

AGENDA ITEM #3.

CITY COUNCIL COMMUNICATION FORM

FROM: Jon Snyder, Interim Public Works Director

THROUGH: Gary Suiter, City Manager

DATE: March 14, 2017

ITEM: Brynn Grey – Water Wrap Up.

DIRECTION
 INFORMATION
 ORDINANCE
 MOTION
 RESOLUTION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

On October 25, 2016 and on February 14, 2017 City Council worksessions were conducted to discuss the provision of municipal water service to a potential annexation located west of the city limits. Brynn Grey Partners (applicant) presented an overall vision for the annexation in conjunction with their proposal for water service. Tonight's worksession is the follow-up to those previous worksessions.

To summarize, the applicant's water proposal includes:

- an understanding that the future West Area Water Tank is a prerequisite prior to development
- a commitment to construct onsite infrastructure, including pressure reducing valve(s) and pump stations as may be necessary
- construction of a water main following the Highway 40 corridor from Snow Bowl Plaza to the applicant's property prior to development of the second neighborhood
- full payment of tap fees for all units
- an additional \$16,000 fee on top of regular tap fees for all non-deed-restricted units as a contribution to a City-managed water firming fund

At the February 14th worksession, discussion focused on the potential risks to the community that the applicant's water proposal may entail. Staff offers for discussion the following risks that the community may face:

- Assuming that the community's goal is to provide a housing product attainable by the middle class, then should the development stall, move too slowly, change hands or, for whatever reason, not come to fruition, then we as a City do not have an opportunity to provide water to a different annexation that could alternatively meet the community's housing goal without an enormous upfront investment. In this case, part of the risk mitigation would be a different approach to funding the proposed Water Firming Fund that does not tie the \$16,000 payments to the tap fees. Different approaches could involve more upfront money or phased payments associated with platting. At this point, the applicant is not willing to commit to an alternative other than associating the \$16k payments to the tap fees.
- Inflation erodes the value of a fixed \$16,000 water firming fee. The risk mitigation would be an inflationary factor added to the \$16k. The applicant is willing to consider inflation protection, but has asked that this discussion be delayed until the Financing Mechanism discussion occurs.
- The timing of the construction of the water main along Highway 40; namely, that we could have 180 homes fed off of one 24-year old water main for an undisclosed period of time. Staff considers this a completely unacceptable risk, and cannot find a situation anywhere in our City's history where a developer was allowed to create such a condition at such a scale. Should that existing main break prior to the Highway 40 water main becoming operational, it would leave many residents without water until the main is repaired. This would require the City to notify the State Health Department. More importantly though, the homes would be left without fire protection until the main was repaired. Providing water main looping is a nationally-recognized best-practice. It is also a requirement in our development policies, thus it is not fair or equitable to allow one developer to operate under a different set of rules than the rest of our developers. The risk mitigation is therefore to require the Highway 40 water main with the initial phase in accordance with our existing development policies. At this point, the applicant is not willing to construct the Highway 40 water main until the initial neighborhood is completed, and has asked that the details be addressed during the Financing Mechanism discussion.
- There is not sufficient redundant supply out of the Yampa River wellfields to meet the needs of this development. While we are reasonably confident that sufficient redundant supply can be realized out of the Yampa River wellfields within the next 5-6 years, we cannot guarantee that our current efforts will yield sufficient redundant supply. The risk mitigation would therefore be similar to point number one, involving more upfront money into the Water Firming Fund or

a different approach to the phasing of the payments that does not tie the payments to tap fees.

Staff offers these points for discussion purposes only, and would appreciate further direction from Council. The applicant has provided a letter, included as Attachment 1, identifying their analysis of the risks.

II. ALTERNATIVES:

From the standpoint of water provision, Council has four general alternatives as to how to direct the applicant and staff in formulating a draft pre-annexation agreement:

- 1) Provide general agreement to the applicant's proposal
- 2) Reject the applicant's proposal
- 3) Negotiate with the applicant on a modified proposal
- 4) Delay this decision pending future discussions such as the deed-restriction discussion and the financing mechanisms discussion

III. STAFF RECOMMENDATION:

As the applicant has requested that certain discussions be delayed until the Financing Mechanism discussion, staff recommends alternative number four – delay this decision pending future discussions such as the deed-restriction discussion and the financing mechanisms discussion. Staff's role in this worksession is to provide information and to assist with the discussion, and staff requests direction from Council on how they would like to move forward.

LIST OF ATTACHMENTS

Attachment 1 – Brynn Grey Water Risk Letter

Attachment #1.



777 Pearl Street, Boulder, Colorado 80302
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March 14, 2017

President Magill and Steamboat City Council
137 10th St.
Steamboat Springs, CO 80487

Re: West Steamboat Neighborhoods Water Risk Analysis

Dear President Magill and Steamboat Springs City Council,

To follow up on our work session discussion with you on February 14th, we have identified the various risks that pertain to the WSN development, which are:

- WSN stalls; water resources not available for other projects.
- Inflation erodes the value of a fixed \$16,000 water firming fee.
- First phase unlooped water line may fail; City is left to pay for looping.
- Redundant water supply.

Attached you'll find the WSN Risk Analysis Table summarizing those risks, best and worst case scenarios, and mitigation.

We look forward to discussing this with you.

Thank you,

A handwritten signature in black ink, appearing to read "D O'Neil".

David O'Neil
Founder/CEO
Brynn Grey Partners

A handwritten signature in black ink, appearing to read "M Sherburne".

Melissa Sherburne
Partner
Brynn Grey Partners

Attachment: WSN Risk Analysis Table, 3-14-2017

Attachment: WSN Risk Analysis Table

Risk	Best Case	Worst Case	Mitigation
WSN stalls; water resources not available for other projects.	WSN doesn't stall. No issue.	WSN stalls and limited water resources are tied up with this project and not available for other projects.	Select the right developer – Brynn Grey has built over \$100M in deed restricted locals housing, including through the recession; And, any developer, their investors and lenders, have huge financial incentives to keep the project rolling.
Inflation erodes the value of a fixed \$16,000 water firming fee.	See mitigation.	See mitigation.	There should be inflation protection. The key is determining the best index during "Financing Mechanism" discussion.
First phase unlooped water line may fail; City is left to pay for looping.	The water line is looped as planned upon the completion of the Gateway Neighborhood, and savings from delaying looping the line are passed on to the buyer.	The line is not looped in the first neighborhood, there is a primary line break; and if development stalls the City has to install the secondary line.	Developer secures upfront the cost of looping the line upon completion of the Gateway Neighborhood; details to be addressed during the "Financing Mechanism" discussion.
Redundant water supply	The galleries provide 3.5 mgd of redundant supply, adequate for build-out and annexation. Meanwhile, WSN generates \$10M in tap fees and water firming fund contributions, which could be used to fund the expansion of the galleries and design of the Elk supply. And, the City would have 150 deed restricted locals' homes.	If a fire destroys the Fish Creek watershed, Yampa Galleries do not meet expectations, build out within city limits occurs more rapidly than anticipated, and WSN is fully built out; then, the City would not have a fully redundant supply for 1-2 years (while the watershed recovers).	WSN is the only new source of revenue that would pay into a water firming fund at this time; and even at full build out, redundancy is not significantly exacerbated by WSN. The City has already committed to mitigating this risk, regardless of this annexation; efforts are underway for both the expansion of the Yampa Galleries and resources on the Elk.