

## LONG-TERM FINANCIAL PLANNING

Long-term financial planning is an important tool used to help maintain ongoing financial sustainability and helps governments provide a consistent level of services to their citizens. It is important to keep in mind that no one has a crystal ball and can predict the future with complete accuracy. However, the exercise of projecting revenues and costs into the future, while highly unlikely to be 100% correct, still gives the government an opportunity to develop a general sense of its financial health in the years to come.

The long-term forecast provided in this report was developed at a high level (low level of detail). The City's major sources of revenue were projected individually with all other revenue sources aggregated together. Likewise, the City's major expenditure categories were projected individually, with many costs aggregated together. The majority of the assumptions used in the report were based on a five-year historical trend. Years that were clear outliers were removed prior to averaging so as not to affect the overall trend. Some projections, however, are based on known payment or increase percentages. Pension costs have been projected to increase in FY 2024/25 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% for 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, 2022, is \$6.4 million.

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

### **FIVE-YEAR PROJECTION**

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 Department eliminated a 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

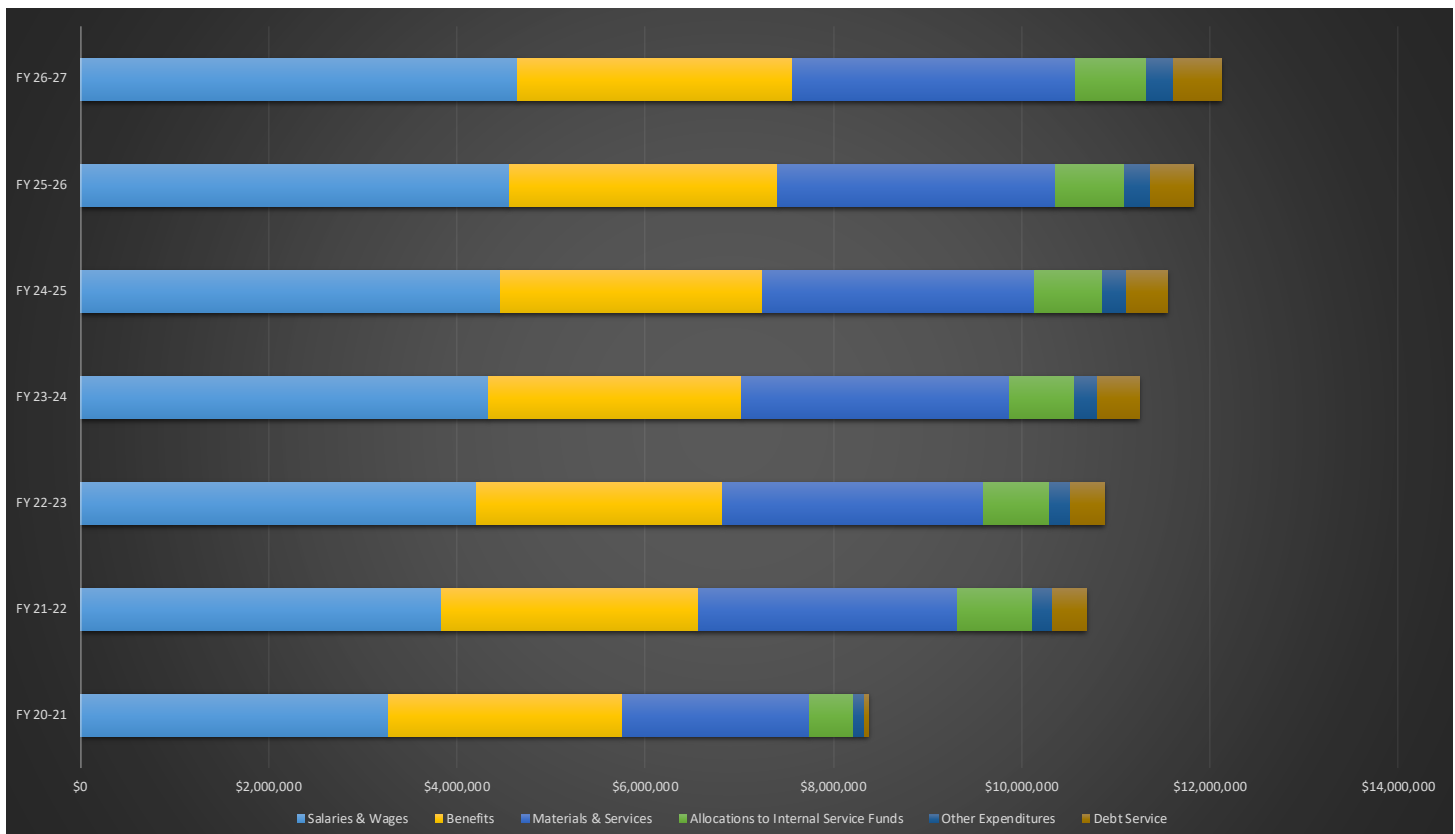
services and the previously discussed increases in TOT and sales tax revenue as tourism rebounded. In May, 2020, the City laid off four full-time employees, froze two positions in the Police Department, and furloughed another twelve employees, at 50% to 75% of their regular hours. The furloughed Staff 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 2021/22 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.

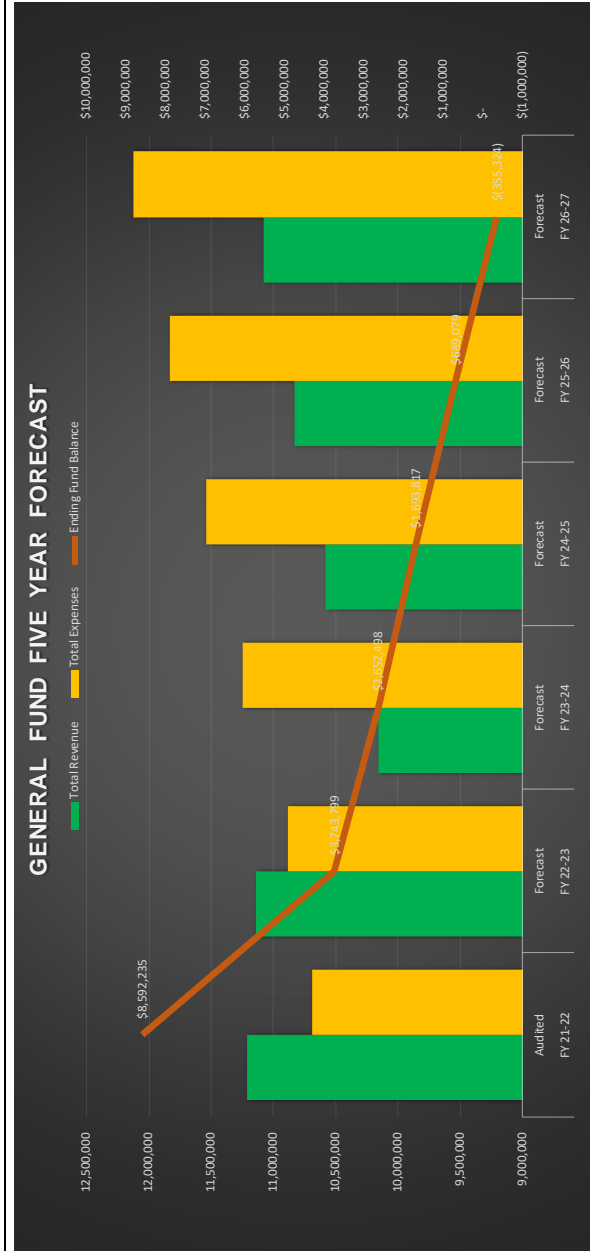
The long-term forecast indicates that in the next year or two, the City will likely be able to fill budgeted positions or realized deficits with appropriated fund balance. Revenue enhancements and/or additional cost-cutting measures will likely be necessary within two years. The long-term forecast includes 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 following charts depict the General Fund expenditure categories.



City of Fort Bragg General Fund Five Year Forecast								
	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
	Audited	Audited	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Revenue:	Sales Tax	\$ 2,028,010	\$ 2,215,161	\$ 2,178,000	\$ 1,916,640	\$ 1,974,139	\$ 2,043,234	\$ 2,114,747
	Property Tax	1,085,532	1,150,352	1,176,309	1,205,716	1,235,859	1,248,218	1,260,700
	Transient Occupancy Tax	3,321,928	3,444,990	3,371,081	3,033,973	3,124,992	3,156,242	3,187,804
	Cost Allocations	2,299,275	3,333,187	2,754,136	2,478,722	2,590,265	2,706,827	2,828,634
	All Other Revenue Sources	1,137,672	1,071,911	1,658,130	1,624,967	1,657,466	1,674,041	1,690,781
	Total Revenue	9,872,418	11,215,601	11,137,655	10,156,540	10,582,722	10,828,562	11,082,667
Expenditures:	Salaries & Wages	3,271,863	3,831,953	4,205,464	4,331,628	4,461,577	4,550,808	4,641,824
	Benefits	2,489,172	2,728,147	2,616,939	2,695,447	2,776,311	2,859,600	2,916,792
	Materials & Services	1,979,993	2,762,347	2,781,147	2,836,769	2,893,505	2,951,375	3,010,402
	Allocations to Internal Service Funds	478,497	789,396	686,129	699,852	720,847	742,473	764,747
	Other Expenditures	109,919	216,637	232,032	243,633	255,815	263,489	271,394
	Debt Service	37,964	358,337	364,381	440,513	433,348	465,555	521,910
	Total Expenses	8,367,408	10,686,817	10,886,091	11,247,842	11,541,402	11,833,300	12,127,070
Net Transfers:				-	-	-	-	-
	Net Increase (Decrease) to Fund Balance	1,505,010	528,784	251,564	(1,091,302)	(958,680)	(1,004,738)	(1,044,402)
	Other restricted funds		3,879,236	(5,100,000)				
	Beginning Fund Balance	2,679,205	4,184,215	8,592,235	3,743,799	2,652,498	1,693,817	689,079
	Ending Fund Balance	\$ 4,184,215	\$ 8,592,235	\$ 3,743,799	\$ 2,652,498	\$ 1,693,817	\$ 689,079	\$ (355,324)
Storm Drain Enterprise \$190k annually								
		-	718,784	441,564	(901,302)	(768,680)	(814,738)	(873,669)
	\$ 4,184,215	\$ 4,902,999	\$ 5,344,563	\$ 4,443,262	\$ 3,674,581	\$ 2,859,843	\$ 2,820,179	\$ 1,986,174
Parcel Tax \$430k/yr.								
	\$ 4,184,215	\$ 5,142,999	\$ 5,824,563	\$ 5,163,262	\$ 4,634,581	\$ 4,059,843	\$ 4,020,179	\$ 3,426,174
1/4 cent General Sales Tax \$500k/yr.								
	\$ 4,184,215	\$ 5,142,999	\$ 5,824,563	\$ 5,163,262	\$ 4,634,581	\$ 4,059,843	\$ 4,020,179	\$ 3,426,174
		667,232	796,064	(612,142)	(465,146)	(493,930)	(533,594)	(534,982)
	\$ 4,184,215	\$ 4,851,447	\$ 5,647,511	\$ 5,035,369	\$ 4,570,223	\$ 4,076,294	\$ 4,036,630	\$ 3,541,312
3/8 cent General Sales Tax \$750k/yr.								
		736,455	1,068,314	(372,562)	(218,378)	(238,526)	(251,372)	(242,883)
	\$ 4,184,215	\$ 4,920,671	\$ 5,988,985	\$ 5,616,423	\$ 5,398,045	\$ 5,159,519	\$ 4,908,147	\$ 4,665,264



## The FISCAL YEAR 2023/24 BUDGET PREPARATION

### A. BUDGET PREPARATION SCHEDULE

Initial activities related to preparing the Fiscal Year 2023/24 budget are underway. The direction provided today by Council will be incorporated into the budget draft. Staff will present a draft budget to the Council and the public at a budget workshop on May 18. The further direction provided at the workshop will be incorporated into a "Final" budget that will be presented to the Council for consideration of adoption on June 14. The complete budget calendar is provided below:

### SCHEDULE FOR DEVELOPMENT OF FY 2023/24 BUDGET

ACTIVITY	DEADLINE
FINANCE PROVIDES BUDGET SPREADSHEETS TO DEPARTMENTS AS WELL AS INSTRUCTIONS RE: NARRATIVES & CAPITAL PROJECTS (INCLUDING INTERNAL SERVICE FUNDS, GRANTS, DDAs)	2/25/2023
MID-YEAR PERFORMANCE BUDGET REVIEW WITH COUNCIL ( 1.30PM-5.30pm) <b>(COMMUNITY INPUT)</b>	3/22/2023
FINANCE PROVIDES INITIAL REVENUE FORECASTS TO CM (ALL REVENUE SOURCES, AND FUNDS)	3/31/2023
DEPTS SUBMIT PROPOSED DEPARTMENTAL EXPENSE BUDGETS AND NARRATIVES TO FINANCE	4/7/2023
PW & CDD SUBMIT COMPLETED BUDGET SECTIONS FOR GRANTS AND CAPITAL PROJECTS	3/23/2023
HR PROVIDES PAYROLL PROJECTIONS INCLUDING BENEFITS	4/15/2023
CM & FINANCE MEET WITH ALL DEPTS; REVIEW APPROPRIATIONS REQUESTS	4/17/2023 thru 4/21/2023
CM & FINANCE FOLLOW UP MEETING CIP	4/21/2023
FINANCE POSTS REVISED BUDGET WORKSHEETS IN BUDGET FOLDER;	4/22/2023
DEPARTMENTS REVIEW REVISED EXP WORKSHEETS; REPORT ANY DISCREPANCIES TO FINANCE THIS INCLUDES PROJECTED YEAR END FOR FY23, GRANTS; CAPITAL PROJECTS, ETC	4/22/2023
FINANCE REVIEWS TOTAL REVENUES vs EXPENDITURES WITH CM - ADJUST AS NECESSARY; <u>draft CV Starr Budget due</u>	4/31/2023
INTERNAL REVIEW/QUALITY CONTROL (FINANCE, CM, DEPTS) - DRAFT BUDGET DOCUMENT	4/15/2023 thru 5/10/2023
FINALIZE DRAFT BUDGET DOCUMENT	5/10/2023
CM COMPLETES BUDGET TRANSMITTAL LETTER	5/4/2023
FINANCE DISTRIBUTES PROPOSED FY 2023/24 Draft BUDGET	5/19/2023
CITY COUNCIL CONDUCTS FY 2023/24 BUDGET WORKSHOP ( 9 am - 2:30pm) <b>(COMMUNITY INPUT)</b>	5/24/2023
FINANCE DISTRIBUTES FY 2023/24 BUDGET INCLUDING COUCL AND PUBLIC UPDATES (FOR COUNCIL ADOPTION)	6/9/2023
CITY COUNCIL ADOPTS FY 2023/24 BUDGET	6/12/2023

### B. PRIORITIZED LIST OF FINANCIAL GOALS

Staff used the prioritized list as guidance in preparing the FY 2022/23 budget and will again use the list in preparing the FY 2023/24 budget unless Council directs otherwise:

- 1) Adopt a balanced budget
- 2) Provide additional contributions to the **Section 115 Trust** to help pay the unfunded liability
- 3) Maintain operating reserve (15-20% of operating Exp) and litigation reserve (\$200k)
- 4) Provide additional funding for emergency reserves **(Increase Recession Reserves from 5% to 10% of Operating Expenditures)**
- 5) Maintain current level of service (no staff layoffs, no program cuts)
- 6) Provide cost of living adjustments for Staff in years to come
- 7) **Change Policy – 50% of Surplus to be deposited to Section 115 Trust instead of additional payments to CALPERS.**

### C. CITY COUNCIL DISCUSSION