

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

INTRODUCTION

Purpose

This is the second quarterly budget report for the Fiscal Year 2017/18, for the six-month period ending December 31, 2017. The purpose of this quarterly public reporting is twofold. First, it ensures that the City is consistently monitoring its revenues and expenditures so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, these reports increase the transparency of City finances. The City is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and quarterly public reporting provides taxpayers with the information they need to hold the City to this standard.

Content

This quarterly report presents an overview of the City’s operating revenues and expenditures from the General Fund for the six-month period ending December 31, 2017, as compared to previous years, and explains any notable aberrations or trends in these numbers.

This report includes data on General Fund operating revenues and expenditures, as these represent the funds used to provide essential City services, as well as the City’s three enterprise funds, Harbor, Water and Sewer, the Water Reclamation Facility (WRF) Capital Project, the City’s District Sales Tax Measure known as Measure Q and lastly the City’s Tourism Business Improvement District (TBID).

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement, and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures are final until the City has completed its

annual comprehensive audit, which is released in the winter of each year for the prior fiscal year.

With respect to revenues: The City monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect City revenues in order to develop a more accurate picture of the City’s anticipated year-end financial position.

With respect to expenditures: The expenditure information in this report is extracted directly from the City’s financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between City departments and funds that have not yet been processed in the system at the time of publication. It represents a snapshot of City expenditures at a certain point in time and does not reflect final FY 2017/18 adjustments.

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EXECUTIVE SUMMARY

Status of FY 2017/18 Adopted Budget

Overall, second quarter revenue trends are steady when compared to the second quarter of Fiscal Year 2016/17, at about 45% of budgeted levels. Of the City's most economically-sensitive revenues - sales tax is down by about 2% or \$17,000 from receipts in the 2nd quarter of the prior year while Transient Occupancy Tax (TOT) is trending on par with actual receipts from the prior fiscal year at the second quarter period. It is important to note that while actual receipts are trending consistent for TOT, as a percentage of budget, TOT is trending approximately 3% less than in the prior year, as budget was increased significantly during the FY 2017/18 budget process. This is also true for business tax which was budgeted significantly higher than prior year actuals. Charges for Service are trending very well, due to increased development activity generating significantly more plan check fees for both the Fire Department and Community Development Department as well as the Fire Department's mutual aid work and support of the fires and landslide that occurred during late 2017. The Fire Department's support of these tragedies is reimbursed to the City to offset corresponding costs the City incurs.

Overall, General Fund expenditures for the second quarter continue to trend low with second quarter Supplies, Materials and Services expenditures at about 39% of budget. Overall salary and benefits are trending a bit high which is to be expected given the amount of mutual aid support provided for the fires and landslides that occurred down south. Staff is continuing to monitor both revenues and expenditures through the third quarter and continue to true-up budget figures to more closely align to actual results. As such, a series of budget adjustments in recommended for revenues and expenditures.

U.S. Economic Outlook

The Congressional Budget Office (CBO) estimates, in real terms, Gross Domestic Product (GDP) expansion by 2.2 percent in calendar year 2017 and by 2.0 percent in 2018. The CBO expects consumer spending and capital investment by businesses to drive that growth. The growth of real GDP in the CBO's forecast averages is 1.5 percent annually in 2019 and 2020.

The Federal Reserve has been gradually reducing its support for economic growth and this process is likely to continue through 2020, in the CBO's view. The CBO expects the Federal Reserve to raise the federal funds interest rate from 0.9 percent in the second quarter of 2017 to 2.0 percent by the end of 2018, and then 3.0 percent by the end of 2020. Similarly, in the CBO's forecast, by the end of 2020, the interest rate on 3-month Treasury bills rises to 2.7 percent and the rate on 10-year Treasury notes rises to 3.5 percent.

In addition, the federal lawmakers still face the longer-term budget issues posed by the large projected national debt and implementation of rising health care costs due to the aging population.

State Budget Update

The 2017 Budget Act continues to bolster the State's Rainy-Day fund and pay down accumulated debts and liabilities, to counter the potential fiscal impact of federal policy changes on California and the potential end of an economic expansion that has surpassed historical averages. While maintaining fiscal prudence, the Budget focuses state spending on the Governor's key priorities – investing in education, counteracting the effects of poverty, and improving the state's streets, roads and transportation infrastructure.

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The budget uses dedicated proceeds from Proposition 2 to pay down nearly \$1.8 billion in past budgetary borrowing and state employee pension liabilities. In addition, the budget reflects a \$6 billion supplemental payment to CalPERS through a loan from the Surplus Money Investment Fund that will reduce the state’s unfunded liabilities, stabilize state

contribution rates, and save \$11 billion over the next two decades.

The budget implements the Road Repair and Accountability Act of 2017 (SB 1), which returns the gas tax’s purchasing power to 1994 levels and provides \$54 billion in new funding over the next decade, split evenly between state and local funding.

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The following discussion provides a status of significant General Fund revenue sources as of the second quarter, ending December 31, 2017.

Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget actions.

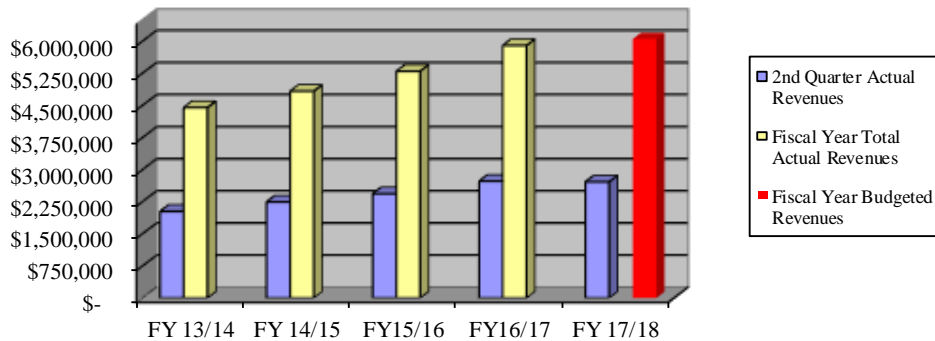
Other Taxes

Other taxes include sales and use tax, Prop 172 public safety sales tax, property transfer tax, transient occupancy tax (TOT), and Franchise Fees. As a category, other taxes represent 44% of the City’s total General Fund revenues, inclusive of transfers in, with transient occupancy tax being the second largest revenue source for the City. For purposes of the quarterly review, an analysis of Other Taxes as a grouping, as well as individual analysis of Sales and Use Tax, TOT and Franchise Fees will be discussed.

Analysis – Second quarter receipts continue to trend behind those receipts in prior years and therefore a budget reduction of \$200,000 for the category of “Other Taxes” is recommended, this includes a \$20,000 increase in Sales Tax Prop 172 revenues which were budgeted slightly less than year-end actuals for FY 16/17. A detailed analysis of sales tax, TOT and Franchise fees is following.

OTHER TAXES

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 2,022,854	\$ 2,242,006	\$ 2,434,683	\$ 2,727,457	\$ 2,712,525
Fiscal Year Total Actual Revenues	\$ 4,448,934	\$ 4,828,679	\$ 5,297,172	\$ 5,896,997	
Fiscal Year Budgeted Revenues					\$ 6,048,717
2nd Quarter Percent of Total	45.47%	46.43%	45.96%	46.25%	44.84%
Recommended Budget Revision					(200,000)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

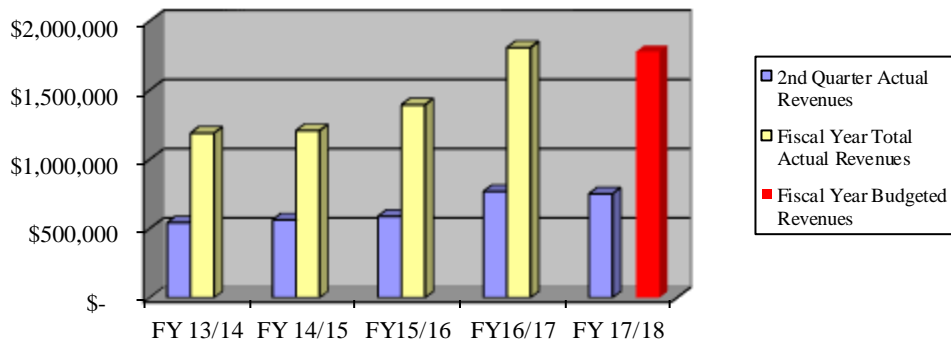
Sales Tax

Sales tax generates approximately 13% of revenues, the third largest revenue source for the City’s General Fund in FY 2017/18. The City’s General Fund receives 1 cent for every 7.5 cents of sales tax paid per dollar on retail sales and taxable services transacted within Morro Bay. Previously, the State Board of Equalization retained 25% of the City’s 1-cent share, referred to as the “Triple Flip,” requiring the San Luis Obispo County Auditor to replace it with an equal amount of property tax revenue. Revenues are remitted from the State to the City on a monthly basis, and from the County to the City on a biannual basis. These revenues are placed in the General Fund for unrestricted uses. The “triple flip” period ended in FY 2015/16 and is no longer impacting sales tax receipts.

Analysis – As a revenue category, second quarter receipts are trending in line with those in the same period in the past fiscal year. Staff will continue to monitor sales tax receipts and meet with the City’s sales tax consultant’s HDL to analyze trends. Any budget recommendations for adjustments will be brought forth with the third-quarter update.

Sales Tax

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

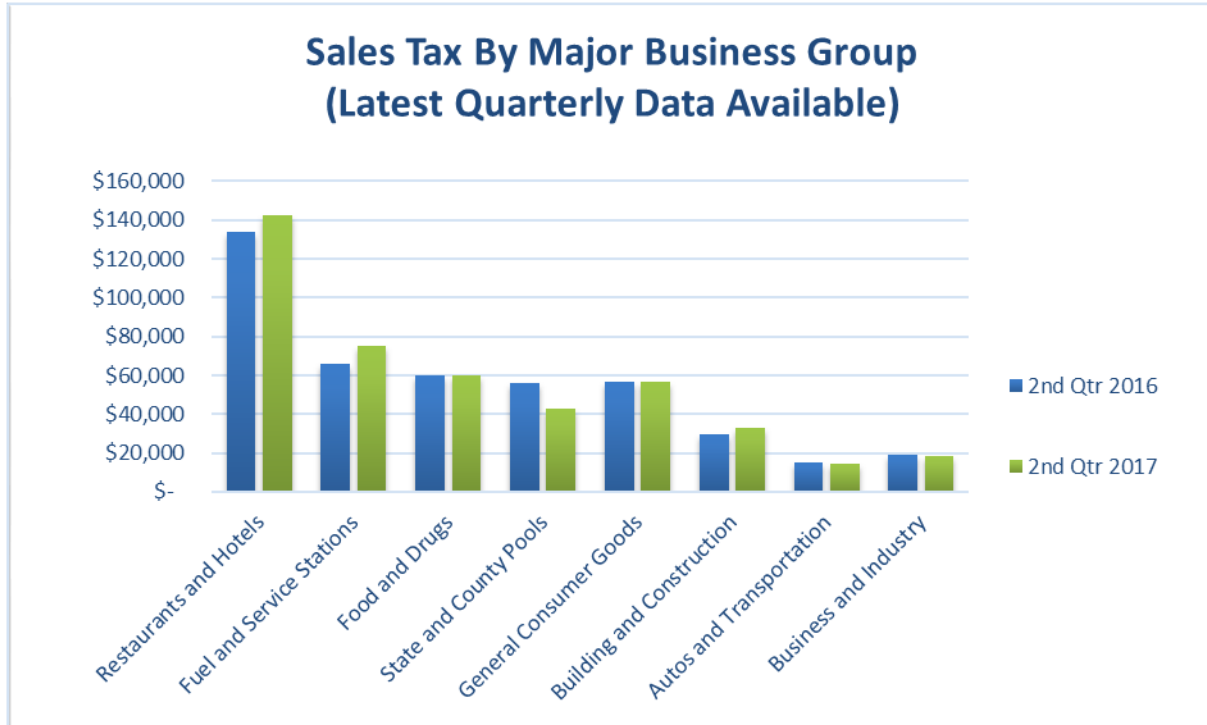


	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 542,084	\$ 562,291	\$ 588,667	\$ 767,884	\$ 750,841
Fiscal Year Total Actual Revenues	\$ 1,189,656	\$ 1,207,332	\$ 1,394,145	\$ 1,807,642	
Fiscal Year Budgeted Revenues					\$ 1,777,664
2nd Quarter Percent of Total	45.57%	46.57%	42.22%	42.48%	42.24%

Recommended Budget Revision	-
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As depicted in the graph below, the categories of Restaurants and Hotels and Fuel and Service Stations represent the most significant increase in sales tax from the 2nd quarter of 2016 to the 2nd quarter of 2017. The most significant decrease in growth occurred in allocations from the countywide use tax pool. According to HDL analysis, project-driven spikes in allocations elsewhere in the region temporarily depressed the City’s share and State corrections further reduced the City’s share. There is not significant change in the sales tax revenue in the General Retail category; however, it should be noted that sales tax revenue has increased slightly in both the Food and Construction areas, when compared to the same quarter results from the prior fiscal year.



Staff will continue to monitor these revenues through the mid-year to determine if a budget adjustment will be recommended at that time.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

TOT Tax

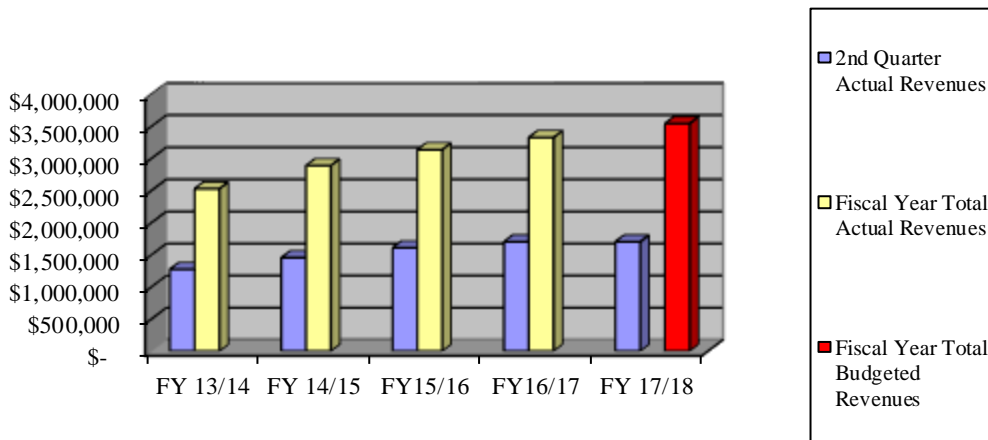
Transient Occupancy Tax (TOT) accounts for 26% of the City’s General Fund revenues for FY 2017/18. As a highly economically-sensitive revenue source, the City closely monitors this funding source for any indication that the tourism market is slowing down.

The City levies a 10% transient occupancy tax (TOT) on all hotel, motel, vacation rentals and RV parks within the municipal limits of Morro Bay. This tax helps to fund City services provided to transitory visitors to Morro Bay. In addition, the City collects additional revenues for the Tourism Business Improvement District (TBID) in the amount of 3% on all hotels, motels, inns, etc., which funds the Tourism program within the City and a 1 percent tax on all hotels, motels, vacation rentals and RV parks which is the share for the County Tourism program.

Analysis – Visit California, formerly the California Travel and Tourism Commission, reports that the total number of visitors to California grew 2.1% in 2017, following a 1.9% expansion in 2016. Total international visits to California will decline by 0.9% in 2017 before picking up to just above 2.5% in 2018 and increasing each year through 2021 (Source: California Office of Tourism). Second quarter TOT revenues are trending below prior year second quarter results, when viewed as a percentage of budget. As a result, staff is recommending a budget reduction of \$200,000 to this revenue source. Second quarter actual receipts total \$1,702,037 when compared to second quarter FY 16/17 receipts of \$1,701,933. The recommended budget adjustment would more closely align the TOT budgeted amount of FY 2016/17 actual receipts.

Transient Occupancy Tax

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,272,730	\$ 1,455,090	\$ 1,607,926	\$ 1,701,933	\$ 1,702,037
Fiscal Year Total Actual Revenues	\$ 2,527,352	\$ 2,888,638	\$ 3,136,366	\$ 3,327,073	
Fiscal Year Total Budgeted Revenues					\$ 3,543,371
2nd Quarter Percent of Total	50.36%	50.37%	51.27%	51.15%	48.03%
Recommended Budget Revision					(200,000)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

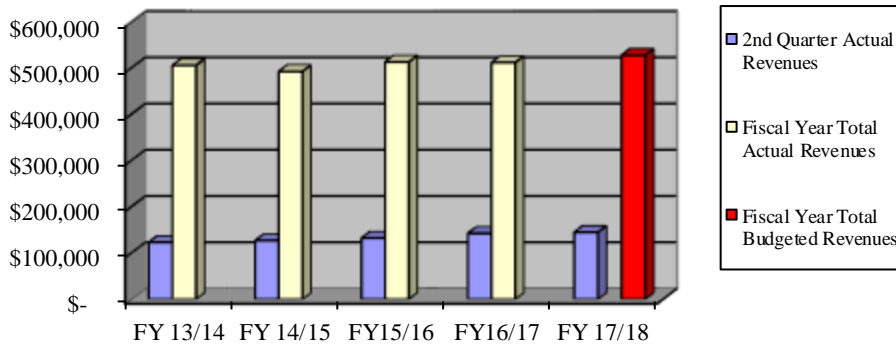
Franchise Fees

Franchise fees are collected by the City for the privilege of operating a utility service within Morro Bay, and as a fee in lieu of a business tax. Franchise fees are currently received for electricity, garbage, cable TV and natural gas. Franchise fees represent 4.0% of budgeted General Fund revenues in FY 2017-18.

Analysis – Historically, franchise payments are not remitted equally throughout the fiscal year; specifically, with Electricity Franchise Fees generally not be remitted until the third quarter. Based on the second quarter results, franchise fee revenues to date are 27.46% of budgeted total receipts, consistent with the prior year’s 2nd quarter results. No budget adjustment is recommended at this time.

Franchise Fees

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 123,137	\$ 126,873	\$ 132,314	\$ 142,446	\$ 144,862
Fiscal Year Total Actual Revenues	\$ 505,659	\$ 492,572	\$ 513,081	\$ 511,696	
Fiscal Year Total Budgeted Revenues					\$ 527,484
2nd Quarter Percent of Total	24.35%	25.76%	25.79%	27.84%	27.46%

Recommended Budget Revision -

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

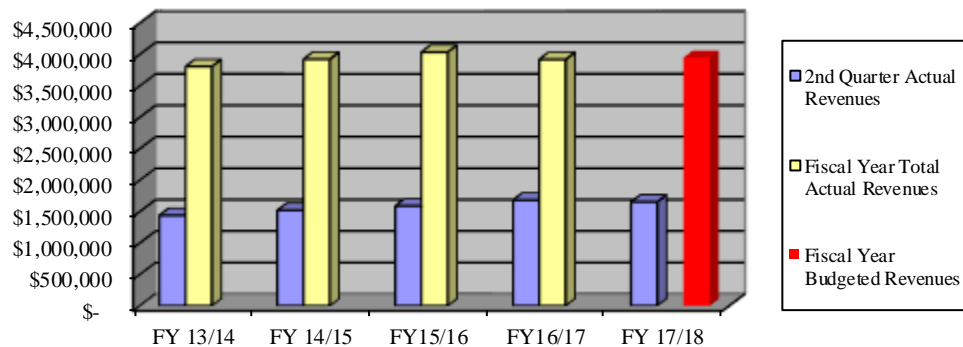
Property Tax

Property tax, including property tax in-lieu, is the second largest revenue category for the City’s General Fund, accounting for 29% of budgeted General Fund revenues in FY 2017/18. Property tax is levied by the San Luis Obispo County Assessor’s Office at 1% of a property’s assessed value, of which the City receives approximately 10.696 cents per dollar paid on property located within the municipal limits of Morro Bay.

Analysis – Property tax distributions are largely received in the third and fourth quarters, however the chart below depicts the 2nd quarter receipts for the past four years as compared to the current fiscal year. Second quarter receipts are trending consistent with prior years. Property tax revenue for FY 2017/18 was budgeted consistent with previous year’s actuals projecting relatively flat real estate transactions.

PROPERTY TAX

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,437,128	\$ 1,519,476	\$ 1,588,966	\$ 1,680,724	\$ 1,651,301
Fiscal Year Total Actual Revenues	\$ 3,805,601	\$ 3,921,347	\$ 4,035,432	\$ 3,917,348	
Fiscal Year Budgeted Revenues					\$ 3,948,634
2nd Quarter Percent of Total	37.76%	38.75%	39.38%	42.90%	41.82%

Recommended Budget Revision

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

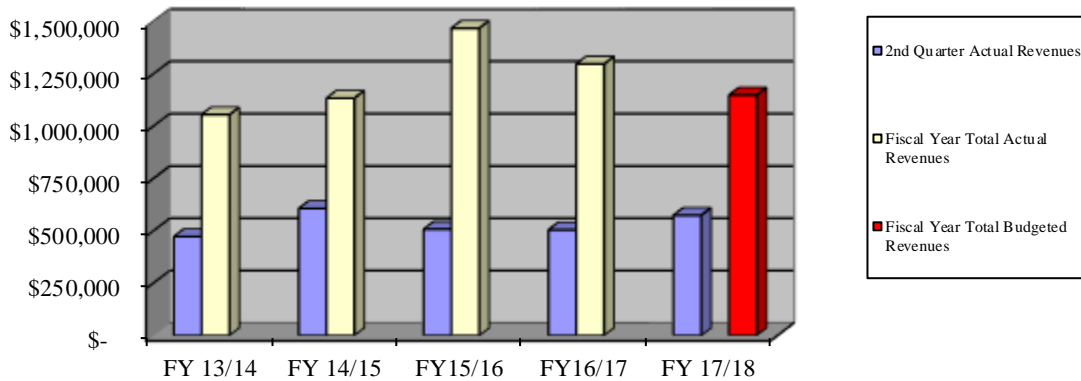
Charges for Services

City service revenues consist primarily of Plan Check fees, Building Inspection fees and Recreation sports and youth services fees. These fees are assessed based on recovery formulas, which reflect approximate costs of providing these services and, as a total category, account for 8% of the City’s General Fund revenues. Generally, community Development and Recreation Services account for most of these fees.

Analysis – Second quarter receipts are trending very high, as both Community Development and Fire Plan Check Fee revenues has surged, as well as recreation program revenues, particularly with the opening of the pool. In addition, the Fire Departments reimbursement for their strike team support of the various fires and landslide that occurred in late 2017 is included in the charges for services category. As a result of the increased building activity, use of the City’s recreational programs and Fire Service reimbursements, a \$544,081 budget augmentation is recommended.

Charges for Services

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 472,753	\$ 606,960	\$ 507,974	\$ 505,004	\$ 574,312
Fiscal Year Total Actual Revenues	\$ 1,055,168	\$ 1,134,047	\$ 1,468,119	\$ 1,297,352	
Fiscal Year Total Budgeted Revenues					\$1,149,348
2nd Quarter Percent of Total	44.80%	53.52%	34.60%	38.93%	49.97%

Recommended Budget Revision	544,081
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QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

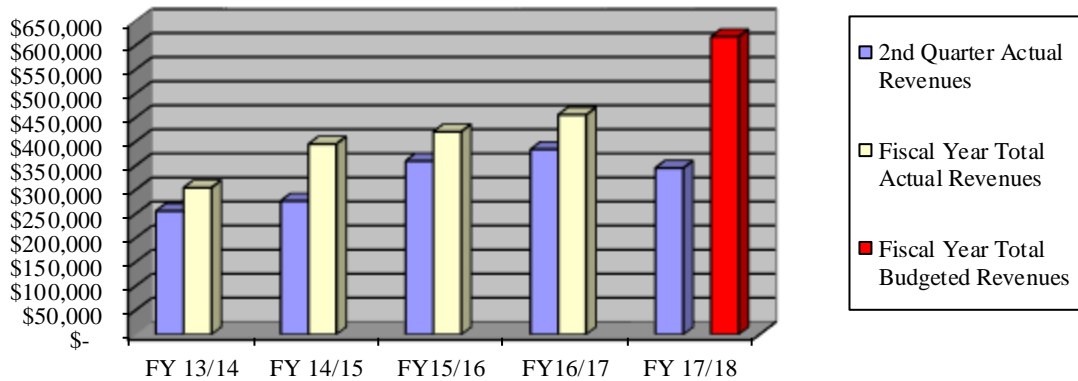
Licenses and Permits

Licenses and permits consist mainly of business and transient vendor taxes. Conditional use permits, and coastal permits are the other primary revenues sources in this category. The Licenses and Permits category represents approximately 5% of total City General Fund revenues for FY 2017/18. As business and transient vendor taxes are the largest subset of this revenue category, an independent analysis of that revenue source follows.

Analysis – Second quarter licenses and permit revenue as an overall category is trending significantly lower than the second quarter results from the previous fiscal year. Business tax is the largest subset of this category and is the primary reason why overall licenses and permits are trending low. As previously discussed during the first quarter update, business license revenue was budgeted significantly higher than prior year actuals. Therefore, a budget reduction of \$175,730 to this revenue category is recommended at this time.

Licenses & Permits

Quarterly and Annual Revenues
5-Year History



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 256,417	\$ 277,300	\$ 360,386	\$ 384,530	\$ 345,779
Fiscal Year Total Actual Revenues	\$ 305,021	\$ 395,769	\$ 421,205	\$ 456,319	
Fiscal Year Total Budgeted Revenues					\$ 618,589
2nd Quarter Percent of Total	84.07%	70.07%	85.56%	84.27%	55.90%

Recommended Budget Revision **(175,730)**

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

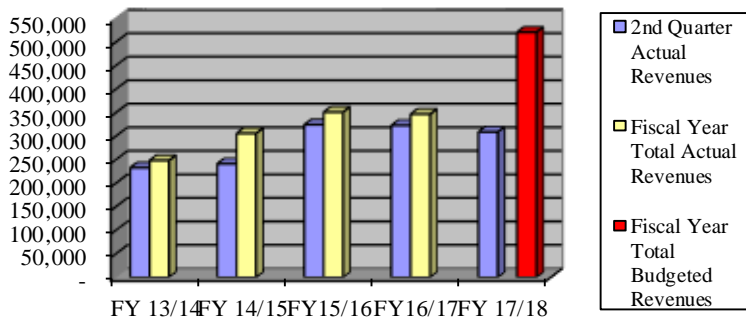
Business Tax

The City requires all business located within Morro Bay, or those that operate within Morro Bay, to obtain a business tax certificate. Business taxes apply to businesses operating as a general or sub-contractor, as a home occupation, from a commercial or office space rental, or as a business conducting temporary activities within the City limits. The amount of business tax paid by each business is based on the type of business being operated and varies depending on that type. Businesses, with gross receipts under \$4,000 per year for all work conducted within Morro Bay, are exempt from applying for and receiving a business tax certificate. These activities account for approximately 4% of annual General Fund operating revenues. Annual renewal payments are due in July, or for newer businesses, the month in which the business started.

Analysis – Business tax revenue grew steadily from FY 2013/14 through FY 2015/16, at which point revenues appear to have flattened out. When viewed as a percentage of budget, current year second quarter revenues are trending much lower than those of the previous year. This is due to FY 2017/18 budgeted business and transient vendor tax revenues being quite high compared to actual receipts from the prior years. Business Tax budgeted revenues increased in FY 2015/16 when the City engaged the services of Municipal Auditing Services to audit business tax receipts. At the time it was expected that the Business Tax audit would result in a substantial increase Business Tax revenue for the City, so the budgeted estimates were increased. Those higher estimates were carried into future years despite significantly lower actual receipts. Staff will budget revenues for FY 2018/19 in line with actual receipts from the past several years to avoid shortfalls in the future and is recommending a budget reduction of \$180,730 to more closely align budget to prior year actuals as well as quarter over quarter receipts.

Business Tax

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	232,860	241,281	324,236	322,787	308,867
Fiscal Year Total Actual Revenues	\$ 248,181	\$ 305,844	\$ 351,055	\$ 346,704	\$ 520,730
Fiscal Year Total Budgeted Revenues					\$ 520,730
2nd Quarter Percent of Total	93.83%	78.89%	92.36%	93.10%	59.31%
Recommended Budget Revision					(180,730)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

GENERAL FUND – KEY EXPENDITURE ANALYSIS

The following discussion provides a status of significant General Fund expenditures as of the second quarter ending December 31, 2017. Staff monitors each revenue source closely, and may recommend certain expenditure adjustments based on actuals or state budget actions.

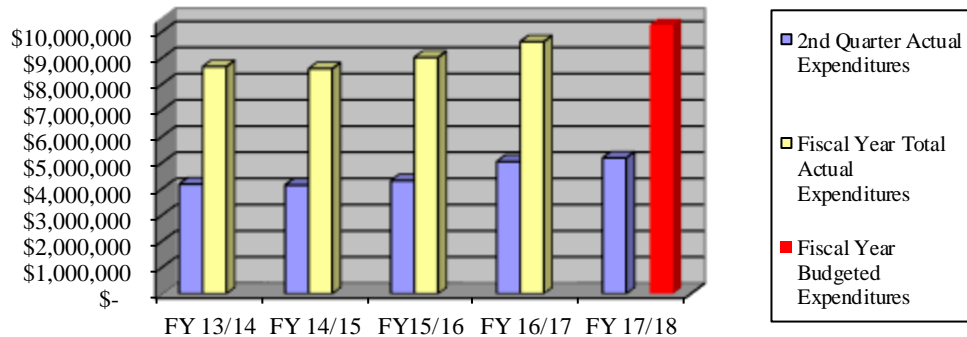
SALARIES AND BENEFITS

Salaries and benefits include full-time employee salaries, elected official's stipends, temporary/relief employees, overtime, other benefits, pensions and health care. Under typical circumstances, it would be expected that salaries and benefits would be at approximately 50% of total budget at the end of the second quarter.

Analysis – Second quarter results are well, at approximately 50.5% of budgeted totals. This includes substantial fire related personnel costs due to mutual aid assistance provided for the fires and landslide that occurred in late 2017, totaling \$253,000. These expenditures are reimbursed, and an offsetting revenue adjustment was recommended in the Charges for Services Category previously discussed (page 9). There are also some salary savings within various departments due to staffing transitions and vacancies. However, given some of the revenue shortfalls previously discussed, specifically with TOT and Business Tax, staff does not recommend re-appropriation of those savings at this time. An overall budget augmentation of \$189,207 is recommended for Salaries and Benefits.

SALARIES AND BENEFITS

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Expenditures	\$ 4,192,310	\$ 4,151,356	\$ 4,326,271	\$ 5,050,750	\$ 5,186,818
Fiscal Year Total Actual Expenditures	\$ 8,675,535	\$ 8,595,238	\$ 9,027,716	\$ 9,625,716	\$ 9,625,716
Fiscal Year Budgeted Expenditures					\$ 10,269,135
2nd Quarter Percent of Total	48.32%	48.30%	47.92%	52.47%	50.51%
Recommended Budget Revision					189,207

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

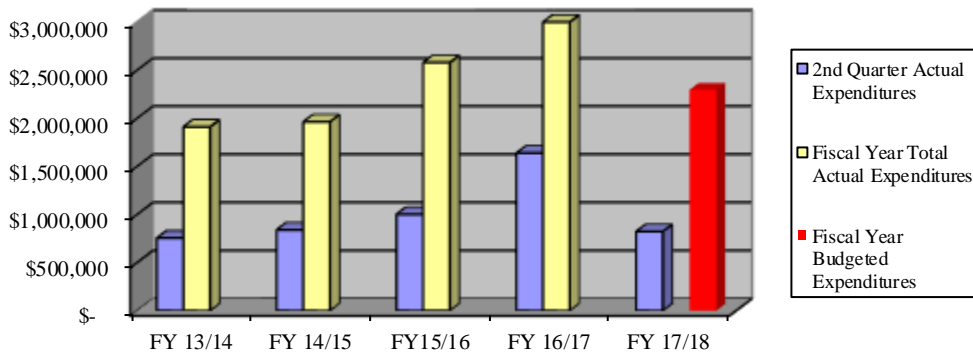
SUPPLIES, MATERIALS AND SERVICES

Operating expenditures consist of all General Fund costs to provide services, including supplies and materials, consulting services, contract services, and debt service. For analysis materials, utilities, insurance, payment to other agencies and transfers are categorized individually as they are often expenditure categories that staff have limited control or ability to reduce expenditures. The category of supplies, materials and services, the Cities most controllable expenditure category, should trend around the 50% level for the second quarter. Consulting and contractual services, a component of this category, may have various contract start dates and payments may not be equally spread throughout the fiscal year so variation from the 50% amount may be explained due to these consulting and contractual services.

Analysis – Second quarter results are trending a bit low at about 35.82% of budgeted totals (exclusive of transfers). As staff continues to provide services and looks towards the remainder of the fiscal year, a small budget augmentation of \$12,740 is recommended to help offset unbudgeted expenditures primarily related to recruitments and various recreational program services.

SUPPLIES, MATERIALS AND SERVICES

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Expenditures	\$ 755,414	\$ 840,080	\$ 1,001,382	\$ 1,638,283	\$ 822,445
Fiscal Year Total Actual Expenditures	\$ 1,910,336	\$ 1,963,521	\$ 2,579,514	\$ 3,022,358	
Fiscal Year Budgeted Expenditures					\$ 2,295,924
2nd Quarter Percent of Total	39.54%	42.78%	38.82%	54.21%	35.82%

Recommended Budget Revision **12,740**

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures as of the second quarter as described below:

GENERAL FUND				
Fund	Acct	Sub	General Fund Revenues	
001	3510	3064	Transient Occupancy Tax	(200,000)
001	3510	3101	Business License	(180,730)
001	4210	3426	Plan Check Fees - Fire	70,000
001	4210	3272	Other Fire Services	390,577
001	6110	3469	Special Events	6,000
001	7105	3121	Encroachment Permits	5,000
001	7105	3426	Plan Check Fees - CDD	10,000
001	7105	3420	Design Review Fees - CDD	30,000
001	6110	3490	Program Revenue	8,000
001	7105	3902	Miscellaneous/Other	5,500
001	5270	3499	Miscellaneous/Other	204
001	6110	3501	Processing Fees	(4,200)
001	6125	3499	Other Rev/Current Services	(3,000)
001	6130	3480	Rec Sports Fees	25,000
001	6140	3482	Rec Youth Services	10,000
001	6143	3482	Rec Youth Services	1,500
TOTAL GENERAL FUND REVENUES				\$ 173,851
General Fund Expenditures				
001			Salary & Benefits - DCM	(63,143)
001	3125		Overtime Pay - Fire	253,350
001	4210		Salary & Benefits - Recreation	(1,000)
001	6110-6143		Misc. Other Expenditures	(5,000)
001	3125	8705	General Operating Supplies	(485)
001	3125	5301	Consulting Services	(1,940)
001	3125	6105	Promotion & Advertising	(3,000)
001	3125	6107	Professional Development	(900)
001	3125	6125	Meetings & Conferences	(1,000)
001	3125	6510	Mileage Reimbursement	(194)
001	3125	6511	Meals & Lodging	(1,000)
001	3125	6513	Travel Expense	(1,000)
001	3125	6514	Association Membership	(750)
001	3125	6519	Contractual Services	20,000
001	3140	6106	Contract Services	(1,190)
001	4110	6107	Contract Services - Recreation	4,000
001	6110-6143	6106	Recreation Supplies	4,000
001	6140	5102	Professional Development	1,200
001	6110		Transfers to Special Revenue Fund	(9,500)
001	7710			(9,500)
TOTAL GENERAL FUND EXPENDITURES				\$ 192,447

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

General Fund

Revenues:

- Transient Occupancy Tax: A budget reduction of \$200,000 is recommended due to higher forecasted receipts in the adopted FY 2017/18 budget. This reduction will align the budget to actual receipts and prior year end actuals.
- Business Tax: A budget reduction of \$180,730 is recommended due to higher forecasted receipts in the adopted FY 2017/18 budget. This reduction will align the budget to actual receipts and prior year end actuals.
- Plan Check Fees – Fire and Community Development: A total budget augmentation of \$80,000 is recommended due to increased building activity in the City.
- Other Fire Services: A budget augmentation of \$390,577 is recommended due to confirmed expected receipts for mutual aid services provided during the fires and landslide that occurred during late 2017.
- Special Events: A \$6,000 budget augmentation is recommended due to increased event activity and to more closely align FY 2017/18 projections with FY 2016/17 year-end actuals.
- Encroachment Permits: A \$5,000 budget increase is recommended due to activity that has occurred through the first six months of the fiscal year.
- Design Review Fees: A \$30,000 budget increase is recommended due to the activity that has occurred through the first six months of the fiscal year.
- Program Revenue: A budget augmentation of \$8,000 is recommended to align program revenue with prior year actuals.
- Notification Fees: A \$5,500 budget adjustment is recommended due to an increase in notification related fees within community development.
- Miscellaneous/Other: A \$204 budget augmentation is recommended due to increased activity within the curbside recycling program.
- Processing Fees: A \$4,200 budget reduction is recommended due to an increase in processing related fees in recreation, which include credit card charges, etc.
- Other Revenues/Current Services – A \$3,000 budget reduction is recommended due to changes in the 39+ Dance program.
- Recreation Sports Fees – A \$25,000 budget augmentation is recommended to capture fees related to the opening and continued use of the pool facility. Staff will be creating a separate Department center in the Finance system to track pool revenues and expenditures for easy tracking. This will be included in the third quarter update.
- Recreation Youth Services – A \$10,000 budget augmentation is recommended due to increased participation and to align budget with prior year-end actuals.
- Recreation Teen Program – A \$1,500 budget augmentation is recommended due to increased fees being collected through the snack shop.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Expenditures:

- Salary & Benefits - Deputy City Manager (DCM): A budget reduction of \$63,143 is recommended due to the separation of the DCM from City service. Given the projected revenue shortfalls with both the business tax and TOT revenues previously discussed, staff is proposing to keep the DCM position vacant through the remainder of the fiscal year to help mitigate those shortfalls.
- Overtime Pay - Fire: A budget augmentation of \$253,350 is recommended as this is a direct reimbursement for staff time and strike team support of the fires and landslide that occurred during late 2017. A revenue augmentation has also been recommended.
- Salary and Benefits – Recreation: An overall \$1,000 budget reduction is recommended due to staffing restructuring within the division and various programs.
- Operating Expenditures – Deputy City Manager A \$15,269 budget reduction is recommended to the remaining DCM’s operating expenditures. To help mitigate the shortfalls expected with operating revenues related to business tax and TOT, staff is proposing to freeze all DCM related expenditures at this time.
- Contractual Services: A \$20,000 budget augmentation is recommended to help offset costs related to recruitments, specifically the City Manager recruitment.
- Contract Services – A \$1,190 budget reduction is recommended for the Police Department.
- Contract Services – A total budget augmentation of \$4,000 is recommended for the Recreation programs.
- Professional Development: A budget augmentation of \$1,200 is recommended for increased staff training within the Recreation Division.
- Transfers to Special Revenue Fund: A \$9,500 budget reduction to the transfer of funds to the Tourism Business Improvement District (TBID) fund is recommended as a result of prior year FY 2016/17 actual receipts.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FINANCIAL SUMMARIES, PROJECTIONS AND RECOMMENDATIONS

General Fund

The following table is the *Schedule of General Fund Operating Revenues vs. Operating Expenditures* for the second quarter of FY 2017/18, and is sorted by revenue and expenditure category, which includes comparison information from the prior year. In the last column are projections of final balances for the current fiscal year, based upon the trends observed through the second quarter.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

City of Morro Bay Schedule of General Fund Operating Revenues vs. Operating Expenditures By Category For the period ended December 31, 2017

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD	FY17/18 Finance Projection
Revenues				
Property Tax	\$ 3,948,634	\$ 1,651,301	42%	\$ 3,948,634
Other Taxes	200,198	114,785	57%	\$ 200,198
Transient Occupancy Tax	3,543,371	1,702,037	48%	\$ 3,343,371
Sales Tax	1,777,664	750,841	42%	\$ 1,777,664
Franchise Fees	527,484	144,862	27%	\$ 527,484
Licenses & Permits	97,859	36,912	38%	\$ 102,859
Business Tax	520,730	308,867	59%	\$ 340,000
Charges for Services	1,149,348	574,312	50%	\$ 1,693,429
Fines & Forfeitures	12,000	11,268	94%	\$ 12,000
Intergovernmental	60,394	2,889	5%	\$ 60,394
Other Sources	39,422	14,421	37%	\$ 44,922
Use of Money & Property	443,927	225,748	51%	\$ 443,927
Fund Transfers	1,316,851	566,837	43%	\$ 1,316,851
Total Revenues	13,637,882	6,105,081	45%	13,811,733
Expenditures				
Salaries	5,240,831	2,346,945	45%	\$ 5,196,831
Overtime	247,177	250,156	101%	\$ 500,527
Part-time	901,245	501,872	56%	\$ 906,245
Other Salaries	332,189	217,612	66%	\$ 336,846
Labor Costs Applied	1,500	94,897	6326%	\$ 1,500
Benefits	3,546,193	1,775,337	50%	\$ 3,516,393
Supplies, Materials and Services	2,295,924	822,445	36%	\$ 2,308,664
Utilities	357,852	192,886	54%	\$ 340,257
Insurance	142,770	71,385	50%	\$ 142,770
Debt Service	-	17,595		\$ 17,595
Payment to other Agencies	40,775	22,932	56%	\$ 40,775
Total Expenditures	\$ 13,106,456	\$ 6,314,062	48%	\$ 13,308,403
Transfers In/Out	522,322	522,322	100%	512,822
Total Operating Expenditures	\$ 13,628,778	\$ 6,836,384	50%	\$ 13,821,225
Net Surplus or (Use) of Reserves	\$ 9,104	\$ (731,303)		\$ (9,492)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

The following table is the *Schedule of General Fund Operating Revenues vs. Operating Expenditures* for the second quarter of FY 2017/18 displayed by revenue type and expenditures per department. The chart includes comparison information from the prior year and serves to monitor Department expenditures related to both budgeted amounts and prior year actuals. In the last column are projections of final balances for the current fiscal year based upon the trends observed through the second quarter.

City of Morro Bay
Schedule of General Fund
Operating Revenues vs. Operating Expenditures
By Department
For the period ended December 31, 2017

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD	FY17/18 Finance Projection
Revenues				
Property Tax	\$ 3,948,634	\$ 1,651,301	42%	\$ 3,948,634
Other Taxes	200,198	114,785	57%	200,198
Transient Occupancy Tax	3,543,371	1,702,037	48%	3,343,371
Sales Tax	1,777,664	750,841	42%	1,777,664
Franchise Fees	527,484	144,862	27%	527,484
Licenses & Permits	97,859	36,912	38%	102,859
Business Tax	520,730	308,867	59%	340,000
Charges for Services	1,149,348	574,312	50%	1,693,429
Fines & Forfeitures	12,000	11,268	94%	12,000
Intergovernmental	60,394	2,889	5%	60,394
Other Sources	39,422	14,421	37%	44,922
Use of Money & Property	443,927	225,748	51%	443,927
Fund Transfers	1,316,851	566,837	43%	1,316,851
Total Revenues	13,637,882	6,105,081	45%	13,811,733
Expenditures				
City Council	134,575	65,279	49%	\$ 134,575
City Manager	280,441	121,204	43%	\$ 275,441
Contract Services	768,105	187,539	24%	\$ 768,105
City Clerk/HR/Elections	419,500	215,026	51%	\$ 439,500
Deputy City Manager	117,284	55,932	48%	\$ 43,872
Accounting & Treasury	616,680	318,592	52%	\$ 612,230
Police Department	3,336,552	1,650,541	49%	\$ 3,335,361
Support Services	231,122	106,263	46%	\$ 231,122
Fire Department	2,480,935	1,476,602	60%	\$ 2,734,285
Emergency Operations Center	8,967	(7,874)	-88%	\$ 8,967
Community Development	1,053,470	385,280	37%	\$ 1,053,470
Public Works	626,349	310,117	50%	\$ 626,349
Consolidated Maintenance	855,800	558,131	65%	\$ 855,800
Vehicle, Parks, Facilities	120,361	57,194	48%	\$ 120,361
Streets, Street Trees, Storm Drains/Creeks	864,144	248,008	29%	\$ 864,144
Street lighting	106,000	47,491	45%	\$ 106,000
Curbside Recycling	-	-	0%	\$ -
Recreation Services - Administration	318,203	134,890	42%	\$ 306,403
Recreation Services - Dance 39+	11,500	5,100	44%	\$ 8,500
Recreation Services - Sports	411,856	190,982	46%	\$ 425,856
Recreation Services - Youth Services	344,612	183,314	53%	\$ 353,612
Electricity	-	4,450		\$ 4,450
Total Expenditures	\$ 13,106,456	\$ 6,314,062	48%	\$ 13,308,403
Transfers In/Out	522,322	\$ 522,322.00	100%	512,822
Total Operating Expenditures	\$ 13,628,778	\$ 6,836,384	50%	\$ 13,821,225
Net Surplus or (Use) of Reserves	\$ 9,104	\$ (731,303)	\$	(9,492)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

The groups of financial summaries on the following pages present data by governmental fund type: For purposes of this 2nd quarter report we have focused on the Enterprise Funds, Harbor, Water, and Sewer.

Enterprise Funds

The Enterprise Funds are Proprietary Funds used to report the same functions presented as business-type activities. The Harbor Enterprise Fund accounts for revenues received from harbor leases, rentals, moorings, and other sources, which are expended for maintenance, operation, patrolling, and improvements of the harbor. The Water Enterprise Fund accounts for revenues received primarily from water service charges, which are expended for maintenance, operations, and improvements to the water system while 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.

A summary of each operating fund is found below:

Harbor Operating Fund - 331

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 872,606	\$ 844,693	\$ 832,086	\$ 882,218	\$ 809,290
Fiscal Year Total Actual Revenues	\$ 2,597,358	\$ 1,992,648	\$ 2,104,019	\$ 1,940,152	
Fiscal Year Total Budgeted Revenues					\$ 2,429,658
2nd Quarter Percent of Total	33.60%	42.39%	39.55%	45.47%	33.31%
2nd Quarter Actual Expenditures	\$ 1,018,755	\$ 939,398	\$ 1,031,230	\$ 1,057,560	\$ 948,674
Fiscal Year Total Actual Expenditures	\$ 2,319,373	\$ 2,096,385	\$ 2,118,296	\$ 2,166,628	
Fiscal Year Total Budgeted Expenditures					\$ 2,429,658
2nd Quarter Percent of Total	43.92%	44.81%	48.68%	48.81%	39.05%
Recommended Budget Revision Revenues					18,311
Recommended Budget Revision Expenditures					\$ 15,500

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

WATER FUND - 311

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,737,733	\$ 1,586,902	\$ 2,062,875	\$ 2,417,816	\$ 2,686,792
Fiscal Year Total Actual Revenues	\$ 5,761,587	\$ 3,657,206	\$ 4,338,311	\$ 4,928,645	
Fiscal Year Total Budgeted Revenues					\$ 5,479,700
2nd Quarter Percent of Total	30.16%	43.39%	47.55%	49.06%	49.03%
2nd Quarter Actual Expenditures	\$ 2,242,331	\$ 2,264,964	\$ 2,464,111	\$ 1,694,995	\$ 2,110,540
Fiscal Year Total Actual Expenditures	\$ 4,680,790	\$ 4,477,798	\$ 5,416,380	\$ 3,659,970	
Fiscal Year Total Budgeted Expenditures					\$ 5,479,700
2nd Quarter Percent of Total	47.90%	50.58%	45.49%	46.31%	38.52%
Recommended Budget Revision Revenues					
Recommended Budget Revision Expenditures					\$ (75,200)

SEWER FUND - 321

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,940,134	\$ 2,011,389	\$ 2,269,228	\$ 2,660,409	\$ 2,955,602
Fiscal Year Total Actual Revenues	\$ 4,198,241	\$ 4,336,206	\$ 5,118,266	\$ 5,690,877	
Fiscal Year Total Budgeted Revenues					\$ 6,266,000
2nd Quarter Percent of Total	46.21%	46.39%	44.34%	46.75%	47.17%
2nd Quarter Actual Expenditures	\$ 818,688	\$ 1,915,074	\$ 1,019,443	\$ 1,424,012	\$ 2,065,045
Fiscal Year Total Actual Expenditures	\$ 4,112,811	\$ 4,696,610	\$ 3,814,036	\$ 3,170,631	
Fiscal Year Total Budgeted Expenditures					\$ 6,266,000
2nd Quarter Percent of Total	19.91%	40.78%	26.73%	44.91%	32.96%
Recommended Budget Revision Revenues					
Recommended Budget Revision Expenditures					\$ (1,870,530)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures as of the second quarter as described below:

ENTERPRISE FUNDS				
<i>Enterprise Funds - Revenues</i>				
<i>Harbor Operating Fund</i>				
331				
331	6510	3439	Other Harbor Services	4,945
331	6510	3443	Mooring Rental	3,780
331	6510	3445	Slip Transient Sub Lease	9,586
				18,311
303			TOTAL ENTERPRISE FUND REVENUES	\$ 18,311
<i>Enterprise Funds - Expenditures</i>				
<i>Harbor Operating Fund</i>				
331				
331	6510	4310	Part-Time Pay	3,000
331	6510	6301	Electricity	9,000
331	6510	6303	Water	2,500
331	6510	6750	Business Equipment Rental	4,000
331	6511	4310	Part-Time Pay	(3,000)
				15,500
311			<i>Water Revenue Fund</i>	
311	7710	8410	Transfer Out to Utility Discount Program	(75,200)
311				(75,200)
321			<i>Sewer Revenue Fund</i>	
321	7710	8520	TRFR to Other Government Funds	(1,870,530)
321				(1,870,530)
			TOTAL ENTERPRISE FUND EXPENDITURES	\$ (1,930,230)

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

Enterprise Funds

Revenues:

- Other Harbor Services: A budget adjustment of \$4,945 is recommended due to mid-year trends and to align more closely with prior year receipts.
- Mooring Rental: A budget adjustment of \$3,780 is recommended due to increased mooring rentals.
- Slip Transient Sub Lease: A budget adjustment of \$9,586 is recommended due to increase slip rentals.

Expenditures:

- Part-Time Pay - Harbor Operations: A budget augmentation of \$3,000 is recommended due to increased staffing needs.
- Electricity – Harbor Operations: A budget augmentation of \$9,000 is recommended due to increased electricity costs.
- Water – Harbor Operations: A budget adjustment of \$2,500 is recommended due to increased water expenditures.
- Business Equipment Rental – Harbor Operations: A budget adjustment of \$4,000 is recommended due to continued repairs needed on the Harbor Department's copier. Staff is determining if another copier can be transferred to the Harbor Department to lessen these costs.
- Part-time Pay – Lifeguard Program: A \$3,000 budget reduction is recommended due to estimated staffing needs.
- Transfer out – Water Revenue Fund: A \$75,200 budget reduction is recommended as this amount represents transfer of funds to the Utility Discount Program. The amount is also budgeted in the accumulation fund and therefore is double counted in the FY 2017/18 budget.
- Transfer to Other Government Funds: A budget adjustment of \$1,870,530 is recommended to account for a double counting of capital improvements in both the sewer revenue fund and sewer accumulation fund. This was previously discussed with Council in late 2017.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Water Reclamation Facility Capital Project

The Water Reclamation Facility (WRF) project has been on-going for many years. As of FY 2017/18 staff established a separate capital project to account for the transactions associated with this project. Prior to that the costs had been captured through various sewer related accounts.

Below is a snapshot of expenditures, by category for the WRF project for the first six months of FY 2017/18. Staff is working to capture all prior year costs in a similar format for the Council and community.

**City of Morro Bay
Schedule of WRF
Project Expenditures
For the period ended December 31, 2017**

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD
Expenditures			
Salaries & Benefits	100,000	37,186	37%
Laboratory Testing	50,000	-	0%
Miscellaneous Operating Supplies	5,000	1,585	32%
Engineering Services	295,000	78,272	27%
Program Mgmt & DB	1,200,000	338,494	28%
Grant Support	60,000	7,523	13%
Government Relations	-	31,924	
Maintenance Contracts	42,204	44,776	106%
Land Acquisition	337,000	-	0%
Water Reclamation Facility (WRF) - Onsite Improv	600,000	-	0%
Design Phase - Lift Station & Force	1,200,000	-	0%
Planning & Permitting	372,000	34,939	9%
Total Expenses	\$ 4,261,204	\$ 574,698	13%

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures as of the second quarter as described below:

CAPITAL PROJECTS				
<i>Sewer Capital Improvement Fund - WWTP Relocation & Treatment Alternative Expenditures</i>				
922				
922	8312	4999	Labor Costs Applied	(25,000)
922	8312	5114	Laborator Testing	(25,000)
922	8312	6104	Engineering Services	(150,000)
922	8312	6196	Program Management & DB	(500,000)
922	8312	6197	Grant Support	(30,000)
922	8312	6198	Government Relations	57,000
922	8312	6640	Maintenance Contracts	2,572
922	8312	7101	Land Acquisition	(337,000)
922	8312	7103	Water Reclamation Facility (WRF) - Onsite Improv Design/Bid	(350,000)
922	8312	7104	Design Phase - Lift Station & Force Main	(550,000)
922	8312	7105	Planning & Permitting	(150,000)
922			.	-
922			<i>TOTAL WWTP RELOCATION EXPENDITURES</i>	<i>\$ (2,057,428)</i>

It is important to note that these adjustments are due to project delays and are recommended to more accurately reflect expected expenditures for the fiscal year. Unless the project scope changes significantly, these budget reductions are not cost savings, but rather expenditures that are deferred to future years as the project progresses.

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- Labor Costs Applies: A budget reduction of \$25,000 is recommended to align with projected year-end estimates.
- Laboratory Testing: A budget reduction of \$25,000 is recommended to align with projected year-end estimates.
- Engineering Services: A budget reduction of \$150,000 is recommended given the status of the project as of the second quarter and to better align with projected year-end estimates.
- Program Management & DB: A budget reduction of \$500,000 is recommended given the status of the project as of the second quarter and to better align with projected year-end estimates.
- Grant Support: A budget reduction of \$30,000 is recommended given the status of the project as of the second quarter and to better align with projected year-end estimates.
- Government Relations: A budget augmentation of \$57,000 is recommended to capture unbudgeted costs of lobbying services by the Ferguson Group.
- Maintenance Contracts: A budget augmentation of \$2,572 is recommended to capture unbudgeted cost of a copier machine that was rented for specific use on WRF related activity. Staff is reviewing the lease on the copier and considering either terminating the lease or reassigning the copier to the Harbor Department as their copier is experiencing increased maintenance needs.
- Land Acquisition: A budget reduction of \$337,000 is recommended as acquisition of the proposed site is not forecasted to occur during the remainder of the fiscal year.
- Water Reclamation Facility (WRF) – Onsite Improve Design/Bid: A budget reduction of \$350,000 is recommended to more closely align budget with projected actual expenditures through the second half of the fiscal year.
- Design Phase – Lift Station & Force Main: A budget reduction of \$550,000 is recommended to more closely align budgeted with expected expenditures through the second half of the fiscal year.
- Planning & Permitting: A budget reduction of \$150,000 is recommended to more closely align budget with expected expenditures through the remainder of the fiscal year

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

With the recommended budget adjustments, staff proposes the project budget to be revised as follows:

**City of Morro Bay
Schedule of WRF
Project Expenditures
For the period ended December 31, 2017**

	FY17/18 Adopted Budget	FY17/18 2nd Qtr Actuals	FY17/18 % YTD	FY17/18 Finance Projection
Expenditures				
Salaries & Benefits	100,000	37,186	37%	75,000
Laboratory Testing	50,000	-	0%	25,000
Miscellaneous Operating Supplies	5,000	1,585	32%	5,000
Engineering Services	295,000	78,272	27%	145,000
Program Mgmt & DB	1,200,000	338,494	28%	700,000
Grant Support	60,000	7,523	13%	30,000
Government Relations	-	31,924		57,000
Maintenance Contracts	42,204	44,776	106%	42,204
Land Acquisition	337,000	-	0%	-
Water Reclamation Facility (WRF) - Onsite Improv	600,000	-	0%	250,000
Design Phase - Lift Station & Force	1,200,000	-	0%	650,000
Planning & Permitting	372,000	34,939	9%	222,000
Total Expenses	\$ 4,261,204	\$ 574,698	13%	\$ 2,201,204

QUARTERLY BUDGET REPORT – 2nd QUARTER FY 2017/18

Other Funds

Other Funds can consist of internal service type funds that are used to account for various types of insurance coverage for the City, and to manage the City's information technology needs. In addition, the City has other funds that have been set up to accumulate monies for various projects or capital and equipment needs, such as the facility maintenance fund. The report covers the Morro Bay Tourism Business Improvement District, the Measure Q fund, Risk Management Fund and Opportunity Fund. The Risk Management Fund is an internal service fund used to pay legal and insurance expenditures on behalf of the City. The Opportunity Fund was set up by the previous administration to set aside funds for future projects or activities that the City wanted to pursue. The Opportunity fund is available for general fund purposes and is not restricted to its use. The Risk Management Fund may be appropriated for other purposes; however, by City policy, a minimum fund balance of \$100,000 is required to be maintained in this fund. City staff would not recommend re-appropriating funds in the risk management fund for purposes other than insurance or litigation. Both the Measure Q and Morro Bay Tourism Business Improvement District are discussed in more detail below:

Morro Bay Tourism Business Improvement District

On April 27, 2009, Ordinance No. 546 was enacted, establishing Chapter 3.60 of the Morro Bay Municipal Code, which is entitled Tourism Business Improvement District (MTBID) Law. Lodging establishments self-assess an additional transient occupancy tax on rooms rented, which is paid to the City, then returned to the Tourism Bureau for promoting tourism in Morro Bay. For the first year, the MTBID assessment rate was 3%; ensuing years were set at 2%, per the Ordinance.

On September 13, 2010, staff introduced Ordinance No. 562, which increased the MTBID assessment rate back to 3%. The Ordinance was passed on September 27th and became effective October 28, 2010.

Annually in May, the MTBID's annual report and budget are presented to the City Council, and a public hearing is set, which allows affected businesses the opportunity to protest the MBBID assessment. A Resolution is brought forward to confirm the results of the public hearing, renew the activities of the MTBID for the upcoming fiscal year, and approve the levy and collection of the 3% assessments from the hoteliers.

In 2013, the MTBID formed a 501c(6) corporation, Morro Bay Tourism Bureau, to carry out the marketing activities of the MTBID, as well as manage the Visitors Center.

As part of the Management Partners' 2015 Organizational Study, the recommendation to *develop a proposal for integrating Tourism Bureau activities with City operations* was explored by staff. City staff held a public workshop on September 22, 2015, to discuss this with stakeholders, presented the concept to the MTBID board at a special meeting on December 10, 2015, and ultimately presented the results of the City's outreach and recommendations to the City Council on January 12, 2016, with two management scenarios. The Council adopted Resolution No. 03-16, discontinuing the City's contract with the Morro Bay Tourism Bureau, and merging operations and marketing (via Mental Marketing) efforts into the City, beginning June 2016.

For second quarter 2017/18 revenues and expenditures are trending well. It should be noted that revenues include fund transfers in which is the General Fund's contribution towards TBID. For FY 2017/18 the General Fund contribution was budgeted at \$134,928. When excluding transfers, Assessments are trending low at 44% for the first six months of the calendar year. This aligns with the trending of TOT for the City's General Fund. While no budget reduction to assessments is recommended at this time, staff has been cautioned to monitor and limit

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expenses until more data is available. Staff is recommending a revenue reduction of \$9,500 as the General Fund contribution to TBID is \$60,000 base funding plus 20% of prior year actual TOT revenues above \$3,000,000. As indicated on page 7 of this report, FY 2016/17 TOT receipts totaled \$3,327,073. Therefore, the General Fund TBID contribution should total \$125,414 (\$60,000 base funding + 20%*\$327.073), a difference of \$9,500 from budgeted amounts.

TBID

	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 542,732	\$ 467,151	\$ 392,912	\$ 510,489	\$ 538,016
Fiscal Year Total Actual Revenues	\$ 862,222	\$ 882,109	\$ 841,295	\$ 935,834	
Fiscal Year Total Budgeted Revenues					\$ 1,046,791
2nd Quarter Percent of Total	62.95%	52.96%	46.70%	54.55%	51.40%
2nd Quarter Actual Expenditures	\$ 527,732	\$ 485,699	\$ 425,537	\$ 434,309	\$ 531,601
Fiscal Year Total Actual Expenditures	\$ 845,913	\$ 872,550	\$ 660,205	\$ 917,560	
Fiscal Year Total Budgeted Expenditures					\$ 1,046,791
2nd Quarter Percent of Total	62.39%	55.66%	64.46%	47.33%	50.78%
Recommended Budget Revision Revenues					\$ (9,500)
Recommended Budget Revision Expenditures					

*Revenues includes transfers in and Assessment collections

Measure Q

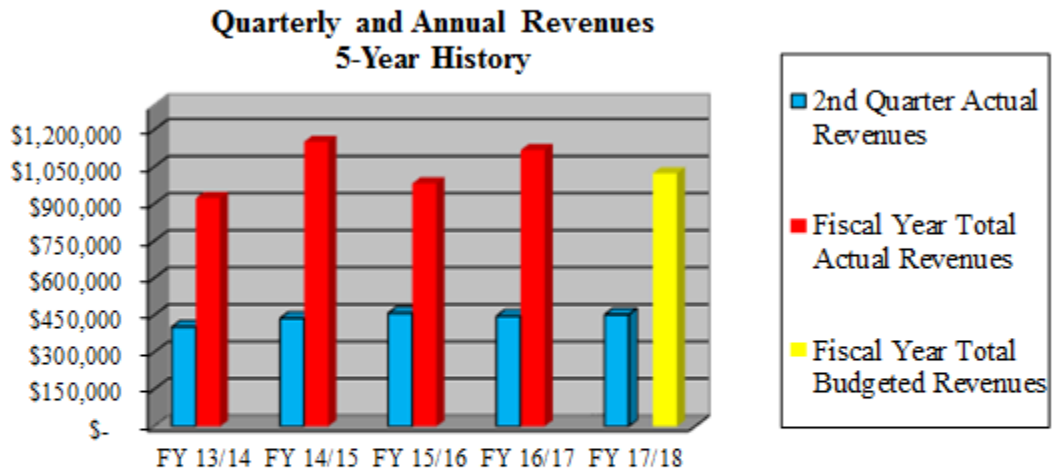
With the November 7, 2006 election, the citizens of Morro Bay voted in a ½ cent district sales tax, commonly known as “Measure Q.” This is a general tax and has no sunset date. The ballot measure stated: *The Morro Bay Vital Public Services Restoration and Protection Measure. To preserve Morro Bay’s safety and character by funding essential services including upgrading firefighter/paramedic equipment, fire stations, police, street and pothole repairs, improving storm drains to protect the bay from pollution and other general city services, shall an ordinance be adopted increasing the City sales tax by one-half cent, subject to independent annual financial audits, and establishing an independent citizens’ advisory committee to review annual expenditures?”*

Ordinance 519 was enacted on August 14, 2006, to establish Chapter 3.22, City of Morro Bay Transactions and Use Tax. The City Council divides the annual revenue estimate between the departments, based on the language in the Measure, campaign polls, and departmental requests.

Measure Q revenues are trending well as indicated in the chart below, therefore no revenue budget adjustments are recommended at this time:

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Measure Q Revenues



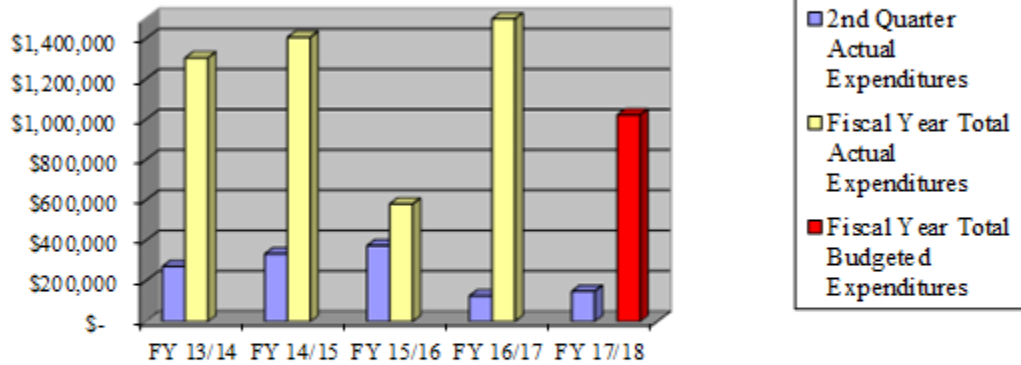
	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 402,622	\$ 437,892	\$ 458,250	\$ 446,882	\$ 452,616
Fiscal Year Total Actual Revenues	\$ 923,776	\$ 1,151,549	\$ 983,602	\$ 1,118,270	
Fiscal Year Total Budgeted Revenues					\$1,024,129
2nd Quarter Percent of Total	43.58%	38.03%	46.59%	39.96%	44.20%

Measure Q Expenditures are generally trending low, partially due to the defunding of the School Resource Officer (SRO) position. It was determined that the SRO position would not be funded when the Schools and PG&E decided not to fund their share of the position.

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Measure Q Expenditures

Quarterly and Annual Revenues
5-Year History



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Expenditures	\$ 272,738	\$ 335,296	\$ 375,877	\$ 126,949	\$ 150,342
Fiscal Year Total Actual Expenditures	\$ 1,306,450	\$ 1,408,279	\$ 582,073	\$ 1,544,827	
Fiscal Year Total Budgeted Expenditures					\$1,024,129
2nd Quarter Percent of Total	20.88%	23.81%	64.58%	8.22%	14.68%

Staff has several budget adjustments that have been reviewed and supported by the Citizen’s Advisory Finance Committee (CFAC) at their February 20, 2018 meeting. The budget adjustments recommend re-appropriating \$65,413 of the SRO funds to purchase 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. With key General Fund revenue sources, i.e. business tax and transient occupancy tax (TOT), trending quite low staff’s recommendation is to help mitigate these shortfalls by purchasing the fire equipment through the Measure Q fund, specifically re-appropriating a substantial portion of the SRO funds. The specific equipment needs are detailed below:

Safety Equipment	\$9,500
Single Layer Pants and Coats	
Gloves	
Wildland Boots	
Small Tools	\$42,078
K-Saw	
Auto Extrication Pump	
(2 out of 3) Thermal Imagers	

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Outside Vehicle Repair	\$5,500
Rescue 5351 Emission Repair	
Wildland Hose	\$2,835
1,500' Single Jacket Wildland Hose	
Miscellaneous Operating Supplies	
Tents, Sleeping Bags, and Pads	
Chain Saw Chains	
Mud Waders	
Total	\$65,413

FY 2017/18 Recommended Budget Adjustments

Budget adjustments are recommended for the following expenditures as of the second quarter as described below:

OTHER FUNDS

<i>Other Funds Revenues</i>				
<i>TBID</i>				
007				
007	7710	3801	Transfers In	(9,500)
007				(9,500)
007			TOTAL OTHER FUNDS REVENUES	\$ -
<i>Other Funds Expenditures</i>				
<i>Measure Q</i>				
003				
003	4210	5199	Miscellaneous Operating Supplies	65,413
003				65,413
<i>Risk Management</i>				
430				
430	4301	6106	Legal Fees - City's Share of Fees for Diablo Plant Closure	15,000
430				15,000
<i>Opportunity Fund</i>				
480				
480	7710	8501	SLO County Economic Study	40,000 *
480				40,000
			TOTAL OTHER FUNDS EXPENDITURES	\$ 120,413

*Approval of this recommendation is effectively an approval to transfer \$40,000 from the Opportunity Fund to the General Fund to fund the City's share of the economic study.

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SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

Other Funds

- Transfers In – TBID: Staff recommends a reduction in the General Fund contribution to TBID of \$9,500 to agree with the funding calculation approved by City Council as discussed above.
- Miscellaneous Operating Supplies – Measure Q: A budget adjustment of \$65,413 is recommended to re-appropriate SRO funding to purchase equipment for the Fire Department.
- Legal Fees – Risk Management Fund: Staff recommends a budget adjustment of \$15,000. This reflects the City's share of the San Luis Obispo County litigation costs against the Diabio Plant Closure.
- Opportunity Fund – Staff recommends a budget adjustment and use of \$40,000 in funds available in the Opportunity Fund to contribute towards the San Luis Obispo County Economic Study. If approved, these funds would be transferred into the General Fund, City Manager's budget and disbursed as contract services. Approval of this budget adjustment would also approve the corresponding expense from the City Manager's General Fund budget.

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CONCLUSION

The financial results from the FY 2017/18 second quarter data highlighted areas where budget expectations exceeded actual receipts and areas where the City is in good position. The second quarter report highlights that the City must continue to monitor the most economically sensitive revenue category of TOT as well as the rental income category closely into the third quarter update as well as strive to contain costs as much as possible. As the fiscal year progresses, staff will continue to closely monitor revenue and expenditure activity and work to identify opportunities to enhance revenue to support current and future operating and capital needs.