

THE CITY OF HALF MOON BAY CALIFORNIA

“VIVIR, TRABAJAR, JUGAR”
LIVE, WORK, PLAY

FISCAL YEAR 2016 – 2017

JULY 1, 2016 – JUNE 30, 2017

POPULAR ANNUAL FINANCIAL REPORT

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About this Report

This report provides an overview of the City's financial position for the 2016-2017 fiscal year, including sources of revenues and expenditures, as well as economic information about the community. The Popular Annual Financial Report (PAFR) of the City of Half Moon Bay is published to increase public awareness about the City's financial condition. It is our goal that this report be easy to read and understandable.

The PAFR summarizes the financial activities of the City of Half Moon Bay's governmental and proprietary funds, and draws its information from the 2017 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Maze & Associates, Certified Public Accountants. The City received an unmodified (or clean) opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City. The amounts within the CAFR were arrived at by employing accrual and modified accrual basis accounting techniques as prescribed by the Governmental Accounting Standards Board. Government-wide data on accounting (pages 11-14) is presented similar to a consolidated financial statement for a private business (accrual basis). Governmental funds financial information (pages 15-16) is presented under standard governmental accounting rules (modified accrual basis). Modified accrual accounting is a governmental accounting method based on revenues being recognized in the period when they become available and measurable (known).

This PAFR is unaudited and is presented on a non-GAAP basis. The differences between the GAAP basis presentation in the CAFR and the non-GAAP presentation in the PAFR are as follows: the use of prescribed accounting methods and financial statement formats; the presentation of segregated funds; and the disclosure of all material financial and non-financial matters in notes to the financial statements. Individuals who desire to review the audited GAAP-based, full-disclosure financial statements should refer to the City's CAFR, which is available on the City's website at <https://www.half-moon-bay.ca.us/>, or by contacting the Finance Department at 507-B Purrisima Street, Half Moon Bay, CA 94019, phone (650) 727-7044, or e-mail finance@hmbcity.com.



Financial Report Award

The Government Finance Officers Association of the United States and Canada (GFOA) offers an award program for Outstanding Achievement in Popular Annual Financial Reporting. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year. The City of Half Moon Bay participated in this award program for the first time during the 2015-16 fiscal year is proud to have achieved the honor in our first attempt. It is our belief that the FY 2016-17 report also conforms to the Popular Annual Financial Reporting requirements, and City staff has submitted it to the GFOA.

We are also pleased to report that the City of Half Moon Bay received the GFOA's Certificate of Achievement Award for Outstanding Achievement in Comprehensive Annual Financial Reporting (CAFR) for the 2015-16 fiscal year. The City has received this accolade for 12 consecutive years and has worked diligently to produce a document for the 2016-17 fiscal year, which will be submitted for another award.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**City of Half Moon Bay
California**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill
Executive Director/CEO

Fun Facts



Last grizzly bear killed here 1879

A railroad connected Half Moon Bay to San Francisco and was called Ocean Shore Railroad

Mexican soldier named Candelario Miramontes is part of the historic Half Moon Bay business district

FUN FACTS

Coastside has its well-known broad sandy beaches

Spaniard named Estanislao Zaballa brought the first commercial businesses to the City

Half Moon Bay is known for the Annual Pumpkin Festival Weigh-Off competition



PAFR Message

Dear Reader,

As the City of Half Moon Bay Finance Director, I am proud to present to you our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2017. This publication represents the ongoing commitment of the City of keep the community informed about City's finances and to be accountable for the receipt and expense of public funds.

I would like to take this opportunity on behalf of the City of Half Moon Bay to acknowledge the wonderful residents of this great City for your hard work, your love for this City, and your diligent participation in its success. Your extraordinary contributions to this community inspire us to serve you to the best of our abilities.

Also, I would like to show my appreciation and thank the City Council, City Manager, and City Departments for their leadership and support. Day after day, I personally witness the dedication and commitment displayed by each member of the City's staff, and I am confident that together we will be able to ensure that Half Moon Bay remains the best City in which to live, work, and play.

Lastly, I hope you find this report enjoyable to read and invite you to access our audited CAFR online for more detailed information on your City finances. If you have comments or suggestions on how we can improve the PAFR, please contact me by phone at (650) 750-2034 or by e-mail at finance@hmbcity.com.

Sincerely,



Yulia Carter
Finance Director
City of Half Moon Bay



City Profile



Quick Facts



Incorporated in 1959, the City of Half Moon Bay is governed by a five-member elected City Council and utilizes the council-manager form of government. The City Council appoints a City Manager who is responsible for the oversight of daily operations and provides leadership for the City's programs.

Named San Benito in the 1840's, and later Spanishtown, Half Moon Bay received its current name in 1874 and is the oldest settlement in San Mateo County. Considered a rural coastal community, the City is home to approximately 12,500 people.

There is a rich culture of diverse traditions and multi-generational families who have lived in Half Moon Bay for well over 100 years. In any given neighborhood you will find farmers, high-tech entrepreneurs, and artists living together. At the crossroads of Highway 1 and Highway 92, Half Moon Bay is approximately 25 miles south of San Francisco, and an easy 45-minute drive from almost anywhere in the Bay Area.

The City and Coastside are a thriving agricultural, fishing, and tourism destination. The local and growing organic agricultural community hosts a Saturday farmers' market and many rural roadside stands sell the bounty of the local farms and nurseries. About 3,000 tons of pumpkins are grown on the Coastside each year and the ripening pumpkins are featured in the Art and Pumpkin Festival held in October on the downtown historic Main Street. The annual festival draws more than 200,000 visitors for the two-day event.

As a popular tourist destination, Half Moon Bay offers a wide variety of public and private attractions. Main Street is home to shops, art galleries, and fine dining. The Coastal Trail provides recreation for biking, pedestrian and equestrian users. Golf can be enjoyed at two acclaimed golf courses. Half Moon Bay boasts truly unique lodging with breathtaking ocean views, world-class hotels, quaint cottages and the enduring natural beauty of the beaches is enjoyed by all.

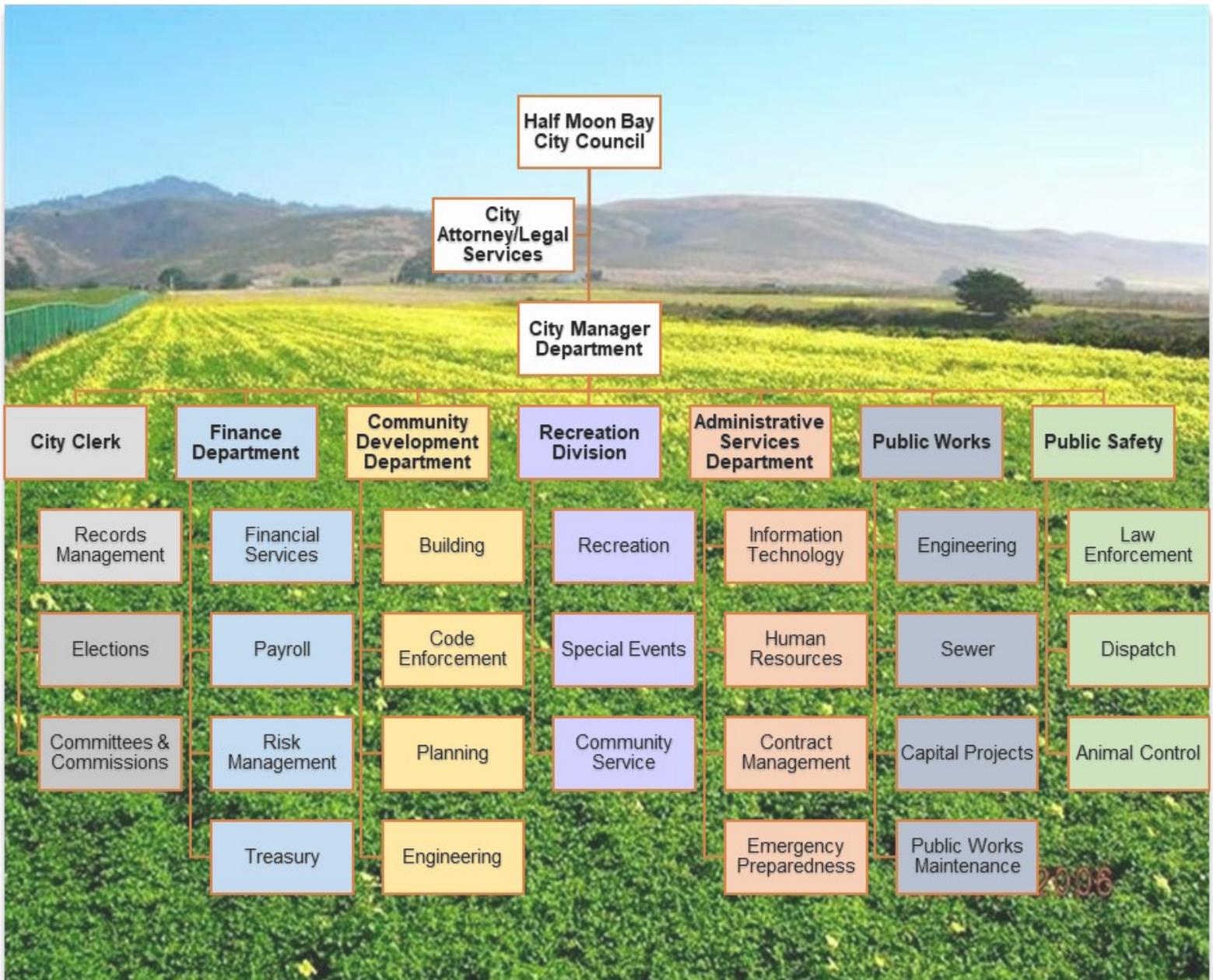


Library Progress

During the 2015-16 fiscal year, the City finalized an agreement with the County of San Mateo to secure funding for a brand new, state-of-the-art library. Half Moon Bay new library will be serving the City and the Coastside community. It is expected to open to the public in July/August 2018. If you would like to view a time-lapse video of the construction please visit <https://www.half-moon-bay.ca.us/> for more information and up to date progress.



Organizational Chart



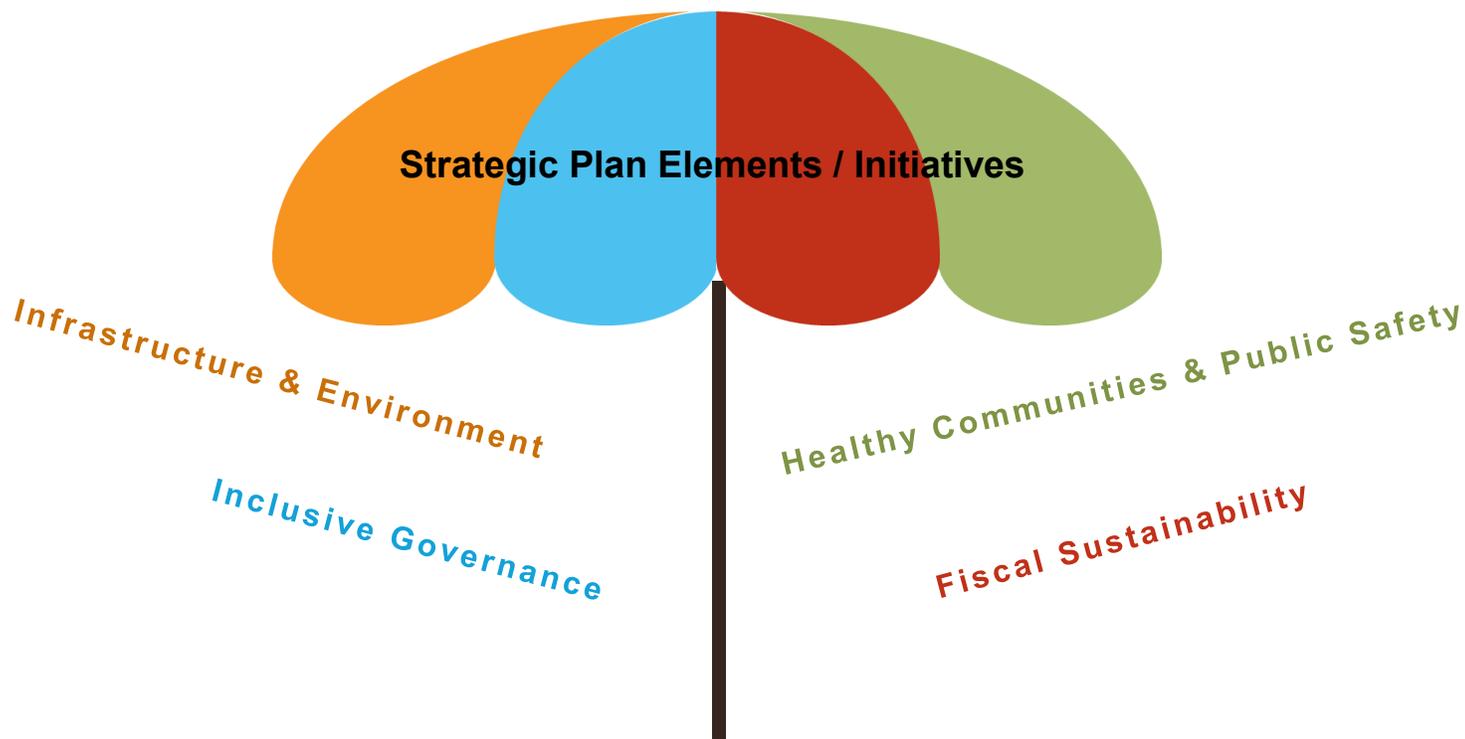
Elected Officials



The City's policy-making and legislative authority are vested in a governing council (City Council) consisting of five members. Council Members are elected to overlapping four-year terms and, from amongst themselves, select a Mayor and Vice Mayor each December. The Council is responsible for passing ordinances, adopting the budget, appointing Planning Commission and volunteer Committee members, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, providing leadership to the City's programs, overseeing the day-to-day operations of the City, and appointing City staff. Collaborating with the members of the City Boards, Commissions, Committees, and the City Staff, the Council plays a key role in the budget process and financial well-being of the City.

Council's Goals & Strategic Priorities:

The City of Half Moon Bay City Council holds an Annual Retreat, which serves as the launching point for the annual budget preparation. At this year retreat on March 15, 2017 to discuss Council's Goals & Strategic Priorities for the up coming fiscal year.



Key Financial Information



City Debt

Total City Debt as of June 30, 2017
(In Thousands of Dollars)



- Judgment Obligation Bonds** – Debt used to pay claims on court judgments.
- Claims** – Workers’ Compensation and Liability Insurance claims made to the City.
- Proportionate Share of Net Pension Liability** – Workers’ Compensation and Liability Insurance claims made to the City.



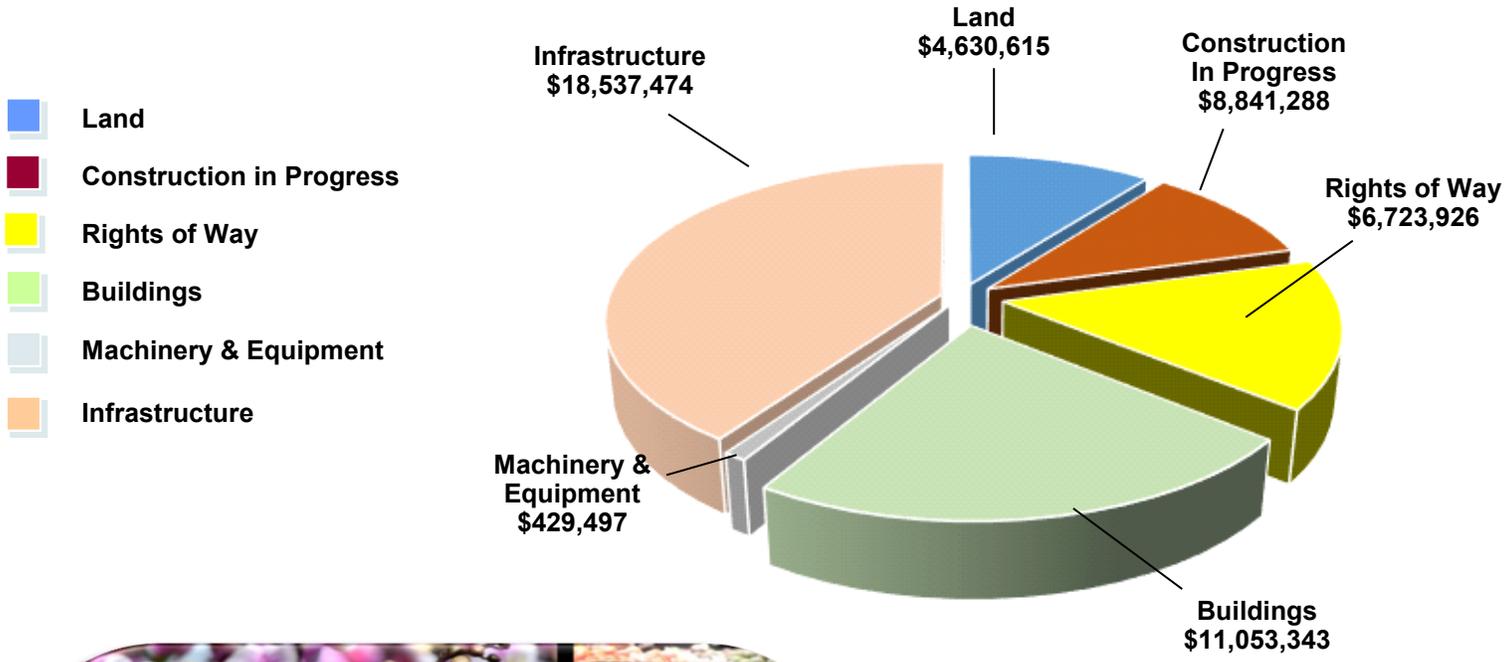
Capital Assets

(Property, Plant, and Equipment)

As of June 30, 2017, the City's total capital assets balance is \$50,216,143. This total amount is comprised of the following:



City of Half Moon Bay Capital Assets As of June 30, 2017 *(Net of Depreciation)*



Depreciation is the reduction in the value of an asset that occurs with the passage of time. In the financial statements for the entire city government, or for the City's government's business-like activities, staff record depreciation on the straight-line method (over equal annual amounts) over the estimated useful life of the assets.

Investment Portfolio

The market value of the City's cash and investments as of June 30, 2017, is as follows:

INVESTMENTS:	Investment Maturities			Total
	Fair Value	12 Months or Less	More than 60 Months	
Available for Operations				
California Local Agency Investment Fund	7,242,415	7,242,415		7,242,415
San Mateo County Investment Pool	39,893,466	39,893,466		39,893,466
Held by Trustees				
California Local Agency Investment Fund	749,907	749,907		749,907
Federal Agency Security	10,545,855		10,545,855	10,545,855
Money Market Fund	687	687		687
Mutual Fund	587,885	587,885		587,885
Total Investments	\$ 59,020,215	\$ 48,474,360	\$ 10,545,855	59,020,215
Total Deposits				2,301,860
Total Deposits and Investments				\$ 61,322,075

The City's cash and investment practices and policies, as of June 30, 2017, are based upon State law and prudent investor rules. The primary goals of these investment practices and policies are:

- Ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer; and
- Protect principal and maintain liquidity to meet expected operating expenses; and
- Achieve a reasonable rate of return within the parameters of prudent risk management, while minimizing the potential for capital losses arising from market changes or issuer default.



Statement of Net Position

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of June 30, 2017 and June 30, 2016.

City of Half Moon Bay Statement of Net Position As of June 30, 2017 and 2016 (In Thousands of Dollars)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Assets									
Current and other assets	\$ 46,827	\$ 48,907	-4%	\$ 22,438	\$ 21,113	6%	\$ 69,265	\$ 70,020	-1%
Land held for resale	26,824	26,824	0%	-	-	0%	26,824	26,824	0%
Capital assets	46,399	40,514	15%	3,817	3,871	-1%	50,216	44,385	13%
Total assets	120,050	116,245	3%	26,255	24,984	5%	146,305	141,229	4%
Deferred outflows of resources									
Related to pension	1,677	573	193%	52	20	160%	1,729	593	192%
Liabilities									
Current and other liabilities	12,537	7,611	65%	424	357	0%	12,961	7,968	63%
Long-term obligations	10,915	10,915	0%	-	-	0%	10,915	10,915	0%
Total liabilities	23,452	18,526	27%	424	357	19%	23,876	18,883	26%
Deferred inflows of resources									
Related to pension	1,545	1,629	-5%	166	134	24%	1,711	1,763	-3%
Net Position									
Net investment in									
Capital Assets	46,399	40,514	15%	3,817	3,871	-1%	50,216	44,385	13%
Restricted	22,157	19,780	12%	-	-	0%	22,157	19,780	12%
Unrestricted	28,173	34,370	-18%	21,901	20,636	6%	50,074	55,006	-9%
Total net position	\$ 96,729	\$ 94,664	2%	\$ 25,718	\$ 24,507	5%	\$ 122,447	\$ 119,171	3%

Total net position increased by 3% when compared to the previous year. The increases in capital assets and total net position, as well as the decreases in unrestricted net position are due in large part to substantial progress made on the Library Capital project, which is scheduled to be completed in 2018. Total current liabilities increased by 26% due to normal fluctuations in accounts payable and an increased in net pension liability attributable to increases in City staffing and changes in valuation and methodology imposed by CalPERS.



Accounting Definitions

Current and Other Assets – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

Current and Other Liabilities – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll, accrued interest payable, and deferred revenue.

Deferred Outflows/Inflows Related to Pension – These represent a consumption/acquisition of net position that applies to future periods as related to pension assets/liabilities.

Long-Term Obligations – Represents mainly debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

Net Investment in Capital Assets – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets. It should be noted that the resources needed to repay this debt must be provided by other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position – Represents the difference between the City's total assets and liabilities.

Restricted Net Position – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for debt service, public works projects, and community services programs as established by the City Council.

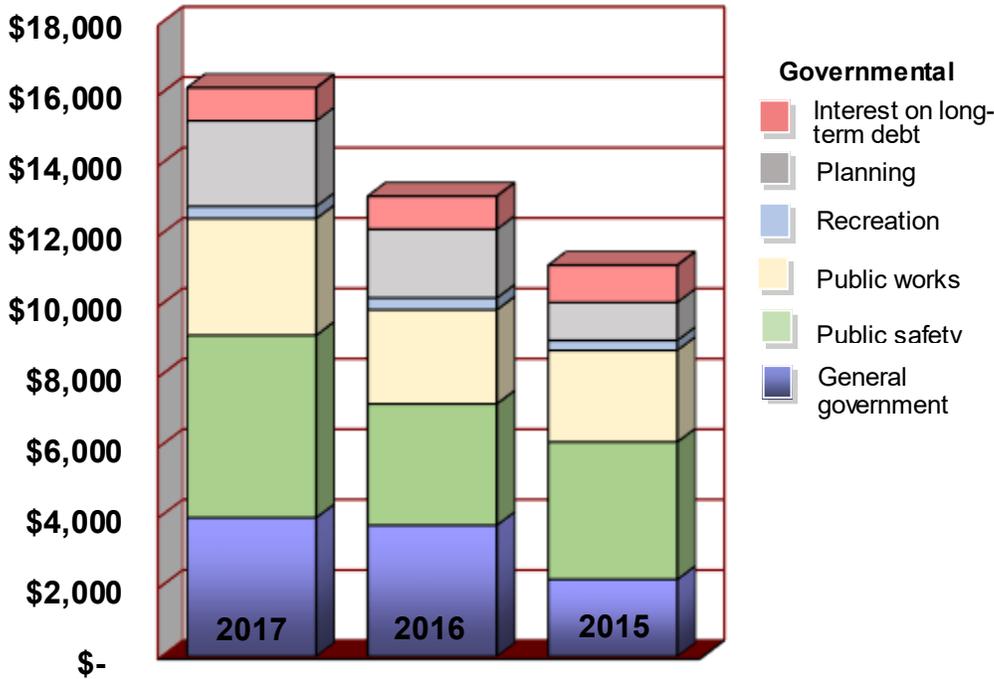
Unrestricted Net Position – These are resources that are accessible to the City to provide services to the residents of Half Moon Bay if there were no additional revenues or resources available.



Statement of Activities

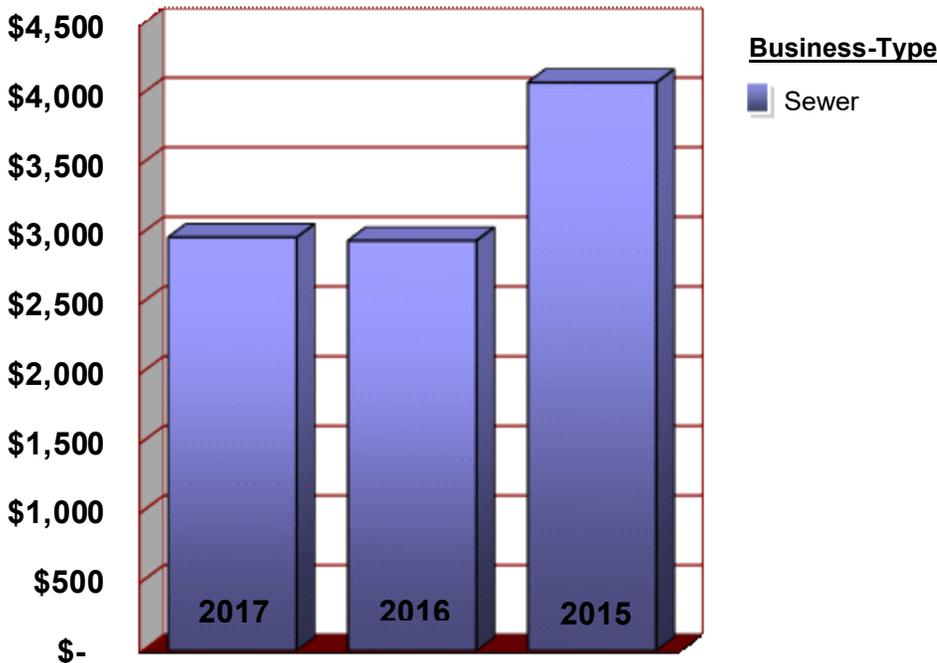
The graphs on this and the following page show revenues and expenses for Governmental and Business-type activities as they relate to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Funds. Business-type activities include the Sewer Fund Operating and Capital Funds.

**City of Half Moon Bay Expenses
Governmental Activities As of June 30, 2017, 2016 and 2015**
(In Thousands of Dollars)



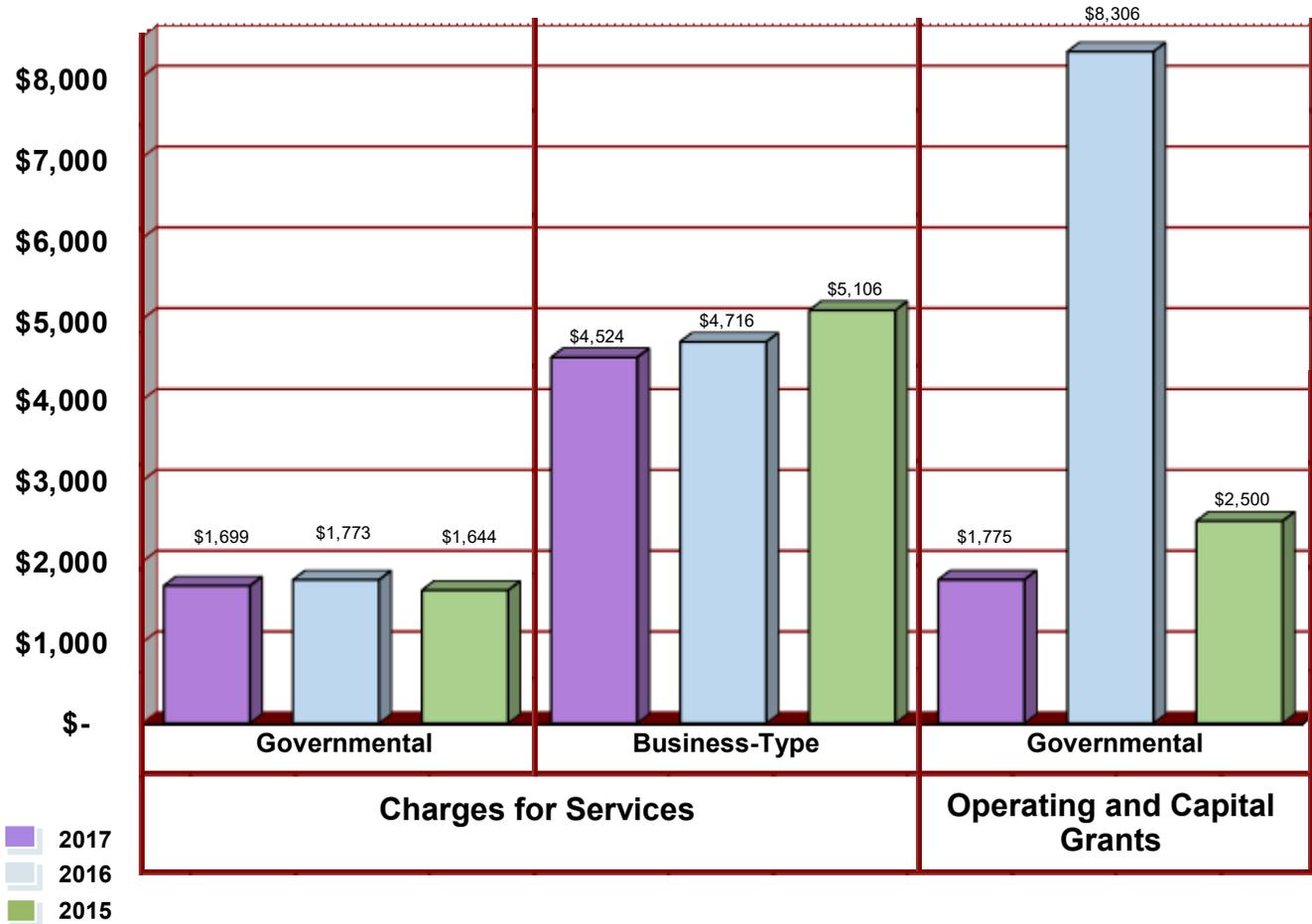
Governmental expenses increased from \$13,072,919 in the fiscal year ending June 30, 2016, to \$16,152,149 in the fiscal year ending June 30, 2017, primarily due to General Government expenses that are more in line with historic costs for City operations, increased staffing, and an increase in overall services

**City of Half Moon Bay Expenses
Business-Type Activities As of June 30, 2017, 2016 and 2015**
(In Thousands of Dollars)



Business-Type expenses increased from \$2,943,013 in the fiscal year ending June 30, 2016, to \$2,966,613 in the fiscal year ending June 30, 2017. This is primarily due to a decrease in net position for the Sewer Authority Mid-Coastside (SAM) due to depreciation and GASB 68 implementation that resulted in City-reported losses on investment of \$0.17 million in fiscal year 2015-16.

City of Half Moon Bay Program Revenues Governmental and Business-Type Activities As of June 30, 2017, 2016 and 2015 *(In Thousands of Dollars)*



Charges for services decreased from \$1,772,680 in the fiscal year ending June 30, 2016, to \$1,699,025 in the fiscal year ending June 30, 2017, for governmental activities primarily due to the timing of building projects. Charges for services decreased from \$4,715,919 in the fiscal year ending June 30, 2016, to \$4,524,358 in the fiscal year ending June 30, 2017 due to moderate new sewer connection fee activity during the year.

Operating and capital grants for governmental activities increased from \$8,306,190 in the fiscal year ending June 30, 2016, to \$1,774,085 in the fiscal year ending June 30, 2017, due to a contribution from San Mateo County for the library project in the prior year.

Definition of Program Revenues: Revenues that derive directly from the program itself, such as user fees and charges, which reduce the cost of the function to be financed from the government’s general revenues.



Governmental Funds

The City maintains 17 individual governmental funds. Governmental funds are used to account for tax-supported activities such as: public safety, public works, general government, and community-related services. The major governmental funds are the General Fund, Streets and Road Funds, Judgement Obligation Bond Fund, Park Developments Funds, Library Capital Fund, and the Land Asset Fund.

The **General Fund** accounts for activity not required to be accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources.

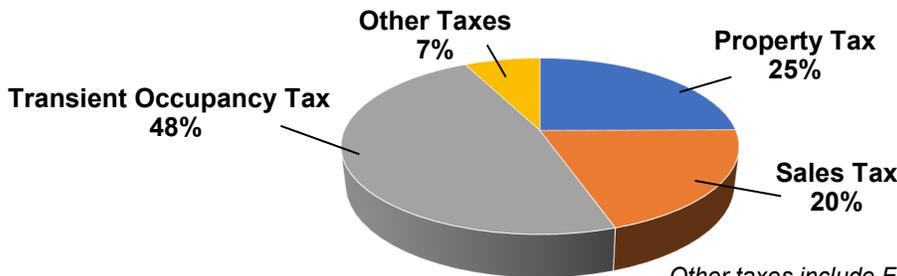
Debt Service Funds are used to account for the receipts for and payment of general long-term debt.

Capital Projects Funds are used to account for and report financial resources for capital outlays.

Revenue Sources

The City received over \$17,701,974 from various funding sources for the fiscal year ending June 30, 2017. The largest source of funds for the City of Half Moon Bay comes from tax income.

Half Moon Bay Tax Revenue



Transient Occupancy Tax is the largest source of tax revenue. The City of Half Moon collects a 12% tax from travelers when renting accommodations for stays

HOTELS, MOTELS, B&B'S

Number of Hotels, Inns and B&B's	12
RV Parks and Campgrounds	3
Hotel Rooms	579
Average Occupancy	72%
Annual Coastside Visitors	4,132,560
Overnight Visitors	216,372
Overnight Visitor Annual Spending	\$80,897,062

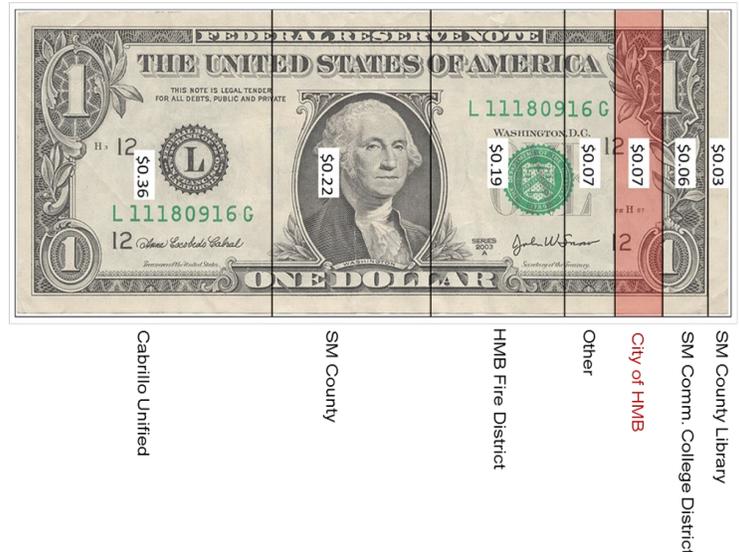
Sales Tax is currently the City's third largest revenue source. Sales tax is collected by the State Board of Equalization against tangible items. The current sales tax rate in Half Moon Bay is 8.75%, and the local portion is distributed to cities and counties based on the location of the sale, as follows: for every 8.75¢ collected by the businesses within the City, 1.0¢ goes to the City, 1.25¢ to the County, and 6.5¢ to the State.



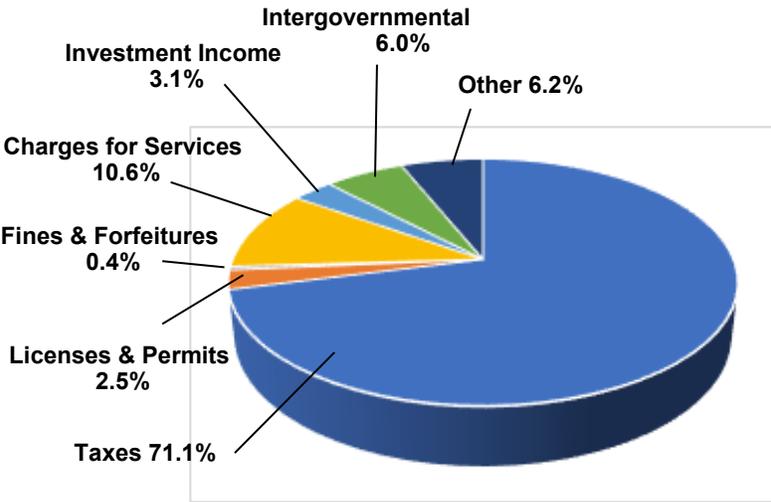
Legend

- 74% - State (6.5¢)
- 14% - County (1.25¢)
- 11% - City (1.0¢)

Property tax is the City's second largest revenue source. Personal property in California is subject to a basic levy equal to 1% of assessed value. The California Constitution, after passage of Proposition 13 in 1978, fixed valuations of real property at 1975 levels, with a maximum adjustment of 2% per year based on inflation. When a change of ownership or new construction occurs, the property is re-assessed to its current value.



City of Half Moon Bay Statement of Revenues Governmental Funds As of June 30, 2017 and 2016 *(In Thousands of Dollars)*



REVENUE BY SOURCE	2017	2016
Taxes	\$ 12,586	\$ 13,929
Licenses and Permits	444	380
Fines and Forfeitures	79	102
Charges for Services	1,869	1,524
Investment Income	550	773
Intergovernmental	1,069	8,059
Other	1,104	420
Total	\$ 17,701	\$ 25,187

Total governmental revenue decreased from \$25.2 million in FY 2015-16 to \$17.7 in FY 2016-17 primarily due to a large contribution received from San Mateo County for the Library Capital project in FY 2015-16, as well as the end of the Measure J sales tax increment in March 2016.

The largest source of operating revenues for the City of Half Moon Bay are from **Taxes**. The three primary sources of tax revenue for the City are as follows:

Transient Occupancy Tax is collected from visitors who stay in the City's hotels and other temporary lodging. The City collects 12% of the rent charged to each guest.

Property taxes are levies collected from property within the City based on assessed value and tax rate. These taxes are collected and distributed by the County of San Mateo.

Sales taxes, the second largest source of revenue, are imposed on retail transactions and are collected and administered by the State. The tax rate within the City of Half Moon Bay is 9% of all taxable sales.



Licenses and permits represent revenues generated from a variety of activities, such as building-related permits.

Revenue from **Fines and Forfeitures** are generated from various sources, such as parking fines.

Charges for services are revenues collected for services rendered to the public such as development impact fees planning fees.

Revenue from the **Investment Income** includes interest on City investments.

Intergovernmental revenue is primarily reimbursements from Federal, State, and County sources.

Other revenues are revenues that do not fall into designated categories.

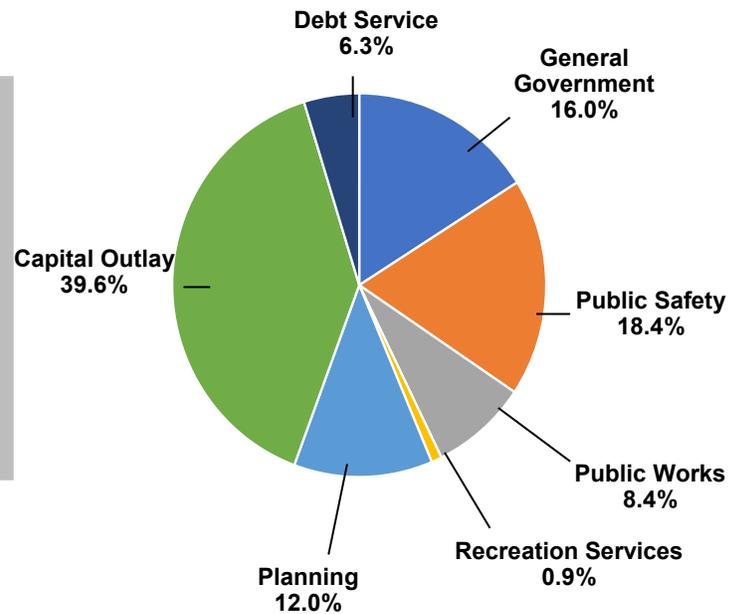


Expenditures & Services

The City incurs expenditures to meet the diverse needs of the community. For the period July 1, 2016 to June 30, 2017, the total expenditures incurred by the City were \$19,628,211 (excluding transfers).

City of Half Moon Bay Statement of Expenditures Governmental Funds As of June 30, 2017 and 2016 (In Thousands of Dollars)

EXPENDITURES	2017	2016
General Government/Administration	\$ 3,142	\$ 2,774
Public Safety	3,611	3,208
Public Works	1,639	1,348
Recreation Services	177	183
Planning	2,354	1,892
Capital Outlay	7,767	4,437
Debt Service	938	938
Total	\$ 19,628	\$ 14,780



Total governmental funds expenditures increased from \$14.8 million in FY 2015-16 to \$19.6 million in FY 2016-17, primarily due to substantial progress made during the fiscal year on the library capital project.

General government expenditures are those incurred for the administrative offices, including City Council, City Manager, City Attorney, City Clerk, Finance, Administrative Services, Community Development, Planning and Building, and Information Services.

Public Safety expenditures reflect the costs associated with providing police, fire, and marine safety services to residents and visitors.

Expenditures for **Public Works** are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City.

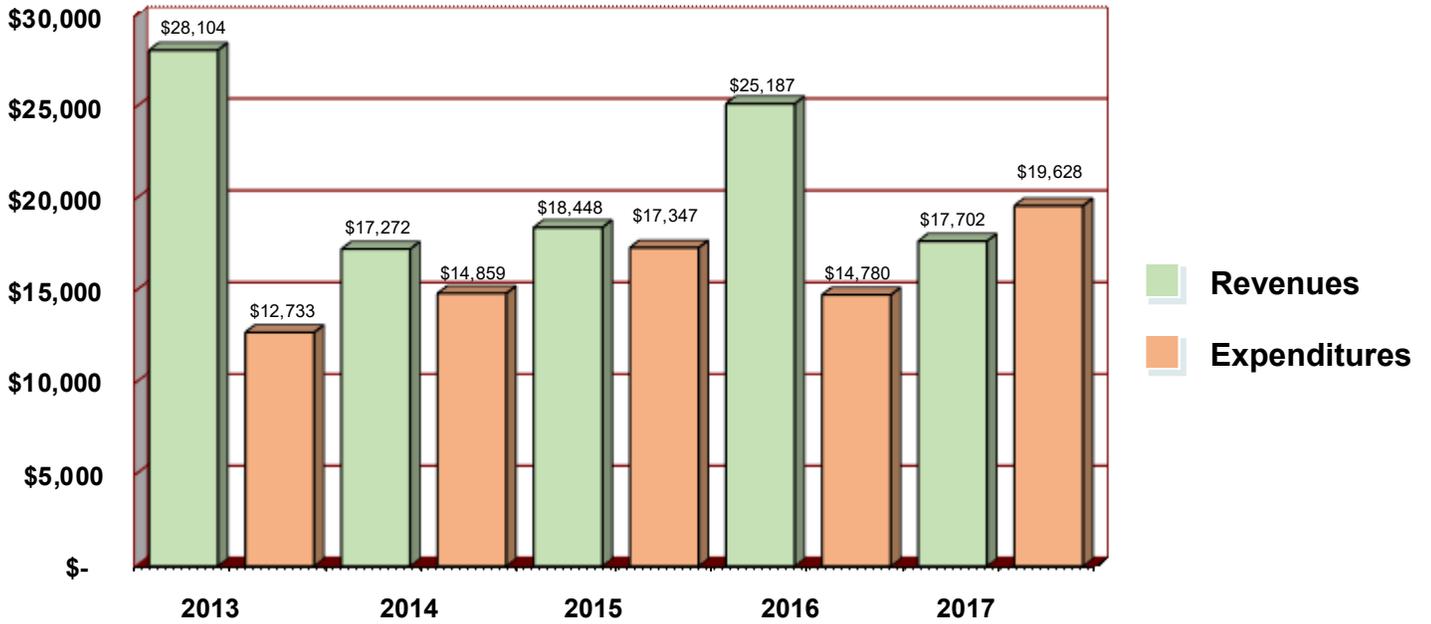
Recreation Services expenditures are those incurred by the City to enrich the quality of life in Half Moon Bay recreational and cultural activities.

Capital expenditures are expenses related to the purchase of plant, property, equipment and expenses related to infrastructure improvements.

Debt service expenditures are used to retire the City's debt.



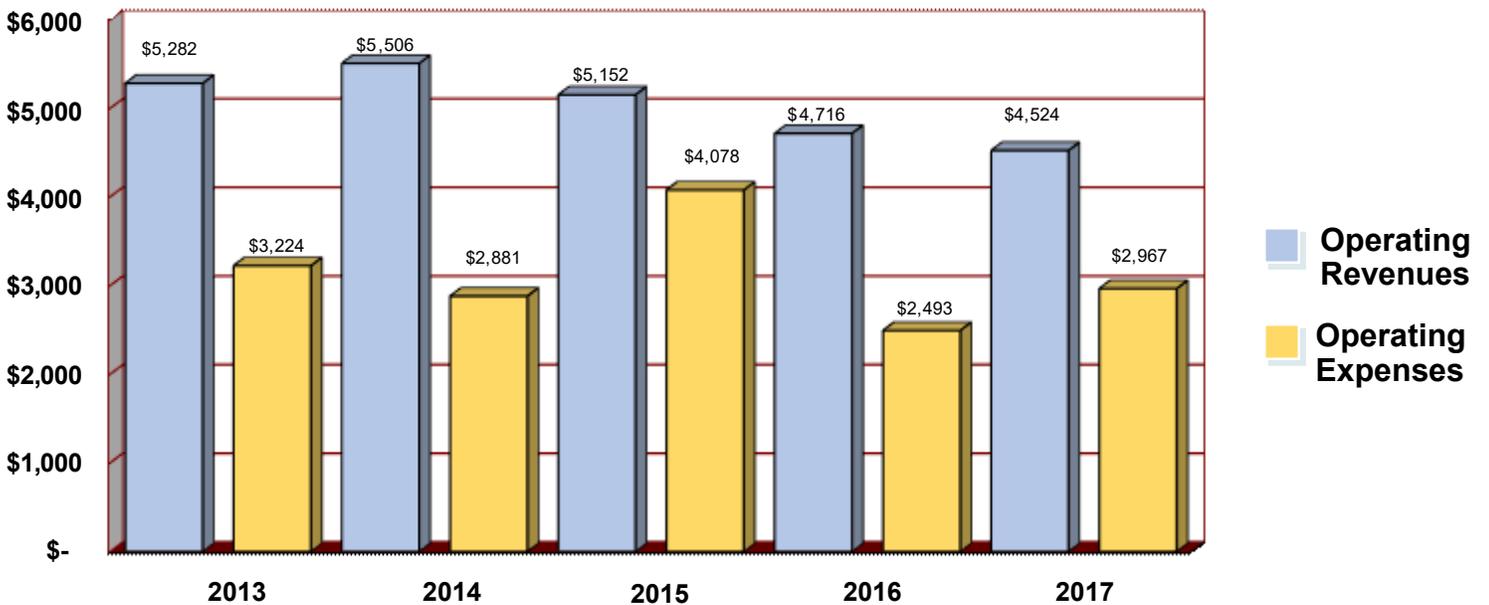
Governmental Funds Revenues and Expenditures - Five Year Trend *(in Thousands of Dollars)*



Business-Type Funds

Business-type funds are used to report any activity for which a fee is charged to users for goods or services, similar to private business. Over time these funds generate enough revenue to cover the costs of their operating expenses. The City maintains two business-type funds (Sewer Operating and Sewer Capital) which are reported together as of June 30, 2017.

(in Thousands of Dollars)



The **Sewer Service Fund** accounts for user fees charged to residents and businesses for sewer services and related operating and capital expenses.

Top 10 Employers/Tax Payers

Employers

-  **Ritz Carlton Hotel**
-  **Cabrillo Unified School District**
-  **Rocket Farms Inc.**
-  **New Leaf Community Markets Inc.**
-  **Safeway Stores Inc.**
-  **Sam's Chowder House**
-  **Half Moon Bay Golf Links**
-  **Hassett Hardware**
-  **Pasta Moon Inc.**
-  **Pastorino Hay & Ranch Supply Inc.**

Half Moon Bay welcomes those wishing to live, work and play in the City. You will find an inviting and multicultural community atmosphere and friendly and involved people here. The top 10 employers in Half Moon Bay is 28.5% of total employment reported by City of Half Moon Bay HdL Business License System.



Half Moon Bay top 10 tax payers are listed via the chart on the right. Total assessed values for the City is \$2,755,743,731 with the top 10 combining for \$273,365,986 which is 9.92% of the overall assessed values in Half Moon Bay.



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"VIVIR, TRABAJAR, JUGAR"