

AGENDA ITEM SUMMARY

July 21, 2015

City Council

STAFF

Jon Haukaas, Water Engr Field Operations Mgr
Phil Ladd, Utilities Customer Accounts Supervisor
Carol Webb, Water Resources/Treatmnt Opns Mgr

SUBJECT

First Reading of Ordinance No. 085, 2015, Authorizing the Transfer of Previously Appropriated Funds in the Wastewater Fund from the Collection System Replacement Project to the Water Reclamation Replacement Project.

EXECUTIVE SUMMARY

The purpose of this item is to transfer \$350,000 in the Wastewater Fund from the Collection System Replacement Project to the Water Reclamation Replacement Project. This transfer would be used for unanticipated equipment replacement at the Drake Water Reclamation Facility.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BACKGROUND / DISCUSSION

The original funding request for the Water Reclamation Replacement Project for equipment replacements at the Drake Water Reclamation Facility has been found to be inadequate to cover all immediate needs. As Utilities has instituted the use of trenchless technologies on more and more projects, "per project" costs have been reduced, resulting in a surplus in the Collection System Replacement Project over what had been expected to be needed for such replacements. The anticipated shortfall in the Water Reclamation Replacement Project is approximately \$350,000 and will be used for such items as Odor Control Fans and miscellaneous pumps.

Utilities' 2015 program under the Collection System Replacement Project has a mix of traditional excavation replacement projects and trenchless projects totaling approximately \$1.6M, which is less than the budgeted \$2.5M. The transfer of funds from the Collection System Replacement Project to the Water Reclamation Replacement Project will not impact Utilities' ability to deliver on the asset replacement plan.

All revenues of a specific utility must remain within the respective utility's fund and may be expended only for improvements and services to be beneficial to the ratepayers of that utility. This transfer of funds between projects within the Wastewater Fund ensures that the uses of these collected revenues remain compatible with their original purpose.

Approval of the proposed ordinance will allow for the implementation of these projects and continuation of Utilities' asset replacement programs.

CITY FINANCIAL IMPACTS

The Collection System Replacement Project budget is at approximately \$2.5M and current replacement plans

Agenda Item 10

only total \$1.6M in 2015. The proposed transfer of \$350,000 will not adversely affect the Collection System Replacement Project. Sufficient funds exist to provide for both needs.

All revenues of a specific utility must remain within the respective utility's fund and may be expended only for improvements and services to be beneficial to the ratepayers of that utility. This transfer of funds between projects within the Wastewater Enterprise Fund ensures that the uses of these collected revenues remain compatible with their original purpose.

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

BOARD / COMMISSION RECOMMENDATION

The specifics of this transfer proposal were discussed with the Water Board at its June 4 work session and approved at the June 18, 2015 regular meeting.

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. 085, 2015
OF THE COUNCIL OF THE CITY OF FORT COLLINS
AUTHORIZING THE TRANSFER OF PREVIOUSLY APPROPRIATED FUNDS IN THE
WASTEWATER FUND FROM THE COLLECTION SYSTEM REPLACEMENT PROJECT
TO THE WATER RECLAMATION REPLACEMENT PROJECT

WHEREAS, the original funding request for the Water Reclamation Replacement Project for equipment replacements at the Drake Water Reclamation Facility has been found to be inadequate to cover all immediate needs, including unanticipated equipment replacement; and

WHEREAS, as Utilities has instituted the use of trenchless technologies on more and more collection system replacement projects, “per project” costs have been reduced resulting in a surplus in the Collection System Replacement Project over what had expected to need for such replacements; and

WHEREAS, this Ordinance transfers \$350,000 in the Wastewater Fund from the Collection System Replacement Project to the Water Reclamation Replacement Project; and

WHEREAS, the specifics of this transfer were discussed with the Water Board at its June 4, 2015, work session and the Water Board voted to recommend Council approval at the June 18, 2015 regular meeting; and

WHEREAS, this Ordinance does not appropriate any new funding; and

WHEREAS, these funds will continue to be used for capital improvements to the City’s wastewater system, consistent with the purpose of the original appropriation; and

WHEREAS, Article V, Section 10, of the City Charter authorizes the City Council to transfer by ordinance any unexpended and unencumbered appropriated amount or portion thereof from one fund (project) to another fund (project), provided that the purpose for which the transferred funds are to be expended remains unchanged.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the unexpended and unencumbered appropriated amount of THREE HUNDRED AND FIFTY THOUSAND DOLLARS (\$350,000) is hereby authorized for transfer in the Wastewater Fund from the Collection System Replacement Project to the Water Reclamation Replacement Project.

Introduced, considered favorably on first reading, and ordered published this 21st day of July, A.D. 2015, and to be presented for final passage on the 18th day of August, A.D. 2015.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 18th day of August, A.D. 2015.

Mayor

ATTEST:

City Clerk