



January 28, 2023

To the Citizens of the City of Fort Bragg, Honorable Mayor, and Members of the City Council:

As required by State and federal law, the Annual Comprehensive Financial Report (ACFR) of the City of Fort Bragg (City) for the fiscal year ended June 30, 2022, is hereby published.

Management assumes full responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal controls that are established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City's basic financial statements have been audited by JJACPA, Inc., an accounting firm fully licensed and qualified to perform audits of local governments within the State of California. The financial statements included in this report were audited in accordance with generally accepted auditing standards and government auditing standards. The independent auditors concluded that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City's basic financial statements for the fiscal year ended June 30, 2022, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the City's basic financial statements is part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the City's fair presentation of the financial statements but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

Management's Discussion and Analysis (MD&A) immediately follows the report of the independent auditors and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A was designed to complement this letter of transmittal and should be read in conjunction with it.

This report combines the financial statements of the City, - the Fort Bragg Redevelopment Successor Agency (Successor Agency), and the Fort Bragg Municipal Improvement District No. 1 (MID) in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board (GASB). The financial operations of the Successor Agency and MID, though legally separate from the City, are closely related to the City. The City Council members serve as the governing board for the MID, which is presented as a blended component unit in the financial statements. Component units are legally separate entities for which the primary government is financially accountable. For a more detailed overview of the City's component units, see the Management Discussion and Analysis (MD&A) and the Notes to the Basic Financial Statements on pages 3-19 and 49-92, respectively.

## **Profile of the Government**

The City of Fort Bragg, incorporated in 1889, is located approximately 165 miles north of San Francisco and 188 miles west of Sacramento on the scenic coast of Mendocino County. The City occupies 2.7 square miles. Census 2021 places the City's population at 6,983. Although it is quite small, Fort Bragg is the largest City on the coast between San Francisco and Eureka. The largest employment categories in the City include health care, public education, local government, wholesale and retail trade, and tourism. The mild climate and picturesque coastline make Fort Bragg a popular tourist and recreational area.

Fort Bragg is a general law city under California state law and its rights, powers, privileges, authority, and functions are established through the State constitution. The City operates under the Council-Manager form of government. The five members of the Fort Bragg City Council are elected by the voters to serve overlapping four-year terms. The Mayor is elected by, and from, the City Council for a two-year term. The City Council appoints the City Manager who serves at their discretion. The City Council is a policy-setting body that is responsible for, among other things, enacting ordinances, adopting the budget, and appointing committees. Several boards, commissions, and committees assist the City Council and Administration in carrying out various aspects and functions of city government. The members of the City Council also serve as the governing board for the Fort Bragg Redevelopment Successor Agency and the Fort Bragg Municipal Improvement District No. 1.

The City Manager is responsible for directing and supervising the administration of all departments of the City to ensure that laws, ordinances, orders, resolutions, contracts, leases, and franchises are enforced and executed and for appointing all City employees.

The City provides a wide range of services to its residents, including public safety services, construction and maintenance of streets and infrastructure, water service, wastewater service, community development, financial management, and administrative services. Special districts, agencies, and Joint Power Authorities (JPAs) under the jurisdiction of the City provide services such as wastewater treatment and fire protection throughout the City. Other entities not under the City's jurisdiction that provide services to the City's population include the school district, hospital district, recreation district, harbor district, and other special districts.

The annual budget provides a comprehensive statement of the City's organization, operations and resources and it expresses City Council and Municipal Improvement District Board policies and priorities in all areas of the City's operations. The budget process is the vehicle through which the City establishes goals and objectives and prioritizes desired programs or services which can be financed by the City's projected revenue for the budget year. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). It is the means through which policy decisions are made, effected, controlled and monitored. The City Manager is responsible for submitting and recommending an operating budget and a capital improvements budget for City Council consideration and adoption. Throughout the year, the budget serves as a financial management tool and an operational plan for the delivery of City services and capital projects.

In addition to the budget planning process, the City maintains budgetary controls. The City's objective in maintaining budgetary control is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City Manager is authorized to transfer budgeted amounts within funds as deemed necessary in order to meet the City's needs subject to policy defined in the Fiscal Policies of the budget. The City Council may amend the budget by resolution during the fiscal year.

The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Purchase orders, contracts, and other commitments for expenditure of money are secured in order to reserve that portion of the applicable appropriation. Total expenditures of each fund may not exceed fund appropriations and total expenditures for each department may not exceed departmental appropriations. Encumbrances outstanding at year-end are reported as committed fund balance.

Unencumbered amounts lapse at year-end and may be appropriated as part of the following year's budget.

**Spending Limitation**

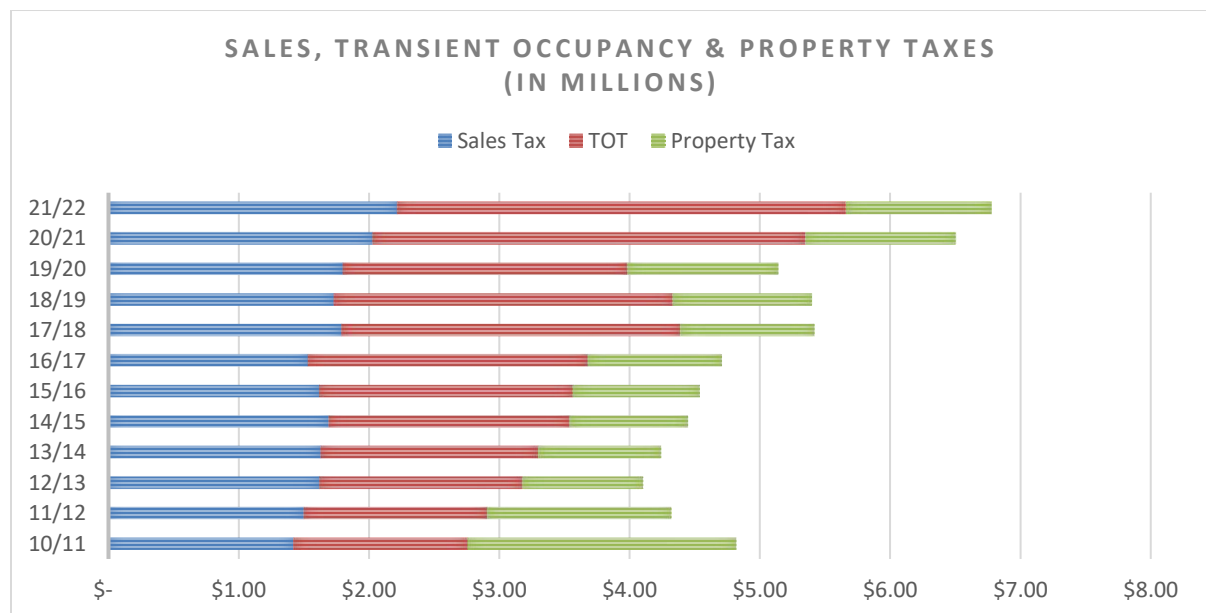
Article XIII B of the California Constitution, also known as the Gann spending limit, restricts the amount of "proceeds of taxes" California governments may spend. As of June 30, 2022, the City was \$4.9 million or 43% under the total Article XIII B (Gann) spending limitation. The City was not impacted by the spending limitation in FY 2021/22.

**Current Economic Conditions and Outlook**

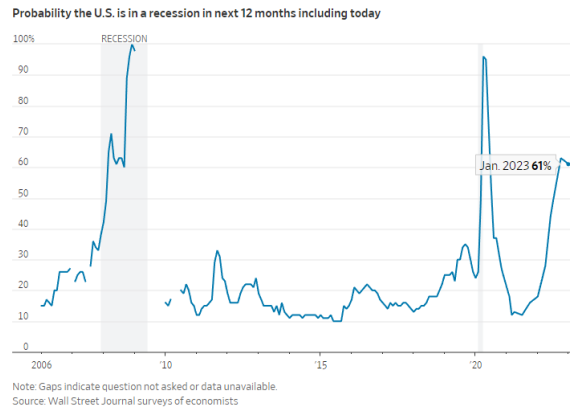
Fort Bragg's economy relies heavily on tourism. Like the overall City's economy, the City of Fort Bragg is also heavily dependent on tourism for its revenues. Transient Occupancy Tax (TOT), also known as the bed tax, and sales tax are the two largest sources of revenue for the City's General Fund and, in FY 2021/22, together makeup 55% of the City's General Fund revenue. Prior to the pandemic in FY 2018/19, TOT and sales tax accounted for 46% of the General Fund revenue.

Like most jurisdictions across our nation, the City of Fort Bragg's tourism economy was essentially shut down in the early months of the pandemic. The City's TOT revenue for the last quarter of the prior fiscal year, from April through June, was down 66% compared to the FY 2018/19. However, as the State and County health orders were eased to allow nonessential travel in the summer of 2021, Fort Bragg experienced a rebound in tourism. Fort Bragg is within driving distance of San Francisco and Sacramento, so shorter trips by car appear to be preferred getaway during the pandemic.

In FY 21/22, General Fund Tax Revenues continued the strong trends from the prior year beating last year's numbers. Transient Occupancy Tax recorded a 3.5% increase, and the City's General Fund Bradley Burns sales tax for the fiscal year was up 9% over the prior year. In the first quarter of FY 2022/23, TOT revenue receipts declined by 10% compared to the prior quarter. Sales tax revenues for the first quarter of FY 2022/23 were also down by 2%.

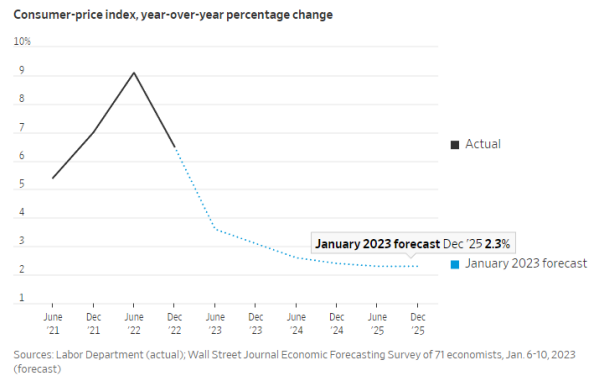


As of writing this letter, inflation and the likelihood of a recession make the outlook for Fort Bragg challenging to predict. Like the rest of the country, supply chain issues, fuel price increases, staffing shortages, and increased housing costs continue to challenge the local economy. Despite signs that inflation has started to recede, economists still expect higher interest rates to push the U.S. economy into a recession in 2023, according to the Wall Street Journal's latest quarterly survey.



The Federal Reserve had initially hoped it could bring down inflation with only a slowing in economic growth rather than an outright contraction, an outcome dubbed a "soft landing." But three-quarters of respondents said the Fed wouldn't achieve a soft landing this year. While economists don't think a recession can be avoided, they expect it to be relatively shallow and short-lived, in line with recent surveys. On average, they expect the gross domestic product to expand at a 0.1% annual rate in the first quarter of 2023 and contract 0.4% in the second. They see no growth for the third quarter and a 0.6% growth rate for the fourth. Economists expect GDP to stagnate this year, posting growth of just 0.2% in the fourth quarter of 2023 compared with the fourth quarter of 2022. In the WSJ survey in October, economists forecast 0.4% GDP growth in 2023.

As measured by the year-over-year change in the consumer-price index, inflation has eased from 9.1% last June to 6.5% in December, and economists expect it to fall to 3.1% by the end of 2023, a lower endpoint than the 3.3% they expected in the last survey, in October. They see it ending in 2024 at 2.4%.



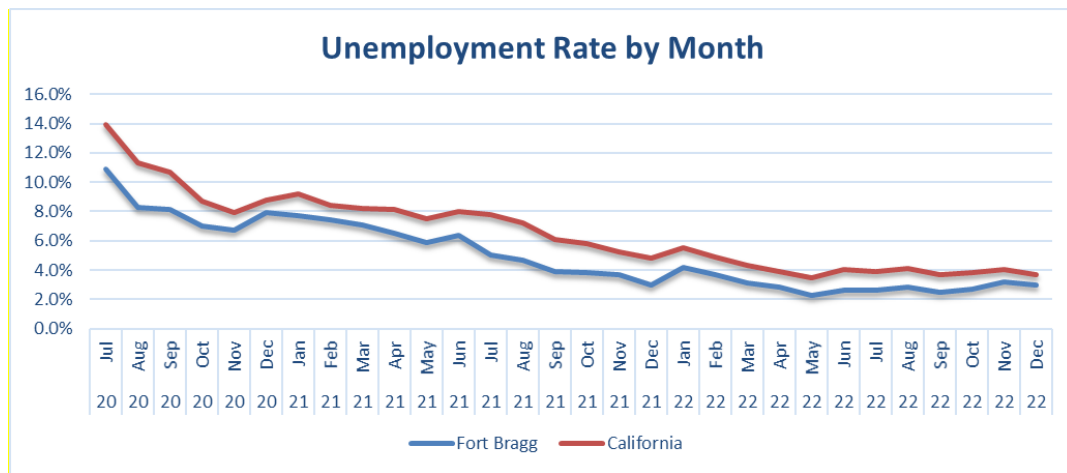
The City continues to look at opportunities to diversify its economy. Initiatives, which began in FY 2021/22 and will continue into FY 2022/23, including economic development incentives for small businesses in the City's Central Business District (CBD), many of which were considered nonessential and, as a result, were harder hit by the pandemic shutdowns. The incentives include water and sewer capacity fee waivers for restaurants and food service, façade improvement grants, downtown beautification programs, positive code enforcement outreach, and programs and events to encourage locals and tourists to visit the CBD.

The Blue Economy Regional Coalition is the focus of the City's most abundant natural resource – the ocean and coastline. The initiative is to create new industries that take advantage of the ocean, the local Noyo Harbor, Noyo Center for Marine Science, Mendocino College education opportunities, the long-standing fishing industries, and ocean resiliency. Protecting the coastline and ocean also protects the primary draw for the City's tourism industry.

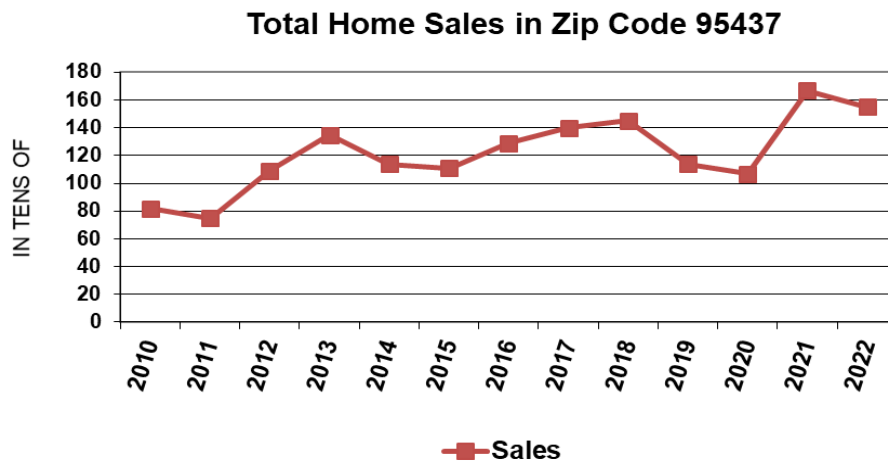
The pandemic highlighted the importance of affordable and reliable broadband to our community and other rural communities nationwide. Distance learning, working from home, and new start-up industries all struggled because of the lack of sufficient internet access. Fort Bragg's limited population and

geographic isolation create little incentive for private sector investment in broadband connectivity. Completion of the Broadband Utility Feasibility study provides a viable path forward for a municipal-owned utility to offer affordable connectivity to citizens and businesses. The City received \$1.75 million in American Rescue Plan Act (ARPA) funds in FY 21/22 and has set aside those funds for the Municipal Broadband project. The City is also seeking additional funding from other grants and opportunities as part of the federal and government's emphasis on infrastructure and broadband.

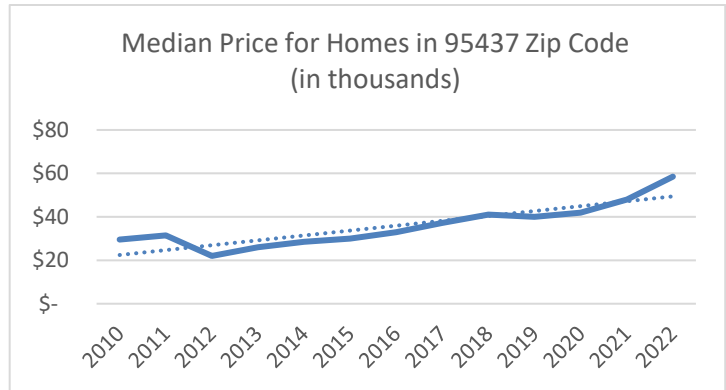
Until March 2021, the City had experienced five years of strong employment trends and low unemployment rates. Due to the Pandemic, unemployment peaked in April 2021 at 14% but stabilized through FY 2020/21. As of November 2022, the unemployment rate for Fort Bragg had dropped to 3.3%, and like many areas, Fort Bragg struggles to maintain workforce staffing to operate businesses and other organizations in our region. The unemployment rate for California was 3.7% as of December 2022.



The number of homes sold in the Fort Bragg 95437 zip code declined by 7% in FY 2021/22, and median home prices increased by 10% for the year-end of June 30, 2022. This appears to be part of a national trend. The pandemic forced many workers to work from home, and employers have increasingly allowed this to become the new norm. Locally, many sales have been made to individuals and families who have moved out of urban areas.



The median home price in June of 2022 in the 95437 zip code was \$585,000. Under California's Proposition 13, approved by voters in 1978, assessed property values are only increased when there is new ownership or new construction. Proposition 8, approved after Prop 13 in 1978, allows for property values to be adjusted downward if an owner suffers from a decline in value. Retroactive and delayed processing of Prop 8 adjustments reduce the impact of increased real estate values in Mendocino County.



The City's property revenue increase remained flat in FY 2021/21 but is expected to grow in future years as home values are adjusted for the recent increase in price and number of sales.

The growth in residential home sales and prices continues to challenge the affordability of Fort Bragg to working families and individuals. Like much of California, the scarcity and cost of residential housing makes it difficult and, in some cases, impossible for many families to have the opportunity of home ownership. The shortage of affordable workforce housing goes further in limiting local employers' ability to hire and retain qualified staff. Every employer listed as principal employer on page 159 of the statistics section, which includes the hospital, medical clinics, and school district, has publicly voiced the difficulties associated with lack of housing in maintaining qualified staffing levels.

To increase workforce housing in our community, the City has incubated and is staffing a Community Land Trust (CLT). A CLT is a system in which the underlying land is owned by a mission-driven entity, usually a nonprofit, where the buildings on the land are owned or leased by residents. CLTs aim to promote affordable housing and contain legal provisions governing ownership and transfer to keep units affordable in perpetuity. Homeownership provides the opportunity for working families and individuals to build wealth and create housing security.

**Long-term Financial Planning**

A review of the City's Fiscal Policies, including Fund Balance & Reserve Policies, was conducted as part of the FY 2022/23 budget process. The City Council continued the commitment to the reserve levels established in prior annual budget reviews. The following General Fund reserves comprise committed fund balance; at the Fiscal year-end 2021/22, these reserves total \$5,091,306.

- General Fund Operating Reserve: The City will maintain an unrestricted fund balance of at least 15% to 20% of the annual operating expenditures in the General Fund as an "Operating Reserve" to ensure the General Fund's liquidity and adequate cash flow throughout the year. This reserve is necessary to accommodate fluctuations in the timing of expenditures and the receipt of revenues. With Council authorization, the reserve is a committed fund balance and may be used for unforeseen operating or capital needs. At Fiscal Year-end 2021/22, the reserve remains funded at \$1,989,419.
- Litigation Reserve: The City will maintain a \$200,000 Litigation Reserve to cover unforeseen legal expenses, including unbudgeted settlement costs that are not covered by the City's insurance pool. At Fiscal Year-end 2021/22, the reserve balance is \$200,000.

- Recession Reserve: The General Fund will maintain a Recession Reserve to stabilize the delivery of City services during periods of severe operational budget deficits and mitigate the effects of major unforeseen changes in revenues and/or expenditures as typically experienced during times of recession. The fund is established at an amount equivalent to 5% of the City's annual operating budget. City Council approval is required before expending any portion of this committed fund balance. The reserve was established on July 1, 2019, at \$489,929, and at Fiscal Year-end 2021/21, the reserve balance remains at \$489,929.

For the City, as with governmental jurisdictions throughout the nation, continuing fiscal challenges have required a redoubling of efforts to address current and future budget shortfalls while working to prioritize and maintain the level of services that the residents of Fort Bragg have come to expect. Traditional funding sources for parks, public safety, and community development are shrinking or have disappeared. The immediate challenges continue to be the dissolution of the Redevelopment Agency by the State and major cuts in revenues distributed through federal and State grant programs. Pension costs will continue to challenge the City in the coming years as well.

The City has worked hard to address its fiscal challenges and, overall, its efforts have been successful. In FY 2014/15 the City was in position to offer modest salary increases to all of its employee groups for the first time since the financial downturn of 2008. Labor agreements for FY 2019/20 thru FY 2022/22 continued the moderate cost of living adjustments begun earlier. The Fort Bragg City Council has implemented two policies aimed at the organization's financial challenges. Both policies have been described previously and include the newly established "Recession Reserve" and the "Pension funding Policy".

With hard work, some difficult decisions and fiscal discipline the City Manager and City Council succeeded in passing a balanced FY 2018/19 budget as well as the FY 2019/20 budget. These were the first balanced budgets in many years. The tradeoffs in balancing the budget include, a decrease in services (eliminated and downgraded positions). The Other Postemployment Benefits (OPEB) trust fund on the other hand has been diligently pre-funded for several years and even with minimum payments the City appears poised to start drawing from the fund in order to offset increasing costs in the years to come.

Beginning with the FY 2017/18 budget the City's Finance department has prepared a five year budget forecast for the General Fund. The five year forecast is updated each year prior to the mid-year budget review meeting. Beginning with the FY 2019/20 budget the five year forecast has been incorporated into the main budget document. The five year forecast indicates that recent improvements in tax revenues will provide balanced budgets in the midterm range. However, in the longer term, the City's General Fund is projected to operate at a deficit starting in FY 2025/26.

The City's General Fund operated at a record surplus for FY 2020/21 and the fund balance improved by nearly \$1.5 million. The surplus was the result of deep budget cuts early in the pandemic which reduced staff and services and the previously discussed increases in TOT and sales tax revenue as tourism rebounded. In May, 2021, the City laid off four full-time employees, froze two positions in the Police Department and furloughed another twelve employees 50% to 75% of their regular hours. The furloughed staff was returned to full-time status in August 2021 but several of the laid-off positions remain vacant. In addition, the City did not replace two positions (Finance Director and Assistant City Engineer) that became

open in late June. As the reliance and demand for City services continue to grow, one of the challenges the City faces is the same as many other employers – recruiting and retaining qualified staff.

In FY 21/22, General Fund Tax Revenues continued their strong performance from the prior year beating last year's numbers. The accumulated fund balance for the General Fund is \$5,091,306. The City adopted a balanced General Fund budget for FY 2022/23 and projected a small surplus of \$198k.

While the surplus was small, the budget included \$150k to pay down pension obligations and relatively modest revenue projections. As discussed earlier in this letter, both TOT and Sales Tax revenues are outpacing FY 2021/22, which set records for both revenue sources.

A major project for FY 2021/22 was developing and adopting a Pension Funding Policy. Like most cities in California, Fort Bragg continues to experience double-digit increases in its unfunded liability payments with little or no reduction in the overall unfunded liability. As reported on page 80, the City's net pension liability as of June 30, 2022, is at \$10.7 million. On November 10, 2022, the City issued \$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 \$3.5 million funds were subsequently returned in FY 2022/23. 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 in a better position to manage pension obligations. On June 30, 2022, CALPERS realized a -7.5% return which will add to the Unfunded Liability. The City Council approved the set-up of a Section- 115 Trust in FY 22/23 to absorb down years losses by CALPERS.

### **Impact of Fiscal Policies on Financial Statements**

The City of Fort Bragg's fiscal policies are established to ensure that the finances of the City and the Municipal Improvement District No. 1 (collectively referred to as "the City") are managed in a manner that will:

- Maintain a financially viable local government that provides adequate levels of municipal services to its citizens.
- Provide for financial flexibility in order to adapt to local and regional economic changes.
- Preserve and enhance the sound fiscal condition of the City.

The City's policies are maintained in the annual budget document and are reviewed and approved each year by the City Council. The policies cover: budgeting, budgetary controls, revenues, expenditures, utility rates, capital budgeting, debt management, inter-fund loans, fund balance and reserves, investments, accounting auditing and financial reporting, asset forfeiture expenditures, employment compensation, cost allocations, and debt service. The City's fiscal policies are extensive and followed diligently so that it can be safely said that all of the policies have significantly impacted the current period's financial statements. In some years certain fiscal policies may stand out as having a more significant impact on the financial statements; in other years (such as the current reporting period) they may have a relatively equal impact.



### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. This was the tenth year in a row that the City of Fort Bragg has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Annual Comprehensive Financial Report meets the Certificate of Achievement Program's requirements and will be submitted to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

The preparation of this Annual Comprehensive Financial Report could not have been accomplished on a timely basis without the support and cooperation of many City of Fort Bragg staff members. Special recognition is given to the Finance Department staff. Their efforts made it possible to continue to provide quality financial information for the citizens, the City Council, and other users on a timely basis.

I would also like to thank the Mayor and members of the City Council for their attentiveness and support in planning and conducting the City's financial operations in a responsible and responsive manner.

Respectfully submitted,



Peggy Ducey



Isaac Whippy  
Finance Director