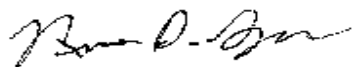


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Richard Spitler, City Manager
Gloria Leon, Administrative Services Director
DATE: May 15, 2014
SUBJECT: Discussion regarding Draft Fiscal Year 2014-15 Budget

APPROVAL FOR FORWARDING:



Richard Spitler, City Manager

ISSUE: To discuss the draft budget for Fiscal Year 2014-15.

RECOMMENDATION: To review and provide feedback and direction regarding the FY 2014/15 draft budget proposal.

BACKGROUND: In June 2013 the Fiscal Year 2013-14 Budget was presented to and adopted by the City Council. In February 2014 a Mid-Year Financial Update was presented to the Council. At that time several budget adjustments were brought forward and adopted. That analysis has served as a starting point for development of the Fiscal Year 2014-15 Budget.

This budget workshop is to provide the City Council with the opportunity to review the proposed Fiscal Year 2014-15 budget and provide input to staff as to any recommended changes or adjustments. The draft budget as presented is balanced, with no changes to staffing levels.

DISCUSSION:

In today's workshop we will be discussing the individual departmental budgets, operating and capital, as listed in the agenda. Following a brief introduction by the City Manager, the Administrative Services Director will give a brief overview of the budget expenditures and revenues. This will be followed by an overview by each Department/Division head on the status of the department. The Council then will be asked to give input.

As we move forward into the new fiscal year it is important to remember that the City's budget will, once again, be very tight. The proposed Fiscal Year 2014-15 budget contains

cuts in expenditures over what was initially requested by most of the departments, as necessary to reach a balanced budget. However, several Capital Improvement Projects (CIP's) are recommended for funding. The reason is that most of the projects fall into the deferred maintenance category. The City simply did not have adequate funding in prior years to address them. With the potential for payment of significant development impact fees, it is anticipated that there will be adequate funds to allow these projects to proceed.

Staff will be recommending several adjustments to the Fiscal Year 2013-14 budget which will be brought back in June for City Council approval. Those adjustments are incorporated in the draft of the Fiscal Year 2014-15 budget which is before you in this workshop.

The City is anticipating that several private development projects will initiate or complete construction in Fiscal Year 2014-15 and will bring development impact fees. These projects include completion of the Indian Springs expansion project, Silver Rose Resort Project and three (3) single family home projects. It is anticipated these projects will bring forth the following in impact fees:

| | |
|-------------------------|--------------|
| Water Capital Fund | \$ 1,287,947 |
| Wastewater Capital Fund | \$ 2,355,976 |
| Quality of Life Fund | \$ 265,127 |
| Public Safety Fund | \$ 226,743 |
| Housing Fund | \$ 585,002 |
| Traffic Fund | \$ 165,938 |

See the attached table in Attachment 1 to this staff report that shows detailed development impact fees from various projects that are anticipated in FY 14-15.

City staff is recommending \$171,321 Quality of Life impact fees be used and \$171,322 of Public Safety impact fees be used to pay the annual general fund debt which was incurred in 2007 for the renovation of the pool, fire station, Logvy recreation center and the Monhoff Center. The outstanding debt for the 2007 issuance as of June 30, 2014 is \$4,188,352. This allows the same amount of funds to be available for other General Fund uses. The City Council can change this allocation of funds to come from the General Fund instead of one-time impact fees.

The one-time fees of \$1,287,947 from the Water Capital Fund and the \$2,355,976 from the Wastewater Capital Fund will allow us to pay this annual debt in the enterprise funds, thereby relieving the General Fund from having to pay the annual debt.

The City is currently in a Stage II water emergency status and has asked the community to cut back water usage by 20%. If the City meets the 20% quota this could mean \$250,000

less revenues to the combined Water and Wastewater Enterprise Funds. In order to meet the loss of potential revenues and much needed infrastructure improvements at the water and wastewater plants, it is imperative the City have available funds in the Water and Wastewater Capital Improvement Funds. The City Council can change this allocation of funds between capital and operations.

This proposed budget continues to maintain the existing level of service and reliability to the community through our infrastructure systems and facilities. However, as previously indicated, there are many facilities that are not receiving maintenance and replacement as they should. There are no anticipated layoffs of staff. The City currently is in negotiations with the Calistoga Police Officers Association. City staff will be coming back at a later date with a possible agreement to be adopted by the Council. The MOU's with the CPEA and Firefighter's Association will expire on December 31, 2014.

General Fund

The City Council adopted goals and objectives for Fiscal Year 2014-15 which calls for a 30% reserve in its General Fund by year's end (or \$2,404,312). Based on staff recommendations the City will end Fiscal Year 2014-15 with a fund balance of \$3,812,412 which is in excess of the 30% objective. Staff is also recommending \$500,000 be committed to the Public Employees Retirement System (PERS) for future rate increases and side fund payment and \$150,000 be committed to future retiree health benefits who stay on the CalPers health plan. Staff is also recommending \$500,000 be set aside for unanticipated general liability claims, potential loss of enterprise funds revenues (due to the drought) and unforeseen expenditures in the enterprise funds. If Council commits the funding for PERS rates, future retiree benefits, general liability claims, and the enterprise funds, the general fund balance will be reduced to \$3,312,412 which is 41.3% of total operating expenditures.

It should be noted that while the General Fund reserve is increasing, it is largely due to one-time development fee payments (although TOT revenues have shown a marked increase). This has made funds available for community projects should the Council desire it. However, the one-time development fees together, with the highly uncertain demands for capital improvement projects and other emergencies, means that a cautious spending approach should be taken over the next fiscal year.

Water Operations

The Water Operations Enterprise Revenue Fund is anticipating an ending balance of approximately \$576,212 as of June 30, 2014. Based on activity during the fiscal year, it is anticipated that the water fund balance will end with a surplus balance of \$837,823 by

June 30, 2015. The Water Capital Improvement Fund will transfer \$614,192 to the Water Operations fund to cover the debt service payments for the fiscal year. The Water Capital Improvement Fund will also transfer \$6,000 for equipment. The General Fund will transfer \$79,400 to the Water Operations Fund as a subsidy as approved by Council in Fiscal Year 2013-14.

Water Capital

The Water Capital Fund is expected to end Fiscal Year 2013-14 with a surplus balance of \$336,599. The City anticipates water connection fees from the Indian Springs Expansion Project, Silver Rose Resort Project and three single family home developments in the amount of \$1,287,947. Measure A will provide funds of \$1,476,700 and from the Safe Drinking Water State Revolving Fund (SDWSRF) in the amount of \$850,000 if the City is successful in obtaining the grant and/or loan from SDWSRF. The Fiscal Year 2014-15 budget shows an ending surplus balance of \$664,147 which will be used to cover any unexpected capital improvements

Projects in the amount of \$2,527,700 to be undertaken for the Fiscal Year 2014-15 include the Pipeline Myrtle/Grant/Kimball, NBA Pump Station, Water Sampling Stations, Water Valve Replacement, Bypass Structure, GIS survey, NBA Cathodic Protection and Riverlea Pathway Water Line Relocation. The Pipeline Myrtle/Grant/Kimball and the Bypass Structure will be funded through Measure A funds. The NBA Pump Station project will be funded through SDWSRF.

The Water Capital fund will also cover debt service payments in the amount of \$749,895 for Fiscal Year 2014-15. However, it should be stated that the source of these funds is one-time development impact fees. These funds will likely not be available in Fiscal Year 2015/16.

At its goal setting meeting in March 2014 the City Council's objective is to increase the Water Fund reserves at a minimum of 20% within two fiscal years and increase the CIP and Equipment Replacement Fund reserves to meet anticipated needs over the next three fiscal years. At the minimum 20% in reserves would mean a fund balance of \$479,393; the combination of ending fund balances for the Water Operations Fund and the Water Capital Fund at Fiscal Year 2014-15 is \$1,501,970, therefore meeting the 20% objective in minimum reserves.

Wastewater Operations

The Wastewater Operations Fund is expected to end Fiscal Year 2013-14 with a surplus balance of approximately \$518,871. The Fiscal Year 2014-15 budget shows an ending

surplus balance of \$862,799. The Wastewater Capital Improvement Fund will transfer \$696,364 to the Wastewater Operations fund to cover the debt service payments for the fiscal year and \$6,000 for equipment. The General Fund will transfer \$15,000 to the Wastewater Operations Fund for equipment.

Wastewater Capital

The Wastewater Capital Fund is expected to end Fiscal Year 2013-14 with a surplus balance of \$1,067,854. The City anticipates wastewater connection fees from the Indian Springs Expansion Project, Silver Rose Resort Project and three single family home developments in the amount of \$2,355,976. The Wastewater Capital Fund is expected to end Fiscal Year 2014-15 with a surplus balance of \$923,767 which will be used to cover any unexpected capital improvements.

Projects in the amount of \$1,784,000 will be undertaken by the Public Works Department. They include GIS survey, Pine Street Lift Station, Sewer System Assessment and Master Study, Sewer Lateral Replacement, Inflow and Infiltration Improvements, East Washington Sewer Trunk Line, Palisades Lift Station Coating, Secondary Effluent Pumps, Grit Removal Unit, New Effluent Storage Pond, Repairs to the Laboratory Roof and an upgrade to the High School reclaimed water system.

The Wastewater Capital fund will also cover debt service payments in the amount of \$696,364 and \$6,000 for equipment for Fiscal Year 2014-15. However, it should be stated that the source of these funds is one-time development impact fees. These funds will likely not be available in Fiscal Year 2015/16.

At its goal setting meeting in March 2014 the City Council's objective is to increase the Wastewater Fund reserves at a minimum of 20% within two fiscal years and increase the CIP and Equipment Replacement Fund reserves to meet anticipated needs over the next three fiscal years. At the minimum 20% in reserves would mean a fund balance of \$405,324; the combination of ending fund balances for the Wastewater Operations Fund and the Wastewater Capital Fund at Fiscal Year 2014-15 is \$1,786,566, therefore meeting the 20% objective in reserves.

Special Revenue Funds

These are separate funds which segregate revenues and expenditures restricted for specific purposes such as a specific grant program, restrictions by City Council ordinances, special property assessments or just the need for separate budgeting and accounting of revenues for a specific purpose. The City will end the Fiscal Year 2014-15 with a combined fund balance of \$3,057,820 an increase of \$1,406,958 from Fiscal Year

2013-14. Due to the anticipated impact fees from development the Public Safety Fund will receive \$226,743, the Traffic Fund \$165,938, the Quality of Life Fund \$265,127 and the Housing Trust Fund \$585,002. Most of the revenue sources for these funds will remain in the funds until projects are earmarked. The Community Development Fund will use \$6,000 for completion of the development impact fee study and \$53,750 will be used for several housing programs, which include \$30,750 to Housing Authority of City of Napa; \$8,000 to Fair Housing Napa Valley; \$10,000 contribution to Farmworker Housing and \$5,000 to the Community Action of Napa Valley. This will bring the fund balance to \$125,462 in Fiscal Year 2014-15 from \$368,713 in Fiscal Year 2013-14 for the Community Development Fund.

Equipment Replacement Fund

This fund accounts for all of the operating and maintenance costs related to the City's computer network, workstation system, maintenance and purchase of vehicles, as well as fixed and maintenance costs related to information technology that benefit all other City funds and programs.

City staff is recommending the purchase of a vehicle for the police department to replace one of the older vehicles that is requiring a lot of maintenance. Staff is also recommending the replacement of two servers and accessories, computers and anti-virus software and tasers for a total of \$98,500. The Public Safety Fund will contribute \$11,000 for the purchase of a washer extractor for the Fire Department. The General Fund will transfer \$136,877 to this fund for debt service payments and for the replacement of equipment. This fund will have a fund balance of \$384,597 at the end of Fiscal Year 2014-15 for unanticipated expenditures and reserves.

Capital Projects

Departments were asked to provide input on what they saw as needed projects to undertake in Fiscal Year 2014-15. You will find in the attachments what those requests were. Staff further refined the list and is recommending \$6,093,558 in capital projects and \$312,984 in equipment and information technology projects be approved for Fiscal Year 2014-15.

This study session agenda addresses all departments and anticipates completion of the process in one study session. However, if the Council needs another study session to finish the process May 27th, 2014 has been scheduled to start at 1:00p.m.

The calendar of events for the remainder of the budget process is as follows:

May 15, 2014 City Council Special Meeting – Budget Workshop
Discussion Regarding Fiscal Year 2014/15 Draft Budgets
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Public Hearing on the Fiscal Year 2014-15 Budget: Special City Council Meeting on
June 10, 2014, 6:00 PM

City Council Adoption of the Fiscal Year 2014-15 Budget: June 17, 2014: 7:00 PM

ATTACHMENTS

1. Development Impact Fees Anticipated Fiscal Year 2014-15
2. Draft Fiscal Year 2014-15 Budget Proposal
3. Major Capital Projects Budget
4. Equipment and Information Technology Projects
5. Debt Schedule
6. Letters from Organizations Requesting City Funding

CITY OF CALISTOGA
Development One-time Impact Fees
Fiscal Year 2014-15

| | <u>Silver Rose</u> | <u>Indian Springs</u> | <u>Three Single Family</u> | <u>Total</u> |
|------------------------------|------------------------|---------------------------|--------------------------------|--------------|
| Water | 1,242,544 | - | 45,403 | 1,287,947 |
| Wastewater | 2,286,597 | - | 69,379 | 2,355,976 |
| Quality of Life | 152,627 | 112,500 | - | 265,127 |
| Traffic | 102,413 | 60,883 | 2,642 | 165,938 |
| Public Safety | 190,743 | - | 36,000 | 226,743 |
| Housing | 496,914 | 88,088 | | 585,002 |
| | | | | |
| Total Impact Fees FY 2014-15 | 4,471,838 | 261,471 | 153,424 | 4,886,733 |

General Fund Debt Service; \$342,643; can use quality of life and public safety impact fees

Water Debt Service: \$614,192; can use water impact fees to pay down debt

Wastewater Debt Service: \$696,363; can use wastewater impact fees to pay down debt

**Attachment # 1