



AGENCY: City Council, MID
MEETING DATE: August 14, 2017
DEPARTMENT: Finance
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AGENDA ITEM SUMMARY

TITLE:

RECEIVE RECOMMENDATION FROM FINANCE & ADMINISTRATION COMMITTEE REGARDING FY 2017/18 ADOPTED BUDGET AND FISCAL POLICIES AND PROVIDE DIRECTION TO STAFF

ISSUE:

At the June 26, 2017 City Council meeting, staff presented a revised FY 2017/18 Budget to the Council for adoption. Once Council-directed revisions to the draft budget were input along with adjustments to cost of living increase assumptions, the General Fund deficit grew from \$331k to \$415k. Council approved the FY 2017/18 Adopted Budget with direction that the Finance & Administration Committee should review the budget and consider making recommendations to reduce the budgeted General Fund deficit.

The Finance & Administration Committee met on July 26, 2017. At the meeting the Committee reviewed budget guidelines, fiscal policies, cost cutting options and revenue-generating options. Several recommendations were made for Council consideration.

ANALYSIS:

The City Council's Budget Guidelines provide guidance on the use of unassigned fund balance for ongoing annual costs versus one-time expenditures. The following three appropriations in the FY 2017/18 Adopted Budget are one-time costs: \$25k Body worn cameras; \$18k Storm Drain Enterprise rate study; \$22k prior year Animal Care invoices. When these three one-time expenditures are removed from the calculation, the true operating deficit is \$350k.

Despite the operating deficit, the FY 2017/18 Budget has been balanced through the use of unassigned fund balance as expressly authorized by the City Council on June 26, 2017.

Although not ideal, a budgeted total deficit of \$415k has been shown historically to be manageable. A historical examination has shown the City to have adopted deficit budgets in nine of the last ten years. Actual year-end outcomes however have resulted in surpluses in six of the last eight audited fiscal years. If long-term trends continue, the conservatively developed FY 2017/18 Budget showing a \$415k total deficit is likely to produce a \$142k surplus.

The following list identifies positive features of the FY 2017/18 Budget:

- Increased services: PEG, Economic Development, Coastal Trail maintenance
- Includes robust Capital Projects work plan, with emphasis on water, wastewater and streets infrastructure
- Capital funding includes \$11M of grant funds
- Assumes Cost of Living Adjustment of 3% for City employees, a rate higher than the national average and which affords the City the ability to attract and maintain the best possible workforce for delivering services to the Citizens of Fort Bragg

- Implements long-term (10-year) plans for Fleet and Building Maintenance ISFs, a goal which has been actively pursued by the City for several years and which has just now been accomplished
- Funded 15% General Fund Operating Reserve and \$200k Litigation Reserve
- Received Distinguished Budget Presentation award from GFOA for the FY 2016/17 budget and anticipate receiving the award again for the FY 2017/18 budget

Attachment A presents the Finance & Administration Committee summary report. The 10-page report provides much more detail and analysis than this summary report. The specific recommendations of the Finance & Administration Committee are as follows:

1. Move the fourth bullet point in Guideline 4 of the City's Budget Principles (refer to page 13 of FY 2017/18 Budget) to the top of the list.
2. Update Guideline 5 of the City's Budget Principles (refer to page 14 of the FY 2017/18 Budget) to read (underlined text is added):

Adoption of the Budget. The City Council should 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. In the event the budget is not approved prior to July 1, in accordance with State law, the Council must approve a "continuing resolution" prior to July 1 to allow for continued operations at service and staffing levels authorized in the prior year adopted budget for a period not to exceed 45 days. The resolution may need to appropriate funds for extraordinary expenditures for capital projects, materials and services during this period. It is noted that failure to adopt a timely operating budget could adversely impact the city's credit rating.

3. Modify Policy 9 of the City's Fiscal Policies (refer to page 17 of the FY 2017/18 Budget) to reduce the recommended General Fund contribution to the Emergency Contingency and Economic Stabilization Reserves and to establish Emergency Contingency and Economic Stabilization Reserves for the Water and Wastewater enterprises. Each of the three funds should contribute an amount equivalent to 5% of its budgeted operating appropriations to the Emergency Contingency Reserve and an amount equivalent to 2.5% of its budgeted operating appropriations to the Economic Stabilization Reserve.
4. No additional cost-cutting measures are recommended at this time. Staff and the Council should keep a tight rein on budget amendments as the year progresses.
5. The City should investigate the following revenue-generating measures:
 - Consider establishment of a storm drain enterprise. The Council has budgeted \$18k to proceed with a rate study.
 - Consider establishment of a business license tax for commercial cannabis uses. This would require a ballot measure on the November 2018 ballot.
 - Increase parking fines.
 - Consider establishment of a parcel tax to partially fund the City's share of Fire Protection services.
 - Consider establishment of a ¼ cent general sales tax.

RECOMMENDED ACTION:

Accept Finance & Administration Committee recommendations (as detailed above) regarding:

- Budget Guidelines and Fiscal Policies
- Cost cutting options
- Revenue generating options

ALTERNATIVE ACTION(S):

Any combination of policy changes, cost-cutting measures and/or revenue generating measures the Council finds prudent, whether from the list of options presented in the attached report or otherwise.

FISCAL IMPACT:

Fiscal impacts are dependent upon direction provided to staff.

IMPLEMENTATION/TIMEFRAMES:

Changes to budget guidelines and fiscal policies will be implemented with the fiscal year 2018/19 budget. Budget amendments required as a result of Council direction will be added to the Council's consent calendar for the September 11, 2017 agenda.

ATTACHMENTS:

1. Staff report presented to the Finance & Administration Committee on July 26, 2017

NOTIFICATION:

None.