




**AGENDA
BILL
Item 6.B**

**Division 7 Reservoir
Replacement Project
Funding Commitment**

DATE SUBMITTED:	February 28, 2023	MEETING DATE:	March 8, 2023
TO: BOARD OF COMMISSIONERS	FROM: Justin Clary, General Manager		
GENERAL MANAGER APPROVAL			
ATTACHED DOCUMENTS	1. none		
TYPE OF ACTION REQUESTED	RESOLUTION <input type="checkbox"/>	FORMAL ACTION/ MOTION <input checked="" type="checkbox"/>	INFORMATIONAL /OTHER <input type="checkbox"/>

BACKGROUND / EXPLANATION OF IMPACT

A structural analysis of the Lake Whatcom Water and Sewer District Division 7 Water Reservoir found significant deficiencies in its ability to meet existing earthquake code requirements (BHC report, December 2016). The 2017 Water System Plan also analyzed the capacity of the Division 7 reservoir and found it to be significantly oversized. Technical memoranda prepared by Wilson Engineering LLC (dated February 8, 2018, and December 28, 2020) provided alternatives analyses that investigated several options associated with future use of the reservoir or replacement. The recommended alternative replaces the existing welded steel 1-million gallon reservoir with two smaller concrete 185,000 gallon reservoirs.

In 2018, the District submitted a FEMA Hazard Mitigation Grant application to replace the Division 7 Reservoir with two new reservoirs constructed to meet seismic standards, and to implement ShakeAlert (earthquake early warning system) on the new reservoirs. The grant application was developed in conjunction with Washington State Emergency Management Division (WA-EMD) of the Washington State Military Department and the Federal Emergency Management Agency (FEMA) as a Hazard Mitigation project. Hazard Mitigation Grant cost sharing is typically as follows: FEMA 75%, WA-EMD 12.5%, and local agency 12.5%.

Though the grant application was submitted in 2018, the project did not proceed for a few years due to varying circumstances (e.g., grant administrator staffing issues, the COVID-19 pandemic). As a result, the project did not start in earnest until 2021, which culminated in the Board approving a grant agreement for the first phase of work during its February 2, 2022 meeting (the project was split into two phases: Phase I – Design and Permitting; and Phase II – Construction). At the time of approval of Phase I, the total project cost was estimated at \$2,281,000 (FEMA at \$1,710,750, WA-EMD at \$285,125, and the District at \$285,125).

With design and permitting progressing, and recognizing significant escalations in the construction industry over the past year, a more current cost estimate for the entire project was recently prepared. The October 2022 estimate is \$2,950,000 (\$669,000 beyond the FEMA-approved grant agreement). Recognizing the significant increase, the District requested additional funding from FEMA. The District was recently notified by WA-EMD staff that there are no additional federal funds that may be allocated toward the project, and that if the District wishes to proceed, it will have to finance the estimated additional \$669,000 (in addition to the District's grant commitment of \$285,125).

District options include:

- 1) Cancel the project
- 2) Proceed with the project and pursue other external funding
- 3) Proceed with the project and self-finance
- 4) Proceed with the project and pursue other external funding with the fallback position of self-financing

The 2018 structural analysis identified the Division 7 reservoir as the District's highest reservoir priority; therefore, cancelling the project is not discussed further in this agenda bill. Staff have been in regular communication with Congressman Larsen's office regarding an FY2024 community funding project award (earmark) to cover the additional project cost. Other viable external funding options include pursuit of low-interest loans through Public Works Assistance Account (administered by the State Public Works Board) or Drinking Water State Revolving Fund (administered by the State Department of Health); though neither of these sources would be a grant, it would allow the District to finance the project costs over a 20-year period at a low interest rate. Should pursuit of external funding be unsuccessful, the District could use Contingency Fund Reserves (\$460,000) to cover a significant portion of the costs, and reorganize the District's six-year water utility capital improvement program to accommodate the project.

FISCAL IMPACT

Dependent upon Board action. Receipt of a congressional community funding project earmark would create no additional financial obligation for the District; receipt of PWAA or SRF loans would amortize the costs over a 20-year period, and self-financing would have immediate impacts in depletion of the District's contingency reserve and ability to proceed on other necessary water utility projects.

APPLICABLE EFFECTIVE UTILITY MANAGEMENT ATTRIBUTE(S)

Financial Viability
Infrastructure Strategy and Performance
Enterprise Resiliency

RECOMMENDED BOARD ACTION

Staff recommends that the Board affirm the District's commitment to financing the additional project costs to enable the Division 7 reservoir replacement project to proceed, and continue pursuing other external funding opportunities (Option 4 above).

PROPOSED MOTION

A recommended motion is:

“I move to affirm the District’s commitment to fund any financial obligations associated with the Division 7 Reservoir Replacement Project beyond the \$1,995,875 provided through federal hazard mitigation grant funding and direct staff to continue pursuit of other external funding opportunities.”