

FY 2018-19

19-119 - FY 18-19 Mid-Year Budget Report



Legistar

City of Fort Bragg

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FY 2018/19 MID-YEAR BUDGET REVIEW

INTRODUCTION

The City of Fort Bragg Mid-Year Performance Report addresses the financial activity during the first two quarters of FY 2018/19. The report focuses on the General Fund and the Water and Wastewater Enterprise Funds. Special Revenue and Capital Project Funds are not included in the City's base operating budget and, therefore, are not detailed in the Mid-Year Performance Report. The C.V. Starr Center Enterprise Fund is addressed in a separate report.

In reviewing this report, the following information should be taken into consideration:

- Revenues and expenditures are recorded during the period received or paid. As of January 31st, accrual entries were made to associate January receipts and expenditures to the second quarter as appropriate. Year-end accruals use a 60-day window and therefore are more exhaustive.
- The schedule of revenues received varies according to the source of funding. As an example, property tax payments are received as follows: 55% in December, 38% in April and 7% in August of the following fiscal year. The August payment is presented in the fiscal year to which it relates.
- Although most expenditures occur monthly, there are some quarterly, semi-annual, and even annual expenditures. Examples include debt service payments, liability insurance, and audit fees.
- This report is not meant to be inclusive of all finance and accounting transactions. It is intended only to provide the Council and the public with an overview of the state of the City's general fiscal condition. The report has been prepared by the City's finance department without audit and does not include many of the year-end adjustments required to bring the City's financial records into compliance with generally accepted accounting principles (i.e. accruals of sales and use tax revenues, payroll and other expenditures).

GENERAL FUND

The General Fund supports many of the day-to-day operations of the City, including police and fire protection, street and park maintenance, community development, and general administrative functions. The General Fund receives the broadest variety of revenues and many of its revenue sources are cyclical in nature. By contrast, the revenue sources for the Enterprise Funds are received on a monthly basis and, as a result, are more evenly distributed throughout the fiscal year.

The General Fund includes all services that are funded through general taxes. It is the funding source for all City programs except those that are paid for through dedicated taxes, user fees or impact fees, or grants.

FISCAL YEAR 2017/2018 RECAP

Fund Balance; FY2017/18		Fund Balance Classification; FY2017/18	
Fund Balance at 07/01/2017	\$ 3,106,935	Nonspendable	
Revenue	9,195,822	Prepays and inventory	\$ 87,433
Less Expenditures	(9,453,298)	Loans/Notes receivable	6,867
Net Transfers	110,014	Committed	
Fund Balance at 06/30/2018	<u>\$ 2,959,473</u>	Encumbrances	62,229
		Reserves	
		Operating reserve	1,431,368
		Litigation reserve	200,000
		Unassigned fund balance	<u>1,171,576</u>
		Fund Balance at 06/30/2018	<u>\$ 2,959,473</u>

Fiscal Year 2017/18 ended with an annual fund balance decrease of \$148k. The FY2017/18 budget however called for a deficit of \$688k. Revenues outpaced budget by \$119k, expenditures were below budget by \$252k and transfers outpaced budget by \$169k. The General Fund continues to maintain an operating reserve of \$1.4M, a litigation reserve of \$200k. Unassigned fund balance increased \$204k.

FISCAL YEAR 2018/2019 AS OF 12/31/2018

General Fund **revenues** (excluding transfers) for the first half of FY 2018/19 totaled \$4.6M, representing 49% of the amended annual budget. The projected year-end total \$9.6M or approximately \$23k more than budget.

Revenue; FY2018/19 Budget vs. Actual								
Revenue Source:	FY2018 Audited Results	FY2019 Adopted Budget	Pro Rated Budget as of 12/31/2018	Actual Balance as of 12/31/2018	% Variance at mid-year	\$ Variance Actual balance vs Pro Rated Budget	FY2019 Projected Year End	Variance of Projected FYE vs. Adopted Budget
Transient Occupancy Tax	\$ 2,619,227	\$ 2,759,609	\$ 1,379,804	\$ 1,538,085	56%	\$ 158,281	\$ 2,698,395	\$ (61,214)
Sales and Use Tax	1,785,264	1,792,993	896,497	863,200	48%	(33,297)	1,851,800	58,807
Property Tax	1,034,552	1,095,012	547,506	529,663	48%	(17,843)	1,088,270	(6,743)
Other Taxes	718,762	756,047	378,024	258,711	34%	(119,313)	750,860	(5,187)
Sub Total Tax Revenue	6,157,805	6,403,661	3,201,831	3,189,659	50%	(12,172)	6,389,324	(14,337)
Licenses & Permits	124,830	114,063	57,031	33,122	29%	(23,909)	130,510	16,447
Fines and Forfeitures	34,563	42,500	21,250	35,696	84%	14,446	56,946	14,446
Intergovernmental	31,628	31,000	15,500	-	0%	(15,500)	30,500	(500)
Use of Money and Property	(110,374)	59,500	29,750	25,395	43%	(4,355)	55,288	(4,212)
Charges for Services	63,296	68,200	34,100	39,375	58%	5,275	67,476	(724)
Operating Grant Revenue	120,795	201,300	100,650	26,042	13%	(74,608)	177,550	(23,750)
Reimbursements	2,694,334	2,588,571	1,294,285	1,287,653	50%	(6,632)	2,646,751	58,180
Other Revenue	78,946	51,570	25,785	3,159	6%	(22,626)	28,959	(22,611)
Total	\$ 9,195,822	\$ 9,560,365	\$ 4,780,182	\$ 4,640,101	49%	\$(140,081)	\$9,583,303	\$ 22,939

- ❖ Transient Occupancy tax continues to grow but is projected to end the year below budget by approximately \$61k. On a year over year basis the increase is likely to be about 3%. This is lower than the original growth projection of 7% and is due to the delayed implementation of the City's Marketing & Promotion Plan. While implementation of the marketing plan has been slow it does continue to move forward. With over \$250k being invested annually the City would like to see more robust returns in the years to come. Additionally, the TOT audit recently funded by the City Council has the potential to increase TOT collections in the months and years to come.
- ❖ Sales and Use Tax is projected to end the year slightly above budget (\$59k), with a year over year increase of 4% expected. While Sales and Use Tax was essentially flat for many years, the last few years have shown a slow but steady growth trend. Over the last year, gas prices increased and stabilized at around \$3/gallon which likely accounts for some of the revenue growth. Moving forward, this revenue source has the potential to see greater increases driven by implementation of the City's Marketing & Promotions Plan.
- ❖ Operating Grant revenue is expected to end the year under budget by \$24k. Staff time spent administering the two grants associated with the Wastewater Treatment Plant capital project will not be billed until FY 2019/20, thus causing the current year variance.
- ❖ Reimbursements are expected to come in higher than budgeted by \$58k. One reason for the variance is reimbursements were received for the annual fireworks show from the Friends of the Fort Bragg Fireworks (\$12k) plus community contributions for the Coastal Trail celebration (\$20k). Additionally reimbursements associated with developer projects are expected to outpace budget by \$20k at year end. A few of the current developer projects include Hare Creek Center, Auto Zone, Avalon Hotel, Habitat for Humanity and DANCO.

City of Fort Bragg
FY 2018/19 Mid-Year Performance Report
As of December 31, 2018

General Fund **expenditures** (excluding transfers) for the first half of FY 2018/19 totaled \$4.4M, representing 45% of the amended annual budget. Appropriations of \$9.54M were adopted for FY 2018/19. Throughout the course of the year, budgeted appropriations have been increased by \$114k resulting in an amended budget of \$9.55M. Purchase Order rollovers and re-appropriations in the Marketing & Promotions department equaled \$109,310. Rollovers and re-appropriations are considered an expenditure of fund balance and are not reflected in the calculation of the operating budget deficit or surplus. Appropriations were increased by \$5,500 for the NextRequest software in the Clerk's office. With the one minor increase in appropriations the City's General Fund operating budget still shows a surplus of \$14k. At mid-year, the projected year-end total is \$9.3M or approximately \$355k less than the amended budget.

Expenditures; FY2018/19 Budget vs. Actual - By Category								
Expenditure By Category:	FY2018 Audited Results	FY2019 Adopted Budget	Budget Amendments	FY2019 Final Budget	YTD Balance as of 12/31/2018	% Variance Budget vs. Actual	FY2019 Projected Year End	Variance of Projected Year End vs. Final Budget
Salaries	\$ 3,940,434	\$ 3,753,299	\$ -	\$ 3,753,299	\$ 1,751,516	47%	\$ 3,638,007	\$ 115,292
Benefits	2,537,965	2,488,175	-	2,488,175	1,138,196	46%	2,332,174	156,001
Materials & Services	2,080,027	2,242,530	127,410	2,369,939	973,600	41%	2,301,255	68,684
Other Expenditures	107,966	153,801	(12,600)	141,201	47,373	34%	125,953	15,248
Debt Service	185,535	185,533	-	185,533	92,767	50%	185,533	-
Allocations to Internal Service	601,371	717,667	-	717,667	358,834	50%	717,666	-
Total	\$ 9,453,298	\$ 9,541,005	\$ 114,810	\$ 9,655,814	\$ 4,362,286	45%	\$ 9,300,588	\$ 355,226

Expenditures; FY2018/19 Budget vs. Actual - By Department								
Expenditure By Department:	FY2018 Audited Results	FY2019 Adopted Budget	Budget Amendments	FY2019 Final Budget	YTD Balance as of 12/31/2018	% Variance Budget vs. Actual	FY2019 Projected Year End	Variance of Projected Year End vs. Final Budget
General Government:								
City Council	\$ 123,845	\$ 136,534	\$ -	\$ 136,534	\$ 69,355	51%	\$ 151,383	\$ (14,849)
Administrative Services	1,167,227	1,099,643	86,510	1,186,153	486,743	41%	1,039,180	146,973
Litigation Reserve	21,420	-	-	-	29,127	n/a	70,000	n/a
Finance	498,008	471,032	30,400	501,432	219,944	44%	488,207	13,225
Non-Departmental	1,057,780	879,943	5,500	885,443	487,542	55%	849,046	36,397
Community Organizations	106,936	128,469	(7,600)	120,869	47,124	39%	118,651	2,218
Caspar Closure	218	70,225	-	70,225	511	1%	70,511	(286)
Community Development:	509,807	522,231	-	522,231	249,396	48%	425,646	96,585
Public Safety:								
Police Department	3,707,841	3,765,255	-	3,765,255	1,662,695	44%	3,589,185	176,070
Fire Department	400,421	413,843	-	413,843	189,767	46%	411,629	2,214
Public Works:								
Administration & Engineering	531,488	601,698	-	601,698	278,691	46%	665,894	(64,196)
Parks and Facilities	191,691	233,931	-	233,931	111,020	47%	233,930	-
Street Maintenance	169,708	162,419	-	162,419	52,204	32%	149,913	12,506
Storm Drains	28,277	76,188	-	76,188	12,522	16%	76,188	-
Corporation Yard	708,985	729,602	-	729,602	351,164	48%	715,942	13,660
Traffic and Safety	44,111	64,460	-	64,460	21,714	34%	59,750	4,710
Debt Service	185,535	185,533	-	185,533	92,767	50%	185,533	-
Total	\$ 9,453,298	\$ 9,541,005	\$ 114,810	\$ 9,655,814	\$ 4,362,286	45%	\$ 9,300,588	\$ 355,226

- ❖ The Administrative Services department is projected to end the year under budget by \$147k. Included in Administrative Services is The City Manager's office, Human Resources, the City Clerk's office and the Marketing & Promotions department. Staff reductions in the department will result in budget savings of approximately \$71k. Another \$37k of savings is expected due to a renegotiated contract with the City Attorney. Lastly, although implementation of the City's Marketing & Promotions plan is

underway, the department is not expected to expend all of the appropriated funds resulting in a budget variance of \$41k.

- ❖ The Community Development department is projected to end the year under budget by \$97k. The budget savings is due in large part to the reorganization of the department. In January 2019 the City's Special Projects Manager and Special Projects Assistant moved from the Community Development department to the Public Works department. A budget amendment will be required to transfer the associated personnel budget between the two departments.
- ❖ The Public Works department is projected to end the year over budget by \$64k. The budget overage is due to the reorganization of the department. In January 2019 the City's Special Projects Manager and Special Projects Assistant moved from the Community Development department to the Public Works department. A budget amendment will be required to transfer the associated personnel budget between the two departments.
- ❖ The Police Department is projected to end the year \$176k under budget. The budget saving is due in part to the reorganization of the department and subsequent resignation of the Police Lieutenant. The loss of the Police Lieutenant has been compounded by a very challenging police officer recruiting environment; both nationally and particularly in small rural communities. The result is a budget savings caused by unfilled positions in the department. From a strictly budgetary stand point the variance could be considered positive but the strain put on the current staffing indicates the variance is symptomatic of a service shortage. Several recruiting efforts have been put in place including hiring and referral bonuses as well as an expanded presence at recruiting fairs. Although the department has identified some promising officer recruits and has one officer scheduled to be hired in the early spring, it appears the staffing difficulties in the Police Department are likely to continue at least in the short term.

The following table demonstrates the **net program cost** for each of the City's departments:

Net Program Cost; FY2018/19 by Department				
	FY2019			
	Projected	Projected	Net	Program
	Year End	Program	Program	Revenue
Department:	Cost	Revenue	Cost	%
General Government:				
City Council	\$ 151,383	\$ (58,767)	\$ 92,616	39%
Administrative Services	1,039,180	(235,602)	803,578	23%
Litigation Reserve	70,000	-	70,000	0%
Finance	488,207	(351,921)	136,286	72%
Non-Departmental	849,046	(30,784)	818,262	4%
Community Organizations	118,651	(37,288)	81,363	31%
Caspar Closure	70,511	-	70,511	0%
Community Development:	425,646	(312,288)	113,358	73%
Public Safety:				
Police Department	3,589,185	(360,857)	3,228,328	10%
Fire Department	411,629	-	411,629	0%
Public Works:				
Administration & Engineering	665,894	(534,486)	131,408	80%
Parks and Facilities	233,930	-	233,930	0%
Street Maintenance	149,913	(270,403)	(120,490)	180%
Storm Drains	76,188	-	76,188	0%
Corporation Yard	715,942	(470,428)	245,514	66%
Traffic and Safety	59,750	-	59,750	0%
Debt Service	185,533		185,533	0%
Total	\$9,300,588	\$(2,662,825)	\$6,637,763	29%

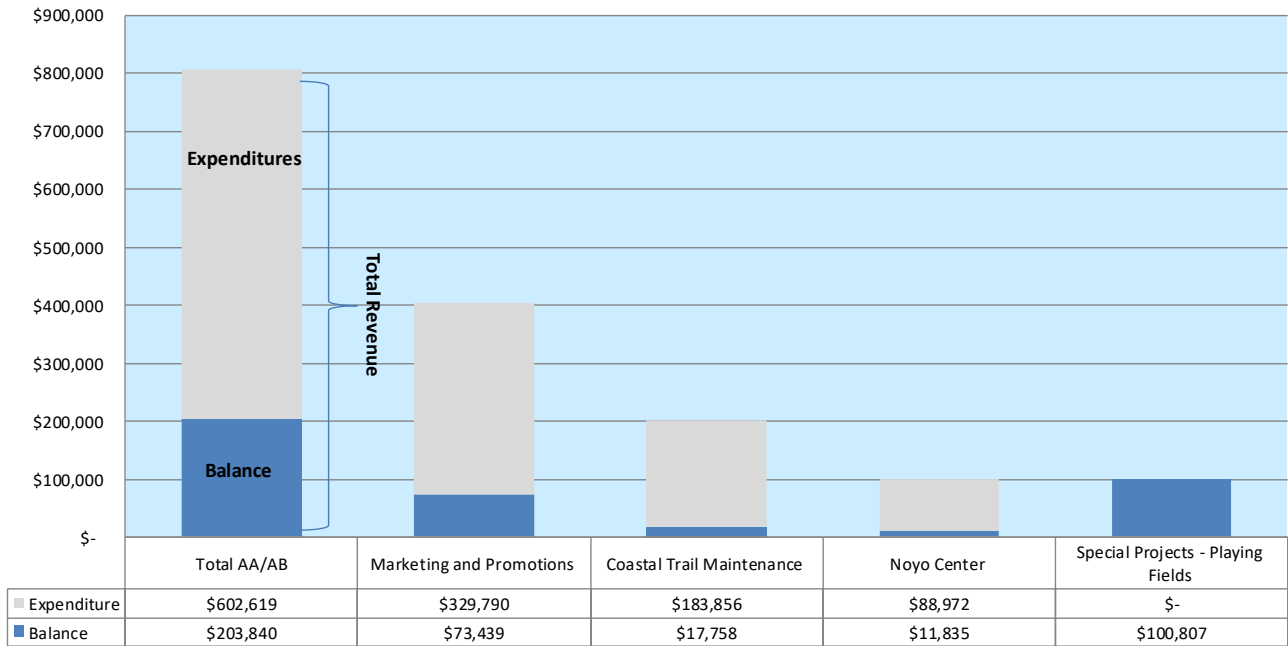
Projected Fund Balance; FY2018/19	
Fund Balance at 07/01/2018	\$2,959,473
Revenue	9,583,303
Less Expenditures	(9,300,588)
Net Transfers	16,666
Change in Fund Balance	299,381
Fund Balance at 06/30/2019	\$3,258,854

Projected Fund Balance; FY2018/19	
Nonspendable	
Prepays and inventory	\$ 1,143
Advances to other funds	2,871
Committed	
Encumbrances	62,229
Reserves	
Operating reserve	1,431,368
Litigation reserve	200,000
Unassigned fund balance	1,561,243
Fund Balance at 06/30/2019	\$3,258,854

With projected revenues of \$9.6M, expenditures of \$9.3M and net transfers out of \$17k, staff projects the general fund to end FY18/19 with a **fund balance** of \$3.3M. This represents a \$285k or 10% increase over the final audited balance for FY17-18. As can be seen to the right unassigned fund balance at year end is expected to grow to \$1.6M. Per Council policy, 50% of any realized year-end surplus will be used to pay down the City's unfunded pension liability.

MEASURE AA/AB:

Measure AA/AB Financial Results
As of 12-31-2018



In November 2016, the citizens of Fort Bragg passed Measure AA which increased the City's TOT rate from 10% to 12%. The new rate became effective April 1, 2017. The chart above illustrates the amount of tax collected in Q4 FY16-17 through Q2 FY18-19 due to passage of the measure. The chart also illustrates amounts spent thus far and balances remaining both in total and for each of the four program areas earmarked for the revenue.

Total: tax collections through seven quarters total \$806k. Expenditures thus far equal \$602k leaving an unspent balance of \$204k.

Marketing and Promotions: this program is earmarked for 50% or \$403k of total measure AA taxes collected. Thus far expenditures are \$330k leaving a balance of \$74k. Implementation of the City's marketing plan was outsourced in September of 2017 to Playhouse Creative, Inc. DBA The Color Mill. In FY 2018-19 City Council approved a contract with Cubic, Inc. for a wide array of marketing services. It should be noted that \$24k of unencumbered funds from the FY2017-18 fiscal year were subsequently rolled into the FY2018-19 budget.

Coastal Trail Maintenance: this program is earmarked for 25% or \$202k of total measure AA taxes collected. Thus far expenditures are \$184k leaving a balance of \$18k. In FY 2018-19, maintenance costs funded by Measure AB were budgeted at \$115k whereas the estimated annual maintenance is approximately \$150k. Staff will apply unspent balance from previous years to staff time spent maintaining the park in the second half of 2018-19. Any amounts not paid with Measure AA/AB funds will be paid from other general revenue sources.

Noyo Center for Marine Science: this program is earmarked for 12.5% or \$101k of total measure AA taxes collected. Through the second quarter of FY18-19 \$89k has been granted to the Noyo Center leaving a balance of \$12k. Collected taxes will continue to be granted to the Noyo Center on a quarterly basis.

Special Projects – School Playing Fields: this program is earmarked for 12.5% or \$101k of total measure AA tax collected. In the third quarter of 2018-19 \$95k will be granted to the Fort Bragg Unified School district for purchase of equipment necessary to maintain the playing fields. Another \$21k is expected to be granted in the 4th quarter of the year to the Greater Fort Bragg Field Improvement Association to help fund preparation of improvement plans for the Redwood Elementary school field.

City of Fort Bragg -Measure AA/AB
Overall Program - Profit/Loss & ROI

As of 12/31/2018

Incremental Increase in City TOT	\$ 179,416
Incremental Increase in Sales tax - due to volume increases	128,331
Expenditures since Inception	(602,619)
Profit/(Loss)	<u>\$ (294,872)</u>
Return on Investment:	<u>-49%</u>

WATER ENTERPRISE

FISCAL YEAR 2017/2018 RECAP

The Water Enterprise rate structure is functioning as designed and continues to fund all operations, maintain the operating reserve, provide for debt and accumulate funds for infrastructure upgrades, replacements and maintenance. Fiscal Year 2017/18 ended with an annual **net position** increase of \$1.9M. Net Income before transfers was \$933k. Per policy, the operating reserve is set at 25% of the prior year's operating expense and for Fiscal Year 2017/18 was set at \$514k. Fiscal year 2017/18 saw transfers from the CDBG fund in the form of grant funding for the new Water Tank capital project (\$968k). The capital reserve increased year over year by \$91k despite capital expenditures of approximately \$760k. Capital funding provided by the enterprise in FY 2017/18 included \$600k for the new Water Tank project and \$160k in cover material for the Summers Lane Reservoir. Net investment in capital assets increased \$1.9M year over year. The five year CIP for the Water Enterprise stands at \$8.5M while total identified capital projects equals \$11.5M. The enterprise is well positioned to continue work on many of the projects listed on page 212 of the FY18-19 budget.

Net Position; FY2017/18		Net Position Categories; FY2017/18	
Net Position at 07/01/2017	\$ 5,819,485	Net investment in capital assets	\$ 4,450,886
Total Revenue	2,966,670	Restricted for debt service	108,064
Total Expense	(2,033,988)	Capital Reserve	2,663,829
Net Transfers	984,816	Operating Reserve	514,204
Change in net position	1,917,498	Net Position at 06/30/2018	\$ 7,736,983
Net Position at 06/30/2018	\$ 7,736,983		

FISCAL YEAR 2018/2019 AS OF 12/31/2018

Revenue, Expense & Transfers FY2018/19 Budget vs. Actual						
	FY2018			%	FY2019	\$ Variance Budget
	Audited	FY 2019 Final	YTD Balance as	Variance	Projected	vs. Projected Year
Water Enterprise	Results	Budget	of 12/31/2018	Budget vs. Actual	Year End	End
Revenue	\$ 2,966,670	\$ 3,118,372	\$ 1,645,364	53%	\$ 3,204,856	\$ 86,484
Less expenses						
Personnel services	788,551	813,356	406,678	50%	813,356	(0)
Administration	271,330	283,859	142,496	50%	283,701	158
Repairs & maintenance	49,350	183,748	27,666	15%	183,748	0
Materials & supplies	167,373	177,382	79,594	45%	173,126	4,256
Utilities	129,933	130,000	60,430	46%	130,000	-
Contractual services	167,238	130,860	36,070	28%	124,686	6,174
Insurance	14,470	16,000	7,323	46%	14,646	1,354
Other operating	3,304	9,500	3,782	40%	9,500	-
Interest/Debt Service *	118,537	451,796	371,641	82%	451,796	-
Depreciation **	323,902	-	-		325,000	-
Sub Total Expense	2,033,988	2,196,501	1,135,680	52%	2,509,559	11,942
Net transfers ; in (out)	984,817	205,000	630,000	307%	630,000	425,000
Net Revenue/(Expense)	\$ 1,917,499	\$ 1,126,871	\$ 1,139,684		\$ 1,325,297	\$ 535,368

* Audited results do not include payment of principal which is not an expense in full accrual accounting

** Depreciation Expense is not budgeted and therefore not included in calculation of budget variance

Water Enterprise **revenues** for the first half of FY 2018/19 totaled \$1.6M, representing 53% of the amended annual budget. Revenue from ratepayers is projected to increase 8% on a year-over-year basis. The Enterprise raised rates in FY18-19 by 5%. Additionally a year-over-year comparison of water consumption indicates an 11% increase in usage in the first half of the year. Also, the enterprise is seeing high investment returns than projected in the budget (\$27k). The projected year-end total is \$3.2M or approximately \$87k more than budget.

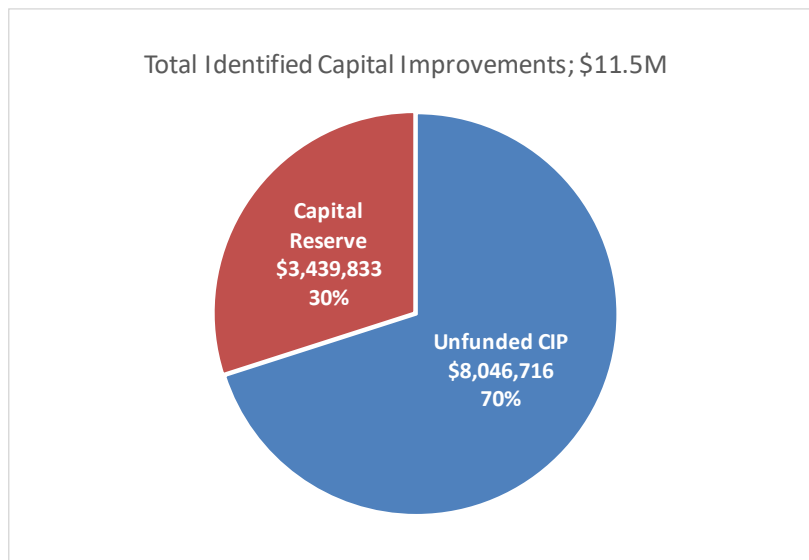
Water Enterprise **expenses** for the first half of FY2018/19 totaled \$1.1M, representing 52% of the amended annual budget. The projected year-end total is \$2.2M (excluding depreciation) or approximately \$12k more than budget:

- ❖ At midyear, Repairs & Maintenance and Contractual Services are at 15% and 28% of the annual budget respectively. This is due to scheduling of project work that typically gets underway in the spring and summer. Debt Service is at 82% of budget at midyear due to the nature of debt payment schedules that call for payments in the fall and spring.
- ❖ No significant variances are expected in any of the enterprise expense categories at year end.
- ❖ Transfers in of \$630k were received in the form of grant reimbursement from the State Water Resources Control Board for the Summer's Lane reservoir project.
- ❖ Capital projects underway in FY2018/19 include \$200k for the Raw Water Pond rehabilitation and \$680k for the design phase of the Raw Water Line replacement project.

Projected Net Position; FY2018/19	
Net Position at 07/01/2018	\$ 7,736,983
Total Revenue	3,204,856
Total Expense	(2,509,559)
Net Transfers	630,000
Change in net position	1,325,297
Net Position at 06/30/2019	\$ 9,062,280

Projected Net Position Categories; FY2018/19	
Net investment in capital assets	\$ 5,005,886
Restricted for debt service	108,064
Capital Reserve	3,439,833
Operating Reserve	508,497
Net Position at 06/30/2019	\$ 9,062,280

With projected revenues of \$3.2M, expenses of \$2.5M and transfers in of \$630k, staff projects the Water enterprise to end FY18/19 with a **net position** of \$9M. The Enterprise Capital Reserve is expected to increase \$776k while the Net Investment in Capital Assets is expected to grow approximately \$555k.



WASTEWATER ENTERPRISE

FISCAL YEAR 2017/2018 RECAP

The Wastewater Enterprise rate structure is functioning as designed and continues to fund all operations, maintain the operating reserve, provide for debt and accumulate funds for infrastructure upgrades, replacements and maintenance. Fiscal Year 2017/18 ended with an annual **net position** increase of \$1.2M. Net Income before transfers was \$1.2M. Per policy, the operating reserve is set at 25% of the prior year's operating expense and for Fiscal Year 2017/18 was set at \$584k. The capital reserve increased year over year by \$532k despite capital expenditures of approximately \$833k. Capital funding provided by the enterprise in FY 2017/18 included \$858k in initial costs related to the Wastewater Treatment Plan Upgrade project. Net investment in capital assets increased \$741k year over year. The five year CIP for the Wastewater Enterprise stands at \$20M. No further projects have been identified beyond five years for the Wastewater Enterprise. The majority of the CIP is comprised of the Wastewater Treatment Plan Upgrade project which is under way and includes outside financing sources totaling over \$14M. The Enterprise fund will contribute \$3.2M to the project. The enterprise is well positioned to continue work on many of the projects listed on page 212 of the FY18-19 budget.

Net Position; FY2017/18	
Net Position at 07/01/2017	\$ 10,467,119
Total Revenue	3,802,772
Total Expense	(2,568,894)
Net Transfers	(86,318)
Change in net position	1,147,560
Net Position at 06/30/2018	\$ 11,614,679

Net Position Categories; FY2017/18	
Net investment in capital assets	8,151,979
Capital Reserve	2,879,248
Operating Reserve	583,452
Net Position at 06/30/2018	\$ 11,614,679

FISCAL YEAR 2018/2019 AS OF 12/31/2018

Revenue, Expense & Transfers FY2018/19 Budget vs. Actual						
	FY2018 Audited Results	FY 2019 Final Budget	YTD Balance as of 12/31/2018	% Variance Budget vs. Actual	FY2019 Projected Year End	\$ Variance Budget vs. Projected Year End
Wastewater Enterprise						
Revenue	\$ 3,802,772	\$ 3,614,610	\$ 1,962,307	54%	\$ 3,813,332	\$ 198,721
Less expenses						
Personnel services	1,310,724	1,327,771	652,319	49%	1,316,205	11,566
Administration	306,314	286,207	145,965	51%	286,214	(7)
Repairs & maintenance	163,377	351,815	106,107	30%	351,815	(0)
Materials & supplies	175,061	241,329	95,155	39%	236,129	5,200
Utilities	148,636	130,000	66,211	51%	130,000	-
Contractual services	151,992	248,975	81,097	33%	252,151	(3,176)
Insurance	14,004	19,000	7,089	37%	16,000	3,000
Interest/Debt Service *	5,469	137,769	59,409	43%	137,769	-
Depreciation**	293,317	-	-	0%	300,000	-
Sub Total Expense	2,568,894	2,742,867	1,213,352	44%	3,026,283	16,584
Net transfers ; in (out)	(86,318)	9,385,700	(2,300)	0%	2,997,700	(6,388,000)
Net Revenue/(Expense)	\$ 1,147,560	\$ 10,257,443	\$ 746,656		\$ 3,784,749	\$ (6,156,110)

* Audited results do not include payment of principal which is not an expense in full accrual accounting

** Depreciation Expense is not budgeted and therefore not included in calculation of budget variance

Wastewater Enterprise **revenues** for the first half of FY 2018/19 totaled \$1.2M, representing 54% of the amended annual budget. Revenue from ratepayers is projected to increase 4% on a year-over-year basis. The Enterprise raised rates in FY18-19 by 3%. Additionally, as discussed with the Water Enterprise, water usage is seen to be increasing year over year. Increased water consumption affects wastewater revenue since wastewater rates are based on average water usage during the winter months. Also, the enterprise is seeing high investment returns than projected in the budget (\$53k). The projected year-end revenue total is \$3.8M or approximately \$199k more than budget.

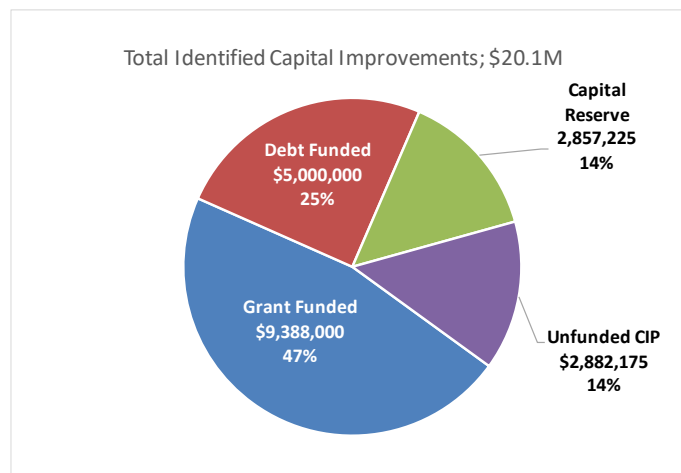
Wastewater Enterprise **expenses** for the first half of FY 2018/19 totaled \$1.2M, representing 44% of the amended annual budget. The projected year-end total is \$2.7M (excluding depreciation) or approximately \$16k less than budget:

- ❖ At midyear, Repairs & Maintenance and Contractual Services are at 30% and 33% respectively of the annual budget. This is due to scheduling of project work that typically gets underway in the spring and summer. Debt Service is at 43% of budget at midyear due to the nature of debt payment schedules that call for payments in the fall and spring. No significant variances are expected in any of the enterprise expense categories at year end.
- ❖ Capital projects underway in FY2018/19 include Wastewater Treatment Plant upgrade project (\$3.2M,) the Lift Station Rehabilitation project (\$1M) and a bi-annual Sewer Main Rehabilitation project (\$120k).
- ❖ Net “transfers in” were budgeted at \$9.4M and are related to external funding of the Wastewater Treatment Plant Upgrade project. Staff now projects that more of the external funding (\$6.4M) will be received in the subsequent fiscal year.

Projected Net Position; FY2018/19	
Net Position at 07/01/2018	\$ 11,614,679
Total Revenue	3,813,332
Total Expense	(3,026,283)
Net Transfers	2,997,700
Change in net position	3,784,749
Net Position at 06/30/2019	\$ 15,399,428

Projected Net Position Categories; FY2018/19	
Net investment in capital assets	11,899,979
Capital Reserve	2,857,225
Operating Reserve	642,224
Net Position at 06/30/2019	\$ 15,399,428

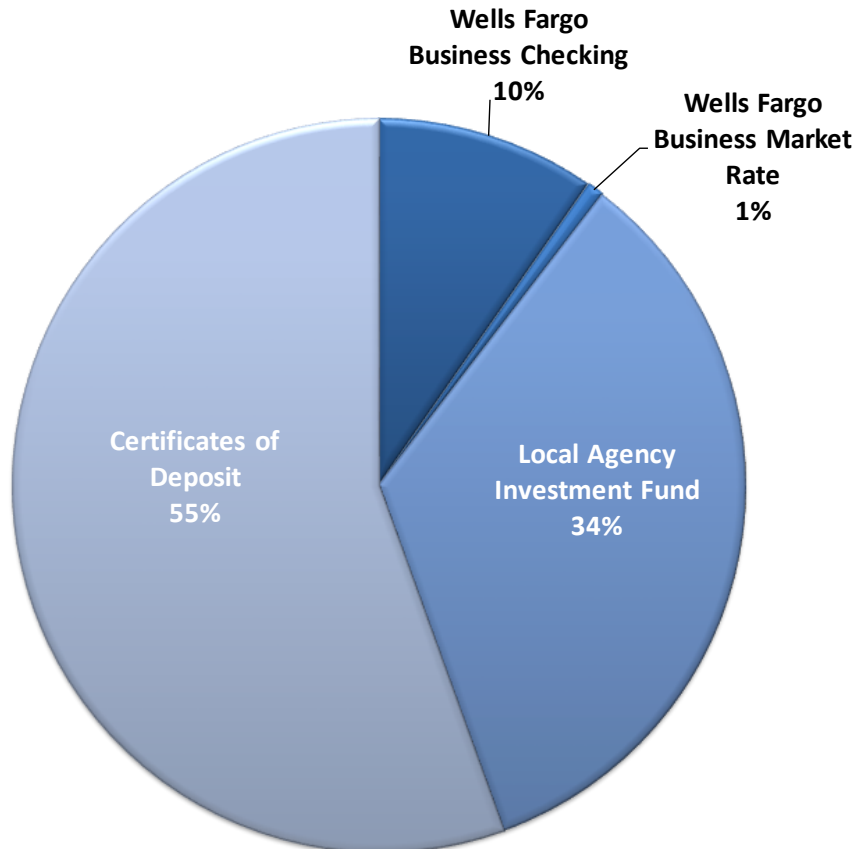
With projected revenues of \$3.8M, expenses of \$3M and transfers in of \$3M, staff projects the Wastewater enterprise to end FY18/19 with a **net position** of \$15.4M. The Enterprise Capital Reserve is expected to increase \$22k while the Net Investment in Capital Assets is expected to grow approximately \$3.8M. Capital assets will again see significant growth in FY 2019/20 when the Wastewater Treatment Plant Upgrade is completed.



TREASURER'S REPORT

The City of Fort Bragg's Fiscal Policies state the following: 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.

As of December 31, 2018 the City's cash and investment portfolio balances at market value are as follows:



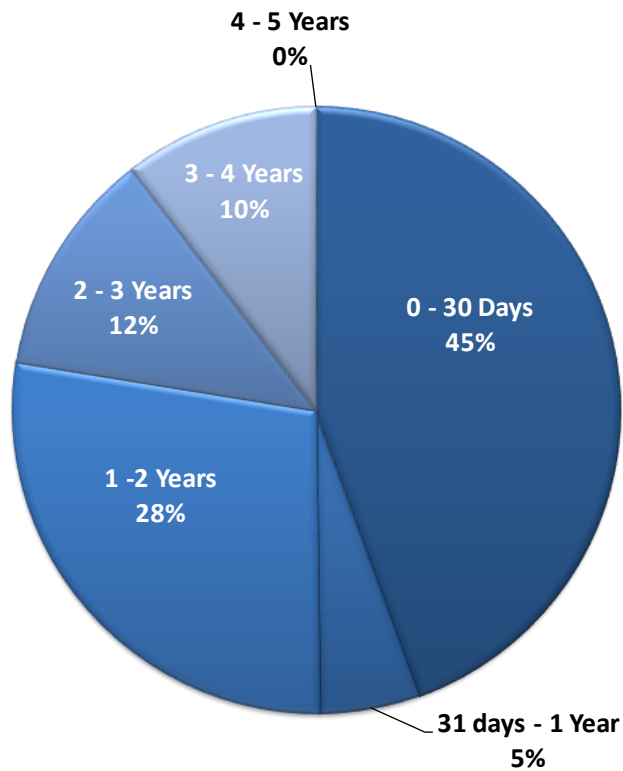
City of Fort Bragg Cash and Investment Balances as of 12-31-2018

<u>TYPE</u>	<u>BALANCE</u>
Wells Fargo Business Checking	\$ 1,348,770
Wells Fargo Business Market Rate	105,282
Local Agency Investment Fund	4,759,027
Certificates of Deposit	7,753,911
Total	<u>\$ 13,966,989</u>

Cash balances declined in the second quarter by \$600k primarily due to the Wastewater Treatment Plant Upgrade project. In the second quarter of the year, the City paid nearly \$1.7M in payments on the project.

The investment portfolio is very safe, consisting primarily of CDs purchased at a maximum of \$250k plus investments in the Local Agency Investment Fund.

As of December 31, 2018 the City's cash and investment portfolio liquidity at market value is as follows:

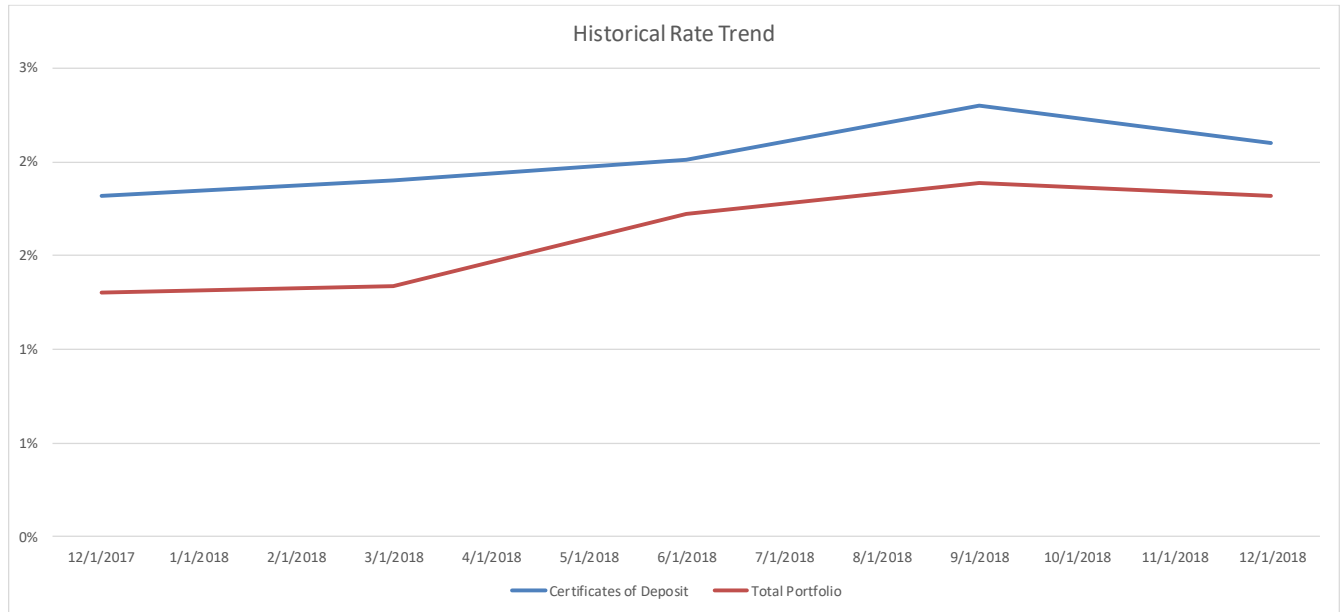


City of Fort Bragg Cash and Investment Liquidity as of 12-31-2018

AGING INTERVAL	MARKET VALUE
0 - 30 Days	\$ 6,213,079
31 days - 1 Year	742,955
1 - 2 Years	3,875,102
2 - 3 Years	1,682,773
3 - 4 Years	1,453,081
4 - 5 Years	-
	<u><u>\$ 13,966,989</u></u>

The portfolio is highly liquid with 45% available within 30 days and 50% available within a year.

The portfolio yield is relatively low inverse to its degree of safety. The investment portfolio consists primarily of CDs purchased at a maximum of \$250k plus investments in the Local Agency Investment Fund. The weighted average rate of return on CDs held is 2.1%. The weighted average rate of return on the entire portfolio is 1.82%.



**Portfolio Detail as of December 31, 2018
Certificates of Deposit**

Holding	Par Value	Market Value	Interest Rate	Maturity Date
Signal Financial Credit Union	248,000	247,765	2.00%	2/12/2019
Fortune Bank	249,000	248,666	2.45%	10/08/19
Morgan Stanley Bank	248,000	246,524	2.10%	12/23/19
Ameican Express Centurion Bank	248,000	244,625	2.10%	06/03/20
Family Financial Credit Union	248,000	247,816	2.90%	08/28/20
Capital One NA	248,000	240,947	1.40%	09/21/20
Discover Bank	248,000	242,351	1.80%	11/30/20
Aneca FCU	248,000	241,827	1.75%	12/23/20
Sallie Mae Bank	247,000	243,253	2.30%	01/19/21
HSBC Bank	248,000	246,490	1.30%	03/10/21
East Boston Savings	249,000	242,543	1.90%	03/29/21
Wells Fargo Bank	249,000	240,001	1.75%	06/17/21
Mercantil Commercebank	248,000	238,988	1.65%	06/24/21
Ally Bank	246,000	245,048	3.00%	08/16/21
General Electric	249,000	248,664	3.10%	08/16/21
Connex CU	248,000	237,304	1.60%	08/26/21
Ever Bank	248,000	237,641	1.55%	09/16/21
Stearns Bank NA	249,000	241,007	1.95%	09/29/21
Synchrony Bank	248,000	236,597	1.75%	10/21/21
Peoples United Bank NA	248,000	239,620	2.05%	01/18/22
Third Fed Savings	247,000	239,400	2.25%	03/21/22
BMW Bank	246,000	242,359	2.80%	04/13/22
Commenity Capital	249,000	247,225	3.15%	08/15/22
Farmers State Bank Ind	247,000	238,101	2.35%	09/19/22
Mountain America Fed Credit Union	249,000	239,618	2.40%	11/30/22
American Express BK	247,000	236,451	2.50%	12/05/22
Knoxville TVA	249,000	238,993	2.40%	01/26/23
Belmont Savings Bank	248,000	240,597	2.70%	02/28/23
Citibank	246,000	240,298	2.90%	04/11/23
First Tech Federal Credit Union	249,000	246,331	3.25%	06/14/23
Goldman Sachs	245,000	243,096	3.35%	08/15/23
Jefferson Financial Credit Union	246,000	243,766	3.35%	10/19/23
Total Certificates of Deposit	<u>7,930,000</u>	<u>7,753,911</u>		

BUDGET ADJUSTMENT REQUESTS AT MID-YEAR

Staff Requests the following budget adjustments at mid-year. Council will not be asked to take official action on these requests today but if Council is amenable staff will bring the adjustments back at a future Council meeting on the consent calendar:

FY 2018/19 Requested Mid-Year Budget Adjustment Requests							
<u>Account Number</u>	<u>Account Description</u>	<u>Department</u>	<u>Current Budget</u>	<u>Increase/ (decrease)</u>	<u>Adjusted Budget</u>	<u>Justification</u>	<u>Funding Source</u>
110-4330 - payroll accounts	Various Payroll accounts	Public Works Engineering	\$ 590,998	\$ 86,102	\$ 677,100	Organizational change - zero net appropriation	FY 2018-19 Budget
110-4320 - payroll accounts	Various Payroll accounts	Community Development	509,331	(86,102)	423,229	Organizational change - zero net appropriation	FY 2018-19 Budget
110-4390-0619	Community Contributions	Non-departmental	57,413	41,387	98,800	Re-appropriate unspent FY17-18 budget for measure AB - school playing fields - School district equipment (total is \$95k)	Fund Balance
General Fund; Total Requested Budget Amendments				41,387			

The following table depicts a revised projection of fund balance if Council approves the requested adjustments. Compared to the projected fund balance presented earlier in this report, the change in fund balance would decrease to \$258k and ending fund balance would decrease to \$3.2M.

Projected Fund Balance; FY2018/19	
Fund Balance at 07/01/2018	\$ 2,959,473
Revenue	9,583,303
Less Expenditures	(9,300,588)
Less Midyear Budget Adjustments	(41,387)
Net Transfers	16,666
Change in Fund Balance	257,994
Fund Balance at 06/30/2019	\$ 3,217,467

LONG TERM FINANCIAL PLANNING

Long term financial planning is an important tool used to help maintain ongoing financial sustainability and helps governments provide a consistent level of services to their citizens. It is important to keep in mind that no one has a crystal ball and can predict the future with complete accuracy. However the exercise of projecting revenues and costs into the future, while not likely to be 100% correct, still gives the government an opportunity to develop a general sense of its financial health in the years to come.

The long term forecast provided in this report was developed at a high level (low level of detail). The City's major sources of revenue were projected individually with all other revenue sources aggregated together. Likewise the City's major expenditure categories were projected individually with many costs aggregated together. The majority of the assumptions used in the report were based on a five year historical trend. Year's that were clear outliers were removed prior to averaging so as not to affect the overall trend. Some projections however are based on known payment or increase percentages. Pension costs for example are expected to increase 14% each year for the next five years. This is due to the decreased discount rate adopted by CalPers. Likewise, the City's internal service funds have developed detailed long-term expenditure plans that form the basis of the projection provided here. Additionally, the City's debt service schedule is known and provided in the forecast.

The table on the following page includes five years of audited results for context as well as projected results for five additional years into the future. Four "what-if" scenarios are provided as well showing possible long-term results if certain revenue enhancements were to be enacted.

FIVE YEAR PROJECTION

Overall the City is faced with possible budget deficits in the next five years. This is primarily due to the extreme increases in pension costs predicted by CalPers. Pension costs are expected to double between fiscal year 2017-18 and fiscal year 2023-24. By 2024 this will add additional cost to the City's general fund annual budget of nearly \$826k.

In Fiscal Year 2018-19 the citizens of Fort Bragg voted on a ballot initiative entitled Measure H. Measure H was a proposed general sales tax aimed at closing the budget gap caused by skyrocketing pension costs. With additional revenue the City planned to enter into a shorter amortization schedule with CalPers for payment of unfunded liabilities. Although this would have resulted in a higher annual payment it would have saved the City nearly \$4M of interest cost over 15 years. Measure H was not successful.

With the defeat of Measure H, the City did take some steps aimed at closing the budget gap on the expenditure side. The Administrative Services department eliminated the position of Administrative Services Director with the duties of the position transitioning to the City Manager. Further, the Administrative Assistant position in the Administrative Services department is expected to be vacant in fiscal year 2019-20. Rather than hiring a new Administrative Assistant, the position will be frozen.

The City's general fund has very little debt and in fact will no longer have any debt service payments by fiscal year 2022-23. This will free up \$185k of funds to help further close the budget gap.

The result of personnel changes coupled with the total reduction in debt service payments is a projected budget deficit that is substantially lower than was predicted at this time last year. Staff does however project a deficit which is likely to grow in each of the next five years, reaching \$430k in fiscal year 2023-24. With budget deficits still looming, Council may wish to consider revenue enhancement options.

City of Fort Bragg General Fund Five Year Forecast
With Revenue Enhancement Forecasts
As of 12/31/2018

General Fund		FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
		Audited	Audited	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected	Projected
Revenue:	Sales Tax	\$1,625,916	\$1,666,675	\$1,600,866	\$1,531,857	\$1,785,264	\$1,851,800	\$1,893,306	\$1,935,743	\$1,979,131	\$2,023,491	\$2,068,845
	Property Tax	894,217	865,161	972,948	1,031,345	1,034,552	1,088,270	1,125,333	1,163,658	1,203,289	1,244,269	1,286,645
	Transient Occupancy Tax	1,667,580	1,857,831	1,947,702	2,149,404	2,619,227	2,698,395	2,864,534	3,040,903	3,228,130	3,426,885	3,637,877
	Cost Allocations	2,512,935	2,537,699	2,794,310	1,824,826	2,078,877	2,184,900	2,250,447	2,317,960	2,387,499	2,459,124	2,532,898
	All Other Revenue Sources	1,410,219	1,685,502	1,797,837	1,673,300	1,677,902	1,759,938	1,777,538	1,795,313	1,813,266	1,831,399	1,849,713
	Total Revenue	8,110,867	8,612,868	9,113,663	8,210,732	9,195,822	9,583,303	9,911,158	10,253,577	10,611,314	10,985,167	11,375,978
Expenditures:	Salaries & Wages	3,347,532	3,351,603	3,430,750	3,545,002	3,940,434	3,638,007	3,873,520	4,028,461	4,189,599	4,357,183	4,531,471
	Pensions	557,009	525,726	613,438	677,159	745,604	707,131	931,068	1,061,417	1,210,016	1,379,418	1,572,536
	Other Benefits	1,609,741	1,613,548	1,572,940	1,729,603	1,792,361	1,625,043	1,870,840	1,964,382	2,062,601	2,165,732	2,274,018
	Materials & Services	2,019,812	2,100,172	1,938,381	1,974,777	2,080,027	2,301,255	2,351,957	2,404,872	2,460,125	2,517,852	2,578,196
	All locations to Internal Service Funds	541,958	587,171	604,060	470,049	601,371	717,666	691,817	691,817	691,817	691,817	691,817
Net Transfers	Other Expenditures	5,156	9,250	165,013	53,104	107,966	125,953	129,732	133,624	137,632	141,761	146,014
	Capital	77,074	26,753	3,194	-	-	-	35,000	-	-	-	-
	Debt Service	147,569	147,569	147,569	147,569	185,535	185,533	185,535	37,966	37,966	-	-
	Total Expenditures	8,305,851	8,361,792	8,475,345	8,597,268	9,453,298	9,300,588	10,069,469	10,322,539	10,789,757	11,253,763	11,794,052
	Net Increase (Decrease) to Fund Balance	526,843	(112,992)	(7,614)	(1,895,028)	110,014	16,666	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)
Storm Drain Enterprise	Beginning Fund Balance	331,859	138,084	630,704	(2,281,564)	(147,462)	299,381	(170,311)	(80,962)	(190,442)	(280,595)	(430,074)
	Ending Fund Balance	4,287,851	4,619,710	4,757,794	5,388,498	3,106,935	2,959,473	3,258,854	3,088,543	3,007,581	2,817,139	2,536,544
		\$4,619,710	\$4,757,794	\$5,388,498	\$3,106,934	\$2,959,473	\$3,258,854	\$3,088,543	\$3,007,581	\$2,817,139	\$2,536,544	\$2,106,470
Cannabis Tax	Revised change in fund balance assuming \$190k revenue annually						19,689	109,038		(442)	(90,595)	(240,074)
	Projected Fund Balance						3,278,543	3,387,581		3,387,139	3,296,544	3,056,470
Parcel Tax	Revised change in fund balance assuming \$25k revenue annually						(145,311)	(55,962)		(165,442)	(255,595)	(405,074)
	Projected Fund Balance						3,113,543	3,057,581		2,892,139	2,636,544	2,231,470
1/4 cent General Sales Tax	Revised change in fund balance assuming \$420k revenue annually						249,689	339,038		229,558	139,405	(10,074)
	Projected Fund Balance						3,508,543	3,847,581		4,077,139	4,216,544	4,206,470
	Revised change in fund balance assuming \$460k revenue annually						289,689	379,038		269,558	179,405	29,926
	Projected Fund Balance						3,548,543	3,927,581		4,197,139	4,376,544	4,406,470

REVENUE ENHANCEMENT OPTIONS

- Establish storm drain enterprise
Type: fee
Revenue generation: ~\$190k per year
Pros: Relieve the General Fund from storm drain costs, generate capital reserve for storm drain capital projects
Cons: relatively small base of ratepayers, not likely to eliminate deficit in the long term, increase cost of living for residents
- Establish business license tax for commercial cannabis uses
Type: tax
Revenue generation: ~\$10k to \$50k per year assuming tax rate of 2.5%
Pros: general revenue
Cons: Unknown if any establishments will open or how much revenue they will generate, cash only business placing cash burden on Finance Department, unlikely to eliminate deficit
- Establish parcel tax to fund City's share of Fire Protection services
Type: tax
Revenue generation: ~\$420k assuming rate set to cover costs only
Pros: wider tax base, likely to substantially eliminate deficit through FY 2023/24
- ¼ cent general sales tax
Type: tax
Revenue generation: ~\$460k per year
Pros: general revenue, widest tax base, revenue generated by City residents as well as visitors, likely to eliminate deficit through FY 2023/24
Cons: increase cost of living for residents

PRIORITIZED LIST OF FINANCIAL GOALS

On May 2, 2018, The City's Finance and Administration Committee met and produced the following prioritized list of financial goals. Staff used the prioritized list as guidance in preparing the FY2018/19 budget. Staff requests that the Council consider the list again and provide direction as to any changes desired – additions, subtractions or changes in priority:

- 1) Adopt a balanced budget (achieved 2018/19)
- 2) Maintain operating reserve and litigation reserved (achieved 2018/19)
- 3) Maintain long term funding plans in the City's three internal service funds (achieved 2018/19)
- 4) Continue budgeting conservatively (not achieved 2018/19) (Instead moved to "most likely" budgeting)
- 5) Maintain current level of service (no staff layoffs, no program cuts) (not achieved 2018/19)
- 6) Provide for additional contributions to CalPERS in order to pay the unfunded liability off earlier than 30 years (not achieved 2018/19)
- 7) Provide cost of living adjustments for staff in years to come (achieved 2018/19)(pending 2019/20)
- 8) Provide funding for emergency reserves (not achieved 2018/19)
- 9) Continue to make additional contributions to the OPEB pension trust (not achieved 2018/19)

In years to come staff intends to tie financial results and projections to a broader spectrum of Council goals. This is dependent upon the Council's completion of a goal setting document. Once completed and delivered to staff the goals will be incorporated into financial reports.

FISCAL YEAR 2019-20 BUDGET PREPARATION

Initial activities related to the preparation of the Fiscal Year 2019-20 budget are already under way. Direction provided today by Council will be incorporated into the budget draft. Staff will present a draft budget to the Council and public at a budget workshop on May the 16th. Further direction provided at the workshop will be incorporated into a "Final" budget that will be presented to Council for consideration of adoption on June the 10th.

The complete budget calendar is provided below:

SCHEDULE FOR FY 2019/20 BUDGET

ACTIVITIES	DAY	DEADLINES
FINANCE PROVIDES BUDGET SPREADSHEETS TO DEPARTMENTS AS WELL AS INSTRUCTIONS RE: NARRATIVES & CAPITAL PROJECTS (INCLUDING INTERNAL SERVICE FUNDS, GRANTS, DDAs)	Friday	3/1/2019
FINANCE PROVIDES INITIAL REVENUE FORECASTS TO CM (ALL REVENUE SOURCES, AND FUNDS)	Friday	3/15/2019
DEPTS SUBMIT PROPOSED DEPARTMENTAL EXPENSE BUDGETS AND NARRATIVES TO FINANCE	Wednesday	3/20/2019
PW & CDD SUBMIT COMPLETED BUDGET SECTIONS FOR GRANTS AND CAPITAL PROJECTS	Wednesday	3/20/2019
FINANCE/HR PROVIDES PAYROLL PROJECTIONS INCLUDING BENEFITS	Friday	3/22/2019
CM & FINANCE MEET WITH ALL DEPTS:	Wednesday- Friday	3/27/2019 thru 3/29/2019
CM & FINANCE FOLLOW UP MEETING WITH PW and CIP	Monday	4/1/2019
FINANCE POSTS REVISED BUDGET WORKSHEETS IN BUDGET FOLDER	Wed	4/3/2019
DEPARTMENTS REVIEW REVISED EXP WORKSHEETS; REPORT ANY DISCREPANCIES TO FINANCE THIS INCLUDES PROJECTED YEAR END FOR FY19, GRANTS; CAPITAL PROJECTS, ETC	Friday	4/5/2019
FINANCE REVIEWS TOTAL REVENUES vs EXPENDITURES WITH CM - ADJUST AS NECESSARY; <u>draft CV Starr Budget due</u>	Wed	4/17/2019
INTERNAL REVIEW/QUALITY CONTROL (FINANCE, CM, DEPTS) - DRAFT BUDGET DOCUMENT	Wed - Wed (3 wks)	4/17/2019 thru 5/8/2019
FINALIZE DRAFT BUDGET DOCUMENT	Wed	5/8/2019
CM COMPLETES BUDGET TRANSMITTAL LETTER	Friday	5/3/2019
FINANCE DISTRIBUTES PROPOSED FY 2019/20 BUDGET	Thurs	5/9/2019
CITY COUNCIL CONDUCTS FY 2019/20 BUDGET WORKSHOP	Thursday	5/16/2019
FINANCE DISTRIBUTES FY 2019/20 BUDGET (FOR COUNCIL ADOPTION)	Mon	6/3/2019
CITY COUNCIL ADOPTS FY 2019/20 BUDGET	Mon	6/10/2019

FOR MORE INFORMATION

This summary is based on detailed information produced by the City's Finance Department. If you would like additional information or have any questions about this report, please call **707-961-2825**.