City of Fort Bragg

416 N Franklin Street
Fort Bragg, CA 95437
Phone: (707) 961-2823
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Meeting Agenda

Finance and Administration Committee

Tuesday, May 3, 2016 | **9:00 AM** | **City Hall Conference Room, 416 N. Franklin Street**

Special Meeting

MEETING CALLED TO ORDER

ROLL CALL

1. APPROVAL OF MINUTES

1A. 16-164 Approve Minutes of April 6, 2016

Attachments: FACM2016-04-06

2. PUBLIC COMMENTS ON NON-AGENDA ITEMS

3. CONDUCT OF BUSINESS

3A. 16-173 Present Finalized Municipal Financial Health Diagnostic Tool

Attachments: 2016-05-03 Diagnostic Tool
The California Municipal Financial Health Diognostic - Final

3B. 16-172 Discuss Cost Allocation Plan Options for FY16-17 Budget

Attachments: 2016-05-03 Cost Allocation Plan
FY 16-17 Cost Allocation Plan
Non-Personnnel Allocation Options

3C. 16-174 Receive Oral Update from Staff on Departmental Activities

MATTERS FROM COMMITTEE / STAFF

ADJOURNMENT

STATE OF CALIFORNIA)
)ss.
COUNTY OF MENDOCINO)
I declare, under penalty of perjury, that I am employed by the City of Fort Bragg and that I caused this agenda to be posted in the City Hall notice case on April 29, 2016.

_____
Brenda Jourdain, Administrative Assistant

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City of Fort Bragg

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Text File

File Number: 16-164

Agenda Date: 5/3/2016 **Version:** 1 **Status:** Minutes to be Approved

In Control: Finance and Administration Committee **File Type:** Minutes

Agenda Number: 1A.

Approve Minutes of April 6, 2016

City of Fort Bragg

416 N Franklin Street
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Meeting Minutes
Finance and Administration Committee

Wednesday, April 6, 2016 **3:00 PM** **City Hall Conference Room, 416 N. Franklin Street**

MEETING CALLED TO ORDER

The Committee Members were delayed and could not arrive at the Finance and Administration Committee meeting by the scheduled Call to Order time. A Notice of Adjournment was posted at the meeting location, announcing that the meeting would reconvene at 3:30 PM.

Chair Turner called the meeting to order at 3:31 PM.

ROLL CALL

Staff Present: Linda Ruffing, Victor Damiani and June Lemos.
Others in Attendance: Ginny Feth-Michel.

Present: 2 - Doug Hammerstrom and Dave Turner

1. APPROVAL OF MINUTES

Committee Member Hammerstrom requested two changes to the minutes of March 2, 2016: (1) Last sentence on page 1, change the word "where" to "were;" and (2) Last bullet point on page 2, delete all but the last sentence of the paragraph.

1A. 16-119 Approve Minutes of Meeting of March 2, 2016

A motion was made by Committee Member Hammerstrom, seconded by Chair Turner, that these Committee Minutes be approved as amended for Council review. The motion carried by a unanimous vote.

2. PUBLIC COMMENTS ON NON-AGENDA ITEMS

None.

3. CONDUCT OF BUSINESS

3A. 16-116 Review Report of Contracts Under $25,000 for January 1 - March 31, 2016

This Report was received and filed.

3B. 16-117 Review Draft Cost Allocation Plan

Finance Director Damiani explained the cost allocation spreadsheets. The following was noted during discussion of this item:

- Methods for ascertaining allocations for City Council were discussed.
- Adding explanations to the spreadsheets would provide more transparency.
- Auditors look for a reasonable, consistent basis for making estimates, so the City's methods of

allocation should be reasonable and consistent.

- The City's actuals are not far off from the estimates.
- Staffing allocations need to be considered further.

No action was taken on this agenda item.

3C. 16-118 Review Municipal Financial Health Diagnostic Tool, Preliminary Results for FY 2015/16

Finance Director Damiani and Ginny Feth-Michel reviewed the information contained in the diagnostic tool with the Committee Members. Feth-Michel noted that FY 14/15 data is from the Comprehensive Annual Financial Report (CAFR), FY 15/16 is based on the mid-year report, and FY 16/17 and FY 17/18 are based on assumptions. The following was noted during discussion of this item:

- The diagnostic tool's warning signs show that the City is not in crisis.
- The City should be congnizant of its past history of reliance on grants.
- Regarding the General Fund:
  - Item 1: The indicator on page 7 should be changed from red to yellow because this category does not show “persistent & increasing deficits over consecutive years.” The deficit is actually decreasing.
  - Item 3: Because of the Coastal Trail, this category shows a persistent substantially negative trend. Feth-Michel will refine the estimate so that this big capital asset addition does not skew the result. This diagnostic tool may not be the best way to determine capital asset condition. Indicator on page 10 should be changed from red to either yellow or green.
  - Item 5: Over 70% of the City's fixed costs are salary and benefit costs, which are constrained by the City's service level needs and agreements with employee organizations. The only way to reduce these percentages would be to reduce personnel, which would have an impact on services to constituents. The takeaway is that the City is still functioning in this situation and is doing pretty well.
  - Item 6: This will be taken out, because the Noyo Center subsidy was a General Fund expenditure and watering playing fields is Water Enterprise.
  - Item 8: The indicator on page 13 should be changed from green to yellow. The City has balanced the budget with reserves. Feth-Michel will assist in developing a comprehensive policy about making annual required contribution in the fiscal policies.
  - Item 12: The indicator on page 14 should be changed from green to yellow based on the use of funds from the Redevelopment Successor Agency and grants. Long-range financial plans and policies should be a priority in the future.
  - Item 13: The indicator on page 14 should be changed from green to yellow, as the CAFR was not timely filed due to special circumstances.
- Regarding the Water Fund: Transfers out are what is causing this category to be negative. The Finance Department will reanalyze, remove the capital items that skew the data, and revise the numbers.
- Regarding the Waste Water Fund: A similar analysis will be done for Waste Water Fund as for the Water Fund.

The bottom line is that this diagnostic tool will be reworked and revised, then brought forward at a budget workshop with draft policies for Council review to give everyone a bigger overview of the overall financial situation.

This Staff Report was referred to staff.

MATTERS FROM COMMITTEE / STAFF

None.

ADJOURNMENT

Chair Turner adjourned the meeting at 5:37 PM.

City of Fort Bragg

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Text File

File Number: 16-173

Agenda Date: 5/3/2016 **Version:** 1 **Status:** Business

In Control: Finance and Administration Committee **File Type:** Staff Report

Agenda Number: 3A.

Present Finalized Municipal Financial Health Diagnostic Tool

CITY OF FORT BRAGG
416 N. FRANKLIN, FORT BRAGG, CA 95437
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FINANCE AND ADMINISTRATION COMMITTEE

MEETING DATE: May 3, 2016

TO: Finance and Administration Committee

AGENDA ITEM TITLE: **Present Finalized Municipal Financial Health Diagnostic Tool**

BACKGROUND AND OVERVIEW:

The California Municipal Financial Health Diagnostic is a tool developed by Michael Coleman of CaliforniaCityFinance.com designed to assist in determining local government financial health. According to direction from the Committee, Finance staff with the assistance of outside consultant Ginny Feth-Michel, completed a draft of the diagnostic which was presented on April 6, 2016. The initial draft of the diagnostic was discussed in detail on April 6, 2016 resulting in further direction from the Committee. The following revisions have been made to the diagnostic:

- Item 1: The Net True Operating Deficit indicator on page 7 was changed from red to yellow as directed by the Committee due to the lack of persistent and increasing deficits over consecutive years.
- Item 3: The data supporting Item 3; Capital Asset Condition was updated to reflect budgeted assets and the related deprecation, which resulted in no change to the indicator.
- Item 6: The data supporting Item 6, General Fund Subsidy was updated to remove costs related to the Noyo Center. The indicator remains at Red.
- Item 8: The Balancing the Budget with Temporary Funds indicator was changed to Yellow to reflect that the City has used reserves to balance the budget.
- Item 10: The response to the question regarding a policy on the payment of employee compensation was changed to Yes. This policy has been developed and added to the policy section in the FY 2016/17 budget.
- Item 11: The response to the question regarding a policy on favoring pay-as-you-go financing and a debt management policy has been changed to Yes. This policy has been developed and added to the policy section in the FY 2016/17 budget.
- Item 12: The Funding Operating costs with Non-Recurring Revenues indicator was changed to Yellow to reflect the use of Redevelopment Successor Agency funds and grants to support general fund operations. The response to the question related to a long-range financial plan remains No. This policy is still in the development stage.
- Item 13: The Timeliness and Accuracy of Financial Reports was changed to Yellow to reflect the late filing of the City's financial statements in years past.

- Water and Wastewater Funds: The Diagnostic Tool was updated by Michael Coleman for Enterprise Fund analysis. The updated tool is included in this presentation. The tool now reflects a streamlined data gathering and indicator page. There is still a formula error in Item 1C 2014-15 that will be fixed by Mr. Coleman once he returns from vacation. Once the formula error is fixed the 2014-15 values will be:
  - Water: -67.57%
  - Wastewater: -26.52%

RECOMMENDATION:

Accept the diagnostic tool as presented, with the corrected values in the Water and Wastewater Fund Tools.

ALTERNATIVES:

Take no action and provide direction to staff regarding additional information or analysis to be undertaken.

ATTACHMENTS:

1. Revised California Municipal Financial Health Diagnostic for the City of Fort Bragg.

The California Municipal Financial Health Diagnostic

January 2016

Contents

	page (click to hyperlink to worksheet)
Introduction	2
Financial Health Indicators	
Summary Checklist	4
Indicators	6
Data Gathering Worksheets	15
Special Program Fund 1: Indicators, Data	20
Special Program Fund 2: Indicators, Data	26
Special Program Fund 3: Indicators, Data	32
Notes to the Analyst	38

LEAGUE OF CALIFORNIA CITIES

The **California Municipal Financial Health Diagnostic** was developed by Michael Coleman with substantial contributions from Andy Belknap, Robert Leland, Dave Millican, Mary Bradley, Ron Bates, Bob Biery, Brent Mason, Max Neiman, and Chris McKenzie among many others. Jeremy Goldberg's assistance in testing draft versions of the tool was invaluable.

The county version, **The California County Financial Health Diagnostic**, was developed with invaluable guidance from: Terry Schutten, Leanne Link, Michelle Aguire, Martin Polt, Paul Derse, Meegan Jessee, and Graham Knaus.

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How Are We Doing?

Using the The California Municipal Financial Health Diagnostic
to Evaluate Your Agency's Financial Health

According to economists, California's "great recession" ran from December 2007 and ended in August 2009. These years, and those following have been difficult for local governments all around. In addition to deep reductions in local government revenue, cities, counties and special districts have struggled with state take-aways of local funds, the dissolution of redevelopment agencies, and mounting costs of retiree pensions and benefits. The severity and combination of these financial impacts varies but in a few well-known instances, cities have had to seek the legal protections of Chapter 9 Bankruptcy to restructure their contractual obligations, and at least one county required financial intervention from the state.

Grappling effectively with financial distress before it becomes a crisis first requires a shared understanding of the financial condition of the local government. A critical component of the difficulties of the most financially distressed local governments has been a lack of recognition and agreement among local leaders, staff and key interests (labor, retirees, creditors) regarding the agency's financial condition and what must be done in order to achieve sustainability. Most financial crises can be managed without court or outside agency intervention if leaders, staff and key interests have the courage, competence, and collaborative attitudes to 1) recognize and agree upon the local government's financial condition, and 2) implement the necessary changes to set the local government on a sustainable financial course.

Defining Local Government Financial Health

Government financial health may be viewed in four related financial contexts: 1) cash solvency - the ability to meet immediate financial obligations – generally over the next 30 or 60 days (accounts payable, payroll); 2) budgetary solvency - the ability to meet all financial obligations during a budget year; 3) long-run solvency – the ability to meet all financial obligations into the future; and 4) service-level solvency – the ability to provide the desired level of services for the general health and welfare of a community.[1] In the context of today's difficult financial climate, we are primarily concerned with the ability of the local government to meet its financial commitments now and into the future (cash, budgetary, and long-run solvency). A more expansive evaluation of financial condition would examine the community's economic environment and ability to meet the service level desires of the community (service-level solvency).

A government is in ***financial distress*** if it has a continuing imbalance between its level of financial commitments and its available financial resources over time. If revenues and spending are not brought into balance, ***financial distress*** can progress into financial crisis, when the government is unable to meet its financial obligations.

Determining Local Government Financial Health

There have been many government financial health monitoring systems devised over the last several decades. Each approach consists of a series of financial indicators or measures that address a local government's ability to meet the needs of its constituents. The International City/County Management Association's (ICMA) venerable Financial Trend Monitoring System (FTMS) consists of some 42 financial measures including factors assessing the economic environment of the community, the finances of the jurisdiction, and its managerial practices and legislative policies.[2] Building on the FTMS and various other systems and policies developed by academics and governments, this tool distills the most essential indicators assessing financial health with a pragmatic focus on an agency's level of financial distress heading into financial crisis.

This ***California Municipal Financial Health Diagnostic*** is primarily concerned with the ability of the local government to meet its financial commitments now and into the future (cash, budgetary, and long-run solvency). In contrast to many other financial health monitoring systems, this tool looks at recent past and near future financial measures and indicators to provide an assessment of the local government's level of financial distress and tendency toward financial crisis.

The ***California Municipal Health Diagnostic*** is focused first and foremost on the general fund, but may also be applied to other funds. It focuses on the local government's operating position, going beyond reported finances to focus on recurring revenues and expenditures (by distinguishing temporary non-recurring revenues and expenditures) and taking into account any unbudgeted but real current costs of services. The tool includes an evaluation of unsustainable or risky budget practices that indicate an agency in distress and tending toward crisis. The foundation of the diagnosis is an examination of discretionary revenues and spending, distinguishing and identifying the effects of programatic revenues and spending on discretionary resources.

Unique Aspects of California Local Government Finance[3]

California local governments' tax and revenue raising choices are strictly limited. Property tax is the single most important source of general purpose revenue for most cities, counties and many special districts. Yet local governments have no authority over the property tax base, rate or allocation. Other tax increases require voter approval.

Over the last several decades since Proposition 13 (1978), the state has shifted property tax revenues, vehicle license taxes, and eliminated virtually all general purpose state aid to local governments. At the same time, the Legislature has shifted greater program responsiblities and imposed greater mandates but with limited funding. In response, local governments sought and voters approved, several constitutional measures protecting local government finances from further legislative actions.

Most remaining city general purpose revenues are no longer vulnerable to additional state takeaways.[4] Consequently, unlike municipalities in other states or in California in previous times, assessing the financial health of California cities has little to do with the amount or proportion of intergovernmental revenues (which, in any case, is minimal for nearly all cities and special districts).

California counties have much more limited revenue raising authority than cities and remain, by their nature, highly dependent on state budgetary actions. The state Legislature may delegate to counties any of the functions which belong to the state itself. Counties are responsible for frontline municipal services in unincorporated areas; for countywide local services such as jails, elections, and property tax administration; and for state programs delegated to counties such as health and human services.

The ***California Municipal Financial Health Diagnostic*** consists of:

1. ***The Financial Distress Checklist.*** A fourteen point list of key indicators to assess the near term financial health of your local government's general fund and other operations. The checklist is intended for use by policy makers and community members to ask the important questions and get the necessary answers.
2. ***The Financial Health Indicators.*** Linked to the fourteen point Financial Distress Checklist, the Financial Health Indicators provide more detailed formulas and methods for determining financial condition and will need to be completed by a team of qualified financial analysts.

WARNING SIGNS
Indications of Crisis

- ☐ Failure to pay an undisputed claim from a creditor within 90 days past claim date.
- ☐ Failure to forward income taxes withheld or Social Security contributions for over 30 days past the due d
- ☐ Failure to make *required* pension fund contributions on time.
- ☐ Missing a payroll for 7 days.
- ☐ Available unrestricted balance for the general fund at the end of the current fiscal year will be negative.

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[1] Justice, Jonathan and Scorsone, Eric. "Measuring and Predicting Local Government Fiscal Stress" in Levine, Helisse; Justice, Jonathan; Scorsone, Eric. Handbook of Local Government Fiscal Health. Jones and Bartlett Learning, Burlington, MA 2012.

[2] Groves, Sanford M. and Valente, Maureen Godsey. Revised Nollenburg, Karl. Evaluating Financial Condition: A Handbook for Local Government, 4th edition. International City/County Manager Association (ICMA), USA, 2003.

[3] For more information, see Multari, Coleman, Hampian and Statler, *Guide to Local Government Finance in California*, Solano Press Books, 2012.

[4] The continuing impacts of the dissolution of Redevelopment Agencies notwithstanding. These impacts should be taken into account as appropriate in these financial health measures.

Questions, comments, improvements? Michael Coleman 530-758-3952 coleman@munwest.com

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City of Fort Bragg **General Fund**

The California Municipal Financial Health Diagnostic

Financial Health Indicators - Summary Checklist

	Indicator	Rating	
Measures	1. Net Operating deficit / surplus. There are no recurring general fund operating deficits. General revenues are sufficient to meet the net general revenue demand of programs.		*Warning*
	2. Fund balance. Reserves are sufficient over multiple consecutive years and in compliance with adopted policy.		*Healthy*
	3. Capital Asset Condition. The county is keeping pace with the aging of its capital assets.		*Healthy*
	4. Liquidity. Cash and short-term investments are suffieicent to cover current liabilities (including short-term debt and accounts payable within 60 days).		*Healthy*
	5. Fixed costs & labor costs. Fixed costs (including debt service and other contractual obligations), salaries and benefits are stable or decreasing over multiple years relative to reasonably expected revenue growth.		*Warning*
	6. General fund subsidies of other funds. Any general fund subsidies other enterprises or special funds are sustainable and in compliance with adopted policy.		*Healthy*
Practices and Conditions	7. Constraints on budgetary discretion. The board of supervisors' authority to make budget changes is not excessively constrained by charter, contract, or law.		*Healthy*
	8. Balancing the budget with temporary funds. The use of reserves, selling assets, deferring asset maintenance to balance the general fund has been limited, prudent and in compliance with adopted policy.		*Caution*
	9. Balancing the budget with borrowing. The use of short-term borrowing, internal borrowing or transfers from special funds to balance the general fund has been limited, prudent and in compliance with adopted policy.		*Healthy*
	10. Balancing the budget by deferring employee compensation costs. Pension liabilities and other non-salary benefits have been determined, disclosed and actuarially funded in compliance with adopted policy.		*Healthy*
	11. Balancing the budget with backloaded debt service payments. Debt service payments have not been "backloaded" into future years.		*Healthy*
	12. Funding operating costs with non-recurring revenues. Ongoing operating costs are being funded with ongoing rather than temporary revenues (e.g., from development, etc.)		*Caution*
	13. Timeliness and accuracy of financial reports. Financial Reports are being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)		*Caution*
	14. Service level solvency. Public service levels meet the standards and needs in this community.		*Healthy*

The California Municipal Financial Health Diagnostic

Adopted Financial Management Policies

1. Use of Temporary Funds	Yes
2. Reserves and Fund Balance	Yes
3. Short term borrowing	Yes
4. Interfund Transfers	Yes
5. Payment of employee compensation costs	Yes
6. Pay-as-you-go Financing	Yes
7. Debt Management / Affordability	Yes
8. Long range financial planning	No

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The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

Operating Deficit/Surplus

The simplest measure of annual operating deficit/surplus is the difference between total revenues and total spending. General fund operating deficits may be an indication that the government's financial condition is unsustainably out of balance and that corrections to bring the finances into a sustainable condition are not occurring. Though an operating deficit in any one year may not be a cause for concern (because, for example, reserves or one-time remedies might be available to cover the difference), frequent and increasing deficits may indicate that the governments activities are not sustainable within the revenues available over time.

Taken as a percentage of total revenues, the local government's operating deficit/surplus tells us very plainly if current resources in the fund are sufficient to cover current expenditures. The data to compute this measure should be readily available in the financial statements (comprehensive annual financial reports) of the agency. This is measure 1A below.

But a budget can be balanced and an ongoing structural problem masked if a deficit is covered by temporary solutions, such as non-recurring revenues like limited-term grants, land sale income, or transfers from other funds. This approach cannot be relied upon in the long-run (over multiple years). Measure 1B takes a step further than 1A by taking these temporary revenues out of the equation to see how much worse the revenue shortfall becomes at current spending levels.

Still, this may not show the whole picture. If certain current financial obligations are being delayed and not budgeted, then the financial position shown in measure 1B is still incomplete. Measure 1C takes into account "unbudgeted current liabilities" such as Other Post-Employment Benefits (OPEB); unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. For the purpose of determining long run solvency, Measure 1C is the best indicator of a local government's true fiscal operating position because it reflects the level of spending actually needed to sustain your current level of service over time. If these deferred costs are significant, then your fiscal imbalance may be much worse than you thought. If you cannot find sufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern (See indicator # 9).

1A Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-2.40%	2.92%	1.96%	3.04%	4.07%	
percent change =>	-221.26%	-32.63%	54.97%	33.81%	

Formula

$$\text{gross annual deficit/surplus as a percent of revenues} = \frac{\left(\text{gross total revenues}\right) - \left(\text{gross total expenditures}\right)}{\text{gross total revenues}}$$

For comparison purposes

1B Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
0.66%	-5.46%	-1.75%	2.40%	3.36%	

Formula

$$\text{net operating deficit/surplus as a percent of revenues} = \frac{\left(\text{net operating revenues}\right) - \left(\text{temporary revenues}\right) - \left(\text{net operating expenditures}\right)}{\text{net operating revenues}}$$

Negative Indicator
- Recurring and static or increasing negative values

For comparison purposes

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

1C Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-8.64%	-16.16%	-12.01%	-7.43%	-6.03%	

Formula

$$\text{net true operating deficit/surplus as a percent of revenues} = \frac{\left(\text{net operating revenues}\right) - \left(\text{temporary revenues}\right) - \left(\text{net operating expenditures}\right) - \left(\text{unbudgeted current liabilities}\right)}{\text{net operating revenues}}$$

Score:

Warning-Red: Persistent & increasing deficits over consecutive years.

Caution-Yellow: Deficits are infrequent or relatively marginal compared to fund balance (see #2 below) and/or there is a reasonable plan for bringing revenues and spending into balance.

Good-Green: not an issue of concern.

or

Definitions

Gross Total Revenues. See CAFR Statement of Revenues and Expenditures "total revenues."

Gross Total Expenditures. See CAFR Statement of Revenues and Expenditures "total expenditures"

Net Operating Revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements minus revenues legally restricted to special purposes. Transfers related to non-operating activities should be excluded.

General Purpose Revenues. Discretionary taxes including property taxes (other than voter approved debt service), property transfer tax, general sales and use tax, business license tax, transient occupancy tax, utility users tax, construction tax, and other discretionary taxes; franchises; fines, forfeitures and penalties; investment earnings; rents, concessions, royalties; homeowners property tax relief reimbursement; non-restricted state and federal grants; and non-restricted transfers in.

One-time (temporary) Revenues. One-time (temporary) revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.

Ongoing General Propose Revenues. Ongoing General Propose Revenues equals total general purpose revenues minus one-time (temporary) general purpose revenues.

Net Operating Expenditures. Net operating expenditures equals total expenditures (after credits/reimbursements) and transfers out, minus one time expenditures capital improvement expenditures (or transfers out for capital purposes).

Unbudgeted Current Liabilities. The amortized costs of long-term general fund liabilities not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. If there is insufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern (See indicator #9).

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

Fund Balance

A positive fund balance, or reserves, is important for any government to withstand financial risk over time. Unanticipated fluctuations in revenues may occur from economic impacts or state take-ways. "Financial reserves" are important to meet unforeseen revenue shortfalls or expenditure overages. But reserves cannot be relied upon to cover financial shortfalls that are more than temporary. (See Indicator #7) An unplanned decline in unreserved fund balances as a percentage of operating revenues over time suggests the government is less able to withstand financial emergencies.

The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
52.53%	53.89%	52.85%	53.40%	55.66%	

Formula

$$\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$$

Score:

Warning-Red: Persistently & substantially decreasing or is below

Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing.

Green - not concerning

Definitions

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However, *you should review resources categorized as "committed"* and include in "unreserved fund balance" any amounts that, even if only in time of emergency, could be accessed with action of the City Council / governing board.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Fund Balance Components[1]					
	Nonspendable	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

Capital Asset Condition

Capital assets must be maintained and replaced over time. This requires annual resource commitment such that the value of assets and asset improvements does not decline.

3 Capital Asset Condition

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
5.32%	16.26%	0.74%	0.50%	-0.01%	

Formula

$$\text{Change in Capital Asset Condition} = \frac{\left(\text{ending net value of capital assets}\right) - \left(\text{beginning net value of capital assets}\right)}{\text{beginning net value of capital assets}}$$

Score:

Warning-Red: persistent and substantially negative trend

Caution-Yellow: negative or decreasing but there is a reasonable plan for stabilizing.

Good-Green: not an issue of concern.

Q3 ○ ○ ◉

Liquidity

A decreasing amount of cash and short-term investments as a percentage of current liabilities suggests the government is less able to pay its short-term obligations. Increasing current liabilities at the end of the year as a percentage of net operating revenues indicates liquidity problems and/or deficit spending. Liquidity measures the amount of readily available financial resources relative to immediate financial commitments (current liabilities).

4 Liquidity

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
367.10%	170.60%	471.82%	471.82%	471.82%	

Formula

$$\text{liquidity} = \frac{\text{cash and short term investments}}{\text{current liabilities}}$$

Score:

Warning-Red: Persistently & substantially decreasing.

Caution-Yellow: Has decreased but there is a reasonable plan for stabilizing.

Good-Green: not an issue of concern.

Q4 ○ ○ ◉

Definitions

Current liabilities is the sum of all liabilities due at the end of the fiscal year including short-term debt, current portion of long-term debt, all accounts payable accrued

IMPORTANT: *Include*

- *Advances and amounts due to other funds, including internal funds from pooled cash transactions or borrowing.*
- *Increases in debt service payments due to financings.*

Cash and short-term investments includes cash on hand and in the bank as well as other assets that can easily be converted to cash.

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg

General Fund

Fixed Costs and Budget Flexibility

Increasing fixed costs as a percentage of net operating expenditures may indicate an unsustainable financial structure where the government has limited ability to make necessary budget changes. Fixed does not mean static. Fixed costs may be changing over time but cannot be easily altered.

A major component of general fund spending is labor costs for salaries and benefits: often these costs are anything but fixed, as costs continue to escalate, but as long as the employees are on the payroll, these costs are unavoidable. This indicator computes the proportion of net annual operating expenses that these fixed and labor costs represent, to show the degree of flexibility the agency has in making budget reductions. As with all these measures, compute this for general fund and other funds separately.

Some cities and counties find themselves using the general fund to subsidize golf course rates; water, sewer, transit, parking or other enterprise operations; or pay debt service or capital improvement costs that should arguably be paid by proprietary or special revenue funds. Often this is because user fees are not sufficiently high enough to be self-supporting. Sometimes it is because debt obligations were incurred that burdened the general fund with a pledge to support bonds if the intended repayment source (development fees, enterprise fund) proved inadequate. These subsidies limit budget flexibility if they are a significant portion of the general fund net operating expenditures and/or if the trend is increasing.

Constraints on the budgetary discretion of the agency include binding arbitration or required formulas or third party agreement to alter compensation, spending or minimum staffing. These legal constraints impair the agency's ability to achieve solutions when in fiscal distress and may also accelerate cost increases over time.

Definitions

Salaries and wages are compensation paid directly to employees.

Benefits include costs for contributions to FICA, pension, life insurance, health insurance, etc. and current contributions to self-insurance funds.

Fixed costs are those costs over which the government has little control in the short run because of contractual agreements, charter restrictions, or state or federal law, other than those costs already included under salaries, wages or benefits. Non-labor fixed costs include debt service, retiree health payments, lease-purchase payments, utilities, contracted goods and services, etc.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Subsidy Expenditures / Transfers Out. Total of expenditures and transfers out to support enterprises or special funds.

5a Fixed Costs

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
27.49%	26.10%	27.35%	24.77%	24.17%	

Formula

$$\text{Fixed costs as a percent of expenditures} = \frac{\text{fixed costs}}{\text{net operating expenditures}}$$

For comparison purposes

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

5b Fixed Costs plus Labor Costs

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
92.82%	91.10%	93.21%	93.41%	93.38%	

Formula

Fixed costs and labor costs as a percent of expenditures = (salaries + wages + benefits + fixed costs) / net operating expenditures

Score:

Warning-Red: Increasing or over 80%.

Caution-Yellow: Has increased but is projected to stabilize or decline.

Good-Green: not an issue of concern.

Q5

6 General Fund Subsidy of Other Funds

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
0.00%	0.00%	0.00%	0.00%		0.00%

Formula

Subsidy costs as a percent of expenditures = (Subsidy Expenditures and Subsidy Transfers Out) / net operating expenditures

Score:

Warning-Red: Increasing or over adopted policy.

Caution-Yellow: Has increased but is projected to stabilize or decline.

Good-Green: not an issue of concern.

Q6

7 Constraints on Budgetary Discretion

Do charter provisions or other legal commitments (contracts, court decisions/settlements) restrict the Board of Supervisor's authority?

- Binding arbitration: required submission of a dispute to a third person whose decision is obligatory.
- Formulas require minimum employee compensation, hiring or staffing levels, or spending levels or require the agreement of others.
- General fund is pledged as support, or public facilities as security, for non-general fund debt.
- Others: restrictions on contracting out, voter-approved tax expiring.

Score:

Warning-Red: Yes - restrictions.

Caution-Yellow: Yes but minimal/workable.

Green - no restrictions

Q7

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

Financial Practices

An agency's financial and budgetary management practices may indicate the degree of financial distress. Practices that should be rarely used include solving budgetary imbalances with temporary revenues or cuts (such as furloughs), internal borrowing from special funds beyond budget years (i.e. for more than cash flow), deferring pension or other employee costs, and backloaded debt service schedules. Financial trouble is also strongly correlated with a local government's failure to file financial reports on time.

8 Balancing the Budget with Temporary Funds

	2013-14	2014-15	2015-16	Score: Warning-Red: Yes, multiple years. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q8
Has the general fund (budget or financial year close) been balanced with • reserves • selling assets • deferring asset maintenance or operating costs ?	YES- Use of fund balance for one time expenses.	YES- Use of fund balance for one time expenses.	YES- Use of fund balance for one time expenses.		○ ◉ ○

Q8a	Is there an adopted policy on the use of temporary funds?	◉ Yes ○ No
Q8b	Is there an adopted reserves and fund balance policy?	◉ Yes ○ No

9 Balancing the Budget with Borrowing

	2013-14	2014-15	2015-16	Score: Warning-Red: Yes, multiple instances. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q9
Has the general fund (budget or financial year close) been balanced with • short-term borrowing, • internal borrowing (including transfers that must be repaid), • amounts owed to other funds from pooled cash ?	Th	NO	NO		○ ○ ◉

Q9a	Is there an adopted policy on short-term borrowing?	◉ Yes ○ No
Q9b	Is there an adopted policy on interfund transfers?	◉ Yes ○ No

10 Balancing the Budget by Deferring Employee Compensation Costs

	2013-14	2014-15	2015-16	Score: Warning-Red: Yes, multiple years. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q10
Has the general fund been balanced by deferring payments for or not paying the current actuarially determined costs of … • pension, other post-employment benefit liabilities (e.g., compensated absences, deferred comp, retiree medical, etc.) • risk programs (e.g., workers comp and liability funds, etc.) • pension obligation bonds which presume overly optimistic payroll growth?	NO	NO	NO		○ ○ ◉

Q10a	Is there an adopted policy on the payment of employee compensation costs?	◉ Yes ○ No

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of Fort Bragg — General Fund

11 Balancing the Budget with Backloaded Debt Service

	2013-14	2014-15	2015-16	Score:	Q11
Have general fund debt payment schedules been backloaded? (e.g., capital appreciation bonds, pension obligation bonds, or other financings with ballon payments or deferred/increasing payment schedules over time)	NO	NO	NO	**Warning-Red:** Backloaded payments **Caution-Yellow:** minimal/workable. **Good-Green:** Not a concern.	○ ○ ●

Q11a Is there an adopted policy favoring pay-as-you-go financing? ● Yes ○ No

Q11b Is there an adopted debt management / affordability policy? ● Yes ○ No

12 Funding Operating Costs with Non-recurring Revenues (e.g. development, etc.)

	2013-14	2014-15	2015-16	Score:	Q12
Has the general fund (budget or financial year close) been balanced relying on non-recurring revenues, such as from land-use development, to fund on-going operating costs or debt service other than work associated with those temporary revenues? (e.g., developer fees or taxes, sales taxes from construction, etc. funding other than building/planning staff)	YES, RDA Suc. Agency and Grant Rev.	YES, RDA Suc. Agency and Grant Rev.	YES, RDA Suc. Agency and Grant Rev.	**Warning-Red:** Yes. **Caution-Yellow:** Yes but minimal/workable. **Good-Green:** No. Not a concern.	○ ● ○

Q12a Is there an adopted long-range financial plan and policy? ○ Yes ● No

13 Timeliness and Accuracy of Financial Reports

	2013-14	2014-15	2015-16	Score:	Q13
Have annual financial reports ***not*** been filed on time ? • Comprehensive Annual Financial Report (CAFR) • State Controller's Financial Transactions Report	YES	NO	NO	**Warning-Red:** Yes. Not filed on time. **Caution-Yellow:** Yes but special circumstances. **Green-** No: filed correctly and on time.	○ ● ○

14 Service Level Solvency

	2013-14	2014-15	2015-16	Score:	Q14
Are public service levels below standards in this community ? e.g., emergency response times, road condition, facility maintenance, etc.	NO	NO	NO	**Warning-Red:** Far below standards. **Caution-Yellow:** Below standards but will improve. **Green-** Service levels meet standards.	○ ○ ●

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

General Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
				2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
a	Gross revenues	CAFR* Statement of Revenues and Expenditures "total revenues"	1A	8,110,867	8,612,863	9,029,954	9,481,452	9,955,524	
a1	Transfers in	CAFR* Statement of Revenues and Expenditures "transfers in"		739,130					
a2	Revenues restricted to capital improvements (by law or contract)	Staff analysis							
a3	Revenues legally restricted to special purposes	Staff analysis							
b	Net operating revenues	line "a" plus line "a1" minus line "a2" minus line "a3"	1B,1C	8,849,997	8,612,863	9,029,954	9,481,452	9,955,524	-
	Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements, minus revenues legally restricted to special purposes.								
	General purpose revenues. Discretionary taxes including property taxes (other than voter approved debt service), property transfer tax, general sales and use tax, business license tax, transient occupancy tax, utility users tax, construction tax, and other discretionary taxes; franchises; fines, forfeitures and penalties; investment earnings; rents, concessions, royalties; homeowners property tax relief reimbursement; non-restricted state and federal grants; and non-restricted transfers in.								
	On-time(temporary) revenues (other than those included in "c" or "d")	Staff analysis	1B,1C	350,148	635,008	370,617	370,617	370,617	

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	Data Component	Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
				2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
c	**One-time (temporary) revenues.** One-time (temporary) revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.								
d1	Salaries, wages and benefits			5,514,282	5,490,864	5,807,295	6,097,660	6,402,543	
d2	Services and supplies			2,019,810	2,267,574	2,088,632	2,090,721	2,092,811	
d3	Other			771,759	603,354	956,701	1,004,536	1,054,763	
d	Gross expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	1A	8,305,851	8,361,792	8,852,628	9,192,916	9,550,117	-
e	Transfers out	CAFR* Statement of Revenues and Expenditures "transfers out"		212,287	112,992	0	0	0	
f	Capital project expenditures (other than capital outlay that is not included in current expenditures)	CAFR* Statement of Revenues and Expenditures "capital outlay"		76,836	26,753	35,000	310,000	300,000	
g	Other one-time or temporary expenditures	Staff analysis							
h	Net operating expenditures	line "d" plus line"e" minus line"f" minus line"g" minus line"a3"	1A, 1C, 2, 4, 5	8,441,302	8,448,031	8,817,628	8,882,916	9,250,117	-

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City of Fort Bragg

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	Data Component	Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
				2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures minus expenditures of revenues legally restricted to special purposes.								
i	Unbudgeted current liabilities	Staff analysis	1C	823,530	921,474	925,849	932,724	935,224	
	Unbudgeted current liabilities. The amortized costs of long term general fund liabilities not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.								
j	Total Fund Balance	CAFR* Balance Sheet		4,619,710	4,757,789	4,865,116	4,948,627	5,354,034	
k	Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet		185,345	205,025	205,025	205,025	205,025	
l	Unreserved fund balance including county General Reserve	line "j" minus line "k"	2	4,434,365	4,552,764	4,660,091	4,743,602	5,149,009	-

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However:

- *You should review resources categorized as "committed"* and include in "unreserved fund balance" any amounts that, even if only in time of emergency, could be accessed with action of the Board of Supervisors. County General Reserves (per the County Budget Act, GC§29086) are to be included in "unreserved fund balance."
- Uncollectible loans or other receivables should not be included in this measure of unreserved fund balance.

Fund Balance Components[1]	Nonspendable	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

General Fund

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	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
				2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
m	Beginning net value of capital assets, *government-wide*	CAFR Notes to financial statements and staff analysis (for projection)	3	31,267,505	32,931,212	38,284,427	38,567,552	38,760,677	
n	Ending net value of capital assets, *government-wide*		3	32,931,212	38,284,427	38,567,552	38,760,677	38,758,177	
	Capital Asset Condition. A high ratio suggests the government is keeping pace, on average, with the aging of its capital assets.								
o	Cash and short-term investments (*fund level*)	CAFR* Balance Sheet	4	3,159,008	1,441,172	3,985,688	3,985,688	3,985,688	
	Cash and short-term investments includes cash on hand and in the bank as well as other assets that can easily be converted to cash.								
p	Current liabilities *(fund level)*	CAFR* Balance Sheet*	4	860539	844,755	844,755	844,755	844,755	
	***Current liabilities** is the sum of all liabilities due at the end of the fiscal year including short-term debt, current portion of long-term debt, all accounts payable accrued liabilities and other current liabilities due to be paid within 60 days. **IMPORTANT**: *Include* • *Advances and amounts due to other funds, including internal funds from pooled cash transactions or borrowing.* • *Increases in debt service payments due to financings.*								
q	Salaries + wages + benefits	(from line "d1" above)	5B	5,514,282	5,490,864	5,807,295	6,097,660	6,402,543	-
	Salaries and wages are compensation paid directly to employees. **Benefits** include costs for contributions to FICA, pension, life insurance, health insurance, etc. and current contributions to self-insurance funds.								
r	Debt service principal (long term debt only)	Staff analysis		111,821	116,532	121,418	126,509	131,814	
s	Debt service interest (long term and short term debt)	Staff analysis		35,748	31,037	26,151	21,060	15,755	

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

General Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

	Data Component	Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
				2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
t	Expenditures for federal, state or court mandated activities	Staff analysis		1,154,574	1,051,882	1,122,717	1,122,716	1,122,715	
u	Pension payments (other than those included in "q" above)	Staff analysis and CAFR							
v	Lease purchase payments	Staff analysis and CAFR							
w	Other long term contracts	Staff analysis							
x	Other fixed costs	Staff analysis		1,018,721	1,005,789	1,141,400	929,619	965,353	
y	Fixed costs	Sum of r through x above	5A, 5B	2,320,864	2,205,240	2,411,686	2,199,904	2,235,637	-
	Fixed costs are those costs over which the government has little control in the short run because of contractual agreements, charter restrictions, or state or federal law, other than those costs already included under salaries, wages or benefits. Fixed costs include debt service, retiree health payments, lease-purchase payments, utilities, contracted goods and services, etc. When it is unclear if certain costs are "fixed," consider a rule of thumb such as "can elected officials cut these costs by at least ten percent in one year."								
z	Subsidy expenditures and subsidy transfers out	Staff analysis based on CAFR Statement of Revenues and Expenditures	6						

City of Fort Bragg — Water Enterprise Fund

The California Municipal Financial Health Diagnostic: Financial Health Indicators

Operating Deficit/Surplus - Special Program or Fund - also internal service funds and enterprises.

Most programs receive some degree of functional or program revenue such as user fees, earmarked intergovernmental aid, or special taxes. To the extent that operating revenues do not cover operating expenditures, the government's general purpose revenues bear the burden for the program. In some cases, this support from general revenues is validated by adopted policy that essentially finds those funds necessary and justified for the good of the general community. But in other cases, this general revenue support may be excessive (in the opinion of the governing board), growing in an unsustainable pattern, or placing undue risk on other programs supported by general revenues. In such a case, the financial health of the local government is impaired.

1A Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-2.14%	14.29%	22.65%	22.65%	22.65%	

Formula

$$\text{gross annual deficit/surplus as a percent of revenues} = \frac{(\text{gross total revenues}) - (\text{gross total expenditures})}{\text{gross total revenues}}$$

For comparison purposes

1B Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-2.14%	-54.23%	21.51%	22.65%	22.65%	

Formula

$$\text{net operating deficit/surplus as a percent of revenues} = \frac{(\text{net operating revenues}) - (\text{temporary revenues}) - (\text{net operating expenditures})}{\text{net operating revenues}}$$

Negative Indicator
- Recurring AND static or increasing deficit over consecutive years.

For comparison purposes

City of **Fort Bragg** **Water Enterprise Fund**

1C Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-16.64%	#DIV/0!	8.18%	9.30%	9.77%	

Formula

$$\frac{\left(\text{net operating revenues}\right) - \left(\text{temporary revenues}\right) - \left(\text{net operating expenditures}\right) - \left(\text{unbudgeted current liabilities}\right)}{\text{net operating revenues}}$$

Score:

Warning-Red: Persistent & increasing deficits over consecutive years. ○

Caution-Yellow: Deficits are infrequent or relatively marginal compared to fund balance (see #2 below) and/or there is a reasonable plan for bringing revenues and spending into balance. ○

Good-Green: not an issue of concern. ◉

QSF-1

Definitions

Gross total revenues. See CAFR Statement of Revenues and Expenditures "total revenues."

Gross total expenditures. See CAFR Statement of Revenues and Expenditures "total expenditures"

Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements minus revenues legally restricted to special purposes. Transfers related to non-operating activities should be excluded.

Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. You might also consider excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.

Net operating expenditures. Net operating expenditures equals total expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Unbudgeted current liabilities. The amortized costs of long-term general fund liabilities not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. If there is insufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern.

Fund Balance

A positive fund balance, or reserves, is important for any government to withstand financial risk over time. Unanticipated fluctuations in revenues may occur from economic impacts or state take-ways. "Financial reserves" are important to meet unforeseen revenue shortfalls or expenditure overages. But reserves cannot be relied upon to cover financial shortfalls that are more than temporary. (See Indicator #7) An unplanned decline in unreserved fund balances as a percentage of operating revenues over time suggests the government is less able to withstand financial emergencies.

The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
101.64%	65.66%	136.55%	146.28%	0.00%	

Formula

$$\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$$

Score:

Warning-Red: Persistently & substantially decreasing or is below 8%.

Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing.

Green - not concerning

QSF-2

Definitions

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However, you should review resources categorized as "committed" and include in "unreserved fund balance" any amounts that, even if only in time of emergency, could be accessed with action of the Board of Supervisors.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Fund Balance Components[1]					
	Nonspendable	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

Water Enterprise Fund

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	Data Component	*Source of Data*	*Use for Indicator*	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
a	Gross program revenues and transfers in	CAFR* Statement of Revenues and Expenditures "total revenues"	SF-1A	2,228,589	2,495,613	2,636,160	2,794,330	2,961,989	
b	General revenue transfers in if included in "a" above	CAFR* Statement of Revenues and Expenditures "transfers in"							
c	Revenues restricted to capital improvements (by law or contract)	Staff analysis							
e	Net operating revenues	line "a" minus lines "b" , and "c"	SF-1B, SF-1C	2,228,589	2,495,613	2,636,160	2,794,330	2,961,989	-
	Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements.								
f	Temporary revenues (other than those included in "c")	Staff analysis	SF-1B, SF-1C						
	Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.								

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

Water Enterprise Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
g	Gross expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	SF-1A	2,276,325	2,139,080	2,038,947	2,161,284	2,290,961	
h	Transfers out	CAFR* Statement of Revenues and Expenditures "transfers out"			1,710,009	30,300			
i	Capital project expenditures (other than capital outlay that is not included in current expenditures)	CAFR* Statement of Revenues and Expenditures "capital outlay"							
ia	Other one-time or temporary expenditures	Staff analysis							
j	Net operating expenditures	line "g" plus line "h" minus line "i" minus line "ia"	SF-1B, SF-1C, SF- 2, SF-4, SF-5	2,276,325	3,849,089	2,069,247	2,161,284	2,290,961	-
	Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures..								
k	Unbudgeted current liabilities	Staff analysis	SF-1C	323,135	332,729	351,379	373,154	381,654	
	Unbudgeted current liabilities. The amortized costs of long term general fund liabilities attributable to this program or fund not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" I order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.								

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

Water Enterprise Fund

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	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
l	Total Fund Balance	CAFR* Balance Sheet	-	2,313,558	2,527,484	2,825,530	3,161,558		
m	Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet	-						
n	Unreserved fund balance	line "l" minus line "m"	SF-2	2,313,558	2,527,484	2,825,530	3,161,558	-	-
	Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. Review "committed" fund blance for any amounts that could be considered available and unhindered by law or contract.								

City of Fort Bragg — Wastewater Enterprise Fund

The California Municipal Financial Health Diagnostic: Financial Health Indicators

Operating Deficit/Surplus - Special Program or Fund - also internal service funds and enterprises.

Most programs receive some degree of functional or program revenue such as user fees, earmarked intergovernmental aid, or special taxes. To the extent that operating revenues do not cover operating expenditures, the government's general purpose revenues bear the burden for the program. In some cases, this support from general revenues is validated by adopted policy that essentially finds those funds necessary and justified for the good of the general community. But in other cases, this general revenue support may be excessive (in the opinion of the governing board), growing in an unsustainable pattern, or placing undue risk on other programs supported by general revenues. In such a case, the financial health of the local government is impaired.

1A Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
2.09%	12.84%	12.41%	12.41%	12.41%	

Formula

$$\text{gross annual deficit/surplus as a percent of revenues} = \frac{(\text{gross total revenues}) - (\text{gross total expenditures})}{\text{gross total revenues}}$$

For comparison purposes

1B Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1.39%	-16.68%	1.81%	12.41%	12.41%	

Formula

$$\text{net operating deficit/surplus as a percent of revenues} = \frac{(\text{net operating revenues}) - (\text{temporary revenues}) - (\text{net operating expenditures})}{\text{net operating revenues}}$$

Negative Indicator

- Recurring AND static or increasing deficit over consecutive years.

For comparison purposes

City of **Fort Bragg** **Wastewater Enterprise Fund**

1C Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
-8.89%	#DIV/0!	-7.46%	1.11%	-0.67%	

Formula

$$\frac{\left(\text{net operating revenues}\right) - \left(\text{temporary revenues}\right) - \left(\text{net operating expenditures}\right) - \left(\text{unbudgeted current liabilities}\right)}{\text{net operating revenues}}$$

Score:

Warning-Red: Persistent & increasing deficits over consecutive years.

Caution-Yellow: Deficits are infrequent or relatively marginal compared to fund balance (see #2 below) and/or there is a reasonable plan for bringing revenues and spending into balance.

Good-Green: not an issue of concern.

QSF-1

Definitions

Gross total revenues. See CAFR Statement of Revenues and Expenditures "total revenues."

Gross total expenditures. See CAFR Statement of Revenues and Expenditures "total expenditures"

Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements minus revenues legally restricted to special purposes. Transfers related to non-operating activities should be excluded.

Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. You might also consider excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.

Net operating expenditures. Net operating expenditures equals total expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Unbudgeted current liabilities. The amortized costs of long-term general fund liabilities not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. If there is insufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern.

Fund Balance

A positive fund balance, or reserves, is important for any government to withstand financial risk over time. Unanticipated fluctuations in revenues may occur from economic impacts or state take-ways. "Financial reserves" are important to meet unforeseen revenue shortfalls or expenditure overages. But reserves cannot be relied upon to cover financial shortfalls that are more than temporary. (See Indicator #7) An unplanned decline in unreserved fund balances as a percentage of operating revenues over time suggests the government is less able to withstand financial emergencies.

The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
33.53%	22.73%	17.84%	22.39%	25.25%	

Formula

$$\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$$

Score:

Warning-Red: Persistently & substantially decreasing or is below 8%.

Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing.

Green - not concerning

QSF-2

Definitions

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However, you should review resources categorized as "committed" and include in "unreserved fund balance" any amounts that, even if only in time of emergency, could be accessed with action of the Board of Supervisors.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Fund Balance Components[1]					
	Nonspendable	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

Wastewater Enterprise Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

	Data Component	*Source of Data*	*Use for Indicator*	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
a	Gross program revenues and transfers in	CAFR* Statement of Revenues and Expenditures "total revenues"	SF-1A	3,004,493	3,194,149	3,389,118	3,592,465	3,808,013	
b	General revenue transfers in if included in "a" above	CAFR* Statement of Revenues and Expenditures "transfers in"							
c	Revenues restricted to capital improvements (by law or contract)	Staff analysis							
e	Net operating revenues	line "a" minus lines "b" , and "c"	SF-1B, SF-1C	3,004,493	3,194,149	3,389,118	3,592,465	3,808,013	-
	Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements.								
f	Temporary revenues (other than those included in "c")	Staff analysis	SF-1B, SF-1C						
	Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.								

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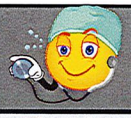
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
g	Gross expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	SF-1A	2,941,575	2,784,045	2,968,440	3,146,546	3,335,339	
h	Transfers out	CAFR* Statement of Revenues and Expenditures "transfers out"		21,260	943,044	359,350			
i	Capital project expenditures (other than capital outlay that is not included in current expenditures)	CAFR* Statement of Revenues and Expenditures "capital outlay"							
ia	Other one-time or temporary expenditures	Staff analysis							
j	Net operating expenditures	line "g" plus line "h" minus line "i" minus line "ia"	SF-1B, SF-1C, SF- 2, SF-4, SF-5	2,962,835	3,727,089	3,327,790	3,146,546	3,335,339	-
	Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures..								
k	Unbudgeted current liabilities	Staff analysis	SF-1C	308,851	314,016	314,016	406,086	498,156	
	Unbudgeted current liabilities. The amortized costs of long term general fund liabilities attributable to this program or fund not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" I order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.								



The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

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	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
l	Total Fund Balance	CAFR* Balance Sheet	-	993,444	847,312	593,640	704,559	842,233	
m	Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet	-						
n	Unreserved fund balance	line "l" minus line "m"	SF-2	993,444	847,312	593,640	704,559	842,233	-
	Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. Review "committed" fund blance for any amounts that could be considered available and unhindered by law or contract.								

City of Fort Bragg — Special Program or Fund (e.g. Water Fund, etc.)

The California Municipal Financial Health Diagnostic: Financial Health Indicators

Operating Deficit/Surplus - Special Program or Fund - also internal service funds and enterprises.

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1A Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19

Formula

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For comparison purposes

1B Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19

Formula

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Negative Indicator

- Recurring AND static or increasing deficit over consecutive years.

For comparison purposes

City of **Fort Bragg** **Special Program or Fund (e.g. Water Fund, etc.)**

1C Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19

Formula

$$\frac{\left(\text{net operating revenues}\right) - \left(\text{temporary revenues}\right) - \left(\text{net operating expenditures}\right) - \left(\text{unbudgeted current liabilities}\right)}{\text{net operating revenues}}$$

Score:

Warning-Red: Persistent & increasing deficits over consecutive years.

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QSF-1

○

○

○

Definitions

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The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19

Formula

$$\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$$

Score:

Warning-Red: Persistently & substantially decreasing or is below 8%.

Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing.

Green - not concerning

QSF-2

Definitions

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Fund Balance Components[1]					
	Nonspendable	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg

Special Program or Fund (e.g. Water Fund, etc.)

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	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
a	Gross program revenues and transfers in	CAFR* Statement of Revenues and Expenditures "total revenues"	SF-1A						
b	General revenue transfers in if included in "a" above	CAFR* Statement of Revenues and Expenditures "transfers in"							
c	Revenues restricted to capital improvements (by law or contract)	Staff analysis							
e	Net operating revenues	line "a" minus lines "b" , and "c"	SF-1B, SF-1C	-	-	-	-	-	-
	Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements.								
f	Temporary revenues (other than those included in "c")	Staff analysis	SF-1B, SF-1C						
	Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.								

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City of Fort Bragg

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	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
g	Gross expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	SF-1A						
h	Transfers out	CAFR* Statement of Revenues and Expenditures "transfers out"							
i	Capital project expenditures (other than capital outlay that is not included in current expenditures)	CAFR* Statement of Revenues and Expenditures "capital outlay"							
ia	Other one-time or temporary expenditures	Staff analysis							
j	Net operating expenditures	line "g" plus line "h" minus line "i" minus line "ia"	SF-1B, SF-1C, SF- 2, SF-4, SF-5	-	-	-	-	-	-
	Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures..								
k	Unbudgeted current liabilities	Staff analysis	SF-1C						
	Unbudgeted current liabilities. The amortized costs of long term general fund liabilities attributable to this program or fund not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" I order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.								

The California Municipal Financial Health Diagnostic

Data Gathering Worksheet

City of Fort Bragg
Special Program or Fund (e.g. Water Fund, etc.)

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	Data Component	***Source of Data***	***Use for Indicator***	**Year-2**	**PriorYr**	**CurrentYr (estimated)**	**Next Year (projected)**	**Year+2 (projected)**	**Year+3 (projected)**
	Year (e.g., 2014-15, etc.)			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
l	Total Fund Balance	CAFR* Balance Sheet	-						
m	Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet	-						
n	Unreserved fund balance	line "l" minus line "m"	SF-2	-	-	-	-	-	-
	Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. Review "committed" fund blance for any amounts that could be considered available and unhindered by law or contract.								

The California Municipal Financial Health Diagnostic

Notes to the Analyst

To complete the **California Municipal Financial Health Diagnostic**:
1) Compile the data in the biege fields of the "**Data Gathering**" worksheet tab. White fields automatically compute.
2) In the "**Indicators**" worksheet tab, values for indicators 1 - 6 will compute automatically from the data provided in the "**Data Gathering**" worksheet. Based on these values, rate each indicator.
3) In the "**Indicators**" worksheet tab, gather information and complete the beige fields and ratings for indicators 7 - 14.
4) In the "**Indicators**" worksheet tab, answer related questions regarding financial policies.
5) Ratings are automatically summarized in the "**Summary Checklist**" tab.
6) Prepare a *narrative report* describing each of your findings.

The "**Summary Checklist**" summarizes the questions and reponses of your **Financial Health Diagnostic**. This is a summary of the more detailed analysis of the fourteen indicators in the "**Indicators**" worksheet. THe quantitative data needed to complete the Indicators worksheet is contained in the **"Data Gathering"** worksheet. Many of the measures require projections for at least the next three years.

Data Gathering. Most of the data necessary to complete the fields in the Data Gathering worksheet for the "prior year" and "year-2" values can be obtained from your government's annual financial statements, budgets and debt schedules. However, certain measures will take some additional analysis and computation. For example, indicators "1b" and "1c" for operating deficit/surplus go beyond the simple difference between gross expenditures and gross revenues. You will need to adjust for revenues and related expenditures restricted to one-time (temporary) purposes or that are legally restricted to specific purposes. You will also need to take into account the amortized costs of all unbudgeted liabilities. Further, you will need to make forecasts of these ongoing net revenues, net expenditures and resulting balances in future years.

Forecasting. For the purpose of projecting future amounts and indicators in these worksheets, the financial analyst should assume:

- Current tax rates, allocations and laws. Do not presume your voters or the legislature will increase or otherwise alter the current tax base, rates or revenue allocations.
- Non-voter approved fees increase at levels consistent with existing policy of the local government.

- Temporary and one-time grant revenues and related expenditures do not continue (see "net operating revenues" and "net operating expenditures.")
- Employee compensation changes per current contract or policy including anticipated merit increases. For out-year costs, assume no further changes. Then, run an alternative scenario (sensitivity analysis) with reasonable assumptions about increases in future years. (i.e. cost of living adjustments at California CPI or 2%)
- Changes in staffing (including growth, turnover and vacancies) and other expenses necessary to maintain the current level of service.
- Changes in staffing and other expenses needed to maintain and operate any new facilities that are expected to be completed and operational.

In addition, there are worksheets for Special Program Funds which may be used to evaluate proprietary or special revenue funds. These worksheets include the data gathering and indicators elements to calculate indicators #1 and #2 for the each fund.

Questions, comments, improvements? Michael Coleman 530-758-3952 coleman@munwest.com

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City of Fort Bragg

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Text File

File Number: 16-172

Agenda Date: 5/3/2016 **Version:** 1 **Status:** Business

In Control: Finance and Administration Committee **File Type:** Staff Report

Agenda Number: 3B.

Discuss Cost Allocation Plan Options for FY16-17 Budget

CITY OF FORT BRAGG
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FINANCE AND ADMINISTRATION COMMITTEE

MEETING DATE: May 3, 2016

TO: Finance and Administration Committee

AGENDA ITEM TITLE: **Discuss Cost Allocation Plan options for FY16/17 Budget**

BACKGROUND AND OVERVIEW:

As part of the FY16/17 budget process, Finance Department staff, with the assistance of outside consultant Ginny Feth-Michel, undertook a detailed examination of the City's Cost Allocation Plan. The goals of the examination were threefold: (1) to help current staff understand the logic and methodology used by prior staff; (2) once understood, to better present the logic and methodology to Council, the public and all other stakeholders so as to provide better transparency; and (3) to determine if the logic and methodology are still relevant and appropriate or if revisions are necessary.

After an exhaustive examination of prior years' allocations, the following has been determined:

- Allocations of Salary and Benefits costs are appropriate as currently calculated. Allocations of these costs from indirect departments to direct departments are made according to the Personnel Staffing Allocation tables presented in each annual budget. The table represents a fair estimate of the amount of time each City employee spends servicing departments outside of their own.
- Allocations of non-personnel overhead costs, as currently calculated, are made according to the Personnel Staffing Allocation tables presented in each annual budget. The calculation has not included an allocation to the General Fund which results in a disproportionate share allocated to the Enterprise funds.
- Fleet & Equipment Services are allocated according to the number of vehicles in each department. Facilities Repair & Maintenance as well as Technology Maintenance & Replacement are allocated 50% to the General Fund, 25% to the Water Enterprise and 25% to the Wastewater Enterprise in accordance with prior direction from Council. Staff proposes to re-visit the Facilities and Technology allocations in future years with the intention of proposing an improved methodology.

RECOMMENDATION:

Staff has developed a plan to step up the allocation of non-personnel overhead to the General Fund over a three-year time period as follows; in year one 20% to be allocated, in year two 40% to be allocated and in year three and beyond 60% to be allocated. The plan will result in the

following estimated reductions to General Fund charges for service revenue: year one- $271k, year two- $547k, year three and beyond- $829k. Staff has currently developed the FY 2016/17 budget according to this plan and has balanced the budget despite the loss of $271k in General Fund revenue. Staff recommends presenting the budget in this manner at the Budget Workshop on May 25, 2016 unless an alternative recommendation is supported by the Finance and Administration Committee.

ALTERNATIVES:

1. Fully increase the General Fund allocation of non-personnel overhead costs to 60% in the FY16/17 Budget. The resulting budget will show a General Fund deficit of approximately $540k. Although the General Fund has sufficient fund balance to withstand the deficit in FY16/17, it is imperative that both staff and Council work diligently to enhance General Fund revenue streams in the years to come.
2. Step up the allocation over a longer or shorter timeframe.

ATTACHMENTS:

1. Cost Allocation Plan FY16/17

COST ALLOCATION PLAN
Fiscal Year 2016-17

City of Fort Bragg

TABLE OF CONTENTS

Contents

INTRODUCTION 1
Purpose of the Plan 1
What Are Direct and Indirect Costs? 1
Budgeting and Accounting for Indirect Costs. 1
Distributing Indirect Costs. 1
Plan Goal: Reasonable Allocation of Costs. 1
INDIRECT COST ALLOCATION STRATEGIES 2
Internal Service Funds 2
Payroll Allocations 2
Direct Cost Allocations 2
Combination of the Three. 2
DETERMINING DIRECT AND INDIRECT COSTS 2
Bases of Allocation 3
Indirect Cost Allocations 3
SIMPLE METHOD OF ALLOCATING COSTS 3
USES OF THE COST ALLOCATION PLAN 4
PLAN PREPARATION 4
SUMMARY 5
Table 1 – Personnel Staffing Allocations 6
Table 2 – Basis of Non-Personnel Indirect Cost Allocations 8
Table 3 – Internal Service Fund Allocations 9

INTRODUCTION

Purpose of the Plan

The purpose of the City's Cost Allocation Plan is to identify the total costs of providing specific City services and to appropriately allocate these costs to the Departments and or Funds that 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 as readily identifiable as 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 public facility 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, a methodology for determining and distributing indirect costs must be developed, and that is the purpose of a Cost Allocation Plan: 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 in mind that the goal is 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.

City of Fort Bragg Internal Service Funds

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

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. Furthermore some tasks are not directly attributable to one fund, further complicating a tracking methodology.

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.

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.

Bases 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 this estimate is presented 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 help to provide actual time spent on various activities and projects and will be 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 police activities, in ensuring that the full cost of services are considered in setting rates.

PLAN PREPARATION

In a true cost accounting system, indirect costs would be computed and allocated on an ongoing basis throughout the fiscal year based on actual costs. However, frequent updating in municipal finance would not serve any specific purpose—such as unit price control in a manufacturing company—and it would consume significant accounting resources. As such, the City's Cost Allocation Plan is prepared annually based on the current year's budgeted costs.

This approach works well when significant variances are not expected between budgeted 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.

SUMMARY

The Cost Allocation Plan helps make determining 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 in 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 page. Indirect costs represent 28% of General Fund appropriations in FY 2016/17.

Table 1 – Personnel Staffing Allocations

FY 2016/17 PERSONNEL STAFFING ALLOCATIONS										
		- - - Percent of Time Allocated By Fund - - -								
Description	Number of Employees	General Fund	Fleet Services	IT ISF	Facilities ISF	Streets	Storm Drains	Water Enterprise	Sewer Enterprise	TOTAL
CITY COUNCIL										
Councilmembers (5)		50.0%				5.0%	0.0%	20.0%	25.0%	100%
CITY MANAGER										
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	70.0%						15.0%	15.0%	100%
City Clerk	1	70.0%						15.0%	15.0%	100%
Administrative Assistant	1	80.0%						10.0%	10.0%	100%
IT Technician	1	0.0%		100.0%						100%
TOTAL	***6***									
FINANCE										
Finance Director/City Treasurer	1	36.0%	3.0%	3.0%	3.0%	3.0%	2.0%	25.0%	25.0%	100%
Senior Government Account	1	36.0%	3.0%	3.0%	3.0%	3.0%	2.0%	25.0%	25.0%	100%
Government Accountant I	1	36.0%	3.0%	3.0%	3.0%	3.0%	2.0%	25.0%	25.0%	100%
Finance Technician I	1	15.0%	1.0%	1.0%	1.0%	1.0%	1.0%	40.0%	40.0%	100%
TOTAL	***4***									
POLICE										
Police Chief	1	100.0%								100%
Lieutenant	1	100.0%								100%
Administrative Coordinator	1	100.0%								100%
Police Sergeant	3	100.0%								100%
Police Officer	11	100.0%								100%
Community Service Officers	3	100.0%								100%
Police Service Technician	2	100.0%								100%
Parking Enforcement (Seasonal)	Hourly	100.0%								100%
TOTAL	***22***									
COMMUNITY DEVELOPMENT										
Community Development Director	1	90.0%						5.0%	5.0%	100%
Assistant Planner	1	90.0%						5.0%	5.0%	100%
Special Projects Manager	1	100.0%								100%
Grants Assistant	0.5	100.0%								100%
Administrative Assistant	1	100.0%								100%
TOTAL	***4.5***									

FY 2016/17 PERSONNEL STAFFING ALLOCATIONS

Description	Number of Employees	General Fund	Fleet Services	IT ISF	Facilities ISF	Streets	Storm Drains	Water Enterprise	Sewer Enterprise	TOTAL
		- - - Percent of Time Allocated By Fund - - -								
PUBLIC WORKS										
Public Works Director	1	10.0%	5.0%		15.0%	20.0%	5.0%	20.0%	25.0%	100%
Engineering Technician	1	25.0%				20.0%		35.0%	20.0%	100%
Public Works Project Analyst	1	40.0%				20.0%		20.0%	20.0%	100%
Water Project Coordinator	0.8	10.0%					50.0%	25.0%	15.0%	100%
Assistant Director of Public Works	1	15.0%	5.0%		10.0%	15.0%	5.0%	20.0%	30.0%	100%
Lead Maintenance Worker	1	30.0%			10.0%	15.0%	5.0%	20.0%	20.0%	100%
Maintenance Worker III	1	30.0%				10.0%	5.0%	25.0%	30.0%	100%
Maintenance Worker II	1	30.0%				10.0%	5.0%	25.0%	30.0%	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	25.0%			25.0%			25.0%	25.0%	100%
Maintenance Worker I	1	20.0%						40.0%	40.0%	100%
Mechanic	1		100.0%							100%
Seasonal Worker (2)	Hourly					85.0%		15.0%		100%
TOTAL	***12.8***									
WATER & WASTEWATER TREATMENT										
Lead Treatment Operator-WCD	1							85.0%	15.0%	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 /Electrician	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%
TOTAL	***8***									
TOTAL APPROVED POSITIONS	**57.30**									

Table 2 – Basis of Non-Personnel Indirect Cost Allocations

Direct Cost Department	Fund Personnel Expenditures	Personnel Costs Allocated	Total Personnel Costs Including Salary and Benefit Allocations	% of Allocated Costs	Non-Personnel Costs Allocated	Total Allocations
Streets		$ 133,998	$ 133,998	5.67%	$ 60,865	$ 194,863
Facilities Repair & Maint ISF		105,762	105,762	4.47%	48,039	153,801
Technology Maint & Replacement ISF	$ 141,464	31,251	172,715	7.31%	78,451	109,702
Fleet & Equipment Services ISF	91,712	24,475	116,187	4.92%	52,775	77,250
Water Enterprise		509,282	509,282	21.55%	231,326	740,608
Wastewater Enterprise	798,526	526,954	1,325,481	56.08%	602,059	1,129,014
	$ 1,031,702	$ 1,331,724	$ 2,363,426	100.00%	$ 1,073,514	$ 2,405,238

Indirect Non Personnel General Fund Cost to be Allocated	
City Council	$ 19,600
Administrative Services	59,978
City Attorney	120,000
Finance	33,903
Public Works Administration	11,760
Public Works Corp Yard	11,400
Non-Departmental *	826,873
	1,083,514
Less Allocation to C.V. Starr Enterprise	10,000
	$ 1,073,514

* General fund personnel expenses (including public safety) after allocations are $5M

* *Excludes Transfers, Allocations, Caspar and Community Support

Table 3 – Internal Service Fund Allocations

Allocated To	Facilities Repair and Maintenance	Technology Maintenance And Replacement
General Fund - 50%	$ 179,327	$ 175,074
Water - 25%	89,663	87,537
Wastewater - 25%	89,663	87,537
Total	$ 358,653	$ 350,148

Allocated To	Fleet and Equipment Services
Police Department	$ 98,640
Public Works: Admin	2,801
Public Works: Parks	25,948
Public Works: Streets	6,679
Public Works: Storm Drains	7,110
Public Works: Corp Yard	8,618
Public Works: Traffic Safety	2,155
Water	50,573
Wastewater	52,356
	$ 254,880

Total Salary & Benefits After Allocations

	$$	%
General Fund	$ 4,221,952	64%
Wastewater Enterprise	1,325,481	20%
Water Enterprise	509,282	8%
Technology Internal Service	172,715	3%
Streets Capital Project	133,998	2%
Fleet Internal Service	116,187	2%
Facilities Internal Service	105,762	2%
Total Salary/Benefits	**$ 6,585,378**	100%

Non-Personnel Costs Allocated

	Current System	W/Full Allocation to GF in 16/17	Proposed 16/17 @20% GF	Proposed 17/18 @ 40%	Proposed 18/19 @60%
General Fund	$ -	$ 861,904	$ 270,878	$ 543,175	$ 822,970
Wastewater	631,570	211,839	504,316	382,759	257,743
Water	412,103	162,725	329,070	249,753	168,179
IT	98,246	35,260	78,451	59,542	40,095
Streets - Capital Project	76,223	27,356	60,865	46,195	31,106
Fleet	66,091	23,719	52,775	40,054	26,971
Facilities	60,161	21,591	48,039	36,460	24,552
CVSC	10,000	10,000	10,000	10,000	10,000
	$ 1,354,394	$ 1,354,394	$ 1,354,394	$ 1,367,937	$ 1,381,617

Note: FY17/18 and 17/19 assume a 1% increase Year over Year

City of Fort Bragg

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