



736 F Street
Arcata, CA 95521

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City Manager (707) 822-5953	Environmental Services 822-8184	Police 822-2428	Recreation 822-7091
Community Development 822-5955	Finance 822-5951	Public Works 822-5957	Transportation 822-3775

Honorable Mayor and Members of the City Council

On behalf of the entire City staff, we are pleased to present the budget for fiscal year 2014/15. It is balanced with conservative estimates of revenues matching ongoing anticipated expenditures.

BUDGET OVERVIEW

We are pleased to submit the Proposed Budget for fiscal year 2014/15 for your consideration. The budget serves as the primary tool for the implementation of key policies and goals which have been adopted by the City Council.

City staff has carefully considered all of the budget requests proposed by each department in conjunction with the implementation of City Council goals and objectives. However, in order to present a balanced budget, staff was required to weigh all of the demands on the General and Enterprise Fund resources against the need to provide adequate funding for current levels of service, capital outlay and other special requests. This necessitated that options be prioritized, choices be made, along with requiring some items to be funded at a reduced level or cut from the budget altogether.

This budget proposal includes staff's recommendation for an increase of rates for Water and Wastewater services for the purpose of funding projects identified in the City's Capital Improvement Program. Once a revenue stream is developed, Staff intends to pursue debt financing for significant infrastructure improvement projects that have been outlined and prioritized in the Capital Improvement Program.

KEY BUDGET PRINCIPLES

As in years past, the 2014/15 budget is based on policies that govern the stewardship of public funds and reflect the City's commitment to balanced financial planning. This budget follows principles that define sound fiscal practices, including the following:

- The recommended budget will balance expenditures with revenues
- Revenues will be estimated at realistic levels
- Basic services will be maintained at current levels and will be adequately funded
- Reserve balances will be maintained at levels sufficient to protect the City from unforeseen emergencies

FINANCIAL CONDITION SUMMARY

The past several years have delivered many financial challenges to the City of Arcata, including the "Great Recession" that arrived in 2008, the loss of redevelopment, escalating retirement and health care costs, and identifying and developing funding strategies for significant capital improvement

projects. All of these challenges have stressed the City's fiscal sustainability and financial outlook. The City has been able to weather these challenges by trimming expenditures, deferring maintenance and other capital costs, and utilizing contingency reserves. However, this strategy is not sustainable for the long term.

In the face of this financial challenge, fiscal year 2014/15 is a year of dialogue and refinement. By presenting a balanced budget which has been trimmed to the bone, it is staff's goal to provide the space in which to create a dialogue regarding the future of City's financial outlook and to refine the organization into a stronger, sustainable and more effective city government. Therefore, the City Manager's recommended budget has been prepared with this in mind and we present a fiscally conservative budget that relies on realistic revenue estimates and provides basic services that are maintained at current levels.

SUMMARY OF REVENUES

The budget for 2014/15 relies on revenue projections relating to the performance of the state and national economy, in conjunction with local economic conditions. The following assumptions were utilized in making the revenue estimates included in the budget:

- The service charges and fees for the City's water and wastewater funds will increase 11.0 percent to cover anticipated increases to employee costs, and to provide a revenue stream for debt financing for critical infrastructure improvement projects.
- With the demise of the City's redevelopment agency and payment of funds by the Successor Agency, the City will realize additional property tax revenue.

The following schedule compares the estimated revenue budget for 2014/15 to the adopted budget for 2013/14.

2014/15 Budget Summary					
<u>REVENUES – Comparison to Prior Year Adopted Budget</u>					
Number	Fund Description	2014/15 Proposed Budget	2013/14 Adopted Budget	Dollar Difference	Percent Difference
101	General	\$ 13,118,877	\$ 14,103,058	\$ (984,181)	-6.98%
205	Forest	345,600	325,500	20,100	6.18%
Various	Streets	2,426,400	827,750	1,598,650	193.13%
Various	Planning & Grants	1,080,000	1,191,000	(111,000)	-9.32%
Various	Other Special Revenue	1,038,461	797,313	241,148	30.25%
661	Water	3,786,150	4,287,500	(501,350)	-11.69%
662	Wastewater	4,052,640	3,666,150	386,490	10.54%
663	Transit	878,525	837,100	41,425	4.95%
664	Solid Waste	407,200	382,000	25,200	6.60%
666	Stormwater Drainage	1,238,898	1,071,967	166,931	15.57%
771	Central Garage	1,213,291	1,011,565	201,726	19.94%
880 - 884	Successor Agency	<u>1,038,100</u>	<u>1,105,500</u>	<u>(67,400)</u>	<u>- 6.10%</u>
		<u>\$ 30,624,142</u>	<u>\$ 29,606,403</u>	<u>\$ 1,017,739</u>	<u>3.44%</u>

General Fund

Overall, General Fund revenues are anticipated to decrease in 2014/15 to \$13,118,877, a decrease of \$984,181 or 6.98 percent from the prior year's adopted budget of \$14,103,058. This decrease in revenue is primarily the result from an overestimate of revenue for 2013/14 which was anticipated to be realized from the assessment of tax on excessive residential electrical energy usage which was passed in November 2012. The current year estimate decreased by \$620,000 from the prior year. Also, property tax revenues were overestimated in the prior year by approximately \$127,500. Finally, one-time revenue of \$222,000 was budgeted in the prior year to fund one-time capital projects.

The following is a brief analysis of the major General Fund revenue sources anticipated for 2014/15:

Property Tax Revenue is anticipated to decrease by \$127,500. In 2013/14, staff overestimated the base amount of property taxes which would be "the new norm" as a result of the elimination of the City's redevelopment agency. The current year estimate includes an assumption that the Successor Agency will remit \$1,300,000 to the County Auditor-Controller as payment on the payment plan during the fiscal year.

Sales Tax Revenue continues to be the largest single source of General Fund revenues and comprises approximately 21.1 percent of total revenue (net of interfund revenues). For 2014/15, we anticipate sales tax revenue to decrease slightly from our 2013/14 estimate of \$2,400,000 to \$2,350,000, an approximate 2.0 percent decrease.

Transactions and Use Tax Revenue continues to provide a substantial amount of revenue to the City. For 2014/15, the City anticipates this revenue will generate approximately \$1,925,000, or nearly 17.3 percent of total General Fund revenue. Although this is a general tax and can be used for any General Fund purpose, the budget for 2014/15 includes appropriations for public safety personnel, and street/pedestrian improvements.

Utility Users Tax Revenue is expected to generate approximately \$1,280,000, or nearly 11.5 percent of total General Fund revenue. Estimated revenue for fiscal year 2013/14 was \$1,000,000. However, because of the timing of the delayed implementation by Pacific Gas & Electric, the amount realized for fiscal year 2013/14 will be significantly reduced. Staff estimates the City will receive \$420,000 for fiscal year 2014/15. The City's regular UUT is anticipated to generate approximately \$860,000 in 2014/15.

Transient Occupancy Tax Revenue is expected to generate approximately \$1,250,000, or nearly 11.2 percent of total General Fund revenue. This is an increase of approximately \$175,000 from anticipated revenues of the prior fiscal year and is due to the addition of a hotel and the on-going compliance of vacation rental owners to report and remit this tax to the City.

Motor Vehicle License Fees is expected to provide approximately \$1,450,000, approximately 13 percent of total General Fund revenue. Staff does not anticipate any further revenue raids or reductions, or failure by the State to fully backfill this revenue source.

Other General Fund Revenues –Staff estimates other general fund revenues to remain flat in fiscal year 2014/15. However, we continue to review the fees charged for various City services to ensure that the City recovers more of the cost of providing various services.

Forest Fund

This fund continues to be of great concern. However, it is anticipated that with a modest tree harvest this fund will generate enough revenue to cover basic operating costs and begin to create a modest reserve for 2014/15. The slight increase of revenues from the prior year results from increased revenues from the sale of carbon credits.

Street and Gas Tax Funds

The funding for these funds has stabilized and Staff does not anticipate any delays in payment of gas tax funds by the State. Street revenues are anticipated to increase in fiscal year 2014/15 due to a one-time grant that is anticipated for Foster Avenue Extension project in the amount of \$1,771,000.

Planning & Grants

With the completion of several grant funded projects, the funding for CDBG and HOME grants decreased slightly from the prior year.

Other Special Revenue

The increase in anticipated revenue for these funds results from the anticipated receipt of Parkland-in-lieu fees.

Water Fund

It is anticipated that the service charges and fees for the City's water and wastewater funds will increase 11.0 percent to provide a revenue stream for debt financing for critical infrastructure improvement projects.

Wastewater Fund

It is anticipated that the service charges and fees for the City's water and wastewater funds will increase 11.0 percent to provide a revenue stream for debt financing for critical infrastructure improvement projects.

Stormwater Drainage Fund

The increase of revenue is due to the receipt of one-time grant funding 2014/15 from the State Water Resources Control Board for Low Impact Development (LID) parking lot construction costs.

Central Garage Fund

In fiscal year 2014/15 the Central Garage Fund will be fully funded. In the prior year, in an effort to reduce costs in other funds, a one-time decrease of interfund revenues was made.

Redevelopment Funds

The Successor Agency to the Arcata Community Development Agency receives funding in accordance with its approved Recognized Obligation Payment Schedules which are approved by the Successor Agency and Oversight Board.

SUMMARY OF APPROPRIATIONS

The proposed budget for the City of Arcata is \$30,806,895 for fiscal 2014/15. The following schedule compares the proposed budget for 2014/15 to the adopted budget for 2013/14.

2014/15 Budget Summary					
APPROPRIATIONS - Comparison to Prior Year Adopted Budget					
Fund		2014/15	2013/14	Dollar	Percent
Number	Description	Proposed Budget	Adopted Budget	Difference	Difference
101	General	\$ 13,805,597	\$ 13,939,865	\$ (134,268)	-0.96%
205	Forest	300,920	287,062	13,858	4.83%
206 - 210	Streets	3,000,239	1,356,154	1,644,085	121.23%
Various	Other Special Revenue	2,273,516	2,236,867	36,649	1.64%
661	Water	4,376,149	4,222,607	153,542	3.64%
662	Wastewater	3,970,294	3,696,111	274,183	7.42%
663	Transit	1,141,730	1,082,708	59,022	5.45%
664	Solid Waste	384,898	409,117	(24,219)	-5.92%
666	Stormwater Drainage	1,514,426	1,349,423	165,003	12.23%
771	Central Garage	934,268	1,131,481	(197,213)	-17.43%
880 - 884	Successor Agency	<u>1,037,600</u>	<u>1,095,500</u>	<u>(57,900)</u>	<u>-5.29%</u>
		<u>\$ 32,739,637</u>	<u>\$ 30,806,895</u>	<u>\$ 1,932,742</u>	<u>6.27%</u>

There are a number of significant projects and programs to be accomplished in 2014/15. These include:

- Continuation of street improvement projects using Measure G Funds;
- Construction of Foster Avenue Extension;
- Construction of low impact development improvements to various parking lots throughout the City;
- City Hall improvements to Police and Community Development Departments, installation of HVAC system for City Hall, and demolition of building at new corporation yard site to be funded via refinance of 1998 COP debt;
- Installation of Panorama Tank #9; site acquisition and development of Zone 1 water storage; improvements to Heindon Well; and phase 2 of improvements to Hilfiker water line to be funded via refinance of 1998 COP debt;
- Replacement of 1st Street pump and motor; and
- Water/Wastewater Treatment Plant flow reconfiguration

The more significant changes in appropriation can be summarized as follows:

General Fund – The decrease of general fund appropriations results primarily from the reduction of one-time costs associated with the implementation of the City’s Excessive Residential Energy Use Tax and a one-time expenditure of grant funds for special projects in the Police Department which were appropriated in fiscal year 2013/14. Other items of note are as follows:

- Higher employee wages, particularly for part-time salaries resulting from an increase in the minimum wage;
- Increased Central Garage charges;

Forest Fund – The slight increase of appropriation for expenditures in the forest fund results from the increases to employee wages and benefits.

Street Fund – The increase in appropriations is due to the one-time expenditure of funds related to the construction of Foster Avenue Extension.

Water Fund – The increase in appropriations is due the planned refinancing in the amount of \$990,000 of 1998 COP debt for the purpose of completing the following tasks: installation of Panorama Tank #9, site acquisition and development of Zone 1 water storage; improvements to Heindon Well; and phase 2 of improvements to Hilfiker water line.

Wastewater Fund – The slight increase in appropriations results primarily from increases to capital projects resulting from the replacement of 1st Street pump and motor along with Water/Wastewater Treatment Plant flow reconfiguration costs.

Transit Fund – The increase of appropriations results from an increase to the City’s share of the County JPA agreement along with a slight increase to the amount paid HTA for equipment maintenance costs.

Solid Waste Fund – The decrease of appropriations results from decreased costs for compost/brush chipping and less than expected payment for reimbursement of bad debts related to the City’s mandatory garbage collection program.

Stormwater Drainage Fund – The increase of appropriations results from increases in capital projects which have been grant funded, particularly the planned construction of low impact development improvements to various parking lots throughout the City

Successor Agency Funds – The decrease in appropriations is primarily due to the winding down of the affairs of the former Arcata Community Development Agency to the City of Arcata.

MEASURE G FUNDS (Transactions & Use Tax)

Staff estimates that the City will receive approximately \$1,925,000 in transactions and use tax revenue for 2014/15. Although this is a general tax and can be used for any General Fund purpose, the budget for 2014/15 includes appropriations for additional public safety personnel, and street and pedestrian improvements that will be funded using this revenue. The appropriations related to this income have been included in the City’s budget in a variety of places. The following table details how these funds will augment General Fund expenditures for 2014/15:

Activity 21 Public Safety		
Personnel Costs for Additional Allocations		\$ 750,000
Activity 41 PW Admin & Engineering		
Engineering portion of Street Improvement Projects		50,000
Activity 45 Streets		
Street Improvements – City crews	\$ 50,000	
Street Improvements – Other	<u>675,000</u>	725,000

Activity 48 Alternative Transportation

Installation of Accessible Ramps	13,333	
Sidewalk Repair Program	13,333	
Traffic Calming Measures	<u>13,334</u>	<u>40,000</u>

Subtotal Allocated to Police & Streets 1,565,000

Amount allocated for other General Fund purposes 360,000

Total Funds Allocated \$ 1,925,000

PERSONNEL

Personnel costs included in the City Manager's recommended budget increased by approximately \$320,532 or 2.3 percent as compared to last year's adopted budget. This increase results from higher employee costs related to health insurance and retirement, along with anticipated increase to the minimum wage.

Departments requested three new positions. These were:

- Administrative Aide in the Police Department
- Parks Supervisor in the Public Works Department
- Maintenance Worker in the Public Works Department

While each Department's request was certainly reasonable and necessary, we were unable to fund any of the requests.

However, due to the anticipated retirement of the current Executive Assistant to the City Manager, a budget/personnel neutral reorganization has been included in the City Manager recommended budget. The City Manager will outline this specifically during our upcoming study sessions.

RESERVES

Prudent fiscal management and the City's reserve policy requires that the unappropriated fund balance of the City's General Fund and working capital balance (non-capital outlay reserves) of the City's Enterprise Funds be maintained at a minimum of 20 percent. These reserves allow the City to provide resources necessary for financial stabilization, particularly during times of unforeseen emergencies and economic downturns. In order to maintain current levels of City services for 2014/15, staff recommends that the City utilize various reserve amounts as follows:

General Fund: Staff proposes to utilize \$39,087 of General Fund reserves to maintain current levels of service. The use of these funds would reduce the City's contingency reserves to approximately \$1,707,027, or 14.1%. This is under the City's policy of maintaining a 20% operating reserve, but this is well within the range of recommended reserve percentages prescribed by professional governmental finance organizations that vary between 8 and 17 percent.

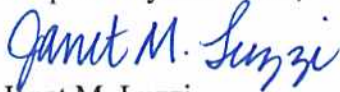
Transit Fund: Staff proposes to utilize \$263,205 to maintain current levels of service.

CONCLUSION

The City Manager has presented a very lean and tight budget for the City Council to consider. Staff has reviewed every line item of every activity searching for areas in which to cut back. The Finance Director has reviewed each and every budgetary assumption, ensuring that revenue estimates are realistic, and expenditure appropriations are not over-estimated so as to provide adequate funds for operations.

The preliminary draft of the proposed budget for 2014/15 is currently in balance using current revenues and minimal amount of reserves. It is a conservative budget, developed in consideration of the needs of the City and the City Council's strategic planning priorities.

Respectfully submitted,



Janet M. Luzzi
Interim City Manager/Finance Director