



CITY OF FORT BRAGG

Long Term Financial Planning Report
As of December 31, 2017

LONG TERM FINANCIAL PLANNING

Long-term financial planning combines financial forecasting with strategizing. It is a highly collaborative process that considers future scenarios and helps governments navigate challenges. Long-term financial planning works best as part of an overall strategic plan.

Financial forecasting is the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other major variables.

Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges.

FINANCIAL GOALS

Staff's precursory understanding of the City Council's financial goals is as follows:

- ❖ Continue budgeting conservatively
- ❖ Adopt a balanced budget for the first time in over ten years
- ❖ Maintain current level of service (no staff layoffs, no program cuts)
- ❖ Maintain operating reserve, litigation reserve
- ❖ Provide funding for emergency reserves
- ❖ Maintain long term funding plans in the City's three internal service funds
- ❖ Provide cost of living adjustments for staff in years to come

The Council is encouraged to discuss and revise the list of financial goals in collaboration with the City Manager. Staff requests a finalized list of financial goals as direction in preparing the FY2018-19 budget.

GENERAL FUND FIVE YEAR FORECAST

A five year forecast has been prepared for the General Fund. The forecast was developed as a high level projection which does not use detailed metrics but rather uses generalized assumptions about revenue and expenditure trends. Five years of audited results are provided as context and form the basis of the assumptions used. In accordance with Council budgetary policy the projections were developed conservatively.

Revenues are expected to grow but are likely to be outpaced by expenditures. Sales tax is likely to continue to grow minimally. Property taxes are expected to grow moderately. Transient Occupancy taxes are expected to continue growing at a strong clip.

Expenditures are expected to continue increasing significantly due to the rising cost of pensions. In December of 2016 the CalPERS Board voted to decrease the pension system discount rate from 7.5% to 7.0%. The decrease of the discount rate is projected to double pension costs in five to seven years.

City of Fort Bragg General Fund Five Year Forecast
As of 12/31/2017

General Fund	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
	Audited	Audited	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
Revenue:										
Sales Tax	\$ 1,619,165	\$ 1,625,916	\$ 1,666,675	\$ 1,600,866	\$ 1,531,857	\$ 1,641,440	\$ 1,647,190	\$ 1,652,960	\$ 1,658,750	\$ 1,664,561
Property Tax	880,949	894,217	865,161	972,948	1,031,345	1,051,976	1,097,242	1,144,455	1,193,701	1,245,065
Transient Occupancy Tax	1,536,395	1,667,580	1,857,831	1,947,702	2,149,404	2,579,074	2,712,474	2,852,773	2,938,356	3,026,507
Other	3,486,301	3,923,154	4,223,201	4,592,147	3,498,126	3,723,855	3,798,332	3,874,299	3,951,785	4,030,820
Total Revenue	7,522,810	8,110,867	8,612,868	9,113,663	8,210,732	8,996,345	9,255,238	9,524,487	9,742,592	9,966,953
Expenditures:										
Non Compensation Related	2,685,992	2,791,570	2,870,918	2,858,211	2,645,504	2,962,391	3,021,639	3,082,072	3,143,713	3,206,587
Employee Compensation	4,991,160	5,514,281	5,490,874	5,617,134	5,951,764	6,407,679	6,640,677	6,851,801	7,098,072	7,376,485
Total Expenses	7,677,152	8,305,851	8,361,792	8,475,345	8,597,268	9,370,070	9,662,315	9,933,872	10,241,785	10,583,072
Net Transfers										
	380,378	526,843	(112,992)	(7,614)	(1,895,028)	(70,515)	(12,000)	(12,000)	(12,000)	(12,000)
Net Increase (Decrease) to Fund Balance	226,036	331,859	138,084	630,704	(2,281,564)	(444,240)	(419,078)	(421,385)	(511,193)	(628,119)
Beginning Fund Balance	4,061,815	4,287,851	4,619,710	4,757,794	5,388,498	3,106,934	2,662,694	2,243,616	1,822,231	1,311,038
Ending Fund Balance	\$ 4,287,851	\$ 4,619,710	\$ 4,757,794	\$ 5,388,498	\$ 3,106,934	\$ 2,662,694	\$ 2,243,616	\$ 1,822,231	\$ 1,311,038	\$ 682,919

Assumptions:										
Revenue:										
Sales Tax	Used 4 year average run rate of 0.4%									
Property Tax	Used 4 year average run rate of 4%									
Transient Occupancy Tax	5% FY18-19 through FY20-21 which is the 4 year average run rate, Used 3% for FY20-21 & 21-22									
Other	4 yr run rate without CAP revenue is 2%.									
Expenditures:										
Non Personnel Costs	Used 4 year average fun rate of 2%									
Personnel Costs	Salaries; 3% FY17-18, 2% FY18-19 and thereafter 1% COLA Benefits; 5% assumed rate (all benefits except for PERS) PERS; 14% per PERS calculations - reduction of discount rate OPEB unfunded liability trust payment; *From actuarial sched OPEB Pay go costs; 5% assumed rate (same as benefits rate)									
		FY 17-18	FY 18-19	FY 19-20	FY 20-21					
		3,876,380	3,953,908	3,993,447	4,033,381	4,073,715	1,205,132	1,265,389	1,328,658	1,395,091
		896,167	1,021,630	1,164,659	1,327,711	1,513,590	215,000	174,000	128,000	93,000
		215,000	225,750	237,038	248,889	261,334	6,407,679	6,640,677	6,851,801	7,098,072
Net Transfers	GF share of school playing fields water bill									



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MEETING THE COUNCILS FINANCIAL GOALS

As was seen in the five year forecast, if the status quo is maintained, expenditures are expected to continue outpacing revenues in the years to come. This will result in a continually diminishing general fund balance and will not allow the Council to meet its financial goals. The two main tools at the Council's disposal for affecting change in the long term are to cut costs and/or increase revenue. In July of 2017 at Council's request, staff provided a report detailing various tactics for cutting costs and/or increasing revenue. The report was presented to the Finance and Administration Committee (FAC) and then subsequently to the entire Council.

COST CUTTING

Staff's understanding of the Council's direction was not to take action on any of the cost cutting measures presented in the July 2017 report. Staff requests the Council review the list of cost cutting measures presented in the July 2017 report (attached to the current agenda pages 5&6) and provide direction to staff in preparing the FY2018-19 budget as well as in the long term.

REVENUE

At the meeting in July of 2017, staff understood that the Council had interest in moving forward with one or more of the revenue measures presented. Thus far, one item has already been implemented early in 2018 by increasing parking fines from \$35 to \$45. Staff encourages the Council to review the list of revenue generating options and provide direction to staff should they like to move forward with a measure for the November 2018 ballot.

- Add Storm Drain Fee to Wastewater utility bill
Type: fee
Revenue generation: ~\$190k per year
Pros: Relieve the General Fund from storm drain costs; generate capital reserve for storm drain capital projects
Cons: relatively small base of ratepayers (approx. 2,700 utility ratepayers), unlikely to eliminate the budget deficit, increase cost of living for residents, City Attorney recommends waiting till SB231 test case has been tried in court
- Establish business license tax for commercial cannabis uses
Type: tax
Revenue generation: ~\$10k to \$50k per year assuming tax rate of 2.5%
Pros: general revenue
Cons: Unknown if any establishments will open or how much revenue they will generate, cash only business placing cash burden on Finance Department, unlikely to eliminate deficit
- Establish parcel tax to fund City's share of Fire Protection services
Type: tax
Revenue generation: ~\$420k
Pros: likely to significantly reduce budget deficit
Cons: relatively small tax base (approx. 2,700 parcels)
- ¼ cent general sales tax
Type: tax
Revenue generation: ~\$415k per year
Pros: general revenue, widest tax base, revenue generated by City residents, regional residents as well as visitors, likely to significantly reduce budget deficit
Cons: increase cost of living for residents



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- Utility users tax
Type: tax
Revenue generation: ~\$120k assuming a 5% tax on an average \$70 electric bill and approximately the same number of accounts as water accounts (2,700)
Pros: general revenue
Cons: relatively small base of taxpayers, increase cost of living for residents, unlikely to eliminate deficit

If the Council decides to move forward with a tax revenue measure, approval of the voters will be required. The City Clerk has provided a 2018 Election Calendar of Events which is attached to this agenda packet. Additionally, the previous City Manager provided the following sample schedule in case the Council wishes to pursue a tax measure:

- ❖ Wed, Mar 7 (today) – Council considers options and directs staff re: which measure(s) to place on Nov ballot.
- ❖ Mon, Mar 26 – Council takes action on desired revenue measure to be placed on November ballot, appoints ad hoc committee to work on outreach and honing the message for voters.
- ❖ Month of April—ad hoc committee does community outreach, conducting focus groups with community “thought” leaders and potential critics.
- ❖ Monday, May 14 – Ad hoc committee reports back to Council. If measure is proposed, draft language should be presented. Council provides direction to staff regarding how to proceed.
- ❖ Mon, June 11 – Council adopts resolution placing revenue measure(s) on ballot.

The chart on the following page shows the 5 year forecast with the effects of possible revenue enhancements.



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Cost Allocation Plan

Staff believes the current Cost Allocation Plan (CAP) provides a clear, consistent and reasonable basis for allocating indirect costs. Staff has reviewed employee timecards from FY2016/17 and found management estimations of shared resources to be reasonably accurate. The CAP was reviewed with the full Council at great length at the May 2017 budget workshop. At that time a majority of the Council voiced support for the CAP as presented. Subsequently the FAC reviewed the CAP in February of 2018 and since the committee was split no recommendation was offered to the full Council as to the sufficiency of the CAP. The Government Finance Officers Association (GFOA) recommends that an indirect cost allocation plan be used for a maximum of three years. The current CAP is in its second year and the FY2018-19 budget would mark its third year. Therefore, staff recommends using the current CAP in preparing the FY 2018-19 budget. Staff further recommends budgeting funds for preparation of a new CAP in FY2018-19 and that the new CAP be implemented with the FY2019-20 budget.

Emergency Reserves & Fiscal Policies

The FAC has recommended that the City's Fund Balance & Reserve policy be revised so that the Water and Wastewater Enterprises will carry emergency reserves as well as the General Fund. Staff seeks direction from the full Council on this recommendation. Further, staff seeks direction as to whether or not the Council desires the FY18-19 budget be presented with Emergency Reserves funded.

The General Fund will fund an Emergency Contingency Reserve of approximately \$450k and an Economic Stabilization Reserve of approximately \$230k. Total emergency reserves will be approximately \$680k.

The Water Enterprise will fund an Emergency Contingency Reserve of approximately \$133k and an Economic Stabilization Reserve of approximately \$67k. Total emergency reserves will be approximately \$200k.

The Wastewater Enterprise will fund an Emergency Contingency Reserve of approximately \$167k and an Economic Stabilization Reserve of approximately \$86k. Total emergency reserves will be approximately \$253k.

Staff recommends a fiscal policy be implemented with the FY2018-19 budget concerning pay down of unfunded liabilities related to the CalPERS pension plans. Staff recommends a policy stating that at least 50% of a given year's realized year end surplus will be used to pay down unfunded pension liabilities. Although the long term forecast shows fund balance declining over the next few years it is important to recall that the forecast is budgeted conservatively. It is quite possible in any given year to realize a surplus. In years where a surplus is in fact realized it would be prudent to use a portion of the surplus to pay down the City's unfunded pension liabilities.

Conclusion

Slow growth in some of the City's major revenue sources coupled with rapidly increasing pension costs have set the City's General Fund on a course of declining balances. In order for the City Council to meet its financial goals, cost cutting measures and/or revenue enhancements will likely be needed. Staff recommends that corrective measures be taken as soon as feasible.

FOR MORE INFORMATION

This Five Year Projection Report is derived from financial information generated by the City's Finance Department. For additional information or if you have any questions about this report please contact the Finance Department by phone at (707) 961-2825 or Finance Director Victor Damiani at vdamiani@fortbragg.com.