



City of Fort Bragg

FY 2014/15 Mid-Year Performance Report

As of December 31, 2014

FY 2014/15 MID-YEAR BUDGET REVIEW

The City of Fort Bragg Mid-Year Performance Report addresses the financial activity during the first two quarters of FY 2014/15. The report focuses on the General Fund and the 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.

The City's annual budget is a financial plan which is predicated on the best information available at the time it is prepared. As with any plan, however, changing conditions can result in a need to modify the original budget. The mid-year review process provides an opportunity for revisions to the revenue and expenditure projections based on departmental reviews of revenues and expenses at the mid-point of the year. Except where noted below, revenues and expenditures for the first six months of FY 2014/15 are generally on target with the adopted FY 2014/15 Budget.

In reviewing this report, the following information should be taken into consideration:

- Revenues and expenditures are recorded during the period received or paid. It is only at year-end that accrual entries are made to associate the revenues and expenditures to the corresponding period.
- 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 of such include debt service payments, liability insurance, and audit fees.

GENERAL FUND

The General Fund supports many of the day-to-day operations of the City, including police and fire protection, street and park maintenance, community development, and general administrative functions. The General Fund receives the broadest variety of revenues and many of its revenue sources are cyclical in nature (as opposed to the revenue sources for the Enterprise Funds which are received on a monthly basis and, as a result, are more evenly distributed throughout the fiscal year).

The General Fund includes all services that are funded through general taxes. It is the funding source for all City programs except those that are paid for through dedicated taxes, fees or impact fees, or grants. Personnel costs are the largest expenditure category, accounting for 63% of the General Fund projected expenditures.

The General Fund audited balance at June 30, 2014 was \$4.6 million. This balance includes reserves as delineated by the City's fiscal policies. The fiscal policies are intended to ensure the continued financial well-being of the City by planning for unanticipated emergency and contingency needs. As part of the FY 14/15 Budget, the City modified its reserve policies and established a Fund Balance and Reserve Policy. This Policy established two new committed reserves: the Emergency Contingency Reserve and the Economic Stabilization Reserve. Two additional uncommitted reserves were retained; the General Fund Operating Reserve and the Litigation Reserve. The Emergency Contingency Reserve is established at an amount equivalent to 10% to 15% of the City's annual operating budget for the General Fund; for FY 14/15 this reserve was set at \$850,000, which is 10% of budgeted General Fund appropriations. The Economic Stabilization Reserve is established to stabilize the delivery of City services during periods of severe operational budget deficits and to mitigate the effects of major unforeseen changes in revenues and or expenditures. It is set at an amount equivalent to 5% to 10% of the City's annual Operating reserve. For FY 14/15 this reserve was set at \$425,000, which is 5% of budgeted General Fund appropriations. The General Fund Operating reserve policy states that the City will maintain an unrestricted fund balance of at least 15% to 20% of the annual operating expenditures in the General Fund to ensure liquidity of the General Fund and to ensure adequate cash flow. For FY 14/15 the undesignated balance was set at \$1,310,500. The Litigation Reserve balance is set at \$300,000 to cover unforeseen legal



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expenditures. Table 1 shows the FY 13/14 audited fund and reserve balances, the projected revenue and expenditures, and the projected fund balance and reserve balances for the 2014/15 fiscal year-end.

Table 1

| Summary of General Fund Balances | | | | | |
|--|-----------------------------------|--------------------------------|-------------------------------------|-------------------------|---------------------------------|
| | FY2014 Audited Fund Balance | FY2015 Projected Revenue | FY2015 Projected Expenditures | Increase/ (Decrease) | FY2015 Projected Year End |
| Undesignated | \$ 1,548,865 | \$ 8,176,564 | \$ 8,775,585 | \$ (46,843) | \$ 903,001 |
| Nonspendable | 185,345 | | | (345) | 185,000 |
| Operating Reserve | 1,310,500 | | | 5,838 | 1,316,338 |
| Litigation Reserve | 300,000 | | | - | 300,000 |
| Economic Stabilization Reserve | 425,000 | | | 13,800 | 438,800 |
| Emergency Contingency Reserve | 850,000 | | | 27,550 | 877,550 |
| Total | 4,619,710 * | \$ 8,176,564 | \$ 8,775,585 | \$ - | \$ 4,020,689 |
| * Total audited fund balance as of FYE 2014 recast to reflect the reserves set in the FY15 reserve policies. | | | | | |

REVENUES

At mid-year, General Fund revenues (excluding transfers) are at 50% of amended budget and projected year-end totals. Sales tax and Transient Occupancy Tax are the largest source of General Fund outside revenue and make up 42% of total General Fund revenues. Other sources of General Fund revenue include charges for services, property tax, intergovernmental, franchise fees, licenses and permits, interest earnings, fines and forfeitures and inter-fund transfers.

PROJECTED VARIANCES AT YEAR END

The following revenue variances are expected at fiscal year-end:

Transient Occupancy Tax – Transient Occupancy Tax continues to outperform projections. Hotel occupancy is expected to reach between 64 and 65% nationally in 2015. With demand high, rates are likely to rise. Because the North Coast of California is a top U.S. vacation destination we believe a similar upswing will play out locally. As of mid-year TOT is 8% above expected collections. Year End projections have been made based on current trends. On the optimistic side we believe a 6.7% increase over last year is possible and on the pessimistic side a 4.1% increase. Conservatively we are projecting a middle of the road scenario of 5.4% increase over the prior year or \$113k over the adopted budget.

Sales and Use Tax – Sales and Use tax scenarios are forecast by staff with the assistance of an outside consultant – Muni Services. Muni Services provides “Pessimistic”, “Most Likely” and “Optimistic” collection scenarios. We are conservatively allowing for the “Pessimistic” scenario with adjustments based on collections received year-to-date. The projected total is \$17k under the adopted budget primarily due to lower fuel costs.

Property Tax - Year end projections for property tax are based on the amount received from the County in December. Payments are received as follows: 55% in December, 38% in April and 7% in August of the following fiscal year. In December 2014 the City received \$178k in property tax implying an annual collection in the amount of \$323k or \$15k over the adopted budget.



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Licenses & Permits – Fees for business licenses have been trending slightly down the past three years. This trend would suggest that the Licenses and Permits category will remain essentially flat compared to last fiscal year.

Other Revenue – In October 2014 the State of California reimbursed the City \$13k for pre-2004 SB 90 claims filed and another \$48k is expected this April. Due to these unexpected payments we believe the Other Revenue category will end the year over the amended budget by approximately \$61k.

Table 2

| Summary of FY 2014-2015 Mid Year General Fund Revenue Sources | | | | | |
|---|------------------------------|-----------------------------|-----------------------------|---------------------------------|---|
| Source | FY2014 Audited Results | FY2015 Adopted Budget | FY2015 Amended Budget | FY2015 Projected Year End | Variance of Projected FYE vs. Amended Budget |
| Transient Occupancy Tax | \$ 1,667,580 | \$ 1,641,000 | \$ 1,641,000 | \$ 1,753,589 | \$ 112,589 |
| Sales and Use Tax | 1,216,160 | 1,267,897 | 1,267,897 | 1,250,837 | (17,060) |
| In-Lieu Sales Tax (Triple Flip) | 409,756 | 400,300 | 400,300 | 401,261 | 961 |
| VLF Swap | 540,233 | 540,000 | 540,000 | 540,000 | - |
| Property Tax | 353,340 | 307,932 | 307,932 | 322,943 | 15,011 |
| Other Taxes | 518,118 | 494,000 | 494,000 | 494,000 | - |
| Charges for Services | 2,956,675 | 2,941,778 | 2,941,778 | 2,936,976 | (4,802) |
| Licenses & Permits | 233,793 | 251,845 | 251,845 | 249,732 | (2,113) |
| Other Revenue | 215,210 | 166,500 | 166,500 | 227,227 | 60,727 |
| Total | \$ 8,110,865 | \$ 8,011,252 | \$ 8,011,252 | \$ 8,176,564 | \$ 165,312 |

EXPENDITURES

As shown in Table 3 below, during the first six months of FY 2014/15, overall expenditures in the General Fund have been tracking close to anticipated levels with the exceptions noted below. General fund operating expenditures (excluding transfers) are at 49% of projections as of December 31, 2014 and are projected to be at or slightly over the amended budget at fiscal year-end. Total FY 2014/15 General Fund projected expenditures are approximately 7% above the prior year expenditures. Table 3 shows the expenses by category. Significant variances in projected year-end expenditures include the following:

Caspar Transfer Station – Caspar Transfer Station and Landfill are anticipated to end the year 89% over the adopted budget due to invoices received for prior fiscal years that were not included in the budget.

Non-Departmental – Increased expenditures include the previously noted increase in costs for the Caspar Transfer Station, a 24% increase in retiree medical premiums and a 12% increase in property and liability premiums.

Finance – Accounting and Auditing Services increased due to auditor preparation of the financial statements normally prepared by staff and an unexpected audit of the City's TDA fund as required by MCOG. Additionally professional services increased due to the completion of the City's overhead cost allocation plan by an outside



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consultant. The plan was budgeted and commenced in 2012 but was not completed until 2014. The Cost Plan expense was not re-budgeted in FY15.

Personnel Costs – Personnel expenditures are projected to end the year very close to the prior fiscal year and approximately 3% below budget primarily due to unfilled positions.

Professional Services – In addition to the Caspar Transfer Station it is anticipated that Professional Services will end the year approximately 5% over the prior year due to engineering services. This expense is offset by savings in Public Works Engineering due to an unfilled position.

Table 4

| Summary of FY 2014-2015 General Fund Projected Expenditure by Department | | | | | |
|--|------------------------------|-----------------------------|-----------------------------|---------------------|--|
| Department | FY2014 Audited Results | FY2015 Adopted Budget | FY2015 Amended Budget | Projected FYE | Variance of Projected FYE vs. Total Amended Budget |
| City Council | \$ 138,868 | \$ 150,724 | \$ 150,724 | \$ 149,463 | \$ (1,261) |
| Legal | 278,031 | 327,000 | 328,477 | 328,477 | - |
| Administrative Services | 770,563 | 681,549 | 663,702 | 747,838 | 84,136 |
| Finance | 361,701 | 426,671 | 429,901 | 440,895 | 10,995 |
| Non-departmental | 1,274,344 | 1,363,088 | 1,369,733 | 1,524,734 | 155,001 |
| Public Safety | 3,584,448 | 3,621,908 | 3,622,985 | 3,604,971 | (18,014) |
| Community Development | 387,903 | 414,757 | 416,910 | 378,296 | (38,614) |
| Public Works | 1,509,993 | 1,670,147 | 1,740,774 | 1,600,911 | (139,863) |
| Total | \$ 8,305,851 | \$ 8,655,844 | \$ 8,723,205 | \$ 8,775,585 | \$ 52,381 |

Table 4

| Summary of FY 2014-2015 General Fund Projected Expenditure by Category | | | | | |
|--|------------------------------|-----------------------------|-----------------------------|---------------------|--|
| Category | FY2014 Audited Results | FY2015 Adopted Budget | FY2015 Amended Budget | Projected FYE | Variance of Projected FYE vs. Total Amended Budget |
| Salaries | \$ 3,347,532 | \$ 3,422,205 | \$ 3,404,240 | \$ 3,357,150 | \$ (47,090) |
| Benefits | 2,166,750 | 2,296,534 | 2,281,979 | 2,155,718 | (126,261) |
| Materials & Services | 2,566,926 | 2,754,535 | 2,854,416 | 3,080,148 | 225,732 |
| Capital Outlay | 77,074 | 35,000 | 35,000 | 35,000 | - |
| Debt Service | 147,569 | 147,569 | 147,569 | 147,569 | - |
| Total | \$ 8,305,850 | \$ 8,655,844 | \$ 8,723,204 | \$ 8,775,585 | \$ 52,381 |



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WATER & WASTEWATER ENTERPRISE FUNDS

REVENUES

It is anticipated that operating revenue for the Water Enterprise will exceed the prior year total by 8%, ending the year at \$2.44 million as compared to \$2.26 million for FY 2013/14. Operating revenues for the Wastewater Enterprise are projected to total \$3.25 million, ending the year 7.6% above the FY 2013/14 total of \$3.02 million. At mid-year, operating revenues for the Water and Wastewater Enterprise funds combined are at 53% of projected year end totals. Table 5 provides information regarding budgeted and updated projected revenues for the Water and Wastewater Enterprises.

Table 5

| FY 2014-2015 Projected Water and Wastewater Enterprise Revenue | | | | |
|--|------------------------|-----------------------|---------------------|--|
| Source | FY2014 Audited Results | FY2015 Adopted Budget | Projected FYE | Variance of Projected FYE vs. Total Adopted Budget |
| Charges for Services | \$ 2,228,589 | \$ 2,599,823 | \$ 2,410,926 | \$ (188,897) |
| Other Revenue | 35,052 | 28,000 | 28,000 | - |
| Water | 2,263,641 | 2,627,823 | 2,438,926 | (188,897) |
| Charges for Services | 3,008,162 | 3,233,750 | 3,210,897 | (22,853) |
| Other Revenue | 10,989 | 5,040 | 40,040 | 35,000 |
| Wastewater | 3,019,151 | 3,238,790 | 3,250,937 | 12,147 |
| Total | \$ 5,282,792 | \$ 5,866,613 | \$ 5,689,862 | \$ (176,751) |

PROJECTED VARIANCES AT YEAR END

The following revenue variances are expected at fiscal year-end:

Water; Charges for Services FY 14-15 revenues are projected to exceed the prior year total by approximately 7.5%. Although the projected total is an increase over last year, an analysis of Water Sales in the City indicates that revenues will fall short of the amended budget amount by \$188k, or 7.7%. This shortfall is offset to some extent by projected increases in Miscellaneous Water Sales, Lateral Install and Commercial Capacity fees. The shortfall is attributed to a substantial decrease in consumption. Year-to-date consumption has decreased 10% when compared to the prior fiscal year.

Wastewater; Charges for Services Although FY 14-15 revenue is expected to increase compared to the prior year, an analysis of Sewer Service indicates that revenues will fall short of the amended budget amount by \$22k. Wastewater charges are based on water consumption so this shortfall can also be attributed to the reduction in water consumption. This shortfall is partially offset by projected increases in Installation and Capacity fees.

Wastewater; Other Revenue Other revenues are trending above amended budget due to increased leachate billings. Leachate is runoff from the old Caspar landfill site that is collected by the County and trucked to the Fort Bragg wastewater treatment facility for processing. The City bills the County at a rate of \$0.17 per gallon.



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Revenues from leachate billings were not included in the FY2015 budget; however \$35k has been billed and collected.

EXPENSES

Water Enterprise operating expenses are anticipated to finish the fiscal year slightly below the amended budget. At December 31, 2014, expenses are at 47% of projected totals.

At mid-year, Wastewater Enterprise operating expenses are at 45% of year-end projections. Projected expenses in the Wastewater Enterprise are anticipated to be slightly below budget, totaling \$2.77 million as opposed to the \$2.78 million budgeted. No significant variances are noted.

Table 6

| FY 2014-2015 Projected Water and Wastewater Enterprise Expenses by Category | | | | | |
|--|-------------------------------|------------------------------|------------------------------|----------------------|---|
| Category | FY2014 Audited Results | FY2015 Adopted Budget | FY2015 Amended Budget | Projected FYE | Variance of Projected FYE vs. Total Amended Budget |
| Salary/Benefit Allocation | \$ 672,254 | \$ 667,119 | \$ 667,119 | \$ 667,119 | \$ - |
| Materials & Services | 1,665,770 | 1,861,972 | 1,880,937 | 1,846,362 | (34,575) |
| Capital Outlay | 29,763 | 26,400 | 26,400 | 26,400 | - |
| Debt Service | 171,191 | 727,112 | 727,112 | 582,184 | (144,928) |
| Water | 2,538,977 | 3,282,603 | 3,301,568 | 3,122,065 | (179,503) |
| Salary/Benefit Allocation | 501,561 | 506,336 | 506,336 | 506,336 | - |
| Salaries and Benefits | 559,157 | 772,115 | 780,787 | 795,846 | 15,059 |
| Materials & Services | 1,914,916 | 1,401,436 | 1,433,140 | 1,407,313 | (25,827) |
| Debt Service | 16,841 | 59,922 | 59,922 | 59,922 | - |
| Wastewater | 2,992,475 | 2,739,809 | 2,780,185 | 2,769,417 | (10,768) |
| Total | \$ 5,531,452 | \$ 6,022,412 | \$ 6,081,753 | \$ 5,891,482 | \$ (190,271) |

FOR MORE INFORMATION

This Mid-Year Performance Report is derived from detailed 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 Rosana Cimolino at rcimolino@fortbragg.com.