



City of Racine, Wisconsin
COMMON COUNCIL

AGENDA BRIEFING MEMORADUM (ABM)

COMMITTEE: Finance and Personnel _____ **LEGISLATION ITEM #:** _____

AGENDA DATE: 7-13-2020 Finance and Personnel

7-21-2020 Common Council

DEPARTMENT:

Prepared By: Keith Haas, General Manager

Reviewed By: Keith Haas, General Manager

SUBJECT:

Communication from the General Manager of the Racine Water Utility proposing to use interim financing to provide for the construction of water mains and lead service replacements on State Highway 20 (Washington Avenue) in 2020 to insure that the Wisconsin Department of Transportation can proceed in 2021 with a STH 20 reconstruction project. Interim financing would involve borrowing funds from the unallocated City's sanitary sewer capital fund in the 3rd and 4th quarter of 2020 and replenishing the funds with a revenue bond borrowing in the 1st quarter of 2021.

EXECUTIVE SUMMARY:

The Wisconsin DOT will be reconstructing State Highway 20 in 2021. The limits of construction are from West Blvd on the East to Roosevelt Street on the West. Large utilities such as water and gas mains need to be replaced ahead of the DOT work. Bids will be opened by the Water Works Commission in July 2020 and a contract awarded in July. The Racine Water Utility has been involved in a lot of Capital Improvement projects in 2019 and 2020. The Utility plans to issue revenue bonds to cover capital needs in the 1st quarter of 2021 for current and future infrastructure replacement projects.

BACKGROUND & ANALYSIS:

The Utility has had an ambitious year with infrastructure replacement in Racine. This has involved water main replacement and lead service replacement on Lathrop Avenue, Hamilton Street, Clark Street and Ontario. In 2019, the Water Utility also had a large project on 16th Street between Main and Racine Street. Also local streets in Racine required water main replacements in 2019. All of these projects including the State Highway 20 project are driven by street reconstruction projects brought forward by the Department of Public works and all for good reasons. Other projects in Racine in 2020 involved a new Summit Avenue Booster station and a rebuilt Perry Avenue booster station

When water infrastructure projects are constructed within the City limits, the asset value of these assets is applied to the Utility asset database. The City of Racine receives a Payment in Lieu of Taxes (PILOT) for all projects completed and booked in a given year. This formula adds funding to the City's General Fund annually in the form of a payment to the City. New water projects generate new found revenue for the City.

If the water mains and lead services are not installed this will be needed in future years as the water main break history is growing and very prevalent at this time on Washington Avenue. The main thoroughfare will be plagued by continued breaks in the coming years. This corridor is the main entry point to Racine from Interstate 94 for visitors and guests. Failure to install the mains prior to paving will leave the citizens to wonder if anyone is coordinating projects within the City.

The City benefits in many ways. The end result will be much like the Douglas Avenue corridor on the City's north side. Imagine if water main breaks continued to plague Douglas Avenue after the DOT spent millions on a new corridor to the City

The City also gains in increased PILOT payments that will continue for decades to come. The sooner this main is installed the sooner the City begins to benefit financially. For every million constructed the City would receive \$25,000 annually in PILOT for the General Fund. If the project is \$3 million the City would receive \$75,000 annually in PILOT payments.

BUDGETARY IMPACT:

The Capital Improvement fund for capital sanitary sewer funds helps the Department of Public Works fund local sewer improvement projects including things like sewer lining, participation in treatment plant upgrades and upgrades such as the Lift station No. 2 storage tank project on Spring Street. This fund accumulates based upon a \$20 capital charge on City wastewater customers as billed on the quarterly Utility bill collected by the Water Utility. The balance in this account varies dependent upon the needs in the Racine community and the projects being paid for through low interest Clean Water Fund Loans.

The fund had a beginning balance of \$4,581,929 in 2020. Additional revenue of \$2,070,000 is added in 2020. Approximately \$4.2 million has been allocated to various City funding responsibilities in 2020. It has a balance of \$2.3 million at this time without any remaining needs forecasted in 2020. The Water Utility would use its own financial resources first to make contractor payments. As needed, the Water Utility may draw upon the surcharge fund if necessary. Bids have not yet been received for the water main project. The Water Utility would minimize the use of this mechanism for funding. It is anticipated that \$2 million may be necessary to offset the current deficit in funds forecasted.

This fund has no impact on the City's general fund. The end of year balance in this account is projected to be \$2.3 million. The funds will be used to make contractor payments on the water main replacement contract on State Highway 20. The funds will be replenished in the 1st quarter of 2021 with a water revenue bond borrowing. The Water Utility is a department of the City of Racine.

Draws against the account may be necessary in October, November and December based upon contractor earnings. If the City charged the Utility 3% interest on the funds withdrawn, it might earn \$15,000

The City Finance Office, the Mayor's office and the City Administrator are on board with the use of these funds for this purpose.

OPTIONS/ALTERNATIVES:

If funding is not made available, the Water Utility will not be able to award a water main and lead service replacement contract in 2020 for STH 20. If STH 20 gets rebuilt without water main replacement occurring, water main breaks and lead service replacement contracts will need to be made in brand new concrete pavement in future years. The DOT restricts access to their ROW for a period of 10 years after the new improvement is made.

Water usage and sales have dropped 20% since the last PSC authorized a water rate order in 2017. A new revenue bond borrowing will occur in 2021 after a new water rate order is issued by the Public Service Commission (PSC) for the Racine Water Works Commission.

RECOMMENDED ACTION:

Allow the water Utility to utilize unallocated funds from the Capital Sanitary Surcharge fund in 2020 to fund the STH20 water main and lead service replacement contract in 2020. The Utility will pay back the funds with a revenue borrowing in 2021 and will pay the fund back with interest for any funds advanced.

ATTACHMENT(S):

None