



CITY OF MORRO BAY

Citizens Oversight Committee

Acting as Citizens Finance Advisory Committee

AGENDA

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.

Regular Meeting

Tuesday, February 18, 2025 - 3:00 PM

Veterans Memorial Hall

209 Surf St., Morro Bay, CA

Stephen Peck	Chair
Michael Erin Woody	Vice-Chair
Jean Johnson	Member
Brian Dorfman	Member
Sarah Love	Member

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:

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 CFAC Committee at cfac@morrobayca.gov prior to the meeting. Agenda Correspondence received at cfac@morrobayca.gov by 10 a.m. on the meeting day will be posted on the City website.*

ESTABLISH QUORUM AND CALL TO ORDER

SELECT CHAIR AND VICE-CHAIR

COMMITTEE MEMBER ANNOUNCEMENTS & PRESENTATIONS

- SUBCOMMITTEE UPDATE

BRIEF FINANCE 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 JANUARY 21, 2025 CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

Recommendation: Approve as submitted.

B. BUSINESS ITEMS

1. SECOND REVIEW OF FISCAL YEAR (FY) 2023-24 TRANSACTIONS FROM THE COLLECTION OF THE GENERAL-PURPOSE LOCAL SALES TAX, COMMONLY KNOWN AS MEASURE Q/E

RECOMMENDATION: Staff recommends the Citizens Finance Advisory Committee (CFAC)

- a) Receive and approve the presentation of FY 2023-24 transactions from the collection of the general-purpose local sales tax, commonly known as Measure Q/E; and
- b) Provide input to staff regarding the alignment of current and future Measure Q/E expenditures with City Council priorities with specific recommendations for FY 2025-26 budget development; and
- c) Provide input to the Chair or a representative of CFAC regarding the Committee's annual presentation to be delivered to the City Council at a regular meeting before February 25, 2025

2. CFAC CONSIDERATION OF CITY STAFF RECOMMENDATION TO REQUEST DISBURSEMENTS OF ADDITIONAL SRF FINANCING FOR THE WRF PROGRAM

RECOMMENDATION: City staff recommends the CFAC review Water Reclamation Facility Program (WRF Program) funding and financing scenarios and concur with staff recommendation to draw down up to \$21,172,000 of new low-interest financing.

3. FISCAL YEAR 2024-25 MIDYEAR REPORT

RECOMMENDATION: Staff recommends that the Citizens Finance Advisory Committee (CFAC)

- a) **Review the Midyear Budget Report for Fiscal Year (FY) 2024-25 and provide feedback on recommended budget amendments for staff to include in the Midyear Budget presentation to Council.**
- b) **Review 10-Year Fiscal Forecasts and provide feedback on potential use of Measure Q/E revenues in the upcoming Fiscal Year (FY) 2025-26 proposed budget.**

4. CITY COUNCIL GOALS AND OBJECTIVES UPDATE, AND RECEIPT OF CFAC INPUT FOR THE UPCOMING GOALS AND OBJECTIVES SETTING PROCESS

RECOMMENDATION: Receive the staff update on the City Council Goals and Objectives and provide input regarding new goals and actions items for the City Council to consider ahead of their review of the City Goal Setting Workshop scheduled for March 25, 2025.

C. FUTURE AGENDA ITEMS

D. SCHEDULE NEXT MEETING
May 20, 2025

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 FINANCE ADVISORY COMMITTEE
 REGULAR MEETING – JANUARY 21, 2025
 VETERAN’S MEMORIAL HALL/VIRTUAL – 3:00 p.m.

- | | | |
|------------------|------------------|---------------------------------|
| MEMBERS PRESENT: | Stephen Peck | Chair |
| | Brian Dorfman | Committee Member |
| | Jean Johnson | Committee Member |
| ABSENT: | Michael Woody | Vice-Chairperson |
| | Sarah Love | Committee Member |
| STAFF PRESENT: | Emily Conrad | Finance Director |
| | Megan Schotborgh | Accounting Manager |
| | Melissa Green | Administrative Programs Manager |
| | Airlin Singewald | Community Development Director |
| | Greg Kwolek | Public Works Director |
| | Chris Munson | Harbor Vitality Director |

ESTABLISH QUORUM AND CALL TO ORDER
<https://www.youtube.com/watch?v=0gHFGnFhYd4>
 Chair Peck called the meeting to order at 3:38 p.m. with all but Vice Chair Woody and Member Love absent.

COMMITTEE ANNOUNCEMENTS & PRESENTATIONS
<https://youtu.be/0gHFGnFhYd4?si=eQ2r4b5RazsBa6eS&t=31>

BRIEF FINANCE DIRECTOR UPDATE
<https://youtu.be/0gHFGnFhYd4?si=cmwKmTZbm30KzY9N&t=518>

PUBLIC COMMENT
https://youtu.be/0gHFGnFhYd4?si=LdQ5_sNEvI6VDJAb&t=845

Betty Winholtz, Morro Bay, provided information regarding a school district meeting scheduled for January 22nd to discuss the district’s financial challenges.

Chair Peck closed public comment.

A. CONSENT CALENDAR
<https://youtu.be/0gHFGnFhYd4?feature=shared&t=933>

A-1 APPROVAL OF MINUTES FOR THE OCTOBER 15, 2024 CITIZENS’ OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

Recommendation: Approve as submitted.

A-2 EXCUSED ABSENCE OF CFAC MEMBER SARAH LOVE

Recommendation: Staff recommends the Citizens Finance Advisory Committee (CFAC) approve the request submitted by CFAC committee member Sarah Love to excuse her absence from the January 21, 2025 Regular CFAC meeting.

A-3 EXCUSED ABSENCE OF CFAC MEMBER MICHAEL WOODY

Recommendation: Staff recommends the Citizens Finance Advisory Committee (CFAC) approve the request submitted by CFAC Vice-Chair Michael Erin Woody to excuse his absence from the January 21, 2025 Regular CFAC meeting.

MOTION: Member Johnson moved to approve consent calendar items A-1 through A-3. The motion was seconded by Member Dorfman. The motion carried 3-0-2, with Vice-Chair Woody and Member Love absent.

B. BUSINESS ITEMS

B-1 APPOINT A CITIZEN'S FINANCE ADVISORY COMMITTEE (CFAC) MEMBER TO CITY'S WATERFRONT MASTER PLAN ADVISORY COMMITTEE (WMPAC)

<https://youtu.be/0gHFGnFhYd4?feature=shared&t=953>

Community Development Singewald provided a brief presentation. Following discussion, Chair Peck nominated himself to be part of the WMPAC committee.

MOTION: Chair Peck moved to appoint himself to the WMPAC Committee. The motion was seconded by Member Johnson. The motion carried 3-0-2, with Vice-Chair Woody and Member Love absent.

B-2 REVIEW OF FISCAL YEAR (FY) 2023-24 TRANSACTIONS FROM THE COLLECTION OF THE GENERAL-PURPOSE LOCAL SALES TAX, COMMONLY KNOWN AS MEASURE Q/E

<https://youtu.be/0gHFGnFhYd4?feature=shared&t=1312>

Finance Director Conrad gave a brief presentation and answered Committee Member inquiries.

Chair Peck requested that a complete list of all Capital Projects funded by Measure Q/E, regardless of budget year, be presented at the next meeting.

Following discussion, the Committee recommended continuing this item to the next meeting when more members would be present.

Public Comment:

Betty Winholtz, Morro Bay, spoke regarding the trash cans on the Embarcadero which were decorated by Morro Bay Beautiful. She hopes they will be moved somewhere when the cans are replaced and not thrown away. She also spoke regarding Measure Q and the intent of the original ballot language, hoping it would be honored.

MOTION: Member Johnson moved to continue item B-2, including 3 sub-items, to the February 18th meeting. The motion was seconded by Member Dorfman. The motion carried 3-0-2, with Vice-Chair Woody and Member Love absent.

C. FUTURE AGENDA ITEMS

<https://youtu.be/0gHFGnFhYd4?feature=shared&t=5060>

1. City-Council Goal Setting Review
2. Mid-Year Report Review
3. Continuance of item B-2 from the current meeting

D. SCHEDULE NEXT MEETING

The next regularly scheduled Citizen's Finance Advisory Committee meeting will be February 18, 2025 at 3:00 pm.

E. ADJOURNMENT

The meeting adjourned at 5:06 p.m.

Recorded by:

Sara Pruitt
Fiscal Analyst

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AGENDA NO: B-1

MEETING DATE: February 18, 2025

Staff Report

TO: Chair and Committee Members **DATE:** February 13, 2025

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

SUBJECT: Second Review of Fiscal Year (FY) 2023-24 Transactions from the Collection of the General-Purpose Local Sales Tax, commonly known as Measure Q/E

RECOMMENDATION:

Staff recommends the Citizens Finance Advisory Committee (CFAC):

- a) Receive and approve the presentation of FY 2023-24 transactions from the collection of the general-purpose local sales taxes, commonly known as Measure Q/E, and
- b) Provide input to staff regarding the alignment of current and future Measure Q/E expenditures with City Council priorities with specific recommendations for FY 2025-26 budget development, and
- c) Provide input to the Chair or a representative of CFAC regarding the Committee's annual presentation to be delivered to the City Council at a regular meeting before February 25, 2025.

DISCUSSION

Staff presented a review of the FY 2023-24 transactions from the collection of Measure Q/E revenues to CFAC at the January 21, 2025 regular meeting. The committee took action at that meeting to continue this item to the next regular meeting. As a result, this item is again before you for consideration and approval.

A link to the January 21, 2025 CFAC agenda is provided as Attachment 1.

During CFAC's discussion of this item on January 21, 2025, it was requested that an update be included to provide detailed information regarding expenditure activity for all Measure Q/E-funded capital projects. This review is provided as Attachment 2.

CONCLUSION

Staff recommends that CFAC approve the FY 2023-24 transactions from Q/E revenues collected after reviewing the Q/E detailed transactions.

After reviewing the FY 2023-24 use of Q/E funds, CFAC may wish to revisit Council's priorities and provide input to staff regarding aligning current and future Q/E spending with those priorities. Furthermore, CFAC may want to use this time to provide preliminary recommendations to staff regarding FY 2025-26 budget development.

The CFAC Chair or designee will present to City Council at a regular meeting before February 28, 2025 regarding CFAC's review of Q/E for FY 2023-24. The other members of the Committee may wish to provide input to the Chair or designee regarding the presentation.

ATTACHMENTS

1. Link to January 21, 2025 CFAC Agenda:
 - a. <https://www.morrobayca.gov/ArchiveCenter/ViewFile/Item/7484>
2. Review of Measure Q/E-Funded Capital Projects
3. Chair Peck's Memo and Draft Annual Report to Council

Citizens' Finance Advisory Committee Meeting

February 18, 2025



Item B-1: Second Review of Measure Q/E Expenditures for FY 2023-24: Capital Projects





Capital Funding Accounting

- The City's current practice for capital improvement project funding is to transfer funds from the source to the project's capital fund in the year that it is budgeted.
- Because some projects have multiple funding sources, it is not always clear which funding source is spent first. The following are general guidelines used by Finance staff when tracking project activity:
 - Funding is spent in a first-in, first-out order; except:
 - Grant funding is applied first
 - Restricted funding is applied second



Harbor Capital Projects



Harbor Patrol Vessel (923-8465)

- Q/E funded **\$50K** in FY 2021-22 in addition to \$200K from other sources. The project balance of approx. \$59K was carried forward into FY 2022-23.
- The project received an additional \$90K from Harbor Operating. The project balance of approx. \$59K was carried forward into FY 2023-24.
- Approx. \$46K was spent in FY 2023-24, including \$37,351 of Q/E funding. The project balance is \$12,649 and has been released to Harbor CIP fund balance for reallocation/return to source.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2021-22	50,000	200,000	-	190,776	50,000	9,224
FY 2022-23	-	90,000	-	90,678	50,000	8,546
FY 2023-24	-	-	37,351	8,546	12,649	-



Boat Launch Facility Ramp Replacement (923-8140)

- Q/E funded **\$210k** in FY 2022-23; Council reallocated **\$80k** for the Emergency Dock Repairs Project.
- 43% of budgeted expenditures were spent in FY 2022-23. \$73,505 of unspent Measure E funds were carried forward to FY 2023-24.
- Staff spent 11% of the project's expenditure budget in FY 2023-24. \$65,475 of unspent funds were carried forward to FY 2024-25.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2022-23	130,000	-	56,495	-	73,505	-
FY 2023-24	-	-	8,030	-	65,475	-



Emergency Dock Repairs (923-9952)

- Q/E funded **\$80K** in FY 2022-23 per the adopted midyear budget resolution.
- 102% of Measure E budgeted expenditures were spent on the Emergency Dock Repairs project. Expenditures in excess of budget will come from Harbor CIP fund balance or offset by surplus in the Vessels project.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2022-23	80,000	-	81,327	-	(1,327)	-



Harbor CIP Funding Summary

All Projects

Fiscal Year	Q/E Rev	Q/E Exp	Q/E Bal Fwd	% Used
FY 2021-22 (Harbor Patrol Vessel)	\$50,000	\$0	\$50,000	0%
FY 2022-23 (Boat Launch/Dock Repairs)	\$210,000	\$137,822	\$122,178	66%
FY 2023-24 (Vessel & Boat Launch Ramp)	\$0	\$45,381	\$76,797	+++
Totals	\$260,000	\$183,203	\$76,797	70%



Storm Drain Projects



Kern & Anchor Storm Drain Pipeline (915-9934)

- Q/E funded **\$314K** in FY 2021-22. There have been no project expenditures to date.
- This project has been consolidated into the Annual Storm Drain Replacements project. **\$200K** of Q/E funding was reallocated to this project in FY 2023-24 per the adopted budget.
- **\$114K** was reallocated to the Sequoia Court Emergency Storm Drain Projects.



Annual Storm Drain Replacement (915-9641)

- The FY 2023-24 budget created a new Annual Storm Drain Replacement project to consolidate many smaller storm drain pipeline replacement projects. **\$200K** of Q/E funding was reallocated to this project per the adopted budget.
- Staff spent 60% of budgeted expenditures in FY 2023-24. \$79,094 was carried forward to FY 2024-25 for future use.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2023-24	200,000	-	120,906	-	79,094	-



Sequoia Court Emergency Storm Drain (915-9950)

- **\$114K** of Q/E funding was reallocated to the Sequoia Court Emergency Storm Drain CIP per the midyear budget resolution adopted in FY 2023-24, along with other funding sources, including a \$300K grant.
- Staff spent 11% of budgeted expenditures in FY 2023-24. \$497,524 was carried forward to FY 2024-25, including \$114K of Q/E funding. The project has been completed in FY 2024-25 with 95% of budget expended.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2022-23	-	120,000	-	25,000	-	95,000
FY 2023-24	114,000	50,041	-	61,517	114,000	83,524



Storm Drain CIP Funding Summary

Fiscal Year	Q/E Rev	Q/E Exp	Q/E Bal Fwd	% Used
FY 2021-22 (Kern & Anchor)	\$314,000	\$0	\$314,000	0%
FY 2022-23	\$0	\$0	\$0	+++
FY 2023-24 (Annual Project & Sequoia Ct)	\$0	\$120,906	\$193,094	+++
Totals	\$314,000	\$120,906	\$193,094	38%



Streets, Trees, Sidewalks & Transportation



Local Roadway Safety Plan (LRSP) (915-8045)

- Q/E funded **\$35,000** in FY 2022-23 per the Council approved midyear budget resolution. No project expenditures occurred in that year.
- Q/E funded **\$150,000** in FY 2023-24. The project received additional funding from grants and development impact fees. Staff has spent 28% of the expenditure budget in FY 2023-24. \$202,414 has been carried forward to FY 2024-25. including \$185,000 in Q/E funding.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2022-23	35,000	10,000	-	-	35,000	10,000
FY 2023-24	150,000	87,000	-	79,586	185,000	17,414



Active Transportation Plan (915-8032)

- Q/E funded **\$67K** in FY 2023-24. The project received \$13K in additional funding.
- There have been no project expenditures to date. \$80K was carried forward into FY 2024-25.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2023-24	67,000	13,000	-	-	67,000	13,000



Hwy 1/41 Intersection (915-8229)

- Q/E funded **\$600K** in FY 2021-22 and **\$600K** in FY 2022-23. The project also received other funding, including grant, impact fees, and LTF Roads funding.
- Since FY 2021-22, project expenditures have totaled \$343,953 or 15% of the cumulative project budget, including **\$58,604** of Q/E funding in FY 2022-23.
- The fate of this project has yet to be determined. All project funding remains tracked within the General Government Capital Projects fund balance.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2021-22	600,000	128,897	-	51,652	600,000	77,245
FY 2022-23	600,000	-	58,604	77,245	1,141,396	-
FY 2023-24	-	826,000	-	156,452	1,141,396	669,548



Annual Pavement Management Program (915-9614)

- Q/E funded **\$414,600** in FY 2020-21; **\$350K** in FY 2021-22; **\$1.38M** in FY 2022-23; and **\$1.84M** in FY 2023-24. **Four-Year Total: \$3,984,600**
- Since FY 2020-21, a total of \$1,769,681 has been spent, including \$517,503 of Q/E funding in FY 2022-23 and \$63,844 in FY 2023-24. The project is scheduled to spend a further \$4.5 million in FY 2024-25, including **\$3.4M** in unspent Q/E funding.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2020-21	414,600	1,438	-	1,438	414,600	-
FY 2021-22	350,000	44,862	-	44,862	764,600	-
FY 2022-23	1,380,000	745,494	517,503	745,494	1,627,097	-
FY 2023-24	1,840,000	396,541	63,844	396,541	3,403,253	-



Sidewalk Improvements & Street Tree Replacements (915-9827)

- Q/E funded **\$150K** in FY 2023-24. No project expenditures occurred that year. \$150K was carried forward to FY 2024-25.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2023-24	150,000	-	-	-	150,000	-



Trash Can Replacements (915-9906)

- Q/E funded **\$60K** in FY 2023-24. No project expenditures occurred that year. \$60K was carried forward to FY 2024-25 and is expected to be spent this year.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2023-24	60,000	-	-	-	60,000	-



Citywide Speed Survey (915-8055)

- Q/E funded **\$75K** in FY 2022-23 (**\$35K** was reallocated to the LRSP per Council resolution).
- 87% of Measure E budgeted expenditures were spent for the Citywide Speed Survey in FY 2022-23. \$5,370 was carried forward to FY 2023-24. The project is complete with 181% of budget spent (overage to come from fund balance or may be offset by Auto License Plate Reader project surplus).

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2022-23	40,000	-	34,630	-	5,370	-
FY 2023-24	-	-	9,730	-	(4,360)	-



Auto License Plate Reader (915-8065)

- Q/E funded **\$159K** in FY 2022-23. 96% of Measure E budgeted expenditures were spent on the Auto License Plate Reader Camera System.
- \$6,701 of unspent Measure E funds remain in this project's fund balance.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2023-24	159,000	-	152,299	-	6,701	-



ADA Accessibility Upgrades at Quintana and Main (915-8500)

- Q/E funded **\$90K** in FY 2022-23. 0% of Measure E budgeted expenditures were spent for the ADA accessibility upgrades at Quintana and Main.
- \$90K of unspent Measure E funds remain in this project’s fund balance and are available for use in future years. SLOCOG selected this project to receive a \$490k grant, awarded in August of 2022.
- All unspent funds have been carried forward each year.

	Funding Source		Expenditures		Balance	
	Q/E	Other	Q/E	Other	Q/E	Other
FY 2022-23	90,000	-	-	-	90,000	-
FY 2023-24	-	-	-	-	90,000	-



Streets, Trees, Sidewalks, & Transportation CIP Funding Summary

Fiscal Year	Q/E Rev	Q/E Exp	Q/E Bal Fwd	% Used
FY 2020-21 (Pavement Management)	\$414,600	\$0	\$414,600	0%
FY 2021-22 (Pavement Mgmt & Hwy 1/41)	\$950,000	\$0	\$1,364,600	0%
FY 2022-23 (Pavement, Hwy 1/41, ADA, License Plate Reader, Speed Survey, LRSP)	\$2,304,000	\$763,036	\$2,905,564	33%
FY 2023-24 (Pavement, Sidewalks, Trash Cans, LRSP, Active Transportation Plan)	\$2,267,000	\$73,574	\$5,098,987	3%
Totals	\$5,935,600	\$836,610	\$5,098,990	14%



Measure Q/E Capital Project Funding Summary – Grand Totals

Fiscal Year	Q/E Rev	Q/E Exp	Q/E Bal Fwd	% Used
FY 2020-21	\$414,600	\$0	\$414,600	0%
FY 2021-22	\$1,314,000	\$0	\$1,414,600	0%
FY 2022-23	\$2,514,000	\$900,858	\$3,027,742	36%
FY 2023-24	\$2,267,000	\$239,861	\$5,368,881	11%
Totals	\$6,509,600	\$1,140,719	\$5,368,881	18%

February 11, 2025

Memo To: Citizens Finance Advisory Committee

From: Stephen Peck, Chair

Re: Annual Report to Council

Recommendation

That the CFAC review and comment on the draft report to the City Council reporting on CFAC's activities for 2024; its findings on City compliance with the "activities" and usage of the funds and the requirements of the ordinances adopting Measures Q and Measures E; and, its recommendations to improve transparency, promote citizen participation, and maintain compliance.

Background

Each year the CFAC presents a report to the City Council as prescribed by the ordinances adopting measures Q and E, and as provided in the CFAC's bylaws. The bylaws provide that the CFAC, acting as the Citizens Oversight Committee, report on the conformity of usage of Measure Q and Measure E revenues with adopted policy and the "requirements of the ordinance". As the CFAC, it is to report on budget review, with particular emphasis on the budget for Measures Q and E. It is also responsible to make recommendations to the City Council on how to improve transparency, maintain compliance, promote citizen participation, and increase effectiveness.

The current Council Policy (adopted April 13, 2021) provides for the following priorities for usage of Q/E funds:

- Fund Police, Fire and Harbor Public Safety Positions
- Maintain and Enhance Community Cleanliness and Safety
- Invest in Infrastructure Such As Street Paving, Storm Drains, and Vehicle Replacements.
- Fund Positions to Address the Backlog of Funded Capital Projects
- Maintaining Appropriate Reserves

The attached report contains the required material called for in the bylaws, and provides a look back and look forward to provide important context on the historical uses of Q/E funds, the capacity (or more accurately the declining capacity) of Q/E to fund personnel, operations and capital/infrastructure.

Revenues from Q/E activities depend on robust economic activity that are subject to sales taxes. According to budget records:

- Q/E revenues have increased from \$2M in 2020/21 (pre-E-20) to \$4.5M in 2023/24.
- The first full year of both Measures Q and E resulted in \$4.7 million in revenue. Revenue has been flat for two consecutive years and are expected to go down in 2024/25 and beyond.
- Police, Fire and streets were the primary (98%) expenditures pre-E-20. They now represent a little more than half (56.1%).
- In 2020/21 24% of revenue was spent on departmental services (personnel, services, supplies and minor capital), with 76% spent on capital. As of the 2024/25 budget, that pattern has reversed with 76% spent on departmental services and 24% spent on capital.
- By 2030, 90% of Q/E will be necessary to support the same level of services, with less than \$625,000 available that year and beyond for major capital like road paving.

Declining revenues (in absolute and real terms) requires a re-assessment of City priorities for Q/E and managing Council and community expectations. It is recommended that:

- The City should complete the Citywide Capital & Facilities Planning Project as started in 2022. It is essential to enable the Council, CFAC and the community to make informed decisions going forward about capital needs that should and can be met by Q/E.
- CFAC will provide comments on actions necessary to expand citywide revenues.
- There is a significant backlog of capital projects funded from Q/E. These should be evaluated for appropriateness.
- Review and establish new priorities for Q/E Funds, especially given recent revenue decline and projected declining purchasing power. This was last done during COVID, and priorities and realities have changed.

There are also comments on the budgeting and monitoring process:

- Continue to involve the CFAC in joint meetings and special projects. Joint meetings and projects with the City Council, PWAB and HAB have been very useful.
- CFAC would benefit from earlier involvement in the review of existing QE funded capital projects and the selection of projects for funding in each budget cycle.
- City should provide and CFAC should review 10-Year revenue projections compared with 10-Year projections of commitments.

- CFAC should continue its semi-Annual review of expenditures.
- The City Council should make the CFAC/PWAB joint meetings a regular part of each committee's work to plan and review capital projects.
- The City Council should implement the plans to improve the video and audio quality of broadcasts.
- Have staff provide historic, proposed and projected expenditures by legislative intent categories specified in the Measure Q and Measure E ordinances to assist CFAC in determining that the "activities" funded by Q/E meet the "requirements of the ordinance", as well as the adopted policy priorities.
- Better explain changes and variances in a budget year.

Citizens Oversight Committee/Citizens
Finance Advisory Committee (CFAC)

Annual Report to Council

February 24, 2025

Summary of 2023/2024 CFAC Activities

What We Did

- CFAC reviewed and commented on measure Q/E transactions for Fiscal Year 2022-2023.
- Joint meeting with City Council on Council expectations of CFAC; CFAC special work program items.
- Joint meeting with PWAB re: capital projects and capital project priorities.
- Review of required semi annual reports on Q/E revenues and expenditures.
- Reviewed and commented on FY 2024/25 budget proposals.
- Reviewed and commented on FY 2024/25 budget amendments for Police and Fire.
- Review Public Information Strategies to Enhance Access and Transparency.
- Initiated review of potential new or augmented revenue sources; formed a subcommittee to execute work program.
- Information and training on sales tax sources and trends.

CFAC Functions and Duties

Our Responsibilities

- Citizens Oversight Committee
 - Review annual revenue/expenditure report for Measures Q and E relative to activities funded by the measures.
 - Review semi-annual revenue and expenditure report relative to activities funded by Measure Q and E.
 - Report on conformance of Q/E expenditures with voter measures and council priorities.
- Citizens Finance Advisory Committee
 - Provide citizen input on projects, City budget and other Items.
 - Promote citizen participation and understanding of financial information.
 - Review and comment on the city budget prior to presentation to the City Council.
 - Undertake special financial projects as directed by City Council, City Manager or City Treasurer.
 - PERS/OPEB Liabilities
 - City Council Compensation
 - Mid-Year Budget Adjustments
 - City Council Goals
 - Harbor Lease Policy (w/HAB)
 - Joint Meeting with PWAB re: Capital Projects
 - 10-Year Financial Forecast (former duty)
 - Review Quarterly Financial Reports (former duty)
 - Review of Audit (former duty)
 - City Revenues
 - Joint Meeting with Council

CFAC Functions and Duties

- As the Citizens Oversight Committee, report on the conformity of usage of Measure Q and Measure E revenues with adopted policy (April 13, 2021) and the “requirements of the ordinance”. Legislative Intent (See Next Slide). Current Council Policy:
 - Fund Police, Fire and Harbor Public Safety Positions
 - Maintain and Enhance Community Cleanliness and Safety
 - Invest in Infrastructure Such As Street Paving, Storm Drains, and Vehicle Replacements.
 - Fund Positions to Address the Backlog of Funded Capital Projects
 - Maintaining Appropriate Reserves
- As the CFAC, report on budget review, with particular emphasis on the budget for Measures Q and E.
- Make recommendations to the City Council on how to improve transparency, maintain compliance, promote citizen participation, and increase effectiveness.

Legislative Purposes of Q/E Ordinances as Approved by The Voters

<u>Purpose and Use of Funds</u>	<u>Measure</u>	
	<u>Q (2006)</u>	<u>E (2020)</u>
Maintain Police Department Services	x	x
Maintain Fire Department Services		x
Maintain 24/7 Paramedic Services		x
Maintain 911 Emergency Response		x
Upgrading Fire/Paramedic Equipment	x	
Fire Stations	x	
Health Emergency/Disaster Preparedness		x
Keeping Beaches and Public Areas Safe and Clean		x
Retaining/Attracting Businesses		x
General City Services	x	x
Street Maintenance and Pothole Repairs	x	
Improve Storm Drains to Protect the Bay	x	
CFAC Role	“Review Annual Expenditures to Ensure That They Were Made in Accordance with the Requirements of the Ordinance.	“Public Oversight” “Semi-Annually Review Revenues and Expenditures”

- Q/E revenues have increased from \$2M in 2020/21 (pre E-20) to \$4.5M in 2023/24.
- Revenue has been flat for two consecutive years and are expected to go down in 2024/25.
- Police, Fire and streets were the primary (98%) expenditures pre-E-20. They now represent a little more than half (56.1%).
- In 2020/21 24% of revenue was spent on departmental services (personnel, services, supplies and minor capital), with 76% spent on capital.
- As of the 2024/25 budget, that pattern has reversed with 76% spent on departmental services and 24% spent on capital.
- By 2030, 90% of Q/E will be necessary to support the same level of services, with less than \$625,000 available that year and beyond for major capital like road paving.
- Over the past five years \$_____ M of Q/E has been transferred to capital, with \$_____ M unspent or uncommitted.

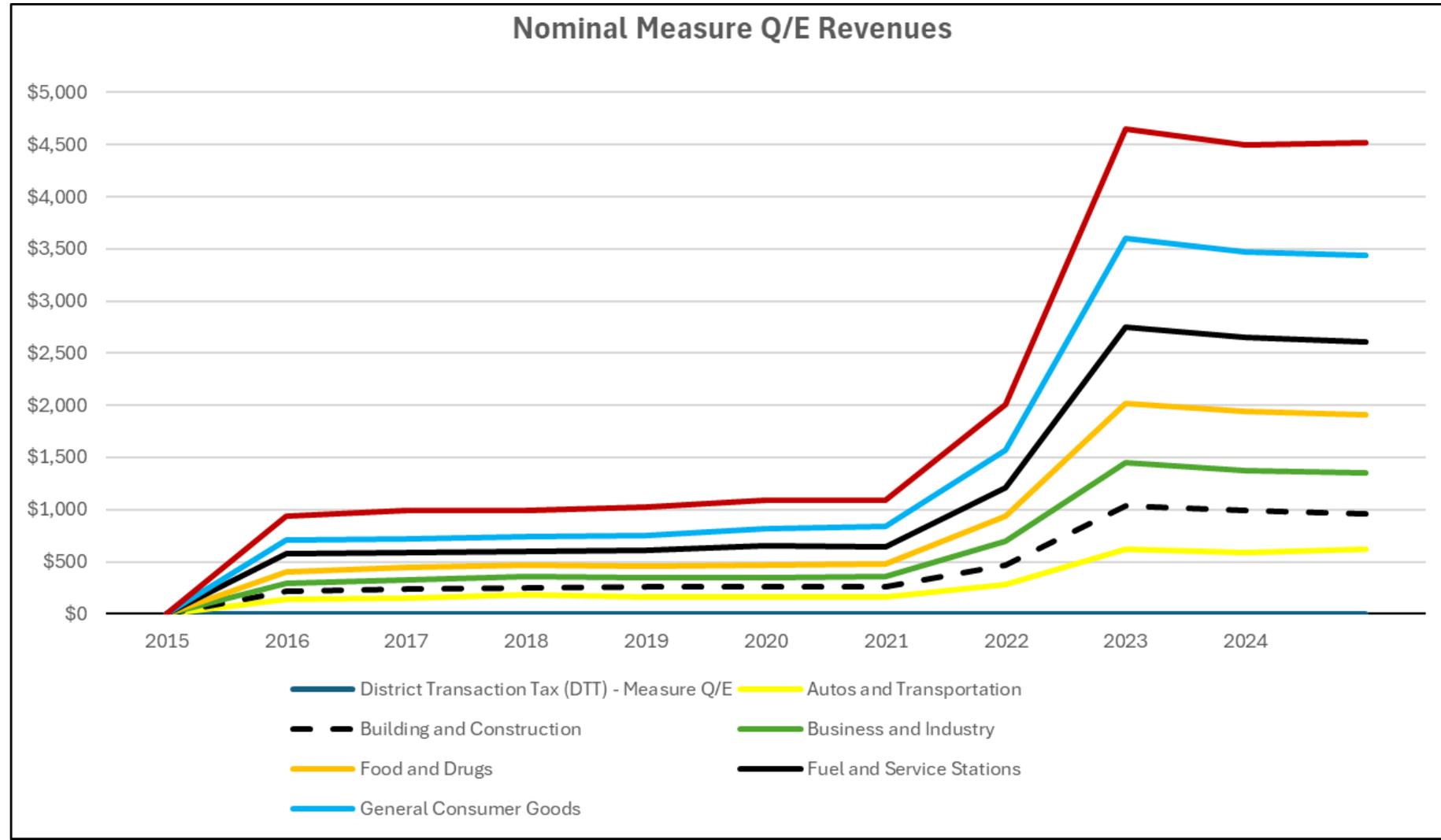
	QE Departmental Expenditures				
	Actuals				Budgeted
	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue (Growth @ 2.5%)	\$ 2,044,970	\$ 4,710,089	\$ 4,578,570	\$ 4,519,482	\$ 4,313,735
Police					
Personnel Services	\$ 82,668	\$ 401,879	\$ 719,235	\$ 723,834	\$ 789,861
Supplies	\$ 20,297	\$ -	\$ 15,731	\$ 17,658	\$ -
Services		\$ 113,823	\$ 102,350	\$ 40,323	\$ 47,073
Capital Outlay		\$ -	\$ 12,605	\$ 75,938	\$ 30,000
Other Expense	\$ 29,162	\$ 8,794	\$ 18,176	\$ 20,960	\$ 36,720
Debt Services					
Total Q/E	\$ 132,127	\$ 524,496	\$ 868,097	\$ 878,713	\$ 903,654
Total Department Budget	\$ 4,184,902	\$ 4,198,770	\$ 5,239,977	\$ 5,671,123	\$ 5,800,262
Q/E Pcnt of Dept Budget	3.2%	12.5%	16.6%	15.5%	15.6%
Pct of Q/E Departmental	26.8%	32.1%	35.0%	30.3%	27.6%
Fire					
Personnel Services	\$ 200,723	\$ 716,741	\$ 896,565	\$ 854,660	\$ 925,146
Supplies	\$ 17,876				
Other Expense	\$ -				
Services	\$ -		\$ 1,900	\$ 1,300	
Capital Outlay	\$ 64,823				
Debt Service	\$ 67,712	\$ 82,888			
Total Q/E	\$ 351,134	\$ 716,741	\$ 898,465	\$ 855,960	\$ 925,146
Total Department Budget	\$ 3,570,443	\$ 3,563,730	\$ 4,197,337	\$ 4,285,813	\$ 4,083,994
Q/E Pcnt of Dept Budget	9.8%	20.1%	21.4%	20.0%	22.7%
Pct of Q/E Departmental	71.1%	43.9%	36.2%	29.5%	28.3%
Harbor					
Personnel Services		\$ 48,360	\$ 138,560	\$ 124,941	\$ 187,397
Supplies			\$ 1,057	\$ 3,300	\$ 6,300
Other Expense					
Services		\$ 80,232	\$ 79,856	\$ 122,030	\$ 120,000
Capital Outlay		\$ 48,564		\$ 72,000	
Debt Service					
Total Q/E	\$ -	\$ 177,156	\$ 219,473	\$ 322,271	\$ 313,697
Total Department Budget	\$ 1,520,466	\$ 1,740,564	\$ 1,983,349	\$ 2,290,606	\$ 2,613,403
Q/E Pcnt of Dept Budget	0.0%	10.2%	11.1%	14.1%	12.0%
Pct of Q/E Departmental	0.0%	10.8%	8.8%	11.1%	9.6%
Public Works					
Personnel Services		\$ 173,856	\$ 436,657	\$ 427,390	\$ 707,769
Supplies	\$ 10,400	\$ 4	\$ -		\$ -
Other Expense					
Services		\$ 42,235	\$ 57,725	\$ 335,725	\$ 420,000
Capital Outlay				\$ 81,215	
Debt Service					
Total Q/E	\$ 10,400	\$ 216,095	\$ 494,382	\$ 844,330	\$ 1,127,769
Total Department Budget	\$ 2,287,481	\$ 2,824,062	\$ 4,138,601	\$ 4,137,776	\$ 4,508,751
Q/E Pcnt of Dept Budget	0.5%	7.7%	11.9%	20.4%	25.0%
Pct of Q/E Departmental	2.1%	13.2%	19.9%	29.1%	34.5%
Q/E Departmental	\$ 493,661	\$ 1,634,488	\$ 2,480,417	\$ 2,901,274	\$ 3,270,266
Percent of Total Q/E	24.1%	34.7%	54.2%	64.2%	75.8%

Measure Q/E Overview Findings and Recommendations

- **Overall Findings Re: Conformity of Expenditures:**
 - Expenditures were in generally in conformance with adopted budgets, although there were some areas that were underspent or there were no expenditures.
 - Some re-allocation of funds for purposes not reviewed by CFAC.
 - Reporting of Capital expenditures from Q/E funds should improve so that CFAC can track all of the actual expenditures and activities funded, not for just the most recent fiscal year.
 - Generally in conformance with the Council's priorities.
- **Other Findings**
 - 2024/25 Budget projects a 5.2% decline in Q/E revenues.
 - Sales tax/QE revenues are projected to stay flat and/or lose purchasing power. There is no real fund balance to work from anymore.
 - Completing the Citywide Capital & Facilities Planning Project as started in 2022 is essential to enable the Council, CFAC and the community to make informed decisions going forward.
 - Significant back-log of funded capital projects.

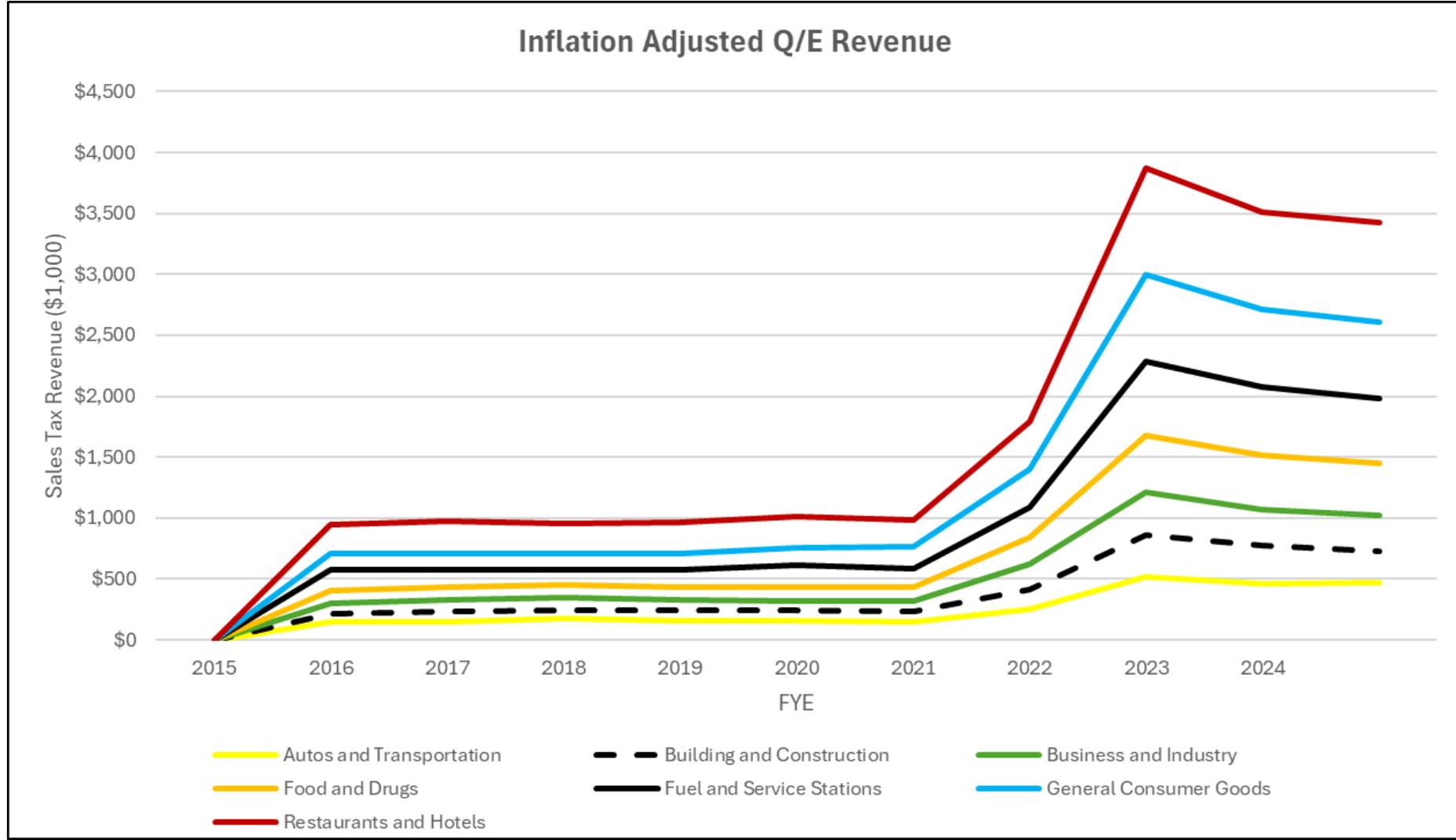
Nominal Q/E Revenues (Not Inflation Adjusted) 2015-2024

- Q/E Revenues have grown.
- Rapid growth during COVID and after Measure E approved.
- Note flat growth from 2015 to 2020. Measure Q only.
- Fall off in 2023, 2023 and 2024 as visitors had other choices for travel.
- Is “post COVID” pattern the new normal.



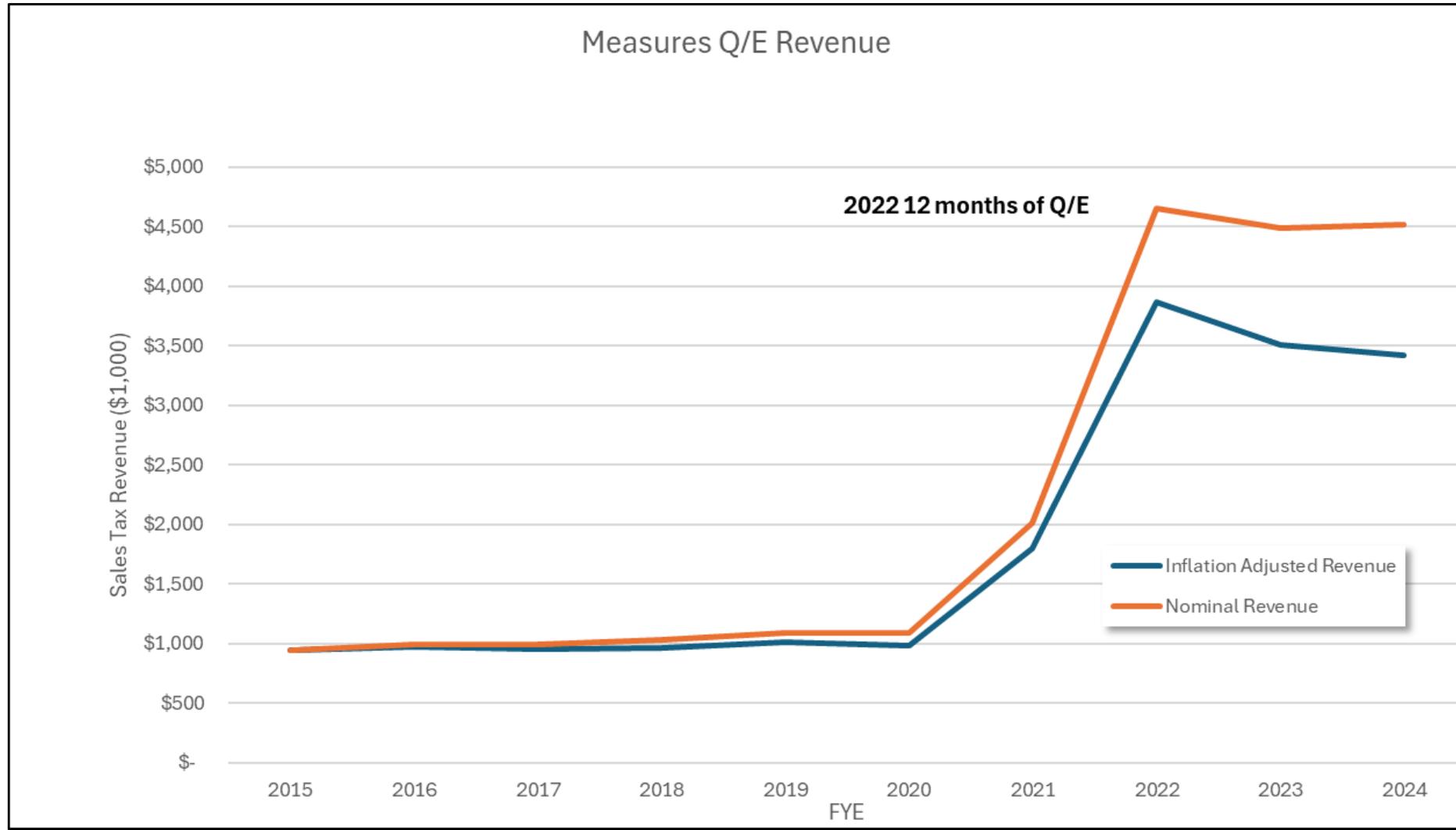
Inflation Adjusted Revenues 2015-2024

- Inflation adjustment measures volume of taxable goods and services.
- 28.4% CPI increase from 2015-2024; “real” growth in local retail economy has been 1.08% per year since 2025.
- 16.9% CPI increase post COVID; 3% decline in Q/E revenue for a net “real” decline of 12.5%
- Note flat growth from 2015 to 2020. Measure Q only.
- Compounded fall off in 2023, 2023 and 2024 as visitors had other choices for travel.



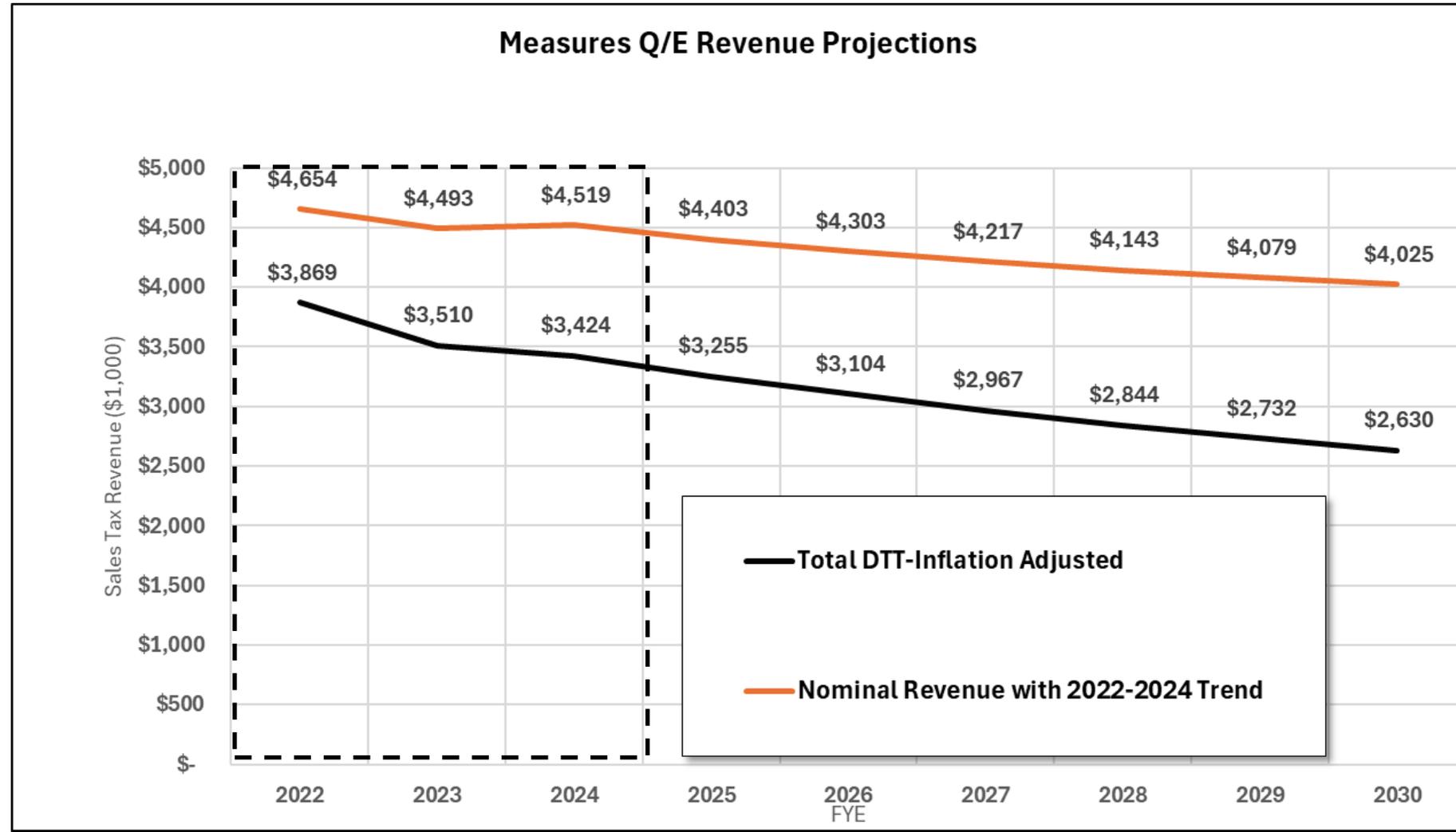
Nominal and Inflation Adjusted Q/E Revenues 2015-2024

- Q/E Revenues historically flat, now declining



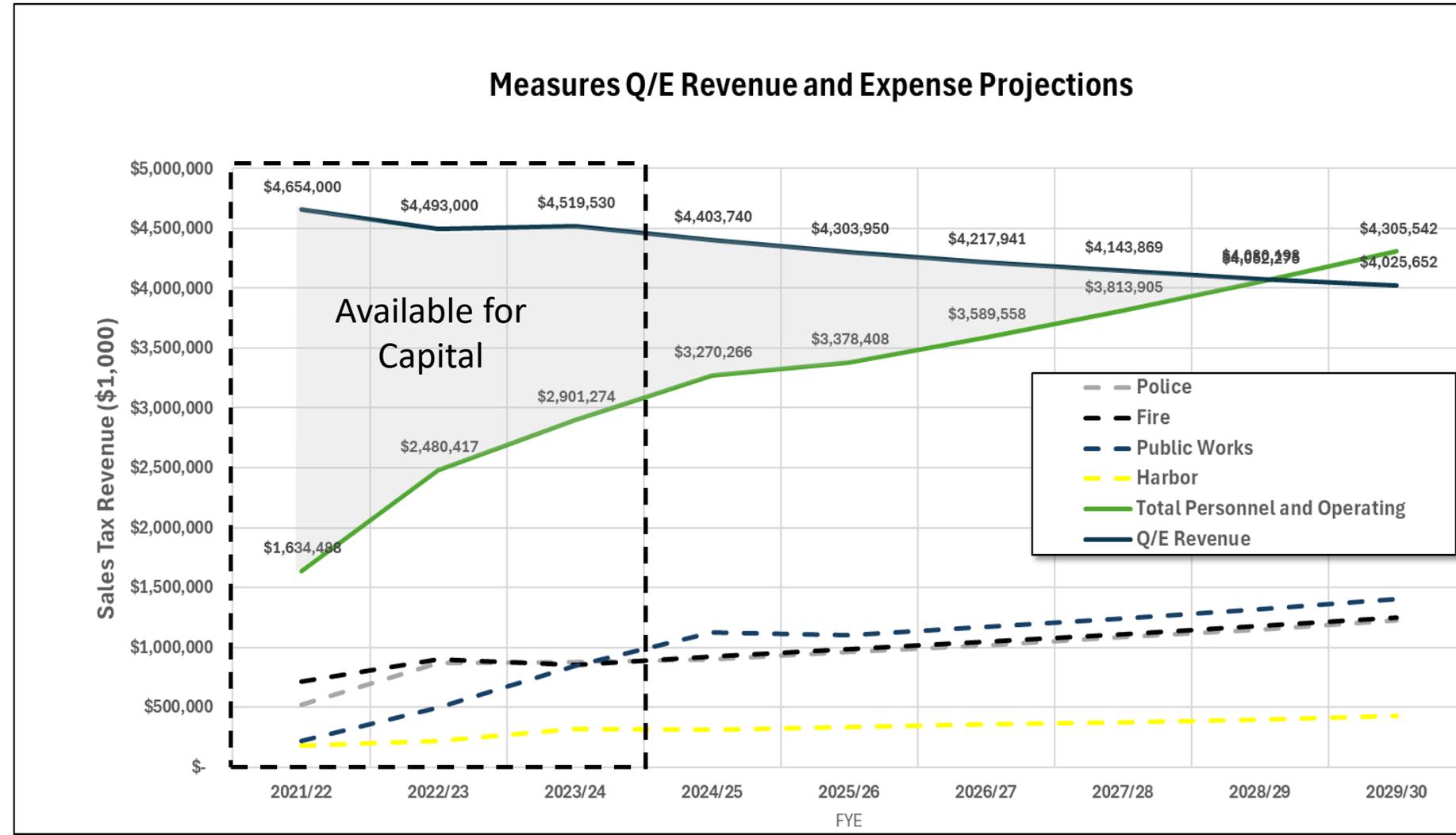
Q/E Revenue Projections 2022-2030

- Nominal Q/E revenues projected to \$4 million by 2030.
- Q/E revenues will lose an additional 15%-20% of purchasing power.
- Compounded fall off in 2023, 2023 and 2024 as visitors had other choices for travel.



Q/E Revenue vs Q/E Operating and Personnel Expense Projections 2022-2030

- City continues to make commitment to personnel and operating from Q/E.
- Currently at \$3.3M of \$4.4M revenue (74%).
- Personnel and operating projected at 6.25% against declining nominal and real Q/E revenues.
- Amount available for capital (road repair, major equipment, etc.) will be \$0 by 2028/29.
- Choices need to be made now about services funded from Q/E going forward.
- Corrective action is possible to reverse decline in revenue.



Measure Q/E Overview Findings and Recommendations

- **Transparency, Compliance Maintenance, Citizen Participation, and Effectiveness**
 - Review and establish new expenditure policy and priorities for Q/E Funds, especially given recent revenue decline and projected declining purchasing power.
 - Continue to involve the CFAC in joint meetings and special projects.
 - Earlier involvement in the review of existing QE funded capital projects and the selection of projects for funding in each budget cycle.
 - Review 10-Year revenue projections and 10-Year projections of commitments.
 - Semi-Annual review of expenditures.
 - Regular joint meetings with PWAB for capital projects.
 - Improve video and audio quality of broadcasts.
 - Provide historic, proposed and projected expenditures by legislative intent categories.
 - Better explain changes and variances in a budget year.

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disbursement vs. non-disbursement prior to City staff submitting disbursement requests for the SRF Loan Amendment.

To support the CFAC and City Council in providing direction regarding the strategy for drawing down the additional low-interest financing made available through the SRF Loan Amendment, City Staff developed and analyzed two potential disbursement strategy scenarios, which are outlined below.

SRF Loan Amendment Disbursement Scenarios:

- 1) **No Disbursement Scenario**
 - a. City does not request disbursement for \$16.7M in held (City cash funded) Water Resources Center and Conveyance costs or any Recycled Water planning/construction and/or WWTP Decommissioning costs
- 2) **Full Disbursement Scenario**
 - a. City requests and receives disbursement for \$16.7M in held (City cash funded) Water Resources Center and Conveyance costs
 - b. Remaining \$4.5M for WWTP Decommissioning and Demolition Costs or new Recycled Water costs

Included in the scenario analysis is a proposed funding prioritization strategy and a number of assumptions based on City Staff's best estimates for current and future program costs. The proposed funding prioritization strategy and assumptions are outlined below.

SRF Loan Amendment Disbursement Scenario Analysis

To assist the CFAC in providing recommendations to City Council on how to proceed, City Staff and the WRF Program Team developed and analyzed the No Disbursement and Full Disbursement scenarios utilizing a financial model that estimates future Water and Sewer Fund revenues, expenses, debt service, capital & non-operating expenses and fund balances on an annual time step. The resulting Water and Sewer Fund balances and interest accrual/payments amounts estimated for the next 10, 20 and 30 years from the model are shown below:

Ending Sewer Fund Balances			
	10 year	20 year	30 year
No Disbursement	\$28,107,000	\$26,493,000	\$23,389,000
Full Disbursement	\$43,764,000	\$37,942,000	\$29,453,000

Ending Water Fund Balances			
	10 year	20 year	30 year
No Disbursement	\$3,575,000	\$8,414,000	\$23,600,000
Full Disbursement	\$4,481,000	\$10,595,000	\$27,412,000

The analysis assumes that the City is able to take advantage of \$5 million of loan forgiveness as well as \$10.5 million in grants already awarded to the City but for which the City does not yet have grant agreements. A 2.5% annual percentage yield (APY) is assumed.

Based on the results of the scenario analysis, it is anticipated that requesting disbursements from the SRF Loan Amendment will provide the City with higher water and sewer fund balances, allow it to maintain minimum fund reserve targets of 35% of annual Operating & Maintenance expenses, and still meet debt service coverage ratios required for the SRF and WIFIA Loans.

Finally, the table below outlines performance of the loan in isolation of the sewer and water funds, comparing only the interest rate earned versus the interest rate paid. This outline assumes none of the loan disbursements are spent on future capital projects. It also assumes a 2.5% APY.

Net Loan Amount*	Potential Interest Earned	Interest Repayment	Principal Repayment	Total Loan Repayment Amount	Ending Balance
\$21,662,000	\$15,227,471	-\$3,148,000	-\$21,662,000	-\$24,810,000	\$12,079,471

**Net Loan Amount includes base loan amendment amount and capitalized interest.*

The benefit of disbursing the full SRF Loan Amendment amount is that the City can maintain higher water and sewer fund balances. The drawback of disbursing the full amount is that the water and sewer funds will have lower debt service coverage ratios and interest repayment will be higher, but this is offset by the interest earnings from the water and sewer fund reserves.

CONCLUSION

The SRF Amendment provides the City with the ability to access \$21,172,000 in additional financing at an interest rate of 0.9%. The City is eligible to receive reimbursements for approximately \$16.7M in currently held WRF Program WRC and Conveyance construction costs and would increase available cash reserves in the Water and Sewer Funds by the equivalent amount. Additionally, the remaining \$4.47M of additional low-interest financing budget would be available to cover costs for the Recycled Water and WWTP Decommissioning projects and reduce or eliminate the need for the City to cash fund these project costs. This would make additional funding available in the Water and Sewer funds to help pay for OneWater and other water and sewer Capital Improvement Projects needed to rehabilitate or replace the City's aging water and sewer infrastructure. However, drawdown of funds from the SRF Loan Amendment would commit the City to 30 years of additional debt service @ 0.9% interest rate and a typical payment of up to approximately \$825,000 depending on the final loan amount, the availability of grant funding, and debt service calculations.

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AGENDA NO: B-3
MEETING DATE: February 18, 2025

Staff Report

TO: Citizens Finance Advisory Committee **DATE:** February 13, 2025
FROM: Emily Conrad, Finance Director
Melissa Green, Administrative Programs Manager
SUBJECT: Fiscal Year 2024-25 Midyear Report

RECOMMENDATION

Staff recommends that the Citizens Finance Advisory Committee (CFAC)

- a) Review the Midyear Budget Report for Fiscal Year (FY) 2024-25 and provide feedback on recommended budget amendments for staff to include in the Midyear Budget presentation to Council.
- b) Review 10-Year Fiscal Forecasts and provide feedback on potential use of Measure Q/E revenues in the upcoming Fiscal Year (FY) 2025-26 proposed budget.

FISCAL IMPACT

Several budget amendments are recommended to maintain core city services and recognize new grant and reimbursement revenues and associated expenditures. These recommended budget amendments include approximately \$1.25 million in increased revenues and \$1.14 million in increased expenses for a total net revenue increase of \$109,933 citywide across all funds.

Each recommended change is detailed by fund in the attached Midyear Budget Report (Attachment 1).

BACKGROUND

The City traditionally evaluates its primary revenues and expenditures in its major funds at the middle of the fiscal year and recommends any necessary budget amendments. The Midyear Budget Report covers the first seven months of the fiscal year, beginning July 1, 2024, and ending January 31, 2025. The report analyzes the key General Fund revenues and expenditures by category and the City's other major funds.

An oral update on CFAC recommendations will be provided to the City Council at the February 25, 2025, regular meeting during staff's presentation of this midyear report.

Staff has traditionally presented CFAC with a fiscal update at or around midyear, which also serves as the precursor to the subsequent fiscal year budget development cycle. As has been discussed in recent CFAC meetings, staff encourages the Committee to take this time to consider the impact of current and historical uses of Measure Q/E funds and make any recommendations to staff for future appropriation.

DISCUSSION

Prepared By: <u>MAG</u>	Dept Review:
City Manager Review: ____	City Attorney Review: ____

Midyear Budget Report

The Midyear Budget Report provides a high level of detail regarding fiscal year-to-date revenues and expenditures in the City's major funds and a detailed breakout of recommended budget amendments by fund.

Fiscal-Year-to-Date Update

Overall, this year's midyear report demonstrates that operating revenues and expenditures are on track. Citywide, across all funds, the City has received approximately 61% of revenues as of January 31, 2025, and expended approximately 61% of all budgeted operating expenditures. This indicates that revenues are consistent with projections.

General Fund Recommended Budget Amendments

Most of the recommended budget amendments are within the General Fund. The Fire Department requested all recommended revenue budget amendments, largely related to Fire Mutual Aid activities. Unlike in previous years, staff deferred budgeting all mutual aid activity to the midyear budget review, when costs are usually entirely incurred. This provides enhanced transparency, separately recognizing mutual aid-related personnel, equipment, administrative costs, and CalOES reimbursement. Mutual aid reimbursement is provided to cover actual costs incurred by the Fire Department due to mutual aid response. This includes wear-and-tear on vehicles and equipment, personnel costs for those firefighters responding to mutual aid assignments, personnel costs to cover firefighters on assignment, and administrative costs to facilitate the mutual aid program.

Other General Fund amendments are recommended to cover increased Human Resources expenditures, provide the necessary personnel for the Finance Department to bring business license and Transient Occupancy Tax administration back in-house, adjust the police department's regular and overtime budgets, and recognize the actual cost of maintaining the police department's pursuit-rated fleet vehicles.

The net impact of all General Fund amendments is a revenue increase of approximately \$259,000. After accounting for restricted mutual aid reimbursements, the effect is a reduction in the General Fund operating surplus of roughly \$165,000.

Measure Q/E Fund Recommended Budget Amendments

The only recommended midyear amendment to the Measure Q/E fund is a \$10,000 expenditure budget increase for Harbor Patrol part-time personnel. This is recommended to account for the increase to the California minimum wage and in response to increased harbor patrol reserve coverage requirements. Measure Q/E revenues are projected to come above budget estimates but below FY 2023-24 actuals, continuing the recent gradual decline in post-pandemic economic growth.

Enterprise and Other Funds Recommended Budget Amendments

Staff recommends a few minor amendments to the Harbor Operating Fund, increasing the expenditure budget by approximately \$57,000. The bulk of this increase covers one-time, grant-funded spending on boat demolition and other deferred maintenance. The current year's projected operating surplus would cover both amendments.

Other minor amendments are recommended in the Special Safety Grants and Risk Management funds. The available fund balance, an appropriate source for these expenditures, will cover these costs.

Long-Term Fiscal Forecasts

Staff is including updates to the long-term fiscal forecasts for each major fund that has recommended midyear amendments, including the General Fund, Measure Q/E fund, and the Harbor Operating Fund. Except where activity has already occurred, such as with mutual aid

reimbursement, midyear requests are not modeled in the forecasts.

As in prior years, the city's long-term financial forecast is somewhat sobering. While operating budgets remain tenuously favorable, the City's ability to fund critical capital improvements remains severely limited.

At the request of the CFAC Chair, a ten-year history of sales tax by major category (attachment 2) is also included with this report.

ATTACHMENTS

1. Fiscal Year 2024-25 Midyear Budget Report
2. Ten-Year History of Sales Tax by Major Category

Midyear Budget Report

FISCAL YEAR 2024-25

This Report covers the seven-month period of July 1, 2024 through January 31, 2025. It provides an update on the City's primary revenues and expenditures in its major funds and outlines recommended budget amendments.

FEBRUARY 2025

City of Morro Bay

Authored by: Administrative Services



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Executive Summary

This year’s midyear report indicates that the City’s revenues and expenditures are on track. As of January 31, 2025, the City has received approximately 67% of its projected revenues and has spent around 48% of its budgeted expenditures across all funds. After accounting for one-time transfers and capital spending, revenues and expenditures are tracking at 61%, consistent with seven months of fiscal year activity behind us. This report includes amendments already approved by City Council, which may be viewed in the City’s [online repository](#) of adopted resolutions¹. Only new midyear requests not previously considered by Council are presented here for consideration.

Table 1 Summary of Citywide Operating Budget Revenues and Expenditures, net of transfers

	Amended Budget	1/31/25 Actuals	% Rec'd/ Used
Total Revenues	46,673,427	28,533,046	61%
Total Expenditures	41,674,497	24,091,932	61%
Totals	\$4,998,930	\$4,441,114	

Table 2 Summary of Citywide Capital Budget Revenues and Expenditures

	Amended Budget	1/31/25 Actuals	% Rec'd/ Used
Total Revenues	19,818,645	15,726,592	79%
Total Expenditures	51,903,902	2,510,154	5%
Totals	(\$32,085,257)	\$13,216,438	

Budgeted capital expenditures exceed revenues because unused capital budgets are carried forward each year, per the Council-approved budget resolution. Revenues for these projects were received in prior years, causing some current- and future-year spending to come from accumulated fund balance. To view the FY 2023-24 capital budget carryforward amounts, refer to staff’s [FY 2023-24 Year-End Budget Report](#).

Several budget amendments are recommended to maintain core city services and recognize new grant and reimbursement revenues and associated expenditures. These recommended budget amendments include approximately \$1.25 million in increased revenues and \$1.14 million in increased expenses for a total net revenue increase of \$109,933 citywide across all funds. Each recommended change is detailed by fund herein.

After accounting for one-time transfers, both revenues and expenditures are tracking at 61%, which is on track with seven months of fiscal year activity behind us.

¹ See Resolution 54-24, 55-24, and 64-24.

Introduction

This report covers the seven months ending January 31, 2025. This report provides an update on the City's primary revenues and expenditures in the City's five major funds and outlines recommended budget amendments. If no significant change is anticipated, no budget amendment will be recommended.

The City's five major funds are General Fund (001), Measure E Fund (003), Harbor Operating Fund (331), Water Operating Fund (311), and Sewer Operating Fund (321). Minor amendments are recommended in a few of the City's smaller special purpose funds, outlined under this report's "Other Funds" section.

This report contains the most accurate and updated information available at the time of publication and represents a snapshot of City revenues and expenditures as of January 31, 2025. It may not represent pending payments and revenues, irregular payments, or revenue timing. As this is not an audited financial statement, the figures are preliminary and will change as the fiscal year progresses.

Fiscal Outlook

The City's fiscal outlook remains cautious. Major tax revenues have plateaued, and while cost inflation has moderated, it persists. Some revenue sources have exceeded conservative budget estimates in recent years while fluctuating staffing levels have resulted in citywide expenditure savings. These savings are expected to decline significantly as the City's costs increase at a greater rate than revenue and staff enhance productivity.

Currently, the City is in a very fortunate position to have substantial reserves to manage any downturns. However, these funds may also be needed to support essential capital improvements, such as the ongoing pavement management program. Looking forward several years, the reserve in the General Fund will have to be drawn down to support capital projects, and, absent a supplemental revenue source, it will be insufficient to support the level of investment necessary to maintain existing City infrastructure. It is crucial to explore new revenue sources, maximize existing revenues, and implement operational efficiencies to address rising costs, deferred maintenance, and plateaued revenues.

One ongoing initiative is updating the City's Master Fee Schedule to ensure optimal cost recovery for City services. Currently, fee revenue from these services accounts for approximately 43% of the citywide revenue budget but only about 10% of General Fund revenues. This small yet significant step is part of a broader effort to enhance the City's financial stability.

Major Revenue Sources

Revenues have leveled off following the surge in economic activity experienced after the pandemic. The following is a summary of the City's major revenue sources and some explanation regarding the methodologies used to forecast future growth.

Property Tax

The San Luis Obispo County Assessor's Office and State Board of Equalization levies property tax at 1% of a property's assessed value, of which the City receives approximately 13.7 cents per dollar paid on property located within the municipal limits of Morro Bay. The County Tax Collector's Office provides property tax estimates annually, with reports in January and again in the fall. According to the County Assessor's [2024 Annual Report](#), middling increases in property values are attributed mainly to Proposition 19, which has led to a

Midyear Budget Report FY 2024-25

significant number of property owners transferring low base values to San Luis Obispo County. In 2024, the county-wide assessed value rose 5.03% compared to the previous year. Specifically, in Morro Bay, the assessed value increased by 5.04%. The County Assessor's Office is projecting a growth rate of 4% for FY 2024-25.

Sales Tax

The City contracts with HdL to forecast sales tax revenue for both the General Fund Bradley Burns sales tax revenue and the Measure Q/E local sales and use tax revenues. While the City experienced sales tax growth in the 10-15% range in the immediate post-pandemic period, FY 2023-24 sales tax revenues were flat over the prior year. For 2024-25, HdL forecasts 0.5% growth over prior year actuals.

Transient Occupancy Tax (TOT)

Budget estimates were developed in coordination with Visit Morro Bay and are based on a review of occupancy rates, average daily room rates, and regional trends. Hotels have seen steady growth from November 2024 to January 2025. Visit Morro Bay plans to increase its marketing efforts in the coming months, which should continue to support a modest increase in TOT revenues for the remainder of the fiscal year.

Major Expenditures

Mutual Aid Activity

In contrast to previous years, staff deferred budgeting fire mutual aid-related expenditures and reimbursements to the midyear review, when annual costs are typically fully incurred. This approach allowed staff to develop a new system for accounting for mutual aid activities separately from routine fire expenditures, providing much-improved clarity and transparency.

The new system for accounting for these costs and reimbursements is to record mutual aid activities under a new sub-department in the General Fund (001-4230 Fire Mutual Aid), with specific revenue accounts established to track the categories of reimbursements the City receives. This new accounting system will ensure that mutual aid reimbursements are allocated strictly for mutual aid-related expenditures, including maintenance or replacement of vehicles and equipment and personnel costs associated with mutual aid responses and coverage. These budget adjustments are included in this midyear report.

Current Personnel Costs

The City delivers essential services to citizens and visitors through a dedicated workforce, the cost of which represents a significant portion of the City's expenditure budget. Over the next two years, personnel costs are expected to rise considerably as the City implements three-year contracts approved in June 2024 for both represented and non-represented employee groups.

Pension Liability Payments

Pension obligations for the City of Morro Bay are comprised of payments to CalPERS for current employees' current-year pension contributions and minimum payments toward the much larger amount associated with past pension obligations, called the "unfunded accrued liability" or UAL. The UAL is primarily associated with prior employees and more generous pension tiers that have since been phased out under State law with pension reform. The City expects to see increasing minimum UAL payments due annually for the next several years, as shown visually in the scenario below. The City's UAL payments are a moving target impacted by CalPERS's achieved rate of returns in the market. The City recognizes a 3% discount on the annual amount due by making lump payments in July, rather than following CalPERS' monthly payment schedule. To keep payments below a target smoothing level of \$3.4 million, the City may need to begin withdrawals from the trust as early as 2028.

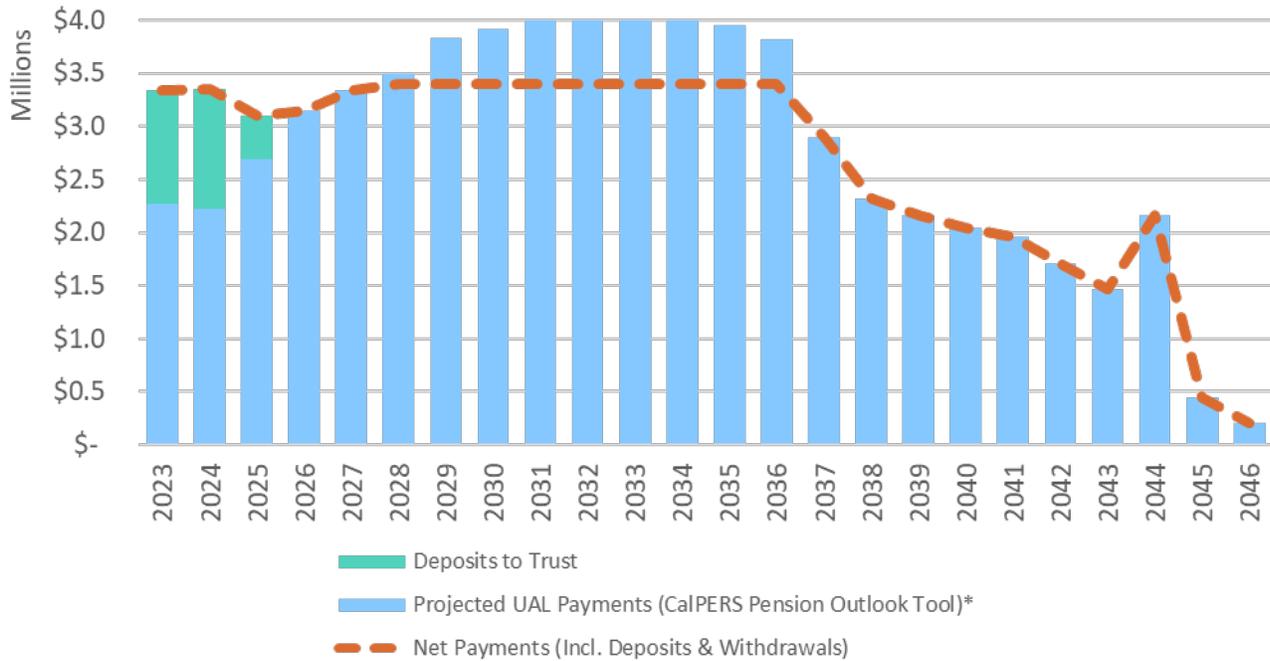


Figure 1 Section 115 Trust Modeling with Existing Contributions

Unfunded Capital Needs

The City has invested significant resources in capital improvements over the past five years, with the Water Reclamation Facility being the City’s largest and most innovative project yet. Ongoing infrastructure improvements continue to compete for funding amidst growing operating and personnel costs. For General Fund projects, the forecast is particularly inadequate. The City’s Annual Pavement Management Program is the most notable underfunded capital need. In the August 27, 2024 [presentation to City Council](#), the City’s pavement management consultant recommended an average \$4.5 million annual investment to maintain the City’s existing pavement rating of “fair/at risk” or 60 PCI. This is an increase over the \$2.8 million annual investment recommended in a 2022 pavement management report, a target the City has yet to meet. In addition to pavement management, the City also has a growing list of storm drain replacements, sidewalk repairs, park improvements, accessibility upgrades, and fire engine replacements to fund in the near future.

Near-Term Actions

To effectively navigate these competing priorities, the city must invest in comprehensive financial planning, prioritize projects based on their impact and urgency, and determine funding sources. It may be prudent to reallocate previously adopted budget to the projects deemed highest priority rather than allocating additional funding from the general fund and/or Measure Q/E. The FY 2024-25 budget aimed to keep non-personnel operating expenditures as flat as possible. This approach will also be recommended for FY 2025-26 budget development.

Staff provides this transparent communication about the City's budgetary challenges and priorities to foster understanding and support for the difficult decisions that may need to be made in the coming budget years. A cautious and proactive approach to fiscal management will assist the City in weathering uncertainties and maintaining its financial stability over the long term.

General Fund

The General Fund remains stable at midyear, with expenditures and revenue tracking closely with the adopted budget. Staff estimates for the remainder of FY 2024-25 suggest a slight increase in the unassigned or available General Fund balance compared to FY 2023-24. Estimates do not include midyear amendments except where those activities have already occurred, such as grant revenues received, mutual aid reimbursements, and mutual aid personnel costs.

Table 3 FY 2024-25 General Fund Total Revenues and Expenditures

	Amended Budget	1/31/25 Actuals	% Rec'd/ Used	Estimated
<i>Total Revenues</i>	19,683,146	13,577,559	69%	20,808,270
<i>Total Operating Expenditures</i>	19,483,091	12,945,017	66%	19,616,341
<i>Transfers to Capital Projects Fund</i>	1,150,000	1,150,000	100%	1,150,000
Totals	(\$949,945)	(\$517,458)		\$41,929

The general fund's available fund balance has been built up through prudent fiscal policies and budget savings over recent years. However, the long-term fiscal forecast for the General Fund indicates that this available fund balance will decrease rapidly in the coming years as the city seeks to maintain service levels and partially fund deferred maintenance such as pavement and storm drain projects.

Table 4 Fund Balance Summary (in thousands)

<i>Fund Description</i>	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25 Budget	FY 2024-25 Estimated
<i>General Fund (nonspendable)</i>	3,974	3,163	3,190	3,190	3,163	3,190
<i>General Fund (committed – GF only)</i>		798				
<i>General Fund (unassigned – GF only)</i>	2,763	6,412	6,449	4,098	3,012	4,046

The City's current reserve policy requires a minimum emergency reserve of 33% of operating expenses (including Measure Q/E) and a target of 50%. The FY 2024-25 budget assumed the City would hold 43% in reserves. Staff has not yet completed a risk-based reserve analysis, which could suggest lowering the General Fund's reserve threshold; however, it is not advisable to set the reserve threshold below 20%, considering what is already known about the city's vulnerability to severe weather, high inflation, and fluctuations in tourism. As such, the General Fund's ability to support critical capital projects remains severely hampered.

Key General Fund Revenue Sources Analysis

The adopted General Fund Revenue Budget for FY 2024-25 is approximately \$19.6 million. As of January 31, 2025, the General Fund had received 69% of its revenues, or \$13.5 million.

Overall, General Fund revenues fiscal-year-to-date are on track. The total percentage collected is higher than the 58% one may expect seven months through the year despite the routine lag in collections of major revenue sources such as property tax, sales tax, and TOT. This is partially explained by the receipt of one-time transfers from enterprise funds per the City's Cost Allocation Plan and the receipt of interest income, which is posted to the General Fund throughout the year and distributed to other funds at year-end.

Major revenue sources are described below in more detail, as they collectively account for over three-quarters of budgeted General Fund revenues. Table 5 presents all General Fund revenue sources in summary format,

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including historical data from FY 2021-22. The “Other Revenues” classification includes grants, donations, auctioned property, refunds, adjustments, and restitution.

Table 5 Key Revenue Sources FY 2022 to Current

Revenue Source	2022 Actual	2023 Actual	2024 Actual	2025 Actual Thru 1-31	2025 Adopted	2025 % Rcv'd	2025 Estimated
Property Taxes	4,981,027	5,275,945	5,573,238	3,253,028	5,660,782	57%	5,685,301
Intergovernmental Revenues	97,661	213,615	64,384	40,517	45,012	90%	63,785
Sales & Use Tax	2,753,611	2,249,114	2,777,093	1,050,133	2,632,000	40%	2,631,457
Cannabis City Tax	512,944	502,149	469,133	224,339	490,000	46%	448,678
Transient Occupancy Tax	4,255,140	4,681,648	4,473,923	2,310,794	4,500,000	51%	4,500,000
Franchise Fees	641,869	698,791	782,158	256,213	747,380	34%	803,000
Licenses & Permits	761,616	660,964	698,361	549,598	725,000	76%	952,302
Revenues From Current Services	2,434,859	2,219,441	2,378,825	1,852,421	2,050,082	90%	3,108,175
Fines & Forfeitures	22,062	27,056	34,193	22,180	31,090	71%	41,541
Other Revenues	330,052	505,615	961,326	204,646	403,015	51%	352,041
Revenues From Use of Money & Property	593,997	615,133	743,173	2,443,108	733,000	333%	601,353
Interfund Revenue Transfers	1,224,866	3,088,584	2,060,218	1,316,931	1,620,639	81%	1,620,638
Totals	\$18,609,703	\$20,738,055	\$21,016,025	\$13,523,908	\$19,638,000	69%	\$20,808,270

Property Tax Revenue

Property tax is the largest revenue category for the City’s General Fund, accounting for 27% of budgeted General Fund revenues in FY 2024-25. Property taxes are considered a relatively stable revenue source. The County provides property tax estimates, and this year’s estimates are consistent with the adopted budget.

Recommendation: None.

Transient Occupancy Tax Revenue

Transient Occupancy Tax (TOT) is the General Fund’s second largest revenue source, accounting for 23% of the City’s budgeted General Fund revenues for FY 2024-25. The city levies and retains a 10% TOT on all hotels, motels, and vacation rentals (including RV parks offering short-term stays) to fund city services provided to visitors to Morro Bay. In addition, the City acts as the fiscal agent and collects and remits an additional 3% to Visit Morro Bay, the Morro Bay Tourism Business Improvement District (TBID), and an additional 1.5% to Visit SLOCAL, the Countywide Tourism program.

As a highly economically sensitive revenue source, the City monitors TOT closely. In recent years, TOT revenues have plateaued. Staff anticipates FY 2024-25 revenues to come near or slightly above the budgeted amount.

Recommendation: None.

Revenues from Current Services (Charges for Service)

City Revenues from Current Services consist primarily of plan check fees, building inspection fees, and recreation sports and youth services fees. These fees are assessed based on recovery formulas, which reflect the

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approximate costs of providing these services and, as a total category, account for 13.7% of the City’s General Fund revenue budget for FY 2024-25. These revenues also include fire mutual aid reimbursement. Due to the intentional delay in budgeting mutual aid activity, revenues from current services are tracking high at midyear. After correcting for mutual aid, the actual percentage of revenue received in this category is approximately 54%.

Recommendation: Amendments are recommended to recognize mutual aid reimbursements based on approved CalOES invoices.

Sales Tax Revenue

Sales tax is the fourth largest revenue source for the City’s General Fund in FY 2024-25, budgeted to generate 13.4% of the Fund’s revenue budget for the year. The base statewide sales and use tax rate is 7.25%, and the City’s General Fund receives 1% of that base tax. This sales tax revenue does not include the 1.5% local sales tax collected through voter-approved Measure Q/E.

The City contracts with industry expert HdL to analyze collections history, forecast sales tax revenues and pursue revenues on the City’s behalf that belong to the City. Sales Tax receipts are tracking with budget estimates, adjusted for the delay in receipts. As with TOT tax receipts, sales tax trends this fiscal year are flat, with only a modest 2-3% growth projected for FY 2025-26 and 2026-27.

Recommendation: None.

Other General Fund Revenues

Other General Fund revenues comprise less than a quarter of the Fund’s budgeted revenues. These include Transfers in, Franchise Fees, Cannabis City Tax, Business Tax, Rental Income, Licenses and Permits, and Grant Revenues.

Recommended General Fund Revenue Budget Amendments

Staff recommends the following General Fund revenue budget amendments at midyear.

Table 6 Requested FY 2024-25 General Fund Revenue Budget Amendments

Description	Dept.	Increase (Decrease)	One-time/ Ongoing	G/L Account
Nuclear Preparedness Program Grant. Move to correct sub-department.	Fire	(12,360)	One-Time	001-4210-3393
Nuclear Preparedness Program Grant. Recognize actual amount received.	Fire EOC	14,411	One-Time	001-4220-3393
Mutual Aid Reimb-Personnel. Recognize actual amount approved by CalOES.	Fire Mutual Aid	767,132	One-Time	001-4230-3502
Mutual Aid Reimb-Vehicle/Equipment. Recognize actual amount approved by CalOES.	Fire Mutual Aid	200,187	One-Time	001-4230-3503
Mutual Aid Reimb-Admin. Recognize actual amount approved by CalOES.	Fire Mutual Aid	196,148	One-Time	001-4230-3504
Mutual Aid Reimb-Expense Claims. Recognize actual amount approved by CalOES.	Fire Mutual Aid	7,926	One-Time	001-4230-3505
General Fund Revenue Total		\$1,173,444		

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General Fund Expenditures Analysis

The adopted General Fund expenditure budget for FY 2024-25 is approximately \$20.6 million. As of January 31, 2025, General Fund expenditures totaled \$14.1 million, or 70% of budget. After accounting for expenditure activity front-loaded at the start of the budget year, the actual percent of budget spent is 58%, which is on track for midyear. The tables below demonstrate expenditures for the fiscal year to date by expense type (object). Where midyear requests result from actual costs already incurred (such as mutual aid activity), those expenditures are included in the estimated column below. All other midyear requests are omitted from staff estimates and the ten-year fiscal forecast.

“Other” expenditures include payments to other agencies (such as SLO County) and special events.

Table 7 FY 2024-25 Expenditure Budget Status by Object

Object	Amended Budget	Actuals	% Used	Estimated
Personnel Services	13,137,966	8,636,649	66%	13,233,346
Supplies	794,222	468,242	59%	741,808
Services	3,522,868	1,874,076	53%	3,569,565
Insurance	703,607	700,266	100%	700,266
Capital Outlay	132,133	105,180	80%	139,613
Debt Service	35,190	17,595	50%	35,189
Interfund Transfers	2,053,059	2,053,059	100%	2,053,059
Other	254,046	239,949	94%	293,496
Totals	\$20,633,091	\$14,095,017	68%	\$20,766,342

Recommended General Fund Expenditure Budget Amendments

Staff recommends several amendments to the General Fund expenditure budget at midyear. The operating surplus of the General Fund will cover the proposed budget amendments unrelated to fire mutual aid reimbursement. All expenses associated with fire mutual aid are reimbursed, so they do not impact the overall budget. Any capital expenditures funded by the General Fund that exceed the operating surplus will be drawn from available fund balance. Consequently, decreasing the operating surplus will increase the amount of fund balance needed for capital projects. Most of the recommended adjustments are for one-time expenditures. However, approximately \$85,000 in spending may be ongoing and should be considered with future year budget adoptions, depending on available funding.

Table 8 Requested FY 2024-25 Expenditure Budget Amendments

Description	Dept.	Increase (Decrease)	One-time/ Ongoing	G/L Account	Non-Discretionary
Part-Time Pay. Correct budget error; miscalculation of hours requested.	Human Resources	5,060	One-Time	001-3140-4310	
Consulting Services. Estimate for employee handbook.	Human Resources	15,000	One-Time	001-3140-6105	
Investigations. Unexpected employee matter.	Human Resources	35,000	One-Time	001-3140-6151	X
Recruitment. Placeholder for potential city attorney recruitment.	Human Resources	35,000	One-Time	001-3140-6760	
Human Resources Subtotal		90,060			

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Regular Pay. Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.	Accounting & Treasury	18,006	Ongoing	001-3510-4110	X
Other Pay. Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.	Accounting & Treasury	300	Ongoing	001-3510-4599	X
Employer Paid Benefits. Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.	Accounting & Treasury	10,585	Ongoing	001-3510-4910	X
Pension Normal Cost. Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.	Accounting & Treasury	2,020	Ongoing	001-3510-4911	X
Accounting & Treasury Subtotal		30,911			
Regular Pay. Salary savings due to several FMLA leaves and staff turnover.	Police	(60,000)	One-Time	001-4110-4110	X
Overtime. Additional overtime needed to cover several FMLA leaves, training, and other staffing shortages.	Police	50,000	One-Time	001-4110-4120	X
Investigations. Increased cost for carry concealed weapons permits.	Police	500	One-Time	001-4110-6151	X
Pre-Employment Testing. Due to employee turnover.	Police	6,000	One-Time	001-4110-6153	X
Outside Vehicle Repair/Maintenance. Increased costs due to aging fleet.	Police	50,000	Ongoing	001-4110-6604	X
Police Subtotal		46,500			
Regular Pay. Mutual aid-related personnel costs.	Fire Mutual Aid	27,531	One-Time	001-4230-4110	X
Overtime. Mutual aid-related personnel costs.	Fire Mutual Aid	372,848	One-Time	001-4230-4120	X
Part-Time Pay. Mutual aid-related personnel costs.	Fire Mutual Aid	18,420	One-Time	001-4230-4310	X
Employer Paid Benefits. Mutual aid-related personnel costs.	Fire Mutual Aid	25,965	One-Time	001-4230-4910	X
Pension Normal Cost. Mutual aid-related personnel costs.	Fire Mutual Aid	9,250	One-Time	001-4230-4911	X
Communication Supplies. Mobile radios for all fire vehicles; meets CalOES communications standards for mutual aid.	Fire Mutual Aid	135,000	One-Time	001-4230-5108	X
Safety Equipment. Fire investigation supplies; supports mutual aid.	Fire Mutual Aid	20,000	One-Time	001-4230-5121	X
Building Maintenance Supplies. Self-contained Breathing Apparatus fill stations electrical repairs; supports mutual aid.	Fire Mutual Aid	6,000	One-Time	001-4230-5502	X
Small Tools/Equipment. Extrication tools, disaster response trailer, etc.; supports mutual aid.	Fire Mutual Aid	5,000	One-Time	001-4230-5530	X
Digital Services. Increased pricing for services; supports mutual aid.	Fire Mutual Aid	4,500	Ongoing	001-4230-6129	X

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Outside Vehicle Repair/Maintenance. <i>Mutual aid-related vehicle repair/maintenance.</i>	Fire Mutual Aid	24,500	One-Time	001-4230-6604	X
Transfer Out. <i>Fund command vehicle replacement utilized for mutual aid response.</i>	Fire Mutual Aid	80,000	One-Time	001-4230-8501	X
Payment to Other Agency. <i>Adjust for underestimate during budget development; supports mutual aid.</i>	Fire Mutual Aid	18,000	One-Time	001-4230-8721	X
Fire Mutual Aid Subtotal		747,014			
General Fund Expenditure Total		\$914,485			

If all General Fund Budget Amendments are approved, the available General Fund balance at the end of FY 2024-25 would be increased by approximately \$259,000, subject to change as the remainder of the fiscal year progresses. It is important to note that most of the City's revenue increase is related to Fire mutual aid reimbursements, which are restricted to mutual aid-related expenditures. Thus, although total fund balance may increase due to these amendments, \$424,379 of available General Fund balance will be restricted for future Fire Department appropriation per the California Fire Assistance Agreement (CFAA). This funding will be tracked in a restricted asset account on the balance sheet for future allocation.

Table 9 Summary of Recommended General Fund Midyear Budget Amendments

	Amended Budget	Increase (Decrease)	Midyear Budget
<i>Total Revenues</i>	19,683,146	1,173,444	20,856,590
<i>Total Operating Expenditures</i>	19,483,091	914,485	20,397,576
<i>Transfers to Capital Projects Fund</i>	1,150,000	0	1,150,000
Totals	(\$949,945)	\$258,959	(\$690,986)

Recommended General Fund Vehicle Replacement Fund Budget Amendments

The General Fund Vehicle Replacement Fund was established to accumulate funding for the replacement of vehicles that are used by the General Fund's departments. The FY 2024-25 budget includes expenditures for the replacement of three vehicles: one SUV for Police, one truck for Fire, and one truck for Consolidated Maintenance. Using State of California vehicle replacement standards, 74% of the City's trucks and 86% of SUVs are eligible for replacement.

Recommended amendments in this fund support replacing a Fire Department command vehicle used for mutual aid response. The funding source for this request is current-year CalOES reimbursement transferred from the Fire Mutual Aid program in the General Fund (001-4230).

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Table 10 Requested FY 2024-25 General Fund Vehicle Replacement Fund Revenue Amendments

Description	Dept.	Increase (Decrease)	One-time/Ongoing	G/L
<i>Transfer In. Funding for new command vehicle transferred from General Fund – Fire Mutual Aid program.</i>	Fire Mutual Aid	80,000	One-Time	050-4230-3801
GF Vehicle Replacement Revenue Total		\$80,000		

Table 11 Requested FY 2024-25 General Fund Vehicle Replacement Fund Expenditure Adjustment

Description	Dept.	Increase (Decrease)	One-time/Ongoing	G/L
<i>Trucks. New command vehicle for fire, reimbursed by mutual aid.</i>	Fire Mutual Aid	80,000	One-Time	050-4230-7202
GF Vehicle Replacement Expenditure Total		\$80,000		

Measure Q/E Fund

Measure E was approved by the voters in November 2020 as a 1% local transaction and use tax, in addition to the 0.5% local transaction and use tax from Measure Q, which was approved by the voters in 2006. The State administers the taxes as one tax, totaling 1.5%. This is codified and explained in detail in Chapter 3.26 of Morro Bay’s Municipal Code. While Measure E is a General Tax, the City Council has identified priority spending areas consistent with the ballot measure language in 2020 and the prior 2006 ballot language used when Measure Q was approved. As directed by City Council on April 13, 2021, the four priority areas of spending for Measure Q/E include:

- Maintain public safety services by funding staff positions that are most closely aligned with the purposes of Measures Q and E. Expenses include costs associated with Morro Bay Fire Department, Morro Bay Police Department, and Morro Bay Harbor personnel and equipment, in addition to the Fire Headquarter Debt service and the Fire Engine loan repayment;
- Maintain or enhance cleanliness and safety of public spaces 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;
- Invest in infrastructure and equipment such as street paving, storm drains, and vehicle replacements that support City services. This priority may include increasing the capacity to implement the backlog of unfunded capital projects and
- Ensure the City's financial health by maintaining appropriate reserves to protect against economic downturns, natural/health emergencies, and other unforeseen challenges or opportunities.

Measure E (like Measure Q before it) requires an independent annual financial audit and the establishment of an independent citizens' advisory committee to review yearly expenditures. The Citizens’ Finance Advisory Committee (CFAC) serves as that oversight committee and is to receive annual and annual reporting on expenditures from Measure Q/E revenues. The annual report through June 30, 2024, was on the CFAC meeting agenda for January 21, 2025.

As of January 31, 2025, the Measure Q/E Fund (fund 003) received 41% of budgeted revenues and expended 57% of budgeted expenditures. A summary of revenue and expenditure activity to date follows.

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Table 12 FY 2024-25 Measure E Total Revenues and Expenditures

	Amended Budget	1/31/25 Actuals	% Rec'd/ Used	Estimated
Total Revenues	4,313,735	1,757,499	41%	4,440,638
Total Operating Expenditures	3,413,907	1,785,075	52%	3,297,416
Transfers to Capital Projects Fund	430,000	430,000	100%	430,000
Totals	\$469,828	(\$457,576)		\$713,222

Measure Q/E Fund Revenues

Fund revenues are tracking slightly below the prior year and represent five months of sales tax collected due to the two-month lag in receipts. Based on consultation with HdL, staff projecting year-end revenue totals to be just above budget but below FY 2023-24 actuals. Sales tax revenue growth is anticipated to remain flat in FY 2024-25 and increase a modest 2-3% in the coming years.

Measure Q/E Fund Expenditures

Fund-wide, expenditures for the first seven months of the year are on track at 57% of the budget expended as of January 31, 2025. The table below presents expenditures by Department. Interfund transfers represent transfers out to the Capital Improvement Fund completed at the start of the fiscal year, with no changes since budget adoption.

Table 13 FY 2024-25 Measure E Fund Expenditures by Department

Department	Amended Budget	Actuals	% Used	Estimated
Non-Departmental	30,000	7,202	24%	30,000
Police	898,501	594,483	66%	910,230
Police-Support Services	62,118	38,424	62%	62,120
Fire	996,835	592,711	59%	936,690
Public Works	234,943	134,641	57%	221,402
Consolidated Maintenance	527,812	250,764	48%	441,458
Street Maintenance	350,000	2,554	1%	350,000
Harbor	201,439	109,252	54%	212,013
Harbor Lifeguards	112,258	48,297	43%	94,502
Interfund Transfers	430,000	430,000	100%	430,000
Total	\$3,843,906	\$2,208,328	57%	\$3,687,415

Recommended Measure Q/E Fund Budget Amendments

Revenues. No revenue amendments are recommended.

Expenditures. Staff recommends one adjustment to Harbor Part-Time Pay, as outlined below.

Table 14 Requested FY 2024-25 Measure Q/E Expenditure Amendments

Description	Dept.	Increase (Decrease)	One-time/ Ongoing	G/L Account
<i>Part-Time Pay. Adjust Harbor Patrol Reserve pay due to minimum wage increase effective January 1, 2025, and increased demand for harbor patrol coverage.</i>	Harbor	10,000	One-Time	003-6510-4310
Measure Q/E Expenditure Total		\$10,000		

Enterprise Funds

The Enterprise Funds are Proprietary Funds that report the same functions as business-type activities. The following funds are included in this category: Harbor Funds, Water Funds, Sewer Funds, and Transit Funds. Currently, each enterprise fund has an operating fund and a capital improvement fund. The following gives an update on significant changes or activities in these funds.

Harbor Enterprise Fund

The Harbor Enterprise Fund accounts for revenues from harbor leases, slips, moorings, and other sources expended for maintenance, operation, patrolling, and harbor improvements. As of January 31, 2025, the Harbor Operating Fund had received approximately 46% of budgeted revenue (\$1.2 million of \$2.6 million) and expended approximately 64% of its budget (\$1.7 million of \$2.6 million). After netting out transfers and front-loaded insurance expenses paid at the start of the fiscal year, the actual percent of the expenditure budget spent is 54%, which is on track with seven months behind us. As lease agreements outline, a large portion of Harbor Fund revenues are received at the end of the fiscal year for the prior year's percentage rent. Due to that contractual timing, it can be difficult to project revenue budgets in the Harbor Fund. Although the adopted budget anticipated a small operating deficit at year-end, staff's midyear projections assume harbor lease revenue will increase from prior year actuals, resulting in an operating surplus of approximately \$0.5 million, not including the \$0.3 million budgeted in the Measure Q/E fund.

As of June 30, 2024, the Harbor Fund had a working capital balance (spendable fund balance) of approximately \$1.6 million.

Table 15 FY 2024-25 Harbor Operating Fund Total Revenues and Expenditures

	Amended Budget	1/31/25 Actuals	% Rec'd/ Used	Estimated
Total Revenues	2,621,784	1,212,902	46%	3,032,272
Total Operating Expenditures	2,645,113	1,704,862	64%	2,494,559
Transfers to Capital Projects Fund	0	0		0
Totals	(\$23,329)	(\$491,960)		\$537,713

Harbor Department staff continues to evaluate capital improvement projects for FY 2024-25. Significant storm damage in 2023 shifted priorities to address commercial fishing dock repairs and replacement. The former Harbor Director did not recommend continuing to spend funds on design, engineering, and permitting for the underfunded Beach Street Slips project. As a result, all Beach Street Slips funding was transferred to the Storm Recovery – Dock Repairs project in the FY 2024-25 budget. Significant underfunded capital improvement needs for much of the Harbor infrastructure remain a critical consideration for future budget cycles.

Recommended Harbor Fund Budget Amendments

Table 16 Requested FY 2024-25 Harbor Fund Expenditure Amendments

Description	Dept.	Increase (Decrease)	One-time/ Ongoing	G/L Account
Contractual Services. Adjust for \$38,000 in grant-funded boat demo costs, plus deferred maintenance costs.	Harbor	53,317	One-Time	331-6510-6106
Telephone. Increased phone expense due to reallocation of city-wide billing after budget adoption.	Harbor	3,359	On-going	331-6510-6201
Harbor Operating Fund Expenditure Total		\$56,676		

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Water Enterprise Fund

The Water Enterprise Fund accounts for revenues received primarily from water service charges, which are expended for maintenance, operations, and capital improvements to the water system. As of January 31, 2025, the Water Operating Fund had received approximately 46% of its budgeted revenues (\$3.6 of \$7.8 million) and expended approximately 74% of its budgeted expenditures (\$7 million of \$9.6 million). FY 2024-25 year-end staff estimates include higher investment returns than budgeted amounts.

Table 17 FY 2024-25 Water Operating Fund Total Revenues and Expenditures

	Adopted Budget	1/31/25 Actuals	% Rec'd/ Used	Estimated
Total Revenues	7,806,837	3,578,042	46%	8,092,300
Total Operating Expenditures	6,472,411	3,917,897	61%	6,340,142
Transfers to Capital Projects Fund	3,133,115	3,133,115	100%	3,133,115
Totals	(\$1,798,689)	(\$3,472,970)		(\$1,380,957)

As of June 30, 2025, the amount of working capital (spendable fund balance) in the Water Fund was approximately \$13.3 million.

Recommended Water Funds Budget Amendments

No budget amendments are recommended for the Water Fund.

Sewer Enterprise Fund

The Sewer Enterprise Fund accounts for revenues received primarily from sewer service charges, which are expended for maintenance, operations, and improvements to the sanitary sewer system. As of January 31, 2025, the Sewer Fund had received approximately 50% of budgeted revenue (\$4.9 of \$9.8 million) and expended approximately 74% of its budget (\$12.8 of \$17.3 million). FY 2024-25 year-end staff estimates include higher investment returns than budgeted amounts and the one-time receipt of insurance proceeds from storm damage.

Table 18 FY 2024-25 Sewer Operating Fund Total Revenues and Expenditures

	Amended Budget	1/31/25 Actuals	% Rec'd/ Used	Estimated
Total Revenues	9,790,604	4,910,256	50%	10,704,647
Total Operating Expenditures	7,365,158	2,900,846	39%	6,595,134
Transfers to Capital Projects Fund	9,926,428	9,926,428	100%	9,926,428
Totals	(\$7,500,982)	(\$7,917,018)		(\$5,816,915)

As of June 30, 2024, the working capital (spendable fund balance) amount in the Sewer Fund was approximately \$22.5 million.

Recommended Sewer Funds Budget Amendments

No budget amendments are recommended for the Sewer Fund.

Transit Enterprise Fund

The Transit Enterprise Fund accounts for the operations and activities associated with the City's public transit system, Morro Bay Transit, which operates a year-round deviated fixed route with fixed route, Call-A-Ride services, and a seasonal Trolley service. The deviated fixed route operates one fixed route that flexes, or

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deviates, off-route to provide limited, advance-scheduled, curb-to-curb service (Call-A-Ride), then returns to the next fixed route stop.

Table 19 FY 2024-25 Transit Operating Fund Total Revenues and Expenditures

	Adopted Budget	1/31/25 Actuals	% Rec'd/ Used	Estimated
Total Revenues	458,093	214,175	47%	436,358
Total Operating Expenditures	339,245	180,021	53%	308,888
Transfers to Capital Projects Fund	19,200	19,200	100%	19,200
Totals	\$99,648	\$14,954		\$108,270

As of June 30, 2024, the working capital (spendable fund balance) amount in the Transit Operating Fund was approximately \$2.5 million.

Recommended Transit Fund Budget Amendments

Transit operations are currently being consolidated into San Luis Obispo Regional Transit Authority (RTA). No midyear budget amendments are recommended at this time, but staff anticipates amendments will be required at year-end to adjust for consolidation activities.

Other Funds

Morro Bay has 25 other nonmajor governmental funds with special purposes, two internal service funds, and three fiduciary funds. They are all outlined in detail each year in the [Adopted Budget document](#).

Recommended Other Funds Budget Amendments

Minor midyear budget amendments are recommended in one nonmajor governmental fund and one internal service fund, as outlined below. All the requests below can be funded from the balance of their respective fund, an appropriate source for these costs.

Table 20 Requested FY 2024-25 Other (Nonmajor) Funds Expenditure Amendments

Fund	Description	Department	Increase (Decrease)	One-time/ Ongoing	G/L
Special Safety Grants (COPS)	Medical Examinations. Health assessments for staff.	Police Support Services	17,600	One-Time	282-4190-6720
Special Safety Grants (COPS)	Automobiles. New unit for Community Service Officer.	Police Support Services	55,000	One-Time	282-4190-7201
<i>Special Safety Grants Expenditure Total</i>			<i>\$72,600</i>		
Risk Management	Other Ins./Employee Bond. Alliant Crime renewal; omitted from budget in error.	Risk Management	9,750	On-going	430-4317-6472
<i>Risk Management Expenditure Total</i>			<i>\$9,750</i>		
Other Funds Expenditure Total			\$82,350		

As of June 30, 2024, the Special Safety Grants Fund had a restricted fund balance of approximately \$0.04 million. The fund was originally established for the Supplemental Law Enforcement Services (SLESF) grant. Government Code Sections 30061-30065 establish the authority for the SLESF, also known as the state COPS grant. The one-time requests below meet the criteria for use of these restricted funds, which are intended to supplement General Fund Police Department expenditures related to frontline law enforcement services.

As of June 30, 2024, the Risk Management Fund had approximately \$0.9 million in working capital, which meets and exceeds its reserve policy of \$0.7 million.

Summary Current Year and Ten-Year Fiscal Forecasts

In addition to the discussion of midyear budget status and budget revisions, staff is also providing summary Ten-Year Fiscal Forecasts prepared for the General Fund, Measure Q/E and Harbor Operating Fund, as these funds all have recommended budget amendments. The summaries include estimated actuals for the current fiscal year at a summary level and ten future fiscal years through FY 2034-35. The forecasts reflect a continuing effort by staff to analyze the City's long-term fiscal condition based on current revenue and expense trends and information provided by sources such as the City's sales tax consultant, the State of California, Visit Morro Bay, and the County of San Luis Obispo. The forecast represents a point-in-time snapshot and an approximate view of what could occur if all assumptions are proven correct.

Assumptions

Staff analyzed revenue trends from 2020 to the present and made several adjustments to the model's assumptions in order to create a more realistic yet fiscally conservative forecast for the next ten years. Previous forecasts cautiously underestimated revenues and overestimated expenditures. While a conservative approach protects the City's financial security against unforeseen economic downturns and natural disasters, it can also lead to inefficient use of resources and unnecessary delays in implementing critical projects or other City initiatives. This midyear forecast aims to align more closely with actual revenue trends, ensuring optimal budget capacity for delivering high-quality services and providing fair compensation for the workforce that delivers them.

Below is a summary of the assumptions used in the forecast model.

- **Revenue**
 - Charges for Service/Other Revenues: 3% based on estimated CPI
 - Sales Tax: 2% for the near term, rising to 3% to match inflation estimates & HdL forecast
 - Property Tax: 4% per County of San Luis Obispo estimates
 - Harbor Lease revenues: 2% for the near term, rising to 3% to match sales tax assumptions
- **Expenditures**
 - Other Operations & Maintenance: 0% for FY 2025-26 then 3% based on estimated CPI
 - Personnel (Operational): Actual increase per MOU through FY 2026-27, then a modest increase for cost-of-living adjustments.
 - Personnel (Pension Liabilities): Based on the CalPERS pension outlook tool. Normal pension costs average below 1% while unfunded pension liabilities range between 13% in the near term to -1% at the end of the forecast period.

Capital costs, where known, are based on the current multiyear capital projects budget. Where capital costs are not yet scheduled, a placeholder has been added, as can be seen in the Harbor Fund forecast.

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The summary reports emphasize the importance for the City to closely monitor local economic conditions and county and national economic trends and make the necessary budgetary recommendations to align future service delivery and essential capital improvements with estimated available financial resources.

General Fund Forecast

The ten-year forecast for the General Fund projects a narrow margin between ongoing operating revenues and expenditures, leaving little cushion for capital project funding. Personnel costs represent approximately 68% of General Fund operating expenditures for the forecast period. From FY 2025 through FY 2027, personnel costs are projected to rise in accordance with Council-approved collective bargaining agreements with represented and non-represented employee groups. In the outyears, the forecast assumes only modest cost-of-living adjustments (COLA) for personnel, allowing for a gradual recovery of operating surplus and, therefore, more funding for capital projects. Between the General Fund and Measure Q/E forecasts, staff has modeled the cost of fully funding the current pavement management target of \$2.8 million per year. Barring any significant deviation from staff assumptions, the forecasts continue to reflect the City’s inability to fully fund capital projects without rapidly depleting emergency reserves.

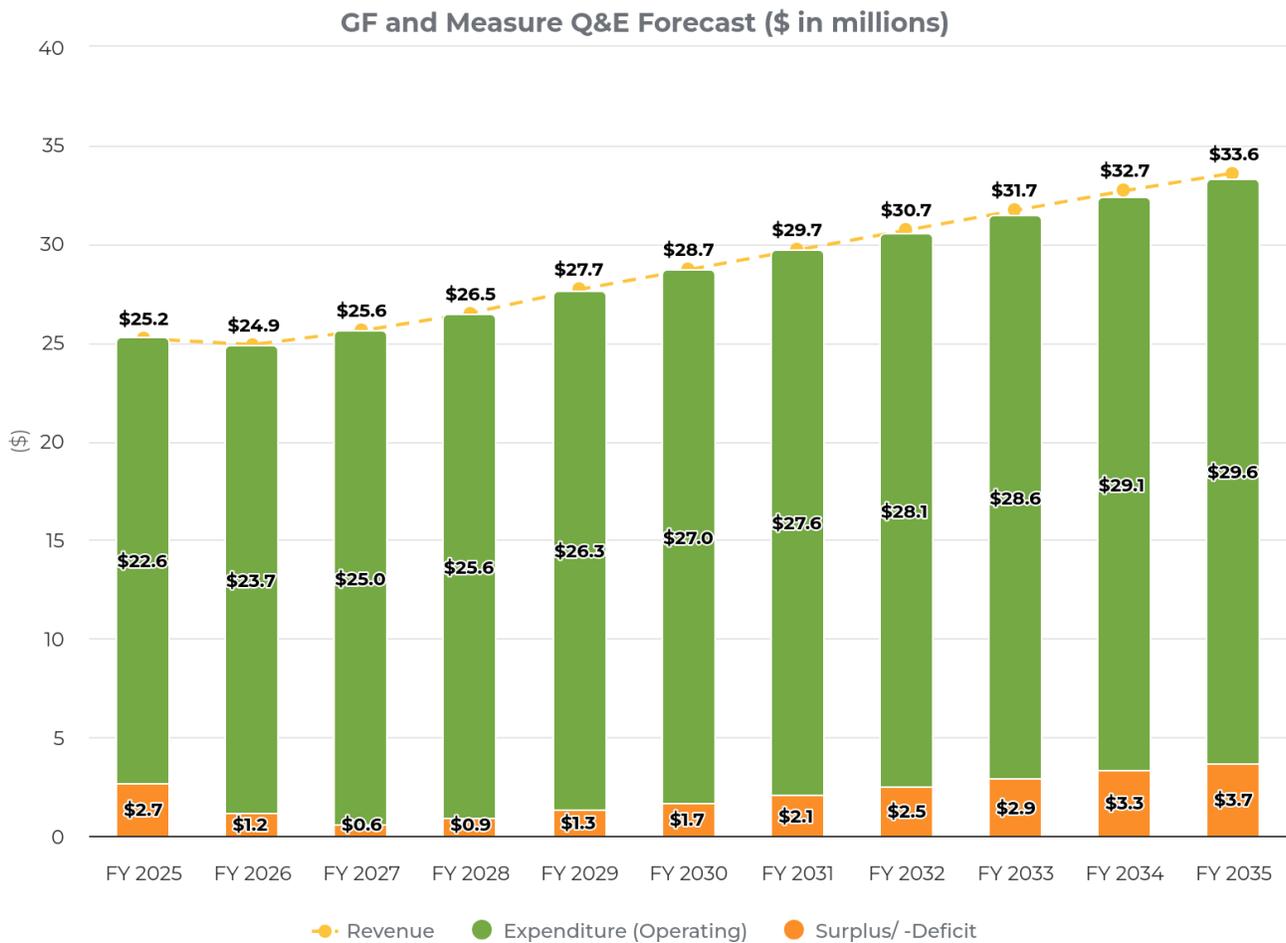


Figure 2 - Combined General Fund and Q/E Operating Forecast

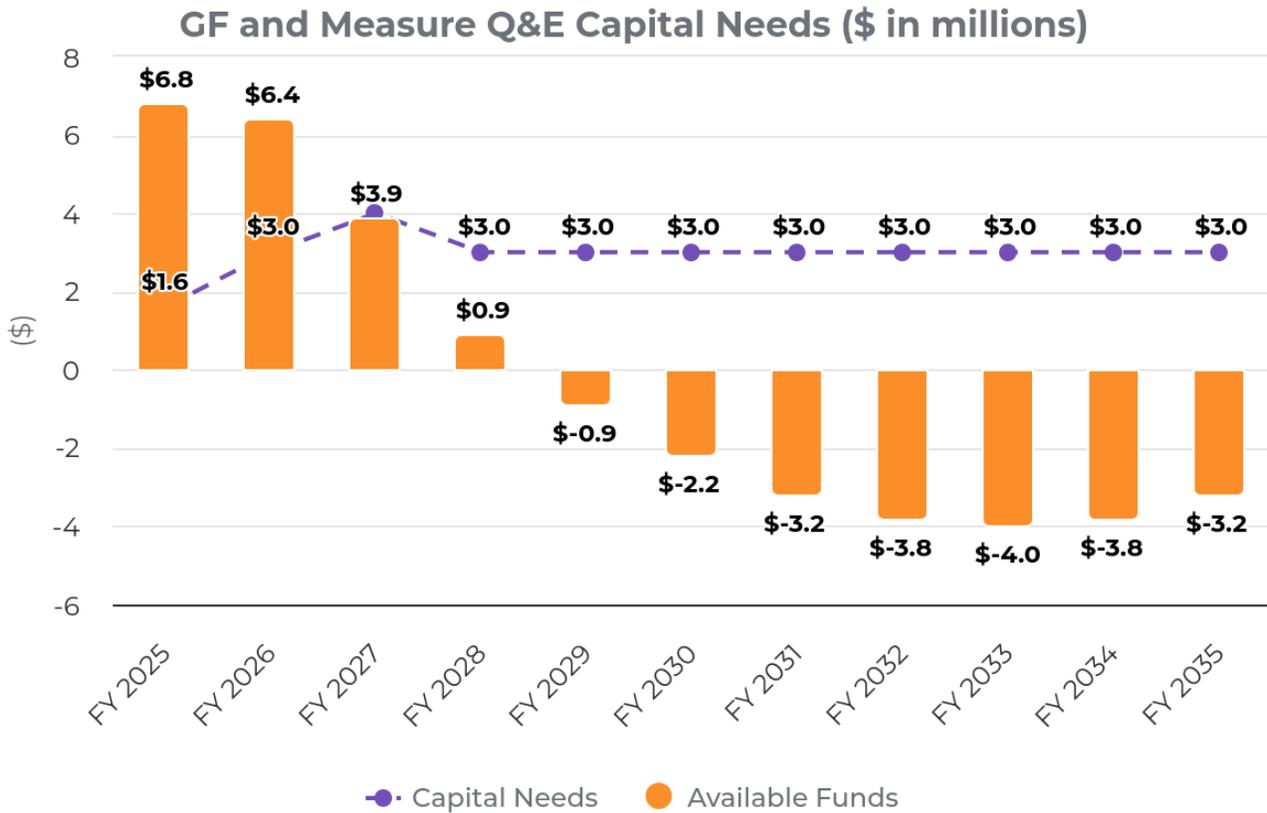


Figure 3 - Combined General Fund and Q/E Capital Needs v. Available Funds

Measure Q/E Forecast

The ten-year forecast for the Measure Q/E fund projects a healthy operating surplus but an inability to fully fund the Annual Pavement Management Program at the level required to avoid depleting emergency reserves in the General Fund. While the allocation of Measure Q/E funding could be adjusted to exclusively fund either capital or operating expenditures, ultimately the combined resources of General Fund and Measure Q/E will soon be insufficient to support the needs of a full-service city.

Harbor Operating Forecast

The ten-year forecast for the Harbor Operating fund projects a slim margin between ongoing revenues and expenditures, a small cushion made possible only by budgeting all Harbor part-time personnel costs in the Measure Q/E fund. Pending the results of a capital needs assessment for the Harbor Department, this forecast has assumed \$0.4 million in capital funding per year for a total capital investment of \$4 million over the ten-year forecast period. This number is likely insufficient to address actual infrastructure needs.

GENERAL FUND (001)	FY 2024 Actual	FY 2025 Budget	FY 2025 Estimated	Forecast									
				FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035
Beginning Fund Balance	9,639,131	6,643,554	7,194,280	7,236,208	5,590,256	2,600,623	764,422	(686,532)	(1,825,646)	(2,643,226)	(3,125,147)	(3,299,327)	(3,157,024)
Revenue													
Property Tax	5,572,306	5,660,782	5,685,301	5,912,713	6,149,221	6,395,190	6,650,998	6,917,038	7,193,719	7,481,468	7,780,727	8,091,956	8,415,634
Sales Tax	2,777,093	2,632,000	2,631,457	2,684,086	2,737,767	2,819,900	2,904,497	2,991,632	3,081,381	3,173,823	3,269,038	3,367,109	3,468,122
Transient Occupancy Tax	4,473,923	4,500,000	4,500,000	4,590,000	4,681,800	4,822,254	4,966,922	5,115,929	5,269,407	5,427,489	5,590,314	5,758,023	5,930,764
Other Revenue	6,132,485	5,224,579	6,370,874	5,625,608	5,794,376	5,968,208	6,147,254	6,331,672	6,521,622	6,717,270	6,918,789	7,126,352	7,340,143
Transfers In	2,060,218	1,620,639	1,620,638	1,549,863	1,596,359	1,744,250	2,123,577	2,264,385	2,396,716	2,530,618	2,556,136	2,583,320	2,572,220
TOTAL REVENUE	21,016,025	19,638,001	20,808,270	20,362,270	20,959,524	21,749,802	22,793,248	23,620,656	24,462,846	25,330,668	26,115,003	26,926,760	27,726,883
Expense													
Personnel	11,563,409	12,825,966	12,921,346	13,797,481	14,646,463	14,985,564	15,440,049	15,745,752	16,050,210	16,359,647	16,606,788	16,865,681	17,098,785
Operational costs	9,382,977	10,227,542	10,351,522	11,000,594	11,726,634	11,961,166	12,200,390	12,444,397	12,693,285	12,947,151	13,206,094	13,470,216	13,739,620
Ongoing costs for long-term liabilities (PERS)	2,180,432	2,598,424	2,569,824	2,796,887	2,919,829	3,024,398	3,239,659	3,301,354	3,356,925	3,412,495	3,400,694	3,395,465	3,359,165
Other Operations & Maintenance	5,668,463	5,358,743	5,444,747	5,444,747	5,608,090	5,776,332	5,949,622	6,128,111	6,311,954	6,501,313	6,696,352	6,897,243	7,104,160
Transfers Out (Ongoing)	779,450	870,382	870,382	896,493	923,388	951,090	979,623	1,009,011	1,039,282	1,070,460	1,102,574	1,135,651	1,169,721
Debt Service Payments	35,189	35,190	35,189	35,189	35,189	35,189	35,189	35,189	35,189	35,189	35,189	35,189	35,189
TOTAL EXPENSE	18,046,511	19,090,281	19,271,664	20,173,911	21,213,130	21,748,176	22,404,483	22,918,064	23,436,636	23,966,609	24,440,904	24,933,765	25,407,855
Net Surplus (Shortfall)-Operating	2,969,514	547,719	1,536,605	188,358	(253,606)	1,626	388,765	702,592	1,026,210	1,364,059	1,674,099	1,992,995	2,319,027
Capital	1,106,865	1,150,000	1,150,000	1,800,000	2,700,000	1,800,000							
Annual Pavement Management Program	-	650,000	650,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Annual Storm Drain Replacement Project	-	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Replacement Type 3 Fire Engine	-	-	-	-	900,000	-	-	-	-	-	-	-	-
Net Surplus (Shortfall)-including Capital	1,862,649	(602,281)	386,605	(1,611,642)	(2,953,606)	(1,798,374)	(1,411,235)	(1,097,408)	(773,790)	(435,941)	(125,901)	192,995	519,027
Contribution to 115 Trust *	887,000	312,000	312,000	-	-	-	-	-	-	-	-	-	-
Transfers Out (One-Time)													
General Fund Emergency Reserve Fund (GFER)	3,292,000	-	-	-	-	-	-	-	-	-	-	-	-
Vehicle Replacement Fund	107,000	-	-	-	-	-	-	-	-	-	-	-	-
Compensable Leave Fund	21,500	32,677	32,677	34,311	36,026	37,828	39,719	41,705	43,790	45,980	48,279	50,693	53,227
Ending Total Fund Balance	7,194,280	5,696,596	7,236,208	5,590,256	2,600,623	764,422	(686,532)	(1,825,646)	(2,643,226)	(3,125,147)	(3,299,327)	(3,157,024)	(2,691,224)
Less Non-Spendable Fund Balance	3,190,000	3,163,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000	3,190,000
Ending Available Fund Balance	4,004,280	2,533,596	4,046,208	2,400,256	(589,377)	(2,425,578)	(3,876,532)	(5,015,646)	(5,833,226)	(6,315,147)	(6,489,327)	(6,347,024)	(5,881,224)
Measure E Fund Operating Expenses (excluding transfers)	3,083,373	3,271,789	3,544,320	3,544,320	3,742,029	3,832,265	3,944,160	4,029,972	4,029,972	4,029,972	4,029,972	4,029,972	4,029,972
General Fund Emergency Reserve Fund (GFER) Balance	7,160,082	7,160,082	7,521,644	7,672,077	7,825,518	7,982,029	8,141,669	8,304,503	8,470,593	8,640,005	8,812,805	8,989,061	9,168,842
Total Fund Balance as % of Total Operating Expenses (General Fund + GFER) / (General Fund + Q&E Operating)	52.8%	43.3%	50.7%	42.5%	29.0%	21.7%	16.2%	12.2%	9.6%	8.3%	8.2%	9.1%	11.2%
Minimum Reserve Levels *	MET	MET	MET	MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET
General Fund Emergency Reserve Policy: 33% operating expenses. Includes Measure E fund	6,972,862	7,379,483	7,529,275	7,827,016	8,235,203	8,441,545	8,695,052	8,892,852	9,063,980	9,238,872	9,395,389	9,558,033	9,714,483
AVAILABLE FUND BALANCE (EXCESS OF MINIMUM RESERVES) *	4,191,500	2,314,195	4,038,577	2,245,316	(999,061)	(2,885,095)	(4,429,915)	(5,603,994)	(6,426,614)	(6,914,014)	(7,071,911)	(6,915,996)	(6,426,865)

Fund Balance Notes

* Minimum Reserve Levels are determined using the combined fund balance of the GFER and General Fund Available Fund Balance.

* The City's Reserve Policy states that in years the minimum reserve levels are met, the General Fund will contribute 33% of the prior year's audited available balance to a Section 115 Trust to address pension liabilities.

* Funds in excess of minimum reserves may be appropriated by Council for any use.

* In years when the available fund balance is forecast to go negative, withdrawals from the General Fund Emergency Reserve would be required.

MEASURE Q/E FUND (003)	FY 2024 Actual	FY 2025 Budget	FY 2025 Estimated	Forecast									
				FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035
Starting Fund Balance	1,325,072	323,655	483,772	1,196,994	932,125	560,135	236,511	(56,249)	(287,778)	(454,279)	(552,967)	(568,799)	(500,018)
Revenue													
Tax Revenue	4,509,073	4,313,735	4,440,638	4,529,451	4,620,040	4,758,641	4,901,400	5,048,442	5,199,895	5,355,892	5,516,569	5,682,066	5,852,528
Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUE	4,509,073	4,313,735	4,440,638	4,529,451	4,620,040	4,758,641	4,901,400	5,048,442	5,199,895	5,355,892	5,516,569	5,682,066	5,852,528
Expense													
Personnel	2,211,885	2,611,695	2,611,283	2,854,227	3,031,234	3,100,145	3,190,077	3,253,266	3,316,389	3,380,573	3,433,674	3,489,096	3,545,703
Operational Costs	1,829,746	2,143,570	2,131,363	2,345,065	2,499,840	2,549,836	2,600,833	2,652,850	2,705,907	2,760,025	2,815,225	2,871,530	2,928,961
Ongoing costs for long-term liabilities (PERS)	382,139	468,126	479,919	509,161	531,394	550,309	589,244	600,416	610,482	620,548	618,448	617,566	616,743
Other Operations & Maintenance	707,254	690,093	686,133	690,093	710,796	732,120	754,083	776,706	800,007	824,007	848,727	874,189	900,415
Transfers Out (operating)	164,234	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service Payments	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSE	3,083,373	3,301,789	3,297,416	3,544,320	3,742,029	3,832,265	3,944,160	4,029,972	4,116,396	4,204,581	4,282,401	4,363,285	4,446,118
Net Surplus (Shortfall)-Operating	1,425,700	1,011,946	1,143,222	985,131	878,010	926,376	957,240	1,018,470	1,083,499	1,151,312	1,234,168	1,318,781	1,406,410
Capital	2,267,000	430,000	430,000	1,250,000									
Morro Bay Bridge Inspection & Assessment	-	80,000	80,000	-	-	-	-	-	-	-	-	-	-
Active Transportation Plan / Active Corridor Studies	67,000	-	-	-	-	-	-	-	-	-	-	-	-
Local Road Safety Plan (LRSP) Implementation and Safety Improvements	150,000	-	-	-	-	-	-	-	-	-	-	-	-
Trash and Recycling Can Replacements	60,000	-	-	-	-	-	-	-	-	-	-	-	-
Sidewalk Improvements and Street Tree Replacements Project	150,000	-	-	-	-	-	-	-	-	-	-	-	-
Annual Pavement Management Program	1,840,000	350,000	350,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Net Surplus (Shortfall) including Capital	(841,300)	581,946	713,222	(264,869)	(371,990)	(323,624)	(292,760)	(231,530)	(166,501)	(98,688)	(15,832)	68,781	156,410
ENDING FUND BALANCE	483,772	905,601	1,196,994	932,125	560,135	236,511	(56,249)	(287,778)	(454,279)	(552,967)	(568,799)	(500,018)	(343,608)
NOTE													
Measure E does not have its own reserve policy, as it is covered in the General Fund Emergency Reserve policy.													

HARBOR OPERATING FUND (331)	FY 2024	FY 2025	FY 2025	Forecast									
	Actual	Budget	Estimated	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035
Starting Fund Balance (Working Capital)	1,353,849	2,018,052	1,561,847	2,071,559	1,845,030	1,584,493	1,354,401	1,143,364	970,770	838,968	749,671	712,258	750,325
Revenue													
Harbor Leases	2,266,045	1,967,250	2,311,366	2,357,593	2,404,745	2,476,887	2,551,194	2,627,730	2,706,562	2,787,759	2,871,391	2,957,533	3,046,259
Boat Charges	483,499	426,016	414,881	427,328	440,147	453,352	466,952	480,961	495,390	510,252	525,559	541,326	557,566
Other Charges for Service	63,106	73,500	71,348	73,488	75,693	77,964	80,303	82,712	85,193	87,749	90,381	93,093	95,886
Other Revenue	73,401	155,018	234,677	46,018	47,398	48,820	50,285	51,793	53,347	54,947	56,596	58,294	60,042
Transfers In	53,599	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUE	2,939,650	2,621,784	3,032,272	2,904,427	2,967,984	3,057,023	3,148,734	3,243,196	3,340,492	3,440,706	3,543,928	3,650,245	3,759,753
Expense													
Personnel	1,324,816	1,529,590	1,429,296	1,665,693	1,744,595	1,783,968	1,836,825	1,872,452	1,907,951	1,944,027	1,973,081	2,003,918	2,031,416
Operational Costs	1,078,830	1,220,903	1,081,228	1,291,542	1,356,119	1,383,241	1,410,906	1,439,124	1,467,907	1,497,265	1,527,210	1,557,754	1,588,909
Ongoing costs for long-term liabilities (PERS)	245,986	308,687	348,068	374,151	388,476	400,727	425,919	433,328	440,045	446,762	445,871	446,164	442,506
Other Operations & Maintenance	650,085	644,324	622,065	622,065	640,726	659,948	679,747	700,139	721,143	742,778	765,061	765,061	811,653
Transfers Out (Ongoing)	397,152	443,199	443,199	443,199	443,199	443,199	443,199	443,199	443,199	443,199	443,199	443,199	443,199
Debt Service Payments	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSE	2,372,054	2,617,113	2,494,559	2,730,956	2,828,521	2,887,115	2,959,771	3,015,790	3,072,294	3,130,003	3,181,341	3,212,178	3,286,268
Net Surplus (Shortfall) - Operating	567,596	4,671	537,713	173,470	139,463	169,908	188,963	227,406	268,198	310,703	362,587	438,067	473,485
Capital Expenditures	280,665	-	-	400,000									
Net Surplus (Shortfall) including Capital	286,931	4,671	537,713	(226,530)	(260,537)	(230,092)	(211,037)	(172,594)	(131,802)	(89,297)	(37,413)	38,067	73,485
Contribution to 115 Trust	68,000	28,000	28,000	-	-	-	-	-	-	-	-	-	-
Ending Fund Balance Before Reserves	1,572,780	1,994,723	2,071,559	1,845,030	1,584,493	1,354,401	1,143,364	970,770	838,968	749,671	712,258	750,325	823,810
Fund Balance - % of Total Operating Expenses	66%	76%	83%	68%	56%	47%	39%	32%	27%	24%	22%	23%	25%
Minimum Reserve Levels	MET												
15% Annual Operating Expenses (Prior Yr Adopted Budget)	349,189	349,189	330,865	374,184	409,643	424,278	433,067	443,966	452,368	460,844	469,500	477,201	481,827
Unreserved/Available Fund Balance	1,223,591	1,645,534	1,740,694	1,470,846	1,174,849	930,123	710,297	526,804	386,599	288,827	242,757	273,124	341,983

NOTES

Measure Q/E Fund FY 24-25 budget includes \$314,000 of Harbor Department costs. The Harbor Fund would have an operating deficit with those expenditures included in the operating fund.

Fund Balance is defined as working capital: current assets less current liabilities

Boat Charges include live aboard; pier dockage; mooring, slip, and floating dockage rental, slip sublease, and skiff permits.

Other Charges for Services include other service fees such as launch ramp parking, coin-operated services, and other rentals.

Other Revenue includes grant funds, penalties, bad debts recovery, auctioned property, and other miscellaneous revenue.

Other Operations and Maintenance includes services, supplies, debt service, capital outlay, and other expense

Transfers out are for internal services costs, including insurance, IT, finance, administration, clerk, attorney, etc. defined by cost allocation.

In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the year's operating surplus.

(Rate per \$100 of assessed value)

LAST TEN FISCAL YEARS

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
All Sales Tax by Major Category:										
Autos and Transportation	\$ 56	\$ 61	\$ 61	\$ 61	\$ 68	\$ 88	\$ 109	\$ 65	\$ 86	\$ 101
Building and Construction	100	106	117	170	179	154	167	147	137	145
Business and Industry	74	77	74	76	83	86	96	95	108	92
Food and Drugs	215	225	236	234	238	244	305	373	378	370
Fuel and Service Stations	334	286	252	289	375	336	328	482	468	464
General Consumer Goods	215	206	208	204	199	182	254	272	230	232
Restaurants and Hotels	464	533	510	551	569	504	557	712	688	715
Total All Sales	\$ 1,458	\$ 1,494	\$ 1,458	\$ 1,585	\$ 1,711	\$ 1,594	\$ 1,816	\$ 2,146	\$ 2,095	\$ 2,119
Performance by Geographic Area:										
Embarcadero Retailers	\$ 330	\$ 341	\$ 333	\$ 352	\$ 366	\$ 304	\$ 388	\$ 444	\$ 432	\$ 428
Downtown Shopping District	95	102	113	126	130	117	138	229	216	221
Quintana Road Business Area	285	302	313	313	318	314	329	332	349	343
No. Morro Bay Business Area	145	140	140	143	154	170	213	175	173	212
Total Geographic Areas	855	885	899	934	968	905	1,068	1,180	1,170	1,203
Sales by Others	566	561	559	652	749	690	743	922	911	912
Total All Sales	\$ 1,421	\$ 1,446	\$ 1,458	\$ 1,586	\$ 1,717	\$ 1,595	\$ 1,811	\$ 2,102	\$ 2,081	\$ 2,116
District Transaction Tax (DTT) - Measure Q/E ¹:										
Autos and Transportation	\$ 143	\$ 154	\$ 179	\$ 166	\$ 167	\$ 159	\$ 284	\$ 623	\$ 586	\$ 620
Building and Construction	68	79	75	95	95	101	183	412	402	337
Business and Industry	84	97	103	85	85	95	230	419	383	391
Food and Drugs	107	112	114	112	119	122	239	559	573	562
Fuel and Service Stations	172	144	131	152	190	170	279	741	712	700
General Consumer Goods	133	136	138	145	161	194	357	850	811	832
Restaurants and Hotels	235	267	255	271	269	245	437	1,050	1,026	1,077
Total DTT	\$ 942	\$ 989	\$ 995	\$ 1,026	\$ 1,086	\$ 1,086	\$ 2,009	\$ 4,654	\$ 4,493	\$ 4,520
Total Number of Businesses by Category:										
Autos and Transportation	\$ 36	\$ 32	\$ 33	\$ 33	\$ 33	\$ 35	\$ 36	\$ 31	\$ 29	24
Building and Construction	28	28	25	27	26	23	20	16	14	574
Business and Industry	122	128	142	140	149	151	152	122	128	709
Food and Drugs	22	26	28	27	24	25	29	25	24	65
Fuel and Service Stations	7	6	8	9	7	7	8	7	7	7
General Consumer Goods	373	397	395	402	380	362	363	268	258	246
Restaurants and Hotels	87	94	88	88	86	93	93	97	105	93
Total	\$ 675	\$ 711	\$ 719	\$ 726	\$ 705	\$ 696	\$ 701	\$ 566	\$ 565	1,718
Number of Businesses Located in Geographic Areas:										
Embarcadero Retailers	\$ 88	\$ 96	\$ 101	\$ 101	\$ 95	\$ 92	\$ 94	\$ 91	\$ 94	97
Downtown Shopping District	86	91	90	89	89	88	88	71	71	86
Quintana Road Business Area	52	62	62	64	59	55	56	55	53	57
No. Morro Bay Business Area	37	45	39	39	40	36	37	29	27	30
Total	\$ 263	\$ 294	\$ 292	\$ 293	\$ 283	\$ 271	\$ 275	\$ 246	\$ 245	270

¹ The City of Morro Bay's District Transaction Tax (Measure Q) passed with the November 2006 election; collections began April 1, 2007. District Transaction Tax (Measure E) passed with the November 2020 election; collections began April 1, 2021. The amounts reported in 2021 reflect the total tax collected for both measures.

Source: HdL Companies

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AGENDA NO: B-4

MEETING DATE: February 18, 2025

Staff Report

TO: Citizens' Oversight/Finance Advisory Committee (CFAC)

DATE: February 14, 2025

FROM: Yvonne Kimball, City Manager

SUBJECT: City Council Goals and Objectives Update, and Receipt of CFAC Input for the Upcoming Goals and Objectives Setting Process

RECOMMENDATION

Receive the staff update on the City Council Goals and Objectives and provide input regarding new goals and actions items for the City Council to consider ahead of their review of the City Goal Setting Workshop scheduled for March 25, 2025.

ALTERNATIVES

None.

FISCAL IMPACT

There will be no immediate fiscal impact related to the recommendation.

BACKGROUND AND PROGRESS UPDATE

City Council Resolution 83-18 establishes the "Strategic Planning Framework Policy" (Policy) that sets forth the process for how the City adopts its strategic budget goals and objectives (Attachment 1). According to the Policy, new goals are established every four years, following presidential elections. Objectives are revisited every two years and, each year short-term actions are adopted with the budget to move objectives forward and accomplish the goals. The goals are intended to set the direction for the City for the next four years and the whole process starts anew with each four-year cycle. Fundamental to the strategic process is the creation of a 10-Year Fiscal Forecast, which provides key information for decision-makers today to help ensure balanced budget and fiscal sustainability into the future.

Progress on Current City Council Goals and Objectives

Current City Council Goals

Current City goals and related action items were formally adopted by City Council in May 2023. Although adoption of new goals in 2023 was out of cycle with a presidential election, the City Council has the discretion to adopt new goals any time they are warranted. The City Council adopted four major areas of goals that reflect the concerns and desires of the community. The goals are as follows:

Prepared By: MC/YK

Dept Review: _____

City Manager Review: YK

City Attorney Review: _____

- 1) Public Infrastructure
- 2) Economic Vitality
- 3) Housing/Homelessness Response
- 4) Community Engagement

Each of the goals include objectives and corresponding action items which, if implemented, would help bring the Council goals into reality. The Council approved a total of 27 action items in May of 2023, with some modifications for the current Fiscal Year 2025.

Progress on Current Goals and Action Items

As of December 2024, the City has completed 15 action items, with 7 nearing completion and 5 in progress. Details are included as Attachment 2.

It is important to note that City Council policy is to *not* add new goals, objectives or action items without first removing or delaying an already approved item (Section 1.2.2 the City Council policy handbook). The Council can remove goals, objectives, or action items at any time, but would generally do so only if they are completed, no longer relevant, or can be accomplished a different way.

DISCUSSION

General Process & Key Considerations

To ensure City goals relate back to the community's needs and desires, City Policy dictates that the City conduct outreach to the public for their input. City outreach and engagement on Council goals is performed using a variety of methods, including the online survey, a community forum, input from City advisory bodies, and a Council goal setting workshop. The current community survey closes on February 15, 2025, and has over 500 responses. Members of the public also communicate with their elected officials directly via e-mail.

To kick off the "new" goal process, the current City Goals were reviewed by the City Council in January 28, 2025. A facilitated community forum is scheduled for March 13 and advisory body outreach is ongoing. From there, a report will be prepared in advance of a City Council Special Meeting on March 25th where the Council will utilize all of the input received from the community and deliberate as a body to formulate their goals for the next four years.

This takes place at the outset of the FY 2025/2026 Budget process and the city goal discussions will ultimately help to inform budget decisions. The key considerations for the City Council in developing goals and action items are as follows:

- 1) They reflect the current needs and desires of the community
- 2) They are achievable given existing City resources (staff and revenues)
- 3) They are trackable with measurable milestones

The new Council goals and action items will also help inform the work plans for the City's advisory boards and commissions. With the City's budget constraints in the forecast, prioritization of existing initiatives and low cost/low resource programs are recommended.

CFAC/Finance Department Specific and Measure E/Q funded "Action Items"

The CFAC and Finance staff have provided input to the City Council in years past, which helped Council in forming and approving the existing goals and related action items. The currently active action items that have bearing on the Finance Department and/or CFAC are as follows:

- Update development impact fees (working with Community Development)
- Pursue grant opportunities, including RFP for grant writer.
- Review of paid parking study and proposed pilot program; implement, as directed.
- Review of city owned properties, strategy to optimize use or revenues.

Additionally, four short-term action projects are funded by Measure E/Q funds. They are listed under “public infrastructure”:

- Street Paving (\$350,000)
- Sidewalk, curb repairs, and on-call storm drain repairs (\$150,000)
- On-call street repairs/road striping (\$200,000)
- Public Safety Standards of Cover study (\$30,000)

Questions for CFAC

- 1) Do the current City four areas of focuses and short-term goals address the needs and priorities of the community, particularly in relation to CFAC/Finance Department areas of responsibility?
 - i. If yes, how to modify them for the next cycle?
 - ii. If not, what are the goals that the City should consider?
- 2) If applicable, possible items for City Council to consider to be included in a corresponding “work plan” for CFAC?

In answering these questions, CFAC members should keep in mind the available staffing resources and city’s funding ability for new programs. Additionally, any recommendation that CFAC makes on a “work plan” should align with the priority action items for Council consideration.

To assist CFAC to come up with possible goals or work plans, examples of previously stated priorities include:

- Complete an updated cost allocation plan.
- Complete an updated user-fee study.
- Develop a multi-year Capital Improvement Budget and financing strategy (with Public Works and other departments and advisory bodies)
- Evaluate additional opportunities to address the City’s CalPERS and Other Post Employment Benefits (OPEB) unfunded liabilities
- A long-term plan for Measures Q and E revenues.
- A review of Harbor Dept. fiscal sustainability and capital improvements.
- Infrastructure planning.
- A 10- to 20-year plan for funding of capital projects.
- Research potential small revenue enhancements and expense reductions that the City Staff currently does not have time or resources to pursue.
- Additionally, an update of the Tideland Lease Management Policy has been brought up by Council members and some members of the advisory bodies.
- Improved reporting on CIP project funds for easy analysis.

Also notable is a full list of existing or unfinished priorities that staff must address. Although some may not be directly related to CFAC’s scope of authority, they are related to the Finance Department’s overall workload. Examples are:

- Waterfront Master Plan update
- WRF remaining tasks: IPR, decommissioning of the old sewer plant properties.
- TOT audits
- Business license administration inhouse change

- 3300 Panorama project processing
- Short term rental ordinance enforcement and implementation improvement
- Water supply portfolio review
- A BESS urgency ordinance; monitor AB 205 process at state agencies.

CONCLUSION

Updating the City Council goals is an important process to ensure that City goals link back to the current needs and desires of the community. Consistent with the City Council Policies, Resolution 83-18, and guided by the city goal of community engagement, staff seeks to receive input from the public including the City's advisory boards and commissions. Bringing the various points of public input together will support Council to identify priority goals and direct City staff to develop a work plan to achieve them through allocation of budget and staff resources.

ATTACHMENTS

1. City Council Resolution 83-18
2. 2023 – 2025 Goals and Action Item Status Report
3. [Link](#) to January 2025 City Goals Status update spreadsheet

RESOLUTION NO. 83-18

**RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF MORRO BAY, CALIFORNIA,
RESCINDING RESOLUTION NO. 72-15 AND
ESTABLISHING THE STRATEGIC PLANNING FRAMEWORK POLICY**

**THE CITY COUNCIL
City of Morro Bay, California**

WHEREAS, at the August 11, 2015, City of Morro Bay regular City Council meeting, the Council unanimously approved the Strategic Planning and Budgeting Framework concept presented and directed staff to develop a Strategic Planning Framework policy to be adopted at a future meeting; and

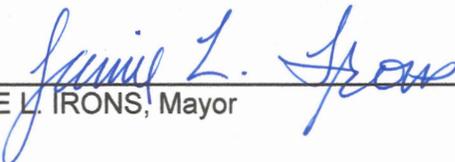
WHEREAS, in accordance with City Council direction, staff prepared a Strategic Planning Framework procedure, which was adopted by City Council via Resolution No. 72-15; and

WHEREAS, it is recommended that City Council revise the Strategic Planning Framework, to include a component for community outreach, to ensure broad public engagement in the development of the City's goals and objectives.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Morro Bay, hereby rescinds Resolution No. 72-15 and establishes the Strategic Planning Framework Policy as defined in the attached Exhibit A.

PASSED AND ADOPTED by the City Council of the City of Morro Bay, at a regular meeting thereof held on the 9th day of October 2018, by the following vote:

AYES: Irons, Davis, Headding, Makowetski, McPherson
NOES: None
ABSENT: None



JAMIE L. IRONS, Mayor

ATTEST:



DANA SWANSON, City Clerk



WHITE PAPER

Strategic Planning Framework

Revised October 9, 2018

I. PURPOSE

The purpose of this paper is to describe the City of Morro Bay Strategic Planning framework. This framework, to be adopted by the City Council, provides direction on annual, biennial and quadrennial planning and budgeting tasks and processes the City will follow.

II. OVERVIEW

The City has many plans, including a General Plan (GP), Local Coastal Plan (LCP), Economic Development Strategic Plan (EDSP - under development in 2015/16), Parking Management Plan and other particular plans. Those plans are essential to provide long-term guidance for the City. And, in particular, the GP/LCP provides strategic direction not only in land-use but in many other areas.

However, the City also needs a regular process to set more general goals, and to identify specific, measurable objectives to reach those goals. This process must also ensure those objectives are considered in the annual budgeting process.

This Strategic Planning Framework does that. In general, the City Council will set / refine broad goals every four years. Every two years the Council will identify specific objectives associated with each goal for staff to complete. Every year during the budget process, those objectives will be budgeted against.

In addition to this Strategic Planning Framework, the City is developing fresh Vision, Values and Mission statements that should inform all of our planning efforts, and goal / objective setting in particular.

III. DEFINITIONS

The following definitions are important to understand the City's Strategic Planning Process:

- **City Mission Statement** – The Mission Statement is a Council-approved statement that describes the basic / essential tasks the City must provide, and a statement toward the purpose of executing these tasks. The mission statement is focused on the purpose of the City Government, not the broader community. The City mission statement might begin something like: "The City of Morro Bay provides Public Safety, Recreation, and other key municipal services in order to"
- **Community Vision and Values Statements.** Community vision and values are also Council-approved, semi-permanent statements, developed with significant community

input, that describe what we want our community to be (Vision) and what ideals our community considers of essential importance (values).

- **City Core Tasks.** Core tasks are functions that we should always be doing well and they should be addressed in our City mission statement. A core task might be: “Maintain City Infrastructure”, or “Provide Public Safety”.
- **City Goals.** Goals are broad projects we want to accomplish over a long-term (4-6 year) period, usually because they are big enough and broad enough they can't be accomplished in a year or two. An example of a goal is: “Improve Streets”.
- **City Objectives.** Biennial objectives are specific, discreet, medium-term (1-2 year) projects that support a more general goal, are feasible and achievable if appropriately resourced, and can be directly budgeted against. An example of an Objective related to the Goal “Improve Streets” could be: “Repave 10% of streets in FY16/17 and FY 17/18”.

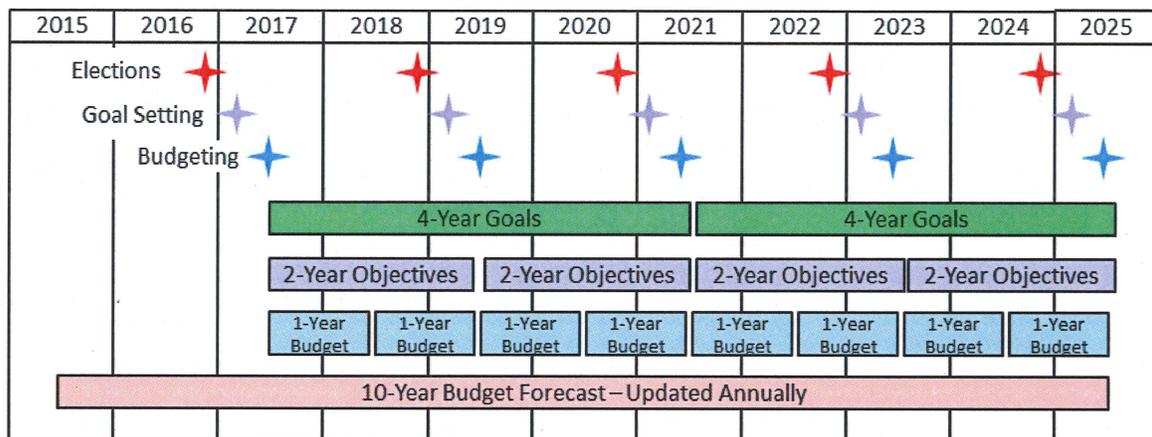
IV. PROCESS

Following is a written description of the City's Strategic Planning Framework depicted below in figure 1.

- The process begins in December of each election year with the seating of a new Council.
- The new Council begins a planning process to set biennial budget objectives for the upcoming two budget years.
- Following elections, the City will advertise in December upcoming community outreach and engagement opportunities.
- This objective-setting planning process normally occurs in January and February with two-year objectives set by the last Council meeting in February.
- In years following an election, in January through mid-February, staff will provide numerous opportunities for the community to engage in the process and to provide input in a number of ways, including community forum(s).
- In years following an election, City Council will host a public retreat in late-February/early March to review community input gathered through the outreach opportunities and develop goals (following Presidential elections as described below) and objectives (following a non-Presidential election). Council will formally adopt the goals/objectives typically by late March/early April.
- Council-approved objectives are then used by staff and Council to develop the annual budget in March – May of each year.
- Every four years (Presidential election years) the new Council also reviews and updates the City's Goals. The City should work to ensure goals are items in which real improvement is needed and achievable. Generally, goals should not be “maintain,” but should be “improve.” Any new Council could, of course, resolve to deviate from this Strategic Planning Framework and modify City goals outside of the specified four-year window. However, for organizational efficiency and community stability, the City should strive to keep goals for at least four years, using biennial objective setting and annual budgeting to affect change and adjust priorities.

- On a semi-annual basis, normally in the fall of each year, staff updates the Council on the status of the two-year budget objectives in an Annual Goals Update report and special Council Meeting.
- In March – May each year, the staff and Council develop a 1-year budget for the upcoming fiscal year: July 1 to June 30 of the following year. The two 1-year budgets every 2-year goal/objective period provide the Council ample opportunity to reallocate resources to achieve, or “weight” specific City Goals and Objectives.
- This entire process is underpinned and informed by a continuing 10-year budget forecast process that is updated annually in Jan – Feb. Every other year the 10-year forecast is updated by an external professional consultant. In the off years it is updated internally by staff.

**Transition Plan for the Morro Bay
Strategic Planning and Budgeting Framework**



- ★ Elections – Nov of even years, new Council seated in early January
- ★ Biennial Planning – Every other year in Jan and Feb Council updates 2-year objectives. every 4th year Council also updates 4-year goals.
- ★ Annual Budgeting – Every year in May and Jun Council updates approves a 1-year budget.

Overview. Beginning in December 2016 the City of Morro Bay executes a 4-2-1 Strategic Planning and Budgeting process.

- Following each election, the new council meets in Jan / Feb to establish 2-year objectives supporting each existing City Goal.
- Every four years this process begins in December and includes renewal of the City’s goals.
- The staff then uses the new objectives to inform creation of the City’s annual budget.
- The entire process is underpinned by a 10-year budget forecast that is professionally (externally) updated every other year and internally updated every year.

Figure 1 – Strategic Planning and Budgeting Framework

V. SUMMARY

This Strategic Planning and Budgeting Framework is intended to complement the City’s broader and more specific plans, including the General Plan, Local Coastal Plan, Economic Development Strategic Plan and other land-use and issue-specific plans.

The above mentioned plans coupled with this Goals and Objectives process should serve, taken as a whole, as the City's strategic plan. Following full implementation of the ongoing GP/LCP rewrites in 2017, and 10-year Economic Development Strategic Plan in 2016, the City could consider if an additional, formal, 10-year strategic plan is required.

Public Infrastructure

- Street Paving: The City Council continues to prioritize street paving and allocated significant funding in the FY 25 budget to support this. During the 2-year goals period, City has completed numerous street paving projects:
 - \$1.4 million paving project completed in August 2023, including portions of Quintana and South Bay Blvd.
 - Radcliff neighborhood street repairs completed in 2024
 - Greenwood, Bolton, Laurel, Cuesta neighborhood street repairs completed in 2024
 - Jamaica, Panorama, Island, Tide neighborhood street repairs completed in 2024
 - Rehabilitation of Police Parking Lot and Lila Keiser Park Parking Lot completed in April 2024
 - Bi-weekly Public Works Maintenance crew pothole and patch digout repairs (ongoing)
 - Tuscan Road slide stabilization and road repair project completed in December 2024

The \$4.5 million pavement rehabilitation project is currently in progress. This is likely the largest City paving project and is anticipated to be completed by April 2025.

- Capital Needs Assessments: This goal initially included two projects: 1) an assessment of harbor facilities, and 2) an assessment of all other city facilities including parks, City buildings, and other infrastructure. This second project was removed in order to prioritize resources to support the first project. As such, the City combined resources for both projects to focus solely on an assessment of the revetments supporting the harbor. This project is nearing completion. The City's consultant, Brady Engineering, prepared a draft revetment assessment report which was reviewed by staff in November. The final report and cost estimate is expected in early 2025. The assessment report is needed to support the City's Congressional funding request for harbor revetment repairs as its condition has exacerbated since the 2023 heavy storms.
- Update Council Chambers: This goal includes two projects: 1) audio visual (AV) upgrades, and 2) implementation of a web-based agenda management system for closed captioning and improved accessibility for visually impaired. On October 8, 2024, the City Council communicated its desire to receive detailed cost information about AV system options. The City released an RFP for the development of AV system design options and their cost estimates. Staff expects to bring to City Council in February a request to approve a consultant contract to fully develop three design alternatives. The City Council will have the opportunity to select for implementation a design alternative at their meeting in April; purchase and installation of the system will occur subsequently. For the second project, the City Clerk's office led the transition to a web-based meeting management system, eScribe. It has been successfully in use for City Council meetings since early 2024 and will be rolled out for advisory body meetings in 2025. In addition to enhanced accessibility features, this new system also improves efficiency in the production of meeting agendas and staff reports.
- Complete Development Impact Fee Study. This project is underway. Due to priority changes such as storm recoveries and personnel transitions, this project has been delayed. It is anticipated to be completed in June 2025. Additionally, the Finance

Department has initiated a user fee update study.

- Public safety needs assessment: This is nearing completion. The Community Risk Assessment and the Standards of Cover report include assessment of all three public safety departments: Fire Department, Police Department and Harbor Department. The Fire Department report is expected by the end of January. The Police and Harbor information is anticipated in March.
- Prioritize storm recovery efforts, maximizing FEMA/insurance opportunities, and hazard mitigation grants. The City has done well on this goal. City completed several storm system improvement projects, including, Elena/Juniper Emergency Storm Drain Repair project, Sequoia Court Emergency Storm Drain Repair project, and Ironwood Storm Drain Replacement project. We also repaired Harbor docks damaged by the storms and applied/received \$660,000 in insurance reimbursements. Lastly, we applied and have been awarded an OES grant for a study of Morro Creek watershed study.
- Improving streetscape with road striping, parking lines and curb painting. This is an ongoing effort that has seen great progress. Much of the striping work happens concurrently with street paving. Additional examples of completed projects are: installed a flashing crosswalk sign; re-striped crosswalk by PD, Embarcadero/ Coleman parkway, Embarcadero parking lot and a variety of intersections in north Morro Bay; completed two grant-funded EV Charging stations which are located in parking lots, Rehabilitation of Police Parking Lot and Lila Keiser Park Parking Lot, and corrected sidewalk ADA deficiencies in downtown Morro Bay and Atascadero Road,

In addition to the stated short-term actions, the City's Engineering and Maintenance Divisions also completed a few other key infrastructure-related projects, which include:

- a variety of park improvement projects, including tennis court rehab, pickleball court resurfacing, and Franklin Park improvements.
- Closed out WRF's two major contracts totaling over \$120 million.
- Completed Lift Station 1 Force Main Replacement project, which fixed a sewer leak due to an old sewer main under Highway 1.
- Completed Water Tank Rehabilitation project involving six of the City's drinking water tanks.
- Completed Local Roadway Safety Plan and a Speed Survey which would to identify priority areas for future traffic safety related work.

Economic Vitality

- Monitor and stay engaged in Offshore Wind (OSW). Completed and ongoing. City Council has formed a sub-committee. The Mayor, Council Members and staff stay engaged with many federal and local agencies on OSW discussions. City partners with SLO county in the OSW related assessment studies. The *Harbor Vitality Director* will continue to support this goal.
- Pursue grant opportunities. City continues to engage state and federal lobbyists to seeking unique funding opportunities including congressional earmarks. City is considering a 2025 legislative platform to guide grant efforts.
- Streamline permit processing for residential and commercial development. This has been completed through the zoning code update which represents significant efforts, including adoption of the objective design standards. Here are a couple of examples illustrating efficiency: The department launched a Pre-designed ADU Program <https://morrobayca.gov/1056/Pre-Designed-ADU-Program>; the Building Division launched online instant permits for small-scale residential solar and energy storage systems. This helps to lower the cost for permit applications and while increasing the

speed of installing residential solar energy systems.
<https://morrobayca.gov/1076/Residential-Solar-Permits>

- Presentation of Paid Parking Study and proposed pilot program. A presentation of the 2022 parking study was provided in October 2023. At the same meeting, Council directed staff to proceed with a paid parking program at the Rock Parking Lot. Since then, staff has been working with the Coastal Commission to obtain necessary approval for a paid parking program. Concurrently, we continue to monitor congestion issues on Embarcadero, especially in the stretch from Morro Rock parking lot to Beach St. Staff's research concurs with previous studies which find a strategy focusing on timed parking enforcement and paid parking at the Rock lot, essential to improve traffic safety and congestion issues on Embarcadero. The Police Chief leads a steering committee consisting of City staff from all departments to look into implementation details. Community stakeholders will also be included in future discussions. The goal is to concurrently implement the timed parking enforcement and paid parking at the Rock parking lot by June 30, 2025.
- Market Plaza development. This topic of discussion continues to evolve. The Council directed staff to reject any and all pending proposals in Fall 2024 and return with a new request for qualification (RFQ) for Council consideration. The RFQ would consider a hospitality project that encompasses all parcels that are in the original project footprint. Council directed staff to hold off on the development of RFQ and focus on analyzing city owned properties.
- Review of City-owned properties and strategies to optimize revenues. An initial first step is to update City property inventory. This should be completed by April 2025. Following the portfolio update, Council can consider a strategic review and opportunity analysis to identify high-potential properties. Then Council can provide directions for redevelopment, leasing, selling or maintaining of each piece. The Council could also task CFAC and/or HAB to assist with identifying high potential properties and developing strategies to utilize them.

In addition to the stated short-term actions, some other key achievements in the area of Economic Vitality are:

- Updated Zoning Code certification in early 2024 following the adoption of Plan Morro Bay.
- Successfully produced the city's 60th anniversary celebrations.
- Successfully hosted the 2023 and the 2024 Ironman Triathlon events.
- Continued to partner with private partners to improve the city's broadband fiber-optic infrastructure. We are one of the most "fiber connected" cities on the Central Coast.

Housing and Homelessness Response

All goals except the following are considered complete:

- Seashell Estates property. A revised application was received August 2024. Upzoning is no longer required. A hearing of the project is tentatively scheduled for February 2025. Here are some details of the proposed Seashell Estate: *The Seashell Estates is a master-planned community located north of Highway 1 and west of the Bayside Care Center nursing home. The project proposes ten (10) single family homes, ten (10) attached junior accessory dwelling units (ADUs) and ten (10) detached ADU, for a total of 30 residential units in a residential low density (RL) zone.*
- Identify affordable housing incentive program: This has evolved into the discussions with

the Downtown Design District (DDD). The final DDD public meeting is still in the works and will be complete by spring. This has been delayed due to the consideration of BESS related urgency ordinance.

Although not included in specific goals, some other key accomplishments that supported public safety include the adoption of a camping ordinance which resulted in noticeable improvements were made along Quintana and other camp sites upon.

Community Engagement

Significant progress has been made to all the action items.

- Develop and implement outreach and communication plan, leverage partnerships with Chamber, Visit Morro Bay, local service clubs, etc.; explore available communication tools.
- Conduct joint council/advisory meetings and consider advisory reports to Council.
- MBPD Citizens Academy, consider community outreach workshops. Citizens Academy has been hosted. Staff also hosted workshops on homelessness responses, BESS project reports, traffic study community workshops, and an information session on the Morro Elementary site. City staff also partnered with Cal Poly graduate studies to host research workshops on topics related to climate action plans and downtown design.
- Develop and implement outreach and communication plan using different formats to reach a broad spectrum of residents. Mayor and Council members have implemented a variety of programs that intend to engage a wide range of residents.
- Development Historical Preservation Ordinance using draft ordinance prepared by Historical Society as a starting point. This item is in progress. A new ordinance requires substantial resources to develop. The DDD discussion has identified that the first achievable step is to work with the Morro Bay Historical Society to generate a list of properties of historical interest or value. The Community Development Department will present the Council with a framework for a historic preservation ordinance by June 30, 2025. The framework will outline the basic components of a potential historic preservation ordinance for Council discussion and direction to staff.

In addition to the stated short-term actions, other notable achievements to improve community engagement and government transparency are: Implemented electronic and paperless filing of campaign disclosure statements and statements of economic interest. Soft launch a web based Public Records Act request platform, streamlining and improving efficiency for review and release of requested record. Continued implementation of electronic signatures for contracts and correspondence for improved efficiency and record keeping. Conducted 2024 election, produced candidate orientation, continued New Council orientation and onboarding.