

ITEM#: 16
DATE: 04-25-23
DEPT: W&PC

COUNCIL ACTION FORM

SUBJECT: SETTING DATE OF PUBLIC HEARING FOR DRINKING WATER STATE REVOLVING FUND LOAN IN AN INCREMENTAL INCREASE OF \$4,000,000 FOR NEW WATER WELLS

BACKGROUND:

The City's source water management strategy since the mid-1970s has been to avoid a need to ration water when experiencing a drought similar to that experienced in 1975-76. As old wells fail and need to be replaced, and as demand for treated water increases, additional water supply wells must be constructed. The North River Valley Well Field and Pipeline Project will provide a combination of new and replacement water supply capacity.

This project will construct three new wells and an interconnecting pipeline to the Water Treatment Plant. It will also include new fiber optic communication with the Water Treatment Plant for well controls and security measures. The three new wells will also be connected to the existing standby generator located at the Water Treatment Plant to provide emergency power to the wells.

This project was previously bid in May 2019, but the bids that were received were significantly greater than the engineers' estimates at the time (\$6,696,665 versus \$4,996,085), predominately due to the electrical work required, and were rejected. A new Notice to Bidders was issued on January 24, 2023. The electrical scope was revised to connect to an existing generator at the Water Treatment Plant instead of providing a separate generator at the wells. Following the March 3rd, 2023, bid due date, three bids were received, with one being non-responsive for failing to provide a price for the Division 1 work. The bids were once again significantly higher than the engineers' estimates (\$10,200,956 versus \$6,327,380). In comparing the two responsive bids, the Grand Totals are within 4% of one another. This suggests that the bid prices are competitive and reflect the current market prices, and that the discrepancy between the estimates and the bids received was the result of bad estimates rather than bad bids.

In anticipation of the project, the City Council held a public hearing on November 22, 2023, and adopted a resolution instituting proceedings to take additional action for the authorization of a loan and disbursement agreement in a not to exceed amount of \$8,500,000, and identified the Iowa Drinking Water State Revolving Fund (DWSRF) as the funding source. **As a result of the higher than anticipated project costs, staff now recommends setting the public hearing for an additional not to exceed amount of \$4,000,000 to cover the increased costs associated with the project as well as other potential cost increases and change orders.** It should be noted that the City will only

access the necessary funding to support the project which staff currently projects to be \$12,100,000.

Given that the previous authorization was approved for \$8,500,000, staff is only requesting the incremental amount necessary to provide funding for the project, which DWSRF staff has indicated will be made available. Additionally, through the process, staff has confirmed with bond counsel and the City's financial advisors that projects across the state are exceeding many engineer's estimates and it has become customary for projects to require additional funding. **As a precautionary measure, however, when the City awarded the contract on April 11, 2023, to Keller Excavating, Inc., the award was contingent on securing the necessary funding from the DWSRF program.**

Staff has updated the Water Fund model to evaluate the impact of the increased project cost on the water utility fund balance and believes that through a combination of other project savings, anticipated grant proceeds and project delays, all of which were highlighted on the April 11, 2023 Council Action Form, the City will be able to maintain the previously projected rate increases.

If authorized, following the public hearing, staff will work with the DWSRF program to prepare a loan and disbursement agreement for City Council consideration at a future meeting. This agreement represents the final step in the process for public revenue bond issuances.

ALTERNATIVES:

1. Set May 9th, 2023, as the date of public hearing for a Drinking Water State Revolving Fund Loan with an incremental increase of \$4,000,000.
2. Take no action to proceed with the incremental loan increase at this time, and provide further direction to staff regarding the future of this project.

CITY MANAGER'S RECOMMENDED ACTION:

In order to proceed with the construction of a new well field, staff recommends the City authorize the issuance of revenue bonds in the amount not to exceed \$4,000,000. Staff has identified the Drinking Water State Revolving Fund as the most appropriate financing vehicle for this project. **Through a combination of other project savings, anticipated grant proceeds, and project delays, all of which were highlighted on the April 11, 2023 Council Action Form, the City will be able to maintain the previously projected rate increases.**

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.