



CITY OF MORRO BAY CITY COUNCIL AGENDA

The City of Morro Bay provides essential public services and infrastructure to maintain a safe, clean and healthy place for residents and visitors to live, work and play.

NOTICE OF SPECIAL MEETING

**Tuesday, February 23, 2021 – 3:30 P.M.
Held Via Teleconference**

ESTABLISH QUORUM AND CALL TO ORDER

PUBLIC COMMENT FOR ITEMS ON THE AGENDA

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

Public Participation:

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

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

Please click the link below to join the webinar:

- <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcvTHlRTk9xaTlMWWNVWjRWFUQT09>
Password: 135692

- Or Telephone Attendee: 1(408) 638-0968 or 1(669) 900-6833 or 1(346) 248-7799; Webinar ID: 827 2274 7698; Password: 135692; Press *** 9** to **"Raise Hand"** for Public Comment

SPECIAL MEETING AGENDA ITEM:

I. TEN-YEAR FINANCIAL FORECAST STUDY SESSION

RECOMMENDATION: Staff recommends the City Council receive information on the updated ten-year budget forecast and provide input as appropriate.

ADJOURNMENT

DATED: February 20, 2021



John Headding, Mayor

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT LEAST 24 HOURS PRIOR TO THE MEETING TO INSURE REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.



AGENDA NO: I

MEETING DATE: February 23, 2021

Staff Report

TO: Honorable Mayor and City Council

DATE: February 21, 2021

FROM: Scott Collins, City Manager
Katie Lichtig, Interim Finance Director

SUBJECT: Ten-Year Financial Forecast Study Session

RECOMMENDATION

Staff recommends the City Council receive information on the updated ten-year budget forecast and provide input as appropriate.

DISCUSSION

In March 2015, the City received the first 10-year budget forecast. As an essential component of the City's annual budget process, the City Council then included a requirement for an annual 10-year forecast in the Strategic Planning Framework. The 2016 budget forecast was expanded to include the Harbor Enterprise Fund and the 2017 forecast was expanded to include the Water and Sewer Enterprise Funds. Last year's Financial Forecast focused primarily on the General Fund. The Harbor Fund was also included because of the difficult financial situation the Harbor Fund has faced over the years. The Water and Sewer Funds were not included given the detailed financial analyses conducted by Bartle Wells in pursuit of funding for the Water Reclamation Facility (WRF) in 2018. Updates to the Water and Sewer Funds will be completed after the next round of extremely low interest rate funding (currently at 0.09%) from the State Revolving Fund (SRF) is secured which is anticipated in March or April 2021 with the financial analysis to follow.

The City Council sets goals and priorities every two years, with frequent updates as to progress on each goal. The FY 2019/20 – FY 2020/21 Council goals are as follows:

1. Fiscal and Economic Sustainability
2. Improve Communication and Engagement
3. Updates to Land Use Plans and Address Affordable Housing Issues
4. Improve Public Infrastructure
5. Address Health and Economic Impacts of COVID-19

While there are several subcategories to each of the five priorities, staff's work is focused on maintaining day to day operations augmented with a concentration on the identified Council priorities. As such, the FY 2021/22 budget is being developed with these goals as well as the 10-year Financial Forecast in mind.

Prepared By: KL

Dept Review: KL

City Manager Review: SC

City Attorney Review: _____

General Fund Forecast

The updated ten-year budget forecast will provide a broad overview of the City's financial projection over the coming ten years and includes the most readily available California Public Employee's Retirement System (CalPERS) rate increase estimations, as well as other estimated benefit increases. It is important to note these rate increases are estimates only and will fluctuate based on CalPERS actual investment earnings as well as any other methodology changes that CalPERS implements.

The ten-year General Fund Budget Forecast, included as Attachment 1, provides the City Council and community with a better understanding of the City's financial situation in the decade ahead. In light of the changes to the CalPERS and the economic impacts of COVID-19 Pandemic, this forecasting model is important as the Council makes strategic decisions on the City's future fiscal priorities. That being said, the Forecast is only a snapshot in time and is typically only as accurate as the assumptions for future revenue or expenditure growth.

Using the assumptions outlined below, the forecast shows that the City is currently facing a budget deficit of \$294,000 for FY 2021/22, growing to \$1.33 million by FY 2030/31. This is positive news in terms of reducing the structural deficit the city has been facing, which was projected to hit nearly \$2 million in FY 2028/29 when the City reviewed the 10-year Forecast last year. Yet there is widespread agreement that the City must ensure the City's long-term fiscal sustainability, achieve Council adopted goals, attract and retain highly qualified staff, and provide the services/programs most important to the community. It is important to note, with rare exception, that no service, program, staffing or other cost restorations from COVID-19 cuts are built into the forecast. Neither are there any program expansions included. Staff has a keen understanding that investments are needed in several departments, maybe none more important than keeping the City clean and safe. This is particularly an issue regarding the Embarcadero, restrooms, and other highly used public spaces. Staff understands that a stop gap plan for this summer is needed and our team is working diligently to ensure this plan is implemented as soon as possible. However, it did not seem appropriate to assume these costs while developing the 10-year forecast. This issue is discussed in the revenue section as it relates to Measure E and the continuing FY 2021/22 budget process.

General Fund Revenues

With this update to the Forecast, staff has reviewed the revenue projections and revised assumptions based on the current economic environment and indications ahead. Based on revenue trends from the first half of the fiscal year, the City is on track to exceed some major budgeted revenue expectations (Transient Occupancy Tax and Sales Tax in particular). Additionally, the County is projecting a 4% increase in property tax for next fiscal year. Based on these new estimates, the baseline forecast has been updated. All other assumptions, included as Attachment 2, are conservative but are based on known conditions and are meant to provide Council, staff and the public with a solid understanding of the City's financial condition as we begin the FY 2021/22 budget process.

There are two mitigating factors that are important to recognize as it relates to revenue. First is the approval of Measure E this past November which is projected to raise about \$2.2 million a year. While Measure E is a general-purpose revenue source, the proposed uses will focus on the following priorities:

- Maintaining 24/7 911 emergency response
- Maintaining 24/7 paramedic services
- Maintaining 24/7 police services
- Maintaining fire protection services

- Keeping beaches, public areas, and public restrooms safe and clean (including the Embarcadero and Harbor)
- Protecting Morro Bay's financial stability

It is important to note that the Forecast assumes no contributions from Measure E to the General Fund or Harbor Fund. Staff did not want to presuppose either what action the Council would take at mid-year with Measure E funds to be collected in the current fiscal year or in future years. Staff is recommending that in the current fiscal year, Measure E funds collected in April, May and June 2021 be contributed to the General Fund Emergency Reserve to help restore fund balance used to close the budget gap and maintain basic essential services during the COVID-19 pandemic. That being said, the Council could decide during the mid-year budget discussion that there are more important uses for these funds or that the funds should roll into Measure E balance so the use can be determined during on-going budget process for next fiscal year.

Second, the City has begun to receive revenues from the Cannabis tax from one of the two Cannabis operators with permits. The second operator is scheduled to start operations before the end of the current fiscal year in June. The tax (5% of gross receipts) is estimated to generate approximately \$250,000 to \$300,000 per fiscal year. Per the Council adopted policy this new revenue is to be used for one-time purposes for 24 months. The mid-year budget report recommends that the revenue from the current fiscal year be dedicated to the emergency storm drain repair capital improvement project.

General Fund Expenditures

The City of Morro Bay made some difficult and challenging decisions when developing the FY 2020/21 budget to contain expenses. The restored and additional revenues will certainly help the City invest and reinvest in the most important priorities but will not be sufficient to address all the needs moving into the future. This is especially true as it relates to investment in the City's dedicated staff. The City is a provider of service to the community to improve the quality of life for residents and businesses, and the City provides these core services through our people. As a result of the pandemic's swift and significant financial impacts on the City decisions to reduce services resulted in reductions in staffing. This not only impacted the community members who rely on and enjoy these services, it impacted staff members who lost their jobs as well as the remaining staff who picked up the slack. This is in addition to picking up new duties in implementing new health and safety protocols for the community's benefit and at their worksite. Also, during the pandemic, the staff agreed to help the City navigate the difficult financial situation by taking 5 to 8 percent salary reductions for three to eight months. All of this is to say that the 10-Year Forecast does not include any assumption about enhanced pay for staff and if the City intends to retain and attract highly qualified staff to provide service to our community this issue will have to be addressed as early as possible. The City is currently in contract negotiations with each of the collective bargaining units (Fire, Police and Service Employees).

Components of the forecast related to expenses include the following:

1. No Cost-of-Living Allowances for employees – only step increases.
2. No restoration of services, staffing or funding for supplies and services from the current year budget reductions
3. Estimated pensions costs from CalPERS actuarial report plus 11% increase based on historical increases in Unfunded Actuarial Liabilities (UAL). After Council's direction to payoff of Tier II and Tier III UAL for Police and Fire Plans, Staff anticipates that these UAL will be paid off each year in lump sum.
4. As with all cities in California under the CalPERS retirement system, the impact of the CalPERS rate increases has substantially outpaced anticipated revenue gains. In addition, the rates are developed looking back two years so the impacts on CalPERS during the last two years are still to be felt.

5. Health care and insurance costs continue to rise, both of which are assumed in the forecast.
6. No contribution to Economic Development Fund for General Plan implementation items (historically budgeted at \$100,000, reduced to \$65,000 in FY 2019/20, and eliminated in FY 2020/21). This is offset by the Community Development Department competing successfully for several grants that will in part go to implementation of the General Plan.
7. Chamber of Commerce Economic Ombudsman Contract will be supported from the Economic Development Fund.
8. Annual contributions to replacement funds as detailed below:
 - a. Vehicle Replacement - \$50,000
 - b. Technology Fund - \$25,000 and a 2.5 percent cost escalator
 - c. Facilities Fund - \$100,000
 - d. Fire Equipment Replacement - \$50,000
 - e. Risk Management - \$50,000
 - f. Compensable Leave - \$25,000

As staff directs efforts at balancing the FY 2020/21 budget we will be focused on Council and Community priorities and analyzing internal structure and opportunities.

Organizational Concerns, Structure and Opportunities

As noted, the budget does not include any cost of living (COLA) increases for employees as the City's current labor agreements expired June 30, 2020 and December 31, 2020. While the City is beginning negotiations with the labor unions now, there are currently no COLA's included in the forecast. This raises concerns from management's perspective given the City's employees are already in the bottom tier of pay within the County of San Luis Obispo (for local governments) County. Given this, and the structural deficit, we remain concerned about the City's ability to provide the same level of full services that are provided today, while retaining and attracting employees. Management believes that addressing this pay issue has the potential to jeopardize achievement of Council goals. If the City has a high turnover rate (which impacts morale for the rest of staff) the City could find itself in the position of simply not having sufficient people to do the core work of the City, no less Council Priorities. This is critical issue and staff will be working diligently with Council and the bargaining groups to ensure this issue is resolved with equity, common sense and financial sustainability in mind.

Every department will continue to be asked to look at the services they provide and ask, "is this a service that needs to continue?" If the answer is yes, then the department is being asked to ask themselves "does it need to continue in the way that we are doing right now?" We will be asking if there are better ways to provide the service, newer ways to provide the service in a faster or more efficient manner that will work better for the public. There are many examples of ways that the City is already doing this, one being the city's partnerships with the Chamber for economic development. Other departments are working hard to revamp customer facing systems to be more efficient in providing service to the community. Such is the case with the implementation of CityWorks (permit processing). The Finance team is evaluating if there are new ways to process utility payments that could free up staff time to work on other high priority services. Currently the staff is physically handling more than 4,000 utility payments a month (of 5500 accounts). In a time when so many services have gone digital the team is evaluating if customer service can be maintained while at the same time use current technology. In developing the FY 21/22 Budget, staff will also evaluate staffing needs strategically, and bring forward recommendations to Council that will allow the City to maintain core services.

Harbor Operating Fund Ten Year Forecast

The City also focuses heavily on the Harbor Fund ten-year forecast (Attachment 3), understanding that the Harbor has fiscal constraints and challenges of its own. The operating shortfall for the Harbor Fund ranges from as low as \$34,000 to more than \$250,000. Many of the assumptions made for the Harbor forecast align with assumptions made by the General Fund such as not including cost of living allowances (only step increases). Further analysis is needed to ensure that growing CalPERS

obligations. Overall, despite taking steps to contain costs, the Harbor Operating Fund still shows a mounting shortfall and no investment in the harbor or Embarcadero. Just like the General Fund, the Harbor Operating Fund Forecast did not assume any investments from Measure E. Council and community priorities will also be considered as the FY 2021-22 budget is being developed for the Harbor Operating Fund.

ATTACHMENTS

1. General Fund Ten Year Forecast
2. General Fund Assumptions included in Forecast
3. Harbor Fund Ten Year Forecast
4. HdL Economic Forecast Reports

Attachment 1 General Fund Ten Year Forecast

City of Morro Bay Budget Forecast (\$ in 000)

General Fund	FY 2020	FY 21 MY	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Property Tax	\$4,556	\$4,176	\$4,393	\$4,524	\$4,660	\$4,800	\$4,944	\$5,092	\$5,245	\$5,401	\$5,563	\$5,729
Sales Tax	2,186	1,913	2,165	2,228	2,271	2,315	2,359	2,405	2,440	2,475	2,512	2,548
TOT	2,892	2,402	2,952	3,100	3,255	3,385	3,487	3,557	3,628	3,700	3,700	3,737
Other Revenue	3,027	3,027	2,658	2,688	2,717	2,742	2,771	2,821	2,859	2,898	2,937	2,977
Transfers	2,730	2,029	1,243	1,280	1,318	1,358	1,399	1,441	1,484	1,528	1,574	1,621
Total Revenue	15,392	13,548	13,411	13,820	14,222	14,600	14,960	15,316	15,655	16,003	16,286	16,613
Personnel	11,464	9,705	10,147	10,451	10,778	11,137	11,542	11,985	12,469	12,999	13,579	14,215
Other O&M	3,447	2,754	2,891	2,948	3,006	3,066	3,126	3,188	3,251	3,292	3,283	3,299
Transfers/Svc Adds	481	1,088	667	678	690	702	714	726	739	753	755	757
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	15,392	13,548	13,705	14,077	14,474	14,904	15,382	15,899	16,459	17,044	17,618	18,272
Net Annual	0	0	(294)	(257)	(252)	(304)	(422)	(584)	(804)	(1,041)	(1,332)	(1,659)
Beginning Balance	298	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	298	298	4	(253)	(505)	(809)	(1,231)	(1,815)	(2,619)	(3,660)	(4,992)	(6,651)
Emergency Reserve	FY 2020	FY 21 MY	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenue	\$95	\$80	\$24	\$24	\$24	\$24	\$24	\$24	\$25	\$25	\$25	\$25
Transfers Out	1,177	731	0	0	0	0	0	0	0	0	0	0
Net Annual	(1,082)	(651)	24	24	24	24	24	24	25	25	25	25
Expenditures	0	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	3,041	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526
Ending Balance	1,959	1,308	1,331	1,355	1,379	1,403	1,428	1,452	1,477	1,501	1,526	1,552
Total GF+ER Balance	2,257	1,606	1,336	1,102	874	594	196	(363)	(1,143)	(2,158)	(3,465)	(5,099)
% of GF Exp	14.7%	11.9%	9.7%	7.8%	6.0%	4.0%	1.3%	-2.3%	-6.9%	-12.7%	-19.7%	-27.9%

Attachment 2 - General Fund Ten Year Forecast Assumptions

General Fund (001)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Average
Revenues:											
Property Tax	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.10%
Property Tax In-Lieu (VLFAA)	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.10%
Homeowners Exemption	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal Property Tax											
Sales Tax (local & triple-flip)	N/A	3.00%	2.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%	1.50%	1.89%
Sales Tax (Prop 172-Safety)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Subtotal Sales Tax											
Property Transfer Tax	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.10%
Transient Occupancy Tax	N/A	5.00%	5.00%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%
Franchises	1.00%	1.00%	1.00%	0.12%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.91%
Local Cannabis Tax	N/A	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Subtotal Other Taxes											
Business Licenses	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Building Permit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Coastal Permits	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Conditional Use Permits	4.00%	3.00%	2.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%
Other Licenses & Permits	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Subtotal Licenses & Permits											
Motor Vehicle License Fee	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State & Federal Grants	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State Reimbursements	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal Intergovernmental											
Investment Income	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Rents	N/A	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	0.00%	0.00%	0.00%	1.33%
Subtotal Use of Money & Property											
Parking Fines	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Vehicle Code Fines	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Fines	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Subtotal Fines & Forfeitures											
Planning & Zoning Fees	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%
Engineering & Inspection Fees	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%
Police Services	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Fire Services	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Recreation Program Fees	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Other Service Charges	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.70%
Subtotal Fees & Charges											
Other Revenues	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Capital Projects	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Funds	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gas Tax/Traffic Safety	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transit (cost allocation plan)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Water (cost allocation plan)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sewer (cost allocation plan)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Harbor (cost allocation plan/other)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expenditures											
Regular Salaries & Other Pay	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Part-time Wages	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Overtime	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer Paid Benefits (* costs includ	N/A	N/A	9.80%	9.80%	9.80%	8.00%	8.00%	2.50%	2.50%	2.50%	6.61%
Pension - NC	N/A	N/A	1.00%	1.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.13%
Pension - UAL	N/A	N/A	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
* Medicare											
* Cafeteria Plan (Health+)											
* Unemployment & Wkrs Comp Ins											
Part-time Benefits	0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	1.80%
Other	0.00%	0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	1.80%
Vacancy Savings Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Labor Costs Applied	CPI built into model										
Subtotal Personnel											
Contract Services	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Utilities	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Insurance	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Services & Supplies	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Expense	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Capital Outlay											
Debt Service - Solar	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfers Out:											
Vehicle Replacement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Technology	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Facilities Maintenance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Replacement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Projects Accumulation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fire Equipment Replacement	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Compensable Leave	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Attachment 3 Harbor Operating Fund Ten Year Forecast

City of Morro Bay Harbor Funds Budget Forecast (\$ in 000)

(\$ in 000)

Operations	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Harbor Leases	1,427	1,469	1,513	1,544	1,575	1,606	1,638	1,663	1,696	1,730	1,764
Other Fees, Grants, Revs	485	451	415	392	369	344	318	299	271	242	212
Total Revenue	1,911	1,920	1,928	1,936	1,943	1,950	1,956	1,962	1,967	1,972	1,976
Personnel	906	1,006	1,006	1,032	1,050	1,065	1,108	1,115	1,122	1,103	1,109
Other O&M	601	616	616	628	641	654	667	680	694	708	722
Debt Service	135	135	135	0	0	0	0	0	0	0	0
Transfers Out	285	294	294	302	311	321	330	340	350	361	372
Total Expenditures	1,901	2,050	1,963	2,002	2,039	2,105	2,135	2,166	2,172	2,202	2,233
Net Annual	10	(130)	(34)	(66)	(96)	(155)	(179)	(205)	(204)	(230)	(257)
Cash Adjustments	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance	(323)	(313)	(313)	(443)	(478)	(544)	(640)	(796)	(975)	(1,179)	(1,384)
Ending Balance	(313)	(443)	(348)	(510)	(574)	(699)	(820)	(1,000)	(1,179)	(1,410)	(1,641)

CITY OF MORRO BAY

SALES TAX UPDATE

3Q 2020 (JULY - SEPTEMBER)



MORRO BAY
TOTAL: \$ 564,304

-1.5%
3Q2020



3.6%
COUNTY

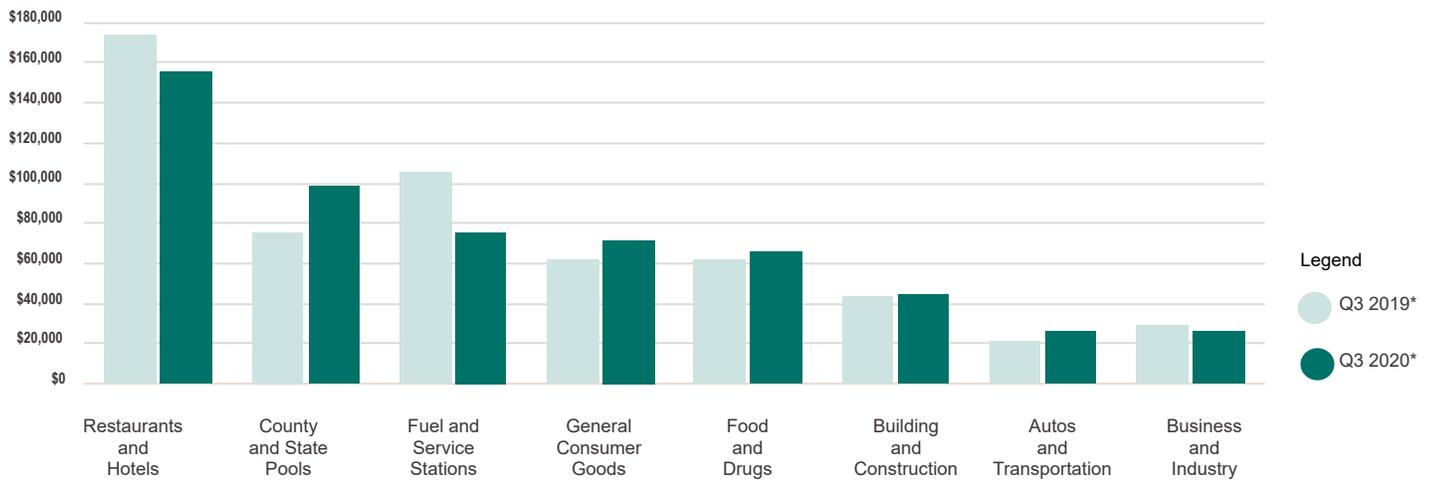


-0.9%
STATE



**Allocation aberrations have been adjusted to reflect sales activity*

SALES TAX BY MAJOR BUSINESS GROUP



Measure Q
TOTAL: \$323,983
↑ 1.3%



CITY OF MORRO BAY HIGHLIGHTS

Morro Bay's receipts from July through September were 1.5% below the third sales period in 2019.

The largest factor in this loss was a 29% decline in receipts from local service stations as the COVID-19 pandemic curtailed travel and as the price of oil fell on the global market due to faltering demand.

Casual eateries were negatively impacted by the decline in travel and by government restrictions on indoor dining enacted to combat the epidemic, though the 10% drop was significantly better than the 33% statewide slump. Local results were likely buttressed by

the many homebound tourists who were attracted to the region from neighboring parts of California for short staycations.

Measure Q, the City's voter-approved add-on sales tax, generated an additional \$324,000 in revenue, an increase of 1.3% compared to last year, largely due to an increase in tax revenue from internet purchases by residents who preferred to shop online amid the virus outbreak.

Net of aberrations, taxable sales for all of San Luis Obispo County grew 3.6% over the comparable time period; the Central Coast region was down 1.6%.



TOP 25 PRODUCERS

Albertsons
Anchor Park
AutoZone
Bayside Cafe
Bottle Liquor
Chevron
Dealers Choice
Dorns Breakers Cafe
Dragon Bay
Dutchman Seafood House
Galley Seafood Grill & Bar
Giovannis Fish Market
Great American Fish
Harbor Hut Restaurant

McDonalds
Miners Ace Hardware
Mission Uniform & Linen Supply
Morro Bay Mobil
Rite Aid
Shell
Sinclair Gas
Spencers Fresh Markets
Taco Temple
Tognazzinis Dockside
Wavelengths Surf Shop



STATEWIDE RESULTS

The local one-cent sales and use tax from sales occurring July through September was 0.9% lower than the same quarter one year ago after factoring for accounting anomalies. The losses were primarily concentrated in coastal regions and communities popular with tourists while much of inland California including the San Joaquin Valley, Sacramento region and Inland Empire exhibited gains.

Generally, declining receipts from fuel sales, brick and mortar retail and restaurants were the primary factors leading to this quarter's overall decrease. The losses were largely offset by a continuing acceleration in online shopping that produced huge gains in the county use tax pools where tax revenues from purchases shipped from out-of-state are allocated and in revenues allocated to jurisdictions with in-state fulfillment centers and order desks.

Additional gains came from a generally solid quarter for autos, RV's, food-drugs, sporting goods, discount warehouses, building material suppliers and home improvement purchases. Some categories of agricultural and medical supplies/equipment also did well.

Although the slight decline in comparable third quarter receipts reflected a significant recovery from the immediate previous period's deep decline, new coronavirus surges and reinstated restrictions from 2020's Thanksgiving and Christmas gatherings compounded by smaller federal stimulus programs suggest more significant drops in forthcoming revenues from December through March sales.

Additionally, the past few quarter's gains in county pool receipts that were generated by the shift to online shopping plus last

year's implementation of the Wayfair v. South Dakota Supreme Court decision will level out after the first quarter of 2021.

Much of the initial demand for computers and equipment to accommodate home schooling and remote workplaces has been satisfied. Manufacturers are also reporting that absenteeism, sanitation protocols, inventory and imported parts shortages have reduced production capacity that will not be regained until mass vaccines have been completed, probably by the fall of 2021.

Significant recovery is not anticipated until 2021-22 with full recovery dependent on the specific character and make up

of each jurisdiction's tax base. Part of the recovery will be a shift back to non-taxable services and activities. Limited to access because of pandemic restrictions, consumers spent 72% less on services during the third quarter and used the savings to buy taxable goods.

Full recovery may also look different than before the pandemic. Recent surveys find that 3 out of 4 consumers have discovered new online alternatives and half expect to continue these habits which suggests that the part of the recent shift of revenues allocated through countywide use tax pools and industrial distribution centers rather than stores will become permanent.

REVENUE BY BUSINESS GROUP
Morro Bay This Quarter*



*ADJUSTED FOR ECONOMIC DATA

TOP NON-CONFIDENTIAL BUSINESS TYPES

Morro Bay Business Type	Q3 '20	Change	County Change	HdL State Change
Casual Dining	99,532	-9.9%	-19.1%	-37.9%
Service Stations	74,145	-28.6%	-25.5%	-29.0%
Quick-Service Restaurants	31,777	11.0%	-3.3%	-10.3%
Art/Gift/Novelty Stores	20,273	26.3%	-8.6%	-20.0%
Sporting Goods/Bike Stores	17,816	41.3%	34.3%	22.1%
Convenience Stores/Liquor	13,679	24.5%	14.8%	14.9%
Family Apparel	13,143	17.5%	-5.8%	-24.4%
Automotive Supply Stores	10,823	-0.9%	4.2%	5.7%
Contractors	7,145	-51.5%	-18.7%	-5.7%
Second-Hand Stores	3,309	-8.0%	-12.3%	-4.9%

*Allocation aberrations have been adjusted to reflect sales activity

CALIFORNIA FORECAST

SALES TAX TRENDS AND ECONOMIC DRIVERS



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HDL CONSENSUS FORECAST - DECEMBER 2020

STATEWIDE SALES TAX TRENDS

HdL[®] Companies

 **TOTAL** 2020/21 | 2021/22
2.1% | 7.5%

Autos/Transportation 2020/21 | 2021/22 5.9% | 3.0%

The retail auto industry bounced back this summer and completed a V-shaped recovery by posting positive results for the first time since the beginning of the pandemic. Higher income households bankrolled the unexpectedly rapid comeback with savings that have accumulated over the last year. Record low interest rates, a recovering economy and contagion fears surrounding ridesharing and mass transit are expected to support the market in the near-term. Vehicle prices are also rising with the ongoing shift in buyer preference toward larger vehicles compounded by the scarcity of many popular models. RV, boat and niche vehicle sales are all exceptionally strong. Fleet sales, however, remain depressed and will take longer to recover.

Building/Construction 2.9% | 3.5%

Spending for home improvement projects increased again as previously postponed remodeling jobs got underway. The Bay Area grew 2% overall as the region bounced back from having projects shutdown at the onset of the pandemic. Central and Northern California reported steady activity while Southern California saw a positive trend. Looking ahead, the forecast sees growth as employment migration gains momentum from remote workers seeking cheaper housing options. This will lower Bay Area construction as commercial project levels have declined already. Construction in Southern California is expected to remain steady as existing projects move toward completion. The statewide trend of declining construction permit issuance is expected to begin a reversal within two years.

Business/Industry -4.0% | 6.7%

The new order index is moving upward but manufacturers report that COVID-19 related absenteeism, qualified worker shortages, sanitization protocols, inventory and imported parts delivery issues collectively reduced production capacity. Full recovery is not anticipated to begin until the second half of 2020-21 when vaccines become widely available. Recent surges in computers and communication equipment to facilitate work-at-home initiatives are expected to level off with further declines from industrial machinery/equipment, fabricated metal products, manufacturers serving food processing, printing/publishing and petroleum industries. Some improvements are projected from companies serving the logistics, construction, transportation and agriculture segments. Each jurisdiction's experience will differ with the specific character and size of its individual business/industrial tax base.

Food/Drugs 2020/21 | 2021/22 6.8% | 3.0%

Improvement over the past year in this group's tax revenues is largely twofold. People ate more at home due to limited dining out accessibility and venue options, thus, convenience stores and grocers reported strong activity. Also, cannabis operators expended the number of permitted locations and functioned as essential businesses while demand for their products continues to climb. Short term, these segment specific trends are expected to trigger strong sales. By mid next year, increases moderate as retailers and eateries reopen their doors to expectant customers.

Fuel/Service Stations -9.3% | 16.5%

While crude barrel prices and the cost of a gallon of gas have begun to slowly rise, recent COVID-19 cases continued to trend up which has weakened retail demand and gallons sold. Prices at the pump are still more than a dollar less per gallon than the same quarter last year. Vehicle and air travel have stagnated. A combination of lower fuel prices, downward pressure on consumption (tied to less vacations and road trips), along with additional shelter in place restrictions through 2020 yields a forecast reduction in sales tax for this category in the coming two quarters. The anticipated roll out of the vaccine will increase consumer and business travel by next spring with effective deployment leading to solid growth for this segment in the second half of 2021.

General Consumer Goods 1.4% | 6.9%

Core retail segments continue to show large contractions in sales. Apparel heavy categories accounted for the brunt of declines making up roughly 75% of the group's total variation from prior year third quarter collections. Tax volumes from discount department stores expanded as consumers opted for fewer stops to shop across multiple product lines. Diminished foot traffic, continued in-store limitations and an accelerated shift to digital shopping puts more pressure on brick-and-mortar retailers. The pandemic altered habits in ways that demonstrate permanent repercussions on shopping behavior as the economy recovers. Recent regional stay-at-home orders are prompting additional negative impacts on physical stores, dampening the outlook. Our forecast anticipates a rebound in fiscal year 2021-22 following a wide distribution of vaccines which prompts a return to more normalized in-store shopping experiences. Local tax receipts are not expected to return to pre-pandemic peaks until fiscal year 2022-23.

HDL CONSENSUS FORECAST – DECEMBER 2020

STATEWIDE SALES TAX TRENDS

2020/21 | 2021/22
TOTAL 2.1% | 7.5%



Restaurants/Hotels

2020/21 | 2021/22

-15.0% | 26.5%

The ever-changing health regulations over the past nine months have created overwhelming challenges for the hospitality industry. The late December restriction orders could mean more restaurants closing their doors permanently. Quick service continues to fair better than traditional sit-down dining establishments. Outdoor options could be returning sooner rather than later due to a successful challenge of those restrictions by the California Restaurant Association. The forecast assumes some restaurants and hotels will not survive this second round of forced hibernation. An uptick in travel is not expected to begin until spring and will take years to reach 2019 pre-pandemic levels.



State and County Pools

2020/21 | 2021/22

19.3% | 3.1%

Recent data showed staggering tax escalations into the pools during the last four quarters, a confluence of full deployment of Wayfair's marketplace facilitator AB147 compliance, accelerated movement to online spending linked to COVID-19 store closures and use of federal stimulus for at-home needs. Thus, a new baseline of pool's taxes is now in place for future projections. Early holiday results demonstrated sizeable growth in ecommerce activity during the Thanksgiving weekend. Sheltering directives happening in most parts of California are intensifying more shopping by way of computers and mobile devices. Trends in our forecast note many household spending patterns dating back to the pandemic arrival are now permanent, however, future pools gains are expected to subside to levels a bit higher than pre-Wayfair historical outcomes.

Proposition 172 projections vary from statewide Bradley-Burns calculations due to the state's utilization of differing collection periods in its allocation to counties. HdL forecasts a statewide increase of 0.80% for Fiscal Year 20/21 and 8.89% for 2021/2022.



U.S. Real GDP Growth

2020/21 | 2021/22
12.0% | 3.4%

The U.S. economy's record-breaking expansion peaked in February 2020, and with the emergence of the COVID-19 pandemic, the economy hit rock bottom in April. This two-month pandemic-driven downturn was the shortest in American history. Even though the economy hasn't returned to its pre-pandemic trend, this has been the fastest recovery in history with over 33% real GDP growth in the third quarter of this year. Consumer spending drove most of the growth in the third quarter, and solid expansion occurred throughout the economy with the exceptions of investment in nonresidential structures and government spending. As of the third quarter, the economy was only 4% below long-run growth trends having recovered three-quarters of the output it lost from February to April. A genuine return to pre-COVID consumer demand cannot occur until the spread of the virus is controlled. There is downside risk in the short-term due to the continued spread of the coronavirus, but the expansion of the economy will pick up speed in the spring as millions of people are vaccinated and a semblance of normality returns to consumer behavior.



U.S. Unemployment Rate

6.8% | 4.9%

Following the economic downturn in March and April, the performance of the labor market has been the weakest aspect of the economic recovery. As of November 2020, there were 9 million fewer workers employed in the US compared to February 2020 and commensurate increase in the unemployment rate from 3.5% to 6.7%. While the current unemployment rate is a great improvement since the highs reached in April (14.7%), the current figure has been aided by the exodus of 4 million workers from the labor force. The labor market recovery should gather momentum in the spring as the worst effects of COVID-19 are behind us. This job creation will place downward pressure on the unemployment rate, although the return of workers to the labor force will slow this trend.



CA Total Nonfarm Employment Growth

-3.8% | 5.5%

Since the record drop in employment in April, California's labor market has underperformed compared to the U.S. labor market. The number of jobs contracted by 6.5% nationally since February while in California the number of jobs fell by 8%, and only 46% of the jobs lost by April have been recovered in the state. As of November, there were 1.4 million fewer workers employed in the state than there were in February. One key feature of the labor market recovery has been the extent to which job losses have disproportionately impacted low-income workers. Employment in jobs that pay more than \$60,000 per year have shrunk just 1.3% in the state, but middle-wage jobs (with annual wages ranging from \$27,000 to \$60,000) and low-wage jobs (less than \$27,000 per year) have been hit much harder. Middle-income jobs declined by 8.1% between January and November whereas low-wage jobs fell by 28.1%. Because the recovery in California has lagged the national economy to this point, this should mean that, once a vaccine is widely distributed and some normality resumes in 2021, employment growth in California will outpace the growth in the national economy.



CA Unemployment Rate

2020/21 | 2021/22
8.8% | 5.7%

California's unemployment rate fell to 8.2% in November – down from 9.0% in the previous month and a peak of 16.4% in May – but remains elevated relative to the 6.7% rate in the U.S. overall. This decline is a positive sign but is as much due to a contracting labor force as it is to employment gains. In November, there were 630,000 fewer people looking for work in the state compared to February 2020. Under normal circumstances, the state's labor force would have expanded over this period. The very short-term outlook (through February 2021) is not positive as the significant spread of the coronavirus in the state and resulting restrictions on businesses place downward pressure on job creation. But as the vaccine rollout picks up speed in the spring, the unemployment rate should fall significantly as the year progresses.



CA Median Existing Home Price

\$583,320 | \$618,930

The state's housing market has been by far the brightest spot of the 2020 economy. Single family home prices have surged compared to last year, growing by 13% percent from Q3 2019 to Q3 2020. As of Q3 2020, year-to-date sales of new and existing homes were around 10,000 units lower compared to the same point in 2019, though figures from Q4 will likely reveal that more homes have will have sold in 2020 than in 2019. This is an extraordinary feat given the performance of the state's labor market this year. The strong performance of the state's housing market is likely driven by two factors. First, typical homebuyers (higher income earners) have been less affected by the labor market fallout. Second, mortgage rates are at historically low levels, spurring purchasing activity. That said, the growth in home prices this year is unsustainable so expect interest rates to tick up at some point in 2021.



CA Residential Building Permits

111,780 | 117,780

The increase in home prices this year have once again brought California's housing shortage to the fore. Until the supply of housing picks up considerably, there will be upward pressure on home prices in the state. As of September, around 7,500 fewer permits were issued in the state compared to the same point in 2019. This will do little to help the state's chronic housing shortage, but the expectation is that housing permits will rebound in 2021 as the economy continues to recover.

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California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.

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Beacon Economics has proven to be one of the most thorough and accurate economic research/analytical forecasting firms in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.



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