

1 **City of Calistoga**

2 **Staff Report**

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4 **TO:** Honorable Mayor and City Council
5 **FROM:** Dylan Feik, City Manager
6 Gloria Leon, Administrative Services Director
7
8 **DATE:** May 12, 2016
9 **SUBJECT:** Discussion regarding Draft Fiscal Year 2016-17 Budget

10 **APPROVAL FOR FORWARDING:**

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13 
Dylan Feik, City Manager

14 **ISSUE:** To discuss the draft budget for Fiscal Year 2016-17.

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16 **RECOMMENDATION:** To review and provide feedback and direction regarding the FY
17 2016/17 draft budget proposal.

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19 **BACKGROUND:** In June 2015 the Fiscal Year 2015-16 Budget was presented to and
20 adopted by the City Council. In February 2016 a Mid-Year Financial Update was
21 presented to the Council. At that time several budget adjustments were brought forward
22 and adopted. That analysis has served as a starting point for development of the Fiscal
23 Year 2016-17 Budget.

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25 This budget workshop is to provide the City Council with the opportunity to review the
26 proposed Fiscal Year 2016-17 budget and provide input to staff as to any recommended
27 changes or adjustments.

28
29 **DISCUSSION:** In today's workshop we will be discussing the individual departmental
30 budgets, operating and capital, as listed in the agenda. Following a brief introduction by
31 the City Manager, the Administrative Services Director will give a brief overview of the
32 budget expenditures and revenues. This will be followed by an overview by each
33 Department/Division head on the status of the department. The Council then will be asked
34 to give input.

35
36 As we move forward into the new fiscal year it is important to remember that the City's
37 budget will, once again, be very tight. The proposed Fiscal Year 2016-17 budget contains

38 cuts in expenditures and Capital Improvement Projects over what was initially requested
39 by most of the departments. However, several Capital Improvement Projects (CIP's) are
40 recommended for funding. These are urgently needed projects that are a result of deferred
41 maintenance. Also, the City must respond to a Cease and Desist Order (CDO) from the
42 state related to operations of the wastewater treatment plant. The high cost and
43 accelerated schedule to address issues presents a severe challenge to the Wastewater
44 Fund and time commitment of staff.

45
46 Because of the delay in the Silver Rose project there are insufficient funds to pay the debt
47 service and the initial staff recommendations for capital projects for both the Water and
48 Wastewater Capital Funds. The current draft budget has deficit balances for both the
49 Water and Wastewater Capital Improvement funds. Staff is looking for direction from the
50 City Council on how to address the deficits.

51
52 Staff will be recommending several adjustments to the Fiscal Year 2015-16 budget which
53 will be brought back in June for City Council approval. Those adjustments are incorporated
54 in the draft of the Fiscal Year 2016-17 budget which is before you in this workshop.

55
56 The City is anticipating that several private development projects will initiate or complete
57 construction in Fiscal Year 2016-17 and will bring development impact fees. These
58 projects include Boys & Girls Club, Wappo Guest Accommodations and four (4) single
59 family residence homes. It is anticipated these projects will bring forth the following in
60 impact fees:

61		
62	Water Capital Fund	\$ 214,934
63	Wastewater Capital Fund	\$ 443,617
64	Cultural/Recreation Fund	\$ 33,017
65	Transportation Fund	\$ 78,092
66	Fire Fund	\$ 17,881
67	Police Fund	\$ 4,730
68	Affordable Housing	\$ 28,489
69	City Administration Fund	<u>\$ 20,941</u>
70		
71	Grand Total	\$ 841,701
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73 See the attached table in Attachment 1 to this staff report that shows detailed development
74 impact fees from various projects that are anticipated in Fiscal Year 2016-17.

75
76 The combined loss of revenues for the enterprise funds, the need to address much needed
77 infrastructure improvements to the water and wastewater systems, and the CDO present a
78 major challenge to the City. While the Council approved water and wastewater rate
79 increases in 2013 it has not been enough to meet funding needs. The last rate increase
80 will take effect on January 1, 2017. Requiring new development to pay connection fees in
81 advance has helped, it has not been enough, particularly with the delay in the construction
82 of the Silver Rose project. This places a major burden on the General Fund to keep the
83 Water and Wastewater Funds viable. While other cities have increased water and

84 wastewater rates to address similar issues, this is less viable due to the rates which are
85 already very high in Calistoga.

86
87 Despite these concerns, this proposed budget continues to maintain the existing level of
88 service and reliability to the community through our infrastructure systems and facilities.
89 However, as previously indicated, there are many facilities that are not receiving
90 maintenance and replacement as they should. There are no anticipated layoffs of staff (we
91 are still 14 positions less than before the Recession).

92
93 **General Fund**

94
95 The City Council adopted goals and objectives for Fiscal Year 2016-17 which calls at a
96 minimum for a 50% reserve in its General Fund by fiscal year 2017-18 (or \$4,394,161).
97 Based on staff recommendations the City will end Fiscal Year 2016-17 with a fund balance
98 of \$5,965,477 which is in excess of the 50% objective. The first draft of the budget does
99 not include any transfers to the enterprise funds.

100
101 Staff is also recommending \$350,000 be committed to the Public Employees Retirement
102 System (PERS) for future rate increases and side fund payment and \$150,000 be
103 committed to future retiree health benefits who stay on the CalPERS health plan. Staff is
104 also recommending \$500,000 be set aside for unanticipated general liability claims,
105 potential loss of enterprise funds revenues (due to the drought) and unforeseen
106 expenditures in the enterprise funds. If Council commits the funding for PERS rates, future
107 retiree benefits, general liability claims, and the enterprise funds, the general fund balance
108 will be reduced to \$5,465,477 which is 62.2% of total operating expenditures and
109 emergency and contingency reserves.

110
111 **Water Operations**

112
113 The Water Operations Enterprise Revenue Fund is anticipating an ending balance of
114 approximately \$1,044,379 as of June 30, 2016. Based on activity during the fiscal year, it
115 is anticipated that the water fund balance will end with a surplus balance of \$355,472 by
116 June 30, 2017.

117
118 **Water Capital**

119
120 The Water Capital Fund is expected to end Fiscal Year 2015-16 with a surplus balance of
121 \$64,070. The City anticipates water connection fees in the amount of \$214,934 for Fiscal
122 Year 2016-17. Measure A will provide funds of \$636,647 and a HazMat Grant will provide
123 \$1,281,481. The Fiscal Year 2016-17 budget shows an ending deficit balance of
124 (\$675,066) which will need to be addressed by City Council.

125
126 Projects in the amount of \$2,636,307 recommended by the Public Works Department for
127 the Fiscal Year 2016-17 include the Pipeline-Myrtle Dale Kimball Main, GIS Survey, Water
128 Valve Replacements, Repair of Feige Tank, Water Main Replacement, Cross Connection
129 Survey, Riverlea Pathway Water Line Relocation, Mt. Washington Tank Stairway, NBA

130 Cathodic Protection Survey and the Bypass Structure. The Bypass Structure project will
131 be funded through Measure A funds. The repair of Feige Tank project will be funded
132 through a HazMat Grant. There are insufficient one-time impact fees projected to cover all
133 of the remaining projects.

134
135 At its goal setting meeting in March 2016 the City Council's objective is to increase the
136 Water Fund reserves at a minimum of 20% within two fiscal years and increase the CIP
137 and Equipment Replacement Fund reserves to meet anticipated needs over the next three
138 fiscal years. At the minimum 20% in reserves would mean a fund balance of \$506,465; the
139 combination of ending fund balances for the Water Operations Fund and the Water Capital
140 Fund at Fiscal Year 2016-17 is a deficit balance of (\$319,495), therefore not meeting the
141 20% objective.

142
143 **Wastewater Operations**

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145 The Wastewater Operations Fund is expected to end Fiscal Year 2015-16 with a surplus
146 balance of approximately \$749,241. The Fiscal Year 2016-17 budget shows an ending
147 balance of \$69,073. The Wastewater Capital Improvement Fund has insufficient funds to
148 transfer \$695,121 to the Wastewater Operations fund to cover the debt service payments
149 for the fiscal year and \$226,300 for equipment as has been done in prior years. Both the
150 debt service payment and the equipment will be covered by the Wastewater Operation
151 Fund.

152
153 **Wastewater Capital**

154
155 The Wastewater Capital Fund is expected to end Fiscal Year 2015-16 with a surplus
156 balance of \$234,861. The City anticipates wastewater connection fees in the amount of
157 \$443,617 for Fiscal Year 2016-17. The Wastewater Capital Fund is expected to end Fiscal
158 Year 2016-17 with a deficit balance of (\$809,072) which will need to be addressed by City
159 Council.

160
161 Projects in the amount of \$1,863,350 have been recommended by the Public Works
162 Department. They include GIS Survey, Pine Street Lift Station, Sewer Lateral
163 Replacement, Inflow and Infiltration Improvements, Secondary Effluent Pumps Geothermal
164 Water Meters, Riverside Ponds River Restoration, Sump Pumps, High School Reclaimed
165 Water System Improvements and Wastewater Upgrades for CDO Compliance. A HazMat
166 grant will provide \$375,000 for the Riverside Ponds River Restoration project. There are
167 insufficient one-time impact fees projected to cover all of the remaining projects.

168
169 At its goal setting meeting in March 2016 the City Council's objective is to increase the
170 Wastewater Fund reserves at a minimum of 20% within two fiscal years and increase the
171 CIP and Equipment Replacement Fund reserves to meet anticipated needs over the next
172 three fiscal years. At the minimum 20% in reserves would mean a fund balance of
173 \$442,318; the combination of ending fund balances for the Wastewater Operations Fund
174 and the Wastewater Capital Fund at Fiscal Year 2016-17 is a deficit balance of (\$739,998),
175 therefore not meeting the 20% objective in reserves.

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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 2016-17 with a combined fund balance of \$8,421,866, an increase of \$706,264 from Fiscal Year 2015-16. Most of the revenue sources for these funds will remain in the funds until projects are earmarked. The Community Development Fund will use \$48,541 for several housing programs, which include \$32,666 to Housing Authority of City of Napa; \$12,000 to Fair Housing Napa Valley; and \$3,875 to the Community Action of Napa Valley. This will bring the fund balance to \$195,270 in Fiscal Year 2016-17 from \$214,236 in Fiscal Year 2015-16 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 renewal of subscriptions for Citzenserve, Auto Cad, Anti-Virus software and the replacement of the software used in the Parks and Recreation department. Staff is also recommending replacement of several computers, upgrading the Business License software, purchase of iPads, radar speed limit signs, wood/limb chipper, aerator attachment for the JD tractor and vacuum trailer. The General Fund will transfer \$141,532 to this fund for the SunTrust debt service payment, equipment and maintenance of the Rims system for the Police department. This fund will have a fund balance of \$584,061 at the end of Fiscal Year 2016-17 for unanticipated expenditures and reserves.

At its goal setting meeting in March 2016 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 \$79,710; the ending fund balance for the Equipment Replacement Fund is \$584,061; 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 2016-17. You will find in the attachments what those requests were. Staff further refined the list and is recommending \$9,396,124 in capital projects and \$550,407 in equipment and information technology projects be approved for Fiscal Year 2016-17.

222 **Balance Summary for Fiscal Year 2016-17**

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224 Attachment 2 to this staff report shows a detailed revenue and expenditure analysis for
 225 each of the major funds. The following summary table shows the list of the major funds
 226 and anticipated fund balance at the end of June 2017. While it shows that the City's
 227 finances have actually improved in the last six months, the Water Capital Fund and
 228 Wastewater Capital Fund are under stress. They are not strong enough to meet all
 229 recommendations made by staff. This, in turn, will put pressure on the General Fund if the
 230 City Council chooses as a source of funds to bring these funds into a positive balance.

231

232 The following table shows in summary the Fiscal Year 2016-17 ending fund balances for
 233 each of the major funds of the City:

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	General Fund	Water Fund	Water Capital	WWTP Fund	WWTP Capital
Revenues	10,788,136	2,381,510	214,934	2,452,842	443,617
Expenditures	8,788,321	3,149,123	-	2,871,589	-
Net Surplus/Deficit	1,999,815	(767,613)	214,934	(418,747)	443,617
Other Sources	636,100	-	1,923,128	-	375,800
Capital Projects Expenses	(2,294,701)	-	(2,636,307)	-	(1,863,350)
Equipment Purchases	-	(59,500)	-	(226,300)	-
Debt Payments	(460,102)	(468,126)	(134,559)	(695,121)	-
Transfers In	196,538	106,332	-	-	-
Transfers Out	(641,532)	-	(106,332)	-	-
Advance to WWTP	-	-	-	-	-
Add non-cash Depreciation	-	500,000	-	660,000	-
Total Net Chg FY 15-16	(563,882)	(688,907)	(739,136)	(680,168)	(1,043,933)
Beg Fund Balance 07/01/16	6,529,358	1,044,379	64,070	749,241	234,861
End Fund Balance 06/30/17	5,965,476	355,472	(675,066)	69,073	(809,072)

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238 Because of the delay in the Silver Rose project and the elimination of one-time impact fees
 239 from the revised adopted Fiscal Year 2015-16 Budget, there remains insufficient funds to
 240 pay the entire debt service and all of the capital projects recommended by staff at today's

241 workshop for both the Water and Wastewater Capital funds. City staff is looking for
242 direction from City Council on how to address the deficit balances.

243
244 **Conclusion**

245
246 The City's financial outlook for Fiscal Year 2016-17 remains stable but not strong. The
247 completion of the expansion of Indian Springs has brought additional transient occupancy
248 tax, charges for service revenues and sales tax. These additional revenues are projected
249 in the Fiscal Year 2016-17 budget. It is uncertain when the Silver Rose project will begin
250 development and pay over \$4 million in development impact fees. While it is believed it will
251 begin construction during the Fiscal Year 2016-17, this budget has been prepared
252 assuming it will not.

253
254 There are several potential demands and threats to the City finances that are not
255 specifically addressed in this draft budget report. These include:

256
257 •Staffing levels are below those needed to meet current service demands and these
258 also will be analyzed at mid-year 2016-17 budget. The City's infrastructure
259 operation and replacement needs, in most areas, are in a deferred maintenance
260 mode. This often leads to expensive repair once something breaks.

261
262 •Due to the Stage II water emergency in place charges for services revenues will be
263 less than projected in the Water and Wastewater study that was completed in
264 December 2013. The City Council will need to determine if the General Fund will
265 continue to subsidize or provide a loan to the two enterprise funds. Currently the
266 Wastewater Fund owes to the General Fund \$553,437.

267
268 •The City also has one litigation threat that may impact the Water Fund. The
269 Debbie O'Gorman water damages lawsuit will continue to cost the Water Fund to
270 defend the City's water rights. This could mean the General Fund would have to
271 transfer (in the form of a loan) significant funds to the Water Fund.

272
273 As of this report the aforementioned litigation has not been included in the attached draft
274 Fiscal Year 2016-17 Budget. Should the Water and Wastewater Funds need transfers or
275 advances from the General Fund staff will come back at a later date with
276 recommendations for budget adjustments.

277
278 As aforementioned, the CDO from the state related to the wastewater treatment operations
279 will result in several million dollars of capital improvement and a major commitment of staff
280 time. While it is hoped that grant funds can mitigate some the cost, it represents a major
281 threat to the viability of this fund.

282
283 In summary, while the City has stopped the downward trend in City finances, there is a
284 critical need for additional sources of revenue to build up reserves in the Water and
285 Wastewater Funds; and, to bring staffing levels to adequate levels to meet level of service
286 needs. At present the City still relies on one time development impact fees to bridge

287 present financial demands until the full development of Silver Rose and the Calistoga Hills,
288 with their attendant annual TOT and sales tax revenues, is fully realized and serves to
289 bring mid- to long-term financial stability to the City. The completion of the Indian Springs
290 expansion has already brought a major increase in General Fund revenues.
291

292 **Next Steps**

293
294 This study session agenda addresses all departments and anticipates completion of the
295 process in one study session. However, if the Council needs another study session to
296 finish the process May 19, 2016 has been scheduled to start at 12:00p.m., at the Fire
297 Station.
298

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

300
301 Public Hearing on the Fiscal Year 2016-17 Budget: Regular City Council Meeting on
302 June 7, 2016, 6:00 PM
303

304 City Council Adoption of the Fiscal Year 2016-17 Budget: June 21, 2016: 6:00 PM
305

306 **ATTACHMENTS**

- 307
308 1. Development Impact Fees Anticipated Fiscal Year 2016-17
309 2. Draft Fiscal Year 2016-17 Budget Proposal
310 3. Major Capital Projects Budget
311 4. Equipment and Information Technology Projects
312 5. Debt Schedule
313 6. Letters from Organizations Requesting City Funding
314 7. City Council Goals and Objectives