



CITY OF FORT BRAGG

Incorporated August 5, 1889

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May 24, 2019

Honorable Mayor and Members of the City Council, Residents and Business Owners:

I am pleased to present the Fiscal Year (FY) 2019-20 Budget for the City of Fort Bragg, the Fort Bragg Municipal Improvement District, No. 1, and the Fort Bragg Redevelopment Successor Agency. The annual budget provides a comprehensive statement of the City's organization, operations and resources. It expresses City Council and District Board policies and priorities in all areas of the City's operations and it links near-term priorities with the resources available to achieve them. Over the course of the year, the City's budget serves as a financial management tool and as a work plan for the delivery of City services and implementation of capital projects. Highlights of the FY 2019-20 Budget:

- Balanced General Fund Operating Budget
- Focus on improvements to the City's infrastructure with a \$12.9 million Capital Improvement Program (CIP) budget, including \$7.4 million to complete the Wastewater Treatment Plant Upgrade and \$1.5 million to rebuild three failing sanitary sewer lift stations
- \$2.7 million for street rehabilitation and bike and pedestrian safety improvements
- Continued funding for a General Fund operating and a litigation reserves
- Utility rates set to provide \$1 million in each utility for capital reserves
- Internal Service Fund reserves maintained to smooth out annual expenditures
- Modest cost of living increases budgeted for City staff
- Revised and updated cost allocation plan based on tracking staff time and allocating costs using appropriate cost drivers

Balancing the Budget

During the Mid-year Budget Review in early March, the City Council and staff reviewed the City Council's priorities for the FY 2019-20 budget. Those are set forth below in order of priority:

1. Adopt a balanced budget
2. Maintain operating reserve and litigation reserve
3. Maintain long-term funding plans in the City's three internal service funds
4. Provide for additional contributions to California Public Employees' Retirement System (CalPERS) in order to pay the unfunded liability off earlier than 30 years Continue budgeting conservatively but more realistic or "most likely"
5. Maintain current level of service (no staff layoffs, no program cuts)
6. Provide cost of living adjustments for staff in years to come
7. Provide funding for emergency reserves
8. Continue to make additional contributions to the OPEB trust

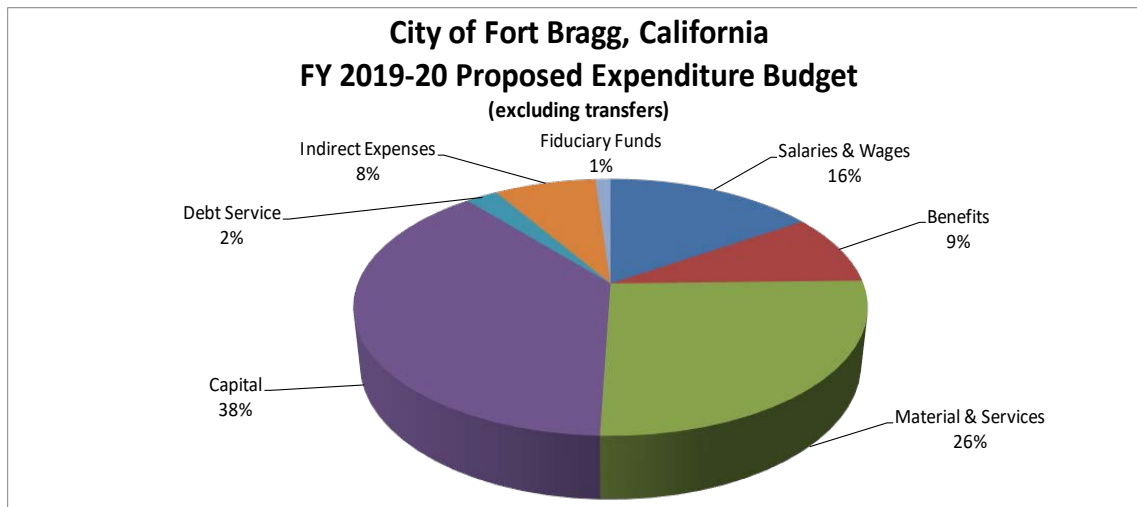
Recognizing the Financial Goal of adopting a balanced operating budget as the highest priority, staff is presenting a proposed General Fund budget with a projected surplus of nearly \$24k. As of the day, this letter was drafted staff received the most current sales tax projections, which are \$31k higher than the revenue projected in the following proposed budget. This creates a projected surplus of over \$50k, a big accomplishment for the City. This surplus also makes it possible for the City to accomplish priority No. 4, which is to make additional contributions to CalPERS to pay off the unfunded liability earlier than the current 30-year amortization period. The City's policy is that fifty percent (50%) of any year's surplus in the General Fund will be used to make an additional payment towards the CalPERS unfunded liability. FY 2018-19 is projected to have a \$316k surplus. This results in an additional payment of \$158k towards the unfunded liability.

A consideration for Council is establishing a recession reserve for the General Fund. An 18-month recession starting in FY 2020-21 would have a two-year cumulative impact of \$421k for sales tax revenue. Although the Transient Occupancy Tax (TOT) has been a little more resilient, the estimated impact to that revenue source in an 18-month recession is over \$250k. The General Fund is projected to have an unassigned fund balance of \$1.5 million at the end of FY 2018-19. Setting aside \$500k into a recession reserve provides the City some breathing room in the event of a recession in the next couple of years. According to the Wall Street Journal monthly survey of leading economists – 49% expect a recession to start next calendar year (2020) and 40% project a recession to start in 2021. If you combine these projections, there is an 89% estimated chance of a recession in the next two calendar years. We are currently in the second longest recovery and will pass into the longest recovery before the end of this year.

Budget Overview

The City's total proposed expenditure budget (excluding transfers) for FY 2019-20 is \$34.3 million. This is a decrease of 19.1% from the amended FY 2018-19 Budget of \$42.4 million. The \$10 million decrease is primarily due to expected completion in December, 2019 of the \$18 million Waste Water Treatment Facility Upgrade. The chart below and the graph on the following page summarize the annual expenditures of the City (excluding transfers). The reduction in Salaries & Wages is the result of eliminating a position in the Administrative Services Department and retirements. Typically, retirements create savings, in that replacements are hired in at the lower end of the salary structure and under new CalPERS pension programs that have a lower cost as the result of pension reform in 2014.

Budget Expenditure Category	Proposed FY 2019-20	Amended FY 2018-19	\$ Variance	% Variance
Salaries & Wages	\$ 5,397,917	\$ 5,596,263	\$ (198,346)	-3.5%
Benefits	3,049,342	2,944,195	105,147	3.6%
Material & Services	8,888,706	6,895,849	1,992,857	28.9%
Capital	13,121,747	23,127,984	(10,006,237)	-43.3%
Debt Service	826,442	775,098	51,344	6.6%
Indirect Expenses	2,624,736	2,695,991	(71,255)	-2.6%
Fiduciary Funds	390,775	375,278	15,497	4.1%
Total	\$ 34,299,665	\$ 42,410,658	\$ (8,110,993)	-19.1%



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

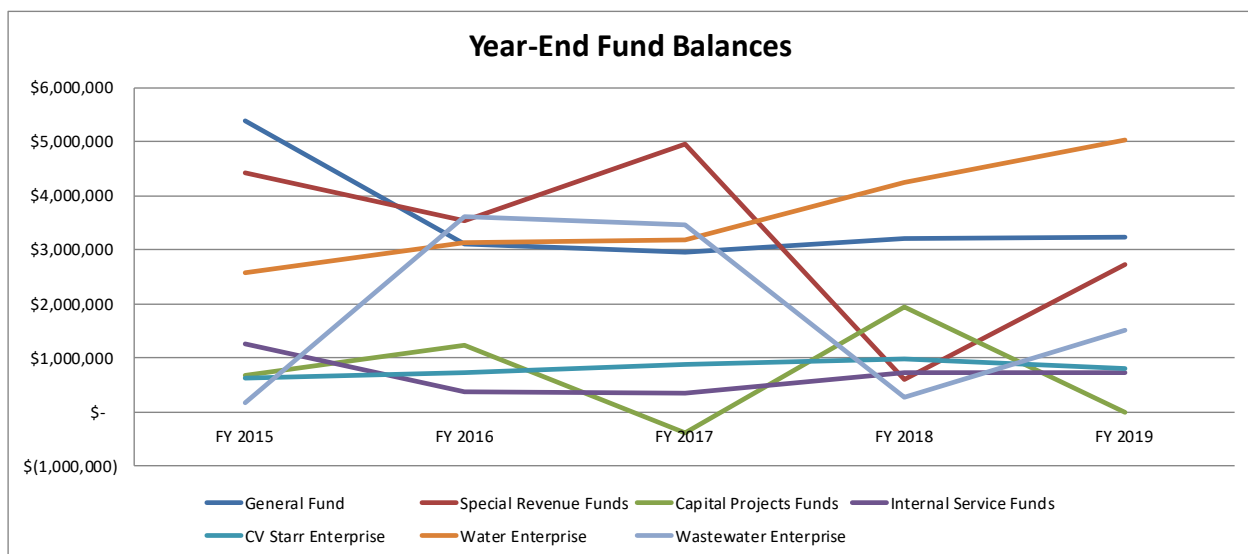
Projected Fund Balances

The year-end fund balances (or net position for enterprise funds) and the changes over time provide a narrative about the financial condition of each fund or fund group. Fund balance is the difference between assets and liabilities and reflect the cumulative annual financial surpluses and deficits. One-time declining balances are generally not bad and typically reflect one-time capital or other large expenditures. Often times these are planned for expenditures such as the upgrade to the City's Wastewater Treatment Plant last year and this next year. Often revenues have been accumulated to cover the cost or a portion of the cost of these capital projects. Fund balances that continue to decline each year from operating deficits or unplanned expenses may be a cause for concern or indicate a long-term structural deficit. Overall, the financial health of the City is improving and fund balances continue to grow. There is even a rebound in the Wastewater Fund expected next year, after the \$18 million Wastewater Treatment Plant Upgrade is complete and capital funds begin to accumulate again. The balance in the Water Fund will double from FY 2015-16 to FY 2019-20 as funds for capital infrastructure improvements continue to grow.

Some funds are in better financial condition than others. The decline in the General Fund fund balance in FY 2016-17 was the result of the new cost allocation plan and repayment of prior year over-allocations made by the Water and Wastewater Enterprise funds. Although there is not significant growth in the General Fund, the fund balance is stable and is showing small but positive growth. Changes in the Special Revenue, Capital and Internal Service funds are typically tied to capital projects and expenditures can fluctuate accordingly. The Capital Projects Funds Fund Balance dips into the negative in FY 2017-18 and again in FY 2019-20; both of these temporary drops is the result of planned revenue and expenses not matching in the same year.

The chart and graph on the following page provides a five-year "picture" of the City's fund balances.

Funds	06/30/2016 Audited Fund Balance	06/30/2017 Audited Fund Balance	06/30/2018 Audited Fund Balance	06/30/2019 Projected Fund Balance	06/30/2020 Projected Fund Balance
General Fund	\$ 5,388,494	\$ 3,106,934	\$ 2,959,473	\$ 3,216,404	\$ 3,240,118
Special Revenue Funds	4,430,343	3,528,495	4,955,492	593,127	2,734,142
Capital Projects Funds	675,031	1,227,204	(374,490)	1,935,050	(6,254)
Internal Service Funds	1,255,766	377,150	360,416	741,928	735,626
CV Starr Enterprise	622,651	735,611	874,690	993,658	816,807
Water Enterprise	2,567,432	3,120,650	3,178,033	4,251,845	5,030,142
Wastewater Enterprise	168,822	3,615,944	3,462,700	282,023	1,510,043
Total	\$ 15,108,539	\$ 15,711,988	\$ 15,416,314	\$ 12,014,035	\$ 14,060,624



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

Operating Budget

If you remove the one-time CIP projects and capital expenditures, the City's operating budget (excluding transfers) is \$21.2 million, which is an increase of 9.8% or \$1.9 million over the Amended FY 2018-19 Operating Budget. The primary reason for the increase is the \$2 million net increase in Materials & Services. This is due to a \$2.9 million CDBG project for Parents & Friends Inc. which will provide funds for construction of three residential units consisting of 4-bedrooms and 3-bathrooms each. The project will provide support to 4 low-income, developmentally disabled adults living with age-related disabilities. Offsetting this amount is a decrease in Materials & Services in the General Fund of \$311k and a decrease in the Wastewater Fund of \$170k and \$69k in the Water Fund. If you remove the Parents & Friends Inc. project from the operating expenses, there would be a reduction in the Operating Budget of \$944k. See Operating Expenditure Chart on the next page.

Operating Budget Expenditure Category	Proposed FY 2019-20	Amended FY 2018-19	\$ Variance	% Variance
Salaries & Wages	\$ 5,397,917	\$ 5,596,263	\$ (198,346)	-3.5%
Benefits	3,049,342	2,944,195	105,147	3.6%
Material & Services	8,888,706	6,895,849	1,992,857	28.9%
Debt Service	826,442	775,098	51,344	6.6%
Indirect Expenses	2,624,736	2,695,991	(71,255)	-2.6%
Fiduciary Funds	390,775	375,278	15,497	4.1%
Total	\$ 21,177,918	\$ 19,282,674	\$ 1,895,244	9.8%

The largest portion of the City's operating expenditure budget in FY 2019-20 is Materials & Services which makes up 42% of the total. This is a change from FY 2018-19, when Salaries & Benefits was the largest portion of the budget at 44% of the total budget. In the Proposed FY 2019-20 budget, Salaries & Benefits moves to the second largest portion of the budget at 40%. The CalPERS pension costs and unfunded liability will continue to be a challenge, not only for the City of Fort Bragg but for most public agencies in California. Those costs are projected to increase an average of 14% per year and double within the next six to seven years.

General Fund Budget

The General Fund is projected to have \$9,787,595 of revenue (excluding the updated sales tax projections) in FY 2019-20 and expenditures of \$9,763,881. As discussed earlier, the \$24k operating surplus, while not large, is noteworthy because it is the second time in ten years that the City will have adopted a balanced General Fund budget. The General Fund is predominately supported by taxes (sales tax, Transient Occupancy Tax, property tax, and franchise taxes). These tax revenues have been slow to recover since the great recession and as noted earlier, based on recent trends, staff is projecting those sources "more likely" rather than conservatively. Part of the reason for the change in approach, is the efforts of the Visit Fort Bragg Marketing and Promotions program and the investment-to-date of more than \$450K to promote the tourism economy with the stated goal of increasing Transient Occupancy and sales tax revenues for the City.

The Proposed FY 2019-20 expenditures of \$9,763,881 represent an increase of \$67k or .7% from the Amended FY 2018-19 expenditure budget. The General Fund expenditure budget is a lean budget. Because of the high portion of labor related costs in the General Fund, it is most impacted by the increased pension costs and other benefits. The increases in health insurance were limited to 1.15% in FY 2019-20 and dental insurance increased 4% for the first time in several years. The \$311k (13%) reduction in Materials & Services offsets the 26% increase in allocation to the Internal Service Funds and the 5% increased cost of benefits. The increased allocation to the Internal Service Funds is the result of the updated cost allocation plan. The General Fund is picking up a larger percentage of the Facilities, Information Technology and Fleet costs based on the change in plan methodology.

Without increased revenue growth in future years, from new or existing sources, a higher level of scrutiny will be needed to focus on which programs and services may need to be reduced or eliminated. The chart on the next page summarizes the General Fund Expenditures.

General Fund Expenditures by Category	FY 2018-19 Amended Budget	FY 2018-19 FYE Projected	FY 2019-20 Proposed Budget	FY 2018-19 Budget vs. FY 2019-20 Budget
Salaries & Wages	\$ 3,753,299	\$ 3,638,140	\$ 3,807,368	\$ 54,069
Benefits	2,488,175	2,332,174	2,622,294	134,119
Material & Services	2,369,939	2,311,361	2,058,559	(311,380)
Other Expenditures	182,588	162,340	185,900	3,312
Debt Service	185,533	185,533	185,533	-
Allocation to Internal Service Funds	717,667	717,666	904,227	186,560
Total General Fund Expenditures	\$ 9,697,201	\$ 9,347,214	\$ 9,763,881	\$ 66,680

Conclusion and Acknowledgements

As public servants, it is important for us to remember who we work for and what we are here to do for our citizens and visitors. Fundamentally, our job is to make Fort Bragg a safe and healthy place to live and visit.

I would like to thank all of the public servants with whom I work. Without each and every one of them, the City of Fort Bragg would not be the unique and amazing place where we live and work. I must also acknowledge our elected officials, who are also public servants with very little pay for what essentially amounts to many many hours of volunteer work. It is their leadership that provides the structure for what we do each day. This budget is the product of much work by the management team and supporting staff. However, it is the Finance Department who produce this document, which creates our guide and work plan for the next year. I would like to thank Victor Damiani, the City's Finance Director, and Isaac Whippy, Government Accountant, for the extraordinary job they do in putting the budget together.

My first year in the City provided me with great experience, opportunities and challenges. As a community we continue to improve and look towards the future.

Respectfully Submitted,

Tabatha Miller

Tabatha Miller
City Manager