



FY 2018/19 PROPOSED BUDGET

CITY OF FORT BRAGG, CALIFORNIA



CITY OF FORT BRAGG

PROPOSED BUDGET

FISCAL YEAR 2018 – 2019



CITY COUNCIL

Lindy Peters, *Mayor*

Will Lee, *Vice Mayor*

Bernie Norvell, *Councilmember*

Dave Turner, *Councilmember*

Mike Cimolino, *Councilmember*

Tabatha Miller

City Manager

ABOUT THE COVER

Aerial View of the North Coastal Trail

Glass Beach

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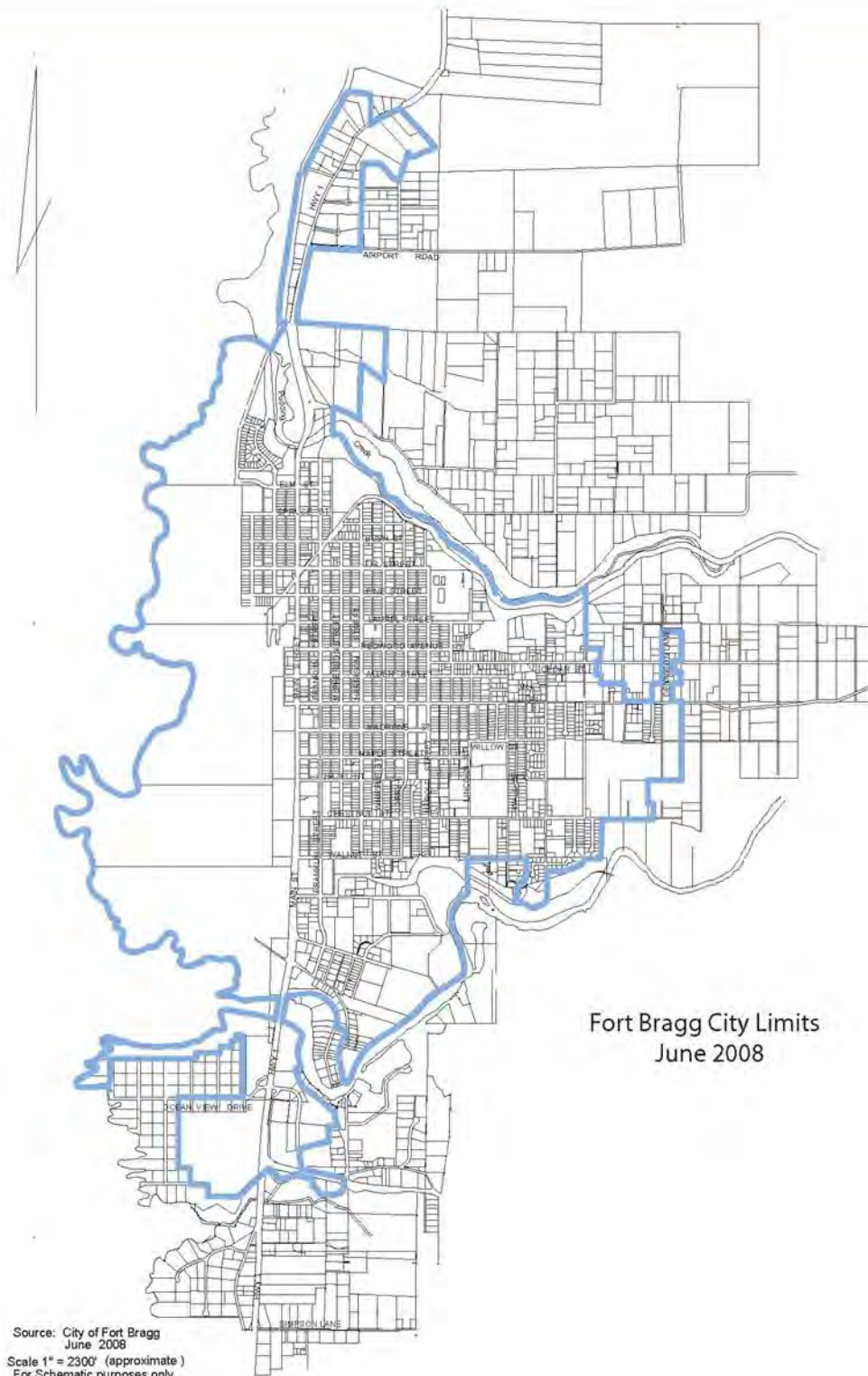
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Fort Bragg City Limits
June 2008



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 is responsible for providing 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 to provide 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 Fort Bragg residents and City staff with a plan for implementation of the services, goals and objectives specified by the City Council. The City's Wastewater Enterprise is operated by the Municipal Improvement District No. 1 (MID) Board. The City Council serves concurrently as the MID Board of Directors. The budget for the Wastewater Enterprise 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 Improvement Program (CIP) and Capital Projects Budget provide citizens and City officials with detailed information about capital projects that are planned for near- or mid-term implementation.

This budget 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 deliver services to the community. The budget is intended to provide transparency to City residents about programs and services as well as the policies underlying the City Council's spending decisions.

DISTINGUISHED BUDGET PRESENTATION AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Distinguished Budget Presentation Award to the City for its Fiscal Year 2017/18 Budget. This was the second year that the government has achieved this prestigious award. Achievement of the award reflects the commitment of the governing body and staff to meeting the highest principles of governmental budgeting. In order to receive the budget award, the City had to satisfy nationally-recognized guidelines for effective budget presentation. These guidelines are designed to assess how well an entity's budget serves as:

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

The Distinguished Budget Presentation Award is valid for one year. Our Fiscal Year 2018/19 budget will again be submitted to the GFOA and we are confident that we will once again achieve the award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Fort Bragg
California**

For the Fiscal Year Beginning

July 1, 2017

Christopher P. Morill

Executive Director

BUDGET ORGANIZATION

The FY2018/19 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 operational and strategic goals for FY2018/19.
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, and the City's budget guidelines and fiscal policies. This section provides 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, interfund cost reimbursements and the City's cost allocation plan. Summaries for the Water, Wastewater and C.V. Starr Enterprise Funds are included in the detail section for each fund.
4. **Fund Detail - Departmental Summaries.** Presents detailed information on the City's operating departments and Enterprise funds as follows:

| | |
|--------------------------------|------------------------------|
| 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 |
| Tourism Marketing & Promotions | |

Additional information about services provided by the City is included in each departmental 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 about the current year appropriations is provided in the budget detail section. With the FY2017/18 Budget the presentation was expanded to include a summary of revenue generated by each department.

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. The FY2018/19 CIP budget has been upgraded to show the impact various Capital Projects will have on the City's operating budget.
7. **Statistical Data.** Presents historical information for the past 10 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 and 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.
- Strive to 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.
- Strive to maintain reserves in accordance with established Council policies.
- Utilize encumbrances of appropriations as a budgetary control technique.
- Adopt the budget through City Council and Municipal Improvement District Board resolutions.
- Exercise budgetary 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 City 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 the next fiscal year and it is reviewed by the Council and the public at 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 City Council's budget workshop. After providing opportunities for public review and discussion at the 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 City 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.

Capital Project Funds are used to account for financial resources to be used for construction or acquisition of fixed assets, such as buildings, equipment, or roads. A Capital Project Fund exists only until completion of the project.

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 & 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, Wastewater, and C. V. Starr 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. The City has one fiduciary fund: Successor Agency to Fort Bragg Redevelopment Agency.

COST ALLOCATION PLAN AND DIRECT CHARGES

The City employs a multi-step process for distributing the indirect costs of central service departments (City Council, Administration, Finance, Non-Departmental and Public Works personnel and non-personnel costs) and the City's Internal Service Funds to various departments and funds.

Costs of the City's central service departments are allocated 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 Administrative Services Department 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 Administrative Services Department to the multiple other departments that benefit from the service. Allocations are based primarily on the Personnel Staffing Allocations presented on pages 66 and 67. Personnel Staffing Allocation percentages are reviewed as part of the budget process to ensure they are consistent with each year's authorized staff positions, anticipated work load and capital project plans. Beginning with each year a year-end true-up is performed so that allocations are based on actual results rather than budgeted forecasts. For example, if actual administrative costs end the year less than budgeted, then allocated costs will be revised down.

The City's Internal Service Funds are allocated as direct charges to the City's public service departments. For example, the budget for the Fleet & Equipment Services Fund is allocated to public service departments (such as the Police Department or Public Works Department) based on the number of vehicles purchased and/or in use by each 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 2018. These estimates take into account what has happened in the local economy, current revenue and expenditure experiences, 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 Pomo 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 create 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 installed 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 when the Fort Bragg Redwood Company absorbed 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 formed 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 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 known for its quality fish products that were distributed to major metropolitan markets. In recent years, the fishing industry has declined and Fort Bragg's economic base has transitioned from “resource extraction” (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 185 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 each 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 Lindy Peters | December 2018 |
| Vice Mayor Will Lee | December 2020 |
| Councilmember Michael Cimolino | December 2018 |
| Councilmember Dave Turner | December 2018 |
| Councilmember Bernie Norvell | December 2020 |

ADMINISTRATION AND MANAGEMENT

Fort Bragg operates under the Council-Manager form of government. The City Council appoints the City Manager who appoints other City staff 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 and wastewater treatment services. 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.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

The members of the City Council serve concurrently as the Fort Bragg Municipal Improvement District No. 1 (MID) Board of Directors. The MID was formed in 1969 for the purpose of acquiring and constructing wastewater system improvements including construction of a wastewater treatment plant. The wastewater system serves approximately 3,000 residential and commercial connections in an area that includes the

City of Fort Bragg and small areas of unincorporated territory on the periphery of the City. The MID Board of Directors 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 included 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 required by AB 1X26) and the City Council opted 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") 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, petanque courts and picnic/BBQ facilities.

After opening the C.V. Starr Center in 2009, the MCRPD found itself challenged by insufficient operating revenues. In March 2012, the voters of Fort Bragg approved a special sales tax to provide funding for operation, maintenance and capital improvements at the C.V. Starr Center facility. The ballot 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 a contract with the City and the City provides continued financial and operational oversight.

DIRECTORY OF ELECTED AND APPOINTED CITY OFFICIALS

As of June 30, 2018



Lindy Peters
Mayor



Will Lee
Vice Mayor



Mike Cimolino
Councilmember



Bernie Norvell
Councilmember



Dave Turner
Councilmember

Victor Damiani
Finance Director /City Treasurer

Tabatha Miller
City Manager

Scott Schneider
Administrative Services Director

Marie Jones
Community Development Director

Fabian Lizarraga
Chief of Police

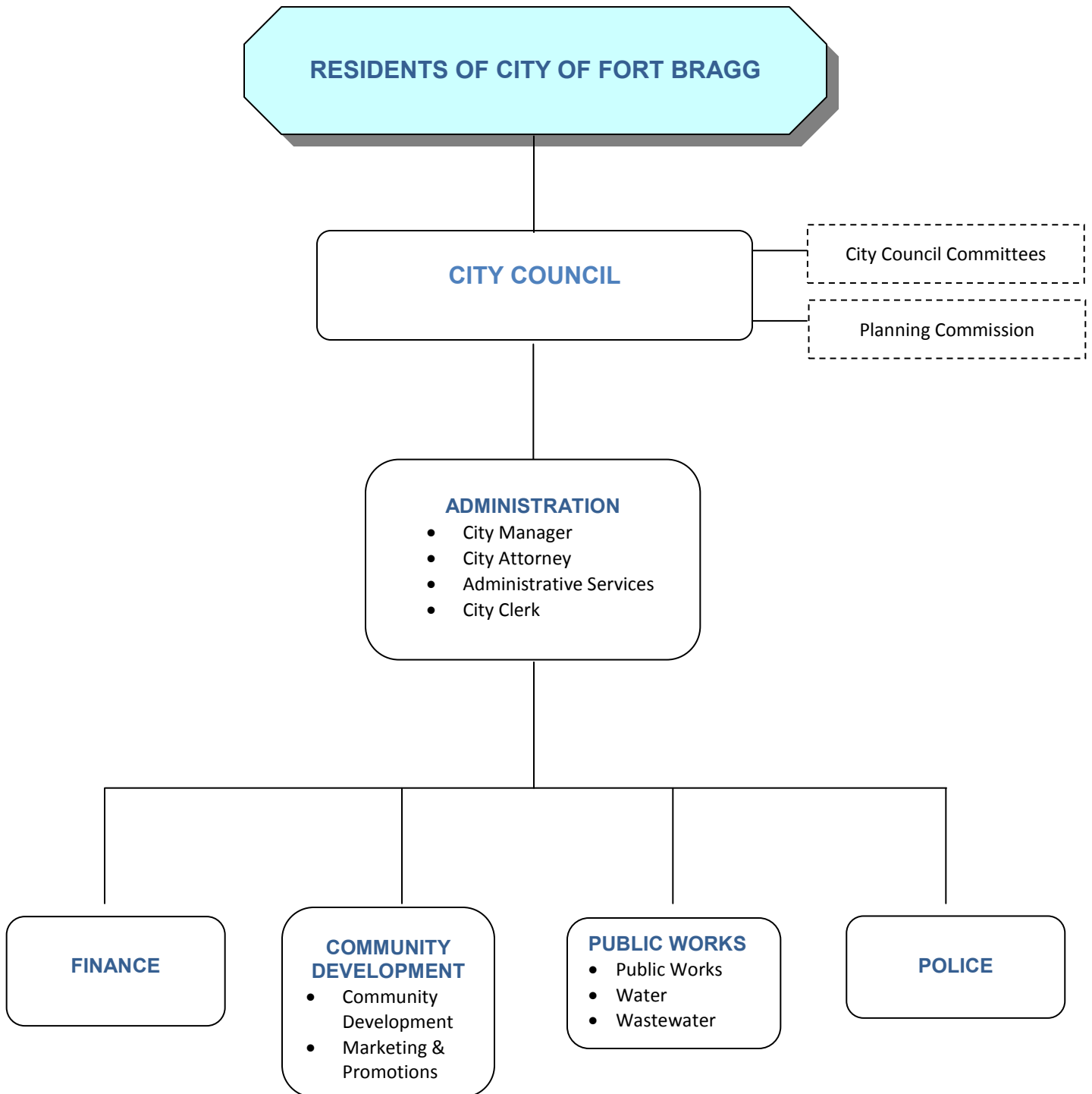
June Lemos
City Clerk

Tom Varga
Director of Public Works

Russell A. Hildebrand
City Attorney

MASTER ORGANIZATIONAL CHART

As of June 30, 2018





BUDGET GUIDELINES

The annual operating budget is the primary short-term financial plan for the City and the 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 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 to ensure that the overall distribution of resources achieves the results intended by the City Council.

Each year, as the budget is prepared, the City Council identifies priorities 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 an annual operating budget and a capital projects budget which are consistent with the Council's service level priorities and sound business practices. 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 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 Department Heads and to the City Council at the beginning of the budget process each year. The calendar sets forth dates for the review of service level priorities by the City Council at a mid-year budget workshop and a presentation of the City Manager's proposed budget to the City Council, which should be adopted no later than the end of June.
3. **Form and Content of the Proposed Budget.** The proposed Budget should 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;
 - Staffing by department;
 - Service levels;
 - Statements of objectives and accomplishments;
 - Recommendations for policy changes;
 - Capital improvement appropriations by project.

The proposed Budget should 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:

- Most likely revenue projections should be incorporated into the budget.
 - The City strives to balance the operating budgets of each of the City's three major funds (General Fund, Water Enterprise, and 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.) should be funded with on-going annual revenues and should not rely upon one-time revenues, reserves, or the use of unassigned fund balances.
 - If unassigned fund balances are expended, uses should be restricted to funding one-time expenditures, not on-going operations.
 - Expenditures should be contained to the maximum extent possible. To the extent that line item cost increases occur, they should be limited to purchases necessary to support existing operations, essential capital improvement projects, mandated costs, and the City's contractual obligations.
 - Each year, the budget should be prepared in accordance with the City's Fund Balance & Reserve policies and the Council should allocate specific amounts to each of the City's established reserves.
5. **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.
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 budget. Incomplete multiple year project balances will be automatically carried over to the current year's budget.
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 first-quarter and mid-year budget status report for presentation to the City Council. At a minimum, the report will include the status of General Fund revenues and expenditures, and Water, Wastewater, and C.V. Starr enterprise fund revenues and expenditures.
9. **Reserves.** Various unallocated reserves are established in the City's funds to protect the City in emergencies and times of economic uncertainty, 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 No. 1 (collectively referred to as "the City") are managed in a manner that will:

- Maintain a financially viable local government 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 Council/MID Board should adopt a balanced budget by June 30th of each year. The base operating budget will be developed by 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 should not be adjusted subsequently unless specifically authorized by a 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 has 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. Interfund and inter-departmental transfers require Council/District approval.
- d. 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.
- e. Annually, a report estimating the year-end results will be presented to the Council following the close of the fiscal year being reported. The report will compare revenue estimates with actual collections, appropriations budgets with actual expenditures and revenues to expenditures in major budgetary funds. This report will be followed by a presentation of the Comprehensive Annual Financial Report to the Council before January 31st.
- f. 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 the mid-year budget session.

3. Revenue Policies

- a. The City strives to maintain a diversified and stable revenue stream to avoid over-reliance on any one revenue source.

- b. The City estimates its annual revenues by an objective, analytical process utilizing trends, judgment, and statistical analysis as appropriate. Revenue estimates are to be realistic and sensitive to both local and regional economic conditions.
- c. The City maximizes the availability of revenue proceeds through responsible collection and auditing of amounts owed to the City.
- d. The City actively pursues federal, State, and other grant opportunities when deemed appropriate. Before accepting any grant, the City should consider the implications in terms of ongoing obligations that will be required in connection with acceptance of the grant.
- e. The City seeks reimbursements for mandated costs whenever possible.
- f. User fees are 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's user fee policy:
 - 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 are 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 are allocated according to their respective special purpose.
- j. One-time revenues should be used for one-time expenditures only, including capital outlay and reserves.

4. Expenditure Policies

- a. The City strives to 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 strives to maintain employee benefits and salaries at competitive levels with local labor markets.
- c. Fixed assets should be maintained and replaced as necessary and deferred maintenance should be minimized. A facilities maintenance reserve is maintained to provide for timely maintenance and replacement of fixed assets.
- d. The City should use technology and productivity enhancements that are cost effective and help to reduce or avoid 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 are reviewed and adjusted annually, if necessary.
- b. All utility enterprise funds are operated in a manner similar to private enterprise. As such, the City Council sets 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 has a Five-Year Capital Improvement Program (CIP) that is designed to construct and maintain infrastructure to support existing residences and businesses and future development. The CIP identifies the estimated cost of each project including administration, design, development and implementation, and operating costs once the projects are completed. The CIP identifies potential funding sources for each proposed capital project. When appropriate, the CIP identifies outside funding sources such as State and federal funds

and leverages these funding sources with public money to help meet the highest priority community needs.

- b. The funding for the first year of each five-year CIP is 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 subject to change.

7. Debt Management Policy

- a. The City Council has adopted guidelines and policies intended to guide decisions related to debt issued by the City. Debt issuance should be evaluated on a case-by-case basis and considered within the context of the City's overall capital structure and policy objectives. Adherence to the debt management policy is essential to ensure that the City maintains a sound debt position and to protect the credit quality of its debt obligations. The full text of the City's Debt Management Policy is presented in the Debt Service section of the budget. Key components of the City's Debt Management Policy are:
 - The City will limit long-term debt to only those capital improvements or long-term liabilities that cannot be financed from current revenue sources.
 - 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.
 - The City will strive to maintain or improve the City's bond rating.
- b. 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 are prepared and interest charged as required by the City's Interfund Loan Policy.

8. Interfund Loan Policy

- a. City Council approval by resolution is required for any interfund loan. All interfund loans must be documented by formal agreements that specify the terms and conditions.
- b. All interfund loans are 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 is established by the City Council and typically should not exceed five years.
- d. The interfund loan is 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 interfund 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.
- f. There is no prepayment penalty on an interfund loan. 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

- a. The City'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 periodically reviews and updates 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.
- b. 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.
 - c. **General Fund Reserves.** In FY2018/19 the City's Finance and Administration Committee ranked funding of the Emergency Contingency Reserve and the Economic Stabilization Reserve last out of a list of nine financial goals. Therefore Staff has removed these two reserves from the list of General Fund Reserves in the proposed budget. If surplus funds become available in future years these two reserves may be re-introduced. The following two General Fund reserves have been funded in the proposed budget:
 - 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 committed fund balance and may be tapped into, with Council authorization, for unforeseen operating or capital needs. In FY2018/19 the reserve is funded at 15%.
 - Litigation Reserve: The City will maintain a 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 Litigation 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. In FY2018/19 the reserve is funded at \$200k.
 - d. **Water, Wastewater (Municipal Improvement District #1) and C.V. Starr Enterprise Capital Reserves.** The City maintains capital reserves in the Water, Wastewater and C.V. Starr Enterprise Funds to provide for future capital projects and unanticipated emergencies. Each year, all unrestricted net position in the Enterprise Funds in excess of 25% of the prior year's operating expenditures is transferred to these reserves. The 25% that is retained in the Enterprise Fund functions as an Operating Reserve.
 - e. **Internal Service Fund Reserves.** Each year, the unrestricted net position in each of the City's Internal Service Funds is held in reserve within the Internal Service Fund. These reserves are intended to help pre-fund large purchases and repairs and avoid big annual swings in funding needs.
 - Facility Repair & Maintenance Reserve. The reserve is 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. A ten-year Facilities Maintenance & Repair Plan which provides guidance for establishing required annual contributions to the Facility Maintenance & Repair reserve has been established. The plan is adjusted annually as part of the budget preparation process.
 - Fleet & Equipment Services Reserve. The City maintains a reserve in the Fleet & Equipment Services Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment. A ten-year Vehicle and Equipment Replacement Plan has been established.
 - Information Technology (IT) Reserve. The City maintains a reserve in the Technology Maintenance & Replacement Internal Service fund to enable the timely replacement of depreciable equipment. A five-year IT long term plan has been established
 - f. **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.

- g. **Unfunded Liabilities.** Prepayments made against unfunded liabilities may lower the unfunded liability and result in significant savings in the long term. Each year 50% of any realized year end surplus shall be applied to the City's two unfunded liabilities. Priority shall be given to the CalPERS plan unfunded liability over the OPEB plan unfunded liability. Any payment of unfunded liabilities shall be considered a one-time payment and will not be included in the calculation of the City's operating deficit/surplus:
- CalPERS. The City continues to accrue liabilities relating to the California Public Employees' Retirement System pension plan provided to its employees. If the City realizes a sufficient year end surplus at 7/1/2018, Staff recommends a prepayment of \$296k, which equates to the CalPERS 15 year amortization schedule.
 - OPEB Trust Fund. The City maintains an irrevocable trust fund for retiree medical benefit obligations. If the City realizes a sufficient year end surplus at 7/1/2018, Staff recommends a prepayment of \$78k as determined by a bi-annual actuarial report.

10. **Investment Policy.** The complete investment policy is presented at the end of the Policy Section of the City's Budget. Key components of the City's investment policy are:

- a. The Finance Director/City Treasurer annually renders an investment policy for City Council's review and modification as appropriate. The review must take place at a public meeting and the policy must be adopted by resolution of the City Council.
- b. City funds and the investment portfolio should 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 are developed by the Finance Director/City Treasurer and reviewed by the Finance & Administration Committee and the City Council at first quarter, 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 should 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.

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

- a. The City's accounting and financial reporting systems are 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 seven 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.
- b. Expenditures of between \$5,000 and \$10,000 require approval of the City Manager.
- c. Expenditures over \$10,000 require approval of the City Council and the Asset Forfeiture budget will 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 must meet the mandated education and prevention guidelines.

Year-End Reporting

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

13. **Payment of Employee Compensation Costs**

- a. **City Employee Compensation.** The City strives to attract and retain the best talent to manage the City and serve Fort Bragg residents and businesses. The City accomplishes this by offering attractive and competitive salaries and benefits that reflect the value of the various jobs, the duties, level and responsibility of each position, and the fiscal condition of the City. Compensation information specific to each employee group is summarized below.
- b. **City Manager Duties and Compensation.** The City of Fort Bragg is a general law city with a Council-Manager form of government. Fort Bragg Municipal Code Section 2.16.050 establishes that the City Council is the appointing authority for the City Manager and City Attorney. All other positions are appointed by the City Manager. The City Manager's terms of employment, including compensation and benefits, are established by an employment agreement authorized by Council resolution.
- c. **City Attorney Services.** The City Attorney is not a City employee. City Attorney services are provided in accordance with a professional services agreement. Funds for City Attorney services are included in the Administrative Services Department.
- d. **Executive Management (Department Head) and Mid-Management Compensation.** The terms of employment for Executive and Mid-Management classifications, including compensation and benefits, are established by Council resolution.
- e. **Non-Management Employee Compensation.** The City of Fort Bragg has three non-management employee groups.
 - The Fort Bragg Employee Organization (FBEO) represents all City non-exempt employees other than Safety Employees and Confidential and Non-Bargaining employees. The FBEO is affiliated with the Service Employees International Union (SEIU). Compensation and benefits are negotiated and documented in a Memorandum of Understanding (MOU).
 - The City's Safety Employees are represented by the Fort Bragg Police Association (FBPA), an unaffiliated employee organization. Compensation and benefits are negotiated and documented in a Memorandum of Understanding (MOU).
- f. Compensation and benefits of employees not represented by the FBEO and FBPA are established by Council resolution.
- g. **Additional Sources of Information.** The current employment agreements, resolutions and MOUs noted above can be found on the City's website.



**CITY OF FORT BRAGG
STATEMENT OF INVESTMENT POLICY**

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 Investment 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 of Fort Bragg and Municipal Improvement District #1. 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.

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 allow 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.



CITY OF FORT BRAGG

FY2018/19

PROPOSED BUDGET

SUMMARY SCHEDULES



| City of Fort Bragg FY2018/19 Summary of Revenue, Expenditures & Fund Balance | | | | | | | | | | |
|--|--|----------------------------------|-------------------|------------------------|---------------|------------------------------------|-------------------|---------------------------------|---------------|------------------------------------|
| | | FY 2017 - 2018 | | | | | FY 2018 - 2019 | | | |
| Fund No. | Fund Type/Name | Audited Fund Balance at 06/30/17 | Projected Revenue | Estimated Expenditures | Net Transfers | Projected Fund Balance at 06/30/18 | FY2018/19 Revenue | FY2018/19 Budget Appropriations | Net Transfers | Projected Fund Balance at 06/30/19 |
| 110 | General Fund | | | | | | | | | |
| 110 | Unassigned | \$ 1,415,220 | \$ 9,091,105 | \$ 9,365,634 | \$ 18,548 | \$ 1,159,239 | \$ 9,471,978 | \$ 9,542,457 | (126,556) | \$ 962,204 |
| | Nonspendable | 4,014 | - | - | - | 4,014 | - | - | - | \$ 4,014 |
| | Committed | 1,487,700 | - | - | - | 1,487,700 | - | - | 129,728 | \$ 1,617,428 |
| 112 | Gen Fund Economic Stabilization Reserve | - | - | - | - | - | - | - | - | - |
| 113 | Gen Fund Emergency Contingency Reserve | - | - | - | - | - | - | - | - | - |
| 114 | Gen Fund Litigation Reserve | 200,000 | - | 21,420 | 21,420 | 200,000 | - | - | - | 200,000 |
| | Total General Fund | 3,106,934 | 9,091,105 | 9,387,054 | 39,968 | 2,850,953 | 9,471,978 | 9,542,457 | 3,172 | 2,783,646 |
| | Special Revenue Funds, Restricted***: | | | | | | | | | |
| 116 | General Plan Maint Fee Fund | 174,252 | 70,211 | 40,000 | - | 204,463 | 70,897 | 50,000 | - | 225,360 |
| 117 | Housing Trust Funds | 85,855 | 933 | 8,275 | - | 78,513 | 1,383 | - | - | 79,896 |
| 120 | Parking | 36,279 | 4,373 | - | (8,300) | 32,352 | 4,537 | - | (8,300) | 28,589 |
| 121 | Parking In Lieu Fees | 336 | - | 8,208 | 8,300 | 428 | - | - | 8,300 | 8,728 |
| 122 | Parkland Monitoring/Reporting | 126,362 | 1,278 | 1,930 | - | 125,710 | 500 | - | (93,767) | 32,443 |
| 124 | Tobacco License Fee | 9,216 | 2,556 | 3,300 | - | 8,472 | 2,739 | 1,100 | - | 10,111 |
| 125 | State Disability Access Fee | 2,922 | 812 | 40 | - | 3,694 | 990 | 60 | - | 4,624 |
| 139 | Cops Ab1913 Allocation | 15,147 | 100,000 | 100,000 | - | 15,147 | 100,000 | 115,000 | - | 147 |
| 146 | OJP Bulletproof Vest Partnership | (1,628) | 1,500 | - | (1,500) | (1,628) | 1,000 | - | (872) | (1,500) |
| 167 | Asset Forfeiture | 361,132 | 127,131 | 126,799 | (217) | 361,247 | 74,980 | 50,000 | - | 386,227 |
| 176 | RDA Housing Successor | 411,871 | 4,007 | - | - | 415,878 | 7,209 | 250,000 | - | 173,087 |
| 190 | Construction/Demolition Ord Fees | 45,296 | 1,701 | 5,000 | - | 41,997 | 1,153 | - | - | 43,150 |
| 220 | Waste Mgt Community Benefit Pynt | 9,747 | - | 7,500 | (1,979) | 268 | - | - | - | 268 |
| 221 | Highway User Tax (Gas Tax) | 25,350 | 225,573 | 221,089 | - | 29,834 | 353,370 | 219,404 | - | 163,800 |
| 223 | STP D1 MOOG Streets/Hwy ** | 1,166 | 73,980 | - | (9,500) | 65,646 | - | 5,900 | (69,978) | (4,332) |
| 230 | Traffic & Safety | 1,476 | 6,931 | 8,407 | - | - | 5,900 | - | - | - |
| 250 | Special Sales Tax-Street Repair | 1,483,593 | 931,415 | - | (481,691) | 1,933,318 | 964,315 | - | (2,000,000) | 897,633 |
| 280 | Fire Equipment Fund | 183,529 | 54,911 | 38,002 | 23,345 | 223,783 | 59,301 | - | - | 283,084 |
| 285 | OJ Park Maintenance Fund | 2,931 | - | - | (2,064) | 867 | - | - | - | 867 |
| | Total Special Rev Funds, Restricted | 2,974,832 | 1,607,314 | 568,549 | (473,605) | 3,539,989 | 1,648,275 | 691,464 | (2,164,617) | 2,332,182 |
| | Special Revenue Funds, Grants***: | | | | | | | | | |
| 131 | CDBG Unclassified Program Income | 16,055 | - | 600 | - | 15,455 | - | - | - | 15,455 |
| 162 | CDBG Program Income Account | (78,581) | 87,901 | - | (32,440) | (23,120) | 88,000 | - | (150,000) | (85,120) |
| 314 | MOOG OWP | (99) | - | 5,000 | - | (5,099) | 40,099 | 104,978 | 69,978 | - |
| 315 | 2014 CDBG Grants | 12,464 | 225,776 | 125,753 | (117,203) | (4,716) | - | - | - | (4,716) |
| 319 | Dept of Water Resources Prop 84 - Summers Lane | - | 700,000 | - | (700,000) | - | - | - | - | - |
| 320 | Slate Parks Prop 84 | (501) | 345,127 | - | (344,626) | - | 10,000 | - | (10,000) | - |
| 322 | CalTrans State Funding | (15,222) | 24,783 | 9,561 | - | - | - | - | - | - |
| 323 | CalTrans Federal Funding | 602,587 | 952,060 | - | (1,554,647) | (20,000) | 20,000 | - | (20,000) | - |
| 326 | HCD HOME Grant - 2013 | 11,960 | 158,503 | 170,463 | - | - | 500,000 | 500,000 | - | - |
| 327 | SWRCB Grants | - | - | - | - | - | 6,000,000 | - | (6,000,000) | - |
| 329 | Slate Grants | - | 16,744 | 20,000 | (16,744) | (20,000) | 305,000 | 80,000 | (205,000) | - |
| 330 | Federal Grants | - | 25,219 | - | (25,219) | - | 3,413,850 | - | (3,413,850) | - |
| 331 | 2016 CDBG Grants | - | 1,636,985 | 267,761 | (1,369,224) | - | 196,555 | 346,555 | 150,000 | - |
| 332 | Other Grants | 5,000 | 3,000 | 9,052 | 1,052 | - | - | - | - | - |
| | Total Special Rev Funds, Grants | 553,663 | 4,176,098 | 608,189 | (4,159,050) | (37,480) | 10,573,504 | 1,031,533 | (9,578,872) | (74,381) |

| City of Fort Bragg FY2018/19 Summary of Revenue, Expenditures & Fund Balance | | | | | | | | | | |
|--|---|----------------------------------|-------------------|------------------------|---------------|------------------------------------|------------------|----------------|---------------|------------------------------------|
| | | FY 2017 - 2018 | | | | FY 2018- 2019 | | | | |
| Fund | | Audited Fund Balance at 06/30/17 | Projected Revenue | Estimated Expenditures | Net Transfers | Projected Fund Balance at 06/30/18 | FY2018/19 Budget | | Net Transfers | Projected Fund Balance at 06/30/19 |
| No. | Fund Type/Name | | | | | | Revenue | Appropriations | | |
| Capital Project Funds ***: | | | | | | | | | | |
| 401 | Olis Johnson Park Renovation | (2,064) | - | - | 2,064 | - | - | - | - | - |
| 405 | Street Resurfacing & Structural Repair Projects | 1,523,286 | - | 2,124,572 | 601,286 | - | - | 2,000,000 | 2,000,000 | - |
| 407 | Coastal Trail Construction | 17,406 | - | 17,379 | 67,157 | 67,184 | - | 160,951 | 93,767 | - |
| 415 | Central Coastal Trail Construction | - | - | 1,094,626 | 1,094,626 | - | - | 30,000 | 30,000 | - |
| 413 | Chestnut St Multi-use trail | (668,443) | - | 136,204 | 804,647 | - | - | - | - | - |
| 416 | Municipal Facilities Projects | 357,019 | - | 310,013 | 59,898 | 106,905 | - | - | - | 106,905 |
| | Total Capital Project Funds | 1,227,204 | - | 3,682,793 | 2,629,678 | 174,089 | - | 2,190,951 | 2,123,767 | 106,905 |
| Internal Service Funds* | | | | | | | | | | |
| 520 | Facilities Maint & Repair | 249,645 | 215,189 | 220,411 | - | 244,423 | 299,062 | 197,064 | - | 346,422 |
| 521 | Technology Maint & Repair | 96,238 | 399,366 | 405,547 | - | 90,056 | 460,155 | 423,741 | - | 126,470 |
| 522 | Fleet & Equipment Services | 31,268 | 427,238 | 471,219 | 16,744 | 4,031 | 477,151 | 413,556 | 25,850 | 93,475 |
| | Total Internal Service Funds | 377,150 | 1,041,793 | 1,097,177 | 16,744 | 338,510 | 1,236,368 | 1,034,361 | 25,850 | 566,367 |
| Enterprise Funds* | | | | | | | | | | |
| 610 | Water Enterprise O&M | 457,324 | 2,934,325 | 2,056,816 | (820,628) | 514,204 | 3,083,289 | 2,055,912 | (1,027,603) | 513,978 |
| 640 | Water Enterprise Capacity Fees | 177,501 | 22,028 | - | (35,000) | 164,529 | 33,405 | - | - | 197,934 |
| 614 | Water Enterprise Non-Routine Maintenance | 119,050 | - | 14,548 | - | 104,502 | - | 133,000 | 28,498 | - |
| 615 | Water Enterprise Capital Reserve | 1,652,747 | 6,824 | - | 1,348,961 | 3,008,532 | 6,678 | - | (57,895) | 2,957,315 |
| 651 | Water Capital Projects | 714,028 | - | 2,253,978 | 1,539,951 | - | - | 1,262,000 | 1,262,000 | - |
| | Total Water Enterprise Unrestricted Net Position | 3,120,650 | 2,963,176 | 4,325,343 | 2,033,284 | 3,791,767 | 3,123,372 | 3,450,912 | 205,000 | 3,669,227 |
| 710 | Wastewater Enterprise O&M | 1,244,049 | 3,664,603 | 2,261,749 | (2,081,466) | 565,437 | 3,584,730 | 2,339,079 | (1,226,318) | 584,770 |
| 720 | Clean Water Education Fund | 5,095 | 46 | - | (700) | 4,441 | 56 | - | (2,300) | 2,197 |
| 740 | Wastewater Enterprise Capacity Fees | 302,130 | 28,847 | - | - | 330,977 | 32,824 | - | - | 363,801 |
| 714 | Wastewater Enterprise Non-Routine Maintenance | 413,218 | - | 195,300 | (30,121) | 187,797 | - | 164,000 | - | 23,797 |
| 715 | Wastewater Enterprise Capital Reserve | 1,645,543 | - | - | 510,002 | 2,155,545 | - | - | (1,750,941) | 404,604 |
| 716 | Wastewater Enterprise Capital Projects | 5,909 | - | - | 1,515,266 | 1,521,175 | - | 18,723,400 | 17,202,225 | - |
| 717 | JFFA - Wastewater Treatment Plant | - | - | - | - | - | 5,000,000 | 79,111 | (4,920,889) | - |
| | Debt Service Reserve | - | - | - | - | - | - | - | 18,590 | 18,590 |
| | Short Lived Asset Reserve | - | - | - | - | - | - | - | 65,333 | 65,333 |
| | Total Wastewater Enterprise Unrestricted Net Position | 3,615,944 | 3,693,496 | 2,457,049 | (87,018) | 4,765,372 | 8,617,610 | 21,305,590 | 9,385,700 | 1,463,092 |
| 810 | CV Starr Enterprise | - | 1,837,616 | 1,847,921 | - | - | 1,866,296 | 1,957,233 | - | - |
| | CV Starr Operating Reserve | 388,893 | - | - | - | 397,347 | - | - | - | 425,457 |
| | CV Starr Capital Reserve | 346,719 | - | - | - | 327,959 | - | - | - | 208,912 |
| | Total Water Enterprise Unrestricted Net Position | 7,356,111 | 1,837,616 | 1,847,921 | - | 725,306 | 1,866,296 | 1,957,233 | - | 634,369 |
| | Total Enterprise Funds | 7,472,205 | 8,494,289 | 8,630,313 | 1,946,266 | 9,282,445 | 13,607,278 | 26,713,735 | 9,590,700 | 5,766,688 |
| | Total - All Funds | \$ 15,711,988 | \$ 24,410,598 | \$ 23,974,076 | \$ - | \$ 16,148,506 | \$ 36,537,403 | \$ 41,204,501 | \$ - | \$11,481,407 |
| Fiduciary Trust Funds | | | | | | | | | | |
| 175 | Successor Agency to RDA | (3,814,637) | \$ 400,709 | \$ 400,705 | - | \$ (3,814,632) | \$ 375,278 | \$ 375,278 | \$ - | \$ (3,814,632) |
| | Total Fiduciary Funds | (3,814,637) | 400,709 | 400,705 | - | (3,814,632) | 375,278 | 375,278 | - | (3,814,632) |

* Enterprise and Internal Service funds do not include fixed assets, restricted for debt service or depreciation expense

BUDGET SUMMARY – ALL FUNDS

OVERVIEW OF THE CITY'S BUDGET

The City of Fort Bragg's combined annual budget for FY2018/19 is \$63.7M. This amount includes appropriations from all funds (\$41.6M) and transfers (\$22.2M). Combined appropriations and transfers for FY2018/19 are \$25M more than projected for FY 2017/8.

The City's budget includes three major operating funds: the General Fund, Water Enterprise Fund and Wastewater Enterprise Fund, as well as Special Revenue Funds, Capital Project and Grant Funds, and the C.V. Starr Enterprise Fund. Core city services such as police, community development, parks, and street maintenance are budgeted in the General Fund and are supported primarily by sales tax, property tax, transient occupancy tax (TOT) and charges for services rendered. The City's Water and Wastewater Enterprise funds are supported by user fee revenues which are charged for services provided to the City's residents. Activities supported by funds received by the City which are restricted in their use are included in Special Revenue Funds and Grant Funds. Construction activities associated with capital projects are accounted for in Capital Project Funds.

Included in the \$63.7M total annual budget amount are the City's Internal Service Funds and allocations to the General Fund from the Water, Wastewater and C.V. Starr Enterprise Funds for services provided to these funds. These expenditures are found in the budget twice, because the revenue to the Internal Service Funds is a budgeted expenditure in the City's other funds and the allocations are revenue to the General Fund that is then spent by the General Fund departments.

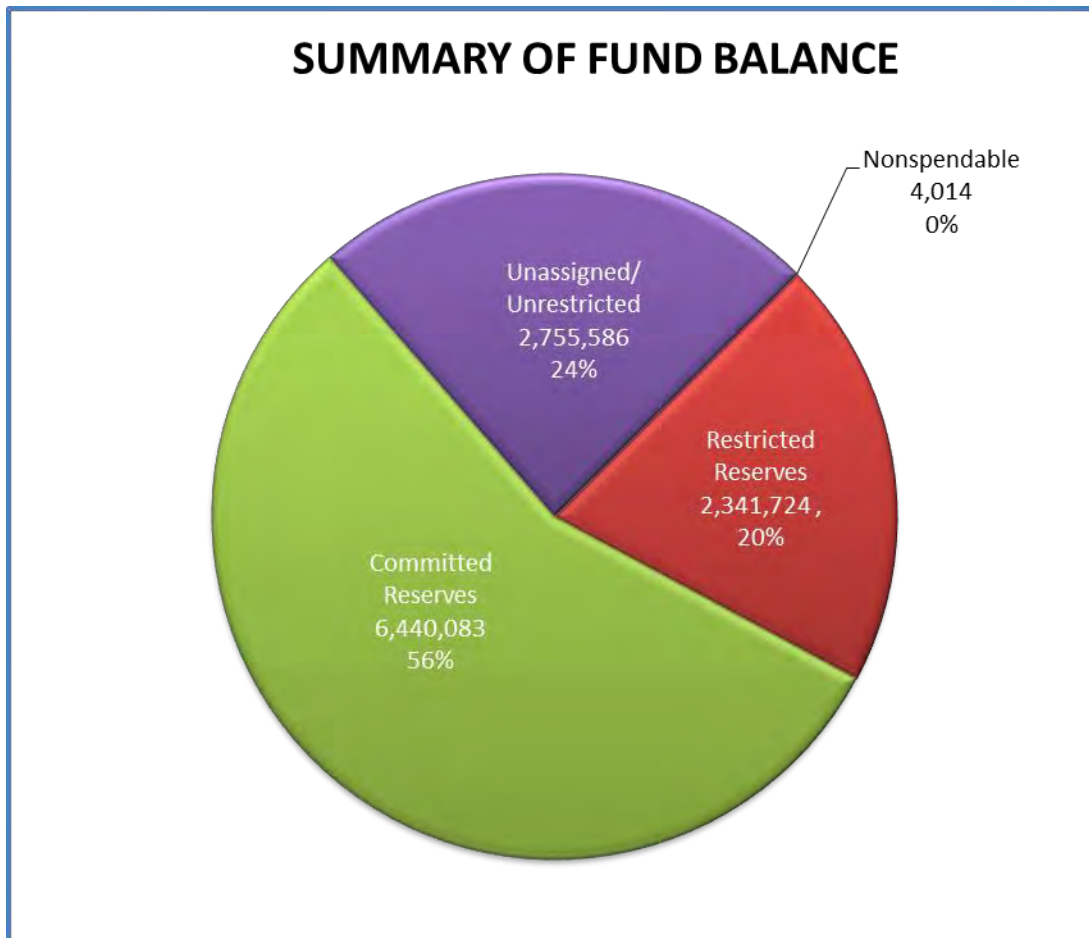
Included in the \$63.7M total annual budget amount are the City's Fiduciary Funds. Fiduciary Funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and therefore cannot be used to support the government's own programs. The City has one fiduciary fund: Successor Agency to Fort Bragg Redevelopment Agency.

Throughout the budget document, reference is made to interfund transfers. An interfund transfer is a transfer of funds from one City fund to another City fund. These transfers appear as a resource in the fund receiving the transfer and as a budget requirement in the fund that is sending the transfer. While this results in the revenue and expenditure being "double counted" in the annual budget, this presentation is necessary to provide a transparent picture of actual expenditures for both the funding and receiving funds.

When Internal Service Funds, Fiduciary Funds, internal charges for service and transfers between funds are excluded from the total, the adjusted total Annual Budget amounts to \$36.9M.

CHANGES IN OBLIGATIONS & INTERFUND LOANS

The FY2018/19 Budget includes certain debt obligations for the City. The obligations included in the budget represent the annual installment payments of principal and interest to be paid on City promissory notes or bond obligations existing at July 1, 2018. As of the writing of this budget the City's Wastewater Enterprise is contemplating issuing debt in the amount of \$5M to be used as one component of a total financing package to overhaul the City's aging wastewater treatment plant. Issuance of the debt is likely to occur in FY2018/19 or shortly prior. Details regarding the City's debt payments are found on pages 153 through 164.



ALL FUNDS - FUND BALANCE

The FY2017/18 projected All Funds year-end fund balance is \$16.2M and the FY2018/19 All Funds balance is projected at \$11.5M. Of this balance, the City has several reserves as noted below. These reserves are committed in accordance with the City's Fund Balance & Reserve Policies which are intended to ensure the continued financial well-being of the City by planning for provide for emergencies, economic uncertainties, unforeseen operating or capital needs, economic development opportunities, and cash flow requirements. The City Council periodically reviews and updates these guidelines. If adopted, the FY2018/19 budget will include appropriated fund balance in the amount of \$71k due to an operating budget deficit in the General Fund. As shown below, the "unrestricted or unassigned fund balance" in FY2018/19 is estimated at approximately \$2.8M.

BUDGET SUMMARY

| | FY 2018/19 PROPOSED |
|---|--------------------------------|
| Total All Funds Balance | \$ 11,481,407 |
| Less Nonspendable (inventory, etc.) | 4,014 |
| Less Restricted Reserves (externally enforceable) | |
| Special Revenue Funds | 2,332,182 |
| Operating Grants | (74,381) |
| Debt Service Reserve | 83,923 |
| Grant Funded Capital Projects | - |
| Less Committed Reserves (Set by Council resolution) | |
| Appropriated Fund Balance | 70,479 |
| Emergency Contingency Reserve | - |
| Economic Stabilization Reserve | - |
| Water Capital Reserve | 2,957,315 |
| Wastewater Capital Reserve | 404,604 |
| CV Starr Reserves | 634,369 |
| Internal Service Fund Reserves | 566,367 |
| Litigation Reserve | 200,000 |
| General Fund Operating Reserve | 1,431,369 |
| Reserve for Encumbrances | 115,580 |
| Unassigned/Unrestricted Balance | <u>\$ 2,755,586</u> |

| | FY 2018/19 PROPOSED |
|--|--------------------------------|
| Detail of Unassigned/Unrestricted Balance: | |
| General Fund | \$ 962,204 |
| General Fund Capital Funding | 106,905 |
| Water Enterprise | 711,912 |
| Wastewater Enterprise | 974,565 |
| Total Unassigned/Unrestricted Balance | <u>\$ 2,755,586</u> |

FUND BALANCE TRENDS

Year over year, the City's All Funds balance is likely to decrease in FY2018/19 by approximately \$4.7M. The decrease is the result of several factors including: a decrease in General Fund balance due to appropriation of fund balance (\$71k); a decrease in Special Revenue fund balances due to spend down of Special Sales Tax for streets projects (\$1M), a spend down of Parkland Monitoring funds used for the Glass Beach Stairs (\$93k), an expected loan of funds from the RDA Housing Successor (\$250k) and an increase in Highway User Tax due to the passage and implementation of SB1 (\$133k); Internal Service fund balances will increase \$228k due to capital and maintenance projects; Enterprise Fund balances are expected to decrease \$3.5M, due primarily to an aggressive capital project work plan which includes enterprise funding (\$5.3M) offset by expected net operating revenue of (\$2.3M).

| | FY 2016/17 AUDITED | FY 2017/18 PROJECTED | FY 2018/19 PROPOSED |
|-------------------------|-------------------------------|---------------------------------|--------------------------------|
| Total All Funds Balance | \$ 15,711,988 | \$ 16,148,506 | \$ 11,481,407 |

**ALL FUNDS
SUMMARY OF REVENUES BY CATEGORY
FY 2015/16 THROUGH FY 2018/19**

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 Amended BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
|-------------------------------------|---------------------------------------|---------------------------------------|--|---|---|------------------------------|
| ALL FUNDS | | | | | | |
| Sales & Use Taxes | \$ 3,287,046 | \$ 3,294,513 | \$ 3,433,740 | \$ 3,545,990 | \$ 3,649,233 | 2.9% |
| Transient Occupancy Taxes | 1,947,702 | 2,149,404 | 2,604,314 | 2,579,074 | 2,759,609 | 7.0% |
| Property Taxes | 1,242,517 | 1,318,302 | 1,308,381 | 1,341,849 | 1,398,070 | 4.2% |
| Other Taxes | 664,739 | 673,736 | 679,900 | 699,296 | 722,235 | 3.3% |
| Total Taxes | 7,142,004 | 7,435,955 | 8,026,335 | 8,166,209 | 8,529,147 | 4.4% |
| Reimbursements | 3,413,306 | 2,344,788 | 2,610,857 | 2,597,102 | 2,541,396 | -2.1% |
| Licenses & Permits | 101,609 | 97,446 | 123,529 | 116,148 | 120,463 | 3.7% |
| Fines & Forfeitures | 162,189 | 210,602 | 178,600 | 160,237 | 125,400 | -21.7% |
| Use of Money & Property | 201,875 | 110,666 | 183,081 | 232,646 | 258,358 | 11.1% |
| Intergovernmental (includes grants) | 4,533,948 | 2,119,839 | 12,909,801 | 4,628,040 | 11,173,124 | 141.4% |
| Charges for Services | 7,813,184 | 7,573,611 | 7,753,108 | 8,173,026 | 8,628,854 | 5.6% |
| Other Revenues | 438,589 | 1,466,218 | 136,174 | 337,190 | 160,661 | -52.4% |
| Other Financing Sources | - | - | - | - | 5,000,000 | n/a |
| Transfers | 4,187,115 | 8,743,556 | 20,004,231 | 14,004,584 | 22,158,003 | 58.2% |
| Total | 27,993,819 | 30,102,681 | 51,925,716 | 38,415,182 | 58,695,405 | 52.8% |
| Less Transfers | (4,187,115) | (8,743,556) | (20,004,231) | (14,004,584) | (22,158,003) | 58.2% |
| Total Without Transfers | 23,806,704 | 21,359,125 | 31,921,485 | 24,410,598 | 36,537,403 | 49.7% |
| Less Internal Service Funds | (1,071,315) | (808,862) | (1,041,793) | (1,041,793) | (1,236,368) | 18.7% |
| Less Internal Charges for Service | (2,794,310) | (1,824,826) | (2,015,768) | (2,015,768) | (1,979,592) | -1.8% |
| Less Interfund Cost Reimbursement | (523,154) | (224,539) | (491,089) | (487,297) | (460,254) | 5.5% |
| Net Revenues | \$ 19,417,926 | \$ 18,500,898 | \$ 28,372,835 | \$ 20,865,740 | \$ 32,861,189 | 57.5% |

DISCUSSION OF REVENUE TRENDS

Overall, City revenues are projected to increase 57.5% or \$12M largely as a result of grant revenue and loan proceeds associated with the City's financing of a new wastewater treatment facility. General Fund revenue is expected to increase 4.2% as a result of continued growth of the Transient Occupancy Tax (TOT). The newly formed Marketing and Promotions department is expected to continue driving growth in this area as the City is marketed as a tourist destination. Growth is expected in Property taxes and Sales taxes as well. It should be noted that with the FY2018/19 budget the City's Finance and Administration Committee is proposing a change in revenue forecasting methodology from "conservative" to "most likely". The proposed budget reflects the change in methodology.

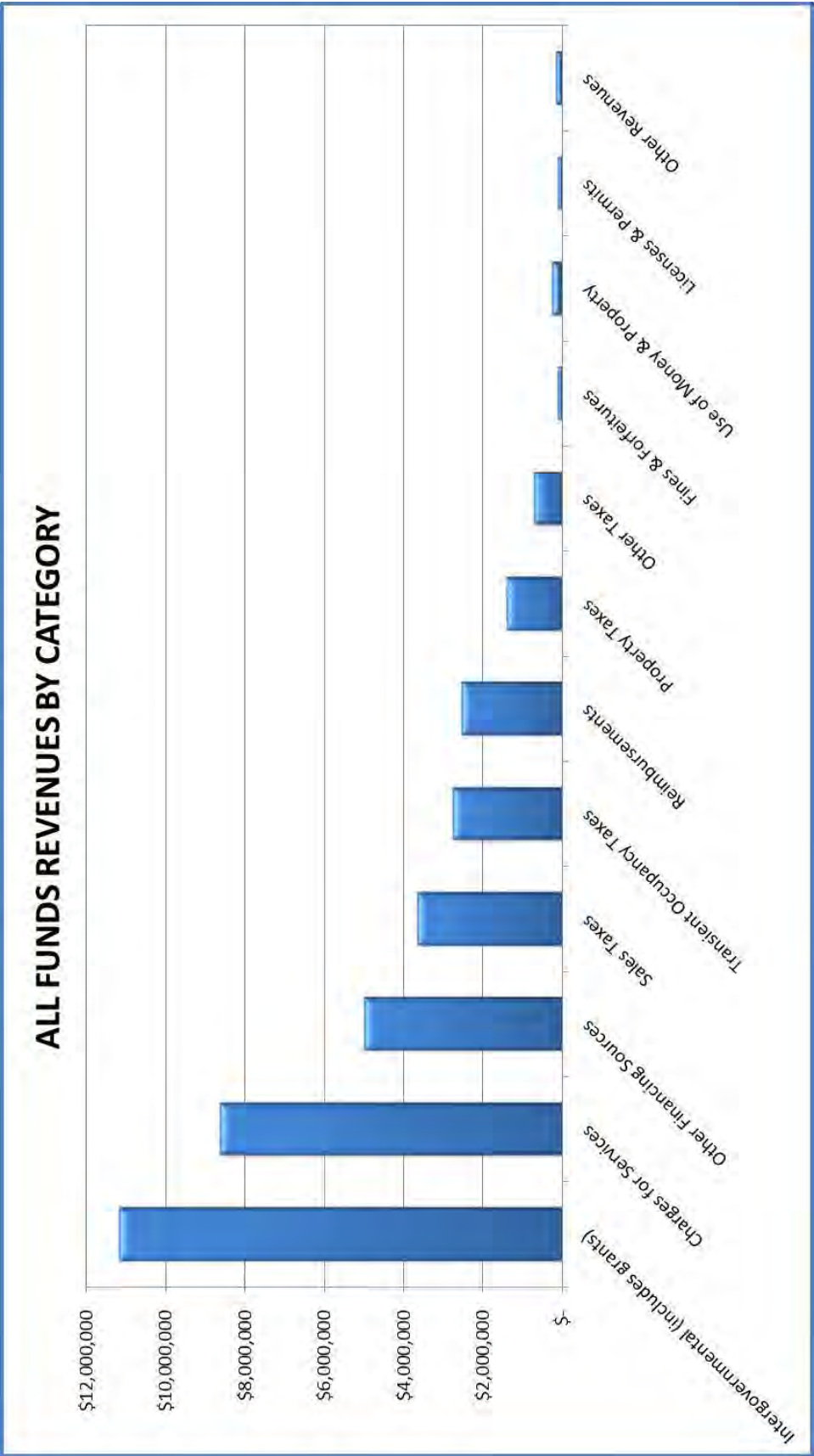
Water and Wastewater revenues are expected to increase 5.4% and 133.3%, respectively. Each of the two Enterprise Funds will see rate increases with Water rates increasing 5% and Wastewater increases increasing 3%. Rate increases will be implemented according to voter approved rate schedules. Additionally the Wastewater Enterprise will receive loan proceeds in connection with the Wastewater Treatment Plant upgrade (\$5M).

Notably, the City's grant revenues are projected to increase substantially from \$4.2M expected in FY2017/18 to \$10.6M expected in FY2018/19. Grant revenues are expected for the Wastewater Treatment Plant upgrade (\$9.4M) and the relocation of the Pudding Creek water main (\$205k). Community Development Block Grant funding is expected in the amount of approximately \$350k.

Lastly, Internal Service Fund revenue is planned to increase by 18.7% or \$195k. Each year the Internal Service Fund long term plans are re-assessed. In FY2018/19 the long-term plans indicated a need for increased funding. Funding plans are designed to fund maintenance and replacement across a 10 year horizon for Facilities Repair and Maintenance as well as for Fleet and Equipment Services. Technology Maintenance and Replacement uses a 5 year horizon.

BUDGET SUMMARY

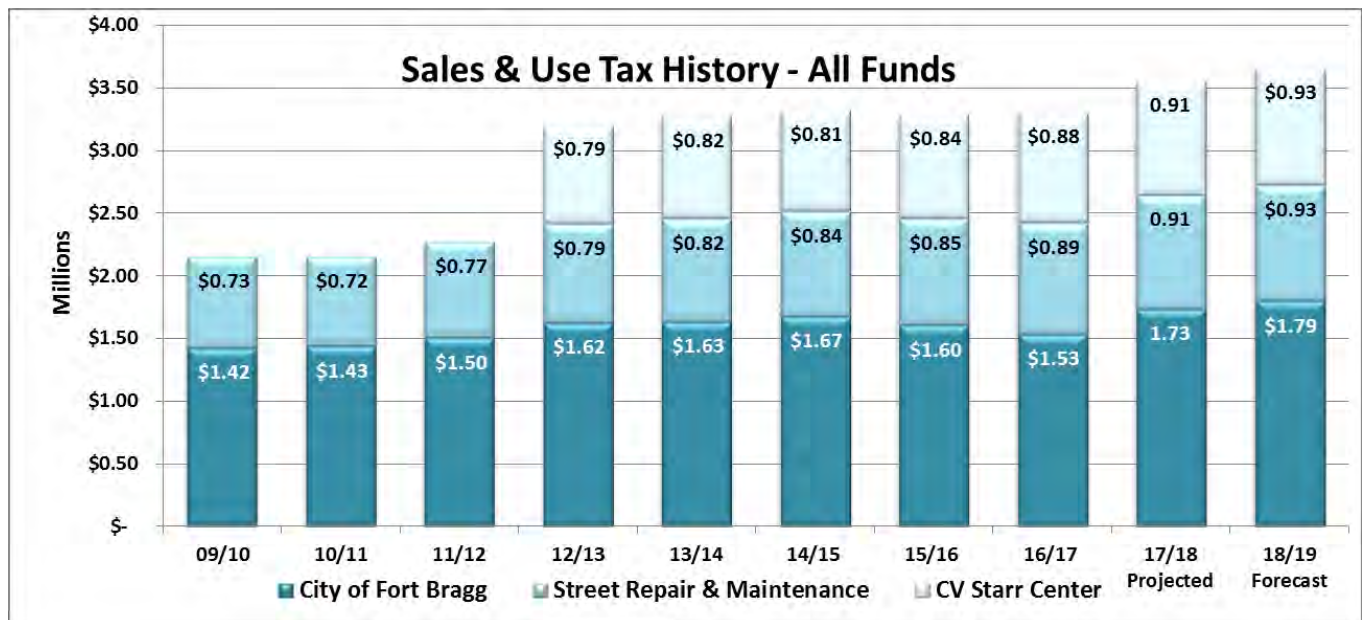
| ALL FUNDS DETAIL OF REVENUES BY FUND FY 2015/16 THROUGH FY 2018/19 | | | | | | |
|--|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|---------------------|
| FUND | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
| General Fund | | | | | | |
| Property Taxes | \$ 972,948 | \$ 1,031,345 | \$ 1,018,521 | \$ 1,051,976 | \$ 1,095,012 | 4.1% |
| Sales Taxes | 1,600,866 | 1,531,858 | 1,671,540 | 1,728,066 | 1,792,993 | 3.8% |
| Transient Occupancy Taxes | 1,947,702 | 2,149,404 | 2,604,314 | 2,579,074 | 2,759,609 | 7.0% |
| Other Taxes | 664,739 | 673,736 | 679,900 | 699,296 | 722,235 | 3.3% |
| Reimbursements | 3,413,306 | 2,344,788 | 2,610,857 | 2,597,102 | 2,541,396 | -2.1% |
| Charges for Services | 54,067 | 68,256 | 61,100 | 53,620 | 68,200 | 27.2% |
| Intergovernmental | 186,253 | 117,124 | 205,500 | 141,010 | 232,300 | 64.7% |
| Licenses & Permits | 99,317 | 91,339 | 99,629 | 109,860 | 114,063 | 3.8% |
| Other Revenues | 112,311 | 194,761 | 67,974 | 54,995 | 51,570 | -6.2% |
| Use of Money & Property | 44,054 | (22,608) | 34,200 | 46,831 | 52,100 | 11.3% |
| Fines & Forfeitures | 18,139 | 30,723 | 23,500 | 29,276 | 42,500 | 45.2% |
| Total General Fund | 9,113,702 | 8,210,727 | 9,077,034 | 9,091,105 | 9,471,978 | 4.2% |
| Water | | | | | | |
| Charges for Services | 2,595,679 | 2,667,911 | 2,630,948 | 2,906,342 | 3,045,568 | 4.8% |
| Use of Money and Property | 14,847 | 31,885 | 22,300 | 24,861 | 37,036 | 49.0% |
| Other | 84,989 | 14,719 | 8,500 | 12,436 | 17,768 | 42.9% |
| Contributed Capital | 126,023 | 604,698 | 5,000 | 19,537 | 23,000 | 17.7% |
| Total Water | 2,821,537 | 3,319,214 | 2,666,748 | 2,963,176 | 3,123,372 | 5.4% |
| Wastewater | | | | | | |
| Charges for Services | 3,332,334 | 3,305,285 | 3,299,727 | 3,416,510 | 3,521,411 | 3.1% |
| Use of Money and Property | 8,419 | 24,188 | 10,537 | 29,765 | 27,877 | -6.3% |
| Other | 31,452 | 32,095 | 37,000 | 222,326 | 40,323 | -81.9% |
| Other Financing Sources | - | - | - | - | 5,000,000 | n/a |
| Contributed Capital | 51,504 | 598,023 | 17,700 | 24,895 | 28,000 | 12.5% |
| Total Wastewater | 3,423,710 | 3,959,590 | 3,364,964 | 3,693,496 | 8,617,610 | 133.3% |
| Total Revenue - Operating Funds | 15,358,949 | 15,489,532 | 15,108,747 | 15,747,777 | 21,212,960 | 34.7% |
| C.V. Starr Center | | | | | | |
| Sales and Use Taxes | 845,787 | 880,985 | 881,100 | 908,962 | 928,120 | 2.1% |
| Property Taxes | 220,208 | 234,006 | 236,900 | 236,900 | 246,376 | 4.0% |
| Charges for Services | 724,748 | 695,552 | 688,540 | 687,254 | 689,800 | 0.4% |
| Use of Money and Property | 4,203 | 379 | 2,321 | 4,500 | 2,000 | -55.6% |
| Other | 1,862 | 6,716 | - | - | - | 0.0% |
| Total C.V. Starr Center | 1,796,807 | 1,817,638 | 1,808,861 | 1,837,616 | 1,866,296 | 1.6% |
| Special Revenue & Capital Project Funds | | | | | | |
| Special Revenue, Restricted | 1,485,167 | 1,792,642 | 1,511,280 | 1,607,314 | 1,648,275 | 2.5% |
| Special Revenue, Grants | 4,063,757 | 1,443,041 | 12,450,804 | 4,176,098 | 10,573,504 | 153.2% |
| Capital Projects | 15,127 | 7,411 | - | - | - | n/a |
| Total Special Revenue & Capital | 5,564,051 | 3,243,093 | 13,962,084 | 5,783,412 | 12,221,779 | 111.3% |
| Subtotal | 22,719,808 | 20,550,263 | 30,879,692 | 23,368,805 | 35,301,035 | 51.1% |
| Internal Service Funds | | | | | | |
| Facilities Maintenance | 183,627 | 324,101 | 215,189 | 215,189 | 299,062 | 39.0% |
| Information Technology | 390,604 | 274,619 | 399,366 | 399,366 | 460,155 | 15.2% |
| Fleet & Equipment Services | 512,666 | 210,142 | 427,238 | 427,238 | 477,151 | 11.7% |
| Total Internal Service Funds | 1,086,896 | 808,862 | 1,041,793 | 1,041,793 | 1,236,368 | 18.7% |
| Subtotal before Transfers | 23,806,704 | 21,359,125 | 31,921,485 | 24,410,598 | 36,537,403 | 49.7% |
| Transfers | 4,187,115 | 8,743,556 | 20,004,231 | 14,004,584 | 22,158,003 | 58.2% |
| Total Revenue, All Funds | \$ 27,993,819 | \$ 30,102,681 | \$ 51,925,716 | \$ 38,415,182 | \$ 58,695,405 | 52.8% |



Sales Tax

Sales tax revenues include the City's general sales tax as well as a special half-cent sales tax for the C.V. Starr Center and a special half-cent sales tax for Street Repairs. Based on an analysis of trends in year-to-date tax receipts, macroeconomic conditions and an examination of local business data, it is anticipated that the City will receive sales tax revenue of \$3.6M in FY2017/18 and \$3.7M in FY2018/19.

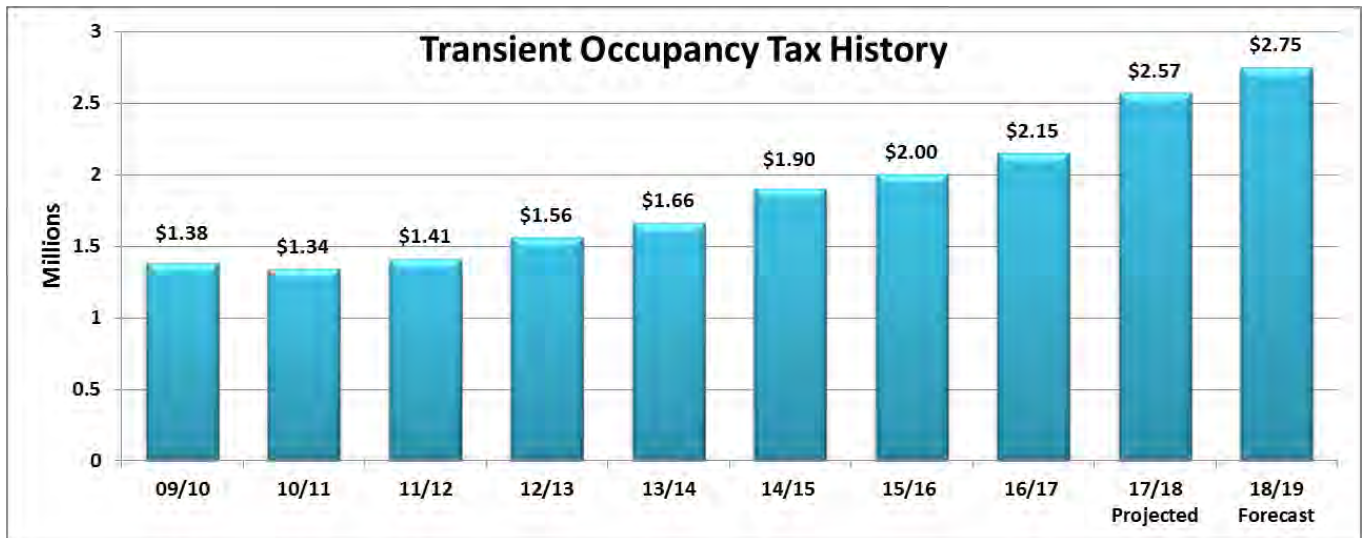
Sales tax growth over the last five years is showing a very modest 2% growth trend. Factors negatively affecting sales tax growth include internet sales and fuel prices. Fuel prices dropped approximately 36% in late 2015 and remained low for an extended period of time. Fuel prices appear to have bottomed out in 2016 and early 2017 and then began increasing slowly. With fuel prices on the rise sales taxes have shown some growth with an increase of 3.8% expected in FY2018/19. Internet sales however, will continue to exert downward pressure on sales tax growth, a key source (10%) of All Funds revenue.



Transient Occupancy Tax

Transient Occupancy Tax (TOT) is a local tax that is applied to the cost of hotel or other lodging stays of less than 30 days. In 2016, with passage of local Measures AA and AB, the City's TOT rate increased from 10% to 12%. This tax is a revenue source solely for the General Fund. TOT is collected by lodging establishments and remitted to the City on a monthly basis. Factors influencing TOT revenues include vacancy rates, changes in business and leisure travel, new hotels, hotel expansion, and room rate increases. TOT is the largest General Fund revenue source and is expected to account for 8% of revenue at the All Funds level net of internal charges.

Based on year-to-date receipts, FY2017/18 year-end TOT revenues are projected to be approximately \$430k higher than FY 2016/17 totals. Approximately \$430k of this increase is attributable to the increase in the TOT rate which became effective April 1, 2017. The other \$90k of the increase is attributable to continued growth (4%) in this sector of the local economy. Half of the Measure AA funds collected have been committed to marketing and promotion of Fort Bragg as a tourist destination. With the increase in the marketing and promotion of Fort Bragg, the City believes a return to the 7.7% growth rate of recent years is possible. The FY2018/19 Budget projects continued growth in TOT revenue at a rate of 7% or \$181k. The anticipated TOT revenue total for FY2017/18 is \$2.8M which would be an all-time high for Fort Bragg.

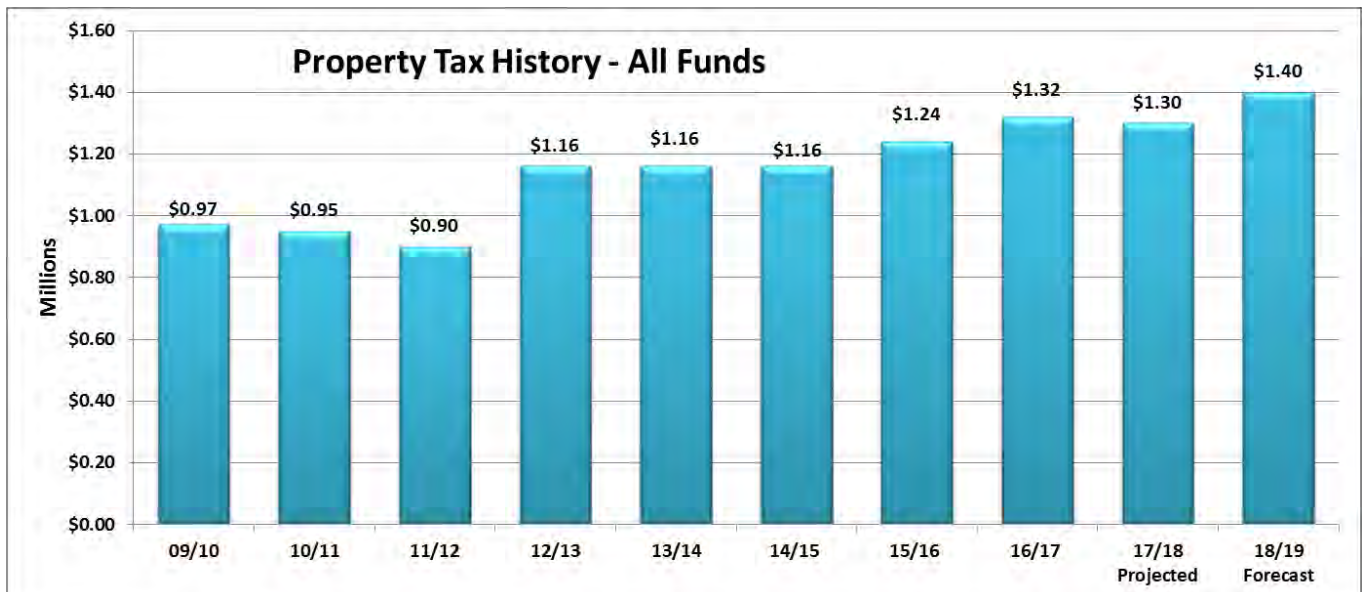


Property Tax

Throughout the City's history, property tax revenue has grown significantly, reflecting both new development and increasing property values in Fort Bragg. As in most of the country, during the recession, property tax revenues declined in Fort Bragg due to lower sales prices and adjustments in assessments. In recent years, sales prices have increased and the number of reassessments has decreased.

Overall, property tax revenues are expected to increase 4.2% in FY2018/19. Thus far interest rate increases at the federal level have not slowed home sales or home price increases. Rising interest rates continue to have the potential to slow sales of homes in the years to come. With home prices continuing to increase affordable housing remains problematic in the community.

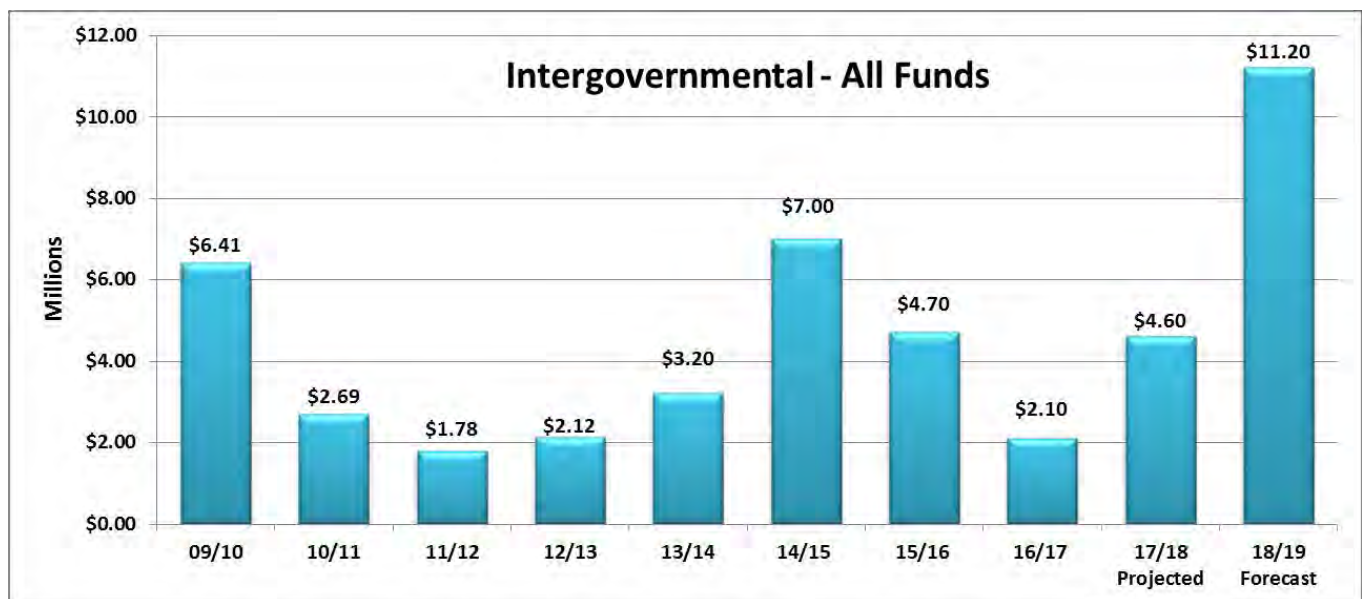
Property tax receipts for FY2017/18 and FY2018/19 are projected at \$1.3M and \$1.4M respectively following a three-year growth trend of 4%. This amount includes property taxes paid to the General Fund (\$1.1M), to the C.V. Starr Center Enterprise Fund (\$246k), and to the Fire Equipment Fund (\$57k).



Service and Program Charges

Service and Program Charges include the Intergovernmental, Charges for Services and Reimbursements categories. Intergovernmental revenue includes grant revenue as well as special and general revenues received from other governments such as the State of California or the federal government. Grant revenues are expected in FY2018/19 related to the Wastewater Treatment Plant upgrade (\$9.4M), the relocation of the Pudding Creek water main (\$205k), and Community Development Block Grant funding (\$350k). Year over year, the Intergovernmental category is expected to increase by \$6.6M to \$11.2M and is anticipated to be the largest All Funds revenue (net of internal charges) source at 31%. Charges for Services includes the Water Enterprise user charges (\$3.1M), Wastewater Enterprise user charges (\$3.6M), the C.V Starr Enterprise user charges (\$700k) and the Internal Service Funds user charges (\$1.2M). Charges for Services in the General Fund include Fees for Service which are collected according to the City's fee schedule as well as reimbursement of staff time spent in the administration of grants (\$232k). Year over year, the Charges for Services category is expected to increase by \$456k to \$8.6M. This is in part due to the resumption of voter approved utility rate increases in the Enterprise funds. Charges for Services are forecast to make up 24% of the All Funds revenue (net of internal charges). Reimbursements include revenues such as the annual COPS reimbursement for the cost of the City's Community Service Officers (\$115k), Highway User Tax Allocation used to reimburse the cost of the City's Street Maintenance Department (\$219k) and cost allocations which are considered a cost to the Enterprise Funds but a revenue to the General Fund (\$2M). Reimbursements are expected to decrease year over year by \$56k to \$2.5M due to decreasing Asset Forfeiture reimbursements.

| All Funds Detail of Revenue Services & Programs | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 FORECAST |
|--|---------------------------------------|--|---|--------------------------------|
| Intergovernmental | \$ 2,119,839 | \$ 12,909,801 | \$ 4,628,040 | \$ 11,173,124 |
| Charges for Services | 7,573,611 | 7,753,108 | 8,173,026 | 8,628,854 |
| Reimbursements | 2,344,788 | 2,610,857 | 2,597,102 | 2,541,396 |
| Totals | \$ 12,038,239 | \$ 23,273,766 | \$ 15,398,167 | \$ 22,343,374 |



Other Revenues

Other revenues include licenses and permits, fines and forfeitures, use of money and property, and miscellaneous, one-time revenues. Revenues in this category can vary greatly due to the nature of the one-time revenues that are included.

The City invests a portion of available funds in order to earn interest. The total income varies with the market rates of interest and the funds available to invest. Interest earnings are expected to increase slightly (\$25k) as a consequence of the Federal Reserve's monetary and interest policies.

Other revenues are likely to decrease year over year due to the accrual in the Wastewater Enterprise Fund of an over allocation payment from the General Fund (\$187k) in FY2017/18. The revenue was posted as an interfund loan receivable which the General Fund will repay over the course of five years. Without the one-time item previously described, Other Revenues are likely to return to a more "normal" level in FY2018/19 (\$161k).

| All Funds Detail of Revenue Other Revenues | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 FORECAST |
|---|---------------------------------------|--|---|--------------------------------|
| Licenses & Permits | \$ 97,446 | \$ 123,529 | \$ 116,148 | \$ 120,463 |
| Fines & Forfeitures | 210,602 | 178,600 | 160,237 | 125,400 |
| Use of Money & Property | 110,666 | 183,081 | 232,646 | 258,358 |
| Other Revenues | 1,466,218 | 136,174 | 337,190 | 160,661 |
| Totals | \$ 1,884,932 | \$ 621,384 | \$ 846,222 | \$ 664,882 |

OPERATING TRANSFERS-IN

At the All Funds level, all transfers in have an equal and corresponding transfer out which is shown as an expenditure. At the All Funds level, all transfers net to zero. A majority of the City's interfund transfers involve funding of capital projects, whether from grant funds, special revenue funds, capital reserves or operating funds. A detailed list of interfund transfers may be found on pages 59 & 60.

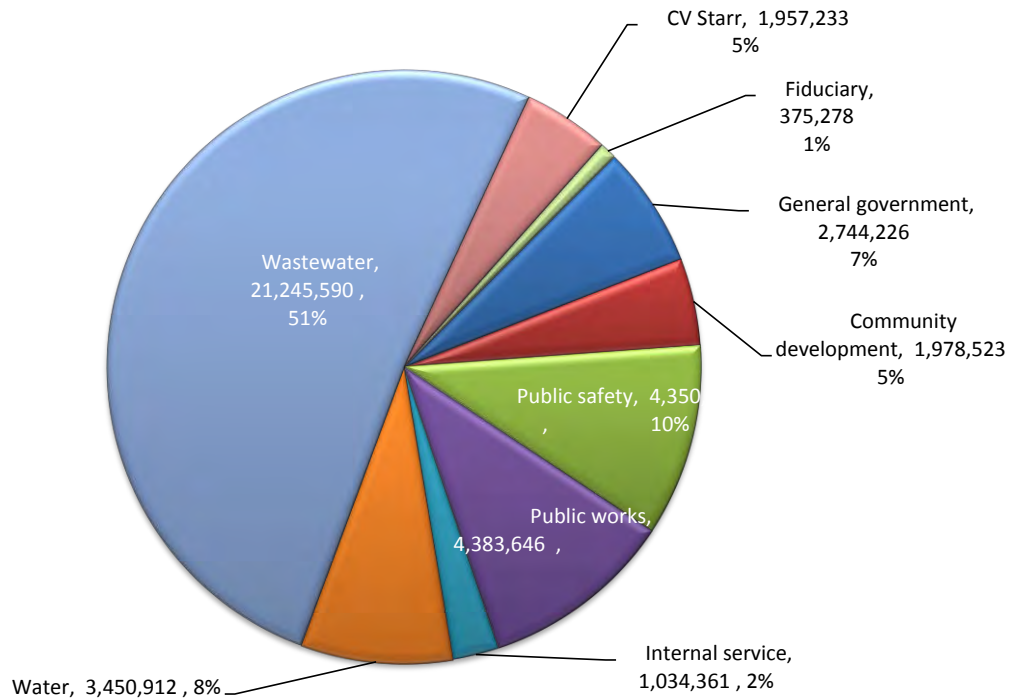
DISCUSSION OF EXPENDITURE TRENDS

The FY2018/19 Budget proposes expenditures totaling \$36.9M when Internal Service Funds, Fiduciary Funds, internal charges for service and transfers between funds are excluded from the total and \$63.7M when these items are included. The proposed budget includes a robust capital budget (\$22.7M) with much of the financing coming from grants (\$9.6M) and special revenue funds (\$2.2M).

**ALL FUNDS
EXPENDITURE SUMMARY BY FUNCTION/PROGRAM
FY 2015/16 THROUGH FY 2018/19**

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 Amended BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
|--------------------------|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|---------------------|
| ALL FUNDS | | | | | | |
| Governmental Activities | | | | | | |
| General government | \$ 2,842,689 | \$ 2,704,033 | \$ 3,205,349 | \$ 3,106,057 | \$ 2,744,226 | -11.6% |
| Community development | 1,708,486 | 1,012,749 | 1,637,373 | 1,195,382 | 1,978,523 | 65.5% |
| Public safety | 4,099,924 | 4,233,100 | 4,387,783 | 4,363,821 | 4,350,010 | -0.3% |
| Public works | 3,575,790 | 3,883,578 | 6,781,809 | 5,798,798 | 4,383,646 | -24.4% |
| Internal service | 900,608 | 827,676 | 1,108,010 | 1,097,177 | 1,034,361 | -5.7% |
| Business-type activities | | | | | | |
| Water | 2,266,070 | 2,155,668 | 5,697,237 | 4,325,343 | 3,450,912 | -20.2% |
| Wastewater | 2,898,744 | 2,847,225 | 13,682,334 | 2,457,049 | 21,305,590 | 767.1% |
| CV Starr | 2,292,266 | 3,240,300 | 1,905,093 | 1,847,921 | 1,957,233 | 5.9% |
| Fiduciary Activities | | | | | | |
| Fiduciary | 364,954 | 203,037 | 400,709 | 400,705 | 375,278 | -6.3% |
| Subtotal | 20,949,533 | 21,107,365 | 38,805,696 | 24,592,251 | 41,579,779 | 69.1% |
| Transfers Out | 4,187,115 | 8,743,556 | 20,004,231 | 14,004,584 | 22,158,003 | 58.2% |
| TOTAL ALL FUNDS | \$ 25,136,648 | \$ 29,850,921 | \$ 58,809,927 | \$ 38,596,836 | \$ 63,737,782 | 65.1% |

FY 2018/19 Expenditures by Function/Program



Expenditures by Function/Program

General Government is budgeted to decrease 11.6% or \$362k in FY2018/19. The decrease is due in part to high costs in FY2017/18 related to employee retirements (\$150k). Additionally the City's most recent "Other Post-Employment Benefits" (OPEB) plan actuarial valuation indicated a much lower recommended prefunding payment against the City's unfunded OPEB liability. In FY2017/18 the recommended prefunding payment was \$215k while

in FY2018/19 the recommended prefunding payment is \$83k. Furthermore, the City's Finance and Administration Committee has recommended making OPEB prefunding payments from realized year-end surpluses rather than budgeting for them. Therefore the FY2018/19 budget amount for prefunding the City's OPEB unfunded liability is \$5k, which is the trust fund required minimum. For detailed information on the City's proposed new OPEB policy see page 19 in the Fiscal Policies section of the budget.

Community development is expected to increase 65.5% or \$783k due largely to the increased cost for Marketing and Promotions (\$178k) as well as an expected loan from the City's Redevelopment Housing Successor which will be classified as an "other financing use" (\$250k). The remainder of the year over year increase is due to increased operating grant expenditures demonstrating the irregular nature of grant funding.

Public Safety is budgeted to decrease less than one percent and is essentially flat year over year. This was accomplished by freezing one officer position in the department.

Public Works is budgeted to decrease 24% or \$1.4M due to a shifting work plan. In FY2018/19 capital projects in the Water and Wastewater Enterprises will increase compared to capital projects of a General Government nature. Notable General Government capital projects from FY2017/18 include the Central phase of the Coastal Trail project (\$1.1M), the Guest House Rehabilitation project (\$150k) and the Bainbridge Park Improvements project (\$108k).

Internal Service expenditures are budgeted to decrease 6% or \$63k in the coming year. Long term plans in the Internal Service funds however set rates for the participating funds on a long term horizon so that rates may surpass costs in some years and be less than costs in other years.

Water Enterprise expenditures are budgeted to decrease by 20% or \$874k due primarily to the Enterprise's capital work plan. Although the FY2018/19 capital work plan includes \$1.3M of capital projects, the FY2017/18 capital work plan included \$2.2M for the Highway 20 Water Tank replacement as well as engineering for the upcoming water main replacements. Overall, the capital project work plan shows a \$900k decrease year over year.

Wastewater Enterprise expenditures are budgeted to increase by \$18.8M due primarily to the undertaking of the treatment plant upgrade project. For detailed information on the project see page 237 in the Capital Improvement section of the budget.

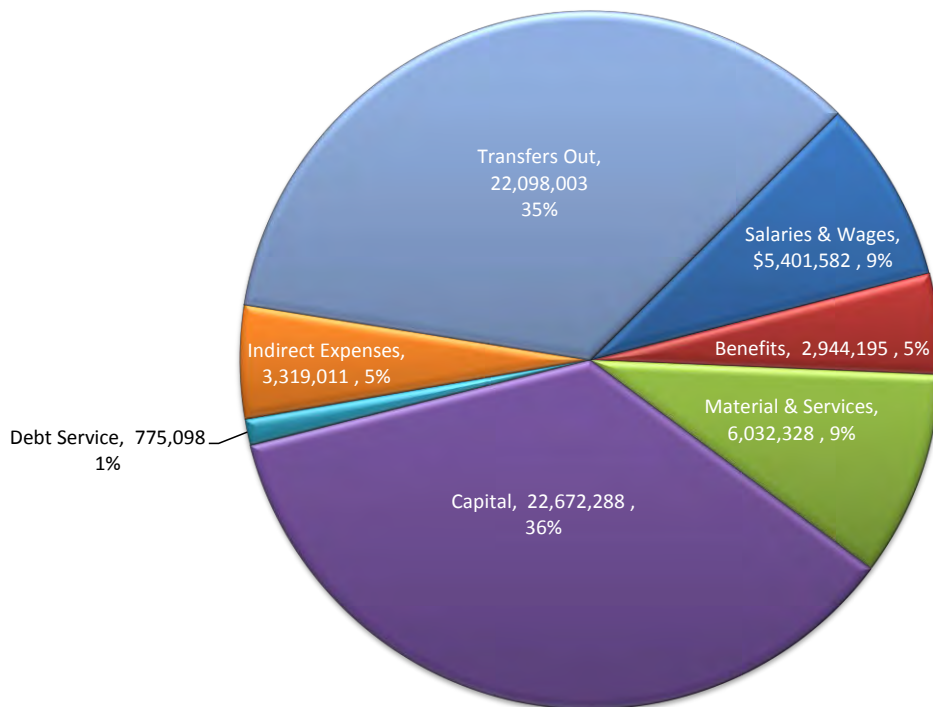
The C.V. Starr Center Enterprise expenditures are budgeted to increase by 6% or \$110k due primarily to an increase in the Center's capital work plan from \$116k in FY2017/18 to \$235k in FY2018/19. One notable project in FY2018/19 is the Pool Basin Resurfacing project (\$180k).

**ALL FUNDS
SUMMARY OF EXPENDITURES BY CATEGORY
FY 2015/16 THROUGH FY 2018/19**

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
|------------------------|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|---------------------|
| ALL FUNDS | | | | | | |
| Salaries & Wages | \$ 4,804,713 | \$ 5,032,479 | \$ 5,523,427 | \$ 5,482,341 | \$ 5,401,582 | -1.5% |
| Benefits | 2,615,466 | 2,776,866 | 2,971,310 | 2,946,895 | 2,944,195 | -0.1% |
| Material & Services | 5,959,256 | 5,956,336 | 6,003,346 | 5,390,476 | 6,032,328 | 11.9% |
| Capital | 1,697,354 | 2,048,038 | 20,090,400 | 6,650,769 | 22,732,288 | 241.8% |
| Debt Service | 284,516 | 281,295 | 724,024 | 724,024 | 775,098 | 7.1% |
| Depreciation | 1,426,993 | 2,147,396 | - | - | - | |
| Subtotal | 16,788,298 | 18,242,410 | 35,312,507 | 21,194,505 | 37,885,490 | 78.8% |
| Indirect Expenses | 3,796,281 | 2,661,918 | 3,092,481 | 2,997,042 | 3,319,011 | 10.7% |
| Fiduciary Funds | 364,954 | 203,037 | 400,709 | 400,705 | 375,278 | -6.3% |
| Subtotal | 20,949,533 | 21,107,365 | 38,805,696 | 24,592,251 | 41,579,779 | 69.1% |
| Transfers Out | 4,187,115 | 8,743,556 | 20,004,231 | 14,004,584 | 22,158,003 | 58.2% |
| TOTAL ALL FUNDS | \$ 25,136,648 | \$ 29,850,921 | \$ 58,809,927 | \$ 38,596,836 | \$ 63,737,782 | 65.1% |

*Note: Principal payments are not considered an expense in full accrual accounting.
Audited results reflect the Enterprise Funds full accrual treatment of principal payments.

FY 2018/19 Expenditures by Category



Expenditures by Category

Salaries, Wages and Benefits combined are budgeted to decrease by 1.5% or \$83k. As mentioned previously the City's OPEB prefunding payment will decrease (\$210k) year over year. Additionally the City has opted not to fill one vacant position at the Police Department (\$102k). Offsetting these savings are increased costs of Wages and Benefits as detailed below (\$239k).

| | FY17-18 Budget | FY18-19 | \$ \$ +(-) | % +(-) |
|-----------------------|-----------------------|---------------------|-------------------|---------------|
| Wages | \$ 4,495,863 | \$ 4,542,773 | \$ 46,910 | 1.04% |
| Medical Benefits | 853,836.76 | 967,514.57 | 113,677.80 | 13.31% |
| Other Health Benefits | 79,903.20 | 84,268.80 | 4,365.60 | 5.46% |
| PERS | 896,166.68 | 989,052.52 | 92,885.84 | 10.36% |
| Taxes | 340,423.93 | 328,234.15 | (12,189.78) | -3.58% |
| Other Benefits | 52,102.33 | 49,434.61 | (2,667.72) | -5.12% |
| Workers Comp | 226,504.00 | 222,930.00 | (3,574.00) | -1.58% |
| | <u>\$ 6,944,800</u> | <u>\$ 7,184,207</u> | <u>\$ 239,408</u> | <u>3.45%</u> |

*Note; this chart does not include CV Starr Center personnel costs or retiree healthcare costs

Although Medical rates increased 3% and Dental and Vision rates remained steady, the utilization of benefits by City employees is expected to increase significantly in FY2018/19. PERS pension costs increased as expected as a result of CalPERS lowering its actuarial discount rate coupled with an increased wage base from negotiated cost of living adjustments.

Materials & Services are expected to increase 12% or \$642k due to several factors previously discussed: the increased cost for Marketing and Promotions (\$188k), an expected loan from the City's Redevelopment Housing Successor which will be classified as an "other financing use" (\$250k) and a year over year increase in operating grant expenditures.

Capital expenditures are expected to increase significantly with the emphasis shifting from General Government projects to Water and Wastewater Utility projects (\$22.7M). Most notable is the Wastewater Treatment Plant Upgrade project at (\$17.6M). For detailed information on the City's capital improvement plan see pages 205 thru 244.

Debt service is expected to increase 7.1% or \$51k. This is the result of the regular debt service schedule of outstanding debt coupled with the anticipated issuance of debt by the Wastewater Enterprise in connection with the treatment plant upgrade. In FY2018/19 the Enterprise will make an interest only payment of approximately \$79k while in future years the principal and interest payment is estimated at approximately \$185k.

Indirect Expenses are expected to increase 10.7% or \$322k. This is as a result of the increased funding required per the Internal Service Fund long term plans (\$220k). Additionally, allocated costs are expected to increase on a year over year basis (\$100k). The increase in allocated costs is the combined result of increased personnel costs, decreased non-personnel costs and the anticipated year-end true up of the cost allocation plan. Details on the City's cost allocation plan may be found on pages 61 thru 71.

BUDGET SUMMARY – GENERAL FUND

OVERVIEW

The City of Fort Bragg's fiscal year (FY) 2018/19 General Fund operating budget is proposed at \$9.54M. Core city services such as police, community development, parks, and street maintenance are budgeted in the General Fund. General Fund resources are closely linked to economic and development activity in the City and expenditures fund essential front line and "quality of life" services that our citizens expect.

On May 2, 2018, The City's Finance and Administration Committee met and produced the following prioritized list of financial goals. Staff has used the prioritized list as guidance in preparing the proposed budget:

- 1) Adopt a balanced budget for the first time in over ten years (not achieved)
- 2) Maintain operating reserve and litigation reserved (achieved)
- 3) Maintain long term funding plans in the City's three internal service funds (achieved)
- 4) Continue budgeting conservatively (not achieved)
- 5) Maintain current level of service (no staff layoffs, no program cuts) (not achieved)
- 6) Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years (not achieved)
- 7) Provide cost of living adjustments for staff in years to come (achieved)
- 8) Provide funding for emergency reserves (not achieved)
- 9) Continue to make additional contributions to the OPEB pension trust (not achieved)

The proposed FY2018/19 budget is showing a \$71k deficit. Progress, as compared to the FY2017/18 budget (originally proposed at a \$331k deficit), has been made by freezing one position in the Police Department (\$102k), by making less conservative revenue forecasts (\$80k) and opting not to budget the City's OPEB trust fund prefunding payment to pay down unfunded liabilities (\$78k). Staff has shown fiscal discipline by reducing travel and training budgets, rejecting all requests for employee promotions and pay increases outside of normal cost of living adjustments/step increases, as well as rejecting multiple requests for budget increases above the FY2017/18 baseline. As mentioned, despite staff's efforts, the City is still faced with a budget deficit.

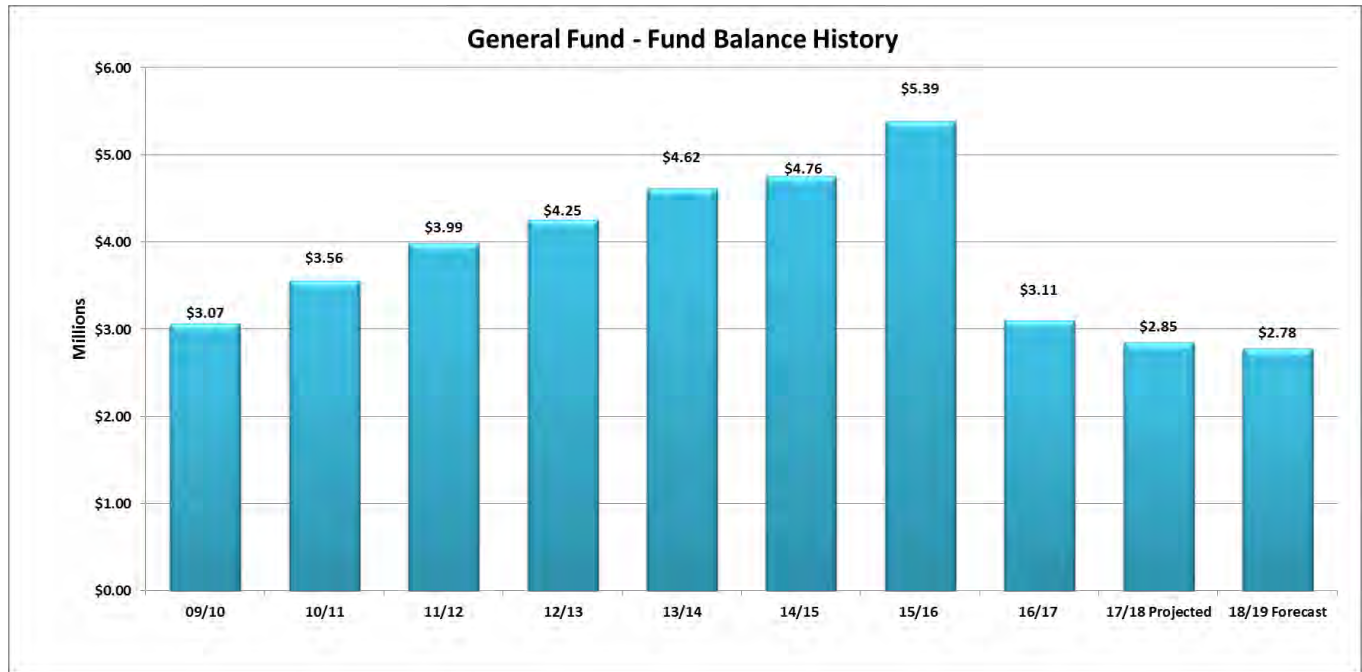
Although the General Fund has sufficient unassigned fund balance to withstand the deficit in FY2018/19, this is a structural deficit that is whittling down the unassigned fund balance. Adopting deficit budgets year after year is not sustainable. It is imperative that the City remain focused on enhancing General Fund revenue streams and containing costs in the years to come. This imperative takes on additional urgency in light of the substantial pension cost increases that are expected in FY2018/19 and beyond as a result of CalPERS lowering the actuarial discount rate for their investment portfolio and changing actuarial assumptions regarding mortality.

GENERAL FUND - FUND BALANCE

The year-end General Fund balance for FY2016/17 through FY2018/19 is shown below.

| | FY 2016/17 AUDITED | FY 2017/18 PROJECTED | FY 2018/19 PROPOSED |
|----------------------------|-----------------------|-------------------------|------------------------|
| Total General Fund Balance | \$ 3,106,934 | \$ 2,850,953 | \$ 2,783,646 |

General Fund balance had been steadily increasing as shown in the graph below, however the balance decreased significantly in FY2016/17 due chiefly to the City's new Cost Allocation Plan and repayment of prior year cost over allocations to the Enterprise Funds. The balance is projected to continue decreasing in the near term as a result of an operating budget deficit.



GENERAL FUND RESERVES

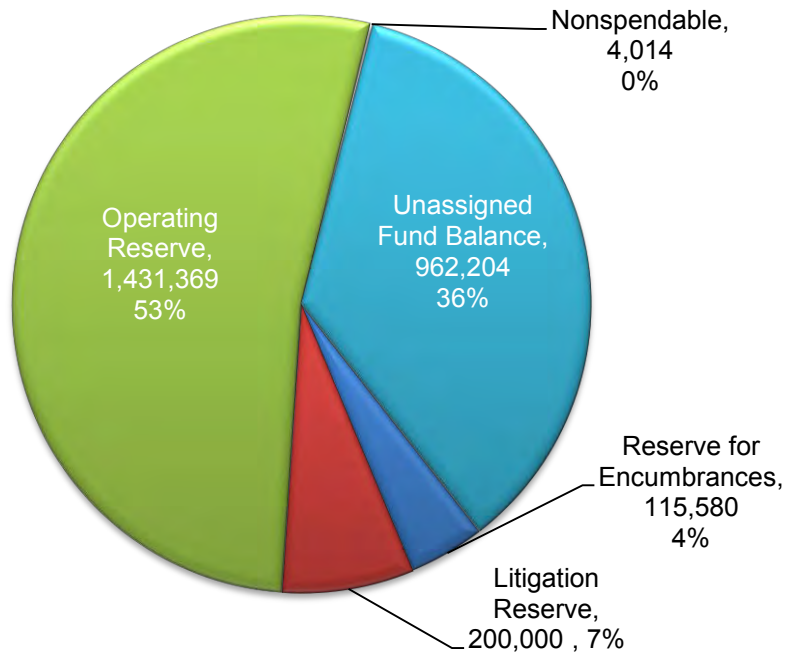
The City's General Fund reserves are established in accordance with the "Fund Balance & Reserve Policies" which are intended to ensure the continued financial well-being of the City by planning for unanticipated emergency and contingency needs. The City Council periodically reviews and updates the reserve policies and budgeted reserve funds to ensure that the City has sufficient resources to adequately address emergencies, economic uncertainties, unforeseen operating or capital needs, economic development opportunities, and cash flow requirements. The FY2018/19 budget commits fund balance in the General Fund to the following reserves:

- \$0 to the Emergency Contingency Reserve (proposed to be removed)
- \$0 to the Economic Stabilization Reserve (proposed to be removed)
- \$1,431,369 to the General Fund Operating Reserve
- \$200,000 to the Litigation Reserve

As shown below, the General Fund's "unassigned fund balance" in FY2018/19 is estimated at about \$962k.

| | PROPOSED FY 2018/19 |
|---|--------------------------------|
| Total General Fund Balance | \$ 2,783,646 |
| Less Nonspendable (Inventory, etc.) | 4,014 |
| Less Committed Reserves (Set by Council Resolution) | |
| Appropriated Fund Balance - Operating Deficit | 70,479 |
| Emergency Contingency Reserve | - |
| Economic Stabilization Reserve | - |
| Litigation Reserve | 200,000 |
| Operating Reserve | 1,431,369 |
| Reserve for Encumbrances | 115,580 |
| Unassigned Balance | <u>\$ 962,204</u> |

SUMMARY OF FUND BALANCE



GENERAL FUND REVENUE

Fort Bragg's General Fund is reliant on sales tax, Transient Occupancy Tax (TOT), property tax, and fees charged for services rendered to fund operations. As discussed in detail below, General Fund revenues (excluding transfers) are expected to increase in FY2018/19 with the total annual revenue projected at \$9.47M, a 4.2% year over year increase. It should be noted that with the FY 2018/19 budget, Staff is proposing a change in revenue forecasting methodology from "conservative" to "most likely". The proposed budget reflects the change in methodology. The "most likely" methodology results in an approximately \$80k higher revenue total than if conservative forecasting had been used. This helps move closer to a balanced budget with the FY2018/19 budget but presents a higher level of risk in the event of a revenue miss.

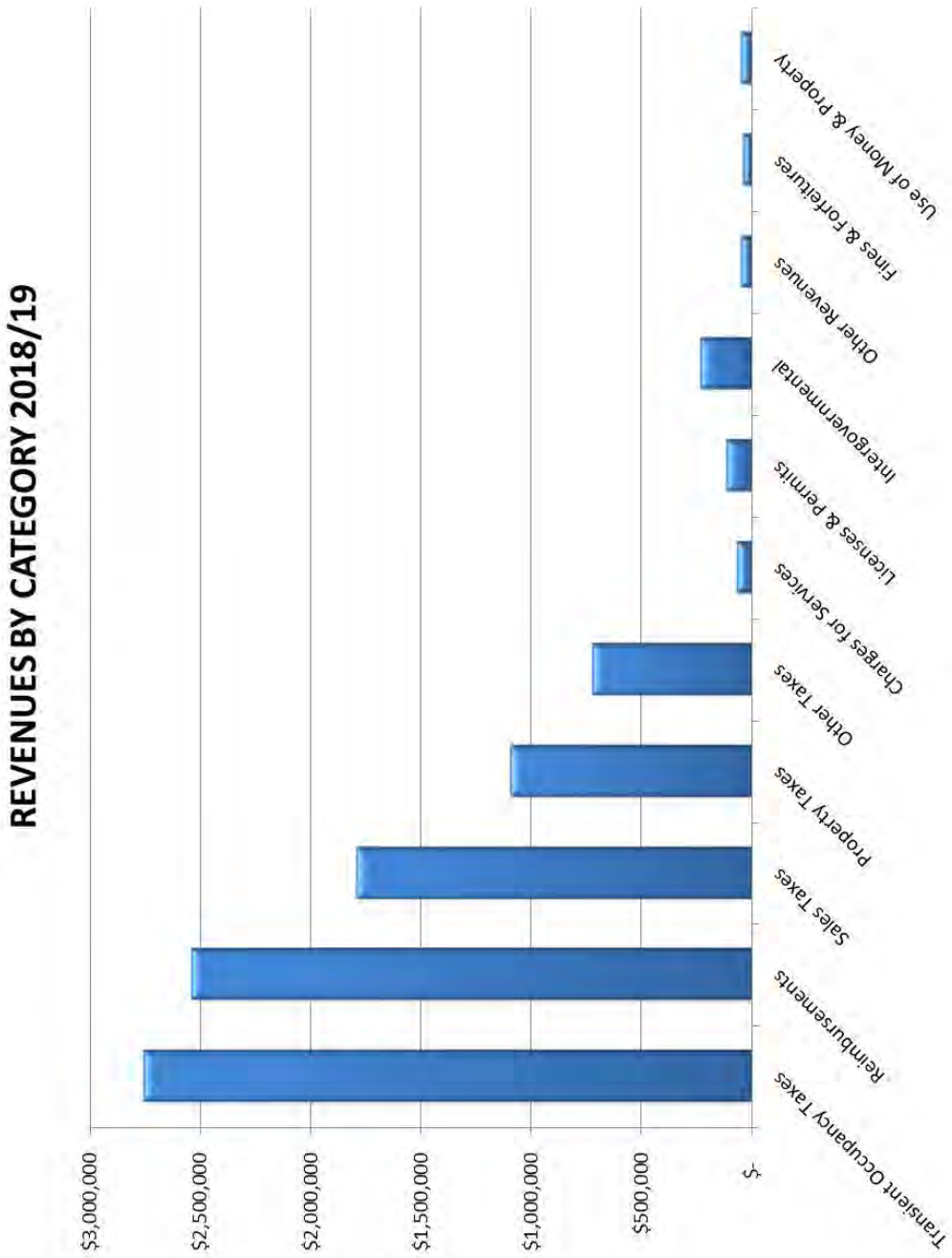
Taxes remain the largest resource supporting General Fund operations in the FY2018/19 Operating Budget. Taxes represent 67% of all General Fund revenues with the primary taxes comprised of TOT, sales taxes, and property taxes.

Reimbursements are the second largest resource supporting General Fund operations in the FY2018/19 Operating Budget. Reimbursements represent 27% and include reimbursement of personnel costs and overhead from the City's Enterprise Funds to the City's General Fund.

In the pages that follow, each of the major General Fund revenue sources is described with information about historical trends and current budgeted revenues.

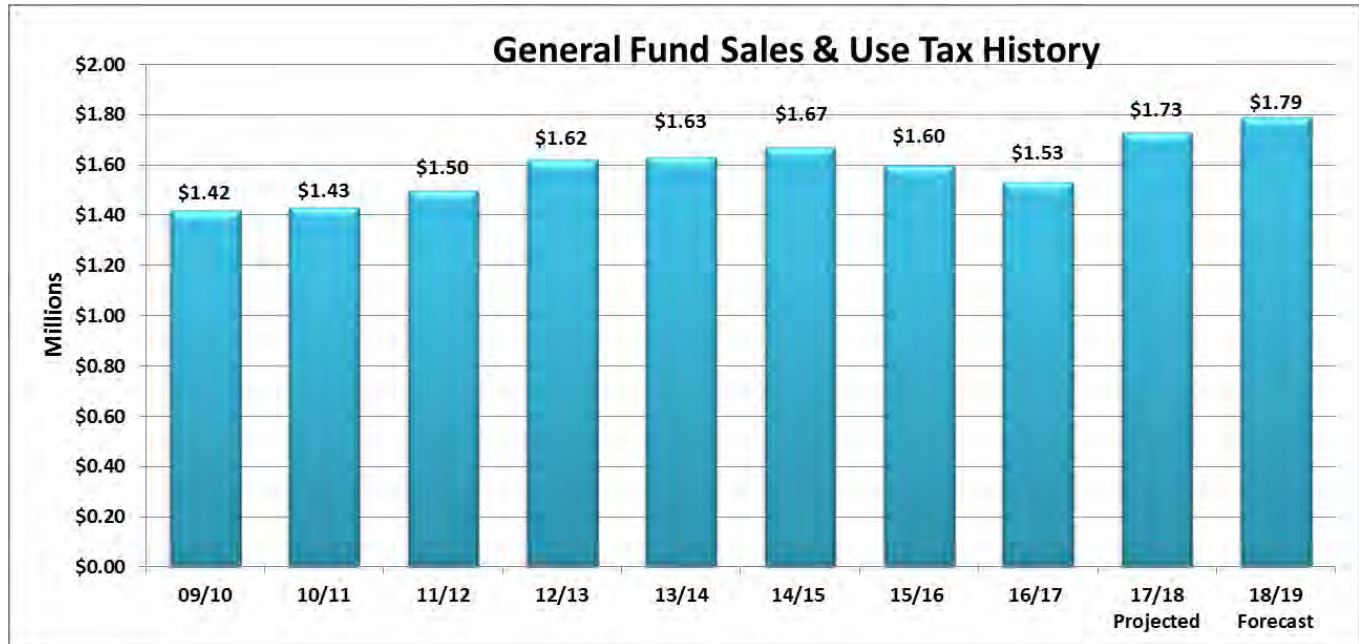
**GENERAL FUND
SUMMARY OF REVENUES BY CATEGORY
FY 2015/16 THROUGH FY 2018/19**

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
|---------------------------|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|---------------------|
| GENERAL FUND | | | | | | |
| Property Taxes | \$ 972,948 | \$ 1,031,345 | \$ 1,018,521 | \$ 1,051,976 | \$ 1,095,012 | 4.1% |
| Sales Taxes | 1,600,866 | 1,531,858 | 1,671,540 | 1,728,066 | 1,792,993 | 3.8% |
| Transient Occupancy Taxes | 1,947,702 | 2,149,404 | 2,604,314 | 2,579,074 | 2,759,609 | 7.0% |
| Other Taxes | 664,739 | 673,736 | 679,900 | 699,296 | 722,235 | 3.3% |
| Total Taxes | 5,186,255 | 5,386,343 | 5,974,275 | 6,058,412 | 6,369,849 | 5.1% |
| Reimbursements | 3,413,306 | 2,344,788 | 2,610,857 | 2,597,102 | 2,541,396 | -2.1% |
| Charges for Services | 54,067 | 68,256 | 61,100 | 53,620 | 68,200 | 27.2% |
| Intergovernmental | 186,253 | 117,124 | 205,500 | 141,010 | 232,300 | 64.7% |
| Licenses & Permits | 99,317 | 91,339 | 99,629 | 109,860 | 114,063 | 3.8% |
| Other Revenues | 112,311 | 194,761 | 67,974 | 54,995 | 51,570 | -6.2% |
| Use of Money & Property | 44,054 | (22,608) | 34,200 | 46,831 | 52,100 | 11.3% |
| Fines & Forfeitures | 18,139 | 30,723 | 23,500 | 29,276 | 42,500 | 45.2% |
| TOTAL GENERAL FUND | \$ 9,113,702 | \$ 8,210,727 | \$ 9,077,034 | \$ 9,091,105 | \$ 9,471,978 | 4.2% |



DISCUSSION OF GENERAL FUND REVENUE TRENDS

Sales Tax

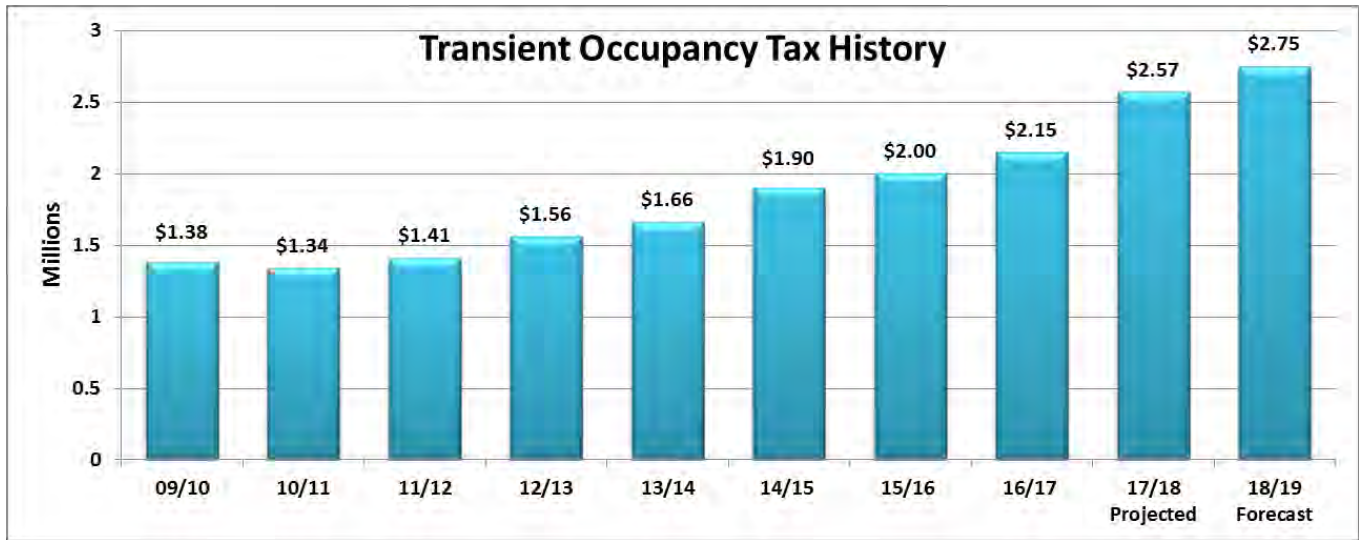


The Sales Tax category includes general sales and use taxes and Proposition 172 sales taxes. Sales tax is an excise tax which applies to all retail sales of merchandise. Retailers are liable for reporting and payment of the tax. Use tax is an excise tax imposed on consumers of merchandise that is used, consumed or stored in California and which has been purchased from out-of-state vendors not collecting California sales tax. The statewide sales and use tax rate is 7.25% of which the State receives 6.25% and the City receives approximately 1% (known as the Bradley Burns Local Sales and Use Tax).

Sales tax revenues in FY2018/19 are expected to increase compared to FY2017/18 receipts by approximately 3.8%. The City's sales tax analysis consultant, MuniServices, analyzes trends in year-to-date tax receipts, macroeconomic conditions and local business data when forecasting sales tax revenue. Prior year filing errors by one of the City's larger retailers were corrected in FY 2016/17 resulting in a \$54k negative adjustment for the City. A five-year trend, however, shows sales tax growing by about 2% per year.

Over the long term, there are a number of factors resulting in the slow growth of the City's sales tax. Most notably, Internet retailing is drawing an ever-increasing share of local sales with little resulting tax revenue. Additionally, fuel prices dropped approximately 36% in late 2015 and remained low for an extended period of time. Fuel prices appear to have bottomed out in 2016 and early 2017 and then began increasing slowly. With fuel prices on the rise sales taxes have shown some growth. The City is hopeful that more recent signs of growth will develop into a long term trend moving forward. Sales tax revenue is a key revenue source that constitutes approximately 19% of General Fund revenue.

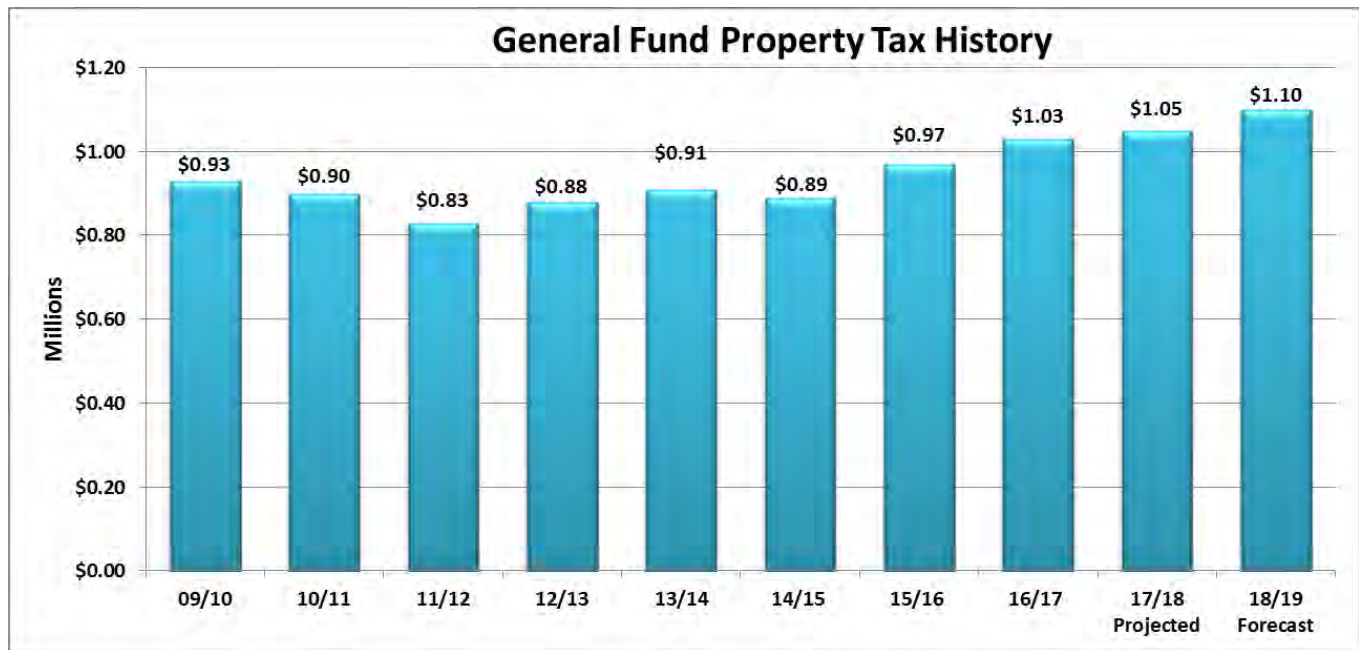
Transient Occupancy Tax



Transient Occupancy Tax (TOT) is a local tax that is applied to the cost of hotel or other lodging stays of less than 30 days. In 2016, with passage of local Measures AA and AB, the City's TOT rate increased from 10% to 12%. This tax is a revenue source solely for the General Fund. TOT is collected by lodging establishments and remitted to the City on a monthly basis. Factors influencing TOT revenues include vacancy rates, changes in business and leisure travel, new hotels, hotel expansion, and room rate increases. TOT is the largest General Fund revenue source and is expected to account for 29% of General Fund revenue.

Based on year-to-date receipts, FY2017/18 year-end TOT revenues are projected to be approximately \$428k higher than FY 2016/17 totals. Approximately \$314k of this increase is attributable to the increase in the TOT rate which became effective April 1, 2017. The other \$114k of the increase is attributable to continued growth (6%) in this sector of the local economy. Half of the Measure AA funds collected have been committed to marketing and promotion of Fort Bragg as a tourist destination. With the increase in the marketing and promotion of Fort Bragg, the City believes a return to the 7.7% growth rate of recent years is possible. The FY2018/19 Budget projects continued growth in TOT revenue at a rate of 7% or \$181k. The anticipated TOT revenue total for FY2017/18 is \$2.8M which would be an all-time high for Fort Bragg.

Property Tax



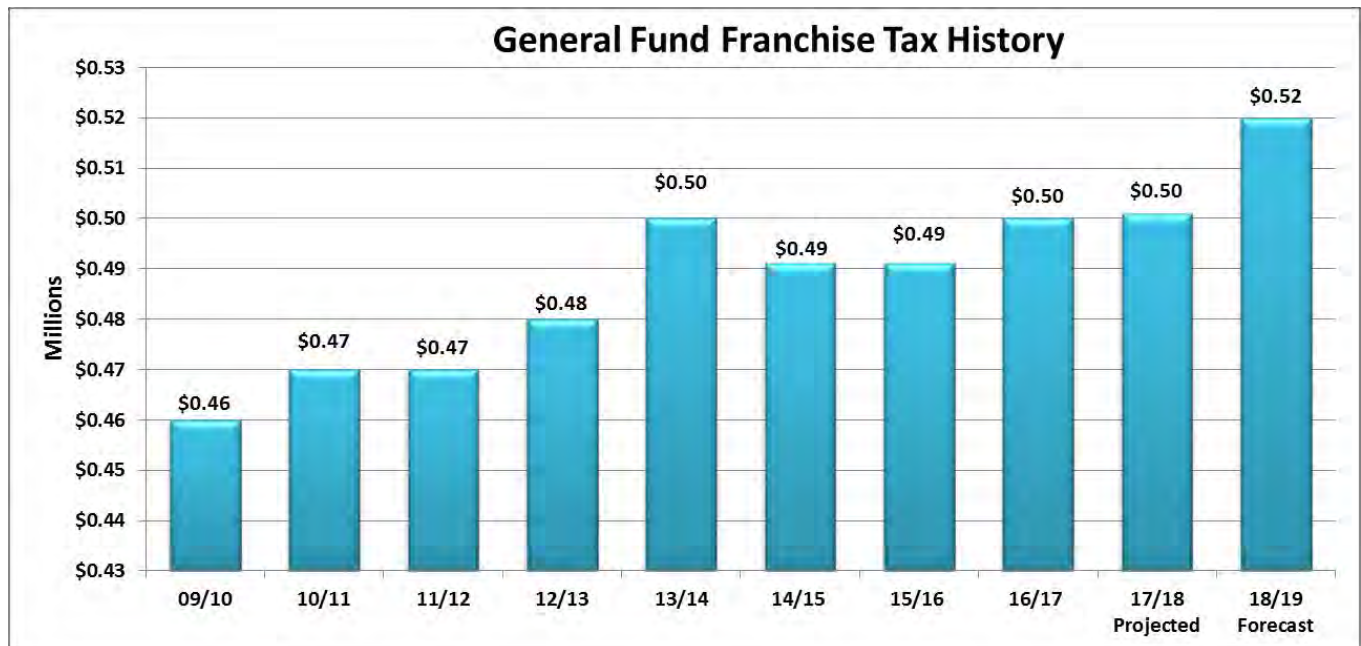
Property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property within the City's jurisdiction. It includes two major elements: secured or real property (e.g., house and land on which the house was built), and unsecured or personal property (e.g., machinery). Under Proposition 13, the general property tax rate cannot exceed 1% of a property's assessed value plus other assessments as approved by the voters. The assessed value of real property that has not changed ownership increases by the change in the California Consumer Price index up to a maximum of 2% per year. Property is assessed at the full market value upon change of ownership. Newly constructed property is assessed at the full market value in the first year in which the construction is completed. Property tax revenue is collected by the county and allocated according to State law among cities, counties, school districts and special districts.

Throughout the City's history, property tax revenue has grown significantly, reflecting both new development and increasing property values in Fort Bragg. As in most of the country, during the recent recession, property tax revenues declined in Fort Bragg due to lower sales prices and adjustments in assessments. In recent years, sales prices have increased and the number of reassessments has decreased.

Property tax is budgeted to increase 4.1% in FY2018/19. Although the 10-year trend shows a growth rate of 2%, more recent history (3-year trend) shows that an assumption of a 4.1% increase is reasonable. The County of Mendocino provides an annual property tax forecast which is typically received in late May after the City budget has been developed.

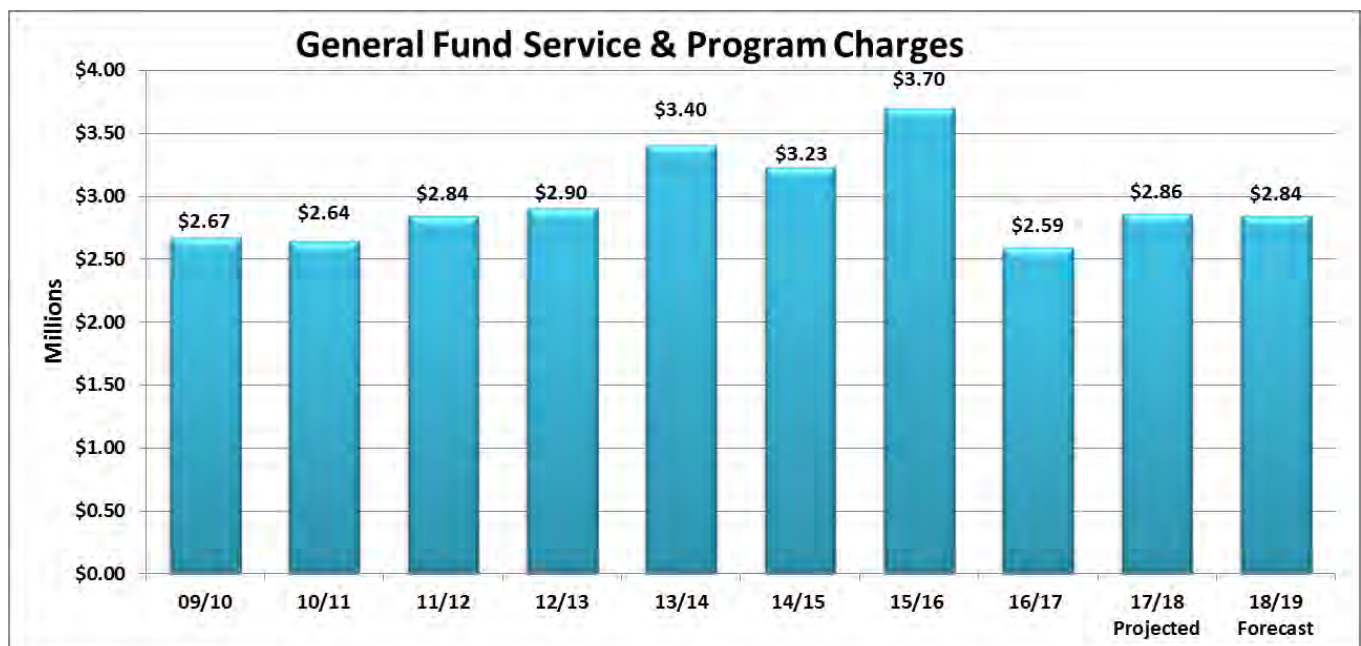
Potential risks affecting property tax are the looming possibility of increasing interest rates which would make mortgage payments more expensive and further contribute to the lack of affordable housing opportunities for first-time home buyers.

Franchise Taxes



Franchise tax revenue consists of taxes on three franchise operations in Fort Bragg: electric, cable television and solid waste disposal. The State sets electric utility tax rates that equal 0.5% of gross annual revenues and 5% of gross cable television revenues from within the City. The franchise fee for solid waste collection was established by the City many years ago when the City and County closed the jointly-owned Caspar Landfill. Franchise taxes have remained fairly stable in recent years. Revenue from cable television franchise fees has been slowly declining as more customers move to satellite and internet-based services. Revenue from Pacific Gas & Electric rose steadily until 2009, when it declined slightly and has since begun climbing again. The FY2018/19 estimate is approximately \$47k. Waste Management franchise fees are expected to increase approximately \$12k to \$440k due to service rate increase from Waste Management. Overall, FY2018/19 franchise tax revenue is estimated to grow to \$520k.

Service and Program Charges



| General Fund Detail of Revenue Services & Programs | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 FORECAST |
|---|---------------------------------------|--|---|--------------------------------|
| Intergovernmental | \$ 117,124 | \$ 205,500 | \$ 141,010 | \$ 232,300 |
| Charges for Services | 68,256 | 61,100 | 53,620 | 68,200 |
| Reimbursements | 2,344,788 | 2,610,857 | 2,597,102 | 2,541,396 |
| Totals | \$ 2,530,168 | \$ 2,877,457 | \$ 2,791,731 | \$ 2,841,896 |

Service and Program Charges include the Intergovernmental, Charges for Services and Reimbursements categories. Revenue for Service and Program Charges represents about 30% of total estimated General Fund revenues in FY2018/19. The \$2.8M budgeted in FY2018/19 represents an increase of approximately \$50k or 2% from the prior year. Intergovernmental is comprised of reimbursement of employee staff time spent administering grants and is expected to increase approximately \$91k in FY2018/19. Charges for service are expected to increase approximately \$14k based on Council approved fee increases. Reimbursements are expected to decrease due to a forecast of significantly lower Asset Forfeiture funds available to reimburse the City for participation on the Mendocino County Major Crimes Task Force (\$50K).

| General Fund Detail of Revenue Other Revenues | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 FORECAST |
|--|---------------------------------------|--|---|--------------------------------|
| Licenses & Permits | \$ 91,339 | \$ 99,629 | \$ 109,860 | \$ 114,063 |
| Fines & Forfeitures | 30,723 | 23,500 | 29,276 | 42,500 |
| Use of Money & Property | (22,608) | 34,200 | 46,831 | 52,100 |
| Other Revenues | 194,761 | 67,974 | 54,995 | 51,570 |
| Totals | \$ 294,216 | \$ 225,303 | \$ 240,962 | \$ 260,233 |

Other Revenues

Other revenues include licenses and permits, fines and forfeitures, use of money and property including interest earned, and miscellaneous. Revenues in this category can vary greatly due to the nature of the one-time revenues that are included.

Fines & Forfeitures are expected to increase approximately \$13k with \$8k of the increase coming from the City's Council approved increase in the cost of parking fines from \$35 to \$45.

GENERAL FUND
DETAIL OF REVENUES BY CATEGORY
FY 2015/16 THROUGH FY 2018/19

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
|--|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|---------------------|
| Taxes | | | | | | |
| Property Taxes | \$ 385,294 | \$ 413,837 | \$ 387,951 | \$ 415,579 | \$ 447,889 | 7.8% |
| VLF Swap | 559,543 | 571,293 | 588,433 | 594,260 | 612,088 | 3.0% |
| Supplement SB 813 | 4,191 | 4,376 | 4,201 | 4,201 | 4,369 | 4.0% |
| Homeowners Property Tax Relief | 3,773 | 3,595 | 3,502 | 3,502 | 3,642 | 4.0% |
| Transfer Taxes | 17,184 | 34,808 | 31,345 | 31,345 | 23,811 | -24.0% |
| Motor Vehicle In-Lieu Tax | 2,963 | 3,437 | 3,090 | 3,090 | 3,214 | 4.0% |
| Sales and Use Taxes | 1,279,650 | 1,513,116 | 1,655,300 | 1,711,217 | 1,775,993 | 3.8% |
| In-Lieu Sales Taxes - Triple Flip | 306,168 | - | - | - | - | n/a |
| Proposition 172 Sales Taxes | 15,049 | 18,742 | 16,240 | 16,849 | 17,000 | 0.9% |
| Transient Occupancy Taxes | 1,947,702 | 2,149,404 | 2,604,314 | 2,579,074 | 2,759,609 | 7.0% |
| Franchise Taxes | 491,132 | 496,543 | 490,000 | 509,396 | 522,840 | 2.6% |
| Business License Taxes | 173,607 | 177,194 | 189,900 | 189,900 | 199,395 | 5.0% |
| Total Taxes | 5,186,255 | 5,386,343 | 5,974,275 | 6,058,412 | 6,369,849 | 5.1% |
| Licenses & Permits | | | | | | |
| Business License Fees | 66,222 | 61,003 | 66,679 | 66,935 | 71,933 | 7.5% |
| Construction/Building Permits | 21,827 | 21,072 | 22,800 | 30,866 | 35,000 | 13.4% |
| Encroachment Permits | 9,798 | 8,270 | 8,500 | 3,675 | 4,000 | 8.8% |
| Other Licenses & Permits | 1,470 | 994 | 1,650 | 8,385 | 3,130 | -62.7% |
| Total Licenses & Permits | 99,317 | 91,339 | 99,629 | 109,860 | 114,063 | 3.8% |
| Fines & Forfeitures | | | | | | |
| Parking Fines | 17,531 | 26,019 | 20,000 | 24,681 | 33,500 | 35.7% |
| Miscellaneous Fines | 609 | 4,704 | 3,500 | 4,595 | 9,000 | 95.9% |
| Total Fines & Forfeitures | 18,139 | 30,723 | 23,500 | 29,276 | 42,500 | 45.2% |
| Use of Money and Property | | | | | | |
| Investment Interest | 34,622 | 4,813 | 15,000 | 20,145 | 31,500 | 56.4% |
| Rents and Concessions | 9,392 | (64,857) | 9,200 | 26,686 | 20,600 | -22.8% |
| Sales of Surplus Assets | 40 | 37,436 | 10,000 | - | - | n/a |
| Total Use of Money and Property | 44,054 | (22,608) | 34,200 | 46,831 | 52,100 | 11.3% |
| Intergovernmental | | | | | | |
| Grant Administration | 186,253 | 117,124 | 205,500 | 141,010 | 232,300 | 64.7% |
| Total Intergovernmental | 186,253 | 117,124 | 205,500 | 141,010 | 232,300 | 64.7% |
| Charges for Services | | | | | | |
| Community Development Fees | 19,980 | 20,430 | 22,000 | 17,414 | 18,000 | 3.4% |
| Police Fingerprint Fees | 24,410 | 36,783 | 30,000 | 28,507 | 40,000 | 40.3% |
| Other Charges for Services | 9,678 | 11,043 | 9,100 | 7,699 | 10,200 | 32.5% |
| Total Charges for Services | 54,067 | 68,256 | 61,100 | 53,620 | 68,200 | 27.2% |
| Reimbursements | | | | | | |
| City Exp Reimbursement - Developers | 14,662 | 24,023 | 22,000 | 20,000 | 28,000 | 40.0% |
| SB 90 Reimbursement | 26,969 | (1) | 16,000 | 7,056 | 12,750 | 80.7% |
| Booking Fee Reimbursement | 15,000 | 13,800 | 13,000 | 16,700 | 17,000 | 1.8% |
| Internal Charges for Services | 2,794,310 | 1,824,826 | 2,015,768 | 2,015,768 | 1,979,592 | -1.8% |
| Interfund Cost Reimbursement | 523,154 | 460,898 | 491,089 | 487,297 | 460,254 | -5.5% |
| Training Reimbursement | 35,767 | 13,555 | 34,500 | 33,073 | 34,500 | 4.3% |
| Other Reimbursements | 3,444 | 7,687 | 18,500 | 17,207 | 9,300 | -46.0% |
| Total Reimbursements | 3,413,306 | 2,344,788 | 2,610,857 | 2,597,102 | 2,541,396 | -2.1% |
| Other Revenues | | | | | | |
| Miscellaneous | 112,311 | 194,761 | 67,974 | 54,995 | 51,570 | -6.2% |
| Total Other Revenues | 112,311 | 194,761 | 67,974 | 54,995 | 51,570 | -6.2% |
| Total General Fund Revenue | \$ 9,113,702 | \$ 8,210,727 | \$ 9,077,034 | \$ 9,091,105 | \$ 9,471,978 | 4.2% |

DISCUSSION OF GENERAL FUND EXPENDITURE TRENDS

As shown on the table below, General Fund expenditures (including transfers-out) in FY2017/18 are projected at \$9.4M. Expenditures are projected to increase to \$9.5M in FY2018/19. Notable departmental variances are as follows: Administration is proposed to increase \$202K primarily due to recruiting costs and severance pay associated with the outgoing City Manager in FY2017/18. The Finance department is budgeted to decrease \$21k due mostly to retirement payouts in FY2017/18. The Police department is slated to increase \$50k despite freezing one officer position. This is due to increasing personnel costs including cost of living adjustments as well as pension costs and other benefits costs (\$90k), offset by savings in training costs (\$32k). Community Development is budgeted to increase \$220k primarily due to the continued ramp up of the Marketing and Promotions division (\$188k). Additionally personnel costs are expected to increase in Community Development by \$25k. Public Works is budgeted to increase \$151k due to increases in personnel costs \$(112k) as well as a Storm Drain department rate study not undertaken in FY2017/18 and re-budgeted for FY2018/19 (\$18k). Similarly, the Storm Drain department had \$35k of infrastructure project work budgeted for FY2017/18 which was not undertaken and re-budgeted for FY2018/19.

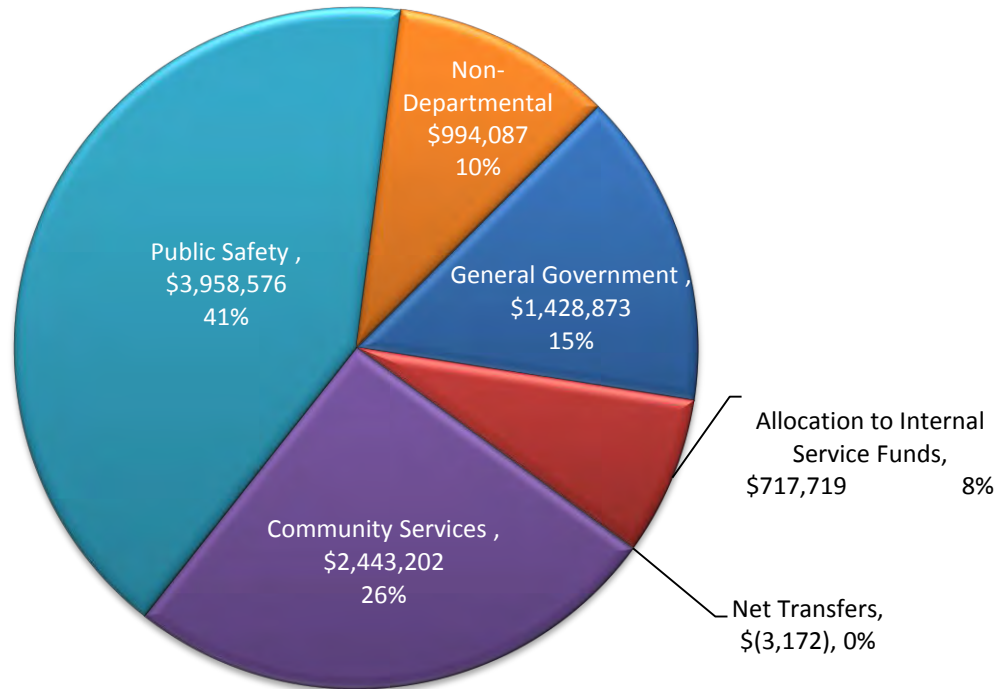
Overall, the proposed General Fund budget will increase \$155k over the previous fiscal year before transfers. Specific details of expenditures are presented in the Department Details sections of the Budget.

**GENERAL FUND
EXPENDITURES BY FUNCTION/PROGRAM
FY 2015/16 THROUGH FY 2018/19**

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DECR |
|--|---------------------------------------|---------------------------------------|--|---|---|------------------------------|
| General Government | | | | | | |
| City Council | 125,006 | 141,235 | 135,067 | 125,854 | 136,534 | 8.5% |
| Administration | 828,878 | 792,793 | 1,041,457 | 1,022,223 | 819,906 | -19.8% |
| Litigation Reserve | 96,166 | 33,189 | - | 21,420 | - | n/a |
| Finance | 414,849 | 434,482 | 500,134 | 493,592 | 472,432 | -4.3% |
| General Government Subtotal | 1,464,900 | 1,401,699 | 1,676,659 | 1,663,088 | 1,428,873 | -14.1% |
| Public Safety | | | | | | |
| Police Department | 3,088,310 | 3,397,152 | 3,502,312 | 3,494,175 | 3,544,733 | 1.4% |
| Fire Department | 384,062 | 387,918 | 414,890 | 404,278 | 413,843 | 2.4% |
| Public Safety Subtotal | 3,472,372 | 3,785,070 | 3,917,202 | 3,898,453 | 3,958,576 | 1.5% |
| Community Services | | | | | | |
| Community Development | 405,360 | 453,455 | 770,682 | 580,384 | 801,968 | 38.2% |
| Public Works | 1,378,369 | 1,369,648 | 1,527,398 | 1,490,302 | 1,641,234 | 10.1% |
| Community Services Subtotal | 1,783,728 | 1,823,104 | 2,298,080 | 2,070,686 | 2,443,202 | 18.0% |
| Non-Departmental | | | | | | |
| Community Contributions | 170,433 | 139,285 | 150,867 | 87,667 | 128,469 | 46.5% |
| Caspar Closure & Landfill & General Fun | 147,760 | 171,098 | 255,743 | 255,751 | 255,758 | 0.0% |
| Other Non-Departmental | 832,085 | 806,959 | 805,943 | 810,074 | 609,860 | -24.7% |
| Non-Departmental Subtotal | 1,150,279 | 1,117,342 | 1,212,553 | 1,153,493 | 994,087 | -13.8% |
| General Fund Subtotal | 7,871,278 | 8,127,215 | 9,104,493 | 8,785,721 | 8,824,738 | 0.4% |
| Allocation to Internal Service Funds | 604,060 | 470,049 | 601,333 | 601,334 | 717,719 | 19.4% |
| General Fund Subtotal with Allocation | 8,475,339 | 8,597,264 | 9,705,827 | 9,387,054 | 9,542,457 | 1.7% |
| Net Transfers; In(out) | (52,655) | (545,024) | (58,627) | 18,548 | 3,172 | -82.9% |
| TOTAL GENERAL FUND | 8,522,993 | 9,142,288 | 9,764,454 | 9,368,506 | 9,539,285 | 1.8% |

Note: Administration, as presented above, includes Administrative Services, City Manager and City Attorney

EXPENDITURES BY FUNCTION

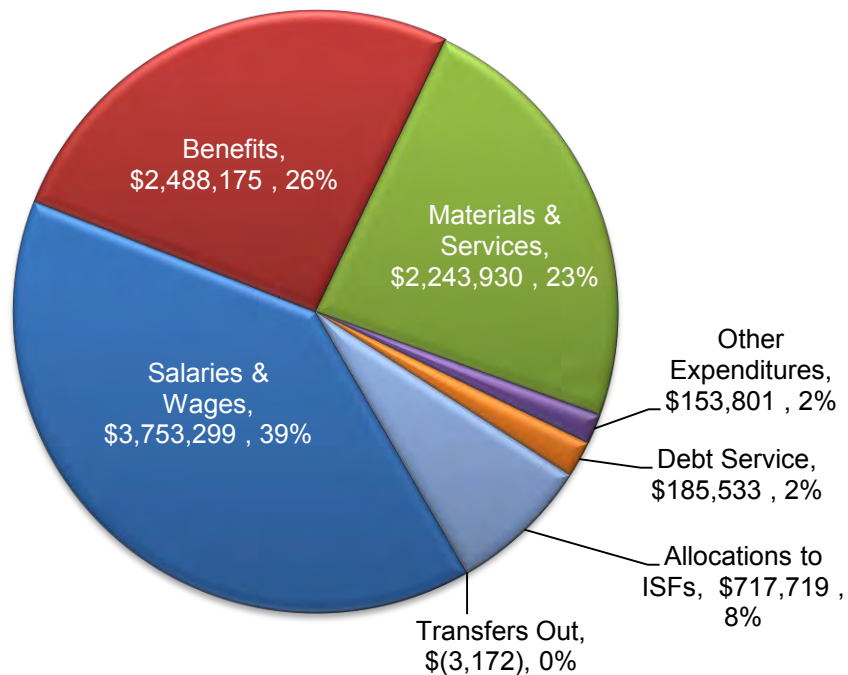


Public Safety represents the largest General Fund expenditure function/program at 41% of total General Fund expenditures, followed by Community Services (including Public Works) at 26% and General Government at 15%.

GENERAL FUND EXPENDITURES BY CATEGORY FY 2015/16 THROUGH FY 2018/19

| | FY 2015/16 FYE AUDITED | FY 2016/17 FYE AUDITED | FY 2017/18 AMENDED BUDGET | FY 2017/18 FYE PROJECTED | FY 2018/19 PROPOSED BUDGET | % INCR/ -DEC |
|---------------------------------------|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|--------------------|
| Salaries & Wages | \$ 3,430,750 | \$ 3,545,002 | \$ 3,913,064 | \$ 3,885,313 | \$ 3,753,299 | -3.4% |
| Benefits | 2,186,378 | 2,406,762 | 2,550,804 | 2,531,473 | 2,488,175 | -1.7% |
| Materials & Services | 2,043,203 | 1,974,777 | 2,319,120 | 2,100,858 | 2,243,930 | 6.8% |
| Other Expenditures | 63,377 | 53,104 | 135,973 | 82,543 | 153,801 | 86.3% |
| Debt Service | 147,569 | 147,569 | 185,533 | 185,533 | 185,533 | 0.0% |
| Subtotal | 7,871,278 | 8,127,215 | 9,104,493 | 8,785,721 | 8,824,738 | 0.4% |
| Allocations to Internal Service Funds | 604,060 | 470,049 | 601,333 | 601,334 | 717,719 | 19.4% |
| Subtotal with Allocations | 8,475,339 | 8,597,264 | 9,705,827 | 9,387,054 | 9,542,457 | 1.7% |
| Net Transfers | (52,655) | (545,024) | (58,627) | 18,548 | 3,172 | -82.9% |
| TOTAL | \$ 8,527,993 | \$ 9,142,288 | \$ 9,764,454 | \$ 9,368,506 | \$ 9,539,285 | 1.8% |

EXPENDITURES BY CATEGORY



Personnel Services

Personnel costs are the largest class of expenditures in the General Fund, representing nearly 65% of the expenses in FY2018/19. Overall, personnel costs will decrease 1.8% or \$115k. This number is somewhat misleading in that a significant portion of the year over year variance is caused by severance and recruitment costs for the outgoing City Manager in FY2017/18 (\$202k). With the FY2018/19 budget, no position enhancements or pay increases outside of normal cost of living adjustments/step increases have been approved.

FY2018/19, medical rates are expected to increase 3% whereas dental rates will remain essentially unchanged compared to the prior year. Under current labor agreements, premium costs are shared 80% by the City and 20% by the employee. In addition, the City has 29 covered retirees, 23 of whom receive full health insurance coverage from the City. The remaining retirees pay a portion of the retiree and spousal coverage depending on the date of hire. Retiree health benefits have been phased out through collective bargaining agreements. There are a number of current employees who are eligible for such benefits based on their date of hire.

The aggregate CalPERS increase (across all plans) in FY2018/19 is expected to be 10.4% or \$93k. The City's contribution to each employee's pension benefits (i.e., the "employer's share" of CalPERS premiums plus unfunded actuarial liability costs) is calculated at the following rates: Miscellaneous PEPRA-7.3%; Miscellaneous Classic-23.6%; Safety PEPRA-12.0%; Safety Classic-45.4%. In FY2018/19, per negotiated agreements, employees in classic plans will begin paying 1% of the employer share of pension costs.

In December 2016, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption (the long-term rate of return) from 7.50 percent to 7.00 percent over the next three years. The full impact of discount rate change will be phased in completely over a seven-year period. Lowering the discount rate means plans will see increases in both the normal costs (the cost of pension benefits accruing in one year for active members) and the accrued liabilities. These increases will result in higher required employer contributions. Increased public agency employer contribution costs as a result of the lowering of the discount rate will begin in FY2018/19.

The increased pension costs for the City will be substantial and will put significant pressure on the General Fund's financial performance for several years to come. The following chart is an estimate of the City's share of PERS costs over the next seven years. The chart was prepared using the methodology provided by CalPERS in Circular Letter 200-004-17 dated January 19, 2017:

| Fiscal Year | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | Total 7 yr Cost |
|-------------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------------|
| Miscellaneous Classic | 357,100 | 439,131 | 527,483 | 628,715 | 697,523 | 756,976 | 873,311 | 1,041,649 | 5,321,889 |
| Safety Classic (Police) | 426,739 | 500,940 | 580,548 | 681,825 | 747,534 | 806,268 | 902,539 | 1,041,542 | 5,687,935 |
| Miscellaneous PEPRA | 58,342 | 59,614 | 60,692 | 61,792 | 62,865 | 63,902 | 65,347 | 67,068 | 499,622 |
| Safety PEPRA | 52,187 | 53,486 | 54,508 | 55,555 | 56,561 | 57,518 | 58,956 | 60,710 | 449,481 |
| City Wide Total | 894,368 | 1,053,171 | 1,223,231 | 1,427,888 | 1,564,483 | 1,684,664 | 1,900,153 | 2,210,968 | 11,958,926 |

As can be seen in the chart, pension costs are expected to more than double between FY2018/19 and FY 2024/25.

Non-Personnel Services

Professional Services will increase by \$161k in FY2018/19 due to the continued ramp up of the Marketing and Promotions division of the Community Development department (\$188k) as well as increased insurance cost (\$41k). Cost increases are budgeted to be offset by cost savings in the area of travel/training as well as in the area of small tools and equipment. The small tools and equipment year over year variance is caused by the one-time purchase of body worn cameras in the Police Department in FY2017/18. Materials & Services detail is presented below:

| General Fund Materials & Services | FY 2017/18 PROJECTED | FY 2018/19 PROPOSED | Change |
|---|---------------------------------|--------------------------------|-------------------|
| Professional Services | \$ 1,413,820 | \$ 1,574,928 | \$ 161,108 |
| Utilities | 176,137 | 176,300 | 163 |
| Insurance | 158,110 | 199,575 | 41,465 |
| Supplies | 105,488 | 102,800 | (2,688) |
| Training/Travel | 105,524 | 74,950 | (30,574) |
| Equipment Repair and Maintenance | 5,400 | 8,000 | 2,600 |
| Equipment Leases and Rental | 39,686 | 38,227 | (1,459) |
| Dues and Memberships | 19,001 | 19,160 | 159 |
| Small Tools and Equipment | 68,197 | 41,190 | (27,007) |
| Postage | 9,494 | 8,800 | (694) |
| Total General Fund Materials & Service | \$ 2,100,858 | \$ 2,243,930 | \$ 143,072 |

Other Expenditures will increase \$71k with continued payments budgeted for the Noyo Center and the School Playing Fields project in connection with Measure AA/AB. As Transient Occupancy Tax increases so do the earmarks established through the measure AB advisory (\$41k). Additionally, Asset Forfeiture funds previously used to pay the costs of maintaining the City's two K-9 units in the Police Department are no longer available and the costs therefore will shift to the General Fund (\$26k).

Debt Service is expected to remain steady in FY2018/19.

CITY OF FORT BRAGG - FY 2018/19
Operating Transfers - All Funds

| Fund Type/Name | Transfers In | Transfers Out | Net Transfers |
|--|-------------------------|--------------------------|--------------------------|
| 110 General Fund | | | |
| From 146 - OJP Bulletproof Vest Partnership | 872 | - | 872 |
| From 720 - Clean Water Education Fund | 2,300 | - | 2,300 |
| Total | 3,172 | - | 3,172 |
| 120 Parking Permits | | | |
| To 121 Parking-in-Lieu - Skunk Depot Parking Lot Lease | - | (8,300) | (8,300) |
| Total | - | (8,300) | (8,300) |
| 121 Parking-in-Lieu | | | |
| From 120 Parking Permits - Skunk Depot Parking Lot Lease | 8,300 | - | 8,300 |
| Total | 8,300 | - | 8,300 |
| 122 Parkland Monitoring and Reporting | | | |
| To 407 General Fund - Glass Beach Stairs | - | (93,767) | (93,767) |
| Total | - | (93,767) | (93,767) |
| 146 - OJP Bulletproof Vest Partnership | | | |
| To 110 - General Fund | - | (872) | (872) |
| Total | - | (872) | (872) |
| 162 CDBG Program Income | | | |
| To 331- CDBG 2016 Super NOFA | - | (150,000) | (150,000) |
| Total | - | (150,000) | (150,000) |
| 223 STP D1, MCOG | | | |
| To 314- MCOG OWP | - | (69,978) | (69,978) |
| Total | - | (69,978) | (69,978) |
| 250 Special Sales Tax - Street Repair | | | |
| To 405- Streets Project | - | (2,000,000) | (2,000,000) |
| Total | - | (2,000,000) | (2,000,000) |
| 314 MCOG OWP | | | |
| From 223 STP D1, MCOG | 69,978 | - | 69,978 |
| Total | 69,978 | - | 69,978 |
| 320 State Parks Prop 84 | | | |
| To 415- Central Coastal Trail & Restoration Project | - | (10,000) | (10,000) |
| Total | - | (10,000) | (10,000) |
| 323 CalTrans ATP | | | |
| To 415- Central Coastal Trail & Restoration Project | - | (20,000) | (20,000) |
| Total | - | (20,000) | (20,000) |
| 327 State Water Resources Control Board | | | |
| To 716- Wastewater Capital Projects | - | (6,000,000) | (6,000,000) |
| Total | - | (6,000,000) | (6,000,000) |
| 329 State Grants | | | |
| To 651- Water Capital Projects | - | (205,000) | (205,000) |
| Total | - | (205,000) | (205,000) |
| 330 Federal Grants | | | |
| To 522 - USDA PD Vehicles | - | (25,850) | (25,850) |
| To 716- Wastewater Capital Projects | - | (3,388,000) | (3,388,000) |
| Total | - | (3,413,850) | (3,413,850) |
| 331 CDBG 2016 Super NOFA | | | |
| From 162 - Program Income Supplemental Activities | 150,000 | - | 150,000 |
| Total | 150,000 | - | 150,000 |
| 405 Street Resurfacing/ Crosswalk Rehab Projects | | | |
| From 250 - Special Sales Tax | 2,000,000 | - | 2,000,000 |
| Total | 2,000,000 | - | 2,000,000 |

(continued next page)

CITY OF FORT BRAGG - FY 2018/19
Operating Transfers - All Funds

| Fund Type/Name | Transfers In | Transfers Out | Net Transfers |
|---|-------------------------|--------------------------|--------------------------|
| 407 Coastal Trail and Restoration Project | | | |
| From 122 Parkland Monitoring and Reporting | 93,767 | - | 93,767 |
| Total | 93,767 | - | 93,767 |
| 415 Central Coastal Trail & Restoration Project | | | |
| From 320 State Parks Prop 84 | 10,000 | - | 10,000 |
| From 323 CalTrans ATP | 20,000 | - | 20,000 |
| Total | 30,000 | - | 30,000 |
| 522 Fleet & Equipment Services Internal Service Fund | | | |
| From 330 USDA PD Vehicles | 25,850 | - | 25,850 |
| Total | 25,850 | - | 25,850 |
| 610 Water O&M | | | |
| To 651 Water Enterprise Capital Projects | - | (1,057,000) | (1,057,000) |
| To 614- Non-Routine Maintenance | - | (28,498) | (28,498) |
| From 615 - True up Operating Reserve | 57,895 | - | 57,895 |
| Total | 57,895 | (1,085,498) | (1,027,603) |
| 614 Water Enterprise Non Routine Maintenance | | | |
| From 610 Water O&M | 28,498 | - | 28,498 |
| Total | 28,498 | - | 28,498 |
| 615 Water Enterprise Capital Reserve | | | |
| To 610 - True up Operating Reserve | - | (57,895) | (57,895) |
| Total | - | (57,895) | (57,895) |
| 651 Water Enterprise Capital Projects | | | |
| From 329 State Grants - Pudding Creek Water Main Relocation | 205,000 | - | 205,000 |
| From 610 Water O&M - Raw Water Line Replacement - Phase II | 682,000 | - | 682,000 |
| From 610 Water O&M - Matsen Hole Rainey-Design | 175,000 | - | 175,000 |
| From 610 Water O&M - Raw Water Pond Rehabilitation | 200,000 | - | 200,000 |
| Total | 1,262,000 | - | 1,262,000 |
| 710 Wastewater O&M | | | |
| To 717 - Debt Service | - | (79,111) | (79,111) |
| To 717 - Debt Service Reserve | - | (18,590) | (18,590) |
| To 717- Short Lived Asset Reserve | - | (65,333) | (65,333) |
| To 715 - Sweep Excess Fund Balance to Capital Reserve | - | (1,063,284) | (1,063,284) |
| Total | - | (1,226,318) | (1,226,318) |
| 715 WW Enterprise Capital Reserve | | | |
| From 710 - Sweep Excess Fund Balance to Capital Reserve | 1,063,284 | - | 1,063,284 |
| To 716 - Funding for WWTP | - | (2,814,225) | (2,814,225) |
| Total | 1,063,284 | (2,814,225) | (1,750,941) |
| 716 WW Capital Projects | | | |
| From 717- Funding for WWTP | 5,000,000 | - | 5,000,000 |
| From 715- Funding for WWTP & Lift Stations | 2,814,225 | - | 2,814,225 |
| From 327 State Water Resources Control Board - Treatment Plant | 6,000,000 | - | 6,000,000 |
| From 330 Federal Grants - Treatment Plant | 3,388,000 | - | 3,388,000 |
| Total | 17,202,225 | - | 17,202,225 |
| 717 JPFA WWTP Financing | | | |
| To 716- Proceeds of Loan | - | (5,000,000) | (5,000,000) |
| From 710 - Debt Service | 79,111 | - | 79,111 |
| From 710 - Debt Service Reserve | 18,590 | - | 18,590 |
| From 710 - Short Lived Asset Reserve | 65,333 | - | 65,333 |
| Total | 163,034 | (5,000,000) | (4,836,966) |
| 720 Clean Water Education Fund | | | |
| To 110 - Storm Drains Outreach and Education | - | (2,300) | (2,300) |
| Total | - | (2,300) | (2,300) |
| Total Transfers | \$ 22,158,003 | \$ (22,158,003) | \$ - |
| (Concluded) | | | |

COST ALLOCATION PLAN

Fiscal Year 2018/19

INTRODUCTION

The purpose of the City's Cost Allocation Plan is to identify the total costs of providing specific City services and appropriately allocate these costs to the Departments and or Funds who benefit from the identified services. Why is a separate cost accounting analysis required to do this? Because in almost all organizations—whether in the private or the public sector—the cost of producing goods or delivering services can be classified into two basic categories: direct and indirect costs. Programs that incur only direct costs benefit from the City's administrative structure and therefore should be charged for that support.

"Direct costs" by their nature are usually easy to identify and relate to a specific service. However, this is not the case for "indirect costs." As such, if we want to know the "total cost" of providing a specific service, then we need to develop an approach—a plan—for reasonably allocating indirect costs to direct cost programs.

What Are Direct and Indirect Costs? Direct costs are those that can be specifically identified with a particular cost objective, such as street maintenance, police protection and water service. Indirect costs are not readily identifiable with a direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

Common examples of indirect costs provided by City departments include: the Finance Department provides accounting and utility billing services, the Administrative Services Department provides legal services and personnel administration and the City's Public Works department provides engineering and building and street maintenance.

Budgeting and Accounting for Indirect Costs. Theoretically, all indirect costs could be directly charged to specific cost objectives; however, practical difficulties generally preclude such an approach for organizational and accounting reasons. As such, almost all organizations separately budget and account for direct and indirect costs depending on their financial reporting needs and the complexity of their operations.

Distributing Indirect Costs. In order to determine the total cost of delivering specific services, some methodology for determining and distributing indirect costs must be developed, and that is the purpose of cost allocation plans: to identify indirect costs and to allocate them to benefiting direct cost programs in a logical, consistent and reasonable manner.

Plan Goal: Reasonable Allocation of Costs. The goal of most Cost Allocation Plans is to provide a clear, consistent and reasonable basis for allocating indirect costs. It is important to stress that the goal of the Cost Allocation Plan is a reasonable allocation of indirect costs, not a "perfect" one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind: balancing the cost and effort of complicated allocation methods with the likely benefits from the end results.

INDIRECT COST ALLOCATION STRATEGIES

There are several ways of allocating indirect costs, including:

Internal Service Funds. Many cities allocate costs through formal internal service funds for services like facility maintenance, information technology and fleet maintenance. Typically with this approach, the internal service fund provides services to the organization and charges back departments based on their actual usage of the service at standard per unit billing rates, like a private company would (except the goal is to break even rather than earn a profit). In this case, for the operating programs, indirect costs become direct costs, like they would if they contracted-out for the service.

While this approach can result in added accounting costs to develop internal billing rates and track actual usage, it has the advantage of encouraging more efficient use of internal services by allocating costs based on actual usage, setting aside funds for long-term capital replacement needs and helping measure performance.

As shown in the side bar, the City uses three internal service funds to allocate organization-wide support costs.

Payroll Allocations. Some organizations allocate percentages of key support staff to selected funds through direct payroll allocations, such as 15% of the City Manager to the Water Fund or 20% of the Public Works Director to the Wastewater Fund, with direct cost distributions of non-staffing costs via accounts payable where possible.

While this practice is not uncommon, it has some drawbacks, such as the basis for the percentage allocations. Using this method requires a tracking of staff time by task, which requires a detailed method or program, which can be costly or time consuming.

Direct Cost Allocations. Even where internal service funds are used, cost allocation plans are still often needed in allocating indirect costs to the internal service funds (so their costs reflect the full cost of providing services to the organization) and in allocating other indirect costs not typically recovered through internal service funds, such as city manager, city attorney, city clerk, human resources and accounting. In this case, direct costs are sometimes allocated to indirect cost departments based on a percentage of indirect costs or payroll costs and direct costs.

Combination of the Three. Some agencies use a combination of these three approaches as is the case with the City of Fort Bragg.

City Internal Service Funds

- Facilities Repair and Maintenance
- Technology Maintenance and Replacement
- Fleet and Equipment Services

DETERMINING DIRECT AND INDIRECT COSTS

The first step in preparing the City's Cost Allocation Plan is determining direct and indirect costs. Program costs that primarily provide service to the public are identified as direct costs, whereas the cost of programs that primarily provide services to the organization are identified as indirect costs.

In accordance with generally accepted accounting principles, only operating costs are considered in the determination of indirect costs. As such, capital outlay, debt service, interfund transfers and "pass-through" costs are excluded from the calculations.

The City's indirect costs departments are: City Council, Administrative Services, Finance, Public Works - Administration, Public Works – Corporation Yard and Non-Departmental.

BASIS OF ALLOCATION

The City's method of cost allocation is based primarily on the Personnel Staffing Allocation and therefore assumes that all indirect costs are incurred proportionately to the amount of time each staff member spends on direct cost program. However, this may not be a reasonable assumption in all cases, as the benefit received from certain types of support service programs may be more closely related to another indicator of activity than cost.

For example, if a program service is primarily delivered through contract and does not have any City staffing directly associated with it, distributing human resources costs to it may result in an inequitable allocation of costs. Because of this, the City's Cost Allocation Plan firsts allocates indirect personnel costs and then bases the allocation of non-personnel costs on the relationship of total personnel costs (both direct and allocated) so that total personnel effort is reflected in the indirect costs allocations.

Some of these costs lend themselves to an easily justified allocation method, other costs may not be as intuitive; however, the allocation of costs are consistent with generally accepted accounting principles and recognize the concept that the cost of developing the information necessary to perform the cost allocations should not exceed the benefits likely to be gained.

INDIRECT COST ALLOCATIONS

Historically, the City has estimated the percentage of time each staff member spends in each of the direct costs areas and presented this estimate in the City's budget. Personnel costs are allocated based on these allocations. The personnel staffing allocations reflect the City's estimate of the percentage of time each staff member spends working in areas that benefit each of the City's costs centers that receive an allocation from indirect cost departments. These estimates have been determined by the department director based on staffing, anticipated work load and departmental project plans. In future years, the City's project management system in conjunction with the payroll system will provide actual time spent on various activities and projects and may form the basis for determining estimates of time spent in direct cost areas.

Non-personnel costs, such as professional fees, supplies and repairs and maintenance are allocated based on the department's personnel cost percentage applied to the total non-personnel costs to be allocated.

A summary of the indirect cost allocations is presented on the last page of this Plan.

SIMPLE METHOD OF ALLOCATING COSTS

With a sophisticated cost allocation system, the cost of one indirect program would be allocated to the other indirect costs programs and iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming and places a higher level of reliance on the underlying significance of the allocation bases than may be appropriate.

The City has opted to use a "simple method" of cost allocation. In performing the cost allocations, all indirect personnel costs have been allocated first to direct cost programs including the City's internal service funds. Then a secondary allocation is performed to allocate non-personnel costs to direct cost programs. This method is simpler than the multiple iterations employed in a complex system. For example, Administrative Services personnel costs are allocated solely to direct cost programs based on the Personnel Staffing Allocations presented in the budget. However, as Administrative Services also benefits other indirect cost programs such as Finance and Public Works Administration, the cost allocations could appear to be distorted since no allocations are made to them.

Although there are some conceptual difficulties with the simple approach, it has been determined that the cost of preparation, review and audit for a more complex allocation plan is significantly higher than the City's approach and outweighs the corresponding increase in benefit. Again, as noted above, the plan's goal is a reasonable allocation of indirect costs, not a "perfect" one.

USES OF THE COST ALLOCATION PLAN

By identifying total program costs, the Cost Allocation Plan can be used as an analytical tool in many financial decision-making situations, including:

- **Reimbursement of Cost Transfers.** The Cost Allocation Plan identifies the costs incurred by the General Fund in providing administrative support services to the City's other funds such as enterprise operations and special revenue funds. For example, although the City's administrative, legal services, human resources and accounting funds are budgeted and accounted for in the General Fund, these programs provide support services to other City funds. The Cost Allocation Plan provides a clear methodology for determining this level of support and a basis for reimbursing these costs.
- **General Fund User Charges.** Similar to ensuring that enterprise fund revenues fully recover their costs, the Cost Allocation Plan can also be used in determining appropriate user fees for General Fund services, such as planning applications, building permits and recreation activities, to ensure that the full cost of services are considered in setting fees.

PLAN PREPARATION

In a true cost accounting system, indirect costs are computed and allocated on an ongoing basis throughout the fiscal year based on actual costs. However, in municipal finance this would not serve any specific purpose—such as unit price control in a manufacturing company—while consuming significant accounting resources. Accordingly, the City’s Cost Allocation Plan is modified annually based on the current year’s budgeted costs.

This approach works well when significant variances are not expected between the budget and actual costs. However, where large variances are possible, at end of the fiscal year, a “true-up” should be calculated based on actual costs. Any variances (either over or under the Cost Allocation Plan amounts) can then be recorded in the current operating costs.

At the end of each year, the City will assess whether there were any significant variances between budget and actual, and prepare a “true-up” adjustment to reflect such variances. This practice was initiated with the financial close of FY 2016/17.

SUMMARY

The Cost Allocation Plan helps make a determination of total program costs possible by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, the Cost Allocation Plan is a valuable analytical tool for a number of situations, including establishing fees designed for full cost recovery and reimbursing support service costs provided by the General Fund to other funds. The allocation of costs is summarized on the following pages.



FY 2018/19 PERSONNEL STAFFING ALLOCATIONS

| Description | Number of Employees | --- Percent of Time Allocated By Fund --- | | | | | | | | |
|-------------------------------------|---------------------------|---|-------------------|-----------|-------------------|---------|-----------------|---------------------|---------------------|-------|
| | | General Fund | Fleet Services | IT ISF | Facilities ISF | Streets | Storm Drains | Water Enterprise | Sewer Enterprise | TOTAL |
| <u>CITY COUNCIL</u> | | | | | | | | | | |
| Councilmembers (5) | | 50.0% | | | | 5.0% | 0.0% | 20.0% | 25.0% | 100% |
| <u>ADMINISTRATION</u> | | | | | | | | | | |
| City Manager | 1 | 60.0% | | | | | | 20.0% | 20.0% | 100% |
| Administrative Services Director | 1 | 65.0% | | 15.0% | | | | 10.0% | 10.0% | 100% |
| Human Resources Technician | 1 | 60.0% | | | | | | 20.0% | 20.0% | 100% |
| City Clerk | 1 | 70.0% | | | | | | 15.0% | 15.0% | 100% |
| Administrative Assistant | 1 | 80.0% | | | | | | 10.0% | 10.0% | 100% |
| IT Technician | 1 | | | 100.0% | | | | | | 100% |
| Audi-Visual Tech | 1 | | | 100.0% | | | | | | 100% |
| <u>TOTAL</u> | <u>7</u> | | | | | | | | | |
| <u>FINANCE</u> | | | | | | | | | | |
| Finance Director/City Treasurer | 1 | 36.0% | 3.0% | 3.0% | 3.0% | 3.0% | 2.0% | 25.0% | 25.0% | 100% |
| Government Accountant II | 1 | 36.0% | 3.0% | 3.0% | 3.0% | 3.0% | 2.0% | 25.0% | 25.0% | 100% |
| Finance Technician III | 1 | 36.0% | 3.0% | 3.0% | 3.0% | 3.0% | 2.0% | 25.0% | 25.0% | 100% |
| Finance Technician II | 1 | 15.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 40.0% | 40.0% | 100% |
| <u>TOTAL</u> | <u>4</u> | | | | | | | | | |
| <u>POLICE</u> | | | | | | | | | | |
| Police Chief | 1 | 100.0% | | | | | | | | 100% |
| Lieutenant | 1 | 100.0% | | | | | | | | 100% |
| Administrative Coordinator | 1 | 100.0% | | | | | | | | 100% |
| Police Sergeant | 4 | 100.0% | | | | | | | | 100% |
| Police Officer | 10 | 100.0% | | | | | | | | 100% |
| Community Service Officers | 3 | 100.0% | | | | | | | | 100% |
| Police Service Technician | 2 | 100.0% | | | | | | | | 100% |
| Parking Enforcement Seasonal (1) | Hourly | 100.0% | | | | | | | | 100% |
| <u>TOTAL</u> | <u>22</u> | | | | | | | | | |
| <u>COMMUNITY DEVELOPMENT</u> | | | | | | | | | | |
| Community Development Director | 1 | 90.0% | | | | | | 5.0% | 5.0% | 100% |
| Special Projects Manager | 1 | 90.0% | | | | | | 5.0% | 5.0% | 100% |
| Assistant Planner | 1 | 90.0% | | | | | | 5.0% | 5.0% | 100% |
| Special Projects Assistant (PT) | 0.8 | 100.0% | | | | | | | | 100% |
| Administrative Assistant | 1 | 94.0% | | | | | | 3.0% | 3.0% | 100% |
| <u>TOTAL</u> | <u>4.8</u> | | | | | | | | | |

FY 2018/19 PERSONNEL STAFFING ALLOCATIONS

| Description | Number of Employees | --- Percent of Time Allocated By Fund --- | | | | | | | | |
|--|---------------------------|---|-------------------|-----------|-------------------|---------|-----------------|---------------------|---------------------|-------|
| | | General Fund | Fleet Services | IT ISF | Facilities ISF | Streets | Storm Drains | Water Enterprise | Sewer Enterprise | TOTAL |
| <u>PUBLIC WORKS</u> | | | | | | | | | | |
| Public Works Director | 1 | 10.0% | 5.0% | | 15.0% | 20.0% | 5.0% | 20.0% | 25.0% | 100% |
| Assistant Director of Public Works | 1 | 15.0% | 5.0% | | 10.0% | 15.0% | 5.0% | 20.0% | 30.0% | 100% |
| Public Works Project Analyst | 1 | 40.0% | | | | 10.0% | | 30.0% | 20.0% | 100% |
| Engineering Technician | 1 | 25.0% | | | | 10.0% | 10.0% | 35.0% | 20.0% | 100% |
| Engineering Technician | 1 | 15.0% | | | | 20.0% | | 45.0% | 20.0% | 100% |
| Lead Maintenance Worker | 1 | 20.0% | 5.0% | | 10.0% | 20.0% | 5.0% | 20.0% | 20.0% | 100% |
| Maintenance Worker III | 1 | 20.0% | | | | 10.0% | 5.0% | 35.0% | 30.0% | 100% |
| Maintenance Worker II | 1 | 60.0% | | | 5.0% | | | 20.0% | 15.0% | 100% |
| Maintenance Worker II | 1 | 40.0% | | | 15.0% | | | 20.0% | 25.0% | 100% |
| Maintenance Worker II | 1 | 25.0% | | | 25.0% | | | 25.0% | 25.0% | 100% |
| Maintenance Worker I | 1 | 50.0% | | | | | | 25.0% | 25.0% | 100% |
| Maintenance Worker I | 1 | 25.0% | | | 25.0% | | | 25.0% | 25.0% | 100% |
| Maintenance Worker I | 1 | 20.0% | | | | | | 50.0% | 30.0% | 100% |
| Seasonal Worker Streets (2) | Hourly | | | | | 100.0% | | 0.0% | | 100% |
| Mechanic | 1 | | 100.0% | | | | | | | 100% |
| <u>TOTAL</u> | <u>14</u> | | | | | | | | | |
| <u>WATER & WASTEWATER TREATMENT</u> | | | | | | | | | | |
| Lead Treatment Operator-WCD | 1 | | | | | | | 95.0% | 5.0% | 100% |
| Lead Treatment Operator-WW | 1 | | | | | | | 5.0% | 95.0% | 100% |
| Treatment Plant Operator II | 1 | | | | | | | 5.0% | 95.0% | 100% |
| Treatment Plant Operator II | 1 | | | | | | | 25.0% | 75.0% | 100% |
| Treatment Plant Operator II | 1 | | | | | | | 25.0% | 75.0% | 100% |
| Treatment Plant Operator II /Electriciar | 1 | | | | | | | 25.0% | 75.0% | 100% |
| Env. Compliance Coordinator | 1 | | | | | | | 5.0% | 95.0% | 100% |
| OIT | 1 | | | | | | | 5.0% | 95.0% | 100% |
| Seasonal Worker (1) | Hourly | | | | | | | 10.0% | 90.0% | 100% |
| <u>TOTAL</u> | <u>8</u> | | | | | | | | | |
| TOTAL APPROVED POSITIONS | 59.80 | | | | | | | | | |

| Fund or Department | Fund Personnel Expenditures | Personnel Costs Allocated | Total Personnel Costs Including Salary and Benefit Allocations | % of Personnel Costs | Non-Personnel Costs Allocated | Total Allocations |
|-------------------------------------|-----------------------------|---------------------------|--|----------------------|-------------------------------|-------------------|
| General Fund | \$ 6,001,962 | \$ (1,519,771) | \$ 4,482,191 | 62% | \$ (340,593) | \$ (1,860,364) |
| Sub Total General Fund | 6,001,962 | (1,519,771) | 4,482,191 | 62% | (340,593) | (1,860,364) |
| Streets (Capital Project) | | 143,060 | 143,060 | 2% | 17,503 | 160,563 |
| Facilities Repair & Maint ISF | | 125,573 | 125,573 | 2% | 15,364 | 140,937 |
| Technology Maint & Replacement ISF | 185,149 | 35,438 | 220,587 | 3% | 26,989 | 62,427 |
| Fleet & Equipment Services ISF | 98,247 | 33,670 | 131,916 | 2% | 16,140 | 49,810 |
| Water Enterprise | | 813,356 | 813,356 | 11% | 99,514 | 912,870 |
| Wastewater Enterprise | 898,849 | 368,674 | 1,267,523 | 18% | 155,082 | 523,756 |
| C.V Starr Center | | | | | 10,000 | 10,000 |
| Subtotal Indirect Cost Participants | 1,182,245 | 1,519,771 | 2,702,016 | 38% | 340,593 | 1,860,364 |
| Total | \$ 7,184,207 | \$ - | \$ 7,184,207 | 100% | \$ - | \$ - |

| Indirect Non Personnel General Fund Cost to be Allocated | |
|--|-------------------|
| City Council | \$ 19,000 |
| Administration | 44,310 |
| City Attorney | 135,000 |
| Finance | 51,072 |
| Public Works Administration | 10,700 |
| Public Works Corp Yard | 15,300 |
| Non-Departmental * | 609,860 |
| | 885,242 |
| Less Allocation to C.V. Starr Enterprise | 10,000 |
| | <u>\$ 875,242</u> |

* Excludes Transfers, Allocations, Caspar and Community Support

| Allocated To | Fleet and Equipment Services | Facilities Repair and Maintenance | Technology Maintenance And Replacement | Total |
|------------------------------|------------------------------------|--------------------------------------|---|--------------|
| Police Department | \$ 220,534 | | | |
| Non-Departmental | 19,600 | | | |
| Public Works: Parks | 33,197 | | | |
| Public Works: Streets | 14,419 | | | |
| Public Works: Storm Drains | 8,188 | | | |
| Public Works: Traffic Safety | 7,525 | | | |
| General Fund (Including PEG) | 303,463 | 163,749 | 250,506 | 717,719 |
| Water | 64,985 | 67,656 | 104,825 | 237,466 |
| Wastewater | 134,553 | 67,656 | 104,825 | 307,034 |
| Total | \$ 503,001 | \$ 299,062 | \$ 460,155 | \$ 1,262,218 |



CITY OF FORT BRAGG - FY 2018/19
Salary/Benefit & Overhead Allocations

| Fund Type/Name | Transfers In | Transfers Out |
|--|-------------------------|--------------------------|
| 110 General Fund | | |
| From Facilities Maintenance, Salary/Benefit | \$ 125,573 | |
| From Facilities Maintenance, Overhead | 15,364 | |
| From Information Technology, Salary/Benefit | 35,438 | |
| From Information Technology, Overhead | 26,989 | |
| From Fleet Internal Service Fund, Salary/Benefit | 33,670 | |
| From Fleet Internal Service Fund, Overhead | 16,140 | |
| From Street Maintenance, Salary/Benefit | 143,060 | |
| From Street Maintenance, Overhead | 17,503 | |
| From Water Enterprise, Salary/Benefit | 606,927 | |
| From Water Enterprise, Overhead | 99,514 | |
| From Wastewater Enterprise, Salary/Benefit | 368,674 | |
| From Wastewater Enterprise, Overhead | 155,082 | |
| From Successor Agency, Overhead | 119,228 | |
| From C.V. Starr, Overhead | 10,000 | |
| Total - General Fund | 1,773,163 | - |
| 175 Successor Agency | | |
| To General Fund, Overhead | | (119,228) |
| Total - Successor Agency | - | (119,228) |
| 221 Highway User Tax | | |
| To General Fund, Salary/Benefit | | (143,060) |
| To General Fund, Overhead | | (17,503) |
| Total - Successor Agency | - | (160,563) |
| 520 Facilities Maintenance | | |
| To General Fund, Salary/Benefit | | (125,573) |
| To General Fund, Overhead | | (15,364) |
| Total - Facilities Maintenance | - | (140,937) |
| 521 Information Technology | | |
| To General Fund, Salary/Benefit | | (35,438) |
| To General Fund, Overhead | | (26,989) |
| Total - Information Technology | - | (62,427) |
| 522 Fleet Internal Service Fund | | |
| To General Fund, Salary/Benefit | | (33,670) |
| To General Fund, Overhead | | (16,140) |
| Total - Fleet Internal Service Fund | - | (49,810) |
| 610 Water Enterprise | | |
| To General Fund, Salary/Benefit | | (606,927) |
| To Wastewater, Salary/Benefit | | (206,429) |
| To General Fund, Overhead | | (99,514) |
| Total - Water Enterprise | - | (912,870) |
| 710 Wastewater Enterprise | | |
| To General Fund, Salary/Benefit | | (368,674) |
| To General Fund, Overhead | | (155,082) |
| From Water, Salary/Benefit | 206,429 | |
| Total - Wastewater Enterprise | 206,429 | (523,756) |
| 810 C.V. Starr Center | | |
| To General Fund, Overhead | | (10,000) |
| Total - C.V. Starr Center | - | (10,000) |
| Total Allocations | \$ 1,979,592 | \$ (1,979,592) |

TEN-YEAR AUTHORIZED STAFF POSITION COMPARISON

| | FY 2009-10 | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 | Variance vs FY09-10 | % Variance |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------------|---------------|
| General Government | | | | | | | | | | | | |
| Administrative Services | 5.00 | 4.80 | 4.80 | 6.00 | 6.00 | 6.00 | 6.50 | 6.50 | 7.00 | 7.00 | 2.00 | 40% |
| Finance Department | 5.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | (1.00) | -20% |
| Sub-Total | 10.00 | 8.80 | 8.80 | 10.00 | 10.00 | 10.00 | 10.50 | 10.50 | 11.00 | 11.00 | 1.00 | 10% |
| Public Safety | | | | | | | | | | | | |
| Police Department | 23.00 | 21.00 | 21.00 | 21.00 | 22.00 | 22.00 | 22.00 | 22.00 | 22.00 | 22.00 | (1.00) | -4% |
| Sub-Total | 23.00 | 21.00 | 21.00 | 21.00 | 22.00 | 22.00 | 22.00 | 22.00 | 22.00 | 22.00 | (1.00) | -4% |
| Community Services | | | | | | | | | | | | |
| Community Development | 4.75 | 3.80 | 3.80 | 3.80 | 4.30 | 4.00 | 4.30 | 4.50 | 4.80 | 4.80 | 0.05 | 1% |
| Public Works | 14.50 | 12.60 | 12.60 | 12.60 | 13.60 | 12.60 | 12.80 | 12.80 | 14.00 | 14.00 | (0.50) | -3% |
| Enterprise Funds | 8.00 | 7.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | - | 0% |
| Sub-Total | 27.25 | 23.40 | 24.40 | 24.40 | 25.90 | 24.60 | 25.10 | 25.30 | 26.80 | 26.80 | (0.45) | -2% |
| Total Authorized Positions | 60.25 | 53.20 | 54.20 | 55.40 | 57.90 | 56.60 | 57.60 | 57.80 | 59.80 | 59.80 | (0.45) | -1% |

Note 1: Staffing comparison excludes Seasonal and Temporary positions.

Note 2: In FY2012/13 an Information Technology Technician position was added to Administrative Services.

Note 3: In FY2013/14, a Community Service Officer position was added to the Police Department; an Operator in Training was added to the Wastewater Enterprise; and a part-time grant-funded Grants Assistant was added to Community Development.

Note 4: FY 2014/15 reflects reclassification of the Housing & Economic Development Coordinator to full time, and deauthorization of a part-time Grants Assistant in Community Development. The Public Works Manager position was eliminated in Public Works.

Note 5: FY 2015/16 reflects the authorization of a part-time Grants Assistant in Community Development, a part-time Audio-Visual Tech in Administration and the increase to 80% of the Water Project Coordinator in Public Works. The Associate Planner in Community Development was reduced to 80%.

Note 6: FY 2016/17 reflect reclassification of the Operations Manager to the Assistant Public Works Director

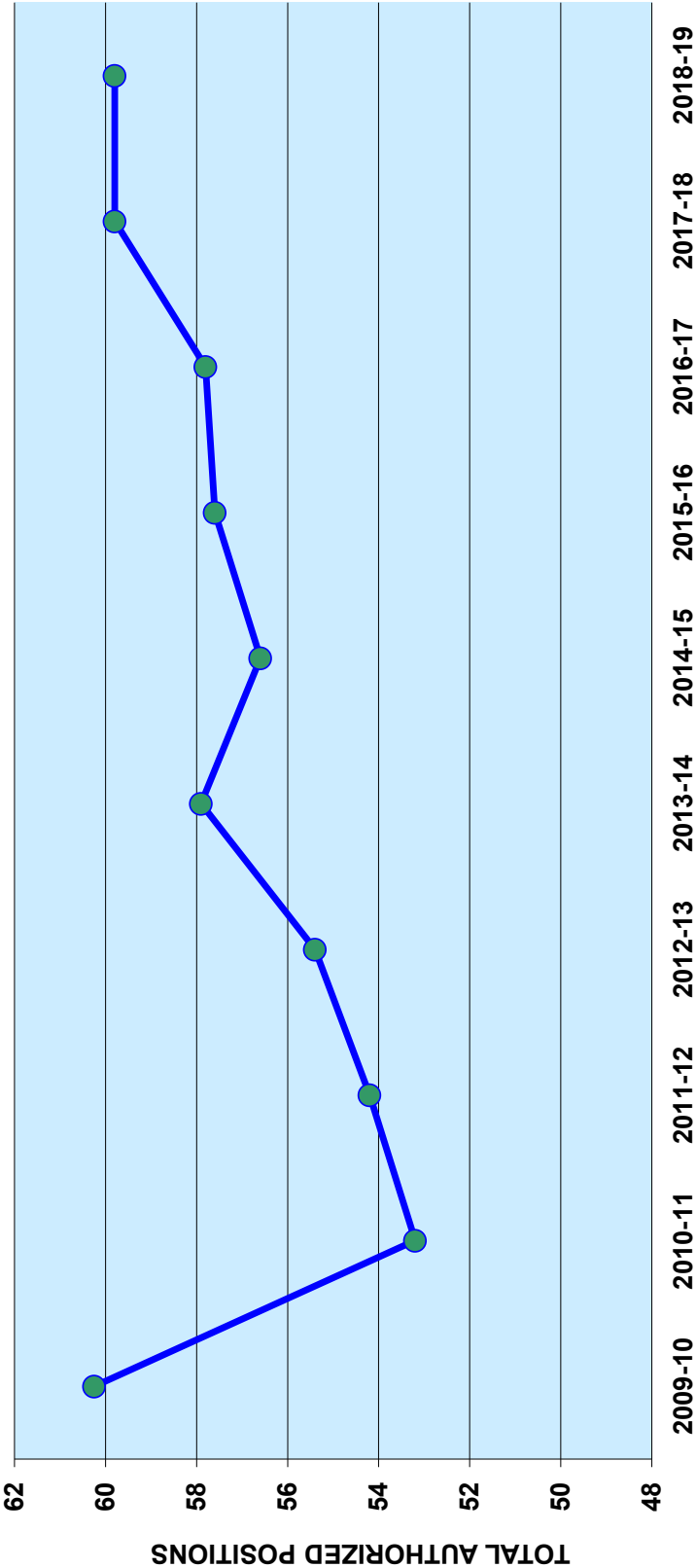
Note 7: FY 2017/18 reflects reclassification of the part time (80%) Water Project Coordinator to a full time Engineering Technician

Note 8: FY 2017/18 reflects the addition of a Public Works Maintenance I position for Noyo Headlands Park mal

Note 9: FY 2017/18 reflects the increase of the Grants Assistant position from part-time to full time

Note 10: FY 2017/18 reflects the increase of the AV Technician position from part-time to full time

TEN YEAR AUTHORIZED STAFFING COMPARISON



FY2018/19 ARTICLE XIIB APPROPRIATIONS LIMIT

The Appropriations Limit imposed by Proposition 4 and modified by Propositions 98 and 111 creates a restriction on the amount of revenue that can be appropriated in any fiscal year. The Appropriations Limit is based on actual appropriations during FY 1978/79 and is increased each year using the growth of population and inflation. The only revenues that are restricted by the Appropriations Limit are those referred to as "proceeds of taxes." Some examples of taxes are sales tax, property tax, transient occupancy tax and State motor vehicles in lieu tax.

During any fiscal year, a city may not appropriate any proceeds of taxes it receives in excess of its Appropriations Limit. If the city receives excess funds in any one year, it can carry them into the subsequent year to be used if the city falls below its Appropriations Limit in that year. Any excess funds remaining after the second year must be returned to the taxpayers by reducing tax rates or fees. As an alternative, a majority of the voters may approve an "override" to increase the Appropriations Limit. The City of Fort Bragg's budgeted expenditures have always been well below its annual Appropriations Limit.

The factors used are:

- **Population Factor** – At the City's choice, either the annual change in City or County population.
- **Price Factor** – At the City's choice, either the change in California per capita income or increase in non-residential assessed valuation due to new construction.

The formula to be used in calculating the growth rate is:

$$\frac{\% \text{ Change in population} + 100.00}{100.00}$$

Multiplied by either

$$\frac{\$ \text{ Change in per capita income} + 100.00}{100.00}$$

or

$$\frac{\text{Change in non-residential assessments} + 100.00}{100.00}$$

The resultant rate multiplied by the previous appropriation limit equals the new appropriation limit. In May 2018, the California State Department of Finance notified cities of the population change and the per capita personal income factor to be used to determine the appropriation limit. Using the change in per capita income method, the calculation as applied to the City of Fort Bragg for FY2018/19 is:

- The population at January 1 of the previous year for the County is .23% and for the City is .85%. The City population change is the greater of the two therefore it is the percentage that will be used.
- The per capita income percentage change is 3.67%.

The factor for determining the year-to-year increase is computed as:

$$\frac{3.67 + 100.00}{100.00} \times \frac{0.85 + 100.00}{100.00} = 1.04551$$

Applying this year's factor to last year's limit of \$9,802,296, the appropriations limit for FY2017/18 is \$10,248,398. With appropriations subject to the limitation totaling approximately \$6,391,103, the City of Fort Bragg is not at risk of exceeding the Gann Limit.

**City of Fort Bragg Appropriation Limit
Applied to FY 2018/19 Budget**

Proceeds of Taxes**Property & Other Taxes**

| | |
|-----------------------------------|------------------|
| Property Taxes | \$ 1,071,201 |
| Sales & Use Taxes, Prop 172 Taxes | 1,792,993 |
| Transient Occupancy Taxes | 2,759,609 |
| Franchise Taxes | 522,840 |
| Transfer Taxes | 23,811 |
| Business License Taxes | 199,395 |
| Subtotal - Taxes | 6,369,849 |

Proceeds of Non Taxes

| | |
|--|------------------|
| Licenses & Permits | 114,063 |
| Fines & Forfeitures | 42,500 |
| Use of Money & Property (less interest earned) | 20,600 |
| Intergovernmental | 232,300 |
| Charges for Services | 2,609,596 |
| Other Revenues | 51,570 |
| Subtotal - Non Taxes | 3,070,629 |

Total Non Taxes & Taxes **9,440,478**

Allocate Interest Based on Ratios

| | |
|-----------------------|---------------|
| Non Taxes (33%) | 10,246 |
| Taxes (67%) | 21,254 |
| Total Interest | 31,500 |

Total Revenue **\$ 9,471,978**

| | |
|-----------------------------------|---------------------|
| FY 2018/19 Appropriations Limit | 10,248,398 |
| Less Proceeds of Taxes | 6,391,103 |
| Under Maximum Appropriation Limit | \$ 3,857,295 |

