Long-term forecast

Sales tax revenues have decreased slightly in recent months, but this is inevitable in the face of declining inflation. Ultimately, such declines are often mitigated by the increases in other revenue sources. For instance, property taxes are counter-cyclical to a high inflation environment, so when high inflation abates, interest rates will also fall creating higher value to homeowners and greater tax revenues to the City as well as relieving pressure on those unwilling to refinance in a high-rate environment. This means more revenue through property development and existing home sales.

Although the City still faces significant needs for services and capital improvements, it remains in a strong financial position with reserves over the Council's 25% goal to meet unforeseen needs. Also, it is important to note that the pension cost calculated in this forecast uses the latest actuarial report issued in June 2023 and through June 30, 2022, which reflects -6.1% investment loss that was reported by CalPERS for the fiscal year ending June 20, 2022. Such losses are driving significant increases to the City's unfunded accrued liability (UAL) determined by CalPERS. Pension costs have been projected to increase in 24/25 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% 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, 2023, is $6.4 million.

Like most cities in California, Fort Bragg will see increases in its unfunded liability in 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.

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 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, 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 2022 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 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.

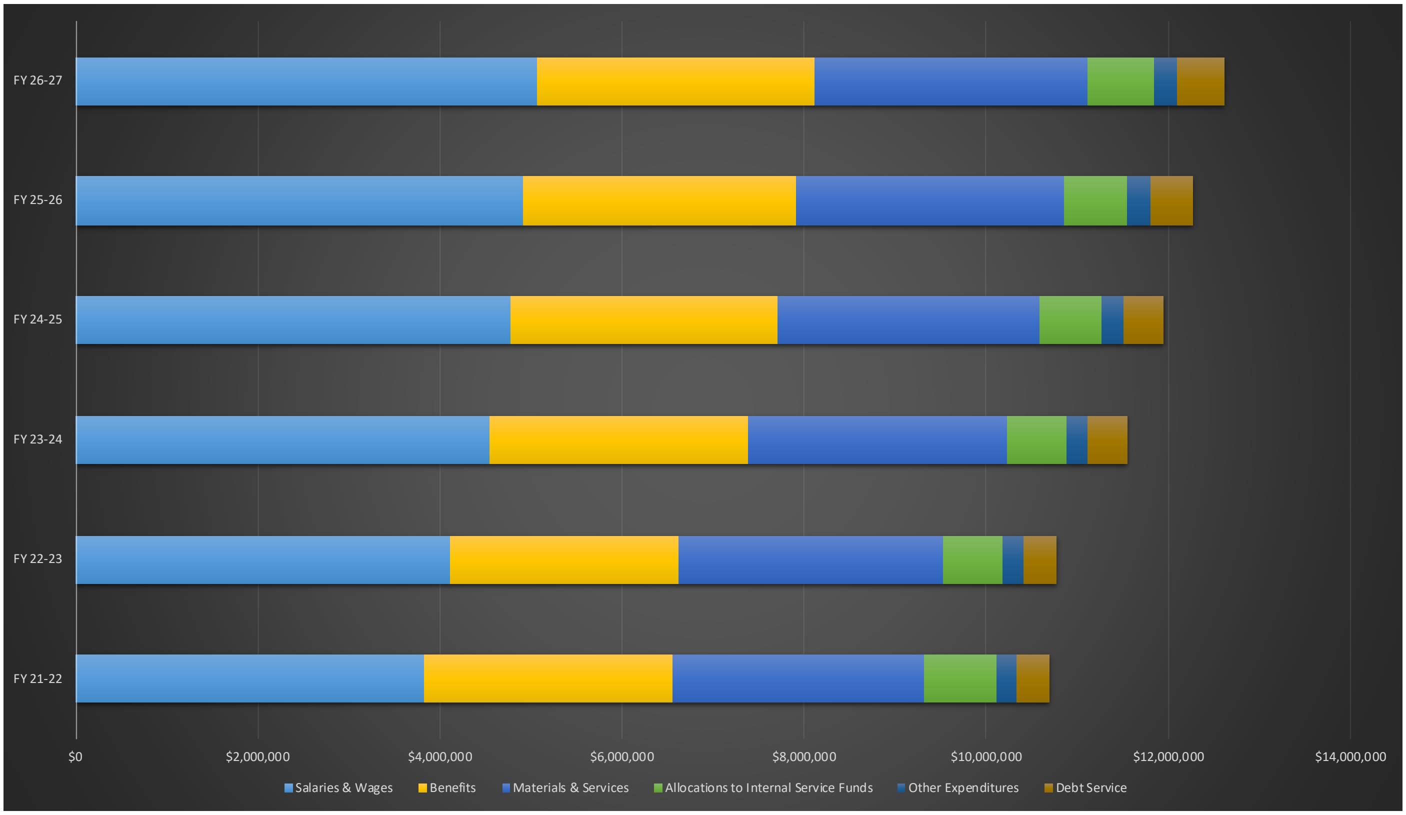
The General Fund’s main revenue source of transient occupancy taxes and sales tax are exceeding initial expectations, however recently there has been a slowdown in property sales and higher property valuations. Sales taxes increase but at a lower level than in previous years. Uncertainties that may impact future operating positions are listed in the following table with actions to manage these uncertainties.

Uncertainty	Actions to Manage/Mitigate this Uncertainty
Inflation	Seek other revenue sources or adjust service fees to offset increases in costs
Economic Downturn/Recession	Maintain a General Fund Emergency & Operating Reserves at 25%
Future Police Association Contract Costs 2024	Maintain a positive operating position to absorb larger cost increases in the future
Future SEIU Contract Costs 2025	Maintain a positive operating position to absorb larger cost increases in the future
Service Changes/Council Priorities: -Housing -Infrastructure -Broadband -Pension Unfunded Liability	Seek other revenue sources or adjust service fees or levels to offset increases

These uncertainties could create annual impacts on the General Fund and its operating position. The Long Term Financial Plan is to be informational and act as a guide to Council, management, and citizens as decisions are made.

The Long Range Financial Forecast sets the stage for the upcoming budget process, facilitating the City Council to consider strategic priorities and allocate resources appropriately. This Long Range Financial Forecast is not intended as a budget nor as a proposed plan. The forecast is based on current service levels, doesn’t factor in future development, and uses general assumptions that may be different than actual amounts.

The following charts depict the General Fund expenditure categories.



City of Fort Bragg General Fund Five Year Forecast								
		FY 21-22 Audited	FY 22-23 Audited	FY 23-24 Forecast	FY 24-25 Forecast	FY 25-26 Forecast	FY 26-27 Forecast	FY 27-28 Forecast
Revenue:	Sales Tax	$ 2,215,161	$ 2,146,975	1,959,500	1,979,095	2,048,363	2,120,056	2,194,258
	Property Tax	1,150,352	1,136,219	1,150,257	1,150,257	1,161,760	1,173,377	1,185,111
	Transient Occupancy Tax	3,444,990	3,192,486	3,242,118	3,258,329	3,421,245	3,455,457	3,490,012
	Reimbursements	3,333,187	3,278,393	3,341,622	3,341,622	3,341,622	3,341,622	3,341,622
	All Other Revenue Sources	1,071,911	2,037,151	2,550,689	2,550,689	2,576,196	2,601,958	2,627,977
	Total Revenue	11,215,601	**11,791,224**	**11,720,423**	12,279,992	12,549,186	12,692,471	12,838,980
Expenditures:	Salaries & Wages	3,831,953	4,114,364	4,550,423	4,777,944	4,921,282	5,068,921	5,170,299
	Benefits	2,728,147	2,508,092	2,843,131	2,928,425	2,986,993	3,046,733	3,107,668
	Materials & Services	2,762,347	2,903,529	2,832,433	2,889,082	2,946,863	3,005,801	3,065,917
	Allocations to Internal Service Funds	789,396	649,295	656,999	676,709	697,010	717,921	739,458
	Other Expenditures	216,637	230,533	230,971	242,520	249,795	257,289	265,008
	Debt Service	358,337	364,131	442,513	433,348	465,555	521,910	561,409
	Total Expenses	10,686,817	**10,769,944**	**11,556,470**	11,948,027	12,267,500	12,618,574	12,909,759
Net Transfers:			-	-	-		-	
	Net Increase (Decrease) to Fund Balance	528,784	1,021,280	163,953	331,964	281,686	73,896	(70,778)
	Other restricted funds	3,879,236	(3,638,178)	-	-	-	-	-
	Beginning Fund Balance	4,184,215	8,592,235	5,975,337	6,139,290	6,471,255	6,752,941	6,826,837
	Ending Fund Balance	$ 8,592,235	$ 5,975,337	$ 6,139,290	$ 6,471,255	$ 6,752,941	$ 6,826,837	$ 6,756,059
Storm Drain Enterprise $190k annually		718,784	1,211,280	353,953	521,964	471,686	263,896	119,222
		$ 4,902,999	$ 6,114,279	$ 6,468,232	$ 6,990,197	$ 7,461,883	$ 7,254,093	$ 7,581,105
Parcel Tax **$430k/yr.**		958,784	1,451,280	593,953	761,964	711,686	503,896	359,222
		$ 5,142,999	$ 6,594,279	$ 7,188,232	$ 7,950,197	$ 8,661,883	$ 8,454,093	$ 9,021,105
1% TOT Tax $310k/yr.		667,232	1,340,529	653,828	826,738	793,777	585,987	459,236
		$ 4,851,447	$ 6,191,976	$ 6,845,804	$ 7,672,542	$ 8,466,319	$ 8,258,529	$ 8,925,554
3/8 cent General Sales Tax **$800k/yr.**		736,455	1,826,396	898,766	1,074,125	1,049,822	868,917	752,068
		$ 4,920,671	$ 6,747,066	$ 7,645,832	$ 8,719,957	$ 9,769,779	$ 10,638,696	$ 11,390,765