



CITY OF FORT BRAGG

Incorporated August 5, 1889

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May 17, 2021

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

I am pleased to present the Proposed Fiscal Year (FY) 2021-22 Budget for the City of Fort Bragg, the Fort Bragg Municipal Improvement District, No. 1, and the Fort Bragg Redevelopment Successor Agency. The annual budget provides a comprehensive statement of the City's organization, operations and resources. It expresses City Council and District Board policies and priorities in all areas of the City's operations and it links near-term priorities with the resources available to achieve them. Over the course of the year, the City's budget serves as a financial management tool and as a work plan for the delivery of City services and implementation of capital projects.

A Look Back and Forward

Although certainly not as challenging as putting together the FY 2020-21 Budget, we are still in unprecedented circumstances. A year ago, we struggled to determine what impact the COVID-19 Pandemic, economic shutdown and resulting recession would have on the City's revenue levels. We did not know how long any of those events would run. As a city that depends heavily on tourism for its revenue, the City Council anticipated the potential impact of stay at home orders at the federal, state and local level. Nearly half of the City's General Fund revenue comes from Transient Occupancy Tax (TOT) and sales tax. As a result, The City Council provided direction in April 2020 for budget reductions that equate to \$1.4 million or 16.5% of the annual General Fund expenditures.

TOT revenue, which now amounts to approximately 31% of the City's General Fund revenue, dropped 47% in March 2020, 89% in April 2020 and 84% in May 2020, from the same month in 2019. For the year ending June 30, 2020, TOT revenue was down 21% from the prior year. While TOT was the City's most impacted revenue early in the Pandemic, it showed clear signs of recovery in July 2020 (only down 10%) and by August was up 14% over the prior August. Third quarter 2020 set a record for best quarterly collections ever and was up 14% over the prior year. We project that FY 2020-21 will be the best year on record for TOT collections, up 5% from FY 2018-19 and 25% over FY 2019-20. TOT revenue is projected nearly flat for FY 2021-22, as we try to project how the Pandemic recovery will play out.

Sales Tax, which accounts for approximately 20% of the City's General Fund revenue, was relatively stable. Like many jurisdictions, the City experienced decreases in tax from fuel and other travel related industries but saw increases in those "essential businesses" such as grocery stores, home improvement stores, drug stores and online sales. Overall, FY 20-21 is projected to be down less than 1% from FY 19-

20.¹ Sales tax for FY 21-22 is projected to increase 4.5% as businesses such as bars and movie theaters are finally allowed to reopen and restaurants are able to expand their seating capacity.

The City's add-on sales taxes, 0.5% dedicated to improving the City's streets and alleyways and 0.5% dedicated to the maintenance and operations of the C.V. Starr Community Center, performed well and certainly better than budgeted for FY 2020-21. Collections for FY 2019-20 were better than any other year and collections for FY 2020-21 are expected to exceed the original FY 2020-21 budget by more than 40%.

FY 2021-22 Budget Planning Considerations

At the Mid-year Budget Review in early March, the City Council requested that the Finance and Administration Council Committee review and provide a recommendation of Council Budget Priorities for FY 2021-22. The edited revisions proposed by the Finance and Admin Committee are set forth below (crossed out goals were determined to no longer be relevant):

1. Adopt a balanced budget
2. Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years
3. Maintain operating reserves and litigation reserves
4. Provide funding for emergency reserves
5. ~~Maintain long term funding plans in the City's three internal service funds — review annually~~
6. Maintain current level of service (no staff layoffs, no program cuts)
7. ~~Provide cost of living adjustments for staff in years to come~~
8. ~~Continue to make additional contributions to the OPEB pension trust~~

Staff and City Council have approached developing the FY 2021-22 budget conservatively but also optimistically. As discussed above, TOT revenues are up over prior years and sales tax revenues are stable. Grant funding, stimulus packages and infrastructure investments from both the federal and state government have been and are expected to be more readily available in the next year or two. The City has been very successful in applying for, receiving and investing these funds and anticipates this trend will continue.

Consistent with goal No. 1, *Adopt a balanced budget*, the proposed General Fund Budget is balanced with a projected surplus of nearly \$90k. Also consistent with these goals, staff has budgeted \$250k to make additional contributions to CalPERS against the City's unfunded liability. The General Fund budget includes \$150k to pay down pension liability and the Water and Wastewater Funds' each include \$50k. The FY 2021-22 Proposed Budget provides for an operating reserve, recession reserve and a litigation reserve in the General Fund. The Water and Wastewater Funds include recession reserves and capital reserves.

There are no planned staff reductions or program cuts included in the Proposed Budget. Moreover, the FY 2021-22 Proposed Budget re-establishes the Measure AB funding levels for marketing Fort Bragg; maintenance and security of the Coastal Trail; support for establishing Noyo Center for Marine Science as a premier visitor attraction; and special projects that support tourism and benefit the community, which includes but is not limited to enhancement of local athletic fields. The chart on the next page sets forth the budgeted allocations based on the projected FY 2021-22 TOT revenue:

¹ A sales tax payment of \$129,001 was booked in FY 2019-20 that should have been accrued to the prior year. Without this error, sales tax would have been down 4%.

ALLOCATION	FY 2021-22 AMOUNT
Fort Bragg Promotions (1% of TOT)	\$230,000
Coastal Trail Maintenance (0.5% of TOT)	\$115,000
Noyo Center for Marine Science (.25% of TOT)	\$60,000
Special Projects that support tourism and benefit the community (.25% of TOT)	\$60,000

Grants and Other State and Federal Funding

In part, the FY 2021-22 proposed budget is projected to result in a small surplus because of grants that the City has received. In total, staff time reimbursable is budgeted at \$489k compared to FY 2020-21. Much of the reimbursable time is for Community Development Block Grants (CDBG), which include: the Code Enforcement Program, Business Loans, Fire Station Rehabilitation Design Work, and general administration. Other grant/funding reimbursements include SB2 planning grants, Economic Development Agency (EDA), Local Early Action Planning (LEAP), Community Oriented Policing Services (COPS) and State gas tax and road improvement funding.

The City has an initial allocation of Coronavirus State and Local Fiscal Recovery Funds of \$1,374,000. This is from the \$350 billion established by the American Rescue Plan Act of 2021 to provide emergency funding for eligible state, local, territorial and Tribal governments. The U.S. Department of Treasury has issued guidance for how entitlement units of local government will receive the funding but non-entitlement governments, including Fort Bragg, will receive their funding through state governments. Non-entitlement governments are typically those with populations under 50k. The U.S. Department of Treasury has indicated that guidance for non-entitlement governments will be issued the week of May 17.

The U.S. Department of Treasury expects to distribute the funds in two tranches, with 50% beginning in May 2021 and the balance delivered 12 months later. Because the timing and application process for these funds is not yet clear for non-entitlement cities, we have not yet included them in the budget or long-term projections.

New Challenges

The City's enterprise funds, which include the Water, Wastewater and C.V. Starr Center funds are all projected to have decreasing revenues for FY 2021-22. On April 21, 2021, the Governor declared a state of emergency in Mendocino County due to the multi-year drought. The City anticipates issuing its own water emergency within the next month depending on conditions. As a result of establishing water conservation measure much earlier in the summer, both water and wastewater revenues are projected to be lower than FY 2020-21. On a side note, the City Council decided to forgo a water and wastewater rate increase that was originally scheduled for July 1, 2020 and wait for the results of the current rate study that is underway.

While the add-on sales tax revenue that supports approximately 65% of the operating costs of the C.V. Starr Center have remained stable and even increased in the last two fiscal years, the operating revenue collected at the facility is projected much lower than prior years. The facility is expected to re-open in July, after being closed since March 2020, but at a lower capacity and with limited hours of operation. Rehiring staff has been challenging and staff is unsure about the willingness of the public to return to the indoor facility so soon.

Budget Overview

The City has three major operating funds: General Fund; Water Enterprise; and Wastewater Enterprise. In addition, the City's chart of accounts includes the C.V. Starr Center Enterprise, special revenue funds,

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

The City's total proposed expenditure budget (excluding transfers) for FY 2021-22 is \$30.9 million. This is an increase of 4.4% from the amended FY 2020-21 budget. As you can see in the chart below, the largest percentage increase is staffing cost. In April 2020, the City made significant reductions to staffing. Four positions were eliminated, two positions were frozen, voluntary pay reductions were taken by the Police Department and the City Manager, and hours for twelve employees in City Hall were reduced. Over the course of the last year, as revenues have rebounded or performed better than expected, staff pay and hours have been increased and some staffing restored. As these measures have been implemented, they have only applied to a partial year so the full annual impact of these costs are not recognized until FY 2021-22. The FY 2021-22 Proposed Budget also includes three new positions: Construction Project Manager, Maintenance Worker I and a full-time Police Chief. The full-time Police Chief will replace the interim Chief, who as a CalPERS retired annuitant did not receive benefits. The costs of benefits for this position is approximately \$116k per year.

The increase in Capital expenditures is driven by a shift in focus from the Wastewater Utility to the planning and design work associated with the City's Water Utility as well as the Street and Alley improvement projects that occur every other year. The nearly \$1 million decrease in Materials & Services is primarily attributed to one-time grant funds that supported the Tenant Based Rental Assistance program (\$500k) and the COVID Utility Assistance program (\$250k) for FY 2020-21. The reduction in Indirect Expenses is related to a change in accounting. Staff time for the Water Fund has historically been charged to the Wastewater and General Fund and then transferred as an indirect charge to the Water Fund. Starting in FY 2021-22, staff time will be directly charged to the Water Fund. The budget for salaries and benefits in the Water Fund is approximately \$650k.

Budget Expenditure Category	Amended FY 2020-2021	Proposed FY 2021-2022	\$ Variance	% Variance
Salaries & Wages	\$ 4,603,490	\$ 5,565,996	\$ 962,506	17.3%
Benefits	3,090,350	3,724,112	633,762	17.0%
Material & Services	11,813,692	10,823,731	(989,961)	-9.1%
Capital	6,597,199	7,681,790	1,084,591	14.1%
Debt Service	634,938	633,753	(1,185)	-0.2%
Indirect Expenses	2,487,571	2,089,291	(398,280)	-19.1%
Fiduciary Funds	381,275	383,950	2,675	0.7%
Total	\$ 29,608,515	\$ 30,902,623	\$ 1,294,108	4.4%

Projected Fund Balances

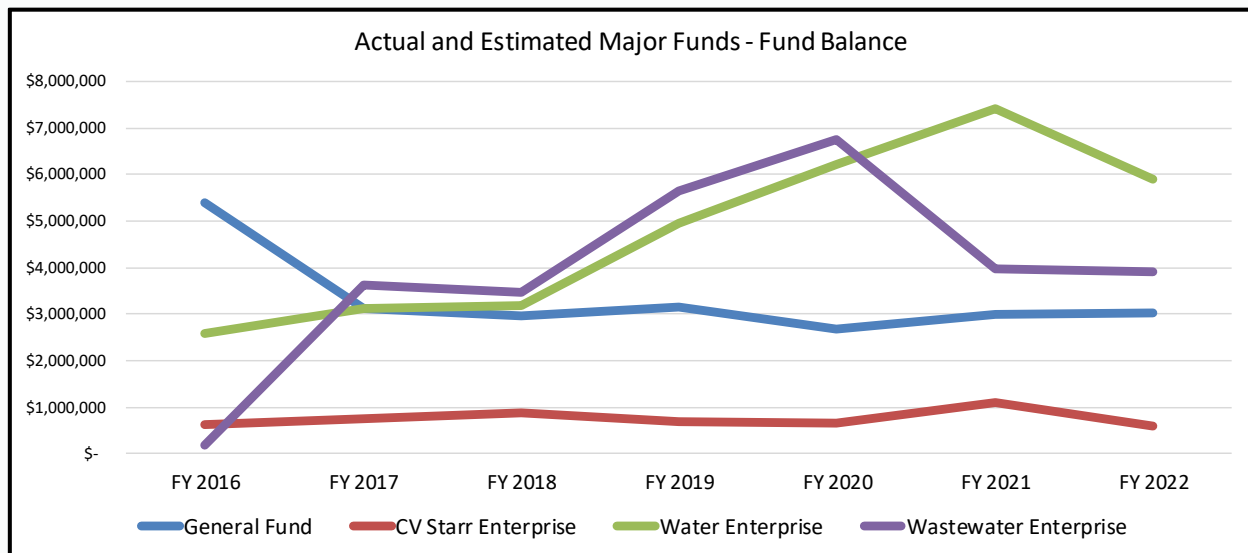
The year-end fund balances and the changes over time provide a narrative about the financial condition of each fund or fund group. Fund balance is the difference between assets and liabilities and reflects the cumulative annual financial surpluses and deficits. One-time declining balances are generally not bad and typically reflect one-time capital or other large expenditures. Often times these are planned for expenditures such as the upgrade to the City's Wastewater Treatment Plant last year and Water System improvements in FY 2021-22 and 2022-23. Frequently, revenues are accumulated to cover the cost or a portion of the cost of these capital projects. Fund balances that continue to decline each year from operating deficits or unplanned expenses may be a cause for concern or indicate a long-term structural deficit.

Some funds are in better financial condition than others. The decline in the General Fund fund balance in FY 2016-17 was the result of the new cost allocation plan and repayment of prior year over-allocations made by the Water and Wastewater Enterprise funds. The General Fund was the most impacted by the

COVID-19 pandemic and economic shutdown but not nearly as bad as anticipated a year ago - when fund balance was projected to drop by approximately 50% from \$3.1 million at the end of FY 2018-19 to \$1.6 million at the end of FY 2020-21. The General Fund weathered the COVID-19 pandemic and economic shutdown better than expected. For FY 2019-20 the General Fund fund balance dropped \$450k instead of the projected \$1.2 million. For FY 2020-21 the General Fund fund balance is projected to rebound and increase by nearly \$290k. The small projected surplus for FY 2021-22 of just under \$90k will continue to slowly rebuild the City's General Fund fund balance. Changes in the Special Revenue, Capital and Internal Service funds are typically tied to capital projects and expenditures can fluctuate accordingly. The drop in Water Fund Balance in FY 2021-22 is directly related to increased spending on Water Capital improvements. With the completion of the Wastewater Treatment Facility Upgrade and four Lift Station Rehabilitations, staff resources will focus on capital improvements to the City's Water system in the next year.

The chart and graph below provide a five and seven-year "picture" of the City's fund balances.

Funds	06/30/2018 Audited Fund Balance	06/30/2019 Audited Fund Balance	06/30/2020 Audited Fund Balance	06/30/2021 Projected Fund Balance	06/30/2022 Projected Fund Balance
General Fund	\$ 2,959,473	\$ 3,141,626	\$ 2,691,242	\$ 2,979,979	\$ 3,031,005
Special Revenue Funds	4,955,492	2,533,468	3,870,382	3,042,271	1,746,350
Capital Projects Funds	(374,490)	1,748,733	(454,381)	(33,005)	(33,005)
Internal Service Funds	360,416	806,683	914,449	836,449	672,656
CV Starr Enterprise	874,690	702,390	645,608	1,089,834	588,645
Water Enterprise	3,178,033	4,953,535	6,220,235	7,425,087	5,899,873
Wastewater Enterprise	3,462,700	5,632,580	6,752,526	3,968,319	3,909,847
Total	\$ 15,416,314	\$ 19,519,015	\$ 20,640,061	\$ 19,308,934	\$ 15,815,371



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

General Fund Budget

The General Fund is projected to have \$9,977,455 million in revenue in FY 2021-22 and expenditures (excluding transfers) of \$9,888,464. Although the small surplus of \$90k may not seem impressive, at the Mid-Year Budget workshop in early March of 2020, just before the pandemic, staff had projected ending

FY 21-22 at a \$190k deficit. In addition, those budget projections did not allow for the \$150,000 prepayment to reduce the unfunded pension liability, which are proposed for this next FY. Today, we are projecting that the General Fund for FY 2021-22 will net \$400k more than the projections just a year ago. While the increase on chart below of 8.9% from the prior year amended budget may seem large, in addition to the pension liability prepayment, it also includes restoring the Measure AB funding to pre-pandemic levels.

General Fund Expenditures by Category	FY 2020-21 Amended Budget	FY 2020-21 Projected Actual	FY 2021-22 Proposed Budget	FY 2020-21 Budget vs. FY 2021-22 Budget	% Variance
Salaries & Wages	\$ 3,406,905	\$ 3,419,413	\$ 3,648,435	\$ 241,530	7.1%
Benefits	2,639,202	2,537,685	2,729,878	90,676	3.4%
Material & Services	2,237,194	2,092,873	2,502,071	264,877	11.8%
Other Expenditures	147,625	148,672	321,950	174,325	118.1%
Debt Service	-	-	-	-	-
Allocation to Internal Service Funds	789,222	785,392	841,517	52,295	6.6%
Total General Fund Expenditures	\$ 9,220,148	\$ 8,984,035	\$ 10,043,851	\$ 823,703	8.9%

Conclusion and Acknowledgements

As public servants, it is important for us to remember who we work for and what we are here to do for our businesses, citizens and visitors. Our job is to make Fort Bragg a safe and healthy place to live and visit. We continue to face challenges in meeting this mission. Like last year fiscal year we expect to be challenged with regional wildfires, Public Safety Power Shutdowns (PSPS), and a severe water drought that could be the worst on record. Additionally, we hope that the Pandemic, while not gone, has certainly slowed.

I believe that we need to continue to plan for the future of our City. Today, our financial outlook is much improved from a year ago, but if I learned one thing this last year it is to be flexible and ready for what comes next – both the good and the bad. To assume that the current levels of funding from TOT or state and federal governments will continue would be short-sighted. The City still faces increasing pension costs and many long-term capital needs, both of which have significant price tags. The costs of these needs require long-term planning on the scale of 10-20 years.

I would like to thank all of the public servants with whom I work. Without each and every one of them, the City of Fort Bragg would not be the unique and amazing place that it is. I must also credit our elected officials, who are also public servants with very little pay for what essentially amounts to many many hours of volunteer work. It is their leadership that provides the structure for what we do each day. This budget is the product of much work by the management team and supporting staff. However, it is the Finance Department who produce this document. Many thanks to Janet Ferraiolo, Cristal Munoz, Laura Bianchi Limbird, and Isaac Whippy, the City’s Senior Government Accountant, who stepped in and stepped up this last year to lead the Finance Department.

I look forward to meeting the challenges and the victories we will face this next year.

Respectfully Submitted,

Tabatha Miller

Tabatha Miller
City Manager