

AGENDA ITEM SUMMARY

July 7, 2015

City Council

STAFF

Jon Haukaas, Water Engr Field Operations Mgr
Phil Ladd, Utilities Customer Accounts Supervisor

SUBJECT

First Reading of Ordinance No. 075, 2015, Appropriating Prior Year Reserves in the Water Fund for 2015 Water Distribution Infrastructure Replacement Projects.

EXECUTIVE SUMMARY

The purpose of this item is to appropriate \$745,000 in prior year reserves to be used for water distribution system infrastructure replacement projects in 2015. The current funding shortfall is due to unanticipated projects and escalating construction costs. There are sufficient water plant investment fee revenues in reserve available and appropriately utilized for this purpose, particularly in light of unanticipated fee revenues received in 2015.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BACKGROUND / DISCUSSION

The budget needs for Water Distribution System infrastructure replacement projects requested in the 2015-2016 Budgeting for Outcomes (BFO) process included all known projects at that time. The typical funding request was significantly reduced in order to draw down account balances in accordance with our most recent financial operational objectives. At the same time, our asset replacement program for infrastructure replacement city-wide is being accelerated.

A city-wide Capital Improvement Program (CIP) is still in the development stages. Most of the projects with unforeseen needs were included in that list. Projects listed in the CIP and approved in the budget process are often only at the conceptual stages of design. The full impacts cannot be identified until after the preliminary evaluations of the projects are begun.

The following list of projects identifies the unanticipated funding needs for 2015.

- The first six have components with costs assigned to the Water Fund that were not identified until after the budgeting process was completed and final design work completed.
- Staff felt it was prudent to replace the remaining portion of water main across Old Town Square along with the current renovation to reduce the risk of a main failure in the future.
- The Mountain Avenue Water Main Replacement project has higher than anticipated construction costs due to conflicts with Xcel gas mains, the concrete paving, and construction phases required by the various events on Mountain Avenue during the summer.

Project	Location	Impact	Cost
North College Ave Reconstruction	Hickory Drive intersection to the north	Water main relocation due to conflicts with new storm sewer	\$90,000
Arthur Ditch Bridge Replacement	Wood Street at Sycamore Street	Water main lowering for new box culverts	\$90,000
Arthur Ditch Bridge Replacement	Oak Street at Whitcomb Street	Water main lowering for new box culverts	\$55,000
Arthur Ditch Bridge Replacement	Olive Street at Loomis St	Water main lowering for new box culverts	\$30,000
New Mercer Ditch Bridge Replacement	Mulberry Street at City Park Drive	Water main lowering for new box culverts	\$50,000
Roundabout Construction	Shields Street at Vine Drive	Water main lowering and valve relocations	\$65,000
Old Town Square Renovation	Walnut Street to Mountain Avenue	Replacement of a water main ahead of new paver construction	\$65,000
Mountain Ave Water Main Replacement	Grant Street to Shields Street	Escalating construction costs	\$300,000
		Total:	\$745,000

Adoption of the Ordinance will allow for the implementation of these projects and continuation of our asset replacement programs.

CITY FINANCIAL IMPACTS

The Ordinance appropriates Water Fund reserves generated by plant investment fees (PIFs) including \$5 million in unexpected PIFs paid in 2014. These PIFs are collected to fund the system improvements and replacements over time. This matches the specific objectives of the water distribution system infrastructure replacement program.

Water Enterprise funds will continue to be spent in alignment with the Water Enterprise requirements and projects approved through the BFO process.

BOARD / COMMISSION RECOMMENDATION

The Water Distribution Infrastructure Replacement program was reviewed by the Water Board during the budgeting process. The specifics of this special appropriation were discussed with the Water Board at its June 4 work session. At its June 18, 2015 meeting, the Board voted unanimously to recommend adoption of the Ordinance. (**Attachment 1**)

ATTACHMENTS

1. Water Board minutes (draft), June 18, 2015 (PDF)

Excerpt from Unapproved Water Board Minutes June 18, 2015

Appropriation of Prior-Year Reserves for Water Distribution Infrastructure Replacement Program projects in 2015 and 2016. Re-appropriation of existing funds in the Wastewater Fund for Drake Water Reclamation Facility Replacement projects

(Attachments available upon request)

Jon Haukaas, Water Engineering & Field Services Operations Manager stated the purpose of this item is to approve Ordinances for the following reasons:

1. Appropriating \$745,000 in prior year Reserves to be used for unanticipated water distribution system infrastructure replacement project expenses and escalating construction costs in 2015.
2. Appropriating \$1,000,000 in prior year Reserves to be used to fund additional water distribution system infrastructure replacement projects in 2016.
3. Re-appropriating \$300,000 in existing funds in the Wastewater Fund from the Collection System Replacement Project Fund to the Water Reclamation Replacement Project Fund. This transfer would be used for unanticipated equipment replacement at the Drake Water Reclamation Facility.

In 2014, plant investment fee revenues were \$5 million over budget adding to reserves which can be utilized for this purpose. The Wastewater Collection System Fund has prior appropriations above what is needed for projects in 2015.

The unanticipated projects that are the subject of these funding requests are the result of unforeseen project changes, and projects outside of the Utility (such as road projects) which impact the Utility infrastructure and for which the Utility is billed by the constructing entity.

Discussion Highlights

- A board member inquired about the planned costs of the Mountain Avenue pipeline replacement project versus its current costs. Mr. Haukaas responded that the project was initially estimated to cost \$800,000 and is now estimated to cost between \$1 and \$1.2 million.
- A board member inquired if funds had been taken out of the Utility budget for water distribution line repairs and replacement. Mr. Haukaas responded that the modification of the water distribution line capital projects funding from \$2 million annually down to \$0.5 million annually was an internal decision within the Utility to draw down reserves.
- A board member inquired what would happen if this proposed appropriation measure did not pass. Mr. Haukaas responded that the City would still have to pay its billed charges for these unanticipated expenses, and the effect would be to delay other projects that have been scheduled for 2015.
- A board member inquired what lessons could be learned by the Utility moving forward. Mr. Haukaas responded that the Utility has learned the value in improving communication between various City departments regarding planned projects, and that

more detailed analysis (beyond conceptual) would greatly improve budget estimates for projects.

- A board member inquired how the proposed appropriation of \$1.75 million compared with the total funds available in reserve. Mr. Haukaas and Ms. Webb responded that the Water Fund currently has \$61 million, most of which is dedicated to the Halligan expansion project, a minimum reserve balance (\$4.6 million), and other approved projects. Within the Water Fund, approximately \$5 million is free to spend on projects and initiatives such as the one proposed. Mr. Haukaas also clarified that this appropriation would be an expansion of the existing funding request under the Budgeting for Outcomes (BFO) process, and would proceed to a budget lead team, and then require City Council approval.
- A board member inquired about Phase 3 of the Mountain Avenue water line replacement project, and whether the unanticipated increased costs for Phases 1 and 2 had been incorporated into the budget projection for Phase 3. Mr. Haukaas replied that it had been taken into account.
- A board member asked if the use of \$5 million from Plant Investment Fees (paid by new development) to fund replacement projects in areas outside of the new development was an unsustainable model. The concern is that when development within the City service area slows, that funding will not be available to fund necessary water infrastructure replacements. Mr. Haukaas responded that historically there has been an effort to segregate the use of revenues, with water rates used to fund operation and maintenance activities and Plant Investment Fees used to fund capital projects, such as replacements. There was additional discussion on this topic.

**Board Member Phyllis Ortman made a motion that the Water Board support the request for budget adjustments and recommend approval of the Ordinances by City Council.
Board Member Michael Brown seconded the motion.**

Vote on the motion: It passed unanimously

ORDINANCE NO. 075, 2015
OF THE COUNCIL OF THE CITY OF FORT COLLINS
APPROPRIATING PRIOR YEAR RESERVES IN THE WATER FUND
FOR 2015 WATER DISTRIBUTION INFRASTRUCTURE REPLACEMENT PROJECTS

WHEREAS, the budget needs for Water Distribution System infrastructure replacement projects requested in the 2015-2016 BFO process included all known projects at that time; and

WHEREAS, the asset replacement program for infrastructure replacement citywide is being accelerated; and

WHEREAS, the current funding shortfall in Water Distribution System infrastructure replacement projects requested in the 2015-2016 BFO process is due to unanticipated projects and escalating construction costs; and

WHEREAS, this ordinance appropriates \$745,000 in Water Fund reserves in the Water Distribution System Replacement project; and

WHEREAS, Article V, Section 9 of the City Charter permits the City Council to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated; and

WHEREAS, City staff have determined that the appropriations as described herein are available and previously unappropriated in the Water Fund.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that there is hereby appropriated for expenditure from revenue in the Water Fund Reserves the sum of SEVEN-HUNDRED FORTY-FIVE THOUSAND DOLLARS (\$745,000) for the Water Distribution System Replacement projects.

Introduced, considered favorably on first reading, and ordered published this 7th day of July, A.D. 2015, and to be presented for final passage on the 21st day of July, A.D. 2015.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 21st day of July, A.D. 2015.

Mayor

ATTEST:

City Clerk