

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.

REGULAR MEETING TUESDAY, APRIL 26, 2016 VETERANS MEMORIAL HALL - 6:00 P.M. 209 SURF ST., MORRO BAY, CA

ESTABLISH QUORUM AND CALL TO ORDER
MOMENT OF SILENCE
PLEDGE OF ALLEGIANCE
CLOSED SESSION REPORT
MAYOR & COUNCILMEMBERS' REPORTS, ANNOUNCEMENTS & PRESENTATIONS –

PUBLIC PRESENTATIONS

Morro Bay Tourism Bureau Quarterly Report

PUBLIC COMMENT - Members of the audience wishing to address the Council 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 Council at this time.

To increase the effectiveness of the Public Comment Period, the following rules shall be followed:

- When recognized by the Mayor, please come forward to the podium and state your name and address for the record. Comments are to be limited to three minutes.
- All remarks shall be addressed to Council, as a whole, and not to any individual member thereof.
- The Council respectfully requests that you refrain from making slanderous, profane or personal remarks against any elected official, commission and/or staff.
- Please refrain from public displays or outbursts such as unsolicited applause, comments or cheering.
- Any disruptive activities that substantially interfere with the ability of the City Council to carry out its meeting will not be permitted and offenders will be requested to leave the meeting.
- Your participation in City Council meetings is welcome and your courtesy will be appreciated.

A. CONSENT AGENDA

Unless an item is pulled for separate action by the City Council, the following actions are approved without discussion.

- A-1 APPROVAL OF MINUTES FROM THE MARCH 29, 2016 SPECIAL JOINT MEETINGS OF THE CITY COUNCIL AND ADVISORY BOARDS; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

- A-2 APPROVAL OF MINUTES FROM THE APRIL 12, 2016 SPECIAL JOINT MEETINGS OF THE CITY COUNCIL AND ADVISORY BOARDS; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

- A-3 APPROVAL OF MINUTES FROM THE APRIL 12, 2016 REGULAR CITY COUNCIL MEETING; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

- A-4 APPROVAL OF MINUTES FROM THE APRIL 13, 2016 SPECIAL MEETING OF THE CITY COUNCIL; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

- A-5 PROCLAMATION DECLARING MAY 1-7, 2016 AS NATIONAL TRAVEL & TOURISM WEEK; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

- A-6 ACCEPT AS COMPLETE AND AUTHORIZATION TO FILE NOTICE OF COMPLETION FOR PROJECT NO. MB2015-WC01: MORRO BAY LIFT STATION #1 MAINTENANCE & REPAIRS; (PUBLIC WORKS)

RECOMMENDATION: Authorize staff to file the Notice of Completion.

- A-7 ACCEPT AS COMPLETE AND AUTHORIZATION TO FILE THE NOTICE OF COMPLETION FOR PROJECT NO. MB-2013-S2: MORRO CREEK MULTI-USE TRAIL AND BRIDGE PROJECT; (PUBLIC WORKS)

RECOMMENDATION: Authorize staff to file the Notice of Completion.

- A-8 AUTHORIZATION TO AMEND CONTRACT WITH WILLIAMS ENGINEERING FOR ADA ACCESSIBILITY IMPROVEMENTS & SIDEWALK GAP CLOSURES; (PUBLIC WORKS)

RECOMMENDATION: Approve as submitted.

- A-9 ADOPT RESOLUTION NO. 25-16 ACCEPTING THE SUBSTANCE ABUSE POLICY AND PROCEDURES FOR ITS TRANSIT CONTRACTOR, MV TRANSPORTATION, INC.; (PUBLIC WORKS)

RECOMMENDATION: Adopt Resolution No. 25-16.

A-10 ADOPT RESOLUTION NO. 27-16 APPROVING THE THIRD AMENDMENT TO GARBAGE, RECYCLING AND GREENWASTE SERVICES AGREEMENT WITH MORRO BAY GARBAGE SERVICE; (PUBLIC WORKS)

RECOMMENDATION: Adopt Resolution No. 27-16.

A-11 ADOPT RESOLUTION NO. 28-16 APPROVING CERTAIN INFORMATION FOR INCLUSION IN AN OFFICIAL STATEMENT RELATING TO THE CENTRAL COAST WATER AUTHORITY REFUNDING REVENUE BONDS, SERIES 2016A (STATE WATER PROJECT REGIONAL FACILITIES) AND APPROVING CERTAIN OTHER MATTERS IN CONNECTION THEREWITH; (ADMINISTRATIVE SERVICES)

RECOMMENDATION: Adopt Resolution No. 28-16.

A-12 ADOPTION OF RESOLUTION NO. 30-16 AMENDING THE COUNCIL POLICIES AND PROCEDURES REGARDING MEETING GUIDELINES AND PROCEDURES, AND INCORPORATING RESOLUTION NO. 70-15 ADOPTED IN NOVEMBER 2015; (ADMINISTRATION)

RECOMMENDATION: Adopt Resolution No. 30-16.

A-13 ADOPT RESOLUTION NO. 31-16 MODIFYING THE PUBLIC ART POLICY; (ADMINISTRATION)

RECOMMENDATION: Adopt Resolution No. 31-16.

A-14 ADOPT RESOLUTION NO. 32-16 REPLACING THE PARK NAMING POLICY WITH THE PUBLIC PROPERTY NAMING POLICY AND APPLICATION PROCESS; (ADMINISTRATION)

RECOMMENDATION: Adopt Resolution No. 32-16.

A-15 APPROVAL OF AGREEMENT WITH COMMUNITY FOUNDATION OF ESTERO BAY FOR MORRO BAY TROLLEY ADVERTISING SERVICES; (PUBLIC WORKS)

RECOMMENDATION: Approve as submitted.

A-16 AUTHORIZATION TO ENTER INTO A LICENSE AGREEMENT WITH KEITH GAFFNEY LANDSCAPE INC. (KGLI) FOR THE LIMITED USE OF APPROXIMATELY 5 ACRES OF CITY PROPERTY LOCATED OUTSIDE THE CITY LIMITS ON CHORRO CREEK RD. (APN# 073-131-010); (PUBLIC WORKS)

RECOMMENDATION: Authorize the City Manager to negotiate and execute a license agreement with Keith Gaffney Landscape Inc.

B. PUBLIC HEARINGS

- B-1 MODIFICATION OF PRECISE PLAN APPROVALS TO CUP/VTTM #UP0-070/S00-038 (CASE #CP0-110/UP0-070/S00-038) FOR PLANNED UNIT DEVELOPMENT (TRACT 2739) LOCATED AT 485 & 495 SOUTH BAY BLVD. PREVIOUSLY APPROVED IN 2006 AND 2010, TO INCORPORATE COASTAL COMMISSION CHANGES AND REMOVAL OF UNWARRANTED TRAFFIC IMPROVEMENTS; (COMMUNITY DEVELOPMENT)

RECOMMENDATION: Adopt Resolution No. 26-16 making the necessary findings for approval of an amendment to the project to incorporate changes as a result of Coastal Commission-approved CDP #A-3-MRB-06-064 on February 11, 2015.

- B-2 RESOLUTION NO. 29-16 DECLARING THE INTENTION TO CONTINUE THE PROGRAM AND LEVY ASSESSMENTS FOR THE 2015/16 FISCAL YEAR FOR THE MORRO BAY TOURISM BUSINESS IMPROVEMENT DISTRICT (MBTBID) AND SCHEDULING A PUBLIC HEARING TO LEVY THE ASSESSMENTS; (ADMINISTRATION)

RECOMMENDATION: Adopt Resolution No. 29-16 approving the MBTBID 2016/17 annual report and setting the public hearing date for May 24, 2016, to declare the intent to continue the MBTBID activities and assessments for FY 2016/17.

C. BUSINESS ITEMS

- C-1 RE-CONSIDERATION OF FUTURE DIRECTION OF LEASE SITE 87-88/87W-88W, LOCATED AT 833 EMBARCADERO, OWNED BY B&L FLASH, INC. (VIOLET LEAGE & BARRY LAMBERT); (HARBOR)

RECOMMENDATION: Authorize staff to put this lease site's future operation and redevelopment out to public bid.

D. COUNCIL DECLARATION OF FUTURE AGENDA ITEMS

E. ADJOURNMENT

The next Regular Meeting will be held on **Tuesday, May 10, 2016 at 6:00 pm** at the Veteran's Memorial Hall located at 209 Surf Street, Morro Bay, California.

THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 72 HOURS PRIOR TO THE DATE AND TIME SET FOR THE MEETING. PLEASE REFER TO THE AGENDA POSTED AT CITY HALL FOR ANY REVISIONS OR CALL THE CLERK'S OFFICE AT 772-6205 FOR FURTHER INFORMATION.

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.

MINUTES – MARCH 29, 2016
JOINT MEETING OF THE MORRO BAY
CITY COUNCIL AND PLANNING COMMISSION
MORRO BAY VETERAN’S HALL
209 SURF STREET – 4:00 P.M.

PRESENT:	Jamie Irons	Mayor
	John Headding	Councilmember
	Christine Johnson	Councilmember
	Matt Makowetski	Councilmember
	Noah Smukler	Councilmember
	Robert Teft	Chairperson
	Joseph Ingraffia	Planning Commissioner
	Michael Lucas	Planning Commissioner
	Richard Sadowski	Planning Commissioner
ABSENT:	Gerald Luhr	Planning Commissioner
STAFF:	David Buckingham	City Manager
	Scot Graham	Community Development Director
	Brooke Austin	Deputy City Clerk

ESTABLISH QUORUM AND CALL TO ORDER

A quorum was established by the City Council with all members present.

A quorum was established by the Planning Commission with all members, but Commissioner Luhr, present.

PUBLIC COMMENT

The Public Comment period was opened. Seeing none, the Public Comment period was closed.

DISCUSSION OF THE FISCAL YEAR 2016/17 WORK PLAN BASED ON COUNCIL-ADOPTED GOALS AND PRIORITIES

<https://youtu.be/modT8p0kwSo?t=1m42s>

City Manager Buckingham gave an overview of the strategic planning and work plan process.

Community Development Director Graham gave an overview of the Planning Commission Work Plan and associated timeline.

The Public Comment period for this item was opened.

Marla Jo Sadowski of Morro Bay expressed her concern regarding the timeline of the General Plan/Local Coastal Plan update in conjunction with the Water Reclamation Facility project.

The Public Comment period was closed. Staff responded to Public Comment.

The Council, Commission and staff discussed code enforcement, land use planning, affordable housing, and the fiscal impact of proposed commercial development on City revenue and infrastructure. There were suggestions to add code enforcement, affordable housing, the sign ordinance, residential design guidelines, a review of Measure D as it relates to other plans, and possibly a consultant review of the wireless provider feasibility to the work plan.

City Manager Buckingham reiterated the goal of the City is make sure that codes and policies are clearly written and processes are timely to encourage investment.

The joint meeting of the City Council and Planning Commission concluded at 5:21 p.m.

**JOINT MEETING OF THE MORRO BAY
CITY COUNCIL AND PUBLIC WORKS ADVISORY BOARD
MORRO BAY VETERAN’S HALL
209 SURF STREET – 5:00 P.M.**

PRESENT:	Jamie Irons	Mayor
	John Heading	Councilmember
	Christine Johnson	Councilmember
	Matt Makowetski	Councilmember
	Noah Smukler	Councilmember
	Marlys McPherson	Chairperson
	Janith Goldman	Board Member
	Christopher Parker	Board Member
	Stephen Shively	Board Member
	Stewart Skiff	Board Member
David Sozinho	Board Member	
STAFF:	David Buckingham	City Manager
	Rob Livick	Public Works Director
	Brooke Austin	Deputy City Clerk

ESTABLISH QUORUM AND CALL TO ORDER

A quorum was established by the City Council with all members present.

A quorum was established by the Public Works Advisory Board with all members present.

DISCUSSION OF THE FISCAL YEAR 2016/17 WORK PLAN BASED ON COUNCIL-ADOPTED GOALS AND PRIORITIES

<https://youtu.be/modT8p0kwSo?t=1h27m33s>

City Manager Buckingham gave an overview of the strategic planning and work plan process.

Public Works Director Livick gave an overview of the Public Works Advisory Board Work Plan and associated timeline.

The Public Comment period for this item was opened. Seeing none, the Public Comment period was opened.

The Council, Board and staff discussed work plan achievability, the Street Summit and the need for additional work plan items. There were recommendations to add an additional “one water” discussion, gas utility rates, CRV recycling center issues, and the County-wide infrastructure sales tax increase to the work plan.

The Street Summit should include what progress has been made, what has happened since the last Street Summit, what streets have been repaired, what streets have been paved, how much has been spent, why those streets were chosen, and finding a funding mechanism.

The joint meeting of the City Council and Public Works Advisory Board concluded at 6:29 p.m.

**JOINT MEETING OF THE MORRO BAY
CITY COUNCIL AND CITIZENS OVERSIGHT/FINANCE COMMITTEE
MORRO BAY VETERAN’S HALL
209 SURF STREET – 6:00 P.M.**

PRESENT:	Jamie Irons	Mayor
	John Heading	Councilmember
	Christine Johnson	Councilmember
	Matt Makowetski	Councilmember
	Noah Smukler	Councilmember
	Barbara Spagnola	Chairperson
	David Betonte	Committee Member
	Betty Forsythe	Committee Member
	Roscoe Mathieu	Committee Member
	Marlys McPherson	Committee Member
	STAFF:	David Buckingham
	Susan Slayton	Administrative Services Director
	Brooke Austin	Deputy City Clerk

ESTABLISH QUORUM AND CALL TO ORDER

A quorum was established by the City Council with all members present.

A quorum was established by the Citizens Oversight/Citizens Finance Committee with all members present.

DISCUSSION OF THE FISCAL YEAR 2016/17 WORK PLAN BASED ON COUNCIL-ADOPTED GOALS AND PRIORITIES

<https://youtu.be/modT8p0kwSo?t=2h32m3s>

City Manager Buckingham gave an overview of the strategic planning and work plan process.

Administrative Services Director Slayton gave an overview of the Citizens Oversight/Citizens Finance Committee Work Plan and associated timeline. She mentioned there were two additional items that Member Betonte brought to her attention, as well as, one she remembered that were added to the draft work plan.

The Public Comment period for this item was opened. Seeing none, the Public Comment period was opened.

The Council, Committee and staff discussed what the Committee has accomplished to date, the recruitment for two additional committee members, and surveying the public to see what should be included in public-friendly budget documents. There was a recommendation to tie the work plan to Council goals and objectives.

ADJOURNMENT

The joint meeting of the City Council and Citizens Oversight/Finance Committee adjourned at 7:27 p.m.

Recorded by:

Brooke Austin
Deputy City Clerk

MINUTES – APRIL 12, 2016
JOINT MEETING OF THE MORRO BAY
CITY COUNCIL AND HARBOR ADVISORY BOARD
MORRO BAY VETERAN’S HALL
209 SURF STREET – 4:00 P.M.

PRESENT:	Jamie Irons	Mayor
	Christine Johnson	Councilmember
	John Headding	Councilmember
	Matt Makowetski	Councilmember
	Noah Smukler	Councilmember
	William Luffee	Chair
	Ron Reisner	Vice-Chair
	Dana McClish	Member
	Gene Doughty	Member
	Alan Alward	Member
	Neal Maloney	Member
ABSENT:	Lynn Meissen	Member
STAFF:	David Buckingham	City Manager
	Joe Pannone	City Attorney
	Eric Endersby	Harbor Director
	Dana Swanson	City Clerk

ESTABLISH QUORUM AND CALL TO ORDER

A quorum was established by the City Council with all members, but Councilmember Smukler present. Councilmember Smukler arrived at 4:03pm.

A quorum was established by the Harbor Advisory Board with all members, but Meissen, present.

DISCUSSION OF THE FISCAL YEAR 2016/17 WORK PLAN BASED ON COUNCIL-ADOPTED GOALS AND PRIORITIES

<https://youtu.be/U979Mctyb64?t=1m46s>

City Manager Buckingham gave an overview of the process.

Harbor Director Endersby gave an overview of the Harbor Advisory Board Work Plan and associated timeline.

PUBLIC COMMENT

The Public Comment period was opened; seeing none, the Public Comment period was closed.

The Council and Board discussed the 10-year budget forecast, particularly as it relates to Harbor operations. Board members noted the need to address significant revenue shortfalls necessary to fund capital requirements to continue operating the waterfront.

Regarding Goal #7 e), the Board expressed concern about the Harbor Enterprise Fund paying for maintenance staff without control over the work being done. Mr. Buckingham provided an update regarding increased maintenance staffing on the waterfront and the challenges they have faced.

The Board asked for clarification regarding protocol for communicating with and making recommendations to the Council, and expressed interest in being more involved in land use and waterfront plan items, with increased communication between advisory boards. Mayor Irons shared the Council Policies & Procedures provide an opportunity for each advisory board to provide a quarterly update to the Council, which is another opportunity for communication.

The Council and Board discussed budgeting issues related to a new fish cleaning station and agreed funding opportunities should be further explored. Eelgrass management, including mitigation and restoration, is also a priority.

The Board expressed interest in focusing on Goal #10 - Improve City Operations, and agreed every City operation should be analyzed; however, there was significant concern a study focused on administrative efficiency without looking at the full harbor operation, including key economic and community engines in Morro Bay, would be inappropriate. In response, the Council reminded Board members of the City's commitment to revisit all recommendations provided in the Management Partners report to determine if they are appropriate for Morro Bay.

The joint meeting of the City Council and Harbor Advisory Board concluded at 5:03 p.m.

JOINT MEETING OF THE MORRO BAY
CITY COUNCIL AND RECREATION & PARKS COMMISSION
MORRO BAY VETERAN'S HALL
209 SURF STREET – 4:45 P.M.

PRESENT:	Jamie Irons	Mayor
	Christine Johnson	Councilmember
	John Heading	Councilmember
	Matt Makowetski	Councilmember
	Noah Smukler	Councilmember
	Drew Sidaris	Chair
	Robert Swain	Vice-Chair
	Skip Sorich	Commissioner
	Jeffrey Cox	Commissioner
	Timothy Ross	Commissioner
	Alfonso Romero	Commissioner
	Kevin Carroll	Commissioner

STAFF: David Buckingham City Manager
Sam Taylor Deputy City Manager
Dana Swanson City Clerk

ESTABLISH QUORUM AND CALL TO ORDER

A quorum was established by the City Council with all members present.

A quorum was established by the Recreation & Parks Commission with all members present.

DISCUSSION OF THE FISCAL YEAR 2016/17 WORK PLAN BASED ON COUNCIL-ADOPTED GOALS AND PRIORITIES

<https://youtu.be/U979Mctyb64?t=1h5m55s>

City Manager Buckingham gave an overview of the process.

Deputy City Manager Taylor provided an overview of the Recreation & Parks Commission Work Plan and associated timeline.

The Council and Commission discussed the 10-year budget forecast and importance of developing potential partnerships as way to expand programs, while controlling costs.

The Commission discussed various methods to gather public input and identify segments of the population it may be missing, including the quality of life survey, water bill inserts and surveys following special events. The Commission shared community concerns about the cancellation of the tree lighting event last year and importance of community enhancement programs. Consideration of a 6-week Junior Giants summer program was also discussed.

Regarding Goal #5 g), Council stressed the importance of engaging with the school district to ensure the pool is a multi-use facility, and suggested adding prioritization of capital needs for park infrastructure to the work plan so it's clear where any available funds can best be used. Mr. Taylor agreed to add prioritization of capital projects under Goal #7.

Commissioner Ross left the meeting at 5:35pm.

PUBLIC COMMENT

The Public Comment period for this item was opened.

Lynda Merrill, Morro Bay, shared the public can call the Sherriff's Department at 781-0445 after-hours and on weekends to address issues with public restrooms. She also commented there are very few women currently on the advisory boards, and encouraged volunteers to repaint the interior of the Del Mar Park restrooms.

Richard Sadowski, Morro Bay, spoke regarding pickleball courts, and encouraged continued shared use.

The Public Comment period was closed.

ADJOURNMENT

The joint meeting of the City Council and Recreation & Parks Commission adjourned at 5:44pm.

Recorded by:

Dana Swanson
City Clerk

MINUTES - MORRO BAY CITY COUNCIL
REGULAR MEETING – APRIL 12, 2016
VETERAN’S MEMORIAL HALL – 6:00 P.M.

PRESENT:	Jamie Irons	Mayor
	Matt Makowetski	Councilmember
	John Headding	Councilmember
	Christine Johnson	Councilmember
	Noah Smukler	Councilmember
STAFF:	Dave Buckingham	City Manager
	Joe Pannone	City Attorney
	Dana Swanson	City Clerk
	Sam Taylor	Deputy City Manager
	Rob Livick	Public Works Director
	Scot Graham	Community Development Manager
	Whitney McIlvaine	Contract Planner
	Eric Endersby	Harbor Director
	Amy Christey	Police Chief
	Steve Knuckles	Fire Chief

ESTABLISH QUORUM AND CALL TO ORDER

The meeting was called to order at 6:01 p.m.

MOMENT OF SILENCE

PLEDGE OF ALLEGIANCE

CLOSED SESSION REPORT - No Closed Session meeting was held.

MAYOR AND COUNCILMEMBERS’ REPORTS, ANNOUNCEMENTS & PRESENTATIONS

<https://youtu.be/aI2a1j5orfs?t=2m35s>

Mayor Irons announced a complaint filed against him to the Fair Political Practices Commission (FPPC), alleging violations of the Political Reform Act financial disclosure requirements. He is cooperating fully with the FPPC and looks forward to any outcome.

PUBLIC PRESENTATIONS

Presentation of Proclamations

<https://youtu.be/aI2a1j5orfs?t=8m14s>

Mayor Irons presented proclamations on behalf of the Council to Kayla Benado and Jenn Krepps of Community Action Partnership of San Luis Obispo County (CAPSLO), and Theresa Mortilla of RISE. The recipients provided brief comments regarding the programs they represent.

Morro Bay Chamber of Commerce Quarterly Presentation for 1st Quarter 2016

<https://youtu.be/aI2a1j5orfs?t=18m18s>

Cyndee Edwards, Board Chair, and Erica Crawford, CEO/President, provided the Chamber of Commerce quarterly report for the first quarter of 2016.

PUBLIC COMMENT

<https://youtu.be/aI2a1j5orfs?t=27m15s>

Rob Seitz of South Bay Wild provided the business spot. South Bay Wild is a family-owned business that harvests, processes and markets seafood on the central coast. After 30 years in fishing industry, he is proud to be part of the Morro Bay waterfront. For more information, visit their website at www.southbaywild.com.

Jon Elliott, Morro Bay, announced upcoming Lions Club event, “Tunes & Noodles” to be held Sunday, April 17, from 4:00-7:30pm at the Morro Bay Veteran’s Hall. Proceeds from the event will help support eye care and glasses for local needy and scholarships for Morro Bay High School students.

Marla Jo Bruton-Sadowski, Morro Bay, asked for an explanation following a recent announcement the Harbor Director was going through old files and throwing things away.

Richard Sadowski, Morro Bay, expressed support for the Chumash Heritage National Marine Sanctuary and Chumash culture.

Rick Morse, Medmar Clinic in Fresno, CA, provided information to each Councilmember regarding a potential medical marijuana dispensary.

Loren Hayer, Morro Bay, provided the Council with copies of a code enforcement letter he received and expressed concern about the preparation of the letter.

Joe Wallick, Morro Bay, opposed the removal of 35 trees at Morro Bay High School and was concerned a pool would be expensive to maintain.

Janice Peters, Morro Bay, suggested the speed limit on Quintana Road be increased to 30-35 mph as it is a commercial road with very few pedestrians, no parking, and the few driveways have good sight lines.

Betty Winholtz, Morro Bay, spoke regarding Item C-4, urging the Council to follow the Planning Commission’s recommendation and prohibit secondary units as vacation rentals.

David Nelson, Morro Bay, urged the Council to move forward with a decision on technology for the new Water Reclamation Facility.

Lynda Merrill, Morro Bay, spoke regarding Item C-4, and agreed secondary units should not be used as vacation rentals. She also announced the public can call 781-0445 after-hours and on

weekends when there is a health or safety issue in the parks or public restrooms. During regular business hours, call 772-6225 or Public Works.

Sandi Tannler, Morro Bay, spoke regarding Item C-2, urging the Council to vote against new taxes.

Alice Kolb, Morro Bay, spoke to Item C-4, urging the Council to not allow secondary units to be used as vacation rentals.

The comment period was closed.

Staff responded to questions raised during public comment.

A. CONSENT AGENDA
<https://youtu.be/aI2a1j5orfs?t=1h6m27s>

Unless an item is pulled for separate action by the City Council, the following actions are approved without discussion.

A-1 APPROVAL OF MINUTES FROM THE MARCH 22, 2016 SPECIAL CLOSED SESSION CITY COUNCIL MEETING; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-2 APPROVAL OF MINUTES FROM THE MARCH 22, 2016 CITY COUNCIL TEN-YEAR BUDGET FORECAST STUDY SESSION; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-3 APPROVAL OF MINUTES FROM THE MARCH 22, 2016 REGULAR CITY COUNCIL MEETING; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-4 APPROVAL OF MINUTES FROM THE MARCH 23, 2016 SPECIAL CLOSED SESSION CITY COUNCIL MEETING; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-5 PROCLAMATION DECLARING APRIL 2016 “MONTH OF THE CHILD” AND “CHILD ABUSE PREVENTION MONTH”; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-6 PROCLAMATION DECLARING APRIL 2016 AS “SEXUAL ASSAULT AWARENESS MONTH”; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-7 STATUS REPORT OF A MAJOR MAINTENANCE & REPAIR PLAN (MMRP) FOR THE EXISTING WASTEWATER TREATMENT PLANT; (PUBLIC WORKS)

RECOMMENDATION: Receive and file.

A-8 ADOPT RESOLUTION NO. 23-16 ADOPTING THE CITY PUBLIC FINANCE DISCLOSURE POLICY AND PROCEDURES; (ADMINISTRATIVE SERVICES)

RECOMMENDATION: Adopt Resolution No. 23-16.

A-9 APPROVAL OF CITY COUNCIL LIAISON TO THE SAN LUIS OBISPO COUNTY TOURISM MARKETING DISTRICT ADVISORY COMMITTEE; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-10 LETTER OF SUPPORT FOR SENATE BILL 968; (ADMINISTRATION)

RECOMMENDATION: Authorize the Mayor to sign letter of support for Senate Bill 968.

A-11 3RD QUARTER FY 2015/16 CITY GOALS UPDATE; (ADMINISTRATION)

RECOMMENDATION: Receive and file.

A-12 ADOPT RESOLUTION NO. 17-16 AMENDING THE POLICY AND PROCEDURE FOR HIRING CONSULTANTS TO ALIGN AUTHORIZATION AMOUNTS WITH THE MORRO BAY MUNICIPAL CODE; (ADMINISTRATION)

RECOMMENDATION: Adopt Resolution No. 17-16.

A-13 ADOPT RESOLUTION NO. 24-16 RESCINDING RESOLUTION NO. 22-02 AND AUTHORIZING THE CITY OF MORRO BAY TO OBTAIN STATE SUMMARY CRIMINAL HISTORY INFORMATION OF EMPLOYEES AND VOLUNTEERS; (ADMINISTRATIVE SERVICES)

RECOMMENDATION: Adopt Resolution No. 24-16

The public comment period for the Consent Agenda was opened

Barbara Doerr, Morro Bay, spoke regarding Item A-10, and suggested the agenda title should have been written more clearly so it informs the public, and the letter should include specific facts rather than broad statements.

The public comment period for the Consent Agenda was closed.

Mayor Irons pulled Agenda Item A-10.

MOTION: Councilmember Heading moved for approval of Items A-1 through A-9 and A-11 through A-13. The motion was seconded by Councilmember Johnson and carried unanimously, 5-0.

A-10 LETTER OF SUPPORT FOR SENATE BILL 968; (ADMINISTRATION)

<https://youtu.be/aI2a1j5orfs?t=1h9m54s>

City Manager Buckingham provided further background information regarding the intent and content of the letter.

MOTION: Mayor Irons moved the Council approve Item A-10. The motion was seconded by Councilmember Smukler and carried unanimously, 5-0.

B. PUBLIC HEARINGS - NONE

C. BUSINESS ITEMS

C-1 AUTHORIZATION TO ADD ONE FULL-TIME EQUIVALENT CITY STAFF MEMBER; (ADMINISTRATION)

<https://youtu.be/aI2a1j5orfs?t=1h12m22s>

City Manager Buckingham presented the staff report and responded to Council inquiries.

The public comment period for Item C-1 was opened; seeing none, the public comment period was closed.

The Council expressed appreciation for improvements in the Planning Division, and the importance of keeping good planners.

MOTION: Councilmember Heading moved the Council approve an increase in the City's full-time equivalent (FTE) staff by one from 92.5 to 93.5, to immediately convert a 40-hour "full-time, partial benefits" position to an FTE position, retain the employee who has been filling that position for 20 months and convert the position to a full-time Assistant Planner. The motion was seconded by Councilmember Smukler and carried unanimously, 5-0.

C-2 REVIEW AND DIRECTION FOR SAN LUIS OBISPO COUNCIL OF GOVERNMENT'S (SLOCOG) SELF-HELP TRANSPORTATION FUNDING INITIATIVE; (PUBLIC WORKS)

<https://youtu.be/aI2a1j5orfs?t=1h28m49s>

Public Works Director Livick provided background information and introduced Ron De Carli of SLOCOG, who provided the report and responded to Council inquiries.

The public comment period for Item C-2 was opened.

Dave Albrecht, Vice President of SLO Bicycle Club and member of the Citizens Bike Committee, urged the Council to support this investment for the Morro Bay / Cayucos bike trail and other paths throughout the County.

Dan Rivoire, Executive Director of Bike SLO County, urged the Council to support SLOCOG and place this transportation specific tax initiative on the 2016 ballot.

Carolyn Atkinson, Los Osos resident and member of Central Coast Taxpayers Association, opposed the proposed ballot measure and asked the Council to submit a letter to the Governor and State legislature asking tax monies be returned to local jurisdictions.

Barbara Doerr, Morro Bay, hoped there would be a final list of projects so it's clear how the money would be spent.

David Nelson, Morro Bay, opposed the proposed tax increase and suggested finding a different funding mechanism.

Ric Deschler, Morro Bay, asked how the ballot campaign would be funded.

Marla Jo Sadowski, Morro Bay, opposed the tax increase and encouraged the Council to find other funding sources for infrastructure needs.

The public comment period for Item C-2 was closed.

Ron De Carli responded to public comment and explained public funding cannot be used for campaign purposes. Public agencies can only provide information, any campaign efforts would come from private sources.

There was Council support for a measure that maintains local control and oversight, and concurrence to let the voters be the ultimate decision makers. The Council encouraged residents to participate in the April 20th PWAB meeting, or contact the Public Works Director at rlivick@morrobayca.gov with key project recommendations.

MOTION: Councilmember Smukler moved the Council direct staff to identify key projects for local funding allocation, based on input from the Public Works Advisory Board, and direct staff to work with SLOCOG to develop a Final Transportation Investment Plan, Ordinance, and Safeguards for City and County evaluation to place on the November 2016 ballot for voter consideration. The motion was seconded by Councilmember Johnson and carried unanimously, 5-0.

The Council took a brief recess at 8:38pm; the meeting reconvened at 8:48pm.

C-3 CONSIDERATION OF HARBOR ADVISORY BOARD RECOMMENDATION FOR THE CITY OF MORRO BAY TO SPONSOR OR PROMOTE ADDITIONAL NATIONAL MARINE SANCTUARY PUBLIC INFORMATION FORUMS; (HARBOR)
<https://youtu.be/aI2a1j5orfs?t=2h38m26s>

Harbor Director Endersby presented the staff report and responded to Council inquiries.

The public comment period for Item C-3 was opened.

Jeremiah O'Brien, Morro Bay Commercial Fisherman's Organization, provided copies of various letters to the Council regarding national marine sanctuaries and requested the City Council support the Harbor Advisory Board's recommendation to promote additional public information forums.

Alan Alward, commercial fisherman and member of the Harbor Advisory Board and National Marine Sanctuary Ad-hoc Committee, discussed potential presenters for a public information forum and supported a forum that would allow the Council to receive information and ask questions.

Marla Jo Sadowski, Morro Bay, spoke in support of Northern Chumash Tribal National Marine Sanctuary.

The public comment period for Item C-3 was closed.

As liaison to the Harbor Advisory Board, Councilmember Makowetski shared the Board is not trying to advocate either way, but hoped to gather more information. He supported the Board's request to move forward.

The Council discussed the current status of application and confirmed public review and engagement is part of the nomination process. There was support for a balanced and broad discussion with other jurisdictions at the appropriate time in that process. Councilmember Makowetski restated the Harbor Advisory Board's concern there may be perceptions that will influence the process moving forward, and encouraged the City be proactive gathering information.

A letter to NOAA explaining the challenges a local jurisdiction faces during the nomination process was discussed, as well as a letter to other cities to see if there is broad interest in an informational forum.

MOTION: Councilmember Smukler moved the City not actively seek out additional National Marine Sanctuary forums, but that if staff or Council becomes aware of an opportunity, the item be brought back to Council for discussion a case-by-case basis. The motion was seconded by Councilmember Johnson and carried unanimously, 5-0.

C-4 SECOND READING AND ADOPTION OF ORDINANCE 601: LOCAL COASTAL PROGRAM AND ZONING TEXT AMENDMENT (#A00-029) AMENDING TITLE 17 PROVISIONS RELATED TO SECONDARY DWELLING UNITS AND GUESTHOUSES/QUARTERS AND ACCESSORY LIVING AREAS; (COMMUNITY DEVELOPMENT)
<https://youtu.be/aI2a1j5orfs?t=3h20m51s>

Mayor Irons asked the City Attorney to explain his recommendation regarding the Mayor's recusal on this item.

Mr. Pannone explained there are fact-based guidelines provided by the FPPC, one of which deals with real property interests. It is clear the Mayor has a financial interest in real property associated with this discussion. However, if 25% of the residential properties are affected in the same way your property is affected, then technically you do not have to recuse yourself. That exception applies to secondary units. Since the Mayor currently has a guesthouse application in process with the City, he must recuse himself from the guesthouse discussion. Due to the integrated nature of this item, it wasn't possible to separate the two issues, therefore the recommendation is that the Mayor recuse himself from the item.

Mayor Irons recused himself due to the financial interest due to the guesthouse application currently in process with the City.

Community Development Manager Graham presented the staff report and, along with Mr. Pannone and Mr. Buckingham, responded to Council inquiries.

The public comment period for Item C-4 was opened.

Rich Buquet, Morro Bay, urged the Council to adopt the ordinance as presented, and suggested if there needs to be a study of vacation rentals, it be included in the General Plan update.

Bob Tefft, Morro Bay resident and Planning Commission Chair, spoke as a resident and urged the Council to reconsider the recommendation submitted by the Planning Commission or, as an alternative, a moratorium to allow time to fully address the issue.

David Nelson, Morro Bay, opposed secondary dwelling units being used as vacation rentals.

Barbara Doerr, Morro Bay, suggested the Council adopt the Planning Commission's version of the ordinance and prohibit secondary dwelling units being used as vacation rentals.

Dorothy Cutter, Morro Bay, supported the Planning Commission's recommendation to prohibit use of secondary units as vacation rentals.

The public comment period for Item C-4 was closed.

The Council discussed the need for a holistic discussion of vacation rentals and need to develop a cohesive policy. There was willingness to consider a moratorium until a full policy was put in place and support to amend the ordinance as recommended by the Planning Commission to grandfather in secondary units currently licensed as vacation rentals.

MOTION: Councilmember Smukler moved the Council not approve the second reading as presented tonight and directed staff return the original ordinance language to the Planning Commission for review to include a component that grandfathers in existing licensed vacation rentals. The motion was seconded by Councilmember

Makowetski and carried 4-0-1, with Mayor Irons abstaining due to a conflict of interest.

Mayor Irons rejoined the meeting.

C-5 AUTHORIZATION OF RESPONSE TO ALLEGED VIOLATION OF THE RALPH M. BROWN ACT (THE “BROWN ACT”) REGARDING STAFF PRESENTING WRITTEN REVISED CONDITIONS OF APPROVAL TO THE PLANNING COMMISSION DURING ITS OCTOBER 6, 2015, PUBLIC MEETING, AND NOT HAVING MADE COPIES OF THOSE CONDITIONS AVAILABLE TO THE PUBLIC BEFORE OR DURING THAT MEETING; (CITY ATTORNEY)
<https://youtu.be/aI2a1j5orfs?t=4h30m41s>

Mr. Pannone presented the staff report.

The public comment period for Item C-5 was opened.

Barbara Doerr, Morro Bay, spoke of the importance of having the same materials provided to Council also available to the public and thanked Ms. Stedjee for helping Morro Bay follow the Brown Act in every technicality.

The public comment period for Item C-5 was closed.

MOTION: Mayor Irons moved the Council authorize the Mayor to sign the letter to Ms. Linda Stedjee prepared by the City Attorney included as Attachment No. 1 with the staff report, and direct staff to mail that signed letter. The motion was seconded by Councilmember Heading and carried unanimously, 5-0.

C-6 WATER RECLAMATION FACILITY 60-DAY PAUSE UPDATE;
(ADMINISTRATION)
<https://youtu.be/aI2a1j5orfs?t=4h38m52s>

Mr. Buckingham presented the staff report and responded to Council inquiries.

MOTION: Mayor Irons moved to go past 11pm. The motion was seconded by Councilmember Heading and carried 4-1 with Councilmember Makowetski voting no.

The public comment period for Item C-6 was opened.

Bob Keller, Morro Bay, urged the Council to move forward with a decision on the proposed site and felt Righetti was the best alternative; however, he is open to either property.

Tina Metzger, Morro Bay, asked why the City would purchase 250 acres when only 8 acres were needed, whether the City had talked with the owner of the Tri-W property, why it took a month to reach out to Cayucos Sanitary District, and why the April 5th WRFCAC meeting was canceled.

Barbara Doerr, Morro Bay, appreciated the informational flyer that was sent to residents, but suggested the cost comparison information was lacking.

The public comment period for Item C-6 was closed.

The Council discussed the Mayor's conversation with Supervisor Gibson and subsequent call to President Enns of the Cayucos Sanitary District, which was not returned. The Council directed staff to provide a detailed profile for each option, including information to support cost estimates, when the item comes back in May.

No formal action was taken by the City Council.

C-7 ADOPTION OF ORDINANCE NO. 602 AMENDING SECTION 3.22.120 OF THE MORRO BAY MUNICIPAL CODE TO INCREASE THE NUMBER OF MEMBERS ON THE CITIZENS OVERSIGHT COMMITTEE; (ADMINISTRATION)
<https://youtu.be/aI2a1j5orfs?t=5h7m48s>

Mr. Pannone presented the staff report.

The public comment period for Item C-7 was opened; seeing none, the public comment period was closed.

MOTION: Mayor Irons moved for adoption of Ordinance No. 602, by number and title only with further reading waived, amending Section 3.22.120 of the Morro Bay Municipal Code to increase the number of members on the Citizens Oversight Committee from five to seven. The motion was seconded by Councilmember Heading and carried unanimously, 5-0.

D. COUNCIL DECLARATION OF FUTURE AGENDA ITEMS
<https://youtu.be/aI2a1j5orfs?t=5h8m35s>

Councilmember Heading requested discussion of vacation rental policy for single-family homes. Councilmember Smukler suggested the discussion be expanded to be a holistic discussion of options and process regarding vacation rentals, in general. Councilmember Johnson suggested consideration of a moratorium on new business licenses for vacation rentals, as the rest of the discussion would take place as part of the General Plan update. With staff input, there was Council concurrence to have staff bring back an assessment of vacation rentals, in general, in eight weeks to determine the appropriate next steps.

E. ADJOURNMENT

The meeting adjourned at 11:25pm. The next Regular Meeting will be held on Tuesday, April 26, 2016 at 6:00 p.m. at the Veteran's Memorial Hall located at 209 Surf Street, Morro Bay, California.

Recorded by:

Dana Swanson, City Clerk

MINUTES – APRIL 13, 2016
SPECIAL MEETING OF THE
MORRO BAY CITY COUNCIL
MORRO BAY VETERAN’S HALL
209 SURF STREET – 4:00 P.M.

PRESENT:	Jamie Irons	Mayor
	Christine Johnson	Councilmember
	John Headding	Councilmember
	Noah Smukler	Councilmember
	Aaron Graves	Vice-Chairperson
	Jayne Behman	Board Member
	Taylor Newton	Board Member
	Charlie Yates	Board Member
ABSENT:	Matt Makowetski	Councilmember
	Michele Jacquez	Chairperson
STAFF:	David Buckingham	City Manager
	Sam Taylor	Deputy City Manager
	Susan Taylor	Administrative Services Director
	Brooke Austin	Deputy City Clerk
CONTRACT		
STAFF:	Brent Haugen	Tourism Bureau Executive Director

ESTABLISH QUORUM AND CALL TO ORDER JOINT MEETING OF THE CITY COUNCIL AND TOURISM BUSINESS IMPROVEMENT DISTRICT ADVISORY BOARD

A quorum was established by the City Council with all members, but Councilmember Makowetski, present.

A quorum was established by the Tourism Business Improvement District Advisory Board with all members, but Chairperson Jacquez, present.

DISCUSSION OF THE FISCAL YEAR 2016/17 WORK PLAN BASED ON COUNCIL-ADOPTED GOALS AND PRIORITIES

https://youtu.be/LSRyI-ix_Bo?t=2m7s

City Manager Buckingham gave an overview of the strategic planning and work plan process.

Deputy City Manager Taylor and Tourism Director Haugen gave an overview of the Tourism Business Improvement District Advisory Board Work Plan and associated timeline.

The Council, Board and staff discussed the new marketing and public relations plan, collaboration with the County Tourism Marketing District, China readiness and the unique nature of this advisory board verses others. There were suggestions to add communication goals, accountability goals, and event planning synchronization to the work plan, and to create links between the work plan goals and City objectives.

Adjourn to Meeting of the Personnel Board of the City of Morro Bay.

ESTABLISH QUORUM AND CALL TO ORDER PERSONNEL BOARD MEETING

A quorum was established by the Personnel Board with all members, but Board Member Makowetski, present.

ADOPTION OF RESOLUTION NO. PB01-16 OF THE PERSONNEL BOARD OF THE CITY OF MORRO BAY AUTHORIZING THE ISSUANCE OF SUBPOENAS FOR CERTAIN CITY ADMINISTRATIVE APPEALS HEARINGS

https://youtu.be/LSRyI-ix_Bo?t=1h50m25s

Administrative Services Director Slayton presented the Staff Report.

City Attorney Pannone clarified that the City Council serves as the Personnel Board as directed in the Municipal Code. This is item is to bring consistency between the Municipal Code and the Personnel Rules.

The Public Comment period for this item was opened. Seeing none, the Public Comment period was closed.

MOTION: Board Member Heading moved the Board adopt Resolution PB-016 as stated. The motion was seconded by Chairperson Irons and carried unanimously, 4-0.

Adjourn to City Council Meeting.

Mayor Irons read the agenda title for the Closed Session item.

CS-1 GOVERNMENT CODE SECTION 5496.8 - CONFERENCE WITH REAL PROPERTY NEGOTIATOR

https://youtu.be/LSRyI-ix_Bo?t=1h54m36s

Property: Lease Site 89/89W, The Boatyard, 845 Embarcadero
Property Negotiators: Cliff Branch, Trustee of Branch Family Trust and James and Beverly Smith, Trustee of Smith Family Trust
Agency Negotiators: Eric Endersby, Harbor Director, David Buckingham, City Manager and Joseph Pannone, City Attorney
Under Negotiation: Price and Terms of Payment

Property: Lease Site 144/144W, Morro Bay Oyster Company, LLC, 1287 Embarcadero

Property Negotiators: Neal Maloney, Morro Bay Oyster Company, LLC
Agency Negotiators: Eric Endersby, Harbor Director and Joseph Pannone, City Attorney
Under Negotiation: Price and Terms of Payment

Property: Lease Site 113W, 1213 Embarcadero (Morro Bay Landing)
Property Negotiators: Robert Fowler/MMBS, LLC, Leonard Gentieu, Papagallo Yacht Charters, Inc.
Agency Negotiators: Eric Endersby, Harbor Director and Joseph Pannone, City Attorney
Negotiations: Price and Terms of Payment

Property: 2783 Coral Avenue
Property Negotiators: IVDC, LLC and Valley Affordable Builders
Agency Negotiators: David Buckingham, City Manager and Joseph Pannone, City Attorney
Negotiations: Price and Terms of Payment

Council recessed to reconvene in Closed Session at 595 Harbor Street.

The Public Comment Period for Closed Session was opened.

Cliff Branch, The Boatyard, provided a letter to the Council explaining his position. He had a good session with staff and looked forward to resolving the issue, which turned out to be more complicated than expected. He has settled the claim with insurance company for roughly half the anticipated cost of repairs. He anticipates construction will start in October and noted there will be lost revenue while the docks are closed during repairs. He sees this as a mutual problem.

Len Gentieu, Papagallo, has served over 13,000 guests in 11 years on the Papagallo and is looking for other profit centers. He watched the City's 10-year budget forecast meeting and agrees it is important for the City to improve its offerings. He asked for Council support of a 4- to 6-month trial run of renting out staterooms on the Papagallo for overnight stays.

Bob Fowler, MMBS, LLC, supported Mr. Genieu's business plan and noted private vessels are allowed up to three night-long stays.

Neal Maloney, Morro Bay Oyster Co., LLC, thanked the Council for their support of the improvements to his lease site.

The Public Comment period for Closed Session was closed.

Council reconvened to open session. City Attorney Pannone stated there was no action to report.

The meeting adjourned at 7:36 p.m.

Recorded by:

Brooke Austin
Deputy City Clerk

**A PROCLAMATION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY DECLARING
MAY 1-7, 2016 AS NATIONAL TRAVEL & TOURISM WEEK**

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

WHEREAS, travel has a positive effect on Morro Bay, California and the nation's economic prosperity and image abroad, it also impacts business productivity and to individual travelers' well-being; and

WHEREAS, travel to and within the United States provides significant economic benefits for the nation, generating more than \$2.1 trillion in economic output in 2014, with \$927.9 billion spent directly by travelers; and

WHEREAS, travel is among the largest private-sector employers in the United States, supporting 15 million jobs in 2014, including 8 million directly in the travel industry and 7 million in other industries; and

WHEREAS, travelers' spending directly generated tax revenues of \$141.5 billion for federal, state and local governments, funds used to support essential services and programs; and

WHEREAS, total direct travel spending in California was \$121.2 billion in 2015, a 3% increase from 2014, directly supporting 1,058,000 jobs with earnings of \$40.1 billion; and

WHEREAS, the Morro Bay, California tourism industry annually attracts over 2 million visitors, generates an estimated 217,000 hotel/motel overnight stays, provides an overall economic hotel/motel impact to the City of Morro Bay, California of over \$48.9 million and raises over \$3 million in transient occupancy tax; and

WHEREAS, international travel to the United States is the nation's No. 1 services export. In 2015, travel generated \$220.6 billion in exports, creating a \$74 billion trade surplus for the United States; and

WHEREAS, meetings, events and incentive travel are core business functions that help companies strengthen business performance, educate employees and customers, and reward business accomplishments—which in turn boost the U.S. economy. In 2014, domestic and international business travelers spent \$283 billion; and

WHEREAS, leisure travel, which accounts for more than three-quarters of all trips taken in the United States, spurs countless benefits to travelers' health and wellness, creativity, cultural awareness, education, happiness, productivity and relationships; and

WHEREAS, travel is a pillar of economic growth, creating jobs at a faster rate than other sectors.

NOW, THEREFORE, BE IT RESOLVED, that the Morro Bay City Council does hereby proclaim May 1-7, 2016 as National Travel and Tourism Week in Morro Bay, California, and urges the citizens of Morro Bay, California to join in this special observance with appropriate events and commemorations.

IN WITNESS WHEREOF I have
hereunto set my hand and caused the
seal of the City of Morro Bay to be
affixed this 26th day of April, 2016

Jamie L. Irons, Mayor
City of Morro Bay, California



AGENDA NO: A-6

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor and City Council

DATE: March 30, 2016

FROM: Richard Sauerwein, PE, Capital Projects Manager
Jarrod Whelan, PE – Associate Engineer

SUBJECT: Accept as Complete and Authorization to File Notice of Completion for Project No. MB2015-WC01: Morro Bay Lift Station #1 Maintenance & Repairs

RECOMMENDATION

The City Council accept as complete the work performed for Project No. MB2015-WC01 and authorize staff to file the Notice of Completion for Morro Bay Lift Station #1 Upgrade Project.

ALTERNATIVES

Staff does not recommend any alternatives.

FISCAL IMPACT

The Project was funded from accumulated Sewer Revenues and was approved in the 2015/16 annual budget. The engineer's estimate for the project ranged from \$150,000 - \$200,000, and the contractor's bid was \$194,383.91. During the course of the project, staff directed three contract change orders totaling \$13,148.23. The final contract cost, including change orders and deleted line items, was \$205,906.54. There are sufficient funds in the project fund to compensate the change in contract amount.

SUMMARY

City staff finalized and publicly advertised Invitation to Bid for the Lift Station #1 Maintenance and Repairs on January 11, 2015; Bids were read on January 29, 2015. Ellison Environmental, Inc. dba Fluid Resource Management (FRM) was the lowest responsive and responsible bidder at \$194,383.91. Notice of Award was issued on February 17, 2015. Upon approval of the pump and shop drawings in mid-April 2015, FRM ordered the pumps and Public Works was notified the pumps had a 26-week lead-time from the manufacturer.

The Notice to Proceed was issued on November 30, 2015. Notice of Substantial Completion was given to FRM on February 11, 2016, and the project was completed on February 24, 2016.

The staff directed three contract change orders.

Prepared By: JSW/ RDM

Dept Review: RL

City Manager Review: _____

City Attorney Review: _____

- Contract Change Order #1: Staff furnished a Request for Quote for an above ground bypass system. FRM submitted a quote for \$9,710.68. Staff agreed to the lump sum cost and provided FRM with an additional 7 days to the contract.
- Contract Change Order #2: Staff furnished a Request for Quote for a baffle to prevent the cascading of the influent flows onto the pumps. FRM submitted a quote for \$1,996.84. Staff agreed to the lump sum cost and provided FRM with an additional 7 days to the contract.
- Contract Change Order #3: Staff requested a quote to raise the Motor Control Center pedestal one foot for added flood protection. FRM submitted a quote for \$1,440.71. Staff agreed to the lump sum cost and provided FRM with an additional 2 days to the contract.
- Contract Change Order #4 is a 26-day, zero-cost calendar day extension. Nineteen days were added to the contract due to a manufacturer defect of the newly installed flow meter, which required the manufacture to test and ship a replacement. In addition, 7 days were added for weather related losses.

CONCLUSION

Filing of a Notice of Completion is a routine task for Public Works projects. FRM has completed the Project and staff recommends the City of Morro Bay accept the Project and authorize the filing of a Notice of Completion.

ATTACHMENT

Notice of Completion

Recording requested by:
City of Morro Bay
Public Works Department

When recorded mail to:
City of Morro Bay – City Engineer
595 Harbor Street
Morro Bay, Ca. 93442-1957
March 15, 2016

RECORDING FEES EXEMPTED
G.C. §6103 & 27383

**NOTICE OF COMPLETION
CITY OF MORRO BAY**

NOTICE IS HEREBY GIVEN:

1. The City of Morro Bay, a municipal corporation, is the owner of a certain public improvement known as Sewer Lift Station #1 Maintenance & Repair Project # 2015-WC01.
2. The City is responsible for operation and maintenance of said facility and its address is, 595 Harbor Street, Morro Bay, County of San Luis Obispo, California, 93442.
3. The general location of said public improvement is 2500 Coral Avenue, Morro Bay, CA 93442.
4. The Project is fully funded from the FY 15/16 Sewer Capital Improvement Project Funds budget that was adopted by the City. The contract was awarded to Ellison Environmental, Inc. dba Fluid Resource Management, 2385 Precision Drive, Arroyo Grande, CA 93420.
5. Notice of Substantial Completion was given to FRM on February 11, 2016, and work under the contract was completed on February 24, 2016, to the satisfaction of the City's Public Works Director, and the City hereby accepts the project as complete.

I, the undersigned, declare under penalty of perjury under the laws of the State of California: I have read the above notice, I know and understand the contents thereof, and the facts stated therein are true and correct.

Executed at Morro Bay, California, this _____ day of _____, 2016.

Robert Livick, Public Works Director
City of Morro Bay, California

The project was re-advertised on November 2, 2014. Rebidding the project had reduced the low bid by \$375,906, and on December 18, 2014, Calportland Construction, Inc. was awarded the project at \$1,184,654.

DISCUSSION

On January 28, 2015, Calportland Construction, Inc. was given the Notice to proceed with 180 gross calendar days for completion. Calportland Construction was given a Certificate of Substantial Completion on June 25, 2015. The contract could not be finalized until the second application of the hydroseeding was complete, as stated in the Mitigated Negative Declaration. The hydroseeding had to take place at time when wet weather was imminent. Weather conditions finally allowed that task to take place on December 23, 2015.

During the course of construction, three contract change orders were authorized for a total cost of \$5,867 and seven additional contract days.

Contract Change Order #1 was for a no-cost, added calendar days because the City did not have the proper environmental approval for the biological and cultural monitors in accordance with the Biological Opinion. An approval for the monitors was expedited by Caltrans on January 29, 2015. The Contractor agreed to postpone construction operations until February 2, 2015. That change order provided three additional working days to the Contractor's schedule.

Contract Change Order #2 was a \$2,358 for Cultural Resources delays due to the fact the Contractor was performing excavation work with the environmental consultant's cultural resource monitor observing the work. The City was informed work was being performed without a Native American cultural resources monitor onsite. The job was stopped and the Contractor was notified. A resolution was then achieved and the City directed the Contractor to resume work beginning the next day. The Contractor did not have sufficient time to schedule resources for work and sought an additional working day delay. Four working days were allowed for the loss of work.

Contract Change Order #3 in the amount of \$3,509 was for the Contractor to haul and dispose of large pieces of concrete excavated from below the surface of the channel bank. The City directed the Contractor to continue work and track as time and materials. Excavation was paid for as per the contract. That change order was for the equipment operator and a truck to load and haul-off the concrete pieces; no loss of working days accounted.

In addition, four days of weather-related delays were also added to the total construction schedule. However, the additional days were not needed as Calportland finished ahead of schedule.

The construction cost for the project was \$1,188,140. Construction management and environmental services for the project totaled \$237,903; therefore, the total construction cost for the Morro Creek Multi-Use Trail and Bridge Project is \$1,426,043. That is \$139,807 below the amended budget of \$1,565,850. It should be noted staff continues to work with Caltrans to reallocate approximately \$57,000 of excess grant funding for construction management.

CONCLUSION

Calportland Construction, Inc. has completed the Project, and staff recommends the City Council accept the Project and authorize the filing of a Notice of Completion.

ATTACHMENT - Notice of Completion

Recording requested by:
City of Morro Bay
Public Works Department

When recorded mail to:
City of Morro Bay – City Engineer
595 Harbor Street
Morro Bay, Ca. 93442-1957
September 18, 2015

RECORDING FEES EXEMPTED
G.C. §6103 & 27383

**NOTICE OF COMPLETION
CITY OF MORRO BAY**

NOTICE IS HEREBY GIVEN:

1. The City of Morro Bay, a municipal corporation, is the owner of a certain public improvement known as the Morro Creek Multi-Use Trail and Bridge Project #2013-S02.
2. The City is responsible for operation and maintenance of said facility and its address is, 595 Harbor Street, Morro Bay, County of San Luis Obispo, California, 93442.
3. The general location of said public improvement is at north end of Embarcadero Road, Morro Bay, CA 93442.
4. On December 9, 2014, the Morro Bay Public Works Department approved the contract award to CalPortland Construction, PO Box 1280, Santa Maria, CA 93456.
5. Work under that contract was completed on December 23, 2015, to the satisfaction of the City's Public Works Director hereby accept the project as complete.

I, the undersigned, declare under penalty of perjury under the laws of the State of California: I have read the above notice, I know and understand the contents thereof, and the facts stated therein are true and correct.

Executed at Morro Bay, California, this _____ day of _____, 2016.

Robert Livick, Public Works Director
City of Morro Bay, California

informal bid because the initial Engineer's Estimate was below \$100,000 and the amount of future funding was uncertain. The original bid process satisfied the requirements for formal bidding in that Public Notice was provided to a broad distribution of contractors via electronic bid board, City's website and posting on the Public Services Bid Board at 955 Shasta, Avenue, Morro Bay, CA. Three competitive bids were received and acknowledged the amount of work could total as much as \$500,000. Amendment #1 was issued because a different funding source (Risk Management fund) was used. All subsequent work was funded by annual CDBG allotments and reallocations, and new work was awarded using the Caltrans Change Order process specified in the Contract Special Provisions. Unfortunately, staff failed to notify the City Council to obtain approval to exceed the \$175,000 threshold for informal bidding.

DISCUSSION

The City entered into this agreement as of March 28, 2014, for construction of new sidewalk segments to fill gaps in the current network and repair damaged sidewalks to improve accessibility throughout the downtown business district. An IDIQ contract was established because of the uncertainty of funding availability, as well as the need to award and execute new work in a timely fashion. HUD and County CDBG program managers are laser-focused on timely obligation of CDBG funds and this contract has been instrumental in building a strong reputation for rapid execution with the resource sponsor who recently sent a commendation to the City for being the first municipality in the County to achieve a zero-funding balance for the current fiscal year. Current prices are adjusted annually based on the California Department of Industrial Relations wage determination and the Engineering News Record Construction Cost Index to meet prevailing wage requirements.

The contract is highly successful from several other perspectives. In addition to expedited award of new work and timely obligation of funds resulted in a more reliable funding stream, the initial bid was 23% below the second low bidder. The Contractor has also been exceptionally responsive and continues to demonstrate the ability to mobilize and complete work with minimal disruption to surrounding businesses. Quality of the work exceeds staff's expectations and the contractor is always responsive to the occasional need to correct minor punch list items.

CONCLUSION

Staff recommends approval of this amendment which will satisfy MBMC 03.08.170 requiring Council approval for construction projects which exceed \$175,000, establish a maximum contract amount, and streamline the process for future awards.

ATTACHMENT

Amendment #3 Agreement

CITY OF MORRO BAY
STATE OF CALIFORNIA

CONTRACT FOR

AMENDMENT No. 3 to the
ADA ACCESSIBILITY IMPROVEMENTS & SIDEWALK GAP CLOSURES
CONTRACT NO. MB-2014-S5
IN THE CITY OF MORRO BAY, CALIFORNIA

This Amendment No. 3 is entered into by and between the City of Morro Bay, a municipal corporation ("City") and PAUL A. WILLIAMS dba WILLIAMS ENGINEERING, (hereinafter referred to as "CONTRACTOR").

RECITALS

WHEREAS, City and Consultant entered into an agreement as of March 28, 2014, for Contractor to provide ADA accessibility improvements & sidewalk gap closure construction (the "Agreement") in the amount of \$89,674.40; and

WHEREAS, the contract amount was increased by \$15,439.00 from City Risk Management Funds solely for repair of Market Street sidewalk, for a total contract amount of \$105,113.40 pursuant to a first amended agreement; and

WHEREAS, the term of the Amended Agreement was extended to March 28, 2018, by the second amendment to the Agreement. The Agreement and the first and second amendments to the Agreement are collectively referred to herein as the "Amended Agreement;"

WHEREAS, Special Provisions of the Amended Agreement indicate it authorizes an indefinite delivery, indefinite quantity contract that would allow the parties to expand the services to be provided and increase in the compensation to be paid pursuant to the Agreement, as additional funding was authorized and allocated in future fiscal years, and subject to the City Council's approval of expenditures exceeding \$175,000; and

WHEREAS, the initial contracted award was funded by \$57,816 of prior year unencumbered CDBG allocations and \$41,903 of FY12/13 CDBG funds, and on February 13, 2013, more FY13/14 CDBG funding was authorized in the amount of \$37,704, an additional FY14/15 CDBG allocation of \$36,796 was authorized on March 10, 2015 and a reallocation of \$11,601 in unused program management fund was approved in January 2015, and a final allocation of \$57,924 was providing with FY15/16 CDBG funds, and \$15,439 of City Risk Management funds were also provide for emergent repairs; cumulative funding authorizations for ADA Accessibility improvements and sidewalk repairs total \$259,183.

WHEREAS, total work in the amount of \$257,623.66 was ordered through the Delivery Order process permitted by the Amended Agreement, which, however, exceeded staff's authority under the Amended Agreement and City authority for informal bids which by Morro Bay Municipal Code section 3.08.170 is limited to \$175,000 without prior approval of the Council; and

WHEREAS, the original bid process satisfied the requirements for formal bidding in that Public Notice was provided to a broad distribution of contractors via electronic bid board, City's website and posting on the Public Services Bid Board at 955 Shasta, Avenue, Morro Bay, CA, and three competitive bids were received and acknowledged the amount of work may total \$500,000.

NOW THEREFORE, City and Contractor mutually agree to amend the Amended Agreement as follows:

1. Section 1.01 of the Amended Agreement is hereby amended to expand the services to be satisfactorily performed by Contractor to include those tasks set forth in Exhibit A, attached hereto and incorporated herein and the contract amount is to a total amount for the Amended Agreement of Two Hundred Fifty-seven Thousand Six Hundred Twenty-three Dollars and Sixty-six cents (\$257,623.66).
2. Section 5.00 of the Amended Agreement is hereby amended to authorize the City Engineer to award future work through new Delivery Orders so the total aggregate amount of the Amended Agreement does not exceed \$500,000 and provided additional funding is authorized by supplemental appropriations or budget amendments and allocated during the remaining term of the Amended Agreement, to expire on March 30, 2018.
3. Except as expressly set forth herein the terms and conditions of the Amended Agreement shall remain in full force and effect.
4. The effective date of this Amendment No. 3 is April 26, 2016.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives.

City of Morro Bay
a municipal corporation

Williams Engineering,
a California contractor

By: _____
David Buckingham, City Manager

By:  _____
Paul A. Williams, Owner

Attest:

Dana Swanson, City Clerk

APPROVED AS TO FORM

Joseph W. Pannone, Interim City Attorney

EXHIBIT 'A'

Original Contract

CDBG FY 12/13 & 13/14

Beach: Morro to Market (N)	\$ 23,032.00
Dunes St: Main to Monterey (N)	\$ 40,259.03
Main: Pacific to Marina (E)	\$ 27,467.56
	<u>\$ 90,758.59</u>

Amendment #1

CITY RISK FUND

Market Street

	\$ 15,439.00
	<u>\$ 15,439.00</u>

Amendment # 2

NO COST EXTENSION

Amendment #3

CDBG FY 12/13 & 13/14

Pacific: Main to Market (N)	\$ 31,834.10
Piney/Harbor St ADA Ramps	\$ 15,889.12
	<u>\$ 47,723.22</u>

CDBG FY 14/15

Harbor: Monterey to Main	\$ 25,011.52
Market: Harbor to Dunes	\$ 8,263.20
Market: Rockview Hotel	\$ 13,126.13
	<u>\$ 46,400.85</u>

CDBG FY 15/16

Monterey: Dune to Harbor (W)	\$ 22,391.40
Dunes: Main to Morro (N)	\$ 21,428.80
Morro: Duues to Harbor (W)	\$ 13,481.80
	<u>\$ 57,302.00</u>

Total Funding Obligated to Date

	<u>\$ 257,623.66</u>
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alcohol policy, which MV files with the State and FTA separately from the City, but noted the City would need to adopt a resolution accepting MV's drug and alcohol policy and procedures for its (MV's) employees.

Resolution No. 25-16 for consideration is only to address the action needed for the City's contractor policy. For the action needed to the City's policy, this will be addressed separately once the updated policy with the required language has gone through the necessary legal review.

CONCLUSION:

Staff recommends the City Council adopt Resolution No. 25-16.

RESOLUTION NO. 25-16

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
ACCEPTING THE SUBSTANCE ABUSE POLICY AND PROCEDURES
FOR ITS TRANSIT CONTRACTOR, MV TRANSPORTATION, INC.**

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

WHEREAS, the City of Morro Bay maintains an agreement with MV Transportation, Inc. (MV) for the day-to-day management and operation of Morro Bay Transit and Trolley transit services; and

WHEREAS, the City of Morro Bay is the authorized administrator of the Morro Bay Transit and Trolley program; and

WHEREAS, the Federal Transit Administration (FTA) requires agencies that receive Federal transit funding to adopt and maintain a current substance abuse policy; and

WHEREAS, the Morro Bay Transit and Trolley program has utilized in the past and has the potential to utilize in the future Federal funding; and

WHEREAS, the City's contracted service operator MV is responsible for adherence to all required substance abuse policies, reporting, and monitoring for its employees, and has updated their Substance Abuse Policy and Procedures to reflect the most current FTA requirements; and

WHEREAS, failure to adopt the proposed MV Transportation Drug and Alcohol Testing Policy could result in a negative finding in the City's future Transportation Development Act Triennial Performance Audits, and jeopardize future Federal transportation funding for the Morro Bay Transit and Trolley program.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Morro Bay the attached MV Substance Abuse Policy and Procedures is hereby accepted.

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on the 26th day of April 2016 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

JAMIE L IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk



MV Transportation, Inc.

The Standard of Excellence

SUBSTANCE ABUSE POLICY & PROCEDURES

October 2015

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MV Transportation, Inc. Drug and Alcohol Testing Core Values

Drug and alcohol abuse are the two most preventable behavioral disorders facing our society today. Drug abuse literally costs hundreds of billions of dollars alone in lost productivity, increased healthcare costs, accidents and theft. It is estimated that drug and alcohol abuse costs over a trillion dollars worldwide and growing.

MV Transportation, Inc. and its Subsidiaries are dedicated to providing safe, dependable, and economical service to its clients. MV Transportation's employees are our most valuable resource. It is our policy (1) to take appropriate action to assure that employees are not impaired in their ability to perform assigned duties in a safe, productive, and healthy manner; (2) to foster and maintain a drug and alcohol - free environment for all employees and patrons; (3) to prohibit the unlawful manufacture, distribution, dispensing, possession, or use of controlled substances; and (4) to encourage employees to voluntarily seek professional assistance whenever personal problems, including alcohol or drug use, may adversely affect their ability to perform their assigned duties.

Drug testing not only saves businesses money but it also saves lives. This is the backdrop that MV Transportation's Drug and Alcohol Compliance Department works in to promote a safe and ethical drug testing program that will be the standard of the industry. MV Transportation's Compliance Department is always looking for ways to improve the everyday challenges by using state of the art software and easy to follow testing instructions and forms, and a comprehensive collection site inspection tutorial for supervisors.

To achieve these goals and to comply with all applicable Federal regulations governing workplace anti-drug programs in the transit industry, MV Transportation incorporates three integrated components:

- **Prevention through education and training**
- **Detection, deterrence and enforcement**
- **Treatment and opportunities for rehabilitation**

Our purpose is to assure worker fitness for duty and to protect our employees, passengers, and the public from the risks posed by the use of alcohol and prohibited drugs. It is with sincere appreciation that I serve as Director of Drug and Alcohol Compliance, and I am thankful to be surrounded by an extraordinary Board of Directors, Executive Committee and professional staff in our efforts to promote a safe and drug free environment in which we all live and work.

In accordance with the U.S. Department of Transportation and the
Federal Transit Administration Regulations
(49 CFR Parts 40, 655, and 382)
MV TRANSPORTATION, INC.

SUBSTANCE ABUSE POLICY

1.0 Policy

MV Transportation, Inc. and its Subsidiaries (MV Transportation) are dedicated to providing safe, dependable, and economical service to its clients. MV Transportation's employees are our most valuable resource. It is our policy (1) to take appropriate action to assure that employees are not impaired in their ability to perform assigned duties in a safe, productive, and healthy manner; (2) to foster and maintain a drug and alcohol - free environment for all employees and patrons; (3) to prohibit the unlawful manufacture, distribution, dispensation, possession, or use of controlled substances; and (4) to encourage employees to voluntarily seek professional assistance whenever personal problems, including alcohol or drug use, may adversely affect their ability to perform their assigned duties.

To achieve the goal of a substance-free workplace, this policy incorporates three integrated components:

Prevention through education and training:

Education and training will communicate and clarify this policy to all employees, assist employees in recognizing substance abuse problems and in finding solutions to those problems.

Detection, deterrence and enforcement:

Federal regulations require that effective January 1, 1995, all safety - sensitive employees will be subject to reasonable suspicion, post accident, random, return to duty and follow up drug and alcohol testing. Applicants for safety sensitive positions will not be eligible for those positions unless they pass a pre-employment drug test.

As a "zero tolerance" employer, any positive drug or alcohol or refusal to tests will result in a termination of employment.

Treatment and opportunities for rehabilitation:

Alcohol and drug abuse are recognized as diseases that can be treated. MV Transportation promotes a voluntary rehabilitation program to encourage employees to seek professional assistance prior to testing positive for drugs or alcohol, without fear of discipline.

Approved: 

Date: October 1, 2015

Brian Kibby, CEO
MV Transportation, Inc. and its Subsidiaries

2.0 Purpose

The purpose of this policy is to assure worker fitness for duty and to protect our employees, passengers, and the public from the risks posed by the use of alcohol and use of prohibited drugs (as defined below). This policy is also intended to comply with all applicable Federal regulations governing workplace anti-drug programs in the transportation industry.

The Federal Transit Administration (FTA) and the Federal Motor Carrier Safety Administration (FMCSA) of the U.S. Department of Transportation have enacted 49 CFR (Code of Federal Regulations) Parts 655 and 382, which mandate urine drug testing and breath alcohol testing for employees performing safety-sensitive functions. These regulations also prevent performance of safety-sensitive functions when there is a positive test result or a test refusal. The U.S. Department of Transportation (DOT) has also adopted the revised version of 49 CFR Part 40 as amended, which outlines procedures for transportation workplace drug and alcohol testing programs. This Policy incorporates these federal requirements for employees performing safety-sensitive functions, as well as other provisions.

In addition, DOT has published 49 CFR Part 29, implementing the Drug-Free Workplace Act of 1988, which requires the establishment of drug-free workplace policies and the reporting of certain drug-related offenses to the FTA. California passed a similar version of the federal law, the Drug-Free Workplace Act of 1990 (Gov't Code § 8350 et seq). This policy reiterates the requirements of the federal regulations; these requirements will be in *italics*. Portions of this policy marked in **bold** are not necessarily FTA-mandated, but reflect MV Transportation employment policy (this does not include policy headings).

If any provision of an existing MVT policy, rule or resolution is inconsistent or in conflict with any provision of this policy or the DOT/FTA rules, this policy and the DOT/ FTA rules shall take precedence; if any provision of this policy is inconsistent or in conflict with the DOT/ FTA rules the DOT/ FTA rules shall take precedence.

Applicability

3.1 Safety-Sensitive Employees

This policy applies to all safety-sensitive MV Transportation employees, including paid part time employees who perform or could be called upon to perform any transportation related safety-sensitive function, and this includes off-site lunch periods or breaks when an employee is scheduled to return to work.

A safety-sensitive function is any of the following duties:

- 1) The operation of a transportation revenue service vehicle even when the vehicle is not in revenue service.

- 2) The operation of a non-revenue service vehicle by an employee when the operation of such a vehicle requires the driver to hold a Commercial Drivers License (CDL).
- 3) Maintaining (including repairs, overhaul and rebuilding) a revenue service vehicle or equipment used in revenue service.
- 4) Controlling the movement of a revenue service vehicle and
- 5) Carrying a firearm for security purposes. (Not applicable to MVT)
- 6) Volunteers are considered a covered employee if; 1) they are required to hold a commercial driver's license to operate the vehicle; or 2) if the volunteer receives re-numeration in excess of their actual expenses incurred while engaged in the volunteer activity.

(For a description of job categories - See Exhibit B)

3.2 Contractors

Contractors who perform any of the safety-sensitive functions described in this policy for MVT will be subject to the same requirements as safety-sensitive MVT employees.

3.3 Non Safety Sensitive Positions

All MVT employees are subject to the provisions of the Drug-Free Workplace Act of 1998. Visitors, vendors and contracted employees on MVT premises will not be permitted to conduct transportation business if found to be in violation of this policy.

4.0 Opportunities for Rehabilitation (MVT Policy)

To promote a drug and alcohol free workplace, this policy includes a rehabilitation program that allows employees to voluntarily come forward to request rehabilitation.

4.1 Voluntary Rehabilitation (MVT Policy)

Any employee who has a drug and/or alcohol abuse problem and has not been selected for reasonable cause, random or post-accident testing or has not refused a drug or alcohol test may voluntarily refer her or himself to the General Manager or the Human Resource Department, who will refer the individual to the company's Employee Assistance Program and/or a Substance Abuse Counselor for a Non-DOT evaluation and treatment. Voluntary self-referral commits the employee to a therapeutic process. Confidentiality of the employee will be protected. The Counselor will evaluate the employee and make a specific recommendation regarding the appropriate treatment. When an employee voluntarily refers her or himself for treatment, the employee may be eligible for sick leave and disability benefits. Employees will be allowed to take accumulated vacation time or may be eligible for unpaid time off to participate in any prescribed rehabilitation program. Employees are encouraged to voluntarily seek professional substance abuse assistance before any substance use or dependence affects job performance.

4.2 While Undergoing Treatment (MVT Policy)

Any covered employee who admits to a drug and/or alcohol problem will immediately be removed from his/her safety-sensitive function and will not be allowed to perform such function until successful completion of a prescribed rehabilitation program is completed. The employee will be placed on an unpaid leave of absence for a maximum of 30/60 days to allow time for completion of the treatment/rehabilitation program. Proof of completion must be provided in writing by a valid professional. The employee will be required to pass a Non-DOT drug and alcohol test before he/she can perform a safety-sensitive function.

***MV shall make every effort to place the employee back in his/her position upon returning to work. However, an employee's commitment to undergo rehabilitation treatment does not guarantee that the employee's job will be available upon return.**

4.3 Cost of Rehabilitation (MVT Policy)

All associated costs for treatment are the sole responsibility of the employee.

4.4 Returning to Work after Treatment (MVT Policy)

All employees who successfully complete prescribed treatment and are allowed to return back to work will be subject to unannounced Non-DOT follow-up testing as prescribed by doctor/counselor.

Prohibited Behavior and Conduct

"Prohibited substances" addressed by this policy include the following:

5.1 Prohibited Drug Use

FTA regulations specifically prohibit the use of the following illegal, prohibited substances and require testing for their presence under certain circumstances: Marijuana, Amphetamines, Opiates, Phencyclidine (PCP) and Cocaine ("Prohibited Drugs") - Safety-sensitive employees may be tested for prohibited drugs at any time while on duty or **on MVT property.**

5.2 Prohibited Alcohol Use

The consumption of beverages containing alcohol, or substances including any medication such that alcohol is present in the body while performing safety sensitive duties or transportation business, are prohibited. "Alcohol" means the intoxicating agent in beverage alcohol, ethyl alcohol or other low molecular weight alcohols including methyl or isopropyl alcohol. (The concentration of alcohol is expressed in terms of grams of alcohol per 210 liters of breath as measured by an evidential breath testing device.)

5.3 Legal Drugs (MVT Policy)

The appropriate use of legally prescribed drugs and non-prescription medications is not prohibited. However, the use of any substance which carries a warning label that indicates that mental functioning, motor skills, or judgment may be adversely affected **MUST** be reported to supervisory personnel. Medical advice should be sought, as appropriate, while taking such medication and before performing safety-sensitive duties.

Any time an employee comes forward about a medication that he/she is taking the information must be forwarded to the Director of the Compliance Department for clarification and review. The Compliance department will then consult with the Medical Review Officer (MRO) to determine if the medication is appropriate to take while performing a safety-sensitive function.

A legally prescribed drug means that the employee has a prescription or other written approval (in his/her name) from a physician for the use of a drug in the course of medical treatment. The misuse of legal drugs while performing a safety-sensitive function is prohibited at all times.

If the MRO determines that the medication being taken is not appropriate to take while performing a safety-sensitive function the employee will remain off duty until the issue is cleared by the MRO.

In order to continue performing a safety-sensitive function the employee taking the medication will be required to provide the following:

A written letter from the prescribing physician stating the patient's name, the name of the substance, the period of authorization and a statement that the medication will not adversely affect the employee's performance to drive or perform his/her safety sensitive function and that the employee may continue to perform his/her safety-sensitive function while taking such medication. The letter must be signed and dated by the physician and the letter will be provided to the MRO for final approval.

6.0 Prohibited Conduct. Manufacture, Trafficking, Possession, and Use of Controlled Substances

The manufacture, distribution, dispensation, possession, or use of controlled substances in the workplace is prohibited. A "controlled substance" is any illegal drug or any substance identified in Schedules I through V of Section 202 of the Controlled Substances Act (21 U.S.C. § 812), and as further defined by 21 CFR 1300.11-1300.15. Any employee engaging in the manufacture, distribution, dispensation, possession or use of a controlled substance on MVT premises will be subject to disciplinary action, up to and including termination and/or will be required to complete a drug abuse assistance or rehabilitation program. Law enforcement shall be notified, as appropriate, where criminal activity is suspected.

6.1 Requirement to Submit to Drug and Alcohol Testing

MVT shall require every covered employee who performs a safety-sensitive function as described in the FTA regulations Part 655 and the FMCSA regulations Part 382 to submit to post-accident, random, and reasonable suspicion drug and alcohol test- and to a pre-employment drug test- as described in this policy. MVT shall not permit any employee who refuses to submit to such tests to perform or continue to perform any safety-sensitive functions.

6.2 Alcohol Use/Hours of Compliance

No safety-sensitive employee should report for duty or remain on duty when his or her ability to perform assigned functions is adversely affected by alcohol or when his or her breath alcohol concentration is 0.04 or greater. No employee shall use alcohol **while on duty** or while performing safety-sensitive functions. No employee shall have used alcohol within four hours prior to reporting for duty. After an accident employees shall refrain from alcohol use for eight (8) hours or until an alcohol test has been administered, whichever occurs first.

No safety-sensitive employee shall use alcohol during the hours that they are on call. On call employees have the opportunity to acknowledge the use of alcohol at the time he/she is called to report to duty and the inability to perform his/her safety sensitive function.

6.3 Compliance with Testing Requirements

Any safety-sensitive employee who refuses to comply with a request for testing, who fails to remain readily available for post-accident testing, who provides false information in connection with a test, or who attempts to falsify test results through tampering, contamination, adulteration, or substitution, shall be removed from duty immediately. Refusal can include an inability to provide a specimen or breath alcohol sample without a valid medical explanation, as well as a verbal declaration, obstructive behavior, or physical absence resulting in the inability to conduct the test.

6.4 Refusal to Submit to a DOT Alcohol or Controlled Substance Test

As an employee, you have refused to take a drug or alcohol test if you:

- (1) Fail to appear for any test (excluding pre-employment) within a reasonable time, as determined by the employer, after being directed to do so by the employer.
- (2) Fail to remain at the testing site until the testing process is complete; Provided, That an employee who leaves the testing site before the testing process commences, for a pre-employment test it is not deemed to have refused to test; unless the testing cup was handed to the donor.
- (3) Fail to provide a urine or breath specimen for any drug or alcohol test required by Part 40 or DOT agency regulations.
- (4) In the case of a directly observed or monitored collection in a drug test, fail to permit the observation or monitoring of your provision of a specimen.
- (5) Fail to provide a sufficient amount of urine or breath when directed, and it has been determined, through a required medical evaluation, that there was no adequate medical explanation for the failure.

It is MVT's policy that any employee that does not provide a valid specimen during a collection for a test will remain off duty until the employee is cleared by the MRO that the employee had a valid medical reason.

- (6) Fail or declines to take a second test the employer or collector has directed you to take.
- (7) Fail to undergo a medical examination or evaluation, as directed by the MRO as part of the verification process, or as directed by the DER as part of the "shy bladder" or "shy lung" procedures.
- (8) Fail to cooperate with any part of the testing process (e.g., refuse to empty pockets or wash hands when so directed by the collector, behave in a confrontational way that disrupts the collection process).
- (9) If the MRO reports that there is verified adulterated or substituted test result.
- (10) Failure or refusal to sign Step 2 of the alcohol testing form.
- (11) Failure to follow the observer's instructions during an observed collection including instructions to raise your clothing above the waist, lower clothing and underpants, and to turn around to permit the observer to determine if you have any type of prosthetic or other device that could be used to interfere with the collection process.
- (12) Possess or wear a prosthetic or other device that could be used to interfere with the collection process.
- (13) Admit to the collector or MRO that you adulterated or substituted the specimen.

As an employee, if you refuse to take a drug and/or alcohol test, you incur the same consequences as testing positive and will be immediately removed from performing any safety-sensitive functions, and referred to the Substance Abuse Professional.

6.5 Compliance with Treatment Requirements

All employees are encouraged to make use of the available resources for treatment for alcohol and substance abuse problems.

6.6 Notify MVT of Criminal Drug Conviction

Every employee must notify MVT of any criminal drug statute conviction for a violation occurring in the workplace within five days after such conviction. Failure to do so shall subject said employee to disciplinary action up to and including termination, or satisfactory participation in a rehabilitation program, at the employee's expense.

6.7 Improper Application of the Policy

MVT is dedicated to assuring fair and equitable application of this "Zero Tolerance" substance abuse policy. Therefore, supervisors and managers are required to use and apply all aspects of this policy in an unbiased and impartial manner. Any supervisor and manager who knowingly disregards the requirements of this policy, or who is found to deliberately misuse the policy

in regard to subordinates, shall be subject to disciplinary action, up to and including termination.

7.0 Testing for Prohibited Substances

7.1 General

Testing shall be conducted in a manner to assure a high degree of accuracy and reliability and using techniques, equipment, and laboratory facilities which have been approved by the U.S. Department of Health and Human Services (DHHS). Testing for prohibited drugs and alcohol on safety-sensitive employees shall be conducted in accordance with the procedures set forth in 49 CFR Part 40 as amended. See attached Testing Procedures for detailed procedures on all required types of drug and alcohol testing.

Medical Review Officer (MRO)- All drug testing results shall be interpreted and evaluated by an MRO who meets all applicable requirements of Part 40, who shall be responsible for receiving laboratory results generated by an employer's drug testing program and has appropriate medical training to interpret and evaluate an individual's confirmed positive test result. The MRO shall comply with the drug testing procedures set forth in 49 CFR Part 40. The MRO will not review alcohol test results. When a confirmed positive test is reported from the testing laboratory, it is the responsibility of the MRO to: (a) contact the employee and afford the employee the opportunity to discuss the test results with him/her; (b) review the individual's medical history, including any medical records and biomedical information provided; (c) determine whether there is a legitimate medical explanation for the result, including legally prescribed medication. The MRO shall not convey test results to MVT until the MRO has made a definite decision that the test result was positive or negative, or refusal to test. If the employee provides an adequate explanation, the MRO verifies the test as negative and no further action is taken. When the MRO reports the results of the verified positive test to MVT, the MRO will disclose the drug(s) for which there was a positive test. If the MRO declares a drug test to be invalid for any reason, the test is considered canceled, and neither positive nor negative. However, a re-collection under direct observation may be ordered by the MRO.

The Medical Review Officer conducting MRO services for MVT is Dr. Stephen Kracht, M.D., D.O. in Overland Park, Kansas.

7.2 Testing for Prohibited Drugs

MVT shall collect or have collected urine samples from safety-sensitive employees to test for Prohibited Drugs. An assigned Collection Site will split each urine sample collected into a primary and a split sample. (See testing procedures) The urine samples will be sent under seal, with required chain of custody forms, to a laboratory certified by the DHHS. Currently MV Transportation is under contract with Clinical Reference Laboratory (CRL) in Lenexa, Kansas for its initial testing and confirmation testing. An initial drug screen will be conducted on each primary specimen. For those specimens that are not negative, a confirmatory Gas Chromatography/Mass Spectrometry (GS/MS) test will be performed. The test will be considered positive if

the amounts present are at or above the minimum thresholds established in 49 CFR Part 40 as amended, as set forth in the attached Exhibit A (Threshold levels of testing).

Split Specimen Testing- If the test result of the primary specimen is positive or a refusal to test due to adulteration or substitution, the employee may request the MRO to direct his/her split specimen be tested in a different DHHS-certified laboratory. The MRO shall honor such a request if it is made within 72 hours of the employee having been notified of a verified positive or refusal to test result. This does not delay MVT from taking any action consistent with this policy for positive tests and the employee will be removed immediately from any safety-sensitive functions regardless if he/she is having his/her split specimen tested by a different laboratory. However, if the split specimen (bottle B) produces a negative result, or for any reason the second portion is not available, the test is considered cancelled and no sanctions are imposed. However, a re-collection under direct observation may be ordered by the MRO.

Cancelled Test - A drug or alcohol test that has a problem identified that cannot be or has not been corrected, or which this part otherwise requires to be cancelled. A cancelled test is neither a positive nor a negative test.

7.3 Alcohol Testing

Tests for alcohol concentration on safety-sensitive employees will be conducted with a National Highway Traffic Safety Administration (NHTSA) -approved evidential breath testing device (EBT) operated by a trained breath alcohol technician (BAT). In order to maintain quality assurance, EBT's must be externally calibrated in accordance with the plan developed by the manufacturer of the device. If the initial test on an employee indicates an alcohol concentration of 0.02 or greater, a second test will be performed to confirm the results of the initial test. For summary of applicable alcohol threshold levels, see Exhibit A.

8.0 Types of Testing

49 CFR Parts 655 and 382 require the following types of testing for Prohibited Substances for safety-sensitive employees: Pre-employment or transfer, reasonable suspicion, post-accident, random.

8.1 Pre-employment, Transfer Testing or Return to Work Testing

All applicants for safety sensitive positions shall undergo urine drug testing prior to employment. Receipt by MVT of a verified negative test result from the MRO is required prior to performing ANY safety sensitive functions for the first time. If an applicant or employee's drug test is cancelled or negative-dilute the employee or applicant shall be required to immediately take another pre-employment drug test.

Existing employees who are being considered for transfer to a safety-sensitive position from a NON-safety-sensitive position will be required to undergo a DOT pre-employment drug test. Any existing safety-sensitive employee who is simply

transferring to a different division for another safety-sensitive position is NOT required to undergo another DOT pre-employment drug test.

8.1.1 Non-Safety-Sensitive Positions

All applicants applying for any non safety-sensitive positions will have to take and pass a pre-employment NON-DOT urine drug test prior to being hired.

8.1.2 Return to Work after 30 Days (DOT-FMCSA Policy)

MVT has some contracts that are subject to the Federal Motor Carrier Safety Regulations and NOT FTA regulations. Therefore, if the employee has a commercial license and has been out for 30 days or more AND the employee has been taken out of the random testing pool the covered employee will be required to take a DOT pre-employment drug test before he/she can return to his/her safety-sensitive position.

8.1.3 Return to Work after 90 Days (DOT-FTA Policy)

If a covered employee has not performed a safety-sensitive function for 90 consecutive calendar days regardless of the reason, AND the employee has not been in the random pool during that time, the employee must take and pass a DOT Pre-Employment drug (NOT a return-to-duty) test before he/she can perform a safety-sensitive function.

8.1.4 Return to Work after 30 Days for Non-Regulated employees who are not subject to federal guidelines but perform driving duties for specific contracts that are considered sensitive (MVT Policy)

It is MVT's policy that any time a non-covered driver who drives a vehicle for an MV contract and has not performed his/her driving functions for 30 or more consecutive days (regardless of reason) the employee will be required to take and pass another Non-DOT Pre-Employment drug test before he/she can return to his/her driving position. **For confirmation of regulation authority contact Drug & Alcohol Compliance Department**

8.1.5 Previous Employer Request Requirement

As an employer we are required to verify previous violations of DOT drug and alcohol regulations within the last two years of employment with a DOT regulated agency or employer.

An employer must obtain and review the information listed below from any DOT-regulated employer the employee performed safety-sensitive functions for in the previous two years. The information must be obtained and reviewed prior to the first time an employee performs safety-sensitive functions. If not feasible, the information should be obtained no later than thirty (30) days after

the first time an employee performs safety-sensitive functions. The information obtained must include:

1. Information on the employee's alcohol test in which a breath alcohol concentration of 0.04 or greater was indicated.
2. Information on the employee's controlled substance test in which a positive result was indicated.
3. Any refusal to submit to a required alcohol or controlled substance test. (including verified adulterated or substituted drug test results)
4. Other violations of DOT agency drug and alcohol testing regulations

As the applicant or employee if you have violated any of the DOT drug and alcohol regulations, you must also obtain documentation of your successful completion of the DOT return-to-duty requirements (including proof of follow-up tests administered).

Furthermore, all applicants will be asked whether he or she has tested positive, or refused to test, on any pre-employment drug or alcohol test administered by an employer to which the employee applied for, but did not obtain safety-sensitive transportation work covered by DOT agency drug and alcohol testing rules during the past two years.

8.1.6 Pre-employment Breath Alcohol Testing

Although it is not MV Transportation's policy to test for alcohol on a pre-employment test, MVT does have a few contracts that require a breath alcohol test be conducted in addition to the required drug test. Divisions that are subject to this requirement will have to take a pre-employment breath alcohol test. Breath alcohol testing will be in accordance with DOT Part 40 and 655.42.

8.2 Reasonable Suspicion Testing

All safety-sensitive employees shall be subject to reasonable suspicion testing, to include appropriate urine and/or breath alcohol testing when there is reasonable suspicion to believe that a covered employee has used a prohibited drug and/or engaged in alcohol misuse. A reasonable suspicion referral for testing will be made on the basis of specific, contemporaneous, articulable observations concerning the appearance, behavior, speech, or body odors of the covered employee. Reasonable suspicion tests for the presence of alcohol shall be authorized by observations made just prior, during or immediately after the period of the day in which the employee is required to be in compliance with the requirements of Part 655; and those alcohol tests shall only be conducted just before, during, or just after the performance of a safety-sensitive function. If an alcohol test is not administered within two hours following the determination to test the employee, the employer shall prepare and maintain on file a record stating the reasons the alcohol test was not promptly administered. If the alcohol test is not administered within eight hours following the determination, MVT shall cease attempts to administer an alcohol test and shall state in the record the reasons for not administering the test.

Reasonable suspicion determination will be made by a supervisor, or other company official who has had the required Reasonable Suspicion training to detect and document the signs and symptoms of probable drug use and alcohol use and who reasonably concludes that an employee may be impaired by of a prohibited substance.

Any employee who is required to take a Reasonable Suspicion test will remain off duty until a negative alcohol and drug test is received.

8.3 Post-Accident Testing

Fatal Accidents

As soon as practicable following an accident involving the loss of human life, MV Transportation will conduct drug and alcohol tests on each surviving covered employee operating the public transportation vehicle at the time of the accident. Post accident drug and alcohol testing of the operator is not required under this section if the covered employee is tested under the fatal accident testing requirements of the Federal Motor Carrier Safety Administration rule 49 CFR 382.303 (a)(1) or (b)(1). MV Transportation shall also test any other covered employee whose performance could have contributed to the accident as determined by investigating staff using the best information available at the time of the decision.

Non-Fatal Injury Accidents

As soon as practicable following an accident not involving the loss of human life in which a public transportation vehicle is involved, MV Transportation will drug and alcohol test each covered employee operating the public transportation vehicle at the time of the accident unless investigating staff determine, using the best information available at the time of the decision, that the covered employee's performance can be completely discounted as a contributing factor to the accident.

Accident means an occurrence associated with the operation of a vehicle, if as a result: (1) An individual dies; or (2) An individual suffers bodily injury and immediately receives medical treatment away from the scene of the accident; or (3) With respect to an occurrence in which the transit vehicle involved is a bus, electric bus, van, or automobile, one or more vehicles (including non-FTA funded vehicles) incurs disabling damage as the result of the occurrence and such vehicle or vehicles are transported away from the scene by a tow truck or other vehicle; or (4) With respect to an occurrence in which the public transportation vehicle involved is a rail car, trolley car, trolley bus, or vessel, the public transportation vehicle is removed from operation.

(For exact testing criteria -See Post Accident Testing Procedures Pg. 27)

MV Transportation shall also test any other covered employee whose performance could have contributed to the accident as determined by investigating staff using the best information available at the time of the decision.

MV Policy: When to conduct a NON-DOT Post accident/incident test

If the accident does not meet the FTA/FMCSA testing criteria, MVT will reserve the right to test any safety-sensitive employee after any accident/incident regardless of the severity of the accident/incident. Additionally, MVT will test any other safety-sensitive employee whose performance MVT determines could have contributed to the accident.

Under these circumstances it must be explained to the employee that the drug and alcohol tests will be done under M.V. Transportation authority, and should be done on NON-DOT drug and alcohol chain of custody forms.

Any employee who takes a post accident test will remain off duty until a negative drug test and alcohol test result is received.

8.4 Random Testing

Employees performing safety-sensitive functions will be subject to unannounced, random drug and alcohol testing in accordance with FTA regulations. The random drug and alcohol testing rates will be, at a minimum, based on the current FTA and FMCSA requirements at all times. Each such employee shall have an equal chance at selection and shall remain in the pool even after being tested. The basis for random selection shall be by a scientifically valid random number generation method initiated by computer. The dates for administering unannounced testing of randomly-selected covered employees shall be spread reasonably throughout the calendar year, month, week, and all hours that safety-sensitive functions are performed. This ensures that employees would have a reasonable expectation that they might be called for a test on any day they are at work. A covered employee shall only be randomly tested for alcohol misuse while the employee is performing safety-sensitive functions; just before the employee is to perform safety-sensitive functions; or just after the employee has ceased performing such functions. A covered employee may be randomly tested for prohibited drug use anytime while on duty. The employee must proceed to the test site immediately after being notified that he or she has been selected for testing in the allotted time given.

9.0 Consequences

9.1 Positive Alcohol Test

- (a) A safety-sensitive employee who has a confirmed alcohol concentration of 0.02 or greater but less than 0.04 will be removed from his or her duties for eight hours unless a confirmation test results in a concentration measure of less than 0.02. (For a test result which is less than 0.04 no other action will be taken except that which is described in this paragraph.)
- (b) An alcohol concentration of 0.04 or greater or a test refusal will be

considered a positive alcohol test. The employee will be immediately removed from duty and referred to a Substance Abuse Professional (SAP) **and terminated from employment.**

9.2 Positive Drug Test

The consequences of a positive drug test or a test refusal are as follows: the employee will immediately be removed from safety sensitive duties, referred to a Substance Abuse Professional **and terminated from employment.**

10.0 MRO Report of a Negative Dilute Specimen

If the MRO informs MVT that a negative drug test was dilute, the employee will be directed to take another test immediately. In some cases the MRO may require the retest to be performed under "Direct Observation." Each employee directed to take another test, will be given the minimum possible advance notice that he or she must go to the collection site to take another test.

For any employee that is directed to take another test, the result of the second test – not that of the original test – becomes the test of record which MVT will rely on for purposes of this policy. Any employee who is directed to take another test and the employee declines to do so, shall be considered as a refusal to test for purposes of this policy and DOT agency regulations.

Dilute Specimen- A specimen with creatinine and specific gravity values that are lower than expected for human urine.

11.0 Substance Abuse Professional (SAP)

A SAP must meet all of the credential, basic knowledge, qualification training, continuing education, and documentation requirements of 49 CFR Part 40, Subpart O, §40.281 (a-e). The SAP will evaluate the employee to determine what assistance the employee needs in resolving problems associated with prohibited substance abuse or alcohol misuse. The SAP will also determine whether or not an employee has successfully completed a program of rehabilitation.

MV Transportation has contracted with:

National Counseling Resource
11622, Fair Oaks Blvd, Suite 103, CA 95628
Duncan McPherson, NCAC II, SAP
1-800-607-1010

This firm is a national company that contains a large network of qualified SAPs throughout the United States. Employees simply call the toll-free number and provide the SAP their city and zip code and the SAP will find them the qualified SAPs closest to their area.

12.0 Training and Education

All employees shall participate in a minimum one-hour training session designed to meet FTA requirements by learning about the effects and consequences of drug use on personal health, safety and the work environment. For those supervisors participating in reasonable suspicion determination testing, there will be at least two hours of training to explain the criteria for reasonable cause testing, including at least an hour on the physical, behavioral and performance indicators of probable drug use and another hour on the physical, behavioral, speech and performance indicators of probable alcohol misuse. Initial training sessions will be re-enforced with educational materials and meetings. Further, employees shall be provided with a community hot-line telephone number.

13.0 Employee Assistance Community Service Hot-Line

The Center for Substance Abuse Treatment maintains a toll-free Referral Helpline for locating substance abuse treatment in your area:

1-800-662-HELP

National Clearinghouse on Family Support and Children's Mental Health

800-628-1696

National Foundation for Depressive Illness

800-239-1265

SAMHSA's Center for Substance Abuse Treatment

800-662-HELP (4357), 800-487-4889 (TDD), 877-767-8432 (Spanish)

14.0 Records, Confidentiality

A safety-sensitive employee is entitled, upon written request, to review and obtain copies of any records relating to the employee's drug and alcohol testing. MVT must maintain records of its substance abuse program in a secure location with controlled access.

15.0 System Contact

Any questions regarding this policy or any other aspect of MVT's Substance Abuse Management Program should be directed to the office of the following:

Name: Esther Avalos, Director of Drug & Alcohol Compliance
Address: 5710 N. Central Expwy., Ste. 1145, Dallas, TX 75206
Phone Number: 972-391-4616

16.0 Local Authority

Local Division General Managers and Safety Managers are the Designated Employer Representatives (DERs) and are authorized to receive test information from the MRO as well as confirmation test results from the qualified B.A.T.

17.0 Revisions to the Policy and Program

This policy and program are subject to revision in accordance with the Department of Transportation regulations, as amended.

18.0 Zero Tolerance Policy

MVT's "Zero Tolerance" Policy means any covered employee that has a verified positive drug or alcohol test, or test refusal, will be removed from his/her safety-sensitive position, referred to a Substance Abuse Professional (SAP) for assessment, and **will be terminated**.

EXHIBIT A

Pursuant to the Federal Department of Transportation regulations, the following are the drugs to be tested for, and the threshold levels of each test which MV Transportation is required to accept:

Drug or Metabolite	Urine Initial Test Cutoff (ng/mL)*	Confirmatory (GC/MS-LC/MS) Test Cutoff (ng/mL)*
1. Marijuana	50	15
2. Cocaine	150	100
3. Opiates (morphine, codeine)	2,000	2,000
Heroin	10	10
4. Amphetamine (includes methamphetamine and MDMA-Ecstasy, MDA, MDEA)	500	250
5. Phencyclidine (PCP)	25	25

* nanograms per milliliter

ALCOHOL

(Includes ethanol, methanol, isopropanol)

Breath Alcohol Concentration

(expressed in terms of grams of alcohol per 210 liters of breath)

Initial Screen

Under 0.02

Confirmatory

(given if 0.02 or greater on initial screen)

0.02 to less than .04 employee may not perform safety-sensitive function

EXHIBIT B

The following is a general list of safety-sensitive functions and the job categories of employees who are subject to the provisions of 49 CFR Par 655 and 382 at MV Transportation:

NOTE: This list is subject to change and revision.

49	Maintenance Training Manager	340	Lead Dispatcher	416	Safety Manager	550	Mechanic
87	Safety Assistant	345	Dispatcher	420	BTW Trainer	561	Mechanic A (specify Union Class)
112	Floating Class A Mechanic	346	Window Dispatcher	425	BTW Instructor	562	Mechanic B (specify Union Class)
113	Body Repairman	349	Scheduling Manager	450	Classroom Instructor	563	Mechanic C (specify Union Class)
300	General Manager	350	Scheduler	451	Classroom Trainer	564	Technician A Mechanic
301	General Manager 1	352	Scheduling Coordinator	470	Parts Manager	565	B Mechanic
302	General Manager 2	353	VA Coordinator	471	Assistant Parts Manager	566	Technician C Mechanic
303	General Manager 3	354	Operations Supervisor	475	Parts Clerk	567	Technician Apprentice
304	General Manager 4	355	Road Supervisor	500	Maintenance Manager	568	Technician
310	Division Manager	357	Where's My Ride Supervisor	510	Assistant Maintenance Manager	569	Mechanic Helper
315	Assistant Division Manager	359	Lead Supervisor	512	Maintenance Technician	570	Cleaners
320	Operations Manager	379	Lead Schedule/Dispatcher	514	Bus Stop Maintenance	571	Mechanic Helper
321	Shift Supervisor	399	Call Center Manager	515	Maintenance Clerk	572	Body Shop Technician
322	Assistant Operations Manager	400	Safety and Training Manager	516	Maintenance Supervisor	575	Service Worker
323	Operations supervisor	405	Training Manager	517	Service Employee	580	Utility Crew
330	Dispatch Manager	406	Training Supervisor	518	Advanced Service Employee	584	Station Supervisor
332	Reservations Manager	410	Safety Trainer	519	Entry Level Mechanic	590	Bus Aide
335	Dispatch Supervisor	411	Safety Training Supervisor	520	Shop Foreman	600	Driver Trainer
336	Drive Cam Supervisor	415	Assistant Safety Manager	530	Lead Mechanic	610	Driver

Any MVT employee who has a non-safety-sensitive position, but who may perform a safety sensitive function at any time while they are working must be included in the random testing and will be included in the DOT random testing pool.

Testing Procedures

Note: Testing and collection procedures will be conducted as set forth by 49 CFR Parts 40 (as amended) & 655 & 382. The information on the following pages is meant for general information only for MV Transportation employees. Any questions regarding reference to the regulations should be directed to the policy section of this handbook. A copy of 49 CFR Part 40 is available for review to each employee upon request to their local manager.

This is a “Zero Tolerance” policy and any reference to return to work after a positive test result does not apply to employees affected by this policy. The FTA does not mandate “Second Chance”.

Pre-Employment Testing

1. The FTA regulations require that all applicants for employment in safety-sensitive positions or individuals being transferred to safety-sensitive positions from NON-safety-sensitive positions must be given a pre-employment drug test.
2. Applicants may not be assigned to safety-sensitive functions unless they pass the drug test.
3. Applicants must be informed in writing of the testing requirements prior to conducting the test. **MVT will require applicant to sign a form acknowledging that they know that their urine will be tested for Cocaine, PCP, Amphetamines, Marijuana, and Opiates.**
4. Appropriate personnel at each location will schedule appointments for collection. The employee must be made aware that their placement into a safety sensitive position is contingent upon a negative test result.
5. It is the responsibility of the applicant to report to the collection site at the time and day scheduled.
6. Positive test results must be reviewed by the MRO.
7. Applicants are notified by the MRO of the laboratory results and are given an opportunity to discuss the results.
8. Applicants who test positive will not be hired into a safety-sensitive position.
9. An applicant whose pre-employment test results are negative will continue through the safety-sensitive hiring process.
10. Applicants will be asked whether he or she has tested positive, or refused to test on a pre-employment drug or alcohol test while trying to obtain safety sensitive transportation work from an employer covered by DOT agency during the past two years. If applicant admits that he or she had a positive test or a refusal to test, MV will not allow the applicant to perform safety sensitive duties unless and until applicant provides documents showing the successful completion and release from a SAP.

Random Testing Procedures

The FTA regulations require random testing for prohibited drugs and alcohol for all safety-sensitive employees. Random testing identifies those who are using drugs or misusing alcohol but are able to use the predictability of other testing methods to escape detection. More importantly, it is widely believed that random testing serves as a strong deterrent against employees beginning or continuing prohibited drug use and misuse of alcohol at MVT. MV Transportation has developed procedures for notification and collection to best implement the requirements of the federal rules.

These procedures answer common questions regarding random testing: Who is tested? Why are only some individuals tested? When and how do the tests occur?

1. Random drug and alcohol testing applies only to safety-sensitive employees. Identification numbers for all safety-sensitive employees will be included in a selection pool.
2. Random drug and alcohol testing is accomplished by a scientifically valid, tamper-proof, computer-generated selection process. A random list for testing of employee numbers will be generated every month.
3. Employees are chosen in an unannounced, unpredictable manner. No employee will be removed from the random pool following the next selection, and every employee will continue to be subject to random selection throughout the year. Every employee in the random pool has an equal chance of being selected every time. Employees are only removed from the random pool when they are in rehabilitation programs, terminated or permanently transferred to a non safety-sensitive position, or expected to be out for at least 90 days or more.
4. Random testing will be conducted on all shifts, all times of day, and all days of the week throughout the calendar year. No shift is exempt from testing.
5. Random drug testing may be conducted concurrently with random alcohol testing or at any time during an employee's shift. Random alcohol testing will be conducted just before the employee is scheduled to perform a safety-sensitive function, while the employee is performing safety-sensitive functions or just after the employee performs a safety-sensitive function. The employee must proceed to the test site immediately after being notified that he or she has been selected for testing in the allotted time given.
6. For both Maintenance and Operations (Drivers) the Divisional Manager in each location will be notified which employees have been selected for testing. Once an employee is notified of his/her selection, he/she must report immediately for the test. Failure to report after notification constitutes a refusal to test. (see procedures for random test notification)
7. Employees will be notified where to report for collection, when to stop work and report to the collection site and who will relieve them, if necessary.
8. The employee must submit to a drug and/or alcohol test. Failure to cooperate with the collection procedure in any way constitutes a refusal to test which has the same consequences as a positive test result.
9. The employee is in a paid status throughout the random testing procedure.

Employees will be removed from duty if the results are positive **and employee will be terminated.**

10. If both alcohol and drug tests are being given, the breath alcohol test will be performed first. Immediately thereafter, the urine sample will be collected for the drug test.
11. If there is a confirmed breath alcohol test of between .02% and .039% (inclusive), the employee will be relieved from duty immediately for a minimum of eight (8) hours.
12. If there is a confirmed positive breath alcohol test (.04% or above), the employee will be given the name of a Substance Abuse Professional (SAP) **and terminated.**

Procedures for Random Test Notification

1. The Human Resource Department triggers the selection list of the month's safety-sensitive employees to be scheduled for testing.
2. The local manager will review work schedules, including planned absences when known, to develop a best available time to perform the tests. The local manager will coordinate the testing schedule with the collector.
3. In developing testing times, the goal will be to minimize the impact in service. Testing will be conducted using the following priority periods:
 - Before work,
 - During split time,
 - After work/shift is completed
 - During work, with standby personnel relief.
4. During work, without relief (if no other time is possible).
5. Notification of Employees- The Human Resources Department triggers notification to each location's designated employer representative (DER) via electronic mail. The DER will notify each safety-sensitive employee selected and thus notified. Each employee who is selected is to report to the test site immediately

The employee cannot "go off sick" or on vacation or leave of absence after notification.

6. Collection site personnel shall report "unreasonable delays" to the local DER as employees are required to immediately report to the collection site following notification. Failing to report to the collection site within a reasonable allotted time constitutes a refusal to test.
7. The DER shall confirm with the Regional, Divisional, or Operations Manager that the employee was notified.
8. The DER shall notify the proper management official if an employee fails to report for testing after notification.
9. An employee who fails to report for testing shall be removed from duty immediately. If employee is determined to have "refused to test" he/she face the same consequences as testing "positive" for drugs/alcohol and will be given the

name and number of a SAP and **terminated from employment.**

Collection Procedures for All Tests

All collection procedures shall be performed in accordance with Part 40. Upon notification of a test under this policy;

1. The employee must report to the collection site immediately after notification.
2. The employee shall provide photo identification to collection site personnel. Supervisors will verify the identification of employees without photo identification and may photograph the employee if necessary.
3. The employee must comply with all collection procedures.
4. The employee must follow the directions of the collection staff to ensure that an unadulterated urine specimen is collected and/or the breath alcohol test is completed.
5. The employee will be in a private enclosure and unobserved unless a direct observed collection is determined to be needed by the MRO, the local DER, or the collector.
6. The employee must supply at least 45 ml of urine (approx. 1 ½ oz). If the employee gives an inadequate amount of urine or if the employee is unable to give a sufficient urine sample collection site staff shall provide the individual with no more than 40oz of fluid to drink during a period of up to 3 hours. The employee will attempt to provide a complete sample using a fresh container. If the required amount is provided, the collection staff will continue with collection process. If the employee is still unable to provide an adequate specimen within three hours of the first unsuccessful attempt to provide the specimen, the collection staff must discontinue the collection, note the facts on the "remarks" line of the CCF, and immediately notify the DER.

Shy Bladder - The term "shy bladder" refers to a situation when the employee does not provide a sufficient amount of urine (45 ml) for a DOT required drug test. If an employee tells the collector, upon arrival at the collection site, that he or she cannot provide a specimen, the collector must still begin the collection procedure regardless of the reason given and direct the employee to make the attempt to provide the specimen.

The employee must be monitored during this time. If the employee leaves the collection site or refuses to make the attempt to provide a sufficient urine specimen, this is considered a refusal to submit to a test.

Failure to produce a sample of urine will result in an immediate referral for an evaluation from a licensed physician within 5 days who can determine in his or her reasonable judgment the safety-sensitive employee's inability to provide an adequate amount of urine. If no medical reason is found substantiating an inadequate sample, the incident will be treated as a "refusal to test" and will carry the same consequences as a positive test result.

It is MVT's policy that any employee who does not provide a valid specimen during a collection for a test will remain off duty until the

employee is cleared from the MRO that the employee had a valid medical reason.

7. If the employee fails to provide an adequate amount of breath for the breath alcohol test, a second attempt will be made. If the Employee, after multiple attempts, fails to produce a sample, the Breath Alcohol Technician (BAT) shall so note in the "Remarks" section of the breath alcohol testing form and immediately inform the DER. The DER will instruct the employee to obtain, as soon as possible but within 5 days after the attempted provision of breath, an evaluation from a licensed physician who is acceptable to the employer concerning the employee's medical ability to provide an adequate amount of breath.
8. Whenever there is reason to believe that a particular individual has altered or substituted the urine specimen, a second specimen shall be obtained as soon as possible under direct observation of a same gender observer. Reasons may include; temperature of the specimen out of normal range, bluing agent in the specimen.

Substituted Specimen- A specimen with creatinine and specific gravity values that are so diminished that they are not consistent with human urine.

Adulterated Specimen- A specimen that contains a substance that is not expected to be present in human urine, or contains a substance expected to be present but is at a concentration so high that it is not consistent with human urine.

9. If the breath alcohol screening is 0.02 or greater, the breath alcohol technician will wait at least 15 minutes and a maximum of 30 minutes before administering the confirmation test. Even if more than 30 minutes have passed the BAT will still conduct the confirmation test.
10. To ensure that the test results are attributed to the correct covered employee; both specimen bottles must be sealed and labeled in the presence of the donor. The labels must be printed with the same specimen identification number as the custody control form and are attached to the specimen bottles. The donor initials the labels on the vials verifying that the specimen is his or hers.

Reasonable Suspicion Testing Procedures

1. Supervisors and managers receive training in order to identify behaviors that might be indicators of drug use and/or alcohol misuse. Training includes the procedures for how to deal with employees suspected of drug use and/ or alcohol misuse.
2. If a supervisor observes an appearance, behavior, speech pattern, or body odor of the covered employee that might be indicative of drug use and/or alcohol misuse, he/she directs the employee to stop work and escorts the employee to an area to be questioned and observed in private.
3. The supervisor completes the Reasonable Suspicion Incident Report. The supervisor must ensure that the employee does not continue to operate in a safety-sensitive function after identified for reasonable suspicion testing.

4. If there is a decision to test based on observable symptoms, the employee is ordered to submit to a drug and alcohol test and is escorted to the collection site.
5. The employee is on paid status until the test collection is completed. **Employee will remain off duty until a negative drug and alcohol test is received.** To the greatest extent possible, arrangements shall be made to have him/her transported home and employee should not be allowed to leave on his/her own recognizance.
6. If there is a confirmed breath alcohol test of between .02% and .039% (inclusive), the employee will be relieved from safety-sensitive duty immediately for a minimum of eight (8) hours. If there is a confirmed positive breath alcohol test (.04% or greater) and/or confirmed positive drug test, or refusal to test, the employee shall be provided the name and number of a SAP and the employee **will be terminated.**
7. If the employee's drug test is confirmed negative by the MRO and/or the BAT test is below 0.02 the employee will be allowed to return to work and will be paid for any time missed.

Post-Accident Testing Procedures

The FTA regulations require testing for prohibited drugs and alcohol in the case of certain public transportation accidents. Post-accident testing is mandatory for accidents where there is a loss of life and for other non-fatal accidents.

1. The supervisor ensures that all injured people receive proper medical care. Nothing in this section shall be construed to require the delay of necessary medical attention for the injured following an accident or to prohibit a covered employee from leaving the scene of an accident for the period necessary to obtain assistance in responding to the accident or to obtain necessary emergency medical care.
2. The supervisor determines whether the accident meets FTA criteria using MVT's "Post Accident Decision Checklist Form".
3. If the accident meets the FTA/DOT criteria a DOT post accident drug and alcohol test will be conducted immediately. The employee will be taken to the collection site and tested as soon as practicable following the accident. The employee should remain readily available for alcohol testing up to 8 hours and for drug testing up to 32 hours after the accident, including notifying his/her supervisor of his/her location or he/she may be deemed to have refused to submit to testing if he/she does not make him/herself readily available for testing.
4. **Once the tests have been completed the employee will remain off duty until a negative drug and alcohol test is received.**
5. If the employee is not tested within two hours for alcohol, the supervisor must document the reason for the delay, and if test is not conducted in 8 hours, the DER shall cease all further attempts and update the records as to the reason(s) why the test was not completed. If the 32 hours have passed the DER shall cease all further attempts to complete the drug test.

6. If the employee refuses to be tested, or the breath alcohol test is .04 or greater, or if the drug test is confirmed positive, the employee is immediately removed from duty, the Sap will find them the qualified SAPs closest to their area, and **will be terminated**.

Post -Accident Testing Criteria

It should be noted that a post-accident test is given because the incident meets the criteria listed below. It is NOT a probable cause or reasonable suspicion test. An accident (§ 655.4) is defined as an occurrence associated with the operation of a vehicle in which:

1. An individual dies.
2. An individual suffers a bodily injury and immediately receives medical treatment away from the scene of the accident.
3. With respect to an occurrence in which the public transportation vehicle involved is a bus, van or automobile, one or more vehicles incurs disabling damage as the result of the occurrence and is transported away from the scene by a tow truck or other vehicle. For purposes of this definition, “disabling damage” means damage which precludes departure of any vehicle from the scene of the occurrence in its usual manner in daylight after simple repairs.

(Inclusions) Disabling damage includes damage to vehicles that could have been operated, but would have been further damaged if so operated.

(Exclusions) damage which can be remedied temporarily at the scene of the occurrence without special tools or parts, tire disablement without other damage even if no spare tire is available, or damage to headlights, tail-lights, turn signals, horn, or windshield wipers that makes them inoperative.

4. With respect to an occurrence in which the public transportation vehicle involved is a rail car, trolley car, trolley bus, or vessel, the public transportation vehicle is removed from operation.
5. The FTA has determined that “**LIFTS**” constitute equipment used in revenue service and their operation is essential to the operation of the vehicle and protection of public safety, their operation shall now be included in the accident definition.

To determine if a test should be administered under this section, always use MV Transportation’s “Post Accident Decision Checklist”. This form should be used for all accidents in determining whether a test will be done under DOT authority.

Prohibited Drugs and Alcohol Misuse

MVT is required to ensure that all covered employees receive at least 60 minutes of training and discussion on the effects and consequences of prohibited drug use on personal health, safety, and the work environment, and on the signs and symptoms that may indicate prohibited drug use. The information below shall assist in providing statistics and examples of substance abuse in the work force and the signs and symptoms of such use.

A study conducted showed 75 percent of illicit drug users 18 and older are employed, which amounts to about 10 million U.S. workers. On a daily basis, based on 250 work days in a year, at least 42,000 Americans are coming to work stoned or are getting “high” while on the job.

Studies and statistics show that:

1. Every 23 minutes a death occurs as a result of a drug or alcohol related accident.
2. A typical abuser is:
 - a. Late to work 3 times more often
 - b. Requests twice as much time off
 - c. Is absent 2 1/2 times more than average
 - d. Uses 3 times as many sick benefits
 - e. Collects 5 times as much worker’s comp
 - f. Has 300% higher medical costs/benefits

If these statistics haven’t convinced you that the problem is serious, let’s look at a few more.

A national survey once reported that:

1. 19% of all children over the age of 12 had used some type of illegal drug
2. 65% of 18 to 25 year olds had used some type of illegal drug
3. 30 to 40 million Americans stated they had used cocaine
4. By age 17, 70% of American teenagers had tried alcohol

As you can see, drug and alcohol abuse is a serious problem, having a major effect on all our lives. Even though you may not be abusing drugs or alcohol, you are affected by the results of drug and alcohol abuse in our society. You pay higher medical costs to help cover the costs for abusers who cannot afford the cost of treatment. You pay higher insurance costs to help fund the drug and alcohol abuse programs paid for by insurance companies. The material and services you buy cost more because of decreased worker productivity, as well as increased cost to employers.

This section is designed to provide you with a brief overview of the seriousness of using controlled substances and alcohol. It also provides education on the signs, symptoms and effects of the illicit drugs that you will be tested for. Your employer has taken great measures to assure you of a safe working environment. Please review this booklet in its entirety to educate yourself on drug and alcohol in the workplace. When you have completed reading this material, you will better understand the need for a drug-free workplace.

The drugs for which you will be subject to testing include:

- Amphetamine
- Cocaine
- Marijuana
- Opiates
- Phencyclidine (PCP)
- Alcohol (by evidential breath testing device only)

Facts about Amphetamines

Amphetamines (methamphetamine, MDMA-ecstasy) are central nervous system stimulants. They tend to make people “hyper” and “jumpy”. They can be taken either orally or injected. They are often used by people to stay awake and to counteract the effects of drowsiness. They are especially dangerous to take while performing safety-sensitive tasks or driving.

Ecstasy, MDMA (3,4 methylenedioxymethamphetamine), is a synthetic, psychoactive drug that is chemically similar to the stimulant methamphetamine and the hallucinogen mescaline. MDMA causes an increase in serotonin which plays an important role in the regulation of mood, sleep, pain, appetite, and other behaviors.

Some heavy MDMA users experience long lasting confusion, depression, and selective impairment of working memory and attention processes. Ecstasy users make extremely dangerous drivers. They can exhibit the same impairments as amphetamine, heroin, cocaine, and hallucinogen users.

Signs and Symptoms of Amphetamine Use

- ◆ Hypersensitivity
- ◆ Exhaustion
- ◆ Dilated Pupils
- ◆ Grinding teeth
- ◆ Loss of appetite and immediate weight loss
- ◆ Dry mouth
- ◆ Excessive talking

Effects on Person

- ◆ More likely to take risks
- ◆ Impaired judgement

Facts about Cocaine

Cocaine also stimulates the central nervous system. It gives the user an intense feeling of well-being, or euphoria, known as a “high”. The “high” will last for 10 to 60 minutes. A more potent form of the drug called “crack” cocaine is especially addicting and dangerous. Although it’s “high” lasts only about 5 to 8 minutes, “crack” cocaine can be addicting after only one use, and cause death the first time it is used. Cocaine can be injected, snorted, or free-based. Snorting is sniffing the drug up the nose, and free-basing is done by heating the drug and inhaling the vapors.

Signs and Symptoms of Cocaine Use

- ◆ Mood swings
- ◆ Weight Loss
- ◆ Restlessness: Difficulty sitting or standing in one place
- ◆ Depression
- ◆ Nose bleeds
- ◆ Irritable, angry, nervous, angers easily
- ◆ Bad breath
- ◆ Euphoric feeling
- ◆ Running nose, uncontrollable sniffing

Effects on Person

- ◆ Slowed reaction time
- ◆ Distorted vision and depth perception
- ◆ Slow to make decisions
- ◆ Unable to correctly measure time and distance

Facts about Marijuana

Marijuana is a depressant and mind altering drug. Marijuana does not depress the central nervous system’s reaction, it works on the brain. Mind altering means it causes hallucinations. It can be eaten or smoked. Street names for marijuana are “dope”, “grass”, “joint”, “hash”, or “hooch”.

Tests have shown that people’s reflexes and thought processes are slower under the influence of marijuana. The effects of this drug are longer lasting than first thought. In fact, impairment can last more than 24 hours after using marijuana. The body actually stores the drug for days, weeks, and in some cases, months, depending on the frequency of use.

Signs and Symptoms of Marijuana Use

- ◆ Dilated pupils
- ◆ Slowed reflexes
- ◆ Giddiness
- ◆ Slowed thinking
- ◆ Moodiness
- ◆ Trance-like state
- ◆ Impaired vision
- ◆ Reduced feeling of pain
- ◆ Odor of burning
- ◆ Short-term memory loss
- ◆ Loss of concentration
- ◆ Unable to sleep after prolonged use

Signs To Look For

- ◆ Cigarette rolling paper
- ◆ Dried plant material, either crumbled or pressed
- ◆ Roach clip (device to hold joint)
- ◆ Hash pipe (very small pipe)

Facts about Opiates

Opiates are classified as a narcotic analgesic. They tend to have a sedating, calming effect, and act as a depressant to the central nervous system. Opiates are more commonly known as morphine, codeine, and heroin. Street names for opiates are “junk”, “smack”, “horse”, and “brown sugar”. Opiates are prescribed by doctors to relieve pain, but they are used by the abuser to relax or “escape the real world”. They can either be taken orally, injected or smoked.

When the drug is injected, the user feels an immediate “rush”, usually followed by a very relaxed and soothing feeling. However, some opiates can cause very unpleasant side effects such as nervousness, nausea, and restlessness, and if taken in excess, may cause coma or death.

Signs and Symptoms of Opiate Use

- ◆ Mental confusion
- ◆ Slurred speech
- ◆ Unsteadiness
- ◆ Hostility
- ◆ Memory loss

- ◆ Drowsiness
- ◆ Excess talking
- ◆ Euphoria
- ◆ Depression
- ◆ Short attention span
- ◆ Cold, moist or bluish skin
- ◆ Reduced feeling of pain

Effects on Person

- ◆ Lack of concentration – Day dreaming
- ◆ Distorted sense of time and distance
- ◆ Distorted vision

Facts about Phencyclidine (PCP)

Phencyclidine, commonly called “Angel Dust”, is known as a dissociative anesthetic. Users of PCP may experience hallucinations and signs of intoxication. They may not be able to focus their attention or will experience confusion and lack of coordination.

Although PCP has immediate short term effects, it is also known for its long term effect of causing psychotic behavior often associated with violent acts. Other street names for PCP include “hog”, and “crystal”. PCP may be smoked, snorted or injected.

Signs and Symptoms of PCP Use

- ◆ Delusions
- ◆ Confusion
- ◆ Panic
- ◆ Increased blood pressure
- ◆ Anxiety
- ◆ Flashbacks

Effects on Person

- ◆ More likely to take risks
- ◆ Impaired coordination
- ◆ Aggressive actions

Facts about Alcohol

Alcohol is a socially acceptable drug that has been consumed throughout the world for centuries. It is considered a recreational beverage when consumed in moderation for enjoyment and relaxation during social gatherings. However, when consumed primarily

for its physical and mood-altering effects, it is a substance of abuse. As a depressant, it slows down physical responses and progressively impairs mental functions.

Signs and Symptoms of Use

- ◆ Dulled mental processes
- ◆ Lack of coordination
- ◆ Odor of alcohol on breath
- ◆ Possible constricted pupils
- ◆ Sleepy or stuporous condition
- ◆ Slowed reaction rate
- ◆ Slurred speech

(Note: Except for the odor, these are general signs and symptoms of any depressant substance.)

Health Effects

The chronic consumption of alcohol (average of three servings per day of beer [12oz], whiskey[1oz], or wine[6oz glass] over time may result in the following health hazards:

- ◆ Decreased sexual functioning
- ◆ Dependency (up to 10% of all people who drink alcohol become physically and/or mentally dependent on alcohol and can be termed “alcoholic”)
- ◆ Fatal liver diseases
- ◆ Increased cancers of the mouth, tongue, pharynx, esophagus, rectum, breast, and malignant melanoma.
- ◆ Kidney disease
- ◆ Pancreatitis
- ◆ Spontaneous abortion and neonatal mortality
- ◆ Ulcers
- ◆ Birth defects (up to 54% of all birth defects are alcohol related).

Workplace Issues

- ◆ It takes one hour for the average person (150 pounds) to process one serving of an alcoholic beverage from the body.
- ◆ Impairment in coordination and judgment can be objectively measured with as little as two drinks in the body.
- ◆ A person who is legally intoxicated is 6 times more likely to have an accident than a sober person.



**ACKNOWLEDGEMENT
OF
EMPLOYER'S DRUG AND ALCOHOL TESTING POLICY**

I, _____, the undersigned, hereby
Print Full Name

acknowledge that I have received a copy of the anti-drug and alcohol misuse program policy mandated by the U.S. Department of Transportation, Federal Transit Administration for all covered employees who perform a safety-sensitive function. I understand this policy is required by 49 CFR Part 655, as amended, and has been duly adopted by the governing board of the employer. Any provisions contained herein which are not required by 49 CFR Part 655, as amended, that have been imposed solely on the authority of the employer are designated as such in the policy document.

I further understand that receipt of this policy constitutes a legal notification of the contents, and that it is my responsibility to become familiar with and adhere to all provisions contained therein. I will seek and get clarification for any compliance with all provisions contained in the policy. I also understand that compliance with all provisions contained in the policy is a condition of employment.

I further understand that the information contained in the approved policy dated Oct 1, 2015 is subject to change, and that any such changes, or addendum, shall be disseminated in a manner consistent with the provision of 49 CFR Part 655, as amended.

I hereby acknowledge that I have participated in and completed the required minimum one-hour of DRUG AND ALCOHOL EMPLOYEE EDUCATION AND TRAINING in accordance with Part 655.14(b)(1) and in addition, to the training, this policy and handbook was reviewed.

I further acknowledge that I have been advised of the consequences for safety sensitive employees who violate the testing requirements and information concerning the effects and alcohol misuse and controlled substance abuse on health, work and personal life.

Signature of Employee

Date

Print Name

With the closure of the green waste composting facility at Cold Canyon Landfill in late 2010, green waste has either been used as alternative daily cover at the landfill or transported to Engle and Gray in Santa Maria for composting.

Since 2010, there have been several new developments related to the management of organics.

- In 2014, AB 1826 and AB 1594 were enacted. AB 1826 established a mandatory organics management program which will require businesses to recycle all organics including food waste. This requirement phases in with the first deadline being April 2016 for businesses that generate 8 cubic yards or more per week of organics. AB 1594 eliminates the diversion credit for using green waste as alternative daily cover.
- CalRecycle and the State Water Resources Control Board both issued new compost regulations in August 2015.
- The Intergovernmental Panel on Climate Change now estimates the greenhouse gas potential of methane is 34 times greater than CO₂.
- Governor Brown on April 29, 2015, set the goal of reducing greenhouse gas to 40% below 1990 levels by 2030.
- The Air Resources Board in a concept paper issued on May 7, 2015, set an initial goal of diverting 75% of organics from landfills by 2020 and diverting 90% of organics from landfills by 2025.

Organics Diversion Program

In early spring 2015, IWMA staff presented to its Board a progress report on the management of organics in SLO County and identified 3 potential providers that could manage both green and food waste: Engle and Gray, Mid State Solid Waste and Hitachi Zosen Inova (HZI). Recognizing the need for a comprehensive long term organics management plan, Waste Connections issued a Request for Proposals (RFP) and requested the 3 potential providers submit proposals structured to reflect the tonnages and needs of the entire service area. Engle and Gray and HZI submitted responsive proposals, while Mid State Waste failed to provide a responsive proposal.

At the May 13, 2015 IWMA Board Meeting, Waste Connections presented their plan for the long term management of all organic waste, including food waste that included an interim and permanent phase. The plan would incorporate Waste Connections' entire service area from San Simeon to Nipomo and cover a 20 year period beginning with the operation of a long term collection and processing facility of all organic waste.

Interim Phase. In the fall of 2016, the City Council, after receiving input from the PWAB, addressed the interim phase by adopting Resolution No. 66-15 to increase solid waste rates, approve the implementation of an expanded organics diversion program that would include food waste in 2016, and end the use of green waste as alternative daily cover at Cold Canyon Landfill.

Permanent Phase. The permanent phase consists of the construction of an organics processing facility in San Luis Obispo. After evaluating proposals from the RFP put out in 2015, Waste Connections selected HZI to provide a Kompogas Anaerobic Digestion Plant. HZI is a world-wide leader in the production of energy from waste. The group has annual revenues of \$3 billion, 8,000 employees and 80 years of experience.

The first Kompogas Anaerobic Digestion Plant was built in 1991 in Switzerland and is still in operation. Currently there are 75 plants operating throughout the world. Anaerobic digestion is different than composting in that the process of decomposition occurs in an oxygen free environment. Unlike composting, this process produces energy in the form of biogas and minimizes the need for water. Among other things, the biogas can be used to generate electricity via a turbine or be processed as biogas fuel which is a clean energy source. In addition all activities are inside a vessel and/or building, thus minimizing odors, storm water runoff and litter.

The Kompogas Facility would be located at Waste Connection's existing yard on Old Santa Fe Road in San Luis Obispo. This industrial site is ideally located in that it is in the center of the service area, is the location where Waste Connections' trucks start and end each day and has an existing building that can be used for the organics receiving area.

Waste Connections will need to enter into a long-term agreement with HZI, where HZI will build a Kompogas plant at the Waste Connection's yard using the existing building and Waste Connections agrees to deliver organics to the plant for 20 years after the plant is operational. This guarantee is necessary for HZI to obtain the financing to build a plant that will cost more than \$12 million. In return, HZI would design, finance, build, own and operate a Kompogas plant for 20 years for a negotiated fee, subject to cost of living increases and adjustments for the sale price of electricity and/or compost/compost tea and other uncontrollable costs.

As such, Waste Connections has requested the City's Garbage, Recycling & Green Waste Agreement be extended an additional 17 years, through 2040, and is conditioned on a Kompogas plant being built (the current agreement runs through December 2023).

A similar commitment would be needed from the other cities in Waste Connection's service area. To date, the City of San Luis Obispo, Nipomo and Avila Beach have approved contract extensions and the cities of Pismo, Grover Beach, Arroyo Grande and Oceano will be considering contract extensions in the coming months.

If the plant is not built, then the City's franchise agreement term would not be extended, the current termination date through 2023 would remain, and the interim phase planned to transport organic waste to Santa Maria for processing would continue past until a new long term solution could be developed and implemented.

Agreement Amendment

Attached for consideration is the Third Amendment to the Garbage, Recycling and Greenwaste Services Franchise Agreement between MBGS and the City. In addition to a 17 year extension of the term discussed above, there are changes to two other items included in the amendment: vehicle age and number of free public garbage and recycling containers collected.

Vehicle Age. The current agreement requires vehicles to be no more than 7 years old. The useful life for a collection vehicle like the ones used is almost double than what is required in the agreement. The impact is MBGS needing to replace vehicles more frequently, amortizing the cost of the vehicle over a shorter period of time, and needing to increase rates to the customers for this purchase more frequently. Changing the vehicle age to a more appropriate useful life that the cost would be

amortized over, would reduce the amount needed in future rate increases from customers for this acquisition.

Public Garbage & Recycling Containers. The current agreement requires the free collection of 30 garbage and 30 recycling containers in the public areas. During discussions about the extension of the agreement term, MBGS agreed to increase the number of free public containers collected to 40 each. The impact would be a reduction in garbage collection costs for the public areas (approximately \$9,000 per year).

PUBLIC WORKS ADVISORY BOARD MEETING

The PWAB considered this item at its April 20, 2016, and concurred with staff's recommendation to adopt Resolution No. 27-16.

CONCLUSION

Staff and the PWAB are supportive of the comprehensive organics diversion program plan developed by Waste Connections in response to changes in composting regulations, the Governor's goals for reducing greenhouse gas, and new State legislation enacted in 2014 related to organics management.

Staff and the PWAB recommend the City Council adopt Resolution 27-16 approving the Third Amendment to the Garbage, Recycling and Greenwaste Services Agreement with Morro Bay Garbage Service (MBGS) to do the following:

1. Add Section 3.5 to the Agreement extending the term by 17 years related to the long-term solution of constructing an organics processing facility in San Luis Obispo;
2. Change Section 5.6.2A to state no vehicle shall be more than 12 years old; and
3. Increase in Section 5.10 the number of free public area garbage and recycling containers collected to 40 each.

RESOLUTION NO. 27-16

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
APPROVING THIRD AMENDMENT TO GARBAGE, RECYCLING AND
GREENWASTE SERVICES AGREEMENT WITH MORRO BAY GARBAGE SERVICE**

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

WHEREAS, the City Council adopted Resolution No. 48-01 approving the Garbage, Recycling and Greenwaste Services Franchise Agreement with Morro Bay Garbage Service (MBGS) for collection services effective January 1, 2002; and

WHEREAS, on May 27, 2008, by Resolution No. 24-08, the Agreement was extended by an amendment to the Agreement (the “Amendments”); and

WHEREAS, on June 23, 2015, by Resolution No. 42-15, the Agreement was modified by a second amendment to Agreement changing the security requirement (the “Amendments”); and

WHEREAS, the Agreement and two Amendments are herein referred to as the “Amended Agreement;” and

WHEREAS, with the closure of the green waste composting facility at Cold Canyon Landfill in late 2010, green waste has either been used as alternative daily cover at the landfill or transported to Engle and Gray in Santa Maria for composting while Morro Bay Garbage Service researched other alternatives; and

WHEREAS, since 2010 there have been several new developments related to composting and the management of organics, most notably in 2014 with the enactment of AB 1826 and AB 1594 establishing a mandatory organics management program requiring recycling organics, including food waste, and eliminating the diversion credit for using green waste as alternative daily cover; and

WHEREAS, Waste Connections, the parent company of Morro Bay Garbage Service, recognizing the need for a comprehensive long term organics management plan, issued a Request for Proposal (RFP) for proposals structured to reflect the tonnages and needs of the entire San Luis Obispo county service area, including Morro Bay; and

WHEREAS, Waste Connections, after review of the RFP proposals received, presented to the San Luis Obispo Integrated Waste Management Authority Board in May 2015, its plan for the management of all organic waste, including food waste; and

WHEREAS, the interim phase of Waste Connections plan would begin in 2016 with the residential and commercial green waste collection programs being expanded to include food waste and transport collected organics to Engle and Gray’s composting facility; and

WHEREAS, the permanent phase of Waste Connections plan would consist of the construction of an organics processing facility in San Luis Obispo; and

WHEREAS, after evaluating proposals from the RFP put out in 2015, Waste Connections selected Hitachi Zosen Inova (HZI) to design, finance, build, own and operate a Kompogas Anaerobic Digestion Plant; and

WHEREAS, Waste Connections will need to enter into a long-term agreement with HZI, where HZI will build a Kompogas plant at the Waste Connections' yard using the existing building and agree to deliver organics to the plant for 20 years after the plant is operational; and

WHEREAS, the current Amended Agreement would need to be extended an additional 17 years, through 2040, and is conditioned on a Kompogas plant being built; and

WHEREAS, if the plant is not built, then the City's Amended Agreement term would not be extended, the current termination date through 2023 would remain, and the interim phase planned to process organic waste would continue until a new long term solution could be developed and implemented; and

WHEREAS, during discussions with staff about extending the Amended Agreement, Waste Connections agreed to increase the number of free public garbage and recycling containers collected to 40 each; and

WHEREAS, the Amended Agreement requires collection vehicles to be no more than 7 years old while the useful life for such a vehicle is almost double than what is required; and

WHEREAS, the impact is the need to replace vehicles more frequently, amortizing the cost of the vehicle over a shorter period of time, and needing to increase collection rates to the customers for these purchases more frequently; and

WHEREAS, changing the vehicle age requirement would reduce the amount needed in future rate increases from customers for vehicle acquisitions and be more in line with industry standards for useful life.

NOW THEREFORE BE IT RESOLVED, by the City Council of the City of Morro Bay approval of the Third Amendment to the Amended Agreement, attached hereto.

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on the 26th day of April, 2016 by the following vote:

AYES:

NOES:

ABSENT:

JAMIE L. IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk

**THIRD AMENDMENT TO
GARBAGE, RECYCLING AND GREENWASTE SERVICES FRANCHISE
AGREEMENT
BETWEEN
THE CITY OF MORRO BAY
AND
MORRO BAY GARBAGE SERVICE**

THIS THIRD AMENDMENT TO GARBAGE, RECYCLING AND GREENWASTE SERVICES FRANCHISE AGREEMENT (this "Amendment") is made and entered into this ___ day of ____, 2016, in the State of California, and shall modify that certain Garbage, Recycling and Greenwaste Services Franchise Agreement, dated August 1, 2001, including the extension thereof pursuant to the City Council's adoption of Resolution 24-08 on or about May 21, 2008 (the "Agreement"), by and between the CITY OF MORRO BAY, a municipal corporation and charter city of the State of California ("City"), and MORRO BAY GARBAGE SERVICE, a California corporation ("Contractor"). City and Contractor may be collectively referred to herein as the "Parties" and individually as a "Party", unless specifically identified otherwise.

RECITALS

WHEREAS, capitalized terms used herein, unless otherwise defined shall have the respective meanings ascribed to them in the Agreement, unless the context requires otherwise; and

WHEREAS, the Parties now wish to amend the Agreement to extend the Term of the Agreement conditioned upon Contractor's meeting the criteria set forth herein.

AGREEMENT

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, THE PARTIES AGREE TO AMEND THE AGREEMENT, AS FOLLOWS:

1. New Section 3.5. Article 3 of the Agreement is hereby amended to add the following new Section 3.5:

"3.5 Additional Technology Extension.

(a) Subject to the conditions set forth in Section 3.5(b) below, the Term of this Agreement shall be extended such that the Term of this Agreement shall expire at midnight on the seventeenth (17th) annual anniversary of the earlier of the Green and Food Waste Facility Operation Date (as defined below) or January 1, 2020, subject to further extension as provided in Section 3.3 (Option to Extend).

(b) Contractor and City acknowledge the foregoing seventeen-year (17-year) extension of the Term is expressly contingent upon:

(i) By no later than January 1, 2018, Contractor executing a definitive long-term agreement with Hitachi Zosen Inova U.S.A. LLC (or other company approved by City and the City of San Luis Obispo) for the development, construction and operation of a Green and Food Waste Facility (as defined below) (or other similar technology reasonably acceptable to City) capable of processing City's Green Waste and Food Waste; and

(ii) By no later than January 1, 2020, completion of the Green and Food Waste Facility (or other similar technology reasonably acceptable to City) capable of processing City's Green Waste and Food Waste; provided, however, that in the event the Green and Food Waste Facility has not been completed by January 1, 2020, due to reasons beyond the reasonable control of, and not due to the fault, action, inaction or negligence of Contractor, such completion date shall be extended by the number of days reasonably required to complete the Green and Food Waste Facility, but only to the extent Contractor uses (and continues to use) due diligence to pursue completion of the Green and Food Waste Facility.

(c) In the event Contractor does not enter into such definitive agreement or the Green and Food Waste Facility is not constructed and operational within either of the time frames set forth in Section 3.5(b), Contractor and City agree the Term of this Agreement shall be remain December 31, 2023.

(d) For purposes of the Agreement, the following capitalized terms shall have the definitions set forth below:

(iii) "Green and Food Waste Facility" means any plant or site utilized by Contractor (or a subcontractor of Contractor) for the purposes of performing the duties to fulfill this Agreement, including, without limitation, processing City's Green Waste and Food Waste in accordance with all applicable laws and regulations. For purposes of Section 3.5, "Facility" means a Kompogas facility (or other similar technology as reasonably approved by City) capable of processing City's Green Waste and Food Waste.

(iv) "Green and Food Waste Facility Operation Date" means the date on which, following its start-up, testing and commissioning, the Green and Food Waste Facility consistently and compliantly processes commercial quantities of Food Waste and Green Waste.

(v) "Food Waste" means a waste material of plant or animal origin that results from the preparation or processing of food for animal or human consumption and that is separated from the municipal solid waste stream. Food waste includes, but is not limited to, food waste from food facilities as defined in Health and Safety Code section 113789 (such as restaurants), food processing

establishments as defined in Health and Safety Code section 111955, grocery stores, institutional cafeterias (such as prisons, schools and hospitals), and residential food scrap collection. Food waste does not include any material that is required to be handled only pursuant to the California Food and Agricultural Code and regulations adopted pursuant thereto.

(vi) "Green Waste" means tree trimmings, grass cuttings, dead plants, leaves, branches, dead trees and scrap wood (not more than six (6) inches in diameter) and similar materials generated at the premises."

2. Amendment to Subsection 5.6.2 A. The third sentence of Subsection 5.6.2 A. of the Agreement is hereby amended in its entirety to read as follows:

"No vehicle shall be more than 12 years old."

3. Amendment to Section 5.10. Section 5.10 of the Agreement is hereby amended in its entirety to read as follow:

"5.10 Free Garbage and Recycling Services. Contractor shall provide free collection of at least 40 Garbage bins and at least 40 Recyclable Material bins located in public areas, as determined by City's Public Works Director, or his/her designee. In addition, Contractor will provide and service a dumpster for Garbage generated at the Morro Bay Household Hazardous Waste Facility."

4. Counterparts. This Amendment may be executed in one or more facsimile or original counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same instrument.

5. Ratification. All terms and provisions of the Agreement not amended hereby, either expressly or by necessary implication, shall remain in full force and effect. From and after the date of this Amendment, all references to the term "Agreement" in this Amendment and in the original Agreement shall include the terms contained in this Amendment.

6. Conflicting Provisions. In the event of any conflict between the original terms of the Agreement and this Amendment, the terms of this Amendment shall prevail.

7. Authorization. Each Party executing this Amendment represents and warrants that it is duly authorized to cause this Amendment to be executed and delivered.

***[Remainder of Page Intentionally Left Blank;
Signature Page Follows.]***

IN WITNESS WHEREOF, City and Contractor have executed this Third Amendment to the Agreement and it shall be effective on the day and year first hereinabove set forth.

CITY:

CITY OF MORRO BAY

CONTRACTOR:

MORRO BAY GARBAGE SERVICE

By: _____

Name: Jamie L. Irons

Title: Mayor

Attest:

By: _____

Name: Mike Dean

Title: Division Vice President

By: _____

Name: _____

Title: _____

Dana Swanson
City Clerk

Approved as to Form:

Joseph W. Pannone
City Attorney



AGENDA NO: A-11

MEETING DATE: April 12, 2016

Staff Report

TO: Honorable Mayor and Council Members **DATE:** April 12, 2016

FROM: Susan Slayton, Administrative Services Director

SUBJECT: Adopt Resolution No. 28-16 Approving Certain Information for Inclusion in an Official Statement Relating to the Central Coast Water Authority Refunding Revenue Bonds, Series 2016a (State Water Project Regional Facilities) and Approving Certain Other Matters In Connection Therewith

RECOMMENDATION

Staff recommends the adoption of Resolution No. 28-16.

FISCAL IMPACT

None.

SUMMARY

The Central Coast Water Authority (the "CCWA"), of which the City is a member, is considering refinancing certain outstanding debt. As a part of that refinancing, certain information regarding the City and other members of the CCWA must be provided to investors in a Preliminary and final Official Statement, as well as on an on-going basis in the form of audited financial statements. The information contained in the Preliminary Official Statement regarding Morro Bay must be accurate.

BACKGROUND

In March/April 1992, the City of Morro Bay entered into a water treatment and local facilities agreement with the San Luis Obispo County Flood Control and Water Conservation District, for the purpose of treating the City's state water project allotment from the state water project. It was agreed the District would contract with CCWA to construct, operate and finance the water treatment facilities, to include a pipeline and water tank. In 1996, CCWA issued 25 year revenue bonds (maturing 10/1/2021) for the construction of the water treatment facilities. The bonds were eligible for refinance after 10 years from the date of issue, and in 2006, a refinance occurred to reduce the interest costs. Another 10 years have passed, and the bonds are again eligible for refinance. With this refinance, the savings to the City, over the remaining years of the debt (still maturing 10/1/2021), is approximately \$295K.

DISCUSSION

Prepared By: SS

Dept Review: RL

City Manager Review: DWB City Attorney Review: _____

As part of the CCWA refinancing, the CCWA will be required to release a Preliminary Official Statement to the public securities market, which provides information to potential purchasers of the CCWA's bonds regarding the structure, security for, and information relating to the CCWA's bonds. Because the City is a part of the CCWA, certain information will be included in Appendix L (attached) to the Preliminary Official Statement describing the City. Staff has been working with bond counsel to the CCWA to review the accuracy of this information, the accuracy of which must be certified by the City. The final version of Appendix L is presented with this agenda item for review and approval.

CONCLUSION

Staff recommends at this time that the Council review and approve Resolution No. 28-16 approving Appendix L of the CCWA Official Statement.

RESOLUTION NO. 28-16

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
APPROVING CERTAIN INFORMATION FOR INCLUSION IN AN OFFICIAL
STATEMENT RELATING TO THE CENTRAL COAST WATER AUTHORITY
REFUNDING REVENUE BONDS, SERIES 2016A (STATE WATER PROJECT
REGIONAL FACILITIES) AND APPROVING CERTAIN OTHER MATTERS
IN CONNECTION THEREWITH**

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

WHEREAS, the City of Morro Bay (the “Member”) is a member of the Central Coast Water Authority (the “Authority”); and

WHEREAS, in September 2006, in order to provide funds to refinance the acquisition and construction of certain water system transmission facilities and improvements (the “Project”), the Authority issued its Central Coast Water Authority Refunding Revenue Bonds, Series 2006A; and

WHEREAS, the Authority has approved the issuance of its Central Coast Water Authority Refunding Revenue Bonds, Series 2016A (the “Bonds”) in order to (i) refinance the Project by refunding all of the outstanding 2006 Bonds, (ii) fund a debt service reserve fund for the Bonds and (iii) pay the costs of issuance for the Bonds; and

WHEREAS, the Member wishes to approve of the use of certain information with respect to the Member contained in the Preliminary Official Statement relating to the Bonds (the “Preliminary Official Statement”); and

NOW THEREFORE, the Member finds, determines, declares and resolves as follows:

1. Appendix L of the Preliminary Official Statement, in the form on file with the Member (the “Member Information”), be and the same is hereby approved. The City Manager, or the designee thereof (each an “Authorized Officer”), is hereby authorized to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”) relating to the Member Information with respect to the Preliminary Official Statement. Each Authorized Officer is individually authorized and directed to approve, deliver and certify to the Member Information for the Official Statement for the Bonds (the “Official Statement”) in substantially the form provided for the Preliminary Official Statement, with such changes, insertions and omissions as may be approved by such Authorized Officer. Each Authorized Officer is authorized and directed to execute and deliver a certificate to the Authority pursuant to Rule 10b-5 promulgated under the Exchange Act, with respect to the Member Information with respect to the Official Statement.
2. Each Authorized Officer of the Member, acting singly, is hereby authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by this Resolution. Any and all acts and things previously done by any officer of the Member which are necessary or proper for carrying out the transactions contemplated by this Resolution are hereby ratified.

3. This Resolution shall take effect immediately.

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on the 12th day of April 2016, by the following vote:

AYES:

NOES:

ABSENT:

JAMIE L. IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk

EXHIBIT A
OFFICIAL STATEMENT

APPENDIX L

INFORMATION CONCERNING CITY OF MORRO BAY

The information set forth below has been provided by the City of Morro Bay (the “City”). The Central Coast Water Authority (the “Authority”) makes no representations or warranties as to the accuracy or completeness of any of the information set forth below. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in the Water Treatment and Local Facilities Agreement, dated March 1, 1992, between the San Luis Obispo County Flood Control and Water Conservation District (the “SLOCFCWD”) and the City (the “Local Water Treatment Agreement”).

Reference is hereby made to the portion of the Official Statement entitled “FACTORS AFFECTING PROJECT PARTICIPANTS AND WATER PURCHASERS GENERALLY” for a discussion of various factors, among others, which could adversely affect the City.

General

The City was incorporated in 1964. The City is located in the west coastal portion of San Luis Obispo County and has a population of approximately 10,284. Within the territory of the City, the City is the sole provider of water service to customers. As of June 30, 2015, the City has 5,455 active domestic connections.

In 2015, the City obtained approximately 88% of City water supplies from the SLOCFCWD (and which is treated by the Authority), approximately 12% from City wells which pump from the Morro Basin and are subsequently treated for nitrate removal using brackish water reverse osmosis at the City’s desalination facility, and pumped no water from the Chorro Basin for delivery to customers. In addition, the City’s desalination facility can also treat sea water as a back-up water source. The desalination plant has been on line since 1991, but is accessed only for seasonal peaking and replacement purposes. During calendar year 2015, the plant produced 138 acre-feet of water from the Morro Basin (including brackish water treated by reverse osmosis – see the caption “WATER SUPPLY—Desalination Facility”).

Land and Land Use

The City encompasses an area of approximately 3,392 acres, of which approximately 3,290 acres are developed (about 60% as residential, 30% as commercial, 5% as industrial and 5% as agricultural). An average topography of 5-10% results in pressure zones from gravity fed water systems serving elevations from 375 feet to near sea level.

The City expects that the undeveloped land within City boundaries will continue to be developed and that the estimated population of the City at buildout, projected to be in the year 2024, will be limited to 12,200, as set by Ordinance No. 266, dated November 30, 1984.

Governance and Management

The City is governed by a five-member City Council (the “Council”), the members of which are elected by the registered voters of the City to staggered four-year terms. The mayor serves a two-year term. The current members of the Council, their occupations and the expiration dates of their terms are set forth below.

<i>Council Member</i>	<i>Expiration of Term</i>	<i>Occupation</i>
Jamie L. Irons, Mayor	12/16	Property Management
Christine Johnson, Council Member	12/16	Community Volunteer
Matt Makowetski, Council Member	12/18	High School Teacher
John Heading, Council Member	12/18	Small Business Owner
Noah Smukler, Council Member	12/16	Small Business Owner

The City is a general law city and operates under the council-manager form of government.

Municipal Services

The City offers City residents a full range of municipal services including public safety, fire protection, water and sewer services, harbor, street maintenance, parks and recreation and mass transit. Mass transit services are provided by a contractor.

Employees and Employee Benefits

General. Responsibilities for the City water system is divided among several departments: the Public Services Department which handles operations, maintenance, supply, capital improvements and water resources; the Finance Department which handles billing, costs projection and financing structures; and the Planning and Building Department which handles water allocation, water conservation and the retrofit program of the City.

The City currently employs 5 full time equivalents in the water department. Additionally, the water department is supported by the engineering and administrative division with an indirect equivalent of 2 employees. Administrative and finance support equates to another .5 full time equivalents. Day to day management of the water department is delegated to Mr. Rob Livick, PE/PLS Director of Public Works. Mr. Livick has been employed with the City since May 4, 2007.

The Miscellaneous Employees of the City (an employee bargaining unit) are represented by the Service Employees International Union. The City has not experienced any strike or other labor action.

Pension Plan. The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by state statute and city ordinance.

The City has three tiers of retirement plans for its fire, police and miscellaneous plan participants. Employees in the first tier (Safety/Misc.) participate in the 3%/2.7% at 50/55 risk pool. The City has negotiated as second tier retirement plans with each of its bargaining units as follows:

<i>Employee Category</i>	<i>Hire Date</i>	<i>Risk Pool</i>
Fire	After 3/19/11	3% @ 55
Police	After 9/17/11	3% @ 55
Miscellaneous	After 1/1/12	2% at 60

The City has implemented a third tier of PERS pension benefits (2.7% @ 57 for sworn safety members (fire, police and harbor patrol) and 2% @ 62 for miscellaneous members) for employees hired on and after January 1, 2013 (“New Members”), to comply with Assembly Bill 340’s compulsory reduced formula (for more information with respect to PERS, see Appendix Q attached to the Official Statement for more information with respect to Assembly Bill 340). Participants hired on or after January 1, 2013 who are New Members are entitled to benefits as third tier members, and are required to contribute the percentage of their

annual covered salary under the City’s PERS plans required by PERS, which will not exceed 50% of the normal cost rate, as determined by PERS. The current contribution rate for members in the 2.7% @ 57 risk pool and the 2.0% @ 62 risk pool are 11.5% and 6.25% of annual base salary, respectively, with the City paying the same, for a total contribution rate of 23% and 12.5%.

Participants are required to contribute 8%/7% (9% for sworn safety employees) of their annual covered salary, for Tier 1 and Tier 2 employees. All employees pay their employee required contribution. The City collects and pays contributions required of City employees to CalPERS for credit their individual accounts. The City is required to contribute at actuarially determined rates. The rates for the three tiers of retirement plans are set forth in Note 7 to the supplementary information in the City’s audited financial statements attached as Exhibit 1 to this Appendix L. The contribution requirements of plan members and the City are established and may be amended by PERS.

For fiscal year 2015, the City’s annual pension cost of \$2,226,567 for PERS was determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) payroll growth of 3.0%. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 20-year period (smoothed market value).

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plans accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

The three-year trend information for the Annual Pension Cost of the City for all plans is as follows:

Fiscal Year <u>Ending</u>	Annual <u>Pension Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
06/30/13	\$2,095,921	100%	--
06/30/14	2,155,466	100	--
06/30/15	2,226,567	100	--

The tables below display a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability (or Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of that covered payroll:

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
<u>Miscellaneous Plan:</u>						
06/30/11	\$ 33,930,975	\$ 25,212,168	\$ 8,718,807	74.3%	\$ 4,336,062	201.0%
06/30/12	35,829,301	25,331,199	10,498,102	70.7	4,317,006	243.2
06/30/13	37,216,608	28,075,051	9,141,557	75.4	4,311,248	212.0
<u>Safety Fire Plan:</u>						
06/30/11	\$ 10,910,052	\$ 7,836,768	\$ 3,073,284	71.8%	\$ 802,425	383.0%
06/30/12	11,195,934	7,579,725	3,616,209	67.7	858,770	421.1
06/30/13	11,588,613	8,330,978	3,257,635	71.9	997,968	326.4
<u>Safety Police Plan:</u>						
06/30/11	\$ 16,473,002	\$ 12,112,793	\$ 4,360,209	73.5%	\$ 1,654,086	263.6%
06/30/12	17,098,550	11,860,148	5,238,402	69.4	1,725,424	303.6
06/30/13	17,654,586	12,997,966	4,656,620	73.6	1,631,739	285.4

The City also provides group health, vision, dental and life insurance for the City's active, regular employees. Qualifying part-time employees, working 1,560 or more hours per year, receive a health bank equal to the employee only medical coverage, pursuant to the Affordable Care Act of 2010.

Further information with respect to the City's pension plan is set forth in Note 7 to the City's audited financial statements for the fiscal year ended June 30, 2015, attached as Exhibit 1 to this Appendix L. For more information with respect to PERS, see Appendix Q attached to the Official Statement.

Other Post-Employment Benefits. The City participates in the PERS Health Benefit Program, an agent multiple-employer defined benefit other post-employment benefits plan. The required employer contribution was \$122 per person per month in fiscal year 2015. Participating retirees pay the differential monthly amount of the premium, which varies depending on the health benefits that they select. For active employees, this required contribution is a part of the monthly health bank offered to employees, who pay all additional amounts over the health banks, which currently are: employee only \$715; employee plus one dependent \$1,109, and employee plus two or more dependents \$1,326.

Governmental Accounting Standards Board Statement No. 45 ("GASB 45") requires governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the City, to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. In fiscal year 2013 the City contracted with an actuarial consultant to assess the City's liability for post-employment benefits. In such report, the actuarial consultant concluded that, as of August 1, 2012, the City's unfunded actuarial accrued liability for post-employment benefits based upon a 5% discount rate was \$1,289,676. The City's annual required contribution (the actuarial value of benefits earned during fiscal year 2015 plus costs to amortize the unfunded actuarial accrued liability, or "ARC") was \$149,704 representing approximately 2.48% of annual payroll, the City does not expect that any increased funding of post-employment benefits will have a material adverse effect on the ability of the City to make payments to the SLOFCWD under the Local Water Treatment Agreement.

Further information with respect to the City's post-employment benefits funding status is set forth in Note 8 to the City's audited financial statements for Fiscal Year 2015 attached as Exhibit 1 to this Appendix L.

Budget Process

Prior to June 1 of each year, the City Manager of the City submits to the Council a proposed budget for the fiscal year commencing the following July 1. The Council conducts public workshops to obtain comments from residents and ratepayers. Subsequent to the public workshops, the Council approves the budget, prior to July 1. The fiscal year 2016 budget was approved on June 9, 2015.

The budget of the City is prepared on a cash basis and includes the enterprise funds of the City, as well as the City general fund. For budgeting purposes, the City generally sets user charges to cover operating expenses of the water, sewer and harbor funds. Tax and assessment collections are used to finance general administrative, community development, police, fire, street and recreation expenses.

Insurance

The City is a member of the California Joint Powers Insurance Authority (the "CJPIA") and is organized under a joint powers agreement pursuant to Government Code Section 6500 *et. seq.* The CJPIA is composed of 118 member agencies and was created to arrange and administer programs of insurance for the pooling of self-insured losses, to purchase excess insurance or reinsurance coverage, and to arrange for group purchased insurance for property and other lines of coverage for its members.

General Liability. The City is self-insured for general liability claims through the CJPIA. Each member of the CJPIA pays an annual contribution to cover estimated losses for the coverage period. The overall coverage limit for each member, including all layers of coverage (including reinsurance and excess insurance), is \$50,000,000 per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30,000,000 per occurrence.

Workers' Compensation. The City is self-insured through the CJPIA for workers' compensation claims. Employer's liability losses are pooled among members of the CJPIA for up to \$2,000,000 per occurrence. Coverage from \$2,000,000 to \$5,000,000 is covered through a reinsurance policy, and losses from \$5,000,000 to \$10,000,000 are pooled among the CJPIA members.

All-Risk Property. The City purchases all-risk property insurance through the CJPIA program, which has a limit of \$91,123,400 and a \$5,000 deductible per occurrence. Non-emergency vehicle insurance has a \$1,000 deductible.

Earthquake and Flood. The City purchases earthquake and flood insurance on a portion of its property through the CJPIA property protection program with a limit of \$49,309,584, and a deductible of 5% per unit of value, with a minimum deductible of \$100,000.

Crime. The City also purchases crime insurance coverage in the amount of \$1,000,000, with a \$2,500 deductible. The fidelity coverage is provided through the CJPIA.

During the last three years, settled claims or judgments have not exceeded the City's pooled or purchased insured coverage.

Further information with respect to the City's insurance policies is set forth in Note 6 to the City's audited financial statements for the fiscal year ended June 30, 2015, attached as Exhibit 1 to this Appendix L.

Outstanding Debt

Other than the Local Water Treatment Agreement, the City has no other obligations payable from Contractor Water System Revenues.

As of June 30, 2015, the City currently has other indebtedness outstanding, from sources other than the City Contractor Water System Revenues, consisting of the following:

	<i>Issue Date</i>	<i>Original Principal Amount</i>	<i>Principal Outstanding</i>	<i>Annual Debt Service</i>	<i>Final Maturity</i>
Floating Slips Boating & Waterways ⁽¹⁾	1992	\$2,000,000	\$695,566	\$134,121	08/2021

⁽¹⁾ Loans from State.
Source: City.

WATER SUPPLY

General

In 2015 the City obtained approximately 88% of City water supplies from the SLOCFCWD (and which is treated by the Authority), approximately 12% from City wells which pump from the Morro Basin and are subsequently treated for nitrate removal using brackish water reverse osmosis at the City’s desalination facility, and pumped no water from the Chorro Basin for delivery to customers. In addition, the City’s desalination facility can also treat sea water as a back-up water source. The desalination facility has been on line since 1991, but is accessed only for seasonal peaking and replacement purposes. During calendar year 2015, the plant produced 138 acre-feet of water from the Morro Basin.

SLOCFCWD Water

The City has contracted for 1,313 acre-feet along with 2,290 acre-feet of drought buffer from the SLOCFCWD (the “Project Allotment”). Pursuant to the terms of the Local Water Treatment Agreement, water purchased from the SLOCFCWD is treated by the Authority. The City share of Authority Bond debt service is estimated to be approximately 6.684%.

Challenges to Department of Water Resources Water Supplies. DWR faces various challenges in continuing to supply imported water to its respective member agencies. The ability of the City to provide water service is dependent upon its receipt of treated water from SLOCFCWD, which in turn is dependent upon SLOCFCWD’s receipt of imported water from the State Water Project. No assurance can be given that additional water supplies will be secured, or that the City will receive its Project Allotment. A description of the challenges DWR faces in continuing to supply imported water as well as a variety of other operating information with respect to DWR is included in detail under the caption “STATE WATER PROJECT WATER SUPPLY” in DWR’S Official Statement dated August 25, 2015, relating to its Central Valley Project Water System Revenue Bonds Series AU (Index Floating Rate Bonds) (“DWR’s Water Supply Disclosure”). DWR’s Water Supply Disclosure is the disclosure of DWR and, accordingly, the Authority and the City do not make any representations as to the accuracy or completeness of DWR’s Water Supply Disclosure or as to the absence of material adverse changes in DWR’s Water Supply Disclosure after the date hereof.

DWR has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file with certain information repositories annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements (the “Department of Water Resources Information”). This information is to be filed by DWR with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. *DWR has not entered into any contractual commitment with the Authority, the City, the Trustee or the Owners of the Bonds to provide Department of Water Resources Information to the Authority, the City, the Trustee or the Owners of the Bonds. The Authority and the City have not incorporated*

by reference the information filed by DWR described above and neither the Authority, the City nor the Underwriters assume any responsibility for the accuracy of DWR Information.

Local Groundwater Basins

In calendar year 2015, the City pumped 165 acre-feet of groundwater from the Morro Basin (including brackish water treated by reverse osmosis – see the caption “—Desalination Facility”) and 2.7 acre-feet of groundwater from the Chorro Basin for testing, non-potable purposes and feed water for the brackish water reverse osmosis treatment system at the desalination facility. The City has appropriative water rights permits with the State for entitlements to 581 acre-feet of water in the Morro Basin and 1,142.5 in the Chorro Basin for a total of 1723.5 acre-feet per year.

Although exact calculations have not been made, long term yield of the combined Morro and Chorro water basins was estimated to be between 4,000 and 5,500 acre-feet per year in a 1981 report by Brown & Caldwell engineers. The Department of Water Resources 1982 report concluded the long-term yield for both basins during extreme drought conditions to be 5,300 acre-feet per year.

Both the Chorro and Morro Groundwater basins are contaminated with nitrate which exceed the maximum contaminant level for drinking water without treatment. Additionally the Chorro basin has a water rights permit condition that requires stream flow at the Chorro Creek road crossing to exceed 1.4 cfs in order to make any ground water extractions for the Chorro Creek groundwater source.

The City estimated that the total amount of water pumped from the basins in calendar year 2015 (the last year for which such information is available) was 167.7 acre-feet. The major pumpers in the Morro and Chorro water basins for calendar year 2015 were as follows:

<i>Water User</i>	<i>Total Amount of Water Pumped (acre-feet)</i>
Water Testing and Maintenance – Chorro	2.7
BWRO Feed – Morro	<u>165</u>
TOTAL	<u>167.7</u>

Desalination Facility

Water supplies from City wells which pump from the Morro Basin and are subsequently treated for nitrate removal using brackish water reverse osmosis at the City’s desalination facility, and approximately 0% from City wells which pump from the Chorro Basin. In addition, the City’s desalination facility can also treat sea water as a back-up water source. The desalination facility has been on line since 1991, but is accessed only for seasonal peaking and replacement purposes. During calendar year 2015, the facility produced 138 acre-feet of treated water from the Morro BWRO feed. The capacity of the desalination facility is approximately 645 acre-feet per year.

City Drought Response Actions and Impact

As described in the Official Statement under the caption “FACTORS AFFECTING PROJECT PARTICIPANTS AND WATER PURCHASERS GENERALLY — California Drought,” Governor Edmund G. Brown proclaimed a drought emergency on January 17, 2014 and subsequently issued an executive order mandating certain reductions in potable urban water usage (the “Executive Order”). Under the related State Water Resources Control Board (“SWCRB”) regulations which resulted from the Executive Order, the City is required to achieve a 12% reduction as compared to the City’s potable water usage in 2013. On November 13, 2015, the Governor issued Executive Order B-36-15, which calls for an extension of urban water use restrictions until October 31, 2016 should drought conditions persist through January 2016. On February 2, 2016, the reductions mandated by the Executive Order were extended through October 31, 2016. See

“FACTORS AFFECTING PROJECT PARTICIPANTS AND WATER PURCHASERS GENERALLY — California Drought” in the Official Statement. See “CALIFORNIA DROUGHT” in the Official Statement.

The City has a requirement to reduce its consumption by 12% over 2013 demands. The City has met SWRCB compliance requirements and conservation targets, and as of January 1, 2016 has achieved a 14.2% reduction in potable water usage as compared to the City’s potable water usage in 2013. The City has implemented its severely restricted water supply conservation measures and has met or exceeded the conservation requirements. With this tier of water conservation, irrigation of public and private landscaping is only permitted on Tuesdays and Saturdays for odd numbered property addresses, and on Wednesdays and Sundays for even numbered property addresses. No potable water is permitted be used for cleaning or rinsing of docks, boats and other marine facilities; driveways, patios, parking lots, sidewalks and other hardscapes. Washing cars by use of a hose is prohibited. Use of a bucket to wash a car is permitted, subject to non-wasteful applications. Also all restaurants in the City will not be providing water unless requested.

While reductions in water usage resulting from implementation of the Executive Order may adversely affect the City’s projected operating results set forth under the caption “—Projected Operating Results and Local Water Treatment Agreement Coverage,” the City does not currently believe that such reductions, if achieved, will have a material adverse effect on the ability of the City to make its Contract Payments under the Local Water Treatment Agreement. The City is obligated under the Local Water Treatment Agreement to set rates and charges sufficient to provide revenues from the Water System at least equal to 125% of the Contract Payments due in each Fiscal Year. The ability of the City to modify its current rate structure could, however, be limited by certain California Constitutional provisions, including but not limited to Proposition 218. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES” in the Official Statement.

THE WATER SYSTEM

The City is the sole provider of water service to water users within City boundaries. The water system of the City includes a seawater desalination facility, three disinfection stations and over sixty miles of pipelines ranging in size from 6 inches to 14 inches in diameter. In connection with the distribution system, the City operates a total of seven major pumps. The City delivers over 400 million gallons of water annually.

Historic Water Connections and Sales Revenues

The following table shows the number of active water connections to the water system of the City for fiscal years 2011-2015, together with the amount of its annual water sales revenues.

<i>Fiscal Year</i>	<i>Historic Water Connections and Sales Revenues</i>			
<i>Ending June 30</i>	<i>Connections</i>	<i>% Increase (Decrease)</i>	<i>Sales Revenues</i>	<i>% Increase (Decrease)</i>
2015	5,455	(0.3)%	\$3,217,845	(5.1)%
2014	5,473	0.3	3,391,983	3.6
2013	5,455	1.0	3,273,369	(1.6)
2012	5,401	0.3	3,325,454	0.0
2011	5,385	NA	3,323,916	NA

Source: City.

Historic Water Deliveries and Sources of Water Delivered

The City records the volume of water produced by the City water system. The following table presents a summary of historic water deliveries in acre-feet per year for fiscal years 2011-2015.

**Historic Water Deliveries
(In acre-feet per year)**

<i>Fiscal Year Ending June 30</i>	<i>Deliveries</i>	<i>% Increase/ (Decrease)</i>
2015 ⁽¹⁾	1,094	(9.9)%
2014	1,214	6.4
2013	1,141	(3.1)
2012	1,177	(5.8)
2011	1,250	(2.5)

⁽¹⁾ Deliveries for fiscal year 2015 reflect the effects of mandatory conservation measures required by the Executive Order. See the caption “— City Drought Response Actions and Impact.”

Source: City.

The following table shows water produced (in acre-feet) into the municipal supply from all sources for calendar years 2011-2015, based on the City’s Annual Production Report for the SWRCB.

**Historic Sources of Water Delivered
(In acre-feet per year)**

<i>Calendar Year</i>	<i>Chorro Basin⁽¹⁾</i>	<i>Morro Basin</i>	<i>Morro BWRO Feed Water</i>	<i>Desalted Seawater</i>	<i>SLOCFCWCD</i>	<i>Total</i>
2015 ⁽²⁾	2.7	0	138	0	950	1,090.7
2014	2	59	41	0	1,140	1,242
2013	1	151	107	0	1,139	1,398
2012	1	109	70	0	1,130	1,310
2011	18	101	84	0	1,144	1,347

⁽¹⁾ Amounts for 2012 – 2015 produced for maintenance and testing purposes.

⁽²⁾ The total amount of water delivered from the Morro Creek Groundwater Basin for fiscal year 2015 includes only “Morro BWRO Feed Water” from the Morro Creek Groundwater Basin for the brackish reverse osmosis system, as nitrate levels exceeded acceptable limits to use the Morro Basin groundwater directly.

Source: City.

The City has experienced an increase in connections of 1.3% over the last five fiscal years. Water sales experienced declines in fiscal years 2011 through 2013, a slight increase in fiscal year 2014 and a significant decline in fiscal year 2015. Decreases in sales and deliveries are a result of climatic conditions, water conservation and the Executive Order. See the captions “—City Drought Response Actions and Impact” and “—Management Discussion of Fiscal Year 2011 through 2015 Historic Operating Results.”

Largest Customers

The following table sets forth the ten largest customers of the water system of the City as of June 30, 2015, as determined by the amount of their respective annual payments.

<i>Customer</i>	<i>Water Usage</i> ⁽¹⁾	<i>Annual Payment</i>
Pacific Care Center	13,958	\$154,649
Mission Linen	13,753	152,382
City of Morro Bay	12,058	133,605
Morro Bay High School – Irrigation	9,665	30,023
Imperial Coast, LP	4,369	84,807
Silver City Resort	3,858	47,871
Department of Parks	3,536	72,170
San Luis Coastal School District	2,429	26,914
Morro Dunes Trailer Park	2,350	36,130
Morro Elementary School	<u>1,927</u>	<u>19,347</u>
TOTAL	67,903	\$757,898

⁽¹⁾ In hundred cubic feet.
Source: City.

The ten customers accounted for approximately 25% of total revenues in fiscal year ending June 30, 2015.

Water System Rates and Charges

General. The City is not subject by statute to the jurisdiction of, or regulation by, the California Public Utilities Commission. The City staff annually determines the adequacy of the water system rate structure after full consideration of expected operations, maintenance and capital costs. The City currently sets water charges to pay costs of groundwater pumping and current operating expenses for the water system. Capital improvements, debt service payments and payments due under the Local Water Treatment Agreement are funded from water charges and from connection fees.

Water Service Charges. Water fees are collected on metered water delivered to each customer. Fees are based on an ever increasing curve to encourage conservation. The City charges a fixed monthly charge and a variable charge based on usage. Water rates had not been reviewed by the City Council since 1996, and had not been adjusted. After several years of failing to meet the City's debt coverage ratio (although all payments were made one time), the City took action and conducted a water rate study with Bartle Wells. In May 2015, after a public hearing and protest proceeding conducted in accordance with Proposition 218 (see the Official Statement under the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES — Proposition 218"), the City approved increases for its fixed service charge and usage charges for the next four fiscal years. For the 2016 fiscal year rates range from the minimum billing of \$3.00 per hundred cubic feet, for zero through three hundred cubic feet to a high of \$12.00 for usage of 50 hundred cubic feet and above. The fixed monthly charge for water service for fiscal year 2016 is \$23.00.

The rate structure adopted by the Council in 2015 includes the ability to temporarily add a rate surcharge should the required conservation levels be increased to that of an emergency or the City needs to operate its desalination facility in the long term. These surcharges must be approved by the Council, but do not require additional Proposition 218 proceedings. The purpose of these surcharges is to allow the water fund not to suffer in times of emergency.

Collection Procedures. The City is on a monthly billing cycle sending out bills for the prior service of each month. Payment is due by the last day of the month, and is considered delinquent if not paid by that

date. If payment is not received, a delinquency message appears on the next water bill along with a 10% penalty. Currently, 2% of the accounts, which account for approximately 0.8% of Contractor Water System monthly revenues, are delinquent. The City reports, however, that upon receipt of such notice almost all of the City customers pay the delinquent amount within two weeks. All accounts not paid in full within 25 days of the billing date will be discontinued until full payment is made, including late penalties and a \$48 reconnection fee.

Connection Fees. The City charges connection fees for water improvement or expansion of water treatment and distribution facilities to meet the requirements of community growth. The current connection fee is based on the water meter size, due to its proportionality to peak demand, and is part of the City’s master fee schedule.

These fees have been studied by the City as part of a comprehensive sewer and water development impact fee study and are subject to change.

Future Water System Improvements

The City does not currently anticipate undertaking any major water system improvements, except for a replacement water storage tank at approximately \$2 million. The City expects to pay for such improvements with financing backed by its current rate structure.

Projected Water Connections and Sales Revenues

The following table shows the increase in the number of active water connections to the water system projected by the City for fiscal years 2016-2020, together with the increase in the amount of its annual water sales revenues projected by the City.

Projected Water Connections and Sales Revenues

<i>Fiscal Year Ending June 30</i>	<i>Connections</i>	<i>% Increase</i>	<i>Sales Revenues</i>	<i>% Increase⁽¹⁾</i>
2016	5,455	0.0%	\$4,496,000	31.8%
2017	5,465	0.2	5,019,000	11.6
2018	5,475	0.2	5,366,000	6.9
2019	5,485	0.2	5,712,000	6.4
2020	5,495	0.2	5,741,000	0.5

Source: City.

⁽¹⁾ Projected increases in water sales revenues reflects small increases in projected connections as well as rate increases approved in fiscal year 2015, effective July 1, 2015 through June 30, 2020. See the caption “— Water System Rates and Charges.”

Projected Water Deliveries and Sources of Water Delivered

The City currently estimates that water system deliveries, and the source of water to be delivered, for fiscal years 2016-2020 will be as shown in the following table.

Projected Water Deliveries (In acre-feet per year)		
<i>Fiscal Year Ending June 30</i>	<i>Deliveries</i>	<i>% Increase / (Decrease)</i>
2016 ⁽¹⁾	1,140	4.2%
2017	1,142	0.2
2018	1,145	0.2
2019	1,147	0.2
2020	1,153	0.5

⁽¹⁾ Projected deliveries for fiscal year 2016 reflect projected effects of mandatory conservation measures required by the Executive Order. See the caption “— City Drought Response Actions and Impact.” Projected amounts for fiscal year 2017 and thereafter reflect continued conservation and projected increase in connections.

Source: City.

Projected Sources of Water Delivered (In Acre-Feet per year)

<i>Fiscal Year Ending June 30</i>	<i>Chorro Basin</i>	<i>Morro Basin</i>	<i>Morro BWRO Feed Water</i>	<i>Desalted Seawater</i>	<i>SLOCFCWCD</i>	<i>Total</i>
2015	0	0	0	0	1,140	1,140
2014	0	0	0	0	1,142	1,142
2013	0	0	0	0	1,145	1,145
2012	0	0	0	0	1,147	1,147
2011	0	0	0	0	1,153	1,153

Source: City.

Management Discussion of Projected Water Connections, Sales Revenues and Water Deliveries

Based on water rate increases approved in fiscal year 2015, effective July 1, 2015 through June 30, 2020, the City expects revenues to be sufficient going forward to meet debt service coverage required by the Local Water Treatment Agreement.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the City prepared by The Pun Group, Santa Ana, California (the “Auditor”) is attached as Exhibit 1 hereto (the “Financial Statements”). The Auditor’s letter concludes that the Financial Statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. The Financial Statements are public documents and the City has not sought the approval of the Auditor to append the Financial Statements to this Official Statement. The Auditor has neither performed any post-audit review of the financial condition of the City nor reviewed or audited this Official Statement.

The summary operating results contained under the caption “—Historic Operating Results and Local Water Treatment Agreement Coverage” are derived from these Financial Statements and the financial

statements for prior fiscal years (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for governmental accounting financial reporting purposes. The City accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the City (“GAAP”). In certain cases GAAP requires or permits moneys collected in one fiscal year to be recognized as revenue in a subsequent fiscal year and requires or permits expenses paid or incurred in one fiscal year to be recognized in a subsequent fiscal year. See Note 1 to the City’s audited financial statements for fiscal year 2015 set forth in Exhibit 1 hereto for a discussion of the accounting policies applicable to the City. Except as otherwise expressly noted herein, all financial information derived from the City’s audited financial statement reflect the application of GAAP.

Historic Operating Results and Local Water Treatment Agreement Coverage

The following table is a summary of operating results and Local Water Treatment Agreement coverage of the water system of the City for fiscal years 2011-2015. These results have been derived from the financial statements of the City but exclude certain non-cash items and include certain other adjustments. The table has not been audited by the Auditor.

Historic Operating Results and Local Water Treatment Agreement Coverage Fiscal Year Ending June 30

	2015	2014	2013	2012	2011
Revenues					
Water Service Charge	\$3,217,845	\$ 3,391,983	\$ 3,273,369	\$ 3,325,454	\$ 3,323,916
Connection Fees	43,451	28,075	43,010	6,920	16,566
Penalties & Reconnections	75,571	71,517	61,155	64,562	80,669
Miscellaneous	<u>85,491</u>	<u>60,929</u>	<u>77,438</u>	<u>250,021</u>	<u>78,980</u>
Total Revenues	\$3,332,358	\$ 3,552,504	\$ 3,454,972	\$ 3,646,957	\$ 3,500,131
Operating Expenses					
Administration & General	\$1,461,504	\$ 1,765,579	\$ 1,624,475	\$ 1,412,610	\$ 1,550,729
Maintenance ⁽¹⁾	<u>138,451</u>	<u>192,702</u>	<u>140,341</u>	<u>174,064</u>	<u>185,916</u>
Total Operating Expenses	\$1,599,955	\$ 1,958,281	\$ 1,764,816	\$ 1,586,674	\$ 1,736,645
Net Revenues	\$1,732,403	\$ 1,557,098	\$ 1,690,156	\$ 2,060,283	\$ 1,783,486
Local Water Treatment Agreement ⁽²⁾	\$2,238,795	\$ 2,158,842	\$ 2,155,816	\$ 2,186,578	\$ 2,108,814
Coverage Ratio ⁽³⁾	0.77	0.72	0.78	0.94	0.84
Transfers from Reserve ⁽³⁾	\$ (506,392)	\$ (603,744)	\$ (465,660)	\$ (126,295)	\$ (345,328)

⁽¹⁾ Includes public works personnel service, supplies, and services and other.

⁽²⁾ Includes the contractual share of the City: (i) debt service on the Authority Bonds and all Authority operating and administrative costs (including Fixed and Variable O&M for the Authority Project), and (ii) payments to SLOCFCWCD for payment to DWR under the State Water Supply Contract, as amended (including capital, operation, maintenance, power and replacement costs of the DWR Facilities) and all other costs.

⁽³⁾ Debt service paid from water operating fund. See the captions "THE WATER SYSTEM — Historic Water Deliveries and Source of Water Delivered" above and "Management Discussion of Fiscal Year 2011 through 2015 Historic Operating Results" below for a discussion of remedial actions taken in 2015 to comply with the rate covenant under the Local Water Treatment Agreement.

Source: City.

Management Discussion of Fiscal Year 2011 through 2015 Historic Operating Results. In fiscal years 2011 through 2015, the City's debt service coverage (computed in accordance with the Local Water Treatment Agreement) was below 1.25. On March 27, 2014, the City of Morro Bay issued a Request for Proposals for Consulting Services, Water and Sewer Rate Study Services, and on May 23, 2014, Bartle Wells was selected to perform these studies. The City established the following proposed schedule to present, discuss and implement the new rates:

1. Public Works Advisory Board preliminary workshop, January 29, 2015
2. City Council Rate Study Session, February 24, 2015
3. City Council meeting to further discuss and potentially adopt the rate schedule(s), March 24, 2015
4. City Council Prop 218 Public Hearing, May 26, 2015
5. New rates implementation date: July 1, 2015

In May 2015, as set by the schedule above, the City approved rate increases for its water service for fiscal years commencing July 1, 2015 through June 30, 2020 (see the caption “— Water System Rates and Charges”). Increases approved in fiscal year 2015 went into effect with July 2015 usage, which is billed on September 1. As set forth under the caption “— Projected Operating Results and Local Water Treatment Agreement Coverage,” projected coverage for fiscal year 2016 is 1.26, and is projected to increase annually thereafter.

Projected Operating Results and Local Water Treatment Agreement Coverage

The estimated projected operating results of the City for the City water system and Local Water Treatment Agreement coverage for fiscal years 2016-2020 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the estimate of projected financial results of the City based upon the judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of the financial projections of the City, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Projected Operating Results and Local Water Treatment Agreement Coverage Fiscal Year Ending June 30

	2016	2017	2018	2019	2020
Revenues					
Water Service Charge ⁽¹⁾	\$4,496,000	\$5,019,000	\$5,366,000	\$5,712,000	\$6,000,000
Connection Fees	30,000	30,000	31,000	31,000	31,000
Penalties and Reconnections	--	--	--	--	--
Miscellaneous ⁽²⁾	<u>68,000</u>	<u>74,000</u>	<u>85,000</u>	<u>88,000</u>	<u>88,000</u>
Total Revenues	\$4,594,000	\$5,123,000	\$5,482,000	\$5,831,000	\$6,119,000
Operating Expenses					
Administration & General ⁽³⁾	\$1,594,000	\$1,641,000	\$1,690,000	\$1,741,000	\$1,793,000
Maintenance ⁽⁴⁾	<u>141,000</u>	<u>164,000</u>	<u>187,000</u>	<u>211,000</u>	<u>296,000</u>
Total Operating Expenses	\$1,735,000	\$1,805,000	\$1,877,000	\$1,952,000	\$2,089,000
Net Revenues	\$2,859,000	\$3,318,000	\$3,605,000	\$3,879,000	\$4,030,000
Local Water Treatment Agreement ⁽⁵⁾	\$2,262,000	\$2,338,000	\$2,418,000	\$2,502,000	\$2,577,000
Coverage Ratio	1.26	1.42	1.49	1.55	1.56
Available for Capital Improvements and Other Purposes	\$597,000	\$980,000	\$1,187,000	\$1,377,000	\$1,453,000

(1) Assumes water rates, charges and water deliveries set forth under the caption “THE WATER SYSTEM – Water System Rates and Charges” and under the caption “THE WATER SYSTEM – Projected Water Connections and Sales Revenues” and under the caption “THE WATER SYSTEM – Projected Water Deliveries and Sources of Water Delivered.”

(2) Projected to increase by approximately 1.2% per annum.

(3) Projected to increase by approximately 3% per annum.

(4) Projected to increase by approximately 4% per annum.

(5) Projections are inclusive of all estimated payments required under the Local Water Treatment Agreement, including but not limited to the contractual share of the City: (i) debt service on the Authority Bonds and all Authority operating and administrative costs (including Fixed and Variable O&M for the Authority Project), and (ii) payments to SLOCFCWCD for

payment to DWR under the State Water Supply Contract, as amended (including capital, operation, maintenance, power and replacement costs of the DWR Facilities) and all other costs.

Source: City.

CONTINUING DISCLOSURE

The City has not entered into a continuing disclosure undertaking in connection with the issuance of the Bonds. The City is obligated under the Local Water Treatment Agreement to provide audited financial statements each fiscal year, which audited financial statements will assist the Authority in complying with the Continuing Disclosure Agreement the Authority executed in connection with the Bonds. See the caption “CONTINUING DISCLOSURE” in the Official Statement and Appendix P attached to the Official Statement for a description of the annual information and operating data required to be provided by the Authority. The City has not had any continuing disclosure obligations in the last five years.

Over the past five years, the City provided the required audited financial reports to the Authority in a timely manner. In order to better comply with the obligations under the Local Water Treatment Agreement, the City adopted disclosure policies and procedures (the “Disclosure Policy”) on April 12, 2016. A copy of such Disclosure Policy may be obtained from the City.

EXHIBIT 1 TO APPENDIX L

**THE CITY'S AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

City of Morro Bay

Morro Bay, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2015



City of Morro Bay
Basic Financial Statements
For the Year Ended June 30, 2015

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**City of Morro Bay
Basic Financial Statements
For the Year Ended June 30, 2015**

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**CITY OF MORRO BAY
ELECTED AND CITY OFFICIAL
COMMISSIONS, BOARDS, AND COMMITTEES**

<u>Elected Officials</u>	<u>Title</u>	<u>Term Expires</u>
Jamie Irons	Mayor	November 2016
Noah Smukler	Mayor Pro Tempore	November 2016
John Headding	Councilmember	November 2018
Christine Johnson	Councilmember	November 2016
Matt Makowetski	Councilmember	November 2018

<u>City Officials</u>	<u>Position</u>
David Buckingham	City Manager
Joseph Pannone	City Attorney
Eric Endersby	Harbor Director
Scot Graham	Community Development Manager
Robert Livick	Public Works Director
Amy Christey	Police Chief
Steve Knuckles	Fire Chief
Susan Slayton	Administrative Services Director
Dana Swanson	City Clerk
Sam Taylor	Deputy City Manager

Planning Commission

Robert Tefft	Chair
Katherine Sorenson	Vice-Chair
Michael Lucas	Commissioner
Gerald Luhr	Commissioner
Richard Sadowski	Commissioner

Public Works Advisory Board

Marlys McPherson	Chair
Stephen Shively	Vice-Chair
Janith Goldman	Commissioner
Deborah Owens	Commissioner
Christopher Parker	Commissioner
Stewart Skiff	Commissioner
David Sozinho	Commissioner

Morro Bay Tourism Business Imprvmt Dist

Joan Solu	Chair
Jack Smith	Vice-Chair
Roger Corwin	Member
Michele Jacquez	Member
Taylor Newton	Member
Fred Reed	Member
Vacant	Member

Harbor Advisory Board

William Luffee	Chair
Dana McLish	Vice-Chair
Alan Alward	Member
Gene Doughty	Member
Neal Maloney	Member
Lynn Meissen	Member
Ron Reisner	Member

Recreation and Parks Commission

Drew Sidaris	Chair
Tom Coxwell	Vice-Chair
Jeffrey Cox	Commissioner
Karen Croley	Commissioner
Al Romero	Commissioner
Robert Swain	Commissioner
Vacant	Commissioner

Citizens Finance Committee

Betty Forsythe	Member
Gregory Head	Member
Marlys McPherson	Member
Susan Schneider	Member
Barbara Spagnola	Member

**CITY OF MORRO BAY
ELECTED AND CITY OFFICIALS
COMMISSIONS, BOARDS, AND COMMITTEES**

Planning Commission

Robert Tefft	Chair
Katherine Sorenson	Vice-Chair
Michael Lucas	Commissioner
Gerald Luhr	Commissioner
Richard Sadowski	Commissioner

Public Works Advisory Board

Marlys McPherson	Chair
Stephen Shively	Vice-Chair
Janith Goldman	Commissioner
Deborah Owens	Commissioner
Christopher Parker	Commissioner
Stewart Skiff	Commissioner
David Sozinho	Commissioner

**Water Reclamation Facility Citizen
Advisory Committee (WRFCAC)**

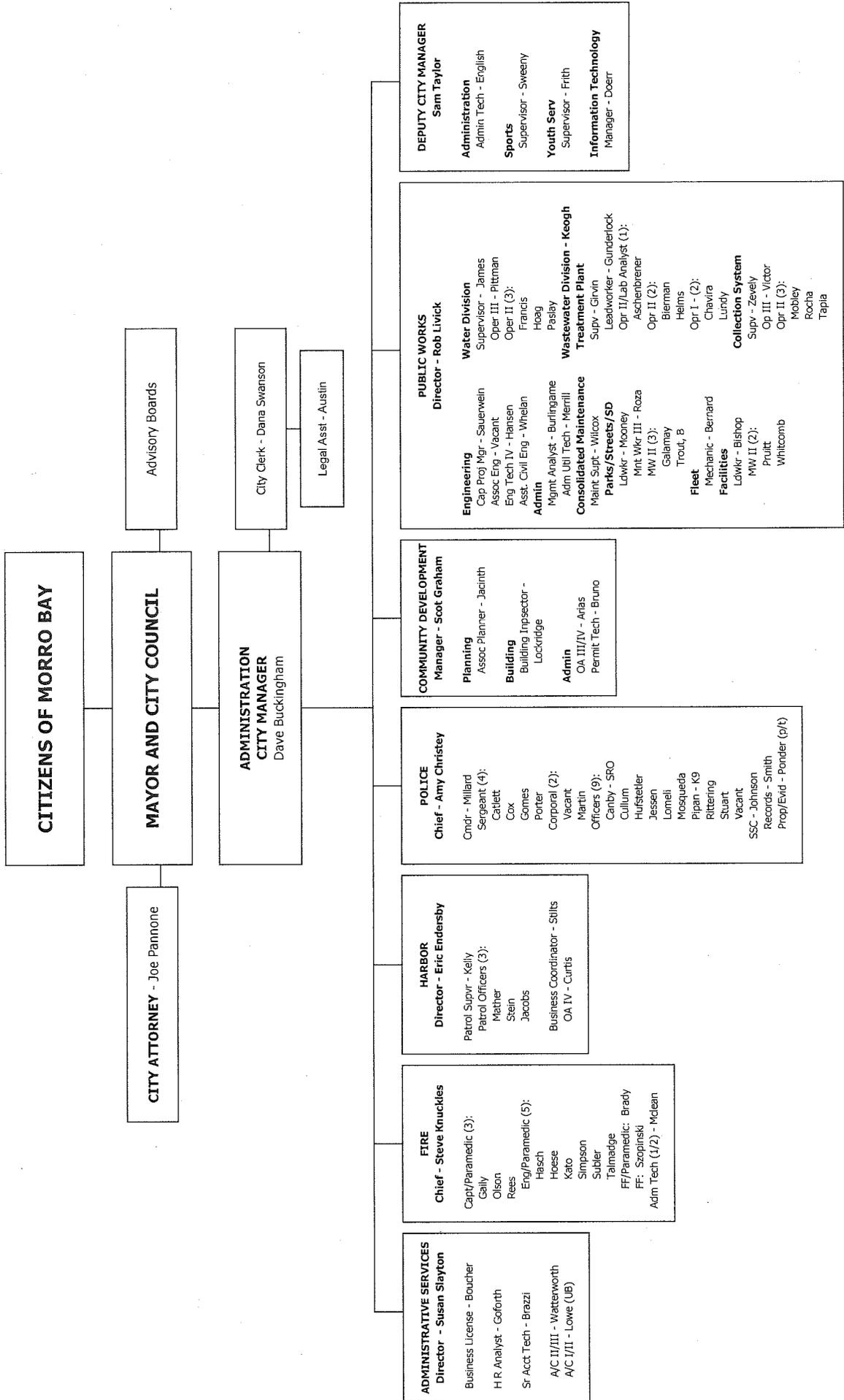
John Diodati	Chair
Bill Woodson	Vice-Chair
Paul Donnelly	Member
Mary (Ginny) Garelick	Member
Dale Guerra	Member
Valerie Levulett	Member
Barbara Spagnola	Member
Richard Sadowski	Planning Commission Appointee
Steven Shively	PWAB Appointee

**General Plan/Local Coastal Program
Advisory Board (GPAC)**

Rich Buquet	Member
Robert Davis	Member
Janith Goldman	Member
Christine Rogers	Member
Susan Schneider	Member
Glenn Silloway	Member
Melani Smith	Member
Susan Stewart	Member
Robert Tefft	Member

CITY OF MORRO BAY ORGANIZATIONAL CHART

For the 2014/15 Fiscal Year



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Morro Bay
Morro Bay, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Morro Bay, California (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of GASB Statement No. 68 and 71

As discussed in Note 1 to the basic financial statements, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The adoption of these standards required retrospective application of previously reported net position and reclassification of certain accounts as of July 1, 2014 as described in Note 11 to the basic financial statements. In addition, net pension liability is reported in the Statement of Net Position in the amount of \$15,038,904 as of the measurement date. Net pension liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2013 which was then rolled-forward by the actuaries to June 30, 2014, the measurement date for California Public Employee Retirement System (“CalPERS”) plans. Our opinion is not modified with respect to this matter.

Prior Period Adjustments

As discussed in Note 11 to the basic financial statements, the City has restated the beginning net positions to report corrections of errors. The beginning net position for governmental activities and business-type activities were restated in the amount of \$(736,889) and \$(75,232), respectively. Our opinion is not modified with respect to this manner.

Water Revenue Over State Water Payments

As discussed in Note 10 to the basic financial statements, the City did not meet the Water Revenue over State Water Payments Ratio. For the year ended June 30, 2015, the City’s ratio was at 64%, which is below the required minimum ratio of 125%. Management’s plans regarding this matter is also described in the Note 10 to the basic financial statements. Our opinion is not modified with respect to this manner.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, the Budgetary Comparison Schedule - General Fund, the Schedule of Proportionate Share of the Net Pension Liability and Related Ratios, the Schedule of City’s Contributions, and the Schedules of Funding Progress-Other Postemployment Benefits Plan on pages 5 to 14 and 89 to 98, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable Mayor and Members of the City Council
of the City of Morro Bay
Morro Bay, California
Page 3

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and Combining and Individual Nonmajor Fund Financial Statements and Budgetary Comparison Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary Information

The Combining and Individual Nonmajor Fund Financial Statements and Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Fund Financial Statements and Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The PwC Group, LLP

Walnut Creek, California
March 30, 2016

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Management's Discussion and Analysis

As management of the City of Morro Bay, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City, for the fiscal year ended June 30, 2015. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights

In the 2014/15 fiscal year, the City implemented the two new statements from the Governmental Accounting Standards Board (GASB), related to pension activities:

- Statement No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27," and
- Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68."

GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the City's defined benefit pension plans. This Statement replaces the requirements of prior GASB statements, impacting accounting and disclosure of pensions.

The significant impact to the City of implementing GASB Statement No. 68 is the reporting of the City's unfunded pension liability on the full accrual basis of accounting in the government-wide financial statements. There are also new note disclosure requirements and supplementary schedules required by the Statement. The measurement date for the pension liabilities is as of June 30, 2014. This date reflects a one-year lag in the release of actuaries from CalPERS, and was used so that these financial statements could be issued in a timely manner. Activity, such as contributions made by the City, occurring during the 2014/15 fiscal year, are reported as deferred outflows of resources, in accordance with Statement No. 71. The City did not reflect these pension standards in the 2013/14 fiscal year results because the necessary actuarial information from the California Employees' Retirement System was not provided for the prior years presented.

The following outlines financial highlights for the year:

- At June 30, 2015, the City's net position increased \$0.9 million due to recovery of the economy and increase in building fees.
- Total city-wide assets increased by approximately \$866, or 0.53%. In governmental activities, cash and prepaid items increased by \$661K, and receivables by \$981K. In business-type activities, cash and prepaid items decreased by \$728K.
- Total city-wide liabilities, excluding net pension and deferred inflows, increased \$16.6 million. Current liabilities decreased by \$165K, and long-term liabilities increased by \$16.7 million.
- With the application of GASB Statement No. 68, the City restated the 2013-2014 fiscal year beginning net position for both governmental and business-type activities. The significant impact to the City of implementing Statement No. 68 is the reporting of the City's unfunded pension liability on full accrual basis of accounting government-wide financial statements and more directly affecting the 2014-2015 fiscal year' unrestricted net position. These amounts are presented as deferred in-/out- flows of resources, and aggregate net pension liabilities. More information on GASB Statement No. 68 and 71 application can be found in Note 7 and 11. GASB Statement No. 68 does not change CalPERS policies or contribution rates or cash flow.

- The City's governmental funds altogether reported combined ending fund balances of \$8.5 million. Of this amount, \$6.4 million, or 75%, is nonspendable (\$2.8 million), restricted (\$1.8 million) and committed (\$1.8 million).
- The City's General fund balance increased by \$1.4 million. The fund balance includes nonspendable (\$2.67 million) and committed (\$1.28 million) funds. A total of \$3.2 million is held in reserve, per the City's policy of retaining 27.5% of General fund expenditure estimate.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Morro Bay's basic financial statements, which consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Morro Bay's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflow of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of the City's overall financial health.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Morro Bay that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include administration, community promotion, finance, fire, housing, police, public services, and parks and recreation. The business-type activities of the City include the Water, Sewer, Harbor, and Local Transportation ("LTF") operations.

The government-wide financial statements include not only the City of Morro Bay itself (known as the *primary government*), but also the Morro Bay-Cayucos Sanitary District Waste Water Treatment Facility, for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 18-21 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Morro Bay, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds are divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Morro Bay maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet, and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Development Grants Funds, and Capital Improvement Fund, all of which are considered major funds of the government. Data from the other governmental funds are combined into a single, aggregated presentation. Fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for all governmental funds. Requirement Supplementary Information - Budgetary Statements for the General Fund have been provided to demonstrate compliance with its budget.

The governmental fund financial statements can be found on pages 27-30 of this report.

Proprietary funds

The City of Morro Bay maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the Water, Sewer, Harbor, and LTF operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. Morro Bay uses internal service funds to account for the various types of insurance coverage for the City. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Harbor operations, all of which are considered to be major funds of the City. The remaining proprietary fund (LTF) is combined into a single, aggregated presentation in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 32-39 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Morro Bay's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on pages 43-44 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-86 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* including Budgetary Comparison Schedule - General Fund, Schedule of Proportionate Share of the Net Pension Liability and Related Ratio, Schedule of Plan Contributions, and Schedule of Funding Progress – Other Postemployment Benefits Plan. Required supplementary information can be found on page 89 - 98 of this report.

Supplementary information

The combining and individual statements, referred to earlier in connection with the nonmajor governmental funds, are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 100 - 126 of this report.

Government-wide Financial Analysis

The City's net position from governmental activities increased from \$114.8 million to \$117.2 million (approximately 3%).

Changes between fiscal years are shown in Table I, and explained in detail below:

Total assets and deferred outflows increased approximately \$1.3 million:

- Governmental:
 - Cash and investments increased \$371K
 - Receivables increased \$981K
 - Prepaid items and inventories increased \$290K
 - Capital assets increased \$1.3 million
 - Deferred outflows of resources increased \$21K
- Business-type:
 - Cash and investments decreased \$202K
 - Receivables decreased \$49K
 - Prepaid items and inventories decreased \$525K
 - Capital assets increased \$997K
 - Deferred outflows of resources increased \$105K

Total liabilities and deferred inflows decreased approximately \$2.7 million:

- Governmental:
 - Accounts payable increased \$811K
 - Payroll payable increased \$69K
 - Deposits and unearned revenue decreased \$866K
 - Long-term liabilities increased \$34K
 - Aggregate net pension liabilities decreased \$3.3 million
 - Deferred inflow of resources increased \$3.3 million

- Business-type:
 - Accounts payable decreased \$277K
 - Payroll payable increased \$11K
 - Deposits and unearned revenues increased \$214K
 - Long-term liabilities decreased \$87K
 - Aggregate net pension liabilities decreased \$926K
 - Deferred inflow of resources increased \$926K

TABLE 1: CITY OF MORRO BAY NET POSITION

(Amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	(As Restated)		(As Restated)		(As Restated)	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 12,913	\$ 11,291	\$ 10,368	\$ 11,123	\$ 23,281	\$ 22,414
Capital assets	123,287	122,003	18,631	19,629	141,918	141,632
Total assets	136,200	133,294	28,999	30,752	165,199	164,046
Deferred outflows	1,647	1,271	460	355	2,107	1,626
Current liabilities	2,870	1,352	750	857	3,620	2,209
Long-term liabilities	14,499	18,406	4,044	5,071	18,543	23,477
Total liabilities	17,369	19,758	4,794	5,928	22,163	25,686
Deferred inflows	3,319	-	926	-	4,245	-
Net position:						
Net investment in						
capital assets	121,872	122,002	17,836	19,629	139,708	141,631
Restricted	1,773	128	46	-	1,819	128
Unrestricted (Deficit)	(6,486)	(7,323)	5,857	5,550	(629)	(1,773)
Total net position	\$ 117,159	\$ 114,807	\$ 23,739	\$ 25,179	\$ 140,898	\$ 139,986

Activities in 2014/15, which changed the City's net position, are described in the Table 2, with comparison totals for 2013/14 activities

Governmental activities. Governmental activities increased the City of Morro Bay's net position by \$2.35 million. Increased building and increased building fees comprise the greatest reason for change. The economy is stabilizing, and the City is seeing the results in tourism increases, and building. The City completed one major capital project, the Morro Creek Bridge and Bikeway, which was paid mostly from a National Scenic Byways grants, California Department of Transportation (CalTRANS) grants, and Local Transportation funding made available by the San Luis Obispo Council of Governments (SLOCOG).

TABLE 2: CITY OF MORRO BAY CHANGES IN NET POSITION

(Amounts expressed in thousands)

	Governmental		Business-type		Total	
	activites		activites			
	(As Restated)		(As Restated)		(As Restated)	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 4,016	\$ 2,225	\$ 9,595	\$ 9,726	\$ 13,611	\$ 11,951
Operating grants and contributions	442	1,638	455	182	897	1,820
Capital grants and contributions	1,603	354	-	764	1,603	1,118
General revenues:						
Property taxes	3,940	4,745	-	-	3,940	4,745
Other taxes	6,521	5,093	-	-	6,521	5,093
Other	500	111	101	63	601	174
Total revenues	<u>17,022</u>	<u>14,166</u>	<u>10,151</u>	<u>10,735</u>	<u>27,173</u>	<u>24,901</u>
Expenses:						
Administraton	2,773	3,016	-	-	2,773	3,016
Community promotion	1,167	905	-	-	1,167	905
Finance	630	711	-	-	630	711
Fire	2,658	6,479	-	-	2,658	6,479
Housing	53	456	-	-	53	456
Police	3,392	9,185	-	-	3,392	9,185
Public Works	2,985	3,904	-	-	2,985	3,904
Recreation	1,819	4,480	-	-	1,819	4,480
Water operating	-	-	4,113	5,046	4,113	5,046
Sewer operating	-	-	4,167	5,314	4,167	5,314
Harbor operating	-	-	2,234	3,476	2,234	3,476
Transit	-	-	270	359	270	359
Total expenses	<u>15,477</u>	<u>29,136</u>	<u>10,784</u>	<u>14,195</u>	<u>26,261</u>	<u>43,331</u>
Increase (decrease) in net assets						
before transfers	1,545	(14,970)	(633)	(3,460)	912	(18,430)
Transfers	807	803	(807)	(803)	-	-
Increase (decrease) in net assets	<u>2,352</u>	<u>(14,167)</u>	<u>(1,440)</u>	<u>(4,263)</u>	<u>912</u>	<u>(18,430)</u>
Net position-beginning of						
year, restated	<u>114,807</u>	<u>128,974</u>	<u>25,179</u>	<u>29,442</u>	<u>139,986</u>	<u>158,416</u>
Net position - June 30	<u>\$ 117,159</u>	<u>\$ 114,807</u>	<u>\$ 23,739</u>	<u>\$ 25,179</u>	<u>\$ 140,898</u>	<u>\$139,986</u>

Business-type activities.

Business-type activities decreased the City of Morro Bay’s net position by \$1.44 million. Cost of personnel and services continues to rise, while revenues have not, particularly in Water Operations. The City is a participant in the California state water project, and the commitment must be paid, whether or not the City’s allotment of water is provided. With the drought conditions in California, state water allocations have declined, and the City has been forced to use its desalination facility to clean well water to maintain sufficient supply to its citizens. As a part of the drought situation, restrictions have been imposed on our citizens, and thus, revenues have fallen by \$216. An additional problem is our water rate structure that has not been updated since 1996. In fiscal year 2013/14, the process to update water rates began, with a study conducted by Bartle Wells.

After several public hearings and much public outreach, the City mailed out a protest vote invitation, in accordance with Proposition 218. During the Proposition 218 public hearing, protest votes were received, but the number of protests was insufficient to stop the imposition of the new rates. On May 26, 2015, the City Council adopted the new rate study which will go into effect with July 2015 usage.

In 2014/15, the Harbor Fund used a considerable amount (\$500 thousand) of its accumulated cash to complete repairs to its North T-Pier. The total cost of the project, which began in fiscal year 2013/14, was \$997.

Financial Analysis of the Government's Funds

As noted earlier, the City of Morro Bay uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Morro Bay's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2015, the City of Morro Bay's governmental funds reported combined ending fund balances of \$8.5 million, an increase of \$731K in comparison to the prior year. The majority of this total amount (\$6.4 million) constitutes nonspendable (\$2.8 million), restricted (\$1.8 million) and committed (\$1.8 million) fund balances. The amount available for spending at the City's discretion (\$2.1 million) is 25% of the combined fund balances.

The General Fund is the chief operating fund of the City of Morro Bay. At the end of June 30, 2015, total fund balance of the general fund was \$6.1 million, the majority of which is nonspendable (\$2.7 million) and committed (\$1.3 million). As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 19% of total general fund expenditures.

The General Fund's fund balance increased by \$1.4 million during the current fiscal year. City management has embraced a change in philosophy, leaning towards leveling the playing field for residents and businesses by ensuring those who utilize services pay for those services. Fees for services, with the exception of tiered subsidies for youth recreation programs, have been increased to collect more fully the cost of services provided. Additionally, the City engaged a professional firm to perform an organizational assessment and financial stability model. Some of these recommendations and tools were implemented in fiscal year 2014/15, and the remaining are subject to review for implementation in fiscal years 2015/16 and 2016/17.

Proprietary funds. The City of Morro Bay's proprietary funds provide the same type of information in the government-wide financial statements, but in more detail. At June 30, 2015, unrestricted net position in the Water and Sewer Operating Funds amounted to \$2.9 million and \$3.4 million, respectively. Unrestricted net position in the Harbor Operating Funds presented as a deficit \$544K, due to the use of cash for the North T-Pier repair, as previously mentioned. Net position increased in the Sewer fund by \$28K. The Water and Harbor funds decreased by \$1 million and \$438, respectively. Factors concerning those funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget (\$486 in expenditures, \$369K in revenues, and \$126K in transfers) are briefly summarized below:

**TABLE 3: CITY OF MORRO BAY GENERAL FUND
DEPARTMENTAL CHANGES TO ORIGINAL ADOPTED BUDGET**
(Amounts expressed in thousands)

<u>REVENUES</u>		<u>EXPENDITURES</u>	
\$	51 Property taxes	\$	49 City Council
	(40) Sales tax	\$	77 City Manager
	100 Transient occupancy tax		5 Human resources
	108 Other Fire services		25 City Attorney
	150 Business tax		12 Accounting & Treasury
			6 Information services
			81 Police department
			144 Fire department
			45 Public works
			17 Consolidated maintenance
			3 Vehicle maintenance
			8 Street maintenance
			14 Recreation
	<hr/>		<hr/>
\$	369	\$	486
\$	126 Transfers in		

Capital Asset and Debt Administration

Capital assets.

The City of Morro Bay’s net investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$140 million. This investment in capital assets includes land, distribution and collection systems, buildings and equipment, improvements, works of art and historical collections, and current year infrastructure.

The major capital asset event that occurred during the current fiscal year was the construction of the Morro Creek Bridge and Bikeway.

TABLE 4: CITY OF MORRO BAY NET CAPITAL ASSETS

(Amounts expressed in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 95,465	\$ 95,465	\$ 1,496	\$ 1,496	\$ 96,961	\$ 96,961
Artwork	63	63	3	3	66	66
Construction in progress	1,852	1,667	206	202	2,058	1,869
Subtotal	97,380	97,195	1,705	1,701	99,085	98,896
Machinery and equipment	4,280	3,760	9,741	9,872	14,021	13,632
Buildings and structures	15,468	14,876	5,316	5,316	20,784	20,192
Infrastructure	25,716	25,288	30,207	30,207	55,923	55,495
Less accum deprn	(19,557)	(19,117)	(28,338)	(27,467)	(47,895)	(46,584)
Subtotal	25,907	24,807	16,926	17,928	42,833	42,735
Total	\$ 123,287	\$ 122,002	\$ 18,631	\$ 19,629	\$ 141,918	\$ 141,631

Additional information on the City's capital assets can be found in Note 1-I and Note 4 on page 52 and pages 60-61.

Long-term debt.

At the end of the current fiscal year, the City of Morro Bay had total debt outstanding of \$4.3 million. Of this amount, \$2.2 million comprises debt secured solely by specified revenue sources (e.g., notes payable and certificates of participation). The City maintains a double A ("AA") rating from Standard & Poor's.

TABLE 5: CITY OF MORRO BAY LONG-TERM LIABILITIES

(Amounts expressed in thousands)

	Governmental		Business-type		Total	
	activities		activities			
	(As Restated)		(As Restated)		(As Restated)	
	2015	2014	2015	2014	2015	2014
Certificates payable	\$ 1,416	\$ 1,487	\$ -	\$ -	\$ 1,416	\$ 1,487
Notes payable	-	-	795	889	795	889
Claims payable	230	-	-	-	230	-
Compensated absences	290	260	80	69	370	329
Other Post-Employment Benefits	206	110	-	-	206	110
Pension-related debt	1,256	1,508	-	-	1,256	1,508
Total	\$ 3,398	\$ 3,365	\$ 875	\$ 958	\$ 4,273	\$ 4,323

Additional information on the City's long-term liabilities can be found in Note 5 on pages 62 - 63 of this report.

Economic Factors and Next Year's Budget and Rates

- Home prices, home sales and remodels are booming, and that momentum is anticipated to continue for the fiscal year 2015/16. The median home price in Morro Bay is \$448,500, which is an increase of 13.2% from this time last year. Property taxes continue to grow by approximately 2% annually. Morro Bay is nearly built out, with little vacant land to construct more homes. There are several projects in process right now that could provide 80+ additional homes, and require 10 of those to be affordable.
- Tourism in Morro Bay is flourishing, as demonstrated by the significant increases in Transient Occupancy Tax (TOT). Since the 2010/11 fiscal year, TOT has rocketed, increasing each year over the previous year as follows:
 - 2011/12 – 7.37%
 - 2012/13 – 10.25%
 - 2013/14 – 13.07%
 - 2014/15 – 10.3%

Our Embarcadero and waterfront are bustling with activity on a daily basis, including our normal *off-season*, from January through April. For the fiscal year 2015/16, TOT growth is expected to slow down to 3%, unless our transient stay inventory increases.

- Sales tax revenue is expecting a modest increase (2%), which has been our historical norm. The City has hired a Deputy City Manager, whose responsibilities include economic development and public outreach. Additionally, the City has expanded its marketing through social media, and an updated website. Promoting the City as a tourist destination is a top goal for management.
- In the 2014/15 fiscal year, the City was successful in negotiating two year contracts with its employees that contained a 3% salary increase, along with other incentives.
- In 2015, Dynegy Morro Bay LLC, owners of the Morro Bay power plant, permanently closed operations. The future of this property is unknown.

These factors were considered in preparing the City's budget for the 2015/16 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of Morro Bay's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Morro Bay, 595 Harbor Street, Morro Bay, CA 93442.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Morro Bay
Statement of Net Position
June 30, 2015

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and investments	\$ 6,187,852	\$ 7,827,181	\$ 14,015,033	\$ 160,667
Receivables, net of allowance for doubtful accounts:				-
Utility billings	-	1,447,588	1,447,588	9,400
Intergovernmental	2,124,728	116,574	2,241,302	-
Notes	2,095,286	-	2,095,286	-
Due from primary government	-	-	-	3,012
Due from component unit	-	4,766	4,766	-
Internal balances	(64,395)	64,395	-	-
Prepaid items & inventories	1,229,407	907,179	2,136,586	11,655
Land held for resale	1,340,000	-	1,340,000	-
Total Current Assets	<u>12,912,878</u>	<u>10,367,683</u>	<u>23,280,561</u>	<u>184,734</u>
Noncurrent Assets:				
Capital assets - nondepreciable	97,379,792	1,705,035	99,084,827	899,133
Capital assets - depreciable, net	25,907,707	16,926,153	42,833,860	27,333
Total Noncurrent Assets	<u>123,287,499</u>	<u>18,631,188</u>	<u>141,918,687</u>	<u>926,466</u>
Total Assets	<u>136,200,377</u>	<u>28,998,871</u>	<u>165,199,248</u>	<u>1,111,200</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension contribution after measurement date	1,318,092	367,879	1,685,971	-
Employer's actual contribution in excess of employer's proportionate share of contribution	118,098	32,961	151,059	-
Positive adjustment due to difference in proportion	210,850	58,848	269,698	-
Total deferred outflows of resources	<u>1,647,040</u>	<u>459,688</u>	<u>2,106,728</u>	<u>-</u>

City of Morro Bay
Statement of Net Position (Continued)
June 30, 2015

	Primary Government		Total	Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities		
LIABILITIES				
Accounts payable	1,282,527	141,592	1,424,119	95,187
Accrued payroll and benefits	733,279	162,537	895,816	63,454
Due to primary government	-	-	-	4,766
Due to component unit	-	3,012	3,012	-
Deposits	-	89,749	89,749	-
Unearned revenues	197,633	239,786	437,419	-
Long-term liabilities:				
Due within one year	657,303	112,387	769,690	-
Due in more than one year	2,741,220	762,322	3,503,542	15,338
Aggregate net pension liabilities	11,757,415	3,281,489	15,038,904	-
Total Liabilities	17,369,377	4,792,874	22,162,251	178,745
DEFERRED INFLOWS OF RESOURCES				
Difference in projected and actual earnings on pension investments	3,151,139	879,481	4,030,620	-
Employer's proportionate share of contribution in excess of employer's actual contribution	112,217	31,320	143,537	-
Negative adjustment due to difference in proportion	55,651	15,532	71,183	-
Total deferred inflows of resources	3,319,007	926,333	4,245,340	-
NET POSITION				
Net investment in capital assets	121,871,499	17,836,522	139,708,021	926,466
Restricted for:				
Housing	779,788	-	779,788	-
Assessment district	135,449	-	135,449	-
Parking	405,811	-	405,811	-
Parks and recreation	164,345	-	164,345	-
Transportation	29,240	46,185	75,425	-
Other purposes	258,545	-	258,545	-
Unrestricted (Deficit)	(6,485,644)	5,856,645	(628,999)	5,989
Total Net Position	\$ 117,159,033	\$ 23,739,352	\$ 140,898,385	\$ 932,455

City of Morro Bay
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Administration	\$ 2,772,921	\$ 1,919,455	\$ -	\$ -
Community promotion	1,166,533	471,039	-	-
Finance	630,241	344,220	-	-
Fire	2,657,615	212,280	10,085	-
Housing	53,518	40,040	1,920	-
Police	3,392,394	-	143,744	-
Public works	2,984,847	493,886	286,394	1,602,492
Rec/parks/maintenance	1,819,370	535,198	-	-
Total Governmental Activities	15,477,439	4,016,118	442,143	1,602,492
Business-Type Activities:				
Water	4,112,628	3,311,970	-	-
Sewer	4,167,339	4,330,253	-	-
Harbor	2,234,035	1,910,962	147,262	-
Local Transportation	270,198	42,160	307,751	-
Total Business-Type Activities	10,784,200	9,595,345	455,013	-
Total Primary Government	\$ 26,261,639	\$ 13,611,463	\$ 897,156	\$ 1,602,492
Discretely Presented Component Unit:				
Waste Water Treatment Plant	\$ 3,466,004	\$ 3,271,709	\$ 4,540	\$ -

City of Morro Bay
Statement of Activities (Continued)
For the Year Ended June 30, 2015

Net (Expense) Revenue and Changes in Net Positions

Functions/Programs	Governmental Activities	Business-Type Activities	Total	Component Unit
Governmental Activities:				
Administration	\$ (853,466)	\$ -	\$ (853,466)	\$ -
Community promotion	(695,494)	-	(695,494)	-
Finance	(286,021)	-	(286,021)	-
Fire	(2,435,250)	-	(2,435,250)	-
Housing	(11,558)	-	(11,558)	-
Police	(3,248,650)	-	(3,248,650)	-
Public services	(602,075)	-	(602,075)	-
Rec/parks/maintenance	(1,284,172)	-	(1,284,172)	-
Total Governmental Activities	(9,416,686)	-	(9,416,686)	-
Business-Type Activities:				
Water	-	(800,658)	(800,658)	-
Sewer	-	162,914	162,914	-
Harbor	-	(175,811)	(175,811)	-
Local Transportation	-	79,713	79,713	-
Total Business-Type Activities	-	(733,842)	(733,842)	-
Total Primary Government	(9,416,686)	(733,842)	(10,150,528)	-
Component Units:				
Waste Water Treatment Plant	-	-	-	(189,755)
General Revenues and Transfers:				
Taxes:				
Property taxes	3,940,250	-	3,940,250	-
Sales tax	2,317,779	-	2,317,779	-
Transient occupancy tax	3,630,074	-	3,630,074	-
Franchise taxes	492,572	-	492,572	-
Other taxes	80,484	-	80,484	-
Investment earnings	375,298	91,489	466,787	-
Gain on disposition of capital assets	42,286	9,500	51,786	-
Miscellaneous	82,799	-	82,799	-
Transfers	807,213	(807,213)	-	-
Total General Revenues and Transfers	11,768,755	(706,224)	11,062,531	-
Changes in Net Position	2,352,069	(1,440,066)	912,003	(189,755)
Net Position - beginning of year, restated (Note 11)	114,806,964	25,179,418	139,986,382	1,122,210
Net Position - end of year	\$ 117,159,033	\$ 23,739,352	\$ 140,898,385	\$ 932,455

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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**City of Morro Bay
Balance Sheet
Governmental Funds
June 30, 2015**

	General Fund	Community Development Grant Special Revenue Fund	Capital Improvement Capital Projects Fund	Nonmajor Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 3,475,764	\$ 116,947	\$ -	\$ 1,487,054	\$ 5,079,765
Receivables:					
Intergovernmental	152,879	1,144	1,267,704	77,411	1,499,138
Accounts	535,703	-	-	86,553	622,256
Notes	1,178,101	885,871	-	31,314	2,095,286
Other	-	-	-	-	-
Due from other funds	540,125	-	-	12,580	552,705
Prepaid items	140,335	288	872	1,575	143,070
Inventories	10,424	-	-	-	10,424
Land held for resale	1,340,000	-	-	-	1,340,000
Total Assets	\$ 7,373,331	\$ 1,004,250	\$ 1,268,576	\$ 1,696,487	\$ 11,342,644
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 269,032	\$ 46,840	\$ 781,120	\$ 178,577	\$ 1,275,569
Accrued payroll and benefits	723,823	1,225	2,432	5,799	733,279
Due to other funds	109,576	-	484,998	32,506	627,080
Unearned revenue	194,466	-	-	3,167	197,633
Total Liabilities	1,296,897	48,065	1,268,550	220,049	2,833,561
Fund Balances:					
Nonspendable	2,668,860	176,397	872	1,575	2,847,704
Restricted	-	779,788	-	993,390	1,773,178
Committed	1,276,529	-	-	481,473	1,758,002
Unassigned (Deficit)	2,131,045	-	(846)	-	2,130,199
Total Fund Balances	6,076,434	956,185	26	1,476,438	8,509,083
Total Liabilities & Fund Balances	\$ 7,373,331	\$ 1,004,250	\$ 1,268,576	\$ 1,696,487	\$ 11,342,644

City of Morro Bay
Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Position
June 30, 2015

Total Fund Balances - Total Governmental Funds \$ 8,509,083

Amounts reported for governmental activities in the Statement of Net Position were reported differently because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Nondepreciable	\$ 97,379,792	
Depreciable, net	25,907,707	123,287,499

Internal Service Funds were used by management to charge the costs of certain activities, such as insurance and equipment replacement to individual funds. The assets and liabilities of the Internal Service Funds were included in the governmental activities in the Government-Wide Statement of Net Position.

2,190,356

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position:

Certificates payable	\$ (1,416,000)	
Claims payable	(229,549)	
Compensated absences	(290,150)	
Other postemployment benefits	(206,590)	
Pension related debt	(1,256,234)	(3,398,523)

Pension contributions made during the year after the measurement date are reported as pension expense in governmental funds and as deferred outflow of resources in the government-wide financial statements.

1,318,092

Deferred amounts relates to pension net available for current expenditures and are not reported in the governmental fund financial statements:

Actual earnings in excess of projected earning on pension plan investments. (3,151,139)

Deferred amounts relates to pension net available for current expenditures and are not reported in the governmental fund financial statements:

Employer's actual contributions in excess of employer's proportionate contributions 118,098

Employer's proportionate contributions in excess of employer's actual contributions (112,217)

Adjustments due to difference in proportions. 155,199

Aggregate net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.

(11,757,415)

Net Position of Governmental Activities **\$ 117,159,033**

City of Morro Bay
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Community Development Grant Special Revenue Fund	Capital Improvement Capital Projects Fund	Nonmajor Governmental Funds	Total
Revenues:					
Taxes & special assessments	\$ 8,768,929	\$ -	\$ -	\$ 1,845,304	\$ 10,614,233
Intergovernmental revenue	36,322	-	1,601,042	432,129	2,069,493
Charges for services	1,537,444	2,200	1,450	224,653	1,765,747
Revenues from use of money and property	418,119	600	-	95,922	514,641
Fines & forfeits	8,562	-	-	15,624	24,186
Other revenues	603,344	4,202	-	33,314	640,860
Total Revenues	<u>11,372,720</u>	<u>7,002</u>	<u>1,602,492</u>	<u>2,646,946</u>	<u>15,629,160</u>
Expenditures:					
Current:					
Administration	1,320,110	-	-	-	1,320,110
Community promotion	279,225	-	-	872,552	1,151,777
Finance	630,241	-	-	-	630,241
Fire	2,280,930	-	-	107,857	2,388,787
Housing	-	60,914	-	-	60,914
Police	3,305,060	-	-	299,944	3,605,004
Public works	1,444,781	-	-	972,060	2,416,841
Recreation/parks/maintenance	1,710,790	-	-	134,650	1,845,440
Capital outlay	382,964	-	2,044,386	-	2,427,350
Debt service:					
Principal	-	-	-	70,838	70,838
Interest	-	-	-	53,971	53,971
Total Expenditures	<u>11,354,101</u>	<u>60,914</u>	<u>2,044,386</u>	<u>2,511,872</u>	<u>15,971,273</u>
Excess (deficiency) of revenues over expenditures	<u>18,619</u>	<u>(53,912)</u>	<u>(441,894)</u>	<u>135,074</u>	<u>(342,113)</u>
Other Financing Sources (Uses):					
Transfers in	1,824,177	-	743,107	406,346	2,973,630
Transfers (out)	(458,238)	-	(301,187)	(1,141,096)	(1,900,521)
Total Other Financing Sources (Uses):	<u>1,365,939</u>	<u>-</u>	<u>441,920</u>	<u>(734,750)</u>	<u>1,073,109</u>
Net change in Fund Balance	<u>1,384,558</u>	<u>(53,912)</u>	<u>26</u>	<u>(599,676)</u>	<u>730,996</u>
Fund Balances:					
Beginning of year, as restated (Note 11)	4,691,876	1,010,097	-	2,076,114	7,778,087
End of year	<u>\$ 6,076,434</u>	<u>\$ 956,185</u>	<u>\$ 26</u>	<u>\$ 1,476,438</u>	<u>\$ 8,509,083</u>

City of Morro Bay
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 730,996

Governmental activities in the Statement of Activities were reported differently because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.

Capital outlay	2,427,350
Depreciation	(1,065,260)
Net effect on disposal of capital assets	<u>(77,024)</u>
 Total	 <u>1,285,066</u>

The issuance of long-term liabilities provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Change in compensated absences	(30,674)
Pension expense	375,453
Change in pension related liabilities	252,207
Change in other postemployment benefits	(96,753)
Change in claims payable	(229,549)
Payment of certificates payable	<u>70,838</u>
 Total	 <u>341,522</u>

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported in governmental activities.

	<u>(5,515)</u>
Change in Net Position of Governmental Activities	\$ <u><u>2,352,069</u></u>

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Morro Bay
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-Type Activities		
	Water Fund	Sewer Fund	Harbor Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,411,466	\$ 4,564,661	\$ 507,112
Accounts receivable, net of allowance for doubtful accounts	423,479	538,389	479,850
Other receivables	2,147	1,925	-
Intergovernmental receivables	-	-	112,502
Due from other funds	20,039	35,866	6,472
Due from component unit	-	4,766	-
Prepaid items	891,259	6,636	9,284
Total Current Assets	3,748,390	5,152,243	1,115,220
Noncurrent Assets:			
Capital assets, nondepreciable	460,080	1,202,155	2,800
Capital assets, depreciable	7,236,995	8,581,452	964,109
Total Noncurrent Assets	7,697,075	9,783,607	966,909
Total Assets	11,445,465	14,935,850	2,082,129
DEFERRED OUTFLOWS OF RESOURCES			
Pension contribution after measurement date	63,898	166,069	137,912
Employer's actual contribution in excess of employer's proportional share of contribution	5,725	14,879	12,357
Positive adjustment due to difference in proportion	10,222	26,565	22,061
Total deferred outflows of resources	79,845	207,513	172,330
LIABILITIES			
Current Liabilities:			
Accounts payable	57,186	15,420	30,722
Accrued payroll and benefits	53,934	39,272	69,331
Due to component unit	-	3,012	-
Deposits payable	79,142	-	10,607
Unearned revenues	-	-	107,831
Compensated absences, due within one year	5,118	2,309	5,861
Notes payable, due within one year	-	-	99,099
Total Current Liabilities	195,380	60,013	323,451
Noncurrent Liabilities			
Compensated absences, due in more than one year	25,712	11,599	29,444
Note payable, due in more than one year	-	-	695,567
Aggregate net pension liabilities	569,974	1,481,333	1,230,182
Total Noncurrent Liabilities	595,686	1,492,932	1,955,193
Total Liabilities	791,066	1,552,945	2,278,644

City of Morro Bay
Statement of Net Position
Proprietary Funds (Continued)
June 30, 2015

	Business-Type Activities		Governmental
	Nonmajor - Local		Activites
	Transportation Fund	Total	Internal Service
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 343,942	\$ 7,827,181	\$ 1,108,087
Accounts receivable, net of allowance for doubtful accounts	5,870	1,447,588	3,334
Other receivables	-	4,072	-
Intergovernmental receivables	-	112,502	-
Due from other funds	2,018	64,395	9,980
Due from component unit	-	4,766	-
Prepaid items	-	907,179	1,075,913
Total Current Assets	351,830	10,367,683	2,197,314
Noncurrent Assets:			
Capital assets, nondepreciable	40,000	1,705,035	-
Capital assets, depreciable	143,597	16,926,153	-
Total Noncurrent Assets	183,597	18,631,188	-
Total Assets	535,427	28,998,871	2,197,314
DEFERRED OUTFLOWS OF RESOURCES			
Pension contribution after measurement date	-	367,879	-
Employer's actual contribution in excess of employer's proportional share of contribution	-	32,961	-
Positive adjustment due to difference in proportion	-	58,848	-
Total deferred outflows of resources	-	459,688	-
LIABILITIES			
Current Liabilities:			
Accounts payable	38,264	141,592	6,958
Accrued payroll and benefits	-	162,537	-
Due to component unit	-	3,012	-
Deposits payable	-	89,749	-
Unearned revenues	131,955	239,786	-
Compensated absences, due within one year	-	13,288	-
Notes payable, due within one year	-	99,099	-
Total Current Liabilities	170,219	749,063	6,958
Noncurrent Liabilities			
Compensated absences, due in more than one year	-	66,755	-
Note payable, due in more than one year	-	695,567	-
Aggregate net pension liabilities	-	3,281,489	-
Total Noncurrent Liabilities	-	4,043,811	-
Total Liabilities	170,219	4,792,874	6,958

City of Morro Bay
Statement of Net Position
Proprietary Funds (Continued)
June 30, 2015

	Business-Type Activities		
	Water Fund	Sewer Fund	Harbor Fund
DEFERRED INFLOWS OF RESOURCES			
Difference in projected and actual earnings on pension investments	152,760	397,016	329,705
Employer's proportionate share of contribution in excess of employer's actual contribution	5,440	14,139	11,741
Negative adjustment due to difference in proportion	2,698	7,011	5,823
Total deferred inflows of resources	<u>160,898</u>	<u>418,166</u>	<u>347,269</u>
NET POSITION			
Net investment in capital assets	7,697,075	9,783,607	172,243
Restricted for:			
PTMISEA	-	-	-
LTF	-	-	-
Unrestricted (Deficit)	<u>2,876,271</u>	<u>3,388,645</u>	<u>(543,697)</u>
Total Net Position	<u>\$ 10,573,346</u>	<u>\$ 13,172,252</u>	<u>\$ (371,454)</u>

City of Morro Bay
Statement of Net Position
Proprietary Funds (Continued)
June 30, 2015

	Business-Type Activities		Governmental
	Nonmajor - Local	Total	Activites
	Transportation Fund		Internal Service
DEFERRED INFLOWS OF RESOURCES			
Difference in projected and actual earnings on pension investments	-	879,481	-
Employer's proportionate share of contribution in excess of employer's actual contribution	-	31,320	-
Negative adjustment due to difference in proportion	-	15,532	-
Total deferred inflows of resources	-	926,333	-
NET POSITION			
Net investment in capital assets	183,597	17,836,522	-
Restricted for:			
PTMISEA	13,185	13,185	
LTF	33,000	33,000	
Unrestricted (Deficit)	135,426	5,856,645	2,190,356
Total Net Position	\$ 365,208	\$ 23,739,352	\$ 2,190,356

City of Morro Bay
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	Business-Type Activities		
	Water Fund	Sewer Fund	Harbor Fund
Operating Revenues:			
Charges for services	\$ 3,311,970	\$ 4,323,986	\$ 1,894,203
Other revenues	-	6,267	16,759
Total operating revenues	<u>3,311,970</u>	<u>4,330,253</u>	<u>1,910,962</u>
Operating Expenses:			
Employee wages and benefits	727,156	500,328	931,222
Insurance costs	73,394	38,980	80,783
Transportation services	-	-	-
Public works	-	2,643,944	-
Depreciation	273,878	497,122	202,219
Maintenance	138,451	65,907	122,692
Administration	2,841,432	265,191	780,903
Supplies	58,317	155,867	76,189
Total operating expenses	<u>4,112,628</u>	<u>4,167,339</u>	<u>2,194,008</u>
Operating income (loss)	<u>(800,658)</u>	<u>162,914</u>	<u>(283,046)</u>
Nonoperating Income (loss):			
Intergovernmental	-	-	147,262
Rental income	-	23,370	-
Investment earnings	20,388	36,007	9,823
Gain on sale of capital assets	-	-	9,500
Interest expense	-	-	(40,027)
Total nonoperating income (loss)	<u>20,388</u>	<u>59,377</u>	<u>126,558</u>
Net income (loss) before transfers	<u>(780,270)</u>	<u>222,291</u>	<u>(156,488)</u>
Transfers:			
Transfers in	28,410	-	-
Transfers out	(279,105)	(194,757)	(281,986)
Total transfers	<u>(250,695)</u>	<u>(194,757)</u>	<u>(281,986)</u>
Changes in net position	<u>(1,030,965)</u>	<u>27,534</u>	<u>(438,474)</u>
Net Position:			
Beginning of the year, as restated (Note 11)	11,604,311	13,144,718	67,020
End of the year	<u>\$ 10,573,346</u>	<u>\$ 13,172,252</u>	<u>\$ (371,454)</u>

City of Morro Bay
Statement of Revenues, Expenses and Changes in Net Position (Continued)
For the Year Ended June 30, 2015

	Business-Type Activities		Governmental
	Nonmajor - Local		Activities
	Transportation Fund	Total	Internal Service
Operating Revenues:			
Charges for services	\$ 39,932	\$ 9,570,091	\$ 1,369,469
Other revenues	2,228	25,254	13,550
Total operating revenues	<u>42,160</u>	<u>9,595,345</u>	<u>1,383,019</u>
Operating Expenses:			
Employee wages and benefits	-	2,158,706	-
Insurance costs	-	193,157	1,076,505
Transportation services	180,690	180,690	-
Public works	-	2,643,944	-
Depreciation	38,932	1,012,151	-
Maintenance	1,073	328,123	15,000
Administration	7,245	3,894,771	41,249
Supplies	42,258	332,631	-
Total operating expenses	<u>270,198</u>	<u>10,744,173</u>	<u>1,132,754</u>
Operating income (loss)	<u>(228,038)</u>	<u>(1,148,828)</u>	<u>250,265</u>
Nonoperating Income (loss):			
Intergovernmental	307,751	455,013	-
Rental income	-	23,370	-
Investment earnings	1,901	68,119	10,116
Gain on sale of capital assets	-	9,500	-
Interest expense	-	(40,027)	-
Total nonoperating income (loss)	<u>309,652</u>	<u>515,975</u>	<u>10,116</u>
Net income (loss) before transfers	<u>81,614</u>	<u>(632,853)</u>	<u>260,381</u>
Transfers:			
Transfers in	-	28,410	-
Transfers out	(79,775)	(835,623)	(265,896)
Total transfers	<u>(79,775)</u>	<u>(807,213)</u>	<u>(265,896)</u>
Changes in net position	1,839	(1,440,066)	(5,515)
Net Position:			
Beginning of the year, as restated (Note 11)	363,369	25,179,418	2,195,871
End of the year	<u>\$ 365,208</u>	<u>\$ 23,739,352</u>	<u>\$ 2,190,356</u>

City of Morro Bay
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	Business-Type Activities		
	Water Operating Fund	Sewer Fund	Harbor Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from services provided	\$ 3,362,113	\$ 4,324,954	\$ 1,937,094
Cash paid to suppliers for goods and services	(2,583,182)	(3,252,994)	(1,245,139)
Cash paid to employees	(745,334)	(538,745)	(957,469)
Net Cash Provided by (Used in) Operating Activities	<u>33,597</u>	<u>533,215</u>	<u>(265,514)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	(250,695)	(194,757)	(281,986)
Intergovernmental	(14,279)	33,889	46,187
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(264,974)</u>	<u>(160,868)</u>	<u>(235,799)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment on long-term debt	-	-	(94,832)
Interest paid	-	-	(40,027)
Proceeds from sale of capital assets	-	-	9,500
Acquisition of capital assets	(11,157)	(3,599)	-
Net Cash (Used In) Capital and Related Financing Activities	<u>(11,157)</u>	<u>(3,599)</u>	<u>(125,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	20,388	59,377	9,823
Net Cash Provided by Investing Activities	<u>20,388</u>	<u>59,377</u>	<u>9,823</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(222,146)	428,125	(616,849)
CASH AND CASH EQUIVALENTS:			
Beginning of Year	2,633,612	4,136,536	1,123,961
End of Year	<u>\$ 2,411,466</u>	<u>\$ 4,564,661</u>	<u>\$ 507,112</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (loss)	\$ (800,658)	\$ 162,914	\$ (283,046)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	273,878	497,122	202,219
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivables	50,153	(5,299)	(53,275)
(Increase)/decrease in other receivables	(10)	-	-
(Increase)/decrease in prepaid items	524,155	500	758
(Increase)/decrease in deferred outflows of resources related to pension	(10,317)	(6,622)	(5,498)
Increase/(decrease) in accounts payable	1,282	(83,605)	(184,718)
Increase/(decrease) in accrued payroll and benefits	217	6,578	3,755
Increase/(decrease) in deposits payable	2,975	-	(612)
Increase/(decrease) in unearned revenue	-	-	79,407
Increase/(decrease) in compensated absences	(193)	2,309	9,280
Increase/(decrease) in net pension liabilities	(160,891)	(418,144)	(347,251)
Increase/(decrease) in deferred inflows of resources related to pension	153,006	377,462	313,467
Net Cash Provided by (Used in) Operating Activities	<u>\$ 33,597</u>	<u>\$ 533,215</u>	<u>\$ (265,514)</u>

City of Morro Bay
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2015

	Business-Type Activities		Governmental Activities
	Nonmajor - Local Transportation		Internal Service
	Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from services provided	\$ 36,290	\$ 9,660,451	\$ 1,380,130
Cash paid to suppliers for goods and services	(241,137)	(7,322,452)	(1,410,870)
Cash paid to employees	-	(2,241,548)	-
Net Cash Provided by (Used in) Operating Activities	<u>(204,847)</u>	<u>96,451</u>	<u>(30,740)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	(79,775)	(807,213)	(265,896)
Intergovernmental	491,365	557,162	(9,980)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>411,590</u>	<u>(250,051)</u>	<u>(275,876)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment on long-term debt	-	(94,832)	-
Interest paid	-	(40,027)	-
Proceeds from sale of capital assets	-	9,500	-
Acquisition of capital assets	-	(14,756)	-
Net Cash (Used In) Capital and Related Financing Activities	<u>-</u>	<u>(140,115)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	1,901	91,489	10,116
Net Cash Provided by Investing Activities	<u>1,901</u>	<u>91,489</u>	<u>10,116</u>
Net Increase (Decrease) In Cash and Cash Equivalents	208,644	(202,226)	(296,500)
CASH AND CASH EQUIVALENTS:			
Beginning of Year	135,298	8,029,407	1,404,587
End of Year	<u>\$ 343,942</u>	<u>\$ 7,827,181</u>	<u>\$ 1,108,087</u>
Reconciliation of Operating Income (Loss) to to Net Cash Provided (Used) by Operating Activities:			
Operating Income (loss)	\$ (228,038)	\$ (1,148,828)	\$ 250,265
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	38,932	1,012,151	-
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivables	(5,870)	(14,291)	(2,889)
(Increase)/decrease in other receivables	-	(10)	-
(Increase)/decrease in prepaid items	79	525,492	(267,955)
(Increase)/decrease in deferred outflows of resources related to pension	-	(22,437)	-
Increase/(decrease) in accounts payable	(9,950)	(276,991)	(10,161)
Increase/(decrease) in accrued payroll and benefits	-	10,550	-
Increase/(decrease) in deposits payable	-	2,363	-
Increase/(decrease) in unearned revenue	-	79,407	-
Increase/(decrease) in compensated absences	-	11,396	-
Increase/(decrease) in net pension liabilities	-	(926,286)	-
Increase/(decrease) in deferred inflows of resources related to pension	-	843,935	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ (204,847)</u>	<u>\$ 96,451</u>	<u>\$ (30,740)</u>

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FIDUCIARY FUND FINANCIAL STATEMENTS

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City of Morro Bay
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Other Post-employment Trust Fund	Agency Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 515,813	\$ 1,225,626
Miscellaneous receivable	-	486
Prepays	-	1,456
Total assets	515,813	\$ 1,227,568
LIABILITIES		
Accounts payable	-	\$ 34,281
Agency funds held for others	-	1,193,287
Total liabilities	-	\$ 1,227,568
NET POSITION		
Held in trust	515,813	
Total net position	\$ 515,813	

City of Morro Bay
Statement of Change in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2015

	Other Postemployment Benefits Trust Fund
ADDITIONS:	
Gains on investment	\$ 11,734
Total additions	<u>11,734</u>
Change in net position	11,734
NET POSITION:	
Beginning of year, as restated (Note 11)	<u>504,079</u>
End of year	<u><u>\$ 515,813</u></u>

City of Morro Bay
Index to the Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

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City of Morro Bay
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City of Morro Bay
Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the City of Morro Bay, California, (the “City”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the City’s significant policies:

A. Financial Reporting Entity

The City of Morro Bay is a general law city incorporated in 1964. The City operates under a Council-Manager form of government. The mayor and four council members are elected at large. A full range of services is provided, including general government, parks and recreation, police and fire and emergency services, streets and storm drain maintenance, water and sanitary, and transportation. The City also maintains the Morro Bay harbor and manages state-granted tidelands and harbor fee lands within the City limits.

The basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization’s governing body and either the City is able to impose its will on that organization or there is a potential for the organization to provide financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City’s financial statement to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the City’s operations and data from these units are combined with data of the City.

Management determined that the following entities should be reported discretely presented component units based on the criteria above.

Discretely Presented Component Unit - The Morro Bay/Cayucos Sanitary District Wastewater Treatment Plant Joint Powers Agreement (JPA) provides for the treatment of wastewater for the benefit of the government’s residents and those of Cayucos, an unincorporated community in San Luis Obispo County. The JPA’s governing board consists of the Morro Bay City Council and the Cayucos Sanitary District Board. The governing board sets user charges and establishes budgets. Additionally, the contribution to the JPA was made by the Sewer Enterprise Fund. The component unit has a June 30 year-end. The separately issued financial statement can be obtained from the finance department of the JPA.

There are no component units for the City that meet the criteria for blended presentation.

The City participates in the California Joint Powers Insurance Authority (the “CJPIA”) for its general liability, workers’ compensation, property, vehicle and crime insurance. This organization is financed through premium charges to each member. The CJPIA does not meet the aforementioned reporting criteria, and is therefore, not included in the accompanying financial statements.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the statement of net position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government-Wide Financial Statements

The government-wide financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

The government-wide financial statements consist of the statement of net position and the statement of activities that report information on all of the non-fiduciary activities of the primary government and its component unit. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities generally rely, to a significant extent, on fees and charges for services.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's activities. Direct expenses are (1) expenses that are specifically associated with a program or function, and (2) allocated indirect expenses. Program revenues include (1) fees, fines and charges paid by the recipients of goods or services offered by the programs, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net position are available, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

The fund financial statements report detailed information about the City's funds. Separate statements are provided for each fund category- governmental, proprietary and fiduciary- even though the latter are excluded from the government-wide financial statements. The emphasis of the Governmental and Proprietary Fund financial statements is on major individual funds. Each major fund is presented in a single column. All remaining governmental funds are separately aggregated and reported as nonmajor funds.

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in Net Position as presented in these statements to the Net Position presented in the Government-Wide Financial Statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recognized as soon as they are both "measurable" and "available". Revenues are considered to be available when they are collectible within the current period as soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The City reports the following major governmental funds:

General Fund - The City's primary operating fund. The General Fund is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreational services.

Community Development Grants Special Revenue Fund - Used to account for financial resources to be used for offering low or no interest-bearing loans to income-qualified homeowners for the acquisition or rehabilitation of owner-occupied site-built or manufactured homes.

Capital Improvement Capital Projects Fund - Used to account for financial resources to be solely used for the construction of capital assets.

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major Proprietary Fund.

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major proprietary funds:

Water Enterprise Fund - Accounts for revenues received primarily from water service charges, which are expended for maintenance, operations and improvements to the water system.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

The City reports the following major proprietary funds (Continued):

Sewer Enterprise Fund - Accounts for revenues received primarily from sewer service charges, which are expended for maintenance, operations and improvements to the sanitary sewer system.

Harbor Enterprise Fund - Accounts for revenues received from harbor leases, rentals, moorings and other sources, which are expended for maintenance, operation, patrolling, and improvements of the harbor.

Internal Service Funds - Accounts for revenues received primarily from charges to City departments on an estimated basis for insurance coverage, and which are expended for insurance purchase, valid claims and related costs. These funds were opened in 1980-81 to account for workers unemployment compensation and fire insurance costs. They now account for all insurance coverage including health, dental, general liability, and vehicle insurance.

Fiduciary fund financial statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City's fiduciary funds represent agency fund and Other Postemployment Benefits (OPEB) trust fund. Both agency fund and the OPEB trust fund are accounted for on the full accrual basis of accounting.

The City reports the following fiduciary funds:

Other Postemployment Benefits (OPEB) Trust Fund – Used to account for assets held by the City as a trustee for pre-funding of OPEB liability.

Agency Fund - Used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Cash and Investments

The City's cash and cash equivalents are comprised of cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. All cash and investments of proprietary funds are held in the City's investment pool. These cash pools have the general characteristics of a demand deposit account; therefore, all cash and investments in the proprietary funds are considered cash and cash equivalents for statement of cash flows purposes.

Investments are stated at fair value (quoted market price or best available estimate thereof).

D. Receivable and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivable are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Prepaid Items

Certain payments to vendors applicable to future accounting periods are recorded as prepaid items.

F. Inventories

The City maintains an inventory account for fuel. Fuel is valued at June 30 based on the amount of fuel in the storage tanks and the most recent invoices' purchase price. Inventories are valued using first in first out method.

G. Land Held for Resale

Land held for resale is carried at the lower of cost or estimated net realizable value.

H. Property Tax Revenue

Property taxes attach as an enforceable lien at March 1. Taxes are levied on July 1 and payable in two installments, December 10 and April 10. All general property taxes are then allocated by the County Auditor's Office to the various taxing entities per the legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California. City property tax revenues are recognized when levied and received within 60 days of the year end.

I. Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds. The estimated useful lives are as follows:

Structures & improvements	15-30 years
Equipment	4-10 years
Infrastructure	25-75 years

J. Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables, as appropriate, are subject to elimination upon consolidation, and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. There were no advances between funds during the year.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Claims Payable

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" ("IBNR") claims. There is no fixed payment schedule to pay these liabilities.

L. Compensated Absences Payable

City employees have vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the City to pay all accumulated vacation pay and all or a portion of sick pay when an employee retires or terminates. The long-term amount is included as a liability in the governmental activities of the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All of the liability for compensated absences applicable to proprietary funds is reported in those funds.

M. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 7). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Measurement Period	July 1, 2013 to June 30, 2014

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

N. *Unearned Revenue*

In the government-wide financial statements, unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the government-wide financial statements are cell phone site license lease payments received in advance, prepaid charges for services and facility rentals paid in advance.

In the fund financial statements, unearned revenue is recorded when transactions have not yet met the revenue recognition criteria. The City records unearned revenue for transactions for which revenues have not been earned. Typical transactions for which unearned revenue is recorded are lease payments, quarterly encroachment fees and advance registration for recreation classes which were not yet earned.

O. *Net Position*

In the government-wide financial statements and proprietary fund financial statements, net position is classified as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

P. *Fund Balances*

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Nonspendable fund balances include amounts that cannot be spent because they are not in a spendable form, such as inventory, prepaid items, land held for resale and long-term receivable or because resources legally or contractually must remain intact.

Restricted – Restricted fund balances are the portion of fund balance that have externally enforceable limitations on their usage through legislation or limitations imposed by creditors, grantor, laws and regulations of other governments or enabling legislation.

Committed – Committed fund balances are self-imposed limitations by the highest level of decision-making authority, namely the City Council, prior to the end of the reporting period. City Council adoption of a resolution is required to commit resources or to rescind the commitment.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

P. Fund Balances (Continued)

Assigned – Assigned fund balances are limitations imposed by management based on the intended use of the funds. Modifications or rescissions of the constraints can be removed by the same type of action that limited the use of the funds. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the Finance Director for that purpose.

Unassigned – Unassigned fund balances represent the residual net resources in excess of the other classifications. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental fund other than general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

Q. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

R. Accounting Changes

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement became effective for periods beginning after June 15, 2014. See Note 11 for prior period adjustment as a result of implementation.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement became effective for periods beginning after December 15, 2013 and did not have a significant impact on the City's financial statements for year ended June 30, 2015.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement establishes standards relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement became effective for periods beginning after June 15, 2014. See Note 11 for prior period adjustment as a result of implementation.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 2 – Cash and Investments

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds.

The City had the following cash and investments at June 30, 2015:

	Primary Government				Total
	Government-Wide Statement of Net Position			Discretely Presented Component Unit	
	Governmental Activities	Business-type Activities	Fiduciary Fund		
	\$	\$	\$	\$	
Cash and investments	6,187,852	7,827,181	1,741,439	160,667	15,917,139

The City's cash and investments at June 30, 2015 in more detail:

Cash and cash equivalents:	
Petty Cash	\$ 1,900
Deposits with financial institutions	7,564,319
Total cash and cash equivalents	7,566,219
Investments:	
Local Agency Investment Fund	3,127,955
Mutual Funds	515,813
Certificates of Deposit	3,710,482
U.S. Government Sponsored Enterprise Securities	996,670
Total investments	8,350,920
Total cash and investments	\$ 15,917,139

A. Deposits

The carrying amounts of the City's demand deposits were \$7,564,319 at June 30, 2015. Bank balances at that date were \$7,514,478, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures, if applicable. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances, however, interest is not allocated to funds created to advance costs for utility undergrounding districts, reimbursable grant funds or internal service funds.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 2 – Cash and Investments (Continued)

B. Investments

Under the provisions of the City's investment policy, the City's investments are limited to those authorized by the California Government Code, except as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Securities Issued by U.S. Government, or its agencies	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Certificates of Deposit	5 years	None	\$250,000
Bankers Acceptances	180 days	40%	None
Mutual Funds and Money Market Mutual Funds	5 years	None	None
Collateralized Deposit	N/A	None	None
Passbook Savings Accounts	5 years	None	None
Repurchase Agreements	5 years	25%	None

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2015 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities, which included the following:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, collateralized mortgage obligations), or credit card receivables.

As of June 30, 2015, the City had \$3,127,955 invested in LAIF, which had invested 2.08% of the pool investment funds in Structured Notes and Asset-Backed Securities.

C. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years.

At June 30, 2015, the City had the following investment maturities:

Investment Type	Fair value	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund	\$ 3,127,955	\$ 3,127,955	\$ -	\$ -	\$ -	\$ -
Mutual Funds	515,813	515,813	-	-	-	-
Certificates of deposit	3,710,482	1,187,361	1,002,828	-	1,270,293	250,000
U.S. Government Sponsored Enterprise Securities	996,670	-	-	996,670	-	-
Total	\$ 8,350,920	\$ 4,831,129	\$ 1,002,828	\$ 996,670	\$1,270,293	\$ 250,000

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 2 – Cash and Investments (Continued)

C. Risk Disclosures (Continued)

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. It is the City’s policy to limit its investments in these investment types to the top rating issued by Standard & Poor’s and Moody’s Investor Service. At June 30, 2015, the City’s credit risks, expressed on a percentage basis, were as follows:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments			
Investment Type	Moody's Credit Rating	S&P's Credit Rating	% of Investments with Interest Rate Risk
Local Agency Investment Fund (LAIF)	Not Rated	Not Rated	37.46%
Mutual Funds	Not Rated	Not Rated	6.18%
Certificates of Deposits	Not Rated	Not Rated	44.43%
U.S. Government Sponsored Enterprise Securities			
Federal Farm Credit Banks	AAA	AA+	5.98%
Federal National Mortgage Association	AAA	AA+	5.95%
Total			100.00%

Custodial Risk – For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of credit risk – The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There was no investments in any one issuer (other than mutual funds and external investment pools) that represent 5% or more of the City's investments.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 3 – Interfund Transactions

Due From/To Other Funds – At June 30, 2015, the City had the following due from/to other funds:

Due To Other Funds	Due From Other Funds								Total
	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Harbor Fund	Local Transit Fund	Internal Service Fund	Component Unit MB/CSD WWT	
Governmental Funds:									
General Fund	\$ 22,621	\$ 12,580	\$ 20,039	\$ 35,866	\$ 6,472	\$ 2,018	\$ 9,980	\$ -	\$ 109,576
Capital Improvement Fund	484,998	-	-	-	-	-	-	-	484,998
Nonmajor Funds	32,506	-	-	-	-	-	-	-	32,506
Enterprise Funds:									
Sewer Fund	-	-	-	-	-	-	-	3,012	3,012
Component Unit:									
MB/CSD WWT	-	-	-	4,766	-	-	-	-	4,766
Total	\$ 540,125	\$ 12,580	\$ 20,039	\$ 40,632	\$ 6,472	\$ 2,018	\$ 9,980	\$ 3,012	\$ 634,858

The above amount resulted from the time lag between the dates that reimbursable expenditures occur and payments are received from other agencies.

Transfers

At June 30, 2015, the City had the following transfers:

Transfers out	Transfers in				Total
	General Fund	Capital Improvement fund	Nonmajor Governmental Funds	Water Fund	
Governmental Funds:					
General Fund	\$ -	\$ 191,888	\$ 266,350	\$ -	\$ 458,238
Capital Improvement Fund	301,187	-	-	-	301,187
Nonmajor Funds	589,877	551,219	-	-	1,141,096
Enterprise Funds:					
Water Fund	279,105	-	-	-	279,105
Sewer Fund	166,347	-	-	28,410	194,757
Harbor Fund	281,986	-	-	-	281,986
LTF Fund	79,775	-	-	-	79,775
Internal Service Fund:					
Risk Management Fund	125,900	-	139,996	-	265,896
Total	\$ 1,824,177	\$ 743,107	\$ 406,346	\$ 28,410	\$ 3,002,040

In general, transfers are used to 1) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 2) to reimburse the General Fund for administration services provided to other funds.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 4 – Capital Assets

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2015:

	Balance July 1, 2014	Addition	Deletion	Reclassification	Balance June 30, 2015
Governmental Activities:					
Nondepreciable capital assets:					
Artwork	\$ 63,000	\$ -	\$ -	\$ -	\$ 63,000
Land	95,465,028	-	-	-	95,465,028
Construction in progress	1,667,446	2,032,555	(77,024)	(1,771,213)	1,851,764
Total nondepreciable capital assets	<u>97,195,474</u>	<u>2,032,555</u>	<u>(77,024)</u>	<u>(1,771,213)</u>	<u>97,379,792</u>
Depreciable capital assets:					
Machinery & equipment	3,760,082	394,795	(625,123)	750,998	4,280,752
Buildings & structures	14,876,262	-	-	592,106	15,468,368
Infrastructure	25,287,737	-	-	428,109	25,715,846
Total depreciable capital assets	43,924,081	394,795	(625,123)	1,771,213	45,464,966
Less accumulated depreciation	(19,117,122)	(1,065,260)	625,123	-	(19,557,259)
Total depreciable assets, net	<u>24,806,959</u>	<u>(670,465)</u>	<u>-</u>	<u>1,771,213</u>	<u>25,907,707</u>
Governmental activities capital assets, net	<u>\$ 122,002,433</u>	<u>\$ 1,362,090</u>	<u>\$ (77,024)</u>	<u>\$ -</u>	<u>\$ 123,287,499</u>

The following is a summary of changes in capital assets for the business-type activities for the year ended June 30, 2015:

	Balance July 1, 2014	Addition	Deletion	Reclassification	Balance June 30, 2015
Business-Type Activities:					
Nondepreciable capital assets:					
Artwork	\$ 2,800	\$ -	\$ -	\$ -	\$ 2,800
Land	1,495,855	-	-	-	1,495,855
Construction in progress	201,574	4,806	-	-	206,380
Total nondepreciable capital assets	<u>1,700,229</u>	<u>4,806</u>	<u>-</u>	<u>-</u>	<u>1,705,035</u>
Depreciable capital assets:					
Machinery & equipment	9,872,005	9,950	(140,898)	-	9,741,057
Buildings & structures	5,315,603	-	-	-	5,315,603
Infrastructure	30,207,253	-	-	-	30,207,253
Total depreciable capital assets	45,394,861	9,950	(140,898)	-	45,263,913
Less accumulated depreciation	(27,466,507)	(1,012,151)	140,898	-	(28,337,760)
Total depreciable assets, net	<u>17,928,354</u>	<u>(1,002,201)</u>	<u>-</u>	<u>-</u>	<u>16,926,153</u>
Business-type activities capital assets, net	<u>\$ 19,628,583</u>	<u>\$ (997,395)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,631,188</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 4 – Capital Assets (Continued)

The following is a summary of changes in capital assets for the discretely presented component unit for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions &</u> <u>Transfers</u>	<u>Dispositions</u> <u>& Transfers</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>Discretely Presented Component Unit:</u>				
Nondepreciable capital assets:				
Construction in progress	\$ 721,626	\$ 1,289,330	\$ (1,111,823)	\$ 899,133
Depreciable capital assets:				
Machinery & equipment	1,564,257	-	-	1,564,257
Buildings & structures	12,764,471	-	-	12,764,471
Total depreciable capital assets	14,328,728	-	-	14,328,728
Less accumulated depreciation	(13,928,144)	(373,251)	-	(14,301,395)
Total depreciable assets, net	400,584	(373,251)	-	27,333
Component unit capital assets, net	<u>\$ 1,122,210</u>	<u>\$ 916,079</u>	<u>\$ (1,111,823)</u>	<u>\$ 926,466</u>

Depreciation expense was charged to governmental activities as follow:

Administration	\$ 5,237
Community Development	5,505
Police	83,926
Fire	391,913
Public Works	543,172
Recreation & Parks	35,507
Total depreciation expense, governmental activities	<u>\$ 1,065,260</u>

Depreciation expense was charged to business-type activities as follows:

Water	\$ 273,878
Sewer	497,122
Harbor	202,219
Transit	38,932
Total depreciation expense, business-type activities	<u>1,012,151</u>

Depreciation expense was charged to discretely presented component unit as follows

Waste Water Treatment Plant	<u>\$ 373,251</u>
Total depreciation expense, discretely presented component unit	<u>\$ 373,251</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 5 – Long-term Liabilities

Summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance July 1, 2015, As Restated	Additions	Deletion	Balance June 30, 2015	Amounts due within one Year
Governmental Activities:					
Certificates payable	\$ 1,486,838	\$ -	\$ (70,838)	\$ 1,416,000	\$ 30,000
Claims payable	-	292,253	(62,704)	229,549	229,549
Compensated absences	259,476	410,821	(380,147)	290,150	34,818
Other postemployment benefits	109,837	146,411	(49,658)	206,590	-
Pension related debt	1,508,441	100,159	(352,366)	1,256,234	362,936
	<u>\$ 3,364,592</u>	<u>\$ 949,644</u>	<u>\$ (915,713)</u>	<u>\$ 3,398,523</u>	<u>\$ 657,303</u>
Business-Type Activities:					
Notes Payable	\$ 889,497	\$ -	\$ (94,831)	\$ 794,666	\$ 99,099
Compensated absences	68,647	77,684	(66,288)	80,043	13,288
	<u>\$ 958,144</u>	<u>\$ 77,684</u>	<u>\$ (161,119)</u>	<u>\$ 874,709</u>	<u>\$ 112,387</u>
Component Unit:					
Compensated absences	<u>\$ 17,042</u>	<u>\$ 23,882</u>	<u>\$ (25,586)</u>	<u>\$ 15,338</u>	<u>\$ -</u>

Pension-Related Debt

As of June 30, 2003, the California Public Employees' Retirement System ("CalPERS") implemented a risk pool for the City's multiple-employer public employee defined benefit pension plan. The City's Miscellaneous and Safety Plans converted from agent multiple-employer plans to cost-sharing multiple employer plans. In addition to the annual required contributions (see Note 7), the City is also required to make annual payments on a Side Fund, which was created when the City entered the risk pool to account for the difference between the funded status of the pool and the funded status of the City's plans. The responsibility for funding the Side Fund is specific to the City and is not shared by all employers in the risk pool. The annual payments on the Side Fund represent principal and interest payments on the pension-related debt, which are included in the retirement expenditures in the City's various functions.

The amount of pension-related debt outstanding at June 30, 2015 totaled \$1,256,234, which includes \$665,974 for the Safety Fire Plan and \$590,260 for the Safety Police Plan.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 5 – Long-term Liabilities (Continued)

Certificates of Participation

On October 12, 2011, the City entered into an installment sale agreement with the Public Property Financing Corporation of California 2011 Fire Station Financing Project, Series A and B, Certificates of Participation (the “COP”) for \$1,500,000 and \$300,000, respectively. The principal balance of Series A matures commencing from September 2012 to September 1, 2041, interest rates at 3.75%, payable on March 1 and September 1 of each year. Series B was fully paid as of June 30, 2015. Series A had an outstanding balance of \$1,416,000 at June 30, 2015.

Year Ending June 30,	Certificate of participation		Total
	Principal	Interest	
2016	\$ 30,000	\$ 52,538	\$ 82,538
2017	31,000	51,393	82,393
2018	33,000	50,194	83,194
2019	34,000	48,937	82,937
2020	35,000	47,644	82,644
2021-2025	199,000	216,844	415,844
2026-2030	241,000	175,707	416,707
2031-2035	293,000	125,830	418,830
2036-2040	357,000	65,045	422,045
2041-2042	163,000	6,587	169,587
	<u>\$ 1,416,000</u>	<u>\$ 840,719</u>	<u>\$ 2,256,719</u>

Notes Payable

Note Payable to the Department of Boating and Waterways for the construction of the T-Pier and other harbor improvements. Payable annually, beginning August 1, 1997, in the amount of \$134,121, including interest at 4.7% annum.

Year Ending June 30,	Notes Payable		Total
	Principal	Interest	
2016	\$ 99,099	\$ 35,760	\$ 134,859
2017	103,558	31,300	134,858
2018	108,219	26,640	134,859
2019	113,088	21,771	134,859
2020	118,177	252,523	370,700
2021-2025	252,524	129,028	381,552
	<u>\$ 794,665</u>	<u>\$ 497,022</u>	<u>\$ 1,291,687</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 6 – Liability, Workers’ Compensation, and Purchased Insurance

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City of Morro Bay is a member of the California Joint Powers Insurance Authority (the “CJPIA”). The CJPIA is composed of 118 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the CJPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The CJPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

B. Self-Insurance Programs of the CJPIA

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Retrospective adjustments are scheduled to continue indefinitely on coverage years 2012-13 and prior, until all claims incurred during those coverage years are closed, on a pool-wide basis. This subsequent cost re-allocation among members, based on actual claim development, can result in adjustments of either refunds or additional deposits required. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment. At June 30, 2015, the amount of this liability was \$229,549.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2014-15 the CJPIA’s pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The CJPIA’s reinsurance contracts are subject to the following additional pooled retentions: (a) 50% of the \$2.5 million annual aggregate deductible in the \$3 million excess \$2 million layer, (b) 50% quota share of the \$3 million excess \$2 million layer, and (c) \$3 million annual aggregate deductible in the \$5 million excess \$10 million layer.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30 million per occurrence.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 6 – Liability, Workers’ Compensation, and Purchased Insurance (Continued)

Workers’ Compensation

In the workers’ compensation program claims are pooled separately between public safety (police and fire) and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs from \$100,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2014-15 the CJPIA’s pooled retention is \$2 million per occurrence, with reinsurance to statutory limits under California Workers’ Compensation Law.

Employer’s Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer’s Liability losses from \$5 million to \$10 million are pooled among members.

C. Purchased Insurance

Property Insurance

The City of Morro Bay participates in the all-risk property protection program of the CJPIA. This insurance protection is underwritten by several insurance companies. City of Morro Bay property is currently insured according to a schedule of covered property submitted by the City of Morro Bay to the CJPIA. City of Morro Bay property currently has all-risk property insurance protection in the amount of \$91,123,400. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance

The City of Morro Bay purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the CJPIA. City of Morro Bay property currently has earthquake protection in the amount of \$49,309,584. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

The City of Morro Bay purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the CJPIA. Premiums are paid annually and are not subject to retrospective adjustments.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 6 – Liability, Workers’ Compensation, and Purchased Insurance (Continued)

Special Event Tenant User Liability Insurance

The City of Morro Bay further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the City of Morro Bay according to a schedule. The City of Morro Bay then pays for the insurance. The insurance is arranged by the CJPIA.

D. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2014-15.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans

The following is a summary of changes in net pension liability, and the related deferred outflows and inflows of resources for the year ended June 30, 2015:

	Balance July 1, 2014 (As Restated)	Additions	Deletions	Balance June 30, 2015
Deferred outflows of resources:				
Pension contribution after measurement date:				
Fire Tier 1	\$ 284,171	\$ 325,631	\$ (284,171)	\$ 325,631
Fire Tier 2	26,535	30,122	(26,535)	30,122
Fire Tier PEPRA	-	9,435	-	9,435
Police Tier 1	428,502	398,627	(428,502)	398,627
Police Tier 2	111,079	133,057	(111,079)	133,057
Police PEPRA	-	17,908	-	17,908
Miscellaneous Tier 1	720,548	696,786	(720,548)	696,786
Miscellaneous Tier 2	49,154	54,189	(49,154)	54,189
Miscellaneous PEPRA	6,281	20,216	(6,281)	20,216
Total pension contribution after measurement date	<u>1,626,270</u>	<u>1,685,971</u>	<u>(1,626,270)</u>	<u>1,685,971</u>
Employer actual contributions in excess of employer's proportionate share of contribution:				
Fire Tier 1	-	15,491	(4,077)	11,414
Fire Tier 2	-	25,055	(6,593)	18,462
Police Tier 1	-	1,788	(471)	1,317
Police Tier 2	-	107,848	(28,381)	79,467
Miscellaneous Tier 2	-	48,562	(12,779)	35,783
Miscellaneous PEPRA	-	6,265	(1,649)	4,616
Total employer actual contributions in excess of employer's proportionate share of contribution	<u>-</u>	<u>205,009</u>	<u>(53,950)</u>	<u>151,059</u>
Positive adjustment due to difference in proportion:				
Fire Tier 1	-	24,892	(6,551)	18,341
Police Tier 1	-	66,126	(17,402)	48,724
Miscellaneous Tier 1	-	275,002	(72,369)	202,633
Total positive adjustment due to difference in proportion	<u>-</u>	<u>366,020</u>	<u>(96,322)</u>	<u>269,698</u>
Total deferred outflows of resources	<u><u>\$ 1,626,270</u></u>	<u><u>\$ 2,257,000</u></u>	<u><u>\$ (1,776,542)</u></u>	<u><u>\$ 2,106,728</u></u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

	Balance July 1, 2014 (As Restated)	Additions	Deletions	Balance June 30, 2015
Net pension liabilities:				
Fire Tier 1	\$ 3,711,549	\$ 1,072,195	\$ (1,733,366)	\$ 3,050,378
Fire Tier 2	15,796	32,104	(35,972)	11,928
Police Tier 1	5,444,418	1,700,325	(2,772,231)	4,372,512
Police Tier 2	34,486	136,468	(144,911)	26,043
Miscellaneous Tier 1	10,071,499	3,551,374	(6,049,426)	7,573,447
Miscellaneous Tier 2	6,116	45,659	(47,299)	4,476
Miscellaneous PEPRA	164	11,987	(12,031)	120
Total net pension liabilities	<u>\$ 19,284,028</u>	<u>\$ 6,550,112</u>	<u>\$ (10,795,236)</u>	<u>\$ 15,038,904</u>
Deferred inflows of Resources:				
Difference in projected and actual earnings on pension investments:				
Fire Tier 1	\$ -	\$ 817,430	\$ (163,486)	\$ 653,944
Fire Tier 2	-	4,502	(900)	3,602
Police Tier 1	-	1,298,235	(259,647)	1,038,588
Police Tier 2	-	9,829	(1,966)	7,863
Miscellaneous Tier 1	-	2,906,349	(581,270)	2,325,079
Miscellaneous Tier 2	-	1,880	(376)	1,504
Miscellaneous PEPRA	-	50	(10)	40
Total difference in projected and actual earnings on pension investments:	<u>-</u>	<u>5,038,275</u>	<u>(1,007,655)</u>	<u>4,030,620</u>
Employer's proportionate share of contribution in excess of employer's actual contribution:				
Miscellaneous Tier 1	-	194,800	(51,263)	143,537
Total employer's proportionate share of contribution in excess of employer's actual contribution	<u>-</u>	<u>194,800</u>	<u>(51,263)</u>	<u>143,537</u>
Total adjustment due to difference in proportion in pension investments:				
Fire Tier 2	-	14,976	(3,941)	11,035
Police Tier 2	-	75,740	(19,932)	55,808
Miscellaneous Tier 2	-	295	(78)	217
Miscellaneous PEPRA	-	5,595	(1,472)	4,123
Total adjustment due to difference in proportion in actual earnings on pension investments	<u>-</u>	<u>96,606</u>	<u>(25,423)</u>	<u>71,183</u>
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 5,329,681</u>	<u>\$ (1,084,341)</u>	<u>\$ 4,245,340</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan

Plan Description

The City contributes to the California Public Employees’ Retirement System (“CalPERS”), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Employees Covered by Benefit Terms

At June 30, 2013, the following employees were covered by the benefit terms:

	Plans			
	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2
Active employees	8	2	14	7
Transferred and terminated employees	6	1	14	1
Separated	1	-	8	-
Retired Employees and Beneficiaries	19	-	38	-
Total	34	3	74	8
	Plans			
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRA	
Active employees	48	7	2	
Transferred and terminated employees	30	-	-	
Separated	29	1	-	
Retired Employees and Beneficiaries	114	-	-	
Total	221	8	2	

There were no employees covered by Fire PEPRA and Police PEPRA plan at June 30, 2013.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan

Benefit Provided

CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Following are the benefit provisions for each plan:

- Fire Tier 1: 3% (at age 50) of the highest average final 12 months compensation
- Fire Tier 2: 3% (at age 55) of the highest average final 36 months compensation
- Police Tier 1: 3% (at age 50) of the highest average final 12 months compensation
- Police Tier 2: 3% (at age 55) of the highest average final 36 months compensation
- Miscellaneous Tier 1: 2-2.7% (at age 55) of the highest average final 12 months compensation
- Miscellaneous Tier 2 : 2% (at age 60) of the highest average final 36 months compensation
- PEPRM Miscellaneous : 2% (at age 62) of the highest average final 36 months compensation

Employees may retire from active service once they reach 50 years of age and have five years of CalPERS-credited service.

The City has contracted with CalPERS for pre-retirement death benefits, should an employee die while actively employed, subject to the employee's eligibility to retire. Eligibility is established when an employee reaches 50 years of age, and has a minimum of five years of CalPERS-credited service.

Upon the death of an eligible employee, beneficiary(ies) may choose to receive: 1) the City-contracted CalPERS retirement formula Option 2W, or 2) the basic death benefit (employee contributions plus interest) and one month's salary for each year of current services, up to six months' pay. With either choice, the City-contracted 4th Level 1959 Survivor Benefit, which provides additional allocations to spouses caring for unmarried children, under the age of 22, or incapacitated children, is provided.

If the employee dies prior to attaining retirement eligibility, beneficiary(ies) receive: 1) the lump sum basic death benefit (employee contributions plus interest) and one month's salary for each year of current services, up to six months' pay, and 2) the City-contracted 4th Level 1959 Survivor Benefit.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retirees designated survivor(s), or to the retiree's estate. Depending on the retirement option chosen, beneficiary(ies) may continue to receive lifetime benefits. The City does not contract for Survivor Continuance. Additionally, the City does not participate in Social Security retirement.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by either the Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate were as follows:

<u>Plans</u>	<u>Active Employee Contribution Rate</u>	<u>Employer Contribution Rate</u>
Fire Tier 1	8.986%	41.225%
Fire Tier 2	8.980%	20.774%
Police Tier 1	8.986%	37.729%
Police Tier 2	8.980%	20.774%
Miscellaneous Tier 1	7.947%	23.217%
Miscellaneous Tier 2	6.880%	8.049%
Miscellaneous PEPRA	6.308%	6.250%

There were no employees covered by Fire PEPRA and Police PEPRA plan at June 30, 2013.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent, which is net of administrative expenses. An investment return excluding administrative expenses would have been 7.65 percent. Management has determined that using the lower discount rate has resulted in a slightly higher total pension liability and net pension liability and the difference was deemed immaterial to the financial statement. The long-term expected rate of return on pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major *asset class*.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return Years 11+ ²
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	-0.55	-1.05

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Fire Tier 1	\$ 4,730,162	\$ 3,050,378	\$ 1,666,309
Fire Tier 2	\$ 20,527	\$ 11,928	\$ 4,843
Police Tier 1	\$ 6,977,093	\$ 4,372,512	\$ 2,226,449
Police Tier 2	\$ 44,817	\$ 26,043	\$ 10,574
Miscellaneous Tier 1	\$ 13,068,736	\$ 7,573,447	\$ 3,012,878
Miscellaneous Tier 2	\$ 7,975	\$ 4,476	\$ 1,573
Miscellaneous PEPRA	\$ 214	\$ 120	\$ 42

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Fire Tier 1			
Balance at: 6/30/13 (Valuation date)	\$ 11,960,359	\$ 8,248,810	\$ 3,711,549
Balance at: 6/30/14 (Measurement date)	\$ 12,540,608	\$ 9,490,230	\$ 3,050,378
Net Changes during 2013-2014	\$ 580,249	\$ 1,241,420	\$ (661,171)
Fire Tier 2			
Balance at: 6/30/13 (Valuation date)	\$ 61,227	\$ 45,431	\$ 15,796
Balance at: 6/30/14 (Measurement date)	\$ 64,197	\$ 52,269	\$ 11,928
Net Changes during 2013-2014	\$ 2,970	\$ 6,838	\$ (3,868)
Police Tier 1			
Balance at: 6/30/13 (Valuation date)	\$ 18,545,088	\$ 13,100,670	\$ 5,444,418
Balance at: 6/30/14 (Measurement date)	\$ 19,444,792	\$ 15,072,280	\$ 4,372,512
Net Changes during 2013-2014	\$ 899,704	\$ 1,971,610	\$ (1,071,906)
Police Tier 2			
Balance at: 6/30/13 (Valuation date)	\$ 133,673	\$ 99,187	\$ 34,486
Balance at: 6/30/14 (Measurement date)	\$ 140,158	\$ 114,115	\$ 26,043
Net Changes during 2013-2014	\$ 6,485	\$ 14,928	\$ (8,443)

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Miscellaneous Tier 1			
Balance at: 6/30/13 (Valuation date)	\$ 39,096,398	\$ 29,024,899	\$ 10,071,499
Balance at: 6/30/14 (Measurement date)	\$ 41,423,011	\$ 33,849,564	\$ 7,573,447
Net Changes during 2013-2014	\$ 2,326,613	\$ 4,824,665	\$ (2,498,052)
Miscellaneous Tier 2			
Balance at: 6/30/13 (Valuation date)	\$ 24,892	\$ 18,776	\$ 6,116
Balance at: 6/30/14 (Measurement date)	\$ 26,373	\$ 21,897	\$ 4,476
Net Changes during 2013-2014	\$ 1,481	\$ 3,121	\$ (1,640)
Miscellaneous PEPRA			
Balance at: 6/30/13 (Valuation date)	\$ 668	\$ 504	\$ 164
Balance at: 6/30/14 (Measurement date)	\$ 708	\$ 588	\$ 120
Net Changes during 2013-2014	\$ 40	\$ 84	\$ (44)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2013). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2014). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2013-14).

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool (Continued).

- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

The City's proportionate share of the net pension liability was as follows:

	Plans			
	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2
June 30, 2013	0.07758%	0.00033%	0.11380%	0.00072%
June 30, 2014	0.08132%	0.00032%	0.11657%	0.00069%
Change - Increase (Decrease)	0.00374%	-0.00001%	0.00277%	-0.00003%
	Plans			
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRAs	
June 30, 2013	0.30737%	0.00019%	0.00001%	
June 30, 2014	0.30643%	0.00018%	0.00000%	
Change - Increase (Decrease)	-0.00094%	-0.00001%	-0.00001%	

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

For the year ended June 30, 2015, the City recognized pension expense as follows:

Plans	Pension Expense
Fire Tier 1	\$ 247,189
Fire Tier 2	18,842
Police Tier 1	345,143
Police Tier 2	86,840
Miscellaneous Tier 1	488,479
Miscellaneous Tier 2	13,452
Miscellaneous PEPPRA	5,784
Total	\$ 1,205,729

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (“EARSLS”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSLS for risk pool for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fire Tier 1		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (653,944)
Adjustment due to differences in proportions	18,341	-
Difference between City contributions and proportionate share of contributions	11,414	-
Total	\$ 29,755	\$ (653,944)

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

Fire Tier 2		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (3,602)
Adjustment due to differences in proportions	-	(11,035)
Difference between City contributions and proportionate share of contributions	18,462	-
Total	\$ 18,462	\$ (14,637)
Police Tier 1		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (1,038,588)
Adjustment due to differences in proportions	48,724	-
Difference between City contributions and proportionate share of contributions	1,317	-
Total	\$ 50,041	\$ (1,038,588)
Police Tier 2		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (7,863)
Adjustment due to differences in proportions		(55,808)
Difference between City contributions and proportionate share of contributions	79,467	-
Total	\$ 79,467	\$ (63,671)

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

Miscellaneous Tier 1		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (2,325,079)
Adjustment due to differences in proportions	202,633	-
Difference between City contributions and proportionate share of contributions	-	(143,537)
Total	<u>\$ 202,633</u>	<u>\$ (2,468,616)</u>
Miscellaneous Tier 2		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (1,504)
Adjustment due to differences in proportions	-	(217)
Difference between City contributions and proportionate share of contributions	35,783	-
Total	<u>\$ 35,783</u>	<u>\$ (1,721)</u>
Miscellaneous PEPRA		
	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	\$ -	\$ (40)
Adjustment due to differences in proportions	-	(4,123)
Difference between City contributions and proportionate share of contributions	4,616	-
Total	<u>\$ 4,616</u>	<u>\$ (4,163)</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

Reported deferred outflows of resources related to pensions resulting from City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources			
	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2
2016	\$ (152,858)	\$ 1,752	\$ (241,774)	\$ 6,483
2017	(152,858)	1,752	(241,774)	6,483
2018	(154,987)	1,223	(245,352)	4,795
2019	(163,486)	(902)	(259,647)	(1,965)
2020	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ (624,189)</u>	<u>\$ 3,825</u>	<u>\$ (988,547)</u>	<u>\$ 15,796</u>

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRA
2016	\$ (560,164)	\$ 12,325	\$ 167
2017	(560,164)	12,325	167
2018	(564,386)	9,788	129
2019	(581,269)	(376)	(10)
2020	-	-	-
Thereafter	-	-	-
	<u>\$ (2,265,983)</u>	<u>\$ 34,062</u>	<u>\$ 453</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 8 –Other Postemployment Benefits Plan

Plan Description

The City contributes to a multi-employer defined benefit plan to provide post-employment medical benefits. Specifically, the City provides postretirement medical benefits to all employees who retire from the City after attaining age 50 with at least 5 years of service. The plan does not provide a publicly available financial report.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City's City Council, and/or the employee associations. The required employer contribution was \$119 per person for months in 2014 and \$122 per person per month in 2015. Retirees pay the differential monthly amount of the premium, which varies depending on the health benefits they select. The City implemented GASB 45 for the fiscal year ended June 30, 2010, establishing a liability in its Risk Management Fund for the value of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a closed period not to exceed thirty years. The ARC and contribution total for year ended June 30, 2015 was \$146,411 and \$49,658, respectively.

Annual OPEB Cost and Net OPEB Asset

The City's annual OPEB cost is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB Obligation:

Annual Required Contribution	\$ 149,704
Interest Adjustment	(5,298)
Adjustment to Annual Required Contribution	<u>2,005</u>
Annual OPEB Cost	146,411
Contribution made	<u>(49,658)</u>
Change in Net OPEB Obligation	96,753
Net OPEB Obligation, Beginning of Year, as Restated	<u>109,837</u>
Net OPEB Obligation, End of Year	<u><u>\$ 206,590</u></u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 8 –Other Postemployment Benefits Plan (Continued)

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the year ended June 30, 2015 and the two preceding years were as follows:

Year Ended	OPEB Cost	OPEB Cost Contributed	Percentage of Annual OPEB cost Contributed	Net OPEB Obligation (Asset)
June 30, 2013	\$ 145,950	\$ 47,445	32.51%	\$ (4,175)
June 30, 2014	149,704	50,425	33.68%	109,837
June 30, 2015	146,217	49,658	33.96%	206,590

Funded Status and Funding Progress

As of August 1, 2015, the latest actuarial valuation date, there were no plan assets on the valuation date. The actuarial accrued liability for benefits was \$1,938,928, and the actuarial value of assets was \$614,048, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,324,880. The covered payroll (annual payroll of active employees covered by the plan) was \$6,509,854 and the ratio of the UAAL to the covered payroll was negative 20.35%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In January 2013, the City adopted ICMA-RC’s Vantagecare RHS Employer Investment Program for pre-funding of OPEB liability and established a revocable trust account. The City holds discretion to amend or terminate the program, and appoint program administrator to manage the daily operations of the trust account. This trust account is solely funded with assets from the City. The balance as of June 30, 2015 was \$515,813.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

The required contribution for the year ended June 30, 2015 was determined as part of the August 1, 2015 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), payroll increase of 2.75% per annum, and inflation rate of 2.75% per annum, and the City’s share of premium cost will increase at rates of 4% per annum. The level percentage of payroll method is used to allocate amortization cost by year, closed 30 year amortization period is used for the initial UAAL, and open 25 year amortization period is used for any residual UAAL.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 9 – Classification of Fund Balances

At June 30, 2015, fund balances are classified in the governmental funds as follows:

	General Fund	Community Development Grant Special Revenue Fund	Capital Improvement Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaid Items	\$ 140,335	\$ 288	\$ 872	\$ 1,575	\$ 143,070
Inventories	10,424	-	-	-	10,424
Notes Receivable	1,178,101	176,109	-	-	1,354,210
Land Held for Resale	1,340,000	-	-	-	1,340,000
	<u>2,668,860</u>	<u>176,397</u>	<u>872</u>	<u>1,575</u>	<u>2,847,704</u>
Restricted:					
Community Development Grants	-	779,788	-	-	779,788
Tourism Business Improvement	-	-	-	79,664	79,664
Lower Cost Visitor Accommodations	-	-	-	52,797	52,797
Traffic Safety Grant	-	-	-	-	-
Special Safety Grants	-	-	-	29,031	29,031
Parking In-lieu	-	-	-	405,811	405,811
Non-Transit LTF - Bike Paths	-	-	-	113	113
Special Assessment Districts	-	-	-	59,092	59,092
State Park Marina Grants	-	-	-	154,139	154,139
Cloister Special Assessment Districts	-	-	-	76,357	76,357
LTF Roads	-	-	-	29,127	29,127
District Transaction Tax	-	-	-	97,053	97,053
Park In-lieu (Quimby) Fees	-	-	-	10,206	10,206
	<u>-</u>	<u>779,788</u>	<u>-</u>	<u>993,390</u>	<u>1,773,178</u>
Committed:					
Facility Maintenance Fund	1,276,529	-	-	-	1,276,529
Government Impact Fees	-	-	-	318,197	318,197
Affordable Housing	-	-	-	163,276	163,276
	<u>1,276,529</u>	<u>-</u>	<u>-</u>	<u>481,473</u>	<u>1,758,002</u>
Unassigned	<u>2,131,045</u>	<u>-</u>	<u>(846)</u>	<u>-</u>	<u>2,130,199</u>
	<u>\$ 6,076,434</u>	<u>\$ 956,185</u>	<u>\$ 26</u>	<u>\$ 1,476,438</u>	<u>\$ 8,509,083</u>

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 10 – Water Revenue Over State Water Payments

The City has contracted with the San Luis Obispo County Flood Control and Water Conservation District to provide water from the state water project. The City has contracted to obtain 1,313 acre feet of water per year with an initial estimated cost of \$750 per acre foot, not including the fixed operating and management costs allocated to the City on a pro rata share basis. The City is obligated to make payments even if the City fails or refuses to accept water deliveries. The City paid a total of \$2,208,691 during the year ended June 30, 2015 for its share of the construction and operating costs.

For the fiscal year ending June 30, 2015, the city had 0.64 in water revenue over State Water Payments ratio which is required to be at minimum ratio of greater than, or equal to 1.25. The City entered into a contract with Bartle Wells for water and sewer rate study services. After many public meetings, a Prop 218 protest vote and public hearing, the new rates were adopted on May 26, 2015.

Note 11 – Prior Period Adjustments

Net positions as of July 1, 2014 were restated as follows:

	Governmental Activities	Business-type Activities
Net Position at July 1, 2014	\$ 129,348,688	\$ 29,107,573
Report pension contribution made during the measurement period as deferred outflows of resources due to implementation of GASB 71	1,271,418	354,852
Report net pension liability due to the implementation of GASB 68	(15,076,253)	(4,207,775)
Overstatement of unearned revenue	881,389	-
Understatement of unearned revenue	-	(75,232)
Understatement of other postemployment benefits	(109,837)	-
Understatement of pension related debt	(1,508,441)	-
Subtotal	(14,541,724)	(3,928,155)
Net Position at July 1, 2014, as Restated	\$ 114,806,964	\$ 25,179,418

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 11 – Prior Period Adjustments (Continued)

Net positions as of July 1, 2014 were restated as follows (Continued):

	Enterprise Funds			Nonmajor Local Transportation Fund	Total
	Water	Sewer	Harbor		
Net Position at July 1, 2014	\$ 12,273,540	\$ 14,884,008	\$ 1,511,424	\$ 438,601	\$ 29,107,573
Report pension contribution made during the measurement period as deferred outflows of resources due to implementation of GASB 71	61,636	160,187	133,029	-	354,852
Report net pension liability due to the implementation of GASB 68	(730,865)	(1,899,477)	(1,577,433)	-	(4,207,775)
Understatement of unearned revenue	-	-	-	(75,232)	(75,232)
Subtotal	(669,229)	(1,739,290)	(1,444,404)	(75,232)	(3,928,155)
Net Position at July 1, 2014, as Restated	<u>\$ 11,604,311</u>	<u>\$ 13,144,718</u>	<u>\$ 67,020</u>	<u>\$ 363,369</u>	<u>\$ 25,179,418</u>

	Special Revenue Fund Community Development
Fund Balance at July 1, 2014	\$ 128,708
Correction of reporting deferred revenue for notes receivable	881,389
Fund Balance at July 1, 2014, as Restated	<u>\$ 1,010,097</u>

Prior period adjustment of \$504,079 was made to the Other Postemployment Benefits Trust Fund due to the change of the reporting of the fund type from an agency fund to a trust fund.

Note 12 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned constructions as of June 30, 2015. However, those constructions neither were contractual nor carried over in a budget. Open constructions are re-budgeted and adopted in a new fiscal year.

B. Contingencies

The City is subject to various legal matters incidental to the ordinary course of City operations. At this time, the outcome of these matters and the potential loss, if any, that might result are uncertain. No provision for any liability that may result has been made in the financial statements for these matters.

C. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

City of Morro Bay
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 13 – Subsequent Events

Beginning in 2015/16, CalPERS changed its methodology for collecting contributions from employers to cover not only the normal cost of pensions, but to repay the side funds that developed as a result of contracting for enhanced pension benefits. These side funds were created as a result of enhanced benefits, retroactively covering all existing employees without requiring a cash deposit to cover the retroactive cost difference between the enhanced benefit plans and the former plans. Contributions are now based on the normal cost percentage rate by Tier for each payroll plus a flat amount every month for each segment (Miscellaneous plan, Safety Police plan, and Safety Fire plan) to repay these side funds.

Note 14 – Other Required Disclosure

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations occurred in individual funds during the year ended June 30, 2015 as follows:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditure in Excess of Appropriations</u>
General Fund			
Administration	\$ 1,320,110	\$ 1,214,673	\$ (105,437)
Community promotion	279,225	-	(279,225)
Fire	2,280,930	2,189,761	(91,169)
Nonmajor Special Revenue Funds:			
MB Tourism Business Improvement			
District Fund			
Community promotion	872,552	715,000	(157,552)
Special Safety Grant			
Police	170,698	100,000	(70,698)
Parking In-lieu Fund			
Police	25,229	-	(25,229)
Special Assessments Fund			
Park and recreation	7,550	5,645	(1,905)
Park In-lieu Fee Fund			
Park and recreation	4,680	-	(4,680)
District Transaction Tax Fund			
Fire	107,857	95,312	(12,545)
Public works	972,060	755,521	(216,539)
Principal	70,838	25,000	(45,838)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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City of Morro Bay
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2015

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Taxes & special assessments	\$ 7,821,976	\$ 7,932,106	\$ 8,768,929	\$ 836,823
Intergovernmental revenue	22,000	22,000	36,322	14,322
Charges for services	1,155,609	1,413,156	1,537,444	124,288
Revenues from use of money and property	432,298	432,298	418,119	(14,179)
Fines & forfeits	11,000	11,000	8,562	(2,438)
Other revenues	13,650	13,650	603,344	589,694
Total Revenues	<u>9,456,533</u>	<u>9,824,210</u>	<u>11,372,720</u>	<u>1,548,510</u>
Expenditures:				
Current:				
Administration	1,055,161	1,214,673	1,320,110	(105,437)
Community promotion	-	-	279,225	(279,225)
Finance	645,329	662,145	630,241	31,904
Fire	2,045,618	2,189,761	2,280,930	(91,169)
Police	3,479,825	3,561,289	3,305,060	256,229
Public works	1,041,512	1,518,387	1,444,781	73,606
Recreation/parks/maintenance	2,103,490	1,715,913	1,710,790	5,123
Capital Outlay	382,964	382,964	382,964	-
Total Expenditures	<u>10,370,935</u>	<u>10,862,168</u>	<u>11,354,101</u>	<u>(108,969)</u>
Excess(deficiency) of revenues over expenditures	<u>(914,402)</u>	<u>(1,037,958)</u>	<u>18,619</u>	<u>1,439,541</u>
Other Financing Sources (Uses):				
Transfers in	1,324,755	1,450,655	1,824,177	373,522
Transfers out	-	(200,000)	(458,238)	(258,238)
Total Other Financing Sources (Uses):	<u>1,324,755</u>	<u>1,250,655</u>	<u>1,365,939</u>	<u>115,284</u>
Net change in Fund Balance	<u>\$ 410,353</u>	<u>\$ 212,697</u>	<u>1,384,558</u>	<u>\$ 1,171,861</u>
Fund Balances, July 1			<u>4,691,876</u>	
Fund Balances, June 30			<u>\$ 6,076,434</u>	

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of Funding Progress
For the Year Ended June 30, 2015

Note 1 – Budgetary Control and Accounting Policy

Budgets are annually adopted for all governmental and proprietary fund types on a basis consistent with generally accepted accounting principles. The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the “*annual appropriated budget*.”

The appropriated budget is prepared by fund, department and division. The City Council may amend the budget by motion during the fiscal year. Expenditures may not legally exceed appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within the same fund; however, any transfers between funds or revisions that alter total appropriations of any fund require City Council approval. The legal level of control is therefore at the fund level.

Supplemental appropriations, which increase appropriations, were made during the fiscal year, therefore, “final” budgeted revenue and appropriation amounts shown in the financial statements represent the original budget, modified for adjustments during the year. Appropriations lapse at the end of the fiscal year.

Budget was not adopted for Community Development Grant Special Revenue Fund and Capital Improvement Grant Special Revenue Fund.

Encumbrances - Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Unexpended appropriations lapse at year-end.

City of Morro Bay
Required Supplementary Information (Unaudited)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2015

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Fire Tier I Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.04902%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,050,378
City's Covered-Employee Payroll	\$ 657,222
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	464.13%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	75.68%

California Public Employees' Retirement System ("CalPERS") Fire Tier II Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.00019%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 11,928
City's Covered-Employee Payroll	\$ 108,177
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	11.03%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	81.42%

California Public Employees' Retirement System ("CalPERS") Fire PEPRA Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.00000%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ -
City's Covered-Employee Payroll	\$ -
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	0.00%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	0.00%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. The fiscal year 2015 was the first year of implementation, therefore only one year is shown.

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios (Continued)
For the Year Ended June 30, 2015

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Police Tier I Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.07027%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 4,372,512
City's Covered-Employee Payroll	\$ 1,152,305
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	379.46%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	77.51%

California Public Employees' Retirement System ("CalPERS") Police Tier II Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.00042%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 26,043
City's Covered-Employee Payroll	\$ 496,607
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	5.24%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	81.42%

California Public Employees' Retirement System ("CalPERS") Police PEPRA Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.00000%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ -
City's Covered-Employee Payroll	\$ -
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	0.00%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	0.00%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. The fiscal year 2015 was the first year of implementation, therefore only one year is shown.

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios (Continued)
For the Year Ended June 30, 2015

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Tier I Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.12171%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 7,573,447
City's Covered-Employee Payroll	\$ 3,299,199
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	229.55%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	81.72%

California Public Employees' Retirement System ("CalPERS") Miscellaneous Tier II Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.00007%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 4,476
City's Covered-Employee Payroll	\$ 307,456
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	1.46%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%

California Public Employees' Retirement System ("CalPERS") Miscellaneous PEPRA Plan

	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.00000%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 120
City's Covered-Employee Payroll	\$ 89,322
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	0.13%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	83.05%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. The fiscal year 2015 was the first year of implementation, therefore only one year is shown.

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Contributions
For the Year Ended June 30, 2015

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Fire Tier I Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 325,631	\$ 284,171
Contribution in Relation to the Actuarially Determined Contribution ²	(325,631)	(284,171)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 676,939	\$ 657,222
Contributions as a Percentage of Covered-Employee Payroll	48.10%	43.24%

California Public Employees' Retirement System ("CalPERS") Fire Tier II Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 30,122	\$ 26,535
Contribution in Relation to the Actuarially Determined Contribution ²	(30,122)	(26,535)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 111,422	\$ 108,177
Contributions as a Percentage of Covered-Employee Payroll	27.03%	24.53%

California Public Employees' Retirement System ("CalPERS") Fire PEPR Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 9,435	\$ -
Contribution in Relation to the Actuarially Determined Contribution ²	(9,435)	-
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,5}	\$ 82,151	\$ -
Contributions as a Percentage of Covered-Employee Payroll	11.48%	0.00%

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Contributions (Continued)
For the Year Ended June 30, 2015

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Police Tier I Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 398,627	\$ 428,502
Contribution in Relation to the Actuarially Determined Contribution ²	(398,627)	(428,502)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 1,186,874	\$ 1,152,305
Contributions as a Percentage of Covered-Employee Payroll	33.59%	37.19%

California Public Employees' Retirement System ("CalPERS") Police Tier II Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 133,057	\$ 111,079
Contribution in Relation to the Actuarially Determined Contribution ²	(133,057)	(111,079)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 511,505	\$ 496,607
Contributions as a Percentage of Covered-Employee Payroll	26.01%	22.37%

California Public Employees' Retirement System ("CalPERS") Police PEPRA Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 17,908	\$ -
Contribution in Relation to the Actuarially Determined Contribution ²	(17,908)	-
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 159,302	\$ -
Contributions as a Percentage of Covered-Employee Payroll	11.24%	0.00%

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Contributions (Continued)
For the Year Ended June 30, 2015

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Tier I Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 696,786	\$ 720,548
Contribution in Relation to the Actuarially Determined Contribution ²	(696,786)	(720,548)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 3,398,175	\$ 3,299,199
Contributions as a Percentage of Covered-Employee Payroll	20.50%	21.84%

California Public Employees' Retirement System ("CalPERS") Miscellaneous Tier II Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 54,189	\$ 49,154
Contribution in Relation to the Actuarially Determined Contribution ²	(54,189)	(49,154)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 316,680	\$ 307,456
Contributions as a Percentage of Covered-Employee Payroll	17.11%	15.99%

California Public Employees' Retirement System ("CalPERS") Miscellaneous PEPR Plan

	2014-15	2013-14 ¹
Actuarially Determined Contribution ²	\$ 20,216	\$ 6,281
Contribution in Relation to the Actuarially Determined Contribution ²	(20,216)	(6,281)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll ^{3,4}	\$ 92,002	\$ 89,322
Contributions as a Percentage of Covered-Employee Payroll	21.97%	7.03%

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Contributions (Continued)
For the Year Ended June 30, 2015

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. The fiscal year 2015 was the first year of implementation, therefore only one year and the measure period are shown.

² Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution).

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-

⁴ Payroll from 2012-13 was assumed to increase by the 3.00% payroll growth assumption

Plans	2012-13 Covered- Employee Payroll
Fire Tier 1	\$ 638,080
Fire Tier 2	105,026
Police Tier 1	1,118,743
Police Tier 2	482,143
Miscellaneous Tier 1	3,203,106
Miscellaneous Tier 2	298,501
Miscellaneous PEPRA	86,720

⁵ Payroll amounts for Fire and Police PEPRA plan are from payroll record of the City. No valuation reports were available due to having no covered employee for June 30, 2013 valuation period.

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June

Changes of Assumptions: There were no changes in assumptions.

City of Morro Bay
Required Supplementary Information (Unaudited) (Continued)
Schedule of Funding Progress
For the Year Ended June 30, 2015

Other Postemployment Benefits Plan

The schedule of funding progress for the past two available actuarial valuations is presented below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded AAL (UAAL) [(b) - (a)]</u>	<u>Funded Ratio [(a) / (b)]</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll [(b) - (a)] / (c)</u>
August 1, 2010	\$ -	\$ 1,272,897	\$ 1,272,897	0.00%	\$ 6,609,575	19.26%
August 1, 2012	326,933	1,616,609	1,289,676	20.2%	\$ 6,154,925	20.95%
August 1, 2015	614,048	1,938,928	1,324,880	31.7%	\$ 6,509,854	20.35%

SUPPLEMENTARY INFORMATION

SPECIAL REVENUE FUNDS:

Morro Bay Tourism Business Improvement District (MBTBID) Special Revenue Fund - to account for the marketing activities of the MBTBID and the Visitors Center.

Gas Tax Special Revenue Fund - to account for monies received from gasoline taxes.

Lower Cost Visitor Special Revenue Fund – to accounts for collections in-lieu mitigation fees for lower cost visitor serving overnight accommodations, such as hostels and tent campground units, as required by California Coastal Commission actions on coastal development permits.

Traffic Safety Special Revenue Fund – to account for fines and forfeitures collected from any person charged with a misdemeanor.

Special Safety Grant Special Revenue Fund – To account for the Supplemental Law Enforcement Services Fund (SLESF) grant.

Parking In-Lieu Special Revenue Fund – To account for in-lieu fees charged for parking spaces required to adequately service a new business establishment, or the expansion of an existing one.

Bike Path Special Revenue Fund – To account for two percent of Transportation Development Act funds received by the City that are specifically set aside for bike path.

Special Assessment District Special Revenue Fund – to account for parcel assessments and expenditures associated with certain housing developments within the City limits.

Governmental Impact Fees Special Revenue Fund – to account for fees collected to ensure that new development pays the cost of infrastructure expansion required to meet the needs of that new development, effectively transferring the cost burden of growth from the existing rate and taxpayers.

State Park Marina Special Revenue Fund – To account for marina concessions revenues that are received for the planning and environmental review of the proposed dredging and renovation of the State Park Marina.

Affordable Housing In-lieu Special Revenue Fund – To account for collection of impact fees for affordable housing.

Cloisters Special Assessment District Special Revenue Fund – To account for parcel assessments and expenditures associated with the Cloisters housing developments within the City limits.

Local Transportation Funds ("LTF") Roads Special Revenue Fund – To account for Transportation Development Act (TDA) money for roads projects, under TDA Article 8, 99400(a).

Park In-Lieu Fees Special Revenue Fund – To account for special revenue fees collected under the 1975 Quimby Act (California Government Code §66477).

District Transaction Tax Special Revenue Fund – To account for ½ cent district sales tax, commonly known as “Measure Q”.

City of Morro Bay
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			
	MB Tourism Business Improvement District	Gas Tax	Lower Cost Visitor Accommodation	Traffic Safety Grant
ASSETS				
Cash and cash equivalents	\$ 71,865	\$ 25,295	\$ 36,770	\$ -
Receivables:				
Intergovernmental	-	4,552	-	2,659
Accounts	78,999	-	-	-
Notes	-	-	15,735	-
Due from other funds	678	-	292	-
Prepaid items	-	-	-	-
Total Assets	<u>\$ 151,542</u>	<u>\$ 29,847</u>	<u>\$ 52,797</u>	<u>\$ 2,659</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 71,878	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	-	-
Due to other funds	-	29,847	-	2,659
Unearned revenue	-	-	-	-
Total Liabilities	<u>71,878</u>	<u>29,847</u>	<u>-</u>	<u>2,659</u>
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	79,664	-	52,797	-
Committed	-	-	-	-
Total Fund Balances	<u>79,664</u>	<u>-</u>	<u>52,797</u>	<u>-</u>
Total Liabilities & Fund Balances	<u>\$ 151,542</u>	<u>\$ 29,847</u>	<u>\$ 52,797</u>	<u>\$ 2,659</u>

City of Morro Bay
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			
	Special Safety Grant	Parking In- Lieu	Bike Path	Special Assessments District
ASSETS				
Cash and cash equivalents	\$ 49,307	\$ 390,218	\$ 3	\$ 59,593
Receivables:				
Intergovernmental	-	-	-	-
Accounts	-	-	-	-
Notes	-	15,579	-	-
Due from other funds	507	3,181	110	-
Prepaid items	-	-	-	9
Total Assets	<u>\$ 49,814</u>	<u>\$ 408,978</u>	<u>\$ 113</u>	<u>\$ 59,602</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 20,783	\$ -	\$ -	\$ 492
Accrued payroll and benefits	-	-	-	9
Due to other funds	-	-	-	-
Unearned revenue	-	3,167	-	-
Total Liabilities	<u>20,783</u>	<u>3,167</u>	<u>-</u>	<u>501</u>
Fund Balances:				
Nonspendable	-	-	-	9
Restricted	29,031	405,811	113	59,092
Committed	-	-	-	-
Total Fund Balances	<u>29,031</u>	<u>405,811</u>	<u>113</u>	<u>59,101</u>
Total Liabilities & Fund Balances	<u>\$ 49,814</u>	<u>\$ 408,978</u>	<u>\$ 113</u>	<u>\$ 59,602</u>

City of Morro Bay
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			
	Governmental Impact Fees	State Park Marina	Affordable Housing In-Lieu	Cloister Special Assessments District
ASSETS				
Cash and cash equivalents	\$ 314,353	\$ 146,585	\$ 161,996	\$ 85,909
Receivables:				
Intergovernmental	-	-	-	-
Accounts	-	7,554	-	-
Notes	-	-	-	-
Due from other funds	3,844	-	1,280	543
Prepaid items	-	-	-	276
Total Assets	\$ 318,197	\$ 154,139	\$ 163,276	\$ 86,728
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 9,689
Accrued payroll and benefits	-	-	-	406
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	-	-	-	10,095
Fund Balances:				
Nonspendable	-	-	-	276
Restricted	-	154,139	-	76,357
Committed	318,197	-	163,276	-
Total Fund Balances	318,197	154,139	163,276	76,633
Total Liabilities & Fund Balances	\$ 318,197	\$ 154,139	\$ 163,276	\$ 86,728

City of Morro Bay
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			Total Nonmajor Governmental Funds
	LTF Roads	Park In- Lieu Fees	District Transaction Tax	
ASSETS				
Cash and cash equivalents	\$ 28,997	\$ 9,784	\$ 106,379	\$ 1,487,054
Receivables:				
Intergovernmental	-	-	70,200	77,411
Accounts	-	-	-	86,553
Notes	-	-	-	31,314
Due from other funds	130	422	1,593	12,580
Prepaid items	-	-	1,290	1,575
Total Assets	<u>\$ 29,127</u>	<u>\$ 10,206</u>	<u>\$ 179,462</u>	<u>\$ 1,696,487</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 75,735	\$ 178,577
Accrued payroll and benefits	-	-	5,384	5,799
Due to other funds	-	-	-	32,506
Unearned revenue	-	-	-	3,167
Total Liabilities	<u>-</u>	<u>-</u>	<u>81,119</u>	<u>220,049</u>
Fund Balances:				
Nonspendable	-	-	1,290	1,575
Restricted	29,127	10,206	97,053	993,390
Committed	-	-	-	481,473
Total Fund Balances	<u>29,127</u>	<u>10,206</u>	<u>98,343</u>	<u>1,476,438</u>
Total Liabilities & Fund Balances	<u>\$ 29,127</u>	<u>\$ 10,206</u>	<u>\$ 179,462</u>	<u>\$ 1,696,487</u>

City of Morro Bay
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue Funds			
	MB Tourism Business Improvement District	Gas Tax	Lower Cost Visitor Accommodation	Traffic Safety Grant
REVENUES:				
Taxes and special assessments	\$ 741,435	\$ -	\$ -	\$ -
Intergovernmental revenues	-	286,393	-	-
Charges for services	-	-	-	-
Revenue from use of money and property	681	-	294	-
Fines and forfeitures	-	-	-	15,624
Other revenues	-	-	15,735	-
Total revenues	742,116	286,393	16,029	15,624
EXPENDITURES:				
Current:				
Community promotion	872,552	-	-	-
Fire	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Recreation and parks	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	872,552	-	-	-
REVENUE OVER (UNDER) EXPENDITURES	(130,436)	286,393	16,029	15,624
OTHER FINANCING SOURCES (USES):				
Transfers in	139,996	59,695	-	3,147
Transfers out	-	(346,088)	-	(18,771)
Total Other Financing Sources (Uses)	139,996	(286,393)	-	(15,624)
NET CHANGE IN FUND BALANCES	9,560	-	16,029	-
FUND BALANCES				
Beginning of Year	70,104	-	36,768	-
End of Year	\$ 79,664	\$ -	\$ 52,797	\$ -

City of Morro Bay
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

Special Revenue Funds

	Special Safety Grant	Parking In- Lieu	Bike Path	Special Assessments District
REVENUES:				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 9,099
Intergovernmental revenues	106,230	-	10,721	-
Charges for services	-	-	-	-
Revenue from use of money and property	505	4,840	113	-
Fines and forfeitures	-	-	-	-
Other revenues	-	15,579	-	-
Total revenues	<u>106,735</u>	<u>20,419</u>	<u>10,834</u>	<u>9,099</u>
EXPENDITURES:				
Current:				
Community promotion	-	-	-	-
Fire	-	-	-	-
Police	170,698	25,229	-	-
Public works	-	-	-	-
Recreation and parks	-	-	-	7,550
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>170,698</u>	<u>25,229</u>	<u>-</u>	<u>7,550</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(63,963)</u>	<u>(4,810)</u>	<u>10,834</u>	<u>1,549</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	(40,969)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(40,969)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(63,963)</u>	<u>(4,810)</u>	<u>(30,135)</u>	<u>1,549</u>
FUND BALANCES				
Beginning of Year	92,994	410,621	30,248	57,552
End of Year	<u>\$ 29,031</u>	<u>\$ 405,811</u>	<u>\$ 113</u>	<u>\$ 59,101</u>

City of Morro Bay
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue Funds			
	Governmental Impact Fees	State Park Marina	Affordable Housing In-Lieu	Cloister Special Assessments District
REVENUES:				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 148,322
Intergovernmental revenues	-	-	-	-
Charges for services	195,327	-	12,044	-
Revenue from use of money and property	3,895	81,430	1,290	537
Fines and forfeitures	-	-	-	-
Other revenues	-	-	-	-
Total revenues	<u>199,222</u>	<u>81,430</u>	<u>13,334</u>	<u>148,859</u>
EXPENDITURES:				
Current:				
Community promotion	-	-	-	-
Fire	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Recreation and parks	-	-	-	122,420
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,420</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>199,222</u>	<u>81,430</u>	<u>13,334</u>	<u>26,439</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(534,590)	-	(10,410)	-
Total Other Financing Sources (Uses)	<u>(534,590)</u>	<u>-</u>	<u>(10,410)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(335,368)	81,430	2,924	26,439
FUND BALANCES				
Beginning of Year	653,565	72,709	160,352	50,194
End of Year	<u>\$ 318,197</u>	<u>\$ 154,139</u>	<u>\$ 163,276</u>	<u>\$ 76,633</u>

City of Morro Bay
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue Funds			Total Nonmajor Governmental Funds
	LTF Roads	Park In- Lieu Fees	District Transaction Tax	
REVENUES:				
Taxes and special assessments	\$ -	\$ -	\$ 946,448	\$ 1,845,304
Intergovernmental revenues	28,785	-	-	432,129
Charges for services	-	17,282	-	224,653
Revenue from use of money and property	242	431	1,664	95,922
Fines and forfeitures	-	-	-	15,624
Other revenues	-	2,000	-	33,314
Total revenues	<u>29,027</u>	<u>19,713</u>	<u>948,112</u>	<u>2,646,946</u>
EXPENDITURES:				
Current:				
Community promotion	-	-	-	872,552
Fire	-	-	107,857	107,857
Police	-	-	104,017	299,944
Public works	-	-	972,060	972,060
Recreation and parks	-	4,680	-	134,650
Debt service:				
Principal	-	-	70,838	70,838
Interest	-	-	53,971	53,971
Total expenditures	<u>-</u>	<u>4,680</u>	<u>1,308,743</u>	<u>2,511,872</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>29,027</u>	<u>15,033</u>	<u>(360,631)</u>	<u>135,074</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	203,508	406,346
Transfers out	-	(90,660)	(99,608)	(1,141,096)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(90,660)</u>	<u>103,900</u>	<u>(734,750)</u>
NET CHANGE IN FUND BALANCES	29,027	(75,627)	(256,731)	(599,676)
FUND BALANCES				
Beginning of Year	100	85,833	355,074	2,076,114
End of Year	<u>\$ 29,127</u>	<u>\$ 10,206</u>	<u>\$ 98,343</u>	<u>\$ 1,476,438</u>

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
MB Tourism Business Improvement District Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 575,000	\$ 575,000	\$ 741,435	\$ 166,435
Revenues from use of money and property	-	-	681	681
Total revenues	<u>575,000</u>	<u>575,000</u>	<u>742,116</u>	<u>167,116</u>
Expenditures:				
Current:				
Community Promotion	715,000	715,000	872,552	(157,552)
Total expenditures	<u>715,000</u>	<u>715,000</u>	<u>872,552</u>	<u>(157,552)</u>
Excess of Revenues Over (Under) Expenditures	<u>(140,000)</u>	<u>(140,000)</u>	<u>(130,436)</u>	<u>9,564</u>
Other Financing Sources :				
Transfers in	140,000	140,000	139,996	(4)
Total Other Financing Sources	<u>140,000</u>	<u>140,000</u>	<u>139,996</u>	<u>(4)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>9,560</u>	<u>\$ 9,560</u>
FUND BALANCES				
Beginning of Year			<u>70,104</u>	
End of Year			<u>\$ 79,664</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Gas Tax Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$ 271,934	\$ 271,934	\$ 286,393	\$ 14,459
Total revenues	<u>271,934</u>	<u>271,934</u>	<u>286,393</u>	<u>14,459</u>
Excess of Revenues Over (Under) Expenditures	<u>271,934</u>	<u>271,934</u>	<u>286,393</u>	<u>14,459</u>
Other Financing Sources (Uses):				
Transfers in	-	-	59,695	59,695
Transfers out	(271,934)	(271,934)	(346,088)	(74,154)
Total Other Financing Sources (Uses)	<u>(271,934)</u>	<u>(271,934)</u>	<u>(286,393)</u>	<u>(14,459)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCES (DEFICIT)				
Beginning of Year			-	
End of Year			<u>\$ -</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Lower Cost Visitor Accommodation Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenues from use of money and property	\$ -	\$ -	\$ 294	\$ 294
Other revenue	-	-	15,735	15,735
Total revenues	<u>-</u>	<u>-</u>	<u>16,029</u>	<u>16,029</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>16,029</u>	<u>\$ 16,029</u>
FUND BALANCES				
Beginning of Year			<u>36,768</u>	
End of Year			<u>\$ 52,797</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Traffic Safety Grant Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fines and forfeitures	\$ 30,000	\$ 30,000	\$ 15,624	\$ (14,376)
Total revenues	<u>30,000</u>	<u>30,000</u>	<u>15,624</u>	<u>(14,376)</u>
Excess of Revenues Over (Under) Expenditures	<u>30,000</u>	<u>30,000</u>	<u>15,624</u>	<u>(14,376)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	3,147	3,147
Transfers out	-	-	(18,771)	(18,771)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(15,624)</u>	<u>(15,624)</u>
Net change in fund balances	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>-</u>	<u>\$ (30,000)</u>
FUND BALANCES				
Beginning of Year			<u>-</u>	
End of Year			<u>\$ -</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Special Safety Grant Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$ 100,000	\$ 100,000	\$ 106,230	\$ 6,230
Revenues from use of money and property	-	-	505	505
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>106,735</u>	<u>6,735</u>
Expenditures:				
Current:				
Police	100,000	100,000	170,698	(70,698)
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>170,698</u>	<u>(70,698)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(63,963)</u>	<u>\$ (63,963)</u>
FUND BALANCES				
Beginning of Year			<u>92,994</u>	
End of Year			<u>\$ 29,031</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Parking In-lieu Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ -
Revenues from use of money and property	-	-	4,840	4,840
Other revenues	-	-	15,579	15,579
Total revenues	-	-	20,419	20,419
Expenditures:				
Current:				
Police	-	-	25,229	(25,229)
Total expenditures	-	-	25,229	(25,229)
Net change in fund balances	\$ -	\$ -	(4,810)	\$ (4,810)
FUND BALANCES				
Beginning of Year			410,621	
End of Year			<u>\$ 405,811</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Bike Path Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$ 10,721	\$ 10,721	\$ 10,721	\$ -
Revenues from use of money and property	-	-	113	113
Total revenues	<u>10,721</u>	<u>10,721</u>	<u>10,834</u>	<u>113</u>
Excess of Revenues Over (Under) Expenditures	<u>10,721</u>	<u>10,721</u>	<u>10,834</u>	<u>113</u>
Other Financing Uses:				
Transfers out	-	(35,205)	(40,969)	(5,764)
Total Other Financing Uses	<u>-</u>	<u>(35,205)</u>	<u>(40,969)</u>	<u>(5,764)</u>
Net change in fund balances	<u>\$ 10,721</u>	<u>\$ (24,484)</u>	<u>(30,135)</u>	<u>\$ (5,651)</u>
FUND BALANCES				
Beginning of Year			30,248	
End of Year			<u>\$ 113</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Special Assessments Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 157,421	\$ 8,477	\$ 9,099	\$ 622
Total revenues	<u>157,421</u>	<u>8,477</u>	<u>9,099</u>	<u>622</u>
Expenditures:				
Current:				
Recreation and parks	134,645	5,645	7,550	(1,905)
Total expenditures	<u>134,645</u>	<u>5,645</u>	<u>7,550</u>	<u>(1,905)</u>
Net change in fund balances	<u>\$ 22,776</u>	<u>\$ 2,832</u>	1,549	<u>\$ (1,283)</u>
FUND BALANCES				
Beginning of Year			<u>57,552</u>	
End of Year			<u>\$ 59,101</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Governmental Impact Fees Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Charges for services	\$ 40,000	\$ 40,000	\$ 195,327	\$ 155,327
Revenues from use of money and property	-	-	3,895	3,895
Total revenues	<u>40,000</u>	<u>40,000</u>	<u>199,222</u>	<u>159,222</u>
Excess of Revenues Over (Under) Expenditures	<u>40,000</u>	<u>40,000</u>	<u>199,222</u>	<u>159,222</u>
Other Financing Uses:				
Transfers out	(115,000)	(115,000)	(534,590)	(419,590)
Total Other Financing Uses	<u>(115,000)</u>	<u>(115,000)</u>	<u>(534,590)</u>	<u>(419,590)</u>
Net change in fund balances	<u>\$ (75,000)</u>	<u>\$ (75,000)</u>	<u>(335,368)</u>	<u>\$ (260,368)</u>
FUND BALANCES				
Beginning of Year			653,565	
End of Year			<u>\$ 318,197</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
State Park Marina Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenues from use of money and property	\$ 65,000	\$ 65,000	\$ 81,430	\$ 16,430
Total revenues	<u>65,000</u>	<u>65,000</u>	<u>81,430</u>	<u>16,430</u>
Expenditures:				
Current:				
Marina	65,000	65,000	-	65,000
Total expenditures	<u>65,000</u>	<u>65,000</u>	<u>-</u>	<u>65,000</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	81,430	<u>\$ 81,430</u>
FUND BALANCES				
Beginning of Year			<u>72,709</u>	
End of Year			<u>\$ 154,139</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Affordable Housing In-lieu Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Charges for services	\$ -	\$ -	\$ 12,044	\$ 12,044
Revenues from use of money and property	-	-	1,290	1,290
Total revenues	<u>-</u>	<u>-</u>	<u>13,334</u>	<u>13,334</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>13,334</u>	<u>13,334</u>
Other Financing Uses:				
Transfers out	<u>(1,000)</u>	<u>(1,000)</u>	<u>(10,410)</u>	<u>(9,410)</u>
Total Other Financing Uses	<u>(1,000)</u>	<u>(1,000)</u>	<u>(10,410)</u>	<u>(9,410)</u>
Net change in fund balances	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	2,924	<u>\$ 3,924</u>
FUND BALANCES				
Beginning of Year			<u>160,352</u>	
End of Year			<u>\$ 163,276</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Cloister Reserve Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ -	\$ 148,944	\$ 148,322	\$ (622)
Revenues from use of money and property	-	-	537	537
Total revenues	<u>-</u>	<u>148,944</u>	<u>148,859</u>	<u>(85)</u>
Expenditures:				
Current:				
Recreation and parks	-	129,000	122,420	6,580
Total expenditures	<u>-</u>	<u>129,000</u>	<u>122,420</u>	<u>6,580</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ 19,944</u>	<u>26,439</u>	<u>\$ 6,495</u>
FUND BALANCES				
Beginning of Year			<u>50,194</u>	
End of Year			<u>\$ 76,633</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
LTF Roads Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$ -	\$ -	\$ 28,785	\$ 28,785
Revenues from use of money and property	-	-	242	242
Total revenues	-	-	29,027	29,027
Excess of Revenues Over (Under) Expenditures	-	-	29,027	29,027
Other Financing Uses:				
Transfers out	-	(32,590)	-	32,590
Total Other Financing Uses	-	(32,590)	-	32,590
Net change in fund balances	\$ -	\$ (32,590)	29,027	\$ 61,617
FUND BALANCES				
Beginning of Year			100	
End of Year			\$ 29,127	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Park In-lieu Fee Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Charges for services	\$ -	\$ -	\$ 17,282	\$ 17,282
Revenues from use of money and property	-	-	431	431
Other revenues	-	-	2,000	2,000
Total revenues	-	-	19,713	19,713
Expenditures:				
Current:				
Recreation and parks	-	-	4,680	(4,680)
Total expenditures	-	-	4,680	(4,680)
Excess of Revenues Over (Under) Expenditures	-	-	15,033	15,033
Other Financing Sources (Uses):				
Transfers out	-	-	(90,660)	(90,660)
Total Other Financing Sources (Uses)	-	-	(90,660)	(90,660)
Net change in fund balances	\$ -	\$ -	(75,627)	\$ (75,627)
FUND BALANCES				
Beginning of Year			85,833	
End of Year			<u>\$ 10,206</u>	

City of Morro Bay
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
District Transaction Tax Special Revenue Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 930,000	\$ 930,000	\$ 946,448	\$ 16,448
Revenues from use of money and property	-	-	1,664	1,664
Total revenues	<u>930,000</u>	<u>930,000</u>	<u>948,112</u>	<u>18,112</u>
Expenditures:				
Current:				
Fire	93,142	95,312	107,857	(12,545)
Police	115,100	116,135	104,017	12,118
Public works	530,850	755,521	972,060	(216,539)
Debt service				
Principal	25,000	25,000	70,838	(45,838)
Interest	66,300	66,300	53,971	12,329
Total expenditures	<u>830,392</u>	<u>1,058,268</u>	<u>1,308,743</u>	<u>(250,475)</u>
Excess of Revenues Over (Under) Expenditures	<u>99,608</u>	<u>(128,268)</u>	<u>(360,631)</u>	<u>(232,363)</u>
Other Financing Sources (Uses):				
Transfers in	-	232,590	203,508	(29,082)
Transfers out	(99,608)	(99,608)	(99,608)	-
Total Other Financing Sources (Uses)	<u>(99,608)</u>	<u>132,982</u>	<u>103,900</u>	<u>(29,082)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ 4,714</u>	<u>(256,731)</u>	<u>\$ (261,445)</u>
FUND BALANCES				
Beginning of Year			355,074	
End of Year			<u>\$ 98,343</u>	

AGENCY FUND FINANCIAL STATEMENTS

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City of Morro Bay
Statement of Assets and Liabilities
Agency Fund
June 30, 2015

	Community Service Agency Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,225,626
Miscellaneous receivables	486
Prepays	1,456
	<hr/>
Total assets	\$ 1,227,568
	<hr/> <hr/>
LIABILITIES	
Accounts payable	\$ 34,280
Agency funds held for others	1,193,287
	<hr/>
Total liabilities	\$ 1,227,567
	<hr/> <hr/>

City of Morro Bay
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2015

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<u>Community Services Fund</u>				
Assets:				
Cash and investments	\$ 1,194,087	\$ 276,198	\$ (244,660)	\$ 1,225,626
Miscellaneous receivables	-	486	-	486
Prepaid items	721	1,456	(721)	1,456
Total assets	<u>\$ 1,194,808</u>	<u>\$ 278,140</u>	<u>\$ (245,381)</u>	<u>\$ 1,227,568</u>
Liabilities:				
Accounts payable	\$ 16,530	\$ 236,963	\$ (219,213)	\$ 34,280
Agency funds held for others	1,178,278	372,812	(357,803)	1,193,287
Total liabilities	<u>\$ 1,194,808</u>	<u>\$ 609,775</u>	<u>\$ (577,016)</u>	<u>\$ 1,227,567</u>



AGENDA NO: A-12

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor and City Council

DATE: April 18, 2016

FROM: Dana Swanson, City Clerk

SUBJECT: Adoption of Resolution No. 30-16 Amending the Council Policies and Procedures regarding Meeting Guidelines and Procedures, and Incorporating Resolution No. 70-15 adopted in November 2015

RECOMMENDATION

Staff recommends the City Council adopt Resolution No. 30-16 amending the Council Policies and Procedures regarding Meeting Guidelines and Procedures, as follows:

1. Amend subdivision b. of Section 1.2.1 – Establishing the Council Agenda to clarify the agenda packet will be published five calendar days prior to the regular meeting. This policy will apply to regular City Council and all regular advisory board meetings.
2. Amend Section 1.2.7 - Order of Business to add Recognition and City Manager Reports, Announcements and Presentations.
3. Incorporate the pledge to follow best practices of civility and civil discourse in all of its meetings, as established by Resolution No. 70-15.

ALTERNATIVES

The Council may discuss and provide direction to staff regarding these or other changes to the Council Policies & Procedures.

FISCAL IMPACT

There is no fiscal impact to this decision.

BACKGROUND/DISCUSSION

In a continued effort to improve communication to and with the public, and better facilitating public participation at City Council Meetings, two amendments to the Council Policies & Procedures are recommended. First, subdivision b. of Section 1.2.1 Establishing the Council Agenda is being amended to clarify agenda packets for regular meetings of the City Council and all advisory bodies will be published a minimum of five calendar days prior to the meeting. That is to ensure all Advisory Board members and the public have ample time to review materials prior to a regular meeting. The Brown Act requires regular meetings be noticed 72 hours in advance. The proposed policy, if adopted, would far exceed that. It is important to note that would not apply to special meetings, which have shorter noticing requirements under the Brown Act. Secondly, Section 1.2.7 Order of Business is being amended to formally add Recognition and City Manager Reports, Announcements and Presentations to the meeting template.

Prepared By: DS

Dept Review: _____

City Manager Review: DWB City Attorney Review: JWP

Additionally, in November 2015, the City Council adopted Resolution No. 70-15 pledging to follow best practices of civility and civil discourse in all of its meetings. That resolution's pledge will be incorporated at the beginning of the Council Policies & Procedures to memorialize the commitment for current and future Council and Advisory Board members.

CONCLUSION

Staff recommends the City Council adopt Resolution No. 30-16 amending Chapter One of the Council Policies and Procedures, and incorporating Resolution No. 70-15's pledge to follow best practices of civility and civil discourse in all of its meetings.

ATTACHMENTS

Resolution No. 30-16
Resolution No. 70-15

RESOLUTION NO. 30-16

**A RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
AMENDING COUNCIL POLICIES AND PROCEDURES MANUAL
REGARDING MEETING GUIDELINES & PROCEDURES**

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

WHEREAS, the Council Policies and Procedures Manual for the City of Morro Bay is a combination of City Council actions, policies, references, and information regarding the City Council; and

WHEREAS, to ensure all Councilmembers are familiar with and understand the City of Morro Bay's philosophies and policies regarding serving on the City Council, the City Council adopted its Council Policies and Procedures Manual, which have been amended on various occasions; and

WHEREAS, the City again desires to amend certain Sections of the Council Policies and Procedures Manual related to Meeting Guidelines & Procedures.

NOW, THEREFORE, be it resolved, the City Council of the City of Morro Bay does hereby amend Chapter One of the Council Policies and Procedures Manual, as follows:

Section 1.

1.2 AGENDA

1.2.1 ESTABLISHING THE COUNCIL AGENDA

The purpose of the agenda is to provide a framework within which Council meetings can be conducted and to effectively implement the approved Council Goals, Financial Plan and Budget, and also work programs, objectives, and business of the City as established by the present or earlier City Councils. Agenda items also include recommendations to the City Council from advisory bodies, land use and zoning actions or appeals, bid and purchasing procedures, and mandates from other levels of government. Staff shall work within the policy context established by the Council and will not arbitrarily place matters on the agenda that are outside the scope of existing work programs of the City, except as approved by the Mayor or a majority of the Council, and to inform and advise the Council of matters necessary to the proper operation and well-being of the City.

- a. Tentative Council Meeting Agenda - Every effort will be made to provide it to the City Council and staff before the close of business on the second Friday prior to the Council meeting.

- b. Full agenda packet will be published before the close of business a minimum of five calendar days ~~Thursday~~ prior to the ~~Council~~-regular meeting.

The process for determining the format and order of the agenda is based primarily on the order of business adopted by the City Council (see Section 1.2.7). The process for establishing the order of specific business and public hearing items is a collaborative one determined largely by anticipated public attendance (those matters involving greater audience attendance are usually scheduled ahead of other items). The City Manager shall meet with department heads on a regular basis, individually and as a group to discuss issues and to review upcoming agenda items.

In addition, the City Manager shall review the agenda materials with the Mayor, or in the Mayor's absence, the Mayor Pro Tempore. The final agenda is set subject to the approval of the Mayor (or Mayor Pro Tempore), after consultation with the City Manager.

1.2.7 ORDER OF BUSINESS shall be as follows:

- 1.2.7.1 Establish Quorum and Call to Order
- 1.2.7.2 Moment of Silence
- 1.2.7.3 Pledge of Allegiance
- 1.2.7.4 Recognition (Certificates of Appreciation or other forms of recognition for residents and staff)
- 1.2.7.~~45~~ Closed Session Report
- 1.2.7.~~56~~ Mayor and Council Members Reports, Announcements and Presentations
- 1.2.7.7 City Manager Reports, Announcements and Presentations (City Manager, Director and Advisory Board Reports)
- 1.2.7.~~68~~ ~~Public~~-Presentations (Proclamations and Public Presentations)
- 1.2.7.~~79~~ Public Comment
- 1.2.7.~~810~~ Consent Agenda
- 1.2.7.~~911~~ Public Hearings (shall start no sooner than 7:00 p.m.)
- 1.2.7.~~120~~ Business Items
- 1.2.7.~~134~~ Council Declaration of Future Agenda Items
- 1.2.7.~~142~~ Adjournment

Section 2. The City Clerk is directed to incorporate at the beginning of the Council Policies and Procedures Manual the City pledge to follow best practices of civility and civil discourse in all of its meetings, as established by Resolution No. 70-15.

PASSED AND ADOPTED by the City Council, City of Morro Bay at a regular meeting thereof held on the 26th day of April, 2016 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

JAMIE L. IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk

RESOLUTION NO. 70-15

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA,
PLEDGING TO FOLLOW BEST PRACTICES OF CIVILITY AND CIVIL DISCOURSE
IN ALL OF ITS MEETINGS**

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

WHEREAS, we, the Mayor, City Council Members, Commissioners, Appointees, and Staff of the City of Morro Bay, in order to ensure **civility and civil discourse** in all of our meetings, pledge our commitment to the following **best practices of civility and civil discourse**; and,

WHEREAS, we pledge our commitment to **respect** the right of all people to hold different opinions in all our meetings; and

WHEREAS, we pledge our commitment to **avoid rhetoric intended to humiliate, malign, or question the motivation** of those whose opinions are different from ours in all our meetings; and

WHEREAS, we pledge our commitment to **strive to understand** differing perspectives in all our meetings; and,

WHEREAS, we pledge our commitment to **choose words carefully** in all our meetings; and

WHEREAS, we pledge our commitment to **speak truthfully** without accusation, and avoid distortion in all our meetings; and

WHEREAS, we pledge our commitment **against violence and incivility** in all their forms whenever and wherever they occur in all our meetings; and

WHEREAS, we commit ourselves to build a civil political community in which each person is respected and spirited public and political debate is aimed at the betterment of the City of Morro Bay and its people and not the disparagement of those with whom we disagree.

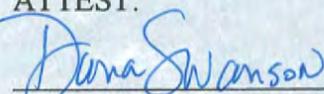
NOW, THEREFORE, BE IT RESOLVED, by the City Council, City of Morro Bay, California, that the Mayor, City Council Members, Commissioners, Appointees, and Staff of the City of Morro Bay shall promote the use of and adherence to the principles of **civility and civil discourse** in conducting business with appointed and elected officials, staff, and citizens.

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on the 10th day of November, 2015 on the following vote:

AYES: Irons, Johnson, Smukler
NOES: None
ABSENT: Heading, Makowetski



JAMIE L. IRONS, Mayor

ATTEST:


DANA SWANSON, City Clerk



AGENDA NO: A-13

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor and City Council

DATE: April 20, 2016

FROM: Sam Taylor, Deputy City Manager

SUBJECT: Adopt Resolution No. 31-16 Modifying the Public Art Policy

RECOMMENDATION

As recommended by the Recreation and Parks Commission (RPC), staff recommends the Council adopt Resolution No. 31-16 modifying the Public Art Policy.

ALTERNATIVES

No other alternatives recommended.

FISCAL IMPACT

There is no fiscal impact as a result of this decision.

BACKGROUND

It appears, in 2006, Council adopted a City Art Policy, though not by resolution. The policy is fairly straightforward and involves an application process (though not on any specific form, simply meeting the standards as outlined in the policy in a written document to the City) submitted to the City Manager's Office.

The Council did not adopt that policy via resolution, and it seems appropriate to better recognize that official policy through a formal resolution. Staff also is recommending modifications to the policy to reflect the City's existing practices for Public Art donations, particularly the fact consideration typically involves the Recreation Services Division, the RPC and other pertinent advisory bodies.

The RPC unanimously recommended approval of the proposed resolution and policy modifications.

DISCUSSION

From time to time, it is appropriate to review existing policies and procedures and make updates. Over time, policies are often interpreted in different ways depending on the language or practices related to those policies can change.

Prepared By: ST Dept Review: _____
City Manager Review: DWB
City Attorney Review: JWP

Staff believes it's important policies are adhered to and, in order to do so, policies should be clear and workable.

In the case of the current Art Policy, it is generally straightforward, however, some of it seems inefficient.

For instance, it makes sense to have the application process begin with the Recreation Services Division for consideration, so staff can initially determine whether it's complete. Also, the existing policy calls for all public art donations to be considered by all City advisory boards. That seems onerous and unnecessary, as sometimes a certain public art donation may not be relevant to all advisory bodies.

Staff recommends the current Art Policy be modified so donations are always considered by the RPC, as well as other advisory body, to which an artwork pertains. For instance, the Public Works Advisory Board would likely review most applications when the public art is to be placed on or in public property. But the Harbor Advisory Board may only need to review an application for donated art if the donation is intended to be placed somewhere in proximity to the harbor or depict something related to the City fishing or harbor history.

Staff also recommends the policy be recognized through the Council's adoption of a formal resolution, which can make it easier to track the policy by the Clerk's Office and staff and be available for the community's use.

CONCLUSION

Staff recommends Council adopt Resolution No. 31-16 modifying the Public Art Policy.

ATTACHMENTS

Resolution No. 31-16 and Exhibits
Public Art Policy Adopted in 2006

RESOLUTION NO. 31-16

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
ADOPTING THE CITY'S PUBLIC ART POLICY**

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

WHEREAS, in 2006, the City Council passed a motion adopting the Public Art Policy, which provides guidance on the acceptance of donated art work to the City; and

WHEREAS, donated art to the City is intended to enhance the public landscape in the community; and

WHEREAS, the City Council adopted that policy by motion, and an administrative application process was created to provide potential donors with guidance; and

WHEREAS, it is appropriate for the City Council to adopt such a policy by formal resolution; and

WHEREAS, from time to time, it is appropriate to review existing policies and procedures and update them as necessary to reflect current trends and practices.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Morro Bay, California, as follows:

- 1, The attached City's Public Art Policy is hereby adopted.
2. Any other motion or action by the City Council adopting a Public Art Policy is hereby rescinded and no longer of any force or effect. However, all art work installed or approved for installation prior to the effective date of this Resolution, pursuant to any such other motion or action, will be deemed to meet the Public Art Policy hereby adopted.

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on this 26th day of April, 2016 on the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

JAMIE L. IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk

**City of Morro Bay
PUBLIC ART POLICY**

PURPOSE

The City of Morro Bay encourages public art on appropriate City-owned property. The purpose of this policy is to set forth standardized policies and procedures for the acceptance of donated artwork offered to the City by the artist.

DEFINITION OF PUBLIC ART

For the purpose of this policy, public art will be artwork located in public places (indoor or outdoor) owned by the City of Morro Bay.

REVIEW PROCEDURE

- A. Any artist wishing to donate artwork to the City of Morro Bay must submit a request to the Recreation Services Division that includes the following information in order to be considered complete:
1. Photo, plans or model of proposed donation,
 2. Technical description of the work,
 3. A statement related to the proposed site of the work and why the art is appropriate for that site,
 4. Any special care, maintenance, mounting or display requirements,
 5. Resume of the artist,
 6. Statement of value of the proposed donation, and
 7. A statement regarding provision of necessary funds/resources to properly install, care for and maintain the donated public art.
- B. City staff shall review the application and supporting documentation for the proposed donation. Upon finding the application is complete, City staff shall place the application on the agenda of the Recreation and Parks Commission and any other relevant advisory body for its comments. Input shall be encouraged from the Morro Bay Art Association and the public at large. It shall then go to the City Council for final approval or denial.

SELECTION CRITERIA

- A. The City Council will consider the following criteria when determining whether to accept a donation of public art.
1. The design and placement of public art will not impede pedestrian or vehicle traffic or conflict with public or private easements,
 2. Whether the artist has the necessary funds/resources to properly install, care for and maintain the donated public art, and
 3. Appropriateness of the site.

ACCEPTANCE

- A. If the City Council votes to accept the donated artwork, then the artist shall sign an Artist Waiver for Public Art Placed upon City Property (Exhibit A) agreement. Upon execution of the agreement by the artist, title of the artwork shall pass to the City.
- B. The City in its sole discretion may remove from its collection any donated artwork. In such event, the City shall make reasonable efforts to contact the artist who donated the artwork, or his/her heirs, and offer to return the artwork. If the artist or heirs cannot be located after reasonable efforts, or the artist or heirs decline to accept the return of the artwork, the City may determine the disposition of the artwork.

EXHIBIT “A”

**CITY OF MORRO BAY
ARTIST WAIVER FOR PUBLIC ART PLACED UPON
CITY PROPERTY**

The provisions of this Waiver shall apply to modify Artist’s rights of attribution and integrity as set out in the Visual Artists Rights Act, 17 U.S.C §§ 106A and 113(d) (“VARA”), the California Art Preservation Act, Cal. Civil Code §§ 987 and 989 (“CAPA”), and any rights arising under United States federal or state law or under the laws of another country that convey rights of the same nature as those conveyed under VARA and CAPA, as against the City of Morro Bay (“City”) and its officers, officials, employees, agents and authorized volunteers.

In whole or in part, in City’s sole discretion, the City has the absolute right to change, modify, destroy, remove, relocate, move, replace, transport, repair or restore the following Artwork: (insert description)

entitled: (insert title)

and located at: (insert location).

Artist hereby waives voluntarily any and all claims as may arise against the City, its officers, officials, employees, agents and authorized volunteers under VARA or CAPA or any other local, state, foreign or international law, as currently drafted or as may hereafter be amended, that conveys the same or similar rights, with respect to the Artwork.

Artist’s Address for Notice: (insert address)

Artist bears the sole responsibility for providing the City with any changes to the Artist’s Address for Notice. Notice of changes must be mailed to the Public Works Department, 955 Shasta Ave Morro Bay, CA 93442 and the City Department with jurisdiction over property: (insert address of City-owned property where art will be located)

Artist’s First and Last Name

Artist’s Signature/ Date

City Signature/Date

City of Morro Bay
PUBLIC ART POLICY

Approved by Morro Bay City Council on February 27, 2006

PURPOSE

The City of Morro Bay encourages public art on appropriate City owned property. The purpose of this policy is to set forth standardized policies and procedures for the acceptance of donated artwork offered to the City by the artist.

DEFINITION OF PUBLIC ART

For the purpose of this policy, public art will be artwork located in public places (indoor or outdoor) owned by the City of Morro Bay.

REVIEW PROCEDURE

- A. Any artist wishing to donate artwork to the City of Morro Bay must submit an application to the City Manager's office in the form attached hereto:
 - 1. Photo, plans or model of proposed donation
 - 2. Technical description of the work
 - 3. Any special care, maintenance, mounting or display requirements
 - 4. Resume of the artist
 - 5. Statement of value of the proposed donation

- B. City staff shall review the application and supporting documentation for the proposed donation. Upon finding that the application is complete, City staff shall place the application on the agenda of all City boards and commissions for their comments. Input shall be encouraged from the Morro Bay Art Association, Morro Bay Public Art Foundation and the public at large. It shall then go to the City Council for final approval or denial.

SELECTION CRITERIA

- A. The City Council will consider the following criteria when considering whether to accept or reject a donation of public art.
 - 1. The design and placement of public art will not impede pedestrian or vehicle traffic or conflict with public or private easements.
 - 2. Whether the artist has the necessary funds/resources to properly install, care for and maintain the donated public art.
 - 3. Appropriateness of the site.

ACCEPTANCE

- A. If the City Council votes to accept the donated artwork, the artist shall enter into a donation agreement. Upon execution of the agreement by the artist, title of the artwork shall pass to the City.

- B. The City in its sole discretion may remove from its collection any donated artwork. In such event the City shall make reasonable efforts to contact the artist who donated the artwork and offer to return the artwork. If the artist cannot be located after reasonable efforts, or the artist declines to accept the return of the artwork, the City may determine the disposition of the artwork.



AGENDA NO: A-14

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor & Council Members

DATE: April 13, 2016

FROM: Sam Taylor, Deputy City Manager

SUBJECT: Adopt Resolution No. 32-16 Replacing the Park Naming Policy with the Public Property Naming Policy and Application Process

RECOMMENDATION

Staff recommends Council adopt Resolution No. 32-16 replacing the Park Naming Policy with the Public Property Naming Policy and Establishing an Application Process.

ALTERNATIVES

Council members can recommend no change and no creation of an application process for public property naming or make modifications to the proposed resolution.

FISCAL IMPACT

There are no costs related to adoption of this application process.

BACKGROUND

In 1980, the Morro Bay City Council adopted the Park Naming Policy to provide guidance on the general naming of park facilities, as well as when it is appropriate to name a public park after a person.

In general, public parks are to be named by their location, but exceptions were created in the policy to name a park after a person when:

- The person has been primarily instrumental in obtaining donation of funds or land for the facility.
- The person donates the land (or funds to purchase the land) and desires to have the facility named in his/her honor.
- A person has been deceased for more than two years and the City Council believes the person's contribution to the aspect of the City, which the facility represents, were of such value to the City the person's memory should be honored by the naming of the facility.

The policy is fairly basic, but also somewhat unclear. Staff's current interpretation of the three

Prepared By: ST

Dept Review: _____

City Manager Review: DWB

City Attorney Review: JWP

reasons to name a park after a person, for instance, is a person would qualify if any one is met, meeting all three is not required.

Also, unlike the City's Public Art Policy (whereby the City has created an application process and guidelines for accepting donated art for placement in and/or on public property), the Naming Policy has no adopted application process.

DISCUSSION

It is appropriate for the City to align its policies related to art and public property naming, particularly related to ensuring appropriate application processes are adopted.

To that end, staff has proposed an application process for naming public property to be adopted by resolution. The application is similar to the Public Art Policy, in order to create a more standard and easy-to-follow process for the public.

The application will include the following required elements:

- 1) The applicant's name and contact information.
- 2) An explanation of the request for naming the public property after a person. That would include background on the person (most particularly their qualifications based on the existing Naming Policy – did they bring in the donations for the property, donate land, are they deceased and made a significant contribution to the City) and the property to be named or renamed.
- 3) Identification of and commitment to providing funding to update any existing signage or purchase new signage that conforms to the City's existing signs.

The application would only be deemed complete and ready to bring to the Recreation and Parks Commission and then to Council, if all of the above information is included. For instance, identification and commitment to funding for signage would have to be included for the application to move forward.

A review procedure for the application would be adopted similar to the Art Policy review procedure:

City staff shall review the application and supporting documentation for the proposed public property naming. Upon finding the application is complete, City staff shall place the application on the agenda of the Recreation and Parks Commission. Input shall be encouraged from the public at large. It shall then go to the City Council for final approval or denial.

CONCLUSION

It is appropriate for the City to have a formal application process for consideration of naming public property after a person. That application process allows for the orderly consideration of such naming. It is also appropriate to update the current naming policy to better clarify when property can be named after a person.

Staff recommends Council adopt Resolution No. 32-16 replacing the Park Naming Policy with the Public Property Naming Policy and establishing an application process.

RESOLUTION NO. 32-16

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
APPROVING THE PUBLIC PROPERTY NAMING POLICY
AND ESTABLISHING AN APPLICATION PROCESS;
AND RESCINDING RESOLUTION NO. 88-80**

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

WHEREAS, the City Council adopted a Park Naming Policy via Resolution 88-80; and

WHEREAS, a Park Naming Policy, or Public Property Naming Policy, is intended to provide structure and guidance for the naming of parks, public buildings, park amenities and other public facilities (“Public Property”); and

WHEREAS, in general, the current adopted policy provides public buildings will be named by their function, and parks will be named by their location; and

WHEREAS, the current policy provides for exceptions related to the naming of public parks that allows a location to be named after a person for a variety of reasons; and

WHEREAS, the current policy makes it unclear if a person must qualify for by meeting all criteria, or simply one, and it is appropriate to update the policy to clarify that for the public; and

WHEREAS, it is also appropriate to establish an application process to provide clarity for the community and for the orderly requesting of naming Public Property after a person.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Morro Bay, California, as follows:

- 1) Resolution 88-80 is hereby rescinded, and the Public Park Naming Policy is replaced with the Public Property Naming Policy.
- 2) An application process to request the naming of Public Property after a person is established as outlined in Exhibit A.
- 3) The Public Property Naming Policy shall be as follows:

Section 1: Naming of Public Property.

- A) Public Properties will be named according to the following guidelines:

- 1) **Public Buildings/Facilities.** Public buildings will be named by their function. For example, City Hall will be called city hall and a recreation building will be called a recreation building.
- 2) **Public Park Amenities.** Park amenities will not be named; however, donors of amenities may be recognized through some form of signage or plaque, to be considered by the Recreation and Parks Commission and other appropriate advisory bodies.
- 3) **Public Parks.** Parks will be named by their location in the City; either by proximity to a geological feature, location in a subdivision tract, or fronting on a street, such as Morro Rock Park, Del Mar Park, or Hemlock Park.

Section 2. Exceptions.

- A) Public Property can be named after a person for any of the following reasons:
- 1) The person has been primarily instrumental in obtaining donation of funds or land for the Public Property and desires to have the property named in his/her honor; or
 - 2) The person donates the land (or funds to purchase the land) and desires to have the Public Property named in his/her honor; or
 - 3) A person has been deceased for more than two years and the City Council believes the person's contribution to the aspect of the City, which the Public Property represents, were of such a value to the City the person's memory should be honored by the naming of the Public Property.
- B) Public Property can be named after a governmental fund or grant if the circumstances are deemed appropriate by City Council (example, the Veterans Memorial Building).

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on this 26th day of April, 2016 on the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

JAMIE L. IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk

Exhibit A

**CITY OF MORRO BAY
PUBLIC PROPERTY NAMING POLICY**

PURPOSE

The purpose of these guidelines and the application process is to set forth standardized policies and procedures for the naming of public property.

PUBLIC PROPERTY NAMING POLICY

City staff shall review applications for the naming of a piece of public property pursuant to the adopted Public Property Naming Policy.

REVIEW PROCEDURE

- A. Any person wishing to name a piece of public property must submit an application to the Recreation Services Department in the form below:
 1. A description of the request.
 2. If the request includes the naming of a piece of property after a person, an explanation of why that person is being submitted for consideration.
 3. If the request includes the name of a person, an explanation of how that person qualifies for consideration pursuant to the adopted Public Property Naming Policy.
 4. Identification of, and commitment to, providing funding to update any existing signage or purchase new signage that conforms to the City's existing signs on the property to reflect the new name.
- B. City staff shall review the application and supporting documentation for the proposed name. An application is only complete if it answers all relevant questions identified in Section A above. Upon finding that the application is complete, City staff shall place the application on the agenda of the Recreation & Parks Commission and any other relevant advisory board for their comments. Input shall be encouraged from the public at large. It shall then go to the City Council for final approval or denial.

SELECTION CRITERIA

- A. The City Council will consider the guidance as adopted by the Public Property Naming Policy when making a selection. Advisory bodies that review the application shall also make their recommendation to City Council based on the adopted policy.

ACCEPTANCE

- A. If the City Council votes to accept the name for the public property, the applicant shall then provide appropriate funding to the City for new or replacement signage for the property. The facility name shall not be changed until appropriate signage is acquired at the expense of the applicant for the name change.
- B. The City Council in its sole discretion may rename a piece of public property, and a previous applicant for a name change acknowledges that any signage funding they provided is not reimbursable to the applicant.

from the Foundation. The Foundation and City wanted to establish a more formal arrangement and attached is an agreement which incorporates the revenue sharing and responsibilities outlined in the Foundation's most recent proposal (Attachment 2).

CONCLUSION

Staff recommends the City Council approve the agreement with the Foundation for Morro Bay Trolley advertising services.

ATTACHMENTS

Attachment 1 - Proposed Agreement

Attachment 2 – Foundation Proposal

ATTACHMENT 1

Proposal – Morro Bay Trolley Advertising

Plan

Continue a five year partnership between the Community Foundation of Estero Bay (formally the Morro Bay Community Foundation) and the City of Morro Bay to sell trolley advertising for the 2016 season.

Revenue Sharing

The City of Morro Bay and the Community Foundation of Estero Bay (Foundation) would equally split the net revenue (gross sales less cost of the signs) from the advertising sales. Because of the need to maintain transit revenue, the Foundation would guarantee the City a minimum payment of \$5,000.00 from the sale of trolley advertising, payable from the sale proceeds. Note: Five thousand dollars is the amount of revenue budgeted by the City for trolley advertising for 2015/16 fiscal year.

Responsibilities

- The Foundation will ensure that trolley advertisers for the 2016 season follow the City's policies, as they are related to advertising on City trolleys.
- Board members of the Foundation and other volunteers will be responsible for soliciting local businesses (for several years prior to 2011, City staff solicited the businesses).
- The Foundation will be responsible for collecting advertising proceeds from the advertisers which the Foundation solicits.
- The Foundation will make arrangements to procure any signs that might be needed (advertisers from previous years typically reuse their existing signs).
- The Foundation will assist in placing the signs on the trolleys.

Comments

The partnership between the Foundation and the City to sell trolley advertising has been in place since the Summer of 2011. Allowing the Foundation the opportunity to continue to sell trolley advertising is a win-win for the City. As a result of the Foundation's assertive sales efforts, trolley advertising sales since 2011 have increased more than 100%. While the City receives only one-half of the net revenue, that one half has exceeded the City's budgeted trolley advertising revenue in each year of the partnership. An additional benefit to the City lies in the offset to City recreation and enrichment program costs for disadvantage families. Also, the partnership has resulted in increasing the number of participants in these programs, which helps the Recreation Division meet its cost recovery goals.



Ron Reisner, President, Community Foundation of Estero Bay

Date 2/3/2016

Accepted _____
City of Morro Bay

Date _____

CITY OF MORRO BAY
AGREEMENT FOR MORRO BAY TROLLEY ADVERTISING SERVICES

THIS AGREEMENT is made, by and between, the City of Morro Bay, a municipal corporation (“City”) and Community Foundation of Estero Bay, Incorporated (“Foundation”), a California corporation. In consideration of the mutual covenants and conditions set forth herein the parties agree as follows:

1. TERM

This Agreement shall be deemed to have commenced as of April 12, 2016, and shall remain and continue in effect until tasks described herein are completed, but in no event later than May 30, 2016, unless sooner terminated pursuant to the provisions of this Agreement.

2. SERVICES

Foundation shall sell advertising spaces on the Morro Bay Trolley for the 2016 season (the “Trolley”) and be responsible for soliciting local businesses for that advertising. Foundation will ensure Trolley advertisers solicited by it for the 2016 season follow City’s published policies, as they relate to advertising on City trolleys. Foundation will be responsible for collecting advertising proceeds from the advertisers which the Foundation solicits. Foundation will make arrangements to procure any Trolley advertising signs that might be needed and coordinate with City in placing the signs on the trolleys. Foundation will use City’s Master Fee schedule as a guide to determine the trolley advertising rates.

3. PERFORMANCE

Foundation shall at all times faithfully, competently and to the best of their ability, experience, and talent, perform all tasks described herein.

4. CITY MANAGEMENT

City’s Public Works Director shall represent City in all matters pertaining to the administration of this Agreement, review and approval of all products submitted by Foundation, but not including the authority to enlarge the Tasks to Be Performed. City’s City Manager shall be authorized to act on City’s behalf and to execute all necessary documents which enlarge the Tasks to Be Performed, subject to Section 5 hereof.

5. REVENUE SHARING

(a) City and Foundation will equally split the net revenue (gross sales less cost of the signs) from the Trolley advertising sales solicited and collected by Foundation (the “Advertising Revenue”). Such payment shall be made on or before May 30, 2016.

(b) Foundation will submit a report on May 30, 2016 listing actual Advertising Revenue received.

6. SUSPENSION OR TERMINATION OF AGREEMENT WITHOUT CAUSE

(a) City may at any time, for any reason, with or without cause, suspend or terminate this Agreement, or any portion hereof, by serving upon Foundation at least ten-days' (10-days') prior written notice. Upon receipt of said notice, Foundation shall immediately cease all work under this Agreement, unless the notice provides otherwise. If City suspends or terminates a portion of this Agreement, then such suspension or termination shall not make void or invalidate the remainder of this Agreement.

(b) In the event this Agreement is terminated pursuant to this Section, City and Foundation shall split the net revenue received to as outlined in Section 5, collected on or before the termination date.

7. DEFAULT OF FOUNDATION

(a) Foundation's failure to comply with the provisions of this Agreement shall constitute a default. In the event Foundation is in default for cause under the terms of this Agreement, City can terminate this Agreement immediately by written notice to Foundation. If such failure by Foundation to make progress in the performance for work hereunder arises out of causes beyond Foundation's control, and without fault or negligence of Foundation, then it shall not be considered a default.

(b) If the City Manager or his/her delegate determines that Foundation is in default in the performance of any of the terms or conditions of this Agreement, then he/she shall cause to be served upon Foundation a written notice of the default. Foundation shall have ten (10) days after service upon it of said notice in which to cure the default by rendering a satisfactory performance. In the event that Foundation fails to cure its default within such period of time, City shall have the right, notwithstanding any other provision of this Agreement, to terminate this Agreement without further notice and without prejudice to any other remedy to which it may be entitled at law, in equity or under this Agreement.

8. DEFAULT OF CITY

(a) City's failure to comply with the provisions of this Agreement shall constitute a default. In the event City is in default for cause under the terms of this Agreement, Foundation can terminate this Agreement immediately by written notice to City. If such failure by City to make progress in the performance for agreements or work hereunder arises out of causes beyond City's control, and without fault or negligence of City, then it shall not be considered a default.

(b) If the Foundation determines that City is in default in the performance of any of the terms or conditions of this Agreement, then it shall cause to be served upon the City Manager a written notice of the default. City shall have ten (10) days after service upon it of said notice in which to cure the default by rendering a satisfactory performance. In the event that City fails to cure its default within such period of time, Foundation shall have the right, notwithstanding any other provision of this Agreement, to terminate this Agreement without further notice and without prejudice to any other remedy to which it may be entitled at law, in equity or under this Agreement.

9. RECORD KEEPING

Foundation shall maintain complete and accurate records with respect to sales, costs, expenses, receipts that relate to the performance of services under this Agreement (the "Records"). The Records shall be made available to City for review and copying, as reasonably requested by City's City Manager. If City requires an auditing of the Records due to another governmental agency's request, then Foundation shall make the Records available for that audit.

10. INDEPENDENT FOUNDATION

(a) Foundation is and shall at all times remain as to City wholly independent. The personnel performing the services under this Agreement on behalf of Foundation shall at all times be under Foundation's exclusive direction and control. Neither City nor any of its officers, employees, or agents shall have control over the conduct of Foundation or any of Foundation's officers, employees, or agents, except as set forth in this Agreement. Foundation shall not at any time or in any manner represent that it or any of its officers, employees, or agents are in any manner officers, employees, or agents of City. Foundation shall not incur or have the power to incur any debt, obligation, or liability whatever against City, or bind City in any manner.

(b) No employee benefits shall be available to Foundation in connection with the performance of this Agreement. Except for the fees paid to Foundation as provided in the Agreement, City shall not pay salaries, wages, or other compensation to Foundation for performing services hereunder for City. City shall not be liable for compensation or indemnification to Foundation for injury or sickness arising out of performing services hereunder.

11. NOTICES

Any notices which either party may desire to give to the other party under this Agreement must be in writing and may be given either by (i) personal service, (ii) delivery by a reputable document delivery service, such as but not limited to, Federal Express, which provides a receipt showing date and time of delivery, or (iii) mailing in the United States Mail, certified mail, postage prepaid, return receipt requested, addressed to the address of the party as set forth below or at any other address as that party may later designate by notice:

To City: City of Morro Bay
595 Harbor Street
Morro Bay, CA 93442
Attention: Public Works Director

To Foundation: Community Foundation of Estero Bay
P.O. Box 131
Morro Bay, CA 93443
Attn: President

12. ASSIGNMENT

Foundation shall not assign the performance of this Agreement, nor any part thereof, nor any monies due hereunder, without prior written consent of City.

13. LICENSES

At all times during the term of this Agreement, Foundation shall have in full force and effect, all licenses and tax certificates required of it by law for the performance of the services described in this Agreement.

14. GOVERNING LAW

City and Foundation understand and agree the laws of the State of California shall govern the rights, obligations, duties, and liabilities of the parties to this Agreement and also govern the interpretation of this Agreement. Any litigation concerning this Agreement shall take place in the municipal, superior, or federal district court with jurisdiction over City.

15. ENTIRE AGREEMENT

This Agreement contains the entire understanding between the parties relating to the obligations of the parties described in this Agreement. All prior or contemporaneous agreements, understandings, representations, and statements, oral or written, are merged into this Agreement and shall be of no further force or effect. Each party is entering into this Agreement based solely upon the representations set forth herein and upon each party's own independent investigation of any and all facts such party deems material.

16. CONTENTS OF PROPOSAL

Foundation is bound by the contents of the proposal dated March 29, 2016 submitted by Foundation and outlined in Exhibit A hereto.

17. AUTHORITY TO EXECUTE THIS AGREEMENT

The person or persons executing this Agreement on behalf of Foundation warrants and represents he/she has the authority to execute this Agreement on behalf of Foundation and has the authority to bind Foundation to the performance of its obligations hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

CITY OF MORRO BAY

By: _____
David Buckingham, City Manager

Attest:

Dana Swanson, City Clerk

Approved As To Form:

Joseph W. Pannone, City Attorney

COMMUNITY FOUNDATION OF
ESTERO BAY (2 signatures required)

By: _____
(Signature)

Ron Reisner

Its: _____
President

By: _____
(Signature)

Homer Alexander
(Typed Name)

Its: _____
Treasurer
(Title)

- Length of Agreement: 3 Years
- Payment: \$100/month, indexed to CPI and adjusted every two years
- Non-Monetary Payment: Maintenance of property, including Mowing and Weed Whacking per County of San Luis Obispo Standards for weed control. Application of any pesticides is prohibited.
- Area of Use: Entire property with the exception of the Wellhead protection zones.

Staff recommends the City consider this proposal and authorize the City Manager to finalize and execute the License Agreement.

ATTACHMENT

- 1) Letter from KGLI
- 2) Property Location Map



CONT. LIC #527327 • Bonded & Insured • FREE
ESTIMATES
Commercial • Residential • Clean-ups

805 234-6607

To Whom it may concern,

This letter is in regards to the property next to 466 Chond CK Rd. (Property which my wife and I own)

We realize the City of Morro Bay owns this land and we would like to rent it for \$100.⁰⁰ a month (Due on the 1st of every month).

Our business will allow us to keep it clean and trim having the right equipment to do so.

We would also use this property to grow and replant materials already used in the landscape industry.

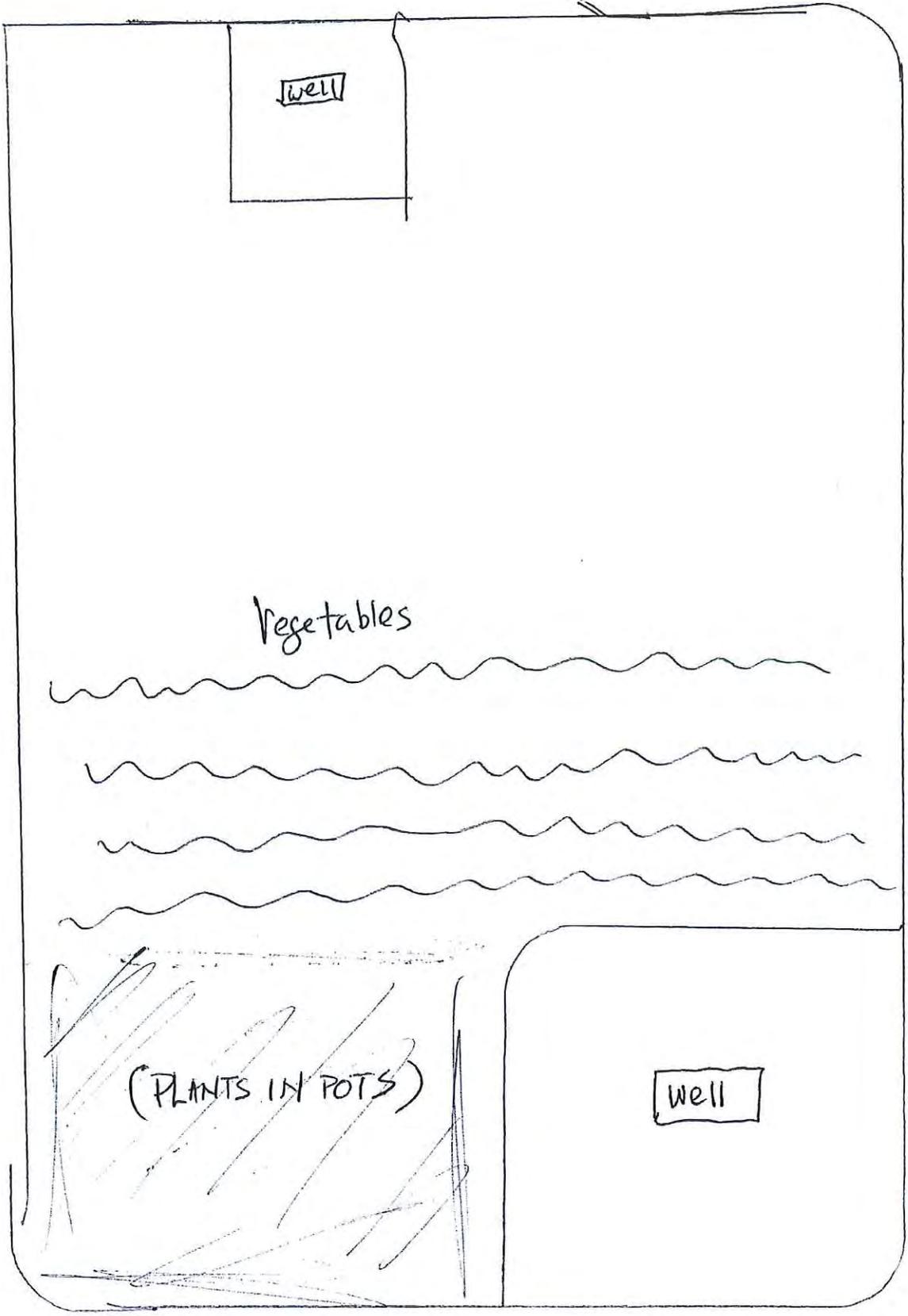
We enjoy the opportunity to expand our knowledge in growing vegetables as well.

Thank you for the chance to work together on our new endeavor.

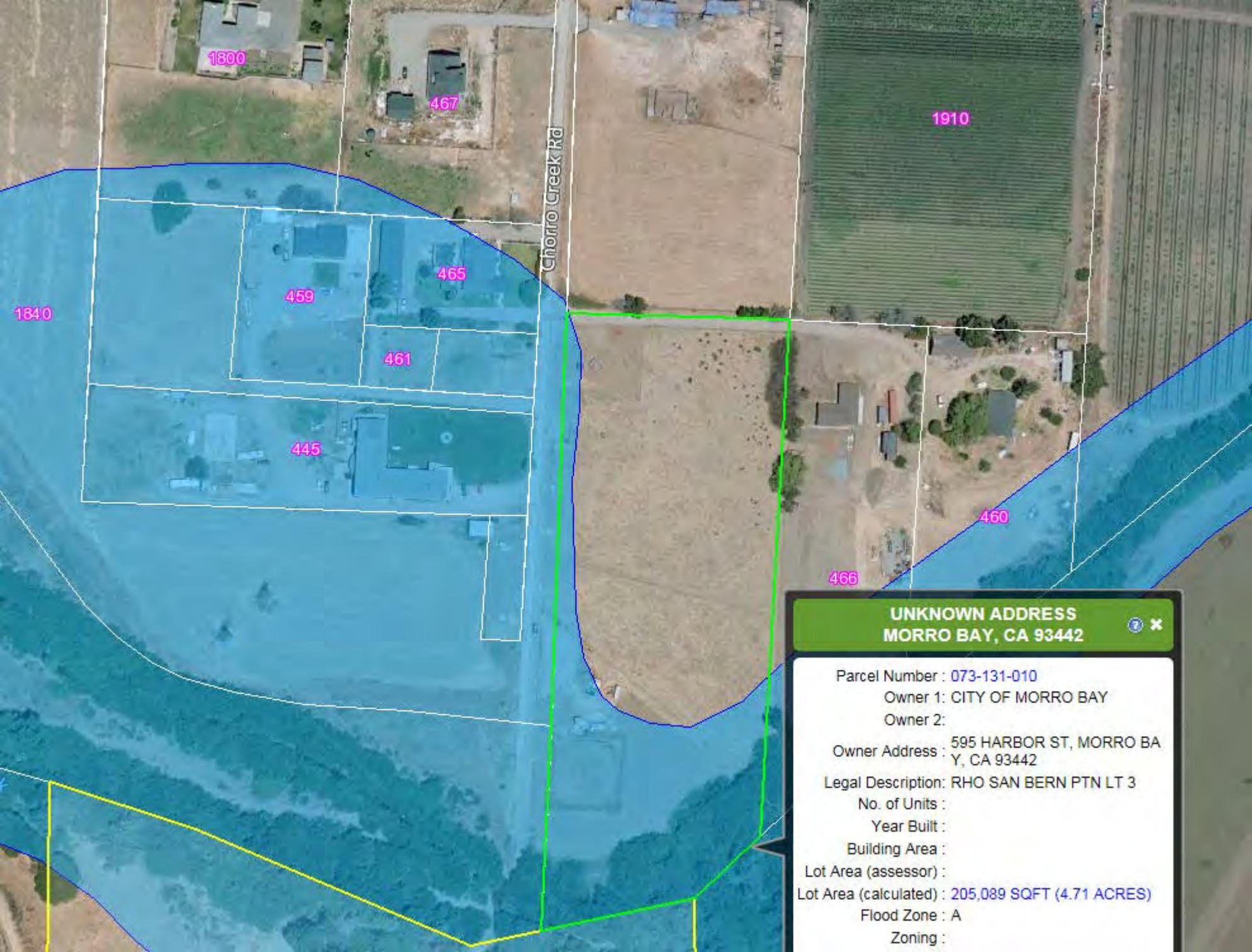
Sincerely, Keith Gaffney

Jane Gaffney

466 CHORRO CREEK RD



CHORRO CREEK RD



1800

467

1910

Chorro Creek Rd

465

459

461

445

460

466

**UNKNOWN ADDRESS
MORRO BAY, CA 93442**



Parcel Number : 073-131-010

Owner 1: CITY OF MORRO BAY

Owner 2:

Owner Address : 595 HARBOR ST, MORRO BA
Y, CA 93442

Legal Description: RHO SAN BERN PTN LT 3

No. of Units :

Year Built :

Building Area :

Lot Area (assessor) :

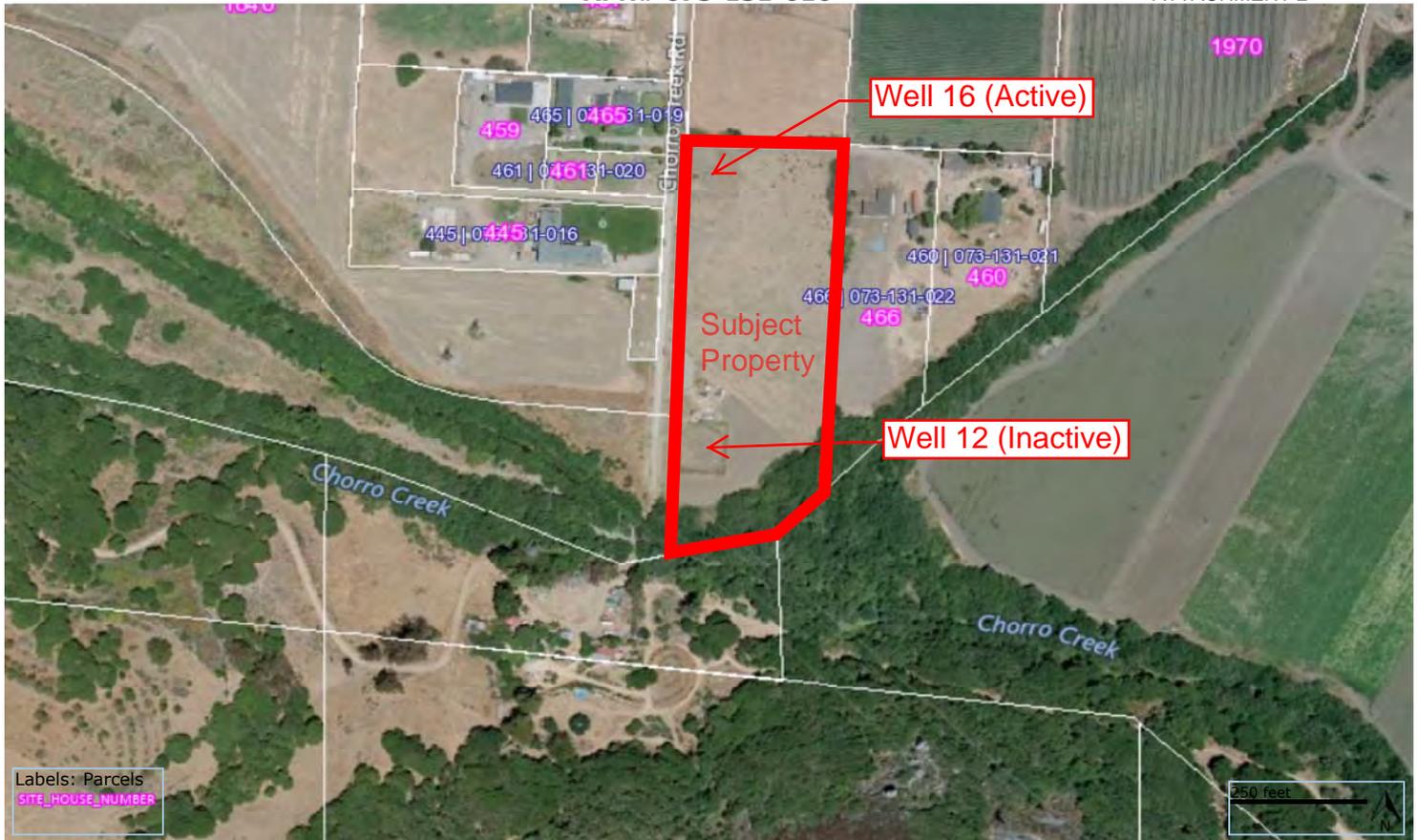
Lot Area (calculated) : 205,089 SQFT (4.71 ACRES)

Flood Zone : A

Zoning :

City Property Location Map APN# 073-131-010

ATTACHMENT 2



Gaffney Request





AGENDA NO: B-1

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor and City Council

DATE: April 11, 2016

FROM: Cindy Jacinth, Associate Planner

SUBJECT: Modification of Precise Plan approvals to CUP/VTTM #UP0-070/S00-038 (case #CP0-110/UP0-070/S00-038) for Planned Unit Development (Tract 2739) located at 485 & 495 South Bay Blvd. previously approved in 2006 and 2010, to incorporate Coastal Commission Changes and removal of unwarranted traffic improvements

RECOMMENDATION

Staff recommends the City Council adopt Resolution No. 26-16, making the necessary findings for approval of an amendment to the project to incorporate changes as a result of Coastal Commission-approved CDP #A-3-MRB-06-064 on February 11, 2015. Included in the modification is an updated traffic study with recommendation to remove unwarranted 4-way traffic signal, signalized pedestrian crossing, and turn lanes at the intersection of South Bay Blvd and Quintana Road.

ALTERNATIVES

1. The City Council may move not to adopt the Resolution for approval and instead add additional conditions to the project, supported by the record, and direct staff to return to the next Council meeting with a revised Resolution for approval.
2. The City Council could move to deny the request to amend the City-approved plans.

FISCAL IMPACT- If the project is amended as presented, then the proposed project would be required to pay for building permit fees. New housing stock would also require provision of municipal services to a new neighborhood consistent with other previously approved subdivisions.

If the project's amendment request is not approved, or the condition to install a 4-way signalized traffic light remains on the project, then the applicant would only be required to pay their pro-

rated fair share of the signal cost with the balance of the signal cost to be borne by the City's General Fund. The cost of a traffic signal is conservatively estimated by the City Engineer to be approximately \$250,000-\$400,000 with operation and maintenance cost, not including depreciation, to be an additional \$1,500 per year. The developer's pro rata share of that expense would be 1.15% or \$2,875-\$4,600. That would represent a very large fiscal impact to the City's General Fund, and given the timing of this approved project, should be included in the City's FY16-17 budget preparation.

BACKGROUND

The Black Hill Villas project has a long history with multiple previous hearings both at Planning Commission and City Council. It received Concept Plan approval by the City Council on November 13, 2006, then Precise Plan approval as a 17-lot subdivision by the Planning Commission on February 16, 2010.

However, from 2007-2015, the project encountered a series of events: it was first appealed to the Coastal Commission and later faced legal action when plaintiffs sued the Coastal Commission challenging its ESHA determinations. Despite pending legal action against Coastal Commission, which had taken jurisdiction over the coastal development permit, the City approved the project as a Precise Plan on February 16, 2010.

On February 11, 2015, the Coastal Commission, on remand from Superior Court, conducted a *de novo* hearing and ultimately approved a revised project that is inconsistent with the 2010 City-approved Precise Plan. Thereafter, the Applicant applied to the City for an amendment of the City Precise Plan approvals. At the March 15, 2016, meeting, the Planning Commission voted 5-0 to adopt PC Resolution 09-16, which forwarded a favorable recommendation to the City Council for approval of the request to modify the Precise Plan approval of the conditional use permit and vesting tentative tract map (CUP/VTTM #UP0-070/S00-038). During the hearing the Planning Commission voiced several concerns regarding the project, which they requested be forwarded to the City Council. Those concerns were identified as:

1. Removal of guest parking spaces on the revised map;
2. Lack of sustainable development features in the project, such as water reclamation, graywater reuse, photovoltaic / solar ready homes;
3. Stepped grading of the parcel;
4. Water supply environment has changed since project approval such as State Water cutbacks; and
5. While the project is already approved, the prominent rear elevations would not satisfy compliance with current residential design guidelines.

In addition to the above, the Planning Commission was concerned about the lack of Precise Plan detail. The project as presented is an already approved Precise Plan, which was received and approved by an earlier Planning Commission in 2010. Because the City approved a Precise Plan

before the project was complete with the Coastal Commission, the order of approvals became out of sync. The manner of the City's Planned Development regulations typically specifies the Precise Plan is the last step in the entitlement process. The Applicant is seeking only to amend the project to incorporate the Coastal Commission changes, which in summary reduced the size of one lot, increased the ESHA buffers, and eliminated an interior circulation road from the subdivision.

DISCUSSION

Planning Commission concerns

After the March 15, 2016, Planning Commission meeting, the Applicant submitted a letter dated March 24, 2016, a revised entitlement comparison table, and revised plans received April 12, 2016, (Exhibits B, C & F respectively) in an attempt to address concerns of the Planning Commission.

Under the Subdivision Map Act, with a Vesting Tentative Map approval, the Applicant is vested to the rules and codes in place at the time of approval. Although the Planning Commission had numerous questions regarding the project design, grading and water issues, the project's vested approval already locks in place those design features in regards to sustainable development features, stepped grading practices, water supply, and residential design guidelines.

Parking: In regards to parking, the previous parking layout had 17 guest parking spaces. With the changes incurred by the increased ESHA buffers by Coastal Commission, revisions to the guest parking layout occurred, which reduced guest parking from 17 to 10. Since the Planning Commission hearing, the applicant has added 6 additional spaces bringing the proposed total to 16.

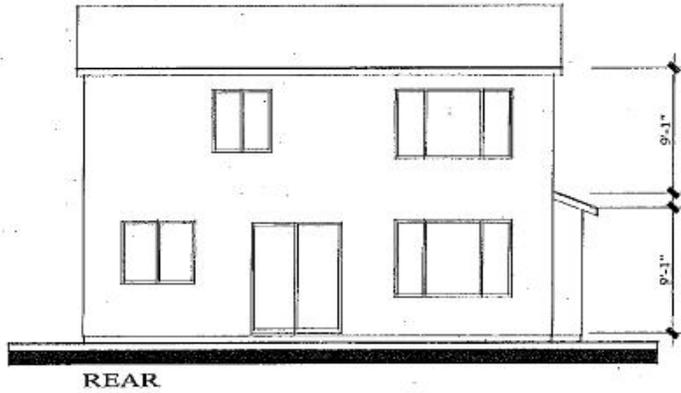
Sustainable development: Applicant's response letter states the project construction, though not approved with specific sustainable development features such as solar-ready or graywater reuse, will be in compliance with California Building Code, Title 24 Energy Efficiency Standards.

Water environment: The project will be required to comply with the City's water retrofit program for purposes of WEU allocation prior to issuance of a building permit.

Residential design guidelines: The concern centered around the view of the rear elevations as seen from Highway 1. Though the project is vested, the Applicant's response noted the rear elevation first floor exterior views will be screened by the adjacent mobile home park and fencing. Second floor elevations will be screened by the canopy of the required two trees to be planted in each lot's backyard.

In addition to screening of the backyards, the applicant has also revised the rear elevations to include more visual interest. See Exhibit G for revised rear elevations submitted and examples

provided below which show the 2010 approved plans and now.
Original 2010 approved rear elevation (model plan C):



Revised 2016 rear elevation since Planning Commission meeting (model plan C):



REAR ELEVATION

Revised Rear Elevation Rendering dated 3/24/16:



Other concerns:

Trees:

The original project approval included removal of 48 trees. With the increase to ESHA, the majority of trees proposed for removal will be along the property line with the State Park, and in addition there are three trees to be removed behind the existing large house on the property. No tree removals will be done in the expanded raptor habitat area or riparian open space as shown in Exhibit E, which denotes area of tree removal. An updated count of trees to be removed is 27, with a previous condition by City Council to provide a 2 to 1 replacement, which is consistent with major vegetation guidelines (Condition 50e of the Concept Plan permit).

Retaining wall height: Planning Commission questions also included ensuring retaining wall heights did not exceed maximum fencing standards. Staff review of the record determined a condition of the project partially addresses that and is found as Standard Condition #13 in the 2010 Precise Plan permit. Standard Condition #13 reads: “*Proposed fencing on the site shall be shown on plans submitted for a building permit and shall comply with zoning regulations including Chapter 17.49 Community Housing Project Regulations, Residential Conversions and Demolitions.*” Because the Planning Commission also discussed fencing material and whether it would blend in with its surroundings, staff is recommending an additional condition of approval be added, which would require the proposed fencing be of a non-reflective material, of a neutral, earth-tone colored palette and consistent with fencing standards in the Zoning Code at 17.48.100.

OFF-SITE IMPROVEMENTS/ TRAFFIC CONDITIONS

During past City hearings on this project, there were numerous traffic safety concerns including a petition by neighbors for a signal at the intersection of South Bay Boulevard and Quintana Road. With the City’s approval in 2006, several offsite improvements were conditioned as part of this project. Those include: 1) a 4-way traffic signal at Quintana and South Bay Blvd, 2) dedicated left turn lane (from South Bay Boulevard onto Quintana Road), 3) two new bus turn-outs (one located on the south side of Quintana Road, and one located on the west side of South

Bay Boulevard) and 4) a decomposed granite (DG) trail along Quintana Road and South Bay Boulevard extending into and onto the site. As stated in the Planning Commission staff report, the bus-turnouts and the DG trail are proposed to remain.

Previous traffic studies done in 2006 and 2010 determined only a very small incremental amount of traffic would be generated by the project and, therefore, the project did not satisfy warrants for a traffic signal. Despite that, a condition was added to the project by the City Council to require a four-way signalized traffic light, dedicated left-turn lane and signalized pedestrian crossing. For those conditions, the Applicant would only be required to pay its pro-rata fair share, with the balance to be paid by the City.

As stated in the March 15, 2016, Planning Commission staff report, a 2016 updated traffic study was performed by Omni-Means with new traffic counts conducted in December 2015, which re-evaluated “Existing Conditions” and “Existing Plus Project Conditions” consistent with the traffic scenarios studied in the 2010 TPG Consulting traffic study. Also, the traffic study evaluated the South Bay Boulevard/Quintana Road intersection to determine the warranted intersection control type. That intersection is currently stop sign controlled only on the Quintana Road approaches.

The traffic study update received by Omni-Means and reviewed with Caltrans staff found the results consistent with the previous traffic studies. It concluded a 4-way signal, signalized pedestrian crossing, and dedicated left-turn lanes do not meet established warrants and, therefore, no nexus to the project can be established to justify those improvements as a condition of approval.

In addition to the traffic study update, City Council Resolution No. 67-15 (Exhibit E) was adopted on October 27, 2015, establishing a policy of only installing warranted traffic control devices. Given the 2006 and 2010 traffic studies concluded a signal was not warranted, and the 2016 Omni peer review traffic study confirms neither the traffic signal, signalized pedestrian crossing, nor dedicated left-turn lane are warranted, staff is recommending those conditions be removed from the project. That recommendation was discussed with the Planning Commission, as part of its favorable recommendation to City Council. Planning Commission’s favorable recommendation to remove the traffic signal (Condition 50i) and signalized pedestrian crosswalk (Condition 50g) are included within the Planning Commission resolution that recommends approval of the project. However, despite City Council Resolution 67-15, the Planning Commission included a recommendation to the City Council for installation of left-turn lanes from South Bay Boulevard to Quintana, for both the northbound and southbound lanes. That recommendation was not associated with the project, but instead was a general recommendation for left turn lanes to be added as part to the City’s capital improvement program.

ENVIRONMENTAL DETERMINATION

A mitigated negative declaration was previously adopted for this project (SCH#2006061099).

No further environmental review is required under the California Environmental Quality Act. Mitigations have been incorporated as conditions of approval on the project.

PUBLIC NOTICE

Notice of a public hearing on this item was posted at the site and published in the Tribune newspaper on April 15, 2016, and mailed directly to all property owners of record within 500 feet of the subject site and occupants within 500 feet of the site. The notices invited the public to attend the hearing and express any concerns they may have regarding the proposed project.

CONCLUSION

With the Coastal Commission action now final, an amendment of the 2010 Precise Plan approval is necessary to incorporate the changes brought about as a result of the 2015 Coastal Commission permit. In addition to the map changes and increased ESHA buffers, the 2016 updated traffic study concluded the project condition of a 4-way traffic signal, signalized pedestrian crossing, and dedicated left-turn lane are not warranted. In considering City Council Resolution 67-15, which adopts a policy against installation of unwarranted traffic devices, staff is recommending those three off-site traffic conditions be removed as noted in Planning Condition #7 on Council Resolution No. 26-16. Staff recommends the City Council approve the requested amendments to the Precise Plan approvals for CUP/VTTM #UP0-070/S00-038- (CP0-110/UP0-070/S00-038) for the Black Hill Villas Planned Unit Development previously approved in 2006 and 2010 by adoption of City Council Resolution 26-16 attached herein.

EXHIBITS

Exhibit A – City Council Resolution 26-16

Exhibit B – Letter from Wayne Colmer, dated 3-24-2016

Exhibit C – Entitlement Comparison received 4-8-2016

Exhibit D – City Council Resolution 67-15

Exhibit E – Tree Removal Site Plan

Exhibit F – Revised Grading and Vesting Tentative Tract Map Plans/Plan Reductions received
April 8, 2016

Exhibit G – Rear Elevation Architectural Detail

ONLINE LINKS FOR SUPPLEMENTAL INFORMATION

Coastal Commission Staff Report plus attachments for 2-11-2015 meeting:

<http://www.morro-bay.ca.us/DocumentCenter/View/9396>

Previous City staff reports & meeting minutes are available at the following link:

<http://www.morro-bay.ca.us/842/Current-Planning-Projects>

- Planning Commission Staff Report & attachments for 3-15-16 meeting (most recent)
- Planning Commission Staff Report for 2006, 2009 and 2010 meetings

- City Council Staff Report for 10/9/06 and 11/13/06 meetings
- City Council and Planning Commission meeting minutes

**Paper copies of the online staff reports and minutes are available upon request from either the City Clerk's office or Community Development Department.

RESOLUTION NO. 26-16

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
MODIFYING PRECISE PLAN APPROVALS FOR CUP/VTTM #UP0-070/S00-038
(#A00-027) FOR PLANNED UNIT DEVELOPMENT (TRACT 2739) LOCATED AT 485
& 495 SOUTH BAY BLVD PREVIOUSLY APPROVED IN 2006 AND 2010 TO
INCLUDE CHANGES AS A RESULT OF COASTAL COMMISSION CDP #A-3-MRB-
06-064 APPROVED ON FEBRUARY 11, 2015 AND REMOVAL OF UNWARRANTED
TRAFFIC IMPROVEMENTS INCLUDING 4 WAY TRAFFIC SIGNAL, SIGNALIZED
PEDESTRIAN CROSSING AND TURN LANES AT THE INTERSECTION OF SOUTH
BAY BLVD AND QUINTANA ROAD**

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

WHEREAS, the City Council of the City of Morro Bay (the “City”) previously adopted a Mitigated Negative Declaration and approved a Concept Plan approval for Coastal Development Permit, Conditional Use Permit and Vesting Tentative Tract Map #UP0-070/S00-038 (case #CP0-110/UP0-070/S00-038) on November 13, 2006; and

WHEREAS, the City’s Planning Commission previously approved a Precise Plan on February 17, 2010 for Conditional Use Permit and Vesting Tentative Tract Map #UP0-070/S00-038 (case #CP0-110/UP0-070/S00-038); and

WHEREAS, the California Coastal Commission (“CCC”) conditionally approved a Coastal Development Permit on February 11, 2015, known as CDP A-3-MRB-06-064 and issued a Notice of Intent to Issue a Coastal Development Permit on June 4, 2015; and

WHEREAS, the Planning Commission conducted a public hearing at the Morro Bay Veteran’s Hall, 209 Surf Street, Morro Bay, California, on March 15, 2016, for the purpose of considering a modification (#A00-027) of the Precise Plan approvals for Conditional Use Permit and Vesting Tentative Tract Map #UP0-070/S00-038 (case #CP0-110/UP0-070/S00-038) for Planned Unit Development previously approved in 2006. Project amendment includes changes as a result of CCC-approved CDP #A-3-MRB-06-064) on February 11, 2015, with changes to project’s City-issued permit (CP0-110, UP0-070, S00-038). Included in the modification is an updated traffic study with recommendation to modify traffic conditions, including removal of unwarranted traffic improvements, including a 4-way traffic signal, signalized pedestrian crossing, and turn lanes at the intersection of South Bay Blvd and Quintana Road and adopted Resolution 09-16; and

WHEREAS, the City’s City Council conducted a public hearing at the Morro Bay Veteran’s Hall, 209 Surf Street, Morro Bay, California, on April 26, 2016, pursuant to the

Planned Development regulations (Morro Bay Municipal Code (MBMC) section 17.40.030), for the purpose of considering the Proposed Project for 485 & 495 South Bay Boulevard, also known as the Black Hill Villas, Tract 2739, in an area partially within the appeals jurisdiction of the CCC; and

WHEREAS, the Applicant has filed an application to amend the Precise Plan approval to incorporate CCC changes to the City-approved project; and

WHEREAS, the City Council adopted Resolution 67-15 on October 27, 2015 which adopts a policy of only installing warranted traffic devices; and

WHEREAS, an updated traffic study dated February 24, 2016, was prepared by Omni-Means, which concluded a 4-way signal at the intersection of Quintana Road and South Bay Boulevard was not warranted, nor was a signalized pedestrian crossing or dedicated left turn lane from South Bay Boulevard onto Quintana Road; and

WHEREAS, notice of the public hearing was provided at the time and in the manner required by law; and

WHEREAS, the City Council has duly considered all evidence, including the recommendation made by the Planning Commission, testimony of the applicant, interested parties, and the evaluation and recommendations by staff, presented at said hearing.

WHEREAS, the Planning Commission recommended the City Council remove condition # 50i and 50g which require 4-way signalization and a signalized pedestrian crosswalk at the intersection of Quintana and South Bay Blvd, as specified in the Concept Plan permit approved on November 13, 2006, and also noted as Planning Commission condition 44c on the Precise Plan permit approved on February 16, 2010;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Morro Bay as follows:

Section 1: Findings. Based upon all the written and oral testimony and evidence presented to the Council at and for the above public hearing, the City Council makes the following findings:

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) FINDINGS

- A. For purposes of the California Environmental Quality Act, A Mitigated Negative Declaration (MND) has been prepared for the Proposed Project, based upon potentially significant impacts to Hazards issues. Any impacts associated with the Proposed Project will be brought to a less than significant level through the mitigation measures described in the MND.
- B. An MND was adopted on November 13, 2006 (SCH# 2006061009). That approval is to allow for the implementation of the Proposed Project. An analysis has been performed

pursuant to CEQA Guidelines § 15162 to determine whether subsequent environmental review is required for the Proposed Project. Based upon this analysis, none of the circumstances set forth in CEQA Guidelines § 15162 have occurred which would require subsequent environmental review.

- C. Additionally, for purposes of CEQA and its review of the 2015 revised project, the CCC's review and analysis of land use proposals has been certified by the Secretary of Resources as being the functional equivalent review under CEQA.

CONDITIONAL USE PERMIT FINDINGS

- A. The project is an allowable use in its zoning district and is consistent with the General Plan / Local Coastal Program for the City of Morro Bay.
- B. The establishment, maintenance, or operation of the residential development will not be detrimental to the health, safety, comfort or general welfare of the persons residing or working in the neighborhood, as the project is consistent with all applicable zoning and plan requirements; and the proposed development has made modifications to the original proposals including by moving the entrance driveway and several homes farther away from the on-site stream/riparian corridor, reducing the width of the entrance driveway to 20 feet, and by proposing split-rail fence and permeable public pedestrian trail between the entrance road and the riparian enhancement area all of which serve to protect environmentally sensitive habitat (ESH). In addition, three traffic studies prepared for both the original and the revised project from 2006, 2010 and 2016 all conclude that the proposed planned unit development of single family homes does not meet traffic warrants to support installation of a four way signalized traffic device at the intersection of Quintana and South Bay Boulevard.
- C. As conditioned, the project will comply with all applicable City regulations and will not be injurious or detrimental to property and improvements in the neighborhood or the general welfare of the City.

SUBDIVISION MAP ACT FINDINGS:

- D. As conditioned, the proposed map to create sixteen residential lots and a common open space lot is consistent with the General Plan and Coastal Land Use Plan because residential development is allowed under the land use designation and zoning and subdivision provisions of the Morro Bay Municipal Code (the "MBMC"), and as designed will not impact sensitive resources on the site.
- E. As conditioned, the design and improvements to create Black Hill Villas subdivision is consistent with the General Plan and Coastal Land Use Plan because public and private improvements will be constructed to meet the needs of the development, while respecting and enhancing sensitive resource areas.

- F. As conditioned, the site is physically suitable for the type and density of development proposed because the residential uses and associated improvements have been designed in consideration of the environmental constraints on the site.
- G. As conditioned, the design of the subdivision and related improvements will not cause substantial environmental damage or substantially and avoidably injure fish or wildlife or their habitat because sensitive resource areas will be avoided and enhanced.
- H. The design of the subdivision and improvements will not cause serious public health problems.
- I. The design of the subdivision and related improvements will not conflict with easements, acquired by the public at large, for access through or use of, property within the proposed subdivision because all such easements shall be retained with the proposed project.
- J. As conditioned, the design, architectural treatment, and general appearance of the homes, associated improvements, and open space areas are in keeping with the character of the surrounding area, and will not be incompatible with the uses permitted in the surrounding areas and zoning district.
- K. The City has available adequate water to serve the proposed subdivision enforced at the time of approval of the Vesting Tentative Parcel Map pursuant to the certified Water Management Plan and General Plan LU-22.1.
- L. The project represents innovative design in protecting existing resources on the site while providing housing at the density allowed for the site by the General Plan.
- M. The proposed project will provide a more desirable and livable community than the minimum requirements; Create a better community environment in keeping with the single-family residential nature of the area; Reduce the danger of erosion.
- N. The deviations from typical property development standards allow for an innovative project design and provision of a quality residential community and preservation of environmental resources which could not otherwise have been provided for on the site.

Architectural Consideration

- O. The architectural treatment and general appearance of all proposed buildings, improvements, and open areas are in keeping with the character of the surrounding areas, are compatible with surrounding natural features, and are not detrimental to the orderly and harmonious development of the city or the desirability of investment in the area.

Precise Plan:

- P. As conditioned, the precise plan approval is consistent with the General Plan and requirements of the Zoning Ordinance.

Major Vegetation Guidelines:

- Q. The major vegetation removal, as mitigated, will not significantly impact any threatened or endangered plant or animal habitat area;
- R. Reasonably calculated mitigation measures are in place to avoid dangerous soil erosion or instability resulting from the removal;
- S. The Major Vegetation removal will not adversely affect the character of the surrounding neighborhood because it is necessary for the development of the lot.

Section 2. Action. The City Council does hereby modify the Precise Plan approval of Conditional Use Permit / Vesting Tentative Tract Map #UP0-070/S00-038 (case #CP0-110/UP0-070/S00-038) for a 16 lot planned unit development, known as Black Hill Villas, located at 485 & 495 South Bay Blvd subject to the following conditions:

STANDARD CONDITIONS

1. This permit is granted for the land described in the staff reports dated April 11, 2016, and March 9, 2016, and CCC staff report prepared for the February 11, 2015, meeting for the project at 485 & 495 S. Bay Blvd depicted on plans received April 8, 2016, on file with the Community Development Department, as modified by these conditions of approval, and more specifically described as follows: Site development, including all buildings and other features, shall be located and designed substantially as shown on plans, unless otherwise specified herein.
2. Inaugurate Within Two Years: Unless the construction or operation of the structure, facility, or use is commenced not later than two years after the effective date of this Resolution and is diligently pursued, thereafter, this approval will automatically become null and void; provided, however, that upon the written request of the Applicant, prior to the expiration of this approval, the Applicant may request up to two extensions for not more than one additional year each. Any extension may be granted by the City's Community Development Manager (the "CDM"), upon finding the project complies with all applicable provisions of the MBMC, General Plan and certified Local Coastal Program Land Use Plan (LCP) in effect at the time of the extension request.
3. Changes: Minor changes to the project description and/or conditions of approval shall be subject to review and approval by the CDM. Any changes to this approved permit determined, by the CDM, not to be minor shall require the filing of an application for a permit amendment subject to Planning Commission review.

4. Compliance with the Law: (a) All requirements of any law, ordinance or regulation of the State of California, the City, and any other governmental entity shall be complied with in the exercise of this approval, (b) This project shall meet all applicable requirements under the MBMC, and shall be consistent with all programs and policies contained in the LCP and General Plan for the City.
5. Hold Harmless: The Applicant, as a condition of approval, hereby agrees to defend, indemnify, and hold harmless the City and each of its officers, employees and agents from any claim, action, or proceeding arising from the action or inaction by the City, or any of its officers, employees or agents or from any claim to attack, set aside, void, or annul this approval by the City of the Applicant's project or applicants failure to comply with conditions of approval. Applicant understands and acknowledges the City is under no obligation to defend any legal actions challenging the City's actions with respect to the project. This condition and agreement shall be binding on all successors and assigns.
6. Compliance with Conditions: The Applicant's establishment of the use or development of the subject property constitutes acknowledgement and acceptance of all Conditions of Approval. Compliance with and execution of all conditions listed herein shall be required prior to obtaining final building inspection clearance or any certificate of occupancy. Deviation from that requirement shall be permitted only by written consent of the CDM or as authorized by the Planning Commission. Failure to comply with any of these conditions shall render this entitlement, at the discretion of the CDM, null and void. Continuation of the use without a valid entitlement will constitute a violation of the MBMC and is a misdemeanor.
7. Compliance with Morro Bay Standards: This project shall meet all applicable requirements under the MBMC, and shall be consistent with all programs and policies contained in the LCP and General Plan of the City.

PLANNING CONDITIONS:

1. Conditions of Approval on Building Plans: Prior to the issuance of a Building Permit, the final Conditions of Approval shall be attached to the set of approved plans. The sheet containing Conditions of Approval shall be the same size as other plan sheets and shall be the last sheet in the set of Building Plans.
2. Architecture: Building color and materials shall be as shown on plans approved by the Planning Commission and specifically called out on the plans submitted for a Building Permit to the satisfaction of the CDM.
3. Boundaries and Setbacks: The property owner is responsible for verification of lot boundaries. Prior to requesting foundation inspection, a licensed land surveyor shall verify lot boundaries and building setbacks to the satisfaction of the CDM. A copy of the surveyor's *Form Certification* based on a boundary survey shall be submitted with the request for foundation inspection.
4. Building Height Verification: Prior to foundation inspection, a licensed land surveyor shall measure and inspect the forms and submit a letter to the CDM certifying the tops of the forms are in compliance with the finish floor elevations as shown on approved plans. Prior

to either roof nail or framing inspection, a licensed surveyor shall submit a letter to the building inspector certifying that the height of the structures is in accordance with the approved plans and complies with the maximum height requirement of 25 feet as measured from average natural grade of the building footprint.

5. Inspection: The applicant shall comply with all Planning conditions listed above and obtain a final inspection from the Planning Division at the necessary time in order to ensure all conditions have been met.
6. Conditions of Approval: All other Conditions of Approval for Conditional Use Permit / Vesting Tentative Tract Map UP0-070/S00-038 (Case#CP0-110/UP0-070/S00-038) including previous amendment conditions shall remain in full force and effect except as amended with this approval.
7. Traffic Conditions: Previous conditions to install a 4 way signal, dedicated left turn lane and signalized pedestrian crossing at the intersection of Quintana and South Bay Blvd are hereby removed from this project.
8. Fencing: Proposed fencing shall be of a non-reflective material that consists of a earth-toned, neutral color palette and consistent with fencing regulations found in MBMC 17.48.100.

PUBLIC WORKS CONDITIONS:

1. Pedestrian Trail: Applicant shall be responsible for the repair and maintenance of the decomposed granite pedestrian trail.

PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on this 26th day of April, 2016 on the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

JAMIE L. IRONS, Mayor

ATTEST

DANA SWANSON, City Clerk

Exhibit B
Black Hill Villas L.P.
23679 Calabasas Rd. #333
Calabasas, CA 91302
Phone: 818-222-5666

March 24, 2016

Cynthia Jacinth, Associate Planner
Morro Bay Community Development Department
955 Shasta Avenue
Morro Bay, CA 93442

RE: 485 & 495 S. Bay Blvd Modification of Precise Plan CUP/VTTM #UPO-070/S00-038

Dear Ms. Jacinth:

During the March 15, 2016 public hearing, certain concerns were raised by the Planning Commission and the public regarding the Project. I thought it might be helpful to briefly address those concerns. First and foremost, the Precise Plan submitted to the City for their Planning Commission's approval is the CDP plan which the Coastal Commission approved after requiring changes and imposing conditions that the Coastal Commission concluded result in a Project more protective of coastal resources and public access. The Coastal Commission's approval provides very concise guidelines for the development of the Project from which we may not deviate.

Planning Commissioners raised concerns about the following:

1. The reduction of guest parking spaces from the approved 2010 City's Precise Plan of 17 spaces to the CDP 2015 approved 10 spaces. The original 2006 Tentative Map had 10 guest parking spaces.
Response: Revisions can be made to the CDP plan adding an additional 6 guest parking spaces within the Coastal Commission approved development area. There would be 16 guest spaces on the revised plan. See attached Grading Plan and Tentative Tract Map.
2. Lack of sustainable development features.
Response: Although the specifics of the Project's construction details are not finalized, there will be a number of sustainable development features included in the construction of the homes that will be determined prior to issuance of building permits for the Project.
3. Stepped grading of the parcel.
Response: Grading, project design and floor plans have been approved in the CDP and 2010 Precise Plan. Little deviation is possible without significant project redesign. The grading plan includes stepped grading, in the form of deepened footings that reduce retaining wall heights. A grading profile, Section E-E, has been added to the grading plan to provide details of this construction.
4. Water supply environment has changed.
Response: The Project will comply with the City's adopted water retro fit ordinance to offset new water usage.
5. Approved rear elevations would not satisfy compliance with new residential design guidelines.
Response: New enhanced architectural details of rear elevations have been added to the approved precise plan architecture and are shown on the attached exhibit.

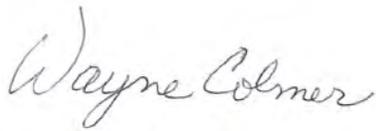
Exhibit B

The following additional information also is being provided:

1. Confirmation that privacy walls and retaining walls heights are being designed so that no combination of these walls visible from public areas are over 6 feet in height. See Grading Plan Profile E-E.
2. The species of the proposed screening trees (2 per yard) in the rear yards of the homes backing up to the mobile home park will be the evergreen Coffeeberry, Frangula California. They grow to 15-20 feet in height and have a canopy of up to 8 feet.
3. The 17 trees being removed along the property line present a fire hazard. Limbs from these trees are interwoven with the PG&E electrical transmission lines. The proximity of the limbs to the high voltage electrical lines present a fire hazard. The base of the trees and their roots require removal to build the property line masonry wall. This masonry wall is required by the Morro Bay Fire Department and the Coastal Commission for fire protection and to serve as barrier between the homes and the State Park (Coastal Commission Condition III. 1.(e)).

Thank you and I hope this additional information is helpful to you and the Planning Commission. If you have any questions regarding the above, please don't hesitate to contact me.

Sincerely,
Black Hill Villas, L.P.

A handwritten signature in cursive script that reads "Wayne Colmer".

Wayne Colmer, President
Colmer Construction, Inc.
Its General Partner

Exhibit C

Black Hill Approved Entitlement Comparison

Date Approved	City Approved Tentative Map CUP Nov. 13, 2006	City Approved Precise Plan Feb. 16, 2010	Coastal Commission CDP Feb. 11, 2015	Revised Precise Plan April 1, 2016
Project Description				
Unit Mix	17 single family homes*	17 single family homes*	16 single family homes	16 single family homes
Affordable Units	2 single family homes*	2 single family homes*	2 single family homes	2 single family homes
Open Space Area	41,412 sf*	48,342 sf (39,743+9,598)*	61,232 sf	62,097 s.f.
Onsite Parking	34 covered & 6 uncovered*	34 covered & 17 uncovered*	32 covered & 11 uncovered	32 covered & 16 uncovered
Private Road & Home Location	Along the center of the site with homes located on either side.*	Along the perimeter of the site, creating a buffer between the homes and riparian/natural area.*	Along the perimeter of the site, creating a buffer between the homes and riparian/natural area.*	Along the perimeter of the site, creating a buffer between the homes and riparian/natural area.*
Housing Lot Area	2,849-4,430 sf	1,792-4,444 sf	1,981-4,444 sf	1,814 - 4,888 s.f.
House Size	1150, 1704, 1895 s.f.	1232, 1461,1715 s.f.	1232, 1461,1715 s.f.	1232, 1461,1715 s.f.
Open Space area (Riparian+Raptor)	41,412 sf-30%	48,342 sf (39,743+9,598)-35%	61,232 s.f.(47,447+13,785)-45%	62,097 s.f. (48,293+13,804) - 45%
Housing Area	58,938 sf-43%	51,392 sf-37%	46,821 sf-34%	46,730 s.f. - 34%
Paved Area	37,912 sf-27%	38,528 sf-28%	29,189 sf-21%	28,415 s.f. - 21%
Lot Area in sf			CC approved lot order renumbered	
1	79,324 Open space & street	3,109	3,108	3,108
2	6,123	2,869	2,964	2,963
3	3,806	2,831	4,890	4,888
4	3,694	3,260	1,809	1,814
5	3,080	3,355	1,983	1,983
6	3,302	3,376	2,633	2,633
7	3,026	1,792	3,245	3,304
8	3,000	2,895	2,441	2,382
9	3,412	3,247	3,666	3,667
10	3,577	2,443	4,468	4,389
11	3,654	3,606	3,808	3,793
12	3,544	4,444	2,370	2,370
13	3,295	3,838	2,422	2,422
14	3,218	2,593	2,184	2,184
15	3,141	2,436	2,184	2,184
16	3,064	2,436	2,646	2,646
17	3,001	2,862	61,732 Riparian & Raptor Open Spaces	62,097 Riparian and Raptor Open Space
18	3,001	86,870 Open space and streets	29,189 Streets	28,415 Streets
Total	138,262	138,262	137,242	137,242
Trees removed	50	48	43	27
Trees Planted	100	96	107	107
Riparian restoration	No	Yes	Yes	Yes
Fire/State Park Buffer	5'	40'	40'	40'
Riparian ESHA setback	50'	100'	100'	100'

** Tract area recalculated by metes and bounds 03/31/2016. Total area = 137,242 square feet.

Exhibit D

RESOLUTION NO. 67-15

**RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA
RESCINDING CITY COUNCIL RESOLUTION 38-15 THAT AUTHORIZED
AND DIRECTED THE INSTALLATION OF ALL-WAY STOP SIGNS ON
MAIN STREET AT PACIFIC STREET AND ADOPTING A POLICY OF ONLY INSTALLING
WARRANTED TRAFFIC CONTROL DEVICES**

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

WHEREAS, Morro Bay Municipal Code Section 10.08.020 states the City traffic engineer shall determine the installation of traffic-control devices, signs and signals based on engineering and traffic investigations of traffic conditions; and

WHEREAS, the City traffic engineer did perform such investigation at the intersection of Main Street and Pacific Street; and

WHEREAS, the investigation per the guidelines contained in the latest California edition of the Manual of Uniform Traffic Control Devices (MUTCD) indicated the installation of an all way stop at that intersection was not warranted; and

WHEREAS, Morro Bay Municipal Code Section 10.08.080 states, the City Council shall also have the power to place and maintain or cause to be placed or maintained official traffic- control devices when and as required as it deems necessary to regulate traffic under this chapter or under the state law, or to guide or warn traffic; and

WHEREAS, on June 9, 2015, lacking a study that indicated an all-way stop was warranted, the City Council determined it is appropriate to place all-way stops signs at the intersection of Main Street and Pacific Street, based on a petition of concerned citizens and other public testimony; and

WHEREAS, the City Council adopted Resolution 38-15 “A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORRO BAY, CALIFORNIA, AUTHORIZING AND DIRECTING THE INSTALLATION OF ALL WAY STOP SIGNS ON MAIN STREET AT PACIFIC STREET”.

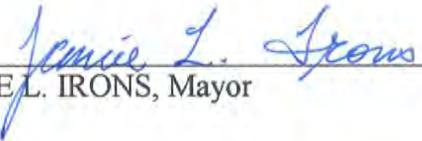
NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Morro Bay that:

1. Resolution 38-18 is hereby rescinded.
2. The Public Works Department install the following traffic calming measures at the intersection:
 - a. Painted intersection bulb-outs that result in a narrowing of the Main Street traveled way and reduce the pedestrian crossing distance.
 - b. “High-Viz” or “Zebra Striped” crosswalks across Main Street at Pacific Street.
 - c. Continue to work toward other traffic calming measures identified in the City’s adopted goals and objectives.
3. No unwarranted traffic control devices shall be allowed within the rights-of-ways within the jurisdictional boundaries of the City, whether installed by the City forces or private parties.

Exhibit D

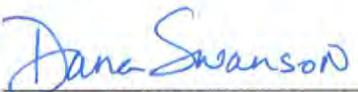
PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on the 27th day of October, 2015 by the following vote:

AYES: Irons, Headding, Johnson, Smukler
NOES: None
ABSENT: Makowetski



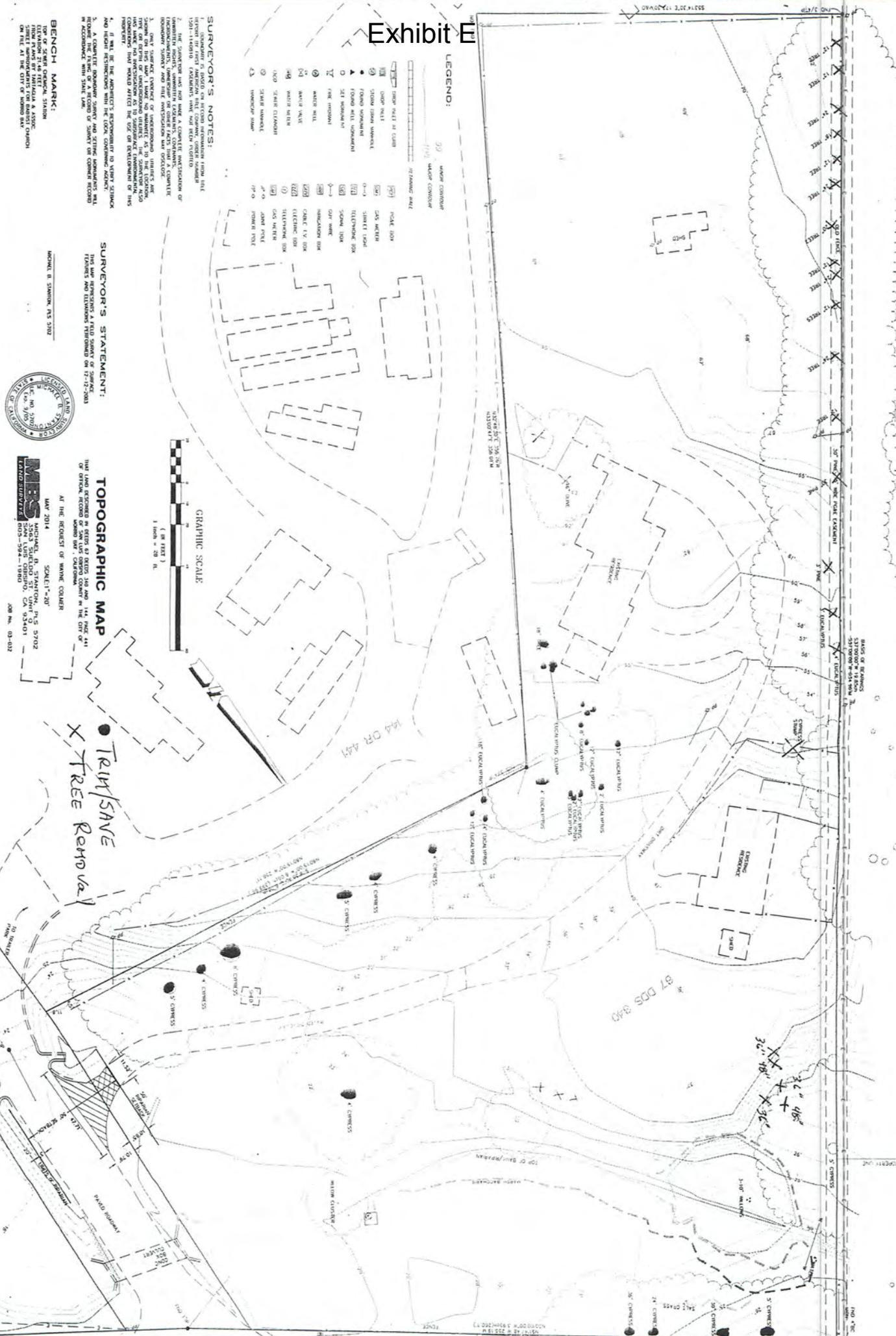
JAMIE L. IRONS, Mayor

ATTEST:



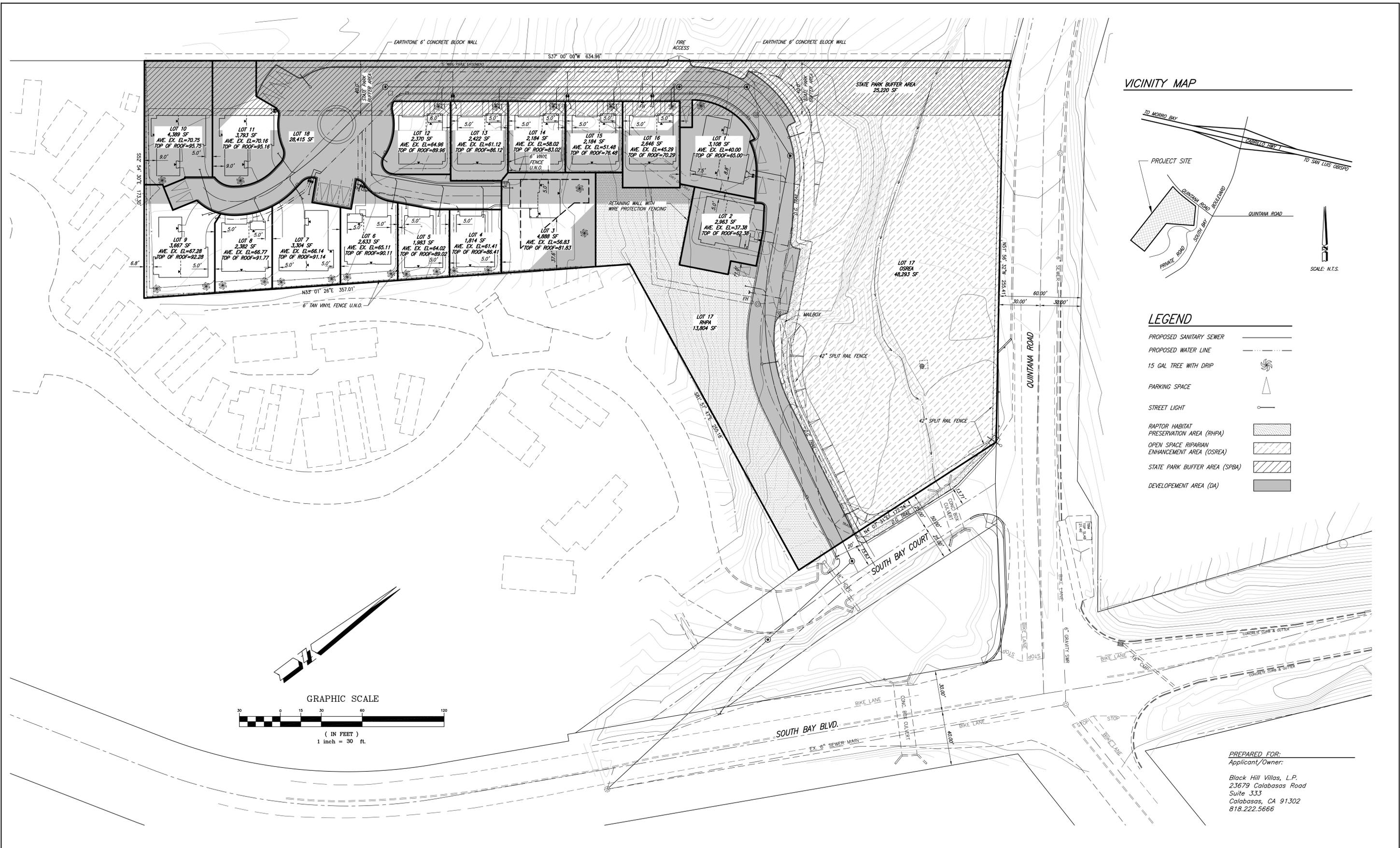
DANA SWANSON, City Clerk

Exhibit E



LEGEND:

- 3/4" WOOD CONDUIT
- 1/2" WOOD CONDUIT
- 1/4" WOOD CONDUIT
- 1/8" WOOD CONDUIT
- 1/16" WOOD CONDUIT
- 1/32" WOOD CONDUIT
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DIAL TOLL FREE
811
AT LEAST TWO DAYS
BEFORE YOU DIG
UNDERGROUND SERVICE ALERT OF NORTHERN CALIFORNIA

BASIS OF BEARING	BENCHMARK	REV.	DATE	BY	DESCRIPTION OF REVISIONS
TO BE PROVIDED	TO BE PROVIDED				

GTA
Garing Taylor & Associates
Civil Engineering
Surveying
Project Development
141 South Elm Street
Arroyo Grande, CA 93420
805/489-1321

REGISTERED PROFESSIONAL ENGINEER
No. 40657
Exp. 3-31-17
CIVIL
STATE OF CALIFORNIA

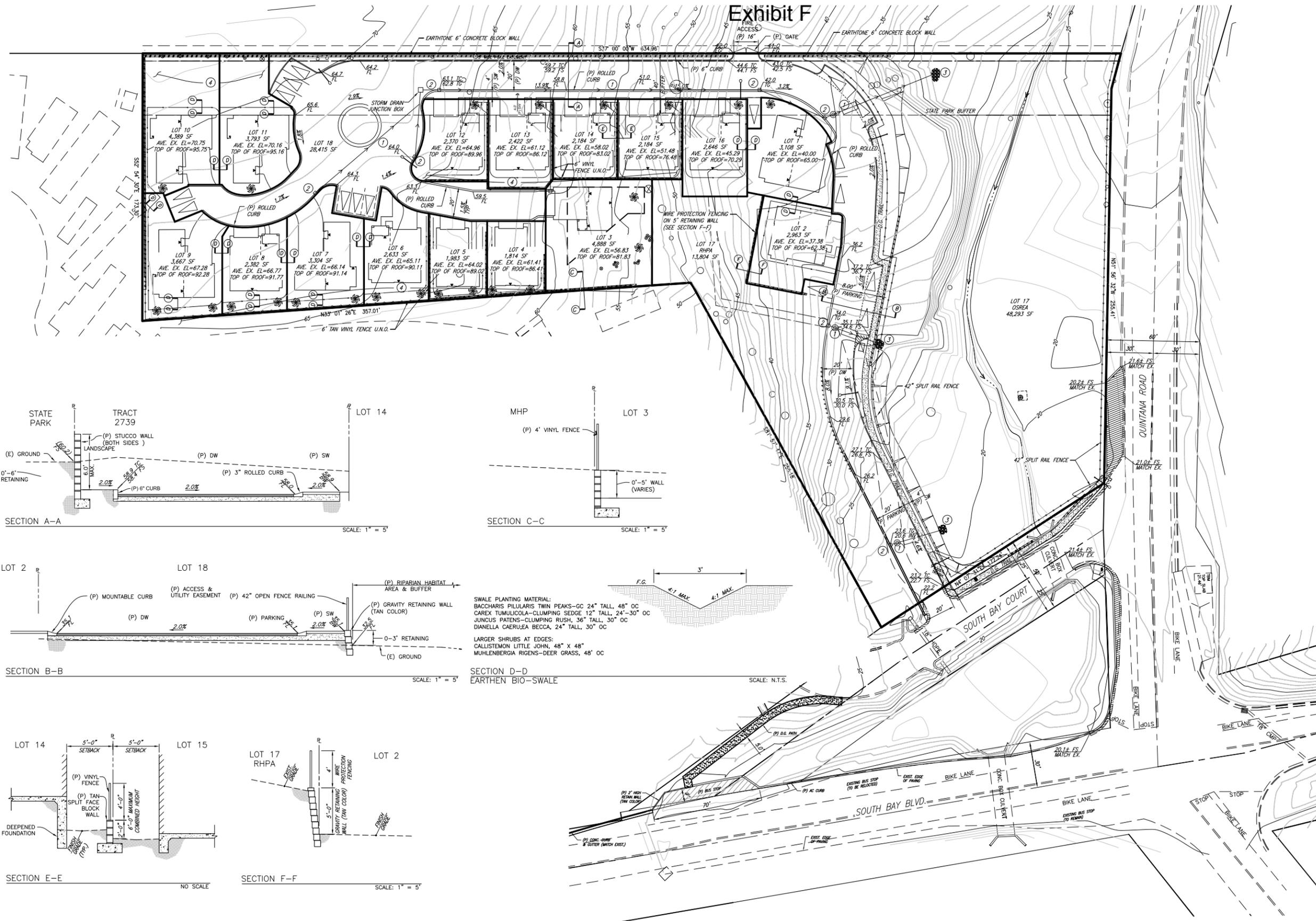
REGISTERED PROFESSIONAL ENGINEER
No. 12312016
Exp. 12/31/2016
CIVIL
STATE OF CALIFORNIA

CITY ENGINEER _____ DATE _____

CITY OF MORRO BAY
955 SHASTA AVENUE
MORRO BAY, CA 93442
DEPARTMENT OF PUBLIC SERVICES
ENGINEERING DIVISION

PRECISE PLAN
VESTING TENTATIVE TRACT MAP 2739
485 & 495 SOUTH BAY BLVD.
MORRO BAY, CALIFORNIA
SITE EXHIBIT
PROJECT NO: 15-529.000 SHEET: 1 OF 4

Exhibit F

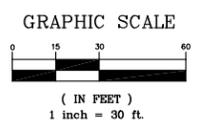
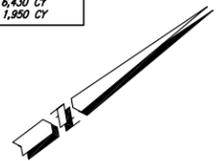


- ### LEGEND
- 15 GAL TREE WITH DRIP
 - PARKING SPACE
 - STREET LIGHT
 - EX. TREE TO REMAIN
 - EX. TREE TO BE REMOVED
 - REMOVE AND REPLACE EX. AC PAVEMENT TO CONFORM
 - PROPOSED

- ### UTILITY NOTES:
- 1 PROPOSED STORM DRAIN LINE
 - 2 PROPOSED STORM DRAIN INLET
 - 3 PROPOSED STORM DRAIN RIP RAP
 - 4 STEP GRADING AND USE OF DEEPEENED FOUNDATION TO BE UTILIZED TO REDUCE RETAINING AND PRIVACY WALL HEIGHT.

- ### ABBREVIATIONS:
- OSREA = OPEN SPACE RIPARIAN ENHANCEMENT AREA
 - RHPA = RAPTOR HABITAT PROTECTION AREA

EARTHWORK QUANTITIES
 CUT: 6,430 CY
 FILL: 1,850 CY



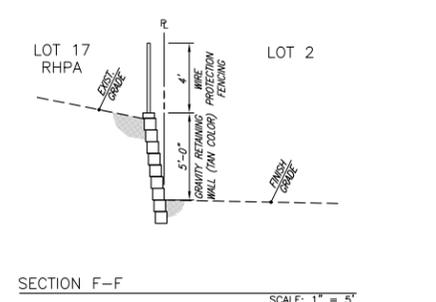
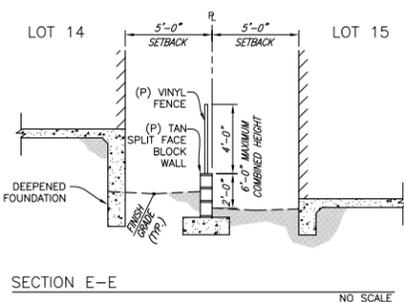
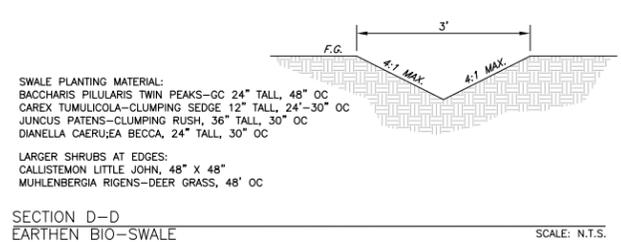
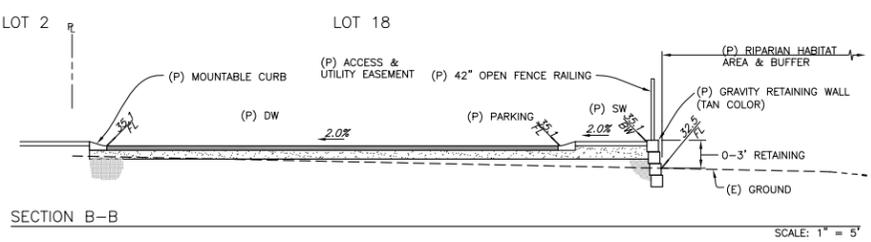
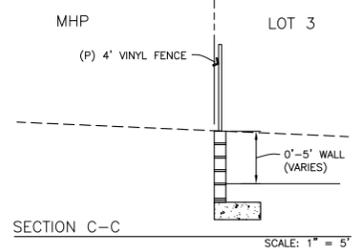
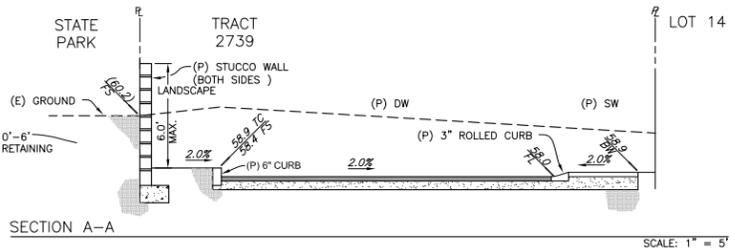
Project Data

1. PROJECT ADDRESS: 485 SOUTH BAY BLVD, MORRO BAY, CA
2. SIZE: 3.17 ACRES (138,254.1 S.F.)
3. GENERAL PLAN: LOW DENSITY RESIDENTIAL
4. ZONING: R-2 SINGLE FAMILY RESIDENTIAL
5. ASSESSOR'S PARCEL NO: 066-371-003
6. WATER SUPPLY: CITY OF MORRO BAY
7. SEWAGE DISPOSAL: CITY OF MORRO BAY
8. GAS: THE GAS COMPANY
9. ELECTRICITY: PACIFIC GAS & ELECTRIC
10. TELEPHONE: AT&T
11. EXISTING LOT AREAS: PARCEL A = 80,806.1 SQ. FT.
 PARCEL B = 57,448.0 SQ. FT.

PREPARED FOR:

Applicant/Owner:
 Black Hill Villas, L.P.
 23679 Calabasas Road
 Suite 333
 Calabasas, CA 91302
 818.222.5666

SCHEDULE OF ELEVATIONS			
LOT #	AVG. EX. GRADE	AVG. FINISHED GRADE	TOP OF ROOF
1	40.0000	39.50	65.0000
2	37.3800	36.88	62.3800
3	56.8300	55.83	81.8300
4	61.4100	60.41	86.4100
5	64.0200	63.02	89.0200
6	65.1100	64.11	90.1100
7	66.1400	65.14	91.1400
8	66.7700	65.77	91.7700
9	67.2800	66.28	92.2800
10	70.7500	70.25	95.7500
11	70.1600	69.66	95.1600
12	64.9600	64.46	89.9600
13	61.1200	60.62	86.1200
14	58.0200	57.52	83.0200
15	51.4800	50.98	76.4800
16	45.2900	44.79	70.2900



DIGALERT
 DIAL TOLL FREE 811
 AT LEAST TWO DAYS BEFORE YOU DIG
 UNDERGROUND SERVICE ALERT OF NORTHERN CALIFORNIA

BASIS OF BEARING	BENCHMARK	REV.	DATE	BY	DESCRIPTION OF REVISIONS
TO BE PROVIDED	TO BE PROVIDED				

GTA
 Garing Taylor & Associates

Civil Engineering
 Surveying
 Project Development

141 South Elm Street
 Arroyo Grande, CA 93420
 805/489-1321

REGISTERED PROFESSIONAL ENGINEER
 JEFFREY J. ENRIQUE
 No. 40657
 Exp. 3-31-17
 CIVIL
 STATE OF CALIFORNIA

REGISTERED PROFESSIONAL ENGINEER
 ROBERT A. LIVICK
 No. 61057
 Exp. 12/31/2016
 CIVIL
 STATE OF CALIFORNIA

CITY ENGINEER DATE

CITY OF MORRO BAY
 955 SHASTA AVENUE
 MORRO BAY, CA 93442

DEPARTMENT OF PUBLIC SERVICES
 ENGINEERING DIVISION

PRELIMINARY GRADING PLAN
 485 & 495 SOUTH BAY BLVD.
 MORRO BAY, CALIFORNIA

SITE EXHIBIT
 PROJECT NO: 15-529.000 SHEET: 2 OF 4



ELEVATION A
PLAN 3

ELEVATION A
PLAN 1

ELEVATION B
PLAN 2

REAR STREETSCENE



ELEVATION A
PLAN 3

ELEVATION A
PLAN 1

ELEVATION B
PLAN 2

REAR STREETSCENE



ELEVATION A

PLAN 1



ELEVATION B

PLAN 1

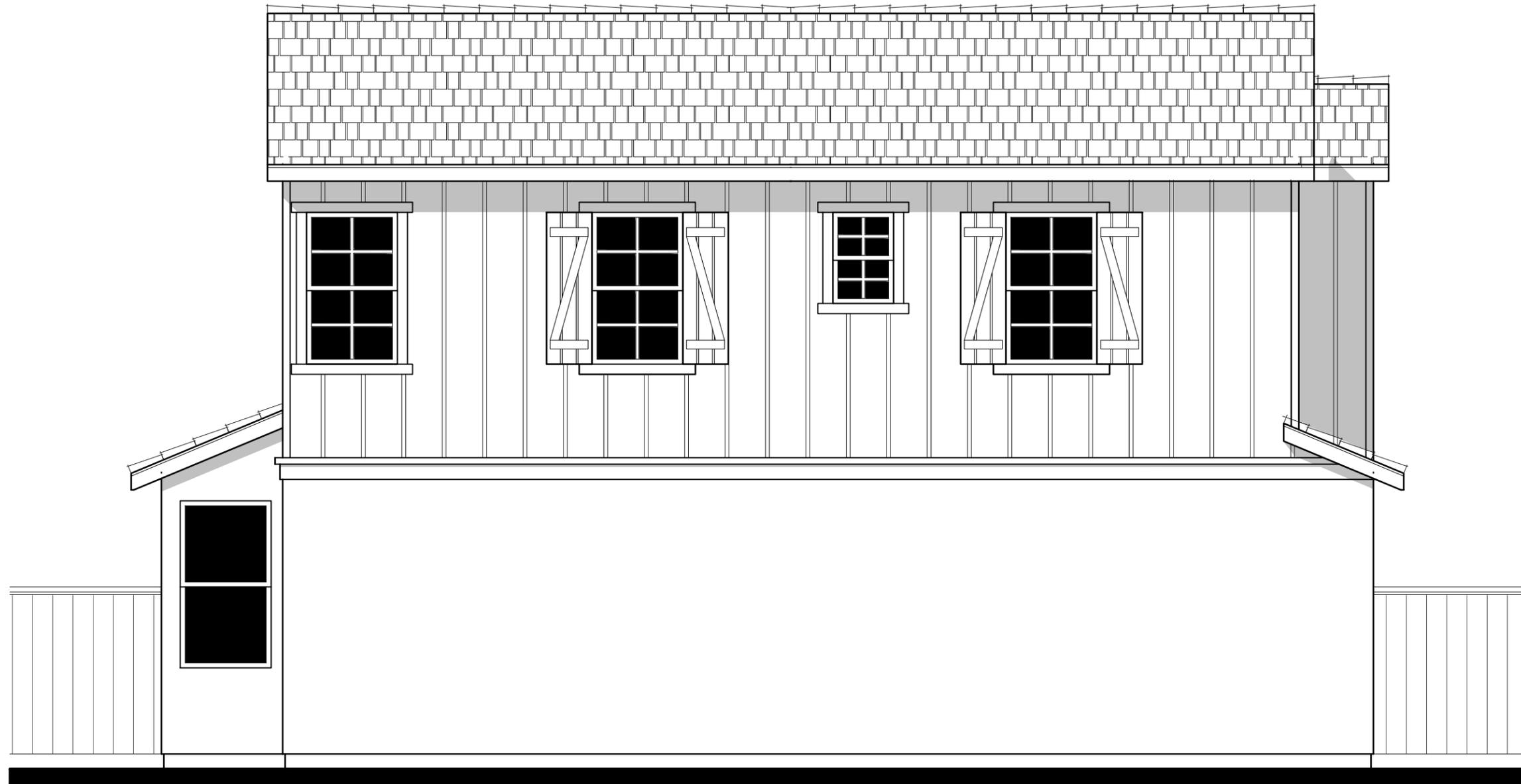


ELEVATION C

PLAN 1



ELEVATION A
PLAN 2



ELEVATION B
PLAN 2



ELEVATION A
PLAN 3



AGENDA NO: B-2

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor and Council Members **DATE:** April 20, 2016
FROM: Sam Taylor, Deputy City Manager
SUBJECT: Resolution No. 29-16 Declaring the Intention to Continue the Program and Levy Assessments for the 2015/16 Fiscal Year for the Morro Bay Tourism Business Improvement District (MBTBID) and Scheduling a Public Hearing to Levy the Assessments

RECOMMENDATION

Staff recommends the City Council adopt Resolution No. 29-16 approving the MBTBID 2016/17 annual report pursuant to state law, and set the public hearing date for May 24, 2016, to declare the intent to continue the MBTBID activities and assessments for FY 2016/17.

ALTERNATIVES

No alternatives recommended.

FISCAL IMPACT

Preliminary revenue estimates from assessments for FY 2016/17 is \$831,606, including carryover and other revenues (such as ad placement in the Visitor Guide and sales for the Morro Bay Adventure Pass), brings the total MBTBID budget for FY 2016/17 to \$996,386.

SUMMARY

This is the first of a 2-step process in the annual reaffirmation of the MBTBID and reauthorization of the 3% assessments, as required by State law. In previous years, the continuation of the MBTBID has been accomplished in three steps, however, the timing of Tourism Business Improvement District (TBID) Advisory Board meeting allowed the process to be accomplished in two steps this year.

The MBTBID assessment is a crucial, protected revenue stream that allows the City to market Morro Bay to tourists. Morro Bay Municipal Code (MBMC) Chapter 3.60 outlines the creation of the TBID, the assessment, and the way the funds can be used.

The use of funds is designed to enhance tourism in the community, which should increase overall Transient Occupancy Tax revenues and directly benefit the community's hotels, which will see an increase in overnight stays.

Prepared By: ST

Dept Review: _____

City Manager Review: DWB

City Attorney Review: JWP

The City Council adopted MBMC Chapter 3.60 to provide explicit uses for the funding as follows:

- A. The general promotion of tourism within the district is to include costs as specified in the business plan to be adopted annually;
- B. The marketing of conference, group, and film business that benefits local tourism and the local hotel industry in the district; and
- C. The marketing of the district to the travel industry in order to benefit local tourism and the local hotel industry in the district.

The business plan discussed in the MBMC is referred to as the Marketing & Sales Plan, and a draft version of this plan is provided as an attachment. The annual assessment report, which is required by the Parking and Business Improvement Area Law of 1989, is an exhibit to that annual marketing and sales plan.

The TBID Advisory Board unanimously recommended to the City Council adoption of the FY 2016/17 MBTBID budget, and that budget is referenced in the marketing and sales plan. The MBTBID assessment report makes reference to that recommended budget and providing that budgetary information is required by State law. It should be noted the budget is not being finalized at this point in the process, but will be adopted with the FY 2016/17 City Budget in June.

The TBID Advisory Board unanimously recommended approval of the assessment report, as well as the continuation of the 3 percent assessment for the FY2016/17 year.

DISCUSSION

State law requires the TBID Advisory Board to create an annual assessment report and the City Council to annually approve the report, as well as renew business improvement district assessments each fiscal year.

The assessment report is fairly routine, though it would likely be more noteworthy, if there were recommended changes to the assessment rate or the boundaries of the district, which the annual assessment report would have to address if those issues were to occur. Staff does not recommend a modification to the assessment or a change in the boundaries of the TBID, which encompasses the entire City.

Staff recommends the City Council adopt Resolution No. 29-16, which declares the Council's adoption of the annual assessment report, declares the Council's intention to continue the MBTBID assessment itself at the existing three percent rate, and sets the public hearing date for the assessment approval for May 24, 2016. That funding source is crucial to marketing Morro Bay to tourists and has greatly enhanced revenue collections to the community from Transient Occupancy Taxes (TOT). Since the implementation of the MBTBID assessment in 2010, which has allowed for greatly enhanced marketing, TOT revenues have increased by about \$1 Million in the last five years.

It stands to reason those tourism marketing and operations funds also directly benefit the hotels in the community, which have seen increases in both overall occupancy as well as the Average Daily Rate for a stay. For instance, in 2010, the first year of TBID assessment collections, the annual average for occupancy was 47 percent. In 2015, that number had increased to 63 percent. The Average Daily Rate increased from \$93.46 in 2010 to \$112.83 in 2015.

Staff is aware there has been discussion about either reducing the MBTBID assessment or doing away with it and potentially seeking a TOT increase would generate the same amount of revenue. Discontinuing that type of segregated revenue that will be used explicitly for tourism promotion would likely be significantly detrimental not just to the City's successful TOT collections, but to the local hotelier community, as well. Most businesses in the community could not afford to provide the level of marketing and other promotion on an individual basis that is provided with TBID funding.

Staff does not recommend either of those things. Reducing the TBID assessment would limit the overall effectiveness of the community's tourism promotions and marketing. Modifying the revenue stream for tourism promotion from a protected TBID assessment to a General Fund TOT revenue stream would also not be advisable. That is largely because TOT revenues could be used for any purpose, and while the current City Council is very supportive of continuing that enhanced marketing effort in the interest of economic development, there is nothing to stop a future Council from utilizing that funding in other ways. We know recessions occur in the United States approximately every six years. If other revenue streams are reduced due to a recession, then it is reasonable a future Council might assess all options to fill a budget gap, potentially even that increase in TOT.

Retaining a protected revenue stream to be used specifically for tourism promotions and marketing gives Morro Bay the best opportunity to maximize its potential as a tourist destination that will benefit the local hoteliers along with the rest of the community.

CONCLUSION

Staff recommends the City Council adopt Resolution No. 29-16 to approve the annual report pursuant to State law, and set the public hearing date for May 24, 2016, to declare the intent to continue the MBTBID activities and assessments.

RESOLUTION NO. 29-16

**RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF MORRO BAY, CALIFORNIA,
DECLARING THE INTENTION TO CONTINUE THE PROGRAM AND LEVY
ASSESSMENTS FOR THE 2016/17 FISCAL YEAR FOR THE
MORRO BAY TOURISM BUSINESS IMPROVEMENT DISTRICT (MBTBID);
AND SETTING A DATE FOR A PUBLIC HEARING TO RECEIVE
PROTESTS TO THAT ASSESSMENT**

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

WHEREAS, the Parking and Business Improvement Area Law of 1989, Sections 36500 *et seq.*, of the California Streets and Highway Code, authorizes cities to establish and review business improvement areas for the purpose of promoting tourism; and

WHEREAS, on April 13, 2009, City Council held a public hearing for the introduction and first reading of Ordinance 546 amending the Morro Bay Municipal Code (MBMC) to add a new Chapter 3.60 to establish the Morro Bay Tourism Business Improvement District (“MBTBID”), and adopted Ordinance 546 at its April 27, 2009 meeting, which set the MBTBID assessments at 3% from June 1, 2009 to May 31, 2010, and 2% from June 1, 2010 and thereafter; and

WHEREAS, on June 1, 2010, the MBTBID assessments returned to the 2% level, as established by Ordinance 546; and

WHEREAS, on September 13, 2010, the City Council held a public hearing and first reading of Ordinance 562 to amend MBMC section 3.60.050, changing the assessment percentage to 3%, and adopted Ordinance 562 at its September 27, 2010, meeting; and

WHEREAS, on April 14, 2016, at a duly noticed public meeting, the advisory board, formed pursuant to MBMC, section 3.60.100, recommended the renewal of the TBID for the 2016/17 Fiscal Year to continue its activities, and the City Council has approved that renewal for the past six years; and

WHEREAS, all other findings of Ordinances 546 and 562 remain unchanged; and

WHEREAS, on April 26, 2016, City Council conducted a public meeting where staff presented the annual assessment report and the marketing and sales plan for the Fiscal Year 2016/17, which provides a full and detailed description of the activities to be provided during the 2016/17 fiscal year, as provided in the proposed budget for that Fiscal Year, which are attached to this Resolution as Exhibit A and available for review in the City Clerk’s office; and

WHEREAS, the budget generally describes the funded activities to be marketed, which attracts and extends overnight stays in Morro Bay hotels, and are consistent with the authorized uses for the assessment revenue set forth in MBMC, section 3.60.030; and

WHEREAS, it is the intention of the City Council to levy and collect 3% assessments from the hoteliers within the TBID for the 2016/17 Fiscal Year; and

WHEREAS, at the public meeting held on April 26, 2016, City Council additionally set the public hearing, for the intent to levy the TBID assessment for Fiscal Year 2016/2017, to be held at the Morro Bay Veterans Memorial Hall located at 209 Surf Street, Morro Bay, California, in accordance with the California Streets and Highway Code, sections 36534 and 36535.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Morro Bay as follows:

1. The above recitations are true and correct, and incorporated herein by reference.
2. The City Council approves the attached Annual Assessment Report and declares its intention to renew the Morro Bay Tourism Business Improvement District for the 2016/17 Fiscal Year, and to levy and collect 3% assessments from hoteliers calculated in the manner set forth in MBMC, section 3.60.050.
3. The City Council sets the date of the public hearing to adopt a Resolution to reaffirm the MBTBID, and levy and collect the 3% assessments from hoteliers as Tuesday, May 24, 2016. Before or at this public hearing written protests to the continuation of the MBTBID and the levy of the assessment may be made, consistent with the requirements of Streets & Highways Code, sections 36524 and 36525 and MBMC, section 3.60.060.

PASSED AND ADOPTED by the City Council of the City of Morro Bay, at a regular meeting thereof held on the 26th day of April, 2016, by the following vote:

AYES:

NOES:

ABSENT:

JAMIE L. IRONS, Mayor

DANA SWANSON, City Clerk



2016-17 Marketing & Sales Plan **DRAFT**

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The Future Destination of Morro Bay

In this document you will find thoughts, ideas, trends, sections of articles, facts and figures for the direction of the destination of Morro Bay. It is my intent that you as a reader get the opportunity to view this culmination of information into one document. Feel free to question, comment and even debate the information that is in front of you. It is questioning that can bring out the best action plan for this destination.

Marketing for Morro Bay as a destination is fluid. The market could change dramatically tomorrow and the proposed plan would be required to change along with it. This is why working on an ongoing execution plan with an agency is important as the market and climate can change rapidly. It is important to review this document as a map to direct us where the organization is going and why.

There are multiple ways and vehicles to consider when drafting a marketing & sales plan, plus providing direction for the overall destination. The plan must tie into the overall goals and objectives set for the organization approved by the advisory board, city council and the lodging stakeholders paying into the assessment.

Lastly, we as representatives for the destination of Morro Bay have a responsibility to manage and use our resources to further the positive economic impact and growth of the city and its stakeholders. In the end, we are one of many keepers of Morro Bay's future—let's work together and create a positive tomorrow.

Best,

Brent Haugen
Director of Tourism for the City of Morro Bay

INTRODUCTION

For the fiscal year 2016-17, the Morro Bay Tourism Bureau will be dissolved and tourism marketing and sales will move under the umbrella of the City of Morro Bay. Oversight of the tourism division will be conducted by the City of Morro Bay, Morro Bay City Council and the Morro Bay Tourism Business Improvement District (TBID) Advisory Board, to assure the execution of sales and marketing activities on behalf of the payers into the assessment in the city limits of Morro Bay.

Morro Bay Visitor Statistics & Impact

Morro Bay, California is a popular destination on the Central Coast of California. Individuals and groups visit for various reasons, but how many people actually visit Morro Bay annually? What type of impact does it make on Morro Bay as a whole?

Based off of a formula created by the tourism department, the city can estimate the number of overnight and day visitors to the city. With the data already collected by the City of Morro Bay, the formula to estimate the number of overnight visitors is simple.

Take the total receipts in the category and divide it by the average daily rate (ADR) to get the total estimated room nights. To get the total estimated number of overnight guests (conservatively), take the total estimated room nights and multiply it by the estimated occupancy number two (the multiplier could be three -- see the numbers below).

		ADR	Est Room Nights	Est # Guests
2014-15 Hotel/Motel Receipts	\$24,346,339.00	\$112	217,378	434,756
2014-15 Trailer Park Receipts	\$ 2,005,805.00	\$40	50,145	100,290
2014-15 Vacation Rental Receipts	\$ 2,652,772.00	\$100	26,528	53,055
			Total Est Overnight Guests	588,102
			Total Est Day Visitors	882,162
			Total Est Visitors	1,470,270

It is estimated that the average of overnight guests represents 40% of the visitors in a typical destination, where the number of day visitors is estimated at 60% of the total. When calculating the numbers, the number of overnight guests is estimated over 588,000 while the number of day visitors equates over an estimated 822,100 people. These numbers are definitely data that is useful for all stakeholders and residents of Morro Bay. Not only do these numbers equate into visitors, but also into dollars spent in the city.

In addition to this number, it is estimated that an overnight guest in a hotel or motel will spend an estimated \$225.00 per total room consumed above the cost of lodging in Morro Bay. With the estimates given above, the economic impact to sales tax businesses and the City of Morro Bay is estimated at \$48,910,050.

The funding mechanism for the tourism department is the process through a 3 percent self-assessment with the Morro Bay hotels and motels. This system is made possible by the formation of the Morro Bay Tourism Business Improvement District (TBID) through the City of Morro Bay. The tourism department intends to utilize the revenue below and translate it into sales and marketing activities to fulfill annual goals and objectives.

PROPOSED Budget Overview

Revenues

Estimated 2016-17 Hotel/Motel Assessment	\$831,606.00
Alternative Revenue Sources	\$20,000.00
City of Morro Bay Contribution	\$60,000.00
Carry Over Balance from 2015-16	\$44,500.00
Carry Over Financial Reserve 2015-16	<u>\$40,280.00</u>
	\$996,386.00

Expenses

Salaries, Benefits & Payroll Taxes	\$173,159.84
Marketing & Public Relations	
Marketing, Agency Directed	\$290,000.00
Marketing, Tourism Department Directed	\$176,368.44
Public Relations, Agency Directed	\$80,000.00
Public Relations, Tourism Department Directed	\$25,000.00
Agency Planning, Consultation & Reporting	\$15,000.00
Research	\$5,000.00
Trade & Road Shows	\$34,750.00
Collateral	\$27,500.00
Community Event Grant Support	\$65,000.00
Regional Marketing Grant Support	\$20,000.00
Contingency Fund	<u>\$55,280.00</u>
	\$738,618.44
Office Supplies/Equipment/Tools	\$20,827.72
Professional Development	<u>\$8,500.00</u>

Total \$ 996,386.00

Morro Bay Tourism Business Improvement District

Morro Bay's Tourism Business Improvement district (TBID) is defined by the city limits of Morro Bay. This specific TBID is where the hotel, motel, inns and B&B owners self-assess themselves annually to fund sales and marketing activities to reach the following goals & objectives:

- Increase overall occupancy & hotel/motel revenues, especially during mid-week and shoulder season
- Extend the number of average hotel/motel room nights beyond 1.5
- Help incrementally increase the hotel/motel Average Daily Rate (ADR)
- Bring exposure to Morro Bay as a viable domestic and international destination for individuals and groups
- Assist with the development and growth of competitions and events that attract overnight guests

- Create opportunities to positively impact sales tax businesses & drive economic development in the City of Morro Bay
- Positively impact transient occupancy tax (TOT) for the City of Morro Bay

CLOSER LOOK AT GOALS & OBJECTIVES

The goal to increase overall occupancy & hotel/motel revenues, especially during mid-week and shoulder season was carried over from the previous fiscal year. With assessment dollars being stretched further, the expectation to influence more business during the mid-week and shoulder season is even stronger this fiscal year. By looking at the historical data and taking into consideration the differing weather patterns, the tourism department must look closer at the biggest opportunities to bring in business during the shoulder season. September, November and December-March are the times when both the lodging and the sales tax business community is thirsting for more business.

The goal to increase the average number of hotel/motel room nights beyond 1.5 is more of a long-term goal for the organization. It will take time and strategy to accomplish this goal. It also appears to be very lodging-centric, but in actuality, overnights in a destination increases the amount spent within that destination. Figures from Destination Marketing Association International used to express between a 20-25% more spend within a community when an overnight is incurred. This being a national average, the amount spent in addition to the overnight accommodation is estimated between 15-18% in the community. In addition to these statistics, it is estimated that an overnight guest in a hotel or motel will spend an estimated \$225.00 per total room consumed above the cost of lodging in Morro Bay.

In May of 2015, the Morro Bay Tourism Bureau launched the Morro Bay Adventure Pass as a product to extend the overnight stay average as well as bring revenue to sales tax businesses. Of the 46 passes sold, 95% of the individuals sold to (less than 5% stayed at a campground or vacation rental), stayed in a Morro Bay hotel or motel. Of the 95%, 85% stayed 2 nights in Morro Bay where the other 15% were divided between 1 and 3+ overnights.

Through the 2015 public relations outreach, releases have been geared to encourage longer stays in Morro Bay. The tourism department has also been encouraging this through the promotions throughout the year and continues to create content on the MorroBay.org website, giving travelers more reasons to stay longer through uncovering more experiences. This has also been shown through partnerships and the creation of different walking tours to capitalize on what already exists in Morro Bay. A prime example of this is our partnership with Morro Bay in Bloom and the development of the Morro Bay Mural Mile Walking Tour. It takes visitors on a journey of discovery of the murals around the city and gives them additional reasons to stay longer in the city.

Lastly, through the sales efforts of the tourism department, the organization is also encouraging adding a vacation component to groups when participating in a tournament or competition. This entity is including additional services to provide Visitor Guides prior to arrival, providing discounts on the Morro Bay Adventure Pass and other area group discounts. Again, by increasing the number of nights relates to a positive economic impact on sales tax businesses. It is worth repeating that an estimated \$225.00 per total room consumed above the cost of lodging in Morro Bay goes back into the Morro Bay economy and helps with many of the overall goals and objectives set in this plan.

No one can predict the future, especially when it comes to the economy and rate. The organization's goal to help incrementally increase the hotel/motel Average Daily Rate (ADR) is also a carry-over goal from the previous fiscal year. In reviewing the numbers and ADR from the past few years, the organization has been able to

influence the incremental increase of ADR in Morro Bay. At the end of the 2014-15 fiscal year, ADR was estimated at \$112.83. This is a \$6.71 increase over the previous fiscal. The goal for the organization would to see this increase to at least \$119.00 by the end of the 2016-17 fiscal year. The organization can help accomplish this goal by maintaining rate integrity for Morro Bay lodging. This can happen by not discounting lodging, but finding alternative ways to provide value to overnight guests through other promotions with perceived value.

In 2014, the Morro Bay Tourism Bureau began capitalizing on the group market for Morro Bay through shows and other outreach. The goal to add a sales manager was fulfilled mid-2015. By having a dedicated staff person to reach out and manage the different markets of group tour, sports, events and advertising sales, allows for better customer service, tracking and follow up. In July 2015, Visit San Luis Obispo County's role changed to the county-wide tourism marketing district (TMD). With this change was the additional assessment passed along to the consumer through hotels, motels, campgrounds and RV parks to create a revenue stream for the organization to further assist with marketing the county as a viable destination for individuals and groups; both domestically and internationally.

In October 2015, Visit San Luis Obispo County added a Director of Travel Trade to assist in enticing more groups to the county and giving all the destinations within the county the opportunity to gain more group business. Combining that and the ability to partner with Visit California to better reach out to international markets, there is an opportunity to combine the county's efforts with ours to bring exposure to Morro Bay as a viable domestic and international destination for individuals and groups. This will not just benefit the lodging community in Morro Bay, but the sales tax businesses and the city.

The tourism industry along with the City of Morro Bay has been active and supportive partners for events in Morro Bay. From waiving city fees, providing grant dollars and providing promotional support, the tourism department wants to continue on this trajectory to accomplish the goal by assisting with the development and growth of competitions and events that attract overnight guests. Since the economic impact of overnight guests are greater than ones that are just here for the day, the organization wants to focus on the events that drive room nights for the lodging community, which will directly impact TOT and the economic vitality for sales tax businesses as well as for the City of Morro Bay as a whole.

If one or all the above goals can be accomplished, this will directly impact the goals to create opportunities to positively impact sales tax businesses & drive economic development in the City of Morro Bay and positively impact transient occupancy tax (TOT) for the City of Morro Bay.

KEY CALIFORNIA TRENDS

When setting out to create or update an existing plan, it is important to look at the key trends and statistics that may impact your business. For Morro Bay, there are a series of resources to use when looking and indicators, trends and statistical information. Entities like Visit California, Destination Marketing Association International and many reputable research companies and publications that provide professional insight on the current status of the market as well as forecasting what is to come for the industry.

California Travel Forecast Overview

Although the overall numbers differs throughout the state, the data from Visit California cannot be overlooked, especially in planning for the 2016-17 season. As the trends from 2015 are reviewed, Morro Bay can gather the strategy and plan on how to move forward into the future with these numbers as well as the area numbers.

- The total number of visitors to California grew an estimated 2.1% in 2015, slowing from a stronger rate of 3.5% in 2014. This is a bit weaker than previously forecasted.

- Overseas visitation to California in 2015 slowed considerably from its robust 9.9% growth rate the previous year. The number of visitors to California from overseas grew by 2.2% in 2015.
- Domestic visitation expanded 2.1% in 2015 –slower than in previous years. In 2014, domestic room demand grew by 2.9% on strong growth in overnight trips spent in paid accommodations, while trips spent in non-paid accommodations (primarily visiting friends & relative) declined slightly.
- The overall visitor volume had slower growth in 2015 on a stronger US dollar and the continuation of stymied growth in domestic wages. Growth in international arrivals will rebound into 2016 as currency fluctuations calm, while gains in domestic arrivals will be moderate amidst domestic employment and wage growth.
- Overseas markets were on-par with the overall visitation market in 2015, though Mexico and Canada did lag due to currency weakness versus the dollar.
- The forecast for 2016 is an increase of 2.3% in total visits, with domestic travel forecast to increase by 2.1% and international by 4.2% (source: Tourism Economics)
- The forecast for 2016 spending is an increase of 5.5%, with a domestic increase of 4.9% and an international increase of 7.7% (source: Tourism Economics)

California Economic overview

- The global economy still looks lackluster. For some parts of the world, indicators of growth suggest recessionary or near-recessionary conditions, and the Asian slowdown persists. The positive news continues to come mostly from the US and UK.
- In the US, we foresee a supportive labor market with strong payroll gains going into 2016. Underemployment and depressed wage gains will begin to relax, loosening slack and improving demand.
- We expect that increased labor compensation will boost income growth and support stronger household spending and housing activity. We see consumer spending advancing 2.8% in 2015 and 2016.
- US GDP should maintain a 2.3% annual growth rate into 2015, accelerating to 2.8% in 2016. World GDP growth should remain modest.

KEY 2016 TRAVEL TRENDS, MARKETS & MORRO BAY IMPLICATIONS

It is no secret that a destination is seeking “the magic 8 ball”, a crystal ball or some sort of look into the future and how to successfully plan and execute a plan that is going to exceed expectations of all stakeholders and bring abundant prosperity to the destination. The tourism department would be remiss if we didn’t recognize the travel trends for 2016. As the research began in 2015 to learn of the indicators for a successful destination marketing organization to look for in 2016, an article in Luxury Travel Magazine not only was intriguing, but aligned with the basic definition of Morro Bay and the strategy the organization began with its agencies in 2015.

Continuing in this section, there will be elements of the article from Luxury Travel Magazine, the implications to Morro Bay and the inclusion of these trends that began in 2015. It is important to understand the desire and need to maintain the loyal following to Morro Bay, but also the sales and marketing outreach to different lifestyle groups who will bring a different type of economic impact to the city.

Neo-Tribalism

This new marketing term has been identified as the fracturing of communities into smaller groups. Neo-tribalism is the desire to seek out others with shared interests, sensibilities and passions. For Morro Bay, this is ideal within the scope of outreach planned for 2016-17.

This type of outreach to specialized groups began in the 2015-16 year with moderate success. The establishment of lists and contacts of these groups and the ability to reach out regularly, plus the ability to monitor their activities and events as a way to bring their groups to Morro Bay has been a definite asset. As the organization identifies the opportunities to reach out to specialized groups such as car, biking, sailing, kayak and paddleboard clubs, it will also research the ability to convert these niche groups into individual and group business for Morro Bay.

Although the term was not used in the context of planning in 2015-16, neo-tribalism breaks down the barriers of demographics and identifies customers and potential customers by their interest areas, versus their age group. This lends to bring Millennials to Baby Boomers and all the age groups in between to come together for a common cause: travel to Morro Bay. This was a direction for tourism this last fiscal year, to focus more on lifestyle than age in marketing Morro Bay as a destination and will continue under the tourism division of .

Since neo-tribalism is a fairly new term and there isn't much historical data specific to Morro Bay, tourism will also derive important demographic information related to how and why specific age groups travel into the planning process. A prime example of this comes from AARP and Boomer travel.

The Baby Boomer market has been critical for Morro Bay as well as the travel industry as a whole. As the tourism department looked closer at the top 2016 Boomer travel trends, it shows that almost all of this age group will travel for leisure with about half traveling domestically only. Let's take a closer look at the key findings for 2016 from AARP:

- Practically all Baby Boomers (99%) anticipate traveling for leisure in 2016, with approximately 4 or 5 trips in the works.
- Many are planning both domestic and international trips (45%), with 5% planning international travel exclusively.
- The desire to travel (aka vacation) comes down to three primary motivators:
 - To spend time with family and friends
 - To relax and rejuvenate
 - To get away from normal everyday life
- Although many trips are anticipated for 2016, approximately one in ten (12%) are completely booked by September 2015, leaving opportunity to provide resources and guidance, specifically to the 48% for whom it is "still just an idea."
- Baby Boomers do not appear to be overly concerned about budgeting for personal travel, nor are they hindered by the higher airfares (approximately two-thirds claim it has had no impact on their travel plans).
- Among those with pets, few (5%) will travel with them 'All the time.' What they do tend to take with them on all trips are their medications, a comfortable pair of shoes, a camera, and sunglasses. And different than the younger generations, Baby Boomers will also take a good book and emergency numbers.
- And there is no surprise why personal travel is so prevalent, as travelers say that when they are on vacation they smile and laugh more, are more likely to learn something new, and have more time to spend with those they love.
- Of the 95% who will travel domestically in 2016, Summer Vacations, Multi-Generational trips, and Weekend Getaways are the primary impetus behind such plans.
- Popular domestic destinations are either a city/town or a beach, with Florida, Las Vegas, California, New York and Hawaii being mentioned the most.

While demographics can still be an effective tool in destination planning, it's giving way to psychographic marketing or why they buy. Going back to lifestyle interests plays a key role in creating more specific, micro-niche markets to reach ideal clients. Mature industries, such as travel and lifestyle have led the way.

Lifestyle Immersion, New Experiences

According to Luxury Travel Magazine, since 2008, the majority of consumers had to tighten their belts, but in the process, discovered they could live without so much "stuff". So when they do venture out to buy, they want a retail experience, an outing that's about more than a purchase. Tourism could assist more in connecting offerings that entertain, educate and transform for special interest groups - from learning holidays that go beyond the regular vacation like the newly established partnership with Nature Corps and their voluntour program.

For Morro Bay, this trend provides much opportunity to be able to deliver those types of experiences to visitors, plus capitalize on the growing the existing business clientele. The creation and execution of the Morro Bay Adventure Pass in 2015 was one way tourism wanted to leverage this growing trend and create a product to help grow the businesses as well as the number of overnight rooms for the lodging community. The organization will continue to cultivate the opportunities within the city to grow business in 2016 and beyond for both individuals and groups. The extension of the Morro Bay Adventure Pass has now been developed for groups. This will be another product to sell Morro Bay as a group destination.

Tourism is taking these cues more seriously as Fortune Magazine is indicating that segmentation is more sophisticated than ever for 2016. The ability to move marketers closer to the coveted one-to-one marketing is the new holy grail. According to the December 2015 article in Luxury Travel Magazine, experiential marketing not only helps brands become more personal, but it also lets them stand out. Hawaiian Airlines has hosted hula-dancing shows in New York City, built artificial beaches in the middle of bustling Beijing, and produced other pop-up performances in unexpected places. According to Avi Mannis, SVP of marketing at Hawaiian Airlines, these initiatives have helped the company cut through the noise and compete with bigger airlines. It's more than creating a message. It's about crafting an authentic experience that leaves people wanting more.

Morro Bay will be looking at ways on how to create the destination feel at trade shows and consumer shows. Through the new sales model infused into the organization in 2015, the tourism staff will bring the Morro Bay experience live through sales missions and outreach in 2016-17. The organization will also explore more unique ways to present Morro Bay to audiences to influence and impact their travels to the city, especially during the shoulder season months.

Authenticity, Localism

All of these new trends that Luxury Travel Magazine published in December 2015, really speaks to the audiences that have been and will continue attract to Morro Bay. According to the magazine, travelers desire authentic experiences; the chance to interact in local neighborhoods by living, eating and paying local, non-tourist prices. It's about uniqueness and escaping homogeneity. Prior to and during their stay, hotel guests look to the hotel's social media channels for this hyper-localized, insider information. "Localism" is the new moniker, not only in travel but also in food and socialization. Connecting this trend to a specific travel group of Millennials, they want unique hotel experiences, according to a 2015 article in the Huffington Post. The article went on stating that a representative from Marriott International stated that Millennial travelers prefer unique experiences over cookie-cutter hotels. With the majority of lodging options in Morro Bay being unique and non-chain, this provides a great opportunity to attract this emerging travel group to the destination. Also, in the launch of the new MorroBay.org website, tourism will use this tool to enable more "insider" content to be displayed and used by incoming visitors.

The trend of authenticity and localism continues to attract and be important to media, especially to their audiences. The art of capitalizing on the uniqueness of a destination continues to be on trend for 2016 for travelers, versus a more streamlined approach of attractions and other corporate chains that can be found almost everywhere in the United States.

The Morro Bay Tourism Bureau saw this firsthand at IPW in Orlando in 2015. Professional tour companies from around the globe were asking for unique & boutique lodging properties to have both individuals and groups stay. In addition to that request were opportunities including culinary, site seeing experiences and unique festivals & events their customers wouldn't receive elsewhere in the world. Morro Bay continues to see this as well as the county to market and promote the authentic experiences found here as well as throughout the Central Coast of California.

Hunt for Value: Entertain and Engage

The search for value became a necessity borne from a weak economy in the mid to late 2000's. This learned behavior has continued today and has created more savvy consumers in the marketplace. Sometimes the situation can be to find the best deal, but for some of these experienced travelers, it is about the hunt: deal hunting for amusement. An example from a 2015 Huffington Post article states that Millennial travelers are both high budget and low budget. Whether traveling for business or pleasure, Millennial travelers represent diverse economic preferences. They may stay at an expensive, trendy hotel during one trip, but then opt for a near-budget property on the next. But their demand for technology and design remains the same.

Experts are encouraging destinations and destination-related business to incorporate gamification marketing to create brand awareness, drive user engagement and build brand loyalty. Contests, mayorships, scavenger hunts and mystery trips are recommended to add elements of excitement and engagement to a buying experience.

The loyal following and generations of travelers to Morro Bay creates an ideal opportunity to capitalize on this trend for 2016. In reviewing responses and replies in social media, it is evident that Morro Bay is more than just a city to them, but a part of their history and future. Posts often times will inspire a memory that a follower is willing to share. To many, Morro Bay feels more like a person and has a persona that resembles a friend or a family member they can trust.

In 2015, the bureau hosted a series of different contests from Visitor Guide Cover Contest to All About That Bay. There was a positive response to these contests on social media, through our email marketing and digital advertising. The findings weren't so much in the winning of the actual prize; it spurred discussion and additional engagement from the loyal following.

Crowdsourcing, Crowdpleasing

We are living in a world where people want to be the star. Retailers are tapping into consumers' creativity and inspiration to create and market products – baby shoes, wallpaper, fabrics, and more. In marketing, both Vermont and the city of Detroit had citizens choose a winning ad campaign, and most recently, the Swedish Tourist Board launched a highly innovative social campaign where citizens take turns as the official tweeter. In Morro Bay, tourism is looking at ways on how to leverage the ability to raise the “engagement bar”. One of the ways the organization has begun testing this new way of engagement is through a guest blogger program. With the launch of the new MorroBay.org website in late 2015, there is an opportunity to create custom content on the site through the blogging system.

Because this trend is expected to boom as social referrals (recommendations from social communities) become increasingly important to generate new customers and sales, the tourism department and its agency will try and implement more programs in 2016-17 to assure both engagement and return on investment is monitored. This is true when it comes to the new and upcoming travel market of Millennials. According to a 2015 article in the Huffington Post, Millennial travelers believe their peers. They're less likely to listen to a straightforward advertisement for a hotel, but they will follow the comments and recommendations of their friends and colleagues via social media (likewise, they'll pay attention to negative comments, too). Once considered by many as risky business, the tourism department and its agency will monitor and respond appropriately to websites allowing online reviews of Morro Bay. We will then take that information and try and utilize it to better marketing and sales efforts.

Family and Friends are a Priority

A lot has been written about family travel since it has consistently been one of the fastest growth areas since 9/11, fueled by a backlash dominated by 24/7 work schedules and dehumanizing technology. Since then, this mature category has given way to subsets such as gay/lesbian parents, single parents, father/son and mother/daughter trips, grandparents, multi-cultural families, and more. Then, there's the whole divorce market. With over 50% of the marriages in the US ending in divorce, think about the potential. Anything that helps foster friendships is a growing market – from ladies nights at top restaurants and communal dining tables to girlfriend getaways and lobbies that foster social interaction will continue to be much in demand.

The “Modern Family”

As the definition of family continues to change in this country, Morro Bay cannot deny the opportunity to attract and reach out to the Lesbian, Gay, Bisexual and Transgender (LGBT) market. When looking at the trends happening for travel, it is not so unusual to look at this sub-culture and define it as a type of neo-tribe.

According to D.K. Shifflet and Associates, LGBT travelers not only take more leisure trips, but they spend more money than their non-LGBT counterparts, according to a national study by the company. Despite smaller “family” travel party sizes and comparable incomes, the study found that LGBT leisure travelers spend about 15% more per person per day than non-LGBT travelers. Furthermore, almost half of LGBT leisure travelers stay in luxury accommodations compared to one-third of non-LGBT travelers, which for the smaller boutique properties in Morro Bay, could be a benefit and bring in a higher TOT.

“The fact that this group is more frequent, higher spending travelers while not having larger incomes is an indication of the priority this group puts on travel,” notes Cheryl Schutz, Vice President at D.K. Shifflet & Associates.

This new effort in making Morro Bay an all-inclusive destination began in early 2015 with the Morro Bay Bear Weekend event in March. With a moderate start and small numbers, the weekend itself didn't appear to be a success, but the visibility to the market and the response from the local LGBT community was astounding. It provided a new way that the local community was able to look at Morro Bay differently. Tourism continued with outreach by partnering with GayTravel.com and hosting one of their travel writers. The organization also participated in the 2015 San Luis Obispo Pride event by having a booth and promoting Morro Bay. All-in-all, the destination is making strides to attract this audience to Morro Bay. Through information gathering and local partnerships, tourism will look to partner to offer a LGBT event versus a bear weekend to leverage the prevalent lesbian community that exists in Morro Bay/Los Osos as well as San Luis Obispo County.

Group Business for Morro Bay

Throughout the trends, there is one word that keeps rising to the top: groups. Whether smaller neo-tribal groups or your typical tour and sports group, Morro Bay cannot deny that this is a great and growing opportunity for the overall destination. With the infusion of the lead process in 2014 and the sales model in mid-2015, the bureau has successfully began creating the foundation for more group business in 2016-17. The partnerships with Morro Bay Recreation, Cuesta College and Morro Bay High School and working with all the tournaments and sports competitions begged for the creation of a Sales Manager's position in the organization. Adding the management of relationships with domestic and international travel companies who can influence individual and group travel to Morro Bay, this position was necessary for the growth of the organization as well as the business to Morro Bay.

The tourism department will also maximize its partnership with Visit San Luis Obispo County and the Director of Travel Trade to further the growth of group business to Morro Bay. There will be opportunities to utilize the leads and business sent from the county organization. There will also be an opportunity to coordinate sales missions to feeder cities too. For Morro Bay and the county, it is important for the organization to leverage all of its resources to influence group rooms for the lodging community to strengthen the local economy.

According to Destination Marketing Association International (DMAI), the following analysis is based on a massive collection of data from more than 100 destination marketing organizations (DMOs) representing three-quarters of the total market. It was determined that DMOs influence 1 in 5 group rooms that occur in the U.S. annually.

- In 2012, DMOs collectively influenced 39 million room nights for future events, growing by 4.9% from the previous year, representing 20.1% of all group room demand
- 38.3 million group room nights actually occurred in 2012 as a result of DMO sales and marketing efforts

Although the average number of rooms in Morro Bay is estimated at 25 rooms, the diversity of groups tourism is trying to attract may want to stay in one property with 15-20 rooms, but the organization is making a concerted effort to establish partnerships with groups that will bring business to smaller properties as well. This type of partnership is evident within many of the sports leads sent out in 2015 as well as the partnership with the Nature Corps and their "voluntours" to Morro Bay.

The Morro Bay Tourism Bureau also partnered with the Central Coast Tourism Council on the 2015 IPW International Tradeshow in Orlando, Florida. The goal was to influence more international travel to Morro Bay and to partner with other destinations to bring global visibility to the destination. The findings at the show fit more of what international tour companies wanted and what Morro Bay could offer to future groups and individual flexible independent travelers (FIT). Since FIT has been on the rise, this provides an ideal opportunity for Morro Bay to capitalize on two things: small unique and boutique lodging options and the ability for a tour operator to prearranged blocks of rooms in Morro Bay for use by individual travelers. These travelers travel independently, not in a group, usually by rental car. This type of professional prearranged travel has the potential impact to bring future visitors in during mid-week and shoulder season.

For Morro Bay, the tourism department is trying to secure future business for the destination. Sometimes the time and resources investment does not see a return until 1-3 years later. Similarly, the DMAI report quantifies the impact of the DMO sales and marketing channel from 2009 through 2012 based on booked room nights for future events, occurred event room, and the number of events that occurred and were booked. The analysis is based on a massive collection of data from 116 DMOs representing over 40% of DMOs with sales professionals dedicated to promoting their destinations, and over 70% of the total rooms booked and occurred.

Encouragingly, DMO group room bookings continue to exceed the levels of group room demand from prior DMO sales efforts in each year of the analysis. This indicates that the group room nights trajectory for future years, due to DMO sales and marketing efforts, will increase in the coming years. Tourism is hoping the same type of investment and impact will happen for Morro Bay. Attending shows like IPW, the American Buses Association and the partnership on shows with Visit San Luis Obispo County, the tourism sales team will help secure the business needed and influence the business to be realized mid-week or shoulder season.

What is interesting in infusing this sales model into the plan, Morro Bay was the first in the county to capitalize on the group opportunities inside and outside of the region. There is much education and outreach tourism has to continue to provide to help the local area understand the services the organization can provide in helping groups more easily find and reserve overnight accommodations.

MARKETS & REACH

Tier 1 Markets

Morro Bay will continue reaching out to these primary markets throughout the year, taking into consideration the key trends and lifestyle of the audience the destination is trying to attract. Overall, the tourism department will work with the agency and establish the media plan to reach these audiences to leverage business to reach the overall goals and objectives set in this document to the following feeder cities and areas:

- Los Angeles, California
- Central Valley of California
- San Francisco, California
- San Jose, California
- San Diego, California

There will be a slight hiatus of the marketing to the Tier 1 Markets during the summer season (June-August), however continue outreach though in the areas of social media, email marketing and public relations. Tourism wants to continue to evaluate where the best opportunities may be during the summer season, but also leverage the higher traffic to influence fall and winter travel. Although there is a hiatus with the Tier 1 Markets, this gives the tourism department and its agency an opportunity to expand their focus on the Tier 2 Markets and influence travel to Morro Bay.

Tier 2 Markets

These markets have been identified through data collected from Morro Bay retail, restaurants and lodging. The tourism department has also evaluated digital analytics and the indicators of travel patterns found from historical data. The following seasonal markets will be addressed during the warmer times of year in their regions to increase travel and expand into markets further and outside of California. These seasonal markets include:

April-October

- Sacramento, California
- Phoenix, Arizona

May-August

- Reno, Nevada
- Las Vegas, Nevada

- Houston, Texas

New Test Markets – will utilize public relations and some digital marketing

- Orange County
- Riverside County
- Denver, Colorado

The purpose of reaching out to these warmer markets is to appeal to the audiences to escape to a beach setting with cooler climates. To escape the heat is one way to leverage the moderate climates of the Central Coast, plus with most of these markets being a considerable distance from Morro Bay, it helps fulfill the goals of increasing the overall room nights consumed, influencing mid-week business in Morro Bay and positively impacting the economy for sales tax businesses and the City of Morro Bay.

Tier 3 Markets

In reviewing the statistics and forecast from Visit California, plus incorporating our own analytics and tracking, it is determined that the countries Morro Bay would be most interested in are currently ones traveling to the area or have the potential in higher frequency in the future. Time and resource investment in these markets are crucial to stay competitive in the marketplace.

- United Kingdom
 - England
 - London
- Canada
 - Ontario
 - British Columbia
- Germany
 - North Rhine-Westphalia
 - Bavaria
 - Baden-Wurttemberg
- Australia
 - New South Whales
- China

These international markets and emerging markets are ones that we cannot do outreach on our own as the costs will be prohibitive. These will be more attainable in regards to our working partnerships with Visit California, the Central Coast Tourism Council and Visit San Luis Obispo County.

Becoming China Ready

According to the data from Visit California, the number of Chinese visitors to California continued to outpace all other overseas source markets in 2014, growing by 21.6 percent to a record 996,000, making China the No. 1 source of overseas visitors for California.

Chinese buying power also surged by 32.7 percent in 2014, with visitors spending \$2.24 billion in California or three times the spending of visitors from the United Kingdom and Japan – the No. 2 and No. 3 overseas markets for California.

China outbound visitation hit a record high of 114 million in 2014, a 20 percent year-on-year increase. Chinese spent more than \$140 billion on overseas trips in 2014, up 20.7 percent year-on-year and making Chinese the No. 1 spenders on travel in the world.

Morro Bay has been seeing an increase in Chinese travelers via groups in motor coaches, sourced from the California gateways of San Francisco, San Jose and Los Angeles. The shift from the group aspect to Flexible Independent Travelers (FIT) will bring these travelers out of the gateways and further exploring the state of California. The benefit to this trend will be the travel that will happen between the gateways. Perfectly positioned halfway in between the gateways is San Luis Obispo County and Morro Bay. According to Visit California and its survey findings, Chinese travelers have a 75 percent likelihood to visit and 37 percent interest in the area. Why is this trend happening?

The U.S. government extended the validity of Chinese business and tourist visas to 10 years and student visas to five years, which will result in even more rapid growth in visitation to the United States and consequently to California, which enjoys more than 45 percent market share of all Chinese travel to the United States. The new policy will drive significant numbers of repeat visitors to California – a trend already evident among Flexible Independent Travel (FIT) and semi-FIT travelers – and will stimulate in-depth tours to just California. As a result, growth in beyond-the-gateway travel across California will benefit a wider range of California partners. The policy also is expected to shorten the length of Chinese shoulder seasons and extend peak season periods. With continuing strong growth in the China market, the Chinese travel trade is eager to develop new California tour packages, and major tour operators are hungry for destination information to develop new products to cater to the different needs of group and FIT travelers.

In response to the rapid growth in arrivals from China, Chinese and international airlines increased flights to California by 6.9 percent in 2014 and further expansion is planned in 2015. In addition to airlift increases from the traditional gateway cities of Shanghai, Beijing and Guangzhou, new services were added from two new China gateways in 2014 – Chengdu and Wuhan. Greater flight capacity will allow Visit California China to expand its efforts in developing second-tier markets and ultimately reach the entire China market with an emphasis on establishing a foothold in West China centered on Chengdu.

Travel Trends

- China is expected to overtake the United States as the No. 1 business travel market in the world in 2016 and generate 20 percent of global business travel spending.
- The Chinese traveler's is rapidly evolving with growth in the FIT and semi-FIT markets. The changing profile of Chinese group travelers is expected to continue to take shape over the coming several years.
- Leisure travel has soared to 63 percent of China's total outbound travel market while government travel is decreasing as a result of the central government's anti-corruption policy, which is limiting official overseas travel.
- Package tours still account for 70 percent of leisure travel and, as the core business of Chinese travel agencies, are expected to dominate for the next decade, though the percentage of FIT and semi-FIT travel will continue to soar.
- Due to the new U.S. visa policy and the rapidly developing sophistication of Chinese travelers, the shift away from package tours is accelerating as Chinese long-haul travelers embrace fly-and-drive FIT products, which have shown a remarkable year-on-year increase of 30 percent.
- The demographic of Chinese outbound travelers is also rapidly changing. Younger travelers, ages 24 to 40, are choosing long-haul destinations, with 82 percent of such travelers holding undergraduate degrees. The exploding market segment accounts for 75 percent of China's FIT market and 73 percent

of its luxury market. Fifty-five percent of Chinese travelers are likely to spend seven to 13 nights in the United States on their next trip. Thirty-three percent are likely to spend 14 to 20 nights in the United States.

- In terms of seasonality, 29 percent of Chinese travelers to the United States choose October, 23 percent opt for August, 22 percent select July and 18 percent prefer May. These trends also are reflected in airline bookings. The booking window for Chinese travelers buying pre-packaged holidays and guided tour packages is still very close to departure. Twenty-eight percent are most likely to make their booking just one or two weeks before departure, 25 percent will book three to four weeks before departure and 23 percent book one to two months out.
- Among Chinese destination selection drivers, affordability (61 percent), quality of food (58 percent) and safety (57 percent) are the top three desired attributes. Preferred activities for Chinese visiting the U.S. rank in order from shopping (85 percent) to sightseeing (78 percent), fine dining (48 percent), natural parks (37 percent) and amusement/theme parks (34 percent).

Strategically, the City of Morro Bay, business community and community organizations will need to come together with other destinations within San Luis Obispo County and begin a program to educate and be prepared for the influx of Chinese travelers within the area. This comes at an ideal time with the potential recession predicted for 2017.

EXECUTION OF PLAN

The tourism department of the City of Morro Bay will work in concert with the selected marketing and public relations agency to develop an executable plan to reach the overall goals and objectives in this document. The areas of marketing will include, but not limited to public relations, digital marketing and outreach, social media, broadcast, print, direct mail, and shows. There will be goals established in all of these areas to assure the investment of the stakeholders will be reach through a return on investment while staying in budget.

PUBLIC RELATIONS

The goal of any outreach is the ability to reach established goals and objectives. In the area of public relations, Morro Bay has been fortunate to attract the right type of media to further the visibility of the destination. In the last fiscal year, a goal of hosting (18) eighteen media to Morro Bay was reached in March 2016. There are also other opportunities presented to Morro Bay through partnerships with Visit California, Central Coast Tourism Council, Visit San Luis Obispo County and the Bay Area Travel Writers. Although these goals exist, media requests that weren't a good match were rejected, due to revisiting the overall goals for the destination.

In addition to this goal, was the desire to create and distribute original press releases for additional visibility and media coverage. As the destination marketing organization for Morro Bay, the organization and agency will continue the diversity and coverage of business and events in Morro Bay through visiting media as well as through press releases. In the 2015-16 year, a multi-channel, multi-lifestyle media plan was established and executed with great success. This will continue into this next fiscal year to assure the equality of coverage.

The tourism department will work directly with the agency to establish goals for the 2016-17 year in the area of public relations. The organization will also work on ways to reduce the overall hosting costs. There were strides in reducing costs by establishing a media rate policy with Morro Bay lodging. Tourism was successful in utilizing the Morro Bay Adventure Pass to bring visibility to this product, but also to reduce costs. The public relations agency worked with this last fiscal year also helped in reducing costs with connecting us and sharing costs with other destinations on the central coast. In maximizing the needs and wants of visiting journalists, plus the desire to reduce costs for destinations, enabled the tourism department to extend the public relations budget.

In January 2016, Visit California launched the Gold Pass program designed to help destination partners collaborate in bringing domestic journalists to the Golden State. For Morro Bay, Visit California can provide airfare and car rental or mileage assistance for editorial research trips through an application process. This new program will assist in helping reduce overall costs to the budget.

A goal to attract major media coverage has flowed over from the last fiscal year to this one. An example of the impact of major media coverage happened over 5 years ago with a timeless article, “Road Trip: California’s Pacific Coast Highway”. This article continues to be one of the top ten domestic and international referrals to the MorroBay.org website. The organization wants to continue with these types of timeless articles to include Morro Bay with increasing impacts to the stakeholders of the city.

Lastly, the plan, execution and results must positively impact the overall goals and objectives set for the organization and the destination. It is important to continue connecting the goals with the execution of the plans.

To assure oversight and accountability, all of these goals will be presented and approved by the advisory board.

DIGITAL MARKETING & OUTREACH

This area of marketing continues to change as technology changes. It is necessary for the organization to outsource the management of digital marketing to assure the performance of advertising and to keep up with the changes in algorithms of the digital space.

Mobile First Will Become the Norm

Mobile marketing was an add-on in the marketing mix less than a decade ago. The bulk of budgets focused in on print and direct mail. While these mediums still have a place in the overall mix, Morro Bay will incorporate 17% of the budget to dedicate to digital marketing. Within this space, mobile marketing is at the center of this program.

According to Social Media Week, the number of smartphone users in the United States in 2016 is estimated to reach 198.5 million. What does this mean for the overall marketing mix for Morro Bay?

Until recently, content, app, and web development strategy has focused primarily on the needs of the desktop user with mobile being an afterthought. In 2015, there was a noticeable shift in this line of thinking with many companies moving towards a mobile first mindset. For the MorroBay.org website, the organization saw an estimated 200%+ increase in mobile users over desktop visits. This shift was largely due in part to the sharp increase in the number of mobile users, and the increasing amount of mobile visitors to websites. More mobile users than ever, are using their devices to:

- Browse Social Media
- Access News and Entertainment
- Research Products and Make Purchases
- Use Navigational Apps
- Communicate with Others
- View Visual Content Including Videos
- Post Comments and Reviews

This will only increase in 2016, making it a near impossibility for Morro Bay to avoid focusing on mobile this fiscal year, especially looking at touchscreen technology in the future to connect to all the current tourism outreach for visitors in the city.

There Will be a Focus Shift in SEO to Social Media

Continuing with Social Media Week, the online magazine claims there is a slowly developing change in user behavior when it comes to searching out information on products and services. While using search engines to find information is still the most common behavior, there are many users who are skipping the search engine and performing their searches directly on social media.

There are a couple of different reasons that this is happening. First, consumers know that they are more likely to find visual content if they search on social media, and to them, this content is far more trustworthy than text heavy content.

The other reason is that consumers value feedback from others, and they know they are more likely to find reviews and comments on social media content than they will in other places, which ties back to the crowdsourcing trend indicated earlier in this document. This means that marketing strategy must move beyond “How can I get found on Google?” to “How can I get found on Google and social?”

This trend ties back to the crowdsourcing or crowd pleasing trend found earlier in this document. The new travel expert is the actual travelers sharing their experience within a destination. How do we capitalize on the reviews and comments on Morro Bay? For Morro Bay, tourism is interested in working with the chamber, city and other organizations to influence or engage a quality assurance system or program with Morro Bay businesses.

Facebook will Dominate However Their Audience Will be Older

Search Engine Journal continues to state as long as Facebook continues adding new functionality and tightening up security, it will remain the dominant social media platform. In fact, one of Facebook’s innovations is the driving factor behind the social media marketing trends now and into the future.

This online magazine acknowledges that younger consumers are tending to use other social media platforms to interact with one another and consume content. Will this knowledge have an impact on our marketing strategies? Or could be a deciding factor in whether or not we should focus on other social media platforms, especially those focused on a younger audience?

For Morro Bay, it will continue to be an influencing factor on the decision makers in the household. The bureau doesn’t want to ignore the influencers in the household that may be of the younger generation. The organization will work with the agency on strategies on how to influence the younger demographic, especially when it comes to the lifestyle marketing initiative tourism will continue using this new fiscal year.

Speaking of Facebook, it is also understood that the numbers continue to grow for this social media platform. In January 2015, the number of followers on the organization’s page was estimated at 35,750. This is expected to be a continual growth pattern of 20% as the tourism department works with the agency on strategies using social media ads to drive traffic, plus gain likes as well.

Digital Marketing Efforts will Increase on Newer Social Media Sites

As mentioned above, the aging of the Facebook audience is one factor driving this change. However, it is not the only factor. Until recently, Snapchat and Instagram have been regarded as mediums for users to

communicate with one another and to share personal content, according to the Search Engine Journal. Most marketers and agencies didn't see either platform as a viable place for their content marketing efforts, especially when it has been so lucrative to focus on more established platforms such as YouTube and Facebook. Luckily the organization has had an established Instagram and Pinterest accounts for over 2 years, which has been effective in our outreach.

Instagram is now providing advertising opportunities to a wider circle of brands, and the Snapchat Story is already proving to be a great branding tool. Snapchat was discussed in 2015, but due to budgetary and management logistics, it was tabled for future consideration. The future may be here if tourism wants to influence the younger generation to come and experience Morro Bay with their families or in other neo-tribal groups.

In the area of Instagram, the organization current has over 3,200+ followers and 260+ followers for Pinterest. Tourism would love to see these platforms grow at least 15% this fiscal year. With most social media platforms, it can be difficult to find the right content or formula right away as the needs, wants and desires change so rapidly for this audience. The organization will work with the agency and create a healthy and manageable strategy for this growth.

New Options for Publishing Content Online Will Open up Thanks to Instant Articles

Public relations will encounter a new phase to reach out with articles in 2016. According to Search Engine Journal, Facebook launched Instant Articles the first quarter of 2016. This technology allows publishers to instantly and constantly publish streaming content to Facebook. Essentially, the company's content management system interfaces directly with Facebook and can seamlessly publish new content as it is ready for release.

When Instant Articles launched, it was limited to nine major publishers including the New York Times, NBC News, and BuzzFeed. Since that time, other big publishing houses have been invited into the fold. Now, Facebook appears to be opening up Instant Articles even more by inviting publishers to contact them for information about becoming Instant Articles publishers. The possibility is very real that Instant Articles will be even more accessible by end of year 2016.

This is exciting to bring a new dimension to public relations and the ability to share the authentic and local experiences through a social media channel that has been successful for Morro Bay.

Social Ads

Online advertising has been rapidly on the rise this year, and in 2017 digital advertising (ad) spend is predicted to finally surpass TV! According to Interpublic Group's Magna Global, in 2015 digital ad spend will have grown 17.2% (to \$160 billion), and 13.5% in 2016, surpassing TV as the biggest advertising platform in 2017.

With a large amount of this digital spend being allocated to social advertising, this is a trend marketers cannot ignore in 2016. For instance, eMarketer predicts social network ad spending will reach \$35.98 billion in 2017, which will make up 16% of all global digital ad spend.

For Morro Bay, about 17% of the overall budget will be utilized to focus in on digital marketing and the ability to use social ads to drive traffic to Morro Bay. The ability to execute, modify and change based on what is happening in the market provides the biggest appeal to tourism and the agency.

So how should Morro Bay best leverage social to gain traction on their competitors? Here's what Search Engine Journal states for marketers to consider:

- Start by deciding which platforms are worth investing in for your audience. Are you selling beautifully crafted handmade blankets? Then visual platforms like Instagram and Pinterest may be the way to go. Are you in the B2B space? Facebook's sophisticated targeting options could be a good option to hone in on your target audience.
- Test your posts organically and promote the winners. Don't just randomly allocated budgets to blog posts that your teammate authored. Instead, promote the organic winners to up the performance even more.
- Utilize action-oriented ad formats. Think Twitter Lead Generation ads and Facebook Click to Website ads with call-to-action buttons. Encouraging people to do something instead of just promoting your social account will be a better use of your ad spend.

So how has Morro Bay been able to measure up to the social ad trends? When the strategy and plan in the digital space was presented from the marketing agency, there was an emphasis on maximizing the social media platforms to bring awareness to Morro Bay. There has also been a big emphasis on testing posts in the 2015-16 year and tracking the success. With the information in hand, the discussion between the tourism department and the agency allowed for a more comprehensive social media calendar developed from month to month. Lastly, Facebook advertising has been used and modified to assure it reach the goals set out for them.

All of these actions will be infused into the execution program for digital marketing.

Podcasts & Online Radio

Approximately 46 million Americans listen to podcasts monthly, and the average listener listens to six a week, according to Edison. Clearly, podcasts and online radio programs are on the rise, but how can Morro Bay leverage these in 2016?

According to Search Engine Journal, one way is to pay to play with ads. Starting your own podcast series might seem overwhelming, and rightfully so, but companies like Squarespace and Casper have leveraged ad space during breaks in programming on the most popular podcast programs like TED Radio Hour and "Wait Wait...Don't Tell Me." The marketing agency and tourism worked with in 2015-16 provided the first opportunity for Morro Bay to participate in placing ads geographically with Pandora.

The online magazine continues to state that larger brands like GE and Netflix have recently launched their own podcast productions, and people are actually listening! Umpqua Bank launched a podcast series with MTV

correspondent SuChin Pak that provides financial guidance, and the first three episodes have been downloaded over 70,000 times. The organization is also seeing a growth in podcasts from destinations and especially from travel media.

“Creating podcasts takes more work for small-business owners, but experts say they can be a powerful way to build customer loyalty,” says Dennis Nishi in the Wall Street Journal.

Could Morro Bay create a regular podcast? Of course. It would be worthwhile to work in concert with the agency to develop a manageable program for the tourism department. This would also be an opportunity for the organization to engage the community of Morro Bay and partner with the local radio station in making this possibility a reality.

Personalized Pay Per Click (PPC) & Email Marketing

One-third of marketers see personalization as the most important capability to the future of marketing, according to an Adobe study. We also just happen to live a world where the Internet knows more about you than the coworker sitting two feet away from you.

For the last several years, paid search has been all about targeting the right set of keywords to find people who may or may not be in-market for your products or solutions, but this strategy has a lot of flaws. From generating irrelevant clicks and site visits, PPC can become quite expensive if your keyword strategy isn't flawless. Even if you're targeting the most relevant set of keywords, your volume might be so low that you're not reaching nearly enough searchers to generate new business.

If Google knows so much about each and every searcher, why is it so hard for advertisers to find the right audience? For one, Google prides itself on protecting searcher information, but it also knows what advertisers want, which is why Google introduced Customer Match in September 2015. Customer Match allows you to upload a list of contacts you already have and target them through search. This feature is also available on Facebook and Twitter, and is essentially making search and social become more like email marketing by serving ads to people who are within a certain stage of your purchase funnel.

For instance, let's say we captured a list of emails from a recent webinar on healthcare travel. We can then target these people on Google, Twitter, or Facebook with relevant offers. In 2016, PPC will likely become more and more personal, which is why marketers must start utilizing these new features, like Customer Match, to connect with their prospects and customers at the right time with messages catered to them.

The tourism department will work through the agency to use Customer Match and upload existing and future email lists to capitalize on an interested audience. When these individuals are signed into Google Search, YouTube, or Gmail, the organization can work with the agency to create and present them with more personalized ads to drive their attention to Morro Bay.

While focusing in on email marketing lists, the goal is to continue to grow the lists, especially in the feeder cities we have identified in this document. It is also a goal to clean up and provide more segmentation of the existing email lists tourism owns and manages. By going through this process, the tourism department and agency can better use this tool for a higher open and click through rates, plus use them to impact future travel for Morro Bay.

Tourism has been using the existing lists to reach out to stakeholders as well as consumers. In October 2015, the bureau began a weekly email outreach program of the Morro Bay Weekender to increase the awareness

and influence more travel during the shoulder season. In conjunction with this program, tourism has been evaluated and tracking the activity with what consumers has been responding to within the message. The top areas of interest are food, wine, beer and shopping events top the list. Gathering this data will be helpful in creating more successful consumer email marketing messages in the future.

Video Content

With the improvements of video technology on phones, tablets and other devices, there is an increased ability to provide authentic video content of Morro Bay. As authenticity is one of the biggest trends that will continue through 2016 and the ability to now host video content on the newly launched MorroBay.org website, the tourism department will work with the agency on a manageable program to enable this type of content to drive traffic to the website and to influence the activities a visitor can experience within the destination.

According to the Search Engine Journal, videos help businesses entertain and engage their audiences through visuals, colors, sounds and/or music. More importantly, videos often humanize a faceless business, in turn building brand loyalty and trust. This is true with the strategy of the newly launched MorroBay.org website. By using more photos and visuals (and the onset of using more video content), the site serves as a more user-friendly, experience-based portal to browsers.

“Marketers have learned that video is good for more than attracting attention,” says Tyler Lessard, CMO of Vidyard. “It enriched the customer journey at all stages, and it is more effective than other content at converting buyers.”

According to the Search Engine Journal, as the popularity of inbound marketing increases, so does the amount of content available to consumers. This availability will continue to result in high expectations when it comes to quality and when it comes to the variety of content offerings. Smart content creators will factor in users’ preference for video and image over text, their preference for informative and useful content over blatant sales efforts, and their preference for custom content over shared content. It is important to note that these preferences exist in the business to business (B2B) sector as well as the business to consumer (B2C) sector. According to a study by the Web Video Marketing Council, 96 percent of B2B marketers are using video in their content strategy.

The marketing agency in 2015-16 used video content within digital advertising for the organization with much success. There was encouragement for tourism to use more of this type of marketing, but there was an issue with the existing website at the time that couldn’t support video content. Now that the new site has been launched and there is more working knowledge of the content management system, tourism will work with the agency to enhance the site with more video content in 2016 and beyond.

Buy Buttons

Sometimes you need to direct a browser on what you want them to do. In the new MorroBay.org website, tourism has incorporated a “Book Now” button to give a call to action when looking in this section. According to Search Engine Journal, buy buttons have slowly been appearing on social sites like Pinterest and Twitter. In July 2015, Google also confirmed its testing its own buy button. The ability to buy directly from a social site or search engine is going to explode in 2016. The buy button serves as another means of increasing conversions, specifically those on mobile. With the new responsive MorroBay.org website, the organization and agency will monitor the activity on the mobile site to see if conversions into business will increase for Morro Bay.

“While mobile commerce grew more than three times as quickly as commerce on desktop websites in the first quarter, the percentage of people who go on to buy something after clicking an ad is lower on phones than on

desktops,” says Re/code’s Joshua Del Ray. “But if you let someone buy a product directly from the ad on Twitter, Facebook, Pinterest or Google – through, say, a Buy button – the thinking is that conversion rate will improve. And when conversion rates improve, advertisers buy more ads.”

Digital Marketing Automation

Marketing automation is nothing new. As a \$5.5 billion industry, marketers have clearly come to understand the importance of utilizing automation to save time and improve productivity. Search Engine Journal provided an example that at WordStream, they would need to double the size of our team if they didn’t have automation in place. From scheduling emails, segmenting contacts, automating social media, and managing content, automation has allowed us to grow, reach, and exceed our goals quarter after quarter.

Since switching agencies in 2014, the bureau has been working in concert with the agencies to implement a robust marketing automation system that actually works for the organization. As a part of the management of the organization, tourism will continue to identify gaps in our sales and marketing funnels, and form an automation strategy to make our jobs easier and our goals more attainable.

Website

As we sprint into the new fiscal year, the MorroBay.org website has been running a marathon. With production of the new site that began in August 2015 and launched mid-December 2015, the website provides some powerful tools to make it easier to do business in Morro Bay and inspire travel to the destination. This 24-hour online billboard is just that, a billboard. It is to capture attention with more visuals and concise, but descriptive text. The new trend in a more visual and less is more with text is the direction the organization went with the site.

Overall, the analytics kept indicating to the organization that mobile was the rise. The reports established a 200%+ increase over the previous fiscal and tourism was losing that audience, due to an unresponsive site. A responsive site is one that modifies its format, depending on what type of device a browser is using to view it. With the launch of the new site, it provides a better and more consistent look and feel, plus eliminates the need of having two separate content management systems to maintain. It is the hope of tourism, with the launch, there will be an increased engagement in the smartphone and tablet space. There are indicators the new site is fulfilling that goal. For the first month (December 10, 2015-January 10, 2016) after its launch, the following breakdown of visitors per device shows that mobile devices exceed the user experience by 14.3% over traditional desktop computers.

- Desktop 9,011
- Mobile 7,587
- Tablet 2,716

How will we use this data? As the data continues to be collected, tourism will work with the agency in capitalizing on its findings. Knowing the trend from desktop to mobile was the primary reason of updating the MorroBay.org website. It will also be used to create a better mobile strategy and the sharing of the data with the business community to further the growth of the community is important. First, tourism must monitor and understand patterns in behavior, the origin of the user and identify the seasonality of this digital neo-tribe. Better yet, the segmentation of this audience and the use of data will help better reach the goals and objectives outlined in this document, plus further the growth, visibility and conversion of this audience.

Email Marketing

If you're like most, you probably think of email marketing as an out-of-date, overly spammed strategy close to extinction. Newer technologies like social media and mobile marketing are taking their place, enticing to pour all the budget into these emerging technologies.

Yet despite its age and lack of shine, email marketing is still considered the strongest return on investment (ROI) channel by marketers. With the inundation of email marketing messages, email marketing experts beg the question, "Why is your inbox full of different marketing messages daily?"

In a 2014 Econsultancy survey, marketers ranked email as the top ROI channel, just above search engine optimization (SEO) and far above less mature channels like social and mobile. 68% of respondents considered email marketing ROI "excellent" or "good" compared to just 32% for social and 35% for mobile.

According to email experts, here are the trends to consider for 2016 and effective email marketing campaigns.

Focus on the journey, not the click

The e-mail is part of a series of interactions with the Morro Bay brand and we are more cognizant about where our emails are sending the user. Tourism is spending less time sending a user to a generic home page, but to the actual usable resource itself. The organization has also been using more custom landing pages—which send the user directly to the item or offer featured in the e-mail which can increase conversion rates by more than 25 percent.

Also, with nearly 45 percent (usually 50 percent for Morro Bay) of all marketing e-mails today are opened on a mobile device. With the new responsive site, there will be time dedicated to optimize landing pages for the mobile platform. According to Google, they state that 61 percent of users are unlikely to return to a mobile site they had trouble accessing. And, even worse, 40 percent visit a competitor's site instead.

Share the lessons

The best marketing organizations view every e-mail as an opportunity to learn more about their consumer. The tourism department identifies clear learning objectives for each campaign, capture data, and use the information for future success. Tourism continues to evaluate the positive responses within each consumer email marketing message, day of week and time of day, then tracks that information within the system. It is then evaluated and used to the advantage of the organization. Prime example: the weekly email message to hotels goes out consistently on Wednesdays between 12:30-1:00pm. The purpose of this consistent time was the test to see the highest open and click through rate. When looking at the time, it is after guests check out and prior to guests checking in. If we capture the attention of the Morro Bay lodging community during their lunch break, tourism has seen a higher engagement from this audience.

Get personal

Standing out certainly has become more difficult, especially in the tour and travel industry. While e-mail usage has declined, the volume of messages continues to rise: the number of marketing e-mails reached a record 838 billion in the United States in 2013, according to Forrester. It's no wonder relevancy should be a priority for every marketer. The best e-mails feel personal and that is an area of development and fine tuning for the organization in 2017.

According to Gilt Groupe, they send more than 3,000 variations of its daily e-mail, for example, each tailored based on past user click-throughs, browsing history, and purchase history. Of course, building true customization and targeting abilities is a transformative process that requires specific capabilities and

supporting infrastructure. Customer information often lives in different parts of the organization and must be aggregated to create a single view of each consumer. For the tourism department, Constant Contact is that tool and the ability to segment this list and use A/B testing in emails is a possibility.

A targeting engine must be built to guide the right message to the right person. And operations need to be ready for the change; creating and sending 3,000 e-mails a day is very different from sending one mass e-mail blast as Morro Bay has been doing since its inception. Although it's a lot of work, it is known to drive real returns, especially mid-week and the shoulder season in Morro Bay. One financial institution increased revenue from target segments by 20 percent by using life-cycle events to trigger personalized e-mails to existing customers; home-goods retailer Williams-Sonoma reported a tenfold improvement in response rates by adopting personalized e-mail offerings based on individuals' on-site and catalog shopping behavior. If they can do it, why can't we use this knowledge to help reach the goals?

PRINT

Most marketers would say print is dead. Print is not dead, but it doesn't have the same flexibility as in the online environment. Although the organization has retreated in the usage of print publications over the last year-and-a-half, it is acknowledged that each of our customers are unique and take in information differently. For some of the lifestyle marketing, it is appropriate to focus solely in the digital space, but for other groups, the touch and the feel of magazines, plus the ability to flag pages, use post it notes or a highlighter is preferred. The evolution of print created a revolution where publications cross over all marketing vehicles, blurring the lines of physical print and online formats.

Direct Mail

The document addressed email marketing, but the question remains, should you solely use email marketing as a way to communicate your brand and message? Most seasoned marketers would say, "No.", but it is an easy and inexpensive vehicle to use to almost instantly reach thousands of inboxes around the globe. With that ease of use, is the ability to become numb from the messaging and disregard its content.

In today's world, how many emails do you ignore or trash each day? Without getting into all those stats and logistics, it is reality that the effectiveness of email marketing has been declining without the recommendation of experts detailed in the document. What do you replace this outreach to give you a return on investment you would hope? The answer is, direct mail. With inboxes filling up, direct mail has made a comeback over the past two years. In regards to destination marketing, it can be a highly effective tool to use to bring awareness and drive traffic with a compelling call to action message.

Tourism began introducing direct mail through a USPS program recommended by a Morro Bay print vendor. The organization used the Every Door Direct Mail program to promote events in January and August 2015 with positive results. The organization also utilized this means of communications to market and promote a mid-week partnership package program with Yosemite in February 2016. Results from this program have not been yet determined, but will use the direct mail as a way to track the results.

Leveraging direct mail to impact business for both mid-week and shoulder season can be more easily tracked through this marketing vehicle. The utilization of promotional codes or use a redeemable portion of a direct mail piece can track the success of the campaign. Combining direct mail in more of a comprehensive marketing and communication program just emphasizes the need for diversity in the marketing mix. It goes back to the idea that people take in information differently, hence diversity is a key to a successful campaign.

Print Publications

There are opportunities to use print publications within key market areas throughout the fiscal year. There is also an opportunity to use this vehicle as a partnership opportunity as seen with the cooperative marketing program with Visit San Luis Obispo County and the Visit California Travel Guide. Often times print can be a cost prohibitive method of marketing, but with these types of cooperatives, it makes it more feasible for the organization to participate and expand its visibility in larger markets. Print can also be inflexible in the way of lead and execution time in major print publications focused on travel, but at the same time effective, depending on the shelf life of the publication.

When it comes to print publications, there are two opportunities the tourism department has and will take advantage of as the plans unfold this fiscal year. One, the review the editorial calendars of the print publications and match up the theme of that edition with print advertising. Second, leverage the editorial calendar and seize the opportunity to submit a story idea to the publication again that matches the theme of the publication. Lastly, the idea of identifying lifestyle publications that better pair with the Morro Bay profile like kayaking, hiking, biking, paddle boarding, etc are ones that the organization will review with the agency and find a good mix of both print and online publications to fold into the campaigns for 2016-17.

Any and all of these print publications have to tie back to the goals and objectives established for marketing the destination. In February 2015 and January 2016, tourism purchased and advertorial package and was featured in three major print publications (plus other perks) in the Los Angeles area, focusing on travel. This fits within the goal to drive traffic during the shoulder season, but also to increase the visibility as well as credibility of the destination.

Collateral

Tourism has set out to manage and maintain three printed collateral pieces for Morro Bay. The first is the Official Visitor Guide to Morro Bay. This comprehensive magazine-style guide provides much inspiration and dedication to the visitor serving businesses in Morro Bay. This advertising supported piece is used to distribute locally through the Visitor Center as well as at shows and other distribution points throughout California. The updated format was initiated in 2014 and then again in 2015. The goal to offset the cost of the guide is established at 40 percent. The reason for this percentage is to assure the guide provides content the reader is expecting, verses being inundated with advertising that sometimes will turn off the reader.

The second piece is the Morro Bay Bike Map. This pocket guide was initiated by the City of Morro Bay, the SLO Bike Clubs and the Morro Bay Tourism Bureau in 2013. As the map has evolved and the lack of funds from the other partners, tourism saw this was a sought after piece through distribution points at the Morro Bay State Park, Visitor Center and other campgrounds. The organization updates and prints this piece twice a year to assure updated information relating to the biking is included. This map is available through the stated distribution channels, but also is available for download on the MorroBay.org website.

The third piece is the pet-friendly brochure. The evolution of the pet-friendly brochure has turned into the Morro Bay Pet-Friendly Trail map. Understanding the use and the need of this information evolved the brochure into a usable map, indicating pet-friendly businesses and areas around Morro Bay. In February 2016, tourism used this new format to distribute at the Amazing Pet Expo in San Diego. It also provides this map as a downloadable piece on the MorroBay.org website too.

SHOWS

Identifying the geographic regions and the understanding the types of lifestyles that fit the Morro Bay profile helps establish the ideal show line up. In researching the characteristics of the destination and taking into

consideration and success of the show history, the tourism department will evaluate and create a show calendar. This list and calendar of shows not only needs to fit within the regions we are targeting, but needs to fit seasonally and connect with the overall goals and objectives outlined in this document.

There are two types of shows tourism will participate in for this fiscal year. Consumer shows will serve as a way to inspire and reach visitors directly, while educating them on the aspects and activities of the destination. The areas of outreach for consumer shows must involve household decision makers. The types of shows considered involve travel, outdoor adventure, family activities, women, social events, pets and the LGBT community. The investment of time and resources, history, and tie back to the goals, plus the timing and location of the show will dictate the selection of shows for this next fiscal year.

Tourism will then evaluate the goals established to continue with the outreach to the group market through professional tradeshow. These shows hold a higher price tag, but at the same time, offers an opportunity for partnership. IPW is a professional tradeshow, focusing on international travel companies. In 2015, the bureau partnered with the Central Coast Tourism Council on a booth to share costs and bring a higher level of visibility to Morro Bay by connecting it with other major internationally-known destinations in the state (Carmel, Solvang, etc). In 2016, an opportunity opened up with the new tourism marketing district and Morro Bay will be partnering with Visit San Luis Obispo County on this tradeshow in May.

The second major tradeshow the tourism department participates in annually is the American Buses Association (ABA) conference. This is another example of a travel tradeshow where organizational representatives meet with professional tour operators and companies during set appointments to inspire them to bring their groups and individual customers to Morro Bay. Tourism approaches this show with a planned list of itineraries and products to “sell” to this audience. It is also a time to listen in during the appointment time on what tour operators are seeking and how Morro Bay can provide solutions for their group.

Both shows require time and investment before a return on investment is seen. Typically it takes an estimated 2-3 year cycle before travel companies start making a destination a regular stop for their groups or FIT customers. For IPW, Morro Bay is already seeing business happen from this show. For ABA, there are tour companies that have used Morro Bay as a day and overnight stop, but nothing regular in their tour schedules. This is one of the biggest opportunities for the destination to continue reaching out to this market segment and help secure more bus tours and FIT for Morro Bay.

Sales Goals

When the group lead process began in 2014, it set the pace with the addition of a sales manager for the organization. In sales, it was recognized that goals needed to be established to benchmark the success and return on investment for the organization. In 2015, the bureau established the following goals to be reached by the sales team by the end of fiscal 2015-16:

- 40 leads
- 2,000 estimated room nights (averages 50 room nights per lead)
- \$224,000 lodging economic impact (# rooms x current ADR of \$112)

At the half year point, the number of leads sent out to the Morro Bay lodging community equaled 53 percent and the number of estimated room nights and economic impact exceeded the initial goal by 25 percent. The tourism department found that the estimated number of rooms per lead was more than double and adjustment is being made for this next fiscal year. There was also an addition to these goals on the overall economic impact to the business community in Morro Bay as reflected below. In adjusting these numbers for 2016, it is

proposed that the numbers are modified to reflect history as well as a goal to increase group business for Morro Bay.

- 45 leads
- 5,000 room nights (averages 112 room nights per lead)
- \$595,000 lodging economic impact (# rooms x estimated ADR of \$119)
- \$1,125,000 economic impact (# rooms x \$225)

In addition to these goals, organizing two sales missions in 2016-17 and partnering with the Visit San Luis Obispo County sales team will be expected to further grow this market segment for Morro Bay.

REPORTING

This area of the document is probably the most important piece in the overall success of marketing Morro Bay as a destination. Currently there are reports the organization receives from the agency on performance. This next fiscal year is to take that information and perform ongoing evaluations of all our marketing endeavors. This will better help us prepare for existing and future marketing and communications.

The organization will employ a comprehensive reporting matrix of the following to measure overall success. These will include but not limited to:

- City TOT Reports
- Cost per Click (or acquisition)
- Enewsletter Sign Ups
- Google Analytics
- Lead Generation
- Open Rates
- Referrals
- Redemptions
- Reservations (JackRabbit)
- Room Nights
- Sales Tax Reports
- Social Media Sign Ups
- Sweepstakes Sign Ups
- Website Traffic

All or portions of this information will be summarized and shared regularly with the advisory board, the City of Morro Bay and its stakeholders and partners through meetings and written reports. The executive director will report each month at board meetings and quarterly at city council meetings. The executive director will use his discretion on whether or not to share information and statistics at other meetings outside of this realm (Chamber, Merchant's Association, Visit San Luis Obispo Board Meetings, etc). The agency will provide monthly reports to the executive director and attend the board meetings and report on a quarterly basis.

Appendix A

(a) The advisory board shall cause to be prepared a report for each fiscal year for which assessments are to be levied and collected to pay the costs of the improvements and activities described in the report. The report may propose changes, including, but not limited to, the boundaries of the parking and business improvement area or any benefit zones within the area, the basis and method of levying the assessments, and any changes in the classification of businesses, if a classification is used.

(b) The report shall be filed with the clerk and shall refer to the parking and business improvement area by name, specify the fiscal year to which the report applies, and, with respect to that fiscal year, shall contain all of the following:

(1) Any proposed changes in the boundaries of the parking and business improvement area or in any benefit zones within the area.

There are no proposed changes in the boundaries of the parking and business improvement area or in any of the benefit zones within the area. The boundaries will remain the same as fiscal year 2015-16.

(2) The improvements and activities to be provided for that fiscal year.

The improvements and activities for the Tourism Business Improvement District (TBID) are outlined within the 2016-17 Marketing & Sales Plan document.

(3) An estimate of the cost of providing the improvements and the activities for that fiscal year.

A detailed budget has been provided within the 2016-17 Marketing & Sales Plan document, outlining the goals, objectives, market tiers and activities.

(4) The method and basis of levying the assessment in sufficient detail to allow each business owner to estimate the amount of the assessment to be levied against his or her business for that fiscal year.

There are no changes or updates in this area.

(5) The amount of any surplus or deficit revenues to be carried over from a previous fiscal year.

As of March 1, 2016, there will be an estimated carry over balance from the 2015-16 budget of \$44,500, plus \$40,280 in financial reserve. The financial reserve will be converted from a reserve into a contingency fund for marketing.

(6) The amount of any contributions to be made from sources other than assessments levied pursuant to this part.

In the 2016-17 budget, there will be alternative revenue sources in relationship with advertising in the Official Morro Bay Visitor Guide, the Morro Bay Adventure Pass and sponsorships relating to the Outdoor Writers Association of California Conference in October 2016. This amount is estimated at \$20,000 for the fiscal year.

The City of Morro Bay will also be providing \$60,000 out of general funds to be dispersed as the Morro Bay Tourism Business Improvement District (TBID) Advisory Board sees fit. In the 2016-17 Marketing & Sales Plan document, the \$60,000 contribution is being dispersed amongst event and regional grant programs.

(c) The city council may approve the report as filed by the advisory board or may modify any particular contained in the report and approve it as modified. The city council shall not approve a change in the basis and method of levying assessments that would impair an authorized or executed contract to be paid from the revenues derived from the levy of assessments.



AGENDA NO: C-1

MEETING DATE: April 26, 2016

Staff Report

TO: Honorable Mayor and City Council

DATE: April 19, 2016

FROM: Eric Endersby, Harbor Director

SUBJECT: Re-Consideration of Future Direction of Lease Site 87-88/87W-88W, located at 833 Embarcadero, owned by B&L Flash, Inc. (Violet Leage & Barry Lambert)

RECOMMENDATION

Staff recommends the City Council authorize staff to put this lease site's future operation and redevelopment after September 2018 out to public bid as soon as possible.

ALTERNATIVE

Direct staff to continue to work with Cherise Hansson in hopes she can develop a proposal consistent with previous Council guidance.

FISCAL IMPACT

There is no immediate fiscal impact at this time. Staff is concerned further delays may result in redevelopment of this site not being ready to execute when the existing lease expires in Sept 2018. The site is not currently producing the level of revenue staff believes is could with appropriate redevelopment.

BACKGROUND

At the January 26, 2016, City Council meeting, the future of this lease site was brought to the Council for consideration. Site sublease tenant Cherise Hansson/Under the Sea Gallery presented a revised project concept plan that included restaurant, retail and a children's play area on the ground floor/level, and boutique hotel rooms on the second floor. Council expressed significant concern about the past management and delinquent rent issues with current corporate lessee. However, the Council recognized the new energy and perspective brought by Hansson and there was support for a new leaseholder team, to include Hansson in a primary role, to develop and bring back, within 90 days, a new proposal with a reconfigured lease owner, B&L Flash, and demonstrated financial capability to bring the renovation project to completion.

The Council revoked the Consent of Landowner (COL) then in effect for the original redevelopment

Prepared By: EE

Dept Review: EE

City Manager Review: DWB

City Attorney Review: JWP

proposal, and directed staff within 90 days to bring back a new COL and proposal with the new lease management team per the stipulations noted.

DISCUSSION

Since the January Council meeting, staff has worked diligently with Ms. Hansson and Ms. Leage on their new proposal and plan. Unfortunately, Ms. Hansson and Ms. Leage are unable to finalize an agreement that met the Council's direction. Therefore, staff is recommending this site be put to public bid in an RFP process. Ms. Hansson will have the opportunity to respond to this public RFP, as would the existing leaseholder.

If the City Council concurs with putting the site up for bid through an RFP process, then staff will develop and release an RFP. Staff intends to circulate the RFP, widely, with the goal of receiving a broad range of feasible and most beneficial proposals for this site, which will likely include demolition and complete redevelopment. Staff intends to include some or all of the items listed below in that RFP and looks forward to Council input during this meeting regarding what to include in the RFP, which will be released without further Council direction. As always, proposals will be reviewed in detail by Council before Consent of Landowner is given.

- Special consideration for proposals that include a complete building tear-down and site redevelopment.
- Full utilization of both the land and water portions of the lease site.
- Ground floor should be appropriate visitor-serving venues such as retail, restaurant or other services. Preference may be given to proposals containing new, expanded or unique "destination activities" that could serve a broad range of Morro Bay visitors and locals alike.
- Special consideration for proposals that maximize revenue to the City by including 5-15 TOT-producing visitor-serving lodging venues on the second floor.
- Proposals that maximize public benefit, such as bayside decks or plaza space may be given preference.
- Proposals must conform to the City's Waterfront Master Plan and Local Coastal Plan, including, but not limited to, appropriate sidewalk and corridor widths and a Harborwalk connecting or connectable to lease sites north and south.

CONCLUSION

In January, for a number of appropriate reasons, the Council revoked the previously existing Consent of Landowner given to B&L Flash to redevelop the subject lease site. At that time, Council provided Ms. Hansson well-sufficient time to provide a proposal meeting certain reasonable terms, to redevelop the site. Ms. Hansson was unable to meet that deadline and she and Ms. Leage appear to be at an impasse. Staff recommends Council direct staff to widely release a broad RFP for redevelopment of the subject site.