



May 19, 2015

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

**SUBJECT: Proposed FY 2015/16 Operating Budget & Capital Projects Budget**

Honorable Mayor and Members of the City Council:

I am pleased to present the draft Fiscal Year (FY) 2015/16 Budget for the City of Fort Bragg and 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 Municipal Improvement District Board policies and priorities in all areas of the City's operations. Over the course of the year, the City's budget serves as a financial management tool and as an operational plan for the delivery of City services and implementation of capital projects. The budget also presents a summary of accomplishments realized in each area of the City's operations over the past year.

The budget format has been modified for FY 2015/16. Last year, the presentation was revised to provide two years of past data to allow for year-to-year comparisons of expenditure trends. To facilitate that, the line item detail was omitted. Over the course of the year, City staff found that the omission of that detail made it more difficult to use the budget document as a tool for tracking budget appropriations. This year, to enhance transparency, clarity and utility, the budget format was revised to present the line item detail while also retaining the historic data.

Overall, the City of Fort Bragg's financial position is stable despite ongoing challenges due to the slow economic recovery from the recent recession, reductions in local revenues as a result of state take-away of local funds, the dissolution of the Fort Bragg Redevelopment Agency, and increasing costs of employee and retiree benefits. The proposed FY 2015/16 Budget is balanced. It appropriates funds sufficient to maintain, and in some cases to enhance, City services and to implement capital projects necessary to ensure the long-term functionality of the City's infrastructure and facilities.

**FY 2014/15 ACCOMPLISHMENTS**

The City Council provides the leadership and long-term "vision" that guide the day-to-day efforts of City staff. Through actions taken at bi-weekly and special meetings throughout the year, the Council establishes priorities and policies for implementation of the City's work activities. City staff members also deserve a tremendous amount of credit for their commitment to providing excellent services and reliable infrastructure while containing costs and bringing in "outside" revenues to help fund priority projects and activities. Year after year, our staff strives to accomplish as much as possible with the resources available. We have a very talented, professional, and resourceful team—and they know how to get things done. Each departmental budget identifies the top accomplishments of FY 2014/15 and top priorities for FY 2015/16. These lists reveal a hard-working and motivated workforce that sets and achieves high performance goals. Notable achievements of the City in FY 2014/15 include:

- Completed the north segment of the Coastal Trail and began construction of the south segment. The \$11+ million Noyo Headlands Park is the culmination of a vision that our community clearly articulated a decade ago—to reconnect Fort Bragg to its coast!
- Implemented many actions to increase transparency and citizen access to City government including: launched new City governmental website with mobile app and "Request Tracker;" launched City's Facebook page; began livestreaming City Council and Planning Commission

meetings with video archives on website; hired contractor to light up the Public, Education, Government access television channels (effective July 1, 2015); held quarterly “City Dialogue” meetings.

- Successfully resolved the Georgia-Pacific v. OfficeMax litigation- a Superfund cost-recovery case that the City was pulled into in 2012. While the other parties in the litigation paid GP a total of \$16.25 million to settle the case, the City agreed to drop its counter-claims against GP and paid nothing to settle.
- Weathered a third successive drought year by careful operation of the City’s water supply system and citywide water conservation efforts. Completed a Raw Water Line replacement project to improve the reliability of the water system. Obtained a \$700k grant to help fund the Summers Lane Reservoir project. Completed most of the permitting for the reservoir, which is slated for construction in 2016.
- Achieved full staffing at the Fort Bragg Police Department for the first time in many years.
- Updated the City’s Economic Development Strategy, conducted two City Council Goal-Setting workshops, and established strategic direction for implementation of actions in support of the Council’s four Priority Areas: a Healthy Environment; a Prosperous Economy; an Engaged Community; and a Strong Organization.
- Obtained grant funds to assist a number of non-profit organizations serving our community including: Redwood Coast Senior Center; Fort Bragg Food Bank; Project Sanctuary; Mendocino Coast Hospitality Center; Mendocino Coast Clinics; West Company. Started a housing rehabilitation loan program for low income residents with a \$500k grant.
- Began construction of the Green Alleys Project, completed Town Hall Remodel Project, installed a sodium hypochlorite system at the Water Treatment Plant; began installation of a sodium hypochlorite system to replace chlorine gas at the Wastewater Treatment Facility. Entered into contracts for design and engineering of Wastewater Treatment Plant Upgrade Project and Chestnut Street Multi-Use Trail project.
- Propelled the Noyo Center for Marine Science project forward in many tangible ways including: achieved 501(c)3 status for the Noyo Center non-profit that will administer the Noyo Center for years to come; prepared for degreasing the Blue Whale skeleton starting in summer 2015; implemented a robust educational program in collaboration with Fort Bragg and Mendocino schools; established research partnerships with the California Academy of Science and The Marine Mammal Protection Center; orchestrated local response to stranded marine mammals on our coast; launched the Noyo Center website ([www.noyocenter.org](http://www.noyocenter.org)); laid groundwork for major fundraising initiatives. In addition to serving as a catalyst for future development on the Mill Site, the Noyo Center will create jobs, attract visitors, educate our youth, and increase revenues for local businesses and the City.

## **BUDGET HISTORY**

The City Council’s conservative and prudent fiscal decisions have helped the City maintain a solid financial footing. In Fort Bragg, the Great Recession resulted in plummeting general fund revenues towards the end of 2009. In 2010, the Council responded by restructuring and downsizing the City’s workforce and renegotiating its employee contracts. For the last seven years, the Council has adopted very lean budgets and has worked diligently to establish clear Budget Guidelines (see page A-11). The FY 2015/16 Budget was prepared in accordance with the Council’s Budget Principles, as articulated therein. The Budget incorporates conservative revenue projections; expenditures are contained to the maximum extent possible; and recurring annual expenditures are only funded with on-going annual revenues. To the extent that undesignated fund balances are expended, uses are restricted to one-time expenditures—not on-going operations.

## **FISCAL POLICIES**

The Council has established very detailed Fiscal Policies (see page A-13) that address a broad spectrum of fiscal topics. Over the past several years, the Council has prioritized the establishment of

financial reserves to ensure the continued financial wellbeing of the City by planning for unanticipated emergency and contingency needs. The City's "Fund Balance & Reserve Policies" establish two committed reserves in the General Fund: an Emergency Contingency Reserve (established at 10% of the operating budget, \$880k, in 2015/16), and an Economic Stabilization Reserve (established at 5%, \$440k, in 2015/16). The General Fund also has two uncommitted reserves: a General Fund Operating Reserve (established at 15%, \$1.32 million, in 2015/16) and a Litigation Reserve (\$300k in 2015/16). In FY 2015/16, the General Fund reserves total \$2.94 million, which is 33% of budgeted appropriations. While the reserves are fully funded in the FY 2015/16 Budget, they continue to be established at the lower end of the targeted ranges defined in the Fiscal Policies.

The City's three Internal Service Funds also have established reserves to help pre-fund large purchases and repairs and to avoid big annual swings in funding needs. The Facility Maintenance & Repair Reserve is funded at \$324k in FY 2015/16, and the Fleet & Equipment Reserve is funded at \$512k. The Information Technology Reserve is fully funded at \$120k. In FY 2015/16, the Public Works Department will complete a Facilities Maintenance & Repair Plan and a comprehensive Fleet Replacement Plan to help define appropriate funding levels for these reserves.

The Fiscal Policies in the FY 2015/16 Budget include a substantive change to the Interfund Loan policies. The new language requires interest to be paid at an amount equal to the investment earnings the fund making the loan would have received had the loan not occurred. Previously, the policy tied the interest rate to that of the City's pooled investments (a rate that is at a historic low). Additionally, this year's Budget Summary includes the City Treasurer's report on the City's investment portfolio and the City's Statement of Investment Policy for FY 2015/16 (see page A-19). The Investment Policy is revised to allow up to 50% of the City's portfolio to be held in Certificates of Deposit. Previously, that cap was established at 30%.

## **WORK PLAN**

The FY 2015/16 Budget presents an ambitious work plan for the coming year. The work plan was developed keeping in mind the Council's goals as identified through two goal-setting sessions (February 21, 2015; March 30, 2015) and a Mid-Year Budget workshop (March 16, 2015). In addition to the day-to-day services provided by every department in the City- the following key activities and projects are identified as FY 2015/16 priorities in the Budget:

- Continue efforts by Police Department to address public safety issues by increasing downtown foot and bike patrols, supporting Coalition for Gang Awareness & Prevention, Neighborhood Watch and Coast Action Group for Homelessness, maintaining and growing partnerships with schools and social service organizations, assigning Officer to Major Crimes Task Force, completing Emergency Operations Center upgrade project.
- Resume work to rezone the Mill Site to allow for future development in accordance with direction to be provided by City Council.
- Update the Coastal General Plan and Coastal Land Use & Development Code.
- Implement 2015 tasks identified in the City's Economic Development Strategy.
- Complete conceptual planning processes for: School Fields Master Plan; CV Starr Center Gymnasium; City Surrounded by a Park; Noyo Harbor Bicycle & Pedestrian Access Plan; Bainbridge Park Enhancement Project.
- Continue to plan for funding of City's long-term liabilities by updating actuarial reports for retiree health benefits, and by preparing Fleet & Equipment Replacement Plan and Facilities Maintenance & Repair Plan.
- Replace and upgrade City's aging phone system.
- "Spin off" the Noyo Center for Marine Science to the Noyo Center non-profit organization.

In addition, the 2015/16 Capital Projects Budget appropriates funds for the following priority projects:

- Complete construction of the south portion of the Coastal Trail in 2015, and continue to assemble funding and plan for the central segment of the Coastal Trail.
- Initiate construction of Summers Lane Reservoir project to be completed in summer 2016. This project will greatly improve the reliability of the City's water supply in the late summer months.
- Design the Wastewater Treatment Plant Upgrade project. Seek grants and other low-cost financing for construction. Complete permitting and environmental review for project.
- Initiate construction of a Street Repair and Resurfacing project (including repair of three alleys) to be completed in summer 2016.
- Design the Chestnut Street Multi-Use Trail. Bid project for construction in FY 2016/17.
- Replace Guest House roof and perform other repairs in preparation for repainting of the structure in FY 2016/17.

To ensure successful implementation of the FY 2015/16 work plan, the following new and modified staff positions are proposed in the budget:

- Enhance supervision at the Police Department by upgrading one Police Officer position to a Sergeant. This will enable a sergeant to be on-duty at all times.
- Provide more supervision and accountability for the Public Works crew by upgrading the Maintenance Worker 4 position to a Lead Maintenance worker.
- Add a part-time Audio-Visual Technician position in the IT Internal Service Fund to assist with set-up and live-streaming of City meetings.
- Add a part-time Grants Assistant position in the Community Development Department to free up staff time for economic development activities.

## FUND BALANCE

The City has three major operating funds: the General Fund, Water Enterprise and Wastewater Enterprise. The year-end fund balances of the operating funds provide a snapshot and 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 undesignated 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. The table below shows the audited fund balances of the City's three operating funds at 7/01/14, as well as projected year-end fund balances for FY 2014/15 and FY 2015/16.

	<b>7/01/14 Audited Fund Balance</b>	<b>6/30/15 Projected Fund Balance</b>	<b>6/30/16 Projected Fund Balance</b>
General Fund	\$ 4,219,700	\$ 4,082,007	\$ 3,954,407
Water Enterprise	2,587,970	2,534,382	1,874,736
Wastewater	1,223,424	986,648	1,385,508

*Note: The General Fund balance does not include Capital Reserves as the balance was transferred to the Facilities Maintenance & Repair Internal Service Fund Reserve in 2014/15. The Water and Wastewater Enterprise funds balances include capacity fees and reserves.*

The decline in fund balance for the two Enterprise Funds results primarily from significant expenditures on capital projects. In FY 2015/16, the fund balance of the Water Enterprise will decline as a result of the budgeted expenditure of \$800k for the Summers Lane Reservoir project. In the Wastewater Enterprise, the fund balance dipped in FY 2014/15 as a result of expenditures for design and engineering of the Wastewater Treatment Plant Upgrade project. While the fund balance will recover in FY 2015/16, costs of construction of the project (as shown in the Capital Improvement Program) are estimated at \$9.2 million. The Municipal Improvement District will need to secure significant grant funds to construct the project as rate revenues are not sufficient to finance the entire \$9.2 million.

In part, the decline in the General Fund is due to one-time expenditures, however, it also results from creeping costs and relatively flat revenues. Given that the General Fund is reliant on tax revenues that are closely linked to economic growth, it is vitally important that the City continue its efforts to support the local economy while containing ongoing operating costs.

## **VULNERABILITIES**

While the City's FY 2015/16 Budget, as a whole, demonstrates the City's stable financial condition, there are a number of vulnerabilities that warrant consideration:

- The General Fund operating budget has revenues of \$8.85 million while appropriations and transfers are budgeted at \$8.98 million. In FY 2015/16, the deficit is comprised of one-time expenses (capital projects, one-time expenditures) that can be funded from unassigned fund balance, however, if that unassigned fund balance continues to diminish year after year, the City will find itself in a position of financial distress.
- General Fund revenues remain relatively stagnant. In FY 2015/16, revenues are projected at \$8.85 million, which is a 2.19% increase over the FY 2014/15 revenues of \$8.66 million. This barely keeps up with inflationary costs and increased personnel costs. It is imperative that the City continues to contain costs and work to promote growth in General Fund revenues.
- A fundamental concern is that the City's fixed costs, salaries and benefits are increasing at a rate that is faster than recurring revenue growth. Personnel costs are the largest part of the City's operating budget, totaling \$6.9 million in FY 2015/16. 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 addition, the 2015/16 Budget includes the following new and reclassified staff positions: part-time Audio-Visual Technician; part-time Grants Assistant; reclassification of Police Officer to Police Sergeant; and reclassification of Maintenance Worker 4 to Lead Maintenance Worker.
- Pension costs are increasing and there is considerable uncertainty regarding what the future will bring. The City's required contribution (i.e., "employer's share") for CalPERS premiums in FY 2015/16 is 29.4% of each employee's salary in the Safety Plan and 12.2% of each employee's salary in the Miscellaneous Plan. In addition, the City still contributes a portion of the "employee's share" of CalPERS premiums for some employee groups in the Miscellaneous Plan. CalPERS changed its actuarial assumptions last year and, as a result, future premium increases in excess of 3% are expected.
- The FY 2015/16 Budget assumes that the City, in its role as the Successor Agency to the Fort Bragg Redevelopment Agency, will continue to receive \$250k from the Redevelopment Property Tax Trust Fund to offset administrative costs associated with the dissolution of the former Fort Bragg Redevelopment Agency. With each biannual Recognized Obligation Payment Schedule (ROPS) submitted to the State Department of Finance, the Successor Agency's funding for enforceable obligations has been reduced and the administrative payment is likely to shrink in future years as well. When this occurs, staff costs that are currently allocated to the Successor Agency must be borne by the General Fund.

## **CONCLUSION**

The City's proposed FY 2015/16 Budget includes lean operating budgets for the General Fund, Water Enterprise and Wastewater Enterprise and 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 Council deserves recognition for its leadership in establishing goals and priorities for City services to our community. The City's dedicated team of employees deserves recognition for excellent services provided on a daily basis to the citizens of Fort Bragg. I would like to express my appreciation to the members of the City's management team for their diligent efforts to address the City's budgetary challenges. The management team has worked hard to define budget proposals that limit expenditures to the minimum necessary to support departmental operations. I especially want to acknowledge Finance Director Rosana Cimolino, Senior Government Accountant Victor Damiano, and Assistant City Manager Ginny Feth-Michel, all of whom worked long hours poring over budget numbers and assembling the narrative of this document.

In closing, I believe the proposed FY 2015/16 Budget will maintain a high level of municipal services for the Fort Bragg community while providing effective fiscal management throughout the City's operations. 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 our community.

Respectfully submitted,

A handwritten signature in blue ink that reads "Linda Ruffing". The signature is written in a cursive, flowing style.

Linda Ruffing  
City Manager