



## CITY OF FORT BRAGG

*Incorporated August 5, 1889*

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May 22, 2018

Honorable Mayor and members of the City Council:

I am pleased to present the Fiscal Year (FY) 2018-19 Budget for the City of Fort Bragg, 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 District Board policies and priorities in all areas of the City's operations and it links near-term priorities with the resources available to achieve them. Over the course of the year, the City's budget serves as a financial management tool and as a work plan for the delivery of City services and implementation of capital projects. Following this review of the proposed FY 2018-19 Budget on May 22, 2018 and, based on direction provided, a final budget will be prepared for adoption at the June 11, 2018 City Council meeting.

During the Mid-year Budget Review in early March, the City Council and staff had a lengthy conversation about the ongoing challenge to balance the budget. Staff presented a historical summary of adopted budgets compared to the actual financial results as presented in the City's Audited Comprehensive Annual Financial Report. In the last ten years, only once has the City Council adopted a balanced budget. In nine of the ten years, the total budgeted expenditures exceeded total budgeted revenues. However, in contrast, only three of the last ten years actually resulted in an operating deficit. Net revenue over expenditures for the same ten years was a positive \$1.85 million (including the estimated results of the current fiscal year 2017-18).

Following the Mid-year Budget Review, in early May, the Finance and Administration Committee reviewed the Financial Goals used to develop the budget. The Financial Goals are developed from the City Council Budget Principles on page 13-14. The conclusion was that with limited resources, the City could not and had not met each goal and that an order of priority would help the Council and staff make budgetary decisions. The Finance and Administration Committee recommended the Goals in order of priority below:

1. Adopt a balanced budget for the first time in over ten years
2. Maintain a General Fund operating reserve and litigation reserve
3. Maintain long-term funding plans in the City's three internal service funds
4. Continue budgeting conservatively but more realistic
5. Maintain current level of service (no staff layoffs, no program cuts)

6. Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years
7. Provide cost of living adjustments for staff in years to come
8. Provide funding for emergency reserves
9. Continue to make additional contributions to the OPEB trust

Establishing the Financial Goal of adopting a balanced operating budget as the highest priority changes the focus in developing the budget. In order to close what was an estimated \$419k short fall during the Mid-year Budget Review, revenue sources were reviewed and instead of projecting those conservatively, staff has provided more realistic or “less conservative” estimates for those sources. If financial spending decisions are made based on available resources, I believe it is important to have a more realistic projection of those resources. This reduced the deficit by approximately \$80k.

On the expenditure side, a couple of additional grant opportunities will be leveraged, for example, USDA fifty-percent (50%) match grant for public safety vehicles. Additionally, expenditure budgets were scrutinized and reductions made. An open police officer position was frozen, cuts were made to all departments’ travel and training budgets, no pay adjustments or employee promotions were considered, and essentially all requests for increases above the 2017-18 budget baseline were rejected. Finally, based on the low-priority listing of the Financial Goal of continuing to fund the additional OPEB Trust, savings of \$78k will come from not funding that trust at the recommended amount of \$83k. Other Post-Employment Benefit (OPEB) is a retiree healthcare plan, which has been closed for six years, with beneficiaries grandfathered into benefits.

Even with all of the efforts noted above, this proposed budget includes a shortfall in operating revenues in the General Fund of \$70k. Several solutions for Council consideration to eliminate that gap are listed below:

- Revise the Waste Management Franchise Fee Revenue to account for the already known cost of living adjustments (\$34k)
- Purchase \$1M in certified deposits (CD) or other interest bearing approved investment(s) using excess liquid funds held in Wells Fargo Checking Account (net \$13k).
- Instead of outsourcing an update to the cost allocation plan, perform that work in-house (\$10k).
- Revise the AA/AB allocation to provide for the true cost of trail maintenance of the Coastal Trail. The trail was to receive 25% of the measure AA allocation. In 2017-18, maintenance costs were only budgeted for \$30,000 but are expected to be closer to \$165k. The remaining \$101k from the 25% was allocated to the Glass Beach Staircase project. Unspent AA/AB funds for the first year’s collection are \$170k.
- Pay current expenses on the Internal Service Funds instead of 5-year smoothing allocation. (\$228k). *This is not recommended but is a short-term option. This only increases later years’ costs.*
- Freeze or hold open positions for a period of time to create salary/benefit savings. Through the attrition process, reevaluate each staff position and whether it is necessary or duties could be accomplished in a less costly mode (estimated savings of \$50k to \$100k depending on vacancies). *This is not always the most effective or efficient way to reduce staffing costs or limit the impact on public services.*

- Develop a priority-based budget system that assigns a cost to each City service and/or program and then evaluate the service's overall value based on pre-defined priorities of the City. This would require a significant effort by staff, the Council and the community but provides an agreed to and thoughtful matrix for reducing or even eliminating services that are not a priority or a mandate to the City. Community involvement is vital to the success of this process.

### Additional Revenue Sources

At the Mid-year Budget Review, the Mayor established an Ad Hoc Revenue Committee, to evaluate and propose new revenue sources that could close the budget deficit and fix the long-term structural budget deficit facing the City. The Committee is recommending placing a three-eighths (3/8<sup>th</sup>) cent sales tax measure on the November 2018 ballot. Staff estimates that the additional sales tax will generate approximate \$625k per year.

The state sales tax rate is 7.25%. Cities, counties and countywide transportation agencies may impose sales taxes that are added to that 7.25% base. State law limits the maximum added sales tax in any location to two percent. Between the Cities and County existing add-on taxes, the remaining capacity in the sales tax is .375% or 3/8<sup>th</sup> a percent.<sup>1</sup> The City's opportunity to utilize the additional sales tax capacity could be limited or usurped by the passage of a County-wide sales tax. A city sales tax ballot question can only be placed on the ballot at the same time as a City Councilmember election, so the next opportunity for Fort Bragg to pose the question to voters will be November of 2020.

The three-eighths figure provides the City funding to pay down the \$9.4 million unfunded liability on the City's California Public Employee Retirement System (CalPERS). By amortizing the unfunded liability over 15 years instead of the planned 30 years, the City is projected to save \$4.1 million. However, this would require an additional \$300k payment in 2018-19 and an average additional amount of \$200k per year for 15 years. Without an additional revenue source or without significant cuts to existing City staff and services, funds are not available to make these early payments.

The pre-payment of the outstanding OPEB trust would also be revived and funded from the proceeds of the additional 3/8<sup>th</sup> cent sales tax. Additional funds would also reinstate the frozen police officer position and build up a capital improvement project funding sources for nonutility projects in the City. Like many municipalities nation-wide, regular maintenance was deferred during the Great Recession and years of tepid recovery. Fort Bragg, like many other cities, continues to financially struggle with balancing current day-to-day services against what should be regularly scheduled maintenance.

This proposed budget does not make the assumption that the proposed 3/8<sup>th</sup> cent sales tax will be successful. The Ad Hoc Committee acknowledges that a general purpose sales tax to be used to pay employee pension costs is a hard sell to the Community. However, whether the sales tax measure is successful or not will not change the fact that the unfunded \$9.4 million pension liability and \$3.4 million unfunded OBEB remain a City liability. The combined \$12.8 million represents benefits that have already accrued to employees. Changes in current or future City staffing and/or changes in benefit structure will not eliminate or even reduce those

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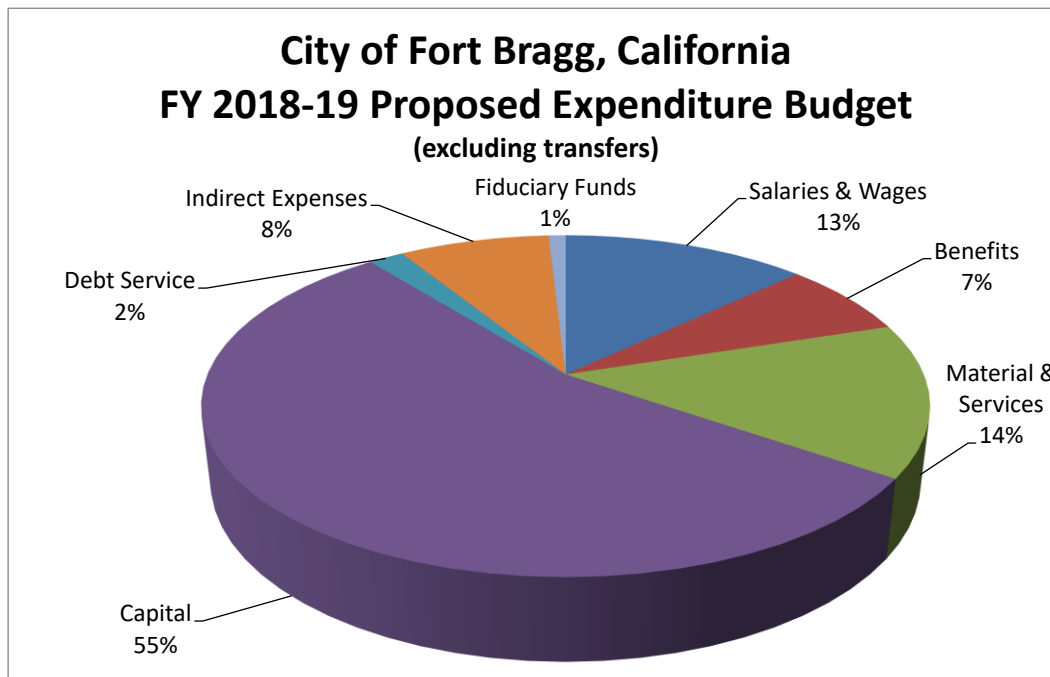
<sup>1</sup> .50% CV Starr Center  
 .50% City Street and Alley Repair  
 .125% Libraries  
 .50% County Mental Health  
 1.625% Total Current Add-on Sales Tax

outstanding liabilities. Pension reforms enacted by the legislature and effective for employees hired after January 1, 2013 are only for new employees and thus, will not have a substantial impact on reducing those liabilities for decades.

#### Budget Overview

The City's total proposed expenditure budget (excluding transfers) for FY 2018-19 is \$41.6 million. This is an increase of 7% from the amended FY 2017-18 Budget of \$38.8 million. The increase is primarily due to several large Capital Improvement Program (CIP) projects. The total Capital budget is \$22.7 million or 55% of the total budget, which includes \$22.4 million for CIP projects and just under \$400k in capital expenditures. The CIP projects include the \$17.6 million Waste Water Treatment Facility Upgrade, \$1 million for the rehabilitation of three Wastewater lift stations and \$2 million for street resurfacing, alley and structural reports.

	Proposed FY 2018-19	Amended FY 2017-18	\$ Variance	% Variance
Salaries & Wages	\$ 5,401,582	\$ 5,523,427	\$ (121,845)	-2.2%
Benefits	2,944,195	2,971,310	(27,115)	-0.9%
Material & Services	6,032,328	6,003,346	28,982	0.5%
Capital	22,732,288	20,090,400	2,641,888	13.1%
Debt Service	775,098	724,024	51,074	7.1%
Indirect Expenses	3,319,011	3,092,481	226,530	7.3%
Fiduciary Funds	375,278	400,709	(25,431)	-6.3%
Total	\$ 41,579,780	\$ 38,805,696	\$ 2,774,084	7.1%



## Operating Budget

If you remove the one-time CIP projects and capital expenditures, the City's operating budget is \$18.8M, which is an increase of 0.7% or \$132k over the Amended FY 2017-18 Budget.

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Fiduciary Funds	375,278	400,709	(25,431)	-6.3%
<b>Total</b>	<b>\$ 18,847,492</b>	<b>\$ 18,715,296</b>	<b>\$ 132,196</b>	<b>0.7%</b>

The City has three major operating funds: General Fund; Water Enterprise; and Wastewater Enterprise. In addition, the City's chart of accounts includes the C.V. Starr Center Enterprise, special revenue funds, grant funds, capital project funds and internal service funds. The General Fund is the principal operating fund of the City, supported primarily by taxes and fees that generally do not have restrictions on their use. Because of the lack of restrictions on use of funds, the General Fund has the most demands on its limited dollars. The Enterprise funds – Water and Wastewater are fully supported by user fees. Special revenue funds and accounts are used to account for proceeds of a specific revenue source that has legal restrictions on how the funds may be spent. Governmental Activities generally account for both General Fund activities and special revenue activities. Business-type Activities are those most similar to private businesses, where fees are charged for direct services received.

	FY 2017-18 Amended Budget	FY 2017-18 FYE Projected	FY 2018-2019 Proposed Budget	FY 2017-18 Budget vs. FY 2018-19 Budget
<b>Governmental Activities</b>				
General Government	\$ 3,205,349	\$ 3,106,057	\$ 2,744,226	\$ (461,123)
Community Development	1,637,373	1,195,382	1,978,523	341,150
Public Safety	4,387,783	4,363,821	4,350,010	(37,773)
Public Works	6,781,809	5,798,798	4,383,646	(2,398,163)
Internal Service	1,108,010	1,097,177	1,034,361	(73,649)
Governmental Activities Subtotal	17,120,324	15,561,235	14,490,766	(2,629,558)
<b>Business-Type Activities</b>				
Water	5,697,237	4,325,343	3,450,912	(2,246,325)
Wastewater	13,682,334	2,457,049	21,305,590	7,623,256
CV Starr	1,905,093	1,847,921	1,957,233	52,140
Business-Type Activities Subtotal	21,284,664	8,630,313	26,713,735	5,429,071
<b>Fiduciary Activities</b>	400,709	400,705	375,278	(25,431)
<b>Total</b>	<b>\$ 38,805,697</b>	<b>\$ 24,592,253</b>	<b>\$ 41,579,779</b>	<b>\$ 2,774,082</b>

## General Fund Budget

The General Fund is projected to have \$9,471,978 of revenue in FY 2018-19 and expenditures of \$9,542,457. As discussed earlier, the \$70k operating deficit, while significantly reduced still illustrates the constraints faced by the City and concerns for future years. The General Fund is predominately supported by taxes (sales tax, Transient Occupancy Tax, property tax, and franchise taxes). These tax revenues have been slow to recover since the Great Recession and as noted earlier, based on recent trends, staff is projecting those sources more realistically than conservatively. Part of the reason for the change in approach, is the efforts of the Visit Fort Bragg Marketing and Promotions and the nearly \$300k per year that is allocated to promoting the tourism economy with the stated goal of increasing Transient Occupancy and sales tax revenues for the City.

The Proposed FY 2018-19 Expenditures of \$9,542,457 represents a decrease of \$163k or 1.7% from the Amended FY 2017-18 Expenditures. While the proposed General Fund expenditure budget comes close to closing the gap between revenues and expenditures, it is a lean budget. Without increased revenues in future years, from new or existing sources, a higher level of scrutiny will be needed to focus on which programs and services should or could be reduced or eliminated.

General Fund Expenditures by Category	FY 2017-18				FY 2017-18
	Amended Budget	FY 2017-18 FYE Projected	FY 2018-2019 Proposed Budget		Budget vs. FY 2018-19 Budget
Salaries & Wages	\$ 3,913,064	\$ 3,885,313	\$ 3,753,299	\$	(159,765)
Benefits	2,550,804	2,531,473	2,488,175		(62,629)
Material & Services	2,319,120	2,100,858	2,243,930		(75,190)
Other Expenditures	135,973	82,543	153,801		17,828
Debt Service	185,533	185,533	185,533		-
Allocation to Internal Service Funds	601,333	601,334	717,719		116,386
Total General Fund Expenditures	\$ 9,705,827	\$ 9,387,054	\$ 9,542,457	\$	(163,370)

## Conclusion

As public servants, it is important for us to remember who we work for and what we are here to do for our citizens and visitors. Some of the services the City provides are vital and not always acknowledged. For instance, it is easy to forget how important our wastewater treatment system is to our Community, or the significance of clean drinking water.

I would like to thank all of the public servants with whom I work. Without each and every one of them, the City of Fort Bragg would not be the unique and amazing place we live and work. I must also acknowledge our elected officials, who are also public servants with very little pay for what essentially amounts to many many hours of volunteer work. It is their leadership that provides the structure for what we do each day. This budget is the product of much work by the management team and supporting staff, who were supportive and engaged in closing the budget gap. That said, without the Finance Department this whole document and all it stands for could not come together. I would like to thank Victor Damiani, the City's Finance Director, and Isaac Whippy, Government Account, for the extraordinary job they do in pulling this together. They work hard each year to not only put the budget together but to also improve the process and this document.

This next year will no doubt offer the City new challenges and opportunities. I look forward to tackling those challenges and leveraging those opportunities, next year and into the future.

Respectfully Submitted,

Tabatha Miller  
City Manager