



# 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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### Regular Meeting

#### Tuesday, May 21, 2024 - 3:00 PM

#### Veterans Memorial Hall

#### 209 Surf St., Morro Bay, CA

	Stephen Peck	Chair	
Michael Erin Woody	Vice-Chair	Brian Dorfman	Member
Jean Johnson	Member	Kathy Hoversten	Member

#### **Public Participation:**

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=aWZpTzdwTHlRTk9xaTlmWVNWRWFUQT09>

➤ 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 CFAC Committee at [cfac@morrobayca.gov](mailto:cfac@morrobayca.gov) prior to the meeting. Agenda Correspondence received at [cfac@morrobayca.gov](mailto:cfac@morrobayca.gov) by 10 a.m. on the meeting day will be posted on the City website.

ESTABLISH QUORUM AND CALL TO ORDER

COMMITTEE MEMBER ANNOUNCEMENTS & PRESENTATIONS

DIRECTOR UPDATE

PUBLIC COMMENT

Members of the audience wishing to address the CFAC on City 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 CFAC at this time.

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE FEBRUARY 20, 2024, CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE REGULAR MEETING

**RECOMMENDATION: Approve as submitted.**

2. APPROVAL OF MINUTES FOR THE APRIL 17, 2024, JOINT CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE/PUBLIC WORKS ADVISORY BOARD SPECIAL MEETING

**RECOMMENDATION: Approve as submitted.**

B. BUSINESS ITEM

1. DISCUSSION AND INPUT ON THE FISCAL YEAR 2024-25 DRAFT PROPOSED BUDGET (FINANCE DIRECTOR/ADMINISTRATIVE PROGRAMS ANALYST)

**RECOMMENDATION: Staff recommends the Citizens' Oversight/Finance Advisory Committee (CFAC):**

1. **Review the future year revenue and expense projections for Measure E Fund (Fund 003) and provide appropriate recommendations for use of funds for City Council consideration.**
  2. **Review the FY 2024-25 Draft Proposed Budget and provide a recommendation to City Council on the proposed Measure E (Fund 003) expenditures.**
  3. **Review and provide a recommendation on the FY 2024-25 Draft Proposed Budget for the other major funds for City Council consideration as desired.**
2. DISCUSSION ON THE PUBLIC WORKS ADVISORY BOARD/CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING FOR CAPITAL IMPROVEMENT PROJECT (CIP) PRIORITIZATION

**RECOMMENDATION: Receive and File**

3. PRESENTATION BY CHAIR PECK AND VICE CHAIR WOODY ON JOINT HARBOR ADVISORY BOARD/PUBLIC WORKS ADVISORY BOARD MEETING ON HARBOR LEASE RECOMMENDATIONS

**RECOMMENDATION: Receive and File**

C. FUTURE AGENDA ITEMS

D. SCHEDULE NEXT MEETING

August 20, 2024

E. ADJOURNMENT

THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 72 HOURS PRIOR TO THE DATE AND TIME SET FOR THE MEETING. PLEASE CALL CITY HALL AT 805-772-6201 FOR FURTHER INFORMATION.

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 (805) 772-6205. NOTIFICATION 24 HOURS PRIOR TO THE MEETING WILL ENABLE THE CITY TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THE MEETING.

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MINUTES –CITIZENS OVERSIGHT/FINANCE  
 ADVISORY COMMITTEE  
 REGULAR MEETING – February 20,2024  
 VETERAN’S MEMORIAL HALL – 3:00p.m.

MEMBERS PRESENT:        Michael Erin Woody    Vice-Chairperson  
                                  Jean Johnson            Committee Member  
                                  Brian Dorfman          Committee Member  
                                  Kathy Hoversten        Committee Member

ABSENT:                     Stephen Peck            Chair

STAFF PRESENT:         Steve Conway            Interim Assistant City Manager/Admin Svc Dir  
                                  Emily Conrad            Finance Manager  
                                  Melissa Green            Senior Budget Analyst  
                                  Erika Castillo            Account Clerk III

ESTABLISH QUORUM AND CALL TO ORDER  
[https://youtu.be/DhuYnGZ\\_890?si=f5IE4mMiVUIRbBk1&t=11](https://youtu.be/DhuYnGZ_890?si=f5IE4mMiVUIRbBk1&t=11)  
 Vice-Chair Woody called the meeting to order at 3:03 p.m. with all but Chair Peck

COMMITTEE MEMBER ANNOUNCEMENTS & PRESENTATIONS  
[https://youtu.be/DhuYnGZ\\_890?si=paFXtZF2hW1\\_4D1B&t=63](https://youtu.be/DhuYnGZ_890?si=paFXtZF2hW1_4D1B&t=63)

INTERIM ASSISTANT CITY MANAGER/DIRECTOR UPDATE  
[https://youtu.be/DhuYnGZ\\_890?si=z0RZW9N4sBMDWRe\\_&t=120](https://youtu.be/DhuYnGZ_890?si=z0RZW9N4sBMDWRe_&t=120)

PUBLIC COMMENT  
[https://youtu.be/DhuYnGZ\\_890?si=RSIAd0MRLyncxPb&t=240](https://youtu.be/DhuYnGZ_890?si=RSIAd0MRLyncxPb&t=240)

Greg Kwolek, Public Works Director, provided a brief over of an email he sent to CFAC informing them of the settlement agreement with the City Design Build Contractor FBV for the sewer treatment plant.

A.        CONSENT CALENDAR  
[https://youtu.be/DhuYnGZ\\_890?si=90pAsOY1Q1dax\\_ZY&t=322](https://youtu.be/DhuYnGZ_890?si=90pAsOY1Q1dax_ZY&t=322)

A-1      APPROVAL OF MINUTES FOR JANUARY 16, 2024 CITIZENS OVERSIGHT/FINANCE  
 ADVISORY COMMITTEE MEETING

**Recommendation: Approve as submitted.**

A-2      APPROVAL OF EXCUSED ABSENCE REQUEST FOR COMMITTEE CHAIR STEPHEN  
 PECK; (SENIOR BUDGET ANALYST)

**Recommendation: Staff recommends the Citizens Finance Advisory Committee (CFAC) approve the request submitted by CFAC Chair Stephen Peck to excuse his absence from the February 20, 2024, Regular CFAC meeting.**

A-3 SECOND QUARTER INVESTMENTS REPORT (PERIOD ENDING DECEMBER 30,2023) FOR FISCAL YEAR (FY) 2023-24; (INTERIM ASSISTANT CITY MANAGER/ADMIN SERVICES DIRECTOR)

**Recommendation: Receive and file.**

MOTION: Member Johnson moved to approval of consent items A-1 through A-3. The motion was seconded by Member Hoversten and carried 4-0-1 with Chair Peck absent.

B. BUSINESS ITEMS

B-1 REVIEW OF FISCAL YEAR (FY) 2022-23 MIDYEAR BUDGET AND FINANCIAL UPDATE (INTERIM ASSISTANT CITY MANAGER/ADMINISTRATIVE SERVICES DIRECTOR)

[https://youtu.be/DhuYnGZ\\_890?si=fMVOAXAFhXGuOG8P&t=379](https://youtu.be/DhuYnGZ_890?si=fMVOAXAFhXGuOG8P&t=379)

Interim Assistant City Manager/Administrative Services Director Conway presented the item with Senior Budget Analyst Green answering Board Member questions.

Public Comment:  
None

Vice Chair Woody closed public comment.

MOTION: Member Hoversten moved to accept the proposed changes to the budget and submit CFAC recommendations to the City Council for inclusion in the amended budget. The motion was seconded by Member Dorfman and carried 4-0-1 with Chair Peck absent.

C. FUTURE AGENDA ITEMS

[https://youtu.be/DhuYnGZ\\_890?si=bLC2Y9W1yRYm519K&t=6542](https://youtu.be/DhuYnGZ_890?si=bLC2Y9W1yRYm519K&t=6542)

1. Discussion of ideas on revenue growth proposals that CFAC can come up with to help in future fiscal years.

D. SCHEDULE NEXT MEETING

The next regularly scheduled Citizen's Oversight/Finance Committee meeting will be May 21, 2024 at 3:00 p.m.

E. ADJOURNMENT

The meeting adjourned at 4:56 p.m.

Recorded by:

Erika Castillo  
Accounting Clerk III

PRESENT:	John Erwin Robert Nava Jan Goldman Doug Hill Derek Dahlgren	PWAB Vice Chair PWAB Board Member PWAB Board Member PWAB Board Member PWAB Board Member
	Stephen Peck Michael Erin Woody Brian Dorfman Jean Johnson	CFAC Chair CFAC Vice Chair CFAC Committee Member CFAC Committee Member
ABSENT:	Laurie Beale Ian Gaffney Kathy Hoversten	PWAB Chair PWAB Board Member CFAC Committee Member
STAFF:	Greg Kwolek Emily Conrad Cindy Cecil Austin Della Damaris Hanson	Public Works Director Acting Finance Director City Engineer Civil Engineer Utilities Division Manager

#### ESTABLISH QUORUM AND CALL TO ORDER

A quorum was established by the Public Works Advisory Board with all but Chair Beal and Board member Gaffney present.

A quorum was established by the Citizens Finance Advisory Committee with all but Committee Member Hoversten present.

#### I. CAPITAL PROJECTS PRIORITIZATION

[https://youtu.be/sRpkIpu\\_5Zc?si=RB7HahejXY3luJo\\_&t=117](https://youtu.be/sRpkIpu_5Zc?si=RB7HahejXY3luJo_&t=117)

Public Works Director Greg Kwolek introduced the item and presented the report.

John Erwin requested the new City Engineer and Civil Engineer introduce themselves.

City Engineer Cindy Cecil and Civil Engineer Austin Della introduced themselves to everyone.

Stephen Peck provided an overview of the Citizens Finance Advisory Committee.

Discussion, comments, and questions amongst the Board and Committee members and staff.

Staff responded to questions raised by the Board and Committee members.

The public comment period was opened.

Bill Luffee, Morro Bay, provided suggestions on how projects should be managed and prioritized. He mentioned other items not shown on the list and asked to remove the Trash Can Replacement Project from the list stating the Friends of the Morro Bay Harbor Department would be able to raise funds to purchase blue trash cans for the areas mentioned on the list.

Terry Simons, Morro Bay, stated how he's excited to see the new direction the Public Works Department has taken in prioritizing projects in the city. He also applauded the Public Works Department staff for their efforts and would like to see the WRF project wrapped up as soon as possible because he believes this is taking up most of the staff's time.

The public comment period was closed.

Discussion, comments, and questions amongst the Board and Committee members and staff.

Greg Kwolek asked the members if there were any other comments to bring to the City Council. He noted the comments received would be brought to the City Council in May.

ADJOURNMENT

The meeting adjourned at 7:29 p.m.

Recorded by:

Gina Arias  
Administrative Technician



AGENDA NO: B-1

MEETING DATE: May 21, 2024

# Staff Report

**TO: CFAC Chair and Committee Members**

**DATE: May 16, 2024**

**FROM: Emily Conrad, Finance Director  
Melissa Green, Administrative Programs Manager**

**SUBJECT: Discussion and Recommendations on the Fiscal Year 2024-25 Draft Proposed Budget**

## **RECOMMENDATION**

Staff recommends the Citizens Oversight/Finance Advisory Committee (CFAC):

1. Review the future year revenue and expense projections for Measure E Fund (Fund 003) and provide appropriate recommendations for use of funds for City Council consideration.
2. Review the FY 2024-25 Draft Proposed Budget and provide a recommendation to City Council on the proposed Measure E (Fund 003) expenditures.
3. Review and provide a recommendation on the FY 2024-25 Draft Proposed Budget for the other major funds for City Council consideration as desired.

## **BACKGROUND**

Consistent with CFAC's scope of work as outlined in the Advisory Body Handbook, the City Council invites CFAC input on the Measure E Proposed Budget and the broader Citywide budget as time permits. CFAC's input will be provided for Council's consideration at the City Council Budget Study Sessions scheduled for May 28<sup>th</sup> at 3:00 pm and May 29<sup>th</sup> at 4:00 pm. Budget adoption is scheduled for the June 11<sup>th</sup> regularly scheduled City Council meeting.

## **DISCUSSION**

The FY 2024-25 Proposed Operating and Capital Budget, including the proposed Measure E Fund, is available online in web-based and printable PDF formats (links listed under "Attachments").

### **Measure E Fund Proposed Budget**

The Measure E Fund's proposed revenue budget is approximately \$4.3 million for FY 2024-25, representing a 5% decrease over the prior year's budgeted revenues as revenues are projected to flatten off on the heels of post-pandemic solid growth. Budgeted Measure E proposed expenditures are approximately \$3.7 million for FY 2024-25. Roughly \$2.6 million of the total \$3.7 million proposed budget is appropriated for personnel costs, and \$662,493 is budgeted for operations and maintenance. The FY 2024-25 budget also allocates \$430,000 to a total of three capital projects as follows:

- \$80,000 Morro Bay Bridge Inspection and Assessment
- \$100,000 Local Road Safety Plan (LRSP) Implementation and Safety Improvements
- \$250,000 Trash and Recycling Can Replacements, Sidewalk Improvements, and Street Tree Replacement

The Council's established priorities for the use of Measure E funds are as follows:

1. Maintain public safety services by funding staff positions that are most closely aligned with the purposes of Measures Q & E. Expenses include costs associated with Morro Bay Fire Department, Morro Bay Police Department, and Morro Bay Harbor Department personnel and equipment, in addition to the Fire Headquarter debt service and the Fire engine loan repayment;
2. Maintain or enhance the cleanliness and safety of public space such as parks, waterfront, and the beach by funding personnel, supplies, 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, and vehicle replacements that support City services. This priority may include increasing capacity to implement the backlog of unfunded capital projects.
4. Ensure the financial health of the City by maintaining appropriate reserves to protect against economic downturns, natural/health emergencies, and other unforeseen challenges or opportunities.

The Measure E Fund Proposed Budget is presented in greater detail at the link below.

#### Citywide Proposed Budget

The Proposed Budget funds all City services and capital projects from July 1, 2024, through June 30, 2025. The budget makes critical investments in operations, City staff, capital improvements, and paying down pension liabilities while preserving healthy financial reserves to weather future emergencies and economic downturns.

The proposed FY 2024-25 expenditure budget of \$59.6 million includes \$41.6 million for operations and \$18.0 million for 15 capital projects (net of interfund transfers). The budget funds the following: the operational departments that provide core services to our community, including police, fire, water, sewer, parks, roads, recreation, community development, code enforcement, and harbor; the supporting administrative services such as human resources, information technology, and finance; and 15 capital projects to improve our shared built environment. A portion of the capital funding will go toward repairing infrastructure damaged by the 2023 storms.

The budget also funds efforts to achieve the strategic planning goals established by the City Council: Improving public infrastructure, achieving economic vitality, addressing housing needs and homelessness response, and improving community engagement.

This budget reflects a leveling off of City revenues and increasing costs to provide existing service levels, a testament to the City's commitment to meeting community expectations. Economic cooling has slowed revenue growth, while persistent inflation drives higher expenses. This dynamic of expenditure growth outpacing revenue growth is unsustainable in the mid-to-long term, and the City must continually seek additional revenue generation to keep pace with community expectations for a full-service City and to address robust City Council goals. With caution on the horizon, this budget includes a conservative estimate of anticipated cost-of-living adjustments and other benefit increases due to ongoing union contract negotiations.

Measure E, passed by Morro Bay voters in 2020, continues to support the City's ability to deliver core public safety services and make progress toward addressing infrastructure needs. However, infrastructure needs continue to exceed funds available.

The City of Morro Bay, a small city heavily reliant on tourism, has implemented strong reserve policies

to ensure it can withstand economic challenges, natural disasters, and emergencies while providing essential city services. The estimated reserve of combined general funds is \$12.7 million, and the estimated reserve of combined enterprise funds is \$3.8 million at the conclusion of FY 2024-25. This will result in a total projected city reserve of \$16.5 million at the fiscal year's end, equivalent to 40% of the city's operating budget. The City Council's dedication to fiscal sustainability has led to this strong reserve position.

This budget also includes a \$400,000 investment into a pension trust fund to help lower the City's overall pension liability.

### Citywide Revenues & Trends

*Current Services Revenue* - The City receives the largest share of its revenue (47%) as payment for the services it provides, including water services, sewer services, lease revenues, planning and permitting fees, and fees for recreation services. Charges for service are a relatively stable revenue source over time for Morro Bay, as the majority comes from water and sewer rate revenue remitted by ratepayers. Lease revenues in the Harbor Fund are also relatively stable in terms of base lease payments, but the portion of lease payments associated with a percentage of gross sales fluctuates over time.

*Primary Tax Revenues* - Tax revenues, including sales and use tax (15% of revenues), property tax (11%), and transient occupant tax (9%), represent the second-largest share of City revenues (35% total). These revenues provide general services not covered by anyone receiving an individual benefit from a service, such as public safety services and infrastructure maintenance. Property taxes are the most stable of the tax revenue sources and have increased by approximately 3-4% per year in recent years. Sales tax and transient occupancy tax (TOT) are more volatile and depend on the status of the economy and the tourism level. These more volatile revenue sources represent roughly one-quarter of the City's total revenues, making the City's financial reserves described above particularly important. Both sales tax and TOT have rebounded to levels higher than pre-pandemic levels during FY 2021-22, and growth has slowed significantly in recent years. More moderate growth (2-3% range) is projected for both revenue sources in FY 2025-26 and beyond.

*Other Revenues* - The other 15-20% of City revenues come from various smaller sources, including intergovernmental revenues, fines, and cannabis taxes.

Staff will present the Measure E budget in more detail at the CFAC meeting, as well as highlights of the Citywide budget, and seek CFAC input on both as time permits.

### **ATTACHMENTS**

1. FY 2024-25 Proposed Measure E Fund Budget direct link: <https://city-morro-bay-ca-budget-book.cleargov.com/15627/fund-summaries/measure-q-e-fund>
2. FY 2024-25 Proposed Capital and Operating Budget
  - a. Web-Based Version: <https://city-morro-bay-ca-budget-book.cleargov.com/15627/introduction/public-officials-leadership>
  - b. Printable PDF Version: <https://www.morrobayca.gov/DocumentCenter/View/19238/FY-2024-25-Proposed-Budget-Draft>