To-Date Operating Expenses and Year-End Estimate

	FY 18/19 Budget	18/19 Expenses As of 3/31/19*	Year-End Estimated Operating Expenses
SJAFCA Employee Services	\$ 914,000	\$ 468,393 (51%)	\$ 628,000 (69%)
City Employee Services	75,000	8,347 (11%)	12,000 (16%)
Other Services	458,000	344,040 (75%)	458,000 (100%)
Materials & Supplies	23,000	10,651 (46%)	17,000 (74%)
Other Expenses	60,000	43,012 (72%)	50,000 (72%)
Approved Operating Budget:	\$1,530,000	\$874,443 (62%)	\$1,165,000 (76%)

* 75% of FY Lapsed

The proposed FY 19/20 budget (Exhibit B) presents the Agency's anticipated expenditures for general administration, operations, and support costs for existing capital improvement projects. The Agency's activities are supported by the following resources: SJAFCA Reserve Fund Balances, the Operations and Maintenance Fund, the Smith Canal Assessment District

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Fund, the Mossdale Tract Fund, and Cost-Share Agreements. These resources are described below:

SJAFCA Reserve Fund Balances. The SJAFCA reserve fund balances are assets that were derived from the Flood Protection Restoration Project (FPRP) completed in 1998, the unexpended bond proceeds for that project, fees collected by both the City of Stockton and County of San Joaquin for the Agency's former equalization fee program, and reimbursement received from the U.S. Army Corps of Engineers for the original flood control improvements. In addition to earned interest, some funding from in-County local agencies was received to help pay the local share of costs for the Lower San Joaquin River Feasibility Study, and reimbursement from a Funding Agreement with the Department of Water Resources (DWR) for Regional Flood Management Planning. Revenues received from local agencies and through Funding Agreements reimbursed the Agency for some the costs it incurred to support projects.

Over the last several years, the Reserve Fund balances have been used to pay for the Agency's operating costs and work that supported the Agency's capital improvement projects, such as the Lower San Joaquin River Feasibility Study (LSJRFS), the recertification of the Bear Creek and Calaveras River levee reaches, and to advance funds for the Smith Canal Gate project before assessments were established to support project costs. Although the Agency advanced a considerable amount of funding for the Smith Canal Gate project (approximately \$2 million) it is anticipated the Agency and other in-County local contributors will be repaid for project advances at project completion.

Operations and Maintenance (O&M) Fund. The O&M Fund accounts for money collected annually through the Agency's O&M assessment. The levy of this assessment provides resources for ongoing maintenance of the Agency's FPRP improvements. Each year, the Board reviews the Annual Engineer's Report and establishes the O&M assessments. The O&M budget for FY 19/20 is presented to the Board separately as Agenda Item 5.1.

Smith Canal Area Assessment District Fund. This fund accounts for money collected annually through the Smith Canal Area Assessment District to fund the Smith Canal Gate project. Assessment collection began in FY 14/15. The levy will assess 8,098 benefited parcels and will generate \$1.69 million during FY 19/20 that will be used to fund the local share of the project. The FY 19/20 Technical Memorandum for the Smith Canal Area Assessment District is presented to the Board separately as Agenda Item 5.2.

Mossdale Tract Fund. This fund was created as part of a Board-approved action through SJAFCA Resolution 18-06 on February 26, 2018, to address flood protection for the Mossdale Tract Area. The sources of funding/loans are from member agencies: City of Stockton, San Joaquin County, City of Lathrop and City of Manteca. This fund is used to pay for activities to advance the Mossdale Tract Program. During FY 17/18 the Board approved a 2-year budget totaling \$2.16 million which is attached to this staff report as Exhibit C. There is no additional budget request for FY 19/20 because allocated funding to carry out Board-approved actions is adequate, thus far. If the need for additional funding should arise during FY 19/20, staff will bring a scope of work before the Board for its consideration and approval.

Cost-Share Agreements. The Agency collaborates with local reclamation districts and other governmental agencies for funding support via cost-share agreements. As an example, the

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Agency collaborated with 11 reclamation districts, 4 cities, and the County of San Joaquin to fund the local cost share of the LSJRFS. The Agency also cost-shared with Reclamation Districts 828 and 1614 to help fund the costs of preliminary studies and the formation of the Smith Canal Area Assessment District.

Funding Agreements with DWR have reimbursed the Agency for its efforts with the 2017 Central Valley Flood Protection Plan (CVFPP) update and the Basin-Wide Feasibility Study. Currently, the Agency receives funding from DWR for the Smith Canal Gate project through its Urban Flood Risk Reduction (UFRR) program to fund construction activities. The Agency continues to pursue State funding programs to supplement its capital improvement projects.

Present Situation

Operating Budget. The Agency's Operating Budget for FY 19/20 (Exhibit B) totals \$1,638,000, and consists of the following categories described below:

- **SJAFCA Employee Services.** This category includes salary and benefits for 6 SJAFCA positions: Executive Director, Director of Engineering Services, Senior Civil Engineer, Associate Civil Engineer, Project Manager, and Administrative support staff. Four positions are City of Stockton positions and two positions, Executive Director and Director of Engineering Services, are Agency positions. The increase to Employee Services for FY 19/20 is due to normal increases in salary and benefit costs. The total allocation of resources to support 6 full-time positions is **\$980,000**.
- **Other Employee Services.** This category segregates SJAFCA staff positions from City of Stockton and temporary staff costs. City of Stockton costs include an allocation of salary and benefits for administration and city payroll services. Temporary staff costs include professional services received by the Agency for bookkeeping. The estimated cost for Other Employee Services is **\$75,000**.
- **Other Services.** These expenses include professional services such as legal counsel, lobbying efforts, technical consultants, and annual auditing services. General liability, insurance premiums, equipment rental, computer technology support, postage, mailing, duplicating services, and file storage are included. Rental for building space from the City of Stockton is also included. The total allocation for Other Services is **\$478,000**.
- **Materials and Supplies.** This category includes expenses for general office supplies, computer software, the maintenance of the Agency's office scanner/copier equipment, and vehicle maintenance. The anticipated cost for Materials and Supplies is **\$20,000**.
- **Other Expenses.** This category includes costs for travel, such as lobbying trips to Washington, D.C., parking, training and staff development, professional memberships, permits/certifications, and web site development and maintenance. This category also includes the indirect costs incurred from the City of Stockton. The total anticipated cost for Other Expenses is **\$85,000**.

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During prior fiscal years, all of the Agency’s operating costs were budgeted against the Agency’s reserve fund balances. This is a conservative approach given that the Agency implements a process where its direct operating costs in support of specific programs (e.g., Smith Canal and Mossdale Tract) are directly allocated to those programs based on actual staff hours spent in support of those services. Not only does this reduce the burden to the Agency’s reserve fund balances, it allows the Agency to better track expenses by, and for, SJAFCA’s cost share partners, including DWR.

The Operating Budget illustrated in Exhibit B includes the full costs for the proposed positions. There will be a true-up towards the end of the year which will result in a reduction of the costs that are anticipated to impact the reserve fund balance. Budgets for the Smith Canal Project and the Mossdale Tract Program reflect allocated estimates for SJAFCA staff time.

Capital Improvement Program (CIP) Budget. The Agency has 4 capital programs that support flood protection projects, each with its own funding resources:

	Smith Canal	Mossdale Tract	Lwr. San Joaquin River Project	Regional Planning
Funding Sources	<ul style="list-style-type: none"> - Assessments - EIP Grant - UFRR Grant - Bond Revenues* 	<ul style="list-style-type: none"> - Local Funding Agreements - UFRR Feasibility Grant 	<ul style="list-style-type: none"> - SJAFCA Fund Reserves - Local Funding Agreements* - Federal Reimbursement* 	<ul style="list-style-type: none"> - RFMP Grant - RFMAP Grant*

**Asterisk denotes funding mechanisms to support the programs but have not yet taken place.*

At this time, there is no additional CIP budget request. The Agency continues to move forward with actions that were previously approved to provide long-term funding plans to support the programs. A brief re-cap of the programs and status are provided below.

Smith Canal. The issuance and sale of revenue assessment bonds to finance improvements for the Smith Canal project was approved at the March 28, 2019 Board meeting. The Smith Canal project will be financed by local assessment revenues, the issuance of bonds and Funding Agreements with the State to support project costs estimated to be \$67.38 million.

Mossdale Tract. The Mossdale Tract Program has been supported by advanced funding from Member Agencies and by Regional Development Impact Fees. To further accomplish the goal of achieving an Urban Level of Flood Protection for the Mossdale Tract Area, other local funding mechanisms, such as an Overlay Assessment District and Enhanced Infrastructure Financing District, are being explored to support project costs that will exceed (the original estimate of) \$137 million. A Request for Proposals for Assessment District Formation Services is expected to be released in June.

Lower San Joaquin River Project. The estimated design cost for the Recommended Plan is \$165 million. The non-Federal share of \$3.1 million for the first phase of design (estimated at \$8.84 million) will be split with the State (70/30) bringing SJAFCA’s total local cost share to \$930,000. In September 2018, the Board authorized the Executive Director to execute cost share agreements for the project. Successful funding agreements with benefiting agencies

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will reduce cost burden to the Agency. In addition, staff has been working diligently to obtain the \$10.6 million reimbursement from the Army Corps of Engineers for previous flood control improvements.

Regional Planning. Money received from the State for Regional Flood Management Planning (RFMP) reimbursed the Agency for its efforts to provide critical information about local flood management needs and priorities as part of the 2017 Central Valley Flood Protection Plan (CVFPP) update. As an extension of RFMP efforts, DWR released draft guidelines for funding under its Regional Flood Management Assistance Program (RFMAP) to encourage activities that support implementation of the CVFPP. Staff will continue to work with the State with the eventual goal of submitting a successful solicitation package to leverage RFMAP funding to support the Agency's projects.

FISCAL IMPACT

Discussion

With exception of the Mossdale Tract Program, the local share of CIP costs have been funded from the Agency's reserves with some reimbursement coming from local cost share partners. Apart from funds received for the various CIP programs, there is no sustained long-term funding in place to support Agency operations indefinitely.

The Agency's shrinking reserves and lack of revenue stream has been communicated to the Board over the last few years. Since new members have been appointed to the Board of Directors, staff would like to re-state that previous financial analyses prepared by Kjeldsen Sinnock Neudeck, Inc. (KSN), during FY 14/15, forecasted that the Agency would exhaust its reserves and would not be able to support operations beyond 2020.

As a result of the KSN report, SJAFCA and the San Joaquin County Flood Control and Water Conservation District (District) executed a cost-share agreement, approved by the Board in 2015, to evaluate funding alternatives and implement a plan to secure future funding for both the District and the Agency for the services it provides. The District, as the lead agency for this effort, has been working with Agency staff to finalize an assessment methodology and implement a public outreach plan. Prior to initiating a Proposition 218 balloting process, the District will present the scope of work and cost to the SJAFCA Board for consideration and approval. The current schedule would have District staff sending out ballots to voters in the Fall of 2019.

Without other sources of financing, the Agency may have to rely on program resources to support more of its operational costs. It should be noted that the various program resources cannot cover all operating costs due to restricted use of certain revenue sources.

Summary

The estimated Agency Reserve Fund Balance at the beginning of FY 19/20 is \$1,941,133 (Exhibit B). The proposed FY 19/20 budget anticipates total operating costs to be \$1,638,000. Total operating costs will be trued-up at fiscal year-end to account for direct expenses allocated against other sources of funding based on the level of effort for those specific

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programs. There is no request for additional CIP budget at this time. The Agency anticipates some reimbursements from State and Federal partners which the Board may use to restore its reserve fund balances which will help pay for future CIP projects. If the Agency does not receive its Federal reimbursement, the reserve fund balance will be nearly depleted at fiscal year-end 2020.

By approving the Resolution attached to this staff report, the Board will adopt and approve the Agency's proposed FY 19/20 budget. Additional appropriations or adjustments to the proposed FY 19/20 budget will be brought before the Board for consideration and approval.

PREPARED BY: Marlo Duncan

APPROVED:
CHRIS ELIAS
EXECUTIVE DIRECTOR

CE:MD

Attachments

- Exhibit A – FY 18/19 Updated Budget and Year-End Estimate
- Exhibit B – FY 19/20 Operating Budget
- Exhibit C – Mossdale Tract Fund Budget