

SUBJECT

BOARD RESOLUTION NO. 22-732

Pertaining to a 2022 Budget Amendment No. 3 to record the increase in spending and financing for updated estimates for the McCarron's Treatment Plant Improvement Project.

BACKGROUND INFORMATION

See attached Staff Report and Administrative Order No. 3.

RECOMMENDATION

Board approval is recommended.

Budget Amendment: McCarron's Water Treatment Plant – Construction Phase

For the May 10, 2022 Meeting of the Board of Water Commissioners

Staff Report

Executive Summary of Amendment

SPRWS staff is requesting an increase of \$58 million for the McCarron's Water Treatment Plant Project in the 2022 Budget. This increase will make a total of \$225 million available for the construction phase of the project in 2022.

Staff shared a \$205 million construction cost estimate with the Board at the December 2021 meeting. In recent weeks, it has become apparent that this cost estimate does not adequately capture recent changes in the construction market.

Continued increases in the costs of materials and labor have resulted in increases to the projected construction costs. Construction costs are now expected to be approximately \$235M, with \$225M of work to be contracted in 2022.

The additional funds will be obtained through the issuance of debt in the form of Drinking Water Revolving Fund loans or Water Revenue Bond issuance.

Project Overview

The McCarron's Water Treatment Plant Improvements Project represents one of the most significant investments in SPRWS's infrastructure in the history of the utility. The project will involve the construction of many new facilities, including a lime handling facility, softening clarifiers, chemical storage facilities, equipment buildings, recarbonation and ozone basins, water pipelines, and more.

We are currently nearing the end of the design phase for the project, and construction work will begin in earnest began in March of 2022.

Budgetary Needs

The current budget for the water utility includes a total of \$167 million in funds for the Project. That number was based on estimates from very early in the design process and has not been updated to match more complete estimates. We now anticipate that construction costs will be about \$235 million. As such, there is a shortfall of \$68 million in the current budget allocation.

In order to account for this shortfall, SPRWS staff proposes to add a \$58 million to the 2022 budgetary allocation, raising the allocation from \$167 million to \$225 million. SPRWS will also need to carry approximately \$10 million in the 2023 or 2024 budget to account for plans to complete the project by renovating the lab facility.

Increases in costs are attributable to several factors, including:

- More complete design allows for more accurate estimation of costs

- SPRWS staff elected to add a new lime and chemical handling facility into the project scope. This addition will save the utility money in the long-term but has meaningfully increased current capital needs.
- Supply chain and labor market challenges associated with the COVID pandemic have led to increases in prices

Budget Amendment Timeline

SPRWS has currently contracted for some initial construction work packages with a total value of nearly \$55 million

SPRWS staff expects to bring a fourth work package to the Board at the June 2022 meeting, which will include most of the remaining construction work for the project. That work package is expected to include about \$170 million of work.

In order to approve the contract amendments scheduled for June 2022, there must be adequate funds in the budget. Hence, processing this budget amendment prior to negotiating that contract amendment is critical to project delivery.

Note on Cost Controls

Between now and June of 2022, SPRWS staff will be working with the Design-Builder to consider scope reductions, material substitutions, and other efforts to reduce costs. While this budget amendment seeks approval for \$225 million in funds for 2022, staff will continue to work to ensure that we get a high-quality facility for the best price possible.

Spending Timeline and Financing Plan

As noted above, all funds need to be budgeted prior to signing a contract with the Design-Builder. Since we will be contracting for the vast majority of the construction work in 2022, approximately \$225 million should be budgeted for the year 2022.

The timeline for financing the project and spending funds will more closely match the schedule of the project, however.

Funds will be spent over the full life of the project. Construction expenses will be incurred monthly from 2022 until project culmination in 2026. The \$225 million budgeted in 2022 will be spent over that timeframe, with monthly expenditures mostly expected to be in the \$3 million to \$7 million dollar range.

SPRWS staff has been collaborating with the City's Office of Financial Services (OFS) and with financial advisor Baker Tilly to plan funding for the project. We have applied for a 2022 Drinking Water Revolving Fund (DWRF) Loan and expect to obtain approximately \$45 million in financing from the 2022 DWRF program. In 2023, we expect to issue water revenue bonds for approximately \$90 million. Further financing in the form of DWRF loans and/or water revenue bond issuance would be obtained in 2024 to 2026 as needed to fully fund the project.

The financing plan for the project will be adjusted as needed to account for changes in market and project conditions (interest rates, amount of funding available through the DWRF program, more detailed construction spending timelines, etc.) In general, however, we expect all funding to come through the DWRF program or through the issuance of Water Revenue Bonds.

Impacts of Budget Amendment

At the Dec. 2021 meeting of the Board of Water Commissioners, SPRWS staff shared an expected construction cost of \$205 million with the Board. At that meeting, staff provided insight into the expected implications of the increase in cost. For residential customers, we had projected that the plant project would require an increase of \$55.83 per year of bill increases to the average residential customer.

The additional \$30 million of expenses that have been added to the project costs are expected to add approximately \$8/year to this estimate, bringing the total bill impact to around \$64/year for average residential customers.

(Important Note: this estimate includes only cost impacts associated with the water treatment plant project. It is not inclusive of inflationary pressures on other SPRWS operations or of the planned lead service line replacements. Any rate impacts from these items will be in addition to the plant-driven increases included above.)