



CITY OF MORRO BAY CITY COUNCIL Notice of Special Meeting

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.

City Council Work Session Tuesday, February 28, 2017 Morro Bay Veteran's Hall – 4:00 P.M. 209 Surf Street, Morro Bay, CA

ESTABLISH QUORUM AND CALL TO ORDER

PUBLIC COMMENT RE: ITEMS ON THE AGENDA

SPECIAL MEETING AGENDA ITEM:

I. TEN-YEAR BUDGET FORECAST

RECOMMENDATION: Council receive information on the updated ten-year budget forecast, as prepared by Management Partners, and provide direction as appropriate.

ADJOURNMENT

DATED: February 24, 2017



Jamie L. Irons, Mayor

MATERIALS RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE CITY COUNCIL AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC INSPECTION AT CITY HALL LOCATED AT 595 HARBOR STREET; MORRO BAY LIBRARY LOCATED AT 625 HARBOR STREET; AND MILL'S COPY CENTER LOCATED AT 495 MORRO BAY BOULEVARD DURING NORMAL BUSINESS HOURS.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT LEAST 24 HOURS PRIOR TO THE MEETING TO INSURE THAT REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.

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AGENDA NO: I

MEETING DATE: February 28, 2017

Staff Report

TO: Honorable Mayor and Council Members **DATE:** February 23, 2017
FROM: David Buckingham, City Manager
SUBJECT: Ten-Year Budget Forecast Study Session

RECOMMENDATION

Staff recommends the Council receive information on the updated ten-year budget forecast, as prepared by Management Partners, and provide direction as appropriate.

DISCUSSION

In March 2015 the City received our first 10-year budget forecast. Based on the utility of this financial management tool, the City Council included a requirement for an annual 10-year forecast in our Strategic Planning Framework. The March 2016 budget forecast was expanded to include the Harbor Enterprise Fund. Council further directed the 2017 forecast to include the water and sewer enterprise funds.

This comprehensive ten-year budget forecast provides the City Council and community with a better understanding of the City's financial situation in the decade ahead.

The updated ten-year budget forecast will provide a broad overview of the City's financial projection over the coming ten years. The forecast will review revenue projections, refine some increasing expenses including CALPERS contributions, identify a projected recession, and provide Council, staff and the public with a solid understanding of the City's financial condition as we begin the FY 2017/18 budget process.

Considering the City's 2016 revenues and expenses, and looking ahead to the next 5-10 years, the City has around \$4M less than we need, each year, to provide services consistent with our community's priorities and goals. That means we either need to reduce our expectations, or increase our revenues, or a combination of both, while controlling our costs.

The \$4M gap can be attributed to the following:

- a. \$2M Streets: Our recent, detailed engineering analysis of every street in Morro Bay shows that we need to spend \$2M a year, for the next 20 years, to get our streets to "Pavement Condition Index 70", the widely accepted measure for reasonable condition, sustainable streets.
- b. \$1M Facility Replacement: This is what is needed to replace City facilities when they reach the end of their useful life. Good current examples are the public bathroom in Del Mar Park and the Harbor Office. Both need to be replaced, but the City has not had sufficient revenue to replace these facilities, or to save for the future replacement of other facilities such as park amenities, docks or other city buildings such as the Police Station.

- c. \$1/2M New Capital Projects: Not frills, but basic items the community desires and needs, such as intersection improvements at Hwy 41 and Main Street. Part of this half million is also needed to sustain, or slightly enhance, staffing in the Police and Fire departments. For example, we can currently afford three police officers on patrol in the daytime, but only two in the evening.
- d. \$1/2M Increasing Staffing Costs: Due to decisions made over 15 years ago with regard to employee CALPERS pensions (the California Public Employee Retirement System), the City's cost to fund the pensions, primarily for already retired employees, is increasing significantly. In the next five years, the City's required pension contributions will increase nearly \$600,000 per year.

This 10-year forecast will show two things. First, we do not have the resources, to do many of the things that our community would like the City to do. Second, in the few years ahead, we will have some hard choices to make by either; a) cutting some existing services, or b) improving our fiscal condition (through a managed level of revitalization, control of costs and perhaps certain tax increases) that will allow us to provide the basic service improvements noted above.

In addition to modeling on our current revenues and projected expenses, the updated model allows for some futures modeling based on Council Goal #1 – Achieve Economic and Fiscal Sustainability. These features will allow the Council to see the long term effects of specific revenue enhancement actions, and how those actions – if realized – might allow us to close some or all of the budget gap noted above.

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

ATTACHMENTS

- 1. Assumptions and forecast numbers
- 2. Management Partners PowerPoint presentation

Prepared by: ___CS_____	Dept Review: _____
City Manager Review: _DWB__	City Attorney Review: _____

City of Morro Bay Budget Forecast Key Assumptions

Revenue Forecast Range		0.50%
Revenue Scenario	Baseline	1
Recession	Yes	1
FY Recession Starts		2019
Revenue Impact of Recession		-5.00%
TOT growth rate		5.00%
New Local Sales Tax	FY 21	0.00%
New Fees eff. FY2017		\$0.00M
New Housing Units/Year		10
% of FY Elapsed		58.33%
Measure Q Minimum Balance		20.00%
Interest Earnings Rate		1.00%
Fire Equip Paid by Grants/Other		75.00%
Vacancy Savings Rate FY2018-25		3.00%
Health Contribution Increase		2.00%
Inflation (CPI)		2.00%
PERS Discount Rate Change-1		7.00%
PERS Discount Rate Change-2		6.50%
PERS Discount Rate Change-3		6.50%
Discount Rate Impact Factor		0.5
PERS-PEPRA Cost Share FY 2018		0
Vehicle Replace Exp eff. FY 2021		\$100,000
Facility Maint Exp eff. FY 2018		\$100,000
Capital Replacement eff. FY 2018		\$100,000
Project Accumulation eff. FY 2018		\$150,000
Tourism:	Share of TOT	Over this amt.
\$60,000	20.00%	3,000,000
		Capped at \$300,000

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

General Fund	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Property Tax	\$3,377	\$3,575	\$3,724	\$3,847	\$3,967	\$4,091	\$4,137	\$4,283	\$4,451	\$4,626	\$4,772	\$4,921
Sales Tax	1,794	1,736	1,887	1,829	1,905	1,869	1,943	2,039	2,138	2,204	2,272	2,343
TOT	2,527	2,889	3,136	3,375	3,543	3,455	3,679	3,974	4,292	4,506	4,731	4,968
Other Revenue	2,341	2,559	3,545	2,867	2,806	2,792	2,840	2,899	2,960	3,001	3,043	3,085
Transfers	2,451	1,709	2,704	1,194	1,380	2,282	2,341	2,113	2,021	1,691	1,325	1,341
Total Revenue	12,491	12,468	14,996	13,113	13,602	14,489	14,940	15,308	15,861	16,029	16,143	16,659
Personnel	8,574	8,595	9,028	9,181	9,726	10,018	10,428	10,701	11,122	11,516	11,909	12,262
Other O&M	2,370	2,590	3,198	3,195	3,488	3,536	3,648	3,775	3,890	3,961	4,034	4,108
Transfers/Svc Adds	2,487	258	983	1,253	625	934	864	832	849	948	973	1,030
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	13,431	11,443	13,209	13,629	13,840	14,489	14,940	15,308	15,861	16,426	16,917	17,400
Net Annual	(940)	1,025	1,787	(516)	(238)	0	0	0	0	(397)	(774)	(741)
Beginning Balance	(2,503)	(797)	92	504	238	0	0	0	0	0	(397)	(1,171)
Cash Adjustments	2,646	(135)	(1,375)	250	0	0	0	0	0	0	0	0
Ending Balance	(797)	92	504	238	0	0	0	0	0	(397)	(1,171)	(1,912)
Emergency Reserve	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$56	\$547	\$350	\$367	\$235	\$30	\$23	\$15	\$8	\$3	\$0	\$0
Transfers Out	1	200	0	0	167	1,051	1,092	847	736	388	3	0
Net Annual	56	347	350	367	68	(1,021)	(1,070)	(832)	(728)	(385)	(3)	0
Cash Adjustments	1	(22)	19	0	0	0	0	0	0	0	0	0
Beginning Balance	2,854	2,910	3,235	3,603	3,970	4,038	3,018	1,948	1,116	388	3	0
Ending Balance	2,910	3,235	3,603	3,970	4,038	3,018	1,948	1,116	388	3	0	0
Total GF+ER Balance	2,113	3,327	4,107	4,208	4,038	3,018	1,948	1,116	388	(394)	(1,171)	(1,912)
% of GF Exp	15.7%	29.1%	31.1%	30.9%	29.2%	20.8%	13.0%	7.3%	2.4%	-2.4%	-6.9%	-11.0%

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

Technology	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$0	\$0	\$432	\$384	\$272	\$362	\$375	\$388	\$401	\$415	\$428	\$440
Expenditures	0	0	276	482	346	362	375	388	401	415	428	440
Net Annual	0	0	156	(97)	(74)	0	0	0	0	0	0	0
Cash Adjustments	0	0	15	0	0	0	0	0	0	0	0	0
Beginning Balance	0	0	0	171	74	0	0	0	0	0	0	0
Ending Balance	0	0	171	74	0	0	0	0	0	0	0	0

(\$ in 000)

Capital Replacement	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$0	\$0	\$100	\$100	\$102	\$102	\$103	\$104	\$105	\$105	\$106	\$107
Expenditures	0	0	0	0	0	0	0	0	0	0	0	0
Net Annual	0	0	100	100	102	102	103	104	105	105	106	107
Cash Adjustments	0	0	(0)	0	0	0	0	0	0	0	0	0
Beginning Balance	0	0	0	100	200	302	404	507	611	716	821	927
Ending Balance	0	0	100	200	302	404	507	611	716	821	927	1,034

(\$ in 000)

Project Accumulation	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$0	\$0	\$201	\$125	\$152	\$153	\$154	\$155	\$157	\$158	\$159	\$160
Expenditures	0	0	66	0	0	0	0	0	0	0	0	0
Net Annual	0	0	135	125	152	153	154	155	157	158	159	160
Cash Adjustments	0	0	(0)	0	0	0	0	0	0	0	0	0
Beginning Balance	0	0	0	135	260	412	565	719	875	1,031	1,189	1,348
Ending Balance	0	0	135	260	412	565	719	875	1,031	1,189	1,348	1,508

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

Measure Q	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$924	\$1,152	\$984	\$1,019	\$1,025	\$1,367	\$1,039	\$1,071	\$1,115	\$1,171	\$1,206	\$1,207
Expenditures	1,306	1,408	582	1,439	905	1,298	1,105	1,065	1,107	1,160	1,199	1,207
Net Annual	(383)	(257)	402	(420)	120	68	(66)	6	9	11	7	0
Cash Adjustments	(4)	68	(3)	0	0	0	0	0	0	0	0	0
Beginning Balance	681	295	106	506	85	205	273	208	214	223	234	241
Ending Balance	295	106	506	85	205	273	208	214	223	234	241	241

(\$ in 000)

Measure Q	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Sales Tax	\$921	\$946	\$981	\$1,019	\$1,024	\$1,065	\$1,037	\$1,069	\$1,114	\$1,169	\$1,205	\$1,205
Other Revenue	3	205	3	0	1	302	2	2	2	2	2	2
Revenue	924	1,152	984	1,019	1,025	1,367	1,039	1,071	1,115	1,171	1,206	1,207
Personnel	310	260	342	316	333	342	354	363	375	387	399	409
Streets	773	959	7	982	417	451	529	493	521	560	437	381
Fire Vehicles/Equip	0	0	0	0	0	349	49	49	49	49	198	249
Debt Service	41	125	83	91	83	83	83	83	83	83	83	83
Other	181	64	150	51	72	74	90	77	78	80	81	83
Total Expenditures	1,306	1,408	582	1,439	905	1,298	1,105	1,065	1,107	1,160	1,199	1,207
Net Annual	(383)	(257)	402	(420)	120	68	(66)	6	9	11	7	0
Cash Adjustments	(4)	68	(3)	0	0	0	0	0	0	0	0	0
Beginning Balance	681	295	106	506	85	205	273	208	214	223	234	241
Ending Balance	295	106	506	85	205	273	208	214	223	234	241	241

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

Capital	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Grants/Other Rev	\$24	\$129	\$12	\$0	\$0	\$3	\$1	\$1	\$1	\$1	\$1	\$1
Transfers In	449	589	150	161	680	0	0	0	0	0	0	0
Total Revenue	473	718	162	161	680	3	1	1	1	1	1	1
Expenditures	473	612	176	161	340	225	0	0	0	0	0	0
Net Annual	0	106	(13)	0	340	(222)	1	1	1	1	1	1
Cash Adjustments	166	(276)	13	0	0	0	0	0	0	0	0	0
Beginning Balance	4	169	0	0	0	340	118	118	119	120	121	122
Ending Balance	169	(0)	(0)	0	340	118	118	119	120	121	122	123

State Park Marina	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Harbor Leases	\$73	\$81	\$86	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80
Other Revenue	0	0	0	0	1	2	2	2	3	3	4	4
Total Revenue	73	81	86	80	81	82	82	82	83	83	84	84
Expenditures	15	0	31	35	0	0	0	0	0	0	0	0
Net Annual	58	81	55	45	81	82	82	82	83	83	84	84
Cash Adjustments	(12)	(0)	6	0	0	0	0	0	0	0	0	0
Beginning Balance	19	65	147	208	253	334	416	498	580	663	747	830
Ending Balance	65	147	208	253	334	416	498	580	663	747	830	915

Accumulation	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Other Revenue	\$7	\$6	\$4	\$0	\$2	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transfers In-Harbor	117	142	133	24	0	0	0	0	0	0	0	0
Total Revenue	0	148	137	24	2	0	0	0	0	0	0	0
Expenditures/Tfr												
Out	479	589	150	119	340	0	0	0	0	0	0	0
Net Annual	(472)	(441)	(13)	(95)	(338)	0	0	0	0	0	0	0
Cash Adjustments	0	(6)	6	0	0	0	0	0	0	0	0	0
Beginning Balance	1,255	900	453	445	350	12	12	12	12	12	12	12
Ending Balance	783	453	445	350	12	12	12	12	12	12	12	12
Total Ending Balance	1,073	654	692	617	902	998	1,304	1,599	2,016	2,425	2,824	3,220

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

Operations	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Water Services	\$3,392	\$3,128	\$4,170	\$5,019	\$5,366	\$5,712	\$6,069	\$6,426	\$6,782	\$6,962	\$7,142	\$7,327
Mitigation Fees	27	36	61	45	46	47	48	49	50	51	52	53
Other Revenue	82	92	85	74	13	21	29	40	49	41	43	45
Transfer In-Water	2,260	402	23	0	0	0	0	0	0	0	0	0
Total Revenue	5,762	3,657	4,338	5,138	5,425	5,780	6,146	6,514	6,880	7,054	7,237	7,425
Personnel	752	727	698	843	681	710	740	767	795	822	848	873
State Water												
Contract	2,119	2,209	2,608	2,400	2,418	2,502	2,590	2,682	2,779	2,136	2,243	2,355
Other O&M	715	723	822	1,047	1,079	1,111	1,145	1,179	1,214	1,551	1,600	1,651
Debt Service	0	0	0	0	172	344	344	344	1,651	1,651	1,651	1,651
Depreciation	319	274	268	0	0	0	0	0	0	0	0	0
Transfers Out	278	355	1,004	847	298	304	310	693	1,211	701	718	737
Total Expenditures	4,183	4,288	5,402	5,138	4,648	4,971	5,128	5,664	7,650	6,860	7,061	7,267
Net Annual	1,579	(631)	(1,063)	0	777	809	1,018	850	(770)	194	176	158
Cash Adjustments	(1,081)	821	1,065	0	0	0	0	0	0	0	0	0
Beginning Balance	0	0	0	(10)	(10)	767	1,576	2,593	3,443	2,673	2,867	3,043
Ending Balance	498	190	2	(10)	767	1,576	2,593	3,443	2,673	2,867	3,043	3,201

Capital	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Grants/Other	\$429	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Bond Proceeds	0	0	0	0	3,500	0	0	12,500	12,500	0	0	0
Transfers In-Water	103	179	38	511	0	1,828	637	913	924	406	418	430
Total Revenue	532	179	38	511	3,500	1,828	637	13,413	13,424	406	418	430
Expense	1,062	390	45	488	2,855	2,497	637	13,413	13,424	406	418	430
Net Annual	(633)	(210)	(7)	23	645	(669)	0	0	0	0	0	0
Cash Adjustments	390	203	7	0	0	0	0	0	0	0	0	0
Beginning Balance	147	7	0	0	23	669	0	0	0	0	0	0
Ending Balance	(95)	0	0	23	669	0	0	0	0	0	0	0

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

Equipment	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Revenue	\$2	\$2	\$3	\$0	\$3	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Expense	0	(0)	0	0	37	37	0	0	0	0	0	0
Net Annual	2	2	3	0	(34)	(35)	2	2	2	2	2	2
Cash Adjustments	0	(2)	2	0	0	0	0	0	0	0	0	0
Beginning Balance	259	260	260	265	265	230	196	198	200	202	204	206
Ending Balance	260	260	265	265	230	196	198	200	202	204	206	208

Discount/Rebate	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Revenue	\$0	\$128	\$64	\$118	\$120	\$122	\$124	\$127	\$129	\$132	\$135	\$137
Expense	0	0	33	116	118	121	123	126	128	131	133	136
Net Annual	0	128	31	2	1	1	1	1	1	1	1	1
Cash Adjustments	0	(0)	1	0	0	0	0	0	0	0	0	0
Beginning Balance	0	0	128	160	162	163	164	165	167	168	169	171
Ending Balance	0	128	160	162	163	164	165	167	168	169	171	172

Accumulation	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Impact Fees	\$28	\$43	\$99	\$63	\$31	\$31	\$32	\$33	\$33	\$34	\$35	\$36
Other Revenue	21	17	47	8	14	14	6	3	0	0	0	0
Transfers In	0	0	646	487	0	0	0	377	889	372	383	394
Total Revenue	49	61	792	558	45	45	38	412	922	406	418	430
Expense	1,830	386	38	511	0	1,828	637	913	924	406	418	430
Net Annual	(1,781)	(325)	754	47	45	(1,783)	(599)	(501)	(3)	(0)	0	0
Cash Adjustments	1	(18)	15	0	0	0	0	0	0	0	0	0
Beginning Balance	4,147	2,367	2,024	2,793	2,840	2,885	1,102	503	3	0	0	0
Ending Balance	2,367	2,024	2,793	2,840	2,885	1,102	503	3	0	0	0	0
Total Ending Balance	3,030	2,602	3,219	3,279	4,714	3,038	3,459	3,812	3,043	3,240	3,420	3,581

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

Equipment	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Revenue	\$116	\$117	\$144	\$177	\$7	\$7	\$7	\$7	\$7	\$7	\$7	\$7
Transfers Out	0	0	0	0	0	0	0	0	0	0	0	0
Net Annual	116	117	144	177	7	7	7	7	7	7	7	7
Cash Adjustments	0	(2)	2	0	0	0	0	0	0	0	0	0
Beginning Balance	125	241	356	502	679	686	693	700	707	714	721	728
Ending Balance	241	356	502	679	686	693	700	707	714	721	728	736
Accumulation	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Impact Fees	\$54	\$82	\$107	\$60	\$49	\$50	\$51	\$52	\$53	\$54	\$55	\$56
Other Revenue	24	33	42	0	56	39	25	0	0	0	0	0
Transfers In-Sewer	363	335	319	2,159	0	0	1,771	338	562	579	597	616
Total Revenue	0	450	468	2,219	105	89	1,847	390	615	633	652	672
Transfers Out-Sewer	191	172	370	921	1,822	1,496	4,359	390	615	633	652	672
Net Annual	(137)	278	98	1,298	(1,717)	(1,406)	(2,512)	0	0	0	0	0
Cash Adjustments	1	(34)	30	0	0	0	0	0	0	0	0	0
Beginning Balance	3,714	3,965	4,209	4,337	5,635	3,918	2,512	0	0	0	0	0
Ending Balance	3,578	4,209	4,337	5,635	3,918	2,512	0	0	0	0	0	0
Total Ending Balance	3,746	4,573	4,821	5,318	7,303	9,138	7,595	10,414	13,465	13,726	14,091	14,487

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

Operations	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Sewer User Fees	\$2,691	\$3,272	\$3,778	\$8,334	\$8,584	\$8,841	\$9,106	\$9,380	\$9,661	\$9,951	\$10,249	\$10,557
Other Revenue	0	0	0	0	1	1	1	1	1	1	1	1
Transfer In-Sewer	528	1,127	217	0	0	0	0	0	0	3,952	3,952	3,952
Total Revenue	3,219	4,399	3,995	8,334	8,584	8,842	9,107	9,380	9,662	13,903	14,202	14,509
Personnel	860	898	959	946	784	820	854	889	926	960	994	1,026
Contract Services	407	468	1,658	6,257	6,444	6,638	6,837	7,042	7,253	7,471	7,695	7,926
Other O&M	978	2,359	1,161	1,123	1,157	1,192	1,227	1,264	1,302	1,341	1,381	1,423
Debt Service	0	0	0	0	0	0	0	0	0	3,952	3,952	3,952
Depreciation	466	373	13	0	0	0	0	0	0	0	0	0
Transfers Out	527	1,127	217	8	0	0	0	0	0	0	0	0
Total Expenditures	3,238	5,225	4,008	8,334	8,385	8,650	8,919	9,195	9,481	13,724	14,023	14,327
Net Annual	(18)	(826)	(13)	0	199	192	188	185	181	179	179	183
Cash Adjustments	433	986	266	0	0	0	0	0	0	0	0	0
Beginning Balance	(582)	(167)	(8)	246	246	445	637	825	1,010	1,191	1,370	1,550
Ending Balance	(167)	(8)	246	246	445	637	825	1,010	1,191	1,370	1,550	1,732
Capital	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Bond Proceeds	\$1,022	\$2,095	\$418	\$0	\$1,000	\$3,000	\$6,000	\$40,000	\$24,700	\$0	\$0	\$0
Other Revenue	1,000	1,450	650	0	0	0	0	0	0	0	0	0
Transfers In-Sewer	527	1,126	208	0	915	563	188	75	0	0	0	0
Total Revenue	2,549	4,671	1,276	0	1,915	3,563	6,188	40,075	24,700	0	0	0
Expense	1,022	2,095	418	0	1,915	3,563	6,188	40,075	24,700	0	0	0
Net Annual	0	2,576	858	0	0	0	0	0	0	0	0	0
Cash Adjustments	(433)	(1,062)	(369)	0	0	0	0	0	0	0	0	0
Beginning Balance	1	95	161	1	1	1	1	1	1	1	1	1
Ending Balance	(432)	1,609	650	1	1	1	1	1	1	1	1	1
Total Ending Balance	(599)	1,601	896	247	446	638	826	1,011	1,192	1,371	1,551	1,733

Morro Bay Budget Forecast FY 2016-17 Update

City Council Study Session
February 28, 2017

Robert Leland, Senior Advisor
Management Partners



Background: Management Partners

20+
years

of service exclusively to local governments

Over
1,500
projects

successfully completed in 41 states

80
associates

including generalists and subject-matter experts

3
national
offices

in Costa Mesa and San Jose, CA
and Cincinnati, OH

Served
70%

of California cities with more than 100,000 people

Services:

- Operations Improvement
- Strategic Planning
- Service Sharing
- Financial Planning/Budgeting
- Organization Analysis
- Organization Development
- Performance Management
- Process Improvement
- Facilitation and Training
- Executive Recruitment
- Executive Coaching

Principal staff to bankruptcy teams in Stockton and San Bernardino

Project Purpose

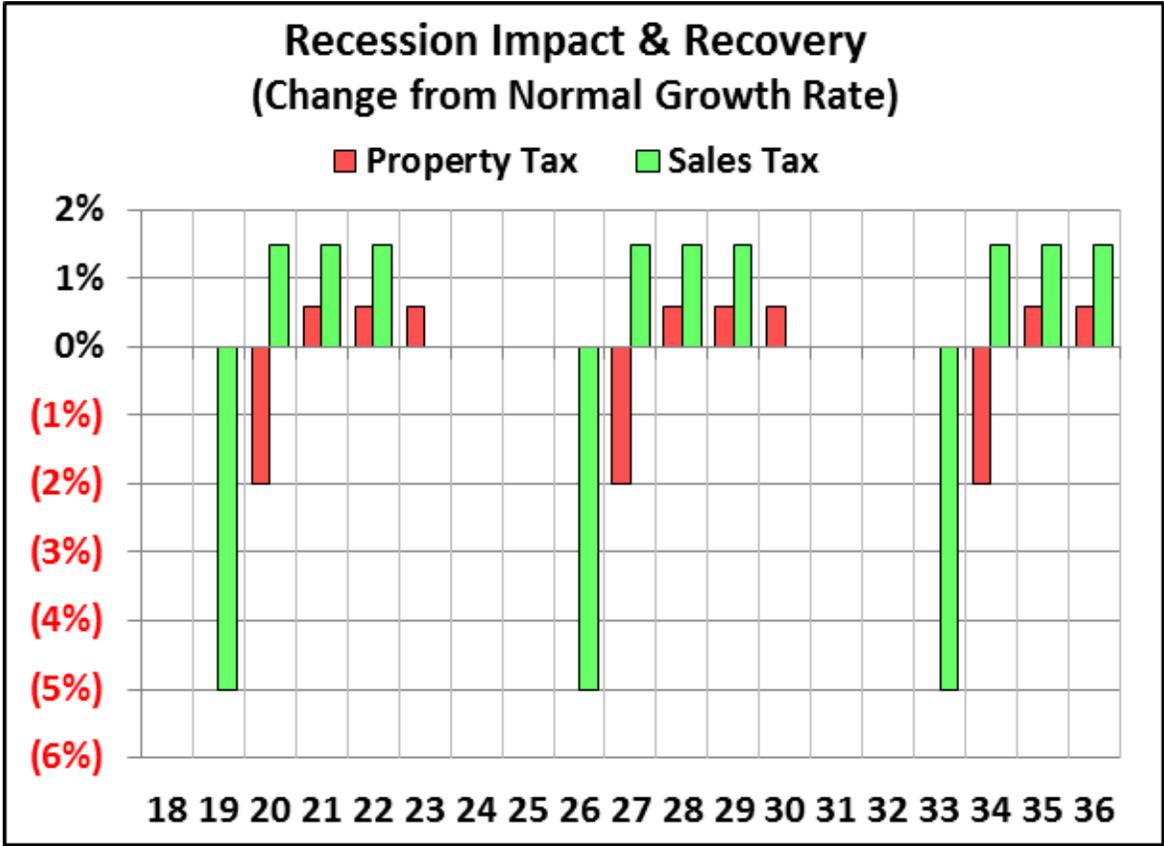
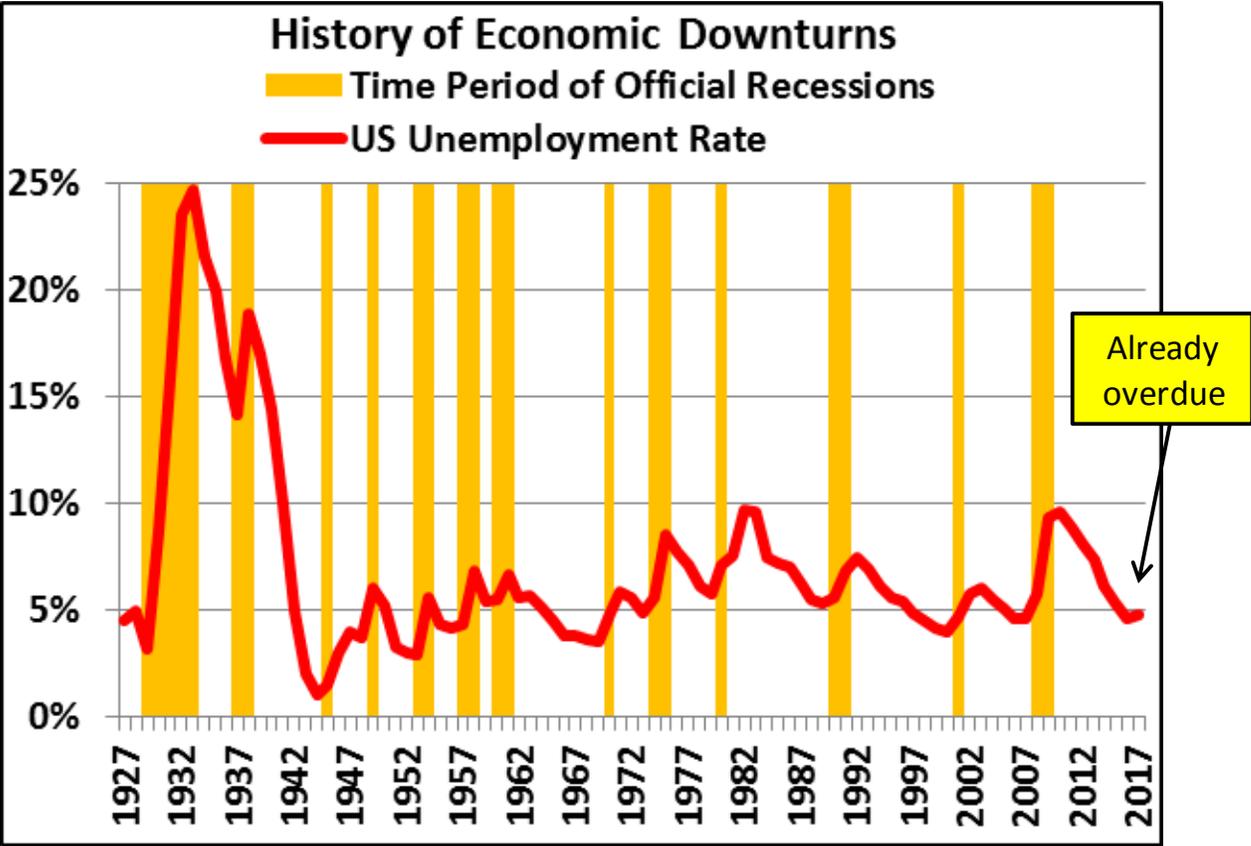
- Update last year's long-term budget forecast
 - Existing funds updated – focus on increased PERS costs
 - Third Annual Update
 - General Fund
 - Internal Service Funds
 - Capital Replacement Fund
 - Harbor Funds were added last year
 - Funds included in the forecast for the first time
 - Water
 - Sewer
 - Wastewater



General Fund Forecast

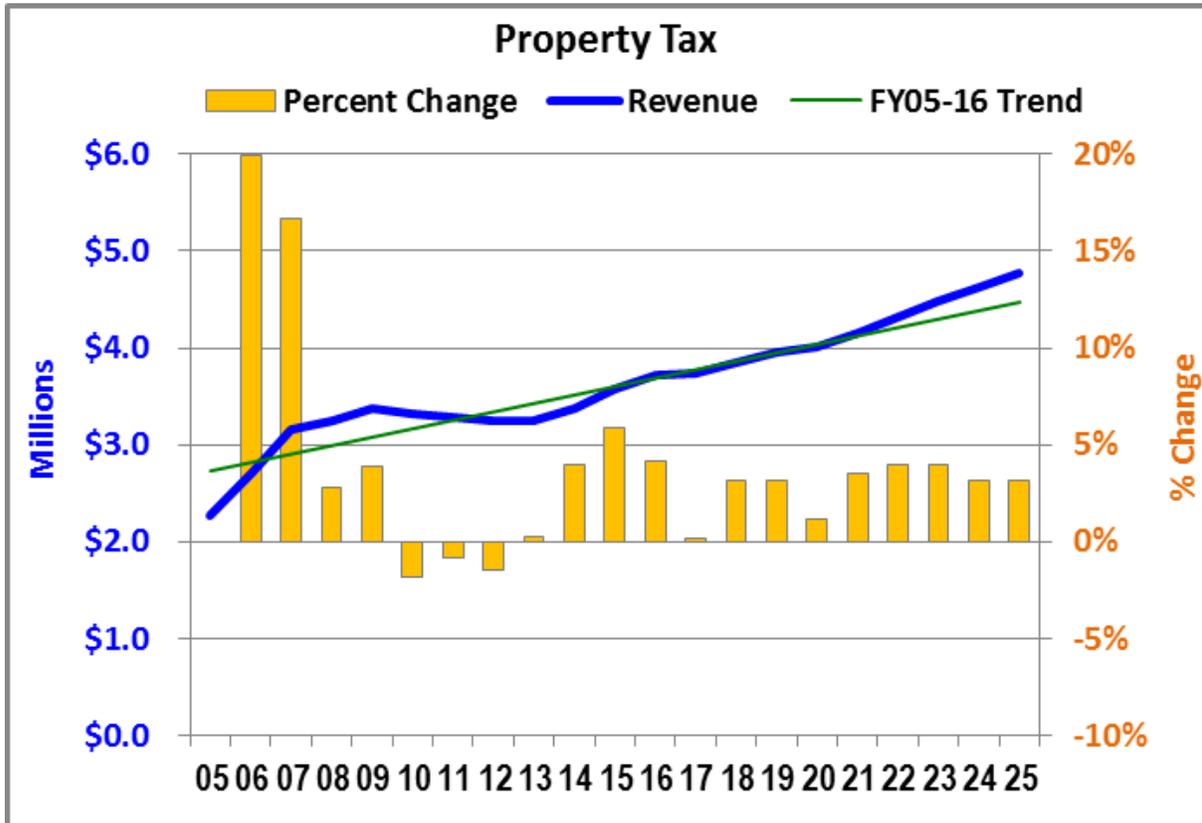


The Next Recession



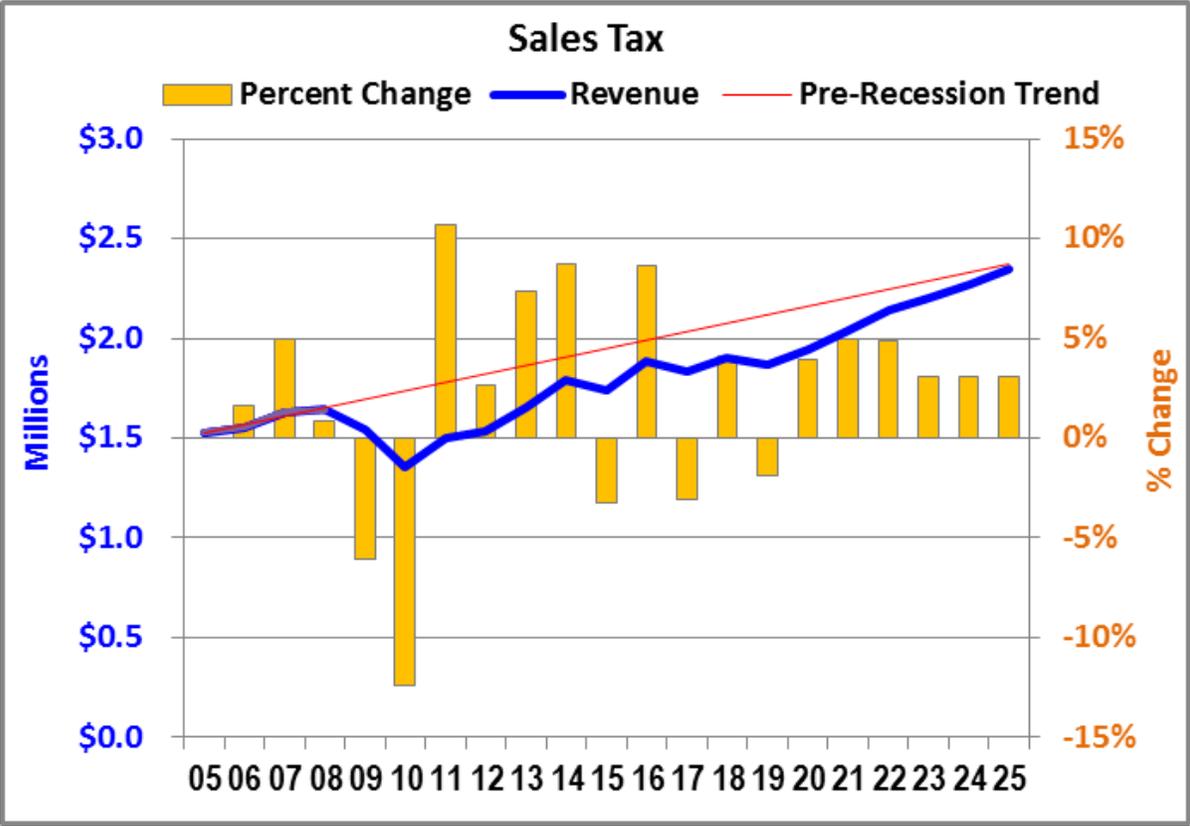
Recessions occur on average every 7 years; only question is timing and magnitude

Property Tax

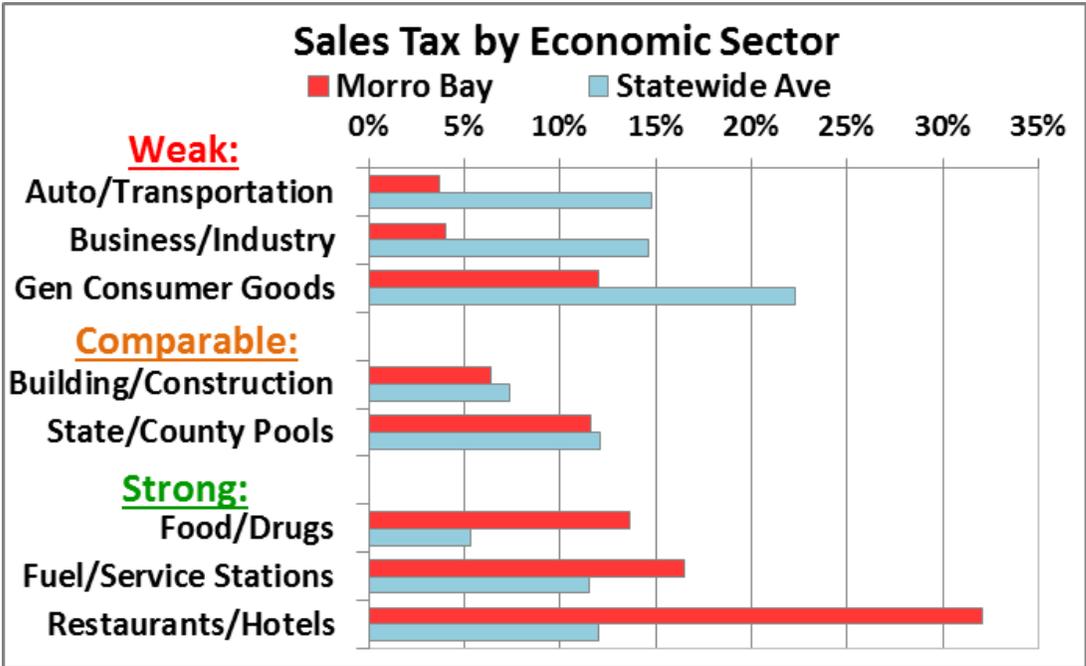


- **Growth:**
3.3% average (pre-recession)
- **Prop 13 Inflator:**
2% growth for 96% of existing property
- **Change in Ownership:**
30% growth for 4% of existing property
- **Prop 8 Value Recovery:**
Eligible recoveries have been made
- **New Construction:**
10 new housing units and \$1.5M non-residential value added per year
(Before any power plant renovation, new hotels or other potential economic development)

Sales Tax



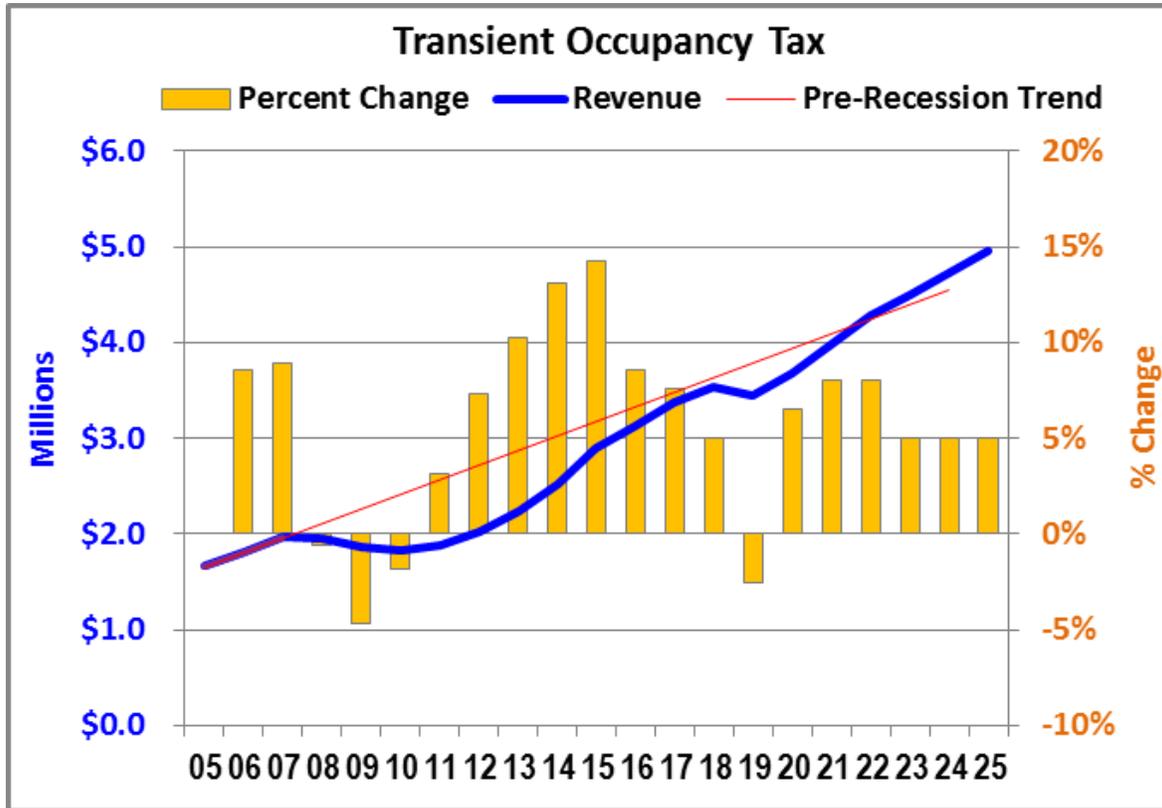
- Average annual growth of 3.3% (pre-recession)
- More affected by past recession than property tax
- HdL forecast through FY 2021-22



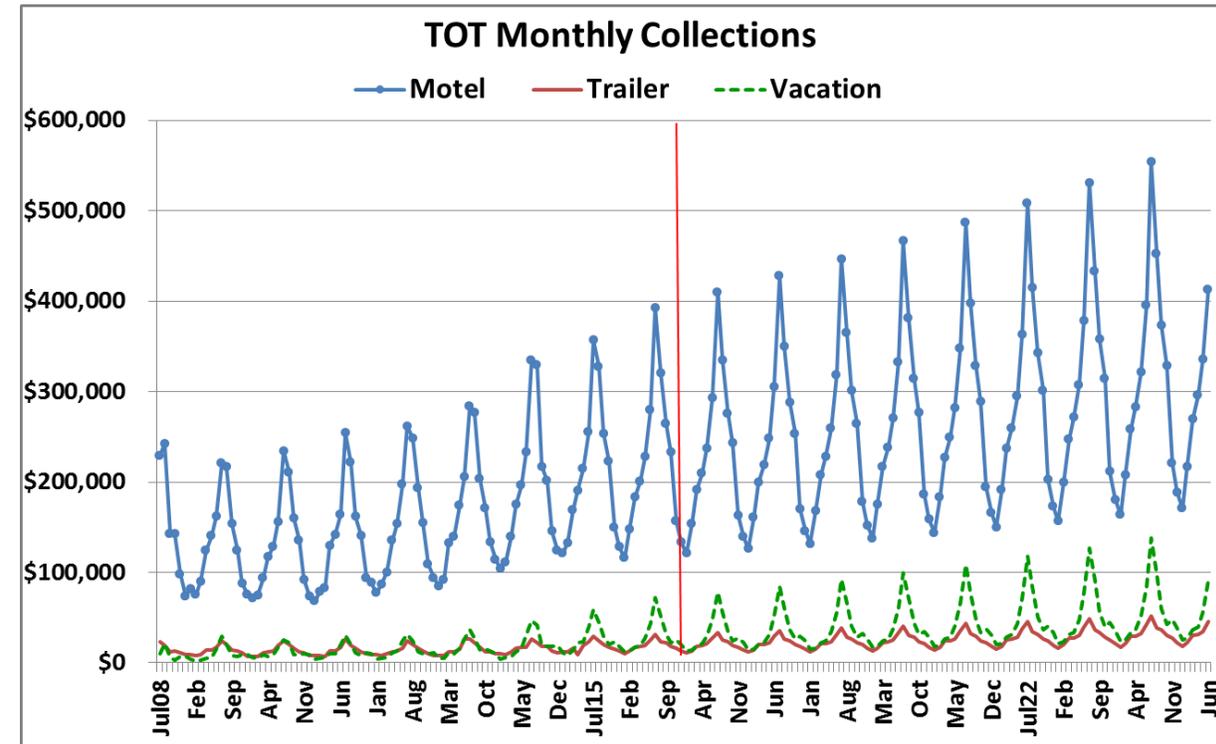
Allocation of sales tax by sector shows tourism impact



Transient Occupancy Tax



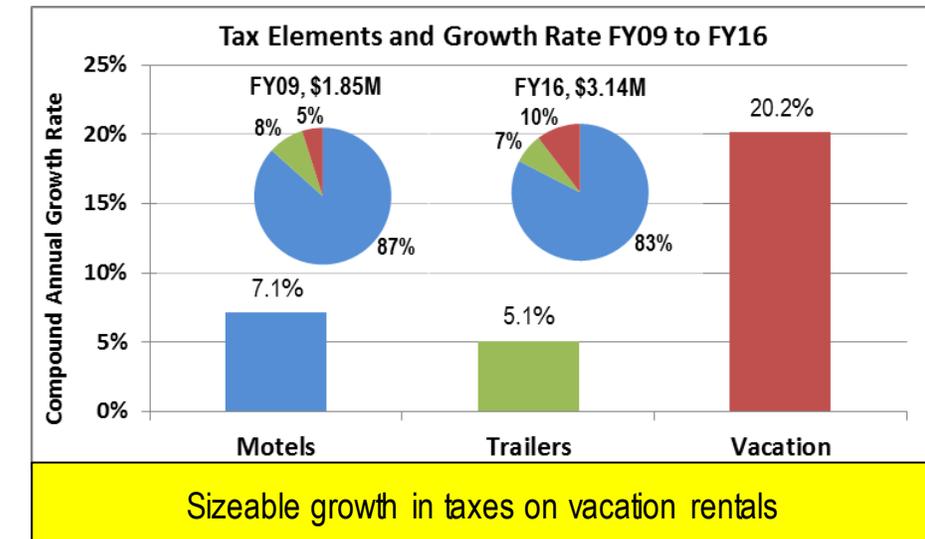
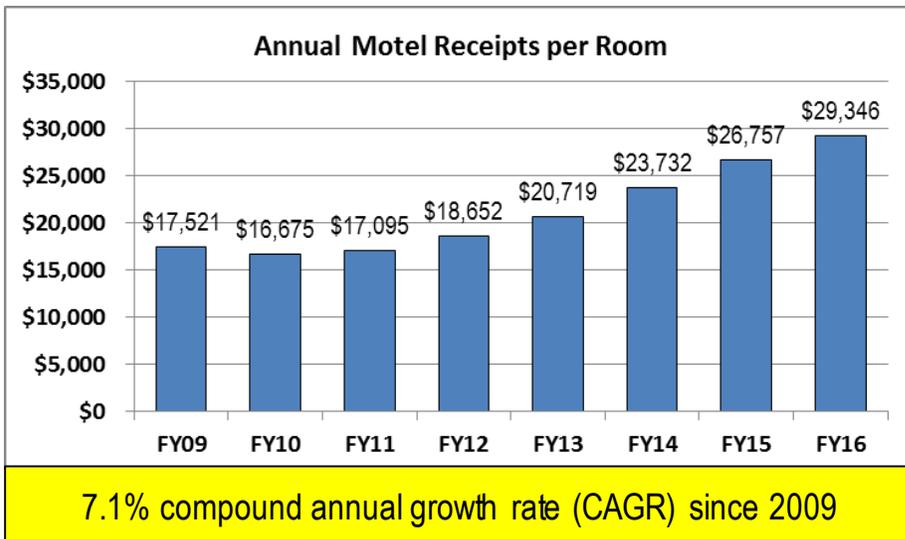
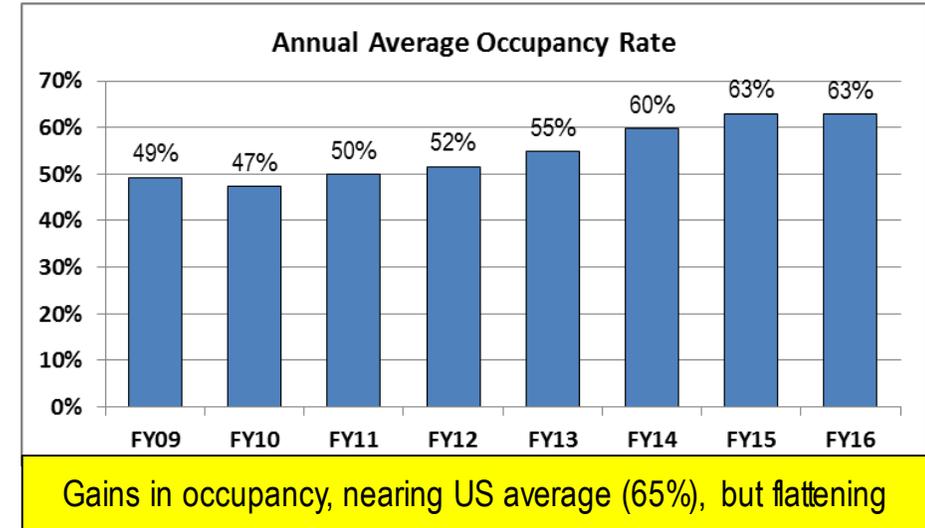
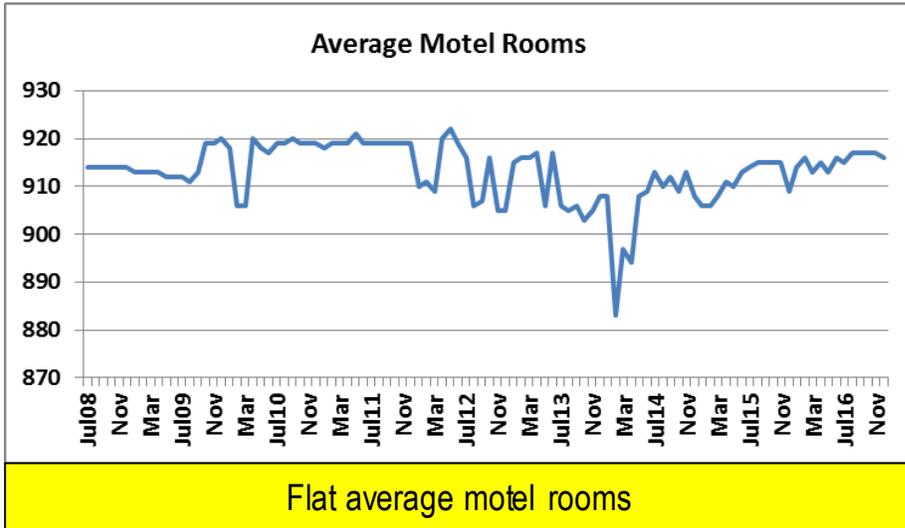
- Significant recession impact but strong recovery since 2010



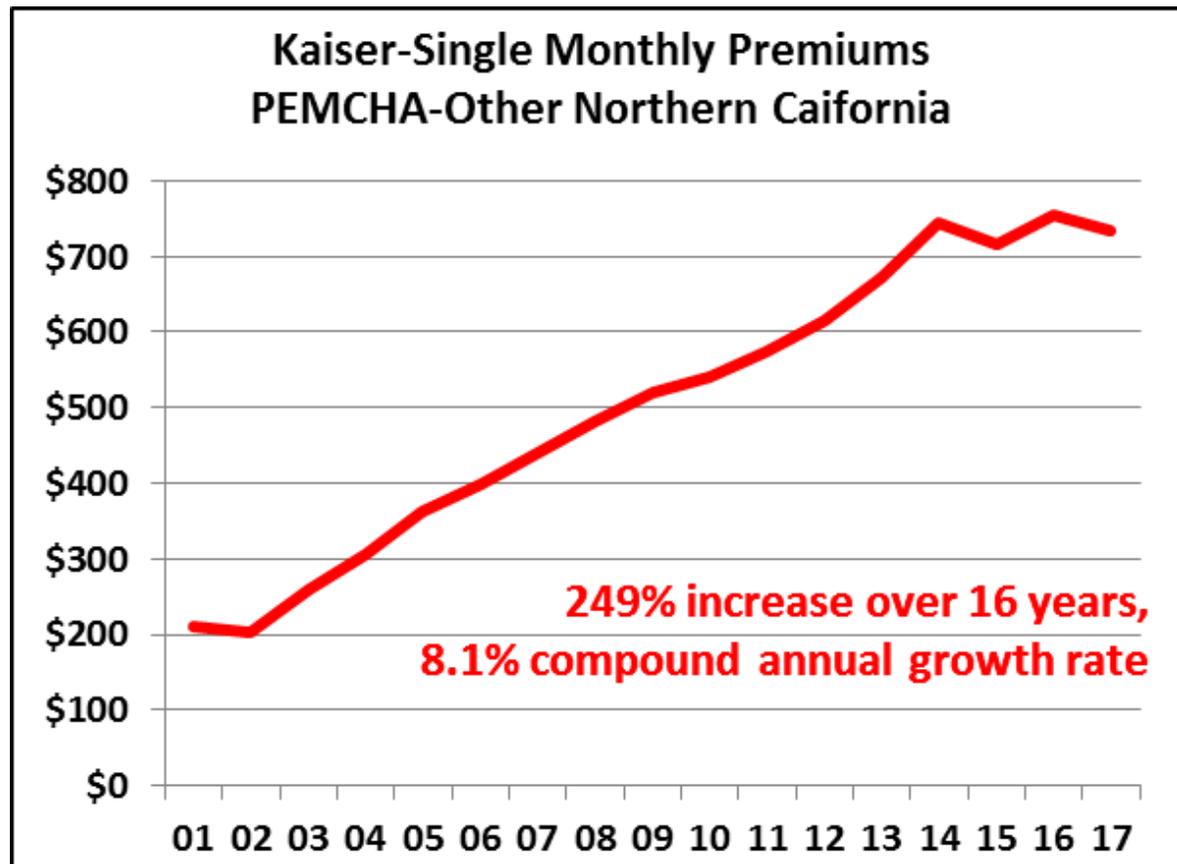
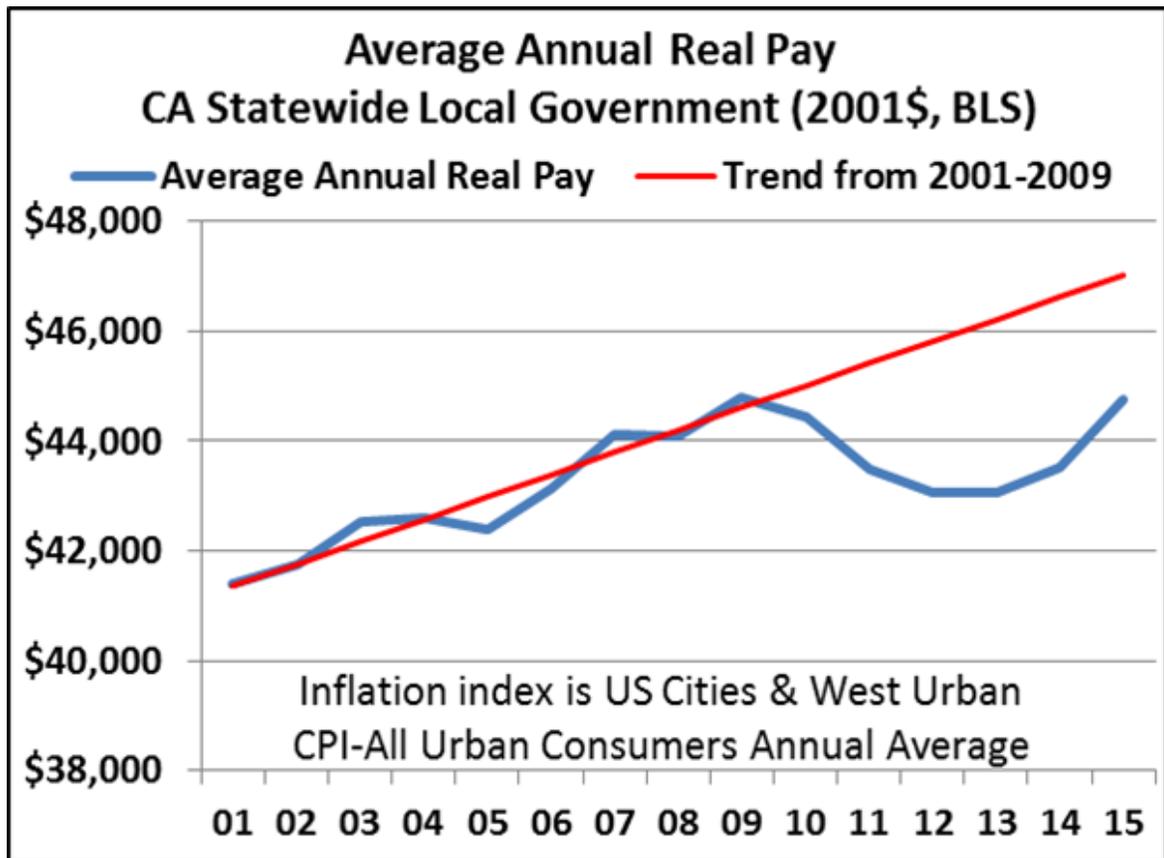
Timing of collections emphasizes tourist season impact



Strong TOT Growth in Recent Years



Cost Pressures



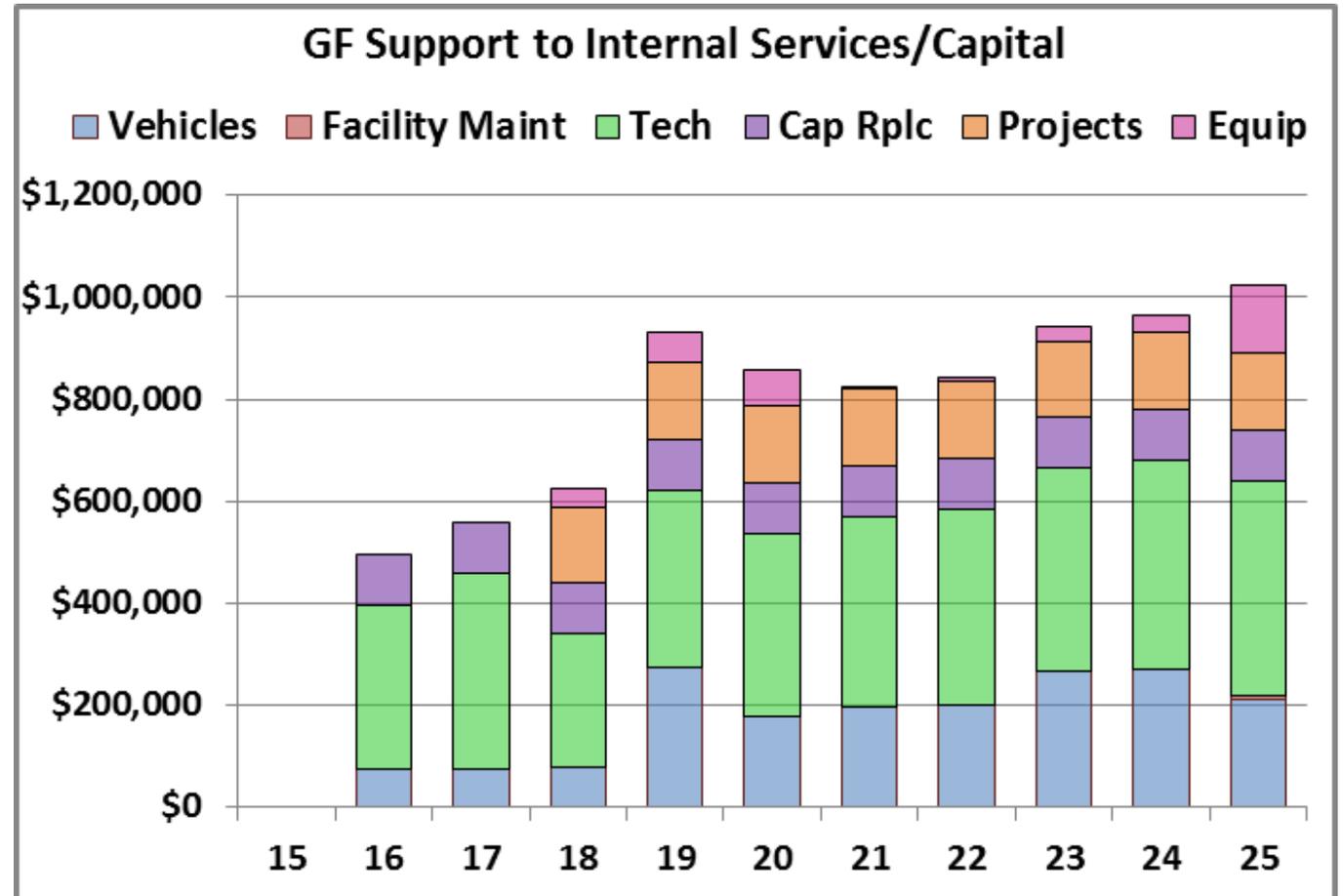
- Inflation remains low at 2%, but wage gap/PEPRA benefits create pressure for wage increases
- Health care had been rising rapidly before Affordable Care Act (ACA); unknown impact of federal law changes

Expenditure Assumptions

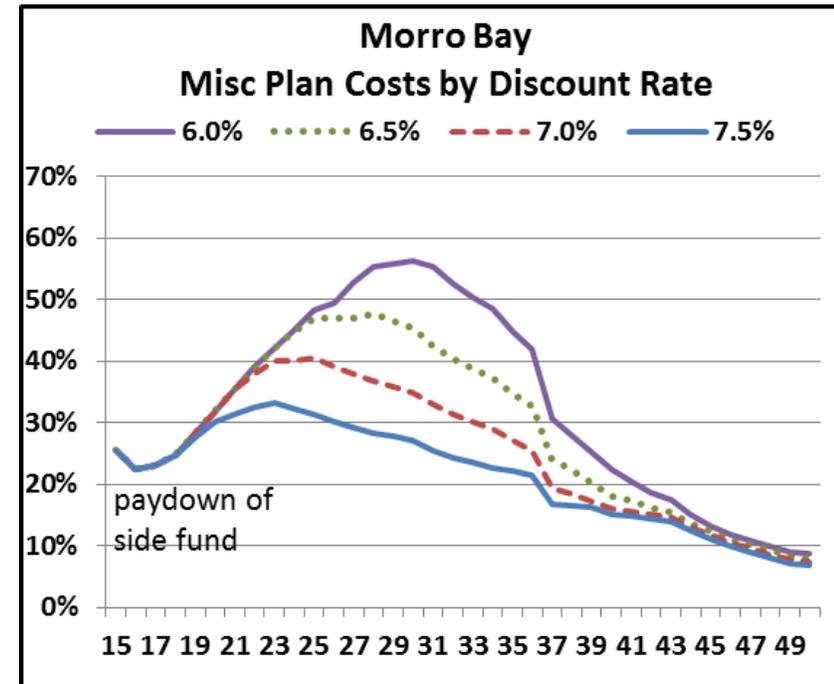
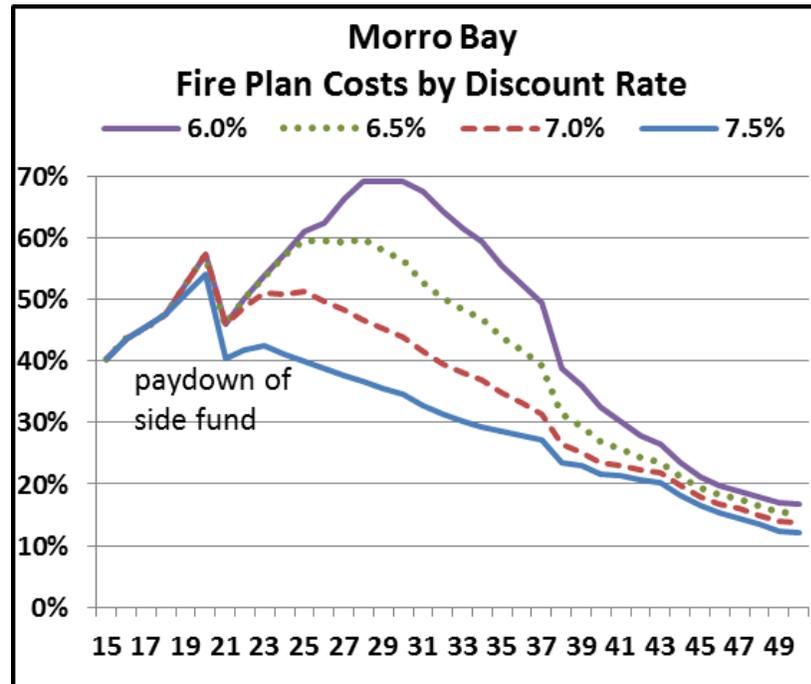
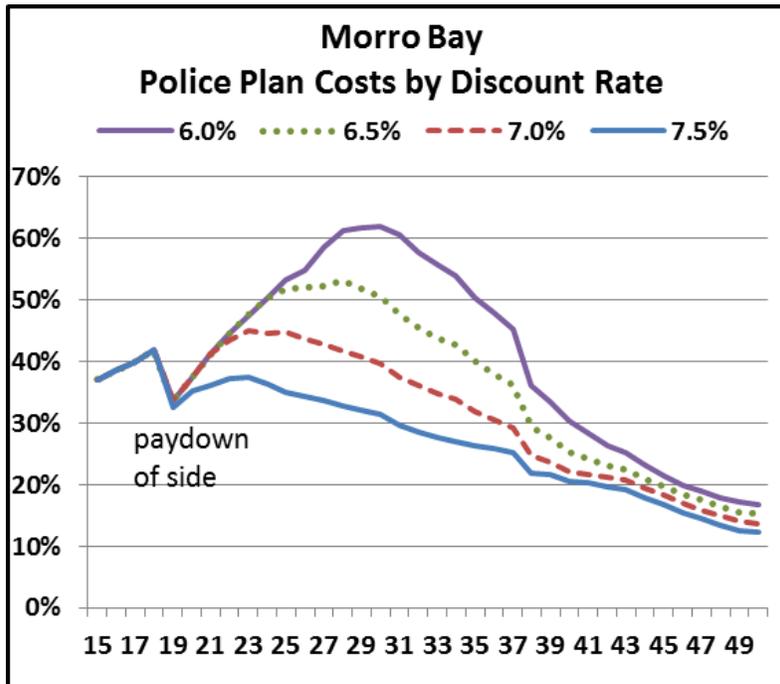
- Forecast base is FY 2016-17 budget with midyear adjustments
- Non-personnel costs and part-time:
 - Growth at CPI (2%)
- FY 2017-18 labor costs:
 - Current authorized positions and employees
 - No change in staffing levels over time
- Cost of Living Adjustments (COLAs):
 - 2% annual growth for all groups
 - Step increases
 - Turnover savings
 - 3% vacancy savings
- PERS costs estimated based on 2015 valuation reports (includes continued transition from Classic benefits to PEPRA over next 14 years):
 - PERS discount rate drops from 7.5% to 7.0% pursuant to recent CalPERS action (phased in FY 2019-26)
 - Assumes additional reduction to 6.5% based on statements by CalPERS officials (expected to be approved in February 2018, and projected to be phased-in over FY 2022-29)
- Tourism contribution: 20% of TOT exceeding \$3M (minimum of \$60K, maximum of \$300K)
- General Fund contributions to vehicles, fleet, technology and capital funds

General Fund Support of Other Funds

- **Vehicles:**
 - \$210K/year average
 - General Fund (GF) pays 100% of need
- **Technology:**
 - \$365K/year average
 - GF pays 97% of need
- **Fire Equipment:**
 - \$167K/year average
 - GF pays 25% of need (assuming 75% comes from grants/donations)
- **Facility Maintenance:**
 - \$100K/year
 - 100% paid by rental income, GF pays 0%
- **Capital Replacement:**
 - \$100K/year
 - GF pays 100%; projects TBD
- **Projects Accumulation:**
 - \$150K/year
 - GF pays 100%; projects TBD

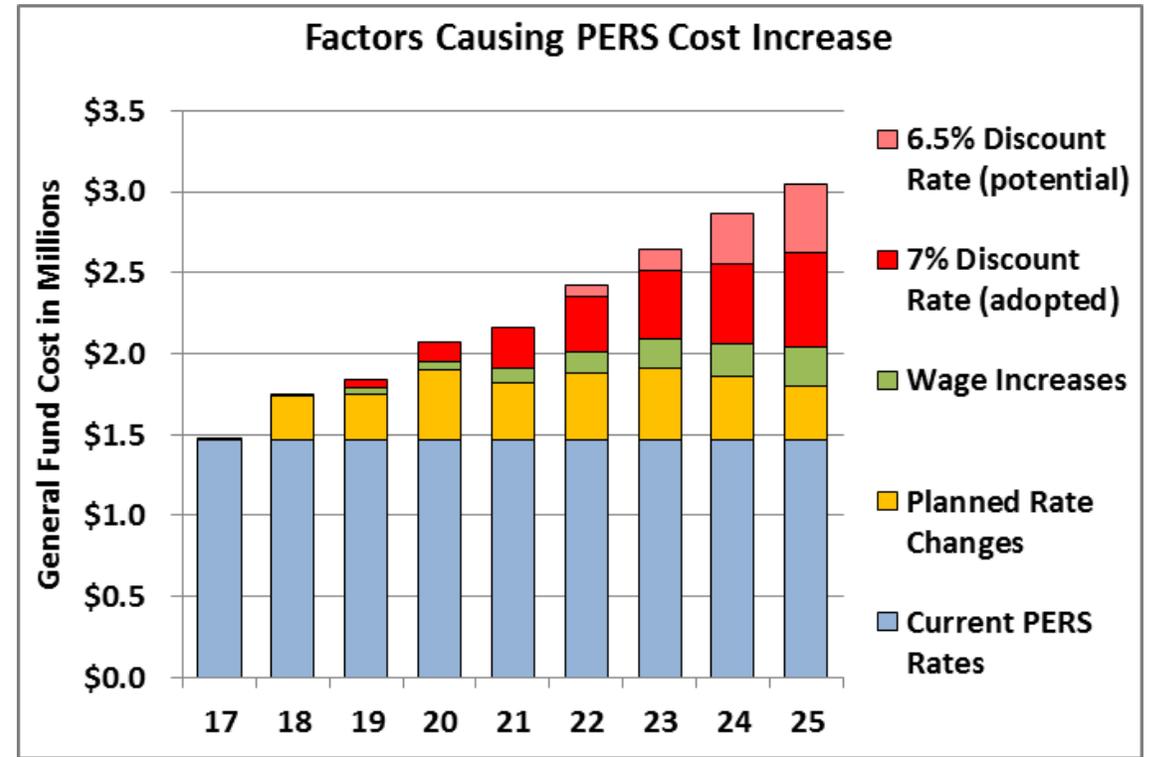
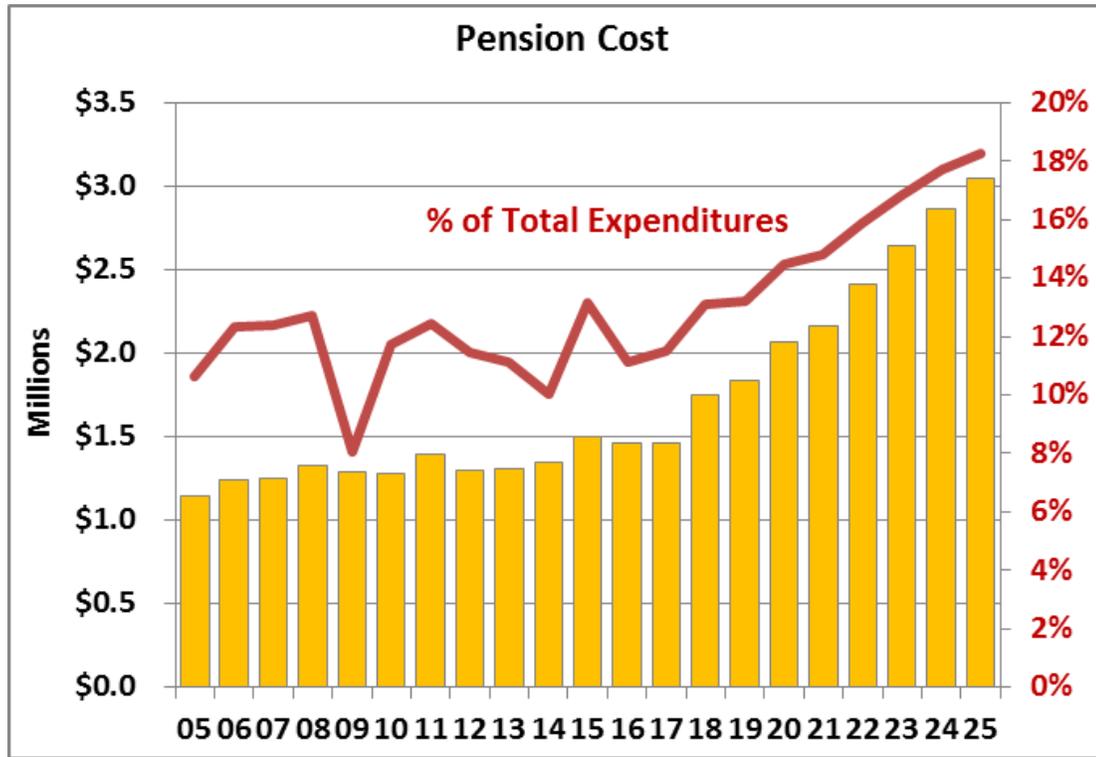


Pension Rates With Discount Rate Reduction Impacts



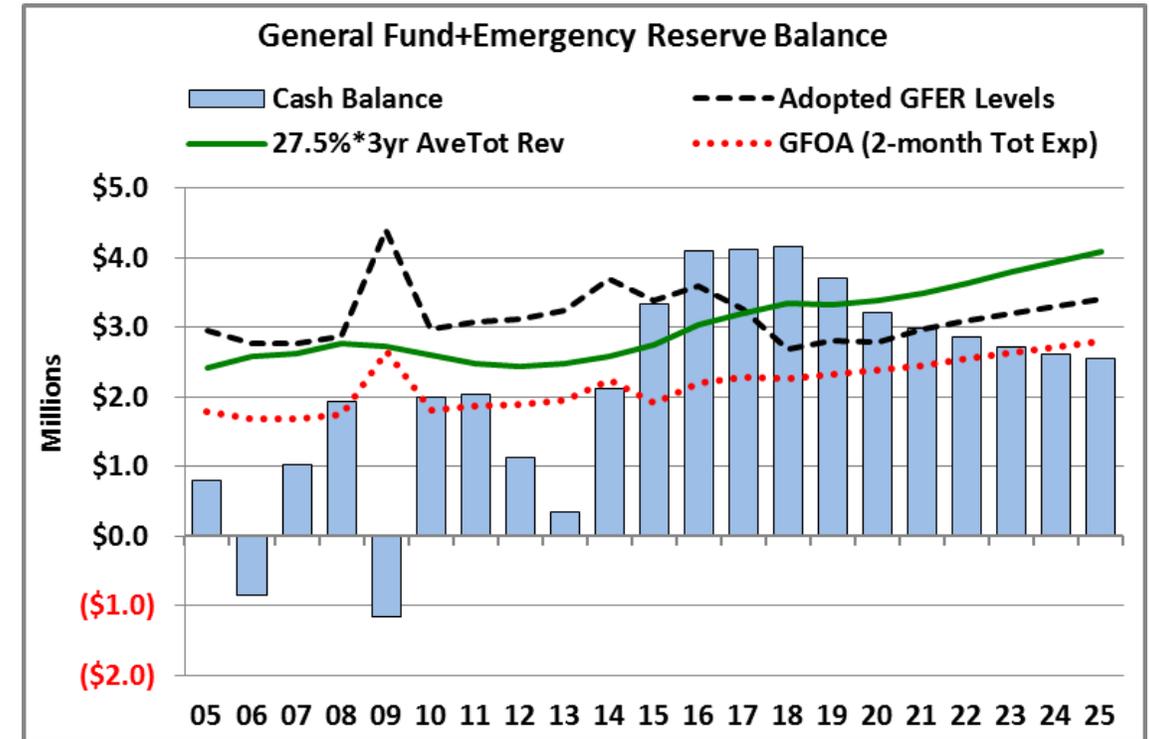
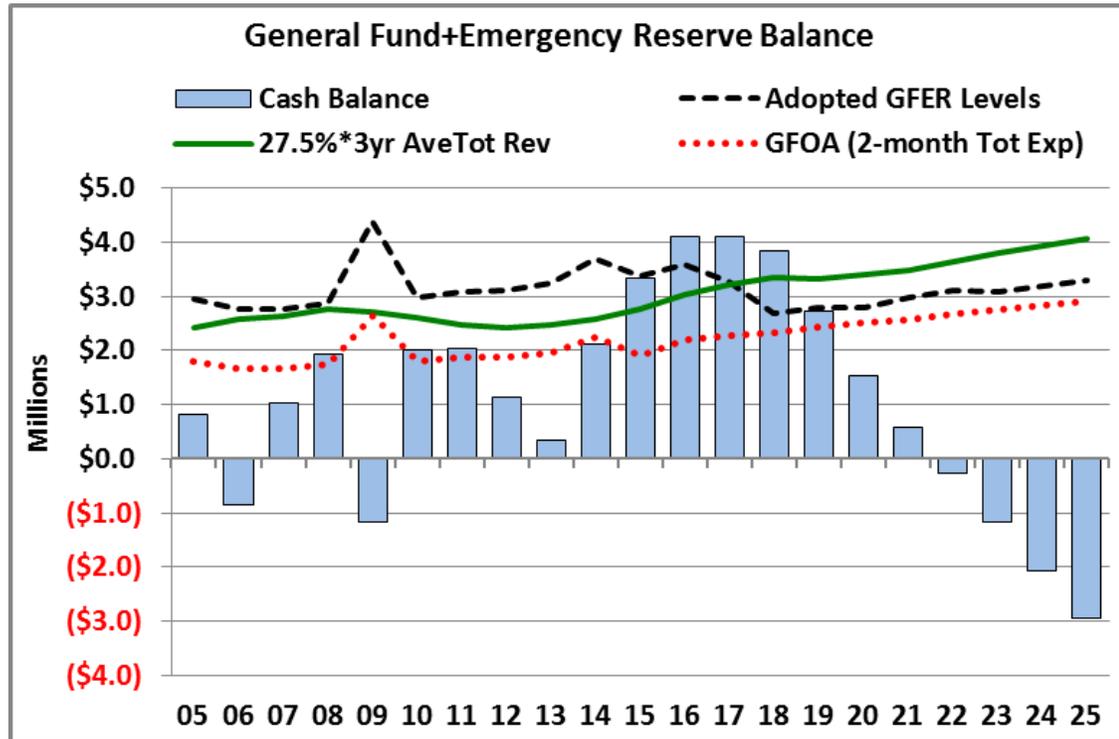
- How low will discount rates go? CalPERS officials are signaling intention to move to at least 6.5% when rate next considered in February 2018
- Payoff of Police and Fire side funds helps offset some impact of discount rate change

Pension Burden on General Fund



Pension cost increases are absorbing City's capacity to pay for future services

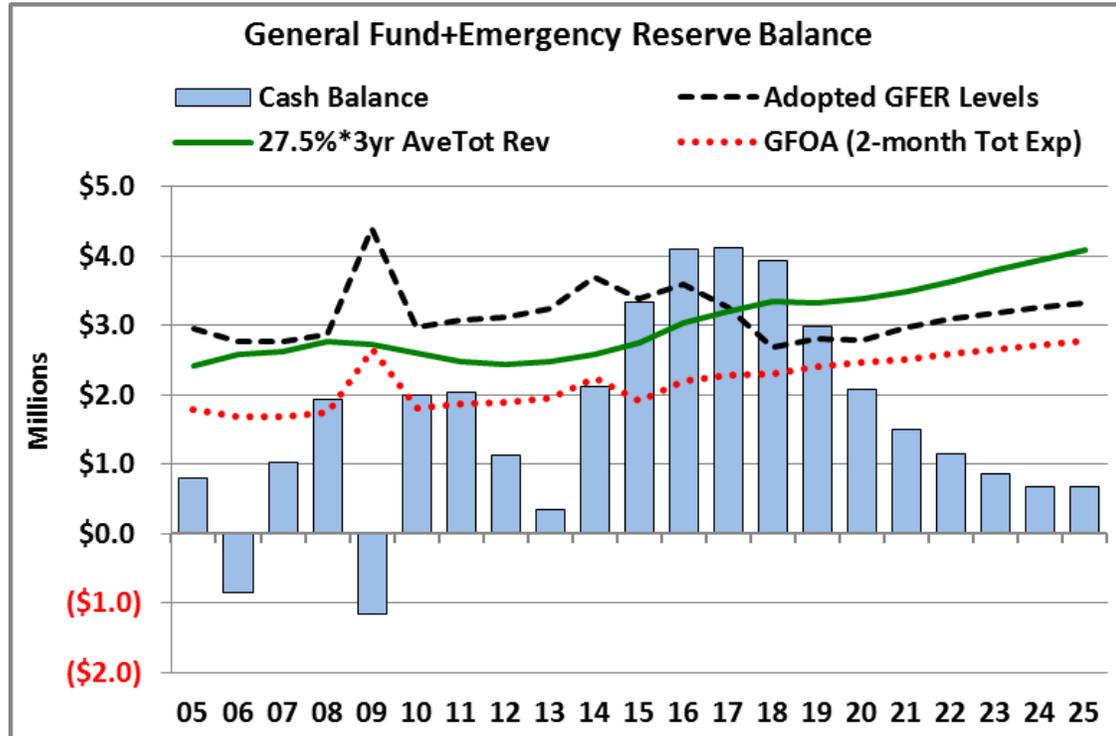
Net Impact on Balance (Before Economic Development Efforts)



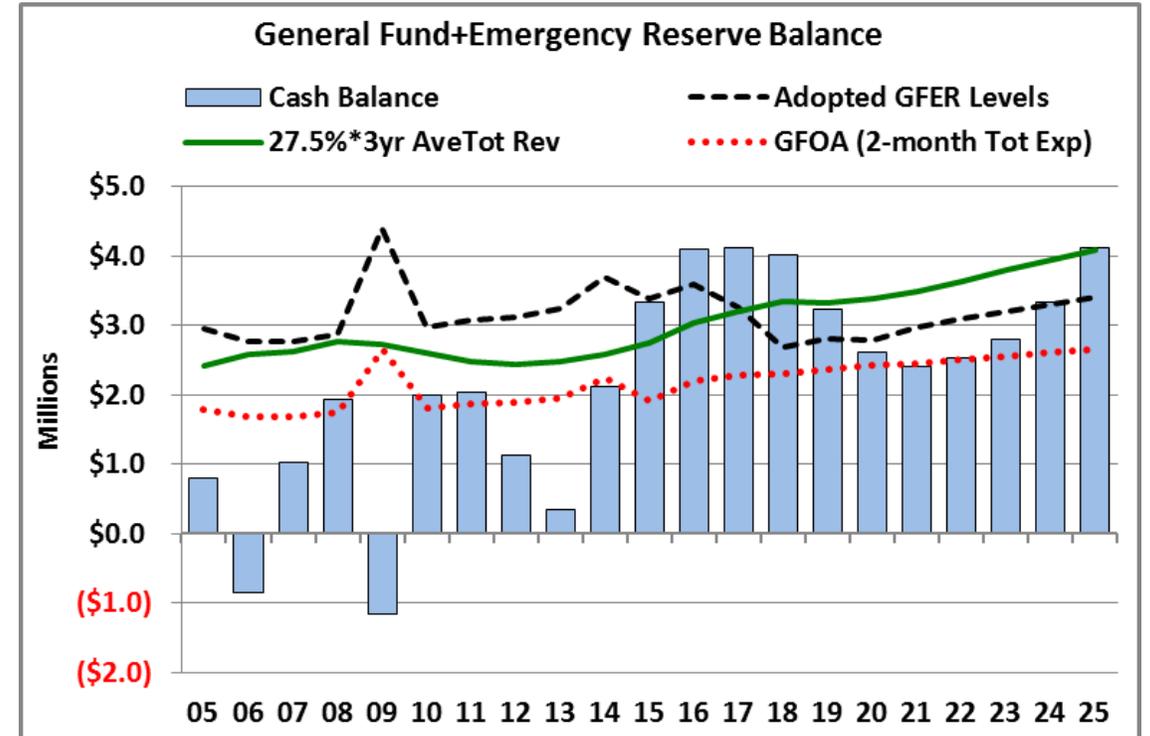
- **Without Corrective Actions:** accelerating decline in balance with deficit starting in FY 2022-23
- PERS costs continue to rise through FY 2028-29

- **Corrective Actions (starting in FY 2017-18):** \$650K in spending reductions (-4.5%) or added revenue phased in over two years
- City must still plan for higher pension contributions due to further reduction in PERS discount rate

Alternate Labor Growth Rates



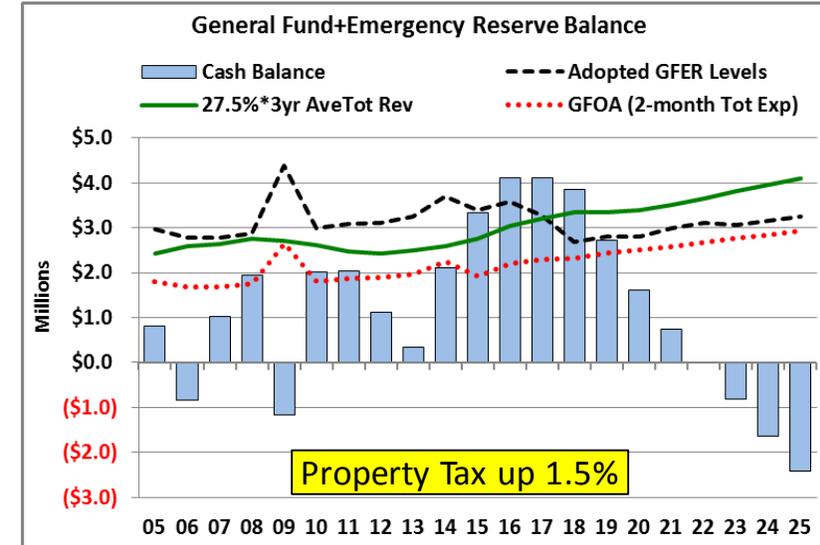
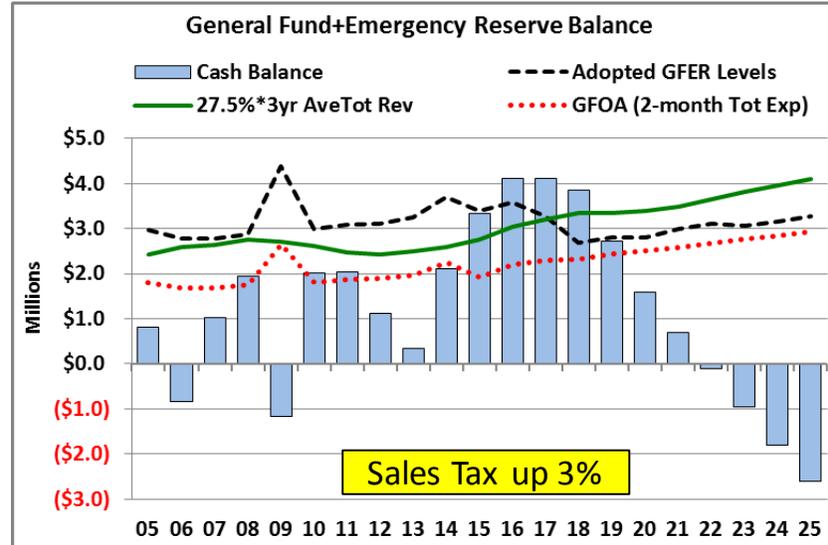
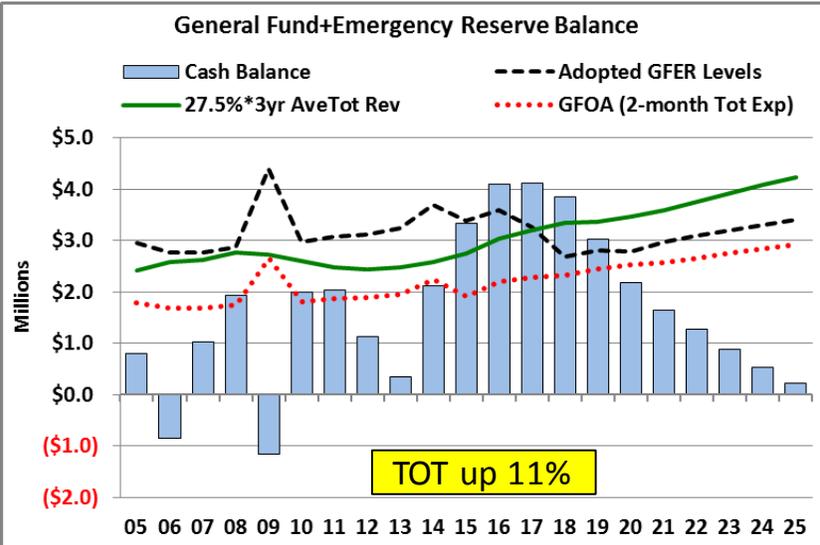
- 1% annual wage increase
- No budget correction actions, and before economic development efforts



- 0% annual wage increase
- No budget correction actions, and before economic development efforts

Examples of Potential Economic Development

(Assuming 2% Annual Wage Growth Scenario)



- 50 new hotel rooms
 - \$300 per night average
 - 75% occupancy rate
 - 10% substitution effect,
- Open July 1, 2019
- City receives 100% of net \$388,000 in new TOT revenue at 10% rate

- \$50,000 in net annual tax revenue from new sales tax generator
- Open July 1, 2019
- City receives 100% of the new sales tax revenue from 1% uniform rate (plus \$25,000* from Measure Q's 0.5% rate)

- \$50,000,000 in new assessed value
- On January 1, 2019 assessment roll for FY 2019-20
- City receives 11.8% of the \$500,000 in new tax revenue under Prop 13's 1% uniform rate, or \$59,000

*may vary depending on nature of business given differences in local transactions and use tax base

Forecasts for Other Funds

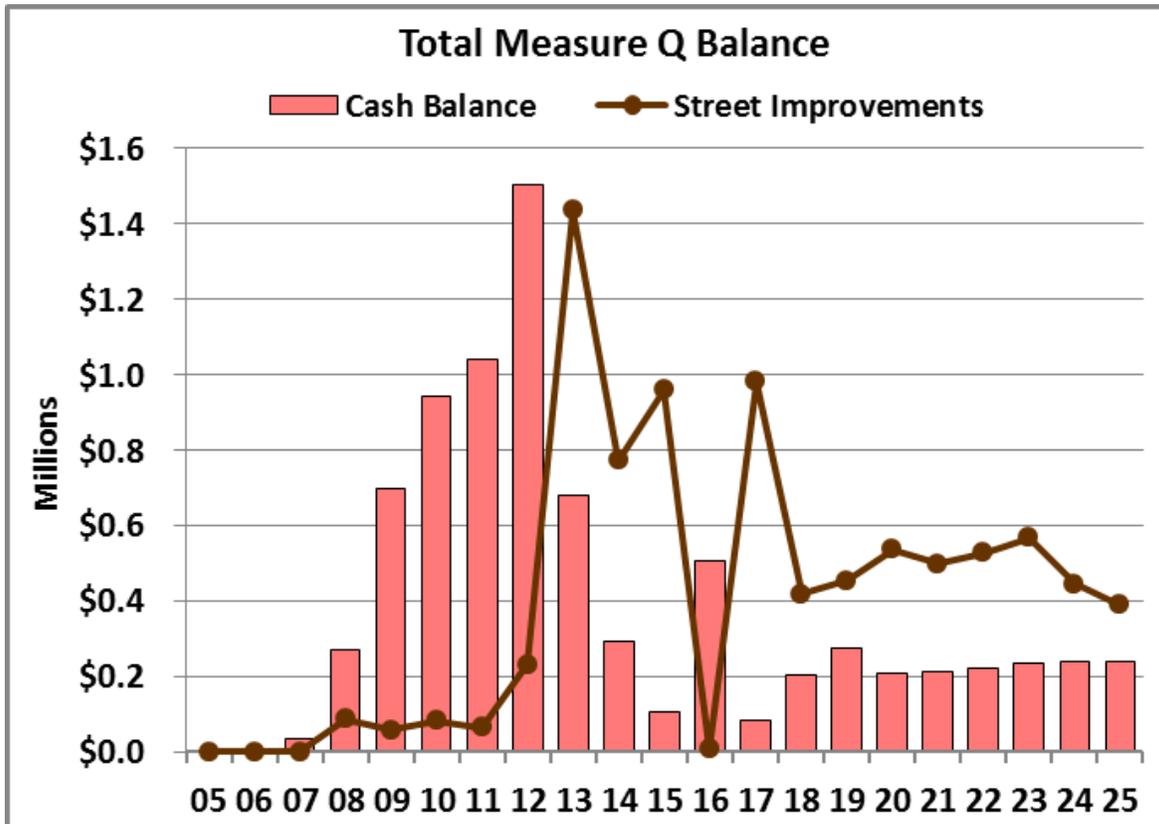
Measure Q Sales Tax

Harbor Funds

Utility Funds

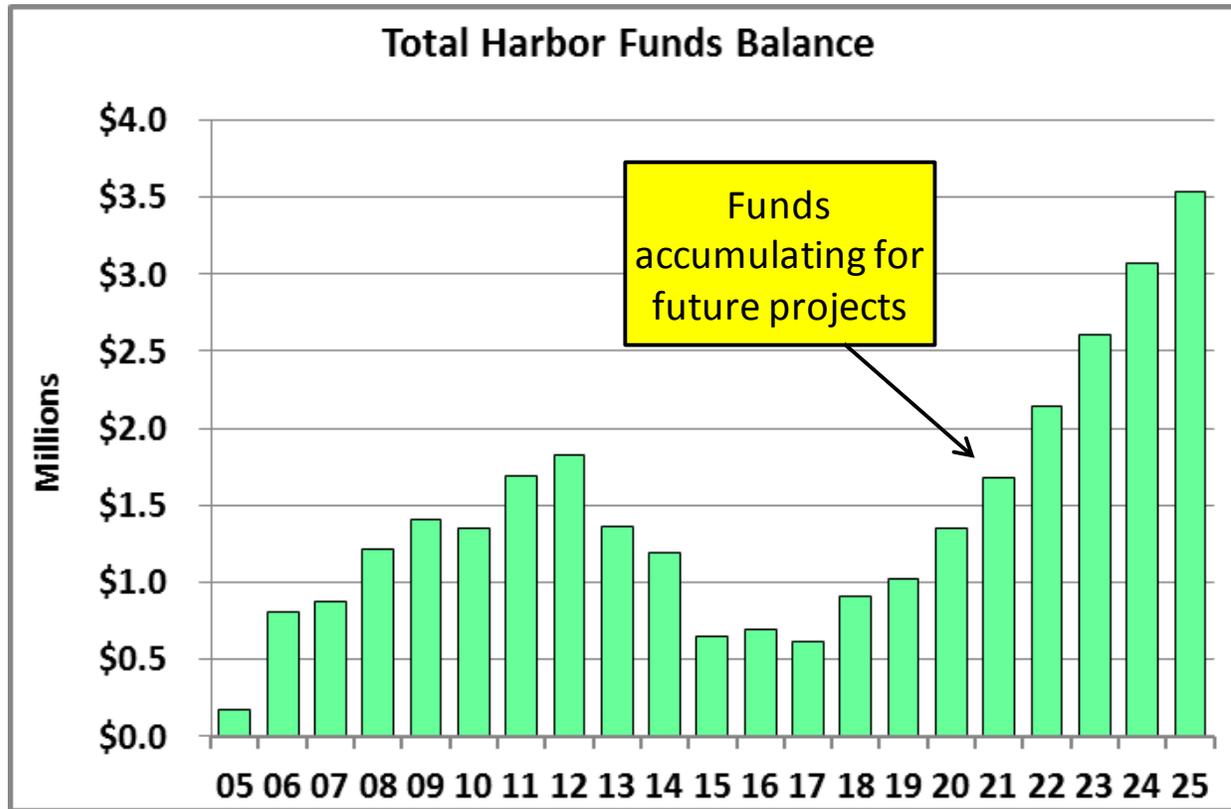
Internal Service Funds

Measure Q Sales Tax



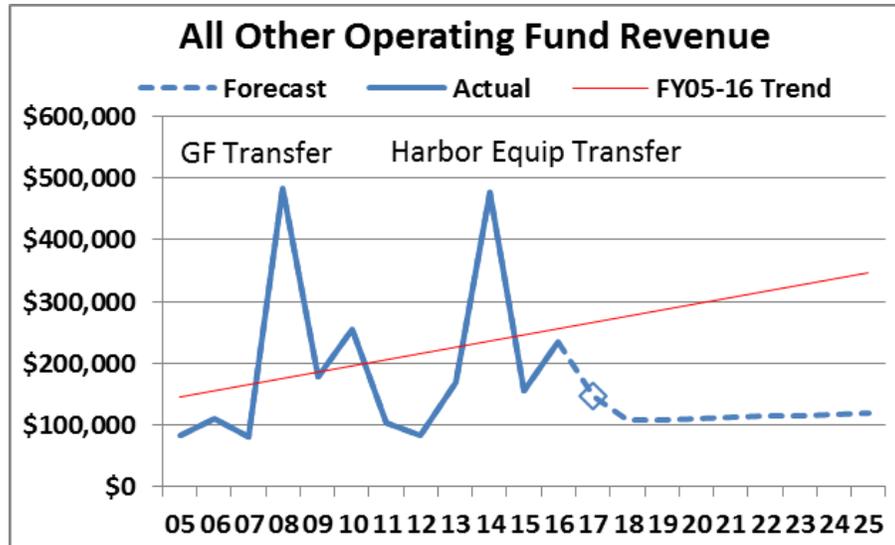
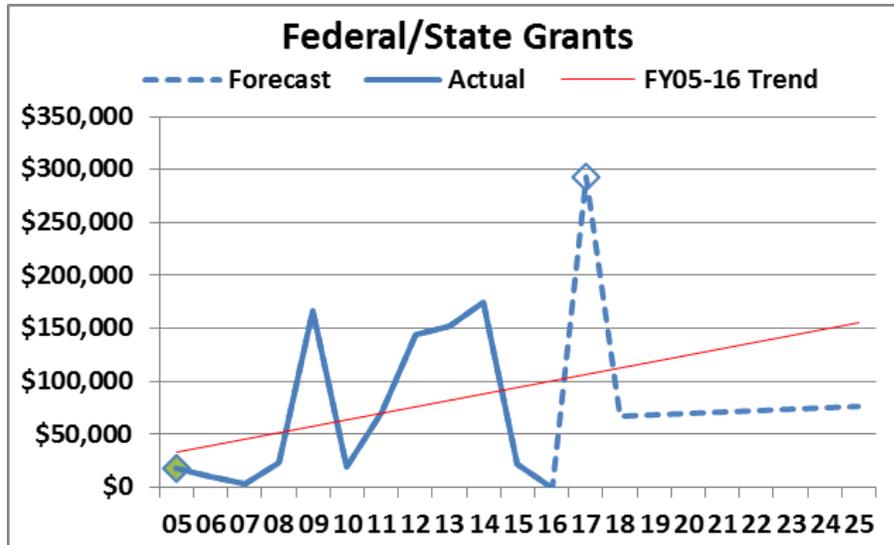
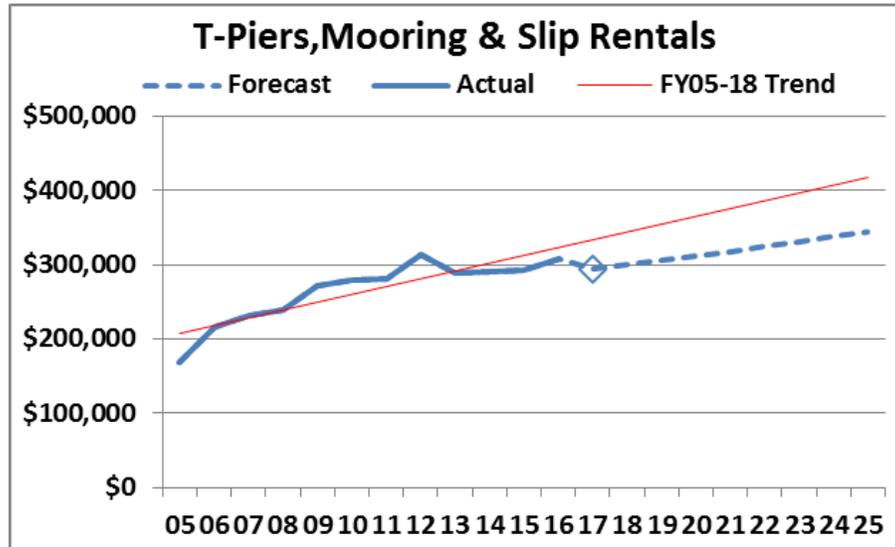
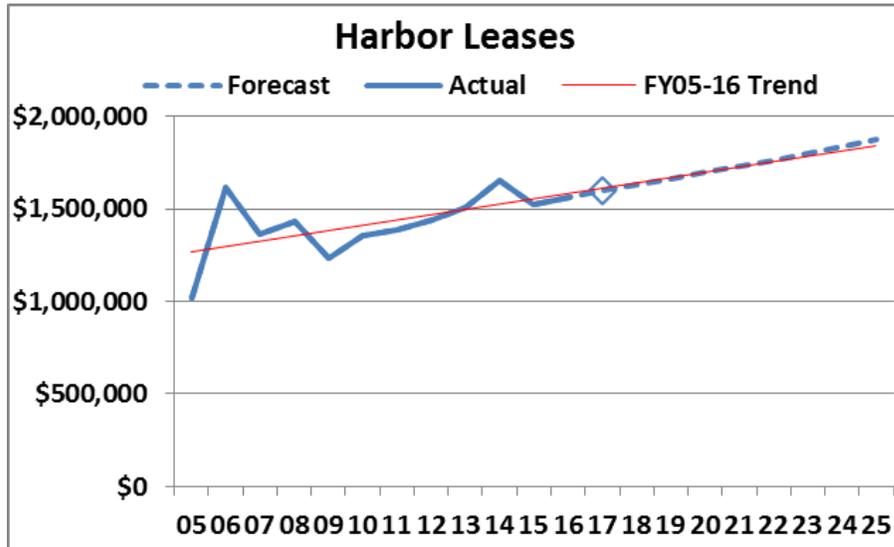
- Sales tax based on HdL forecast
- Continuation of current commitments
 - Staffing levels
 - Fire overtime
 - Debt service
- Includes fire vehicle replacement through future leases
- Street costs stabilize at \$400 to 600K/year
- Fund maintains 20% reserve
- Uncertainties
 - Street and fire equipment needs (costs may be greater)
 - Potential for increase in street funding from state or federal governments

Harbor Funds



- Budgeted capital projects spread over next three years to ensure adequate balances
 - No subsidy required from General Fund
 - State Park Marina continues to accrue funds for future repairs
- Current staffing levels maintained
- Other operations and maintenance costs built on FY 2016-17 budget, growing at CPI
- Uncertainties:
 - Harbor Commission input on capital projects
 - Longer-term capital needs have yet to be determined

Harbor Revenues



- Harbor leases are largest source (72% average last 10 years), with stable growth
- Grants (4%) are volatile, therefore can't be counted upon
- T-Piers/Rentals (14%) are relatively stable overall, but slower growth rate recently than in past years
- All Other (10%) are relatively flat (except transfers)

Harbor Projects

5-YEAR CIP FROM FY 2015-16 ADOPTED BUDGET

<u>Project</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020+</u>	<u>Totals</u>	<u>Replace in</u>
Maint Bldg/Oil Yard	2,000	2,000	2,000	2,000	42,000	50,000	2040
Harbor Office	10,000	490,000	500,000	500,000	1,000,000	2,500,000	
North T-Pier HP Slips	35,000	35,000	35,000	35,000	210,000	350,000	2025
Beach Street Slips-North	340,000	-	-	-	-	340,000	
Beach Street Slips-South	225,000	-	-	-	-	225,000	
Dune St Slips	45,000	45,000	45,000	45,000	270,000	450,000	2025
Harbor End Dock/Pier (Galley Rest)	-	4,375	4,375	-	-	8,750	
MBB St End Dock (Marina Sq)	-	4,275	8,750	-	-	13,025	
Mariner Park Dock/Pier (Estero)	-	2,500	2,500	-	-	5,000	
Tidelands Park Side Tie Dock	15,000	15,000	15,000	15,000	120,000	180,000	2027
Launch Ramp Slips North	42,000	42,000	42,000	42,000	252,000	420,000	2025
Launch Ramp Slips South	22,000	22,000	22,000	22,000	132,000	220,000	2025
Totals	736,000	662,150	676,625	661,000	2,026,000	4,761,775	

- Plan for eventual replacement of major facilities shown in latest adopted CIP
- Selected projects are based on current budget

FY 2016-17 ADOPTED BUDGET

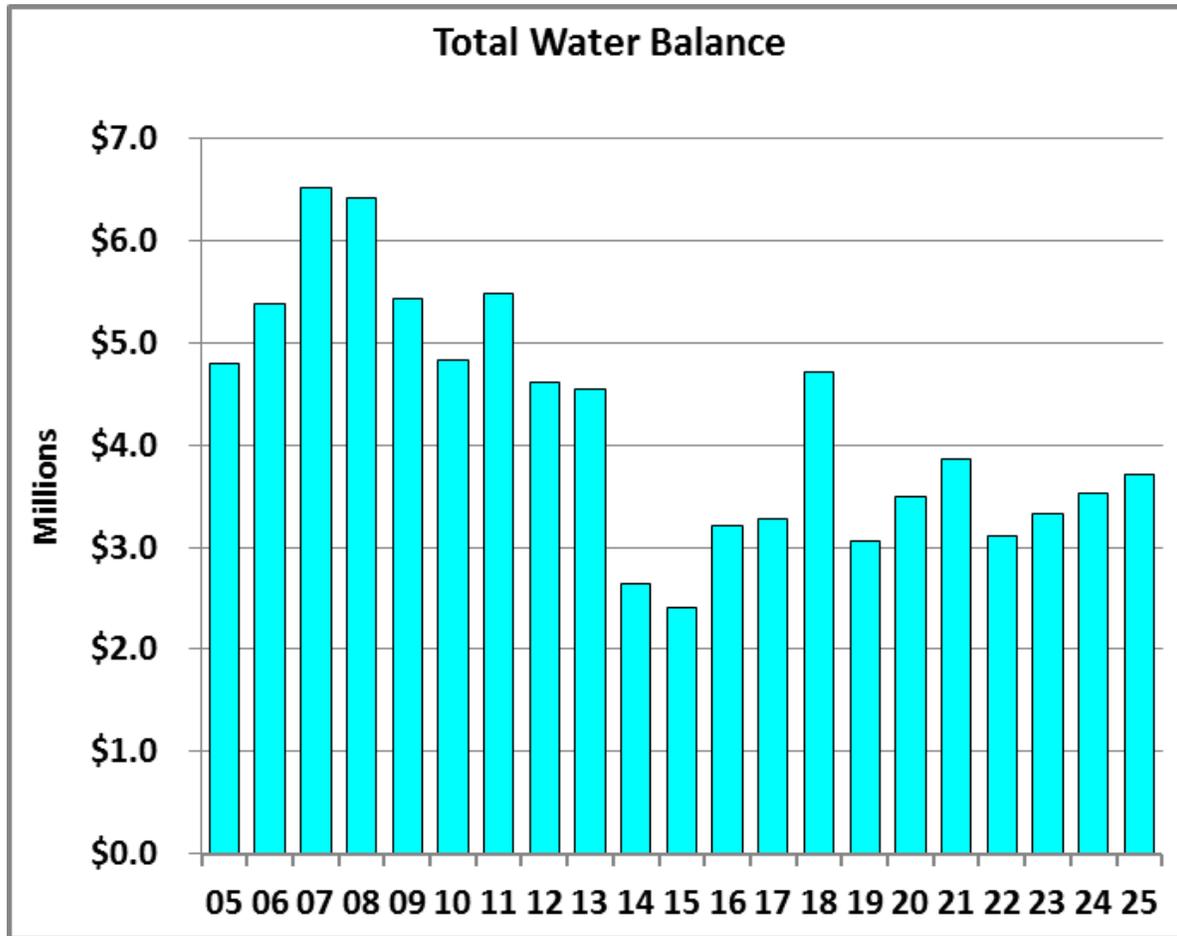
<u>Project</u>	<u>FY 2017</u>	<u>Source</u>
Beach Street Slips-North	340,000	Harbor Accum
Beach Street Slips-South	225,000	Harbor Accum
Boat-Repair/Storage Yard	55,576	Harbor Accum
Fish Cleaning Station	25,000	Harbor Accum
Ice Machine	60,000	Grant
South T-Pier Structural Assessment	20,000	Harbor Accum
Totals	725,576	

FEB-2017 FORECAST

<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>Totals</u>
-	340,000	-	340,000
-	-	225,000	225,000
55,576	-	-	55,576
25,000	-	-	25,000
60,000	-	-	60,000
20,000	-	-	20,000
160,576	340,000	225,000	725,576

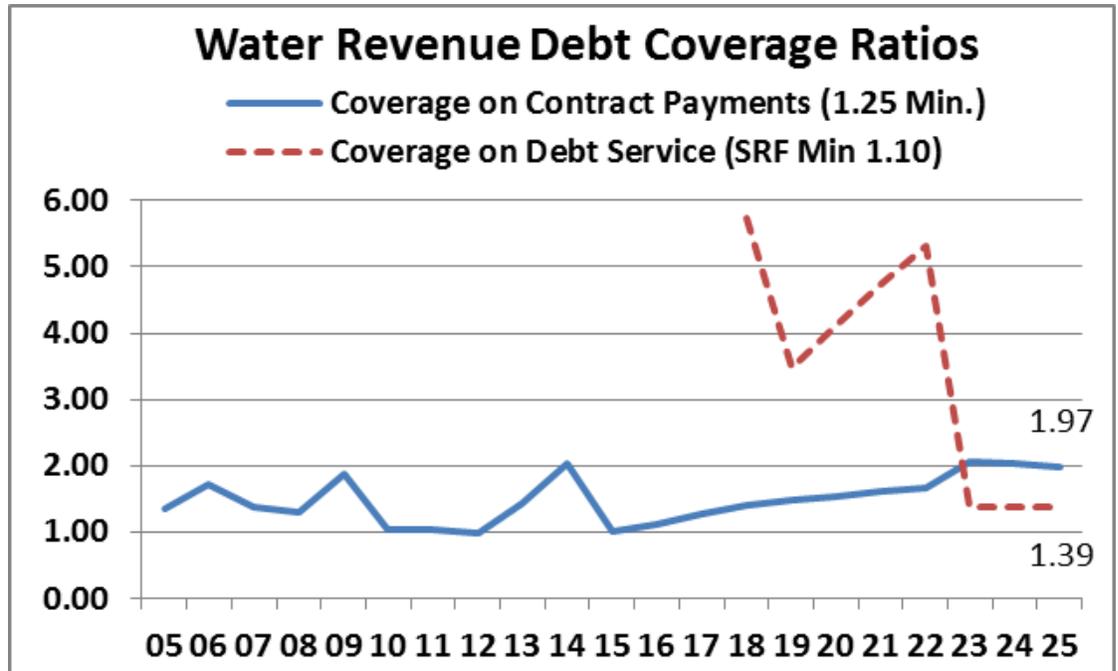
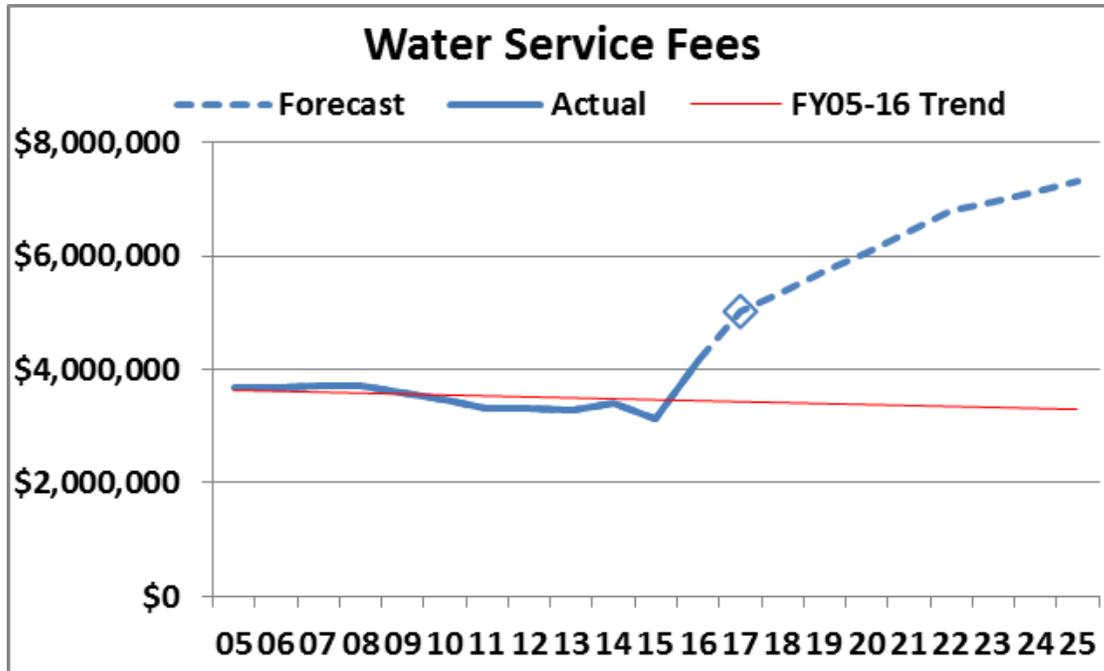
- Forecast spreads projects over 3 years to maintain adequate cash flow and reserve

Water Utility



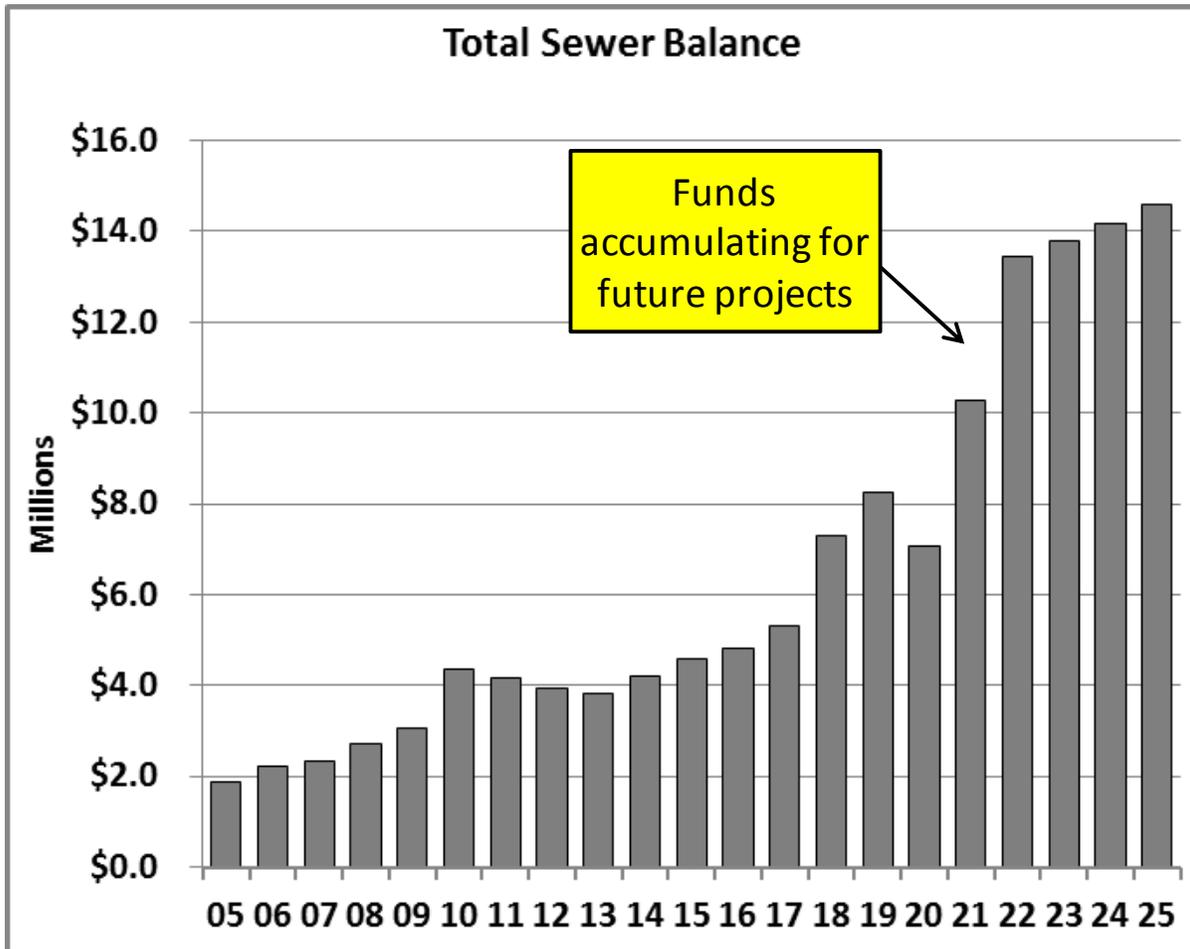
- Results in sync with 2015 Bartle Wells (BW) report
- Water user fee estimates per BW
- Current staffing levels maintained
- Other operations and maintenance costs build on FY 2016-17 budget, growing at 3%
- Capital costs per BW study
- Stable balance around \$3M
- Revenue coverage requirements met
- Uncertainties:
 - Future water consumption patterns can have significant effect on revenues
 - Market risks on bonds, potential capital cost overruns

Water Utility



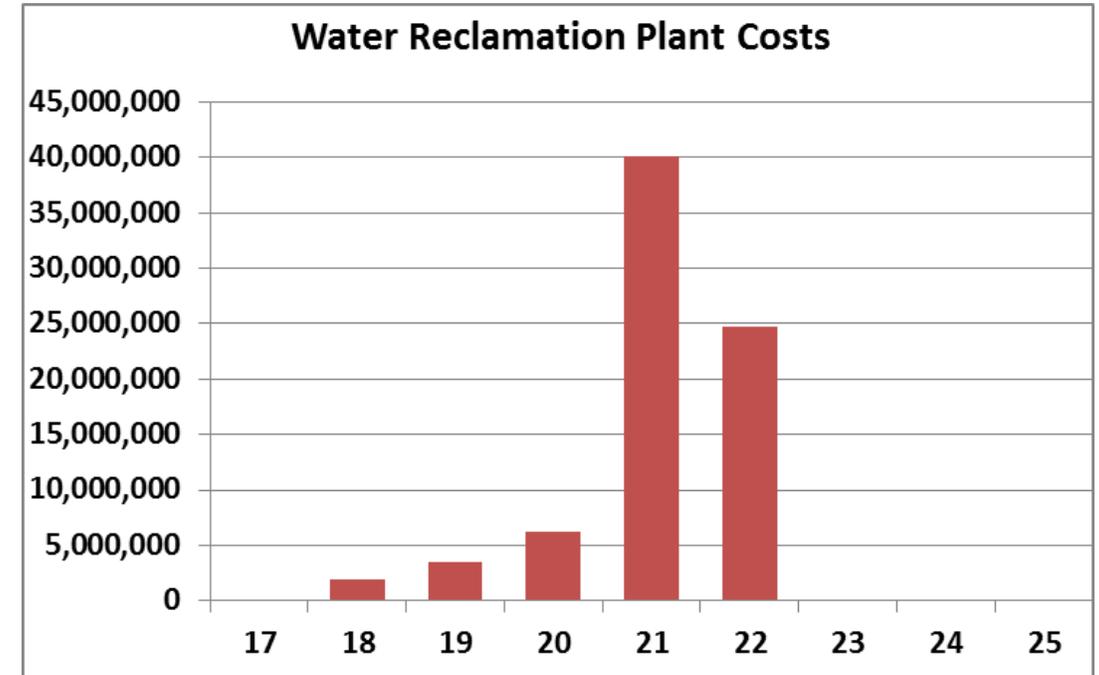
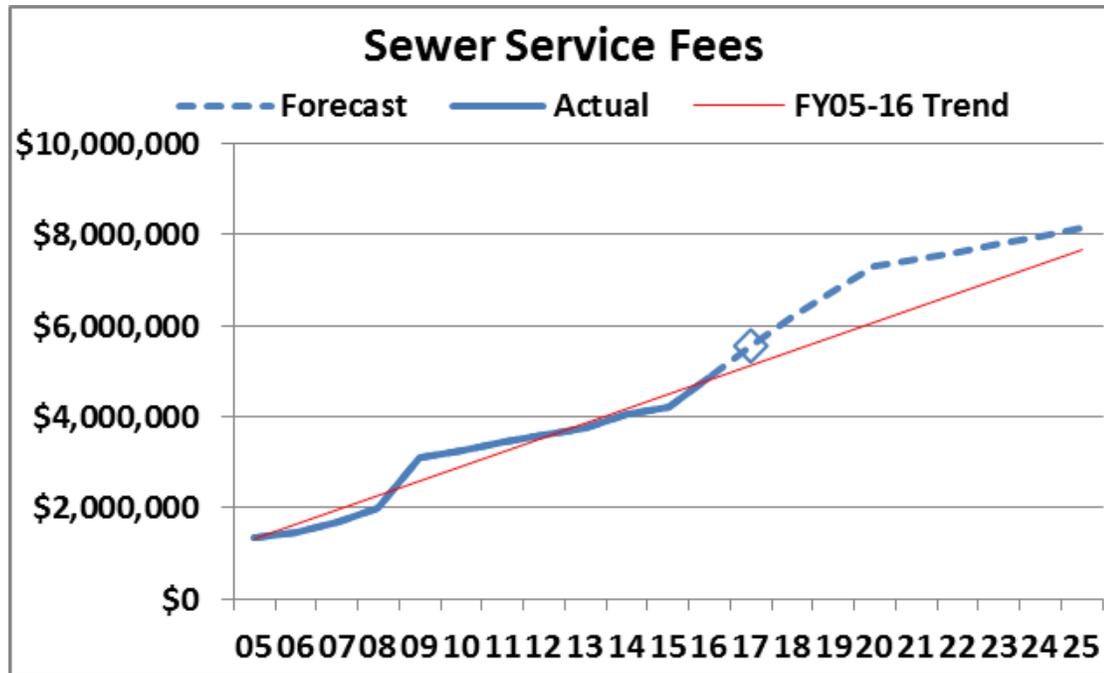
- Fees reflect planned increases (BW report)
- Assumes \$28M in new debt to finance \$34.6M in capital projects, including \$25M for recycled water plant

Sewer Utility



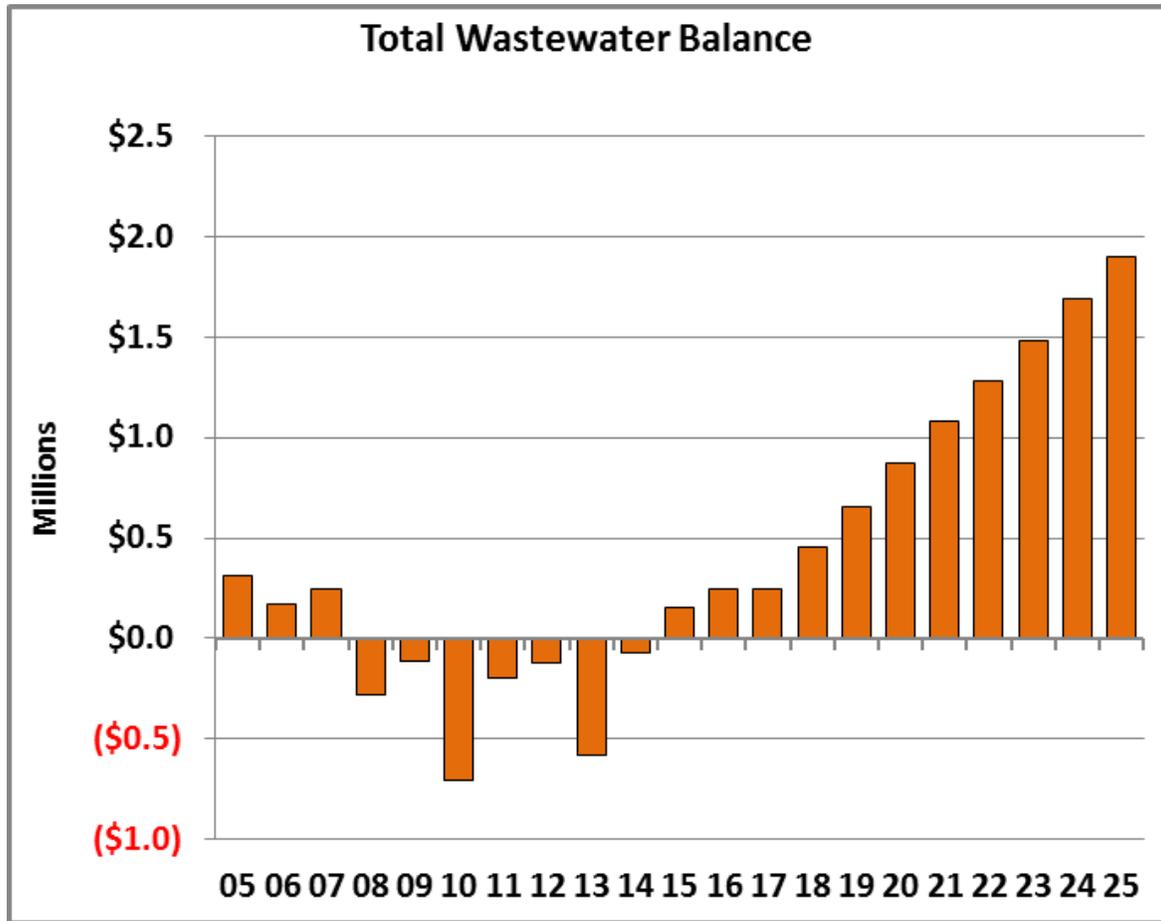
- Results in sync with Bartle Wells report
- Sewer user fee estimate per BW
- Current staffing levels maintained
- Other operations and maintenance costs build on FY 2016-17 budget, growing at 3%
- Capital costs per BW study
- Balance stabilizes around \$14M (rate increase was sufficient to fund planned capital program with contingency)
- Revenue coverage requirements met
- Uncertainties:
 - BW report assumed Cayucos SD would participate in plant, but City absorbs entire cost if they do not
 - Market risks on bonds, potential capital cost overruns

Sewer Utility



- Fees reflect planned increases (BW report)
- Assumed \$75M in new debt to finance water reclamation plant with CSD participation
- Plant will have to be re-scaled and new financial plan developed

Wastewater Utility



- Wastewater user fees assumed to grow at 3% from FY 2016-17 budget level
- Current staffing levels maintained
- Other operations and maintenance costs build on current budget, growing at 3%
- Capital projects based on old BW report; BW update in progress
- Balance grows slowly, but steadily, reversing past trend of deficits
- Uncertainties:
 - New plan will change capital costs and rate structure may need to change as well

Internal Service Funds

- **Technology –**
 - Zero balance
 - GF provides 97% of support for this fund
 - No costs included for application upgrades pending preparation of long-term technology plan, which may boost costs above level projected
- **Facility Maintenance –**
 - No GF support at present
 - Continuation of property income to support these costs
 - GF would be backup source of funding if lease income is lost
 - City requires long-term plan for facility maintenance, which may boost costs above level projected
- **Vehicle Replacement –**
 - Zero balance
 - GF provides all support for this fund
 - City lacks formal long-term vehicle replacement plan, so replacement costs may vary from estimates in forecast
- **Fire Equipment –**
 - Zero balance
 - GF provides 25% of support for these costs, with the rest from grants/donations/other
 - GF support will increase to extent outside funding does not occur
 - Based on long-term assessment by Fire Department of replacement needs
 - Measure Q pays lease payments for future fire engine replacements

Budget Model Demo



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