

**FY 2022/23**



# **MID-TERM BUDGET REPORT**

---

PREPARED BY :

Isaac Whippy



[iwhippy@fortbragg.com](mailto:iwhippy@fortbragg.com)

**TABLE OF CONTENTS**

Introduction.....	2
General Fund Financial Summary .....	3-8
Water Enterprise Fund .....	9-11
Wastewater Enterprise Fund .....	12-13
Internal Service Funds .....	14-17
Asset Forfeiture Funds .....	18
Budget Adjustment Requests at Mid-Year .....	19
Long-Term Financial Planning- General Fund .....	19-21
Fiscal Year 2022/23 Budget Preparation Schedule .....	22
Prioritized List of Financial Goals .....	22

## INTRODUCTION

The City operates on an annual budget cycle. Through the budget, the City Council approves revenue estimates and authorizes City staff to expend the City's limited financial resources. The City Council adopts an original budget prior to the start of each fiscal year, then makes adjustments to the budget throughout the year to reflect changes in expected revenues and to increase or decrease expenditures to address changes in policy or operational priorities.

As one of the many activities that the City undertakes to help ensure its financial soundness, Staff provides quarterly financial reports on the City's budget condition. Following the conclusion of the second quarter of the fiscal year (October through December), Staff conducts a second-quarter/mid-year budget review.

The City of Fort Bragg's mid-year performance report addresses the financial activity during the first two quarters of Fiscal Year 2022/23 (July through December). It helps determine whether the City is on track to meet the budget for the fiscal year or if adjustments are warranted. It also includes a projection of the fiscal year-end results, which serve as the starting point for the development of next year's budget and the long-term financial forecast.

The report focuses on the General Fund, Internal Service Funds, and Water and Wastewater Enterprise Funds. Special Revenue and Capital Project Funds are not included in the City's base operating budget and, therefore, are not detailed in the Mid-Year Performance Report. The C.V. Starr Center Enterprise Fund is addressed in a separate report.

In reviewing this report, the following information should be taken into consideration:

- Revenues and expenditures are recorded during the period received or paid. As of January 31, accrual entries were made to associate January receipts and expenditures to the second quarter as appropriate. Year-end accruals use a 60-day window and therefore are more exhaustive.
- The schedule of revenues received varies according to the source of funding. As an example, property tax payments are received as follows: 55% in December, 38% in April, and 7% in August of the following fiscal year. The August payment is presented in the fiscal year to which it relates.
- Although most expenditures occur monthly, there are some quarterly, semi-annual, and even annual expenditures. Examples include debt service payments, liability insurance, and audit fees.
- This report is not meant to be inclusive of all finance and accounting transactions. It is intended only to provide the City Council and the public with an overview of the State of the City's general fiscal condition. The report has been prepared by the City's finance department without audit and does not include many of the year-end adjustments required to bring the City's financial records into compliance with generally accepted accounting principles (i.e. accruals of sales and use tax revenues, payroll, and other expenditures).

## 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 on a monthly basis 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 2021/22 RECAP

For the fiscal year ending June 30, 2022, the General Fund ended with a budget surplus of \$528,783, increasing the Fund balance by 21 percent from \$4.2 million to \$8.5 million, with \$3.5 million subsequently returned as part of the 2021 Lease Revenue Debt proceeds for land acquisition. Expenditures ended the year at \$10.6 million, an increase of 27 percent as expenditures, particularly personnel costs, returned to pre-pandemic levels.

The General Fund maintained an operating reserve of \$1.4 million, a litigation reserve of \$200k, and a recession reserve of \$489k.

## STATUS OF GENERAL FUND REVENUES

### Overview

General Fund revenue through the second quarter was \$5.4 million, or 48% of the amended budget, compared to \$5.2 million at FY 2021/22 mid-year. The General Fund revenue is forecasted to be \$11.1 million at the end of the fiscal year, approximately \$59k less than budget.

The following table details actual FY 2022/23 General Fund revenue collections through December as compared with budgeted revenue estimates and the last two fiscal year audited actuals for historical. Also included are changes to each category that are recommended as part of this report.

GENERAL FUND REVENUES											
REVENUE SOURCE	FY 2020/21 Actuals	FY 2021/22 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Transient Occupancy Tax	\$ 3,321,928	\$ 3,444,990	\$ 3,371,081	\$ -	\$ 3,371,081	\$ 1,685,540	\$ 1,892,950	56%	\$ 207,409	\$ 3,371,081	\$ -
Sales and Use Tax	2,028,010	2,215,161	2,178,000	-	2,178,000	1,089,000	1,150,054	53%	61,054	2,178,000	-
Property Tax	1,085,532	1,150,352	1,176,309	-	1,176,309	588,154	192,765	16%	(395,389)	1,176,309	-
Other Taxes	810,652	851,622	832,442	-	832,442	416,221	416,103	50%	(118)	829,259	(3,182)
<b>Sub Total Tax Revenue</b>	<b>7,246,120</b>	<b>7,662,122</b>	<b>7,557,831</b>	<b>-</b>	<b>7,557,831</b>	<b>3,778,916</b>	<b>3,651,873</b>	<b>48%</b>	<b>(127,043)</b>	<b>7,554,649</b>	<b>(3,182)</b>
Licenses & Permits	91,567	86,176	95,413	-	95,413	47,707	44,405	47%	(3,301)	93,600	(1,813)
Fines and Forfeitures	12,181	51,396	31,500	-	31,500	15,750	8,211	26%	(7,539)	17,350	(14,150)
Intergovernmental	16,383	30,089	-	-	-	-	-	0%	-	-	-
Use of Money/Property	(64,617)	(166,316)	61,300	-	61,300	30,650	(124,585)	-203%	(155,235)	100,036	38,736
Charges for Services	45,369	62,388	70,546	-	70,546	35,273	50,875	72%	15,602	88,327	17,781
Operating Grant Revenue	130,162	133,986	517,555	66,287	583,842	291,921	290,797	50%	(1,124)	445,864	(137,978)
Reimbursements	2,285,895	3,333,187	2,781,850	-	2,781,850	1,390,925	1,446,264	52%	55,339	2,754,136	(27,714)
Other Revenue	109,358	22,574	14,500	-	14,500	7,250	62,169	429%	54,919	83,693	69,193
<b>TOTAL REVENUES</b>	<b>\$ 9,872,419</b>	<b>\$11,215,601</b>	<b>\$11,130,495</b>	<b>\$ 66,287</b>	<b>\$ 11,196,782</b>	<b>\$ 5,598,391</b>	<b>\$ 5,430,009</b>	<b>48%</b>	<b>\$(168,382)</b>	<b>\$11,137,655</b>	<b>\$ (59,127)</b>

The Fiscal Year 2022/23 Adopted Budget was developed assuming that many of the General Fund and other economically sensitive City fund revenues would continue the strong performance but start to adjust to economic conditions in 2023. Transient Occupancy Tax and Sales Tax were forecasted to decline by 2% from the "best year to date" achieved in the prior year. 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 \$7.4 million (positive variance of about \$3k when compared to the amended budget) above budgeted levels due to solid growth in Transient Occupancy Tax (TOT), Franchise Tax and Sales Tax categories.

Partially offsetting the 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, Parents and Friends, and general administration. These unspent funds will be transferred to the next fiscal year. Revenue adjustments are included in the Mid-Year Budget Review to align the budgeted estimate with anticipated receipts, which are further described on the following pages.

Notable variances in revenues are listed below.

▪ **Transient Occupancy Tax (TOT)**

REVENUE SOURCE	FY 2020/21 Actuals	FY 2021/22 Actuals	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Transient Occupancy Tax	\$ 3,321,928	\$ 3,444,990	\$ 3,371,081	\$ 1,685,540	\$ 1,892,950	56%	\$ 207,409	\$ 3,371,081	\$ -

Fort Bragg is a tourist-based economy that depends heavily on tourism for its revenue, accounting for 30% of the total General Fund's revenue. During the last quarter of FY 19/20, this revenue category was hit hard by COVID-19 restrictions and ended the fiscal year falling short of budget projections by \$660k, resulting in an overall budget deficit for the general Fund. In FY 20/21 and FY 21/22, TOT rebounded and recorded its best year to date ending the fiscal year at \$3.3 million. In part, international and domestic travel restrictions due to the pandemic contributed to the increase in local visitor numbers. Furthermore, Visit Fort Bragg has continued marketing campaign efforts to attract more visitors to Fort Bragg.

In the first half of the fiscal year, TOT again recorded strong results. Although down 2% compared to last year's period, revenues are up 46% or \$575k growth compared to pre-pandemic. TOT is on track to meet budget forecasts come fiscal year-end at \$3,371,081, down 2% from prior year.

▪ **Sales Tax:**

REVENUE SOURCE	FY 2020/21 Actuals	FY 2021/22 Actuals	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Sales and Use Tax	2,028,010	2,215,161	2,178,000	1,089,000	1,150,054	53%	61,054	2,178,000	-

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. The City's Sales Tax projections were that revenues would end the fiscal year at \$2.1 million, down 2% from the prior year's result of \$2.2 million, as the Fed has aggressively raised interest rates to curb inflation the past year. Inflation eased in February 2023 but remained stubbornly high, presenting a challenge for the Federal Reserve as it confronts how to slow the economy with higher interest rates while moving to stem banking problems. The Consumer Price Index, 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 \$1,150,054 (53% of the total budget) in line with budget projections. Compared to the prior year, Sales Tax was only down 2% 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 CDTFEA.

▪ **Reimbursements**

REVENUE SOURCE	FY 2020/21 Actuals	FY 2021/22 Actuals	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Reimbursements	2,285,895	3,333,187	2,781,850	1,390,925	1,446,264	52%	55,339	2,754,136	(27,714)
<b>TOTAL REVENUES</b>	<b>\$ 9,872,419</b>	<b>\$11,215,601</b>	<b>\$ 11,196,782</b>	<b>\$ 5,598,391</b>	<b>\$ 5,279,873</b>	<b>47%</b>	<b>\$(318,518)</b>	<b>\$11,137,655</b>	<b>\$ (59,127)</b>

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 \$1.4 million or 52 percent of the budget and are expected to come in under budget by \$28k at the end of the fiscal year due to the timing of some of the reimbursements, and the true-up of hours worked by Staff during the fiscal year per the City's Cost Allocation Plan.

▪ **Operating Grant Revenues**

GENERAL FUND REVENUES									
REVENUE SOURCE	FY 2020/21 Actuals	FY 2021/22 Actuals	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Operating Grant Revenue	130,162	133,986	583,842	291,921	290,797	50%	(1,124)	445,864	(137,978)
<b>TOTAL REVENUES</b>	<b>\$ 9,872,419</b>	<b>\$11,215,601</b>	<b>\$ 8,623,509</b>	<b>\$ 4,311,755</b>	<b>\$ 4,283,237</b>	<b>50%</b>	<b>\$(28,517)</b>	<b>\$ 8,955,194</b>	<b>\$ 331,685</b>

Operating grant revenues are right at 50% at mid-year and are expected to end the year at \$138k below budget. This revenue category accounts for staff time reimbursement administering the City's various grants programs and carrying out grant activities. Much of the reimbursable time is from the BHJIS Grant for Social Liason Officers and Community Development Block Grant (CDBG), which includes: the Code Enforcement Program, Business Loans, Fire Station Rehabilitation design work, Parents and Friends, and general administration. The negative variance is attributed to the temporary suspension of the School Resource Officer (SRO) program due to staffing. The SRO program generates \$125k/annually and is expected to be back up and running in the next few months. Additionally, due to the timing of some of the CDBG grant reimbursements these unspent grant funds will be utilized in the next fiscal year. Also, the Code Enforcement division was transferred to the Police Department in the second quarter, adding a second Code Enforcement officer, and has begun to make progress in implementing the program guidelines of the grant.

▪ **Other taxes**

REVENUE SOURCE	Sub 2	FY 2020/21 Actuals	FY 2021/22 Actuals	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Other Taxes	403	810,652	851,622	832,442	416,221	416,103	50%	(118)	829,259	(3,182)

Franchise Fees are collected from Cable Television, Solid Waste, and PG&E. Through December, Franchise Fee receipts were \$416k, 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 \$6.3 million for the first half of FY 2022/23, representing 56 percent of the amended annual budget. Appropriations of \$10.9 million were adopted. Throughout the year, budgeted appropriations have increased by \$405k resulting in an amended budget of \$11.4 million. The following chart displays the year-to-date expenditures compared to the prior years.

GENERAL FUND EXPENDITURES											
DEPARTMENT	FY 2020/21 Actuals	FY 2021/22 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2021	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
<b>GENERAL</b>											
City Council	\$ 131,496	\$ 214,276	\$ 193,718	\$ 28,600	\$ 222,318	\$ 111,159	\$ 96,347	43%	\$ (14,812)	\$ 206,646	15,672
Administrative Services	751,316	1,225,232	1,270,375	(28,768)	1,241,606	620,803	608,408	49%	(12,395)	1,231,962	9,644
Marketing & Promotions	93,060	226,875	220,500	-	220,500	110,250	89,680	41%	(20,570)	220,400	100
Finance	468,573	536,978	606,653	10,986	617,639	308,819	274,614	44%	(34,205)	596,165	21,474
Non-Departmental	794,428	985,774	1,159,261	2,647	1,161,908	580,954	553,596	48%	(27,358)	1,122,185	39,723
Community Organizations	69,869	97,297	152,962	-	152,962	76,481	35,116	23%	(41,365)	152,962	-
<b>DEBT SERVICE</b>	38,797	547,580	684,302	-	687,563	343,781	242,191	35%	(101,590)	452,241	235,322
<b>COMMUNITY DEVELOPM</b>	301,984	365,417	436,471	46,646	479,854	239,927	204,033	43%	(35,894)	426,932	52,922
<b>PUBLIC SAFETY</b>											
Police Department	3,468,404	3,891,041	3,805,179	242,247	4,047,426	2,023,713	2,089,638	52%	65,925	3,920,058	127,368
Fire Department	439,962	434,423	439,962	-	439,962	219,981	326,519	74%	106,538	440,106	(144)
<b>PUBLIC WORKS</b>											
Administration & Engineer	515,726	679,782	684,010	26,135	710,145	355,073	387,071	55%	31,998	693,007	17,138
Parks and Facilities	31,926	36,479	41,100	-	41,100	20,550	21,509	52%	959	41,903	(803)
Street Maintenance	110,831	124,497	120,784	-	120,784	60,392	51,148	42%	(9,244)	122,000	(1,216)
Storm Drains	14,071	12,681	23,170	-	23,170	11,585	8,296	36%	(3,289)	18,600	4,570
Corporation Yard	634,446	494,217	402,111	18,413	420,524	210,262	231,730	55%	21,468	422,875	(2,351)
Traffic and Safety	24,022	24,873	28,500	58,452	86,952	43,476	76,443	88%	32,966	85,952	1,000
<b>COST ALLOCATION</b>	478,497	789,396	686,129	-	686,129	343,065	1,029,194	150%	686,129	686,129	-
<b>TOTAL GENERAL FUND</b>	<b>\$ 8,367,408</b>	<b>\$10,686,818</b>	<b>\$10,955,185</b>	<b>\$ 405,359</b>	<b>\$ 11,360,542</b>	<b>\$ 5,680,271</b>	<b>\$ 6,325,532</b>	<b>56%</b>	<b>\$ 645,262</b>	<b>\$10,840,124</b>	<b>\$ 520,418</b>

Some of the notable variances in expenditures include:

- The Finance Department is projected to be \$21k under budget primarily due to salary savings from the vacant part-time Accountant position, which will be filled in the third quarter. As of mid-year, the department budget is \$274k, or 44 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 48% of the annual budget and are projected to end the fiscal year with a positive variance of \$39k. The costs of REMIF liability and property premium payments paid in the first quarter were much lower than anticipated. Conversely, utility costs increased by 20%, and retiree medical were up by 3% from the adopted budget.

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

- Debt service represented the most significant budget savings for the General Fund—the return of the \$3.5 million Debt-2021 Lease Revenue Bonds resulted in a budget savings of \$235,322. The funds were earmarked for land acquisition. These funds were returned in August 2022, reducing the City's Debt from \$11.4 million to 7.9 million, consequently reducing future annual debt payments.
- The Police Department diligently worked to fill vacancies in both sworn and Community Service Officer positions. At the end of quarter two, there were three unfilled positions, including a sergeant and two sworn officer positions, for which recruitment is underway. The Department plans to fill the sergeant position in May, with the two officer positions most likely be filled next fiscal year by sending recruits to the academy. As a result of these unfilled positions and savings in overtime costs, the Department is expected to end the fiscal year under budget by \$127,368. Conversely, utility and dispatch costs have increased by 5%.

The Police Department was awarded a \$222,000 Social Service Liason Grant in 2022 by the California Department of Health Care Services (DHCS) through March 31, 2023. The team began expanding past homeless-related tasks to serve more of the community. They provide immediate assistance and ongoing support to families with family members experiencing mental health illnesses by offering wrap-around support, connection to available services, and general assistance in day-to-day life struggles. The amended budget includes funding for the two full-time positions through the end of the fiscal year. The City is actively pursuing other grant opportunities to fund this critical service.

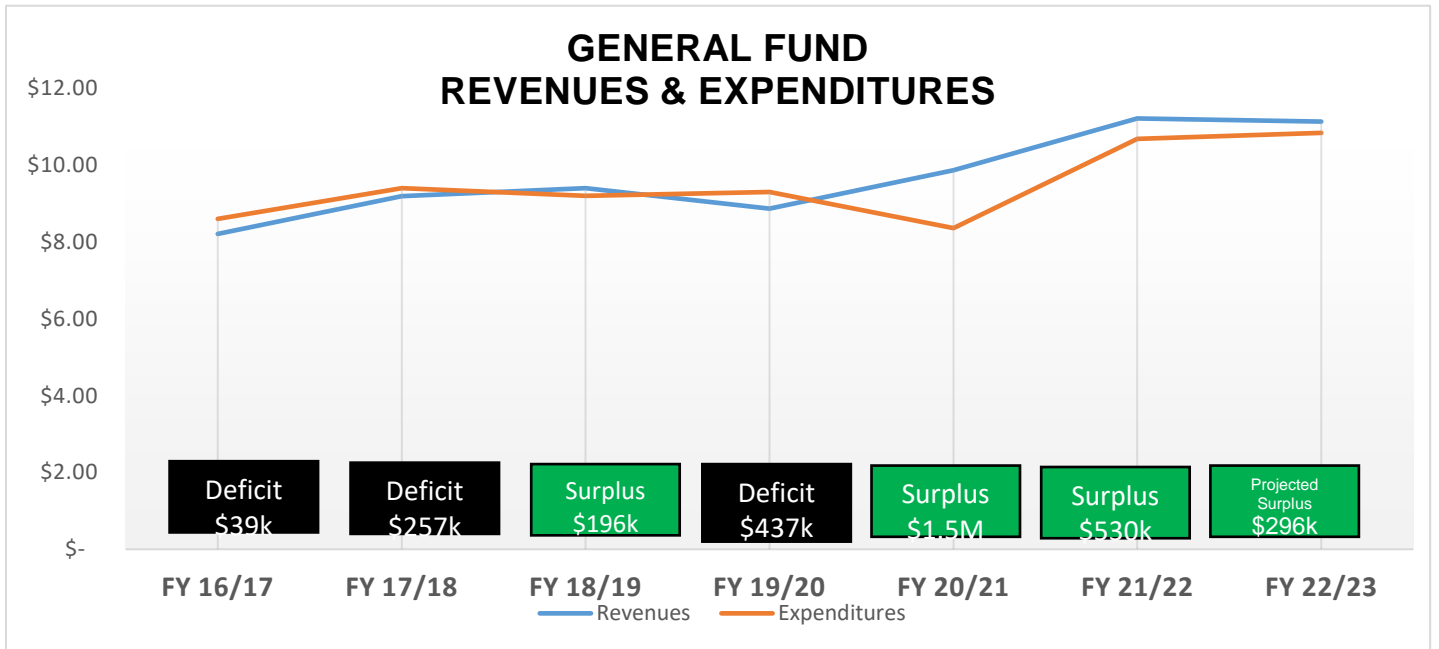
The budget adjustments recommended in this report are to allocate funds for wellness expenditures. The Department was awarded \$24,000 from the Mental Health Grant and State for the officer's wellness.

- The Community Development Department at mid-term is at 43% of the amended budget and is projected to end the fiscal year below budget by \$52k as a result of personnel costs savings from unfilled positions. The Department is recruiting for a Community Development Director or a Senior Planner and hopes to fill the position in the fourth quarter of the fiscal year. The Code Enforcement program was transferred to the Police Department in November 2022.

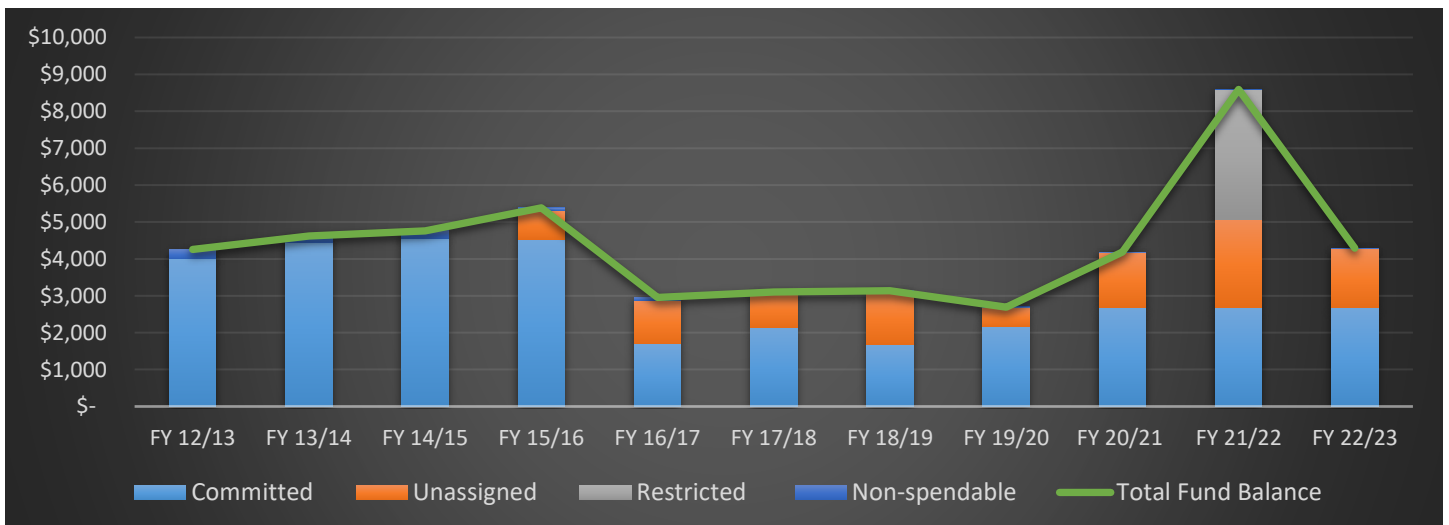
The budget adjustment requested in this report includes \$67,690 to perform a central business district parking feasibility study. MCOG funds the parking study at \$57,062, and special revenues from parking fees are \$10,628- there is no cost to the General Fund.



**GENERAL FUND NET RESULT AND FUND BALANCE**



With projected revenues of \$11.1 million, less total expenditures of \$10.8 million, the General Fund is projected to end FY 2022/23 with a surplus of \$297,531, increasing the General Fund's balance to \$3.7 million, an increase of 1 percent compared to the prior year. It is important to note that while the projected surplus is not large, expenditures, particularly personnel costs, have returned to pre-COVID levels, offset by savings from the redemption of the \$3.5 million debt and continued strong performance from the City's top tax revenue category in Transient Occupancy Tax and Sales Tax. A deposit of \$1.6 million was deposited into the Section 115 trust with PARS in this fiscal year- decreasing the General Fund reserves.



The City's unassigned balance is projected to end the fiscal year at \$1.6 million with Committed Reserves of \$2.7 million, including Operating Reserves of \$1.9M, a Recession Reserve of \$489k, and a Litigation Reserve of \$200k.

## WATER ENTERPRISE FUND

The Water Enterprise rate structure is functioning as designed and continues to fund all operations, maintain the operating reserve, provide for debt, and accumulate funds for infrastructure upgrades, replacements, and maintenance. The Fiscal Year 2021/22 ended with an annual net position increase of \$16.6 million.

Per fiscal policy, the operating reserve is set at 25 percent of the prior year's operating expense, and for the Fiscal Year 2021/22 was set at \$342k. The Enterprise fund also established a recession reserve of \$100k, sufficient for 5 percent of the Fund's operating budget.

The capital reserve increased by \$1.3 million to \$4.7 million. The CIP for the Water Enterprise stood at \$71.4 million in total identified capital projects for the next five years, relying on grants and enterprise capital reserves for funding. The Fund is well-positioned to continue working on many projects on page 190 of the FY 22/23 budget.

WATER ENTERPRISE											
	FY 2020/21	FY 2021/22	Adopted	Approved Net	Amended	Pro Rated	YTD Actual	Mid-Year	Variance	Estimated	Forecast
	Actuals	Actuals	Budget	Budget	Budget	Budget as of	12/31/2022	Variance %	Budget vs.	Year End	Surplus/
				Amendments		12/31/2021			Actual		(Shortfall)
Operating Revenue	\$ 3,288,053	\$ 3,005,288	\$ 2,970,342	\$ -	\$ 2,970,342	\$ 1,485,171	\$ 1,747,268	59%	\$ 262,097	\$ 3,036,779	\$ 66,437
Capacity Fees	346,561	44,837	20,000	-	20,000	10,000	46,200	231%	36,200	52,000	32,000
Miscellaneous	92,353	-	82,300	-	82,300	41,150	32,346	39%	(8,804)	91,800	9,500
<b>Total Revenue</b>	<b>3,726,967</b>	<b>3,050,125</b>	<b>3,072,642</b>	<b>-</b>	<b>3,072,642</b>	<b>1,536,321</b>	<b>1,825,814</b>	<b>59%</b>	<b>289,493</b>	<b>3,180,579</b>	<b>107,937</b>
Personnel services	452,486	1,039,332	919,986	11,151	931,137	465,569	426,121	46%	(39,447)	856,897	74,240
Administration	470,943	683,735	457,183	-	457,183	228,592	244,226	53%	15,634	459,314	(2,131)
Repairs & maintenance	36,419	52,440	42,200	-	42,200	21,100	9,588	23%	(11,512)	15,700	26,500
Materials & supplies	149,770	169,998	226,348	-	207,348	103,674	96,191	46%	(7,483)	212,548	(5,200)
Utilities	117,070	147,423	144,000	-	144,000	72,000	89,160	62%	17,160	174,930	(30,930)
Contractual services	56,769	93,135	127,500	46,033	173,533	86,767	47,710	27%	(39,056)	123,000	50,533
Insurance	17,230	31,351	40,442	-	40,442	20,221	14,314	35%	(5,907)	38,628	1,813
Interest/Debt Service	64,949	55,434	782,993	-	782,993	391,496	383,077	49%	(8,419)	782,993	-
Depreciation **	319,552	364,752	-	-	-	-	-	0%	-	-	-
<b>Total Expenditures</b>	<b>1,687,506</b>	<b>2,672,538</b>	<b>2,751,652</b>	<b>57,184</b>	<b>2,789,836</b>	<b>1,394,918</b>	<b>1,316,797</b>	<b>47%</b>	<b>(78,121)</b>	<b>2,670,419</b>	<b>119,417</b>
<b>Net Revenue/(Expense)</b>	<b>\$ 2,039,461</b>	<b>\$ 377,587</b>	<b>\$ 320,990</b>		<b>\$ 282,806</b>	<b>\$ 141,403</b>	<b>\$ 509,017</b>	<b>180%</b>	<b>\$ 367,614</b>	<b>\$ 510,160</b>	<b>227,353</b>

\* Audited results do not include payment of principal which is not an expense in full accrual accounting  
 \*\* Depreciation Expense is not budgeted and therefore not included in calculation of budget variance

### REVENUES

- User fees fully support the revenues for the Water Enterprise Fund. At the end of the second quarter, revenues were \$262k more at 59% of the budget. In FY 20-22, the City implemented water restriction measures in the summer in response to the reduced flows in the Noyo River, increased high tide events, and the lower-than-usual precipitation that affected the City's water supply. The City Council approved a targeted 30-40% reduction in water consumption in the previous years. Fortunately, in the second quarter, Fort Bragg received a significant amount of needed rainfall.

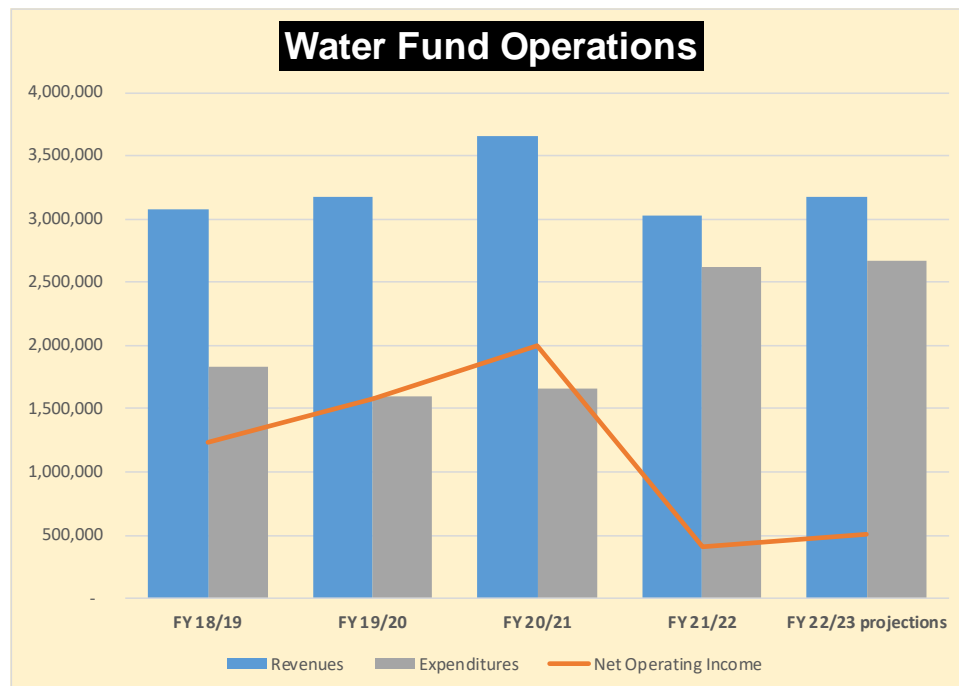
The projected year-end total revenue is \$3.2 million or approximately \$108k more than budget, a 2 percent increase from the prior fiscal year due to an increase in consumption and more in line with the prior year (pre-COVID) totals.

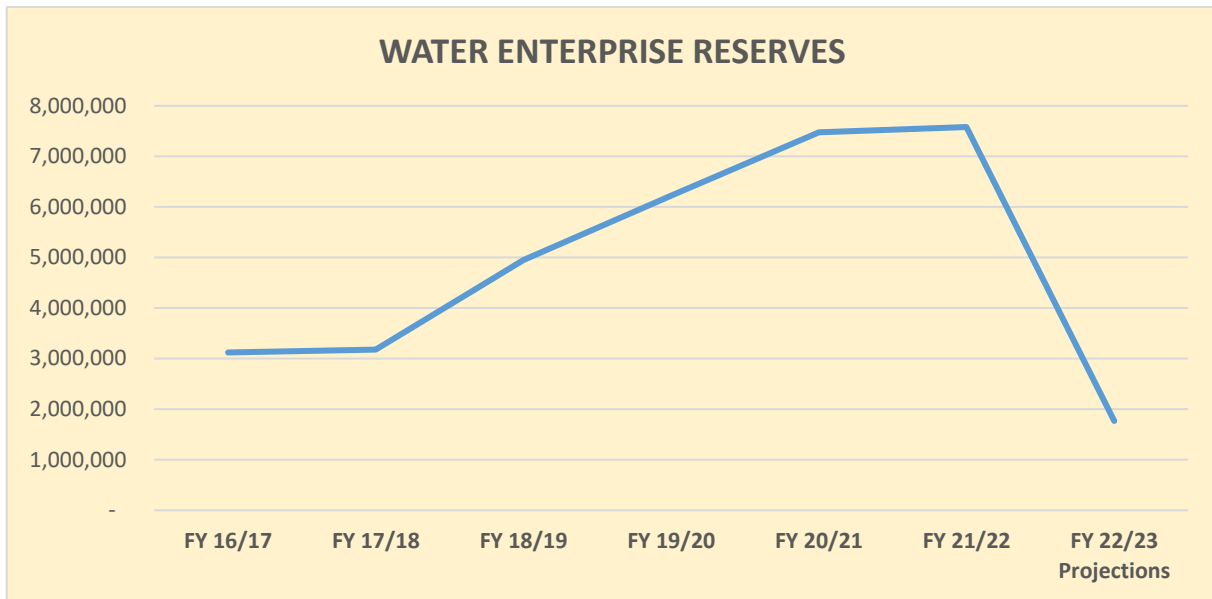
## EXPENDITURES

Water Enterprise's expenses for the first half of FY 2022/23 totaled \$1.3 million, 47% of the amended annual budget. The projected year-end total is \$2.6 million, \$119k under budget.

- At mid-year, Debt Service is 49% of the total annual budget. Principal payments are paid in October and a second smaller interest payment in April. The adopted budget includes the \$785k to pay off the 2007 Department of Water Resource Loan. Once this loan is paid off, Water Enterprise will have only one remaining debt which will be paid off in 2025.
- Utility costs are 62% of the adopted and are forecasted to end the fiscal year at \$30,930 above budget. Energy costs for electric have risen by 35% per month compared to last year due to rate increases with a slight increase in consumption. This report includes a budget amendment request for additional funds to cover these overages.
- No other significant variances are expected in other enterprise expense category at year-end.

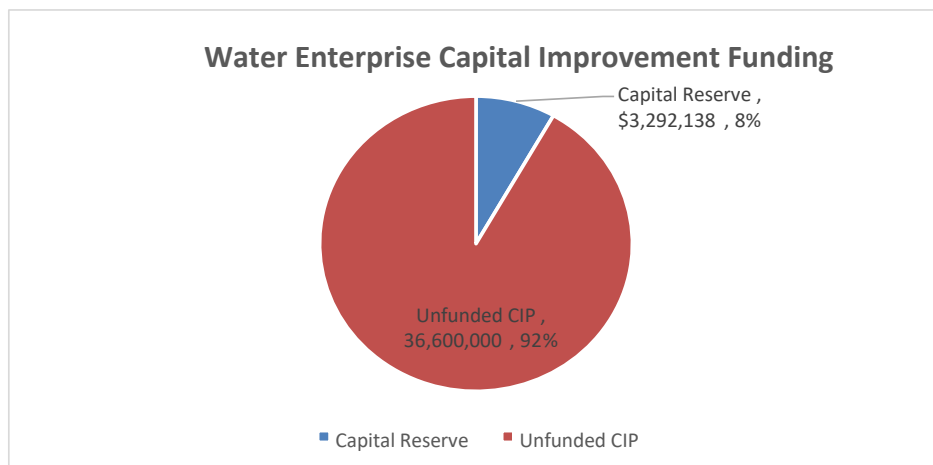
The summer months of 2019-2022 represented water shortage challenges for the City. City Staff actively pursued alternative plans to address these challenges, including the Desalination Unit implemented in 2021 and looking at alternative water sources and storage. Additionally, the new water meter installation funded by the Community Development Block Grant (CDBG) will assist the City in better-detecting leaks and water usage in real-time.





With projected revenues of \$3.1 million and expenses of \$2.6 million, staff projects the Water Enterprise will end the FY 2022/23 with a net position of \$13.2 million and reserves of \$1.8 million. The Enterprise Capital Reserve budgeted \$3.3 million to be transferred for Capital improvement projects, including the Pudding Creek water main \$812k, the distribution system \$850k, the raw water reservoir \$500k, the extended water system north \$300k, and the reclamation design \$750k. Additionally, the Enterprise fund is closing on a 582+ acres property purchase from the Mendocino Coast Recreation Park District, \$2,420,579, which the Water reserves will fund. The reserves are projected to be reduced by \$5.8 million altogether. Staff continues actively seeking Grant funds to fund the identified CIP projects and use capital reserves for matching funds.

For a more detailed list of the Capital Improvement Project scheduled for the Water Enterprise, refer to pages 190-196 of the Adopted Budget.



## WASTEWATER ENTERPRISE FUND

The Wastewater Enterprise rate structure is functioning as designed and continues to fund all operations, maintain the operating reserve, provide for debt, and accumulate funds for infrastructure upgrades, replacements, and maintenance. The fiscal Year 2021/22 ended with an annual net position increase of \$2.04 million to \$24.4 million. Per policy, the operating reserve is set at 25% of the prior year's operating expense, and for the Fiscal year 2022/23 was set at \$625k.

WASTEWATER ENTERPRISE											
	FY 2020/21 Actuals	FY 2021/22 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2021	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Operating Revenue	\$ 3,707,788	\$ 3,570,257	\$3,212,050	\$ -	\$ 3,212,050	\$ 1,606,025	\$ 2,062,592	64%	\$ 456,567	\$3,378,170	\$ 166,120
Capacity Fees	309,446	7,353	15,000		15,000	7,500	39,727	265%	32,227	50,000	35,000
Miscellaneous Revenue	36,823	32,544	34,000		34,000	17,000	9,333	27%	(7,667)	23,500	(10,500)
<b>Total Revenue</b>	<b>4,054,057</b>	<b>3,610,153</b>	<b>3,261,050</b>	-	3,261,050	1,630,525	<b>2,111,653</b>	65%	456,567	<b>3,451,670</b>	166,120
Personnel services	686,110	687,773	576,890	12,651	589,541	294,771	314,532	53%	19,761	563,740	25,801
Administration	693,735	1,225,605	702,284	-	702,284	351,142	346,072	49%	(5,070)	698,890	3,394
Repairs & maintenance	85,697	175,875	128,700	-	128,700	64,350	57,157	44%	(7,193)	82,700	46,000
Materials & supplies	266,418	298,357	273,244	77,209	350,453	175,226	131,540	38%	(43,686)	330,494	19,959
Utilities	198,320	222,967	220,000	-	220,000	110,000	194,328	88%	84,328	306,333	(86,333)
Contractual services	164,551	360,280	260,000	205,495	465,495	232,747	222,518	48%	(10,229)	460,495	5,000
Insurance	53,032	49,798	64,240	-	64,240	32,120	22,660	35%	(9,459)	50,321	13,919
Interest/Debt Service *	97,760	95,650	93,850	-	93,850	46,925	-	0%	(46,925)	93,850	-
Depreciation **	816,300	829,815	-	-	-	-	-	0%	-	-	-
<b>Total Expenditures</b>	<b>3,061,923</b>	<b>3,946,121</b>	<b>2,319,208</b>	<b>295,354</b>	<b>2,614,562</b>	<b>1,307,281</b>	<b>1,288,807</b>	49%	(18,474)	<b>2,586,822</b>	27,740
<b>Net Revenue/(Expense)</b>	<b>\$ 992,134</b>	<b>\$ (335,967)</b>	<b>\$ 941,842</b>	<b>\$ (295,354)</b>		<b>\$ 323,244</b>	<b>\$ 822,846</b>		\$ 475,041	<b>\$ 864,847</b>	864,847

\* Audited results do not include payment of principal which is not an expense in full accrual accounting

\*\* Depreciation Expense is not budgeted and therefore not included in calculation of budget variance

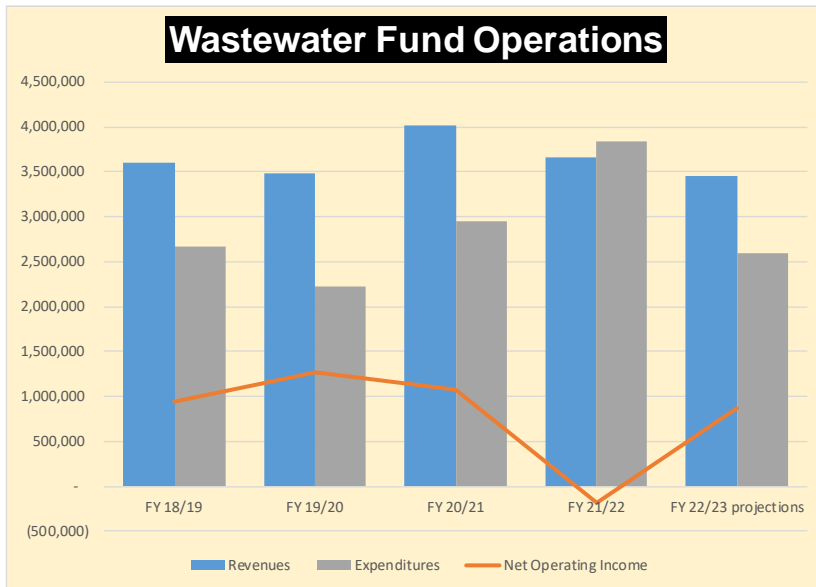
### REVENUES

Like the Water Enterprise fund, the projected year-end revenue for the current fiscal year is estimated to be \$3.4 million or approximately \$166k more than the original adopted budget but down from the prior year by 4% or \$679k. The new septic dumping station recorded a \$40k increase in operating revenues for the Fund.

### EXPENDITURES

Wastewater Enterprise expenses totaled \$1.2 million, 49% percent of the amended annual budget. The projected year-end total is \$2.5 million, which is approximately \$27k less than the budget:

- At year-end, personnel services are expected to be approximately \$25k under budget, mainly due to savings in personnel costs from benefits in a couple of positions.
- Utilities are forecasted to be \$55k above budget estimates. Energy costs for electricity have risen by 35% per month compared to last year due to rate increases with a slight increase in consumption. A budget amendment is requested for the overages.
- At year-end, materials and supplies in the Non-Routine Maintenance division are expected to be under budget by approximately \$46k. Less maintenance is required for the sewer lift stations since a complete overhaul was undertaken.



With projected revenues of \$3.4 million and expenses of \$2.6 million, Staff projects the Wastewater Enterprise to end FY 2022/23 with a net position of \$26.1 million and reserves of \$2.1 million. The decline in reserves in FY 17/18 is a result of the Wastewater Treatment Plant construction in addition to grant funds- seen below.



During the budget development, Staff identified a list of Capital Improvements Program (CIP) of \$16.6 million needed to improve the Fund's infrastructure. A collection system rehab of \$12 million is planned for FY 2024/25, with \$1.5 million of capital improvements budgeted for this fiscal year.

## INTERNAL SERVICE: FACILITIES REPAIR & MAINTENANCE REPAIR

Internal Service Funds-Facilities fund accounts for the maintenance of all City-owned buildings.

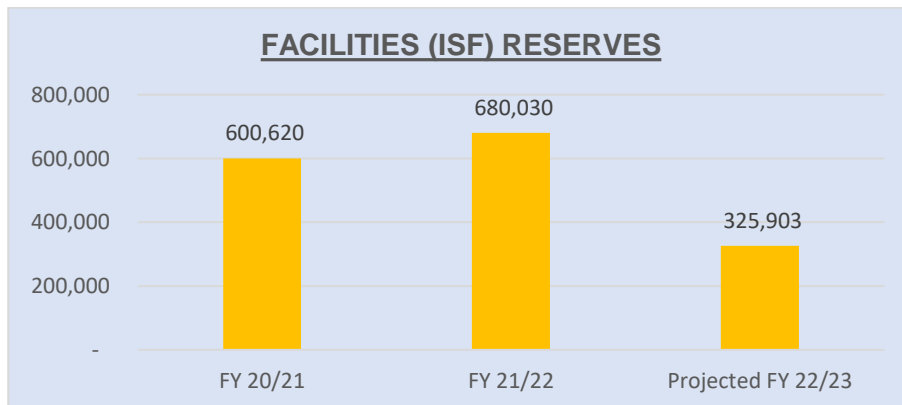
ISF-FACILITIES											
	FY 2020/21 Actuals	FY 2021/22 Actuals	FY 21/22 Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Operating Revenue	\$ 5,826	\$ 4,143	\$ 6,030	\$ -	\$ 6,030	\$ 3,015	\$ 3,518	58%	\$ 503	\$ 6,030	\$ -
Interdepartmental Charges	97,147	200,959	195,068	-	195,068	97,534	97,534	50%	-	195,068	-
TOTAL REVENUES	102,973	205,101	201,098	-	201,098	100,549	101,052	50%	503	201,098	-
Personnel Services	78,810	105,998	93,568	-	93,568	46,784	46,784	50%	-	93,568	-
Repairs & Maintenance	19,738	15,601	63,749	-	63,749	31,874	8,512	13%	(23,363)	26,657	37,092
TOTAL EXPENDITURES	98,548	121,600	157,317	-	157,317	78,658	55,296	35%	(23,363)	120,225	37,092
Net Revenue/(Expense)	\$ 4,425	\$ 83,501	\$ 43,781	\$ -	\$ 43,781	\$ 21,891	\$ 45,756	105%	\$ 23,865	\$ 80,873	37,092

- No significant revenue variances are expected.
- The repairs and maintenance schedule are listed below, with a \$63k maintenance budget. Due to staffing, only the park bathrooms, fencing for Noyo headlands park, and miscellaneous repairs and maintenance will be undertaken this year- most of the scheduled work will be moved to the next fiscal year, with the rest of the projects to be evaluated during the FY 2023/14 budget process and moved to the next fiscal year.

### FACILITY ISF 10-YEAR MAINTENANCE PROGRAM

MAJOR PROJECTS/REPLACEMENT	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Annual Average	General Fund	Water Enterprise	Wastewater Enterprise
City Hall	-	10,000	-	-	-	-	-	60,000	35,000	8,000	1,250	625	313	313
City Hall East	-	4,000	-	3,500	-	-	-	-	-	-	938	938	-	-
Fort Building	-	10,000	-	-	-	-	-	-	-	-	1,250	1,250	-	-
Town Hall	-	-	-	-	-	3,000	-	-	-	-	375	188	94	94
Fire Station, Main St	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire Station, Hwy 20	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guest House	19,722	-	-	-	-	-	-	-	110,000	-	2,465	2,465	-	-
Police Department	-	22,000	-	-	-	-	-	-	-	-	2,750	2,750	-	-
Noyo Headlands Park	-	17,749	4,500	-	30,000	5,000	-	-	-	-	7,156	7,156	-	-
Pomo Bluffs Park	-	-	9,000	-	-	-	-	40,000	-	-	1,125	1,125	-	-
Noyo Beach	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corp Yard	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Harbor Lite Trail	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL major projects	19,722	63,749	13,500	3,500	30,000	8,000	-	100,000	145,000	8,000	17,309	16,496	406	406
General Repairs Facilities	\$6,187	\$6,249	\$6,311	\$6,374	\$6,438	\$6,503	\$6,568	-	-	-	\$6,376	\$3,188	\$1,594	\$1,594
TOTAL preventative maintenance	\$6,187	\$6,249	\$6,311	\$6,374	\$6,438	\$6,503	\$6,568	-	-	-	\$6,376	\$3,188	\$1,594	\$1,594
TOTAL PROJECT FUNDING NEEDED	\$25,909	\$69,998	\$19,811	\$9,874	\$36,438	\$14,503	\$6,568	\$100,000	\$145,000	\$8,000	\$23,685	\$19,684	\$2,000	\$2,000

- Transfer of \$147,000 was made to the Fleet fund for the cost of charge stations for Fleet.





As of December 31, 2021

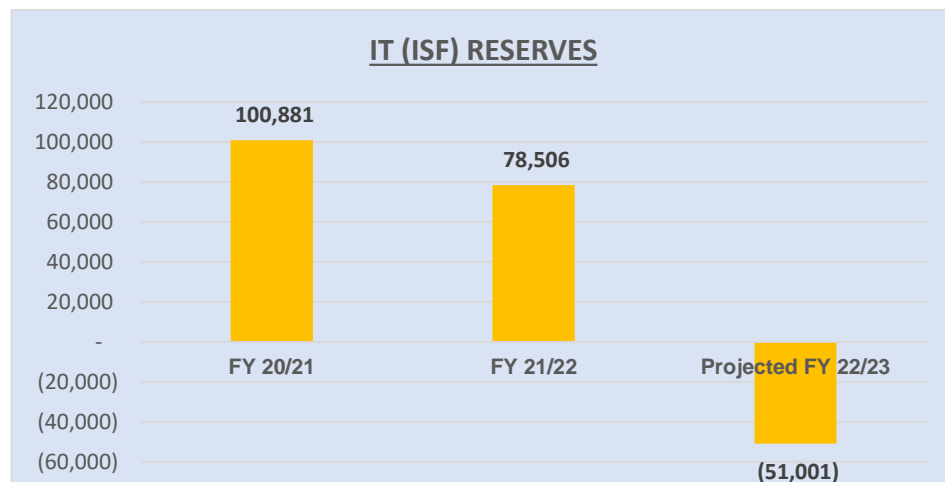
## INTERNAL SERVICE: INFORMATION TECHNOLOGY

Information technology accounts for all activities of the City's computer networks, the costs of which are distributed among user departments using equitable formulas.

ISF-IT											
	FY 2020/21 Actuals	FY 2021/22 Actuals	FY 21/22 Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Interdepartmental Charges	272,450	497,457	471,859	-	471,859	235,930	275,251	58%	39,322	471,859	-
TOTAL REVENUES	272,450	497,457	471,859	-	471,859	235,930	275,251	58%	39,322	471,859	-
Personnel Services	90,755	101,970	163,297	26,131	189,428	94,714	69,990	37%	(24,724)	150,209	39,219
Repairs & Maintenance	-	1,964	4,100	-	4,100	2,050	482	0%	(1,568)	4,100	-
Materials & Supplies	194,562	415,508	396,810	49,869	446,679	223,339	242,836	54%	19,497	447,057	(379)
Contractual Services	24	390	-	-	-	-	-	0%	-	-	-
Depreciation	11,734	15,450	-	-	-	-	-	0%	-	-	-
TOTAL EXPENDITURES	297,075	535,282	564,207	76,000	640,207	320,103	313,308	49%	(6,795)	601,366	38,841
Net Revenue/(Expense)	\$ (24,625)	\$ (37,825)	\$ (92,348)	\$ (76,000)	\$ (168,347)	\$ (84,174)	\$ (38,057)	23%	\$ 46,117	\$ (129,507)	38,841

- No significant variances are expected in the revenue category.
- Personnel services are forecasted to end the fiscal year under budget by \$39k due to the delay in hiring the System Analyst lead position. The position was filled in November 2022.
- Materials and Supplies account for all IT software/hardware related costs in maintaining the City's computer networks. Expenditures are estimated to end the fiscal year under budget by \$17k. The City's IT budget has doubled in the last two fiscal years due to the increasing number of worldwide cyber threats against organizations of all sizes and types.

Also included is a budget request to purchase two file servers. The current file servers are very old and are at the age where the risk of failure becomes more likely. Although the City has an excellent and secure backup system, if either server fails, there is no "spare" server to restore the data from a backup. This is an ever-present risk to operations and is strongly recommended to be undertaken this fiscal year.



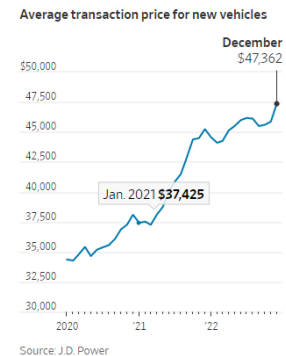
## INTERNAL SERVICE: FLEET

Fleet and Equipment services account for all activities of the City's central garage operations, the costs of which are distributed among designated user departments using equitable formulas.

ISF-FLEET											
	FY 2020/21 Actuals	FY 2021/22 Actuals	FY 21/22 Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2022	YTD Actual 12/31/2022	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Interdepartmental Charges	272,166	342,307	409,513	-	409,513	204,757	238,883	58%	34,126	409,513	-
Grant Reimbursements	-	-	-	-	-	-	197	0%	197	155,300	155,300
<b>TOTAL REVENUES</b>	<b>272,166</b>	<b>342,307</b>	<b>409,513</b>	<b>-</b>	<b>409,513</b>	<b>204,757</b>	<b>239,079</b>	<b>58%</b>	<b>34,126</b>	<b>564,813</b>	<b>(155,300)</b>
Personnel Services	144,542	150,409	125,721	2,669	128,390	64,195	72,185	56%	7,990	138,770	(10,380)
Repairs & Maintenance	43,647	51,986	38,000	-	38,000	19,000	26,560	70%	7,560	38,000	-
Materials & Supplies	96,891	99,586	92,300	-	92,300	46,150	44,050	48%	(2,100)	91,650	650
Vehicles	-	221,526	291,000	147,000	438,000	219,000	-	0%	(219,000)	597,000	(159,000)
Contractual Services	2,619	439	2,000	-	2,000	1,000	44	2%	(956)	500	1,500
Depreciation	94,221	69,881	-	-	-	-	-	0%	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>381,920</b>	<b>593,826</b>	<b>549,021</b>	<b>149,669</b>	<b>698,690</b>	<b>349,345</b>	<b>142,839</b>	<b>20%</b>	<b>(206,506)</b>	<b>865,920</b>	<b>(167,230)</b>
<b>Net Revenue/(Expense)</b>	<b>\$ (109,754)</b>	<b>\$ (251,519)</b>	<b>\$ (139,508)</b>	<b>\$ (149,669)</b>	<b>\$ (289,177)</b>	<b>\$ (144,588)</b>	<b>\$ 96,240</b>	<b>-33%</b>	<b>\$ 240,632</b>	<b>\$ (301,107)</b>	<b>(11,930)</b>

- USDA grants reimburse the City for 55 percent of the vehicle cost. Staff will be applying for the reimbursement of all vehicles purchased, amounting to \$155k.
- Personnel costs include a budget amendment request of \$10,380 for overlapping personnel costs in hiring a replacement for the City's mechanic, who is retiring at the end of the fiscal year. A budget adjustment is being requested to cover this overlap.
- A sharp rise in new-car prices since the pandemic has caused this line item to be over budget by \$159k caused by the supply chain disruption (in global semiconductors shortage, supply of chips, and other disruptions caused by the pandemic) that has created new-vehicle scarcity in recent years, resulting in a seller's market. According to research firm J.D. Power, the average price paid for a new vehicle hit a record of \$47,362 in December.

The City has been on the waitlist to purchase seven City vehicles; two were from the prior fiscal year. A budget adjustment of \$159k is being requested to align the budget with the year-end expenditure projections.



Carried forward from Prior year.

Unit No.	Make	Yr.	Model	Hours/Miles	Adopted Budget	Actual quotes	Diff
48	FORD	2008	Ranger	80,830	\$37,000	\$ 35,000	-\$2,000
PW1	CHEV.	2000	3500 Flatbed	44,143	\$90,000	\$ 104,000	-\$14,000
PD745	FORD	2020	Ford Van	1,135			
PD735	FORD	2005	CROWN VIC	89,424	\$56,000	\$83,000	-\$27,000
PD747	FORD	2009	ESCAPE	127,041	\$36,000	\$83,000	-\$47,000
PD744	FORD	2008	RANGER (hybrid)	55,563	\$44,000	\$71,000	-\$27,000
PD1302	FORD	2011	CROWN VIC	93,103	\$60,000	\$83,000	-\$23,000
PD1301-K9	FORD	2011	CROWN VIC	74,021	\$60,000	\$83,000	-\$23,000
<b>DIFF</b>					<b>\$383,000</b>	<b>\$542,000</b>	<b>-\$159,000</b>

Vehicle Replacement Plan														
Unit No.	Make	Yr.	Model	Hours/Miles	FY 21/22	FY 22/23 Adopted	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected	FY 28/29 Projected	FY 29/30 Projected	FY 30/31 Projected
New	New	2021	Generator		\$85,000									
New	New	Dump Truck (10Yard)					\$ 225,000							
WWT31	NISSAN	2007	FRONTIER	64,414			\$37,000							
48	FORD	2008	Ranger	80,830		\$ 35,000								
WT1	Dodge	2005	1500 Q. CAB	60,618					\$30,000					
PW8	JOHNDE	1985	BACKHOE	5,949	\$140,000									
PW16	FORD	2006	F-150 X-TRA	73,402			\$30,000							
PW46	STERLING	2020	Vactor	2,576										
PW1	CHEV.	2000	3500 Flatbed	44,143		\$104,000								
CHE121	FORD	2006	ESCAPE	59,407						\$38,000				
PW5	FORD	2006	F-250 SERV.	81,415			\$60,000							
Public Works Sub-Total					\$225,000	\$139,000	\$97,000	\$255,000	\$30,000	\$38,000				
PD745	FORD	2020	Ford Van	1,135										
PD735	FORD	2005	CROWN VIC	89,424		\$83,000								
PD747	FORD	2009	ESCAPE	127,041		\$83,000								
PD744	FORD	2008	RANGER (hybrid)	55,563		\$71,000								
PD1302	FORD	2011	CROWN VIC	93,103		\$83,000								
PD1301-K9	FORD	2011	CROWN VIC	74,021		\$83,000								
PD1403	FORD	2014	INTERCEPTOR	81,966			\$61,000							
PD501	FORD	2015	INTERCEPTOR	60,435			\$61,000							
PD500	FORD	2015	INTERCEPTOR	65,201				\$63,000						
PD509	FORD	2015	TAURUS	109,956	\$55,000									
PD503	FORD	2015	INTERCEPTOR	49,377					\$63,000					
PD510	FORD	2015	TAURUS	26,398					\$44,000					
PD502	FORD	2015	INTERCEPTOR	35,072						\$60,000				
PD507	FORD	2016	INTERCEPTOR	36,271						\$60,000				
PD508	FORD	2016	INTERCEPTOR	27,193							\$60,000			
PD513	FORD	2018	INTERCEPTOR	13,826								\$62,000		
Police Sub-Total					\$55,000	\$403,000	\$122,000	\$63,000	\$107,000	\$120,000	\$60,000	\$62,000	\$0	\$0
<b>Total Replacement Costs</b>					\$280,000	\$542,000	\$219,000	\$318,000	\$137,000	\$158,000	\$60,000	\$62,000	\$0	\$0

## RESERVES

With projected revenues of \$564k and expenses of \$812k, the Fleet Internal Service Fund will end the fiscal year with a reserve balance of (\$195k). During budget development for the next fiscal year, Staff will review the replacement plan schedule to ensure sufficient operating revenues to absorb the negative fund balance and cover essential fleet purchases. In addition to USDA reimbursements, Staff will work with the Police Department to potentially use some Asset Forfeiture funds to cover the upfits costs to these police vehicles, which is an eligible use of Asset Forfeiture funding.



**ASSET FORFEITURE PRIOR YEARS CORRECTIONS**

Asset forfeiture funds account for funds obtained from seized assets of criminal activities and are kept in a separate fund. The funds are used solely to support law enforcement purposes. It was brought to the City's attention in March of this fiscal year that in fiscal years 2016-2018, funds were misappropriated to fund the task force officer's salary and benefits, including overhead costs. Staff immediately investigated the matter and found that irregular transfers were made between Asset Forfeiture and the General Fund from 2010 – 2018. The City Attorney concurred that using Asset Forfeiture Funds to reimburse the General Fund for personnel expenditures was incorrect.

Here is a summary of CA Health & Safety §11489 & §11469 govern the disposition of these funds:

- Funding must be used to support law enforcement efforts (HS § 11489(d))
- **Funding shall not be used to replace or supplant local resources (HS § 11489(d))**
- **No sworn law enforcement officer's employment or salary shall be made dependent upon the level of forfeitures (HS § 11469(b))**
- Forfeiture proceeds shall be maintained in a separate fund or account subject to the appropriate accounting controls and annual financial audits (HS § 11469(h))
- Seizing agencies shall implement training for officers assigned to forfeiture programs, which training should be ongoing (HS § 11469(e)).
- Funds shall be used "for the sole purpose of [supporting] programs designed to combat drug abuse and divert gang activity" (HS § 11489(b)).
- Funding "shall, wherever possible, involve educators, parents, community-based organizations and local businesses, and uniformed law enforcement officers" (HS § 11489(b)).
- Programs must cause the development and continuation of positive intervention programs for high-risk elementary and secondary-age students (HS § 11489(b)).

Below is the list of transfers made in FY 2010-2018 from the Asset Forfeiture Funds to the General Fund for the Task Force & K9 Officer Costs, **amounting to \$551,224.21**:

Staff recommends transferring \$551,224.21 from the General Fund Unassigned Reserves to the Asset Forfeiture Fund – General to correct the prior year's misappropriations and make it right. If approved, the projected Unassigned General Fund Reserve balance would be reduced from \$1.6 million to \$1.05 million. The Asset Forfeiture balance would increase from \$344,496 to \$895,720.

TASK FORCE & K9 OFFICER COSTS	
FISCAL YEAR	COSTS
FY 10/11	\$ 25,000
FY 11/12	\$ 19,729
FY 12/13	-
FY 13/14	\$ 60,000
FY 14/15	\$ 99,298
FY 15/16	\$ 125,000
FY 16/17	\$ 130,460
FY 17/18	\$ 91,737
FY 18/19	-
<b>Total</b>	<b>\$ 551,224.21</b>

## BUDGET ADJUSTMENT REQUESTS AT MID-YEAR

Staff requests the following budget adjustments at mid-year. Council will not be asked to take official action on these requests today, but if Council is amenable, Staff will bring the adjustments back at a future Council meeting on the consent calendar for approval.

FY 2022/23 Requested Mid-Term Budget Adjustments							
Account Number	Account Description	Department	Current Budget	Budget Amendment Request	Adjusted Budget	Justification	Funding Source
<b>GENERAL FUND</b>							
<b>REVENUES</b>							
110-4200-3998	Miscellaneous Revenue		\$ 1,500	\$ 24,000	\$ 25,500	Wellness Grant Funds	<i>Grants</i>
110-4320-3205	MCOG/Parking Fund Reimb		-	67,690	\$ 67,690	CBD Traffic Study funding	<i>Grants</i>
110-4520-3497	Interfund Reimb		261,200	50,000	\$ 311,200	Funding for Radar Trailer	<i>MCOG</i>
<b>Total General Fund Revenues</b>			\$ 261,200	\$ 141,690	\$ 404,390		
<b>EXPENDITURES</b>							
110-4200-0380	Wellness	Police Department	-	\$ 24,000	\$ 24,000	\$9k grant and \$15k from state for wellness exp	<i>Grants</i>
110-4520-0319	Professional Services	Streets	15,000	15,000	30,000	On Call Grant Writing Services	<i>GF</i>
110-4916-0911	Principal Expenses	Non-Departmental	85,000	(85,000)	-	Redeemed \$3.5million, savings in principal	<i>GF</i>
110-4916-0912	Interest Expenses	Non-Departmental	514,703	(150,322)	364,381	Redeemed \$3.5million, savings in interest	<i>GF</i>
110-4320-0319	Professional Services	CDD	20,000	67,690	87,690	CBD Traffic Study	<i>MCOG &amp; Parking Fund</i>
<b>Total General Fund Expenditures</b>			\$ 634,703	\$ (128,632)	\$ 506,071		
<b>WATER ENTERPRISE</b>							
610-4612-0319	Professional Services	Water Enterprise	\$ 88,533	\$ 15,000	\$ 103,533	On Call Grant Writing Services	<i>Operating Appropriation</i>
610-4612-0383	Utilities	Water Enterprise	144,000	31,000	175,000	Increase in Utility Costs	<i>Operating Appropriation</i>
			\$ 232,533	\$ 46,000	\$ 278,533		
<b>WASTEWATER ENTERPRISE</b>							
710-4712-0319	Professional Services	Wastewater Enterprise	\$ 355,495	\$ 15,000	\$ 370,495	On Call Grant Writing Services	<i>Operating Appropriation</i>
710-4712-0383	Utilities	Wastewater Enterprise	220,000	86,000	306,000	Increase in Utility Costs	
			\$ 575,495	\$ 101,000	\$ 676,495		
<b>CV STARR ENTERPRISE (810)</b>							
810-4812-0319	Professional Services	CV Starr Enterprise	-	\$ 15,000	\$ 15,000	On Call Grant Writing Services	<i>Operating Appropriation</i>
			-	\$ 15,000	\$ 15,000		
<b>FACILITIES- ISF (520)</b>							
520-4393-0319	Professional Services	Facilities	-	\$ 15,000	\$ 15,000	On Call Grant Writing Services	<i>Operating Appropriation</i>
520-7999-7999	Transfer to other Funds			55,000	55,000	Corp Yard Roof Replacement	<i>Operating Appropriation</i>
				\$ 70,000	\$ 70,000		
<b>INFORMATION TECHNOLOGY - ISF (521)</b>							
521-4394-0382	Hardware Expenses	IT	\$ 108,068	\$ 60,000	\$ 168,068	Purchase two File Servers	<i>Operating Appropriation</i>
			\$ 108,068	\$ 60,000	\$ 168,068		
<b>FLEET- ISF (522)</b>							
522-4550-0382	Vehicles	Fleet -ISF	\$ 438,000	\$ 159,000	\$ 597,000	Overages in 7 Vehicle purchased	<i>Operating Appropriation</i>
522-4550-0101	Salaries & Wages	Fleet -ISF	69,555	10,390	79,945	Costs for overlap in Mechanic position	
			\$ 507,555	\$ 169,390	\$ 676,945		
<b>CAPITAL IMPROVEMENT PROGRAM (CIP)/SPECIAL REVENUES</b>							
426-4875-0731	Corp Yard Replacement		\$ 50,000	\$ 55,000	\$ 105,000	Corp Yard Roof Replacement increase in costs	<i>Facilities-ISF</i>
120-0000-0309	Parking Fund- Interfund Cost Reimb		-	10,628	10,628	CBD Parking Feasibility Study	<i>Parking Fund</i>
			\$ 50,000	\$ 65,628	\$ 115,628		

## LONG-TERM FINANCIAL PLANNING

Long-term financial planning is an important tool used to help maintain ongoing financial sustainability and helps governments provide a consistent level of services to their citizens. It is important to keep in mind that no one has a crystal ball and can predict the future with complete accuracy. However, the exercise of projecting revenues and costs into the future, while highly unlikely to be 100% correct, still gives the government an opportunity to develop a general sense of its financial health in the years to come.

The long-term forecast provided in this report was developed at a high level (low level of detail). The City's major sources of revenue were projected individually with all other revenue sources aggregated together. Likewise, the City's major expenditure categories were projected individually, with many costs aggregated together. The majority of the assumptions used in the report were based on a five-year historical trend. Years that were clear outliers were removed prior to averaging so as not to affect the overall trend. Some projections, however, are based on known payment or increase percentages. Pension costs have been projected to increase in FY 2024/25 and thereafter as a result of new Unfunded Liability (UAL) added by the -7.5% return recorded by CALPERS and almost 0% return projected for 2023.

This is an estimated 1% higher than prior CalPERS estimates to factor in the yet unknown impact of CalPERS not reaching the target earnings rate for the last two years. The target earnings rate is 6.8% but the investment return for FY 2018-19 was 6.7% for FY 2019-20, just 4.7% and a very strong performance of 21.3% for FY 2020/21. Over a 20-year period, the overall CalPERS fund performance has averaged just 5.5%. The unfunded pension liability for the fiscal year that ended June 30, 2022, is \$6.4 million.

Like most cities in California, Fort Bragg will see increases in its unfunded liability in FY 2024/25 payments with little or no reduction in the overall unfunded liability helped by the City adopting a Pension Policy and issued \$11.4 million in taxable Lease Revenue Bonds in 2021 to restructure the UAL debt with CALPERS. Proceeds of \$7.5 million were used to reduce the City's unfunded pension liability, with an additional \$3.5 million set aside for City projects which were later returned to reduce the City's debt. The record positive CalPERS investment return mentioned above, the \$7.5 million liability payment, and the setting up of a Section 115 Trust with PARS placed the City in a better position to manage pension obligations. However, recent negative returns by CALPERS in June 2022 have caused UAL to increase.

The table on the following page includes three years of audited results for context as well as projected results for six additional years into the future. Four "what-if" scenarios are provided, showing possible long-term results if certain revenue enhancements were enacted.

### **FIVE-YEAR PROJECTION**

In Fiscal Year 2018-19, the citizens of Fort Bragg voted on a ballot initiative entitled Measure H. Measure H was a proposed general sales tax aimed at closing the budget gap caused by skyrocketing pension costs. With additional revenue, the City planned to enter into a shorter amortization schedule with CalPERS for payment of unfunded liabilities. Although this would have resulted in a higher annual payment, it would have saved the City nearly \$4 million of interest cost over 15 years. Measure H was not successful.

With the defeat of Measure H, the City took steps to close the budget gap on the expenditure side. The Administrative Services department eliminated the position of Administrative Services Director and the Police Department eliminated a Lieutenant. Additionally, in FY 2019-20, the Community Development Director terminated employment with the City. This position was replaced with a lower-cost Planner position.

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

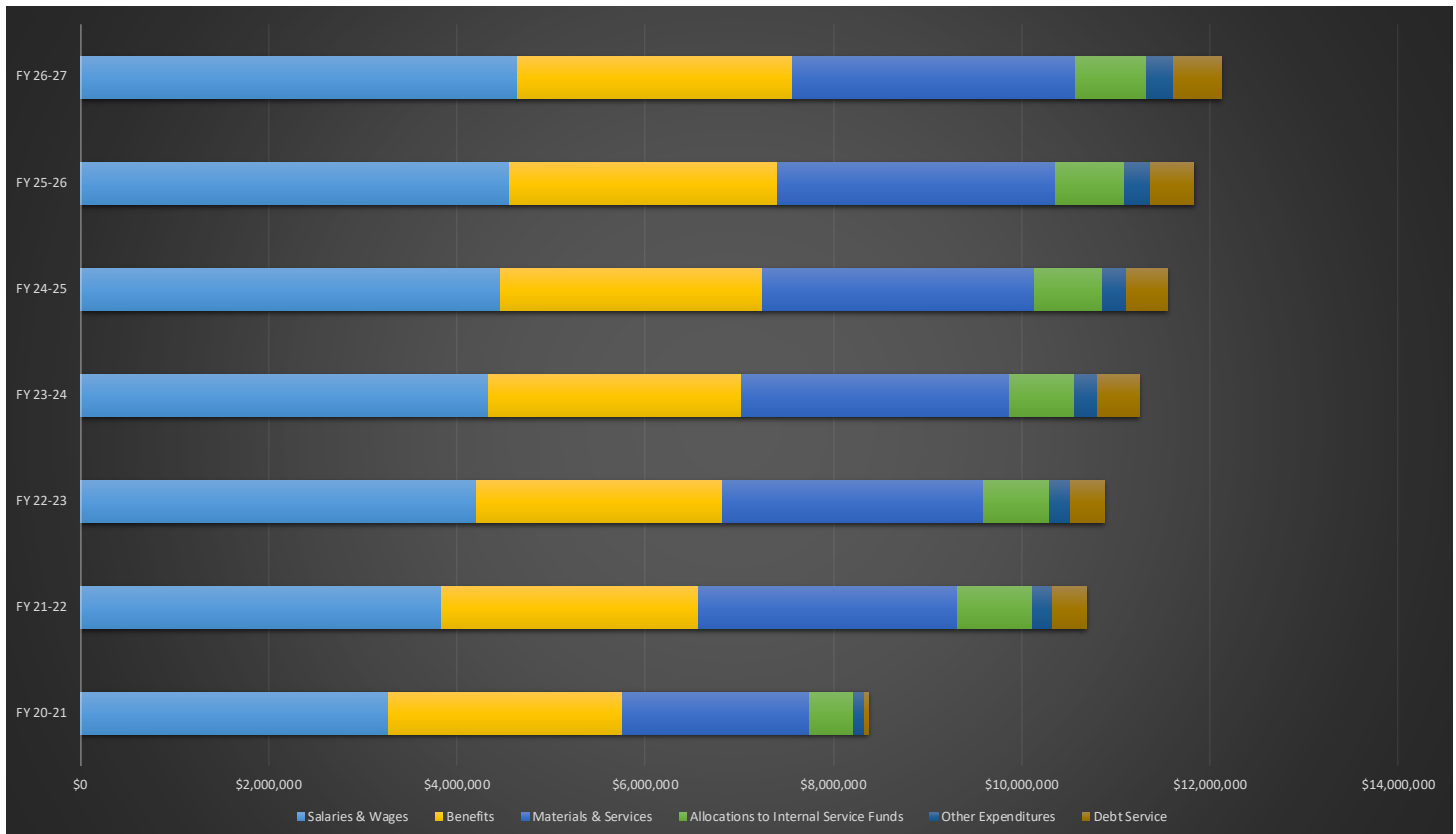
services and the previously discussed increases in TOT and sales tax revenue as tourism rebounded. In May, 2020, the City laid off four full-time employees, froze two positions in the Police Department, and furloughed another twelve employees, at 50% to 75% of their regular hours. The furloughed Staff was returned to full-time status in August 2020, 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.

The City adopted a balanced General Fund budget for FY 2021/22 and projected a small surplus of \$47k and \$175k in FY 22/23. While the Surplus was small, the budget included \$150k to pay down pension obligations, a budget for the Police Chief position, and a new City Manager position with relatively modest revenue projections.

The long-term forecast indicates that in the next year or two, the City will likely be able to fill budgeted positions or realized deficits with appropriated fund balance. Revenue enhancements and/or additional cost-cutting measures will likely be necessary within two years. The long-term forecast includes four "what-if" scenarios showing the effect of a variety of different **hypothetical** revenue generators and cost reductions. Staff recommends that the City Council pursue a general sales tax measure again at the next opportunity or identify new sources of revenues.

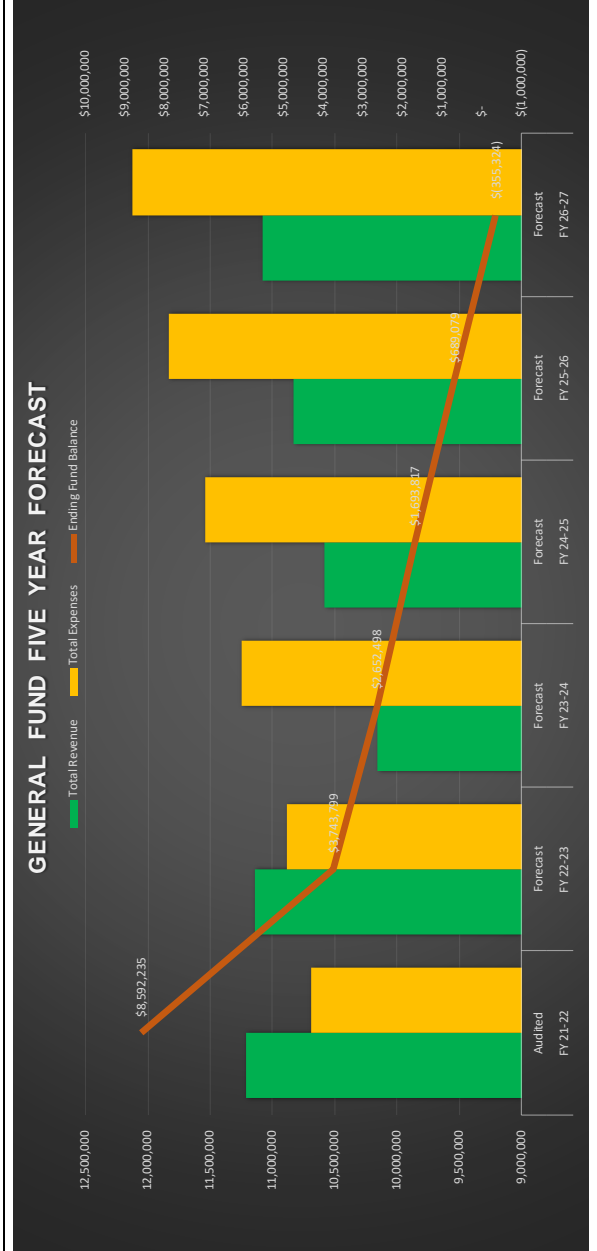
In addition to pursuing a general sales tax measure, the City could leverage accumulated funds from the internal service funds, enterprise funds, debt borrowings, and other expense reductions or revenue-generating opportunities.

The following charts depict the General Fund expenditure categories.





City of Fort Bragg General Fund Five Year Forecast											
	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28			
	Audited	Audited	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast			
<b>Revenue:</b>											
Sales Tax	\$ 2,028,010	\$ 2,215,161	\$ 2,178,000	1,916,640	1,974,139	2,043,234	2,114,747	2,188,763			
Property Tax	1,085,532	1,150,352	1,176,309	1,205,716	1,235,659	1,248,218	1,260,700	1,273,307			
Transient Occupancy Tax	3,321,928	3,444,990	3,371,081	3,033,973	3,124,992	3,156,242	3,187,804	3,219,682			
Cost Allocations	2,289,275	3,333,187	2,754,136	2,478,722	2,590,265	2,706,827	2,828,634	2,955,923			
All Other Revenue Sources	1,137,672	1,071,911	1,658,130	1,624,967	1,657,466	1,674,041	1,690,781	1,707,689			
<b>Total Revenue</b>	<b>8,872,418</b>	<b>11,215,601</b>	<b>11,137,655</b>	<b>10,156,540</b>	<b>10,582,722</b>	<b>10,828,562</b>	<b>11,082,667</b>	<b>11,345,365</b>			
<b>Expenditures:</b>											
Salaries & Wages	3,271,863	3,831,953	4,205,464	4,331,628	4,461,577	4,550,808	4,641,824	4,734,661			
Benefits	2,489,172	2,728,147	2,616,939	2,695,447	2,776,311	2,859,600	2,916,792	2,975,128			
Materials & Services	1,979,993	2,762,347	2,781,147	2,836,769	2,893,505	2,951,375	3,010,402	3,070,611			
Allocations to Internal Service Funds	478,497	789,396	686,129	699,852	720,847	742,473	764,747	787,689			
Other Expenditures	109,919	216,637	232,032	243,633	255,815	263,489	271,394	279,536			
Debt Service	37,964	358,337	364,381	440,513	433,348	465,555	521,910	561,410			
<b>Total Expenditures</b>	<b>8,367,408</b>	<b>10,686,817</b>	<b>10,886,091</b>	<b>11,247,842</b>	<b>11,541,402</b>	<b>11,833,300</b>	<b>12,127,070</b>	<b>12,409,034</b>			
<b>Net Transfers:</b>											
Net Increase (Decrease) to Fund Balance	1,505,010	528,784	251,564	(1,091,302)	(958,680)	(1,004,738)	(1,044,402)	(1,063,669)			
Other restricted funds		3,879,236	(5,100,000)								
Beginning Fund Balance	2,679,205	4,184,215	8,592,235	3,743,799	2,652,498	1,693,817	689,079	(355,324)			
Ending Fund Balance	\$ 4,184,215	\$ 8,592,235	\$ 3,743,799	\$ 2,652,498	\$ 1,693,817	\$ 689,079	\$ (355,324)	\$ (1,418,993)			
<b>Storm Drain Enterprise \$190k annually</b>											
Parcel Tax \$430k/yr.				(901,302)	(768,680)	(814,738)	(854,402)	(873,669)			
1/4 cent General Sales Tax \$500k/yr.				661,302	(528,680)	(574,738)	(614,402)	(633,669)			
3/8 cent General Sales Tax \$750k/yr.				612,142	(465,146)	(499,930)	(533,594)	(534,982)			
<b>Total Revenue</b>	<b>\$ 4,184,215</b>	<b>\$ 4,851,447</b>	<b>\$ 5,647,511</b>	<b>\$ 5,035,369</b>	<b>\$ 4,570,223</b>	<b>\$ 4,076,294</b>	<b>\$ 4,036,630</b>	<b>\$ 3,541,312</b>			
<b>Total Expenditures</b>	<b>\$ -</b>	<b>\$ 736,455</b>	<b>\$ 1,068,314</b>	<b>\$ (372,562)</b>	<b>\$ (218,378)</b>	<b>\$ (238,526)</b>	<b>\$ (251,372)</b>	<b>\$ (242,883)</b>			
<b>Ending Fund Balance</b>	<b>\$ 4,184,215</b>	<b>\$ 4,820,671</b>	<b>\$ 5,988,985</b>	<b>\$ 5,616,423</b>	<b>\$ 5,398,045</b>	<b>\$ 5,159,519</b>	<b>\$ 4,908,147</b>	<b>\$ 4,665,264</b>			



## The FISCAL YEAR 2023/24 BUDGET PREPARATION

### A. BUDGET PREPARATION SCHEDULE

Initial activities related to preparing the Fiscal Year 2023/24 budget are underway. The direction provided today by Council will be incorporated into the budget draft. Staff will present a draft budget to the Council and the public at a budget workshop on May 18. The further direction provided at the workshop will be incorporated into a "Final" budget that will be presented to the Council for consideration of adoption on June 14. The complete budget calendar is provided below:

### SCHEDULE FOR DEVELOPMENT OF FY 2023/24 BUDGET

ACTIVITY	DEADLINE
FINANCE PROVIDES BUDGET SPREADSHEETS TO DEPARTMENTS AS WELL AS INSTRUCTIONS RE: NARRATIVES & CAPITAL PROJECTS (INCLUDING INTERNAL SERVICE FUNDS, GRANTS, DDAs)	2/25/2023
MID-YEAR PERFORMANCE BUDGET REVIEW WITH COUNCIL ( 1.30PM-5.30pm) <b>(COMMUNITY INPUT)</b>	3/22/2023
FINANCE PROVIDES INITIAL REVENUE FORECASTS TO CM (ALL REVENUE SOURCES, AND FUNDS)	3/31/2023
DEPTS SUBMIT PROPOSED DEPARTMENTAL EXPENSE BUDGETS AND NARRATIVES TO FINANCE	4/7/2023
PW & CDD SUBMIT COMPLETED BUDGET SECTIONS FOR GRANTS AND CAPITAL PROJECTS	3/23/2023
HR PROVIDES PAYROLL PROJECTIONS INCLUDING BENEFITS	4/15/2023
CM & FINANCE MEET WITH ALL DEPTS; REVIEW APPROPRIATIONS REQUESTS	4/17/2023 thru 4/21/2023
CM & FINANCE FOLLOW UP MEETING CIP	4/21/2023
FINANCE POSTS REVISED BUDGET WORKSHEETS IN BUDGET FOLDER;	4/22/2023
DEPARTMENTS REVIEW REVISED EXP WORKSHEETS; REPORT ANY DISCREPANCIES TO FINANCE THIS INCLUDES PROJECTED YEAR END FOR FY23, GRANTS; CAPITAL PROJECTS, ETC	4/22/2023
FINANCE REVIEWS TOTAL REVENUES vs EXPENDITURES WITH CM - ADJUST AS NECESSARY; <u>draft CV Starr Budget due</u>	4/31/2023
INTERNAL REVIEW/QUALITY CONTROL (FINANCE, CM, DEPTS) - DRAFT BUDGET DOCUMENT	4/15/2023 thru 5/10/2023
FINALIZE DRAFT BUDGET DOCUMENT	5/10/2023
CM COMPLETES BUDGET TRANSMITTAL LETTER	5/4/2023
FINANCE DISTRIBUTES PROPOSED FY 2023/24 Draft BUDGET	5/19/2023
CITY COUNCIL CONDUCTS FY 2023/24 BUDGET WORKSHOP ( 9 am - 2:30pm) <b>(COMMUNITY INPUT)</b>	5/24/2023
FINANCE DISTRIBUTES FY 2023/24 BUDGET INCLUDING COUCIL AND PUBLIC UPDATES (FOR COUNCIL ADOPTION)	6/9/2023
CITY COUNCIL ADOPTS FY 2023/24 BUDGET	6/12/2023

### B. PRIORITIZED LIST OF FINANCIAL GOALS

Staff used the prioritized list as guidance in preparing the FY 2022/23 budget and will again use the list in preparing the FY 2023/24 budget unless Council directs otherwise:

- 1) Adopt a balanced budget
- 2) Provide additional contributions to the **Section 115 Trust** to help pay the unfunded liability
- 3) Maintain operating reserve (15-20% of operating Exp) and litigation reserve (\$200k)
- 4) Provide additional funding for emergency reserves **(Increase Recession Reserves from 5% to 10% of Operating Expenditures)**
- 5) Maintain current level of service (no staff layoffs, no program cuts)
- 6) Provide cost of living adjustments for Staff in years to come
- 7) **Change Policy – 50% of Surplus to be deposited to Section 115 Trust instead of additional payments to CALPERS.**

### C. CITY COUNCIL DISCUSSION