

COUNCIL ACTION FORM

SUBJECT: NEW WATER TREATMENT PLANT – FINANCING AND ENGINEERING SERVICES AGREEMENT

BACKGROUND:

At the July 14, 2009 meeting, the City Council decided to construct a new 15 million-gallon-per-day lime-softening Water Treatment Plant at a new site. To keep the project preparations moving forward, Council approval is now requested for multiple issues.

- A. Funding. Staff has evaluated various financing options for the project and is recommending that the City use the Drinking Water State Revolving Fund (DWSRF). This program provides low-interest loans to allow communities to minimize the financial cost for major capital projects. The loan fund can be used for planning and design as well as for the water plant construction. At this time, staff recommends applying for a planning and design loan in an amount not to exceed \$6,249,000. The planning and design loan, administered by the Iowa Finance Authority, allows for a zero percent loan for up to three years with no initiation fee, no servicing fee, and no payments. The loan can be rolled into a future DWSRF loan for construction of the plant or repaid with some other form of permanent financing for the project. The planning and design loan amount requested includes these **estimated** expenses:

Administrative & Legal	\$ 20,000
Engineering Planning and Design	4,919,000
Archaeological & Environmental	40,000
Value Engineering	350,000
Land Acquisition	<u>920,000</u>
TOTAL	\$6,249,000

The planning and design loan allows expenses already incurred to be included retroactively. As a result, the amount shown includes \$244,000 already spent in 2008/09 for concept development. It is worth noting that eminent domain cannot be used if DWSRF funds are used for land acquisition. Ultimately, it is the intent of staff to apply for a construction loan through the DWSRF program to finance construction-related expenses.

A public hearing is required prior to taking action to incur debt. **The action requested of Council is to set the date for the public hearing for the October 27, 2009 Council meeting.** Before the loan agreement can be signed, the project must be approved by the state and placed on the Intended Use Plan (IUP). Staff

filed the application for the IUP in late August. The following depicts the expected timeline:

Public Hearing for Planning and Design Loan	October 27, 2009
Application Submitted for Planning and Design Loan	October 30, 2009
Project Approved and Placed on the State Intended Use Plan	December 15, 2009
Planning and Design Loan Agreement Signed	January 5, 2010
DWSRF Construction Loan Hearing/Application/Loan Agreement	Spring 2011

- B. Engineering Services Master Agreement. In early 2008, staff conducted a comprehensive interview process to select a consultant to perform the Infrastructure and Capacity Needs Assessment for the existing Water Treatment Plant. Even though the initial assessment phase was relatively limited in scope, staff recognized that the project would likely evolve into a much larger engineering and design-related services contract. The consultant selection process included evaluating firms on expertise needed both in the initial assessment phase and that would be required when the project transitioned into a design contract.

On August 12, 2008, Council awarded a professional services agreement to FOX Engineering Associates of Ames, Iowa to complete the Infrastructure and Capacity Needs Assessment at a cost of \$243,000. The results of that assessment were presented to Council on May 19, 2009. On July 14, 2009, Council approved the recommendation to construct a new Water Treatment Plant. To begin preparations for this new facility, staff asked FOX Engineering to prepare a proposed scope of work for developing the necessary plans and specifications.

A project of this size will entail a significant level of effort from the consultant team. Decisions that will be made early in the design phase will dictate the need for additional services later in the process. This makes it difficult to prepare a single up-front contract that includes the entire design scope. To facilitate an agreement that can expand and contract based on the actual needs of the project, FOX Engineering has proposed a form of contract that uses a "Master Agreement" containing all of the basic contract provisions and individual "Task Orders" that can be executed over time to add or remove specific work elements.

Staff has negotiated a Master Agreement with FOX Engineering that outlines the general contractual relationship between the City of Ames and FOX Engineering. It includes provisions such as standards of performance, use of project documents, dispute resolution, and professional liability insurance requirements. Note that the Master Agreement by itself does not authorize any specific work tasks or payments,

since those will be contained in the individual Task Orders. **Council approval of the Master Agreement is requested.**

- C. Task Order No. 1. Staff has also negotiated the first Task Order with FOX Engineering. Task Order No. 1 includes only those pre-design activities that can be completed prior to land acquisition. Examples of work that will be completed under Task Order #1 include finalizing the technology selection (types of aerators, types of lime slakers, etc.); preliminary sizing of equipment and treatment basins; developing a preliminary plant hydraulic profile; developing building space needs, including architectural and aesthetic issues; preparing preliminary process and instrumentation diagrams; and assisting with the site acquisition process and evaluating the suitability of candidate sites.

Reimbursement for Task Order No. 1 is proposed as an hourly fee plus expenses capped at an amount not to exceed \$358,500 without prior approval. The dollar amount of Task Order No. 1 is based on a scope of work negotiated with FOX Engineering, not a percentage of anticipated construction costs. This will be the case with all future task orders. As a reference, however, Council should be aware that engineering services for a project such as this are typically in the range of 10 to 12 percent of the construction costs. This could bring the ultimate design services fees in future Task Orders to a total in excess of \$4 million. Each new Task Order would be approved in accordance with established Purchasing Policies. **Council approval of Task Order No. 1 is requested.**

The 2009-2014 Capital Improvements Plan (CIP) approved by Council in the spring of 2009 included an early estimate for the Water Plant Expansion Project. At the time the CIP was approved, staff was in the process of completing the Infrastructure and Capacity Needs Assessment that would identify the most cost-effective option to meet the community's needs. The CIP identified a total project cost of \$29.25 million, with \$900,000 shown for 2009/10. The recommendation approved by Council on July 14, 2009 identified a probable project cost of \$48,431,000. After receiving Council approval of the project, staff has developed an update to the current year CIP project budget.

Engineering	\$ 910,000
Land	
Acquisition	800,000
Site Contingency	120,000
Acquisition Expenses	
Boundary Survey	15,000
Environmental Assessments	40,000
Geotechnical Evaluation	25,000
TOTAL, FY 2009-10	\$1,910,000

Funding for the increased budget will come from loan proceeds included in the DWSRF planning and design loan. **This update on current-year expenses is informational only, and no Council action is requested at this time.** Formal amendments to the

current-year budget will be presented for Council approval in early 2010. Modifications to future-year budgets will be included with the 2010-2015 CIP that will also be presented to Council in early 2010.

ALTERNATIVES:

1. Council can take the following actions related to the Water Treatment Plant Project.
 - a. Adopt a resolution setting a date of public hearing for October 27, 2009 regarding the Planning and Design Loan application to the Drinking Water State Revolving Fund;
 - b. Adopt a resolution approving a Master Agreement with FOX Engineering Associates of Ames, Iowa for professional services related to the design and construction of a new water treatment plant; and
 - c. Adopt a resolution approving Task Order No. 1 to the Master Agreement with FOX Engineering in an amount not to exceed \$358,500 without prior approval
2. Council can take some other action. Possible alternatives include the following:
 - a. Council can delay the public hearing to some other date or direct staff to pursue some alternative form of financing for the planning and design expenses.
 - b. Council can direct staff to negotiate a conventional standard agreement with FOX Engineering or direct staff to solicit engineering proposals from other firms.
 - c. Council can direct staff not to proceed with design services at this time.

MANAGER'S RECOMMENDED ACTION:

Using the Drinking Water State Revolving Fund appears to be the most economical way to finance the design and construction of the new water treatment plant. In particular, use of the zero interest planning and design loan provides a financial benefit to our customers not available through any other funding mechanism.

Staff completed a comprehensive, competitive solicitation of firms interested in providing design services. The selection process anticipated continuing with the same firm selected to perform the initial facility evaluation. Continuing with FOX Engineering fully complies with the City's Purchasing Policies and provides continuity with the work already completed. Task Order No. 1 allows pre-design work to begin in advance of securing a site for the plant. Additional services can be added on an as-needed basis, ensuring that the City is only paying for services that it needs and desires.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby establishing October 27, 2009 as a date of public

hearing for incurring debt, approving the Master Agreement with FOX Engineering Associates, and approving Task Order No. 1 with FOX Engineering in an amount not to exceed \$358,500 without prior approval.

Council is also advised that an increase to the current-year CIP will be requested when other mid-year budget adjustments are considered in early 2010.