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Arcata, CA 95521

City Manager  
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Environmental Services  
822-8184

Police  
822-2428

Recreation  
822-7091

Community Development  
822-5955

Finance  
822-5951

Public Works  
822-5957

Transportation  
822-3775

July 1, 2017

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 2017/18. 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 2017/18 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.

### **KEY BUDGET PRINCIPLES**

As in years past, the 2017/18 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 fiscal outlook for the City of Arcata has been difficult for several years and has required significant reductions and changes. Because of the reduction in staff through reorganization of City departments and divisions, along with higher than anticipated revenues, the City is able to balance its 2017/18 budget without the use of reserves, except for specific planned capital projects, and replenish some of the General Fund reserves that have been used to weather many recent financial challenges.

Therefore, with the City Manager's recommended budget, 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 2017/18 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:

- General fund revenues will increase by approximately \$900,000 due to increased sales and use tax revenue (\$250,000), increased TOT (\$170,000), additional grant income from Measure Z (\$307,000), and using one-time funding for Police capital outlay and Ball Park improvements.
- The service charges and fees for the City's water and wastewater funds will increase 8.0 percent to cover anticipated increases to employee costs, and to provide a revenue stream for debt financing for critical infrastructure improvement projects.

The following schedule compares the adopted revenue budget for 2017/18 to the adopted budget for 2016/17.

2017/18 Budget Summary						
REVENUES - Comparison to Prior Year Adopted Budget						
Fund		2017/18	2016/17	Dollar	Percent	
Number	Description	Adopted	Adopted	Difference	Difference	
		Budget	Budget			
101	General	\$ 14,978,279	\$ 14,079,561	\$ 898,718	6.38%	
205	Forest	1,518,500	598,000	920,500	153.93%	
Various	Streets	723,465	1,109,100	(385,635)	-34.77%	
Various	Planning & Grants	-	1,750,000	(1,750,000)	-100.00%	
Various	Other Special Revenue	2,860,570	1,244,765	1,615,805	129.81%	
661	Water	5,236,450	4,695,500	540,950	11.52%	
662	Wastewater	5,971,925	4,907,000	1,064,925	21.70%	
663	Transit	1,330,289	1,053,810	276,479	26.24%	
664	Solid Waste	455,000	425,000	30,000	7.06%	
666	Stormwater Drainage	580,473	888,923	(308,450)	-34.70%	
771	Central Garage	1,324,414	1,321,414	3,000	0.23%	
775	IT Services	241,950	225,100	16,850	7.49%	
880 - 881	Successor Agency	<u>578,100</u>	<u>642,738</u>	<u>(64,638)</u>	<u>-10.06%</u>	
		<u>\$ 35,799,415</u>	<u>\$ 32,940,911</u>	<u>\$ 2,858,504</u>	<u>8.68%</u>	

### **General Fund**

Overall, General Fund revenues are anticipated to increase in 2017/18 to \$14,978,279, an increase of \$898,718 or 6.38 percent from the prior year's adopted budget of \$14,079,561. This increase in revenue is primarily the result of increased sales and use taxes, and transient occupancy taxes. The City will also receive \$307,000 in Measure Z funding, and one-time funding for several capital outlay projects.

The following is a brief analysis of the major General Fund revenue sources anticipated for 2016/17:

**Property Tax Revenue** is anticipated to remain steady at \$1,300,000.

**Sales Tax Revenue** continues to be the largest single source of General Fund revenues and comprises approximately 18.0 percent of total revenue. For 2017/18, we anticipate sales tax revenue to increase by \$100,000 from our 2016/17 estimate of \$2,600,000 to \$2,700,000, an increase of 3.8 percent.

**Transactions and Use Tax Revenue** continues to provide a substantial amount of revenue to the City. For 2017/18, the City anticipates this revenue will generate approximately \$2,250,000, or 15.0 percent of total General Fund revenue. Although this is a general tax and can be used for any General Fund purpose, the budget for 2017/18 includes appropriations for public safety personnel, and street/pedestrian improvements.

**Utility Users Tax Revenue** is expected to generate approximately \$1,140,000, or nearly 8.1 percent of total General Fund revenue. This revenue is anticipated to remain steady in 2017/18, with the regular UUT anticipated to generate approximately \$900,000 and the High Energy Use Utility Users Tax bringing in \$240,000.

**Transient Occupancy Tax Revenue** is expected to generate approximately \$1,550,000, or 10.3 percent of total General Fund revenue. This is an increase of approximately \$170,000 from anticipated revenues of the prior fiscal year.

**Motor Vehicle License Fees** is expected to remain steady at \$1,550,000, 10.3 percent of total General Fund revenue.

**School Resource Officer Grant Funds** – The City has been awarded a grant from the County which is funded by Measure Z funds for the addition of one School Resource Officer and two Juvenile Diversion Counselors. This amounts to \$307,000 for 2017/18.

**Other General Fund Revenues** – Staff anticipates one-time funding from Asset Forfeiture funds (\$105,000) to purchase body cameras for the Police Department, and monies held in trust (\$100,000) for Ball Park improvements. Other general fund revenues are expected to remain flat in fiscal year 2017/18.

### **Forest Fund**

It is anticipated that the City will receive a grant funds in the amount of \$1,200,000 for the purpose of acquiring additional timber property. However, this fund continues to be of concern. 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 2017/18.

### **Street and Gas Tax Funds**

Street fund revenues decreased significantly from the prior year due to one-time grant funding for a Safe Routes to School project. Gas Tax revenues have been on the decline for several years. However with the recent passage of SB1, the Road Repair and Accountability Act of 2017, we anticipate that the City will receive an additional \$125,000 in Gas Tax revenue, bringing the total to \$513,000.

### **Water Fund**

Service charges and fees for the City's water and wastewater funds will increase 8.0 percent to provide a revenue stream for debt financing for critical infrastructure improvement projects.

**Wastewater Fund**

Service charges and fees for the City's water and wastewater funds will increase 8.0 percent to provide a revenue stream for debt service costs related to the financing of critical infrastructure improvement projects. It is anticipated that the City will receive proceeds from debt financing in the amount of \$7,000,000.

**Transit Fund**

The increase of revenue is due to one-time revenue in from Proposition 1B funds and CalOES funds to fund various operating costs and ADA capital improvement projects.

**Stormwater Drainage Fund**

These funds decreased slightly from the prior year due to the one-time grant funding of various capital improvement projects.

**Central Garage Fund**

In fiscal year 2017/18 the Central Garage Fund will be funded at the same level as the prior year, or 90 percent of projected operating and replacement costs.

**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 \$41,092,169 for fiscal 2017/18. The following schedule compares the adopted budget for 2017/18 to the adopted budget for 2016/17.

2017/18 Budget Summary						
APPROPRIATIONS - Comparison to Prior Year Adopted Budget						
Fund		2017/18 Adopted Budget	2016/17 Adopted Budget	Dollar Difference	Percent Difference	
Number	Description					
101	General	\$ 14,452,762	\$ 13,328,006	\$ 1,124,756	8.44%	
205	Forest	1,472,353	536,016	936,337	174.68%	
Various	Streets	1,506,169	1,921,307	(415,138)	-21.61%	
Various	Other Special Revenue	1,920,646	2,901,736	(981,090)	-33.81%	
661	Water	4,696,962	3,964,480	732,482	18.48%	
662	Wastewater	12,522,372	4,275,523	8,246,849	192.89%	
663	Transit	1,180,119	1,126,170	53,949	4.79%	
664	Solid Waste	436,967	394,503	42,464	10.76%	
666	Stormwater Drainage	922,283	1,210,095	(287,812)	-23.78%	
771	Central Garage	1,173,538	957,484	216,054	22.56%	
775	IT Services	228,509	255,053	(26,544)	-10.41%	
880 - 881	Successor Agency	579,489	639,821	(60,332)	-9.43%	
		<u>\$ 41,092,169</u>	<u>\$ 31,510,194</u>	<u>\$ 9,581,975</u>	<u>30.41%</u>	

There are a number of significant projects and programs to be accomplished in 2017/18. These include:

- Finalized designs for the reconfiguration and rehabilitation of the Wastewater Treatment Plant
- Reconstruction of Buttermilk Lane
- Purchase of body camera system for police officers
- Bleacher improvements to the Ball Park
- Acquisition of permitting software solution
- Phase II of the Humboldt Bay Trail from Samoa to Bracut (State Active Transportation Funds and CalTrans grant)
- Several Bus Stop and sidewalk improvements (Cal OES grant funds)
- Development of a Food Court to support the businesses of Food works and all the employees in the West End Road neighborhood
- Replacement of 2 dump trucks, 2 police vehicles, 2 trucks, 1 pool car

Other changes in appropriation can be summarized as follows:

**General Fund** – The City Manager's recommended budget for 2017/18 includes total General Fund expenditures of \$14,452,762. This is an increase from the prior year in the amount of \$1,124,756. This increase is due –

- Increased employee costs of \$700,000. This results from the addition of 3 positions funded by Humboldt County's Measure Z funds totaling \$307,000, an estimated pay increase of 1.5% resulting in an additional \$165,000 in costs, and increased retirement costs of \$160,000.
- \$105,000 of grant funds will be expended in the Police Department to acquire body cameras for police officers
- \$100,000 will be expended in Parks for improvements to the Ball Park bleachers
- \$140,000 will be expended for the acquisition of permitting software

**Forest Fund** – The increase in appropriations is due to the anticipated acquisition of timber properties using grant funds.

**Street Fund** – The decrease in appropriations is due to the one-time expenditure of funds related to the construction of improvements Safe Route to School improvement project around Arcata Elementary which occurred in the prior fiscal year.

**Other Special Revenue Funds** – The decrease in appropriations is due to the prior year appropriation of grant funds for CDBG program activities in fiscal year 2016/17.

**Wastewater Fund** – The increase in appropriations is due to anticipated capital improvements to the Wastewater Treatment plant and other critical infrastructure which will be funded using proceeds from debt service.

**Stormwater Drainage Fund** – The appropriation of these funds decreased from the prior year as major capital projects are completed.

**Central Garage Fund** – The City will replace several high cost items including 2 dump trucks, 2 police vehicles, 2 trucks, 1 pool car.

**Successor Agency Funds** – The appropriation for these funds decreased significantly because the Agency has received its finding of completion from the Department of Finance and the only qualifying expenses relate to monitoring and debt service payments on outstanding bonds.

#### **MEASURE G FUNDS (Transactions & Use Tax)**

Staff estimates that the City will receive approximately \$2,250,000 in transactions and use tax revenue for 2017/18. Although this is a general tax and can be used for any General Fund purpose, the budget for 2017/18 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 2017/18:

<b>Activity 21 Public Safety</b>			
Personnel Costs for Additional Allocations			\$ 950,000
<b>Activity 41 PW Admin &amp; Engineering</b>			
Engineering portion of Street Improvement Projects			45,000
<b>Activity 45 Streets</b>			
Street Improvements – City crews	\$ 40,000		
Street Improvements – Other	<u>1,165,000</u>		1,205,000
<b>Activity 48 Alternative Transportation</b>			
Installation of Accessible Ramps	16,667		
Sidewalk Repair Program	16,667		
Traffic Calming Measures	<u>16,666</u>		50,000
<b>Total Funds Allocated</b>			<u>\$ 2,250,000</u>

#### **PERSONNEL**

Personnel costs included in the City Manager's recommended budget increased by approximately \$930,000 or 6.4 percent as compared to last year's adopted budget. This increase results from additional personnel funded by Measure Z (\$307,000), anticipated pay/merit increases (\$280,000), increased minimum wage costs (\$140,000) and increased retirement costs (\$190,000).

#### **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.

**General Fund:** The City Manager's recommended budget includes a small reduction in reserves of \$139,030 which results from re-budgeting \$35,400 of 2016/17 appropriations and using \$140,000 of reserves to acquire permitting software solution. Without regard for this, the General Fund is anticipated to realize a surplus of \$36,370 which is recommended to be used to replenish the City's contingency reserves, increasing it to approximately \$3,300,338, or 24.2%.

## **CONCLUSION**

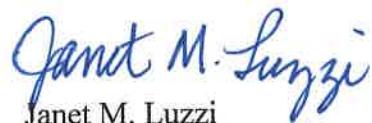
The City Manager has presented a very lean and tight budget for the City Council to consider. Staff has reviewed every line item of every activity searching for areas in which make reductions. The Finance Director has reviewed each and every budgetary assumption, ensuring that revenue estimates are realistic,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

The preliminary draft of the proposed budget for 2017/18 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,



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City Manager



Janet M. Luzzi  
Finance Director