



**CITY OF FORT BRAGG**  
*Incorporated August 5, 1889*

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June 13, 2022

Honorable Mayor and Members of the City Council, Residents, and Business Owners:

I am pleased to present the Fiscal Year (FY) 2022-23 Budget for the City of Fort Bragg, the Fort Bragg Municipal Improvement District No.1, and the Fort Bragg Redevelopment Successor Agency. The overall budget document may appear smaller than past documents with the use of smart technology and the lack of growth in revenues, staff, programs and projects. While not a robust year in revenue growth, we are proud to present to you a Balanced Budget through a COVID year that witnessed a high vacancy rate in the downtown central business district that indicates the closure of many small business operations and the loss of sales tax and diminished visitor experience. The drought had a significant effect on the community's ability to expand and provide services for restaurants and hotels and our residents all pitched in to curtail water use and conserve water along the Mendocino Coast.

I would like to take this opportunity to share some positive news with our residents of how hard our Public Works Department works to provide clean drinking water to our residents. The team was able to purchase a package desalination plant to provide emergency water from the Noyo River that typically has a high salinity rate during very low flows. The Desal-Plant is operational and on stand-by for future service. COVID restrictions have lessened visitor tourists' travel during the beginning of the pandemic but over the winter months we have witnessed a slow return on weekends to Fort Bragg due in large part to our Visit Fort Bragg partners who have helped increase visitor traffic to Fort Bragg and the Mendocino Coast. To help our small business owners, our Economic Development and Finance staff were able to push out the news of a small business Revolving Loan Fund (RLF) and as a result of our recent workshop we have received four loan applications and four to five businesses are now interested in locating in the vacant buildings along Franklin Street and Laurel Street.

Our Police Department received grants this year that positively offset our budget to help with the homeless and provide 193 room nights. Through Community Policing they created a partnership with the County Health Department and a state agency that has yielded another \$220,000 to help with homeless and mental health. The Police Department has since been able to rebuild their staff levels by hiring new officers and patrolling our neighborhoods more often.

Cyber security risks have increased dramatically this year not only for our city but across the nation and as a result, risk management insurance costs have increased by 20%.

According to Avenu Insights, our financial and tax consultant, we could expect to see signs of a recession in late 2023 and early 2024. As a result, you will see a conservative but balanced budget for this year, FY 2022/23.

### **Budget Overview**

The City has three major operating funds: General Fund, Water Enterprise, and Wastewater Enterprise. In addition, the City’s chart of accounts includes the C.V. Starr Center Enterprise, special revenue funds, grant funds, capital project funds and internal service funds. The General Fund is the principal operating fund of the City and is supported primarily by taxes and fees that generally do not have restrictions on their use. Because of the lack of restrictions on use of funds, the General Fund has the most demands on its limited dollars. The Enterprise funds – Water and Wastewater – are fully supported by user fees. Special revenue funds and accounts are used to account for proceeds of a specific revenue source that has legal restrictions on how the funds may be spent.

The City’s total proposed expenditure budget (excluding transfers) for FY 2022/23 is \$38.1 million. This is a decrease of 2% from the amended FY 2021/22 Budget of \$38.8 million. The \$704k decrease is primarily due to the expected completion of the \$18 million Wastewater Treatment Facility Upgrade in FY 2020/21 and the Water Meter Replacement Project, which will be expended in FY 2021/22. The chart below shows that capital expenditures for FY 2020-21 are budgeted at \$1.7 million less than the prior year.

Salaries and Wages budget increased by \$744k as the proposed budget includes a full-time Chief of Police position, City Manager salary, two Social Service Liaison Officers, an Engineering Technician, and cost of living adjustments across the departments.

On the other hand, benefits decreased by \$418k due to the issuance of the 2021 Lease Revenue Bonds that reduced the annual contributions towards the unfunded liability. Conversely, this increases the General Fund’s annual debt payment by \$599k. Also proposed is paying off the Water Enterprise Loan early, amounting to \$350k, saving \$53k in interest payments. This would place the Enterprise Fund in a stronger position to acquire financing for some large Capital projects as identified in the Capital Improvement Plan (CIP).

The proposed budget continues to allocate funds towards the Section 115 trust to act as a cushion for any future declines in CalPERS Discount Rate which will further increase the Unfunded Liability.

<b>ALL FUNDS</b>	<b>FY 2021/22 AMENDED BUDGET</b>	<b>FY 2022/23 PROPOSED BUDGET</b>	<b>Variance</b>
Salaries & Wages	\$ 5,708,181	\$ 6,451,929	743,748.36
Benefits	3,194,292	2,775,590	(418,702.04)
Materials & Services	12,773,447	12,477,733	(295,713.31)
Capital	13,792,494	12,093,078	(1,699,416.18)
Debt Service	675,067	1,573,485	898,418.05
Indirect Expenses	\$ 2,327,121	2,394,080	66,958.87
Fiduciary Funds	\$ 382,426	383,375	949.11
<b>Subtotal</b>	<b>38,853,028</b>	<b>38,149,271</b>	<b>(703,757.14)</b>

## **Projected Fund Balances**

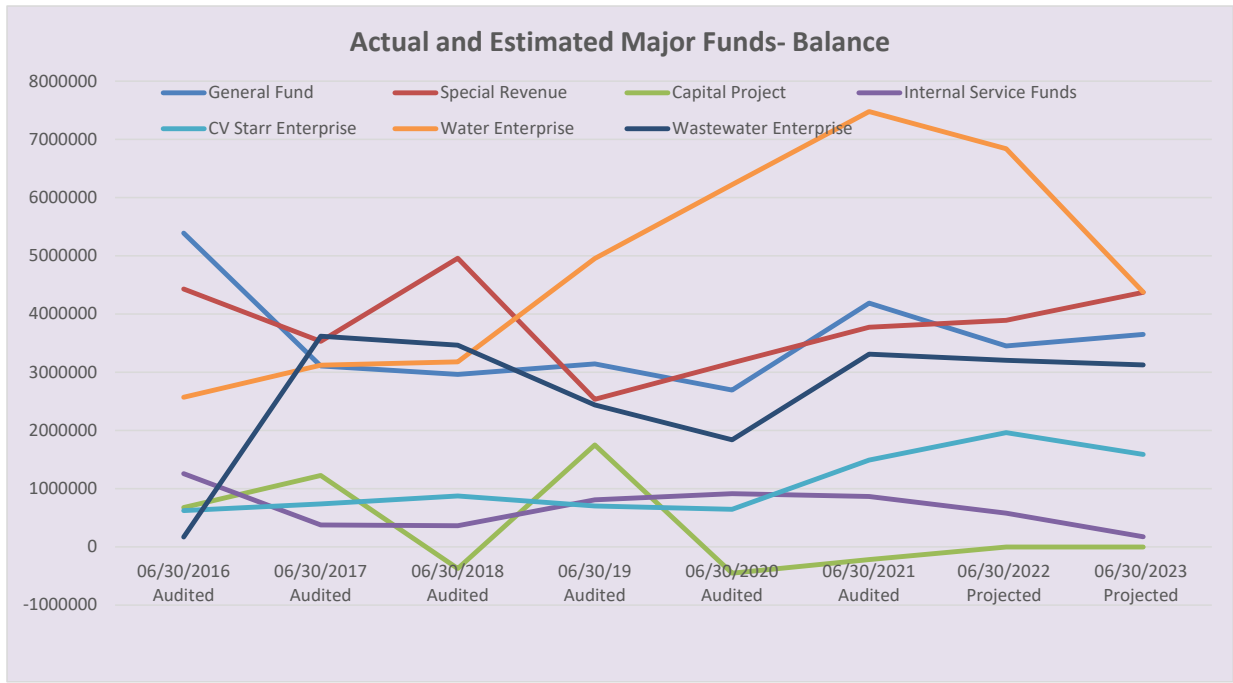
The year-end fund balances and the changes over time provide a narrative about the financial condition of each fund or fund group. Fund balance is the difference between assets and liabilities and reflects the cumulative annual financial surpluses and deficits. One-time declining balances are generally not bad and typically reflect one-time capital or other large expenditures. Oftentimes these are planned for expenditures such as the upgrade to the City's Wastewater Treatment Plant last year. Frequently, revenues will be accumulated to cover the cost or a portion of the cost of these capital projects. Fund balances that continue to decline each year from operating deficits or unplanned expenses may be a cause for concern or indicate a long-term structural deficit. Until the COVID-19 pandemic and economic shutdown, the City's fund balances reflected strong operating and capital reserves.

Some funds are in better financial condition than others. The decline in the General Fund balance in FY 2016/17 was the result of the new cost allocation plan and repayment of prior year over-allocations made by the Water and Wastewater Enterprise funds. The General Fund is certainly the most impacted by the COVID-19 pandemic and economic shutdown. This is largely because of its heavy reliance on TOT and sales tax, which in turn is tied to the tourist-based economy. Changes in the Special Revenue, Capital and Internal Service funds are typically tied to capital projects, and expenditures can fluctuate accordingly. The drop in Water Fund Balance in FY 2022/23 is directly related to increasing spending on Water Capital improvements. With the completion of the Wastewater Treatment Facility Upgrade and four Lift Station Rehabilitations, staff resources will focus on capital improvements to the City's water system in FY 2022/23.

The chart and graph on the next page provide a six-year "picture" of the City's fund balances.

FUNDS	06/30/2016 Audited	06/30/2017 Audited	06/30/2018 Audited	06/30/19 Audited	06/30/2020 Audited	06/30/2021 Audited	06/30/2022 Projected	06/30/2023 Projected
General Fund	5,388,494	3,106,934	2,959,473	3,141,626	2,691,242	4,184,215	3,449,677	3,647,488
Special Revenue Funds	4,430,343	3,528,495	4,955,492	2,533,468	3,157,762	3,772,584	3,891,255	4,371,972
Capital Projects Funds	675,031	1,227,204	(374,490)	1,748,733	(454,381)	(220,812)	(5,267)	(5,267)
Internal Service Funds	1,255,766	377,150	360,416	806,683	914,449	866,297	580,338	172,461
CV Starr Enterprise	622,651	735,611	874,690	702,390	645,608	1,489,006	1,962,092	1,587,725
Water Enterprise	2,567,432	3,120,650	3,178,033	4,953,535	6,220,235	7,478,579	6,836,239	4,378,729
Wastewater Enterprise	168,822	3,615,944	3,462,700	2,438,019	1,838,526	3,309,329	3,203,632	3,123,974
	<u>15,108,539</u>	<u>15,711,988</u>	<u>15,416,314</u>	<u>16,324,454</u>	<u>15,013,441</u>	<u>20,879,199</u>	<u>19,917,966</u>	<u>17,277,082</u>

*\*Enterprise and Internal Service funds do not include fixed assets, restricted for debt service or depreciation expense.*



### General Fund Budget

The General Fund is projected to have \$11,130,495 of revenues in FY 2022/23 and expenditures of \$10,932,684, a balance budget.

	FY 2019/20 FYE AUDITED	FY 2020/21 FYE AUDITED	FY 2021/22 AMENDED BUDGET	FY 2021/22 FYE PROJECTED	FY 2022/23 PROPOSED BUDGET	% INCR/ -DECR
Salaries & Wages	\$ 3,762,405	\$ 3,271,863	\$ 3,738,211	\$ 3,773,057	\$ 4,192,886	11%
Benefits	2,622,230	2,489,172	2,911,246	2,772,027	2,616,939	-6%
Materials & Services	2,028,570	1,979,891	3,075,215	2,895,723	2,630,193	-9%
Other Expenditures	83,337	110,022	278,712	230,061	206,832	-10%
Debt Service	185,533	37,964	37,964	37,964	599,703	1480%
<b>Subtotal</b>	<b>8,682,075</b>	<b>7,888,911</b>	<b>10,041,349</b>	<b>9,708,831</b>	<b>10,246,553</b>	6%
Allocations	633,474	478,497	686,131	681,042	686,132	1%
<b>Subtotal with Allocations</b>	<b>9,315,549</b>	<b>8,367,408</b>	<b>10,727,480</b>	<b>10,389,873</b>	<b>10,932,685</b>	5%
Net Transfers	-	-	-	-	-	0%
<b>TOTAL</b>	<b>\$ 9,315,549</b>	<b>\$ 8,367,408</b>	<b>\$ 10,727,480</b>	<b>\$ 10,389,873</b>	<b>\$ 10,932,685</b>	5%

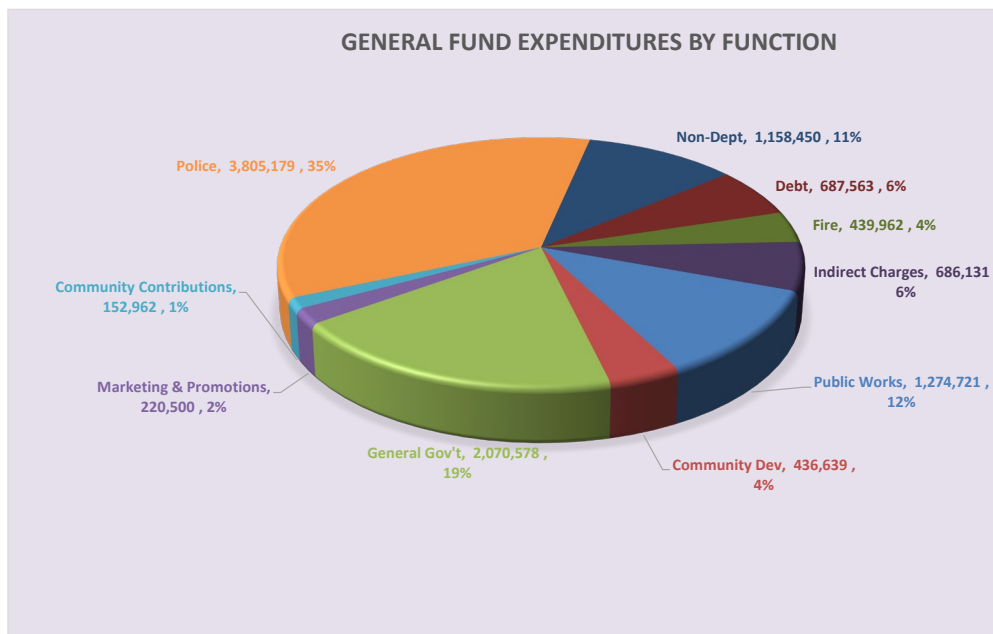
Personnel costs are the largest class of expenditures in the General Fund, representing nearly 62% of the FY 2022/23 Budget. Personnel Service cuts were implemented in FY 2019/20 as part of the City's COVID-19 Budget reduction plan. Since then, the General Fund has filled back vacant positions, and personnel costs are projected to be higher than pre-pandemic numbers as cost of living adjustments and the emphasis on attracting and retaining employees will continue to increase the personnel costs in future years. The proposed budget includes a cost of living adjustment for employees, excluding the Police Department staff who receive annual increases on January 1 each year, based on a legally mandated (Chapter 2.68 Fort Bragg Municipal Code) salary survey of local law enforcement agencies.

Additionally, the proposed Budget also includes the replacement of the interim Police Chief and the interim City Manager with a permanent position that provides benefits which will increase the personnel services Budget. The City hopes to fill the positions by the new fiscal year.

Benefits recorded a decrease of 6%, primarily due to the issuance of \$11.4 million in taxable Lease Revenue Bonds. Proceeds in the amount of \$7.5 million were used to reduce the City's unfunded pension liability, with an additional \$3.5 million set aside for costs associated with the acquisition of the southern portion of the former Timber Mill property. The California Public Employees' Retirement System (CalPERS) recognized a record 21.3% investment return for the fiscal year ending June 30, 2021. The record CalPERS investment return and the \$7.5 million liability payment place the City better positioned to manage pension obligations going forward. The reduction in Unfunded liability reduced the annual CALPERS UAL Payments benefits budget by \$389k annually, which was offset by increased benefit costs.

FY 2022/23, medical, dental, and vision rates did not change for active employees, but retiree medical costs are estimated to increase by 2.3%. Under current labor agreements, premium costs are shared 80% by the City and 20% by the employee. In addition, the City has 29 covered retirees, 23 of whom receive full health insurance coverage from the City. The remaining retirees pay a portion of the retiree and spousal coverage, depending on the date of hire. Retiree health benefits have been phased out through collective bargaining agreements. There are a number of current employees who are eligible for such benefits based on their date of hire.

The increased pension costs for the City will be substantial and will put significant pressure on the General Fund's financial performance for years to come. The reduction in the CalPERS rate from 7% to 6.75% percent is not expected to be the last one. CalPERS has failed to meet the 7% percent targeted return in the prior fiscal years except for FY 20/21, where it recognized a 21.3% investment return (6.7% in FY 2018/19 and 4.7% in FY 2019/20). Over 20 years, the overall fund performance has averaged just 5.5%. As part of the Pension policy, the City is currently setting up a Section 115 Trust that will absorb some of the future fluctuations in the CALPERS discount rate, adding to the Unfunded Liability. The City Council had adopted a \$1M contribution to the trust in FY 2021/22.



## Conclusion and Acknowledgements

As public servants, it is important for us to remember who we work for and what we are here to do for our citizens and visitors. Our job is to make Fort Bragg a safe and healthy place to live and visit. Fortunately, the City Council has laid out their top four priorities moving forward which include:

1. Broadband Communication and Jobs
2. Public Safety
3. Water Resiliency
4. Work-Force housing

While the four top priorities identify important issues to focus on, each Council Member has their one or two priorities that they are passionate about and I want to point out emergency response and the need to increase our communication systems between our Hospital and Schools. We see the future of Broadband communications coming to Fort Bragg as an opportunity that will increase jobs and commerce allowing for more remote work and more business opportunities to grow here locally. The City is looking to add a 3/8 cents sales tax for Work Force housing to help with the housing shortage for our nurses, teachers and trades people. Parks and recreation including the performing arts are all very important aspects of having a well-rounded community and youth opportunities for sports and opportunity to grow.

All of this would not be possible if it were not for dedicated workers who are your public servants. Please take a moment when you can to thank them and respect them because they work very hard and most the time with limited staff available, and limited resources, to assist them, hence we rely on grants and support from our State and Federal Government. Without each and every one of them, the City of Fort Bragg would not be the unique and amazing place where we live and work. I must also acknowledge our elected officials, who are also public servants with very little pay for what essentially amounts to many hours of volunteer work.

Each Council member serves on two or three Ad-Hoc Committees who do the majority of volunteer work that helps our citizens keep in touch with us, finish projects, set priorities and direction for the city. It is their leadership that provides the structure for what we do each day.

This budget is the product of much work by the management team and supporting staff. However, it is the Finance Department who produces this document, which creates our guide and work plan for the next year. I would like to thank Isaac Whippy our Assistant Finance Director and his staff who working tirelessly on City's Finances, who put the budget together.

I look forward welcoming a new and permanent city Manager in June to the City of Fort Bragg.

Respectfully Submitted,

*David Spaur*  
David Spaur  
Interim City Manager