
City of Morro Bay Midyear Budget Report FY 2021-22

This Report covers the six-month period ending December 31, 2021. It provides an update on the City's primary revenues and expenditures in its major funds, and outlines recommended budget adjustments.



Administrative
Services Department
February 2022

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Executive Summary

Overall, this year's midyear report is a positive one, with the economic recovery continuing and City's most economically sensitive revenues, sales tax and Transient Occupancy Tax (TOT), exceeding anticipated budgeted amounts. Measure E-20, which was approved by voters in November 2020 as a 1.5% local general-purpose sales tax (replacing Measure Q which was a 0.5% tax approved in 2006) began in April 2021 and is generating more revenue than estimated at budget time. Overall expenditures for mid-year are tracking well, though several budget adjustments are needed to reflect the economic recovery and to adequately resource core services and Council and community priorities. Adjustments are being recommended in the areas where meeting the City's priorities call for such changes. In the General Fund and Measure Q&E Fund, revenue budget increases based on positive revenue growth fully offset expenditure budget increases.

The City's enterprise funds are tracking well with no major operating budget changes recommended. There are several CIP budget changes recommended to increase CIP budgets in FY 2021-22, reflecting a return to CIP activity that was paused in many cases due to the pandemic. Funding and staff capacity to implement the full range of the City's CIP needs remains a longer-term challenge to address.

Citywide, across all funds, these changes represent approximately \$1.8 million in net revenue budget increases, excluding transfers in, and approximately \$4.0 million in net expenditure budget increases, excluding transfers out. The funds where revenue increases do not fully offset expenditure increases do have the fund balance to accommodate the recommended changes, largely in the Water and Sewer Funds for those CIP budget increases. Implementing the recommended changes will also result in an additional approximate \$0.4 million contribution to the General Fund Emergency Reserve, gradually working toward Council's update General Fund Emergency Reserve policy of a 33% minimum and a 50% target reserve.

Introduction

Purpose and Scope

This Midyear Budget Report for the Fiscal Year (FY) 2021-22 covers the six-month period ending December 31, 2021. It provides a status update on the City's primary revenue and expenditure sources in its major funds and provides a scheduled opportunity for the City to make budget amendments to respond to unanticipated changes or emerging trends.

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. It represents a snapshot of City revenues and expenditures as of December 31, 2021. It may not represent pending payments or revenues, or irregularities in payment or revenue timing. As this is not an audited financial statement, the numbers are preliminary and subject to change as the year progresses. The City monitors and adjusts its revenue and expenditure projections based on fiscal-year-to-date performance and other developments to develop a more accurate picture of the City's anticipated year-end financial position. If no significant change is anticipated, no budget adjustment will be recommended.

General Fund

Key Revenue Analysis

The adopted General Fund Budget for FY 2021-22 is approximately \$15.7 million. As of December 31, 2021, the General Fund had received 41% of its revenues, or \$6.5 million. This is typical, as many of the revenues are received irregularly or have a lag time before the City receives them. Staff monitors each revenue source and is recommending a few revenue budget increases to reflect the continued economic recovery. The top four revenue sources are described below in detail, as they account for over three-quarters of budgeted General Fund revenues collectively.

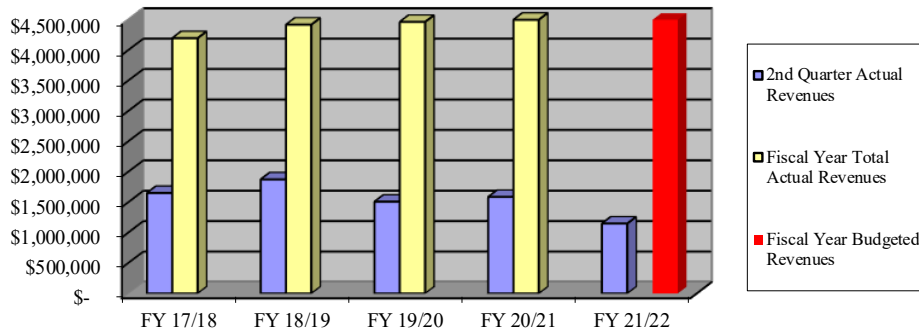
Property Tax

Property tax is the largest revenue category for the City’s General Fund, accounting for 32% of budgeted General Fund revenues in FY 2021-22. 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 13.7 cents per dollar paid on property located within the municipal limits of Morro Bay.

Revenue for FY 2021-22 was budgeted higher than the prior fiscal year. Property tax distributions are largely received in the third and fourth quarters of the fiscal year. Given the timing of receipts, no budget adjustment is recommended. The County Assessor’s most recent annual report demonstrated assessed valuation growth of 3.95% for Morro Bay.

Property Tax

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 1,651,301	\$ 1,875,035	\$ 1,508,448	\$ 1,585,876	\$ 1,148,825
Fiscal Year Total Actual Revenues	\$ 4,197,259	\$ 4,419,459	\$ 4,464,003	\$ 4,861,594	
Fiscal Year Budgeted Revenues					\$ 5,011,696
2nd Quarter Percent of T total	39.34%	42.43%	33.79%	32.62%	22.92%

Recommended Budget Revision	\$ -
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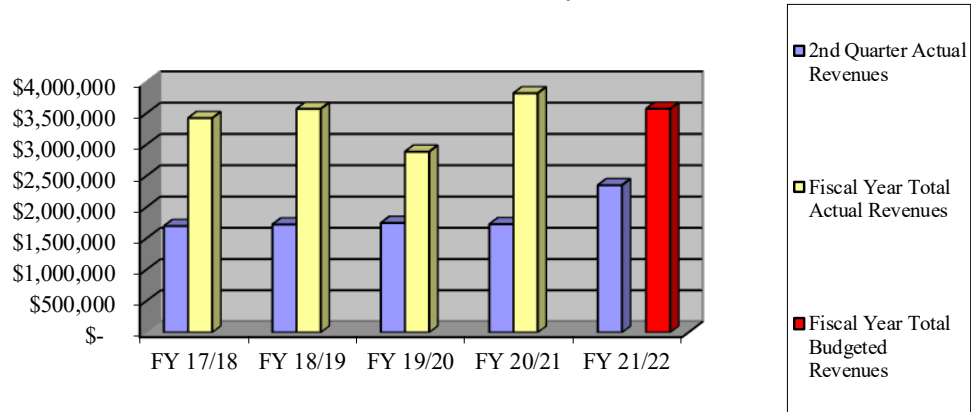
Transient Occupancy Tax

TOT is the General Fund’s second largest revenue source, accounting for 23% of the City’s budgeted General Fund revenues for FY 21-22. The City levies and retains a 10% transient occupancy tax (TOT) on all hotel, motel, vacation rentals and RV parks within the municipal limits of Morro Bay to fund City services provided to visitors to Morro Bay. In addition, the City collects and remits an additional 3% to Visit Morro Bay, the Morro Bay Tourism Business Improvement District (TBID), and an additional 1.5% for Visit SLOCAL, the Countywide Tourism program. As a highly economically sensitive revenue source, the City monitors TOT closely. Due to the pandemic, TOT revenues have been more difficult to predict in recent years. However, Morro Bay and the California Central Coast region have not seen the significant revenue reductions that larger cities have seen, and Morro Bay’s TOT revenues rebounded very quickly and remain high.

This year TOT receipts have tracked higher than budgeted through December. Morro Bay experienced a strong summer prior to the recent spike in COVID-19 cases. In coordination with Visit Morro Bay, staff recommends a somewhat conservative revenue budget increase of \$350,000. This recognizes the positive fiscal year-to-date actuals while taking a cautious approach to the uncertainty that exists in the winter and spring months of the current fiscal year.

Transient Occupancy Tax

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 1,702,037	\$ 1,727,757	\$ 1,753,005	\$ 1,732,432	\$ 2,356,349
Fiscal Year Total Actual Revenues	\$ 3,429,186	\$ 3,576,121	\$ 2,892,130	\$ 3,826,276	
Fiscal Year Total Budgeted Revenues					\$ 3,577,869
2nd Quarter Percent of Total	49.63%	48.31%	60.61%	45.28%	65.86%

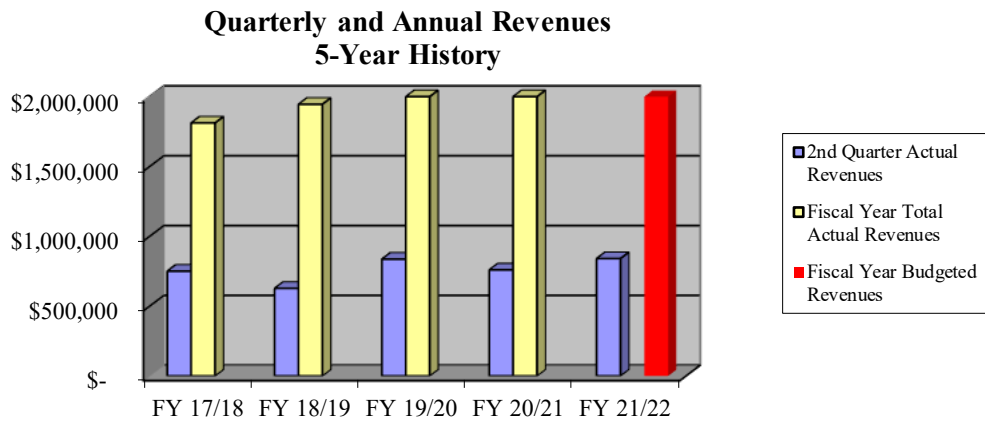
Recommended Budget Revision **350,000**

Sales Tax

Sales tax is the third largest budgeted revenue source for the City’s General Fund in FY 2021-22, budgeted to generate 13% of the Fund’s revenue for the year. The base statewide sales and use tax rate is 7.25 percent, and the City’s General Fund receives 1 cent of that base tax. This does not include the 1.5 cent local sales tax which is collected through voter-approved Measure E-20 and will be discussed under that Fund separately.

Sales Tax receipts are tracking somewhat higher than budgeted this fiscal year. This trend tracks with the increase in TOT tax and high occupancy rates at local hotels. The City contracts with industry expert HdL to analyze collections history, forecast sales tax revenues and pursue revenues on the City’s behalf that belong to the City. The proposed revenue budget increase of \$240,000 is approximately 50% of the forecasted amount that HdL is expecting the City to receive over the adopted budget. This is a conservative revenue budget increase that also accounts for the unpredictability in Morro Bay’s slower season in the second half of the fiscal year.

Sales Tax



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 750,841	\$ 627,781	\$ 836,814	\$ 759,628	\$ 840,735
Fiscal Year Total Actual Revenues	\$ 1,811,884	\$ 1,945,359	\$ 2,186,074	\$ 2,230,182	
Fiscal Year Budgeted Revenues					\$ 2,053,926
2nd Quarter Percent of Total	41.44%	32.27%	38.28%	34.06%	40.93%

Recommended Budget Revision **240,000**

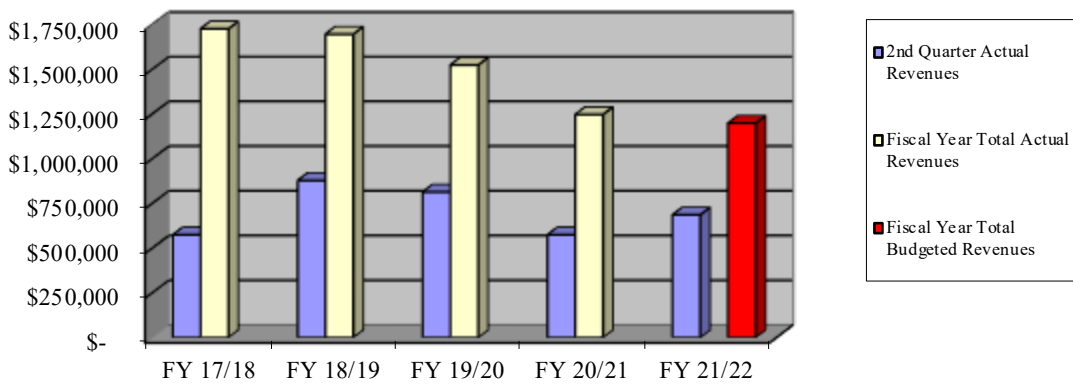
Charges for Service

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 budget for FY 2021-22.

The Recreation Division programs’ revenues have not entirely recovered since COVID-19 and may come in slightly below budget. However, Community Development Charges for Services are likely to over-perform compared to budget for an overall projected year-end position consistent with the budget in this category. Staff will continue to monitor this revenue source; no budget revisions are recommended at this time.

Charges for Services

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 574,312	\$ 878,281	\$ 813,701	\$ 574,464	685,897
Fiscal Year Total Actual Revenues	\$ 1,726,241	\$ 1,695,853	1,523,506	1,246,750	
Fiscal Year Total Budgeted Revenues					\$ 1,198,655
2nd Quarter Percent of Total	33.27%	51.79%	53.41%	46.08%	57.22%
Recommended Budget Revision					-

Other General Fund Revenues

All remaining General Fund revenues comprise approximately 24% of the Fund's budgeted revenues collectively. The status of the primary sources of other General Fund revenues are summarized below. No midyear budget changes are recommended for any of these revenues this fiscal year, with the exception of additional budget to recognize mutual aid reimbursements for the City's response to wildfire incidents and to recognize a one-time grant revenue.

- **Transfers In** – Transfers into the General Fund comprise approximately 8% of the General Fund budget for FY 2021-22 (\$1,225,000). Roughly two-thirds of that total is comprised of transfers in from enterprise funds to cover internal services costs for services such as financial administration, human resources, legal services, and City management and administration services that support enterprise fund operations and facilitate the provision of water, sewer, harbor and transit-related services. In addition, this total includes State gas tax revenue as well as a transfer in from Measure Q & E fund for a specified amount of Fire department overtime. No changes are recommended.
- **Franchise Fees** - Franchise fees are collected by the City from utilities operating in Morro Bay. Franchise fees are currently received for electricity, garbage, cable TV and natural gas. Franchise fees represent 4% of budgeted General Fund revenues in FY 2021-22 (\$572,000). Payments are not remitted equally throughout the year; therefore, midyear receipts are not necessarily predictive.
- **Cannabis City Tax** – Morro Bay residents approved a cannabis specific tax of up to 10% in 2018, for sale of cannabis within Morro Bay. Council set the tax rate of 5% for all retail sales locally. Revenues for the two permitted local retailers are budgeted at approximately 3% of General Fund revenue for FY 2021-22 (\$480,000), and revenues are on track at midyear with 44% received.
- **Business Tax** - The City requires all businesses located in or operating in 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. This accounts for approximately 2% of the FY 2021-22 General Fund operating budget (\$364,000). Revenues are on track for the current fiscal year with 92% received (most renew at the beginning of the fiscal year in July).
- **Rental Income** – Rental of City-owned property constitutes approximately 3% of the General Fund's FY 21-22 budget (\$409,000). Revenues fiscal year-to-date are tracking roughly comparably to prior fiscal years on a percentage basis but given the budget increase for FY 21-22 in this area, staff will continue to track and revise next year if necessary. The majority of the rental income in this account come from Morro Dunes RV Park.
- **Licenses and Permits** - Conditional use permits, coastal permits, and encroachment permits are the primary revenues sources in this category. These revenues sources account for a total of approximately 1% of the budgeted General Fund revenues for FY 2021-22. These revenues are performing very well at midyear, at approximately 100% of budgeted revenues received to date. Given the small scale of each line item in this category, staff is not recommending budget changes at this time but will incorporate updated projections into next year's budget.

- **Mutual Aid Reimbursement** – The Morro Bay Fire Department anticipates receiving \$480,000 in FY 2021-22 as compensation for its response to mutual aid incidents, primarily wildfires. This revenue increase will be fully offset by a commensurate expenditure increase to cover associated response costs. Going forward, some moderate level of wildfire response costs and reimbursement will be assumed and planned for in future year budgets, given the significant volume that these costs and reimbursements represent as wildfire season continues to prolong and demand additional resources.
- **Grant Revenues** – The City will receive a one-time REAP grant from the State in the amount of \$78,000 and will utilize these funds to facilitate electronic plan review.

Recommended General Fund Revenue Budget Amendments

Given the detailed discussion above, staff is recommending the following General Fund budget adjustments (all increases) at midyear. If approved, this would result in an amended General Fund revenue budget of \$16.8 million.

General Fund Revenue Budget Amendments

Department	Description	Increase (Decrease) Amount	Prior Council Approval	One-time/Ongoing
Admin Services	Increase Transit Occupancy Tax Revenue based on actuals to date	350,000	N/A	Ongoing
Admin Services	Increase Sales Tax Revenue based on updated HDL Estimates	240,000	N/A	Ongoing
Fire	Mutual aid reimbursements for wildfire response costs	480,000	N/A	One-time
Community Dev	Grant-funded electronic plan review software	78,000	N/A	One-time
		1,148,000		

Key Expenditure Analysis

The adopted General Fund expenditure budget for FY 2021-22 is approximately \$15.6 million. As of December 31, 2021, total General Fund expenditures totaled \$7.4 million, or 49% of budget. The following discussion provides a status of significant General Fund expenditures at midyear. Staff monitors expenditures closely and is recommending several expenditure adjustments. Many of these changes are to continue to gradually restore budget that was reduced in FY 2019-20 after the onset of COVID-19.

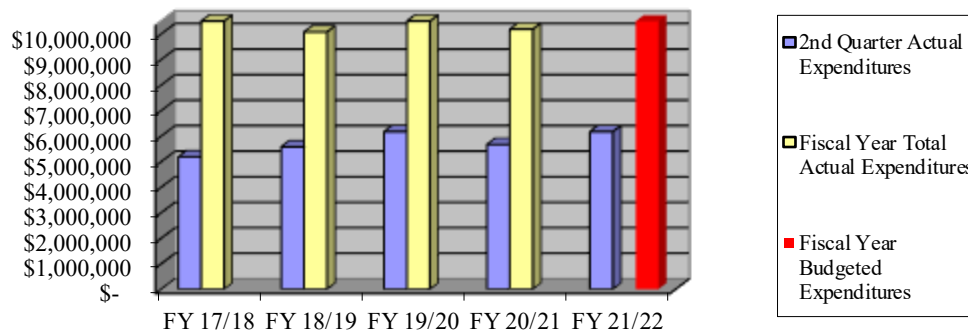
Personnel Costs

Personnel costs include salaries for full-time employees, elected officials’ stipends, temporary/relief employees, overtime, other benefits, pensions, and health care. Expenditures have tracked higher than 50% at midyear since the City began paying the annual CalPERS unfunded liability payment (UAL payment) in July to receive a small discount. In addition, the City supported many out of County fires this year and will received approximately \$480,000 as compensation for that staff time. As part of the midyear adjustments, staff is recommending all reimbursement revenue for mutual aid be budgeted in the Fire Department to offset costs of responding to the fires.

There was a 12.5% reduction in personnel expenditures from FY 2019-20 to FY 2020-21, largely due to reduced staffing levels in response to COVID-19. Given positive revenue recovery since the onset of COVID-19, staff is recommending continuing the gradual restoration of key positions at midyear this year. Proposed changes are outlined in the following section.

Personnel Costs

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



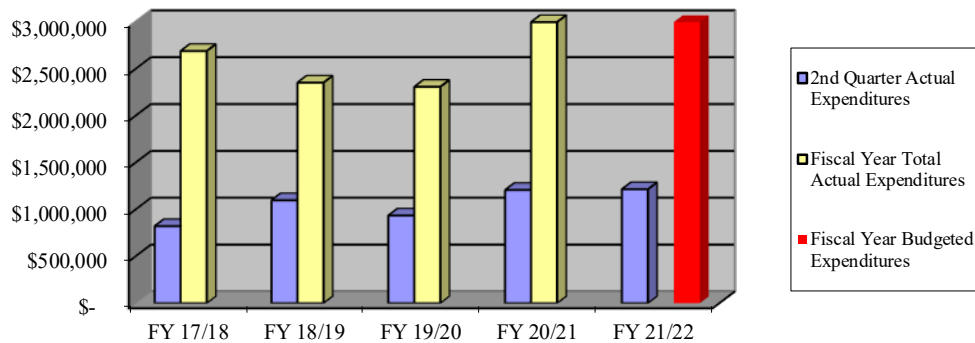
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Expenditures	\$ 5,186,818	\$ 5,577,502	\$ 6,173,938	\$ 5,669,569	6,172,942
Fiscal Year Total Actual Expenditures	\$ 11,884,066	\$ 10,075,472	\$ 11,463,804	\$ 10,185,594	
Fiscal Year Budgeted Expenditures					\$ 10,565,122
2nd Quarter Percent of Total	43.65%	55.36%	53.86%	55.66%	58.43%

Supplies & Expenses

Operating expenditures consist of all General Fund costs to provide services other than personnel costs. These include supplies and materials, consulting services, and contract services. Consulting and contractual services may have various contract start dates and payments that may not be equally spread throughout the fiscal year and there may be some delay in invoices from consultants. Therefore, the midyear expenditures this year at 32% are likely to increase later in the fiscal year as invoices are received. There are a few budget changes recommended in this category, outlined in detail in the next section.

Supplies & Expenses

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Expenditures	\$ 822,445	\$ 1,099,247	\$ 936,328	\$ 1,208,227	\$ 1,216,742
Fiscal Year Total Actual Expenditures	\$ 2,691,066	\$ 2,354,564	\$ 2,309,101	\$ 3,313,285	
Fiscal Year Budgeted Expenditures					\$ 3,742,431
2nd Quarter Percent of Total	30.56%	46.69%	40.55%	36.47%	32.51%

Recommended General Fund Expenditure Budget Amendments

Staff is recommending the following General Fund expenditure budget adjustments at midyear. If approved, this would result in an amended General Fund expenditure budget of approximately \$16.8 million. The proposed expenditure budget adjustments would be more than covered by the recommended revenue budget increases based on fiscal year performance to date, improving the projected year-end operating surplus by approximately \$0.1 million. The recommended changes are summarized by department or division as follows, with a consolidated table presented after the narrative:

Citywide –

- Increase benefits budgets in the General Fund to cover the increase in the monthly City contribution to employees’ health insurance premiums, per City Council direction on September 28, 2021 (\$37,746).

Police Department –

- Implement Council direction from the September 14, 2021 Council meeting regarding gun control measures. Budget increases are less than anticipated in the September staff report due to COVID-related delays in program implementation. This will fund POST trainings, one community training, off duty firearms training for officers, and supplemental ammunition (\$29,500).
- Correct the general liability insurance budget for FY 2021-22 based on current invoice (\$37,895).

Fire Department –

- Budget expenditures associated with mutual aid response to wildfires. These funds will largely reimburse overtime costs and associated benefits and travel costs for staff deployed to mutual aid incidents and are fully offset by a revenue budget increase for funds received (\$480,000).

Public Works –

- Maintenance Division – Increase consultant services budget for wildlife education and seagull management. In the summer of 2021 the City, Chamber of Commerce, and Pacific Wildlife Care held roundtable discussions on the seagull overpopulation and cleanliness issue, resulting in general consensus that a hybrid approach of educating residents and visitors about trash and hiring a consultant for seagull control would best solve the issue. The requested funds are to implement this approach and involve purchase and installation of signage to instruct residents and visitors about the importance of throwing away trash as well as partnering with a falconer to dissuade seagulls from settling in the City (\$40,000).
- Maintenance Division– Increase budget to account for ongoing portable restroom rentals along the waterfront for use by residents and visitors to the City. These portable facilities remain open overnight when the permanent restrooms close (\$12,000).
- Maintenance Division– Increase contractual services funding to allow for security fencing to be installed behind the Shasta Building and the Community Center. Currently, most outside areas around these two buildings have open access at all hours, which has attracted waste dumping and other nuisances. As a result, maintenance crews have become overwhelmed with requests to clean organic material, taking time away from other priorities. Fencing will prevent these nuisances from taking place at these two City facilities (\$11,000).
- Maintenance Division– Increase grounds maintenance supplies to fund fixes at the City’s pickleball courts at Del Mar Park as well as other small maintenance projects, including security projects. Based on feedback received by staff from pickleball players, staff became aware of concerns about expansion joints on the pickleball courts. The security changes include updates to lock mechanisms around the City (\$14,000).
- Street Trees – Increase budget for City arborist and tree trimming. The City is required to maintain the health and safety of trees within the right-of-way. Many of the City’s trees have not been maintained for many years and therefore pose potential health and safety risks. These funds would support a certified arborist and trimmer to assess trees performing trimming when needed or removal when hazardous (\$21,500).
- Morro Creek Revitalization - These funds are required for the City’s contracted biologist to perform site visits to Morro Creek to verify the City has achieved and maintained 70% plant survival in the creek. In addition, the biologist submits an annual report to California Fish and Wildlife confirming the City’s compliance with the terms of a Notice of Violation sent to the City in 2017. This is the final year of the City’s 5-year plan for Morro Creek restoration (\$3,500).

Recreation Services –

- Administration – Correct FY 2021-22 staffing budget errors to reflect current staffing (\$90,339).
- Sports – Increase Recreation Supervisor from 0.75 to 1.0 FTE to restore pre-pandemic staffing levels and increase part-time sports staffing to allow for increased service provision such as adult softball and girls’ softball (\$25,342).
- Youth Services – Correct Recreation Youth Services staffing budget error and increase part-time staff due to increasing youth services activity (\$211,170).
- Teen Programs – Eliminate Part-Time budget for Teen Programs; currently closed (-\$20,009).
- Community Pool – Increase part-time staffing and training at the Community Pool to reflect increased use and hours (\$28,750).

Community Development –

- Software implementation to facilitate electronic plan review, funded by grant revenues (\$78,000).

Administrative Services –

- Restore prior Finance staffing by adding a Fiscal Analyst position. In 2016, the City had seven Finance staff members. Today, there are six positions assisted inconsistently by part time hours. Two of the six full-time positions are intended to take on duties beyond finance, including oversight and support of IT, City Manager and citywide support, and analytical support for other City functions. This is not possible due to workload, which has increased over the years to include strategic financial direction and oversight for the Water Reclamation Facility, administration of the new American Rescue Plan Act funds, addressing the City’s unfunded pension liability, and growing internal customer service needs. In addition, Council’s stated goals of fiscal sustainability and economic vitality, as well as the desire to develop a more robust capital budget and financing strategy, require additional allocation of staff resources to address. The current staffing level is insufficient to meet best practices in fiscal administration and Council goals. Adding a Fiscal Analyst may not fully close the gap between existing and needed finance staff resources, but it will restore the City to the level of staffing it had six years ago, prior to recent workload expansions. Staff is continuing to implement other operational efficiencies and will continually evaluate staff resource levels. The cost of the Fiscal Analyst position for the remainder of FY 2021-22 is estimated at approximately \$30,000. The ongoing annual costs with full benefits are estimated to be \$136,000 and would be budgeted in FY 2022-23; the full costs are built into the General Fund five-year forecast (\$30,000 midyear adjustment).

City Clerk –

- Fund the municipal election to be held in June 2022 as directed by Council (\$30,000).
- Add a City Clerk position, recognizing that that the current structure of combining the City Clerk and Human Resources Manager roles and responsibilities into one position is an unsustainable model that does not allow for sufficient capacity in either area. The addition of a City Clerk position would allow the City to keep pace with an increasing volume of Public Records Act requests, several City Advisory Boards, and Citywide records management duties, while allowing the City to properly address increasing HR needs including class and compensation analysis, succession planning, policy development and implementation, and employee training and development. The current joint position would be reclassified to a Human Resources/Risk Manager position after a new City Clerk can be brought on board. The current fiscal year costs of the City Clerk position are estimated to be approximately \$35,000. The ongoing annual costs will

full benefits are estimated to be \$159,000 and would be budgeted in FY 2022-23; the full costs are built into the General Fund five-year forecast (\$35,000 midyear adjustment).

City Manager –

- Host a facilitated regional coordination discussion with the other City Managers and regional partners; a portion of these costs will be reimbursed by participating agencies (\$10,000).
- Correct the general liability insurance budget for FY 2021-22 based on current invoice (\$12,546).

Contractual Services –

- Postpone the capital needs assessment work until FY 2022-23, given the retirement of the City Engineer and recruitment for his replacement in the latter part of FY 2021-22. This will be budgeted in FY 2022-23 (-\$200,000).
- Appropriate budget for the Townsend state lobbyist contract approved by Council in November 2021 (\$20,000).
- Appropriate funds for the beginning of a classification and compensation study to be completed in FY 2022-23 (\$30,000).

These changes are outlined in table form below. These expenditure increases and decreases result in a net General Fund budget increase of approximately \$1.1 million, which is offset by recommended General Fund revenue budget increases. If implemented, these would result in an amended General Fund budget of approximately \$16.8 million:

General Fund Expenditure Budget Amendments

Department	Description	Increase (Decrease) Amount	Prior Council Approval	One-time/Ongoing
All	Increased City Health Bank contributions	37,746	9/28/21	Ongoing
Police	Council-directed gun control measures - POST trainings, one community training, off duty firearms training for officers, and supplemental ammunition	29,500	9/14/21	Ongoing
Police	General liability insurance budget to correct error in FY 2021-22 budget	37,895	N/A	Ongoing
Fire	Overtime for mutual aid wildfire response; reimbursed	350,000	N/A	One-time
Fire	Employer Paid Benefits for mutual aid response; reimbursed	120,000	N/A	One-time
Fire	Meals and Lodging for mutual aid response; reimbursed	2,500	N/A	One-time
Fire	Rolling stock budget increase offset by mutual aid reimbursement	7,500	N/A	One-time
Public Works	Maintenance - Wildlife education and seagull management	40,000	N/A	Ongoing
Public Works	Maintenance - portable restroom rentals along the waterfront/rock	12,000	N/A	Ongoing

Public Works	Maintenance - contractual services - security fencing for facilities	11,000	N/A	One-time
Public Works	Maintenance - grounds maintenance supplies – security updates and increased needs	14,000	N/A	Ongoing
Public Works	Street Trees – City arborist funding increase	6,000	N/A	Ongoing
Public Works	Street Trees - Tree trimming funding increase	15,500	N/A	Ongoing
Public Works	Morro Creek Revitalization	3,500	N/A	One-time
Recreation	Correct Recreation Administration staffing budget errors	90,339	N/A	Ongoing
Recreation	Increase Recreation Supervisor from 0.75 to 1.0 FTE and increase Sports part-time hours due to increasing activity	25,342	N/A	Ongoing
Recreation	Correct Recreation Youth Services staffing budget errors and increase part-time staff due to increasing youth services activity	211,170	N/A	Ongoing
Recreation	Eliminate Part-Time budget for Teen Programs; currently closed	(20,009)	N/A	Ongoing
Recreation	Increase Recreation Community Pool part-time hours due to increased activity	28,750	N/A	Ongoing
Admin Services	Restore Finance staffing by adding a Fiscal Analyst	30,000	N/A	Ongoing
Community Dev	Grant-funded electronic plan review software	78,000	N/A	One-time
City Clerk	Special Municipal Election for single Council Member (June 7, 2022)	30,000	N/A	One-time
City Clerk	Add a City Clerk position (separate from Human Resources Mgr)	35,000	N/A	Ongoing
City Manager	Regional coordination and facilitation	10,000	N/A	One-time
City Manager	General liability insurance budget to correct error in FY 2021-22 budget	12,546	N/A	Ongoing
Contract Svcs	Delay CIP Needs Assessment until FY 22-23	(200,000)	N/A	One-time
Contract Svcs	Townsend Lobbyist contract	20,000	11/10/21	Ongoing
Contract Svcs	Begin classification and compensation study (Finish in FY 22-23)	30,000	N/A	One-time
	Total General Fund Budget Amendment	1,068,279		

The net impact of the General Fund revenue and expenditure budget amendments would be an improvement of approximately \$0.1 million in the projected year-end fund balance, resulting in a total projected operating surplus of approximately \$0.2 million for FY 2021-22.

Measure Q & E Fund

Measure E was approved by the voters in November 2020 and replaced Measure Q, which was approved by the voters in 2006. Measure Q was a one-half percent local transaction and use tax, and Measure E added one percent to that, for total Measure E tax of one and a half percent. This is codified and explained in detail in Chapter 3.26 of Morro Bay’s Municipal Code. While Measure E is a General Tax, the City Council has identified areas of priority spending consistent with the ballot measure language in 2020, and consistent with the prior 2006 ballot language used when Measure Q was approved. As directed by City Council on April 13, 2021, the four priority areas of spending include:

- Maintain public safety services by funding staff positions that are most closely aligned with the purposes of the Measures Q and E. Expenses include costs associated with Morro Bay Fire Department, Morro Bay Police Department and Morro Bay Harbor personnel and equipment, in addition to the Fire Headquarter Debt service and the Fire Engine loan repayment;
- Maintain or enhances cleanliness and safety of public space such as parks, waterfront and the beach by funding personnel, supplies, expenses and equipment to support City operations in departments including Public Works Consolidated Maintenance and Harbor Department;
- Invest in infrastructure and equipment such as street paving, storm drains, and vehicle replacements that support City services. This priority may include increasing capacity to implement the backlog of unfunded capital projects; and
- Ensure financial health of the City by maintaining appropriate reserves to protect against economic downturns, natural/health emergencies and other unforeseen challenges or opportunities.

Measure E (like Measure Q before it) requires an independent annual financial audit and the establishment of an independent citizens' advisory committee to review annual expenditures. The Citizens’ Finance Advisory Committee (CFAC) serves as that oversight committee and is to receive annual and semi-annual reporting on expenditures from Measure revenues. This Midyear report serves as that semi-annual report.

As of December 31, 2021, the Measure Q & E Fund (fund 003) had received 43% of budgeted revenues and expended 18% of budgeted expenditures (excluding encumbrances).

FY 2021-22 Measure Q & E Total Revenues and Expenditures

	Adopted Budget	12/31/21 Actuals	% Rec'd/ Used	Prior Yr Actual
Total Revenues	3,438,184	1,490,341	43%	2,067,450
Total Expenditures	4,072,558	740,873	18%	1,318,910
GRAND TOTALS	(634,374)*	749,468		748,540

* Expenditure budget exceeds revenue budget due to intended use of fund balance from prior years.

Measure Q & E Fund Revenues

The Fund’s revenue budget is comprised of Measure Q revenues and Measure E revenues. At the time that the FY 2021-22 budget was prepared, staff lacked clarity about how the funds would be received from the state. Therefore, the Adopted Budget included roughly one-third of the funds for Measure Q revenues and two-thirds for Measure E revenues. In fact, since Measure E replaced Measure Q under the ordinance, all funds will be received as Measure E funds from the state. The City will continue to receive very small amounts of Measure Q revenue as late sales tax receipts are remitted to the State and passed along to the City. In future fiscal years, all revenue budgeted and received will be Measure E revenue. This year, \$1,479,581 of the revenues received as of December 31, 2021 were Measure E and the remaining \$10,760 were Measure Q. The fact that 43% of budgeted revenues have been received at midyear is very positive, since these represent only sales taxes remitted through October; there is a delay in the City’s receipt of the funds.

Measure Q & E Fund Expenditures

At midyear, the Measure Q & E Fund had expended 20% of budgeted revenues. The primary reason that figure is lower than would be expected is that the interfund transfer entries had not yet been made.

Department	Adopted Budget	Actuals	% Used	Prior Yr Actual
Non-Departmental	0	2,914		0
Police	600,451	190,104	32	132,127
Fire	744,405	453,313	61	350,633
Public Works	469,577	31,358	11	10,400
Harbor	201,000	63,184	31	0
Interfund Transfers	2,057,126	0	0	1,318,910
Total Expenditures	4,072,558	740,873	20%	1,318,910

Interfund transfers will be made as budgeted: \$50,000 to the Harbor Fund for a new patrol vessel, \$625,000 to the General Fund Emergency Reserve, \$350,000 to the General Government CIP Fund for the Pavement Management project, \$314,000 to the General Government CIP Fund for Storm Drain projects, and \$600,000 to the General Government CIP Fund for the Highway 1/41 Interchange. Work is resuming on capital projects after a pause during the pandemic due to fiscal uncertainty. Restarting this work has been somewhat slowed due to the retirement of the City Engineer and a recruitment for a Senior Civil Engineer that did not result in a hire. However, staff has procured consultant services and has hired a new City Engineer to continue forward progress on these projects.

In addition to the inter-fund transfers not having been made yet at midyear, there will also be some personnel entries that will be charged to the fund in the second half of the fiscal year, such as the CalPERS unfunded liability payments that have not yet been charged to the fund.

Expenditures in Public Works are particularly low at midyear given that the \$175,000 budgeted for CIP implementation had not yet begun to be expended. There are recommended budget amendments associated with this item below.

Recommended Measure Q & E Fund Budget Amendments

Revenues. Due to a strong economic recovery, the City's sale tax consultants HdL are projecting strong increases to Measure E revenues for FY 2021-22. Given the volatility of the portion of sales taxes related to tourism in Morro Bay, staff recommends taking a conservative approach and budgeting just over half of the amount of revenue increase that HdL projects for the remainder of the fiscal year, as outlined in the section below. The recommended increase of \$500,000 for FY 2021-22 would result in an amended revenue budget of approximately \$3.9 million for Measure Q & E and would more than cover all recommended expenditure budget amendments, resulting in a net positive change to the projected year-end fiscal position.

Expenditures. Staff is recommending the following Measure Q & E Fund expenditure budget adjustments at midyear. All of the proposed expenditure budget adjustments would be more than covered by the recommended revenue budget increase, improving the projected year-end fund status. The recommended changes are summarized by department or division as follows, with a consolidated table presented after the narrative:

Police –

- Allocate budget to support the costs of body-worn cameras for police officers (\$28,000).
- Appropriate annual payment to the San Luis Obispo County Sheriff's Department for Morro Bay's contribution to the County Bomb/Drug/Gang task force. This funds staff and required equipment to respond to situations involving bombs, drugs, or gangs. This was previously budgeted in Measure Q & E but inadvertently omitted for FY 2021-22 (\$15,000).
- Appropriate funds for the annual regional SWAT team contribution. These funds go to the City of San Luis Obispo for staff and equipment that the SWAT team uses. Each agency has staff that are members of the SWAT team. The contribution amount is based on the number of SWAT members from each agency. Morro Bay has two SWAT team members. This was previously budgeted in Measure Q & E but inadvertently omitted for FY 2021-22 (\$6,000).
- Appropriate funds for the annual payment for CLETS/Data lines to the San Luis Obispo Sheriff's Department. This is for access to CLETS and Data lines that the Sheriff's department is the custodian of for the Department of Justice. This was previously budgeted in Measure Q & E budget inadvertently omitted for FY 2021-22 (\$15,000).
- Increase the budget for the Police Department's Records Management System (RMS) based on Council approval. This project was already budgeted in Measure Q & E, and after competing an RFP process, staff determined that additional one-time funding is required to obtain a satisfactory vendor and product (\$65,000).

Public Works –

- Reduce contractual services budget for CIP Implementation – The FY 2021-22 budget included \$175,000 for "Public Works Engineering CIP Implementation Resources". This pool of funding was to restore capacity in Public Works Engineering to achieve implementation of CIPs. The approach to pursue, such as staffing or consultant support or some combination thereof, was to be considered by the incoming Public Works Director. While a portion of these funds will be utilized, the full amount will not be. Staff recommends reducing contract services budget and reallocating to fund an Associate Engineer position for CIP implementation, explained below (-\$100,000).

- Increase capacity to deliver capital projects by funding an Associate Engineer for CIP Implementation - At the meeting on September 14, 2021, City Council approved an increase of one Full Time Equivalent (FTE) position for a Senior Civil Engineer in order to assist with capital project implementation. Subsequently, staff opened a recruitment for the position for approximately two months but only received one application from a viable candidate who ultimately was not interested in the job. In conversations with hiring managers from other public agencies, staff learned that all agencies currently attempting to hire engineers are facing similar recruitment challenges. However, an opportunity to promote a qualified staff person to an Associate Engineer position arose when an employee's previous duties were transferred to a new Engineering Tech successfully hired in January. The Associate Engineer will largely be focused on capital projects implementation in line with the stated goals of City Council and Measure Q & E funding. The costs for this position for the remainder of the fiscal year are approximately \$44,000. On an ongoing basis, this position will cost approximately \$143,000 fully burdened (\$44,000).
- Increase capacity to enhance cleanliness and safety of public spaces by funding a Maintenance Superintendent position. This position was defunded in FY 2020-21 in response to the pandemic, and the move has impacted the City's ability to effectively manage the maintenance function. Reinstating this position will allow Public Works to streamline the development, organization, and distribution of critical maintenance operations tasks related to the City Council Goal of improving infrastructure by addressing cleanliness (while maintaining sensitivity to wildlife) and safety issues. These operations include the upkeep of several City assets, including storm drains, sidewalks, streets, street trees, open space areas, parks, public restrooms, City facilities, City vehicles, and other assets. The addition of a Maintenance Superintendent will make the City's maintenance operations more efficient and will enhance responsiveness to requests made by residents, businesses, regulatory agencies, and other City departments. The costs for this position for the remainder of the fiscal year are approximately \$35,000 maximum, as it will take some time to recruit. On an ongoing basis, this position will cost approximately \$159,000 fully burdened (\$35,000).

Interfund Transfers –

- Make the final payment to the General Fund Emergency Reserve (GFER) for the Fire apparatus one year early. The four-year payment schedule for Measure Q & E Fund to repay the General Fund Emergency Reserve for the \$225,000 loan to purchase a portion of the fire apparatus will end in FY 2022-23. Due to the positive revenue growth in Measure E, the Fund has the capacity to repay this now. This will free up \$56,250 for appropriation in the FY 2022-23 Measure Q & E Fund budget and will contribute to restoring the General Fund Emergency Reserve consistent with Council's GFER policy (\$56,250).
- Increase the budgeted transfer to the General Fund Emergency Reserve consistent with Council GFER policy setting the minimum reserved balance at 33% and the target at 50%. The projected GFER balance at the end of FY 2021-22 is \$3.9 million, short of the minimum 33% level. This additional transfer would take the GFER closer to the required minimum (\$300,000).

If the recommended budget amendments to the Measure Q & E Fund are implemented, the amended revenue budget would be approximately \$3.9 million and the amended expenditure budget would be approximately \$4.5 million. This would spend down slightly less of the remaining FY 2020-21 fund balance than anticipated, leaving additional fund balance to appropriate in FY 2022-23.

The recommended changes are outlined in tabular form below:

Recommended Measure Q & E Fund Budget Amendments

Measure Q & E Fund Revenues	Budget Increase
Increase Measure E Sales Tax Revenue Budget	500,000

Measure Q & E Fund Expenditures	Budget Increase (Decrease)	Prior Council Approval	One-time / Ongoing
Police - Body-Worn Camera Support	28,000	Prior years	Ongoing
Police - Bomb/Drug/Gang task force payment to Sheriff	15,000	Prior years	Ongoing
Police - SWAT Team contribution to the Regional SWAT	6,000	Prior years	Ongoing
Police - Data and CLETS lines	15,000	Prior years	Ongoing
Police - Records Management System (RMS) Costs	65,000	1/25/2022	One-time
Public Works - Reduce Contract Services budget for CIP Implementation (will perform primarily with staff)	(100,000)	N/A	One-time
Public Works - Associate Engineer for Capital Projects (remainder of FY)	44,000	Sr. Engineer 9/14/21	Ongoing
Public Works - Consolidated Maintenance Superintendent (remainder of FY)	35,000	N/A	Ongoing
Transfers - Pay off remainder of Fire Apparatus Early	56,250	N/A	One-time
Transfers - Increase to General Fund Emergency Reserve	300,000	N/A	One-time
Total	464,250		

Enterprise Funds

The Enterprise Funds are Proprietary Funds used to report the same functions presented as business-type activities. The following funds are included in this category: Harbor Funds, Water Funds, Sewer Funds, and Transit Funds. Currently, each of the enterprise funds have an operating fund, capital improvement fund, equipment replacement fund, and an accumulation fund that hold operating savings for future projects. The following gives an update on important changes or activities in these funds.

Harbor Funds

The Harbor Enterprise Fund accounts for revenues received from harbor leases, slips, moorings, and other sources, which are expended for maintenance, operation, patrolling, and improvements of the harbor. The Harbor Department recently implemented an RV parking program that has begun to generate some new revenue for these activities. As of December 31, 2021, the Harbor Operating Fund had expended approximately 39% of its budget, or \$0.8 million of \$2.1 million. Last fiscal year, the Harbor Fund had an operating surplus of \$0.6 million, but the fund balance remains negative due in large part to long-term liabilities such as the pension liability. Work on Harbor Department capital projects was put on hold after the onset of the pandemic and has since partially resumed. Significant unfunded capital improvement needs associated with Harbor Fund activities remain.

Recommended Harbor Funds Budget Amendments

There are several budget amendments in Harbor Funds recommended at midyear to reflect updated capital project activity, an increased donation from Friends of the Harbor for the patrol vessel and evolving operational needs. The recommended changes are outlined in narrative form followed by a summary table. In total, these result in a net expenditure increase of approximately \$0.1 million across all Harbor funds. Given that the Adopted FY 2021-22 budget included an estimated \$0.1 million net operating surplus, the fiscal year-end position of the Harbor funds will not be significantly altered by these midyear changes.

Harbor Operating Fund & Accumulation Fund –

- Increase RV Camping Program revenue due to the extension of the pilot program, and increase associated program expenditures (\$60,000 revenue; \$10,200 expenditures).
- Increase revenue for launch ramp parking and transfer that into the Harbor Accumulation Fund consistent with past practice (\$10,000).
- Budget for additional hull/vessel insurance for the new patrol boat (\$10,000).
- Harbor operations have had reduced staffing for some time. An organizational assessment will assist with a review of operational needs (\$25,000), and temporary administrative support will be procured until that assessment is completed (\$20,000).
- Correct staffing budget (\$32,581) and increase City Health Bank monthly contributions per Council approval (\$4,260).
- Increase transfers to the CIP Fund by a net \$80,000 to account for a new CIP project at 595 Embarcadero (\$100,000) and reflect a portion of the increased donation from Friends of the Harbor for the new boat (-\$20,000).

Harbor Capital Improvement Fund –

- 595 Embarcadero Lease Site Improvements - The conversion of the vacant former Morro Bay Aquarium building for use by Three Stacks and a Rock Brewing Company under an interim building

lease agreement executed in 2019 required substantial owner improvements. The City agreed to complete seismic retrofitting of the building, replace a substantial portion of the sewer lateral, and complete electrical and other upgrades. While staff’s initial cost estimate for these items was approximately \$50,000 based on what was then thought to be the scope, the project scope and costs significantly increased (\$130,000 offset by a \$30,000 reimbursement from the lessee).

- Harbor Vessel/Equipment Project – The Friends of the Harbor donation revenue has increased by \$40,000 and the project budget has increased by an estimated \$20,000, reflected in the budget and transfer budget adjustments in the tables below.

Description	Increase (Decrease) Amount
Harbor Operating Fund Revenues	
RV Camping Program Revenue Increase	60,000
Launch Ramp Revenue Increase	10,000
Total	70,000

Harbor Operating Fund Expenditures	
RV Camping Program - Additional TOT taxes and credit card fees	10,200
Additional hull/vessel insurance costs for new patrol boat	10,000
Harbor Department Organizational Assessment	25,000
Increased Transfer of Addl Launch Ramp Revenues to Accumulation Fund	10,000
Temporary admin support until organizational assessment complete	20,000
Staff Budget Correction due to error in budget backup	32,581
Increased City Health Bank contributions	4,260
Transfer to Harbor CIP Fund for 595 Embarcadero Improvements	100,000
Reduce transfer from Harbor Operating to CIP for Vessel	(20,000)
Total	192,041

Harbor Accumulation Fund Revenues	
Increased Transfer in of Increased Launch Ramp Revenue	10,000
Total	10,000

Harbor Capital Improvement Fund Revenues	
Increased donation from Friends of the Harbor	40,000
Decrease transfer in from Harbor Operating Fund	(20,000)
Transfer In from Harbor Operating for 595 Embarcadero Lease Site Improv.	100,000
Reimbursement from Lessee	30,000
Total	150,000

Harbor Capital Improvement Fund Expenditures	
595 Embarcadero Lease Site Improvements	130,000
Harbor Vessels/Equipment Project Budget Increase	20,000
Total	150,000

Water Funds

The Water Enterprise Fund accounts for revenues received primarily from water service charges, which are expended for maintenance, operations, and capital improvements to the water system. At midyear, the Water Fund had received approximately 55% of its budgeted revenues (\$4.1 of \$7.5 million) and expended approximately 20% of its budgeted expenditures (\$0.8 million of \$7.6 million). The lag in expenditures is due primarily to pending interfund transfer entries to the Water CIP Fund.

Recommended Water Funds Budget Amendments

Progress is continuing on the OneWater projects. Staff is requesting an appropriation of an additional \$0.9 million for the Nutmeg Pressure Zone Project at midyear, not due to a project cost increase but due to accelerating the project timeline from what was assumed during budget development. In preparation of the FY 21-22 budget, many CIP budgets were extended out one year due to anticipated COVID revenue and staffing availability impacts. The budget for this project was inadvertently pushed out, although work continued on the project.

The one minor change to operating costs reflects the increase in monthly City Health Bank contributions approved by Council in September 2021. The Water Revenue (operating) fund balance can support these expenditure increases.

Description	Increase (Decrease) Amount
WATER REVENUE (OPERATING) FUND EXPENDITURES	
Increased City Health Bank contributions	2,634
Transfer Out to Water CIP Fund for project 9932 (Nutmeg)	899,797
TOTAL	902,431
WATER CIP FUND REVENUES	
Transfer In from Water Revenue (Operating) Fund for Nutmeg (project 9932)	899,797
TOTAL	899,797
WATER CIP FUND EXPENDITURES	
Nutmeg Pressure Zone Project (9932)	899,797
TOTAL	899,797

Sewer Funds

The sewer enterprise funds account for revenues received primarily from sewer service charges, which are expended for maintenance, operations and improvements to the sanitary sewer system. The existing Wastewater Treatment Plant activities, shared with Cayucos until this year, are tracked in a separate fund (WWTP Fund 599). The Sewer Fund contributes to the Treatment Plan fund for Morro Bay’s share of plant operations. At midyear, the Sewer Fund had received approximately 59% of budgeted revenue (\$4.6 of \$7.9 million). The Sewer Fund and Treatment Plant Fund had expended approximately 12% of budgeted

expenditures collectively, which is lower than expected primarily due to interfund transfers pending from the Sewer Operating Fund to the WWTP Fund and from the Sewer Operating to the Sewer CIP Fund. The Water Reclamation Facility (WRF) project is underway now. Regular quarterly reports on the project’s expenditures are presented to CFAC and Council. No midyear budget adjustment is requested for the WRF project. In addition to the WRF, the City is moving forward with other OneWater projects and requested associated budget amendments below.

Recommended Sewer Funds Budget Amendments

Progress is continuing on the OneWater projects. Staff is requesting an appropriation of an additional \$1.5 million at midyear for two wastewater collections projects, not due to a project cost increases but due to accelerating the project timeline from what was assumed during budget development. In preparation of the FY 21-22 Budget, many CIP budgets were extended out one year due to anticipated COVID revenue and staffing availability impacts. The budgets for the two projects below were inadvertently pushed out, although work continued on these projects. The Main St./Atascadero Rd. Project should progress now in order to sequence construction with the WRF Conveyance pipeline installation on Atascadero Road. The Beachcomber Project should proceed now in order to reduce Inflow and Infiltration into the sewer system. The Sewer Accumulation Fund has sufficient balance to transfer these funds into the Sewer CIP Fund.

The one minor change to operating costs reflects the increase in monthly City Health Bank contributions approved by Council in September 2021. The Sewer Operating Fund can accommodate that minor increase.

Description	Increase (Decrease) Amount
MB/CS WASTEWATER FUND	
Increased City Health Bank contributions	6,312
TOTAL	6,312

SEWER FUND OPERATING	
Increased City Health Bank contributions	1,548
TOTAL	1,548

SEWER ACCUMULATION FUND EXPENDITURES	
Transfer Out to Sewer CIP Fund for projects 9928 and 9929	1,500,626
TOTAL	1,500,626

SEWER CIP FUND REVENUES	
Transfer In from Accumulation Fund for WW Collections Main St. & Atas Rd (9928)	920,000
Transfer In from Accumulation Fund for WW Collections Beachcomber (9929)	580,626
TOTAL	1,500,626

SEWER CIP FUND EXPENDITURES	
Wastewater Collections Main St./Atascadero Rd. Project (9928)	920,000
Wastewater Collections Beachcomber Project (9929)	580,626
TOTAL	1,500,626

Transit Fund

The Transit Fund accounts for the operations and activities associated with the City’s public transit system, Morro Bay Transit, which operates a year-round deviated fixed route with fixed route and Call-A-Ride services, and a seasonal Trolley service. The deviated fixed route operates one fixed route that flexes, or deviates, off-route to provide limited, advance-scheduled, curb-to-curb service (Call-A-Ride), then returns to the next fixed route stop.

The primary source of revenue for this Fund is Transportation Development Act (TDA) money. TDA was enacted by the State Legislature in 1971 to make funds available for transit, pedestrian way and bikeway projects, transportation planning, ridesharing and street and road improvements. Funds for the TDA come from 1/4 cent of the retail sales tax, for Local Transportation Funds (LTF), and from sales taxes on diesel fuel, for State Transit Assistance (STA). These funds are allocated annually by the San Luis Obispo Council of Governments (SLOCOG) to eligible claimants, under two funding programs: Local Transportation Fund (LTF) and State Transit Assistance (STA).

Recommended Transit Fund Budget Amendments

Staff is recommending the following budget changes to the Transit fund to recognize additional anticipated revenues that staff has been made aware of since budget adoption. There was a small increase in STA funding after the budget was adopted; farebox receipts were slightly higher than budgeted because fare collection began earlier than anticipated after a pandemic pause; and the City will be receiving CARES Act funding in FY 2021-22 as a reimbursement for activities in the last quarter of FY 2020-21.

Expenditures are increasing slightly as well and will be more than covered by the additional revenue.

Description	Increase (Decrease) Amount
TRANSIT OPERATING FUND REVENUES	
MB Transit DAR STA - Increase in STA funding from State	6,934
MB Transit Van Farebox Receipts - increase based on actuals	4,000
MB Transit Coronavirus Relief - CARES Phase 2 reimbursement	75,633
TOTAL	86,567
TRANSIT OPERATING FUND EXPENDITURES	
MB Transit Fuel, Oil, Lubricants - fuel costs have increased	4,300
MB Transit Machinery/Equip/Supplies - vehicle repairs	700
MB Transit Contractual Services – higher contract CPI adjustment 3 rd /4 th qtr.	2,000
TOTAL	7,000

If these budget amendments are approved, the amended Transit Fund revenue budget would be approximately \$0.4 million and the amended expenditure budget would be approximately \$0.3 million.

Other Funds

Morro Bay has several other smaller funds with special purposes. They are all outlined in detail each year in the [Adopted Budget document](#).

No midyear budget adjustments are recommended in the American Rescue Plan Act (ARPA) Fund. The Final Rule was issued by the Department of Treasury in January 2022. It allows municipalities to utilize their full allocation up to \$10 million toward general governmental services. Given that Morro Bay’s allocation is approximately \$2.5 million, the City will be able to utilize all budgeted funds for FY 2021-22 as intended. Staff will review priorities and budget the second half of the funds in the FY 2022-23 budget cycle.

Recommended Other Funds Budget Amendments

This year, there are two midyear changes that are required to implement prior Council direction.

First, with Resolution 46-20, Council approved a contribution in the form of \$150,000 loan for an affordable housing development at 405 Atascadero Road. That project has come to fruition, but the FY 2021-22 budget only included \$75,000. This amendment will fully execute Council’s direction to contribute \$150,000.

Second, at the August 24, 2021 Council meeting, Council approved a budget increase for the Wayfinding CIP project in the amount of \$57,020 and directed staff to return to Council with budget amendments at midyear. As shown below, the funds will be transferred out of the Economic Development Fund, into the General Government CIP Fund, and expended from there.

Description	Increase (Decrease) Amount
AFFORDABLE HOUSING IN-LIEU FUND EXPENDITURES	
Appropriate full contribution for 405 Atascadero Rd (Reso 46-20)	75,000
TOTAL	75,000
ECONOMIC DEVELOPMENT FUND EXPENDITURES	
Increase Transfer Out to CIP Fund for Wayfinding Project	57,020
TOTAL	57,020
GENERAL GOVT CAPITAL IMPROVEMENT FUND REVENUES	
Increase Transfer Into CIP Fund from Econ Dev Fund for Wayfinding Project	57,020
TOTAL	57,020
GENERAL GOVT CAPITAL IMPROVEMENT FUND EXPENDITURES	
Increase Budget for Wayfinding Project per Council Direction (8423)	57,020
TOTAL	57,020