

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 FY 2024/25 (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, C.V Starr, 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.

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 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).

ECONOMIC ANALYSIS

U.S. Economy Overview

As of early 2025, the U.S. economy continues to demonstrate modest but stable growth. Real GDP grew at an annualized rate of 2.1% in Q4 2024, reflecting continued consumer spending, a gradual recovery in manufacturing, and moderate gains in business investment. Inflation, which had been a key economic pressure in recent years, has cooled, with the Consumer Price Index (CPI) hovering around 2.6% year-over-year—a level more aligned with the Federal Reserve's long-term targets.

Labor markets remain strong, though job growth is beginning to normalize. The national unemployment rate stands at approximately 3.9%, up slightly from earlier lows but still indicative of a healthy employment environment. The Federal Reserve has taken a cautious approach to interest rates, holding the federal funds rate steady at 4.75% as it monitors inflation trends and seeks to avoid triggering a recession.

Consumer confidence has improved marginally, but household budgets remain tight due to lingering housing and energy costs. Housing affordability remains a top concern across the country, impacting both urban and rural regions alike.

California Economy

California's economy in 2025–2026 continues to show resilience, particularly in sectors such as technology, health care, tourism, and clean energy. However, the state continues to face structural challenges, including high housing costs, affordability constraints, and ongoing migration shifts from higher-cost metropolitan areas to more affordable regions.

As of early 2026, California's unemployment rate is approximately 4.8%, remaining above the national average but reflective of a large, diverse, and evolving labor market. Wage growth has moderated but remains steady in key sectors such as health care, government services, and logistics.

Inflationary pressures have re-emerged as a key concern entering 2026, driven in part by global economic uncertainty and rising energy costs. Ongoing geopolitical tensions—particularly the conflict involving Iran—have disrupted global oil supply chains, pushing oil prices above \$100 per barrel and increasing fuel costs across the United States.

These impacts have been especially pronounced in California, where gasoline prices have exceeded \$5.00 per gallon, placing additional pressure on households, businesses, and local government operations. Higher fuel and transportation costs are contributing to broader inflation, affecting goods, services, and construction costs statewide. As a result, inflation in the U.S. is now projected to rise to approximately 4.2% in 2026, reversing earlier expectations of stabilization and increasing the likelihood of sustained cost pressures.

The State's fiscal outlook remains constrained, with continued pressure from lower-than-peak capital gains tax revenues and increased demand for public services. Despite these challenges, California continues to prioritize investments in climate resilience, infrastructure, and housing production—factors expected to support long-term economic stability and regional competitiveness.

Consumer spending has remained relatively stable, though rising fuel and living costs are beginning to impact household purchasing power. Tourism remains strong, particularly in coastal regions, supported by domestic travel. Water conditions have improved compared to prior drought years; however, long-term infrastructure and supply reliability remain key statewide concerns.

Local Economy – Fort Bragg & Mendocino County

Fort Bragg and the greater Mendocino County economy continue to stabilize and adapt following several years of disruption from the COVID-19 pandemic, labor shortages, and inflationary pressures. Entering 2026, rising fuel costs and renewed inflation—driven in part by global energy market disruptions—are placing additional strain on local businesses, increasing transportation costs, and impacting overall cost of living for residents.

Despite these challenges, local economic conditions reflect cautious optimism, supported by steady tourism activity and targeted economic development efforts.

Key local indicators:

• Tourism & Hospitality:

Tourism remains a primary economic driver for the region. Transient Occupancy Tax (TOT) revenues have shown strong performance in early FY 2025–2026, increasing approximately **16% year-over-year**, supported by steady visitor demand and the voter-approved increase from 12% to 14% (Measure U). Seasonal declines during winter months remain typical, with strong recovery expected during peak seasons.

• Housing & Real Estate:

The local housing market has moderated from peak pricing, consistent with statewide trends. Affordability remains a significant challenge, particularly for workforce and middle-income households. The City continues to advance pro-housing initiatives, including waiving minimum parking requirements, implementing ministerial review processes, and pursuing policies that support infill and multi-family development. In 2025, the City approved at 83 unit workforce housing project.

• Small Business & Economic Development:

Local business sentiment continues to improve, supported by City-led initiatives such as the Fort Bragg Business Boost Fund, façade improvement grants, streamlined permitting through Accela, and the establishment of the Economic Development Department. While these efforts are helping reduce barriers and stimulate activity, challenges related to access to capital and workforce availability persist.

• Labor Market:

Workforce shortages remain a key constraint across multiple sectors, including health care, construction, hospitality, and public services. Recruitment and retention continue to be ongoing challenges for both public and private employers.

• Cannabis Sector:

The cannabis industry in Mendocino County continues to experience contraction due to sustained low wholesale prices, regulatory complexities, and market oversupply. This has had ripple effects on employment, supporting industries, and local tax revenues.

• Fisheries & Natural Resources:

Fishing remains an important cultural and economic contributor to the region. However, regulatory

uncertainty, environmental variability, and changing ocean conditions continue to present long-term challenges to the industry.

Outlook & Considerations for Budget Planning

While economic indicators point to measured optimism, continued uncertainty—particularly related to inflation and rising operational costs—requires prudent fiscal planning. Strong performance in key revenues such as TOT provides positive momentum; however, cost pressures related to personnel, insurance, materials, fuel, and infrastructure remain elevated.

Key fiscal considerations for the upcoming budget cycle include:

- Sustaining investment in economic development, downtown revitalization, and business support programs;
- Advancing critical infrastructure projects, including streets, water, wastewater, and the municipal broadband utility;
- Monitoring key revenue sources, particularly property tax, sales tax, and TOT trends;
- Addressing long-term challenges in housing, workforce development, and service delivery;
- Preparing for potential impacts from state budget constraints and evolving legislative policies;
- Maintaining strong reserve levels to ensure long-term fiscal stability and resilience.

GENERAL FUND

The General Fund supports many of the City’s core, day-to-day operations, including police and fire protection, street and park maintenance, community development, and general administrative functions. It serves as the primary funding source for all City programs not covered by dedicated taxes, user fees, impact fees, or grant funding.

Unlike the Enterprise Funds, which receive revenue on a consistent monthly basis, General Fund revenues come from a broader variety of sources—many of which are cyclical in nature. This variability can impact the timing of revenue collection and requires careful planning to ensure consistent service delivery throughout the fiscal year.

The General Fund remains vital to sustaining essential municipal services and plays a central role in advancing the City’s strategic priorities.

FISCAL YEAR 2025 RECAP

For the fiscal year ending June 30, 2025, the General Fund closed with an operating surplus of \$580,499. After accounting for net transfers out of \$(928,080), the overall fund balance decreased from \$9.2 million to \$8.8 million.

Total expenditures reached \$13.1 million, representing a 27% increase over the prior year, largely driven by personnel costs returning to pre-pandemic levels.

Despite this increase in expenditures, the City maintained strong reserve levels, including \$1.6 million in operating reserves, \$200,000 in litigation reserves, \$1.2 million in recession reserves, and \$1.4 million in unassigned reserves.

GENERAL FUND REVENUES OVERVIEW

As of the second quarter, General Fund revenues total \$6. million, representing approximately 42% of the amended budget. While this reflects solid performance, it is slightly below the \$6.3 million reported at the same point in the prior fiscal year.

Current projections estimate year-end General Fund revenues at approximately \$14.3 million, coming in about \$56,980 under budget. This variance is primarily attributed to timing fluctuations in grant reimbursements, particularly related to Blue Economy and CDBG funding.

REVENUE SOURCE	FY 2023/24 Actuals	FY 2024/25 Actuals	Adopted Budget	Amended Budget	Pro Rated Budget as of 12/31/2025	YTD Actual 12/31/2025	Mid-Year Variance %	Estimated Year End	Forecast Surplus/ (Shortfall)
Transient Occupancy Tax	3,092,214	3,158,742	3,238,970	3,238,970	1,619,485	2,113,307	65%	3,232,304	(6,666)
Sales and Use Tax	2,152,834	2,465,543	3,272,000	3,272,000	1,636,000	1,503,689	46%	3,272,000	-
Property Tax	1,217,444	1,282,310	1,228,685	1,228,685	614,343	288,618	23%	1,254,718	26,032
Other Taxes	974,136	846,802	972,214	972,214	486,107	262,050	27%	972,214	-
Sub Total Tax Revenue									-
Intergovernmental	841,643	712,443	1,705,299	1,705,299	852,650	97,774	6%	1,555,890	(149,409)
Use of Money/Property	594,198	578,766	200,000	200,000	100,000	249,001	125%	220,000	20,000
Charges for Services/Permits	196,342	218,637	285,050	285,050	142,525	94,672	33%	290,900	5,850
Reimbursements/CAP	4,405,557	4,357,658	3,416,771	3,404,271	1,702,136	1,416,811	42%	3,413,271	9,000
Other Revenue	1,001,426	81,082	60,200	60,200	30,100	61,303	102%	98,413	38,213
TOTAL REVENUES	14,475,794	13,701,983	14,379,189	14,366,689	7,183,345	6,087,224	42%	14,309,710	(56,980)

The Fiscal Year 2025–2026 Budget was developed with the expectation of moderate growth in General Fund revenues, while maintaining conservative budgeting practices and a measured approach amid evolving economic conditions.

A comprehensive review of all General Fund revenue accounts has been completed based on the first six months of activity. Through December, General Fund tax revenues are performing strongly and are projected to meet budgeted expectations, reaching approximately \$8.7 million by year-end. This performance is further supported by Measures T and U, which are generating an estimated \$1.4 million annually for the General Fund.

Partially offsetting this strength is lower-than-anticipated Intergovernmental and Operating Grant revenue, primarily related to timing of reimbursements for staff time administering grant-funded programs. These include Community Development Block Grant (CDBG) activities such as business loans, the water meter replacement program, and general administration. Consistent with prior years, unspent grant funds will be carried forward into the next fiscal year.

Currently, no revenue adjustments are recommended as part of the Mid-Year Budget Review.

Notable variances in Revenues are listed below.

- **Transient Occupancy Tax (TOT)**

Tourism plays a vital role in Fort Bragg's economy, accounting for 23% of the General Fund revenue. In FY 2026, the Transient Occupancy Tax (TOT) experienced a 2% growth compared to the prior year. However,

actual TOT revenues for FY 2023/24 showed a slight decline from FY 2022/23, primarily due to a significant drop during the winter months.

Starting April 1, 2025, the TOT rate will increase to 14%, following the approval of Measure U by Fort Bragg voters in November 2024. This increase—from 12% to 14%—applies to short-term lodging accommodations, including hotels, motels, and vacation rentals within city limits. The General Fund anticipates an additional \$100,000 in revenue as a result of the new rate, contributing to a projected TOT revenue total of \$3.3 million by the end of FY 2024/25.

▪ **Sales Tax:**

The Sales Tax category includes General Sales Tax, Local Sales Tax, and Proposition 172 Public Safety Sales Tax. During the latter half of 2025, California experienced mixed sales tax performance driven by economic uncertainty, inflationary pressures, and fluctuating consumer confidence. Despite these broader trends, Fort Bragg's sales tax revenues have shown consistent growth across all six months, with November reflecting the most significant increase at approximately 55%.

As of the second quarter, sales tax revenues total \$382,630, representing approximately 46% of the annual budget and tracking in line with budget projections.

Measure T, approved by Fort Bragg voters in November 2024, became effective April 1, 2025, increasing the local sales tax rate from 8.875% to 9.25%. This voter-approved measure is providing a meaningful and ongoing increase in General Fund revenues, supporting the City's ability to address financial challenges and invest in essential service

▪ **Reimbursements**

Reimbursements to the City include the annual COPS grant supporting Community Service Officer (CSO) positions totaling \$170,000, developer deposit reimbursements for staff time, General Plan-related reimbursements, and cost allocation transfers of approximately \$2.3 million. Cost allocation transfers are recorded as expenditures within Enterprise Funds and as revenues to the General Fund.

In Fiscal Year 2025–2026, the City expanded its enterprise structure to include the Broadband Enterprise and the CV Starr Enterprise, both of which are now incorporated into the Cost Allocation Plan. These allocations reflect the recovery of costs for support services provided by departments such as Human Resources, Information Technology, Facilities, Finance, and the City Manager's Office.

As of mid-year, total reimbursements are \$1.4 million, representing approximately 42% of the annual budget. Year-end projections indicate reimbursements will exceed budget by approximately \$9,000. This variance is primarily attributed to the timing of reimbursements, newly approved indirect cost recoveries from eligible grants, and updated staff time allocations in alignment with the City's Cost Allocation Plan prepared by Matrix Consulting.

▪ **Intergovernmental & Operating Grant Revenues**

Intergovernmental and Operating Grant revenues are currently at approximately 6% of the annual budget at mid-year and are projected to finish the fiscal year \$149,000 below budget.

This revenue category primarily reflects reimbursements for staff time associated with administering the City's grant programs and implementing grant-funded activities. A significant portion of these reimbursements is tied to the BHJIS Grant supporting Social Liaison Officers, as well as Community

Development Block Grant (CDBG) programs, including business loans, the water meter replacement project, and general administration. The year-end shortfall is largely attributable to the timing of reimbursements and the pace of grant activity, with unspent or unreimbursed funds expected to carry forward into the next fiscal year.

▪ **Other taxes**

Other tax revenues primarily include Franchise Fees and Business License Taxes. Franchise Fees are collected from cable television, solid waste, and PG&E electric services. As of December 2025, Franchise Fee revenues total approximately \$262,000, tracking in line with the mid-year budget and consistent with prior year collections. Based on historical trends, Franchise Fee revenues are projected to meet or slightly exceed budgeted levels by year-end. Business License Tax revenues have shown positive growth, with collections through December 2025 increasing by approximately \$36,000 compared to the same period in the prior year. This increase is notable, as the majority of Business License revenues are typically realized during the annual renewal cycle in February and March, indicating continued strength in local business activity.

Looking ahead, the City is advancing a targeted fee relief strategy aimed at supporting small businesses and activating vacant downtown spaces. This includes the potential waiver of business license fees and select permit fees to encourage entrepreneurship, reduce barriers to entry, and further stimulate local economic activity.

STATUS OF GENERAL FUND EXPENDITURES

General Fund expenditures totaled \$8.6 million during the first half of FY 2025/26, accounting for 59% of the amended annual budget. Initially, appropriations of \$14.3 million were adopted; however, budgeted appropriations have been adjusted upward by \$435k over the course of the year, resulting in an amended budget of \$14.7 million. The chart below illustrates year-to-date expenditures in comparison with prior years.

GENERAL FUND EXPENDITURES									
DEPARTMENT	FY 2023/24 Actuals	FY 2024/25 Actuals	Adopted Budget	Amended Budget	Pro Rated Budget as of 12/31/2025	YTD Actual 12/31/2025	Mid-Year Variance %	Estimated FY Year End	Forecast Surplus/ (Shortfall)
GENERAL GOVERNMENT									
City Council	\$217,203	\$258,054	\$145,438	\$206,884	\$103,442	\$138,245	67%	\$231,772	(\$24,888)
Administrative Services	775,271	918,846	441,374	451,254	\$225,627	\$269,506	60%	\$487,780	(\$36,526)
City Attorney/Legal Costs	285,903	448,332	264,000	296,380	\$148,190	\$277,662	94%	\$397,000	(\$100,620)
Economic Development	-	\$270,419	\$292,928	\$295,870	\$147,935	\$212,647	72%	\$293,933	\$1,936
Marketing & Promotions	237,476	\$236,514	\$305,500	\$350,500	\$175,250	\$162,978	46%	\$350,500	-
Finance	558,257	\$637,413	\$799,686	\$804,686	\$402,343	\$467,807	58%	\$746,149	\$58,537
Non-Departmental	1,077,930	\$1,152,910	\$713,273	\$829,982	\$414,991	\$562,664	68%	\$816,025	\$13,957
Community Organizations	204,598	\$108,431	\$182,166	\$182,166	\$91,083	\$44,417	24%	\$182,166	-
DEBT SERVICE	579,418	\$568,990	\$605,047	\$605,047	\$302,524	\$274,539	45%	\$605,047	-
COMMUNITY DEVELOPMENT	430,664	\$386,377	\$830,758	\$830,758	\$415,379	\$313,398	38%	\$695,874	\$134,884
PUBLIC SAFETY									
Police Department	3,950,427	\$4,815,202	\$5,880,201	\$5,965,662	\$2,982,831	\$3,556,355	60%	\$6,130,464	(\$164,801)
Social Services/CRU	338,077	\$555,034	\$548,240	\$548,240	\$274,120	\$375,653	69%	\$517,053	\$31,187
Fire Department	560,414	\$482,810	\$531,526	\$531,526	\$265,763	\$246,993	46%	\$477,708	\$53,818
PUBLIC WORKS									
Administration & Engineering	796,155	\$932,323	\$997,366	\$1,053,778	\$526,889	\$629,796	60%	\$1,010,921	\$42,857
Parks and Facilities	51,945	\$269,003	\$564,681	\$564,681	\$282,340	\$233,300	41%	\$523,781	\$40,900
Street Maintenance	172,808	\$360,903	\$809,053	\$817,553	\$408,777	\$179,574	22%	\$1,039,375	(\$221,822)
Storm Drains	14,063	\$92,981	\$209,790	\$216,407	\$108,203	\$58,788	27%	\$182,789	\$33,617
Corporation Yard	434,324	\$561,582	(75,291)	(75,291)	(37,646)	\$530,100	-704%	\$5,049	(\$80,340)
Traffic and Safety	33,804	\$65,360	\$281,402	\$285,953	\$142,976	\$102,393	36%	\$281,402	\$4,551
COST ALLOCATION	766,923								
TOTAL GENERAL FUND EXPENSES	\$11,485,660	\$13,121,484	\$14,327,137	\$14,762,036	\$7,381,018	\$8,636,814	59%	\$14,974,788	(\$212,752)

Some of the notable variances in expenditures include:

Non-Departmental

- The Non-Departmental category captures expenditures not directly attributed to a specific City department. These include retiree medical costs, insurance premiums, utilities, and OPEB contributions, among others. As of mid-year, expenditures in this category are at approximately 68% of the annual budget and are projected to come in slightly under budget by fiscal year-end.

Liability and property insurance premiums paid in the first quarter were higher than anticipated, creating upward pressure in this category. However, these increases are being partially offset by savings in other areas, including professional services, unemployment insurance, and administrative costs, resulting in a modest net savings of approximately \$13,957.

Administrative Department

- The Administrative Department, which includes the City Manager's Office, City Clerk, and Human Resources, operates with a total budget of \$451,000. In FY 2025–2026, the Department expanded its service capacity with the addition of a Public Experience Liaison position, aimed at enhancing customer service at City Hall and fostering a more welcoming and accessible environment for residents and businesses.

During the first two quarters of the fiscal year, recruitment efforts for key leadership positions—including the Police Chief and Community Development Director—resulted in higher-than-anticipated costs. Engagement of Bob Hall and Associates for executive recruitment services, along with associated outreach and candidate processes, exceeded the adopted recruitment budget. As a result, a budget amendment of \$36,000 is requested to cover these additional expenses.

City Attorney/Legal Costs

The adopted budget for City Attorney and legal services in FY 2025–2026 is \$296,380, a reduction from FY 2024–2025 actual expenditures of approximately \$448,000, reflecting an initial expectation of lower legal activity.

However, during the first two quarters of the fiscal year, legal costs have exceeded projections due to a higher-than-anticipated volume and complexity of ongoing matters. Key cost drivers include litigation related to Mendocino Railway, increased activity in code enforcement cases, and legal support associated with housing and development projects.

Additionally, this line item includes costs associated with planning and economic analysis work conducted by EPS, including Phase 2 efforts and Memorandum of Understanding (MOU) development related to the Mill Site and broader economic development strategy.

As a result of these factors, legal expenditures are projected to exceed the adopted budget. A budget amendment of \$100,620 is requested to cover these overages and ensure adequate funding through the remainder of the fiscal year. Moving forward, legal costs will continue to be closely monitored, with an emphasis on managing litigation exposure and aligning legal resources with the City's strategic priorities.

Police Department

- The Police Department has undergone significant organizational transition over the past six months, including the appointment of a new Police Chief and a restructuring of command staff. A new Commander position was established to oversee patrol operations, while the Captain role has been refocused on emergency preparedness, the CARE Response Unit, and special projects. These

changes were implemented alongside cost-control measures, including the freezing of a fourth Sergeant position and, previously, a Community Service Officer position in FY 2023–2024. The adopted budget also includes a Transport Officer, School Resource Officer (paid 70% by the School District) and a Task Force Officer and a new part-time front office position to support operations.

Despite these efforts, the Police Department continues to face greater cost pressures than any other City department, driven by staffing shortages, operational demands, and rising personnel-related costs. The Department is actively working to fill vacancies in sworn positions. As of Quarter Two, one authorized Sergeant position remains vacant, with recruitment underway and anticipated to be filled by March 2026. Additionally, the Department plans to send two recruits to the police academy in the coming months.

Due to ongoing vacancies, the Department has realized approximately \$121,000 in salary savings; however, these savings are more than offset by increased overtime and comp time costs required to maintain minimum staffing levels. As a result, the Department is projected to end the fiscal year over budget by approximately \$164,801. A budget amendment is requested to reallocate salary savings to offset these overtime and comp time expenditures. Overtime costs have significantly exceeded projections, with actuals reaching \$120,144 at mid-year—effectively exhausting the full annual budget of \$120,000 and exceeding projections by approximately 100%. An additional appropriation of \$65,000 is requested to address this shortfall.

Additional cost pressures include a one-time severance payout of approximately \$100,000 in Quarter One, which increased “Other Pay” expenditures, as well as rising utility costs—particularly propane and electricity—during the first half of the fiscal year. A budget amendment of \$12,500 is requested to address increased utility expenses. The Department outsourced Internal Affairs investigation in the last two quarters which also increased costs by \$20k.

Furthermore, ongoing operational costs for equipment and technology continue to rise. The Small Tools and Equipment budget, adopted at \$20,000, does not fully reflect recurring annual costs, including approximately \$50,000 for Axon body-worn cameras, \$25,000 for Tasers, and \$5,000 for Flock safety cameras. While some of these expenses were initially funded through asset forfeiture, they now represent ongoing operational costs that must be supported by the General Fund.

Looking ahead to the next fiscal year, the Police Chief is currently evaluating operational needs and has identified the potential need to fill a Community Service Officer position and unfreeze the fourth Sergeant position to strengthen leadership capacity and support ongoing service demands within the Department. These adjustments are intended to reduce reliance on overtime and provide additional resources to meet operational needs more effectively.

Moving forward, the Police Department budget will undergo further review to identify operational efficiencies, including an evaluation of Asset Forfeiture funding to support eligible expenditures and reduce pressure on the General Fund. Additionally, the budget will incorporate the terms of the approved Memorandum of Understanding, which includes a 3% cost-of-living adjustment (COLA) for sworn officers.

- The CARE Response Unit, operating within the Public Safety Department, is fully grant-funded. The program has secured funding through 2025 as part of an expansion of the California Department of Health Care Services (DHCS) grant originally awarded in 2022.

The CARE Response Unit continues to demonstrate strong outcomes, effectively delivering services and connecting individuals to resources to address homelessness and mental health needs within the community. The program currently supports five staff positions. In the current fiscal year, the program

placemaking, wayfinding, and event activation—as well as potential partnerships with Visit Mendocino to further amplify regional marketing efforts and expand reach. The City Manager will initiate discussions on these future strategies at the upcoming Visit Fort Bragg meeting scheduled for April/May.

Corporation Yard- Public Works

The Corporation Yard Division within Public Works is comprised of a team of 10 staff, including a Maintenance Division Supervisor, one Maintenance IV, four Maintenance II positions, and four Maintenance I positions. The Division is responsible for maintaining critical City infrastructure and supporting day-to-day operations across multiple service areas.

During the first two quarters of the fiscal year, the Division has remained highly active, supporting Broadband USA construction efforts through utility marking and coordination, responding to emergency maintenance needs, and continuing to perform routine and preventative maintenance throughout the City. These responsibilities include street maintenance, storm drain management, signage, and general infrastructure upkeep.

Looking ahead, the City is making strategic investments to strengthen in-house maintenance capacity and address deferred infrastructure needs. A budget adjustment includes the addition of one Maintenance II position to support the development of an in-house street maintenance crew. To support this effort, the City has already invested approximately \$351,000 in street maintenance equipment, with an additional \$212,000 requested to fully fund the necessary equipment purchases.

In parallel, the Department has transitioned landscaping services to external contractors and is in the process of outsourcing janitorial services. These changes are intended to free up internal staff capacity, allowing the Division to focus on higher-priority maintenance work and address deferred maintenance across City facilities and infrastructure.

To further improve operational efficiency, the City is implementing maintenance and task-tracking software to better organize work orders, track recurring maintenance needs, and identify opportunities for improved service delivery. A budget amendment of \$11,000 is requested to support this initiative. Collectively, these actions represent a strategic shift toward building internal operational capacity, prioritizing core infrastructure services, and modernizing maintenance practices to deliver more efficient, responsive, and sustainable public works operations

GENERAL FUND NET RESULT AND FUND BALANCE

With projected revenues totaling \$14.3 million and total expenditures of \$14.9 million, the General Fund is expected to conclude FY 2025–2026 with a deficit of approximately \$366,916. This planned drawdown will reduce the unassigned fund balance to approximately \$4.9 million.

While the deficit reflects increased expenditures—particularly in personnel costs that have returned to and exceeded pre-COVID levels—it also represents a deliberate investment in staffing and service delivery across City departments. Most key leadership positions have been filled to strengthen operations, with the exception of the Community Development and Finance Director roles. These vacancies have generated one-time salary savings

GENERAL FUND RESERVES	
Reserves- July 2025 (Audited)	8,830,015
<i>FY 25/26</i>	
Projected Revenues	14,309,710
Projected Expenditures	(14,974,788)
Net Transfers	298,162
GF Surplus/Deficit	(366,916)
Reserves- July 2026 (Projected)	\$8,463,099
Operating Reserve	1,989,419
Recession Reserve	1,876,059
Litigation Reserve	200,000
Unassigned Reserves	836,823
Total Unassigned	4,902,301
	33%
Section 115 Trust	3,560,798
Total Reserves	\$8,463,099

in the current fiscal year, with responsibilities absorbed by the City Manager; however, once filled, these positions will add ongoing cost pressures to the General Fund.

The City's financial position has been significantly strengthened by the voter approval of Measures T and U, which increased local sales tax and Transient Occupancy Tax (TOT) revenues. These measures provide critical, ongoing funding to support core services and stabilize the City's financial foundation. Despite the projected deficit, the City's overall fiscal position remains strong. General Fund reserves are projected to remain at approximately 33% of annual expenditures, well above recommended best practices. In addition, the City has proactively set aside \$3.5 million in a Section 115 Trust to address long-term pension liabilities and help absorb volatility associated with CalPERS costs.

At the same time, the City is intentionally prioritizing investments that grow and diversify the local tax base to sustain increasing costs of government services. This includes reinvesting TOT revenues into tourism promotion, events, and destination enhancements to strengthen visitation year-round—particularly during shoulder seasons—as well as advancing economic development initiatives that support business growth, reduce vacancies, and attract new investment.

Looking ahead, maintaining long-term fiscal sustainability will depend on balancing disciplined cost management with continued efforts to expand revenue-generating activity. Key revenue sources—particularly Transient Occupancy Tax and Sales Tax—will play a critical role in keeping pace with rising personnel, infrastructure, and service delivery costs.

Overall, the City remains in a stable and resilient financial position, with a clear strategy focused on strengthening its tax base, maintaining strong reserves, and aligning investments with long-term economic growth and service sustainability.