



AGENDA NO: C-2

MEETING DATE: February 27, 2018

# Staff Report

**TO:** Mayor and City Council

**DATE:** February 20, 2018

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

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

## **RECOMMENDATION**

Staff recommends that the City Council:

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

## **BACKGROUND**

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

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

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

## **DISCUSSION**

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

### ***General Fund***

Prepared By: JC/RL

Dept Review: JC

City Manager Review: SC

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

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

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

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

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

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

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

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

### ***Enterprise Funds***

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

Accumulation Fund.

### ***Other Funds***

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

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

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

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

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

### ***Public Employees' Retirement System (CalPERS) Side Fund Payoff***

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

The City has an opportunity to reduce its retirement plan expenses by paying off the Tier 1 Fire Safety Plan side fund. The only identified funding source at this point is the City's General Fund Emergency Reserve (GFER). The City's Tier 1 Fire Safety side fund balance is \$308,770 and will be paid off in

FY 2019/20. If the City were to pay off the side fund effective March 1, 2018, payment would total \$301,247, an interest savings of over \$7,000. This savings is attributed to interest being charged by CalPERS at a rate of 7.375%. The City's investment portfolio was earning an average of 1% as of September 30, 2017 and the most recent Local Agency Investment Fund (LAIF) apportionment estimates are approximately 1.40%. Early payment of the side fund may make sense to achieve some longer-term savings for the City and reduce the FY 2018/19 and FY 2019/20 pension liabilities. For example, prepayment of the side fund would reduce FY 2018/19 pension liability by \$163,000.

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

***FY 2017/18 Capital Improvement Plan Mid-Year Update***

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

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

*Capital Pavement Management Plan Project*

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

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

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

2018 PAVEMENT MANAGEMENT STREET LIST		
Street	Start	End
Alder	San Joaquin Street	Elena Street
Alder	Sequoia Street	San Jacinto Street

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

Shasta	Olive Street	South Street
Sicily	Beachcomber Drive	End
SouthBayBL	Twin Bridges	City Limit
SouthBayBL	Quintana	Twin Bridges
Terra	Sandalwood Avenue	End

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

### *Sidewalk Gap Closure*

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

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

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

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

sidewalk, 1 ADA curb ramp, and 2 new driveway approaches.

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

### *Del Mar Park Restrooms*

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

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

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

### *Other Capital Projects*

#### General Government Capital Improvement Projects

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

#### Water Capital Improvement Projects

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

#### Wastewater (Sewer) Capital Improvement Projects

- Laurel Avenue easement rehabilitation – Sewer Portion: Being assessed in the OneWater

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

#### Harbor Capital Improvement Projects

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

#### **CONCLUSION**

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

#### **ATTACHMENT**

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