



# CITY OF MORRO BAY

## Citizens Oversight Committee

### Acting as Citizens Finance Advisory Committee

## AGENDA

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#### 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.*

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### Agenda

#### Tuesday, April 20, 2021 - 3:00 PM

#### Held Via Teleconference

ESTABLISH QUORUM AND CALL TO ORDER

COMMITTEE MEMBERS ANNOUNCEMENTS & PRESENTATIONS

#### PUBLIC COMMENT PERIOD

*Pursuant to Section 3 of Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, this Meeting will be conducted telephonically through Zoom and broadcast live on Cable Channel 20 and streamed on the City website (click [here](#) to view). Please be advised that pursuant to the Executive Order, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Vet's Hall will not be open for the meeting.*

#### Public Participation:

*In order to prevent and mitigate the effects of the COVID-19 pandemic, and limit potential spread within the City of Morro Bay, in accordance with Executive Order N-29-20, the City will not make available a physical location from which members of the public may observe the meeting and offer public comment. Remote public participation is allowed in the following ways:*

- *Community members are strongly encouraged to submit agenda correspondence in advance of the meeting and watch the meeting live on either cable Channel 20 or as streamed on the City's [website](#). Agenda correspondence may be mailed the CFAC Committee care of the City Clerk at 595 Harbor Street, Morro Bay, CA 93442, or emailed to the City Clerk's office at [cityclerk@morrobayca.gov](mailto:cityclerk@morrobayca.gov) prior to the meeting will be published on the City website with a final update one hour prior to the meeting start time. Agenda correspondence received less than an hour before the meeting start time may not be posted until after the meeting.*
- *Members of the public may watch the meeting either on cable Channel 20 or as streamed on the City [website](#).*
- *Alternatively, members of the public may watch the meeting and speak during general Public Comment or on a specific agenda item by logging in to the Zoom webinar using the information provided below. Please use the "raise hand" feature to indicate your desire to provide public comment. Each speaker will be allowed three minutes to provide input.*

*Please click the link below to join the webinar:*

- <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcwTHlRTk9xaTlmWVNWRWUQT09>

Password: 135692

- Or Telephone Attendee: 1(408) 638-0968 or 1 (669) 900 6833 or 1 (346) 248 7799;  
Webinar ID: 827 2274 7698; Password: 135692; Press **\* 9** (star-9) to **raise your hand** for  
Public Comment

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE FEBRUARY 18, 2021 CITIZENS  
OVERSIGHT /FINANCE ADVISORY COMMITTEE SPECIAL MEETING  
**RECOMMENDATION: Receive and file.**

B. BUSINESS ITEMS

1. BRIEF FINANCE DIRECTOR UPDATE (FINANCE DIRECTOR)  
**RECOMMENDATION: Receive and file.**
2. DISCUSSION AND INPUT ON THE MEASURES Q AND E FISCAL YEAR (FY) 2021/22  
DRAFT PROPOSED BUDGET (FINANCE DIRECTOR)  
**RECOMMENDATION: Receive draft Proposed FY 2020/21 Measures Q and E Budget  
and provide feedback.**
3. UPDATE FROM CITY MANAGER AND INTERIM FINANCE DIRECTOR ON GOAL  
SETTING PROCESS AND REQUEST FROM ADVISORY BODIES FOR WORK PLAN  
ITEMS  
**RECOMMENDATION: Receive an update from the City Manager and Interim Finance  
Director on goal setting and advisory body work plan setting process as well as  
anticipated timeline.**
4. REVIEW OF 10 YEAR FORECAST PRESENTED TO CITY COUNCIL ON FEBRUARY 23,  
2021  
**RECOMMENDATION: Receive an update from Interim Finance Director on 10 Year  
Forecast presented to the City Council on February 23, 2021.**

C. FUTURE AGENDA ITEMS

D. SCHEDULE NEXT MEETING

MAY 18, 2021

E. ADJOURNMENT

**THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 74 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 805-772-6201 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 UPON REQUEST BY  
CALLING THE CITY HALL AT 805-772-6201.**

**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.**

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**MINUTES – CITIZENS OVERSIGHT/ FINANCE  
 ADVISORY COMMITTEE  
 SPECIAL – February 18, 2021  
 TELECONFERENCE – 3:00 P.M.**

*CFAC conducted this meeting in accordance with Section 3 of California Governor Newsom’s Executive Order N-29-20 issued on March 17, 2020 in response to the present State of Emergency in existence due to the threat of COVID-19. This meeting was held via teleconference for all participants*

MEMBERS PRESENT:	John Martin	Chair
	Barbara Spagnola	Vice-Chair
	Bart Beckman	Member
	Lois Johnson	Member
	Tina Wener	Member
	Homer Alexander	Member
	Stephen Peck	Member

STAFF PRESENT:	Katie Lichtig	Interim Finance Director
	Scott Collins	City Manager
	Dana Swanson	City Clerk
	Joe Mueller	Utility Division Manager
	Jody Cox	Police Chief
	Eric Endersby	Harbor Director
	Scot Graham	Community Development Director
	Rob Livick	City Engineer
	Amy Watkins	Commander
	Steve Knuckles	Fire Chief
	Matt Vierra	Fire Marshal
	Sandra Martin	Budget/Accounting Manager
	Eric Casares	WRF Project Manager
	Tracy McConnell	Account Clerk III
	Charlee Lowe	Account Clerk III

**ESTABLISH A QUORUM AND CALL TO ORDER**

<https://youtu.be/jysaMzGNQOY?t=24>

Chair Martin called the meeting to order at 3:00 p.m. with all but Member Beckman present. Member Beckman joined the meeting at 3:05 pm.

**PUBLIC COMMENT FOR ITEMS ON THE AGENDA**

Chair Martin opened public comment, seeing none, the public comment period was closed.

**SPECIAL MEETING AGENDA ITEMS**

- I. APPROVAL OF MINUTES FOR THE JANUARY 19, 2021 CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING.

<https://youtu.be/jysaMzGNQOY?t=126>

MOTION: Member Peck moved to approve the minutes from January 19, 2021. The motion was seconded by Vice-Chair Spagnola and carried 6-0-1 with Member Beckman Absent.

II. REVIEW WRF QUARTERLY UPDATE REPORT; (PUBLIC WORKS)

<https://youtu.be/jysaMzGNQOY?t=222>

WRF Project Manager Casares gave a presentation on the project status of the Water Reclamation Facility and answered committee member questions.

Public Comment

None

Chair Martin closed public comment.

The report was received and filed.

III. REVIEW OF FISCAL YEAR (FY) 2020/21 SECOND QUARTER BUDGET PERFORMANCE REPORT FOR SIX-MONTH PERIOD ENDING DECEMBER 31, 2020; (FINANCE)

<https://youtu.be/jysaMzGNQOY?t=3278>

Interim Finance Director Lichtig reported on the second quarter budget performance. The Interim Finance Director and staff answered committee member questions.

Public Comment

None

Chair Martin closed public comment.

The Committee requested clarification from Council regarding CFAC's role in oversight of Measure E funds.

The report was received and filed.

IV. FINANCE DIRECTOR'S UPDATE; (FINANCE)

<https://youtu.be/jysaMzGNQOY?t=5974>

The Interim Finance Director made a brief presentation and answered committee member questions.

Public Comment

None

Chair Martin closed public comment.

The report was received and filed.

C. SCHEDULE NEXT MEETING

The next CFAC meeting will be held on **Tuesday, April 20, 2021** at 3:00 p.m. via teleconference.

D. ADJOURNMENT

The meeting adjourned at 4:54 pm

Recorded by:

Tracy McConnell



AGENDA NO: B-2

MEETING DATE: April 20, 2021

# Staff Report

**TO:** Chairman and Committee Members

**DATE:** April 16, 2021

**FROM:** Katie Lichtig, Interim Finance Director

**SUBJECT:** Discussion and Input on the Measures Q and E Fiscal Year (FY) 2021/22 Draft Proposed Budget

## **RECOMMENDATION**

Receive draft proposed FY 2021/22 Measures Q and E Budget and provide feedback.

## **BACKGROUND**

The City has focused on financial sustainably providing services and program for nearly the past two decades. Dating back more than 15 years, the City has considered ways to fund the services and programs most desired by the Community in the wake of lost revenues associated with the closure of the Morro Bay Power Plant and increased costs outside the City’s direct control. As a result, the Council placed a half percent local sales tax on the ballot for voter consideration (Measure Q-06). “The Morro Bay Vital Public Services Restoration and Protection Measure” (Measure Q-06) passed with 65 percent of Morro Bay voters in November 2006. The specific language was:

“To preserve Morro Bay’s safety and character by funding essential services including upgrading firefighter/paramedic equipment, fire stations, police, street and pothole repairs, improving storm drains to protect the bay from pollution, and other general city services, shall an ordinance be adopted increasing the City sales tax by one-half cent, subject to independent annual financial audits, and establishing an independent citizens’ advisory committee to review annual expenditures?”

With the passage of Measure Q, Chapter 3.22 of the Morro Bay Municipal Code was adopted. A citizens’ oversight committee (working as the Citizens’ Finance Advisory Committee) was required by Measure Q. The Citizens’ Finance Advisory Committee (CFAC) was established and plays an important role in recommending proposed expenditures of Measure Q proceeds to Council and reporting to the Council whether Measure Q revenues have been spent as intended when the budget is adopted. The process has historically involved review of detailed accounting and budget documents (sometime up to 100 pages or more). This process has resulted in small adjustments. Some members of CFAC have questioned whether the level of detail is necessary and effective in fulfilling the committee’s role as defined by the City Council. More on the proposed streamlining of this process is presented later in this report.

Prepared By:     KEL    

Dept Review:           

City Manager Review:           

City Attorney Review:

The efforts of Measure Q have been tremendous in supporting key public safety and infrastructure needs. Measure Q allowed the City to build a state-of-the-art Fire Headquarters, establish a pavement management program, and fund important police efforts. However, since the time of Measure Q’s passage, the City suffered significant revenue losses stemming from the Great Recession and experienced, like all other California cities, significant increases in costs we have no direct control over (namely CalPERS and employee health care costs). The City tightened its belt as much as possible, yet still be able to provide core services. However, looking down the road in the 10-year financial model, it was clear that City could not sustain existing service levels without new revenue sources. Thus, the City began considering new measures in late 2018/early 2019 to address this funding imbalance so that we could continue to support the core services our community desires. Efforts were underway in 2019 to engage the community in conversation about our needs and financial challenges when the Global Pandemic hit, compounding our difficulties.

For more than a year our residents and businesses have steadfastly supported measures to address the public health emergencies related to the deadly COVID-19 pandemic. Our residents, businesses and all Californians have coped, navigated, and endured strict Shelter at Home orders, and then relaxed regulations, changing health orders related to business practices as well as orders to socially distance, wear masks and limit gatherings. Most recently, vaccine distribution and “shots in arms” have dramatically sped up. This means that our community and State are returning to our new normal in a phased and safe way. While we will continue to practice mask wearing and social distancing, we are slowly returning to many of the treasured activities we have missed over the past year, like family gatherings, re-opening of schools, sports activities, outdoor concerts and so much more. Most importantly, these measures have been responsible for flattening of the COVID-19 virus spread curve in SLO County and throughout the State, meaning our local health care system can continue to treat all patients.

The City experienced significant fiscal impacts of the pandemic. The City suffered declines in several key revenues, such as Transient Occupancy Tax – aka “Bed Tax,” Sales Tax and user fees for recreation programs closed due to public health orders. Because the Pandemic came so late in the fiscal year there was little to be done to limit expenditures for Fiscal Year 2019-20 (July 2019 through June 2020). For the current fiscal year (2020-21) significant reductions in expenditures were adopted by City Council.

As a result of these financial impacts the City was forced to use emergency reserves to address budget shortfalls (expenditures exceeding revenues) in FY 2019-20 as well as in the current fiscal year. The following chart provides an overview of actuals in FY 2019-20 and projections as of the beginning of the fiscal year and as of mid-year (December 2020 presented to the City Council on February 23, 2021).

Projected General Fund Emergency Reserve with Mid-Year Adjustments						
	FY 19-20 Actual	FY 20-21 Budget	FY 20-21 Mid-Year	2020/21 Budget vs. Mid-Year		
				\$ Change	Percentage Change	
Beg Bal	\$ 3,808,577	\$ 2,384,436	\$ 2,384,436			
Revenue	180,161	370,380	652,630	\$ 282,250	76%	
Expenditures	(426,669)	(20,853)	(20,853)	\$ -	0%	
Transfer to GF to Support Operating Deficit	(1,177,633)	(1,283,319)	(731,086)	\$ 552,233	-43%	
<b>End Bal</b>	<b>\$ 2,384,436</b>	<b>\$ 1,450,644</b>	<b>\$ 2,285,127</b>	<b>\$ 834,483</b>	<b>58%</b>	

With this backdrop, and in spite of implementing these difficult measures to reduce General Fund spending, the City faced a future of deficit spending unless new revenue was identified. In response

to this conundrum, the City explored options to balance the budget and the Council ultimately decided to place a measure on the November 2020 ballot to increase local sales tax by 1 percent (the total would then become 1.5 percent if it passed, because the City voters previously approved Measure Q for ½ percent).

That was the dawn of Measure E, which received over 58% support from Morro Bay voters in November 2020. Measure E is projected to raise about \$2.1 million a year and it went into effect April 1, 2021. In total, \$3.217 million is the current projected proceeds from both measures.

Like Measure Q, Measure E is a general-purpose revenue source and revenues are deposited in the general fund. The proposed uses are captured in the language of Measure E as follows:

The City Council has adopted Resolution No. 69-20, adding **Measure E-20** to the November 3, 2020 ballot.

<b>MORRO BAY'S LOCAL RECOVERY/EMERGENCY PREPAREDNESS MEASURE</b>	YES
To protect City of Morro Bay's financial stability, local property values and City services, such as maintaining Morro Bay's local Fire/Police Departments, 24/7 paramedics, 911 emergency response, health emergency/disaster preparedness; keeping beaches, public areas safe/clean; retaining/attracting businesses; and other general City services, shall the measure establishing 1¢ sales tax providing approximately \$2,000,000 annually until ended by voters be adopted, requiring independent audits, public oversight, all funds used locally?	NO

The passage of Measure E and the continuation of Measure Q presents new opportunities to focus on certain core services, programs, and goals. On April 13, 2021, the Council adopted the following principles that assisted Staff in developing the attached allocation proposal to CFAC

1. Maintain public safety services by funding positions that are most closely aligned with the purposes of the Measures Q and E. Expenses include Morro Bay Fire Department, Morro Bay Police Department, and Morro Bay Harbor Department personnel, equipment, and support service in addition to the Fire Headquarters Debt service and the Fire Engine loan repayment;
2. Maintain or enhance cleanliness and safety of public space such as parks, waterfront and the beach by funding personnel, supplies, operating expenses, and equipment to support City operations in departments including Public Works Consolidated Maintenance and Harbor Department;
3. Invest in infrastructure and equipment such as street paving, storm drains, vehicle replacements that support City services. This may include increasing the City's capacity to implement the current backlog of unfunded infrastructure projects.
4. Ensure City's financial health by maintaining appropriate reserves to respond to economic downturns, natural disasters and/or health emergencies as well as other unforeseen challenges or opportunities.

**DISCUSSION**

The draft FY 2021/22 proposed Measures Q and E budget are attached. FY 2021/22 revenues are estimated at \$3.217 million. Investments in operating departments are proposed in the Police Department (\$434,050), Harbor Department (\$201,000), Fire Department (\$593,622), Public Works – Engineering and Consolidated Maintenance (\$754,776), and the General Fun Emergency Reserve (\$125,000).

The following chart identifies how much funding is being spread between one-time and on-going purposes in General Fund operating budgets, Capital expenditures and support for the Harbor Fund in pursuit of the priorities consistent with the measures. The Chart also identifies the Highway1/Highway41 intersection improvements as being the top priority for existing Measure Q fund reserves. There is sufficient funding available in the Measure Q Fund to make this investment in this long-planned capital improvement.

Attachment 2						
A	B	C	D	E	F	G
				One Time	On-going	Total
GF Operating Costs				\$ 109,450	\$ 1,643,748	\$ 1,753,198
GF Capital, debt service or Vehicle replacement				\$ 38,000	\$ 1,216,250	\$ 1,254,250
Harbor Fund Projects				\$ 50,000	\$ 151,000	\$ 201,000
				\$ 197,450	\$ 3,010,998	\$ 3,208,448
<b>To Be Funded from Measure Q Reserves</b>						
	Capital	Add to existing CIP project - Hwy1/Hwy41 Intersection Improvements			\$ 600,000	Match funding for HWY 41 intersection improvements

Because of the availability of American Rescue Plan funding there were no requests that could not be met for FY 2021-22. Should the U.S. Department of Treasury regulations indicate that some of the planned one-time expenditures might be ineligible staff will present an alternative plan at the Council Budget Study Sessions scheduled for May 25 and 26.

**ATTACHMENTS**

1. FY 2021/22 Draft Proposed Measures Q and E Budget
2. FY 2021/22 Measures Q and E Summary and Proposed Use of Measure Q Reserve

	A	B	C	D	E	F	G
1			<b>Fiscal Year 2021 - 2022 Measures Q and E Proposed Uses</b>				
2			Annual Operating Costs				
3			Capital Improvement Projects				
4			Vehicle Replacement				
5			Facilities Maintenance (major)				
7	<b>Department</b>	<b>Type</b>	<b>Request</b>	<b>FTE Requested</b>	<b>One-time cost</b>	<b>On-going Costs</b>	<b>Justification and explanation of Proposed Use</b>
9	<b>Police</b>	Annual Operating Costs	Police Officer	1.00		\$ 136,307	Maintain current sworn officer strength in MBPD (commonly referred to as 18th Police Officer position). The police officer supports the departments commitment to respond to public safety calls for service 24 hours a day 7 days a week.
10		Annual Operating	RMS system		\$ 98,450	\$ -	MBFD must update the existing Records Management Systems (RMS) to be compatible with San Luis Obispo County Sheriff's Office dispatch. Updating and upgrading is mandatory to maintain inter-agency operations.
11		Annual Operating	Dictation Service		\$ 11,000	\$ -	This would be a tool for officers to use in writing reports that would cut down on the overtime budget.
12		Annual Operating	Police Sgt	1.00	\$ -	\$ 188,293	Maintain current sworn officer strength in MBPD. The Sgt supports the departments commitment to responding to public safety calls for service 24 hours a day 7 days a week. The Sgt also provides critical supervision and oversight during their assigned shift.
13	<b>Police Subtotal</b>			<b>2.00</b>	<b>\$ 109,450</b>	<b>\$ 324,600</b>	
14							
17	<b>Harbor</b>						
19		Vehicles/Vessels	Fire Fighting System Replacement in New Harbor Patrol Vessel		\$ 50,000		Replace ineffective and old fire fighting system in new (surplus) harbor patrol vessel being acquired from Port San Luis in order to maintain the department's fire fighting capability on the waterfront; keep beaches, harbor and waterfront safe and clean.
20		Annual Operating	Beach Lifeguard Program	0	\$ -	\$ 81,000	This support allows the Harbor Department to maintain 2019 service levels; keep beaches safe and clean, maintaining 911 emergency response.

	A	B	C	D	E	F	G
7	Department	Type	Request	FTE Requested	One-time cost	On-going Costs	Justification and explanation of Proposed Use
21		Annual Operating	Garbage Disposal	0	\$ -	\$ 70,000	This support allows the Harbor Department to enhance trash disposal service levels, keep beaches safe and clean and promotes environmental health of the ocean by preventing trash from overflowing waste receptacles.
22	<b>Harbor Subtotal</b>			<b>0.00</b>	<b>\$ 50,000</b>	<b>\$ 151,000</b>	
23							
24	<b>Fire</b>						
26		Annual Operating	1 Fire Engineer Paramedic for Relief duty including OT and reserves	1.00		\$ 306,261	Continue funding for vacation relief full-time firefighter Salary, Benefits, vacation relief overtime pay, and overtime to maintain staffing of 3 full-time firefighters, and funding the additional reserve part-time firefighter wage and benefits. This investment will help to maintain the council desired and strategic plan recommended 4 firefighters on duty each day.
27		Annual Operating	1 Fire Captain Paramedic	1		\$ 171,112	Continue sworn personnel at 2020-21 level which ensures 27-7 365 emergency response capabilities. This Fire Captain Paramedic costs include regular pay, benefits, and Federally mandated overtime. This investment will help to maintain the council desired and strategic plan recommended 4 firefighters on duty each day. The Captain also provides critical supervision and oversight during their assigned shift.
28		Facilities	Fire Station #53 debt service + 10% reserve			\$ 56,250	The United States Department of Agriculture has loaned the City of Morro Bay \$1.5 million to complete construction of the Harbor Street Fire Station. Completing the construction of the fire station has been a Council priority for several years and we celebrated the grand opening in 2013. Additionally, council has expressed an intent to pay down the USDA debt with proceeds from the sale of the Cloisters property when sold. This debt is scheduled to be paid off in September 2041.

	A	B	C	D	E	F	G
7	Department	Type	Request	FTE Requested	One-time cost	On-going Costs	Justification and explanation of Proposed Use
29		Capital	Replacement for Engine 5391 with Type 1 Fire Combination Pumper.			\$ 60,000	Fund a 5-year payment schedule for a Fire Apparatus that meets a Type 1 Fire Combination Pumper standards to replace Engine 5391. Engine 5391 had been in service in Morro Bay since 1994 and was on the Fire Department's replacement schedule in 2014. The service life was extended 5 years to 2019 due to the performance and testing results of Engine 5391. A \$275,000 down payment is being funded by the Bertha Shultz Trust with a total price of \$675,000. A five year timeline is required to repay our General Fund Emergency Reserve Funds that was used to pay the remaining balance. Five year timeline expires after the 2022-23 payment.
30	<b>Fire Subtotal</b>			<b>2.00</b>	<b>\$ -</b>	<b>\$ 593,622</b>	
36							
37	<b>Public Works</b>	Vehicles	Public Works		\$ 38,000		Replace Truck for Parks Maintenance within Consolidated Maintenance
38		Annual Operating	Public Works	1		\$ 175,000	Pool for Capital Projects Implementation (same range as Environmental Programs Mgr. and Sr. Planner) plus \$15,000 depending on approach pursued. To be assessed by new Public Works Director and decision on approach
39		Annual Operating	Public Works	1		\$ 102,390	Funding for Engineering Technician III to enhance capital project implementation
40		Annual Operating	Public Works	1		\$ 167,915	Fund Environmental Programs Manager position to maintain environmental best practices in daily operations and capital projects
41		Annual Operating	Consolidated Maintenance	1		\$ 94,874	Funding supports the restoration of one Consolidated Maintenance worker position that was eliminated during the FY 2020-21 budget reductions. This position will help to enhance cleanliness of waterfront, embarcadero, public restrooms and parks. This funding will support daily operations.
42		Annual Operating	Consolidated Maintenance	1		\$ 89,821	Funding supports maintenance of one Consolidated Maintenance worker position. This position will help maintain cleanliness of waterfront, embarcadero, public restrooms and parks. This funding will support daily operations.

CFAC Item B1 April 20, 2021  
Attachment 1

	A	B	C	D	E	F	G
7	Department	Type	Request	FTE Requested	One-time cost	On-going Costs	Justification and explanation of Proposed Use
43		Annual Operating	Consolidated Maintenance			\$ 61,776	Fund overtime for Consolidated Maintenance to enhance cleanliness of beaches, embarcadero, public restrooms and parks. This funding will support daily operations.
44		Annual Operating	Consolidated Maintenance			\$ 25,000	Investment in replacement of sidewalk panels, curb and gutters in various locations. To be implemented by a contractor.
45		Capital	Stormdrain Maintenance			\$ 600,000	Begin implementation of stormdrain maintenance which has been deferred. The OneWater Plan will be the guide for which project is prioritized.
46		Capital	Pavment Management Plan			\$ 500,000	Continue investment in street paving. This funding is supplemented with SB1 gas tax supplement funding.
47	<b>Public Works Subtotal</b>			<b>5.00</b>	<b>\$ 38,000</b>	<b>\$ 1,816,776</b>	
56				<b>0.00</b>	<b>\$ -</b>	<b>\$ -</b>	
57							
58	<b>Finance and IT</b>						
59		Annual Operating Costs	Restore General Fund Operating Reserve			\$ 125,000	This funding is in addition to \$500,000 being planned using the American Rescue Plan Act (ARP) funding. Staff awaits the Treasury Department guidance regarding eligible uses of ARP funding.
60	<b>Finance New Service Subtotal</b>			<b>0.00</b>	<b>\$ -</b>	<b>\$ 125,000</b>	
66							
67	<b>GRAND TOTAL LOCAL SALES TAX</b>			<b>9.00</b>	<b>\$ 197,450</b>	<b>\$ 3,010,998</b>	<b>\$ 3,208,448</b>
68							
70						<b>Estimated FY 2021-22 Revenues</b>	<b>\$ 3,217,000</b>
72							
73	<b>Difference between FY 2021-22 revenue and planned expenditures</b>						<b>\$ 8,552</b>
75							

	A	B	C	D	E	F	G
77					One Time	On-going	Total
78	GF Operating Costs				\$ 109,450	\$ 1,643,748	\$ 1,753,198
79							
80	GF Capital, debt service or Vehicle replacement				\$ 38,000	\$ 1,216,250	\$ 1,254,250
81							
82	Harbor Fund Projects				\$ 50,000	\$ 151,000	\$ 201,000
83							
84					\$ 197,450	\$ 3,010,998	\$ 3,208,448
85							
86							
87	<b>To Be Funded from Measure Q Reserves</b>						
88		Capital	Add to existing CIP project - Hwy1/Hwy41 Intersection Improvements			\$ 600,000	Match funding for HWY 41 intersection improvements

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AGENDA NO: B-3

MEETING DATE: April 20, 2021

## Staff Report

**TO:** Chairman and Committee Members

**DATE:** April 16, 2021

**FROM:** Katie Lichtig, Interim Finance Director

**SUBJECT:** Update from City Manager and Interim Finance Director on Goal Setting Process and request from Advisory Bodies for Work Plan Items

### **RECOMMENDATION**

Receive an update from the City Manager and the Interim Finance Director on goal setting and advisory body work plan setting processes as well as an anticipated timeline.

### **DISCUSSION**

The City has a history of a robust goal setting process and engagement with the advisory bodies in establishing work plans for the advisory bodies. Because of the pandemic the Council decided to hold over the existing 4 goals and adding one regarding response and recovery from pandemic. The existing goals are as follows:

Goal #1: Achieve Economic and Fiscal Sustainability

Goal #2: Improve Public Infrastructure

Goal #3: Complete Updates to City Land Use Plans and Zoning Policies and Address Affordable Housing Issues

Goal #4: Improve Communication and Engagement with Community

The City Manager and the Interim Finance Director will provide a timeline during which the Council will engage with the community and Advisory Bodies in considering if goals need to change and developing approved work plans for each advisory body. CFAC will not be asked to take any action on this matter at this time.

### **ATTACHMENT**

1. Memo from Chair John Martin on information collected from CFAC Members on possible Work Plan items

Prepared By:   KEL  

Dept Review: \_\_\_\_\_

City Manager Review: \_\_\_\_\_

City Attorney Review: \_\_\_\_\_

April 14, 2021

To: CFAC Members  
From: John Martin, CFAC Chair  
Subject: Fiscal Year 2021-22 Work Plan

As I stated in my March 29 email, it has been a while since CFAC approved a work plan to present to Council. We have been performing the tasks listed in our bylaws, but haven't added anything special, except for the quarterly WRF report, which was assigned by Council.

Several members submitted suggested topics that CFAC could study and make recommendations to Council. Those topics are listed here:

1. A long-term plan for Measures Q and E revenues.
2. A review of Harbor Dept. fiscal sustainability and capital improvements.
3. Infrastructure planning.
4. Impact fee updates.
5. Paid parking feasibility.
6. A 10- to 20-year plan for funding of capital projects.
7. Research potential small revenue enhancements and expense reductions that the City Staff currently does not have time or resources to pursue.
8. A plan to reduce liabilities for Other Post-Employment Benefits (OPEB).
9. A plan to reduce liabilities for pensions (CalPERS).

At our meeting on April 20, we can go through a process to rank these topics (and any others that are presented at the meeting). I hope that the committee can agree on no more than three topics to add to a work plan for fiscal year 2021-22. As you consider these things, please be mindful of the following:

- Per our bylaws: "The work plan is derived from the goals and action items approved by the Council." [[link](#) to Council goals]
- We meet seven times per year and our schedule (attached) is already pretty full.
- Subcommittees may be needed for some of these items (volunteers needed).
- We can't overburden staff resources.
- Also per our bylaws: "If the advisory board desires to add an item to its work plan during the year, it must first seek City Council approval."

If the committee can agree on two or three items, I will prepare a work plan for the committee's approval at our meeting on May 18.

CFAC Schedule for Regular Tasks (Fiscal Year 2021-22)

Month	Task	Notes
July	No meeting	
August	Quarterly WRF Report Quarterly Investment Report Quarterly Budget Performance Report Budget-in-brief document	
September	No meeting	
October	No meeting	
November	Quarterly WRF Report Quarterly Investment Report Quarterly Budget Performance Report	
December	Final Measures Q/E unaudited financial report CAFR review	November preferred.
January	Approve Measures Q/E report to Council Finalize CAFR review Budget calendar	December preferred. Approve CFAC report?
February	Quarterly WRF Report Quarterly Investment Report Quarterly Budget Performance Report (mid-year budget amendments) Semi-annual Measures Q/E expense report 10-year Financial Forecast Report	Not ready in 2021.
March	No meeting	
April	Measures Q/E budget request Work plan for next fiscal year	
May	Quarterly WRF Report Quarterly Investment Report Quarterly Budget Performance Report Measures Q/E final draft budget Draft general fund budget	Not done in 2020.
June	No meeting	

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AGENDA NO: B-4

MEETING DATE: April 20, 2021

## Staff Report

**TO:** Chairman and Committee Members **DATE:** April 16, 2021

**FROM:** Katie Lichtig, Interim Finance Director

**SUBJECT:** Review of 10 Year Forecast Presented to City Council on February 23, 2021

### **RECOMMENDATION**

Receive an update from Interim Finance Director on 10 Year Forecast presented to the City Council on February 23, 2021.

### **ATTACHMENT**

1. Staff report, attachments and presentation from February 23, 2021 City Council Special Meeting

Prepared By:   KEL  

Dept Review: \_\_\_\_\_

City Manager Review: \_\_\_\_\_

City Attorney Review: \_\_\_\_\_



AGENDA NO: I

MEETING DATE: February 23, 2021

# Staff Report

**TO:** Honorable Mayor and City Council

**DATE:** February 21, 2021

**FROM:** Scott Collins, City Manager  
Katie Lichtig, Interim Finance Director

**SUBJECT:** Ten-Year Financial Forecast Study Session

## **RECOMMENDATION**

Staff recommends the City Council receive information on the updated ten-year budget forecast and provide input as appropriate.

## **DISCUSSION**

In March 2015, the City received the first 10-year budget forecast. As an essential component of the City's annual budget process, the City Council then included a requirement for an annual 10-year forecast in the Strategic Planning Framework. The 2016 budget forecast was expanded to include the Harbor Enterprise Fund and the 2017 forecast was expanded to include the Water and Sewer Enterprise Funds. Last year's Financial Forecast focused primarily on the General Fund. The Harbor Fund was also included because of the difficult financial situation the Harbor Fund has faced over the years. The Water and Sewer Funds were not included given the detailed financial analyses conducted by Bartle Wells in pursuit of funding for the Water Reclamation Facility (WRF) in 2018. Updates to the Water and Sewer Funds will be completed after the next round of extremely low interest rate funding (currently at 0.09%) from the State Revolving Fund (SRF) is secured which is anticipated in March or April 2021 with the financial analysis to follow.

The City Council sets goals and priorities every two years, with frequent updates as to progress on each goal. The FY 2019/20 – FY 2020/21 Council goals are as follows:

1. Fiscal and Economic Sustainability
2. Improve Communication and Engagement
3. Updates to Land Use Plans and Address Affordable Housing Issues
4. Improve Public Infrastructure
5. Address Health and Economic Impacts of COVID-19

While there are several subcategories to each of the five priorities, staff's work is focused on maintaining day to day operations augmented with a concentration on the identified Council priorities. As such, the FY 2021/22 budget is being developed with these goals as well as the 10-year Financial Forecast in mind.

Prepared By: KL

Dept Review: KL

City Manager Review: SC

City Attorney Review: \_\_\_\_\_

### General Fund Forecast

The updated ten-year budget forecast will provide a broad overview of the City's financial projection over the coming ten years and includes the most readily available California Public Employee's Retirement System (CalPERS) rate increase estimations, as well as other estimated benefit increases. It is important to note these rate increases are estimates only and will fluctuate based on CalPERS actual investment earnings as well as any other methodology changes that CalPERS implements.

The ten-year General Fund Budget Forecast, included as Attachment 1, provides the City Council and community with a better understanding of the City's financial situation in the decade ahead. In light of the changes to the CalPERS and the economic impacts of COVID-19 Pandemic, this forecasting model is important as the Council makes strategic decisions on the City's future fiscal priorities. That being said, the Forecast is only a snapshot in time and is typically only as accurate as the assumptions for future revenue or expenditure growth.

Using the assumptions outlined below, the forecast shows that the City is currently facing a budget deficit of \$294,000 for FY 2021/22, growing to \$1.33 million by FY 2030/31. This is positive news in terms of reducing the structural deficit the city has been facing, which was projected to hit nearly \$2 million in FY 2028/29 when the City reviewed the 10-year Forecast last year. Yet there is widespread agreement that the City must ensure the City's long-term fiscal sustainability, achieve Council adopted goals, attract and retain highly qualified staff, and provide the services/programs most important to the community. It is important to note, with rare exception, that no service, program, staffing or other cost restorations from COVID-19 cuts are built into the forecast. Neither are there any program expansions included. Staff has a keen understanding that investments are needed in several departments, maybe none more important than keeping the City clean and safe. This is particularly an issue regarding the Embarcadero, restrooms, and other highly used public spaces. Staff understands that a stop gap plan for this summer is needed and our team is working diligently to ensure this plan is implemented as soon as possible. However, it did not seem appropriate to assume these costs while developing the 10-year forecast. This issue is discussed in the revenue section as it relates to Measure E and the continuing FY 2021/22 budget process.

### General Fund Revenues

With this update to the Forecast, staff has reviewed the revenue projections and revised assumptions based on the current economic environment and indications ahead. Based on revenue trends from the first half of the fiscal year, the City is on track to exceed some major budgeted revenue expectations (Transient Occupancy Tax and Sales Tax in particular). Additionally, the County is projecting a 4% increase in property tax for next fiscal year. Based on these new estimates, the baseline forecast has been updated. All other assumptions, included as Attachment 2, are conservative but are based on known conditions and are meant to provide Council, staff and the public with a solid understanding of the City's financial condition as we begin the FY 2021/22 budget process.

There are two mitigating factors that are important to recognize as it relates to revenue. First is the approval of Measure E this past November which is projected to raise about \$2.2 million a year. While Measure E is a general-purpose revenue source, the proposed uses will focus on the following priorities:

- Maintaining 24/7 911 emergency response
- Maintaining 24/7 paramedic services
- Maintaining 24/7 police services
- Maintaining fire protection services

- Keeping beaches, public areas, and public restrooms safe and clean (including the Embarcadero and Harbor)
- Protecting Morro Bay's financial stability

It is important to note that the Forecast assumes no contributions from Measure E to the General Fund or Harbor Fund. Staff did not want to presuppose either what action the Council would take at mid-year with Measure E funds to be collected in the current fiscal year or in future years. Staff is recommending that in the current fiscal year, Measure E funds collected in April, May and June 2021 be contributed to the General Fund Emergency Reserve to help restore fund balance used to close the budget gap and maintain basic essential services during the COVID-19 pandemic. That being said, the Council could decide during the mid-year budget discussion that there are more important uses for these funds or that the funds should roll into Measure E balance so the use can be determined during on-going budget process for next fiscal year.

Second, the City has begun to receive revenues from the Cannabis tax from one of the two Cannabis operators with permits. The second operator is scheduled to start operations before the end of the current fiscal year in June. The tax (5% of gross receipts) is estimated to generate approximately \$250,000 to \$300,000 per fiscal year. Per the Council adopted policy this new revenue is to be used for one-time purposes for 24 months. The mid-year budget report recommends that the revenue from the current fiscal year be dedicated to the emergency storm drain repair capital improvement project.

#### General Fund Expenditures

The City of Morro Bay made some difficult and challenging decisions when developing the FY 2020/21 budget to contain expenses. The restored and additional revenues will certainly help the City invest and reinvest in the most important priorities but will not be sufficient to address all the needs moving into the future. This is especially true as it relates to investment in the City's dedicated staff. The City is a provider of service to the community to improve the quality of life for residents and businesses, and the City provides these core services through our people. As a result of the pandemic's swift and significant financial impacts on the City decisions to reduce services resulted in reductions in staffing. This not only impacted the community members who rely on and enjoy these services, it impacted staff members who lost their jobs as well as the remaining staff who picked up the slack. This is in addition to picking up new duties in implementing new health and safety protocols for the community's benefit and at their worksite. Also, during the pandemic, the staff agreed to help the City navigate the difficult financial situation by taking 5 to 8 percent salary reductions for three to eight months. All of this is to say that the 10-Year Forecast does not include any assumption about enhanced pay for staff and if the City intends to retain and attract highly qualified staff to provide service to our community this issue will have to be addressed as early as possible. The City is currently in contract negotiations with each of the collective bargaining units (Fire, Police and Service Employees).

Components of the forecast related to expenses include the following:

1. No Cost-of-Living Allowances for employees – only step increases.
2. No restoration of services, staffing or funding for supplies and services from the current year budget reductions
3. Estimated pensions costs from CalPERS actuarial report plus 11% increase based on historical increases in Unfunded Actuarial Liabilities (UAL). After Council's direction to payoff of Tier II and Tier III UAL for Police and Fire Plans, Staff anticipates that these UAL will be paid off each year in lump sum.
4. As with all cities in California under the CalPERS retirement system, the impact of the CalPERS rate increases has substantially outpaced anticipated revenue gains. In addition, the rates are developed looking back two years so the impacts on CalPERS during the last two years are still to be felt.

5. Health care and insurance costs continue to rise, both of which are assumed in the forecast.
6. No contribution to Economic Development Fund for General Plan implementation items (historically budgeted at \$100,000, reduced to \$65,000 in FY 2019/20, and eliminated in FY 2020/21). This is offset by the Community Development Department competing successfully for several grants that will in part go to implementation of the General Plan.
7. Chamber of Commerce Economic Ombudsman Contract will be supported from the Economic Development Fund.
8. Annual contributions to replacement funds as detailed below:
  - a. Vehicle Replacement - \$50,000
  - b. Technology Fund - \$25,000 and a 2.5 percent cost escalator
  - c. Facilities Fund - \$100,000
  - d. Fire Equipment Replacement - \$50,000
  - e. Risk Management - \$50,000
  - f. Compensable Leave - \$25,000

As staff directs efforts at balancing the FY 2020/21 budget we will be focused on Council and Community priorities and analyzing internal structure and opportunities.

#### Organizational Concerns, Structure and Opportunities

As noted, the budget does not include any cost of living (COLA) increases for employees as the City's current labor agreements expired June 30, 2020 and December 31, 2020. While the City is beginning negotiations with the labor unions now, there are currently no COLA's included in the forecast. This raises concerns from management's perspective given the City's employees are already in the bottom tier of pay within the County of San Luis Obispo (for local governments) County. Given this, and the structural deficit, we remain concerned about the City's ability to provide the same level of full services that are provided today, while retaining and attracting employees. Management believes that addressing this pay issue has the potential to jeopardize achievement of Council goals. If the City has a high turnover rate (which impacts morale for the rest of staff) the City could find itself in the position of simply not having sufficient people to do the core work of the City, no less Council Priorities. This is critical issue and staff will be working diligently with Council and the bargaining groups to ensure this issue is resolved with equity, common sense and financial sustainability in mind.

Every department will continue to be asked to look at the services they provide and ask, "is this a service that needs to continue?" If the answer is yes, then the department is being asked to ask themselves "does it need to continue in the way that we are doing right now?" We will be asking if there are better ways to provide the service, newer ways to provide the service in a faster or more efficient manner that will work better for the public. There are many examples of ways that the City is already doing this, one being the city's partnerships with the Chamber for economic development. Other departments are working hard to revamp customer facing systems to be more efficient in providing service to the community. Such is the case with the implementation of CityWorks (permit processing). The Finance team is evaluating if there are new ways to process utility payments that could free up staff time to work on other high priority services. Currently the staff is physically handling more than 4,000 utility payments a month (of 5500 accounts). In a time when so many services have gone digital the team is evaluating if customer service can be maintained while at the same time use current technology. In developing the FY 21/22 Budget, staff will also evaluate staffing needs strategically, and bring forward recommendations to Council that will allow the City to maintain core services.

#### Harbor Operating Fund Ten Year Forecast

The City also focuses heavily on the Harbor Fund ten-year forecast (Attachment 3), understanding that the Harbor has fiscal constraints and challenges of its own. The operating shortfall for the Harbor Fund ranges from as low as \$34,000 to more than \$250,000. Many of the assumptions made for the Harbor forecast align with assumptions made by the General Fund such as not including cost of living allowances (only step increases). Further analysis is needed to ensure that growing CalPERS

obligations. Overall, despite taking steps to contain costs, the Harbor Operating Fund still shows a mounting shortfall and no investment in the harbor or Embarcadero. Just like the General Fund, the Harbor Operating Fund Forecast did not assume any investments from Measure E. Council and community priorities will also be considered as the FY 2021-22 budget is being developed for the Harbor Operating Fund.

**ATTACHMENTS**

1. General Fund Ten Year Forecast
2. General Fund Assumptions included in Forecast
3. Harbor Fund Ten Year Forecast
4. HdL Economic Forecast Reports

# Attachment 1 General Fund Ten Year Forecast

## City of Morro Bay Budget Forecast (\$ in 000)

<b>General Fund</b>	<b>FY 2020</b>	<b>FY 21 MY</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>
Property Tax	\$4,556	\$4,176	\$4,393	\$4,524	\$4,660	\$4,800	\$4,944	\$5,092	\$5,245	\$5,401	\$5,563	\$5,729
Sales Tax	2,186	1,913	2,165	2,228	2,271	2,315	2,359	2,405	2,440	2,475	2,512	2,548
TOT	2,892	2,402	2,952	3,100	3,255	3,385	3,487	3,557	3,628	3,700	3,700	3,737
Other Revenue	3,027	3,027	2,658	2,688	2,717	2,742	2,771	2,821	2,859	2,898	2,937	2,977
Transfers	2,730	2,029	1,243	1,280	1,318	1,358	1,399	1,441	1,484	1,528	1,574	1,621
Total Revenue	15,392	13,548	13,411	13,820	14,222	14,600	14,960	15,316	15,655	16,003	16,286	16,613
Personnel	11,464	9,705	10,147	10,451	10,778	11,137	11,542	11,985	12,469	12,999	13,579	14,215
Other O&M	3,447	2,754	2,891	2,948	3,006	3,066	3,126	3,188	3,251	3,292	3,283	3,299
Transfers/Svc Adds	481	1,088	667	678	690	702	714	726	739	753	755	757
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	15,392	13,548	13,705	14,077	14,474	14,904	15,382	15,899	16,459	17,044	17,618	18,272
Net Annual	0	0	(294)	(257)	(252)	(304)	(422)	(584)	(804)	(1,041)	(1,332)	(1,659)
Beginning Balance	298	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)	(6,651)
<b>Emergency Reserve</b>	<b>FY 2020</b>	<b>FY 21 MY</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>
Revenue	\$95	\$80	\$24	\$24	\$24	\$24	\$24	\$24	\$25	\$25	\$25	\$25
Transfers Out	1,177	731	0	0	0	0	0	0	0	0	0	0
Net Annual	(1,082)	(651)	24	24	24	24	24	24	25	25	25	25
Expenditures	0	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	3,041	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526
Ending Balance	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526	1,552
<b>Total GF+ER Balance</b>	<b>2,257</b>	<b>1,606</b>	<b>1,336</b>	<b>1,102</b>	<b>874</b>	<b>594</b>	<b>196</b>	<b>(363)</b>	<b>(1,143)</b>	<b>(2,158)</b>	<b>(3,465)</b>	<b>(5,099)</b>
% of GF Exp	14.7%	11.9%	9.7%	7.8%	6.0%	4.0%	1.3%	-2.3%	-6.9%	-12.7%	-19.7%	-27.9%

**Attachment 2 - General Fund Ten Year Forecast Assumptions**

General Fund (001)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Average
<b>Revenues:</b>											
Property Tax	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.10%
Property Tax In-Lieu (VLFAA)	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.10%
Homeowners Exemption	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal Property Tax											
Sales Tax (local & triple-flip)	N/A	3.00%	2.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%	1.50%	1.89%
Sales Tax (Prop 172-Safety)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Subtotal Sales Tax											
Property Transfer Tax	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.10%
Transient Occupancy Tax	N/A	5.00%	5.00%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%
Franchises	1.00%	1.00%	1.00%	0.12%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.91%
Local Cannabis Tax	N/A	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Subtotal Other Taxes											
Business Licenses	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Building Permit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Coastal Permits	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Conditional Use Permits	4.00%	3.00%	2.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%
Other Licenses & Permits	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Subtotal Licenses & Permits											
Motor Vehicle License Fee	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State & Federal Grants	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State Reimbursements	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal Intergovernmental											
Investment Income	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Rents	N/A	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	0.00%	0.00%	0.00%	1.33%
Subtotal Use of Money & Property											
Parking Fines	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Vehicle Code Fines	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Fines	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Subtotal Fines & Forfeitures											
Planning & Zoning Fees	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%
Engineering & Inspection Fees	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%
Police Services	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Fire Services	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Recreation Program Fees	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Other Service Charges	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Subtotal Fees & Charges											
Other Revenues	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Capital Projects	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Funds	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gas Tax/Traffic Safety	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transit (cost allocation plan)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Water (cost allocation plan)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sewer (cost allocation plan)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Harbor (cost allocation plan/other)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Expenditures</b>											
Regular Salaries & Other Pay	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Part-time Wages	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Overtime	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer Paid Benefits (* costs includ	N/A	N/A	9.80%	9.80%	9.80%	8.00%	8.00%	2.50%	2.50%	2.50%	6.61%
Pension - NC	N/A	N/A	1.00%	1.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.13%
Pension - UAL	N/A	N/A	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
* Medicare											
* Cafeteria Plan (Health+)											
* Unemployment & Wkrs Comp Ins											
Part-time Benefits	0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	1.80%
Other	0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	1.80%
Vacancy Savings Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Labor Costs Applied	CPI built into model										
Subtotal Personnel											
Contract Services	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Utilities	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Insurance	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Services & Supplies	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Expense	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Capital Outlay											
Debt Service - Solar	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Transfers Out:</b>											
Vehicle Replacement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Technology	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Facilities Maintenance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Replacement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Projects Accumulation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fire Equipment Replacement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Compensable Leave	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

## Attachment 3 Harbor Operating Fund Ten Year Forecast

### City of Morro Bay Harbor Funds Budget Forecast (\$ in 000)

(\$ in 000)

Operations	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Harbor Leases	1,427	1,469	1,513	1,544	1,575	1,606	1,638	1,663	1,696	1,730	1,764
Other Fees, Grants, Revs	485	451	415	392	369	344	318	299	271	242	212
Total Revenue	1,911	1,920	1,928	1,936	1,943	1,950	1,956	1,962	1,967	1,972	1,976
Personnel	906	1,006	1,006	1,032	1,050	1,065	1,108	1,115	1,122	1,103	1,109
Other O&M	601	616	616	628	641	654	667	680	694	708	722
Debt Service	135	135	135	0	0	0	0	0	0	0	0
Transfers Out	285	294	294	302	311	321	330	340	350	361	372
Total Expenditures	1,901	2,050	1,963	2,002	2,039	2,105	2,135	2,166	2,172	2,202	2,233
Net Annual	10	(130)	(34)	(66)	(96)	(155)	(179)	(205)	(204)	(230)	(257)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	(323)	(313)	(313)	(443)	(478)	(544)	(640)	(796)	(975)	(1,179)	(1,384)
Ending Balance	(313)	(443)	(348)	(510)	(574)	(699)	(820)	(1,000)	(1,179)	(1,410)	(1,641)

# CITY OF MORRO BAY

## SALES TAX UPDATE

### 3Q 2020 (JULY - SEPTEMBER)



**MORRO BAY**  
TOTAL: \$ 564,304

-1.5%  
3Q2020



3.6%  
COUNTY

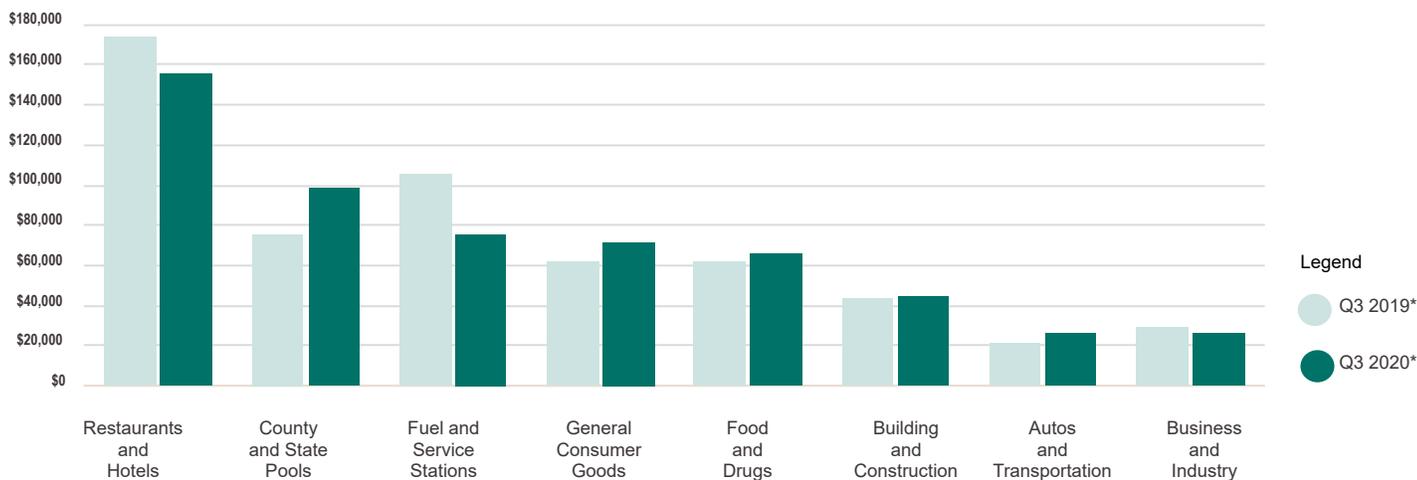


-0.9%  
STATE



*\*Allocation aberrations have been adjusted to reflect sales activity*

### SALES TAX BY MAJOR BUSINESS GROUP



**Measure Q**  
TOTAL: \$323,983  
↑ 1.3%



### CITY OF MORRO BAY HIGHLIGHTS

Morro Bay's receipts from July through September were 1.5% below the third sales period in 2019.

The largest factor in this loss was a 29% decline in receipts from local service stations as the COVID-19 pandemic curtailed travel and as the price of oil fell on the global market due to faltering demand.

Casual eateries were negatively impacted by the decline in travel and by government restrictions on indoor dining enacted to combat the epidemic, though the 10% drop was significantly better than the 33% statewide slump. Local results were likely buttressed by

the many homebound tourists who were attracted to the region from neighboring parts of California for short staycations.

Measure Q, the City's voter-approved add-on sales tax, generated an additional \$324,000 in revenue, an increase of 1.3% compared to last year, largely due to an increase in tax revenue from internet purchases by residents who preferred to shop online amid the virus outbreak.

Net of aberrations, taxable sales for all of San Luis Obispo County grew 3.6% over the comparable time period; the Central Coast region was down 1.6%.



### TOP 25 PRODUCERS

Albertsons  
Anchor Park  
AutoZone  
Bayside Cafe  
Bottle Liquor  
Chevron  
Dealers Choice  
Dorns Breakers Cafe  
Dragon Bay  
Dutchman Seafood House  
Galley Seafood Grill & Bar  
Giovannis Fish Market  
Great American Fish  
Harbor Hut Restaurant

McDonalds  
Miners Ace Hardware  
Mission Uniform & Linen Supply  
Morro Bay Mobil  
Rite Aid  
Shell  
Sinclair Gas  
Spencers Fresh Markets  
Taco Temple  
Tognazzinis Dockside  
Wavelengths Surf Shop



**STATEWIDE RESULTS**

The local one-cent sales and use tax from sales occurring July through September was 0.9% lower than the same quarter one year ago after factoring for accounting anomalies. The losses were primarily concentrated in coastal regions and communities popular with tourists while much of inland California including the San Joaquin Valley, Sacramento region and Inland Empire exhibited gains.

Generally, declining receipts from fuel sales, brick and mortar retail and restaurants were the primary factors leading to this quarter's overall decrease. The losses were largely offset by a continuing acceleration in online shopping that produced huge gains in the county use tax pools where tax revenues from purchases shipped from out-of-state are allocated and in revenues allocated to jurisdictions with in-state fulfillment centers and order desks.

Additional gains came from a generally solid quarter for autos, RV's, food-drugs, sporting goods, discount warehouses, building material suppliers and home improvement purchases. Some categories of agricultural and medical supplies/equipment also did well.

Although the slight decline in comparable third quarter receipts reflected a significant recovery from the immediate previous period's deep decline, new coronavirus surges and reinstated restrictions from 2020's Thanksgiving and Christmas gatherings compounded by smaller federal stimulus programs suggest more significant drops in forthcoming revenues from December through March sales.

Additionally, the past few quarter's gains in county pool receipts that were generated by the shift to online shopping plus last

year's implementation of the Wayfair v. South Dakota Supreme Court decision will level out after the first quarter of 2021.

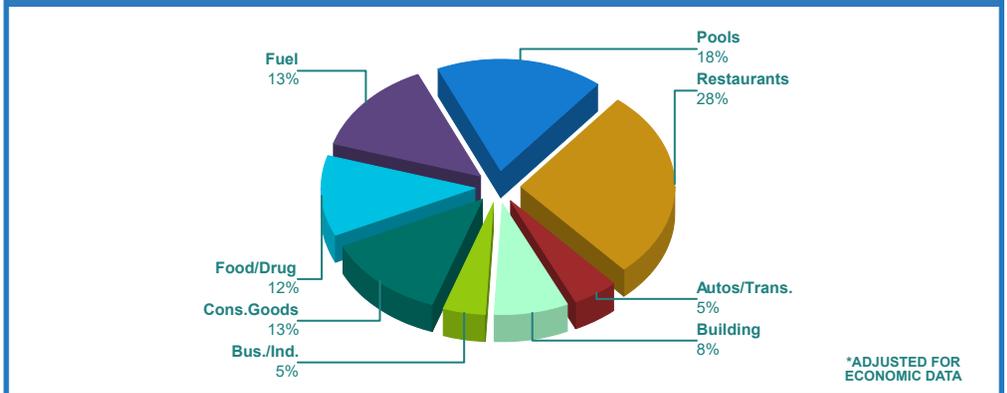
Much of the initial demand for computers and equipment to accommodate home schooling and remote workplaces has been satisfied. Manufacturers are also reporting that absenteeism, sanitation protocols, inventory and imported parts shortages have reduced production capacity that will not be regained until mass vaccines have been completed, probably by the fall of 2021.

Significant recovery is not anticipated until 2021-22 with full recovery dependent on the specific character and make up

of each jurisdiction's tax base. Part of the recovery will be a shift back to non-taxable services and activities. Limited to access because of pandemic restrictions, consumers spent 72% less on services during the third quarter and used the savings to buy taxable goods.

Full recovery may also look different than before the pandemic. Recent surveys find that 3 out of 4 consumers have discovered new online alternatives and half expect to continue these habits which suggests that the part of the recent shift of revenues allocated through countywide use tax pools and industrial distribution centers rather than stores will become permanent.

**REVENUE BY BUSINESS GROUP**  
Morro Bay This Quarter\*



**TOP NON-CONFIDENTIAL BUSINESS TYPES**

Morro Bay Business Type	Q3 '20	Change	County Change	HdL State Change
Casual Dining	99,532	-9.9%	-19.1%	-37.9%
Service Stations	74,145	-28.6%	-25.5%	-29.0%
Quick-Service Restaurants	31,777	11.0%	-3.3%	-10.3%
Art/Gift/Novelty Stores	20,273	26.3%	-8.6%	-20.0%
Sporting Goods/Bike Stores	17,816	41.3%	34.3%	22.1%
Convenience Stores/Liquor	13,679	24.5%	14.8%	14.9%
Family Apparel	13,143	17.5%	-5.8%	-24.4%
Automotive Supply Stores	10,823	-0.9%	4.2%	5.7%
Contractors	7,145	-51.5%	-18.7%	-5.7%
Second-Hand Stores	3,309	-8.0%	-12.3%	-4.9%

\*Allocation aberrations have been adjusted to reflect sales activity

# CALIFORNIA FORECAST

## SALES TAX TRENDS AND ECONOMIC DRIVERS



Lake Tahoe, CA

### Delivering Revenue, Insight and Efficiency to Local Government Since 1983

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's Revenue Enhancement and Economic Development Services help clients to maximize revenues.



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# HDL CONSENSUS FORECAST - DECEMBER 2020

## STATEWIDE SALES TAX TRENDS

 **TOTAL** 2020/21 | 2021/22  
2.1% | 7.5%

 **Autos/Transportation** 2020/21 | 2021/22  
5.9% | 3.0%

The retail auto industry bounced back this summer and completed a V-shaped recovery by posting positive results for the first time since the beginning of the pandemic. Higher income households bankrolled the unexpectedly rapid comeback with savings that have accumulated over the last year. Record low interest rates, a recovering economy and contagion fears surrounding ridesharing and mass transit are expected to support the market in the near-term. Vehicle prices are also rising with the ongoing shift in buyer preference toward larger vehicles compounded by the scarcity of many popular models. RV, boat and niche vehicle sales are all exceptionally strong. Fleet sales, however, remain depressed and will take longer to recover.

 **Building/Construction** 2.9% | 3.5%

Spending for home improvement projects increased again as previously postponed remodeling jobs got underway. The Bay Area grew 2% overall as the region bounced back from having projects shutdown at the onset of the pandemic. Central and Northern California reported steady activity while Southern California saw a positive trend. Looking ahead, the forecast sees growth as employment migration gains momentum from remote workers seeking cheaper housing options. This will lower Bay Area construction as commercial project levels have declined already. Construction in Southern California is expected to remain steady as existing projects move toward completion. The statewide trend of declining construction permit issuance is expected to begin a reversal within two years.

 **Business/Industry** -4.0% | 6.7%

The new order index is moving upward but manufacturers report that COVID-19 related absenteeism, qualified worker shortages, sanitization protocols, inventory and imported parts delivery issues collectively reduced production capacity. Full recovery is not anticipated to begin until the second half of 2020-21 when vaccines become widely available. Recent surges in computers and communication equipment to facilitate work-at-home initiatives are expected to level off with further declines from industrial machinery/equipment, fabricated metal products, manufacturers serving food processing, printing/publishing and petroleum industries. Some improvements are projected from companies serving the logistics, construction, transportation and agriculture segments. Each jurisdiction's experience will differ with the specific character and size of its individual business/industrial tax base.

 **Food/Drugs** 2020/21 | 2021/22  
6.8% | 3.0%

Improvement over the past year in this group's tax revenues is largely twofold. People ate more at home due to limited dining out accessibility and venue options, thus, convenience stores and grocers reported strong activity. Also, cannabis operators expended the number of permitted locations and functioned as essential businesses while demand for their products continues to climb. Short term, these segment specific trends are expected to trigger strong sales. By mid next year, increases moderate as retailers and eateries reopen their doors to expectant customers.

 **Fuel/Service Stations** -9.3% | 16.5%

While crude barrel prices and the cost of a gallon of gas have begun to slowly rise, recent COVID-19 cases continued to trend up which has weakened retail demand and gallons sold. Prices at the pump are still more than a dollar less per gallon than the same quarter last year. Vehicle and air travel have stagnated. A combination of lower fuel prices, downward pressure on consumption (tied to less vacations and road trips), along with additional shelter in place restrictions through 2020 yields a forecast reduction in sales tax for this category in the coming two quarters. The anticipated roll out of the vaccine will increase consumer and business travel by next spring with effective deployment leading to solid growth for this segment in the second half of 2021.

 **General Consumer Goods** 1.4% | 6.9%

Core retail segments continue to show large contractions in sales. Apparel heavy categories accounted for the brunt of declines making up roughly 75% of the group's total variation from prior year third quarter collections. Tax volumes from discount department stores expanded as consumers opted for fewer stops to shop across multiple product lines. Diminished foot traffic, continued in-store limitations and an accelerated shift to digital shopping puts more pressure on brick-and-mortar retailers. The pandemic altered habits in ways that demonstrate permanent repercussions on shopping behavior as the economy recovers. Recent regional stay-at-home orders are prompting additional negative impacts on physical stores, dampening the outlook. Our forecast anticipates a rebound in fiscal year 2021-22 following a wide distribution of vaccines which prompts a return to more normalized in-store shopping experiences. Local tax receipts are not expected to return to pre-pandemic peaks until fiscal year 2022-23.

2020/21 | 2021/22  
 **TOTAL** 2.1% | 7.5%



### Restaurants/Hotels

2020/21 | 2021/22

-15.0% | 26.5%

The ever-changing health regulations over the past nine months have created overwhelming challenges for the hospitality industry. The late December restriction orders could mean more restaurants closing their doors permanently. Quick service continues to fair better than traditional sit-down dining establishments. Outdoor options could be returning sooner rather than later due to a successful challenge of those restrictions by the California Restaurant Association. The forecast assumes some restaurants and hotels will not survive this second round of forced hibernation. An uptick in travel is not expected to begin until spring and will take years to reach 2019 pre-pandemic levels.



### State and County Pools

2020/21 | 2021/22

19.3% | 3.1%

Recent data showed staggering tax escalations into the pools during the last four quarters, a confluence of full deployment of Wayfair's marketplace facilitator AB147 compliance, accelerated movement to online spending linked to COVID-19 store closures and use of federal stimulus for at-home needs. Thus, a new baseline of pool's taxes is now in place for future projections. Early holiday results demonstrated sizeable growth in ecommerce activity during the Thanksgiving weekend. Sheltering directives happening in most parts of California are intensifying more shopping by way of computers and mobile devices. Trends in our forecast note many household spending patterns dating back to the pandemic arrival are now permanent, however, future pools gains are expected to subside to levels a bit higher than pre-Wayfair historical outcomes.



Proposition 172 projections vary from statewide Bradley-Burns calculations due to the state's utilization of differing collection periods in its allocation to counties. HdL forecasts a statewide increase of 0.80% for Fiscal Year 20/21 and 8.89% for 2021/2022.



## U.S. Real GDP Growth

2020/21 | 2021/22

12.0% | 3.4%

The U.S. economy's record-breaking expansion peaked in February 2020, and with the emergence of the COVID-19 pandemic, the economy hit rock bottom in April. This two-month pandemic-driven downturn was the shortest in American history. Even though the economy hasn't returned to its pre-pandemic trend, this has been the fastest recovery in history with over 33% real GDP growth in the third quarter of this year. Consumer spending drove most of the growth in the third quarter, and solid expansion occurred throughout the economy with the exceptions of investment in nonresidential structures and government spending. As of the third quarter, the economy was only 4% below long-run growth trends having recovered three-quarters of the output it lost from February to April. A genuine return to pre-COVID consumer demand cannot occur until the spread of the virus is controlled. There is downside risk in the short-term due to the continued spread of the coronavirus, but the expansion of the economy will pick up speed in the spring as millions of people are vaccinated and a semblance of normality returns to consumer behavior.



## U.S. Unemployment Rate

6.8% | 4.9%

Following the economic downturn in March and April, the performance of the labor market has been the weakest aspect of the economic recovery. As of November 2020, there were 9 million fewer workers employed in the US compared to February 2020 and commensurate increase in the unemployment rate from 3.5% to 6.7%. While the current unemployment rate is a great improvement since the highs reached in April (14.7%), the current figure has been aided by the exodus of 4 million workers from the labor force. The labor market recovery should gather momentum in the spring as the worst effects of COVID-19 are behind us. This job creation will place downward pressure on the unemployment rate, although the return of workers to the labor force will slow this trend.



## CA Total Nonfarm Employment Growth

-3.8% | 5.5%

Since the record drop in employment in April, California's labor market has underperformed compared to the U.S. labor market. The number of jobs contracted by 6.5% nationally since February while in California the number of jobs fell by 8%, and only 46% of the jobs lost by April have been recovered in the state. As of November, there were 1.4 million fewer workers employed in the state than there were in February. One key feature of the labor market recovery has been the extent to which job losses have disproportionately impacted low-income workers. Employment in jobs that pay more than \$60,000 per year have shrunk just 1.3% in the state, but middle-wage jobs (with annual wages ranging from \$27,000 to \$60,000) and low-wage jobs (less than \$27,000 per year) have been hit much harder. Middle-income jobs declined by 8.1% between January and November whereas low-wage jobs fell by 28.1%. Because the recovery in California has lagged the national economy to this point, this should mean that, once a vaccine is widely distributed and some normality resumes in 2021, employment growth in California will outpace the growth in the national economy.



## CA Unemployment Rate

2020/21 | 2021/22

8.8% | 5.7%

California's unemployment rate fell to 8.2% in November – down from 9.0% in the previous month and a peak of 16.4% in May – but remains elevated relative to the 6.7% rate in the U.S. overall. This decline is a positive sign but is as much due to a contracting labor force as it is to employment gains. In November, there were 630,000 fewer people looking for work in the state compared to February 2020. Under normal circumstances, the state's labor force would have expanded over this period. The very short-term outlook (through February 2021) is not positive as the significant spread of the coronavirus in the state and resulting restrictions on businesses place downward pressure on job creation. But as the vaccine rollout picks up speed in the spring, the unemployment rate should fall significantly as the year progresses.



## CA Median Existing Home Price

\$583,320 | \$618,930

The state's housing market has been by far the brightest spot of the 2020 economy. Single family home prices have surged compared to last year, growing by 13% percent from Q3 2019 to Q3 2020. As of Q3 2020, year-to-date sales of new and existing homes were around 10,000 units lower compared to the same point in 2019, though figures from Q4 will likely reveal that more homes have will have sold in 2020 than in 2019. This is an extraordinary feat given the performance of the state's labor market this year. The strong performance of the state's housing market is likely driven by two factors. First, typical homebuyers (higher income earners) have been less affected by the labor market fallout. Second, mortgage rates are at historically low levels, spurring purchasing activity. That said, the growth in home prices this year is unsustainable so expect interest rates to tick up at some point in 2021.



## CA Residential Building Permits

111,780 | 117,780

The increase in home prices this year have once again brought California's housing shortage to the fore. Until the supply of housing picks up considerably, there will be upward pressure on home prices in the state. As of September, around 7,500 fewer permits were issued in the state compared to the same point in 2019. This will do little to help the state's chronic housing shortage, but the expectation is that housing permits will rebound in 2021 as the economy continues to recover.

## HdL Companies

120 S. State College Blvd., Suite 200

Brea, CA 92821

Telephone: 714.879.5000 • 888.861.0220

Fax: 909.861.7726

California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.

## Beacon Economics LLC

5777 West Century Boulevard, Suite 895

Los Angeles, CA 90045

Telephone: 310.571.3399

Fax: 424.646.4660

Beacon Economics has proven to be one of the most thorough and accurate economic research/analytical forecasting firms in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.



**HdL** Companies

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***Ten Year  
Financial  
Forecast***

***February 23,  
2021***



***Ten Year  
Financial  
Forecast***

## Recommendation

City Council receive information on the updated ten-year budget forecast and provide input as appropriate

# *Ten Year Financial Forecast*

## Council Goals and Priorities

1. Fiscal and Economic Sustainability
2. Improve Communication and Engagement
3. Updates to Land Use Plans and Address Affordable Housing Issues
4. Improve Public Infrastructure
5. Address Health and Economic Impacts of COVID-19

# *Ten Year Financial Forecast*

## Measure E Priorities

- Maintaining 24/7 911 emergency response
- Maintaining 24/7 paramedic services
- Maintaining 24/7 police services
- Maintaining fire protection services
- Keeping beaches, public areas, and public restrooms safe and clean (including the Embarcadero and Harbor)
- Protecting Morro Bay's financial stability

# *Ten Year Financial Forecast*

## Issues Considered

1. Council Goals and Priorities
2. Expenditures rising faster than revenues in both the General Fund & Harbor Fund
3. Harbor Fund is financially unsustainable as currently financed
4. No assumptions about the use of Measure E going to either General Fund or Harbor Fund
5. Must address needs at the Embarcadero, other public places and restrooms in the short-term
6. Attracting and retaining staff members is a high priority (service through people)

*Ten Year Financial  
Forecast  
General Fund*



# *Ten Year Financial Forecast General Fund Assumptions*

1. No Cost-of-Living Allowances for employees – only step increases.
2. No restoration of services, staffing or funding for supplies and services from the current year budget reductions
3. Estimated pensions costs from CalPERS actuarial report plus 11% increase
4. Payoff of Tier II and Tier III UAL for Police and Fire Plans each year in lump sum.
5. No COVID impact on CalPERS rates... yet
6. Health care and insurance costs continue to rise
7. Annual contributions to replacement funds
  - a. Vehicle Replacement - \$50,000
  - b. Technology Fund - \$25,000 and a 2.5 percent cost escalator
  - c. Facilities Fund - \$100,000
  - d. Fire Equipment Replacement - \$50,000
  - e. Risk Management - \$50,000
  - f. Compensable Leave - \$25,000

# General Fund Assumptions

Transient Occupancy Tax (\$550,000)

Exceeding annual budget at  
Mid-Year

December 65% of year before

Remaining 50% of Dec thru end  
of June 2021

Sales Tax

Sales Tax consultant =  
+\$369,000 more than budgeted

Remaining 50% of HdL minus  
2.5%

Cannabis Tax

2 operators with solid  
performance

Major Cost Drivers – PERS



Photo by: Danna Dykstra-Coy

# Ten Year Financial Forecast General Fund

City of Morro Bay Budget Forecast (\$ in 000)

<b>General Fund</b>	<b>FY 2020</b>	<b>FY 21 MY</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>
Property Tax	\$4,556	\$4,176	\$4,393	\$4,524	\$4,660	\$4,800	\$4,944	\$5,092	\$5,245	\$5,401	\$5,563	\$5,729
Sales Tax	2,186	1,913	2,165	2,228	2,271	2,315	2,359	2,405	2,440	2,475	2,512	2,548
TOT	2,892	2,402	2,952	3,100	3,255	3,385	3,487	3,557	3,628	3,700	3,700	3,737
Other Revenue	3,027	3,027	2,658	2,688	2,717	2,742	2,771	2,821	2,859	2,898	2,937	2,977
Transfers	2,730	2,029	1,243	1,280	1,318	1,358	1,399	1,441	1,484	1,528	1,574	1,621
Total Revenue	15,392	13,548	13,411	13,820	14,222	14,600	14,960	15,316	15,655	16,003	16,286	16,613
Personnel	11,464	9,705	10,147	10,451	10,778	11,137	11,542	11,985	12,469	12,999	13,579	14,215
Other O&M	3,447	2,754	2,891	2,948	3,006	3,066	3,126	3,188	3,251	3,292	3,283	3,299
Transfers/Svc Adds	481	1,088	667	678	690	702	714	726	739	753	755	757
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	15,392	13,548	13,705	14,077	14,474	14,904	15,382	15,899	16,459	17,044	17,618	18,272
Net Annual	0	0	(294)	(257)	(252)	(304)	(422)	(584)	(804)	(1,041)	(1,332)	(1,659)
Beginning Balance	298	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)	(6,651)
<b>Emergency Reserve</b>	<b>FY 2020</b>	<b>FY 21 MY</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>
Revenue	\$95	\$80	\$24	\$24	\$24	\$24	\$24	\$24	\$25	\$25	\$25	\$25
Transfers Out	1,177	731	0	0	0	0	0	0	0	0	0	0
Net Annual	(1,082)	(651)	24	24	24	24	24	24	25	25	25	25
Expenditures	0	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	3,041	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526
Ending Balance	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526	1,552
<b>Total GF+ER Balance</b>	<b>2,257</b>	<b>1,606</b>	<b>1,336</b>	<b>1,102</b>	<b>874</b>	<b>594</b>	<b>196</b>	<b>(363)</b>	<b>(1,143)</b>	<b>(2,158)</b>	<b>(3,465)</b>	<b>(5,099)</b>
% of GF Exp	14.7%	11.9%	9.7%	7.8%	6.0%	4.0%	1.3%	-2.3%	-6.9%	-12.7%	-19.7%	-27.9%

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# General Fund Outlook

- On-going Budget Shortfall... without infusing from other sources of revenue (Measure E?)
- Difficult to Achieve Council Goals
- Difficult to...
  - Maintain 24/7 911 emergency response
  - Maintain 24/7 paramedic services
  - Maintain 24/7 police services
  - Maintain fire protection services
  - Keep beaches, public areas, and public restrooms safe and clean
  - Protecting Morro Bay’s financial stability

City of Morro Bay Budget Forecast (\$ in 000)

General Fund	FY 2020	FY 21 MY	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Property Tax	\$4,556	\$4,176	\$4,393	\$4,524	\$4,660	\$4,800	\$4,944	\$5,092	\$5,245	\$5,401	\$5,563	\$5,729
Sales Tax	2,186	1,913	2,165	2,228	2,271	2,315	2,359	2,405	2,440	2,475	2,512	2,548
TOT	2,892	2,402	2,952	3,100	3,255	3,385	3,487	3,557	3,628	3,700	3,700	3,737
Other Revenue	3,027	3,027	2,658	2,688	2,717	2,742	2,771	2,821	2,859	2,898	2,937	2,977
Transfers	2,730	2,029	1,243	1,280	1,318	1,358	1,399	1,441	1,484	1,528	1,574	1,621
Total Revenue	15,392	13,548	13,411	13,820	14,222	14,600	14,960	15,316	15,655	16,003	16,286	16,613
Personnel	11,464	9,705	10,147	10,451	10,778	11,137	11,542	11,985	12,469	12,999	13,579	14,215
Other O&M	3,447	2,754	2,891	2,948	3,006	3,066	3,126	3,188	3,251	3,292	3,283	3,299
Transfers/Svc Adds	481	1,088	667	678	690	702	714	726	739	753	755	757
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	15,392	13,548	13,705	14,077	14,474	14,904	15,382	15,899	16,459	17,044	17,618	18,272
Net Annual	0	0	(294)	(257)	(252)	(304)	(422)	(584)	(804)	(1,041)	(1,332)	(1,659)
Beginning Balance	298	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)	(6,651)

Emergency Reserve	FY 2020	FY 21 MY	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenue	\$95	\$80	\$24	\$24	\$24	\$24	\$24	\$24	\$25	\$25	\$25	\$25
Transfers Out	1,177	731	0	0	0	0	0	0	0	0	0	0
Net Annual	(1,082)	(651)	24	24	24	24	24	24	25	25	25	25
Expenditures	0	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	3,041	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526
Ending Balance	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526	1,552

<b>Total GF+ER Balance</b>	<b>2,257</b>	<b>1,606</b>	<b>1,336</b>	<b>1,102</b>	<b>874</b>	<b>594</b>	<b>196</b>	<b>(363)</b>	<b>(1,143)</b>	<b>(2,158)</b>	<b>(3,465)</b>	<b>(5,099)</b>
% of GF Exp	14.7%	11.9%	9.7%	7.8%	6.0%	4.0%	1.3%	-2.3%	-6.9%	-12.7%	-19.7%	-27.9%

*Ten Year  
Financial  
Forecast  
Harbor Fund*



# Ten Year Financial Forecast

## Harbor Fund

### City of Morro Bay Harbor Funds Budget Forecast (\$ in 000)

(\$ in 000)

<b>Operations</b>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Harbor Leases	1,427	1,469	1,513	1,544	1,575	1,606	1,638	1,663	1,696	1,730	1,764
Other Fees, Grants, Revs	485	451	415	392	369	344	318	299	271	242	212
Total Revenue	1,911	1,920	1,928	1,936	1,943	1,950	1,956	1,962	1,967	1,972	1,976
Personnel	906	1,006	1,032	1,050	1,065	1,108	1,115	1,122	1,103	1,109	1,114
Other O&M	601	616	374	381	389	397	405	413	421	429	438
Debt Service	135	135	60	62	63	64	65	67	68	69	71
Transfers Out	285	294	37	38	38	39	40	41	42	42	43
Total Expenditures	1,901	2,050	1,963	2,002	2,039	2,105	2,135	2,166	2,172	2,202	2,233
Net Annual	10	(130)	(34)	(66)	(96)	(155)	(179)	(205)	(204)	(230)	(257)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	(323)	(313)	(313)	(443)	(478)	(544)	(640)	(796)	(975)	(1,179)	(1,384)
Ending Balance	(313)	(443)	(348)	(510)	(574)	(699)	(820)	(1,000)	(1,179)	(1,410)	(1,641)

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## Harbor Fund Outlook

- **On-going Budget Shortfall... without infusing from other sources of revenue (Measure E? Pilot RV Program?)**
- **Difficult to keep beaches, public areas, and public restrooms safe and clean, particularly the Embarcadero, Harbor and other adjacent public property**



*Ten Year  
Financial  
Forecast*

# Questions

***FY 2020/21  
Ten Year  
Forecast***

## Recommendation

City Council receive information on the updated ten-year budget forecast and provide input as appropriate

# Ten Year Financial Forecast



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