



**CITY OF FORT BRAGG**

416 N. FRANKLIN, FORT BRAGG, CA 95437  
PHONE 707/961-2823 FAX 707/961-2802

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**COUNCIL COMMITTEE ITEM SUMMARY REPORT**

**MEETING DATE:** APRIL 14, 2021  
**TO:** FINANCE AND ADMINISTRATION COMMITTEE  
**FROM:** TABATHA MILLER, CITY MANAGER  
**AGENDA ITEM TITLE:** City Council FY 2021-22 Budget Priorities

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**BACKGROUND AND OVERVIEW:**

As part of the budget preparation process, staff requests that the City Council prioritize their goals regarding the upcoming budget year. By establishing goals and ranking those in order of most to least important, the City Council provides staff direction on policy and focus for the next fiscal year (FY).

Staff used the following prioritized list as guidance in preparing the FY 2020-21 budget:

- 1) Adopt a balanced budget
- 2) Maintain operating reserve and litigation reserve
- 3) Maintain long term funding plans in the City's three internal service funds
- 4) Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years
- 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) Provide funding for emergency reserves
- 8) Continue to make additional contributions to the OPEB pension trust

The City Council may add goals and/or change the priority of existing goals. As a reminder, the financial state of the City limits our ability to meet every goal. This is why ranking the goals provides such essential guidance to staff in developing the budget.

At the March 4, 2021 Mid-year budget workshop, the City Council asked the Finance and Administration Committee to review the goals and priority ranking for FY 2021-22 and make a recommendation to the full Council.

## **RECOMMENDATION:**

Staff recommends that the Committee consider the importance of the priority currently ranked as number 4 and consider placing the goal of making additional contributions to the pension liability as a higher priority and focus efforts on ways to reduce that long-term obligation.

*4) Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years.*

The City Council has a current budget policy of contributing fifty percent (50%) of any year-end general fund surplus to the City's unfunded pension liability. For the 2018-19 fiscal year, the City was able to make an additional contribution of approximately \$90,000. While admirable, it is small compared to the \$10.8 million unfunded pension liability. The City's General Fund operated at a deficit of \$450k in FY 2019-20, thus no additional contribution was made to the unfunded liability.

The Committee may want to consider reprioritizing the goals and using funds from reserves, including internal service funds and OPEB Trust Funds to increase contributions to the unfunded liability. The Internal Service Funds have a projected combined Fund Balance of \$860,000 as of fiscal year end for 2020-21. Use of some portion of the ISF funds would likely change the ranking of budget goal No. 3, which is to maintain long-term funding of the ISFs. An alternative is to pay as you go for these expenses, if the Council chooses to utilize these reserves.

The City's OPEB pro-forma financial report project starting to draw from the OPEB Trust in FY 2020-21. Funds withdrawn could reduce existing retiree health benefits expenditures and be diverted to the unfunded pension liability. The City may draw up to the amount of the retiree health insurance annual expense from the OPEB Trust Fund.

Another consideration is budgeting additional contributions in the General, Water and Wastewater Funds, instead of waiting to see if there is any surplus at the end of the fiscal year. That way the contribution is accounted for during the budget preparation instead passively of the end of the year.

A staff goal, in the next three to six months is to have developed a funding policy and plan to start actively addressing the pension liability. Early commitment and established goals by this Committee and the Council contribute to the success of such efforts.