

March 6, 2024

Ted Cherry
Town Manager
Town of Granby
PO Box 440
Granby, CO 80446

RE: North Service Area (NSA) Water Treatment Plant (WTP) Status Update & Look Ahead

Dear Ted:

This letter summarizes the current NSA WTP project status, including a discussion of changes since the start of the detailed design phase, as well as recommendations for the future course of the project.

Project Changes

Design Concept & Estimated Costs

SGM developed a 30% project design, working with Town staff, between September 1 and Thanksgiving of last year. SGM prepared project cost opinion based on the 30% design. SGM estimated the total project cost (including design and other “soft” costs) at that 30% design milestone to be nearly \$34.6M. This was \$8.6M (33%) more than the \$26M estimate developed during the planning and alternatives evaluation phase. The difference in the cost estimates can be attributed to multiple factors, including: (a) additional subsurface investigation findings, which indicated a greater depth of fill materials, requiring removal and replacement with structural backfill, than the original two boreholes revealed on the RV dump station site, (b) increases to the project scope from that identified in the planning phase, primarily in terms of the extent of occupied spaces (vs. treatment process spaces), provisions for future production capacity expansion beyond the originally-planned 0.65-MGD plant design flow, and specific building systems selections, (c) availability of more detailed and recent construction cost information from similar projects, which provided a better picture of the current state of the Western Colorado treatment plant construction market and warranted that the team give more weight to other projects than to costs from the Town’s 2016-2018 South Service Area WTP project, and (d) a more detailed design concept (i.e. better information) upon which to calculate estimated NSA WTP project costs.

SGM, Town staff, and several Trustees met during Thanksgiving week to review the 30% design concept, the updated cost opinion and water rate implications in the context of likely available funding streams. It was clear that opportunities to reduce costs needed to be identified through a value engineering (VE) process. The Town directed SGM to evaluate VE opportunities, additional potential funding sources (USDA), and 3rd party construction cost estimating service opportunities. The Town also requested that SGM evaluate the extent to which delaying the project might impact, positively or negatively, water rate impacts.

During late November and early December, SGM developed a menu of design change options with estimated construction cost savings and associated water rate impacts. SGM and Town staff discussed the pros and cons of the options and determined it was appropriate to implement the design changes

described below. The philosophy was to preserve the project's primary benefits while minimizing costs. The resulting concept will continue to provide significant improvements in: infrastructure condition/service life, ability to handle degraded river water quality, system redundancy and service reliability, production capacity, operator safety, process efficiency, preventative maintenance opportunities, and controls modernization. Value engineering scope changes, which the Town decided to pursue through 30% design revisions, included:

- Do not construct a new, dedicated raw and irrigation water pump station on the existing plant site. Instead, replace the existing plant's raw water pumping system to serve the new plant. No improvements to the irrigation water pumping system will be included in the project scope.
- Do not construct a full suite of occupied spaces (offices, meeting room, break room, locker/shower, etc.) on the ground level, which requires additional excavated/backfilled building footprint, foundations and floor slab work. Instead, include only a bathroom and operator's testing station ("lab bench" area) on the ground floor and a single combination control room/office on a mezzanine level above the electrical room/chemical room. Include as an optional bid adder to build-out additional occupied spaces (meeting room, multiple offices, break area, locker area, additional bathroom) on the mezzanine level.
- Do not include provisions for expansion beyond the 0.65-MGD design capacity, which is anticipated to meet the Town's needs for 30 years (about 80% more taps in the NSA).
- Do not include space within the initially constructed building footprint for additional future treatment processes, but do include enough space adjacent to the building to allow for building expansion for this purpose if ever required.
- Do not include automated water quality monitoring and valving at the existing raw water intake. Instead, continue to rely on the existing raw water pond, water quality monitoring at the influent to the plant and on-site operator presence to respond to a potential river water quality emergency.
- Do not install a standing seam metal roof system. Instead, use an asphalt shingle roofing system similar to that used at the SSA WTP.
- Do not design for delivery and use of bulk "supersacks" for soda ash. Instead design for manual loading of 50-lb bags, but with significant improvements over the current system to reduce the required frequency of soda ash solution batching.

One VE option that was evaluated and was estimated to yield approximately \$140,000 in upfront cost savings, but which the Town did not choose to pursue due primarily to long-term durability, service life and maintenance considerations, was the use of a metal building system. Instead, the Town decided to move forward with masonry walls and a steel bar joists/roof deck system as the building envelope of choice.

One VE option the Town is still evaluating is not assigning a WesTech treatment equipment supply contract to the installing contractor in order to avoid contractor markups for overhead and profit and a fraction of the bonding cost, which the contractor would apply. Not assigning it carries risks of change orders from the installing contractor if there are problems with the supply of the equipment that impact its costs. Some of that risk would be mitigated through the agreement the Town would execute with WesTech. SGM estimates savings at \$160,000.

The VE process resulted in a revised estimated project cost of range of \$29.8 to \$30.6M, depending on whether or not the Town chooses to build-out the occupied spaces on the mezzanine level and/or assign a WesTech equipment contract to the installing contractor.

Based on the above, SGM revised the 30% design and provided it to Town staff on February 2, 2024. The VE process and the 30% design revisions delayed the project by approximately 2 months and expanded the scope and cost of engineering work. SGM will be discussing a contract amendment for additional scope and costs associated with these services.

SGM did evaluate, as requested, the potential impacts on water rates, positive and negative, to delaying project construction. The analysis showed that depending on what trends in construction inflation and interest rates prevail in the interim and how long the project is delayed, the impacts could be positive or negative, with a bit more downside (higher water rates) potential than upside potential. Given the mixed results combined with the risk that the Town could incur additional costs to repair elements of the aging existing plant or that water service reductions could occur due to raw water quality or equipment failures in the interim, a path of delaying construction was set aside.

SRF Funding Availability Changes

SGM and Town staff met with state officials from CDPHE, DOLA and the Water Resources and Power Development Authority (CWRPDA, the SRF program fiduciary agent) in early August 2023. At that time, it was communicated to the Town that there was up to \$5M in loan principal forgiveness (PF) through the Bipartisan Infrastructure Law (BIL) and \$2M in PF through the base SRF program's disadvantaged community (DAC) program available per project. This was consistent with information provided by the state during project planning. However, SRF officials indicated, after their review of Town financial and project data, that the Town did not meet DAC criteria, and thus DAC PF funds would not be available to the Town, and the Town's competitive position for BIL PF funds would also be reduced.

DOLA officials, however, indicated that the Town could work with DOLA to prepare a "business case" for DAC funding eligibility based on other factors to make to the CWRPDA board. SGM led an effort to support DOLA's "business case" with information demonstrating the difference in financial resources between the Town's North Service Area and the overall Town, which was the basis for the bulk of the data available to DOLA and CWRPDA. Based on this "business case", the CWRPDA board voted in late January in favor of granting DAC status to the Town's NSA for this project, making it eligible for, but not guaranteeing, BIL and DAC PF funding. Final funding determinations will be made only after review of a submitted SRF loan application. Note that DAC status attainment also means the Town would be eligible for a grant (typically up to about \$300K) for design/engineering services and a significantly reduced interest rate on the first \$3M of loan principal.

Unfortunately, an important change to the maximum level of PF/grant funding through SRF has arisen since that early August 2023 loan pre-qualification meeting. CDPHE and CWRPDA officials indicate the BIL and DAC PF funding limits have been reduced from a combined \$7M (\$5M and \$2M) to a combined \$3M (\$2M and \$1M) per project. This is due in large part to EPA's SRF program funding pot being open to depletions by congressional direct spending (CDS) appropriations. So, while this reduces the maximum potential for SRF PF/grant funding to the Town for this project by \$4M, the Town has also

already begun, through submission of a letter of intent to multiple congressional representatives, pursuing CDS funding. One important aspect of CDS funding is that elements of the project scope targeted for funding through CDS will likely be subject to Build America-Buy America (BABA) requirements. SGM and the Town will need to select parts of the project to fund CDS with great care so as not to have BABA requirements result in significantly increased cost to the project.

Current Project Status

Following the VE and 30% design revisions, SGM updated the project design schedule. We are currently committed to achieving the following design milestones:

- April 15: 60% design package
- June 28: 90% design package
- August 23: 100% design package

A few notable items related to design, funding acquisition, and permitting processes:

- 1) SGM developed a draft plat for the open space parcel on which the current and proposed future WTPs, along with the ballfields, fishing pond, and railroad museum, lie. Our understanding is that the Town no longer intends to subdivide the parcel and assign different zone designations at this time. Instead, it intends to modify the approved uses in the open space zone designation to include water treatment facilities.
- 2) The maximum height of the proposed plant's roofline will be approximately 40'. This height allows for achieving multiple important design objectives, but it exceeds the 35' maximum allowed per Town Code. A variance will be pursued.
- 3) The Town submitted a letter of interest to Mountain Park Electric's (MPEI's) Clean Power Program for a grant to partially fund a 25-kW photovoltaic array. MPEI has given verbal commitment of \$25K in funding for this installation. The installation is expected to cost between \$100K and \$125K. With the grant and the cost savings achieved through net metering, the system is expected to reduce water rates over what they'd be without investing in the system. Therefore, the current plant design concept includes the 25-kW system. 25 kW is the maximum PV installation capacity MPEI will allow on its grid with a net metering arrangement.
- 4) SGM, per the Town's direction, did explore funding options through USDA. After some research, a meeting with USDA representatives, and discussion with Town staff, it was determined that USDA funding, which like SRF funding can come in a combination of grants and loans, would not be pursued. The primary reasons are that it brings BABA requirements and significant administrative cost burden to the full project scope, the combination of which could increase project costs by 15% to 20%, or more.
- 5) SGM submitted the SRF-required Project Needs Assessment and Environmental Assessment to CDPHE on behalf of the Town. Per communications from CDPHE, it is close to completing its review and accepting both, which paves the way toward successful loan application. A project public meeting will be required (with a 30-day advertisement period) to meet all environmental requirements prior to an SRF loan application.
- 6) The US Army Corps has reviewed wetlands delineations and identified which are regulated. Only simple Nationwide Permits, as expected, will be required for the minor impacts anticipated.

- 7) Per Kate McIntire, the regional DOLA representative for the Town, the Energy and Mineral Impact Assistance Fund (EIAF) is well funded for the three grant cycles this year. The Town's project should compete well, certainly for a single \$1M grant. The Town and Kate are discussing whether or not it makes sense to break the project scope up and pursue EIAF grant funding in multiple cycles in order to increase the maximum total potential EIAF grant funding to beyond \$1M.
- 8) SGM spoke with several water plant construction contractors about provision of 3rd party construction cost estimating services. The cost would be \$15K to \$25K for review of SGM's estimate. It would be \$40K to \$50K for development of an independent estimate. Timeframes for completion would be roughly 4-5 weeks for an estimate review and 6-8 weeks for an independent estimate. SGM would recommend the Town invest in a 3rd party estimate if it were to pursue a June 5, 2024 SRF loan application date. However, recent discussions have led to a recommendation to pursue a January 5, 2025 application date.
- 9) Providing adequate staging areas for a Contractor will be important. There is not much space on the RV dump station site itself for this purpose given the space to be consumed by active construction. There is some on the existing WTP site, but not likely enough. The Town likely will need to consider other areas, such as: the ground east of the ball fields, across the road from the existing WTP; the ground north of the railroad museum; and areas near/at the ballfield nearest to the river.
- 10) The project design accommodates continued operation of the RV dump station after construction. The ability to maintain public access to the dump station during construction is in question. Current cost estimates do not include provisions for relocating the facility as a satisfactory alternate has not been identified. Given dump station traffic levels, SGM does recommend that the Town seek to permanently relocate the facility to a different site at some point.

Future Project Course

The original project schedule contemplated submitting an SRF loan application this June. However, for multiple reasons, SGM and Town staff have re-evaluated this course versus one based upon submitting an SRF application in January 2025. Presently, SGM and Town staff recommend that the January 2025 SRF loan application be pursued for the following reasons:

- 1) CDPHE SRF specialists indicate that the January 2025 cycle presents a better opportunity to maximize principal forgiveness (PF) acquisition potential. January cycles typically have greater funding availability than June cycles. Furthermore, at present, the state is very uncertain as to whether it will have any PF funding capacity for the June 2024 cycle.
- 2) In order to minimize the project's impact on NSA ratepayers, the Town is exploring additional project funding paths and would benefit from additional time. To minimize water rates and administrative costs, it is best for the SRF loan amount to be right-sized – i.e. no more or less than the Town needs in order to fund the project. This means identifying the magnitude of additional funding sources before finalizing the requested loan amount is important. That deadline is August 1 for the June 2024 SRF loan application cycle (after August 1, the request can be reduced but not increased, and after about mid-September, it cannot change at all). The Town plans to apply for congressional direct spending (CDS) funding in May 2024 and is also

exploring certificates of participation (COPs) financing. CDS award decisions will not be made until the fourth quarter of 2024. Pursuing COPs would likely benefit from more time. The loan amount request deadline for the January 2025 SRF application cycle is in February 2025 (it can only decrease from then until about April 1 after which it cannot change at all).

- 3) The revised design schedule and the June 2024 SRF application cycle combine to mean that the Town would have to finalize its SRF loan amount request before it would acquire construction bids. This means there could be a significant difference between loan proceeds and project funding needs. This risk could be mitigated, but not eliminated, by getting a 3rd party construction cost estimate prior to the loan amount finalization deadline of August 1. There are other mitigation avenues as well, but a potential result is that integral parts of the project would have to be cut out of the scope and delayed or that water rates would end up being set higher than they need to be to fund the project. Applying for an SRF loan in January 2025 addresses this risk.
- 4) Applying for an SRF loan in January 2025 allows the Town to apply for DOLA EIAF grants in multiple cycles this year if that turns out to be a real opportunity. With a June 2024 application, there is only a single relevant EIAF grant cycle available.
- 5) Debt service is a strong function of interest rates and construction cost. In a January 2025 loan application cycle, the SRF program would float bonds in April 2025. With interest rates currently having stabilized and more frequent talk of potential rate reductions than rate increases later in 2024, there seems to be a greater likelihood that financing will be more favorable than less favorable with a January 2025 than a June 2024 SRF loan application cycle.

The primary downsides of going with a January 2025 loan application date are:

- (a) A contractor will have less opportunity for early procurement of long lead time items, like electrical gear. This could impact the overall construction schedule and lead to cost increases. The Town will need to evaluate what it may choose to purchase before it hires a contractor in order to mitigate this impact.
- (b) The Town will have to cash-flow the \$172K WesTech PreProcurement contract cost, which will be due by April 18, 2025 because it will not have access to SRF loan proceeds until mid-May 2025. The Town can choose to roll this expense, or not, into its SRF loan, so it can be reimbursed in June 2025.
- (c) Because SRF loan funds acquired through a January 2025 loan cycle will not be available to the Town until mid-May 2025, the Town will need to choose to either:
 - a. Not execute a construction contract until early June 2025, thus delaying the start of physical construction by about 3 months, achieving a late June/early July start versus a late March/early April start. This means there are 3 more months of construction work during the winter of 2025/26 that will likely be required before the treatment building is “dried in”. This means added cost to handle winter conditions. OR
 - b. Carve out a separate “early work” package to get under contract sooner and to get a contractor started earlier in the 2025 construction season. This contract would have to be funded via reserves, a bridge loan, a CDS award, and/or a DOLA EIAF grant. It could be roughly \$3M to \$5M in value. The cost to the Town of the early work can be included

in the SRF loan request so that any bridge loan could be paid off and reserves replenished once SRF loan proceeds are available in May 2025. It needs to be stated that there is a small risk with this approach that SRF financing does not come through and the project begun through the “early work” contract cannot be immediately continued/completed. However, the Town would have a very good understanding in February 2025 as to whether its SRF loan request will be able to be fulfilled and a near-guarantee by the end of March 2025 if/when the CWRPDA board approves the Town’s loan request; therefore, the Town would have certainty about the status of its SRF loan before a contractor would likely get a shovel in the ground to complete “early work”.

With a January 2025 SRF loan application, the following sequence of events is envisioned (a detailed schedule will be developed when a decision is finalized):

- 1) March 2024 - Establish strategy for DOLA EIAF grant funding (one or multiple grants)
- 2) March 2024 - Execute modification to WesTech PreProcurement Agreement to extend timeframe by 90 days over which WesTech holds its equipment pricing to allow the \$1.6M equipment Procurement Agreement to be executed in June 2025 at which time SRF loan funds will be available.
- 3) May 2025 - Work with MPEI in May 2025 to determine cost and lead time of the electrical transformer it will need to supply and determine if/when it would need to be pre-procured.
- 4) April 2025 – Determine which project elements are best suited for CDS funding given BABA requirements.
- 5) May 2025 - Apply for CDS funding.
- 6) July 2024 - Submit the CDPHE potable water system construction approval application.
- 7) August 2024 - Complete 100% design by August 23.
- 8) August 1 and/or December 1, 2024 - Apply for DOLA EIAF grant funding.
- 9) 2nd Half of 2024
 - a. Work with Town, contracting community and funding agencies to evaluate whether or not it makes sense to split the project into two construction contracts to allow for construction to start as soon as site conditions allow in the Spring of 2025 or to go with a single contract executed in late May/early June 2025.
 - b. Identify long lead time items, and develop associated cost estimates and target procurement timelines, which Town may choose to pre-purchase to facilitate the overall construction schedule.
 - c. Conduct a public meeting to meet SRF environmental requirements in September 2024, or earlier if the Town chooses.
 - d. Acquire other permits/approvals
 - i. Submittal under Town’s watershed protection district ordinance
 - ii. Seek variance for maximum roof height of 40’ and change to open space zoning allowed uses to include water treatment facilities.
 - iii. Submit information required for Army Corps Nationwide Permit for minor wetland impacts
 - iv. Work with Granby San. District to establish ability to serve and connection fee/rates.
- 10) November 2024 – learn CDS award determination.

- 11) December 2024 - Advertise for construction bids.
- 12) January 5, 2025 - Apply for SRF loan.
- 13) Mid- to late-January 2025 – Open construction bids.
- 14) February 2025 - Finalize SRF loan request ask (can't go up after this)
- 15) March 2025 – Learn SRF loan approval status; execute an “early work” construction contract if applicable.
- 16) Mid-May 2025 – Execute SRF loan agreement and have access to loan proceeds
- 17) Early June 2025 - Award construction contract

I look forward to reviewing the contents of this letter with you and the Town's Trustees at the March 12 Board meeting and answering any questions.

Sincerely,

SGM



Warren J. Swanson, P.E. - Project Manager & President

Cc (email electronic version only): Doug Bellatty, Josh Broady, Andrew Magas, Greg Hansen