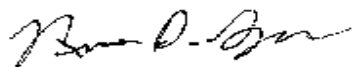


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Richard Spitler, City Manager
Gloria Leon, Administrative Services Director
DATE: May 14, 2015
SUBJECT: Discussion regarding Draft Fiscal Year 2015-16 Budget

APPROVAL FOR FORWARDING:



Richard Spitler, City Manager

ISSUE: To discuss the draft budget for Fiscal Year 2015-16.

RECOMMENDATION: To review and provide feedback and direction regarding the FY 2015/16 draft budget proposal.

BACKGROUND: In June 2014 the Fiscal Year 2014-15 Budget was presented to and adopted by the City Council. In February 2015 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 2015-16 Budget.

This budget workshop is to provide the City Council with the opportunity to review the proposed Fiscal Year 2015-16 budget and provide input to staff as to any recommended changes or adjustments. The draft budget as presented is balanced.

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 2015-16 budget contains cuts in expenditures and Capital Improvement Projects 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. These are urgently needed projects that are a result of deferred maintenance. Also, the City must respond to a Cease and Desist Order (CDO) from the state related to operations of the wastewater treatment plant. The high cost and accelerated schedule to address issues presents a severe challenge to the Wastewater Fund and time commitment of staff.

Because of the delay in the Silver Rose project there are insufficient funds to pay the entire debt service and the initial staff recommendations for capital projects for both the Water and Wastewater Capital Funds. Staff is recommending an advance of \$1,000,000 from the General Fund to the Wastewater Fund and a transfer of \$353,447 from the Wastewater Operations Fund to the Wastewater Capital Fund to cover required capital improvement projects. Fortunately, the General Fund has built up balances to address these issues.

Staff will be recommending several adjustments to the Fiscal Year 2014-15 budget which will be brought back in June for City Council approval. Those adjustments are incorporated in the draft of the Fiscal Year 2015-16 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 2015-16 and will bring development impact fees. These projects include eight (8) apartment units, two (2) second-units, and four (4) single family residence homes. It is anticipated these projects will bring forth the following in impact fees:

Water Capital Fund	\$ 185,118
Wastewater Capital Fund	\$ 306,607
Cultural/Recreation Fund	\$ 74,476
Transportation Fund	\$ 96,504
Fire Fund	\$ 27,184
Police Fund	\$ 7,228
City Administration Fund	<u>\$ 32,258</u>
Grand Total	\$ 729,375

See the attached table in Attachment 1 to this staff report that shows detailed development impact fees from various projects that are anticipated in Fiscal Year 2015-16.

City staff is recommending \$74,476 Cultural/Recreation impact fees be used to pay a portion of the \$426,307 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, 2015 is \$4,051,358. 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.

Staff is recommending the one-time fees of \$185,118 from the Water Capital Fund and the \$306,607 from the Wastewater Capital Fund be used to pay a portion of the annual debt for the Water Fund and capital projects for the Wastewater Fund. The remaining debt payment will come from prior year working capital balances.

The City is currently in a Stage II water emergency status and has asked the community to cut back water usage by 20%. With emphasis on water conservation the City achieved a 14% reduction in water use in calendar year 2014. This resulted in an estimated loss of \$216,392 for the Water Fund and \$51,971 for the Wastewater Fund in Fiscal Year 2014-15. With the recent directive from the Governor, additional reduction in water use will be requested to address the new 25% water conservation goal. Further impacts to these funds are anticipated.

The combined loss of revenues, the need to address much needed infrastructure improvements to the water and wastewater systems, and the CDO present a major challenge to the City. While the Council approved water and wastewater rate increases in 2013 it has not been enough to meet funding needs. Requiring new development to pay connection fees in advance as helped, it has not been enough, particularly with the delay in the construction of the Silver Rose project. This places a major burden on the General Fund to keep the Water and Wastewater Funds viable. While other cities have increased water and wastewater rates to address similar issues, this is less viable due to the rates which are already very high in Calistoga.

Despite these concerns, 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 (we are still 14 positions less than before the Recession). Staff is recommending the part-time code enforcement position in the police department be made a full-time position (this position also is a much needed backup dispatcher). The full time position will incur an additional \$35,177 from the General Fund. Staff is also recommending a part-time accountant in the finance department. This part-time position will incur \$17,612 annually. Both of these positions are included in the draft Fiscal Year 2015-16 Budget. There were several other positions recommended by the Department Heads but due to limited funding these recommendations are not included in the Fiscal Year 2015-16 Budget. A list of the unfunded positions can be found in Attachment 7 of this report.

The City currently is in labor 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 Calistoga Public Employees' Association (CPEA) and the Calistoga Professional Firefighter's Association (CPFA) will expire on December 31, 2015.

The City has also agreed with the CPEA and CPFA for a re-opener to discuss the classification and compensation study performed by Koff & Associates beginning June 5, 2015. The fiscal impact has not been determined (staff's preliminary estimate is \$230,000 for the first year of implementation; subsequent years have not been estimated) and is not included in the Fiscal Year 2015-16 budget.

General Fund

The City Council adopted goals and objectives for Fiscal Year 2015-16 which calls at a minimum for a 30% reserve in its General Fund by year's end (or \$2,280,855). Based on staff recommendations the City will end Fiscal Year 2015-16 with a fund balance of \$3,644,890 which is in excess of the 30% objective. Staff is also recommending \$350,000 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 \$3,144,890 which is 41.4% of total operating expenditures and emergency and contingency reserves.

Water Operations

The Water Operations Enterprise Revenue Fund is anticipating an ending balance of approximately \$532,875 as of June 30, 2015. Based on activity during the fiscal year, it is anticipated that the water fund balance will end with a surplus balance of \$14,868 by June 30, 2016. The Water Capital Improvement Fund will transfer \$472,242 to the Water Operations fund to cover the debt service payments for the fiscal year. 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 2014-15 with a surplus balance of \$897,475. The City anticipates water connection fees in the amount of \$185,118 for Fiscal Year 2015-16. Measure A will provide funds of \$1,113,130 and the Safe Drinking Water

State Revolving Fund (SDWSRF) in the amount of \$200,000 which could be a grant and/or a loan from SDWSRF. The Fiscal Year 2015-16 budget shows an ending surplus balance of \$510,910 which will be used to cover any unexpected capital improvements.

Projects in the amount of \$1,278,000 to be undertaken for the Fiscal Year 2015-16 include the NBA Pump Station, Water Valve Replacement, Cross Connection Survey, Installation of Feige Tank THM Abatement, the Myrtle Street Water Main Replacement and the Bypass Structure. The Bypass Structure project will be funded through Measure A funds. The NBA Pump Station project will be funded through SDWSRF. The remaining projects will be funded through one-time impact fees.

The Water Capital fund will also cover debt service payments in the amount of \$607,313 for Fiscal Year 2015-16. However, it should be stated that the source of these funds is one-time development impact fees. It should be noted that it is assumed that additional development impact fees will likely not be available in Fiscal Year 2016-17 (unless the Silver Rose project starts construction). This may present a significant challenge in that fiscal year.

At its goal setting meeting in March 2015 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 \$571,278; the combination of ending fund balances for the Water Operations Fund and the Water Capital Fund at Fiscal Year 2015-16 is \$525,778, therefore meeting the 20% objective in minimum reserves by \$4,500.

Wastewater Operations

The Wastewater Operations Fund is expected to end Fiscal Year 2014-15 with a surplus balance of approximately \$962,508. The Fiscal Year 2015-16 budget shows an ending balance of \$150,000. The Wastewater Capital Improvement Fund has insufficient funds to transfer \$694,883 to the Wastewater Operations fund to cover the debt service payments for the fiscal year and \$69,000 for equipment. Both the debt service payment and the equipment will be covered by the Wastewater Operation Fund. The Wastewater Operation Fund will transfer \$353,447 to the Wastewater Capital Improvement Fund to assist with required capital projects.

Wastewater Capital

The Wastewater Capital Fund is expected to end Fiscal Year 2014-15 with a surplus balance of \$54,558. The City anticipates wastewater connection fees in the amount of

\$306,607 for Fiscal Year 2015-16. The Wastewater Capital Fund is expected to end Fiscal Year 2015-16 with a surplus balance of \$125,412 which will be used to cover any unexpected capital improvements. Staff is recommending the General Fund advance to the Wastewater Capital Fund \$1,000,000 for capital improvement projects and a surplus for unexpected expenditures. Should the City Council adopt the advance between the General Fund and the Wastewater Fund staff will come at a later date with an agreement between the two funds and a resolution.

Projects in the amount of \$2,340,000 will be undertaken by the Public Works Department. They include Pine Street Lift Station, Sewer System Assessment and Master Study, Secondary Effluent Pumps, Sewer Lateral Replacement, Inflow and Infiltration Improvements, East Washington Sewer Trunk Line, New Effluent Storage Pond, Geothermal Water Meters and Wastewater Upgrades for CDO Compliance. A recycled water grant will provide \$750,000 in funding for the storage pond project. The remaining projects will be funded through one-time impact fees and the General Fund.

At its goal setting meeting in March 2015 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 \$419,680; the combination of ending fund balances for the Wastewater Operations Fund and the Wastewater Capital Fund at Fiscal Year 2015-16 is \$275,412, therefore not 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 2015-16 with a combined fund balance of \$3,441,500, an increase of \$346,784 from Fiscal Year 2014-15. Most of the revenue sources for these funds will remain in the funds until projects are earmarked. The Community Development Fund will use \$43,375 for several housing programs, which include \$31,500 to Housing Authority of City of Napa; \$8,000 to Fair Housing Napa Valley; and \$3,875 to the Community Action of Napa Valley. This will bring the fund balance to \$249,786 in Fiscal Year 2015-16 from \$266,493 in Fiscal Year 2014-15 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 over-due replacement of breathing apparatus equipment for the Fire department in the amount of \$76,350 (which is for one-half of the breathing apparatus equipment). Staff is also recommending the replacement of a Cloud server and accessories, computers, two (2) fire safe file cabinets, anti-virus software and a recording and camera replacement for the interview room at the Police station for a total of \$128,350. The General Fund will transfer \$80,532 to this fund for the Suntrust debt service payment and maintenance of the Rims system for the Police department. This fund will have a fund balance of \$409,349 at the end of Fiscal Year 2015-16 for unanticipated expenditures and reserves.

At its goal setting meeting in March 2015 the City Council's objective is to increase the 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 \$74,442; the ending fund balance for the Equipment Replacement Fund is \$409,349; therefore meeting the 20% reserve.

Capital Projects

Departments were asked to provide input on what they saw as needed projects to undertake in Fiscal Year 2015-16. You will find in the attachments what those requests were. Staff further refined the list and is recommending \$8,992,600 in capital projects and \$332,489 in equipment and information technology projects be approved for Fiscal Year 2015-16.

Balance Summary for Fiscal Year 2015-16

Attachment 2 to this staff report shows a detailed revenue and expenditure analysis for each of the major funds. The following summary table shows the list of the major funds and anticipated fund balance at the end of June 2016. While it shows that the City's finances have actually improved in the last six months, the Water Capital Fund and Wastewater Capital Fund are under stress. They are not strong enough to meet all capital improvement needs or a major emergency. This, in turn, will put pressure on the General Fund as a source of funds to bring these funds into a positive balance.

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The following table shows in summary the Fiscal Year 2015-16 ending fund balances for each of the major funds of the City:

	General Fund	Water Fund	Water Capital	WWTP Fund	WWTP Capital
Revenues	9,239,559	2,387,683	185,118	2,403,221	306,607
Expenditures	7,602,849	3,411,321	-	2,740,399	-
Net Surplus/Deficit	1,636,710	(1,023,638)	185,118	(337,178)	306,607
Other Sources	1,061,923	1,231	1,313,630	-	750,800
Capital Projects Expenses	(2,155,500)	-	(1,278,000)	-	(2,340,000)
Equipment Purchases	-	-	-	(69,000)	-
Debt Payments	(195,210)	(472,242)	(135,071)	(694,883)	-
Transfers In	194,170	551,642	-	-	353,447
Transfers Out	(608,421)	-	(472,242)	(353,447)	-
Advance to WWTP	(1,000,000)	-	-	-	1,000,000
Add non-cash Depreciation	-	425,000	-	642,000	-
Total Net Chg FY 15-16	(1,066,328)	(518,007)	(386,565)	(812,508)	70,854
Beg Fund Balance 07/01/15	4,711,218	532,875	897,475	962,508	54,558
End Fund Balance 06/30/16	3,644,890	14,868	510,910	150,000	125,412

Because of the delay in the Silver Rose project and the elimination of one-time impact fees from the revised adopted Fiscal Year 2014-15 Budget, there are insufficient funds to pay the entire debt service and all of the capital projects that were initially recommended by staff before today's workshop for both the Water and Wastewater Capital funds. This has caused them to have limited working capital balances.

Several projects from the Water Capital Improvement Fund were eliminated which included the design for Feige tank, automatic meter read program, Riverlea pathway water line relocation, NBA Cathodic protection, and the replacement of water mains. A list of projects that were eliminated is found in Attachment 6 of this report. Staff is recommending an advance from the General Fund to the Wastewater Capital Improvement Fund in the amount of \$1,000,000 for capital projects and a surplus for unexpected expenditures.

Conclusion

The City's financial outlook for Fiscal Year 2015-16 remains stable but not strong. The completion of the expansion of Indian Springs has already started to bring additional transient occupancy tax, charges for service revenues and sales tax. These additional revenues are projected in the Fiscal Year 2015-16 budget. It is uncertain when the Silver Rose project will begin development and pay over \$4 million in development impact fees. While it is believed it will begin construction during the Fiscal Year 2015-16, this budget has been prepared assuming it will not.

There are several potential demands and threats to the City finances that are not specifically addressed in this draft budget report. These include:

- Staffing levels are below those needed to meet current service demands and these also will be analyzed at mid-year 2015-16 budget. The City's infrastructure operation and replacement needs, in most areas, are in a deferred maintenance mode. This often leads to expensive repair once something breaks.
- Due to the Stage II water emergency in place charges for services revenues will be less than projected in the Water and Wastewater study that was completed in December 2013. The City Council will need to determine if the General Fund will continue to subsidize or provide a loan to the two enterprise funds. Currently the Wastewater Fund owes to the General Fund \$553,437.
- Currently the City has a re-opener set for June 5, 2015 with all labor groups due to the classification and compensation study that was done by Koff & Associates the fiscal impact has not been determined and is not included in the Fiscal Year 2015-16 budget. Preliminary analysis shows approximately \$230,000 would be needed if initial recommendations for the first year are fully implemented. Staff will be coming back at a later date when the negotiations have reached tentative agreement.
- The City also has two litigation threats that may impact the Water Fund. One is the attorney fees decision that was decided before the Superior Court in the amount of

\$587,000. This decision can be appealed. Another is the latest Debbie O’Gorman water damages lawsuit which will continue to cost the Water Fund to defend the City’s water rights. This could mean the General Fund would have to transfer (in the form of a loan) significant funds to the Water Fund.

As of this report the aforementioned litigation has not been included in the attached draft Fiscal Year 2015-16 Budget. Should the Water and Wastewater Funds need transfers or advances from the General Fund staff will come back at a later date with recommendations for budget adjustments.

As aforementioned, the CDO from the state related to the wastewater treatment operations will result in several million dollars of capital improvement and a major commitment of staff time. While it is hoped that grant funds can mitigate some the cost, it represents a major threat to the viability of this fund.

In summary, while the City has stopped the downward trend in City finances, there is a critical need for additional sources of revenue to build up reserves in the Water and Wastewater Funds; and, to bring staffing levels to adequate levels to meet level of service needs. At present the City still relies on one time development impact fees to bridge present financial demands until the full development of Silver Rose and the Calistoga Hills, with their attendant annual TOT and sales tax revenues, is fully realized and serves to bring mid- to long-term financial stability to the City. The completion of the Indian Springs expansion has already brought a major increase in General Fund revenues.

Next Steps

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 21st, 2015 has been scheduled to start at 1:00p.m., at the Fire Station.

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

Public Hearing on the Fiscal Year 2015-16 Budget: Special City Council Meeting on
June 9, 2015, 6:00 PM

City Council Adoption of the Fiscal Year 2015-16 Budget: June 16, 2015: 7:00 PM

ATTACHMENTS

1. Development Impact Fees Anticipated Fiscal Year 2015-16
2. Draft Fiscal Year 2015-16 Budget Proposal
3. Major Capital Projects Budget
4. Equipment and Information Technology Projects
5. Debt Schedule
6. Unfunded Department Head Requests
7. Letters from Organizations Requesting City Funding
8. City Council Goals and Objectives

Development Impact Fees FY 2015-16

	4 Single Residence		Total Projected
	8 apartments	2 2nd units	
Water	\$ 110,969	\$ 11,983	\$ 62,166
Wastewater	180,656	30,958	94,993
Cultural/Rec	40,544	10,136	23,796
Transportation	46,928	11,732	37,844
Fire	14,800	3,700	8,684
Police	3,936	984	2,308
City Administration	17,560	4,390	10,308
Affordable Housing			
Total	\$ 415,393	\$ 73,883	\$ 240,099

GF Debt Service; \$426,307 can use Cultural/Rec& Public Safety Fees to pay down debt
 Water Debt Service: \$607,313 can use water impact fees to pay down debt
 WWTP Debt Service: \$696,363 can use wwtp impact fees to pay down debt