



# CITY OF MORRO BAY CITY COUNCIL AGENDA

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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.

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## NOTICE OF SPECIAL MEETING

**Wednesday, June 3, 2020 – 3:00 P.M.  
Held Via Teleconference**

### ESTABLISH QUORUM AND CALL TO ORDER

### PUBLIC COMMENT FOR ITEMS ON THE AGENDA

Pursuant to Section 3 of Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, this Meeting will be conducted telephonically through Zoom and broadcast live on Cable Channel 20 and streamed on the City website (click [here](#) to view). Please be advised that pursuant to the Executive Order, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Veterans' Hall will not be open for the meeting.

#### Public Participation:

In order to prevent and mitigate the effects of the COVID-19 pandemic, and limit potential spread within the City of Morro Bay, in accordance with Executive Order N-29-20, the City will not make available a physical location from which members of the public may observe the meeting and offer public comment. Remote public participation is allowed in the following ways:

- Community members are encouraged to submit agenda correspondence in advance of the meeting via email to the City Clerk's office at [cityclerk@morrobayca.gov](mailto:cityclerk@morrobayca.gov) prior to the meeting and will be published on the City website with a final update one hour prior to the meeting start time. Agenda correspondence received less than an hour before the meeting start time may not be posted until after the meeting.
- Members of the public may watch the meeting either on cable Channel 20 or as streamed on the City [website](#).
- Alternatively, members of the public may watch the meeting and speak on a specific agenda item by logging in to the Zoom webinar at the **beginning** of the meeting using the information provided below. Please use the **"raise hand"** feature to indicate your desire to provide public comment. Each speaker will be allowed three minutes to provide input.

Please click the link below to join the webinar:

- <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcwTHlRTk9xaTlmWVNWRFWFUQT09>  
Password: 135692

- Or Telephone Attendee: (408) 638-0968 or (669) 900 6833 or (346) 248 7799;  
Webinar ID: 827 2274 7698; Password: 135692; Press \* 9 to **"Raise Hand"** for Public Comment

SPECIAL MEETING AGENDA ITEM:

- I. CONSIDERATION OF THE CITY OF MORRO BAY'S PROPOSED OPERATING AND CAPITAL BUDGET FOR FISCAL YEAR (FY) 2020/21

**RECOMMENDATION: Council consider the proposed Operating and Capital Budget for FY 2020/21 and provide direction, as necessary.**

ADJOURNMENT

DATED: May 29, 2020



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John Headding, Mayor

**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: June 3, 2020

# Staff Report

**TO:** Honorable Mayor and City Council

**DATE:** May 29, 2020

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

**SUBJECT:** Consideration of the City of Morro Bay's Proposed Operating and Capital Budget for Fiscal Year (FY) 2020/21

## **RECOMMENDATION**

Council consider the proposed Operating and Capital Budget for FY 2020/21 and provide direction, as necessary.

## **BACKGROUND**

The Proposed Operating and Capital Budget for FY 2020/21 (Attachment 1) is the City Manager's recommended comprehensive financial plan to provide the core services to the community of Morro Bay, while working to achieve City Council's identified goals and priorities. Any changes to the Proposed Operating and Capital Budgets directed by Council at the Budget Study Sessions will be incorporated into the implementing documents to be presented for Council approval on June 23, 2020.

Compilation of the Proposed FY 2020/21 budget was made possible by to the coordination and input received from all Departments, advisory committee and community members. Special thanks to the City's budget team consisting of staff from all departments and at all levels in the organization, the Citizen Finance Advisory Committee and community members and groups like the City Manager's Roundtable, and Chamber of Commerce for their efforts and ideas that shaped the proposed budget. This process reflects upon value and importance of community and employee engagement and staff appreciates the participation received.

This budget is a true reflection of this Council and previous Council's proactive and measured approach to the City's budget and finances over the years. Past and present Council's established reserves above the Government Finance Officers Association's recommended minimum level, preparing the City to weather the unprecedented and unpredictable COVID-19 pandemic. The pandemic devastated the local economy and the City's primary revenue sources of Transient Occupancy Tax and Sales Tax. However, thanks to the prudent spending and budgeting by the City Council, both past and present, the City is better positioned to traverse these challenging waters, while developing a longer term sustainability plan.

Prepared By:   JC  

Dept Review: \_\_\_\_\_

City Manager Review:   SC  

City Attorney Review: \_\_\_\_\_

The proposed budget was developed under the umbrella of the City's Economic and Financial Recovery Plan entitled "Rock Solid Together", in which the Council's identified goals are balanced against the economic realities associated with the COVID-19 pandemic. It begins to position the City for what will likely be the nation's first recession since 2008. It is important to realize, however, that the full depth and breadth of the COVID-19 pandemic and pending recession is not yet fully understood, and as such, staff views the proposed budget as a preliminary budget. The health and well-being of our residents remains our utmost concern and residents can rest assured, the City is taking all necessary action to maintain essential City services and provide resources to our most vulnerable residents. Furthermore, the City must continue to ensure that we are prepared for any future medical or catastrophic emergency including preparing our local Police and Fire Departments by preventing service reductions, updating emergency communication systems and maintaining rapid 911 emergency response capacity. The proposed budget was developed by utilizing the information available at this time, and we plan to revise the budget multiple times throughout the year in response to the economic condition and changes that will inevitably arise.

## **DISCUSSION**

The Proposed Operating and Capital Budget was prepared with contributions from all City Departments, staff at all levels of the organization and includes feedback and work completed by the Citizen's Finance Advisory Committee (CFAC). CFAC received the proposed Measure Q and General Fund budgets for discussion on April 21, 2020 and May 19, 2020, respectively. CFAC approved the proposed Measure Q budget on April 21, 2020, with the recommendation that the pavement management plan funds be deferred until Spring/Summer 2021, at which time staff can assess in revenues are being received as projected and if there may be competing needs to keep public safety services whole. By deferring pavement management work, this would provide an opportunity to support public safety needs should revenues not meet projections.

On May 19, 2020, CFAC reviewed the draft proposed General Fund budget and generally agreed with the budget as proposed. In addition, CFAC revisited the Measure Q budget as staffed asked to include \$40,000 in asphalt purchases to allow City staff to continue with minimal road maintenance in-house and also approved funding (that would cross between fiscal years) for a temporary overlap position within the Police Department to bring a new employee online and start in the field training program as an officer has provided notice that he will be retiring in early July. This overlap funding (not to exceed \$12,000 from Measure Q), will aid the Department in having an officer ready for service more quickly.

CFAC asked questions regarding both the General Fund and Measure Q proposed budgets and those questions and staff's responses are presented in Attachment 2 for Council review. Staff appreciates CFAC's work and efforts at reviewing the proposed budget document.

The City is working within the budget to achieve City Council Goals and Objectives and community identified priorities, which include:

1. Achieve Fiscal and Economic Sustainability
2. Improve Communication and Engagement
3. Update Land Use Plans and Address Affordable Housing Issues
4. Improve Public Infrastructure

## **Community Priorities**

Last year, the City conducted a community survey to solicit feedback from residents on their City service needs and priorities. 81 percent of respondents said they preferred maintaining Morro Bay's

locally controlled Police and Fire Departments over contracting these services to outside agencies.

The pandemic clearly demonstrates the need to be prepared for any medical crisis. Nearly 70% of calls to the Morro Bay Fire Department are related to emergency rescue and medical emergencies. As public safety is a significant part of the budget, the City seeks to prevent significant reduction to service of our local Morro Bay Fire and Police Departments so that local firefighter/paramedics, police officers and harbor patrol can continue to respond to local life-threatening emergencies.

Other priorities identified in the survey by residents included:

- ✓ Maintaining 24/7 911 emergency response
  - Maintaining 24/7 paramedic services
  - Maintaining 24/7 police services
  - Maintaining 24/7 fire protection services
- ✓ Keeping beaches, public areas and public restrooms healthy, safe and clean
- ✓ Protecting the financial stability of the City, its residents and businesses
- ✓ Requiring public disclosure of all spending
- ✓ Keeping the harbor and waterfront clean and safe
- ✓ Preparing for any future medical or catastrophic emergency

The survey also demonstrated the community felt the City needed additional funding and that there is community support for additional revenues, such as sales tax increase, to support community priorities identified above.

### **Ten-Year Forecast**

As part of the budget planning process, the City developed a ten-year financial forecast in 2015. Since that time, staff updates that forecast in February each year as the City begins the budget development cycle for the upcoming fiscal year. The forecast includes developing assumptions for the City's revenues and expenditures with the goal of identifying expenditure limitations for the forthcoming budget year and future years.

On February 25, 2020, the City Council held a special meeting to receive an update on the City's ten-year financial forecast. At that time, the model projected a long-term structural deficit, with a deficit of \$428,000 for FY 2020/21, growing up to \$1.4 million by FY 2028/29.

On March 19, 2020, the City Council ratified the City Manager's administrative action to declare a local emergency and activate the City's short-term fiscal emergency plan as a result of the COVID-19 pandemic. Since development of the February 2020 financial forecast update, the unprecedented economic impacts associated with the local, national, and global mitigation of COVID-19 have necessitated significant revisions to growth projections for the City's primary revenue sources of Sales Tax and Transient Occupancy Tax (TOT). In close consultation with the City's sales tax consultant, HDL, a review of revenue receipts during the last great recession of 2008, and a review of national and regional hospitality research, staff revised these estimates.

On April 28, 2020, the City Council convened a special meeting to discuss the City's economic and financial recovery plan referred to as "Rock Solid Together." With budget deficit projections ranging between \$4M to \$5M or nearly a 27% to 34% loss of overall General Fund revenues, the City customized a comprehensive approach to stem the financial fallout from COVID-19 and begin the long road to fiscal health.

“Rock Solid Together” is built on the foundation that the City wishes to retain local control over core, essential government services and work towards being locally self-sufficient in the event of a future catastrophic emergency rather than awaiting aid that may never come from the state or federal governments. With this foundation, Rock Solid Together is comprehensive and attempts to assist the local business community where feasible and administer fiscal first aid to City finances in light of the significant economic wound inflicted by the pandemic.

The recovery plan is fluid and evolving. Given the nature of the COVID-19 pandemic, there are many missing pieces of information which we must acknowledge, recognize and realize, as the City will need to adjust rapidly to the changing environment. For example, Morro Bay relies on tourism to directly generate 24% of the City’s General Fund revenues via TOT, which is in addition to other revenues derived from tourism such as sales and gas taxes. In addition, there is likely to be an impact to property tax as the local and national economy have, by all accounts, entered a recession, and a reduction in development permit generated revenues, given that these revenues are generated from customer’s discretionary incomes.

With such heavy reliance on tourism to generate revenue to fund City services and the absence of key information guiding revenue assumptions, many key unanswerable questions remain, such as when will the City be able to welcome tourists and visitors back to our community and open restaurants and businesses? Also, when the shelter at home orders are lifted, will consumers change their habits, and refrain from travel as cost savings measures? Will travel look different, for example a heavier tendency towards camping? When will recreational activities resume, special events and large gatherings? As we traverse this pandemic and these unprecedented times, staff feels it is crucial to have a multifaceted and adaptable plan to quickly acclimate to changing conditions.

### **FY 2020/21 Operating Budget**

The transmittal letter in the Proposed FY 2020/21 Operating budget provides an executive summary of the budget. The proposed budget includes 5% salary concessions through December 31, 2020 for members of the City’s SEIU and Police Officers Association. In addition, the proposed budget includes salary concessions through December 31, 2020 ranging from 5 to 8% for the City Manager, Department Directors, and members of the City’s management and unrepresented groups. The Morro Bay Firefighters Association labor agreement expires on June 30, 2020 and staff will be negotiating for new contract terms with those members. All employees are budgeted at their next projected step within their salary bands and the budget incorporates expected employee benefit cost increases and pension payments and other anticipated expenses.

In addition to reassessing revenue growth, the proposed budget also forecasts anticipated increases in the City’s pension obligations. These are obligations were the expected obligations from CalPERS previous actions to lower the discount rate, adjust mortality rates, etc. It should be noted that given recent volatility in financial markets, it is anticipated that CalPERS will not achieve its assumed investment rate of return of 7% in FY 2019/20. The forecast does not include projections for rate increases associated with the COVID-19-related CalPERS losses.

In recognition of the City’s efforts and Council prioritization of economic sustainability, the proposed budget also includes a focus in support of economic development and implementation items, including:

- Funding for continued collaboration and efforts with the Chamber of Commerce in the City’s Economic Development Fund.

- Funding for wayfinding or other economic development implementation plan items in the City's Economic Development Fund.

### **How Did the Budget Balance?**

During the February 2019 mid-year budget update and status report, City Staff informed the Council of a projected FY 2020/21 budget deficit of \$400,000. To offset this deficit and present a balanced budget for Council consideration, staff defunded contributions to the City's internal service funds (to later be supplanted with new revenues expected to be derived from cannabis tax revenue per Resolution 19-19). In addition, significant reductions to salary and benefits were made, mostly due to defunding of vacant positions and staff layoffs. This, combined with salary concessions from most employees, saved the City over \$1.4 million (net of the CalPERS Tier II and Tier III UAL payoffs and lump sum payments to employees). In addition, staff has significantly reduced non-personnel operating expenditures by over \$600,000. While the budget was prepared with a concentrated focus on maintaining front line services where possible, with reduced staffing and expenditures. There will be service impacts related to these cuts, from response to processing times being delayed and ability to complete any discretionary street, trees and sidewalk work.

The proposed budget also defunds the General Fund contribution to the Tourism Business Improvement District (TBID) and the allocation to Council bequests and discretionary beautification. There is virtually no appropriation for training and travel related to such training, unless it is a mandated training for employee safety.

### **FY 2020/21 Capital Budget**

The proposed FY 2020/21 Capital budget is the second year in which staff had begun to identify a five-year capital plan, including unfunded capital needs. The proposed capital budget identifies a series of projects that are funded through both General Fund and non-General Fund sources. These projects include renovation of Shasta Street pocket park to include bocce ball courts, and audio/visual and facility upgrades at the Veterans' Hall. Funding for these projects comes from impact fees, donations, PEG access fees and other non-General Fund revenue sources.

Most notably, the proposed capital budget includes over \$47 million dollars for the new water reclamation facility (WRF), which will be funded with low interest WIFIA financing rather than cash on hand.

### **Special Revenue Funds**

The City recognizes the value of tourism as the key economic driver in the City and will continue its support of tourism through support of the Morro Bay Tourism Business Improvement District (TBID). The TBID funds tourism marketing and promotion for Morro Bay to help increase hotel and motel occupancy rates and transient occupancy tax (TOT) receipts and other related revenues. The COVID-19 pandemic has greatly impacted the Tourism budget, reducing estimated revenues by 32% or just under \$300,000 from the budgeted prior year revenues. The FY 2020/21 TBID budget is primarily funded through the TBID assessments (3% assessment on all overnight hotel, motel and vacation rental stays) which are estimated at \$550,000 for the fiscal year. As a result of these impacts, the City has laid off the Tourism Manager and one part-time staff member, recognizing that marketing and visitation to our community is not permitted at this time. As stated earlier, the City's General Fund budget does not include a contribution to the TBID fund in FY 2020/21.

The TBID Advisory Board recommended moving forward with the proposed TBID FY 2020/21 Budget at their May 28, 2020 special meeting. However, they discussed the need for the City Manager to maintain some flexibility with staffing should the economy recover more quickly than expected and marketing is no longer prohibited. Staff recommends that a stakeholder group be convened to make recommendations to the City Manager and Council regarding the organization, structure and direction of Tourism moving forward out of the pandemic.

### **City Manager's Round Table – Sales Tax and Other Budget Measures**

As previously mentioned, in late 2019 the City conducted a community survey to help identify community needs and priorities. The community identified public safety, maintaining clean and safe beaches, waterfront and public facilities, and fiscal sustainability as top priorities. The City subsequently continued with a "Join the Conversation" outreach effort, to gain further community feedback. In light of the COVID-19 pandemic and financial impacts of this pandemic, the City has rebranded these outreach efforts to "Join the Conversation! Working Together Towards Recovery." Despite the City's prudent spending and conservative budgeting, COVID-19 has had a devastating effect on the City's primary revenue source of Tourism. This will have long-term implications for the City as reserves are being heavily relied upon to balance FY 2019/20 and FY 2020/21 budgets and this is not a sustainable practice beyond FY 2020/21. Therefore, in addition to the community outreach efforts, the City Manager formed a Roundtable Group (Group) of community members in May 2020 to provide valuable feedback and recommendations to the City Manager on both short-term and long-term revenue opportunities and expenditure reductions or cost control measures. The Group consisted of seven Morro Bay community members, all of whom have experience managing organizations/businesses and budgets and represent various perspectives about the City and community priorities. The Group met three times, where they reviewed the City's existing efforts to address the budget deficit, results from the 2019 Community survey, and considered additional measures.

The Group submitted a report to the City Manager on May 27, 2020 with recommendations for short-term revenue enhancements, expense reductions and long-term revenue enhancements. In addition to supporting the City's budget reduction efforts already put in place, the Group recommends that City Council consider placing a 1 cent sales tax measure on the November 2020 General Election ballot to address the impacts of COVID-19 and existing budget deficits. A one-cent sales tax would generate about \$2M annually, which would help preserve core City services that the community have identified as top priorities, including public safety. The Group further recommends consideration of RV camping, paid parking, sale of surplus City property, and a variety of other options to address the City's budget challenges. The Group's full report (Attachment 3) includes their view on over 30 different measures, both revenue and expense reduction options.

### **Waterfront RV Camping**

At the April 28, 2020 Council session discussing the City's Rock Solid Together Economic and Financial Recovery plan, the City Council expressed interest in piloting a waterfront RV Camping program. This is in recognition that travel habits post COVID-19 will trend toward camping, where people can control their environment and limit exposure to the virus. As such, staff has explored various RV camping sites and options along the waterfront. Staff is in the process of developing a plan of locations and management of the program. In addition, they are developing an online registration program to simplify the application process. Staff also reached out to Coastal Commission staff to allow for a pilot program this summer/fall. Coastal Commission staff appear supportive so long as some tent camping is also permitted in those areas, and it would not require a Coastal Development Permit in the trial phase.

It is anticipated that a trial of “dry” (no hookups) RV camping program of 10-15 spaces could generate anywhere between \$50,000 to \$100,000 in the first year, which could grow to \$135,000 to \$185,000 per year. Staff estimates there are about \$10,000 in start-up costs and \$15,000 to \$20,000 in on-going annual costs. The City’s Low-Cost Accommodation Fund can be used to offset the program’s expenses.

### **Paid Parking**

The City Council and community members have also expressed interest in paid parking. Paid parking can help recoup the costs of providing services to visitors, drive economic vitality by improving turnover of cars in retail locations, and help improve infrastructure in the parking areas.

With that in mind, staff is investigating a variety of options to conduct a parking study and begin consideration of paid parking in impacted areas, such as the waterfront and beach areas. Such a study would explore existing parking demand, how best to manage that demand and paid parking options (lots, meters, etc.). Staff recommends that significant outreach be done with potentially impacted businesses and stakeholder groups, while simultaneously working with Coastal Commission staff. It will likely to six or more months to complete the study, conduct outreach and develop a plan for City Council consideration.

### **Harbor District**

The Harbor Fund derives revenue from waterfront lease sites, launch ramp parking, boats slips, piers and moorings. These funding sources, however, are insufficient to cover the costs of managing the leases, maintaining infrastructure, and patrolling the waterfront and local waters. The 2019 community survey looked at the option of dedicating new revenues to the Harbor Fund, including a property tax assessment of \$50. The community survey, however, came back with less than 50% support, when a dedicated tax measure requires over 66% community support to succeed. Therefore, staff does not recommend moving forward with a measure at this time. Staff is reviewing other revenue sources for the Harbor.

### **Sale of Properties**

At the April 28, 2020 Council Meeting, the City Council also expressed interest in sale of City properties, particularly the Dunes Street property and second fire station located in north Morro Bay. The City Manager’s Roundtable did not support sale of the second fire station located in north Morro Bay as it may impact insurance rates. However, staff would ask that Council provide direction on the sale of the Dunes Street property and neighboring adjacent lot on Shasta Street (designated for the Bocce Ball courts and greenhouse, which potentially could be relocated, either as part of the Coleman park renovation or Monte Young). Staff would also recommend sale of the parcel located on the corner of Downing and Bolton (estimated at 7,000 sq. feet). To begin the process or sale, staff recommends an appraisal of the properties be obtained.

### **Budget Hearings and Items for Consideration**

At the June 3, 2020 Special Council meeting, Council will have an opportunity to receive public input, ask questions, and direct changes to the Proposed Operating and/or Capital Program Budgets. Staff is seeking Council direction on the following items:

1. RV Camping

2. Paid Parking
3. Sale of Properties
4. Sales Tax Measure for November 2020 Ballot

Any other changes to the Proposed Operating and Capital Budgets directed by Council or identified by staff (such as “clean-up” items) will be included for Council consideration in the resolution formally adopting the Budgets to be considered by Council in June.

### **COORDINATION**

The preparation of this budget document involved participation from all City Departments.

### **FISCAL IMPACT**

The fiscal impact is presented in the summary form in the Financial Summaries chapter of the Proposed Operating and Capital Budgets for FY 2020/21 (page B-1). The total proposed budget is \$96 million for all City Funds and including transfers, a substantial portion of which is due to the planned progression of the WRF project.

### **ATTACHMENTS**

1. [FY 2020/21 Proposed Operating and Capital Budget](#)
2. CFAC Questions and Staff Responses
3. City Manager’s Roundtable Report and Recommendations

## **April 21, 2020 CFAC Meeting Questions and Staff Responses: Review of Proposed Measure Q Budget**

### **B2.Measure Q**

#### **P14: How is SB1 allocation determined? Is there a match requirement? Expiration?**

Answer: Senate Bill 1 (SB1) is officially referred to as the Road Repair and Accountability Act of 2017. The bill was passed with the goal of repairing roads, improving traffic safety, and expanding public transit across the state. The legislation adjusted gas tax and registration fees to generate \$52 billion over 10 years for these transportation related infrastructure improvements. Of the \$52 billion, \$15 billion is directly allocated to Cities. My understanding is that the tax does not sunset.

The tax is allocated based on several factors, including fuel sales and vehicle registrations. Cities receive their funds based on mileages, etc. I can try to find more detail for you on this.

#### **General: is there a plan to prioritize then stagger spending, where possible, just in case revenue falls below budget in these unpredictable conditions?**

Answer: We have not officially outlined this yet for the draft measure q budget, or other draft budgets, that we are working on but, in concept this is the direction that will be provided, given the uncertainty of revenues at this point.

#### **On the first page of the staff report you mention the Governors decision to defer sales tax for business between 90 days & a loan programs for small businesses for 12 months. Even if the businesses may not be required to send checks do you know if they will at least be required to send in the return form to the Department of Taxes and Fees so the State, Counties & Municipalities can at least plan?**

Answer: We do not have answers at this time and are not even sure the Governors proposal for deferrals will be formalized. Kind of a wait and see on these fronts unfortunately. Our thought is that the fund balance in the account can help with cash "float" if needed as a result of these deferrals. If sales tax is deferred, I would hope at a minimum reporting is still required so we can book revenues as a receivable – otherwise we will have not way of estimating how much revenue we should expect to come in.

#### **On page 12 there is a \$85K expense remaining for the Payment Management Plan in this year's Q budget. What is the purpose of the expense? Has the money been spent? If not has a contract been signed?**

Answer: The City hired a consultant to redo the Pavement Management Plan, this is expense related to development of the new program/plan.

**Measure Q transaction revenues will be \$600,000 less over the two fiscal years due to the virus (\$300,00 each year). The amount budgeted for the Measure Q contributions to the pavement management plan over the two years will be \$600,000 less also (\$410,000 compared with \$1,010,000 (\$505,000 x 2)). So it appears that all of the financial impact from the virus will come out of the paving budget.**

Answer: For FY 2019/20 many of the safety expenditures were incurred or in process when the COVID pandemic hit. We will of course try to hold off on any of the equipment related expenses that we can, but many of them are necessary for the safety of our staff or required/mandated equipment needs. As you are aware, this year the City hired a new consultant to develop a revised/new pavement management plan. Based on the consultant's work, the recommendation came back that the City focus on hotspot repairs, where failed portions of the street are dug out and reconstructed. Under this approach, less surface area is addressed, but those areas that are addressed are preserved for longer period (focuses on the arterial and collector streets). Following this, the maintenance sealing projects (chip or slurry) would continue. Due to this recommendation and the fact that it varied from the original proposed project that was approved per the FY 2019/20 budget, we anticipated returning to the committee and council with the revised scope and cost (estimated to be \$679,000). When COVID-19 struck, and shut down our economy, we have opted to delay the project for the rest of the FY understanding that revenues will be severally impacted for the rest of the year. When reviewing the budget for FY 2020/21, we determined estimated revenues for Measure Q and "plugged" in the committed costs for police and fire – the Fire station debt service, repayment of the new fire truck, the staffing model that had been previously committed, body worn camera contract, and determined what funding was left. Both Police and Fire had some operational requests that are included and not previously committed (\$12,000 and \$30,000 respectively) and this left sufficient funds left to augment the SB1 funds to complete the \$679,000 pavement management project to reconstruction some failed portions of the city's streets.

**You list \$331,971 of additional Fire and Police unfunded needs that will be recommended for funding if Measure Q revenues are better than expected. That leads me to believe that they are a higher priority than paving. So, it appears that the paving budget would have been cut in FY 20/21 to accommodate the \$332k in unfunded police and fire needs even with full Measure Q revenues. Is this true? How do you calculate it? Are there any reductions being proposed for police or fire?**

Not necessarily. We are always attempting to balance safety needs with those of our infrastructure and street repair/reconstruction needs. Under the new COVID-19 circumstances, we were able to fund the proposed pavement management project, meet the committed costs for fire and police addressed above, plus some relatively minimal operational adds. We provided an unfunded needs list to be completely transparent in items that we are not funding due to COVID-19 and revenue short falls. It does not necessarily mean these items would all have been proposed for Measure Q funding if COVID-19 had not impacted us.

As for reductions in the Police and Fire Departments – as you are aware both Chiefs have taken salary reductions to help off set revenue loss. In addition, the Police Department has a vacant position that is being held vacant at this time to help with expenditure reductions. All departments are in the process of revising proposed budgets considering the pandemic and have been asked to make significant reductions to operational expenses to help offset the revenue impacts.

**May 19, 2020 CFAC Meeting Questions and Staff Responses: Review of General Fund Budget and Changes to Measure Q budget**

**Item B2 – General Fund Operating Budget**

1. On page 2 of the staff report, last paragraph second to last sentence you state “...there will be service reduction impacts to the community, including delayed response and processing time.” Could you provide a couple of examples of areas where “delayed response and processing time” might affect the average resident?

Answer: We expect there to be less front counter hours at City Hall, as remaining staff will need some designated time to process payments, complete utility billing functions and process business license and TOT receipts. Also, we expect there to be some delayed response time from the public works field crews in responding to service requests and in the development review process. In addition, we have eliminated a significant amount of contract services, including services for City Trees and other facility and maintenance projects.

2. Services---The major reductions appear to be in Police, Fire and Public Works. What are a couple of examples of the largest services that have been discontinued?

Answer: The major reductions are in Public Works and Recreation. Public Works has lost a total of four full-time positions. Recreation has lost two full-time positions as recreation services are not permissible at this time and we are unclear what those services will look like in the future. At this point childcare is the primary service being offered by recreation as well as the coordination of the Morro Bay Cares program, particularly the volunteer group.

3. Why is one of the accomplishments for Public Works: “Oversight of the Water Reclamation Facility Program”? Wasn’t this funded by the WRF Project (part of the Capital Improvement Plan section of the Budget) and not the General Fund? And if not, why not?

Answer: We did not get a chance to update all of these in time for CFAC publication but Public Works was and continues to be involved in the project from an oversight perspective.

4. I didn't see the plan for the Capital Improvement Plan. We have collected at least \$15 M in 218 fees and have included \$11 M from 2018 forward in a 5-year timeframe for water and sewer upgrades. We have the ability to leverage unbelievably low interest rates to:
  - a. Address our aging infrastructure issue in a much more aggressive fashion
  - b. Retain employees who have the skill sets to transition to this work effort
  - c. Provide job opportunities for contractors in the area and hopefully residents of Morro Bay

Answer: We have been focused on the general fund budget given the COVID-19 pandemic. We are working on the other City funds and capital funds now.

ROCK SOLID TOGETHER -- A very well thought out and assembled plan.

1. Financial Impacts chart FY19/20
  - a. The Worst case is less than moderate for TOT. This must be a typo, but the total adds correctly? This is not the case for FY20/21

Answer: We will check into this and make sure figures are accurate.

2. What does extension of UDP for those laid off mean?

Answer: Those customers that are unemployed due to COVID-19 will be eligible to receive the 10% utility discount through the June billing cycle. Typically, the program is only offered to income qualifying customers.

3. ROCK SOLID TOGETHER: COUNCIL RECOMMENDATIONS
  - a. Why is putting a 1% sales tax increase on November's ballot not listed as being considered?

Answer: There has been no determination if a sales tax measure will be placed on the November ballot. The City continues with Join the Conversation discussions to identify community priorities and focusing efforts on recovery plan.

Enterprise Funds

1. Water, sewer, WWTF are not part of the general fund, but when are their budgets going to be reviewed?

Answer: We are working on those budgets now and hope to publish by the end of the week.

A couple of cosmetic corrections

1. Page C-45 Transfer Purpose and Budget Overview copied from 2019/20 without changes

Answer: Yes, we need to update this. Thank you, we were not able to complete all of these in time for publication.

2. Page C-94 Public Works Admin---The headcount chart at the bottom hasn't been updated for 2020/21.

Answer: Yes, we need to update this. Thank you, we were not able to complete all of these in time for publication.

**TO:** Scott Collins  
**FROM:** City Managers Roundtable Group  
**DATE:** May 27, 2020  
**SUBJECT: Review of Revenue Enhancements and Expense Reductions**

**At the first meeting the group established following objective:**

*The Roundtable Group (Group) would recommend to the City Manager suggestions on revenue enhancements and expense reductions in light of the financial burden that was placed on the City due to the Covid-19 virus, to help with the local relief and recovery plan.*

**Methodology**

The Group reviewed the expenditure reduction and recovery efforts already put in place by the City, including pay cuts; freezing of vacant positions, travel and training; full-time and part-time employee layoffs; curtailing of all other spending; responsible use of reserves; and pursuit of State and Federal assistance. The Group supports those proactive measures. Following that, each member of the Group independently submitted suggestions. These suggestions were consolidated into three groups, Short Term Revenue Enhancements, Expense Reductions, and Long-Term Revenue Enhancements. Each item on the consolidated list was discussed at our final meeting. The following are those suggestions and the results of the discussions.

**Short Term Revenue Enhancements**

1). *Place a measure on the November 2020 ballot for a one-half (.5%), one (1%), or one-and-a-half (1.5%) percent increase in the general use sales tax.*

Discussion: The Group agreed that a sales tax increase makes the most sense to immediately provide stability to the City's finances. The Group also discussed the percentage of the increase and agreed the most important consideration was to be consistent with the increases that are being proposed by the other cities in the county. Because of concern that a sales tax measure might fail and put in jeopardy a 2022 ballot measure, the Group discussed the need to update the survey that was done in the fall of 2019 in light of the changes that the COVID-19 virus has caused. Even though a second survey would be more limited in scope and therefore less expensive the group felt the spending the money (est.\$20K) at this time would not be appropriate. Also, at least one city in SLO County is considering retesting; Morro Bay would have access to the outcome.

Assuming that the City Council votes to place a sales tax measure on the November 2020 ballot a campaign committee will need to be formed to promote the measure. The City was facing a challenging long-term budget scenario prior to COVID-19, and the effects of COVID-19 have served to significantly exacerbate those issues. Since a 1% sales tax increase will generate north

of \$2 million dollars annually the City's senior management will develop ideas on what services that funding could preserve.

2). *Paid Parking in the lot below 781 Market St and/or at the Rock for the summer. Use the honor system vs. worrying about enforcement. (4.28.20 CC Meeting mixed direction from CC---2019/20 Goal 2.3).*

Discussion: The Group felt this was a simple way to quickly raise money; however, after the City Manager explained the many required steps needed to accomplish paid parking (study, community outreach, Coastal Commission review, etc.), the group recommended that this item be moved to the long-term revenue enhancement list. The City should make an effort to try and implement paid parking especially in the public waterfront lots by the summer of 2021.

3). *RV Parking-Allow dry-RV parking immediately in the waterfront locations that require little or no financial investment. Expedite the permit process. Don't allow the Coastal Commission to delay the program. Since the Harbor Fund needs the revenue as badly as the General Fund, allow the Harbor Department to manage the program for the summer and retain the revenue. Also consider allowing dry-RV camping below 781 Market.*

Discussion: The City is actively pursuing dry-RV camping. There was discussion about two areas that would require very little investment. The triangle lot is already graded and has a public bathroom in close proximity. To make the space more attractive, the Group suggested to the City Manager that he talk with the Maritime Museum and ask them to clean up and/or move (possibility to the Harbor Department Storage Yard) the majority of their stored items along the west wall. In addition, the space below 781 Market was an RV campground in the past, and may be a good spot for some camp spaces.

4). *Cannabis—the City is missing out on \$\$\$ without “adult use” recreational sales. What is the hold up? Can we expedite this process? (4.28.20 CC meeting-staff directed to expedite permit---2019/20 Goal 1.2)*

Discussion: The City Manager explained there were issues holding up the opening of the two dispensaries which he could not discuss due to active litigation. Each location will require extensive interior work prior to opening. The current opening dates will probably stretch until Labor Day, if not longer. The City Manager indicated that City Council will review adult use dispensing at their May 26, 2020 meeting.

5). *Reprioritize the Community Development's work schedule so all commercial new development and change of use permits are their #1 priority for the next 12 months. (2019/20 Goal 1.4)*

Discussion: The City Manager will review permitting priorities with the Community Development Director. The sooner a new business can open, the sooner the City can start collecting sales tax.

6). *Provide restaurants with permitting flexibility to expand seating while complying with the Governor's guidelines until they are allowed to resume normal operations.*

Discussion: The Group felt strongly that anything the City could do to expand the restaurants seating capacity while still staying within the County's guidelines was really important not only for the financial health of the business, but also for the financial benefit to the City's General and Harbor Funds. This is a Coastal Commission issue for waterfront restaurants. The City Manager mentioned that other coastal cities were also trying to secure permission to expand seating into public areas on a temporary basis. The Group recommends the City send a letter to the Coastal Commission requesting they expedite approval of this option for restaurants.

7). *Immediately implement the new building and impact fees for residential construction only. In the 2020/21 proposed budget the Community Development Department is only recovering 47% of their expenses.*

Discussion: The City Finance Director agreed to reviewing the possibility of bringing forward to the City Council a discussion of raising only the residential building and impact fees sooner than some of the other fee increases that have yet to be implemented. She explained that there is a 60-day waiting period once the City Council has approved the fee increase before they could be implemented.

8). *When the Recreation Division's programs restart, restructure the fees so the entire Division achieves 100% cost recovery. In fiscal year 2019 the Division's revenue only covered 57% of the expenses.*

Discussion: The City Manager will discuss the fee structure with the Recreation Division Manager. One of the Committee members who has experience with the before- and after-school programs and the summer enrichment programs indicated from casual conversations with other users that the City should be charging market rates for these programs.

The Senior programs were discussed. While some of the programs include seniors that have limited financial capacity others appeal to senior participants who have the financial resources to pay a fee. The City Manager will review all of the Senior programs with the Recreation Division Manager.

9). *Rent or sell the Dunes Street house. If rented speed up the process by contracting with one of Morro Bay's Property Managers.*

Discussion: The Group was split if the house should be sold or rented. It was pointed out the Dunes property along with the adjoining lot have been designated to be included in a future Civic Center in at least one (if not more) downtown revitalization studies that have been done over the years.

10). *License food vendors in limited locations near the waterfront.*

Discussion: The Group was not in favor of this idea because a) the difficulty of maintaining social distancing and b) added competition for the already struggling Embarcadero restaurants and c) If there is food available at the Rock some folks may never venture into the retail section of the Embarcadero.

11). *Become more aggressive in issuing traffic violation ticket especially speeding.*

Discussion: Before the Police Department can be more aggressive in enforcing speeding violations it must complete a “Speed Survey”. The Survey was funded during the mid-year budget review. The Group felt that the Survey should be contracted immediately. Not only would the speeding violations generate revenue, but as word got out that the City was ticketing folks for speeding the ones that constantly violate the law may slow down. If there is a funding issue in the General Fund revisit Measure Q.

12). *Sale of vacant land— (#’s is from the attachment to the 4.28.20 CC agenda)*

- *Residential lot a corner of Bolton and Downing in the Harbor Tract (#47)*
- *Residential lot below the Water Tanks on Kings (#65)*
- *Three lots in Chorro Valley—these may not be buildable because of potable water issues, but might be attractive for livestock or construction storage. (#’s 69,70, & 71). Even though they probably have limited value they are still an asset and if the City has no attention of ever using the water wells, they should be sold.*

Discussion: The lot on Bolton in the Harbor Tract was originally purchased for a possible additional off ramp from Hwy 1 into the Harbor Tract. Since the idea was rejected by Cal Trans, the lot should be put up for sale. The value should be in the \$200K range.

The lot on Kings below the Kings Water Tanks might not be saleable because of underlaying water infrastructure. If it is determined that the pipes leading from the tanks that go deep enough or could be moved inexpensively the lot should be sold.

The vacant lots in the Chorro Valley include the City wells which are no longer in use because of nitrate issues. Because there is no infrastructure to move the well water to the Water Treatment Plant to remove the nitrates the wells should be formally abandoned. The property is probably not buildable because of the potable water and flood plain issues, but the property could be suitable for livestock. Even though there is little value in these properties they should be sold. The proceeds will likely go to the Water Fund.

13). *Review sale of Bonita St. Fire Station, (4.28.20 CC meeting—Mayor requested staff to investigate).*

Discussion: The Fire Chief explained that the Bonita St. Station is important to retain for a number of reasons. It is the only storage location for reserve engine 5392. Having the third apparatus that is capable of pumping water allows the City to retain a higher fire prevention rating which lowers all Morro Bay property owners fire insurance premiums. Another reason is in case of a flood that cuts the City in half at Morro Creek the Fire Department will still have the capability to respond to emergencies in the northern half of town.

14). *Determine if maintaining the Teen Center program is still valid and if not sell the property.*

Discussion: Two members of the group that have had experience with the Teen Center program felt very strongly that the program should continue. Their reason was the program serves disadvantaged teens who really need the support that the program provides.

Another member of the group suggested that the City look into the feasibility of selling the back two-thirds of the property. Additionally, the Group suggested to the City Manager that the back portion of the property which appears to be in disrepair, be inspected to be sure it is safe.

### **Expense Reductions**

Discussion: The Group did not discuss each expense reduction suggestion. The Finance Director mentioned that she thought they were all valid ideas. She also explained that in the Public Sector there were challenges with contracting out work that makes it more difficult to eliminate certain position by outsourcing them. As noted in the introduction, the City has made a number of expense reductions to address the financial fallout of COVID-19, and there aren't many remaining options left that don't cut City services to the bone.

- Remittance Processing---move to a bank lock box. Review cost of accepting credit cards vs. in-house processing (could impact late fees). Even though the employee is paid out of the water and sewer funds it would still be a savings. (San Luis Obispo uses a 3<sup>rd</sup> party processor)
- Payroll Processing- Determine if this function can be performed for less money by a payroll processor.
- Change payroll cycle to 24 per year.
- Information Technology—Investigate outsourcing the function to a firm that provides 24/7 support (Pismo Beach maybe outsourcing IT to ExpressTech)
- Environmental Program Management—could a private sector firm preform the same functions at less cost than a full-time City benefited employee?
- Review cellphone reimbursements.
- In the next labor negotiations increase employee contributions and/or copays for health, dental, vision & OPEB
- Several Members of the group had individual meetings with the City Staff to discuss specific personnel reductions.

### **Long Term Revenue Enhancement Projects**

Discussion: The following suggestions were primarily made by one member of the Group. They were briefly discussed. The general consensus was most made sense, but additional review and study is required before recommendations can be made.

- 1). Solicit/incentivize small business development that generates sales tax--vintage cars? hybrids and energy efficient vehicles? Green manufacturing? We need higher tax sales!
- 2). Regional promotion to encourage SLO county shoppers to come to Morro Bay.
- 3). Restructure City/Community Promotions again. Consider 1% county BID contribution and increase TOT to 11 or 12%. Reduce or eliminate TBID. Earmark a reasonable budget amount for a promotion's agency with oversight through a community board and city staff. Continue without administrative-level position.
- 4). Push as hard as we can to get offshore wind energy (2019/20 Goal 1.10) as a part of Morro Bay's economic profile. Consider other alternative energy sources that "fit" here. Consider partnering with institutions of higher learning to develop graduate level programs for development and production of alternative energy.
- 5). Create BIDS in various parts of town that deal with structural improvements and economic vitality (e.g. you could penalize those with vacant/unproductive storefronts and lots with fines after 18 months, etc.).
- 6). Establish a separate source of revenue for the Harbor Fund.
- 7). Redevelopment/development of larger vacant properties: power plant, Bank of America, Market Plaza area. (2019/20 Goal 1.3)
- 8). Develop a small to mid-sized conference center.
- 9). Investigate what SLO county film commission is doing and actively promote Morro Bay as a site.

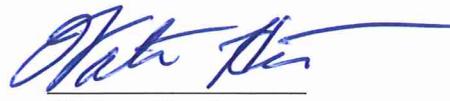
Respectfully Submitted,

  
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