



CITY OF MORRO BAY HARBOR ADVISORY BOARD A G E N D A

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.

Regular Meeting Thursday, December 1, 2022 – 5:30 P.M. Veterans Memorial Hall 209 Surf St., Morro Bay, CA

Cherise Hansson	Waterfront Leaseholders
Gene Doughty	South Bay/Los Osos
Sean Green	Member at Large
Cal Myers	Recreational Boating
Jeremiah O'Brien	Morro Bay Commercial Fishermen's Organization
Christopher Vaile	Member at Large
Mary Witkowski	Marine Oriented Business
Lori French	Alternate to Jeremiah O'Brien (MBCFO)

Pursuant to Assembly Bill 361 (2021-22) and Government Code section 54953 this Meeting will be conducted in a hybrid format with both in-person and virtual public participation. Ways to watch this meeting and submit public comment are provided below.

Public Participation:

Remote public participation is allowed in the following ways:

- *Community members may attend the meeting in person at the Morro Bay Veterans Hall.*
- *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.*

Please click the link below to join the webinar:

➤ <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcwTHlRTk9xaTlmWVNWRWFUQT09>

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 to "Raise Hand" for Public Comment*

- *Members of the public may watch the meeting either on cable Channel 20 or as streamed on the City [website](#).*
- *Community members are encouraged to submit agenda correspondence in advance of the meeting via email to the Harbor Advisory Board at hab@morrobayca.gov prior to the meeting. Agenda Correspondence received at hab@morrobayca.gov by 10 a.m. on the meeting day will be posted on the City website.*

ESTABLISH QUORUM AND CALL TO ORDER
MOMENT OF SILENCE
PLEDGE OF ALLEGIANCE
CHAIR, ADVISORY BOARD MEMBER & LIAISON ANNOUNCEMENTS

PRESENTATIONS

The Morro Bay Embarcadero Master Leaseholders, LLC (EML) will be presenting an oral report on their waterfront position paper, which is included at the end of the attachment for item B-1 in this agenda.

PUBLIC COMMENT

Members of the audience wishing to address the HAB on Harbor business matters not on the agenda may do so at this time. For those desiring to speak on items on the agenda, but unable to stay for the item, may also address the HAB at this time.

A. CONSENT CALENDAR

Unless an item is pulled for separate action by the Board, the following actions are approved without discussion. The public will also be provided an opportunity to comment on consent agenda items.

- A-1 Harbor Department Status Report.
RECOMMENDATION: Receive and file report.

B. BUSINESS ITEMS

- B-1 Presentation of The Centre for Organization Effectiveness' Organizational Assessment Report for the Harbor Department
RECOMMENDATION: Receive and file report.
- B-2 Update from the Parking Management/Paid Parking Ad-Hoc Committee on Committee's Recent Activities
RECOMMENDATION: Receive and file committee update.
- B-3 Update from the Marine Services Ad-Hoc Committee on Committee's Recent Activities
RECOMMENDATION: Receive and file committee update.
- B-4 1. Update from the Finance & Budget Ad-Hoc Committee on Committee's Recent Activities
2. Recap of Harbor Fund Fiscal Year 2021/2022 Performance
3. Input for Prioritizing Surplus Revenues from Fiscal Year 2021/2022
4. Input on Future Revenue-Generating Ideas
RECOMMENDATION: Receive and file ad-hoc committee update and staff recap, and provide staff input on recommended surplus revenue prioritization, and future revenue-generating ideas.
- B-5 Harbor Advisory Board Member Public Engagement Outreach Assignment Reporting
RECOMMENDATION: Receive and file Harbor Advisory Board (HAB) member outreach effort reports to date.

C. DECLARATION OF FUTURE AGENDA ITEMS

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 the Morro Bay Harbor Department, 1275 Embarcadero, for any revisions or call the department at 772-6254 for further information.

Materials related to an item on this Agenda are available for public inspection during normal business hours at the Harbor Department, 1275 Embarcadero Road, or online at www.morrobayca.gov. Materials related to an item on this Agenda submitted to the Board after publication of the Agenda packet are available for inspection at the Harbor Department during normal business hours or at the scheduled meeting.



AGENDA NO: A-1

MEETING DATE: December 1, 2022

Staff Report

TO: Harbor Advisory Board
FROM: Eric Endersby, Harbor Director
SUBJECT: Harbor Department Status Report

DATE: November 17, 2022

RECOMMENDATION

Receive and file report.

DISCUSSION

Recent Department Activity:

Harbor Patrol statistics for **October 2022:**

93 bay patrols
221 land patrols
12 emergency responses
83 calls for service
31 assists of other agencies
27 enforcement contacts
23 Trainings
169 maintenance actions
3 weather warnings, and no hazardous bar warnings

Harbor Patrol statistics for **November 2022:**

35 bay patrols
103 land patrols
1 emergency responses
42 calls for service
16 assists of other agencies
7 enforcement contacts
9 Trainings
97 maintenance actions
3 weather warnings, and one hazardous bar warnings

We enjoyed our first storm of the winter with a bit of rain, swell and wind, and the harbor entrance was posted with a Rough Bar Warning by the Coast Guard for the first time this winter season. Harbor Patrol assisted some of the anchored boats and dewatered many skiffs to prevent them from sinking. Although the storm flushed the streets and turned the bay water brown, the sunset at the end of the day brought delight to all sailors and land lubbers alike. We hope to see a lot more rain this winter.

Prepared By: LS

Dept Review: EE

City Manager Review: _____

City Attorney Review: _____

Some of the more noteworthy Harbor Patrol responses:

10/2/22

Patrol responded to a vessel with no power off the Abalone farm. Staff took the boat in tow back to launch ramp.

Patrol responded to a called by the CHABLIS for assistance for a passenger that had fell at the dock. Staff assisted her back to her car where she declined any further medical and self-transported to Urgent Care.

10/8/22

Harbor Patrol emergency response to the harbor entrance for a report of 4 deaf men on board a boat needing to be towed near the Rock. When arrived the boat was without power near the Entrance Buoy. Staff took the vessel in tow back to Tidelands dock for them to investigate the problem.

Harbor Patrol emergency response to medical aid at Harbor Hut for seizures; patient transported.

Patrol to the Rock to assist PD with locating a possible DUI driver. The parked vehicle was located and PD notified.

10/14/22

Patrol responded to a report of a moored vessel off Associated Pacific that was taking on water. The vessel was pumped and the owner notified, who was apparently aware of a small leak and was coming out to check the boat.

10/19/22

Patrol responded to the GAFCO parking lot for a fall from electric scooter. The husband of patient and the scooters were transported back to their Morro Bay home, while the patient was transported by ambulance to Sierra Vista Hospital.

10/21/22

Patrol response to a PD dispatch for an overturned kayak off Tidelands with the victim in the water yelling for help. Upon Patrol's arrival, both victims were assisted by good Samaritans in an electric boat and declined medical.

10/22/22

Patrol responded to a bicyclist down and unresponsive on the dirt road Embarcadero. The patient located and turned over to Fire paramedics, then transported to Sierra Vista.

With hundreds of participants expected, Harbor Patrol had two vessels, a rescue watercraft, and Lifeguards on paddle boards for the annual Witches Paddle. Conservative estimates were 400-500 participants on various kayaks, canoes, SUPs and other craft. A few people ended up in the water and needing assistance, while several were assisted getting back to their starting point due to strong incoming tide and NW winds.

11/6/22

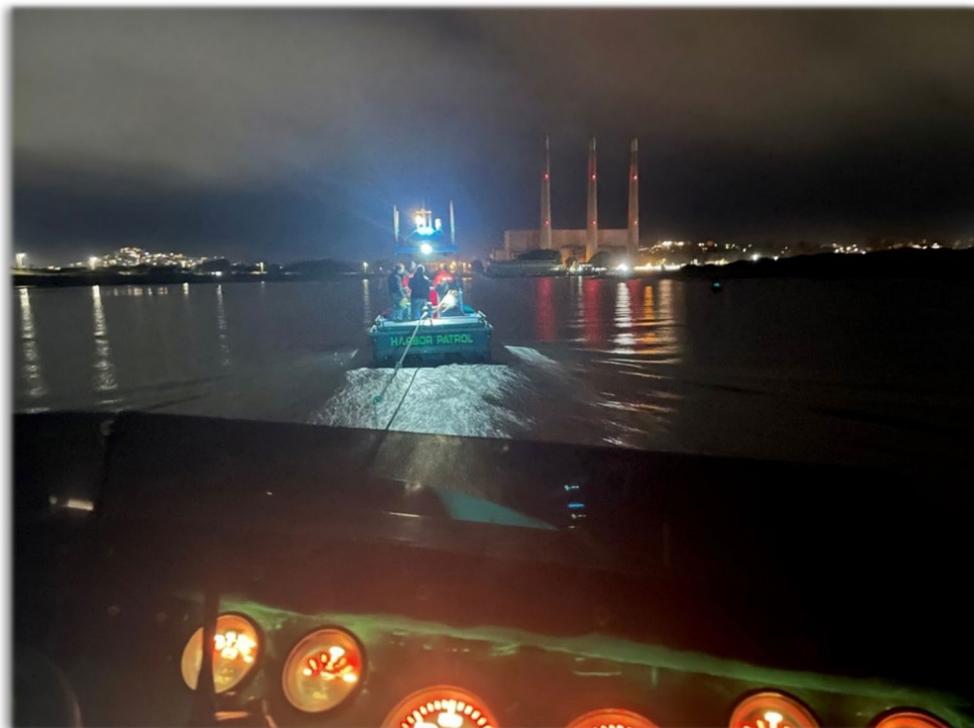
Safety standby for the Morro Bay Triathlon, with multiple swimmer assists made by Lifeguards on paddle boards. There were no significant incidents on the water.

Morro Bay Entrance Foghorn

The United States Coast Guard Aids to Navigation Team has changed the foghorn at the Morro Bay Harbor Entrance to be user-activated now instead of the previous 24-7 cycle it was on. Foghorns coast-wide are being converted in this manner. Mariners needing foghorn assistance must now activate the sound signal by keying a standard VHF-FM radio FIVE times consecutively on channel 83A. The sound signal will then sound for 15 minutes following each activation.

Training

Harbor Patrol Officers have been putting in extra training this month with newly hired Reserve Officers doing all kinds of towing, search and rescue and night operations getting ready for the winter months.



In addition, Harbor Patrol Officer Jacobs and Reserve Harbor Patrol Officer Maksoudian attended a 40-hour Marine Firefighting Class in Marina Del Rey with LA County Lifeguards on the Baywatch boats.



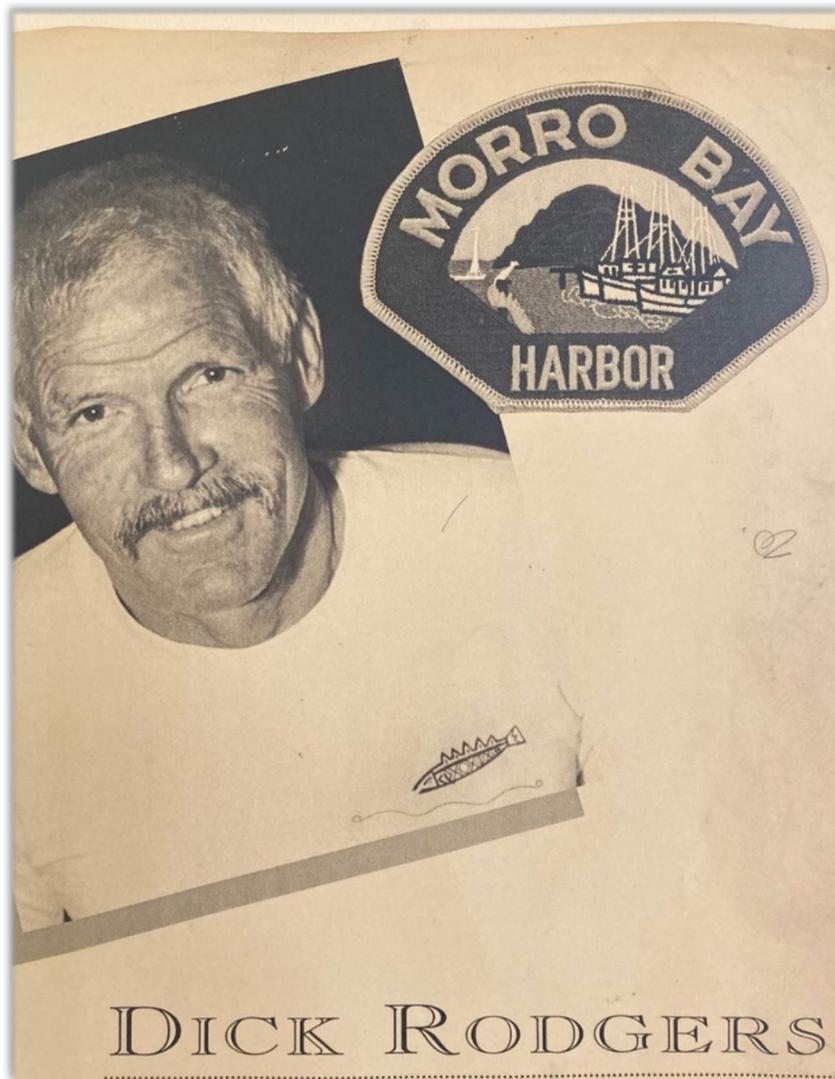
Beach Lifeguards

Beach Lifeguard season wrapped up in early October and the towers were removed from the beach. Lifeguards had 1,224 contacts recorded with the public, gave 704 safety lectures, and had an estimated beach patron count of 108,258 people for the season. They assisted 351 people in the water this summer and only had one true rescue – a testament to their preventive actions. We are so proud of our Beach Lifeguards and the job they do.



Passing of a Legend

Lastly and most importantly, we would like to remember and honor former Morro Bay Chief Harbor Patrol Officer Dick Rodgers, who recently passed away. Dick was a tremendous waterman, expert boat operator, intuitive emergency responder, and courageous leader. Before working for the City, Dick worked in the commercial boat-building industry in Morro Bay, in addition to tending hard-hat commercial abalone divers in the heyday of that industry. In the mid 1970's, Dick took a job with the City of Morro Bay back when the Harbor Patrol was a division of Public Works, both occupying the same small building that still houses the Harbor Department today. Dick worked during some of the most historical incidents the Harbor Patrol faced, including the devastating 1988 South T-Pier fire, and the 1983 capsizing of the San Mateo whale watching vessel by 20-foot breaking waves in the harbor entrance with 23 school children and nine adults aboard. All were successfully rescued due to the heroics of Dick, his fellow officers, and the Coast Guard. In 1995 Dick had a stroke and was unable to return to work, and for many years thereafter could be seen hiking across town to and from his North Morro Bay home with a backpack full of stones to rehabilitate himself physically. Dick came from the mold "when ships were made of wood and men were made of steel," all in a gracious and humble package – truly one of a kind. Thank you for your service and rest in peace, Dick, you will be fondly remembered and dearly missed.





AGENDA NO: B-1

MEETING DATE: December 1, 2022

Staff Report

TO: Harbor Advisory Board

DATE: November 23, 2022

FROM: Eric Endersby, Harbor Director

SUBJECT: Presentation of The Centre for Organization Effectiveness' Organizational Assessment Report for the Harbor Department

RECOMMENDATION

Receive and file report.

BACKGROUND

It is generally recognized there are certain functions of the Harbor Department that cannot be done efficiently, adequately, safely, and to the degree the community expects and demands, both administratively and operationally, with six full-time staff. This has been especially true in recent years with lease management, despite a new Lease Management Policy being adopted in 2020 with the Council and community expectation it would lead to more effective lease management operations. At the adoption of the new Lease Management Policy, Council directed staff to identify mechanisms to enhance the City's lease management capacity.

With these issues in mind, and with the pending retirement of the current Harbor Director, earlier this year the City contracted with The Centre for Organization Effectiveness (TCFOE), a joint powers authority that sprang out of San Diego government, to provide consulting support in the form of an organization assessment of the Harbor Department because of the unique opportunity to move the department into a successful future. That assessment report is completed, and it is attached to this staff report.

DISCUSSION & CONCLUSION

Staff will be presenting an oral report on the TCFOE assessment.

In addition, at the November 22, 2022 City Council meeting, Council approved the addition of adding one Harbor Patrol Officer position back into the department's staffing, which was one of the key recommendations of TCFOE. That recruitment will begin as soon as possible.

ATTACHMENT

TCFOE Organizational Assessment Report for the Morro Bay Harbor Department

Prepared By: EE

Dept Review: EE

City Manager Review: _____

City Attorney Review: _____



The City of Morro Bay – Harbor Department
Organizational Assessment Report – Fall 2022

Prepared by:



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Introduction to Morro Bay

Nestled on the Central Coast of California, Morro Bay is a charming, tranquil community often called the "gateway to the north coast," being a prime hub city at the crossroads of the infamous Highway 1 and Highway 41. Just 12 miles north of San Luis Obispo, Morro Bay has a uniquely wild setting and sits along a natural estuary, making it a fantastic spot for animal enthusiasts, fishing, boating, and incredible surfing along Morro Rock, an extinct volcano jutting 500 feet above water-the iconic and defining landmark of the City.

City Growth

Morro Bay is experiencing significant growth in tourism and economic vitality. The waterfront will continue to be a draw for locals and visitors to enjoy the natural beauty around the bay. The waterfront has a nautical feel, combining a working waterfront for commercial and recreational purposes with tourist-serving retail, restaurants, and accommodation. The working waterfront and a working commercial fishing port are valuable and unique resources that are an essential part of the City and County's tourism industry.

About the Harbor Department

The Morro Bay Harbor Department is in the heart of the Morro Bay waterfront that has welcomed boaters, tourists, and locals with a friendly can-do attitude for over 60 years. The Harbor Department provides boater assistance, emergency response, code enforcement, environmental protection, and facilities maintenance for the waterfront and the waters of Morro Bay. They are the frontline for Morro Bay's Waterfront primary economic drivers-tourism and commercial fishing and the first connection point between the harbor business district and lease/facility management, public safety on the water, and environmental protection and sustainability in the area.

The Harbor Department is structured as an Enterprise Fund and operates from revenues generated from the Tidelands properties they manage. Income received from tenant rents, boat fees, waterfront tideland leases, and other sources is put back into preventative maintenance, capital improvement, parking services, staffing, public safety, special events, and public education for the City of Morro Bay.

The Morro Bay offshore wind auction begins in December 2022. The project will uniquely position the Harbor Department as a maintenance provider if awarded. As part of the Green Energy initiative, the Harbor Department is involved in the proposed world's most extensive energy storage system and battery facility, designed to help the Central Coast of California with renewable energy.

Purpose Of This Organizational Assessment

The City of Morro Bay requested The Centre for Organization Effectiveness (TCFOE) to provide consulting support in the form of an organizational assessment of the Tideland Trust Lease Management. After the initial review, the scope broadened to include an organizational evaluation of the Harbor Department. The focus of this work was to assess the workload demands placed on the department and the structure of critical internal positions to determine opportunities for operational efficiencies moving forward. The consulting support also focused on an appropriate staffing model for the next five years to support the department in effectively meeting workload demands and serving the community.

Process Overview

The TCFOE consulting work comprised two phases: 1) organizational assessment and 2) consulting and change management.

Phase 1 - The organization assessment consisted of the following key elements:

- In-depth review of the relevant organization and department documentation and background information (e.g., org chart, job descriptions, budgets, work plans, etc.)
- Individual interviews with the Harbor Director, City Manager, and key stakeholders (*All Harbor Department full-time personnel, Fire Marshall, Police Commander, Morro Bay Citizens, CEO of Chamber of Commerce, Commercial Fishing, Lease Owners, Former Santa Barbara Harbor Operations Director, Harbor Advisor Board Members*) to gain insight on the functionality of the department and potential structural challenges
- In-person shadowing of the internal staff to collect data and gain insight on job roles/responsibilities, workload demands, pain points, opportunities, vision for the future of the dept, etcetera
- In-person meeting with all City Department Heads to discuss the interconnectivity of the Harbor Department with other City departments to increase opportunities for operational efficiencies and support
- Completed an internal Department Analysis - Operational efficiencies, department structure, and staffing model for the future
- Development of a preliminary Harbor Department Organization Assessment Report with summary findings and possible next steps

Phase 2 - Consulting and Change Management consisted of the following key elements:

- Ongoing consulting and thought partnership to support the Harbor Director and staff in implementing operational adjustments
- Outlining strategies to fund future services/staffing model

Stakeholder Engagement

A vital part of this process was partnering with key stakeholders in the community as well as job shadowing Harbor Department employees to identify opportunities for efficiency and prioritize current and future opportunities for the Morro Bay Harbor Department to support the City's growing and changing needs. The data was collected and analyzed in April and May of 2022, and key themes emerged to inform the strategies and recommendations outlined in this report. The following themes emerged in 4 core areas: facilities; operations; organizational structure and staffing; and business and lease management.

Facilities:

- Deferred maintenance
 - Antiquated buildings, public and privately owned, on the waterfront
 - Too few staff and staff to be able to dedicate themselves to water-specific maintenance and oversight
- Insufficient funding to address the backlog of capital improvement projects
- Insufficient maintenance log to ensure maintenance activities performed
- Outdated Harbor office equipment and inadequate office space

Operations:

- Lack of knowledge and resource sharing across City departments
- A need to brand what the Harbor is and isn't responsible for (both internally and externally)
- Limited staff
 - Down one Harbor Patrol Officer position since 2010
 - The administration role was reduced to a part-time position since 2019
- Training /Certifications - limited time, resources, and funding to enhance skills and stay current with training (public safety, CA boating laws, environmental protection regulations, etc.)

Organizational Structure and Staffing:

- Friendly, dedicated, and accommodating staff
 - The Harbor Department maintains a hometown feel, is willing to jump in and help with anything, has a can-do attitude, and excellent customer service known by boaters up and down the coast (do not want to lose this positive attribute)
 - While the staff is often overaccommodating, it often leads to a willingness to say "yes" to everyone at the expense of existing work plans
- Short-staffed and current staff stretched thin
- Succession planning
 - In need of a Harbor Director successor with an understanding of harbor operations and a skillset in business/lease negotiation and visioning
- The Harbor Director's current job functions have many competing priorities, which require tradeoffs and compromise

Business and Lease Management:

- Modernize the financial management and auditing system
- The tension between lease management and code enforcement
- Business/lease management skillset required in the department
 - Need an individual with a business mindset to be overseeing the department and manage leases
- Insufficient reserve funds for capital projects
- The division between Tideland Trust Lease owners and City
- Digitize the Tideland Trust Lease Agreements
- Prepare for the sustained increase in tourism
 - Increase in foot traffic to the waterfront, public and private buildings are in dire need of capital improvements

Alignment With Morro Bay City Council Goals

In November 2021, the City of Morro Bay (in partnership with residents) conducted a series of visioning and goal-setting efforts to identify strategic priorities for the City. Through this process, five strategic priorities were identified:

1. **Public Infrastructure** - (1) Cleanliness and safety issues in heavy tourism areas, (2) capital needs.
2. **Fiscal Sustainability & Economic Vitality** - (1) Address the City's unfunded liabilities, (2) determine potential paths to secure funding for capital needs, and (3) support expedient catalyst site development.
3. **Housing** - (1) Identify the opportunities for additional housing options and explore partnerships to support these efforts.
4. **Climate Action** - (1) Consider opportunities to reduce reliance on carbon-producing energy sources.
5. **Community Health** - (1) Educate Council and staff about Diversity, Equity, and Inclusion (DEI) and engage in a community conversation.

As part of the organizational assessment, the TCFOE and Harbor Department continued to align the recommendations and next steps to the City's strategic priorities.

Challenges and Opportunities

The challenges the Harbor Department has faced over the last decade include too few resources while taking on the additional scope of work. As a result, there were three specific unintended consequences:

1. Reduced workforce and potential inequitable pay.
2. Lack of focus on waterfront maintenance and insufficient funding available for capital improvement projects.

3. Limited attention was given to the Tideland Trust Leaseholders.

Due to this, a few short- and long-term opportunities were identified.

Short-Term Opportunities:

1. Create a complete inventory of the Tideland Trust Agreements.
2. Microfiche all documents for easy accessibility of record keeping and auditing.
3. Hire a new Harbor Director and Harbor Business Manager with solid business acumen to manage the relationships with Tideland Trust leaseholders.
4. Convert the Operations Supervisor position to a Manager position to create efficiencies.
5. Enhance the collaboration with Public Works/Community Development to create a substantial maintenance log and Capital Improvements log.
6. Conduct monthly reviews with finance to track revenue and expenses.
7. Create a new Harbor Patrol officer position.

Long-Term Opportunities:

1. Identify opportunities to enhance existing and create new revenue-generating resources.
2. Increase collaboration between the City Manager and the new Harbor Director to ascertain optimal department structure and staffing.
3. Identify the purpose and function of the Harbor Advisory Board (HAB). The new director to collaborate with the HAB to focus on critical priorities.

NEXT STEPS AND RECOMMENDATIONS

The following focus areas and recommendations are opportunities for operational efficiencies moving forward through the organizational assessment process.

FOCUS AREAS	RECOMMENDATIONS
Facilities:	<ul style="list-style-type: none"> A. Establish a preventive maintenance schedule for the existing structures, piers, and docks. B. Collaborate with Community Development and Tideland Lease Owners to create new projects to enhance the economic development of the waterfront (Master Plan). C. Partner with Public Works Department to help oversee the Capital Improvement Projects needed on the waterfront. D. Renovate/upgrade the Harbor Department Building.
Organizational Structure/Staff:	<ul style="list-style-type: none"> A. Expand the organization structure to include a fully staffed department:

	<ul style="list-style-type: none"> a. Convert the Operations Supervisor position to a Manager position b. Create a new Harbor Patrol officer position c. Create a new Harbor Business Manager position <ul style="list-style-type: none"> i. See Appendix: Embarcadero Master Leaseholders, LLC Position Paper to oversee the current business coordinator and manage and negotiate leases <p>B. Equitable Pay</p> <p>C. Succession Planning</p>
Operations:	<p>A. Increase collaboration across the City Departments.</p> <p>B. Improve finance management by working more directly with Administration Services Department Team.</p> <p>C. Upgrade and convert paper to digital files to increase operational effectiveness.</p>
Business and Lease Management:	<p>A. Create robust Tidelands Trust Leaseholders customer relationship management system.</p> <p>B. Explore revenue-generating resources to increase enterprise funds.</p> <p>C. Update the Harbor Department Website (Branding, Waterfront and Events Promotion, etc.).</p>

ATTACHMENTS

Chamber of Commerce (April 2022)

Embarcadero Master Leaseholders, LLC Position Paper (September 2022)



**Morro Bay Chamber of Commerce
Harbor Department/Waterfront Sustainability Recommendations
April 2022**

The Chamber has weighed in on a number of occasions about the fiscal sustainability of the Harbor Department and needed improvements to the Waterfront. The Chamber reconsidered its existing positions related to the Waterfront in February of 2022 as part of our update to the organization's Legislative Platform. The Governmental Affairs Committee (GAC) welcomed City Manager Scott Collins and Harbor Director Eric Endersby to its February meeting to assist in this move-forward evaluation. The Board then reviewed recommendations made by GAC and approved the following narrative and recommendations.

Why We Care

An essential question for every Board policy position is why the Chamber should care. Preserving the Waterfront as a functioning economic unit depends on efficient and competent management and support services. The Harbor Department currently administers the Tidelands leases (and maintains leased facilities) and is therefore the "landlord" for many of our members. Having an adequately staffed and adequately capitalized landlord is important to make sure that these services are provided. The Harbor Department is also the leasing and maintenance entity for facilities that support the commercial fishing industry.

Recommendations

1. Implement paid parking.
2. Charge fair market rents and at least full cost recovery.
3. Implement and enforce Tidelands properties lease terms.
4. Explore professional property management for Tidelands leases.
5. Expedite development of the City Market Plaza property.
6. Create a sub-fund for the Measure D area to track revenues and expenses.
7. Actively manage Tidelands lease site renewal for consolidation.
8. Adjust operating costs to create adequate infrastructure reserves.
9. Establish an Enhanced Infrastructure Financing District (EIFD) on major development properties.
10. Develop a comprehensive infrastructure needs and financing plan
11. Master plan the power plant and treatment plant sites (and adjoining sites), including a connection from Atascadero Road to the Embarcadero.
12. Explore the establishment of a Business Improvement District for Waterfront promotions and improvements.

13. Explore the establishment of a special assessment for non-Tidelands lease Waterfront properties to fund their “share” of harbor operations costs and needed infrastructure.

Background

Over the past three years, the Morro Bay Chamber of Commerce has undertaken an evaluation of the various issues associated with the successful operation and improvement of the Waterfront and Embarcadero areas. In some respects, this area is the life blood of the community because it hosts and supports the commercial fishing industry and is the primary tourist destination for the community’s visitors. According to the 2017 Economic Development Roadmap, 26% percent of the City’s sales taxes come from the 90 businesses operating in the Embarcadero economic center. Of Morro Bay’s 38 hotels, 26% are located on or below the bluff of Embarcadero. Virtually all of the 7.5 million tons and nearly \$15 million of Morro Bay commercial fishing earnings in 2016 and 2017 occurred at the docks on the Waterfront. Preservation of this area as an economic asset for the community is important in both the short and long term.

Over the last 10 years the City and Chamber have participated in a number of efforts to ensure a successful future for the Waterfront, including the Waterfront Master Plan, LEAP, the Economic Development Strategic Plan, the Downtown Waterfront Strategic Plan and various other special planning efforts. However, the success of the Waterfront area is both benefitted and hampered by an amalgam of regulations, operating policies, public improvement and operational financing structures. These include the funding for the Harbor Department itself, the impact of Measure D, and the Tidelands lease regulations and policies. During each of these strategic planning efforts there has been an acknowledgement that there is a “structural” deficiency in the way the Waterfront is operated, maintained, financed and managed. As early as 2008, Management Partners, a management consulting firm for the public sector, noted that “revenues [from the fishing industry] are expected to decline over the coming years while Harbor Department expenditures will rise with inflation. Commercial fishing activity will continue to decline as the focus changes from near-shore fisheries to mid-ocean fisheries, or boats relocate to other areas or are retired.” The report noted that the economics of the Harbor Department were not sustainable, commenting that “although operation of the harbor in Morro Bay provides the City with \$294,000 in revenue in FY 2009...it does not have the funding in place to address the immediate maintenance needs....”. The report recommended that the City consider alternatives to address the issues.

In 2019, the Chamber’s GAC did its first “deep dive” into several salient issues related to the Waterfront, and the Chamber Board adopted policies and recommendations that that it believed would remedy current short comings and maximize success in that area. Those recommendations included modifications to Measure D restrictions and modifications to the Tidelands lease policies and their administration. The 2019 Chamber recommendations stated that:

1. The City should evaluate the appropriate uses and sources for Tidelands lease revenues and determine which portion of the revenues should be reserved to maintain and improve the asset being leased, which portion is for “common area maintenance” such as Harbor operations and maintenance, and which portion is for base rent of the asset. The City should also establish a financing mechanism so that non-Tidelands lease properties pay an equitable share of the Waterfront area’s maintenance and operations through a Business Improvement District, Parcel Tax or other mechanism so that all properties contribute to such funding.

2. The City should consider whether or not it makes sense to create sub-funds for the lease facilities in the Measure D/CF zone district, and the remainder of the Waterfront. Sub-funds would eliminate commingling reserve funds and treatment of each of these sub-areas as their own internal funds. Each geographic area is functionally and economically different, and has different capital replacement needs.
3. The City should consider, after significant outreach to affected business, the establishment of a paid parking program in and adjacent to the Waterfront on all City parking lots and on-street parking. These revenues should be used to pay for maintenance of the parking lots (currently paid for out of the Harbor Department or the Public Works budgets), street maintenance, sanitation, transit/trolley subsidy, and funding of capital improvements and improvement of coastal access.
4. City should evaluate the cost allocation and fair market rents for the Tidelands lease sites and ensure that, over time, they are comparable and do not exceed market rates. Part of this effort is already underway with the Cost Allocation Study.

In 2020 the Chamber revisited this issue, this time in the context of the fiscal and economic challenges presented by the COVID-19 Pandemic and made recommendations for the Harbor and Waterfront as part of its Morro Bay COVID-19 Pandemic Recovery Plan. The Chamber's recommendations included a number of Citywide and Harbor revenue enhancements including the approval of Measure E, a revision to TOT and TBID funding allocations, surplus property sales, paid parking, Waterfront RV Parking, and savings from operational modifications. These measures were intended to provide the Harbor Department with additional funding to cover their current operating deficit (\$130,000 per year), fund reserves for capital replacement and existing infrastructure needs (\$40,000 per year), provide funding for unfunded deferred asset improvements (\$82,500 per year), and provide \$150,000 per year in funding for access improvements (bikeways, sidewalks, streets, parking, and improved water access) on the Waterfront.

In 2021, the Chamber again addressed this issue in its comments on the General Plan. In particular, it recommended that the City implement an Enhanced Infrastructure Financing District (EIFD) in conjunction with the Vistra project and other major improvements in the community. An EIFD is a tax increment financing mechanism where new property tax dollars from new development are earmarked for infrastructure improvements in the community as identified on a capital improvements plan. Such a financing mechanism could generate \$750,000 to \$900,000 per year if only 10% of the new property taxes from a handful of key properties (including the Vistra site, current vacant properties on the Embarcadero and, perhaps, Morro Elementary) were allocated from the City and County. The revenues would be produced from a re-allocation of the 1% property tax rate and no new taxes would be created, so no general or special election would be needed. The Chamber has recommended this financing instrument in its comments on the General Plan update, and as part of its "Infrastructure: It's Time to Get Serious About the Future" theme in its recommendations on City goals and policies.

Moving Forward

Several of the Chamber's recommendations above have been implemented, or are in the process of being implemented. Paid Parking is moving to a pilot stage, and (new) Measure E money has been used as a funding source for some Harbor/Waterfront items. There is still intense interest in solving the long-standing problems, and progress has been made in several areas. Much work needs to be done. The

Harbor Department's revenue growth over the last 17 years has been a nominal 20% increase (\$350,000, and 1.1% per year), while costs have increased 65 percent. Using a CPI Calculator for comparison, in current dollars, the Harbor Department now collects \$815,000 less than it did in 2004/2005. Some of this decline has been from the elimination of PGE revenue (which was \$250,000 in 2008). Total lease revenues have been flat since 2010/2011.

Actual expenditures have remained relatively static over time (averaging \$2.1 million per year). Over that time the Harbor Department has accumulated a negative \$1,675,000 fund balance which primarily represents unfunded depreciation. Net cash from operations and available to fund capital or place in reserves is expected to be less than \$100,000 in 2021/2022. City staff estimates that there is a need for over \$800,000 per year for capital over the next 10 years, although this number needs to be confirmed. It is important to note that the Harbor Fund is an enterprise "business fund". That means its revenues are derived from its normal operations (like the sewer and water fund), and that there is little or no commingling of other City "Trust" or "Governmental" funds. This means that the Harbor Department is expected to pay its own way; to the extent that it collects more than it spends on operations, it will have money for new investments and to replace aged infrastructure. If there is no "profit" or net cash flow in the enterprise, improvements cannot be made.

The Harbor Department's current Capital Improvement Plan identifies a need for \$4.9 million in improvements, including repair and rehabilitation of five (5) Beach Street Commercial Fishing Slips (\$662,004), South T Pier Renovations (\$55,000), replacement of the Harbor Patrol Boat (\$315,000), North T Pier Renovations (\$3,810,000), maintenance of the Harbor Ice Machine (\$10,000) and rehabilitation of the Boat Launch Facility (\$60,000). Funding for these improvements appears to be sourced from a Cable Committee Grant (\$100,000), Harbor Accumulation Fund (Reserves) (\$567,000), Castle Wind Community Benefits Agreement (\$130,000), Friends of the Harbor Department (\$100,000), a State Grant (\$85,000), Equipment Replacement Fund (\$50,000), Measure Q/E (\$50,000), Harbor Operating Fund (\$50,000), and a Federal Grant (\$3,800,000).

These improvements, however, do not include important investments in the Waterfront, including road maintenance, parking lot maintenance, improvements to Coleman Park, maintenance and improvements of City-owned improvements on the Tidelands lease properties, improvements and maintenance of the Harborwalk, completion of the Harborwalk on City property, beach/waterfront access improvements, sidewalk repairs and other related improvements.

It is the Chamber's position that urgent action is needed to sort out operating and capital needs from a holistic perspective. How much should Tidelands Lease revenues be committed to various kinds of capital investments, including maintenance of the asset that is actually generating the revenue, and funding sources? Options could include, however unpopular, drastically scaling back Harbor operational staff and costs, letting assets fully depreciate and commit to not replacing them, creating adequate net revenues after operations to fund infrastructure, full, market rate rents and full cost recovery for leased assets, and diligent implementation of Tidelands lease terms.

Embarcadero Master Leaseholders, LLC

Position Paper

The Embarcadero Master Leaseholders, LLC would like to offer this position paper to the City Council, the Harbor Advisory Board and all the other organizations that are concerned with the future viability of the City of Morro Bay's waterfront enterprise and its very important contribution to the economic well being of the City. This association of entrepreneurs and business owners have invested their dollars and their energies into what they all agree is an enterprise for the betterment of the City and one which can be utilized to fund needed harbor related infrastructure, the local fishing industry, the visitor serving industry, and as a basis to undergird the finances of the City of Morro Bay as a whole to the benefit the local citizens and the regional community. The master leaseholders and other business owners on the waterfront have given their investment of money, time and energy in the waterfront, are the most ardent and committed advocates for the success of the City's efforts to maximize the revenues to the Harbor Enterprise fund and are committed as no one else to its goals.

In recent years the Tidelands Trust properties have suffered from a failure to be recognized as the beneficial and exciting asset that they are to the City of Morro Bay. The City has failed to operate the enterprise as the profit-making asset that it has the potential to become. We have fallen behind other such Tideland Trust enterprises in the State of California by not utilizing modern management principals and policies and it is becoming manifest in declining revenues to the Harbor Enterprise Fund.

The EML wants to emphasize the importance of the City's and therefore the City Council's recognition of the Tidelands Trust properties as **assets** belonging to the City that are the significant driver of not just the revenues to the Harbor Enterprise Fund, but also the most significant resource driving the economy of Morro Bay. We'd like to see the governance of the City adopt the attitude of a **property owner** of the Tidelands Trust properties that has entered into a business relationship with the Master Leaseholders and their subtenants, with all of the players working to maximize the economic potential of the Embarcadero and the unique ambiance and attractiveness of Morro Bay.

To that end we offer the following suggestions, opinions and criticisms:

Executive Summary

1. The Embarcadero Master Leaseholder's, LLC views their relationship with the City as a landlord/tenant enterprise that is a special public/private partnership intended to provide the City with a revenue stream designed to fund special public services uniquely available here in Morro Bay. A working waterfront, a harbor with support services for the commercial fleet, a coast guard base serving the larger needs of ocean enterprises, and

in the future the landing and support services for the offshore energy industry slated for development off of our shores, not to mention the ocean access for public recreation, public fishing access and all of the other experiences available here in Morro Bay are some of what this public/private enterprise provides.

2. While this public/private partnership has been ongoing for many years, its become apparent that we, as a City and we, as the private side, need to modernize our approach to the management of this enterprise and that innovative, vigorous and attendant professional management is needed so as to not fall further behind in maintaining a dynamic business climate on the waterfront and maximizing the revenue available to provide the services to the public and the other users of the waterfront. The EML recommends that the City establish a new position within the Harbor Department for a business manager whose role is to market and manage the master leaseholds' redevelopment and the renegotiation of expiring and expired leases and to act as an ombudsman for the development of the leaseholds and other projects affecting the viability of the Tidelands Trust properties and businesses.
3. The Embarcadero Master Leaseholder's, LLC is supportive of the proposed paid parking program provided that the City secure the input of the stakeholders affected by the implementation of the program. In addition to visitor parking, provisions need to be made for other users such as fishermen, live aboards, the hotel businesses and employees who have special needs for parking.
4. The EML would also support an allocation of the Measure E sales tax revenues and the TOT revenues into the Harbor Enterprise Fund.
5. The EML would like to have the City Council prioritize traffic circulation issues on the waterfront. Immediately they should consider relieving congestion on the north end by opening the bridge across Morro Creek to the Embarcadero/Hwy 41. Future development on the waterfront or on the Atascadero Road connection to North Embarcadero should trigger traffic studies of other alternatives to alleviate traffic congestion.
6. The EML further believes that it is time to provide additional parking in the triangle parking lot.

Finally, the EML would encourage the City Council to view the Tidelands Trust properties as special and important **city assets**, to be used by the City to generate the revenues needed to fund vital harbor infrastructure and services. To that end we would urge the City Council to encourage private capital investment and private sector financing by discouraging outside agencies and the city's staff from imposing additional, often unnecessary, regulatory burdens that tend to create impediments to attracting the private capital and private sector financing so necessary to the development and redevelopment of this vital resource for the City of Morro Bay.

Please refer to the following sections for further explanation and background supporting the Embarcadero Master Leaseholders LLC position on the above summarized suggestions.

Professional Management of Leases and Redevelopment Strategy

Much discussion has been had recently at Chamber meetings, City Council, Planning Commission and Harbor Advisory Board about the long term financial prospects for the Harbor Enterprise Fund. Looking at the attached harbor Operating Summary of Revenues and Expenditures it has been noted that the Total Revenues have remained essentially flat for the past four years and projected through next year. Inasmuch as roughly 90% of the Total Revenues are derived from the Tidelands Trust revenues and those revenues have declined faster than the Total Revenues, it must be asked just why we have seen the Tideland Trust revenues decline and what can be done to remedy that decline.

Master leases for the Tidelands Trust properties have been standardized over the last ten years to a format that provides annual cost of living increases to base rents and an adjustment to base rent every five years to bring the base rent to 8% of the appraised value of the underlying land and water area or to 75% of the average of the total base rent plus percentage rents paid over the preceding five years. Those provisions provide for the revenue from the leases to keep up with inflation and the value of the appreciation of the value of the property. It should be noted here that the history of the last four years still shows a decline despite the application of the ratchet clauses.

The lease format of the state of the art Tidelands Trust leases are a base rent versus percentage rent structure wherein the master lessee is to pay either the base rent or a percentage of the revenue derived from sales from the premises, whichever is greater. This is an economic model that was pioneered by the advent of the enclosed shopping mall back in the 1960's. Essentially the idea was that both the tenant and the owner of the shopping center benefitted from the advanced management practices of the major mall shopping venue. By creating and maintaining the ambiance of the premises and maintaining the occupancy of the mall with dynamic cutting edge and complimentary retailers, the sales volume of the individual retailers would be maximized and would justify paying additional rent as a percentage of sales over what would customarily be the rent in a less dynamic venue. That additional rent was an incentive to the mall owner to manage the mall and tenancies to accomplish the enhanced ambiance and dynamism of modern retail trends and to keep the mall as fully occupied as possible.

Applying those principles to the management of the Tidelands Trust leaseholds, it is in the City's best interest to manage their 'mall' so as to maximize the sales of the existing tenants and to repopulate the 'mall' when vacancies occur with new, modern, retailers and new master leaseholders and to redevelop tired and obsolete buildings with up to date and state of the art buildings that serve to increase revenues and benefit the existing and continuing tenants so as to increase and maximize their sales and revenues.

Under the above described lease format, lease revenues are ratcheted upward to keep pace with inflation and the appraised value of the land. Beyond that there are only two other opportunities to enhance lease revenues to the City:

1. Increase sales and thereby increase percentage rent revenue to the City. Proper and professional marketing to increase the amount of tourism is the obvious route to accomplish this. Less obvious is the timely and diligent efforts to attract new and dynamic retailers and other compatible users to the 'mall'. These kinds of users change through time and the manager and master lessors must be vigilant to spot trends and take advantage of new kinds of users compatible with the existing retailers. Twenty years ago there were no paddle board sales and rentals, wine tasting rooms, e-line surf boards, and any number of new modern uses. There will continue to be new trends and fads in retailing and restaurants that we need to attract and bring into our market. Those new uses keep the interest and dynamism of the 'mall' up and tourism interesting.
2. Redevelopment. The redevelopment of the property should, by the nature of redevelopment, provide increased base rents with new and innovative businesses. But, it is vital that when master leases approach expiration and the building(s) have reached their life expectancy, that the management strive to seek new and innovative developments to replace the old and tired structures and businesses. The City's policy on expiring leases provides that the existing master lessee be allowed to propose a new development or a new lease to replace the expiring lease provided that the proposal is made and agreed to by the City and master lessee before the end of the fifth year prior to the expiration of the then term of the master lease. If the negotiations with the existing master leaseholder are not completed by that time, the City must be compelled to issue an RFP and seek other competitive proposals. Five years, given the complex development approval process in these waterfront areas is probably the minimum time required to complete the entitlement process so that construction or redevelopment can proceed with the least delay to the commencement of the City's income stream from base and percentage rents.

Interim and short term leases with subtenants may appear to allow continuity of a business or the reservation of a lease site for a desirable user, such as was done for the Aquarium, and may be a desirable motivation, but have instead have led to un-redeveloped sites and underutilized City assets. Now, in the case of the Aquarium, it will be at least another ten years before that site can be redeveloped to its full potential. In the meantime, just the rent from what is essentially a single sub tenant will be realized by the City. Probably no more than half of the potential income from that site will be realized for the duration of the current lease. And the benefit to the entire Embarcadero of a new state of the art building along with the amenities it would have provided, such as the connection to the lateral access complex, is lost for at least that ten years.

The EML acknowledges and appreciates the efforts made by City and Harbor Department staff in the management of the waterfront leaseholds, but we also recognize there are certain skills and experience required to properly manage the long-term prospects for marketing and promotion of the waterfront area and especially in the marketing, negotiation and development processing

of long term master leases that require and include the redevelopment of the aging structures that exist there today.

Most other Tidelands Trust jurisdictions in California have a business manager or director on staff whose responsibility it is to manage the leases with a particular focus on redevelopment of expiring leases and maximization of sales through marketing and promotional strategies to increase and maximize traffic and sales on the leaseholds. While the Harbor Department staff do a very good job at their vital responsibilities including their very important and essential public safety duties and at the day to day management of lease collections, lease notices, sublease approvals and all the other administrative details associated with the Harbor Enterprise Fund, they are overburdened with all those other obligations and the long term renegotiation of expiring master leases and marketing for RFP's on leases reaching that 5 year deadline have been neglected.

What is needed and what the EML recommends is for the City to establish a new position within the Harbor Department for a business manager whose responsibilities include what we have described above and, in addition, should specifically be detailed to be an 'ombudsman' within the City hierarchy for the redevelopment of the leaseholds and other redevelopment projects such as the Market Place and other developments that directly affect or are linked to the success of the Embarcadero. They should attend all Community Development and Planning Commission meetings on such projects to act as an ambassador on behalf of the applicant to assure expedited processing and to serve to assure understanding of the process between the City departments and the applicants.

Recently the County of Ventura went through the process of replacing their waterfront business manager because of the retirement of his predecessor. They utilized the services of W. Brown Creative Partners, a headhunting firm, to find four qualified individuals with interest in the position. A committee of leaseholders in Channels Islands Harbor interviewed and vetted the applicants and then made their recommendation(s) to the County. The position with salary and benefits has a cost to the County of \$200,000 to \$225,000 annually. We would expect the similar position in Morro Bay would cost more in the realm of \$190,000 to \$210,000 which would be at least partially offset by the reduction in the CAP reimbursement to the City from the Harbor Enterprise Fund. But the benefits of a full-time business manager focused on enhancing the revenue from our waterfront would outweigh that net cost by a factor of two or three over the next ten years. Failure to find a way to keep up with expiring leases and expedite redevelopment will result in continuing decline in Tidelands Trust revenues.

Harbor Enterprise Fund; Alternative Funding Sources

There is no doubt that the traditional funding sources for the Harbor Enterprise Fund are falling short of needs. The loss of \$250,000 per year from the power plant outfall lease has had a decided

negative impact on the Harbor Enterprise Fund's budget. Infrastructure maintenance and replacement has fallen way behind and there is little prospect of catching up without some drastic changes. Failure to replace aging and failing infrastructure will only result continuously degrading facilities and a downward spiral in revenues. The Harbor Advisory Board and the City Council have looked for alternative sources of revenue as follows:

Paid Parking (Embarcadero): The EML supports the implementation of a paid parking program as described in the Walker Consultants study, beginning with a pilot program as described in their study except that additional input from the local merchants needs to be considered regarding the exact location of the pilot program. We believe that it is imperative that the implementation be supervised and conducted with the input of a committee that includes affected business stakeholders. Critical issues such as employee parking, live aboard parking, and early morning and long term fisherman parking are issues that require an intimate knowledge of the needs of the users of the Embarcadero and the waterfront. Those stakeholders need to be included in the decision making and the EML should be a significant participant.

Boat Storage on the Triangle Lot: The Harbor Department has established dry boat storage on the triangle parking lot. It is said to be temporary with the goal of opening the parking lot to additional public parking for the Embarcadero businesses. With the increased traffic in recent years parking is becoming a significant issue. Conflicts with parking between businesses such as the restaurants and the sportfishing enterprises have come up and will continue to increase as their businesses build. It is time to make the improvements to the triangle lot and diffuse those conflicts by providing longer term parking away from the restaurants and other businesses for fishermen and other longer term users.

While the foregoing are a potential sources for additional revenue to the Harbor Enterprise Fund, they are really stop gap measures that won't generate the kinds of funds necessary to rebuild the aging infrastructure and provide the kinds of ongoing revenue to cure the long terms ills of the fund.

With the demise of the revenue from the power plant and its impact on revenues the EML believes it is time to rethink the relationship between the sources of revenue coming into the city's coffers and their allocation vis a vis the Harbor Enterprise Fund. For instance, is it still appropriate to charge the Harbor Enterprise fund \$235,558 (this fiscal year's allocation for CAP)? Or has the allocation percentage changed since it was last evaluated? In the event that that a Business Manager is hired, the cost of that position should reduce the CAP and offset the cost back to the Harbor Enterprise Fund.

A compelling argument could and should be made with regard to the revenues that the City enjoys from the recent passage of Measure E of increased sales taxes. It has been shown that about 20% of the City's sales tax revenues are generated from sales on the Embarcadero and another substantial amount is generated by the tourists attracted to Morro Bay by the existence of the waterfront and its amenities are spent in the other areas of the City. There should be some

formula established to allocate a fair share of those sales tax revenues to the Harbor Enterprise Fund for the increased costs that the Fund has to cover because of the increased demands put on it by the impacts of the increased tourism to the fund's resources. A big part of the argument for the passage of the Measure was to fund police, fire and other vital human safety needs and the wording of the ballot initiative included the following language: "keeping beaches, public areas safe/clean...". The Harbor Department and the Harbor Patrol provide a substantial part of those needs, much of it needed by and provided to our local citizens, and yet it receives none of that funding, relying solely on the current sources of income from the Harbor Enterprise Fund. That needs to be addressed.

The Transient Occupancy Tax is another source of income that is highly dependent upon the attraction provided by the Embarcadero and Tidelands Trust tourism draw. Yet none of that revenue is used to offset the costs to the Harbor Enterprise Fund from those demands on their services. The EML believes that at least the portion of the TOT generated from the Tidelands Trust and the Embarcadero hotel and motel rooms should be allocated to the Harbor Enterprise Fund to offset those direct costs.

Access and traffic circulation

Gradually over the past decade and especially in the past two years during peak season and during peak hours, traffic in the Embarcadero area has become increasingly congested. It has become dangerously congested during peak hours between Beach Street and the Rock parking lot. Often on the weekend it might take as long as an hour to drive from the Rock to Beach Street. Not only is this kind of congestion dangerous in the event of an emergency at the Rock but it is also a discouragement for visitors wishing to enjoy our lovely area. The EML observes that there are some reasonable and easy short term solutions to this problem and there are also long term solutions that should be considered and included as a part of the General Plan or other development plans for the area. Opening the pedestrian bridge over Morro Creek in times of congestion as an alternative exit way could be a short term emergency solution. But it is not enough for the long term.

EML recommends that the City consider opening that bridge to two way traffic on a permanent basis as well as requiring a circulation study as a part of the redevelopment of the power plant or the old WRF. Consideration should be given to permanent access to Embarcadero through the power plant property by connecting Quintana to Embarcadero. Those changes would provide the needed relief from congestion, especially over the long term.

Also needed is additional parking on the Embarcadero. Many have championed a parking structure and perhaps that's a possibility for the future and perhaps the revenue or a part of the revenue derived from the paid parking plan can be set aside for its future construction. In the meantime the 'triangle parking lot' was acquired with the intention of creating additional parking

for the Embarcadero. It has since been repurposed (temporarily, supposedly) for boat storage and permanently for the expansion of the Maritime Museum. The EML supports the Maritime Museum as an important part of Morro Bay's cultural heritage and a significant attraction for visitors to Morro Bay. The future expansion of the Museum in accordance with the plan recently approved by the City Council would be an important and welcome addition. However, the Maritime Museum also needs the additional parking that could be provided on the parcel. While the boat storage has become a source of revenue for the Harbor Enterprise Fund (although just how much is not easily discernable from the Summary of Revenues and Expenditures) the property's use for the additional parking, particularly if the paid parking program is extended to there as well, would be more valuable with the potential paid parking revenue as well as its role in providing additional revenue through the businesses by the addition of parking serving those businesses. As a part of the development of the parking lot on the triangle parcel a new driveway at its northern most end is needed to enhance circulation and spread traffic movements out along Embarcadero. That driveway cut would also serve as additional pedestrian access from the lot to the businesses along the waterfront.

City Policies regarding financing of Leaseholds and General Plan and Local Coastal Plan requirements

The Tidelands Trust properties are assets that belong to the City of Morro Bay. The management of those properties is entrusted by the State Lands Commission to the City Council of the City of Morro Bay and the revenues derived from them is used to fund the Harbor Department and to maintain and develop the public facilities on the Tidelands Trust property. Currently the revenues from the Tidelands Trust properties amount to almost \$2,000,000 per year, a very significant part of the City's budget and, if managed properly, would contribute much more. These properties also serve to drive the most significant part of the City's economy, namely visitor serving services and tourism. Those, in turn, produce sales taxes and Transient Occupancy Taxes (TOT) from the revenue from the city's hotel, motel and short term rental properties. It's appropriate here to point out for the local citizenry that a disproportionate amount of such sales taxes, TOT revenues and the income from the Tidelands Trust leaseholds serve to fund their local government and services. Without those revenues the City of Morro Bay would be hard pressed to remain a viable entity. The tourism and visitor serving industry is vital to the economic interests of the city.

The EML, while late to the process, played a role in the recent General Plan and Local Coastal Plan process and continues to be active in the Zoning Ordinance update currently under way. In that process we were many times frustrated by the city staff's failure to defend what are the city's assets from the whims of the Coastal Commission in burdening the Tidelands Properties to a degree exceeding other similar privately owned properties within the city. The effect was to

essentially devalue the cities' own assets because of those additional burdens, to the city's detriment.

In order to develop or redevelop these properties the city needs to attract private equity and private sector financing. Both of those sources of funding and financing are equally likely to find properties in the private sector that do not have the restrictions and additional and time-consuming development processing requirements that these properties are burdened with that will still provide the investor with comparable returns. So as **'property owners'**, it is incumbent on the City Council to do all that they reasonably can to make these properties as competitive as possible to attract that private equity and private sector financing required to develop and redevelop these properties to their highest and best uses and therefore to their highest income producing potential. Especially in light of the tendency of public agencies' not to appreciate the real uses of these properties to generate income to the City.

Recent examples of the public agencies' over burdensome exactions include:

1. The State Land Commission's discouragement of a policy to allow refinancing of the leasehold interest when the proceeds are not being used to improve the leasehold asset. No such restriction exists when the investor has his equity in a private fee interest. There is absolutely no benefit to the City interests in having such a policy restricting the investor's ability to mortgage only his interest in the leasehold. Nor is it in any way a detriment to the City's interest in the property. Other cities, including the City of San Diego, ignore the State Land Commission on this policy and approve refinancing on their Tidelands Trust properties.
2. Widening of the lateral access requirement from 8 feet to twelve feet in instances where the 8 foot access was already provided and the master lessee is changing use or doing less than a complete redevelopment of the property.
3. Requiring additional mitigations for sea level rise where the likelihood of sea level rise in excess of the available freeboard of 7 feet in the next 100 years is less than ½ of 1% probability. Higher development costs mean higher rents to subtenants and businesses to meet expenditures which in some cases can get too expensive for the market.

Because an astute investor must take seriously the city's policies when considering investing in these properties, these kinds of policies and exactions serve devalue the City's own assets by reducing the potential pool of investment capital. The EML would encourage the City Council to resist the agencies' urge to apply them.

Work Force Housing/Employee Retention and Recruitment

The City of Morro Bay, because it is a desirable tourist destination, will continue to have a shortage of housing affordable to the workforce needed to staff the businesses that we have described herein as the major economic driver of the economy for Morro Bay. The Morro Bay Chamber of Commerce has addressed these difficult issues in their Legislative Platform.

“If we don’t seriously address the housing issue in Morro Bay, we will continue our precarious reliance on a workforce that lives someplace else in the County; we will keep degrading the environment through excessive greenhouse gas emissions and other emissions associated with commuter travel; and, we will become a community that is composed solely of older retirees and visitors with no resident workforce, families, or middle class.”

The Chamber has a policy of not advocating for any particular project preferring to address legislative issues with overarching policy positions. That may be appropriate for the Chamber, but the EML takes the position that a vital issue such as this needs to be addressed with specifics if it is ever to be effectively remediated.

The EML would recommend that the City Council begin to identify potential sites within the City and direct staff to initiate conversations with property owners to see if the City can assist with specific planning processes for those sites to move them closer to entitled building sites. This will begin to move the process as far forward as possible in order to encourage private sector development of work force housing.

Potential sites such as the elementary school site and property near the care facility are likely candidates for such an effort in the short term. The Chamber’s Legislative Platform goes on to say...”This Housing Element should look at all of the opportunity sites that are in the Land Use Element and it should explore other areas that can be considered for future growth. The property south of the Harbor Tract and adjacent to the retirement/care facility off of South Bay Blvd is one example. Even though the City Sphere of Influence (SOI) is limited to nearly the City boundary line, there are still opportunities that can be considered. Large comprehensively planned housing projects would significantly improve the economic sustainability of Morro Bay.” We support the Chamber’s position but would encourage the City Council to move away from the generalities and adopt specific strategies for specific sites. We also recognize that not all large areas are conducive to a higher density than SFR, so the importance of site specific analysis is that much more important.

Closing

In closing, the EML feels it prudent and encourages the City Council to set new policies that support and defend the Tidelands Trust properties not only as a significant City asset but more

importantly from the standpoint that the City is the **property owner** of these waterfront leases. The relationship with the master leaseholders and other sub tenants should be seen as partners in its economic success which outlook is key in the efforts to responsibly fund the needed and vital city services on the waterfront.



AGENDA NO: B-2

MEETING DATE: December 1, 2022

Staff Report

TO: Harbor Advisory Board

DATE: November 23, 2022

FROM: Eric Endersby, Harbor Director

SUBJECT: Update from the Parking Management/Paid Parking Ad-Hoc Committee on Committee's Recent Activities

RECOMMENDATION

Receive and file committee update.

BACKGROUND, DISCUSSION & CONCLUSION

The Parking Management/Paid Parking Ad-Hoc Committee of the Harbor Advisory Board will be presenting an oral update of their activities.

This is a standing committee report agenda item.

Prepared By: LS

Dept Review: EE

City Manager Review: _____

City Attorney Review: _____



AGENDA NO: B-3

MEETING DATE: December 1, 2022

Staff Report

TO: Harbor Advisory Board

DATE: November 23, 2022

FROM: Eric Endersby, Harbor Director

SUBJECT: Update from the Marine Services Ad-Hoc Committee on Committee's Recent Activities

RECOMMENDATION

Receive and file committee update.

BACKGROUND, DISCUSSION & CONCLUSION

The Marine Services Ad-Hoc Committee of the Harbor Advisory Board (HAB) will be presenting an oral update on their recent activities.

This is a standing committee report agenda item.

Prepared By: LS

Dept Review: EE

City Manager Review: _____

City Attorney Review: _____



AGENDA NO: B-4

MEETING DATE: December 1, 2022

Staff Report

TO: Harbor Advisory Board

DATE: November 23, 2022

FROM: Eric Endersby, Harbor Director

SUBJECTS: 1. Update from the Finance & Budget Ad-Hoc Committee on Committee's Recent Activities
2. Recap of Harbor Fund Fiscal Year 2021/2022 Performance
3. Input for Prioritizing Surplus Revenues from Fiscal Year 2021/2022
4. Input on Future Revenue-Generating Ideas

RECOMMENDATION

Receive and file ad-hoc committee update and staff recap, and provide staff input on recommended surplus revenue prioritization, and future revenue-generating ideas.

BACKGROUND

The Finance & Budget Ad-Hoc Committee will be presenting an oral update on their activities. This is a standing committee report agenda item.

In addition, Fiscal Year 2021/2022 (FY 21/22) is closed-out, and staff is presenting a recap of that budget performance, as well as seeking input on capital priorities for the modest excess revenues over expenses achieved last fiscal year.

For FY 21/22, revenues exceeded expenses by approximately \$600,000. While on the surface this might seem like a reason to cheer, it must be tempered by the fact that the department remains two full-time positions down (more on that in Agenda Item B-1), and revenues are still experiencing COVID-related all-time high spikes that are anticipated to level back off at some point to pre-COVID levels (last year's percent gross revenues doubled what was anticipated and budgeted, for example, which will not be the norm moving forward).

Therefore, until the department's organizational structure and staffing are sorted out and the economy settles back down to some semblance of post-COVID normalcy, these excess revenues must be conservatively treated as "one-time" ones. The bottom line remains that, although balanced operationally, the Harbor Fund still has a serious structural capital funding problem.

DISCUSSION & CONCLUSION

FY 21/22 Budget Performance

Actual revenues and expenses in the Harbor Operating Fund for FY 21/22 were as follows:

Prepared By: EE

Dept Review: EE

City Manager Review: _____

City Attorney Review: _____

	<u>Budgeted</u>	<u>Actual</u>	<u>Percent Difference</u>
Revenues	\$2,116,000	\$2,677,000	26.5% over budgeted
Expenses*	\$2,092,000	\$2,033,000	2.8% under budgeted
Net	+\$24,000	+\$644,000	

*Includes a one-time \$150,000 transfer to capital programs. On average, the Harbor Fund transfers approximately \$130,000/year to capital uses

The net positive was achieved by a combination of department frugality and a windfall year not expected to repeat itself, especially with a looming economic recession forecast. Looking forward, the net annual positive for the Harbor Fund five-year forecast appears to be in the \$250,000-\$350,000 range, which assumes the following:

- Continued conservative estimate of revenues until the COVID spike is over and the new norm established
- Small, but consistent investment in capital needs (\$130K/year average)
- Continued support from Measure Q/E (this year currently ~\$238K in ongoing expenses, and \$210K in one-time expenses for a capital needs assessment)
- Maintaining a Harbor Fund Reserve balance of 20% or more
- Increases in PERS contributions

Use of Surplus FY 21/22 Revenues

While some of the excess revenues should and will be programmed to maintain a 20% Harbor Fund Reserve balance, the remainder, pending Finance Department and City Council approval, are potentially available for one-time uses. Staff anticipate approximately \$500K available for such use.

The current capital spreadsheets indicate the following #1-listed priorities (in no particular order):

- Harbor Office replacement – \$300K estimate for modulars
- Beach Street north slips replacement – \$800K estimate (south slips currently funded)
- North T-Pier structural needs – \$3.8M estimate (\$1.5M in current Congressional earmark, but unknown if it will survive political process)
- South T-Pier structural needs – \$95K estimate
- Seawall at Inn at Morro Bay repair/replacement – \$3M estimate
- Harbor Patrol truck replacement – \$65K estimate

Staff recommend the following three top priorities, in addition to some “seed money” set-aside for grant matching funds in order to be able to take advantage of grants as they are identified, such as the DBW seawall grant we were unable to apply for because we had no matching funds allocated:

- Harbor Office replacement. The current building is almost 60 years old, is severely undersized and not functional for its current use, and may have employee health and safety issues. Modulars are the most cost-efficient, mid-term solution until funding for a true permanent building replacement can be acquired.
- South T-Pier. Execute structural deficiency needs identified in a previous engineer’s structural analysis.
- Harbor Patrol truck replacement. One of the Harbor Patrol’s 10-year-old trucks was recently replaced with State COVID relief funding, while the second truck is in similar urgent need of replacement due to its age and condition. Patrol trucks typically last 6-8 years and ~50,000

miles because of the harsh and corrosive environment they operate in every day – the waterfront and beach.

- \$40K grant seed money set-aside.

Staff is seeking Harbor Advisory Board (HAB) input on their recommendations, which will help inform the mid-year budget request process.

Future Revenue-Generating Ideas

The HAB has historically brought to light, discussed, and recommended numerous revenue-generating ideas and initiatives over the years, some of which bore fruit. Given that the B-22 property tax initiative to fund Harbor infrastructure failed, and thus the structural capital funding problem still exists for the waterfront, staff are seeking HAB brainstorming input and ideas once again for revenue-generating or revenue-enhancing ideas, programs or initiatives.

Any ideas brought forward with HAB consensus that warrant further investigation will be brought back for further HAB discussion and input.



AGENDA NO: B-5

MEETING DATE: December 1, 2022

Staff Report

TO: Harbor Advisory Board

DATE: November 23, 2022

FROM: Eric Endersby, Harbor Director

SUBJECT: Harbor Advisory Board Member Public Engagement Outreach Assignment Reporting

RECOMMENDATION

Receive and file Harbor Advisory Board (HAB) member outreach effort reports to date.

BACKGROUND, DISCUSSION AND CONCLUSION

This agenda item is for HAB members to provide an oral update on any of their outreach efforts to date.

Prepared By: LS

Dept Review: EE

City Manager Review: _____

City Attorney Review: _____