Information
MEMORANDUM

TO: **Chair & SUA Trustees**

FROM: **Norman McNickle, Interim City Manager**

DATE: **February 1, 2016**

SUBJECT: **Water 2040 Implementation Plan III (SUA-16-10)**

Background: Since early 2012 planning has been ongoing for major improvements to Stillwater's water distribution system. The Water 2040 Program addresses needs and allows for growth in the southwest part of Stillwater while also providing peripheral benefits to other parts of the City's water distribution systems. In May 2013, the Trustees approved Water 2040 Implementation Plan II (SUA-14-28) which includes 3 packages - A, B and C. Package A, which began in 2014, includes program development, design and real estate acquisition for all of the projects and construction for nearly half of the projects. Package B, beginning in 2017, includes construction for the second half of the projects and design for the 36" Paired Water Line Project. Package C, beginning in 2018, includes construction for the 36" Paired Water Line Project.

Also in May 2014, the Oklahoma Department of Environmental Quality (ODEQ) issued a Consent Order to the City requiring completion of certain projects within a specific timeframe in order to eliminate the use of unpermitted booster stations in the southern and southwestern areas of the City. The Order requires the City to begin construction by July 1, 2016 and complete construction of projects related to the unpermitted temporary booster stations by July 1, 2018. The Consent Order was accepted by the Trustees in August 2014 (SUA-14-38). Because the necessary improvements were already included in Package A of Implementation Plan II, no additional project needs arose from the Consent Order.

During review of the Cost of Service Study in summer 2015, the possibility of postponing some Water 2040 projects that were not immediately needed in order to avoid the burden on today's ratepayers was discussed. Staff responded by performing additional hydraulic scenarios and reevaluations to determine which projects could be deferred to later years. This deferral allowed the Trustees to approve the smallest possible increase in water rates.

Discussion: Staff has reevaluated the projected "need by" dates for the projects of Water 2040 and CH2M HILL has performed hydraulic modeling and analysis of the projects in order to ascertain which can be postponed. The proposed Implementation Plan III, attached, separates the Water 2040 Program into 16 projects, orders the projects by hydraulic priority and divides them into three financing packages - A, B and C. Overall project management, design and land acquisition for the first 13 projects and construction for the first six projects is completed through Financing Package A, for which design and land acquisition are currently in progress. Financing Package B includes construction for Projects 7 through 13 and begins in FY17. Package A is valued at nearly $30M and Package B is valued at nearly $15M.

Projects 14, 15 and 16, estimated at approximately $50M in design, land acquisition, construction and financing services costs are recommended to be postponed. Through Implementation Plan III, preliminary engineering and land acquisition are planned for these three projects under Financing Package C in Year 2020. However, at that time, the need and scope for these projects will be reevaluated and the schedule will be updated to recommend when to perform these projects between 2021 and 2035.

The proposed schedule related to Implementation Plan III is included as an attachment. Staff and CH2M HILL are currently finalizing design plans for Package A projects with the first pair of projects being advertised in April 2016. Any delays in easement and property acquisition will extend the proposed schedule.

Budget Impact: Implementation Plan III increases the Water 2040 overall program by $15M to a new estimate of $93M. The increase is mostly due to updated construction costs and inflation for project completion in later years. To date, Water 2040 expenses of about $2.3M have been paid from the Water Capital Fund (WCF). Trustees have previously approved making application for DWSRF financing in order to provide adequate funding for the Water 2040 Program. Council and Trustees authorized debt of approximately $30M for FY16 through Resolutions CC-2016-2 and SUA-2016-1 (CC-2016-2/SUA-2016-1) dated January 4, 2016. Under Implementation Plan III, approximately $15M in debt will be presented to Trustees in FY17 for authorization of Package B financing. Later debt authorizations will be determined during the reevaluation phase planned for Year 2020.

A Resolution of Reimbursement will be prepared and presented to Trustees for each financing package. This resolution provides for reimbursement of expenditures for property acquisition and other hard costs that occur up to 60 days prior to and up to three years after loan closing. The Resolution of Reimbursement for Package A is anticipated to be presented to the Trustees for approval in February.

Fee increases to the Water 2040 Professional Services Agreement (PSA) have been identified to account for inflation due to the lengthier schedule, a reduced economy of scale associated with more projects and several scope changes. The total program fee increase is $3.4M which brings the total Water 2040 PSA fee to $11.5M. By deferring Projects 14 through 16, the PSA fee for Packages A and B is $8.1M. The previously authorized PSA amount, including contingency, is $9.43M (SUA-12-42, SUA-13-05).

Alternatives: The alternatives available to Trustees include:

- continuing with Implementation Plan II,
- providing additional guidance for Implementation Plan III, or
- authorizing Implementation Plan III, as attached.

Staff supports:

- approval of the proposed Implementation Plan III as presented and direct staff to proceed with implementation,
- authorize $8,100,000 for the PSA with CH2M HILL for Packages A and B only, and
- authorize $9,072,000 in total program costs, which includes a 12% contingency, a higher contingency to provide for program-level planning and coordination efforts, which are requirements above and beyond typical project needs.

Possible Trustees Action:

1. **I motion to continue with Implementation Plan II.**
2. **I move to approve Plan III as presented and direction staff to proceed with implementation; authorize $8,100,000 for the PSA with CH2M HILL for Packages A and B only, and authorize $9,072,000 in total program costs, which includes a 12% contingency, a higher contingency to provide for program-level planning and coordination efforts which are requirements above and beyond typical project needs.**
3. **I move to table this item in order for staff to provide additional guidance for Implementation Plan III.**

Attachments: Water 2040 Implementation Plan III
Water 2040 Schedule

Related Reports:

Southwest Pressure Zone and Rural Service Area Long Term Study Recommendation, June 18, 2012
SUA-12-13 Att. I Att. II Att. III Att. IV Att. V

Financing for Projects in the Southwest Pressure Zone, August 20, 2012
SUA-12-25 Att. I Att. II

Southwest Zone (Phase 1) Water Distribution Improvements, December 17, 2012
SUA-12-42

Professional Services Agreement for Program Management, Design, and Construction Management for the Southwest Zone (Phases 2 & 3) Water Distribution Improvements, February 4, 2013
SUA-13-05

A Resolution adopting an amendment to the Trust Indenture, March 24, 2014
SUA-2014-1

Water 2040 Implementation Plan, April 21, 2014
SUA-14-19 Att. I Att. II

Water 2040 Implementation Plan II, May 19, 2014
SUA-14-28 Att. I Att. II Att. III

Oklahoma Department of Environmental Quality Consent Order, August 4, 2014
SUA-14-38 Att. I

Water and Wastewater Rates, July 6, 2015
SUA-15-50

A Resolution authorizing the filing of an application with the Oklahoma Water Resources Board, January 4, 2016
CC-2016-2/SUA-2016-1