



CITY OF MORRO BAY

Citizens Oversight Committee

Acting as Citizens Finance Advisory Committee

Mission Statement

The City of Morro Bay provides essential public services and infrastructure to maintain a safe, clean and healthy place for residents and visitors to live, work and play.

Agenda

TUESDAY, March 20, 2018
VETERANS MEMORIAL HALL – 3:30 PM
209 SURF ST., MORRO BAY, CA

ESTABLISH QUORUM AND CALL TO ORDER

COMMITTEE MEMBERS ANNOUNCEMENTS & PRESENTATIONS

PUBLIC COMMENT PERIOD - Members of the audience wishing to address the Committee on business matters may do so at this time.

To increase the effectiveness of the Public Comment Period, the following rules shall be followed:

- When recognized by the Chairperson, please come forward to the podium, and state your name and address for the record. Comments are to be limited to three minutes.
- All remarks shall be addressed to the Committee, as a whole, and not to any individual member thereof.
- The Committee respectfully requests that you refrain from making slanderous, profane or personal remarks against any elected official, commissioner, committee member and/or staff.
- Please refrain from public displays or outbursts such as unsolicited applause, comments or cheering.
- Any disruptive activities that substantially interfere with the ability of the Committee to carry out its meeting will not be permitted, and offenders will be requested to leave the meeting.
- Your participation in Committee meetings is welcome, and your courtesy will be appreciated.

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE FEBRUARY 20, 2018, CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING
RECOMMENDATION: Approve as submitted.

B. BUSINESS ITEMS

1. BRIEF FINANCE DEPARTMENT UPDATE – OPENGOV, CSMFO (Finance Director)

2. PRESENTATION AND DISCUSSION OF THE FY 2016/17 COMPREHENSIVE ANNUAL FINANCIAL REPORT
RECOMMENDATION: Receive and provide feedback on the FY 2016/17 Comprehensive Annual Financial Report (CAFR) for the period July 1, 2016 through June 30, 2017.
3. DISCUSSION AND INPUT ON PREPARATION OF MEASURE Q FY 2018/19 BUDGET
RECOMMENDATION: Provide feedback on development of Measure Q Budget for FY 2018/19
4. DISCUSSION AND INPUT ON FY 2018/19 OPERATING BUDGET
RECOMMENDATION: Provide feedback, as appropriate, on the development of the FY 2018/19 City of Morro Bay Operating Budget.
5. REVIEW OF SECOND QUARTER INVESTMENT REPORT (OCTOBER THROUGH DECEMBER 2017) FOR FISCAL YEAR 2017/18
RECOMMENDATION:
 1. Receive the Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18; and
 2. Approve staff's recommended liquidity ratio of 65% to 70% of the City's total investment portfolio.
6. SUBCOMMITTEE UPDATES
7. FUTURE AGENDA ITEMS

C. SCHEDULE NEXT MEETING

Wednesday, April 25, 2018

D. ADJOURNMENT

THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 72 HOURS PRIOR TO THE DATE AND TIME SET FOR THE MEETING. PLEASE REFER TO THE AGENDA POSTED AT CITY HALL FOR ANY REVISIONS, OR CALL CITY HALL AT 772-6201 FOR FURTHER INFORMATION.

MATERIALS RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE COMMITTEE AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC INSPECTION AT CITY HALL LOCATED AT 595 HARBOR STREET DURING NORMAL BUSINESS HOURS.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT LEAST 72 HOURS PRIOR TO THE MEETING TO INSURE REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.

**MINUTES – CITIZENS OVERSIGHT/ FINANCE
ADVISORY COMMITTEE
REGULAR MEETING – FEBRUARY 20, 2018
VETERANS MEMORIAL HALL – 3:30 P.M.**

MEMBERS PRESENT:	John Martin	Vice-Chairperson
	Bart Beckman	Member
	David Betonte	Member
	John Erwin	Member
	Dawn Addis	Member

STAFF PRESENT:	Scott Collins	City Manager
	Jennifer Callaway	Finance Director
	Sandy Martin	Accounting and Budget Manager
	Chief Knuckles	Fire Chief

ESTABLISH A QUORUM AND CALL TO ORDER

A quorum was established with 4 members present and the meeting was called to order at 3:30 p.m. Member Dawn Addis arrived at 3:45 p.m.

COMMITTEE MEMBERS ANNOUNCEMENTS & PRESENTATIONS

No committee member announcements or presentations.

PUBLIC COMMENT PERIOD

No public comment.

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE JANUARY 16, 2018, REGULAR CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

MOTION: Member Erwin moved to approve the CFAC meeting minutes of January 18, 2018 as presented. Member Betonte seconded, and the motion carried 4-0.

B. BUSINESS ITEMS

1. BRIEF FINANCE DEPARTMENT UPDATE – AUDIT, BUDGET, STAFFNG, OPENGOV, CSMFO

Finance Director Jennifer Callaway presented a brief financial update including a status of the FY 2015/16 audit, budget development strategy for FY 2018/19, staffing

transitions with the Account Clerk III, OpenGov deployment update and staff attendance at CSMFO conference, and responded to Committee Member inquiries.

No public comment.

2. REVIEW OF FY 2017/18 SECOND QUARTER BUDGET PERFORMANCE REPORT FOR THE SIX-MONTH PERIOD ENDING DECEMBER 31, 2017

Finance Director Callaway presented the staff report.

There was a discussion regarding the use of Fire reimbursements for the strike team support of the fires and landslide in southern California to balance the general fund. Chief Knuckles responded to questions and explained the fire reimbursement for strike team support. Additional discussion ensued regarding equipment and capital funding for the City, pre-payment of the City's Fire side fund, defunding of the Deputy City Manager's position and program. Budget adjustment requests for non-general fund activities were also discussed, including the legal fees for Diablo plant, the economic study that is in partnership with San Luis Obispo County, WRF Project adjustments and enterprise fund adjustments were all discussed.

Public Comment:

Joan Solu spoke regarding the Transient Occupancy Tax goals for the Tourism Business Improvement District (TBID), with the request being not to reduce the goals established for TBID.

The Committee concurred with staff's recommended budget adjustments as presented in the staff report.

3. REVIEW OF FY 2017/18 SECOND QUARTER TRANSACTIONS FROM THE COLLECTION OF THE GENERAL PURPOSE LOCAL SALES TAX, COMMONLY KNOWN AS "MEASURE Q"

Finance Director Callaway presented the staff report.

Committee member Addis requested information regarding calls for service to the Schools considering the defunding of the SRO position and Councilmember Erwin asked about potential impacts of the new pavement materials being used.

MOTION: Vice-Chair Martin moved that the Committee approve staff's recommendation for all the recommended changes in the Measure Q fund as presented in the staff report with the exception of the \$522 in meals and lodging for the Fire Department. Second by Committee member Beckman and carried 5-0.

MOTION: Committee Member Erwin Moved to transfer Measure Q funding into a Capital Pavement Management Plan Project. Second by Committee member Beckman and carried 5-0.

No public comment.

4. RECEIVE ORAL REPORT OF 10-YEAR FINANCIAL FORECAST UPDATE

Finance Director Callaway presented the oral report.

No public comment.

5. RECEIVE 1ST QUARTER INVESTMENT REPORT

Finance Director Callaway presented the oral report.

Vice-Chair Martin commented on the format of the report, being concise and inquired as to the amount of time spent on treasury management.

No public comment.

6. SUBCOMMITTEE UPDATES

Committee member Betonte provided an update on the sub-committee's work on a public friendly budget calendar. Committee member Betonte felt that the staff have already done this work.

7. FUTURE AGENDA ITEMS

The Committee requested more information on the community development issue, inviting the Chamber president to join us for the discussion, Comprehensive Annual Financial Report, Second Quarter Investment Report, FY 2018/19 Measure Q Budget update, and FY 2018/19 Operating Budget update.

C. SCHEDULE NEXT MEETING

The next Regular Meeting of the Citizens Finance Advisory Committee is scheduled for Tuesday, March 20, 2018.

D. ADJOURNMENT

The meeting adjourned at 5:36 p.m.

Recorded by:
Jennifer Callaway



AGENDA NO: B-2

MEETING DATE: March 20, 2018

Staff Report

TO: Chairman and Committee Members **DATE:** March 13, 2018
FROM: Jennifer Callaway, Finance Director
SUBJECT: Presentation and Discussion of the Fiscal Year 2016/17 Comprehensive Annual Financial Report

RECOMMENDATION

Receive and provide feedback on the FY 2016/17 Comprehensive Annual Financial Report (CAFR) for the period July 1, 2016 through June 30, 2017.

DISCUSSION

In 2015 the City issued a Request for Proposal (RFP) for auditing services and the Pun Group was selected as the most responsive proposer. The City entered into agreement with the Pun Group to perform auditing services for the fiscal years ending June 30, 2015, 2016, 2017 and 2018, with the option to renew for two additional fiscal years (2019 through 2020). The Auditors were onsite in November 2017 to review expenditures, revenues, contracts and general accounting processes for both accuracy and internal controls (fraud prevention). After the audit team collected its information, the issues discovered are presented as audit findings in the attached Comprehensive Annual Financial Report (CAFR).

There are levels of findings, depending on the severity of the evidence found; those levels that are 1) significant deficiencies; and 2) material weaknesses. A deficiency in internal controls exists when the design, or operation of a control, does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis, with timely basis meaning by the fiscal year-end and prior to the auditor's field work. A deficiency in design exists when a control, necessary to meet a stated objective, is missing, or an existing control is not properly designed, so that even if the control operates as designed, the control's objective would not be met. A deficiency in operation exists when a properly designed control does not operate as planned, or the person performing the control does not possess the necessary authority, or competence, to perform the control effectively to meet the desired objective.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. Adopted Financial Policies and Procedures would abate that issue, as the City would have clearly defined procedures in one manual. Staff members do follow position process instructions and checklists; however, there is no all-encompassing financial policy and procedure manual on which to rely.

Prepared By: JC

Dept Review: _____

City Manager Review: _____

City Attorney Review: _____

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management, or those charged with governance, to accept the risk associated with the deficiencies because of cost or other considerations. City management is responsible for making decisions concerning costs to be incurred and related benefits. The auditor's responsibility is to communicate significant deficiencies and material weaknesses regardless of management's decisions or intentions. The City has agreed to accept some degree of risk associated with deficiencies, based on staffing level decisions alone. However, there are some areas that staff, the auditor's and prior reports from Management Partners, all agree should be implemented to enhance internal controls, i.e. activation of the City's Purchase Order system). It should be noted that the auditors did not find any indication of fraud or misappropriation of public moneys.

The Pun Group issued its findings in the Audit, which included the prior years' finding related to Accounting Policies and Procedures, the City's Finance Organization and Internal Controls over the Recording of Expenditures Made Subsequent to Year End. The Findings are briefly described below along with management's response. Management generally concurs with the findings and will be targeting implementation of corrective measures into FY 2018/19.

Finding 2017-001 Accounting Policies and Procedures

Recommendation:

We recommend that the City develop a comprehensive Accounting Manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an Accounting Manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

We also recommend that following functions be segregated:

- Initiate, authorize or approve transactions
- Executing the transactions
- Recording the transactions
- Reconcile the transactions

When segregation of duties is not possible, the City should establish compensating controls. The City can implement compensating controls by adding additional reviews and approvals of another person, and/or require reconciliation between systems or reports to ensure that all transactions are properly processed, recorded, and reconciled to the general ledger system. Furthermore, the City should enforce consistent treatment over all processes in accordance to the adopted policies and procedures, require documentation and retain documents necessary, require approval and review signatures, and further investigate when exceptions occur.

Management's Response:

1. With the transitions that occurred within the Finance Department during FY 2015/16 and FY 2016/17 completion of the comprehensive book of policies and procedures has not occurred. The City agrees that it is important to develop a book of comprehensive policies

and procedures and will work towards completing this manual during FY 2018/19. The Department's primary focus at this point is stabilization of staffing, training of City procedures and desk duties, and implementation of the City's Purchasing software.

The City's Finance Director or Accounting and Budget Manager are now reviewing the accounts payable register and batches. The accounts payable process checklist is also reviewed and signed off by the Finance Director or Accounting and Budget Manager. For special accounts payable batches that are outside the normal processing timeline, a new formal approval process is being implemented that requires prior authorization from the Finance Director. Accounts Payable registers and monthly cross fund reconciliations are posted on-line for transparency to the City Council, residents and staff.

Similarly, the Finance Director or Accounting and Budget Manager are reviewing and signing off on the bi-weekly payroll registers.

2. Daily cash is balanced by an employee from the Public Works Department who does not, or rarely, takes in cash from customers. The bank deposit is prepared by this person and the bank reconciliation is completed by the Senior Accounting Technician. We continue to count cash in the presence of other clerks for verification as much as possible. For an organization of our size, staff believes there is an adequate separation of duties with this process.
3. The City continues to receive reports from these standalone systems, but do not have the ability to transfer information from the standalone system to the City's main financial software product. The City's deployment of CityWorks was delayed but is now currently being deployed and will be in the testing phase in April 2018. The CityWorks portal has a transfer protocol for both building permits and business tax certificate processes.

The City's Recreation software and Harbor Department software does not have transfer protocols. The City will need to explore software products that will integrate with our current financial software. In the interim, monthly reports are being provided from each of these standalone systems. These reports are compared to the revenue reported in the City's main financial software to ensure that all revenue is recorded accurately.

4. Due to staffing transitions within the Finance Department, the purchase order system has not been implemented. This remains a priority for the City and Department as the Finance team works towards deploying the system which is targeted for FY 2018/19.
5. The Finance Department is providing detailed quarterly budget reports to Council and Departments as well as reviewing budget policies, practices and expectations.

Finding 2017-002 City's Finance Organization

Recommendation:

We recommend that the City define the roles and responsibilities of each position in order to strengthen its internal control over financial reporting, compliance, and to improve the overall control environment.

Management's Response: Management concurs with this recommendation. The Finance Departments primary focus is to stabilize the staffing within the Department, determine appropriate staffing classifications, structure and roles and responsibilities. Defining roles and responsibilities for each position will be a key component of this effort.

Finding 2017-003 Internal Control over the Recording of Expenditures Made Subsequent to Year End

Recommendation:

We recommend that the City implement procedures to ensure proper cut off of expenditures for year-end closing. Furthermore, sufficient training and oversight should be made

Management's Response: Management concurs with this recommendation. As part of the organizations efforts at stabilizing the staffing and structure within the Finance Department, an assessment of centralizing the accounts payable process within Finance. Under the current decentralized processing, training of staff in other departments has been a challenge, particularly given the number of transitions within the Finance Department. Returning accountability and control over the accounts payable process may provide another level of oversight for year-end processing and proper accounting of expenditures.

Prior year findings and questioned costs were all considered implemented with the exception of Finding 2016-003 Accounting Policies and Procedures. Finding 2016-003 was considered partially implemented and is again reflected in finding 2017-001.

As indicated in the audit, the Finance staff has had significant turnover in the past two years. Currently, the longest tenured full-time employee is 17 months with the City. This loss of institutional knowledge and time of transition is impactful to the Finance Department and the City as a whole. Finance staff is working diligently to keep progress moving forward on current needs of the City as well as addressing the findings in the FY 2016/17 and prior year audits. Staff's priority is to activate the City's Purchase Order system for FY 2018/19.

Staff would also note that while the Committee's review and feedback of the FY 2015/16 CAFR was appreciated by staff, the timing to complete the FY 2016/17 CAFR did not allow for submittal to GFOA or CSMFO for award consideration nor for staff to adequately take into account the Committee's recommendations on regarding the Management Discussion and Analysis and Transmittal letter. Staff have already scheduled the interim audit with the Pun Group for FY 2017/18 and will ensure that target dates remain on track for proper time to review a draft CAFR and submittal of the CAFR to GFOA for FY 2017/18.

CONCLUSION

Heidy Chow, Partner of the Pun Group, will be available to present the FY 2016/17 audit report to the Committee.

ATTACHMENTS

1. [Comprehensive Annual Financial Report for FY 2016/17](#)
2. [Report on Internal Control Related Matters Identified in the Audit](#)
3. [Auditor's Communication](#)



AGENDA NO: B-3

MEETING DATE: March 20, 2018

Staff Report

TO: Chairman and Committee Members

DATE: March 13, 2018

FROM: Jennifer Callaway, Finance Director

SUBJECT: FY 2018/19 Measure Q Budget

RECOMMENDATION

Provide feedback on development of Measure Q Budget for FY 2018/19.

DISCUSSION

The FY 2018/19 budget development process is currently underway. Staff from all Departments are working together to assemble budget figures and recommendations given the FY 2018/19 projected deficits of \$400,000 to \$500,000. The Measure Q fund has historically funded pavement management repair and replacement, debt service for Fire Station #53, full-time firefighter relief position, replacement of medical services personnel protection equipment, Police standby pay, School Resource Officer position, and an allocation to the Sheriff's Department for Bomb Team and Special Operations Unit.

In September 2012, the City Council adopted Resolution 46-12, formally dedicating Measure Q funds to: 1) improve the Fire Department; 2) enhance public safety; 3) street maintenance; 4) storm drain maintenance and prevention of toxic runoff into the bay. Staff is in the process of developing the Measure Q budget with a projected sales tax revenue of \$1,055,000 for FY 2018/19. As staff is in the process of develop a proposed FY 2018/19, reductions will be incorporated in order to present a balanced budget for Council consideration. Considering these reduction needs, the City's Police Chief, Fire Chief and Public Works Director have asked to meet with the Committee to discuss their Departmental needs that align with the intent of Resolution 46-12, as stated above. Following discussion from the Police Chief, Fire Chief and Public Works Director, staff would appreciate feedback from the Committee that staff can consider and take under advisement when developing the proposed FY 2018/19 Measure Q budget.

Prepared By: JC

Dept Review: _____

City Manager Review: _____

City Attorney Review: _____



AGENDA NO: B-4

MEETING DATE: March 20, 2018

Staff Report

TO: Chairman and Committee Members **DATE:** March 13, 2018
FROM: Jennifer Callaway, Finance Director
SUBJECT: Discussion and Input on FY 2018/19 Operating Budget

RECOMMENDATION

Provide feedback, as appropriate, on the development of the FY 2018/19 City of Morro Bay Operating Budget.

DISCUSSION

The FY 2018/19 budget development process is currently underway. Staff from all Departments are working together to assemble budget figures and recommendations given the FY 2018/19 projected deficits of \$400,000 to \$500,000. The projected shortfalls are attributed to lower than expected revenues, specifically related to business tax and transient occupancy tax, perhaps even more impactful being the CalPERS rate reduction and methodology changes that will continue to carry significant cost increases for the City for many years ahead.

As part of the FY 2018/19 budget, departments are working collaboratively to include enhance program and budget narratives as well as accomplishments for FY 2017/18, goals (that will align with the City Council identified goals) for FY 2018/19 and performance metrics or indicators. The intent is to help better align services being provided with expenditures for the Council, Community and staff to easily see what their dollars are being spent on. Included in this update are draft examples of metrics and accomplishments that departments are working on identifying. The formatting and presentation has not yet been finalized but staff wanted to give the Committee an opportunity to provide feedback on the draft information available to date.

ATTACHMENTS

1. Finance
2. Fire
3. Police
4. Community Development
5. Harbor Enterprise Funds

Prepared By: JC

Dept Review: _____

City Manager Review: _____

City Attorney Review: _____

FINANCE

PROGRAM 3510

DEPARTMENT PURPOSE

The Finance Department assures fiscal accountability to the Council and to the public. To do so, the Finance Department provides financial oversight and administers accounting functions for all of the City's funds and accounts; prepares the City's Annual Operating Budget for fiscal and service accountability; coordinates the annual financial audit and preparation of the Comprehensive Annual Financial Report (CAFR) to verify that proper fiscal practices are maintained; administers the City's Business License, Accounts Payable, Accounts Receivable, and Payroll functions; and oversees the City's purchasing functions, ensuring that proper practices are in place, and that fiscal and operational responsibility is upheld.

BUDGET OVERVIEW

FY 2018/19 KEY PROJECTS

Key Projects
<ul style="list-style-type: none">• Department cross training• Stabilize Department staffing with clear delineation of roles and responsibilities• Develop Comprehensive Accounting Policies and Procedures Manual
<ul style="list-style-type: none">• Financial Sustainability Plan/Emergency Response Plan• Deploy the City's Purchase Order module• Manage the FY 2017/18 Annual Audit, prepare a Comprehensive Annual Financial Report and submit to GFOA or CSMFO for award consideration

∞ FINANCE ∞

KEY PROGRAM SERVICES

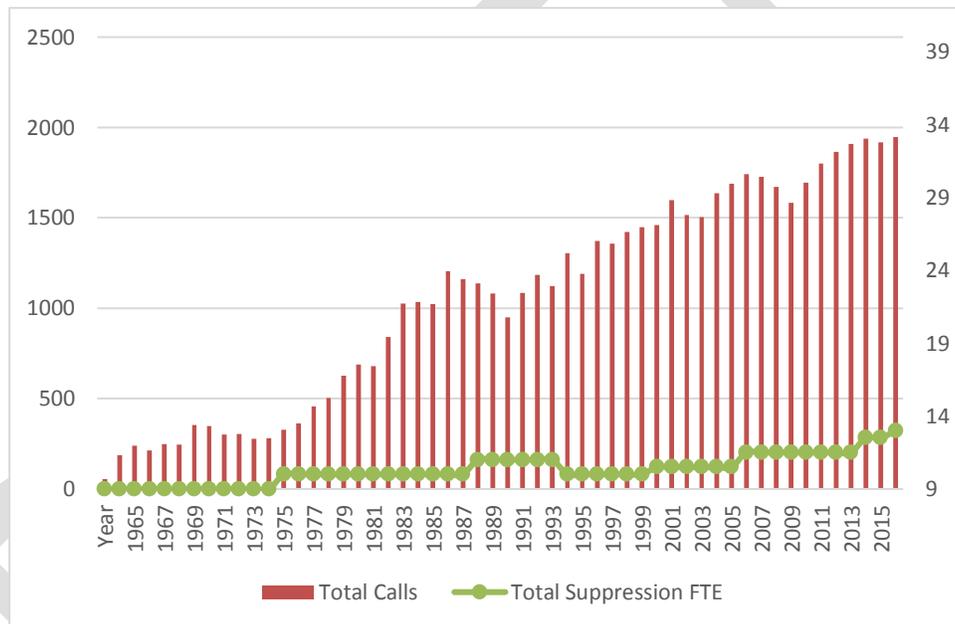
- Develops and monitors the City’s Annual Operating Budget
- Coordinates the annual audit of the City’s Financial Statements and preparation of the Comprehensive Annual Financial Report (CAFR).
- Maintains the City’s financial information system for record-keeping and reporting of all financial transactions.
- Oversees the City’s Investment Portfolio.
- Provides Accounts Payable and Payroll disbursement and reporting services; Accounts Receivable invoicing, revenue collection, and cash reconciliation, and Business Tax and Transient Occupancy tax processing.

ACTIVITY AND WORKLOAD HIGHLIGHTS	2017/18 ESTIMATED	2018/19 BUDGET
1. Quarterly Investment Reports to Council		
2. Number of TOT payments processed annually		
3. Annual number of Accounts Payable checks processed bi-weekly		
4. Average number of regular and temporary employee payroll checks issued bi-weekly		
5. Number of business licenses issued annually		
6. Average rate of return on investments		

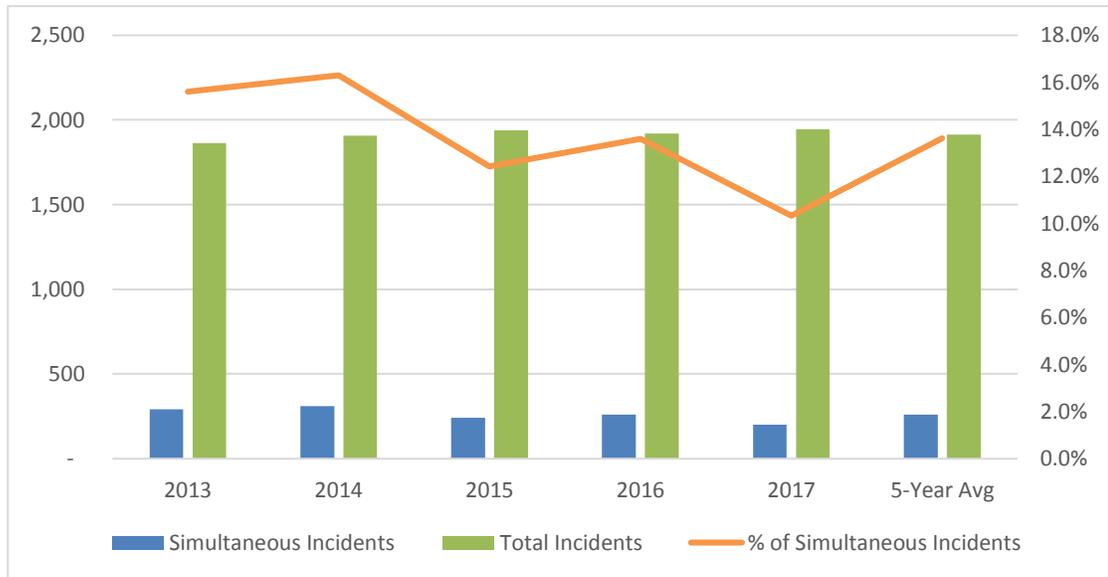
Fire Department

2017-2018

Incidents and Suppression FTE since Cityhood (1964)

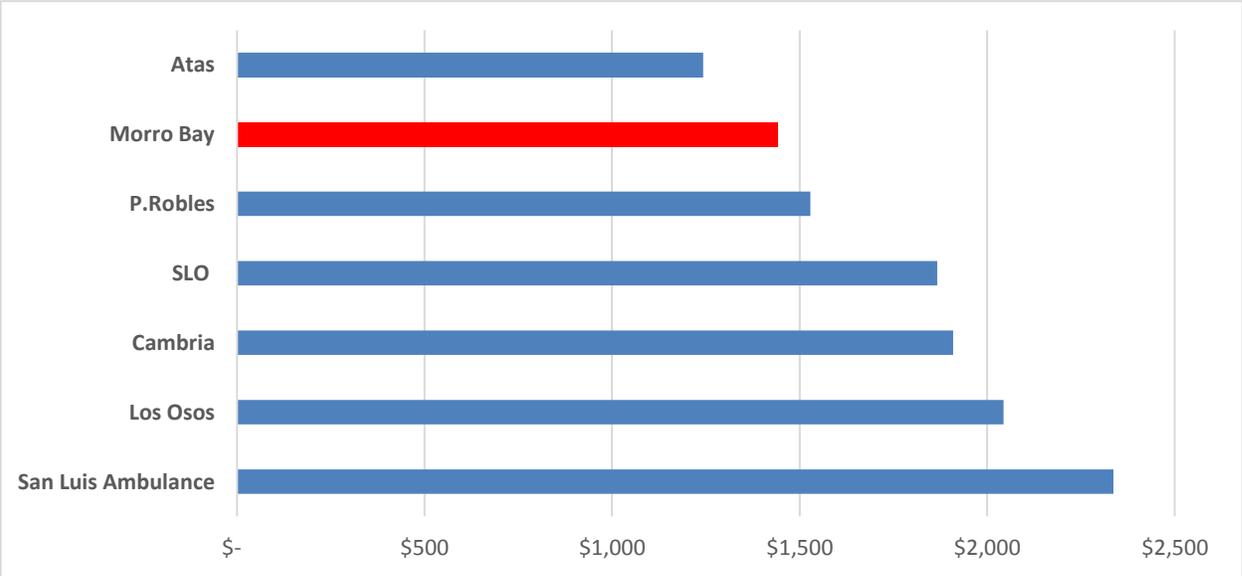


Simultaneous Incidents



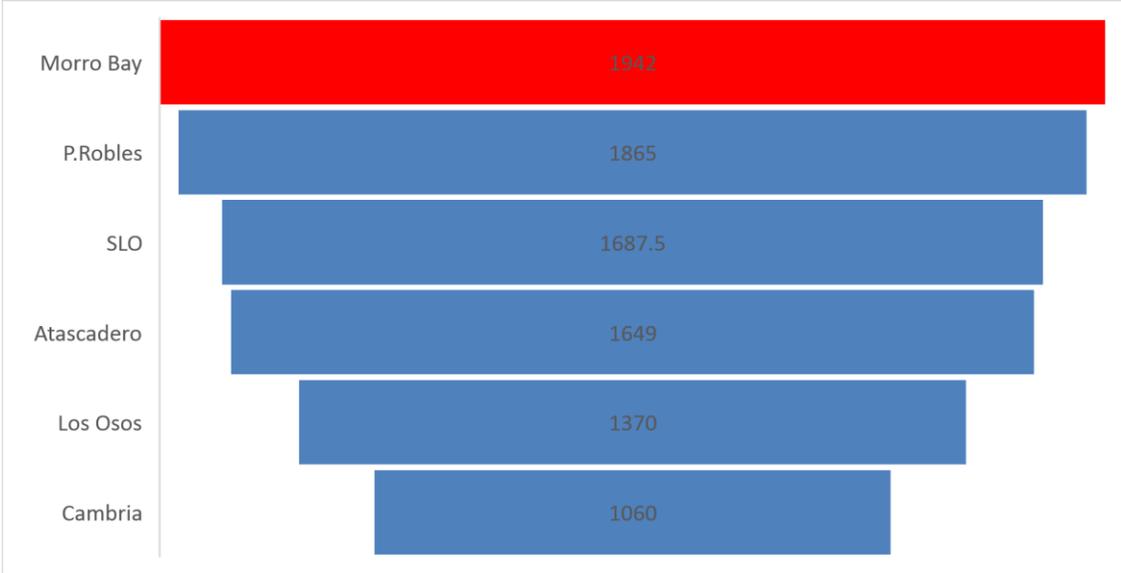
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>5-Year Avg</u>
Simultaneous Incidents	291	311	241	261	201	261
Total Incidents	1,864	1,908	1,939	1,919	1,946	1,915
% of Simultaneous Incidents	15.6%	16.3%	12.4%	13.6%	10.3%	13.6%

Budget vs. Incidents (Cost per Incident)



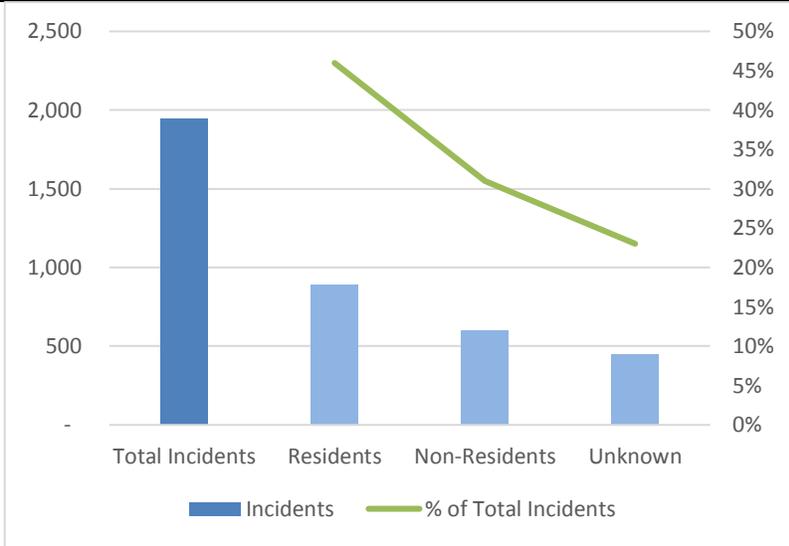
	<u>P.Robles</u>	<u>Atas</u>	<u>SLO</u>	<u>Cambria</u>	<u>Los Osos</u>	<u>Morro Bay</u>
Incidents	3,730	3,298	6,750	1,060	1,370	1,942
Community's Budget	\$5.7	\$4.1	\$12.6	\$2.4	\$2.8	\$2.8
Budget vs. Incidents	\$1,528	\$1,243	\$1,867	\$2,264	\$2,044	\$1,442

Incidents per Engine Company



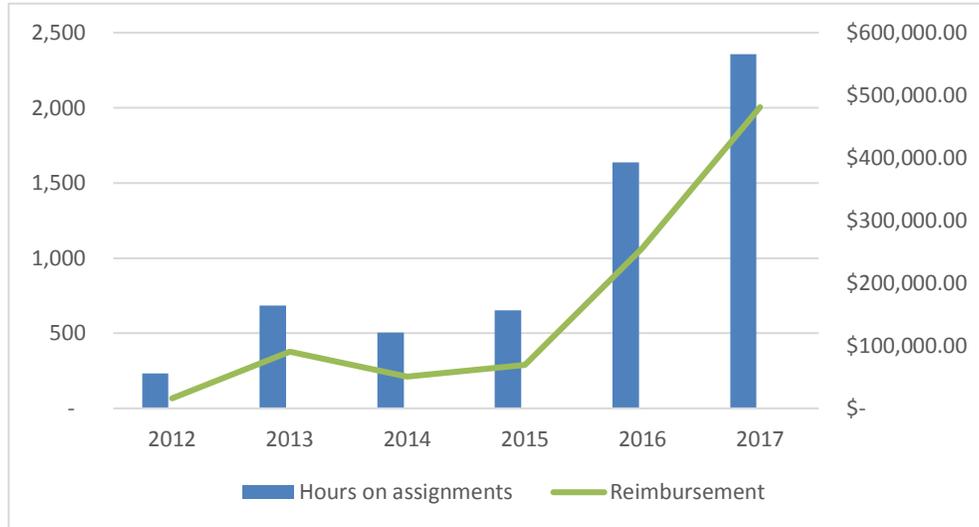
	<u>Morro Bay</u>	<u>P. Robles</u>	<u>SLO</u>	<u>Atascadero</u>	<u>Los Osos</u>	<u>Cambria</u>
Incidents	1,942	3,730	6,750	3,298	1,370	1,060
Engine Companies	1.00	2.00	4.00	2.00	1.00	1.00
Incidents per Engine Company	1,942.00	1,865.00	1,687.50	1,649.00	1,370.00	1,060.00

Residents vs Non-Residents DRAFT



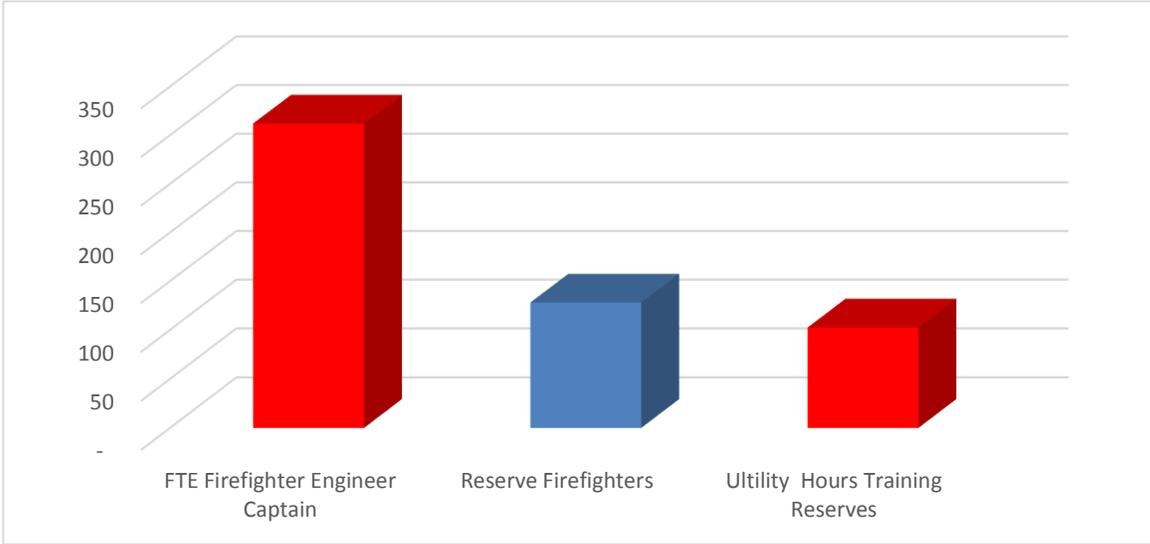
	<u>Total Incidents</u>	<u>Residents</u>	<u>Non-Residents</u>	<u>Unknown</u>
Incidents	1,942	893	602	447
% of Total Incidents		46%	31%	23%

Mutual Aid Reimbursement



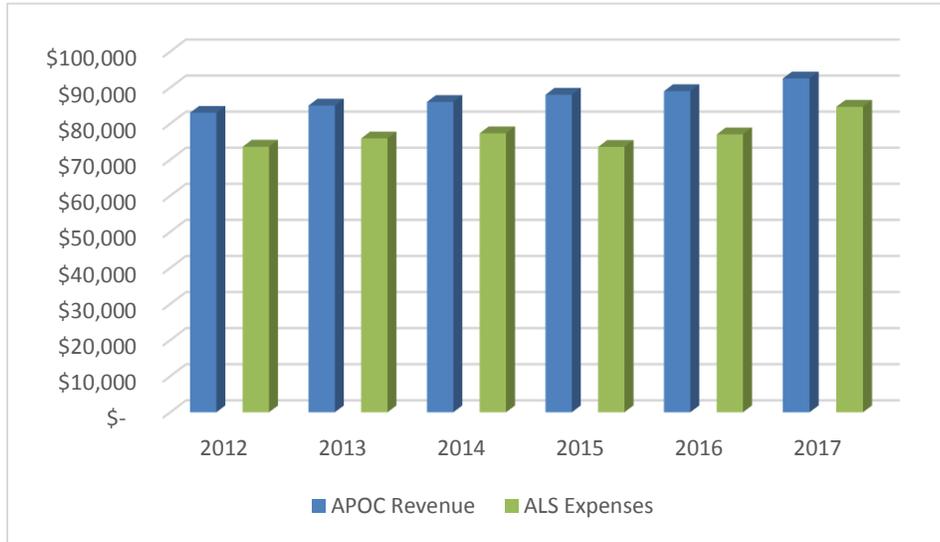
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Hours on assignments	231	686	503	654	1,637	2,356
Reimbursement	\$16,015.00	\$90,551.00	\$50,352.00	\$69,400.00	\$255,785.00	\$481,025.00

Average Training Hours DRAFT



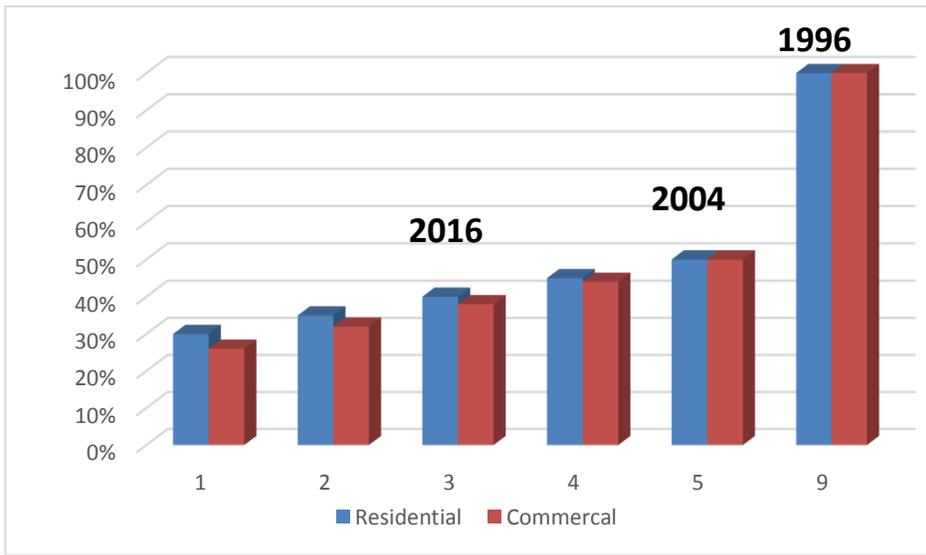
	FTE Firefighter Engineer Captain	Reserve Firefighters	Utility Hours Training Reserves
Average Hours	312	128	102

APOC Revenues vs Paramedic Expenses



	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
APOC Revenue	\$ 83,000	\$85,000	\$ 86,000	\$88,000	\$89,000	\$92,500
ALS Expenses	\$73,600	\$75,893	\$ 77,319	\$73,538	\$ 77,014	\$ 84,663

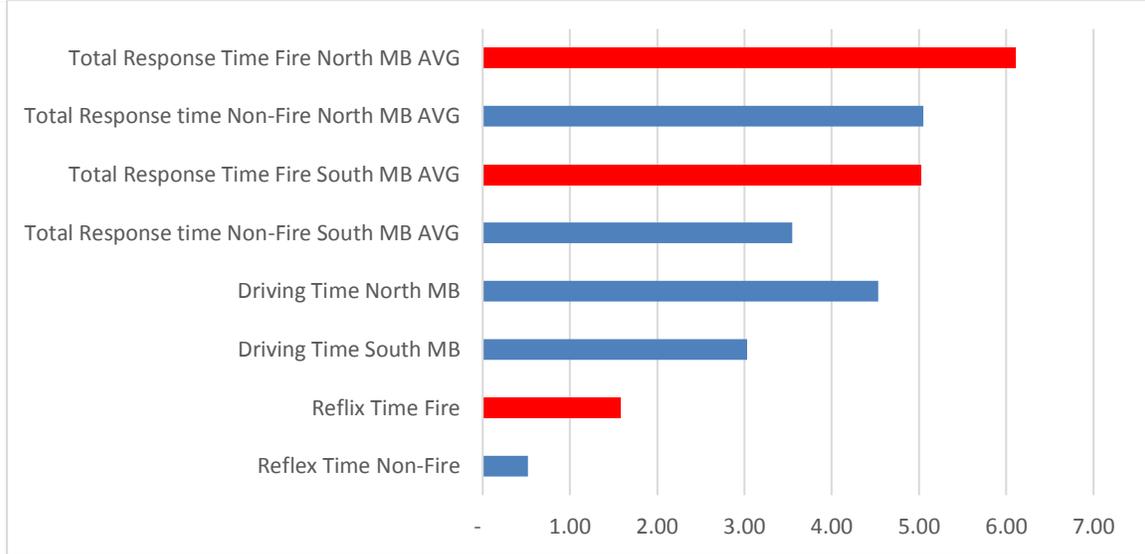
Morro Bay ISO Rating & Fire Insurance



ISO Rating	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>9</u>
Residential	30%	35%	40%	45%	50%	100%
Commercial	26%	32%	38%	44%	50%	100%

DRAFT

Reflex and Driving Time to Incidents

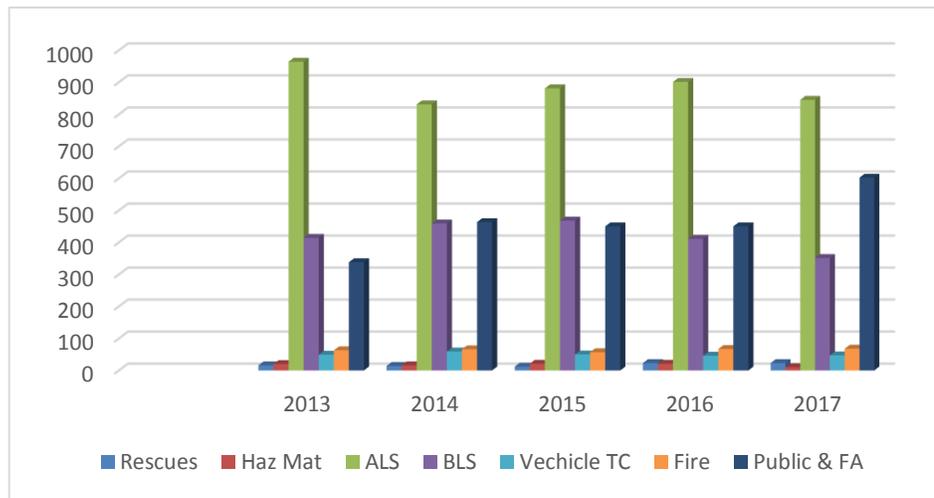


	<u>Reflex</u> <u>Time</u> <u>Non-Fire</u>	<u>Reflix</u> <u>Time</u> <u>Fire</u>	<u>Driving</u> <u>Time</u> <u>South</u> <u>MB</u>	<u>Driving</u> <u>Time</u> <u>North</u> <u>MB</u>	<u>Total</u> <u>Response</u> <u>time Non-</u> <u>Fire</u> <u>South MB</u> <u>AVG</u>	<u>Total</u> <u>Response</u> <u>Time Fire</u> <u>South MB</u> <u>AVG</u>	<u>Total</u> <u>Response</u> <u>time</u> <u>Non-Fire</u> <u>North</u> <u>MB AVG</u>	<u>Total</u> <u>Response</u> <u>Time</u> <u>Fire</u> <u>North</u> <u>MB AVG</u>
Minutes	0.52	1.58	3.03	4.53	3.55	5.02	5.05	6.11

∞ FIRE DEPARTMENT ∞

Types of Responses

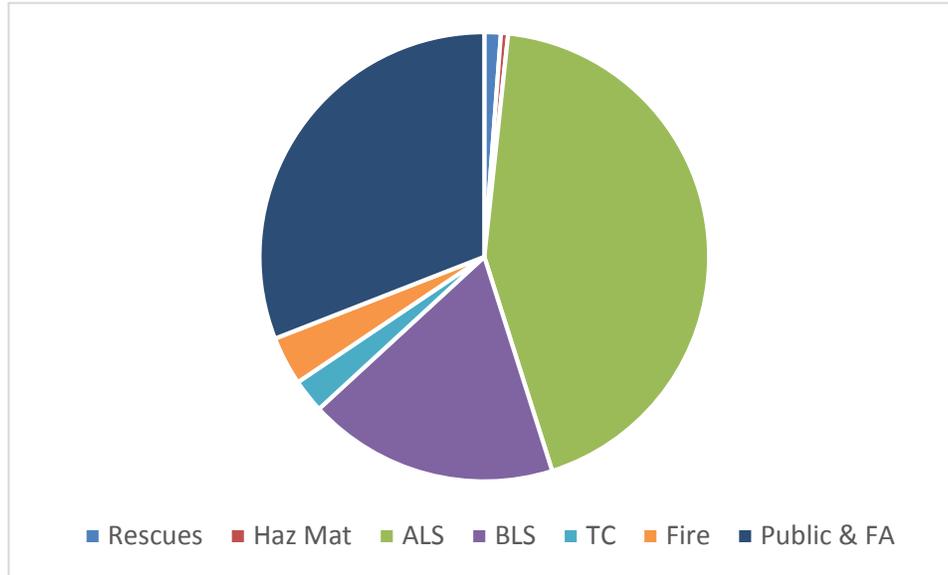
2013-2017



Year	Rescues	Haz Mat	ALS	BLS	Vehicle TC	Fire	Public & FA	Total
2013	16	20	964	414	49	63	338	1864
2014	14	16	831	459	59	66	463	1908
2015	12	21	881	468	50	57	450	1939
2016	23	21	901	411	46	67	450	1919
2017	23	10	845	351	47	68	602	1946
Totals	88	88	4422	2103	251	321	2303	9576

∞ FIRE DEPARTMENT ∞

Types of Responses 2017



Rescues	Haz Mat	ALS	BLS	TC	Fire	Public & FA	Total
23	10	845	351	47	68	602	1946
1%	1%	43%	18%	2%	3%	31%	

Police Department

DEPARTMENT PURPOSE

The Morro Bay Police Department (MBPD) provides proactive professional community-based police services to all who live, work and visit the community. MBPD responds to dispatched calls for service, hazardous and critical incidents, assists other city first responders such as the Fire Department and Harbor Patrol Department with emergency community safety matters, provides self-initiated public safety protection and service to the community, engages in proactive enforcement of laws, facilitates the flow of traffic, responds to critical incidents, emergencies, and traffic collisions, engages in crime reduction strategies, conducts community education and crime prevention that promote overall community safety, conducts investigations and performs crime reduction strategies that reduce property and violent crime. The MBPD employs best practices in crime reduction strategies in partnership with neighborhood watch, business and tourism groups to reduce crime positively impact community viability. MBPD has a leadership role in addressing impactful social, crime reduction and quality of life issues such as the homelessness issue in partnership with other city department services, social services providers, advocacy groups, business Chamber and neighborhood watch groups, school officials for student safety and the Morro Bay clergy.

Core Goals	Accomplishments
Crime Reduction	<ul style="list-style-type: none"> • Seeking best practices to address crime and drive crime reduction strategies • Continuous training and development of personnel • Leadership role in impacting quality of life and crime reduction issues such as homelessness.
Community Safety and Engagement	<p>Continuous engagement in community education and partnerships to impact crime reductions, build community trust and improve the quality of life such as “Coffee with a Cop”, Halloween Haunted House, Caroling with Cops, Police Volunteer Program, Explorer Program, Clergy Active Shooter training, school active shooter training, city employee safety program</p>
Emergency Preparedness and State-Mandated Training	<p>Performed successfully on employee State-mandated training audit with Commission of California Peace Officers Standards and Training (POST), expanded training to include training partnerships with other law enforcement partners to ensure emergency preparedness on first responder mutual aid, active shooter training and other specialized training in order to protect the community.</p>

General Fund

FY 2018/19 KEY PROJECTS

Core Goals	Key Projects
Crime Reduction and Improving the Quality of Life in Morro Bay	<ul style="list-style-type: none">• Comprehensively addressing all crime reduction strategies including impacts relative to the homelessness issue. Continuing key partnerships, community education and engagement with social service providers, advocacy groups, businesses and neighborhood watch groups. Address crime reduction and quality of life issues.
Addressing Police Staffing Levels to Ensure Community Safety	<ul style="list-style-type: none">• Address ongoing staffing and officer deployment challenges by increasing police volunteer cadre, prioritizing and limiting police responses to non-police related incidents, cross-training employees to expand knowledge, skills, knowledge and abilities.

☪ POLICE DEPARTMENT ☪
General Fund

POLICE PERFORMANCE INDICATORS AND MEASURES

Activity and Workload Highlights	2017/18 Estimated	2018/19 Budget
Average hours of training per sworn Officer		
Average hours of training for non-sworn personnel		
Total Number of Volunteer Hours		
Response times?		
Calls for Service (priority?)		
Reserve Hours?		
Total Calls Received?		
Total Arrests?		
Total number of reports written by CSO Officer?		
Percentage of reported Traffic Collisions involving drugs or Alcohol		
Number of traffic citations issued (excluding courtesy citations)		
Hazardous citations issued		
Courtesy citations issues		
DUI Arrests		
Traffic collision reports		
Injury collisions		
Percentage of criminal complaints issued by District Attorney with charges filed		
Percentage of criminal complaints denied by District Attorney		
Number of cases investigated		
Number of Parking Citations Issued		
Number of parking permits issued		
Number of abandoned vehicles removed from public streets		
Revenue received on parking permits issued		
Revenue received on parking citations issued		

Police Department

SUPPORT SERVICES PROGRAM 4150

PROGRAM PURPOSE

In order for the Morro Bay Police Department (MBPD) to perform the public safety function, adequate support services functions and personnel are crucial. Support services functions are present and extremely crucial in virtually all aspects of the police public safety function. Communications, coordination of resources, police responses, investigations, calls for service, administrative functions, record keeping, systems maintenance, property and evidence, liaisons with courts and other segments of the criminal justice system, equipment, and many other functions too numerous to mention.

DRAFT

SUPPORT SERVICES

FY 2018/19 KEY PROJECTS

Core Goals	Key Projects
Acquiring Enhanced Public Safety Report Management System	<ul style="list-style-type: none">• Crucial appropriation of a new enhanced Report Management System (RMS) that is not obsolete. This proposed RMS is compatible with other County-wide law enforcement reporting systems and allows immediate connectivity, crime analysis, crime reporting and arrest information.
Updating/Replacing Equipment	<ul style="list-style-type: none">• It is essential that the purchase of new enhanced police Body-Cam equipment be explored. Storage space, retention and legal risk management factors necessitate the replacement of the current Body-Cams.

Police Department

SPECIAL SAFETY GRANTS FUND 282

PROGRAM PURPOSE

This fund was originally established for the Supplemental Law Enforcement Services Fund (SLESF) grant. Government Code Sections 30061-30065 establish the authority for the SLESF, also known as State COPS grant. On August 17, 2012, California State Controller John Chiang issued a letter stating Chapter 43, Statutes of 2012 (SB 1023), amended Government Code Section 30063 related to SLESF/COPS. That amendment removed the reporting requirements to the State Controller, as well as the public hearing requirements that had been necessary in the past to set the budget.

DRAFT

Community Development Department

DEPARTMENT PURPOSE

The Community Development Department (CDD) works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the City. The Department was created in fiscal year 2015/16 when public services was split into two separate departments, Community Development and Public Works. Community development encompasses many aspects of the City and as such the Department oversees several programs and projects designed to benefit its residents and businesses. Department functions include planning, building, code enforcement, economic development, and grants.

Goals	Accomplishments
<p>Fiscal Sustainability</p>	<ul style="list-style-type: none"> • Council has approved 10 new hotel units (Rose’s Landing). There are approximately 80- hotel units in the planning stage. • Council has authorized staff to market the 781 Market property for redevelopment of a mixed-use hotel/restaurant/retail project. •
<p>Review/Update City land Use Plans</p>	<ul style="list-style-type: none"> • Downtown and Waterfront Strategic Plan: completed and adopted by Council. • General Plan/Local Coastal Program Update: Well underway and scheduled for adoption in September of 2018 • Zoning Code update: underway and scheduled for adoption in September 2018. • Staff continues to work with various land conservation groups on preservation of the Estero Marine Terminal and overall Chevron Property.

Activity and Workload Highlights	2017/18 Estimated	2018/19 Budget
Building Permits Issued - New Single Family	22	30
Building Permits Issued - Residential Addition/Alterations	154	160
Building Permits Issued - New Commercial	2	2
Building Permits Issued - Commercial Addition/Alteration	21	20
Building Permits Issued - Multi-Family	9	6
Building Permits Issued - Miscellaneous	167	165
Number of building plan checks completed	227	225
Number of inspections conducted	538	500
Number of code complaints responded to	286	275
Number of Encroachment Permits issued	87	75
Number of Rezoning Applications	0	0
Number of General Plan Amendments	0	0
Number of Sign Permits	11	15
Number of Conditional Use Permit Applications	35	30
Number of Variance Applications	0	0
Coastal Development Permit Applications	19	20
Number of Subdivision Applications	6	3
Number of Miscellaneous Planning Applications	15	12

Community Development Department

Community Development Grants Fund 200

PROGRAM PURPOSE

The Fund is used to record the transactions related to the Community Development Block Grant and HOME programs. The CDBG program is a federal entitlement program that the City participates in through an Urban County Consortium with the County of San Luis Obispo, and the cities of Arroyo Grande, Atascadero, Paso Robles, Pismo Beach and San Luis Obispo. The City joined the Urban County program in 2011, and on May 24, 2011, adopted Resolution 36-11, affirming that partnership.

The HOME program is a competitive Statewide program administered by the State of California Department of Housing and Community Development. Funds in this program consist of the City's former Citywide housing rehabilitation program for low-income homeowners which was discontinued in 2010.

Community Development Department

TRUST AND AGENCY FUND GENERAL PLAN MAINTENANCE FEE

FUND 515 2790

PROGRAM PURPOSE

Funds accumulated in this account are to be used to update the City's General Plan. The fee is a percentage of building permit valuation. .

Note to Finance – the funds in this account are not just fees collected from building permits. It is my knowledge that over the years previous Finance staff would credit all sorts of CDD/Planning funds here, including grant revenue, HOME funding, even CDBG stuff.

FY 2018/19 KEY PROJECTS

Key Projects
<ul style="list-style-type: none">• Continued support of the General Plan/Local Coastal Program update.• Approximately \$65,000 for update of the Housing Element. Will start in FY 18/19 and continue into FY 19/20.

Community Development Department

HOUSING IN-LIEU SPECIAL REVENUE FUND FUND 941

PROGRAM PURPOSE

This Fund was set up to collect impact fees for affordable housing. In cases where affordable housing is required, and the developer has substantially demonstrated to the City's satisfaction that the reasonable and practical development of affordable housing, either on-site or off-site is infeasible, the City may permit the developer to satisfy the requirements to provide affordable housing by payment of an in-lieu housing fee. The fee is to be paid prior to the issuance of a building permit (where square footage is added) or a final tract map.

Fees accepted for affordable housing may be used to construct, or assist in the construction of, housing, for rent or sale, to very low and/or low and moderate income families, to purchase land for the purpose of affordable housing, to assist very low and/or low and moderate income families to afford adequate housing, or for other measures to provide housing for very low and/or low and moderate income families. Also, the City may use the money for capital projects, such as the Housing Element or General Plan Update. As an option, the in-lieu fees may be transferred to another public agency, such as a nonprofit housing provider, for the purpose of providing affordable housing in the City.

FY 2018/19 KEY PROJECTS

Key Projects
<ul style="list-style-type: none">• Anticipate collection of approximately \$162,672 (Morro Mist Project).• Anticipate expenditure of approximately \$50,000 in support of a Rehabilitation project for the Sequoia St. Apartments (Peoples Self Help Housing).

Community Development Department

PARKING IN-LIEU FUND 299

PROGRAM PURPOSE

The City has established a formula for calculating the number of parking spaces required to adequately service a new business establishment, or the expansion of an existing one. Developers may choose to pay a fee, instead of dedicating real estate to parking spaces. This Fund has been set up to capture those in-lieu fees.

On October 8, 2013, the City Council adopted Resolution No. 48-13, dedicating \$399,000 to the City-owned *triangle* parking lot adjacent to the Embarcadero.

DRAFT

Harbor

DEPARTMENT PURPOSE

The Harbor Department was established to manage the City's Tidelands Trust stewardship of the State-granted tidelands in Morro Bay, providing for waterfront property and lease management, public service, public safety, and municipal code enforcement on the waterfront, waters and beaches of Morro Bay, and for facility maintenance, repair and capital improvement and replacement. The department oversees the Harbor Operating Fund, Harbor Equipment Replacement Fund and Harbor Accumulation Fund. The Funds were established to account for all revenues and expenses connected with the operation of the Morro Bay Harbor in accordance with the Tidelands Trust granting statutes.

BUDGET OVERVIEW

The sole sources of revenue for the Harbor Department are lease site minimum annual and percent gross of sales rents on the Embarcadero and south Main Street, and boating and boating facility-related fees. Lease site revenues represent approximately 80% of the total departmental revenues received. The department receives no revenues from sales, transient occupancy, TBID or property taxes. The Harbor Operating Fund is established as a self-supporting enterprise fund, and per the stipulations in the Tidelands Trust, all revenues generated in the Trust are to be expended for Trust purposes and on Trust properties and facilities, with a Cost Allocation payment of approximately \$295,000 to the General Fund for services received from that fund's personnel and related expenses to support the Harbor Department.

The Harbor Department generates a balanced budget of recurring expenses met by recurring revenues, with any excess revenues going to the Harbor Accumulation Fund for capital asset and major equipment needs. In addition, grant acquisition from a number of sources continues to be a consistent method of funding for numerous important departmental needs and initiatives. In the years immediately following the Great Recession of 2008, production of a balanced budget was seriously challenged, however, beginning with the 2012/2013 fiscal year, lease and other revenues began to significantly rebound, and revenues are now generally leveled-off at pre-recession levels. Finally, the cessation of the \$275,000 power plant outfall lease payments in ~2012 placed an additional financial burden on the department.

In estimating revenues, department staff generally take a very conservative approach, using Management Partner's 10-Year Budget Forecast model, coupled with a "look back" of previous years' actual performance and a look forward to future needs and priorities, and including such factors as CPI, sales, property and transient occupancy tax trends and forecasts.

Barring any major changes in departmental structure (personnel) or service levels, operational expenses are at present relatively stable, with the exception of the impending significant PERS rates increases. In short, outside the future PERS increases, current revenues meet expenditures. It is significant to realize, however, over the foreseeable future, Harbor-related operational service, capital asset/equipment improvement and replacement funding needs cannot be adequately met with current revenue streams, fee structures or lack of economic development or enhancement. Retirement of the ~\$135,000 payments on the South T-Pier loan in ~four years will have the greatest positive fiscal impact in the near mid-term.

☞ HARBOR ☞

Core Goals	Accomplishments
<p align="center">Efficient Administration of the Tidelands Trust</p>	<ul style="list-style-type: none"> • Consent of Landowner issued for Off the Hook lease site redevelopment • Resolution of Boatyard seawall failure issue • Facilitated successful Concept approval process for Rose’s Landing, Gray’s Inn, House of JuJu lease sites • Execution of License Agreement for Central Coast Maritime Museum • Resolution of significant rent dispute issue on Marina Square lease site
<p align="center">Public Safety</p>	<ul style="list-style-type: none"> • Continued integration of Fire Dept. personnel into surf rescue program • 100-Ton Coast Guard Captain’s Licenses obtained by Harbor Patrol personnel • 1,056 calls for service, 104 emergency responses and 238 enforcement actions 7/1/17 – 3/14/18
<p align="center">Providing Necessary Facilities & Services to the Commercial & Recreational Boating Public</p>	<ul style="list-style-type: none"> • Beach Street slips replacement project underway (design phase) • Launch Ramp renovation project underway (design phase) • Obtained \$100,000 Cable Committee grant for major ice machine renovation project • Assisted Army Corps of Engineers oversight of major harbor dredging project • Funding & replacement of Floating Dock for continued sea lion haul-out and public enjoyment • Conclude Coast Guard building proposal moving forward or not, and continue working w/CG if still moving forward

**Resource
Management &
Environmental
Stewardship**

- Successfully obtained and expended \$25K “SAVE” derelict vessel demolition grant, and obtained second \$16K grant
- Continued mentoring of several lease sites to “Clean Marina” certification; Yacht Club nearing completion

DRAFT

Harbor

OPERATING FUND

Fund 331

PROGRAM PURPOSE

The Harbor Operating Fund provides for the overall operation of the department's various functions, including general department operations, lease, property and facility management, accounts receivable, Harbor Patrol and Beach Lifeguards and maintenance and repair.

BUDGET OVERVIEW

Not including grants, this fund's revenues and expenses are currently approximately \$2M annually. At the bottom on the Great Recession, they were approximately \$1.6M - \$1.7M. Major revenue streams are harbor leases, slip, pier and mooring fees, liveaboard services, miscellaneous services and boat launch ramp parking. Primary expense categories are personnel (full and part time), services, supplies and debt service. Grant acquisition varies from year to year, but generally averages at least \$40K - \$50K annually and can be as high at \$300K.

**☞ HARBOR ☜
Operating**

FY 2018/19 KEY PROJECTS

Core Goals	Key Projects
Efficient Administration of the Tidelands Trust	<ul style="list-style-type: none"> • Develop and embark upon comprehensive lease site percent gross revenue audit program • Develop and embark upon comprehensive lease site condition and compliance inspection program • Issue RFPs for Kayak Horizons lease site, Lease Site 34W and Lease Site 35W-36W • Negotiate/approve new leases and/or amendments on Rose’s Landing, Gray’s Inn and House of JuJu lease sites based on their recent Concept Plan approvals • Complete harbor rules and regulations and municipal code Ch. 15 updates for Council approval • Successfully marshal several leases expiring in March and September into redevelopment and/or lease renegotiation phases
Public Safety	<ul style="list-style-type: none"> • Complete integration of Harbor and Fire personnel together in Fire Boat training and operations • Begin planning for Harbor Patrol vessel replacement due in next 1-3 years
Providing Necessary Facilities & Services to the Commercial & Recreational Boating Public	<ul style="list-style-type: none"> • Replace sea lion dock • Vessel sewage pump out rebuild

**Resource
Management &
Environmental
Stewardship**

- Obtain \$5K NEP grant for oil spill response materials for waterfront leaseholders
- Assist leaseholders obtain Clean Marina certification
- Abate derelict vessels with \$16.1K SAVE grant
- Collaborate with State Parks for new Otter awareness signage at Target Rock & Coleman Beach
- Establish path forward for Morro Bay eelgrass mitigation/management policy/plan

DRAFT

☞ HARBOR ☜
Operating

KEY PROGRAM SERVICES

- Lease Management
 - Lease oversight
 - Lease negotiation
 - Lease/sublease compliance
 - Rent calculation and tracking
 - Insurance tracking and compliance
 - Appraisals and audits
- Harbor Patrol
 - Boater assistance
 - Search & Rescue
 - Lifeguarding/Surf Rescue
 - Law/Code Enforcement
 - Marine/Waterfront Firefighting
 - Medical Aid
 - Pollution Response
 - Slip, mooring, pier and public facility management
 - Vessel, vehicle and facility maintenance and repair
 - Animal Rescue/Environmental
 - Education & Prevention
- Administration
 - Public office front counter/public assist
 - General departmental operations and administration
 - Website/Facebook/public outreach
 - Assisting/coordinating with other departments and agencies
 - Liveaboard, slip, mooring and pier administration
 - Weather monitoring and reporting
 - Capital projects planning and execution
- Finance
 - Accounts Receivable
 - Departmental budget development and management
 - Grant acquisition and management
 - Capital Expenditures
 - Purchasing
 - Vessel liens and collections
- Maintenance, Repair & Upkeep
 - Vessels
 - Vehicles
 - Equipment
 - Facilities
 - Public spaces/beach

☞ HARBOR ☜
Operating

Activity and Workload Highlights	2017/18 Estimated	2018/19 Budget
Major lease actions (new leases, amendments, etc)	5	8-10
Lease Site RFP's/redevelopments	2	5
Lease auditing/inspecting actions	0	15
Annual Harbor Patrol calls for service	1,400	1,450
Emergency responses	125	120
Assisting other agencies	400	400
Training actions	175	200
Minor maintenance actions	1,200	1,200
Major maintenance actions	3	3

DRAFT

HARBOR

EQUIPMENT REPLACEMENT FUND

Fund 005

PROGRAM PURPOSE

The Harbor Equipment Replacement Fund is a savings fund for equipment, vehicle, watercraft and vessel replacements.

BUDGET OVERVIEW

There currently exists \$55,700 in this fund. From an amortization standpoint over the projected life of the department's various vessels, vehicles and major equipment, projected needs over the next ten years for replacement are approximately \$650,000, or \$65,000 per year if spread evenly over the ten-year period.

While some grant funding will be acquired to help meet the funding needs, a significant shortfall will continue to exist and major replacements will only be completed on an as-needed and as-funding is available basis.

FY 2018/19 KEY PROJECTS

Core Goals	Key Projects
Public Safety	<ul style="list-style-type: none">• Begin planning and funding process for 32-year-old Patrol Boat #68 replacement• Seek DBW grant funding for surf rescue watercraft ("jet ski") replacement

Harbor

ACCUMULATION FUND

FUND 953

PROGRAM PURPOSE

The Harbor Accumulation Fund is the department's "catch-all" excess revenue savings fund for capital projects, major maintenance/refurbishment needs and emergency reserves.

BUDGET OVERVIEW

There currently exists \$482,300 in this fund. From an amortization standpoint over the projected life of the department's various pieces of infrastructure and facilities, projected needs over the next ten years for capital projects are estimated at \$4,000,000, or \$400,000 per year if spread evenly over the ten-year period.

While some grant funding has been and will continue to be acquired to help meet the funding needs, a critical shortfall of funding will continue to exist and capital projects will only be completed on an as-needed and as-funding is available basis. With the department's currently approved Capital Improvement Projects list, this fund's current balance will be completely exhausted.

**∞ HARBOR ∞
Accumulation**

FY 2018/19 KEY PROJECTS

Core Goals	Key Projects
Providing Necessary Facilities & Services to the Commercial & Recreational Boating Public	<ul style="list-style-type: none">• Renovate Ice Machine with \$100K Cable Committee grant• Obtain permits for and complete Beach Street slips replacement project• Resolve public launch ramp renovation grant scope issues with DBW to enable continuation of project• Obtain Council approval for and issue RFP for financial feasibility study on Boatyard project

DRAFT



AGENDA NO: B-5

MEETING DATE: March 20, 2018

Staff Report

TO: Chairman and Committee Members **DATE:** March 12, 2018

FROM: Jennifer Callaway, Finance Director

SUBJECT: Review of Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18

RECOMMENDATION

1. Receive the attached Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18; and,
2. Approve staff's recommended liquidity ratio of 65% to 70% of the City's total investment portfolio.

FISCAL IMPACT

There is no fiscal impact associated with this recommendation.

DISCUSSION

Attached for your consideration is the Second Quarter Investment Report for FY 2017/18.

As of December 31, 2017, the City's weighted portfolio yield of 0.94% was slightly below the Local Agency Investment Fund (LAIF) yield of 1.20%. With interest rates increasing staff will monitor rates closely and as investments mature replace those investments with an appropriate maturity and credit rating equivalent investment.

During the quarter, yields have generally been increasing, anticipating continued economic growth. Passage of the new tax provisions added to investor's belief in growth in the economy and inflation, while also increasing the federal budget deficit and supply of Treasury debt. Many believe that the new tax provisions will lead to higher potential for inflation and higher future interest rates.

As such, staff's strategy will be to focus on the purchase of short-term (two years or less in maturity) investments as the rewards for longer term investments in the three to five-year maturity do not have adequate spreads to justify the risk of holding longer term maturities.

Liquidity Ratio

Staff also recommends that the committee provide comment on the City's liquidity ratio. The liquidity ratio is the percentage of portfolio holdings that are readily accessible for the City to respond to emergencies with. As the City is examining cash flow needs and options to deal with the CalPERS impacts and possible cash flow needs for the water reclamation facility, staff has been in a holding pattern, waiting to reinvest funds into shorter term CDs until liquidity is assessed and a reasonable

Prepared By: JC

Dept Review: _____

City Manager Review: _____

City Attorney Review: _____

liquidity rate is agreed upon.

A survey was issued on the California Society of Municipal Finance Officer's listserv in effort to benchmark the City's liquidity ratio against those of other cities in California. Only two cities responded with liquidity guidance, Redwood City and Moorpark, while several others responded asking for the results of the survey. Redwood City maintains a liquidity rate equal to six-months work of operations. Under this methodology and based on an average of Morro's Bay expenditures for the first six months of FY 2016/17 (\$16.8 million) and the second six months of FY 2016/17 (\$16.1 million), Morro Bay would maintain approximately \$16.5 million in liquid assets, a ratio of 73% of liquid assets given the City's current portfolio total of \$22.4 million.

The City of Moorpark uses a formula based on 36 months of cash flow. The lowest cash flow month is subtracted from the highest outflow month to arrive at a maximum net cash outflow. Moorpark has established a liquidity reserve of 1.5 times the maximum net cash outflow. Under this methodology, the City of Morro Bay's liquidity reserve would be \$12.0 million or 54% of the current portfolio.

Given that staff is currently reviewing various options to help pre-fund or paydown the City's CalPERS unfunded liability, staff believes that 54% liquidity is a bit low and 73% liquidity may be slightly high. An average of the two methodologies above would yield a recommended target liquidity ratio of 65% or \$14.6 million. Based on the various timing of investments, etc., staff's recommendation is to maintain a liquidity ratio between 65% and 70% of the City's total investment portfolio (\$14.6 million to \$15.7 million).

CONCLUSION

Staff recommends that the Committee receive the Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18 and provide feedback on staff's recommended liquidity ratio of 65% to 70% of the City's total investment portfolio.

ATTACHMENT

1. Second Quarter Investment Report for FY 2017/18 (October through December 2017)

CITY OF MORRO BAY
QUARTERLY PORTFOLIO PERFORMANCE
12/31/2017

INVESTMENT OR CUSIP NUMBER	INSTITUTION	PURCHASE PRICE	MARKET VALUE	COUPON INTEREST RATE	PURCHASE DATE	MATURITY DATE	DAYS TO MATURITY
LAIF	LOCAL AGENCY INVESTMENT FUND	\$ 7,221,091	\$ 7,221,091	1.200%	DAILY	DAILY	1
MONEY MARKET ACCOUNT:							
MM	RABOBANK - MONEY MARKET	2,530,260	2,530,260	0.20%	DAILY	DAILY	1
SWEEP	RABOBANK - SWEEP	4,860,105	4,860,105	0.05%	DAILY	DAILY	1
MM	OPUS BANK	4,030,172	4,030,172	1.30%	DAILY	DAILY	1
Government Agency							
3134G8PD5	FHLM Corp	500,003	497,548	1.350%	3/30/2016	9/30/2019	
3136G1KD0	FNMA	498,933	499,015	1.000%	6/13/2013	4/30/2018	
CERTIFICATES OF DEPOSIT:							
1404202A7	ZION BANK - CAPITAL ONE BANK	250,005	252,772	2.400%	4/12/2017	4/12/2022	1,563
902856	TBK BANK	250,000	250,000	2.050%	1/24/2017	1/11/2019	376
4100093030	LEADER BANK	250,000	250,000	1.551%	1/6/2014	1/6/2019	371
02006LYZ0	ZIONS BANK - ALLY BANK	250,001	249,881	1.000%	3/17/2016	3/19/2018	78
9497484B0	ZION BANK - WELLS FARGO	250,001	249,884	1.100%	3/23/2016	3/23/2018	82
254671VW7	ZION BANK - DISCOVER BANK	250,001	251,224	2.000%	9/11/2013	9/11/2018	254
05568P5Y9	ZION BANK - BMW BANK	250,001	251,262	2.100%	10/25/2013	10/25/2018	298
36160NYZ6	ZION BANK - Synchrony Bank CD	250,001	251,661	2.150%	10/25/2013	10/25/2018	298
38148PGK7	ZION BANK - GOLDMAN SACHS BANK	250,003	245,243	1.550%	8/3/2016	8/3/2021	1,311
3090683803	STATE FARM BANK	250,000	250,000	1.980%	10/21/2013	10/21/2018	294
4923509568	PENTAGON FEDERAL CREDIT UNION	250,000	250,000	3.000%	2/5/2014	2/5/2019	401
		<u>\$ 22,390,577</u>	<u>\$ 22,390,116</u>				
					% OF LIQUID PORTFOLIO HOLDINGS	WEIGHTED AVERAGE RATE OF EARNINGS	WEIGHTED AVERAGE MATURITY
					<u>83.257%</u>	<u>0.940%</u>	<u>60</u>

Portfolio holdings as of the second quarter ended December 31, 2017, are in compliance with the current Investment Policy. With 83.257% of the portfolio held in liquid instruments, the cash needs of the City will be met.