



CITY OF MORRO BAY CITY COUNCIL AGENDA

The City of Morro Bay provides essential public services and infrastructure to maintain a safe, clean and healthy place for residents and visitors to live, work and play.

Regular Meeting - Tuesday, February 27, 2018 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
RECOGNITION
CLOSED SESSION REPORT
MAYOR & COUNCILMEMBERS' REPORTS, ANNOUNCEMENTS & PRESENTATIONS
CITY MANAGER REPORTS, ANNOUNCEMENTS AND PRESENTATIONS

PRESENTATIONS - None

PUBLIC COMMENT PERIOD

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 city of residence 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. The public will also be provided an opportunity to comment on consent agenda items.

A-1 APPROVAL OF MINUTES FOR THE JANUARY 10, 2018 CITY COUNCIL SPECIAL MEETING; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

A-2 APPROVAL OF MINUTES FOR THE JANUARY 17, 2018 CITY COUNCIL SPECIAL MEETING; (ADMINISTRATION)

RECOMMENDATION: Approve as submitted.

B. PUBLIC HEARINGS - None

C. BUSINESS ITEMS

C-1 DISCUSSION AND APPROVAL OF 2018 GOALS AND OBJECTIVES; (CITY MANAGER)

RECOMMENDATION: Staff recommends the Council discuss the draft 2018 Goals and Objectives prepared following the February 2, 2018, Council retreat, provide direction regarding any changes deemed appropriate by a majority of the Council, and approve the 2018 Goals and Objectives to create a work plan for the calendar year.

C-2 FISCAL YEAR 2017/18 MID-YEAR BUDGET PERFORMANCE AND STATUS REPORT – SIX MONTHS ENDING DECEMBER 31, 2017; (FINANCE)

RECOMMENDATION: Staff recommends that the City Council:

A. Receive FY 2017/18 Mid-Year Budget Performance and Status Report and authorize budget adjustments as recommended in the attached Second Quarter Budget Performance Report;

B. Receive the FY 2017/18 Capital Improvement Plan Mid-Year Update

C. Authorize the establishment of a Capital Pavement Management Plan Project to capture all Pavement Management work;

D. Provide Direction to staff on the pre-payment of the City's Safety Tier I Fire CalPERS Side Fund utilizing the City's General Fund Emergency Reserve as a funding source.

C-3 DISCUSSION OF AGENDA FOR THE C-MANC ANNUAL "WASHINGTON WEEK" MEETINGS IN WASHINGTON, D.C., AND ADOPTION OF RESOLUTION NO. 07-18 PROTECTING OUR OCEAN AND COAST FROM OFFSHORE OIL DRILLING, EXPLORATION AND FRACKING; (HARBOR)

RECOMMENDATION: Staff recommends the Council receive this report and provide any desired input on the elements herein. In addition, staff recommends Council consider approving Resolution No. 07-18 regarding offshore oil development along our coastline.

D. COUNCIL DECLARATION OF FUTURE AGENDA ITEMS

E. ADJOURNMENT

The next Regular Meeting will be held on **Tuesday, March 13, 2018 at 6:00 p.m.** 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 REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.

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- One (1) upcoming vacancy for a South Bay/Los Osos representative for a 4-year term – February 1, 2018 through January 31, 2022

The following applicants were interviewed for the Harbor Advisory Board Member-at-Large position: Cherise Hansson and Judith “Lynn” Meissen. Gene Doughty was interviewed for the South Bay/Los Osos representative. Following interviews, the Council voted by written ballot and the City Clerk read the results. Ms. Meissen received four votes (Irons, Davis, Makowetski & McPherson) and Ms. Hansson received one vote (Headding). Ms. Meissen was appointed to a new 4-year term as a Member-at-large on the Harbor Advisory Board. Mr. Doughty received unanimous support from the Council and was appointed to a new 4-year term as the South Bay/Los Osos representative to the Harbor Advisory Board.

ADJOURNMENT

The meeting adjourned at 5:20 p.m.

Recorded by:

Dana Swanson
City Clerk

MINUTES - MORRO BAY CITY COUNCIL
SPECIAL MEETING – JANUARY 17, 2018
VETERANS MEMORIAL HALL
209 SURF STREET – 4:30 P.M.

PRESENT:	Jamie Irons	Mayor
	Robert Davis	Council Member
	John Headding	Council Member
	Matt Makowetski	Council Member
	Marlys McPherson	Council Member
STAFF:	Scott Collins	City Manager
	Dana Swanson	City Clerk
	Rob Livick	Public Works Director

ESTABLISH A QUORUM AND CALL TO ORDER

The meeting was called to order at 4:35 p.m. with all members present.

PUBLIC COMMENT FOR ITEMS ON THE AGENDA

<https://youtu.be/J-ZME1sMrQk?t=1m7s>

Ken Green, Morro Bay, reviewed information from the April 25, 2017 Council Meeting and, based on Council action at that time, suggested the City should not be pursuing costs other than wastewater treatment.

Homer Alexander, Morro Bay, suggested the RFP require proposers to accurately separate the costs between treatment and reclamation, and remove demolition of the existing Wastewater Treatment Plant and put that out to bid as a separate project.

David Nelson, Morro Bay, spoke in opposition to the project and asked the Council to consider less expensive technology that would not place a financial burden on the community.

Larry Truesdale, Morro Bay, expressed concern the lowest cost project being discussed is \$50 Million too high, that proposers will have no incentive to lower the price, and that lower cost proposers had been eliminated from the process.

Jeff Heller, Morro Bay, commended the Council for action taken at the April 25, 2017 meeting to obtain an estimate for the sewer plant only with the option for reclamation and expressed concern the RFP seeks a proposal that includes reclamation. He suggested an addendum to make the least expensive option the base bid, then each piece added separately.

Kerrigan Mahan, Morro Bay, agreed with previous speakers the City should not be pursuing reclamation at this time. He suggested stopping the project and revisiting either the Hanson site or partnering with Cayucos.

Steve Stevens, Morro Bay, requested answers to questions posed by previous speakers.

The public comment period was closed.

SPECIAL MEETING AGENDA ITEM:

- I. **Discuss and Provide Direction on the draft Request for Proposals for WRF Onsite Improvements**
<https://youtu.be/J-ZME1sMrQk?t=27m27s>

Public Works Director Livick presented the staff report and responded to Council inquiries.

Following discussion, there was Council consensus on the following items and staff was directed to modify the RFP prior to Council approval:

- Increase weighting for price proposal and life cycle costs to 60% or more of the total
- Develop a scoring system for proposal evaluation to provide a scale for how points will be assigned for each criterion
- Expand the communications protocol to include direction for the design-build teams in the event a community member or group contacts them about the project
- Add Council adopted project goals and brief history of the project to the Introduction section
- Make demolition of the existing WWTP an additive bid item/bid alternate
- Increase landscaping buffer for property to the south; contact the neighboring property owner and address concerns to the maximum extent possible
- Remove specifics, *i.e.* floor plan, on the Admin/Ops Building, include just the requirements
- Provide information on project risk and allocation between City and Design-Build team and consider acceptable ways for the City to take on more risk to reduce cost of the project
- Minimize prescriptive nature and maximize opportunity for creative / cost effective alternatives

No formal action was taken by the City Council.

ADJOURNMENT

The meeting adjourned at 7:09 p.m.

Recorded by:

Dana Swanson
City Clerk



AGENDA NO: C-1

MEETING DATE: February 27, 2018

Staff Report

TO: Mayor and City Council

DATE: February 22, 2018

FROM: Scott Collins, City Manager

SUBJECT: Discussion and Approval of 2018 Goals and Objectives

RECOMMENDATION

Staff recommends the Council discuss the draft 2018 Goals and Objectives prepared following the February 2, 2018, Council retreat, provide direction regarding any changes deemed appropriate by a majority of the Council, and approve the 2018 Goals and Objectives to create a work plan for the calendar year.

ALTERNATIVES

None proposed at this time.

FISCAL IMPACT

None.

BACKGROUND

City Council hosted a public retreat with senior management staff and members of the community on February 2, 2018, to create the Goals and Objectives for 2018. The retreat, professionally facilitated by City of San Luis Obispo Fire Chief Garret Olson, provided an opportunity for the community, City staff and City Council to establish an achievable 2018 work plan that addresses the highest priority issues and matters affecting the community.

The Retreat began with a review and status update on the 2017 Goals and Objectives (Attachment 1). The 2017 Goals and Objectives were themselves established by Council through a process of narrowing down an overly ambitious list of 10 City Goals and 80 Objectives. In providing status updates on those efforts, staff reported that most of the 2017 work continues into 2018. A few items were completed, including improving staffing for public facility maintenance and the Tourism Division making TOT increases part of their core functions.

Next the facilitator asked for the public and Councilmembers to rate the goals and objectives from the 2017 list in terms of their importunate to continue work into 2018, as well as identify new goals and objectives. There was a great discussion about ensuring we complete what we started in 2017. Conversely, some new goals and objectives were identified by both the community and City Council, including improving communication to and outreach with the community.

Following that discussion, the facilitator then introduced a ranking model to help City Council and the community establish priorities for 2018 and identify items that will receive less attention this year, or

Prepared By: SC

Dept Review: _____

City Manager Review: SC

City Attorney Review: _____

be put on hold entirely for future years, or discarded altogether. Using a dining metaphor to help illustrate relative priorities for the City, the facilitator came up with the following rankings system:

- the “Plate” is designated for top priority items that must be worked on in 2018;
- the “Cauldron” are important items that fall just short of the top priority list. These items may receive some focus in 2018, time and staffing permitting. Some of these items may rise to the Plate level if other items on that list are completed and don’t compete for staff time. For the most part, these items will likely be addressed in 2019;
- the “Simmer” are third tier priorities items that will only be worked on in 2018 if they don’t compete with Plate and Cauldron items for resources. These items may be addressed in 2019 as long as they don’t compete with remaining higher priority items;
- the “Refrigerator” are the fourth tier of priorities and is designed for items that will receive no staff time in 2018 but may be picked up in future years, only after the first three tiers of items are complete; and
- the “Trash Can” is for items that have either been completed or that Council has no intention of working on.

DISCUSSION

Ranking Exercise

City Council reviewed each of the goals and objectives remaining from 2017, as well as new objectives and goals identified at the Retreat in terms of their relative priority ranking. They deliberated with staff to understand what items already have made significant progress to date or that otherwise must be dealt with in 2018. Through the deliberative process, Council, by consensus, placed most of the items on the “Plate”, meaning most of the items will be addressed in some fashion in 2018 (Attachment 2 illustrates the relative priority ranking of the action items that stem from the Goals and Objectives, as well as estimated timing for items to come back to Council). Some items were placed in the lower priority pots (Cauldron and Simmer), and even fewer items in the Refrigerator and Trash Can (items that will be delayed or eliminated).

This outcome signifies a couple things. Number one, the City is working toward commonly supported goals and objectives and, number two, it will be challenging to accomplish these important action items all at the same time. With that in mind, City Council requested staff create an accountability or measurement system to report back progress to Council throughout the year. Council seeks to demonstrate, through metrics where possible, that we achieve what we set out to do in the strategic planning exercise. Council was also deliberate in explaining that the City has limited resources at our disposal to do a lot of critical initiatives simultaneously.

In any City strategic goal setting exercise, it is important that members of the public and City Council be given ample opportunity to list out their most important priorities. In addition, Council noted at the retreat it is equally critical when conducting a strategic planning exercise to include an analysis of existing City resources--time, money and staff—when setting expectations, so that we ultimately create an achievable set of action items. Together, the Council and staff will create a work plan that addresses the most important community issues in a manageable, predictable and accountable manner.

Staff Analysis of the Goals and Objectives, through the Lens of Resource Constraints

Many of these goals and objectives, and their corresponding action items, are multi-year in nature, such as achieving financial and economic sustainability in the face of skyrocketing increases in employee pension costs and pending ruptures to the regional economy with the planned closure of the Diablo Canyon Nuclear Power Plant (a projected \$1 Billion economic loss to SLO county).

Similarly, the Water Reclamation Facility (WRF) project and updates to the City's comprehensive land use plans may take several years to complete.

While these goals and objectives may be long-term in nature, efforts to address them must begin somewhere. Long-term goals are best achieved through strategic thinking and planning, and incremental progress toward their successful achievement. The 2018 Goals and Objectives outline what the City will strive to achieve in the calendar year.

As such, City Council requested at the retreat that staff review the outcomes of the retreat and apply a constraints analysis on the Plate (top priority goals and objectives) and make recommendations to Council for what should be worked on and in what order in 2018. Those recommendations were to be brought back to City Council on February 27, 2018 for Council review and adoption.

Staff slightly modified the retreat Plate lists a bit, to reflect what is believed to be achievable in 2018, as well as added items that are underway that fit within the 2018 Goals and Objectives. The added or modified items (highlighted in green in attachment 2) include recent additions from City Council, including the community choice energy program feasibility study with the City of San Luis Obispo and evaluating and auditing lease sites on a more routine basis, as well as additions from staff for work that is currently moving forward (such as exploring offshore wind generation).

Based upon staff's analysis, the 2018 Plate list is focused on high priority critical initiatives and remains ambitious. Several departments are leading the bulk of the 2018 action items (Community Planning, Public Works, Harbor and Finance), and will be unable to take on additional work this year. The work plan will stretch the organization, as such, the City Manager will monitor the progress closely to ensure it remains manageable. At this time, staff is comfortable pursuing this list of action items as presented in the attached spreadsheet, with the understanding that if resources become unavailable or other unforeseen circumstances arise that necessitate a change, staff can come back to Council to discuss modification of 2018 priorities.

Following City Council review and adoption of the 2018 Goals and Objectives, staff will create a more public friendly Goals and Objectives document and corresponding 2018 calendar, and post those to the City website (on the front page). Staff will bring City Goals and Objectives progress reports to City Council on a quarterly basis beginning in July 2018.

CONCLUSION

The City's Goals and Objectives and their action items provide a work plan for 2018 and all departments will align their work accordingly. Therefore, should new items come forward to City Council this year, it is recommended those items be analyzed for priority level in comparison to the 2018 adopted Goals and Objectives. Should Council desire to add new items to the 2018 work plan, it is further recommended that Council move existing Plate items onto the Cauldron or Simmer lists. As noted above, the 2018 work plan was designed with the community and City Council's top priorities in mind within the context of limited staff and financial resources.

ATTACHMENTS

1. 2017 Goals & Objectives
2. Draft 2018 Goals & Objectives list from 2/2/18 Council Retreat



CITY OF MORRO BAY

CITY HALL

595 Harbor Street
Morro Bay, CA 93442

Memorandum For City Council, Staff and the Public

Date: April 5, 2017

Subject: FY2017-2018 Goals and Objectives

1. **Purpose.** The purpose of this document is to identify City of Morro Bay Goals and Objectives for the Budget Year July 2017 – June 2018.
 - a) The City of Morro Bay strategic planning framework, adopted by the City Council on December 8, 2015, directs the timing for development of City Goals and Objectives.
 - b) In accordance with that policy, the City conducted a goal setting process in January and February 2017 that included Council Study Sessions, a Community Goals Forums, a Council Meeting discussion and a further special Council work session to develop a new set of long term goals and budget year objectives. The 2017-18 Goals and Objectives were approved by Council on April 11, 2017.
 - c) The objectives under each goal identify a number of specific objectives the City intends to accomplish in the July 2017 to June 2018 budget year. Accomplishing these objectives, however, is dependent on adequate resourcing – both staff time and money. Thus, some objectives may not be completed if adequate resources are not allocated during the fiscal year 2016/2017 budget process.
2. **Goals and Objectives.** Following are the City of Morro Bay's four long-term goals and subordinate program objectives for budget year 2017-18:

Goal #1 (Essential Goal) – Achieve Economic and Fiscal Sustainability

Description: This essential goal recognizes the City has been living within our means, but is not currently able to fund all basic services and requirements at the level appropriate for a community of our size. It also recognizes the importance of strengthening and maintaining strong financial management practices. Due both to our previous inability to fund important services such as street paving and replacement of key facilities, and the lack of an adequate General Fund capital budget, plus the impact of recent cost concerns - especially escalating CalPERS costs - we are unable to continue living as we have in the past. This goal centers around economic development and fiscal actions (revenue enhancement, public funding measures, cost control, and sound fiscal management practices) that target a 25% increase in projected revenues from the end of FY17 to the end of FY25.

Duration: This is an 8-year goal - the City intends to achieve fiscal sustainability by 2025.

Focus: This goal includes objectives related to revenue enhancement, general economic development, cost control, and assurance of sound financial management practices are in place.

- a. Consider the proposed strategies in the Economic Development Strategic Plan and act on those most likely to generate revenues in the near term. In considering all the following objectives and working with local and regional businesses and groups: promote a balanced economic development approach that retains, expands, and attracts businesses for a strong, stable, complementary, and diverse business environment that honors the character of our community and is consistent with our Community Vision.
- b. Pursue opportunities and relationships that are likely to result in the revitalization and redevelopment of important properties including the Morro Bay Power Plant, the existing wastewater treatment plant site, Morro Bay Elementary School, and the Morro Bay Aquarium lease site. Take proactive action to facilitate the revitalization of underused and vacant parcels in all commercial districts.
- c. Evaluate and implement opportunities to increase TOT revenues including, but not limited to:
 - 1) Take appropriate action, including implementation of specific programs, to increase shoulder-season and off-season TOT-producing visitor nights by 10% over FY16 levels.
 - 2) Research and bring to Council for decision incentive programs, including a TOT rebate program, that would reasonably result in the renovation of some existing hotel stock and deliver higher average daily rates and thus higher TOT revenues.
 - 3) Facilitate private revitalization / redevelopment activities that will result in planning approval for a 3% increase in number of hotel rooms in the City, with priority placed on 3 and 4-star properties to better balance our hotel stock.
- d. Evaluate opportunities for new or expanded revenue sources, including, but not limited to: paid parking, marijuana associated revenues, other tax measures and a review of City fees.
- e. Considering Council direction to identify no less than \$400K of cost reductions across FY19 and FY20, develop a cost control and reduction plan to achieve these cuts, including a complete review of staffing levels and non-labor costs in all departments.
- f. Develop a staff-internal emergency cost reduction plan to inform future fiscal emergencies.

Goal #2 (Essential Goal) – Complete WRF Project and “OneWater” Program

Description: This essential City goal centers around completion of the City’s Water Reclamation Facility (WRF) and includes implementation of a fiscally conservative, comprehensive water resource policy, program and infrastructure to ensure a sustainable water future. Key items include building the WRF and associated reclamation system,

developing a “OneWater” policy, and diversifying our water supply toward achieving water independence.

Duration: This is a 6-year goal that we intend to complete by July 2023.

Focus: This goal includes objectives related to the Water Reclamation Facility, and “OneWater” planning and implementation.

- a. Complete water/sewer rate study and bring to Council for Prop 218 process consideration any rate increase requirements to fund the proposed WRF.
- b. Following CEQA guidelines, bring the WRF Environmental Impact Report (EIR) to Council for approval and certification.
- c. Complete and submit the State Revolving Fund loan application with the State Water Control Board for the WRF project, to secure funding for the project.
- d. Complete the acquisition of the preferred site for the WRF project.
- e. Take appropriate selection action and bring to Council for approval, a contract for the design-build construction delivery of the new WRF.
- f. Take all appropriate actions, and bring to Council for information/approval, as required, information that will allow the City to make a decision to achieve water independence. Include an evaluation of future options regarding our existing State Water allocation.
- g. Budget for, select a consultant, complete, and bring to Council for initial consideration, a “OneWater” plan for the City that considers all water resources - from storm water to groundwater to waste water - as a single “water resource.”

Goal #3 (Important Goal) - Improve Infrastructure and Public Spaces

Description: This important goal centers around substantially improving the City’s streets, multi-modal transportation infrastructure, facilities and public spaces. The City does not currently have sufficient revenues to fund the capital improvement program required to make substantial and necessary infrastructure improvements and, therefore, this goal is contingent on making significant progress on Goal #1 – Achieve Fiscal Sustainability.

Duration: This is, at minimum, an 8-year goal.

Focus: This goal includes objectives related to streets, bike / pedestrian / parking improvements, City facilities, and beautification of public spaces.

- a. Bring to Council for decision an item to consider adding a street improvement tax measure to the November 2018 ballot.
- b. Bring to Council for information, consideration and possible implementation a review of circulation and parking management plans and options in the downtown and waterfront districts.
- c. Bring to Council for decision proposals that result in a public/private partnership redevelopment of the City-owned “Market Plaza” property consisting of the DiStasios’s parcel, and, if appropriate to be included in redevelopment, the “Front Street” parking lot (below DiStasio’s), and the parking lot at Pacific and Market.

- d. Complete the approved RFQ process for a marine services facility (boatyard) and bring to Council for information and consideration of next steps prior to any decision on feasibility study.
- e. Inventory, evaluate and refresh existing programs for volunteer groups to assist in providing routine maintenance in the City (such as adopt-a-park programs), while soliciting and facilitating additional volunteer group support for routine maintenance (such as park beautification) and small capital projects (such as park bathroom reconstruction).
- f. Closely monitor the maintenance and cleanliness of public facilities and report to council for reprioritization of resources if maintenance is not keeping up with demand.

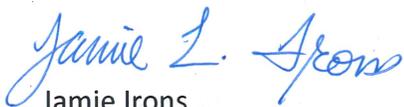
Goal #4 (Important Goal) - Review and Update Significant City Land Use Plans

Description: This important goal centers around completion of the City's General Plan (GP) / Local Coastal Program(LCP) rewrite, and update of other essential land use documents. While the GP is the important task, update of other essential land use plans and master plans is also a priority.

Duration: This is a 2-year goal that should be complete by summer 2019.

Focus: This goal includes objectives related to completion of the GP/ LCP and other important planning documents.

- a. Complete the GP/ LCP rewrite no later than August 2018.
- b. Complete the zoning code update approved and started in FY17.
- c. Ensure affordable housing and vacation rental challenges are addressed in the GP/LCP process and all land use planning.
- d. Bring to Council for consideration the results of Code Enforcement outreach on existing codes related to fences and hedges, and boat, RV and trailer parking / storage on City streets and neighborhoods to determine whether to keep, or modify, related existing ordinances.
- e. Bring to Council for adoption a rewrite of the secondary unit ordinance (updated in FY16) based on changes in State law.
- f. Begin community outreach and Council discussion on future use of the 26-acre Atascadero Road site (location of the existing WWTP) to be prepared to begin master planning that site in FY19.
- g. Explore, in public meetings with city residents, opportunities to protect important scenic, recreational, natural and agricultural resources on the Estero Marine Terminal site and surrounding lands in partnership with land conservation organizations.


 Jamie Irons

Mayor


 David Buckingham

City Manager

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DRAFT Goals and Objectives for 2018

Plate: These are the top priority objectives and action items for 2018, and constitute the main work plan for the City in Calendar Year 2018.

(Green highlight represents modified or added action items)

Goal #1: Financial Sustainability and Economic Sustainability					
Objective #1: Securing Financial Sustainability through a comprehensive review of costs reduction and revenue enhancement opportunities					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Develop a cost control and reduction plan to achieve cuts to maintain a structurally balanced budget including, but not limited to, a complete review of staffing levels and non-labor costs in all departments.	All	City Manager, Finance	Will bring to City Council through the FY2018/2019 Budget process.	Underway, considering employee ideas
b)	Develop a staff-internal emergency cost reduction plan to inform future fiscal emergencies.	All	City Manager, Finance	Will bring to City Council following adoption of FY18/19 Budget	No progress to date, though FY18/19 Budget process will inform this action item.
c)	Consider for November 2018 ballot a Marijuana Tax with consideration for funding for the Utility Discount Program and other City needs.	City Manager, Public Works, Finance, City Attorney, Planning, Police, Fire	City Manager	Marijuana Tax concept will come to City Council in April/May 2018.	No progress to date.
d)	Evaluate opportunities for new or expanded revenue sources including, but not limited to, paid parking, other tax measures and a review of City fees.	All	City Manager, Finance	The parking discussion will take place in April/May 2018.	Some analysis complete on paid parking. No progress on other items.
Objective #2: Consider the proposed strategies in the Economic Development Strategic and Waterfront and Downtown Strategic Plans and act on those most likely to generate revenues.					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Bring to Council for information, consideration and possible implementation a review of circulation and parking management plans, wayfinding , and other options for the Waterfront and Downtown and other business districts . (modified item).	Planning, Public Works, Harbor, City Manager, Finance, Tourism	Planning	This will be an on-going priority for staff. Parking item to come to Council in May 2018.	Some work complete on parking and wayfinding.
b)	Evaluate Memorandum of Understanding (MOU) with the Morro Bay Chamber of Commerce to further economic development objectives.	City Manager, Planning, Tourism, Harbor	City Manager	Item likely to come to City Council in Spring/Summer 2018.	City and Chamber staff continue to meet to discuss options.
c)	City Council review proposal to modernize the Morro Bay Aquarium Site structure and operations.	City Manager, Planning, Harbor, City Attorney	Harbor	Item likely to come to City Council in Spring/Summer 2018.	On-going meetings with new owners and project team.
d)	Establish Financial Partnership policy. (Added item).	Harbor, Planning, City Manager, Finance	Harbor	Item may come to City Council as early as Summer/Fall 2018.	Part of the Lease Management Policy update.
e)	Offshore Windfarm opportunity/proposal development and review. (Added item).	Harbor, Planning, City Manager	Harbor	Item may come to City Council as early as Spring/Summer 2018.	Economic analysis underway. Outreach to federal agencies.
Objective #3: Miscellaneous Action Items Related to Financial Sustainability and Economic Development					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Return to City Council with discussion item on Vacation Rentals & RV Parks Tourism Business Improvement District (TBID) Assessment options, as well as general discussion of TBID/Tourism and Transient Occupancy Tax (TOT, more commonly known as hotel tax) . (Modified item).	Tourism, City Manager	Tourism	Staff will bring an item to City Council prior to the FY18/19 Budget.	TBID reviewed options for VR/RV assessments, with no recommendation.
b)	Improve internal management of homeless related issues.	Police, Fire, Public Works, City Manager	Police	Mostly an internal operational issue, though staff will bring items to Council as appropriate.	Staff reviewing best practices in homeless management.

DRAFT Goals and Objectives for 2018

Plate: These are the top priority objectives and action items for 2018, and constitute the main work plan for the City in Calendar Year 2018.

(Green highlight represents modified or added action items)

Goal #2: Water Reclamation Facility (WRF) and OneWater Review and Implementation					
Objective #1: Water Reclamation Facility Project Review and Implementation					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Assign a budget for the WRF.	Finance, Public Works	Finance	Will be completed in time for FY18/19 Budget.	Staff developing a WRF standalone Budget.
b)	Take appropriate selection action and bring to Council for approval, a contract for the design-build construction delivery of the new WRF.	Public Works	Public Works	Will bring top design build contract to Council August 2018 for award.	Proposals due in late April 2018.
c)	Following CEQA guidelines, bring the WRF Environmental Impact Report (EIR) to Council for approval and certification.	Public Works, Planning, City Attorney	Public Works	Council will review Draft EIR in May/June 2018.	Draft EIR complete in March 2018.
d)	Complete water/sewer rate study and bring to Council for Prop 218 process consideration any rate increase requirements to fund the proposed WRF	Public Works, Finance, City Manager	Public Works/Finance	Council will review water and sewer rates in the summer/fall 2018.	Awaiting responses from the WRF RFP to analyze impacts on rates. Responses due in late April 2018.
e)	Complete and submit the State Revolving Fund loan application with the State Water Control Board and Water Infrastructure Finance and Innovation Act (WIFIA) loan application with the U.S. Environmental Protection Agency (EPA) for the WRF project to secure subsidized loan financing for the project. Review and consider other state and federal funding.	Public Works	Public Works	Staff will submit WIFIA application in July 2018. SRF loan application will be submitted shortly thereafter.	Meeting with WIFIA administrators in Washington DC in March 2018.
f)	Complete the acquisition of the preferred site for the WRF project.	Public Works, Planning, City Attorney	Public Works	Will bring purchase agreement to Council July/August 2018.	MOU with property owner in place cannot complete property acquisition until after EIR Certification.
g)	Review and update the Utility Discount Program and develop and implement a communication plan to increase public awareness of the water and sewer rate subsidization program for low-income individuals and families.	Public Works, Finance	Public Works	Will bring item to Council with the FY18/19 Budget.	Reviewing effectiveness of current Utility Discount Program.
h)	Hire and onboard new Program Manager for the WRF project. (Added item).	City Manager, Public Works	City Manager	Will bring contract to Council in March/April 2018.	RFP to be released in February 2018.
Objective #2: OneWater Review and Implementation					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Bring to Council for consideration a "OneWater" plan for the City that considers all water resources – from storm water to groundwater to wastewater – as a single "water resource."	Public Works	Public Works	Will bring prioritized list of Water Supply Options to Council for consideration after PWAB review in April 2018.	OneWater Team is analyzing potential water supply options. Additionally 1H2O team is preparing master planning documents to inform the CIP programs
b)	Engage business community and broader community in dialogue about water issues, including state water.	City Manager, Public Works, Tourism	Public Works	Will be an ongoing effort, initiating sometime spring 2018.	Developing outreach plan.

DRAFT Goals and Objectives for 2018

Plate: These are the top priority objectives and action items for 2018, and constitute the main work plan for the City in Calendar Year 2018.

(Green highlight represents modified or added action items)

Goal #3: Public Infrastructure and Facility Cleanliness					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Inventory, evaluate and refresh existing programs for volunteer groups to assist in providing routine maintenance in the City, while soliciting and facilitating additional volunteer group support for routine maintenance and small capital projects.	Public Works, Harbor, City Manager, Recreation	Public Works	Portion of this item coming to City Council in March 2018 (part of the "Adopt a Thing" policy).	Staff report being developed.
b)	Compete the approved RFQ process for a marine services facility (boatyard) and bring to Council for information and consideration of next steps prior to any decision on feasibility study.	Harbor, Planning, City Manager, Public Works	Harbor	Council consideration of financial feasibility Request for Proposal (RFP) in Spring 2018.	Staff and Harbor Advisory Committee developing financial feasibility RFP.
c)	Council review of "Adopt a Thing" policy and staff implementation of the policy and creation of the program. (Added item).	Public Works, Harbor, Recreation, City Manager	Public Works	Bring to Council in March 2018.	Staff completing review of draft policy and writing report for Council.

Goal #4: Land Use Plans and Zoning Policies Updates					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Complete the General Plan/Local Coastal Plan rewrite.	Planning, City Manager	Planning	Staff will bring draft plans to Council for formal consideration in September 2018.	Coastal Commission staff is reviewing an administrative draft of the document.
b)	Complete the zoning code update, which includes a review of the Short-term Vacation Rental Policy and Secondary Unit (more commonly known as ADU or "Granny Unit") Ordinance.	Planning, City Manager, City Attorney, Finance	Planning	Staff will bring entire proposed zoning code update to City Council in September 2018 (including the Secondary Unit ordinance). Vacation Rental ordinance will likely come forward to Council in May 2018.	The zoning code is broken into 5 modules. Module 1 is complete (i.e. reviewed by Planning Commission). Module 2 is being updated based on recent PC input. An administrative draft of Module 3 is being reviewed by staff. Module 3 includes the vacation rental policy.

Goal #5: Improved Communication and Miscellaneous Priorities					
Objective #1: Improve Community Outreach and Communications					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Conduct an assessment of the City's communication and outreach effectiveness. (Added item).	All	City Manager	Consider conducting assessment in context of FY18/19 Budget.	Researching options for affordable professional review of City's communication and outreach efforts.
c)	Improve website, including adding Water Reclamation Facility updates on the front of the website.	All	City Manager	Unlikely to bring any items forward to Council. Staff will continue to make efforts to keep the website updated.	On-going effort by City staff, as time allows.
e)	Enhance accountability of goals, objectives, measurements, progress and completion with consistency, and communicate progress on Council's Strategic Goals and Objectives.	All	City Manager	Staff will provide quarterly updates on Goals and Objectives progress to City Council, beginning in July 2018.	Following adoption of 2018 Goals and Objectives, staff will create a public friendly document with accompanying 2018 work plan calendar.

DRAFT Goals and Objectives for 2018

Plate: These are the top priority objectives and action items for 2018, and constitute the main work plan for the City in Calendar Year 2018.

(Green highlight represents modified or added action items)

Goal #5: Improved Communication and Miscellaneous Priorities					
Objective #2: Miscellaneous Action Items					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council date/Completion	Current Status
a)	Create greater efficiencies and coordination with partners (community organizations)	City Manager, Recreation, Tourism, Public Works, Harbor	Recreation	Council to consider the Partnership Policy in Spring/Summer 2018.	Staff reviewing the Partnership Policy and related administrative policies.
b)	Implement Marijuana Ordinance.	All	City Manager	Council has already approved the ordinance.	Staff in process of creating application and review process.
c)	Community Choice Energy feasibility study. (Added item).	City Manager	City Manager	Presentation to City Council in April/May 2018.	Staff in contact with City of SLO staff.
d)	Lease site evaluation/audits on a 3-year rotating basis. (Added item).	Harbor, City Manager, City Attorney, Fire, Planning	Harbor	Item may come to City Council as early as Summer/Fall 2018 (as part of the Lease Management Policy update).	Reviewing staff capacity and other resources to accomplish this objective.

Cauldron: These are the Second Tier of priorities. These items will likely be addressed in 2019, but only as the top priority objectives are achieved. Some may be brought forward in 2018 in rare circumstances, schedule and other top priority objectives completion permitting

Goal #:1 Financial Sustainability and Economic Sustainability					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Bring to Council for decision proposals for a public/private partnership redevelopment of the City -owned "Market Plaza" property, and, if appropriate, to be included in redevelopment, the "Front Street" parking lot (below DiStasio's), and the parking lot at Pacific and Market.	Planning, City Manager	Planning	2019	City Council approved use of broker to seek out opportunities for the site. Staff meeting with broker as appropriate.

Goal #:2 WRF and OneWater Review and Implementation					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Take all appropriate actions, and bring to Council for information/approval, as required, information that will allow the City to make a decision to achieve water independence. Include an evaluation of future options regarding our existing State Water allocation.	Public Works, Planning, City Manager, Finance, City Attorney	Public Works	2019	OneWater Plan being developed. Once completed, should help inform this item.

Simmer: These are third tier priorities. Won't be significant work on these objectives until the 1st and 2nd tier priorities are completed. Minimal work may be applied to these items, as long as that work does not interfere with work on other higher priority action items.

Goal #:1 Financial Sustainability and Economic Sustainability					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Pursue opportunities and relationships that are likely to result in the revitalization and redevelopment of important properties including 1 – the Morro Bay Power Plant, 2- the existing Wastewater Treatment Plant Site 3 – Morro Bay Elementary School.	Harbor, Planning, City Manager, Public Works	Planning	2019 or 2020	No work.
b)	Bring to Council for decision an item to consider adding a street improvement tax measure	Public Works, City Manager, City Attorney, Finance	Public Works	2020 ballot	No work.

Goal #:2 WRF and OneWater					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Begin community outreach and Council discussion on future use of the 26-acre Atascadero Road site (location of existing WWTP) to be prepared to begin master planning that site in FY19.	Public Works, Planning, City Manager	Public Works	Unknown.	No work.

Goal #:4 Land Use Plan Updates					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Explore opportunities to protect important scenic, recreational, natural and agricultural resources on the Estero Marine Terminal site and surrounding lands	Planning	Planning	Unknown.	No work.

Refrigerator: These are items put on hold entirely, no work to be applied to these efforts. Can be brought back to the list of consideration in future years.

Goal #:4 Land Use Plan Updates					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Bring to Council for consideration the results of Code Enforcement outreach on existing codes related to fences and hedges, and boat, RV and trailer parking/storage on City streets and neighborhoods to determine whether to keep, or modify, related existing ordinances.	Planning, Harbor	Planning	None	None

Trash Can: These items are completed or will no longer be pursued.

Goal #1: Financial Sustainability and Economic Sustainability					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Evaluate and implement opportunities to increase TOT revenues.	Tourism	Tourism	On-going effort. Will report to City Council periodically throughout the year on the TOT revenue condition	On-going component of operations

Goal #3: Public Infrastructure and Facility Cleanliness					
Item #	Action Items	Departments Involved	Lead Department	Anticipated Council Date/Completion	Current Status
a)	Monitor the maintenance and cleanliness of public facilities	Public Works	Public Works	On-going effort. Will report to Council if resources insufficient to maintain satisfactory service levels.	On-going component of operations



AGENDA NO: C-2

MEETING DATE: February 27, 2018

Staff Report

TO: Mayor and City Council

DATE: February 20, 2018

FROM: Jennifer Callaway, Finance Director
Rob Livick, PE/PLS – Public Works Director/City Engineer

SUBJECT: Fiscal Year 2017/18 Mid-Year Budget Performance and Status Report – Six Months Ending December 31, 2017

RECOMMENDATION

Staff recommends that the City Council:

- A. Receive FY 2017/18 Mid-Year Budget Performance and Status Report and authorize budget adjustments as recommended in the attached Second Quarter Budget Performance Report;
- B. Receive the FY 2017/18 Capital Improvement Plan Mid-Year Update
- C. Authorize the establishment of a Capital Pavement Management Plan Project to capture all Pavement Management work;
- D. Provide Direction to staff on the pre-payment of the City’s Safety Tier I Fire CalPERS Side Fund utilizing the City’s General Fund Emergency Reserve as a funding source.

BACKGROUND

The attached draft Quarterly Budget Report covers the first six months of the fiscal year beginning July 1, 2017 and ending December 31, 2017. The report presents analysis related to the key General Fund revenues and expenditures by category as well as an analysis of the City’s Enterprise Funds, Water Reclamation Facility (WRF) project, and other funds.

Through financial analysis of activity through December 31, 2017, staff is able to provide an update based on revenue and expenditure trends for the current fiscal year and advise on potential future revenue and expenditure challenges which may materialize during the fiscal year.

A draft report was presented to the Citizen’s Finance Advisory Committee (CFAC) on February 20, 2018. CFAC provided valuable feedback and concurred with the budget adjustments as presented in second quarter FY 2017/18 Budget Performance and Status Report for the period ending December 31, 2017 (Attachment 1).

DISCUSSION

FY 2017/18 Mid-Year Budget Performance and Status Report

General Fund

Prepared By: JC/RL

Dept Review: JC

City Manager Review: SC

City Attorney Review: _____

An analysis of the FY 2017/18 General Fund revenues identified two significant revenue areas that are trending short of budget expectations. Detail on all adjustments can be found in Attachment 1 to this report; however, the significant adjustments are highlighted below. First, Business Tax was budgeted at \$520,730. Prior years actuals trended at approximately \$340,000. Therefore, staff is recommending a budget reduction in this revenue source of approximately \$180,000 to align more closely with prior year actual results. This was previously discussed with the City Council in January 2018.

Secondly, the City's Transient Occupancy Tax (TOT) is in line with prior years receipts when viewed as actuals received; however, TOT was budgeted at \$3,543,371 for this fiscal year, over \$200,000 higher than prior year actual receipts. As a percentage of budget, TOT receipts are trending behind expectations. Therefore, staff is recommending a budget reduction of approximately \$200,000 to this revenue category to align more closely with prior year actuals.

Third, staff is recommending a budget adjustment to plan check fees. Both the Fire Department and Community Development Department are actively completing plan check fees for increased building related activity within the City. This is a strong indicator that the economy continues to remain strong.

Fourth, staff is recommending a budget increase of \$25,000 for Recreation program fees; these fees are the result of opening of the new pool. Staff will be establishing a pool specific program within the General Fund to help track and account for pool related revenues and expenditures.

Finally, staff recommends adjusting other Fire service revenues by \$390,577. This is money reimbursed to the City for strike team support and assistance for the fires and landslide in Southern California. Of this amount, \$253,350 is a direct offset to personnel costs related to the strike team assistance and a corresponding expenditure adjustment is recommended (page 15 of Attachment 1).

To mitigate the revenue shortfalls with Business Tax and TOT, staff has made a series of expenditure adjustments. Most significantly, the position of Deputy City Manager (DCM) will not be filled for the remainder of the fiscal year to provide salary savings amounting to approximately \$63,000, to help balance the General Fund budget. In addition, staff is recommending budget adjustments totaling approximately \$14,000 within the DCM program operating budget to help mitigate the revenue shortfalls.

Staff is also recommending a \$20,000 adjustment to contractual services within the Human Resources Division as a direct offset to recruitment expenditures, most notably with the hiring of a new City Manager. Lastly, staff recommends an expenditure reduction of \$9,500 in General Fund transfers to the Tourism Business Improvement District to reflect the funding calculation for the general fund contribution. This is discussed in detail on page 30 of Attachment 1.

Enterprise Funds

Enterprise Fund Adjustments are discussed on page 23-24 of Attachment 1. Staff is recommending minimal revenue adjustments of \$18,000 for the Harbor Fund due to trending receipts as of the first six months. A budget reduction of \$75,200 is recommended for the Water Revenue Fund as the transfer out to the Utility Discount Program is accounted for in both the Water Revenue Fund and Water Accumulation Fund. Lastly, a budget reduction of \$1.87 million dollars is recommended for the Sewer Revenue Fund. This is to reflect previous discussion that occurred in November 2017 regarding a double counting of capital expenditures within the Sewer Revenue Fund and Sewer Accumulation Fund.

Other Funds

Lastly, staff is recommending a series of adjustments in other funds (discussed on pages 29-34 of Attachment 1). Expenditure adjustments total \$120,413 and is reflective of Fire equipment purchases in Measure Q, legal fees related to the Diablo Plant Closure and \$40,000 for the San Luis Obispo County Economic Study and strategy development.

The budget augmentation of \$65,413 for miscellaneous operating supplies is for the purchase of fire equipment. This recommendation is a re-appropriation of unspent School Resource Officer (SRO) funds within the approved Measure Q fund.

With the adoption of the FY 2017/18 budget, the Measure Q fund included approximately \$77,000 to fund an School Resource Officer position (the Department's 18th Officer). It was later learned that PG&E would no longer be sharing the cost of the SRO position and the City chose to no longer provide these services. Therefore, the SRO police allocation of \$77,309 has not be expensed. Staff's recommendation is to re-appropriate \$65,935 for fire equipment.

The City's Fire Department provided significant strike team support during the fire season. As part of the California's Master Mutual Aid Agreement and California Fire Assistant Agreement (CFAA), the Fire Department participated in nine campaign fires throughout San Luis Obispo County and California as well as responded to Santa Barbara County to assist in the rescue attempts in the community of Montecito. As part of the agreements with the Governor's Office of Emergency Services, Cal Fire and FEMA, the City is reimbursed fully for payroll, apparatus, equipment repairs and administrative support. This money is deposited into the General Fund as reimbursement of offsetting payroll costs as well as other expenses. As staff prepared the mid-year financial update and 10-year financial forecast, key General Fund revenue sources previously discussed, i.e. business tax and transient occupancy tax (TOT), are trending below budgeted expectations. To help mitigate these shortfalls, staff is recommending that fire equipment be funded from Measure Q, specifically from a reallocation of most of the SRO funds.

This is a one-time recommendation as it is not staff's intention to create any precedent with this recommendation for future funding decisions. The CFAC committee reviewed and concurred with this recommendation at their February 20, 2018 meeting.

Public Employees' Retirement System (CalPERS) Side Fund Payoff

In 2003, California legislation mandated that all CalPERS member agencies with less than 100 employee members be enrolled in a risk-sharing plan in order to establish less volatile employer contribution rates for small agencies. At the time of being placed in the pool, a "side fund" was established by CalPERS actuaries to account for the difference between the funded status of the City's plan and the funded status of the overall risk pool. The side fund liability is treated by CalPERS essentially as a loan, with an effective interest rate set at the expected investment rate of return earned by the pool.

The City has an opportunity to reduce its retirement plan expenses by paying off the Tier 1 Fire Safety Plan side fund. The only identified funding source at this point is the City's General Fund Emergency Reserve (GFER). The City's Tier 1 Fire Safety side fund balance is \$308,770 and will be paid off in FY 2019/20. If the City were to pay off the side fund effective March 1, 2018, payment would total \$301,247, an interest savings of over \$7,000. This savings is attributed to interest being charged by

CalPERS at a rate of 7.375%. The City's investment portfolio was earning an average of 1% as of September 30, 2017 and the most recent Local Agency Investment Fund (LAIF) apportionment estimates are approximately 1.40%. Early payment of the side fund may make sense to achieve some longer-term savings for the City and reduce the FY 2018/19 and FY 2019/20 pension liabilities. For example, prepayment of the side fund would reduce FY 2018/19 pension liability by \$163,000.

Staff is seeking consideration and direction from the Council regarding early prepayment of the City's side fund and utilizing General Fund Emergency Reserves to do so.

FY 2017/18 Capital Improvement Plan Mid-Year Update

Waste Water Treatment Plant Relocation & Treatment Alternative Program (WWTP)

Staff is recommending a budget reduction of \$2 Million to the WWTP capital project budget. This is discussed in detail on pages 25-27 of Attachment 1 and is meant to better align the approved budget with expected accomplishments for the remaining six months of the fiscal year. It is important to note that these adjustments are due to project delays required to assess alternatives as directed by Council. Unless the project scope changes significantly, these budget reductions are not cost savings, but rather expenditures that are deferred to the future as the project progresses.

Capital Pavement Management Plan Project

During the June Budget Adoption approximately \$930,000 was incorporated into the budget for the City's Pavement Management Plan. This \$930,000 consists of approximately \$530,000 in Measure Q funds, \$245,000 in Urban State Highway Account (USHA) grant funds, \$61,000 in SB 1 Road Maintenance Rehabilitation Act (new gas tax) funds and \$90,917 in CalRecycle Grant funds. For clear accounting, staff recommends creating a new capital project for Pavement Management and transferring the Measure Q contribution of \$530,000 into that project. Creating a new project will assist with reporting out of the grant funds and specifically the SB 1 funds in a more clear and concise manner.

Keeping the role of CFAC to review Measure Q expenditures in mind, staff would continue to provide an accounting of the pavement management transactions in the new capital project fund to provide accountability to CFAC on the use of the Measure Q funds. CFAC reviewed and concurred with this recommendation.

The City's contractor, Pavement Coatings, was able to complete those streets planned for in this current year program at a preliminary final cost of \$808,397, there is an additional approximately \$30,000 in Construction Management also associated with the project.

2018 PAVEMENT MANAGEMENT STREET LIST		
Street	Start	End
Alder	San Joaquin Street	Elena Street
Alder	Sequoia Street	San Jacinto Street
Alder	San Jacinto Street	San Joaquin Street
Allesandro	Las Tunas Street	La Loma Avenue

Atascadero	Embarcadero	Park Street
Barlow	Main Street	End
Bayview	Hill Street	Hillview Street
Birch	Sequoia Street	San Jacinto Street
Birch	San Jacinto Street	San Joaquin Street
Butte	Las Tunas Street	End
Cedar	Sequoia Street	San Jacinto Street
Cedar	San Jacinto Street	San Joaquin Street
Cedar	San Joaquin Street	Elena Street
Coral	Indigo Cir	San Jacinto St
Damar	Sandalwood Avenue	End
Dogwood	San Joaquin Street	Elena Street
Front	Harbor Street	North End (Embarcadero)
Front	Harbor Street	South End (Embarcadero)
Ironwood	Elena Street	Avalon Street
Ironwood	Avalon Street	Mimosa Street
Ironwood	Mimosa Street	Highway 41
Island	Sandalwood Avenue	Coral Avenue
Jamaica	Panorama Drive	Main St
Juniper	Elena St	Avalon St
Kings	Balboa Street	Pacific Street
Kodiak	Panorama Drive	Main St
Kodiak	Beachcomber Drive	End
La Loma	Balboa Street	Quintana Road
LasVegas	Elm Avenue	Main Street
Main	Zanzibar Street	Yerba Buena
Main	Quintana Place	Surf Street
MindoroWay	Beachcomber Drive	Mindoro Street
Monterey	Morro Bay Blvd	Pacific Street
Monterey	Pacific Street	Marina Street
OrcasST	Highway 1	End
OrcasST	Panorama Drive	Main St
OrcasWY	Orcas Street	End
Panay	Beachcomber Drive	End
Pico	East End	Main Street
Ridgeway	Fairview (East End)	Kings Ave
Ridgeway	Kings Ave	Arbutus Ave
Seaview	Hill Street	Avalon Street
Shasta	Olive Street	South Street
Sicily	Beachcomber Drive	End
SouthBayBL	Twin Bridges	City Limit

SouthBayBL	Quintana	Twin Bridges
Terra	Sandalwood Avenue	End

There is currently a claim by the contractor for additional compensation for application of the oil at a greater rate than that was specified. Staff has rejected the claim, since no change order was requested, and the City did not have the opportunity to evaluate the request prior to the work being performed.

Sidewalk Gap Closure

Since 2011, the City of Morro Bay (City) has participated with other cities and the County of San Luis Obispo as an “Urban County” for purposes of U.S. Department of Housing and Urban Development (HUD) entitlement funding of Community Development Block Grant (CDBG) funds. City Council Resolution No. 75-15 authorized execution of a three-way agreement between the cities of Morro Bay, Atascadero, and San Luis Obispo County on October 14, 2016, which allowed for an advance of future years’ allocation of CDBG funding.

Budget for this project is funded with Federal aid from the Department of Housing and Urban Development (HUD), Community Development Block grant (CDBG) program. Per City Council Resolution Nos. 75-15 and 26-17, the City, as a sub-recipient to San Luis Obispo County, received funding and a loan for FY2018. In addition, a one-time \$18,440 transfer from Government (Transportation) Impact funds to the ADA Accessibility Improvements / CDBG Sidewalks, as noted in the FY17/18 Budget.

The City’s contractor, DOD Construction, LTD completed the following work items using CDBG funds and development impact fees to install sidewalk, curb and gutters at the following locations:

- Market Street between Beach & Dunes, east side, place approximately 455 square-feet of sidewalk and new driveway approach.
- Main Street between Marina & Driftwood, west side, place approximately 730 square-feet of sidewalk, 385 lineal feet of curb and gutter, ADA curb ramp, and new driveway approach.
- Main Street between Marina & Driftwood, east side, place approximately 1160 square-feet of sidewalk, 190 lineal feet of curb and gutter, 2 ADA curb ramps, and 2 new driveway approaches.
- Marina Street between Main Street & Morro, south side, place approximately 635 square-feet of sidewalk and new driveway approach.
- Napa Street between Dunes & Harbor, east side, place approximately 450 square-feet of sidewalk, 10 lineal feet of curb and gutter, 1 ADA curb ramp, and 1 new driveway approach.
- Dunes Street between Napa & Shasta, south side, place approximately 1670 square-feet of sidewalk, 160 lineal feet of curb and gutter, 1 ADA curb ramp, and 1 new driveway approach.
- Shasta Avenue between Dunes & Harbor, west side, place approximately 900 square-feet of sidewalk and 68 lineal feet of curb and gutter.
- Dunes Street between Napa & Monterey, north side, place approximately 680 square-feet of sidewalk, 160 lineal feet of curb and gutter, 1 ADA curb ramp, and 1 new driveway approach.
- Dunes Street between Napa & Monterey, south side, place approximately 660 square-feet of sidewalk, 1 ADA curb ramp, and 2 new driveway approaches.

The preliminary final cost including draft three change orders for additional grading, curbs and paving, is \$312,484.

Del Mar Park Restrooms

Included in the Capital Project section of the FY 2017/2018 budget document was the replacement of the restroom facility at Del Mar Park for approximately \$350,000. The project was not funded in the current budget year. But, replacement of the restroom was in line with City Council Goal #3 - Improve Infrastructure and Public Spaces. To continue to provide the highest standard of cleanliness, security, accessibility, and aesthetically pleasing facilities for residents, tourists, and visitors, Consolidated Maintenance staff did plan on making necessary repairs to the facility in order to keep it serviceable until such time that funds were available for the replacement.

In the fall of 2017, City staff was contacted by Rock Harbor Church looking for a service project that could be performed by volunteers with construction expertise. Staff worked with the volunteers and removed the siding from the facility to assess the required repairs. Additionally, staff consulted with an architect to determine the level and requirements for ADA upgrades.

After assessing the condition and value of the facility, staff was authorized to work within the existing budget to reconstruct the restroom and provide accessible facilities. Expenditures to date, not including staff time total \$24,832 and estimate a total cost of approximately \$40,000 and within the approved budget for the Facility Maintenance and ADA Upgrade funds.

Other Capital Projects

General Government Capital Improvement Projects

- Laurel Avenue easement rehabilitation – Storm Drain Portion: Not started due to limited staffing resources
- Morro Creek Restoration: Task #2 for contracted engineer to prepare preliminary design for permitting and submittal to FEMA for authorization
- OneWater Plan-Storm Drain Portion: In progress
- State Route (SR)1/SR41 Interchange Improvement: In progress, preliminary design and environmental documents being prepared with consultant services

Water Capital Improvement Projects

- OneWater Plan - Water Portion: In Progress
- Laurel Avenue - easement - Waterline portion: Being assessed in the OneWater Plan
- State Park Water Line: Being assessed in the OneWater Plan
- Chorro Creek stream gauges: Being assessed in the OneWater Plan
- Water System Emergency Contingency: Not needed to date
- Water Storage Tank Exterior Coating: Not started due to limited staffing resources

Wastewater (Sewer) Capital Improvement Projects

- Laurel Avenue easement rehabilitation – Sewer Portion: Being assessed in the OneWater Plan
- Embarcadero rehabilitation: Being assessed in the OneWater Plan
- OneWater Plan - Sewer Portion: In Progress
- Emergency Replacement Contingency: Not needed to date
- Collections Service Truck Replacement: Complete
- Vactor Replacement: Complete

Harbor Capital Improvement Projects

- Beach Street Slips – North: Preliminary design and permitting in-progress
- Beach Street Slips – South: Preliminary design and permitting in-progress
- Boat/Repair Storage Yard -Triangle Lot: RFP for financial feasibility study RFP in-progress, to go to Council for consideration
- Harbor Ice Machine Maintenance: In Progress
- South T-Pier Renovations: Deferred until staffing resources available

CONCLUSION

The available second quarter preliminary data cautions staff and Council to continue conservative fiscal planning and efforts to sustain the City's economically sensitive revenues. Staff will continue to examine revenue and expenditure activity and work to identify opportunities to enhance revenue to support current and future operating needs.

ATTACHMENT

1. Second Quarter FY 2017/18 Budget Performance and Status Report for period ending December 31, 2017.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

INTRODUCTION

Purpose

This is the second quarterly budget report for the Fiscal Year 2017/18, for the six-month period ending December 31, 2017. The purpose of this quarterly public reporting is twofold. First, it ensures that the City is consistently monitoring its revenues and expenditures so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, these reports increase the transparency of City finances. The City is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and quarterly public reporting provides taxpayers with the information they need to hold the City to this standard.

Content

This quarterly report presents an overview of the City’s operating revenues and expenditures from the General Fund for the six-month period ending December 31, 2017, as compared to previous years, and explains any notable aberrations or trends in these numbers.

This report includes data on General Fund operating revenues and expenditures, as these represent the funds used to provide essential City services, as well as the City’s three enterprise funds, Harbor, Water and Sewer, the Water Reclamation Facility (WRF) Capital Project, the City’s District Sales Tax Measure known as Measure Q and lastly the City’s Tourism Business Improvement District (TBID).

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement, and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures are final until the City has completed its

annual comprehensive audit, which is released in the winter of each year for the prior fiscal year.

With respect to revenues: The City monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect City revenues in order to develop a more accurate picture of the City’s anticipated year-end financial position.

With respect to expenditures: The expenditure information in this report is extracted directly from the City’s financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between City departments and funds that have not yet been processed in the system at the time of publication. It represents a snapshot of City expenditures at a certain point in time and does not reflect final FY 2017/18 adjustments.

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QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

EXECUTIVE SUMMARY

Status of FY 2017/18 Adopted Budget

Overall, second quarter revenue trends are steady when compared to the second quarter of Fiscal Year 2016/17, at about 45% of budgeted levels. Of the City's most economically-sensitive revenues - sales tax is down by about 2% or \$17,000 from receipts in the 2nd quarter of the prior year while Transient Occupancy Tax (TOT) is trending on par with actual receipts from the prior fiscal year at the second quarter period. It is important to note that while actual receipts are trending consistent for TOT, as a percentage of budget, TOT is trending approximately 3% less than in the prior year, as budget was increased significantly during the FY 2017/18 budget process. This is also true for business tax which was budgeted significantly higher than prior year actuals. Charges for Service are trending very well, due to increased development activity generating significantly more plan check fees for both the Fire Department and Community Development Department as well as the Fire Department's mutual aid work and support of the fires and landslide that occurred during late 2017. The Fire Department's support of these tragedies is reimbursed to the City to offset corresponding costs the City incurs.

Overall, General Fund expenditures for the second quarter continue to trend low with second quarter Supplies, Materials and Services expenditures at about 39% of budget. Overall salary and benefits are trending a bit high which is to be expected given the amount of mutual aid support provided for the fires and landslides that occurred down south. Staff is continuing to monitor both revenues and expenditures through the third quarter and continue to true-up budget figures to more closely align to actual results. As such, a series of budget adjustments in recommended for revenues and expenditures.

U.S. Economic Outlook

The Congressional Budget Office (CBO) estimates, in real terms, Gross Domestic Product (GDP) expansion by 2.2 percent in calendar year 2017 and by 2.0 percent in 2018. The CBO expects consumer spending and capital investment by businesses to drive that growth. The growth of real GDP in the CBO's forecast averages is 1.5 percent annually in 2019 and 2020.

The Federal Reserve has been gradually reducing its support for economic growth and this process is likely to continue through 2020, in the CBO's view. The CBO expects the Federal Reserve to raise the federal funds interest rate from 0.9 percent in the second quarter of 2017 to 2.0 percent by the end of 2018, and then 3.0 percent by the end of 2020. Similarly, in the CBO's forecast, by the end of 2020, the interest rate on 3-month Treasury bills rises to 2.7 percent and the rate on 10-year Treasury notes rises to 3.5 percent.

In addition, the federal lawmakers still face the longer-term budget issues posed by the large projected national debt and implementation of rising health care costs due to the aging population.

State Budget Update

The 2017 Budget Act continues to bolster the State's Rainy-Day fund and pay down accumulated debts and liabilities, to counter the potential fiscal impact of federal policy changes on California and the potential end of an economic expansion that has surpassed historical averages. While maintaining fiscal prudence, the Budget focuses state spending on the Governor's key priorities – investing in education, counteracting the effects of poverty, and improving the state's streets, roads and transportation infrastructure.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

The budget uses dedicated proceeds from Proposition 2 to pay down nearly \$1.8 billion in past budgetary borrowing and state employee pension liabilities. In addition, the budget reflects a \$6 billion supplemental payment to CalPERS through a loan from the Surplus Money Investment Fund that will reduce the state’s unfunded liabilities, stabilize state

contribution rates, and save \$11 billion over the next two decades.

The budget implements the Road Repair and Accountability Act of 2017 (SB 1), which returns the gas tax’s purchasing power to 1994 levels and provides \$54 billion in new funding over the next decade, split evenly between state and local funding.

GENERAL FUND – KEY REVENUE ANALYSIS

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

The following discussion provides a status of significant General Fund revenue sources as of the second quarter, ending December 31, 2017.

Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget actions.

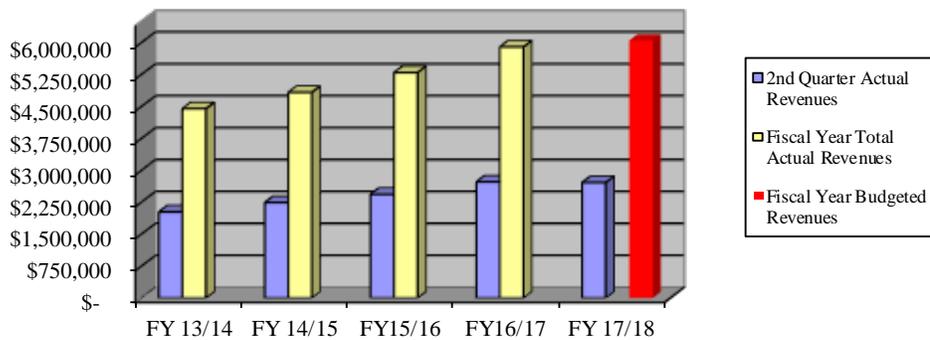
Other Taxes

Other taxes include sales and use tax, Prop 172 public safety sales tax, property transfer tax, transient occupancy tax (TOT), and Franchise Fees. As a category, other taxes represent 44% of the City’s total General Fund revenues, inclusive of transfers in, with transient occupancy tax being the second largest revenue source for the City. For purposes of the quarterly review, an analysis of Other Taxes as a grouping, as well as individual analysis of Sales and Use Tax, TOT and Franchise Fees will be discussed.

Analysis – Second quarter receipts continue to trend behind those receipts in prior years and therefore a budget reduction of \$200,000 for the category of “Other Taxes” is recommended, this includes a \$20,000 increase in Sales Tax Prop 172 revenues which were budgeted slightly less than year-end actuals for FY 16/17. A detailed analysis of sales tax, TOT and Franchise fees is following.

OTHER TAXES

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 2,022,854	\$ 2,242,006	\$ 2,434,683	\$ 2,727,457	\$ 2,712,525
Fiscal Year Total Actual Revenues	\$ 4,448,934	\$ 4,828,679	\$ 5,297,172	\$ 5,896,997	
Fiscal Year Budgeted Revenues					\$ 6,048,717
2nd Quarter Percent of Total	45.47%	46.43%	45.96%	46.25%	44.84%
Recommended Budget Revision					(200,000)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

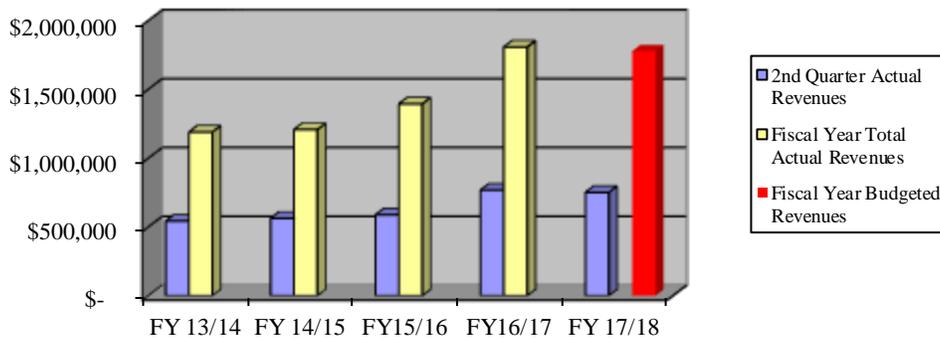
Sales Tax

Sales tax generates approximately 13% of revenues, the third largest revenue source for the City’s General Fund in FY 2017/18. The City’s General Fund receives 1 cent for every 7.5 cents of sales tax paid per dollar on retail sales and taxable services transacted within Morro Bay. Previously, the State Board of Equalization retained 25% of the City’s 1-cent share, referred to as the “Triple Flip,” requiring the San Luis Obispo County Auditor to replace it with an equal amount of property tax revenue. Revenues are remitted from the State to the City on a monthly basis, and from the County to the City on a biannual basis. These revenues are placed in the General Fund for unrestricted uses. The “triple flip” period ended in FY 2015/16 and is no longer impacting sales tax receipts.

Analysis – As a revenue category, second quarter receipts are trending in line with those in the same period in the past fiscal year. Staff will continue to monitor sales tax receipts and meet with the City’s sales tax consultant’s HDL to analyze trends. Any budget recommendations for adjustments will be brought forth with the third-quarter update.

Sales Tax

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 542,084	\$ 562,291	\$ 588,667	\$ 767,884	\$ 750,841
Fiscal Year Total Actual Revenues	\$ 1,189,656	\$ 1,207,332	\$ 1,394,145	\$ 1,807,642	
Fiscal Year Budgeted Revenues					\$ 1,777,664
2nd Quarter Percent of Total	45.57%	46.57%	42.22%	42.48%	42.24%

Recommended Budget Revision -

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

As depicted in the graph below, the categories of Restaurants and Hotels and Fuel and Service Stations represent the most significant increase in sales tax from the 2nd quarter of 2016 to the 2nd quarter of 2017. The most significant decrease in growth occurred in allocations from the countywide use tax pool. According to HDL analysis, project-driven spikes in allocations elsewhere in the region temporarily depressed the City’s share and State corrections further reduced the City’s share. There is not significant change in the sales tax revenue in the General Retail category; however, it should be noted that sales tax revenue has increased slightly in both the Food and Construction areas, when compared to the same quarter results from the prior fiscal year.



Staff will continue to monitor these revenues through the mid-year to determine if a budget adjustment will be recommended at that time.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

TOT Tax

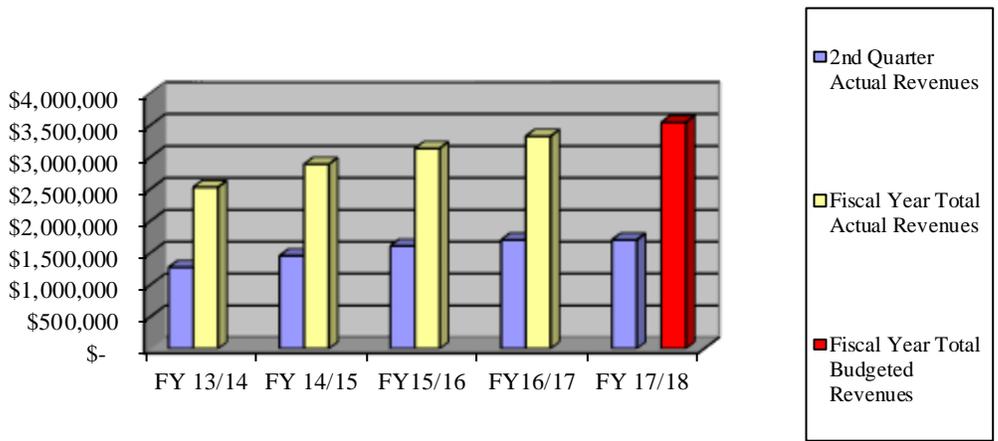
Transient Occupancy Tax (TOT) accounts for 26% of the City’s General Fund revenues for FY 2017/18. As a highly economically-sensitive revenue source, the City closely monitors this funding source for any indication that the tourism market is slowing down.

The City levies a 10% transient occupancy tax (TOT) on all hotel, motel, vacation rentals and RV parks within the municipal limits of Morro Bay. This tax helps to fund City services provided to transitory visitors to Morro Bay. In addition, the City collects additional revenues for the Tourism Business Improvement District (TBID) in the amount of 3% on all hotels, motels, inns, etc., which funds the Tourism program within the City and a 1 percent tax on all hotels, motels, vacation rentals and RV parks which is the share for the County Tourism program.

Analysis – Visit California, formerly the California Travel and Tourism Commission, reports that the total number of visitors to California grew 2.1% in 2017, following a 1.9% expansion in 2016. Total international visits to California will decline by 0.9% in 2017 before picking up to just above 2.5% in 2018 and increasing each year through 2021 (Source: California Office of Tourism). Second quarter TOT revenues are trending below prior year second quarter results, when viewed as a percentage of budget. As a result, staff is recommending a budget reduction of \$200,000 to this revenue source. Second quarter actual receipts total \$1,702,037 when compared to second quarter FY 16/17 receipts of \$1,701,933. The recommended budget adjustment would more closely align the TOT budgeted amount of FY 2016/17 actual receipts.

Transient Occupancy Tax

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,272,730	\$ 1,455,090	\$ 1,607,926	\$ 1,701,933	\$ 1,702,037
Fiscal Year Total Actual Revenues	\$ 2,527,352	\$ 2,888,638	\$ 3,136,366	\$ 3,327,073	
Fiscal Year Total Budgeted Revenues					\$ 3,543,371
2nd Quarter Percent of Total	50.36%	50.37%	51.27%	51.15%	48.03%
Recommended Budget Revision					(200,000)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

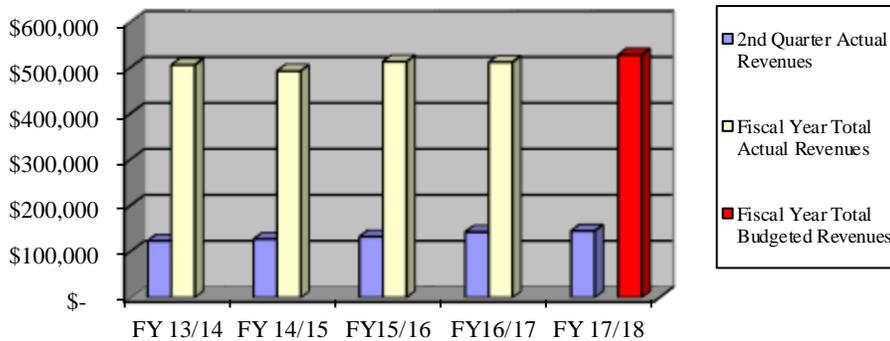
Franchise Fees

Franchise fees are collected by the City for the privilege of operating a utility service within Morro Bay, and as a fee in lieu of a business tax. Franchise fees are currently received for electricity, garbage, cable TV and natural gas. Franchise fees represent 4.0% of budgeted General Fund revenues in FY 2017-18.

Analysis – Historically, franchise payments are not remitted equally throughout the fiscal year; specifically, with Electricity Franchise Fees generally not be remitted until the third quarter. Based on the second quarter results, franchise fee revenues to date are 27.46% of budgeted total receipts, consistent with the prior year’s 2nd quarter results. No budget adjustment is recommended at this time.

Franchise Fees

Quarterly and Annual Revenues
5-Year History



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 123,137	\$ 126,873	\$ 132,314	\$ 142,446	\$ 144,862
Fiscal Year Total Actual Revenues	\$ 505,659	\$ 492,572	\$ 513,081	\$ 511,696	
Fiscal Year Total Budgeted Revenues					\$ 527,484
2nd Quarter Percent of Total	24.35%	25.76%	25.79%	27.84%	27.46%

Recommended Budget Revision

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QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

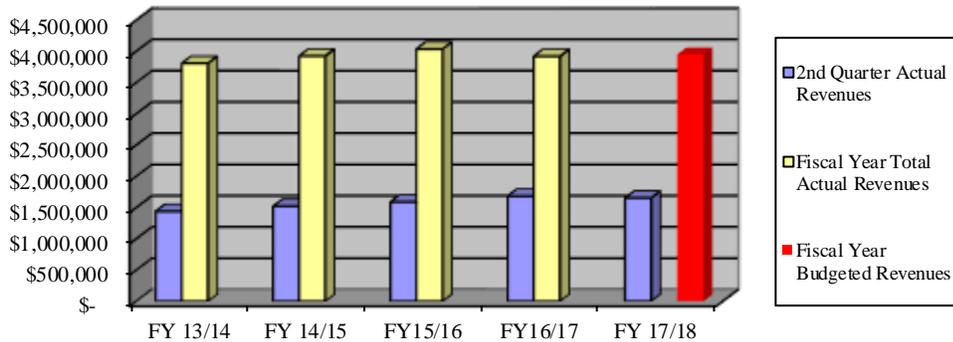
Property Tax

Property tax, including property tax in-lieu, is the second largest revenue category for the City’s General Fund, accounting for 29% of budgeted General Fund revenues in FY 2017/18. Property tax is levied by the San Luis Obispo County Assessor’s Office at 1% of a property’s assessed value, of which the City receives approximately 10.696 cents per dollar paid on property located within the municipal limits of Morro Bay.

Analysis – Property tax distributions are largely received in the third and fourth quarters, however the chart below depicts the 2nd quarter receipts for the past four years as compared to the current fiscal year. Second quarter receipts are trending consistent with prior years. Property tax revenue for FY 2017/18 was budgeted consistent with previous year’s actuals projecting relatively flat real estate transactions.

PROPERTY TAX

Quarterly and Annual Revenues
5-Year History



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,437,128	\$ 1,519,476	\$ 1,588,966	\$ 1,680,724	\$ 1,651,301
Fiscal Year Total Actual Revenues	\$ 3,805,601	\$ 3,921,347	\$ 4,035,432	\$ 3,917,348	
Fiscal Year Budgeted Revenues					\$ 3,948,634
2nd Quarter Percent of Total	37.76%	38.75%	39.38%	42.90%	41.82%

Recommended Budget Revision

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

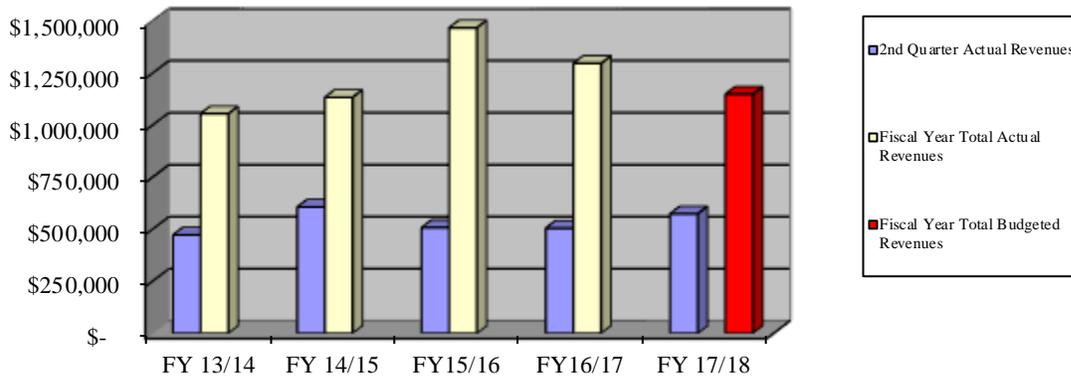
Charges for Services

City service revenues consist primarily of Plan Check fees, Building Inspection fees and Recreation sports and youth services fees. These fees are assessed based on recovery formulas, which reflect approximate costs of providing these services and, as a total category, account for 8% of the City’s General Fund revenues. Generally, community Development and Recreation Services account for most of these fees.

Analysis – Second quarter receipts are trending very high, as both Community Development and Fire Plan Check Fee revenues has surged, as well as recreation program revenues, particularly with the opening of the pool. In addition, the Fire Departments reimbursement for their strike team support of the various fires and landslide that occurred in late 2017 is included in the charges for services category. As a result of the increased building activity, use of the City’s recreational programs and Fire Service reimbursements, a \$544,081 budget augmentation is recommended.

Charges for Services

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 472,753	\$ 606,960	\$ 507,974	\$ 505,004	\$ 574,312
Fiscal Year Total Actual Revenues	\$ 1,055,168	\$ 1,134,047	\$ 1,468,119	\$ 1,297,352	\$ 1,149,348
Fiscal Year Total Budgeted Revenues					\$ 1,149,348
2nd Quarter Percent of Total	44.80%	53.52%	34.60%	38.93%	49.97%

Recommended Budget Revision	544,081
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QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

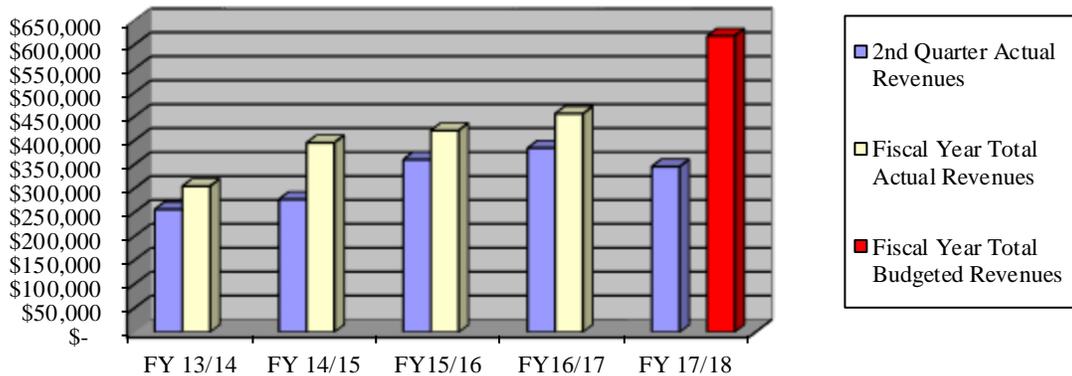
Licenses and Permits

Licenses and permits consist mainly of business and transient vendor taxes. Conditional use permits, and coastal permits are the other primary revenues sources in this category. The Licenses and Permits category represents approximately 5% of total City General Fund revenues for FY 2017/18. As business and transient vendor taxes are the largest subset of this revenue category, an independent analysis of that revenue source follows.

Analysis – Second quarter licenses and permit revenue as an overall category is trending significantly lower than the second quarter results from the previous fiscal year. Business tax is the largest subset of this category and is the primary reason why overall licenses and permits are trending low. As previously discussed during the first quarter update, business license revenue was budgeted significantly higher than prior year actuals. Therefore, a budget reduction of \$175,730 to this revenue category is recommended at this time.

Licenses & Permits

**Quarterly and Annual Revenues
5-Year History**



	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
2nd Quarter Actual Revenues	\$ 256,417	\$ 277,300	\$ 360,386	\$ 384,530	\$ 345,779
Fiscal Year Total Actual Revenues	\$ 305,021	\$ 395,769	\$ 421,205	\$ 456,319	
Fiscal Year Total Budgeted Revenues					\$ 618,589

2nd Quarter Percent of Total	84.07%	70.07%	85.56%	84.27%	55.90%
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Recommended Budget Revision	(175,730)
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QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

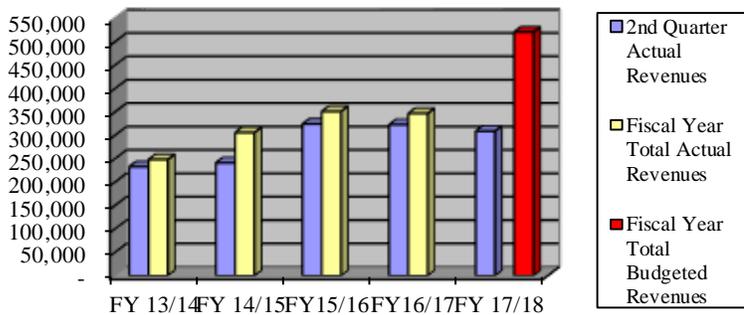
Business Tax

The City requires all business located within Morro Bay, or those that operate within Morro Bay, to obtain a business tax certificate. Business taxes apply to businesses operating as a general or sub-contractor, as a home occupation, from a commercial or office space rental, or as a business conducting temporary activities within the City limits. The amount of business tax paid by each business is based on the type of business being operated and varies depending on that type. Businesses, with gross receipts under \$4,000 per year for all work conducted within Morro Bay, are exempt from applying for and receiving a business tax certificate. These activities account for approximately 4% of annual General Fund operating revenues. Annual renewal payments are due in July, or for newer businesses, the month in which the business started.

Analysis – Business tax revenue grew steadily from FY 2013/14 through FY 2015/16, at which point revenues appear to have flattened out. When viewed as a percentage of budget, current year second quarter revenues are trending much lower than those of the previous year. This is due to FY 2017/18 budgeted business and transient vendor tax revenues being quite high compared to actual receipts from the prior years. Business Tax budgeted revenues increased in FY 2015/16 when the City engaged the services of Municipal Auditing Services to audit business tax receipts. At the time it was expected that the Business Tax audit would result in a substantial increase Business Tax revenue for the City, so the budgeted estimates were increased. Those higher estimates were carried into future years despite significantly lower actual receipts. Staff will budget revenues for FY 2018/19 in line with actual receipts from the past several years to avoid shortfalls in the future and is recommending a budget reduction of \$180,730 to more closely align budget to prior year actuals as well as quarter over quarter receipts.

Business Tax

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	232,860	241,281	324,236	322,787	308,867
Fiscal Year Total Actual Revenues	\$ 248,181	\$ 305,844	\$ 351,055	\$ 346,704	\$ 520,730
Fiscal Year Total Budgeted Revenues					\$ 520,730
2nd Quarter Percent of Total	93.83%	78.89%	92.36%	93.10%	59.31%
Recommended Budget Revision					(180,730)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

GENERAL FUND – KEY EXPENDITURE ANALYSIS

The following discussion provides a status of significant General Fund expenditures as of the second quarter ending December 31, 2017. Staff monitors each revenue source closely, and may recommend certain expenditure adjustments based on actuals or state budget actions.

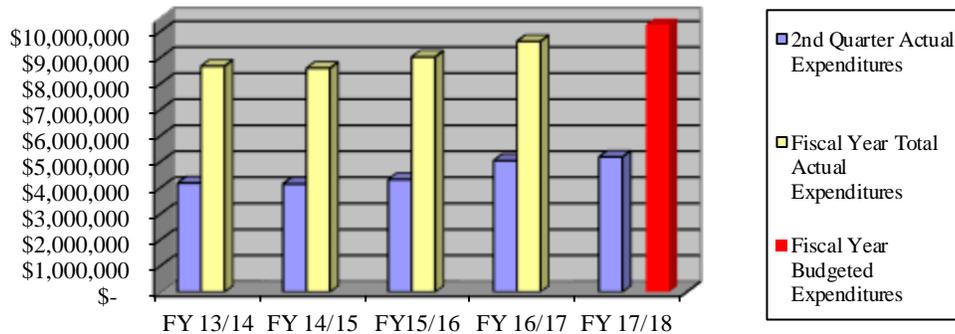
SALARIES AND BENEFITS

Salaries and benefits include full-time employee salaries, elected official's stipends, temporary/relief employees, overtime, other benefits, pensions and health care. Under typical circumstances, it would be expected that salaries and benefits would be at approximately 50% of total budget at the end of the second quarter.

Analysis – Second quarter results are well, at approximately 50.5% of budgeted totals. This includes substantial fire related personnel costs due to mutual aid assistance provided for the fires and landslide that occurred in late 2017, totaling \$253,000. These expenditures are reimbursed, and an offsetting revenue adjustment was recommended in the Charges for Services Category previously discussed (page 9). There are also some salary savings within various departments due to staffing transitions and vacancies. However, given some of the revenue shortfalls previously discussed, specifically with TOT and Business Tax, staff does not recommend re-appropriation of those savings at this time. An overall budget augmentation of \$189,207 is recommended for Salaries and Benefits.

SALARIES AND BENEFITS

Quarterly and Annual Expenditures
5-Year History



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Expenditures	\$ 4,192,310	\$ 4,151,356	\$ 4,326,271	\$ 5,050,750	\$ 5,186,818
Fiscal Year Total Actual Expenditures	\$ 8,675,535	\$ 8,595,238	\$ 9,027,716	\$ 9,625,716	
Fiscal Year Budgeted Expenditures					\$ 10,269,135
2nd Quarter Percent of Total	48.32%	48.30%	47.92%	52.47%	50.51%
Recommended Budget Revision					189,207

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

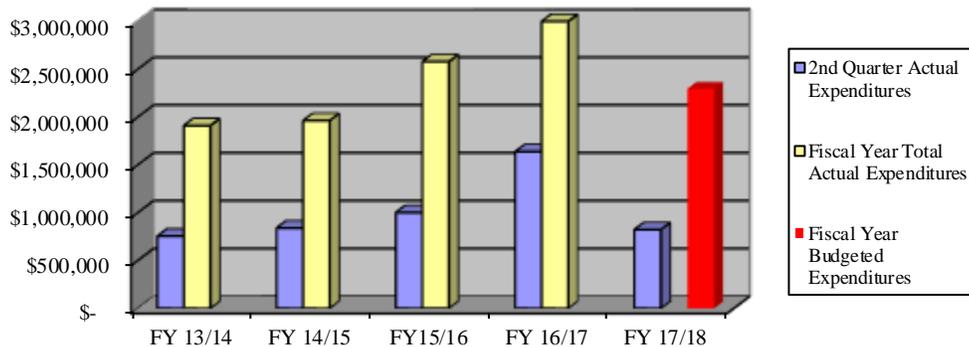
SUPPLIES, MATERIALS AND SERVICES

Operating expenditures consist of all General Fund costs to provide services, including supplies and materials, consulting services, contract services, and debt service. For analysis materials, utilities, insurance, payment to other agencies and transfers are categorized individually as they are often expenditure categories that staff have limited control or ability to reduce expenditures. The category of supplies, materials and services, the Cities most controllable expenditure category, should trend around the 50% level for the second quarter. Consulting and contractual services, a component of this category, may have various contract start dates and payments may not be equally spread throughout the fiscal year so variation from the 50% amount may be explained due to these consulting and contractual services.

Analysis – Second quarter results are trending a bit low at about 35.82% of budgeted totals (exclusive of transfers). As staff continues to provide services and looks towards the remainder of the fiscal year, a small budget augmentation of \$12,740 is recommended to help offset unbudgeted expenditures primarily related to recruitments and various recreational program services.

SUPPLIES, MATERIALS AND SERVICES

**Quarterly and Annual Expenditures
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Expenditures	\$ 755,414	\$ 840,080	\$ 1,001,382	\$ 1,638,283	\$ 822,445
Fiscal Year Total Actual Expenditures	\$ 1,910,336	\$ 1,963,521	\$ 2,579,514	\$ 3,022,358	
Fiscal Year Budgeted Expenditures					\$ 2,295,924
2nd Quarter Percent of Total	39.54%	42.78%	38.82%	54.21%	35.82%

Recommended Budget Revision	12,740
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QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures as of the second quarter as described below:

GENERAL FUND				
Fund	Acct	Sub	General Fund Revenues	
001	3510	3064	Transient Occupancy Tax	(200,000)
001	3510	3101	Business License	(180,730)
001	4210	3426	Plan Check Fees - Fire	70,000
001	4210	3272	Other Fire Services	390,577
001	6110	3469	Special Events	6,000
001	7105	3121	Encroachment Permits	5,000
001	7105	3426	Plan Check Fees - CDD	10,000
001	7105	3420	Design Review Fees - CDD	30,000
001	6110	3490	Program Revenue	8,000
001	7105	3902	Miscellaneous/Other	5,500
001	5270	3499	Miscellaneous/Other	204
001	6110	3501	Processing Fees	(4,200)
001	6125	3499	Other Rev/Current Services	(3,000)
001	6130	3480	Rec Sports Fees	25,000
001	6140	3482	Rec Youth Services	10,000
001	6143	3482	Rec Youth Services	1,500
TOTAL GENERAL FUND REVENUES				\$ 173,851
001			General Fund Expenditures	
001	3125		Salary & Benefits - DCM	(63,143)
001	4210		Overtime Pay - Fire	253,350
001	6110-6143		Salary & Benefits - Recreation	(1,000)
001	3125	8705	Misc. Other Expenditures	(5,000)
001	3125	5301	General Operating Supplies	(485)
001	3125	6105	Consulting Services	(1,940)
001	3125	6107	Promotion & Advertising	(3,000)
001	3125	6125	Professional Development	(900)
001	3125	6510	Meetings & Conferences	(1,000)
001	3125	6511	Mileage Reimbursement	(194)
001	3125	6513	Meals & Lodging	(1,000)
001	3125	6514	Travel Expense	(1,000)
001	3125	6519	Association Membership	(750)
001	3140	6106	Contractual Services	20,000
001	4110	6107	Contract Services	(1,190)
001	6110-6143	6106	Contract Services - Recreation	4,000
001	6140	5102	Recreation Supplies	4,000
001	6110		Professional Development	1,200
001	7710		Transfers to Special Revenue Fund	(9,500)
001	TOTAL GENERAL FUND EXPENDITURES			\$ 192,447

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

General Fund

Revenues:

- Transient Occupancy Tax: A budget reduction of \$200,000 is recommended due to higher forecasted receipts in the adopted FY 2017/18 budget. This reduction will align the budget to actual receipts and prior year end actuals.
- Business Tax: A budget reduction of \$180,730 is recommended due to higher forecasted receipts in the adopted FY 2017/18 budget. This reduction will align the budget to actual receipts and prior year end actuals.
- Plan Check Fees – Fire and Community Development: A total budget augmentation of \$80,000 is recommended due to increased building activity in the City.
- Other Fire Services: A budget augmentation of \$390,577 is recommended due to confirmed expected receipts for mutual aid services provided during the fires and landslide that occurred during late 2017.
- Special Events: A \$6,000 budget augmentation is recommended due to increased event activity and to more closely align FY 2017/18 projections with FY 2016/17 year-end actuals.
- Encroachment Permits: A \$5,000 budget increase is recommended due to activity that has occurred through the first six months of the fiscal year.
- Design Review Fees: A \$30,000 budget increase is recommended due to the activity that has occurred through the first six months of the fiscal year.
- Program Revenue: A budget augmentation of \$8,000 is recommended to align program revenue with prior year actuals.
- Notification Fees: A \$5,500 budget adjustment is recommended due to an increase in notification related fees within community development.
- Miscellaneous/Other: A \$204 budget augmentation is recommended due to increased activity within the curbside recycling program.
- Processing Fees: A \$4,200 budget reduction is recommended due to an increase in processing related fees in recreation, which include credit card charges, etc.
- Other Revenues/Current Services – A \$3,000 budget reduction is recommended due to changes in the 39+ Dance program.
- Recreation Sports Fees – A \$25,000 budget augmentation is recommended to capture fees related to the opening and continued use of the pool facility. Staff will be creating a separate Department center in the Finance system to track pool revenues and expenditures for easy tracking. This will be included in the third quarter update.
- Recreation Youth Services – A \$10,000 budget augmentation is recommended due to increased participation and to align budget with prior year-end actuals.
- Recreation Teen Program – A \$1,500 budget augmentation is recommended due to increased fees being collected through the snack shop.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Expenditures:

- Salary & Benefits - Deputy City Manager (DCM): A budget reduction of \$63,143 is recommended due to the separation of the DCM from City service. Given the projected revenue shortfalls with both the business tax and TOT revenues previously discussed, staff is proposing to keep the DCM position vacant through the remainder of the fiscal year to help mitigate those shortfalls.
- Overtime Pay - Fire: A budget augmentation of \$253,350 is recommended as this is a direct reimbursement for staff time and strike team support of the fires and landslide that occurred during late 2017. A revenue augmentation has also been recommended.
- Salary and Benefits – Recreation: An overall \$1,000 budget reduction is recommended due to staffing restructuring within the division and various programs.
- Operating Expenditures – Deputy City Manager A \$15,269 budget reduction is recommended to the remaining DCM’s operating expenditures. To help mitigate the shortfalls expected with operating revenues related to business tax and TOT, staff is proposing to freeze all DCM related expenditures at this time.
- Contractual Services: A \$20,000 budget augmentation is recommended to help offset costs related to recruitments, specifically the City Manager recruitment.
- Contract Services – A \$1,190 budget reduction is recommended for the Police Department.
- Contract Services – A total budget augmentation of \$4,000 is recommended for the Recreation programs.
- Professional Development: A budget augmentation of \$1,200 is recommended for increased staff training within the Recreation Division.
- Transfers to Special Revenue Fund: A \$9,500 budget reduction to the transfer of funds to the Tourism Business Improvement District (TBID) fund is recommended as a result of prior year FY 2016/17 actual receipts.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FINANCIAL SUMMARIES, PROJECTIONS AND RECOMMENDATIONS

General Fund

The following table is the *Schedule of General Fund Operating Revenues vs. Operating Expenditures* for the second quarter of FY 2017/18, and is sorted by revenue and expenditure category, which includes comparison information from the prior year. In the last column are projections of final balances for the current fiscal year, based upon the trends observed through the second quarter.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

City of Morro Bay Schedule of General Fund Operating Revenues vs. Operating Expenditures By Category For the period ended December 31, 2017

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD	FY17/18 Finance Projection
Revenues				
Property Tax	\$ 3,948,634	\$ 1,651,301	42%	\$ 3,948,634
Other Taxes	200,198	114,785	57%	200,198
Transient Occupancy Tax	3,543,371	1,702,037	48%	3,343,371
Sales Tax	1,777,664	750,841	42%	1,777,664
Franchise Fees	527,484	144,862	27%	527,484
Licenses & Permits	97,859	36,912	38%	102,859
Business Tax	520,730	308,867	59%	340,000
Charges for Services	1,149,348	574,312	50%	1,693,429
Fines & Forfeitures	12,000	11,268	94%	12,000
Intergovernmental	60,394	2,889	5%	60,394
Other Sources	39,422	14,421	37%	44,922
Use of Money & Property	443,927	225,748	51%	443,927
Fund Transfers	1,316,851	566,837	43%	1,316,851
Total Revenues	13,637,882	6,105,081	45%	13,811,733
Expenditures				
Salaries	5,240,831	2,346,945	45%	5,196,831
Overtime	247,177	250,156	101%	500,527
Part-time	901,245	501,872	56%	906,245
Other Salaries	332,189	217,612	66%	336,846
Labor Costs Applied	1,500	94,897	6326%	1,500
Benefits	3,546,193	1,775,337	50%	3,516,393
Supplies, Materials and Services	2,295,924	822,445	36%	2,308,664
Utilities	357,852	192,886	54%	340,257
Insurance	142,770	71,385	50%	142,770
Debt Service	-	17,595		17,595
Payment to other Agencies	40,775	22,932	56%	40,775
Total Expenditures	\$ 13,106,456	\$ 6,314,062	48%	\$ 13,308,403
Transfers In/Out	522,322	522,322	100%	512,822
Total Operating Expenditures	\$ 13,628,778	\$ 6,836,384	50%	\$ 13,821,225
Net Surplus or (Use) of Reserves	\$ 9,104	\$ (731,303)		\$ (9,492)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

The following table is the *Schedule of General Fund Operating Revenues vs. Operating Expenditures* for the second quarter of FY 2017/18 displayed by revenue type and expenditures per department. The chart includes comparison information from the prior year and serves to monitor Department expenditures related to both budgeted amounts and prior year actuals. In the last column are projections of final balances for the current fiscal year based upon the trends observed through the second quarter.

City of Morro Bay
Schedule of General Fund
Operating Revenues vs. Operating Expenditures
By Department
For the period ended December 31, 2017

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD	FY17/18 Finance Projection
Revenues				
Property Tax	\$ 3,948,634	\$ 1,651,301	42%	\$ 3,948,634
Other Taxes	200,198	114,785	57%	200,198
Transient Occupancy Tax	3,543,371	1,702,037	48%	3,343,371
Sales Tax	1,777,664	750,841	42%	1,777,664
Franchise Fees	527,484	144,862	27%	527,484
Licenses & Permits	97,859	36,912	38%	102,859
Business Tax	520,730	308,867	59%	340,000
Charges for Services	1,149,348	574,312	50%	1,693,429
Fines & Forfeitures	12,000	11,268	94%	12,000
Intergovernmental	60,394	2,889	5%	60,394
Other Sources	39,422	14,421	37%	44,922
Use of Money & Property	443,927	225,748	51%	443,927
Fund Transfers	1,316,851	566,837	43%	1,316,851
Total Revenues	13,637,882	6,105,081	45%	13,811,733
Expenditures				
City Council	134,575	65,279	49%	\$ 134,575
City Manager	280,441	121,204	43%	\$ 275,441
Contract Services	768,105	187,539	24%	\$ 768,105
City Clerk/HR/Elections	419,500	215,026	51%	\$ 439,500
Deputy City Manager	117,284	55,932	48%	\$ 43,872
Accounting & Treasury	616,680	318,592	52%	\$ 612,230
Police Department	3,336,552	1,650,541	49%	\$ 3,335,361
Support Services	231,122	106,263	46%	\$ 231,122
Fire Department	2,480,935	1,476,602	60%	\$ 2,734,285
Emergency Operations Center	8,967	(7,874)	-88%	\$ 8,967
Community Development	1,053,470	385,280	37%	\$ 1,053,470
Public Works	626,349	310,117	50%	\$ 626,349
Consolidated Maintenance	855,800	558,131	65%	\$ 855,800
Vehicle, Parks, Facilities	120,361	57,194	48%	\$ 120,361
Streets, Street Trees, Storm Drains/Creeks	864,144	248,008	29%	\$ 864,144
Street lighting	106,000	47,491	45%	\$ 106,000
Curbside Recycling	-	-	0%	\$ -
Recreation Services - Administration	318,203	134,890	42%	\$ 306,403
Recreation Services - Dance 39+	11,500	5,100	44%	\$ 8,500
Recreation Services - Sports	411,856	190,982	46%	\$ 425,856
Recreation Services - Youth Services	344,612	183,314	53%	\$ 353,612
Electricity	-	4,450		\$ 4,450
Total Expenditures	\$ 13,106,456	\$ 6,314,062	48%	\$ 13,308,403
Transfers In/Out	522,322	\$ 522,322.00	100%	512,822
Total Operating Expenditures	\$ 13,628,778	\$ 6,836,384	50%	\$ 13,821,225
Net Surplus or (Use) of Reserves	\$ 9,104	\$ (731,303)		\$ (9,492)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

The groups of financial summaries on the following pages present data by governmental fund type: For purposes of this 2nd quarter report we have focused on the Enterprise Funds, Harbor, Water, and Sewer.

Enterprise Funds

The Enterprise Funds are Proprietary Funds used to report the same functions presented as business-type activities. The 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. The Water Enterprise Fund accounts for revenues received primarily from water service charges, which are expended for maintenance, operations, and improvements to the water system while the sewer enterprise fund accounts for revenues received primarily from sewer service charges, which are expended for maintenance, operations and improvements to the sanitary sewer system.

A summary of each operating fund is found below:

Harbor Operating Fund - 331

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 872,606	\$ 844,693	\$ 832,086	\$ 882,218	\$ 809,290
Fiscal Year Total Actual Revenues	\$ 2,597,358	\$ 1,992,648	\$ 2,104,019	\$ 1,940,152	
Fiscal Year Total Budgeted Revenues					\$ 2,429,658
2nd Quarter Percent of Total	33.60%	42.39%	39.55%	45.47%	33.31%
2nd Quarter Actual Expenditures	\$ 1,018,755	\$ 939,398	\$ 1,031,230	\$ 1,057,560	\$ 948,674
Fiscal Year Total Actual Expenditures	\$ 2,319,373	\$ 2,096,385	\$ 2,118,296	\$ 2,166,628	
Fiscal Year Total Budgeted Expenditures					\$ 2,429,658
2nd Quarter Percent of Total	43.92%	44.81%	48.68%	48.81%	39.05%
Recommended Budget Revision Revenues					18,311
Recommended Budget Revision Expenditures					\$ 15,500

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

WATER FUND - 311

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,737,733	\$ 1,586,902	\$ 2,062,875	\$ 2,417,816	\$ 2,686,792
Fiscal Year Total Actual Revenues	\$ 5,761,587	\$ 3,657,206	\$ 4,338,311	\$ 4,928,645	
Fiscal Year Total Budgeted Revenues					\$ 5,479,700
2nd Quarter Percent of Total	30.16%	43.39%	47.55%	49.06%	49.03%
2nd Quarter Actual Expenditures	\$ 2,242,331	\$ 2,264,964	\$ 2,464,111	\$ 1,694,995	\$ 2,110,540
Fiscal Year Total Actual Expenditures	\$ 4,680,790	\$ 4,477,798	\$ 5,416,380	\$ 3,659,970	
Fiscal Year Total Budgeted Expenditures					\$ 5,479,700
2nd Quarter Percent of Total	47.90%	50.58%	45.49%	46.31%	38.52%
Recommended Budget Revision Revenues					
Recommended Budget Revision Expenditures					\$ (75,200)

SEWER FUND - 321

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,940,134	\$ 2,011,389	\$ 2,269,228	\$ 2,660,409	\$ 2,955,602
Fiscal Year Total Actual Revenues	\$ 4,198,241	\$ 4,336,206	\$ 5,118,266	\$ 5,690,877	
Fiscal Year Total Budgeted Revenues					\$ 6,266,000
2nd Quarter Percent of Total	46.21%	46.39%	44.34%	46.75%	47.17%
2nd Quarter Actual Expenditures	\$ 818,688	\$ 1,915,074	\$ 1,019,443	\$ 1,424,012	\$ 2,065,045
Fiscal Year Total Actual Expenditures	\$ 4,112,811	\$ 4,696,610	\$ 3,814,036	\$ 3,170,631	
Fiscal Year Total Budgeted Expenditures					\$ 6,266,000
2nd Quarter Percent of Total	19.91%	40.78%	26.73%	44.91%	32.96%
Recommended Budget Revision Revenues					
Recommended Budget Revision Expenditures					\$ (1,870,530)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures as of the second quarter as described below:

ENTERPRISE FUNDS				
<i>Enterprise Funds - Revenues</i>				
<i>Harbor Operating Fund</i>				
331				
331	6510	3439	Other Harbor Services	4,945
331	6510	3443	Mooring Rental	3,780
331	6510	3445	Slip Transient Sub Lease	9,586
				<u>18,311</u>
303			TOTAL ENTERPRISE FUND REVENUES	\$ 18,311
<i>Enterprise Funds - Expenditures</i>				
<i>Harbor Operating Fund</i>				
331				
331	6510	4310	Part-Time Pay	3,000
331	6510	6301	Electricity	9,000
331	6510	6303	Water	2,500
331	6510	6750	Business Equipment Rental	4,000
331	6511	4310	Part-Time Pay	(3,000)
				<u>15,500</u>
311			<i>Water Revenue Fund</i>	
311	7710	8410	Transfer Out to Utility Discount Program	(75,200)
311				<u>(75,200)</u>
321			<i>Sewer Revenue Fund</i>	
321	7710	8520	TRFR to Other Government Funds	(1,870,530)
321				<u>(1,870,530)</u>
			TOTAL ENTERPRISE FUND EXPENDITURES	\$ (1,930,230)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

Enterprise Funds

Revenues:

- Other Harbor Services: A budget adjustment of \$4,945 is recommended due to mid-year trends and to align more closely with prior year receipts.
- Mooring Rental: A budget adjustment of \$3,780 is recommended due to increased mooring rentals.
- Slip Transient Sub Lease: A budget adjustment of \$9,586 is recommended due to increase slip rentals.

Expenditures:

- Part-Time Pay - Harbor Operations: A budget augmentation of \$3,000 is recommended due to increased staffing needs.
- Electricity – Harbor Operations: A budget augmentation of \$9,000 is recommended due to increased electricity costs.
- Water – Harbor Operations: A budget adjustment of \$2,500 is recommended due to increased water expenditures.
- Business Equipment Rental – Harbor Operations: A budget adjustment of \$4,000 is recommended due to continued repairs needed on the Harbor Department's copier. Staff is determining if another copier can be transferred to the Harbor Department to lessen these costs.
- Part-time Pay – Lifeguard Program: A \$3,000 budget reduction is recommended due to estimated staffing needs.
- Transfer out – Water Revenue Fund: A \$75,200 budget reduction is recommended as this amount represents transfer of funds to the Utility Discount Program. The amount is also budgeted in the accumulation fund and therefore is double counted in the FY 2017/18 budget.
- Transfer to Other Government Funds: A budget adjustment of \$1,870,530 is recommended to account for a double counting of capital improvements in both the sewer revenue fund and sewer accumulation fund. This was previously discussed with Council in late 2017.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Water Reclamation Facility Capital Project

The Water Reclamation Facility (WRF) project has been on-going for many years. As of FY 2017/18 staff established a separate capital project to account for the transactions associated with this project. Prior to that the costs had been captured through various sewer related accounts.

Below is a snapshot of expenditures, by category for the WRF project for the first six months of FY 2017/18. Staff is working to capture all prior year costs in a similar format for the Council and community.

City of Morro Bay Schedule of WRF Project Expenditures For the period ended December 31, 2017

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD
Expenditures			
Salaries & Benefits	100,000	37,186	37%
Laboratory Testing	50,000	-	0%
Miscellaneous Operating Supplies	5,000	1,585	32%
Engineering Services	295,000	78,272	27%
Program Mgmt & DB	1,200,000	338,494	28%
Grant Support	60,000	7,523	13%
Government Relations	-	31,924	
Maintenance Contracts	42,204	44,776	106%
Land Acquisition	337,000	-	0%
Water Reclamation Facility (WRF) - Onsite Improv	600,000	-	0%
Design Phase - Lift Station & Force	1,200,000	-	0%
Planning & Permitting	372,000	34,939	9%
Total Expenses	\$ 4,261,204	\$ 574,698	13%

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures as of the second quarter as described below:

<i>CAPITAL PROJECTS</i>			
<i>Sewer Capital Improvement Fund - WWTP Relocation & Treatment Alternative Expenditures</i>			
922			
922	8312	4999	Labor Costs Applied (25,000)
922	8312	5114	Laborator Testing (25,000)
922	8312	6104	Engineering Services (150,000)
922	8312	6196	Program Management & DB (500,000)
922	8312	6197	Grant Support (30,000)
922	8312	6198	Government Relations 57,000
922	8312	6640	Maintenance Contracts 2,572
922	8312	7101	Land Acquisition (337,000)
922	8312	7103	Water Reclamation Facility (WRF) - Onsite Improv Design/Bid (350,000)
922	8312	7104	Design Phase - Lift Station & Force Main (550,000)
922	8312	7105	Planning & Permitting (150,000)
922			-
922			<i>TOTAL WWTP RELOCATION EXPENDITURES</i> \$ (2,057,428)

It is important to note that these adjustments are due to project delays and are recommended to more accurately reflect expected expenditures for the fiscal year. Unless the project scope changes significantly, these budget reductions are not cost savings, but rather expenditures that are deferred to future years as the project progresses.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- Labor Costs Applies: A budget reduction of \$25,000 is recommended to align with projected year-end estimates.
- Laboratory Testing: A budget reduction of \$25,000 is recommended to align with projected year-end estimates.
- Engineering Services: A budget reduction of \$150,000 is recommended given the status of the project as of the second quarter and to better align with projected year-end estimates.
- Program Management & DB: A budget reduction of \$500,000 is recommended given the status of the project as of the second quarter and to better align with projected year-end estimates.
- Grant Support: A budget reduction of \$30,000 is recommended given the status of the project as of the second quarter and to better align with projected year-end estimates.
- Government Relations: A budget augmentation of \$57,000 is recommended to capture unbudgeted costs of lobbying services by the Ferguson Group.
- Maintenance Contracts: A budget augmentation of \$2,572 is recommended to capture unbudgeted cost of a copier machine that was rented for specific use on WRF related activity. Staff is reviewing the lease on the copier and considering either terminating the lease or reassigning the copier to the Harbor Department as their copier is experiencing increased maintenance needs.
- Land Acquisition: A budget reduction of \$337,000 is recommended as acquisition of the proposed site is not forecasted to occur during the remainder of the fiscal year.
- Water Reclamation Facility (WRF) – Onsite Improve Design/Bid: A budget reduction of \$350,000 is recommended to more closely align budget with projected actual expenditures through the second half of the fiscal year.
- Design Phase – Lift Station & Force Main: A budget reduction of \$550,000 is recommended to more closely align budgeted with expected expenditures through the second half of the fiscal year.
- Planning & Permitting: A budget reduction of \$150,000 is recommended to more closely align budget with expected expenditures through the remainder of the fiscal year

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

With the recommended budget adjustments, staff proposes the project budget to be revised as follows:

**City of Morro Bay
Schedule of WRF
Project Expenditures
For the period ended December 31, 2017**

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD	FY17/18 Finance Projection
Expenditures				
Salaries & Benefits	100,000	37,186	37%	75,000
Laboratory Testing	50,000	-	0%	25,000
Miscellaneous Operating Supplies	5,000	1,585	32%	5,000
Engineering Services	295,000	78,272	27%	145,000
Program Mgmt & DB	1,200,000	338,494	28%	700,000
Grant Support	60,000	7,523	13%	30,000
Government Relations	-	31,924		57,000
Maintenance Contracts	42,204	44,776	106%	42,204
Land Acquisition	337,000	-	0%	-
Water Reclamation Facility (WRF) - Onsite Improv	600,000	-	0%	250,000
Design Phase - Lift Station & Force	1,200,000	-	0%	650,000
Planning & Permitting	372,000	34,939	9%	222,000
Total Expenses	\$ 4,261,204	\$ 574,698	13%	\$ 2,201,204

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Other Funds

Other Funds can consist of internal service type funds that are used to account for various types of insurance coverage for the City, and to manage the City's information technology needs. In addition, the City has other funds that have been set up to accumulate monies for various projects or capital and equipment needs, such as the facility maintenance fund. The report covers the Morro Bay Tourism Business Improvement District, the Measure Q fund, Risk Management Fund and Opportunity Fund. The Risk Management Fund is an internal service fund used to pay legal and insurance expenditures on behalf of the City. The Opportunity Fund was set up by the previous administration to set aside funds for future projects or activities that the City wanted to pursue. The Opportunity fund is available for general fund purposes and is not restricted to its use. The Risk Management Fund may be appropriated for other purposes; however, by City policy, a minimum fund balance of \$100,000 is required to be maintained in this fund. City staff would not recommend re-appropriating funds in the risk management fund for purposes other than insurance or litigation. Both the Measure Q and Morro Bay Tourism Business Improvement District are discussed in more detail below:

Morro Bay Tourism Business Improvement District

On April 27, 2009, Ordinance No. 546 was enacted, establishing Chapter 3.60 of the Morro Bay Municipal Code, which is entitled Tourism Business Improvement District (MBTBID) Law. Lodging establishments self-assess an additional transient occupancy tax on rooms rented, which is paid to the City, then returned to the Tourism Bureau for promoting tourism in Morro Bay. For the first year, the MBTBID assessment rate was 3%; ensuing years were set at 2%, per the Ordinance.

On September 13, 2010, staff introduced Ordinance No. 562, which increased the MBTBID assessment rate back to 3%. The Ordinance was passed on September 27th and became effective October 28, 2010.

Annually in May, the MBTBID's annual report and budget are presented to the City Council, and a public hearing is set, which allows affected businesses the opportunity to protest the MBBID assessment. A Resolution is brought forward to confirm the results of the public hearing, renew the activities of the MBTBID for the upcoming fiscal year, and approve the levy and collection of the 3% assessments from the hoteliers.

In 2013, the MBTBID formed a 501c(6) corporation, Morro Bay Tourism Bureau, to carry out the marketing activities of the MBTBID, as well as manage the Visitors Center.

As part of the Management Partners' 2015 Organizational Study, the recommendation to *develop a proposal for integrating Tourism Bureau activities with City operations* was explored by staff. City staff held a public workshop on September 22, 2015, to discuss this with stakeholders, presented the concept to the MBTBID board at a special meeting on December 10, 2015, and ultimately presented the results of the City's outreach and recommendations to the City Council on January 12, 2016, with two management scenarios. The Council adopted Resolution No. 03-16, discontinuing the City's contract with the Morro Bay Tourism Bureau, and merging operations and marketing (via Mental Marketing) efforts into the City, beginning June 2016.

For second quarter 2017/18 revenues and expenditures are trending well. It should be noted that revenues include fund transfers in which is the General Fund's contribution towards TBID. For FY 2017/18 the General Fund contribution was budgeted at \$134,928. When excluding transfers, Assessments are trending low at 44% for the first six months of the calendar year. This aligns with the trending of TOT for the City's General Fund. While no budget reduction to assessments is recommended at this time, staff has been cautioned to monitor and limit

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

expenses until more data is available. Staff is recommending a revenue reduction of \$9,500 as the General Fund contribution to TBID is \$60,000 base funding plus 20% of prior year actual TOT revenues above \$3,000,000. As indicated on page 7 of this report, FY 2016/17 TOT receipts totaled \$3,327,073. Therefore, the General Fund TBID contribution should total \$125,414 (\$60,000 base funding + 20%*\$327.073), a difference of \$9,500 from budgeted amounts.

TBID

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 542,732	\$ 467,151	\$ 392,912	\$ 510,489	\$ 538,016
Fiscal Year Total Actual Revenues	\$ 862,222	\$ 882,109	\$ 841,295	\$ 935,834	
Fiscal Year Total Budgeted Revenues					\$ 1,046,791
2nd Quarter Percent of Total	62.95%	52.96%	46.70%	54.55%	51.40%
2nd Quarter Actual Expenditures	\$ 527,732	\$ 485,699	\$ 425,537	\$ 434,309	\$ 531,601
Fiscal Year Total Actual Expenditures	\$ 845,913	\$ 872,550	\$ 660,205	\$ 917,560	
Fiscal Year Total Budgeted Expenditures					\$ 1,046,791
2nd Quarter Percent of Total	62.39%	55.66%	64.46%	47.33%	50.78%
Recommended Budget Revision Revenues					\$ (9,500)
Recommended Budget Revision Expenditures					
<i>*Revenues includes transfers in and Assessment collections</i>					

Measure Q

With the November 7, 2006 election, the citizens of Morro Bay voted in a ½ cent district sales tax, commonly known as “Measure Q.” This is a general tax and has no sunset date. The ballot measure stated: *The Morro Bay Vital Public Services Restoration and Protection Measure. To preserve Morro Bay’s safety and character by funding essential services including upgrading firefighter/paramedic equipment, fire stations, police, street and pothole repairs, improving storm drains to protect the bay from pollution and other general city services, shall an ordinance be adopted increasing the City sales tax by one-half cent, subject to independent annual financial audits, and establishing an independent citizens’ advisory committee to review annual expenditures?”*

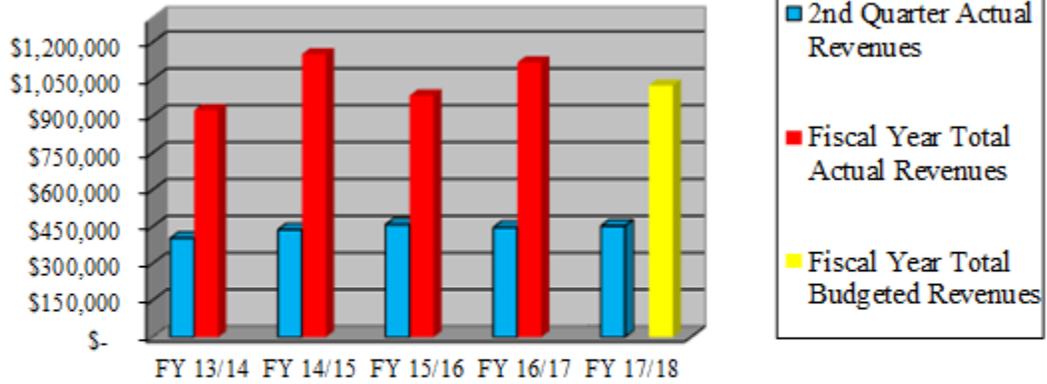
Ordinance 519 was enacted on August 14, 2006, to establish Chapter 3.22, City of Morro Bay Transactions and Use Tax. The City Council divides the annual revenue estimate between the departments, based on the language in the Measure, campaign polls, and departmental requests.

Measure Q revenues are trending well as indicated in the chart below, therefore no revenue budget adjustments are recommended at this time:

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Measure Q Revenues

Quarterly and Annual Revenues
5-Year History



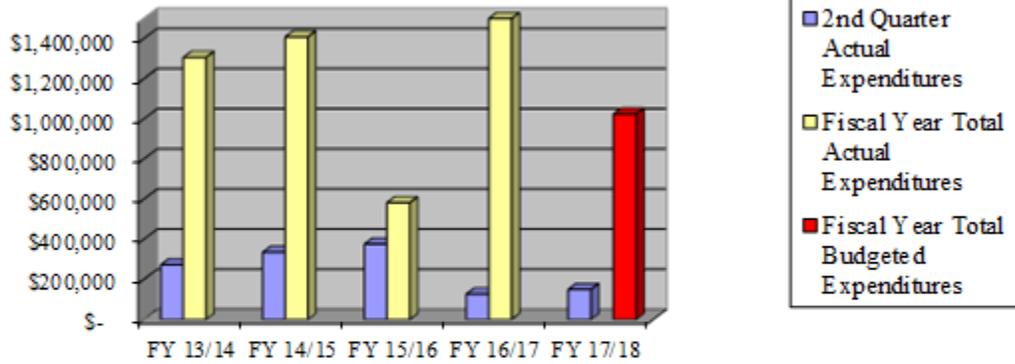
	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 402,622	\$ 437,892	\$ 458,250	\$ 446,882	\$ 452,616
Fiscal Year Total Actual Revenues	\$ 923,776	\$ 1,151,549	\$ 983,602	\$ 1,118,270	
Fiscal Year Total Budgeted Revenues					\$1,024,129
2nd Quarter Percent of Total	43.58%	38.03%	46.59%	39.96%	44.20%

Measure Q Expenditures are generally trending low, partially due to the defunding of the School Resource Officer (SRO) position. It was determined that the SRO position would not be funded when the Schools and PG&E decided not to fund their share of the position.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Measure Q Expenditures

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Expenditures	\$ 272,738	\$ 335,296	\$ 375,877	\$ 126,949	\$ 150,342
Fiscal Year Total Actual Expenditures	\$ 1,306,450	\$ 1,408,279	\$ 582,073	\$ 1,544,827	
Fiscal Year Total Budgeted Expenditures					\$1,024,129
2nd Quarter Percent of Total	20.88%	23.81%	64.58%	8.22%	14.68%

Staff has several budget adjustments that have been reviewed and supported by the Citizen’s Advisory Finance Committee (CFAC) at their February 20, 2018 meeting. The budget adjustments recommend re-appropriating \$65,413 of the SRO funds to purchase fire equipment. The City’s Fire Department provided significant strike team support during the fire season. As part of the California’s Master Mutual Aid Agreement and California Fire Assistant Agreement (CFAA), the Fire Department participated in nine campaign fires throughout San Luis Obispo County and California as well as responded to Santa Barbara County to assist in the rescue attempts in the community of Montecito. As part of the agreements with the Governor’s Office of Emergency Services, Cal Fire and FEMA, the City is reimbursed fully for payroll, apparatus, equipment repairs and administrative support. This money is deposited into the General Fund as reimbursement of offsetting payroll costs as well as other expenses. With key General Fund revenue sources, i.e. business tax and transient occupancy tax (TOT), trending quite low staff’s recommendation is to help mitigate these shortfalls by purchasing the fire equipment through the Measure Q fund, specifically re-appropriating a substantial portion of the SRO funds. The specific equipment needs are detailed below:

Safety Equipment	\$9,500
Single Layer Pants and Coats	
Gloves	
Wildland Boots	
Small Tools	\$42,078
K-Saw	
Auto Extrication Pump	
(2 out of 3) Thermal Imagers	

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Outside Vehicle Repair	\$5,500
Rescue 5351 Emission Repair	
Wildland Hose	\$2,835
1,500' Single Jacket Wildland Hose	
Miscellaneous Operating Supplies	
Tents, Sleeping Bags, and Pads	
Chain Saw Chains	
Mud Waders	
<hr/>	
Total	\$65,413

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following expenditures as of the second quarter as described below:

OTHER FUNDS

<i>Other Funds Revenues</i>				
<i>TBID</i>				
007				
007	7710	3801	Transfers In	(9,500)
007				(9,500)
007			TOTAL OTHER FUNDS REVENUES	\$ -
<hr/>				
<i>Other Funds Expenditures</i>				
<i>Measure Q</i>				
003				
003	4210	5199	Miscellaneous Operating Supplies	65,413
003				65,413
<i>Risk Management</i>				
430				
430	4301	6106	Legal Fees - City's Share of Fees for Diablo Plant Closure	15,000
430				15,000
<i>Opportunity Fund</i>				
480				
480	7710	8501	SLO County Economic Study	40,000 *
480				40,000
			TOTAL OTHER FUNDS EXPENDITURES	\$ 120,413

*Approval of this recommendation is effectively an approval to transfer \$40,000 from the Opportunity Fund to the General Fund to fund the City's share of the economic study.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

Other Funds

- Transfers In – TBID: Staff recommends a reduction in the General Fund contribution to TBID of \$9,500 to agree with the funding calculation approved by City Council as discussed above.
- Miscellaneous Operating Supplies – Measure Q: A budget adjustment of \$65,413 is recommended to re-appropriate SRO funding to purchase equipment for the Fire Department.
- Legal Fees – Risk Management Fund: Staff recommends a budget adjustment of \$15,000. This reflects the City's share of the San Luis Obispo County litigation costs against the Diabio Plant Closure.
- Opportunity Fund – Staff recommends a budget adjustment and use of \$40,000 in funds available in the Opportunity Fund to contribute towards the San Luis Obispo County Economic Study. If approved, these funds would be transferred into the General Fund, City Manager's budget and disbursed as contract services. Approval of this budget adjustment would also approve the corresponding expense from the City Manager's General Fund budget.

CONCLUSION

The financial results from the FY 2017/18 second quarter data highlighted areas where budget expectations exceeded actual receipts and areas where the City is in good position. The second quarter report highlights that the City must continue to monitor the most economically sensitive revenue category of TOT as well as the rental income category closely into the third quarter update as well as strive to contain costs as much as possible. As the fiscal year progresses, staff will continue to closely monitor revenue and expenditure activity and work to identify opportunities to enhance revenue to support current and future operating and capital needs.

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AGENDA NO: C-3

MEETING DATE: February 27, 2018

Staff Report

TO: Honorable Mayor & City Council

DATE: February 21, 2018

FROM: Eric Endersby, Harbor Director

SUBJECT: Discussion of Agenda for the C-MANC Annual “Washington Week” Meetings in Washington, D.C., and Adoption of Resolution No. 07-18 Protecting our Ocean and Coast from Offshore Oil Drilling, Exploration and Fracking

RECOMMENDATION

Staff recommends the Council receive this report and provide any desired input on the elements herein. In addition, staff recommends Council consider approving Resolution No. 07-18 regarding offshore oil development along our coastline.

ALTERNATIVES

Not applicable.

FISCAL IMPACT

As previously brought before and approved by the Council at the January 9 meeting, the total travel costs for the five-person delegation to the California Marine Affairs and Navigation Conference (C-MANC) “Washington Week” and Water Reclamation Facility (WRF) funding and permitting-related meetings are estimated at \$20,000. For C-MANC, there is a dedicated two-person delegation of the Mayor and Harbor Director. In addition, the City Manager and Council Member Heading will be splitting their time between C-MANC meetings and WRF meetings. Public Works Director Livick will participate only in WRF-related meetings. The City will apply for a grant from Central Coast Joint Cable Fisheries Liaison Committee upwards of \$10,000 to reimburse expenses related to C-MANC. The remainder of the travel expenses will be covered by the WRF.

BACKGROUND

C-MANC annually hosts “Washington Week” meetings, where representatives of California Ports and Harbors have the opportunity to remind Congress and various other agencies of the importance of dredging projects, commercial fishing and other coastal-related legislation in California and nationwide. In addition, C-MANC and our Washington D.C. trip are not only about dredging; we also meet with various legislators, regulators and other agencies to bring forth issues and matters of concern such as fisheries, ocean and coastal management and coastal governance. The City is a founding member of C-MANC, which was created in 1965/1966 when the Northern California Marine Affairs Conference and the California Navigation Conference (CNC) merged. Prior to that merger, San Luis Obispo County and the City were members of CNC. For the past 25+ years, the City has sent representatives to the “Washington Week” meetings. Attachment 1 to this report is last year’s C-

Prepared By: EE

Dept Review: EE

City Manager Review: SC

City Attorney Review: JWP

MANC D.C. agenda.

On January 9, 2018, the City Council authorized five-persons, including Mayor Irons, Councilman Heading, City Manager Collins, Public Works Director Livick and Harbor Director Endersby, as this year's Morro Bay delegation. The Mayor will primarily be pursuing C-MANC issues, while the Harbor Director will be exclusively with C-MANC. Councilman Heading and the City Manager will be primarily working on WRF issues but dividing their time between the WRF and C-MANC where applicable, while the Public Works Director will be exclusively with the WRF. This year's C-MANC proceedings are March 6-8.

Continued dredging of our Federally-authorized and funded harbor entrance and channel remains our top priority with C-MANC, our work with the Army Corps of Engineers (Corps) and Washington D.C. visits. That will ensure our harbor remains not only safe for passage, but fully navigable from a commerce and operational standpoint. The City could not afford to dredge our harbor without the Corps, as annually the Corps spends approximately \$3 Million to dredge our entrance, and \$7 Million - \$8 Million every 6-8 years to dredge the remainder of our channels. We work most closely with the Corps' Los Angeles District to coordinate our channel status and dredging needs, who, in turn, prioritize the District's projects for consideration at the South Pacific Division level. The Division then prioritizes and sends a work plan to Headquarters in Washington D.C., who in turn prioritize and send budget requests to the Office of Management of the Budget (OMB) for the nation's civil works projects, including dredging of Morro Bay harbor. Eventually, the President's budget is where our funding will reside (or not) in a Corps work plan.

Technically, our Corps-dredged channel is divided into six sections, as one moves inside the harbor, (i) the Entrance Channel at the harbor entrance, dug to -40', (ii) the Transition Channel from just inside the harbor to approximately 400 yards inside the Entrance Channel, dug to a varying depth from -40' to -20', (iii) the Main Channel from the Transition Channel to approximately the Target Rock area, dug to -16', (iv) the Navy Channel from the Main Channel to approximately the bottom of Beach Street, also dug to -16', (v) the Morro Channel, running from the Navy Channel through the remainder of the harbor to approximately the Inn at Morro Bay, dug to -12', and (vi) the Sand Trap area adjacent to the Transition Channel between the channel and South Jetty, dug to -25'. Those are the authorized "design depths."

Historically, Morro Bay harbor requires all those channels dredged approximately every 6-8 years. After several years of tragic vessel accidents in the harbor mouth, culminating in the loss of local commercial crabber Al French in 1987, after many years of study by the Corps to improve the harbor entrance and lobbying Congress, the "Entrance Improvement" project was authorized by Congress. That project digs the entrance area and just outside the harbor to -40' to minimize the steep and breaking waves there. In the first year the Entrance Improvement project was dug, 1995, the City had to contribute 20% of the cost, or \$500,000, as the local contribution. Annually since then, with the exception of 2002 when entrance dredging was included with a whole-harbor dredging project, the Corps has authorized and Congress funded approximately 20 days of dredging by the Corps' dredge ship *Yaquina*, out of Portland, Oregon, for that work. The project has made an enormous positive difference in the safety of our harbor entrance, lowering the number of days posted as "hazardous" from an historic ~80 per year to ~25 or less now.

Largely because of our work with C-MANC, including the annual D.C. trips, the Federal government has paid for all our dredging costs, including our requests of approximately \$3 Million per year in recent years for annual *Yaquina* dredging. On average, for the past five years the *Yaquina* has removed approximately 180,000 cubic yards of clean sand and gravel from our entrance and placed it in the Nearshore disposal site south of the harbor for beach nourishment.

For our whole-channel dredging needs, in recent episodes the required funding has amounted to approximately \$7 Million - \$8 Million. In our most recent cycle in 2017/2018, Ahtna Design-Build, Inc. removed 280,793 cubic yards of material at a cost of \$4,862,961. That was using “hydraulic” or pipeline-type equipment. In 2009/2010, AIS Construction removed 573,969 cubic yards for \$8,167,145, using a combination of hydraulic and excavator/barge equipment. Before that, in 2002 Manson Construction removed 868,483 cubic yards with combined equipment at a cost of \$3,695,596. Those dredged materials were placed at either the Nearshore disposal site, or on the beach north of the Rock roughly opposite the high school. Those are the two Environmental Protection Agency (EPA)-approved beach nourishment beneficial reuse disposal sites and are part of the reason why the dunes on the sandspit and in north Morro Bay are large and healthy.

The Corps (i) is the nation’s number one federal provider of outdoor recreation, (ii) owns and operates more than 600 dams, (iii) operates and maintains 12,000 miles of commercial inland navigation channels, (iv) dredges more than 200 million cubic yards of construction and maintenance dredge material annually, (v) maintains 926 coastal, Great Lakes and inland harbors, (vi) restores, creates, enhances or preserves tens of thousands of acres of wetlands annually under the Corps’ Regulatory Program, (vii) provides a total water supply storage capacity of 329.2 million acre-feet in major Corps lakes, (viii) owns and operates 24 percent of the U.S. hydropower capacity or 3 percent of the total U.S. electric capacity, and (ix) supports Army and Air Force installations and construction world-wide.

Despite accommodating approximately 400 recreational and 75 commercial fishing vessels, Coast Guard Station Morro Bay, a California Fish and Wildlife patrol vessel, Morro Bay Harbor Patrol, two ~100-foot commercial service vessels and a small marine construction firm, from a priority standpoint, Morro Bay is considered a small or “subsistence” harbor. In terms of commerce, although we do generate approximately \$8 Million in ex-vessel value out of 3.5 million tons in commercial fishing landings per year, we are quite low on the totem pole compared to powerhouses like Los Angeles/Long Beach and Oakland. Because of our relative isolation, however, “harbor of safe refuge” status, United States Coast Guard presence and relatively dangerous harbor entrance, Morro Bay’s rank in priority for funding is elevated above a “subsistence” harbor, and we have been successful in having our dredging needs met.

It is vitally important, therefore, for the City to maintain its relationships at all levels of the Corps’ organization and with our legislators in Washington D.C. Our membership and involvement with C-MANC is one key to our and other California ports and harbors’ voices being heard and needs being met.

DISCUSSION

In addition to the C-MANC organized meetings where all members generally attend *en masse*, we set-up separate Morro Bay-only meetings with key legislators and others, including the Corps, to discuss specific Morro Bay and Central Coast regional issues. As stated above, last year’s Morro Bay meeting agenda is included with this staff report at Attachment 1.

Dredging. This year (FY18), Morro Bay received \$2.2 Million for the *Yaquina* to come this spring, while we recently had completed a cycle of whole-harbor dredging with an additional “plus-up” of \$4.37 Million from the Corps’ work plan in FY17. So, Morro Bay is in good shape, at present, but we must stay attentive to our harbor’s crucial and on-going needs. Therefore, for FY19, we are requesting \$3.0 Million for annual *Yaquina* dredging. Currently (as of 2/14/18), the President’s proposed FY19 budget includes \$2.4 Million for dredging Morro Bay Harbor out of the Corps’ Operations and Maintenance budget.

Our goal this year is to continue our message of the importance of Morro Bay dredging to our community, the region and state, and to ensure we maintain our important Corps relationships, including thanking those involved with securing our funding.

Fisheries. Although this year, as in years past, we will focus on the continued burden under the current groundfish management scheme where 100% human observers are required to participate in the fishery, which seriously hampers the Morro Bay Community Quota Fund's ability to get better participation in leasing quota, refinancing of a \$45 Million Federal loan to reduce West Coast commercial fishing capacity will be a new focus this year. That loan is being paid back by fees levied on groundfish quota harvests; and, thus, a refinance of that loan, with more favorable terms, will reduce the burden on the industry.

Marine Sanctuaries. In a recent communication with the Harbor Advisory Board Chairman, National Marine Sanctuary West Coast Regional Director William Douros indicated the National Oceanic and Atmospheric Administration (NOAA) is taking no action with regard to the Chumash Heritage National Marine Sanctuary nomination off our coast, as NOAA is focusing all new sanctuary designation efforts on the two East Coast nominations accepted for consideration. So, although it appears there will be no activity anytime soon with regard to the Chumash proposal, it would behoove us to confirm in D.C., in addition to discussing the Trident wind farm proposal with sanctuary leaders, due to that proposal's proximity to the Monterey Bay National Marine Sanctuary.

Water Reclamation Facility and Desalination. With the expanded Morro Bay delegation this year, we intend to focus more efforts on the Water Reclamation Facility (WRF) project and funding, particularly seeking possible Federal subsidized loans, grants or other funding opportunities, as well as meeting with Council on Environmental Quality staffers to discuss policy and guidance issues, drought and sea level rise issues, EPA and other topics germane to the WRF project. The specific meetings include our congressional delegation and House Leadership, The USDA for discussion regarding the rural utilities program funding opportunities, the Bureau of Reclamation for potential grant funding through the Title 16 and WaterSmart programs. Additionally, we will meet with the Army Corps of Engineers to discuss funding for the collection system improvements (Lift Station and Force Main) and finally we will meet with the USEPA WIFIA program staff to discuss timing of the rate hearing and the potential for delaying debt service payments.

Bureau of Ocean Energy Management (BOEM). As the Trident Winds wind energy farm project proposal off our coast continues to make its way through the Federal leasing and permitting process, we will be staying closely engaged, including meeting with BOEM representatives to get the D.C. perspective of the competitive ocean tract lease process, convey Morro Bay's concerns, and what Morro Bay's roles, responsibilities and opportunities may be in the leasing and permitting processes. We will also be conveying the City Council's current "memorandum of cooperation" status with Trident, and an update on the progress Trident is making with the commercial fishermen to address that industry's concerns.

Also of concern to Morro Bay this year is the current Federal administration's potential opening of offshore oil development on the West coast. In 1986, the City of Morro Bay passed Measure "C" prohibiting new offshore oil development support facilities in Morro Bay, which was codified by Ordinance 297 as Morro Bay Municipal Code (MBMC) section 17.30.060. In addition, Appendix A of the MBMC contains background and other information relevant to the City's prohibition of offshore oil supporting facilities. Assuming passage of Resolution 07-18 by the Council, that Resolution and MBMC 17.30.060 will be brought to BOEM's attention as the City's official position on offshore oil development along our coast. MBMC 17.30.060, Appendix A and Resolution No. 07-18 are included with this report as Attachments 2, 3 and 4, respectively.

United States Coast Guard (USCG). This year we are intending to meet with the USCG in order to convey both our continued strong support for the USCG mission, station and personnel in general, but also of the USCG's new building proposal we have been working on for several years, while providing USCG D.C. personnel with a first-hand account of the situation from the City's perspective in why we're finding it financially difficult to move forward.

Legislators. Each year we meet personally with our Congressional delegation, and/or their key staffers. Those meetings typically are of a more general nature but do focus on specific projects and issues and recent news and happenings of a noteworthy nature. Those personal meetings are important and do make a difference in matters and funding important to Morro Bay.

Included with this staff report, as Attachment 5, are our proposed "leave behind" papers for our Congressional representatives and the Corps. Staff is seeking input and concurrence with these papers.

CONCLUSION

It is important for the California C-MANC delegation, as well as for the City, to maintain its many relationships in Washington D.C., in addition to bringing a unified voice of the importance of all of California's ports and harbors as an integrated "system" to the national economy and security. As evidenced by our recent Corps funding "plus-up" and other events, such as national and international recognition of our groundbreaking Community Quota Fund, Morro Bay's concerns and voice do matter and do make a difference in legislation, funding and other issues important to our community.

Finally, included with this report as Attachment 6 are C-MANC's 2018 Washington DC meeting talking points that all C-MANC members bring with a unified voice to advocate for California's collective concerns, issues and priorities.

ATTACHMENTS

1. 2017 City of Morro Bay Washington D.C. meetings agenda
2. Morro Bay Municipal Code 17.30.060
3. Morro Bay Municipal Code Appendix A
4. Resolution No. 07-18
5. "Leave behind" papers for Senators Feinstein and Harris, Congressman Carbajal and the Army Corps of Engineers
6. C-MANC's 2018 Washington D.C. meeting talking points



**City of Morro Bay
Washington Agenda
March 2017**

10:00

HARRIS

Monday, March 6

12:00p.m.

Bradd Schwichtenberg and Jeff McKee
US Army Corps of Engineers
 441 G Street, NW
 (202) 761-1367, Bradd.R.Schwichtenberg@usace.army.mil
Carpi & Clay staff: Julie Minerva

2:30p.m.

Alexis Segal, Legislative Assistant
Office of Senator Dianne Feinstein
 331 Hart Senate Office Building
 (202) 224-3831, Alexis_Segal@feinstein.senate.gov
Carpi & Clay staff: Julie Minerva

3:30p.m.

Nancy M. Juárez, Legislative Director
Office of Representative Salud Carbajal (CA-24)
 212 Cannon House Office Building
 (202) 225-3601, Nancy.Juarez@mail.house.gov
Carpi & Clay staff: Eric Swedlund

Thursday, March 9

11:00a.m.

John Armor, Director
NOAA's Office of National Marine Sanctuaries
 1305 East-West Highway
 Silver Spring, MD 20910
 POC: Rosemarie McKeeby
 (240) 533-0691
***Upon arrival, please call (202) 807-9468, and you will be escorted to Mr. Armor's office.*
***Please note that you will need to show a government issued ID or driver's license to get through security.*

17.30.060 - Prohibition of new off-shore oil development support facilities.

There shall be no construction, reconstruction, operation or maintenance of any commercial or industrial facility within the city, including but not limited to business or personnel office, oil or gas storage facilities, pipe, drilling materials, or equipment repair or storage facilities, or any other aid or support which operates directly or indirectly in support of any offshore oil or gas exploration, development, drilling, pumping or production; nor shall there be any construction, reconstruction, operation or maintenance of any pipeline within the city for the transmission of any oil or natural gas taken or removed from any offshore oil or gas drilling or pumping operations.

- A. Zoning Changes. No zoning changes to accommodate onshore support facilities for offshore oil or gas exploration, development, drilling, pumping or production shall be enacted without a vote of the people of the city.
- B. Ordinance. The ordinance codified in this chapter shall not be amended or repealed without a vote of the people.

(Ord. 445 § 3 (part), 1995)

Appendix A

The language contained in this appendix is from Measure "A," approved by the voters in 1986, and is provided for informational purposes.

Purpose.

The purpose of this chapter is to prevent Morro Bay from becoming an oil port, personnel-boat center or other logistical base for offshore oil operation.

Findings.

These findings are based on the City of Morro Bay's General Plan, Housing Element, EIR for Appropriate Water rights in the Morro and Chorro Basin, May 1986; Quarterly and Annual Water Reports and other documents and information available and familiar to the City Council and the people of Morro Bay.

A. Environment Degradation.

1. Sensitive Habitat Areas. The City is a small community with many unique and environmentally sensitive habitat areas. These are critical wetlands habitats for several rare and endangered plant and animal species. Morro Bay is a bird sanctuary established by the local Audubon Society.
2. Natural Estuaries. The Estuary is among the last remaining natural estuaries along the coast of California and needs to be protected.
3. Physical Settings. The City is located in a physical setting with spectacular visual qualities. The visual resources of the community serve as valuable assets to both City residents and visitors.
4. Environmental Studies. Environmental studies designed to evaluate the potential impacts of oil and gas exploration and extraction activities on sensitive marine and coastal resources are not yet complete. Until these studies are completed, it is impossible to weigh the risks of offshore oil development against the potential royalties or energy benefits.
5. Environmental Impact Reports of Potential Spills. Environmental impact reports prepared to assess the effects of offshore drilling actually predict large scale oil spills. In addition to the destruction of marine life, spills could reach the shoreline, destroying habitat and reducing or eliminating seabird and other animal populations.

B. Effects On Morro Bay Economy.

1. Commercial Fishing Significance. The commercial fishing industry historically played a significant role in the development of Morro Bay, and continues to provide an economic source for the community as well as serving as an important tourist attraction. The California Coastal Act of 1976 requires Morro Bay to protect and, where feasible, upgrade commercial and recreational fishing facilities. The City has a policy of giving priority to commercial fisheries in existing harbor facilities and in new harbor development.
2. Preservation. Morro Bay is one of the last true fishing ports along the coast of California and as such should be preserved.
3. Commercial Fishing Needs. There is a shortage of suitable wharfage space, moorings and areas for expansion of the commercial fishing industry. Morro Bay Harbor cannot accommodate boats of the size generally associated with oil development service bases. To do so would require a total redesign and redevelopment of the harbor and a tremendous amount of dredging. Lands available for additional wharfage are critical to the City's plans to develop facilities to meet the priority needs of the commercial fishing industry.
4. Conflict with Oil Support Vessels. Due to the similarities in the requirements of commercial fishing boats and oil support vessels and because the oil industry can afford to pay more for the services required by their boats than the fishing industry, commercial fishing would tend to be displaced.
5. Tourism. Tourism is an important part of the City's economy with the quality of the beaches and the beautiful visual resources being a prime factor in the success of the tourist industry. Oil and gas development anywhere off Central California could have disastrous effect on beaches within the City and the tourist industry.

C. Impact Of Onshore Facilities.

- 1.

Support Facilities. Support facilities for offshore oil and gas development cannot be accommodated in the City. The City's Local Coastal Program contains no sites designated onshore support facilities associated with offshore oil development. Any site in the City would have debilitating effects on the local economy and environment.

2. Groundwater. The City relies solely on finite groundwater basins currently in overdraft conditions resulting in a complete building moratorium which has only been partially alleviated. There is not sufficient water to accommodate any oil support facilities in the City.
3. General Plan, Housing Element. The goals for 1986 in the General Plan, Housing Element, particularly for affordable housing are not being met due to lack of water. Location of oil crews in Morro Bay would put greater demand for housing than could be met, thereby displacing lower income residents.

D. Consistency.

1. General Plan. This chapter is consistent with the City's General Plan.
2. Local Coastal Program. This chapter is consistent with the City's Local Coastal Program.
3. Initiative Ordinance Number 283. Adoption of the Ordinance codified in this chapter by the people of the City of Morro Bay shall repeal that Initiative Ordinance Number 283 adopted by the City Council of the City on April 28, 1987 which became effective on May 28, 1986.
4. Consistency. Adoption of said Ordinance by the people does not amend nor rescind any consistent provisions of the General Plan, Local Coastal Program or Zoning Ordinances but does strengthen and define such consistent provisions.

(Ord. 445 § 3 (part), 1995)

ORDINANCE NO. 197

AN ORDINANCE REQUIRING VOTER APPROVAL FOR ANNEXATIONS

The people of the City of Morro Bay do ordain an ordinance relating to voter approval on annexations as follows:

RESOLUTION NO. 07-18

**A RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF MORRO BAY, CALIFORNIA,
OPPOSING NEW OR EXPANSION OF EXISTING OFFSHORE OIL AND GAS LEASES
OFF THE COAST OF SAN LUIS OBISPO COUNTY AND SUPPORTING MEASURES
TO PROHIBIT DISCHARGE OF POLLUTANTS INTO THE OCEAN**

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

WHEREAS, the City of Morro Bay was designated a state estuary in 1994 and an “estuary of National Significance” in 1995 as a result of community-based efforts to protect this precious resource. The City of Morro Bay values our State's ocean waters and coasts, which provide habitat to a vast array of wildlife that depend on a healthy and clean environment; and

WHEREAS, the City of Morro Bay’s residents and visitors enjoy our ocean, beaches, mountains and abundance of diverse resources for recreation, exploration, and relaxation; and

WHEREAS, our City’s economy is reliant on a healthy ocean for our residents, visitors, and fishing professionals; and

WHEREAS, the City of Morro Bay has been a port for our Commercial Fishing fleet, Sport Fishing, Recreational Boating, United States Navy, United States Coast Guard, California Fish and Wildlife, and our own Harbor Patrol Safety Officers; and

WHEREAS, the City of Morro Bay has a long history of caring for our coastal waters, bay, and environment by adopting City policies and practicing environmental stewardship; and

WHEREAS, in 1986, the City of Morro Bay passed Measure “C”, which was codified as Ordinance 297: “Shall and ordinance be enacted to (1) prohibit offshore oil development support facilities within Morro Bay, and (2) require any zoning change to accommodate onshore support facilities for offshore oil development to be submitted to a vote of the people of the City of Morro Bay”; and

WHEREAS, said Ordinance 297 prohibiting offshore oil support facilities within the City of Morro Bay has been in place since Measure “C” passed by the vote of the people in 1986; and

WHEREAS, the City of Morro Bay adopted Resolution No. 49-12 opposing The Central Coastal California Seismic Imaging Project by Pacific Gas and Electric Co. in September of 2012; and

WHEREAS, there is a growing body of evidence confirming that intense sound produced by human generated noise such as acoustic testing used in oil and gas exploration negatively impacts marine mammals, fish, squid, and crab; and

WHEREAS, the Morro Bay Commercial Fishermen’s Organization (MBCFO) stands opposed to any new offshore oil development off our California Coast; and

WHEREAS, in 1969, a well failure off the coast of Santa Barbara fouled coastal waters with an estimated 100,000 barrels of crude oil and caused catastrophic environmental damage, helping launch the modern environmental movement; and

WHEREAS, in 1970, with bipartisan support, President Nixon signed the National Environmental Policy Act on January 2nd, delivered a call to make “the 1970’s a historic period when, by conscious choice (we) transform our land into what we want it to become” in his State of the Union Address, and ended the year with the creation of the Environmental Protection Agency an independent agency to regulate the environment; and

WHEREAS, oil drilling presents a clear and ever-present danger to the health and safety of residents, businesses and economies, with the threat of an oil spill potentially wreaking havoc on ecosystems, human health, and economic activities; and

WHEREAS, the 2010 BP Deep Water Horizon disaster spilled an estimated 4.9 million barrels of crude oil into the Gulf of Mexico and shores of the Gulf Coast of the United States; and

WHEREAS, in 2015, a pipeline servicing offshore oil platforms burst and fouled the coast north of Santa Barbara with an estimated 3,400 barrels of crude oil, damaging wildlife and coastal recreation; and

WHEREAS, there have been no new offshore oil and gas leases in California since the 1969 disaster; and

WHEREAS, in December 2016, President Obama signed an executive order that banned any new oil and gas drilling of the coast of California under Section 12(a) of the Outer Continental Shelf Lands Act; and

WHEREAS, On April 28, 2017, President Trump issued an Executive Order called Implementing an America-First Offshore Energy Strategy, which establishes a policy to encourage energy exploration and production on the outer Continental Shelf (OCS) and restarts the 2017-2022 five year lease program potentially opening up Arctic waters and millions of coastal acres off U.S. shores to oil and gas drilling, fracking, and other well stimulation, putting California’s coastal resources at risk of more oil spills, increased greenhouse gas emissions, dependence on fossil fuels, and a delay in the movement toward greater reliance on renewable energy; and

WHEREAS, the Governor of California, the State Senate, the State Lands Commission and cities, including Los Angeles and San Francisco, have called for no new Federal offshore leases in the Pacific Ocean.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Morro Bay hereby supports in State and Federal waters in the Pacific Ocean along the United States, 1) a ban on new drilling, fracking, and related techniques, 2) no new or expansion of existing oil and gas leases and a phase-out of all oil and gas extraction, and 3) a framework for responsible renewable energy development.

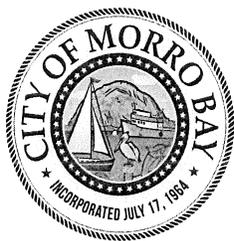
PASSED AND ADOPTED by the City Council of the City of Morro Bay at a regular meeting thereof held on this 27th day of February 2018 on the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

JAMIE L. IRONS, Mayor

ATTEST:

DANA SWANSON, City Clerk



CITY OF MORRO BAY

CITY HALL
595 Harbor Street
Morro Bay, CA 93442

March 5, 2018

Honorable Congressman Salud Carbajal
2231 Rayburn House Office Building
Washington D.C. 20515

RE: MORRO BAY FEDERAL CONCERNS AND PRIORITIES

Dear Congressman Carbajal,

Thank you for your service in the United States Congress. On behalf of the City of Morro Bay, we respectfully communicate to you our Federal concerns and priorities detailed below:

Morro Bay Harbor Dredging and Army Corps of Engineers Funding: Due to a significant Congressional “plus-up” of the Army Corps’ FY16 work plan funding, in addition to the Morro Bay funding under the FY17 CR, the entirety of Morro Bay’s Federal interior channels were recently dredged, and they should be in good shape for another five to seven years. Thank you for your support of these appropriations.

In addition, the funding for the Army Corps of Engineers dredge ship *Yaquina*’s annual visit to Morro Bay to dredge our harbor entrance remains vitally important to the safe navigation of our harbor in the winter months. In this year’s appropriations is funding sufficient for approximately 20 days of dredging by the *Yaquina*, which given the relatively mild nature of this winter so far, should be sufficient to keep our harbor entrance safely navigable.

For FY19, although the President’s budget includes \$2.4M for Morro Bay dredging with the *Yaquina*, we feel additional funding is needed and are requesting \$3M in the Corps’ work plan for this work, and ask your support of this appropriation level at the House Appropriations Subcommittee for Energy and Water Development.

Finally, we recommend sufficient FY19 appropriations to meet California’s navigation project needs to the full capability of the Army Corps of Engineers, and increased long-term Harbor Maintenance Trust Fund expenditures to hit the targets established in WRDA 2014.

Fishery Issues: The requirement of 100% human observers or electronic monitoring on any vessel participating in the groundfish Individual Fishing Quota (IFQ) system continues to hamper the growth of participation in the Morro Bay Community Quota Fund, and we continue to urge NOAA to provide government funding of the observer/monitoring programs, or for cost-effective and viable alternative to observers such as audited electronic monitoring.

In addition, refinancing of the \$36M Pacific Coast Groundfish Buyback Loan program to reduce the West Coast commercial fishing capacity is an important issue facing the industry, since payback of that loan is through fees levied on groundfish quota harvests. Thus, a refinancing of this loan with more favorable terms will reduce the burden on the commercial fishing industry. We request you support this refinance at the appropriate time, likely in a reauthorization of the Magnuson-Stevens Act.



CITY OF MORRO BAY

CITY HALL
595 Harbor Street
Morro Bay, CA 93442

Marine Sanctuaries: With the acceptance of the Chumash Heritage National Marine Sanctuary to NOAA's Sanctuary Inventory list for possible future designation, while supportive of the Sanctuary program's overall goals and objectives, the City of Morro Bay continues to have concerns with certain aspects of Sanctuary governance. Therefore, we urge Congress and NOAA to address and resolve these issues before this, or any, sanctuary nomination moves forward.

National Estuary Program Funding: The City of Morro Bay requests that America continues to invest in the stewardship of our nation's coast by ensuring each of the nation's 28 NEPs receive \$650,000 in FY19 funding. The Morro Bay NEP has worked collaboratively and effectively with the City of Morro Bay and other agencies and entities since its inception with the common goal of protecting and enhancing the Morro Bay Estuary and surrounding watershed. From providing grant funding to remove derelict vessels that are a threat to pollute, to supporting research and science to determine why Morro Bay's eelgrass is in decline, the Morro Bay NEP is an effective and important partner in the health of our estuary.

Offshore Wind Energy and the Morro Bay Power Plant: The 60-year-old Dynegy power plant located next to our beautiful bay, built by PG&E in the 1950's, was shut down in 2013 due to environmental and regulatory reasons. Developers of offshore wind and wave energy are interested in using the existing transmission yard to connect power to the grid, and the City of Morro Bay has a Memorandum of Cooperation with Trident Winds, an offshore wind development company currently in the leasing and permitting process with BOEM. Our community has no desire to see the plant re-powered using fossil fuels and would rather see the site transformed and revitalized, and the Trident proposal may be just such an opportunity. Since the Trident and other wind farm projects could have a significant negative impact on our commercial fishing fleet, we request that the wind farm leasing and permitting process take into account in a significant way the input and needs of affected communities and fishermen.

Central Coast Aquarium: The current but antiquated Morro Bay Aquarium, originally built in the mid 1960's, has a 50-year property lease with the City that expires this September. Central Coast Aquarium, a very small, modern aquarium located in nearby Avila Beach, is currently securing a \$20M USDA loan to take over the Morro Bay Aquarium site and completely redevelop it into a modern, state-of-the-art small regional marine aquarium and education center. The City of Morro Bay is working with Central Coast Aquarium to realize this exciting redevelopment that has the potential of changing the face of Morro Bay's waterfront, and we appreciate this opportunity afforded by the USDA's loan programs.

Thank you for considering our input and requests. If you have any specific questions or concerns on the issues outlined herein, or others, please let us know. We look forward to working through these priorities with you and your staff.

Sincerely,

Jamie L. Irons
Mayor

Scott Collins
City Manager

Eric Endersby
Harbor Director



CITY OF MORRO BAY

CITY HALL
595 Harbor Street
Morro Bay, CA 93442

March 5, 2018

Senator Dianne Feinstein
331 Hart Senate Office Building
Washington D.C. 20510

RE: MORRO BAY FEDERAL CONCERNS AND PRIORITIES

Dear Senator Feinstein,

Thank you for your continued leadership in the United States Senate. On behalf of the City of Morro Bay, we respectfully communicate to you our Federal concerns and priorities, detailed below:

Morro Bay Harbor Dredging and Army Corps of Engineers Funding: Due to a significant Congressional “plus-up” of the Army Corps’ FY16 work plan funding, in addition to the Morro Bay funding under the FY17 CR, the entirety of Morro Bay’s Federal interior channels were recently dredged, and they should be in good shape for another five to seven years. Thank you for your support of these appropriations.

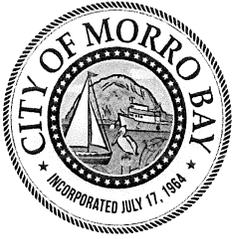
In addition, the funding for the Army Corps of Engineers dredge ship *Yaquina*’s annual visit to Morro Bay to dredge our harbor entrance remains vitally important to the safe navigation of our harbor in the winter months. In this year’s appropriations is funding sufficient for approximately 20 days of dredging by the *Yaquina*, which given the relatively mild nature of this winter so far, should be sufficient to keep our harbor entrance safely navigable.

For FY19, although the President’s budget includes \$2.4M for Morro Bay dredging with the *Yaquina*, we feel additional funding is needed and are requesting \$3M in the Corps’ work plan for this work, and ask your support of this appropriation level in the Energy and Water Development Appropriations for the Corps’ Civil Works Program.

Finally, we recommend sufficient FY19 appropriations to meet California’s navigation project needs to the full capability of the Army Corps of Engineers, and increased long-term Harbor Maintenance Trust Fund expenditures to hit the targets established in WRDA 2014.

Fishery Issues: The requirement of 100% human observers or electronic monitoring on any vessel participating in the groundfish Individual Fishing Quota (IFQ) system continues to hamper the growth of participation in the Morro Bay Community Quota Fund, and we continue to urge NOAA to provide government funding of the observer/monitoring programs, or for cost-effective and viable alternative to observers such as audited electronic monitoring.

In addition, refinancing of the \$36M Pacific Coast Groundfish Buyback Loan program to reduce the West Coast commercial fishing capacity is an important issue facing the industry, since payback of that loan is through fees levied on groundfish quota harvests. Thus, a refinancing of this loan with more favorable terms will reduce the burden on the commercial fishing industry. We request you support this refinance at the appropriate time, likely in a reauthorization of the Magnuson-Stevens Act.



CITY OF MORRO BAY

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National Estuary Program Funding: The City of Morro Bay requests that America continues to invest in the stewardship of our nation's coast by ensuring each of the nation's 28 NEPs receive \$650,000 in FY19 funding. The Morro Bay NEP has worked collaboratively and effectively with the City of Morro Bay and other agencies and entities since its inception with the common goal of protecting and enhancing the Morro Bay Estuary and surrounding watershed. From providing grant funding to remove derelict vessels that are a threat to pollute, to supporting research and science to determine why Morro Bay's eelgrass is in decline, the Morro Bay NEP is an effective and important partner in the health of our estuary.

Offshore Wind Energy and the Morro Bay Power Plant: The 60-year-old Dynegy power plant located next to our beautiful bay, built by PG&E in the 1950's, was shut down in 2013 due to environmental and regulatory reasons. Developers of offshore wind and wave energy are interested in using the existing transmission yard to connect power to the grid, and the City of Morro Bay has a Memorandum of Cooperation with Trident Winds, an offshore wind development company currently in the leasing and permitting process with BOEM. Our community has no desire to see the plant re-powered using fossil fuels and would rather see the site transformed and revitalized, and the Trident proposal may be just such an opportunity. Since the Trident and other wind farm projects could have a significant negative impact on our commercial fishing fleet, we request that the wind farm leasing and permitting process take into account in a significant way the input and needs of affected communities and fishermen.

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Thank you for considering our input and requests. If you have any specific questions or concerns on the issues outlined herein, or others, please let us know. We look forward to working through these priorities with you and your staff.

Sincerely,

Jamie L. Irons
Mayor

Scott Collins
City Manager

Eric Endersby
Harbor Director



CITY OF MORRO BAY

CITY HALL
595 Harbor Street
Morro Bay, CA 93442

March 5, 2018

Senator Kamala Harris
112 Hart Senate Office Building
Washington D.C. 20510

RE: MORRO BAY FEDERAL CONCERNS AND PRIORITIES

Dear Senator Harris,

Thank you for your service in the United States Senate. On behalf of the City of Morro Bay, we respectfully communicate to you our Federal concerns and priorities, detailed below:

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Thank you for considering our input and requests. If you have any specific questions or concerns on the issues outlined herein, or others, please let us know. We look forward to working through these priorities with you and your staff.

Sincerely,

Jamie L. Irons
Mayor

Scott Collins
City Manager

Eric Endersby
Harbor Director



CITY OF MORRO BAY

CITY HALL
595 Harbor Street
Morro Bay, CA 93442

March 5, 2018

Bradd Schwichtenberg, Civil Deputy
Department of Civil Works
U.S. Army Corps of Engineers
441 G Street NW, Office 3T61
Washington DC 20314-0002

RE: MORRO BAY DREDGING APPROPRIATIONS

Dear Deputy Schwichtenberg,

As you know, the Corps' dredging contractor recently completed dredging the areas of our channels not dredged since 2009/2010, and not normally attended to by the *Yaquina's* annual visits. In addition, the *Yaquina* is slated to arrive again in May to dredge our critical harbor entrance areas. It is with deep gratitude to the Corps for prioritizing this work and to our legislators for funding it.

Given the competition for Federal dollars, we do feel it necessary to convey our concerns about our last dredging cycle having been a "small business set-aside" contract. While the necessary dredging did get completed, due, in our opinion, to the contractor's relative small size and lack of large-scale dredging experience, for several reasons the project took much longer than anticipated, had many thorny operational issues to address, and when compared to past dredging done by a "large" contractor in 2002, adjusted for inflation this episode's unit costs were almost 300% more than in 2002. Therefore, we believe these factors should be considered when determining the type of contracting being contemplated for future harbor dredging.

While we are grateful for any appropriation, based on historical infill and need, although the President's FY19 budget currently includes \$2.4M for Morro Bay dredging with the *Yaquina*, we are requesting an appropriation of \$3M for this annual work. To this end we continue to be active in urging our legislators to adequately fund the Corps' Civil Works Programs for the nation's necessary maritime infrastructure needs.

We thank you for your leadership and continued support of Morro Bay. If you have any specific questions or concerns, please let us know. As always, we wish to convey our pleasure and satisfaction with working with you and your Los Angeles District command and staff.

Sincerely,

Jamie L. Irons
Mayor

Scott Collins
City Manager

Eric Endersby
Harbor Director

California Marine Affairs and Navigation Conference

The priorities for our Washington calls are:

- Achieve appropriation recommendations for FY 2018⁹ Energy and Water Development Appropriations to meet the needs of California navigation projects
- Increase Presidential Budget Request to the needs of California projects and to the capability of the Corps of Engineers
- Increase, on a long-term basis, Harbor Maintenance Trust Fund expenditures in California to the targets established in WRDA 2014
- Create a set-aside program for low (emerging) and moderate use facilities
- Increase efficiencies in Corps of Engineers processes to ensure timely completion and maintenance of mandated and funded projects
- Be proactive in the development of transportation funding options

Executive Office of the President

Office of Management and Budget

- Invite Kelly Colyar to California - organize a Board Meeting at the same time
- Provide facts *Get these from our Members*
- Systems perspective of need
- Maintenance of all California ports and harbors
- Development of a base funding level for California equal to 40% of Harbor Maintenance Tax Revenue

Congress of the United States

Appropriations Committees

- Open:
 - FY 2019 Appropriations – what is the plan?
 - How well "pots of money" are working
- Problem area:
 - Not hitting the Target
 - TIGER Grant inequity
 - CRs pose problems for projects early in Fiscal Year
- Action Items:
 - FY 2019 Appropriations goals
 - Make the "pots" bigger
 - Hit the Target
 - TIGER Grant ratio improvement

California Marine Affairs and Navigation Conference

Congressional Budget Office

Understanding the scoring methodology used for HMT expenditures, alternatives to the current methodology, and projected revenue to the General Fund in "out-years."

Transportation & Infrastructure and Environment and Public Works Committees

- Open:
 - Success of committees previously
 - HMT successes
 - National Freight Policy started
- Problem Areas:
 - National Freight Policy resulted in no real changes
 - Intermodal & goods movement funding
 - What do we want here as a result of FAST Act?
 - WRDA biannual nature
 - Beneficial Reuse
- Action Items:
 - Educate their staff, due to turnover, about California issues
 - Stay on target with HMT
 - Beneficial Reuse governance
 - National Freight Policy that results in action
 - 2-year WRDA cycle - implementation of WRDA

Natural Resources and Commerce, Science & Transportation Committees

- Open:
 - Ocean Action Plan
 - Coastal and Marine Spatial Planning (conceptually)
- Problem Areas:
 - Sediment Management Policy: Near shore placement and 20% fines
 - Issues with requiring beneficial re-use without regard to cost
 - Marine Sanctuaries:
 - Dredging and material placement
 - New and expanded Sanctuaries
 - Proposed changes to National Marine Sanctuary Act regulations
 - Clean Water Act issues, EPA, etc.
 - MPA's, MSP and Sanctuaries
 - Magnuson Stevens Reauthorization: Essential Fish Habitat (Eel Grass and Z-layer); Marine Protected Areas Marine Mammals Protection Act
 - National Ocean Policy Implementation Plan
 - National Marine Sanctuary Program
 - Coastal and Marine Spatial Planning
 - Marine Mammal Protection Act
 - Intermodal & goods movement funding,
 - National Freight Policy
- Actions:

California Marine Affairs and Navigation Conference

- Coordination Plan with other stakeholders about Sanctuaries/MPA's and Marine Spatial Planning
- Development Plan with other stakeholders about impacts of Sanctuary/MPA creation/expansion (to address dredging and material placement)
- More regional/state/local stakeholder input, involvement [and responsibility?] in nationally overriding policies on marine/coastal planning, usage, development and restrictions
- Funding streams specifically for Intermodal and Goods Movement
- Development of a National Freight Policy that results in changes and improvements

Departments and Agencies within the Administration

U.S. Army Corps of Engineers and the Assistant Secretary of the Army for Civil Works

- Open:
 - Funding pot success
 - 3x3x3 on the right track
- Problem areas:
 - Timely start-up and execution within dredge window
 - Contracting
 - Communication with local sponsors
 - Project Management
 - Performance metrics lacking
 - Lack of Regionalized cooperation/execution
 - Inaction on Value Engineering + Update on Sessions with SPN and SPD
- Action Items
 - Communications Plan w/local sponsor
 - Project Management Plan & Mentorship & Succession planning
 - Plan of Action for: Development of schedule and execution of dredging
 - Improved Contracting methodology
 - Streamlining of project approval process, including reducing the number of people who have to individually review and sign off on design, engineering and the like for annual and recurring maintenance projects
 - Corps' process improvements to meet the needs of the customers such as Six Sigma and the Chief's 12 action items
 - Establishing appropriate performance metrics for analysis and budgeting for the various business lines, not just the Navigation Business Line.
 - Value Engineer – Corps Action Plan
 - Regionalization of activities

California Marine Affairs and Navigation Conference

National Oceanographic and Atmospheric Administration and Department of Commerce

- Open:
 - Ocean Action Plan
 - Coastal and Marine Spatial Planning (conceptually)
- Problem Areas:
 - Sediment Management
 - Marine Sanctuaries: dredging and material placement
 - New and expanded Sanctuaries
 - Proposed changes to National Marine Sanctuary Act regulations
 - Magnuson Stevens Reauthorization
 - Essential Fish Habitat (Eel Grass and Z-layer)
 - Marine Mammals Protection Act
 - National Ocean Policy Implementation Plan
- Actions:
 - Coordination Plan with other stakeholders about Sanctuaries
 - Development Plan with other stakeholders about impacts of Sanctuary creation/expansion (to address dredging and material placement)
 - More regional/state/local stakeholder input, involvement [and responsibility?] in nationally overriding policies on marine/coastal usage, development and restrictions

Department of Transportation

- Open:
 - National Freight Policy started
- Problem Areas:
 - National Freight Policy resulted in no real changes
 - Intermodal & goods movement funding,
 - What do we want here as a result of FAST Act?
 - Railroad-Shipper Transportation Advisory Board (RSTAC)
- Actions:
 - Increase FAST Act dollars to ports and TIGER Grants to ports
 - Development of a federal freight policy that affects change and improvements
 - Intermodal & goods movement financing

U.S. Maritime Administration

- Open:
 - TIGER Grants starting to get to ports
- Problem Areas:
 - New and expanded Sanctuaries and MPA's
 - National Ocean Policy Implementation Plan
 -
- Action Items:
 - Strategic Plan
 - TIGER Grants – more inclusion of ports
 - Shipyard grant program
 - Marine Highways and Advisory Board
 - Port security and security grants

California Marine Affairs and Navigation Conference

Council on Environmental Quality

- Sediment Management
- Marine Sanctuaries: dredging and material placement, growth in
- Marine Sanctuary expansion to bypass Marine Spatial Planning
- Marine Sanctuary Site Evaluation List and Proposed Expansions
- Marine Protected Areas
- Implementation of the President's Ocean Action Plan
- Coastal and Marine Spatial Planning

Environmental Protection Agency

- California Toxic Rule
- Sediment Management Policy: Near shore placement and 20% fines