



CITY OF MORRO BAY

Citizens Oversight Committee

Acting as Citizens Finance Advisory Committee

Agenda

Mission Statement

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

REGULAR MEETING
TUESDAY, APRIL 18, 2017
VETERANS MEMORIAL HALL – 3:30 PM
209 SURF ST., MORRO BAY, CA

ESTABLISH QUORUM AND CALL TO ORDER

COMMITTEE MEMBERS ANNOUNCEMENTS & PRESENTATIONS – WELCOME NEW MEMBERS

PUBLIC COMMENT PERIOD - Members of the audience wishing to address the Committee on business matters may do so at this time.

To increase the effectiveness of the Public Comment Period, the following rules shall be followed:

- When recognized by the Chairperson, please come forward to the podium, and state your name and address for the record. Comments are to be limited to three minutes.
- All remarks shall be addressed to the Committee, as a whole, and not to any individual member thereof.
- The Committee respectfully requests that you refrain from making slanderous, profane or personal remarks against any elected official, commissioner, committee member and/or staff.
- Please refrain from public displays or outbursts such as unsolicited applause, comments or cheering.
- Any disruptive activities that substantially interfere with the ability of the Committee to carry out its meeting will not be permitted, and offenders will be requested to leave the meeting.
- Your participation in Committee meetings is welcome, and your courtesy will be appreciated.

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE MARCH 21, 2017, REGULAR CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

B. BUSINESS ITEMS

1. UPDATED DRAFT SEWER/WATER RATE STUDY PRESENTATION (REVIEW/COMMENT)
2. DISCUSSION ON IMPLEMENTATION OF THE CITY'S PURCHASE ORDER SOFTWARE SYSTEM
3. DISCUSSION AND INPUT ON CFAC'S MISSION STATEMENT
4. FUTURE AGENDA ITEMS

C. SCHEDULE NEXT MEETING

The next regular meeting is scheduled for May 16, 2017.

D. ADJOURNMENT

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

MATERIALS RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE COMMITTEE AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC INSPECTION AT CITY HALL LOCATED AT 595 HARBOR STREET DURING NORMAL BUSINESS HOURS.

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.

**MINUTES – CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE
REGULAR MEETING – MARCH 21, 2017
VETERANS MEMORIAL HALL – 3:30 P.M.**

MEMBERS PRESENT:	Barbara Spagnola	Chairperson
	Bart Beckman	Member
	David Betonte	Member
	John Erwin	Member
	Walter Heath	Member
	Dawn Addis	Member

STAFF PRESENT:	Craig Schmollinger	Finance Director
	Monique Lomeli	Account Clerk

ESTABLISH A QUORUM AND CALL TO ORDER

A quorum was established with 6 members present and the meeting was called to order at 3:30 p.m.

COMMITTEE MEMBERS ANNOUNCEMENTS AND PRESENTATIONS

<https://youtu.be/NBcQuNV-U0A?t=1s>

New members Walter Heath and Dawn Addis gave brief introductions.

PUBLIC COMMENT PERIOD

<https://youtu.be/NBcQuNV-U0A?t=1m1s>

Carol Trusdale, Morro Bay, complimented the Committee on the budget document provided on the city website.

Ms. Rigma, Morro Bay, voiced appreciation to the Committee and encouraged the City to consider Measure J with a 1% increase versus a half-cent. Ms. Rigma suggested the city reduce personnel to limit expenditures.

There being no others, Chair Spagnola closed the public comment period.

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE JANUARY 21, 2017, REGUALR CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

<https://youtu.be/NBcQuNV-U0A?t=2m56s>

MOTION: Member Betonte moved to approve the CFAC meeting minutes of January 31, 2017 as submitted. Member Erwin seconded and motion carried 6-0.

2. ACCEPT INTO THE RECORD A BENCHMARKING STUDY COMPLETED IN 2016 BY FORMER CFAC MEMBER MARLYS MCPHERSON
<https://youtu.be/NBcQuNV-U0A?t=8m18s>

Member Beckman commended Ms. McPherson on the preparation of the benchmarking study and stated it may benefit the City, financially, to revisit methods of providing emergency and legal services.

Member Betonte commended Ms. McPherson on the benchmarking study and acknowledged the challenges involved in providing cumulative information.

MOTION: Member Heath moved to accept into the record the benchmarking study completed in 2016 by former CFAC member Marlys McPherson. Member Betonte seconded and motion carried 6-0.

B. BUSINESS ITEMS

1. DISCUSSION AND INPUT ON FISCAL YEAR 2017-18 CFAC WORKPLAN
<https://youtu.be/NBcQuNV-U0A?t=13m45s>

The Committee discussed the FY 2017-18 CFAC workplan objectives. Finance Director Craig Schmollinger will summarize the objectives and provide a draft for Committee approval.

2. BRIEF UPDATE ON THE STATUS OF THE FY 2017-18 CITY BUDGET
<https://youtu.be/NBcQuNV-U0A?t=49m43s>

Mr. Schmollinger provided a brief update on the status of the FY 2017-18 City Budget.

No Public Comment.

3. BRIEF HISTORY OF THE CFAC AND “MEASURE Q” (DISTRICT TRANSACTION TAX)
<https://youtu.be/NBcQuNV-U0A?t=52m22s>

Chairperson Spagnola provided an overview of the CFAC “Measure Q” (District Transaction Tax), highlighting the importance of the Committee’s obligation to monitor the expenditures of Measure Q funds and report to Council.

4. FUTURE AGENDA ITEMS
<https://youtu.be/NBcQuNV-U0A?t=55m47s>

Chairperson Spagnola stated she would like to discuss the CFAC mission statement on the next agenda.

There was a brief discussion regarding the recent street repairs.

C. ADJOURNMENT

The meeting adjourned at 4:32 p.m. The next regular meeting will be held on April 18, 2017 at 3:30 p.m. at the Veteran's Memorial Hall located at 209 Surf Street, Morro Bay, California.

Recorded by:
Monique Lomeli



Staff Report

TO: Chairman and Committee Members **DATE:** April 12, 2017
FROM: Mike Nunley, PE – Water Reclamation Facility (WRF) Program Manager
SUBJECT: Preliminary Findings from the Draft Sewer and Water Rate Study Update

RECOMMENDATION

Staff recommends that the Committee receive and provide comment on the presentation summarizing the preliminary findings from the Draft Sewer and Water Rate Study Update.

DISCUSSION

With the denial of the permit for the wastewater treatment plant (WWTP) project in its current location in January 2013, the City has embarked on a process for a new Water Reclamation Facility (WRF). The City went through a series of planning and siting studies, with extensive community outreach, resulting in the development of community project goals, and selection of the South Bay Boulevard site in June 2016 for detailed studies, site planning and EIR analysis.

The City recently completed two main planning documents for the WRF project and the environmental impact review is currently underway. The Draft Water Reclamation Facility Master Plan (Draft FMP) was prepared by Black & Veatch and completed in November 2016. The Draft FMP provides a roadmap and budget for a new, cost-effective WRF that meets the community project goals. During community workshops, WRF Citizen Advisory Committee meetings, and City Council meetings, the City received input and direction that informed the FMP.

The Draft Master Water Reclamation Plan (Draft MWRP), paid in part by a grant from the State Water Resources Control Board, was prepared by MKN & Associates and completed in March 2017. The Draft MWRP was developed to assess recycled water opportunities and projects in light of the new WRF project.

The analyses and recommendations in both the Draft FMP and the Draft MWRP were driven by the Community Project Goals, summarized in Table 1.

Table Error! No text of specified style in document.: WRF Project Community Goals		
Community Goal	Applicability for WRF	Applicability for Recycled Water
Produce tertiary disinfected recycled water	WRF project is to be designed accordingly	Allows for multitude of recycled water uses and provides basis for advanced treatment
Produce reclaimed wastewater cost-effectively	Draft FMP considered costs in treatment evaluation	Project alternative assessment will include capital and operating costs and consider total amount of recycled water produced
Allow for onsite composting	Reviewed as part of Draft	Not Applicable

Table Error! No text of specified style in document.: WRF Project Community Goals		
Community Goal	Applicability for WRF	Applicability for Recycled Water
	FMP. Onsite composting is not recommended, regional facility composting will be more cost effective and more compatible for neighbors	
Design for energy recovery	Draft FMP considered energy recovery for WRF	Project alternatives analysis will consider energy usage
Design to treat for contaminants of emerging concern (CECs)	Draft FMP included consideration in treatment evaluation	Advanced treatment would provide additional treatment for CECs
Allow for other municipal uses	Draft FMP considered for WRF site planning	Not Applicable
Ensure compatibility with neighboring land uses	Draft FMP considered for WRF site planning	Consideration for major infrastructure siting
Operational WRF within five years	WRF project is on schedule	Project alternatives analysis will consider potential challenges that could delay the project.

Draft MWRP Alternatives Analysis

The Draft MWRP identified the following feasible project alternatives:

- Alternative 0: No Recycled Water Project
- Alternative 1: Urban Reuse
- Alternative 2: Agricultural Exchanges
- Alternatives 3 & 4: Indirect Potable Reuse (varying only by general injection well location)

The recycled water project alternatives were evaluated based on the criteria developed out of the community project goals. Evaluation criteria included capital cost, operating cost, neighborhood compatibility, reliability, and potential water supply benefit. The following main conclusions were made:

- The highest water supply benefit would be realized through indirect potable reuse (IPR) (Alternatives 3 and 4). Based on preliminary modeling, it appears Alternative 4 could support the majority, if not all, of the City's current water demand with an estimated water supply benefit of over 1100 AFY. This could significantly reduce or eliminate reliance on imported water.
- The least expensive alternative is no recycled water project (Alternative 0), followed by urban reuse (Alternative 1). Alternative 0 provides no water supply benefit and Alternative 1 provides the least, an estimated 45.4 AFY water supply benefit.
- The capital costs for agricultural exchange (Alternative 2) and IPR (Alternatives 3 and 4) are similar, but IPR has significantly higher water supply benefit if a higher exchange rate is not possible for Alternative 2. Agricultural exchange relies on successful contract negotiations with landowners, adding some uncertainty.

Recommendations and Program Cost Estimates

Based on the analyses presented in the Draft MWRP, the recommended recycled water project is IPR, Alternative 3 or 4, with the main difference consisting of the general locations for injection and extraction

wells. The IPR alternative best fulfills the community project goals of producing reclaimed water and provides the highest and most reliable potential water supply benefit. Supplementing the potable water supply with highly treated recycled water is the best allowable beneficial reuse, and will allow the City to reduce or eliminate reliance on imported water.

The City is planning to construct the new WRF within the next five years. If a recycled water project is pursued, then there could be significant savings realized by completing the construction at the same time as the WRF. The estimated total program capital costs for Alternatives 0 through 4 are summarized in Table 2. The total program costs include the total cost for the WRF, as presented in the Facility Master Plan, and additional estimated program costs including decommissioning of the existing WWTP, property acquisition for the WRF, permitting and environmental mitigation, construction management, and estimated recycled water project costs.

Alternative 0 (No Recycled Water Project) presents a WRF that produces secondary disinfected effluent which is discharged to the ocean for an estimated total program cost of approximately \$124 million. Alternatives 3 and 4, the recommended recycled water project, consists of a WRF and full IPR recycled water program for an estimated total cost of approximately \$167 million.

Table 2: Comparison of Total Estimated Program Costs

	Alternative 0	Alternative 1	Alternative 2	Alternative 3	Alternative 4
	No Recycled Water Project (Secondary only)	Urban Reuse	Agricultural Exchange	IPR East	IPR West
Subtotal Program Capital Cost Opinion (rounded)	\$104,200,000	\$128,900,000	\$141,700,000	\$140,400,000	\$140,700,000
Construction Contingency	\$19,320,000	\$24,040,000	\$26,370,000	\$26,220,000	\$26,290,000
Total Program Capital Cost Opinion	\$123,520,000	\$152,940,000	\$167,570,000	\$166,620,000	\$166,990,000

Notes:

- 1) Subtotal Program Capital Cost Opinion includes the WRF Project (lift station, pipelines, and treatment plant); engineering and design; procurement; project administration and construction management; permitting, environmental monitoring and mitigation; demolition of the existing WWTP; property acquisition for the WRF; and recycled water project components as applicable (advanced treatment, operational storage, pump station, pipeline, and injection wells).
- 2) Cost assumptions for Alternative 0 are based on secondary treatment only, SBR option from the Draft FMP. Alternative 0 does not fulfill the community project goals to produce tertiary disinfected wastewater or to produce reclaimed water.
- 3) WRF costs for Alternatives 1 – 4 assume the MBR option from the Draft FMP. Based on estimates in the Draft FMP, the total program capital cost opinion for Alternatives 1 – 4 would be approximately \$2M less with the SBR and filtration option.
- 4) Construction contingency consists of 25% of construction cost subtotal(s).

Sewer and Water Rate Study Update

The City has contracted with Bartle Wells Associates to perform the Sewer and Water Rate Study Update to assess potential impacts to the sewer and water rates from the WRF Project and financing

alternatives. Preliminary findings from the assessment will be summarized in a presentation. The current adopted average water and sewer rates for a single family residential dwelling unit are summarized in Table 3. Table 4 shows the preliminary projected 2020/21 sewer and water impact for the recommended WRF Project Alternative (Alternative 3/4) and the “no recycled water project” alternative (Alternative 0). The future rate impact is shown as a total projected increase in sewer and water charges, as the split between the water and sewer funds is still being developed.

Table 3: Existing Adopted Monthly Water and Sewer Rates				
	Current 2016/17	Adopted 2017/18	Adopted 2018/19	Adopted 2019/20
Sewer Charge per SFR	\$62.50	\$70.00	\$77.00	\$83.00
Water Charge per SFR	\$52.00	\$58.00	\$62.50	\$67.00
SFR = single-family residential dwelling unit. Water charge assumes average water use of 5 hundred cubic feet.				

Table 4: Preliminary Projected 2020/21 Increase for WRF Project Alternatives		
	Alternative 0 – No Recycled Water Project (Secondary only)	Alternative 3 or 4 – Indirect potable Reuse
Projected Sewer and Water Charge Increase per SFR for WRF	\$62	\$97 ¹
Assumes financing through low interest loans from SRF and/or WIFIA. If public financing is not available, sale of bonds would increase rate requirements. The split between sewer and water funds will be determined as the rate study is finalized. The amounts reflected in the table are increases over the adopted sewer and water rates for 2019/20.		

The rate increases identified above assume the entire budgeted amount is used, the full contingency amounts are used due to unforeseen project construction challenges, and that no construction grants are awarded for the project. Grants or reductions in project cost would result in actual monthly charges that are lower than the rates identified above. Approval of a rate increase through the Proposition 218 process does not mandate that a City keep rates at the amount identified in the public notification if grants are awarded or if actual costs are less than budgeted costs. The City always retains flexibility to implement rates that are lower than initially adopted pursuant to the Proposition 218 process, if costs come in lower than currently projected. Value engineering will be critical to managing and reducing costs as the project proceeds into design and construction.

¹ This increase will be apportioned to either the wastewater (sewer) or water rates as appropriate, ie the amount of the increase needed to treat wastewater to the minimum discharge requirements will be apportioned to the wastewater rate, while the amount of the rate used to fund an increase in water supply will be apportioned to the water rate.

Potential Costs & Financial Benefits of Recycled Water

Cost savings associated with discontinuing the purchase of some or all of the City's current State Water contract is not included, but could result in savings of \$1M to \$1.5M per year. As shown above, the incremental cost of \$35 per month between the two alternatives (for both operations and capital) could be considered the cost for the City to rely entirely on local groundwater and recycled water supplies, with no requirement to import water to meet City demands.

A potential transition to 100% local water supply from groundwater & recycled water increases reliability of supply and could eliminate the City's future State Water contract costs. This transition of water supply may not save money in the near term, but over the longer-term State Water Project costs are expected to increase substantially due to the cost of the Bay Delta Conservation Plan, with potential construction of a peripheral canal or tunnels to divert water around the delta that could cost in the range of \$25 billion. We anticipate that the Department of Water Resources will enter into new water supply contracts with all State Water Contractors in order to secure financing for such a project. This could substantially increase the City's fixed costs for State Water contract supply. Additionally, having a locally available water supply may protect the City from naturally occurring events such as drought, earthquake and other events that may interrupt the flow of water along the State's series of reservoirs, pumping stations, canals and pipelines. The proposed transition to 100% local water supply could reduce long-term cost if the cost of State Water escalates, while adding certainty to the City's water supply.



AGENDA NO: B - 2
MEETING DATE: April 18, 2017

Staff Report

TO: Chairman and Committee Members **DATE:** April 13, 2017
FROM: Craig Schmollinger, Finance Director/City Treasurer
SUBJECT: Discussion on implementation of the City's Purchase Order Software System.

RECOMMENDATION

Staff recommends that the Committee receive and provide on the update on the implementation of the City's Purchase Order System.

DISCUSSION

The City procured a purchase order module to the existing New World Financial System in the summer of 2015, and installed the system shortly thereafter. There was some staff level training from New World; however complimentary internal policies and procedures for implementing the system were never finalized. Given the shortage in staff in the Finance Department (formally Administrative Services Department), coupled with new staff since October 2016, the system has never been implemented.

Staff are actively working on writing, vetting, and implementing comprehensive financial policies and procedures citywide. These policies will include purchase order system implementation, but given short staffing, this likely will not take place until mid-year FY2017/18 at the earliest. This timing is directly related to staff capacity to complete the annual budget for FY2017/18 in late spring/early summer, and the FY2016/17 annual audit in late summer through the end of the calendar year.