



CITY OF FORT BRAGG

Incorporated August 5, 1889

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June 6, 2018

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

I am pleased to present the Fiscal Year (FY) 2018-19 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. The proposed FY 2018-19 Budget was reviewed by City Council on May 22, 2018 and, based on the direction provided, a final budget was prepared for adoption at the June 11, 2018 City Council meeting.

Highlights of the FY 2018-19 Budget:

- Balanced General Fund Operating Budget
- Includes a cost of living increase of 2% for City Staff
- Focus on improvements to the City's infrastructure with a \$22.2 million Capital Improvement Program (CIP) budget
- Funding for a General Fund operating and a litigation reserve established
- Utility rates set to provide \$1 million in each utility for capital reserves
- Internal Service Fund reserves maintained to smooth out annual expenditures
- \$10.6M in Grant Fund Revenues, including \$9.4M for the Wastewater Treatment Plant upgrade

Balancing the Budget

During the Mid-year Budget Review in early March, the City Council and staff had a lengthy conversation about the ongoing challenge to balance the General Fund Operating Budget. Staff presented a historical summary of adopted budgets compared to the actual financial results as presented in the City's Audited Comprehensive Annual Financial Report. In the last ten years, only once has the City Council adopted a balanced budget. In nine of the ten years, the total budgeted expenditures exceeded total budgeted revenues. However, in contrast, only three of the last ten years actually resulted in an operating deficit. Net revenue over expenditures for the same ten years was a positive \$1.85 million (including the estimated results of the current fiscal year 2017-18).

Following the Mid-year Budget Review, in early May the Finance and Administration Committee reviewed the Financial Goals used to develop the budget. The conclusion was that with limited resources, the City could not meet each goal and that an order of priority would help the Council and staff make better budgetary decisions. The Finance and Administration Committee recommended the Goals in order of

priority and the Council concurred at the May 22nd Budget Workshop. Those goals are listed below in order of priority:

1. Adopt a balanced budget
2. Maintain a General Fund operating reserve and litigation reserve
3. Maintain long-term funding plans in the City's three internal service funds
4. Continue budgeting conservatively but more realistic or "most likely"
5. Maintain current level of service (no staff layoffs, no program cuts)
6. Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years
7. Provide cost of living adjustments for staff in years to come
8. Provide funding for emergency reserves
9. Continue to make additional contributions to the OPEB trust

As a result of establishing the Financial Goal of adopting a balanced operating budget as the highest priority, changes were made to the Proposed FY 2018-19 Budget. In order to close what was an estimated \$419k short fall during the Mid-year Budget Review, revenue sources were reviewed and instead of projecting those conservatively, staff is presenting "most likely" projections. As well, a more recent trend of increasing interest rates for City investments has provided the finance staff with an opportunity to actively manage the City's cash and investments in order to increase revenue on investments.

On the expenditure side, a couple of additional grant opportunities will be leveraged. For example, a United States Department of Agriculture (USDA) fifty-percent (50%) match grant for public safety vehicles has been applied for. Additionally, expenditure budgets were scrutinized and reductions made. An open police officer position was frozen, cuts were made to all departments' travel and training budgets, no pay adjustments or employee promotions were considered, and essentially all requests for increases above the 2017-18 budget baseline were rejected. The Council directed staff to delay the Glass Beach Staircase project and return those funds to the General Fund to provide for ongoing operations. Finally, based on the low-priority listing of the Financial Goal of continuing to fund the additional Other Post-Employment Benefit (OPEB)¹ Trust, savings of \$78k will come from not funding that trust at the recommended amount of \$83k.

Proposed General Purpose Sales Tax Measure

At the Mid-year Budget Review, the Mayor established an Ad Hoc Revenue Committee, to evaluate and propose new revenue sources that could close the projected budget deficit and fix the long-term structural budget deficit facing the City. The Committee recommended placing a three-eighths (3/8th) cent sales tax measure on the November 2018 ballot. Staff estimates that the additional sales tax would generate approximate \$625k per year.

The state sales tax rate is 7.25%. Cities, counties and countywide agencies may impose sales taxes that are added to that 7.25% base. State law limits the maximum added sales tax in any location to 2%. Between the Cities and County existing add-on taxes, the remaining capacity in the sales tax is .375% or 3/8th a percent.² The City's opportunity to utilize the additional sales tax capacity could be limited or usurped by the passage of a County-wide sales tax. A general purpose city sales tax ballot question can only be placed on the ballot at the same time as a City Councilmember election, so the next opportunity

¹ The City's OPEB is a retiree healthcare plan, which was closed six years ago and only grandfathered employees will receive benefits.

² .50% CV Starr Center
.50% City Street and Alley Repair
.125% Libraries
.50% County Mental Health
1.625% Total Current Add-on Sales Tax

for Fort Bragg to pose the question to voters will be November of 2020, assuming the capacity still existed.

The three-eighths figure provides the City funding to pay down the \$9.4 million unfunded liability on the City's California Public Employee Retirement System (CalPERS). By amortizing the unfunded liability over 15 years instead of the expected 30 years, the City is projected to save \$4.1 million. However, this would require an additional \$300k payment in FY 2018-19 and an average additional amount of \$200k per year for 15 years. Without an additional revenue source or without significant cuts to existing City staff and services, funds are not available to make these early payments.

The pre-payment of the outstanding OPEB trust would be revived and funded from the proceeds of the 3/8th cent sales tax. Additional funds would also reinstate the frozen police officer position and fund repair and maintenance projects for nonutility projects in the City. Like many municipalities nation-wide, regular maintenance was deferred during the recession and years of tepid recovery. Fort Bragg, like many other cities, continues to financially struggle with balancing current day-to-day services against what should be regularly scheduled maintenance.

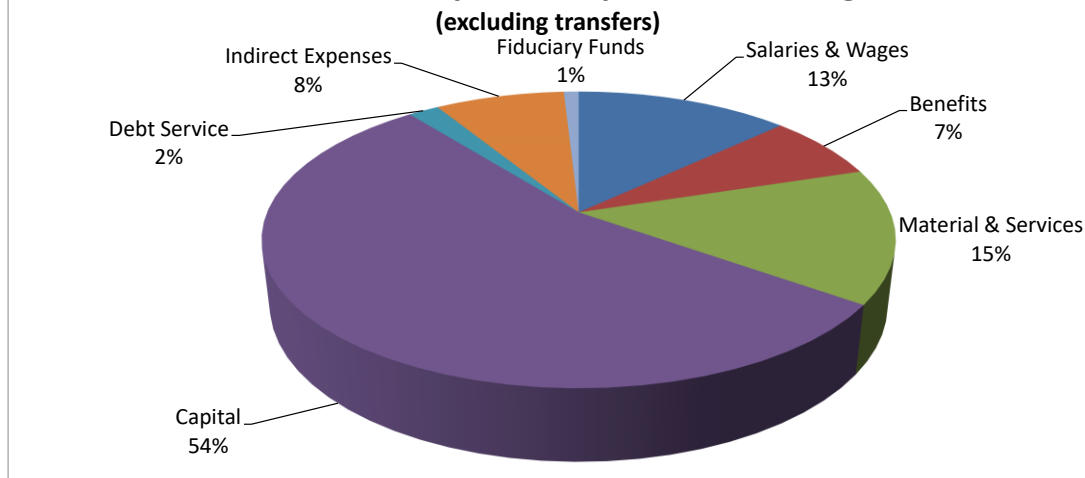
This budget does not make the assumption that the proposed 3/8th cent sales tax will be successful. However, whether the sales tax measure is successful or not will not change the fact that the unfunded \$9.4 million pension liability and \$3.4 million unfunded OBEB remain a City liability. The combined \$12.8 million represents benefits that have already accrued to employees. Pension reforms enacted by the legislature and effective for employees hired after January 1, 2013 are only for new employees and thus, will not have a substantial impact on reducing those liabilities for decades.

Budget Overview

The City's total proposed expenditure budget (excluding transfers) for FY 2018-19 is \$41.4 million. This is an increase of 6.8% from the amended FY 2017-18 Budget of \$38.8 million. The increase is primarily due to several large Capital Improvement Program (CIP) projects. The total Capital budget is \$22.6 million or 54% of the total budget, which includes \$22.2 million for CIP projects and just under \$400k in capital expenditures. The CIP projects include the \$17.6 million Waste Water Treatment Facility Upgrade, \$1 million for the rehabilitation of three wastewater lift stations and \$2 million for street resurfacing, alley and structural repairs. The chart below and the graph on the following page summarize the annual expenditures of the City (excluding transfers).

	Proposed FY 2018-19	Amended FY 2017-18	\$ Variance	% Variance
Salaries & Wages	\$ 5,401,582	\$ 5,523,427	\$ (121,845)	-2.2%
Benefits	2,944,195	2,971,310	(27,115)	-0.9%
Material & Services	6,073,632	6,003,346	70,286	1.2%
Capital	22,592,069	20,090,400	2,501,669	12.5%
Debt Service	775,098	724,024	51,074	7.1%
Indirect Expenses	3,270,681	3,092,481	178,200	5.8%
Fiduciary Funds	375,278	400,709	(25,431)	-6.3%
Total	\$ 41,432,535	\$ 38,805,696	\$ 2,626,839	6.8%

City of Fort Bragg, California FY 2018-19 Proposed Expenditure Budget



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.

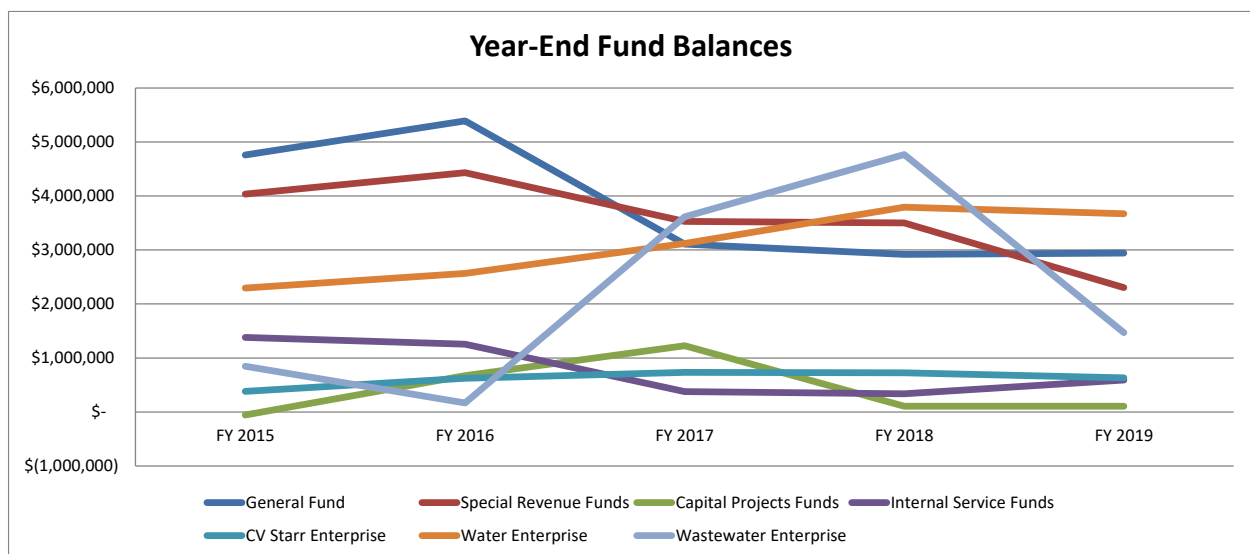
Projected Fund Balances

The year-end fund balances (or net position for enterprise funds) and the changes over time provide a narrative about the financial condition of each fund or fund group. 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 this next year and revenues have been accumulated to cover the cost or a portion of the cost of the project. 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. Overall, the financial health of the City is improving and fund balances have been growing. The significant drop in FY 2018-19 is the result of planned for capital projects, including the \$17.6 million Wastewater Treatment Plant Upgrade.

In any case, 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 a new cost allocation plan and repayment of prior year over-allocations made by the Water and Wastewater Enterprise funds. Changes in the Special Revenue, Capital and Internal service funds are typically tied to capital projects and expenditures and can fluctuate accordingly.

The chart and graph on the following page provide a five-year "picture" of the City's fund balances.

Funds	06/30/2015 Audited Fund Balance	06/30/2016 Audited Fund Balance	06/30/2017 Audited Fund Balance	06/30/2018 Projected Fund Balance	06/30/2019 Projected Fund Balance
General Fund	\$ 4,757,789	\$ 5,388,494	\$ 3,106,934	\$ 2,918,110	\$ 2,940,642
Special Revenue Funds	4,034,226	4,430,343	3,528,495	3,502,509	2,303,864
Capital Projects Funds	(55,078)	675,031	1,227,204	106,905	106,905
Internal Service Funds	1,382,796	1,255,766	377,150	338,510	593,363
CV Starr Enterprise	382,643	622,651	735,611	725,306	634,369
Water Enterprise	2,295,569	2,567,432	3,120,650	3,791,767	3,669,406
Wastewater Enterprise	847,312	168,822	3,615,944	4,765,372	1,468,365
Total	\$ 13,645,257	\$ 15,108,539	\$ 15,711,988	\$ 16,148,479	\$ 11,716,914



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

Operating Budget

If you remove the one-time CIP projects and capital expenditures, the City's operating budget (excluding transfers) is \$18.8 million, which is an increase of 0.7% or \$125k over the Amended FY 2017-18 Budget. See Operating Expenditure Chart below.

	Proposed FY 2018-19	Amended FY 2017-18	\$ Variance	% Variance
Salaries & Wages	\$ 5,401,582	\$ 5,523,427	\$ (121,845)	-2.2%
Benefits	2,944,195	2,971,310	(27,115)	-0.9%
Material & Services	6,073,632	6,003,346	70,286	1.2%
Debt Service	775,098	724,024	51,074	7.1%
Indirect Expenses	3,270,681	3,092,481	178,200	5.8%
Fiduciary Funds	375,278	400,709	(25,431)	-6.3%
Total	\$ 18,840,466	\$ 18,715,296	\$ 125,170	0.7%

The largest portion of the City's operating expenditure budget is salary and benefits which makes up 44% of the total. This is also one of the more challenging expenditures for the City to manage in the long-term. Generally, salary increases are managed through labor negotiations. Staff received a 3% cost of living increase in FY 2017-18 and a 2% cost of living increase in FY 2018-19. As already mentioned, the CalPERS pension costs and unfunded liability will continue to be a challenge, not only for the City of Fort Bragg but for most public agencies in California. Those costs are projected to increase an average of 14% per year and double within the next six to seven years.

General Fund Budget

The General Fund is projected to have \$9,560,365 of revenue in FY 2018-19 and expenditures of \$9,541,005. As discussed earlier, the \$19k operating surplus, while not large, is noteworthy because it is the first time in ten years that the City will have adopted a balanced General Fund budget. The General Fund is predominately supported by taxes (sales tax, Transient Occupancy Tax, property tax, and franchise taxes). These tax revenues have been slow to recover since the recession and as noted earlier, based on recent trends, staff is projecting those sources "more likely" rather than conservatively. Part of the reason for the change in approach, is the efforts of the Visit Fort Bragg Marketing and Promotions program and the nearly \$300k per year that is allocated to promoting the tourism economy with the stated goal of increasing Transient Occupancy and sales tax revenues for the City.

The Proposed FY 2018-19 expenditures of \$9,541,005 represent a decrease of \$165k or 1.7% from the Amended FY 2017-18 expenditures. The General Fund expenditure budget is a lean budget. Because of the high portion of labor related costs in the General Fund, it is most impacted by the increased pension costs and other benefits such as health insurance. Without increased revenues in future years, from new or existing sources, a higher level of scrutiny will be needed to focus on which programs and services should or could be reduced or eliminated. The chart below summarizes the General Fund Expenditures.

General Fund Expenditures by Category	FY 2017-18 Amended Budget	FY 2017-18 FYE Projected	FY 2018-2019 Proposed Budget	FY 2017-18 Budget vs. FY 2018-19 Budget
Salaries & Wages	\$ 3,913,064	\$ 3,885,313	\$ 3,753,299	\$ (159,765)
Benefits	2,550,804	2,531,473	2,488,175	(62,629)
Material & Services	2,319,120	2,100,858	2,242,530	(76,590)
Other Expenditures	135,973	82,543	153,801	17,828
Debt Service	185,533	185,533	185,533	-
Allocation to Internal Service Funds	601,333	601,334	717,667	116,334
Total General Fund Expenditures	\$ 9,705,827	\$ 9,387,054	\$ 9,541,005	\$ (164,822)

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 citizens and visitors. Some of the services the City provides are vital and not always acknowledged. For instance, it is easy to forget how important our wastewater treatment system is to our Community, or the significance of clean drinking water.

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 where we live and work. I must also acknowledge 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, without whom we could not have closed the budget gap. That said, without the Finance Department this whole document and all it stands for could not come together. I would like to thank Victor Damiani, the

City's Finance Director, and Isaac Whippy, Government Accountant, for the extraordinary job they do in pulling this together. They work hard each year to not only put the budget together but to also improve the process and this document.

This next year will no doubt offer the City new challenges and opportunities. I look forward to tackling those challenges and leveraging those opportunities, next year and into the future.

Respectfully Submitted,

Tabatha Miller

Tabatha Miller
City Manager