

CITY OF FORT BRAGG  
ADOPTED BUDGET  
FISCAL YEAR 2015 – 2016



CITY COUNCIL

Dave Turner, *Mayor*  
Lindy Peters, *Vice Mayor*  
Scott Deitz, *Councilmember*  
Doug Hammerstrom, *Councilmember*  
Mike Cimolino, *Councilmember*

Linda Ruffing  
*City Manager*

## ABOUT THE COVER

Yellow Daisy Found  
on the Coastal Trail

Ocean View from North Coastal Trail

Compass Rose on the Coastal Trail at Otsuchi Point

Aerial View of Soldier Point

Blue Whale Bones

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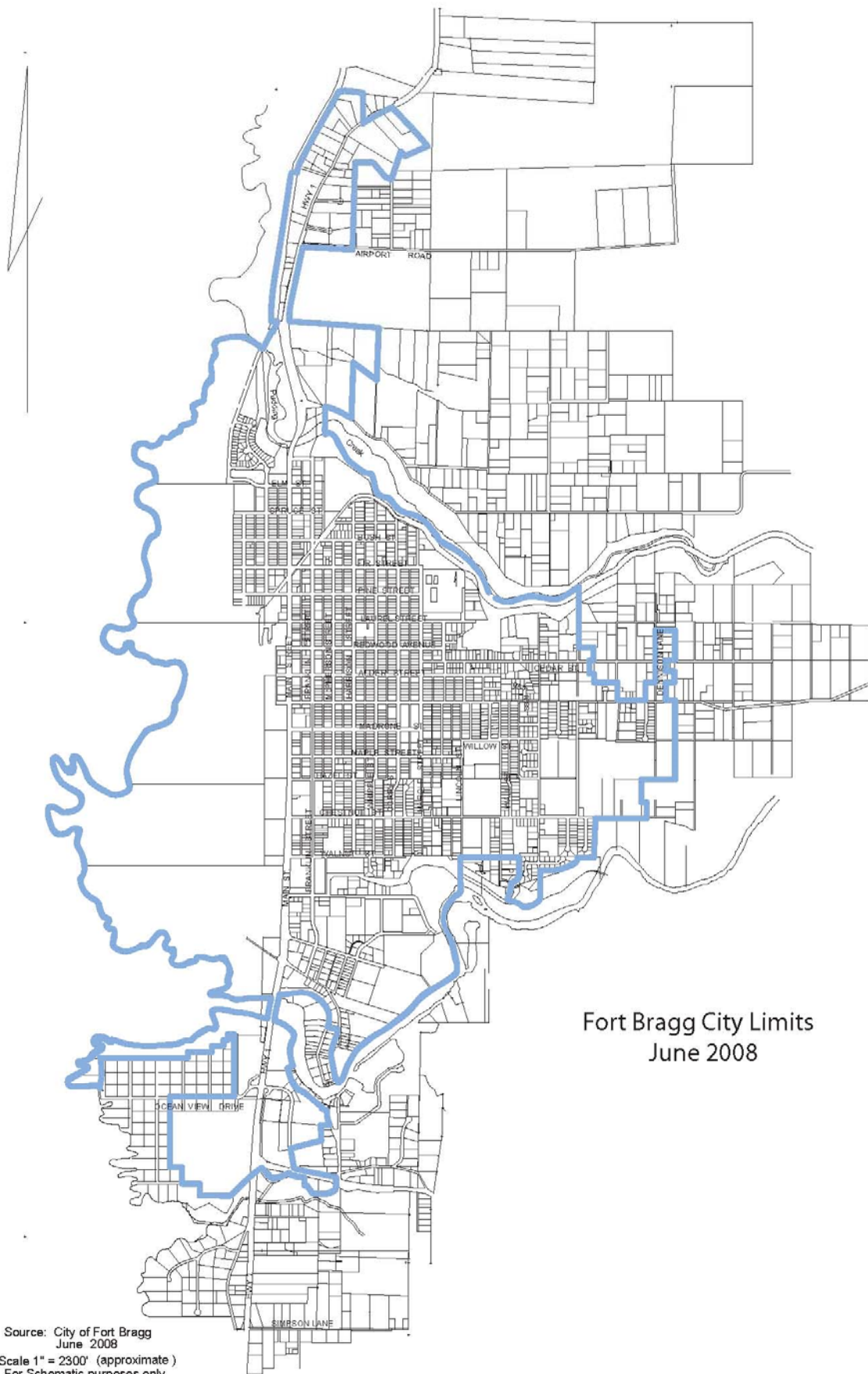
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June 22, 2015

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

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

Honorable Mayor and Members of the City Council:

I am pleased to present the 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 \$298k in FY 2015/16, and the Fleet & Equipment Reserve is funded at \$558k. 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), a Mid-Year Budget workshop (March 16, 2015), and a FY 2015/16 Budget workshop (May 19, 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 included 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	\$ 4,619,710	\$ 4,259,086	\$ 4,095,236
Water Enterprise	2,587,970	2,534,382	1,869,738
Wastewater	1,223,424	1,002,208	1,398,958



*Note: The General Fund balance in the above table 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 \$8.81 million while appropriations and transfers are budgeted at \$9.02 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 \$8.81 million, which is slightly lower than the FY 2014/15 revenues of \$8.84 million. At this time, General Fund revenue growth is not keeping up with inflationary costs and increased personnel costs. It is imperative that the City continue to contain costs and to 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,



Linda Ruffing  
City Manager

## USER'S GUIDE TO THE BUDGET

The functions of local government stem from three levels of policy direction: federal, state and local. Within this intergovernmental system, local government has the responsibility to provide basic public services such as maintaining streets and roadways, providing traffic management systems, maintaining parks, providing community services, and ensuring public safety. Local government must also fulfill certain state and national policy objectives such as transportation and environmental protection while addressing the expectations and values of its citizens.

For local governments, the primary tool used to coordinate the provision of governmental services and provide the legal authorization for the expenditure of funds is the annual budget. A local government budget is a financial plan that matches existing resources with the needs of the community. The City of Fort Bragg's budget is developed and adopted by the City Council and provides its residents and City staff with a plan for implementation of the services, goals and objectives specified by the Council. The City's Wastewater Enterprise is operated by the Municipal Improvement District No. 1 Board (which sits concurrent with the City Council) and the budget for the "Wastewater Enterprise Fund" is included in this budget document.

The Operating Budget is a guide for the receipt and disbursement of funds used to provide daily, routine public services to the community. The Five-Year Capital Improvements Program (CIP) and Capital Projects Budget provide citizens and City officials with detailed information about capital projects.

This budget document outlines the many municipal services, programs and projects provided by the City of Fort Bragg over the course of the fiscal year. It identifies revenue projections and specific expenditures necessary to provide services to the community. The goal of the budget is to provide transparency to City residents about programs and services as well as policies underlying the City's spending decisions. The Operating Budget and CIP together serve as a:

- **Policy Document** – to describe financial and operating policies, goals, and priorities for the organization.
- **Financial Plan** – to provide revenue and expenditure information by fund, department, division, and category.
- **Operations Guide** – to describe activities and objectives for the fiscal year.
- **Communications Device** – to provide information on budgetary trends, planning processes, and integration of the operating and capital budgets.

### BUDGET ORGANIZATION

This guide is designed to assist readers in understanding the information provided in the FY 2015/16 Budget and organization of the document. The FY 2015/16 Budget includes eight basic sections as follows:

1. **City Manager's Transmittal.** Provides an introduction to the budget including a summary of critical economic issues, Council-directed core services, and basic operations and strategic goals for FY 2015/16.
2. **Introduction.** Includes this Users' Guide, a directory of elected and appointed City officials, a citywide organization chart, an overview of the City of Fort Bragg, a definition of the funds included in the financial reporting model of the City, the City's budget guidelines and fiscal policies. This section is intended to provide the reader with the policies and documents that guide the City's financial practices.
3. **Summary.** Includes a comprehensive overview of fund balance projections and individual summaries of revenues and expenditures for all funds and the General Fund. Also included are interfund transfers and interfund service charges. Summaries for the Water, Wastewater and C.V. Starr Enterprise Funds can be found in the detail section for each fund.

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4. **Fund Detail - Departmental Summaries.** Presents detailed information on the City's operating departments and enterprise funds:

City Council	Public Works
Administration	Internal Services
Finance	Debt Service
Non-Departmental	Water Enterprise
Public Safety	Wastewater Enterprise
Community Development	C.V. Starr Center Enterprise

Additional information about the services provided by the City is included in each department section. Department summary information includes organizational charts, departmental services description, summaries of accomplishments and goals, a comparison of the total proposed budget to the prior fiscal year, and a summary of expenditures over the last three fiscal years. More specific information is provided in the budget detail section.

5. **Grants and Special Revenue Funds.** Provides an overview of each of the City's Special Revenue Funds, including fund descriptions, revenues and expenditures. Special Revenue Funds are classified into one of four categories: Revenue, Grants, Internal Service Funds, and Trust and Agency.
6. **Capital Improvement Program (CIP) and Capital Projects Budget.** The Multi-Year CIP includes descriptions of individual projects and details the acquisition, construction or rehabilitation of major capital facilities and infrastructure. The Capital Projects budget is used to account for the receipt and disbursement of funds for specific CIP projects. For many projects, revenue resources and expenditures may extend over several years.
7. **Statistical Data.** Presents historical information for the past ten years regarding the City's finances, operations, constituents and the local economy.
8. **Glossary.** A list of specialized words and acronyms used in the Budget document with their definitions.

## **BUDGET PROCESS & ADOPTION**

The City develops an annual budget according to legal and policy direction which includes:

- Prepare a budget for all funds of the City.
- Adopt a budget that is balanced as to resources and appropriations.
- Adopt a budget that does not exceed state constitutional limits.
- Adopt a budget prior to the beginning of the fiscal year in which it is to take effect.
- Allow for adjustments to the budget with proper approvals.
- Maintain reserves in accordance with established Council policy.
- Utilize encumbrances of appropriations as a budgetary control technique.
- Adopt the budget by City resolution.
- Exercise budget controls at the department level.

The City of Fort Bragg operates on a fiscal year basis, starting July 1 and ending June 30. The budget is prepared by the Finance Department under the supervision of the City Manager. The budget process typically begins in January once the audit reports for the prior fiscal year are complete. The Finance Department prepares a Mid-Year Performance Report and the Council conducts a Mid-Year Budget Workshop (typically in March). At that workshop, revenue and expense projections are presented for the current fiscal year and the Council provides policy direction to staff regarding preparation of the budget for the coming fiscal year. Following the mid-year workshop, a proposed budget is assembled for next fiscal year and it is reviewed by the Council in a budget workshop (typically in May). Following the budget

workshop, a revised budget is prepared and transmitted to the City Council in June for further review, public input, deliberation and adoption prior to the beginning of each new fiscal year (July 1).

Copies of the proposed budget are made available to the general public prior to the Council's budget workshop. After providing opportunities for public review and discussion at City Council budget workshop(s), the budget is adopted by the City Council prior to June 30 at either a regular or special City Council meeting. After adoption, the budget may be amended by Council resolution.

## **BASIS OF ACCOUNTING AND FUND DEFINITIONS**

The modified accrual basis of accounting is used by all General, Special Revenue and Capital Projects Funds. This means that revenues are recognized when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when liabilities are incurred, except that principal and interest payments on long-term debt are recognized as expenditures when due. The accrual basis of accounting is utilized by all Enterprise and Internal Service Funds. This means that revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

To demonstrate fiscal accountability, various funds are established in accordance with objectives of special regulations, restrictions, and/or limitations. Each fund is considered a separate accounting entity with a self-balancing set of accounts. The funds that are used in the financial reporting model for the City of Fort Bragg as follows:

*The **General Fund*** is the City's primary operating fund. It is used to account for resources traditionally associated with general government activities which are not required (legally or by sound fiscal management) to be accounted for in another fund.

***Special Revenue Funds*** are used to account for revenues that are legally restricted for a particular purpose. The City has several Special Revenue Funds including the Special Sales Tax for Street Repairs, Asset Forfeiture, General Plan Maintenance Fee, Gas Taxes and Fire Equipment Tax. Special Revenue Funds are also used to account for grants obtained to fund City projects and activities.

***Debt Service Funds*** are used to account for money that will be earmarked to pay general long-term debt principal and interest as well as related fiscal agent costs.

***Capital Project Funds*** are used to account for financial resources to be used for the construction or acquisition of fixed assets, such as buildings, equipment, or roads. A capital project fund exists only until completion of the project. The City's Capital Project Funds are discussed in more detail in the Capital Improvement Plan included in this Budget document.

***Internal Service Funds*** are used by the City to account for the financing of goods and services provided by one department to other departments within a government organization on a cost-reimbursement basis. They are set up to take advantage of economies of scale, to avoid duplication of effort, and to accurately identify costs of specific governmental services. The City utilizes three Internal Service Funds: Facilities Repair & Maintenance, Technology Replacement & Maintenance and Fleet and Equipment Services.

***Enterprise Funds*** are used to account for operations that are supported by a fee charged to external users for services, similar to a private business. The City has three Enterprise Funds: Water Works, Wastewater, and C. V. Starr Community Center.

***Fiduciary Funds*** are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and therefore cannot be used to support the government's own programs.

## **COST ALLOCATION PLAN AND DIRECT CHARGES**

The City employs a multi-step process for distributing the costs of internal services to various departments and funds. Allocated costs are primarily determined through the City's Cost Allocation Plan (CAP). The CAP allocates costs that originate in one department but benefit one or more other departments. By way of example; the City Clerk's office performs the function of "Records Management" which benefits multiple other departments within the City organization. The costs associated with "Records Management" are allocated from the City Clerk's office to the multiple other departments that benefit from the service. Allocations are calculated using various cost drivers, each of which is appropriate to the particular cost. Percentage of total operating budget, number of FTEs, number of accounts and number of checks issued are a just a few of many different cost drivers used in the plan.

Additionally, in certain circumstances direct charges from one organizational unit to another are included in the budget outside of the CAP. Direct charges are typically utilized when the origin and destination of the specific cost are readily apparent and fixed. Through these allocations, a more realistic picture of the cost of doing business for the City's various organizational units and services is obtained. For example, the budget for internal service funds (such as Fleet Services) is allocated to public service departments (such as the Police Department or Public Works Department). A portion of the budget for administrative costs (such as Human Resources or the City Clerk) is allocated to various funds served by the City's Administrative Services Department.

## **CONCLUSION**

Financial forecasting is, at best, an inexact science. Many experts and studies offer varied opinions and forecasts, each completely logical and reasonable. Staff has developed revenue and expenditure estimates based on trends and forecasts available as of May 2015. These estimates take into account what has happened in our local economy, what our current revenue and expenditure experiences are, and, to the extent possible, what is projected to happen over the next 13 months.

## CITY OF FORT BRAGG OVERVIEW

### HISTORY OF FORT BRAGG

The north coast of Mendocino County was inhabited by Native Americans of the Pomo tribe for approximately 10,000 years. The Pomo people were hunter-gatherers with a close relationship to the land and the sea. Seasonal Native American villages were located along the coast with permanent villages located north of the Ten Mile River.

In 1855, an exploration party from the Bureau of Indian Affairs visited the area in search of a site on which to establish a reservation and, the following year, the Mendocino Indian Reservation was established. It spanned an area from the south side of the Noyo River to north of the Ten Mile River and east to Little Valley and Glen Blair. In 1857, the Fort Bragg military post was established on the Mendocino Indian Reservation approximately 1½ miles north of the Noyo River and its purpose was to maintain order on the reservation. During the same year, a lumber mill was established on the Noyo River starting what would become the major industry of the region. The military post was short-lived and records show that November 23, 1861 was the last date on which army units occupied the fort. In 1865, after 300 Native Americans were marched forcibly from the Mendocino Indian Reservation to a reservation in Round Valley, Fort Bragg as a military post was abandoned.

On August 5, 1889, Fort Bragg was incorporated as a City. C.R. Johnson, president of the Fort Bragg Redwood Company, was the first mayor and his company laid out the town much as it exists today – with a uniform street grid and mid-block alleys. In 1893, the Union Lumber Company was created by absorbing some of the smaller lumber companies in the area. In 1901, the Union Lumber Company incorporated the National Steamship Company to carry lumber, passengers and supplies. The steamships provided Fort Bragg's only link to manufactured comforts and staples like sugar and coffee. In 1905, the California Western Railroad was created and a rail line was established from Fort Bragg to Willits where train connections could be made to San Francisco.

The 1906 Earthquake resulted in a fire at the lumber mill that threatened the entire City. Brick buildings throughout the City were damaged, if not destroyed completely, and many frame homes were knocked off their piers. The fire burned the entire downtown area bordered by Franklin Street, Redwood Avenue and McPherson Street. Within 12 months following the earthquake, all downtown reconstruction was completed. The earthquake brought prosperity to Fort Bragg as the mills furnished lumber for the rebuilding of San Francisco. By 1916, Fort Bragg had become a popular place to visit – and to settle.

Commercial fishing also played an important role in the formation of the economic base of Fort Bragg. Noyo Harbor was once a major commercial fishing port well-known for producing quality fish products that were distributed to major metropolitan markets. In recent years, the fishing industry has declined significantly and the community's economic base has transitioned from a "resource extraction" base (i.e., timber and fishing industries) to a more service-oriented economy serving a regional coastal population of approximately 20,000 residents as well as hundreds of thousands of visitors each year.





**CITY GEOGRAPHY**

The City of Fort Bragg is located approximately 165 miles north of San Francisco and 188 miles west of Sacramento on the scenic coast of Mendocino County. The City occupies 2.7 square miles. Census 2010 places the City's population at 7,273. Although it is quite small, Fort Bragg is the largest city on the coast between San Francisco and Eureka. The largest employment categories in the City include services, wholesale and retail trade, local government, public education, health care, tourism, and fishing. The mild climate and picturesque coastline make Fort Bragg a popular tourist and recreational area.

**CITY AUTHORITY**

Fort Bragg is a general law city under California state law and its rights, powers, privileges, authority, and functions are established through the State constitution. These statutory rights include the power to: sue and be sued; purchase, receive by gift or bequest and hold land, make contracts and purchases and hold personal property necessary to the exercise of its powers; manage, sell, lease, or otherwise dispose of its property as the interest of its inhabitants require; levy and collect taxes authorized by law and exercise such other and further powers as may be especially conferred by law or as may be necessarily implied from those expressed.

**CITY COUNCIL**

Members of the Fort Bragg City Council are elected by the voters to serve overlapping four-year terms. The Mayor is elected by, and from, the City Council for a two-year term. The Council sets policy and exercises the legislative authority of the City. The Council holds meetings on the second and fourth Mondays of every month and at such other times as necessary. Current City Council members and the dates upon which their respective terms expire are as follows:

Mayor Dave Turner	December 2018
Vice Mayor Lindy Peters	December 2018
Councilmember Michael Cimolino	December 2018
Councilmember Doug Hammerstrom	December 2016
Councilmember Scott Deitz	December 2016

**ADMINISTRATION AND MANAGEMENT**

Fort Bragg operates under the Council-Manager form of government. The City Council appoints the City Manager who appoints other City officials and is charged with overseeing the City's daily operations. Several boards, commissions, and committees assist the City Council and Administration in carrying out various aspects and functions of city government.

**CITY SERVICES**

The City provides a wide range of services to its residents including public safety services, construction and maintenance of streets and infrastructure, water service, community development, financial management and administrative services. Special Districts, and Joint Power Authorities (JPAs), under the jurisdiction of the City, provide emergency services, fire protection, wastewater treatment, and redevelopment services throughout the City. Other entities, not under the City's jurisdiction, that provide services to the City's population include the school district, hospital district, recreation district, harbor district, and other special districts.

**MUNICIPAL IMPROVEMENT DISTRICT NO. 1**

The members of the City Council also serve as the Municipal Improvement District No. 1 (MID) Board of Directors. The District was formed in 1969 for the purpose of acquiring and constructing wastewater system improvements including construction of a wastewater treatment plant. The District serves

approximately 3,000 dwelling units in an area that includes the City of Fort Bragg and some unincorporated territory to the north and to the south of the City. The MID meets on the same schedule as the City Council and can schedule special meetings as necessary. The MID is referred to within the Budget as the "Wastewater Enterprise Fund".

### **SUCCESSOR AGENCY TO FORT BRAGG REDEVELOPMENT AGENCY**

From 1986 to 2012, the Fort Bragg Redevelopment Agency carried out redevelopment projects and promoted and supported economic development and affordable housing development in the redevelopment project area, an area which generally includes properties within the Central Business District, commercial and industrial lands along Main Street, and the former Georgia Pacific mill site. In early 2012, the Redevelopment Agency was dissolved, as a result of AB 1X 26 and the City Council elected to serve as the Successor Agency to the Fort Bragg Redevelopment Agency. The Successor Agency is the legal entity tasked with winding down the affairs of the former Redevelopment Agency under the supervision of an Oversight Board. The Successor Agency plays a key day-to-day role in assuring that the existing debt service and other enforceable obligations of the former Redevelopment Agency are properly paid based upon a Recognized Obligation Payment Schedule (ROPS) approved by the Oversight Board and the State Department of Finance.

### **C. V. STARR COMMUNITY CENTER**

The C.V. Starr Community Center and Sigrid & Harry Spath Aquatic Facility (the "C.V. Starr Center") in Fort Bragg is a 43,000 square foot recreation and aquatic facility that was built by the Mendocino Coast Recreation and Parks District (MCRPD), a special district providing recreational services to residents of the Mendocino Coast. The facility includes an indoor water park with an eight-lane competition pool and diving board, a leisure pool with a water-slide and a 'lazy river', a cardio-fitness center and weight room, and facilities for other fitness classes and enrichment activities. In addition, the C.V. Starr Center has meeting rooms for parties and community events, and the grounds include a dog park, a skateboard park, and petanque courts and picnic/BBQ facilities.

After opening the C.V. Starr Center in August 2009, the MCRPD was challenged by insufficient operating revenues. In March 2012, the voters of Fort Bragg passed a special sales tax measure to provide funding for operation, maintenance and capital improvements at the C.V. Starr Center facility. The measure required that ownership of the C.V. Starr Center be transferred to the City of Fort Bragg and that the MCRPD assign a portion of its property tax revenues to the City. The facility reopened under City ownership in July 2012. The MCRPD now operates the facility under contract with the City and the City provides financial and operational oversight.

**DIRECTORY OF ELECTED  
AND APPOINTED CITY OFFICIALS**  
As of June 30, 2015



**Dave Turner**  
*Mayor*



**Lindy Peters**  
*Vice Mayor*



**Scott Deitz**  
*Councilmember*



**Doug Hammerstrom**  
*Councilmember*



**Mike Cimolino**  
*Councilmember*

**Rosana Cimolino**  
*Director of Finance/City  
Treasurer*

**Marie Jones**  
*Community Development  
Director*

**Cynthia VanWormer**  
*City Clerk*

**Linda Ruffing**  
*City Manager*

**Ginny Feth-Michel**  
*Assistant City Manager*

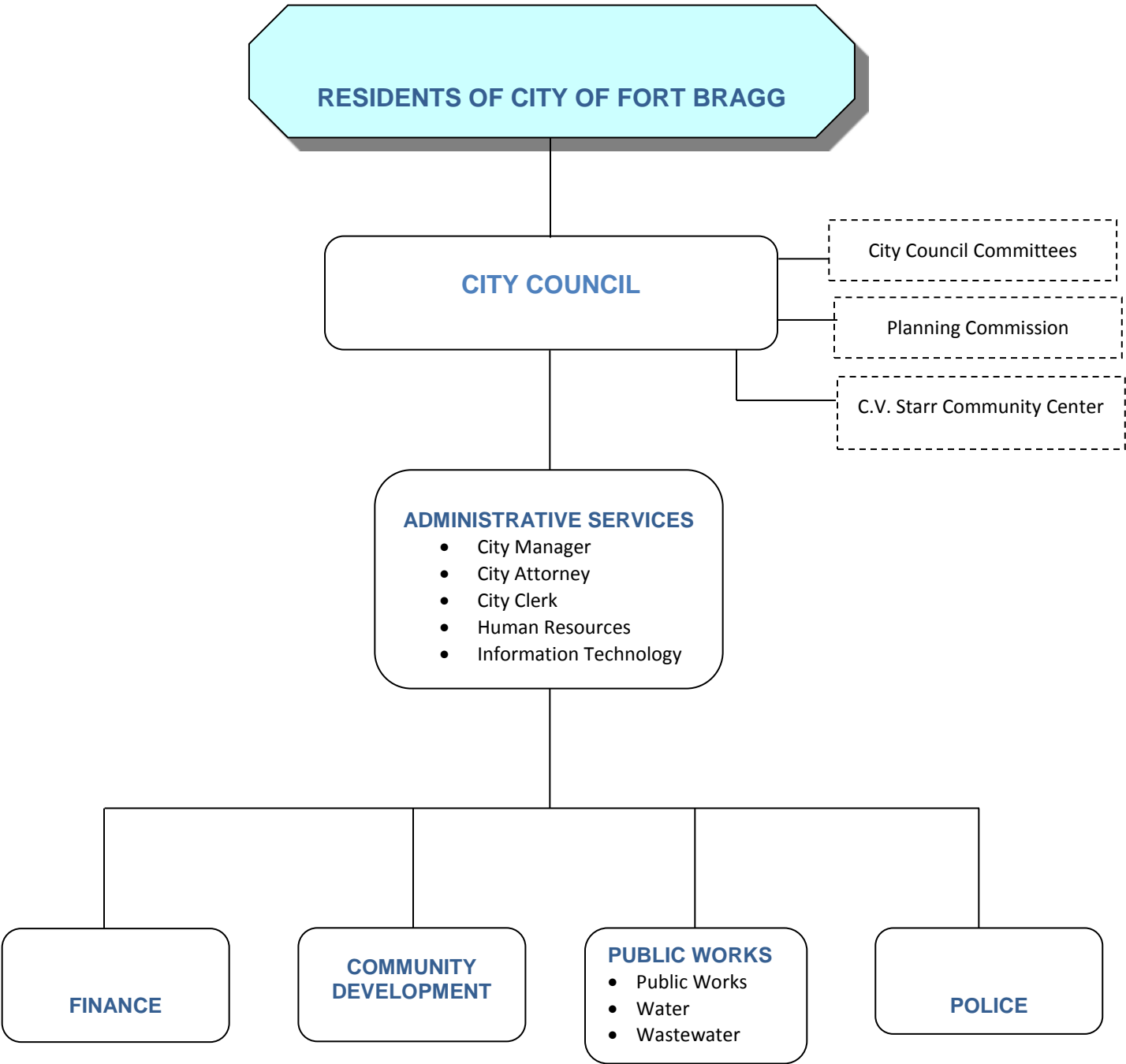
**Fabian Lizarraga**  
*Chief of Police*

**Tom Varga**  
*Director of Public Works*

**Samantha W. Zutler**  
*City Attorney*

**CITY OF FORT BRAGG  
MASTER ORGANIZATIONAL CHART**

**As of June 30, 2015**





## **BUDGET GUIDELINES**

The annual operating budget is the primary short-term financial plan for the City and the City's Municipal Improvement District No. 1. The operating budget serves as the policy document to implement City Council goals and objectives. It sets forth estimates of resources available to fund services consistent with the Council directives. Since no budget is an absolutely accurate predictor of future events, there must be some flexibility to make adjustments during the year, provided these adjustments do not materially alter the general intent of the City Council when adopting the budget. These guidelines are intended to provide that flexibility and to establish adequate controls, through budget monitoring and periodic reporting, thereby ensuring that the overall distribution of resources achieves the results intended by the City Council.

Each year as the budget is prepared, the City Council establishes priorities regarding service levels to provide guidance to management in preparing the budget. Through its legislative authority, the Council approves and adopts the budget by resolution. The City Manager is responsible for proposing to the City Council a balanced budget which is consistent with the Council's service level priorities and sound business practices. A "balanced budget" is defined as a budget where the anticipated operating revenues and other financing resources including carryover of outstanding encumbrances from the prior year are equal to or exceed operating expenditures. The City Manager is also responsible for establishing a system for the preparation, execution, and control of the budget which provides reasonable assurances that the intent of Council policies is met. The City's Finance Director is responsible for providing periodic budget status reports to the City Manager, the City Council and Department Heads to facilitate control and compliance with the budget. Department Heads are responsible for monitoring their respective budgets for compliance with the intent of Council priorities and for ensuring that appropriations for their departments are not exceeded.

1. **Basis of Budgeting.** The City's operating and capital projects budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital project expenditures are budgeted on a project length basis rather than a fiscal year. For all governmental funds, revenues and expenditures are budgeted on a modified accrual basis. For all proprietary funds, revenues and expenditures are budgeted on an accrual basis.
2. **Budget Calendar.** A budget preparation calendar is provided to the Department Heads and to the City Council at the beginning of the budget process each year. The calendar sets forth, at a minimum, dates for the review of service level priorities by the City Council at an annual mid-year budget workshop and a presentation of the City Manager's proposed budget to the City Council, which shall be adopted no later than the end of June.
3. **Form and Content of the Proposed Budget.** The Proposed Budget shall be presented in a form which is sufficient to allow the City Council to determine and review:
  - Provision of City Council priorities;
  - Projected revenues by major category;
  - Operating expenditures by department or program, and by fund;
  - Historical staffing by Department;
  - Service levels;
  - Statements of objectives and accomplishments;
  - Recommendations for policy changes and impact;
  - Capital improvement appropriations by project.

The Proposed Budget shall provide a comparison with the preceding year's actual results and current year's projected results for each category of revenue and expenditure shown in the budget. Descriptions of service levels to be provided under the proposed budget will be included along with statements of services reduced or eliminated and services improved or added, as compared to the current year.

4. **City Council's Budget Principles.** Each year, the Proposed Budget is developed in accordance with the Council's established budget principles:
- The City strives to balance the operating budgets of each of the City's three major funds (General Fund, Water Enterprise, Wastewater Enterprise) such that anticipated revenues meet projected expenditure obligations.
  - Recurring annual expenditures (e.g., personnel costs, supplies, equipment, operating and maintenance costs, debt service, legal costs, audit costs, etc.) are funded with on-going annual revenues and do not rely upon one-time revenues, reserves, or the use of undesignated fund balances.
  - If undesignated fund balances are expended, uses are restricted to funding one-time expenditures, not on-going operations.
  - Conservative revenue projections are incorporated into the budget.
  - Expenditures are contained to the maximum extent possible. To the extent that line item cost increases occur, they result from purchases necessary to support existing operations, essential capital improvement projects, mandated costs, and the City's contractual obligations.
  - Each year, the budget shall be prepared in accordance with the City's Fund Balance & Reserve policies and the Council shall allocate specific amounts to each of the City's established reserves.
5. **Adoption of the Budget.** The City Council will adopt the budget by resolution no later than June 30th of the previous fiscal year, setting forth the amount of appropriations and authority of the City Manager to administer the adopted budget. Unless otherwise directed, all funds that are presented in the operating budget document are subject to appropriation.
6. **Budget Amendments by the City Council.** The City Council may from time to time approve expenditures and identify funding sources not provided for in the adopted budget including those expenditures funded through unassigned fund balances.
7. **Automatic Adjustments and Re-appropriations.** Outstanding encumbrances at prior fiscal year-end will automatically be carried over to current year's budgets. Unspent appropriations that are authorized and funded by grant revenues from prior fiscal year will automatically be carried over to current year's budgets. Incomplete multiple year project balances will be re-appropriated.
8. **Budget Monitoring and Reporting.** The Finance Department will prepare a monthly budget report including actual expenditures and encumbrances for distribution to the City Manager and Department Heads to facilitate monitoring of the budget. The Finance Department will prepare a quarterly budget status report for presentation to the City Council. At a minimum, the report shall include the status of the General Fund revenues and expenditures, and the Water, Wastewater, and C.V. Starr enterprise fund revenues and expenditures.
9. **Reserves.** Various unallocated reserves are desired in the City's funds to protect the City in emergencies, economic uncertainties, and to finance unforeseen opportunities and/or requirements. Reserve policies for various funds are described in detail in the section entitled "Fiscal Policies."

## FISCAL POLICIES

The City of Fort Bragg's fiscal policies are established to ensure that the finances of the City and the Municipal Improvement District # 1 are managed in a manner that will:

- Maintain a financially viable city that provides adequate levels of municipal services to its citizens.
- Provide for financial flexibility in order to adapt to local and regional economic changes.
- Preserve and enhance the sound fiscal condition of the City.

### 1. Operating Budget Policies

- a. The City will adopt a balanced budget by June 30th of each year. The base operating budget will be developed by conservatively and realistically projecting revenues and expenditures for the current and forthcoming fiscal year. During the annual budget development process, the existing base budget will be thoroughly examined to assure cost effectiveness of the services or programs provided. The annual operating budget will include the cost of operations of new capital projects. The City's operating budget will be prepared on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase and expenditures for multi-year capital projects are budgeted in their entirety in the year construction commences. Remaining expenditures are carried forward in subsequent years. .
- b. The City will avoid balancing the current budget at the expense of future budgets unless the use of unassigned fund balance and/or reserves is expressly authorized by the City Council.
- c. The City will develop and maintain financial management programs to assure its long-term ability to pay the costs necessary to provide the services required by its citizens.

### 2. Budgetary Controls

- a. Adopted budget appropriations shall not be subsequently adjusted unless specifically authorized by Council/District resolution identifying the fund from which the appropriation is to be made, the amount of the appropriation and an account number.
- b. The City Manager shall have the authority to approve transfers of budget appropriations within any departmental budget provided:
  - Both line items are budgeted; and
  - Transfers from salary accounts and benefit accounts to non-personnel accounts are not allowed.
- c. All approved transfers shall be reported to the Finance and Administration Committee quarterly.
- d. Interfund and inter-departmental transfers require Council/District approval.
- e. The City Manager may review and approve change orders in accordance with established purchasing procedures. The City Manager may approve purchase orders for budgeted expenditures and un-budgeted purchase orders in accordance with established purchasing procedures.
- f. Annually, a report estimating the year-end results shall be presented to the Council following the close of the fiscal year being reported. Said report shall compare revenue estimates with actual collections, appropriations budgets with actual expenditures and revenues to expenditures in major budgetary funds. This report shall be followed by a presentation of the Comprehensive Annual Financial Report to the Council before January 31st.
- g. Semi-annually, at a mid-year budget session, there will be comprehensive review of the operations to date in comparison to the existing budget. Projections of revenues and expenditures through the end of the fiscal year will be submitted to the City Council at a mid-year budget review workshop in March.

### 3. Revenue Policies

- a. The City will strive to maintain a diversified and stable revenue stream to avoid over-reliance on any one revenue source.
- b. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate. Revenue estimates are to be conservative and realistic, sensitive to both local and regional economic conditions.



- c. The City will maximize the availability of revenue proceeds through responsible collection and auditing of amounts owed the City.
- d. The City will actively pursue federal, state, and other grant opportunities when deemed appropriate. Before accepting any grant, the City will thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.
- e. The City will seek reimbursements for mandated costs whenever possible.
- f. User fees will be reviewed annually for potential adjustments to recover the full cost of services provided, except when the City Council determines that a subsidy is in the public interest. The City will establish and maintain a user fee policy that:
  - Imposes user fees when appropriate to capture the cost for the delivery of services and goods; and
  - Attempts to establish levels of cost recovery that support all costs including administrative overhead and depreciation; and
  - Determines the minimum frequency of user fee reviews.
- g. General Fund revenues shall be pooled and allocated according to Council goals and established policy.
- h. Grant Revenue is recognized when eligible expenditures have been incurred against a fully executed grant agreement. Such accrued revenue is considered available even if it is not received within 60 days of year-end. This method provides improved reporting and control at the program level because it appropriately matches funding sources and uses.
- i. Enterprise funds and other legally restricted sources shall be allocated according to their respective special purpose.
- j. One-time revenues will be used for one-time expenditures only, including capital outlay and reserves.

#### **4. Expenditure Policies**

- a. The City will maintain levels of service, as determined by the City Council, to provide for the public well-being and safety of the residents of the community.
- b. The City will strive to maintain employee benefits and salaries at competitive levels with local labor markets.
- c. Fixed assets will be maintained and replaced as necessary and deferred maintenance will be minimized. A facilities maintenance reserve will be maintained that provides for the timely maintenance and replacement of fixed assets.
- d. The City will develop and use technology and productivity enhancements that are cost effective in reducing or avoiding increased personnel costs.
- e. Surplus fund balances (and working capital in enterprise funds) may be used to increase reserves, fund Capital Improvement Projects, fund capital outlay or be carried forward to fund one-time special project/program expenses.

#### **5. Utility Rates and Fees**

- a. Water and sewer utility customer rates and fees will be reviewed and adjusted annually, if necessary.
- b. All utility enterprise funds will be operated in a manner similar to private enterprise. As such, the City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity, including depreciation of assets, overhead charges, and reserves for unanticipated expenses and capital projects.

#### **6. Capital Budget Policies**

- a. The City will develop a Five-Year Capital Improvement Program (CIP) which is designed to develop and maintain infrastructure to support existing residences and businesses and future anticipated development. The CIP will identify the estimated full cost of each project which includes administration, design, development and implementation, and operating costs once the projects are completed. The CIP will identify potential funding sources for each proposed capital project, prior to submitting proposed projects to the City Council for approval. When appropriate, the CIP will seek other funding sources such as State and Federal funds, private funds and leverage these funding sources with public money to help meet the highest priority community needs.

- b. The funding for the first year of the five-year CIP will be appropriated as a component of the annual operating budget.
- c. Funding for future projects identified in the five-year CIP which has not been secured or legally authorized is therefore subject to change.

**7. Debt Policies**

- a. The City will limit long-term debt to only those capital improvements or long-term liabilities that cannot be financed from current revenue sources.
- b. The City will utilize debt financing for projects which have a useful life that can reasonably be expected to exceed the period of debt service for the project.
- c. The City will strive to maintain or improve the City's bond rating.
- d. The City may utilize interfund loans rather than outside debt to meet short-term cash flow needs. If interfund loans are undertaken, formal promissory notes shall be established and interest charged as established by the City's interfund loan policies.

**8. Interfund Loan Policies**

- a. The City Council shall act by resolution to approve any proposed interfund loan. All interfund loans must be documented by formal agreements that specify the terms and conditions. The loan amount shall be approved at the amount minimally necessary to ensure the completion of the project for which the funding is required.
- b. All interfund loans shall be interest bearing and the amount of interest to be paid on the loan must be at least equal to the investment earnings the fund making the loan would have received had the loan not occurred.
- c. The term of an interfund loan may not exceed five years.
- d. The interfund loan shall be callable by the lending fund if needed to ensure that the lending fund has sufficient operating funds.
- e. All interfund loan proposals require a feasibility analysis demonstrating that:
  - The borrowing fund has the capacity to repay the debt;
  - The lending fund has the capacity to lend the funds, beyond its own operating and capital needs; and
  - The loan does not violate any debt covenants or other provisions of the borrowing and lending funds.
- f. As part of the due diligence, each loan proposal must demonstrate that the loan can be repaid. It is important to avoid masking an operating deficiency in one fund with an interfund loan from another fund. This is the centerpiece of the policy, which seeks to avoid loans that fail the fundamental test of performance (repayment) under the contract.
  - If a feasibility analysis does not show that the loan can be safely repaid, the appropriate recommendation may be a revenue enhancement or another correction of the underlying reason for the funding deficiency. An alternative financing recommendation may be a fund balance donation. This requirement is also intended to identify conflicts with specific restrictions or requirements pertaining to certain funds. Such conflicts may arise from applicable debt covenants, fiduciary requirements on funds held by the City or legal hurdles that the funding needs to overcome.
- f. There is no prepayment penalty. Interest is to be paid quarterly, and principle payments are subject to the feasibility analysis cash projections.
- g. The interest expense paid on interfund loans is to be treated as user fund expense, while the interest income is to be treated as interest revenue to the loaning fund.

**9. Fund Balance & Reserve Policies**

- The City of Fort Bragg's Fund Balance & Reserve policies are intended to ensure the continued financial well-being of the City by planning for unanticipated emergency and contingency needs. The City Council will periodically review and update these guidelines to ensure that the City has sufficient resources to adequately provide for emergencies, economic uncertainties, unforeseen operating or capital needs, economic development opportunities, and cash flow requirements.
- The City Council may direct any portion of its General Fund, Water Enterprise Fund or Wastewater Enterprise Fund revenue that is not required to balance the annual operating

budget to one or more of the following reserves, subject to consistency with the allowable uses of the enterprise funds.

- **General Fund Reserves.** The following General Fund reserves include both committed fund balance and unrestricted fund balance and in FY 2015/16 total \$2,940,200:
  - Emergency Contingency Reserve: The General Fund balance committed for emergency contingencies is established at an amount equivalent to 10% to 15% of the City's annual operating budget for the General Fund. In FY 2015/16, 10% or \$880,000 is committed to the Emergency Contingency Reserve. Depending on the type and severity of the emergency, this range is intended to provide for an initial municipal response to events such as natural disasters, catastrophic accidents, or other declared emergency incidents sufficient to provide a bridge until access to county, state or federal support can be achieved. The Emergency Contingency Reserve is committed fund balance and may only be used when there is a declaration of a state or federal state of emergency or a local emergency as defined in Fort Bragg Municipal Code Section 2.24.020.
  - Economic Stabilization Reserve: The General Fund balance committed for the purpose of stabilizing 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 is established at an amount equivalent to 5% to 10% of the City's annual operating budget for the General Fund. In FY 2015/16, 5% or \$440,000 is committed to the Economic Stabilization Reserve. This range serves as a cushion to safeguard the City's fiscal health against fluctuations in revenues and costs due to economic volatility. City Council approval shall be required before expending any portion of this committed fund balance. Access to these funds will be reserved for economic emergency situations such as unanticipated major declines in revenue, budgeted revenue taken over by another entity, or a catastrophe exceeding funds in Emergency Contingency Reserve.
  - General Fund Operating Reserve: The City will maintain an unrestricted fund balance of at least 15% to 20% of the annual operating expenditures in the General Fund, as an "Operating Reserve" to ensure liquidity of the General Fund and to ensure adequate cash flow throughout the year. This reserve is necessary to accommodate fluctuations in the timing of expenditures and the receipt of revenues. The reserve is not committed fund balance and may be tapped into, with Council authorization, for unforeseen operating or capital needs. In FY 2015/16, 15% is \$1,320,200.
  - Litigation Reserve: The City will maintain a \$300,000 Litigation Reserve to cover unforeseen legal expenses, including unbudgeted legal, defense and settlement costs that are not covered by the City's insurance pool. The Reserve is replenished each year through the budget process. The City Manager shall approve all charges against this reserve and on a quarterly basis the Finance Director shall report to the City Council the amount and types of litigation that have been funded by the Litigation Reserve.
- **Water and Wastewater (Municipal Improvement District #1) Enterprise Capital Reserves.** The City will maintain capital reserves in the Water and Wastewater Enterprise Funds to provide for future capital projects and unanticipated emergencies. Each year, all unrestricted fund balance in the Enterprise Funds in excess of 25% of the prior year's operating expenditures will be transferred to these reserves.
- **C.V. Starr Enterprise Fund Reserves.** The City Council established this reserve policy in 2012, shortly after the acquisition of the Center and as such is in the initial stages of funding the following reserves. 1.) Operating Reserve: established to accommodate fluctuations in cash flow; shall strive to maintain a balance of at least 20% of the annual operating expenditures. 2.) Capital Repair and Equipment Reserve: established to provide funding for necessary capital and equipment repair and maintenance and is funded based on an analysis of expected repairs and useful lives of the respective items 3.) Facility Improvement and Expansion Reserve: established to provide funding for the future improvement and expansion of the Center; the reserve is set at \$30,000.
- **Internal Service Fund Reserves.** Each year, the unrestricted fund balance in each of the City's Internal Service Funds is transferred to a reserve within the Internal Service Fund

which is intended to help pre-fund large purchases and repairs and avoid big annual swings in funding needs.

- Facility Repair & Maintenance Reserve. The FY 2015/16 projected year end reserve balance in the Facility Maintenance & Repair Internal Service Fund is \$323,665. The reserve is intended to be funded based on an analysis of expected repairs and useful lives of the buildings and equipment funded by the Facilities Repair & Maintenance Internal Service Fund. In FY 2015/16, the City will complete a Facilities Maintenance & Repair Plan which will provide guidance for establishing required annual contributions to the Facility Maintenance & Repair reserve.
- Fleet & Equipment Services Reserve. The City will maintain a reserve in the Fleet & Equipment Services Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment. In FY 2015/16, the City will complete a Fleet Replacement Plan which will provide guidance for establishing required annual contributions for this reserve. The FY 2015/16 projected year end reserve balance in the Fleet & Equipment Services Internal Service Fund is \$512,154.
- Information Technology (IT) Reserve. The IT Reserve is considered fully funded at \$120,000. The projected unrestricted fund balance in the IT Internal Service Fund for FY 2015/16 is \$69,722. The reserve will be used to fund project work in the coming year.
- **Debt Service Reserves.** Reserve levels for Debt Service Funds are established and maintained as prescribed by the bond covenants authorized at the time of debt issuance.
- **OPEB Trust Fund.** The City maintains an irrevocable trust fund for retiree medical benefit obligations and annually funds the required contribution, as determined by a bi-annual actuarial report.

#### 10. Investment Policies

- a. The Finance Director/City Treasurer will annually render an investment policy for City Council's review and modification as appropriate. The review will take place at a public meeting and the policy shall be adopted by resolution of the City Council.
- b. City funds and the investment portfolio will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order. Reports on the City's investment portfolio and cash position shall be developed by the Finance Director/City Treasurer and reviewed by the Finance and Administration Committee quarterly and the City Council at mid-year and fiscal year end.
- c. Generally Accepted Accounting Principles require that differences between the costs of the investment portfolio and the fair value of the securities be recognized as income or losses in a government's annual financial report. These variances shall not be considered as budgetary resources or uses of resources unless the securities are sold before maturity or the values of the investments are permanently impaired.

The complete investment policy is presented on pages A-23 through A-27.

#### 11. Accounting, Auditing, And Financial Reporting Policies

- a. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles as they apply to governmental accounting.
- b. An annual audit will be performed by an independent public accounting firm with the subsequent issuance of a Comprehensive Annual Financial Report, within six months of the close of the previous fiscal year.
- c. Periodic financial and status reports will be submitted to the City Council and be made available to the public.

#### 12. Asset Forfeiture Expenditure Policy

##### *Asset Forfeiture Discretionary Funds*

- a. Expenditures under \$5,000 may be decided by the Police Chief; a purchase order shall be required per the City's Administrative Regulation on Purchasing.
- b. Expenditures of between \$5,000 and \$10,000 will require approval of the City Manager; a purchase order shall be required per the City's Administrative Regulation on Purchasing.
- c. Expenditures over \$10,000 will require approval of the City Council; the Asset Forfeiture budget shall be amended at the time of approval.

- d. Staff reports to the City Council will be provided on significant Asset Forfeiture expenditures identified by the City Manager.

*Asset Forfeiture Education Funds*

- a. Expenditures will meet the mandated education and prevention guidelines.

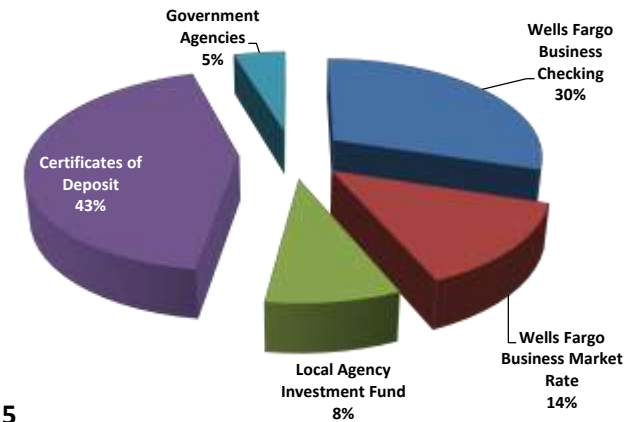
*Year-End Reporting*

- a. Prior to the closing of each fiscal year, a report listing all Asset Forfeiture Discretionary and Education Fund expenditures will be brought forward to the City Council's Finance & Administration Committee for review and line item budget appropriations, as necessary, will be agendaized for City Council action.

**CITY OF FORT BRAGG**  
**Treasurer's Pooled Investment Portfolio**  
**March 31, 2015**

**PORTFOLIO STRUCTURE AS OF MARCH 31, 2015**

TYPE	MARKET VALUE	PERCENT OF PORTFOLIO
Cash in Bank	\$ 3,477,070	29.90%
Wells Fargo Business Market Rate - Collateralized	1,592,224	13.69%
Local Agency Investment Fund	1,001,591	8.61%
Certificates of Deposit	5,018,000	43.15%
Government Agencies	540,000	4.64%
<b>TOTALS</b>	<b>\$ 11,628,885</b>	<b>100.00%</b>



**PORTFOLIO LIQUIDITY AS OF MARCH 31, 2015**

AGING INTERVAL	PAR VALUE	PERCENT OF PORTFOLIO
0 - 30 Days	\$ 6,070,885	52.21%
31 days - 1 Year	1,039,000	8.93%
1 - 2 Years	1,244,000	10.70%
2 - 3 Years	2,030,000	17.46%
3 - 4 Years	1,245,000	10.71%
4 - 5 Years	-	0.00%
	<b>\$ 11,628,885</b>	<b>100.00%</b>

## PORTFOLIO DETAIL AS OF MARCH 31, 2015

<b>Cash</b>	<b>Balance</b>	<b>Market Value</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
Wells Fargo Business Checking	\$ 3,477,070	\$ 3,477,070	0.50%	
Wells Fargo Business Market Rate	1,592,224	1,592,224	0.30%	
Local Agency Investment Fund	1,001,591	1,001,591	0.28%	
<b>Total Cash</b>	<b>6,070,885</b>	<b>6,070,885</b>		
<b>Certificates of Deposit</b>				
First Business Bank	40,000	40,115	1.50%	06/29/15
GE Money Bank	250,000	250,852	1.70%	07/01/15
Alley Bank	250,000	251,066	1.50%	08/17/15
Midlands STS Bank	249,000	249,759	0.80%	02/26/16
Discover Bank	250,000	255,531	1.75%	08/17/16
Sallie Mae Bank	248,000	250,745	1.35%	09/19/16
Medallion Bank	248,000	249,781	1.10%	10/04/16
Gorham Savings Bank	250,000	250,093	0.85%	02/21/17
CIT Bank	248,000	248,144	1.00%	03/27/17
Georgia Bank	250,000	251,687	1.00%	06/20/17
Firstbank	249,000	252,045	1.25%	11/21/17
State Bank India New York	248,000	250,683	1.20%	12/21/17
Webster Bank	250,000	252,708	1.00%	12/26/17
Privatebank & Trust Co.	248,000	249,180	1.15%	02/27/18
Bank Baroda	248,000	248,799	1.25%	03/08/18
Barclays Bank	247,000	248,944	1.00%	03/12/18
First Gen Bank	249,000	248,579	1.30%	07/03/18
GE Capital Bank	250,000	252,677	1.75%	07/12/18
Comenity Cap Bank	249,000	252,994	1.85%	08/16/18
Compass Bank	249,000	252,862	1.95%	09/04/18
Goldman Sachs Bank	248,000	251,375	2.00%	09/25/18
<b>Total Certificates of Deposit</b>	<b>5,018,000</b>	<b>5,058,619</b>		

## PORTFOLIO DETAIL AS OF MARCH 31, 2015 (con't)

	Balance	Market Value	Interest Rate	Maturity Date
<b>Government Agencies</b>				
Federal Farm Credit Bank	250,000	257,538	1.50%	06/29/15
Federal National Mortgage Association	290,000	291,095	1.00%	09/27/17
<b>Total Government Agencies</b>	540,000	548,633		
<b>TOTAL</b>	<b>\$ 11,628,885</b>	<b>\$ 11,678,137</b>		

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**Rosana Cimolino, Finance Director/City Treasurer**

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**Date**





**CITY OF FORT BRAGG  
STATEMENT OF INVESTMENT POLICY  
FISCAL YEAR 2015/16**

**Introduction**

The City Council of the City of Fort Bragg recognizes its responsibility to properly direct the investments of funds for the City and its component units. The purpose of this policy is to provide guidelines for the investment of funds based upon prudent cash management practices and in conformity with all applicable statutes. Related activities which comprise good cash management include accurate cash projections, the expeditious collection of revenue, cost-effective banking relations, and the control of disbursements.

**Scope**

This policy covers the investment activities of all contingency reserves and inactive cash under the direct authority of the City/District. Policy statements outlined in this document focus on the City of Fort Bragg's pooled funds but also apply to all other funds under the City Treasurer's span of control unless exempted by resolution or statute. Investments for the City and its component units will be made on a pooled basis including, but not limited to, the City of Fort Bragg, Municipal Improvement District #1 and Fort Bragg Redevelopment Successor Agency. The City's Comprehensive Annual Financial Report identifies the fund types involved as follows:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust Funds
- Miscellaneous Special Funds
- Any new funds created by the City Council unless specifically exempted

Investments of bond proceeds will be held separately when required by the bond indentures or when necessary to meet arbitrage regulations. If allowed by the bond indentures, or if the arbitrage regulations do not apply, investments of bond proceeds will be held as part of the pooled investments.

**Prudence**

Section 53600.3 of the California Government Code identifies as trustees those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence to be used shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. The trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

It is the policy of the City Council that investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk changes or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

**Investment Objectives**

Section 53600.5 of the California Government Code outlines the primary objectives of a trustee investing public money. The primary objectives, in order of priority, of the City's investment activities shall be:

- **Statutory compliance.** To assure compliance with all federal, state, and local laws governing the investment of monies.

- **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
- **Liquidity.** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- **Return on investment.** Investment return becomes a consideration only after the basic requirements of safety and liquidity have been met. The City Treasurer shall attempt to realize a yield on investments consistent with California statutes and the City's Investment Policy.

The City Treasurer shall strive to maintain the level of investment of all contingency reserves and inactive funds as close to one hundred percent (100%) as possible. While the objectives of safety and liquidity must first be met, it is recognized that portfolio assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to realize a yield on investments consistent with California statutes and the City's Investment Policy.

### **Duties and Responsibilities**

The management of inactive cash and the investment of funds is the responsibility of the City Treasurer (or his/her designee) as directed by the City Council. Under the authority granted by the City Council, no person may engage in an investment transaction covered by the terms of this policy unless directed by the City Treasurer or designee.

In the execution of this delegated authority, the City Treasurer may establish accounts with qualified financial institutions and brokers/dealers for the purpose of effecting investment transactions in accordance with this policy. In selecting financial institutions, the creditworthiness of institutions shall be considered and the City Treasurer shall conduct a comprehensive review of prospective depository's credit characteristics and financial history. The criterion used to select qualified brokers/dealers is identified in Exhibit #1.

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools), which have provided the City certification of having received and reviewed the City's Investment Policy.

The City Treasurer may designate in writing a Deputy City Treasurer, who in the absence of the City Treasurer, will assume the City Treasurer's duties and responsibilities. The City Treasurer shall retain full responsibility for all transactions undertaken under the terms of this policy.

### **Ethic and Conflicts of Interest**

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment recommendations and decisions. Investment officials and employees shall make all disclosures appropriate under the Fair Political Practices Act and may seek the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal financial or investment positions that could represent potential conflicts of interest.

### **Collateralization**

When required by California statute or this Investment Policy, any investment capable of being collateralized, shall be collateralized by the required amounts imposed by law. To give greater security to the City's investments, when an investment is collateralized and not perfected under existing law, an attempt to perfect the collateralization should be made.

### **Authorized Investments**

The City Treasurer may invest City funds in the following instruments as specified in the California Government Code Section 53601 and as further limited in this policy.

Federally insured bank time Certificates of Deposit (CD's): Certificates of Deposit shall not exceed five years to maturity. Investments in Certificates of Deposit and Checking Accounts shall be fully insured up to the amount allowed per account by the Federal Deposit Insurance Corporation or the National Credit Union Administration. Furthermore, the combined investments in Certificates of Deposit and Prime Commercial Paper, if a private sector entity is used, shall not exceed, in total, more than fifty percent (50%) of the portfolio.

U.S. Treasury Bills, Notes and Bonds: Obligations of the U.S. Government and its agencies or those for which the full faith and credit of the United States are pledged for payment of principal and interest. The maximum maturity length shall not exceed five years.

General Obligations of any State or local political subdivision: Must be rated AA/Aa/AA or higher by one of the following: Standard & Poor's, Moody's or Fitch.

Repurchase Agreements: Repurchase Agreements with a maximum maturity of one year. Repurchase Agreements may not exceed five percent 5% of the portfolio. The market value of securities that underlay a Repurchase Agreement shall be valued at one hundred two percent 102% or greater of the funds borrowed against those securities.

Money Market/Mutual Funds: Money Market or Mutual Fund investments holding only U.S. Treasury and Government Agency obligations and cash.

Local Agency Investment Fund (LAIF): Local Agency Investment Fund (LAIF) of the State of California. Investments will be made in accordance with the laws and regulations governing those Funds.

Investment Trust of California (CalTRUST): Investments in CalTRUST will be made in accordance with the laws and regulations governing those funds.

New Securities: New types of securities authorized by California law, but which are not currently allowed by this investment policy, must first be approved by the City Council.

### **Unauthorized Investments/Investment Activities**

Instruments not expressly authorized are prohibited. In accordance with California Government Code Section 53601.6, investment in inverse floaters, range notes or mortgage derived interest-only strips is prohibited, as are derivatives. In addition, and more generally, investments are further restricted as follows:

- No investment will be made in any security that could result in zero interest accrual if held to maturity.
- No investment will be made that could cause the portfolio to be leveraged.
- Purchases of investments on margin will not be made.

### **Investment Strategy**

Pooled Investments: A buy and hold strategy will generally be followed; that is, investments once made will usually be held until maturity. A buy and hold strategy will result in unrealized gains or losses as market interest rates fall or rise from the coupon rate of the investment. Unrealized gains or losses, however, will diminish as the maturity dates of the investments are approached or as market interest rates move closer to the coupon rate of the investment. A buy and hold strategy requires that the portfolio be kept sufficiently liquid to preclude the undesired sale of investments prior to maturity. Occasionally, the City Treasurer may find it advantageous to sell an investment prior to maturity, but this should only be on an exception basis and only when it is in the best interest of the City.

Investments Held Separately: Investments held separately for bond proceeds will follow the trust indenture for each issue.

**Diversification**

The portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. In addition to the limitations on specific security types indicated in this Investment Policy, and with the exception of U.S. Treasury/Federal agency securities and authorized pools, no more than five percent 5% of the City's portfolio will be placed with any single issuer.

**Internal Controls**

The City Manager and the Finance Director are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Due to the need to preserve segregation of duties and check and balance, all outgoing wire transfers shall be confirmed by the bank with a second person prior to the completion of the transfer.

**Reporting**

Sections 53607 and 53646 of the California Government Code allows the City Council, at its discretion, to require reports meeting the standards set forth in these sections, as well as any additional information desired. A report for pooled investments will be made to the City Council at the mid-year budget review session and at a public meeting following the close of the fiscal year.

**Investment Policy Review and Adoption**

Section 53646(a) (2) of the California Government Code allows the City Treasurer to render to the City Council and the Finance Committee a statement of investment policy, and recommends that one be presented each year. Therefore, the City's investment policy and any modifications thereto shall be considered no less often than annually at a public meeting. Adoption of the investment policy and any changes must be made by resolution of the City Council.