



## Agenda Memo

Crest Hill, IL

**Meeting Date:** August 4, 2022  
**Submitter:** Mark Siefert, Director of Public Works  
**Department:** Public Works  
**Agenda Item:** West Plant Bid Award Discussion

**Summary:** On Thursday July 14, 2022, the Public Works department opened bids for reconstruction of the west plant wastewater treatment facility. Bids were received from three contractors after a 60-day bid period. The city received its lowest bid of \$51,770,000 from Vissering Construction located in Streator, Illinois. The original pre-bid engineering estimate of construction costs for this project was \$40,000,000. The attached letters from Strand and City Engineer Wiedeman explain the difference in the original cost estimate for this project compared to the bids that were received which, unfortunately, were higher than originally projected.

The city hired Burns and McDonnell to perform a water rate study in 2020-2021. Conservative assumptions, as part of this study, accounted for the uncertainty of the economy and interest rates and how these factors would impact the City's ability to finance this project. Below is a summary of the rate study assumptions:

**Rate Study Assumptions**

Loan Amount	\$45,000,000
Interest Rate	1.00%
Term (years)	20
Annual Debt Service	\$2,493,700

Last week, staff received confirmation from the IEPA that the city was approved for a 30-year loan at 0.73% for up to a maximum amount of \$49,500,000 (per the city passed ordinance earlier this year). We were also notified that the IEPA has granted us \$5,000,000 in principle forgiveness.

Based on the maximum loan amount of \$49,500,000 and the \$5,000,000 of principal forgiveness allotted to the city from the IEPA, the total loan repayment amount will be reduced to \$44,500,000.

The anticipated annual debt service payment is lower due to the lower interest rate calculated with the longer-term loan. The new loan structure under the 30-year term is summarized below:

### **IEPA Loan Payments**

Loan Amount	\$ 49,500,000
Principal Forgiveness	\$5,000,000
Repayment Amount	\$44,500,000
Interest Rate	0.73%
Term (years)	30
Annual Debt Service	\$1,654,400

The annual repayment of the IEPA loan, as shown above, is anticipated to be \$839,300 less than what was estimated. The reason for the reduction in the annual debt service payment is due to the loan term being extended for an additional ten years. Staff's recommendation is to pay for all project costs up to \$49,500,000 from the IEPA loan proceeds.

Any expenditures which exceed \$49,500,000, which is the maximum IEPA loan amount, will be budgeted and funded from the City's Water/Sewer Fund.

Currently, the anticipated expenditures, which may exceed the maximum loan amount are:

- Construction engineering (pending council approval): \$3,720,300
- IEPA mandated contingency (3%): \$1,519,000
- Base bid above loan amount: \$1,140,000
- Accumulated interest: \$688,600 based on 0.73%

Below is a more detailed discussion on all out of pockets project costs not being covered under the IEPA loan.

#### **Construction Engineering:**

Staff proposes that the City fund the Strand Construction Engineering expenditures in accordance with the following payment schedule.

#### **Payment Schedule**

- 2023-\$400,000
- 2024-\$830,075
- 2025-\$830,075
- 2026-\$830,075
- 2027-\$830,075

These will be lump sum payments for a 5-year period. Monthly, Strand will invoice the city for the time charged for the work that has been completed. It is staff's recommendation that the savings from extending the loan term generated would be used to pay Strand's construction engineering services as shown in the payment schedule above.

#### **IEPA Mandated Contingency (3%):**

The IEPA loan mandates a contingency fund or proof that the City has the funds available in case of unexpected changes in this project's scope. This contingency is an increased expense for

the total construction cost for this project. Staff plans to demonstrate the City has the contingency funds available in our fund balance. This dollar amount is only in place if something were to happen outside of what is expected as part of this project. As such, this amount may be less than anticipated. Currently the Water/Sewer Fund has over \$10 million in the fund balance.

**Base Bid above Loan Amount:**

Staff proposed to fund the first 46 contractor pay requests with loan funds disbursed by the IEPA (up to the loan maximum of \$49,500,000). The last three contractor pay requests would be funded from the Fund Balance which is projected to increase by close to \$5 million compared to the projections made in the rate study, which assumed debt service payments would begin in fiscal year 202; however, payments won't actually begin until fiscal year 2027. Staff proposes using the funds that were allocated for debt service payments in fiscal year 2025 and 2026 to fund the final three contractor pay requests.

**Accumulated Interest:**

The accumulated interest of the loan will be spread over 4 years until we start repayment in 2027.

<b>Fiscal Year</b>	<b>Loan Interest Amount</b>
2023	\$ 620.80
2024	\$ 55,872.38
2025	\$ 145,337.16
2026	\$ 240,872.63
2027	\$ 245,877.38
<b>Totals</b>	<b>\$ 688,580.35</b>

The interest amount of \$688,580.35 will be paid at the end of the loan disbursements. This is an estimate based on the projected flow of money during the project. This will be coming from the fund balance at the completion of the project. A summary of the anticipated changes in fund balance compared to the rates study is provided below.

**Fund Balance Withdrawals (Changes from Rate Study)**

<b>Fiscal Year</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
<b>Withdrawals</b>	\$400,000	\$830,075	(\$1,609,625)	(\$1,609,625)	\$4,177,275	(\$839,323)*

\* These savings would go on for the following 19 years

**Next Steps:**

A Notice of Intent to Award must be executed by the City to allow Strand to submit the bid and all bid documents to the IEPA for approval.

The IEPA will take about 90-100 days to approve the bid documents and prepare the loan documents.

Once the IEPA has certified the bids and issued a loan agreement, the loan agreement and Notice of Award must be executed by the City with Council's approval within 120 days of the bid opening. This will allow an additional 20 days for executing the contract documents and issuing the Notice to Proceed, which must occur within the bid validity period (140 days of the bid opening *December 1, 2022*). If the Notice to Proceed is not issued by December 1, 2022, it could result in additional costs being incurred by the City.

### **Cost Cutting/Value Engineering**

Staff and Strand & Associates have identified 15-25 non-essential or redundant items which have the potential to save \$1 million to \$2.5 million. These items will not affect the final operation of the facility but were included to provide the city the most up to date treatment plant facility, but through discussions some of these items can be eliminated and other procedures or method implemented to provide the same results. These cost cutting measures will not downgrade the performance of the facility as designed.

**Recommended Council Action:** Approve the notice of intent to award the West Plant Construction Contract to Vissering Construction in the amount of \$50,640,000 at the August 15 regular meeting.

Direct staff to identify cost cutting measures and present a change order for council approval after the project is awarded and contracts are signed.

### **Financial Impact:**

**Funding Source:** IEPA Loan

**Budgeted Amount:** \$49,500,000

**Cost:** \$44,500,000 plus out of pocket expenses.

### **Attachments:**

Letter from Burns and McDonnell

Letter from City Engineer Wiedeman

Letter from Strand regarding higher-than-expected bids

Letter from Strand regarding potential costs savings