

DRAFT INTRODUCTORY STATEMENT OF PROPOSED DISTRICT RESPONSE TO CIVIL GRAND JURY REPORT FILED ON JULY 9, 2014

The District takes the Grand Jury report seriously. Several points in the report in particular have been noted by the District, and this response reflects the Board's recognition that there is always room for improvement.

Nevertheless, we take this opportunity to preface our comments with three key points that are reflected throughout the District's responses to the Report's specific Findings and Recommendations.

First, the Report comments that the District has evolved into a "hydra" that now engages in numerous and varied operations in excess of its abilities. In fact, the District's wide-ranging activities are entirely consistent with the statutorily authorized purposes granted by the State Legislature:

- A harbor district may acquire, construct, own, operate, control, or develop any and all harbor works or facilities within the limits of its established boundaries (Harbors and Navigation Code Section 6075 (a)).
- [A harbor district] may manage the business of the district and promote the maritime and commercial interest by proper advertisement of its advantages and by the solicitation of business within or without the district, within other States or in foreign countries, through such employees or agencies as are expedient (Harbors and Navigation Code Section 6077.4).
- A harbor district may acquire, purchase, takeover, construct, maintain, operate, develop, and regulate...any and all other facilities, aids, equipment, or property necessary for, or incident to, the development and operation of a harbor or for the accommodation and promotion of commerce, navigation, or fishery in the harbor district. (Harbors and Navigation Code Section 6077.5).
- [The Harbor District Board] may do all other acts necessary and convenient for the full exercise of its powers. (Harbors and Navigation Code Section 6078).
- The District's special act provides that the lands of the District are to be used:

...for the establishment, improvement and conduct of a harbor[,] and for the construction, maintenance and operation thereon of wharves, docks, piers, slips, quays and other utilities, structures, facilities and appliances necessary or convenient for the promotion and accommodation of commerce and navigation, and for the construction, maintenance and operation therein of structures and facilities for public recreational purposes...[Statutes of California, 1960, chapter 68, section 1(a)]

Consistent with the Legislature's command, the District provides a valuable resource for all County residents. Indeed, the District will become an even more important asset for the future as

the County mobilizes to address such challenges as adapting to sea level rise impacts. A brief list of the District's critical functions will suffice to demonstrate its irreplaceable value to the County:

- Because the County Board of Supervisors created the Harbor District in 1933 with countywide jurisdiction, the District operates two facilities, Pillar Point Harbor (Princeton) and Oyster Point Marina/Park (South San Francisco). The District is thus uniquely experienced in working with both coastal and San Francisco Bay agencies and issues.
- The District operates Pillar Point Harbor under a State tidelands grant awarded by the California Legislature in 1960. This mandate includes harbor operations for commerce, navigation, and fisheries and provision of recreational facilities.
- The County Midcoast Local Coastal Program's public access policies explicitly encourage the Harbor District to continue efforts to provide visitor facilities and public access trails and related facilities (Midcoast Local Coastal Program, 10.49 and 11.30).
- The Harbor District is the first responder on the San Mateo Coast to over 100 distress calls per year for ocean search and rescue. It has received a commendation from the U. S. Coast guard for its critical public safety efforts.
- The Pillar Point facility is a State-designated harbor of refuge for the fishing fleet and other vessels, namely "a port, harbor, inlet, or other body of water normally sheltered from heavy seas by land and in which a vessel can navigate and safely moor" (Harbors and Navigation Code Section 70.3);
- The Harbor District's outstanding environmental stewardship resulted in the 2013 award of Clean Marina Certifications for both District harbors by the State Clean Marina program;
- The Oyster Point facility is an important water transportation link and part of the San Francisco Bay water transportation emergency response network, and is a designated High Opportunity Site on the San Francisco Bay Water Trail system for non-motorized vessels;
- Pillar Point Harbor is an increasingly popular regional visitor destination and location for special events on mid-coastside, as well as a location for purchasing fresh fish off-the-boats (Pillar Point);
- Oyster Point Marina/Park is a growing Bayside recreational destination and site for special events for South San Francisco and other north peninsula residents.

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Second, despite the Report's intimations to the contrary, the District continues to be financially sound, as previously acknowledged by the Grand Jury in the past. Contrary to the Report, the District's budgeting and financial reporting procedures are consistent with prudent and transparent fiscal practicesstandards. The Report appears to contradict itself by indicating reports are in accordance with standards, but are not transparent. Transparency exists if the financial reports reflect the operations of the District and their books of record. The Report neither defined this term nor provided anything other than separation by enterprise and non-enterprise operations as the basis for further criticism of the District's financial reporting. This type of reporting, which is merely a preference, would require detailed tracking at such a level that it would not provide valuable planning and operating information and would be cost prohibitive, which as a public agency would not be prudent financial management of public funds.

- The Board does receive financial reporting and has always adopted its budget on time.
- The District continues to pay back its facilities development loan balance to the Division of Boating and Waterways (DBW); regular debt service payments to DBW, including the July 2014 payment, will enable the District to retire its loan balance at least one year earlier than scheduled in 2018.
- The District's employee obligation for employment termination benefits is fully funded, and the District has substantial additional cash reserves. The District acknowledges that future pension liabilities will need to be recorded due to new Standards being established for their reporting in 2015-16. Both of these liabilities (termination benefits and pension) are funded over time as contributions are made and retirees (terminating employees) are paid, therefore indicating that these will need to be paid all at once would require all District employees eligible for benefits to leave in the same fiscal year, which does not appear to be a realistic expectation, unless, of course, the Report's recommendation of dissolution is implemented, which would burden any successor agency. Also, pension obligations are reflected in increased annual contribution rates and the District has always paid 100% of their annual required contribution, a portion of which reduces this pension obligation liability. As part of long term financial planning the District will evaluate the necessity to provide additional payments or establish reserves to further reduce this obligation.
- As is the case with all local government in a post-Proposition 13 world, the District receives property tax revenues in an amount insufficient to pay for all of the critical services it provides. The District has therefore increasingly looked to enterprise activities to increase revenues, while not cutting critical services that benefit all County residents. This is a difficult balancing act engaged in by all local government throughout California. Contrary to the Grand Jury Report, there is nothing illegal, improper, or unreasonable in balancing a budget through the use of that include both property tax and reserves.
- The District has appropriately commenced –before the Grand Jury issued its Report – a Strategic Business Planning process, which will provide a detailed blueprint for the District's long term financial planning and investment decisions into the future for both Pillar Point Harbor and Oyster Point Marina/Park, and a mechanism for monitoring and

course corrections through annual budgeting. The Plan, whose preparation includes extensive public engagement and community outreach, will address enhancing revenues in order to reduce reliance on property tax revenue, identifying multi-year capital facilities needs and financing options, sea level rise adaptation measures, sustaining the fishing industry, and achieving further operational efficiencies.

Third, the District openly acknowledges the Report's criticisms concerning governance issues, in particular regarding collegiality among Board members. It is not proud of the negative public attention this issue has received. But the District believes that it is taking active steps to make improvements in this area. For example, the District has retained the services of a professional facilitator who is working with the Board on communication and interaction. In addition, at its meeting on August 6, 2014, the Board committed to additional training from the Special District Leadership Foundation, leading to the attainment of certification in this program for all board members and the General Manager within the current fiscal year.

With the above context in mind, we now turn to specific responses to the Report's Findings and Recommendations.