



CITY OF MORRO BAY CITY COUNCIL NOTICE OF SPECIAL MEETINGS

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.

SPECIAL MEETING AGENDA

Tuesday, May 24, 2022 @ 3:30 PM

AND

Wednesday, May 25, 2022 @ 5:30 PM

Held Via Teleconference

Pursuant to Assembly Bill 361 (2021-22) and Government Code section 54953 this Meeting will be conducted telephonically through Zoom. Ways to participate, watch, and submit public comment for this meeting are provided below.

Public Participation:

Remote public participation is allowed in the following ways:

- *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.*

Please click the link below to join the webinar:

- <https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcwTHlRTk9xaTlmWVNWRFUQT09>

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 to "Raise Hand" for Public Comment*

- *Alternatively, members of the public may watch the meeting either on cable Channel 20 or as streamed on the City [website](#).*
- *Community members are encouraged to submit agenda correspondence in advance of the meeting via email to the City Council at council@morrobayca.gov prior to the meeting. Agenda Correspondence received at council@morrobayca.gov by 10 a.m. on the meeting day will be posted on the City website.*

ESTABLISH QUORUM AND CALL TO ORDER

PUBLIC COMMENT FOR ITEMS ON THE AGENDA

SPECIAL MEETING AGENDA ITEMS:

- I. BUDGET STUDY SESSION – REVIEW OF DRAFT PROPOSED FISCAL YEAR (FY) 2022-23 OPERATING AND CAPITAL BUDGET

RECOMMENDATION: Receive the Proposed Fiscal Year (FY) 2022-23 Citywide Operating and Capital Budget and provide feedback prior to budget adoption, scheduled in June.

MOTION TO CONTINUE to Wednesday, May 25, 2022 at 5:30 p.m.

- II. FISCAL YEAR 2022/23 CAPITAL IMPROVEMENT PROJECT BUDGET OVERVIEW AND WRF PROGRAM QUARTER 3 (Q3) FISCAL YEAR 2022 (FY2022) QUARTERLY REPORT

RECOMMENDATION: Receive the Proposed Fiscal Year (FY) 2022-23 Capital Improvement Project Budget and the FY2022 WRF Quarter 3 (Q3) Report and provide feedback prior to budget adoption, scheduled in June 2022.

- III. HARBOR DEPARTMENT BUDGET GLOBAL OVERVIEW

RECOMMENDATION: Staff recommends the City Council receive and file the report.

ADJOURN

DATED: May 20, 2022



John Headding, Mayor

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 LEAST 24 HOURS PRIOR TO THE MEETING TO INSURE REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.



AGENDA NO: |

MEETING DATE: May 24, 2022

Staff Report

TO: Mayor and City Council

DATE: May 20, 2022

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

**SUBJECT: Budget Study Session – Review of Draft Proposed Fiscal Year (FY) 2022-23
Operating and Capital Budget**

RECOMMENDATION

Receive the Proposed Fiscal Year (FY) 2022-23 Citywide Operating and Capital Budget and provide feedback prior to budget adoption, scheduled in June.

EXECUTIVE SUMMARY

The total FY 2022-23 proposed expenditure budget of \$53.8 million net of transfers (\$76.5 million including transfers) includes \$35.1 million for operations and \$18.7 million for capital projects (both net of transfers). The proposed budget represents the City’s continued financial recovery from the COVID-19 pandemic. The recovery has been aided by increases in sales and transient occupancy taxes as well as by the community’s passage of Measure E in 2020. These factors, plus support from the Federal government, allows the City to provide its full complement of services—police, fire, water, sewer, maintenance, community development, recreation, harbor, and code enforcement. The City is also able to increase compensation for employees and invest in a class and compensation study to ensure Morro Bay remains competitive for attracting and retaining talented employees.

The budget also invests \$18.7 million in capital improvements, including the Water Reclamation Facility (WRF), water tanks, sewer pipes, roads, boating facilities, community centers and ADA access. With this investment, the City will complete the WRF facility and conveyance portions of the project so that the City can meet the State’s Time Schedule Order. While the FY 2022-23 makes critical investments in our infrastructure, including \$1.7 million invested in street repaving, more work is needed to keep pace with infrastructure and facilities maintenance and improvements. Thus, the budget includes funding for an assessment of Harbor and other City facilities.

Given the challenges of rapidly increasing inflation and the potential for an economic slowdown, the City is taking a prudent fiscal approach to budgeting. The City has secured significant financial reserves in all its funds to weather a future emergency or recession. This budget also includes \$1 million investment into a pension trust fund to help lower our overall pension liability.

Prepared By: **SJR** Dept Review: **SJR**
City Manager Review: _SC City Attorney Review:

Lastly, the FY 2022-23 is presented in a new digital format for easier viewing. The proposed budget is available at: <https://www.morro-bay.ca.us/827/Budget>.

BACKGROUND

The City of Morro Bay develops an operating and capital budget each fiscal year (FY), which runs from July 1st through June 30th. City Council must review and adopt a budget for the subsequent fiscal year prior to June 30th. Preliminary input into the City's FY 2022-23 budget process began in November 2021, with the City Council's goal setting process. Council goals inform the budget development process, ensuring that the budget includes funding for all core City services, and to the extent possible, for one-time or additional City Council goals as well.

This year's City Council goals included, the following. Each goal also outlines several short-term action items. These are detailed in the Proposed Budget.

- Public Infrastructure
- Fiscal Sustainability & Economic Vitality
- Housing
- Climate Action
- Community Health

These goals are in addition to the full complement of services—police, fire, water, sewer, maintenance, community development, recreation, harbor, and code enforcement—that the City provides to the community on an ongoing basis.

The five-year fiscal forecast, presented to City Council in February along with prior year midyear budget amendments, is another key input into the budget process for the coming year. In February 2022, the General Fund forecast demonstrated a return to pre-pandemic revenue levels in key areas such as sales tax and transient occupancy revenue. This provided the City with the ability to restore services and positions in the midyear FY 2021-22 change that were eliminated at the onset of the COVID-19 pandemic.

Subsequently, staff works to prepare a draft proposed budget during the months of March and April, a thorough and time-consuming process that involves evaluating each line item in all of the City's 49 active funds and in each operating Department. This year, the City also carefully evaluated the highest priority needs for investment in capital infrastructure during the budget development process, with Finance staff working closely with the City's new Public Work team.

Beginning in April, there have been several opportunities for public input into various components of the proposed budget, including CFAC's April review of the Measure Q&E Fund Budget, Council's review of City reserve policies in April, and CFAC's May review of the proposed budget for the General Fund and six associated funds, comprising the majority of the City's operating budget. Council's Budget Study Sessions on May 24th and 25th offer additional public input opportunities on the entire FY 2022-23 Draft Proposed Budget, which was made available to the public on May 17th. Staff will incorporate any input from the Budget Study Sessions and bring back the final budget for adoption by City Council in June.

Budget Process – Key Public Input Dates



DISCUSSION

The total FY 2022-23 proposed expenditure budget of \$53.8 million net of transfers (\$76.5 million including transfers) includes \$35.1 million for operations and \$18.7 million for capital projects (both net of transfers). The total citywide revenue budget is \$46.4 million net of transfers (\$69.3 million including transfers). The remaining expenditure budget not from current-year revenues will be spent from fund balance in the Water and Sewer Funds to support water and sewer capital improvement project implementation.

The proposed FY 2022-23 budget funds the following: the operational departments which provide the following core services to our community, including police, fire, water, sewer, parks, roads, recreation, community development, code enforcement, and harbor; the supporting administrative services such as human resources, information technology, and finance; and funds 23 capital projects to improve

our shared built environment. The budget also funds efforts to achieve the City Council's goals of improving public infrastructure, achieving fiscal sustainability and economic vitality, addressing housing needs, climate action and improving community health.

Short-Term Factors: The Budget in Context

Continued Recovery - The City continues to experience financial recovery from the economic impacts of the COVID-19 pandemic. In the first several months of the pandemic, two of the City's main sources of revenue – sales tax and transient occupant tax (TOT) – plummeted drastically. It was a hard time for the community, the business community and the City organization. Fast forward to the summer of 2021, the City witnessed record TOT growth, as hotels enjoyed significant increases in their average daily rates combined with near pre-pandemic occupancy rates. At the same time, sales tax in virtually all business sectors jumped nearly 20% over the previous year, surpassing pre-pandemic levels. This record growth led to surpluses in the FY 2020-21 Budget, which have helped the City replenish spent reserves from the pandemic. This positive outcome, coupled with the infusion of new Measure E revenues, stabilized City operations and allowed for enhanced investment in our capital needs.

However, there are also some short-term factors that serve as cautions:

Inflation - Due in large part to COVID-19 impacts on the supply chain and significant consumer demand, inflation reached the nation's highest levels in 40 years this March. The Consumer Price Index (CPI) topped 8 percent for the year ending in March 2022 compared to the previous year. In addition, the California Construction Cost Index (CCCI) jumped 24.5% from April 2021 to April 2022. This inflationary pressure is felt in all aspects of our lives: grocery stores, restaurants and at the pump. As such, consumption rates and related taxes in California, SLO County and Morro Bay may fall. Significant pressure is also being felt by the City organization, as evidenced by rapidly increasing costs in City operations (staffing, supplies, and services) and capital projects.

Staffing - Another outfall from the pandemic is the "great resignation" or "great reshuffling" in the labor market as employees quit their jobs at rates far greater than the pre-COVID-19 period. Whether employees grew overwhelmed with the challenges of working during the global pandemic or sought better working conditions or better pay in different organizations, or changed careers, we are now experiencing a very low unemployment rate nationwide and quit rates remain high. This is creating labor shortages and intense competition for talent in all sectors and volatility, for organizations.

The public sector, particularly state and local government, has been hit hard by the labor shortage, and the trend could worsen in the near-term. According to a December 2021 survey by MissionSquare Research Institute, more than half of state and local workers said they were considering leaving their positions to retire, change jobs, or leave the workforce entirely. It is becoming harder to hire talent and keep talent in local government. The inability to hire and retain talent is both expensive for cities in terms of the hiring and training process, but vacancies also negatively impact local government's ability to provide core services to the community, and increases the burden on the remaining employees, thus creating a cycle of burnout and greater turnover.

Infrastructure Needs - Nationwide, across California and the Central Coast, and in Morro Bay, we are facing a looming crisis of infrastructure. Our infrastructure - roads, water, sewer, stormwater, harbor/ports, parks, facilities - the very things our community depends upon are increasingly falling into a state of disrepair. Morro Bay is not alone in this challenge. According to the American Society

of Civil Engineers 2021 Report Card for America's Infrastructure as a whole, the nation received a grade of C- for the condition of its infrastructure. That grade means that our infrastructure is "mediocre, needs attention." California received the same score as a state. This is especially true in coastal California as our infrastructure is exposed to the harsh marine environs that accelerate deterioration of our roads, pipes, tanks, and the like. The current work on the WRF as well as the recent sewer leak near the Cloisters area brings into sharp relief the need to invest in our infrastructure system. Morro Bay's infrastructure across the board is in need of repair. Important questions remain about what to prioritize most highly and how to fund the effort to repair and upgrade our infrastructure with a limited budget and staff.

Pension Liability - Like most California cities, Morro Bay has a significant unfunded pension liability. This liability has developed over decades and has been impacted by CalPERS and State regulatory contexts, leaving many aspects of this challenge out of the City's control. The City has taken incremental steps to address these liabilities over time. To address, the City has pursued cost sharing with employees, making additional discretionary payments when possible, and paying annual payments early in the fiscal year to receive nominal savings. Despite these incremental efforts, the size and scale of the remaining liabilities is significant. The CalPERS unfunded liability was estimated at just over \$27 million in the City's FY 2020-21 Annual Comprehensive Financial Report. This amount could increase given the anticipated poor returns for CalPERS for their investment in the current volatile market.

Conclusion - Taken altogether, City staff are forecasting a leveling off from recent record revenue growth in FY 2022-23. Staff are projecting modest increases in sales tax, TOT and Property tax (the City's three largest revenues for the General Fund). Further, the City is bracing for higher expenses in FY 2022-23 to keep pace with inflation. Finally, the City needs to make greater investments in its infrastructure and reduce its pension liabilities or face far higher costs in the future. The next section discusses what this all means in terms of City funding priorities and outlines the fiscally prudent approach we recommend taking as we develop the FY 2022-23 Budget.

Priorities and Issues

Projected modest revenue growth coupled with the infusion of new funding through Measure E, allows the City to invest in our "Big 3" - operations/people, infrastructure and pension liabilities. However, we must be mindful of inflation and market volatility that may drag the national and regional economy into a recession. A recession and associated reduced revenues could impact the City's ability to deliver services to our community. Thus, strong financial reserves levels are warranted.

Funding the "Big Three"

1. Operations - Services to our community depend upon our staff

The total proposed FY 2022-23 operations budget of \$35.1 million funds a wide array of services and continued efforts to achieve Council's goals. The key to delivering these services and achieving City goals is attracting and retaining highly qualified employees. The City, like most other organizations, suffered staffing reductions and turnover of many key positions in the aftermath of COVID-19. We have been fortunate to replace some of those positions, but some remain vacant. If this issue is left unaddressed, continued turnover will lead to higher costs for the City (in the form of training, overtime, and need for outside support for highly technical matters) and could lead to significant service

disruptions to our community. Thus, the proposed budget includes several important initiatives to counteract the trend and ensure the City of Morro Bay remains a desirable place to work.

- The budget includes a placeholder for compensation increases for all employees. The goal is to ensure employees receive fair increases in compensation compared to neighboring jurisdictions. The City is currently in negotiations with all bargaining groups (Police, Fire and Service Employees International Union). The City will update the budget if needed once those final agreements are in place.
- Staff is recommending that the City conduct a staffing class and compensation study. The study will compare our compensation rates with other similar communities across all position types. With this study in hand, the City can address equity issues to ensure compensation does not dissuade people from beginning or continuing to work for the City.
- The budget includes funding for training, teambuilding and culture. It is clear from the pandemic that folks are more intently evaluating their lives. Finding meaning in work and being part of an organization that values their input are increasingly important. Thus, staff is requesting funding for training to ensure our staff have the tools and skillsets to perform their duties. The budget has funding for teambuilding efforts across the organization so that we can build a values system. This effort will help build expectations that work will provide meaning, and we will also get things done together. It will help us ensure that with many new staff members, we build a lasting and successful culture, and learn to work together well. These efforts can serve to help motivate current employees and attract talent.
- Staff is requesting funding for an organizational assessment. The world is rapidly evolving, and work is a core part of that evolution. Thus, staff believes an assessment is warranted to evaluate our ability to deliver core services effectively in a changing world and identify gaps and areas for innovations. The assessment will include robust engagement with the very staff who participate in service delivery to a) make sure they know they are valued and b) ensure we utilize their expertise to make needed improvements.

2. Capital Investment - Increasing investment to get projects done

The budget allows the City to invest in critical infrastructure improvements by allocating \$18.7 million to 23 capital projects. These investments are made possible in large part thanks to our community's support for water and sewer rates and with their approval of Measure E. The City is also better able to execute on some key projects because of added staffing in the Public Works Engineering Division, which may be supplemented by contractual assistance when necessary and advisable. While these investments in known capital needs are important, the City must also professionally assess unknown capital challenges. Thus, this budget also includes funding to assess our harbor/waterfront infrastructure and other city infrastructure. Lastly, rapidly increasing inflation is stretching our investment dollars thinner, impacting our ability to fund and complete projects. Hope is on the horizon, however, as state and federal dollars and other sources of revenue are becoming available.

3. Pension liabilities - Reducing long-term liabilities through consistent short-term actions

The FY 2022-23 includes actions to address the City's unfunded pension liability, as follows:

- *Pension Reserve Policy & Trust Fund* - The next step in addressing the remaining significant unfunded liability is the creation of a section 115 pension trust fund, similar to the City's existing trust fund for other post-employment benefits, which is almost fully funded. Based on City Council's direction to establish a pension reserve policy that will guide current and future

contributions to the pension trust fund, \$1.06 million in contributions to that fund are budgeted in FY 2022-23. Once invested in that fund, which will allow for higher rates of return than other City investments allow, those funds can only legally be used to make payments towards City pension costs. The newly adopted pension reserve policy will allow the City to make additional future contributions to the trust fund on the heels of good financial years where a surplus is realized and operating reserve policies have already been met. The FY 2022-23 contribution includes funding from the General Fund, Water Fund, Sewer Fund, and Harbor Fund, commensurate with their proportionate shares of the total pension liability.

- *Employee Cost Sharing* - The City is also evaluating opportunities to moderately increase City employees' share of pension costs, particularly for the roughly half of City employees who entered the system prior to pension reform and currently pay a lower share of the total cost of higher-cost and more generous retirement benefits. The City has secured employee cost sharing in the past, which helps to reduce the City's long-term liabilities without overly impacting employees' take-home pay.

Fiscal prudence - Prepared for emergencies and economic instability

The proposed budget also creates a financial buffer against future emergencies and economic slowdowns in the form of prudent revenue projections and meeting all of the City's robust financial reserve levels. The City must also do what it can to sustain and grow its local economy.

- *Prudent Revenue Projections* - Roughly one-quarter of the City's revenues come from the relatively volatile revenue sources of sales tax (15% of total revenue) and transient occupancy tax (9% of total revenue) that fluctuate with economic trends and tourism levels. These tax revenues, along with the more stable property tax revenues (11% of total revenues) are used to provide general services that are not covered by anyone receiving an individual benefit from a service, such as public safety services and infrastructure maintenance. Approximately 46% of the City's total revenue comes from charges for current service such as water and sewer rates revenues, harbor lease revenues, and fees for recreation services, which are used to cover the cost of providing the service to individuals that benefit directly from a service and therefore pay for it directly. The City projects relatively conservatively for the less predictable revenue sources. Both sales tax and TOT have experienced rapid growth post-pandemic, rebounding to levels higher than pre-pandemic levels during FY 2021-22, and property tax has continued its relatively stable gains of 3-4% per year in recent years. Going forward, much more moderate growth (in the 2-3% range) is projected for both sales tax and TOT revenues in FY 2022-23 and subsequent years, while property tax is projected to continue its 3-4% growth per year trend. These projections are derived in partnership with San Luis Obispo County for property tax, HdL sales tax consultants for sales tax, and Visit Morro Bay for TOT.
- *Robust City Reserve Levels* - As a small City with a large share of revenues associated with tourism activity, the City of Morro Bay has robust reserve policies to ensure that it can weather economic downturns, natural disasters, or other emergencies and maintain core City services. The need for these reserves became particularly apparent through the significant impact on the City from the COVID-19 pandemic. The City was fortunate to have some reserves from which to drawdown to continue providing core services, but significant budget cuts were still required. The recovery from the pandemic has allowed the City to restore and expand reserve levels. At the end of FY 2022-23, this budget projects that reserve levels in the General Fund and associated funds (Vehicle Replacement, Compensated Leave, Capital Project

Accumulation, etc.) will total approximately \$8.6 million, collectively across those various reserves, reaching a level of approximately 50% of General Fund operating expenditures in FY 2022-23. Reserves in the major enterprise funds and Internal Services funds all meet or exceed their targets at the following levels: Water (\$1.7 million), Sewer (\$1.5 million), Harbor (\$0.4 million), Risk Management (1.0 million), and Information Technology (\$0.3 million) all also exceed minimum target levels of 15-25% of operating expenditures. This strong reserve position has been achieved through Council's commitment to fiscal sustainability. A comprehensive list of City reserve policies can be found in the Financial Policies section of the budget, and each Fund Summary presents the historic and projected fund balance and reserve level if a reserve policy exists for that fund. **Citywide, the estimated FY 2022-23 year-end reserves will total \$13.5 million.**

- *Invest in Economic Development* - Lastly, and related to fiscal and economic sustainability, the proposed budget invests in partnerships with Morro Bay Chamber to provide economic development services on behalf of the City. This effort, combined with strong relationships with Visit Morro Bay, Visit SLO CAL, and REACH (a SLO County and Santa Barbara County regional economic non-profit) will help the City and business community to strengthen existing industries and help diversify our local economy. Playing to our existing strengths and adapting to the changing world and taking advantage of opportunities such as green energy will position our community to be sustainable into the future.

Personnel

Due to the recovery from the pandemic, revenue growth, and the voters' passage of Measure E in 2020, the City has been able to restore staffing to pre-pandemic levels and in some cases increase staffing moderately where resources have been particularly constrained.

Personnel Changes

The FY 2022-23 budget adds a net total of 2.1 full-time positions and 7 full-time equivalent part-time positions (in terms of the total number of hours budgeted), for a Citywide total of 105.1 full-time positions and part-time staffing that equates to 28.7 full-time positions, in terms of the number of part-time hours budgeted.

For FY 2022-23, the staffing changes are as follows:

- Addition of a Community Services Officer non-sworn position in the Police Department to assist the Department with significant workload challenges
- Addition of a Building Inspector/Code Enforcement Officer in Community Development to support the short-term rental ordinance implementation and to address increased needs for building inspections and plan checks
- Addition of an Administrative Technician in the Public Works Department to help support departmental operations, financial administration, and capital project support
- Deletion of an Environmental Programs Manager in the Public Works Department, duties to be covered by other positions
- Addition of part-time staffing in the Recreation Services Division that equates to 4.6 additional full-time positions, continuing to restore services to pre-pandemic levels

- Addition of part-time staffing in the Fire Department that equates to 2.0 additional full-time positions, to ensure sufficient reserves are available during wildfire season
- Smaller adjustments to part-time staffing levels in other departments (representing less than one full-time equivalent position Citywide)

Other Personnel Factors

Remaining Staffing Deficiencies - There are still areas of the organization where staffing deficiencies remain. The City is engaging the Centre for Organization Effectiveness to conduct an organizational assessment of the Harbor Department currently and will engage them to conduct broader organizational assessments in FY 2022-23. There are many areas where the City's current staffing levels demand very high workloads of staff, also contributing to burnout and turnover. In addition, there are areas where the City may be missing out on opportunities, such as the ability to apply for grant revenues or to implement best practices in key areas due to a lack of staffing capacity. In addition, limited staffing levels do not always allow for sufficient training or professional development opportunities for staff, or for succession planning, which is critical to such a small organization. Despite incremental staffing increases, the City continues to provide a broad array of services as a full-service City--where public safety services are not contracted out and where utilities are provided directly by the City--using a very small staff team.

Increasing Wages - The City is currently in labor negotiations with all three bargaining groups, whose contracts all expire on June 30, 2022. As inflation hits record levels, wages have also increased. While the City of Morro Bay's current labor negotiations are still ongoing, the City anticipates increasing pressure on salaries and wages in the near future. This is a challenge when the City's revenues are not projected to increase at the same rates as wages may, and as non-salary personnel costs are also increasing.

Increasing PERS costs - CalPERS recently lowered its discount rate, or projected rate of return, from 7.0% to 6.8%, which will result in mandatory increases in employer's PERS costs, and in employee costs for those employees who entered the system after pension reform in 2012 (referred to as PEPRAs employees). Employer costs are projected to rise by 2-5 percent in FY 2023-24. If CalPERS experiences even lower market returns in the near future, they may further lower the discount rate, which would further increase required employer contributions. These "normal cost" contributions for current year-retirement benefits are on top of the City's one-time unfunded actuarial liability (UAL).

Other Post-Employment Benefits - These present and anticipated cost increases will be offset to a small degree by eliminating additional contributions to the City's Other Post-Employment Benefit (OPEB) trust account in FY 2022-23 and going forward. That trust fund is largely fully funded, and discussions with the City's financial advisors and actuaries have confirmed that the City should direct any available funds to the much larger unfunded CalPERS liability instead.

Operating Budget & Major Fund Forecasts

The Proposed Budget includes \$50.6 million in operating revenues in FY2022-23. Net of transfers in from other funds, the operating revenue budget is **\$46.1 million**, an increase of \$1 million or an **increase of 2%** over the prior year's operating budget net of transfers in.

Budgeted operating expenditures are \$57.8million in. Net of transfers out to other funds, the operating expenditure budget is **\$35.1 million**, up only \$0.2 million or **an increase of 0.5%** from the prior year's budget.

While the attached slide deck presentation (Attachment 2) provides more visual depictions of the proposed operating budget and the [linked FY 2022-23 Proposed Budget document](#) (Attachment 1) provides a high level of detail, this report will focus on high points and major changes or items of note in the proposed operating budget.

While Morro Bay has 49 active funds currently, just five funds account for approximately 90% of the City's revenues and expenditures—the General Fund, Measure Q&E Fund, Water Fund, Sewer Fund, and Harbor Fund. This discussion will focus on these major funds and will present budget highlights as well as updated five-year forecasts for these funds.

General Fund

The General Fund is the City's primary unrestricted source of funds and its primary and largest operating budget fund. The City of Morro Bay is projecting \$18.3 million of revenue in FY 2022-23, which represents an 9% increase over the prior year. Budgeted expenditures are projected to increase by 25% to \$20.8 million in FY 2022-23, including transfers and one-time expenditures. The expenditure budget net of transfers and large one-time expenditures is \$16.3 million, an increase of 6% from the FY 2021-22 Amended Budget (net of transfers).

As outlined below, approximately \$2.6 million in expenditures are for interfund transfers to other funds, including capital improvement funds, internal service funds, and other components of the General Fund that are used to track reserves committed for certain purposes. Approximately half of the transfers, totaling \$1.5M, are one-time transfers to build reserve balances consistent with the Council-approved City Reserve polices:

- \$1.1M of those transfers is a one-time transfer to the General Fund Emergency Reserve Fund,
- \$0.3M is to the General Fund Vehicle Replacement Fund, and
- \$0.1M is to the General Fund Compensable Leave Fund.

These all reflect moving existing fund balance from one component of the General Fund to another, as these funds are all reported with the General Fund in the ACFR.

There are also large one-time expenditures totaling approximately \$1.9 million for debt payoff (\$1.1 million) and addressing the City's unfunded pension liability (\$0.8M). These will come from fund balance, using one-time property sale proceeds for the debt payoff and using prior year surplus to address pension liability, consistent with the City's adopted pension reserve policy (Resolution 37-22).

Net of these one-time transfers and expenditures totaling almost \$3.5 million, the City's General Fund expenditures total approximately \$17.1 million, resulting in an operating surplus of approximately \$1.2

million. This surplus is due in part to a one-time revenue of \$0.7 million from American Rescue Plan Act funds to support government services through and in the wake of the pandemic.

The proposed budget includes placeholder numbers for labor negotiations, which are still ongoing with the City's three represented bargaining groups.

Major General Fund Revenue Sources

Property Taxes - San Luis Obispo County Auditor-Controller provided property tax revenue estimates for FY 2022-23. Revenues are estimated at approximately \$5 million, up about 1% from the prior year budget. This number is lower than the recent average of 3-4% annual growth, in part because budget projections in FY 2021-22 were high.

Transient Occupancy Tax (TOT) - Visit Morro Bay provided TOT revenue estimates for FY 2022-23. Revenues are estimated at approximately \$4 million, up 2% from the prior year budget. Visit Morro Bay, consistent with HdL's sales tax projections below, projects a strong summer that may be followed by slower levels of visitation later in the fiscal year if a recession occurs. This 2% growth estimate is relatively conservative, consistent with the fiscal prudence discussion above.

Sales Tax - HdL, the City's sales tax consultant, provided sales tax revenue estimates for FY 2022-23. Revenues are estimated at approximately \$2.7 million, up almost 9% from the prior year budget. The FY 2022-23 projection from HdL is actually only up 2% from their FY 2021-22 projection, though because the City did not increase the amended budget by as much as HdL increased their projection, the growth of the FY 2022-23 budget number appears higher. Staff spoke in detail with HdL about a potential recession, which is not anticipated to occur until the latter part of the fiscal year, if it does occur. The budgeted figure is still slightly below HdL's total projected revenue for the City, also consistent with the City's conservative revenue budgeting practice.

Revenues from Current Services - This category includes revenues from Recreation activities, Community development planning activities, Fire Department mutual aid revenues, and other smaller items. Each of these categories is increasing somewhat in FY 2022-23, resulting in estimated Revenues from Current Services of \$2 million, up 4.6% from the prior year's budget. Note that this budget is reviewed by line item, resulting in an average increase of 4.6% citywide; one-time revenues from individual development projects, for example, are not carried forward as projected ongoing growth. The projected citywide growth rate is less than the Master Fee Schedule increase approved by Council this spring.

Interfund Revenue Transfers - This budget increased significantly from prior year due to a one-time transfer in of American Rescue Plan Act (ARPA) funds to provide core government services.

General Fund Expenditures

Detailed departmental expenditures are presented in the Proposed Budget document under the "Departments" section, and include expenditures by Department for each fund, including the General Fund. The Police Department continues to be the largest departmental expenditure budget in the General Fund, followed by the Fire Department and Public Works Department. Collectively, these departments (Community Development, Recreation, City Manager's Office, and Administrative Services) account for almost two-thirds of the General Fund budget, net of transfers. The remaining departments each comprise approximately 7-9% of the General Fund budget each, with City Attorney representing just under 3% and City Council representing under 1% of the General Fund Budget.

By expenditure type, there are some high points to highlight:

Personnel – General Fund personnel costs have increased by 11.6% from the prior year, due in part to adding one net new position to the General Fund (outlined in the staffing summary section of the budget), adding part-time costs to the budget to reflect increasing workload primarily in the recreation area as services are restored after the pandemic, and due to anticipated personnel cost increases pending the outcome of labor negotiations. Given the high levels of inflation this year, cost of living adjustments for staff will need to reflect a reasonable increase in order to ensure that the City is able to recruit and retain talented staff to provide critical City services. While the cost of personnel has increased, it represents a smaller percentage of the budget this year relative to the overall budget. These increases are offset by the elimination of Other Post-Employment Benefits (OPEB) contributions to the OPEB trust fund, given that it is largely fully funded. CalPERS normal costs have not yet increased in FY 2022-23 but are anticipated to increase in FY 2023-24 due to CalPERS's lowered discount rate (projected rate of return), which will take effect that year.

Supplies & Services – Supplies and services budgets have increased by 7% and 8%, respectively from the prior year to reflect inflationary costs of purchasing supplies. This represents increasing costs of providing services rather than additional service provision.

Contribution to Capital Projects – The General Fund’s contribution to capital projects is as follows, consistent with the February General Fund forecast’s aim to contribute approximately \$0.5 million from the General Fund to CIPs in each fiscal year. This is supplemented by Measure Q&E Fund contributions for a total contribution to CIPs of over \$3 million in FY 2022-23, higher than any prior single fiscal year. Fund forecasts project an ability contribute roughly \$2 million per year between the two funds, going forward.

Transfers to Capital Improvement Projects

These contributions are all to the General Government Capital Projects Fund (915).

Project	Amount	One-Time/Ongoing
Citywide Capital & Facilities Planning	\$200,000	One-time
Lila Keiser Pkg Lot & ADA Upgrades	\$120,000	One-time
Sequoia Ct Storm Drain Repair	\$120,000	One-time
Electric Vehicle Charging Stations	\$40,000	One-time
Local Match to LRSP Roads Funding	\$10,000	One-time
Total	\$490,000	

General Fund Reserve Balances – The General Fund and all related funds meet or exceed the minimum reserve policies set by the Council and updated on April 26, 2022 in Resolution 37-22.

- General Fund (001) \$1.5 million
- General Government Compensable Leave Fund (005) \$0.3 million
- General Fund Vehicle Replacement Fund (050) \$0.7 million
- General Fund Emergency Reserve Fund (051) \$5.4 million
- General Fund Facility Maintenance Fund (052) \$0.1 million
- General Fund Capital Accumulation Fund (460) \$0.6 million
- General Fund Project Accumulation Fund (470) N/A (moved to 460)

Total General Fund Reserves Projected at FY 2022-23 Year-End \$8.6 million

Five-Year General Fund Forecast –The updated forecast demonstrates the General Fund will continue to have an operating surplus for most of the forecast period (net of one-time expenditures in FY 2022-23 described above). The forecast conservatively projects that sales tax revenues will increase by 3% in FY 2023-24 (HdL projects 3.5%), and 2% in the out years, projects that property tax will grow by 3% annually based on County projections, and that TOT revenues will grow by 3-4% per year based on Visit Morro Bay’s projections. Expenditures are projected to increase by 5% per year, except for pension UAL costs, which are calculated using the CalPERS pension tool and have different rates of growth each year. The forecast assumes that the General Fund will contribute \$0.5 million per year to capital projects. These conservative assumptions result in the General Fund Emergency Reserve policy being met through FY 2023-24, but not thereafter. It is possible that the City performs better than this conservative forecast, which would meet the reserve policy in out years.

GENERAL FUND (001)	FY 2022 Projected	FY 2023 Budget	Forecast			
			FY 2024	FY 2025	FY 2026	FY 2027
Revenue						
Property Tax	4,993,610	5,037,900	5,189,037	5,344,708	5,505,049	5,670,201
Sales Tax	2,460,456	2,690,000	2,770,700	2,826,114	2,882,636	2,940,289
Transient Occupancy Tax	3,927,869	4,006,000	4,126,180	4,249,965	4,419,964	4,596,763
Other Revenue	4,593,677	4,512,984	4,648,373	4,787,825	4,931,459	5,079,403
Transfers In	1,218,364	2,101,864	1,424,920	1,467,668	1,511,698	1,557,048
TOTAL REVENUE	17,193,976	18,348,748	18,159,210	18,676,280	19,250,807	19,843,704
Expense						
Personnel	11,099,528	11,997,342	12,555,862	13,080,009	13,581,402	14,148,523
Operational Costs	8,591,668	9,797,999	10,287,899	10,802,294	11,342,409	11,909,529
Ongoing costs for long-term liabilities (PERS)	2,507,860	2,199,343	2,267,963	2,277,715	2,238,994	2,238,994
Other Operations & Maintenance	3,690,296	4,265,074	4,478,328	4,702,244	4,937,357	5,184,224
Transfers Out	833,166	2,070,769	632,769	632,769	632,769	632,769
Debt Service Payments	-	1,133,979	35,189	35,189	35,189	35,189
TOTAL EXPENSE	15,622,990	19,467,164	17,702,148	18,450,211	19,186,717	20,000,705
Net Surplus (Shortfall)	1,570,986	(1,118,417)	457,063	226,068	64,090	(157,001)
Capital	456,522	490,000	500,000	500,000	500,000	500,000
Net Surplus (Shortfall) including Capital	1,114,464	(1,608,417)	(42,937)	(273,932)	(435,910)	(657,001)
Contribution to 115 Trust	-	826,000				
Starting Fund Balance		3,955,000	1,520,583	1,477,646	1,203,715	767,804
ENDING FUND BALANCE	3,955,000	1,520,583	1,477,646	1,203,715	767,804	110,803
General Fund Emergency Reserve Fund Balance	4,290,000	5,377,000	5,377,000	5,377,000	5,377,000	5,377,000
Total Fund Balance as % of Total Operating Expenses (Gen Fund and GFER Total / GF + Q&E Operating)	44.2%	33.3%	33.9%	31.2%	28.0%	24.0%
Minimum Reserve Levels	MET	MET	MET	NOT MET	NOT MET	NOT MET
General Fund Emergency Reserve Policy: 33% prior year operating expenses. Includes Measure QE fund operating expenses.	6,158,489	6,844,436	6,673,790	6,956,921	7,235,531	7,543,581
Measure QE Fund Operating Expenses (excluding transfers)	3,039,097	2,647,531	2,521,459	2,631,366	2,739,133	2,858,630
Exclude from calculation - Loan Payoff		1,373,979				

NOTES
In years the minimum reserve levels are met, the General Fund will contribute 33% of available balance to a Section 115 Trust to address pension liabilities.

CFAC’s input on the General Fund – The Citizens’ Finance Advisory Committee (CFAC) reviewed and provided input on the General Fund at their May 17th meeting. The committee voted to accept

the General Fund budget, and that of six related funds (Compensated Leave, Facilities Maintenance, Vehicle Replacement, General Fund Emergency Reserve, Capital Accumulation, Project Accumulation) as presented, but asked staff to pass along comments from individual members. Those comments, at a high level, included the following. CFAC members commented the sales tax revenue projections seemed aggressive and the TOT projections seemed conservative, which staff evaluated and has explained above. CFAC members requested in the future that additional information about third-party revenue assumptions be provided, which staff will try to do to the extent that such information is available and public. CFAC members asked about the reserve calculation in the vehicle replacement fund, which staff reviewed and determined that it is based on the original purchase value of the General Fund vehicles, not the depreciated value, and that it is only based on vehicles, not on other equipment. CFAC requested presentation of the General Fund and Measure Q&E funds together, which staff will try to do in future budget years.

Measure Q&E Fund

The Measure Q & E Fund is a major governmental fund that tracks the receipt and expenditure of the one and one-half cent local transaction and use tax approved by Morro Bay voters. Revenues are projected at \$4.3 million of revenue, which represents a 9% increase over the prior year. Budgeted expenditures are projected to increase by 14% to \$5.2 million in FY2022-23. Expenditure numbers include a preliminary placeholder pending the results of ongoing labor negotiations; personnel costs may change pending the outcome of negotiations. Proposed expenditures exceed projected revenues by approximately \$0.9 million in order to utilize the majority of the FY 2021-22 projected fund balance of \$1 million for capital projects. The proposed budget leaves a small amount of the projected FY 2021-22 fund balance available due to anticipated personnel cost increases, which are pending resolution of labor negotiations.

Measure Q&E Fund Revenues

Revenues are projected at \$4.3 million of revenue, which represents a 9% increase over the prior year. The City uses HdL Companies, which specializes in tax revenue for municipalities in California, to provide sales tax projections, including Measure E revenue projections. Revenues are now remitted by the State entirely as Measure E revenues, reflecting the increase from one-half percent to a total one and one-half percent local transaction and use tax. HdL, the City's sales tax consultant, provided sales tax revenue estimates for FY 2022-23, which is actually only up 2% from their FY 2021-22 projection, though because the City did not increase the amended budget by as much as HdL increased their projection, the growth of the FY 2022-23 budget number appears higher. Staff spoke in detail with HdL about a potential recession, which is not anticipated to occur until the latter part of the fiscal year, if it does occur. The budgeted figure is still slightly below HdL's total projected revenue for the City, also consistent with the City's conservative revenue budgeting practice.

Measure Q&E Fund Expenditures

The City Council-adopted principles and priorities for Measure Q & E Fund expenditures are:

1. 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 Department personnel and equipment, in addition to the Fire Headquarter debt service and the Fire engine loan repayment;
2. Maintain or enhances the 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;

3. 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.
4. Ensure financial health of the City by maintaining appropriate reserves to protect against economic downturns, natural/health emergencies and other unforeseen challenges or opportunities.

Ongoing Expenditures – Primary changes to ongoing expenditures include the following:

- Police – The addition of a Community Services Officer Technician, a new non-sworn position that will assist patrol officers with providing non-emergency services to the community of Morro Bay. The Police Department previously employed both a code enforcement officer and a community services technician/crime prevention officer; the positions were eliminated due to severe budget cuts in 2005.
- Fire – budgeting the part-time reserve program in the Measure Q&E Fund. This program includes 10 part-time Reserve Firefighters, which are utilized to augment Fire Department staffing, allowing for response to large incidents such as fires, rescues, and disasters. The Reserves participate in public events, perform commercial business inspections, and fill in to cover for leave time when full-time personnel take leave. Reserves also participate in the City's response to mutual aid assignments for wildland fires throughout the State. This budget increase is offset partially by the elimination of all Fire supplies and services budget from the Measure Q&E Fund.
- Public Works – the continuation of a Maintenance Superintendent position and an Associate Engineer position, both approved by Council in the FY 2021-22 midyear budget adjustments.
- Harbor – Including the part-time Harbor Reserves program in Measure Q&E this to allow the Harbor Department to maintain current service levels to keep the harbor and beaches safe and clean, and to maintain 911 emergency response.

One-Time Expenditures – The Measure Q&E Fund proposed budget includes a one-time loan-payoff expenditure and one-time contributions to six capital projects.

- **Fire Station Loan Payoff Contribution (\$240,000)** - The remaining principal balance on the Fire Station loan from the USDA is approximately \$1.2 million. Net proceeds from the sale of the Coral Avenue property, including past interest payments received by the General Fund as well as the lump sum payment received in December 2021, will cover the remainder of the anticipated payoff. Given that the Measure Q & E fund is currently making principal and interest payments on the loan, at an interest rate of 3.75%, Measure Q & E Fund would save approximately \$500,000 in interest over the life of the loan by paying the loan off now, consistent with 2016 Council direction.

Capital Improvement Projects (CIP) - These projects are presented in detail in the CIP section of the proposed budget.

Capital Project	FY 2022-23 Measure Q & E Budget
FY 2022-23 Pavement Management	\$1,380,000
SR1/SR41/Main St Intersection Improvements	\$600,000
Automated License Plate Reader camera system	\$159,000
Citywide Speed Survey	\$75,000
ADA Accessibility Upgrades at Quintana and Main	\$90,000

Capital Project	FY 2022-23 Measure Q & E Budget
Boat Launching Facility Ramp Replacement	\$210,000
Total Measure Q & E CIP Budget	\$2,514,000

Measure Q&E Five-Year Forecast –

The Measure Q&E Fund forecast uses the same assumptions as the General Fund, conservatively projecting that sales tax revenues will increase by 3% in FY 2023-24 (HdL projects 3.5%), and 2% in the out years. Expenditures are projected to increase by 5% per year, except for pension UAL costs, which are calculated using the CalPERS pension tool and have different rates of growth each year. These projections result in Measure Q&E Fund’s ability to continue to contribute almost \$2 million per year to capital projects. It is appropriate to maintain a balance of ongoing and one-time expenditures in this fund given that it does not have a highly stable or diversified revenue base. This fund does not have a reserve policy, as it is incorporated into the General Fund Emergency Reserve Policy.

MEASURE QE FUND (003)	FY 2023 Budget	FY 2024	Forecast		
			FY 2025	FY 2026	FY 2027
Revenue					
Tax Revenue	4,292,000	4,420,760	4,509,175	4,599,359	4,691,346
Other Revenue	-	-	-	-	-
Transfers In	-	-	-	-	-
TOTAL REVENUE	4,292,000	4,420,760	4,509,175	4,599,359	4,691,346
Expense					
Personnel	2,118,951	2,218,450	2,313,207	2,405,066	2,507,859
Operational Costs	1,775,929	1,864,725	1,957,962	2,055,860	2,158,653
Ongoing costs for long-term liabilities (PERS)	343,022	353,724	355,245	349,206	349,206
Other Operations & Maintenance	288,580	303,009	318,159	334,067	350,771
Transfers Out (Loan Payoff in FY 23)	240,000	-	-	-	-
Debt Service Payments	-	-	-	-	-
TOTAL EXPENSE	2,647,531	2,521,459	2,631,366	2,739,133	2,858,630
Net Surplus (Shortfall)	1,644,469	1,899,301	1,877,809	1,860,225	1,832,716
Capital	2,514,000	2,000,000	1,900,000	1,850,000	1,850,000
Net Surplus (Shortfall) including Capital	(869,531)	(100,699)	(22,191)	10,225	(17,284)
Starting Fund Balance	1,021,086	151,555	50,856	28,665	38,890
ENDING FUND BALANCE	151,555	50,856	28,665	38,890	21,606
Fund Balance % of Total Operating Expenses	3%	1%	1%	1%	0%

CFAC’s input on the Measure Q&E Fund – The Citizens’ Finance Advisory Committee (CFAC) reviewed and provided input on the Measure Q&E Fund at their April 28th meeting. The committee voted to recommend the Measure Q&E Fund budget to Council as presented, but asked staff to pass along comments from individual members. Individually, CFAC members commented that they would like to see out-year projections for the fund. Staff has completed that since the April meeting and it is included here below. A member also voiced concern about out-year funding for the Hwy 1 – 41 project, which is consistent with Council direction to commit City funds in order to receive SLOCOG funding for the project. A member voiced the importance of balancing that “savings” type of budget with tangible improvements now, consistent with the majority of FY 2022-23 CIP contributions which are intended for implementation now. One member voiced concern with budgeting Public Works administrative staff in the Fund and wanted to ensure the City has a way to fund the Hwy 1-41 project if SLOCOG funding falls through. One member wanted to ensure that the City has adequate funding

mechanisms for planning to maintain all underground infrastructure, which is less visible to the public. Members generally voiced support of the fund budget as presented, or various components of it, in addition to the concerns and comments voiced.

Water Fund

The Water Operating Fund is a self-supporting enterprise fund that accounts for all income and expenses associated with the City's water utility operation. Its primary revenue source is water sales to residents and businesses.

Water Fund Revenues

The City of Morro Bay is projecting \$7.7 million of revenue in FY 2022-23, which represents a 2.2% increase over the prior year. All ongoing revenues to the Water Fund come from ratepayers purchasing Water from the City. Ongoing revenues are projected to be relatively stable since rates are not increasing in FY 2022-23.

Water Fund Expenditures

Budgeted expenditures are projected to increase by 6.5% to \$9.0 million in FY 2022-23. These expenditures include one-time transfers out of the fund for capital projects. Absent capital costs, the fund has a significant operating surplus.

Personnel, Services, and Supplies - Budgeted costs are increasing in part due to anticipated operations of the new Treatment Facility. Many of these costs are rough estimates until the City has experience operating the facility, and therefore, are conservatively budgeted. In addition, personnel costs are increasing citywide, and this budget includes a placeholder for labor negotiations, which are currently ongoing, pending completion of updated Memorandums of Understanding with the City's labor groups. Finally, utilities costs and other supplies and services' costs continue to increase with inflation.

Interfund Transfers - Budgeted interfund transfers in FY 2021-22 and FY 2022-23 include the following:

- Transfer to General Fund for Cost Allocation Plan internal services - \$253,428
- Transfer to Information Technology and Risk Management Funds - \$55,796
- Transfer to Water CIP fund for Water CIPs outlined in CIP budget - \$444,000
- Transfer to Sewer CIP for Water's portion of non-financed FY 2022-23 WRF budget - \$3,184,631

Water Fund Balance

While the Annual Comprehensive Financial Report (ACFR) and the present enterprise fund balances on a net position basis, which includes long-term assets and liabilities, a useful near-term way to view the near-term fund balance is by looking at working capital, which is defined as near-term assets minus near-term liabilities. The Water Operating Fund's level of working capital was approximately \$14.3 million at that start of FY 2021-22. This far exceeds the City's minimum reserve policy for the Water Fund, which requires a reserve balance of approximately \$1.7 million in FY 2022-23.

Water Fund Five-Year Forecast

The Water Fund baseline forecast includes no rate increases. Its capital expenditure projections are tied to the Proposed Budget numbers and will likely change when the OneWater plan is updated. Based on current projected capital needs, which are likely to increase in cost based on very high

construction cost index increases, the Water Fund will not be able to meet its reserve policy in the latter part of the forecast period, with the current rate structure.

WATER OPERATING FUND (311)	FY 2023 Budget	FY 2024	Forecast		
			FY 2025	FY 2026	FY 2027
Revenue					
Rate Payer Revenue	7,604,000	7,604,000	7,604,000	7,604,000	7,604,000
Other Revenue	100,200	100,200	100,200	100,200	100,200
Transfers In	-	-	-	-	-
TOTAL REVENUE	7,704,200	7,704,200	7,704,200	7,704,200	7,704,200
Expense					
Personnel	1,118,302	1,170,407	1,219,378	1,266,286	1,319,286
Operational Costs	915,659	961,442	1,009,514	1,059,990	1,112,989
Ongoing costs for long-term liabilities (PERS)	202,643	208,965	209,864	206,296	206,296
Other Operations & Maintenance	3,862,786	4,055,925	4,258,722	4,471,658	4,695,241
Transfers Out (Ongoing)	309,224	309,224	309,224	309,224	309,224
Debt Service Payments	-	-	1,219,000	1,219,000	1,219,000
TOTAL EXPENSE	5,290,312	5,535,557	7,006,324	7,266,168	7,542,750
Net Surplus (Shortfall)	2,413,888	2,168,643	697,876	438,032	161,450
Capital	3,628,631	3,831,747	10,034,842	8,762,119	63,000
Net Surplus (Shortfall) including Capital	(1,214,743)	(1,663,104)	(9,336,966)	(8,324,087)	98,450
Contribution to 115 Trust	70,000	-	-	-	-
Starting Fund Balance	16,523,753	15,239,010	13,575,906	4,238,941	(4,085,146)
Transfer in from Accumulation & Equipment Replacement Funds (projected)	-	-	-	-	-
ENDING FUND BALANCE	15,239,010	13,575,906	4,238,941	(4,085,146)	(3,986,696)
Fund Balance % of Total Operating Expenses	250%	212%	63%	-58%	-54%

Minimum Reserve Levels	MET	MET	MET	NOT MET	NOT MET
Debt Coverage Ratio of 1.2 or greater	N/A	N/A	1.6	1.4	1.1
Operating: 25% Annual Operating Expenses (PY Budget)	1,240,625	1,524,848	1,599,185	1,674,369	1,751,057
Rate Stabilization: 5% of prior year's rates	372,200	380,200	380,200	380,200	380,200
Vehicle Replacement: 20% of original value of Water fleet	50,885	50,885	50,885	50,885	50,885
	1,663,710	1,955,933	2,030,270	2,105,454	2,182,142

NOTES
Fund Balance is defined as working capital: current assets less current liabilities
As baseline forecast, assumes no rate increases.
Transfers out include transfers to the General Fund for internal cost allocation services, transfers to the Risk and IT funds, transfers to the Water and Sewer CIP funds for Water CIPs
Assumes Water Fund contributes 30% of cash-funded portion of WRF unless additional financing is obtained, and its share of service on the facility.
In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the year's operating surplus.
FY 24-25 CIPs listed in the budget include \$5M in grant funding for the Nutmeg project; this cost is shown here in case grant funding is not available.

Sewer Fund

The Sewer Operating Fund is a self-supporting enterprise fund that accounts for all income and expenses associated with the City's sewer utility operation. Its primary revenue source is sewer rate payments from residents and businesses. Beginning in FY 2022-23, this fund includes all budget for the operations of the City's collection system and wastewater treatment plant. Previously to this fiscal year, budget for the wastewater treatment plant were tracked in the 599 Fund and were governed by the Joint Powers Agreement between Morro Bay and Cayucos.

Sewer Fund Revenues

The City of Morro Bay is projecting \$11.2 million of revenue in FY 2022-23. All ongoing revenues to the Sewer Fund come from ratepayers paying for City sewer services. The FY 2021-22 revenue budget was lower than normal due to uncertain revenues during the pandemic but has been raised to levels commensurate with recent actual revenues in the FY 2022-23 budget.

Sewer Fund Expenditures

Budgeted expenditures are \$15.2 million in FY 2022-23, including over \$11 million in capital costs. The fund has an operating surplus net of transfers to the Sewer Capital Fund, and the remainder of the one-time capital costs can be covered by the fund balance.

Personnel, Services, and Supplies - Budgeted costs are increasing in part due to anticipated operations of the new Treatment Facility. Many of these costs are rough estimates until the City gains experience operating the new facility, and therefore, are conservatively budgeted. In addition, personnel costs are increasing citywide, and this budget includes a placeholder for labor negotiations, which are currently ongoing, pending completion of updated Memorandums of Understanding with the City's labor groups. Finally, utilities costs and other supplies and services' costs continue to increase with inflation.

Interfund Transfers - Budgeted interfund transfers in FY 2021-22 and FY 2022-23 include cost allocation plan contributions to the General Fund, and transfers to the Information Services and Risk Management internal service funds for those services, and in FY 2022-23, transfers to the Sewer Capital Improvement Fund for sewer capital projects including but not limited to the Water Reclamation Facility.

The FY 2022-23 Interfund transfers are as follows:

- Transfer to General Fund for Cost Allocation Plan internal services - \$257,193
- Transfer to Information Technology and Risk Management Funds - \$87,990
- Transfer to Sewer Capital Improvement Fund for Sewer's portion of the non-financed FY 2022-23 Water Reclamation Facility Project budget - \$7,430,805
- Transfer to Sewer Capital Improvement Fund for the remaining financed portion of the Water Reclamation Facility - \$1,734,348
- Transfer to Sewer Capital Improvement Fund for all other Sewer CIPs outlined in CIP budget - \$2,029,000

Sewer Fund Balance

While the Annual Comprehensive Financial Report (ACFR) and the present enterprise fund balances on a net position basis, which includes long-term assets and liabilities, a useful near-term way to view the near-term fund balance is by looking at working capital, which is defined as near-term assets minus near-term liabilities. The Water Operating Fund's level of working capital was approximately \$14.8 million at the start of FY 2021-22. This far exceeds the City's minimum reserve policy for the Sewer Fund, which requires a reserve balance of approximately \$1.5 million in FY 2022-23.

Sewer Fund Five-Year Forecast

The Sewer Fund baseline forecast includes no rate increases. It assumes that the remaining WRF budget that is not currently financed (approximately \$21 million) will be cash funded, although the City will continue to pursue grant and/or low-interest loan financing instead, which would improve the fund forecast outlook. Its capital expenditure projections are tied to the Proposed Budget numbers

and will likely change when the OneWater plan is updated. If current projected capital needs increase in cost based on very high construction cost index increases, the Sewer Fund's ability to meet its reserve policy in the latter part of the forecast period, with the current rate structure, will be strained.

SEWER OPERATING FUND (321)	Forecast				
	FY 2023 Budget	FY 2024	FY 2025	FY 2026	FY 2027
Revenue					
Rate Payer Revenue	9,460,000	9,460,000	9,460,000	9,649,200	9,842,184
Other Revenue	1,784,348	1,784,348	1,784,348	1,784,348	1,784,348
Transfers In	-	-	-	-	-
TOTAL REVENUE	11,244,348	11,244,348	11,244,348	11,433,548	11,626,532
Expense (Operating)					
Personnel	1,555,313	1,627,572	1,695,147	1,759,581	1,832,651
Operational Costs	1,262,409	1,325,529	1,391,806	1,461,396	1,534,466
Ongoing costs for long-term liabilities (PERS)	292,904	302,043	303,341	298,185	298,185
Other Operations & Maintenance	2,022,098	2,123,203	2,229,363	2,340,831	2,457,873
Transfers Out (Ongoing)	345,183	345,183	345,183	345,183	345,183
Debt Service Payments	-	-	3,609,000	3,609,000	3,609,000
TOTAL EXPENSE	3,922,594	4,095,958	7,878,693	8,054,595	8,244,706
Net Surplus (Shortfall) - Operating	7,321,754	7,148,390	3,365,655	3,378,953	3,381,826
Capital	11,194,153	8,071,282	12,489,611	4,204,000	107,000
Net Surplus (Shortfall) including Capital	(3,872,399)	(922,892)	(9,123,956)	(825,047)	3,274,826
Contribution to 115 Trust	96,000	-	-	-	-
Starting Fund Balance	20,190,088	16,221,689	15,298,797	6,174,841	5,349,794
Transfer in from Accumulation & Equipment Replacement Funds (projected)					
ENDING FUND BALANCE	16,221,689	15,298,797	6,174,841	5,349,794	8,624,619
Fund Balance % of Total Operating Expenses	316%	284%	110%	91%	141%

Minimum Reserve Levels	MET	MET	MET	MET	MET
Debt Coverage Ratio of 1.2 or greater	N/A	N/A	1.9	1.9	1.9
Operating: 25% Annual Operating Expenses (PY Budget)	966,984	1,283,181	1,344,587	1,404,914	1,464,998
Rate Stabilization: 5% of prior year's rates	460,000	473,000	473,000	473,000	482,460
Vehicle Replacement Reserve: 20% of fleet value	99,891	99,891	99,891	99,891	99,891
	1,526,874	1,856,072	1,917,477	1,977,805	2,047,349

NOTES
Fund Balance is defined as working capital: current assets less current liabilities
As baseline forecast, assumes no rate increases.
In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the year's
Assumes that WRF is funded with current levels of SRF and WIFIA financing and that remainder is cash funded (appx \$21 million).

Harbor Fund

The Harbor Operating Fund tracks all Harbor operations, including general department operations, Harbor personnel, lease, property and facility management, public access, development and redevelopment, accounts receivable, and maintenance and repair.

Harbor Fund Revenues

Revenues are projected at \$2.4 million, which represents a 6.3% increase over the prior year. Almost 99% of the Harbor Fund's revenues come from current services, which represent harbor leases, slip, pier, and mooring fees, liveaboard services, miscellaneous services and boat launch ramp parking. Staff is projecting a 6.5% increase in revenues from current services in FY 2022-23 as compared to the FY 2021-22 budget. This is primarily related to increasing lease revenues and is consistent with recent actuals. Revenue related to the RV camping program has been eliminated.

Harbor Fund Expenditures

Budgeted expenditures are projected to increase by 0.6% to \$2.3 million in FY 2022-23. This allows for a projected operating surplus of approximately \$0.1 million in FY 2022-23. The primary expenditures from the Harbor Operating Fund by expenditure type include the following:

Personnel - Roughly half of the Harbor Fund's expenditures are related to personnel, including administrative and public safety personnel. For FY 2022-23, part-time lifeguard and Harbor Reserves staffing is being funded in the Measure Q & E Fund, not the Harbor Fund. The personnel budget includes a placeholder for personnel cost increases, pending labor negotiations, which are currently underway with the City's bargaining groups.

Supplies & Services – These budgets are projected to increase by over 10%, and include funding for Harbor utilities, Harbor-specific legal services, consultant services, outside equipment repair, fuel, oil and lubricants, machinery, equipment, and supplies.

Interfund Transfers - These include the following:

- \$290,000 - Transfer to Harbor Capital Fund for Harbor CIP projects (supplemented by an additional \$210,000 from Measure Q & E for Harbor CIPs).
- \$238,000 - Transfer to the General Fund for internal services such as administration, financial management, human resources, general legal services, city clerk services, and other internal services. This amount is derived from the citywide Cost Allocation Plan.
- \$86,000 - Transfer to Internal Services Funds for information technology and risk management services.

Harbor Fund Balance

While the Annual Comprehensive Financial Report (ACFR) and the present enterprise fund balances on a net position basis, which includes long-term assets and liabilities, a useful near-term way to view the near-term fund balance is by looking at working capital, which is defined as near-term assets minus near-term liabilities. The Water Operating Fund's level of working capital was approximately \$0.5 million at the start of FY 2021-22. This exceeds the City's minimum reserve policy for the Harbor Fund, which requires a reserve balance of approximately \$0.4 million in FY 2022-23.

Harbor Fund Five-Year Forecast

Preliminary estimates indicate that the Harbor Fund should be spending at least \$0.8 million on capital improvements to keep pace with infrastructure maintenance and improvement needs. Including that in the forecast demonstrates that the Harbor Fund, even with the current funding assistance from Measure Q&E, has insufficient funds to meet its capital needs. There is a standalone staff report as part of the May 24, 2022 Budget Study session agenda packet that discusses the Harbor Department's long-term financial trends and capital needs in more detail.

HARBOR OPERATING FUND (331)	FY 2023 Budget	FY 2024	Forecast		
			FY 2025	FY 2026	FY 2027
Revenue					
Harbor Leases	1,850,854	1,887,871	1,925,629	1,964,141	2,003,424
Boat Charges	413,110	421,372	429,800	438,396	447,164
Other Charges for Service	73,000	74,460	75,949	77,468	79,018
Other Revenue	24,000	24,000	24,000	24,000	24,000
Transfers In	-	-	-	-	-
TOTAL REVENUE	2,360,964	2,407,703	2,455,377	2,504,005	2,553,605
Expense					
Personnel	1,073,290	1,122,384	1,167,045	1,208,526	1,256,576
Operational Costs	830,152	871,660	915,243	961,005	1,009,055
Ongoing costs for long-term liabilities (PERS and OPEE)	243,138	250,724	251,802	247,521	247,521
Other Operations & Maintenance	512,804	538,444	565,366	593,635	623,316
Transfers Out (Ongoing)	324,394	324,394	324,394	324,394	324,394
Debt Service Payments	-	-	-	-	-
TOTAL EXPENSE	1,910,488	1,985,222	2,056,805	2,126,555	2,204,287
Net Surplus (Shortfall) - Operating	450,476	422,482	398,572	377,450	349,318
Capital	290,000	800,000	800,000	800,000	800,000
Net Surplus (Shortfall) including Capital	160,476	(377,518)	(401,428)	(422,550)	(450,682)
Contribution to 115 Trust	68,000	-	-	-	-
Starting Fund Balance	885,297	977,773	600,255	198,827	(223,723)
ENDING FUND BALANCE	977,773	600,255	198,827	(223,723)	(674,405)
Fund Balance - % of Total Operating Expenses	37%	22%	7%	-7%	-22%

Minimum Reserve Levels	MET	MET	NOT MET	NOT MET	NOT MET
15% Annual Operating Expenses (Prior Year Adopted Budget)	402,146	398,908	417,482	434,918	451,603

NOTES

Fund Balance is defined as working capital: current assets less current liabilities

Boat Charges include live aboard and other harbor services; pier dockage; mooring, slip, and floating dockage rental, slip sublease, and skiff permits

Other Charges for Services include other service fees such as launch ramp parking, coin-operated

Other Revenue includes grant funds, penalties, bad debts recovery, auctioned property, and other miscellaneous revenue

Other Operations and Maintenance includes services, supplies, debt service, capital outlay, and other expense

Ongoing transfers out include transfers to support internal services, including Risk and

In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the

Capital Improvement Program (CIP) Budget

The FY 2022-23 Proposed CIP budget includes \$18.7 million to fund 23 capital projects. This funding is new budget appropriation that is in addition to prior year budget appropriations. Any unexpended capital budget from prior years will carry forward, pending Council approval of that practice again this year with budget adoption.

Below is a summary of the investments and supporting initiatives included in the budget for FY 2022-23 and an outlook for funding opportunities moving forward. Each project is discussed in detail in the ["Capital Improvements" section of the budget document](#).

- **Water Reclamation Facility (WRF) and OneWater Projects** - The FY 2022-23 Budget includes \$12.35 million for the WRF, which will allow the City to complete the advanced treatment facility and conveyance components of the project in time to comply with the State's Time Schedule Order. This budget also includes funding for the first set of OneWater projects, in the amount of \$1.8 million. The OneWater Plan reviewed and prioritized capital needs within the water, sewer and stormwater systems. OneWater projects include water tank rehabilitation projects under construction (Blanca Street Tanks and King Street Tanks), sewer line replacement (Beachcomber) and replacement of the Lift Station #1 force main, as well as emergency fixes to several storm drains (Juniper/Elena Streets and Sequoia Court). This budget also includes funding to update the OneWater Plan as it was approved in 2018 and is scheduled to be updated, in part, to incorporate rapidly increasing inflation and costs of construction into the plan.
- **City Streets' Safety and Improvements** - The City is investing \$1.74 million in road paving for FY 2022/23, which is on top of the \$1.1 million paving project currently underway through a budget approved by Council in the FY 2021/22 Budget. According to a recent study of the conditions of our local roads, the City needs to invest roughly \$2 million annually to keep up with the current rate of deterioration. So this represents a good start, though additional investment is required. In addition, this budget funds a traffic speed survey, a traffic safety plan, and \$600,000 toward improvements to the HWY 1/41/Main Street intersection to help complete the planning and permitting portion of that project.
- **Harbor** - This budget includes \$200,000 for planning related to the public boat launch facility replacement project at Tidelands Park. The facility is in need of replacement due to safety concerns, but the City currently lacks funding to construct the project. By completing planning of the project, the City will be more competitively positioned to apply for outside funding to cover the estimated \$1 million in construction costs. The FY 2022/23 budget also includes \$90,000 to complete work on the refurbished Harbor patrol boat the City received from Port San Luis.
- **Americans with Disabilities Act (ADA) and Miscellaneous Projects** - The FY 2022/23 budget includes funding for two important ADA projects (Lila Kaiser parking lot and Quintana/Main St traffic crossing), elective vehicle charging stations, and a license plate reader program to help the Police Department investigate crimes.
- **Vehicles/Equipment** - The budget includes funding for several water and sewer vehicles and a transit vehicle. The recommended capital equipment purchases list does not include several vehicles that are to be purchased in operating funds, including three police vehicles, as well as an electric vehicle for maintenance operations.
- **Assessment of Capital Needs** - This budget also includes \$400,000 to conduct assessments of Harbor infrastructure (docks, piers, lighting, revetment, harborwalk, etc.) and other capital assets in the City (such as community centers, restrooms, parks, etc.). Having an assessment plan in hand will allow the City to understand and prioritize capital needs, plan for future improvements, and request funding from outside sources.
- **Capital Funding Opportunities** - Given the fact that the City's infrastructure needs significantly exceed its current available funding, the City must seek additional revenue. Those sources include, but are not limited to, state and federal grants. At present there are several key opportunities to consider, including funding from the Federal Bipartisan

Infrastructure Law, which will invest \$1.2 Trillion in America's infrastructure over the next five years and an unprecedented State surplus budget levels available in the upcoming state budget (topping \$90 Billion). Given the intensely competitive nature of these funding sources, the FY 2022/23 Budget includes funding for state and federal advocacy support and grant writing support. Further, Morro Bay community members have qualified a voter initiative for the November 2022 ballot for Harbor/waterfront infrastructure improvements. Lastly, City staff continue to look for other funding sources to support our capital program.

Staff Capacity to Complete Projects and CIP Reporting - Setting aside existing funds and seeking new funding sources to carry out projects are a part of the infrastructure equation. In addition to funding, the City must also secure sufficient engineer and project management staff capacity to plan for and implement projects. The City has added capacity in the past year by splitting the duties of the PW Director and City Engineer, upgrading an existing engineer position, and adding an engineer tech position (a position that had been cut during COVID out of financial necessity). Further, the Public Works Department is currently training an internal employee to perform public works inspections- a position previously not included in the organizational chart, but one that will allow the existing engineers and project managers to put more focus on capital projects output. These staffing changes, plus targeted use of engineering consultants, provide the Engineering Division sorely needed capacity to keep high priority projects moving. In addition, this staffing capacity has allowed the City to develop a regular reporting of capital project progress to the Public Works Advisory Board, and this will also be brought to the City Council in the near future.

There is a standalone staff report as part of the May 24, 2022 Budget Study session agenda packet that discusses the FY 2022/23 CIP projects in more detail, in particular the WRF and OneWater projects and their relation to the City's water and sewer funds.

NEW DIGITAL BUDGET BOOK FORMAT

New for this year's budget, the City is using a new budget platform (ClearGov) that has several advantages for clearly communicating budget data to the public, for facilitating staff's process to create the budget accurately, and for increasing the City's likelihood of receiving industry budgeting awards of excellence. The City of Morro Bay's budget is available in an easy-to-use online format that allows users to navigate to sections of the budget they would like to view without having to download and print a several-hundred-page PDF document. This optimized digital format is consistent with City Council's climate change goal and the City's efforts to reduce paper use. Members of the public that would like to download and print a PDF version will still be able to do so. In addition, the budgeting platform has a Government Finance Officers Association budget best practices checklist built in, making it easier to ensure the City's budget document includes all relevant information and is more likely to earn industry awards for excellence in budgeting. As staff capacity permits over time, the system has the capability to display capital improvement project information and to create a fiscal transparency web site that combines City budget data with available demographic data to tell a clearer story about how City services are funded.

CONCLUSION

This robust budget allows the City to adequately restore services to a pre-pandemic level by continuing to invest in core City operations; to make significant investments in capital infrastructure needs; and to continue incremental progress toward addressing the unfunded pension liability while maintaining robust reserves, thereby being able to weather future emergencies or economic

slowdowns.

ATTACHMENTS

1. Links to FY 2022-23 Proposed Budget
[Interactive Digital Budget Book](#)
[Printable PDF Export](#)
2. Staff Presentation

FY 2022-23 Draft Proposed Operating & Capital Budget Budget Study Session

Morro Bay City Council
May 24, 2022





Presentation Outline

- I. Context & Framing
- II. Citywide Budget Overview
- III. Operating Budget
 - Overview
 - Major Fund Budgets & Five-Year Forecasts
- IV. Capital Improvement Budget (Wednesday)



Recommendation

Receive the Proposed Fiscal Year (FY) 2022-23 Citywide Operating and Capital Budget and provide feedback prior to budget adoption, scheduled in June.

Context & Framing





City Manager's Transmittal

- Revenues have recovered
 - Measure E generating \$2.5M for public safety, cleanliness, infrastructure
 - ARPA Federal Assistance assisting recovery
- Funds personnel to retain and attract talent
- Invests \$18.7 M in built environment (capital projects)
 - Continued construction on Water Reclamation Facility
- Strengthens reserve funds to prepare for the unexpected
- Invests over \$1M in a pension trust to lower pension liability
- New budget platform increases transparency and clear communication



Short Term Factors

- **Continued Recovery:** Financial recovery from impacts of COVID-19 are ongoing
- **Inflation:** CPI topped at 8% and CCCI to 24.5%
- **Staffing:** The Great Resignation factor
- **Infrastructure Needs:** What to prioritize with limited staff and funds
- **Pension Liability:** Significant unfunded pension liability remains
- **Conclusion:** Hopeful; yet needs and challenges remain



Priorities and Issues

Funding the “Big Three”

1. Operations-Services to our community depend upon our staff
2. Capital Investment-Increasing investment to get projects
3. Pension Liabilities-Reducing long-term liabilities through consistent short-term actions



City Council Goals



PUBLIC INFRASTRUCTURE

Address (1) cleanliness (while maintaining sensitivity to wildlife) and safety issues in heavy tourism areas, (2) conduct a capital needs assessment, and (3) traffic circulation in Embarcadero.



FISCAL SUSTAINABILITY & ECONOMIC VITALITY

(1) Create plan to address the City's unfunded liabilities while striving to achieve competitive compensation, (2) determine potential paths to secure funding for capital needs (Harbor and other needs), and (3) support expedient catalyst site development.



HOUSING

(1) Educate the Council on new and existing State legislation related to housing, (2) identify the opportunities for additional housing options and/or explore partnerships to support these efforts, and (3) continue the Community Development Department's efforts to expedite the development review process.



CLIMATE ACTION

(1) Participate with other cities in SLO County to support climate action planning efforts, (2) educate Council on the technical terms around climate action to support policy advocacy and the identification of critical next steps for Morro Bay, and (3) consider opportunities to reduce reliance on carbon producing energy sources.



COMMUNITY HEALTH

(1) Create plan to address immediate need for increasing COVID vaccination rates with an emphasis towards target populations with inequitable access or education. (2) Educate Council and staff about Diversity, Equity, and Inclusion (DEI) and engage in a community conversation.

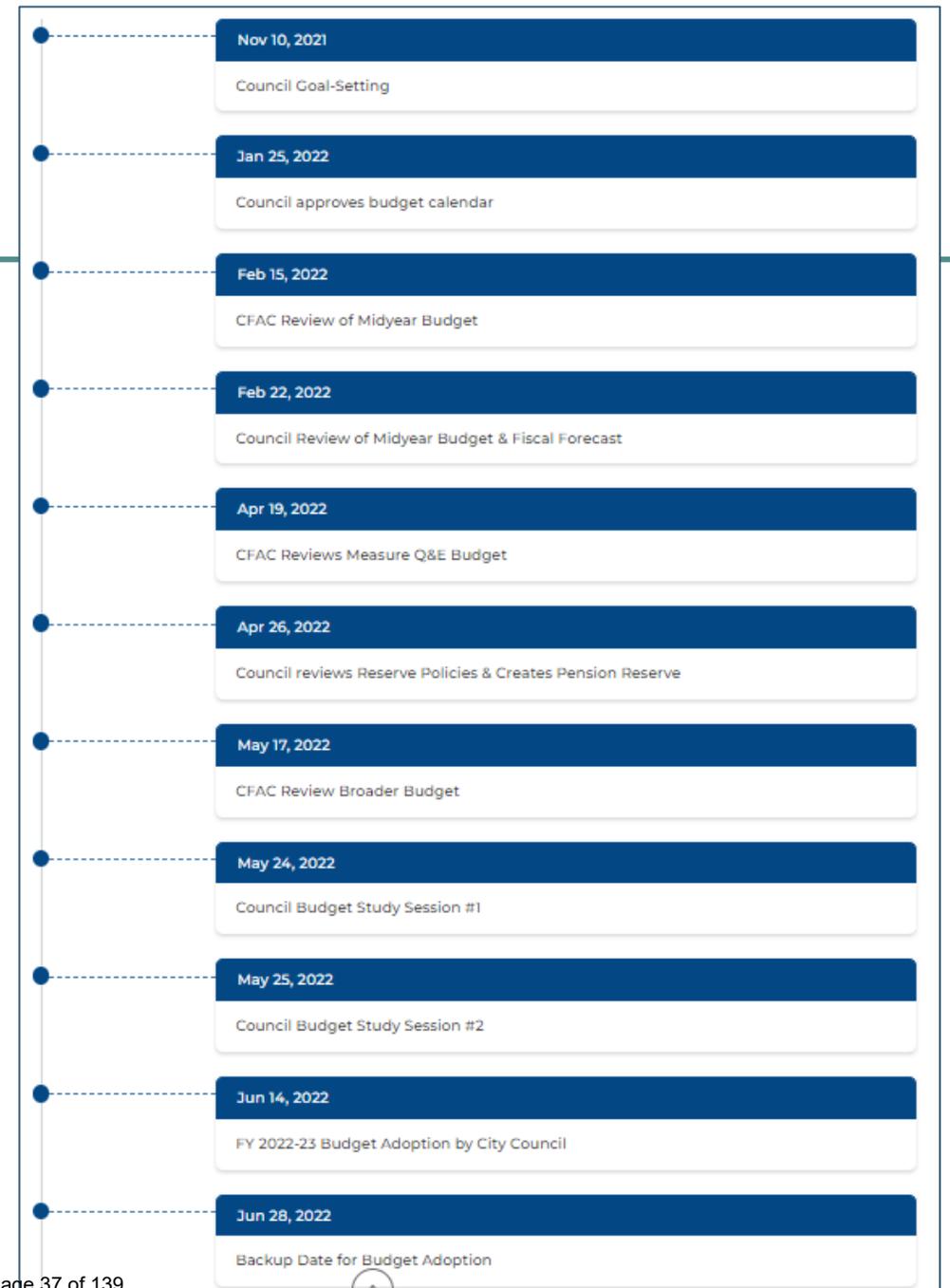
Citywide Budget Overview





Budget Timeline

- > 10 public meetings since goal-setting
- February – Five-Year Forecast & Midyear
- March – Staff budget preparation
- April – CFAC Review of Q&E
- April - Council review of Reserve Policies
- May – Budget Study Sessions
- June – Budget Adoption





New Digital Budget Book

Introduction Budget Overview Fund Summaries **Departments** Capital Improvements Debt [Print](#)

City Manager's Office Budget

The City Manager's Office is comprised of the City Manager's Office, which provides, in partnership with the City Attorney's Office, oversight and internal support for the City and its operations. The City Manager's Office provides centralized functions, providing citywide administrative support.

City Manager
The City Manager Division provides overall management to the full City Council. The City Manager's Office also fosters community relationships, and provides public community outreach, using the City's website, media relations, and public office serves as a liaison between other local agencies and the City of Morro Bay.

City Clerk
The City Clerk's Division works with the City Council to provide information to the public regarding legislative and administrative actions. The City Clerk maintains a complete and accurate record of City Council actions and serves as the official for local municipal elections; and serves as compliance officer for state and local statutes.

City Council
City Manager's Office
City Attorney's Office
Administrative Services
Community Development
Fire
Harbor
Police
Public Works
Recreation

Resources, and Risk Management. This Department, the overall management, City Manager's Office consists primarily of City operational areas.

for the entire City organization, reporting committees, interacts with community groups, projects, services, and goals through effective Updates. In addition, the City Manager's Office of Morro Bay.

Departments to ensure transparency of city operations in a clear, professional, and impartial manner; maintains legislative records; serves as elections



FY 2022-23 Transparency Module

- Part of ClearGov budget platform.
- Pending adoption and staff review of data, plan to make this live to the public.
- “Overview” section includes budget-in-brief content
- Pairs demographic information with financial information.
- Financial data can be viewed at a very high level or specific levels; interactive.

Overview Revenues Expenditures Demographics

Demographic Snapshot

Metric	Value	Change	Comparison
POPULATION	10,578	▼ 69%	Lower than state median
MEDIAN HOME VALUE	\$607,300	▲ 20%	Higher than state median
MEDIAN HOUSEHOLD INCOME	\$68,262	▼ 9%	Lower than state median

* Data Source: American Community Survey, 2010 Census, 2000 US Census and 1990 US Census

[View More Demographics](#)

CC_Special Mtg_Budget_2022-05-24 & 2022-05-25 Page 39 of 139



Citywide Proposed Budget Totals

- Expenditure budget totals \$53.8 million (net of transfers) includes:
 - \$35.1 million for Operations (net of transfers)
 - \$18.7 million for Capital Projects (net of transfers)
 - Increase of \$0.2 million or 0.5% from FY 21-22 Amended Budget
- Revenue budget totals \$46.4 million (net of transfers):
 - Decrease of \$0.3 million or 0.6% due to Tourism Business Improvement District (TBID) funding



Citywide Revenue Budget Including and Excluding Transfers

Revenue Source	FY 2022 Amended Budget	FY 2023 Budgeted
Property Taxes	\$5,147,424	\$5,195,321
Intergovernmental Revenues	\$2,507,119	\$2,321,467
Sales & Use Tax	\$572,259	\$6,982,000
Cannabis City Tax	\$520,673	\$480,000
Transient Occupancy Tax	\$4,853,884	\$4,006,000
Franchise Fees	\$572,259	\$623,460
Licenses & Permits	\$520,673	\$582,245
Revenues from Current Services	\$22,299,594	\$21,758,563
Fines & Forfeitures	\$115,000	\$108,300
Other Revenues	\$1,602,140	\$1,661,817
Revenues from Use of Money Property	\$601,500	\$595,000
Interfund Revenues Transfers	\$11,384,024	\$4,536,850
Federal Revenue-Loan	\$0	\$1,734,348
Total Revenue	\$56,482,258	\$50,585,371

The City of Morro Bay's budgeted operating revenues are \$50.6 million in FY2022-23.

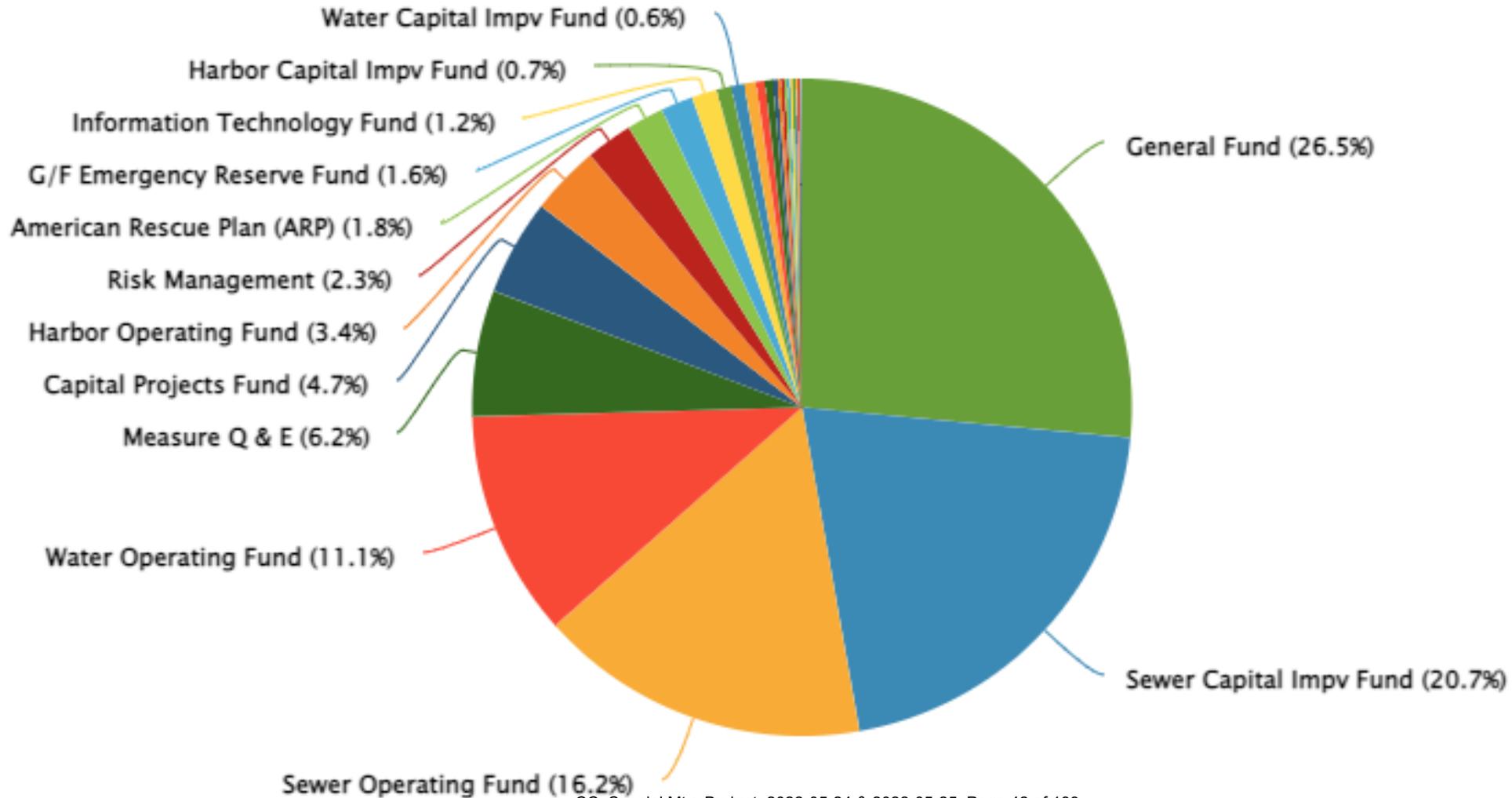
Net of transfers, the operating revenue budget is **\$46.1 million**, which represents a **2% increase** from operating revenues net of transfers in the prior year.

Excluding Transfers

\$45,098,234 \$46,048,521



Total City Revenues by Fund

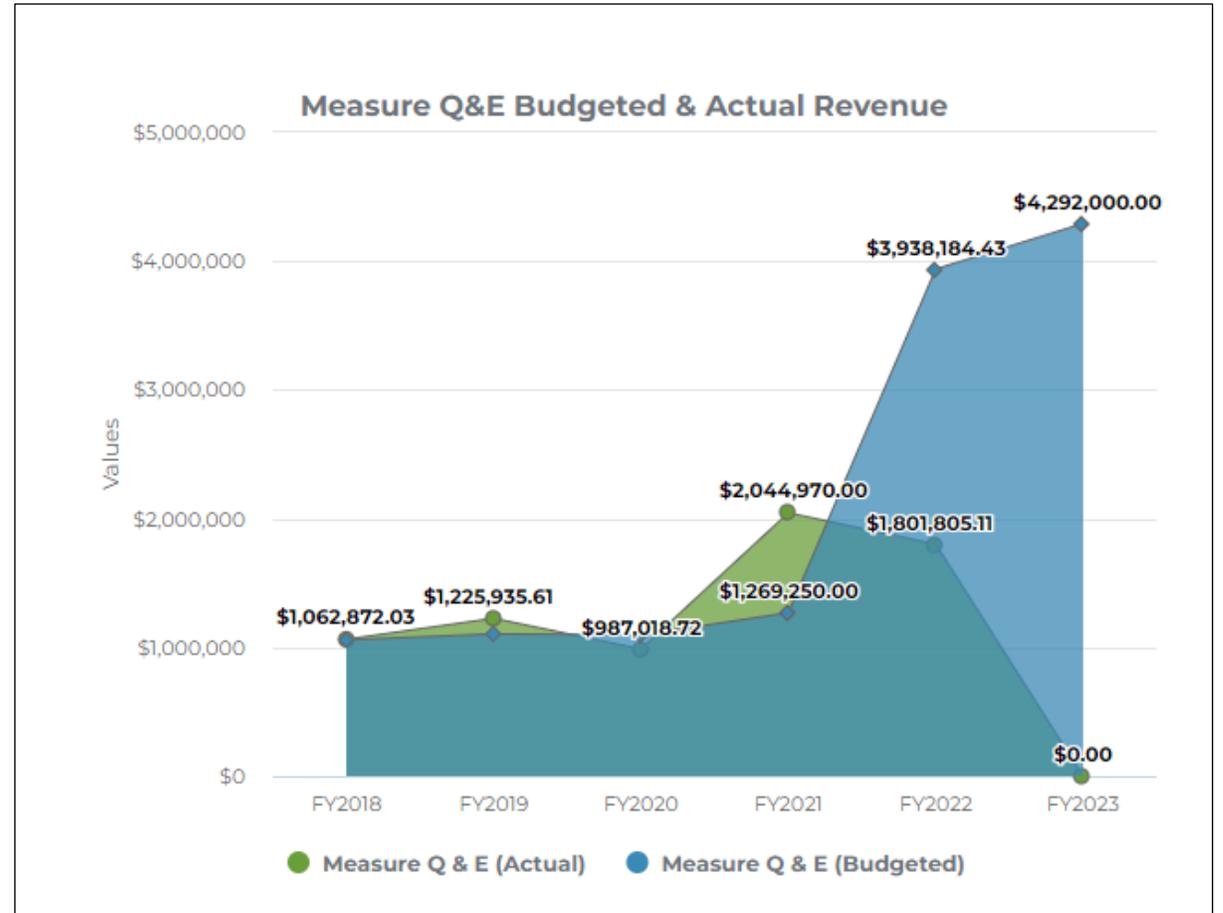




Citywide Revenues and Trends

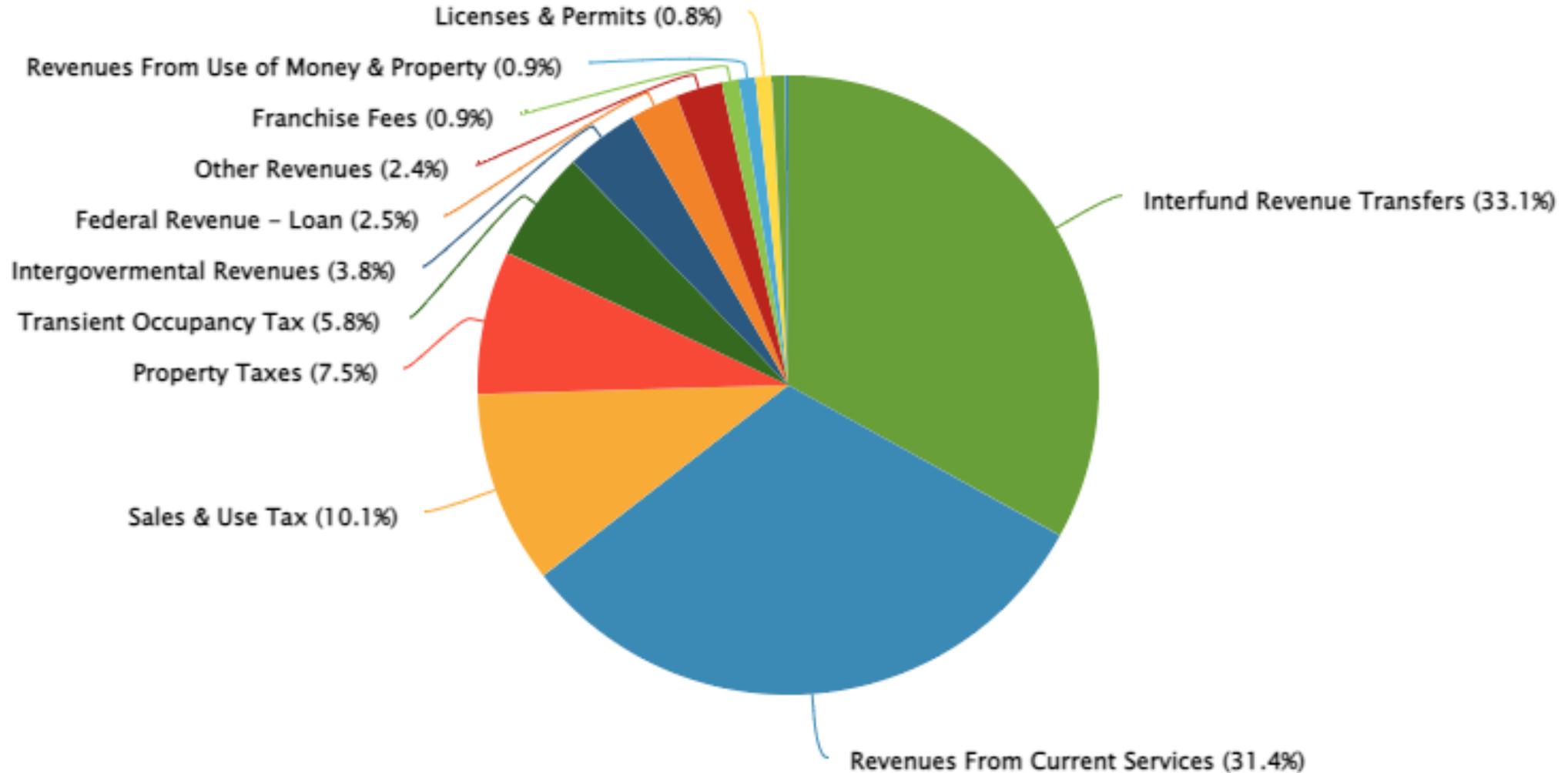
Measure Q & E Revenue

Predicted to generate over \$4 million in revenue in FY 2022-23



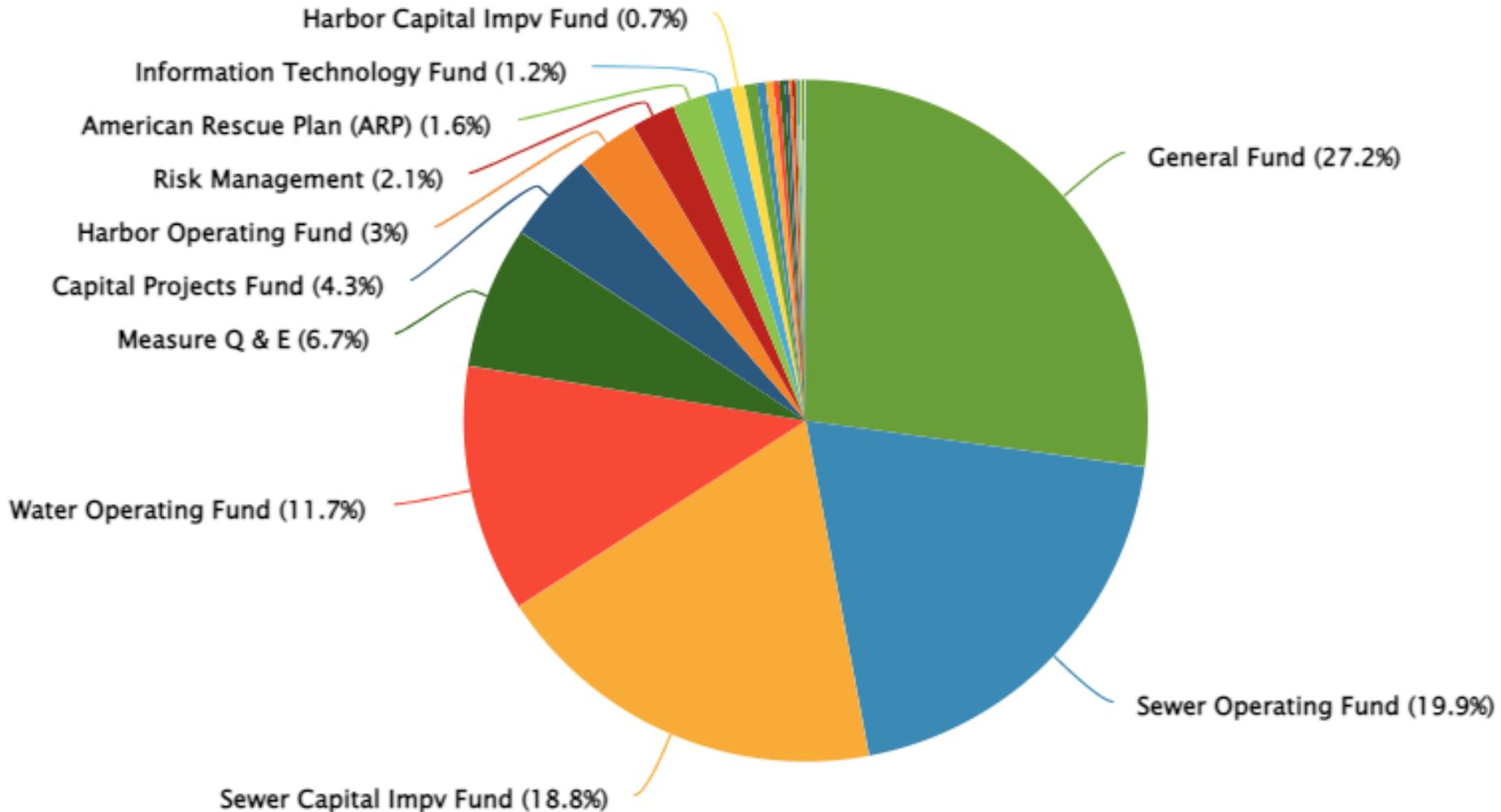


Citywide Revenue by Source



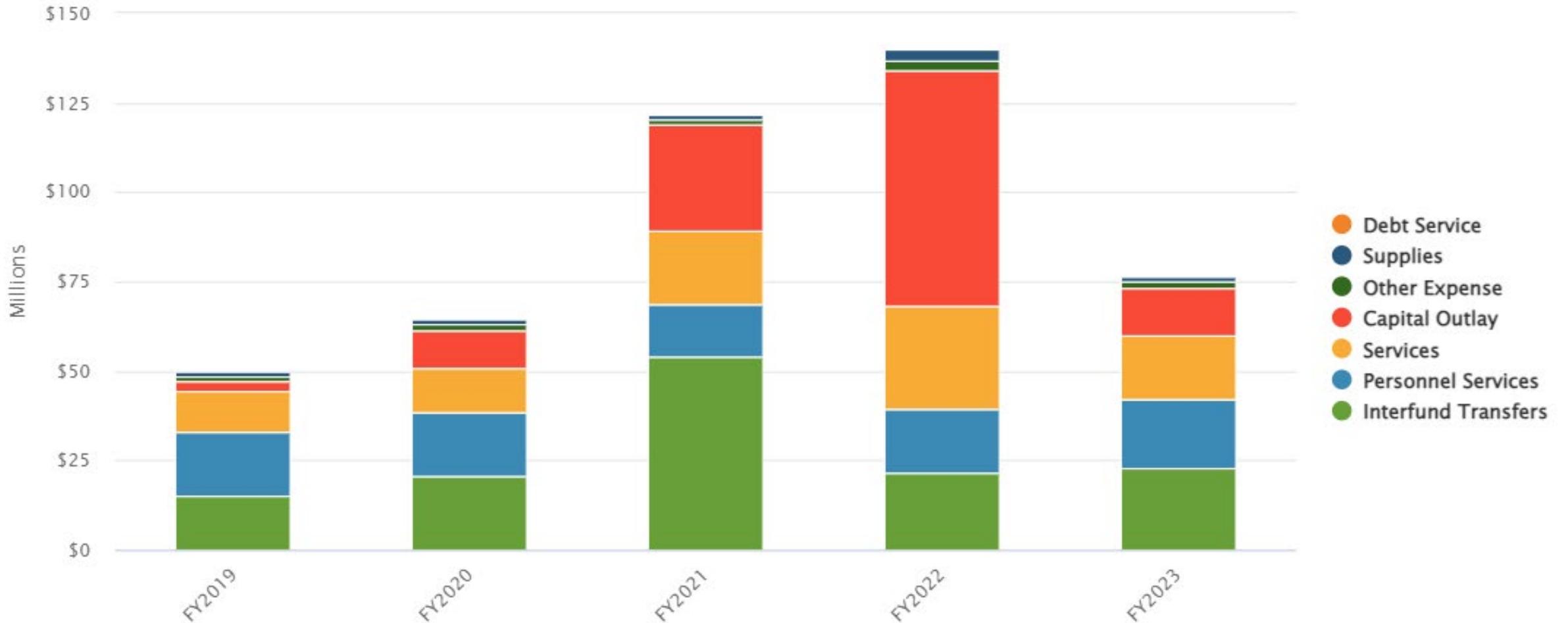


Citywide Expenditures by Fund





Citywide Expenditures by Expense Type

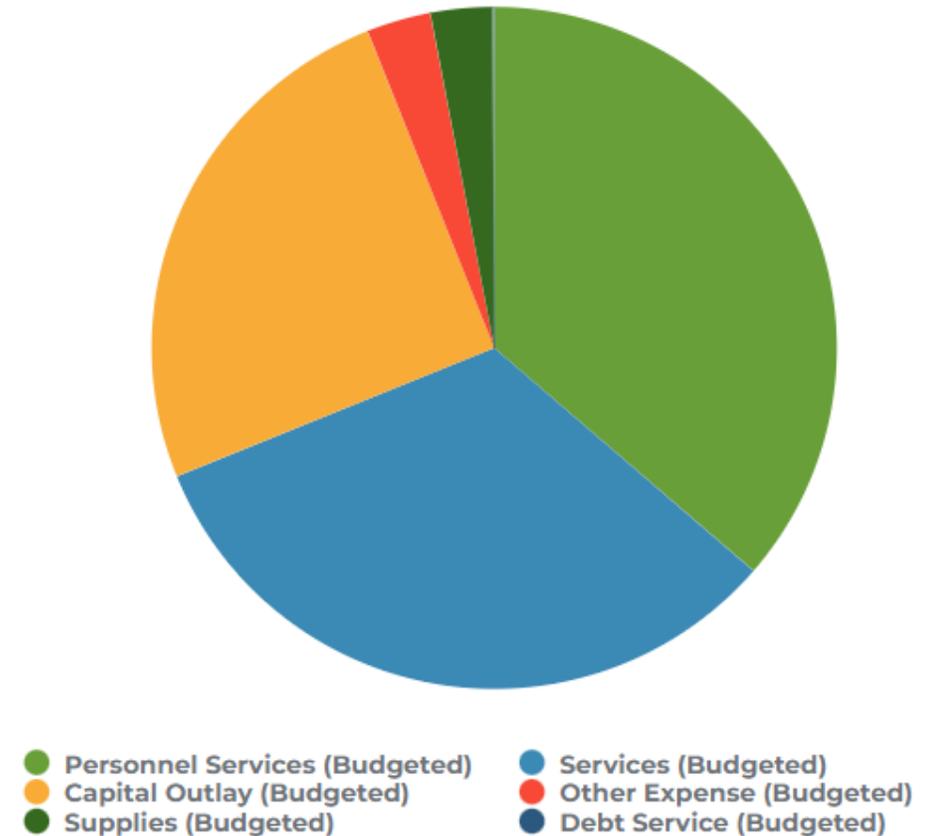




Citywide Expenditures by Expense Type

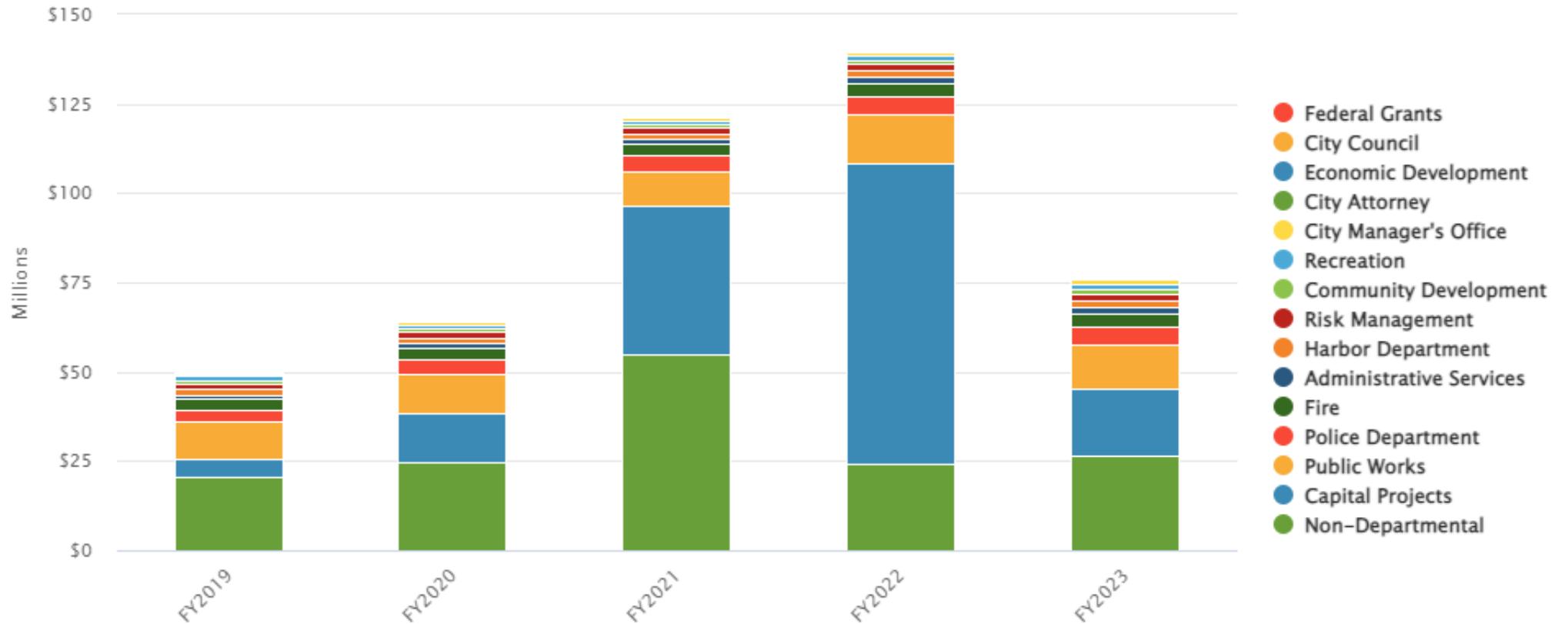
- Personnel Services - 36.3%
- Services - 32.5%
- Capital Outlay - 25.1%
- Other - 6 %

Citywide Expenditures by Type, net of Transfers





Citywide Budget by Department





Personnel Changes

Adding 2.1 net full-time positions

CITYWIDE SUMMARY FULL-TIME STAFFING					
	2019-20	2020-21	2021-22	2021-22	2022-23
	Funded	Funded	Funded	Mid-year	Budget
Total City FTEs					
City Manager	5.0	4.0	4.0	5.0	5.0
Administrative Services	7.0	6.0	7.0	9.0	9.0
Recreation Services	4.0	2.0	3.8	4.0	4.0
Community Development Dept	6.0	5.0	6.0	6.0	7.0
Police Department	21.4	20.4	21.4	21.4	22.5
Fire Department	13.8	13.8	15.0	15.0	15.0
Public Works	34.3	31.0	35.0	36.6	36.6
Harbor Department	6.0	6.0	6.0	6.0	6.0
Total City-wide FTEs	97.4	88.1	98.1	103.0	105.1



Personnel Changes

Adding the equivalent of 7 part-time positions

CITYWIDE SUMMARY PART-TIME STAFFING					
	2019-20	2020-21	2021-22	2021-22	2022-23
	Funded	Funded	Funded	Mid-year	Budget
<i>Total City FTEs</i>					
Administrative Services	0.3	0.3	0.4	0.4	0.6
Recreation Services	14.6	0.0	5.2	11.2	15.8
Community Development Dept	2.3	1.5	1.5	1.5	1.9
Fire Department	5.2	5.2	2.6	2.6	4.6
Public Works	1.4	0.7	2.6	2.6	2.7
Police	0.8	0.0	0.0	0.0	0.0
Harbor Department	4.0	2.4	3.4	3.4	3.2
Total City-wide FTEs	28.5	10.0	15.7	21.7	28.7



Other Personnel Factors

- Remaining staffing deficiencies
 - Organizational assessment
- Increasing Wages
 - Class & Comp Study
- Increasing PERS costs
- OPEB – largely fully funded



Citywide Reserve Levels

Fund Balances & Reserves: By the end of FY 2022-23, the City is projected to be meeting all reserve policies as adopted by Council on April 26, 2022, with the following projected reserve balances:

• General Fund (001)	\$1.5 million
• General Government Compensable Leave Fund (005)	\$0.3 million
• General Fund Vehicle Replacement Fund (050)	\$0.7 million
• General Fund Emergency Reserve Fund (051)	\$5.4 million
• General Fund Facility Maintenance Fund (052)	\$0.1 million
• General Fund Capital Accumulation Fund (460)	\$0.6 million
• General Fund Project Accumulation Fund (470) N/A (moved to 460)	
Total General Fund Reserves Projected at FY 2022-23 Year-End	\$8.6 million
• Water Fund	\$1.7 million
• Sewer Fund	\$1.5 million
• Harbor Fund	\$0.4 million
• Risk Management	\$1.0 million
• Information Technology	\$0.3 million
Citywide Estimated FY 2022-23 Year-End Reserves Total	\$13.5 million

Equates to 38% of the Citywide Operating Budget in FY 2022-23

Operating Budget Overview





Citywide Operating Expenditure Budget Including and Excluding Transfers

Expenditures	FY 2023 Budgeted
Personnel Services	\$19,548,641
Supplies	\$1,568,341
Other Expense	\$1,633,340
Services	\$11,882,987
Capital Outlay	\$399,000
Debt Service	\$35,190
Interfund Transfers	\$22,729,850
Total Expenditures	\$57,797,349

Budgeted operating expenditures are \$57.8million in FY2022-23.

Net of transfers out to other funds, the operating expenditure budget is **\$35.1 million**

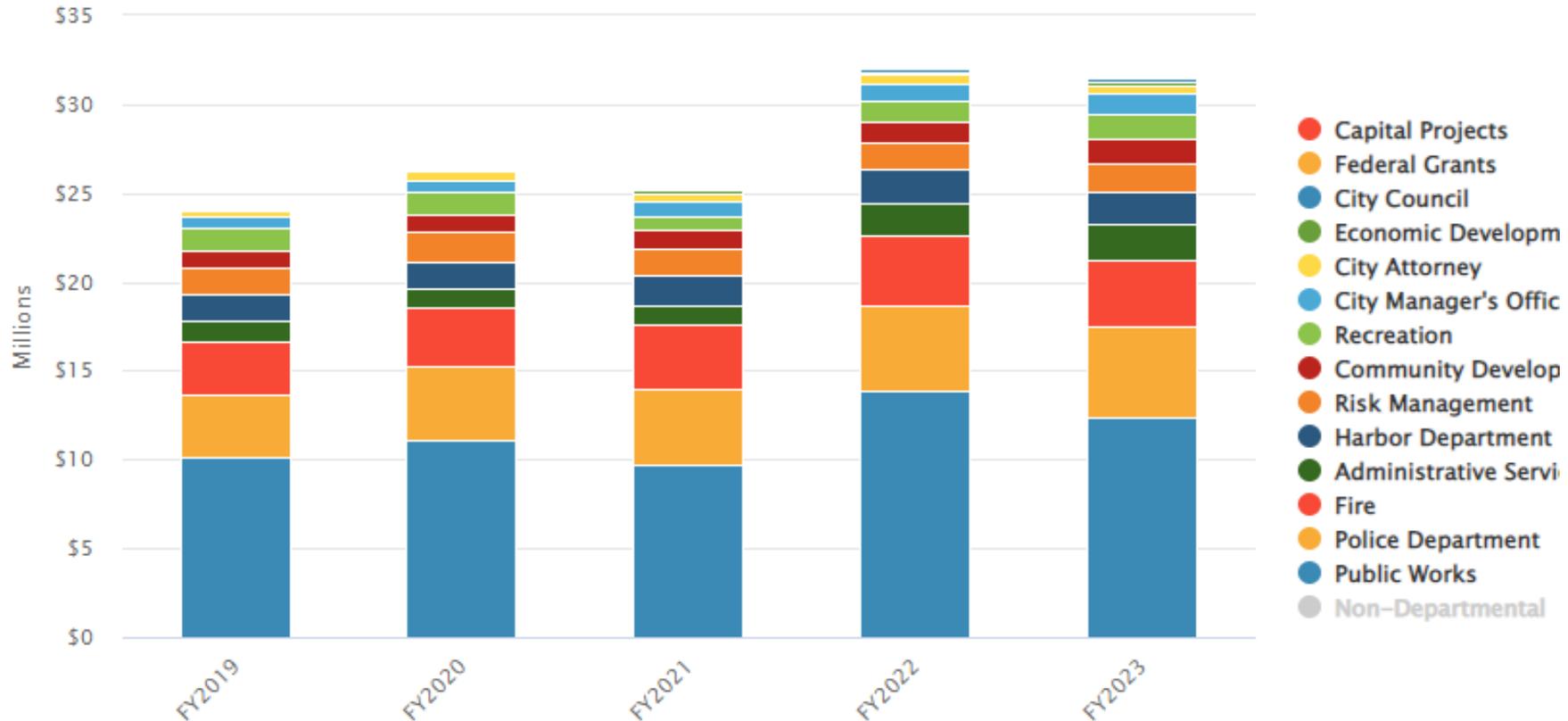
Up only \$0.2 million or an increase of 0.5% from the prior year's budget

Excluding Transfers	\$35,067,499
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Citywide Operating Expenditures by Department-without transfers

Text



Major Operating Funds

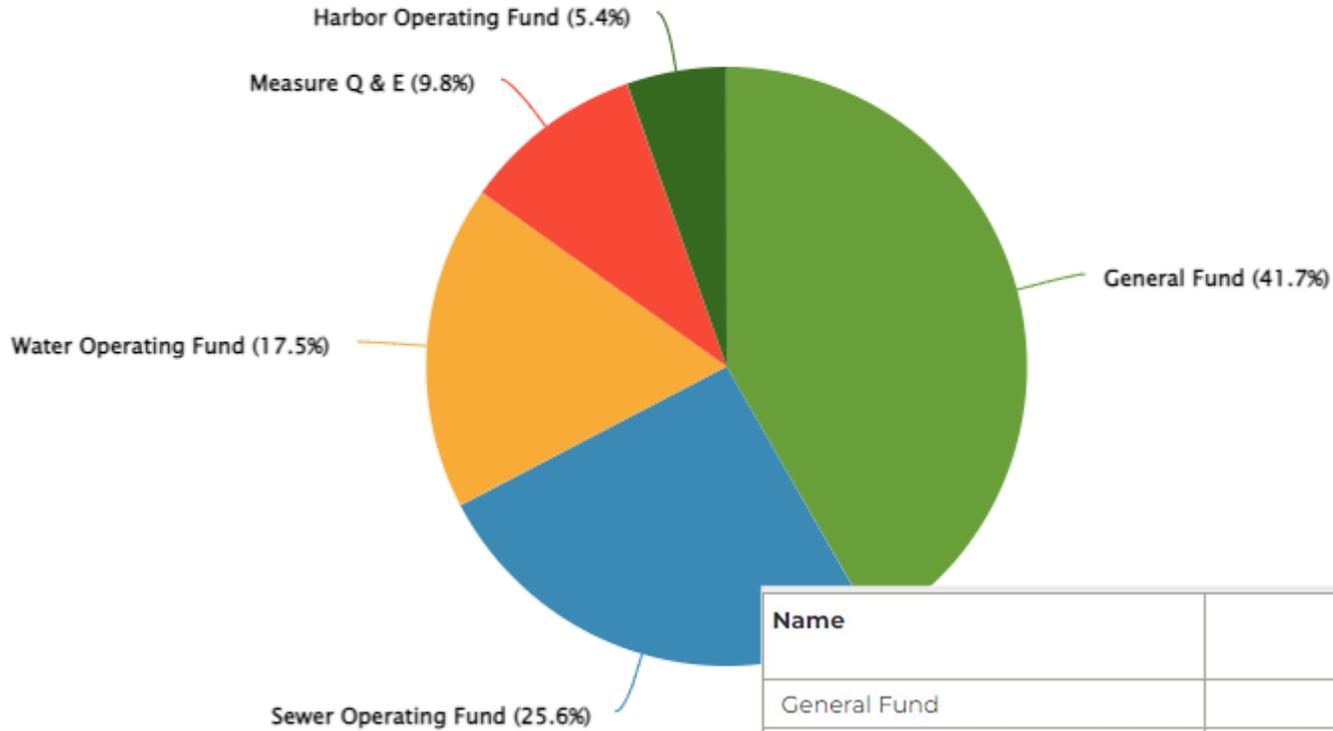
- City has 49 active funds (effort underway to consolidate)
- 5 of those funds represent about 90% of budget
- Remainder of presentation will focus on those funds





Revenue by Fund

Major Funds



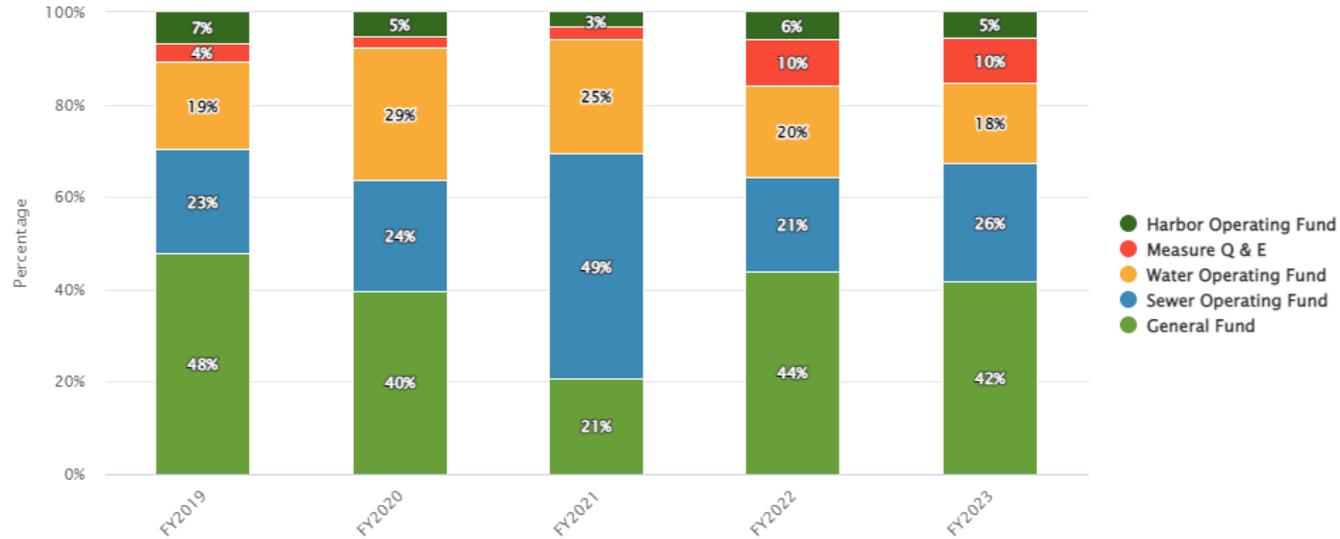
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Name	FY2022 Amended Budget	FY2023 Budgeted	FY2022 Amended Budget vs. FY2023 Budgeted (% Change)
General Fund	\$16,830,411	\$18,348,748	9%
Measure Q & E	\$3,938,184	\$4,292,000	9%
Harbor Operating Fund	\$2,220,100	\$2,360,964	6.3%
Sewer Operating Fund	\$7,899,605	\$11,244,348	42.3%
Water Operating Fund	\$7,540,200	\$7,704,200	2.2%
Total:	\$38,428,501	\$43,950,260	14.4%



Expenditures by Fund

Major Funds



Name	FY2022 Amended Budget	FY2023 Budgeted	FY2022 Amended Budget vs. FY2023 Budgeted (% Change)
General Fund	\$16,665,520	\$20,783,164	24.7%
Measure Q & E	\$4,536,808	\$5,161,531	13.8%
Harbor Operating Fund	\$2,246,429	\$2,268,488	1%
Sewer Operating Fund	\$7,901,154	\$15,212,747	92.5%
Water Operating Fund	\$8,460,709	\$8,988,943	6.2%
Total:	\$39,810,620	\$52,414,873	31.7%

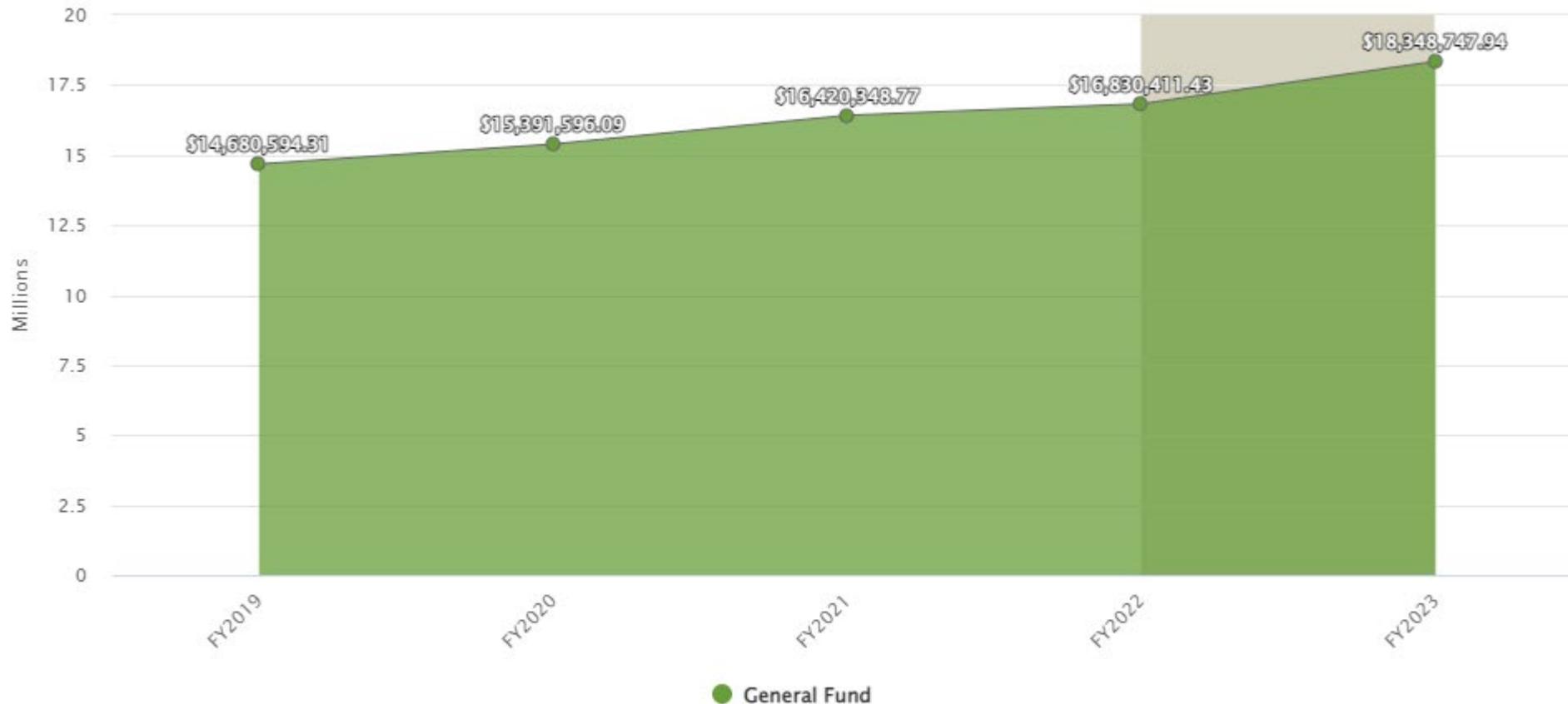
General Fund





General Fund Revenues

Up 9% from prior year overall





General Fund Revenues

Primary Revenue Sources:

Property Tax – up 1%

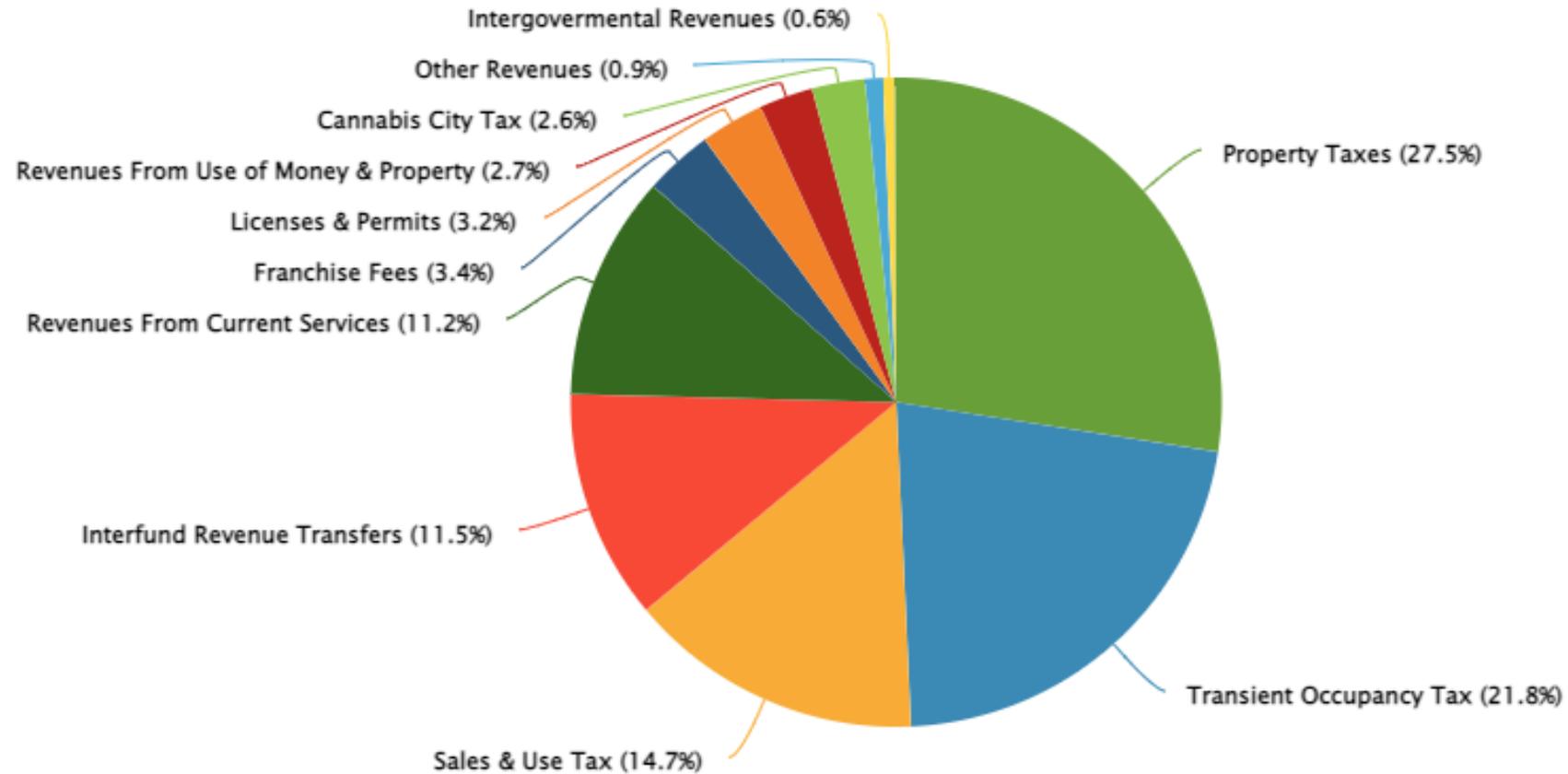
TOT – up 2%

Sales tax – up 9%

Current services – up 6%

One-time ARPA revenues -
\$740,000

Growth is projected to
level off in out years to the
2-4% range.

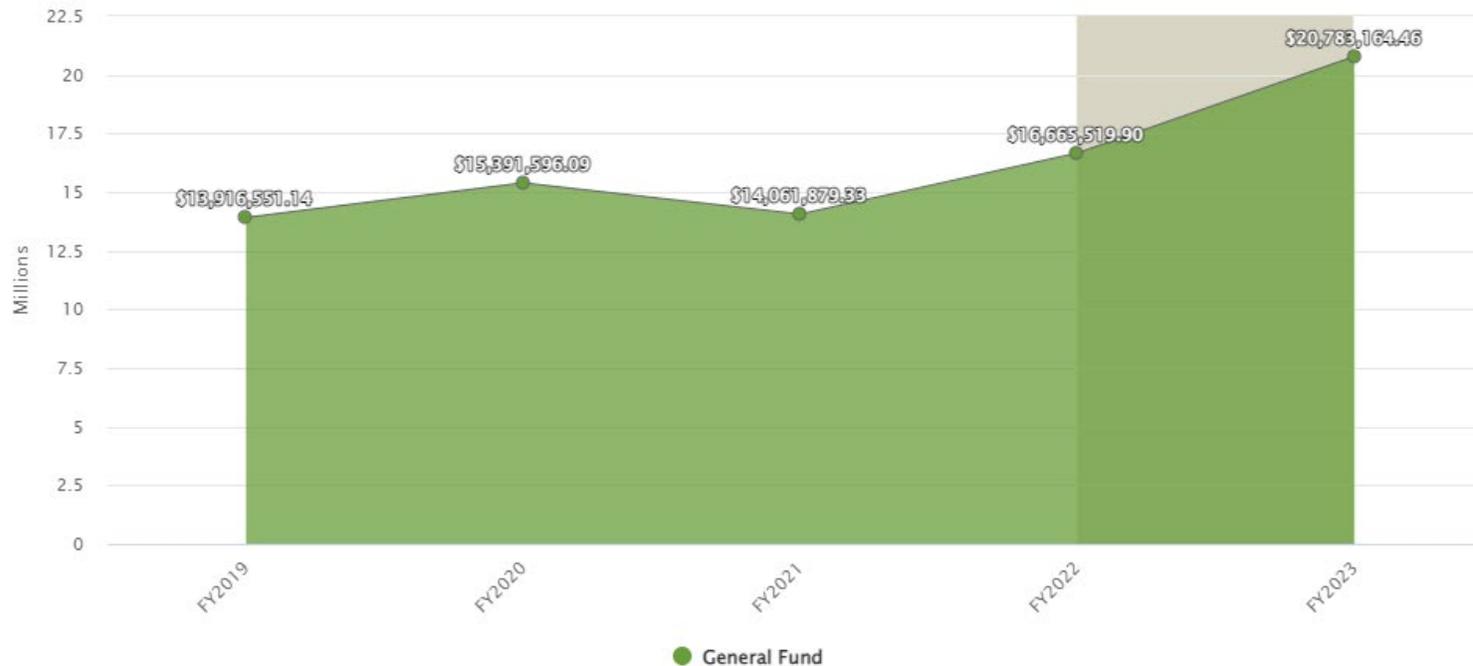




General Fund Expenditures

Net of One-Time Expenditures and Transfers: \$16.3 million

- FY 2021-22 Amended Budget Net of Transfers: \$15.4 million
- Increase of \$0.9 million or 5.8%



Year-over-year increase including all one-time expenditures is 24.7%



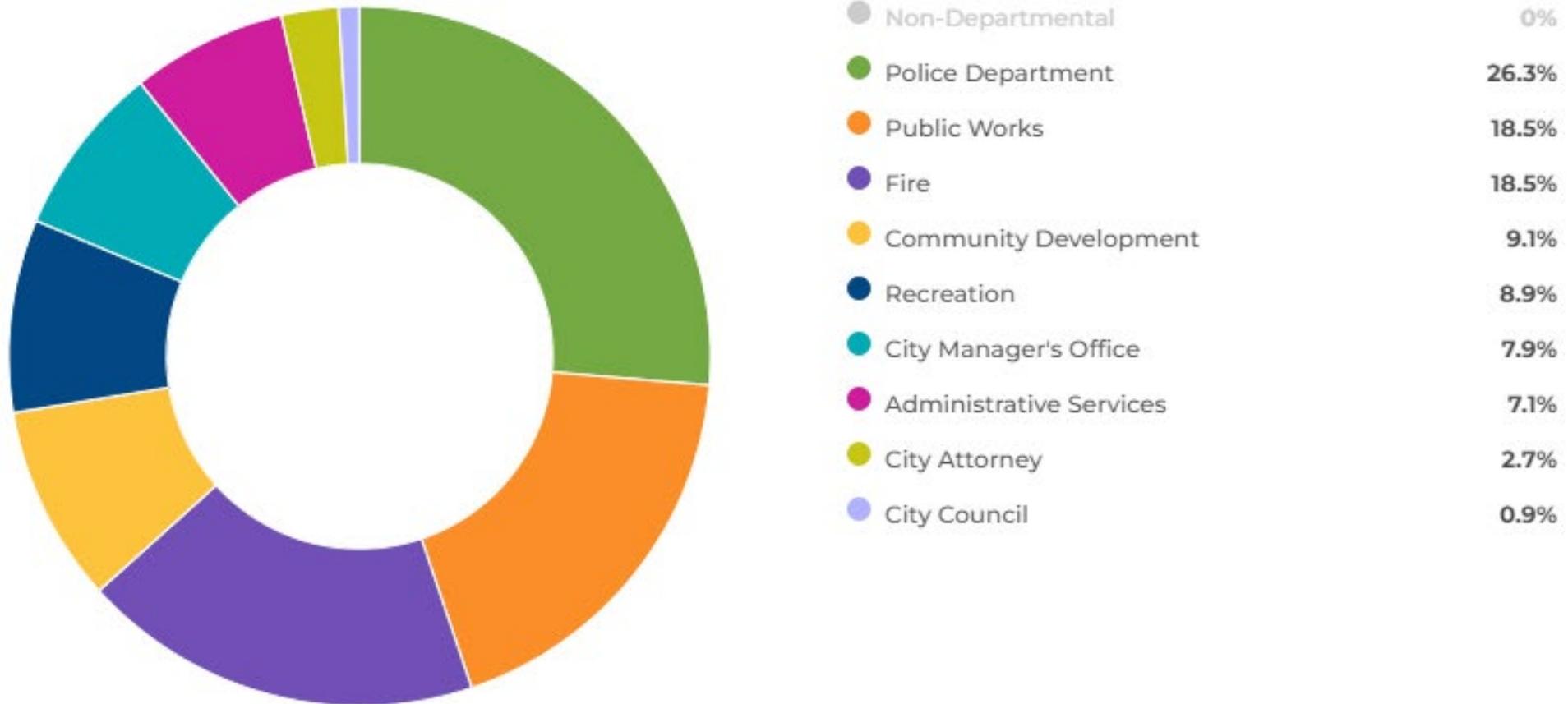
General Fund One-Time Expenditures

Appx **\$3.5** million for one-time transfers or expenditures aimed at improving the City's long-term **fiscal sustainability**:

- **\$1.1M** - to the General Fund Emergency Reserve to comply with reserve policy
 - 33% of operating expenditures in General Fund and Measure Q & E
- **\$0.3M** - to the General Fund Vehicle Replacement Fund to comply with reserve policy
 - 20% of the value of the General Fund fleet
- **\$0.1M** transfer to the General Fund Compensable Leave Fund to comply with reserve policy
 - 30% of the liability in last year's ACFR
- **\$1.1M** - pay off the USDA loan for the Fire Station building (2016 Council direction)
 - Using one-time property sale proceeds & Measure Q&E contribution
- **\$0.8M** - to a pension trust to address the City's long-term pension liability
 - per pension reserve policy (**Resolution 37-22**)



General Fund Expenditures by Department, Net of Transfers





General Fund Key Ongoing Expenditure Changes

Personnel - increased by 11.6% from the prior year

- Adding one net new position to the General Fund
 - Adding Building Inspector/Code Enforcement Officer
 - Adding Public Works Admin Tech and eliminating Environmental Programs Manager
- Adding part-time costs (primarily in Recreation)
- Placeholder for anticipated personnel cost increases (pending labor negotiations)
- No contributions to OPEB trust – largely fully funded
- PERS normal costs stable in FY 22-23 but will increase in FY 23-24

Supplies & Services - increasing by 7%-8% due to inflation

GENERAL FUND (001)	Forecast					
	FY 2022 Projected	FY 2023 Budget	FY 2024	FY 2025	FY 2026	FY 2027
Revenue						
Property Tax	4,993,610	5,037,900	5,189,037	5,344,708	5,505,049	5,670,201
Sales Tax	2,460,456	2,690,000	2,770,700	2,826,114	2,882,636	2,940,289
Transient Occupancy Tax	3,927,869	4,006,000	4,126,180	4,249,965	4,419,964	4,596,763
Other Revenue	4,593,677	4,512,984	4,648,373	4,787,825	4,931,459	5,079,403
Transfers In	1,218,364	2,101,864	1,424,920	1,467,668	1,511,698	1,557,048
TOTAL REVENUE	17,193,976	18,348,748	18,159,210	18,676,280	19,250,807	19,843,704
Expense						
Personnel	11,099,528	11,997,342	12,555,862	13,080,009	13,581,402	14,148,523
Operational Costs	8,591,668	9,797,999	10,287,899	10,802,294	11,342,409	11,909,529
Ongoing costs for long-term liabilities (PERS)	2,507,860	2,199,343	2,267,963	2,277,715	2,238,994	2,238,994
Other Operations & Maintenance	3,690,296	4,265,074	4,478,328	4,702,244	4,937,357	5,184,224
Transfers Out	833,166	2,070,769	632,769	632,769	632,769	632,769
Debt Service Payments	-	1,133,979	35,189	35,189	35,189	35,189
TOTAL EXPENSE	15,622,990	19,467,164	17,702,148	18,450,211	19,186,717	20,000,705
Net Surplus (Shortfall)	1,570,986	(1,118,417)	457,063	226,068	64,090	(157,001)
Capital	456,522	490,000	500,000	500,000	500,000	500,000
Net Surplus (Shortfall) including Capital	1,114,464	(1,608,417)	(42,937)	(273,932)	(435,910)	(657,001)
Contribution to 115 Trust	-	826,000				
Starting Fund Balance		3,955,000	1,520,583	1,477,646	1,203,715	767,804
ENDING FUND BALANCE	3,955,000	1,520,583	1,477,646	1,203,715	767,804	110,803
General Fund Emergency Reserve Fund Balance	4,290,000	5,377,000	5,377,000	5,377,000	5,377,000	5,377,000
Total Fund Balance as % of Total Operating Expenses (Gen Fund and GFER Total / GF + Q&E Operating)	44.2%	33.3%	33.9%	31.2%	28.0%	24.0%
Minimum Reserve Levels	MET	MET	MET	NOT MET	NOT MET	NOT MET
General Fund Emergency Reserve Policy: 33% prior year operating expenses. Includes Measure QE fund operating expenses.	6,158,489	6,844,436	6,673,790	6,956,921	7,235,531	7,543,581
Measure QE Fund Operating Expenses (excluding transfers)	3,039,097	2,647,531	2,521,459	2,631,366	2,739,133	2,858,630
Exclude from calculation - Loan Payoff		1,373,979				

Measure Q & E Fund





Measure Q & E Revenue

- **Revenues: \$4.3 million**
- **9% increase from FY 21-22**
- **Based on HdL projections**
- **Projections in the out years show slower growth**

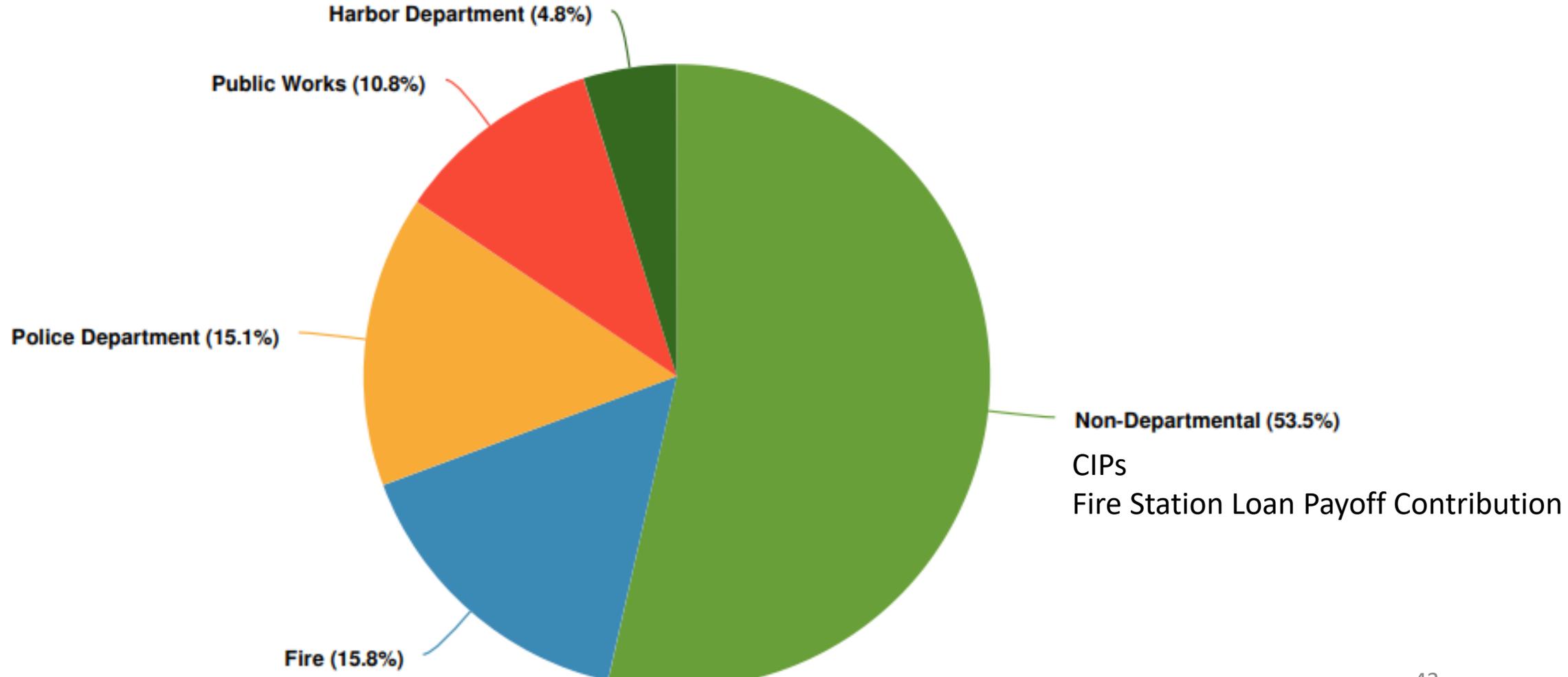


Measure Q & E Expenditures

- **Total:** \$5.1 million*
 - **Ongoing Costs:** \$2.3 million
 - Police: \$0.8 million
 - Fire: \$0.8 million
 - Public Works: \$0.5 million
 - Harbor: \$0.2 million
 - **One-time Costs:** \$2.8 million (54%)
- *anticipated to increase pending labor negotiations



Measure Q & E Expenditures by Department





Measure Q & E Capital Expenditures

Capital Project	FY 22-23 Measure Q & E Budget
FY 2022-23 Pavement Management	\$1,380,000
SR1/SR41/Main St Intersection Improvements	\$600,000
Automated License Plate Reader camera system	\$159,000
Citywide Speed Survey	\$75,000
ADA Accessibility Upgrades at Quintana and Main	\$90,000
Boat Launching Facility Ramp Replacement	\$210,000
Total Measure Q & E CIP Budget	\$2,514,000

MEASURE QE FUND (003)	Forecast				
	FY 2023 Budget	FY 2024	FY 2025	FY 2026	FY 2027
Revenue					
Tax Revenue	4,292,000	4,420,760	4,509,175	4,599,359	4,691,346
Other Revenue	-	-	-	-	-
Transfers In	-	-	-	-	-
TOTAL REVENUE	4,292,000	4,420,760	4,509,175	4,599,359	4,691,346
Expense					
Personnel	2,118,951	2,218,450	2,313,207	2,405,066	2,507,859
Operational Costs	1,775,929	1,864,725	1,957,962	2,055,860	2,158,653
Ongoing costs for long-term liabilities (PERS)	343,022	353,724	355,245	349,206	349,206
Other Operations & Maintenance	288,580	303,009	318,159	334,067	350,771
Transfers Out (Loan Payoff in FY 23)	240,000				
Debt Service Payments	-	-	-	-	-
TOTAL EXPENSE	2,647,531	2,521,459	2,631,366	2,739,133	2,858,630
Net Surplus (Shortfall)	1,644,469	1,899,301	1,877,809	1,860,225	1,832,716
Capital	2,514,000	2,000,000	1,900,000	1,850,000	1,850,000
Net Surplus (Shortfall) including Capital	(869,531)	(100,699)	(22,191)	10,225	(17,284)
Starting Fund Balance	1,021,086	151,555	50,856	28,665	38,890
ENDING FUND BALANCE	151,555	50,856	28,665	38,890	21,606
Fund Balance % of Total Operating Expenses	3%	1%	1%	1%	0%

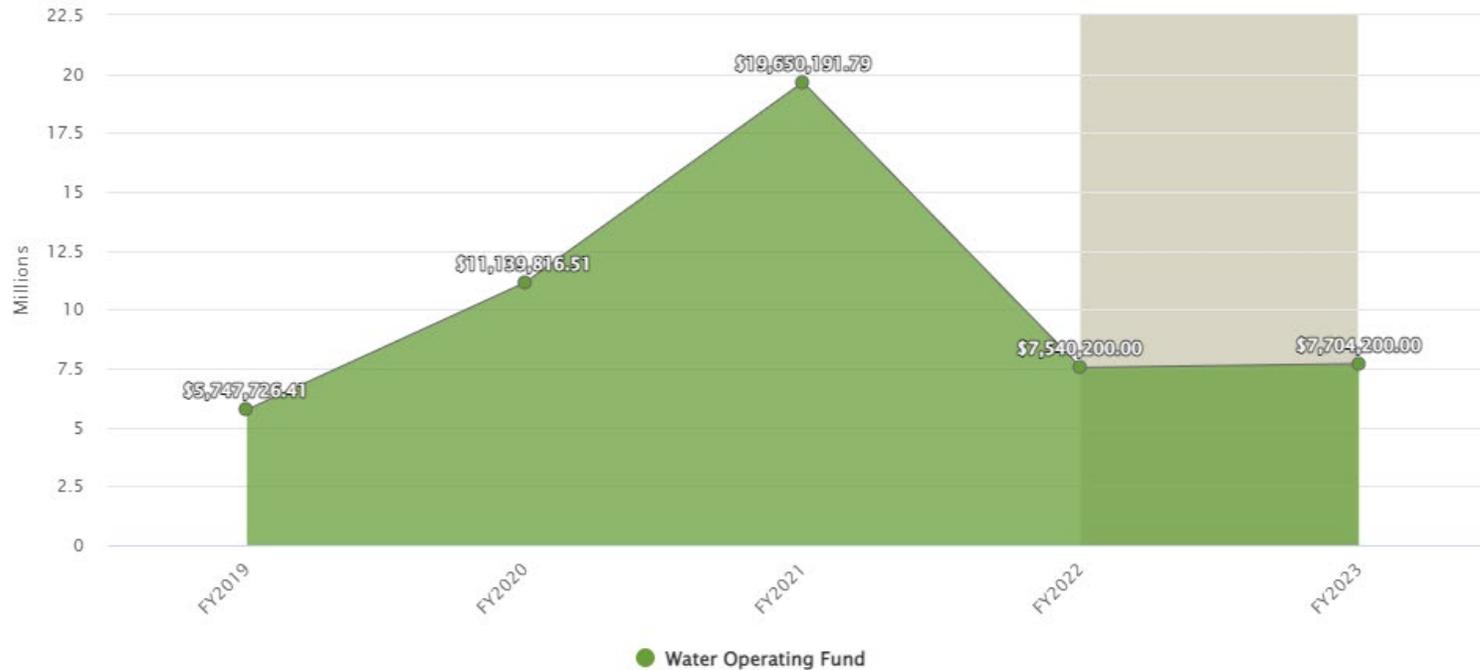
Water Fund





Water Operating Fund Revenue

- \$7.7 million, 2.2% increase over the prior year
- Jump in FY 2020-21 revenue reflects one-time loan disbursement associated with the Water Fund share of the WRF Project
- Ongoing revenues - projected to be stable since rates are not increasing in FY 2022-23



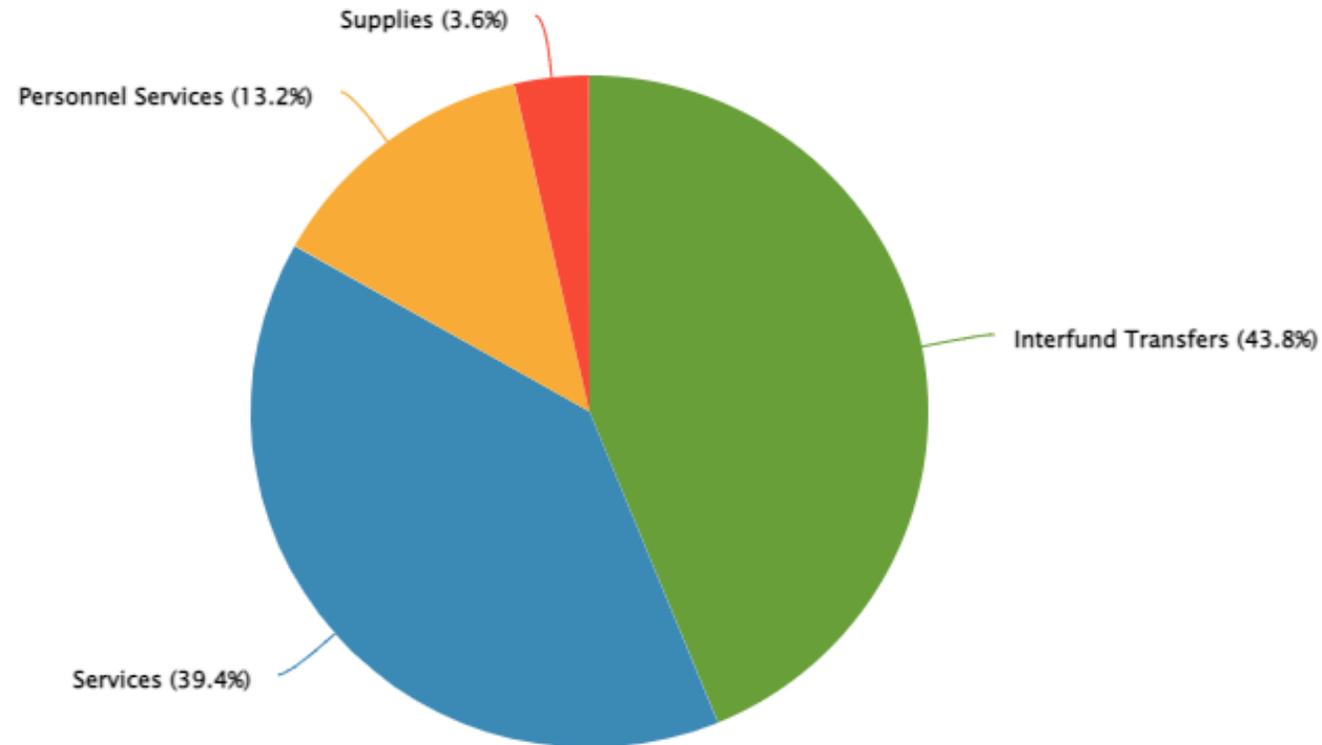


Water Operating Fund Expenditures

- \$9.0 million, a 6.5% increase
- Includes one time transfers out for capital projects

Transfers:

- Cost Allocation Plan - \$252,428
- Internal Services - \$55,796
- Capital Projects:
 - Water's portion of non-financed FY 2022-23 WRF budget - \$3,184,631
 - All other Water CIPs outlined in CIP budget - \$444,000



WATER OPERATING FUND (311)	Forecast				
	FY 2023 Budget	FY 2024	FY 2025	FY 2026	FY 2027
Revenue					
Rate Payer Revenue	7,604,000	7,604,000	7,604,000	7,604,000	7,604,000
Other Revenue	100,200	100,200	100,200	100,200	100,200
Transfers In	-	-	-	-	-
TOTAL REVENUE	7,704,200	7,704,200	7,704,200	7,704,200	7,704,200
Expense					
Personnel	1,118,302	1,170,407	1,219,378	1,266,286	1,319,286
Operational Costs	915,659	961,442	1,009,514	1,059,990	1,112,989
Ongoing costs for long-term liabilities (PERS)	202,643	208,965	209,864	206,296	206,296
Other Operations & Maintenance	3,862,786	4,055,925	4,258,722	4,471,658	4,695,241
Transfers Out (Ongoing)	309,224	309,224	309,224	309,224	309,224
Debt Service Payments			1,219,000	1,219,000	1,219,000
TOTAL EXPENSE	5,290,312	5,535,557	7,006,324	7,266,168	7,542,750
Net Surplus (Shortfall)	2,413,888	2,168,643	697,876	438,032	161,450
Capital	3,628,631	3,831,747	10,034,842	8,762,119	63,000
Net Surplus (Shortfall) including Capital	(1,214,743)	(1,663,104)	(9,336,966)	(8,324,087)	98,450
Contribution to 115 Trust	70,000	-	-	-	-
Starting Fund Balance	16,523,753	15,239,010	13,575,906	4,238,941	(4,085,146)
Transfer in from Accumulation & Equipment Replacement Funds (projected)					
ENDING FUND BALANCE	15,239,010	13,575,906	4,238,941	(4,085,146)	(3,986,696)
Fund Balance % of Total Operating Expenses	250%	212%	63%	-58%	-54%

Minimum Reserve Levels	MET	MET	MET	NOT MET	NOT MET
Debt Coverage Ratio of 1.2 or greater	N/A	N/A	1.6	1.4	1.1
Operating: 25% Annual Operating Expenses (PY Budget)	1,240,625	1,524,848	1,599,185	1,674,369	1,751,057
Rate Stabilization: 5% of prior year's rates	372,200	380,200	380,200	380,200	380,200
Vehicle Replacement: 20% of original value of Water fleet	50,885	50,885	50,885	50,885	50,885
	1,663,710	1,955,938	2,030,270	2,105,454	2,182,142

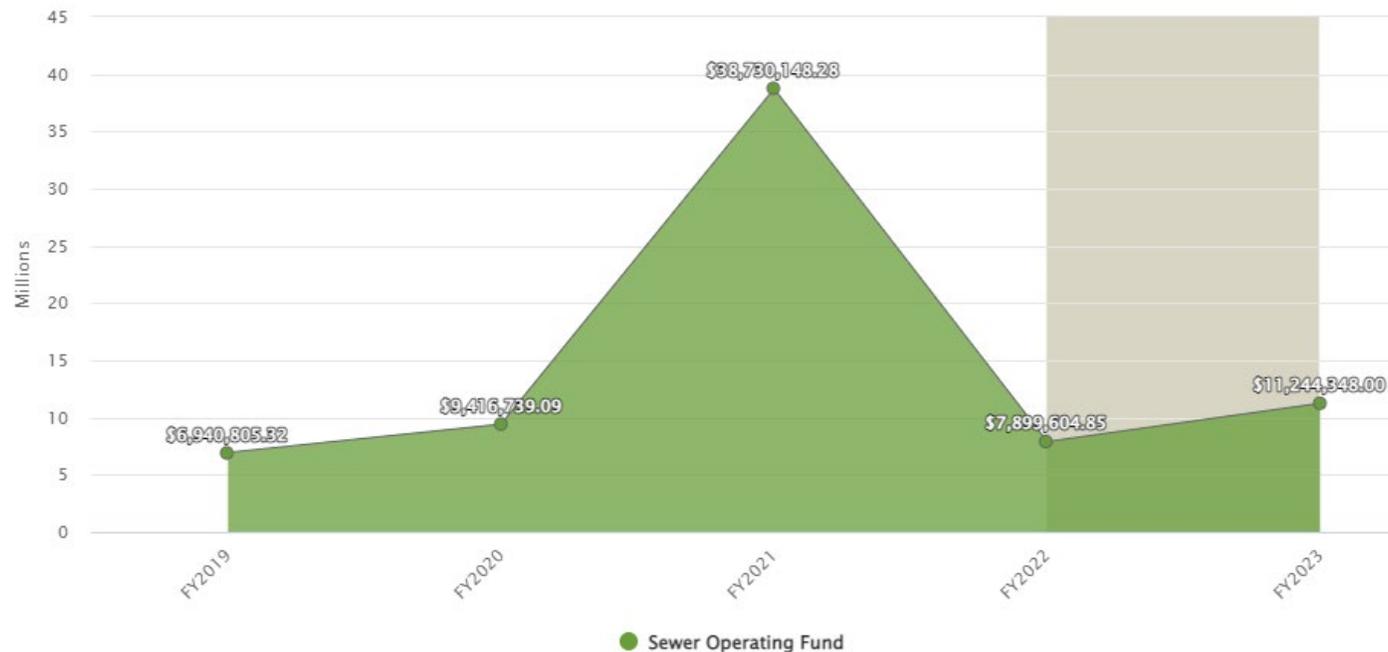
Sewer Fund





Sewer Operating Fund Revenue

- Projected \$11.2 million
- Ongoing revenues projected to be stable since rates are not increasing
- Jump in FY 2020-21 revenue reflects one-time loan disbursement associated with the Water Fund share of the WRF Project which are transferred to the Sewer Capital Fund



Grey background indicates budgeted figures.

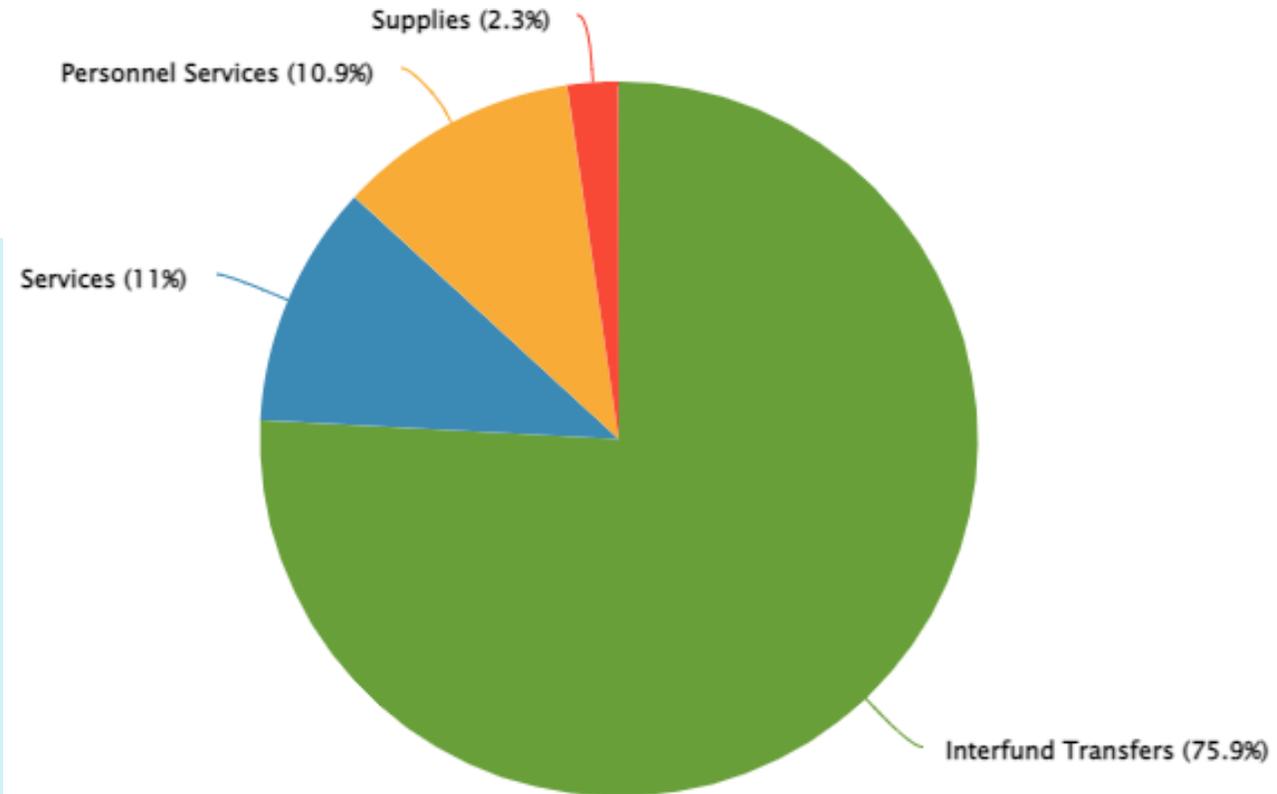


Sewer Operating Fund Expenditures

- \$15.2 million
- Includes over \$11 million in capital costs

Transfers:

- Cost Allocation Plan - \$257,193
- Internal Services - \$87,990
- Capital Projects:
 - Sewer's portion of non-financed FY 2022-23 WRF budget - \$7,430,805
 - Remaining financed portion of the Water Reclamation Facility - \$1,734,348
 - All other Sewer CIPs outlined in CIP budget - \$2,029,000



SEWER OPERATING FUND (321)	FY 2023 Budget	FY 2024	Forecast		
			FY 2025	FY 2026	FY 2027
Revenue					
Rate Payer Revenue	9,460,000	9,460,000	9,460,000	9,649,200	9,842,184
Other Revenue	1,784,348	1,784,348	1,784,348	1,784,348	1,784,348
Transfers In	-	-	-	-	-
TOTAL REVENUE	11,244,348	11,244,348	11,244,348	11,433,548	11,626,532
Expense (Operating)					
Personnel	1,555,313	1,627,572	1,695,147	1,759,581	1,832,651
Operational Costs	1,262,409	1,325,529	1,391,806	1,461,396	1,534,466
Ongoing costs for long-term liabilities (PERS)	292,904	302,043	303,341	298,185	298,185
Other Operations & Maintenance	2,022,098	2,123,203	2,229,363	2,340,831	2,457,873
Transfers Out (Ongoing)	345,183	345,183	345,183	345,183	345,183
Debt Service Payments	-	-	3,609,000	3,609,000	3,609,000
TOTAL EXPENSE	3,922,594	4,095,958	7,878,693	8,054,595	8,244,706
Net Surplus (Shortfall) - Operating	7,321,754	7,148,390	3,365,655	3,378,953	3,381,826
Capital	11,194,153	8,071,282	12,489,611	4,204,000	107,000
Net Surplus (Shortfall) including Capital	(3,872,399)	(922,892)	(9,123,956)	(825,047)	3,274,826
Contribution to 115 Trust	96,000	-	-	-	-
Starting Fund Balance	20,190,088	16,221,689	15,298,797	6,174,841	5,349,794
Transfer in from Accumulation & Equipment Replacement Funds (projected)					
ENDING FUND BALANCE	16,221,689	15,298,797	6,174,841	5,349,794	8,624,619
Fund Balance % of Total Operating Expenses	316%	284%	110%	91%	141%

Minimum Reserve Levels	MET	MET	MET	MET	MET
Debt Coverage Ratio of 1.2 or greater	N/A	N/A	1.9	1.9	1.9
Operating: 25% Annual Operating Expenses (PY Budget)	966,984	1,283,181	1,344,587	1,404,914	1,464,998
Rate Stabilization: 5% of prior year's rates	460,000	473,000	473,000	473,000	482,460
Vehicle Replacement Reserve: 20% of fleet value	99,891	99,891	99,891	99,891	99,891
	1,526,874	1,856,072	1,917,477	1,977,805	2,047,349

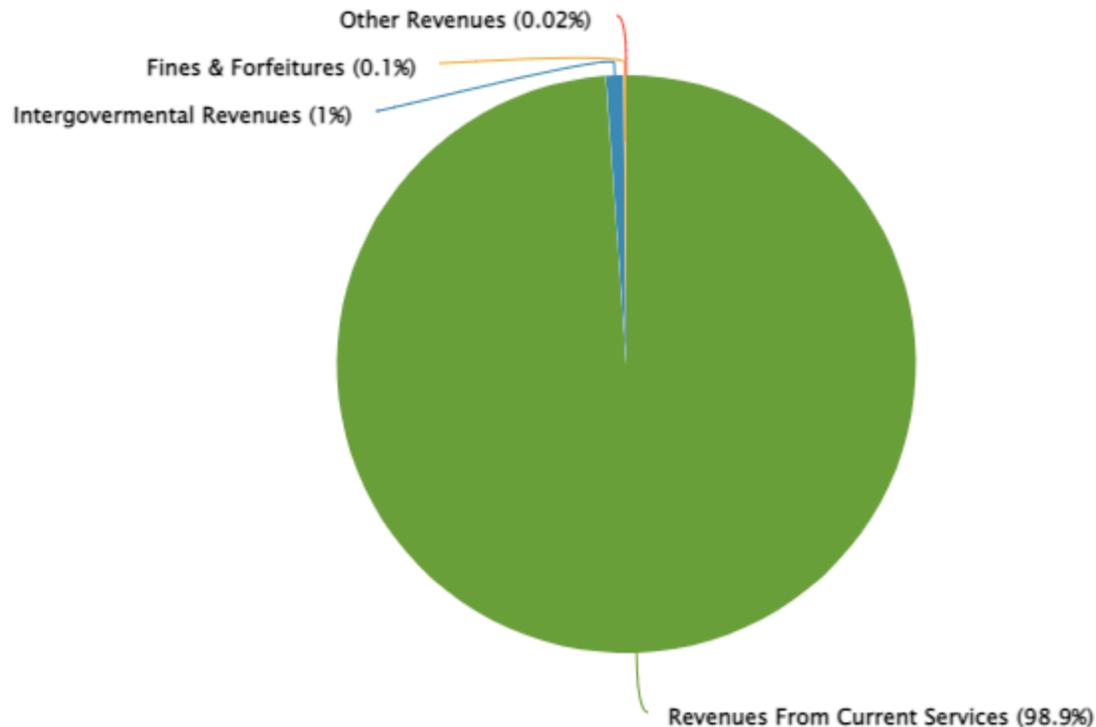
Harbor Fund





Harbor Operating Fund Revenue

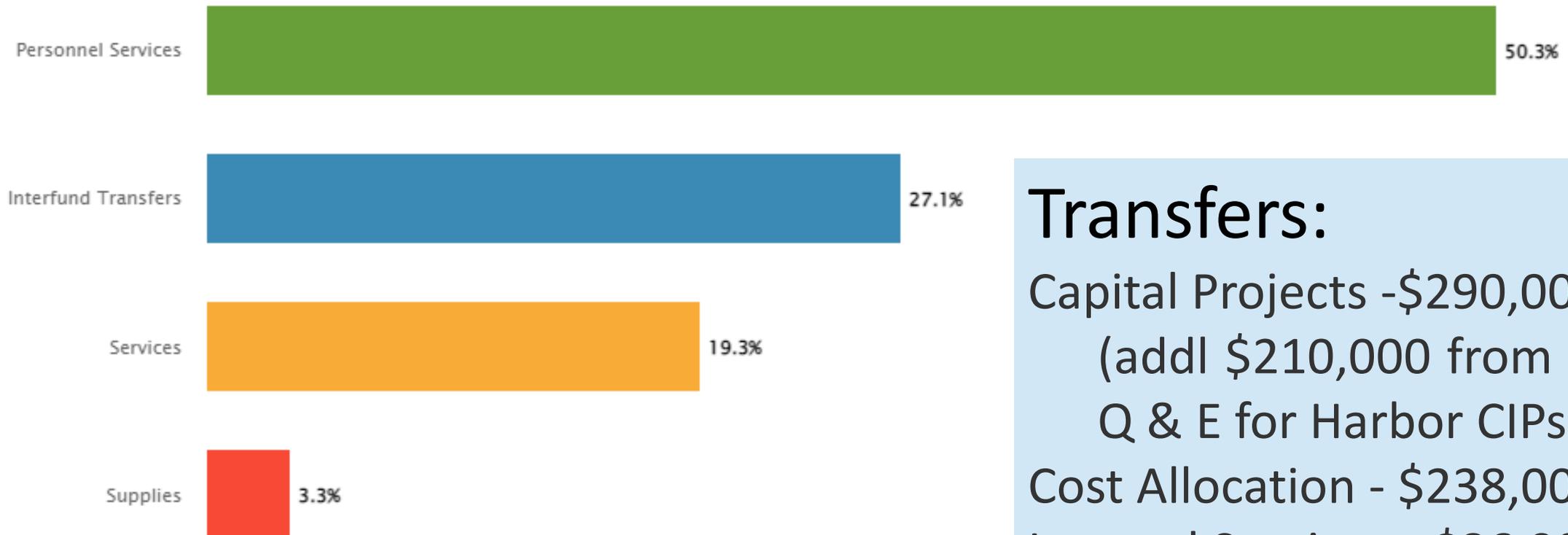
- Projecting \$2.4 million, 6.3% increase
- Primarily related to increasing lease revenues
- RV Program not reflected since program was eliminated





Harbor Operating Fund Expenditures

- Projected to increase by 0.6% to \$2.3 million
- Operating surplus of \$0.1 million



Transfers:

Capital Projects - \$290,000
(addl \$210,000 from Measure Q & E for Harbor CIPs).
Cost Allocation - \$238,000
Internal Services - \$86,000

HARBOR OPERATING FUND (331)	Forecast				
	FY 2023 Budget	FY 2024	FY 2025	FY 2026	FY 2027
Revenue					
Harbor Leases	1,850,854	1,887,871	1,925,629	1,964,141	2,003,424
Boat Charges	413,110	421,372	429,800	438,396	447,164
Other Charges for Service	73,000	74,460	75,949	77,468	79,018
Other Revenue	24,000	24,000	24,000	24,000	24,000
Transfers In	-	-	-	-	-
TOTAL REVENUE	2,360,964	2,407,703	2,455,377	2,504,005	2,553,605
Expense					
Personnel	1,073,290	1,122,384	1,167,045	1,208,526	1,256,576
Operational Costs	830,152	871,660	915,243	961,005	1,009,055
Ongoing costs for long-term liabilities (PERS)	243,138	250,724	251,802	247,521	247,521
Other Operations & Maintenance	512,804	538,444	565,366	593,635	623,316
Transfers Out (Ongoing)	324,394	324,394	324,394	324,394	324,394
Debt Service Payments	-	-	-	-	-
TOTAL EXPENSE	1,910,488	1,985,222	2,056,805	2,126,555	2,204,287
Net Surplus (Shortfall) - Operating	450,476	422,482	398,572	377,450	349,318
Capital	290,000	800,000	800,000	800,000	800,000
Net Surplus (Shortfall) including Capital	160,476	(377,518)	(401,428)	(422,550)	(450,682)
Contribution to 115 Trust	68,000	-	-	-	-
Starting Fund Balance	885,297	977,773	600,255	198,827	(223,723)
ENDING FUND BALANCE	977,773	600,255	198,827	(223,723)	(674,405)
Fund Balance - % of Total Operating Expenses	37%	22%	7%	-7%	-22%

Minimum Reserve Levels	MET	MET	NOT MET	NOT MET	NOT MET
15% Annual Operating Expenses (PY Budget)	402,140	398,908	417,482	434,918	451,603

American Rescue Plan Act (ARPA) Fund





American Rescue Act (ARPA Fund)

- City's total allocation is \$2,522,110
 - 1st half received during FY 2021-22
 - 2nd half to be received in FY 2022-23
- \$1.25 million budget in FY 22-23
- Proposed uses include many one-time uses
 - Includes funding for local non-profits
 - Regional efforts to address homelessness
- One-time support for ongoing services as revenues recover; allowable under final rule

Replacement of Police vehicle	\$65,000
Fire Dept. purchase of EKG heart monitors	\$85,000
Community Grant Program for non-profits impacted by pandemic	\$25,000
Homeless Service Contribution	\$50,000
Organizational Assessment and Teambuilding	\$110,000
Total Compensation Study	\$120,000
Storage Area Network Replacement	\$50,000
Provision of Critical Government Services	\$740,000

Capital Improvement Program Budget

Scheduled for discussion on May 25th

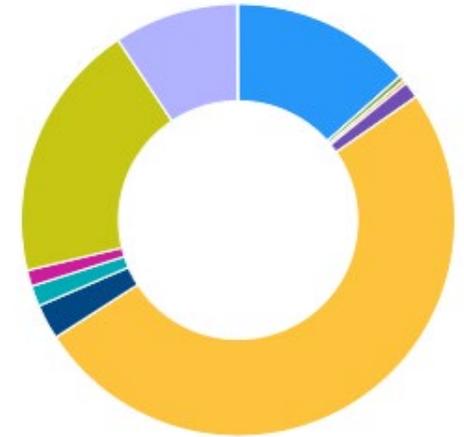




CIP One-Year Plan

- Investing total of \$18.7 million in critical infrastructure in proposed program
- Investing 12.35 million for WRF
- Investing \$1.7 million in road paving
- Capital Needs Assessment
- Purchase of water, sewer, and transit vehicles

Total Funding Requested by Source



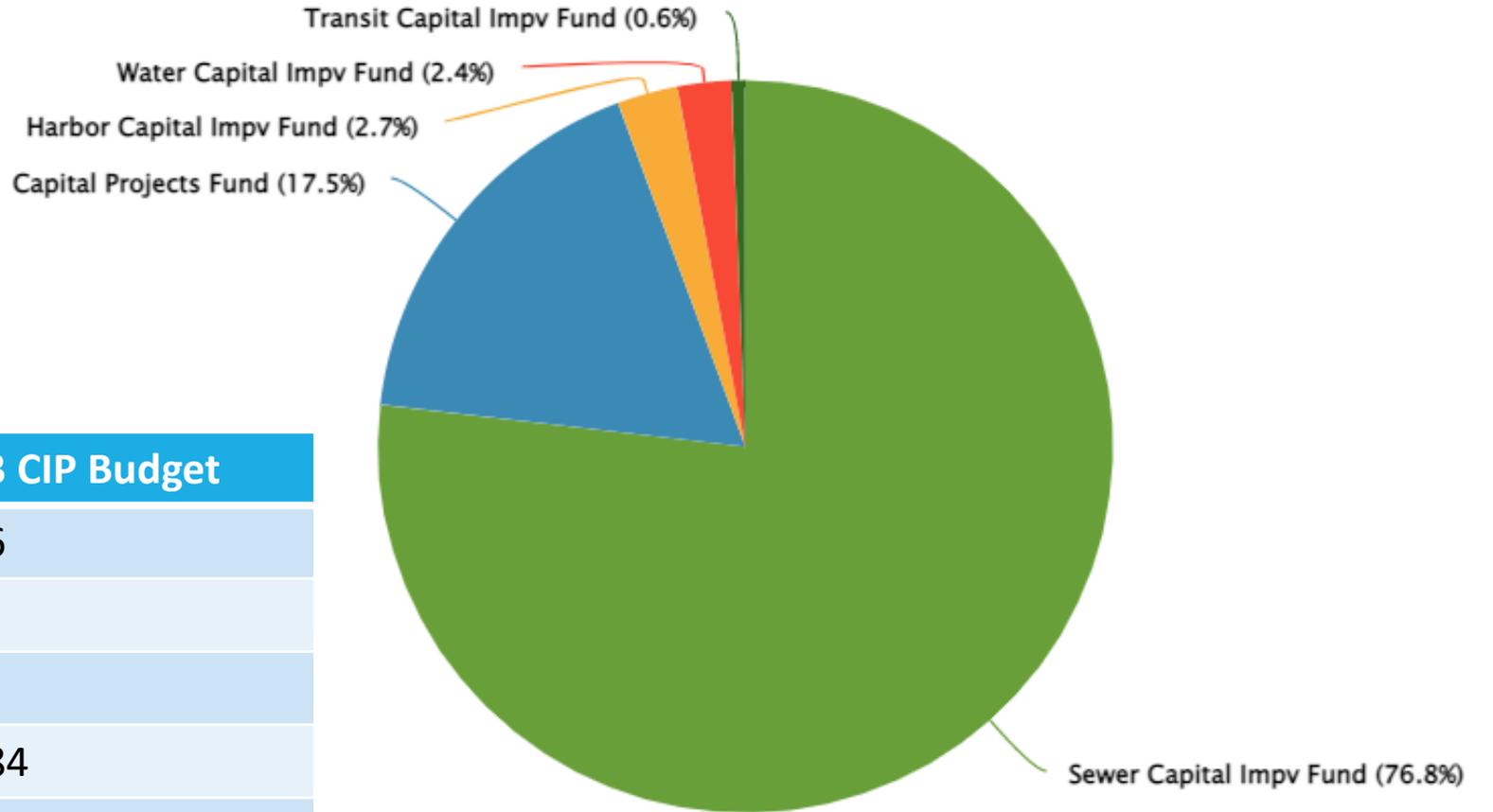
Measure Q & E (13%)	\$2,514,000.00
Bike Path Fund (0%)	\$72,423.00
LTF Roads Fund (0%)	\$52,142.00
RMRA Funding (1%)	\$233,281.00
Sewer Fund (51%)	\$9,459,805.00
General Fund (3%)	\$490,000.00
Harbor Fund (2%)	\$290,000.00
Grant (1%)	\$227,300.00
Water Fund (19%)	\$3,628,631.00
WIFIA/SRF Loans (9%)	\$1,734,348.00
Transit Fund (0%)	\$13,200.00

TOTAL

\$18,715,130.00



CIP Expenditures by Fund

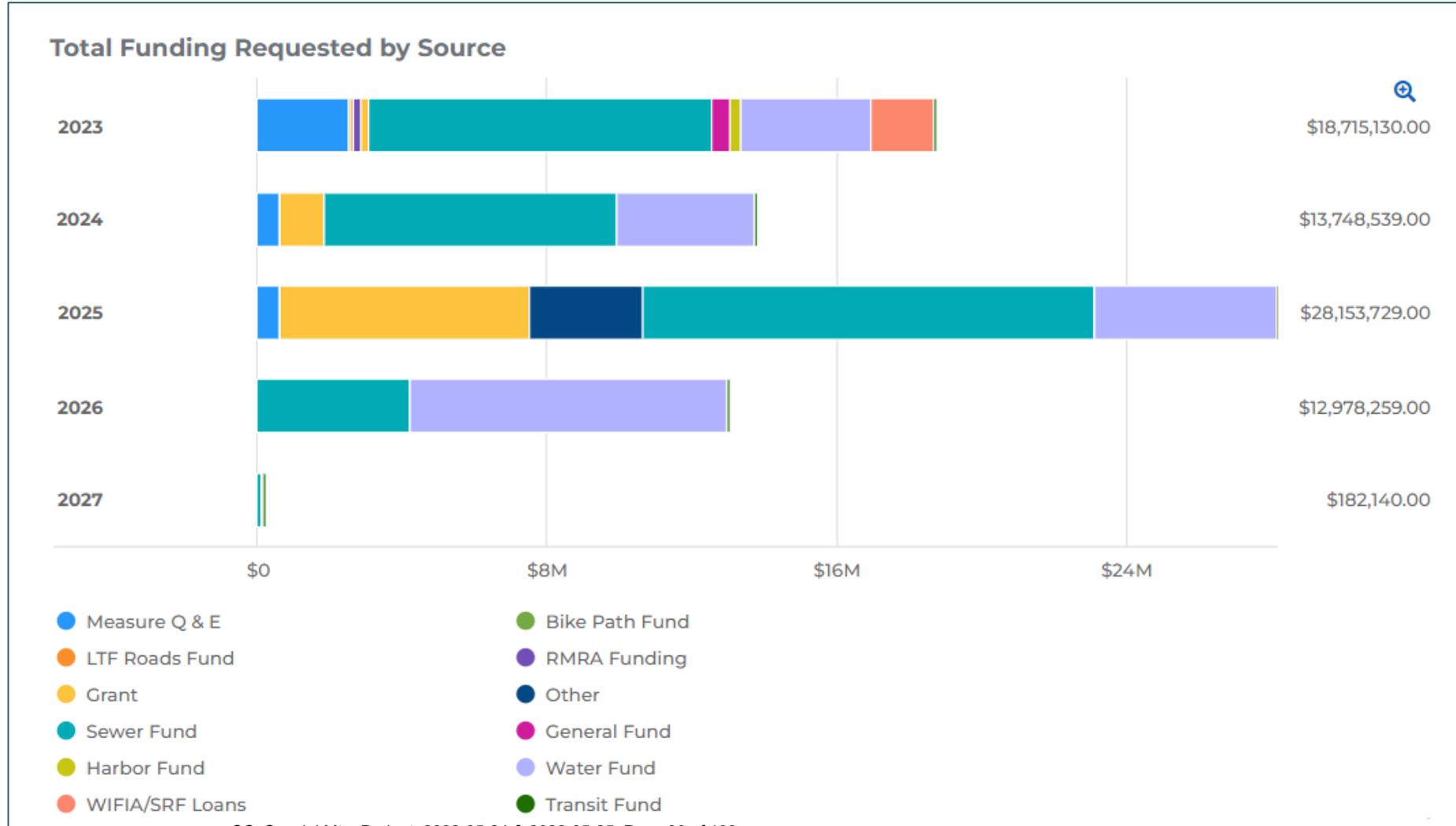


Fund	FY 2022-23 CIP Budget
General Government CIP Fund	\$3,282,346
Transit CIP Fund	\$110,000
Harbor CIP Fund	\$500,000
Sewer CIP Fund	\$14,378,784
Water CIP Fund	\$444,000
Total	\$18,715,130



CIP Multi-Year Plan

- Planning exercise
- Budget not appropriated until out years
- Planning numbers included in five-year forecasts

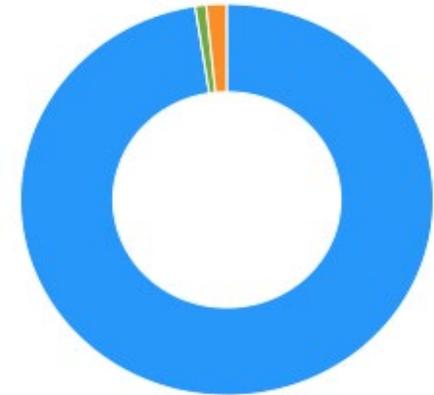




CIP-FY 2022-23 Projects Listing

1	WRF - Water Reclamation Facility Project	\$12,349,784
2	Water Tank Rehabilitation - Blanca and Kings Water Tanks	\$125,000
3	Wastewater Treatment Plant Decommissioning	\$135,000
4	SR1/SR41/Main St Intersection Improvements	\$600,000
5	Reverse Osmosis Facility Upgrades - Preliminary Plan	\$80,000
6	One Water Plan Update	\$60,000
7	Morro Bay Transit Vehicle Replacement	\$110,000
8	Local Roadway Safety Plan (LRSP)	\$50,000
9	Lila Kaiser Parking Lot Rehabilitation and ADA Upgrades	\$120,000
10	Lift Station No. 1 Force Main Replacement	\$400,000
11	Harbor Patrol Vessel Replacement	\$90,000
12	Emergency Storm Drain Repair - Sequoia Court	\$120,000
13	Emergency Storm Drain Repair Juniper/Elena	\$83,000
14	Electric Vehicle Charging Stations	\$40,000
15	Citywide Speed Survey	\$75,000
16	Citywide Capital and Facilities Planning	\$400,000
17	Capital Vehicles and Equipment Replacement – Water	\$209,000
18	Capital Vehicles and Equipment Replacement - Sewer	\$174,000
19	Boat Launch Ramp & Float Replacement Planning	\$210,000
20	Beachcomber Drive Sewer Main Replacement	\$1,207,000
21	Automated License Plate Reader camera system	\$159,000
22	Annual Pavement Management Program-FY 22-23	\$1,737,846
23	ADA Accessibility Upgrades at Quintana and Main Streets Intersection	\$180,500

Total of 23 Capital Improvement Projects



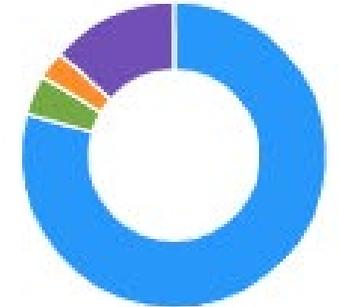
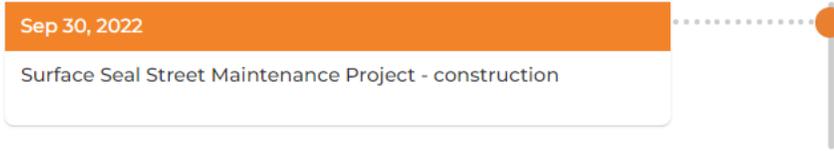
Public Works (98%)	\$18,256,130.00
Police Department (1%)	\$159,000.00
Harbor Department (2%)	\$300,000.00
TOTAL	\$18,715,130.00



FY 22-23 Pavement Mgmt



Projected Timeline



● Measure Q & E (79%)	\$1,380,000.00
● Bike Path Fund (4%)	\$72,423.00
● LTF Roads Fund (3%)	\$52,142.00
● RMRA Funding (13%)	\$233,281.00
TOTAL	\$1,737,846.00



All Project Details in Budget Book

Introduction Budget Overview Fund Summaries Departments **Capital Improvements** Debt [Print](#)

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Capital Improvements: One-year Plan

The Capital Improvement Plan (CIP) enables the City to plan, schedule, and fund capital projects to ensure cost effectiveness and conformance with established plans and policies. The City's budget process guides capital spending priorities through community input, Council goal setting, Measure Q & E expenditure priorities, and the Major City Goal work programs as defined by City Council.

Vehicle purchases are not represented in the Capital Improvement Program, but are budgeted directly in the General Vehicle Replacement Fund, American Rescue Act (ARPA) Fund, and Special Safety Grant (COPS) operating budget and reflect the City's investment in fleet within those Funds.

Total Capital Requested

\$18,715,130

23 Capital Improvement Projects

Total Funding Requested by Department

Total Funding Requested by Source



Recommendation

Receive the Proposed Fiscal Year (FY) 2022-23 Citywide Operating and Capital Budget and provide feedback prior to budget adoption, scheduled in June.



AGENDA NO: II

MEETING DATE: May 25, 2022

Staff Report

TO: Honorable Mayor and City Council

DATE: May 20, 2022

FROM: Greg Kwolek – Public Works Director
Eric Riddiough, P.E. – City Engineer
Paul Amico, P.E. – Water Reclamation Facility (WRF) Program Manager
Sarah Johnson-Rion – Assistant City Manager/Admin Services Director
Scott Collins – City Manager

SUBJECT: Fiscal Year 2022/23 Capital Improvement Project Budget Overview and WRF Program Quarter 3 (Q3) Fiscal Year 2022 (FY2022) Quarterly Report

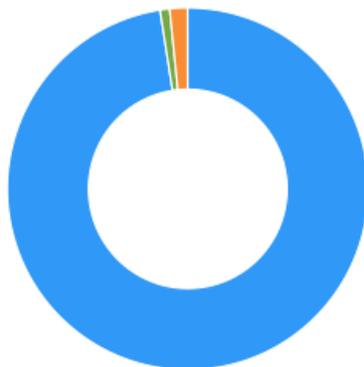
RECOMMENDATION

Receive the Proposed Fiscal Year (FY) 2022-23 Capital Improvement Project Budget and the FY2022 WRF Quarter 3 (Q3) Report and provide feedback prior to budget adoption, scheduled in June 2022.

PUBLIC WORKS FY2022-2023 CAPITAL BUDGET

The FY 2022-23 Proposed Citywide CIP budget includes \$18.7 million to fund 23 capital projects. This funding is new budget appropriation that is in addition to prior year budget appropriations. Any unexpended capital budget from prior years will carry forward, pending Council approval of that practice again this year with budget adoption. The Public Works portion of the FY2022-23 CIP budget request is \$18.3 million, which includes budget requests for the WRF program, OneWater projects, City streets' safety and improvements, Americans with Disabilities Act (ADA) improvements and other capital projects and equipment purchases.

Total Funding Requested by Department



Public Works (98%)	\$18,256,130.00
Police Department (1%)	\$159,000.00
Harbor Department (2%)	\$300,000.00
TOTAL	\$18,715,130.00

Prepared By: GK

Dept Review: GK

City Manager Review: SC

City Attorney

Setting aside existing funds and seeking new funding sources to carry out projects are a part of the infrastructure equation. In addition to funding, the City must also secure sufficient engineer and project management staff capacity to plan for and implement projects. The City has added capacity in the past year by splitting the duties of the Public Works Director and City Engineer, upgrading an existing engineer position, and adding an engineer tech position (a position that had been cut during COVID out of financial necessity). Further, the Public Works Department is currently training an internal employee to perform public works inspections, a position previously not included in the organizational chart, but one that will allow the existing engineers and project managers to put more focus on capital projects output. These staffing changes, plus targeted use of engineering consultants, provide the Engineering Division sorely needed capacity to keep high priority projects moving. In addition, this staffing capacity will allow the City to develop a regular reporting of capital project progress to the Public Works Advisory Board and City Council in the near future.

The following table shows the 23 capital improvement budget requests included in the proposed FY2022-23 budget:

Capital Request	FY2022-23 Request
WRF - Water Reclamation Facility Project	\$12,349,784
Water Tank Rehabilitation - Blanca and Kings Water Tanks	\$125,000
Wastewater Treatment Plant Decommissioning	\$135,000
SR1/SR41/Main St Intersection Improvements	\$600,000
Reverse Osmosis Facility Upgrades - Preliminary Plan	\$80,000
One Water Plan Update	\$60,000
Morro Bay Transit Vehicle Replacement	\$110,000
Local Roadway Safety Plan (LRSP)	\$50,000
Lila Kaiser Parking Lot Rehabilitation and ADA Upgrades	\$120,000
Lift Station No. 1 Force Main Replacement	\$400,000
Harbor Patrol Vessel Replacement	\$90,000
Emergency Storm Drain Repair - Sequoia Court	\$120,000
Emergency Storm Drain Repair Juniper/Elena	\$83,000
Electric Vehicle Charging Stations	\$40,000
Citywide Speed Survey	\$75,000
Citywide Capital and Facilities Planning	\$400,000
Capital Vehicles and Equipment Replacement – Water	\$209,000
Capital Vehicles and Equipment Replacement - Sewer	\$174,000
Boat Launch Ramp & Float Replacement Planning	\$210,000
Beachcomber Drive Sewer Main Replacement	\$1,207,000
Automated License Plate Reader camera system	\$159,000
Annual Pavement Management Program-FY 22-23	\$1,737,846
ADA Accessibility Upgrades at Quintana and Main Streets Intersection	\$180,500
Total:	\$18,715,130

FY2022-23 ONEWATER PLAN AND PROJECTS

The City’s OneWater Plan was adopted by City Council on November 13, 2018, and it serves as the City’s resource document to identify City capital projects related to water, wastewater, and stormwater for next 20 years. The projects included in the OneWater plan do not necessarily add capacity to systems; most of the projects in the plan, which are based on extensive flow modeling, are to maintain the infrastructure that supports water and sewer service to ratepayers. The City submits annual reports on the plan to the State, who regulates water, wastewater, stormwater plans. In many cases the OneWater plan allows for grant and loan funding eligibility.

The first phase of OneWater plan implementation is comprised of four projects of which two are water and two are sewer projects. These projects, their status, and their FY2022-23 budget request amount are included in the table below:

OneWater Projects: Status Update and FY2022-23 Budget Requests					
Category	Project Status	To Date (includes unspent funds)	FY2023 request	FY2024 estimate	FY2025 estimate
Water Tank Rehabilitation	In Construction	\$2,691,152	\$125,000	\$125,000	
Nutmeg Water Tank and Pressure Zone Improvements	30% Design	\$1,082,967	\$497,489	\$8,699,119	\$8,699,119
Beachcomber Drive Sewer Main Improvements	100% Design	\$655,304	\$1,207,000		
Atascadero/Main Sewer Improvements	50% Design	\$1,025,039	\$0	\$3,391,512	\$4,594,924

A budget request to implement long term solutions to address the recent leak from the sewer force main from Lift Station 1 in the Cloisters Area is included as a new capital project budget request and not reflected in the OneWater table above.

WRF FY2022 Q3 QUARTERLY REPORT

The WRF quarterly report is a document produced quarterly by the WRF project management team to provide status updates on schedule, budget, contract management, cashflow, key activities, and critical path items as they relate to the WRF program. Staff recently received feedback from the WRF Subcommittee regarding the length, clarity, and pertinence of the information presented in the WRF program quarterly report and recommended a variety of changes to its format. In response, staff worked with the Carollo project team to revise the format with the goal of enhancing its consistency and readability to improve accessibility of key information for the City Council, advisory boards, and the general public. The City Council approved the revised format during the April 26, 2022, regular meeting. Also, during their April 26th meeting the City Council reviewed the Advisory Board Handbook, including all City advisory boards' by-laws, and a significant outcome of this review was the transfer of the responsibility to review the WRF Quarterly Report from the Citizen's Finance Advisory Committee (CFAC) to the Public Works Advisory Board (PWAB). PWAB reviewed the WRF Q3 Quarterly Report on Wednesday, May 18, 2022.

The Q3 FY2022 WRF Quarterly Report covers the period from January 1, 2022, to March 31, 2022, and the major highlights from this period include the following:

- Installation of WRF treatment process equipment was completed, and the design-builder Filanc Black & Veatch (FBV) began testing equipment individually and as a system.
- The overall WRF process control system was installed and training of City operations staff on individual pieces of process equipment and the entire process was initiated.
- WRF sitework progressed significantly and the site was prepared for paving.
- Construction of the Conveyance pump stations continued to progress, with significant focus on schedule recovery at the pump station on Atascadero Road.
- Pipeline construction on South Bay Boulevard progressed as planned, and the other pipeline crews made good progress on pipeline construction on Main Street and within the Vistra easement.
- The City re-bid the pilot injection well and received a bid, which moves a significant milestone

on the Recycled Water Facilities forward.

The major challenges that the City and Carollo project team began working through during Q3 FY 2022 are related to the overall schedule and budget. The project team has been focusing for the last several quarters on the overall Conveyance schedule and attempting to recover time lost due to delays related to the environmental permitting requirements included in the WIFIA funding agreement with the United States Environmental Protection Agency. The delay in Conveyance construction relates to the startup of the WRF and the need to have the pump stations and pipelines completed by the time FBV is ready to receive wastewater and start up the WRF. If the pump stations and pipelines aren't completed when FBV is ready to start up the WRF, the City is potentially exposed to additional cost claims for interrupting and delaying FBV's work and impacting their schedule. The project team is currently working on the detailed plan for bridging the schedule gap and reducing the City's financial exposure to the claim, but the potential claim has not been accounted for in the current WRF budget as presented in the quarterly report. In addition, contract amendments for construction change orders have reduced the contingency budgets, and budget will need to be added to replenish contingency to cover future unforeseen changes.

WRF ESTIMATE AT COMPLETION (EAC) UPDATE

Because the City's annual budget development occurs in April and May, and the Q3 FY2022 WRF Quarterly Report covers the period that ends March 31, this report does not reflect the revised WRF program budget, though it does show the revised program schedule that reflects the delay in pump station and pipeline completion and the extended schedule that will be needed to complete the Recycled Water Facilities (RWF). The WRF project management team and City worked together in April and May to develop a revised budget that achieves the following:

- Presentation of an EAC of the WRF program.
- Full budgeting of the current approved WRF Guaranteed Maximum Price, which is the contractual amount the City would need to pay if FBV is unable to achieve any savings to construct the WRF.
- Replenishing the WRF and Conveyance construction contingency budgets.
- Providing additional contingency budget for the potential FBV claim for delay in Conveyance completion.
- Inspection and cleaning of the City's existing ocean outfall.
- Modifying internal and underground piping at the City's existing brackish-water reverse-osmosis treatment facility to direct effluent from the power plant outfall to the City's ocean outfall, which has been required by the Regional Board during negotiation of the City's new WRF discharge permit.
- Amending professional services contracts and increasing internal City budgets to account for the extended schedule.
- Adding professional services and contingency budgets for completing the RWF.

WRF Budget to be Proposed to City Council in late May 2022				
Category	To Date (includes unspent funds)	FY2023 request	FY2024 estimate	FY2025 estimate
WRF Plant Design/Build	\$72,977,796	\$6,665,420		
Conveyance Design, ESDC, & Permitting	\$6,630,042	-\$1,556,439		

Conveyance Construction	\$36,426,914	-\$1,728,793		
Recycled Water Design, ESDC, & Permitting	\$2,190,112	-\$46,462	\$550,000	\$335,000
Recycled Water Construction	\$285,000	\$376,174	\$2,867,175	\$2,867,175
City Costs	\$5,246,487	\$5,638,529	\$1,160,353	\$640,235
Program Management	\$13,087,415	\$1,447,873	\$1,500,000	\$300,000
Other Consulting Services	\$23,860	\$1,553,482	\$300,000	\$100,000
Total	\$136,870,626	\$12,349,784	\$6,377,528	\$4,242,410

WATER AND SEWER FUNDS STATUS AND STRATEGIES

The capital budget requests related to the WRF program and the OneWater infrastructure investments raise important questions about the capacity of the Water and Sewer Funds to fund these projects to completion. Staff has prepared five-year fund forecasts for both the Water and Sewer funds (attachments), and these forecasts demonstrate a near-term capacity to fund these infrastructure improvements. These projections include all costs, including operational and capital costs, requested in the FY2022-23 proposed budget as well as budget estimates in the out years of FY2023-24, FY2024-25, FY2025-26, and FY2026-27. The forecasts show the last two out years of the Water Fund as having negative fund balances and not meeting reserve policy limits set by City Council. This is largely the result of cost escalation, which affects budgets for all City projects. The California Construction Cost Index from April 2021 to April 2022 alone, for example, is up 24.5%.

The City has several strategies to get ahead of the concerning Water Fund forecast. First, staff continues to aggressively apply for grant funding for the WRF program and OneWater projects. In the past nine months staff, in coordination with consultants, has applied for over \$33 million in grant requests through federal and State agencies, as well as through San Luis Obispo County. Award of any of these grants could significantly improve the long-term position of the Water and Sewer Funds. Second, staff will consider seeking an amendment to the City's SRF loan to increase the amount of capital costs financed, thereby decreasing the amount of cash funding needed. Finally, the City has the last resort option of reprioritizing OneWater projects to ensure the ability of the Water and Sewer Funds to stay balanced. This could mean, for example, delaying construction on the Nutmeg Water Tank and Pressure Zone Improvements project by a year or two, which based on recent estimates has ballooned in costs due to cost escalation.

ATTACHMENTS

1. Q3 FY2022 WRF Quarterly Report
2. Water Fund Five-Year Forecast
3. Sewer Fund Five-Year Forecast



City of Morro Bay
Water Reclamation Facility Program

QUARTERLY REPORT -
ENDING MARCH 31, 2022

FY 2021-2022 – 3rd Quarter
January 1 through March 31, 2022



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Executive Summary

“Our Water” is the City of Morro Bay’s (City’s) program to plan and build water and wastewater infrastructure for a sustainable future for the environment, our economy, and the community. This report summarizes key accomplishments and challenges during the third quarter (Q3) of the 2021-22 fiscal year (FY22). It includes information and data on the overall program budget and the status of the individual program components.

ES.1 Progress During Q3 FY22

The Water Reclamation Facility (WRF) is approximately 77 percent complete and Conveyance Facilities are approximately 62 percent complete. The WRF is anticipated to be completed and operational by December 2022, which will achieve compliance with the State’s Time Schedule Order that requires full operation of the WRF by February 2023. The Recycled Water Facilities (RWF) component of the program is approximately 10 percent complete and is anticipated to be completed by Spring 2025.

WRF and Conveyance Facilities construction progressed significantly in Q3 FY22, and the major accomplishments are summarized below.

ES.2 Budget Status

The current program budget is \$144.67M and \$100.48M has been spent to-date.

ES.3 Key Q3 FY22 Accomplishments

- The WRF electrical service connection was completed and Filanc Black & Veatch (FBV) began testing the electrical, instrumentation and control loops of the WRF process areas.
- In late March, FBV began testing various treatment processes using clean water and began training City operations staff on process equipment.
- The City resolved all outstanding regulatory and permitting requirements and successfully excavated the abutments for the Conveyance Facilities’ pipe bridge in the southeast corner of Lila Keiser Park.
- Continued progressing the pipeline and pump station construction to recover time lost to regulatory and other delays.
- The pilot injection well, which is a key element of developing the basis of design for the RWF, was rebid during this period and one bid was received. Construction of the well is anticipated to begin in July 2022.

ES.4 Challenges and Upcoming Activities

The major challenge the program team is currently working to resolve is minimizing the City’s exposure to a delay claim from FBV due to the gap in time between when the WRF will be ready to accept and begin treating wastewater and when the pipelines and pump stations will be completed and able to pump wastewater from the existing wastewater treatment plant to the WRF. FBV has been progressing construction to be ready to accept wastewater sometime in May, and the current estimate for when the pipelines and pump stations will be completed is October. Consequently, the program team and contractors are working together on the plan for WRF startup that minimizes the City’s financial burden for the delay.

An additional challenge the team is working on is the reopening of South Bay Boulevard. Anvil Builders has been making good progress with the goal of reopening the road by the end of April.

Section 1 – Program Management Summary

1.1 Purpose of the Quarterly Progress Report

The WRF program quarterly progress report describes current budget status, funding agency reimbursements, planning/design and construction activities, and project component schedules. Abbreviations used throughout this quarterly progress report are found in Appendix A.

1.2 Program Budget

Table 1 shows the current program budget.

Table 1 WRF Program Budget

Program Component	Baseline ⁽¹⁾	FY 21/22	Prior Quarter	Current Quarter	Current % Change from Baseline
WRF Plant	\$62,414,000	\$77,687,023	\$74,697,995	\$74,697,995	20%
Conveyance Facilities	\$21,087,000	\$37,982,000	\$36,319,667	\$37,365,582	77%
RWF	\$8,593,000	\$6,668,000	\$6,668,000	\$6,668,000	-22%
General Project	\$24,403,000	\$15,445,000	\$25,362,730	\$25,362,730	4%
Construction Contingency ⁽²⁾	\$9,444,000	\$6,892,854	\$1,626,485	\$580,570	-94%
Total	\$125,941,000	\$144,674,877	\$144,674,877	\$144,674,877	15%

Notes:

(1) Baseline budget established 4th Quarter of Fiscal Year 2017/2018.

(2) As of current Q3, FY 21/22, breakdown of remaining Construction Contingency is: WRF \$80,570, Conveyance \$0, and RWF \$500,000.

Table 2 shows the initial and current contract values by project component.

Table 2 Project Component Contract History

Project Component	Contractor	Initial Contract Value	Current Contract Value	% Change
WRF Plant		\$67,234,512	\$76,697,995	14%
Design/Build	FBV (Overland)	\$67,234,512	\$76,697,995	14%
Conveyance Facilities		\$33,315,112	\$37,365,582	12%
Design	Waterworks Engineers	\$1,360,565	\$2,431,407	79%
Construction (Anvil Builders)	Anvil Builders	\$31,493,675	\$32,996,979	5%
Permitting	Cogstone, Far Western, KMA	\$460,872	\$1,937,196	320%
RWF		\$351,000	\$933,650	166%
Planning and Modeling	GSI Solutions, Inc. (GSI)	\$351,000	\$933,650	166%
Construction	TBD	--	--	--
General Project		\$293,000	\$12,230,201	4074%
Program and Construction Management	Carollo Engineers and subconsultants ⁽¹⁾	\$293,000	\$11,808,401	3930%
City Contracts	Note 2	Note 2	\$421,800	--
Total		\$101,193,624	\$127,227,428	--

Notes:

(1) Program management costs include permitting, public outreach, funding support, and construction oversight/management.

(2) Initial City Contract values for previous and/or inactive consultants (such as MKN, Black & Veatch, ESA, and Kestrel) are unknown. Current contract values are shown only for currently active consultants including Bartle Wells Associates, Confluence, and JSP.

1.3 Cashflow Projections and Actual Expenditures

Figure 1 shows cashflow projections and actual expenditures through the current period.

Table 3 lists actual expenditures for each program component and the percent of the budget expended.

Table 3 WRF Program Expenditures

Program Component	Previous Total	Current Quarter	Total To Date	Current Quarter Budget ⁽¹⁾	Percent Budget Expended
WRF Plant	\$49,221,493	\$8,454,400	\$57,675,893	\$74,697,995	77%
Conveyance Facilities	\$15,673,323	\$7,635,974	\$23,309,297	\$37,365,582	62%
RWF	\$599,350	\$67,239	\$666,589	\$6,668,000	10%
General Project	\$17,349,234	\$1,476,628	\$18,825,862	\$25,943,300	73%
Total	\$82,843,400	\$17,634,241	\$100,477,641	\$144,674,877	69%

Notes:

(1) Current Quarter's General Project Budget includes \$580,570 of Construction Contingency.

1.4 Program Funding

Table 4 lists WRF program funding sources.

Table 4 WRF Program Funding Sources

Funding Agency	Funding Type	Amount Financed	Initiation Date	Terms
SWRCB – CWSRF Construction Loan	Low interest Loan	\$66,604,638	7/1/2021	0.9%, 30 years
EPA – WIFIA	Low Interest Loan	\$61,700,336	3/9/2020	0.83%, 35 years
SWRCB – CWSRF Planning Loan	Low Interest Loan	\$10,300,000	12/11/2015	0.9%, 30 years
Recycled Water Planning Grant	Grant	\$75,000	9/10/2015	Costs reimbursed upon request
Total		\$138,679,974		

Abbreviations: CWSRF - Clean Water State Revolving Fund; EPA - Environmental Protection Agency; SWRCB - State Water Resources Control Board; WIFIA - Water Infrastructure Finance and Innovation Act.

Appendix C provides detailed information on funding reimbursements.

1.5 Program Schedule Overview

In June 2018, the City received a time schedule order (TSO) from the Regional Water Quality Control Board (RWQCB) that requires the City to achieve full operation of the new WRF by February 2023. The key milestones included in the TSO are included in Appendix D, and the overall program schedule is shown in Figure 2. The current construction schedule progress percent complete to-date per contract spent is 83.3 percent for the WRF and 70.3 percent for Conveyance. Figure 2 shows percent complete as an average between contract spent and scheduled date of completion. The RWF does not currently have a construction progress complete to-date.

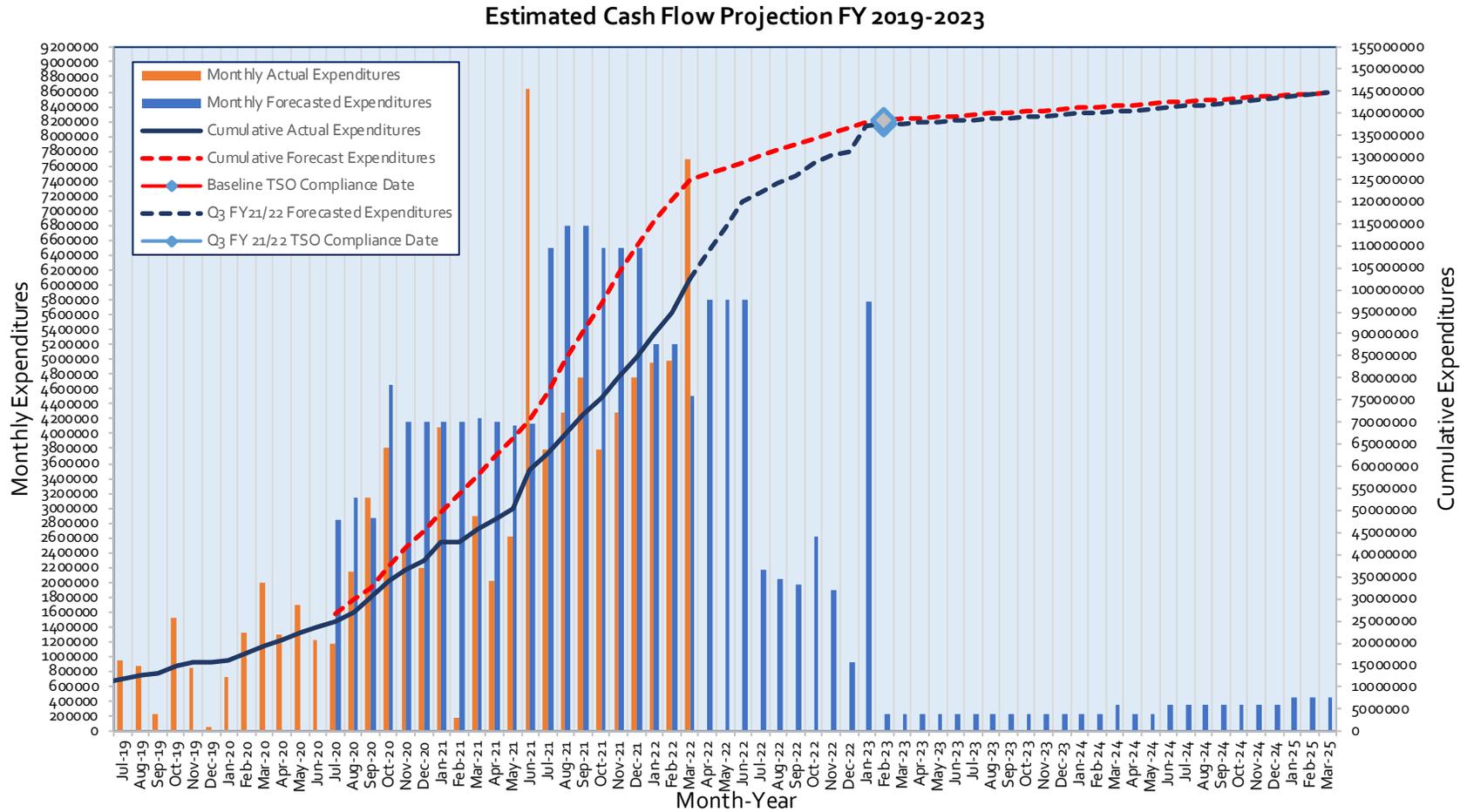


Figure 1 Program Cash Actual and Forecasted Expenditures



Morro Bay WRF Project
 Program Wide Schedule Summary
 Updated: FY 2021/2022 Q3

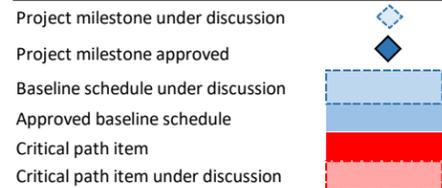
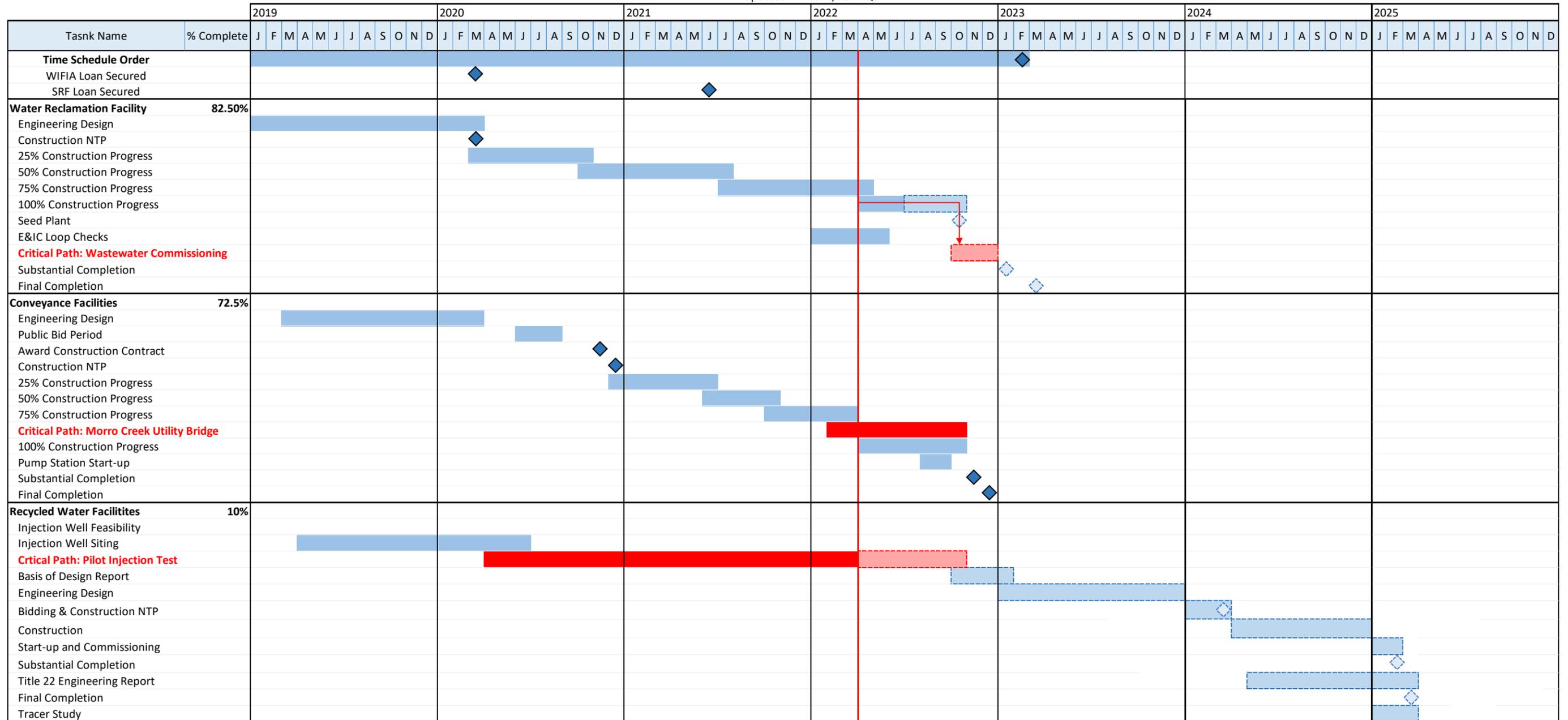


Figure 2 Program-Wide Summary Schedule

Section 2 – WRF Project

2.1 Construction Progress Summary

Major accomplishments during this period are summarized below:

General and Administrative

- Completed installation of treatment process equipment and began testing the individual treatment process control systems.
- Began implementation and testing of the overall WRF process control system.
- Conducted equipment vendor site visits.
- Began training City operations staff on the different treatment processes and equipment.
- Began recirculating clean water throughout the WRF to test the operation of the plant as a whole.
- Continued to maintain Stormwater Pollution Prevention Plan (SWPPP) Best Management Practices (BMPs).
 - The State Waterboards issued two notices of violation (NOV) for stormwater discharges from the site .
 - NOV dated 11/8/2021 was responded to by FBV and the City on 12/17/2021.
 - NOV dated 12/20/2021 was responded to by the City and FBV on 1/7/2022.
 - The FBV implemented extensive additional BMPs in response to the NOVs.
 - Pursuant to both NOVs, the Waterboards concluded that, “the City has addressed the issues identified and has implemented additional erosion and sediment control BMPs”.
 - The City and FBV consider both NOVs resolved at this time.

Sitework

- Completed and tested underground piping systems.
- Contractor completed concrete flatwork throughout site including sidewalks, curbs, gutters, etc.
- Completed earthwork operations and placed gravel pavement base in all paved areas.
- Installing power cables and control wires through underground duct banks and vaults on site is nearly complete.

Headworks

- Completed installation of piping, valves, supports, handrails, etc.
- Completed electrical connections and coordinated equipment vendor site visit(s).

Biological Nutrient Removal (BNR)/Membrane Bioreactor (MBR) Treatment

- Completed BNR and MBR equipment installation.
- Completed electrical connections and coordinated vendor site visit(s).

Reverse Osmosis (RO)/Ultraviolet Advanced Oxidation Process (UV AOP)

- Continued installing RO equipment.
- Continued installation of UV AOP equipment.
- Continued installing process piping, pipe support racks, heating, ventilation, and air conditioning (HVAC) equipment, building amenities, etc.
- Continued pulling and connecting power and control wires.

Purified Water Facilities

- Completed installation of purified water pump station equipment including pumps, piping, valves, etc.
- Completed electrical connections and coordinated vendor site visit(s).

Residuals/Sludge Processing

- Completed sludge dewatering equipment including the belt filter press, sludge pumps, polymer mixing and feed system, process piping, valves, supports, appurtenances, etc.
- Completed SAFE filter area equipment including the cloth disk filter, etc.
- Completed sludge holding tank including blowers, diffusers, mixers, instruments, etc.
- Completed electrical connections and coordinated vendor site visit(s).

Electrical and Controls

- Continued installing miscellaneous panels, conduits, boxes, etc.
- Power and control wires are nearly complete.
- Completed the PG&E service connection and the site is using permanent PG&E power.

Chemical Storage and Feed

- Chemical feed pump skids and storage tanks and conduit and panels are nearly complete.

Operations Building

- Building exterior and interior work is nearly complete.
- Building furnishings including appliances, desks, tables, monitors, white boards, etc. have been delivered and assembled.
- Completed connection of cables and wires throughout the building, and the WRF control room and plant controls has also been completed.

Maintenance Building

- Laboratory interior, appliances, doors, fixtures, HVAC equipment, lighting, electrical, storage racks, fire protection systems, etc. are nearing completion.

City Yard Facilities

- Completed remaining buildings including roofing and paneling.
- Completed building amenities, etc. at the storage shed building.

Planned activities for the next reporting period include:

- Testing of electrical instrumentation and controls systems.
- Complete plant control system setup.
- Paving and landscaping of WRF Site.

2.2 Project Photographs

The following photos show progress during this period.



WRF Site Aerial Capture on February 28, 2022



Aerial Capture of Headworks, BNR, MBR, Sludge Holding Tanks, SAFE System on February 28, 2022



2.3 Contract Amendment Summary

Table 5 contains a summary of the contract amendments for the WRF project component. Each amendment included multiple change orders to address changes in scope from the original proposal. A detailed summary of each amendment is provided in Appendix F.

Table 5 WRF Project Contract Amendment Summary

Amendment No.	Council Approval Date	Amount
1	May 2019	\$1,636,060
2	March 2020	\$63,937
3	May 2020	\$5,992,218
4	November 2020	\$835,097
5	March 2021	\$(195,945)
6	September 2021	\$1,132,117
Total		\$9,463,483

2.4 Project Schedule

Figure 3 shows the WRF construction and startup schedule.



Morro Bay WRF Project
 Program Wide Schedule Summary
 Updated: FY 2021/2022 Q3

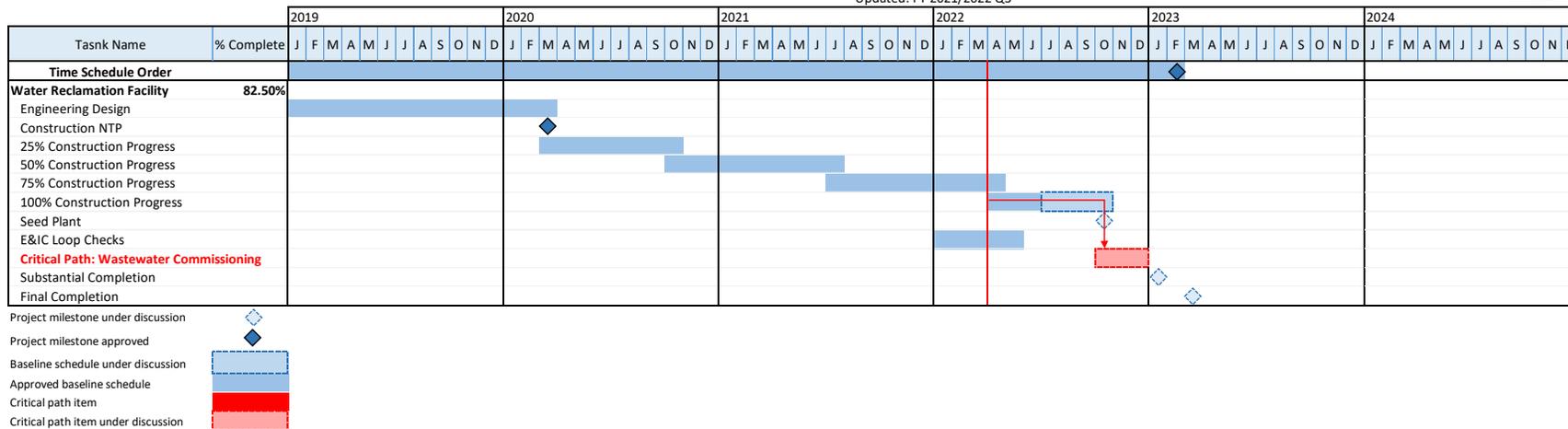


Figure 3 WRF Project Component Schedule

Section 3 – Conveyance Facilities Project

3.1 Construction Progress Summary

Major accomplishments during this period are summarized below:

Pump Station A

- Completed leak testing and backfilling the pump station wet well.
- Constructed three 96-inch diameter emergency storage tanks and backfilled the site.
- Continued installing underground piping.
- Installed electrical building underground conduits and building connections.
- Set forms and installed rebar for the electrical building slab.

Pump Station B

- Continued installing underground piping.
- Set forms, installed rebar, and placed concrete for the electrical building slab.
- Constructed concrete block electrical building walls.
- Set forms, installed rebar, and placed concrete for equipment slabs at the surge tank, emergency generator, and odor control equipment.

Pipelines

Work was performed on the following segments:

- Bike Path Between Atascadero Road and Main Street:
 - Installed dewatering system for excavation of the pipe bridge abutments and began excavation of both abutments.
 - Completed pipeline installation between Main Street and the bike path entrance.
 - Continued clearing/grubbing and installing temporary fencing along the 70-foot construction easement.
- Main Street Between the Bike Path and Quintana Road:
 - Completed pipeline installation across north side of Main Street.
 - Completed PG&E power feed conduit across Main Street, including trenching, conduit, backfill, and paving.
- Quintana Road Between Morro Bay Boulevard and South Bay Boulevard:
 - Conducting pipeline pressure testing.
- South Bay Boulevard Between Quintana Road and the WRF:
 - Installing and backfilling pipelines with final paving and road reopening planned for late April 2022.
- Vistra Property (Lift Station 2 Force Main):
 - Trenching, pipe installation, and site restoration continues in this segment.

Planned activities for the next period include the following:

- Progress construction pipe bridge over Morro Creek.
- Progress construction of above ground facilities for both pump station.
- Continue pipeline pressure testing.
- Begin construction of pipelines on Atascadero Road between Highway 1 and the beach.
- Coordinate with City staff and FBV on Anvil's start up plan and connecting the existing wastewater facilities to the Conveyance Facilities.

3.2 Project Photographs

The following photos show progress during this period.



Asphalt removal beneath Highway 1 and Joint Trench on South Bay Boulevard near Highway 1



Soil improvements at Pump Station A Site



3.3 Change Order Summary

Table 6 contains a summary of the contract amendments for the Conveyance Facilities project component. Each amendment included multiple change orders to address changes in scope from the original proposal. A detailed summary of each amendment is provided in Appendix F.

Table 6 Conveyance Facilities Contract Amendment Summary

Amendment No.	Council Approval Date	Amount
1	October 2021	\$674,485
2	January 2022	\$587,502
3	March 2022	\$241,317
Total		\$1,503,304

3.4 Project Schedule

Figure 4 shows the Conveyance Facilities construction and startup schedule.



Morro Bay WRF Project
 Program Wide Schedule Summary
 Updated: FY 2021/2022 Q3

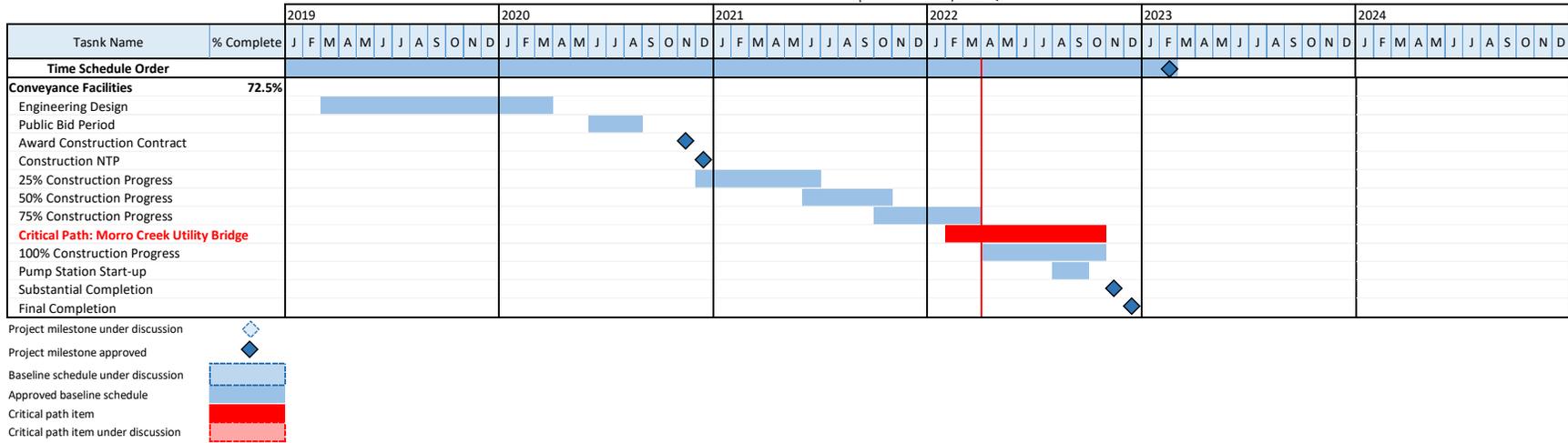


Figure 4 Conveyance Facilities Project Component Schedule

Section 4 – Recycled Water Facilities Project

4.1 Project Progress Summary

The RWF component of the WRF program is currently in the planning and pre-design phase. Major accomplishments during this reporting period include the following:

GSI has completed Phase 1 and is currently working on Phase 2 of the hydrogeological work, which resulted in the selection of the west injection area and preliminary siting of the injection wells. The following activities were completed during this period:

- The injection well No. 1, also known as the Pilot Injection Well, will be constructed to be a full-scale groundwater injection well that will initially be used to perform a pilot injection study. The pilot study will determine injection performance to further characterize the Morro groundwater basin, and the data obtained during the pilot injection study will allow the City to finalize the locations and design characteristics of the other wells that will be included with the RWF component. The City, program management team, and the project hydrogeologist, GSI have continued to progress the procurement of a contractor to install and complete the pilot injection well task of the recycled water facilities.
- The City did not receive any bids for the first advertisement of the pilot injection well project, and the well was re-advertised for bid on January 27, 2022.
- The City received one bid from Pacific Coast Well Drilling on March 22, 2022. Pacific Coast Well Drilling was evaluated by the City and the program team, and their bid was found to be responsive and qualifying. The City is anticipating award of this contract to Pacific Coast Well Drilling on April 12, 2022.

Planned activities for the next quarterly report include the following:

- Execute agreement with Pacific Coast Well Drilling for the pilot injection well scope of work.
- Conduct a pre-construction meeting with the Pacific Coast Well Drilling to discuss site constraints and potential changes to scope of work.
- Begin pilot injection well installation and injection testing.

4.2 Project Photographs

Project photos for this component are not yet available.

4.3 Project Schedule

Figure 5 shows the Conveyance Facilities construction and startup schedule.

APPENDIX A - ABBREVIATIONS

Abbreviations

AOP	advanced oxidation process
BMP	best management practice
BNR	biological nutrient removal
City	City of Morro Bay
CWRSF	Clean Water State Revolving Fund
EPA	Environmental Protection Agency
FBV	Filanc Black & Veatch
FY22	2021-22 fiscal year
GSI	GSI Solutions, Inc.
HVAC	heating, ventilation, and air conditioning
MBR	membrane bioreactor
NOV	notice of violation
Q3	third quarter
RO	reverse osmosis
RWF	recycled water facility
RWQCB	Regional Water Quality Control Board
SWPPP	stormwater pollution prevention plan
SWRCB	State Water Resources Control Board
TSO	time schedule order
UV	ultraviolet
WIFIA	Water Infrastructure Finance and Innovation Act
WRF	water reclamation facility

APPENDIX B – QUARTERLY EXPENDITURES BY BUDGET CODE

City Budget Code ⁽¹⁾	Fund Name	Total Q3 FY21/22 Expenditures	Vendor Name	Project Component
4110	Regular Pay	Summarized in Total Personnel Services below	City of Morro Bay	General Project
4120	Overtime Pay			
4310	Part-Time Pay			
4910	Employer Paid Benefits			
4911	Pension Normal Cost			
4999	Labor Costs Applied			
Total Personnel Services				
5114	Laboratory Testing Supplies	Summarized in Total Supplies below	Various	General Project
5115	Water Distribution System Supplies			
5116	Wastewater Collection System Supplies			
5199	Miscellaneous Operating Supplies			
Total Supplies				
6101	Legal Services – General	\$28,248.00	Aleshire & Wynder	General Project
6103	Financial Audits	-	-	-
6107	Advertising	-	-	-
5307	Blueprint/Copy Charges	-	-	-
6220	Postage	\$15.40	Mechanic’s Bank	General Project
6301	Electricity	-	-	-
6303	Water	\$8,599.00	City of Morro Bay	General Project
6510	Meetings and Conferences	-	-	-
6513	Meals and Lodging	-	-	-
6514	Travel Expense	\$1,338.74	Grant Chase, US Bank Voyager Fleet	General Project
6640	Maintenance Contracts	-	-	-
6710	Notices & Publications	-	-	-
Total Services		\$38,201.14		
6104	Engineering Services	\$67,239.17	GSI Water Solutions	Recycled Water Facilities
6105	Consultation Services	\$39,549.00	Bartle Wells, Confluence	General Project
6152	Outside Lab Testing	\$3,132.00	Abalone Coast, Pace Analytical	General Project



City Budget Code ⁽¹⁾	Fund Name	Total Q3 FY21/22 Expenditures	Vendor Name	Project Component
6161	Licenses & Permits	\$7,476.75	SWRCB, SLO APCD	General Project
6162	Mandated Fees/Inspections	-	-	-
6196	Program Management & DB Procurement	\$1,332,603.27	Carollo Engineers and Subconsultants ⁽²⁾	General Project
6197	Grant Support	-	-	-
6198	Government Relations	-	-	-
6640	Maintenance Contracts	-	-	-
7101	Land Acquisition	-	-	-
Total Project Soft Costs		\$1,450,000.19		
6106	Contractual Services	\$7,061,532.78	Anvil Builders	Conveyance Facilities
7103	Design/Build-On-Site Improvement Design Phase	-	-	-
7104	Design-Lift Station/Force Main	\$46,351.71	Water Works Engineers	Conveyance Facilities
7105	Planning & Permitting	\$528,089.75	Cogstone, KMA, Far Western	Conveyance Facilities
7106	Design-Injection Wells & Recycled Water Pipeline	\$2,095.00	Joann Head Land Surveying	RWF
7107	Design/Build-On-Site Improvement Build Phase	\$8,454,399.59	FBV Overland	WRF
7108	Injection Well Construction	-	-	-
7109	Lift Station/FM Construction Phase	-	-	-
7110	Pilot Well Construction	-	-	-
Total Construction Costs		\$16,092,468.83		
Total Quarterly Expenditures		\$17,634,240.81		

Notes:

(1) City Budget Codes are from the latest Accounts Payable Report run on 4/26/2022.

APPENDIX C - WRF PROGRAM FUNDING REQUESTS AND REIMBURSEMENT STATUS SUMMARY

Agency	Description	No.	Date Submitted	Requested Amount	Approved Amount	Received
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-20	\$3,910,211	\$2,415,669	Yes
SWRCB	CWSRF Planning Loan	4	Oct-21	\$930,385	\$484,617	No
SWRCB	CWSRF Planning Loan	5	TBD	\$773,331	Pending	No
SWRCB	CWSRF Construction Loan	1	Sep-21	\$11,185,433	\$11,185,433	Yes
SWRCB	CWSRF Construction Loan	2	Nov-21	\$10,886,581	Pending	No
SWRCB	CWSRF Construction Loan	3	Dec-21	\$5,463,514	Pending	No
SWRCB	CWSRF Construction Loan	4	Feb-22	\$5,943,018	Pending	No
SWRCB	CWSRF Construction Loan (Note 2)	5	Mar-22	\$6,095,373	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	Sep-21	\$2,692,977	\$2,692,977	Yes
EPA	WIFIA Loan	15	Oct-21	\$1,328,552	\$1,328,552	Yes
EPA	WIFIA Loan	16	Nov-21	\$488,601.54	\$488,601.54	Yes
EPA	WIFIA Loan	17	Dec-21	\$321,117.49	\$321,117.49	Yes
EPA	WIFIA Loan	18	Dec-22	\$346,278.65	\$346,278.65	Yes
EPA	WIFIA Loan	18	Dec-22	\$346,278	\$346,278	Yes
EPA	WIFIA Loan	19	Jan-22	\$1,005,341	\$1,005,341	Yes
Total				\$90,157,772	\$57,854,416	

Notes:

- (1) CWSRF Planning Loan Disbursement Request No. 5 expected to be sent April 2022.
- (2) CWSRF Construction Loan Disbursement Request No. 5 is for WIFIA ineligible costs only.

APPENDIX D - PROGRAM MILESTONES

Milestone	Planned Completion Date
General Project	
Compliance with the TSO	2/23/2023
WIFIA Loan Secured	3/9/2020
SRF Loan Secured	7/31/2021
WRF	
Begin Design	11/5/2018
Construction Notice to Proceed	3/20/2020
Plant Seeding	10/4/2022
Substantial Completion	1/20/2023
Final Completion	3/20/2023
Conveyance Facilities	
Deliver 100 Percent Design	6/15/2020
Bid Advertisement	6/16/2020
Award Construction Contract	11/10/2020
Construction Notice to Proceed	12/14/2020
Substantial Completion	11/9/2022
Final Completion	12/24/2022
RWF	
Select Preferred Injection Area	6/17/2020
Pilot Injection Well - Complete	10/1/2022
Basis of Design of Report - Complete	1/31/2023
Engineering Design - Begin	1/1/2023
Construction Notice To Proceed	3/15/2024
Substantial Completion	2/15/2025
Final Completion	3/15/2025

APPENDIX E - FBV AMENDMENT DETAILS



City of Morro Bay
Water Redamation Facility
CHANGE ORDER DESCRIPTIONS

CCO Codes (REASON FOR CHANGE):
 - CR1: City requested (required for Plant ops)
 - CR2: City requested (enhanced functionality)
 - CR3: City requested (to lower project costs)
 - FBV: DB Team request or claim
 - DSC: Differing Site Conditions
 - REG: Required by Regulatory Agency

PCO NO.	TITLE	AMEND NO.	CHANGE ORDER SHORT DESCRIPTIONS	CCO AMOUNT	CAL DAYS	STATUS	REASON FOR CHANGE
1	New Sodium Hypochlorite Feed for Plant Water	1	Add a sodium hypochlorite (disinfection) chem feed pump, add sodium hypochlorite double contained piping from the Chemical Facility to the Recycled Water pumps. Additional electrical and controls for the new sodium hypochlorite pump. The added pump is needed for redundancy.	\$ 78,576.00		Executed Part of GMP	CR1
2	Change Architecture of Operations Building	1	The City requested to change the Operations Building exterior architecture back to a basic style, to delete the clerestory but to include cupolas and solatubes. The City requested the change to reduce project costs.	\$ (21,623.00)		Executed Part of GMP	CR3
4	Headworks Odor Control	1	Adding foul air ducting from the Fine Screens and SAFE Diversion Box to the Headworks Odor Control Biofilter. Cost also includes adding a cover to the SAFE Diversion Box. The ducting and cover were adding to reduce foul air emissions.	\$ 18,422.00		Executed Part of GMP	CR1
5	Remove Canopy and Monorail at MBR	1	The MBR tank was originally design with a canopy cover and monorail/crane hoist. The monorail and crane hoist were originally included to move MBR cassettes in and out of the tank for cleaning and maintenance. The City requested the change to reduce project costs. In the future the City will use a crane or boom truck to remove MBR cassettes when necessary.	\$ (185,434.00)		Executed Part of GMP	CR3
9	Consolidate Chemical Facilities	1	The original design provided chemical feed pumps and storage tanks at various locations where needed on site. The City requested to centralize all chemical storage tanks and feed equipment to one facility. Work includes a larger Chemical Facility structure, and additional chemical ductbanks and double containment piping.	\$ 218,978.00		Executed Part of GMP	CR2
10	Modify Chemical Piping	1	Revise underground chemical piping, to change double containment carrier piping from rigid pipe to flexible ducting. The City accepted this change to reduce project costs.	\$ (15,856.00)		Executed Part of GMP	CR3
15	Remove Solids Dumpster Lid	1	At the Solids Handling Area, delete the Solids Dumpster Lid and delete the Hygalon Splash Guards. Add a canopy / awning structure over the dumpster area by extending the Solids handling Area canopy. The City prefers the open-air solids dumpster while providing the canopy to protect dewatered solids from rain and atmospheric moisture.	\$ 14,543.00		Executed Part of GMP	CR2
16	Modify Outfall Pump Station	3	Increase the guaranteed pump station capacity to 8.14 MGD. Change the original design of 3 medium sized VFD controlled pumps, to a modified configuration using 2 smaller pumps and 2 larger pumps, all with VFDs. Also add and modify pump station manifold piping and valving as necessary. The City requested the change to ensure adequate future flow capacity and maximize pumping efficiency.	\$ 367,632.00		Executed Part of GMP	CR1
17	Add SAFE Settle (Equalization) Tank	1	Add SAFE Settle Tank (water bearing concrete structure) upstream of the SAFE system. The SAFE Settle Tank is added to the Sludge Holding Tank concrete structure. The new SAFE Settle Tank will either overflow to the SAFE System, or be pumped back to the SAFE Diversion Box using Solids Handling Pumps. Various segments of SAFE System diversion piping are upisized as required.	\$ 504,116.00		Executed Part of GMP	CR1
18	Instrumentation and Control Changes	1	The City prepared and issued a SCADA Master Plan for the WRF program. In January 2019, City staff and the DB team met and agreed on multiple technical items to coordinate between the City's SCADA Master Plan requirements and the DB Agreement scope. The PCO #18 proposal document includes a 6 page table of the multiple hardware and software changes.	\$ 75,266.00		Executed Part of GMP	CR1
19	Reduce Size of the Product Water Tank	3	The original DB Agreement included a 500,000 gallon bolted steel glass lined Product Water Tank. The City requested to decrease volume of Tank to 200,000 gallons. This was done to save project costs while also maintaining a suitable Product Water storage capacity on site.	\$ (129,681.00)		Executed Part of GMP	CR3
21	Revise Maintenance Building Layout and Size	1	The Maintenance Building footprint is expanded from 50'x70' to 60'x90' and a second vehicle sized roll-up door is added. The change order also includes revised site grading and eliminating a step in the building foundation slab, such that the new layout providing a larger, single level, vehicle accessible, shop area.	\$ 516,583.00		Executed Part of GMP	CR2
22	Influent Piping and Metering	1	The original design included a single 18" influent raw sewage pipeline from Teresa Rd to the new Headworks and an 18" influent flow meter at the Headworks. The City requested to change the design to parallel 16" and 12" HDPE influent pipelines, each pipeline with a separate flow meter at the Headworks. The City requested the change to add redundancy to the influent piping system.	\$ 411,766.00		Executed Part of GMP	CR2
23	Install Outdoor-Rated PD Blowers at BNR Facility	1	Replace the specified Turbo Blowers with Outdoor Rated Dry Screw Positive Displacement Blowers. The change order includes various revisions to blower controls, valving, and Aeration Air piping. The change was made to reduce project costs while still providing a suitable capacity of Aeration Air for the biological facility process.	\$ (58,210.00)		Executed Part of GMP	CR3
24	Remove Bypass of Coarse Screens	1	Delete the Coarse Screens bypass line, including both above grade and below grade 16" piping, valving, and fittings at the Headworks. The City requested the change to reduce project costs, as the bypass line was deemed not necessary.	\$ (37,137.00)		Executed Part of GMP	CR3
26	SAFE Diversion Box Additions	1	Add a removable FRP cover over the SAFE Diversion Box. The new cover includes multiple FRP panel sections that are removable by hand and structurally rated to support foot traffic. The change also adds an access ladder and handrail to the top of the Diversion Box. The changes were requested by the City to improve access to the Diversion Box.	\$ 58,304.00		Executed Part of GMP	CR2
28	Size Dewatering as a Building in the Future	1	Expand the Solids Handling Area concrete foundation slab and canopy to 36'x45'. The change also includes reconfiguring the dewatering belt press, pumps, piping, etc. This change will allow walls to be added around the equipment in the future. The City requested this change in case excessive foul air is emitted in the future and odor control measure become necessary.	\$ 30,983.00		Executed Part of GMP	CR2
30	Match Sludge Blowers to MBR Air Scour Blowers	4	There are 3 set of air blowers on the project: 2 each for MBR Air Scour, 3 each for BNR Aeration, and 2 each for Sludge Holding Tank mixing. The 2 each MBR Air Scour Blowers are Aerzen Blowers. The City requested that the 3 each BNR Aeration Blowers and 2 each Sludge Holding Tank Blowers also be supplied by Aerzen. The City requested this change for uniformity of equipment providers.	\$ 17,426.00		Executed Part of GMP	CR2
31	Stairs for the Coarse Screens and Grit Basins	1	The original design included various metal ladders to access the Headworks Coarse Screen and Grit Tank platform skids. This change deletes the ladders and adds 2 each 4 ft tall stair sets to the Coarse Screens and adds 2 each 8 ft tall stair sets to the Grit Tank area. This change also extends the Headworks foundation slab as required to provide foundations and landings for the added stairs.	\$ 52,870.00		Executed Part of GMP	CR1
32	Sulfuric Acid System	3	The City requested to add Sulfuric Acid feed pumps and a storage tank at the Chemical Facility. This change includes increasing the size of the Chemical Facility structure, adding double containment piping to both the RO Feed Tanks and the RO/UV Building, and adding all necessary electrical and controls. The City deemed that Sulfuric Acid addition is necessary for pH control/neutralization.	\$ 315,652.00		Executed Part of GMP	CR1
37	PLC/SCADA Software Uniformity	3	This PCO includes the cost to change PLC hardware and SCADA software from the standard offerings of the MBR, RO, and Headworks manufacturers to the City requested Allen Bradley and Wonderware products. This PCO applies to only those three equipment items and a separate PCO will be generated if a similar change is required for future procurements. The City requested this uniformity.	\$ 201,577.00		Executed Part of GMP	CR2
38	IPR Product Water Tank Bypass	1	Delete the Product Water Tank bypass line, including both above grade and below grade 8" piping, valving, and fittings at the Product Water Area. The City requested the change to reduce project costs, as the bypass line was deemed not necessary.	\$ (26,087.00)		Executed Part of GMP	CR3
39	NTP Delay	3	This PCO includes extended general conditions costs due to the delay in receiving construction NTP from April 29, 2019 to March 20, 2020. The amount for the period April 29, 2019 to October 23, 2019 was in dispute and a reduction is provided to reflect the results of a negotiation.	\$ 1,220,532.00		Executed Part of GMP	FBV
40	Headworks Valve Automation	3	The change adds motor operated valving and controls to the Headworks treatment trains. This allows for automated shifting of flows from one treatment train to the other, as may be needed due to equipment malfunction or other alarm conditions, especially during periods when no operators are on site. The change includes adding 8 each motor operated valves, plus electrical and controls.	\$ 249,946.00		Executed Part of GMP	CR1
41	Perimeter Barbed Wire Fence (Plus 8 days w/ EA 18.1)	3	City requested that FBV install a 5-strand barbed wire fence around the entire 27-acre project/property boundary, and along the Temporary Construction Easement (TCE) on the eastern boundary of site. The eastern boundary TCE fence will be relocated to the actual project/property boundary at project completion.	\$ 79,935.00	8	Executed Part of GMP	REG
42	UV/AOP System Modifications	3	The City requested to delete the Standby UV Reactor from the scope of work to reduce project costs. The change includes FBV added costs for: UV system investigation, technical memoranda, development of alternatives, and resulting design revisions for associated mechanical, electrical, and controls.	\$ (33,481.00)		Executed Part of GMP	CR3

44	Tank Access Improvements	3	This Change adds staircases to replace ladders throughout the site for improved access to treatment process basins. The change adds stairs, catwalks, and handrails at the BNR tanks, adds stair and landings at the SHT, add stairs and a grating platform at the MBR tank, and adds stairs, catwalk, and handrails at the SAFE system.	\$	210,327.00	Executed Part of GMP	CR1
45	Maintenance Ceiling Revisions and Automated Roll-Up Door	3	The City requested to add a motor actuator on one of the 14'X14' roll-up door at the Maintenance Building. This change includes the required added electrical and controls.	\$	21,009.00	Executed Part of GMP	CR2
46	Curbed Washdown Areas	3	This change adds containment curbs, sloped slabs, floor drains, and drainage piping to sewer for various wastewater washdown areas. The change adds curbed washdown areas for the MBR cassette maintenance area, the solids/sludge dewatering area, and the Headworks Coarse Screen and Grit Tank area. The City requested the curbed washdown areas to better contain sewage spills.	\$	76,250.00	Executed Part of GMP	CR1
47	Changes to Furnishings and Equipment	3	This Change adds office furnishings and appliances for the Operations and Maintenance Buildings, including desks, chairs, tables, shelves, cabinets, control room console, flat-screen monitors, kitchen and laboratory appliances, lockers, and maintenance building storage racks. The items were discussed and requested by the City during design meetings with the DB team Architect.	\$	85,194.00	Executed Part of GMP	CR2
50	Revisions to Water/Sewer Supply Storage Sheds	3	The original design includes a Water and Collections Storage Shed, with two equal sized rooms each with an exterior double-wide pedestrian door. This change deletes the double doors and adds 10 ft wide roll-up doors and single pedestrian doors for each room.	\$	13,142.00	Executed Part of GMP	CR2
52	Analyzer Relocation and Enclosures	3	Relocate analyzers at Outfall/PPR Pump Station to indoors at the RO/LV Building, including adding 120' of sample piping between the sample point and building. Relocate analyzers at Dechlorination Facility to indoors at the Water/Collections Storage Shed, including adding 70' of sample piping between the sample point and building, and adding 70' of drainage piping to sewer.	\$	76,555.00	Executed Part of GMP	CR2
55	Notice of Dispute - PG&E Temporary Power	3	This PCO addresses the cost paid to PG&E for temporary power service. It has been a disputed item and negotiation has led to an agreement to split the cost 50/50.	\$	13,163.00	Executed Part of GMP	FBV
56	Impacts of Water Quality Changes	3	In September 2019, the City provided updated Influent Water Quality data to use as the basis of design. Multiple parameters were significantly different than listed in the DB Agreement. The revised Water Quality data impacted the RO equipment design. The added costs are for H2O Innovations (RO manufacturer) as well as for electrical and control changes by Electricraft.	\$	282,420.00	Executed Part of GMP	CR1
57	Soil Lateral Earth Pressure	3	This change adds foundation sub-drains around below grade water bearing concrete structures as recommended by FBV and the Geotechnical Engineer. This change adds Miradrain Panels and 4" PVC drain piping around the perimeter of the BNR basin and Sludge Holding Tanks, to relieve lateral soil pressure on the concrete structures.	\$	116,329.00	Executed Part of GMP	FBV
58	Permanent Exclusion Fencing	3	As required by environmental regulatory agencies, a concrete barrier wall for wildlife exclusion is added along the entire Eastern boundary of the site from Teresa Rd to the northern most tip of the site. The concrete barrier wall shall extend 24 inches above grade and 36 inches below grade, and include a nominal 6-inch top lip to serve as a climbing barrier.	\$	855,991.00	Executed Part of GMP	REG
59	Increased Escalation Costs	3	This PCO includes escalation costs due to the delay in receiving construction NTP from October 23, 2019 to March 20, 2020.	\$	1,232,677.00	Executed Part of GMP	FBV
61	PCO Design Impacts	3	This PCO is in response to FBV's claim for engineering redesign costs from changes requested by the City but subsequently reversed due to the cost being too high or otherwise excessive. The PCO also addresses FBV's claim for inefficiencies resulting from "changes in direction throughout the design development process".	\$	158,172.00	Executed Part of GMP	FBV
62	Conduit Alternative Design	3	This change removed the original DB Agreement, Exhibit B, requirement to use PVC coated galvanized rigid steel conduit systems in all exterior and/or process areas on site. FBV proposed to use galvanized rigid steel conduit systems (without PVC coating) in all project locations as a value engineering suggestion. The City accepted the proposal in an attempt to reduce project costs.	\$	(268,400.00)	Executed Part of GMP	CR3
64	Reduce Performance Period	3	The DB Agreement requires 6-months of FBV support during the Performance Test Period. The City requested to delete this requirement as not necessary. Note FBV remains responsible for the 12-month warranty against equipment and/or system malfunctions. The credit amount is taken directly from FBV's original bid proposal document.	\$	(35,450.00)	Executed Part of GMP	CR3
65	Davis Bacon Wage Increases	2	The Contract amount is increased to compensate for the required implementation of CA Wage Determination dated 10/5/2018. FBV's original bid proposal document was based on CA Wage Determination dated 1/5/18	\$	69,937.00	Executed Part of GMP	REG
66	Caltrans Intersection Improvements	3	Delete scope of work to extend intersection at Teresa Road and South Bay Blvd for the new WRF Access Road. Adjust centerline of the WRF Access Road to be offset from the centerline of South Bay Blvd.	\$	(21,893.00)	Executed Part of GMP	CR3
67	BNR System Modifications	3	This change was requested by City to increase Aeration Air systems as required for full nitrification in the biological process. The costs include upsizing 3 each aeration blowers, stainless steel aeration piping, air meters, air valves, and adding aeration diffusers in the BNR basins. The change also adds Ammonium Sulfate pumps, tank, piping, and increases the size of the Chemical Facility.	\$	742,405.00	Executed Part of GMP	FBV
68	SAFE Settle (Equalization) Tank Drain Piping	3	This change is requested by the City to provide a new pipeline to drain the SAFE Settle Tank. This pipeline will tie in to the existing dewatering feed pumps and will allow draining the tank back to the SAFE Diversion Box. The work includes adding 80 lf of 6" piping and adding 2 each 6" manual valves.	\$	62,215.00	Executed Part of GMP	CR1
69	Third Party Testing and Inspection	3	The responsibility for 3rd party testing and inspection costs were in dispute for several months prior to construction. In April 2020 the City and FBV agreed that the cost of these services would be split 50/50 between the parties, up to a cap of \$200k. The agreement included the provision that if additional services are required above \$200k, it would be paid by the City.	\$	100,000.00	Executed Part of GMP	FBV
71	CDFW Site Restrictions (Direct Costs / Inefficiencies)	4	The construction NTP on 3-20-2020 included restrictions from working in the designated spoils disposal area on site. The restrictions by CDFW were due to an erosional feature and were not resolved until 7-14-2020. As a result of the restrictions, FBV was required to stockpile spoils outside the disposal area, and then haul and grade the material a second time after the restrictions was lifted.	\$	254,443.00	Executed Part of GMP	REG
72	Owner Trailer Utility Hook Ups	4	This change provides utility connections to the Owner/Carollo field office trailer at the WRF. The work includes grading the trailer site, installing a temporary potable water connection, connecting temporary electrical, and providing electrical power through the project duration. The work also includes installing a temporary USPS jobsite mailbox.	\$	19,593.00	Executed Part of GMP	CR2
73	Main Gates in Perimeter Fence	4	This change was requested by the City to add 2 pedestrian gates in the WRF perimeter fence, one north of the Operations Building and one at the northern most tip of site. Along with the pedestrian gate north of the Operation Building, also provide a 4' wide set of concrete stairs and a 4' wide sidewalk between paved areas.	\$	27,031.00	Executed Part of GMP	CR2
74	Parking Canopy Electrical Receptacles	4	This change adds 7 outdoor rated duplex 120VAC electrical outlets on canopy poles around the Vehicle/Equipment Storage Canopy, and the WRF Parking Canopy. The work includes a new 480V circuit from the RO Building Electrical Room, a new 5KVA transformer, and all required underground and exposed power conduits, junction boxes, and outlet receptacles.	\$	42,346.00	Executed Part of GMP	CR2
75	Security Windows at Admin Building	4	This change was requested by the City to add a security window in the lobby of the new Operations Building to separate City staff from members of the public in the lobby (similar to City Hall).	\$	11,079.00	Executed Part of GMP	CR2
76	Additional Sodium Bisulfite Pump	4	This change was requested by the City to provide a redundant (second) Sodium Bisulfite feed pump at the Chemical Facility, including all associated mechanical work, piping, electrical and controls. This change also provides heated tote blankets for the Sodium Bisulfite storage totes to control temperature during cold weather. An electrical outlet is also added for the heated tote blankets.	\$	58,243.00	Executed Part of GMP	CR1
77	COVID-19 Costs	6	The DB Agreement stipulates that an "epidemic" or "quarantine restriction" is a compensable Force Majeure event. FBV originally submitted costs in the amount of \$152k for COVID-19 impacts based on added initial service, added COVID protective supplies, added Safety Officer time, added costs to send infected workers home for quarantine, and loss of efficiency (1 hr. per worker per day from 3/20/20 to 6/1/20 and 10 min. per worker per day from 6/1/20 to 3/20/21. The City was able to negotiate this cost down to \$125k based on a reduction of the assumed inefficiencies, and was able to gain FBV agreement that this cost is considered final (i.e. that any future infections would be based on individuals deciding not to be vaccinated rather than Force Majeure).	\$	125,000.00	Executed Part of GMP	FBV
78	Soil Slip Differing Site Conditions	4	On May 5, 2020 an unidentified ancient landslide was discovered when mass grading the cut slope above the Operations Building. This is a differing subsurface condition per Section 3.10.2 of the Agreement. The costs represent the additional effort associated with remediating the landslide.	\$	280,013.00	Executed Part of GMP	DSC
79	Modify Water/Sewer Supply Storage Sheds (Ref. PCO 50)	4	This item is a continuation of PCO 50. FBV claims that their previous quote did not include all costs associated.	\$	10,847.00	Executed Part of GMP	CR2
82	PLC/SCADA Uniformity - Bal. of Equipment (Ref. PCO #37)	4	This PCO includes the cost to change PLC hardware and SCADA software from the standard offerings of the Belt Press and Cloth Disk Filter (SAFE) manufacturers to the City requested Allen Bradley and Wonderware products. This PCO applies to only those equipment items. PCO #37 was similarly executed for other equipment manufacturers on the project.	\$	108,887.00	Executed Part of GMP	CR2

84	Alternate Red Legged Frog Barrier (Ref. PCO 58)	5	Environmental agencies overseeing the project have allowed an alternate wildlife barrier along the Eastern boundary of site. The PCO 58 concrete barrier is only required from Teresa Rd to the facility gate (400'). The remaining 1700' of exclusionary barrier shall be 2 mm thick HDPE attached to 6' chain link fencing, 24" above grade, 36" below grade, with a rigid 4" FRP top lip climbing barrier.	\$	(468,768.00)		Executed Part of GMP	CR3
86	Pothole Existing Water Valve in Teresa Road	4	The City requested that FBV pothole an existing City water line and shut off on Teresa Road. On the next day, the City requested FBV pothole the 8" branch line service to the WRF property. The work was on T&M.	\$	5,189.00		Executed Part of GMP	CR2
87	Modify Alternate Conduit Design Scope (Ref. PCO 62)	5	This change provides PVC coated electrical conduit systems (conduits, boxes, accessories) for all wastewater and product water processing and washdown areas, including outdoor process areas and indoors at the RO/UV Building. PVC coated Galvanized Rigid Steel (GRS) conduits provide superior corrosion protection. This PCO essentially reverses previous PCO #62.	\$	272,822.00		Executed Part of GMP	CR1
88	Dead-Front Control Panels	6	City staff requested that all control panels be dead-front type, wherein no controls are exposed, and that a solid front door is furnished (i.e. keyed or with padlock hasp). FBV has submitted costs in the amount of \$37K and the City is in agreement. This change is being implemented on the following system control panels: Kusters (Headworks), Suez (MBR), Aerzen (Blowers), Gierlich-Mitchell (Sanitary Lift Station), Charter Machine (Dewatering), and other minor panels as required.	\$	37,774.00		Executed Part of GMP	CR2
90	24Vdc Digital Output Circuits	6	City staff requested that all control digital output circuits be 24VDC to match the 24VDC input signals as required by the DB Agreement. The City requested this to prevent potential signal interference. FBV had planned to use 120VAC digital outputs as the DB Agreement only stipulated the 24VDC signals on inputs (not outputs). This could potentially cause signal interferences and various control system disruptions. This item was disputed by the City as matching input and output signals is a design standard for some design firms (including Carollo). As part of negotiations the City elected to accept the proposed costs which include additional relays and power supply units in various Motor Control Centers (power distribution panels) for the 24Vdc PLC digital circuits being added.	\$	25,689.00		Executed Part of GMP	CR1
91	Standard Equipment Color (Tnemec 32GR Light Gray)	6	City staff requested that a standard color be established for all manufactured equipment, piping, etc., including for all field applied coatings. This is being implemented so that plant staff only need to maintain supply of one coating color, to simplify coating spot repairs during normal maintenance. The selected color is Tnemec 32R Light Gray or equal. FBV coordinated and made requests to each equipment supplier to change their standard or typical factory color to the Tnemec Light Gray or equal. Some supplier had costs impacts for the equipment color change.	\$	12,500.00		Executed Part of GMP	CR2
92	Soil Slip Differing Site Conditions Claim (2021)	6	On January 28, 2021, the previous cut-slope landslide area reactivated during a major storm. The DB Team has performed extensive site investigation, and develop preliminary remediation drawings, and submitted total costs in the amount of \$825,300 to address the known conditions. The remediation scope of work includes: removal and stockpiling of approximately 17,000 cy of loose material to the mapped slip plane, benching into competent native subgrade material, installing a subdrain system at each bench with drainage to surface, placement and compaction of \$17,000+ cy of engineered fill, surface contours to enhance precipitation run-off, concrete v-ditches to divert run-off from the areas, and the installation of two inclinometer for future monitoring by the City (monitoring not included).	\$	825,300.00		Executed Part of GMP	DSC/FBV
93	NEMA 4X Electrical Enclosures per Exhibit B	6	The City is requiring that all exterior electrical enclosures be NEMA 4X type. FBV submitted costs in the amount of \$97K to provide the NEMA 4X enclosures. The City does not agree with the contractual merits of this cost request. The City's contention is that the DB Agreement calls for all exterior and exposed electrical and control enclosures are to be NEMA 4X rated. FBV has argued that their intention, and the approved IFC design documents indicate reasonable alternatives to NEMA 4X. The City and FBV have agreed to the settlement amount noted herein and all applicable panels will be NEMA 4X rated.	\$	40,000.00		Executed Part of GMP	FBV
94	Security System Revisions	6	The City requested the following improvements to the facility security system: add one exterior security camera to enhance coverage of the facility grounds (6 other cameras already in design), add door detectors and motion sensors at the RO Bldg, Storage Shed, Electrical Bldg (detectors and sensors at Ops Bldg and Maint Bldg are already in design). FBV submitted costs in the amount of \$25K and the City is agreeable to the proposed amount.	\$	25,659.00		Executed Part of GMP	CR2
96	January 2021 Storm Event (1-26 thru 1-29)	6	FBV has submitted costs in the amount of \$40K for actual expenditures associated with the January 2021 major storm (8"+ of precipitation in 48 hours). The work included: actual labor, equipment, and materials to prepare for the storm, maintain the site during the storm while work was otherwise shutdown, and significant post storm efforts to clean and repair storm drain facilities, repair damaged embankments, and repair other erosional damage. The DB Agreement stipulates that "storms" are compensable Force Majeure events. As part of the settlement, City and FBV agree to amend the DB Agreement in that only non-compensable time extensions will be requested by FBV, and/or granted by the City, for any future weather related delay or impact.	\$	40,195.00	7	Executed Part of GMP	FBV

APPENDIX F - ANVIL AMENDMENT DETAILS



City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 001

Project: WRF Lift Stations and OffSite Pipelines Project **Contractor:** Anvil Builders, Inc.
Date: October 12, 2021 **Project Manager:** Gary Silveira

Upon mutual acceptance and execution of this document by the City of Morro Bay (City) and Anvil Builders, Inc. (Contractor), Contractor is hereby directed to make the following changes for the consideration set forth below:

See following page(s) for Descriptions and Reasons for Change

PCO #	DESCRIPTION	Reason For Change	Amount	Contract Time (Calendar Days)
1	SHPO Delay (35 days no dig moratorium)	REG	\$ 443,000.00	40 Days
2	Add 2 Each 10-in Valves and 10-in Tee	CR1	\$ 23,498.00	0 Days
3	PS-B MAS-Relay Pump Protection Module per DC-01	CR1	\$ 13,477.00	0 Days
4	PS-A & PS-B Conduit Changes per DC-02	CR1	\$ 6,436.00	0 Days
7	Extend Waterline Relocation from Sta 71+00 to Sta 77+43	DSC	\$ 131,096.00	0 Days
12	CA-SLO-2232H Work Interruptions from Stat 147 to Sta 150	REG	\$ 56,978.00	0 Days
NET CHANGE ORDER ADJUSTMENT			\$ 674,485.00	40 Days

ORIGINAL CONTRACT AMOUNT	\$ 31,493,675.00
Previous Change Orders	\$ -
Previous Contract Amount	\$ 31,493,675.00
Adjustments by this Change Order	\$ 674,485.00
New Contract Amount	\$ 32,168,160.00

CURRENT FINAL COMPLETION DATE	2/22/2022
Extension Days s (Calendar)	40 Days
NEW FINAL COMPLETION	4/3/2022

Acceptance of this Change Order constitutes an agreement between the City and Contractor, and the work is to be performed subject to the same terms and conditions as are contained in the Agreement with Contractor and for work on the above-mentioned project.

By signature of this Change Order, the Contractor acknowledges that the adjustments to the Contract Cost and Time contained in the Change Order are in full satisfaction and accord and so waives any right to claim any further cost and time impacts at any time during and after completion of the Contract for the changes encompassed by this Change Order.

ACCEPTED

Anvil Builders Inc.

Contractor (Company Name)

(Authorized Signature)

(Date)

Gary Silveira - Project Manager

(Print Name and Title)

When signed by the Owner and Construction Manager and received by Contractor, this document becomes effective IMMEDIATELY, and the Contractor shall proceed with the change(s) described above.

APPROVED

Carollo Engineers Inc

Construction Manager

Authorized Signature

(Date)

Paul Amico - Project Manager

(Print Name and Title)

ACCEPTED

City of Morro Bay

Owner

Authorized Signature

(Date)

Scott Collins - City Manager

(Print Name and Title)



City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 001

Project: WRF Lift Stations and OffSite Pipelines Project

Contractor: Anvil Builders, Inc.

Date: October 12, 2021

PCO #	TILE	DESCRIPTION OF CHANGE	Reason For Change
1	SHPO Delay	Project NTP was issued on 12-14-20. Based on a notification from SHPO, a stop work order was issued by the City on 2-16-21 restricting Anvil from conducting any ground-disturbing activities. Upon resolution of SHPO concerns, Anvil was allowed to begin most project ground-disturbing activities on 3-15-21 (35 calendar days later). This issue arose from the Section 3 Consultation between EPA and SHPO required as part of the City's WIFIA loan. The process included submittal of a Monitoring Plan to EPA that SHPO needed to approve before any ground-disturbing activities could begin. The Monitoring Plan was submitted to EPA on 10-3-2020, and EPA sent the document to SHPO in early November 2020. SHPO has a statutory requirement to provide a response within 30 days. EPA received SHPO comments in February 2021, past the 30 day limit. Under the regulations, EPA and the City could have moved forward since the statutory 30 day requirement was not met. However, EPA was not willing to do so. Consequently, the City was not approved by SHPO to move forward with any ground disturbing activities until 3-15-2021. Anvil subsequently filed a delay claim and time impact analysis resulting in this change order.	REG
2	Add 2 Each 10-in Valves and 10-in Tee	Anvil exposed the existing Waterline near Sta 121+30 as required to relocate the line per Contract. The existing piping configuration was discovered to be different from what was shown on the as-built drawings. After a review, City staff concluded that a new 10" Valve and 10" Tee fitting were needed to replace the existing piping configuration. This change will increase the reliability and operability of the water distribution system.	CR1
3	PS-B MAS Pump Relay Module per DC-01	The electrical Design Engineer issued Clarification No. 1 on 3-12-2021, indicating that the Pump Station B Pumps have been provided with a different pump protection system than shown in the design. The conduit and wire changes are required to incorporate the pump protection module. As a result conduit/wiring revisions were necessary at PS-B on Drawings 20-E-02, 03, 04, 05, 08 & and 20-I-01.	CR1
4	PS-A & PS-B Conduit Changes per DC-02	The electrical Design Engineer issued Clarification No. 2 on 4-19-2021, indicating that isolation of AC and DC signals is desired to prevent potential signal interferences. The following revisions will isolate the AC signals from the DC signals. As a result conduit/wiring revisions were necessary at PS-A on Drawings 10-E-3, 10-E-6, and 10-E-7, and at PS-B on Drawings 20-E-4, 20-E-5, 20-E-8, and 20-E-9.	CR1
7	Extend 12" RO Waterline Relocation	The original Contract includes relocating an existing 12" Waterline on Quintana between Sta 77+43 and Sta 82+05, due to the waterline being in conflict with the main Joint trench. Anvil's trenching crew on Quintana encountered the waterline entering the main Joint Trench alignment at Sta 73+50. After additional potholing, the City decided to extend the water line relocation back to Sta 71+00 (adding approximately 643 LF of waterline relocation).	DSC
12	CA-SLO-2232H Work Interruptions	Trenching operations on Quintana Rd near South Bay Blvd (Sta 147 to Sta 150) was significantly impacted by two known archaeological sites (CA-SLO-2232/H and CA-SLO-1183), one of which contains recently discovered human burials. This area needed to have excavations treated differently in that direct loading of trucks was not allowed without first confirming the soil was negative for resources or remains. These instruction were provided and enforced by State mandated archeological and tribal monitors assigned to the project.	REG

REASON FOR CHANGE CODES

CR1: City requested (required)

CR2: City requested (Optional)

E&O: Design Error or Omission

ABI: Anvil request / claim item

DSC: Differing Site Conditions

REG: Regulatory Agency Item



City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 002

Project: WRF Lift Stations and OffSite Pipelines Project **Contractor:** Anvil Builders, Inc.
Date: January 11, 2022 **Project Manager:** Matt Scholfield

Upon mutual acceptance and execution of this document by the City of Morro Bay (City) and Anvil Builders, Inc. (Contractor), Contractor is hereby directed to make the following changes for the consideration set forth below:

See following page(s) for Descriptions and Reasons for Change

PCO #	DESCRIPTION	Reason For Change	Amount	Contract Time (Calendar Days)
9	SoCal Gas Delays and Disruptions	ABI	\$ 43,017.00	0 Days
22	6-Inch Waterline Relocation at Pump Station A	DCS	\$ 20,147.00	0 Days
23	Miscellaneous Unforeseen Utility Work	DSC	\$ 27,198.00	0 Days
27	MTBM Delays and Disruptions - Claim Resolution	ABI	\$ 111,161.00	0 Days
28	SLO County APCD Generator Mandates – Procurements	REG	\$ 301,703.00	0 Days
34	Bike Path Jack & Bore Concrete Debris Obstruction	DSC	\$ 84,276.00	0 Days
NET CHANGE ORDER ADJUSTMENT			\$ 587,502.00	0 Days

ORIGINAL CONTRACT AMOUNT	\$ 31,493,675.00
Previous Change Orders	\$ 674,485.00
Previous Contract Amount	\$ 32,168,160.00
Adjustments by this Change Order	\$ 587,502.00
Change Order to Date	\$ 1,261,987.00
New Contract Amount	\$ 32,755,662.00

CURRENT FINAL COMPLETION DATE	4/3/2022
Extension Days (Calendar)	0 Days
NEW FINAL COMPLETION	4/3/2022

Acceptance of this Change Order constitutes an agreement between the City and Contractor, and the work is to be performed subject to the same terms and conditions as are contained in the Agreement with Contractor and for work on the above-mentioned project.

By signature of this Change Order, the Contractor acknowledges that the adjustments to the Contract Cost and Time contained in the Change Order are in full satisfaction and accord and so waives any right to claim any further cost and time impacts at any time during and after completion of the Contract for the changes encompassed by this Change Order.

ACCEPTED

Anvil Builders Inc.
 Contractor (Company Name)

(Authorized Signature) (Date)

Matt Scholfield
 (Print Name and Title)

When signed by the Construction Manager, and upon execution of source document Amendment by City Council, this document becomes effective IMMEDIATELY, and Contractor shall proceed with the change(s) described above.

APPROVED

Carollo Engineers Inc / MEG Inc.
 Construction Manager

Authorized Signature (Date)

Steve Mimiaga - Construction Mngr.
 (Print Name and Title)



City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 002

Project: WRF Lift Stations and OffSite Pipelines Project			
Contractor: Anvil Builders, Inc.			
Date: January 11, 2022			
PCO	TILE	DESCRIPTION OF CHANGE	Reason For Change
9	SoCal Gas Delays and Disruptions	The project's joint trench, containing multiple pipelines, parallels an existing 16" diameter SoCal Gas high pressure gas main for nearly the entire alignment along Quintana Road. SoCal Gas requires a representative to be on site during all digging activities as well as other work activities occurring within 10 ft of the high pressure gas main (i.e. that could potentially damage or otherwise impact the main). There have been several occurrences where the SoCal Gas representative did not show up for scheduled assignments, which prevented Anvil from performing contract work and/or progressing the joint trench. In these cases Anvil's entire crew was forced to literally stand-by and wait for the SoCal Gas representative to arrive. The City/Carollo have spent considerable time and effort to coordinate between Anvil and SoCal Gas to improve communication and cooperation, but nevertheless, Anvil was negatively impacted on the following days: 5/3/21 for 2 hours, 5/17/21 for 2.5 hours, 5/18/21 for 3 hours, 6/3/21 for 2 hours, 6/17/21 for 2.5 hours for 2 different crews, 8/10/21 for 4 hours.	ABI
22	6" Waterline Relocation at Pump Sta. A	New Pump Station A is located on City property at the City's existing corporation yard on Atascadero Road. As part of the site preparation and demolition work at Pump Station A, an unknown 6" Waterline was discovered and needed to be relocated to construct the pump station. The extra work included potholing and locating the unknown utility, trenching and installation of new by-pass piping, pressure testing and disinfection of the relocated waterline, backfill and other site work.	DSC
23	Miscellaneous Unforeseen Utility Work	During the project work to date, the below noted miscellaneous unforeseen minor utility work was required for contract work to proceed. The following items are acknowledged as unforeseen conditions and as such warrant reimbursement of verified extra costs: (1) potholing unmarked utility at Pump Station A on 5/3/21, (2) emergency work to recover trench caving due to adjacent utilities from Sta 71+75 to Sta 71+85 on 6/13/21, (3) excavating around unmarked 4" (asbestos) Waterline at Sta 146+00 on 7/8/21, (4) Anvil crew standby time during potholing of incorrectly marked telephone conduit on 8/5/21, (5) unknown and unmarked Sanitary Sewer crossing at Sta 88+50, line was struck and repaired on 8/6/21, (6) potholing unknown and unmarked Sanitary Sewer lines on 8/9/21, and (7) unknown and unmarked Sanitary Sewer crossing at Sta 90+50, line was struck and repaired on 8/23/21.	DSC
27	MTBM Delays and Disruptions Claim Resolution	Anvil and their Microtunnel Boring Machine (MTBM) subcontractor, Vadnais Trenchless Services (Vadnais) encountered several unknown utilities, potential obstructions, and differing soil conditions along the MTBM alignment below the Morro Bay Roundabout, including complete equipment stoppages at approximately Sta 98+50 and Sta 98+65. Anvil's subcontractor (Vadnais) claimed delay and equipment standby time for these equipment stoppages that lasted over 8 weeks. During the 8 weeks of work stoppage, Anvil excavated and shored two separate 23 ft deep emergency recovery shafts to clear the apparent obstructions from in front of the MTBM cutting head. However, no actual obstruction was found, located, or confirmed during the recovery shaft excavations. Subsequently, the MTBM casing pipe installation was completed without further incidents. Anvil and Vadnais provided notifications of potential costs under PCO #14 and PCO #27 in excessive \$500,000 for the Vadnais equipment downtime, Vadnais loss of crew efficiencies, and for the cost of the two recovery shafts by Anvil. The City initially denied the claim for stoppages at Sta 98+50 and Sta 98+65, as no obstruction was found. The City does not dispute the other costs related to unknown utilities noted herein. After several meetings between the City, Carollo, Anvil, and Vadnais, a claim settlement was reached in the amount of \$111,161, wherein all other costs and impacts associated with both PCO #14 and PCO #27, are waived or otherwise agreed upon for the final lump sum amount noted herein.	ABI
28	SLO County APCD Emergency Generator Mandates – Procurements	On 9/24/21, the City received a Notice of Incomplete Applications from SLO County Air Pollution Control District (APCD), pursuant to the Pump Station A emergency generator and the Pump Station B emergency generator. It is City staff understanding that both generators were in compliance with APCD requirements at the time of Bid Opening in 2020. However, in late 2020, APCD rules were revised causing the two generators to now need retrofitted emissions reduction components to attain APCD compliance and approval. APCD is now also requiring Health Risk Assessments (HRAs) for both pump station sites which Carollo is undertaking via specialty subconsultant. This change order encompasses the below noted initial known costs for emissions reduction components, however it is acknowledged that there will be a subsequent change order for additional structural, mechanical, electrical, and sitework revisions necessary to implement the changes. This change order includes costs for the following assumed necessary procurement items: At Pump Station A add a Diesel Particulate Filter (DPF); and at Pump Station B add the DPF, plus Selective Catalytic Reduction (SCR) and Diesel Oxidation Catalysts (DOC) technologies.	REG
34	Bike Path Jack & Bore Concrete Debris Obstruction	On 11/11/21, about 3 pm, Anvil and their jack & bore subcontractor (Pacific Boring) encountered a concrete obstruction in the path of the 60" casing pipe. Anvil and Pacific Boring were immediately instructed to suspend the jack & bore mechanical operation and hand excavate to investigate and confirm the size and extent of the concrete obstruction. For the following 6 consecutive days (including Saturday 11/13/21 and Sunday 11/14/21), Anvil and Pacific Boring worked 8 to 10 hour shifts to hand excavate and jack hammer out the concrete obstruction, while simultaneously advancing the casing pipe about 20 ft using the hydraulic jacking equipment. On 11/18/21, the obstruction was cleared and Pacific Boring resumed normal jack & bore operations, finishing the casing installation the same day. Note that the obstruction appears to be an old Caltrans culvert structure from the original CA Route 1 highway. Also note that the jack & bore work through jurisdictional wetlands needed to proceed without delay, working through the weekend, in order to meet a California Department of Fish and Wildlife (CDFW) mandate for the tunnel to be completed by 11/19/21.	DSC

REASON FOR CHANGE CODES
CR1: City requested (required)
CR2: City requested (Optional)
E&O: Design Error or Omission
ABI: Anvil request / claim item
DSC: Differing Site Conditions
REG: Regulatory Agency Item



**City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 003**

Project: WRF Lift Stations and OffSite Pipelines Project **Contractor:** Anvil Builders, Inc.
Date: March 22, 2022 **Project Manager:** Chris Fassari

Upon mutual acceptance and execution of this document by the City of Morro Bay (City) and Anvil Builders, Inc. (Contractor), Contractor is hereby directed to make the following changes for the consideration set forth below:

See following page(s) for Descriptions and Reasons for Change

PCO #	DESCRIPTION	Reason For Change	Amount	Contract Time (Calendar Days)
8	Additional Project Signage Costs	CR2	\$ 9,196.00	0 Days
9.2	SoCal Gas Delays and Disruptions (Part 2)	ABI	\$ 20,750.00	0 Days
13.1	CA-SLO-16 Work Revisions (Time Extension)	REG	\$ -	153 Days
16	Reroute Joint Trench below State Waterline at 121+75	DSC	\$ 144,616.00	0 Days
20	Pothole Utilities for WRF Pilot Injection Well Layout	CR2	\$ 15,291.00	0 Days
32	Broken Waterline at Quintana Road and Kings Avenue	ABI	\$ 6,198.00	0 Days
39	Cultural Monitor Extra Work at MTBM Launch Pit	DSC	\$ 45,266.00	0 Days
NET CHANGE ORDER ADJUSTMENT			\$ 241,317.00	153 Days

ORIGINAL CONTRACT AMOUNT	\$ 31,493,675.00
Previous Change Orders	\$ 1,261,987.00
Previous Contract Amount	\$ 32,755,662.00
Adjustments by this Change Order	\$ 241,317.00
Change Order to Date	\$ 1,503,304.00
New Contract Amount	\$ 32,996,979.00

CURRENT FINAL COMPLETION DATE	4/3/2022
Extension Days (Calendar)	153 Days
NEW FINAL COMPLETION	9/3/2022

Acceptance of this Change Order constitutes an agreement between the City and Contractor, and the work is to be performed subject to the same terms and conditions as are contained in the Agreement with Contractor and for work on the above-mentioned project.

By signature of this Change Order, the Contractor acknowledges that the adjustments to the Contract Cost and Time contained in the Change Order are in full satisfaction and accord and so waives any right to claim any further cost and time impacts at any time during and after completion of the Contract for the changes encompassed by this Change Order.

ACCEPTED

Anvil Builders Inc.

Contractor (Company Name)

(Authorized Signature)

(Date)

Chris Fassari

(Print Name and Title)

When signed by the Construction Manager, and upon execution of source document Amendment by City Council, this document becomes effective IMMEDIATELY, and Contractor shall proceed with the change(s) described above.

APPROVED

Carollo Engineers Inc / MEG Inc.

Construction Manager

Authorized Signature

(Date)

Steve Mimiaga - Construction Mngr.

(Print Name and Title)



City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 003

Project: WRF Lift Stations and OffSite Pipelines Project

Contractor: Anvil Builders, Inc.

Date: March 22, 2022

PCO	TILE	DESCRIPTION OF CHANGE	Reason For Change
8	Additional Project Signage Costs	The original contract included a \$5,000 allowance for additional signage not shown on the plans or required by the specifications. Anvil has exhausted this original budget responding to signage requests from City staff to date. This change order item provides reimbursement of Anvil costs to date to provide additional signage, including custom signs, above the \$5,000 allowance as directed by the City. These additional signs are deemed necessary for public safety, public information, enhanced traffic flow, and/or to enhance access to businesses open during construction.	CR2
9.2	SoCal Gas Delays and Disruptions (Part 2)	The project's joint trench, containing multiple pipelines, parallels an existing 16" diameter SoCal Gas high pressure gas main for nearly the entire alignment along Quintana Road. SoCal Gas requires a representative to be on site during all digging activities as well as other work activities occurring within 10 ft of the high pressure gas main (i.e. that could potentially damage or otherwise impact the main). There have been several occurrences where the SoCal Gas representative did not show up for scheduled assignments, which prevented Anvil from performing contract work and/or progressing the joint trench. In these cases Anvil's entire crew was forced to literally stand-by and wait for the SoCal Gas representative to arrive. The City/Carollo have spent considerable time and effort to coordinate between Anvil and SoCal Gas to improve communication and cooperation, but nevertheless, Anvil was negatively impacted on the following days: 8/25/21 for 2 hours, 8/26/21 for 3.5 hours, 9/16/21 for 1.5 hours, 10/7/21 for 2 hours. This is the second change order to reimburse Anvil for SoCal Gas monitor disruptions, the previous change order amount was \$43,017.00.	ABI
13.1	CA-SLO-16 Work Revisions (Time Extension)	Anvil is provided a 153 day non-compensable time extension due to impacts caused by SHPO mandated work restriction at the Morro Creek Utility Bridge, based on the following analysis and terms: Per Anvil's approved Baseline Schedule, the Utility Bridge was to start Feb 1, 2021 with 23 days of float. Per Anvil's Feb 2022 Update, the Utility Bridge was actually started Feb 24, 2022, now with 153 days of negative float (delay). It is acknowledged that SHPO restrictions prevented Anvil from starting any work at the Utility Bridge prior to Feb 24, 2022. It is acknowledged that the on-going (thru March 2022) archeologist supervised work on site, required by SHPO, continues to impact Anvil's schedule. Direct cost impacts resulting from these circumstances are being tracked separately from this analysis. Anvil is provided the 153 calendar day non-compensable time extension at this time based on the applicable Critical Path Schedule Update negative float duration discuss herein above. Anvil has submitted a Time Impact Analysis requesting 201 calendar days. Anvil and the City agree to allow Anvil to seek additional time extensions if warranted in the future when the full extent of this on-going impact is known. The current Contract completion date is 4/3/2022 (through Amendment No. 3). With 153 calendar days added, the new Contract Completion Date will be Sept 3, 2022. The City currently views the SHPO restrictions at Utility Bridge as concurrent with other Anvil caused delays (i.e. the Pump Station A Electrical Building currently has 164 days of negative float). As such the City considers this delay as non-compensable at this time (no extended overhead merit). Similar to above, Anvil and the City agree to allow Anvil the opportunity to present substantiating documentation of extended overhead merit in the future when the full extent of this on-going impact is known.	REG
16	Reroute Joint Trench below State Waterline at 121+75	Prior to starting the Joint Trench excavation near Sta 121+75, an existing 10" State Waterline was marked incorrectly in the field by the pipeline operator. Anvil excavated (potholed) the pipeline at the location marked in the field to verify its position. The State Waterline was not found at the marked location. The pipeline operator re-marked the line again in the field, this time where shown on the Contract Drawings at Sta 121+75. A pipeline was located at this location and the pipeline operators confirmed the line as the correct pipe in the field. Anvil then began excavating the 8-ft wide by 10-ft deep Joint Trench through the area. While excavating the Joint Trench, Anvil discovered another existing pipeline running adjacent to and below the pipe previously identified as the State Waterline shown on the plans. The pipeline operator subsequently confirmed that the adjacent lower pipe was actually the State Waterline to be protected in place. This caused Anvil to have to move back, re-excavate, and deepen the Joint Trench excavation from 10 ft to approximately 14 ft deep. This would allow the Joint Trench pipelines to pass below the lower pipe with required DDW clearances. In doing so, Anvil was also required to provide additional trench shoring measures and trench dewatering for the deeper trench; then Anvil encountered additional difficulties and inefficiencies installing the Joint Trench pipelines in the deeper trench, with additional groundwater, with increased soil instabilities, and additional shoring to work around, etc. Anvil was subsequently required to also provide additional Controlled Low Strength Material (CLSM) backfill and then additional select fill compaction as well. Anvil's pipe installation operation was significantly impacted over the period from 8/4/21 to 8/16/21.	DSC
20	Pothole Utilities for WRF Pilot Injection Well Layout	Anvil provided additional potholing and utility locating at the request of the City, near Anvil's stockpile and staging area on Vistra property (along Bike Path). This additional potholing and utility locating was required to determine the best location and layout for the future Pilot Injection Well to be installed under a separate City contract, as part of the Recycled Water facilities associated with the Morro Bay "Our Water" program. At the City's direction, Anvil contacted Underground Service Alert (USA), had the area underground utilities marked by utility owners, potholed several critical utilities, backfilled and restored the area, and provided resulting survey data to the City.	CR2



City of Morro Bay
Water Reclamation Facility
Lift Stations and Offsite Pipelines Project
CHANGE ORDER 003

Project: WRF Lift Stations and OffSite Pipelines Project

Contractor: Anvil Builders, Inc.

Date: March 22, 2022

PCO	TILE	DESCRIPTION OF CHANGE	Reason For Change
32	Broken Waterline at Quintana Road and Kings Avenue	On Saturday, 10/29/21, City of Morro Bay staff observed a waterline leak where the waterline crosses the Anvil trench in the intersection of Quintana Road at Kings Avenue. The City subsequently confirmed that a 6" Water line, made of Transite (AC) pipe, had deflected and come apart just beyond Anvil's trench line. Anvil had been working in this intersection the previous week and there was strong indication that Anvil activities caused the line brake. Anvil indicated their position that they have no reason to assume they caused the water line break. The City has no reason to believe that the rupture would have occurred if not for Anvil trenching across and backfilling around the existing pipe. After additional discussion and negotiation it was agreed that the City would pay a portion of the Anvil crew expenses for repairs. The settlement amount is less than half of Anvil actual costs. Note that City staff also incurred costs for various activities including temporary repairs made when the leak was first discovered.	ABI
39	Cultural Monitor Extra Work at MTBM Launch Pit	Trenching operations just north of the Microtunnel launch pit on Quintana Road near the Morro Bay Blvd Roundabout (Sta 94 to Sta 95) was significantly impacted by a known archaeological site. Anvil work was significantly impacted by instructions provided and enforced by State mandated archeological and tribal monitors assigned to the project. During trenching in the subject area, all excavated spoils were treated differently in that direct loading of trucks was not allowed without first confirming the soil was negative for resources or remains, by hand investigations performed by the archeological and tribal monitors. Anvil's trenching and shoring operation was significantly impacted over the period from 10/21/21 to 11/8/21.	DSC

REASON FOR CHANGE CODES

CR1: City requested (required)

CR2: City requested (Optional)

E&O: Design Error or Omission

ABI: Anvil request / claim item

DSC: Differing Site Conditions

REG: Regulatory Agency Item

WATER OPERATING FUND (311)	FY 2020 Actual	FY 2021 Actual	FY 2022 Projected	FY 2023 Budget	Forecast			
					FY 2024	FY 2025	FY 2026	FY 2027
Revenue								
Rate Payer Revenue	7,295,249	7,474,147	7,444,000	7,604,000	7,604,000	7,604,000	7,604,000	7,604,000
Other Revenue	135,029	77,282	43,700	100,200	100,200	100,200	100,200	100,200
Transfers In	3,709,538	12,098,763	-	-	-	-	-	-
TOTAL REVENUE	11,139,817	19,650,192	7,487,700	7,704,200	7,704,200	7,704,200	7,704,200	7,704,200
Expense								
Personnel	748,597	843,704	881,619	1,118,302	1,170,407	1,219,378	1,266,286	1,319,286
Operational Costs	675,883	695,958	710,500	915,659	961,442	1,009,514	1,059,990	1,112,989
Ongoing costs for long-term liabilities (PERS and OPEB)	72,714	147,746	171,119	202,643	208,965	209,864	206,296	206,296
Other Operations & Maintenance	3,453,536	2,627,972	3,199,262	3,862,786	4,055,925	4,258,722	4,471,658	4,695,241
Transfers Out (Ongoing)	63,088	220,258	256,816	309,224	309,224	309,224	309,224	309,224
Debt Service Payments						1,219,000	1,219,000	1,219,000
TOTAL EXPENSE	4,265,221	3,691,934	4,337,697	5,290,312	5,535,557	7,006,324	7,266,168	7,542,750
Net Surplus (Shortfall)	6,874,595	15,958,258	3,150,003	2,413,888	2,168,643	697,876	438,032	161,450
Capital	133,428	15,261,469	4,092,889	3,628,631	3,831,747	10,000,000	8,800,000	-
Net Surplus (Shortfall) including Capital	6,741,168	696,788	(942,886)	(1,214,743)	(1,663,104)	(9,302,124)	(8,361,968)	161,450
Contribution to 115 Trust	-	-	-	70,000	-	-	-	-
Starting Fund Balance			14,274,639	16,523,753	15,239,010	13,575,906	4,273,783	(4,088,185)
Transfer in from Accumulation & Equipment Replacement Funds (projected)			3,192,000					
ENDING FUND BALANCE	6,741,168	696,788	16,523,753	15,239,010	13,575,906	4,273,783	(4,088,185)	(3,926,735)
Fund Balance % of Total Operating Expenses	136%	16%	333%	250%	212%	64%	-58%	-54%

Minimum Reserve Levels				MET	MET	MET	NOT MET	NOT MET
Debt Coverage Ratio of 1.2 or greater				N/A	N/A	1.6	1.4	1.1
Operating: 25% Annual Operating Expenses (Prior Year Budget)		1,237,682	1,078,845	1,240,625	1,524,848	1,599,185	1,674,369	1,751,057
Rate Stabilization: 5% of prior year's rates for rate stabilization		364,762	373,707	372,200	380,200	380,200	380,200	380,200
Vehicle Replacement Reserve: 20% of original value of the Water fleet		50,885	50,885	50,885	50,885	50,885	50,885	50,885
		1,653,330	1,503,437	1,663,710	1,955,933	2,030,270	2,105,454	2,182,142

NOTES

Fund Balance is defined as working capital: current assets less current liabilities

Transfers out include transfers to the General Fund for internal cost allocation services, transfers to the Risk and IT funds, transfers to the Water and Sewer CIP funds for Water CIPs

Assumes Water Fund contributes 30% of cash-funded portion of WRF unless additional financing is obtained, and its share of service on the facility.

In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the year's operating surplus.

SEWER OPERATING FUND (321)	FY 2020 Actual	FY 2021 Actual	FY 2022 Projected	FY 2023 Budget	Forecast			
					FY 2024	FY 2025	FY 2026	FY 2027
Revenue								
Rate Payer Revenue	9,366,995	9,450,037	9,200,000	9,460,000	9,460,000	9,460,000	9,649,200	9,842,184
Other Revenue	49,744	26,789	54,383,790	1,784,348	1,784,348	1,784,348	1,784,348	1,784,348
Transfers In	-	29,253,322	-	-	-	-	-	-
TOTAL REVENUE	9,416,739	38,730,148	63,583,790	11,244,348	11,244,348	11,244,348	11,433,548	11,626,532
Expense (Operating)								
Personnel	1,053,614	585,983	538,076	1,555,313	1,627,572	1,695,147	1,759,581	1,832,651
Operational Costs	450,067	423,170	383,000	1,262,409	1,325,529	1,391,806	1,461,396	1,534,466
Ongoing costs for long-term liabilities (PERS and OPEB)	603,547	162,813	155,076	292,904	302,043	303,341	298,185	298,185
Other Operations & Maintenance	1,680,772	1,689,772	2,791,783	2,022,098	2,123,203	2,229,363	2,340,831	2,457,873
Transfers Out (Ongoing)	229,946	166,790	180,299	345,183	345,183	345,183	345,183	345,183
Debt Service Payments	-	-	-	-	-	3,609,000	3,609,000	3,609,000
TOTAL EXPENSE	2,964,333	2,442,545	3,510,158	3,922,594	4,095,958	7,878,693	8,054,595	8,244,706
Net Surplus (Shortfall) - Operating	6,452,407	36,287,603	60,073,632	7,321,754	7,148,390	3,365,655	3,378,953	3,381,826
Capital	3,746,979	34,440,598	58,745,271	11,194,153	8,071,282	12,489,611	4,204,000	107,000
Net Surplus (Shortfall) including Capital	2,705,427	1,847,005	1,328,361	(3,872,399)	(922,892)	(9,123,956)	(825,047)	3,274,826
Contribution to 115 Trust	-	-	-	96,000	-	-	-	-
Starting Fund Balance	-	-	14,834,727	20,190,088	16,221,689	15,298,797	6,174,841	5,349,794
Transfer in from Accumulation & Equipment Replacement Funds (projected)	-	-	4,027,000	-	-	-	-	-
ENDING FUND BALANCE	-	-	20,190,088	16,221,689	15,298,797	6,174,841	5,349,794	8,624,619
Fund Balance % of Total Operating Expenses	0%	0%	522%	316%	284%	110%	91%	141%

Minimum Reserve Levels				MET	MET	MET	MET	MET
Debt Coverage Ratio of 1.2 or greater				N/A	N/A	1.9	1.9	1.9
Operating: 25% Annual Operating Expenses (Prior Year Budget)		947,000	715,435	966,984	1,283,181	1,344,587	1,404,914	1,464,998
Rate Stabilization: 5% of prior year's rates for rate stabilization		468,350	472,502	460,000	473,000	473,000	473,000	482,460
Vehicle Replacement Reserve: 20% of original value of Sewer fleet		99,891	99,891	99,891	99,891	99,891	99,891	99,891
		1,515,241	1,287,827	1,526,874	1,856,072	1,917,477	1,977,805	2,047,349

NOTES

Fund Balance is defined as working capital: current assets less current liabilities
 In years the minimum reserve levels are met, the fund will contribute to a Section 115 Trust for pension liability in an amount commensurate to General Fund contributions from the year's operating surplus.
 Assumes that WRF is funded with current levels of SRF and WIFIA financing and that remainder is cash funded (appx \$21 million).



AGENDA NO: III

MEETING DATE: May 25, 2022

Staff Report

TO: Honorable Mayor and City Council

DATE: May 20, 2022

FROM: Eric Endersby, Harbor Director
Lori Stilts, Harbor Business Coordinator
Scott Collins, City Manager

SUBJECT: Harbor Department Budget Global Overview

RECOMMENDATION

Staff recommends the City Council receive and file report.

FISCAL IMPACT

Not applicable.

BACKGROUND

Morro Bay's waterfront, harbor and beaches are an enterprise fund zone held in trust with the State of California as the Morro Bay Tidelands Trust, and the Harbor Department is the department designated by the City to manage these assets and provide services within the Trust. The most visible of these services are the public safety, facility management and public access/environmental protection missions of the Harbor Patrol. Lesser known but equally important is the property management role of the Harbor Department, where all of the businesses on the west side of Embarcadero are on public property lease sites subject to the public overview under the Tidelands Trust. The third "leg" of the Harbor Department is its capital and maintenance/repair responsibilities for various and numerous pieces of important infrastructure.

Revenues generated in the Trust are legally obligated to be expended in the Trust for Trust purposes, and the fund designated for Harbor revenues and expenses is the Harbor Fund. Prior to the Great Recession of 2008, Harbor Fund revenues exceeded expenses by enough margin to support operations and management, as well as a modest capital program. During and after the recession, however, the revenue/expense curve began to flip, and combined with the cessation of the power plant outfall lease revenue (\$275K) in 2014, the growing State PERS unfunded pension liabilities and greatly increasing operational costs due in large part to increased use of the waterfront, bay and beaches, the Harbor Fund has become challenged to meet its operating obligations and capital needs at a time when its infrastructure is showing its age.

Prepared By: LS

Dept Review: EE

City Manager Review: SC

City Attorney Review: _____

DISCUSSION

Harbor Revenues

The ~\$2.3M Harbor Fund generates the vast majority of its revenues (~78%) from the 35 lease sites and ~90 businesses among them, where the “master” lessee builds, owns, maintains and manages the improvements for the life of the lease on which to generate revenue and make a profit, and in return they pay the City (Harbor Fund) substantial rents in the form of a minimum rent and a percentage of the gross revenues generated on the site. While lease revenues have incrementally increased over the years, and in the covid years we have seen record highs, without substantial new growth, the waterfront is largely at it’s carrying capacity in terms of revenue generation. The remainder of the Harbor Fund’s fee revenues are derived from boating-related sources such as slip and mooring fees.

In addition, for the first time in this current fiscal year (Fiscal Year 2021/22), the City Council allocated significant revenues from non-Harbor funds (Measures E/Q) to the Harbor Fund to help the sustainability of the department and its services. Staff is recommending continued use of Measure E/Q funds for the Harbor Department in FY 2022/23.

Harbor Expenses

On the expense side, like all City departments, the Harbor Department’s greatest expense is personnel, representing over 55% of the budget in the current year. It is important to note that the operations and administration of the Harbor Department are carried out with six full-time personnel, where prior to 2010 it was eight full-time positions. The organizational assessment currently underway by The Centre for Organizational Effectiveness (TCFOE) is currently assessing the Harbor Department to determine the optimal number and mix of positions to carry out its mission and responsibilities efficiently and effectively.

Other expenses, however, are significant and growing as well, such as general facility upkeep to meet service demand, costs of utilities (trash, water, electricity) and maintenance and repair. And while the Harbor Fund in general is now operationally balanced, adding the capital need drives it into the negative as currently there is identified a ~\$800K per year capital shortfall just to keep up with the infrastructure we have now. Some examples of this are the replacement needed now for both the north and south Beach Street Slips at a pre-inflationary estimate of \$1.4M, where only the south slips are currently funded (\$600K), major structural overhaul of the North T-Pier at an estimated cost of \$3.8M (which is currently being pursued in a Congressional earmark ask) and a major renovation of the public boat launch facility at an estimated cost of \$2.8M (currently staff are proposing \$210K in Measure Q/E revenues to fund planning and permitting of just the ramp and boarding float replacement in order to apply for grant funding for those projects).

CONCLUSION

While in some regards the Harbor Department’s future looks bright with record-high lease revenues, serious challenges remain. How the department heads into the future from a staffing and organizational standpoint after the TCFOE assessment is still an unknown, but holds great promise to get the department back on it’s feet. Other options, such as the Harbor Department partnering and collaborating with Public Works to manage the Harbor’s capital and maintenance program are other options to address some of the challenges. Lastly, the Harbor has extensive capital needs and will balance all of that with doing its part to address pension liabilities.

All these things, of course, require prioritization and will come at a financial cost. The City is pursuing a mixture of revenue sources, including state grants, federal infrastructure programs and funding from organizations like the Friends of the Harbor Department. These sources could be very helpful, but

can't be depended upon as consistent sources of funding on an annual basis. State and federal funding is very competitive, and it would be unfair to ask more from the Friends of the Harbor Department when they already have done so much for the Harbor.

Other more consistent sources of revenue will be necessary. The City is looking at paid parking and continued use of Measure E/Q funds, and added staffing may help the Harbor look closely at leases and other development opportunities in the waterfront to bring more revenues. The community has also brought forward a tax initiative that would be dedicated to funding Harbor infrastructure.

Without new revenues, the City will have to take a hard look at cuts to Harbor operations or reducing capital expenses in other parts of the City.

Staff is not recommending any action at this time, but welcomes input from City Council on the various revenue sources identified above.

ATTACHMENT

None