



AGENDA NO: C-2

MEETING DATE: August 8, 2017

Staff Report

TO: Honorable Mayor and City Council

DATE: July 25, 2017

FROM: Rob Livick, Public Works Director
Craig Schmollinger, Finance Director

SUBJECT: Receive Water Reclamation Facility Fiscal Year 2016-17 3rd Quarter Program Budget Update and Provide Comments and Direction as Deemed Appropriate

RECOMMENDATION

Staff recommends City Council receive and file the Fiscal Year (FY) 2016-17 3rd Quarter budget status report of the Water Reclamation Facility (WRF) program and provide comments and direction as deemed appropriate.

ALTERNATIVES

No alternatives are recommended.

FISCAL IMPACT

No additional fiscal impact is proposed within this update. All work is proceeding within the City's adopted fiscal year budget for the Water Reclamation Facility.

DISCUSSION

A budget update for the third quarter of fiscal year 2016/17 (3Q16/17) has been prepared. The delay in producing the report is a result of the City Council's direction to focus staff and consultant efforts on the peer review of project costs and pause any non-critical efforts.

As discussed in prior meetings, the Program Management Team and City staff developed a budget and expense report format with input from the WRFCAC Financial Subcommittee. The summary is attached, and includes all City WRF expenses (including staff time with benefits, copies, and other office expenses) in addition to consultant contracts. The first page shows budget and expense figures for the quarter and the fiscal year, and the second contains the Project totals. The third page provides a higher level of detail on budget status of individual consultant contracts since inception of the Project. This report will be provided quarterly to City Council and WRFCAC, and currently represents expenses through March 31, 2017.

The following sections provide an analysis and overview of the City's WRF budget. The budget summary presents budget information on quarterly, annual (based on the fiscal year for the City of July through June of the following calendar year) and total project time periods. All costs for a given period are based on the invoice dates (except for consultant costs as described below).

EXPENDITURES: The following table describes the line items from Attachment 1, as well as any comments regarding budget status.

Prepared By: ___ CS/RL ___	Dept Review: ___ CS/RL ___
City Manager Review: ___ MRL ___	City Attorney Review: ___ JWP ___

<u>Object Name (from Attachment 1)</u>	<u>Description</u>	<u>Comments</u>
Past Siting Studies	Contractual services for studies completed prior to initiating the Facility Master Plan process (2013-2015)	These work efforts were completed, contracts expired, and there are no further encumbrances
Current Consultant Contracts	Summary of Page 3 from Attachment 1	Work efforts are under budget for FY 16/17. In order to facilitate a more automated reporting process, consultant costs for a given period will be based on the dates work was performed instead of invoice or payment dates.
Water Rights Legal Support	Contract attorney fees for input on water reuse alternatives and legal constraints	--
Labor and Benefits	City staff labor and benefits (also called "fully burdened labor") for the WRF Program	Current FY 16/17 efforts included wastewater sampling, meeting attendance, administrative support, collection system flow monitoring, and all activities related to the WRF Program
Laboratory/Sampling	Contract laboratory services for wastewater analysis to support Facility Master Plan and future detailed design efforts	--
Printing and Advertising	Costs from outside vendors for copies, printing, and postage to develop and distribute WRF Program materials	--
Software License and Fees	Fee for Procore Project/Construction Management Software	Procore software is used to manage and track consultant budgets and contracts, store program documents and deliverables, coordinate and record meetings, and track work efforts during the planning/permitting phase. During construction, the software will be used for tracking contractor submittals, pay requests, field observations, and other work efforts. Annual fee is \$42,205 over the next 5 to 8 years.
Property Acquisition	Cost to purchase property & appraisal	--
Program Office Equipment	Copier, monitor, telephone, and other office equipment to equip the Program Office in the City Hall Annex	--

REVENUE: At this time, the City is funding the project through user rates, the Recycled Water Facilities Planning Grant, and Supplemental Environmental Project (SEP) money from California Department of Corrections and Rehabilitation for California Men's Colony. SEP funds were intended to offset costs for the CMC evaluations completed last year.

User rates fund the City's sewer enterprise, including efforts not related to the new WRF (such as collections and treatment costs at the current sewer treatment plant). Incoming revenue is not directed into a specific fund for the WRF. The budget tables include the revenue anticipated for the WRF, which is 75% of \$75M, or \$56.25M, with 25% of debt service coverage (assumed in the 2015 Rate Study) to increase the projected available revenue up to \$70.3M. This assumed debt service coverage would be reduced and/ reallocated by reprioritizing other wastewater capital projects. It is assumed revenue for the project would come from grants and loans. User rates would repay the loans in accordance with financing terms and conditions, which can vary depending on the program.

The City increased sewer rates in 2015 in anticipation of the WRF project, along with other capital needs within the current sewer system, but those funds are not directed into a specific fund for the WRF. As budgeted and presented in the 2015 Rate Study, the City would receive \$10.375M through loan proceeds to fund WRF expenses from FY 2014/15 through FY 2016/17, with \$4M budgeted through FY 15/16, \$6M budgeted for FY 2016/17, and 75% of the FY 2016/17 (\$3M) budgeted through 3Q16/17. Since the loan was approved in January 20, 2017, WRF expenditures have been paid from sewer revenues reserves.

Attachment 2 was provided at the City Council meeting on July 11, 2017, to provide more information on sewer revenue available for the WRF Project.

The City was awarded a \$10.375M planning and design loan from the State Water Resources Control Board (SWRCB) State Revolving Fund and the loan agreement was executed on January 20, 2017. As the City pays consultant expenses, staff can submit the invoices to SRWCB staff and request reimbursement.

The City was informed it was one of eleven agencies across the United States invited to apply for the Water Infrastructure Finance and Innovation Act (WIFIA) loan program from the Environmental Protection Agency (EPA). The WRF Project was selected from over 40 submittals. That low-interest loan program has a 35-year term with interest rates that are significantly lower than public bonds. The loan application will be due in June of 2018 and the City has had an initial conference call with the EPA staff managing the program.

ATTACHMENTS

1. Quarterly Budget Summary for 3Q2016/17
2. Sewer Rates and Financial Information

City of Morro Bay										
Water Reclamation Facility Advisory Committee (WRFAC) Quarterly Budget Review Summary 3Q16/17										
EXPENDITURES										
Key Definitions										
			Quarter Projected Budget	Portion of Fiscal Year Budget Management Expects Necessary to Meet Quarter Expenditures			YTD Projected Budget	Sum Of Current Quarter Projected Budget and All Prior Quarter Projected Budgets		
Accounts		Current Quarter				Fiscal Year To Date (YTD)				
Fund/Code	Object Name	Projected Budget	Expenditures	Percent Expended	Variance	Projected Budget	YTD Expenditures	Percent Expended	Variance	
599-8312	Contractual Services									
6105	Past Siting Studies (Completed - no further encumbrance)	--	--	--	--	--	--	--	--	
6105	Current Consultant Contracts (see P. 2)	\$802,851	\$439,531	54.75%	\$363,320	\$3,211,405	\$928,205	28.90%	\$2,283,200	
6105	Water Rights Legal Support (See Note 2)	\$0	\$0	--	\$0	--	\$0	--	--	
6105	Rate Study	\$0	\$0	--	\$0	--	\$0	--	--	
	Subtotal	\$802,851	\$439,531	54.75%	\$363,320	\$3,211,405	\$928,205	28.90%	\$2,283,200	
599-8312	Labor (Fully Burdened)									
4910,4999	Labor and Benefits	\$15,000	\$16,779	111.86%	(\$1,779)	\$60,000	\$46,281	77.14%	\$13,719	
	Subtotal	\$15,000	\$16,779	111.86%	(\$1,779)	\$60,000	\$46,281	77.14%	\$13,719	
599-8312	Other Costs									
6105, 6162	Laboratory/Sampling	\$34,500	\$0	0.00%	\$34,500	\$138,000	\$11,845	8.58%	\$126,155	
5199,5305, 6106, 6105,6710	Printing and Advertising	\$0	\$294	--	(\$294)	--	\$10,256	--	--	
5199	Software license and fees	\$0	\$0	--	\$0	\$42,204	\$0	0.00%	\$42,204	
5199,7101	Property Acquisition	\$0	\$0	--	\$0	\$2,425,000	\$0	0.00%	\$2,425,000	
5199, 6106, 6750	Program office equipment	\$500	\$966	193.12%	(\$466)	\$2,000	\$3,117	--	--	
5199, 6514, 6510	Travel expense	\$0	\$450	--	(\$450)	--	\$450	--	--	
	Subtotal	\$35,000	\$1,710	4.88%	\$33,290	\$2,607,204	\$25,668	0.98%	\$2,581,536	
	TOTALS	\$852,851	\$458,020	53.70%	\$394,831	\$5,878,609	\$1,000,154	17.01%	\$4,878,455	
Difference from City Adopted Budget						(\$67,996)				
City Adopted Budget						\$5,946,605				
REVENUE										
Key Definitions										
			Quarter Projected Budget	Portion of Fiscal Year Budget Management Expects To Be Recognized During Quarter			YTD Projected Budget	Sum of Current Quarter Projected Budget and All Prior Quarter Projected Budgets		
Accounts (See Note 1)		Current Quarter				Fiscal Year To Date (YTD)				
Funding Source	Revenue Name	Projected Budget	Recognized Revenue	Percent Recognized	Variance	Projected Budget	YTD Recognized Revenue	Percent Recognized	Variance	
SWRCB	Grants									
	Recycled Water Planning Grant	\$0	\$0	0.00%	\$0	\$0	\$0	--	\$0	
	Subtotal	\$0	\$0	0.00%	\$0	\$0	\$0	--	\$0	
SWRCB	Supplemental Environmental Project									
	SEP from California Men's Colony	\$0	\$0	0.00%	\$0	\$0	\$0	#DIV/0!	\$0	
	Subtotal	\$0	\$0	0.00%	\$0	\$0	\$0	#DIV/0!	\$0	
SWRCB	State Revolving Fund (SRF) Loan									
	SRF Planning Loan Proceeds	\$852,851	\$0	0.00%	(\$852,851)	\$5,878,609	\$0	0.00%	(\$5,878,609)	
	SRF Construction Loan Proceeds	\$0	\$0	0.00%	\$0	\$0	\$0	0.00%	\$0	
	Subtotal	\$852,851	\$0	0.00%	(\$852,851)	\$5,878,609	\$0	0.00%	(\$5,878,609)	
User Rates	Cash funds from Current Operations									
	Cash funds from Current Operations	\$0	\$458,020	--	\$458,020	\$0	\$1,000,154	--	\$1,000,154	
	Subtotal	\$0	\$458,020	--	\$458,020	\$0	\$1,000,154	--	\$1,000,154	
	TOTALS	\$852,851	\$458,020	53.70%	(\$394,831)	\$5,878,609	\$1,000,154	17.01%	(\$4,878,455)	

Notes:

- 1) Unless shown otherwise, current project expenses are funded by revenue from user rates and fees. There is no separate revenue fund for the WRF.
- 2) Budgets for water rights legal support and property acquisition have not yet been established. Detailed budget development will take place after completing the project descriptions in the Facility Master Plan and Master Reclamation Plan.
- 3) Encumbrance balance is only calculated for expenditures associated with contracts.
- 4) Total Project Amended Budget based on May 2015 Water and Sewer Rate Study. Original budget was \$75M including 25% participation from Cayucos SD which was removed in this analysis. 25% debt coverage (on City's contribution only) was included in the rate study and in this calculation.
- 5) Expenditures for Current Consultant Contracts for a period (quarter or fiscal year) are based on the dates on which the work was performed, and not on invoice or payment date.
- 6) Total Project Amended Budget is calculated from FY1617 Projected Budget plus Total Project Expenditures from end of FY1516. Detailed budget development will take place after completing the project descriptions in the Facility Master Plan and Master Reclamation Plan.

City of Morro Bay						
Water Reclamation Facility Advisory Committee (WRFCAC) Quarterly Budget Review Summary 3Q16/17						
EXPENDITURES						
Key Definitions						
				Encumbrance Balance	Sum Of All Project Contracts Less Actual Expenditures Against Contracts (See Note 3)	
Accounts			Total Project			
Fund/ Code	Object Name	Amended Budget	Expenditures	Encumbrance Balance	Percent Expended	Variance
599-8312	Contractual Services					
6105	Past Siting Studies (Completed - no further encumbrance)	\$534,418	\$448,057	\$0	83.84%	\$86,361
6105	Current Consultant Contracts (See P. 2)	\$4,653,067	\$2,374,267	\$2,278,800	51.03%	\$2,278,800
6105	Water Rights Legal Support (See Note 2)	\$0	\$7,880	--	--	(\$7,880)
6105	Rate Study	\$0	\$1,457	--	--	(\$1,457)
	Subtotal	\$5,187,485	\$2,831,661	\$2,278,800	54.59%	\$2,355,824
599-8312	Labor (Fully Burdened)					
4910,4999	Labor and Benefits	\$400,000	\$259,293	--	64.82%	\$140,707
	Subtotal	\$400,000	\$259,293	--	64.82%	\$140,707
599-8312	Other Costs					
6105, 6162	Laboratory/Sampling	\$200,000	\$35,483	--	--	\$164,517
5199,5305, 6106, 6105,6710	Printing and Advertising	\$0	\$23,616	--	--	(\$23,616)
5199	Software license and fees	\$371,205	\$42,206	\$329,000	11.37%	\$329,000
5199,7101	Property Acquisition	\$2,425,000	\$30,500	--	--	\$2,394,500
5199, 6106, 6750	Program office equipment	\$2,000	\$7,368	--	--	(\$5,368)
5199, 6514, 6510	Travel expense	\$0	\$829	--	--	(\$829)
	Subtotal	\$2,998,205	\$140,001	\$329,000	4.67%	\$2,858,204
	TOTALS	\$8,585,690	\$3,230,955	\$2,607,800	37.63%	\$5,354,735
Difference from City Adopted Budget						
City Adopted Budget						
REVENUE						
Key Definitions						
Accounts (See Note 1)			Total Project			
Funding Source	Revenue Name	Amended Budget	Recognized Revenue		Percent Recognized	Variance
SWRCB	Grants					
	Recycled Water Planning Grant	\$75,000	\$0		0.00%	(\$75,000)
	Subtotal	\$75,000	\$0		0.00%	(\$75,000)
SWRCB	Supplemental Environmental Project					
	SEP from California Men's Colony	\$87,361	\$87,361		100.00%	\$0
	Subtotal	\$87,361	\$87,361		100.00%	\$0
SWRCB	State Revolving Fund (SRF) Loan					
	SRF Planning Loan Proceeds	\$10,375,000	\$0		0.00%	(\$10,375,000)
	SRF Construction Loan Proceeds	\$59,937,500	\$0		0.00%	(\$59,937,500)
	Subtotal	\$70,312,500	\$0		0.00%	(\$70,312,500)
User Rates	Cash funds from Current Operations					
	Cash funds from Current Operations	\$0	\$3,143,594		0.00%	\$3,143,594
	Subtotal	\$0	\$3,143,594		0.00%	\$0
	TOTALS	\$70,474,861	\$3,230,955		4.58%	(\$67,243,906)

- Notes:
- 1) Unless shown otherwise, current project expenses are funded by revenue from user rates and fees. There is no separate revenue fund for the WRF.
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 - 6) Total Project Amended Budget is calculated from FY1617 Projected Budget plus Total Project Expenditures from end of FY1516. Detailed budget development will take place after completing the project descriptions in the Facility Master Plan and Master Reclamation Plan.
 - 7) City adopted budget differs from WRF budget sheet for fiscal year 2016/2017 presented at June 14, 2016 City Council Meeting.

City of Morro Bay

Water Reclamation Facility Advisory Committee (WRFAC) Consultant Contract Summary (From Inception through 03-31-2017)

Current Consultant Contracts

Number	Title	Status	Total	Approved Change Orders	Total With Approved Change Orders	Draw Requests	Total Payments	Total Remaining	% Paid	% Complete	Pending Change Orders	Vendor
SC--001	Facility Master Plan	Approved	\$710,123.00	\$123,819.00	\$833,942.00	\$826,246.65	\$623,925.04	\$210,016.96	75%	99%	\$0.00	Black & Veatch
SC--002	CEQA/NEPA Documentation and Consulting	Approved	\$346,538.00	\$0.00	\$346,538.00	\$50,100.63	\$37,744.23	\$308,793.77	11%	14%	\$0.00	ESA
SC--003	Fatal Flaw Cultural Resources	Approved	\$18,260.87	\$40,056.56	\$58,317.43	\$45,959.60	\$41,559.60	\$16,757.83	71%	79%	\$0.00	Far Western
SC--005	MacElvaine Property - Fatal Flaw - Biological Resources	Approved	\$12,835.00	\$0.00	\$12,835.00	\$11,240.00	\$11,240.00	\$1,595.00	88%	100%	\$0.00	Kevin Merk Associates
SC--006	Survey - Righetti Property	Approved	\$15,644.00	\$0.00	\$15,644.00	\$12,502.50	\$12,502.50	\$3,141.50	80%	100%	\$0.00	JoAnn Head Land Surveying
SC--007	Survey - Highway 41 and MacElvaine Property	Approved	\$45,050.00	\$0.00	\$45,050.00	\$47,820.50	\$47,820.00	(\$2,770.00)	106%	100%	\$0.00	JoAnn Head Land Surveying
SC--008	Salinity Identification Study	Approved	\$23,640.00	\$37,080.00	\$60,720.00	\$52,717.83	\$49,687.83	\$11,032.17	82%	87%	\$0.00	Larry Walker Associates
SC--009	MacElvaine Property (SE) - Fatal Flaw - Geotech and Initial Hydrologic Fie	Approved	\$38,600.00	\$47,800.00	\$86,400.00	\$86,364.95	\$86,364.95	\$35.05	100%	100%	\$0.00	Fugro
SC--010	Grant and Loan Funding - Tracking and SRF Support	Approved	\$65,752.00	\$0.00	\$65,752.00	\$39,836.97	\$36,294.47	\$29,457.53	55%	61%	\$0.00	Kestrel
SC--011	2015 Program Management	Approved	\$920,808.00	\$1,248,766.00	\$2,169,574.00	\$956,023.77	\$813,307.44	\$1,356,266.56	37%	44%	\$0.00	MKN & Associates, Inc.
SC--012	Evaluate Alternative Concepts for Disposal of Treated Effluent	Approved	\$22,000.00	\$135,947.00	\$157,947.00	\$157,889.19	\$142,986.55	\$14,960.45	91%	100%	\$0.00	GSI Water Solutions
SC--013	Geotechnical Services Righetti II Site	Approved	\$35,902.00	\$0.00	\$35,902.00	\$27,325.35	\$27,325.35	\$8,576.65	76%	100%	\$0.00	Yeh and Associates
SC--014	Survey Services for South Bay Blvd Site	Approved	\$29,850.00	\$0.00	\$29,850.00	\$27,774.00	\$27,774.00	\$2,076.00	93%	93%	\$0.00	JoAnn Head Land Surveying
SC--015	Geotechnical Services South Bay Blvd Site	Approved	\$33,600.00	\$0.00	\$33,600.00	\$32,464.59	\$32,464.59	\$1,135.41	97%	97%	\$0.00	Yeh and Associates
SC--016	Rate Study Update - WRF Project Alternatives	Approved	\$36,800.00	\$0.00	\$36,800.00	\$0.00	\$0.00	\$36,800.00	0%	0%	\$0.00	Bartle Wells Associates
SC--017	Flow Monitoring Services	Approved	\$105,000.00	\$0.00	\$105,000.00	\$0.00	\$0.00	\$105,000.00	0%	0%	\$0.00	V&A
Total			\$2,460,402.87	\$1,633,468.56	\$4,093,871.43	\$2,374,266.53	\$1,990,996.55	\$2,102,874.88	49%	58%	\$0.00	

Notes: 1) Contract SC-004 was unused and was combined with Contract SC-003.
 2) Contracts SC--006 and SC--007 for JoAnn Head Land Survey are one amended contract with the City.
 3) Total Draw Requests are equivalent to Total Project Expenditures for Current Consultant Contracts on Page 2.