



CITY NOTES

March 20, 2014

CITY MID-YEAR BUDGET REVIEW

Each year at this time, the City Council conducts its "Mid-Year Budget Review" to evaluate how well the City's revenues and expenditures are tracking with the budget that was adopted in June of the prior year. In the past two weeks, the City Council conducted four meetings related to this fiscal monitoring process. Two of those meetings were joint meetings with the Mendocino Coast Recreation & Park District (MCRPD) Board to review the fiscal year (FY) 2012/13 audit for the CV Starr Center and to conduct a FY 2013/14 mid-year budget review for the CV Starr Center; and two meetings focused on the City's FY 2012/13 audit and the City's FY 2013/14 mid-year budget review. While this is not the most thrilling topic for most of us, it is fundamental to the operation of our City government. Through the budgeting process, the City Council establishes priorities and directs the services and activities that the City offers its residents.

Fort Bragg is a very small city tasked with providing a full range of services. Its revenues are limited; its responsibilities are broad. The challenge is to strike a balance between revenues coming in and the cost of providing services, while planning for both known and unknown future exigencies.

With regard to the CV Starr Center, the FY 2012/13 audit addressed the first year of the Center's operations after the passage of Measure A which resulted in the transfer of the facility to the City, and establishment of a 1/2 special sales tax and a tax-sharing agreement with the MCRPD to help fund Center operations. The audited financial statements integrated the Center's operating budget into the City's CV Starr enterprise fund. The auditors made a number of recommendations regarding financial procedures and controls, which they indicated is typical for a start-up operation. The CV Starr Center is expected to end FY 2013/14 with revenues that are about \$31k above the budgeted projections. Expenditures are estimated to exceed budgeted amounts by a similar amount, primarily as a result of increased utility (propane) costs. The Council and the MCRPD Board supported CV Starr Center Director Ethan Newton's recommendations for mid-year budget adjustments to augment staffing for aquatics supervision and programs and to implement the Silver Sneakers program to enhance access to the Center for eligible seniors. Overall, the CV Starr Center is on track to end the year in a positive fiscal position. The challenge, over time, will be to establish and grow financial reserves to help offset the substantial maintenance and equipment repair costs that are inherent to a facility such as the CV Starr Center. Along this line, CV Starr Director Newton advised the Council and the Board that, in next year's budget, approximately \$160k will need to be appropriated to re-plaster the leisure pool.

The City's audit and mid-year budget review are a bit more complicated. The FY 2012/13 audited financial statements show the General Fund with higher than anticipated revenues and lower than anticipated expenditures- a positive trend. The FY 2013/14 mid-year budget review again shows General Fund revenues coming in higher than anticipated, primarily as a result of increased Transient Occupancy Tax revenues. In terms of expenditures, most General Fund activities are on target at mid-year, however budget adjustments were recommended to address an anticipated year-end shortfall in the city attorney's budget and to cover higher than anticipated costs for recruitments and pre-employment expenses. Other recommended mid-year adjustments in the General Fund included funds to complete the remodel of Town Hall and additional funds for the Noyo Center for Marine Science project.

The City maintains separate "enterprise funds" for its Water and Wastewater utilities. Operating revenues in both the Water and Wastewater funds are coming in lower than expected based on the new rate structure that was implemented last July. Finance Department staff is continuing to analyze the root cause of the discrepancy. From an expenditure standpoint, the Water enterprise is expected to end the year slightly below budget while the Wastewater enterprise is expected to end the year with expenditures slightly above budget. A mid-year adjustment was recommended in the Wastewater fund to address increased propane costs.

Overall, the City's financial position remains healthy. The mid-year budget review process provides a sneak preview of issues that will need to be addressed in next year's budget. As always, the biggest issue is containing personnel costs which comprise the majority of City expenditures. The cost of employee benefits continues to rise, with health benefit premiums expected to increase 13% this year and CalPERS (retirement) premiums expected to escalate for several years as a result of new actuarial assumptions recently adopted by the CalPERS Board. The Council also received information regarding the debt capacity of the Water and Wastewater enterprises, both of which have big capital projects in the works, which will require financing. Lastly, the Council considered refining its General Fund reserve policy to establish two reserves with "committed" fund balance- an Emergency Contingency Reserve and an Economic Stabilization Reserve. For years, the City Council has implemented prudent and conservative budgeting practices with careful monitoring and adjustments made at mid-year. The result is a lean, nimble, and financially sound governmental organization serving our community.

City Notes is published on the first and third Thursday of each month. If you have questions or suggestions regarding the column, feel free to contact City Manager Linda Ruffing at (707) 961-2823, ext. 118 or LRuffing@fortbraag.com.