



Fort Bragg City Council
Municipal Improvement District No.1 Board
Fort Bragg Redevelopment Successor Agency

SUBJECT: FY 2017/18 Operating Budget & Capital Projects Budget

Honorable Mayor and Members of the City Council:

I am pleased to present the Fiscal Year (FY) 2017/18 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. Additionally, the budget presents a summary of accomplishments realized in each area of the City's operations over the past year. The Council reviewed the draft FY 2017/18 Budget at a City Council workshop on May 24, 2017 and, based on direction provided at that time, a final budget has been prepared for adoption at the June 26, 2017 City Council meeting.

FY 2016/17 ACCOMPLISHMENTS

The City Council provides leadership and long-term strategic vision that helps guide the day-to-day efforts of City staff. Through adoption of the budget and actions taken over the course of the year, the Council establishes policies and priorities for implementation of the City's work activities. City staff deserves recognition for its ongoing commitment to providing excellent services and reliable infrastructure while containing costs and bringing in outside revenues to help fund priority projects and activities. We are fortunate to have a talented, professional, and resourceful team of employees. In the budget document, each department has identified the top accomplishments of FY 2016/17 and priorities for FY 2017/18. These lists are a testament to our hard-working and motivated workforce and the fact that they set and achieve high performance goals.

Notable achievements in FY 2016/17 include the following:

- Guided Measure AA and Measure AB through the voter-approval process. Measure AA increased the City's Transient Occupancy Tax rate from 10% to 12%. Measure AB advised that half of the new revenue should be directed to increased marketing and promotion of Fort Bragg, one-quarter to increased maintenance and security for the Coastal Trail; and the remaining one-quarter to be split between the Noyo Center for Marine Science and rehabilitation of the School Playing Fields.
- Continued to enhance civic engagement with expanded livestreaming of Council Committee meetings, establishment of "Monday Morning Meetings with the Mayor," increased social media and website activity, and expansion of the free, public Wi-Fi service in downtown Fort Bragg.
- Received a "Distinguished Budget Presentation Award" from the Government Finance Officers Association for the FY 2016/17 Budget.
- Completed water and sewer rate studies to help determine appropriate schedule for implementing approved utility rate increases considering updated cost allocation plan and capital improvement program.
- Established a volunteer Community Emergency Response Team (CERT) to enhance our community's preparedness for natural disasters and other emergencies.

- Established a Police Cadet Program to mentor local youth who are interested in law enforcement and providing assistance to the Police Department at community events, parades, etc.
- Continued to enhance Police Department programs and assignments to help with recruitment and retention of officers: expanded K-9 program with addition of a second K-9, established new Motor Unit with three electric motorcycles, trained two officers for participation in regional SWAT unit, worked towards implementation of Body Worn Camera program in fall of 2017.
- Completed comprehensive update of Inland Land Use & Development Code and adopted new regulations for cannabis manufacturing uses.
- Initiated a community planning process for a Local Coastal Program (LCP) amendment to rezone the former Georgia-Pacific mill site property to help facilitate its reuse.
- Prepared Tourism Marketing & Promotions Plan to help guide expanded marketing and promotion efforts that will be funded by Measure AA.
- Assisted a number of non-profit organizations serving our community through the City's Community Development Block Grant program including: Fort Bragg Food Bank; Mendocino Coast Hospitality Center; West Company; and the Home Energy Links Program (HELP).
- Obtained grant funds for a variety of projects and activities, including: \$770k Active Transportation Program grant to augment \$450k in Prop 84 grant funds for constructing Phase 2 of the Coastal Trail; \$5k Community Foundation grant for a mural competition; \$2 million CDBG grant for Water Tank Project, Mill Site planning, Economic Development Strategy implementation, Business Assistance Loan program, and Microenterprise Assistance; and \$25k grant for implementing Body-Worn Camera program. Applications for a \$6 million grant from State Revolving Fund and a \$2.5 million grant from USDA for the Wastewater Treatment Plant Upgrade Project are in progress.
- Completed the Summers Lane Reservoir Project providing an additional 15 million gallons of raw water storage to help ensure a reliable water supply during the late summer months when flows are low at the City's three water sources.
- During a winter storm event, responded to the over-topping of the Pudding Creek dam and related damage to the City's water main serving north Fort Bragg residents and businesses. Request for California Disaster Assistance grant funds to relocate the water main is in progress.
- Completed the Chestnut Street Multi-Use Trail project in June 2017. This project establishes an 8' wide pedestrian and bicycle path along the main street corridor serving five Fort Bragg school sites (Redwood Elementary, Shelter Cove, Dana Grey Elementary, Noyo High School and Fort Bragg High School).
- Completed bid process and awarded contracts for numerous capital projects to be constructed in summer 2017 including: City Hall East re-roof; City Hall repainting; Guest House re-roof; Guest House repainting; 2017 Streets and Alley Rehabilitation Project.
- Completed plans and specifications for Coastal Trail Phase 2 project which will connect the north and south segments of the Coastal Trail in Noyo Headlands Park. Construction will commence in FY 2017/18. This will complete the 3.5-mile multi-use trail along Fort Bragg's coastline and marks the culmination of a vision for public access along our coast that the City has pursued since 2002 when Georgia-Pacific closed its lumber mill.
- Completed design and permitting for the Wastewater Treatment Plant Upgrade Project. Construction will commence in FY 2017/18. This project will replace and upgrade key components of the City's aging wastewater treatment plant.

FY 2017/18 WORK PLAN

The FY 2017/18 Budget presents an ambitious work plan for the coming year. The public process for preparation of the FY 2017/18 Budget began with mid-year budget workshop for FY 2016/17 that was held on March 15, 2017. At that meeting, the City Council reviewed an analysis of FY 2015/16 budget-to-actual revenues and expenditures based on the audited financial statements. The Council also reviewed the FY 2016/17 mid-year performance report that presents actual expenditures and revenues at December 31, 2016 and projected year-end results. Additionally, the Council reviewed its 2016 Council Goals & Priorities and received progress reports from each department. The work plan for FY 2017/18 was developed keeping in mind the Council's goals as discussed at the mid-year budget workshop and at a City Council retreat held on April 8, 2017. The Council provided further direction regarding modifications to the draft budget at a full-day workshop held on May 24, 2017.

In addition to the day-to-day services provided by every department in the City, the following activities and projects are key priorities addressed in the FY 2017/18 Budget:

- Explore the possibility of establishing a new Storm Drain Enterprise to fund storm drain repair and maintenance, improvements, and regulatory compliance.
- Continue efforts by the Police Department to address public safety and quality of life issues by increasing downtown foot and bike patrols, supporting Coalition for Gang Awareness & Prevention, Neighborhood Watch, Downtown Watch, and Community Emergency Response Team (CERT), maintaining and growing partnerships with schools and social service organizations, and assigning an officer to Major Crimes Task Force.
- Engage in a community planning process to define a Local Coastal Program (LCP) amendment that will rezone the former Georgia Pacific mill site property to accommodate future reuse. The City has a CDBG grant to help fund this effort and has applied for an LCP Update grant from the California Coastal Commission.
- Continue implementing the City's Economic Development Strategy with a focus on business assistance, retention and expansion activities. The City has a CDBG grant to help fund this effort.
- Oversee a significant expansion of the City's tourism marketing and promotion activities that will be funded by Measure AA revenues.
- Update the Coastal General Plan and Coastal Land Use & Development Code.
- Continue efforts to secure additional water sources and/or water storage to improve the reliability of the City's water system and ensure adequate water supply for future development. Prepare a desalination feasibility study.
- Complete the following capital projects: City Hall East re-roof; City Hall repainting; Guest House re-roof; Guest House repainting; 2017 Streets and Alley Rehabilitation Project; Phase 2 of the Coastal Trail Project; Glass Beach Staircase Replacement Project; New Water Tank Project; Bainbridge Park Improvement Project; Downtown Crosswalk Rehab Project; and installation of floating cover on Summers Lane Reservoir.
- Prepare plans and specifications for replacement of City's raw water transmission lines and construct Phase 2 (Noyo River to Water Plant) segment.
- Prepare plans and specifications for Pudding Creek Water Line Replacement Project and assemble funding.
- Prepare plans and specifications for the Water Treatment Plant Overhaul Project.
- Assemble funding for the Wastewater Treatment Plant Upgrade Project, conduct bid process, award contract and begin construction.
- Continue to address inflow and infiltration issues by completing Cure-in-Place Pipe Project.
- Perform structural repairs to City Hall East (the former Rec Center pool building).

BUDGET OVERVIEW

For many years, the City Council has adopted very lean budgets and worked diligently to establish sound fiscal management policies. This year is no exception. The FY 2017/18 Budget was prepared in accordance with the Council’s Budget Guidelines (see pages 13-14). It incorporates conservative revenue projections; expenditures are contained; and, to the extent possible, recurring annual expenditures are only funded with on-going annual revenues. However, as discussed below, in FY 2017/18 General Fund operating costs are projected to exceed revenues and unassigned fund balance will be tapped to support ongoing operations.

The City's total proposed budget for FY 2017/18 is \$54.5 million, including appropriations from all funds and transfers. When transfers between funds for internal service fund expenditures and allocations are netted out, the combined appropriations in the annual budget amount to \$32 million.

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

In FY 2017/18, the General Fund operating budget has revenues of \$9.08 million and appropriations are budgeted at \$9.49 million. While some portion of the \$415k deficit is comprised of one-time capital projects and other one-time expenses that can be funded from unassigned fund balance, the General Fund is not in a robust condition. Fund balance in the General Fund is expected to drop from \$2.67 million in FY 2016/17 to \$2.23 million in FY 2017/18. Once reserves and encumbrances are netted out, the unassigned fund balance in the General Fund is \$478k.

On a brighter note, the Wastewater and Water Enterprise Funds are in a healthy position. Both funds received a boost in FY 2016/17 from the cost allocation repayments and, moving forward, the corrected cost allocation formula assigns lower costs to the two Enterprise Funds. While the fund balances in the Wastewater and Water Funds are projected to decline in FY 2017/18, this is a result of an ambitious Capital Improvement Program that utilizes fund balance for one-time capital expenses. Ongoing operating revenues in the Enterprise Funds are keeping pace with operating expenditures. Revenue in the Wastewater Enterprise increased from \$3.24 million in FY 2016/17 to \$3.34 million in FY 2017/18. Total operating expenses (excluding transfers) decreased from \$2.6 million to \$2.5 million. Water Enterprise Fund revenues are expected to increase from \$2.57 million in FY 2016/17 to \$2.67 million in FY 2017/18 and operating expenses (excluding transfers) will decrease from \$2.12 million in FY 2016/17 to \$2.10 million in FY 2017/18.

The year-end fund balances of the City’s major operating funds tell a story about the financial condition of each fund. A declining fund balance is not necessarily cause for alarm, so long as budgeted expenditures have anticipated the use of unassigned fund balance for one-time costs and/or a decline in revenues was foreseen. It is more problematic when fund balances are whittled away by unanticipated expenditures and revenue shortfalls or, as is the case with the General Fund, fund balance declines as a result of a structural deficit in the operating budget. The table below shows the audited fund balances of the City’s three major operating funds at 6/30/16, as well as projected year-end fund balances for FY 2016/17 and FY 2017/18.

	6/30/16 Audited Fund Balance	6/30/17 Projected Fund Balance	6/30/18 Projected Fund Balance
General Fund	\$ 5,388,494	\$2,668,987	\$2,230,040
Wastewater Enterprise	\$168,822	\$2,678,072	\$972,716
Water Enterprise	\$2,567,432	\$3,228,742	\$1,950,802

*Notes: The General Fund balance includes the Operating Reserve and Litigation Reserve.
 The Water and Wastewater Enterprise fund balances include capacity fees and reserves.*

The decline in fund balance for the General Fund results primarily from the implementation of a new cost allocation plan beginning in FY 2016/17, repayment of prior year over-allocations made by the Water and Wastewater Enterprise Funds, and ever-increasing costs coupled with slow revenue growth.

The declining fund balances in the Water and Wastewater Enterprise Funds, as shown in the above table, are due primarily to expenditures on capital projects in the FY 2017/18 Capital Projects Budget including \$11.1 million in expenditures for Wastewater Enterprise projects and \$3.4 million in expenditures for Water Enterprise projects. It should be noted that grant revenues are expected to contribute a considerable amount to offset the costs of these capital projects.

The General Fund deficit is by far the biggest budgetary challenge facing the City. The core issue is that General Fund revenues are not keeping pace with increased expenditures. The General Fund accounts for revenues that are not required, either legally or by sound fiscal practices, to be accounted for in other funds. The General Fund is the primary revenue source for Public Safety (Police and Fire) which accounts for 41% of its expenses. Community Services (Community Development and Public Works) is the second largest expense category (24%), followed by General Government (Council, Administration and Finance) at 16%.

The largest sources of General Fund revenue are taxes (sales tax, Transient Occupancy Tax, property tax, franchise taxes) and internal charges for services. Sales tax revenues are essentially flat as a result of changing consumer purchasing habits (i.e., online retail sales), relatively low fuel prices, and lingering effects of the Great Recession. Sales tax revenues in FY 2017/18 are projected at \$1.67 million, an amount that is less than the sales tax collected a full decade ago. Transient Occupancy Tax (TOT) revenue, on the other hand, will reach an all-time high of \$2.6 million in FY 2017/18. TOT is expected to increase significantly as a result of voter approval of Measure AA which increased the TOT rate from 10% to 12%. The additional funds generated by Measure AA do not actually help the General Fund deficit as the revenue is fully offset by new expenditures in accordance with Measure AB, which advised the Council regarding how to spend the new TOT revenue. Nevertheless, "non-Measure AA" TOT revenues are expected to increase by 5.5% in FY 2017/18 and this revenue gain will help to contain the General Fund deficit. TOT and sales tax are the two largest revenue sources in the General Fund and both are directly tied to local economic activity. Thus it is vitally important that the City continue its efforts to support local businesses and grow our local economy while containing ongoing operating costs.

A fundamental concern is that the City's fixed costs, salaries and benefits are increasing at a rate that is faster than growth in recurring revenues. Personnel costs are the largest part of the City's operating budget, totaling \$8.52 million in FY 2017/18. This includes increases in salaries and wages as a result of scheduled merit increases and negotiated wage increases, and increases in the cost of employee benefits. In FY 2017/18, personnel costs are 6.1% higher than the \$8.03 million projected in FY 2016/17.

While the City Council has some control over these costs through the authorization of staff positions and collective bargaining agreements, many of the forces driving up personnel costs are outside of the City's control. These include increases in health benefit premiums, increases in CalPERS premiums, and increases in workers compensation premiums.

Like most public agencies in California, the City faces a looming crisis related to the unfunded liabilities associated with its participation in the California Public Employees' Retirement System (CalPERS). Despite pension reform measures implemented pursuant to the Public Employees' Pension Reform Act (PEPRA) which took effect in January 2013, pension costs are increasing and will continue to increase in accordance with new actuarial assumptions approved by the CalPERS Board of Directors in recent years. These changes include modifications to the mortality and discount rate assumptions. The City's required contribution for CalPERS premiums consists of the "employer's share" plus a contribution to the unfunded actuarial liability of each plan. The City's costs can be expressed as a percentage of employee salaries. For FY 2017/18, the City's contributions to CalPERS premiums are 42% of each employee's salary in the Classic Safety Plan; 18% in the Classic Miscellaneous Plan; 12% in the PEPRA Safety Plan; and 7% in the PEPRA Miscellaneous Plan. While rates for the City's two PEPRA Plans are expected to remain relatively constant, the rates for the two Classic plans will increase dramatically over the next seven years. By FY 2024/25, the City's contributions for the Classic Safety Plan will increase to 96% of each employee's salary and, for the Classic Miscellaneous Plan, the contributions will increase to 50% of each employee's salary. The FY 2017/18 Budget includes expenses of \$868k for employee pensions. By FY 2024/25, this amount is projected to increase 144% to \$2.12 million.

The City Council's Fiscal Policies (see pages 15-20) address a broad range of fiscal topics including establishment of financial reserves to ensure the continued financial well-being of the City by planning for unanticipated emergency and contingency needs. The "Fund Balance & Reserve Policies" establish four reserves in the General Fund. In the FY 2017/18 Budget, the Emergency Contingency Reserve and Economic Stabilization Reserve are not funded. At the Council's direction in FY 2016/17 both of these reserves were drawn to zero to help reimburse the Water and Wastewater Enterprise Funds for past year over-allocations to the General Fund. If funded at the levels designated by the City Council's adopted reserve policies, the Emergency Contingency Reserve would require \$938k and the Economic Stabilization Reserve would require \$469k. The General Fund does not have sufficient resources to fund these reserves. In future years, these two reserves will be replenished as funding becomes available. In FY 2017/18, the General Fund has two funded reserves totaling \$1.6 million: an Operating Reserve which is funded at 15% of the operating budget (\$1.4 million), and a Litigation Reserve which is established at \$200k. The three Internal Service Funds include modest reserves to help pre-fund large purchases and repairs and avoid big swings in funding needs. In FY 2017/18, the Water Capital Reserve will be drawn down to \$1.24 million and the Wastewater Capital Reserve will either be drawn down to zero or long-term financing will be used to close the funding gap for the Wastewater Treatment Plant Upgrade Project.

CONCLUSION

The City's proposed FY 2017/18 Budget includes lean operating budgets for the General Fund, Water Enterprise and Wastewater Enterprise, along with a Capital Projects Budget that addresses critical infrastructure repair and maintenance needs. It is a responsible budget that sustains existing services, programs and staffing levels while recognizing the City's fiscal constraints.

The City will need to remain vigilant about containing costs while pursuing opportunities to increase General Fund revenues and to offset operating costs with outside revenues (such as grants, developer impact fees, permit and license fees, concessions, fines and penalties). To the extent that the City succeeds in its efforts to enhance the local economy, to help Fort Bragg businesses thrive, and to maintain the quality of life that makes Fort Bragg the extraordinary place that it is— the tax base that supports the City's provision of services will continue to grow.

I would like to thank the City Council for its leadership in establishing goals and priorities for the City's services to our community. Additionally, our dedicated team of employees deserves recognition for the excellent services they provide on a daily basis to the citizens of Fort Bragg. I would like to acknowledge the City's management team for their concerted efforts to address the City's budgetary challenges by putting forth a restrained operating budget while, at the same time, pursuing a very ambitious and proactive work plan. I especially want to thank Finance Director Victor Damiani and Government Accountant Isaac Whippy who have worked long hours crunching budget numbers and assembling the narrative of this document. This year, Victor and Isaac expanded the budget presentation to identify program revenues for each of the City's departments and to add narrative details for each capital project in the Capital Improvement Program. Last year's budget received a Distinguished Budget Award from the Government Finance Officers' Association and I fully expect that the FY 2017/18 Budget will achieve that prestigious award as well.

In closing, while the FY 2017/18 Budget presents some very real challenges for the City's General Fund, I believe these challenges can be addressed through continued cautious and conservative fiscal management combined with targeted efforts to strengthen our local economy and increase General Fund revenues. I look forward to continuing to work with the City Council and staff over the next year to define and implement successful programs and services that address the needs of Fort Bragg residents, businesses, and visitors.

Respectfully submitted,



Linda Ruffing
Fort Bragg City Manager