

THE CITY OF HALF MOON BAY CALIFORNIA



POPULAR ANNUAL FINANCIAL REPORT

FISCAL YEAR 2017 - 2018
JULY 1, 2017 - JUNE 30, 2018

"VIVIR, TRABAJAR, JUGAR"
LIVE, WORK, PLAY



PAFR Message

Dear Reader,

As the City Manager of the City of Half Moon Bay, I am proud to present to you our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2018. This publication represents the ongoing commitment of the city to keep the community informed about the City's finances and to be accountable for the receipt and expense of public funds.

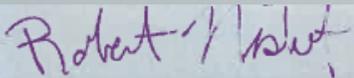
The PAFR is intended to convey the financial results of the government's operations to stakeholder's who do not necessarily have a background in public finance.

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 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) 726-2034 or by e-mail at finance@hmbcity.com.

Sincerely,



Bob Nisbet
City Manager
City of Half Moon Bay



Table of Contents

2	•City Profile	9	•Revenue & Expenses
3	•Library & Org Chart	12	•Governmental Funds
4	•Elected Officials	14	•Expenditures & Services
5	•Fun Facts	15	•Capital Assets
6	•Financial Report Award	16	•City Debt
7	•About this Report	17	•Investment Portfolio
8	•Accounting Definitions	18	•Statement of Net Position
		19	•Top 10 Employers



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 1840s, 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 12,600 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.

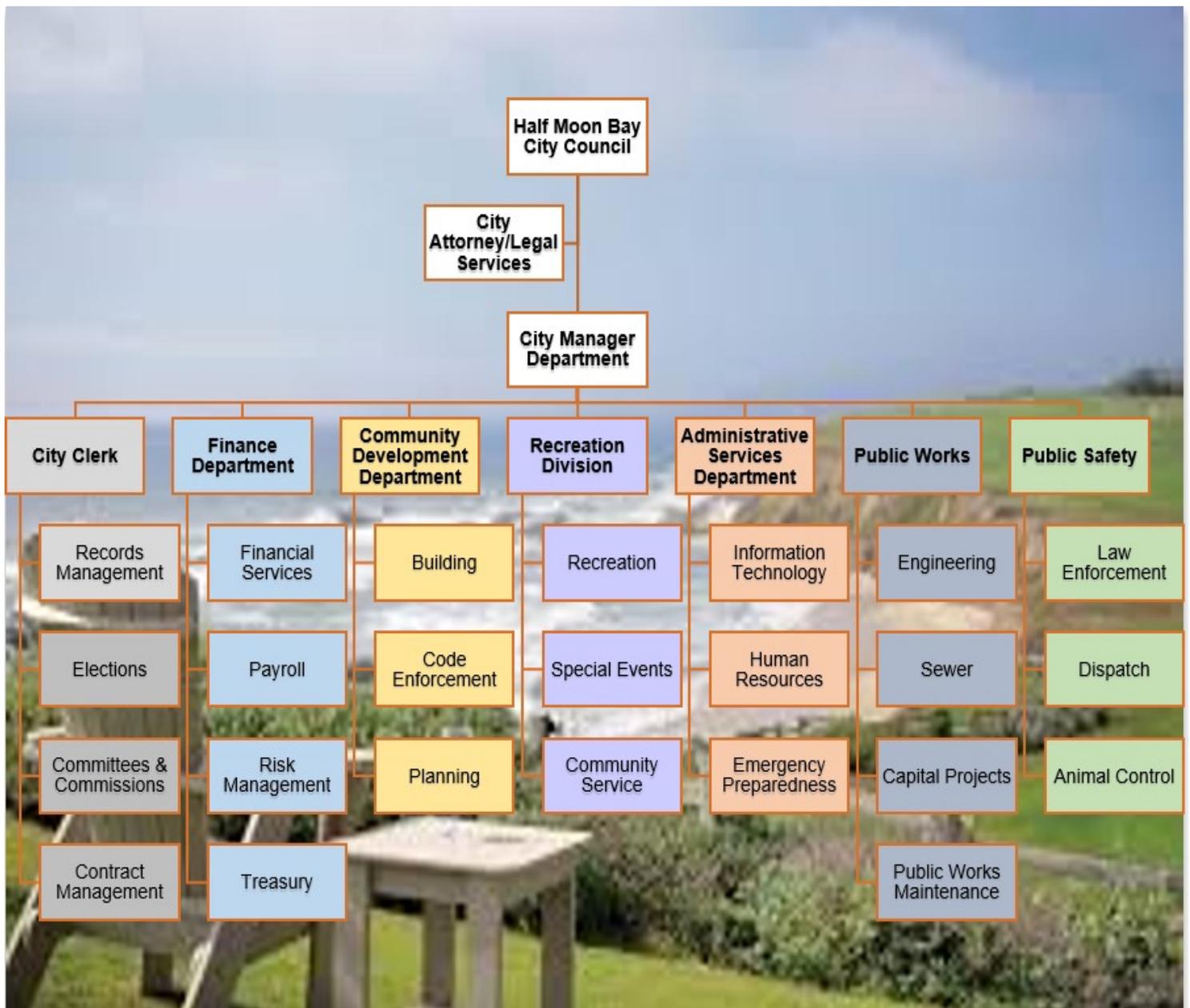


Our New Library

Hundreds gathered outside the new Half Moon Bay Library on Saturday morning August 18, 2018 in anticipation of its grand opening. The brand new, two-story, 22,000 square foot library is designed to be the center of the community and a place for people of all ages to feel at home with access to resources and information. The total cost of the project is approximately \$25 million with 50% coming from the City of Half Moon Bay and the other 50% coming from the County of San Mateo including \$500,000 in funds from Measure K.



Organizational Chart



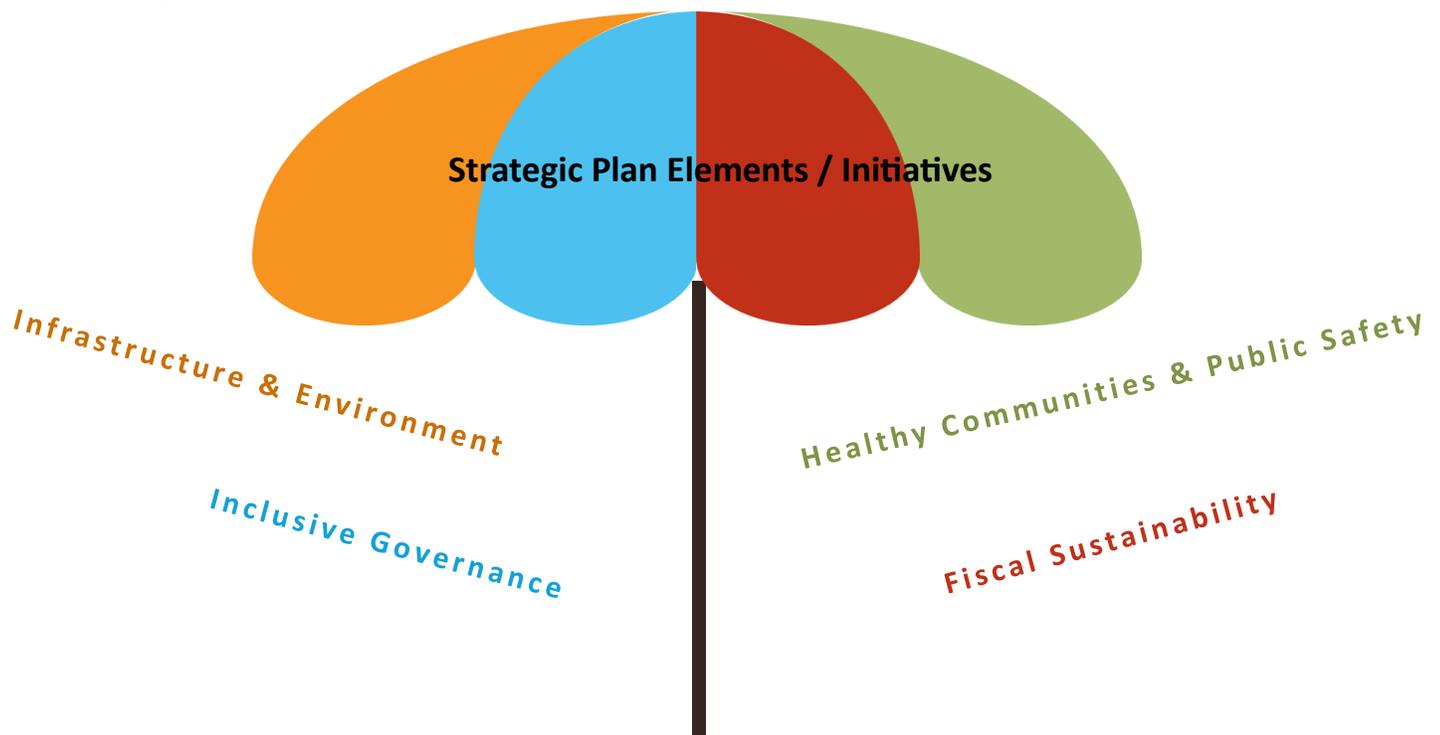
Elected Officials (6/30/2018)



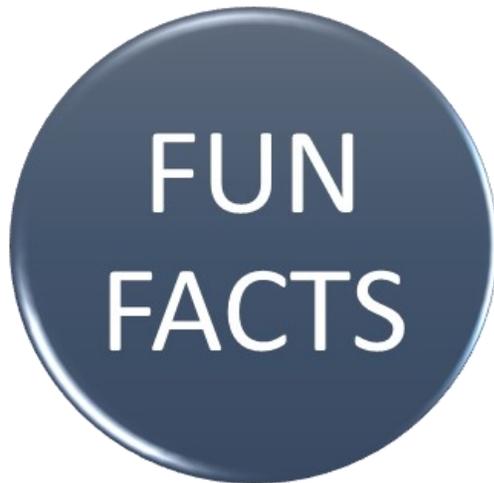
The City's policy-making and legislative authority are vested in a governing council (City Council) consisting of five members. Councilmembers are elected to overlapping four-year terms and, from amongst themselves, select a Mayor and Vice Mayor each December. The Council is responsible for passing ordinances, 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 members of the City's Boards, Commissions, Committees, and the City Staff, the Council plays a key role in the budget process and financial well-being of the City.

City Council's Goals & Strategic Priorities:

The Half Moon Bay City Council holds an Annual Retreat, which serves as the launching point for preparation for the annual budget. At this year retreat on May 1, 2018, the Council discussed Goals & Strategic Priorities for the upcoming fiscal year.



Fun Facts



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



Last grizzly bear killed here 1879



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



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



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.

We are also pleased to report that the City of Half Moon Bay received the GFOA's Award for Outstanding Achievement in Comprehensive Annual Financial Reporting (CAFR) for the organization. The City has received this accolade for 13 consecutive years and has worked diligently to produce this document for the 2017-18 fiscal year, which will be submitted for the 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, 2017

Christopher P. Morill

Executive Director/CEO



About this Report

This report provides an overview of the City's financial position for the 2017-2018 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 is easy to read and understandable.

The PAFR summarizes the financial activities of the City of Half Moon Bay and draws its information from the 2018 Comprehensive Annual Financial Report (CAFR) which is presented to City Council on December 18, 2018. 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 on the financial statements. Government-wide data on accounting (pages 8-10;18) is presented similar to a consolidated financial statement for a private business (accrual basis). Governmental funds financial information (pages 12-13) 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.hmbcity.com>, or by contacting the Finance Department at 507-B Purrisima Street, Half Moon Bay, CA 94019, phone (650) 750-2034, or e-mail finance@hmbcity.com.



Accounting Definitions

Business-Type Activities – are supported by fees and charges.

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 are due 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 known pension asset/liability that will be applied to future periods.

Governmental Activities – are supported by taxes and intergovernmental revenues

Long-Term Debt – 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.

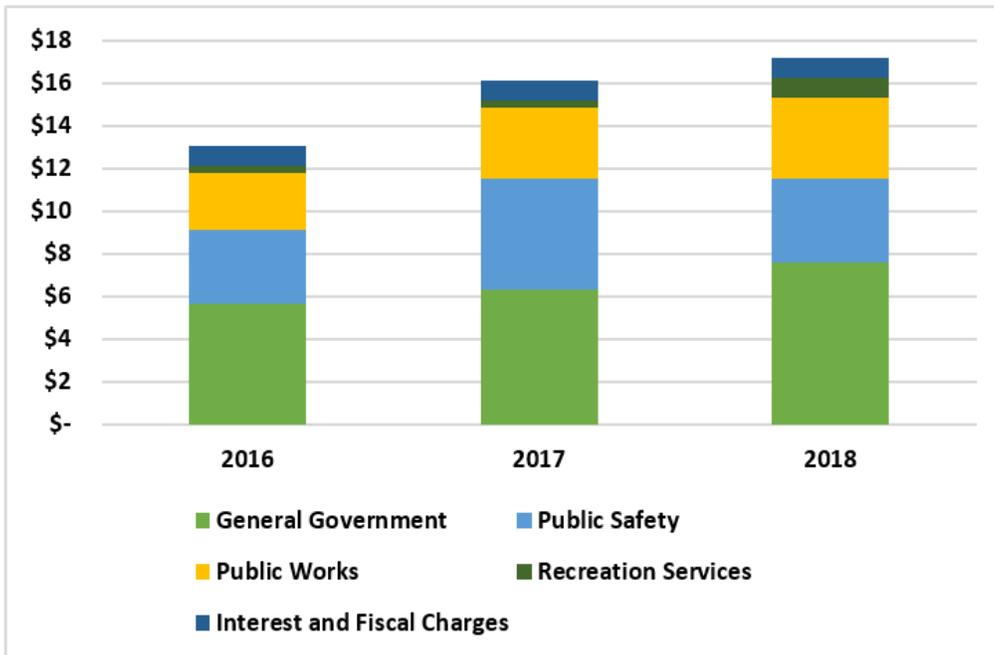
Unrestricted Net Position – These are resources that are accessible to the City to provide services to the residents of Half Moon Bay if there were no additional revenues or resources available.



Revenue & Expenditures

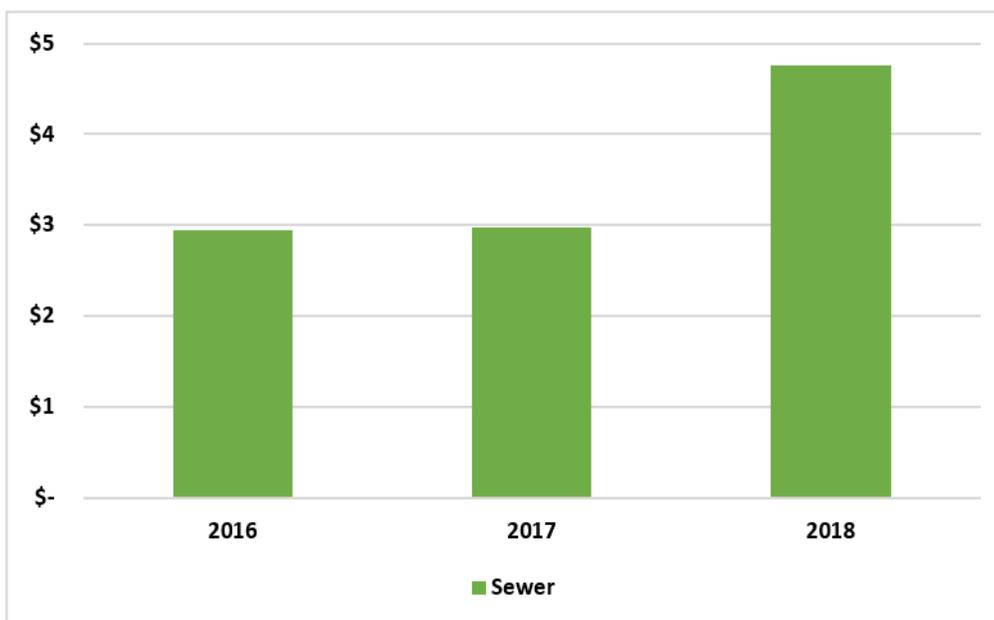
The graphs on this and the following page show revenues and expenses for Governmental and Business-type activities as they relate to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Debt Service Fund, Capital Projects Fund, and Special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

**City of Half Moon Bay Expenditures
Governmental Activities As of June 30, 2018, 2017 and 2016**
(In Millions of Dollars)



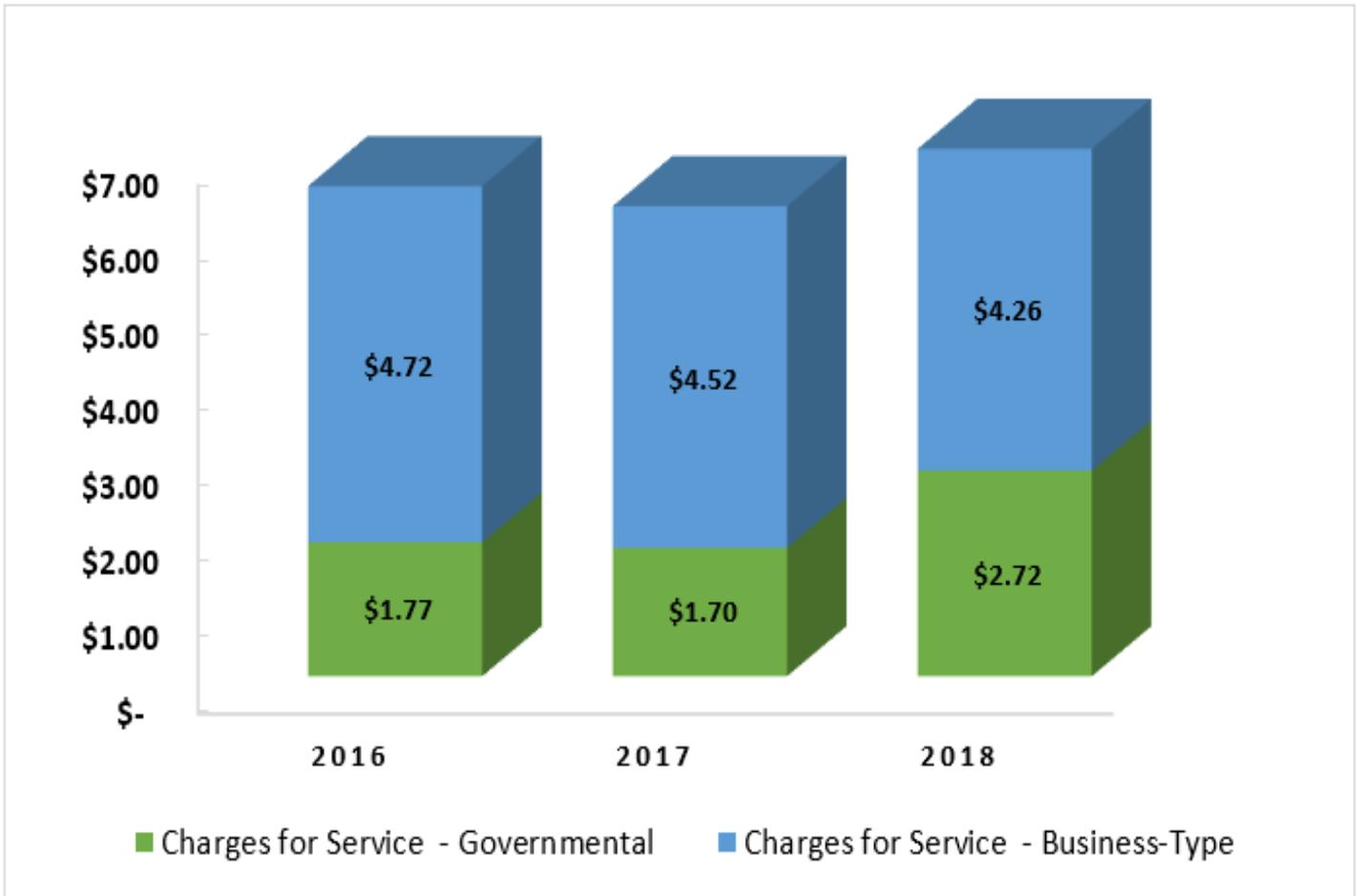
Governmental Expenditures increased from \$16.2m in the fiscal year ending June 30, 2017, to \$17.2m in the fiscal year ending June 30, 2018, primarily due to City Attorney costs over previous years from transitioning of legal services to newly contracted City Attorney. With increased services provided by the City, overall staffing cost rose as well.

**City of Half Moon Bay Expenditures
Business-Type Activities As of June 30, 2018, 2017 and 2016**
(In Millions of Dollars)



Business-Type Expenditures increased from \$3m in the fiscal year ending June 30, 2017, to \$4.8m in the fiscal year ending June 30, 2018. This is primarily due to increased litigation with Sewer Authority Mid-Coastside (SAM), newly signed contract with a management team to manage sewer, and increased sewer service fees.

**City of Half Moon Bay Program Revenues
Governmental and Business-Type Activities
As of June 30, 2018, 2017 and 2016**
(In Millions of Dollars)



Charges for services increased from \$1.7m in the fiscal year ending June 30, 2017, to \$2.7m in the fiscal year ending June 30, 2018, for governmental activities primarily due to Planning and Engineering fees. Charges for services decreased from \$4.5m in the fiscal year ending June 30, 2017, to \$4.3m in the fiscal year ending June 30, 2018 due to moderate new sewer connection fee activity during the year.

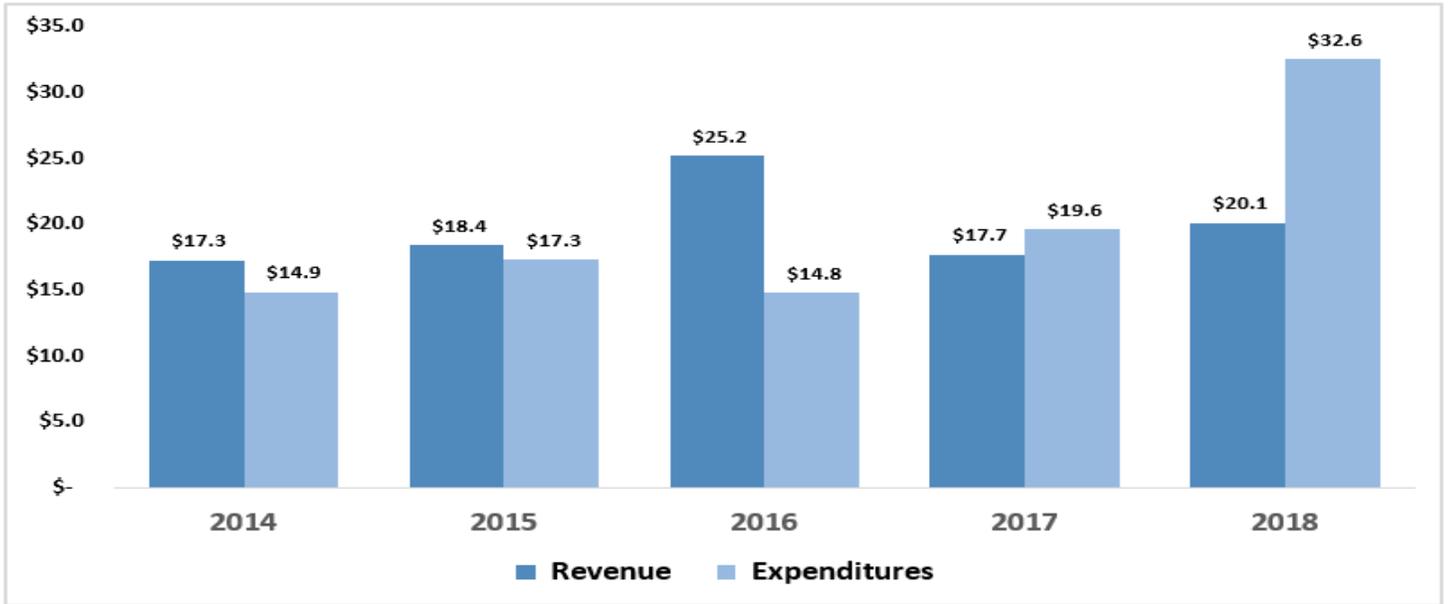
Definition of Program Revenues: Revenues that derive directly from the program itself, such as user fees and charges, which reduce the cost of the function to be financed from the government's general revenues.



Governmental Funds

Revenues and Expenditures - Five Year Trend

(in Millions of Dollars)

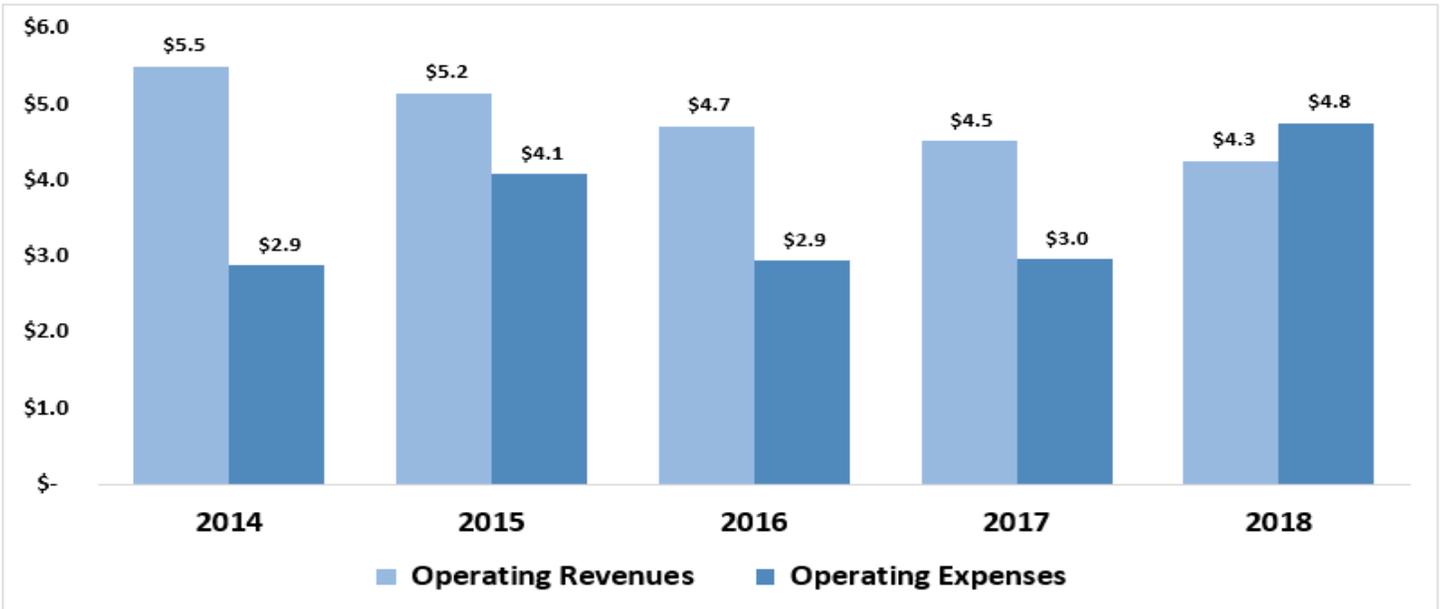


* 2018 Expenditures includes a \$15m Library Project

Business-Type Funds (Sewer)

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, 2018.

(in Millions of Dollars)



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

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.

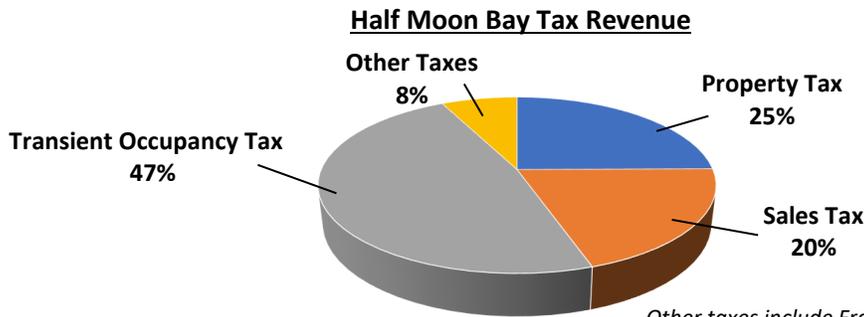
Special Revenue Funds are used to account for and report the proceeds of specific revenue sources.

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 \$13.7m from various funding sources for the fiscal year ending June 30, 2018. The largest source of funds for the City of Half Moon Bay comes from tax income.



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 of less than thirty days.

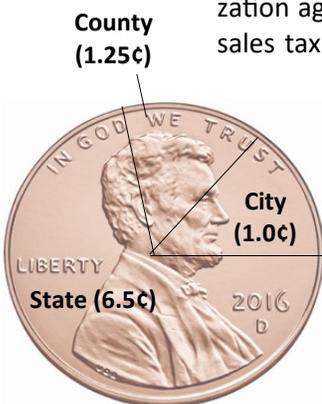
HOTELS, MOTELS, B&B'S

Number of Hotels, Inns and B&B's	12
RV Parks and Campgrounds	3
Hotel Rooms	624
Average Occupancy	72%
Annual Coastside Visitors	4,132,560
Overnight Visitors	216,372
Overnight Visitor Annual Spending	\$80,897,062

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.

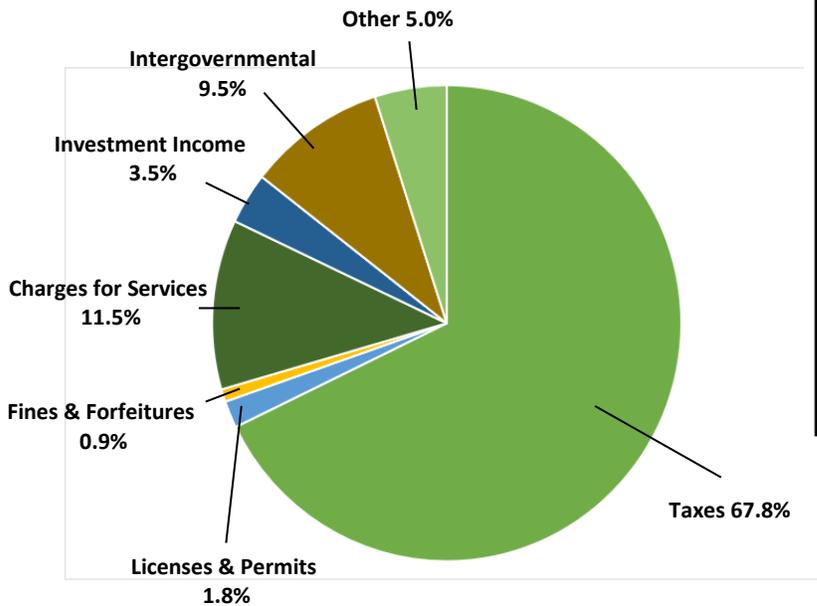


Sales Tax is currently the City's third largest revenue source. Sales tax is collected by the State Board of Equalization against tangible items. The current sales tax rate in Half Moon Bay is 8.75%, and the local portion is distributed to cities and counties based on the location of the sale, as follows: for every 8.75¢ collected by the businesses within the City, 1.0¢ (11%) goes to the City, 1.25¢ (15%) to the County, and 6.5¢ (74%) to the State.



Cabrillo Unified
SM County
HMB Fire District
Other
City of HMB
SM Comm. College District
SM County Library

City of Half Moon Bay Statement of Revenues Governmental Funds As of June 30, 2018 and 2017 *(In Millions of Dollars)*



REVENUE BY SOURCE	2018	2017
Transient Occupancy Tax	\$ 6.4	\$ 6.0
Property Tax	3.4	3.1
Sales & Use Tax	2.8	2.5
Business License/Franchise Tax	1.0	0.9
Licenses and Permits	0.4	0.4
Fines and Forfeitures	0.2	0.1
Charges for Services	2.3	1.9
Investment Income	0.7	0.5
Intergovernmental	1.9	1.1
Other	1.0	1.1
Total	\$ 20.1	\$ 17.7

Total governmental revenue increased from \$17.7m in FY 2016-17 to \$20.1m in FY 2017-18 primarily due to a new franchise agreement with Republic Services, the City's solid waste provider, and revenue taxes increased as City's tourism industry remained strong.

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 third 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 8.75% 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.



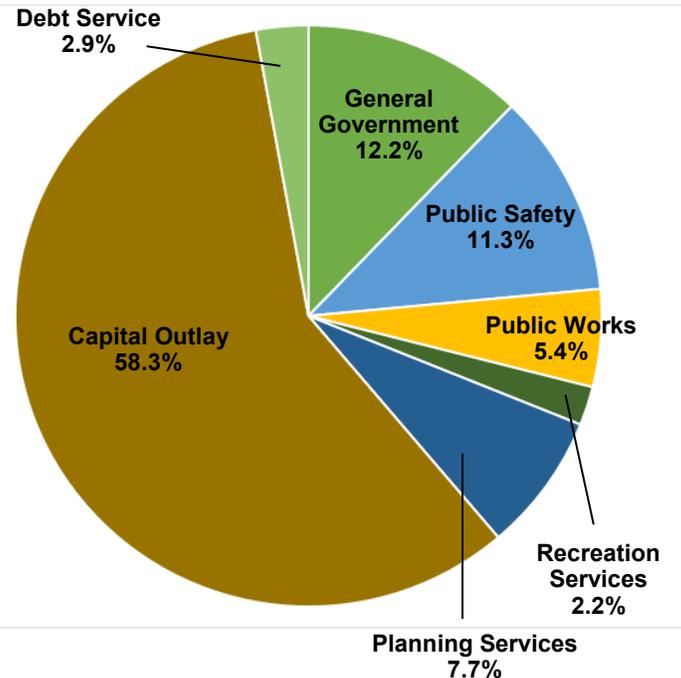
Expenditures & Services

The City incurs expenditures to meet the diverse needs of the community. For the period July 1, 2017 to June 30, 2018, the total expenditures incurred by the City were \$32.6m

City of Half Moon Bay Statement of Expenditures Governmental Funds As of June 30, 2018 and 2017 (In Millions of Dollars)

EXPENDITURES	2018	2017
General Government/Administration	\$ 4.0	\$ 3.1
Public Safety	3.7	3.6
Public Works	1.8	1.6
Recreation Services	0.7	0.2
Planning Services	2.5	2.4
Capital Outlay	19.0	7.8
Debt Service	0.9	0.9
Total	\$ 32.6	\$ 19.6

Total governmental funds expenditures increased from \$19.6 million in FY 2016-17 to \$32.6 million in FY 2017-18, 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, 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.

*Fire services are managed by Coast Side Fire District.

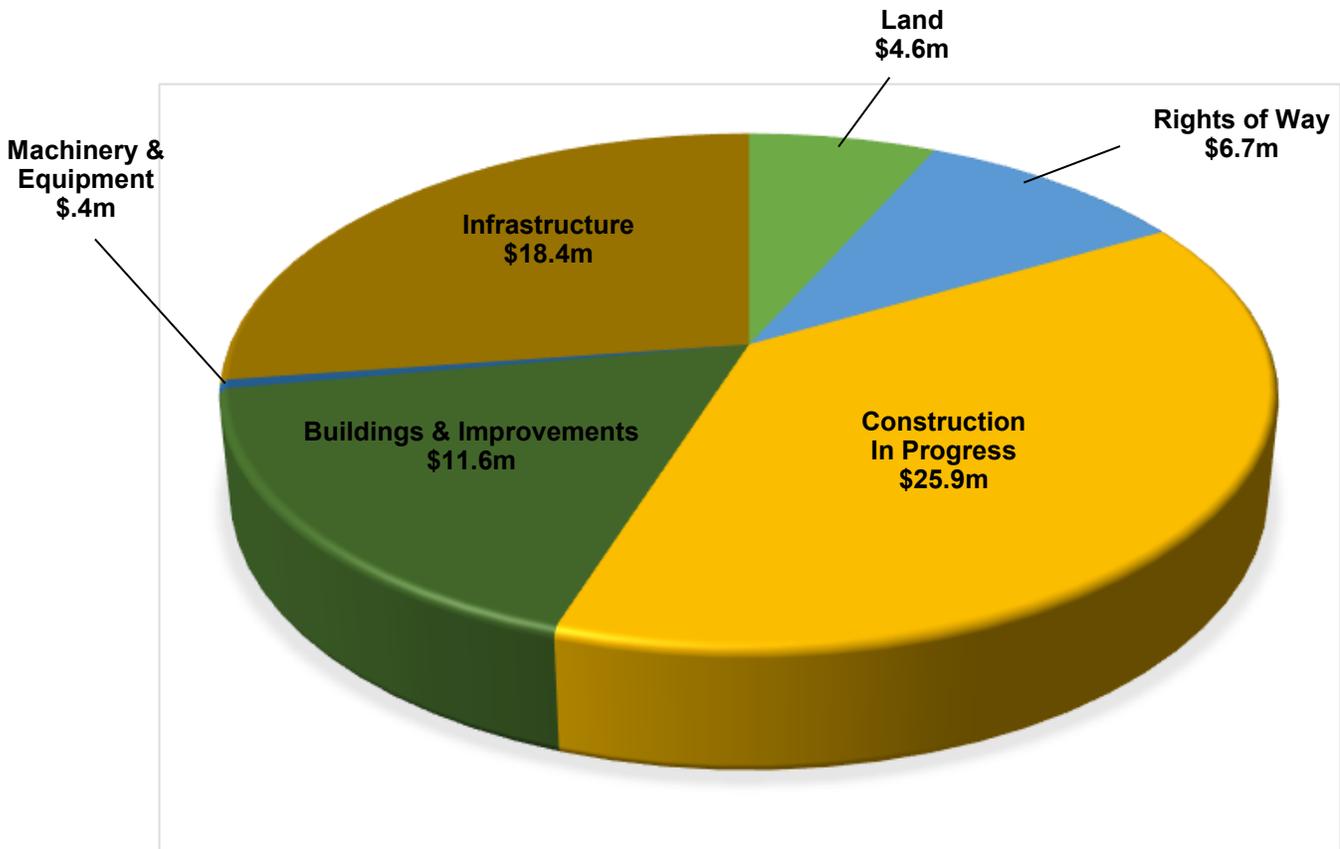


Capital Assets

(Property, Plant, and Equipment)

As of June 30, 2018, the City's total historical capital assets balance is \$67.6 million. This total amount is comprised of the following:

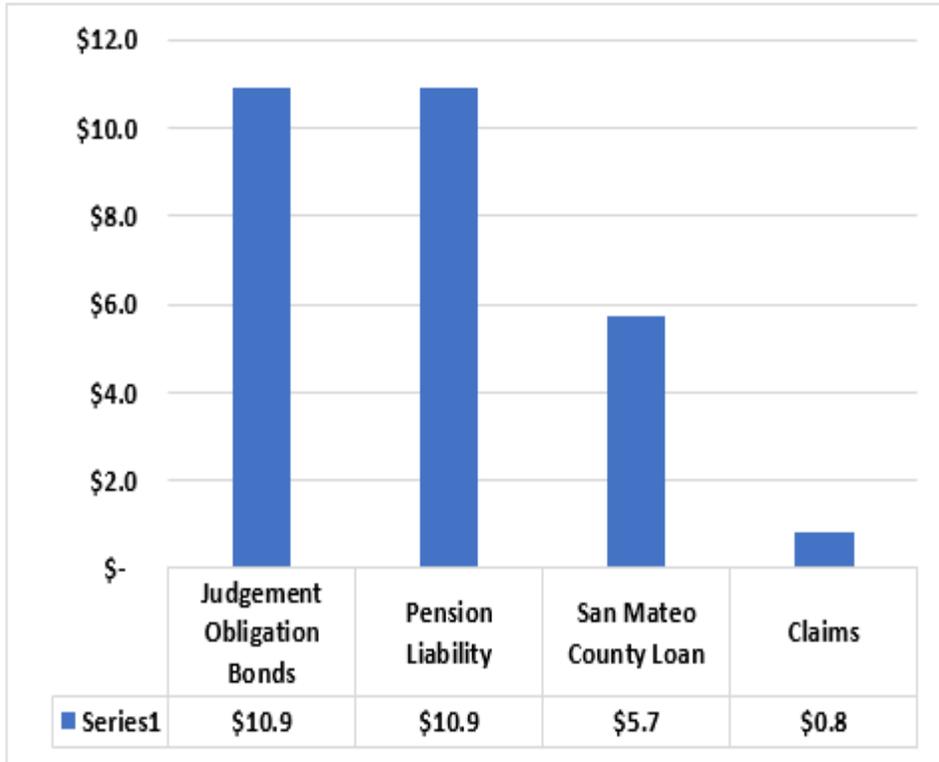
City of Half Moon Bay Capital Assets As of June 30, 2018 *(Net of Depreciation)*



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.

City Debt

Total City Debt as of June 30, 2018
(In Millions of Dollars)



Judgement Obligation Bonds

Debt used to pay claims on court judgments

Proportionate Share of Net Pension Liability

Worker's Compensation and Liability Insurance claims made to the City

San Mateo County Loan

Interest free loan for the new library

Claims

Workers' Compensation and Liability Insurance claims made to the City

* Judgement Obligation Bonds to be paid off in August 2019



Investment Portfolio

The market value of the City's cash and investments as of June 30, 2018, is as follows:

(In Millions of Dollars)

INVESTMENTS:	Market Value	Investment Maturities		
		12 Months or Less	13 to 24 Months	Total
Available for Operations				
California Local Agency Investment Fund	7.3	7.3		7.3
San Mateo County Investment Pool	37.4	37.4		37.4
Held by Trustees				
California Local Agency Investment Fund				
Federal Agency Security	10.6	-	10.6	10.6
Money Market Fund	0.0	0.0	-	0.0
Mutual Fund	0.6	0.6	-	0.6
Total Investments	\$ 56.8	\$ 46.2	\$ 10.6	56.8
Total Deposits				2.7
Total Deposits and Investments				\$ 59.5

The City's cash and investment practices and policies, as of June 30, 2018, 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.



Balance Sheet

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of June 30, 2018 and June 30, 2017.

Balance Sheet Statement As of June 30, 2018 and 2017

(In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	47.3	46.8	20.6	22.4	68.0	69.3
Land held for resale	26.8	26.8	-	-	26.8	26.8
Capital assets	63.2	46.4	4.5	3.8	67.7	50.2
Total assets	137.3	120.1	25.1	26.3	162.5	146.3
Deferred outflows of resources						
Related to pension	3.1	1.7	0.1	0.1	3.1	1.7
Liabilities						
Current and other liabilities	27.0	12.5	0.1	0.4	27.1	13.0
Long-term obligations	6.0	10.9	0.3	-	6.3	10.9
Total liabilities	33.0	23.5	0.5	0.4	33.5	23.9
Deferred inflows of resources						
Related to pension	1.4	1.5	0.2	0.2	1.6	1.7
Net Position						
Net investment in						
Capital Assets	63.2	46.4	4.5	3.8	67.7	50.2
Restricted	25.8	22.2	5.9	-	31.8	22.2
Unrestricted	17.0	28.2	14.1	21.9	31.1	50.1
Total net position	106.0	96.7	24.6	25.7	130.6	122.4

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.



Top 10 Employers

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 46% of total employment reported by City of Half Moon Bay HdL Business License System.





CITY OF HALF MOON BAY
501 MAIN STREET
HALF MOON BAY, CA 94109
(650) 727-7044
WWW.HMBCITY.COM
"VIVIR, TRABAJAR, JUGAR"