

# City of Calistoga

## Staff Report

**TO:** Honorable Mayor and City Council

**FROM:** Gloria Leon, Administrative Services Director

**VIA:** Michael Kirn, Interim City Manager

**DATE:** February 2, 2016

**SUBJECT:** Consideration of a Resolution Authorizing the Acceptance of the Special Gas Tax Street Improvement Fund Audit for period of July 1, 2007 through June 30, 2014 and Appropriate from the Unencumbered Special Gas Tax Street Improvement Fund Balance the amount of \$44,919.82 to the State Controller's Office for Traffic Congestion Relief Funds for Fiscal Year 2008-09 and a Transfer from the Unappropriated General Fund to the Special Gas Tax Street Improvement Fund for an Amount of \$5,021.22 for a deficit balance for Fiscal Year 2006-2007.

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APPROVAL FOR FORWARDING:




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Michael Kirn, Interim City Manager

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2 **ISSUE:** Consideration of a Resolution Authorizing the Acceptance of the Special

3 Gas Tax Street Improvement Fund Audit for the period of July 1, 2007 through June 30,

4 2014 and Appropriate from the Unencumbered Special Gas Tax Street Improvement

5 Fund Balance in the amount of \$44,919.82 to the State Controller's Office for Traffic

6 Congestion Relief Funds (TCRF) for Fiscal Year 2008-09 and a Transfer from the

7 Unappropriated General Fund to the Gas Tax Fund for an Amount of \$5,021.22 for a

8 deficit balance for Fiscal Year 2006-2007.

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10 **RECOMMENDATION:** Adopt Resolution.

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12 **BACKGROUND/DISCUSSION:** The State apportions funds monthly from the highway

13 users tax account within the transportation tax fund to cities and counties for the

14 construction, maintenance, and operation of local streets and roads. The highway users

15 taxes are derived from state taxes on the sale of motor vehicle fuels. In accordance with  
16 Streets and Highways Code Section 2101 and Article XIX of the California Constitution,  
17 all apportionments of highway users' taxes to cities must be deposited in the city's gas  
18 tax fund (also known as the Special Gas Tax Street Improvement Fund) and must be  
19 expended only for street—related purposes.

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21 Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 656, Statutes  
22 of 2000, (Senate Bill 1662) established a Traffic Congestion Relief Fund in the State  
23 Treasury for allocating funds quarterly to cities and counties for street or road  
24 maintenance, reconstruction and storm damage repair. Funds received must be  
25 deposited into the city account designated for the receipt of state funds allocated for  
26 transportation purposes.

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28 During the week of March 23, 2015 Jason Fong from the State Controllers Report did a  
29 City audit on the gas tax funds and traffic congestion relief funds for the time period of  
30 July 1, 2007 through June 30, 2014. The audit was performed in accordance with  
31 Government Auditing Standards issued by the Comptroller General of the United States.  
32 The engagement was limited to performing procedures to obtain reasonable assurance  
33 that Highway Users Tax Account funds disbursed to the City were accounted for and  
34 expended in accordance with Article XIX of the California Constitution and the Streets  
35 and Highway Code.

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37 In addition Mr. Fong audited the City's Proposition 1B fund for fiscal year ending June 30,  
38 2014 to determine conformance with Government Code Section 8879.23

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40 The results of the audit found the following:

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42 **Finding 1** –Maintenance of effort (MOE) requirement was not met. In Fiscal year 2008-  
43 09, the City received TCRF allocation in the amount of \$44,919.82. However the City did  
44 not meet the three year average requirement of the MOE agreement concerning  
45 expenditures of TCRF Funds. The City's MOE level was \$272,062, but the City only  
46 expended \$181,639 of discretionary funds for street work, resulting in a shortfall of  
47 \$90,369.

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49 Guidelines relating to TCRF, Section 340, Two-year option, states: If a city or county fails  
50 to comply with the Three-Year Average requirement in a particular fiscal year, the city or  
51 county must expend in the following fiscal year an amount that is not less than twice the  
52 three-year average less the previous year's expenditures combined, in order to meet the  
53 requirement.

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55 Further, Section 350 of the guidelines, Failure to Maintain Expenditure Level, states:  
56 Cities and counties failing to comply with the Three-Year Average and the Two-Year  
57 Option requirements must return all TCRF moneys received and related interest in the

58 fiscal year of noncompliance to the State Controller for reallocation to other cities and  
59 counties whose expenditures are in compliance. The recommendation is to return the  
60 \$44,919.82 to the State Controller's Office for reallocation to other cities and counties.

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62 **Finding 2** – Negative Fund Balance. As of July 1, 2007 the beginning fund balance in  
63 the Special Tax Gas Street Improvement Fund was a deficit \$5,021.22. The practice of  
64 funding one fiscal year's activities with Highway Users Tax apportionments of the  
65 following fiscal year is in violation of Article 16, Section 18 of the California Constitution  
66 and is contrary to established municipal budgetary and accounting principles. As a result  
67 the deficit balance of \$5,021.22 is disallowed. Staff is recommending the transfer of  
68 \$5,021.22 from the general fund to the special gas tax street improvement fund.

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70 **FISCAL IMPACT:** Appropriation from the Unappropriated Special Gas Tax Improvement  
71 Fund in the amount of \$44,919.82 from account 21-4122-4402 and transfer of \$5,021.22  
72 from Unappropriated General Fund balance account 01-4700-4799 to Special Gas Tax  
73 Improvement Fund account 21-3299.

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75 **ATTACHMENTS**

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77 1. Draft Resolution  
78 2. Audit Report dated January 2016 from State Controller

## RESOLUTION NO. 2016-XXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF NAPA, STATE OF CALIFORNIA, AUTHORIZING THE ACCEPTANCE OF THE SPECIAL GAS TAX STREET IMPROVEMENT FUND AUDIT FOR PERIOD OF JULY 1, 2007 THROUGH JUNE 30, 2014 AND APPROPRIATE FROM THE UNENCUMBERED SPECIAL GAS TAX STREET IMPROVEMENT FUND BALANCE THE AMOUNT OF \$44,919.82 TO THE STATE CONTROLLER'S OFFICE FOR TRAFFIC CONGESTION RELIEF FUNDS FOR FISCAL YEAR 2008-09 AND A TRANSFER FROM THE UNAPPROPRIATED GENERAL FUND TO THE SPECIAL GAS TAX STREET IMPROVEMENT FUND FOR AN AMOUNT OF \$5,021.22 FOR A DEFICIT BALANCE FOR FISCAL YEAR 2006-2007.

**WHEREAS**, the State apportions funds monthly from the highway users tax account within the transportation tax fund to cities and counties for the construction, maintenance and operation of local streets and roads and;

**WHEREAS**, the highway users taxes are derived from state taxes on the sale of motor vehicle fuel; and

**WHEREAS**, in accordance with Streets and Highways Code Section 2101 and Article XIX of the California Constitution, all apportionments of highway users taxes to cities must be deposited in the city's gas tax fund (also known as the Special Gas Tax Street Improvement Fund) and must be expended only for street-related purposes; and

**WHEREAS**, Chapter 91, Statutes of 2000 (Assembly Bill 2928) as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662) established a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction and storm damage repair; and

**WHEREAS**, during the week of March 23, 2015 Jason Fong from the State Controllers' Office did a City audit on the use of Proposition 1B, gas tax funds and traffic congestion relief funds for the time period of July 1, 2007 through June 30, 2014; to determine conformance with Government Auditing Standards; and

**WHEREAS**, Mr. Fong from the State Controllers' office has made the following findings:

- Finding 1: Maintenance of effort (MOE) requirement was not met. In Fiscal Year 2008-09, the City received TCRF allocation in the amount of \$44,919.82. However, the City did not meet the three year average requirement of the MOE agreement concerning expenditures of TCRF Funds. The City's MOE level was \$272,062 but the City only expended \$181,639 of discretionary funds for street report, resulting in a shortfall of \$90,369.
- Finding 2: Negative fund balance. As of July 1, 2007 the beginning fund

44 balance in the Special Tax Gas Street Improvement Fund was a deficit of  
45 \$5,021.22. The practice of funding one fiscal year's activities with  
46 Highway Users Tax apportionments of the following fiscal year is in  
47 violation of Article 16, Section 18 of the California Constitution and is  
48 contrary to established municipal budgetary and accounting principles. As  
49 a result the deficit balance of \$5,021.22 is disallowed.

50 **NOW, THEREFORE, BE IT RESOLVED** that based upon the above  
51 findings, authorizes the Interim City Manager return the \$44,919.82 to the State  
52 Controller's Office for reallocation to other cities and counties under account 21-  
53 4122-4402 and transfer \$5,021.22 from the unappropriated general fund account  
54 01-4700-4799 to the Special Gas Tax Improvement fund account 21-3299.

55 **PASSED, APPROVED AND ADOPTED** by the City Council of the City of  
56 Calistoga at a regular meeting held this **2<sup>nd</sup> day of February, 2016**, by the  
57 following vote:  
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60 **AYES:**  
61 **NOES:**  
62 **ABSENT:**  
63 **ABSTAIN:**

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**CHRIS CANNING, Mayor**

67 **ATTEST:**

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**KATHY FLAMSON, City Clerk**

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