

SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

Date: June 9, 2009

Agenda Item #: Discussion D 1

SUBJECT: Wastewater Treatment Plant Financing Options

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue is to evaluate the alternatives for funding installation of the centrifuge for the Wastewater Treatment Plant and to direct staff to bring a preferred option to the Council for action on June 11, 2009. The project is scheduled to start in July and be completed by October 2009. Additional financing needs to be secured by the end of June 2009.

The Centrifuge installation will begin in July. The City will need it's financing in place no later than June 30th. The Council will need to consider the following policy issues:

- 1) Does the City want to use capital reserve funds and complete the project on a "pay as you go" basis? The current available balance in the reserve fund is \$302,029.
- 2) The City currently budgets \$126,000 for Water/Sewer bond payments annually. The bonds will be paid off in 2016. Does the City want to maintain the same annual payment?
- 3) What options does the City want to consider to allow for flexibility in meeting expenses and pursuing opportunities for funds?
- 4) Does the City want to move the project forward as funds are available?

SUMMARY STATEMENT:

In December 2008, the City awarded a contract to Triad Mechanical for \$637,749 to purchase and install the Centrifuge Project at the Wastewater Treatment Plant (WWTP). The City received a \$500,000 legislative proviso for upgrading the WWTP. Brown and Caldwell have estimated the total cost to be \$800,000 to complete the centrifuge project. This includes \$637,749 for construction and \$162,251 for construction management and contingencies.

The City needs approximately \$300,000 to complete the centrifuge for the Wastewater Treatment Plan. This would provide funds for the centrifuge, financing costs and contingency funds. The City also needs to complete the engineering design phase of the wastewater plant expansion. Staff recommends the line of credit for \$400,000 to cover any contingencies. The City would only draw funds as needed with Council approval.

To date, the City has spent \$1 million dollars in PWTF Pre-Construction loan money toward the design of the Wastewater Treatment Plant which is at 50% complete. An application for a PWTF loan for an additional \$500,000 to complete the design was approved for submittal to the State in April 2009. Currently, the \$1 million design loan is on a 5 year repayment schedule with three years left to pay. The amortization schedule is included as Attachment A.

Staff reports from October 23, 2008 and December 11, 2008 are attached to provide background on the Centrifuge project. (Attachment B and C).

FISCAL IMPACTS:

City Staff and Councilmembers met with Jane Towery of Piper Jaffray to discuss funding options to complete the Centrifuge project. The following outline the options discussed:

Financing Options: The options, for discussion, available to the City include the following. Each has its pros and cons.

1. A public bond issue for the \$400,000 and refunding of some or all of the 1996 bonds.
2. A fixed rate bank loan for up to 10 years which would include the 1996 bonds if cost-beneficial.
3. A variable rate line of credit with a bank for 5 years, with 5-year renewal options, with or without the refinancing of the 1996 bonds. (This line of credit could be refinanced to fixed rate debt at anytime during these periods.)
4. A variable rate line of credit with take-out of permanent fixed-rate, publicly issued bonds, sometime within the next 3 years.
5. Interim financing with a bank line of credit, to be taken out by a USDA loan.
6. Don't borrow additional funds; use reserve funds and pay as you go.

What is a Bank Line of Credit? The City would issue a Bond Anticipation Note and "sell" it to the Bank. Instead of receiving all the funds immediately, the funds can be drawn as needed. The City would only pay interest on the amount of principal outstanding. The City has complete flexibility to repay or to convert the debt into fixed rate in the public market or with the bank, if it is willing.

There is risk with a bank line of credit since it is tied to prime rate. As prime changes, so would the effective rate on the line. Prime rate, however, does not change frequently so it is possible for the City to convert to fixed rate fairly quickly if there is a market for the City's bonds.

Utilizing the line of credit for the refunding of the City's outstanding 1996 issue with a final maturity of 2016 does present the City with some risk given it is not possible to predict the debt service savings over the life of the issue. Given long-term fixed-rate debt is at relatively high rates at present, the City may want to consider only calling a few maturities which have the higher rates of 6.15% and 6.2%. That amount is

approximately \$455,000. The City would keep outstanding the maturities at 6% to 6.05% in order to hedge some of its risk.

Financial Policies: Given the interest rate on a bank line of credit is variable, the City will want to consider some policy of maintaining its utility rates based on a higher interest rate assumption in order to provide some cushion in the event rates move quickly up. In that situation, the delay between the interest rate change and when the City could change the utility rates could impact the City's cash flow negatively.

Interest Rates: At this time, there are no firm interest rates that can be quoted as exact bank quotes cannot be obtained without their own credit review process. However, in broad terms, the City would be looking at approximately 5.8% to over 6% on fixed rate debt based on a fixed rate bond sold as a bank loan or in the public market. The rate appears to be high but this is representative of the rate the City would obtain as a non-rated, non-insured credit.

Recent quotes on the line of credit option range from 85% to 95% of Prime rate, which is currently 3.25%

The USDA rate would be based on term of the debt and changes quarterly.

ALTERNATIVES:

- 1) Direct staff to return on June 11, 2009 with recommendations on the funding options.
- 2) Direct staff to bring back additional information on funding options.

Attachments: A. Amortization Schedule
 B. October 23, 2008 Public Works Report
 C. December 11, 2008 Bid Award for Centrifuge



Public Works Board

AMORTIZATION SCHEDULE

Department of Community, Trade, and Economic Development
 210 11th Ave. SW, Suite G2, P.O. Box 48319, Olympia, WA 98504-8319

Enter values for the fields shown in yellow below to explore different scenarios. Required fields are shown with a red asterisk. Information shown in green is computed for you, but you may change the values, if desired. The amortization worksheet is automatically updated to reflect each change you make.

Payment Schedule:

Year	Due	Draws	Refunds	Interest	Principal	Payment	Balance
1	7/1/2007	250,000.00		652.78		652.78	250,000.00
2	7/1/2008			5,000.00	62,500.00	67,500.00	187,500.00
3	7/1/2009	750,000.00		3,468.75	312,500.00	315,968.75	625,000.00
4	7/1/2010			3,125.00	312,500.00	315,625.00	312,500.00
5	7/1/2011			1,562.50	312,500.00	314,062.50	0.00
6	7/1/2012						0.00
7	7/1/2013						0.00
8	7/1/2014						0.00
9	7/1/2015						0.00
10	7/1/2016						0.00
11	7/1/2017						0.00
12	7/1/2018						0.00
13	7/1/2019						0.00
14	7/1/2020						0.00
15	7/1/2021						0.00
16	7/1/2022						0.00
17	7/1/2023						0.00
18	7/1/2024						0.00
19	7/1/2025						0.00
20	7/1/2026						0.00
21	7/1/2027						0.00
22	7/1/2028						0.00
23	7/1/2029						0.00
24	7/1/2030						0.00
25	7/1/2031						0.00
26	7/1/2032						0.00
27	7/1/2033						0.00
28	7/1/2034						0.00
29	7/1/2035						0.00
30	7/1/2036						0.00
31	7/1/2037						0.00
Total		\$1,000,000.00	\$0.00	\$13,809.03	\$1,000,000.00	\$1,013,809.03	

Client:	City of Sultan
Loan Number:	PW-06-962-PRE-131
Project Description:	Wwtp Upgrade
Initial Loan Amount:	\$1,000,000.00
Initial Local Match:	\$55,000.00
Initial Match %:	5.50%
Initial Interest Rate:	2.00%
Date Loan was Authorized:	6/30/2006
Loan Amount at Closing:	\$1,000,000.00
Local Match at Closing:	\$0.00
Match % at Closing:	0.00%
Interest Rate at Closing:	0.50%
Closing Date:	5/5/2009
Loan Type:	PreConstruction
Loan Term (Years):	5
Years Principal is Deferred:	1

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Public Works Staff Report

DATE: October 23, 2008

SUBJECT: Sultan WWTP Solids Handling Project Background
Decision and Schedule Memorandum

CONTACT PERSON: Connie Dunn, Public Works

ISSUE:

The purpose of this staff report is to update the City Council on the timeline of the new solids handling equipment.

SUMMARY:

The key issues associated with this solids handling project are funding, schedule, and Department of Ecology (DOE) approval as summarized below:

- Funding: \$500,000 State line item allocation is dependent upon approval of the City's Comprehensive Plan. The City expects to have approval by December 6, 2008.
- Schedule: The preferred centrifuge vendor, Alfa-Laval, has indicated their centrifuge requires up to an 8-month lead time. This lead time will require proceeding with the design immediately to ensure the project is on-line and commissioned prior to October 15, 2009 (the typical time of year when the rainy season starts).
- DOE approval: DOE will need to approve this project. To that end, the 75 percent (substantially complete) drawings, design criteria and specs and the DOE Submittal Letter referencing approved Engineering Report sections will need to be submitted for review.

In order to meet the schedule requirements, the following project schedule is proposed:

- October 6, 2008 – Begin design and DOE Submittal Letter
- October 31, 2008 – Submit 75 percent design and DOE Letter
- November 17, 2008 – Bid advertisement
- December 6, 2008 – Expected Comp Plan approval (and consequently DOE approval)
- December 10, 2008 – Bid opening

- January 1, 2009 – NTP and Contractor to order centrifuge
- August 1, 2009 – Start project construction
- September 1, 2009 – Centrifuge delivered
- October 1, 2009 – Begin commissioning
- October 15, 2009 – Commissioning complete

This proposed schedule is somewhat tight. An alternative approach could be to break the bid packages into two packages: the procurement of the centrifuge, and the installation of the procured equipment. The two-package approach could save some time on the schedule, but is not as desirable as prepare one bid package since the City would have more risk as a result of furnishing the solids handling equipment (as opposed to the contractor assuming the risk of both securing and installing the equipment).

BACKGROUND:

The existing solids handling system limits the capacity of the Wastewater Treatment Plant (WWTP) since continuous operation is required to keep up with the waste activated sludge accumulation for the current wastewater flows conveyed to the WWTP. The existing solids handling system is not a true dewatering system, rather it is a thickening process that produces only about nine percent solids.

The Draft Technical Memorandum dated January 10, 2008 described a number of temporary solids handling alternatives. The alternatives in the January 2008 memorandum were to consider temporary as the WWTP design was on track for completion. April 2008 the City experienced a sharp downturn in housing development activity. In the course of reassessment, the City determined that the best approach would be to re-phase the project so that only those components of the project that was immediately necessary advanced at this time.

May 29, 2008 the City Council approved of the approach of installing solid handling equipment and reusing the selected equipment in the future when the plant is upgraded. Based on Council direction staff confirmed with Brown and Caldwell the City would like to proceed with the solids handling design given the lack of housing development interest at this time and the need for increasing dewatering capacity at the plant.

On August 28, 2008, Brown and Caldwell prepared a schedule to bid, procure, and install the solids handling equipment. City Council approved contract amendment #5 with Brown and Caldwell for Centrifuge design, Public Works Trust Fund (PWTF) Loan, and the 50% design deliverable of the WWTP.

The memorandum (Attachment A) is the project schedule to bid, procure and install the solids handling equipment with Department of Ecology approval.

FISCAL IMPACT:

The solids handling project is to be funded by the \$500,000.00 from the Centennial Clean Water Program awarded the City by Special Legislative Proviso, Wastewater System Improvements, managed by the Department of Ecology.

RECOMMENDED COUNCIL ACTION:

No action is required at this time the memorandum is sharing of communication regarding the Solids Handling Project at the WWTP.

ATTACHMENTS:

- A - Sultan WWTP Centrifuge Project Background, Decision and Schedule
- B - Department of Ecology letter, April 23, 2008
- C- January 10, 2008 DRAFT Solids Handling Technical Memorandum

One Convention Place
701 Pike Street, Suite 1200
Seattle, WA 98101
Tel: (206) 624-0100
Fax: (206) 749-2200

Memorandum

Subject: Sultan WWTP Centrifuge Project Background, Decisions and Schedule
Job #: 131877.100.106
Date: October 6, 2008
To: Connie Dunn, City of Sultan
From: Tadd Giesbrecht, Brown and Caldwell
Copy to: Deborah Knight, City of Sultan
Steve Krugel, Brown and Caldwell

The purpose of this memorandum is to briefly summarize the background surrounding the City's decision to proceed with the installation of a new centrifuge, and to provide a proposed project schedule.

As the January 10, 2008 DRAFT Technical Memorandum on Temporary Solids Handling Evaluation (Solids Handling TM) describes, a number of temporary solids handling alternatives were considered. These alternatives were considered to be temporary, since it was expected that the WWTP would be upgraded in the near future and would include permanent solids handling facilities. Based on the assumptions listed in the Solids Handling TM, it was determined that from a life cycle cost basis, the least expensive alternative would be to continue hauling 10 percent waste activated sludge (WAS) to the La Conner composting facility. Key assumptions include in this analysis were that the La Conner tipping fee would continue to be \$27/wet ton and that the new WWTP upgrade would be completed in about 30 months.

In April 2008, the overall WWTP upgrade design was advanced to about the 50 percent completion level. About this time, the City experienced a sharp downturn in housing development activity. Because the City's rate study relied on a significant portion of the project cost to be supported by developer connection charges, the viability of continuing with the full upgrade project was reassessed given the concern of the housing market. In the course of this reassessment, the City determined that the best approach would be to re-phase the project so that only those components of the project that were immediately necessary (regardless of additional developer connections) would be advanced at this time.

In September 2008 portions of the Solids Handling TM financial analysis were updated to reflect the decision to postpone the plant upgrade and to account for La Conner's tipping fee increase from \$27 to \$110/wet ton. This updated evaluation also considered the City's current disposal location, GroCo, where they are able to dispose at around \$64/wet ton. After making assumptions and recognizing the risk associated with the different options (e.g., potential future increase in GroCo tipping fees etc.), it appears that the net present value of buying a new centrifuge in 2009 versus continuing to dispose at GroCo is about the same if the new plant upgrade is deferred about 4-5 years.

On May 29, 2008 the City Council approved of the approach of installing a centrifuge and reusing the centrifuge in the future when the plant is upgraded. On August 28, 2008, the City Council approved Amendment No. 5, which included the centrifuge design as well as binding the 50% design documents and making minor PWTF loan modifications. Based on Council's direction and a meeting with Connie Dunn and John Harris at the City on October 2, 2008, it was confirmed that the City would like to proceed with the centrifuge design given the lack of housing development interest at this time and the need for increasing dewatering capacity at the plant.

The key issues associated with this centrifuge project are funding, schedule, and Department of Ecology (DOE) approval as summarized below:

- Funding: \$500,000 State line item allocation is dependent upon approval of the City's Comprehensive Plan. The City expects to have approval by December 6, 2008.
- Schedule: The preferred centrifuge vendor, Alfa-Laval, has indicated their centrifuge requires up to an 8-month lead time. This lead time will require proceeding with the design immediately to ensure the project is on-line and commissioned prior to October 15, 2009 (the typical time of year when the rainy season starts).
- DOE approval: DOE will need to approve this project. To that end, the 75 percent (substantially complete) drawings, design criteria and specs and the DOE Letter referencing approved Engineering Report sections will need to be submitted for review.

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TG:sjw

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: A - 10
DATE: December 11, 2008
SUBJECT: Authorize Issuing a Notice of Award to the Apparent Low Bidder for the Centrifuge Project
CONTACT PERSON: Connie Dunn, Public Works Director

ISSUE:

The issue before the City Council is to authorize the Mayor to sign a Notice of Award to the Apparent Low Bidder for the purchase and installation of the Centrifuge Project.

STAFF RECOMMENDATION:

Authorize issuing a Notice of Award to the Apparent Low Bidder, Triad Mechanical for \$637,748.90, to purchase and install the Centrifuge Project at the Wastewater Treatment Plant (WWTP).

SUMMARY:

On August 28, 2008, the City Council approved Amendment No. 5 to Brown and Caldwell's contract. The amendment authorized Brown and Caldwell to design the Centrifuge Project. This Project will not only address immediate solids dewatering needs at the WWTP, but also provide capacity for future flows. The centrifuge will be installed in the existing Equipment Building and is expected to be reused as part of the future plant upgrade phases. With this approach, the City has actively adapted the overall WWTP upgrade project phasing to meet the immediate and future capacity needs at the WWTP in a way that makes best use of available funding.

Because the Bid Opening for this Centrifuge Project was scheduled for Friday, December 5, 2008 at 2:15 pm, the low bid amount is \$637,748.80 from Triad Mechanical. The City Engineer, Tadd Giesbrecht has the lowest three bid documents and will have the final bid tabulation for the Council Meeting on December 11, 2008. In consideration of issuing a Notice of Award to the apparent low bidder, the project schedule and funding are two key factors discussed in more detail below.

Project Schedule

The driver for the Centrifuge Project schedule is the expected long lead time for the packaged centrifuge system. In order to install the centrifuge before the rainy

season of 2009 (before the end of October 2009), the City was notified by the basis of design centrifuge manufacturer (Alfa-Laval) that a purchase order for the packaged centrifuge system needs to be issued by the Contractor by December/January.

Therefore, providing that a responsive and responsible low bidder is identified, it is imperative that a Notice of Award is issued to trigger the following activities:

- Dec 12: Notice of Award letter sent from City to Bidder
- Dec 15 – 29: Bidder submits bonds, insurance documentation etc.
- Dec 30: Signed contract/Notice to proceed issued and Centrifuge Package is ordered
- August/September 2009: Contractor begins demolition and installation of Centrifuge
- October 2009: Centrifuge Project complete

Any delay in getting a Contractor under contract will result in compressing the already tight schedule. It is expected that pushing the contract signing beyond mid-January 2009 could jeopardize getting the centrifuge system installed before the start of the rainy season in 2009.

Project Funding

The City received a \$500,000 legislative proviso for upgrading the WWTP. Based on discussions with the Department of Ecology Grant Administration, this proviso could be applied toward the Centrifuge Project since it is essentially a component of the overall upgrade project and the centrifuge itself is planned to be reused as part of any future WWTP upgrades.

It should be noted that only about 10% of the contract value would be required towards the beginning of the project, while the remaining amount would not be required until around August/September of 2009 should the project remain on schedule.

Regardless, the City will need to consider other funding sources in order to advance the project. A preliminary list of options includes:

- Additional legislative proviso money - the City's current lobbyist is aware of the additional amount that is required, allowing a specific amount to be targeted in order to complete a project that the State has already invested
- PWTF loan
- Federal Economic Stimulus. This project is ready to construct. It is a strong candidate for federal funding.

Alternatives:

1. Authorize issuing a Notice of Award to the apparent low bidder. The bid amount is greater than \$500,000, the fiscal impact will depend on the amount and source of additional money required.
2. Do not authorize issuing a Notice of Award. Any delay in issuing a Notice to Proceed beyond mid-January 2009 could jeopardize constructing the project in 2009. If project construction is delayed until spring of 2010, the overall construction cost could be greater.

FISCAL IMPACT:

The apparent low bid amount was \$637,748.90 is greater than \$500,000, requiring funds in addition to the proviso. However, it should be noted that only about 10% of the contract value would be required towards the beginning of the project, while the remaining amount would not be required until around August/September of 2009 should the project remain on schedule.

The City would continue to seek additional funding from Public Works Trust Fund, additional legislative proviso.

RECOMMENDED ACTION:

Authorize issuing a Notice of Award to the Apparent Low Bidder for the construction of the Centrifuge Project.

ATTACHMENTS

Attachment A

List of Bidders from the December 5, 2008 bid opening

BID OPENING RESULTS

City of Sultan

Dewatering Centrifuge Bid Opening Results

12/5/2008 at 2:00pm

CONTRACTOR	APPARENT BID
Triad Mechanical 1419 NE Lombard PL Portland OR 97211	\$637,748.90
Award Construction, Inc. 980 Willeys Lake Rd Ferndale WA 98248	\$678,423.38
McClure and Sons, Inc. 15714 Country Club Dr Mill Creek WA 98012	\$714,993.30
Gary Harper Construction, Inc. 14831 - 223rd Street S.E. Snohomish, WA 98298-3938	\$715,667.09
Stouder Construction 3381 Brown Rd Ferndale WA 98248	\$730,953.00
Tek Construction 4167 Mitchell Way Bellingham WA 98226	\$771,701.82
VLS Construction PO Box 630 Ravensdale WA 98051	\$894,270.02

