



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, May 20, 2025 - 3:00 PM

Veterans Memorial Hall

209 Surf St., Morro Bay, CA

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

Public Participation:

Public participation is allowed in the following ways:

- Community members may attend the meeting in person at the Morro Bay Veterans Hall.
- Alternatively, members of the public may watch the meeting and speak during general Public Comment or on a specific agenda item by logging in to the Zoom webinar using the information provided below. Please use the "raise hand" feature to indicate your desire to provide public comment.

Please click the link below to join the webinar:

➤ <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzdwTHlRTk9xaTlmWVNWRWFUQT09>

➤ Password: 135692

➤ Or Telephone Attendee: 1 (408) 638-0968 or 1 (669) 900 6833 or 1 (346) 248 7799; Webinar ID: 827 2274 7698; Password: 135692; Press *9 to "Raise Hand" for Public Comment

- Members of the public may watch the meeting either on cable Channel 20 or as streamed on the City [website](#).
- Community members are encouraged to submit agenda correspondence in advance of the meeting via email to the CFAC Committee at cfac@morrobayca.gov 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

COMMITTEE MEMBER ANNOUNCEMENTS & PRESENTATIONS

DIRECTOR UPDATE

PUBLIC COMMENT

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

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE FEBRUARY 18, 2025, CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE REGULAR MEETING

RECOMMENDATION: Approve as submitted.

B. BUSINESS ITEM

1. RECEIVE PRESENTATION BY NHA ADVISORS ON PENSION UNFUNDED ACCRUED LIABILITY (UAL) (MIKE MEYER, NHA Advisors)

RECOMMENDATION: Receive and File

2. RECEIVE REPORT/PRESENTATION BY CFAC REVENUE ENHANCEMENT SUBCOMMITTEE (JEAN JOHNSON AND BRIAN DORFMAN)

RECOMMENDATION: Receive and File

3. DISCUSSION AND INPUT ON THE FISCAL YEAR 2025-26 DRAFT PROPOSED BUDGET (FINANCE DIRECTOR)

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

1. Review the future year revenue and expense projections for Measure E Fund (Fund 003) and provide appropriate recommendations for use of funds for City Council consideration.
2. Review the FY 2025-26 Draft Proposed Budget and provide a recommendation to City Council on the proposed Measure E (Fund 003) expenditures.
3. Review the FY 2025-26 Draft Proposed Budget and provide a recommendation on for the other major funds for City Council consideration as desired.

C. FUTURE AGENDA ITEMS

D. SCHEDULE NEXT MEETING

August 19, 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.

MINUTES –CITIZENS OVERSIGHT/FINANCE
ADVISORY COMMITTEE
REGULAR MEETING – FEBRUARY 18,2025
VETERAN'S MEMORIAL HALL – 3:00 p.m.

MEMBERS PRESENT: Stephen Peck Chair
Michael Woody Committee Member
Brian Dorfman Committee Member
Jean Johnson Committee Member
Sarah Love Committee Member

ABSENT: None

STAFF PRESENT: Yvonne Kimball City Manager
Emily Conrad Finance Director
Greg Kwolek Public Works Director
Melissa Green Administrative Programs Manager

ESTABLISH QUORUM AND CALL TO ORDER
<https://youtu.be/UPuYyvrUel4?feature=shared&t=10>

Chair Peck called the meeting to order at 3:00 p.m. with all present.

SELECT CHAIR AND VICE-CHAIR
<https://youtu.be/UPuYyvrUel4?si=emm8mARgsdpbNB0P&t=40>

MOTION: Member Woody moved to nominate Member Peck to remain as Chairperson for the Citizens Oversight/Finance Advisory Committee. The motion was seconded by Member Johnson and carried 5-0.

MOTION: Member Dorfman moved to nominate Member Woody to remain as Vice-Chairperson for the Citizens Oversight/Finance Advisory Committee. The motion was seconded by Member Johnson and carried 5-0.

Chair Peck and Vice-Chair Woody suggested rotating seats at the next Chair and Vice-Chair selection.

COMMITTEE ANNOUNCEMENTS & PRESENTATIONS
<https://youtu.be/UPuYyvrUel4?feature=shared&t=313>

FINANCE DIRECTOR UPDATE:
<https://youtu.be/UPuYyvrUel4?feature=shared&t=919>

PUBLIC COMMENT
<https://youtu.be/UPuYyvrUel4?feature=shared&t=964>
Chair Peck opened public comment, seeing none, the Chair closed public comment.

A. CONSENT CALENDAR
<https://youtu.be/UPuYyvrUel4?feature=shared&t=1005>

A-1 APPROVAL OF MINUTES FOR THE JANUARY 21, 2025 CITIZEN'S
OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

MOTION: Member Love moved to approve the January 21, 2025 Citizens Finance Advisory Committee meeting minutes. The motion was seconded by Member Johnson and carried 5-0.

B. BUSINESS ITEMS

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

<https://youtu.be/UPuYyvrUel4?feature=shared&t=1049>

Administrative Programs Manager Green presented the report and responded to Committee Member inquires.

Public comment:

Homer Alexander, Morro Bay resident and former CFAC member, commented on Measure E, stating that it was written with less oversight language compared to previous measures.

MOTION: Vice Chair Woody moved to approve staff's recommendation with the following amendments:

- 1) Request that the City Council reverse the allocation of Dock-Repair funding from the Measure Q/E fund.
- 2) Review the Sequoia Court allocation to determine how it was assigned, and consider reallocating those funds back to the Measure Q/E fund balance.
- 3) Confirm that the Roundabout project qualifies under the definitions established for Measure Q/E expenditures.

The motion was seconded by Member Love and carried 5-0.

Following discussion, the Committee discussed reviewing the CIP budget and capital project requests to ensure alignment with Measure Q/E voter intent and Council goals. There was concern that the reserve requirements may be set too high, and encouraged completion of the Capital Facilities Planning effort. There was a request for more detailed revenue projections, broken down by tax type.

Following discussion, individual committee members offered comments highlighting the importance of identifying additional revenue sources and suggested involving CFAC in the Community Grant Program.

Chair Peck announced that Item B-2 would be heard after Item B-4.

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

<https://youtu.be/UPuYyvrUel4?si=5sm07gbqIk7d4Llk&t=8756>

Public Works Director Kwolek presented the report and responded to Committee Member inquires.

Public Comment:

None.

Following discussion, Chair Peck recommended and received a consensus to continue the item to a future meeting to allow for a more in-depth review. He requested that staff provide a detailed analysis of cash flow, reserve requirements versus excess funds available for other projects, and overall funding considerations.

This item was continued to the May 20, 2025 meeting.

B-3 **FISCAL YEAR 2024-25 MIDYEAR REPORT**
<https://youtu.be/UPuYyvrUel4?feature=shared&t=5204>
Administrative Programs Manager Green presented the report and responded to Committee Member inquires.

Public comment:
None.

MOTION: Vice-Chair Woody moved to approve the Midyear Budget Report for FY 2024-25 with the exception of the proposed \$10,000 increase in Measure Q/E funding for the part-time Harbor Patrol services. The motion was seconded by Member Dorfman and carried 5-0.

B-4 **CITY COUNCIL GOALS AND OBJECTIVES UPDATE, AND RECIEPT OF CFAC INPUT FOR THE UPCOMING GOALS AND OBJECTIVES SETTING PROCESS**
<https://youtu.be/UPuYyvrUel4?feature=shared&t=6576>
City Manager Kimball presented the report and responded to Committee Member inquires.

Public comment:
None.

The Committee offered individual comments.

The Committee did not take any formal action on this item.

C. **FUTURE AGENDA ITEMS**
<https://youtu.be/UPuYyvrUel4?feature=shared&t=9639>
1. Proposed Budget presentation by City Staff
2. Continued Discussion of SRF Financing from Item B-2
3. Continued Discussion of Revenue Stream

D. **SCHEDULE NEXT MEETING**
The next regularly scheduled Citizen's Oversight/Finance Committee meeting will be August 19, 2025 at 3:00 pm.

E. **ADJOURNMENT**
The meeting was adjourned at 5:46pm.

Recorded by:
Sara Pruitt
Fiscal Analyst

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CITY OF MORRO BAY

CALPERS PENSION PROGRAM REVIEW AND COST MANAGEMENT STRATEGY ASSESSMENT



NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

MAY 20, 2025

Today's Discussion

- I. Background on CalPERS Costs
- II. Historical and Projected CalPERS Costs
- III. Cost Management Strategy Overview
- IV. Section 115 Pension Trust Analysis
- V. Conclusion





BACKGROUND ON CALPERS COSTS

City of Morro Bay CalPERS Summary

- ▶ City of Morro Bay has a **\$36M CalPERS Unfunded Accrued Liability (“UAL”)**, as of the latest CalPERS valuation for June 30,2023
 - ▶ **Miscellaneous Plan: \$20M | Safety Plan: \$16M**
- ▶ CalPERS FY 2023-24 Final Investment Returns: 9.5%*
 - ▶ Projected to decrease City’s UAL to \$34M (as of 6/30/2024); annual budgetary impact from this change will be seen in FY 2026-27
- ▶ **City has been proactive in addressing rising pension costs**
 - ▶ \$3.1M in a Section 115 Pension Trust as of 2/28/2025
 - ▶ Pension Reserve Policy adopted in April 2022
- ▶ Continuing to monitor and manage ongoing CalPERS UAL costs will be critical for fiscal resiliency, especially with potential changes stemming from CalPERS’ 2025 Asset Liability Management Study and FY 2024-25 investment performance

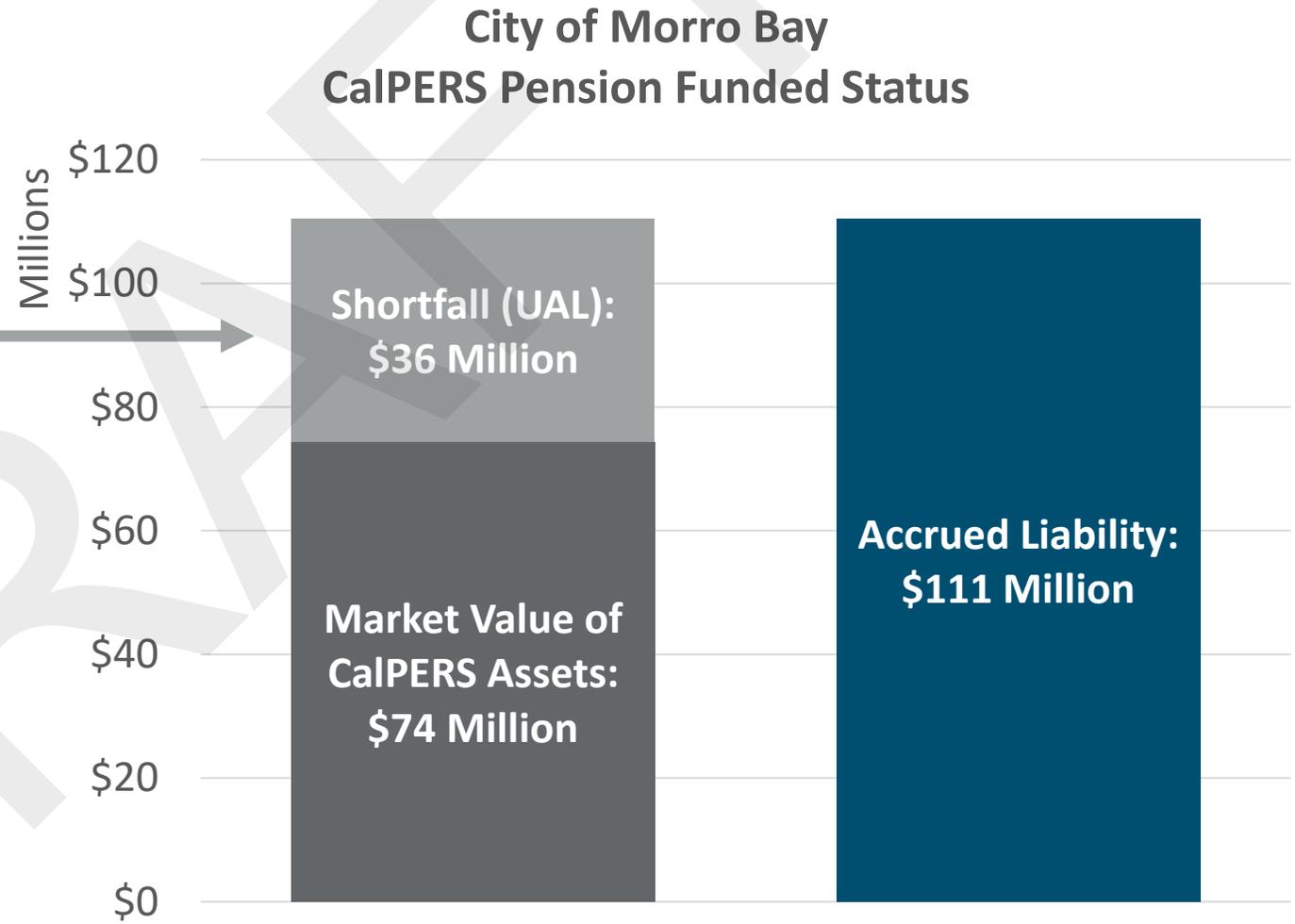


**CalPERS’ Money-Weighted Rate of Return, as reported by CalPERS in its FY 2023-24 Annual Comprehensive Financial Report*

Background on How CalPERS Works

Two Payments Made to CalPERS Annually

- ▶ **(1) Normal Cost (“NC”):**
Annual cost for current employees
- ▶ **(2) Unfunded Accrued Liability (“UAL”):** Annual payment to amortize the “debt” to CalPERS
 - ▶ UAL is amortized over 20 years
 - ▶ New UAL is created when CalPERS investment returns <6.80%



Source: CalPERS Actuarial Valuation as of June 30, 2023



Historical PERS Returns
 5-Year: 6.6%
 10-Year: 6.2%
 20-Year: 6.7%
 30-Year: 7.7%

Why CalPERS Costs Have Trended Higher

Then (late 1990s)...

- ▶ Robust investment returns (10%+)
 - ▶ Retirement plans were “Super-Funded” through the late 1990s
 - ▶ Earnings on funds were more than adequate to cover retirement costs
- ▶ Super-funded status induced widespread retirement benefits enhancements
- ▶ Past funding policies led to contribution holidays and “free” benefit improvements

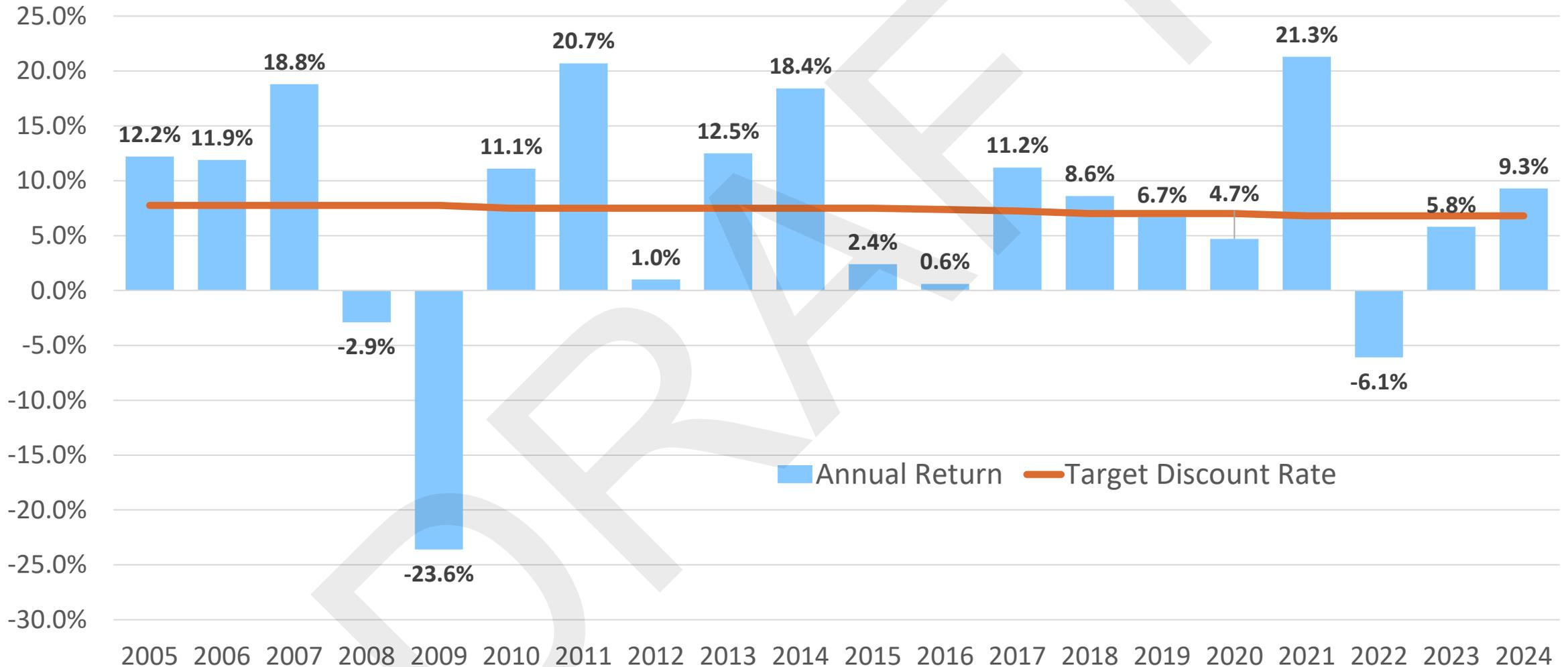
Now ...

- ▶ Sluggish investment returns (not meeting assumptions)
- ▶ Assumptions have changed/grown more conservative
 - ▶ Discount Rate (assumed rate of investment returns): 8.25% → 7.00% → 6.80%
 - ▶ Inflation rate (prices going up)
 - ▶ Mortality rates (people living longer)
 - ▶ Shorter, more conservative amortizations

All assumptions will be revisited by CalPERS during 2025 Asset Liability Management (ALM) Study



CalPERS Historical Preliminary Investment Returns (Time-Weighted)*



*Preliminary Investment Returns represent the time-weighted rate of return and reflect private market asset valuations as of March 31, 2024. The money-weighted rate of return, used in the CalPERS ACFR and Valuation Reports may differ from the Preliminary Investment Returns. **Source:** CalPERS.

How CalPERS Benefits Get Funded

- ▶ Pre-2008 Investment earnings used to make up a higher percentage of total contributions
- ▶ As investments underperform assumptions, employers must make up the difference, unless the additional costs are negotiated with employees

CalPERS investment earnings



CalPERS employers



CalPERS members



CalPERS Pension Buck: a 20-year Average (as of June 30, 2024)



City's CalPERS Retirement Plans

- ▶ 2 Main CalPERS plans: Miscellaneous & Safety
 - ▶ **Miscellaneous:** 302 covered members; \$20M UAL
 - ▶ **Safety:** 150 covered members; \$16M UAL
- ▶ PEPRRA (effective 2013) helpful to manage long term pension costs for new employees
 - ▶ Enacted revised benefit levels for new plan members
 - ▶ Higher employee contribution rates mean more normal cost is being paid by the employee
- ▶ **However, 98% of current UAL comes from Classic plans and is not impacted by PEPRRA**

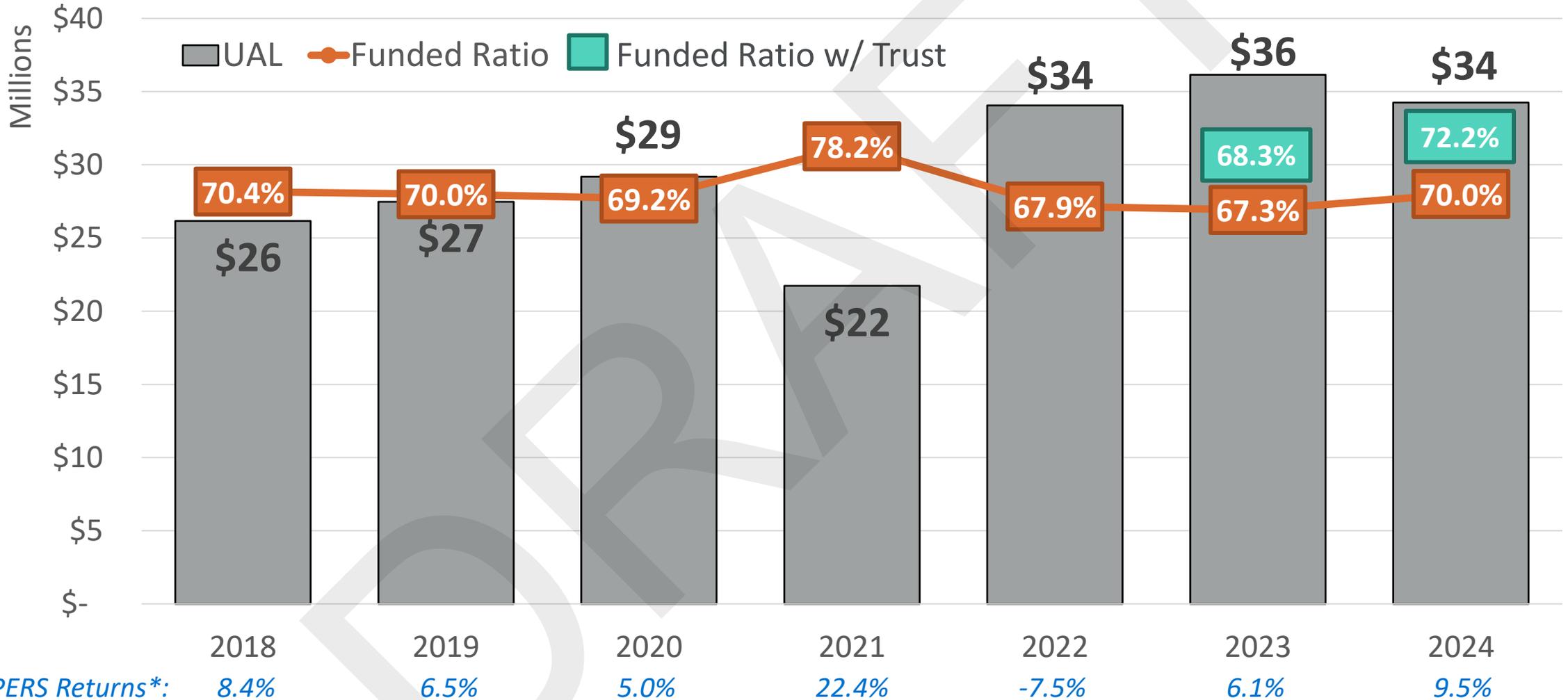




HISTORICAL AND PROJECTED CALPERS COSTS

History of the City's UAL Balance & Funded Ratio

Funded Ratio With and Without Section 115 Trust



CalPERS Returns*:

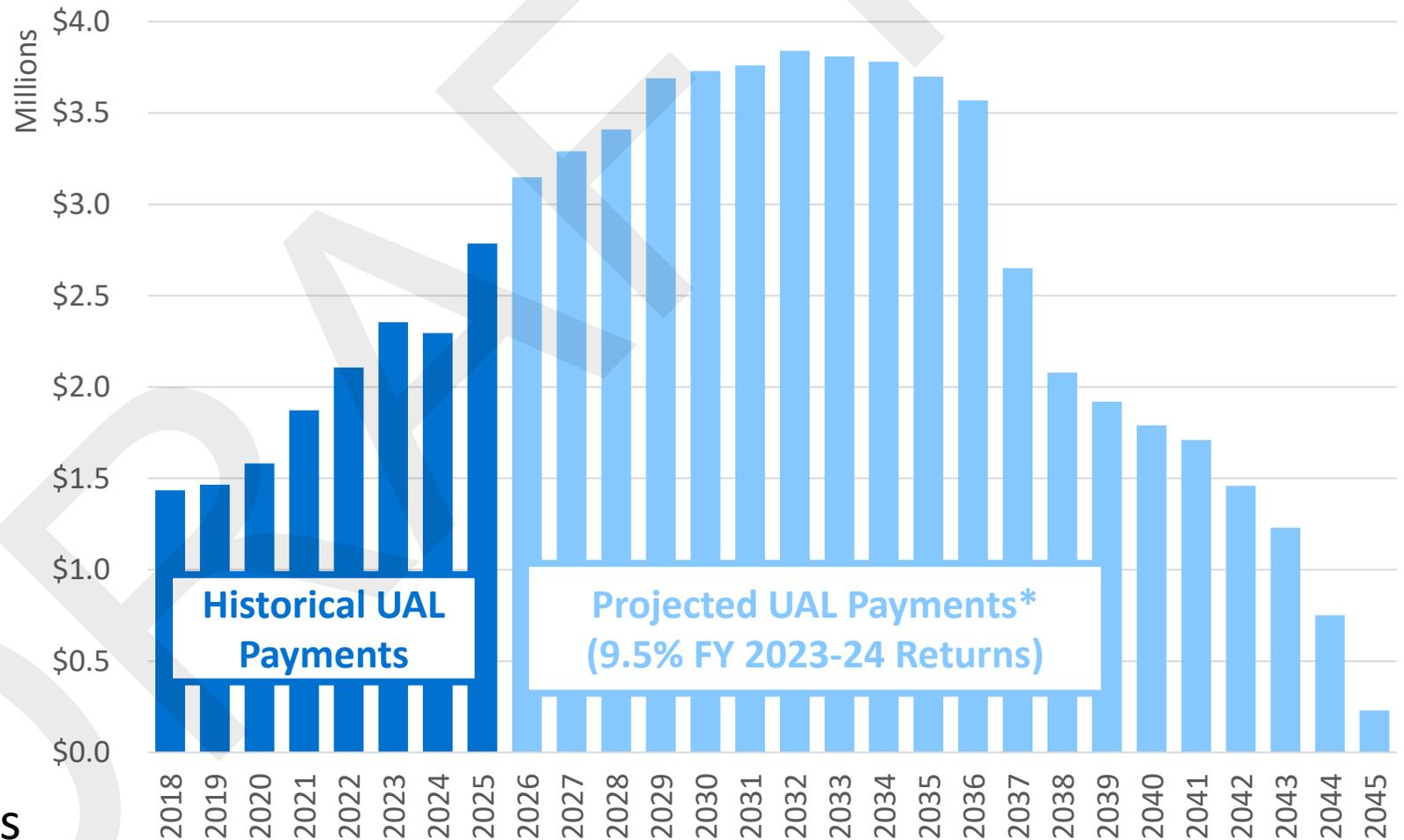


*CalPERS' Money-Weighted Rate of Return, as reported by CalPERS in its Annual Comprehensive Financial Reports

Historical & Projected CalPERS UAL Payments

Projected UAL Payments Based on CalPERS Pension Outlook Tool*

- ▶ City's UAL payments are rising due to CalPERS underperformance
- ▶ UAL payment rising to \$3.8M by FY 2032
 - ▶ 38% higher than FY 2025 payment
- ▶ Annual Normal Cost payment (not shown in chart) is estimated between \$1.3M and \$1.4M over next 10 years



Source: CalPERS Actuarial Valuation Reports & CalPERS Pension Outlook Tool
 *Assumes FY 2023-24 investment returns of 9.5% and 6.8% investment returns thereafter.

CalPERS UAL Sensitivity

Planning for Potential Increases to UAL

- ▶ CalPERS is currently underway with its 2025 Asset Liability Management (“ALM”) Study
 - ▶ Potential assumption changes include CalPERS’ discount rate (i.e., expected investment earnings)
- ▶ The UAL is highly sensitive to assumption changes and any future investment underperformance by CalPERS

Impact of CalPERS Discount Rate Reduction

6.8%



6.5%

■ UAL Balance: \$34M → \$38M

■ Max UAL Payment: \$3.8M → \$4.2M

Impact of CalPERS FY 2025 Investments

6.8% Return
(Assumed)



0.0% Return
(Hypothetical)

■ UAL Balance: \$34M → \$39M

■ Max UAL Payment: \$3.8M → \$4.5M





COST MANAGEMENT STRATEGY OVERVIEW

Pension Cost-Containment Strategies – Not Mutually Exclusive

Prepay UAL early in Fiscal Year ($\approx 3.3\%$ discount) → **CITY DOES THIS**

Negotiate Cost Sharing With Employees → *City has done this*

- New employees already governed by lower cost/benefit PEPRAs plans
- Negotiated cost sharing of the City's share

Fresh Start Amortization offered by CalPERS

- Pros: Smooths payment, shortens repayment period; reduces overall interest paid from shorter amortization period
- Cons: New structure “locked-in” + increased annual payments in near term; still amortized at discount rate

Use Cash Reserves to Pay Extra (two options) → **CITY HAS A SECTION 115 TRUST**

- Section 115 Trust – Separate trust solely dedicated to pension/OPEB
 - City's annual UAL cost and Normal Cost can be supplemented with the Trust
- Additional Discretionary Payment (“ADP”) – direct payments to CalPERS to reduce UAL
 - Can be funded with Section 115 Trust or annual surplus

Restructure All or Portion of Remaining UAL

- Restructure portion of UAL at lower bond interest rate and “smooth out” payments for enhanced budget predictability, near and mid-term potential savings, and preservation of cash for other critical projects. **NOT RECOMMENDED GIVEN CURRENT INTEREST RATES.**

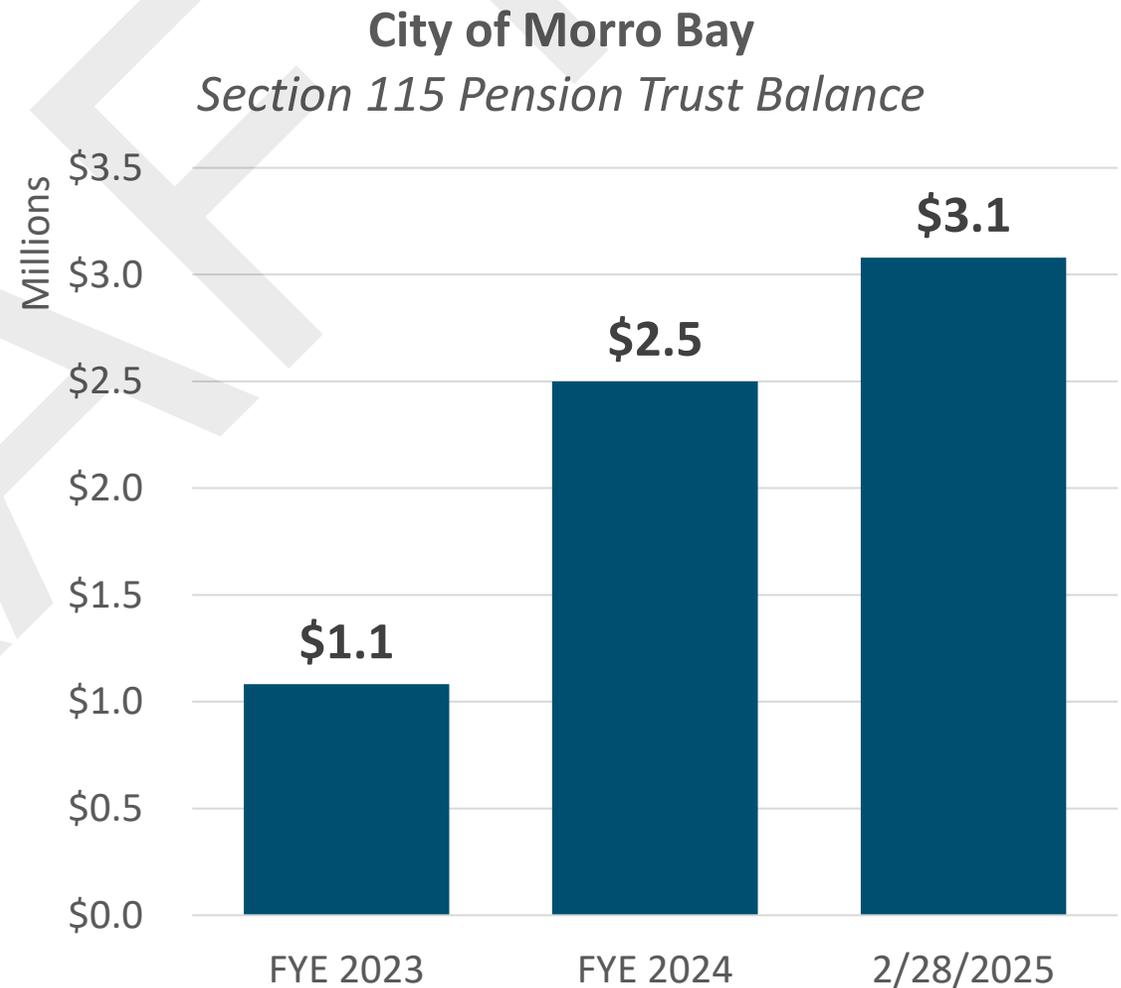




SECTION 115 PENSION TRUST ANALYSIS

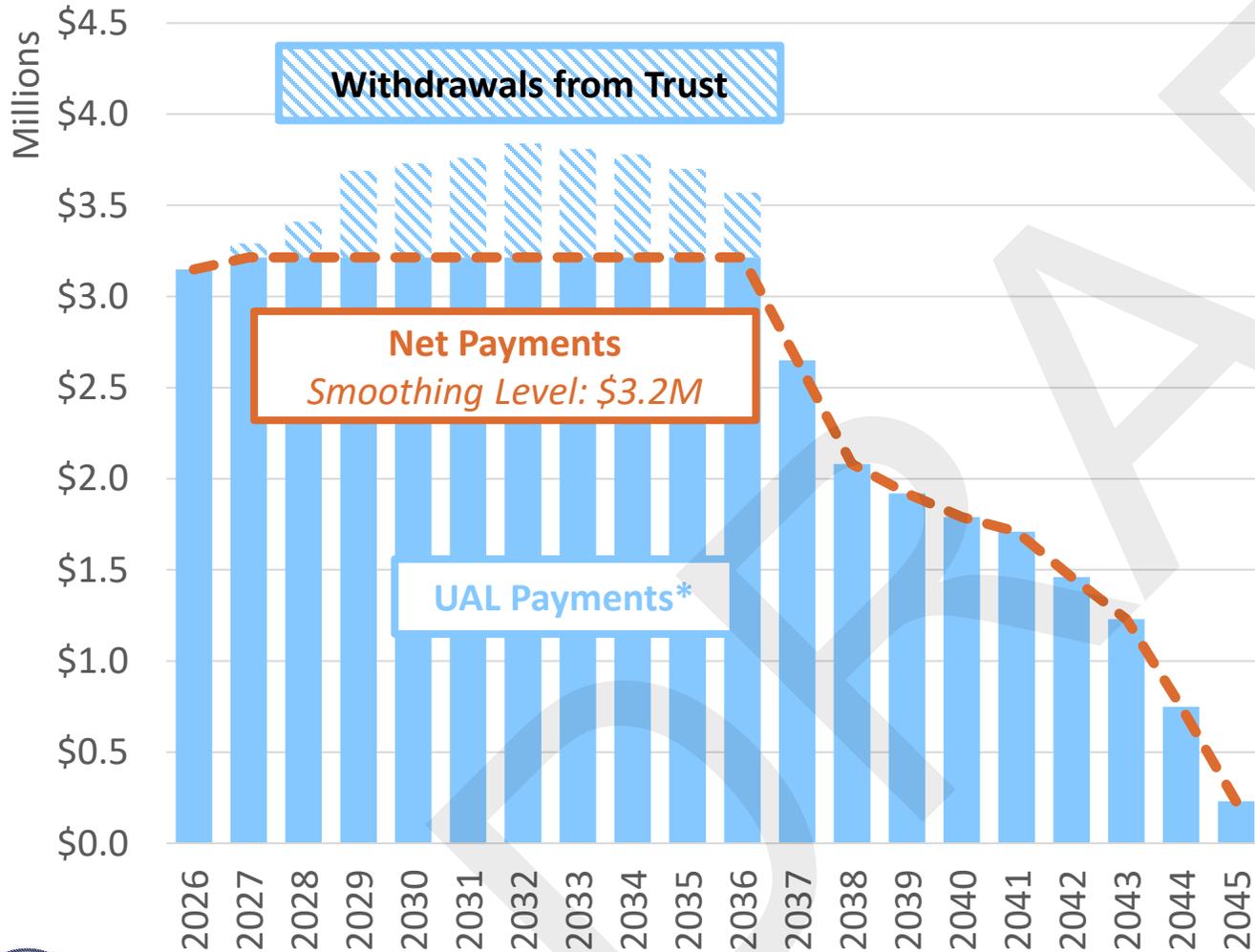
City's Section 115 Pension Trust

- ▶ City has a Section 115 Pension Trust and OPEB Trust, administered by Public Agency Retirement Services (PARS)
- ▶ City's Section 115 Pension Trust has \$3.1M of assets as of 2/28/2025
 - ▶ **Balanced investment objective: 60% Equity / 40% Fixed Income**
 - ▶ 13.9% investment return for FY 2024
- ▶ Pension Trust deposits are determined using the City's Pension Reserve Policy (adopted April 2022)
 - ▶ 33% of year-end General Fund surplus goes to the Trust
- ▶ **Key Considerations for City**
 - ▶ Timing and size of optimal withdrawals
 - ▶ How would a discount rate change or investment underperformance change the strategy?



Section 115 Trust Smoothing Example #1

Status Quo; \$3.1M Initial Trust Balance; No Additional Deposits



Assumptions:

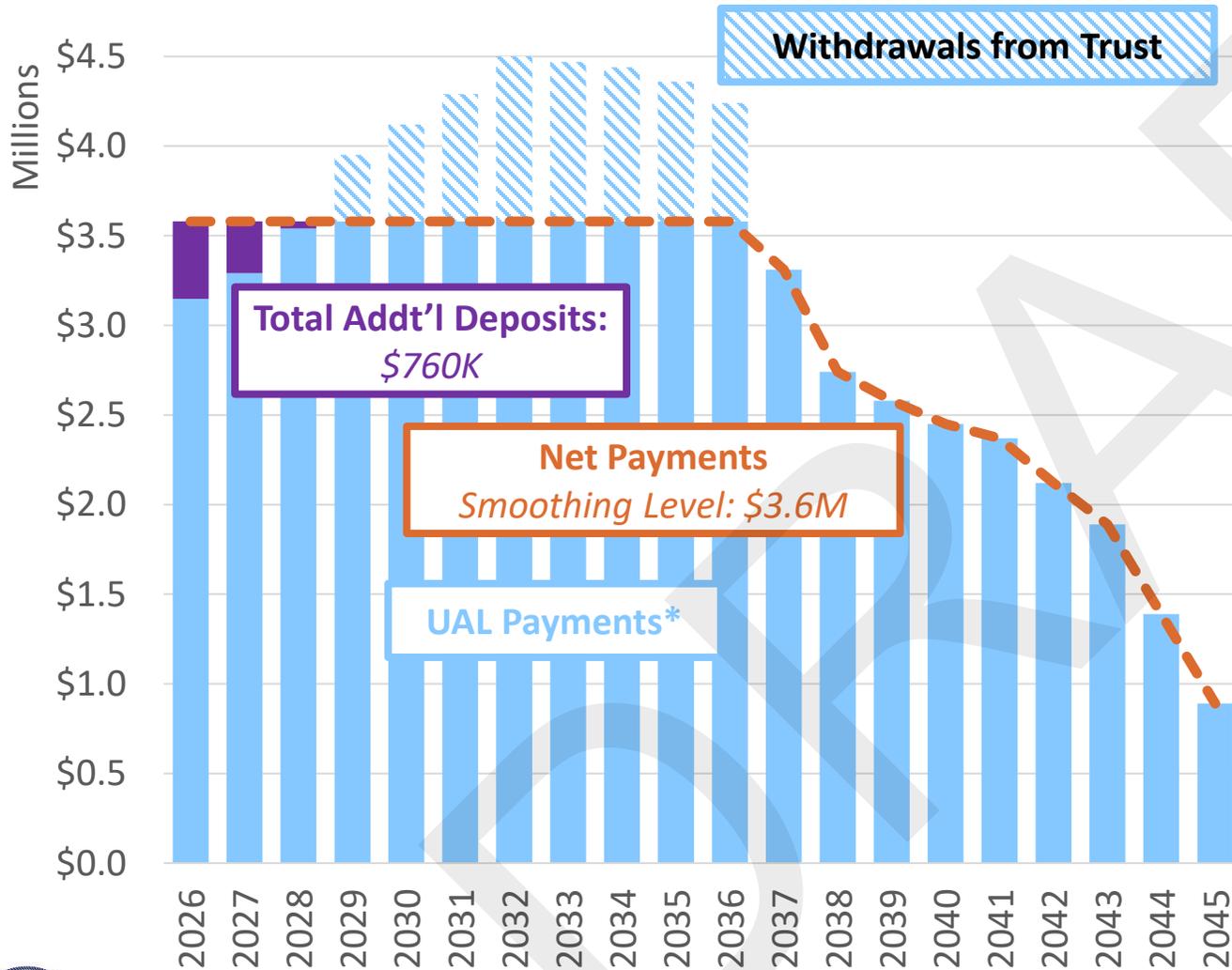
- ▶ **CalPERS Discount Rate:** 6.8% (no change)
- ▶ **CalPERS Investment Returns:** 9.5% in FY 2023-24; 6.8% thereafter
- ▶ **UAL Balance:** \$34M
- ▶ **Beginning Trust Balance:** \$3.1M
- ▶ **Total Additional Deposits:** \$0
- ▶ **Trust Annual Investment Earnings:** 6.00%
- ▶ **Ending Trust Balance:** \$0 (FYE 2036)

*Source: CalPERS Pension Outlook Tool



Section 115 Trust Smoothing Example #2

Additional Deposits Based on 0% FY 2025 Investment Return



Assumptions:

- ▶ **CalPERS Discount Rate:** 6.8% (no change)
- ▶ **CalPERS Investment Returns:** 9.5% in FY 2023-24; 0% in FY 2024-25; 6.8% thereafter
- ▶ **UAL Balance:** \$39M
- ▶ **Beginning Trust Balance:** \$3.1M
- ▶ **Total Additional Deposits:** \$760K
- ▶ **Trust Annual Investment Earnings:** 6.00%
- ▶ **Ending Trust Balance:** \$0 (FYE 2036)



*Source: CalPERS Pension Outlook Tool

Comparison of Section 115 Trust Smoothing Examples

Additional Deposits, Withdrawals, and Net Smoothing Level

Fiscal Year	Example #1 (Status Quo)		Example #2 (0% FY 2025 Investment Return)	
	Additional Trust Deposits	Trust Withdrawals	Additional Trust Deposits	Trust Withdrawals
2026	\$0	\$0	\$431,663	\$0
2027	\$0	\$75,939	\$289,562	\$0
2028	\$0	\$195,939	\$39,562	\$0
2029	\$0	\$475,939	\$0	\$370,438
2030	\$0	\$515,939	\$0	\$540,438
2031	\$0	\$545,939	\$0	\$710,438
2032	\$0	\$625,939	\$0	\$920,438
2033	\$0	\$595,939	\$0	\$890,438
2034	\$0	\$565,939	\$0	\$860,438
2035	\$0	\$485,939	\$0	\$780,438
2036	\$0	\$355,939	\$0	\$660,438
Total	\$0	\$4,439,386	\$760,787	\$5,733,504

Net Smoothing Level:

\$3,214,061

\$3,579,562





CONCLUSION

Conclusion

- ▶ **City of Morro Bay has taken proactive measures to better manage its rising pension costs**
 - ▶ Section 115 Pension Trust Balance: \$3.1M
 - ▶ 77% of City's 2025 total pension costs (UAL + NC = \$4.0M)
 - ▶ City's Pension Reserve Policy ensures year-end General Fund surplus continues to be allocated to the Section 115 Pension Trust
- ▶ **City should stay vigilant to combat the impact of rising pension costs, including an annual review of pension cost projections + ongoing pension cost management strategies**
 - ▶ Assess Section 115 Pension Trust deposit/withdrawal strategy at least annually given changing conditions
 - ▶ Additional Discretionary Payments (ADPs) to CalPERS can be evaluated and can be funded using Section 115 Trust assets or other surplus/reserves
- ▶ **City should reassess pension cost projections and Section 115 Trust strategy once CalPERS reports its FY 2024-25 investment return and finishes its 2025 Asset-Liability Management Study in Fall 2025**





QUESTIONS?

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AGENDA NO: B-2

MEETING DATE: May 20, 2025

TO: CFAC Chair and Committee Members **DATE: May 12, 2025**

FROM: CFAC Revenue Enhancement Subcommittee Members Johnson and Dorfman

SUBJECT: RECEIVE REPORT/PRESENTATION BY CFAC REVENUE ENHANCEMENT SUBCOMMITTEE

RECOMMENDATION

Receive and file.

BACKGROUND/DISCUSSION

Morro Bay Ranked #5 Small Coastal Town in the USA for 2025

Morro Bay was recently ranked #5 best US small coastal town in the by *US News* while Morro Bay State Park was also designated the #1 most popular destination of visitors within the entire California system of 280 parks. (This park, as well as Morro Strand, are fully booked out many months in advance.)

This confirms that Morro Bay's natural beauty is unique; highly sought after, and has potential to attract significant new day and overnight visitors with targeted marketing and branding, re-development of current city-owned property assets, and the addition of new visitor-serving businesses. City tax revenues could be further increased through establishment of special entities such as an Enhanced Infrastructure Finance District (EIFD) or Community Facilities District (CFD).

Top 5 Morro Bay Revenue Enhancement Initiatives:

1) Increase day visitors ("daycations") to the city with a strong focus on Cal Poly students

- Day visitors are down 15% from 195,000 in 2019 to 170,000 in 2024, as noted in the VMB presentation at the State of the City lunch.
- With a 22,000 population - and an estimated \$3000 per capita annual discretionary spending - students (and their parents) could significantly contribute to MB tax revenues in restaurants, recreation, transportation and retail.
- Efforts to attract a younger, hipper demographic could also enhance city attractiveness to residents of nearby towns, as well as encourage current residents to spend more on new attractions.

Strategies:

- Increase Morro Bay participation in the recreational activities of Cal Poly WOW (week of welcome) week which covers 5500 incoming new students, along with older student mentors, participating in recreational activities around SLO county.

- Focus outreach on high-profile student athletes and target student organizations, such as sororities and fraternities that have strong social media visibility and would tag their presence in Morro Bay.
- Reach out to Cal Poly departments to attract senior year projects ("learn by doing") that would focus on projects that look into new targeted marketing efforts, such as eco-tourism, agro-tourism, etc.
- Seek to attract regional restaurants who attract a trendy, young demographic, for example Firestone Grill, Spoon Trade, Petra Pizza and Grill and Flour House.
- Develop a fun vibe and scene at Morro Rock including possible monthly food truck "Meet-ups" and beer garden. (A newly launched one in Salinas attracted thousands vs. the hundreds they expected.) This would include differentiated food offerings such as specialty desserts, plant-based offerings, Mediterranean, and fusion Asian), as well as food truck add-ons to existing Embarcadero restaurants (grilled oysters, barbecue, tacos, pizza) to encourage local restaurant participation and buy-in. Live music would be available. Also, consider adding a movie night projected on the Rock.

Estimated revenue gains from increased day visitors

Increased student visits

Year 1 estimated tax revenue gains: \$44,500

(Assumptions: average spend: \$30@ visit; 25% of 22,000 student body; averaging 2 times@ month over 9 months; lead time 6 months)

Attract new high-visibility restaurant such as Spoon Trade or Firestone Grill

Year 1 estimated tax revenue gains: \$21,000

(Assumptions: 40 diner capacity; \$35 average check; \$1.4M annual turnover; lead time of 1 year)

Increased other area day visitors

Year 1 estimated tax revenue gains: \$24,000

(Assumptions: \$40@visit; 40,000 new visits; lead time 9 months)

Monthly food truck Meet-ups

Year 1 estimated revenue gains: \$13,000

(Assumptions: 10 trucks; 1x @ month; 450 clients; \$16 average; \$100 vendor fees; lead time 3-6 months)

Year 1 total estimated day visitor revenue gains: \$102,500

2) Initiate Visitor-Friendly Paid Parking

- Create a plan to develop and implement a pilot project at the Rock that would take effect during certain high-volume times of the year/day.
- Obtain community acceptance (as well as Coastal Commission approval) through transparent communications and clear goals that would invest all revenue back into Rock infrastructure (e.g., bathroom maintenance, improved lot grading and improvement; enhanced walkways, other interpretive capabilities, improve beach access, establish outdoor shower facilities like Avila and Cayucos).

Year 1 estimated paid parking revenue gains: \$300,000 – 500,000

(Assumptions: previous parking study estimated \$300,000 with local passes at \$30@ year; totals \$880,000 in revenues less system cost and staff time; lead time of 1 ½ years.)

3) Targeted Development and/or Sale of Key City-owned Properties

- Develop RFQs for the Teen Center; 570 Dunes; 781 Market Plaza; 460 Downey and 1700 Embarcadero RV Park properties.
- Accelerate negotiations with the Cayucos CSD and cement plant regarding development of the former water treatment plant site (jointly owned with Cayucos CSD)..
- Consider the option of upgrading to a "glamping" resort on the 1700 Embarcadero 170-site RV park with current or new management. The current park is below its potential with basic facilities while also using large amount of land in prime viewshed areas for permanent storage of 300 mostly unused RVs. An upgraded resort would yield average daily revenues two to three times the current level, such as that of Flying Flags in Avila and Sun RV in Paso Robles.
- Consider outreach to attract a high-end boutique hotel with meeting and spa facilities for the Market Street property, potentially including parking lot land
- Potentially align these projects with establishment of an Enhanced Infrastructure Finance District and/or Community Development Facilities, per below.

Year 1 New and enhanced visitor-serving revenue gains

Upgraded Glamping Resort: \$390,000

(Assumptions: increase current sites by 50% to 255 by removing storage RVs; average daily rate increases from \$52 to \$140; \$9000 monthly base lease + 4% of gross revenues; lead time of 2 years)

Market Plaza development:

\$1,500,000 (additional TOT, property and sales tax)
\$1-2.5M (one-time land sale proceeds)

(Assumptions: 50 room lodging with retail facilities)

Sale of Teen Center, 460 Downey and 570 Dunes Properties: \$3,000,000 – 5,000,000

Year 1 total estimated new and enhanced visitor-serving revenue gains: \$4,900,000 – 9,400,000

4) Decrease the reserves level from the current 45% to 25%

Year 1 Estimated Revenue Gains: \$3,300,000

(Assumptions: bring Morro Bay reserve strategy in line with its SLO county city peers who range from 15-25%)

5) Establish an Enhanced Infrastructure Finance District (EIFD) or Community Facilities District (CFD)

An Enhanced Infrastructure Finance District would involve creation of a special taxing entity by the City of Morro Bay that would then receive an additional 1% percentage of property taxes from a specified major improvements of Morro Bay sites that would be re-allocated from SLO county funds, per Proposition 13. SLO county approval would be based on recognition that this expands total revenues to both parties. These funds would be earmarked for specific Morro Bay capital improvement projects.

A Communities Facility District is a special taxing district based on the development of new projects where additional tax is levied on taxable private property to finance public services and/or infrastructure such as police, fire, and schools. This is based on the assumption that there are insufficient fiscal revenues to fund the needed infrastructure from development impact fees. Revenues are kept in a specific “trust” account for these purposes and can be formed on a large individual project or on a citywide basis where new projects are added on a case-by-case basis.

This rate has a cap of 1.5%; therefore potentially allows a net gain of .43% from Morro Bay’s current 1.07% current property tax rate. (This structure was used in the development of Avila Ranch and San Luis Ranch in SLO generating over \$1 million per year for each of these projects.) In Morro Bay these funds could potentially be applied to: maintenance and improvement of harbor revetments and infrastructure (excluding Tidelands Trust properties); financing of Harbor operations; and the Moro Elementary site.

Year 1 Estimated EIFD Revenue Gains: \$750,000 – 900,000

(Assumptions: 10 of new property taxes from potential improvements of the following sites: Vistra, wastewater treatment, vacant Embarcadero properties, Moro Elementary; lead time of 18 months.)’

Year 1 Estimated CFD Revenue Gains from Market Plaza: \$107,000

(Assumptions: estimated project value of \$25,000,000; lead time of 1 year)

Year 1 Estimated Revenue Gains from Moro Elementary site as currently zoned): \$365,000

(Assumptions: project value of \$85,000,000; lead time of 1 ½ years)

Year 1 Total Estimated Revenues from establishment of an EIFD and/or CFD: \$1,200,000 – 1,350,000

ATTACHMENT(S)

None



AGENDA NO: B-3

MEETING DATE: May 20, 2025

Staff Report

TO: CFAC Chair and Committee Members

DATE: May 12, 2025

FROM: Emily Conrad, Finance Director

SUBJECT: Discussion and Input on the Fiscal Year 2025-26 Draft Proposed Budget

RECOMMENDATION

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

1. Review the future year revenue and expense projections for Measure Q/E Fund (Fund 003) and provide appropriate recommendations for use of funds for City Council consideration.
2. Review the FY 2025-26 Draft Proposed Budget and provide a recommendation to City Council on the proposed Measure Q/E (Fund 003) expenditures.
3. Review the FY 2025-26 Draft Proposed Budget and provide a recommendation to City Council consideration as desired on the proposed budget for the other major funds.

BACKGROUND

Consistent with CFAC's scope of work as outlined in the Advisory Body Handbook, the City Council invites CFAC input on the Measure Q/E Proposed Budget and the broader Citywide budget as time permits. CFAC's input will be provided for Council's consideration at the City Council Budget Study Sessions scheduled for May 28th at 3:00 pm. Budget adoption is scheduled for the June 24th regularly scheduled City Council meeting.

DISCUSSION

The FY 2025-26 Proposed Operating and Capital Budget, including the proposed Measure Q/E Fund, is available online in web-based and printable PDF formats (links listed under "Attachments").

Measure Q/E Fund Proposed Budget

The Measure Q/E Fund's proposed revenue budget is approximately \$4.4 million for FY 2025-26, representing a 2% increase over the prior year's budgeted revenues. Budgeted Measure Q/E proposed expenditures are approximately \$5.2 million for FY 2025-26. Roughly \$2.8 million is appropriated for personnel costs, and \$524,229 is budgeted for operations and maintenance. A transfer out to the Governmental Vehicle Replacement Fund of \$175,000 is budgeted to purchase two vehicles: \$100,000 to replace a 1991 dump truck for Public Works, and \$75,000 to replace a patrol vehicle for Police Department. Once replaced, the 1991 dump truck will be transferred to the Utilities division of Public Works for use by Water and Sewer staff. Once replaced, the patrol vehicle has aged out of eligibility to be used as pursuit vehicle and will be transferred within the Police Department for use by non-patrol officers such as the Community Service Officer or detectives. The transferring of replaced vehicles within and between City departments exemplifies the intentional practice of staff to stretch assets and be prudent with taxpayer dollars.

The FY 2025-26 budget also allocates \$1,703,987 to four capital projects as follows:

- \$1,000,000 - Annual Pavement Management Program
- \$300,000 - Sidewalks/Street Trees
- \$86,300 Storm Drain Assessment
- \$317,687 Police Radio Communication Upgrades

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

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

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

Citywide Proposed Budget

The Proposed Budget funds all City services and capital projects from July 1, 2025 through June 30, 2026. The budget makes critical investments in operations, City staff, capital improvements, and paying down pension liabilities while preserving healthy financial reserves to weather future emergencies and economic downturns.

The proposed FY 2025-26 expenditure budget of \$53.5 million (net of transfers) includes \$39.7 million for operations and \$13.8 million for 14 capital projects. The budget funds the following: the operational departments that provide core services to our community, including police, fire, water, sewer, parks, roads, recreation, community development, code enforcement, and harbor; the supporting administrative services such as human resources, information technology, and finance; and 14 capital projects to improve our shared built environment.

The budget also funds efforts to achieve the strategic planning goals established by the City Council: Economic Vitality and Fiscal Health, Infrastructure Resiliency, and Morro Elementary School (Site).

This budget reflects moderate increases to City main revenues of property tax, sales tax, and transient occupancy tax, and increasing costs to provide existing service levels, a testament to the City's commitment to meeting community expectations. For the General Fund, revenues are estimated to exceed expenditures by just over \$50K. The ten-year forecast indicates that *expenditures are projected to exceed revenues* for fiscal years 2026-2027 and 2027-2028 before flipping again to surplus in fiscal years 2028-29 through 2028-29, the end of the forecast period. Additionally, the meeting of the City's General Fund minimum reserve of 33% hinges on General Fund investment in capital projects. The forecast includes future year annual contributions to the Annual Pavement Management Program which increases spending to the point of not meeting the minimum reserve requirement in fiscal years 2027-28 through 2034-35. If revenues and expenditures perform better than projected, that outlook could improve. With current and future capital spending

needs in mind, staff was again asked to keep operating costs flat and to trim budget where realistic, and staff made diligent efforts to do so.

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

The City of Morro Bay, a small city heavily reliant on tourism, has implemented strong reserve policies to ensure it can withstand economic challenges, natural disasters, and emergencies while providing essential city services. At the conclusion of FY 2025-26, the estimated reserve of combined general funds is \$11.2 million, and the estimated reserve of combined enterprise funds and internal service funds is \$4.2 million. This will result in a total projected city reserve of \$15.4 million at the fiscal year's end, equivalent to 39% of the city's operating budget. The City Council's dedication to fiscal sustainability has led to this strong reserve position.

Citywide Revenues & Trends – Net of Transfers

Current Services Revenue - The City receives the largest share of its revenue (46%) as payment for the services it provides, including water services, sewer services, lease revenues, planning and permitting fees, and fees for recreation services. Charges for service are a relatively stable revenue source over time for Morro Bay, as the majority comes from water and sewer rate revenue remitted by ratepayers. Lease revenues in the Harbor Fund are also relatively stable in terms of base lease payments, but the portion of lease payments associated with a percentage of gross sales fluctuates over time.

Primary Tax Revenues - Tax revenues, including sales and use tax (15% of revenues), property tax (13%), and transient occupancy tax (TOT) (10%), represent the second-largest share of City revenues (37% total). These revenues provide general services not covered by anyone receiving an individual benefit from a service, such as public safety services and infrastructure maintenance. Property tax revenue is the most stable of the tax revenue sources and has increased by approximately 4% per year in recent years. Sales tax and TOT revenues are more volatile as they depend on the status of the economy and tourism activity. These more volatile revenue sources represent roughly one quarter of the City's total revenues, making the City's financial reserves described above particularly important. Both sales tax and TOT have rebounded to levels higher than pre-pandemic levels during FY 2021-22, and growth has slowed significantly in recent years. More moderate growth (2-3% range) is projected for both revenue sources in FY 2025-26 and beyond.

Other Revenues - The other 17% of City revenues come from various smaller sources, including intergovernmental revenues, fines, cannabis taxes, use of money and property (rental income and interest earnings), franchise fees, licenses and permits, and grants.

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

ATTACHMENTS

1. FY 2025-26 Proposed Measure Q/E Fund Budget direct link: <https://city-morro-bay-ca-budget-book.cleargov.com/20037/fund-summaries/measure-q-e-fund>
2. FY 2025-26 Proposed Capital and Operating Budget
 - a. Web-Based Version: <https://city-morro-bay-ca-budget-book.cleargov.com/20037/introduction/public-officials-leadership>
 - b. Printable PDF Version:

<https://www.morrobayca.gov/DocumentCenter/View/20261/FY-2025-26-Proposed-Operating-and-Capital-Budget>



CFAC REVIEW OF FY 2025-26 PROPOSED OPERATING & CAPITAL BUDGET

May 20, 2025



Agenda

- **High-Level Review**
 - Overview of Government Fund Categories
 - Forecasts & Reserves
 - Key Budget Changes
- **FY 2025-26 Proposed Budget**
 - Measure Q/E Fund
- **Citywide Budget Summary**
- **Action Items**
 - CFAC Recommendations to Council

Government Fund Categories



✓ Governmental Funds

Used to account for activities primarily supported by taxes, grants, and similar revenue sources and includes General Fund Group, Account Groups, Special Revenue Funds, Capital Project Fund, and Internal Service Funds

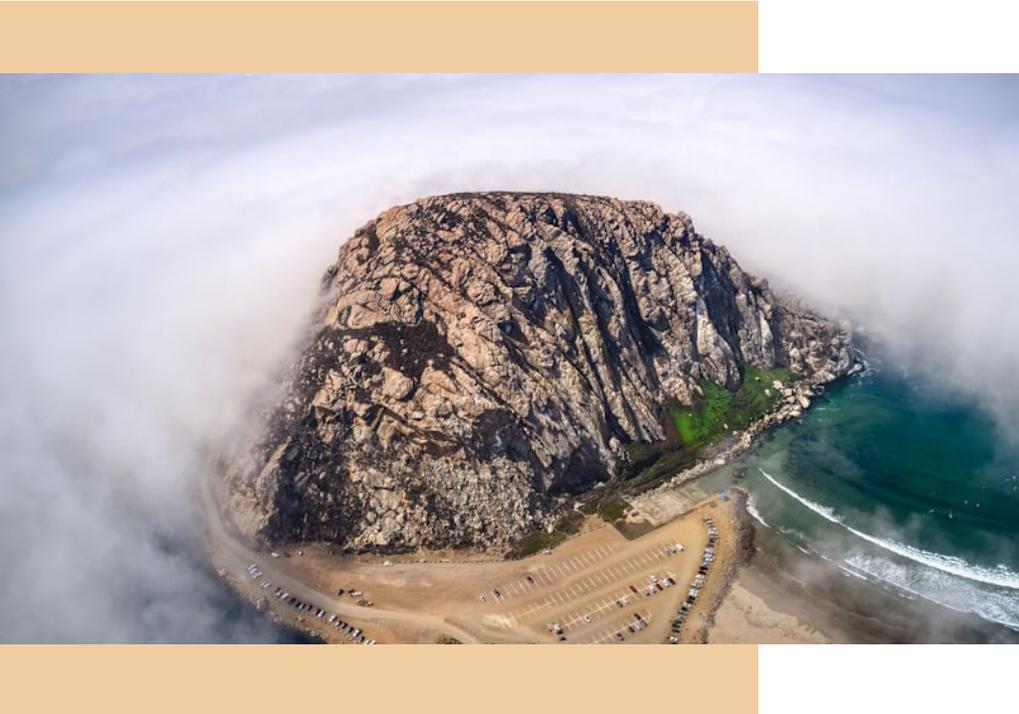
✓ Proprietary Funds

Used to account for activities that receive significant support from user fees and includes three enterprise fund groups

✓ Fiduciary Funds

Used to account for resources that a government holds, as a trustee or agent, on behalf of an outside party that cannot be used to support the government's own programs and includes three funds

Governmental Funds



✓ Governmental Funds

- 35 Governmental Funds
 - 6 in the General Fund Group:
 - General Fund
 - Unfunded Compensable Leave
 - Vehicle Replacement
 - Emergency Reserve
 - Facility Maintenance
 - Capital Accumulation
 - 24 Special Revenue Funds (listed on next slide)
 - 1 Governmental Capital Projects Fund
 - 2 Internal Service Funds:
 - Information Technology Fund
 - Risk Fund
 - 2 Accounting Funds:
 - Fixed Asset Group
 - Long-term Debt

Governmental Funds



✓ Governmental Funds (continued)

- Special Revenue Funds
 - Measure Q/E
 - Developer Reimbursement Agreements
 - Community Development Grants
 - CDBG Loan Repayment
 - CDBG 04/05 Housing Rehab
 - 05/06 Home Partnership
 - State Gas Tax
 - Road Maintenance and Rehab (RMRA)/SB-1
 - Lower Cost Visitor Accommodation
 - Traffic Safety
 - Special Safety Grants
 - Parking In-Lieu
 - Bike Path
 - LTF Roads

Governmental Funds



✓ Governmental Funds (continued)

- Special Revenue Funds (continued)
 - Assessment Districts
 - North Point Assessment District
 - Cloisters Park Maintenance District
 - Governmental Impact Fees
 - Park Fee Fund – Quimby Act
 - Community Benefit
 - Economic Development
 - State Park Marina
 - Triangle Lot-Boat Storage Yard
 - Affordable Housing In-Lieu
- Capital Projects Fund
- Internal Service Funds
 - Risk Management
 - Information Technology

Proprietary Funds



✓ Proprietary Funds

- Enterprise Funds
 - Water Fund Group
 - Water Operating Fund
 - Water Discounts/Rebates
 - Water Capital Improvement Fund
 - Sewer Fund Group
 - Sewer Operating Fund
 - Sewer Capital Improvement Fund
 - Harbor Fund Group
 - Harbor Operating Fund
 - Harbor Capital Improvement Fund

Fiduciary Funds



✓ Fiduciary Funds

- Trust and Agency/Custodial Funds
 - 115 Pension Trust
 - Other Post-Employment Benefits (OPEB)
 - Trust and Agency Fund

Major Fund 10-Year Fiscal Forecasts



Fiscal Forecasts

- 10-year fiscal forecasts are prepared for the five major funds:
 - General Fund
 - Measure Q/E
 - Water Fund Group (for Final Adopted Budget)
 - Sewer Fund Group (for Final Adopted Budget)
 - Harbor Fund Group (for Final Adopted Budget)

GENERAL FUND (001)	FY 2025	FY 2026	Forecast									
	Estimated	Budget	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Beginning Fund Balance	7,288,099	7,378,468	6,020,732	4,669,216	4,318,475	4,171,265	4,171,810	4,238,101	4,374,600	5,180,012	6,312,362	7,780,579
Revenue												
Property Tax	5,673,093	5,977,292	6,216,384	6,465,039	6,723,641	6,992,587	7,272,290	7,563,182	7,865,709	8,180,337	8,507,551	8,847,853
Sales Tax	2,631,457	2,725,761	2,780,276	2,863,684	2,949,595	3,038,083	3,129,225	3,223,102	3,319,795	3,419,389	3,521,970	3,627,630
Transient Occupancy Tax	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	6,108,687
Other Revenue	6,370,874	5,362,678	5,523,559	5,689,265	5,859,943	6,035,742	6,216,814	6,403,318	6,595,418	6,793,280	6,997,079	7,206,991
Transfers In	1,620,638	1,518,991	1,564,561	1,611,498	1,659,842	1,709,638	1,760,927	1,813,755	1,868,167	1,924,212	1,981,939	2,041,397
TOTAL REVENUE	20,796,062	20,174,723	20,766,579	21,451,741	22,159,943	22,891,978	23,648,663	24,430,846	25,239,403	26,075,242	26,939,303	27,832,558
Expense												
Personnel	12,649,460	13,963,320	14,814,739	15,039,370	15,378,915	15,562,215	15,861,148	16,164,909	16,404,945	16,657,652	16,882,870	17,068,218
Other Operations & Maintenance	5,655,985	5,171,313	5,326,452	5,486,246	5,650,833	5,820,358	5,994,969	6,174,818	6,360,063	6,550,865	6,747,391	6,949,812
Transfers Out (Ongoing)	870,382	952,635	981,214	1,010,650	1,040,970	1,072,199	1,104,365	1,137,496	1,171,621	1,206,770	1,242,973	1,280,262
Debt Service Payments	35,189	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190
TOTAL EXPENSE	19,211,017	20,122,458	21,157,595	21,571,457	22,105,908	22,489,962	22,995,673	23,512,413	23,971,818	24,450,476	24,908,423	25,333,482
Net Surplus (Shortfall)-Operating	1,585,046	52,264	(391,016)	(119,716)	54,035	402,016	652,991	918,433	1,267,585	1,624,766	2,030,880	2,499,075
Capital	1,150,000	1,300,000	1,000,000	2,350,000	1,600,000	1,600,000	1,350,000	1,350,000	1,000,000	1,000,000	1,000,000	1,000,000
Annual Pavement Management Program	650,000	1,000,000	1,000,000	1,600,000	1,600,000	1,600,000	1,350,000	1,350,000	1,000,000	1,000,000	1,000,000	1,000,000
Annual Storm Drain Replacement Project	500,000	300,000	-	-	-	-	-	-	-	-	-	-
Replacement Type 3 Fire Engine	-	-	-	750,000	-	-	-	-	-	-	-	-
Net Surplus (Shortfall)-including Capital	435,046	(1,247,736)	(1,391,016)	(2,469,716)	(1,545,965)	(1,197,984)	(697,009)	(431,567)	267,585	624,766	1,030,880	1,499,075
Transfers In (One-Time)	-	-	150,000	2,130,000	1,410,000	1,210,000	775,000	580,000	550,000	520,000	450,000	320,000
Section 115 Trust	-	-	150,000	130,000	410,000	460,000	500,000	580,000	550,000	520,000	450,000	320,000
General Fund Emergency Reserve Fund (GFER)	-	-	-	2,000,000	1,000,000	750,000	275,000	-	-	-	-	-
Transfers Out (One-Time)	344,677	110,000	110,500	11,025	11,246	11,470	11,700	11,934	12,172	12,416	12,664	12,918
General Fund Emergency Reserve Fund (GFER)	-	-	-	-	-	-	-	-	-	-	-	-
Vehicle Replacement Fund	-	100,000	100,000	-	-	-	-	-	-	-	-	-
Compensable Leave Fund	32,677	10,000	10,500	11,025	11,246	11,470	11,700	11,934	12,172	12,416	12,664	12,918
Section 115 Trust	312,000	-	-	-	-	-	-	-	-	-	-	-
Ending Total Fund Balance	7,378,468	6,020,732	4,669,216	4,318,475	4,171,265	4,171,810	4,238,101	4,374,600	5,180,012	6,312,362	7,780,579	9,586,736
Less Non-Spendable Fund Balance	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	3,190,000
Ending Available Fund Balance	4,188,468	2,830,732	1,479,216	1,128,475	981,265	981,810	1,048,101	1,184,600	1,990,012	3,122,362	4,590,579	6,396,736
Measure E Fund Operating Expenses (excluding transfers)	3,347,416	3,462,084	3,342,259	3,415,917	3,488,813	3,562,166	3,636,975	3,702,627	3,771,131	3,836,000	3,895,333	3,963,786
General Fund Emergency Reserve Fund (GFER) Balance	7,650,434	7,803,442	7,959,511	6,118,701	5,241,075	4,595,897	4,412,815	4,501,071	4,591,092	4,682,914	4,776,573	4,872,104
Total Fund Balance as % of Total Operating Expenses (General Fund + GFER) / (General Fund + Q&E Operating)	52.5%	45.1%	38.5%	29.0%	24.3%	21.4%	20.5%	20.9%	23.7%	27.6%	32.5%	38.5%
Minimum Reserve Levels *	MET	MET	MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	MET
General Fund Emergency Reserve Policy: 33% operating expenses. Includes Measure E fund operating expenses.	7,444,283	7,782,899	8,084,952	8,245,833	8,446,258	8,597,202	8,788,774	8,980,963	9,155,173	9,334,537	9,505,239	9,668,099
AVAILABLE FUND BALANCE (EXCESS OF MINIMUM RESERVES) *	4,394,618	2,851,275	1,353,775	(998,657)	(2,223,918)	(3,019,496)	(3,327,858)	(3,295,293)	(2,574,069)	(1,529,260)	(138,088)	1,600,742

GENERAL FUND (001)	FY 2025	FY 2026	Forecast									
	Estimated	Budget	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Beginning Fund Balance	7,288,099	7,378,468	6,020,732	4,669,216	4,318,475	4,171,265	4,171,810	4,238,101	4,374,600	5,180,012	6,312,362	7,780,579
Revenue												
Property Tax	5,673,093	5,977,292	6,216,384	6,465,039	6,723,641	6,992,587	7,272,290	7,563,182	7,865,709	8,180,337	8,507,551	8,847,853
Sales Tax	2,631,457	2,725,761	2,780,276	2,863,684	2,949,595	3,038,083	3,129,225	3,223,102	3,319,795	3,419,389	3,521,970	3,627,630
Transient Occupancy Tax	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	6,108,687
Other Revenue	6,370,874	5,362,678	5,523,559	5,689,265	5,859,943	6,035,742	6,216,814	6,403,318	6,595,418	6,793,280	6,997,079	7,206,991
Transfers In	1,620,638	1,518,991	1,564,561	1,611,498	1,659,842	1,709,638	1,760,927	1,813,755	1,868,167	1,924,212	1,981,939	2,041,397
TOTAL REVENUE	20,796,062	20,174,723	20,766,579	21,451,741	22,159,943	22,891,978	23,648,663	24,430,846	25,239,403	26,075,242	26,939,303	27,832,558
Expense												
Personnel	12,649,460	13,963,320	14,814,739	15,039,370	15,378,915	15,562,215	15,861,148	16,164,909	16,404,945	16,657,652	16,882,870	17,068,218
Other Operations & Maintenance	5,655,985	5,171,313	5,326,452	5,486,246	5,650,833	5,820,358	5,994,969	6,174,818	6,360,063	6,550,865	6,747,391	6,949,812
Transfers Out (Ongoing)	870,382	952,635	981,214	1,010,650	1,040,970	1,072,199	1,104,365	1,137,496	1,171,621	1,206,770	1,242,973	1,280,262
Debt Service Payments	35,189	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190	35,190
TOTAL EXPENSE	19,211,017	20,122,458	21,157,595	21,571,457	22,105,908	22,489,962	22,995,673	23,512,413	23,971,818	24,450,476	24,908,423	25,333,482
Net Surplus (Shortfall)-Operating	1,585,046	52,264	(391,016)	(119,716)	54,035	402,016	652,991	918,433	1,267,585	1,624,766	2,030,880	2,499,075
Capital	1,150,000	1,300,000	1,000,000	2,350,000	1,600,000	1,600,000	1,350,000	1,350,000	1,000,000	1,000,000	1,000,000	1,000,000
Annual Pavement Management Program	650,000	1,000,000	1,000,000	1,600,000	1,600,000	1,600,000	1,350,000	1,350,000	1,000,000	1,000,000	1,000,000	1,000,000
Annual Storm Drain Replacement Project	500,000	300,000	-	-	-	-	-	-	-	-	-	-
Replacement Type 3 Fire Engine	-	-	-	750,000	-	-	-	-	-	-	-	-
Net Surplus (Shortfall)-including Capital	435,046	(1,247,736)	(1,391,016)	(2,469,716)	(1,545,965)	(1,197,984)	(697,009)	(431,567)	267,585	624,766	1,030,880	1,499,075

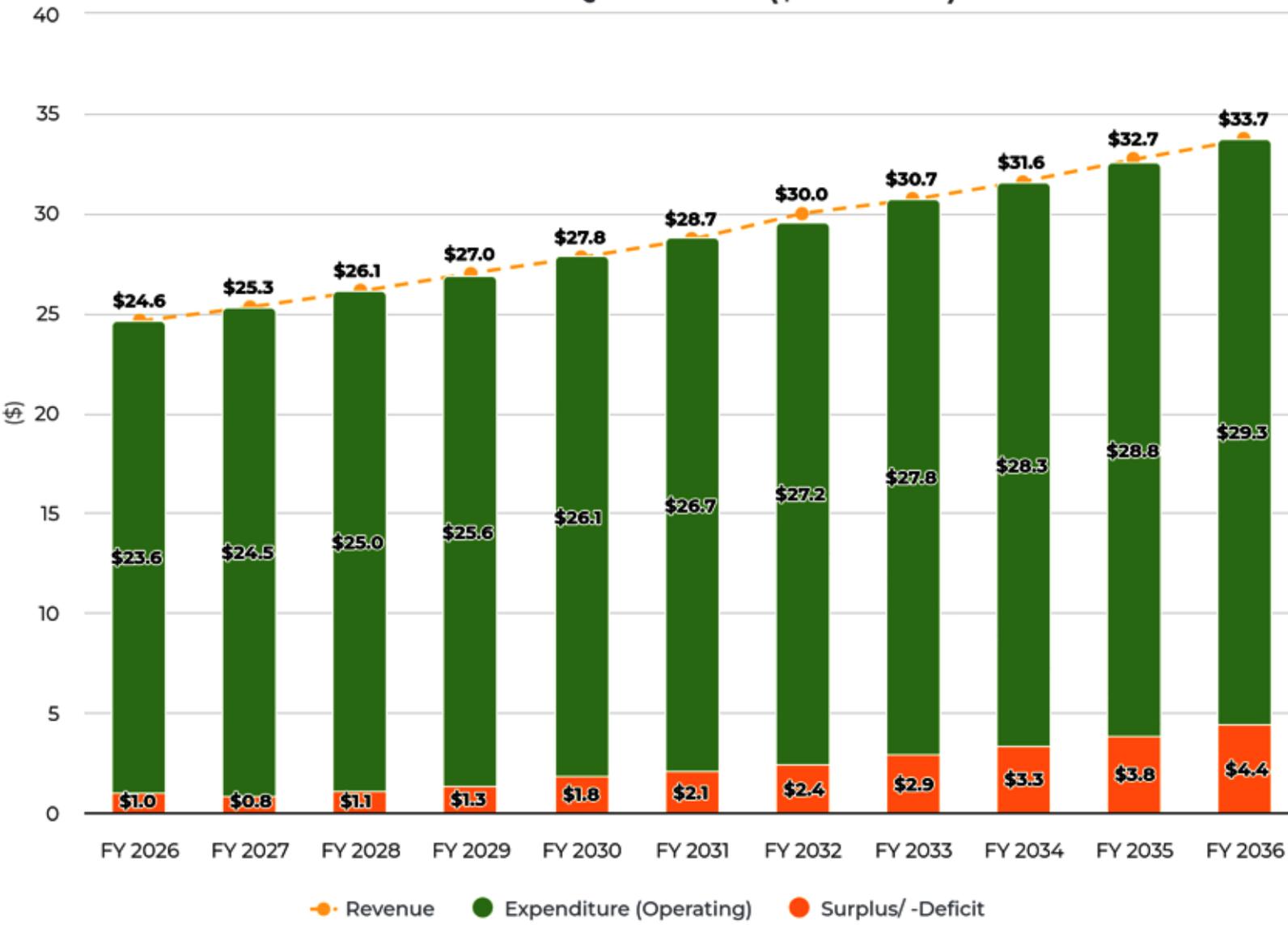


GENERAL FUND (001)	FY 2025 Estimated	FY 2026 Budget	Forecast									
			FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Net Surplus (Shortfall)-including Capital	435,046	(1,247,736)	(1,391,016)	(2,469,716)	(1,545,965)	(1,197,984)	(697,009)	(431,567)	267,585	624,766	1,030,880	1,499,075
Transfers In (One-Time)	-	-	150,000	2,130,000	1,410,000	1,210,000	775,000	580,000	550,000	520,000	450,000	320,000
Section 115 Trust	-	-	150,000	130,000	410,000	460,000	500,000	580,000	550,000	520,000	450,000	320,000
General Fund Emergency Reserve Fund (GFER)	-	-	-	2,000,000	1,000,000	750,000	275,000	-	-	-	-	-
Transfers Out (One-Time)	344,677	110,000	110,500	11,025	11,246	11,470	11,700	11,934	12,172	12,416	12,664	12,918
General Fund Emergency Reserve Fund (GFER)	-	-	-	-	-	-	-	-	-	-	-	-
Vehicle Replacement Fund	-	100,000	100,000	-	-	-	-	-	-	-	-	-
Compensable Leave Fund	32,677	10,000	10,500	11,025	11,246	11,470	11,700	11,934	12,172	12,416	12,664	12,918
Section 115 Trust	312,000	-	-	-	-	-	-	-	-	-	-	-
Ending Total Fund Balance	7,378,468	6,020,732	4,669,216	4,318,475	4,171,265	4,171,810	4,238,101	4,374,600	5,180,012	6,312,362	7,780,579	9,586,736
Less Non-Spendable Fund Balance	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	3,190,000
Ending Available Fund Balance	4,188,468	2,830,732	1,479,216	1,128,475	981,265	981,810	1,048,101	1,184,600	1,990,012	3,122,362	4,590,579	6,396,736
Measure E Fund Operating Expenses (excluding transfers)	3,347,416	3,462,084	3,342,259	3,415,917	3,488,813	3,562,166	3,636,975	3,702,627	3,771,131	3,836,000	3,895,333	3,963,786
General Fund Emergency Reserve Fund (GFER) Balance	7,650,434	7,803,442	7,959,511	6,118,701	5,241,075	4,595,897	4,412,815	4,501,071	4,591,092	4,682,914	4,776,573	4,872,104
Total Fund Balance as % of Total Operating Expenses (General Fund + GFER) / (General Fund + Q&E Operating)	52.5%	45.1%	38.5%	29.0%	24.3%	21.4%	20.5%	20.9%	23.7%	27.6%	32.5%	38.5%
Minimum Reserve Levels *	MET	MET	MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	NOT MET	MET
General Fund Emergency Reserve Policy: 33% operating expenses. Includes Measure E fund operating expenses.	7,444,283	7,782,899	8,084,952	8,245,833	8,446,258	8,597,202	8,788,774	8,980,963	9,155,173	9,334,537	9,505,239	9,668,099
AVAILABLE FUND BALANCE (EXCESS OF MINIMUM RESERVES) *	4,394,618	2,851,275	1,353,775	(998,657)	(2,223,918)	(3,019,496)	(3,327,858)	(3,295,293)	(2,574,069)	(1,529,260)	(138,088)	1,600,742

MEASURE Q/E FUND (003)	Forecast											
	FY 2025 Estimated	FY 2026 Proposed	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Starting Fund Balance	450,998	2,314,220	1,548,149	1,070,203	904,559	806,057	878,443	774,587	1,075,790	1,116,104	1,253,892	1,499,561
Revenue												
Tax Revenue	4,440,638	4,400,000	4,532,000	4,667,960	4,807,999	4,952,239	5,100,806	5,253,830	5,411,445	5,573,788	5,741,002	5,913,232
Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Transfers In	1,200,000	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUE	5,640,638	4,400,000	4,532,000	4,667,960	4,807,999	4,952,239	5,100,806	5,253,830	5,411,445	5,573,788	5,741,002	5,913,232
Expense												
Personnel	2,611,283	2,762,855	2,802,303	2,859,762	2,915,974	2,972,141	3,029,250	3,076,669	3,126,395	3,171,922	3,211,333	3,259,265
Other Operations & Maintenance	736,133	524,229	539,956	556,155	572,840	590,025	607,726	625,957	644,736	664,078	684,000	704,520
Transfers Out (operating)	-	175,000	-	-	-	-	-	-	-	-	-	-
Debt Service Payments	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSE	3,347,416	3,462,084	3,342,259	3,415,917	3,488,813	3,562,166	3,636,975	3,702,627	3,771,131	3,836,000	3,895,333	3,963,786
Net Surplus (Shortfall)-Operating	2,293,222	937,916	1,189,741	1,252,043	1,319,185	1,390,073	1,463,831	1,551,203	1,640,314	1,737,788	1,845,669	1,949,446
Capital	430,000	1,703,987	1,667,687	1,417,687	1,417,687	1,317,687	1,567,687	1,250,000	1,600,000	1,600,000	1,600,000	1,600,000
Police Digital Radio Communications Upgrade	-	317,687	317,687	317,687	317,687	317,687	317,687	-	-	-	-	-
Morro Bay Bridge Inspection &	80,000	-	-	-	-	-	-	-	-	-	-	-
Storm Drain Assessment	-	86,300	-	-	-	-	-	-	-	-	-	-
Local Road Safety Plan (LRSP) Implementation and Safety	-	-	100,000	100,000	100,000	-	-	-	-	-	-	-
Sidewalk Improvements and Street Tree Replacements Project	-	300,000	250,000	-	-	-	-	-	-	-	-	-
Annual Pavement Management Program	350,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,250,000	1,250,000	1,600,000	1,600,000	1,600,000	1,600,000
Net Surplus (Shortfall) including Capital	1,863,222	(766,071)	(477,946)	(165,644)	(98,502)	72,386	(103,856)	301,203	40,314	137,788	245,669	349,446
ENDING FUND BALANCE	2,314,220	1,548,149	1,070,203	904,559	806,057	878,443	774,587	1,075,790	1,116,104	1,253,892	1,499,561	1,849,007



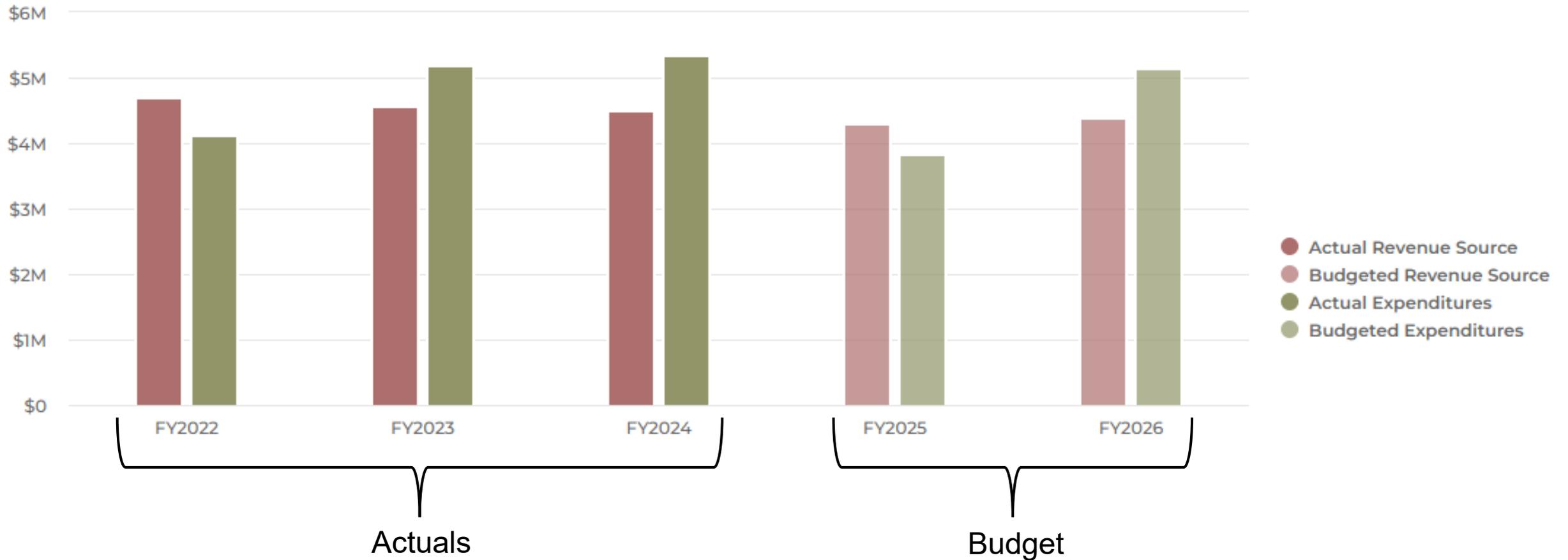
GF and Measure Q&E Forecast (\$ in millions)



- Revenues in General Fund and Q/E are sufficient to support operating costs.
- The General Fund shortfalls in 2026-27 and 2027-28 can be covered by the available fund balance.
- Needed funding for capital maintenance and improvements is greater than available fund balance
 - Options include pursue other funding or defer maintenance



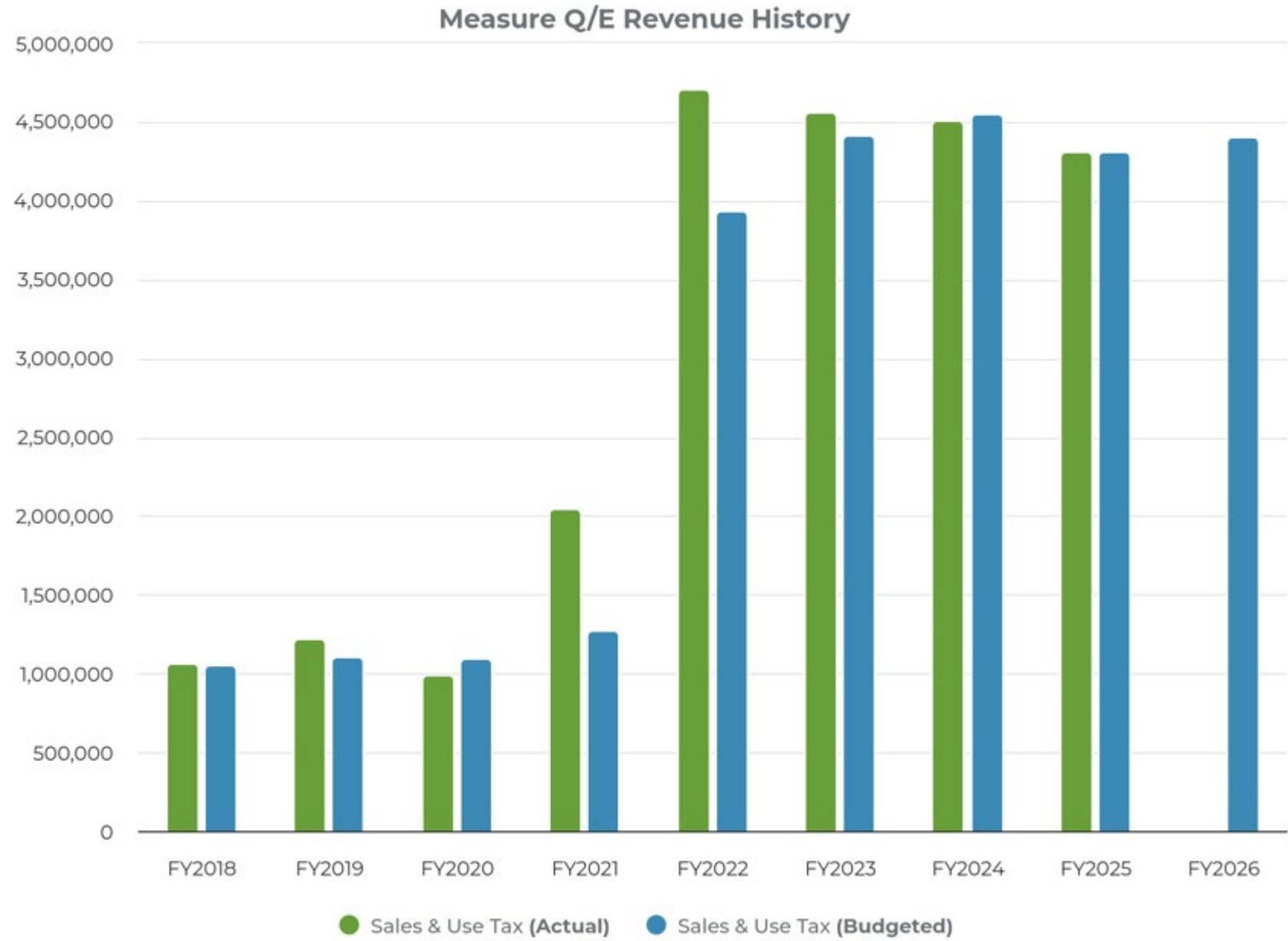
Looking Back – Measure E Budget to Actuals





Sales & Use Tax

- Measure E passed 2020
- COVID rebound evident in 2022 & 2023
- Revenue projections for FY 2025-26 are based on FY 2024-25 YTD and HdL Sales Tax team projections. Latest projects are slightly higher than budgeted





FY 2025-26 Proposed Measure Q/E Budget

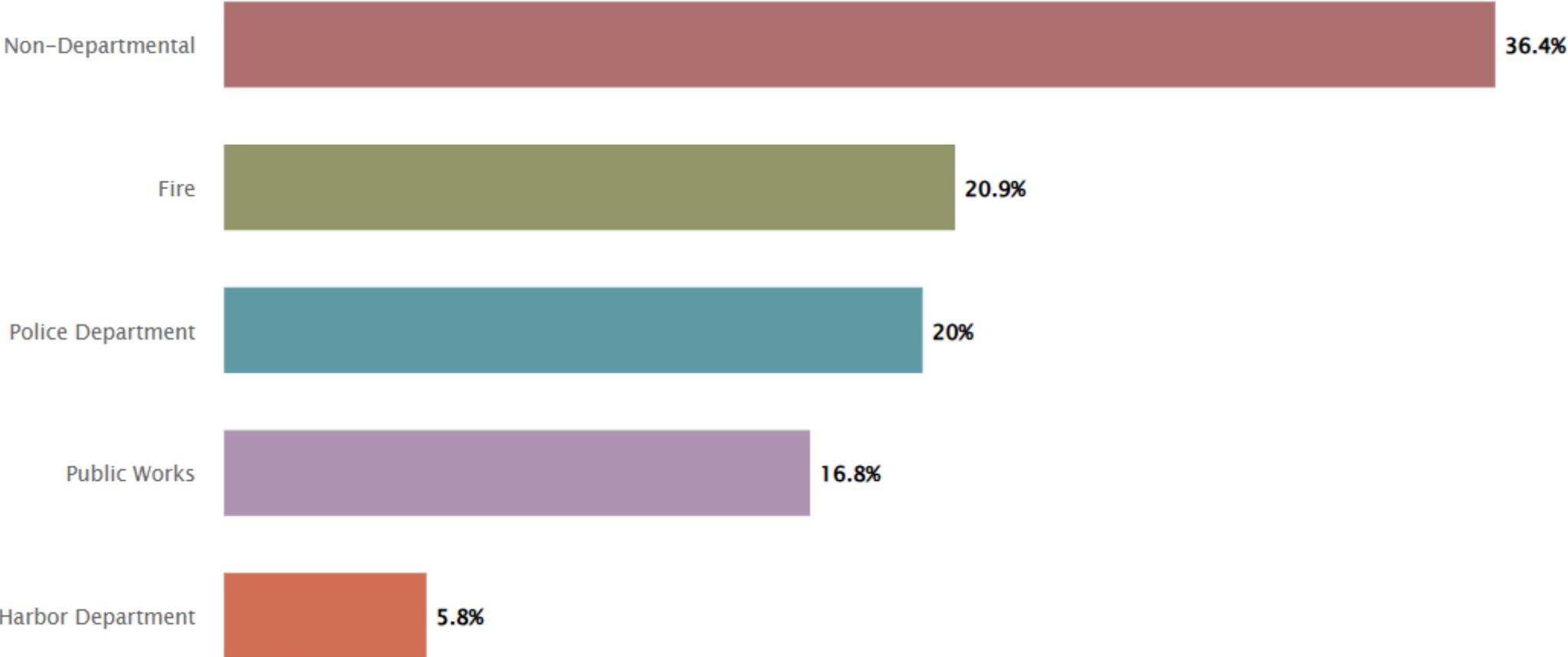
- Overall, the Measure Q/E exp. budget is increasing by 34% compared to the prior year
- Personnel up by 3%
- Supplies budget is increasing by 980% (~\$60K)
- Services budget is decreasing by 37%
- Interfund transfers (CIP contributions) are increasing 337%

FY2026 Budgeted Revenues	FY2025 Amended Budget vs. FY2026 Budgeted (% Change)
\$4,400,000	2%
\$4,400,000	2%

Name Expenditures	FY2026 Budgeted	FY2025 Amended Budget vs. FY2026 Budgeted (% Change)
Expense Objects		
Personnel Services	\$2,762,855	2.9%
Supplies	\$68,046	980.1%
Other Expense	\$36,720	0%
Services	\$419,463	-37.1%
Capital Outlay	\$0	-100%
Debt Service	\$0	0%
Interfund Transfers	\$1,878,987	337%
Total Expense Objects:	\$5,166,071	34%



Measure Q/E Expenditures by Department



Police Department	
Change for FY 2025-26	7.8% increase over FY 2024-25 amended budget
Funded Positions (Staffing)	<p>1 Police Sergeant, 2 Police Officers, 1 non-sworn Community Services Officer (CSO), 1 Property Evidence Clerk.</p> <p>To address the staffing shortage due to limited funding, the use of retired annuitants has been implemented to provide extra help to the Department. Retired annuitants are limited to 960 hours per calendar year. Personnel reductions prior to and in 2014 currently have the department operating at the same sworn staffing levels it had in 1986. All non-emergency calls for service (as well as in-progress and priority calls) fall to sworn patrol staff, which has seen a steady and consistent demand for increased calls for service and specialty requests over the past few years.</p>

Nexus to Ballot Language

- Maintain Police Department Services Maintain 911 Emergency Response
- Health Emergency/Natural Disaster Preparedness

Police Department

Supplies & Services

- Mobile Data Centers for patrol vehicles (\$40,000)
- Tasers (\$23,046)
- Annual payments to the San Luis Obispo County Sheriff’s Department for Morro Bay’s contribution to the County Bomb/Drug/Gang task force. This funds staff and the purchase of required equipment to respond to situations involving bombs, drugs, or gangs (\$15,000).
- Annual regional SWAT team contribution. These funds go to the City of San Luis Obispo for staff and equipment that the SWAT team uses. Each agency has staff that are members of the SWAT team. The contribution amount is based on the number of SWAT members from each agency. Morro Bay has two SWAT team members (\$7,000)
- Annual payment for CLETS/Data lines to the San Luis Obispo Sheriff’s Department. This is for access to CLETS and Data lines that the Sheriff’s department is the custodian of for the Department of Justice (\$14,720)
- Maintenance Contract (\$29,463)

Nexus to Ballot Language

- Maintain Police Department Services Maintain 911 Emergency Response
- Health Emergency/Natural Disaster Preparedness



Fire Department

Change for FY 2025-26	8.5% increase over FY 2024-25 amended budget
Funded Positions (Staffing)	<p>1 Captain-Paramedic, 2 Engineer-Paramedic, 1 Firefighter-Paramedic, as well as 3 seasonal firefighters. This staffing model will help to maintain the Council's desired and strategic plan recommending 4 firefighters on duty each day and ensure public safety response capabilities 24 hours a day, 7 days a week, 365 days a year. Seasonal firefighters are utilized to augment Fire Department staffing, participate in public events, perform commercial business inspections, and fill in to cover for leave time when full-time personnel take leave. They also participate in the City's response to mutual aid assignments for wildland fires throughout the State. However, it is increasingly challenging to recruit for these positions. Therefore, in FY 2023-24, 3 part-time firefighters were eliminated and 1 full-time Firefighter-Paramedic was added. The City has applied regularly for grant-funded full-time positions and has not been awarded those grants. Staff will continue to apply for grant funding, but absent an award, this staffing change will help maintain adequate staffing for the Department, particularly during a longer wildfire season when the Department is called upon to provide mutual aid. Note: Mutual Aid financial activity is tracked entirely in the General Fund.</p>

Nexus to Ballot Language

- Maintain Fire Department Services
- Maintain 24/7 Paramedics / Emergency Response
- Health Emergency/Natural Disaster Preparedness
- Firefighter/paramedic equipment

Public Works Department

Change for FY 2025-26	22% decrease over FY 2024-25 amended budget
Funded Positions (Staffing)	1 Maintenance Superintendent, 2 Maintenance Workers, 0.8 Associate Engineer, and 0.25 Senior Civil Engineer. Consistent with Council direction at Midyear in FY 2021-22, this consolidated maintenance staffing will continue to enhance cleanliness of waterfront, embarcadero, public restrooms, and parks. This funding will support daily operations. The Senior Civil Engineer position will implement critical City capital improvement projects that are consistent with Measure E priorities (the remaining allocation of the position is charged to Water, Sewer, and Harbor funds for support on utilities and harbor capital project implementation).
Supplies & Services	<ul style="list-style-type: none">○ Consolidated Maintenance<ul style="list-style-type: none">▪ Painting Facilities (\$34,000)▪ Resurface Monte Young Tennis Courts (\$36,000)○ Streets Maintenance<ul style="list-style-type: none">▪ On-call street repairs/road striping (\$200,000)

Nexus to Ballot Language

- Keeping public areas safe/clean
- Street & pothole repairs
- Health Emergency/Disaster Preparedness

Harbor Department

Change for FY 2025-26	7% decrease over FY 2024-25 amended budget
Funded Positions (Staffing)	5 part-time positions for the Harbor Reserves program and 14 Part-time Harbor lifeguard program positions. Both the reserve and lifeguard programs allow the Harbor Department to maintain current service levels to keep the harbor and beaches safe and clean, and to maintain emergency response.
Supplies & Services	<ul style="list-style-type: none">◦ First Aid Supplies (\$500)◦ New Rescue Board (\$1,000)◦ Upfitting for harbor response vehicle (\$500)◦ Uniforms and rescue equipment for lifeguard program (\$2,000)◦ Miscellaneous Operating Supplies (\$1,000)◦ Disposal funding to allow the Harbor Department to enhance trash disposal along the waterfront and Embarcadero. Promotes environmental health of the ocean by preventing trash from overflowing waste receptacles. Hauler rates increased significantly by approximately 30% (\$120,000).

Nexus to Ballot Language

- Keeping beaches and public areas safe/clean Health Emergency/Disaster Preparedness

Non-Departmental

Change for FY 2025-26	<p>Overall 308% increase over FY 2024-25 amended budget, largely due to increased contributions to CIP (more detail on CIP below).</p> <ul style="list-style-type: none">◦ \$175,000 Transfer Out to General Government Vehicle Replacement Fund for:<ul style="list-style-type: none">▪ Public Works Dump Truck (\$100,000)▪ Police Department Patrol Vehicle (\$75,000)
Capital Improvement Project (CIP) contributions	<p>The total CIP contribution from Measure E for FY 2025-26 is \$1,703,987. These projects are presented in much greater detail in the CIP section of the budget document.</p> <ul style="list-style-type: none">◦ \$1,000,000 - Annual Pavement Management Program◦ \$300,000 - Sidewalks/Street Trees◦ \$86,300 Storm Drain Assessment◦ \$317,687 Police Radio Communication Upgrades

Nexus to Ballot Language

- Keeping public areas safe/clean
- Street & pothole repairs
- Maintain Police Department Services
- Maintain 911 Emergency Response
- Maintain Storm Drains
- Health Emergency/Disaster Preparedness



Capital Projects – New Funding Allocations

Project	Amount
Annual Pavement Management Program	\$1,000,000
Sidewalk Improvements & Street Tree Replacements	\$300,000
Storm Drain Assessment	\$86,300
Police Radio Communication Upgrades	\$317,687

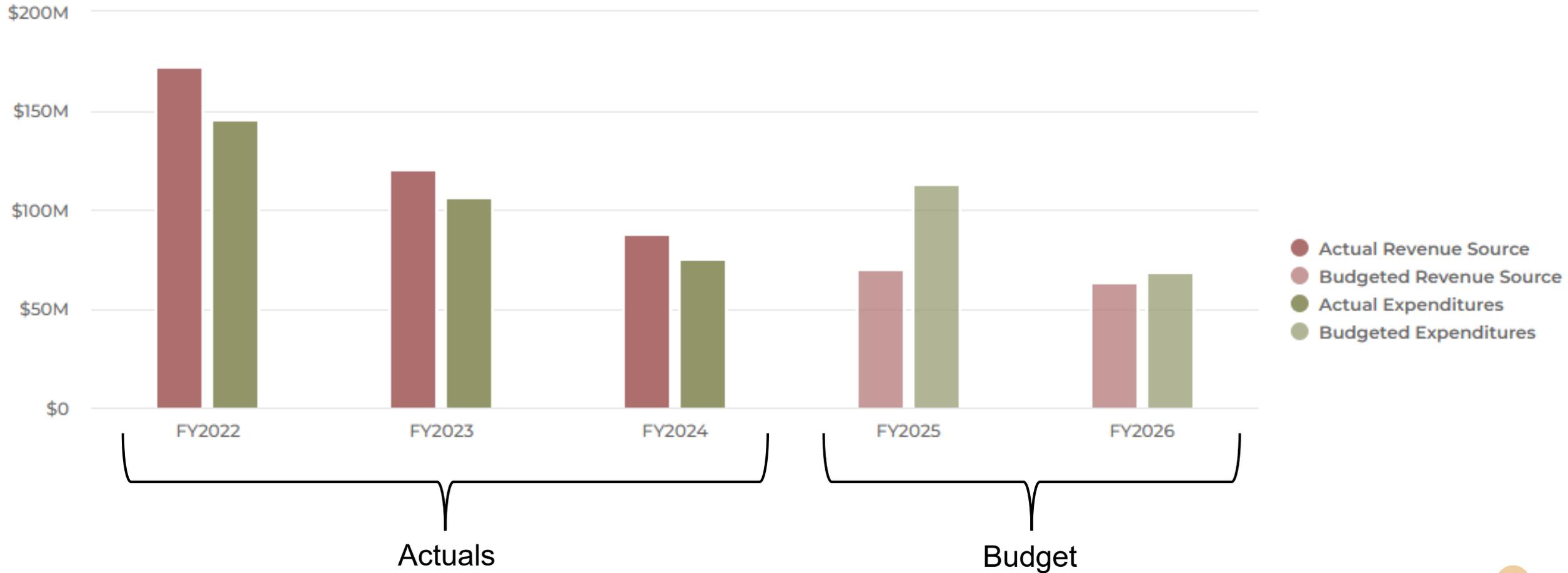


Capital Projects – Carryforward from Prior Years

Project	Measure Q/E Funding Amount	Projected Carryforward
Active Transportation Plan/Active Corridor Studies	\$67,000	\$67,000
Morro Bay Bridge Inspection & Assessment	\$80,000	\$68,000
Trash & Recycling Can Replacements	\$60,000	\$55,000
Annual Pavement Management Program	\$3,984,600	\$1,790,000
Sidewalk Improvements & Street Tree Repl	\$150,000	\$149,000
Boat Launch Ramp & Float Replacement	\$130,000	\$35,000
ADA Accessibility Upgrades at Quintana/Main	\$90,000	\$90,000

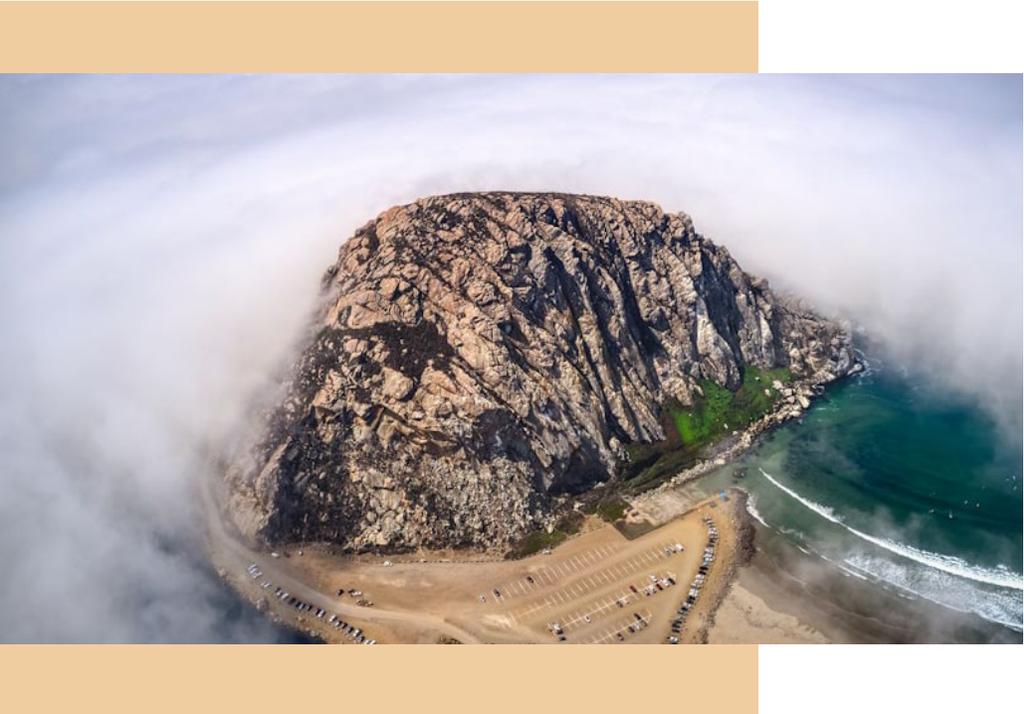


Looking Back – Citywide Budget to Actuals





CITYWIDE BUDGET



✓ Revenues

Major revenues projected to increase moderately.

- Property Taxes up 5%
- Sales & Use Tax up 3%
- TOT up 2%
- Current Services down 3%
- Intergovernmental Revenue down 54%

✓ Personnel Costs

Personnel costs are projected to increase by approximately 3.5%, with the annual UAL cost increasing by 13% (save 3% by paying in one lump sum every year)

✓ Reserves

All funds are expected to meet their reserve policies for FY 2025-26. Minimum city reserves equate to 39% of operating.



FY 2025-26 Proposed Citywide Revenues

- Overall, citywide revenues are projected to decrease net 2%
 - Increase in Property Taxes, Sales & Use Tax, TOT, Franchise Fees, Interfund Revenue Transfers
 - Decrease in intergovernmental revenues (mutual aid to be budgeted based on actuals at midyear), Licenses & Permits, Current Services, Use of Money & Property
- In August 2025, User Fee Study Report and Updated Master Fee Schedule will be presented and, if approved, updated fee structure will be implemented. Likely to result in revenue exceeding budget.

Name	FY2026 Budgeted	FY2025 Amended Budget vs. FY2026 Budgeted (% Change)
Revenue Source		
Property Taxes	\$6,116,365	5.5%
Intergovernmental Revenues	\$1,360,951	-16.8%
Sales & Use Tax	\$7,125,761	2.6%
Cannabis City Tax	\$490,000	0%
Transient Occupancy Tax	\$4,590,000	2%
Franchise Fees	\$781,155	4.5%
Licenses & Permits	\$817,000	-3.3%
Revenues From Current Services	\$22,127,743	-3.6%
Fines & Forfeitures	\$126,627	-1.5%
Other Revenues	\$2,043,787	-20.5%
Revenues From Use of Money & Property	\$1,139,833	-6.9%
Interfund Revenue Transfers	\$3,180,751	5.8%
Total Revenue Source:	\$49,899,972	-1.9%



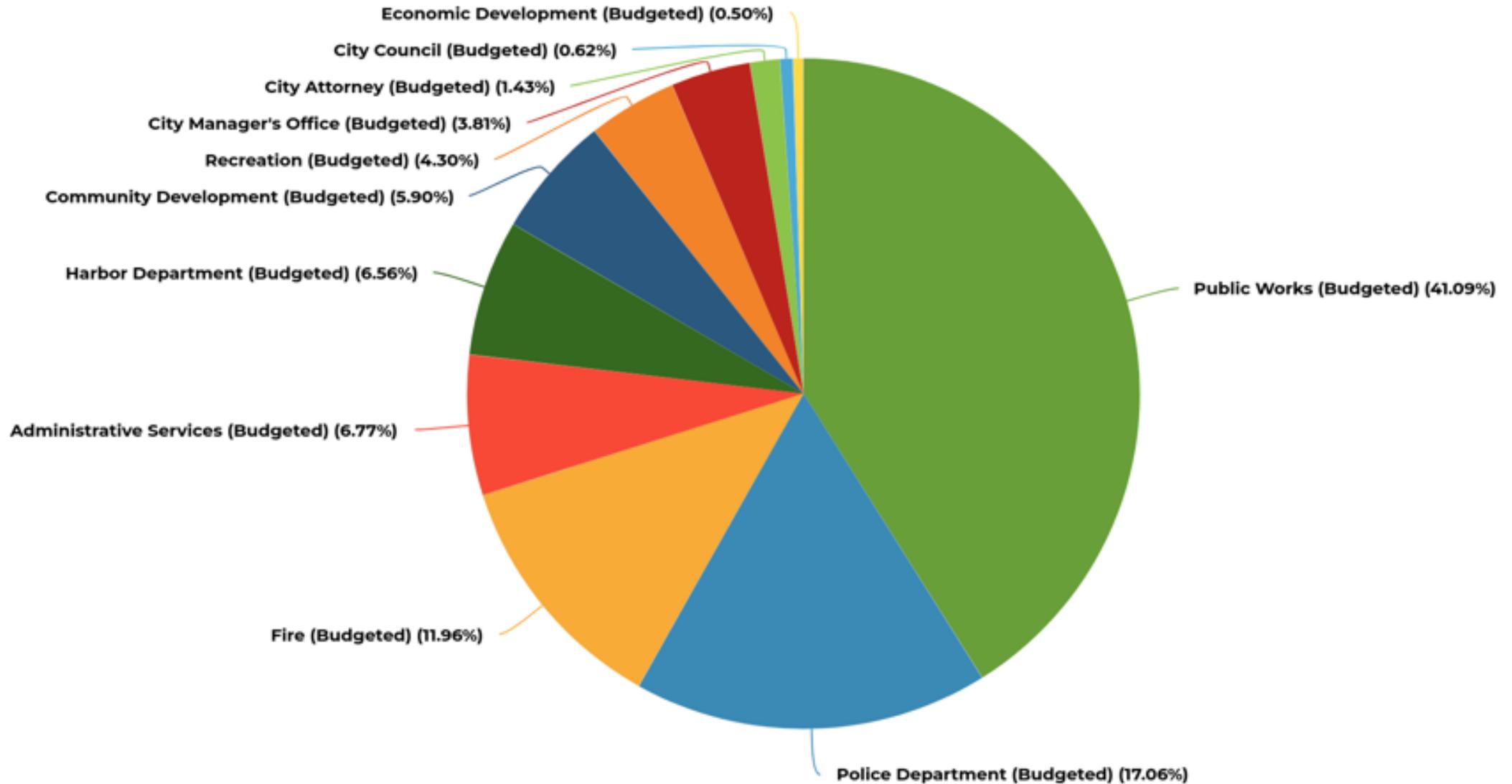
FY 2025-26 Proposed Citywide Expenses

- Overall, citywide expenditures are projected to decrease 10%
 - Net of transfers, down 8%
 - Decrease in all objects except Personnel
- Personnel costs up 3.5%
- Note: debt service was estimated in FY24-25, FY25-26 is actual amount due

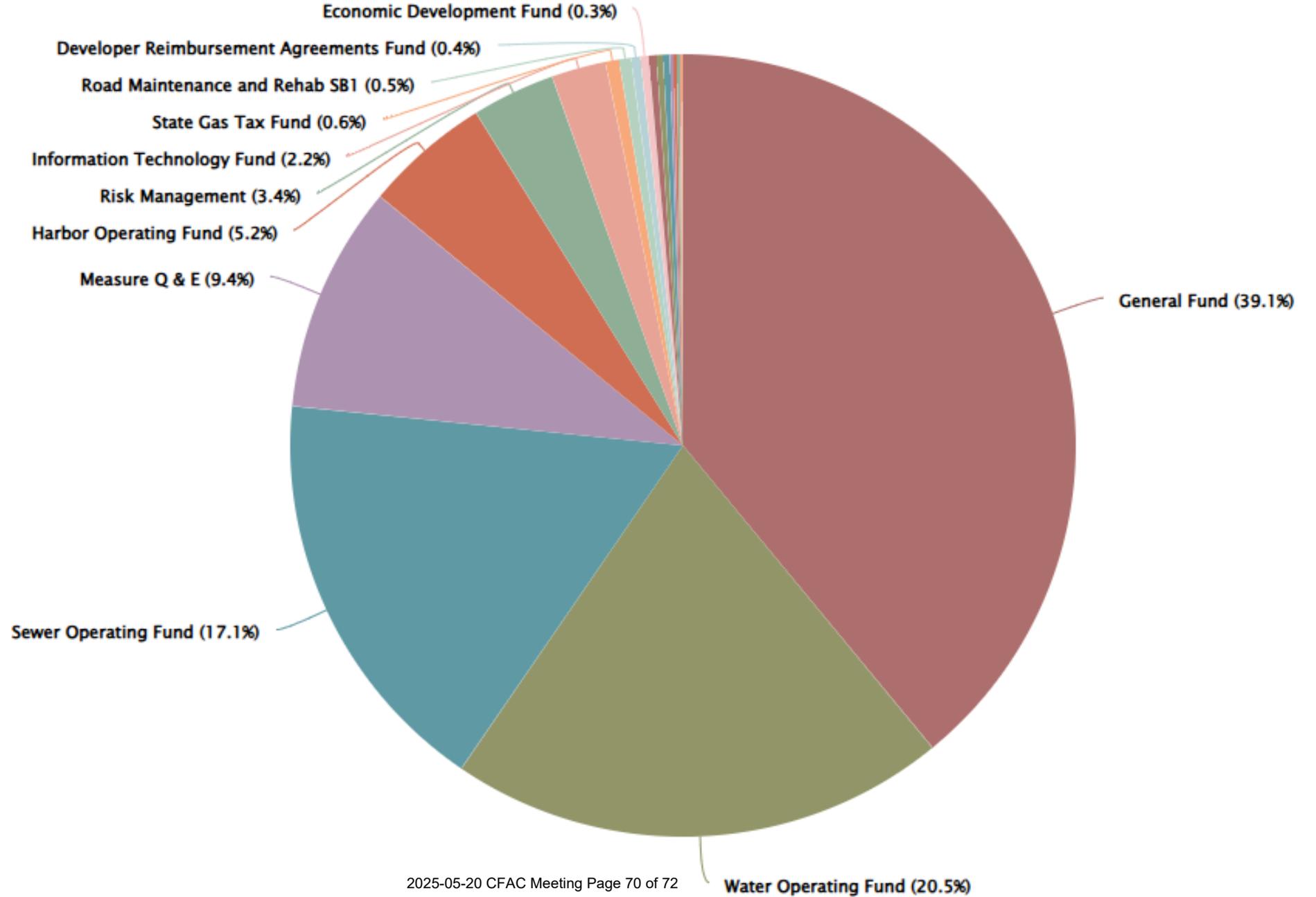
Name	FY2026 Budgeted	FY2025 Amended Budget vs. FY2026 Budgeted (% Change)
Expense Objects		
Personnel Services	\$22,533,321	3.5%
Supplies	\$1,978,598	-14.4%
Other Expense	\$412,301	-1.8%
Services	\$12,813,994	-9.1%
Capital Outlay	\$327,700	-38.6%
Debt Service	\$1,616,895	-54.2%
Interfund Transfers	\$15,452,719	-16.1%
Total Expense Objects:	\$55,135,527	-9.8%



Citywide Expenditures by Department– Net of Transfers



Citywide Expenditures by Fund





CITYWIDE LONG TERM FISCAL OUTLOOK



✓ Revenues

The General Fund revenue are sufficient to fund ongoing operating costs, but insufficient to cash-fund major capital needs.

✓ Risk-Based Reserve Strategy

Administrative Services (still) plans to complete a risk-based reserve analysis to inform recommendations to Council regarding the City’s reserve thresholds.

✓ Capital Projects

Funding sources for future capital projects remain limited, absent new revenue streams. Staff capacity to deliver funded projects also remains constrained, though the addition of a utilities project manager position should help.



Action Items for Consideration



Discussion of Measure E Allocations

- Services/Supplies
- Projects



Alignment with legislative intent



Recommendations to Council for FY 2025-26