



May 2019

Honorable Mayor and Members of the City Council:

The staff of the City of King is pleased to present the Recommended Biennial Budget for FY 2019-20/ FY 20-21.

Introduction

Budgets for all funds are incorporated into the budget document. Staff is once again proposing a two-year budget, which is consistent with the budget process approved by the City Council in 2016. At the end of the first year, staff will present a year-end review and recommended budget adjustments for the second year. The new City Budget Committee reviewed the recommendations at their meeting on May 15, 2019 and unanimously recommended the City Council approve the budget as proposed.

The document is a proposed work plan for the upcoming two fiscal years based upon the collective expertise and consensus of the entire City staff leadership team. The total proposed City budget is \$14,234,708 in FY 2019-20 and \$14,838,477 in FY 2020-21. It is balanced and makes progress toward accomplishing each of the major budget goals/priorities that were approved by the City Council in the first step of the budget process.

The major goals that were established for the budget include the following:

- Pay down the City's debt;
- Implement the Plan to End Youth Violence;
- Expand economic development efforts with particular focus on implementing the Downtown Streetscape Conceptual Plan;
- Increase maintenance and upgrade of the City's street, sidewalk and wastewater infrastructure;
- Address the City's housing needs; and
- Improve customer service.

In addition, the City Council approved operational goals for each department, which are also addressed. They are presented in the Overview Section of the budget document along with FY 2017-18/ FY 2018-19 Accomplishments.

A healthy increase in revenues is projected from the Local Sales Tax approved by the voters in 2018 and cannabis taxes. The approach reflected in the budget recommendations includes allocating modest increases in areas most in need, but also using restraint to ensure the majority of new revenues are committed for achieving the goal of long-term financial stability. Contingency plans are linked to major expenditures to ensure reductions are feasible if projected revenues are not realized.

The recommended FY 2019-20 expenditures largely represent a status quo budget. The most significant highlights in FY 2019-20 include the following:

- Addition of one Police Officer position effective April 1, 2020
- Addition of one part-time Public Works Maintenance Aide position
- Increase of the part-time Fire Department Administrative Assistant position to full-time
- Reduction of \$250,000 in the General Fund loan from the Wastewater Fund
- Minor increase in annual funding for facility maintenance projects
- Continued annual funding for the Comprehensive Plan to End Youth Violence programs
- Funding for four additional downtown façade enhancement grants

Additional highlights in FY 2021-22 include the following:

- Addition of one full-time Public Works Maintenance Worker position
- Addition of one part-time Public Works Maintenance Aide position
- Reduction of \$750,000 in the General Fund loan from the Wastewater Fund
- Construction of the Downtown Plaza project
- Initiation of annual streetscape improvement program
- Initiation of annual security camera system expansion program
- Funding for one additional wayfinding sign

General Fund

Due to the increase in the local sales tax approved by the voters, the proposed General Fund is balanced for the first time in many years without reliance on one-time revenues. The total proposed General Fund is \$8,105,050 in FY 2019-20 and \$10,242,950 in FY 2020-21, which includes expenditures, repayment of debt, capital improvements, grants, transfers out and carryovers. The primary focus of the budget process tends to be on the General Fund because it constitutes the major portion of the budget, funds the majority of traditional government services, and is the most constrained since funding sources are primarily limited to taxes and fees. Recommended General Fund allocations are based on strategies targeting the budget goals established.

The General Fund includes an appropriation to reduce the debt by \$250,000 in FY 2019-20 and \$750,000 in FY 2020-21. This is projected to bring the negative fund balance to approximately \$600,000 by the end of the two-year budget period, which will represent a decrease from \$5 million in a five-year period. Some of the tables within the budget document show a positive ending fund balance. However, the negative fund balance in the Landfill Closure Fund must be added to that in order to accurately reflect the true status of the General Fund.

A high priority continues to be placed on fully implementing the Comprehensive Plan to End Youth Violence, which has been extremely successful thus far. Last year, budget constraints made it necessary to eliminate a proposed new position dedicated to gang detail. The Police Department instead reassigned an existing position on a temporary basis. The proposed budget will replace this lost position. Recommendations include continuing the City's share of costs for the ProYouth Heart after-school program, the on-campus probation officer program and the Sun Street Center pre-diversion program. These programs are all partnerships jointly funded with other organizations and grants, and efforts continue to further expand them through additional grants.

One of the priorities most in need of additional resources has been addressing deferred maintenance of the City's infrastructure. The proposed budget will fund one additional part-time maintenance position in the first year and upgrade one Maintenance Worker II position to a Lead Worker. In the second year, one additional full-time Maintenance Worker position and one additional part-time Maintenance Aide position are recommended. Facility maintenance projects have been identified and prioritized and the proposed budget includes funding to begin progress in addressing a few of the highest priority needs. Funding is also budgeted for a number of capital projects that are discussed in the Capital Improvement Program section.

A number of economic goals are funded within the budget recommendations. Funding is maintained for the façade enhancement grant program, the joint Salinas Valley tourism program, and membership in the Chamber of Commerce & Agriculture. Major projects include the Downtown Plaza project and downtown streetscape improvements, which are funded in FY 2020-21. Funding is also included to add one wayfinding sign in the second year.

It is proposed to increase the Fire Department part-time Administrative Assistant position to full-time. King City is one of a decreasingly small number of agencies that have successfully maintained a Fire Department operated entirely by reserves. Challenges to maintaining the necessary number of volunteers will likely increase. Therefore, it is important to provide the administrative support necessary for the volunteers to dedicate their time exclusively to training and emergency response activities.

The funding recommendations attempt to continue increasing community outreach, involvement and beautification efforts. Funding is included to continue support for King City in Bloom, the quarterly newsletter, and the community survey. It is proposed to transition from City sponsored block parties to grants available for block parties coordinated by neighborhood leaders.

The primary increase in revenues projected in FY 2019-20 is attributed to an increase of \$820,000 in local sales tax funds from the recent increase approved by the voters that took effect on April 1, 2019. Cannabis tax revenues are projected to be \$325,000 in FY 2019-20 and \$1,600,000 in FY 2020-21. These projections were based on an analysis of the schedule of each planned project and then a reduction factor was applied to reflect potential delays and other unforeseen issues. In FY 2020-21, proceeds for a proposed sale of property is also projected and programmed. Other than these new or one-time revenue sources, projected ongoing increases are projected to be minimal or static based on existing trends. Property tax and sales tax revenues are based upon projections provided by the City's tax consultants, HdL Companies.

While staff believes these revenue estimates are accurate based on the information available, significant uncertainties still exist in the projections for FY 2020-21 due to two large new items. As a result, the expenditure recommendations have been designed to include contingency plans. General Fund expenditures for the Downtown Plaza project, street improvements, reduction in debt, streetscape improvements, and security camera expansion are proposed to be contingent upon the status of revenue projected from sale of land and cannabis tax revenue prior to FY 2020-21. An evaluation will be conducted and reported to City Council at the time the annual budget review is prepared. Deferral of these items could reduce the FY 2020-21 expenditures by as much as \$1,900,000 if necessary without impacting ongoing operations, which should be adequate to address a worst case scenario.

Enterprise Funds

Enterprise Funds are those that are managed as independent operations and funded entirely by fees for services, including depreciation costs. The City's Sewer Fund is currently the only one that receives this classification.

The Sewer Fund is projected to begin FY 2019-20 with a healthy balance of approximately \$7,550,000 million. However, significant capital improvement needs are projected over the next several years. Expenditures and revenues are programmed consistent with the analysis prepared as part of the wastewater rate study, including the recommended rate increases. Budgeted items include phased implementation of both the Wastewater Treatment Facilities Plan and the Wastewater Collection System Master Plan. Other items budgeted include increased line cleaning, update of the Sanitary Sewer Master Plan, development

of a Trash Plan, implementation of a Fats, Oils and Grease (FOG) program, and San Lorenzo Creek sediment removal.

Special Revenue Funds

Special Revenue Funds are supported primarily by grants or special fees and other revenues. Many are funded from development impact fees. Most of these funds are balanced. The primary new expenditures proposed for capital projects are found in the Fire Impact Fee, Traffic Impact Fee, Public Use Facility Impact Fee, Park Impact Fee, and General Facilities Impact Fee funds.

In the Airport Operations Fund, staff recommends a portion of salaries of employees working on the airport no longer be charged to that fund. Therefore, this cost has been transferred to the General Fund. By making that adjustment, the Airport Operations Fund no longer has an annual deficit despite the fact it is not self sufficient when considering staffing costs.

Capital Improvement Program

Capital improvements are programmed on a five-year cycle, but only funding in the first two years is appropriated. The proposed Capital Improvement Program (CIP) reflects a gradually increasing financial commitment to the City's priority of addressing deficiencies in its infrastructure.

An ongoing Street Improvement Program will be based on the results of the Pavement Management Program developed this past year. This is an important investment because improving street conditions can result in substantial long-term savings once the City is able to replace street reconstruction projects with ongoing slurry seal maintenance. The majority of these projects will initially be funded by the Transportation Agency of Monterey County (TAMC) Measure X sales tax revenue and the recent SB1 increase in the State Gas Tax approved by the State Legislature. However, staff proposes to gradually increase General Fund revenues dedicated for street projects with the future goal of reaching approximately \$1,000,000 in total annual street improvement expenditures. Other proposed ongoing programs beginning in FY 2019-20 include ADA and sewer collection system improvements. Additional programs recommended to begin in FY 2020-21 include sidewalk improvements, streetscape improvements, and expansion of the security camera system.

A combination of development impact fee and General Fund revenues are recommended to be programmed for the Downtown Plaza project. In FY 2019-20, it is proposed to upgrade the onsite historical building to a new Visitor and History Center, which will need to be supplemented with a community fundraising effort. Construction of the Downtown Plaza is proposed for design in FY 2019-20 and construction in FY 2020-21, which will accomplish one of the City's highest priority economic development goals.

Funding is proposed to be appropriated for design and environmental work over the next two years for the Broadway Street/ San Antonio Drive Roundabout, Wastewater Treatment Plant, and railroad platform projects. All of these projects will need additional grant support prior to proceeding to construction.

Finally, funding is proposed to replace one of the Fire Department's engines with a new engine containing a ladder attachment. Initial funding will be provided from the City's Fire Facilities Impact Fee Fund. The remaining cost is proposed to be funded through a lease purchase agreement to be paid annually with General Fund revenues.

Long-Range Financial Plan

The foundation of the Biennial Budget is the Long-Range Financial Plan, which consists of 10-year revenue and expenditure projections for the General Fund. It is particularly important in order to develop strategies on how to pay down the debt over time, address critical needs, and establish future reserves. On an ongoing basis, long-range financial planning is important in order to plan for and adjust to fluctuations in the economy and other changes impacting the City's revenues and expenditures. Ideally, reserves should be increased during strong economic periods and utilized during recessions in a manner where overall revenues and expenditures are balanced and consistent service levels can be maintained.

It is difficult to accurately project revenues on a long-term basis. Therefore, it is not expected that revenues and expenditures will occur accurately as projected. Instead, the primary benefit is that the long-term impacts of decisions can be determined and evaluated when adjustments are made. This is important because the impacts of small budget imbalances can appear minor in an annual budget, but dramatic over a ten-year period. As a result, the Long-Range Financial Plan is intended to be a flexible rather than static document. Addressing changes over a 10-year rather than a one-year period also enables the City to better stabilize what otherwise can involve drastic shifts in funding and service levels.

Revenue projections have incorporated the anticipated effects of a potential recession in FY 2021-22 through FY 2023-24. It is difficult to accurately project when a recession will occur. However, one is likely within the period of the Long-Range Financial Plan so preparation is important. A number of factors lead staff to believe the impacts of a recession will be less severe on King City than other jurisdictions. First, the City's sales tax has already dropped due to the loss of the City's auto dealership and other businesses, and property values still have not returned to pre-recession levels. Therefore, the weak gains in revenue during the economic recovery provide less opportunity for decreases in the future. Second, it is anticipated that the positive impacts of the City's economic development efforts will begin to take effect about the time of the recessionary

period, which will help to counteract the impacts. Finally, it is anticipated that the cannabis industry will be somewhat more immune to the impacts of a recession than other industries. As a result, most revenues are projected to be static during this period rather than experiencing significant decreases.

Two scenarios of the Long-Range Financial Plan are included based upon the most substantial uncertainty, which is the future amount of cannabis tax revenues that will be received. Scenario I is the base plan recommended for adoption, which represents staff's proposed assumptions for future revenue trends and how best to meet what have been identified as the City's most critical needs. This scenario assumes cannabis tax revenues will grow until leveling off at \$2.5 million and will then experience ongoing CPI annual increases. Based on projects under way, actual revenues have the potential of far exceeding this amount. However, this represents staff's most realistic estimate based on a wide variety of factors that may occur. The second scenario is less optimistic and includes cannabis revenues reaching only \$1.25 million before leveling off. This amount was determined as the minimal amount needed to fund the most critical needs on an ongoing basis. Revenues below this amount will leave the City in a position of needing other supplemental revenue to address basic needs or will require staffing reductions.

Under the proposed Long-Range Financial Plan, the budget is projected to pay off the General Fund debt by FY 2022-23 and achieve a 15% reserve by the end of the 10-year period. Critical needs that have been programmed in the Long-Range Financial Plan beyond the FY 2019-20/ FY 2020-21 Biennial Budget include the addition of a Public Works Director and Maintenance Worker position, a gradual increase in ongoing street improvements, an ongoing sidewalk improvement program, upgrade of the skate park, an increase in facilities maintenance costs, financing for a new fire engine, minor increases in new programming and technology, and ongoing funding for streetscape improvements, ADA improvements, and expansion of the security camera system. Salary increases assume achieving parity with the other jurisdictions in South Monterey County. The Public Works Director position will be necessary to oversee increased staff to operate the expanded wastewater treatment plant and the Maintenance Worker position will be critical for new parks that will be added at Mills Ranch. Most of these items are consistent with the Strategic Plan and the prior Long-Range Financial Plan.

Under Scenario II, most of these items are reduced or eliminated. The Downtown Plaza and Public Works parks Maintenance Worker is maintained, and the skatepark renovation would need to be scaled down to minimum safety improvements. A reduced salary increase cost amount is also included. Under this scenario, the City would eliminate the negative fund balance, but would not be able to accumulate the desired reserve amount.

Conclusion

The overall objective of the budget recommendations is to meet the community's needs and provide services in the most effective, efficient and responsible manner. Staff believes the budget recommendations provide an appropriate balance between the importance of fiscal responsibility and addressing critical needs. A thorough process was conducted to ensure funding allocations reflect Council direction and priorities, staff analysis, community input, and strategic planning efforts. All proposals are directed at accomplishing the City's mission of *"Meeting the needs of our entire community through caring, professional and responsive services."* As a result, it is staff's determination that the recommended FY 2019-20/ FY 2020-21 Biennial Budget represents the best utilization of the City's resources to address the interests of the community and lead to ongoing financial stability in the future.



Steven Adams
City Manager