

This is the adopted Fiscal Year 2010-11 City of Calistoga budget. It has been balanced with realistic conservative projections of revenues and expenditures. The budget maintains General Fund reserves of 18% as of June 30, 2011. The Water, Wastewater and Special Funds budgets are also included in this document.

Budget Process

The City practices an ongoing budget process, which calls for multiple reviews and updates periodically during the fiscal year. Shortly after the budget is adopted in June, a Fall Financial Update is prepared and presented to the City Council in October. In February a Mid Year Financial Update is presented and in the spring an additional update is given. Economic projections, revenue and expenditure updates, and recommended budget changes are proposed and reviewed in conjunction with the financial updates.

In 2009, the Council adopted short-term goals and key priority projects during a strategic planning session. Staff has incorporated this policy direction into the FY 2010-11 Budget.

The City has broad responsibilities to maintain the health and welfare of the community and has adopted a mission statement which establishes policies to implement these responsibilities. In order to accomplish these policies the City has entered into formal and informal agreements with various government agencies, non-profit and community organizations and private companies. These agreements form strategic partnerships that allow the City to implement programs and deliver services.

Budget Summary

Staff has long approached budgeting with strong emphasis on realistic projections of revenue and operating expenses to insure that the adopted budgets are conservative and will allow for adjustments during the years for change in services or projects or an unforeseen expense or revenue loss. In addition, it is important that the City's financial condition is accurately presented and that this financial position remains sound. We will continue these practices with this budget and projections.

The General Fund Budget for FY 2010-11 can be summarized as follows:

- Revenues are estimated conservatively taking into account economic conditions and known actions that will affect revenues.
- Operating expenditures reflect a reduction of nearly \$1.2 million (15%) from the prior year's budget. Operational and maintenance costs for the Community Pool have been revised and are included in the budget.
- Completion of the Fire Station Retrofit project is included.
- FY 2010-11 is projected to end with fund balance and reserves of \$1.2 million or 18% of the Operating expenditures.

The FY 2010-11 budget reflects a continuation of the same level of services provided currently. There is no projected expansion of services. The Capital Improvement projects include the continuing projects and new projects that have been previously discussed with the City Council. There are new special projects that directly address the City Council's priorities including a Green Initiatives project to provide assistance on implementation of the City's green policies.

Economic conditions

The City's major revenues are Transient Occupancy Tax (45%), Property Tax (22%) and Sales Tax (11%), which provides nearly 80% of the General Fund operating revenues. The Transient Occupancy and Sales Taxes are primarily driven by tourism and are fairly sensitive to economic conditions. The current downturn in the economy has had a softening effect on tourism and the revenues. We are concerned that downturn will have an impact on tourism. The City's wine, spas and health venues and proximity to the Bay Area population will likely maintain tourism at the current levels. Also, the weak dollar and international reputation of Napa Valley has seen a larger number of foreign tourists over the past year. The City and Chamber of Commerce are monitoring the indicators very closely to identify trends and opportunities. That said, the projections for the Transient Occupancy Tax revenue are for zero growth over the prior fiscal year. Sales Tax revenues for FY 2010-11 are anticipated to grow slightly, up about 2%.

Property Tax revenues are based on assessed valuation of property and not really driven by tourism. The assessed valuation growth that has been seen in past years is due to the annual statutory 2% increase, resale of homes and new development. The sub prime meltdown and the significant ripple effect it has had on all sectors of the housing and credit market will likely not have a significant impact on Calistoga. Calistoga does not have new housing subdivisions or a large number of homes that would be subject to foreclosures and reassessments. There are homes in the City in foreclosure and others struggling to keep their homes, but they are a small percentage of the total assessed valuation of the City. It is estimated by the County Assessor that there has been a revaluation of a number of single family residences. The credit crisis will likely have a greater impact on the pace of new and resale housing and new commercial development in the City, which will have a dampening effect on the projected assessed valuation growth. The projections for Property Tax have been reduced to reflect a softening market. It is anticipated that revenues will be down approximately 8% vs. fiscal year 2009-10.

Other major General Fund revenues are fees for services, which should be set to recover the direct and indirect cost to provide services to users. The revenue estimates from building permits and other development related fees have been reduced to reflect a slowdown in development. Also included in this budget is a special project to review and update the fees for services and development impact fees on new or expanded development.

The State Budget

The State has a significant FY 2009-10 budget imbalance amounting to a multi-billion dollar deficit. This is more than just an economic downturn affecting revenues or a service delivery issue – it is a major and long term structural problem that has been growing over the last 30 years and annually “fixed” by increasing taxes, cutting expenditures, shifting costs to and revenues from others – Counties, Cities, Schools and Special Districts.

In 2006, Proposition 1a was passed which realigned property and sales tax allocations and provided a major level of protection of Local Government property tax revenues from the State. However, there are still actions that the State could implement that would have an impact on Local Governments and Calistoga, to a degree.

The Budget proposals by the Governor, Legislative Analyst and Legislative committees are working through the State Budget process. There is much disagreement on what the problem is and how to solve it and it is projected that the budget will not be adopted for some time.

The current discussion and thinking at the State level, as conveyed by our League of California Cities representatives, is that substantial seizing of local revenues, particularly those enjoyed by Calistoga, will likely not occur. Still, some effects on the State budget solution may be experienced by Calistoga. This impact is anticipated to be relatively minor (between \$50,000 - \$100,000). As the impact becomes known we will bring back information and possible budget adjustments to the City Council during one of our scheduled Financial Updates.

General Fund Revenues

Total revenues next fiscal year are projected to approximate \$6.6 million. This amount is down slightly from this fiscal year. Property taxes are projected to be down approximately \$136,000 or 8% due to anticipated assessed valuation decreases for non-residential properties. Sales taxes are expected to be up slightly. Transient Occupancy Tax is projected to be flat year over year. Interest earnings are projected to be down 20% due to less funds available to invest. Charges for services are projected to be up \$110,000 due to increased charges to developer deposit accounts, allocations to projects, fee increases, etc.

General Fund Operating Expenditures

Operating expenditures are projected to be down \$174,000 or 3% vs. fiscal year 2009/10 amounts. This budget includes nearly \$500,000 in deficit reduction estimates that have been compiled over the past month. Support services are projected to be down \$208,000 or 15%. It is important to note that this reduction

includes a provision for negotiated furloughs and other employee concessions from pending negotiations. The City Council/City Clerk budget is projected to be down \$8,000 or 6% due mainly to a reduction in work schedule for the City Clerk. Fire Services costs are anticipated to be down \$22,000 or 3% due to shift changes, fee increases, and other expenditure reductions. Planning and Building services are down due mainly to holding the vacant Building Inspector position open and contracting for services. Public Works services are showing a budget increase of 11% year over year but that is very misleading. The Department reduced their budget by more than 30% over the past year and needs to catch up on some desperately needed maintenance efforts in the very near future.

Special Projects

The budget includes two special projects that are not part of ongoing operations and would tend to distort the operating budgets of the Departments. They are as follows:

- Services Fee Updates – to update the fees we charge for Planning and Building services
- Green Initiatives – to provide starter funding to develop project that implement the green environmental policies and initiatives

Capital Improvement Projects

The budget includes \$1.6 million in capital Improvement projects for fiscal year 2010-11. They include completion of the Community Pool and the Fire Station rehabilitation/seismic upgrade. Also included are the construction of bus shelters, a facility improvement project, funds allocated for soils remediation, and the implementation of a Bicycle Transportation Plan.

Selected Programs

As mentioned earlier, last year's budget was reduced significantly due to economic conditions. The budget for next fiscal year continues to include funding for some efforts and special projects identified by staff and the Council:

- Green Initiatives (\$5,000),
- Community Promotions and Enrichment Grants (\$20,000),
- Police Department LEEDS Computer System debt service(\$25,000),
- Chamber Marketing and Promotion Contract (\$302,000),
- Planning and Building Department fee study (\$21,000).

General Fund Reserves

The Council has maintained healthy reserves during past years as a cornerstone of the budgeting philosophy. Unfortunately, due to a revenue shortfall last year in conjunction with the current economic downturn, the budget for the upcoming fiscal year projects reserves to approximate 18% Operating Expenditures. The Council has had a practice of setting aside funds equivalent to at least 30% of Operating Expenditures in previous years. It will be important to attempt to rebuild reserves as we progress out of the current economic situation.

Enterprise Fund Overview

The Water Operations Enterprise Revenue Fund had a beginning balance of approximately \$0.1 million as of July 1, 2009. Based on activity during the fiscal year, it is anticipated that the fund balance will increase slightly to about \$0.2 million by June 30, 2010. The main reason for this increase is that the Public Works Department has done a good job reducing expenditures during the year. There were position vacancies that helped to reduce salaries and benefits costs. Other operating expenditures were also reduced as purchases were made only for critical items. The Water Operations Enterprise Fund balance is projected to end the fiscal year 2010-11 with a balance of approximately \$0.1 million. Since many expenditures were deferred during the past year budget has been proposed for 2010-11 to begin to catch up on some of the items deferred. Revenues from the proposed rate increases will not be as much as previously expected because the rate process was delayed and implementation of the new rates, if approved, will not take effect until November.

The Water Capital Fund is expected to end fiscal year 2009-10 with a slight deficit. This is primarily because connection fees came in less than originally expected. The fund is projected to have a balance of approximately \$2.2 million at the end of 2010-11. This is due to the planned receipt of loan proceeds during the year for construction of the Mt. Washington Water Tank. While \$3.75 million will be received only \$1.2 million of expenditures on the tank are planned during fiscal year 2010-11. The remainder will be spent the following year.

The Wastewater Operations Fund is expected to end fiscal year 2009/10 with a deficit balance of approximately (\$0.6) million. As discussed many times during the water and wastewater rate study, expenditures to run the treatment plant have continued to out pace revenues. This is one of the reasons updated rates are desperately needed. The 2010-11 budget shows an ending deficit fund balance of approximately (\$1.0) million. While the proposed rates will begin to reduce the annual deficit the impact during 2010-11 will not be as significant as projected due, once again, to the delay in implementation of the updated rates. Since expenditures during 2009-10 were kept only to the purchase of critical items 2010-11 amounts have been budgeted based on our best estimate of what will be needed to operate the utility. If these costs don't materialize the ending fund balance deficit could be less than anticipated.

The Wastewater Capital Improvements Fund is expected to end fiscal year 2009-10 with a slight deficit balance. This is also due to the fact that connection fees came in less than anticipated. The ending fund balance in 2010-11 should be similar to what is projected during 2009-10.

Special Revenue Funds Overview

Total Special Revenue Funds had a beginning balance of approximately \$1.6 million as of July 1, 2009. Based on activity during the fiscal year, it is anticipated that the fund balance will be reduced to about \$1.0 million by June 30, 2010. The main reason for this reduction is the use of Public Safety and Quality of Life funds to pay for debt service on the Police Station, Fire Station, Community Pool, and Logvy improvements. During the upcoming fiscal year, Special Revenue Fund balances are expected to decrease from \$1.0 million to approximately \$.8 million. This is due to additional commitments to pay debt service from the Public Safety and Quality of Life funds. While some impact fee revenues are anticipated in 2010-11, they will not be sufficient to avoid the fund balance decrease mentioned above. It is anticipated that time short term borrowing will need to occur between funds to cover cash flow requirements. This type of borrowing happens routinely during any fiscal year and is required to be repaid in a timely fashion. Risks associated with next year's budget include the possibility of a State take away of gas tax or Police grants funding along with less than anticipated impact fees.

Conclusion

The City's 2010-11 budget continues to present realistic projections of income and costs and more readily available information regarding our budgeting decisions and financial resources. We are maintaining our level of service in our core service areas after significant budget reductions last fiscal year. We continue our strong practice of maintaining adequate reserves to guard against unforeseen circumstances and to provide flexibility to the Council for unanticipated budget needs and opportunities. There are, however, significant risks associated with the 2010-11 budget. They include unforeseen economic deterioration, inadequate development related fees to pay debt service, and unanticipated state take-aways. These risks will be closely monitored during the fiscal year and periodic updates will be brought back to the City Council for consideration.