



AGENDA NO: C-2

MEETING DATE: December 12, 2017

# Staff Report

**TO:** Honorable Mayor and City Council

**DATE:** November 30, 2017

**FROM:** Rob Livick, Public Works Director  
Jennifer Callaway, Finance Director

**SUBJECT:** Receive Water Reclamation Facility Fiscal Year 2016-17 4<sup>th</sup> Quarter Program Budget Update and Provide Comments and Direction as Deemed Appropriate

## RECOMMENDATION

Staff recommends that City Council receive and file the budget status report of the WRF program and provide 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

Staff has prepared a budget update for the fourth quarter of fiscal year 2016/17 (4Q16/17). The third quarter budget update was presented to Council in early August 2017. The delay in producing the 4Q16/17 report is a result of staffing transitions, particularly within the Finance Department and City Manager's Office. During the November 14, 2017, City Council meeting, the City Council directed staff to prepare a 4Q16/17 budget update for the December 12, 2017, Council meeting. The direction was to provide the budget update in the traditional format for the Council and community to review.

The Program Management Team and City Staff have previously developed a budget and expense report format with input from the WRFAC 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 the consultant contracts. The first page shows budget and expense figures for the quarter and the fiscal year; and the second page contains the project totals. The final page provides a higher level of detail on budget status of individual consultant contracts since inception of the project.

This report is meant to be provided quarterly to both the City Council and WRFAC, and currently represents expenses through June 30, 2017.

The following items should be noted:

Prepared By: RL, JC

Dept Review:     

City Manager Review: SJC

City Attorney Review: JPW

- Since issuance of the 3<sup>rd</sup> quarter report, new line items included in this 4<sup>th</sup> quarter report include legal services (account 6101), Economic Outreach (account 6140), and Fuel Oil & Lubricants (account 5110).
- The line item under Contractual Services for the Rate Study has been changed to “Rate Study – preliminary analysis costs.” That is because the Rate Study contract and invoices are now being tracked with the other consultant contracts and is grouped with Current Consultant Contracts.

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.

Object Name (from Attachment 1)	Description	Comments
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	--
Rate Study – Preliminary Analysis Costs	Contract services for preliminary analysis of rate increase for funding	These work efforts were completed before the rate study to assist in early estimates of rate impacts. Subsequent expenses are included with “Current Consultant Contracts”
Legal Services	Attorney fees for the WRF Project	--
Economic Outreach	Costs for lobbying support from State and Federal representatives and agencies	This is the cost for professional services from The Ferguson Group. These costs are not tracked in Procure and invoices are sent directly to the City.
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	--
Travel Expense	Costs for travel related to the WRF project	--
Fuel Oil & Lubricants	Costs for fuel oil and lubricants for vehicular maintenance	--

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's Men's Colony, and the State Revolving Fund (SRF) Loan. 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. That assumed debt service coverage would be reduced and reallocated by reprioritizing other wastewater capital projects. It is assumed revenue for the WRF 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. That would occur after construction is complete, which is projected to start in FY 21/22 per the Bartle Wells Rate Study published in April 2017.

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, and \$6M budgeted for FY 2016/17.

The City was awarded a \$10.3M 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. Since the loan was approved January 20, 2017, WRF expenditures have been paid from the sewer accumulation fund and no loan draws have been required to date. As the project moves forward into further engineering design, it is anticipated that the loan will be utilized.

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 July of 2018 and the City has had an initial conference call with the EPA staff managing the program.

## **ATTACHMENTS**

1. Quarterly Budget Summary for 4Q2016/17

City of Morro Bay										
Water Reclamation Facility Advisory Committee (WRFAC) Quarterly Budget Review Summary 4Q16/17										
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	
<b>321-8312</b>	<b>Contractual Services</b>									
6105	Past Siting Studies (Completed - no further encumbrance)	--	--	--	--	--	--	--	--	
6105	Current Consultant Contracts (see P.3)	\$802,851	\$292,194	36.39%	\$510,657	\$3,211,405	\$1,220,399	38.00%	\$1,991,006	
6105	Water Rights Legal Support (See Note 2)	\$0	\$0	--	\$0	\$0	\$0	--	\$0	
6105	Rate Study - preliminary analysis costs	\$0	\$0	--	\$0	\$0	\$0	--	\$0	
6101	Legal Services	\$0	\$2,583	--	(\$2,583)	\$0	\$2,583	--	(\$2,583)	
6140	Economic Outreach	\$0	\$13,517	--	(\$13,517)	\$0	\$18,017	--	(\$18,017)	
	Subtotal	\$802,851	\$308,294	38.40%	\$494,557	\$3,211,405	\$1,240,999	38.64%	\$1,970,406	
<b>321-8312</b>	<b>Labor (Fully Burdened)</b>									
4910.4999	Labor and Benefits	\$15,000	\$21,967	146.45%	(\$6,967)	\$60,000	\$68,248	113.75%	(\$8,248)	
	Subtotal	\$15,000	\$21,967	146.45%	(\$6,967)	\$60,000	\$68,248	113.75%	(\$8,248)	
<b>321-8312</b>	<b>Other Costs</b>									
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	\$11,165	--	(\$11,165)	\$0	\$25,592	--	(\$25,592)	
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	\$777	155.43%	(\$277)	\$2,000	\$4,278	--	(\$2,278)	
5199, 6514, 6510	Travel expense	\$0	\$471	--	(\$471)	\$0	\$921	--	(\$921)	
5110	Fuel oil & lubricants	\$0	\$37	--	(\$37)	\$0	\$75	--	(\$75)	
	Subtotal	\$35,000	\$12,450	35.57%	\$22,550	\$2,607,204	\$42,711	1.64%	\$2,564,493	
	<b>TOTALS</b>	<b>\$852,851</b>	<b>\$342,711</b>	<b>40.18%</b>	<b>\$510,140</b>	<b>\$5,878,609</b>	<b>\$1,351,958</b>	<b>23.00%</b>	<b>\$4,526,651</b>	
	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	
<b>SWRCB</b>	<b>Grants</b>									
	Recycled Water Planning Grant	\$0	\$0	0.00%	\$0	\$0	\$0	--	\$0	
	Subtotal	\$0	\$0	0.00%	\$0	\$0	\$0	--	\$0	
<b>SWRCB</b>	<b>Supplemental Environmental Project</b>									
	SEP from California Men's Colony	\$0	\$0	0.00%	\$0	\$0	\$0	0.00%	\$0	
	Subtotal	\$0	\$0	0.00%	\$0	\$0	\$0	0.00%	\$0	
<b>SWRCB</b>	<b>State Revolving Fund (SRF) Loan</b>									
	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)	
<b>User Rates</b>	<b>Cash funds from Current Operations</b>									
	Cash funds from Current Operations	\$0	\$342,711	--	\$342,711	\$0	\$1,351,958	--	\$1,351,958	
	Subtotal	\$0	\$342,711	--	\$342,711	\$0	\$1,351,958	--	\$1,351,958	
	<b>TOTALS</b>	<b>\$852,851</b>	<b>\$342,711</b>	<b>40.18%</b>	<b>(\$510,140)</b>	<b>\$5,878,609</b>	<b>\$1,351,958</b>	<b>23.00%</b>	<b>(\$4,526,651)</b>	

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.
- 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) Quarterly Budget Review Summary 4Q16/17						
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
<b>321-8312</b>	<b>Contractual Services</b>					
6105	Past Siting Studies (Completed - no further encumbrance)	\$534,418	\$448,057	\$0	83.84%	\$86,361
6105	Current Consultant Contracts (see P.3)	\$4,653,067	\$2,666,461	\$1,986,606	57.31%	\$1,986,606
6105	Water Rights Legal Support (See Note 2)	\$0	\$7,880	\$0	--	(\$7,880)
6105	Rate Study - preliminary analysis costs	\$0	\$1,457	\$0	--	(\$1,457)
6101	Legal Services	\$0	\$2,583	\$0	--	(\$2,583)
6140	Economic Outreach	\$0	\$18,017	\$0	--	(\$18,017)
	Subtotal	\$5,187,485	\$3,144,455	\$1,986,606	60.62%	\$2,043,030
<b>321-8312</b>	<b>Labor (Fully Burdened)</b>					
4910,4999	Labor and Benefits	\$400,000	\$281,261	\$0	70.32%	\$118,739
	Subtotal	\$400,000	\$281,261	\$0	70.32%	\$118,739
<b>321-8312</b>	<b>Other Costs</b>					
6105, 6162	Laboratory/Sampling	\$200,000	\$35,483	\$0	--	\$164,517
5199,5305, 6106, 6105,6710	Printing and Advertising	\$0	\$40,178	\$0	--	(\$40,178)
5199	Software license and fees	\$371,205	\$42,206	\$329,000	11.37%	\$329,000
5199,7101	Property Acquisition	\$2,425,000	\$30,500	\$0	--	\$2,394,500
5199, 6106, 6750	Program office equipment	\$2,000	\$8,529	\$0	--	(\$6,529)
5199, 6514, 6510	Travel expense	\$0	\$1,300	\$0	--	(\$1,300)
5110	Fuel oil & lubricants	\$0	\$75	\$0	--	(\$75)
	Subtotal	\$2,998,205	\$158,271	\$329,000	5.28%	\$2,839,934
	<b>TOTALS</b>	<b>\$8,585,690</b>	<b>\$3,583,987</b>	<b>\$2,315,606</b>	<b>41.74%</b>	<b>\$5,001,703</b>
Difference from City Adopted Budget						
City Adopted Budget						
REVENUE						
Key Definitions						
Accounts (See Note 1)		Total Project				
Funding	Revenue	Amended	Recognized		Percent	Variance
	Recycled Water Planning Grant	\$75,000	\$0		0.00%	(\$75,000)
	[Approval Pending]	\$0	\$0		0.00%	\$0
	Subtotal	\$75,000	\$0		0.00%	(\$75,000)
<b>SWRCB</b>	<b>Supplemental Environmental Project</b>					
	SEP from California Men's Colony	\$87,361	\$87,361		100.00%	\$0
	Subtotal	\$87,361	\$87,361		100.00%	\$0
<b>SWRCB</b>	<b>State Revolving Fund (SRF) Loan</b>					
	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)
<b>User Rates</b>	<b>Cash funds from Current Operations</b>					
	Cash funds from Current Operations	\$0	\$3,496,625		0.00%	\$3,496,625
	Subtotal	\$0	\$3,496,625		0.00%	\$0
	<b>TOTALS</b>	<b>\$70,474,861</b>	<b>\$3,583,987</b>		<b>5.09%</b>	<b>(\$66,890,874)</b>

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
- 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
- 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
- 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 06-30-2017)**

**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	\$833,936.85	\$826,246.65	\$7,695.35	99%	100%	\$0.00	Black & Veatch
SC--002	CEQA/NEPA Documentation and Consulting	Approved	\$346,538.00	\$0.00	\$346,538.00	\$71,283.11	\$57,161.06	\$289,376.94	16%	21%	\$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	\$51,576.97	\$50,076.97	\$15,675.03	76%	78%	\$0.00	Kestrel
SC--011	2015 Program Management	Approved	\$920,808.00	\$1,248,766.00	\$2,169,574.00	\$1,135,789.02	\$989,762.94	\$1,179,811.06	46%	52%	\$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	\$15,811.10	\$15,811.10	\$20,988.90	43%	43%	\$0.00	Bartle Wells Associates
SC--017	Flow Monitoring Services	Approved	\$105,000.00	\$0.00	\$105,000.00	\$56,005.44	\$41,619.31	\$105,000.00	0%	0%	\$0.00	V&A
<b>Total</b>			<b>\$2,460,402.87</b>	<b>\$1,633,468.56</b>	<b>\$4,093,871.43</b>	<b>\$2,666,461.00</b>	<b>\$2,460,403.40</b>	<b>\$1,675,087.34</b>	<b>60%</b>	<b>65%</b>	<b>\$0.00</b>	

**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, not including Total Draw Requests for SC--016, which are reflected in the Rate Study line item on Page 2.