

# City of Calistoga

  

## Staff Report

**TO:** Honorable Mayor and City Council  
**FROM:** Gloria Leon, Administrative Services Director  
Michael Kirn, Interim City Manager  
**DATE:** February 16, 2016  
**SUBJECT:** Fiscal Year 2015-16 Mid-Year Review and Budget Adjustments

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APPROVAL FOR FORWARDING:



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Michael Kirn, Interim City Manager

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2 **ISSUE:** To receive a mid-year financial update regarding the 2015-16 Budget and to  
3 adopt budget adjustments.  
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5 **RECOMMENDATION:** Receive Mid-Year 2015-16 Budget Report and Adopt Resolution  
6 Approving Operating and Capital Improvement Budget Adjustments for Fiscal Year 2015-  
7 16.  
8

9 **BACKGROUND:**  
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11 On June 16, 2015, the Fiscal Year 2015-16 budget was adopted by the City Council.  
12 Over the last six months there were several unanticipated demands on the budget that  
13 require budget adjustments. These adjustments are addressed in this staff report with  
14 the benefit of having mid-year actual revenues and expenditures through December 31,  
15 2015. Based upon these mid-year figures, staff is able to present forecasts of revenues  
16 and expenditures for the remainder of the fiscal year (June 30, 2016).  
17

18 The Fiscal Year 2015-16 budget continues to reflect the continuation of the same level of  
19 service as the prior year.  
20

21 **DISCUSSION:**  
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23 **General Fund Balance**  
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25 The City's General fund ended June 2015 with a fund balance of about \$7.2 million as  
26 compared to \$4.9 million in June 2014. Of the \$7.2 million approximately \$.6 million is  
27 non-spendable as it is represented by prepayments and advances to the Wastewater

28 Fund. In addition \$852,540 is earmarked for increases in CalPERS retirement rates and  
 29 the unfunded CalPERS side fund. The remaining \$5.7 million is unassigned and  
 30 available for spending in Fiscal Year 2015-16 at the City Council's discretion; however, it  
 31 is subject to Council-established policies for reserve funds.

32  
 33 Based on the unassigned ending balance of \$5,728,297 at June 30, 2015 and proposed  
 34 mid-year budget revenue adjustments the unassigned ending balance for June 30, 2016  
 35 is projected to be \$4,850,047, as follows:

36 **General Fund Sources and Uses**

	<b>Adopted Budget FY 15-16</b>	<b>Budget Adjustments FY 15-16</b>	<b>Revised Budget FY 15-16</b>
<b>Beginning Fund Balance</b>			<b>6,342,506</b>
Operating Revenues	9,538,730	780,323	10,319,053
Operating Expenditures	7,760,716	1,044,527	8,805,243
Net Operating Deficit	1,778,014	(264,204)	1,513,810
Other Revenue Sources	1,061,923	384,426	1,446,349
Capital Imp Projects	2,155,500	369,426	2,524,926
Transfers In and Out	(1,609,461)	(318,231)	(1,927,692)
Net Fund Surplus (deficit)	(925,024)	(567,435)	(1,492,459)
<b>Ending fund balance projected</b>			<b>4,850,047</b>

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 38  
 39 This would mean all reserves as a percentage of operating expenditures for the General  
 40 Fund would be approximately 55.1%, thereby maintaining the City Council goal of 30% in  
 41 reserves by June 30, 2016.

42  
 43 Despite this positive General Fund reserve, there are several commitments and threats to  
 44 the City's finances that will likely result in additional General Fund expenditures and  
 45 transfers to other funds before the end of this fiscal, if not into the next. This will be  
 46 discussed further below.

47  
 48 **Enterprise Fund Balances**  
 49  
 50 The Water and Wastewater Funds had \$1,179,295 and \$1,321,128 respectively in cash  
 51 and cash equivalent balances at June 30, 2015. There was very little in one-time  
 52 receipts; Water contributions were \$355,312 and Wastewater contributions were  
 53 \$155,562 for FY 2014-15.

54

55 The Water Fund, combined with the Water Capital Improvement Project Fund, ended  
56 June 30, 2014 with a net position of unrestricted funds of \$1,528,346. In addition, the  
57 delay of the 8 apartment units and 2 second units development makes it prudent to  
58 remove the anticipated one-time fees of \$89,242 from the FY 2015-16 mid-year budget.  
59 This is offset by \$33,710 in one-time impact fees that were not projected in the FY 2015-  
60 16 adopted budget. The City will be receiving \$240,000 in revenues from the County for  
61 over charges from the State for NBA water. The funds will go back into the water  
62 operations fund and could be used for capital projects in the future based on City Council  
63 direction.

64  
65 Staff is recommending that the debt service payments of \$359,111 be paid by the water  
66 operations fund and not the water capital improvement fund as was adopted in June  
67 2015. Recommendation is based on the fact that there is insufficient reserve balances in  
68 the water capital improvement fund to cover the FY 2015-16 debt service payments.

69  
70 The ending net position for the Water Fund and Water Capital Fund combined at June  
71 30, 2016 is projected at \$.6 million as opposed to \$.5 million, as was adopted in the  
72 budget for June 2016. Staff is recommending mid-year charges for services revenue  
73 adjustments of \$240,000; mid-year expenditure adjustments of \$126,335; and mid-year  
74 other sources adjustment of (\$4,500). The mid-year expenditures include staff increases  
75 and implementation of the Koff study in the amount of \$77,942 that were adopted by the  
76 City Council earlier this year. The adjustments also include \$45,000 for increase costs in  
77 repairs and maintenance of equipment and communication challenges between the  
78 various pump station systems. The remaining amount in adjustments of \$3,393 is for rain  
79 gear uniforms and contract services.

80  
81 Staff is also recommending (\$1,037,426) reduction of Water Capital Improvement  
82 Projects since these projects will not take place before June 30, 2016. These projects are  
83 to be funded by Measure A, Safe Drinking Water Grant and one-time impact fees.

84  
85 The Wastewater Fund combined with the Wastewater Capital Improvement Project Fund,  
86 ended June 30, 2015 with a net position of \$1,274,057. Because of the delay of the 8  
87 apartment units and 2 second units development makes it prudent to remove the  
88 anticipated one-time fees of \$164,966 from the FY 2015-16 mid-year budget. This is  
89 offset by \$46,648 in one-time impact fees that were not projected in the FY 2015-16  
90 adopted budget.

91  
92 Staff is recommending mid-year expenditure adjustment of \$182,011. The mid-year  
93 expenditures include staff increases and implementation of the Koff Study in the amount  
94 of \$167,789 that were adopted by the City Council earlier this year. The adjustments also  
95 include \$14,222 for repairs and maintenance of equipment.

96

97 Staff is also recommending a reduction adjustment of (\$712,741) for elimination of  
98 Wastewater Capital Projects that were to be funded by one-time impact fees from new  
99 development and a recycled water grant. These projects will be funded in FY 2016-17.  
100 At June 30, 2016 the net position for the Wastewater and Wastewater Capital  
101 Improvement Fund combined is projected to be \$124,636.

102  
103 When the City Council adopted the FY 2015-16 budget it was recommended the General  
104 Fund would cover \$1,000,000 of Wastewater Capital projects. Staff is seeking direction  
105 on this matter. Because of the challenges at the treatment plant the recommendation still  
106 holds true. The \$1,000,000 can be shown as a loan from the General Fund to the  
107 Wastewater Capital Project Fund or it can be shown as a subsidy. Should Council  
108 determine this to be a loan a resolution will be brought forth with the terms of the loan.

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### 110 **Special Revenue Fund Balances**

111  
112 The City ended FY 2014-15 with a combined fund balance of \$2.4 million which can be  
113 used only for certain specific future purposes. Based on the delay of the 8 apartment  
114 units and 2 second units, one-time fees for city administrative, fire, police,  
115 cultural/recreational, transportation and affordable housing have been eliminated from the  
116 budget. Total amount of these fees is \$154,710. These one-time impacts are offset with  
117 \$34,602 which were not projected when the FY 2015-16 budget was adopted. Staff is  
118 still projecting a fund balance of \$2.6 million at mid-year for the Special Revenue Funds  
119 at June 30, 2016.

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### 121 **Equipment Fund Balance**

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123 The total net position for this fund on June 30, 2015 was \$886,579; of which, \$426,482 is  
124 unrestricted. The City Council previously adopted budget adjustments of \$75,523 for a  
125 match donation from the Fire Association for the purchase of breathing apparatus. Staff is  
126 recommending mid-year expenditure adjustments of \$8,000 for fire safe filing cabinets  
127 and police software. City Council approved during the fiscal year \$68,950 in  
128 expenditures for a police vehicle and citizenserve software in the planning and building  
129 department. This will bring the projected fund balance at June 30, 2016 to \$438,185.

130

### 131 **Balance Summary for Fiscal Year 2015-16**

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133 Attachment 2 to this staff report shows a detailed revenue and expenditure analysis for  
134 each of the major funds. The following summary table shows the list of the major funds  
135 and anticipated fund balance at the end of June 2016, with adoption of the recommended  
136 budget adjustments and other information obtained from the past six months. While it  
137 shows that the City's finances have actually improved in the last six months, the Water  
138 Capital Fund and Wastewater Capital Fund are under stress. They are not strong enough  
139 to meet all capital improvement needs or a major emergency. This, in turn, will put

140 pressure on the General Fund as a source of funds to bring these funds into a positive  
 141 balance.

142  
 143 The following table shows the revised mid-year budget anticipated reserves for Fiscal  
 144 Year 2015-16.

145

<b>FY 15-16</b>	<b>General Fund</b>	<b>Water Operations</b>	<b>Water Capital</b>	<b>WWTP Operations</b>	<b>WWTP Capital</b>
Revenues	10,319,053	2,627,683	95,876	2,403,221	141,641
Expenditures	8,805,243	3,507,915	-	2,927,870	-
<b>Net Surplus/Deficit</b>	<b>1,513,810</b>	<b>(880,232)</b>	<b>95,876</b>	<b>(524,649)</b>	<b>141,641</b>
Other Sources	1,446,349	1,231	266,402	-	800
Equipment	-	4,500	-	87,071	-
Capital Projects Expenses	2,524,926	-	240,574	-	1,627,259
Debt Payment	-	472,242	135,071	694,883	-
Transfers In/Out	(1,927,692)	192,531	(113,131)	(579,957)	1,579,957
Add non-cash Depreciation	-	425,000	-	642,000	-
<b>Total Net Chg Fy 15-16</b>	<b>(1,492,459)</b>	<b>(738,212)</b>	<b>(126,498)</b>	<b>(1,244,560)</b>	<b>95,139</b>
Beg Fund Balance 07/01/15	6,342,506	1,355,979	172,367	1,369,195	(95,139)
End Fund Balance 06/30/16	4,850,047	617,767	45,869	124,635	-
Reserves % Operating Exp	55.1%				

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 147

148 **Conclusion**

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150 The City's financial outlook for Fiscal Year 2015-16 remains stable but not strong. The  
 151 completion of the expansion of Indian Springs has brought in additional transient  
 152 occupancy tax, charges for service revenues and sales tax. It is uncertain when the  
 153 Silver Rose project will begin development and pay over \$4 million in development  
 154 impact fees, although it is likely to be next fiscal year at the latest.

155

156 There are several potential demands and threats to the City finances that are not  
 157 specifically addressed in this mid-year budget report. These include:

158

159 •Staffing levels are below those needed to meet current service demands and  
 160 these also will be analyzed in the Fiscal Year 2016-17 budget. The City's  
 161 infrastructure operation and replacement needs, in most areas, are in a deferred  
 162 maintenance mode. This often leads to expensive repair once something breaks.

163

164 •Due to the Stage II water emergency in place charges for services revenues will  
 165 be less than projected in the Water and Wastewater study that was completed in  
 166 December 2013. The City Council will need to determine if the General Fund will

167 continue to subsidize or provide a loan to the two enterprise funds. Currently the  
168 Wastewater Fund owes to the General Fund \$553,437. City staff is seeking  
169 direction on the \$1,000,000 that will be transferred from the General Fund to the  
170 Wastewater Capital Improvement Fund in FY 2015-16.

171  
172 The City also has one litigation threat that may impact the Water Fund. The  
173 Debbie O’Gorman water damages lawsuit will continue to cost the Water Fund to  
174 defend the City’s water rights. This could mean the General Fund would have to  
175 transfer (in the form of a loan) significant funds to the Water Fund.

176  
177 Should the Water and Wastewater Funds need transfers from the General Fund staff will  
178 come back at a later date with recommendations for budget adjustments. As of this  
179 report the aforementioned litigation transfers between funds has not been included in the  
180 attached Mid-Year Budget for Fiscal Year 2015-16.

181  
182 In summary, while the City has stopped the downward trend in City finances, there is a  
183 critical need for additional sources of revenue to build up reserves in the Water and  
184 Wastewater Funds; and, to bring staffing levels to adequate levels to meet level of  
185 service needs. At present the City still relies on one time development impact fees to  
186 bridge present financial demands until the full development of Silver Rose and Calistoga  
187 Hills, with their attendant annual TOT and sales tax revenues, is fully realized and serves  
188 to bring mid- to long-term financial stability to the City.

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190 **Budget Adjustments**  
191 Attachment 1 includes the proposed Budget Adjustment resolution which details the  
192 needed mid-year adjustments.

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194 **ATTACHMENTS**

- 195 1. Draft Resolution of Budget Adjustments
- 196 2. Detailed Revenue/Expenditure Analysis – All Funds
- 197 3. General Fund Sources and Uses
- 198 4. Water Fund Sources and Uses
- 199 5. Water Fund Capital Improvement Projects
- 200 6. Wastewater Fund Sources and Uses
- 201 7. Wastewater Fund Capital Improvement Projects
- 202 8. Special Revenue Funds Sources and Uses Summary
- 203 9. Equipment Replacement Fund Sources and Uses Summary
- 204 10. Major Capital Projects Summary
- 205 11. Equipment and Information Technology Projects Summary
- 206 12. Non-Represented Employee Salary Schedule FY 2015-16
- 207 13. Calistoga Police Officers Association Salary Schedule FY 2015-16
- 208 14. Calistoga Professional Firefighters Association Salary Schedule FY 2015-16
- 209 15. Calistoga Public Employees Association Salary Schedule FY 2015-16

- 210 16. Non-Represented Part-Time Employees Salary Schedule FY 2015-16
- 211 17. Mid-Year 2015-16 Operating & Capital Improvement Budgets