

July 1, 2018

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 2018/19. 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 2018/19 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 2018/19 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 improved considerably, but we remain cautious and conservative. The City is able to balance its 2018/19 budget without the use of reserves, except for specific planned capital projects.

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 have been increased slightly to better serve the community.

SUMMARY OF REVENUES

The budget for 2018/19 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 \$1,197,000 due to increases to various tax revenues: property tax estimates (\$150,000), sales and use tax revenue (\$140,000), TOT (\$200,000); increased revenue generated by CCAP fees (\$100,000); and anticipated donations for capital outlay projects (\$423,000).
- Grant funds in the amount of \$3,754,000 will be received for the acquisition of additional forest land.
- 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 estimated revenue budget for 2018/19 to the adopted budget for 2017/18.

2018/19 Budget Summary						
REVENUES - Comparison to Prior Year Adopted Budget						
Fund		2018/19 Proposed Budget	2017/18 Adopted Budget	Dollar Difference	Percent Difference	
Number	Description					
101	General	\$ 16,175,358	\$ 14,978,279	\$ 1,197,079	7.99%	
205	Forest	4,264,000	1,518,500	2,745,500	180.80%	
Various	Streets	1,250,500	723,465	527,035	72.85%	
Various	Planning & Grants	1,481,600	2,317,600	(836,000)	-36.07%	
Various	Other Special Revenue	674,780	542,970	131,810	24.28%	
661	Water	5,772,000	5,236,450	535,550	10.23%	
662	Wastewater	6,415,600	5,971,925	443,675	7.43%	
663	Transit	1,196,625	1,330,289	(133,664)	-10.05%	
664	Solid Waste	453,500	455,000	(1,500)	-0.33%	
666	Stormwater Drainage	1,162,255	580,473	581,782	100.23%	
771	Central Garage	1,320,914	1,324,414	(3,500)	-0.26%	
775	IT Services	241,950	241,950	-	0.00%	
880 - 881	Successor Agency	<u>578,371</u>	<u>578,100</u>	<u>271</u>	<u>0.05%</u>	
		<u>\$ 40,987,453</u>	<u>\$ 35,799,415</u>	<u>\$ 5,188,038</u>	<u>14.49%</u>	

General Fund

Overall, General Fund revenues are anticipated to increase in 2018/19 to \$16,175,358, an increase of \$1,197,079 or 7.99 percent from the prior year's adopted budget of \$14,978,279. This increase in revenue is primarily the result of increased sales and use taxes, and transient occupancy taxes. The City will also receive \$423,000 in anticipated donation revenue for one-time funding of several capital outlay projects.

The following is a brief analysis of the major General Fund revenue sources anticipated for 2018/19:

Property Tax Revenue is anticipated to increase slightly to \$1,450,000 from \$1,300,000, an increase of 10.0 percent.

Sales Tax Revenue continues to be the largest single source of General Fund revenues and comprises approximately 17.6 percent of total revenue. For 2018/19, we anticipate sales tax revenue to increase by \$140,000 from our 2017/18 estimate of \$2,700,000 to \$2,840,000, an increase of 5.2 percent.

Transactions and Use Tax Revenue continues to provide a substantial amount of revenue to the City. For 2018/19, the City anticipates this revenue will increase by \$100,000 or 7.4 percent with will generate approximately \$2,350,000, or 14.5 percent of total General Fund revenue. Although this is a general tax and can be used for any General Fund purpose, the budget for 2018/19 includes appropriations for public safety personnel, and street/pedestrian improvements.

Utility Users Tax Revenue is expected to generate approximately \$1,100,000, or nearly 6.8 percent of total General Fund revenue. This revenue is anticipated to decrease by \$40,000 or 3.5 percent in 2018/19 due to the decrease of High Energy Use Utility Tax revenue. Staff anticipates that the regular UUT will generate approximately \$900,000 and the High Energy Use Utility Users Tax will bring in \$200,000.

Transient Occupancy Tax Revenue is expected to generate approximately \$1,750,000, or 10.8 percent of total General Fund revenue. This is an increase of approximately \$200,000 from anticipated revenues of the prior fiscal year, or 12.9 percent.

Motor Vehicle License Fees is expected to increase by 9.7 percent to \$1,700,000. This revenue generates 10.5 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 \$360,000 for 2018/19.

Other General Fund Revenues – Staff anticipates one-time funding from donations (\$423,000) for Ball Park improvements and construction of a Futsal court. Other general fund revenues are expected to remain steady in fiscal year 2018/19.

Forest Fund

It is anticipated that the City will receive grant funds in the amount of \$3,754,000 for the purpose of acquiring additional timber property. It is anticipated that with a tree harvest this fund will generate enough revenue to cover basic operating costs and begin to create a small reserve for 2019/20.

Street and Gas Tax Funds

Street fund revenues increased slightly from the prior year due to the receipt of additional revenue generated by SB1, the Road Repair and Accountability Act of 2017, we anticipate that the City will receive an additional \$397,000 in Gas Tax revenue, bringing the total to \$785,000.

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.

Transit Fund

The decrease 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 which were received in 2017/18.

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 2018/19 the Central Garage Fund will be fully funded to cover all 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 \$41,535,881 for fiscal 2018/19. The following schedule compares the proposed budget for 2018/19 to the adopted budget for 2017/18.

2018/19 Budget Summary						
APPROPRIATIONS - Comparison to Prior Year Adopted Budget						
Fund		2018/19	2017/18	Dollar	Percent	
Number	Description	Proposed	Adopted	Budget	Difference	Difference
101	General	\$ 15,476,517	\$ 14,452,762	\$ 1,023,755	7.08%	
205	Forest	4,072,323	1,472,353	2,599,970	176.59%	
Various	Streets	2,173,052	1,506,169	666,883	44.28%	
Various	Other Special Revenue	2,496,459	1,920,646	575,813	29.98%	
661	Water	4,370,600	4,696,962	(326,362)	-6.95%	
662	Wastewater	7,643,686	12,522,372	(4,878,686)	-38.96%	
663	Transit	1,125,620	1,180,119	(54,499)	-4.62%	
664	Solid Waste	452,629	436,967	15,662	3.58%	
666	Stormwater Drainage	1,394,401	922,283	472,118	51.19%	
771	Central Garage	1,509,374	1,173,538	335,836	28.62%	
775	IT Services	245,749	228,509	17,240	7.54%	
880 - 881	Successor Agency	<u>575,471</u>	<u>579,489</u>	<u>(4,018)</u>	<u>-0.69%</u>	
		<u>\$ 41,535,881</u>	<u>\$ 41,092,169</u>	<u>\$ 443,712</u>	<u>1.08%</u>	

There are a number of significant projects and programs to be accomplished in 2018/19. These include:

- Complete year one of the Sewer Infiltration Reduction (InI) project.
- Finalize engineered designs and bid specifications for the reconfiguration and rehabilitation of the Wastewater Treatment Plant.
- Support the development of an Arts and Cultural Strategic Plan.
- Provide a third year of School Resource Officer support and the Juvenile Diversion program through Measure Z funding.
- Replace bleachers at the Arcata Ball Park.
- Replace roofs at the Corporation Yard and Food Works, Machado Barn and Redwood Lodge.
- Complete a design and cost estimate for a bicycle pump track at Redwood Park.
- Install a basketball court in the Valley West neighborhood.
- Complete construction of the South Jacoby restoration project.
- Construction of a Futsal court.
- Support Arcata Gardens Low Income Housing Rehabilitation through CDBG.
- Complete the Housing and Infill Strategic Plan.
- Support the Plaza Improvement Task Force.
- Finalize designs for improvements to various City Parks, including Redwood Park, Ennes Park, Sunny Brae Park and Carlson/Mad River Park.
- Acquisition of forest land.
- Install Quintoli Lane pedestrian crossing and bus stop improvements.
- Design of trail extension from Sunset along the rail corridor to the East City limits, (Annie and Mary connection).
- Paving overlay for Bayside Road and Spear/Janes Road from Quintoli to Alliance.
- Complete safe routes to schools grant improvements around Arcata Elementary School.
- Rehabilitation of the culvert along Janes Creek at Alliance Road for increased fish passage.
- Develop electronic City job application submittal process.
- Repair of steel water lines through Bret Harte Alley, 10th and J Streets.
- Installation of Solar Electric and mini-split heater pumps at the Library.
- Replacement of City dump trucks to comply with emissions standards.

Other changes in appropriation can be summarized as follows:

General Fund – The City Manager's recommended budget for 2018/19 includes total General Fund expenditures of \$15,476,517. This is an increase from the prior year in the amount of \$1,023,755, or 7.08%. This increase is due –

- Increased employee costs of \$287,000. This results from the addition of 2 positions, a PSO for Crime Prevention in the Police Department, and a Permit Specialist/Inspector in the Building Regulation division. Increased personnel costs also resulted from a modest salary increase and higher workers compensation costs.
- \$150,000 have been allocated to assist with costs associated with Plaza improvements.
- \$638,175 will be expended for various improvements to City parks, including updating the Ball Park bleachers, constructing a Futsal football court, design and engineering for Redwood Park, Ennes Park, Carlson/Mad River Park.

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

Street Fund – Street fund expenditures increased slightly from the prior year due to the receipt of additional revenue generated by SB1, the Road Repair and Accountability Act of 2017, which will fund additional improvements throughout the City. In addition, the City received a grant in the amount of \$250,000 which will be used for planning the Annie and Mary project.

Other Special Revenue Funds – The increase in appropriations is due to the anticipated expenditure of grant funds for CDBG program activities.

Wastewater Fund – The decrease in appropriations results from one-time appropriation to the Wastewater Treatment plant and other critical infrastructure which will be funded using proceeds from grant and debt service which were budgeted in 2017/18.

Stormwater Drainage Fund – The increase in appropriation results from one-time grant funding of various capital improvement projects.

Central Garage Fund – The City will replace several high cost items including 2 dump trucks, 3 police vehicles, 1 pool car.

MEASURE G FUNDS (Transactions & Use Tax)

Staff estimates that the City will receive approximately \$2,340,000 in transactions and use tax revenue for 2018/19. Although this is a general tax and can be used for any General Fund purpose, the budget for 2018/19 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 2018/19:

Activity 21 Public Safety		
Personnel Costs for Additional Allocations		\$ 911,000
Activity 41 PW Admin & Engineering		
Engineering portion of Street Improvement Projects		-
Activity 45 Streets		
Other Professional Services	\$ 90,000	
Street Improvements – City crews	50,000	
Street Improvements – Other	<u>1,249,000</u>	1,389,000
Activity 48 Alternative Transportation		
Installation of Accessible Ramps	16,667	
Sidewalk Repair Program	16,667	
Traffic Calming Measures	<u>16,666</u>	<u>50,000</u>
Total Funds Allocated		<u>\$ 2,350,000</u>

PERSONNEL

Personnel costs included in the City Manager's recommended budget increased by approximately \$483,000 or 3.1 percent as compared to last year's adopted budget. This increase results from the following changes relating to personnel:

- Allocation of a PSO Crime Prevention position

- Allocation of a Permit Specialist/Inspector position
- A “net” salary/benefit increase of 1.5% for full-time employees
- Increase to the minimum wage to \$12 from \$11 on January 1, 2019
- Increase rate for Workers’ Compensation in order to build adequate reserves at REMIF

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.

The City Manager’s recommended budget includes a small increase in the General Fund reserves of \$7,943. The budget forecasts that the General Fund and Enterprise Funds will maintain the full 20 percent reserve contingency.

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 2018/19 is currently in balance using current revenues and reserves for one-time capital projects. It is a conservative budget, developed in consideration of the needs of the City and the City Council’s strategic planning priorities.

Respectfully submitted,

Karen T. Diemer
City Manager

Janet M. Luzzi
Finance Director