



CITY OF FORT BRAGG

Incorporated August 5, 1889

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May 19th, 2023

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

I am honored to submit the Fiscal Year 2023-24 City Budget to the City Council for review, deliberation, and adoption. My goal is to provide in a few pages a summary of the key issues embodied in the lengthy and complex budget document. As part of the City's Budget process, it is customary for the City Manager to submit a Budget overview describing the major financial trends and issues contained within the document. The annual Budget provides a comprehensive statement of the City's organization, operations, and resources. It expresses City Council and District Board policies and priorities in all areas of the City's operations, and it links near-term priorities with the resources available to achieve them. Over the year, the City's Budget is a financial management tool and a work plan for delivering City services and implementing capital projects. This year the process of preparing this document has been challenging.

Besides looking to the future, we are also forced to look at our past. While the City has weathered the storm of the COVID pandemic and the subsequent economic shutdown, the City has had to engage with our community in a very different way, partly because we still have a very difficult economic environment overall. Our country has never experienced the type of disaster we had beginning in 2020, and it's likely in the future we will continue to experience unprecedented and unforeseen challenges from the effects of climate change, shrinking wildlife habitats that foster diseases jumping between species, and continuing changes in our day to day lives, including high rates of inflation. This isn't a statement of hysteria- it is simply because our community, nation, and world are changing in ways we never anticipated. Fortunately, the City of Fort Bragg has weathered these challenges, but not without a significant impact to our residents and City team. Our main focus over the next five years is to ensure we continue to not only survive but thrive as we meet new challenges. Flexibility, entrepreneurship, and a better understanding of the challenges and changes ahead will be our most important assets.

FORT BRAGG'S GREATEST RESOURCE – OUR EMPLOYEES

City services are provided by people, so our major cost center is salaries and benefits. Since 2020, when the pandemic arrived and drove the subsequent economic shutdown, our employees took a huge impact. At that time, the City projected a \$1.4 million shortfall, mostly attributed to

Transient Occupancy Tax (TOT) and sales tax decreases. Some employees were laid off or quit, and the remaining employees were furloughed for up to three months.

When I was appointed Interim City Manager, I saw an organization splintered and exhausted from a variety of events. Our employee team needed to be stabilized and lifted to work with each other and City residents professionally and in a peaceful environment. I have seen a significant change in the attitude of City employees and the atmosphere at City Hall since making a few key changes. And I am happy to report that our civilian City team is fully staffed now, which hasn't happened since late 2019. The Police Department is down three officers, but we are anticipating sending up to three recruits to the Police Academy during the next fiscal year.

A main focus in the past six months has been automation to create workforce efficiencies rather than adding additional positions. As mentioned earlier, employee compensation is our biggest Budget expense. It is incumbent upon our City team to improve productivity and accuracy through other means than increasing staff. Automation can streamline repetitive paperwork and procedures, eliminate information delays and make the workflow of public offices more efficient. By automating processes, staff is free from doing repetitive tasks and can dedicate themselves to services of greater relevance; on the other hand, the user will be able to do their business quickly and easily. Two new automated procedures will soon be implemented in Human Resources for recruiting and onboarding new employees and in Finance to allow the City to accept online payments for business licenses and building permits, which will eliminate manual paperwork. Moreover, once the new water meters are installed, it will allow the Finance Department to automate the monthly meter reading and shut-off process for customers.

While the City Council has set goals and policies for the coming year that Staff is already implementing, as City Manager, I will continue to focus on creating long-term fiscal stability, including:

- Implement new technologies to improve communications in a smaller, leaner workforce and help our employees enhance their efficiency.
- Privatize services after completing careful analysis of savings and efficiencies.
- Create an aggressive economic development program to attract and retain businesses, streamline regulations, and identify long-term revenue strategies.
- Create partnerships with other cities for services or reports for cost savings.
- Negotiate a new comprehensive labor agreement with the Police Association focusing on keeping competitive salaries while addressing rapidly increasing costs of leave and other benefits.
- Place a ballot measure for the November 2023 election to continue funding our streets through the Special Sales Tax designated for street paving and improvements.
- Identify new sources of revenues, including implementing direct and indirect administrative fees on state and federal grants and City fees.

Change is difficult and challenging, yet the one thing constant today in the public and private corporate world is change. Our organization will continue to adapt, evolve and change. In the popular vernacular, this is referred to as continual improvement. The City staff is committed to continually improving and refining the services to the Fort Bragg community. The Fiscal Year (FY) 2023-24 Budget reflects a continuation of this trend.

BUDGET OVERVIEW

In building the Budget, we have considered the historically high gross receipts tax revenues received in the last two fiscal years, particularly in Transient Occupancy, property, and sales tax, which has recorded declines in FY 2023. At the same time, we are mindful of macroeconomic warning signs suggesting a cautious approach to this year's Budget, with fiscal restraint and a conservative approach to expenditures and revenue projections.

The investments made through this Budget reflect the Fort Bragg City Council goals of workforce housing, infrastructure, jobs/industry, a better quality of life for our residents, and the commitment to the City we aspire to be in the years to come.

The proposed Budget funds the operational departments which provide core services to our community, including Police, Water, Sewer, Public Works, Community Development, Fire, and supporting administrative services such as Information Technology, City Clerk, Finance and Human Resources. While maintaining core operational services, the proposed Budget invests \$29.8 million into Water and Wastewater Infrastructure, streets rehabilitation, broadband, and City parks.

**ALL FUNDS
SUMMARY OF EXPENDITURES BY CATEGORY
FY 2020/21 THROUGH FY 2023/24**

| | FY 2020/21 FYE AUDITED | FY 2021/22 FYE AUDITED | FY 2022/23 AMENDED BUDGET | FY 2022/23 FYE PROJECTED | FY 2023/24 PROPOSED BUDGET | % INCR/ -DECR |
|------------------------|------------------------------|------------------------------|---------------------------------|--------------------------------|----------------------------------|---------------------|
| ALL FUNDS | | | | | | |
| Salaries & Wages | \$ 4,127,459 | \$ 5,408,108 | \$ 6,504,015 | \$ 6,037,963 | \$ 6,844,377 | 13.4% |
| Benefits | 3,086,657 | 3,296,614 | 3,382,178 | 3,150,420 | 3,637,901 | 15.5% |
| Materials & Services | 9,637,732 | 8,937,663 | 16,429,892 | 9,020,096 | 8,273,691 | -8.3% |
| Capital | 319,301 | 1,505,223 | 17,025,550 | 6,327,776 | 23,121,446 | 265.4% |
| Debt Service | 286,121 | 380,966 | 1,420,083 | 1,445,764 | 1,081,393 | -25.2% |
| Depreciation | 780,562 | 790,001 | - | - | - | 0.0% |
| Subtotal | 18,237,831 | 20,318,575 | 44,761,718 | 25,982,018 | 42,958,807 | 65.3% |
| Indirect Expenses | 1,921,879 | \$ 3,157,855 | 1,901,507 | 1,891,986 | 2,258,945 | 19.4% |
| Fiduciary Funds | 228,240 | \$ 225,062 | 386,475 | 384,627 | 377,757 | -1.8% |
| Subtotal | 20,387,951 | 23,701,492 | 47,049,700 | 28,258,631 | 45,595,509 | 61.4% |
| Transfers Out | 9,944,137 | 11,408,039 | 13,994,508 | 6,920,799 | 23,702,812 | 242.5% |
| TOTAL ALL FUNDS | \$ 30,332,088 | \$ 35,109,531 | \$ 61,044,207 | \$ 35,179,431 | \$ 69,298,321 | 97.0% |

Staffing levels impact the delivery of services to the public, but they also drive costs. The FY 2023/24 personnel budget is projected to increase by 16% to \$6.8 million. The Budget includes a Community Development Director position, two new senior lifeguards for the CV Starr Center, Cost of Living adjustments (COLA) for all labor groups, and merit increases. In FY 2022, the General Fund realized salary savings from unfilled positions or from positions that were filled during the fiscal year. The true annual costs of these positions will be realized in the new fiscal year.

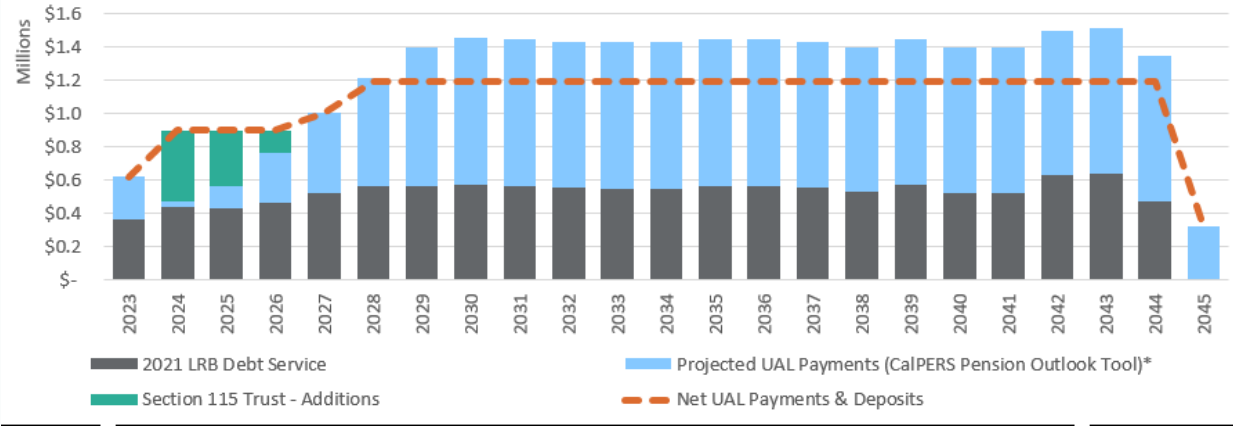
Even with the additional positions, areas of staffing constraints remain. One of the challenges the City faces is finding ways to address its ongoing revenue situation before assuming additional and ongoing staffing costs.

Benefit costs are also expected to increase by 19% due to benefit cost increases.

The City's total expenditures Budget is \$45.6 million (excluding transfers), with departments expected to be fully staffed in 2024. Debt service is projected to reduce by 25% as the Water Enterprise paid off the 2007 Department of Water Resource Loan in FY 2023.

While the City's fiscal situation is stable and much improved from years past by addressing the long-term challenge with CalPERS' unfunded liability, building up our reserves, and recording solid year-over-year growth in the City's major General Fund revenues still require a fiscally prudent approach over the next year. Inflationary pressures have increased the City's cost of doing business and implementing capital improvements. While expenditures continue to rise, revenues are leveling off and are projected to remain relatively flat in FY 23/24 and possibly FY 24/25. With expenditure growth outpacing revenue growth, the City is at risk of future structural deficits in some of its major funds if not carefully tracked and managed. Fortunately, prudent reserve policies leave the City in a positive position to weather this short-term uncertainty.

Another significant area of concern is related to the City's pension costs which are projected to increase in FY 26/27 and beyond. CalPERS' investment returns have not met their benchmark rates (discount rate). Over 20 years, the overall fund performance has averaged just 5.5%.



This will result in the City being required to make higher minimum payments towards the City's unfunded liability in addition to normal costs. To address these rising costs, in 2021, the City adopted the City's pension policy, restructuring the \$7.5 million unfunded liability at a lower interest rate and establishing a Section 115 Trust in FY 2022 to absorb future fluctuations in the CalPERS discount rate, adding to the unfunded liability. The City Council approved a \$1.6 million contribution to the Trust from the prior fiscal year's realized surplus. This proposed Budget also invests an additional \$200k towards the Trust to lower our overall pension liabilities over time and be better prepared to weather potential CalPERS cost increases.

During the Mid-Year Budget Review in March 2023, the City Council directed Staff on the following Budget Priorities for FY 2023/24. The revised goals are set forth below:

| PRIORITY | GOAL | ACHIEVED |
|----------|---|----------|
| 1 | Adopt a balanced budget | ✓ |
| 2 | Provide additional contributions to Section 115 | ✓ |
| 3 | Maintain current level of service (no staff layoffs, no program cuts) | ✓ |
| 4 | Maintain Operating Reserves and Litigation Reserves (20%) | ✓ |
| 5 | Provide funding for Recession/Emergency Reserves (5% to 10%) | ✓ |
| 6 | Provide Cost of Living Adjustment to Staff | ✓ |

Consistent with Goal No. 1, *Adopt a balanced budget*, the proposed General Fund Budget is balanced with a projected surplus of nearly \$84k. Also consistent with these goals, the proposed Budget continues to allocate \$200,000 towards the Section 115 trust with Public Agency Retirement System (PARS) established in FY 2022. The Trust has a \$1.6 million investment in a moderate conservation strategy, yielding a 7-10% return on investments. The funds will act as a cushion and can be withdrawn in the future to absorb fluctuations in CALPERS employer contributions costs and accrued liabilities stemming from a failure to meet the discount rate with their investments.

The City Council also set a goal to fund budget reserves to 25% of the City Budget. The FY 2023/24 Proposed Budget sets aside Emergency Reserves for the General Fund, Water, Wastewater, and CV Starr Enterprise. These reserves include an Operating Reserve, 15% of operating expenditures, and a 10% Recession Reserve set at 10% of operating costs.

The General Fund has \$3.5 million in reserves to help mitigate the adverse fiscal effects. It is critical that during a period of better economic activity, the City continues to prioritize building its reserves to have the resources to weather the next inevitable dip in economic activity or other local fiscal emergencies. Our reserves are 25% of the City budget, which is the recommended practice by the Government Finance Officers Association (GFOA).

| | PROPOSED FY 2023/24 |
|--|------------------------|
| Total General Fund Balance | \$ 3,520,937 |
| Less Nonspendable (Inventory, etc.) | 11,986 |
| Less Committed Reserves (Set by Council Resolution) | |
| Operating Reserve | 1,731,119 |
| Recession Reserve | 1,154,079 |
| Litigation Reserve | 200,000 |
| Unassigned Balance | \$ 423,753 |

No planned staff reductions or program cuts are included in the proposed Budget. The Budget includes a Cost of Living Adjustment (COLA) of 3% for the Police Association and 2% for the SEIU employees, effective July 1, 2023. I requested that the Budget include a 2% COLA for Mid-

Management and Executive groups, effective July 1, 2023. The FY 2023/24 Budget includes all the COLA increases.

In part, the FY 2023/24 proposed General Fund Budget is projected to result in a small surplus because of the City's grants. Staff time reimbursable by various grants is budgeted at \$716,000 compared to \$534,000 in FY 2022/23. Much of the reimbursable time is from Community Development Block Grants (CDBG), which include: the Code Enforcement Program, Business Loans, Fire Station Rehabilitation Design Work, and general administration. Other grant/funding reimbursements include Local Agency Technical Assistance (LATA), SB2 planning grants, Coastal Commission Grant- Blue Economy, and the Opioid Resistance Grant. A total of six full-time positions are ninety to a hundred percent grant funded- these include two Code Enforcement Officers, two Social Service Liaisons (SSLs), with one SSL position supported by the Opioid Resistance Grant through April 2024, one Special Projects Manager and one Grants Coordinator position.

These are all critical positions to the organization, and we are continually exploring long-term funding to continue these important programs. To ensure our employees have competitive compensation packages, the City conducted two salary and compensation studies—one for the Fort Bragg Police Association, as required by Ordinance 672 and one for civilian employees. In both cases, the findings were that both sworn and civilian employees are currently at or above comparable salaries in other jurisdictions. Only two positions, the City Clerk and the Public Works Operations Manager, were significantly below the average. We will bring those positions to Council in June for possible salary adjustments. I am also working with local jurisdictions to partner on future compensation studies to reduce costs and ensure our employees continue to have competitive salaries and compensation.

GRANTS AND OTHER STATE AND FEDERAL FUNDING

A substantial revenue source for Fort Bragg is grant funding from state, federal, and private agencies. As a rural community, Fort Bragg is eligible for a variety of grant funds that wealthier urban cities cannot receive. In the last few years, the City has been awarded approximately \$25,086,473 in grant funding. Recent grants include:

- Community Development Block Grants (CDBG): Currently funds programs including Code Enforcement, Business Loans, and Fire Station Rehabilitation.
- U.S. Department of Agriculture (USDA): Wastewater Treatment Plant, Heavy Equipment and Police Vehicles, City-Wide Water Meter Replacement Program
- California Coastal Commission: Noyo Harbor Blue Economy

The City has an allocation of Coronavirus State and Local Fiscal Recovery Funds of \$1,744,162. This is from the \$350 billion the American Rescue Plan Act of 2021 established to provide emergency funding for eligible state, local, territorial, and tribal governments. As a non-entitlement government with a population under 50k, the City receives the funds from the California Department of Finance. The City Council has committed funds towards broadband which is included in the Capital Improvement Budget.

California Department of Finance. The City Council has committed funds towards Broadband which is included in the Capital Improvement Budget.

In the coming fiscal year, the Finance Department will evaluate the City's Indirect Cost Allocation Study that will better quantify the indirect costs of providing services. In addition to the direct cost of providing services, governments also incur indirect costs. Such indirect costs include shared administrative expenses where a department or agency incurs costs for support that it provides to other departments/agencies (e.g., legal, finance, human resources, facilities, maintenance, technology). The cost to governments to track every expense and directly attribute each cost to each function would exceed the benefits. Indirect cost allocation is an accounting function by which estimates are made to distribute indirect costs to programs or functions to approximate their full cost. Certain important management objectives (measuring the cost of government services, establishing fees and charges, charging back the cost of internal services to departments/agencies, fully utilizing restricted funds, and requesting reimbursements under federal and state grants, when allowed) can be served by allocating indirect costs.

CONCLUSION AND ACKNOWLEDGEMENTS

I believe that we need to continue planning for our City's future. Today, our financial outlook is much improved from a year ago, but if I learned one thing this last year it is to be flexible and ready for what comes next – both the good and the bad. I would be short-sighted to assume that the current funding levels from TOT or State and federal governments will continue. The City still faces increasing pension costs and many long-term capital needs, both of which have significant price tags. The costs of these needs require long-term planning on the scale of 10-20 years.

I would like to thank all of the public servants for the incredible work they do, day in and day out, to ensure critical services are provided to our community professionally and courteously. Without each and every one of them, the City of Fort Bragg would not be the unique and amazing place that it is. I must also credit our elected officials, who are public servants with very little pay for what essentially amounts to many hours of volunteer work. Their leadership provides the structure for what we do each day. This Budget is the product of much work by the management team and supporting Staff. However, the Finance Department developed this thoughtful Budget in a new format with limited Staff. Thanks to Isaac Whippy, the City's Finance Director and his Staff, for the key role they play in developing the Budget document. This was truly a collaborative process across all departments.

I look forward to meeting the challenges and the victories we will face this next year.

Respectfully Submitted,


Peggy Ducey
City Manager