

City of Calistoga

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Staff Report

TO: Honorable Mayor and City Council
FROM: Gloria Leon, Administrative Services Director
VIA: Dylan Feik, City Manager
DATE: June 6, 2017
SUBJECT: Public Hearing on the Draft City of Calistoga Fiscal Year 2017-18 Budget

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

1
2 **ISSUE:** To receive public testimony and to provide direction regarding the Fiscal Year
3 2017-18 draft budget proposal
4

5 **RECOMMENDATION:** To review and provide feedback and direction regarding the
6 Fiscal Year 2017-18 draft budget proposal.
7

8 **BACKGROUND:** In June 2016 the Fiscal Year 2016-17 Budget was presented to and
9 adopted by the City Council. In February 2017 a Mid-Year Financial Update was
10 presented to the Council. At that time several budget adjustments were brought forward
11 and adopted. That analysis has served as a starting point for development of the Fiscal
12 Year 2017-18 Budget.
13

14 The City Council held one budget workshop on May 10, 2017 to review all of the
15 proposed departmental, capital, enterprise and special fund budgets. At this workshop
16 the City Council received presentations on each of the department budgets and then
17 public comment. The City Council then gave informal direction to City staff
18

19 The attached draft budget reflects City Council direction to date. The draft budget as
20 presented is balanced.
21

22 The purpose of the subject public hearing is to receive formal testimony on the proposed
23 draft budget. After the hearing is closed, the Council will provide final direction to City
24 staff on the preparations of the budget. The formal adoption of the budget will then be
25 presented on June 20, 2017.
26

27 **DISCUSSION:** As we move forward into the new fiscal year it is important to remember
28 that the City's budget will, once again, be very tight. The proposed Fiscal Year 2017-18
29 budget contains cuts in expenditures and Capital Improvement Projects over what was
30 initially requested by most of the departments. However, several Capital Improvement
31 Projects (CIP's) are recommended for funding. These are urgently needed projects that
32 are a result of deferred maintenance. Also, the City must continue to respond to a Cease
33 and Desist Order (CDO) from the state related to operations of the wastewater treatment
34 plant. The high cost and accelerated schedule to address issues presents a severe
35 challenge to the Wastewater Fund and time commitment of staff.

36
37 The City in April and May 2017 received \$3,925,931 in one-time impact fees from the
38 Silver Rose project and \$1,709,492 from the Senior Apartment project on 611
39 Washington Street. These one-time impact fees are included in the Fiscal year 2016-17
40 Budget and are being earmarked for capital projects both in Fiscal Year 2016-17 and the
41 projected Fiscal Year 2017-18 budget. The draft budget presented at the workshop had
42 a deficit balance in the Wastewater Operating fund. Because of the \$1,709,492 received
43 from the Senior Apartment project there is no longer a deficit balance in the Wastewater
44 Operating Fund. City staff will use one-time impact fees as is allowed to pay for a portion
45 of the debt service payments.

46
47 Staff will be recommending several adjustments to the Fiscal Year 2016-17 budget which
48 will be brought back in June for City Council approval. Those adjustments are
49 incorporated in the draft of the Fiscal Year 2017-18 budget which is before you in this
50 workshop.

51
52 The City is anticipating that several private development projects will initiate or complete
53 construction in Fiscal Year 2017-18 and will bring development impact fees. These
54 projects include the Aubert Winery expansion project, Sunburst Spa Project and five (5)
55 single family residence homes. It is anticipated these projects will bring forth the
56 following in impact fees:

57

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

69 See the attached table in Attachment 1 to this staff report that shows detailed
70 development impact fees from various projects that are anticipated in Fiscal Year 2017-
71 18.

72
73 The imbalance between revenues and expenditures for the enterprise funds, the need to
74 address much needed infrastructure improvements to the water and wastewater systems,
75 and the CDO present a major challenge to the City. While the Council approved water
76 and wastewater rate increases in 2013 it has not been enough to meet funding needs.
77 The last rate increase took effect on January 1, 2017. City staff is currently working with
78 Bartle Wells Associates to review the current structure and rates for the enterprise funds.
79 City staff will be bringing back to the City Council the findings and recommendations from
80 the rate study. This places a major burden on the General Fund to keep the Water and
81 Wastewater Funds viable.

82
83 Despite these concerns, this proposed budget continues to maintain the existing level of
84 service and reliability to the community through our infrastructure systems and facilities.
85 However, as previously indicated, there are many facilities that are not receiving
86 maintenance and replacement as they should. There are no anticipated layoffs of staff.

87
88 **General Fund**

89
90 The City Council adopted goals and objectives for Fiscal Year 2017-18 which calls at a
91 minimum for a 50% reserve in its General Fund by fiscal year 2017-18 (or \$4,771,154).
92 Based on staff recommendations the City will end Fiscal Year 2017-18 with a fund
93 balance of \$5,415,229 which is 56.7% of the 50% objective. The first draft of the budget
94 does not include any transfers to the enterprise funds.

95
96 The Police department is recommending two police officer positions be upgraded to
97 Corporal Positions (should employees qualify) to allow for succession planning. The
98 additional cost would be approximately \$22,000 annually.

99
100 Staff is also recommending \$350,000 be committed to the Public Employees Retirement
101 System (PERS) for future rate increases and side fund payment and \$150,000 be
102 committed to future retiree health benefits who stay on the CalPERS health plan. Staff is
103 also recommending \$500,000 be set aside for unanticipated general liability claims, and
104 unforeseen expenditures in the enterprise funds. If Council commits the funding for PERS
105 rates, future retiree benefits, general liability claims, and the enterprise funds, the general
106 fund balance will be reduced to \$4,915,229 which is 51.5% of total operating
107 expenditures and emergency and contingency reserves.

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112 **Water Operations**

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114 The Water Operations Enterprise Revenue Fund is anticipating an ending balance of
115 approximately \$536,804 as of June 30, 2017. Staff is recommending a transfer of
116 \$313,199 from the Water Capital Fund to offset a portion of the annual debt service
117 payments of \$494,500. Based on activity during the fiscal year, it is anticipated that the
118 water fund balance will end with a surplus balance of \$170,486 by June 30, 2018.

119
120 **Water Capital**

121
122 The Water Capital Fund is expected to end Fiscal Year 2016-17 with a surplus balance of
123 \$1,537,437. The City anticipates water connection fees in the amount of \$93,374 for
124 Fiscal Year 2017-18. Measure A will provide funds of \$1,523,514 and a HazMit Grant will
125 provide \$375,000. Staff is recommending a transfer of \$313,199 to the Water Operations
126 Fund to offset a portion of the annual debt service payment. The Fiscal Year 2017-18
127 budget shows an ending balance of \$928,802.

128
129 Projects in the amount of \$2,152,315 recommended by the Public Works Department for
130 the Fiscal Year 2017-18 include the Pipeline-Myrtle Dale Kimball Main, Water Valve
131 Replacements, Repair of Feige Tank, Automatic Meter Read Program, Water Main
132 Replacement, Cross Connection Survey, Riverlea Pathway Water Line Relocation,
133 Raising of the NBA Valve Boxes, THM Removal, Kimball Instream Flow Study and the
134 Bypass Structure. The Bypass Structure project will be funded through Measure A funds.
135 The repair of Feige Tank project will be funded through a HazMit Grant.

136
137 At its goal setting meeting in March 2017 the City Council's objective is to increase the
138 Water Fund reserves at a minimum of 20% within two fiscal years and increase the CIP
139 and Equipment Replacement Fund reserves to meet anticipated needs over the next
140 three fiscal years. At the minimum 20% in reserves would mean a fund balance of
141 \$625,558; the combination of ending fund balances for the Water Operations Fund and
142 the Water Capital Fund at Fiscal Year 2017-18 is a balance of \$1,099,287, therefore
143 meeting the 20% objective.

144
145 **Wastewater Operations**

146
147 The Wastewater Operations Fund is expected to end Fiscal Year 2016-17 with a surplus
148 balance of approximately \$683,833. The Fiscal Year 2017-18 budget shows an ending
149 balance of \$155,816. Staff is recommending a transfer of \$400,000 from the Wastewater
150 Capital Improvement Fund to offset a portion of the \$703,147 annual debt service
151 payment. The remaining debt service payment will be covered by the Wastewater
152 Operations Fund.

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154

155 **Wastewater Capital**
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157 The Wastewater Capital Fund is expected to end Fiscal Year 2016-17 with a surplus
158 balance of \$1,778,700. The City anticipates wastewater connection fees in the amount of
159 \$156,714 for Fiscal Year 2017-18. Staff is recommending a transfer of \$400,000 to the
160 Water Operations Fund to offset a portion of the annual debt service payment The
161 Wastewater Capital Fund is expected to end Fiscal Year 2017-18 with a balance of
162 \$312,914.

163
164 Projects in the amount of \$1,265,000 have been recommended by the Public Works
165 Department. They include Pine Street Lift Station, Sewer System Assessment and
166 Master, Sewer Lateral Replacement, Inflow and Infiltration Improvements, Sewer Main
167 Replacements, Palisades Lift Station Repairs, Geothermal Water Meters, Recycled
168 Water Pump and Installation, Lincoln Bridge Recycled Water Line, Grit Removal Aeration
169 Basin, Riverside Ponds River Restoration and Wastewater Upgrades for CDO
170 Compliance. A HazMit grant will provide \$50,000 for the Riverside Ponds River
171 Restoration project.

172
173 At its goal setting meeting in March 2017 the City Council's objective is to increase the
174 Wastewater Fund reserves at a minimum of 20% within two fiscal years and increase the
175 CIP and Equipment Replacement Fund reserves to meet anticipated needs over the next
176 three fiscal years. At the minimum 20% in reserves would mean a fund balance of
177 \$631,762; the combination of ending fund balances for the Wastewater Operations Fund
178 and the Wastewater Capital Fund at Fiscal Year 2017-18 is \$468,730; therefore not
179 meeting the 20% objective in reserves.

180
181 **Special Revenue Funds**
182

183 These are separate funds which segregate revenues and expenditures restricted for
184 specific purposes such as a specific grant program, restrictions by City Council
185 ordinances, special property assessments or just the need for separate budgeting and
186 accounting of revenues for a specific purpose. The City will end the Fiscal Year 2017-18
187 with a combined fund balance of \$9,237,753, an increase of \$230,453 from Fiscal Year
188 2016-17. Most of the revenue sources for these funds will remain in the funds until
189 projects are earmarked.

190
191 **Special Revenue Fund - Community Development Fund**
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193 A portion of this fund was formerly the depository for the repayments of late 1980's/early
194 1990's CDBG low-cost rehabilitation loans that were made to residential and rental
195 property owners to improve their properties. City staff in April 2017 transferred \$257,081
196 of the loan proceeds from this fund to the Reuse of Program Income Fund to be used for
197 single-family residential rehabilitation loans to low-income owners. The remaining

198 repayment of the loans will be deposited into the Reuse of Program Income Fund as
199 funds are received. There are currently four (4) CDBG outstanding loans in the amount
200 of \$46,845 (principal only) as of April 30, 2017.

201
202 The funds remaining in the Community Development Fund will be used in Fiscal Year
203 2017-18 as follows: \$55,026 for several housing programs, which include \$29,526 to
204 Housing Authority of City of Napa; \$12,000 to Fair Housing Napa Valley; \$10,000
205 Calistoga Affordable Housing and \$3,500 to the Community Action of Napa Valley. This
206 will bring the fund balance to \$18,927 at the end of Fiscal Year 2017-18 for the
207 Community Development Fund.

208

209 **Equipment Replacement Fund**

210

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

215

216 City staff is recommending the renewal of subscriptions for Citzenserve, Auto Cad, Anti-
217 Virus software and the replacement of the software used in the Parks and Recreation
218 department. Staff is also recommending replacement of several computers, upgrading
219 the Business License software, purchase of iPads, replacement of CPD Video Camera
220 and CPD Radio, replacement of a dump truck and forklift, purchase of a skidsteer planer,
221 replacement of a sludge tractor, pumps and meters. The General Fund will transfer
222 \$151,866 to this fund for the SunTrust (final payment) debt service payment, and
223 equipment and maintenance of the Rims system for the Police department. This fund will
224 have a fund balance of \$592,248 at the end of Fiscal Year 2017-18 for unanticipated
225 expenditures and reserves.

226

227 At its goal setting meeting in March 2017 the City Council's objective is to increase the
228 Equipment Replacement Fund reserves to meet anticipated needs over the next three
229 fiscal years. At the minimum 20% in reserves would mean a fund balance of \$88,990; the
230 ending fund balance for the Equipment Replacement Fund is \$592,248; therefore
231 meeting the 20% reserve.

232

233 **Capital Projects**

234

235 Departments were asked to provide input on what they saw as needed projects to
236 undertake in Fiscal Year 2017-18. You will find in Attachment #3 what those requests
237 were. Staff is recommending \$11,549,137 in capital projects and \$576,266 in equipment
238 and information technology projects be approved for Fiscal Year 2017-18. Two of the
239 largest projects the public works is recommending is \$2,675,000 to be used for pavement
240 maintenance and \$1,328,443 for the repair of the Culvert at Grant Street. The general

241 fund will provide the funding for the pavement maintenance and Measure A will provide
 242 the funding for the Culvert at Grant Street project.

243

244 **Balance Summary for Fiscal Year 2017-18**

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246 Attachment 2 to this staff report shows a detailed revenue and expenditure analysis for
 247 each of the major funds. The following summary table shows the list of the major funds
 248 and anticipated fund balance at the end of June 2018. While it shows that the City's
 249 finances have actually improved in the last six months, the Water and Wastewater
 250 Operations Funds are under stress. They are not strong enough to meet all of the annual
 251 debt service. This, in turn, will put pressure on the Water and Wastewater Capital Funds
 252 to fill in the gap, therefore, less funds available for capital projects.

253

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

256

	General Fund	Water Fund	Water Capital	WWTP Fund	WWTP Capital
Revenues	11,215,837	2,511,611	93,374	2,469,574	156,714
Expenditures	9,542,307	3,127,793	-	3,158,810	-
Net					
Surplus/Deficit	1,673,530	(616,182)	93,374	(689,236)	156,714
Other Sources	1,328,443	-	1,898,514	-	50,000
Capital Projects					
Expenses	(4,638,442)	-	(2,152,315)	-	(1,265,000)
Equipment					
Purchases	-	(68,835)		(195,634)	
Debt Payments	(430,433)	(494,500)	(135,009)	(703,147)	
Transfers In	542,928	313,199	-	400,000	-
Transfers Out	(595,335)	-	(313,199)	-	(407,500)
Add non-cash					
Depreciation	-	500,000		660,000	-
Total Net Chg					
FY 17-18	(2,119,309)	(366,318)	(608,635)	(528,017)	(1,465,786)
Beg Fund					
Balance 07/01/17	7,534,538	536,804	1,537,437	683,833	1,778,700
End Fund					
Balance 06/30/18	5,415,229	170,486	928,802	155,816	312,914

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 258

259 **Conclusion**

260
261 The City's financial outlook for Fiscal Year 2017-18 is strong for the General Fund.

262
263 There are several potential demands and threats to the City finances in particular to the
264 Water and Wastewater Funds that are not specifically addressed in this draft budget
265 report. These include:

266
267 •The City's infrastructure operation and replacement needs, in most areas, are in a
268 deferred maintenance mode. This often leads to expensive repair once something
269 breaks.

270
271 •The City is currently working with Bartle Wells Associates to provide
272 recommendations on addressing the shortfall between revenues and expenditures
273 in the water/wastewater funds. Long-term financial planning is needed to address
274 escalating costs of operating expenses and long-term infrastructure needs. City
275 staff will come back at a later date with the outcome and suggestions of the rate
276 study.

277
278 •The City also has one litigation threat that may impact the Water Fund. The
279 Debbie O'Gorman water damages lawsuit will continue to cost the Water Fund to
280 defend the City's water rights. This could mean the General Fund would have to
281 transfer (in the form of a loan) funds to the Water Fund.

282
283 As of this report the aforementioned litigation has not been included in the attached draft
284 Fiscal Year 2017-18 Budget. Should the Water or Wastewater Funds need transfers or
285 advances from the General Fund staff will come back at a later date with
286 recommendations for budget adjustments.

287
288 As aforementioned, the CDO from the state related to the wastewater treatment
289 operations will result in several million dollars of capital improvement and a major
290 commitment of staff time. While it is hoped that grant funds can mitigate some of the cost,
291 it represents a major threat to the viability of this fund.

292
293 In summary, while the City has stopped the downward trend in City finances, there is a
294 critical need for additional sources of revenue to build up reserves in the Water and
295 Wastewater Funds; and, to bring staffing levels to adequate levels to meet level of
296 service needs. At present the City still relies on one time development impact fees to
297 bridge present financial demands until the full development of Silver Rose and the
298 Calistoga Hills, with their attendant annual TOT and sales tax revenues, is fully realized
299 and serves to bring mid- to long-term financial stability to the City. The completion of the
300 Indian Springs expansion has already brought a major increase in General Fund
301 revenues.

302
303 On May 16, 2017 City staff brought forth recommendations from the Finance Sub-
304 committee on the best use of the set aside funds in the amount of \$1,862,277. The City
305 Council approved \$1,800,000 be forwarded to CalPERS for the unfunded side fund
306 liability. By forwarding the funds, the City will save approximately \$171,000 per year over
307 the next 30 years. By making this one-time payment it will allow the City to use the
308 \$171,000 on other critical needs. The new payment schedule has been incorporated in
309 the FY 2017-18 budget.

310
311 **Next Steps**

312
313 The calendar of events for the remainder of the budget process is as follows:

314
315 City Council Adoption of the Fiscal Year 2017-18 Budget: June 20, 2017: 6:00 PM

316
317 **ATTACHMENTS**

- 318
319 1. Development Impact Fees Anticipated Fiscal Year 2017-18
320 2. Draft Fiscal Year 2017-18 Budget Proposal
321 3. Major Capital Projects Budget
322 4. Equipment and Information Technology Projects
323 5. Debt Schedule
324 6. Letters from Organizations Requesting City Funding
325 7. City Council Goals and Objectives
326