Highlands Recreation District
Fiscal Year 2021-22 Budget Narrative

Fiscal Year 2020-21 Recap

On August 11, 2020, the HRD Board of Directors approved the District fiscal year budget for 2020-21 which reflected a significant decline in user fees based on lower projected subscription rates in all recreation programs due to the impacts of the COVID-19 pandemic. Many of the District's programs were either modified or suspended to comply with State and County health safety guidelines to prevent the spread of the coronavirus. The District's budget included projected revenues of $2,594,428 with expenditures of $2,834,806, with a projected income deficit of $240,378 across all programs. This included both the bond principal and interest payments of $201,098 for the EEC building.

On February 9, 2021, the Board approved an amendment to the 2020-21 fiscal year budget to address the changes that occurred due to COVID-19 pandemic impacts as well as to reflect the modifications required as part of the District annual financial audit that was completed in January 2021. Impacts to the budget included program closures from COVID-19 quarantining and poor air quality conditions from wildfire smoke, staffing changes with the resignations of the EEC Director and a Recreation Coordinator, and staff turnover in ASP. On the positive side, the District benefited from a Measure K Grant for $25,000 for the ADA Ramp and Restroom Construction project, a San Mateo County Childcare Relief Fund Grant for $55,000 to support the EEC program to ease financial impacts of the pandemic, as well as a small QRIS grant of approximately $3,300 for improvements of the EEC play yard.

The amended budget for fiscal year 2020-21 included a beginning fund balance of $2,379,591 and unassigned fund balance of $1,079,543 as reflected in District's financial audit by R.J Ricciardi Inc. on January 25, 2021. In addition, the amended budget included adjustments to program revenues and expenditures consistent with current financial information and projections for the remainder of the fiscal year. The revenue projection for 2020-21 was $2,606,625, a net increase of $12,197 and expenditures of $2,729,261 with a net decrease of $105,545 resulting in a projected net income deficit of ($117,742).

As the state began to reopen and COVID-19 restrictions were lessened the District was poised to meet or exceed its mid-year budget projections. There were a number of contributing factors including an increase to ASP and EEC enrollment as cohort size was permitted to increase, summer registration for summer camps, pool and seasonal programs yielded higher than expected revenue, and the District saw significant cost savings for wages and benefits, unemployment insurance and from program expenses. The following is a summary of the changes that occurred since the mid-year budget was approved:

Revenues

- Property tax received was $13,553 higher than projected at mid-year.
- Parks and Recreation fees were $200,465 higher than projected.
- The District received unanticipated grant funds totaling $83,300.

Expenditures

- Total payroll savings was $160,998 for the year.
- Total operating expenses were $11,512 higher than projected for the year.
- Utilities were higher than projected by $21,997 for the year.
- The final contractor payment for the ADAP ramp and restroom project was $140,490 which is reflected in the Fixed assets and structures improvement line item.

The District's net income for the 2020-21 fiscal year was $109,912 which is $232,548 higher than was projected this year. Net income or budget surpluses allow the District replenish reserve funds to pay for facility repairs and renovations, as well as provides cash flow for emergencies.

Proposed Fiscal Year 2021-22 Budget

Revenues

The District receives revenues from user fees, property taxes from HRD residents, and donations. In recent years, the reliance on property tax revenue has been strategically reduced to approximately 15-17% of total revenue. However, in fiscal year 2020-21, property taxes represented 24% of District's revenues because of the lower subscription rates in all recreation programs due to the COVID-19 pandemic. As program subscription rates and Parks and Recreation fee income are expected to increase for fiscal year 2021-22, property tax revenue represents 21% of total income for the year.

The projected revenue for 2021-22 is $3,484,404 which is a 34% ($877,779) increase from the 2020-21 amended budget of $2,606,625. However, compared with actual revenue estimates for 2020-21 which are $2,850,685, the projected revenue represents a 22% ($633,719) increase over last year.

Revenues Detail

- The budget assumes a 6% increase in property tax revenue and 4% increase in ERAF based on past performance over the past 5 years.
- ASP and EEC revenues include budgeted fee increases and assumes program enrollments are at licensing capacity.
- Seasonal and Rental program revenues are projected at 50-60% of pre-COVID budgets based on lower anticipated subscription rates.

Expenditures

The District's annual expenses derive from staffing, maintenance, and materials necessary to provide the programs and services. The projected expenditures for 2021-22 is $3,154,090 which is a 15% increase ($424,829) over the 2020-21 amended budget of $2,729,261. The increase is primarily due to the return to pre-pandemic service levels and are offset by projected revenue growth. Approximately 68% (or $2,135,165) of expenditures are for payroll and benefits, 26% (or $816,872) for operating expenses and 6% (or $202,053) for debt service. These percentages are consistent with recent year budgets. Long term debt service costs were reduced in 2018 through advanced refunding of the Certificates of Participation for EEC construction. The District has the ability to pay down or refinance the principal debt beginning in 2024.

Expenditures Detail

- Salaries and wages are budgeted with a 3.0% maximum merit increase for full-time benefited employees although the net budget impact is expected to be less.
- Employee benefits assume a conservative increase of 8% and currently only 70% of eligible employees elect one or more of the District provided benefits.
- Employee benefits include an expanded 457 deferred compensation benefit for eligible employees up to $780 annually.
- Increase in office expenses due to increased marketing and mailing of the District activity guide and other promotional materials, although less than pre-pandemic budgets.
- The budget includes increases for maintenance and facility improvements for pool chemicals anticipating higher bather loads this year, landscaping improvements for the EEC, asphalt repair of the District's parking lot and pathway and pool covers and access ladder replacement.
- Program specific expenses are increasing across the board as the District returns to pre-COVID service levels for ASP, EEC and other programs.
- General liability insurance coverage assumes a 12% increase over last year per CAPRI.
- The budget includes $45,000 for the Prop 68 Per Capita Grant match for the Highlands Playground and Sports Court Renovation project.

Fiscal Year 2021-22 Budget Summary
Fiscal Year 2021-22 is a recovery year for the District. After weathering the challenges of the COVID-19 pandemic and seeing a slow reopening of the economy, the District is in a position to increase capacity in its childcare programs and begin offering more classes, special events and private rentals. Although this year will see the return to pre-COVID pandemic service levels, the proposed budget assumes lower demand and subscription rates for some programs such as private facility rentals and seasonal recreation classes, as customers become more comfortable with hosting gatherings or signing up for in-person recreation classes. Fiscal Year 2021-22 includes revenues of $3,484,404 and expenditures of $3,154,090 with a projected net income of $330,314.

Facility Maintenance and Capital Improvements
During the Board Strategy Session meeting on June 19, 2021, the Board reviewed and prioritized several maintenance and capital improvement projects which are anticipated over the next one to three years. Many of these projects are carry-over projects from previous years and others have been prioritized based on need. Project scope and estimates will be needed for all projects prior to Board approval and appropriation of the necessary funds to complete. One of the Board's priorities for next fiscal year is the completion of a facilities master plan which will include an assessment of building conditions to identify areas for repair/retrofit, development of conceptual site design options with hard construction cost estimates and provide operational cost analysis and financial analysis for the various site design options.

The following projects are anticipated between fiscal years 2021-22 to 2023-24. The projects include preliminary cost estimates.

Fiscal Year 2021-22

#	Project	Cost
1	Proposition 68 Grant 20%	$ 45,000
2	Parking lot and pathway asphalt repair and resurfacing	$ 28,000
3	Pool covers and pool access ladder	$ 20,000
4	Admin Building Railing replacement	$ 13,000
	TOTAL	$106,000

Fiscal Year 2022-23

#	Project	Cost
1	Main building electrical panel	$ 15,000
2	Administrative office deck and railing replacement	$ 70,000
3	Gym floor	$ 20,000
	TOTAL	$105,000

Fiscal Year 2023-24

#	Project	Cost
1	Fitness room floor	$ 5,000
2	Tennis court resurfacing	$ 25,000
3	Main building roof replacement	$ 60,000
4	Garbage and recycling containment	$ 5,000
5	Main building repainting	$ 24,000
	TOTAL	$119,000

HRD Reserve Account Policies

The District maintains five assigned Fund Balance Reserve Accounts:

1. Appropriated for Contingencies: This account shall not exceed 15% of the annual operating budget. This reserve account is approximately 9% of the projected budget for 2021-22.
2. Capital Reserve: This account holds funds for large capital improvement projects only.
3. General Reserve: This account holds funds for general use.
4. Building Renovation Reserve: This account holds funds intended for specific purpose for funding building renovations. Example: The seismic/ ADA upgrades to the original building (gym, social room, and restrooms.)

Reserve funds pay for facility repairs and renovations, as well as provides cash flow for emergencies.

Risks and Opportunities for Fiscal Year 2021-22

Risks

1. Demand for seasonal and rental programs is lower than projected due to COVID-19 pandemic concerns.
2. We are unable to retain key staff and/or recruit new staff due to the volatile job market, such as for the In-Crowd program where we currently have job vacancies.
3. Lower enrollment for seasonal camps due to the pandemic hangover that many families may be experiencing.
4. Increase in chemical costs due to supply chain disruption and labor cost issues may be expected in the coming year.
5. Pool rental revenue may be lower this year with more pool facilities reopening this year.
6. There are several repairs and maintenance projects that may need to be addressed that were not planned for the coming year.

Opportunities

1. Prop 68 Playground and Renovation project will provide residents more recreational opportunities that will serve a broader user audience.
2. The creation of a reservable group picnic area as part of the Prop 68 Playground and Renovation project would provide a new revenue opportunity for the District.
3. As the District hires new swim instructors there is an opportunity to building the swim lesson program which is a high revenue generating program.
4. Consider reducing lap swimming hours during non-summer months to reduce labor costs.
5. Staff are exploring updating current pool membership program and/or proposing a replacement model that has higher revenue generating potential and will reduce the overall District subsidy of the program.
6. Staff are exploring rolling out a cash discount program to help reduce credit card fee expenses which are estimated at $36,000 for next year.
7. Deploying Sign-up Genius reservation application for tennis court reservations has been popular with residents and reduces staff support time.
8. Implementing an annual tennis key program for tennis court users may be a revenue opportunity for the District.
9. The District may be eligible to receive COVID-19 relief funding from the State and County as a result of special district lobbying happening in Sacramento. The District has written letters of support and have participated in meetings to help support this effort.