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May 30, 2008

Mr. Dennis Hunter
Board President
Humboldt Bay Harbor, Recreation and Conservation District Commission
601 Startare Drive
Eureka, CA 95502

Re: Summary of Humboldt Bay Harbor, Recreation and Conservation District 2008-2009
Budget, Recent Budget Trends and Need for Adjustments

Dear Dennis,

I very much appreciate the time allowed for analysis of this year's Humboldt Bay Harbor, Recreation and Conservation District (District) budget due to its complexity. I have prepared summary charts that I will share below to help me better understand trends in the District's budget. They reveal that our enterprise has negative cash flow and that we are depleting our cash reserves. The operating loss of nearly \$500,000 is not sustainable and I believe we need to reassess our fiscal direction and emphasis.

Income/Expense Summary: While the District's revenue for 2008-09 is robust, with over \$3 million from general and Woodley Island Marina (marina) enterprises, the combination of operating expenses with substantial debt burden result in a net operating loss of a projected at \$455,000 (Figure 1). The expenses of our general operation, including debt service that is counted in that category, are much greater than losses attributed to marina operation. Our personnel budget, including benefits, has grown to over \$1.2 million annually and may not be sustainable.

District Budget History (Surplus/Deficit 1993-2007): The trends in surplus or deficits in the District's budget from 1993 to 2007 (Figure 2) show a major increase in projected annual deficits since 2000, when the District expended over \$2.6 million for deep dredging (50 feet) of the harbor entrance. Debt service on money borrowed to pay for the deepening project continues to drive the District into the red.

Recent Cash Balance Trends 1996-2007: In order to offset negative cash flow, the District has tapped its cash reserves held in various funds intended for facility improvement, dredging or recreation and conservation enhancement. Figure 3 shows trends in our cash balance as of June 30 from 1996 to 2007 and indicates that our cash reserves are at their lowest point in more than a decade (Figure 3). We can't continue to draw down our reserves at this rate for very long and tapping into these funds saps our ability to accomplish parts of our mission.

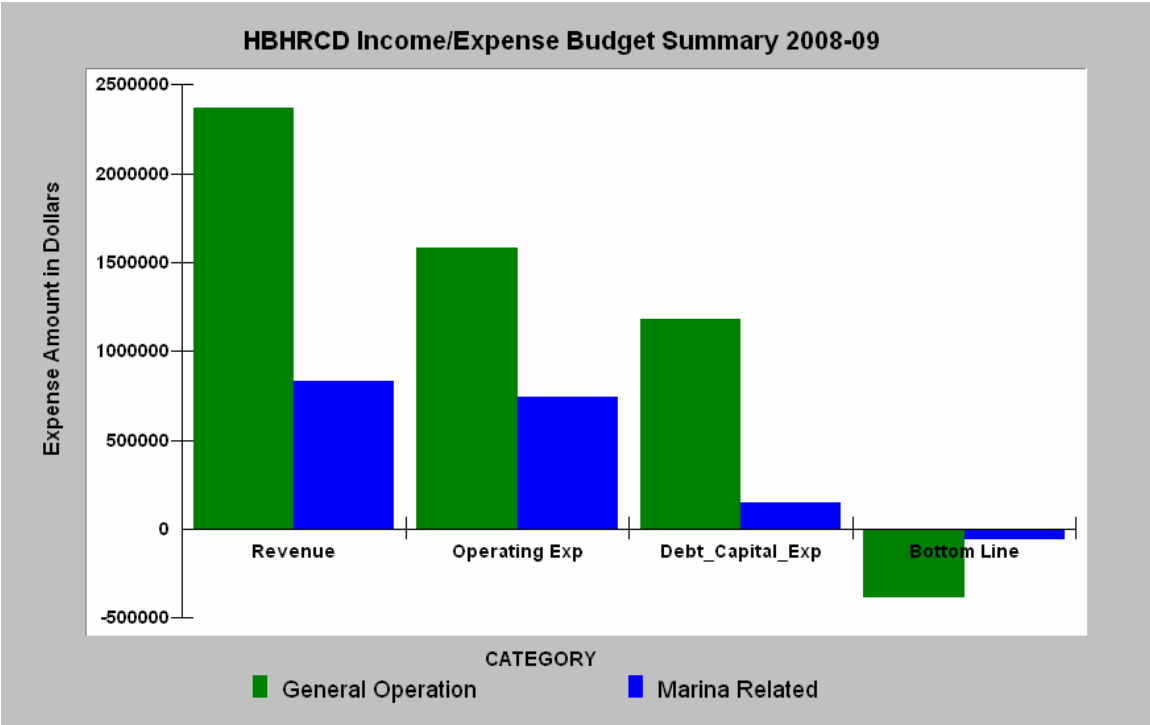


Figure 1. District revenue is over \$3 million, but operating expenses and debt and capital expenditures amount to over \$3.5 million, leaving a deficit of approximately \$455,000.

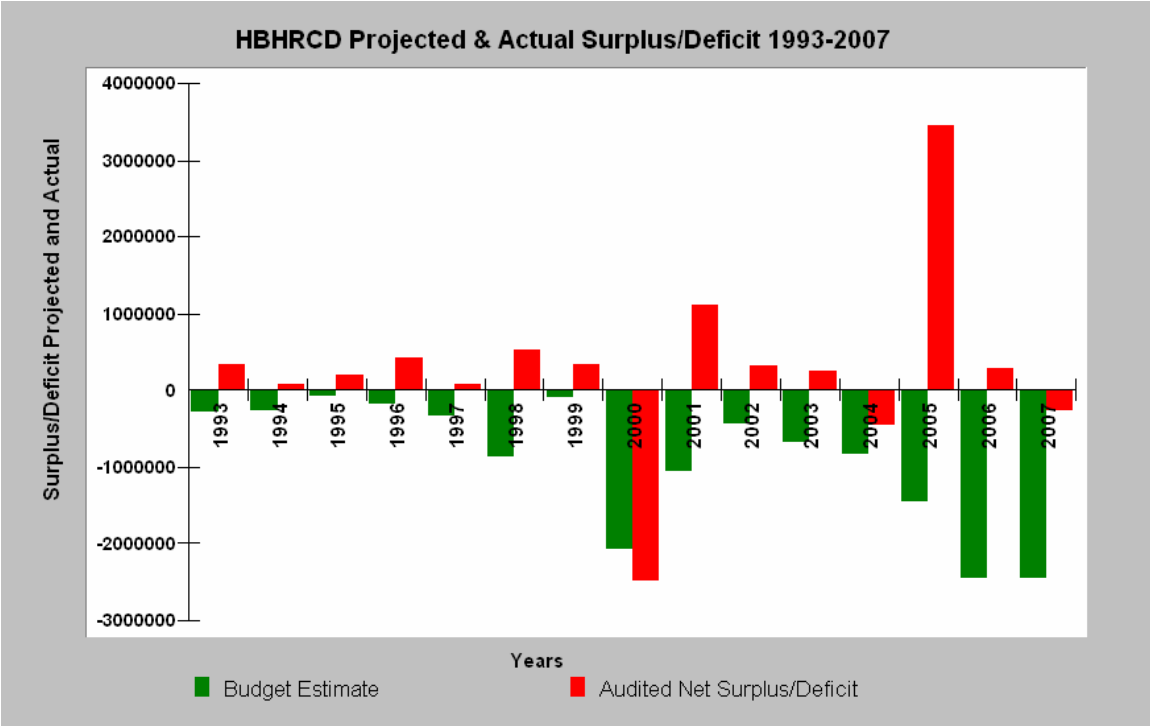


Figure 2. The District's budget estimate of surplus or deficit for all years from 1993 to 2007 is displayed in green and contrasted with the actual net revenue balance in red. Recent projected budget deficits have been offset by tapping cash reserves.

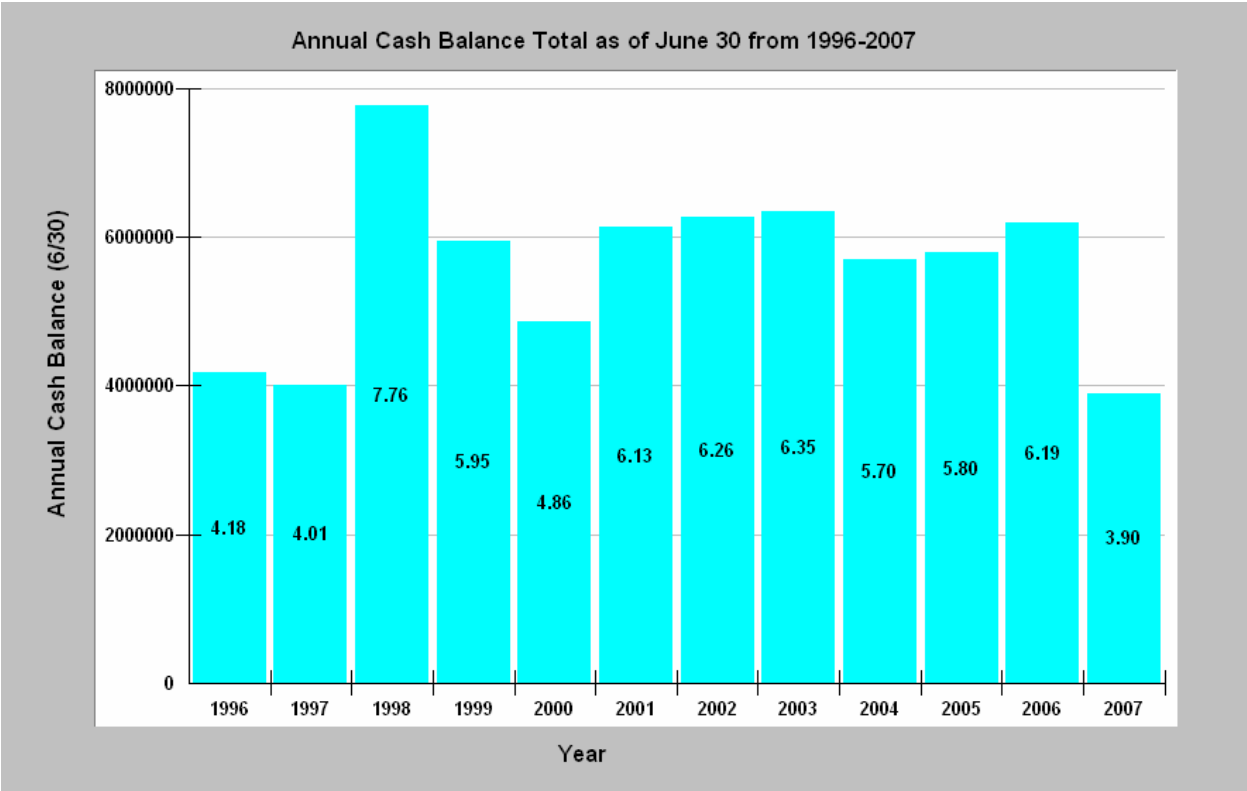
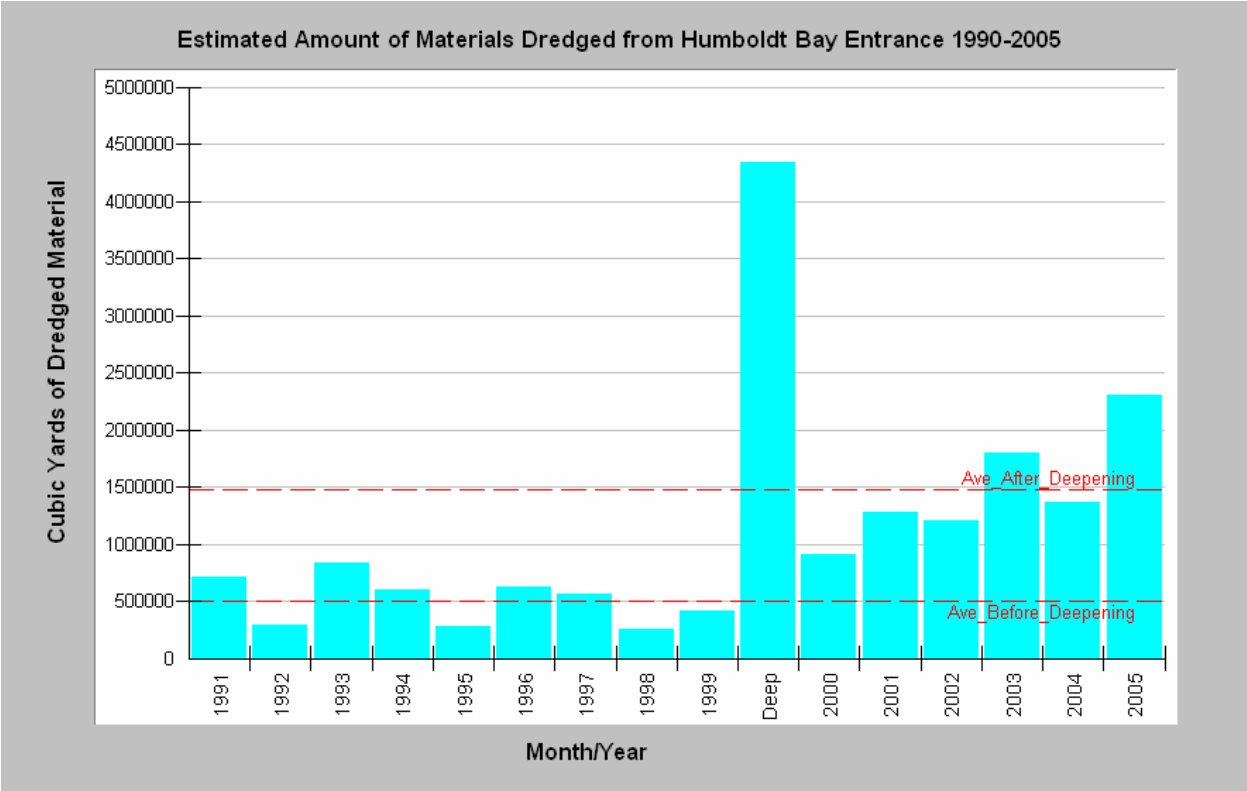


Figure 3. The net cash balance in all District fund reserves at the end of the fiscal year (June 30) is shown above for the years 1996 to 2007. We have the lowest fund reserve in more than decade as result of using money from reserves to cover budget deficits.



Fund Reserve Balance Changes in 2007-08: Figure 4 show the summary of changes in various District fund reserves. All fund balances were decreased to help offset budget deficits except for the Emergency fund, which was augmented by \$100,000.

District Projected 2008-09 Expenses: A District budget expense summary (Figure 5) shows that personnel costs are the largest expense with combined payroll, payroll taxes and benefits projected to be \$1,329,711 for fiscal year 2008-09. This may not be sustainable.

Three Year Trends in Top Seven Budget Expense Categories (2006-2009): The three year trend in the top seven budget expense categories from 2006-2008 (Figure 6) show the sharpest increase in salaries and payroll burden. Our payroll has increased by over 50% in three years and it is obviously contributing the to District's negative cash flow problems.

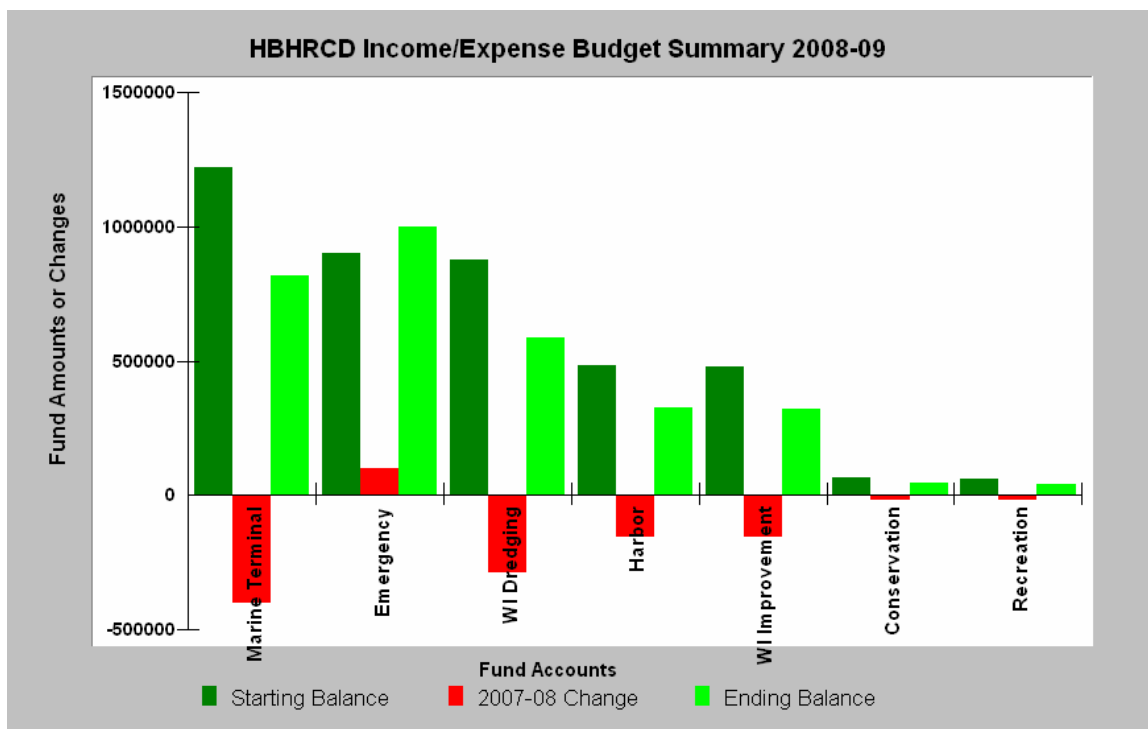


Figure 4. This summary chart shows fund balance changes in 2007-08 with most decreased to help offset budget deficits, except for the Emergency fund that was augmented by \$100,000.

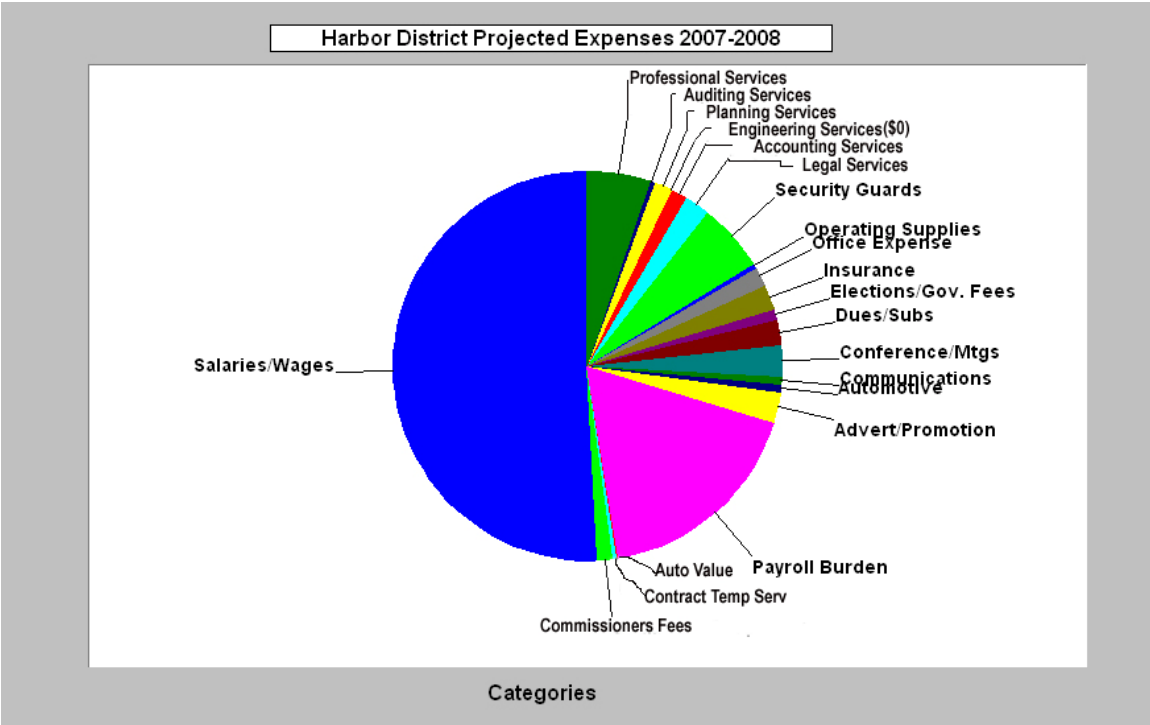


Figure 5. Projected expenses for the District show that personnel costs along with associated taxes and benefits make up more than 60% of the total costs.

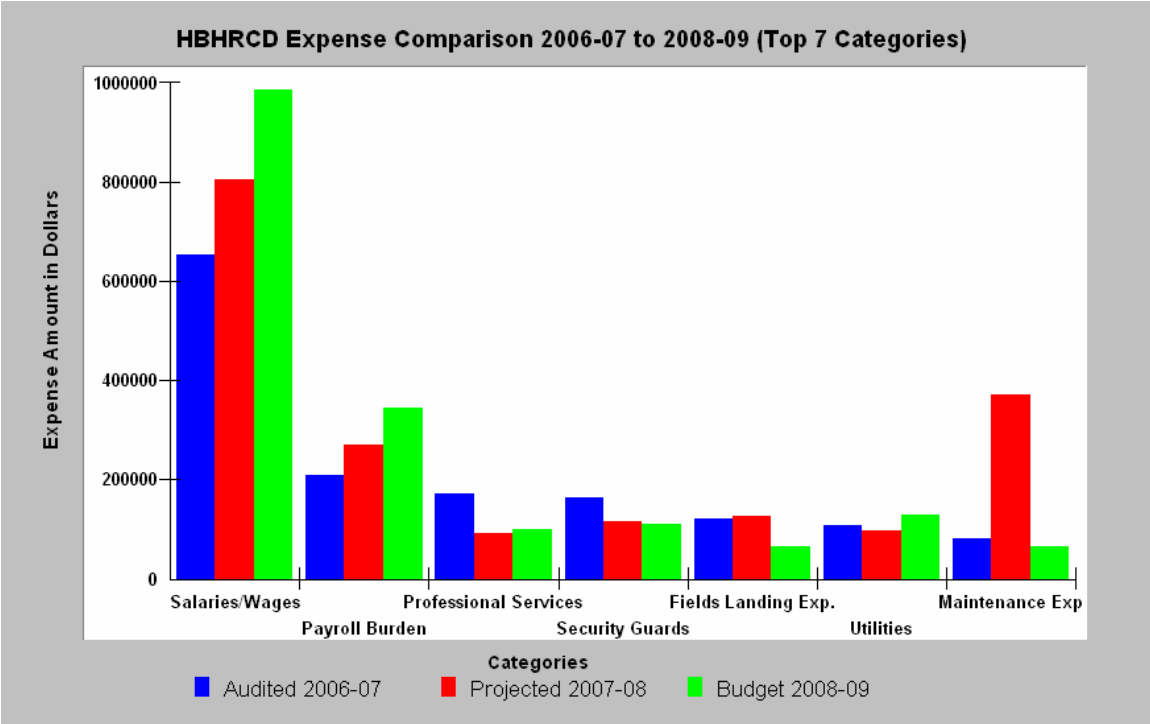
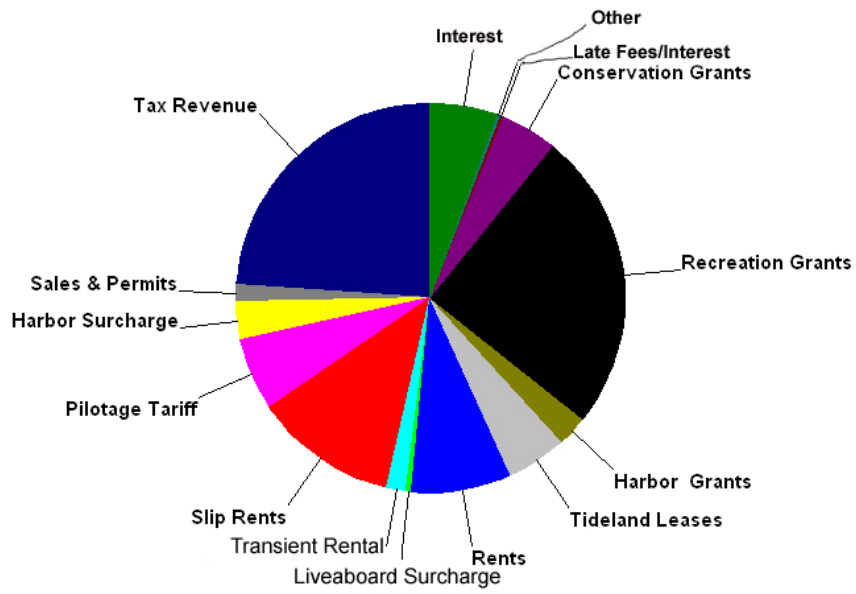


Figure 6. Three year trends in the top seven budget expense categories from 2006-2008 show the sharpest increase in salaries and payroll burden, which is taxes and employee benefits.

Harbor District Projected Income 2007-2008



Categories