

GENERAL FUND

The General Fund supports many of the City's day-to-day operations, including police and fire protection, street and park maintenance, community development, and general administrative functions. The General Fund receives the broadest variety of revenues, and many of its revenue sources are cyclical in nature. By contrast, the revenue sources for the Enterprise Funds are received monthly and, as a result, are more evenly distributed throughout the fiscal year. The General Fund includes all services that are funded through general taxes. It is the funding source for all City programs except those that are paid for through dedicated taxes, user fees, impact fees, or grants.

FISCAL YEAR 2022/23 RECAP

For the fiscal year concluding on June 30, 2023, the General Fund closed with a budget surplus of \$528,783, contributing to an increase in the Fund balance. However, this surplus was partially offset by the return of \$3.5 million in Lease Revenue Bonds, resulting in an overall decrease in the fund balance from \$8,592,235 to \$5,975,337. Expenditures for the year totaled \$10.6 million, marking a 27 percent increase compared to the previous year, as expenditures, especially personnel costs, returned to pre-pandemic levels.

Despite these changes, the General Fund maintained reserves, including an operating reserve of \$1.6 million, a litigation reserve of \$200k, and a recession reserve of \$489k.

GENERAL FUND REVENUES OVERVIEW

General Fund revenue for the second quarter amounted to \$6.02 million, which represents 52% of the amended budget. This figure compares favorably to the \$5.4 million reported at the mid-year point of the prior fiscal year. Projections suggest that General Fund revenue will reach approximately \$11.7 million by the end of the fiscal year, slightly below the budgeted amount by approximately \$13k.

The table below provides a breakdown of actual FY 2023/24 General Fund revenue collections up to December, comparing them with budgeted revenue estimates and the actual figures from the last two fiscal years for historical context. Additionally, it outlines the recommended changes to each category as part of this report.

GENERAL FUND REVENUES											
REVENUE SOURCE	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Transient Occupancy Tax	\$ 3,444,990	\$ 3,192,486	\$ 3,242,118	\$ -	\$ 3,242,118	\$ 1,621,059	\$ 1,765,102	54%	\$ 144,043	\$ 3,242,118	\$ -
Sales and Use Tax	2,215,161	2,146,974	1,959,500	-	1,959,500	979,750	1,105,665	56%	125,915	1,959,500	-
Property Tax	1,150,352	1,141,020	1,150,257	-	1,150,257	575,128	236,079	21%	(339,049)	1,150,257	-
Other Taxes	851,622	953,026	903,985	-	903,985	451,993	420,754	47%	(31,238)	903,985	-
Sub Total Tax Revenue	7,662,122	7,433,505	7,255,860	-	7,255,860	3,627,930	3,527,600	49%	(100,330)	7,255,860	-
Licenses & Permits	86,176	94,598	94,293	-	94,293	47,147	39,322	42%	(7,825)	95,493	1,200
Fines and Forfeitures	51,396	53,799	25,100	-	25,100	12,550	4,650	19%	(7,900)	20,050	(5,050)
Intergovernmental	30,089	15,538	30,000	-	30,000	15,000	-	0%	(15,000)	30,000	-
Use of Money/Property	(166,316)	(377,584)	90,000	-	90,000	45,000	387,448	430%	342,448	105,000	15,000
Charges for Services	62,387	91,600	81,343	-	81,343	40,672	53,481	66%	12,809	92,530	11,187
Operating Grant Revenue	133,985	571,569	647,262	81,900	729,162	364,581	394,060	54%	29,479	648,851	(80,311)
Reimbursements	3,333,187	3,764,941	3,380,722	-	3,380,722	1,690,361	1,602,363	47%	(87,998)	3,452,339	71,617
Other Revenue	22,576	143,257	20,200	-	20,200	10,100	20,889	103%	10,789	20,300	100
TOTAL REVENUES	\$11,215,601	\$11,791,224	\$11,624,780	\$ 81,900	\$ 11,706,680	\$ 5,853,340	\$ 6,029,814	52%	\$ 176,474	\$11,720,423	\$ 13,743

The Fiscal Year 2023/24 Budget was formulated with the anticipation of potential declines in General Fund and other economically sensitive City fund revenues. This cautious approach reflects an acknowledgment of prevailing economic conditions and aims to maintain conservative budgeting practices while harboring a sense of cautious optimism as economic conditions evolve in 2024.

Transient Occupancy Tax and Sales Tax were forecasted to decline by 6% from the "best year to date" achieved in FY 2021/22. A comprehensive review of all General Fund revenue accounts has been performed based on activity through the year's first six months. Based on the available data through December, General Fund Tax revenues have continued the strong performance and are anticipated to end the year approximately \$7.3 million in line with budgeted levels due to solid growth in Transient Occupancy Tax (TOT), Franchise tax and Sales Tax categories.

Partially offsetting this tax revenue growth is lower than anticipated Operating Grant Revenues to reimburse staff time administering these grants and carrying out Grant activities. Much of the reimbursable time is for Community Development Block Grant (CDBG), which includes: the Code Enforcement Program, Business Loans, Fire Station Rehabilitation design work, water meter replacement program, and general administration. Similar to the prior year, these unspent funds will be transferred to the next fiscal year. There are no revenue adjustments included in the Mid-Year Budget Review.

Notable variances in Revenues are listed below.

▪ **Transient Occupancy Tax (TOT)**

REVENUE SOURCE	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Transient Occupancy Tax	\$ 3,444,990	\$ 3,192,486	\$ 3,242,118	\$ -	\$ 3,242,118	\$ 1,621,059	\$ 1,765,102	54%	\$ 144,043	\$ 3,242,118	\$ -

Fort Bragg relies heavily on tourism, which contributes significantly to its revenue, constituting 28% of the total General Fund revenue. In FY 22, Transient Occupancy Tax (TOT) experienced a rebound from COVID-19 impacts, achieving its highest performance to date with \$3.4 million in revenue by the end of the fiscal year.

FY 22/23 saw another strong showing for TOT, with an 18% growth of \$186k compared to pre-pandemic levels. However, despite this positive trend, receipts witnessed a 10% decline compared to the exceptional quarter recorded in FY 21/22, as outlined in the historical revenue figures provided. The Adopted Budget for FY 23/24 took a conservative approach, projecting just 1% growth. While July, September, and November revenues surpassed the prior year's figures, the other months experienced a 10% decline. Despite being down 2% compared to the same period last year, revenues have surged by 46% or \$575k compared to pre-pandemic levels. Fort Bragg's economy heavily relies on tourism, which contributes significantly to its revenue, accounting for 28% of the total General Fund revenue. In FY 22, the Transient Occupancy Tax (TOT) experienced a rebound from the impacts of COVID-19, reaching its highest performance to date with \$3.4 million in revenue by the end of the fiscal year.

Considering the 7% decline experienced in the first two quarters, the results of the third quarter will be crucial in determining whether revenue adjustments are needed, especially if TOT fails to meet budget expectations.

▪ **Sales Tax:**

REVENUE SOURCE	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Sales and Use Tax	2,215,161	2,146,974	1,959,500	-	1,959,500	979,750	1,105,665	56%	125,915	1,959,500	-

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes.

Inflation accelerated last year as the U.S. economy recovered from the COVID-19 Pandemic. Prices rose as strong consumer demand—stoked by lower interest rates and government stimulus—collided with constrained supply chains and pandemic-related shortages. Russia's invasion of Ukraine in 2022 further spurred inflation worldwide, hitting food, energy, and other commodity prices.

**City of Fort Bragg
Mid-Year Budget FY 2023/24**

The ongoing impact of the Federal Reserve's interest rate hikes on the economy remains a topic of concern among many analysts. This rate increases primarily aim to mitigate inflationary pressures by rendering borrowing more costly. The intended consequence is reduced spending by households and businesses, potentially resulting in slower wage growth as employers exercise caution in hiring. The Consumer Price Index, increased by 3.7% in September 2023 from the same month a year ago, pulled down by a drop in gasoline prices that was partially offset by higher food costs. The reading was down from 8.3% in August to 9.1% in June, the highest inflation rate in four decades. The CPI measures what consumers pay for goods and services a closely watched inflation gauge, rose 6% in February from a year earlier, down from a 6.4% gain the prior month, according to the Labor Department. It was the smallest increase since September 2021. Inflation has certainly eased from the 9.1% highs in June last year and is expected to fall to 3.1% by the end of 2023 and end in 2024 at 2.4%, which will impact consumer spending habits, particularly when making large purchases.

Locally, Quarter two results were \$1,105,665 (56% of the total budget) in line with Budget projections. Compared to the prior year, Sales Tax was only down 3% but still up 9% compared to Pre-Pandemic, which is optimistic news for the City as this revenue category continues to record gains. All sales tax categories have experienced year-over-year growth, the largest of which includes Food Products, Construction, and transportation. In addition, the County Pool, where most online transactions are captured, has continued to grow. This growth is attributable to the Pandemic's sustained impact of redirecting significant activity to online sales. The recent growth in County Pool receipts has been fueled by online purchases during the Pandemic and is facilitated by the South Dakota vs. Wayfair, Inc. Supreme Court decision in 2018, which provided states with the authority to require online retailers to collect sales tax even without a local presence in that State. The County Pool revenue is distributed to all cities within Mendocino County based on a distribution formula administered by the CDTFA.

▪ Reimbursements

REVENUE SOURCE	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Reimbursements	3,333,187	3,764,941	3,380,722	-	3,380,722	1,690,361	1,602,363	47%	(87,998)	3,452,339	71,617

Reimbursements include the annual COPS grant reimbursements for the City's Community Service officers (CSO) costs (\$159k), developer deposit reimbursements (\$35k), and cost allocations transfers (\$993k), which are considered a cost to the Enterprise funds but revenue to the General Fund. At mid-year, actuals totaled \$1.6 million or 47 percent of the budget and are expected to come in over budget by \$72k at the end of the fiscal year due to the timing of some of the reimbursements, the newly approved indirect cost reimbursement from eligible grants and the true-up of hours worked by Staff during the fiscal year per the City's Cost Allocation Plan.

▪ Operating Grant Revenues

REVENUE SOURCE	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Operating Grant Revenue	133,985	571,569	647,262	81,900	729,162	364,581	394,060	54%	29,479	648,851	(80,311)

Operating Grant revenues are currently at 54% of the budgeted amount at mid-year and are projected to end the year \$80,311 below budget. This revenue category primarily consists of staff time reimbursement for administering the City's various grant programs and conducting grant-related activities. A significant portion of the reimbursable time is attributed to the BHJIS Grant for Social Liaison Officers and Community Development Block Grant (CDBG), encompassing activities such as the Code Enforcement Program, Business Loans, Fire Station Rehabilitation design work, water meter replacement project, and general administration.

The variance in revenue can primarily be attributed to the timing of reimbursements for certain CDBG Grants and other grants. These unspent grant funds will be carried over and utilized in the next fiscal year. It is

noteworthy that the code enforcement department was transferred to the Police Department in the previous year. Currently, the program employs two code enforcement officers, with the program scheduled to conclude in March 2024.

▪ Other taxes

REVENUE SOURCE	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Other Taxes	851,622	953,026	903,985	-	903,985	451,993	420,754	47%	(31,238)	903,985	-

Franchise Fees are collected in the Cable Television, Solid Waste, and PG&E Electric. Through December, Franchise Fee receipts of \$420k, in line with the mid-term budget and consistent with the prior year's collection level. As further discussed below, Electric and Gas Franchise Fees collected through December are formula-driven advance amounts, with the true-up occurring in April 2023. Based on historical collection trends, it is currently anticipated that overall Franchise Fees will meet or exceed budgeted levels by year-end. Revenues from Cable television franchise fees have slowly declined as more customers move to satellite and internet-based services.

Additionally, the Business License Tax collected was also down by \$18k, which is consistent with the prior year as most Tax is collected during business license renewal season in February and March of each year.

STATUS OF GENERAL FUND EXPENDITURES

General Fund expenditures totaled \$6.7 million for the first half of FY 2023/24, representing 57 percent of the amended annual budget. Appropriations of \$11.5 million were adopted. Throughout the year, budgeted appropriations have increased by \$363k resulting in an amended budget of \$11.9 million. The following chart displays the year-to-date expenditures compared to the prior years.

GENERAL FUND EXPENDITURES											
DEPARTMENT	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
GENERAL											
City Council	\$ 214,276	\$ 224,220	\$ 185,314	\$ -	\$ 185,314	\$ 92,657	\$ 125,222	68%	\$ 32,566	\$ 183,987	1,327
Administrative Services	1,225,232	1,066,104	1,037,505	49,654	1,087,159	543,580	516,580	48%	(27,000)	1,078,732	8,427
Marketing & Promotions	226,875	210,230	240,650	11,808	252,458	126,229	103,647	41%	(22,581)	252,458	-
Finance	536,978	551,250	635,770	2,000	637,770	318,885	335,076	53%	16,192	542,703	95,067
Non-Departmental	985,342	967,992	1,138,196	3,338	1,141,534	570,767	888,306	78%	317,539	1,136,513	5,020
Community Contribution	97,297	70,231	147,588	27,369	174,957	87,479	135,183	77%	47,704	174,957	-
DEBT SERVICE	547,580	3,793,587	556,303	-	556,303	278,151	124,770	22%	(153,382)	555,971	331
COMMUNITY DEVELOP	365,418	420,928	443,898	6,897	450,795	225,397	291,873	65%	66,476	429,844	20,950
PUBLIC SAFETY											
Police Department	3,891,473	3,485,290	4,169,509	3,377	4,172,886	2,086,443	1,964,812	47%	(121,631)	4,040,908	131,978
Social Services	-	134,556	313,862	78,000	391,862	195,931	195,818	50%	(113)	387,755	4,107
Fire Department	434,423	430,755	453,708	-	453,708	226,854	339,658	75%	112,804	449,099	4,609
PUBLIC WORKS											
Administration & Engineer	679,782	684,218	934,012	156,395	1,090,407	545,204	399,281	37%	(145,922)	962,676	127,732
Parks and Facilities	36,479	50,505	40,000	-	40,000	20,000	21,154	53%	1,154	40,000	-
Street Maintenance	124,497	119,863	142,000	23,878	165,878	82,939	51,113	31%	(31,826)	165,878	-
Storm Drains	12,681	13,415	25,500	-	25,500	12,750	7,539	30%	(5,211)	24,067	1,433
Corporation Yard	494,217	481,227	380,483	-	380,483	190,241	248,407	65%	58,166	449,345	(68,862)
Traffic and Safety	24,873	84,488	39,500	1,078	40,578	20,289	10,579	26%	(9,710)	40,578	-
COST ALLOCATION	789,396	1,222,680	656,999	-	656,999	328,499	985,498	150%	656,999	656,999	-
TOTAL GENERAL FUND	\$10,686,818	\$14,011,539	\$11,540,795	\$ 363,793	\$ 11,904,589	\$ 5,952,294	\$ 6,744,518	57%	\$ 792,223	\$11,572,470	\$ 332,118

Some of the notable variances in expenditures include:

- The Finance department is projected to end the year at \$95,067 under budget primarily due to salary savings from the vacant Finance Director position vacated in January 2024, and the Accountant position vacant from December 2023. As of mid-year, the department budget is \$335k, or 53 percent of the amended budget.
- The Non-Departmental category records expenditures not associated with a specific department of the City. These include Retiree Medical costs, Insurance costs, Utilities, and OPEB funding, to name a few. Year-to-date actuals are at 78% of the annual budget and are projected to end the fiscal year with a positive variance of \$6,020. The costs of REMIF liability and property premium payments paid in the first quarter were much lower than anticipated. Conversely, utility costs increased by 10%, and retiree medical were up by 3% from the adopted budget.

Additionally, a budget of \$150k has been set aside to be contributed to Section 115 to accumulate and invest funds to smooth the impacts of future pension cost increases. A total of \$1.6 million has been invested into the trust.

- The second half of the fiscal year will see the payment of \$442,513 for the 2021 Lease Revenue Bond and \$113,790 for Caspar Landfill closure costs. It's worth noting that the return of the \$3.5 million Debt-2021 Lease revenue bonds in August 2022 significantly reduced the City's debt from \$11.4 million to \$7.9 million, thereby reducing future annual debt payments.
- The Police Department has been actively addressing vacancies in both sworn and community service officer positions. During Quarter Two, the department successfully filled a vacant sergeant position, two officer positions, and one community service officer position. Looking ahead, plans are in place to send another recruit to the academy in the fourth quarter of the fiscal year. Due to these vacancies, the Department is projected to finish the fiscal year under budget by \$151,978, offset by increases in the department's overtime and comp time budget. A budget amendment is requested to use the salary savings to offset the increases in overtime/comp costs.

Included in the police department is Project Right Now of \$345,000 grant from the Youth Opioid Resistance Fund, allocated for a full-time position and a success coach. This grant, received in the last quarter of the prior fiscal year, is set to expire in the upcoming quarter. Furthermore, the Care Response unit, which falls under the public safety department, is another grant-funded program. The program received funding through 2025 via an expansion of the California Department of Health Care Services (DHCS) grant acquired in 2022. Notably, the Care Response unit has proven successful in delivering services and resources to address homelessness and mental health issues in the community, directly assisting over 300 community members in 2023.

The Code Enforcement Program, bolstered by \$418,457 in Community Development Block Grants (CDBG), sustains two code enforcement grant officer positions. However, this funding is slated to conclude in the third quarter. The City is currently assessing if there is an alternative funding option for the program's continuity and will present a recommendation to the City Council accordingly. General fund salary savings will fund the program through the end of the fiscal year.

- At mid-year, the Community Development Department has utilized 65% of the amended budget due to professional services overages and anticipates ending the fiscal year under budget by \$21k. This is attributed to personnel cost savings resulting from the vacancy in the Director position. Plans are underway to commence recruitment for a full-time Community Development Director or a Senior Planner in the fourth quarter of the fiscal year. In the interim, the department has extended the contract of Marie Jones Consulting to fulfill planning obligations.

- The Public Works department made operational changes by replacing the Project Analyst position with an Administrative position. This adjustment resulted in annual savings of approximately \$30,000, which were reallocated to support the addition of a full-time Engineering Technician, increasing the department's full-time equivalents (FTEs) to eight. Furthermore, the special projects manager position was transferred to the public works department in the previous fiscal year. The projected budget surplus is \$117,732, primarily attributed to a budget amendment during the fiscal year of \$78k to add the two new positions- charging out employee salaries allocation to the enterprise department for the engineering technician. Despite this surplus, the department's workload has remained busy, particularly with the \$70 million water projects scheduled for the next three years.
- The Corporation yard department is made up of eight employees. A mid-year budget request for \$20,000 to accommodate the addition of a Full-time Equivalent (FTE) Maintenance Worker. With an annual cost of \$74,000, this position will be instrumental in addressing the City's many backlog maintenance tasks, including parks, street signs, curb painting (10ft to 20ft), guest house museum, and other storm drain activities. The estimated year-end variance is attributed to the allocation of Maintenance work time which should be charged to the enterprise. This will be addressed during the Q3.

GENERAL FUND NET RESULT AND FUND BALANCE

With projected revenues totaling \$11.7 million and total expenditures at \$11.5 million, the General Fund is expected to conclude FY 2024 with a surplus of \$163,952. This surplus will bolster the General Fund's balance to \$2.8 million, representing a 1% increase compared to the previous year. It's worth noting that although the projected surplus is modest, expenditures, particularly personnel costs, have reverted to pre-COVID levels. Additionally, additional staff has been hired across all departments including filling Director positions except for the Community Development and Finance Department, which is slated to be filled soon.

Moving forward into the next fiscal year, there will be increased pressure on the top tax revenue categories, specifically Transient Occupancy Tax and Sales Tax, to accommodate General Fund costs, particularly personnel expenses.

In the prior fiscal year, an initial investment of \$1.6 million was deposited into the Section 115 trust with PARS. While this investment decreased the General Fund reserves, there is an additional budget allocated for the Section 115 Trust.

	FY 2023-24 Budget	FY 2023-24 Projected	
Beginning Reserves	\$ 2,695,591	\$ 2,695,591	Committed Reserves Operating Reserves 2,095,784 Recession Reserves 547,759 Litigation Reserves 200,000 \$2,843,543
Revenues	11,624,780	11,720,423	
Expenditures	(11,540,795)	(11,572,470)	
Net Transfers	-	-	
Surplus/(Deficit)	\$ 83,985	\$ 147,952	
Ending Committed Reserves	\$ 2,779,576	\$ 2,843,543	
Committed Reserves as a % of Operating	24%	25%	