



CITY OF MORRO BAY

Citizens Oversight Committee

Acting as Citizens Finance Advisory Committee

AGENDA

Mission Statement

The City of Morro Bay provides essential public services and infrastructure to maintain a safe, clean and healthy place for residents and visitors to live, work and play.

Tuesday, February 15, 2022 - 3:00 PM
Held Via Teleconference

Homer Alexander	Member	Courtney Shepler	Member
Lois Johnson	Member	Tina Wener	Member
Stephen Peck	Member	Michael Erin Woody	Member

ESTABLISH QUORUM AND CALL TO ORDER

SELECT CHAIR AND VICE-CHAIR

COMMITTEE MEMBER ANNOUNCEMENTS & PRESENTATIONS

BRIEF ASSISTANT CITY MANAGER / DIRECTOR UPDATE

PUBLIC COMMENT PERIOD

Pursuant to Assembly Bill 361 (2021-22) and Government Code section 54953 this Meeting will be conducted telephonically through Zoom and broadcast live on Cable Channel 20 and streamed on the City website (click [here](#) to view). Please be advised that pursuant to Assembly Bill 361 (2021-22) and Government Code section 54953, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Veteran's Hall will not be open for the meeting.

Public Participation:

Remote public participation is allowed in the following ways:

- *Community members are strongly encouraged to submit agenda correspondence in advance of the meeting via email to the CFAC Committee at cfac@morrobayca.gov prior to the meeting.*
- *Agenda correspondence received by 10:00 am Tuesday, February 15, 2022 will be posted on the City website.*
- *Members of the public may watch the meeting either on cable Channel 20 or as streamed on the City [website](#).*
- *Alternatively, members of the public may watch the meeting and speak during general Public Comment or on a specific agenda item by logging in to the Zoom webinar using the information provided below. Please use the "raise hand" feature to indicate your desire to provide public comment. Each speaker will be allowed three minutes to provide input.*

Please click the link below to join the webinar:

- <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcwTHlRTk9xaTlmWVNWRWFUQT09>
Password: 135692
- Or Telephone Attendee: 1(408) 638-0968 or 1 (669) 900 6833 or 1 (346) 248 7799;
Webinar ID: 827 2274 7698; Password: 135692; Press **** 9** (star-9) to **raise your hand** for Public Comment

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE JANUARY 18, 2022 CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

Recommendation: Approve as submitted.

2. SECOND QUARTER INVESTMENT REPORT (PERIOD ENDING DECEMBER 30, 2021) FOR FISCAL YEAR (FY) 2021-22; (ASSISTANT CITY MANAGER/ADMIN SERVICES DIRECTOR)

RECOMMENDATION: Receive the Second Quarter Investment Report (period ending December 30, 2021) for FY 2021-22.

B. BUSINESS ITEMS

1. REVIEW OF WATER RECLAMATION FACILITY ("WRF") QUARTERLY UPDATE REPORT; (PUBLIC WORKS DEPARTMENT)

RECOMMENDATION: Receive the Quarter 2 2021-22 WRF Quarterly Update Report and provide input to Council as appropriate.

2. REVIEW OF FISCAL YEAR 2021-22 MIDYEAR BUDGET REPORT, INCLUDING THE SEMI-ANNUAL REPORT ON MEASURE Q & E FUNDS; (ASSISTANT CITY MANAGER/ADMIN SERVICES DIRECTOR)

RECOMMENDATION: Receive the FY 2021-22 Midyear Budget Report, including the Semi-Annual Report on Measure Q & E Funds and provide input to Council as appropriate.

C. FUTURE AGENDA ITEMS

D. SCHEDULE NEXT MEETING
April 19, 2022

E. ADJOURNMENT

THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 72 HOURS PRIOR TO THE DATE AND TIME SET FOR THE MEETING. PLEASE CALL CITY HALL AT 805-772-6201 FOR FURTHER INFORMATION.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT (805) 772-6205. NOTIFICATION 24 HOURS PRIOR TO THE MEETING WILL ENABLE THE CITY TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THE MEETING.

MINUTES –CITIZENS OVERSIGHT/FINANCE
ADVISORY COMMITTEE
REGULAR MEETING – JANUARY 18, 2022
TELECONFERENCE – 3:00 p.m.

City Council conducted this meeting in accordance with Assembly Bill 361 (2021-22) and Government Code section 54953 in response to the present State of Emergency in existence due to the threat of COVID-19. This meeting was held via teleconference for all participants.

MEMBERS PRESENT: John Martin Chair
 Barbara Spagnola Vice-Chairperson
 Bart Beckman Committee Member
 Homer Alexander Committee Member
 Tina Wener Committee Member
 Stephen Peck Committee Member

MEMBERS ABSENT: Lois Johnson Committee Member

STAFF PRESENT: Scott Collins City Manager
 Sarah Johnson-Rios Assistant City Manager/Admin Services Dir.
 Emily Conrad Finance Manager
 Kelly Mattos Senior Administrative Services Analyst

ESTABLISH QUORUM AND CALL TO ORDER

<https://youtu.be/2-Z2reWvpCg?t=17>

Chair John Martin called the meeting to order at 3:01 p.m. with all but Member Johnson present.

COMMITTEE ANNOUNCEMENTS & PRESENTATIONS - None

PUBLIC COMMENT - None

A. CONSENT CALENDAR
<https://youtu.be/2-Z2reWvpCg?t=123>

1. APPROVAL OF MINUTES FOR THE DECEMBER 21, 2021 CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

MOTION: Member Wener moved to approve the minutes from the December 21, 2021 Citizens Oversight/Finance Advisory Committee meeting. The motion was seconded by Member Peck and carried 6-0-1 by roll call vote with Member Johnson absent.

B. BUSINESS ITEMS

1. BRIEF ASSISTANT CITY MANAGER / DIRECTOR UPDATE
<https://youtu.be/2-Z2reWvpCg?t=196>

Assistant City Manager/Admin Services Director Johnson-Rios provided a brief update including information about staffing in the Administrative Services Department, Council implementing the CFAC recommendation to increase Council

member compensation but not an increase in benefits and an update that the City did receive proceeds from the sale of 2783 Coral Avenue on the last day of the calendar year 2021. Assistant City Manager/Admin Services Director Johnson – Rios answered member questions.

Public Comment: None

The report was received and filed.

2. PRESENTATION TO THE CITY COUNCIL REGARDING CFAC'S REVIEW OF THE FY 2020-21 UNAUDITED TRANSACTIONS FROM THE COLLECTION OF THE GENERAL-PURPOSE LOCAL SALES TAX, COMMONLY KNOWN AS "MEASURE Q"; (CHAIRMAN JOHN MARTIN)
<https://youtu.be/2-Z2reWvpCg?t=579>

Public Comment: None

MOTION: Member Alexander moved to accept the presentation prior to taking it to the City Council. The motion was seconded by Member Peck and carried 6-0-1 by roll call vote with Member Johnson absent.

3. INFORMATIONAL UPDATE ON THE CITY'S OPEB LIABILITIES (ADMIN SERVICES)
<https://youtu.be/2-Z2reWvpCg?t=1021>

Assistant City Manager/Admin Services Director Johnson-Rios introduced the item and turned to Will Kane from Total Compensations Systems, Inc., who provided the presentation on the City's Retiree Health Benefits under GASB 74/75 and responded to member questions.

Public Comment:
None

MOTION: Member Alexander recommends the City Council add an additional item in conjunction with the pension funding policy. An investment policy would also be developed. The investment policy would include targeted allocation between fixed income equity assets based on the City Councils risk tolerance. The new policy would be reviewed once a year. The motion was seconded by Member Martin for discussion.

AMENDED MOTION: Member Alexander recommend the City Council add an additional item in conjunction with the pension funding policy. An investment policy for the OPEB 115 trust would also be developed. The investment policy would include targeted allocation between fixed income equity assets based on the City Councils risk tolerance. The new policy would be reviewed once a year. The motion was seconded by Member Martin for discussion.

Following discussion, Member Alexander withdrew his motion and Chair Martin withdrew the second.

MOTION: Member Alexander recommends that an investment policy for the OPEB 115 trust should be developed. The OPEB investment policy would include targeted allocation between fixed income equity assets based on the City Councils risk tolerance. The policy should be reviewed at least once a year. Member Martin seconded for discussion.

Following discussion, Member Alexander withdrew his motion and Chair Martin withdrew the second.

Motion: Member Alexander moved to make a recommendation to receive and file. The motion was seconded by Member Wener and carried 6-0-1 by roll call vote with Member Johnson absent.

C. FUTURE AGENDA ITEMS

<https://youtu.be/2-Z2reWvpCg?t=5070>

1. Annual Comprehensive Financial Report
2. WRF Quarterly Report
3. Investment Quarterly Report
4. Select Chair and Vice Chairpersons
5. Mid-Year Budget Review

MOTION: Member Peck moved to move to put the Investment Policy, including all 115 Trusts, on an agenda for review and recommendation before the budget process of setting up the 115 Trusts. The motion was seconded by Member Alexander and carried 6-0-1 by roll call vote with Member Johnson absent.

D. SCHEDULE NEXT MEETING

The next regularly scheduled Citizen's Oversight/Finance Committee meeting will be February 15, 2022 at 3:00 pm via teleconference.

E. ADJOURNMENT

The meeting adjourned at 4:34 p.m.

Recorded by:

Tracy McConnell
Account Clerk III

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AGENDA NO: A-2

MEETING DATE: February 15, 2022

Staff Report

TO: Chairman and Committee Members **DATE:** February 9, 2022

FROM: Sarah Johnson-Rios, Asst City Manager/Admin Services Director

SUBJECT: Second Quarter Investment Report (period ending December 31, 2021) for Fiscal Year (FY) 2021-22

RECOMMENDATION

Receive the attached Second Quarter Investment Report (period ending December 31, 2021) for FY 2021-22.

FISCAL IMPACT

There is no fiscal impact associated with this recommendation.

DISCUSSION

Attached for your consideration is the Second Quarter Investment Report for FY 2021-22. As of December 31, 2021, the City's weighted portfolio yield of 0.29% was slightly above the Local Agency Investment Fund (LAIF) yield of 0.22%. Yields remain low, reflecting the uncertainty of the economic climate, but are climbing gradually. As of December 31, 2021, the City had recorded \$53,074 in interest earnings for the fiscal year.

Staff continues to keep significant cash in the City's LAIF account to ensure cash flow for the ongoing Water Reclamation Facility (WRF) project. Staff recommends that no immediate investment actions be taken at this time.

As a result of the ongoing liquidity needs for the WRF project, staff plans to more comprehensively evaluate investment options when the WRF project is complete or nearing completion. At that time, staff will focus on renewed assessment of cash flow needs and research the most prudent ways to balance Council adopted investment goals of safety, liquidity, and yield as well as social responsibility in accordance with Resolution No. 50-21.

CONCLUSION

Staff recommends that the Committee receive the Second Quarter Investment Report (period ending December 31, 2021) for Fiscal Year 2021-22.

ATTACHMENT

1. Second Quarter Investment Report for FY 2021-22 (period ending December 31, 2021)

Prepared By: SJR

Dept Review: SJR

**CITY OF MORRO BAY
 QUARTERLY PORTFOLIO PERFORMANCE
 12/31/2021**

INVESTMENT OR CUSIP NUMBER	INSTITUTION	PURCHASE PRICE	INTEREST RATE	PURCHASE DATE	MATURITY DATE	DAYS TO MATURITY
LAIF	LOCAL AGENCY INVESTMENT FUND	\$ 35,797,875	0.22%	DAILY	DAILY	1
MONEY MARKET ACCOUNT:						
MM	MECHANICS BANK - MONEY MARKET	1,945,843	0.04%	DAILY	DAILY	1
SWEEP	MECHANICS BANK - SWEEP	5,257,311	0.01%	DAILY	DAILY	1
CERTIFICATES OF DEPOSIT:						
02007GHD8	ZION BANK - Ally Bank UT	246,000	2.900%	1/24/2019	1/24/2022	24
949763XU5	ZION BANK - Wells Fargo	249,000	2.800%	2/27/2019	2/28/2022	59
1404202A7	ZION BANK - Capital One	250,005	2.400%	4/12/2017	4/12/2022	102
61760AUU1	ZION BANK - Morgan Stanley	246,000	3.000%	1/24/2019	1/24/2023	389
61690UDL1	ZION BANK - Morgan Stanley	246,000	3.100%	1/24/2019	1/24/2024	754
1731202F5	ZION BANK - Citibank	246,000	3.200%	1/25/2019	1/25/2024	755
3090683803	US BANK (FORMERLY STATE FARM BANK)	250,435	3.050%	10/21/2013	10/24/2023	662
		<u>\$ 44,734,469</u>				
			RECORDED INTEREST AS OF 12/31/2021	% OF LIQUID PORTFOLIO HOLDINGS	WEIGHTED AVERAGE RATE OF EARNINGS	WEIGHTED AVERAGE MATURITY
			<u>\$53,074.02</u>	<u>96.125%</u>	<u>0.292%</u>	<u>16</u>

Portfolio holdings as of the quarter ended December 31, 2021, are in compliance with the current Investment Policy. With 96.125% of the portfolio held in liquid instruments, allowing the City to meet cash flow needs for at least six months, in compliance with the investment policy approved by the City Council in June 2021.



AGENDA NO: B-1

MEETING DATE: February 15, 2022

Staff Report

TO: CFAC Chairman and Committee Members **DATE:** February 9, 2022
FROM: Kyle Rhorer – WRF Program Manager, Carollo Engineers
Greg Kwolek – Public Works Director
SUBJECT: Review Water Reclamation Facility (“WRF”) Quarterly Report

RECOMMENDATION

Receive the Quarter 2 2022 WRF Quarterly Report and provide input to Council as appropriate.

DISCUSSION

Provided as Attachment 1 is the Quarterly Water Reclamation Facility (WRF) Project Report. This report is scheduled to be presented to the City Council on February 22, 2022 and, as such, is being presented to the Citizens’ Oversight/Finance Advisory Committee (CFAC) for review in advance.

CFAC Scope of Review

As outlined by the City Council, the CFAC Scope of Review for the WRF consists of:

1. Review of global project expenditures vs. budget;
2. Review of debt service recommendations from staff including use of cash vs. other funding sources and analysis of impacts on rates;
3. Review of cash flow performance to ensure we maximize the use of funds (time use of money); and
4. Monitoring of compliance with the drawdown requirements for the Water Infrastructure Finance and Innovation Act (WIFIA) and State Revolving Fund (SRF) funding programs.

Budget Summary

The Q2 2021/2022 Quarterly Water Reclamation Facility Project Report provides a summary of WRF program activities and financial metrics for the period of October 1, 2021 through December 31, 2021.

The table on the following page shows the status of the overall WRF Project budget as of the end of Q2 2022.

Prepared By: KR/GK

Dept Review: SJR

The table below shows the status of the overall WRF Project budget as of the end of Q2 2022.

<i>Project Component</i>	<i>Quarterly Budget Reconciliation Q1 FY 21/22</i>	<i>Quarterly Budget Reconciliation Q2 FY 21/22</i>
Water Reclamation Facility	\$74,697,995	\$74,697,995
Conveyance Facilities	\$34,214,311	\$36,319,667
Recycled Water Facilities	\$6,668,000	\$6,668,000
General Project	\$25,589,712	\$25,362,730
Construction Contingency	\$3,504,859	\$1,626,485
TOTAL	\$144,674,877	\$144,674,877

While the overall WRF Project budget did not change during Q2, the allocation of budget across the Project components was adjusted due to 1) contract amendments for the Conveyance Facilities component, and 2) reallocation of the Construction Contingency and General Project components to the Conveyance Facilities component.

The table below shows the Q2 2022 WRF Project expenditures by project component.

<i>Project Component</i>	<i>Expenditures Q2 FY 21/22</i>
Water Reclamation Facility	\$9,353,006
Conveyance Facilities	\$1,831,284
Recycled Water Facilities	\$49,383
General Project	\$1,592,748
TOTAL	\$12,826,421

ATTACHMENTS

1. City of Morro Bay Water Reclamation Facility Quarterly Report
2. February 15, 2022 CFAC presentation slides



City of Morro Bay
Water Reclamation Facility Project

QUARTERLY REPORT ENDING DECEMBER 2021

FINAL | February 2022





City of Morro Bay
Water Reclamation Facility Project

QUARTERLY REPORT ENDING DECEMBER 2021

FINAL | February 2022

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Abbreviations

Anvil	Anvil Builders, Inc.
BMP	Best Management Practices
BNR	Biological Nutrient Removal
BOD	Biochemical Oxygen Demand
BR	brine
CA	California
Carollo	Carollo Engineers, Inc.
CDFW	California Department of Fish and Wildlife
CFAC	Citizens Finance Advisory Committee
CO	Change Order
CPM	critical path method
CWSRF	Clean Water State Revolving Fund
DDW	Division of Drinking Water
EHSP	Enhanced Source Control Program
EIR	Environmental Impact Report
EPA	Environmental Protection Agency
FIW	Filter Inlet Water
FO	fiber optic
FRP	Fiber-Reinforced Plastic
FWB	Filter Backwash
GAMA	Groundwater Ambient Monitoring and Assessment Program
GMP	Guaranteed Maximum Price
GSI	GSI Water Solutions
IFC	Issued for Construction
IPR	Indirect Potable Reuse
KPI	Key Performance Indicator
lf	Linear Feet
MBR	Membrane Bioreactor
NPDES	National Pollution Discharge Elimination System
NTP	Notice to Proceed
PA	Programmatic Agreement
PCO	Potential Change Order
PG&E	Pacific Gas and Electric
PPP	Pollution Prevention Plan
Project	Water Reclamation Facility Project
PRW	Plant Recycled Water
PWAB	Public Works Advisory Board

Q1	Quarter No. 1
RFI	request for information
RO	Reverse Osmosis
ROWD	Report of Waste Discharge
RWQCB	Regional Water Quality Control Board
SAA	Stream Bed Alteration Agreement
SHPO	State Historic Preservation Office
SHT	Sludge Holding Tank
SLO	San Luis Obispo
SPI	schedule performance index
SRF	State Revolving Fund
SWRCB	State Water Resources Control Board
TSO	Time Schedule Order
TSS	Total Suspended Solids
USBR	United States Bureau of Reclamation
UVAOP	Ultraviolet Advanced Oxidation Process
VDC	volts direct current
Vistra	Vistra Energy
WIFIA	Water Infrastructure Finance and Innovation Act
WRF	Water Reclamation Facility
WWE	Water Works Engineers
WWR	Wastewater Raw
WWS	Wastewater Screened

Section 1

PROJECT OVERVIEW

1.1 General Project Status Update

All components of the Water Reclamation Facility Project (Project) are currently in progress. The general progress update and schedule information presented in this report represents Quarter No. 2 (Q2) of Fiscal Year 2021-2022, from October 1, 2021 to December 31, 2021.

1.1.1 Water Reclamation Facility

1.1.1.1 Design

The design for the Water Reclamation Facility (WRF) was completed with the delivery of the Issued for Construction (IFC) drawings and specifications for the WRF on May 22, 2020.

1.1.1.2 Construction

Construction at the WRF site began on March 20, 2020. Activities to date include the following major activities which are discussed in detail in Section 8:

- Completion of major earthwork
- Remediation of the second soil slip
- Continued installation of major and minor yard piping systems
- Pressure testing of installed underground piping
- Installation of various electrical infrastructure components
- Construction progress in the following process areas:
 - Headworks
 - Biological Nutrient Removal (BNR)/Membrane Bioreactor (MBR) treatment
 - Reverse Osmosis (RO)/Ultraviolet (UV) Advanced Oxidation Process (AOP)
 - Product water facilities
 - Residuals sludge processing
 - Electrical and Instrumentation/Controls
 - Chemical storage and feed
 - Operations building
 - Maintenance building
 - City yard facilities

1.1.2 Conveyance Facilities

1.1.2.1 Design

Water Works Engineers (WWE) submitted the bid set plans and specifications in May 2020 and the City advertised this component of the Project on June 15, 2020.

1.1.2.2 Construction

The City opened bids for the Conveyance Facilities component of the Project on August 14, 2020. The City received a total of five bids. Anvil Builders, Inc. (Anvil) was awarded the contract for construction of the Conveyance Facilities on November 10, 2020 and issued notice to proceed (NTP) on December 14, 2020.

The following activities were completed between October 1, 2021 and December 31, 2021. The contractor continued to maintain general and administrative tasks such as project Stormwater Pollution Prevention Plan (SWPPP), traffic control plans, archeological mitigation and monitoring, and public outreach efforts. Additionally, four construction crews worked at the separate locations at both pump station A, pump station B, South Bay Boulevard and Main Street. A detailed description of the work within these areas is included in Section 8.

1.1.3 Recycled Water Facilities

1.1.3.1 Design

In Q2, the program team continued to make progress towards developing the bid package of the pilot injection well for the recycled water facilities portion of the project. The majority of the non-construction activities included procurement of a well driller for the pilot injection well. Section 8 outlines the recycled water facilities pre-design and design activities in more detail.

1.1.3.2 Construction

Construction of the recycled water facilities included the installation of a monitoring well that will be used to monitor the groundwater level during the pilot injection well study.

1.1.4 Accomplishments and Challenges

Table 1 summarizes some of the key accomplishments and critical challenges identified for the Project through December 31, 2021.

Table 1 Project Accomplishments and Challenges that occurred in Q2

Project Component	Key Accomplishments	Critical Challenges	Actions to Overcome Challenges	Likely Outcomes
General Project	Assembled and submitted disbursement request packages No. 2 and 3 to SRF Construction Loan and No. 4 to SRF Planning Loan.	Project team continues to coordinate and prepare reimbursement packages from FBV and Anvil construction progress payments to submit to SRF for reimbursement on behalf of the City.	No actions required.	Construction progress payments for the Water Reclamation Facility and the Conveyance Facilities will continue to be sent to SRF for reimbursement.
Water Reclamation Facility	Continued planning for facility commissioning, start-up and testing activities and coordination with Conveyance Facilities completion schedule.	Current schedule for treatment plant testing and start-up could result in extended overhead charges due to contractor downtime while awaiting sewage influent from the Conveyance Facilities project component.	Program Management team facilitated two workshops with WRF treatment plant contractor team to develop a strategy that will mitigate the misalignment between their schedule and the Conveyance Facilities schedule.	Minimization or avoidance of additional contract charges associated with schedule misalignment.
	Implemented Storm Water Pollution Prevention Plan (SWPPP) for upcoming winter storms.	The DB team has received two notice of violations of SWPPP measures from the Regional Water Quality Control Board on 11/8/21 and 12/20/21.	The DB team has implemented a robust series of SWPPP best management practices (BMPs) to address the notice of violations for upcoming winter storms. The DB team has also encouraged Regional Water Quality Control Board (RWQCB) staff to inspect SWPPP BMPs to ensure they are compliant with RWQCB standards.	The implementation of the SWPPP BMPs will improve stormwater discharge quality to meet RWQCB standards. The City will receive correspondence from RWQCB staff in January 2022 that the installed BMPs comply with SWPPP standards and that the City has addressed the issues identified in the notice of violations.
Conveyance Facilities	Successfully coordinated with SHPO to finalize Phase 2B monitoring and mitigation requirements for working between Stations 27+00 and 37+00.	On December 7 th , the Construction Management Team, EPA, SHPO, and Far Western met virtually to discuss the Phase 2B monitoring plan for the Conveyance Facilities Project. SHPO was not in acceptance of Far Western's original plan and this meeting was to come to a resolution in order to move forward between Stations 27+00 and 37+00.	Far Western and the EPA developed a monitoring strategy, which includes their original monitoring plan, with additional reporting to SHPO during construction that would be acceptable to SHPO.	This plan will be officially submitted to SHPO early January 2022 and will result in clearance of Anvil to begin construction on the Morro Creek utility bridge abutments with archeological oversight by Far Western.
	Obtained Caltrans Encroachment Permit approval for Traffic Control Plan Stage 19 and detours around South Bay Boulevard.	Construction Management Team required approval of conveyance facilities traffic control plan stage 19 from Caltrans in order to perform construction near the intersection of South Bay Boulevard and Highway 1.	Construction Management Team and Anvil Builders coordinated with Caltrans to revise the traffic control plan to meet Caltrans traffic handling standards as well as queuing along Morro Bay Boulevard off-ramp.	Caltrans approved the traffic control plan. Anvil installed prenotification signs on Highway 1 and implemented TCP stage 19 on December 27 th .
	Completed Jack and Bore trenchless installation across Willow Camp Creek.	Work crossing the Willow Camp Creek by jack and bore construction needed to be complete by November 19 th . During construction, the contractor encountered a large concrete block which dramatically slowed construction.	Contractor had to work longer back to back shifts to remove concrete debris by hand as well as increase production rate in order to make the November 19 th deadline.	Contractor successfully removed the concrete blockage, met the November 19 th schedule and installed the steel casing beneath Willow Camp Creek.
	The City and Program Team has a plan in place for additional tree required to be removed or protected in place.	The Coastal Commission has initially denied the request of the Conveyance Facilities Construction Management team to remove additional trees along the bike path to 1) allow for a safe construction corridor, 2) spread out the pipes in the joint trench to meet DDW separation standards, 3) revitalize the bike with native vegetation, and 4) utilize the newly acquired easement width from Vistra Energy.	The construction management team must provide Coastal Commission justification for the additional tree removal. The team is in process of producing a project memo that addresses these justifications to the Coastal Commission. Additional trees required to be removed will be identified and a request to revise the CDP special conditions report for the Conveyance Facilities will be sent to the Coastal Commission. Additionally, the trees to be protected in place and/or removed will be included in a change order to Anvil for the work outside of their original scope.	The construction management team and the City are anticipating to meet with Coastal Commission to discuss these justifications in early 2022. The City is currently developing a landscaping plan to replace trees removed due to Conveyance Facilities construction.

Table 1 Project Accomplishments and Challenges (continued)

Project Component	Key Accomplishments	Critical Challenges	Actions to Overcome Challenges	Likely Outcomes
Recycled Water Facilities	2-inch Monitoring Well for pilot injection well was installed.	The proposed location of the 2-inch monitoring well required vegetation removal and was not an appropriate site for construction.	GSI Water Solutions (GSI) and the Program Management Team relocated the monitoring well approximately 10 feet to the south of its proposed location.	The monitoring well was successfully installed.
	Pilot Injection Well Bid Opening was on December 9 th , 2021.	No contractor bids were received for the pilot injection well.	The Program Management team revised the bidding documents to allow for a less strict schedule for procurement in order to allow for prospective bidders to procure drilling equipment prior to commencing work. The Pilot Injection Well package will be rebid in January with additional virtual, non-mandatory meetings.	The pilot injection well will be re-bid in late January with a bid opening schedule in mid-March. It is anticipated that a well drilling contractor will be procured for the installation of the pilot injection well and perform the injection testing.

1.2 Quarterly Budget Revision

The original \$126 million baseline budget was developed in June 2018 (Q4 Fiscal Year 2017/2018). At the beginning of each fiscal year, the budget is updated and used as the measure of performance for the Project during that upcoming fiscal year. The budget is then reviewed and reconciled on a quarterly basis to facilitate comparison to both the current fiscal year and baseline budgets.

A summary of the baseline, reconciled quarterly, and fiscal year budgets is provided in Table 2.

Table 3 shows the latest estimate at completion (EAC) for each project component. The EAC considers the City's fiscal year budget and adjusts for City contract amendments, new City consultant contracts, City costs such as labor and administrative expenses, as-needed reallocation from contingency, and other information gathered by the Program Management Team as the project progresses.

Table 2 Budget Revision Summary

Project Component	Baseline (Q4 FY 17/18)	Quarterly Reconciliation (Q3 FY 18/19)	Fiscal Year 19/20 (Q4 FY 18/19)	Quarterly Reconciliation (Q1 FY 19/20)	Quarterly Reconciliation (Q2 FY 19/20)	Quarterly Reconciliation (Q3 FY 19/20)	Fiscal Year 20/21 (Q4 FY 19/20) ⁽³⁾	Quarterly Reconciliation (Q1 FY 20/21)	Quarterly Reconciliation (Q2 FY 20/21) ⁽¹⁾	Quarterly Reconciliation (Q3 FY 20/21) ⁽¹⁾	Fiscal Year 21/22 (Q4 FY 20/21) ⁽²⁾	Quarterly Reconciliation (Q1 FY 21/22)	Quarterly Reconciliation (Q2 FY 21/22) ⁽⁶⁾
Water Reclamation Facility	\$62,414,000	\$74,059,000	\$72,891,000	\$72,598,000	\$72,231,000	\$71,856,000	\$77,828,000	\$77,082,000	\$77,281,977	\$77,087,023	\$77,687,023	\$74,697,995	\$74,697,995
Conveyance Facilities	\$21,087,000	\$27,108,000	\$28,864,000	\$28,524,000	\$29,224,000	\$29,989,000	\$29,840,000	\$37,355,000	\$37,482,000	\$37,482,000	\$37,982,000	\$34,214,311	\$36,319,667
Recycled Water Facilities	\$8,593,000	\$5,366,000	\$5,250,000	\$5,212,000	\$5,353,000	\$5,526,000	\$5,526,000	\$5,740,000	\$5,968,000	\$5,968,000	\$6,668,000	\$6,668,000	\$6,668,000
General Project ⁽⁴⁾⁽⁵⁾	\$24,403,000	\$11,614,000	\$11,801,000	\$11,625,000	\$11,701,000	\$12,964,000	\$13,260,000	\$14,255,000	\$14,445,000	\$14,445,000	\$15,445,000	\$25,589,712	\$25,362,730
Construction Contingency	\$9,444,000	\$6,450,000	\$7,132,000	\$7,131,000	\$7,364,000	\$10,264,000	\$4,207,000	\$4,250,000	\$3,414,023	\$3,608,977	\$6,892,854	\$3,504,859	\$1,626,485
Total	\$125,941,000	124,597,000	\$125,938,000	\$125,090,000	\$125,873,000	\$130,599,000	\$130,661,000	\$138,682,000	\$138,591,000	\$138,591,000	\$144,674,877	\$144,674,877	\$144,674,877

Notes:

- (1) The Project budget is estimated on a quarterly basis (i.e. September 30th, December 31st, and March 31st) and compared to the adopted fiscal year budget by June 30th. Costs shown through Q2 FY 20/21 include the design-build agreement with Filanc and /Black & Veatch (Overland), Carollo Program Management Contract (including subcontracting consultants), and other City consultants. Beginning Q3 FY20/21 this table reflects updated contract amendments and new adopted budgets.
- (2) As presented to City Council on May 25, 2021 for the WRF Q3 2021 Update Report.
- (3) The FY 20/21 budget adopted by City Council was \$130,596,361. The numbers shown in this column, and all columns prior to Q3 FY 20/21, are preserved from prior year quarterly reports.
- (4) Starting in Q4 FY 20/21, General Project includes construction management of the Water Reclamation Facility and the Conveyance Facilities as part of the Program Management costs.
- (5) Starting in Q1 FY 21/22, General Project includes all associated City Costs (e.g. staff salaries and benefits, legal services, land acquisition, supplies, equipment, etc.), and City Contracts for active consultants including construction permitting compliance activities and Program Management costs.
- (6) Breakdown of the Q2 FY 21/22 contingency of \$1,626,485 is as follows: WRF = \$304,859; Conveyance Facilities = \$821,626; and Recycled Water Facilities = \$500,000.

Table 3 Estimates at Completion as of Q2 FY 21/22

Project Component	Original Estimate	Initial Contract Value	Current Contract Value	Expenditures to Date	Estimate at Completion ⁽¹⁾
Design/Build WRF	\$62,414,000	\$67,234,512	\$76,697,995	\$49,221,493	\$74,697,995
Design/Build (FBV/Overland)	--	\$67,234,512	\$76,697,995	\$49,221,493	\$74,697,995
Conveyance Facilities	\$21,087,000	\$32,854,240	\$36,319,667	\$15,673,323	\$36,319,667
Permitting (Cogstone, Far Western, KMA)	--	--	\$1,937,196	\$660,478	\$1,937,196
Design (Water Works Engineers)	--	\$1,360,565	\$2,214,311	\$2,177,773	\$2,214,311
Construction (Anvil Builders)	--	\$31,493,675	\$32,168,160	\$12,835,073	\$32,168,160
Recycled Water Facilities	\$8,593,000	\$351,000	\$944,040	\$599,350	\$6,668,000
Design (GSI)	--	\$351,000	\$933,650	\$588,960	\$933,650
Construction (ABC Liovin)	--	--	\$10,390	\$10,390	\$5,734,350
General Project	\$24,403,000	\$293,000	\$12,105,701	\$17,349,233	\$25,362,730
City Costs ⁽²⁾	--	--	--	\$9,483,492	\$11,889,712
Program Management (Carollo) ⁽³⁾	--	\$293,000	\$11,808,401	\$7,164,399	\$12,200,000
City Contracts ⁽⁴⁾	--	--	\$297,300	\$701,342	\$1,273,018
Contingency	\$9,444,000	--	--	--	\$1,626,485
Water Reclamation Facility	--	--	--	--	\$304,859
Conveyance Facilities	--	--	--	--	\$821,626
Recycled Water Facilities	--	--	--	--	\$500,000

Notes:

- (1) Beginning with the Q4 Fiscal Year 2020/2021 report, the EAC reflects the June 2021 adopted City budget for Fiscal Year 2021/2022 and updated contract amendments.
- (2) City costs include staff salaries and benefits, legal services, land acquisition, supplies, equipment, etc.
- (3) Program management costs include permitting, public outreach, funding support, and construction oversight/management.
- (4) Expenditures to date shown for General Project City Contracts include inactive consultants (such as MKN, Black & Veatch, ESA, and Kestrel) and currently active consultants including Bartle Wells Associates and JSP. Current General Project City Contracts are shown only for currently active consultants.

Section 2

KEY PERFORMANCE MEASURES

2.1 Performance Measures

A set of five (5) Key Performance Indicators (KPIs) were established to readily measure the progress of the Project. These KPIs represent various success factors associated with the WRF project management and delivery that were established by the Program Manager and City staff and are summarized as Table 4.

Table 4 WRF Project Performance Measures (through December 2021)

Performance Measure	Data	Baseline (Q4 FY 19/20)	Current (Q2 FY 21/22)	Delta	Status
1: Total Project Costs	Total Project Projected Cost at Completion versus the Baseline Budget	\$130.7 M	\$144.7M	\$14.0M	Ⓜ
1.1: WRF Costs	On Site WRF Projected Cost at Completion versus the Baseline Budget	\$77.8 M	\$74.7 M	\$(3.1) M	Ⓜ
1.2: Conveyance Facilities Costs	Conveyance Facilities Projected Cost at Completion versus the Baseline Budget	\$29.8 M	\$36.3 M	\$6.5 M	Ⓜ
1.3: Recycled Water Facilities Costs	Off Site Injection Facilities Projected Cost at Completion versus the Baseline Budget	\$5.5 M	\$6.7M	\$1.2 M	Ⓜ
1.4: General Project Costs	General Project Projected Cost at Completion versus the Baseline Budget	\$13.3 M	\$25.4 M	\$12.1 M	Ⓜ
2: Program Manager Earned Value	Ratio of Program Manager Earned Value to Actual Invoiced Cost-to-Date	1.00	1.00	0	Ⓜ
3: Schedule Performance Index	Ratio of Planned Percent Complete to Actual Percent Complete	1.00	1.00	0	Ⓜ
4: TSO Compliance Date Countdown	Days Remaining to time schedule order (TSO) Compliance Date of February 28, 2023	789	424	365	Ⓜ

LEGEND

Ⓜ	GREEN: Estimated cost within 5% of target budget, Ratio and Schedule Performance Index ≥ 1.00 , TSO Compliance Date Countdown ≤ 365 days
Ⓜ	YELLOW: Estimated cost $> 5\%$ above target budget, Ratio = 0.99 to 0.90 for Program Manager Earned Value and 0.99 to 0.80 for Schedule Performance Index, TSO Compliance Date Countdown between 180 and 364 days
Ⓜ	RED: Estimated cost $> 10\%$ above target budget, Ratio < 0.90 for Program Manager Earned Value and < 0.80 for Schedule Performance Index, TSO Compliance Date Countdown > 179 days

Section 3

PROJECT COSTS

3.1 Project Budget

The overall budget status for the Project is summarized in Table 5.

Table 5 WRF Project Overall Budget Status (through December 2021)

Summary of Total WRF Project Cost	
Original Baseline WRF Project Budget ⁽¹⁾	\$125,941,000
Adopted FY 20/21 WRF Project Budget ⁽²⁾	\$130,596,361
Adopted FY 21/22 WRF Project Budget ⁽²⁾	\$144,674,877
Adopted Budget Percent Change (FY 20/21 to FY 21/22)	10.8%
Total Expenditures for FY 21/22 Q2 (10/01/21 to 12/31/21)	\$12,826,421
Total Expenditures to Date (thru 12/31/21 invoices)	\$82,843,400
Percent of FY 21/22 WRF Project Budget Expended to Date	57.3%

Notes:

- (1) Developed in June 2018 as the basis of the approved rate surcharge that took effect in July 2019.
- (2) The budget for the Project is reviewed on an annual basis near the end of each fiscal year (May) and is adopted by City Council in June prior to each fiscal year.

3.2 Quarterly Expenditures by Budget Code

The current quarterly expenditures as reported by the City's corresponding budget performance report and according to adopted City budget code designations are summarized in Table 6, and expressed by Project component in Table 7.

Table 6 Quarterly Expenditures by Budget Code

City Budget Code ⁽¹⁾	Fund Name	Total Q2 FY21/22 Expenditures ⁽³⁾	Vendor Name	Project Component
4120	Overtime Pay			
4310	Part-Time Pay			
4910	Employer Paid Benefits			Summarized in Total Personnel Services below
4911	Pension Normal Cost			
4999	Labor Costs Applied			
Total Personnel Services		\$34,124.18	City of Morro Bay	
5114	Laboratory Testing Supplies			
5115	Water Distribution System Supplies			Summarized in Total Supplies below
5116	Wastewater Collection System Supplies			
5199	Miscellaneous Operating Supplies			
Total Supplies		\$8,457.20	Various	
6101	Legal Services – General	\$21,449.09	Aleshire & Wynder	General Project
6103	Financial Audits	-	-	General Project
6107	Advertising	-	-	-
5307	Blueprint/Copy Charges	-	-	-
6220	Postage (Included in 6710)	\$474.05	Perry's Mail Center	General Project
6301	Electricity	-	-	-
6303	Water	\$123.50	City of Morro Bay	General Project
6510	Meetings & Conferences	-	-	-
6513	Meals & Lodging	-	-	-
6514	Travel Expense	\$1,047.49	Mechanics Bank, Grant Chase	General Project
6640	Maintenance Contracts	-	-	-
6710	Notices & Publications	-	-	-
Total Services		\$23,094.13		
6104	Engineering Services	\$38,993.23	GSI Water Solutions	Recycled Water Facilities
6105	Consultation Services	\$44,894.39	Cogstone, KMA	Conveyance Facilities
6152	Outside Lab Testing	\$3,710.00	Abalone Coast	General Project
6161	Licenses & Permits	\$26,904.50	North County Backflow, State Water Resources Control Board	General Project
6162	Mandated Fees/Inspections	\$10,600.00	US EPA	General Project
6196	Program Management & DB Procurement	\$1,425,718.07	Carollo Engineers and Subconsultants ⁽²⁾	General Project
6197	Grant Support	-	-	-
6198	Government Relations	-	-	-
6640	Maintenance Contracts	-	-	-
7101	Land Acquisition	-	-	-
Total Project Soft Costs		\$1,550,820.19		
6106	Contractual Services	\$1,709,779.54	Anvil Builders, JSP Automation	Conveyance Facilities, General Project
7103	Design/Build-On-Site Improvement Design Phase	-	-	-
7104	Design-Lift Station/Force Main	\$118,837.56	Water Works Engineers	Conveyance Facilities
7105	Planning & Permitting	\$17,911.94	Far Western	Conveyance Facilities
7106	Design-Injection Wells & Recycled Water Pipeline	-	-	-
7107	Design/Build-On-Site Improvement Build Phase	\$9,353,006.30	FBV Overland	Water Reclamation Facility
7108	Injection Well Construction	-	-	-
7109	Lift Station/FM Construction Phase	-	-	-
7110	Pilot Well Construction	\$10,390.00	ABC Liovin	Recycled Water Facilities
Total Construction Costs		\$11,209,925.34		
Total Quarterly Expenditures		\$12,826,421.04		

Notes:

- (1) Budget codes correspond to the City's adopted budget for current fiscal year and paid invoices correspond with the City's budget performance report for those codes. Opportunities to reallocate invoice codes or consolidate codes will be considered in future quarters.
- (2) Carollo Engineers' active subconsultants include the following: CM Solutions/Quest (Conveyance Facilities schedule review), Earth Systems (Conveyance Facilities materials testing and special inspection), Filippin Engineering (Conveyance Facilities construction inspection), Guida (surveying), JFR Consulting (CEQA support), Katz & Associates (public outreach), KMA (biological resources services), Underwater Resources, Inc. (outfall analysis), Mimiaga Engineering Group (WRF Construction Management), Penny Carlo Engineering (industrial users permitting) and Yeh and Associates (geotechnical engineer).
- (3) Total quarterly expenditures shown only include invoices paid by the City in this quarter and are derived from a cash basis of accounting using the Accounts Payable reports provided by the City approximately one week after the end of the quarter. Total quarterly expenditures shown may differ from City fiscal year-end budget performance reports that are based on a modified accrual basis of accounting, which reallocates current quarter expenditures for services rendered in prior fiscal year back to June 30, 2021.

Table 7 Quarterly Expenditures by Project Component

Project Component	Expenditures (Q2 FY 21/22)
Water Reclamation Facility	\$9,353,006
Conveyance Facilities	\$1,831,284
Recycled Water Facilities	\$49,383
General Project	\$1,592,748
Total	\$12,826,421

3.3 Project Cash Flow

Figure 1 presents the projected and actual expenditures for the Project through December 2021 compared to the Fiscal Year 2021/2022 budget developed at the end of Q4 Fiscal Year 2020/2021. The line graph shows the cumulative values for the Project and the bars show the discrete monthly values. Actual and budgeted expenditures from 2013 to the end of Fiscal Year 2018/2019 have been combined to improve readability. The cumulative actual and cumulative forecasted expenditures show anticipated project costs over the project duration. The milestone markers correspond to the final completion deadline of the WRF and Conveyance components of the project by February 2023, which coincides with the City being in compliance with the Time Schedule Order (TSO) issued by the RWQCB in June 2018.

A breakdown of the current Q2 Fiscal Year 2021/2022 budget projection by fiscal year compared with total project expenditures to date is included in Table 8.

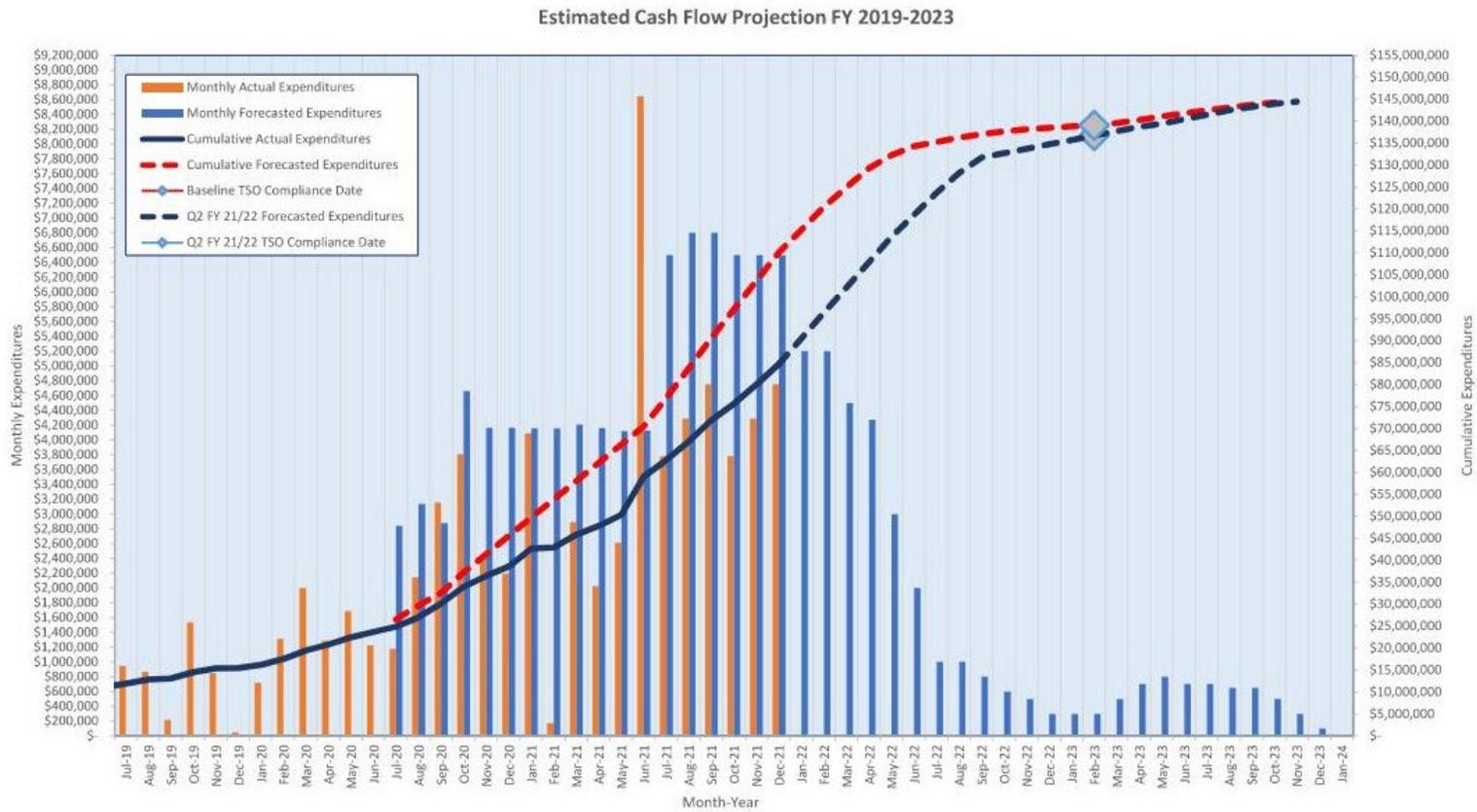


Figure 1 Project Cash Flow Projections and Actual Expenditures

Table 8 WRF Project Expenditures and City Fiscal Year Budgets

Project Component	Total Project Expenditures to Date as of FY 21/22 Q2 ⁽¹⁾	FY 21/22 Budget ^{(2) (8)}	FY 22/23 Budget ⁽²⁾	FY 23/24 Budget ⁽²⁾	Total Project Budget as of FY 21/22 ⁽²⁾
WRF	\$49,221,493	\$33,609,031	\$700,000	\$-	\$73,677,796 ⁽³⁾
Conveyance Facilities	\$15,673,323	\$22,289,569	\$-	\$-	\$38,802,964 ⁽⁴⁾
Recycled Water Facilities	\$599,350	\$2,025,000	\$3,000,000	\$3,000,000	\$8,280,570 ⁽⁵⁾
General Project	\$17,349,233	\$7,748,516	\$1,181,402	\$283,750	\$23,913,546 ⁽⁶⁾
Subtotal	\$82,843,400	\$65,672,116	\$4,881,402	\$3,283,750	\$144,674,877
Contingency	\$-	\$-	Note ⁽⁷⁾	Note ⁽⁷⁾	Note ⁽⁷⁾
Total	\$82,843,400	\$65,672,116	\$4,881,902	\$3,283,750	\$144,674,877

Notes:

- (1) This column reflects activity through the end of the quarter using the quarterly expenditures by project component allocations shown in Table 6. Beginning in Q2 of FY 21/22, some of the consultant expenditures previously allocated to General Project were moved to Conveyance Facilities (Cogstone, Far Western, and KMA), and hence expenditures-to-date shown may differ when compared with the same column from prior quarters.
- (2) This quarterly report Total Project Budget projection reflects the new FY 21/22 WRF Project budget as adopted by City Council in June 2021 as well as future fiscal year City budget projections.
- (3) Breakdown of the Water Reclamation Facility budget by codes from the adopted FY21/22 budget: 7103 (Design/Build WRF Onsite Imprv) = \$59,686,921 and 7107 (Design/Build – On-site Imprv Build Phase) = \$13,990,875. Budget reallocation from another code will be needed during FY 21/22.
- (4) Breakdown of the Conveyance Facilities budget by codes from the adopted FY21/22 budget codes: 7104 (Design-Lift Station/Force Main) = \$2,396,412 and 7109 (Liftstation Pipeline Construction) = \$36,406,552.
- (5) Breakdown of the Recycled Water Facilities budget by codes from adopted FY21/22 budget: 7106 (Design-Inj Wells & Recycled Water Pipeline) = \$1,695,570; 7108 (Injection Well Construction) = \$6,285,000 and 7110 (Pilot Well Construction) = \$300,000.
- (6) Breakdown of the General Project budget includes the remaining codes from the adopted FY21/22 budget not specified in (4), (5), or (6) above. Starting in Q4 FY 20/21, General Project includes construction management of the Water Reclamation Facility and the Conveyance Facilities as part of code 6196 (Prog Mgmt & DB Procure).
- (7) Beginning Q4 FY 20/21 the contingency budget is not broken out within the latest adopted City budget but is accounted for in each project component in the amounts shown in Table 3, Estimates at Completion.
- (8) FY 21/22 Budget amounts exclude carryforward from FY 20/21.

3.4 Project Cost Summary

Table 9 summarizes the cost-to-date and contracted amounts for each of the components of the Project. This table also provides the current cost estimate for each project. Detailed information on the individual components of the Project is provided in Section 7 of this Report.

Table 9 WRF Project Cost Summary (through December 2021)

Project Component	Total Project Expenditures to Date as of FY 21/22 Q2 ⁽³⁾	Contracted Amount to Date	Contracted Amount Expended to Date (%)	Anticipated Total Project Cost ⁽²⁾	Anticipated Total Project Cost Expended to Date (%)
WRF	\$49,221,493	\$76,697,995	64.2	\$75,002,854	65.6
Conveyance Facilities	\$15,673,323	\$36,319,667	43.2	\$37,141,293	42.2
Recycled Water Facilities	\$599,350	\$944,040	63.5	\$7,168,000	8.4
General Project ⁽¹⁾	\$17,349,233	\$12,105,701	Note 4	\$25,362,730	68.4
Total	\$82,843,400	\$126,067,404	65.7	\$144,674,877	57.3

Notes:

- (1) General Project's total project expenditures to date include prior contracts from previous program consultants that are no longer active. General Project's contracted amount to date shows active contracts only, and hence is less than total project expenditures to date.
- (2) Current quarter Estimate at Completion with contingencies included in each project component.
- (3) This column reflects activity through the end of the quarter using the quarterly expenditures by project component allocations shown in Table 6. Beginning in Q2 of FY 21/22, some of the consultant expenditures previously allocated to General Project were moved to Conveyance Facilities (Cogstone, Far Western, and KMA), and hence expenditures-to-date shown may differ when compared with prior quarters.
- (4) The latest contracted amount expended to date of active contracts under General Project is shown in Table 10, General Project Contracts Cost Summary.

3.5 Detailed Project Costs

Tables 10 through 13 present the detailed costs to date for active contracts for each element of the Project.

Table 10 General Project Contracts Cost Summary (through December 2021)

Consultant/Contractor	Actual Expenditures to Date ⁽¹⁾	Total Contracted Cost	Contract Expended to Date (%)
Bartle Wells Associates	\$45,100	\$64,000	70.5
Carollo Engineers, Inc. ⁽²⁾	\$7,164,399	\$11,808,401	60.7
JSP Automation	\$103,590	\$233,300	44.4
Total	\$7,313,089	\$12,105,701	60.4

Notes:

(1) Actual expenditures to date as indicated on City budget performance report and total contracted cost only includes contracts that are currently active.

(2) Includes all Carollo subcontractors under Program Management Contract.

Table 11 WRF Contract Cost Summary (through December 2021)

Consultant/Contractor	Actual Expenditures to Date	Total Contracted Cost ⁽¹⁾	Contract Expended to Date (%)
Overland Contracting	\$49,221,493	\$76,697,995	64.2
Total	\$49,221,493	\$76,697,995	64.2

Notes:

(1) Total Contracted Cost includes final value for Amendment No. 1 through No. 6 of \$1,636,060, \$63,937, \$5,992,218, \$835,097, \$(195,946), and \$1,132,117 respectively and the original contract value of \$67,234,512.

Table 12 Conveyance Facilities Contracts Cost Summary (through December 2021)

Consultant/Contractor	Actual Expenditures to Date	Total Contracted Cost	Contract Expended to Date (%)
Anvil Builders	\$12,835,073	\$32,168,160	39.9
Cogstone	\$279,356	\$1,005,721	27.8
Far Western	\$354,012	\$860,165	41.2
Kevin Merk & Associates	\$27,110	\$71,310	38.0
Water Works Engineers	\$2,177,773	\$2,214,311	98.3
Total	\$15,673,323	\$36,319,667	43.2

Table 13 Recycled Water Facilities Contracts Cost Summary (through December 2021)

Consultant/Contractor	Actual Expenditures to Date	Total Contracted Cost	Contract Expended to Date (%)
ABC Liovin	\$10,390	\$10,390	100.0
GSI	\$588,960	\$933,650	63.1
Total	\$599,350	\$944,040	63.5

3.6 Change Orders

This section presents change orders executed for the WRF and Conveyance Facilities construction activities.

3.6.1 WRF Project Change Orders

The following Amendments have been approved by City Council and have been incorporated into the WRF design-build team's contract, resulting in revisions of the Guaranteed Maximum Price (GMP). Tables 14 through 19 lists the change orders associated with each Amendment.

- Amendment No. 1 – May 2019 (GMP increased by \$1,636,060)
- Amendment No. 2 – March 2020 (GMP increased by \$63,937)
- Amendment No. 3 – May 2020 (GMP increased by \$5,992,218)
- Amendment No. 4 – November 2020 (GMP increased by \$835,097)
- Amendment No. 5 – March 2021 (GMP reduced by \$195,946)
- Amendment No. 6 – September 2021 (GMP increased by \$1,132,117)

Table 14 Summary of Approved Change Orders (Amendment No. 1)

Contract	Change Order No.	Description	Value
WRF	01	New sodium hypochlorite feed for plant water	\$78,576
WRF	02	Change architecture of operations building	\$(21,623)
WRF	03	Headworks odor control	\$18,422
WRF	04	Remove canopy and monorail at membrane bioreactor (MBR)	\$(185,434)
WRF	05	Consolidate chemical facilities	\$218,978
WRF	06	Modify chemical piping	\$(15,856)
WRF	07	Remove solids dumpster lid	\$14,543
WRF	08	Add safe equalization tank	\$504,116
WRF	09	Instrumentation and control changes	\$75,266
WRF	10	Revise maintenance building layout and size	\$516,583
WRF	11	Influent piping and metering	\$411,766
WRF	12	Install outdoor-rated positive displacement blowers at BNR facility	\$(58,210)
WRF	13	Remove bypass of coarse screens	\$(37,137)
WRF	14	Safe diversion box additions	\$58,304
WRF	15	Size dewatering as a building in the future	\$30,983
WRF	16	Stairs for the coarse screens and grit basins (total of 4)	\$52,870
WRF	17	Indirect potable reuse (IPR) product water tank bypass	\$(26,087)
Total			\$1,636,060

Table 15 Summary of Approved Change Orders (Amendment No. 2)

Contract	Change Order No.	Description	Value
WRF	65	Davis-Bacon wage increases	\$63,937
Total			\$63,937

Table 16 Summary of Approved Change Orders (Amendment No. 3)

Contract	Change Order No.	Description	Value
WRF	16	Modify outfall pump station	\$367,632
WRF	19	Reduce size of the product water tank	\$(129,681)
WRF	32	Sulfuric acid system	\$315,652
WRF	37	PLC/SCADA software uniformity (MBR, RO, and headworks only)	\$201,577
WRF	39	NTP delay	\$1,220,532
WRF	40	Headworks valve automation	\$249,946
WRF	41	Perimeter barbed wire fence	\$79,935
WRF	42	UV/AOP system modifications	\$(33,481)
WRF	44	Tank access improvements	\$210,327
WRF	45	Maintenance ceiling revisions and automated roll-up door	\$21,009
WRF	46	Curbed washdown areas	\$76,250
WRF	47	Changes to furnishings and residential equipment	\$85,194
WRF	50	Revisions to water/sewer supply storage sheds	\$13,142
WRF	52	Analyzer relocation and enclosures	\$76,555
WRF	55	Notice of dispute – PG&E temporary power	\$13,163
WRF	56	Impacts of water quality changes	\$282,420
WRF	57	Soil lateral earth pressure	\$116,329
WRF	58	Permanent exclusion fencing	\$855,991
WRF	59	Increased escalation costs	\$1,232,677
WRF	61	Potential change order (PCO) design impacts	\$158,172
WRF	62	Conduit alternative design	\$(268,400)
WRF	64	Reduce performance period	\$(35,450)
WRF	66	Caltrans intersection improvements	\$(21,893)
WRF	67	BNR system modifications	\$742,405
WRF	68	Safe equalization settle tank drain piping	\$62,215
WRF	69	Third party inspection and testing	\$100,000
Total			\$5,992,218

Table 17 Summary of Approved Change Orders (Amendment No. 4)

Contract	Change Order No.	Description	Value
WRF	30	Match sludge blowers to MBR scour blowers	\$17,426
WRF	71	California department of fish and wildlife (CDFW) site access restrictions	\$254,443
WRF	72	Owner trailer utility hook ups	\$19,593
WRF	73	Man gates in perimeter fence	\$27,031
WRF	74	Parking canopy electrical receptacles	\$42,346
WRF	75	Security window at admin building	\$11,079
WRF	76	Additional sodium bisulfite pump	\$58,243
WRF	78	Changed condition - soil slip	\$280,013
WRF	79	Modify water and collection system supply shed	\$10,847
WRF	82	SCADA uniformity	\$108,887
WRF	86	Water shut off valve in Theresa Road	\$5,189
Total			\$835,097

Table 18 Summary of Approved Change Orders (Amendment No. 5)

Contract	Change Order No.	Description	Value
WRF	84	Alternate Red Legged Frog barrier (Ref. PCO 58)	\$(468,768)
WRF	87	Modify alternate conduit design scope (Ref. PCO 62).	\$272,822
Total			\$(195,946)

Table 19 Summary of Approved Change Orders (Amendment No. 6)

Contract	Change Order No.	Description	Value
WRF	77	Covid-19 impacts	\$125,000
WRF	88	Dead-front control panels	\$37,774
WRF	90	24 volts direct current (VDC) digital output circuits	\$25,689
WRF	91	Equipment color (Tnemec 32 light gray)	\$12,500
WRF	92	West cut-slope soil slip reactivation (2021)	\$825,300
WRF	93	NEMA 4x electrical enclosures	\$40,000
WRF	94	Security system revisions	\$25,659
WRF	95	January 2021 storm event (1-26 thru 1-29)	\$40,195
Total			\$1,132,117

3.6.2 Conveyance Facilities Change Orders

The following Amendments have been approved by City Council and have been incorporated into the Conveyance Facilities contractor's contract, resulting in revisions of the total contract price. Tables 20 lists the change orders associated with Amendment No. 1.

- Amendment No. 1 – October 2021 (Contract increased by \$674,485)

Table 20 Summary of Approved Change Orders (Amendment No. 1)

Contract	Change Order No.	Description	Value
Conveyance	1	SHPO Delay (35 days no dig moratorium)	\$443,000
Conveyance	2	Add 2 each 10-inch valves and 10-inch tee	\$23,498
Conveyance	3	PS-B MAS-Relay Pump Protection Module per DC-01	\$13,477
Conveyance	4	PS-A & PS-B Conduit Changes per DC-02	\$6,436
Conveyance	7	Extend waterline relocation from Sta 71+00 and Sta 77+43	\$131,096
Conveyance	12	CA-SLO-2232H Work Interruptions from Sta. 147+00 to 150+00	\$56,978
Total			\$674,485

3.7 Reimbursement from Funding Agencies

In 2017, the City was awarded a \$10.3 million planning loan from the Clean Water State Revolving Fund (CWSRF) program. To date, the City has made four reimbursement requests for the planning loan.

In February 2020, the City executed a \$61.7 million loan with the Environmental Protection Agency’s (EPA’s) Water Infrastructure and Innovation Act (WIFIA) program. To date, a total of 18 WIFIA reimbursement requests have been made.

In July 2021, the City executed a \$66.6 million construction loan with the CWSRF program. To date, the City has submitted three reimbursement request for the construction loan. A summary of these requests is presented in Table 21.

Table 21 Summary of Reimbursement Requests

Agency	Description	N o.	Date Submitted	Requested	Approved	Received?
				Amount	Amount	
SWRCB	CWSRF Planning Loan	1	Dec-18	\$289,595	\$217,441	Yes
SWRCB	CWSRF Planning Loan	2	Nov-19	\$6,431,295	\$5,312,748	Yes
SWRCB	CWSRF Planning Loan	3	Oct 2020 ⁽¹⁾	\$4,783,797	\$2,415,669	Yes
SWRCB	CWSRF Planning Loan	4	Oct-21	\$930,385	Pending	No
SWRCB	CWSRF Construction Loan	1	Sep-21	\$11,185,434	\$11,185,434	Yes
SWRCB	CWSRF Construction Loan	2	Nov-21	\$10,866,581	Pending	No
SWRCB	CWSRF Construction Loan	3	Dec-21	\$5,463,514	Pending	No
EPA	WIFIA Loan	1	May-20	\$1,100,944	\$1,100,944	Yes
EPA	WIFIA Loan	2	Jun-20	\$61,014	\$50,486	Yes
EPA	WIFIA Loan	3	Jul-20	\$3,489,409	\$3,489,409	Yes
EPA	WIFIA Loan	4	Jul-20	\$2,461,121	\$2,461,121	Yes
EPA	WIFIA Loan	5	Aug-20	\$142,863	\$142,863	Yes
EPA	WIFIA Loan	6	Oct-20	\$1,635,106	\$1,635,106	Yes
EPA	WIFIA Loan	7	Dec-20	\$3,008,572	\$3,008,572	Yes
EPA	WIFIA Loan	8	Dec-20	\$3,671,499	\$3,671,499	Yes
EPA	WIFIA Loan	9	Jan-21	\$5,553,851	\$5,553,851	Yes
EPA	WIFIA Loan	10	Mar-21	\$2,440,399	\$2,440,399	Yes
EPA	WIFIA Loan	11	Apr-21	\$1,621,783	\$1,621,783	Yes
EPA	WIFIA Loan	12	May-21	\$2,988,342	\$2,988,342	Yes
EPA	WIFIA Loan	13	Jun-21	\$3,544,987	\$3,544,987	Yes
EPA	WIFIA Loan	14	Jul-21	\$2,692,977	\$2,692,977	Yes
EPA	WIFIA Loan	15	Sep-21	\$1,328,552	\$1,328,552	Yes
EPA	WIFIA Loan	16	Oct-21	\$488,601.54	\$488,601.54	Yes
EPA	WIFIA Loan	17	Nov-21	\$321,117.49	\$321,117.49	Yes
EPA	WIFIA Loan	18	Dec-21	\$346,278.65	\$346,278.65	Yes
Total				\$76,848,018	\$56,018,181	

Notes:

(1) Reimbursement No. 3 for the CWSRF Planning Loan was originally submitted in December 2019 and was resubmitted in October 2020.

Section 4

PROJECT SCHEDULE

A summary of the Project schedule is presented in Figure 2. Updates to the individual schedules for each Project component are developed by or provided to the Program Management Team on a regular basis. The light blue bars for each major task represent the planned progress based on the baseline schedule. The dark blue bars represent the current actual progress through December 2021. For each major line item, the schedule performance index (SPI) has been provided as well as an overall SPI for the entire Project. The SPI is a ratio of the planned percent complete versus the current actual percent complete. A SPI of greater than 1.00 indicates that the Project is on or ahead of the most current schedule and a SPI of less than 1.00 indicates the Project is running behind the most current planned schedule.



Morro Bay WRF Project
Roll-Up Schedule Summary

Printed Date: 2/8/2022
Status Date: 12/31/2021

Task Name	SPI	% Complete	2017												2018												2019												2020												2021												2022												2023												2024																																																											
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D																																				
Program Planning	1.00	100%	[Actual Progress-To-Date]																																																																																																																																															
Project Controls	1.00	66%	[Actual Progress-To-Date]																																																																																																																																															
Hydrogeological Support	1.00	63%	[Actual Progress-To-Date]																																																																																																																																															
Environmental Documentation	1.00	100%	[Actual Progress-To-Date]																																																																																																																																															
General Permitting	1.00	69%	[Actual Progress-To-Date]																																																																																																																																															
Potable Reuse Permitting	1.00	59%	[Actual Progress-To-Date]																																																																																																																																															
Funding	1.00	81%	[Actual Progress-To-Date]																																																																																																																																															
WRF Onsite Improvements	1.00	92%	[Actual Progress-To-Date]																																																																																																																																															
Conveyance Facilities Project	0.99	95%	[Actual Progress-To-Date]																																																																																																																																															
Recycled Water Facilities	1.00	27%	[Actual Progress-To-Date]																																																																																																																																															
Conformance with Time Schedule Order	N/A	0%	[Actual Progress-To-Date]																																																																																																																																															

Project SPI: 1.00
Program % Complete: 71%

Baseline Schedule
Actual Progress-To-Date

Figure 2 Project Summary Schedule

4.1 Project Milestones

In June 2018, the City received a TSO from the RWQCB. The TSO requires the City to comply with a time schedule that will, within five years of adoption, allow the City to achieve full compliance with biochemical oxygen demand (BOD) and total suspended solids (TSS) final effluent limitations established in Order No. R3-2017-0050. In addition to the final compliance date, a number of intermediate milestones are provided in Table 3 (Compliance Schedule) of the TSO. Presented in Table 22 are the milestones in the TSO.

Table 22 Time Schedule Order Milestone Summary

Required Actions	Compliance Due Date	Planned Compliance Date	Actual Compliance Date
Release of Public Draft EIR	March 30, 2018	-	March 30, 2018
Release of Updated Rate Study	June 30, 2018	-	July 05, 2018
Proposition 218 Hearing	August 30, 2018	-	September 11, 2018
Certification of Final EIR	June 30, 2018	-	August 14, 2018
Award of Contract for WRF	September 30, 2018	-	October 23, 2018
Develop, Implement, and Submit Pollution Prevention Plan (PPP) for BOD and TSS	December 01, 2018	TBD ⁽¹⁾	-
Award of Contract for Construction of Conveyance Facilities	November 30, 2019	-	November 10, 2020
Completion of WRF Improvements with Completion Report	December 30, 2022	July 05, 2022	-
Full TSO compliance with final effluent limitations	February 28, 2023	July 05, 2022	-

Notes:

(1) The City and Program Manager have noted this requirement in the previous quarterly progress reports sent to the RWQCB (as required by the TSO). The City has requested that the Enhanced Source Control Program (EHSP) required as part of the Title 22 Engineer's Report be considered acceptable for this requirement in lieu of the PPP identified in the TSO.

Table 23 lists an expanded milestone schedule. It has also been developed for outstanding Project activities.

Table 23 Expanded Milestone Schedule

Milestone	Original Date	Current Date
<u>General Project</u>		
Compliance with the TSO ⁽¹⁾	November 11, 2021	July 05, 2022
<u>Water Reclamation Facility</u>		
Begin Construction	April 29, 2019	March 20, 2020 (Actual)
Deliver 90 Percent Design	October 24, 2019	March 31, 2020 (Actual)
Substantial Completion	August 5, 2021	July 12, 2022
Final Completion	October 1, 2021	September 7, 2022
<u>Conveyance Facilities</u>		
Deliver 90 Percent Design	October 15, 2019	February 10, 2020 (Actual)
Deliver 100 Percent Design	December 17, 2019	June 15, 2020 (Actual)
Bid Advertisement	February 21, 2020	June 16, 2020 (Actual)
Award Construction Contract	May 08, 2020	November 10, 2020 (Actual)
Substantial Completion	September 17, 2021	March 11, 2022
Final Completion	November 19, 2021	April 25, 2022
<u>Recycled Water Facilities</u>		
Select Preferred Injection Area	May 28, 2019	June 17, 2020 (Actual)
Deliver 30 Percent Design	August 04, 2020	December 22, 2021
Deliver 60 Percent Design	November 10, 2020	March 30, 2022
Deliver 90 Percent Design	February 16, 2021	June 15, 2022
Deliver 100 Percent Design	April 27, 2021	September 14, 2022
Award Construction Contract	July 21, 2021	December 07, 2022
Substantial Completion	April 21, 2022	November 11, 2023
Final Completion	June 21, 2022	December 06, 2023

Notes:

(1) The TSO requires compliance with full secondary treatment by February 28, 2023.

Section 5

DESIGN AND PROCUREMENT

5.1 Design Status

No new design contracts for the Project were executed in Q2 Fiscal Year 2021/2022. A summary of the existing design contracts is included in Table 24 below.

Table 24 Design Status (through December 2021)

Project Component	Current Contract Amount	Amount Expended	Percent				Final
			30	60	90	100	
WRF (Design-Build)	\$76,697,995	\$39,868,487	✓	✓	✓	✓	NA
Conveyance Facilities ⁽¹⁾	\$2,214,311	\$2,058,935	✓	✓	✓	✓	✓
Recycled Water Facilities	\$933,650	\$549,967	-	-	-	-	-

Notes:

(1) The Water Works Engineers contract amount included in this table is for both Conveyance Facilities design and Engineering Services During Construction. This contract is excluded from the Project Construction Costs table below.

5.2 Procurement

No design or design-build contract procurements were performed in Q2 FY 2021/2022. Table 25 presents a summary of the procurement activity for the Project.

Table 25 Procurement Status (through December 2021)

Project Component	Circulate Request for Proposals	Proposal Opening Date	Council Award Date	Notice to Proceed Date	Consultant
WRF	January 24, 2018	May 8, 2018	October 23, 2018	November 1, 2018	Overland Contracting (Filanc-Black & Veatch)
Conveyance Facilities	January 31, 2017	March 8, 2017	November 14, 2017	November 15, 2017	Water Works Engineers
Recycled Water Facilities	GSI is currently completing permitting and planning activities. Design Engineer to be Selected in FY 2021/22				

Section 6

CONSTRUCTION STATUS

6.1 Construction Summary

During Q2 Fiscal Year 2021/2022, construction continued for the WRF and the Conveyance Facilities. Table 26 presents a summary of project construction progress and costs through December 31, 2021.

Table 26 Project Construction Costs (through December 2021)

Project Name	Amount Expended	Initial Contract Amount	Current Contract Amount	% Change in Contract Amount
WRF	\$53,767,175	\$67,234,512	\$76,697,995	14.1
Conveyance Facilities	\$17,150,442	\$31,493,675	\$32,168,160	2.1
Recycled Water Facilities	\$-	\$-	\$-	0
Construction Total	\$70,917,617	\$98,728,187	\$108,866,155	10.3

6.2 Upcoming Traffic Control

6.2.1 Planned Impacted Areas

Construction activities for the Conveyance Facilities continued in several work zones:

- Pump Station A near the Existing WWTP on Atascadero Road.
- Pump Station B at the intersection of Quintana and Main Street.
- Pipeline installation along Quintana Road between Main Street and Kennedy Way.
- Utility bridge installation at Morro Creek.
- South Bay Boulevard between Atascadero Road and Highway 1 on-ramp/off-ramp.

6.2.2 Hours of Planned Lane/Road Closures

The City approves traffic control plans for the 21 designated traffic areas that are outlined in the Project plans. Throughout Q2, the necessary traffic control plans were set in place to provide a safe work area for the Contractor as well as provide a safe detour or means of through traffic for Morro Bay commuters. Anvil continues to traffic control measures on Quintana Road between South Bay Boulevard and La Loma. As Anvil progresses along Quintana Road to the roundabout, the traffic control changes based on the location of the trench and pipeline configuration.

The community is encouraged to obtain additional information on current road closures/conditions from the WRF website (www.morrobaywrf.com) or by calling the Project hotline at 877-MORROBAYH2O.

6.3 Construction Safety

The Project safety goal is zero reportable incidents. Every weekly progress meeting includes a brief safety moment between the Program Management Team and both FBV and Anvil to discuss safety topics encountered in the field. There were no construction related incidents reported between October 1, 2021 and December 31, 2021.

Section 7

OTHER PROGRAM ACTIVITIES

7.1 Public Outreach

As part of the construction of the Conveyance Facilities component of the Project, the Program Manager has been engaged in a number of public outreach activities. The following activities occurred during Q2:

- Updated the WRF website with regular construction information on homepage and Construction Information page.
- Coordinated with contractor for distribution of bilingual doorhangers on immediately impacted residences and businesses in several work areas.
- Continued to build stakeholder database email list for regular email correspondence.
- Developed bi-weekly e-blasts to highlight construction schedule look-ahead information and promote virtual community outreach meetings.
- Responded to regular community inquiries from project phone line and email address, and coordinated with team members when necessary.
- Conducted multiple rounds of business visits to communicate about construction in specific areas.
- Worked with construction team on traffic control configuration planning, and traffic control and circulation concerns from the community.

Additional near-term public outreach activities include:

- Developing bi-weekly e-blasts and as-needed construction notices to convey construction look-ahead information to stakeholders and the public.
- Obtaining media coverage about milestone construction activities.
- Working with contractor to distribute doorhangers to properties with 24-hour and seven-day lead times.
- Visiting businesses before work in new areas.
- Responding to inquiries received from community members.

7.2 Permitting Activities

Permit compliance is an important aspect of the Project. The current permitting activities include:

- Regional Water Quality Control Board:
 - In order to obtain a National Pollution Discharge Elimination System (NPDES), the City must submit a Report of Waste Discharge (ROWD) to the RWQCB. The Program Manager submitted the Draft ROWD to the RWQCB in March 2021 and provided additional data in November 2021, which is currently under review.
- Division of Drinking Water:
 - The Title 22 Engineering Report is required by Division of Drinking Water (DDW) before the City can receive a potable reuse permit. The Program Manager delivered

an initial Draft of the Title 22 Engineering Report to the City for review in June 2020. The revised draft, including comments from City staff, was submitted to DDW in July 2020. During Q3 Fiscal Year 2020/2021, the City and Program Manager have received comments from DDW and has had several meetings to review their comments. The Program Management Team met with DDW during Q1 FY 21/22 to discuss the various treatment equipment processes proposed to be installed at the WRF site.

- The City is working with DDW to obtain a variance from their typical pipeline separation requirements due to the width of the trench for the Conveyance Facilities pipelines and the limited ROW for much of the alignment. The City has been coordinating with DDW on this issue since early 2019 and submitted a formal application to DDW in August 2020. Since that time, the City has had a meeting to review the information provided and has provided supplemental information to aid DDW's review. The City, the Construction Management Team, and the Waterworks Engineers has addressed all of DDW's comments and submitted their response to DDW in at the end of December 2021.
- Caltrans:
 - The City obtained the encroachment permit from Caltrans for construction of the Conveyance Facilities pipelines in August 2020. In June the Program Manager approached Caltrans to revise their encroachment permit for the Conveyance Facilities project to extend the permit expiration date and to revise the design at the Atascadero Road and Highway 1 on-ramp.
 - The Construction Management Team received approval from Caltrans on Traffic Control Stage 19 at South Bay Boulevard and Highway 1 in addition to the traffic routing patterns for detoured traffic at Morro Bay Boulevard and the City roundabout. The Construction Management team also received approval from Caltrans to display pre-notification signage on December 13 for South Bay Boulevard traffic to expect to be detoured starting on December 27, 2021.
- California Department of Fish and Wildlife:
 - The City must have a Stream Bed Alteration Agreement (SAA) (as required) from the CDFW before work can begin along certain segments on the bike path for the Conveyance Facilities component of the Project. The City submitted the revised notification in January 2020 and received notification from CDFW on May 4 that their SAA had been approved and they are cleared for construction.
 - There was no activity for CDFW in Q2 2021.
- State Historic Preservation Office:
 - The PA negotiated with the SHPO requires that a mitigation and monitoring plan be developed for each element of the project (i.e., WRF, pipelines, and injection wells). The City submitted the mitigation and monitoring plan to EPA for distribution to SHPO in October 2020. The City has received notification from the EPA regarding SHPO's response on March 15, 2021. The response stated that the City may proceed with construction by implementing the appropriate cultural resources monitoring and mitigation measures for areas along Main St., Quintana road and both lift stations. Far Western has performed the archeological clearance testing for the LS-2 alignment and the pilot injection well in late May 2021 and found the findings largely negative. Far Western completed their Phase 2 Monitoring and Mitigation

plan and transmitted to the EPA for transmittal to SHPO on September 23, 2021. City staff and the Program Management Team received correspondence from SHPO on November 2, 2021 that they did not completely agree and approve the monitoring and mitigation plan for Phase 2B of the conveyance facilities project. The program management team, EPA, Far Western, and SHPO met virtually on December 7, 2021 to further discuss and come to an agreement on monitoring and reporting requirements for Phase 2B. The conveyance facilities contractor is expected to begin work on Phase 2B in late January 2022.

7.3 Funding Status

- Continued to support CWSRF's technical, legal, and financial reviews. The City executed the CWSRF Construction Loan on June 30, 2021. City staff and the Program Management Team continue to develop final disbursement documents, including costs incurred by both Anvil Builders and FBV to request reimbursement from SRF. The City sent its second and third construction loan disbursement request to SRF in November and December 2021 respectively.
- In 2017, the City received a \$10.3 million planning loan from the SWRCB. As of Q2 FY 21/22, the City has submitted four (4) disbursement requests to SWRCB. All four disbursement results result in a total disbursement to the City of \$8.88 million therefore approximately \$1.42 million remains. City staff and the Program Management Team are currently preparing a fifth disbursement request to the State that is expected to be sent in Q3 FY21/22. The City and Program team will continue to utilize the planning loan as much as possible to cover design and planning costs to take full advantage of this funding opportunity.
- The United States Department of the Interior Bureau of Reclamation released its WaterSmart Title XVI WIIN Notice of Funding Opportunity in mid-March 2021. The City prepared an application and submitted to USBR on April 22, 2021 and received notification on July 30, 2021 that they were not selected to receive the grant. The City and Program Management Team met with USBR funding staff on September 1, 2021 to debrief on the grant application and scoring metrics.

7.4 City Operations Activity

Significant City Operations activities are not anticipated until start-up of the WRF begins in early 2022.

Section 8

PROJECT DETAILS

8.1 Water Reclamation Facility

8.1.1 Design/Build

In October 2018, the City executed a contract with Overland Contracting consisting of a joint venture of Filanc and Black & Veatch (i.e., design-build team) for design and construction of the WRF located at the South Bay Boulevard site. The WRF will be delivered using the design-build process.

8.1.2 Project Scope

The scope of this element of the Project includes a preliminary, secondary, and advanced treatment facilities. The secondary treatment processes will consist of an MBR and have the ability to exceed the anticipated discharge requirements for the City's new NPDES permit. The advanced treatment facilities include RO and UV-AOP. Purified water from the advanced treatment facilities will be injected into the Lower Morro Groundwater Basin.

8.1.3 Current Progress

The design-build team has continued to progress the construction of the WRF and is on track to reach substantial completion in July 2022. On March 20, 2020, the City issued the construction NTP to the DB team for the WRF. For Q2 of FY 2021-2022, the following activities were completed between October 1, 2021 and December 31, 2021:

General and Administrative

- Contractor continues to maintain SWPPP Best Management Practices (BMPs).
 - The State Waterboards issued two separate Notice of Violation (NOV) pursuant to BMP use.
 - NOV dated 11/8/2021 was responded to by DB Team and City on 12/17/2021.
 - NOV dated 12/20/2021 is pending and response will be submitted by 1/7/2022 deadline.
 - Both notices allege failure to implement soil cover and erosion control BMPs in inactive areas.
 - The DB team has implemented extensive additional BMPs in response to the Notices.
- Contractor continues to adhere to pertinent mitigation measures stipulations.
- Contractor/subcontractors continue to comply with Davis-Bacon Act requirements.
- Several requests for public information were responded to during the reporting period.
- Contractor continues equipment submittals, procurements, subcontract administration, etc.:
 - Submittal processing is on-going - 495 items submitted and/or approved to date.
 - DB Team has processed 253 requests for information (RFIs) and 32 Design Clarifications to date.

- Contractor continues to prepare and submit critical path method (CPM) schedule updates monthly:
 - Contractor's December 2021 CPM schedule update indicates 32 days late in achieving both substantial completion and final acceptance, based on current contractual completion dates.
 - Carollo and the DB Team met in December 2021 to discuss current schedule for WRF process commissioning, and coordination with the Conveyance Facility project completion. It is currently estimated that the Conveyance facilities will not be completed in time to facilitate the DB Team's current commissioning schedule. A second meeting is scheduled in January 2022 to further discuss impacts and potential workarounds.

Sitework

- Contractor has completed major earthwork operations including filling, compacting, and grading.
- Contractor has installed class 2 aggregate base at all areas to receive asphalt paving.
- Landslide remediation:
 - On January 28, 2021, a cut-slope landslide area reactivated. The DB Team performed site investigations and developed remediation plans. The remediation work was completed during the reporting period. The City will provide on-going inclinometer monitoring.
- Contractor has completed yard piping and continues pressure testing underground piping systems.
- Contractor continues work on minor service piping, equipment drains, etc.
- Electrical subcontractor completed street lights, started pulling power cables and control wires through underground duct banks and vaults, and completed all PG&E service connection facilities.

Headworks

- Continued installation of process piping, valves, supports, appurtenances, handrails, etc., associated with the headworks equipment including the course screens, grit removal equipment, fine screens, odor control, and SAFE diversion box.
- Completed concrete drain slabs for dumpsters at course screens, grit classifiers, and fine screens.

BNR/MBR Treatment

- Installing MBR equipment (Suez) including pumps, blowers, compressors, instruments, panels, etc.
- Continued installation of process piping, valves, supports, appurtenances, stairs and platforms, handrails, etc., associated with the BNR Basins, MBR equipment, WAS/scum pump station, etc.
- Installing stainless steel process air piping for the BNR basins and MBR equipment.
- Installing slide gates, propeller mixer equipment, etc., in the BNR basins.

RO/UV-AOP

- Electrical subcontractor continued installing panels, conduits, boxes, etc. in the electrical room.
- Electrical subcontractor started pulling/terminating power conductors and control wires in panels.
- Continued installing reverse osmosis (RO) equipment (H2O Innovation) including three RO skids.
- Started installation of Trojan UV Flex (AOP) equipment.
- Continued installing process piping, pipe support racks, HVAC equipment, building amenities, etc.

Product Water Facilities

- Continued installing Calcite Facility equipment including 2 each calcite filter tanks, flush pumps and backwash supply tank, and connecting process piping, valves, supports, etc.
- Continued installation of IPR/Outfall pump station equipment including pumps, piping, valves, etc.

Residuals/Sludge Processing

- Installing residuals area (dewatering) equipment including the belt filter press (Charter), sludge pumps, polymer mixing and feed system, process piping, valves, supports, appurtenances, etc.
- Installing SAFE Filter area equipment including the cloth disk filter (Aqua-Aerobics), sludge pumps, backwash pumps, process piping, valves, supports, appurtenances, etc.
- Installing sludge holding tank equipment including blowers (Aerzen), stainless steel Process Air piping, propeller mixer equipment, sludge piping, pipe supports, appurtenances, etc.

Electrical and Controls

- Electrical subcontractor continued major panel installations in the building including the main switchgear SWB-1, Motor Control Centers 1 & 2, and the main PLC panel.
- Electrical subcontractor continued installing other smaller panels, conduits, boxes, etc.
- Electrical subcontractor started pulling/terminating power conductors and control wires in panels.
- SWB-1 has been inspected/approved by an ICC certified electrical inspector and the City's building and safety office has issued the "green-tag" sticker allowing PG&E to connect power.
- Electrical subcontractor has initiated the PG&E service connection and it is anticipated that the site will be powered by late January or early February 2022. This is a major project milestone.

Chemical Storage and Feed

- Contractor coating containment areas and installing chemical feed pump skids and storage tanks.
- Electrical subcontractor installing power distribution panels/equipment, and installing PLC panels.

Operations Building

- Building interior work continued including Break Room and Copy Room cabinets, Control Room console, 54-inch monitors (multiple), locker room and bathroom fixtures, HVAC equipment, etc.
- Electrical subcontractor installing SCADA server rack, panels, conduits, boxes, etc. in electrical room.
- Electrical subcontractor pulling and terminating cable and wire throughout the building.

Maintenance Building

- Building interior work continued including laboratory casework, appliances, doors, bathroom fixtures, HVAC equipment, lighting, electrical, storage racks, fire protection systems, etc.

City Yard Facilities

- Completed remaining building erections of roofing and paneling (materials were backordered).
- Installing roll-up doors, pedestrian doors, building amenities, etc., at the Storage Shed building.

8.1.4 Project Challenges

- West Cut Slope Soil Slip (Re-Activation):
 - The DB Team's landslide remediation work is completed including installation and baseline readings for the added slope inclinometers. This item has been resolved
- PG&E Easement Concerns:
 - PG&E and the City have resolved issues and signed a letter agreement regarding utility easement rights on Teresa Road and the WRF Access Road. This item has been resolved.
- SoCal Gas Easement Concerns:
 - SoCal Gas and the City have tentatively resolved existing utility easement rights on Teresa Road and the WRF Access Road. The City is pursuing a grant deed from the easement property owner on behalf of, and as required by, SoCal Gas. This item is not resolved.
- Covid-19 Material Shortages and Equipment Delivery Delays:
 - The DB Team continues to track cost and schedule impacts caused by COVID-19 supply chain disruptions. This item is not resolved
- Potential Delays due to Conveyance Facilities estimated late completion:
 - The City and DB Team are currently tracking the estimated late completion of Conveyance Facilities by Anvil. The City and DB team are coordinating to mitigate potential delay impacts. This item is not resolved.
- State Waterboards SWPPP Notice(s) of Violations:
 - The State Waterboards has now issued two separate Notice of Violation (NOV) documents pursuant to WRF site BMP implementation. The first NOV was issued 11/8/2021, and City response was submitted 12/17/2021. The second NOV was issued 12/20/2021 and the City's response is due to the State by 1/7/2022. Both NOV(s) allege failure to implement soil cover and erosion control BMPs in inactive areas. The DB Team continues to implement additional BMPs in response to the

NOVs, including adding over 13,000 feet of straw waddle and silt fences, and adding extensive permanent and temporary aggregate base and gravel surfacing. The DB team will issue 2nd NOV response by 1/7/2021 deadline. This item is not resolved.

Table 27 WRF Performance Measures

Performance Measures	Target	Current
Construction Cost ⁽¹⁾	\$67.2M	\$76.7M
Construction Contingency ⁽²⁾	\$9.1M	\$0.3M

Notes:

- (1) The GMP includes costs for both design and construction of the WRF (through Amendment No. 6)
- (2) For Q2 of FY 21/22, the total contingency remaining for all components is approximately \$1.6M. Approximately \$0.3M is allocated to the WRF.

Table 28 WRF Construction Summary

Schedule		
Request for Bid / Bid Advertisement	January 24, 2018	
Bid Opening Date	May 08, 2018	
Contract Award / Council Award Date	October 23, 2018	
Notice to Proceed (Design)	November 05, 2018	
Notice to Proceed (Construction)	March 20, 2020	
Original Final Completion Date	August 23, 2022	
Original Duration (Calendar Days)	886	
Days Changed by Change Order	15	
Actual Final Completion Date (including Calendar Days)	September 7, 2022	
Schedule Percent Complete	72.3% (651 days / 901 days)	
Budget		
Engineer's Estimate (Construction Cost + 10% Construction Contingency)	\$73,475,845	
Award Amount (including Design Cost)	\$67,234,512	
Change Order Total	\$9,463,482	
Current Contract Value	\$76,697,994	
Percent Change	14.1%	
Work Completed		
Actual Cost -to-Date	\$53,767,175	
Percent Complete (Percent Expended)	70.1%	
Construction Oversight Statistics		
	PCOs	COs
Total Received	105	N/A
Total Approved	N/A	66 ⁽¹⁾
Total Pending	8	0
Average Turnaround (calendar days)	N/A	N/A

Acronym List: PCO – Proposed Change Order; CO – Change Order

- (1) 66 PCOs have been approved and are reflected in Amendment No. 1, 2, 3, 4, 5, and 6 to the Design-Build Agreement.

8.2 Conveyance Facilities

8.2.1 Designer

In November 2017, the City executed a contract with WWE for design and engineering support for the facilities necessary to connect the existing WWTP and the new WRF.

8.2.2 Contractor

The City awarded a contract to Anvil for construction of the Conveyance Facilities component of the Project on November 10, 2020. A construction NTP was issued on December 14, 2020 and Anvil began construction in January of 2021.

8.2.3 Project Scope

The Conveyance Facilities include the design of approximately 3.5 miles of pipelines and two lift stations. The pipelines include two raw wastewater force mains, a wet weather/brine discharge force main, and a potable reuse pipeline to the west injection area.

8.2.4 Current Progress

General and Administrative

- Anvil continues to maintain their project field office at 853 Quintana Road (near Roundabout).
- Contractor continues to maintain SWPPP BMPs and adhere to pertinent mitigation measures.
- Contractor/subcontractors continue to comply with Davis-Bacon Act requirements.
- The City responded to requests for public information pursuant to bike path tree removals.
- Contractor continues equipment submittals and procurement activities.
 - Submittal processing is on-going - 252 items submitted and/or approved to date.
 - RFI processing is on-going - 112 items submitted and/or resolved to date.
- Contractor's submission of CPM schedule updates is on-going. Contractor's Oct/Nov CPM schedule update has been submitted and is under review by the construction manager.
 - City/Contractor have executed a 40 calendar day time extension for the PCO #1 SHPO delay.
 - The current contractual Final Acceptance Date is April 3, 2022.
 - Contractor's Oct/Nov CPM schedule update indicates project commissioning in June/July 2022. The WRF DB Team's current schedule updates indicate plant commissioning in April/May 2022.
 - Contractor and City continue to evaluate impacts of various pending change orders, and are also coordinating to mitigate potential impacts from the current estimated project completion.
- The City continued its public relations/outreach effort as described in previous quarterly reports.

Pump Station A

- Contractor corrected dewatering systems and achieved geotechnical approval of structure subgrade.
- Contractor set forms, installed rebar, and placed concrete for the wet well slab-on-grade.
- Contractor set forms, installed rebar, and placed concrete for the wet well walls.
- Contractor removed wet well forms, leak tested wet well, and began wet well structure backfill.
- Contractor prepared subgrade and set the 3 each 96" diameter (precast concrete) underground influent storage tanks including backfilling below spring-line with CLSM and above with import select fill. Installing tank manhole access shafts (there are 2 ea. precast concrete shafts per tank).
- Installing main influent sewer manhole and sanitary sewer yard piping between each tank and the wet well.

Pump Station B

- Contractor continued installing yard piping including force main (FM) 1, FM2, indirect potable reuse (IPR) pipeline, 24" sanitary sewer, 8" sanitary sewer, etc.
- Electricians installed electrical building under slab conduits and stub-ups, and backfilled with red CLSM.

Pipeline

The contractor is currently working at two different locations within the City for the pipeline installation of the Conveyance facilities. Note: Throughout this report "Joint Trench" refers to FM1 & FM2 (wastewater force mains), BR (brine/outfall line), FO (fiber optic conduit), and in some locations IPR (purified water) in casing. Work was performed at each of the different segments listed below:

- Segment 1 - Atascadero Road (Existing City Wastewater Treatment Plant to Bike Path).
- Segment 2 – Bike Path (Atascadero Road to Morro Creek Foot Bridge)
- Segment 3 – Bike Path (Morro Creek Foot Bridge to Main Street).
- Segment 4 – Main Street (Bike Path to Quintana Road)
- Segment 5 – Quintana Road (Main Street to Morro Bay Blvd).
- Segment 6 – Quintana Road (Morro Bay Blvd to La Loma Avenue).
- Segment 7 – Quintana Road (La Loma Avenue to South Bay Blvd).
- Segment 8 – South Bay Blvd (Quintana Road to New MB WRF)
- Segment 9 – Vistra Property (Bike Path to Existing Lift Station 2)

The following items were completed along Segment 1:

- Pump Station A is located along this segment; there was no trenching work in street this period.
- Contractor continues to stage equipment and materials on City property along Atascadero Road.

The following items were completed along Segment 2:

- Contractor has closed the Bike Path in this segment; there was no trenching activity this period.

The following items were completed along Segment 3:

- Contractor has closed the bike path in this segment; there was no trenching activity this period.
- Contractor began clearing and grubbing, and installing temporary fencing, for the 70 foot wide construction easement provided in this segment. Clearing and grubbing was stopped due to Coastal Commission's tentative denial of the City's request to remove additional trees as necessary to complete the joint trench installation.
- Subcontractor (Pacific Boring) completed the jack & bore casing installation for the trenchless crossing of Willow Camp Creek (Jurisdictional Wetlands). Pacific Boring encountered a concrete obstruction during the work causing approximately a one-week delay while crews removed concrete by hand from within the 60-inch casing pipe. Jack & Bore work was completed on Friday, Nov. 19, 2021.
- Contractor continues using assigned staging area on Vistra property (using bike path for access).

The following items were completed along Segment 4:

- Pump Station B is located along this segment. Contractor connected pump station yard piping to pipelines in the street right-of-way, including the 24-inch gravity sewer (influent), and FM1/FM2 (effluent).
- Completed joint trench installations, backfill, paving, etc., from approximately station 58+00 to Sta 64+00
- Completed separate IPR pipeline installation, backfill, paving, etc. from approximately stations 58+00 to Sta 64+00.
- Contractor implemented partial road closures in this segment during the reporting period.

The following items were completed along Segment 5:

- Completed joint trench from Sta 64+28 (angle point) toward Segment 4 (Main St). This work included the joint trench penetrating an existing retaining wall at Quintana and Main Street.
- Contractor previously completed the 60-inch microtunnel boring machine casing pipe below the Morro Bay Boulevard Roundabout. This period, the Contractor inserted multiple joint trench carrier pipelines into the 60-inch casing pipe.
- Contractor implemented partial road closures in this segment during the reporting period.

The following items were completed along Segment 6:

- Continued Joint Trench installation, backfill, partial paving, etc. from approximately Sta. 101+00 to Sta 113+00.
- Contractor implemented partial road closures in this segment during the reporting period.
- Contractor maintaining temporary above-grade sewer by-pass pipe along this segment.

The following items were completed along Segment 7:

- Completed IPR pipeline installation, backfill, paving, etc. from approximately Sta 126+00 to Sta 144+00.
- Contractor implemented partial road closures in this segment during the reporting period.
- Contractor maintaining temporary above-grade sewer by-pass pipe along this segment.

The following items were completed along Segment 8:

- On December 27th, after significant planning and coordination, South Bay Blvd was closed to all traffic between Quintana and Caltrans R/W (at CA Route-1). Caltrans has approved the closure and all ramps at the Route-1 interchange remain open. South Bay Blvd traffic between Morro Bay and Los Osos is being detoured along Quintana to Morro Bay Blvd.
- Contractor began potholing existing utilities on South Bay Blvd during the last week of the period (no joint trench work occurred).

The following items were completed along Segment 9:

- No trenching or potholing activities.

Existing Lift Station 2

- No activities.

Existing Lift Station 3

- Contractor maintaining temporary above-grade sewer by-pass pipe from Lift Station 3.

8.2.5 Upcoming Activities

Anvil is scheduled to complete the following activities during Q3 FY 21/22:

- Preparation and excavation of Morro Creek utility bridge abutments.
- Preparation and installation of pipelines between stations 27+00 to 37+00.
- Installation of pipeline along bike path.
- Assisting Far Westerns archaeological monitoring and mitigation at cultural resources site between stations 27+00 and 37+00.
- Installation of pipelines in South Bay Boulevard between Quintana Road and HWY 1 on-ramp/off-ramps.
- Installation of carrier pipes within 60-inch steel casing beneath roundabout.
- Installation of carrier pipes within Willow Camp Creek steel casing.
- Above ground mechanical and electrical at Pump Station A.
- Above ground mechanical and electrical at Pump Station B.

8.2.6 Project Challenges

- Atascadero Gravity Sewer Pipeline Addition – PCO #6:
 - Contractor submitted a quote to perform the associated work in excess of City's budgeted amount. The City has decided to bid the work as a separate project (part of a separate City capital improvements budget). This item is not resolved.

- Archaeological Site between stations 27+00 and 37+00 Work Revisions and SHPO Delays – PCO #13:
 - Caltrans has approved work revisions at CA-SLO-16 to partially mitigate ground disturbance. However, the City continues to petition SHPO for resolution of remaining items. Currently SHPO is requiring additional field investigations and submissions of information to proceed. This item is not resolved.
- SLO County APCD Determination – PCO #28:
 - The City has received APCD notice of non-compliance for Pump Station A and Pump Station B emergency standby generators. The City is currently (1) performing Health Risk Assessments at both pump stations, and (2) procuring the additional required Best Available Control Technology (BACT) to achieve the mandated Tier 4 compliance level. This item is not resolved.
- Microtunnel Boring Machine Obstruction Claim – PCO #14 and PCO #27:
 - The City and Anvil have tentatively resolved the MTBM subcontractor (Vadnais) claims. A settlement amount is included in pending Amendment No. 2. The MTBM casing installation is also completed. This item is resolved.
- Bike Path Joint Trench and Waterline Re-Design – PCO #30:
 - The City is currently working on Joint Trench alignment revisions along the Bike Path to better utilize the 70-ft wide utility easements obtained from Vistra and PG&E, between Morro Creek and Camp Willow Creek. City will provide authorization to proceed with revisions once realignments are finalized. This item is not resolved.
- Bike Path Tree Removal Concerns:
 - Contractor began clearing/grubbing, and installing temporary fencing, for the 70-ft wide utility easement along the Bike Path. However, clearing/grubbing work was stopped due Coastal Commission’s preliminary denial of a City request to remove additional trees as necessary to complete the project work. The Program team is currently working on a follow up request to Coastal with justifications of the needed tree removals, which state the removals are absolutely necessary to safely complete the project work and the City has begun developing landscaping plans to restore, replace, and improve Bike Path vegetation after the work. This item is not resolved.

Table 29 Conveyance Facilities Performance Measures

Performance Measures	Target	Current
Construction Cost	\$24.2M	\$32.2M
Construction Contingency ⁽¹⁾	\$2.5M	\$0.8M
Number of Feet of Pipelines Constructed	37,089 lf	22,459 lf
Number of Days of Full Road Closures	N/A	10 Days
Number of Hours of Night Work	N/A	15 Hours

Notes:

(1) For Q2 of FY 21/22, the total contingency remaining for all components is approximately \$1.6M. Approximately \$0.8M is allocated to the Conveyance Facilities.

Table 30 Conveyance Facilities Summary

Schedule				
Request for Bid / Bid Advertisement	June 16, 2020			
Bid Opening Date	August 12, 2020			
Contract Award / Council Award Date	November 10, 2020			
Notice to Proceed for Construction	December 14, 2020			
Original Final Completion Date	February 22, 2022			
Original Duration (Calendar Days)	435			
Days Changed by Change Order	40			
Actual Final Completion Date	April 22, 2022			
Schedule Percent Complete	87.8% (382 days / 435 days)			
Budget				
Engineer's Estimate (Construction Cost + 10% Construction Contingency)	\$26,657,000			
Award Amount	\$31,493,675			
Change Order Total	\$674,485			
Current Contract Value	\$32,168,160			
Percent Change	2.10%			
Work Completed				
Actual Cost -to-Date	\$17,150,442			
Percent Complete (Percent Expended)	53.3%			
Length of Pipe Installed (Actual to Date/Planned Total)	22,459 lf / 37,089 lf			
Construction Management Statistics				
	RFIs	Submittals	PCOs	COs
Total Received	107	245	39	1
Total Responded To	85	229	11	1
Total Pending	22	16	28	1

8.3 Recycled Water Facilities

8.3.1 Designer

Procurement activities for the final design of the Recycled Water Facilities have not yet begun. Phase 1 and Phase 2 or the hydrogeological work has been completed by GSI and work on Phase 3 (i.e., pilot injection testing) will be completed in Spring 2022. The Program Manager also anticipates the injection well final design to begin in Fall 2022.

8.3.2 Contractor

This element of the Project is being delivered via a conventional design-bid-build procurement process. The Recycled Water Facilities will begin construction in late 2022 or early 2023.

8.3.3 Project Scope

Since the potable reuse pipeline from the WRF to the selected injection site was moved into WWE's scope for design of the Conveyance Facilities, this element of the Project consists primarily of full-scale injection wells at the west injection site. It is anticipated that the scope of work for the final injection well field design will include, but is not limited to, the following:

- Alternatives analysis and preliminary design report
- Injection well design
- Electrical and instrumentation design and integration
- On-site linear infrastructure
- Above and below-ground mechanical piping and supporting infrastructure
- Injection well back-wash facilities and supporting infrastructure
- Facility and infrastructure flood proofing
- Engineer's estimate of potential cost
- Regulatory permitting

8.3.4 Current Progress

GSI has completed Phase 1 and is currently working on Phase 2 of the hydrogeological work, which has culminated in the selection of the west injection area and preliminary siting of the injection wells. In Q2, the following preliminary design and construction items were progressed for the Recycled Water Facilities by the Program Management Team:

- GSI continued to develop and refine their groundwater injection and extraction model of the Morro groundwater basin and the City's existing well infrastructure.
- The City, Carollo, and GSI continued to make progress toward bidding the Pilot Inject Well Project. Bidding Documents for the project were finalized by the City on November 2nd, 2021.
- The pilot injection well went out to bid on November 2, 2021.
- A pre-bid conference was held onsite on November 18, 2021 with 4 prospective bidders in attendance.
- Bid opening was scheduled for December 9, 2021 at 10:00 AM. The City received no bids for this contract.
- Photo below shows the staked pilot injection well. It was decided that the pilot injection well would be shifted 10 feet north in order to accommodate constructability within the easement.
- ABC Livioin, the selected contractor to install the monitoring well, completed the installation of the pilot injection well monitoring well.
- With the installation of the monitoring well, GSI Water Solutions, extracted intact soil samples to be used for a geochemical analysis. Results of the geochemical analysis are expected in early 2022.

8.3.5 Upcoming Activities

The next phase of hydrogeological work is pilot injection testing, which consists of the following elements:

- Design of the pilot injection well (Completed November 2021).
- Construction of the pilot injection well monitoring well (April/May 2022)
- Conducting pilot testing (Anticipated May to June 2022).

8.3.6 Project Challenges

The pilot injection well bid opening was scheduled for December 9th, 2021. The City did not receive any bids at bid opening, therefore the procurement of a well driller is postponed until another bid package can be advertised. The Program team anticipates that the pilot injection well will go to bid in early 2022 with revised procurement requirements attracting more prospective bidders. The Recycled Water Facilities pilot injection well installation and injection testing plan are the critical path items to the begin the Recycled Water Final design.

Table 31 and 32 show anticipated construction information for the Recycled Water Facilities component of the WRF Project.

Table 31 Recycled Water Facilities Performance Measures

Performance Measures	Target	Current
Construction Cost	\$5.7M	\$0.0M
Construction Contingency Available	\$0.5M	\$0.5M

Notes:

- (1) For Q2 of FY 21/22, the total contingency remaining for all components is approximately \$1.6M. Approximately \$0.5M is allocated to the Recycled Water Facilities.

Table 32 Recycled Water Facilities Summary

Schedule				
Selection of the Injection Site	N/A			
Request for Bid / Bid Advertisement	N/A			
Bid Opening Date	N/A			
Contract Award / Council Award Date	N/A			
Notice to Proceed for Construction	N/A			
Original Final Completion Date	N/A			
Original Duration (Calendar Days)	N/A			
Days Changed by Change Order	0			
Actual Final Completion Date	N/A			
Schedule Percent Complete	0%			
Budget				
Engineer's Estimate (Construction Cost + 10% Construction Contingency)	\$6,307,785			
Award Amount	\$0			
Change Order Total	\$0			
Current Contract Value	\$0			
Percent Change	0%			
Work Completed				
Actual Cost -to-Date	\$0			
Percent Complete (Percent Expended)	0%			
Work Completed				
	RFIs	Submittals	PCOs	COs
Total Received	0	0	0	0
Total Responded to	0	0	0	0
Total Pending	0	0	0	0
Average Turnaround (calendar days)	NA	NA	N/A	N/A

Citizen's Finance Advisory Committee

Water Reclamation Facility

WRF Quarterly Report – Q2 2022

February 15, 2022

MORRO BAY

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Recommendation

- Receive the WRF Quarterly Update Report for Q2 2022 and provide input.

Quarterly Report Overview – Q2 2022

Summary of WRF Project Status

Budget

- Current project estimate exceeds the baseline budget
 - \$144,674,877 vs. \$125,941,000
- Q2 2022 budget reconciliation total unchanged
- Budget reconciliation Project component allocation adjusted

Summary of WRF Project Status

Schedule

- Overall WRF Project is on schedule
 - TSO Compliance – February 28, 2023
 - Substantial Completion – July 5, 2022 (238 days prior to deadline)

Q2 Budget Revision Summary

Project Component	Baseline (Q4 FY 17/18)	Quarterly Reconciliation (Q3 FY 18/19)	Fiscal Year 19/20 (Q4 FY 18/19)	Quarterly Reconciliation (Q1 FY 19/20)	Quarterly Reconciliation (Q2 FY 19/20)	Quarterly Reconciliation (Q3 FY 19/20)	Fiscal Year 20/21 (Q4 FY 19/20)	Quarterly Reconciliation (Q1 FY 20/21)	Quarterly Reconciliation (Q2 FY 20/21)	Quarterly Reconciliation (Q3 FY 20/21)	Fiscal Year 21/22 (Q4 FY 20/21)	Quarterly Reconciliation (Q1 FY 21/22)	Quarterly Reconciliation (Q2 FY 21/22)
Water Reclamation Facility	\$62,414,000	\$74,059,000	\$72,891,000	\$72,598,000	\$72,231,000	\$71,856,000	\$77,828,000	\$77,082,000	\$77,281,977	\$77,087,023	\$77,687,023	\$74,697,995	\$74,697,995
Conveyance Facilities	\$21,087,000	\$27,108,000	\$28,864,000	\$28,524,000	\$29,224,000	\$29,989,000	\$29,840,000	\$37,355,000	\$37,482,000	\$37,482,000	\$37,982,000	\$34,214,311	\$36,319,667
Recycled Water Facilities	\$8,593,000	\$5,366,000	\$5,250,000	\$5,212,000	\$5,353,000	\$5,526,000	\$5,526,000	\$5,740,000	\$5,968,000	\$5,968,000	\$6,668,000	\$6,668,000	\$6,668,000
General Project ⁽⁴⁾⁽⁵⁾	\$24,403,000	\$11,614,000	\$11,801,000	\$11,625,000	\$11,701,000	\$12,964,000	\$13,260,000	\$14,255,000	\$14,445,000	\$14,445,000	\$15,445,000	\$25,589,712	\$25,362,730
Construction Contingency	\$9,444,000	\$6,450,000	\$7,132,000	\$7,131,000	\$7,364,000	\$10,264,000	\$4,207,000	\$4,250,000	\$3,414,023	\$3,608,977	\$6,892,854	\$3,504,859	\$1,626,485
Total	\$125,941,000	124,597,000	\$125,938,000	\$125,090,000	\$125,873,000	\$130,599,000	\$130,661,000	\$138,682,000	\$138,591,000	\$138,591,000	\$144,674,877	\$144,674,877	\$144,674,877

Q2 Budget Revision Summary

Program Component Allocation Revisions

Project Component	Quarterly Reconciliation (Q1 FY 21/22)	Quarterly Reconciliation (Q2 FY 21/22)	
Water Reclamation Facility	\$74,697,995	\$74,697,995	<i>No change</i>
Conveyance Facilities	\$34,214,311	\$36,319,667	<i>Adjusted to reflect contract amendments and reallocation of contingency and general project costs</i>
Recycled Water Facilities	\$6,668,000	\$6,668,000	<i>No change</i>
General Project ⁽⁴⁾⁽⁵⁾	\$25,589,712	\$25,362,730	<i>Adjusted to reflect reallocation to Conveyance Facilities component</i>
Construction Contingency	\$3,504,859	\$1,626,485	<i>Adjusted to reflect reallocation to Conveyance Facilities component</i>
Total	\$144,674,877	\$144,674,877	

Q2 Project Expenditures by Component

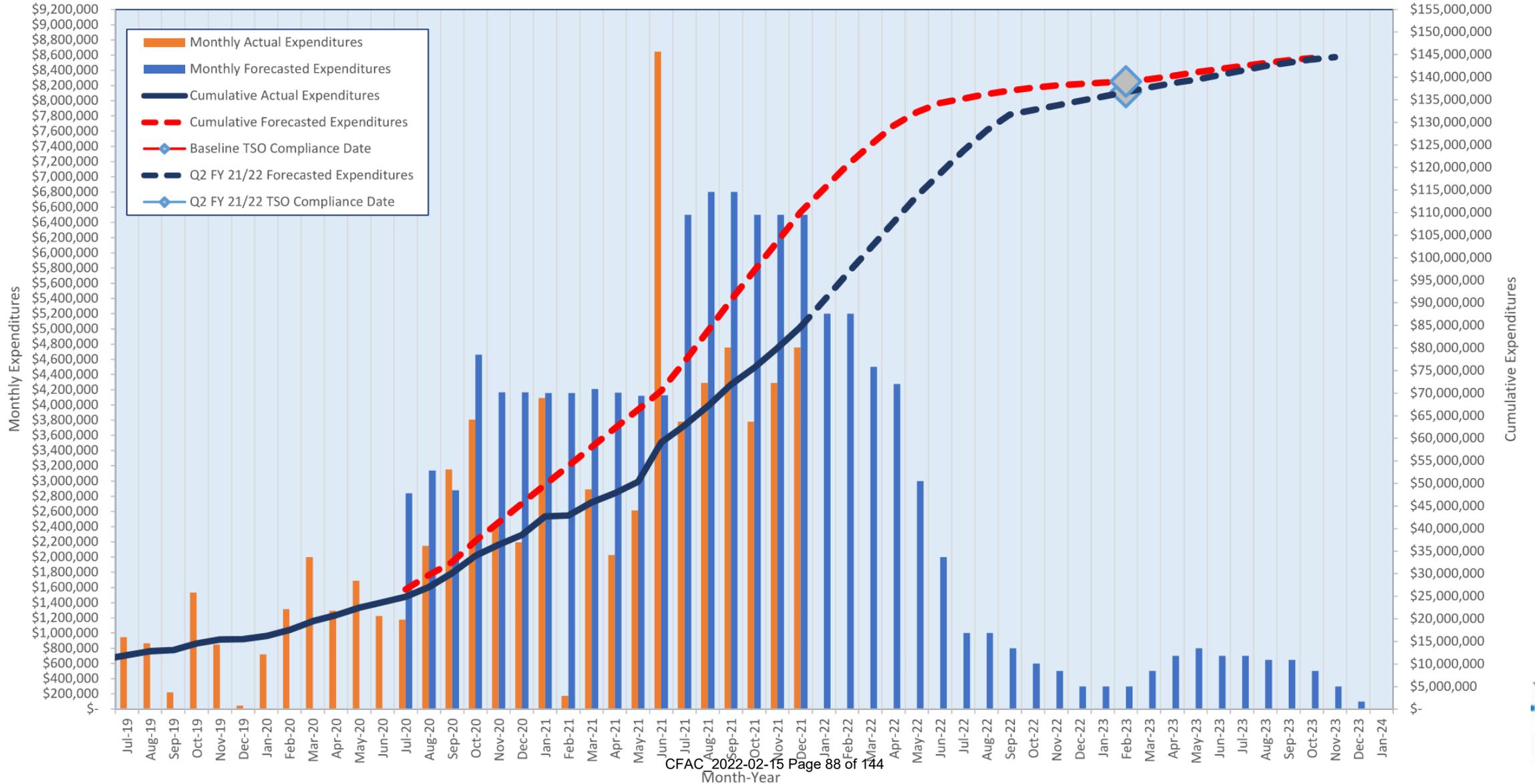
Project Component	Expenditures (Q2 FY 21/22)
Water Reclamation Facility	\$9,353,006
Conveyance Facilities	\$1,831,284
Recycled Water Facilities	\$49,383
General Project	\$1,592,748
Total	\$12,826,421

Project Expenditures To Date

Project Component	Total Project Expenditures to Date as of FY 21/22 Q1	Total Project Expenditures to Date as of FY 21/22 Q2
WRF	\$39,868,487	\$49,221,493
Conveyance Facilities	\$13,244,368	\$15,673,323
Recycled Water Facilities	\$549,967	\$599,350
General Project	\$16,354,157	\$17,349,233
Total	\$70,016,979	\$82,843,400

Current vs. Planned Expenditures

Estimated Cash Flow Projection FY 2019-2023



Looking Ahead to Q3

- New Grant Funding Opportunities:
 - CA Department of Water Resources Urban and Multi-benefit Drought Relief Grant Program
 - Application Submitted
 - Project 1: Recycled Water Facilities - \$10.75M
 - Project 2: Well Infrastructure Rehabilitation and Installation - \$10.36M
 - USBR Title XVI WIIN Water Reclamation and Reuse Program
 - Application under development for March submittal
 - Maximum grant amount \$30M

Questions and Discussion



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AGENDA NO: B-2
MEETING DATE: February 15, 2022

Staff Report

TO: Chairman and Committee Members **DATE:** February 9, 2021

FROM: Sarah Johnson-Rios, Assistant City Manager/Admin Services Director

SUBJECT: Review of Fiscal Year 2021-22 Midyear Budget Report, Including the Semi-Annual Report on Measure Q & E Funds

RECOMMENDATION

Receive the Fiscal Year (FY) 2021-22 Midyear Budget Report, including the Semi-Annual Report on Measure Q & E Funds and provide input to Council as appropriate.

BACKGROUND

The attached Midyear Budget Report (Attachment 1) covers the first six months of the fiscal year beginning July 1, 2021 and ending December 31, 2021. The report presents analysis related to the key General Fund revenues and expenditures by category as well as an analysis of the City's other major funds.

This report also serves as CFAC's semi-annual report on Measure E expenditures, as called for in the ordinance that established Measure E. This year, this semi-annual report includes recommended budget amendments in the Measure Q & E fund as outlined in Attachment 1.

The report will be presented to City Council on February 22, 2022 and any input that CFAC may have will be communicated to Council either verbally at that meeting or as part of that agenda packet.

DISCUSSION

Midyear Budget Report - Overall, this year's midyear report is a positive one, with the economic recovery continuing and City's most economically sensitive revenues, sales tax and Transient Occupancy Tax (TOT), exceeding anticipated budgeted amounts. Measure E-20, which was approved by voters in November 2020 as a 1.5% local general-purpose sales tax (replacing Measure Q which was a 0.5% tax approved in 2006) began in April 2021 and is generating more revenue than estimated at budget time. Overall expenditures for mid-year are tracking well, though several budget adjustments are needed to reflect the economic recovery and to adequately resource core services and Council and community priorities. Adjustments are being recommended in the areas where meeting the City's priorities call for such changes. In the General Fund and Measure Q&E Fund, revenue budget increases based on positive revenue growth fully offset expenditure budget increases.

The City's enterprise funds are tracking well with no major operating budget changes recommended. There are several CIP budget changes recommended to increase CIP budgets in FY 2021-22, reflecting a return to CIP activity that was paused in many cases due to the pandemic. Funding and staff capacity to implement the full range of the City's CIP needs remains a longer-term challenge to address.

Citywide, across all funds, these changes represent approximately \$1.8 million in net revenue budget increases, excluding transfers in, and approximately \$4.0 million in next expenditure budget increases, excluding transfers out. The funds where revenue increases do not fully offset expenditure increases do have the fund balance to accommodate the recommended changes, largely in the Water and Sewer Funds for those CIP budget increases. Implementing the recommended changes will also result in an additional \$0.4 million approximately to the General Fund Emergency Reserve, gradually working toward Council's update General Fund Emergency Reserve policy of a 33% minimum and a 50% target reserve.

The fiscal year to date revenue and expenditure highlights, status updates, and budget amendment recommendations are outlined in detail in Attachment 1 and will be presented verbally at the meeting.

Measure Q & E Semi-Annual Report - Measure E was approved by the voters in November 2020 and replaced Measure Q, which was approved by the voters in 2006. Measure Q was a one-half percent local transaction and use tax, and Measure E added one percent to that, for total Measure E tax of one and a half percent. This is codified and explained in detail in Chapter 3.26 of Morro Bay's Municipal Code. While Measure E is a General Tax, the City Council has identified areas of priority spending consistent with the ballot measure language in 2020, and consistent with the prior 2006 ballot language used when Measure Q was approved. As directed by City Council on April 13, 2021, the four priority areas of spending include:

- Maintain public safety services by funding staff positions that are most closely aligned with the purposes of the Measures Q and E. Expenses include costs associated with Morro Bay Fire Department, Morro Bay Police Department and Morro Bay Harbor personnel and equipment, in addition to the Fire Headquarter Debt service and the Fire Engine loan repayment;
- Maintain or enhances cleanliness and safety of public space such as parks, waterfront and the beach by funding personnel, supplies, expenses and equipment to support City operations in departments including Public Works Consolidated Maintenance and Harbor Department;
- Invest in infrastructure and equipment such as street paving, storm drains, and vehicle replacements that support City services. This priority may include increasing capacity to implement the backlog of unfunded capital projects; and
- Ensure financial health of the City by maintaining appropriate reserves to protect against economic downturns, natural/health emergencies and other unforeseen challenges or opportunities.

Measure E (like Measure Q before it) requires an independent annual financial audit and the establishment of an independent citizens' advisory committee to review annual expenditures. The Citizens' Finance Advisory Committee (CFAC) serves as that oversight committee and is to receive annual and semi-annual reporting on expenditures from Measure revenues. This Midyear report serves as that semi-annual report.

As of December 31, 2021, the Measure Q & E Fund (fund 003) had received a 43% of budgeted revenues and expended 18% of budgeted expenditures. As outlined in detail in Attachment 1, the expenditures are low in large part because entries for approximately \$2 million in interfund transfers are pending.

Staff is recommending approximately \$0.5 million in Measure revenue budget increases and approximately \$0.5 million in expenditure budget increases with the largest increase going toward replenishing the General Fund Emergency Reserve consistent with Council's updated General Fund Reserve Policy.

CONCLUSION

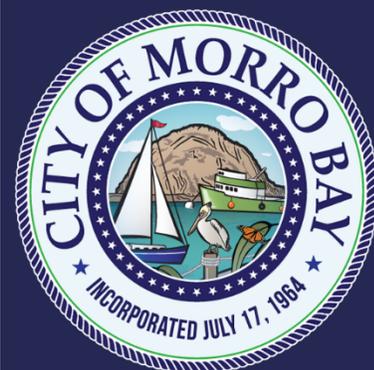
The midyear budget report indicates that the economy is continuing to recover, the City is able to proceed with gradually restoring budgets and staffing to pre-pandemic levels, and will continue to utilize conservative budgeting assumptions to position itself well moving into planning for the FY 2022-23 budget cycle. While the semi-annual Measure Q & E report shows

ATTACHMENTS

1. Midyear Budget Report for FY 2021-22, including Measure Q & E Fund Semi-Annual Report
2. Budget Performance Report for Measure Q & E Fund, period ending December 31, 2021
3. Slide Presentation

City of Morro Bay Midyear Budget Report FY 2021-22

This Report covers the six-month period ending December 31, 2021. It provides an update on the City's primary revenues and expenditures in its major funds, and outlines recommended budget adjustments.



Administrative
Services Department
February 2022

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Executive Summary

Overall, this year's midyear report is a positive one, with the economic recovery continuing and City's most economically sensitive revenues, sales tax and Transient Occupancy Tax (TOT), exceeding anticipated budgeted amounts. Measure E-20, which was approved by voters in November 2020 as a 1.5% local general-purpose sales tax (replacing Measure Q which was a 0.5% tax approved in 2006) began in April 2021 and is generating more revenue than estimated at budget time. Overall expenditures for mid-year are tracking well, though several budget adjustments are needed to reflect the economic recovery and to adequately resource core services and Council and community priorities. Adjustments are being recommended in the areas where meeting the City's priorities call for such changes. In the General Fund and Measure Q&E Fund, revenue budget increases based on positive revenue growth fully offset expenditure budget increases.

The City's enterprise funds are tracking well with no major operating budget changes recommended. There are several CIP budget changes recommended to increase CIP budgets in FY 2021-22, reflecting a return to CIP activity that was paused in many cases due to the pandemic. Funding and staff capacity to implement the full range of the City's CIP needs remains a longer-term challenge to address.

Citywide, across all funds, these changes represent approximately \$1.8 million in net revenue budget increases, excluding transfers in, and approximately \$4.0 million in net expenditure budget increases, excluding transfers out. The funds where revenue increases do not fully offset expenditure increases do have the fund balance to accommodate the recommended changes, largely in the Water and Sewer Funds for those CIP budget increases. Implementing the recommended changes will also result in an additional approximate \$0.4 million contribution to the General Fund Emergency Reserve, gradually working toward Council's update General Fund Emergency Reserve policy of a 33% minimum and a 50% target reserve.

Introduction

Purpose and Scope

This Midyear Budget Report for the Fiscal Year (FY) 2021-22 covers the six-month period ending December 31, 2021. It provides a status update on the City's primary revenue and expenditure sources in its major funds and provides a scheduled opportunity for the City to make budget amendments to respond to unanticipated changes or emerging trends.

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. It represents a snapshot of City revenues and expenditures as of December 31, 2021. It may not represent pending payments or revenues, or irregularities in payment or revenue timing. As this is not an audited financial statement, the numbers are preliminary and subject to change as the year progresses. The City monitors and adjusts its revenue and expenditure projections based on fiscal-year-to-date performance and other developments to develop a more accurate picture of the City's anticipated year-end financial position. If no significant change is anticipated, no budget adjustment will be recommended.

General Fund

Key Revenue Analysis

The adopted General Fund Budget for FY 2021-22 is approximately \$15.7 million. As of December 31, 2021, the General Fund had received 41% of its revenues, or \$6.5 million. This is typical, as many of the revenues are received irregularly or have a lag time before the City receives them. Staff monitors each revenue source and is recommending a few revenue budget increases to reflect the continued economic recovery. The top four revenue sources are described below in detail, as they account for over three-quarters of budgeted General Fund revenues collectively.

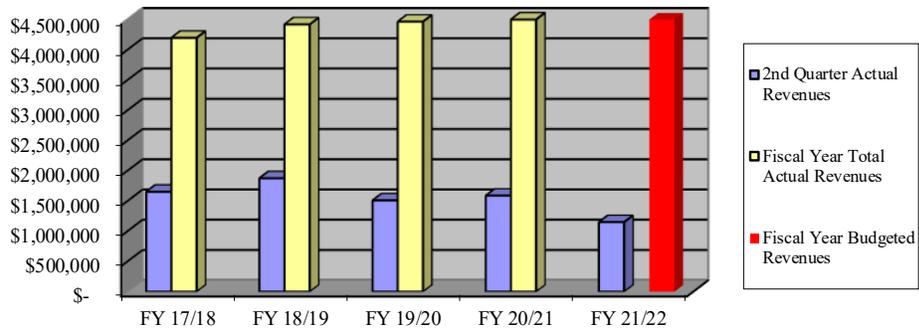
Property Tax

Property tax is the largest revenue category for the City’s General Fund, accounting for 32% of budgeted General Fund revenues in FY 2021-22. Property tax is levied by the San Luis Obispo County Assessor’s Office at 1% of a property’s assessed value, of which the City receives approximately 13.7 cents per dollar paid on property located within the municipal limits of Morro Bay.

Revenue for FY 2021-22 was budgeted higher than the prior fiscal year. Property tax distributions are largely received in the third and fourth quarters of the fiscal year. Given the timing of receipts, no budget adjustment is recommended. The County Assessor’s most recent annual report demonstrated assessed valuation growth of 3.95% for Morro Bay.

Property Tax

Quarterly and Annual Revenues
5-Year History



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 1,651,301	\$ 1,875,035	\$ 1,508,448	\$ 1,585,876	\$ 1,148,825
Fiscal Year Total Actual Revenues	\$ 4,197,259	\$ 4,419,459	\$ 4,464,003	\$ 4,861,594	
Fiscal Year Budgeted Revenues					\$ 5,011,696
2nd Quarter Percent of T total	39.34%	42.43%	33.79%	32.62%	22.92%
Recommended Budget Revision					\$ -

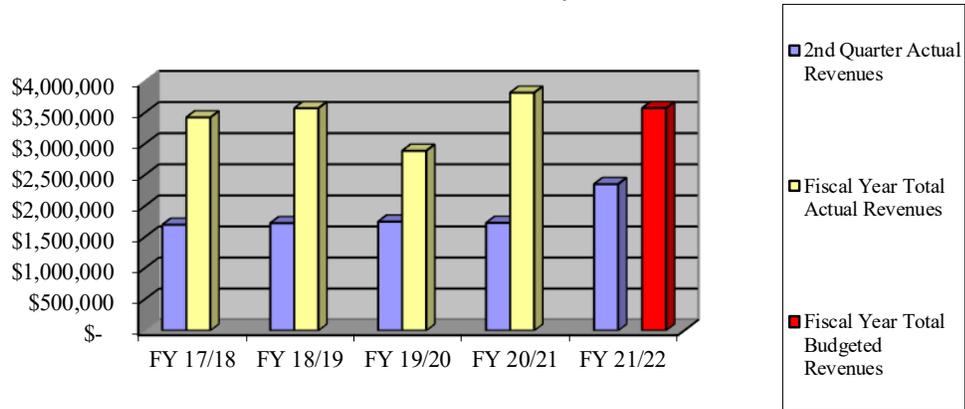
Transient Occupancy Tax

TOT is the General Fund’s second largest revenue source, accounting for 23% of the City’s budgeted General Fund revenues for FY 21-22. The City levies and retains a 10% transient occupancy tax (TOT) on all hotel, motel, vacation rentals and RV parks within the municipal limits of Morro Bay to fund City services provided to visitors to Morro Bay. In addition, the City collects and remits an additional 3% to Visit Morro Bay, the Morro Bay Tourism Business Improvement District (TBID), and an additional 1.5% for Visit SLOCAL, the Countywide Tourism program. As a highly economically sensitive revenue source, the City monitors TOT closely. Due to the pandemic, TOT revenues have been more difficult to predict in recent years. However, Morro Bay and the California Central Coast region have not seen the significant revenue reductions that larger cities have seen, and Morro Bay’s TOT revenues rebounded very quickly and remain high.

This year TOT receipts have tracked higher than budgeted through December. Morro Bay experienced a strong summer prior to the recent spike in COVID-19 cases. In coordination with Visit Morro Bay, staff recommends a somewhat conservative revenue budget increase of \$350,000. This recognizes the positive fiscal year-to-date actuals while taking a cautious approach to the uncertainty that exists in the winter and spring months of the current fiscal year.

Transient Occupancy Tax

**Quarterly and Annual Revenues
5-Year History**



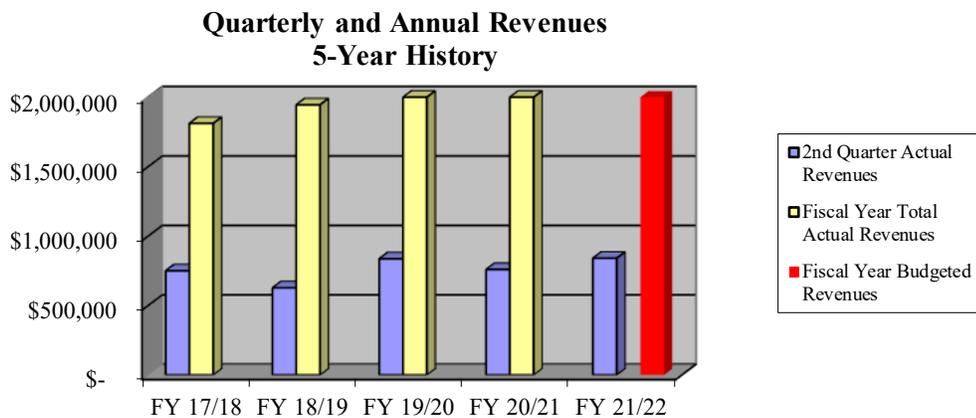
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 1,702,037	\$ 1,727,757	\$ 1,753,005	\$ 1,732,432	\$ 2,356,349
Fiscal Year Total Actual Revenues	\$ 3,429,186	\$ 3,576,121	\$ 2,892,130	\$ 3,826,276	
Fiscal Year Total Budgeted Revenues					\$ 3,577,869
2nd Quarter Percent of Total	49.63%	48.31%	60.61%	45.28%	65.86%
Recommended Budget Revision					350,000

Sales Tax

Sales tax is the third largest budgeted revenue source for the City’s General Fund in FY 2021-22, budgeted to generate 13% of the Fund’s revenue for the year. The base statewide sales and use tax rate is 7.25 percent, and the City’s General Fund receives 1 cent of that base tax. This does not include the 1.5 cent local sales tax which is collected through voter-approved Measure E-20 and will be discussed under that Fund separately.

Sales Tax receipts are tracking somewhat higher than budgeted this fiscal year. This trend tracks with the increase in TOT tax and high occupancy rates at local hotels. The City contracts with industry expert HdL to analyze collections history, forecast sales tax revenues and pursue revenues on the City’s behalf that belong to the City. The proposed revenue budget increase of \$240,000 is approximately 50% of the forecasted amount that HdL is expecting the City to receive over the adopted budget. This is a conservative revenue budget increase that also accounts for the unpredictability in Morro Bay’s slower season in the second half of the fiscal year.

Sales Tax



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 750,841	\$ 627,781	\$ 836,814	\$ 759,628	\$ 840,735
Fiscal Year Total Actual Revenues	\$ 1,811,884	\$ 1,945,359	\$ 2,186,074	\$ 2,230,182	
Fiscal Year Budgeted Revenues					\$ 2,053,926
2nd Quarter Percent of Total	41.44%	32.27%	38.28%	34.06%	40.93%
Recommended Budget Revision					240,000

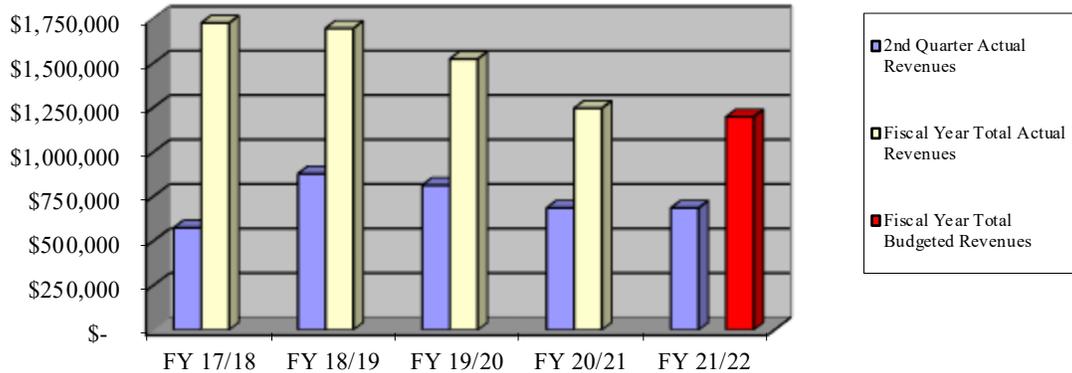
Charges for Service

City service revenues consist primarily of plan check fees, building inspection fees and recreation sports and youth services fees. These fees are assessed based on recovery formulas, which reflect approximate costs of providing these services and, as a total category, account for 8% of the City’s General Fund budget for FY 2021-22.

The Recreation Division programs’ revenues have not entirely recovered since COVID-19 and may come in slightly below budget. However, Community Development Charges for Services are likely to over-perform compared to budget for an overall projected year-end position consistent with the budget in this category. Staff will continue to monitor this revenue source; no budget revisions are recommended at this time.

Charges for Services

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 574,312	\$ 878,281	\$ 813,701	\$ 685,897	685,897.35
Fiscal Year Total Actual Revenues	\$ 1,726,241	\$ 1,695,853	1,523,506	1,246,750	
Fiscal Year Total Budgeted Revenues					\$1,198,655
2nd Quarter Percent of Total	33.27%	51.79%	53.41%	55.01%	57.22%
Recommended Budget Revision					-

Other General Fund Revenues

All remaining General Fund revenues comprise approximately 24% of the Fund's budgeted revenues collectively. The status of the primary sources of other General Fund revenues are summarized below. No midyear budget changes are recommended for any of these revenues this fiscal year, with the exception of additional budget to recognize mutual aid reimbursements for the City's response to wildfire incidents and to recognize a one-time grant revenue.

- **Transfers In** – Transfers into the General Fund comprise approximately 8% of the General Fund budget for FY 2021-22 (\$1,225,000). Roughly two-thirds of that total is comprised of transfers in from enterprise funds to cover internal services costs for services such as financial administration, human resources, legal services, and City management and administration services that support enterprise fund operations and facilitate the provision of water, sewer, harbor and transit-related services. In addition, this total includes State gas tax revenue as well as a transfer in from Measure Q & E fund for a specified amount of Fire department overtime. No changes are recommended.
- **Franchise Fees** - Franchise fees are collected by the City from utilities operating in Morro Bay. Franchise fees are currently received for electricity, garbage, cable TV and natural gas. Franchise fees represent 4% of budgeted General Fund revenues in FY 2021-22 (\$572,000). Payments are not remitted equally throughout the year; therefore, midyear receipts are not necessarily predictive.
- **Cannabis City Tax** – Morro Bay residents approved a cannabis specific tax of up to 10% in 2018, for sale of cannabis within Morro Bay. Council set the tax rate of 5% for all retail sales locally. Revenues for the two permitted local retailers are budgeted at approximately 3% of General Fund revenue for FY 2021-22 (\$480,000), and revenues are on track at midyear with 44% received.
- **Business Tax** - The City requires all businesses located in or operating in Morro Bay to obtain a business tax certificate. Business taxes apply to businesses operating as a general or sub-contractor, as a home occupation, from a commercial or office space rental, or as a business conducting temporary activities within the City limits. The amount of business tax paid by each business is based on the type of business being operated and varies depending on that type. This accounts for approximately 2% of the FY 2021-22 General Fund operating budget (\$364,000). Revenues are on track for the current fiscal year with 92% received (most renew at the beginning of the fiscal year in July).
- **Rental Income** – Rental of City-owned property constitutes approximately 3% of the General Fund's FY 21-22 budget (\$409,000). Revenues fiscal year-to-date are tracking roughly comparably to prior fiscal years on a percentage basis but given the budget increase for FY 21-22 in this area, staff will continue to track and revise next year if necessary. The majority of the rental income in this account come from Morro Dunes RV Park.
- **Licenses and Permits** - Conditional use permits, coastal permits, and encroachment permits are the primary revenues sources in this category. These revenues sources account for a total of approximately 1% of the budgeted General Fund revenues for FY 2021-22. These revenues are performing very well at midyear, at approximately 100% of budgeted revenues received to date. Given the small scale of each line item in this category, staff is not recommending budget changes at this time but will incorporate updated projections into next year's budget.

- **Mutual Aid Reimbursement** – The Morro Bay Fire Department anticipates receiving \$480,000 in FY 2021-22 as compensation for its response to mutual aid incidents, primarily wildfires. This revenue increase will be fully offset by a commensurate expenditure increase to cover associated response costs. Going forward, some moderate level of wildfire response costs and reimbursement will be assumed and planned for in future year budgets, given the significant volume that these costs and reimbursements represent as wildfire season continues to prolong and demand additional resources.
- **Grant Revenues** – The City will receive a one-time REAP grant from the State in the amount of \$78,000 and will utilize these funds to facilitate electronic plan review.

Recommended General Fund Revenue Budget Amendments

Given the detailed discussion above, staff is recommending the following General Fund budget adjustments (all increases) at midyear. If approved, this would result in an amended General Fund revenue budget of \$16.8 million.

General Fund Revenue Budget Amendments

Department	Description	Increase (Decrease) Amount	Prior Council Approval	One-time/Ongoing
Admin Services	Increase Transit Occupancy Tax Revenue based on actuals to date	350,000	N/A	Ongoing
Admin Services	Increase Sales Tax Revenue based on updated HDL Estimates	240,000	N/A	Ongoing
Fire	Mutual aid reimbursements for wildfire response costs	480,000	N/A	One-time
Community Dev	Grant-funded electronic plan review software	78,000	N/A	One-time
		1,148,000		

Key Expenditure Analysis

The adopted General Fund expenditure budget for FY 2021-22 is approximately \$15.6 million. As of December 31, 2021, total General Fund expenditures totaled \$7.4 million, or 49% of budget. The following discussion provides a status of significant General Fund expenditures at midyear. Staff monitors expenditures closely and is recommending several expenditure adjustments. Many of these changes are to continue to gradually restore budget that was reduced in FY 2019-20 after the onset of COVID-19.

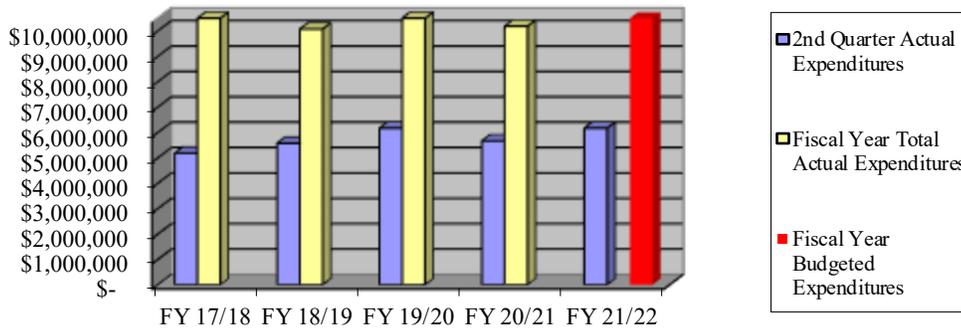
Personnel Costs

Personnel costs include salaries for full-time employees, elected officials’ stipends, temporary/relief employees, overtime, other benefits, pensions, and health care. Expenditures have tracked higher than 50% at midyear since the City began paying the annual CalPERS unfunded liability payment (UAL payment) in July to receive a small discount. In addition, the City supported many out of County fires this year and will received approximately \$480,000 as compensation for that staff time. As part of the midyear adjustments, staff is recommending all reimbursement revenue for mutual aid be budgeted in the Fire Department to offset costs of responding to the fires.

There was a 12.5% reduction in personnel expenditures from FY 2019-20 to FY 2020-21, largely due to reduced staffing levels in response to COVID-19. Given positive revenue recovery since the onset of COVID-19, staff is recommending continuing the gradual restoration of key positions at midyear this year. Proposed changes are outlined in the following section.

Personnel Costs

**Quarterly and Annual Expenditures
5-Year History**



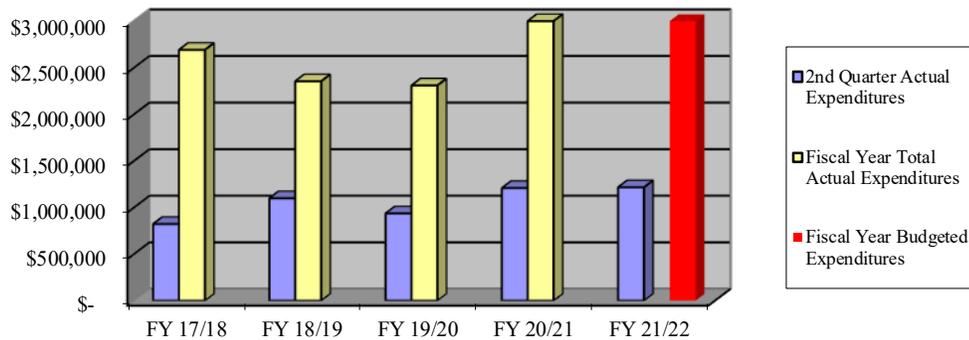
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Expenditures	\$ 5,186,818	\$ 5,577,502	\$ 6,173,938	\$ 5,669,569	6,172,942
Fiscal Year Total Actual Expenditures	\$ 11,884,066	\$ 10,075,472	\$ 11,463,804	\$ 10,185,594	
Fiscal Year Budgeted Expenditures					\$ 10,565,122
2nd Quarter Percent of Total	43.65%	55.36%	53.86%	55.66%	58.43%

Supplies & Expenses

Operating expenditures consist of all General Fund costs to provide services other than personnel costs. These include supplies and materials, consulting services, and contract services. Consulting and contractual services may have various contract start dates and payments that may not be equally spread throughout the fiscal year and there may be some delay in invoices from consultants. Therefore, the midyear expenditures this year at 32% are likely to increase later in the fiscal year as invoices are received. There are a few budget changes recommended in this category, outlined in detail in the next section.

Supplies & Expenses

**Quarterly and Annual Expenditures
5-Year History**



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Expenditures	\$ 822,445	\$ 1,099,247	\$ 936,328	\$ 1,208,227	\$ 1,216,742
Fiscal Year Total Actual Expenditures	\$ 2,691,066	\$ 2,354,564	\$ 2,309,101	\$ 3,313,285	
Fiscal Year Budgeted Expenditures					\$ 3,742,431
2nd Quarter Percent of Total	30.56%	46.69%	40.55%	36.47%	32.51%

Recommended General Fund Expenditure Budget Amendments

Staff is recommending the following General Fund expenditure budget adjustments at midyear. If approved, this would result in an amended General Fund expenditure budget of approximately \$16.8 million. The proposed expenditure budget adjustments would be more than covered by the recommended revenue budget increases based on fiscal year performance to date, improving the projected year-end operating surplus by approximately \$0.1 million. The recommended changes are summarized by department or division as follows, with a consolidated table presented after the narrative:

Citywide –

- Increase benefits budgets in the General Fund to cover the increase in the monthly City contribution to employees’ health insurance premiums, per City Council direction on September 28, 2021 (\$37,746).

Police Department –

- Implement Council direction from the September 14, 2021 Council meeting regarding gun control measures. Budget increases are less than anticipated in the September staff report due to COVID-related delays in program implementation. This will fund POST trainings, one community training, off duty firearms training for officers, and supplemental ammunition (\$29,500).
- Correct the general liability insurance budget for FY 2021-22 based on current invoice (\$37,895).

Fire Department –

- Budget expenditures associated with mutual aid response to wildfires. These funds will largely reimburse overtime costs and associated benefits and travel costs for staff deployed to mutual aid incidents and are fully offset by a revenue budget increase for funds received (\$480,000).

Public Works –

- Maintenance Division – Increase consultant services budget for wildlife education and seagull management. In the summer of 2021 the City, Chamber of Commerce, and Pacific Wildlife Care held roundtable discussions on the seagull overpopulation and cleanliness issue, resulting in general consensus that a hybrid approach of educating residents and visitors about trash and hiring a consultant for seagull control would best solve the issue. The requested funds are to implement this approach and involve purchase and installation of signage to instruct residents and visitors about the importance of throwing away trash as well as partnering with a falconer to dissuade seagulls from settling in the City (\$40,000).
- Maintenance Division– Increase budget to account for ongoing portable restroom rentals along the waterfront for use by residents and visitors to the City. These portable facilities remain open overnight when the permanent restrooms close (\$12,000).
- Maintenance Division– Increase contractual services funding to allow for security fencing to be installed behind the Shasta Building and the Community Center. Currently, most outside areas around these two buildings have open access at all hours, which has attracted waste dumping and other nuisances. As a result, maintenance crews have become overwhelmed with requests to clean organic material, taking time away from other priorities. Fencing will prevent these nuisances from taking place at these two City facilities (\$11,000).
- Maintenance Division– Increase grounds maintenance supplies to fund fixes at the City’s pickleball courts at Del Mar Park as well as other small maintenance projects, including security projects. Based on feedback received by staff from pickleball players, staff became aware of concerns about expansion joints on the pickleball courts. The security changes include updates to lock mechanisms around the City (\$14,000).
- Street Trees – Increase budget for City arborist and tree trimming. The City is required to maintain the health and safety of trees within the right-of-way. Many of the City’s trees have not been maintained for many years and therefore pose potential health and safety risks. These funds would support a certified arborist and trimmer to assess trees performing trimming when needed or removal when hazardous (\$21,500).
- Morro Creek Revitalization - These funds are required for the City’s contracted biologist to perform site visits to Morro Creek to verify the City has achieved and maintained 70% plant survival in the creek. In addition, the biologist submits an annual report to California Fish and Wildlife confirming the City’s compliance with the terms of a Notice of Violation sent to the City in 2017. This is the final year of the City’s 5-year plan for Morro Creek restoration (\$3,500).

Recreation Services –

- Administration – Correct FY 2021-22 staffing budget errors to reflect current staffing (\$90,339).
- Sports – Increase Recreation Supervisor from 0.75 to 1.0 FTE to restore pre-pandemic staffing levels and increase part-time sports staffing to allow for increased service provision such as adult softball and girls' softball (\$25,342).
- Youth Services – Correct Recreation Youth Services staffing budget error and increase part-time staff due to increasing youth services activity (\$211,170).
- Teen Programs – Eliminate Part-Time budget for Teen Programs; currently closed (-\$20,009).
- Community Pool – Increase part-time staffing and training at the Community Pool to reflect increased use and hours (\$28,750).

Community Development –

- Software implementation to facilitate electronic plan review, funded by grant revenues (\$78,000).

Administrative Services –

- Restore prior Finance staffing by adding a Fiscal Analyst position. In 2016, the City had seven Finance staff members. Today, there are six positions assisted inconsistently by part time hours. Two of the six full-time positions are intended to take on duties beyond finance, including oversight and support of IT, City Manager and citywide support, and analytical support for other City functions. This is not possible due to workload, which has increased over the years to include strategic financial direction and oversight for the Water Reclamation Facility, administration of the new American Rescue Plan Act funds, addressing the City's unfunded pension liability, and growing internal customer service needs. In addition, Council's stated goals of fiscal sustainability and economic vitality, as well as the desire to develop a more robust capital budget and financing strategy, require additional allocation of staff resources to address. The current staffing level is insufficient to meet best practices in fiscal administration and Council goals. Adding a Fiscal Analyst may not fully close the gap between existing and needed finance staff resources, but it will restore the City to the level of staffing it had six years ago, prior to recent workload expansions. Staff is continuing to implement other operational efficiencies and will continually evaluate staff resource levels. The cost of the Fiscal Analyst position for the remainder of FY 2021-22 is estimated at approximately \$30,000. The ongoing annual costs with full benefits are estimated to be \$136,000 and would be budgeted in FY 2022-23; the full costs are built into the General Fund five-year forecast (\$30,000 midyear adjustment).

City Clerk –

- Fund the municipal election to be held in June 2022 as directed by Council (\$30,000).
- Add a City Clerk position, recognizing that that the current structure of combining the City Clerk and Human Resources Manager roles and responsibilities into one position is an unsustainable model that does not allow for sufficient capacity in either area. The addition of a City Clerk position would allow the City to keep pace with an increasing volume of Public Records Act requests, several City Advisory Boards, and Citywide records management duties, while allowing the City to properly address increasing HR needs including class and compensation analysis, succession planning, policy development and implementation, and employee training and development. The current joint position would be reclassified to a Human Resources/Risk Manager position after a new City Clerk can be brought on board. The current fiscal year costs of the City Clerk position are estimated to be approximately \$35,000. The ongoing annual costs will

full benefits are estimated to be \$159,000 and would be budgeted in FY 2022-23; the full costs are built into the General Fund five-year forecast (\$35,000 midyear adjustment).

City Manager –

- Host a facilitated regional coordination discussion with the other City Managers and regional partners; a portion of these costs will be reimbursed by participating agencies (\$10,000).
- Correct the general liability insurance budget for FY 2021-22 based on current invoice (\$12,546).

Contractual Services –

- Postpone the capital needs assessment work until FY 2022-23, given the retirement of the City Engineer and recruitment for his replacement in the latter part of FY 2021-22. This will be budgeted in FY 2022-23 (-\$200,000).
- Appropriate budget for the Townsend state lobbyist contract approved by Council in November 2021 (\$20,000).
- Appropriate funds for the beginning of a classification and compensation study to be completed in FY 2022-23 (\$30,000).

These changes are outlined in table form below. These expenditure increases and decreases result in a net General Fund budget increase of approximately \$1.1 million, which is offset by recommended General Fund revenue budget increases. If implemented, these would result in an amended General Fund budget of approximately \$16.8 million:

General Fund Expenditure Budget Amendments

Department	Description	Increase (Decrease) Amount	Prior Council Approval	One-time/Ongoing
All	Increased City Health Bank contributions	37,746	9/28/21	Ongoing
Police	Council-directed gun control measures - POST trainings, one community training, off duty firearms training for officers, and supplemental ammunition	29,500	9/14/21	Ongoing
Police	General liability insurance budget to correct error in FY 2021-22 budget	37,895	N/A	Ongoing
Fire	Overtime for mutual aid wildfire response; reimbursed	350,000	N/A	One-time
Fire	Employer Paid Benefits for mutual aid response; reimbursed	120,000	N/A	One-time
Fire	Meals and Lodging for mutual aid response; reimbursed	2,500	N/A	One-time
Fire	Rolling stock budget increase offset by mutual aid reimbursement	7,500	N/A	One-time
Public Works	Maintenance - Wildlife education and seagull management	40,000	N/A	Ongoing
Public Works	Maintenance - portable restroom rentals along the waterfront/rock	12,000	N/A	Ongoing

Public Works	Maintenance - contractual services - security fencing for facilities	11,000	N/A	One-time
Public Works	Maintenance - grounds maintenance supplies – security updates and increased needs	14,000	N/A	Ongoing
Public Works	Street Trees – City arborist funding increase	6,000	N/A	Ongoing
Public Works	Street Trees - Tree trimming funding increase	15,500	N/A	Ongoing
Public Works	Morro Creek Revitalization	3,500	N/A	One-time
Recreation	Correct Recreation Administration staffing budget errors	90,339	N/A	Ongoing
Recreation	Increase Recreation Supervisor from 0.75 to 1.0 FTE and increase Sports part-time hours due to increasing activity	25,342	N/A	Ongoing
Recreation	Correct Recreation Youth Services staffing budget errors and increase part-time staff due to increasing youth services activity	211,170	N/A	Ongoing
Recreation	Eliminate Part-Time budget for Teen Programs; currently closed	(20,009)	N/A	Ongoing
Recreation	Increase Recreation Community Pool part-time hours due to increased activity	28,750	N/A	Ongoing
Admin Services	Restore Finance staffing by adding a Fiscal Analyst	30,000	N/A	Ongoing
Community Dev	Grant-funded electronic plan review software	78,000	N/A	One-time
City Clerk	Special Municipal Election for single Council Member (June 7, 2022)	30,000	N/A	One-time
City Clerk	Add a City Clerk position (separate from Human Resources Mgr)	35,000	N/A	Ongoing
City Manager	Regional coordination and facilitation	10,000	N/A	One-time
City Manager	General liability insurance budget to correct error in FY 2021-22 budget	12,546	N/A	Ongoing
Contract Svcs	Delay CIP Needs Assessment until FY 22-23	(200,000)	N/A	One-time
Contract Svcs	Townsend Lobbyist contract	20,000	11/10/21	Ongoing
Contract Svcs	Begin classification and compensation study (Finish in FY 22-23)	30,000	N/A	One-time
	Total General Fund Budget Amendment	1,068,279		

The net impact of the General Fund revenue and expenditure budget amendments would be an improvement of approximately \$0.1 million in the projected year-end fund balance, resulting in a total projected operating surplus of approximately \$0.2 million for FY 2021-22.

Measure Q & E Fund

Measure E was approved by the voters in November 2020 and replaced Measure Q, which was approved by the voters in 2006. Measure Q was a one-half percent local transaction and use tax, and Measure E added one percent to that, for total Measure E tax of one and a half percent. This is codified and explained in detail in Chapter 3.26 of Morro Bay’s Municipal Code. While Measure E is a General Tax, the City Council has identified areas of priority spending consistent with the ballot measure language in 2020, and consistent with the prior 2006 ballot language used when Measure Q was approved. As directed by City Council on April 13, 2021, the four priority areas of spending include:

- Maintain public safety services by funding staff positions that are most closely aligned with the purposes of the Measures Q and E. Expenses include costs associated with Morro Bay Fire Department, Morro Bay Police Department and Morro Bay Harbor personnel and equipment, in addition to the Fire Headquarter Debt service and the Fire Engine loan repayment;
- Maintain or enhances cleanliness and safety of public space such as parks, waterfront and the beach by funding personnel, supplies, expenses and equipment to support City operations in departments including Public Works Consolidated Maintenance and Harbor Department;
- Invest in infrastructure and equipment such as street paving, storm drains, and vehicle replacements that support City services. This priority may include increasing capacity to implement the backlog of unfunded capital projects; and
- Ensure financial health of the City by maintaining appropriate reserves to protect against economic downturns, natural/health emergencies and other unforeseen challenges or opportunities.

Measure E (like Measure Q before it) requires an independent annual financial audit and the establishment of an independent citizens' advisory committee to review annual expenditures. The Citizens’ Finance Advisory Committee (CFAC) serves as that oversight committee and is to receive annual and semi-annual reporting on expenditures from Measure revenues. This Midyear report serves as that semi-annual report.

As of December 31, 2021, the Measure Q & E Fund (fund 003) had received 43% of budgeted revenues and expended 18% of budgeted expenditures (excluding encumbrances).

FY 2021-22 Measure Q & E Total Revenues and Expenditures

	Adopted Budget	12/31/21 Actuals	% Rec'd/ Used	Prior Yr Actual
Total Revenues	3,438,184	1,490,341	43%	2,067,450
Total Expenditures	4,072,558	740,873	18%	1,318,910
GRAND TOTALS	(634,374)*	749,468		748,540

* Expenditure budget exceeds revenue budget due to intended use of fund balance from prior years.

Measure Q & E Fund Revenues

The Fund’s revenue budget is comprised of Measure Q revenues and Measure E revenues. At the time that the FY 2021-22 budget was prepared, staff lacked clarity about how the funds would be received from the state. Therefore, the Adopted Budget included roughly one-third of the funds for Measure Q revenues and two-thirds for Measure E revenues. In fact, since Measure E replaced Measure Q under the ordinance, all funds will be received as Measure E funds from the state. The City will continue to receive very small amounts of Measure Q revenue as late sales tax receipts are remitted to the State and passed along to the City. In future fiscal years, all revenue budgeted and received will be Measure E revenue. This year, \$1,479,581 of the revenues received as of December 31, 2021 were Measure E and the remaining \$10,760 were Measure Q. The fact that 43% of budgeted revenues have been received at midyear is very positive, since these represent only sales taxes remitted through October; there is a delay in the City’s receipt of the funds.

Measure Q & E Fund Expenditures

At midyear, the Measure Q & E Fund had expended 20% of budgeted revenues. The primary reason that figure is lower than would be expected is that the interfund transfer entries had not yet been made.

Department	Adopted Budget	Actuals	% Used	Prior Yr Actual
Non-Departmental	0	2,914		0
Police	600,451	190,104	32	132,127
Fire	744,405	453,313	61	350,633
Public Works	469,577	31,358	11	10,400
Harbor	201,000	63,184	31	0
Interfund Transfers	2,057,126	0	0	1,318,910
Total Expenditures	4,072,558	740,873	20%	1,318,910

Interfund transfers will be made as budgeted: \$50,000 to the Harbor Fund for a new patrol vessel, \$625,000 to the General Fund Emergency Reserve, \$350,000 to the General Government CIP Fund for the Pavement Management project, \$314,000 to the General Government CIP Fund for Storm Drain projects, and \$600,000 to the General Government CIP Fund for the Highway 1/41 Interchange. Work is resuming on capital projects after a pause during the pandemic due to fiscal uncertainty. Restarting this work has been somewhat slowed due to the retirement of the City Engineer and a recruitment for a Senior Civil Engineer that did not result in a hire. However, staff has procured consultant services and has hired a new City Engineer to continue forward progress on these projects.

In addition to the inter-fund transfers not having been made yet at midyear, there will also be some personnel entries that will be charged to the fund in the second half of the fiscal year, such as the CalPERS unfunded liability payments that have not yet been charged to the fund.

Expenditures in Public Works are particularly low at midyear given that the \$175,000 budgeted for CIP implementation had not yet begun to be expended. There are recommended budget amendments associated with this item below.

Recommended Measure Q & E Fund Budget Amendments

Revenues. Due to a strong economic recovery, the City's sale tax consultants HdL are projecting strong increases to Measure E revenues for FY 2021-22. Given the volatility of the portion of sales taxes related to tourism in Morro Bay, staff recommends taking a conservative approach and budgeting just over half of the amount of revenue increase that HdL projects for the remainder of the fiscal year, as outlined in the section below. The recommended increase of \$500,000 for FY 2021-22 would result in an amended revenue budget of approximately \$3.9 million for Measure Q & E and would more than cover all recommended expenditure budget amendments, resulting in a net positive change to the projected year-end fiscal position.

Expenditures. Staff is recommending the following Measure Q & E Fund expenditure budget adjustments at midyear. All of the proposed expenditure budget adjustments would be more than covered by the recommended revenue budget increase, improving the projected year-end fund status. The recommended changes are summarized by department or division as follows, with a consolidated table presented after the narrative:

Police –

- Allocate budget to support the costs of body-worn cameras for police officers (\$28,000).
- Appropriate annual payment to the San Luis Obispo County Sheriff's Department for Morro Bay's contribution to the County Bomb/Drug/Gang task force. This funds staff and required equipment to respond to situations involving bombs, drugs, or gangs. This was previously budgeted in Measure Q & E but inadvertently omitted for FY 2021-22 (\$15,000).
- Appropriate funds for the annual regional SWAT team contribution. These funds go to the City of San Luis Obispo for staff and equipment that the SWAT team uses. Each agency has staff that are members of the SWAT team. The contribution amount is based on the number of SWAT members from each agency. Morro Bay has two SWAT team members. This was previously budgeted in Measure Q & E but inadvertently omitted for FY 2021-22 (\$6,000).
- Appropriate funds for the annual payment for CLETS/Data lines to the San Luis Obispo Sheriff's Department. This is for access to CLETS and Data lines that the Sheriff's department is the custodian of for the Department of Justice. This was previously budgeted in Measure Q & E budget inadvertently omitted for FY 2021-22 (\$15,000).
- Increase the budget for the Police Department's Records Management System (RMS) based on Council approval. This project was already budgeted in Measure Q & E, and after competing an RFP process, staff determined that additional one-time funding is required to obtain a satisfactory vendor and product (\$65,000).

Public Works –

- Reduce contractual services budget for CIP Implementation – The FY 2021-22 budget included \$175,000 for "Public Works Engineering CIP Implementation Resources". This pool of funding was to restore capacity in Public Works Engineering to achieve implementation of CIPs. The approach to pursue, such as staffing or consultant support or some combination thereof, was to be considered by the incoming Public Works Director. While a portion of these funds will be utilized, the full amount will not be. Staff recommends reducing contract services budget and reallocating to fund an Associate Engineer position for CIP implementation, explained below (-\$100,000).

- Increase capacity to deliver capital projects by funding an Associate Engineer for CIP Implementation - At the meeting on September 14, 2021, City Council approved an increase of one Full Time Equivalent (FTE) position for a Senior Civil Engineer in order to assist with capital project implementation. Subsequently, staff opened a recruitment for the position for approximately two months but only received one application from a viable candidate who ultimately was not interested in the job. In conversations with hiring managers from other public agencies, staff learned that all agencies currently attempting to hire engineers are facing similar recruitment challenges. However, an opportunity to promote a qualified staff person to an Associate Engineer position arose when an employee's previous duties were transferred to a new Engineering Tech successfully hired in January. The Associate Engineer will largely be focused on capital projects implementation in line with the stated goals of City Council and Measure Q & E funding. The costs for this position for the remainder of the fiscal year are approximately \$44,000. On an ongoing basis, this position will cost approximately \$143,000 fully burdened (\$44,000).
- Increase capacity to enhance cleanliness and safety of public spaces by funding a Maintenance Superintendent position. This position was defunded in FY 2020-21 in response to the pandemic, and the move has impacted the City's ability to effectively manage the maintenance function. Reinstating this position will allow Public Works to streamline the development, organization, and distribution of critical maintenance operations tasks related to the City Council Goal of improving infrastructure by addressing cleanliness (while maintaining sensitivity to wildlife) and safety issues. These operations include the upkeep of several City assets, including storm drains, sidewalks, streets, street trees, open space areas, parks, public restrooms, City facilities, City vehicles, and other assets. The addition of a Maintenance Superintendent will make the City's maintenance operations more efficient and will enhance responsiveness to requests made by residents, businesses, regulatory agencies, and other City departments. The costs for this position for the remainder of the fiscal year are approximately \$35,000 maximum, as it will take some time to recruit. On an ongoing basis, this position will cost approximately \$159,000 fully burdened (\$35,000).

Interfund Transfers –

- Make the final payment to the General Fund Emergency Reserve (GFER) for the Fire apparatus one year early. The four-year payment schedule for Measure Q & E Fund to repay the General Fund Emergency Reserve for the \$225,000 loan to purchase a portion of the fire apparatus will end in FY 2022-23. Due to the positive revenue growth in Measure E, the Fund has the capacity to repay this now. This will free up \$56,250 for appropriation in the FY 2022-23 Measure Q & E Fund budget and will contribute to restoring the General Fund Emergency Reserve consistent with Council's GFER policy (\$56,250).
- Increase the budgeted transfer to the General Fund Emergency Reserve consistent with Council GFER policy setting the minimum reserved balance at 33% and the target at 50%. The projected GFER balance at the end of FY 2021-22 is \$3.9 million, short of the minimum 33% level. This additional transfer would take the GFER closer to the required minimum (\$300,000).

If the recommended budget amendments to the Measure Q & E Fund are implemented, the amended revenue budget would be approximately \$3.9 million and the amended expenditure budget would be approximately \$4.5 million. This would spend down slightly less of the remaining FY 2020-21 fund balance than anticipated, leaving additional fund balance to appropriate in FY 2022-23.

The recommended changes are outlined in tabular form below:

Recommended Measure Q & E Fund Budget Amendments

Measure Q & E Fund Revenues	Budget Increase
Increase Measure E Sales Tax Revenue Budget	500,000

Measure Q & E Fund Expenditures	Budget Increase (Decrease)	Prior Council Approval	One-time / Ongoing
Police - Body-Worn Camera Support	28,000	Prior years	Ongoing
Police - Bomb/Drug/Gang task force payment to Sheriff	15,000	Prior years	Ongoing
Police - SWAT Team contribution to the Regional SWAT	6,000	Prior years	Ongoing
Police - Data and CLETS lines	15,000	Prior years	Ongoing
Police - Records Management System (RMS) Costs	65,000	1/25/2022	One-time
Public Works - Reduce Contract Services budget for CIP Implementation (will perform primarily with staff)	(100,000)	N/A	One-time
Public Works - Associate Engineer for Capital Projects (remainder of FY)	44,000	Sr. Engineer 9/14/21	Ongoing
Public Works - Consolidated Maintenance Superintendent (remainder of FY)	35,000	N/A	Ongoing
Transfers - Pay off remainder of Fire Apparatus Early	56,250	N/A	One-time
Transfers - Increase to General Fund Emergency Reserve	300,000	N/A	One-time
Total	464,250		

Enterprise Funds

The Enterprise Funds are Proprietary Funds used to report the same functions presented as business-type activities. The following funds are included in this category: Harbor Funds, Water Funds, Sewer Funds, and Transit Funds. Currently, each of the enterprise funds have an operating fund, capital improvement fund, equipment replacement fund, and an accumulation fund that hold operating savings for future projects. The following gives an update on important changes or activities in these funds.

Harbor Funds

The Harbor Enterprise Fund accounts for revenues received from harbor leases, slips, moorings, and other sources, which are expended for maintenance, operation, patrolling, and improvements of the harbor. The Harbor Department recently implemented an RV parking program that has begun to generate some new revenue for these activities. As of December 31, 2021, the Harbor Operating Fund had expended approximately 39% of its budget, or \$0.8 million of \$2.1 million. Last fiscal year, the Harbor Fund had an operating surplus of \$0.6 million, but the fund balance remains negative due in large part to long-term liabilities such as the pension liability. Work on Harbor Department capital projects was put on hold after the onset of the pandemic and has since partially resumed. Significant unfunded capital improvement needs associated with Harbor Fund activities remain.

Recommended Harbor Funds Budget Amendments

There are several budget amendments in Harbor Funds recommended at midyear to reflect updated capital project activity, an increased donation from Friends of the Harbor for the patrol vessel and evolving operational needs. The recommended changes are outlined in narrative form followed by a summary table. In total, these result in a net expenditure increase of approximately \$0.1 million across all Harbor funds. Given that the Adopted FY 2021-22 budget included an estimated \$0.1 million net operating surplus, the fiscal year-end position of the Harbor funds will not be significantly altered by these midyear changes.

Harbor Operating Fund & Accumulation Fund –

- Increase RV Camping Program revenue due to the extension of the pilot program, and increase associated program expenditures (\$60,000 revenue; \$10,200 expenditures).
- Increase revenue for launch ramp parking and transfer that into the Harbor Accumulation Fund consistent with past practice (\$10,000).
- Budget for additional hull/vessel insurance for the new patrol boat (\$10,000).
- Harbor operations have had reduced staffing for some time. An organizational assessment will assist with a review of operational needs (\$25,000), and temporary administrative support will be procured until that assessment is completed (\$20,000).
- Correct staffing budget (\$32,581) and increase City Health Bank monthly contributions per Council approval (\$4,260).
- Increase transfers to the CIP Fund by a net \$80,000 to account for a new CIP project at 595 Embarcadero (\$100,000) and reflect a portion of the increased donation from Friends of the Harbor for the new boat (-\$20,000).

Harbor Capital Improvement Fund –

- 595 Embarcadero Lease Site Improvements - The conversion of the vacant former Morro Bay Aquarium building for use by Three Stacks and a Rock Brewing Company under an interim building

lease agreement executed in 2019 required substantial owner improvements. The City agreed to complete seismic retrofitting of the building, replace a substantial portion of the sewer lateral, and complete electrical and other upgrades. While staff’s initial cost estimate for these items was approximately \$50,000 based on what was then thought to be the scope, the project scope and costs significantly increased (\$130,000 offset by a \$30,000 reimbursement from the lessee).

- Harbor Vessel/Equipment Project – The Friends of the Harbor donation revenue has increased by \$40,000 and the project budget has increased by an estimated \$20,000, reflected in the budget and transfer budget adjustments in the tables below.

Description	Increase (Decrease) Amount
Harbor Operating Fund Revenues	
RV Camping Program Revenue Increase	60,000
Launch Ramp Revenue Increase	10,000
Total	70,000

Harbor Operating Fund Expenditures	
RV Camping Program - Additional TOT taxes and credit card fees	10,200
Additional hull/vessel insurance costs for new patrol boat	10,000
Harbor Department Organizational Assessment	25,000
Increased Transfer of Addl Launch Ramp Revenues to Accumulation Fund	10,000
Temporary admin support until organizational assessment complete	20,000
Staff Budget Correction due to error in budget backup	32,581
Increased City Health Bank contributions	4,260
Transfer to Harbor CIP Fund for 595 Embarcadero Improvements	100,000
Reduce transfer from Harbor Operating to CIP for Vessel	(20,000)
Total	192,041

Harbor Accumulation Fund Revenues	
Increased Transfer in of Increased Launch Ramp Revenue	10,000
Total	10,000

Harbor Capital Improvement Fund Revenues	
Increased donation from Friends of the Harbor	40,000
Decrease transfer in from Harbor Operating Fund	(20,000)
Transfer In from Harbor Operating for 595 Embarcadero Lease Site Improv.	100,000
Reimbursement from Lessee	30,000
Total	150,000

Harbor Capital Improvement Fund Expenditures	
595 Embarcadero Lease Site Improvements	130,000
Harbor Vessels/Equipment Project Budget Increase	20,000
Total	150,000

Water Funds

The Water Enterprise Fund accounts for revenues received primarily from water service charges, which are expended for maintenance, operations, and capital improvements to the water system. At midyear, the Water Fund had received approximately 55% of its budgeted revenues (\$4.1 of \$7.5 million) and expended approximately 20% of its budgeted expenditures (\$0.8 million of \$7.6 million). The lag in expenditures is due primarily to pending interfund transfer entries to the Water CIP Fund.

Recommended Water Funds Budget Amendments

Progress is continuing on the OneWater projects. Staff is requesting an appropriation of an additional \$0.9 million for the Nutmeg Pressure Zone Project at midyear, not due to a project cost increase but due to accelerating the project timeline from what was assumed during budget development. In preparation of the FY 21-22 budget, many CIP budgets were extended out one year due to anticipated COVID revenue and staffing availability impacts. The budget for this project was inadvertently pushed out, although work continued on the project.

The one minor change to operating costs reflects the increase in monthly City Health Bank contributions approved by Council in September 2021. The Water Revenue (operating) fund balance can support these expenditure increases.

Description	Increase (Decrease) Amount
WATER REVENUE (OPERATING) FUND EXPENDITURES	
Increased City Health Bank contributions	2,634
Transfer Out to Water CIP Fund for project 9932 (Nutmeg)	899,797
TOTAL	902,431
WATER CIP FUND REVENUES	
Transfer In from Water Revenue (Operating) Fund for Nutmeg (project 9932)	899,797
TOTAL	899,797
WATER CIP FUND EXPENDITURES	
Nutmeg Pressure Zone Project (9932)	899,797
TOTAL	899,797

Sewer Funds

The sewer enterprise funds account for revenues received primarily from sewer service charges, which are expended for maintenance, operations and improvements to the sanitary sewer system. The existing Wastewater Treatment Plant activities, shared with Cayucos until this year, are tracked in a separate fund (WWTP Fund 599). The Sewer Fund contributes to the Treatment Plan fund for Morro Bay’s share of plant operations. At midyear, the Sewer Fund had received approximately 59% of budgeted revenue (\$4.6 of \$7.9 million). The Sewer Fund and Treatment Plant Fund had expended approximately 12% of budgeted

expenditures collectively, which is lower than expected primarily due to interfund transfers pending from the Sewer Operating Fund to the WWTP Fund and from the Sewer Operating to the Sewer CIP Fund. The Water Reclamation Facility (WRF) project is underway now. Regular quarterly reports on the project’s expenditures are presented to CFAC and Council. No midyear budget adjustment is requested for the WRF project. In addition to the WRF, the City is moving forward with other OneWater projects and requested associated budget amendments below.

Recommended Sewer Funds Budget Amendments

Progress is continuing on the OneWater projects. Staff is requesting an appropriation of an additional \$1.5 million at midyear for two wastewater collections projects, not due to a project cost increases but due to accelerating the project timeline from what was assumed during budget development. In preparation of the FY 21-22 Budget, many CIP budgets were extended out one year due to anticipated COVID revenue and staffing availability impacts. The budgets for the two projects below were inadvertently pushed out, although work continued on these projects. The Main St./Atascadero Rd. Project should progress now in order to sequence construction with the WRF Conveyance pipeline installation on Atascadero Road. The Beachcomber Project should proceed now in order to reduce Inflow and Infiltration into the sewer system. The Sewer Accumulation Fund has sufficient balance to transfer these funds into the Sewer CIP Fund.

The one minor change to operating costs reflects the increase in monthly City Health Bank contributions approved by Council in September 2021. The Sewer Operating Fund can accommodate that minor increase.

Description	Increase (Decrease) Amount
MB/CS WASTEWATER FUND	
Increased City Health Bank contributions	6,312
TOTAL	6,312

SEWER FUND OPERATING	
Increased City Health Bank contributions	1,548
TOTAL	1,548

SEWER ACCUMULATION FUND EXPENDITURES	
Transfer Out to Sewer CIP Fund for projects 9928 and 9929	1,500,626
TOTAL	1,500,626

SEWER CIP FUND REVENUES	
Transfer In from Accumulation Fund for WW Collections Main St. & Atas Rd (9928)	920,000
Transfer In from Accumulation Fund for WW Collections Beachcomber (9929)	580,626
TOTAL	1,500,626

SEWER CIP FUND EXPENDITURES	
Wastewater Collections Main St./Atascadero Rd. Project (9928)	920,000
Wastewater Collections Beachcomber Project (9929)	580,626
TOTAL	1,500,626

Transit Fund

The Transit Fund accounts for the operations and activities associated with the City’s public transit system, Morro Bay Transit, which operates a year-round deviated fixed route with fixed route and Call-A-Ride services, and a seasonal Trolley service. The deviated fixed route operates one fixed route that flexes, or deviates, off-route to provide limited, advance-scheduled, curb-to-curb service (Call-A-Ride), then returns to the next fixed route stop.

The primary source of revenue for this Fund is Transportation Development Act (TDA) money. TDA was enacted by the State Legislature in 1971 to make funds available for transit, pedestrian way and bikeway projects, transportation planning, ridesharing and street and road improvements. Funds for the TDA come from 1/4 cent of the retail sales tax, for Local Transportation Funds (LTF), and from sales taxes on diesel fuel, for State Transit Assistance (STA). These funds are allocated annually by the San Luis Obispo Council of Governments (SLOCOG) to eligible claimants, under two funding programs: Local Transportation Fund (LTF) and State Transit Assistance (STA).

Recommended Transit Fund Budget Amendments

Staff is recommending the following budget changes to the Transit fund to recognize additional anticipated revenues that staff has been made aware of since budget adoption. There was a small increase in STA funding after the budget was adopted; farebox receipts were slightly higher than budgeted because fare collection began earlier than anticipated after a pandemic pause; and the City will be receiving CARES Act funding in FY 2021-22 as a reimbursement for activities in the last quarter of FY 2020-21.

Expenditures are increasing slightly as well and will be more than covered by the additional revenue.

Description	Increase (Decrease) Amount
TRANSIT OPERATING FUND REVENUES	
MB Transit DAR STA - Increase in STA funding from State	6,934
MB Transit Van Farebox Receipts - increase based on actuals	4,000
MB Transit Coronavirus Relief - CARES Phase 2 reimbursement	75,633
TOTAL	86,567

TRANSIT OPERATING FUND EXPENDITURES	
MB Transit Fuel, Oil, Lubricants - fuel costs have increased	4,300
MB Transit Machinery/Equip/Supplies - vehicle repairs	700
MB Transit Contractual Services – higher contract CPI adjustment 3 rd /4 th qtr.	2,000
TOTAL	7,000

If these budget amendments are approved, the amended Transit Fund revenue budget would be approximately \$0.4 million and the amended expenditure budget would be approximately \$0.3 million.

Other Funds

Morro Bay has several other smaller funds with special purposes. They are all outlined in detail each year in the [Adopted Budget document](#).

No midyear budget adjustments are recommended in the American Rescue Plan Act (ARPA) Fund. The Final Rule was issued by the Department of Treasury in January 2022. It allows municipalities to utilize their full allocation up to \$10 million toward general governmental services. Given that Morro Bay’s allocation is approximately \$2.5 million, the City will be able to utilize all budgeted funds for FY 2021-22 as intended. Staff will review priorities and budget the second half of the funds in the FY 2022-23 budget cycle.

Recommended Other Funds Budget Amendments

This year, there are two midyear changes that are required to implement prior Council direction.

First, with Resolution 46-20, Council approved a contribution in the form of \$150,000 loan for an affordable housing development at 405 Atascadero Road. That project has come to fruition, but the FY 2021-22 budget only included \$75,000. This amendment will fully execute Council’s direction to contribute \$150,000.

Second, at the August 24, 2021 Council meeting, Council approved a budget increase for the Wayfinding CIP project in the amount of \$57,020 and directed staff to return to Council with budget amendments at midyear. As shown below, the funds will be transferred out of the Economic Development Fund, into the General Government CIP Fund, and expended from there.

Description	Increase (Decrease) Amount
AFFORDABLE HOUSING IN-LIEU FUND EXPENDITURES	
Appropriate full contribution for 405 Atascadero Rd (Reso 46-20)	75,000
TOTAL	75,000
ECONOMIC DEVELOPMENT FUND EXPENDITURES	
Increase Transfer Out to CIP Fund for Wayfinding Project	57,020
TOTAL	57,020
GENERAL GOVT CAPITAL IMPROVEMENT FUND REVENUES	
Increase Transfer Into CIP Fund from Econ Dev Fund for Wayfinding Project	57,020
TOTAL	57,020
GENERAL GOVT CAPITAL IMPROVEMENT FUND EXPENDITURES	
Increase Budget for Wayfinding Project per Council Direction (8423)	57,020
TOTAL	57,020

Account	Account Description	Adopted Budget	Budget Amendments	Amended Budget	Current Month Transactions	YTD Encumbrances	YTD Transactions	Budget - YTD Transactions	% Used/ Rec'd	Prior Year Total
Fund 003 - Sales & Use Tax Measure Q & E										
REVENUE										
Department 1111 - Undistributed/Non-Dept.										
3051	Sales Tax City Portion - Burns & Measure Q	3,438,184.43	(2,292,127.00)	1,146,057.43	2,219.59	.00	10,759.57	1,135,297.86	1	963,778.26
3053	Sales Tax City Portion - Measure E	.00	2,292,127.00	2,292,127.00	835,876.21	.00	1,479,581.23	812,545.77	65	1,099,588.38
3710	Interest Income	.00	.00	.00	.00	.00	.00	.00	+++	2,768.00
3750	Gain On Investment	.00	.00	.00	.00	.00	.00	.00	+++	1,315.00
Department 1111 - Undistributed/Non-Dept. Totals		\$3,438,184.43	\$0.00	\$3,438,184.43	\$838,095.80	\$0.00	\$1,490,340.80	\$1,947,843.63	43%	\$2,067,449.64
REVENUE TOTALS		\$3,438,184.43	\$0.00	\$3,438,184.43	\$838,095.80	\$0.00	\$1,490,340.80	\$1,947,843.63	43%	\$2,067,449.64
EXPENSE										
Department 1111 - Undistributed/Non-Dept.										
6106	Contractual Services	.00	.00	.00	2,913.61	.00	2,913.61	(2,913.61)	+++	.00
Department 1111 - Undistributed/Non-Dept. Totals		\$0.00	\$0.00	\$0.00	\$2,913.61	\$0.00	\$2,913.61	(\$2,913.61)	+++	\$0.00
Department 4110 - Police Department										
4110	Regular Pay	257,755.00	.00	257,755.00	93,496.32	.00	124,959.09	132,795.91	48	30,510.39
4120	Overtime Pay	.00	.00	.00	.00	.00	2,689.18	(2,689.18)	+++	2,956.74
4515	Standby Pay	.00	.00	.00	2,851.24	.00	16,622.96	(16,622.96)	+++	28,193.84
4599	Other Pay	.00	.00	.00	3,177.10	.00	3,938.63	(3,938.63)	+++	761.53
4910	Employer Paid Benefits	74,650.00	.00	74,650.00	17,852.65	.00	34,412.02	40,237.98	46	15,947.85
4911	Pension Normal Cost	61,114.00	.00	61,114.00	896.10	.00	4,683.58	56,430.42	8	4,297.59
4912	PERS Unfunded Accrued Liability	67,235.00	.00	67,235.00	.00	.00	.00	67,235.00	0	.00
4913	Other Post Employment Benefit (OPEB) Expense	30,247.00	.00	30,247.00	.00	.00	.00	30,247.00	0	.00
5109	Uniforms/Safety Equipment	.00	.00	.00	.00	(143.94)	.00	143.94	+++	15,331.01
5504	Machinery/Equip/Supplies	.00	.00	.00	.00	.00	.00	.00	+++	4,965.94
6106	Contractual Services	109,450.00	.00	109,450.00	.00	.00	.00	109,450.00	0	.00
7201	Automobiles	.00	.00	.00	.00	4,250.16	.00	(4,250.16)	+++	.00
8721	Payment To Other Agency	.00	.00	.00	.00	.00	2,798.64	(2,798.64)	+++	29,162.09
Department 4110 - Police Department Totals		\$600,451.00	\$0.00	\$600,451.00	\$118,273.41	\$4,106.22	\$190,104.10	\$406,240.68	32%	\$132,126.98
Department 4210 - Fire Department										
4110	Regular Pay	272,415.00	.00	272,415.00	251,687.42	.00	277,076.32	(4,661.32)	102	72,233.01
4120	Overtime Pay	44,267.44	.00	44,267.44	3,689.23	.00	30,010.47	14,256.97	68	25,447.99
4310	Part-Time Pay	131,577.12	.00	131,577.12	.00	.00	2,629.76	128,947.36	2	34,506.00
4599	Other Pay	.00	.00	.00	.00	.00	500.00	(500.00)	+++	.00
4910	Employer Paid Benefits	75,635.45	.00	75,635.45	24,763.52	.00	36,123.58	39,511.87	48	39,221.43
4911	Pension Normal Cost	50,659.94	.00	50,659.94	709.54	.00	4,177.90	46,482.04	8	8,179.17
4912	PERS Unfunded Accrued Liability	79,042.61	.00	79,042.61	.00	.00	.00	79,042.61	0	16,475.59
4913	Other Post Employment Benefit (OPEB) Expense	.00	.00	.00	.00	.00	.00	.00	+++	4,659.81
5121	Safety Equipment	.00	.00	.00	.00	.00	.00	.00	+++	17,875.73
5199	Miscellaneous Operating Supplies	.00	.00	.00	.00	.00	39.14	(39.14)	+++	.00
7202	Trucks	.00	.00	.00	.00	35,098.81	41,955.50	(77,054.31)	+++	.00
7302	Equipment Acquisition	.00	.00	.00	.00	.00	.00	.00	+++	64,322.85

Account	Account Description	Adopted Budget	Budget Amendments	Amended Budget	Current Month Transactions	YTD Encumbrances	YTD Transactions	Budget - YTD Transactions	% Used/ Rec'd	Prior Year Total
Fund 003 - Sales & Use Tax Measure Q & E										
EXPENSE										
Department 4210 - Fire Department										
8110	Interest Expense	44,903.22	.00	44,903.22	.00	.00	22,800.00	22,103.22	51	30,711.86
8130	Principal Repayment	45,903.78	.00	45,903.78	.00	.00	38,000.00	7,903.78	83	37,000.00
Department 4210 - Fire Department Totals		\$744,404.56	\$0.00	\$744,404.56	\$280,849.71	\$35,098.81	\$453,312.67	\$255,993.08	66%	\$350,633.44
Department 5205 - Public Works										
6106	Contractual Services	175,000.00	.00	175,000.00	.00	.00	.00	175,000.00	0	.00
Department 5205 - Public Works Totals		\$175,000.00	\$0.00	\$175,000.00	\$0.00	\$0.00	\$0.00	\$175,000.00	0%	\$0.00
Department 5215 - Consolidated Maintenance										
4110	Regular Pay	112,504.00	.00	112,504.00	29,276.00	.00	29,276.00	83,228.00	26	.00
4310	Part-Time Pay	61,776.00	.00	61,776.00	.00	.00	.00	61,776.00	0	.00
4910	Employer Paid Benefits	56,508.00	.00	56,508.00	2,077.64	.00	2,077.64	54,430.36	4	.00
4911	Pension Normal Cost	8,550.00	.00	8,550.00	.00	.00	.00	8,550.00	0	.00
4912	PERS Unfunded Accrued Liability	30,239.00	.00	30,239.00	.00	.00	.00	30,239.00	0	.00
6106	Contractual Services	25,000.00	.00	25,000.00	.00	.00	.00	25,000.00	0	.00
Department 5215 - Consolidated Maintenance Totals		\$294,577.00	\$0.00	\$294,577.00	\$31,353.64	\$0.00	\$31,353.64	\$263,223.36	11%	\$0.00
Department 5230 - Street Maintenance										
5199	Miscellaneous Operating Supplies	.00	.00	.00	.00	.00	4.26	(4.26)	+++	10,400.16
Department 5230 - Street Maintenance Totals		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4.26	(\$4.26)	+++	\$10,400.16
Department 6510 - Harbor Department										
6305	Disposal	70,000.00	.00	70,000.00	5,133.31	.00	35,895.28	34,104.72	51	.00
7302	Equipment Acquisition	50,000.00	.00	50,000.00	.00	38,899.87	.00	11,100.13	78	.00
Department 6510 - Harbor Department Totals		\$120,000.00	\$0.00	\$120,000.00	\$5,133.31	\$38,899.87	\$35,895.28	\$45,204.85	62%	\$0.00
Department 6511 - Harbor Lifeguards										
4310	Part-Time Pay	67,730.70	.00	67,730.70	27,289.00	.00	27,289.00	40,441.70	40	.00
4910	Employer Paid Benefits	13,269.30	.00	13,269.30	.00	.00	.00	13,269.30	0	.00
Department 6511 - Harbor Lifeguards Totals		\$81,000.00	\$0.00	\$81,000.00	\$27,289.00	\$0.00	\$27,289.00	\$53,711.00	34%	\$0.00
Department 7710 - Interfund Transactions										
8501	Transfers Out	719,250.00	.00	719,250.00	.00	.00	.00	719,250.00	0	696,850.00
8510	Transfer To General Fund	73,875.56	.00	73,875.56	.00	.00	.00	73,875.56	0	128,899.00
8540	TRFR To Capital Imp Fund	1,264,000.00	.00	1,264,000.00	.00	.00	.00	1,264,000.00	0	.00
Department 7710 - Interfund Transactions Totals		\$2,057,125.56	\$0.00	\$2,057,125.56	\$0.00	\$0.00	\$0.00	\$2,057,125.56	0%	\$825,749.00
EXPENSE TOTALS										
EXPENSE TOTALS		\$4,072,558.12	\$0.00	\$4,072,558.12	\$465,812.68	\$78,104.90	\$740,872.56	\$3,253,580.66	20%	\$1,318,909.58
Fund 003 - Sales & Use Tax Measure Q & E Totals										
REVENUE TOTALS		3,438,184.43	.00	3,438,184.43	838,095.80	.00	1,490,340.80	1,947,843.63	43%	2,067,449.64
EXPENSE TOTALS		4,072,558.12	.00	4,072,558.12	465,812.68	78,104.90	740,872.56	3,253,580.66	20%	1,318,909.58
Fund 003 - Sales & Use Tax Measure Q & E Totals		(\$634,373.69)	\$0.00	(\$634,373.69)	\$372,283.12	(\$78,104.90)	\$749,468.24	(\$1,305,737.03)		\$748,540.06
Grand Totals										

Budget Performance Report

Fiscal Year to Date 12/31/21

Include Rollup Account and Rollup to Account

REVENUE TOTALS	3,438,184.43	.00	3,438,184.43	838,095.80	.00	1,490,340.80	1,947,843.63	43%	2,067,449.64
EXPENSE TOTALS	4,072,558.12	.00	4,072,558.12	465,812.68	78,104.90	740,872.56	3,253,580.66	20%	1,318,909.58
Grand Totals	(\$634,373.69)	\$0.00	(\$634,373.69)	\$372,283.12	(\$78,104.90)	\$749,468.24	(\$1,305,737.03)		\$748,540.06

Citizens' Finance Advisory Committee Meeting

Item B-2

February 15, 2022
3:00pm



City of Morro Bay Midyear Budget Report FY 2021-22

This Report covers the six-month period ending December 31, 2021. It provides an update on the City's primary revenues and expenditures in its major funds, and outlines recommended budget adjustments.





Executive Summary

- Positive midyear report; recovery continues
- More volatile revenue sources are up
- Gradually restoring budget and staff to address core services and Council goals
- Also contributing to General Fund Emergency Reserve
- Enterprise funds tracking well; CIP changes

General Fund

Status Highlights & Recommend Budget Amendments

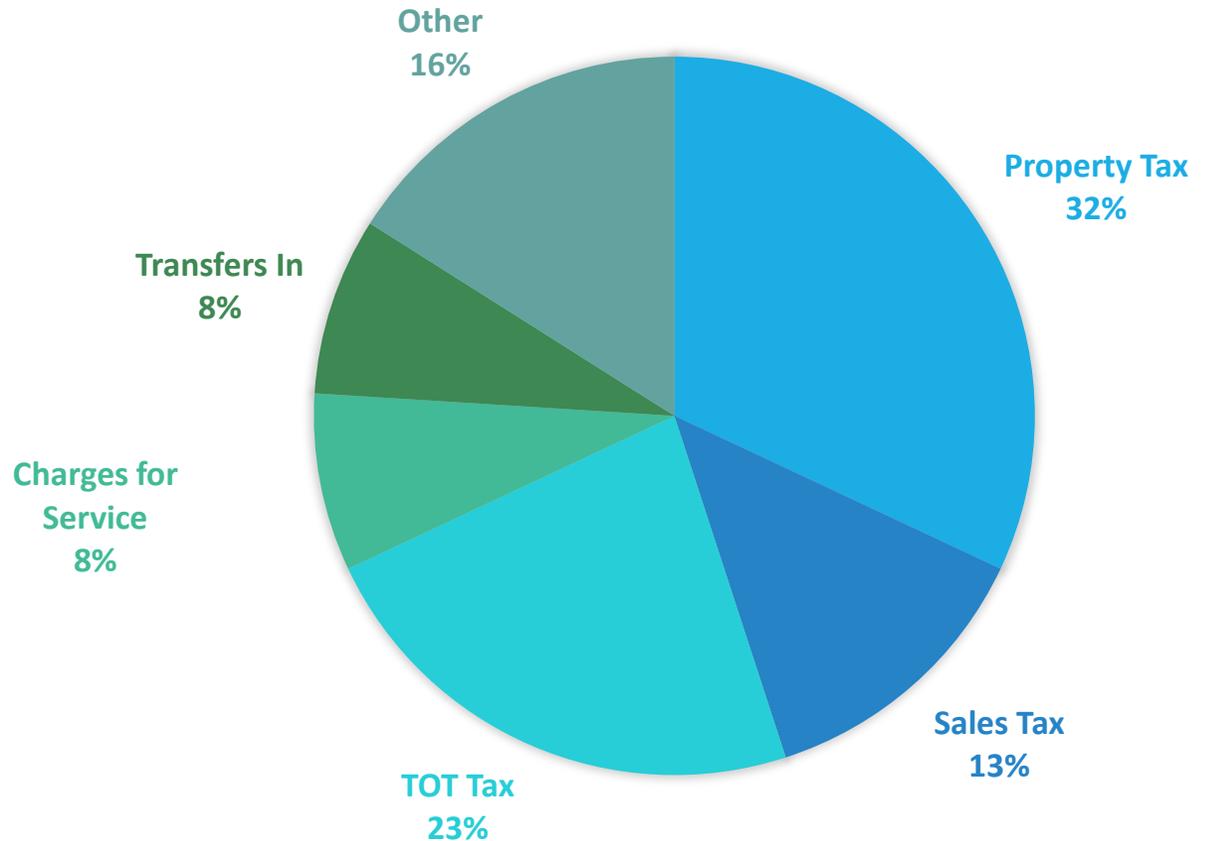




General Fund Revenues

- Total GF Revenue Budget: \$15.7M
- Property Tax – stable ↔
- Transit Occupancy Tax (TOT) up ↑
- Sales Tax - up ↑
- Charges for service – stable ↔
- Other revenues - stable ↔

GENERAL FUND REVENUE SOURCES



General Fund Revenue Amendments



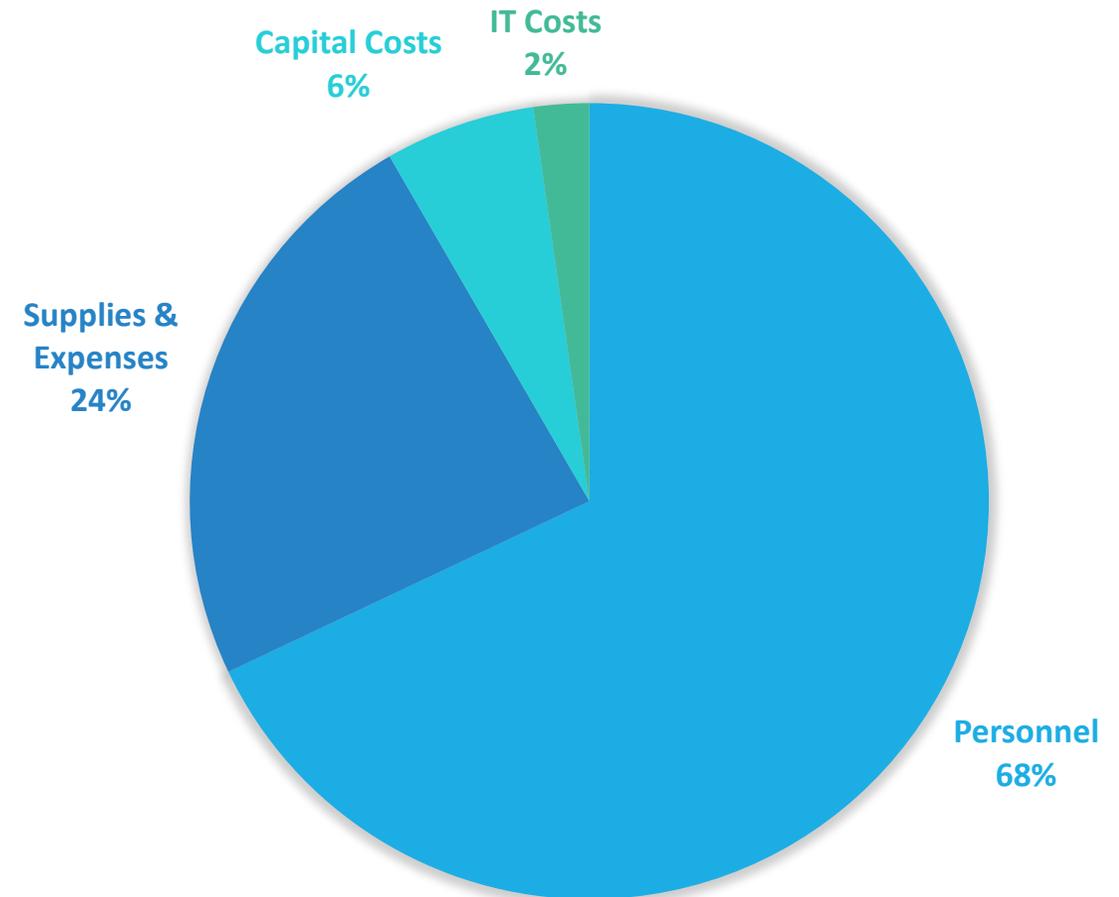
Revenue Source	Increase
Sales Tax	350,000
Transient Occupancy Tax (TOT)	240,000
Mutual Aid Reimbursement – fire response	480,000
State grant to fund planning software	78,000
TOTAL	1,148,000



General Fund Expenditures

- Total GF Expenditure Budget: \$15.6M
- Personnel: \$10.6M
 - (down from \$11.4M in 19-20)
- Supplies & Expenses: \$3.7M
- Transfers to CIP/Vehicles: \$1M
- Transfer to IT Fund: \$0.3M

GENERAL FUND EXPENDITURE CATEGORIES



General Fund Expenditure Amendments



Department	Description	Total Net Change
All	Increase City Health Bank contributions	37,746
Police	Gun control measures, insurance costs	67,395
Fire	Mutual aid response; revenue offset	480,000
Public Works	Maintenance needs, tree maintenance, Morro Creek restoration	102,000
Recreation	Restore pre-pandemic services levels, correct budget errors	335,592
Admin Svcs	Restore finance staffing; fiscal analyst	30,000
Comm Dev	Grant-funded e-review software	78,000
City Clerk	Create City Clerk position, fund election	65,000
City Manager	Regional coordination, insurance costs	22,546
Contract Svcs	Delay CIP Assessment, fund state lobbyist, begin class & comp study	-150,000
TOTAL		1,068,279



General Fund Net Impact

- Adopted Budget Projected Operating Surplus: \$85,000
 - Revenue Budget Increases: \$1,148,000
 - Expenditure Budget Increases: \$1,068,000
- \$80,000 improvement in the projected year-end operating surplus
- \$165,000 total projected General Fund operating surplus

Measure Q & E Fund

Semi-Annual Report & Recommended Midyear Changes





Priority Expenditure Areas

- Maintain **public safety services** by funding staff positions that are most closely aligned with the purposes of the Measures Q and E. Expenses include costs associated with Morro Bay Fire Department, Morro Bay Police Department and Morro Bay Harbor personnel and equipment, in addition to the Fire Headquarter Debt service and the Fire Engine loan repayment;
- Maintain or enhances **cleanliness and safety of public spaces** such as parks, waterfront and the beach by funding personnel, supplies, expenses and equipment to support City operations in departments including Public Works Consolidated Maintenance and Harbor Department;
- Invest in **infrastructure and equipment** such as street paving, storm drains, and vehicle replacements that support City services. This priority may include **increasing capacity to implement** the backlog of unfunded capital projects; &
- Ensure financial health of the City by **maintaining appropriate reserves** to protect against economic downturns, natural/health emergencies and other unforeseen challenges or opportunities.



Midyear Revenues & Expenditures

FY 2021-22 Measure Q & E Total Revenues and Expenditures

	Adopted Budget	12/31/21 Actuals	% Rec'd/ Used	Prior Year Actual
Total Revenues	3,438,184	1,490,341	43%	2,067,450
Total Expenditures	4,072,558	740,873	20%	1,318,910
GRAND TOTAL	(634,374)*	749,468		748,540

* Expenditure budget exceeds revenue budget due to intended use of fund balance from prior years.

- Sales tax revenues through October (4 of 12 months)
- Expenditures low due primarily to pending interfund transfers



Midyear Expenditures by Department

Department	Adopted Budget	Actuals	% Used	Prior Year Actual
Non-Departmental	0	2,914		0
Police	600,451	190,104	32	132,127
Fire	744,405	453,313	61	350,633
Public Works	469,577	31,358	11	10,400
Harbor	201,000	63,184	31	0
Interfund Transfers	2,057,126	0	0	1,318,910
Total Expenditures	4,072,558	740,873	18%	1,318,910

- Expenditures low largely due to pending interfund transfers
- Additional staffing costs to be posted
- Public Works recommended net reduction this year for CIP implementation costs



Recommended Revenue Budget Changes

	Budget Increase
Increase Measure E Sales Tax Revenue Budget	500,000

- Represents a conservative increase based on sales tax consultant’s growth estimates.
- Amended revenue budget would be approximately \$3.9 million.



Recommended Expenditure Budget Changes

Measure Q & E Fund Expenditures	Budget Increase (Decrease)	Council Approval	One-time / Ongoing
Police - Body-Worn Camera Support	28,000	Prior years	Ongoing
Police - Bomb/Drug/Gang task force payment to Sheriff	15,000	Prior years	Ongoing
Police - SWAT Team contribution to the Regional SWAT	6,000	Prior years	Ongoing
Police - Data and CLETS lines	15,000	Prior years	Ongoing
Police - Records Management System (RMS) Costs	65,000	1/25/2022	One-time
Public Works - Reduce Contract Services budget for CIP Implementation (will perform primarily with staff)	(100,000)	N/A	One-time
Public Works - Associate Engineer for Capital Projects (remainder of FY)	44,000	Sr. Eng. 9/14/21	Ongoing
Public Works - Maintenance Superintendent (remainder of FY)	35,000	N/A	Ongoing
Transfers - Pay off remainder of Fire Apparatus Early	56,250	N/A	One-time
Transfers - Increase to General Fund Emergency Reserve	300,000	N/A	One-time
Total	464,250		

- Revenue increase fully covers expenditure increase
- Amended expenditure budget would be approximately \$4.5 million.
- Remaining fund balance from FY 2020-21 available to appropriate in FY 2022-23.

Enterprise Funds

Status Highlights & Recommend Budget Amendments





Harbor Funds Status

- Fund status
 - FY 2020-21 operating surplus of appx \$0.6 million
 - Negative fund balance primarily due to long-term liabilities (pension)
- Midyear budget status
 - Expended 39% of operating budget (\$0.8m of \$2.1m)
 - CIP work partially resuming; backlog of needs remains
- Measure Q&E contributing \$251,000 to Harbor needs for FY 2021-22



Harbor Funds Budget Amendments

- **Revenues:**

- Increase RV program revenues \$70k
- Increase Launch Ramp revenues \$10k
- Increase Friends of Harbor donation \$40k

- **Expenditures:**

- Increase RV Camping Program Expenses \$10k
- Hull & vessel insurance \$10k
- Organizational assessment \$25k
- Temporary staff support \$20k
- Staffing budget correction & health banks \$37k
- CIP increase for 595 Embarcadero (net) \$120k
- Harbor Vessels offset due to donation -\$20k

4 Harbor Funds:

- Operating
- Capital
- Accumulation
- Equipment
- Lots of transfers!

Net Impact:

- Expenditure increase appx \$0.1M
- Adopted budget – operating surplus appx \$0.1M
- No significant change to year-end fund health



Water Funds Status & Changes

- Midyear budget status
 - Collected appx. 55% of revenue (\$4.1M of \$7.5M)
 - Expended appx. 20% of expenditure budget (lag due to interfund transfers)
 - Progress on OneWater projects
- Requesting \$0.9M at Midyear for the Nutmeg Pressure Zone Project (9932)
 - Not due to project budget increase; due to accelerated timing from budget
- Minor increase (\$2,634) for City Health Bank increases
- The Water fund balance can support these expenditure increases



Sewer Funds Status & Changes

- Midyear budget status
 - Collected appx. 59% of revenue (\$4.6M of \$7.9M)
 - Expended appx. 12% of expenditure budget (lag due to interfund transfers)
 - Progress on OneWater projects
- Requesting \$0.9M at Midyear for the Wastewater Collections at Main St. & Atascadero Road Project (9928)
- Requesting \$0.6M at Midyear for the Wastewater Collections at Beachcomber Project (9929)
- Not due to project budget increases; due to accelerated timing from budget
- Minor increase (\$7,860) for City Health Bank increases
- Sewer Fund balances can accommodate these increases



Other Funds – Budget Amendments

- Transit Fund
 - \$0.1M in increased revenue (CARES Act reimbursement primarily)
 - \$7,000 in expenditure increases
- Wayfinding Project Budget increase
 - \$57,020 - Approved by Council
 - Economic Development funds (transfer to CIP Fund)
- Affordable Housing In-Lieu Fund
 - \$75,000 to fully fund Council-directed loan for 405 Atascadero Rd. project
- Good news on ARPA Final Rule – no midyear changes recommended



B-2: Recommendation

- Receive the Fiscal Year (FY) 2021-22 Midyear Budget Report, including the Semi-Annual Report on Measure Q & E Funds and provide input to Council as appropriate.