

**COUNCIL ACTION FORM**

**SUBJECT:** EAST INDUSTRIAL AREA UTILITY EXTENSION PROJECT

**BACKGROUND:**

The East Industrial Area Utility Extension Project consists of the extension of water and sanitary sewer to the recently annexed area east of Interstate 35 (I-35). More specifically, it involves the installation of water main and gravity sewer between I-35 and Potter Ave (formerly 590<sup>th</sup>), force sewer from Teller Ave (formerly 580<sup>th</sup>) to west of Freel Drive, and construction of a sewer lift station. Most of this new area to be served by City utilities east of I-35 has been certified by the Iowa Economic Development Authority as the Prairie View Industrial Center.

During the bid advertisement period, two (2) Addendums were issued for this project, and on March 4, 2020, bids were received as follows:

<i>Bidder</i>	<i>Bid Amount</i>
<i>Engineer's estimate</i>	<i>\$ 4,518,440.00</i>
SM Hentges & Sons Inc.	\$ 7,098,946.00
Rognes Corporation	\$ 7,242,118.00

**Assuming the low bid is accepted and adding in \$771,000 for engineering and administration costs, the total project cost was estimated to be \$7,869,946. This project is shown in the 2016/17 Capital Improvement Plan funded with \$5,300,000 in G.O. Bond revenue with the understanding that the annual debt obligation on these bonds would be abated from Water and Sewer utility revenues.**

The City Council has indicated a desire to establish a Connection District in an effort to recoup these expenditures. Under this strategy, the City does not realize any revenue until a property owner connects to our water and/or sewer services. In this situation, it could take twenty or more years before the approximately 1,300 acres that could be served by these utility lines are developed and revenues realized from any service connections. Therefore, on July 1, 2013 the City Council approved a .7% rate increase in the Water utility and a 4.2% rate increase in the Sewer Utility to finance the G.O. Bond debt service for this project based on the previous cost estimates.

Because the two bids that were submitted for this project greatly exceeded the amount budgeted, on March 10, 2020 the City Council accepted the report of bids for this project.

Since that time, the engineering design consultant on this project, Stanley Consultants, Inc. and city staff have evaluated the bids received and the design to identify potential causes of the high bids received.

It should be noted that, based on these bids, the current amount budgeted for water main improvements (\$1,100,000) is sufficient to cover those items. **The majority of the higher bid items are related to sanitary sewer installation and lift station construction.**

The table below provides a cost breakdown.

<b>Expenses</b>	<b>Water</b>	<b>Sewer</b>
Engineering & Inspection (est.)	\$103,000	\$668,000
Land & Easement Acquisitions	\$0	\$120,000
Construction (low bid)	\$875,765	\$6,223,181
<b>Total Costs</b>	<b>\$978,765</b>	<b>\$7,011,181</b>
<b>Funding</b>		
G.O. Bonds (Water Abated)	\$1,100,000	
G.O. Bonds (Sewer Abated)		\$4,200,000

**A few design modifications that are currently being considered include:**

- Provide additional bid item requirements and construction technique details in the plans and specifications in an attempt to reduce the perceived risks to the contractor.
- Provide more construction area for equipment and material by obtaining additional temporary and/or permanent easements.
- Evaluate lift station design and site layout for minimum requirements.
- Remove the gravity sewer main east of Teller Ave. (580<sup>th</sup>) from this project. This approach would require the removed section of sewer to be constructed later as part of a future project.
- Extend construction schedule to open opportunity to reduce costs.

**If these modifications are pursued, a change in the project scope will be required. If directed, the design team will work to come back to the City Council with modified design plans for re-bidding the project.**

## **ALTERNATIVES:**

1. Reject the bids and direct staff to contract with Stanley Consultants Inc. to create revised plans and specifications for a utility extension project along East Lincoln Way at a reduced cost (stopping sanitary sewer at Teller Ave.) with the goal to rebid the project in the summer 2020.
2. Approve the contract with SM Hentges & Sons Inc. in the amount of \$7,098,946 for the East Industrial Area Utility Extension Project.

**Should the City Council choose to pursue this alternative, approximately \$3,000,000 of additional G.O. Bonds will have to be sold to complete the project as bid. In order continue the philosophy that the annual debt service payments related to this bond issue be abated, it is currently estimated that the City Council will have to increase the Sewer rates by an additional 2.6% in FY 2021/22 to finance the project as currently designed. It should be noted that our current five-year planning estimates call for a water rate increase of 8% and no Sewer rate increase in FY2021/22.**

3. Reject the bids and wait until the next round of Coronavirus Aid, Relief, and Economic Security Act (CARES) is issued.

**There has been talk that this next round of federal relief will be made available to local governments for shovel ready infrastructure projects. However, at this time there is no guarantee this grant funding will be available from Congress, nor what date it will be distributed if it is made available.**

## **MANAGER'S RECOMMENDED ACTION:**

The extension of water and sanitary sewer mains along East Lincoln Way has been a top priority for the Ames Economic Development Commission for a number of years. Alliant Energy has contributed a significant amount of funding to achieve the State of Iowa's Super Park certification for the Prairie View Industrial Center as well as obtained purchase options on over 700 acres of the approximately 1,300 acre site.

While staff agrees with the importance of this project to accomplish our economic development goals, it is difficult to justify moving ahead with a project where the bids came in over 50% higher than estimated. It would seem advisable to continue to work with our consultants to redesign the project in an effort to reduce the overall cost, especially as it relates to the Sewer Fund portion of the project.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.

If the staff approves a change order with Stanley Consultants, Inc. (currently estimated to be \$35,000) immediately after this Council meeting, it is our expectation to have revised plans completed by June, a bid letting in July, and construction start in September.

**It must be emphasized that it is unlikely that a redesign of the project will yield \$3,000,000 of savings. Therefore, if the City Council hopes to move ahead with this project, you should be prepared to support an additional Sewer rate increase in an amount greater than currently planned, but hopefully less than 2.6%, in FY 2021/22.**