

# Heber Public Utility District

## REPORT TO BOARD OF DIRECTORS

**MEETING DATE:** November 7, 2016

**FROM:** Laura Fischer, General Manager

**SUBJECT:** Authorize the General Manager to Request an Increase in the State Revolving Fund Loan for an amount of \$260,000 to Increase Contingency Funds as Needed to Repair the 1.7 MGD Tank Floor.

**ISSUE:**

Shall the Board of Directors authorize the General Manager to request an increase in the SRF loan for an amount of \$260,000 to increase the contingency funds as needed to repair the 1.7 MGD tank floor.

**GENERAL MANAGER'S RECOMMENDATION:**

It is recommended that the Board of Directors authorize a request to increase the SRF loan for an amount of \$260,000 to increase the contingency funds as needed to repair the 1.7 MGD tank floor.

**FISCAL IMPACT:**

Increase in annual repayment of SRF loan in the amount of \$8,667.

**DISCUSSION:**

The current contingency for the water treatment plant improvement project is at 5% of total construction cost, which is \$384,735. This is a very low contingency percent and according to SRF the usual contingency fund is budgeted between 10% and 15%. The contingency for this project was set low as the HPUD staff was trying to keep the loan payment low so that we would not have to pledge to raise water rates. As you know, the finance agreement for this project was increased due to the high construction bids that were received. When we revised the loan amount, we were concerned that we would not meet our debt coverage ratio in 2018-19.

Since that time, we have filed the financial audit for Fiscal Year 2014-15 and have closed our books at the end of Fiscal Year 2015-16. With this additional information, staff feels that we will be able to increase our loan amount by \$260,000 without pledging to raise rates. The repayment on the \$260,000 per year will be an additional \$8,667 per year for 30 years. There is no interest on this loan. The increase in the contingency funds by \$260,000 will bring the percentage up from 5% to 8%. This option has some pros/cons.

**Pro:**

- Allows for the construction project to be completed on time without extended delays.
- Allows for the same contractor who constructed the coating on the tank walls to complete the coating on the tank floor.
- Does not require additional engineering, bidding or construction management costs.
- Is approved by the SRF as a necessary change order by the Finance and Engineering departments.
- We have an experienced contractor already under contract with Pacific Hydrotech Corp.

Con:

- Increase loan amount of \$8,667 per year

As we mentioned at the last meeting there is another option to financing this project. There is a possibility of pulling this Change Order #6 from the current construction contract with Pacific Hydrotech Corporation and seeking financing from the Border Environment Cooperation Commission, which could provide a grant for the construction costs. This option has some pros/cons.

Pro:

- 100% construction cost are grant funds

Con:

- Cost of Preliminary Engineering, Bidding, Construction Management are not covered by the grant fund and would have to be paid by HPUD. Estimate at \$65,000, which will need to be paid for by the water fund reserve.
- Increase the completion time of the water treatment plant improvements.
- Discrepancy on warranty work on the coating of the tank floor versus coating on tank walls.
- Decrease in plant capacity rating from 4 MGD to 3.7 MGD until the tank is back on line.
- Insufficient data to install TTHM removal system in large water storage tank. This will cause the warrant and performance data to be delayed for the TTHM removal system.

I had the opportunity to meet with the State Revolving Fund Project Managers and Project Engineer on Wednesday, November 2<sup>nd</sup>. They were at the HPUD water plant improvement site to perform an audit. They were very pleased with the project and approved the change order as it is an obvious need. Additionally, they audited the financial documents submitted by the HPUD construction manager and the labor compliance documents submitted by our labor compliance coordinator. There were no findings and the auditors present were very satisfied.

During this meeting, we discussed the process HPUD would need to complete to request an increase our loan amount. They were given a spreadsheet showing that HPUD could afford the increase loan payment and still meet our debt coverage requirements. They provided this information to the department that approves the finance agreements and they are waiting to hear from us if we want to move forward with this option.

At this time, staff does not believe we will be mandated to increase rates in order to qualify for the additional loan funds. However, this is something that SRF may require. Should this be one of the conditions or if there are any other conditions placed on approval of the increased loan amount, I will let you know at the next regularly scheduled Board meeting.

Should the State Revolving Fund not approved an additional loan amount, the HPUD water fund would have to fund the amount over the currently approved project contingency fund. With the approval of Change Order #5 and #6 the State Revolving Fund Contingency Fund line item will be over extended \$49,698.33. There will be more change orders, but at this

time we do not know the amount. Authorizing Change Order Number 6 and authorizing an expenditure from the water fund is included in this Special meeting agenda item to follow.

**CONCLUSION:**

Taking the pros and cons listed in this report into consideration and after much discussion with the State Revolving Fund Project Manager, State Water Board Engineer, HPUD Project Engineer and Pacific Hydrotec Corp., staff recommends authorizing the General Manager to request an increase in loan amount from the State Revolving Fund in an amount not to exceed \$260,000.

**ALTERNATIVE:**

1. Do not authorize the General Manager to request an increase in the loan amount from the SRF, and authorize staff to seek alternate funding with BECC.
2. Authorize the General Manager to request an increase in the loan amount from SRF in a lower amount than the \$260,000 needed for change order number 6. This alternative could possibly require water funds to be expended at the end of the project depending the amount of loan increase authorized and the amount of change orders that will follow.
3. Provide alternative direction to staff regarding the need for additional funds for the completion of the water treatment plant project.

Respectfully Submitted,

Laura Fischer, General Manager