



# CITY OF MORRO BAY CITY COUNCIL NOTICE OF SPECIAL MEETING

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*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.*

**SPECIAL MEETING AGENDA**  
**Tuesday, May 28, 2019 @ 4:00 PM**  
**Veterans Memorial Hall**  
**209 Surf St., Morro Bay, CA**

ESTABLISH QUORUM AND CALL TO ORDER

PUBLIC COMMENT FOR ITEMS ON THE AGENDA

SPECIAL MEETING AGENDA ITEM:

I. FY 2019/20 BUDGET STUDY SESSION

**RECOMMENDATION:** Council receive staff presentation and provide direction, as necessary.

ADJOURN

DATED: May 24, 2019

John Heading, Mayor

**THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 24 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.**

**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.**





AGENDA NO: I

MEETING DATE: May 28, 2019

# Staff Report

**TO:** Honorable Mayor and City Council

**DATE:** May 23, 2019

**FROM:** Scott Collins, City Manager  
Jennifer Callaway, Finance Director

**SUBJECT:** FY 2019/20 Budget Study Session

## RECOMMENDATION

Council receive staff presentation and provide direction, as necessary.

## DISCUSSION

Staff's update of the ten-year forecast for the fiscal year (FY) 2019/20 Proposed Budget cautions that unless significant expenditure reductions occur, or new revenues are identified, the City will have to use one-time reserve funds to maintain current service levels. The ten-year financial update is provided in Attachment I and the major revenue and expense category assumptions are provided as Attachment 2. In addition, at the second budget study session held on May 16, 2019 it was discussed that the Harbor Enterprise Fund needed concentrated effort at identifying revenues, as such staff has updated the ten-year financial update for the Harbor operating, equipment replacement and accumulation funds which is provided as Attachment 3.

While use of reserves or one-time funds is appropriate for some circumstances, as a multi-year budget balancing mechanism, it is not a viable solution. And, that approach does not comply with the City's Long-Term Financial Planning Policy, recently adopted by the City Council which states as follows:

*"Long-term structural balance is the goal of long-term financial planning at the City. Should the long-term forecasting and analysis show that the City is not structurally balanced over the ten-year projection period; staff would then make recommendations, for City Council consideration, on how the plan can be brought into balance within three-years."*

Not only does the ten-year update reflect an unbalanced budget in the out-years, the forecast demonstrates that the FY 2019/20 proposed budget was balanced through defunding of the City's internal service funds – not a recommended solution for on-going balancing efforts in future years. While the FY 2019/20 forecast includes COLA increases as per the negotiated labor agreements, the primary cause of this shortfall is employee pension and health costs outpacing revenues. These increases, while outside the City's control, threaten the City's ability to maintain current service levels and ability to accumulate funds for much needed infrastructure, capital, vehicle and equipment investments. There are two primary areas for the Council to consider in order to realign the forecast and obtain a long-term structurally balance budget –

- 1) CalPERS pension paydowns which result in significant long-term savings, although increase short-term expenditures, and

Prepared By:   JC  

Dept Review:   JC  

City Manager Review:   SC  

City Attorney Review:

## 2) identification and consideration of new revenues.

Staff has prepared an initial list of Revenue options for the Council to consider and provide direction. Many of these ideas were vetted through the Employee Budget Advisory Committee during preparation of the FY 2018/19 budget and recognized as items to bring forward for future Council consideration.

### **Revenue Options**

This report identifies opportunities for new revenues the City could pursue to maintain current service levels, meet capital needs, prepay pension liabilities, etc. While these revenue options should be vetted more thoroughly, they are provided as a framework for Council to begin considering options. The revenue options are presented in two ways – first, smaller new revenue options under Council's Approval Authority – these action items are generally more quickly implemented. Secondly, larger revenue sources which are organized into two categories: (1) Council authority to approve and (2) subject to voter approval. Establishing dedicated, reliable revenues to fund future needs is a solid budgeting and future planning practice which has been employed by many other cities.

Reliable and dedicated revenue source(s) would enable the City to plan and meet its existing and future infrastructure needs, maintain current service levels and/or prepay pension liabilities to achieve long-term savings for the City. Independent, City controlled revenue source(s) also buffer Morro Bay from the political uncertainty that surrounds the availability of federal and state funding. Such funding would not be subject to State policy impacts.

#### **Smaller Revenue Sources Under Council Authority**

- Paid Parking
- RV Camping
- Adult Use Cannabis Dispensaries

#### **Paid Parking**

There are many City owned parking lots and on-street parking spaces available for visitors, residents and business owners to utilize. Currently, parking is not paid, generally not restricted, and where restricted not enforced. Council could direct staff to analyze paid parking options, ideal locations, implementation, cost, estimated revenue that the City would realize and potential enforcement plans. Depending on locations selected, this could be a revenue option to benefit the General Fund and/or Harbor Enterprise Fund. The Harbor Advisory Board (HAB) has discussed paid parking and identified several items to consider should Council move forward with this.

#### **RV Camping**

The City Council could direct staff to analyze the potential for camping, either at the rock and or at other various locations within the City. RV Camping could be implemented for a short trial period , offered on weekends only, or at certain time of the years only, and be designated dry camping only. There is potential that staff could utilize \$54,000 in Lower Cost Visitor Accommodation Mitigation Fee funds to research, develop a program and plan and install any equipment, signage or markings that may be needed. This is a revenue option that would most likely benefit the Harbor Enterprise Fund; however, depending on location could benefit the General Fund.

#### **Adult Use Cannabis Dispensaries**

With award of the City's two medical cannabis dispensaries nearing completion, the Council could

elect to consider and discuss permitting Adult use Dispensaries. Staff could research this further and provide a recommendation as to the number of permits to be awarded and estimated revenues that could be generated. These would be non-restricted revenues that could be dedicated to any purpose Council would like to direct.

### **Revenue Options under the Council's Approval Authority**

Staff has identified two revenue options that Council has authority to enact by majority vote after due notice:

- Sale or Lease of Property
- Certificates of Participation

#### **Sale or Lease of Property**

The City owns properties that are either in process of being advertised for lease or could be considered for potential sale or lease. The revenue generated from this would be based on assessed value and/or market rates at the time of sale or lease.

Council may direct the sale or lease of any or all of these properties and earmark funds to one-time Capital Projects, either for a specific project or general capital funding or paydown of the CalPERS unfunded accrued liability. Staff can provide Council a list of potential properties available for sale or lease should Council wish to consider this option.

#### **Certificates of Participation**

Certificates of Participation (COP) can be passed with a simple majority vote. However, if a COP were to be considered by the City, an ongoing funding source (e.g., parcel tax, increased sales tax, or increased transient occupancy tax) would need to be identified to make the annual debt service payment out of City's annual operating budget.

### **Revenue Options Subject to Voter Approval**

Local agencies may impose taxes, subject to voter approval, using a variety of methods. Pursuant to Proposition 218, these taxes are classified as either "general" or "special."

Whether the ballot measure requires a simple majority (50% + 1 vote) or a super majority (two-thirds of those voting in the affirmative) depends upon the ballot language and whether the question is placed on the ballot as a general tax increase or a special tax increase.

A "general tax" may be used for any public purpose. The funds are fully discretionary and may be deposited into the General Fund. A majority vote (50%+ 1) of the electorate is required to impose, increase, or extend a general tax.

A "special tax" is a tax imposed for a specific purpose. For example, some cities dedicate tax revenues for the payment of law enforcement or street maintenance costs rather than using the taxes for the general operations of government. A two-thirds majority of voters is required to impose, increase, or extend a tax for a specific purpose. Special tax revenues must be accounted for in a separate fund.

General taxes may only be put on the ballot at the same general election when the City Council election is held, unless the Council unanimously finds that there is an urgent need to impose the tax measure. Upon such unanimous declaration, the general tax measure may be put before the voters at a special election. Special taxes may be placed before the electorate at any time, either during a

general election or in a special election.

The following six new revenue options, all requiring voter approval, have been identified for Council consideration:

- Assessment Districts
- Utility User Tax (UUT)
- Increased Transient Occupancy Tax (TOT)
- Increased Sales Tax
- Parcel Tax-General or Special
- General Obligation Bonds

### Assessment Districts

An Assessment District is a special district that includes property that will receive direct benefit from new public improvements or from the maintenance of existing public improvements. The most common types of assessments are for roads, storm water, parks, landscaping, and street lighting. Formation of an Assessment District requires voter approval, which must be done in the form of a mailed ballot. Assessment Districts require that at least as many ballots (as weighed by the amount of the assessment against the parcel submitting the ballot) are returned in favor of the assessment as are returned in opposition to the assessment.

Each property is assessed a certain amount based on the percentage of benefit received by the property. Factors that determine the amount of benefit received may include the size of the lot or the proximity to the improvement being financed. The collection of the assessment charges occurs through County property tax collections and is earmarked for the special assessment district as defined. Unless specified by a sunset clause, the collection will continue into the future at a minimum growth allowable by Proposition 13. A CPI (consumer price index) may also be added to the collection so as to keep revenues growing at a rate equal to expenditures.

### Utility User Tax (UUT)

Government Code Section 37100.5 authorizes cities to collect a utility user's tax on electric, gas, cable television, water, and telephone services. The tax is collected by the utility as part of its regular billing and then remitted to the City. The tax rate set by the City Council is typically defined by the voter referendum used to authorize the tax. Statewide, there are approximately 150 cities and 4 counties with UUTs. The particular utility to which the tax is applied varies. In some cities, different rates apply to residential versus commercial users. The most common rate is 5%, applied broadly among many types of utilities. The average rate is 5.5%. Most large cities have UUTs, meaning roughly half of California residents and businesses pay a utility user tax.

A UUT may be imposed as a special tax earmarked for a specific purpose. However, all California cities impose the UUT as a general tax to be used for a variety of municipal service needs.

The City of Morro Bay does not have any UUT's. UUT's are generally the least likely new tax to be passed by voters. Staff estimates that the City could generate approximately \$2,000,000 in additional revenue should UUT's be imposed for Cable, gas, and electricity.

### Increased Transient Occupancy Tax (TOT)

The City currently collects TOT at a rate of 10% per rental by all entities renting lodging for 30 days or less. Those taxes are remitted monthly to the City, and that revenue stream accounts for 25.0% of the General Fund revenues, budgeted for \$3.5 million for FY 2018/19. In addition, visitors staying at hotels incur assessments for the City managed tourism program and county tourism program. An

increase from the current 10% to 11% will result in approximately \$350,000 annually in increased TOT revenues. An increase to 12% would result in approximately \$700,000 annually in increased TOT revenues. Because TOT taxes short-term rentals, it is primarily non-residents who pay this tax.

A TOT may be imposed as a special tax earmarked for a specific purpose. However, all other cities in California impose the TOT as a general tax to be used for a variety of municipal service needs at the discretion of the City Council.

### Increased Sales Tax

California has many special taxing jurisdictions (districts), which are funded by a transaction (sales) and use tax rate that is added to the standard statewide rate of 7.50%. The tax rates for these districts range from 0.10% to 1.0% per district. In some areas, there is more than one district tax in effect (Capitola, El Cajon, El Cerrito, Eureka, Ft Bragg, Nevada Town, Placerville, Santa Rosa, Sebastopol and Woodland). In others, there is no district tax in effect. The City of Morro Bay has a one-half cent sales tax, Measure Q, already in place. While passed as a general tax measure, the funds are used for pavement work and public safety.

A Sales Tax increase may be imposed at a rate of 0.25% or a multiple thereof. The ordinance proposing the tax must be approved by majority vote of the voters in the city if the tax is for general purposes or two-thirds vote of all members of the governing body if the tax is for a specific purpose. The maximum combined rate of transactions and use taxes in any location may not exceed 2%.

With an additional 0.50% add-on the City is estimated to generate approximately \$1,000,000 in additional sales tax revenue annually.

### Parcel Tax – General or Special

A parcel tax (otherwise known as a property-tax override) is a special non-ad valorem (non-value based) tax on parcels of property generally based on either a flat per-parcel rate or a variable rate depending on the size, use, or number of units on the parcel. However, since this tax is not based on the value of the property, it is a "fixed" tax. Parcel taxes require two-thirds voter approval and are imposed for any number of purposes, including funding police and fire services, clean water watershed management and flood control, and neighborhood improvement and revitalization. There are approximately 5,200 taxable parcels in the City. Therefore a \$100 parcel tax would generate approximately \$520,000 in new revenue which could be designated for capital projects.

### General Obligation Bond

General Obligation (GO) bonds are secured by a pledge of revenues legally available to the municipality. The bonds are typically secured by an annual property tax levy on real property equal to the annual debt service on the bonds. As the property tax levy on real property is considered to be the most secure of debt issuances a municipality can make, the ratings for GO bonds are usually the highest rated bonds a city can issue. The higher ratings lower the cost of borrowing (interest rate paid to the bondholders) which can lead to greater amounts issued at a lower cost. The bonds are a "general obligation" and as such the levy is usually made against all taxable properties in the city. These are not recommended as a GFO best practice.

### **CONCLUSION**

Staff recommends that Council receive the ten-year financial update and consider various revenue options for future consideration and direction.

**ATTACHMENTS**

1. Ten-Year Update – General Fund
2. Ten-Year Update Major Revenue and Expense Assumptions – General Fund
3. Ten-Year Update – Harbor Funds

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

<b>General Fund</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Property Tax	\$4,405	\$4,537	\$4,697	\$4,881	\$5,072	\$5,230	\$5,394	\$5,447	\$5,503	\$5,558	\$5,614
Sales Tax	2,012	2,166	2,192	2,208	2,191	2,175	2,188	2,208	2,247	2,282	2,328
TOT	3,531	3,567	3,602	3,639	3,675	3,712	3,749	3,786	3,824	3,862	3,901
Other Revenue	3,159	3,166	3,014	3,038	3,071	3,106	3,141	3,156	3,213	3,256	3,299
Transfers	1,256	1,405	1,648	1,670	1,692	1,715	1,738	1,738	1,738	1,763	1,789
Total Revenue	14,363	14,840	15,153	15,436	15,702	15,937	16,209	16,336	16,525	16,722	16,931
Personnel	10,376	11,050	11,338	11,657	11,934	12,158	12,363	12,651	12,963	13,301	13,669
Other O&M	3,474	3,349	3,685	3,761	3,839	3,919	4,000	4,117	4,202	4,287	4,353
Transfers/Svc Adds	513	437	634	647	660	674	713	728	743	733	749
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	14,363	14,836	15,656	16,064	16,433	16,750	17,076	17,496	17,907	18,322	18,771
Net Annual	0	4	(504)	(629)	(731)	(813)	(866)	(1,160)	(1,382)	(1,600)	(1,840)
Beginning Balance	38	39	43	(460)	(1,089)	(1,820)	(2,633)	(3,500)	(4,660)	(6,042)	(7,642)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	39	43	(460)	(1,089)	(1,820)	(2,633)	(3,500)	(4,660)	(6,042)	(7,642)	(9,482)
<b>Emergency Reserve</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Revenue	\$236	\$95	\$79	\$80	\$80	\$25	\$25	\$25	\$25	\$25	\$25
Transfers Out	225	0	0	0	0	0	0	0	0	0	0
Net Annual	11	95	79	80	80	25	25	25	25	25	25
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	2,927	2,938	3,034	3,113	3,192	3,272	3,297	3,322	3,347	3,372	3,397
Ending Balance	2,938	3,034	3,113	3,192	3,272	3,297	3,322	3,347	3,372	3,397	3,422
<b>Total GF+ER Balance</b>	<b>2,977</b>	<b>3,077</b>	<b>2,652</b>	<b>2,103</b>	<b>1,452</b>	<b>664</b>	<b>(178)</b>	<b>(1,314)</b>	<b>(2,670)</b>	<b>(4,245)</b>	<b>(6,060)</b>
<b>% of GF Exp</b>	<b>20.7%</b>	<b>20.7%</b>	<b>16.9%</b>	<b>13.1%</b>	<b>8.8%</b>	<b>4.0%</b>	<b>-1.0%</b>	<b>-7.5%</b>	<b>-14.9%</b>	<b>-23.2%</b>	<b>-32.3%</b>

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>AVG</u>
<b>Revenues</b>											
Property Tax	SLO County	3.53%	3.93%	3.90%	3.12%	3.12%	0.98%	1.20%	1.01%	1.01%	2.42%
Sales Tax	HDL Estimate	1.21%	0.75%	-0.76%	-0.76%	0.63%	0.92%	1.76%	1.54%	2.00%	0.81%
TOT	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Business License	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	2.00%	2.10%
<b>Expenditures</b>											
Salary	2% or 3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0.00%
Pension	8.75%	11.42%	11.58%	8.60%	5.81%	4.76%	8.10%	8.22%	8.34%	8.45%	8.40%
Other Benefits	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
<b>Transfers</b>											
Vehicle	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Technology	\$ 345,970	\$ 368,599	\$ 381,607	\$ 395,005	\$ 408,805	\$ 423,020	\$ 437,660	\$ 452,740	\$ 468,272	\$ 484,270	
Facilities	\$ 10,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	
Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TBID	\$ 60,000	\$ 180,496	\$ 187,701	\$ 194,978	\$ 202,328	\$ 209,751	\$ 217,248	\$ 224,821	\$ 232,469	\$ 240,194	
Economic Development	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	
Fire Equip	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 50,000	\$ 50,000	

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

(\$ in 000)

<b>Operations</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Harbor Leases	\$1,532	\$1,615	\$1,647	\$1,680	\$1,713	\$1,748	\$1,783	\$1,818	\$1,855	\$1,892	\$1,929
Other Fees	373	336	342	349	355	361	368	374	381	388	395
Grants	22	28	29	29	30	30	31	32	32	33	33
Other Revenue	46	32	33	34	34	35	36	36	37	38	38
Transfers In	5	0	0	0	0	0	0	0	0	0	0
Total Revenue	1,978	2,011	2,051	2,091	2,132	2,174	2,217	2,260	2,305	2,350	2,397
Personnel	1,052	1,060	1,116	1,151	1,178	1,197	1,213	1,257	1,265	1,274	1,255
Other O&M	377	487	496	506	516	527	537	548	559	570	582
Debt Service	135	135	135	0	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0	0	0	0	0
Transfers Out	497	310	316	322	329	335	342	349	356	363	370
Total Expenditures	2,062	1,991	2,063	1,980	2,023	2,059	2,092	2,154	2,180	2,207	2,207
Net Annual	(83)	20	(13)	111	109	115	124	106	125	144	190
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	(5)	(89)	(69)	(81)	30	138	253	377	484	609	752
Ending Balance	(89)	(69)	(81)	30	138	253	377	484	609	752	942

<b>Equipment</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Revenue	\$28	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transfers Out	28	0	0	0	0	0	0	0	0	0	0
Net Annual	0	0	0	0	0	0	0	0	0	0	0
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	56	56	57	57	58	58	58	59	59	60	60
Ending Balance	56	57	57	58	58	58	59	59	60	60	61

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

(\$ in 000)

<b>Accumulation</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Other Revenue	\$75	\$3	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Transfers In-Harbor	168	0	0	0	0	0	0	0	0	0	0
Total Revenue	243	3	1	1	1	1	1	(0)	1	1	1
Expenditures/Tfr Out	43	412	0	0	0	0	0	0	0	0	0
Net Annual	200	(409)	1	1	1	1	1	1	1	1	1
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	367	567	158	159	159	160	161	162	163	163	164
Ending Balance	567	158	159	159	160	161	162	163	163	164	165