

City of Calistoga

20

Staff Report

TO: Honorable Mayor and City Council
FROM: Gloria Leon, Administrative Services Director
VIA: Dylan Feik, City Manager
DATE: June 20, 2017
SUBJECT: Adoption of the City of Calistoga Fiscal Year 2017-18 Budget

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

1
2 **ISSUE:** To present the Fiscal Year 2017-18 Budget for adoption.
3

4 **RECOMMENDATION:** Adopt the attached resolution for the City of Calistoga Fiscal Year
5 2017-18 Operating and Capital Budget.
6

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

13 The City Council held one budget workshop on May 10, 2017 to review all of the
14 proposed departmental, capital, enterprise and special fund budgets. On June 6, 2017 a
15 public hearing was held to receive formal public testimony on the proposed draft budget.
16 At this hearing an overview of the Fiscal Year 2017-18 budget was presented and public
17 input was received. After the hearing the City Council gave staff its final direction on the
18 preparation of the final budget. The City Council item for this evening is to present and
19 formally adopt the budget recommendation.
20

21 The attached draft budget reflects City Council direction to date. The proposed budget
22 as presented is balanced.
23

24 **DISCUSSION:** As we move forward into the new fiscal year it is important to remember
25 that the City's budget will, once again, be very tight. The proposed Fiscal Year 2017-18
26 budget contains cuts in expenditures and Capital Improvement Projects over what was
27 initially requested by most of the departments. However, several Capital Improvement

28 Projects (CIP's) are recommended for funding. These are urgently needed projects that
29 are a result of deferred maintenance. Also, the City must continue to respond to a Cease
30 and Desist Order (CDO) from the state related to operations of the wastewater treatment
31 plant. The high cost and accelerated schedule to address issues presents a severe
32 challenge to the Wastewater Fund and time commitment of staff.

33
34 The City in April and May 2017 received \$3,925,931 in one-time impact fees from the
35 Silver Rose project and \$1,709,492 from the Senior Apartment project on 611
36 Washington Street. These one-time impact fees are included in the Fiscal year 2016-17
37 Budget and are being earmarked for capital projects both in Fiscal Year 2016-17 and the
38 projected Fiscal Year 2017-18 budget.

39
40 Based on City Council direction several adjustments to the Fiscal Year 2016-17 Budget
41 will be made. A separate resolution is being brought forward for approval of those budget
42 adjustments. Those adjustments are incorporated in the Proposed Fiscal Year 2017-18
43 Budget which is before you this evening.

44
45 The City is anticipating that several private development projects will initiate or complete
46 construction in Fiscal Year 2017-18 and will bring development impact fees. These
47 projects include the Aubert Winery expansion project, Sunburst Spa Project and five (5)
48 single family residence homes. It is anticipated these projects will bring forth the
49 following in impact fees:

| | | |
|----|--------------------------|------------------|
| 50 | | |
| 51 | Water Capital Fund | \$ 93,374 |
| 52 | Wastewater Capital Fund | \$ 156,714 |
| 53 | Cultural/Recreation Fund | \$ 41,254 |
| 54 | Transportation Fund | \$ 94,187 |
| 55 | Fire Fund | \$ 19,611 |
| 56 | Police Fund | \$ 5,252 |
| 57 | Affordable Housing | \$ 29,287 |
| 58 | City Administration Fund | <u>\$ 23,380</u> |
| 59 | | |
| 60 | Grand Total | \$ 463,059 |

61
62 See the attached table in **Attachment 3** to this staff report that shows detailed
63 development impact fees from various projects that are anticipated in Fiscal Year 2017-
64 18.

65
66 The imbalance between revenues and expenditures for the enterprise funds, the need to
67 address much needed infrastructure improvements to the water and wastewater systems,
68 and the CDO present a major challenge to the City. While the Council approved water
69 and wastewater rate increases in 2013 it has not been enough to meet funding needs.
70 The last rate increase took effect on January 1, 2017. City staff is currently working with

71 Bartle Wells Associates to review the current structure and rates for the enterprise funds.
72 City staff will be bringing back to the City Council the findings and recommendations from
73 the rate study. This places a major burden on the General Fund to keep the Water and
74 Wastewater Funds viable. The proposed budget does not include any transfers from the
75 General Fund to the Water or Wastewater Funds.

76
77 Despite these concerns, this proposed budget continues to maintain the existing level of
78 service and reliability to the community through our infrastructure systems and facilities.
79 However, as previously indicated, there are many facilities that are not receiving
80 maintenance and replacement as they should. There are no anticipated layoffs of staff.

81
82 **General Fund**

83
84 The City Council adopted goals and objectives for Fiscal Year 2017-18 which calls at a
85 minimum for a 50% reserve in its General Fund by fiscal year 2017-18 (or \$4,771,154).
86 Based on staff recommendations the City will end Fiscal Year 2017-18 with a fund
87 balance of \$5,501,504 which is 57.7% of the 50% objective. It is important to maintain
88 reserves in anticipation of future capital project funding needs, increasing pension
89 payments to CalPERS and to provide a safety net for future litigation against the City.

90
91 The Police department is recommending two police officer positions be upgraded to
92 Corporal Positions (should employees qualify) to allow for succession planning. The
93 additional cost would be approximately \$22,000 annually.

94
95 Staff is also recommending \$350,000 be committed to the Public Employees Retirement
96 System (PERS) for future rate increases and side fund payment and \$150,000 be
97 committed to future retiree health benefits who stay on the CalPERS health plan. Staff is
98 also recommending \$500,000 be set aside for unanticipated general liability claims, and
99 unforeseen expenditures in the enterprise funds. If Council commits the funding for PERS
100 rates, future retiree benefits, general liability claims, and the enterprise funds, the general
101 fund balance will be reduced to \$5,001,504 which is 52.4% of total operating
102 expenditures and emergency and contingency reserves.

103
104 **Water Operations**

105
106 Water connection fees are a significant source of revenue for the water enterprise fund.
107 The City in April and May 2017 received \$1,071,795 in one-time impact fees from the
108 Silver Rose project and \$441,405 from the Calistoga Senior Apartment project on 611
109 Washington Street. These one-time impact fees will be used to pay a portion of the debt
110 service. The remaining one-time impact fees will be used for capital projects.

111
112 The Water Operations Enterprise Fund is anticipating an ending working capital balance
113 of \$497,887 as of June 30, 2017. Based on activity during FY 2017-18, it is anticipated

114 that the water fund balance will end with a surplus balance of \$131,569 by June 30,
115 2018. Staff is recommending a transfer of \$313,199 from Water Capital Fund to the
116 Water Operations Fund to cover a portion of required debt service payments. The
117 General Fund will set aside \$500,000 of reserves for any unforeseeable expense in the
118 Enterprise Funds.

119

120 Water Capital

121

122 The Water Capital Fund is expected to end FY 2016-17 with a working capital of
123 \$1,531,401. Based on activity during FY 2017-18, the Water Capital Fund will end FY
124 2017-18 with a balance of \$922,766. The City anticipates water connection fees from the
125 Aubert Winery Expansion, Sunburst spa and five (5) single family home developments in
126 the amount of \$93,374. Measure A will provide funds in the amount of \$1,410,315 for the
127 Bypass Structure and Pipeline Myrtle Dale Project and a Hazard Mitigation Grant will
128 provide \$375,000 for the design and replacement of the Feige Tank which has reached
129 its useful life span and does not meet current design criteria for seismic events.

130

131 Projects in the amount of \$2,152,315 recommended by the Public Works Department for
132 the FY 2017-18 include the Pipeline-Myrtle Dale Kimball Main, Replacement of Various
133 Main Lines, Repair of Feige Tank, Automatic Meter Read Program, Water Valve
134 Replacement, Cross Connection Survey, Riverlea Pathway Water Line relocation, Raise
135 NBA Valve Boxes, THM Removal, Kimball Instream Flow Study and the Bypass Structure
136 in the Kimball Reservoir.

137

138 The Water Capital fund (CIP) will also cover debt service payments in the amount of
139 \$135,009 for FY 2017-18, which includes the debt payment for the Mt. Washington Water
140 Tank payable to USDA. However, it should be stated that the source of these funds is
141 one-time development impact fees. The Water Capital Fund will transfer \$313,199 to the
142 Water Operations Fund to offset a portion of the annual debt service payment.

143

144 At its goal setting meeting in March 2017 the City Council reiterated its objective to
145 establish Water Fund reserves at a minimum of 20% within two fiscal years and increase
146 the CIP reserves to meet anticipated needs over the next three fiscal years. At the
147 minimum 20% in reserves would mean a fund balance of \$625,588; the combination of
148 ending fund balances for the Water Operations Fund and the Water Capital Fund at FY
149 2017-18 is a surplus balance of \$1,054,334 therefore meeting the 20% objective.

150

151 The Water Enterprise continues to face litigation from Debbie O’Gorman. This litigation is
152 costly to defend and presents additional fiscal pressure on the General and Water
153 Enterprise Funds.

154

155

156

157 **Wastewater Operations**

158
159 Wastewater connection fees are a significant source of revenue for the wastewater
160 enterprise fund. The City in April and May 2017 received \$1,778,072 in one-time impact
161 fees from the Silver Rose project and \$718,594 from the Calistoga Senior Apartment
162 project on 611 Washington Street. Because of these one-time impact fees available a
163 portion of the debt service will be paid. The remaining one-time impact fees will be used
164 for capital projects.

165
166 The Wastewater Operations Fund is expected to end FY 2016-17 with a working capital
167 balance of \$683,833. The FY 2017-18 Budget projects an ending surplus balance of
168 \$155,816. The Wastewater Capital Improvement Fund has sufficient funds to transfer
169 \$400,000 to the Wastewater Operations fund to cover a portion of the annual debt
170 service payments as has been done in prior years.

171
172 **Wastewater Capital**

173
174 The Wastewater Capital Fund (CIP) is expected to end FY 2016-17 with a surplus
175 balance of \$1,804,753. The City anticipates wastewater connection fees in the amount of
176 \$156,714 for FY 2017-18. The Wastewater Capital Fund is expected to end FY 2017-18
177 with a balance of \$338,967

178
179 Projects in the amount of \$1,265,000 have been recommended by the Public Works
180 Department. They include funding replacement of the Pine Street Lift Station, Sewer
181 System Assessment, Sewer Lateral Replacement, Inflow and Infiltration Improvements,
182 Sewer Main Replacements, Palisades Lift Station Repairs, Geothermal Water Meter,
183 Upgrades for Cease and Desist Order Compliance, Recycled Water Pump, Lincoln
184 Bridge Recycled Water Line, Grit Removal Aeration Basin and Riverside Ponds River
185 Restoration. A Hazard Mitigation Grant (HMG) is anticipated to provide \$50,000 for the
186 design and environmental review for reconstruction and lining of the Riverside Ponds and
187 River Restoration project. Construction is anticipated in Fiscal Year 2018-19 and will be
188 funded by the HMG. The remaining projects will be covered through one-time impact
189 fees.

190
191 At its goal setting meeting in March 2017 the City Council's objective is to increase the
192 Wastewater Fund reserves at a minimum of 20% within two fiscal years and increase the
193 CIP Fund reserves to meet anticipated needs over the next three fiscal years. At the
194 minimum 20% in reserves would mean a fund balance of \$631,762; the combination of
195 ending fund balances for the Wastewater Operations Fund and the Wastewater Capital
196 Fund at Fiscal Year 2017-18 is a surplus balance of \$494,783 *therefore not meeting the*
197 *20% objective in reserves.*

198
199 **Special Revenue Funds**

200
201 These are separate funds which segregate revenues and expenditures restricted for
202 specific purposes such as a specific grant program, restrictions by City Council
203 ordinances, special property assessments or just the need for separate budgeting and
204 accounting of revenues for a specific purpose. The City will end the Fiscal Year 2017-18
205 with a combined fund balance of \$9,250,357, an increase of \$230,452 from Fiscal Year
206 2016-17. Most of the revenue sources for these funds will remain in the funds until
207 projects are earmarked.

208
209 The Metropolitan Transportation Commission will provide \$3,379,879 for a
210 pedestrian/bike pathway, street signal and the Berry Street bridge replacement.

211
212 **Equipment Replacement Fund**

213
214 This fund accounts for all of the operating and maintenance costs related to the City's
215 computer network, workstation system, maintenance and purchase of vehicles, as well as
216 fixed and maintenance costs related to information technology that benefit all other City
217 funds and programs. City staff is recommending the renewal of subscriptions for
218 Citzenserve, Auto Cad, Anti-Virus software and the replacement of the software used in
219 the Parks and Recreation department. Staff is also recommending replacement of
220 several computers, upgrading the Business License software, purchase of iPads,
221 replacement of CPD Video Camera and CPD Radio, replacement of a dump truck and
222 forklift, purchase of a skidsteer planer, replacement of a sludge tractor, pumps and
223 meters. The General Fund will transfer \$151,866 to this fund for the SunTrust (final
224 payment) debt service payment, RIMS System and equipment and maintenance. This
225 fund will have a fund balance of \$592,248 at the end of Fiscal Year 2017-18 for
226 unanticipated expenditures and reserves.

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

233
234 **Capital Projects**

235
236 Departments were asked to provide input on what they saw as needed projects to
237 undertake in Fiscal Year 2017-18. You will find in **Attachment #4** what those requests
238 were. Staff is recommending \$11,549,137 in capital projects and \$576,266 in equipment
239 and information technology projects be approved for Fiscal Year 2017-18. Two of the
240 largest projects the public works is recommending is \$2,675,000 to be used for pavement
241 maintenance and \$1,328,443 for the repair of the Culvert at Grant Street. The general

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

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

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

254
 255 The following table shows in summary the Fiscal Year 2017-18 ending fund balances for
 256 each of the major funds of the City:
 257

| | 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 | 7,620,813 | 497,887 | 1,531,401 | 683,833 | 1,804,753 |
| End Fund Balance 06/30/18 | 5,501,504 | 131,569 | 922,766 | 155,816 | 338,967 |

260 **Conclusion**

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

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

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

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

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

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

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

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

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

311

312 **ATTACHMENTS**

313

- 314 1. Resolution to adopt the Fiscal Year 2017-18 Budget
315 2. Proposed Fiscal Year 2017-18 Budget
316 3. Development Impact Fees Anticipated Fiscal Year 2017-18
317 4. Major Capital Projects Budget
318 5. Equipment and Information Technology Projects
319 6. Debt Schedule

