

City of Morro Bay

City Council Agenda

Mission Statement

The City of Morro Bay is dedicated to the preservation and enhancement of the quality of life. The City shall be committed to this purpose and will provide a level of municipal service and safety consistent with and responsive to the needs of the public.

**NOTICE OF SPECIAL MEETING
TUESDAY, MARCH 22, 2016
MORRO BAY VETERAN'S HALL – 4:00 P.M.
209 SURF STREET, MORRO BAY, CA**

ESTABLISH QUORUM AND CALL TO ORDER

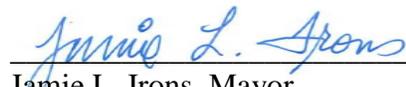
PUBLIC COMMENT RE: ITEMS ON THE AGENDA

SPECIAL MEETING AGENDA ITEMS:

I. TEN-YEAR BUDGET FORECAST STUDY SESSION

ADJOURNMENT

DATED: March 17, 2016



Jamie L. Irons, Mayor

MATERIALS RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE CITY COUNCIL AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC INSPECTION AT CITY HALL LOCATED AT 595 HARBOR STREET; MORRO BAY LIBRARY LOCATED AT 625 HARBOR STREET; AND MILL'S COPY CENTER LOCATED AT 495 MORRO BAY BOULEVARD DURING NORMAL BUSINESS HOURS. IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT LEAST 24 HOURS PRIOR TO THE MEETING TO INSURE THAT REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.



AGENDA NO: I

MEETING DATE: March 22, 2016

Staff Report

TO: Honorable Mayor and City Council

DATE: March 14, 2016

FROM: David Buckingham, City Manager

SUBJECT: Ten-Year Budget Forecast Study Session

DISCUSSION

In March 2015, the City of Morro Bay conducted a comprehensive ten-year budget forecast, to provide the City Council and community with a better understanding of the City's financial situation in the decade ahead. A number of changes occurred after the forecast was finalized, and in order to fine-tune the 2016/17 budget, Management Partners was asked to prepare an update to that forecast.

The ten-year budget forecast will provide a broad overview of the City's financial projection over the coming ten years. The forecast will review revenue projections, refine some increasing expenses including CALPERS contributions, demonstrate preparedness for a potential recession, and provide Council, staff and the public with a solid understanding of the City's financial condition as we begin the FY 2016/17 budget process.

Bob Leland, with Management Partners, will be present Tuesday afternoon to discuss the updated forecast, and provide the City Council with a clear understanding of the City's financial outlook as we enter the budget season.

Prepared By: DWB

Dept Review: _____

City Manager Review: DWB

City Attorney Review: _____

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

General Fund	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Property Tax	\$3,632	\$3,708	\$3,805	\$3,809	\$3,927	\$4,069	\$4,216	\$4,326	\$4,440	\$4,556
Sales Tax	1,850	1,829	1,819	1,899	1,994	2,095	2,164	2,236	2,310	2,387
TOT	3,114	3,270	3,188	3,395	3,667	3,960	4,158	4,366	4,584	4,813
Other Revenue	2,678	2,718	2,580	2,620	2,673	2,729	2,767	2,805	2,844	2,883
Transfers	1,177	1,195	1,213	1,450	1,773	1,270	1,290	1,311	1,332	1,353
Total Revenue	12,450	12,720	12,605	13,173	14,033	14,123	14,595	15,044	15,510	15,994
Personnel	8,335	8,930	9,253	9,475	9,886	10,057	10,408	10,721	11,056	11,401
Other O&M	2,709	2,883	2,977	3,075	3,187	3,305	3,405	3,475	3,538	3,602
Transfers/Svc Adds	665	879	890	995	960	721	733	888	933	845
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0
Total Expenditures	11,708	12,693	13,119	13,545	14,033	14,083	14,546	15,085	15,527	15,847
Net Annual	742	27	(515)	(372)	0	40	49	(40)	(17)	147
Beginning Balance	118	860	887	372	0	0	40	89	49	32
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Ending Balance	860	887	372	0	0	40	89	49	32	179
Emergency Reserve	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$226	\$28	\$28	\$28	\$27	\$23	\$23	\$23	\$23	\$24
Transfers Out	0	0	0	218	522	0	0	0	0	0
Net Annual	226	28	28	(190)	(495)	23	23	23	23	24
Beginning Balance	3,456	3,682	3,710	3,738	3,547	3,052	3,075	3,098	3,122	3,145
Ending Balance	3,682	3,710	3,738	3,547	3,052	3,075	3,098	3,122	3,145	3,169
Total GF+ER Balance	\$4,542	\$4,597	\$4,110	\$3,547	\$3,052	\$3,115	\$3,188	\$3,171	\$3,177	\$3,347
% of GF Exp	38.8%	36.2%	31.3%	26.2%	21.8%	22.1%	21.9%	21.0%	20.5%	21.1%

Key Assumptions:

Revenue Scenario	Baseline	Annual COLAs	2.00%	Inflation (CPI)	2.00%	Facility Maint-2020	\$100K
Recession	2018	Merits (composite)	1.50%	PERS Disc Rate Chng	0.00%	Capital Replace-2017	\$125K
Recession Impact	-5%	Health Contribution	3.00%	Harbor Subsidy	No	Project Accum-2017	\$150K
FY 2016 Amounts	Adjusted	Vacancy Savings Rate	3.00%	Vehicle Replace-2020	\$100K	Service Increase-2017	\$0K

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

Vehicle Replace	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$20	\$276	\$218	\$277	\$181	\$201	\$204	\$270	\$274	\$214
Expenditures	50	276	218	277	181	201	204	270	274	214
Net Annual	(30)	0	0	0	0	0	0	0	0	0
Beginning Balance	30	0	0	0	0	0	0	0	0	0
Ending Balance	0	0	0	0	0	0	0	0	0	0

Facility Maint	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$99	\$108	\$108	\$108	\$108	\$108	\$108	\$108	\$108	\$108
Expenditures	171	100	103	106	109	113	116	119	123	127
Net Annual	(72)	8	5	2	(1)	(5)	(8)	(11)	(15)	(19)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Beginning Balance	119	47	55	60	62	61	56	48	37	22
Ending Balance	47	55	60	62	61	56	48	37	22	3

Technology	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$331	\$389	\$339	\$294	\$303	\$307	\$315	\$322	\$329	\$337
Expenditures	238	432	339	294	303	307	315	322	329	337
Net Annual	93	(43)	0	0	0	0	0	0	0	0
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Beginning Balance	93	187	143	143	143	143	143	143	143	143
Ending Balance	187	143	143	143	143	143	143	143	143	143

Capital Replacement	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$75	\$126	\$127	\$127	\$128	\$129	\$130	\$131	\$132	\$133
Expenditures	0	0	0	0	0	0	0	0	0	0
Net Annual	75	126	127	127	128	129	130	131	132	133
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Beginning Balance	75	150	276	402	530	658	787	918	1,049	1,181
Ending Balance	150	276	402	530	658	787	918	1,049	1,181	1,315

Project Accumulation	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$1,198	\$159	\$160	\$161	\$163	\$164	\$165	\$166	\$168	\$169
Expenditures	0	0	0	0	0	0	0	0	0	0
Net Annual	1,198	159	160	161	163	164	165	166	168	169
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Beginning Balance	0	1,198	1,357	1,517	1,678	1,841	2,005	2,170	2,336	2,504
Ending Balance	1,198	1,357	1,517	1,678	1,841	2,005	2,170	2,336	2,504	2,672

Measure Q	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$978	\$1,020	\$1,042	\$1,337	\$1,085	\$1,139	\$1,198	\$1,238	\$1,281	\$1,281
Expenditures	1,019	881	1,037	1,278	1,135	1,128	1,186	1,230	1,272	1,281
Net Annual	(41)	139	4	59	(50)	11	12	8	8	0
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Beginning Balance	106	65	204	208	267	217	228	240	248	256
Ending Balance	65	204	208	267	217	228	240	248	256	256

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

Operations	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Harbor Leases	\$1,544	\$1,575	\$1,607	\$1,639	\$1,672	\$1,705	\$1,739	\$1,774	\$1,809	\$1,846
Other Fees	319	325	331	337	343	349	356	362	369	376
Grants	0	0	0	0	0	0	0	0	0	0
Other Revenue	34	34	35	36	36	37	38	38	39	40
Transfers In	0	0	0	0	0	0	0	0	0	0
Total Revenue	1,897	1,934	1,972	2,011	2,051	2,091	2,133	2,175	2,218	2,261
Personnel	1,014	988	1,015	1,005	1,043	1,074	1,107	1,134	1,164	1,196
Other O&M	453	462	471	481	490	500	509	519	530	540
Debt Service	135	135	135	135	135	135	135	0	0	0
Transfers Out	295	349	351	391	383	320	320	326	333	339
Total Expenditures	1,897	1,934	1,972	2,011	2,051	2,029	2,071	1,979	2,027	2,076
Net Annual	(0)	0	0	0	0	63	62	195	191	186
Beginning Balance	0	0	0	0	0	0	63	125	320	511
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Ending Balance	0	0	0	0	0	63	125	320	511	696
Equipment	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transfers Out	0	0	0	0	0	0	0	0	0	0
Net Annual	0	0	0	0	0	0	0	0	0	0
Beginning Balance	55	55	56	56	56	57	57	58	58	59
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Ending Balance	55	56	56	56	57	57	58	58	59	59
Capital	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Grants	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenue	0	0	0	0	0	0	0	0	0	0
Transfers In	715	11	23	0	0	0	0	0	0	0
Total Revenue	715	11	23	0	0	0	0	0	0	0
Expenditures	715	11	23	0	0	0	0	0	0	0
Net Annual	0	0	0	0	0	0	0	0	0	0
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Beginning Balance	0	0	0	0	0	0	0	0	0	0
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Ending Balance	0	0	0	0	0	0	0	0	0	0
Accumulation	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Grants	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenue	0	0	0	0	0	0	0	0	0	0
Transfers In	11	59	56	89	75	6	0	0	0	0
Total Revenue	11	59	56	89	75	6	0	0	0	0
Expenditures/Tfr Out	715	11	23	0	0	0	0	0	0	0
Net Annual	(704)	48	33	89	75	6	0	0	0	0
Beginning Balance	453	(251)	(203)	(170)	(81)	(6)	0	0	0	0
Cash Adjustments	0	0	0	0	0	0	0	0	0	0
Ending Balance	(251)	(203)	(170)	(81)	(6)	0	0	0	0	0
Total Ending Balance	(196)	(148)	(114)	(25)	51	120	182	378	569	755

Key Assumptions:

Office Building Project	no project	Annual COLAs	2.00%	Health Contribution	3.00%
2025 Replace Projects	no projects	Merits (composite)	1.50%	Inflation (CPI)	2.00%
GF Subsidy for Harbor	No GF Subsidy	Vacancy Savings Rate	3.00%	Revenue Scenario	Baseline

Morro Bay Budget Forecast Update

Robert Leland, Management Partners

City Council Study Session

March 22, 2016

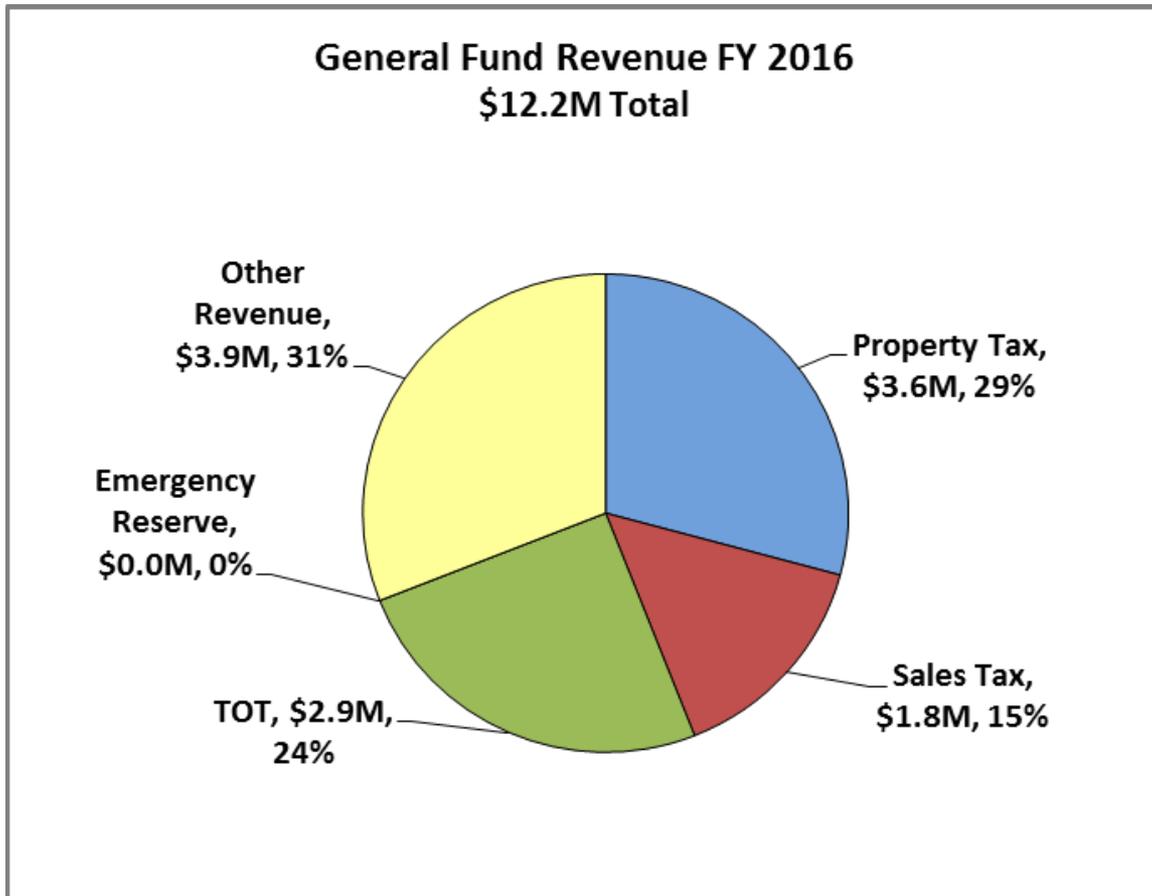
Management
Partners



Project Purpose

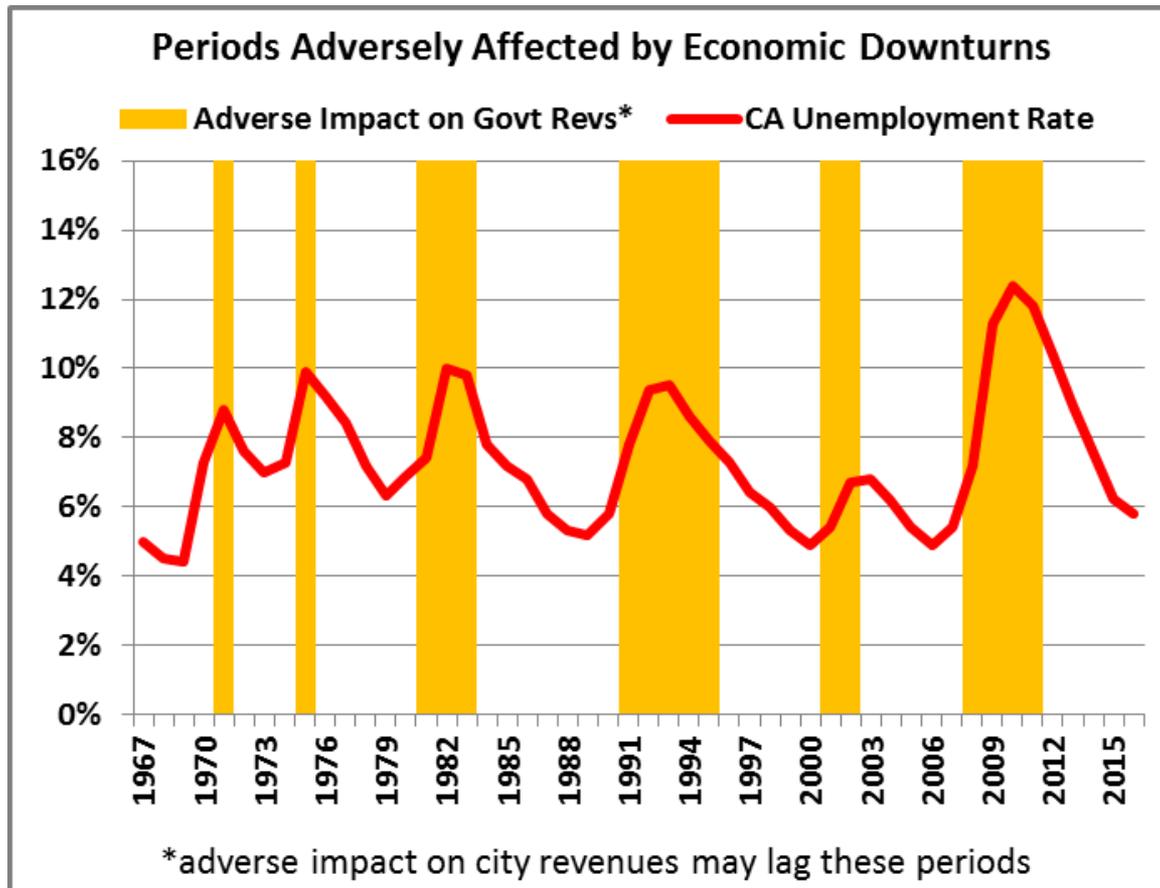
- Update last year's General Fund long-term budget forecast
 - Updated revenues and pension costs
 - Tourism contribution
 - Funding for internal service and capital replacement costs
- Harbor Fund
 - First time included in forecast
- Budget model can show impact of alternative assumptions

General Fund Revenues



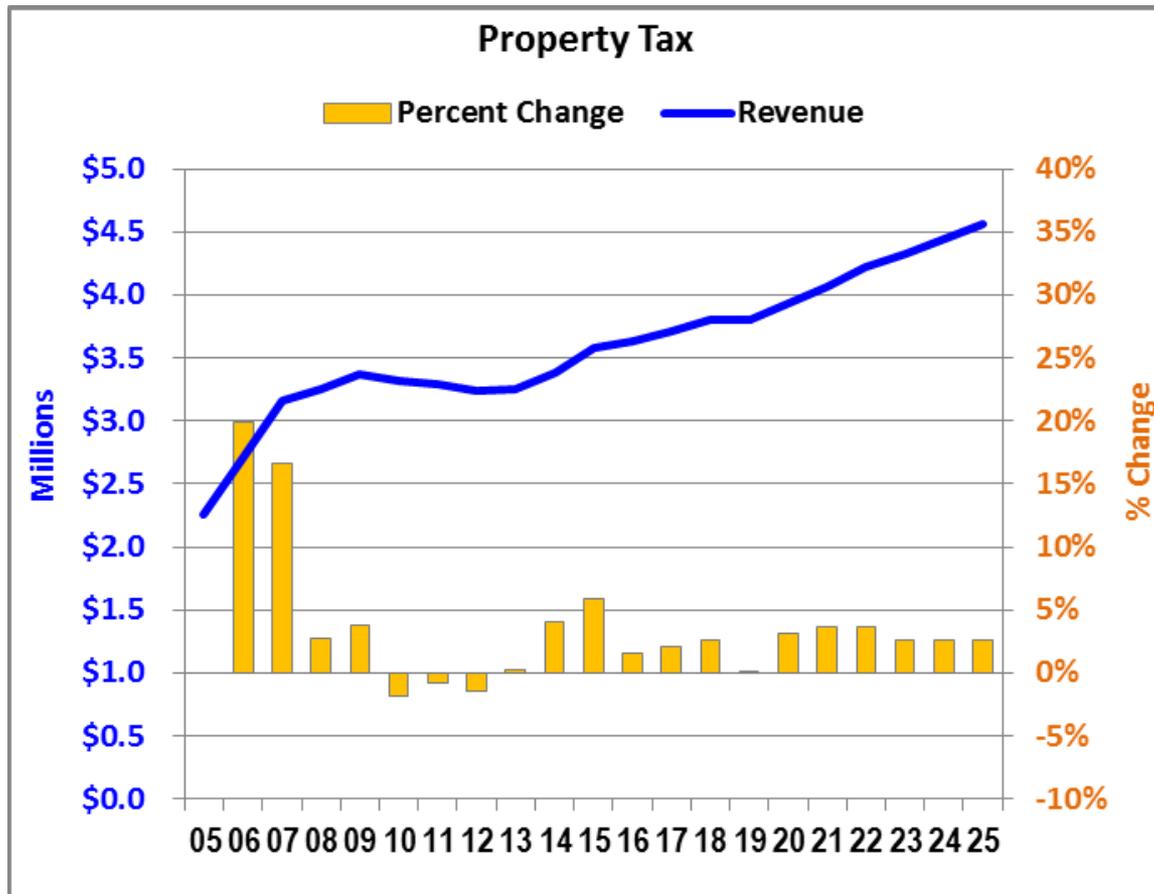
- Top 3 sources comprise 68% of total revenue
- Other revenue:
 - BLT, Prop Tfr Tax, fees, permits, fines, interest, grants, cost plan
- Highly dependent on TOT
- Tourism dictates fiscal health

Plan for Recession



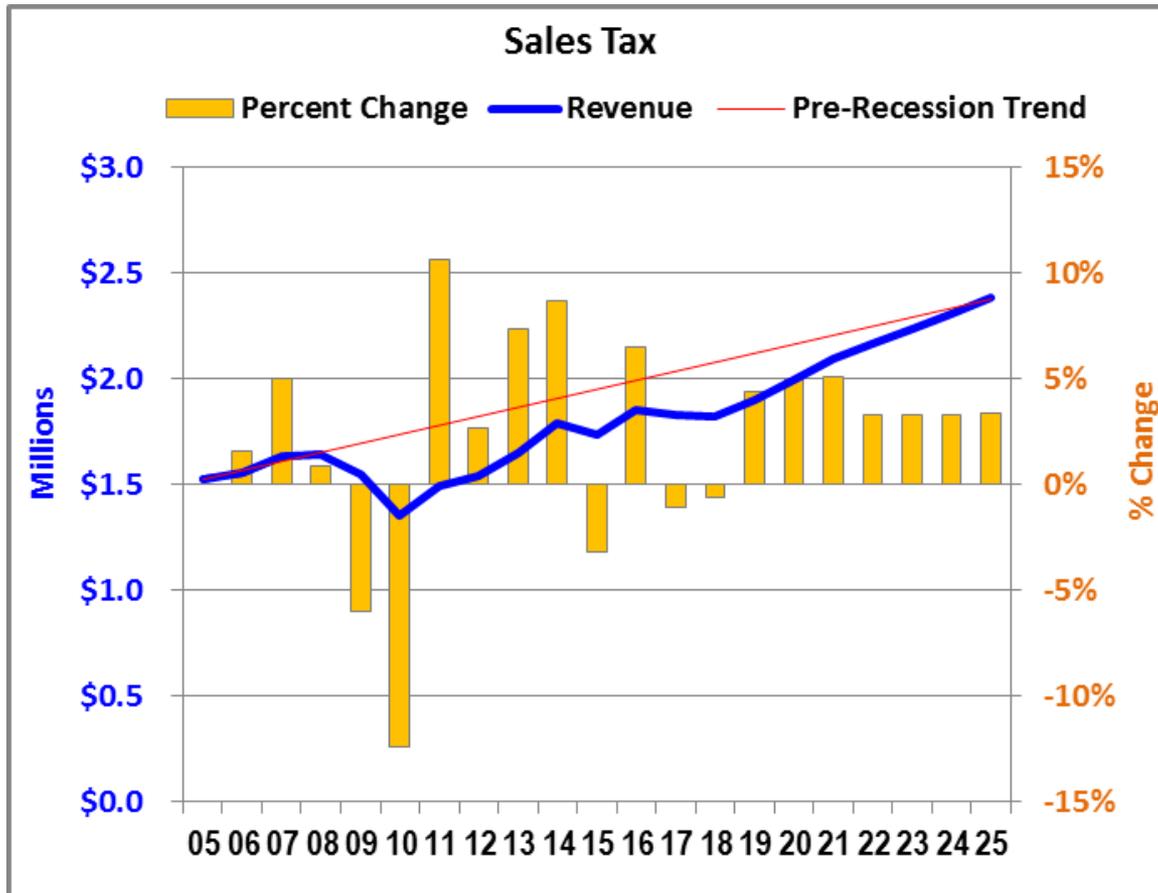
- Recessions every 6 years since 1933, every 8 years since 1961
- Forecast assumes next recession in 2018
- Modest impact with recovery over next 3 years
 - Property: -2.5%
 - Sales: -5%
 - TOT: -7.5%

Property Tax



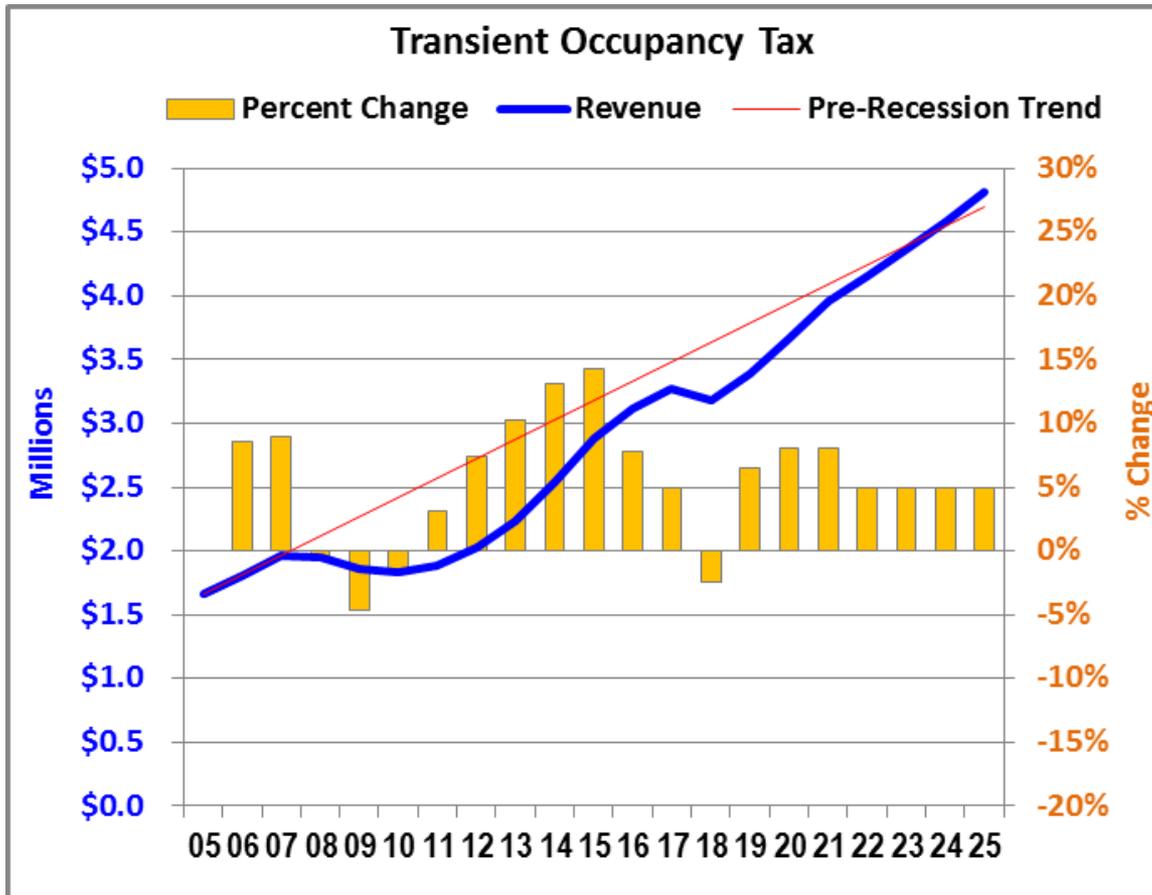
- Rapid growth in mid-2000's
- Modest hit during Great Recession
- One-year lag in impact from assumed 2018 recession
 - Annual lien date delays effect
- Average 2.6% annual growth

Sales Tax



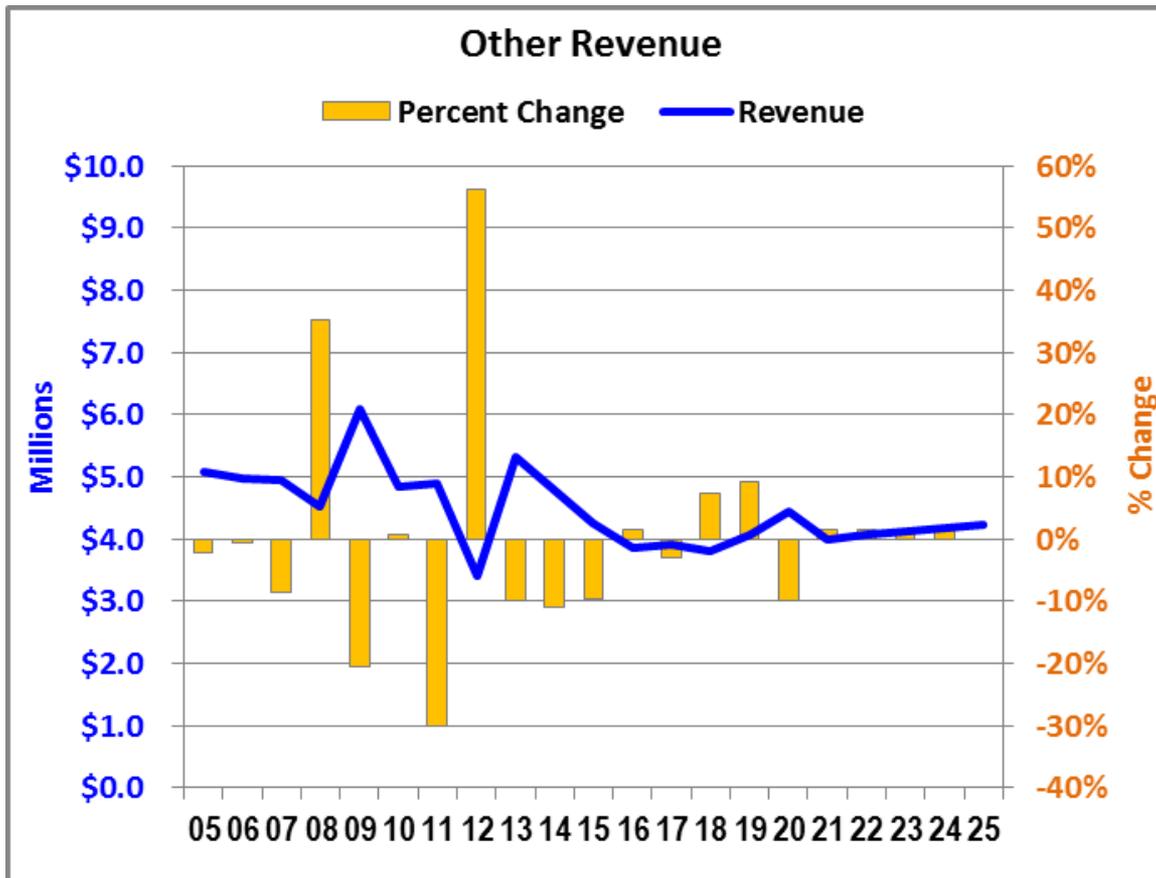
- Pronounced reduction from Great Recession
 - Took 5 years to regain 2008 peak
 - Remains below pre-recession trend until 2025
- Slowdown assumed from a 2018 recession
- Average 2.9% annual growth

Transient Occupancy Tax



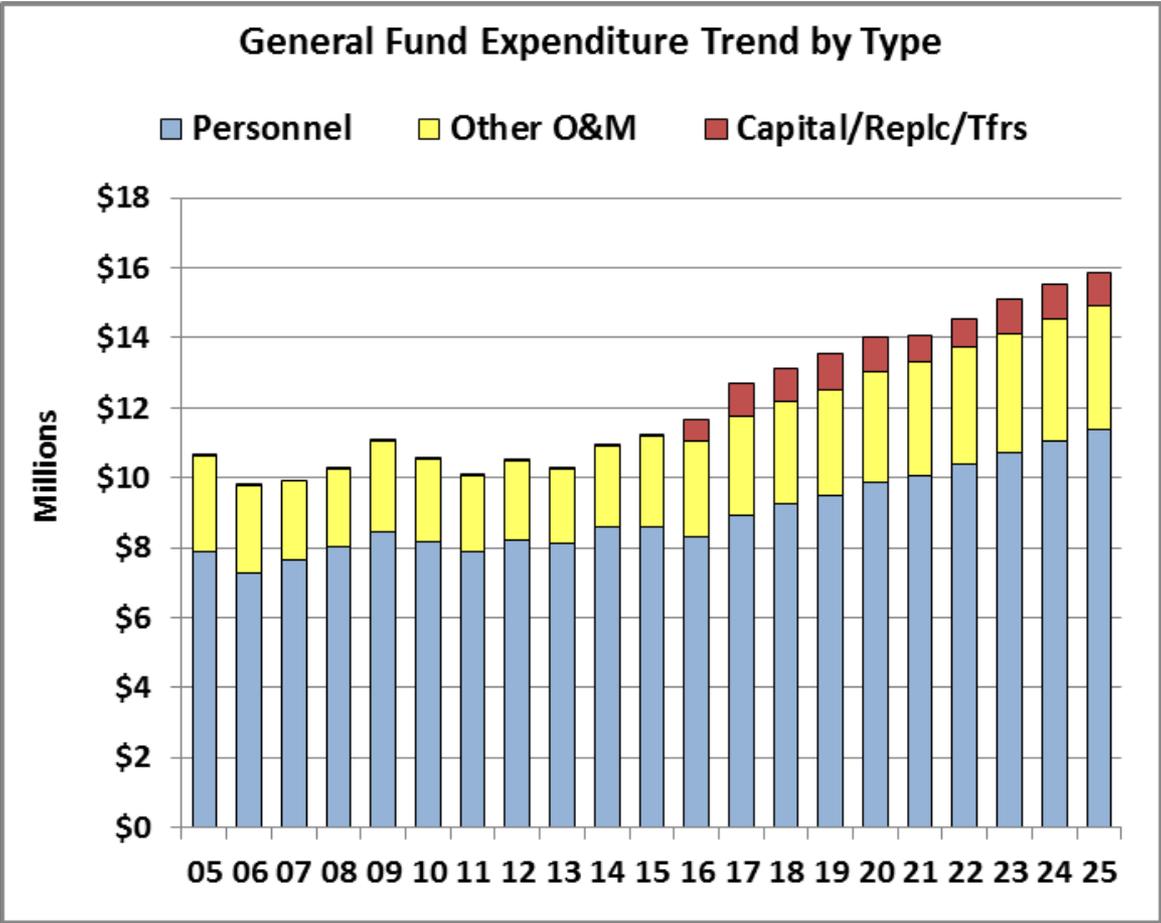
- Pronounced reduction from Great Recession
 - Took 5 years to regain 2008 peak
 - Remains below pre-recession trend until 2024
- Average 5% annual growth
 - Benefit of tourism contribution
 - Prospect for added TOT-producing rooms
 - Ensure tax collection from AirBnB

All Other Revenues



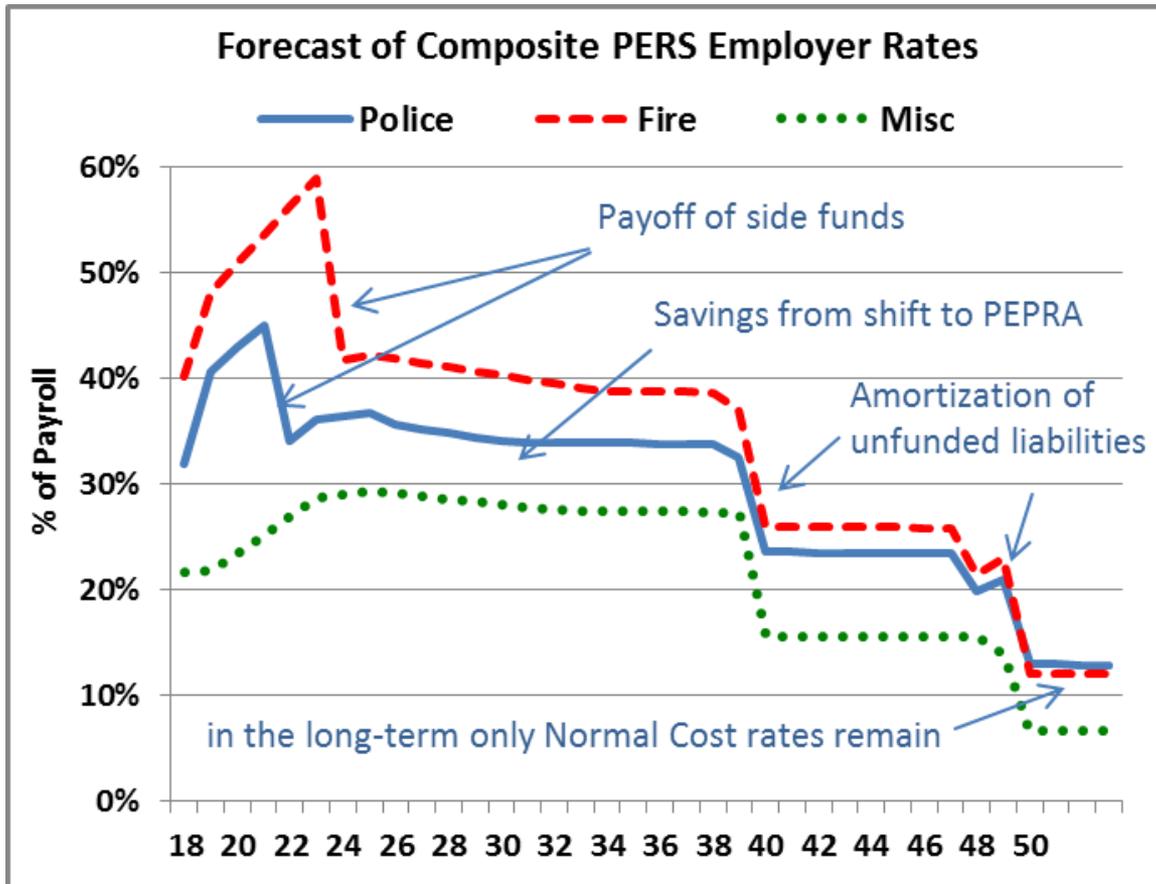
- Comprises fees, interest, transfers from other funds, and draws on GFER to avoid GF deficit balance
- Volatile, generally downward trend historically
- Assumes flat in future years

General Fund Expenditures



- Personnel costs:
 - No change in FTE
 - COLAs = CPI (2%)
 - Higher pension costs
- Other O&M
 - CPI growth
 - Tourism contributions
- Capital
 - Increased ISF & capital replacement promote long-term fiscal sustainability

Pension Costs

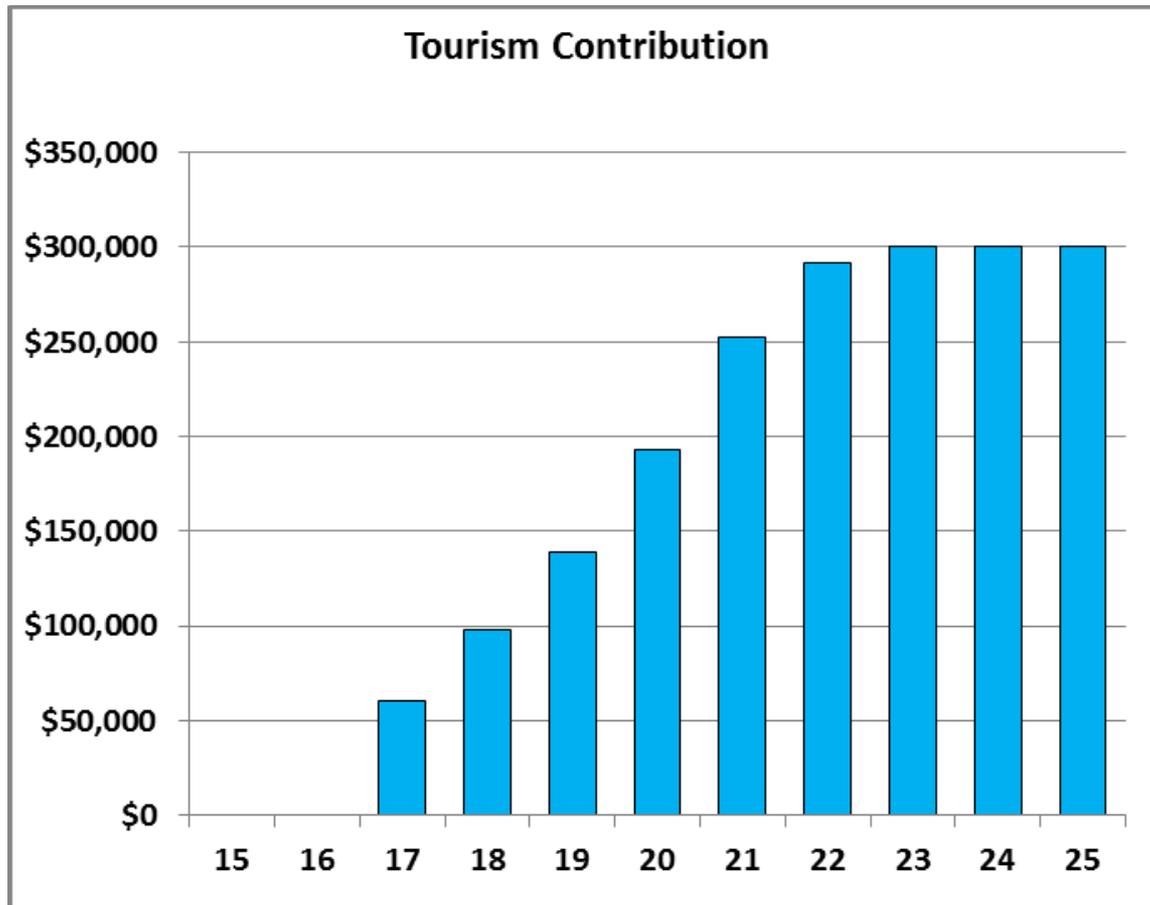


← Weighted average of total pension cost for “Classic” (higher benefit) & “PEPRA” (lower benefit) employees as a % of payroll by Plan

Police	FY 2017
Normal Cost*	17.356%
Unfunded	\$429K
Fire	
Normal Cost*	17.894%
Unfunded	\$291K
Misc	
Normal Cost*	9.884%
Unfunded	\$525K
Total Unfund	\$1,245K

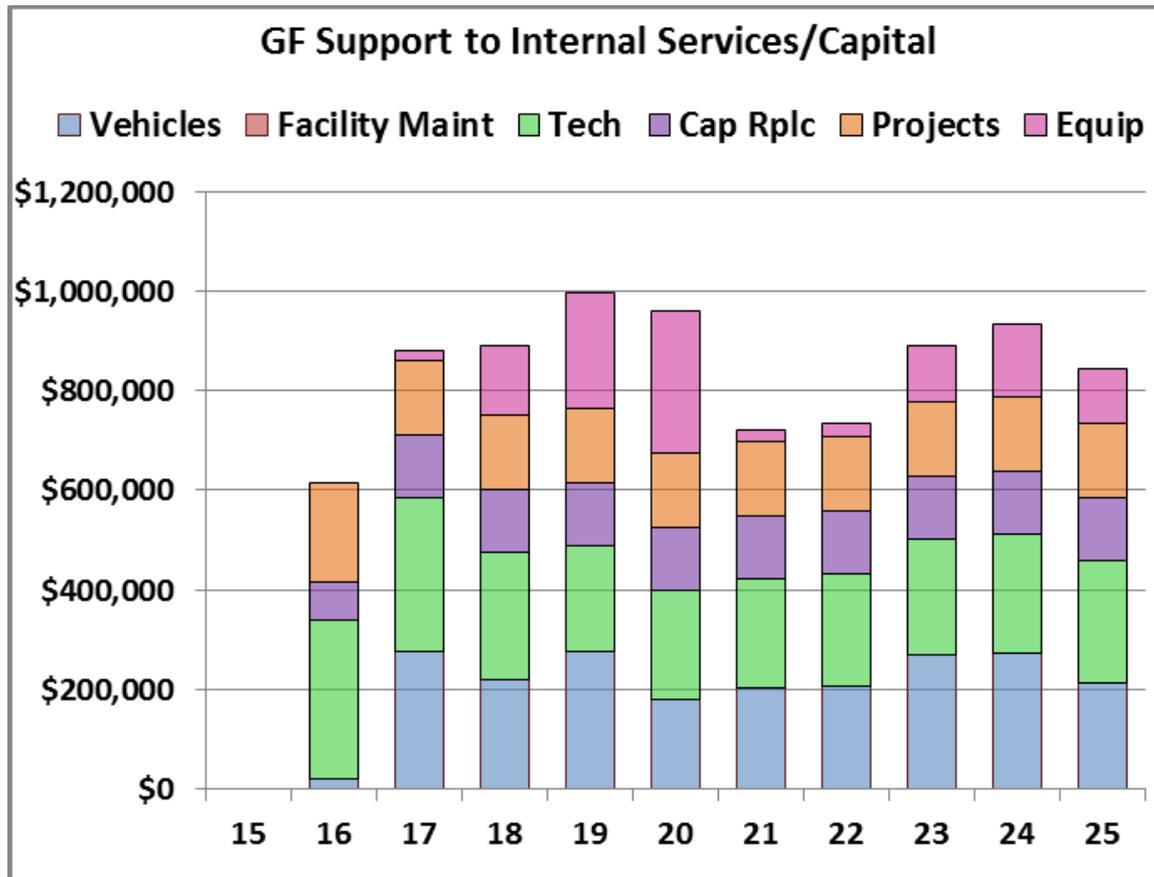
*weighted cost from 3 tiers

Tourism Contribution



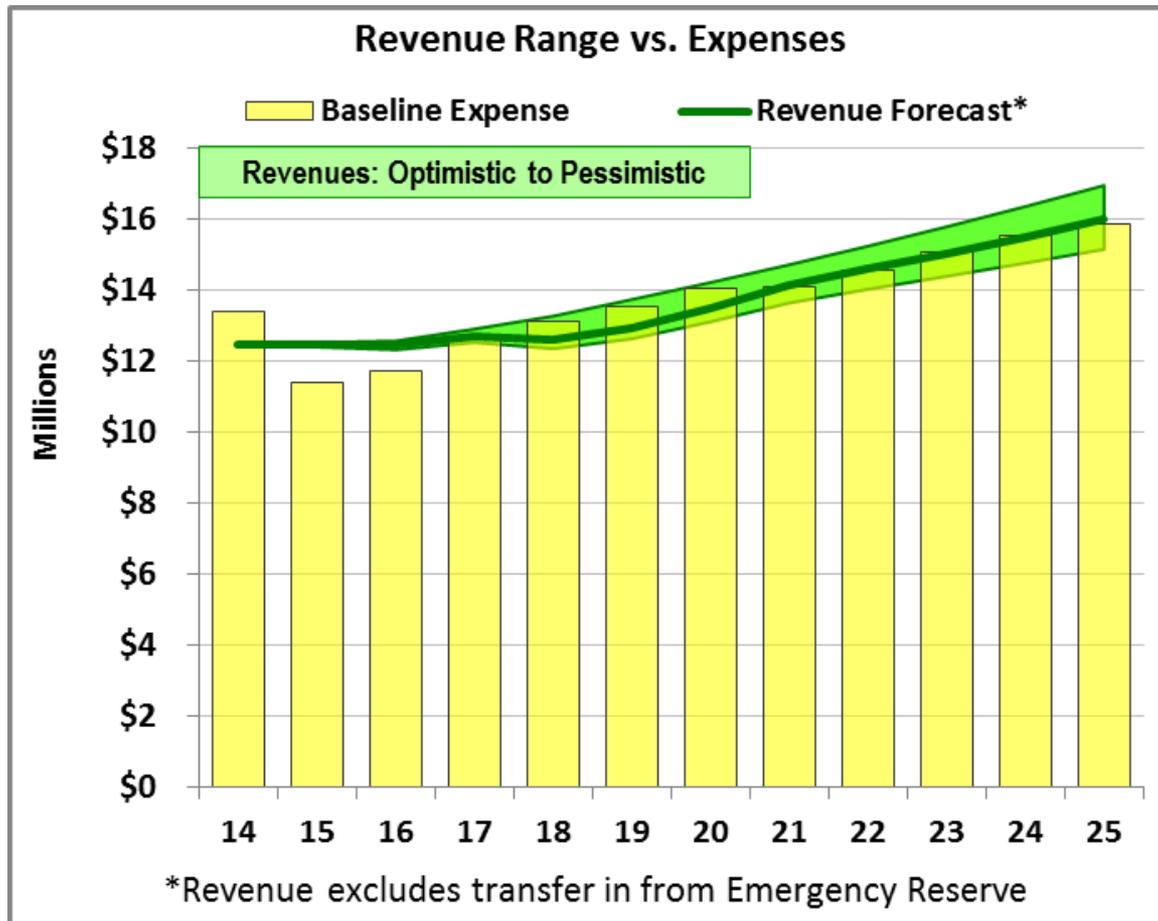
- New program
- \$60,000 plus 20% of TOT over \$3,000,000, with cap of \$300,000
- Promotion of Morro Bay will boost TOT levels over long-run

GF Support to ISF/Capital Replacement



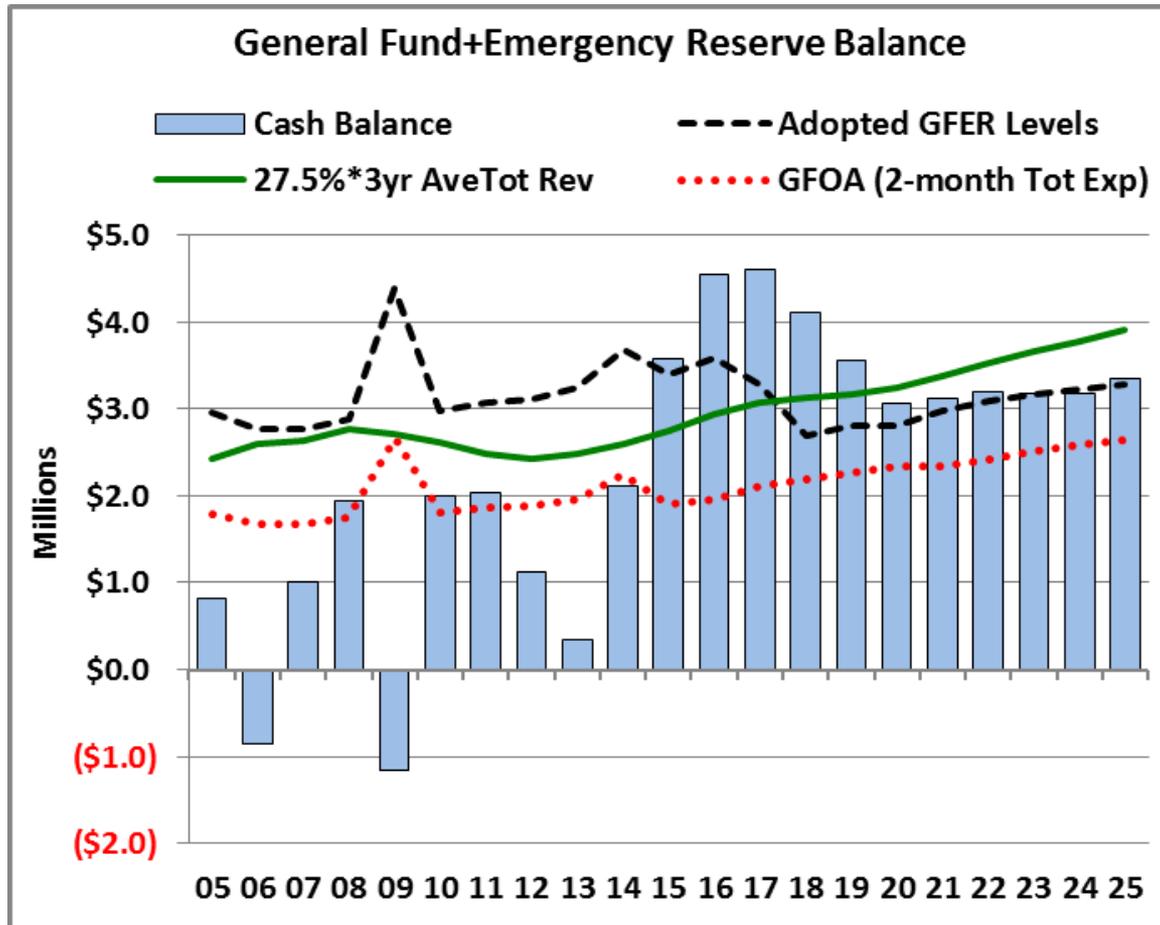
- Last year's forecast identified unfunded items
- For its long-term fiscal sustainability City needs to invest in capital replacement
 - Reflects GF-level contributions
 - Could reconfigure IT, vehicles, facility, equipment to be internal service contributions by department

Range of Likely Revenues



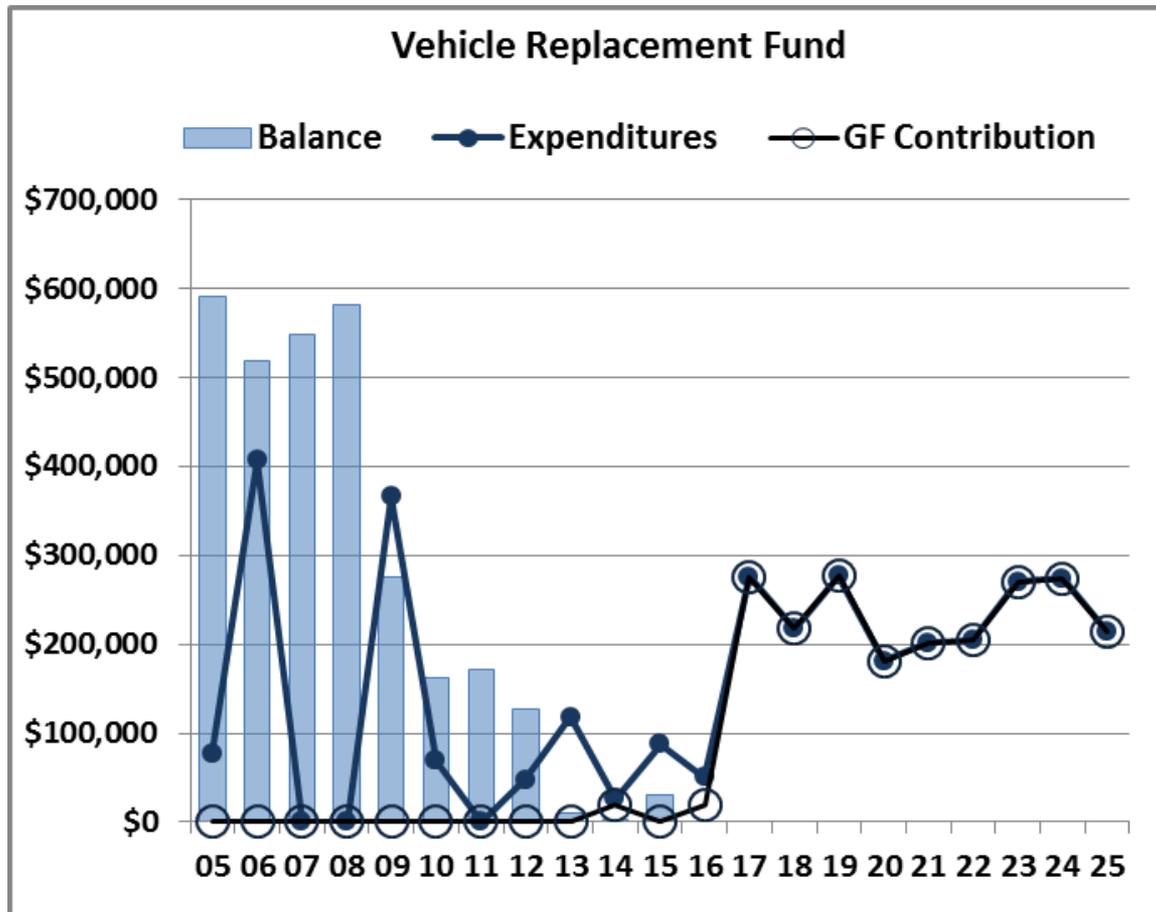
- Shows forecasted revenue with a range of plus or minus 0.5% in average annual growth rate to reflect optimistic and pessimistic revenue range

General Fund Balance Adequate But Declining



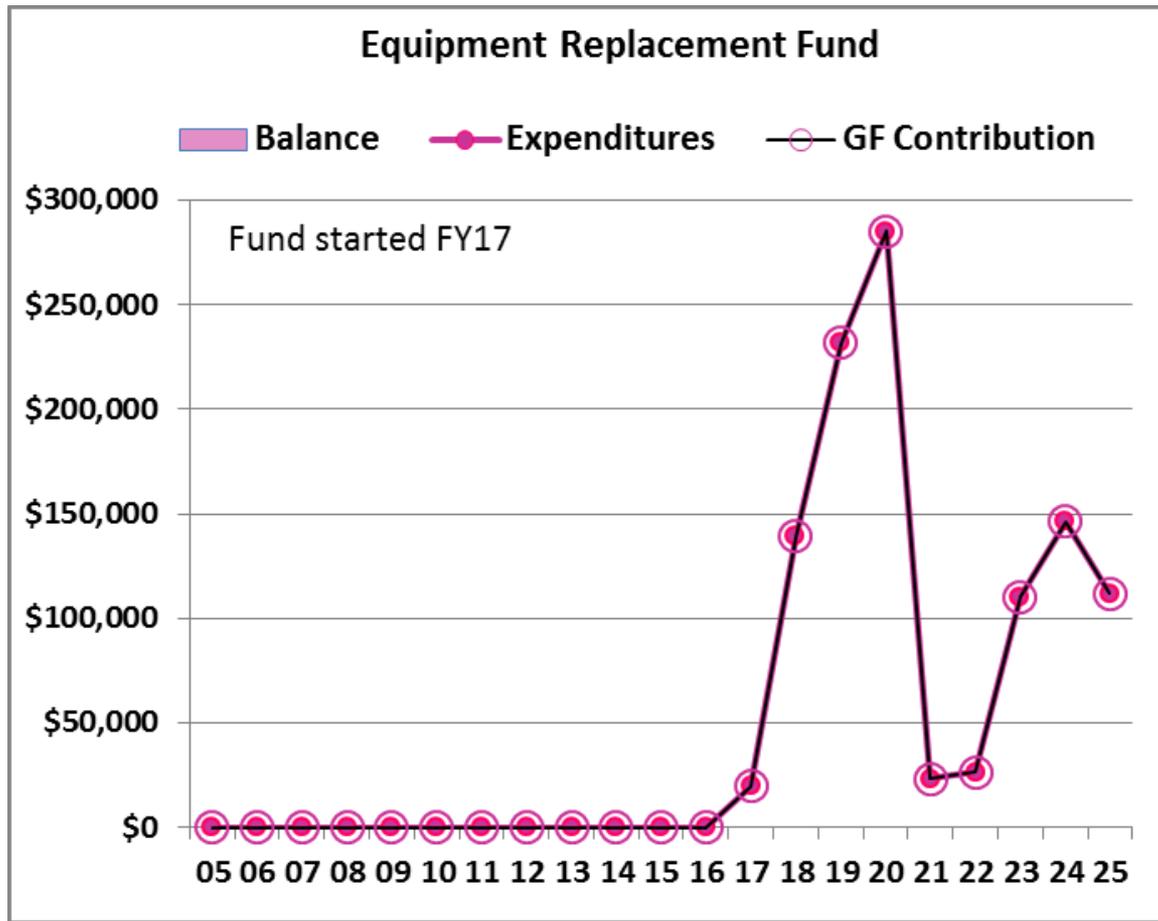
- Initial decline in balance, levels out starting FY20
 - Absorbs projected impact of 2018 recession
- Alternative reserve goal measures
- Requires ongoing fiscal discipline to keep reserve at appropriate level
- Update forecast annually

Vehicle Replacement



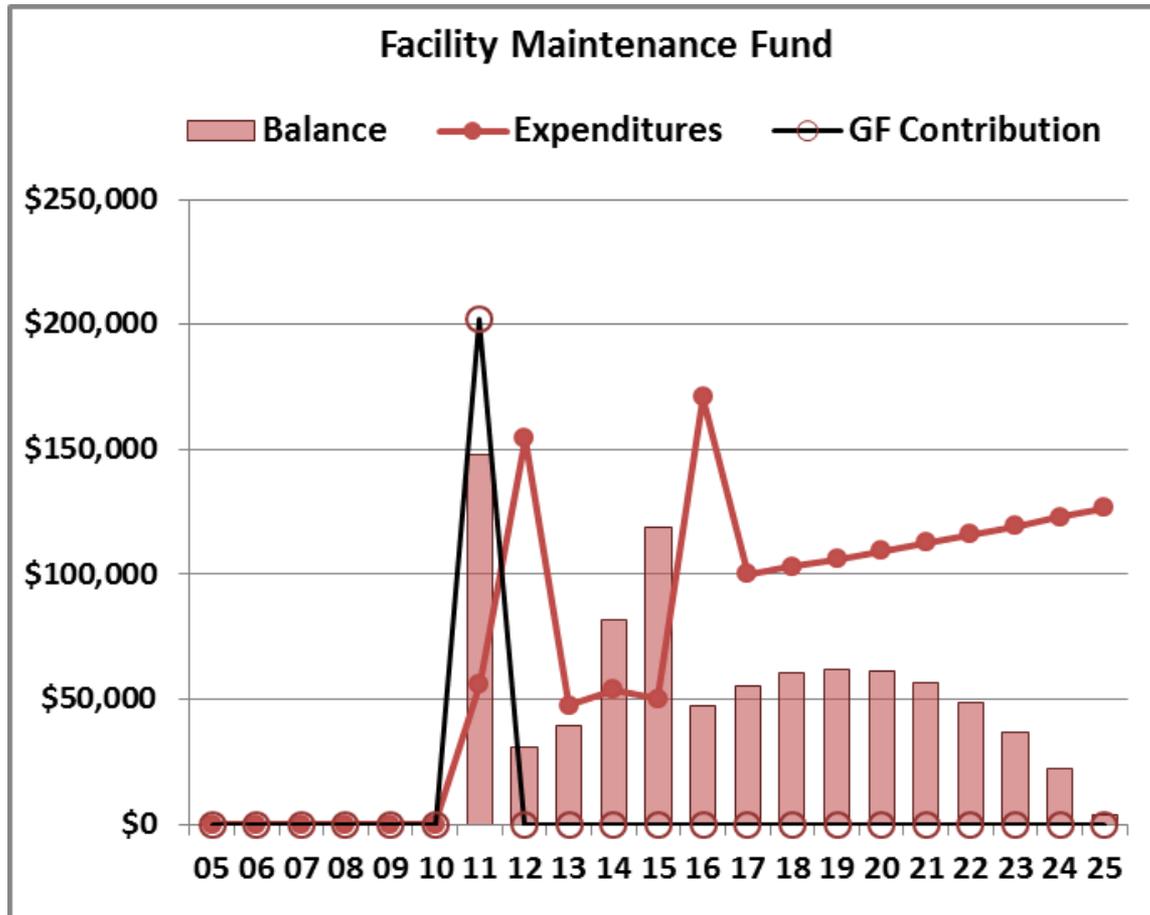
- Based on adjusted 5-year CIP
 - Updated fire estimates
 - Includes 2 police cars per year
 - PW/parks vehicles spread over longer period
- Balance exhausted in FY16, so GF pays for 100% going forward
 - Enterprises pay for their vehicles
 - Measure Q pays for large fire apparatus

Equipment Replacement



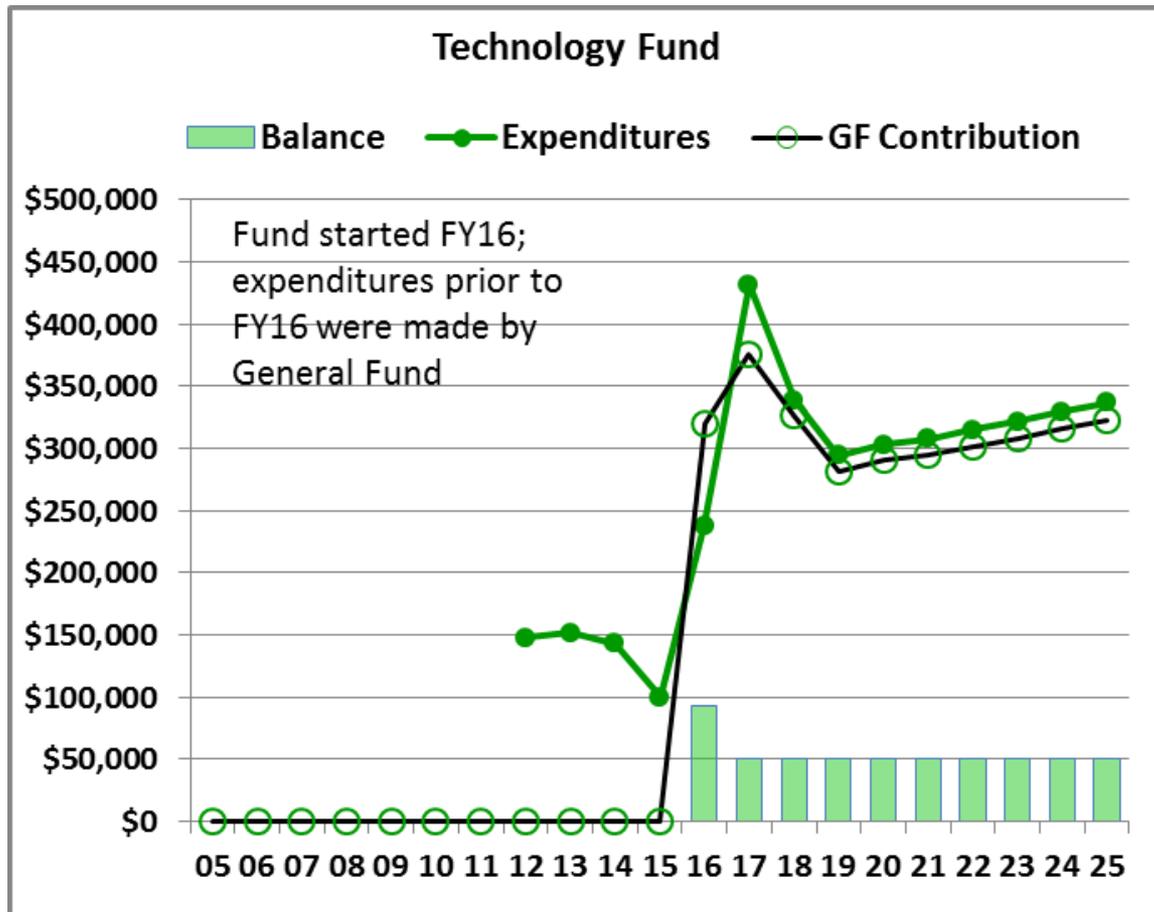
- New fund to start next fiscal year
- Based on fire equipment replacement plan
 - Updates 5-year CIP
- Level of expenditures varies widely by year
- Zero balance fund; GF pays whatever costs are for that year
- Other departments' equipment needs to be identified

Facility Maintenance



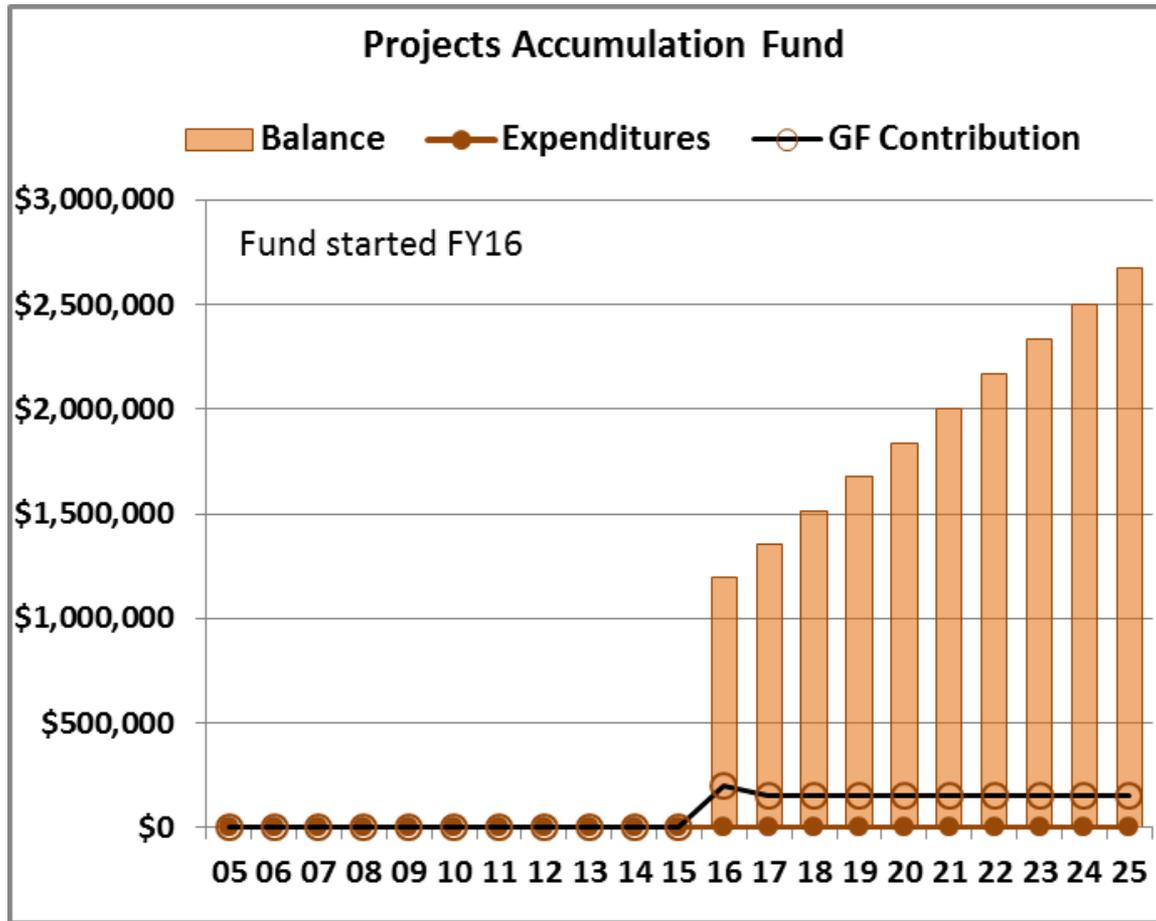
- Expenditures for general facility maintenance
- \$171K in FY16
 - page 141 of budget
- Assumes \$100K with growth thereafter
- Small balance built up in initial years
- Revenue Sources:
 - \$108K annual rent from former Salwasser property
 - At this spending level GF support not needed

Technology



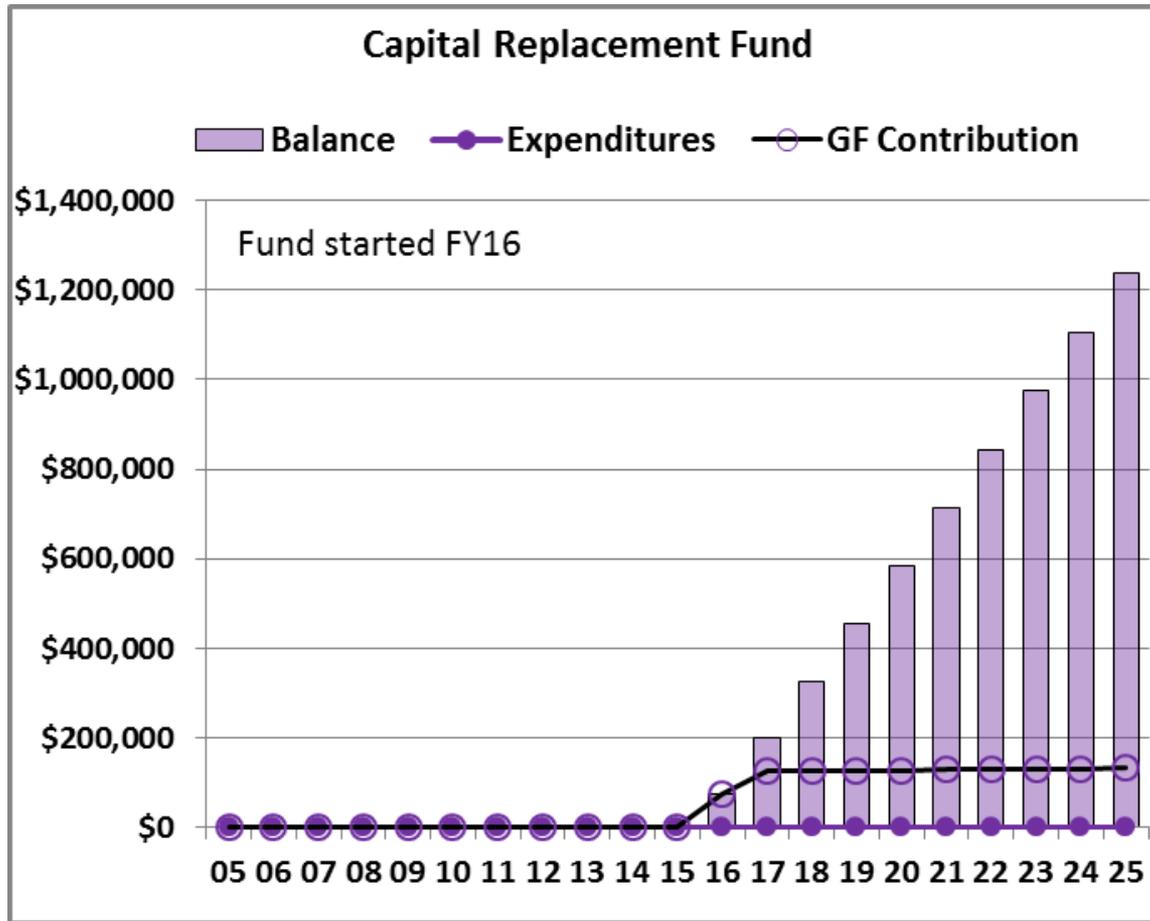
- Fund started in FY16, in prior years costs paid by GF
 - ongoing IT operations
 - PC/hardware replacement
 - System upgrades
- GF pays most of costs (some by enterprise)
 - Need to determine proper allocation
- Plan is to maintain 15% reserve for contingencies

Projects Accumulation



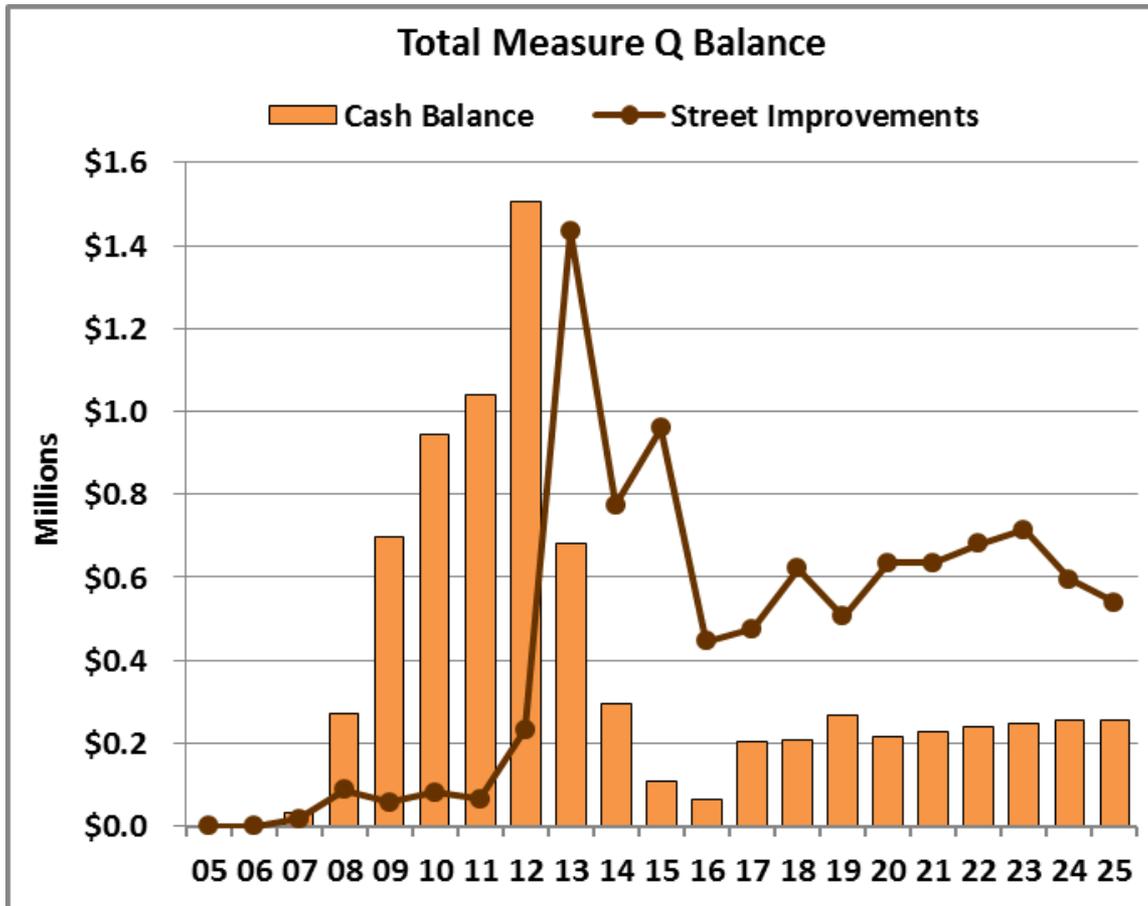
- Fund started in FY16
- \$150K annual GF contribution
- Purpose is to accumulate funds to pay for future general capital projects
- Timing & cost of projects to be determined in future CIPs

Capital Replacement



- Fund started in FY16
- \$125K annual GF contribution
- Purpose is to pay for eventual replacement of current major facilities such as city hall
- Timing & cost of projects to be determined in future CIPs

Measure Q Sales Tax



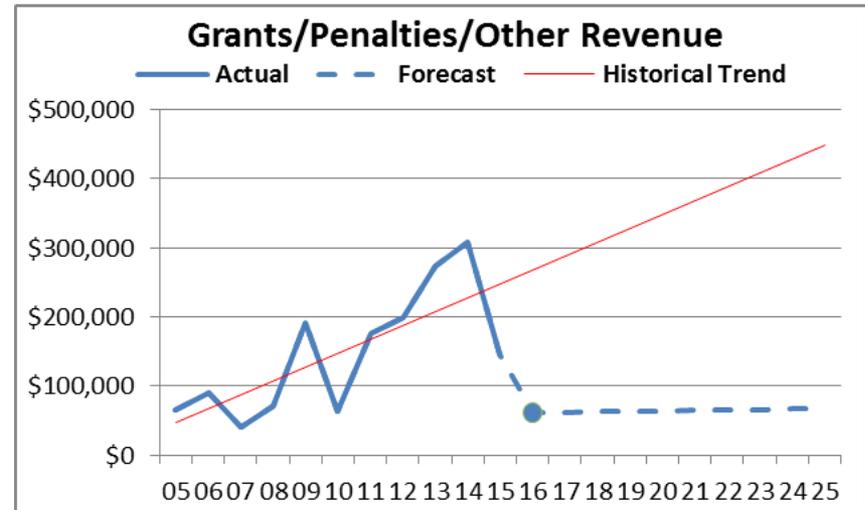
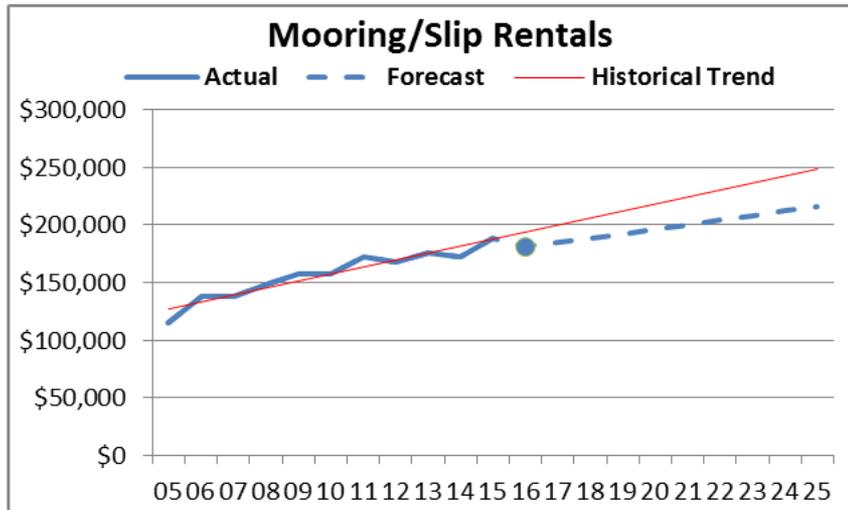
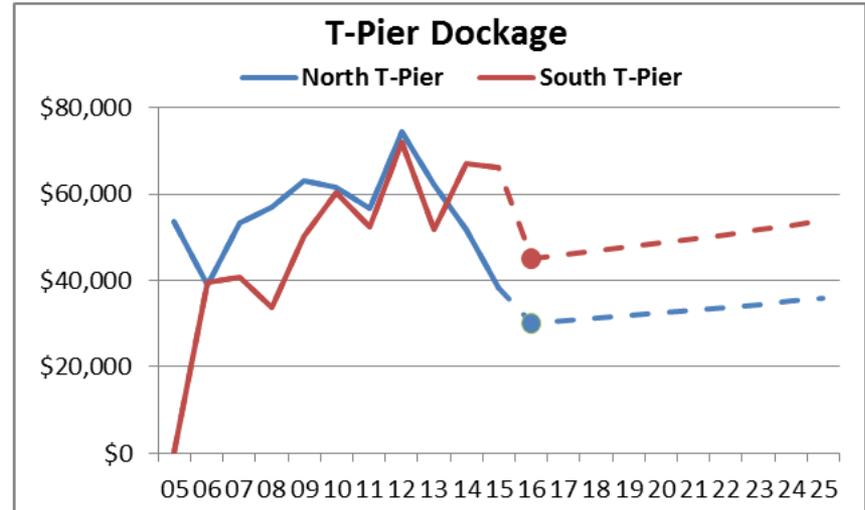
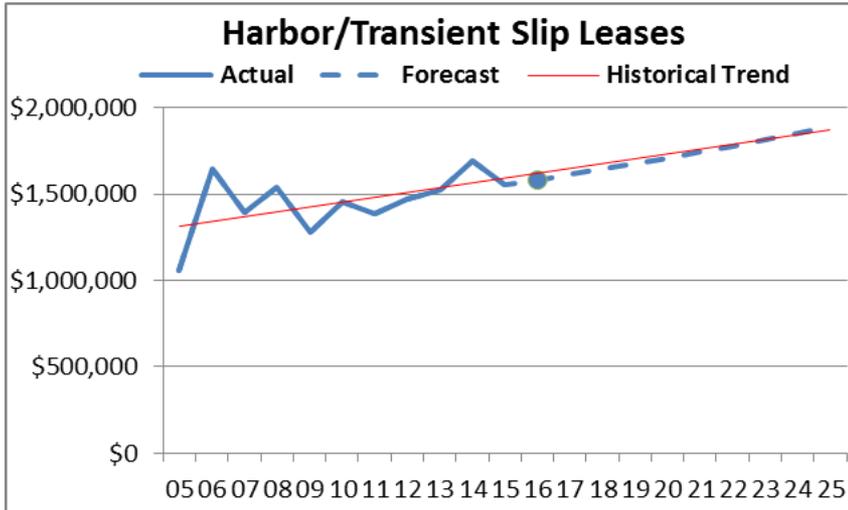
- 0.5% tax for:
 - Firefighter (1) and SRO (½) positions (\$170K/year)
 - GF Fire overtime (\$100K/year)
 - Debt service on fire station bonds (\$83K/year)
 - Street renovation (\$600K/year ongoing)
- Remaining resources spent on street improvements while maintaining a 20% reserve
 - Expenditure contingency and cushion for economic volatility in future sales tax collections

Harbor Funds

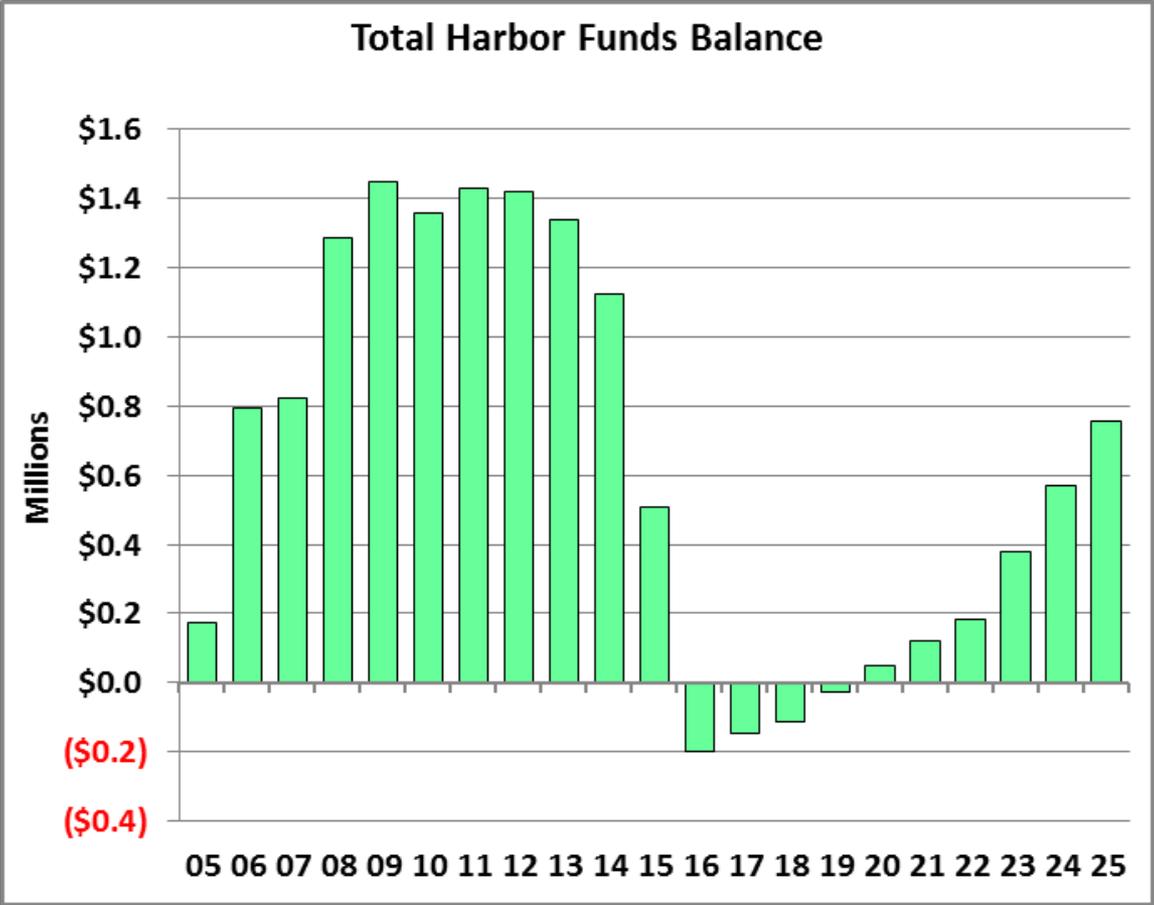
- First time Harbor has been included in forecast
- Major issues:
 - Revenue growth: how is demand for harbor services changing over time? Availability of grants?
 - CIP: what is the best timing and method of financing for major projects?



Major Harbor Revenue Trends



Capital Projects

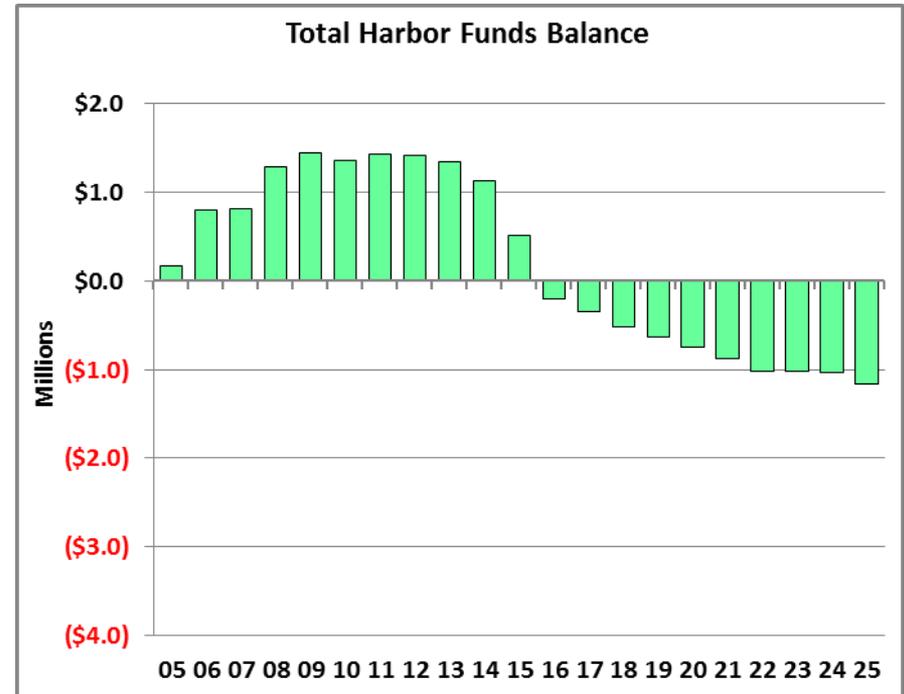
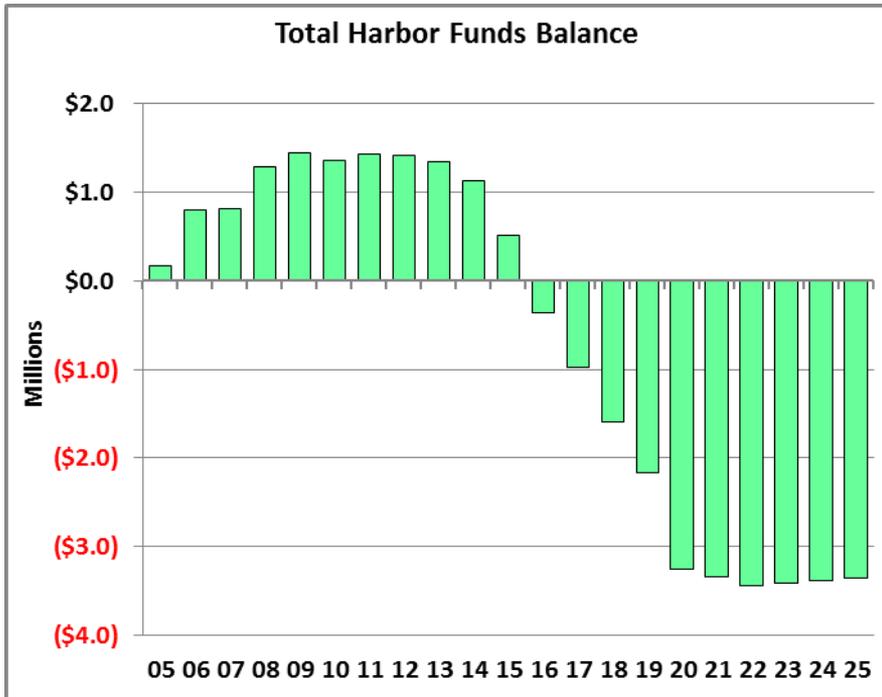


- Harbor balance shows short-term deficit assuming no funding for new harbor office and slip/dock improvements
- If projects are funded the impact varies by financing method →

Harbor Lacks Financial Capacity to Fund Desired Improvements Without Outside Resources

Harbor Balance Assuming Pay-Go for Near-Term Projects and Annual Cash Set-aside for Replacement Projects Scheduled in 2025 and Thereafter

Harbor Balance Assuming Debt Financing (20 years @5%) for Projects in 2017 and 2025



Recap

- General Fund is stronger than one year ago
 - City continues to employ long-term forecasting (a best practice)
 - Same reserve balance trend (above GFOA's minimum balance recommendation)
 - Enhanced project, IT & equipment replacement program (promotes long-term sustainability)
 - Made possible by stronger TOT growth (tourism promoted through new program)
- To-Do List
 - Closer look at capital project priorities
 - Internal service funding for vehicles & equipment
 - Examine Harbor revenues, service levels, capital needs & financing options