

# Popular Annual Financial Report



July 1, 2015 — June 30, 2016

## Half Moon Bay, California

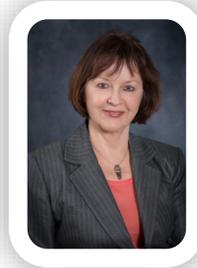
Published January 2017

# City of Half Moon Bay

## City Council



**Mayor  
Rick Kowalczyk**



**Vice Mayor  
Debbie Ruddock**



**Councilmember  
Marina Fraser**



**Councilmember  
John Muller**



**Councilmember  
Deborah Penrose**

## Executive Staff

City Manager

Magda González

Assistant City Attorney

Reed Gallogly

Deputy City Manager

Vacant

Finance Director

Yulia Carter

Community Development Director

John Doughty

Administrative Services Manager

Russell Brunson

Chief of Police Services

John Munsey

City Clerk

Jessica Blair

## City Profile

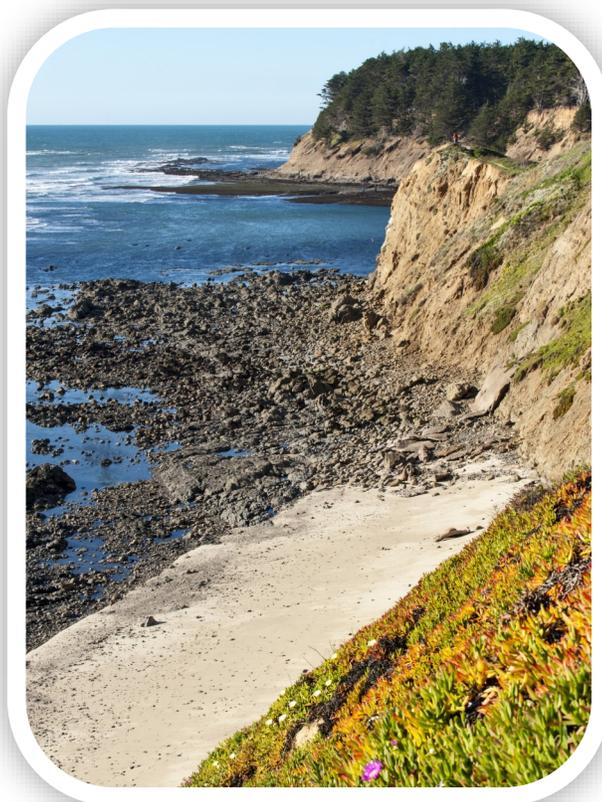
Incorporated in 1959, the City of Half Moon Bay is governed by a five-member elected City Council and utilizes the council-manager form of government. The City Council appoints a City Manager who is responsible for the oversight of daily operations and provides leadership for the City's programs.

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, tourism and recreational 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.

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.



# Popular Annual Financial Report

This report provides an overview of the City's financial position for the 2015-2016 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 2016 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 9-11) 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 [www.hmbcity.com](http://www.hmbcity.com), 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](mailto:finance@hmbcity.com).



# Local Economy



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.

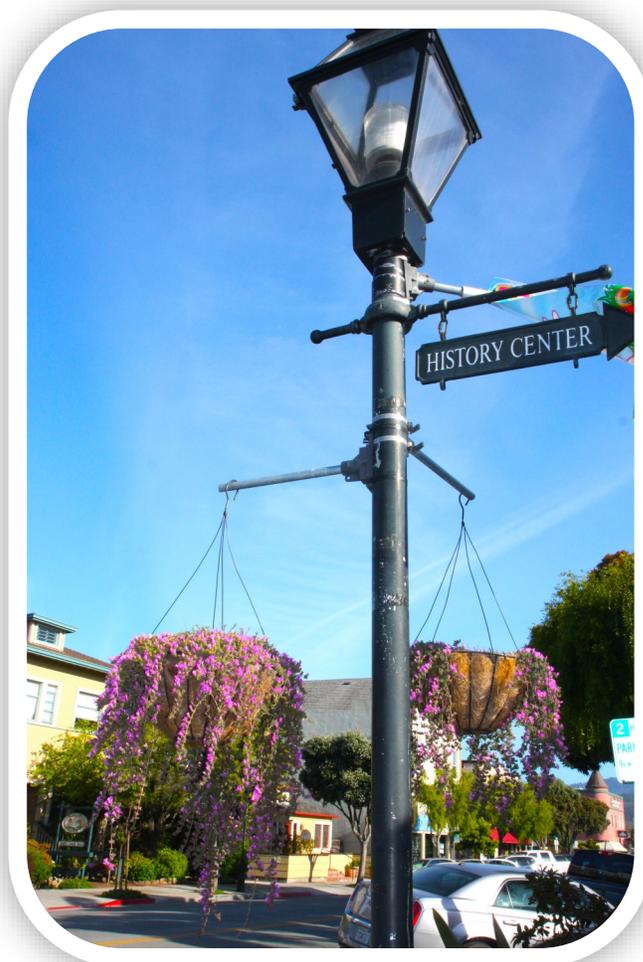
As a popular tourist destination, Half Moon Bay offers a wide variety of public and private attractions. Main Street is home to shops, art galleries, and fine dining. The Coastal Trail provides recreation for biking, pedestrian and equestrian users. Golf can be enjoyed at two acclaimed golf courses.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

## Strategic Plans and Goals

The Half Moon Bay City Council holds an Annual Retreat, which serves as the launching point for the annual budget preparation process. At this year's Retreat, on February 9, 2016, the following Strategic Elements were discussed and updated:

- Infrastructure and Environment
- Healthy Communities and Public Safety
- Fiscal Sustainability
- Inclusive Governance

Based on the Strategic Elements, the City Council has adopted Strategic Initiatives. These Initiatives are intended to help guide the City's actions and work plans, and focus efforts on addressing the City's identified priorities.



## New Library!

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 City Council members joined Mayor Rick Kowalczyk, Assembly Member Rich Gordon, San Mateo County Supervisors Don Horsley, and Carole Groom and other distinguished guests at a groundbreaking ceremony for the new Half Moon Bay Library.

The new Half Moon Bay Library, serving the City and the Coastside community, is expected to open in 2018 and is designed to meet the needs of today's digital lifestyle, and will provide everyone in the community with wonderful opportunities, tools, and great experiences for all to enjoy.

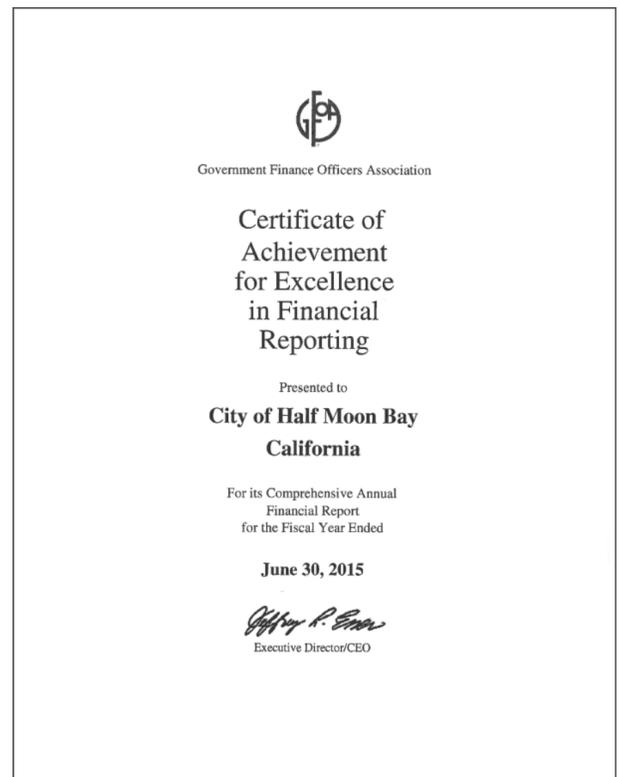


## Financial Reporting Award

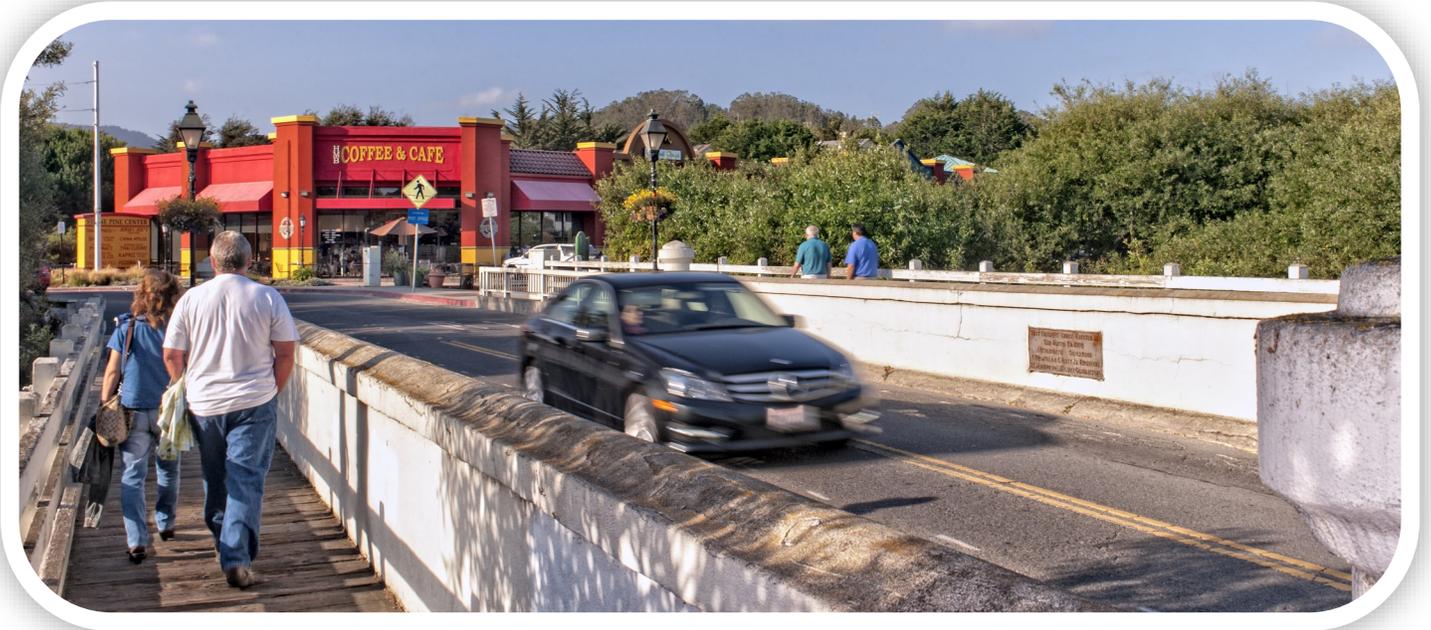
The Government Finance Officers Association of the United States and Canada (GFOA) offers an award program for Outstanding Achievement in Popular Annual Financial Reporting. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance 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 is participating in this award program for the first time during the 2015-16 fiscal year. It is our belief that this report conforms to the Popular Annual Financial Reporting requirements, and City staff have submitted it to the GFOA.

We are 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 2014-15 fiscal year (pictured). The City has received this accolade for 11 consecutive years and has worked diligently to produce a document for the 2015-16 fiscal year, which will be submitted for another award.

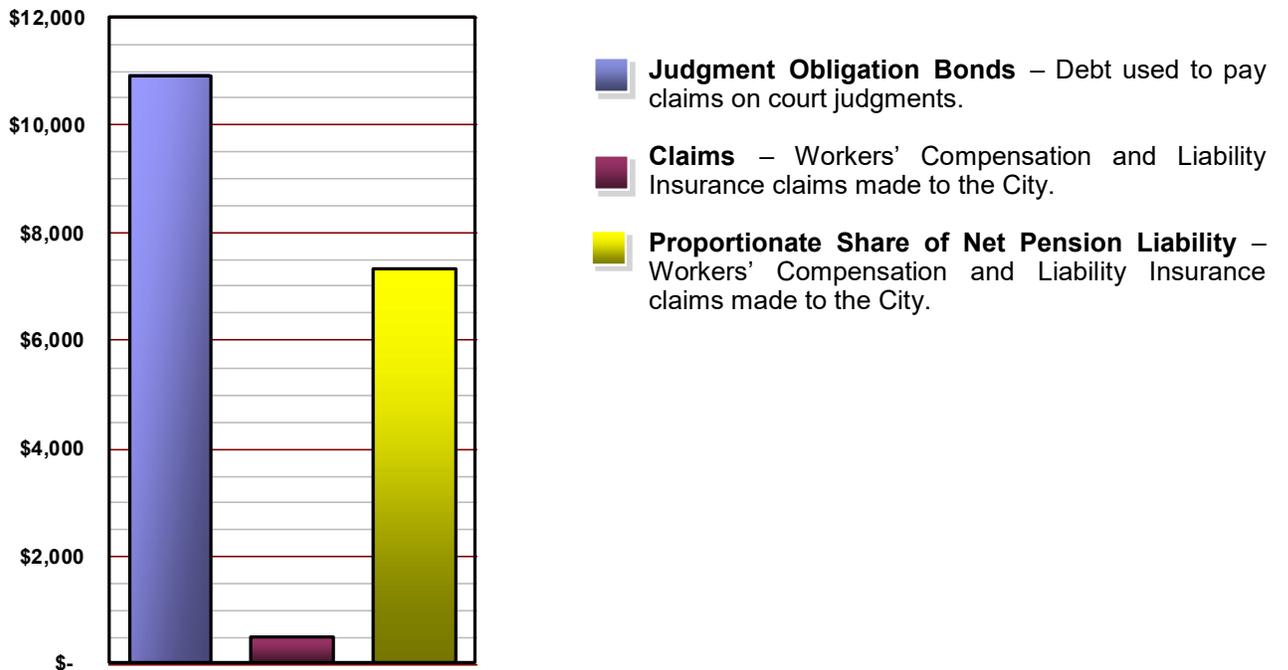


# Key Financial Information



## City Debt

Total City Debt as of June 30, 2016  
(In Thousands of Dollars)

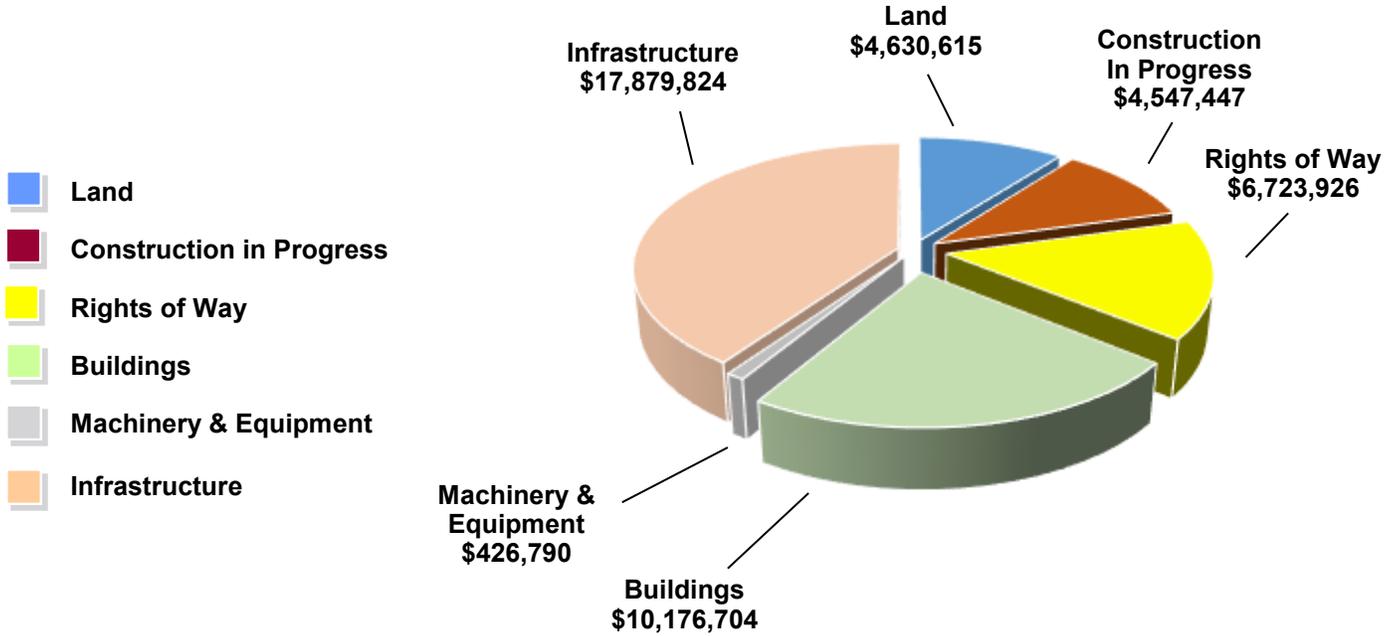


## Capital Assets

(Property, Plant, and Equipment)

As of June 30, 2016, the City's total capital assets balance is \$44,385,306. This total amount is comprised of the following:

### City of Half Moon Bay Capital Assets As of June 30, 2016 (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, 2016, 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	7,203,188	7,203,188		7,203,188
San Mateo County Investment Pool	35,803,593	35,803,593		35,803,593
Held by Trustees				
California Local Agency Investment Fund	745,846	745,846		745,846
Federal Agency Security	10,515,948		10,515,948	10,515,948
Money Market Fund	687	687	-	687
<b>Total Investments</b>	<b>\$ 54,269,262</b>	<b>\$ 43,753,314</b>	<b>\$ 10,515,948</b>	<b>54,269,262</b>
<b>Total Deposits</b>				<b>4,942,385</b>
<b>Total Deposits and Investments</b>				<b>\$ 59,211,647</b>

The City's cash and investment practices and policies, as of June 30, 2016, 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, 2016 and June 30, 2015.

### City of Half Moon Bay Statement of Net Position As of June 30, 2016 and 2015 (In Thousands of Dollars)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance
<b>Assets</b>									
Current and other assets	\$ 48,907	\$ 37,858	29%	\$ 21,113	\$ 19,490	8%	\$ 70,020	\$ 57,348	22%
Land held for resale	26,824	26,824	0%	-	-	0%	26,824	26,824	0%
Capital assets	40,514	37,551	8%	3,871	3,971	-3%	44,385	41,522	7%
Deferred outflows of resources									
Related to pension	573	558	3%	20	29	-31%	593	587	1%
<b>Total assets</b>	<b>116,818</b>	<b>102,791</b>	<b>14%</b>	<b>25,004</b>	<b>23,490</b>	<b>6%</b>	<b>141,822</b>	<b>126,281</b>	<b>12%</b>
<b>Liabilities</b>									
Current and other liabilities	9,611	7,845	23%	357	364	0%	9,968	8,209	21%
Long-term obligations	10,915	10,915	0%	-	-		10,915	10,915	0%
Deferred inflows of resources									
Related to pension	1,629	1,897	-14%	134	100	34%	1,763	1,997	-12%
<b>Total liabilities</b>	<b>22,155</b>	<b>20,657</b>	<b>7%</b>	<b>491</b>	<b>464</b>	<b>6%</b>	<b>22,646</b>	<b>21,121</b>	<b>7%</b>
<b>Net Position</b>									
Net investment in									
Capital Assets	40,514	37,551	8%	3,871	3,971	-3%	44,385	41,522	7%
Restricted	19,780	18,541	7%	-	-	0%	19,780	18,541	7%
Unrestricted	34,370	26,042	32%	20,636	19,063	8%	55,006	45,105	22%
<b>Total net position</b>	<b>\$ 94,664</b>	<b>\$ 82,134</b>	<b>15%</b>	<b>\$ 24,507</b>	<b>\$ 23,034</b>	<b>6%</b>	<b>\$ 119,171</b>	<b>\$ 105,168</b>	<b>13%</b>

Total net position increased by 13% when compared to the previous year. The increases in current assets and total net position, and unrestricted net position are due in large part to increased tax revenues as well as a contribution of \$6 million from the County of San Mateo for the library construction capital project that is scheduled to commence during the 2016-17 fiscal year. Total current liabilities increased by 21% 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.

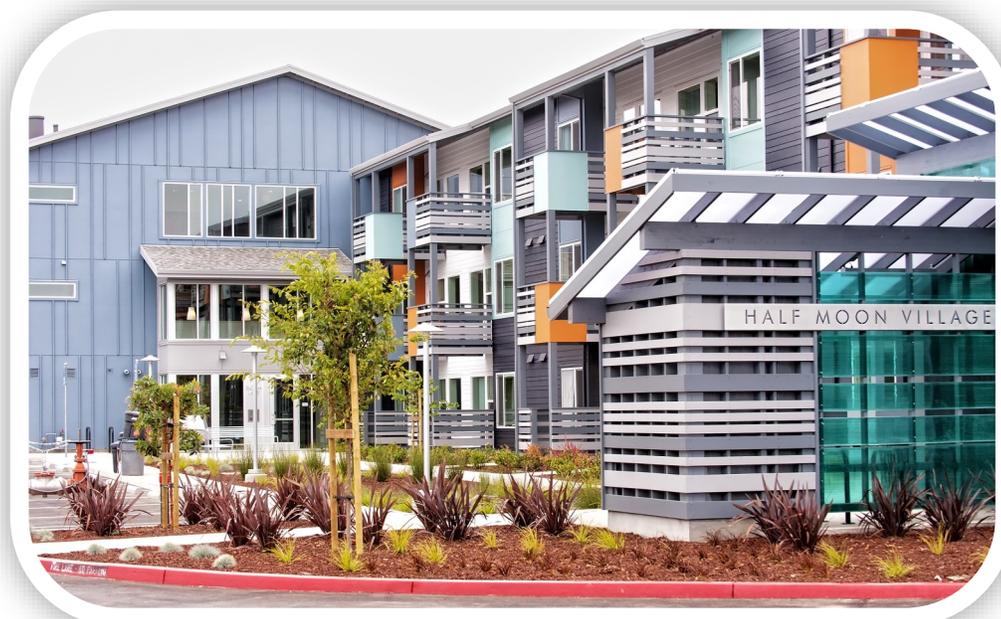
**Long-Term Obligations** – Represents mainly debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

**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.

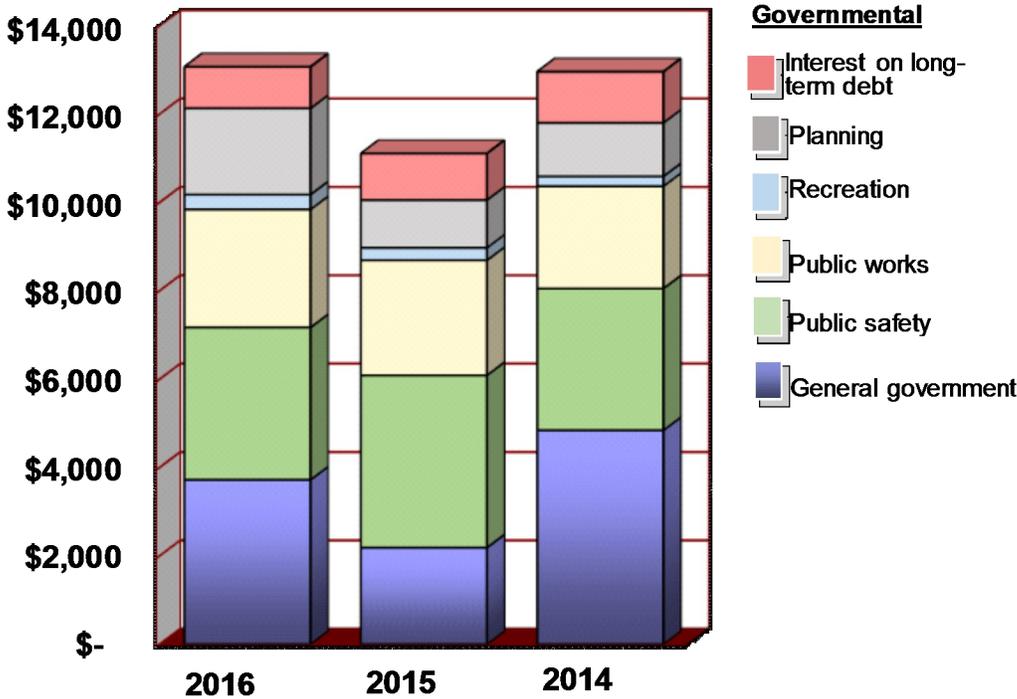
**Unrestricted Net Position** – These are resources that are accessible to the City to provide services to the residents of Half Moon Bay if there were no additional revenues or resources available.



## Statement of Activities

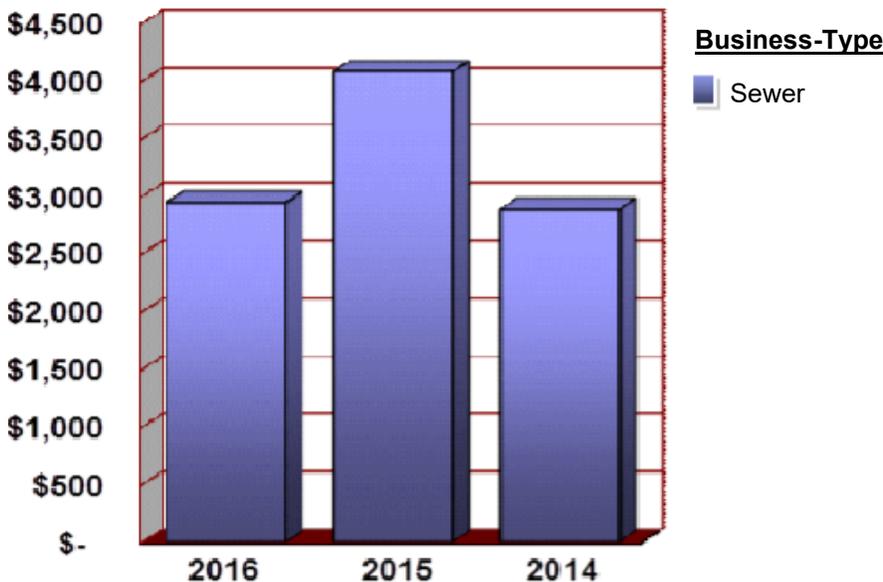
The graphs on this and the following page show revenues and expenses for Governmental and Business-type activities as they relate to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Debt Service Fund, Capital Projects Fund, and Special 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, 2016, 2015 and 2014**  
*(In Thousands of Dollars)*



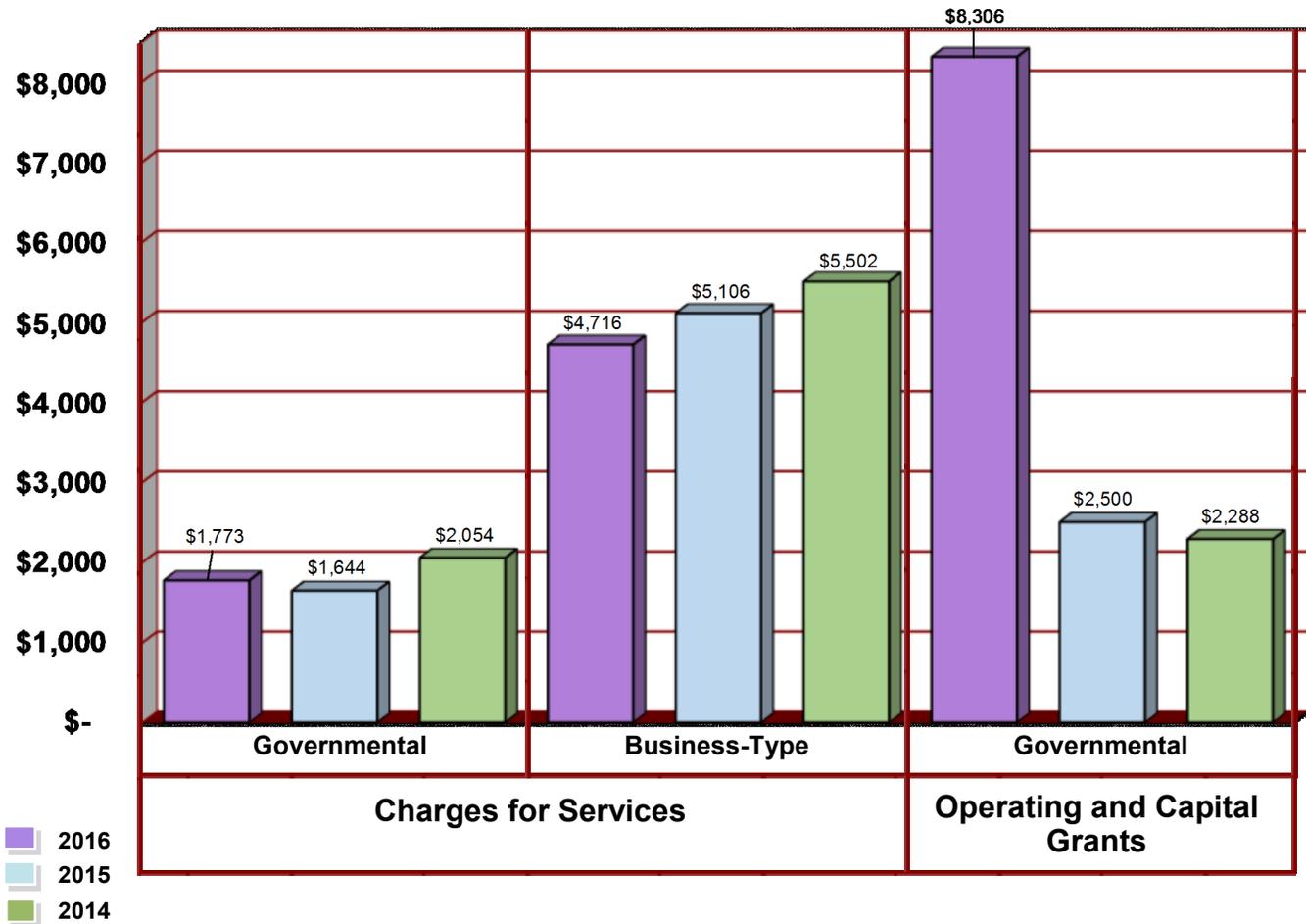
**Governmental expenses** increased from \$11,113,733 in the fiscal year ending June 30, 2015, to \$13,072,919 in the fiscal year ending June 30, 2016, primarily due to General Government expenses that are more in line with historic costs for City operations, increased staffing, and an increase in overall services in conjunction with the City's shift towards providing increased services by City staff (as opposed to contracting services to external providers).

**City of Half Moon Bay Expenses  
Business-Type Activities As of June 30, 2016, 2015 and 2014**  
*(In Thousands of Dollars)*



**Business-Type expenses** decreased from \$4,078,003 in the fiscal year ending June 30, 2015, to \$2,943,013 in the fiscal year ending June 30, 2016. 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 \$1.3 million in fiscal year 2014-15.

**City of Half Moon Bay Program Revenues  
Governmental and Business-Type Activities  
As of June 30, 2016, 2015 and 2014  
(In Thousands of Dollars)**



**Charges for services** increased from \$1,664,3055 in the fiscal year ending June 30, 2015, to \$1,772,680 in the fiscal year ending June 30, 2016, for governmental activities primarily due to improved cost recovery of consultant fees. Charges for services decreased from \$5,105,502 in the fiscal year ending June 30, 2015, to \$4,715,919 in the fiscal year ending June 30, 2016, for business-type activities due to drought-related programs to decrease water consumption and moderate new sewer connection fee activity in the current year.

**Operating and capital grants** for governmental activities increased from \$5,500,007 in the fiscal year ending June 30, 2015, to \$8,306,190 in the fiscal year ending June 30, 2016, due to a contribution from San Mateo County for the library project and a coastal grant for the reconstruction of the Pilarcitos Creek Bridge.

**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.

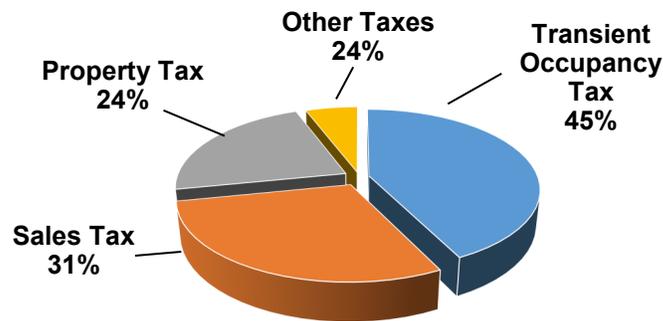
**Debt Service Funds** are used to account for the receipts for and payment of general long-term debt.

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

## Revenue Sources

The City received over \$25,187,076 from various funding sources for the fiscal year ending June 30, 2016. The largest source of funds for the City of Half Moon Bay comes from tax income.

**Half Moon Bay Tax Revenue**



Other taxes include Franchise and Business License Taxes.

**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.

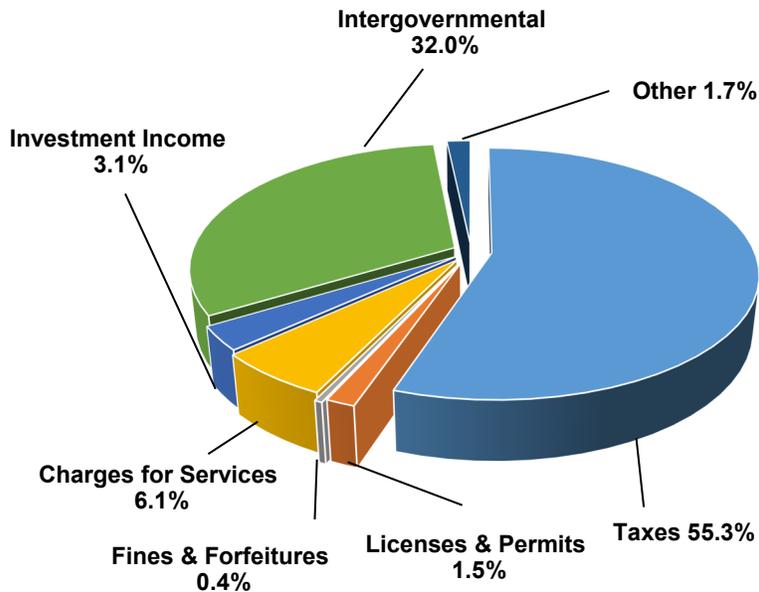
### HOTELS, MOTELS, B&B'S

Number of Hotels, Inns and B&B's	12
RV Parks and Campgrounds	3
Hotel Rooms	579
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 third 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, 2016 and 2015 (In Thousands of Dollars)



REVENUE BY SOURCE	2016	2015
Taxes	\$ 13,929	\$ 12,999
Licenses and Permits	380	395
Fines and Forfeitures	102	84
Charges for Services	1,524	1,390
Investment Income	773	798
Intergovernmental	8,059	2,261
Other	420	521
<b>Total</b>	<b>\$ 25,187</b>	<b>\$ 18,448</b>

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.

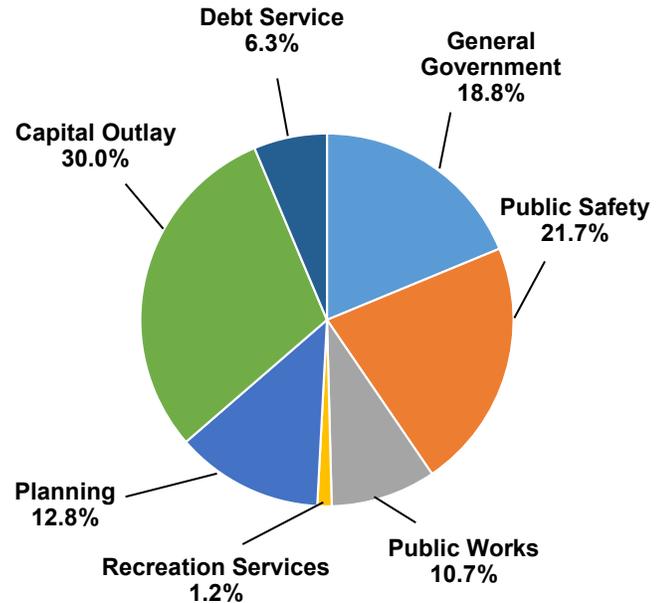
**Other revenues** are revenues that do not fall into designated categories.

## Expenditures/Services

The City incurs expenditures to meet the diverse needs of the community. For the period July 1, 2015 to June 30, 2016, the total expenditures incurred by the City were \$14,780,165 (excluding transfers).

### City of Half Moon Bay Statement of Expenditures Governmental Funds As of June 30, 2016 and 2015 *(In Thousands of Dollars)*

EXPENDITURES	2016	2015
General Government/Administration	\$ 2,774	\$ 2,585
Public Safety	3,208	3,090
Public Works	1,348	1,988
Recreation Services	183	142
Planning	1,892	1,088
Capital Outlay	4,437	2,746
Debt Service	938	5,708
<b>Total</b>	<b>\$ 14,780</b>	<b>\$ 17,347</b>



**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.

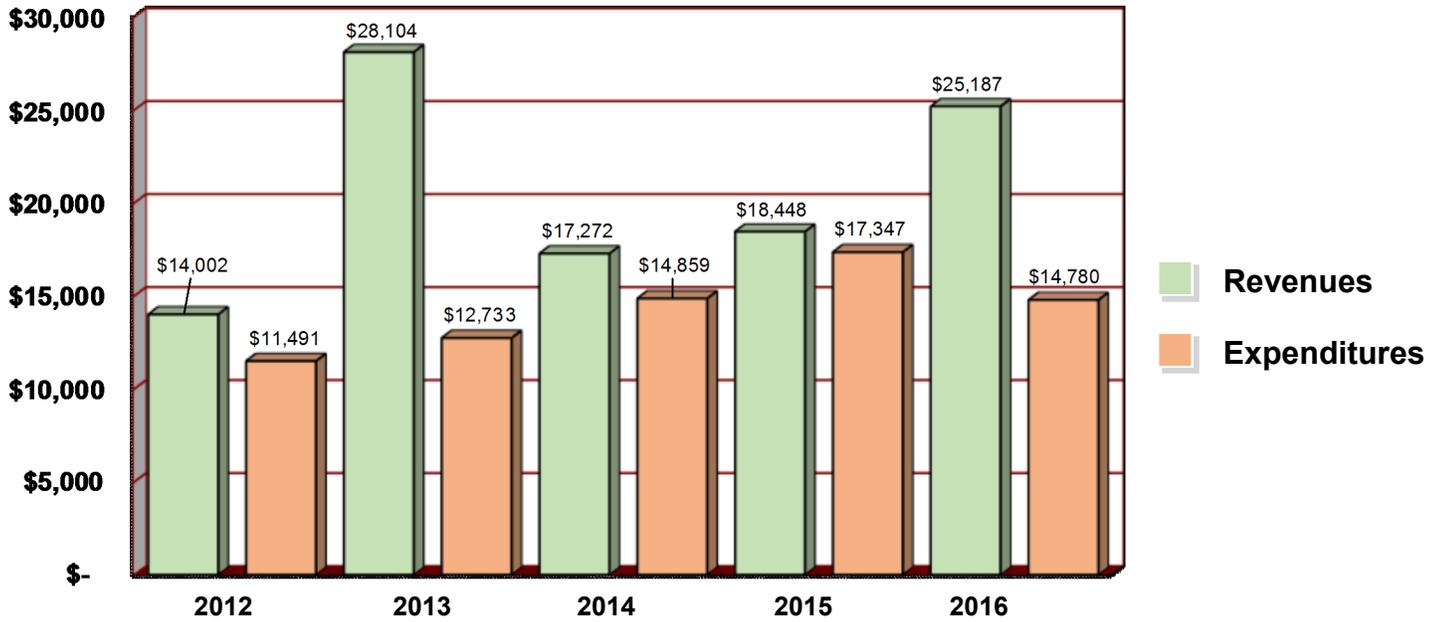
**Capital** expenditures are expenses related to the purchase of plant, property, equipment and expenses related to infrastructure improvements.

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



## Governmental Funds Revenues and Expenditures - Five Year Trend

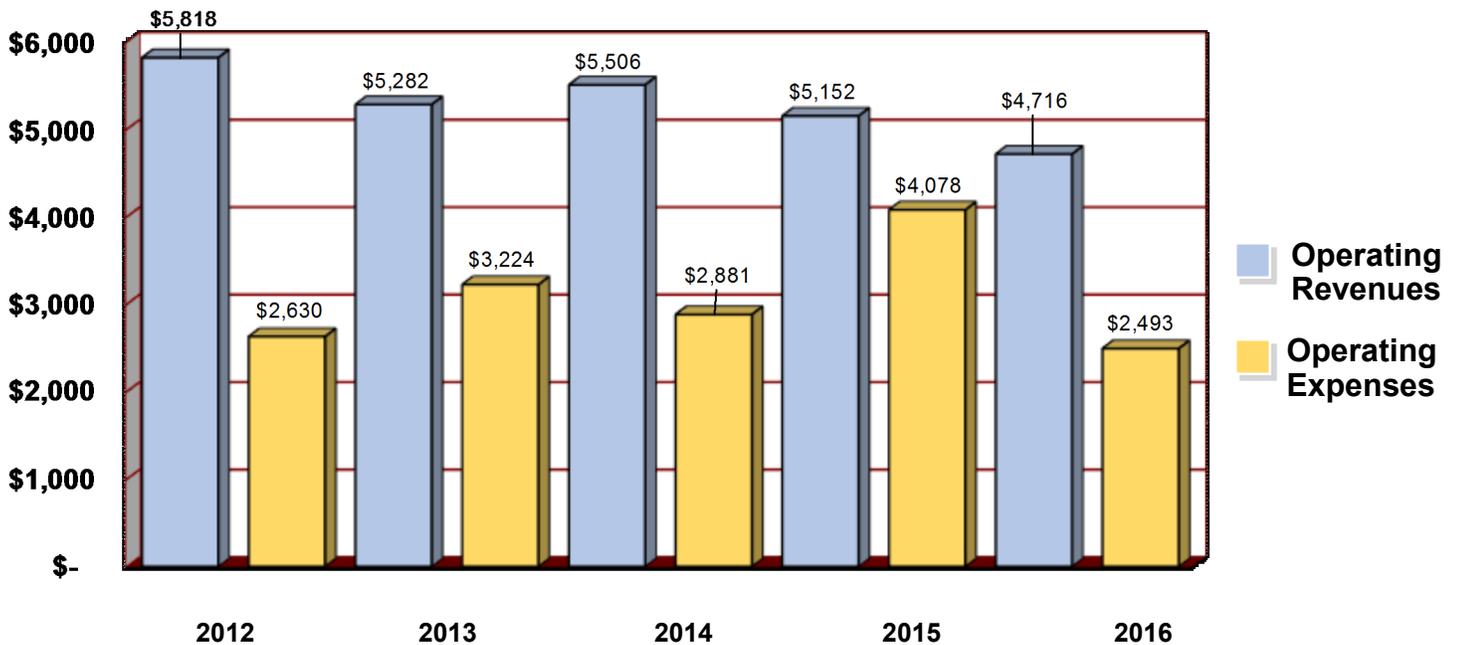
(in Thousands of Dollars)



## 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, 2016.

(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.

# Message from the Finance Director

I would like to take this opportunity on behalf of the City of Half Moon Bay to thank 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.

I also wish to 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.



Yulia Carter  
Finance Director  
City of Half Moon Bay



# City of Half Moon Bay



501 Main Street, Half Moon Bay, CA, 94019

Tel: 650-726-8270

Fax: 650-726-8261

<http://www.hmbcity.com>

# Half Moon Bay Leading Indicators



## Half Moon Bay by the Numbers

<b>Property Tax Rate</b>	<b>1.0976%</b>
<b>Unemployment Rate</b>	<b>3.30%</b>
<b>Transient Occupancy Tax Revenue</b>	<b>\$5,935,558</b>
<b>Retail Sales Tax Revenue</b>	<b>\$4,068,786</b>
<b>Property Tax Revenue</b>	<b>\$3,116,710</b>
<b>Total City Debt</b>	<b>\$10,915,000</b>
<b>City Net Position</b>	<b>\$119,170,825</b>
<b>City General Fund Balance</b>	<b>\$10,739,444</b>



City of Half Moon Bay  
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