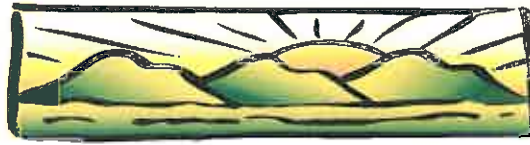


KING CITY
C A L I F O R N I A

**FISCAL YEAR
2016-17**

ANNUAL BUDGET





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FISCAL YEAR 2016-17 ANNUAL BUDGET

City Council

Robert Cullen, Mayor
Karen Jernigan, Mayor Pro Tem
Belinda Hendrickson, Council Member
Mike LeBarre, Council Member
Darlene Acosta, Council Member

Staff Leadership Team

Steven Adams, City Manager
Mike Howard, Finance Director
Darius Engles, Interim Police Chief
Doreen Liberto-Blanck, Community Development Director
Martin Koczanowicz, City Attorney
George Young, Fire Chief
Paul Hodges, Chief Building Official
Octavio Hurtado, City Engineer
Sal Morales, Public Works Superintendent
Maricruz Aguilar, Assistant Planner
Andrea Wasson, Recreation Coordinator
Patricia Grainger, Accountant
Adriana Granados, Administrative Assistant
Erica Sonne, Administrative Assistant/Deputy City Clerk
Lee-Ann Ruyle, Human Resources Assistant



June 2016

Honorable Mayor and Members of the City Council:

The staff of the City of King is pleased to present the adopted Annual Budget for FY 2016-17.

Introduction

Budgets for all funds are incorporated into the document, which is the result of the new budget process approved by the City Council. The Annual Budget is a proposed work plan for the upcoming fiscal year based upon the collective expertise and consensus of the entire City staff leadership team.

The City budget is balanced and makes significant progress toward accomplishing budget goals approved by the City Council as the first step in the budget process.

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

- Pay down the City's debt;
- Improve public safety;
- Expand economic development efforts to increase commercial development and the City's tax base;
- Increase maintenance of the City's infrastructure and facilities; and
- Improve customer service.

The total City budget is \$9,415,280. Of that amount, the General Fund is \$7,727,200, which includes repayment of debt and transfers. 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. General Fund allocations are based on strategies targeting the budget goals established. Within the budget document, new policies have also been adopted regarding establishment of financial reserves once the debt is repaid.

General Fund

The General Fund includes an appropriation to reduce the debt by \$1.5 million. To address public safety goals, it funds recent increases to Police salaries and partial funding for a City-wide security surveillance camera system. The remainder of the funding needed for the system is projected from grants and a community fundraising campaign. As a first step in enhancing the City's economic development efforts, funding is included for development of a downtown streetscape plan. Infrastructure maintenance includes \$200,000 for street improvements. Lastly, customer service is proposed to be enhanced through funding for recent approval of increased administrative support for the front counter and the Community Development Department, as well as a new part-time Public Works Director position and contract street tree trimming program. Other needs that are addressed in the General Fund include increasing the Recreation Coordinator to a full-time permanent position and resurfacing the dive tank pool.

Increases in costs that have also occurred and are addressed within the budget include salary and benefit costs, as well as expenses for liability and workers' compensation coverage. Salary and benefit costs result from recently negotiated salary increases, increases in CalPERS pension rates, and ongoing escalation of health insurance costs. Research by City staff has indicated medical plan costs are projected to continue to rise at rate of approximately 12% per year. Meanwhile, liability and workers' compensation cost increases result from adjustments due to a high experience of claims by the City over the past few years and to address shortfalls in the City's overall insurance pool.

Both property and sales tax revenue projections are based upon estimates provided by the City's tax consultant, HdL. Sales tax is projected to increase by a modest 1%. The majority of the property tax increase is due to a one-time adjustment expected from the sale of Successor Agency properties. Without this allocation, the normal increase would represent a 4% increase.

A number of revenue strategies and projections have been developed to fund these enhancements. They include approximately \$1.5 million from the sale of City property, \$200,000 in one-time increased property taxes from the sale of Successor Agency property, \$100,000 from the proposed medical marijuana tax, an increase in the allocation of revenue from the local sales tax measure, a minor adjustment to overall fees, and the street tree trimming program will be funded by a 4% increase in the City's refuse franchise fee. The increased fee will be earmarked for a much needed program that will benefit City residents at minimal cost, and the fee will remain well below those charged by other cities in the Salinas Valley.

As a result of the new budget process this year, the Finance Director and each department were much more involved in establishing and agreeing to the recommended expenditure and revenue amounts. Therefore, staff has an increased confidence level that budgets can be managed within allocated amounts unless significant unforeseen events occur. New revenue sources were based on conservative estimates. To better manage the budget, staff attempted to match one-time revenues with one-time expenditures as much as possible. It is also staff's intent to time expenditures so that they are not incurred until projected revenues occur. This will reduce the risk of overexpenditures by ensuring that major capital projects or fund transfers are delayed until the medical marijuana tax is approved and takes effect.

Local Sales Tax

The Local Sales Tax Advisory Committee met on May 4, 2016 and unanimously approved the following recommended allocation of funds, which are consistent with the percentage of funds specified for each of the categories set forth in the advisory measure approved by the voters:

Public Safety:	50%
Police Department	\$225,000
Police Investigator Position	\$60,000
Video Surveillance System	\$50,000
Full-Time Recreation Coordinator Position	\$40,000
Subtotal	\$375,000
Money Management:	30%
Pay Off City Debt	\$225,000
Subtotal	\$225,000
Communication:	10%
Communications/Community Promotion	\$20,000
City Newsletter and Promotional Efforts	\$10,000
Restructuring of City Hall Administrative Staffing	\$35,000
Part-Time Public Works Director Position	\$10,000
Subtotal	\$75,000
Appearance:	10%
Streetscape Plan	\$50,000
Street Improvements	\$25,000
Subtotal	\$75,000
Total	\$750,000

Enterprise Funds

Enterprise Funds are those that are managed as independent operations and funded almost entirely by fees for services. In King City, this is limited to the Sewer Operations and Construction Funds.

A major budget focus during the upcoming year will be on improving projections, projects and management of the Sewer Fund. As a result of these efforts, the expenditures of \$3,616,598 include funding for update of the master plan of future sewer system projects, a feasibility study for upgrade of the sewer treatment plant to tertiary treatment, a sewer rate study; and upgrade of the North Third Street and Ellis Street sewer line. This will provide the City with an accurate long-range plan of sewer related costs and revenues. As a result, of these one-time expenditures, the Sewer Operations Fund balance is projected to decrease by \$1,231,598, but will maintain a healthy balance of \$13,470,057 due to the repayment of debt from the General Fund.

It is important to note that the balance includes the loan to the General Fund. Therefore, the loan will need to be fully repaid before the Sewer Fund has that amount of cash to expend on improvements.

Capital Improvement Program

Staff has established the beginning of a Capital Improvement Program (CIP) for the City. Capital improvements are normally programmed on a five-year cycle. The program is still in its infancy and includes only a few projected items. The first year is limited primarily to items with specific funding allocated in the FY 2016-17 Annual Budget. However, projects proposed to be funded from the Community Development Block Grant (CDBG) application have been identified because staff is confident they will be funded in a future year if not approved next fiscal year. Therefore, if the grant application is unsuccessful, it will most likely result in a delay rather than elimination of the project. Future years of the CIP include other items that are projected, but not yet confirmed. The CDBG funds are programmed in the CIP, but will not be appropriated until approved.

The CIP includes beginning to allocate a limited amount of General Fund revenues for street improvements. The City's streets have a number of serious deficiencies that will be expensive to address and delays will continue to increase the cost of improvements. The ultimate goal will be to improve all streets to a level where they can be maintained on a five-year cycle with slurry seal preventative maintenance treatments. Street improvements are a cost effective investment because future costs can be drastically reduced once that street condition can be achieved. Staff believes if this general funding level can be maintained in the future, and if the TAMC sales tax increase is approved and receipt of annual RSTP funds return, then the City will be able to achieve the ongoing funding necessary to address these long-term goals.

The next phase of the sewer line replacement is proposed for FY 2016-17, which includes replacement of 6" pipes with 10" or 12" pipes on North Third Street and Ellis Street. This project will address a number of problems with the sewer system that have been experienced by residents in that area.

Projects proposed to be funded from the CDBG program include sidewalk replacement and rehabilitation of the Skate Park. Meanwhile, revenues from the General Fund are being programmed toward the proposed citywide police surveillance security camera system and resurfacing of the dive tank pool.

Long Range Financial Plan

The budget document includes the first long range financial plan for the City. 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 the 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.

The long range financial plan assumes three primary strategies to increase revenues to address priorities for the City on a long-term basis that will occur in a phased manner. The first year the majority of new revenues will be derived from the sale of available land that has no projected City use. The second year is projected to bring a substantial revenue increase from medical marijuana. However, for planning purposes, revenue estimates are conservative and projected to increase on a gradual basis. Finally, the third phase is a projected increase in sales tax in the later years of the plan from the results of proposed economic development efforts.

Revenues include the anticipated effects of a recession projected in FY 2019-20 through FY 2022-23. 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 that time will likely be less severe than what other jurisdictions may experience.

Based on the results of the strategies set forth in the long range financial plan, the City is projected to have a positive General Fund balance by FY 2022-23 and to reach the goal of a 20% General Fund reserve by the end of the 10-year period. The long range financial plan is designed to address only the City's most critical long-term needs. Therefore, the minimal amount for each need identified has been programmed. These needs include enhancing public safety efforts, a minor increase in overall staffing, facility maintenance, purchase of a fire truck, street and sidewalk improvements, and the tree trimming program.

To address these needs in an adequate fashion and address the debt, the medical marijuana tax will need to reach an ongoing revenue amount of \$2 million annually. Based upon this plan, if any of the revenue sources do not reach projected levels, there would need to be a corresponding decrease in expenditures or increase in other revenues. As a result, it provides an overall target, as well as the specific data necessary to determine adjustments that are necessary to stay on course as revenues and expenditures change.

A strategic planning process is proposed to begin later in the year. Once it is demonstrated that basic critical needs can be met, strategic planning then becomes more valuable because staff can project resources that may be available to address other strategic goals.

Conclusion

The overall objective of the budget is to meet the community's needs and provide services in the most effective, efficient and responsible manner. While the new budget format is an important first step forward, there are a number of other adjustments and improvements to be made during the upcoming year as it is implemented. Staff believes the document will introduce a new era of financial planning to the City that will increase the organization's ability to respond to the community's challenges, affect change on a long-term basis, and produce ongoing financial stability.



Steven Adams
City Manager