

City of Calistoga

Staff Report

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TO: Honorable Mayor and City Council
FROM: Dylan Feik, City Manager
Gloria Leon, Administrative Services Director
DATE: May 10, 2017
SUBJECT: Discussion regarding Draft Fiscal Year 2017-18 Budget

APPROVAL FOR FORWARDING:


Steve Campbell, Acting City Manager

ISSUE: To discuss the draft budget for Fiscal Year 2017-18.

RECOMMENDATION: To review and provide feedback and direction regarding the FY 2017-18 draft budget proposal.

BACKGROUND: In June 2016 the Fiscal Year 2016-17 Budget was presented to and adopted by the City Council. In February 2017 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 2017-18 Budget.

This budget workshop is to provide the City Council with the opportunity to review the proposed Fiscal Year 2017-18 budget and provide input to staff as to any recommended changes or adjustments.

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 2017-18 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 continue to respond to a Cease and Desist Order (CDO)
42 from the 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 The City received \$3,925,931 in one-time impact fees from the Silver Rose project in April
47 2017. These one-time impact fees are included in the Fiscal year 2016-17 Budget and are
48 being earmarked for capital projects both in Fiscal Year 2016-17 and the projected Fiscal
49 Year 2017-18 budget. The current draft budget has a deficit balance in the Wastewater
50 Operating fund. Staff is looking for direction from the City Council on how to address the
51 deficit.
52

53 Staff will be recommending several adjustments to the Fiscal Year 2016-17 budget which
54 will be brought back in June for City Council approval. Those adjustments are incorporated
55 in the draft of the Fiscal Year 2017-18 budget which is before you in this workshop.
56

57 The City is anticipating that several private development projects will initiate or complete
58 construction in Fiscal Year 2017-18 and will bring development impact fees. These
59 projects include the Aubert Winery expansion project, Sunburst Spa Project and five (5)
60 single family residence homes. It is anticipated these projects will bring forth the following
61 in impact fees:
62

63	Water Capital Fund	\$ 93,374
64	Wastewater Capital Fund	\$ 156,714
65	Cultural/Recreation Fund	\$ 41,254
66	Transportation Fund	\$ 94,187
67	Fire Fund	\$ 19,611
68	Police Fund	\$ 5,252
69	Affordable Housing	\$ 29,287
70	City Administration Fund	<u>\$ 23,380</u>
71		
72	Grand Total	\$ 463,059
73		

74 See the attached table in Attachment 1 to this staff report that shows detailed development
75 impact fees from various projects that are anticipated in Fiscal Year 2017-18.
76

77 The imbalance between revenues and expenditures for the enterprise funds, the need to
78 address much needed infrastructure improvements to the water and wastewater systems,
79 and the CDO present a major challenge to the City. While the Council approved water and
80 wastewater rate increases in 2013 it has not been enough to meet funding needs. The last
81 rate increase will take effect on January 1, 2017. City staff is currently working with Bartle
82 Wells Associates to review the current structure and rates for the enterprise funds. City
83 staff will be bringing back to the City Council the findings and recommendations from the

84 rate study. Requiring new development to pay connection fees in advance has helped, it
85 has not been enough, particularly with the delay in the construction of the Silver Rose
86 project. This places a major burden on the General Fund to keep the Water and
87 Wastewater Funds viable. While other cities have increased water and wastewater rates to
88 address similar issues, this is less viable due to the rates which are already very high in
89 Calistoga.

90
91 Despite these concerns, this proposed budget continues to maintain the existing level of
92 service and reliability to the community through our infrastructure systems and facilities.
93 However, as previously indicated, there are many facilities that are not receiving
94 maintenance and replacement as they should. There are no anticipated layoffs of staff.

95
96 **General Fund**

97
98 The City Council adopted goals and objectives for Fiscal Year 2017-18 which calls at a
99 minimum for a 50% reserve in its General Fund by fiscal year 2017-18 (or \$4,903,403).
100 Based on staff recommendations the City will end Fiscal Year 2017-18 with a fund balance
101 of \$4,550,819 which is 46.4% of the 50% objective. The first draft of the budget does not
102 include any transfers to the enterprise funds.

103
104 The Parks and Recreation department is recommending a part-time recreation coordinator
105 position be funded as a full-time recreation coordinator to assist with recreation programs.
106 The additional cost is approximately \$29,064 which would include health benefits. The
107 Police department is recommending two police officer positions be upgraded to Corporal
108 Positions (should employees qualify) to allow for succession planning. The additional cost
109 would be approximately \$22,000 annually.

110
111 Staff is also recommending \$350,000 be committed to the Public Employees Retirement
112 System (PERS) for future rate increases and side fund payment and \$150,000 be
113 committed to future retiree health benefits who stay on the CalPERS health plan. Staff is
114 also recommending \$500,000 be set aside for unanticipated general liability claims, and
115 unforeseen expenditures in the enterprise funds. If Council commits the funding for PERS
116 rates, future retiree benefits, general liability claims, and the enterprise funds, the general
117 fund balance will be reduced to \$4,550,819 which is 46.4% of total operating expenditures
118 and emergency and contingency reserves.

119
120 **Water Operations**

121
122 The Water Operations Enterprise Revenue Fund is anticipating an ending balance of
123 approximately \$536,804 as of June 30, 2017. Based on activity during the fiscal year, it is
124 anticipated that the water fund balance will end with a surplus balance of \$19,870 by June
125 30, 2018.

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130 **Water Capital**

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132 The Water Capital Fund is expected to end Fiscal Year 2016-17 with a surplus balance of
133 \$1,104,188. The City anticipates water connection fees in the amount of \$93,374 for
134 Fiscal Year 2017-18. Measure A will provide funds of \$1,523,514 and a HazMit Grant will
135 provide \$375,000. The Fiscal Year 2017-18 budget shows an ending balance of \$717,553.
136

137 Projects in the amount of \$2,130,315 recommended by the Public Works Department for
138 the Fiscal Year 2017-18 include the Pipeline-Myrtle Dale Kimball Main, Water Valve
139 Replacements, Repair of Feige Tank, Automatic Meter Read Program, Water Main
140 Replacement, Cross Connection Survey, Riverlea Pathway Water Line Relocation, THM
141 Removal, Kimball Instream Flow Study and the Bypass Structure. The Bypass Structure
142 project will be funded through Measure A funds. The repair of Feige Tank project will be
143 funded through a HazMit Grant.
144

145 At its goal setting meeting in March 2017 the City Council's objective is to increase the
146 Water Fund reserves at a minimum of 20% within two fiscal years and increase the CIP
147 and Equipment Replacement Fund reserves to meet anticipated needs over the next three
148 fiscal years. At the minimum 20% in reserves would mean a fund balance of \$615,682 the
149 combination of ending fund balances for the Water Operations Fund and the Water Capital
150 Fund at Fiscal Year 2017-18 is a balance of \$737,422, therefore meeting the 20%
151 objective.
152

153 **Wastewater Operations**

154
155 The Wastewater Operations Fund is expected to end Fiscal Year 2016-17 with a surplus
156 balance of approximately \$683,833. The Fiscal Year 2017-18 budget shows an ending
157 deficit balance of (\$190,001). The Wastewater Capital Improvement Fund has insufficient
158 funds to transfer \$703,147 to the Wastewater Operations fund to cover the debt service
159 payments for the fiscal year and \$195,635 for equipment as has been done in prior years.
160 Both the debt service payment and the equipment will be covered by the Wastewater
161 Operations Fund.
162

163 **Wastewater Capital**

164
165 The Wastewater Capital Fund is expected to end Fiscal Year 2016-17 with a surplus
166 balance of \$1,065,786. The City anticipates wastewater connection fees in the amount of
167 \$156,714 for Fiscal Year 2017-18. The Wastewater Capital Fund is expected to end Fiscal
168 Year 2017-18 with a balance of \$0.00.
169

170 Projects in the amount of \$1,265,000 have been recommended by the Public Works
171 Department. They include Pine Street Lift Station, Sewer System Assessment and
172 Master, Sewer Lateral Replacement, Inflow and Infiltration Improvements, Sewer Main
173 Replacements, Palisades Lift Station Repairs, Geothermal Water Meters, Recycled Water
174 Pump and Installation, Lincoln Bridge Recycled Water Line, Grit Removal Aeration Basin,

175 Riverside Ponds River Restoration and Wastewater Upgrades for CDO Compliance. A
176 HazMit grant will provide \$50,000 for the Riverside Ponds River Restoration project.

177
178 At its goal setting meeting in March 2017 the City Council's objective is to increase the
179 Wastewater Fund reserves at a minimum of 20% within two fiscal years and increase the
180 CIP and Equipment Replacement Fund reserves to meet anticipated needs over the next
181 three fiscal years. At the minimum 20% in reserves would mean a fund balance of
182 \$620,925; the combination of ending fund balances for the Wastewater Operations Fund
183 and the Wastewater Capital Fund at Fiscal Year 2017-18 is a deficit balance of (\$190,001),
184 therefore not meeting the 20% objective in reserves.

185
186 **Special Revenue Funds**

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188 These are separate funds which segregate revenues and expenditures restricted for
189 specific purposes such as a specific grant program, restrictions by City Council
190 ordinances, special property assessments or just the need for separate budgeting and
191 accounting of revenues for a specific purpose. The City will end the Fiscal Year 2017-18
192 with a combined fund balance of \$10,676,821, an increase of \$472,857 from Fiscal Year
193 2016-17. Most of the revenue sources for these funds will remain in the funds until
194 projects are earmarked. The Community Development Fund will use \$55,026 for several
195 housing programs, which include \$29,526 to Housing Authority of City of Napa; \$12,000 to
196 Fair Housing Napa Valley; \$10,000 Calistoga Affordable Housing and \$3,500 to the
197 Community Action of Napa Valley. This will bring the fund balance to \$71,307 in Fiscal
198 Year 2017-18 from \$195,270 in Fiscal Year 2016-17 for the Community Development
199 Fund.

200
201 **Equipment Replacement Fund**

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

207
208 City staff is recommending the renewal of subscriptions for Citzenserve, Auto Cad, Anti-
209 Virus software and the replacement of the software used in the Parks and Recreation
210 department. Staff is also recommending replacement of several computers, upgrading the
211 Business License software, purchase of iPads, replacement of CPD Video Camera and
212 CPD Radio, replacement of a dump truck and forklift, purchase of a skidsteer planer,
213 replacement of a sludge tractor, pumps and meters. The General Fund will transfer
214 \$151,866 to this fund for the SunTrust debt service payment, equipment and maintenance
215 of the Rims system for the Police department. This fund will have a fund balance of
216 \$585,248 at the end of Fiscal Year 2017-18 for unanticipated expenditures and reserves.

217
218 At its goal setting meeting in March 2017 the City Council's objective is to increase the
219 Equipment Replacement Fund reserves to meet anticipated needs over the next three
220 fiscal years. At the minimum 20% in reserves would mean a fund balance of \$88,990; the

221 ending fund balance for the Equipment Replacement Fund is \$585,248; therefore meeting
222 the 20% reserve.

223

224 **Capital Projects**

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226 Departments were asked to provide input on what they saw as needed projects to
227 undertake in Fiscal Year 2017-18. You will find in the attachments what those requests
228 were. Staff further refined the list and is recommending \$13,233,418 in capital projects
229 and \$576,266 in equipment and information technology projects be approved for Fiscal
230 Year 2017-18. Two of the largest projects the public works is recommending is
231 \$2,675,000 to be used for pavement maintenance and \$1,328,443 for the repair of the
232 Culvert at Grant Street. The general fund will provide the funding for the pavement
233 maintenance and Measure A will provide the funding for the Culvert at Grant Street project.

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Balance Summary for Fiscal Year 2017-18

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 2018. While it shows that the City's finances have actually improved in the last six months, the Wastewater Operations Fund is under stress. It is not strong enough to meet all recommendations made by staff. This, in turn, will put pressure on the General Fund if the City Council chooses as a source of funds to bring these funds into a positive balance.

The following table shows in summary the Fiscal Year 2017-18 ending fund balances for each of the major funds of the City:

	General Fund	Water Fund	Water Capital	WWTP Fund	WWTP Capital
Revenues	11,182,255	2,511,611	93,374	2,469,574	156,714
Expenditures	9,806,806	3,078,409	-	3,104,627	-
Net Surplus/Deficit	1,375,449	(566,798)	93,374	(635,053)	156,714
Other Sources	1,328,443	-	1,898,514	-	50,000
Capital Projects Expenses	(4,638,443)	-	(2,130,315)	-	(1,265,000)
Equipment Purchases	-	(68,835)	-	(195,635)	-
Debt Payments	(430,433)	(494,500)	(135,009)	(703,147)	-
Transfers In	292,928	113,199	-	-	-
Transfers Out	(595,335)	-	(113,199)	-	(7,500)
Advance to WWTP	-	-	-	-	-
Add non-cash Depreciation	-	500,000	-	660,000	-
Total Net Chg FY 17-18	(2,667,391)	(516,934)	(386,635)	(873,835)	(1,065,786)
Beg Fund Balance 07/01/17	7,218,209	536,804	1,104,188	683,833	1,065,786
End Fund Balance 06/30/18	4,550,818	19,870	717,553	(190,002)	-

City staff is looking for direction from City Council on how to address the deficit balance in the Wastewater Operations Fund.

Conclusion

The City's financial outlook for Fiscal Year 2017-18 remains stable but not strong.

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

- 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.

- The City Council will need to determine if the General Fund will continue to subsidize or provide a loan to the wastewater enterprise fund. Currently the Wastewater Fund owes to the General Fund \$659,834.

- The City also has one litigation threat that may impact the Water Fund. The Debbie O'Gorman water damages lawsuit 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) funds to the Water Fund.

As of this report the aforementioned litigation has not been included in the attached draft Fiscal Year 2017-18 Budget. Should the Wastewater Fund 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.

The Finance sub-committee met on May 3, 2017 to review and discuss the CalPERS unfunded liability. City staff will be bringing forth recommendations on the best use of the set aside funds in the amount of \$1,862,277 at the next City Council meeting scheduled for May 16, 2017.

Other items for consideration for City Council members are housing needs; street and sidewalk replacement, Vine Trail Gateway and the future of the fairgrounds.

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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 18, 2017 has been scheduled to start at 12:00p.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 2017-18 Budget: Regular City Council Meeting on June 6, 2017, 6:00 PM

City Council Adoption of the Fiscal Year 2017-18 Budget: June 20, 2017: 6:00 PM

ATTACHMENTS

1. Development Impact Fees Anticipated Fiscal Year 2017-18
2. Draft Fiscal Year 2017-18 Budget Proposal
3. Major Capital Projects Budget
4. Equipment and Information Technology Projects
5. Debt Schedule
6. City Council Goals and Objectives