

# Midyear Budget Report

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FISCAL YEAR 2024-25

This Report covers the seven-month period of July 1, 2024 through January 31, 2025. It provides an update on the City's primary revenues and expenditures in its major funds and outlines recommended budget amendments.

FEBRUARY 2025

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City of Morro Bay

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## Table of Contents

|   |           |
|---|-----------|
| <b>Executive Summary</b> .....  | <b>3</b>  |
| <b>Introduction</b> .....   | <b>4</b>  |
| <b>Fiscal Outlook</b> .....   | <b>4</b>  |
| Major Revenue Sources .....   | 4         |
| Major Expenditures.....   | 5         |
| Near-Term Actions .....   | 6         |
| <b>General Fund</b> .....   | <b>7</b>  |
| Key General Fund Revenue Sources Analysis.....                            | 7         |
| Recommended General Fund Revenue Budget Amendments .....                  | 9         |
| General Fund Expenditures Analysis.....                                   | 10        |
| Recommended General Fund Expenditure Budget Amendments.....               | 10        |
| Recommended General Fund Vehicle Replacement Fund Budget Amendments ..... | 12        |
| <b>Measure Q/E Fund</b> .....   | <b>14</b> |
| Measure Q/E Fund Revenues.....  | 15        |
| Measure Q/E Fund Expenditures .....                                       | 15        |
| Recommended Measure Q/E Fund Budget Amendments.....                       | 16        |
| <b>Enterprise Funds</b> .....   | <b>16</b> |
| Harbor Enterprise Fund.....   | 16        |
| Water Enterprise Fund .....   | 17        |
| Sewer Enterprise Fund .....   | 17        |
| Transit Enterprise Fund .....   | 18        |
| <b>Other Funds</b> .....  | <b>18</b> |
| Recommended Other Funds Budget Amendments .....                           | 18        |
| <b>Summary Current Year and Ten-Year Fiscal Forecasts</b> .....           | <b>19</b> |
| Assumptions.....  | 19        |
| General Fund Forecast .....   | 20        |
| Measure Q/E Forecast.....   | 22        |
| Harbor Operating Forecast .....   | 22        |

## Executive Summary

This year’s midyear report indicates that the City’s revenues and expenditures are on track. As of January 31, 2025, the City has received approximately 67% of its projected revenues and has spent around 48% of its budgeted expenditures across all funds. After accounting for one-time transfers and capital spending, revenues and expenditures are tracking at 61% and 58%, respectively, consistent with seven months of fiscal year activity behind us. This report includes amendments already approved by City Council, which may be viewed in the City’s [online repository](#) of adopted resolutions<sup>1</sup>. Only new midyear requests not previously considered by Council are presented here for consideration.

**Table 1 Summary of Citywide Operating Budget Revenues and Expenditures, net of transfers**

|                    | Amended Budget     | 1/31/25 Actuals    | % Rec'd/ Used |
|--------------------|--------------------|--------------------|---------------|
| Total Revenues     | 46,673,427         | 28,533,046         | 61%           |
| Total Expenditures | 41,674,497         | 24,091,932         | 58%           |
| <b>Totals</b>      | <b>\$4,998,930</b> | <b>\$4,441,114</b> |               |

**Table 2 Summary of Citywide Capital Budget Revenues and Expenditures**

|                    | Amended Budget        | 1/31/25 Actuals     | % Rec'd/ Used |
|--------------------|-----------------------|---------------------|---------------|
| Total Revenues     | 19,818,645            | 15,726,592          | 79%           |
| Total Expenditures | 51,903,902            | 2,510,154           | 5%            |
| <b>Totals</b>      | <b>(\$32,085,257)</b> | <b>\$13,216,438</b> |               |

Budgeted capital expenditures exceed revenues because unused capital budgets are carried forward each year, per the Council-approved budget resolution. Revenues for these projects were received in prior years, causing some current- and future-year spending to come from accumulated fund balance. To view the FY 2023-24 capital budget carryforward amounts, refer to staff’s [FY 2023-24 Year-End Budget Report](#).

Several budget amendments are recommended to maintain core city services and recognize new grant and reimbursement revenues and associated expenditures. These recommended budget amendments include approximately \$1.25 million in increased revenues and \$1.1 million in increased expenses for a total net revenue increase of \$169,933 citywide across all funds. Each recommended change is detailed by fund herein.

***After accounting for one-time transfers, both revenues and expenditures are tracking at 61% and 58%, respectively, which is on track with seven months of fiscal year activity behind us.***

<sup>1</sup> See Resolution 54-24, 55-24, and 64-24.

## Introduction

This report covers the seven months ending January 31, 2025. This report provides an update on the City's primary revenues and expenditures in the City's five major funds and outlines recommended budget amendments. If no significant change is anticipated, no budget amendment will be recommended.

The City's five major funds are General Fund (001), Measure E Fund (003), Harbor Operating Fund (331), Water Operating Fund (311), and Sewer Operating Fund (321). Minor amendments are recommended in a few of the City's smaller special purpose funds, outlined under this report's "Other Funds" section.

This report contains the most accurate and updated information available at the time of publication and represents a snapshot of City revenues and expenditures as of January 31, 2025. It may not represent pending payments and revenues, irregular payments, or revenue timing. As this is not an audited financial statement, the figures are preliminary and will change as the fiscal year progresses.

## Fiscal Outlook

The City's fiscal outlook remains cautious. Major tax revenues have plateaued, and while cost inflation has moderated, it persists. Some revenue sources have exceeded conservative budget estimates in recent years while fluctuating staffing levels have resulted in citywide expenditure savings. These savings are expected to decline significantly as the City's costs increase at a greater rate than revenue and staff enhance productivity.

Currently, the City is in a very fortunate position to have substantial reserves to manage any downturns. However, these funds may also be needed to support essential capital improvements, such as the ongoing pavement management program. Looking forward several years, the reserve in the General Fund will have to be drawn down to support capital projects, and, absent a supplemental revenue source, it will be insufficient to support the level of investment necessary to maintain existing City infrastructure. It is crucial to explore new revenue sources, maximize existing revenues, and implement operational efficiencies to address rising costs, deferred maintenance, and plateaued revenues.

One ongoing initiative is updating the City's Master Fee Schedule to ensure optimal cost recovery for City services. Currently, fee revenue from these services accounts for approximately 43% of the citywide revenue budget but only about 10% of General Fund revenues. This small yet significant step is part of a broader effort to enhance the City's financial stability.

## Major Revenue Sources

Revenues have leveled off following the surge in economic activity experienced after the pandemic. The following is a summary of the City's major revenue sources and some explanation regarding the methodologies used to forecast future growth.

### *Property Tax*

The San Luis Obispo County Assessor's Office and State Board of Equalization levies property tax 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. The County Tax Collector's Office provides property tax estimates annually, with reports in January and again in the fall. According to the County Assessor's [2024 Annual Report](#), middling increases in property values are attributed mainly to Proposition 19, which has led to a

## Midyear Budget Report FY 2024-25

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significant number of property owners transferring low base values to San Luis Obispo County. In 2024, the county-wide assessed value rose 5.03% compared to the previous year. Specifically, in Morro Bay, the assessed value increased by 5.04%. The County Assessor's Office is projecting a growth rate of 4% for FY 2024-25.

### ***Sales Tax***

The City contracts with HdL to forecast sales tax revenue for both the General Fund Bradley Burns sales tax revenue and the Measure Q/E local sales and use tax revenues. While the City experienced sales tax growth in the 10-15% range in the immediate post-pandemic period, FY 2023-24 sales tax revenues were flat over the prior year. For 2024-25, HdL forecasts 0.5% growth over prior year actuals.

### ***Transient Occupancy Tax (TOT)***

Budget estimates were developed in coordination with Visit Morro Bay and are based on a review of occupancy rates, average daily room rates, and regional trends. Hotels have seen steady growth from November 2024 to January 2025. Visit Morro Bay plans to increase its marketing efforts in the coming months, which should continue to support a modest increase in TOT revenues for the remainder of the fiscal year.

## **Major Expenditures**

### ***Mutual Aid Activity***

In contrast to previous years, staff deferred budgeting fire mutual aid-related expenditures and reimbursements to the midyear review, when annual costs are typically fully incurred. This approach allowed staff to develop a new system for accounting for mutual aid activities separately from routine fire expenditures, providing much-improved clarity and transparency.

The new system for accounting for these costs and reimbursements is to record mutual aid activities under a new sub-department in the General Fund (001-4230 Fire Mutual Aid), with specific revenue accounts established to track the categories of reimbursements the City receives. This new accounting system will ensure that mutual aid reimbursements are allocated strictly for mutual aid-related expenditures, including maintenance or replacement of vehicles and equipment and personnel costs associated with mutual aid responses and coverage. These budget adjustments are included in this midyear report.

### ***Current Personnel Costs***

The City delivers essential services to citizens and visitors through a dedicated workforce, the cost of which represents a significant portion of the City's expenditure budget. Over the next two years, personnel costs are expected to rise considerably as the City implements three-year contracts approved in June 2024 for both represented and non-represented employee groups.

### ***Pension Liability Payments***

Pension obligations for the City of Morro Bay are comprised of payments to CalPERS for current employees' current-year pension contributions and minimum payments toward the much larger amount associated with past pension obligations, called the "unfunded accrued liability" or UAL. The UAL is primarily associated with prior employees and more generous pension tiers that have since been phased out under State law with pension reform. The City expects to see increasing minimum UAL payments due annually for the next several years, as shown visually in the scenario below. The City's UAL payments are a moving target impacted by CalPERS's achieved rate of returns in the market. The City recognizes a 3% discount on the annual amount due by making lump payments in July, rather than following CalPERS' monthly payment schedule. To keep payments below a target smoothing level of \$3.4 million, the City may need to begin withdrawals from the trust as early as 2028.

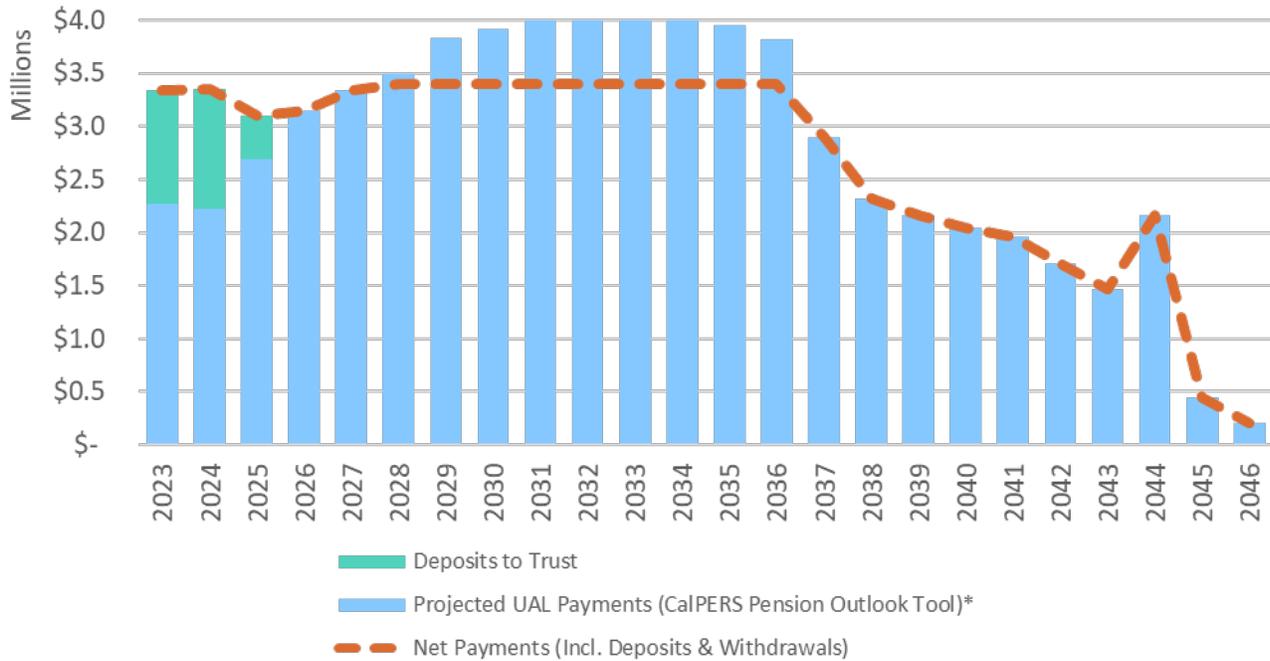


Figure 1 Section 115 Trust Modeling with Existing Contributions

**Unfunded Capital Needs**

The City has invested significant resources in capital improvements over the past five years, with the Water Reclamation Facility being the City’s largest and most innovative project yet. Ongoing infrastructure improvements continue to compete for funding amidst growing operating and personnel costs. For General Fund projects, the forecast is particularly inadequate. The City’s Annual Pavement Management Program is the most notable underfunded capital need. In the August 27, 2024 [presentation to City Council](#), the City’s pavement management consultant recommended an average \$4.5 million annual investment to maintain the City’s existing pavement rating of “fair/at risk” or 60 PCI. This is an increase over the \$2.8 million annual investment recommended in a 2022 pavement management report, a target the City has yet to meet. In addition to pavement management, the City also has a growing list of storm drain replacements, sidewalk repairs, park improvements, accessibility upgrades, and fire engine replacements to fund in the near future.

**Near-Term Actions**

To effectively navigate these competing priorities, the city must invest in comprehensive financial planning, prioritize projects based on their impact and urgency, and determine funding sources. It may be prudent to reallocate previously adopted budget to the projects deemed highest priority rather than allocating additional funding from the general fund and/or Measure Q/E. The FY 2024-25 budget aimed to keep non-personnel operating expenditures as flat as possible. This approach will also be recommended for FY 2025-26 budget development.

Staff provides this transparent communication about the City's budgetary challenges and priorities to foster understanding and support for the difficult decisions that may need to be made in the coming budget years. A cautious and proactive approach to fiscal management will assist the City in weathering uncertainties and maintaining its financial stability over the long term.

# Midyear Budget Report FY 2024-25

## General Fund

The General Fund remains stable at midyear, with expenditures and revenue tracking closely with the adopted budget. Staff estimates for the remainder of FY 2024-25 suggest a slight increase in the unassigned or available General Fund balance compared to FY 2023-24. Estimates do not include midyear amendments except where those activities have already occurred, such as grant revenues received, mutual aid reimbursements, and mutual aid personnel costs.

**Table 3 FY 2024-25 General Fund Total Revenues and Expenditures**

|   | Amended Budget     | 1/31/25 Actuals    | % Rec'd/ Used | Estimated       |
|---|--------------------|--------------------|---------------|-----------------|
| <i>Total Revenues</i>                     | 19,683,146         | 13,577,559         | 69%           | 20,808,270      |
| <i>Total Operating Expenditures</i>       | 19,483,091         | 12,945,017         | 66%           | 19,616,341      |
| <i>Transfers to Capital Projects Fund</i> | 1,150,000          | 1,150,000          | 100%          | 1,150,000       |
| <b>Totals</b>                             | <b>(\$949,945)</b> | <b>(\$517,458)</b> |               | <b>\$41,929</b> |

The general fund's available fund balance has been built up through prudent fiscal policies and budget savings over recent years. However, the long-term fiscal forecast for the General Fund indicates that this available fund balance will decrease rapidly in the coming years as the city seeks to maintain service levels and partially fund deferred maintenance such as pavement and storm drain projects.

**Table 4 Fund Balance Summary (in thousands)**

| <i>Fund Description</i>                    | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 | FY 2024-25 Budget | FY 2024-25 Estimated |
|--|------------|------------|------------|------------|-------------------|----------------------|
| <i>General Fund (nonspendable)</i>         | 3,974      | 3,163      | 3,190      | 3,190      | 3,163             | 3,190                |
| <i>General Fund (committed – GF only)</i>  |            | 798        |            |            |                   |                      |
| <i>General Fund (unassigned – GF only)</i> | 2,763      | 6,412      | 6,449      | 4,098      | 3,012             | 4,046                |

The City's current reserve policy requires a minimum emergency reserve of 33% of operating expenses (including Measure Q/E) and a target of 50%. The FY 2024-25 budget assumed the City would hold 43% in reserves. Staff has not yet completed a risk-based reserve analysis, which could suggest lowering the General Fund's reserve threshold; however, it is not advisable to set the reserve threshold below 20%, considering what is already known about the city's vulnerability to severe weather, high inflation, and fluctuations in tourism. As such, the General Fund's ability to support critical capital projects remains severely hampered.

### Key General Fund Revenue Sources Analysis

The adopted General Fund Revenue Budget for FY 2024-25 is approximately \$19.6 million. As of January 31, 2025, the General Fund had received 69% of its revenues, or \$13.5 million.

Overall, General Fund revenues fiscal-year-to-date are on track. The total percentage collected is higher than the 58% one may expect seven months through the year despite the routine lag in collections of major revenue sources such as property tax, sales tax, and TOT. This is partially explained by the receipt of one-time transfers from enterprise funds per the City's Cost Allocation Plan and the receipt of interest income, which is posted to the General Fund throughout the year and distributed to other funds at year-end.

Major revenue sources are described below in more detail, as they collectively account for over three-quarters of budgeted General Fund revenues. Table 5 presents all General Fund revenue sources in summary format,

# Midyear Budget Report FY 2024-25

including historical data from FY 2021-22. The “Other Revenues” classification includes grants, donations, auctioned property, refunds, adjustments, and restitution.

**Table 5 Key Revenue Sources FY 2022 to Current**

| <i>Revenue Source</i>                            | <b>2022 Actual</b>  | <b>2023 Actual</b>  | <b>2024 Actual</b>  | <b>2025 Actual<br/>Thru 1-31</b> | <b>2025<br/>Adopted</b> | <b>2025 %<br/>Rcv'd</b> | <b>2025<br/>Estimated</b> |
|--|---------------------|---------------------|---------------------|----------------------------------|-------------------------|-------------------------|---------------------------|
| <i>Property Taxes</i>                            | 4,981,027           | 5,275,945           | 5,573,238           | 3,253,028                        | 5,660,782               | 57%                     | 5,685,301                 |
| <i>Intergovernmental Revenues</i>                | 97,661              | 213,615             | 64,384              | 40,517                           | 45,012                  | 90%                     | 63,785                    |
| <i>Sales &amp; Use Tax</i>                       | 2,753,611           | 2,249,114           | 2,777,093           | 1,050,133                        | 2,632,000               | 40%                     | 2,631,457                 |
| <i>Cannabis City Tax</i>                         | 512,944             | 502,149             | 469,133             | 224,339                          | 490,000                 | 46%                     | 448,678                   |
| <i>Transient Occupancy Tax</i>                   | 4,255,140           | 4,681,648           | 4,473,923           | 2,310,794                        | 4,500,000               | 51%                     | 4,500,000                 |
| <i>Franchise Fees</i>                            | 641,869             | 698,791             | 782,158             | 256,213                          | 747,380                 | 34%                     | 803,000                   |
| <i>Licenses &amp; Permits</i>                    | 761,616             | 660,964             | 698,361             | 549,598                          | 725,000                 | 76%                     | 952,302                   |
| <i>Revenues From Current Services</i>            | 2,434,859           | 2,219,441           | 2,378,825           | 1,852,421                        | 2,050,082               | 90%                     | 3,108,175                 |
| <i>Fines &amp; Forfeitures</i>                   | 22,062              | 27,056              | 34,193              | 22,180                           | 31,090                  | 71%                     | 41,541                    |
| <i>Other Revenues</i>                            | 330,052             | 505,615             | 961,326             | 204,646                          | 403,015                 | 51%                     | 352,041                   |
| <i>Revenues From Use of Money &amp; Property</i> | 593,997             | 615,133             | 743,173             | 2,443,108                        | 733,000                 | 333%                    | 601,353                   |
| <i>Interfund Revenue Transfers</i>               | 1,224,866           | 3,088,584           | 2,060,218           | 1,316,931                        | 1,620,639               | 81%                     | 1,620,638                 |
| <b>Totals</b>                                    | <b>\$18,609,703</b> | <b>\$20,738,055</b> | <b>\$21,016,025</b> | <b>\$13,523,908</b>              | <b>\$19,638,000</b>     | <b>69%</b>              | <b>\$20,808,270</b>       |

## Property Tax Revenue

Property tax is the largest revenue category for the City’s General Fund, accounting for 27% of budgeted General Fund revenues in FY 2024-25. Property taxes are considered a relatively stable revenue source. The County provides property tax estimates, and this year’s estimates are consistent with the adopted budget.

**Recommendation:** None.

## Transient Occupancy Tax Revenue

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 2024-25. The city levies and retains a 10% TOT on all hotels, motels, and vacation rentals (including RV parks offering short-term stays) to fund city services provided to visitors to Morro Bay. In addition, the City acts as the fiscal agent and collects and remits an additional 3% to Visit Morro Bay, the Morro Bay Tourism Business Improvement District (TBID), and an additional 1.5% to Visit SLOCAL, the Countywide Tourism program.

As a highly economically sensitive revenue source, the City monitors TOT closely. In recent years, TOT revenues have plateaued. Staff anticipates FY 2024-25 revenues to come near or slightly above the budgeted amount.

**Recommendation:** None.

## Revenues from Current Services (Charges for Service)

City Revenues from Current Services 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 the

## Midyear Budget Report FY 2024-25

approximate costs of providing these services and, as a total category, account for 13.7% of the City’s General Fund revenue budget for FY 2024-25. These revenues also include fire mutual aid reimbursement. Due to the intentional delay in budgeting mutual aid activity, revenues from current services are tracking high at midyear. After correcting for mutual aid, the actual percentage of revenue received in this category is approximately 54%.

**Recommendation:** Amendments are recommended to recognize mutual aid reimbursements based on approved CalOES invoices.

### Sales Tax Revenue

Sales tax is the fourth largest revenue source for the City’s General Fund in FY 2024-25, budgeted to generate 13.4% of the Fund’s revenue budget for the year. The base statewide sales and use tax rate is 7.25%, and the City’s General Fund receives 1% of that base tax. This sales tax revenue does not include the 1.5% local sales tax collected through voter-approved Measure Q/E.

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. Sales Tax receipts are tracking with budget estimates, adjusted for the delay in receipts. As with TOT tax receipts, sales tax trends this fiscal year are flat, with only a modest 2-3% growth projected for FY 2025-26 and 2026-27.

**Recommendation:** None.

### Other General Fund Revenues

Other General Fund revenues comprise less than a quarter of the Fund’s budgeted revenues. These include Transfers in, Franchise Fees, Cannabis City Tax, Business Tax, Rental Income, Licenses and Permits, and Grant Revenues.

## Recommended General Fund Revenue Budget Amendments

Staff recommends the following General Fund revenue budget amendments at midyear.

**Table 6 Requested FY 2024-25 General Fund Revenue Budget Amendments**

| Description  | Dept.           | Increase (Decrease) | One-time/ Ongoing | G/L Account   |
|--|-----------------|---------------------|-------------------|---------------|
| <i>Nuclear Preparedness Program Grant. Move to correct sub-department.</i>             | Fire            | (12,360)            | One-Time          | 001-4210-3393 |
| <i>Nuclear Preparedness Program Grant. Recognize actual amount received.</i>           | Fire EOC        | 14,411              | One-Time          | 001-4220-3393 |
| <i>Mutual Aid Reimb-Personnel. Recognize actual amount approved by CalOES.</i>         | Fire Mutual Aid | 767,132             | One-Time          | 001-4230-3502 |
| <i>Mutual Aid Reimb-Vehicle/Equipment. Recognize actual amount approved by CalOES.</i> | Fire Mutual Aid | 200,187             | One-Time          | 001-4230-3503 |
| <i>Mutual Aid Reimb-Admin. Recognize actual amount approved by CalOES.</i>             | Fire Mutual Aid | 196,148             | One-Time          | 001-4230-3504 |
| <i>Mutual Aid Reimb-Expense Claims. Recognize actual amount approved by CalOES.</i>    | Fire Mutual Aid | 7,926               | One-Time          | 001-4230-3505 |
| <b>General Fund Revenue Total</b>  |                 | <b>\$1,173,444</b>  |                   |               |

# Midyear Budget Report FY 2024-25

## General Fund Expenditures Analysis

The adopted General Fund expenditure budget for FY 2024-25 is approximately \$20.6 million. As of January 31, 2025, General Fund expenditures totaled \$14.1 million, or 70% of budget. After accounting for expenditure activity front-loaded at the start of the budget year, the actual percent of budget spent is 58%, which is on track for midyear. The tables below demonstrate expenditures for the fiscal year to date by expense type (object). Where midyear requests result from actual costs already incurred (such as mutual aid activity), those expenditures are included in the estimated column below. All other midyear requests are omitted from staff estimates and the ten-year fiscal forecast.

“Other” expenditures include payments to other agencies (such as SLO County) and special events.

**Table 7 FY 2024-25 Expenditure Budget Status by Object**

| Object              | Amended Budget      | Actuals             | % Used     | Estimated           |
|---------------------|---------------------|---------------------|------------|---------------------|
| Personnel Services  | 13,137,966          | 8,636,649           | 66%        | 13,233,346          |
| Supplies            | 794,222             | 468,242             | 59%        | 741,808             |
| Services            | 3,522,868           | 1,874,076           | 53%        | 3,569,565           |
| Insurance           | 703,607             | 700,266             | 100%       | 700,266             |
| Capital Outlay      | 132,133             | 105,180             | 80%        | 139,613             |
| Debt Service        | 35,190              | 17,595              | 50%        | 35,189              |
| Interfund Transfers | 2,053,059           | 2,053,059           | 100%       | 2,053,059           |
| Other               | 254,046             | 239,949             | 94%        | 293,496             |
| <b>Totals</b>       | <b>\$20,633,091</b> | <b>\$14,095,017</b> | <b>68%</b> | <b>\$20,766,342</b> |

## Recommended General Fund Expenditure Budget Amendments

Staff recommends several amendments to the General Fund expenditure budget at midyear. The operating surplus of the General Fund will cover the proposed budget amendments unrelated to fire mutual aid reimbursement. All expenses associated with fire mutual aid are reimbursed, so they do not impact the overall budget. Any capital expenditures funded by the General Fund that exceed the operating surplus will be drawn from available fund balance. Consequently, decreasing the operating surplus will increase the amount of fund balance needed for capital projects. Most of the recommended adjustments are for one-time expenditures. However, approximately \$85,000 in spending may be ongoing and should be considered with future year budget adoptions, depending on available funding.

**Table 8 Requested FY 2024-25 Expenditure Budget Amendments**

| Description  | Dept.           | Increase (Decrease) | One-time/Ongoing | G/L Account   | Non-Discretionary |
|--|-----------------|---------------------|------------------|---------------|-------------------|
| <i>Part-Time Pay. Correct budget error; miscalculation of hours requested.</i> | Human Resources | 5,060               | One-Time         | 001-3140-4310 |                   |
| <i>Investigations. Unexpected employee matter.</i>                             | Human Resources | 25,000              | One-Time         | 001-3140-6151 | X                 |
| <i>Human Resources Subtotal</i>  |                 | <i>30,060</i>       |                  |               |                   |

## Midyear Budget Report FY 2024-25

|   |                       |               |          |               |   |
|---|-----------------------|---------------|----------|---------------|---|
| <b>Regular Pay.</b> Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.              | Accounting & Treasury | 18,006        | Ongoing  | 001-3510-4110 | X |
| <b>Other Pay.</b> Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.                | Accounting & Treasury | 300           | Ongoing  | 001-3510-4599 | X |
| <b>Employer Paid Benefits.</b> Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.   | Accounting & Treasury | 10,585        | Ongoing  | 001-3510-4910 | X |
| <b>Pension Normal Cost.</b> Four-month cost for increased staffing to bring Business Licenses and TOT processing in-house.      | Accounting & Treasury | 2,020         | Ongoing  | 001-3510-4911 | X |
| <b>Accounting &amp; Treasury Subtotal</b>   |                       | <b>30,911</b> |          |               |   |
| <b>Regular Pay.</b> Salary savings due to several FMLA leaves and staff turnover.   | Police                | (60,000)      | One-Time | 001-4110-4110 | X |
| <b>Overtime.</b> Additional overtime needed to cover several FMLA leaves, training, and other staffing shortages.               | Police                | 50,000        | One-Time | 001-4110-4120 | X |
| <b>Investigations.</b> Increased cost for carry concealed weapons permits.  | Police                | 500           | One-Time | 001-4110-6151 | X |
| <b>Pre-Employment Testing.</b> Due to employee turnover.  | Police                | 6,000         | One-Time | 001-4110-6153 | X |
| <b>Outside Vehicle Repair/Maintenance.</b> Increased costs due to aging fleet.  | Police                | 50,000        | Ongoing  | 001-4110-6604 | X |
| <b>Police Subtotal</b>  |                       | <b>46,500</b> |          |               |   |
| <b>Regular Pay.</b> Mutual aid-related personnel costs.   | Fire Mutual Aid       | 27,531        | One-Time | 001-4230-4110 | X |
| <b>Overtime.</b> Mutual aid-related personnel costs.  | Fire Mutual Aid       | 372,848       | One-Time | 001-4230-4120 | X |
| <b>Part-Time Pay.</b> Mutual aid-related personnel costs.   | Fire Mutual Aid       | 18,420        | One-Time | 001-4230-4310 | X |
| <b>Employer Paid Benefits.</b> Mutual aid-related personnel costs.  | Fire Mutual Aid       | 25,965        | One-Time | 001-4230-4910 | X |
| <b>Pension Normal Cost.</b> Mutual aid-related personnel costs.   | Fire Mutual Aid       | 9,250         | One-Time | 001-4230-4911 | X |
| <b>Communication Supplies.</b> Mobile radios for all fire vehicles; meets CalOES communications standards for mutual aid.       | Fire Mutual Aid       | 135,000       | One-Time | 001-4230-5108 | X |
| <b>Safety Equipment.</b> Fire investigation supplies; supports mutual aid.  | Fire Mutual Aid       | 20,000        | One-Time | 001-4230-5121 | X |
| <b>Building Maintenance Supplies.</b> Self-contained Breathing Apparatus fill stations electrical repairs; supports mutual aid. | Fire Mutual Aid       | 6,000         | One-Time | 001-4230-5502 | X |
| <b>Small Tools/Equipment.</b> Extrication tools, disaster response trailer, etc.; supports mutual aid.                          | Fire Mutual Aid       | 5,000         | One-Time | 001-4230-5530 | X |
| <b>Digital Services.</b> Increased pricing for services; supports mutual aid.   | Fire Mutual Aid       | 4,500         | Ongoing  | 001-4230-6129 | X |

## Midyear Budget Report FY 2024-25

|   |                 |                  |          |               |   |
|---|-----------------|------------------|----------|---------------|---|
| <b>Outside Vehicle Repair/Maintenance.</b><br><i>Mutual aid-related vehicle repair/maintenance.</i>             | Fire Mutual Aid | 24,500           | One-Time | 001-4230-6604 | X |
| <b>Transfer Out.</b> <i>Fund command vehicle replacement utilized for mutual aid response.</i>                  | Fire Mutual Aid | 80,000           | One-Time | 001-4230-8501 | X |
| <b>Payment to Other Agency.</b> <i>Adjust for underestimate during budget development; supports mutual aid.</i> | Fire Mutual Aid | 18,000           | One-Time | 001-4230-8721 | X |
| <b>Fire Mutual Aid Subtotal</b>   |                 | <b>747,014</b>   |          |               |   |
| <b>General Fund Expenditure Total</b>   |                 | <b>\$854,485</b> |          |               |   |

If all General Fund Budget Amendments are approved, the available General Fund balance at the end of FY 2024-25 would be increased by approximately \$319,000 subject to change as the remainder of the fiscal year progresses. It is important to note that most of the City's revenue increase is related to Fire mutual aid reimbursements, which are restricted to mutual aid-related expenditures. Thus, although total fund balance may increase due to these amendments, \$424,379 of available General Fund balance will be restricted for future Fire Department appropriation per the California Fire Assistance Agreement (CFAA). This funding will be tracked in a restricted asset account on the balance sheet for future allocation.

**Table 9 Summary of Recommended General Fund Midyear Budget Amendments**

|   | Amended Budget     | Increase (Decrease) | Midyear Budget     |
|---|--------------------|---------------------|--------------------|
| <i>Total Revenues</i>                     | 19,683,146         | 1,173,444           | 20,856,590         |
| <i>Total Operating Expenditures</i>       | 19,483,091         | 854,485             | 20,337,576         |
| <i>Transfers to Capital Projects Fund</i> | 1,150,000          | 0                   | 1,150,000          |
| <b>Totals</b>                             | <b>(\$949,945)</b> | <b>\$318,959</b>    | <b>(\$630,986)</b> |

### General Fund Personnel Changes

Since May 2022, the City has utilized HdL to provide business license and transient occupancy tax administration services. After more than two years under this structure, informed by feedback from the business community, City staff has concluded that HdL's service model is not the best fit for the City. As a result, the decision has been made not to renew the service contract. While HdL adhered strictly to the City's municipal code, the presence of a third party between City staff and the business community posed significant challenges for such a critical function.

The contract period ends March 31, 2025 and City staff will assume the administrative function April 1, 2025. When the contract with HdL was approved by City Council, it was communicated that providing these services successfully in-house would require another employee. After thorough analysis, staff recommends not adding a new position but rather using existing staff structure and employees by converting the two existing part-time positions into two full-time positions. The existing duties of the two part-time positions will be consolidated into one of the full-time positions. The second full-time position will take on the duties of business license application and renewal processing, including coordination with all City departments, transient occupancy tax filings, providing the essential customer support, and completing regular reporting and disbursements to Visit Morro Bay and Visit SLO Cal. The estimated cost to the general fund for the remainder of the fiscal year would be approximately \$31,000, depending on effective date of full-time status. After accounting for overhead and audit

## Midyear Budget Report FY 2024-25

costs, there may be a nominal increase to the overall cost of providing these services in-house, however those costs could be mitigated by altering the annual audit method.

The following chart depicts the full-time equivalent (FTE) change from budget to recommended structure. The net impact of the change is a 1.1 FTE increase in total full- and part-time staffing.

Staff looks forward to reconnecting with the business community through providing these services.

*Table 10 Citywide Summary Full-Time Staffing*

| <b>CITYWIDE SUMMARY FULL-TIME STAFFING</b> |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|
| Presented as Full-Time Equivalent (FTE)    |                |                |                |                |                |
|  | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>2024-25</b> |
|  | <b>Amended</b> | <b>Funded</b>  | <b>Funded</b>  | <b>Budget</b>  | <b>Amended</b> |
| <b>Citywide FTE</b>                        |                |                |                |                |                |
| Administrative Services                    | 9.0            | 9.0            | 9.0            | 9.0            | 10.4           |
| City Manager's Office                      | 5.0            | 5.0            | 5.0            | 6.0            | 6.0            |
| Recreation Services                        | 4.0            | 4.0            | 4.0            | 6.0            | 6.0            |
| Community Development                      | 6.0            | 7.0            | 7.0            | 8.0            | 8.0            |
| Fire Department                            | 15.0           | 15.0           | 16.0           | 16.0           | 16.0           |
| Public Works                               | 36.6           | 36.6           | 37.0           | 37.0           | 37.6           |
| Police                                     | 21.4           | 22.5           | 22.5           | 22.5           | 22.5           |
| Harbor Department                          | 6.0            | 6.0            | 7.0            | 7.0            | 7.0            |
| <b>Total City-wide FTE</b>                 | <b>103.0</b>   | <b>105.1</b>   | <b>107.5</b>   | <b>111.5</b>   | <b>113.5</b>   |

*Table 11 Citywide Summary Part-Time Staffing*

| <b>CITYWIDE SUMMARY PART-TIME STAFFING</b>                                      |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
| Presented as full-time equivalents (FTE) based on the number of hours budgeted. |                |                |                |                |                |
|   | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>2024-25</b> |
|   | <b>Amended</b> | <b>Funded</b>  | <b>Funded</b>  | <b>Budget</b>  | <b>Amended</b> |
| <b>Citywide FTE</b>   |                |                |                |                |                |
| Administrative Services   | 0.4            | 0.6            | 0.6            | 0.3            | 0.0            |
| City Manager's Office   | 0.0            | 0.0            | 0.0            | 0.2            | 0.2            |
| Recreation Services   | 11.2           | 15.8           | 15.8           | 14.0           | 14.0           |
| Community Development   | 1.5            | 1.9            | 1.9            | 1.6            | 1.6            |
| Fire Department   | 2.6            | 4.6            | 4.6            | 2.1            | 2.1            |
| Public Works  | 2.6            | 2.7            | 2.7            | 3.9            | 3.3            |
| Police  | 0.0            | 0.0            | 0.0            | 1.7            | 1.7            |
| Harbor Department   | 3.4            | 3.2            | 3.2            | 5.3            | 5.3            |
| <b>Total Citywide FTE</b>   | <b>21.7</b>    | <b>28.7</b>    | <b>28.7</b>    | <b>29.0</b>    | <b>28.1</b>    |

# Midyear Budget Report FY 2024-25

## Recommended General Fund Vehicle Replacement Fund Budget Amendments

The General Fund Vehicle Replacement Fund was established to accumulate funding for the replacement of vehicles that are used by the General Fund’s departments. The FY 2024-25 budget includes expenditures for the replacement of three vehicles: one SUV for Police, one truck for Fire, and one truck for Consolidated Maintenance. Using State of California vehicle replacement standards, 74% of the City's trucks and 86% of SUVs are eligible for replacement.

Recommended amendments in this fund support replacing a Fire Department command vehicle used for mutual aid response. The funding source for this request is current-year CalOES reimbursement transferred from the Fire Mutual Aid program in the General Fund (001-4230).

**Table 12 Requested FY 2024-25 General Fund Vehicle Replacement Fund Revenue Amendments**

| Description  | Dept.           | Increase (Decrease) | One-time/ Ongoing | G/L           |
|--|-----------------|---------------------|-------------------|---------------|
| <i>Transfer In. Funding for new command vehicle transferred from General Fund – Fire Mutual Aid program.</i> | Fire Mutual Aid | 80,000              | One-Time          | 050-4230-3801 |
| <b>GF Vehicle Replacement Revenue Total</b>  |                 | <b>\$80,000</b>     |                   |               |

**Table 13 Requested FY 2024-25 General Fund Vehicle Replacement Fund Expenditure Adjustment**

| Description  | Dept.           | Increase (Decrease) | One-time/ Ongoing | G/L           |
|--|-----------------|---------------------|-------------------|---------------|
| <i>Trucks. New command vehicle for fire, reimbursed by mutual aid.</i> | Fire Mutual Aid | 80,000              | One-Time          | 050-4230-7202 |
| <b>GF Vehicle Replacement Expenditure Total</b>                        |                 | <b>\$80,000</b>     |                   |               |

## Measure Q/E Fund

Measure E was approved by the voters in November 2020 as a 1% local transaction and use tax, in addition to the 0.5% local transaction and use tax from Measure Q, which was approved by the voters in 2006. The State administers the taxes as one tax, totaling 1.5%. 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 priority spending areas consistent with the ballot measure language in 2020 and 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 for Measure Q/E include:

- Maintain public safety services by funding staff positions that are most closely aligned with the purposes of 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 enhance cleanliness and safety of public spaces 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 the capacity to implement the backlog of unfunded capital projects and

## Midyear Budget Report FY 2024-25

- Ensure the City's financial health 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 yearly expenditures. The Citizens' Finance Advisory Committee (CFAC) serves as that oversight committee and is to receive annual and annual reporting on expenditures from Measure Q/E revenues. The annual report through June 30, 2024, was on the CFAC meeting agenda for January 21, 2025.

As of January 31, 2025, the Measure Q/E Fund (fund 003) received 41% of budgeted revenues and expended 57% of budgeted expenditures. A summary of revenue and expenditure activity to date follows.

**Table 14 FY 2024-25 Measure Q/E Total Revenues and Expenditures**

|                                    | Amended Budget   | 1/31/25 Actuals    | % Rec'd/ Used | Estimated        |
|------------------------------------|------------------|--------------------|---------------|------------------|
| Total Revenues                     | 4,313,735        | 1,757,499          | 41%           | 4,440,638        |
| Total Operating Expenditures       | 3,413,907        | 1,785,075          | 52%           | 3,347,415        |
| Transfers to Capital Projects Fund | 430,000          | 430,000            | 100%          | 430,000          |
| <b>Totals</b>                      | <b>\$469,828</b> | <b>(\$457,576)</b> |               | <b>\$663,223</b> |

### Measure Q/E Fund Revenues

Fund revenues are tracking slightly below the prior year and represent five months of sales tax collected due to the two-month lag in receipts. Based on consultation with HdL, staff projecting year-end revenue totals to be just above budget but below FY 2023-24 actuals. Sales tax revenue growth is anticipated to remain flat in FY 2024-25 and increase a modest 2-3% in the coming years.

### Measure Q/E Fund Expenditures

Fund-wide, expenditures for the first seven months of the year are on track at 57% of the budget expended as of January 31, 2025. The table below presents expenditures by Department. Interfund transfers represent transfers out to the Capital Improvement Fund completed at the start of the fiscal year, with no changes since budget adoption.

**Table 15 FY 2024-25 Measure Q/E Fund Expenditures by Department**

| Department               | Amended Budget     | Actuals            | % Used     | Estimated          |
|--------------------------|--------------------|--------------------|------------|--------------------|
| Non-Departmental         | 30,000             | 7,202              | 24%        | 30,000             |
| Police                   | 898,501            | 594,483            | 66%        | 910,230            |
| Police-Support Services  | 62,118             | 38,424             | 62%        | 62,120             |
| Fire                     | 996,835            | 592,711            | 59%        | 986,690            |
| Public Works             | 234,943            | 134,641            | 57%        | 221,402            |
| Consolidated Maintenance | 527,812            | 250,764            | 48%        | 481,458            |
| Street Maintenance       | 350,000            | 2,554              | 1%         | 350,000            |
| Harbor                   | 201,439            | 109,252            | 54%        | 212,013            |
| Harbor Lifeguards        | 112,258            | 48,297             | 43%        | 94,502             |
| Interfund Transfers      | 430,000            | 430,000            | 100%       | 430,000            |
| <b>Total</b>             | <b>\$3,843,906</b> | <b>\$2,208,328</b> | <b>57%</b> | <b>\$3,777,415</b> |

# Midyear Budget Report FY 2024-25

## Recommended Measure Q/E Fund Budget Amendments

**Revenues.** No revenue amendments are recommended.

**Expenditures.** Staff recommends one adjustment to Harbor Part-Time Pay, as outlined below.

*Table 16 Requested FY 2024-25 Measure Q/E Expenditure Amendments*

| Description   | Dept.  | Increase (Decrease) | One-time/Ongoing | G/L Account   |
|---|--------|---------------------|------------------|---------------|
| <i>Part-Time Pay. Adjust Harbor Patrol Reserve pay due to minimum wage increase effective January 1, 2025, and increased demand for harbor patrol coverage.</i> | Harbor | 10,000              | One-Time         | 003-6510-4310 |
| <b>Measure Q/E Expenditure Total</b>  |        | <b>\$10,000</b>     |                  |               |

## Enterprise Funds

The Enterprise Funds are Proprietary Funds that report the same functions as business-type activities. The following funds are included in this category: Harbor Funds, Water Funds, Sewer Funds, and Transit Funds. Currently, each enterprise fund has an operating fund and a capital improvement fund. The following gives an update on significant changes or activities in these funds.

### Harbor Enterprise Fund

The Harbor Enterprise Fund accounts for revenues from harbor leases, slips, moorings, and other sources expended for maintenance, operation, patrolling, and harbor improvements. As of January 31, 2025, the Harbor Operating Fund had received approximately 46% of budgeted revenue (\$1.2 million of \$2.6 million) and expended approximately 64% of its budget (\$1.7 million of \$2.6 million). After netting out transfers and front-loaded insurance expenses paid at the start of the fiscal year, the actual percent of the expenditure budget spent is 54%, which is on track with seven months behind us. As lease agreements outline, a large portion of Harbor Fund revenues are received at the end of the fiscal year for the prior year's percentage rent. Due to that contractual timing, it can be difficult to project revenue budgets in the Harbor Fund. Although the adopted budget anticipated a small operating deficit at year-end, staff's midyear projections assume harbor lease revenue will increase from prior year actuals, resulting in an operating surplus of approximately \$0.5 million, not including the \$0.3 million budgeted in the Measure Q/E fund.

As of June 30, 2024, the Harbor Fund had a working capital balance (spendable fund balance) of approximately \$1.6 million.

*Table 17 FY 2024-25 Harbor Operating Fund Total Revenues and Expenditures*

|   | Amended Budget    | 1/31/25 Actuals    | % Rec'd/ Used | Estimated        |
|---|-------------------|--------------------|---------------|------------------|
| <i>Total Revenues</i>                     | 2,621,784         | 1,212,902          | 46%           | 3,032,272        |
| <i>Total Operating Expenditures</i>       | 2,645,113         | 1,704,862          | 64%           | 2,494,559        |
| <i>Transfers to Capital Projects Fund</i> | 0                 | 0                  |               | 0                |
| <b>Totals</b>                             | <b>(\$23,329)</b> | <b>(\$491,960)</b> |               | <b>\$537,713</b> |

Harbor Department staff continues to evaluate capital improvement projects for FY 2024-25. Significant storm damage in 2023 shifted priorities to address commercial fishing dock repairs and replacement. The former Harbor Director did not recommend continuing to spend funds on design, engineering, and permitting for the

## Midyear Budget Report FY 2024-25

underfunded Beach Street Slips project. As a result, all Beach Street Slips funding was transferred to the Storm Recovery – Dock Repairs project in the FY 2024-25 budget. Significant underfunded capital improvement needs for much of the Harbor infrastructure remain a critical consideration for future budget cycles.

### Recommended Harbor Fund Budget Amendments

Table 18 Requested FY 2024-25 Harbor Fund Expenditure Amendments

| Description  | Dept.  | Increase (Decrease) | One-time/ Ongoing | G/L Account   |
|--|--------|---------------------|-------------------|---------------|
| <b>Contractual Services.</b> Adjust for \$38,000 in grant-funded boat demo costs, plus deferred maintenance costs. | Harbor | 53,317              | One-Time          | 331-6510-6106 |
| <b>Telephone.</b> Increased phone expense due to reallocation of city-wide billing after budget adoption.          | Harbor | 3,359               | On-going          | 331-6510-6201 |
| <b>Harbor Operating Fund Expenditure Total</b>   |        | <b>\$56,676</b>     |                   |               |

### Water Enterprise Fund

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. As of January 31, 2025, the Water Operating Fund had received approximately 46% of its budgeted revenues (\$3.6 of \$7.8 million) and expended approximately 74% of its budgeted expenditures (\$7 million of \$9.6 million). FY 2024-25 year-end staff estimates include higher investment returns than budgeted amounts.

Table 19 FY 2024-25 Water Operating Fund Total Revenues and Expenditures

|                                    | Adopted Budget       | 1/31/25 Actuals      | % Rec'd/ Used | Estimated            |
|------------------------------------|----------------------|----------------------|---------------|----------------------|
| Total Revenues                     | 7,806,837            | 3,578,042            | 46%           | 8,092,300            |
| Total Operating Expenditures       | 6,472,411            | 3,917,897            | 61%           | 6,340,142            |
| Transfers to Capital Projects Fund | 3,133,115            | 3,133,115            | 100%          | 3,133,115            |
| <b>Totals</b>                      | <b>(\$1,798,689)</b> | <b>(\$3,472,970)</b> |               | <b>(\$1,380,957)</b> |

As of June 30, 2025, the amount of working capital (spendable fund balance) in the Water Fund was approximately \$13.3 million.

### Recommended Water Funds Budget Amendments

No budget amendments are recommended for the Water Fund.

### Sewer Enterprise Fund

The Sewer Enterprise Fund accounts for revenues received primarily from sewer service charges, which are expended for maintenance, operations, and improvements to the sanitary sewer system. As of January 31, 2025, the Sewer Fund had received approximately 50% of budgeted revenue (\$4.9 of \$9.8 million) and expended approximately 74% of its budget (\$12.8 of \$17.3 million). FY 2024-25 year-end staff estimates include higher investment returns than budgeted amounts and the one-time receipt of insurance proceeds from storm damage.

# Midyear Budget Report FY 2024-25

**Table 20 FY 2024-25 Sewer Operating Fund Total Revenues and Expenditures**

|                                    | Amended Budget       | 1/31/25 Actuals      | % Rec'd/ Used | Estimated            |
|------------------------------------|----------------------|----------------------|---------------|----------------------|
| Total Revenues                     | 9,790,604            | 4,910,256            | 50%           | 10,704,647           |
| Total Operating Expenditures       | 7,365,158            | 2,900,846            | 39%           | 6,595,134            |
| Transfers to Capital Projects Fund | 9,926,428            | 9,926,428            | 100%          | 9,926,428            |
| <b>Totals</b>                      | <b>(\$7,500,982)</b> | <b>(\$7,917,018)</b> |               | <b>(\$5,816,915)</b> |

As of June 30, 2024, the working capital (spendable fund balance) amount in the Sewer Fund was approximately \$22.5 million.

## Recommended Sewer Funds Budget Amendments

No budget amendments are recommended for the Sewer Fund.

## Transit Enterprise Fund

The Transit Enterprise 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, 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.

**Table 21 FY 2024-25 Transit Operating Fund Total Revenues and Expenditures**

|                                    | Adopted Budget  | 1/31/25 Actuals | % Rec'd/ Used | Estimated        |
|------------------------------------|-----------------|-----------------|---------------|------------------|
| Total Revenues                     | 458,093         | 214,175         | 47%           | 436,358          |
| Total Operating Expenditures       | 339,245         | 180,021         | 53%           | 308,888          |
| Transfers to Capital Projects Fund | 19,200          | 19,200          | 100%          | 19,200           |
| <b>Totals</b>                      | <b>\$99,648</b> | <b>\$14,954</b> |               | <b>\$108,270</b> |

As of June 30, 2024, the working capital (spendable fund balance) amount in the Transit Operating Fund was approximately \$2.5 million.

## Recommended Transit Fund Budget Amendments

Transit operations are currently being consolidated into San Luis Obispo Regional Transit Authority (RTA). No midyear budget amendments are recommended at this time, but staff anticipates amendments will be required at year-end to adjust for consolidation activities.

## Other Funds

Morro Bay has 25 other nonmajor governmental funds with special purposes, two internal service funds, and three fiduciary funds. They are all outlined in detail each year in the [Adopted Budget document](#).

## Recommended Other Funds Budget Amendments

Minor midyear budget amendments are recommended in one nonmajor governmental fund and one internal service fund, as outlined below. All the requests below can be funded from the balance of their respective fund, an appropriate source for these costs.

# Midyear Budget Report FY 2024-25

**Table 22 Requested FY 2024-25 Other (Nonmajor) Funds Expenditure Amendments**

| Fund   | Description   | Department              | Increase (Decrease) | One-time/ Ongoing | G/L           |
|--|---|-------------------------|---------------------|-------------------|---------------|
| Special Safety Grants (COPS)                   | <b>Medical Examinations.</b> Health assessments for staff.                            | Police Support Services | 17,600              | One-Time          | 282-4190-6720 |
| Special Safety Grants (COPS)                   | <b>Automobiles.</b> New unit for Community Service Officer.                           | Police Support Services | 55,000              | One-Time          | 282-4190-7201 |
| <i>Special Safety Grants Expenditure Total</i> |   |                         | <i>\$72,600</i>     |                   |               |
| Risk Management                                | <b>Other Ins./Employee Bond.</b> Alliant Crime renewal; omitted from budget in error. | Risk Management         | 9,750               | On-going          | 430-4317-6472 |
| <i>Risk Management Expenditure Total</i>       |   |                         | <i>\$9,750</i>      |                   |               |
| <b>Other Funds Expenditure Total</b>           |   |                         | <b>\$82,350</b>     |                   |               |

As of June 30, 2024, the Special Safety Grants Fund had a restricted fund balance of approximately \$0.04 million. The fund was originally established for the Supplemental Law Enforcement Services (SLESF) grant. Government Code Sections 30061-30065 establish the authority for the SLESF, also known as the state COPS grant. The one-time requests below meet the criteria for use of these restricted funds, which are intended to supplement General Fund Police Department expenditures related to frontline law enforcement services.

As of June 30, 2024, the Risk Management Fund had approximately \$0.9 million in working capital, which meets and exceeds its reserve policy of \$0.7 million.

## Summary Current Year and Ten-Year Fiscal Forecasts

In addition to the discussion of midyear budget status and budget revisions, staff is also providing summary Ten-Year Fiscal Forecasts prepared for the General Fund, Measure Q/E, and Harbor Operating Fund, as these funds all have recommended budget amendments. The summaries include estimated actuals for the current fiscal year at a summary level and ten future fiscal years through FY 2034-35. The forecasts reflect a continuing effort by staff to analyze the City’s long-term fiscal condition based on current revenue and expense trends and information provided by sources such as the City’s sales tax consultant, the State of California, Visit Morro Bay, and the County of San Luis Obispo. The forecast represents a point-in-time snapshot and an approximate view of what could occur if all assumptions are proven correct.

This year, staff has created multiple scenarios for the General Fund and Measure Q/E forecasts. These scenarios are designed to foster discussion regarding the gap between what the City should be funding and what the City can responsibly fund. They represent limited approaches to responding to the City’s financial constraints: cutting spending and lowering reserves. The City may also wish to consider new revenue opportunities, such as a bond measure or increased taxes. Staff recommends that Council direct staff to develop a new Long Term Financial Plan to generate strategic options for addressing the capital improvement funding shortage.

### Assumptions

Staff analyzed revenue trends from 2020 to the present and made several adjustments to the model’s assumptions in order to create a more realistic yet fiscally conservative forecast for the next ten years. Previous forecasts cautiously underestimated revenues and overestimated expenditures. While a conservative approach protects the City’s financial security against unforeseen economic downturns and natural disasters, it can also

## Midyear Budget Report FY 2024-25

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lead to inefficient use of resources and unnecessary delays in implementing critical projects or other City initiatives. This midyear forecast aims to align more closely with actual revenue trends, ensuring optimal budget capacity for delivering high-quality services and providing fair compensation for the workforce that delivers them.

Below is a summary of the assumptions used in the forecast model.

- **Revenue**
  - Charges for Service/Other Revenues: 3% based on estimated CPI
  - Sales Tax: 2% for the near term, rising to 3% to match inflation estimates & HdL forecast
  - Property Tax: 4% per County of San Luis Obispo estimates
  - Harbor Lease revenues: 2% for the near term, rising to 3% to match sales tax assumptions
- **Expenditures**
  - Other Operations & Maintenance: 0% for FY 2025-26 then 3% based on estimated CPI
  - Personnel (Operational): Actual increase per MOU through FY 2026-27, then a modest increase for cost-of-living adjustments.
  - Personnel (Pension Liabilities): Based on the CalPERS pension outlook tool. Normal pension costs average below 1% while unfunded pension liabilities range between 13% in the near term to -1% at the end of the forecast period.

Capital costs, where known, are based on the current multiyear capital projects budget. Where capital costs are not yet scheduled, a placeholder has been added, as can be seen in the Harbor Fund forecast.

The summary reports emphasize the importance for the City to closely monitor local economic conditions and county and national economic trends and make the necessary budgetary recommendations to align future service delivery and essential capital improvements with estimated available financial resources.

### **General Fund Forecast**

The ten-year forecast for the General Fund projects a narrow margin between ongoing operating revenues and expenditures, leaving little cushion for capital project funding (see Figure 2). Personnel costs represent approximately 68% of General Fund operating expenditures for the forecast period. From FY 2025 through FY 2027, personnel costs are projected to rise in accordance with Council-approved collective bargaining agreements with represented and non-represented employee groups. In the out-years, the forecast assumes only modest cost-of-living adjustments (COLA) for personnel, allowing for a gradual recovery of operating surplus and, therefore, more funding for capital projects.

### ***Forecast Using Recommended Capital Spending Levels***

Between the General Fund and Measure Q/E forecasts, staff has modeled the cost of fully funding the current pavement management target of \$2.8 million per year and the annual storm drain replacement project at \$0.5 million per year for a ten-year total of \$18.9 million. Barring any significant deviation from staff assumptions, the forecasts continue to reflect the City's inability to fully fund capital projects without rapidly depleting emergency reserves.

# Midyear Budget Report FY 2024-25

## Forecast Adjusted to Comply with Current City Council Reserve Policy

It goes without saying that the City would never allow spending levels to result in a negative cash position, as the Forecast Using Recommended Capital Spending Levels illustrates. This second scenario shows a spending plan that complies with the City’s current reserve policy. The current policy requires a minimum reserve of 33% of the operating budget (including Measure Q/E) with a target of 50%. To comply with the minimum reserve, spending reductions are required. In this forecast, staff has modeled an average annual capital funding contribution of \$1.2 million per year for a ten-year total of \$11.7 million. This scenario requires drawing down the General Fund Emergency Reserve by \$0.5 million which meets the current 33% reserve minimum.

## Forecast Adjusted to Comply with a 20% Reserve Minimum

Staff has recommended and plans to conduct a risk-based reserve analysis to derive a reserve range specific to the unique risks and obligations of the community of Morro Bay. While this work has not yet been completed, staff is including this model to illustrate the impact of lowering reserves to free up additional funding for capital improvements. This model includes an average annual capital funding contribution of \$1.5 million for a ten-year total of \$15.1 million. This scenario requires drawing down the General Fund Emergency Reserve by \$3 million which meets a 20% reserve minimum.

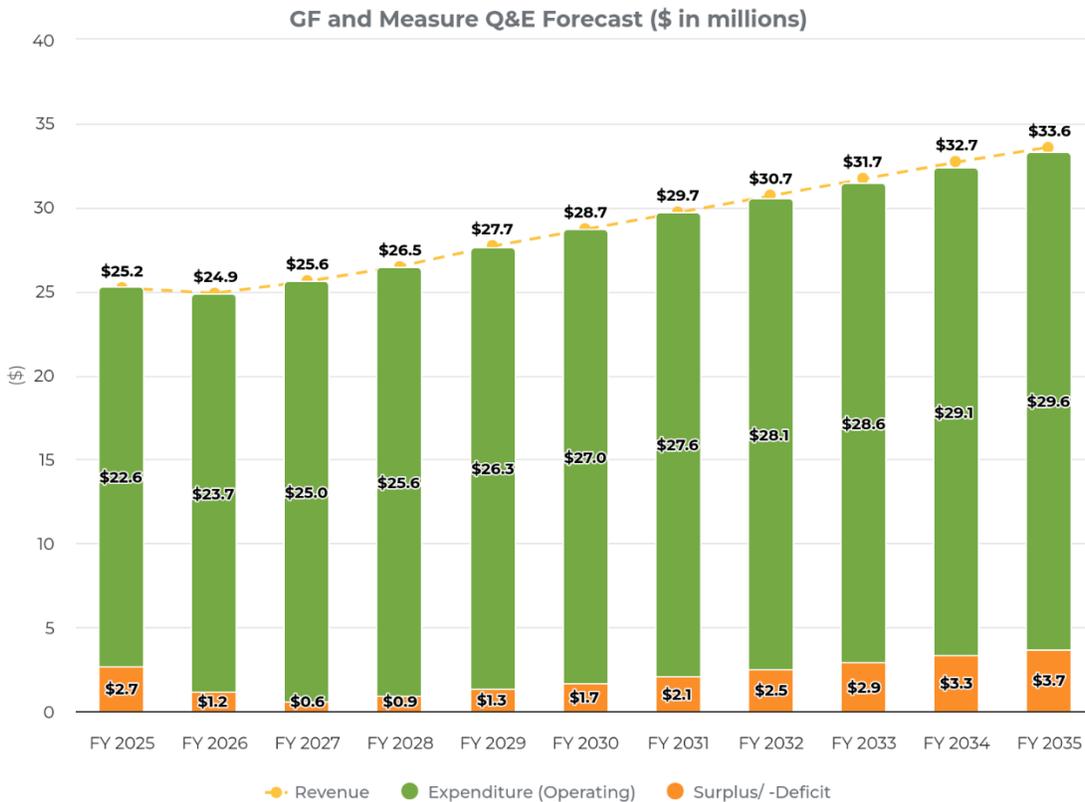


Figure 2 - Combined General Fund and Q/E Operating Forecast

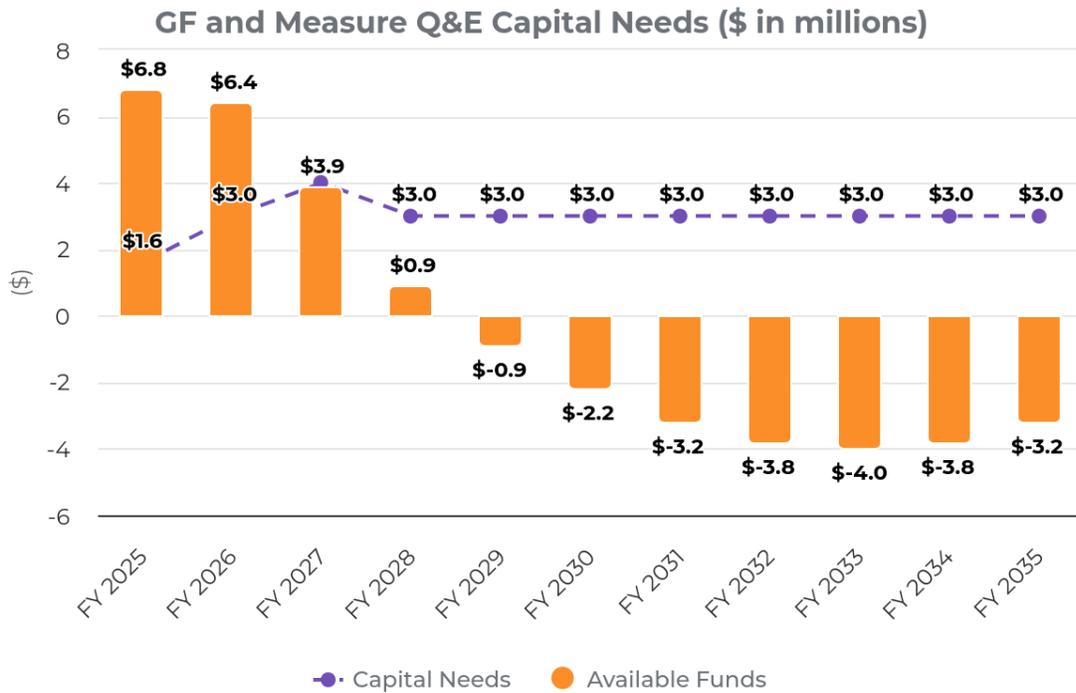


Figure 3 - Combined General Fund and Q/E Capital Needs v. Available Funds

### Measure Q/E Forecast

The ten-year forecast for the Measure Q/E fund projects a healthy operating surplus. The current structure of appropriations prioritizes personnel and operations/maintenance costs for public safety, public works, and Harbor programs over significant contributions to capital projects.

#### Forecast Using Recommended Capital Spending Levels

This model, like the General Fund version above, attempts to fund capital improvements at desired levels. This results in a negative fund balance by FY 2028-29. While the allocation of Measure Q/E funding could be adjusted to exclusively fund either capital or operating expenditures, ultimately, the combined resources of the General Fund and Measure Q/E will soon be insufficient to support the needs of a full-service city. This scenario assumes an average annual capital funding contribution of \$1.25 million for a ten-year total of \$12.5 million.

#### Forecast Adjusted to Comply with Current City Council Reserve Policy

While Measure Q/E does not have its own reserve policy, as the General Fund Emergency Reserve covers it, this scenario avoids spending beyond the fund's means. In this model, an average \$1.15 million capital funding contribution is assumed for a ten-year total of \$11.5 million.

### Harbor Operating Forecast

The ten-year forecast for the Harbor Operating fund projects a slim margin between ongoing revenues and expenditures, a small cushion made possible only by budgeting all Harbor part-time personnel costs in the Measure Q/E fund. Pending the results of a capital needs assessment for the Harbor Department, this forecast has assumed \$0.4 million in capital funding per year for a total capital investment of \$4 million over the ten-year forecast period. This number is likely insufficient to address actual infrastructure needs.

# Midyear Budget Report FY 2024-25

| GENERAL FUND (001)  | FY 2024           | FY 2025           | FY 2025           | FY 2026           | FY 2027           | FY 2028            | FY 2029            | FY 2030            | FY 2031            | FY 2032            | FY 2033            | FY 2034            | FY 2035            |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | Actual            | Budget            | Estimated         |                   |                   |                    |                    |                    |                    |                    |                    |                    |                    |
| <b>Forecast Using Recommended Capital Spending Levels</b>   |                   |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |                    |                    |
| Beginning Fund Balance  | 9,639,131         | 6,643,554         | 7,194,280         | 7,236,208         | 5,590,256         | 2,600,623          | 764,422            | (686,532)          | (1,825,646)        | (2,643,226)        | (3,125,147)        | (3,299,327)        | (3,157,024)        |
| <b>Revenue</b>  |                   |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |                    |                    |
| Property Tax  | 5,572,306         | 5,660,782         | 5,685,301         | 5,912,713         | 6,149,221         | 6,395,190          | 6,650,998          | 6,917,038          | 7,193,719          | 7,481,468          | 7,780,727          | 8,091,956          | 8,415,634          |
| Sales Tax   | 2,777,093         | 2,632,000         | 2,631,457         | 2,684,086         | 2,737,767         | 2,819,900          | 2,904,497          | 2,991,632          | 3,081,381          | 3,173,823          | 3,269,038          | 3,367,109          | 3,468,122          |
| Transient Occupancy Tax   | 4,473,923         | 4,500,000         | 4,500,000         | 4,590,000         | 4,681,800         | 4,822,254          | 4,966,922          | 5,115,929          | 5,269,407          | 5,427,489          | 5,590,314          | 5,758,023          | 5,930,764          |
| Other Revenue   | 6,132,485         | 5,224,579         | 6,370,874         | 5,625,608         | 5,794,376         | 5,968,208          | 6,147,254          | 6,331,672          | 6,521,622          | 6,717,270          | 6,918,789          | 7,126,352          | 7,340,143          |
| Transfers In  | 2,060,218         | 1,620,639         | 1,620,638         | 1,549,863         | 1,596,359         | 1,744,250          | 2,123,577          | 2,264,385          | 2,396,716          | 2,530,618          | 2,556,136          | 2,583,320          | 2,572,220          |
| <b>TOTAL REVENUE</b>  | <b>21,016,025</b> | <b>19,638,001</b> | <b>20,808,270</b> | <b>20,362,270</b> | <b>20,959,524</b> | <b>21,749,802</b>  | <b>22,793,248</b>  | <b>23,620,656</b>  | <b>24,462,846</b>  | <b>25,330,668</b>  | <b>26,115,003</b>  | <b>26,926,760</b>  | <b>27,726,883</b>  |
| <b>Expense</b>  |                   |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |                    |                    |
| Personnel   | 11,563,409        | 12,825,966        | 12,921,346        | 13,797,481        | 14,646,463        | 14,985,564         | 15,440,049         | 15,745,752         | 16,050,210         | 16,359,647         | 16,606,788         | 16,865,681         | 17,098,785         |
| Operational costs   | 9,382,977         | 10,227,542        | 10,351,522        | 11,000,594        | 11,726,634        | 11,961,166         | 12,200,390         | 12,444,397         | 12,693,285         | 12,947,151         | 13,206,094         | 13,470,216         | 13,739,620         |
| Ongoing costs for long-term liabilities (PERS)  | 2,180,432         | 2,598,424         | 2,569,824         | 2,796,887         | 2,919,829         | 3,024,398          | 3,239,659          | 3,301,354          | 3,356,925          | 3,412,495          | 3,400,694          | 3,395,465          | 3,359,165          |
| Other Operations & Maintenance  | 5,668,463         | 5,358,743         | 5,444,747         | 5,444,747         | 5,608,090         | 5,776,332          | 5,949,622          | 6,128,111          | 6,311,954          | 6,501,313          | 6,696,352          | 6,897,243          | 7,104,160          |
| Transfers Out (Ongoing)   | 779,450           | 870,382           | 870,382           | 896,493           | 923,388           | 951,090            | 979,623            | 1,009,011          | 1,039,282          | 1,070,460          | 1,102,574          | 1,135,651          | 1,169,721          |
| Debt Service Payments   | 35,189            | 35,190            | 35,189            | 35,189            | 35,189            | 35,189             | 35,189             | 35,189             | 35,189             | 35,189             | 35,189             | 35,189             | 35,189             |
| <b>TOTAL EXPENSE</b>  | <b>18,046,511</b> | <b>19,090,281</b> | <b>19,271,664</b> | <b>20,173,911</b> | <b>21,213,130</b> | <b>21,748,176</b>  | <b>22,404,483</b>  | <b>22,918,064</b>  | <b>23,436,636</b>  | <b>23,966,609</b>  | <b>24,440,904</b>  | <b>24,933,765</b>  | <b>25,407,855</b>  |
| Net Surplus (Shortfall)-Operating   | 2,969,514         | 547,719           | 1,536,605         | 188,358           | (253,606)         | 1,626              | 388,765            | 702,592            | 1,026,210          | 1,364,059          | 1,674,099          | 1,992,995          | 2,319,027          |
| <b>Capital</b>  | <b>1,106,865</b>  | <b>1,150,000</b>  | <b>1,150,000</b>  | <b>1,800,000</b>  | <b>2,700,000</b>  | <b>1,800,000</b>   |
| Annual Pavement Management Program  | -                 | 650,000           | 650,000           | 1,300,000         | 1,300,000         | 1,300,000          | 1,300,000          | 1,300,000          | 1,300,000          | 1,300,000          | 1,300,000          | 1,300,000          | 1,300,000          |
| Annual Storm Drain Replacement Project  | -                 | 500,000           | 500,000           | 500,000           | 500,000           | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            |
| Replacement Type 3 Fire Engine  | -                 | -                 | -                 | -                 | 900,000           | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  |
| Net Surplus (Shortfall)-including Capital   | 1,862,649         | (602,281)         | 386,605           | (1,611,642)       | (2,953,606)       | (1,798,374)        | (1,411,235)        | (1,097,408)        | (773,790)          | (435,941)          | (125,901)          | 192,995            | 519,027            |
| Contribution to 115 Trust *   | 887,000           | 312,000           | 312,000           | -                 | -                 | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  |
| <b>Transfers Out (One-Time)</b>   |                   |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |                    |                    |
| General Fund Emergency Reserve Fund (GFER)  | 3,292,000         | -                 | -                 | -                 | -                 | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  |
| Vehicle Replacement Fund  | 107,000           | -                 | -                 | -                 | -                 | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  |
| Compensable Leave Fund  | 21,500            | 32,677            | 32,677            | 34,311            | 36,026            | 37,828             | 39,719             | 41,705             | 43,790             | 45,980             | 48,279             | 50,693             | 53,227             |
| <b>Ending Total Fund Balance</b>  | <b>7,194,280</b>  | <b>5,696,596</b>  | <b>7,236,208</b>  | <b>5,590,256</b>  | <b>2,600,623</b>  | <b>764,422</b>     | <b>(686,532)</b>   | <b>(1,825,646)</b> | <b>(2,643,226)</b> | <b>(3,125,147)</b> | <b>(3,299,327)</b> | <b>(3,157,024)</b> | <b>(2,691,224)</b> |
| Less Non-Spendable Fund Balance   | 3,190,000         | 3,163,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000          | 3,190,000          | 3,190,000          | 3,190,000          | 3,190,000          | 3,190,000          | 3,190,000          | 3,190,000          |
| <b>Ending Available Fund Balance</b>  | <b>4,004,280</b>  | <b>2,533,596</b>  | <b>4,046,208</b>  | <b>2,400,256</b>  | <b>(589,377)</b>  | <b>(2,425,578)</b> | <b>(3,876,532)</b> | <b>(5,015,646)</b> | <b>(5,833,226)</b> | <b>(6,315,147)</b> | <b>(6,489,327)</b> | <b>(6,347,024)</b> | <b>(5,881,224)</b> |
| Measure E Fund Operating Expenses (excluding transfers)   | 3,083,373         | 3,271,789         | 3,544,320         | 3,544,320         | 3,742,029         | 3,832,265          | 3,944,160          | 4,029,972          | 4,029,972          | 4,029,972          | 4,029,972          | 4,029,972          | 4,029,972          |
| General Fund Emergency Reserve Fund (GFER) Balance  | 7,160,082         | 7,160,082         | 7,521,644         | 7,672,077         | 7,825,518         | 7,982,029          | 8,141,669          | 8,304,503          | 8,470,593          | 8,640,005          | 8,812,805          | 8,989,061          | 9,168,842          |
| <b>Total Fund Balance as % of Total Operating Expenses (General Fund + GFER) / (General Fund + Q&amp;E Operating)</b> | <b>52.8%</b>      | <b>43.3%</b>      | <b>50.7%</b>      | <b>42.5%</b>      | <b>29.0%</b>      | <b>21.7%</b>       | <b>16.2%</b>       | <b>12.2%</b>       | <b>9.6%</b>        | <b>8.3%</b>        | <b>8.2%</b>        | <b>9.1%</b>        | <b>11.2%</b>       |
| <b>Minimum Reserve Levels *</b>   | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>NOT MET</b>    | <b>NOT MET</b>     | <b>NOT MET</b>     | <b>NOT MET</b>     | <b>NOT MET</b>     | <b>NOT MET</b>     | <b>NOT MET</b>     | <b>NOT MET</b>     | <b>NOT MET</b>     |
| General Fund Emergency Reserve Policy: 33% operating expenses. Includes Measure E fund                                | 6,972,862         | 7,379,483         | 7,529,275         | 7,827,016         | 8,235,203         | 8,441,545          | 8,695,052          | 8,892,852          | 9,063,980          | 9,238,872          | 9,395,389          | 9,558,033          | 9,714,483          |
| <b>AVAILABLE FUND BALANCE (EXCESS OF MINIMUM RESERVES) *</b>  | <b>4,191,500</b>  | <b>2,314,195</b>  | <b>4,038,577</b>  | <b>2,245,316</b>  | <b>(999,061)</b>  | <b>(2,885,095)</b> | <b>(4,429,915)</b> | <b>(5,603,994)</b> | <b>(6,426,614)</b> | <b>(6,914,014)</b> | <b>(7,071,911)</b> | <b>(6,915,996)</b> | <b>(6,426,865)</b> |

## Fund Balance Notes

\* Minimum Reserve Levels are determined using the combined fund balance of the GFER and General Fund Available Fund Balance.

\* The City's Reserve Policy states that in years the minimum reserve levels are met, the General Fund will contribute 33% of the prior year's audited available balance to a Section 115 Trust to address pension liabilities.

\* Funds in excess of minimum reserves may be appropriated by Council for any use.

\* In years when the available fund balance is forecast to go negative, withdrawals from the General Fund Emergency Reserve would be required.

Ten-Year Forecast Capital Spending Totals: **\$18,900,000** Ten-Year Forecast Average Annual Capital Spending: **\$ 1,890,000**

# Midyear Budget Report FY 2024-25

| GENERAL FUND (001)  | Forecast Adjusted to Comply with Current City Council Reserve Policy |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |  |
|---|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--|
|   | FY 2024 Actual   | FY 2025 Budget    | FY 2025 Estimated | FY 2026           | FY 2027           | FY 2028           | FY 2029           | FY 2030           | FY 2031           | FY 2032           | FY 2033           | FY 2034           | FY 2035           |  |
| <b>Beginning Fund Balance</b>   | 9,639,131  | 6,643,554         | 7,194,280         | 7,236,208         | 6,190,256         | 4,300,623         | 4,264,422         | 4,613,468         | 4,324,354         | 4,356,774         | 4,574,853         | 4,400,673         | 4,542,976         |  |
| <b>Revenue</b>  |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |  |
| Property Tax  | 5,572,306  | 5,660,782         | 5,685,301         | 5,912,713         | 6,149,221         | 6,395,190         | 6,650,998         | 6,917,038         | 7,193,719         | 7,481,468         | 7,780,727         | 8,091,956         | 8,415,634         |  |
| Sales Tax   | 2,777,093  | 2,632,000         | 2,631,457         | 2,684,086         | 2,737,767         | 2,819,900         | 2,904,497         | 2,991,632         | 3,081,381         | 3,173,823         | 3,269,038         | 3,367,109         | 3,468,122         |  |
| Transient Occupancy Tax   | 4,473,923  | 4,500,000         | 4,500,000         | 4,590,000         | 4,681,800         | 4,822,254         | 4,966,922         | 5,115,929         | 5,269,407         | 5,427,489         | 5,590,314         | 5,758,023         | 5,930,764         |  |
| Other Revenue   | 6,132,485  | 5,224,579         | 6,370,874         | 5,625,608         | 5,794,376         | 5,968,208         | 6,147,254         | 6,331,672         | 6,521,622         | 6,717,270         | 6,918,789         | 7,126,352         | 7,340,143         |  |
| Transfers In  | 2,060,218  | 1,620,639         | 1,620,638         | 1,549,863         | 1,596,359         | 1,744,250         | 2,123,577         | 2,264,385         | 2,396,716         | 2,530,618         | 2,556,136         | 2,583,320         | 2,572,220         |  |
| <b>TOTAL REVENUE</b>  | <b>21,016,025</b>  | <b>19,638,001</b> | <b>20,808,270</b> | <b>20,362,270</b> | <b>20,959,524</b> | <b>21,749,802</b> | <b>22,793,248</b> | <b>23,620,656</b> | <b>24,462,846</b> | <b>25,330,668</b> | <b>26,115,003</b> | <b>26,926,760</b> | <b>27,726,883</b> |  |
| <b>Expense</b>  |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |  |
| Personnel   | 11,563,409   | 12,825,966        | 12,921,346        | 13,797,481        | 14,646,463        | 14,985,564        | 15,440,049        | 15,745,752        | 16,050,210        | 16,359,647        | 16,606,788        | 16,865,681        | 17,098,785        |  |
| Operational costs   | 9,382,977  | 10,227,542        | 10,351,522        | 11,000,594        | 11,726,634        | 11,961,166        | 12,200,390        | 12,444,397        | 12,693,285        | 12,947,151        | 13,206,094        | 13,470,216        | 13,739,620        |  |
| Ongoing costs for long-term liabilities (PERS)  | 2,180,432  | 2,598,424         | 2,569,824         | 2,796,887         | 2,919,829         | 3,024,398         | 3,239,659         | 3,301,354         | 3,356,925         | 3,412,495         | 3,400,694         | 3,395,465         | 3,359,165         |  |
| Other Operations & Maintenance  | 5,668,463  | 5,358,743         | 5,444,747         | 5,444,747         | 5,608,090         | 5,776,332         | 5,949,622         | 6,128,111         | 6,311,954         | 6,501,313         | 6,696,352         | 6,897,243         | 7,104,160         |  |
| Transfers Out (Ongoing)   | 779,450  | 870,382           | 870,382           | 896,493           | 923,388           | 951,090           | 979,623           | 1,009,011         | 1,039,282         | 1,070,460         | 1,102,574         | 1,135,651         | 1,169,721         |  |
| Debt Service Payments   | 35,189   | 35,190            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            |  |
| <b>TOTAL EXPENSE</b>  | <b>18,046,511</b>  | <b>19,090,281</b> | <b>19,271,664</b> | <b>20,173,911</b> | <b>21,213,130</b> | <b>21,748,176</b> | <b>22,404,483</b> | <b>22,918,064</b> | <b>23,436,636</b> | <b>23,966,609</b> | <b>24,440,904</b> | <b>24,933,765</b> | <b>25,407,855</b> |  |
| Net Surplus (Shortfall)-Operating   | 2,969,514  | 547,719           | 1,536,605         | 188,358           | (253,606)         | 1,626             | 388,765           | 702,592           | 1,026,210         | 1,364,059         | 1,674,099         | 1,992,995         | 2,319,027         |  |
| <b>Capital</b>  | <b>1,106,865</b>   | <b>1,150,000</b>  | <b>1,150,000</b>  | <b>1,200,000</b>  | <b>2,100,000</b>  | -                 | -                 | <b>950,000</b>    | <b>950,000</b>    | <b>1,100,000</b>  | <b>1,800,000</b>  | <b>1,800,000</b>  | <b>1,800,000</b>  |  |
| Annual Pavement Management Program  | -  | 650,000           | 650,000           | 1,000,000         | 1,000,000         | -                 | -                 | 750,000           | 750,000           | 900,000           | 1,300,000         | 1,300,000         | 1,300,000         |  |
| Annual Storm Drain Replacement Project  | -  | 500,000           | 500,000           | 200,000           | 200,000           | -                 | -                 | 200,000           | 200,000           | 200,000           | 500,000           | 500,000           | 500,000           |  |
| Replacement Type 3 Fire Engine  | -  | -                 | -                 | -                 | 900,000           | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |  |
| Net Surplus (Shortfall)-including Capital   | 1,862,649  | (602,281)         | 386,605           | (1,011,642)       | (2,353,606)       | 1,626             | 388,765           | (247,408)         | 76,210            | 264,059           | (125,901)         | 192,995           | 519,027           |  |
| <b>Transfers In (One-Time)</b>  |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |  |
| General Fund Emergency Reserve Fund (GFER)  | -  | -                 | -                 | -                 | 500,000           | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |  |
| <b>Transfers Out (One-Time)</b>   |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |  |
| General Fund Emergency Reserve Fund (GFER)  | 3,292,000  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |  |
| Vehicle Replacement Fund  | 107,000  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |  |
| Compensable Leave Fund  | 21,500   | 32,677            | 32,677            | 34,311            | 36,026            | 37,828            | 39,719            | 41,705            | 43,790            | 45,980            | 48,279            | 50,693            | 53,227            |  |
| Contribution to 115 Trust   | 887,000  | 312,000           | 312,000           | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |  |
| <b>Ending Total Fund Balance</b>  | <b>7,194,280</b>   | <b>5,696,596</b>  | <b>7,236,208</b>  | <b>6,190,256</b>  | <b>4,300,623</b>  | <b>4,264,422</b>  | <b>4,613,468</b>  | <b>4,324,354</b>  | <b>4,356,774</b>  | <b>4,574,853</b>  | <b>4,400,673</b>  | <b>4,542,976</b>  | <b>5,008,776</b>  |  |
| Less Non-Spendable Fund Balance   | 3,190,000  | 3,163,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         |  |
| <b>Ending Available Fund Balance</b>  | <b>4,004,280</b>   | <b>2,533,596</b>  | <b>4,046,208</b>  | <b>3,000,256</b>  | <b>1,110,623</b>  | <b>1,074,422</b>  | <b>1,423,468</b>  | <b>1,134,354</b>  | <b>1,166,774</b>  | <b>1,384,853</b>  | <b>1,210,673</b>  | <b>1,352,976</b>  | <b>1,818,776</b>  |  |
| Measure E Fund Operating Expenses (excluding transfers)   | 3,083,373  | 3,271,789         | 3,544,320         | 3,544,320         | 3,742,029         | 3,832,265         | 3,944,160         | 4,029,972         | 4,029,972         | 4,029,972         | 4,029,972         | 4,029,972         | 4,029,972         |  |
| General Fund Emergency Reserve Fund (GFER) Balance  | 7,160,082  | 7,160,082         | 7,521,644         | 7,672,077         | 7,325,518         | 7,472,029         | 7,621,469         | 7,773,899         | 7,929,377         | 8,087,964         | 8,249,724         | 8,414,718         | 8,583,012         |  |
| <b>Total Fund Balance as % of Total Operating Expenses (General Fund + GFER) / (General Fund + Q&amp;E Operating)</b> | <b>52.8%</b>   | <b>43.3%</b>      | <b>50.7%</b>      | <b>45.0%</b>      | <b>33.8%</b>      | <b>33.4%</b>      | <b>34.3%</b>      | <b>33.1%</b>      | <b>33.1%</b>      | <b>33.8%</b>      | <b>33.2%</b>      | <b>33.7%</b>      | <b>35.3%</b>      |  |
| <b>Minimum Reserve Levels *</b>   | <b>MET</b>   | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        |  |
| General Fund Emergency Reserve Policy: 33% operating expenses. Includes Measure E fund                                | 6,972,862  | 7,379,483         | 7,529,275         | 7,827,016         | 8,235,203         | 8,441,545         | 8,695,052         | 8,892,852         | 9,063,980         | 9,238,872         | 9,395,389         | 9,558,033         | 9,714,483         |  |
| <b>AVAILABLE FUND BALANCE (EXCESS OF MINIMUM RESERVES) *</b>  | <b>4,191,500</b>   | <b>2,314,195</b>  | <b>4,038,577</b>  | <b>2,845,316</b>  | <b>200,939</b>    | <b>104,905</b>    | <b>349,885</b>    | <b>15,402</b>     | <b>32,170</b>     | <b>233,946</b>    | <b>65,008</b>     | <b>209,661</b>    | <b>687,305</b>    |  |

## Fund Balance Notes

\* Minimum Reserve Levels are determined using the combined fund balance of the GFER and General Fund Available Fund Balance.

\* The City's Reserve Policy states that in years the minimum reserve levels are met, the General Fund will contribute 33% of the prior year's audited available balance to a Section 115 Trust to address pension liabilities.

\* Funds in excess of minimum reserves may be appropriated by Council for any use.

\* In years when the available fund balance is forecast to go negative, withdrawals from the General Fund Emergency Reserve would be required.

Ten-Year Forecast Capital Spending Totals: \$11,700,000 Ten-Year Forecast Average Annual Capital Spending: \$ 1,170,000

# Midyear Budget Report FY 2024-25

| GENERAL FUND (001)  | Forecast Adjusted to Comply with a 20% Reserve Minimum |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|---|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | FY 2024 Actual   | FY 2025 Budget    | FY 2025 Estimated | FY 2026           | FY 2027           | FY 2028           | FY 2029           | FY 2030           | FY 2031           | FY 2032           | FY 2033           | FY 2034           | FY 2035           |
| <b>Beginning Fund Balance</b>   | 9,639,131  | 6,643,554         | 7,194,280         | 7,236,208         | 5,590,256         | 3,600,623         | 3,764,422         | 3,513,468         | 3,574,354         | 3,556,774         | 3,574,853         | 3,500,673         | 3,642,976         |
| <b>Revenue</b>  |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Property Tax  | 5,572,306  | 5,660,782         | 5,685,301         | 5,912,713         | 6,149,221         | 6,395,190         | 6,650,998         | 6,917,038         | 7,193,719         | 7,481,468         | 7,780,727         | 8,091,956         | 8,415,634         |
| Sales Tax   | 2,777,093  | 2,632,000         | 2,631,457         | 2,684,086         | 2,737,767         | 2,819,900         | 2,904,497         | 2,991,632         | 3,081,381         | 3,173,823         | 3,269,038         | 3,367,109         | 3,468,122         |
| Transient Occupancy Tax   | 4,473,923  | 4,500,000         | 4,500,000         | 4,590,000         | 4,681,800         | 4,822,254         | 4,966,922         | 5,115,929         | 5,269,407         | 5,427,489         | 5,590,314         | 5,758,023         | 5,930,764         |
| Other Revenue   | 6,132,485  | 5,224,579         | 6,370,874         | 5,625,608         | 5,794,376         | 5,968,208         | 6,147,254         | 6,331,672         | 6,521,622         | 6,717,270         | 6,918,789         | 7,126,352         | 7,340,143         |
| Transfers In  | 2,060,218  | 1,620,639         | 1,620,638         | 1,549,863         | 1,596,359         | 1,744,250         | 2,123,577         | 2,264,385         | 2,396,716         | 2,530,618         | 2,556,136         | 2,583,320         | 2,572,220         |
| <b>TOTAL REVENUE</b>  | <b>21,016,025</b>                                      | <b>19,638,001</b> | <b>20,808,270</b> | <b>20,362,270</b> | <b>20,959,524</b> | <b>21,749,802</b> | <b>22,793,248</b> | <b>23,620,656</b> | <b>24,462,846</b> | <b>25,330,668</b> | <b>26,115,003</b> | <b>26,926,760</b> | <b>27,726,883</b> |
| <b>Expense</b>  |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Personnel   | 11,563,409   | 12,825,966        | 12,921,346        | 13,797,481        | 14,646,463        | 14,985,564        | 15,440,049        | 15,745,752        | 16,050,210        | 16,359,647        | 16,606,788        | 16,865,681        | 17,098,785        |
| Operational costs   | 9,382,977  | 10,227,542        | 10,351,522        | 11,000,594        | 11,726,634        | 11,961,166        | 12,200,390        | 12,444,397        | 12,693,285        | 12,947,151        | 13,206,094        | 13,470,216        | 13,739,620        |
| Ongoing costs for long-term liabilities (PERS)  | 2,180,432  | 2,598,424         | 2,569,824         | 2,796,887         | 2,919,829         | 3,024,398         | 3,239,659         | 3,301,354         | 3,356,925         | 3,412,495         | 3,400,694         | 3,395,465         | 3,359,165         |
| Other Operations & Maintenance  | 5,668,463  | 5,358,743         | 5,444,747         | 5,444,747         | 5,608,090         | 5,776,332         | 5,949,622         | 6,128,111         | 6,311,954         | 6,501,313         | 6,696,352         | 6,897,243         | 7,104,160         |
| Transfers Out (Ongoing)   | 779,450  | 870,382           | 870,382           | 896,493           | 923,388           | 951,090           | 979,623           | 1,009,011         | 1,039,282         | 1,070,460         | 1,102,574         | 1,135,651         | 1,169,721         |
| Debt Service Payments   | 35,189   | 35,190            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            | 35,189            |
| <b>TOTAL EXPENSE</b>  | <b>18,046,511</b>                                      | <b>19,090,281</b> | <b>19,271,664</b> | <b>20,173,911</b> | <b>21,213,130</b> | <b>21,748,176</b> | <b>22,404,483</b> | <b>22,918,064</b> | <b>23,436,636</b> | <b>23,966,609</b> | <b>24,440,904</b> | <b>24,933,765</b> | <b>25,407,855</b> |
| Net Surplus (Shortfall)-Operating   | 2,969,514  | 547,719           | 1,536,605         | 188,358           | (253,606)         | 1,626             | 388,765           | 702,592           | 1,026,210         | 1,364,059         | 1,674,099         | 1,992,995         | 2,319,027         |
| <b>Capital</b>  | <b>1,106,865</b>                                       | <b>1,150,000</b>  | <b>1,150,000</b>  | <b>1,800,000</b>  | <b>2,700,000</b>  | <b>1,800,000</b>  | <b>600,000</b>    | <b>600,000</b>    | <b>1,000,000</b>  | <b>1,300,000</b>  | <b>1,700,000</b>  | <b>1,800,000</b>  | <b>1,800,000</b>  |
| Annual Pavement Management Program  | -  | 650,000           | 650,000           | 1,300,000         | 1,300,000         | 1,300,000         | 500,000           | 500,000           | 800,000           | 900,000           | 1,300,000         | 1,300,000         | 1,300,000         |
| Annual Storm Drain Replacement Project  | -  | 500,000           | 500,000           | 500,000           | 500,000           | 500,000           | 100,000           | 100,000           | 200,000           | 400,000           | 400,000           | 500,000           | 500,000           |
| Replacement Type 3 Fire Engine  | -  | -                 | -                 | -                 | 900,000           | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| Net Surplus (Shortfall)-including Capital   | 1,862,649  | (602,281)         | 386,605           | (1,611,642)       | (2,953,606)       | (1,798,374)       | (211,235)         | 102,592           | 26,210            | 64,059            | (25,901)          | 192,995           | 519,027           |
| <b>Transfers In (One-Time)</b>  |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| General Fund Emergency Reserve Fund (GFER)  | -  | -                 | -                 | -                 | 1,000,000         | 2,000,000         | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| <b>Transfers Out (One-Time)</b>   |  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| General Fund Emergency Reserve Fund (GFER)  | 3,292,000  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| Vehicle Replacement Fund  | 107,000  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| Compensable Leave Fund  | 21,500   | 32,677            | 32,677            | 34,311            | 36,026            | 37,828            | 39,719            | 41,705            | 43,790            | 45,980            | 48,279            | 50,693            | 53,227            |
| <b>Contribution to 115 Trust</b>  | <b>887,000</b>   | <b>312,000</b>    | <b>312,000</b>    | <b>-</b>          |
| <b>Ending Total Fund Balance</b>  | <b>7,194,280</b>                                       | <b>5,696,596</b>  | <b>7,236,208</b>  | <b>5,590,256</b>  | <b>3,600,623</b>  | <b>3,764,422</b>  | <b>3,513,468</b>  | <b>3,574,354</b>  | <b>3,556,774</b>  | <b>3,574,853</b>  | <b>3,500,673</b>  | <b>3,642,976</b>  | <b>4,108,776</b>  |
| Less Non-Spendable Fund Balance   | 3,190,000  | 3,163,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         | 3,190,000         |
| <b>Ending Available Fund Balance</b>  | <b>4,004,280</b>                                       | <b>2,533,596</b>  | <b>4,046,208</b>  | <b>2,400,256</b>  | <b>410,623</b>    | <b>574,422</b>    | <b>323,468</b>    | <b>384,354</b>    | <b>366,774</b>    | <b>384,853</b>    | <b>310,673</b>    | <b>452,976</b>    | <b>918,776</b>    |
| Measure E Fund Operating Expenses (excluding transfers)   | 3,083,373  | 3,271,789         | 3,544,320         | 3,544,320         | 3,742,029         | 3,832,265         | 3,944,160         | 4,029,972         | 4,029,972         | 4,029,972         | 4,029,972         | 4,029,972         | 4,029,972         |
| General Fund Emergency Reserve Fund (GFER) Balance  | 7,160,082  | 7,160,082         | 7,521,644         | 7,672,077         | 6,825,518         | 4,962,029         | 5,061,269         | 5,162,495         | 5,265,745         | 5,371,060         | 5,478,481         | 5,588,050         | 5,699,811         |
| <b>Total Fund Balance as % of Total Operating Expenses (General Fund + GFER) / (General Fund + Q&amp;E Operating)</b> | <b>52.8%</b>   | <b>43.3%</b>      | <b>50.7%</b>      | <b>42.5%</b>      | <b>29.0%</b>      | <b>21.6%</b>      | <b>20.4%</b>      | <b>20.6%</b>      | <b>20.5%</b>      | <b>20.6%</b>      | <b>20.3%</b>      | <b>20.9%</b>      | <b>22.5%</b>      |
| <b>Minimum Reserve Levels *</b>   | <b>MET</b>   | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        | <b>MET</b>        |
| General Fund Emergency Reserve Policy: 20% operating expenses. Includes Measure E fund                                | 4,225,977  | 4,472,414         | 4,563,197         | 4,743,646         | 4,991,032         | 5,116,088         | 5,269,729         | 5,389,607         | 5,493,321         | 5,599,316         | 5,694,175         | 5,792,747         | 5,887,565         |
| <b>AVAILABLE FUND BALANCE (EXCESS OF MINIMUM RESERVES) *</b>  | <b>6,938,385</b>                                       | <b>5,221,265</b>  | <b>7,004,655</b>  | <b>5,328,686</b>  | <b>2,245,110</b>  | <b>420,362</b>    | <b>115,008</b>    | <b>157,242</b>    | <b>139,197</b>    | <b>156,597</b>    | <b>94,979</b>     | <b>248,279</b>    | <b>731,022</b>    |

### Fund Balance Notes

\* Minimum Reserve Levels are determined using the combined fund balance of the GFER and General Fund Available Fund Balance.

\* The City's Reserve Policy states that in years the minimum reserve levels are met, the General Fund will contribute 33% of the prior year's audited available balance to a Section 115 Trust to address pension liabilities.

\* Funds in excess of minimum reserves may be appropriated by Council for any use.

\* In years when the available fund balance is forecast to go negative, withdrawals from the General Fund Emergency Reserve would be required.

Ten-Year Forecast Capital Spending Totals: **\$15,100,000** Ten-Year Forecast Average Annual Capital Spending: **\$ 1,510,000**

# Midyear Budget Report FY 2024-25

| MEASURE Q/E FUND (003)   | FY 2024<br>Actual  | FY 2025<br>Budget   | FY 2025<br>Estimated | Forecast Using Recommended Capital Spending Levels |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|--|--|---|----------------------|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|  |  |   |                      | FY 2026  | FY 2027          | FY 2028          | FY 2029          | FY 2030          | FY 2031          | FY 2032          | FY 2033          | FY 2034          | FY 2035          |
| <b>Starting Fund Balance</b>   | <b>1,325,072</b>   | <b>323,655</b>  | <b>483,772</b>       | <b>1,146,994</b>                                   | <b>882,125</b>   | <b>510,135</b>   | <b>186,511</b>   | <b>(106,249)</b> | <b>(337,778)</b> | <b>(504,279)</b> | <b>(602,967)</b> | <b>(618,799)</b> | <b>(550,018)</b> |
| <b>Revenue</b>   |  |   |                      |  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Tax Revenue  | 4,509,073  | 4,313,735   | 4,440,638            | 4,529,451  | 4,620,040        | 4,758,641        | 4,901,400        | 5,048,442        | 5,199,895        | 5,355,892        | 5,516,569        | 5,682,066        | 5,852,528        |
| Other Revenue  | -  | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Transfers In   | -  | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>TOTAL REVENUE</b>   | <b>4,509,073</b>   | <b>4,313,735</b>  | <b>4,440,638</b>     | <b>4,529,451</b>                                   | <b>4,620,040</b> | <b>4,758,641</b> | <b>4,901,400</b> | <b>5,048,442</b> | <b>5,199,895</b> | <b>5,355,892</b> | <b>5,516,569</b> | <b>5,682,066</b> | <b>5,852,528</b> |
| <b>Expense</b>   |  |   |                      |  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Personnel  | 2,211,885  | 2,611,695   | 2,611,283            | 2,854,227  | 3,031,234        | 3,100,145        | 3,190,077        | 3,253,266        | 3,316,389        | 3,380,573        | 3,433,674        | 3,489,096        | 3,545,703        |
| Operational Costs  | 1,829,746  | 2,143,570   | 2,131,363            | 2,345,065  | 2,499,840        | 2,549,836        | 2,600,833        | 2,652,850        | 2,705,907        | 2,760,025        | 2,815,225        | 2,871,530        | 2,928,961        |
| Ongoing costs for long-term liabilities (PERS)                       | 382,139  | 468,126   | 479,919              | 509,161  | 531,394          | 550,309          | 589,244          | 600,416          | 610,482          | 620,548          | 618,448          | 617,566          | 616,743          |
| Other Operations & Maintenance                                       | 707,254  | 690,093   | 736,133              | 690,093  | 710,796          | 732,120          | 754,083          | 776,706          | 800,007          | 824,007          | 848,727          | 874,189          | 900,415          |
| Transfers Out (operating)  | 164,234  | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Debt Service Payments  | -  | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>TOTAL EXPENSE</b>   | <b>3,083,373</b>   | <b>3,301,789</b>  | <b>3,347,416</b>     | <b>3,544,320</b>                                   | <b>3,742,029</b> | <b>3,832,265</b> | <b>3,944,160</b> | <b>4,029,972</b> | <b>4,116,396</b> | <b>4,204,581</b> | <b>4,282,401</b> | <b>4,363,285</b> | <b>4,446,118</b> |
| <b>Net Surplus (Shortfall)-Operating</b>                             | <b>1,425,700</b>   | <b>1,011,946</b>  | <b>1,093,222</b>     | <b>985,131</b>                                     | <b>878,010</b>   | <b>926,376</b>   | <b>957,240</b>   | <b>1,018,470</b> | <b>1,083,499</b> | <b>1,151,312</b> | <b>1,234,168</b> | <b>1,318,781</b> | <b>1,406,410</b> |
| <b>Capital</b>   | <b>2,267,000</b>   | <b>430,000</b>  | <b>430,000</b>       | <b>1,250,000</b>                                   | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> |
| Morro Bay Bridge Inspection & Assessment                             | -  | 80,000  | 80,000               | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Active Transportation Plan / Active Corridor Studies                 | 67,000   | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Local Road Safety Plan (LRSP) Implementation and Safety Improvements | 150,000  | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Trash and Recycling Can Replacements                                 | 60,000   | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Sidewalk Improvements and Street Tree Replacements Project           | 150,000  | -   | -                    | -  | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Annual Pavement Management Program                                   | 1,840,000  | 350,000   | 350,000              | 1,250,000  | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        |
| <b>Net Surplus (Shortfall) including Capital</b>                     | <b>(841,300)</b>   | <b>581,946</b>  | <b>663,222</b>       | <b>(264,869)</b>                                   | <b>(371,990)</b> | <b>(323,624)</b> | <b>(292,760)</b> | <b>(231,530)</b> | <b>(166,501)</b> | <b>(98,688)</b>  | <b>(15,832)</b>  | <b>68,781</b>    | <b>156,410</b>   |
| <b>ENDING FUND BALANCE</b>   | <b>483,772</b>   | <b>905,601</b>  | <b>1,146,994</b>     | <b>882,125</b>                                     | <b>510,135</b>   | <b>186,511</b>   | <b>(106,249)</b> | <b>(337,778)</b> | <b>(504,279)</b> | <b>(602,967)</b> | <b>(618,799)</b> | <b>(550,018)</b> | <b>(393,608)</b> |
| <b>NOTE</b>  | Measure E does not have its own reserve policy, as it is covered in the General Fund Emergency Reserve policy. |   |                      |  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <i>Ten-Year Forecast Capital Spending Totals:</i>                    | <b>\$ 12,500,000</b>   | <i>Ten-Year Forecast Average Annual Capital Spending:</i> |                      | <b>\$ 1,250,000</b>                                |                  |                  |                  |                  |                  |                  |                  |                  |                  |

# Midyear Budget Report FY 2024-25

| MEASURE Q/E FUND (003)   | Forecast Adjusted to Comply with Current City Council Reserve Policy   |   |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|--|--|---|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|  | FY 2024 Actual   | FY 2025 Budget  | FY 2025 Estimated | FY 2026          | FY 2027          | FY 2028          | FY 2029          | FY 2030          | FY 2031          | FY 2032          | FY 2033          | FY 2034          | FY 2035          |
| <b>Starting Fund Balance</b>   | 1,325,072  | 323,655   | 483,772           | 1,146,994        | 882,125          | 510,135          | 436,511          | 393,751          | 412,222          | 495,721          | 397,033          | 381,201          | 449,982          |
| <b>Revenue</b>   |  |   |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Tax Revenue  | 4,509,073  | 4,313,735   | 4,440,638         | 4,529,451        | 4,620,040        | 4,758,641        | 4,901,400        | 5,048,442        | 5,199,895        | 5,355,892        | 5,516,569        | 5,682,066        | 5,852,528        |
| Other Revenue  | -  | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Transfers In   | -  | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>TOTAL REVENUE</b>   | <b>4,509,073</b>   | <b>4,313,735</b>  | <b>4,440,638</b>  | <b>4,529,451</b> | <b>4,620,040</b> | <b>4,758,641</b> | <b>4,901,400</b> | <b>5,048,442</b> | <b>5,199,895</b> | <b>5,355,892</b> | <b>5,516,569</b> | <b>5,682,066</b> | <b>5,852,528</b> |
| <b>Expense</b>   |  |   |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Personnel  | 2,211,885  | 2,611,695   | 2,611,283         | 2,854,227        | 3,031,234        | 3,100,145        | 3,190,077        | 3,253,266        | 3,316,389        | 3,380,573        | 3,433,674        | 3,489,096        | 3,545,703        |
| Operational Costs  | 1,829,746  | 2,143,570   | 2,131,363         | 2,345,065        | 2,499,840        | 2,549,836        | 2,600,833        | 2,652,850        | 2,705,907        | 2,760,025        | 2,815,225        | 2,871,530        | 2,928,961        |
| Ongoing costs for long-term liabilities (PERS)                       | 382,139  | 468,126   | 479,919           | 509,161          | 531,394          | 550,309          | 589,244          | 600,416          | 610,482          | 620,548          | 618,448          | 617,566          | 616,743          |
| Other Operations & Maintenance                                       | 707,254  | 690,093   | 736,133           | 690,093          | 710,796          | 732,120          | 754,083          | 776,706          | 800,007          | 824,007          | 848,727          | 874,189          | 900,415          |
| Transfers Out (operating)  | 164,234  | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Debt Service Payments  | -  | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>TOTAL EXPENSE</b>   | <b>3,083,373</b>   | <b>3,301,789</b>  | <b>3,347,416</b>  | <b>3,544,320</b> | <b>3,742,029</b> | <b>3,832,265</b> | <b>3,944,160</b> | <b>4,029,972</b> | <b>4,116,396</b> | <b>4,204,581</b> | <b>4,282,401</b> | <b>4,363,285</b> | <b>4,446,118</b> |
| <b>Net Surplus (Shortfall)-Operating</b>                             | <b>1,425,700</b>   | <b>1,011,946</b>  | <b>1,093,222</b>  | <b>985,131</b>   | <b>878,010</b>   | <b>926,376</b>   | <b>957,240</b>   | <b>1,018,470</b> | <b>1,083,499</b> | <b>1,151,312</b> | <b>1,234,168</b> | <b>1,318,781</b> | <b>1,406,410</b> |
| <b>Capital</b>   | <b>2,267,000</b>   | <b>430,000</b>  | <b>430,000</b>    | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,000,000</b> | <b>1,000,000</b> | <b>1,000,000</b> | <b>1,000,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> | <b>1,250,000</b> |
| Morro Bay Bridge Inspection & Assessment                             | -  | 80,000  | 80,000            | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Active Transportation Plan / Active Corridor Studies                 | 67,000   | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Local Road Safety Plan (LRSP) Implementation and Safety Improvements | 150,000  | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Trash and Recycling Can Replacements                                 | 60,000   | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Sidewalk Improvements and Street Tree Replacements Project           | 150,000  | -   | -                 | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Annual Pavement Management Program                                   | 1,840,000  | 350,000   | 350,000           | 1,250,000        | 1,250,000        | 1,000,000        | 1,000,000        | 1,000,000        | 1,000,000        | 1,250,000        | 1,250,000        | 1,250,000        | 1,250,000        |
| <b>Net Surplus (Shortfall) including Capital</b>                     | <b>(841,300)</b>   | <b>581,946</b>  | <b>663,222</b>    | <b>(264,869)</b> | <b>(371,990)</b> | <b>(73,624)</b>  | <b>(42,760)</b>  | <b>18,470</b>    | <b>83,499</b>    | <b>(98,688)</b>  | <b>(15,832)</b>  | <b>68,781</b>    | <b>156,410</b>   |
| <b>ENDING FUND BALANCE</b>   | <b>483,772</b>   | <b>905,601</b>  | <b>1,146,994</b>  | <b>882,125</b>   | <b>510,135</b>   | <b>436,511</b>   | <b>393,751</b>   | <b>412,222</b>   | <b>495,721</b>   | <b>397,033</b>   | <b>381,201</b>   | <b>449,982</b>   | <b>606,392</b>   |
| <b>NOTE</b>  | Measure E does not have its own reserve policy, as it is covered in the General Fund Emergency Reserve policy. |   |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Ten-Year Forecast Capital Spending Totals:                           | \$ 11,500,000  | Ten-Year Forecast Average Annual Capital Spending: \$ 1,150,000 |                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |

# Midyear Budget Report FY 2024-25

| HARBOR OPERATING FUND (331)                                | FY 2024          | FY 2025          | FY 2025          | Forecast         |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|  | Actual           | Budget           | Estimated        | FY 2026          | FY 2027          | FY 2028          | FY 2029          | FY 2030          | FY 2031          | FY 2032          | FY 2033          | FY 2034          | FY 2035          |
| Starting Fund Balance (Working Capital)                    | 1,353,849        | 2,018,052        | 1,561,847        | 2,071,559        | 1,845,030        | 1,584,493        | 1,354,401        | 1,143,364        | 970,770          | 838,968          | 749,671          | 712,258          | 750,325          |
| <b>Revenue</b>   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Harbor Leases  | 2,266,045        | 1,967,250        | 2,311,366        | 2,357,593        | 2,404,745        | 2,476,887        | 2,551,194        | 2,627,730        | 2,706,562        | 2,787,759        | 2,871,391        | 2,957,533        | 3,046,259        |
| Boat Charges   | 483,499          | 426,016          | 414,881          | 427,328          | 440,147          | 453,352          | 466,952          | 480,961          | 495,390          | 510,252          | 525,559          | 541,326          | 557,566          |
| Other Charges for Service                                  | 63,106           | 73,500           | 71,348           | 73,488           | 75,693           | 77,964           | 80,303           | 82,712           | 85,193           | 87,749           | 90,381           | 93,093           | 95,886           |
| Other Revenue  | 73,401           | 155,018          | 234,677          | 46,018           | 47,398           | 48,820           | 50,285           | 51,793           | 53,347           | 54,947           | 56,596           | 58,294           | 60,042           |
| Transfers In   | 53,599           | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>TOTAL REVENUE</b>                                       | <b>2,939,650</b> | <b>2,621,784</b> | <b>3,032,272</b> | <b>2,904,427</b> | <b>2,967,984</b> | <b>3,057,023</b> | <b>3,148,734</b> | <b>3,243,196</b> | <b>3,340,492</b> | <b>3,440,706</b> | <b>3,543,928</b> | <b>3,650,245</b> | <b>3,759,753</b> |
| <b>Expense</b>   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Personnel  | 1,324,816        | 1,529,590        | 1,429,296        | 1,665,693        | 1,744,595        | 1,783,968        | 1,836,825        | 1,872,452        | 1,907,951        | 1,944,027        | 1,973,081        | 2,003,918        | 2,031,416        |
| Operational Costs  | 1,078,830        | 1,220,903        | 1,081,228        | 1,291,542        | 1,356,119        | 1,383,241        | 1,410,906        | 1,439,124        | 1,467,907        | 1,497,265        | 1,527,210        | 1,557,754        | 1,588,909        |
| Ongoing costs for long-term liabilities (PERS)             | 245,986          | 308,687          | 348,068          | 374,151          | 388,476          | 400,727          | 425,919          | 433,328          | 440,045          | 446,762          | 445,871          | 446,164          | 442,506          |
| Other Operations & Maintenance                             | 650,085          | 644,324          | 622,065          | 622,065          | 640,726          | 659,948          | 679,747          | 700,139          | 721,143          | 742,778          | 765,061          | 765,061          | 811,653          |
| Transfers Out (Ongoing)                                    | 397,152          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          | 443,199          |
| Debt Service Payments                                      | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>TOTAL EXPENSE</b>                                       | <b>2,372,054</b> | <b>2,617,113</b> | <b>2,494,559</b> | <b>2,730,956</b> | <b>2,828,521</b> | <b>2,887,115</b> | <b>2,959,771</b> | <b>3,015,790</b> | <b>3,072,294</b> | <b>3,130,003</b> | <b>3,181,341</b> | <b>3,212,178</b> | <b>3,286,268</b> |
| Net Surplus (Shortfall) - Operating                        | 567,596          | 4,671            | 537,713          | 173,470          | 139,463          | 169,908          | 188,963          | 227,406          | 268,198          | 310,703          | 362,587          | 438,067          | 473,485          |
| <b>Capital Expenditures</b>                                | <b>280,665</b>   | <b>-</b>         | <b>-</b>         | <b>400,000</b>   |
| Net Surplus (Shortfall) including Capital                  | 286,931          | 4,671            | 537,713          | (226,530)        | (260,537)        | (230,092)        | (211,037)        | (172,594)        | (131,802)        | (89,297)         | (37,413)         | 38,067           | 73,485           |
| Contribution to 115 Trust                                  | 68,000           | 28,000           | 28,000           | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Ending Fund Balance Before Reserves                        | 1,572,780        | 1,994,723        | 2,071,559        | 1,845,030        | 1,584,493        | 1,354,401        | 1,143,364        | 970,770          | 838,968          | 749,671          | 712,258          | 750,325          | 823,810          |
| <b>Fund Balance - % of Total Operating Expenses</b>        | <b>66%</b>       | <b>76%</b>       | <b>83%</b>       | <b>68%</b>       | <b>56%</b>       | <b>47%</b>       | <b>39%</b>       | <b>32%</b>       | <b>27%</b>       | <b>24%</b>       | <b>22%</b>       | <b>23%</b>       | <b>25%</b>       |
| <b>Minimum Reserve Levels</b>                              | <b>MET</b>       |
| 15% Annual Operating Expenses<br>(Prior Yr Adopted Budget) | 349,189          | 349,189          | 330,865          | 374,184          | 409,643          | 424,278          | 433,067          | 443,966          | 452,368          | 460,844          | 469,500          | 477,201          | 481,827          |
| <b>Unreserved/Available Fund Balance</b>                   | <b>1,223,591</b> | <b>1,645,534</b> | <b>1,740,694</b> | <b>1,470,846</b> | <b>1,174,849</b> | <b>930,123</b>   | <b>710,297</b>   | <b>526,804</b>   | <b>386,599</b>   | <b>288,827</b>   | <b>242,757</b>   | <b>273,124</b>   | <b>341,983</b>   |

**NOTES**

Measure Q/E Fund FY 24-25 budget includes \$314,000 of Harbor Department costs. The Harbor Fund would have an operating deficit with those expenditures included in the operating fund.

Fund Balance is defined as working capital: current assets less current liabilities

Boat Charges include live aboard; pier dockage; mooring, slip, and floating dockage rental, slip sublease, and skiff permits.

Other Charges for Services include other service fees such as launch ramp parking, coin-operated services, and other rentals.

Other Revenue includes grant funds, penalties, bad debts recovery, auctioned property, and other miscellaneous revenue.

Other Operations and Maintenance includes services, supplies, debt service, capital outlay, and other expense

Transfers out are for internal services costs, including insurance, IT, finance, administration, clerk, attorney, etc. defined by cost allocation.

In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the year's operating surplus.