



May 2017

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 2017-18/ FY 2018-19.

Introduction

Budgets for all funds are incorporated into the budget document. This represents the first year staff is submitting a two-year budget, which was approved by the City Council last year as part of the new budget process recommendations. At the end of the first year, staff will present a year-end review and recommended budget adjustments for the second year.

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 proposed City budget 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; 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 2016-17 Accomplishments.

The total proposed City budget is 10,653,667 in FY 2017-18 and 11,404,766 in FY 2018-19. While the budget recommendations represent significant progress in addressing needs and priorities of the City, a large portion of that progress is still funded by the proposed sale of land and projected cannabis tax revenues. Land sale revenues are one-time sources and cannabis tax revenue projections

are unreliable at this time since it is a new industry. Therefore, despite the progress under way, it is important to note that the City has yet to reach what can be considered a position of financial stability.

General Fund

The total proposed General Fund is \$10,100,998 in FY 2017-18 and \$8,101,929 in FY 2018-19, 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 \$500,000 in each fiscal year. This is projected to bring the negative fund balance to less than \$1.5 million by the end of the two-year budget period. If successful, this will represent substantial progress since the negative fund balance was approaching \$5 million when the City Council approved the budget at this time last year.

A high priority has been placed on implementation of the Comprehensive Plan to End Youth Violence. The budget recommendations include funding for a new Police Officer dedicated to gang detail, the City's share of costs to jointly fund a Probation Department Officer at King City High School and Chalone Peaks Middle School, the City's contribution to an after-school expanded learning program at the elementary school sites, and carryover of funds approved for installation of the citywide security camera system. A number of grants are also approved or being pursued for these items, along with expansion of the youth diversion program and development of a one-stop re-entry social services center.

The other major impact to the General Fund from the established priorities is attributed to economic development goals, which is primarily focused on implementation of the Downtown Streetscape Conceptual Plan. Funding is recommended for streetscape plan improvements and continuation of the façade enhancement program. While the streetscape improvements represent a significant financial commitment by the City, over 50% of the costs are projected to be funded from a Regional Surface Transportation Program (RSTP) grant. If the grant application is not approved, the budget recommendations for this project will need to be re-evaluated.

Funding for an additional Maintenance Worker position is recommended in FY 2018-19 to help increase infrastructure maintenance and improve customer service. Funding from other sources is also incorporated in the budget to help address this goal.

The budget recommendations address two other important operational needs unrelated to the major priorities. First, funding has been programmed for an administrative assistant in the Fire Department and contract services to perform fire inspections. The majority of this expense will be paid from inspection fee revenue. These expenses are critical in order to accomplish required annual inspections while reducing administrative workload necessary to maintain a volunteer fire service. Second, an annual lease purchase cost of approximately \$30,000 per year is recommended in order to fund a new street sweeper. Staff previously recommended including street sweeping in the refuse franchise agreement, but now believes maintaining the service in-house would result in a better service level and lower refuse rates.

In addition to addressing debt reduction and identified needs, a significant portion of increased costs to the budget unfortunately represent expenses outside the City's control. Most notably, emergency communications, liability and workers' compensation insurance, medical insurance and CalPERS employee pension benefits are all experiencing substantial cost increases.

The primary increase in revenue proposed in FY 2017-18 results from the recommendation to sell two agriculture properties owned by the City. Revenues are budgeted to be \$1,870,000. Major expenditures programmed for FY 2017-18 will be delayed until these revenues are secured.

Medical cannabis tax revenues are projected to be \$250,000 in FY 2017-18 and \$1,250,000 in FY 2018-19. Based on the status of applications, staff projects the first facilities to come on line by early 2018 and to have roughly half the facilities fully operational by FY 2018-19. Therefore, while it is difficult to accurately project the future of these revenues, staff believes these are realistic estimates.

Sales tax revenues are estimated to increase at modest rates consistent with projections provided by the City's consultant, HdL Companies. Property taxes will likely decrease in FY 2017-18 because FY 2016-17 revenues included one-time payments from the sale of former Redevelopment Agency owned properties. There is one last similar increase projected in FY 2018-19 from the future sale of the property formerly owned by the Redevelopment Agency at 1023 Broadway Street.

Staff recommends charging the \$250 per business fire inspection fee that already exists, but has not been used in the past. Staff also recommends increasing the refuse franchise fee from 16.5% to 18%. This will impact rates much less than the previously approved proposal to include street sweeping in the refuse franchise agreement, which would have resulted in a 7.6% increase. It will also maintain the franchise fee below the other Salinas Valley Cities, which are currently at rates of 20% to 26%.

Local Sales Tax

The Local Sales Tax revenues are part of the General Fund, but are tracked separately for the purposes of transparency and accountability. The Sales Tax Measure was passed by the voters in 2014, which included a 7-year sunset clause. An advisory measure was also adopted, which recommended funds be used for public safety (Police, Fire, Recreation), money management (debt reduction & reserves), communication, and appearance.

The Local Sales Tax Advisory Committee met on May 4, 2017 and unanimously approved the following recommended allocation of funds, which all fall under the categories identified in the advisory measure:

<u>Expenditure</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Public Safety:		
Police Department	\$225,000	\$225,000
Police Investigator Position	\$60,000	\$60,000
Full-Time Recreation Coordinator Position	\$40,000	\$40,000
Gang Detail Officer Position	\$50,000	\$75,000
On-Campus Probation Officer Position	\$45,000	\$45,000
Subtotal	\$420,000	\$445,000
Money Management:		
Pay Off City Debt	\$250,000	\$250,000
Subtotal	\$250,000	\$250,000
Communication:		
Communications/Community Promotion	\$20,000	\$20,000
City Newsletter and Promotional Efforts	\$10,000	\$10,000
Restructuring of City Hall Administrative Staffing	\$35,000	\$35,000
Part-Time Public Works Director Position	\$10,000	\$10,000
Subtotal	\$75,000	\$75,000
Appearance:		
Streetscape Plan	\$50,000	\$50,000
Subtotal	\$50,000	\$50,000
Total	\$795,000	\$820,000

The majority of these items are a continuation of expenditures approved in the FY 2016-17 Annual Budget.

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 that receives this classification.

The Sewer Fund is projected to begin FY 2017-18 with a healthy balance of approximately \$11.87 million. However, there are also substantial capital needs involving the City's wastewater system. The City has contracted for preparation of a master plan to upgrade the wastewater treatment plant and a master plan to identify future wastewater collection system maintenance needs, which are both nearing completion. Budget recommendations include funding in FY 2017-18 to prepare a rate study once all specific costs to address these needs have been projected. The purpose of the study will be to determine appropriate fees necessary to fund these improvements on an ongoing basis. In FY 2018-19, expenditures are proposed to prepare the environmental review and begin design of the wastewater treatment plant upgrade and to design replacement of the sewer line on Bitterwater Road.

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 Gas Tax and Police Development Impact Fee funds maintain negative balances, but are expected to gradually achieve a positive balance from future projected revenues. The primary new expenditures proposed are found in the Public Use Facilities Impact Fee, Park Impact Fee, and Traffic Impact Fee funds for the Downtown Plaza and Roundabout projects.

The status of the Airport Operations Fund is more problematic. Expenditures are exceeding revenues and a year-end negative fund balance is projected. Budget recommendations include a reduction in staffing costs charged to this fund and allocations for ongoing repairs and maintenance. Despite these adjustments, the General Fund is projected to subsidize the Mesa Del Rey Airport operation by \$50,000 annually. During the upcoming year, it is proposed to identify ideas to increase ongoing revenue. A Federal Aviation Administration (FAA) grant and local matching funds are also budgeted in FY 2017-18 to contract for an update to the Airport Layout Master Plan.

Capital Improvement Program

Capital improvements are programmed on a five-year cycle, but only funding in the first two years is appropriated. The FY 2016-17 Annual Budget was the first to include a Capital Improvement Program (CIP). The City is gradually making progress in funding its goal of improving its infrastructure system through a comprehensive CIP.

The recommended CIP begins establishing an ongoing pavement management program. 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 new Transportation Agency of Monterey County (TAMC) sales tax revenue and the recent 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 \$900,000 in total annual street improvement expenditures.

A combination of development impact fee and General Fund revenues are recommended to be programmed for the Downtown Plaza project. In the FY 2017-18/ FY 2018-19 Biennial Budget, funding is recommended for property acquisition, demolition and design. Funding for construction is proposed in FY 2019-20.

Carryover funding from FY 2016-17 is programmed for the new Broadway Street City Entrance Sign and Police Security Camera System. Other CIP projects include the Downtown Streetscape Project, Wastewater Treatment Plant Upgrade, Bitterwater Sewer Replacement, and Small Diameter Sewer Line Replacement.

Future funding is recommended to initiate an ongoing sidewalk maintenance program. Partial funding is also programmed for the next phase of planning for the Broadway Street/ San Antonio Drive Roundabout, but design and construction will depend upon grant funding in order to complete the project.

Long Range Financial Plan

The focal point of the Biennial Budget is the Long-Range Financial Plan. This is a 10-year revenue and expenditure plan for the General Fund. It is particularly important at this time 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, the long range financial plan is intended to be a flexible rather than static document. Adjustments will need to be made each year as changes occur. However, the most significant benefit of budgeting with a long-range financial planning approach is these changes can be addressed over a 10-year period rather than

on an annual basis. This 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 2019-20 through FY 2022-23. Staff does not have data to support when specifically a recession will occur. However, one is likely within the Long-Range Financial Plan period so it is important to plan for it. Given that the City's sales tax has already dropped due to the loss of the City's auto dealership and reduction in gas prices, the decrease in revenue during the next recession will likely be less severe than what other jurisdictions may experience.

Three scenarios of the Long-Range Financial Plan are included. 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. The proposed plan continues to focus on three primary revenue strategies. The first is an immediate strategy to sell excess properties owned by the City without planned uses. The second is a mid-term strategy to maximize potential cannabis tax revenues over the next three to four year period. The third is a long-range strategy to increase sales tax and transient occupancy tax (TOT) revenues through economic development efforts.

Under the proposed Long-Range Financial Plan, the General Fund is projected to reach a positive fund balance by FY 2021-2022 and achieve the City's policy goal of a 20% reserve by the end of the 10-year period. Critical needs that have been programmed in the Long-Range Financial Plan beyond the FY 2017-18/ FY 2018-19 Biennial Budget include the addition of two more Police Officers, addition of Public Works Director and Code Enforcement Officer positions, a gradual increase in ongoing street improvements, an ongoing sidewalk improvement program, upgrade of the skate park, an increase in facilities maintenance costs, update of the City's Zoning Ordinance and financing for a new fire truck.

The Long-Range Financial Plan demonstrates that it is important for the cannabis tax revenues to reach a level of approximately \$2.8 million in the future to fund what staff has defined as a minimally adequate level of services, programs and projects. Staff projects this funding amount will be achieved if current projects proceed as planned. If that funding amount is not reached, staff believes it is necessary to develop other long-term revenue recommendations. If revenues exceed that amount, it is proposed to develop a strategic planning effort to identify how best to target these revenues to address other needs and goals.

Last year, the City Council also requested a scenario be included to demonstrate the impacts to expenditures in the future if the Local Sales Tax is not renewed. As a result, staff has included it again in the FY 2017-18/ FY 2018-19 Biennial Budget, which is Scenario II. Under this scenario, there is a substantial decrease in the capital improvement program, the majority of staffing and public safety

needs are not addressed, and the City will only reach a reserve level of 8% at the end of the ten year period. This assumes cannabis tax revenues are maintained at projected levels. This scenario can also be utilized to identify the projected impacts if cannabis tax revenues fall below projections in the future.

One of the key purposes of preparing a Long-Range Financial Plan is to ensure programs and services can be funded on an ongoing basis before they are approved. Scenario III is designed to address this by demonstrating that FY 2017-18/ FY 2018-19 Biennial Budget expenditures can be maintained if revenues stagnate after the two-year period and other new proposed expenditures are eliminated. This also requires reductions to anticipated ongoing salary increases. By the end of the 10-year period, the City is projected to maintain a negative fund balance under this scenario, but it would be decreased from its current amount. Therefore, while this does not represent a desired scenario, it does validate that proposed new expenditures can be supported on an ongoing basis.

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. While the City has not yet reached its desired financial position, staff believes the budget recommendations provide an appropriate balance between the importance of fiscal responsibility and addressing critical needs. As a result, it is staff's determination that the recommended FY 2017-18/ FY 2018-19 Biennial Budget represents the best utilization of the City's resources to respond to the community's challenges, affect change on a long-term basis, and lead to ongoing financial stability in the future.



Steven Adams
City Manager