

736 F Street
Arcata, CA 95521

July 1, 2012

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 2012/13. It is balanced with conservative estimates of revenues matching ongoing anticipated expenditures.

BUDGET OVERVIEW

Based on many hours of preparation, discussion and review by City staff, we submit the preliminary draft of the City Manager's recommended budget for fiscal year 2012/13. This budget uses current revenues and reserves to fund the work program for 2012/13. Like most other cities, the City of Arcata is facing another difficult year. The City continues to be impacted by the slowdown of the economy, although the outlook for the future is more promising.

Due to State actions, the City's redevelopment agency no longer exists to assist with economic and low income housing projects. This will have a significant impact on future development activities. In addition, the City will incur higher employee costs due to increases in health insurance premiums and retirement costs. However it is important to acknowledge our employee groups: the Operating Engineers Local #3, the Arcata Police Association, management, mid-management and confidential employees. Through the process of collective bargaining, employees will be participating at a greater level in the share of the increased costs of employee benefits. Notably, this includes the implementation of a new level (second tier) of reduced pension plan benefits for new hires, and all participating employees will now be contributing 40 percent of any insurance premium increase towards medical coverage.

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.

SUMMARY OF REVENUES

The budget for 2012/13 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 fund will increase by the cost of living, or 3.0 percent;

| | | | |
|-----------------------------------|------------------------------------|--------------------------|----------------------------|
| 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 |

- The State will repay loan of property tax revenue that was borrowed in fiscal year 2009/10 in the amount of \$200,000;
- The State will not raid local government revenues in the General Fund, Gas Tax Funds or other funding sources in order to balance its budget.

The following schedule compares the estimated revenue budget for 2012/13 to the adopted budget for 2011/12.

| <u>Fund</u> | | 2012/13 | 2011/12 | Dollar | Percent |
|---------------|-----------------------|-----------------------|-----------------------|---------------------|-------------------|
| <u>Number</u> | <u>Description</u> | <u>Adopted Budget</u> | <u>Adopted Budget</u> | <u>Difference</u> | <u>Difference</u> |
| 101 | General | \$ 12,251,909 | \$ 11,857,524 | \$ 394,385 | 3.22% |
| 205 | Forest | 402,500 | 761,500 | (359,000) | -89.19% |
| 206 - 210 | Streets | 1,759,000 | 1,057,600 | 701,400 | 39.87% |
| Various | Planning & Grants | 5,673,659 | 5,574,125 | 99,534 | 1.75% |
| Various | Other Special Revenue | 1,763,025 | 499,650 | 1,263,375 | 71.66% |
| 661 | Water | 3,459,000 | 3,347,000 | 112,000 | 3.24% |
| 662 | Wastewater | 3,729,000 | 3,766,500 | (37,500) | -1.01% |
| 663 | Transit | 1,003,000 | 1,005,000 | (2,000) | -0.20% |
| 664 | Solid Waste | 372,000 | 385,000 | (13,000) | -3.49% |
| 666 | Stormwater Drainage | 826,535 | 1,281,176 | (454,641) | -55.01% |
| 771 | Central Garage | 514,690 | 881,670 | (366,980) | -71.30% |
| 880 - 885 | Redevelopment | - | 1,456,000 | (1,456,000) | 0.00% |
| | | <u>\$ 31,754,318</u> | <u>\$ 31,872,745</u> | <u>\$ (118,427)</u> | <u>-0.37%</u> |

General Fund

Overall, General Fund revenues are anticipated to increase modestly in 2012/13 to \$12,249,409, an increase of 3.2 percent from the prior year's adopted budget of \$11,857,524. This increase in revenue is primarily the result of increases in sales tax, and transactions and use tax for 2012/13, and the repayment of property taxes which were borrowed by the State of California. The following is a brief analysis of the major General Fund revenue sources anticipated for 2012/13:

Property Tax Revenue is anticipated to increase by \$200,000 due to the repayment of funds which were borrowed by the State of California in fiscal year 2009/10 when the State declared a fiscal emergency and suspended Proposition 1A. State law requires this loan, plus 2 percent interest, to be repaid by June 30, 2013.

Sales Tax Revenue continues to be the largest single source of General Fund revenues and comprises approximately 22 percent of total revenue (net of interfund revenues). For 2012/13, we anticipate sales tax revenue to increase slightly from our 2011/12 estimate of \$2,200,000 to \$2,300,000, approximately 4.5 percent.

Transactions and Use Tax Revenue is the second largest revenue source for the City of Arcata. For 2012/13, the City anticipates this revenue source will generate approximately \$1,875,000, or nearly 18 percent of total General Fund revenue. Although this is a general tax and can be used for any General Fund purpose, the budget for 2012/13 includes appropriations for public safety personnel, and street/pedestrian improvements.

Motor Vehicle License Fees is expected to provide approximately \$1,410,000, approximately 14 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. However, without an extension of the State's ability to collect the higher VLF fees, this revenue remains at risk of being reduced.

Utility Users Tax Revenue is expected to generate approximately \$875,000, or nearly 8 percent of total General Fund revenue. This revenue source was renewed in February 2008 and remains secure until November 2016.

Transient Occupancy Tax Revenue is expected to generate approximately \$1,025,000, or nearly 10 percent of total General Fund revenue. This is an increase of approximately \$50,000 from anticipated revenues for fiscal year 2011/12.

Other General Fund Revenues – Staff estimates other general fund revenues to remain flat in fiscal year 2012/13. 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 cut this fund will generate enough revenue to cover basic operating costs and begin to create a modest reserve for 2012/13. The decrease of revenues from the prior year result from one-time grant funding that was received in fiscal year 2011/12 which was used for the acquisition of property.

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. However, until the State's fiscal house is put in order, these funds may remain at risk due to potential shifts in allocation formulas by the State. Staff will closely monitor the status of these funds throughout the State's budget process. Street revenues are anticipated to increase in fiscal year 2012/13 due to a CalTrans grant in the amount of \$842,000 which will be used for the construction of phase I of the Rails with Trails project.

Water Fund

Staff has proposed that water rates be increased by the cost of living, or 3.0 percent for 2012/13.

Wastewater Fund

Staff has proposed that the wastewater rates be increased by the cost of living 3.0 for 2012/13.

Stormwater Drainage Fund

The decrease of revenue is due to the receipt of one-time grant funding in fiscal year 2011/12 for the various capital projects.

Central Garage Fund

Because this fund has more than adequate funds available, and in an effort to reduce costs in other funds, particularly the general fund and other enterprise funds, a one-time decrease of interfund revenues is planned for 2012/13.

Redevelopment Funds

As a result of legislative actions at the State, the Arcata Community Development Agency no longer exists and the City is in the process of winding down the activities of the prior redevelopment agency.

SUMMARY OF APPROPRIATIONS

The proposed budget for the City of Arcata is \$34,977,784 for fiscal 2012/13. The following schedule compares the proposed budget for 2012/13 to the adopted budget for 2011/12.

| <u>Fund</u> | | 2012/13 | 2011/12 | | |
|---------------|-----------------------|----------------------|----------------------|-----------------------|--------------------|
| <u>Number</u> | <u>Description</u> | Adopted Budget | Adopted Budget | Dollar Difference | Percent Difference |
| 101 | General | \$ 12,396,423 | \$ 12,367,677 | \$ 28,746 | 0.23% |
| 205 | Forest | 311,958 | 750,339 | (438,381) | -140.53% |
| 206 - 210 | Streets | 2,387,330 | 2,063,972 | 323,358 | 13.54% |
| Various | Other Special Revenue | 9,153,760 | 7,104,115 | 2,049,645 | 22.39% |
| 661 | Water | 3,723,997 | 3,538,248 | 185,749 | 4.99% |
| 662 | Wastewater | 3,549,926 | 3,488,755 | 61,171 | 1.72% |
| 663 | Transit | 1,138,020 | 1,136,356 | 1,664 | 0.15% |
| 664 | Solid Waste | 383,256 | 370,239 | 13,017 | 3.40% |
| 666 | Stormwater Drainage | 1,083,475 | 1,477,982 | (394,507) | -36.41% |
| 771 | Central Garage | 868,639 | 937,542 | (68,903) | -7.93% |
| 880 - 885 | Redevelopment | - | 3,544,664 | (3,544,664) | 0.00% |
| | | <u>\$ 34,996,784</u> | <u>\$ 36,779,889</u> | <u>\$ (1,783,105)</u> | <u>-5.10%</u> |

There are a number of significant projects and programs to be accomplished in 2012/13. These include:

- Continuation of street improvement projects using Measure G Funds
- Improvements to the City-owned Foodworks building
- Continuation of the McDaniel's Slough Enhancement project which will protect and restore wetlands adjacent to Humboldt Bay;
- Construction of phase I of Rail with Trail project;
- Replacement of various sewer main lines with extensive infiltration and inflow;
- Continuation of work on Panorama and Margaret Avenue water tank design and other soil, geotechnical assessments;

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

General Fund – The increase of general fund appropriations results primarily from increases to employee benefits for health insurance and retirement.

Forest Fund – The decrease of appropriation for expenditures in the forest fund results from the acquisition of forest property in fiscal year 2011/12.

Street Fund – The slight increase in appropriations is due to the planned construction of phase I of the Rails with Trails project.

Other Special Revenue Funds – The increase in appropriations is primarily due to the shift of economic development and low-income housing program expenditures from the Arcata Community Development Agency to the City of Arcata.

Water Fund – The slight increase in appropriations is due to the planned replacement of various water lines with steel piping and continuation of work on the replacement of Panorama and Margaret Avenue tanks.

Wastewater Fund – The slight increase in appropriations results primarily from increases to employee benefits for health insurance and retirement.

Transit Fund – The decrease of appropriations results from anticipated decreases to equipment maintenance due the newness of the City’s transit buses.

Solid Waste Fund – The increase of appropriations results primarily from increases to employee benefits for health insurance and retirement.

Stormwater Drainage Fund – The decrease of appropriations results from decreases in capital projects which have been grant funded, particularly the McDaniels Slough project.

Redevelopment Funds – The decrease in appropriations is primarily due to the shift of expenditures from the Arcata Community Development Agency to the City of Arcata.

MEASURE G FUNDS (Transactions & Use Tax)

Staff estimates that the City will receive approximately \$1,875,000 in transactions and use tax revenue for 2012/13. Although this is a general tax and can be used for any General Fund purpose, the budget for 2012/13 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 2012/13:

| | | |
|---|----------------|---------------------|
| Activity 21 Public Safety | | |
| Personnel Costs for Additional Allocations | \$ 625,000 | |
| Additional Allotment to Maintain Full-Staffing Levels | <u>105,000</u> | \$ 730,000 |
| Activity 41 PW Admin & Engineering | | |
| Engineering portion of Street Improvement Projects | | 40,000 |
| Activity 45 Streets | | |
| Street Improvements by City crews | 50,000 | |
| Street Improvements per pavement plan | <u>940,000</u> | 990,000 |
| Activity 48 Alternative Transportation | | |
| Installation of Accessible Ramps | 30,000 | |
| Sidewalk Repair Program | 30,000 | |
| Traffic Calming Measures | <u>30,000</u> | 90,000 |
| Activity 55 Traffic Control | | |
| Professional Services – Street Painting | | <u>25,000</u> |
| | | <u>\$ 1,875,000</u> |

PERSONNEL

Personnel costs included in the City Manager's recommended budget increased by approximately \$66,020 or 0.5 percent as compared to last year's adopted budget. This increase resulted primarily from increases to employee benefits for health insurance and retirement. The increase in employee benefits was partially offset by the elimination of a vacant full-time position, and by using more realistic cost estimates for salaries and benefits.

The budget includes the following changes relating to personnel:

- Elimination of the vacant Redevelopment Specialist position as a result of the abolishment of redevelopment agencies;
- Increased health insurance premiums of 5.0 percent;
- Increased employer portion of PERS costs of 1.5 percent;
- Continued freeze of Utility Maintenance Worker position.

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 2012/13, staff recommends that the City utilize various reserve amounts as follows:

General Fund: Staff proposes to utilize approximately \$15,000 of General Fund reserves to maintain current levels of service. While revenues are anticipated to increase slightly in fiscal year 2012/13, staff does not anticipate them to fully cover the increased employee costs which have been incurred over the past several years. The use of these funds would reduce the City's contingency reserves to approximately \$1,650,750, or 15.4%. This is slightly under the City's policy of maintaining a 20% operating reserve, but this is within the range of recommended reserve percentages prescribed by professional governmental finance organizations.

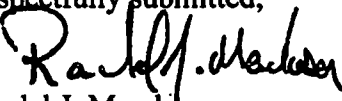
PERS Phase-In Fund: Staff proposes to utilize \$200,000 of PERS Phase-in reserves to offset increased costs related to the City's retirement plans.

Transit Fund: Staff proposes to utilize \$117,020 to maintain current levels of service.

CONCLUSION

The preliminary draft of the proposed budget for 2012/13 is currently in balance using current revenues and 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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