



**Request for City Council Committee Action
From the Department of Public Works**

Date: February 4, 2003
To: Transportation and Public Works Committee
Referral To: Honorable Sandra Colvin Roy, Chair Transportation & Public Works Committee

Subject: **Update on Asphalt Plant Joint Venture**

Recommendation: Approve operation of City Asphalt Plant for 2003 construction season

Previous Directives:

December 19, 2002 Transportation and Public Works Committee Actions:

- a) Purchase hot-mix asphalt through competitive bids on the private market for the 2003 construction season; and
- b) Continue operations at the City's asphalt plant to the extent necessary during the 2003 construction season for the sole purpose of eliminating existing stockpiled products used for the production of hot-mix asphalt; and
- c) Upon the elimination of the existing stockpiled products, suspend operations at the asphalt plant for a maximum of one year; and
- d) During this one-year period, Public Works staff is directed to further evaluate the options available for providing City crews with hot mix asphalt in the most economical manner, and report back no later than the fall of 2003 with a recommendation regarding permanent closure of the facility; and
- e) Aggressively pursue the public/private partnership concerning an asphalt plant authorized by the Legislative in 2002, to supply potential partners with the most recent estimates of the City's asphalt needs, and report back to Transportation & Public Works Committee within 3 cycles concerning the results of these discussions.

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Approved by: Brian J. Lokkesmoe, P. E., City Engineer, Interim Director of Public Works

Mike D. Kennedy, P.E., Director of Field Services

Presenters: Brian J. Lokkesmoe, P.E.

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information Attached

On December 19, 2002 Public Works presented to your Committee, the following recommendations for the City of Minneapolis Asphalt Plant:

- a) Purchase hot-mix asphalt through competitive bids on the private market for the 2003 construction season;
- b) Continue operations at the City's asphalt plant to the extent necessary during the 2003 construction season for the sole purpose of eliminating existing stockpiled products used for the production of hot-mix asphalt;
- c) Upon the elimination of the existing stockpiled products, suspend operations at the asphalt plant for a maximum of one year; and
- d) During this one-year period, Public Works staff is directed to further evaluate the options available for providing City crews with hot mix asphalt in the most economical manner, and report back no later than the fall of 2003 with a recommendation regarding permanent closure of the facility.

Public Works staff was further directed to aggressively pursue the public/private partnership concerning an asphalt plant authorized by the Legislative in 2002, to supply potential partners with the most recent estimates of the City's asphalt needs, and report back to Transportation & Public Works Committee within 3 cycles concerning the results of these discussions.

Public Works staff has met with four asphalt producers to discuss the feasibility of a partnership with a private hot mix asphalt supplier for the long term production and supply of hot mix asphalt to the City.

During these discussions, the following issues were discussed:

1. **Location** - Where should the plant be located? The City would prefer a central location within the City.
2. **Ownership** - Should the City or the vendor own the land and plant?
3. **Plant Construction** - Should the plant be constructed and financed by the City or the vendor? What methods should be used to determine the contribution of each party toward the construction financing?
4. **Operational** - Should the vendor operate the plant? If the vendor operates the plant, what commitment should the City make as to taking asphalt and contributing to the cost of production? What should the duration of this contract be? What should the capacity of the plant be?
5. **Maintenance** - How will maintenance and capital replacements and renovations be handled?
6. **Volume** - The City of Minneapolis anticipates an annual average use of 60,000 – 90,000 tons of asphalt. What would you expect your annual production requirements to be?
7. **Allocation of Operating Costs** - How would you propose to allocate operating costs between yourself and the City?

8. **Acquisition of Raw Materials** - How will raw materials (liquid AC, aggregate) be provided? By competitive bid?

Joint Venture Discussions:

Although the level of interest from the private asphalt producers varied significantly they are all interested in further discussions regarding this issue. Several points of discussion were clarified during these meetings.

1. The City's existing plant area would not be large enough for a joint use operation and the City would need to acquire and make available at least 6-7 areas of property for this venture. Some properties near our 26th and Hiawatha facility are potentially available. The estimated cost to acquire an adequate parcel is \$3-4 million.
2. The cost to construct a new plant would be \$2-3 million. Therefore, the total investment required would be in the range of \$5-7 million. One option discussed was that the City would make that investment and own the facility and recover their costs through an annual apportionment of the debt service based on the utilization of the plant by each partner. This issue was left very open ended with the possibility that a private sector partner may be willing to provide a substantial share of the capital investment required.
3. It was determined that the mostly likely scenario would be to have the plant operated and managed on a daily basis by the private sector partner with the City's involvement limited to financial oversight and coordination of our needs for asphalt products.
4. It was determined that it would take approximately two years to complete all of the work required to have a joint venture asphalt plant operational. The steps required would be to initiate an RFP process, evaluate the responses, negotiate a final partnership agreement, purchase and clean-up the required property, secure the appropriate operational permits and construct the facility. If started soon, operations could potentially begin in the spring of 2005.

It is our intention to continue our discussion with the private sector and will periodically provide updates, as additional information becomes available.

2003 Construction Season:

As a result of these discussions, it is apparent that for the next two years we will need to acquire asphalt products by either continuing to operate our plant or by purchasing asphalt from private producers.

During the past few weeks the plans and programming for the 2003 construction season have been finalized. In addition to our approved capital and maintenance programs for 2003, we have some carry over projects from last year and also additional work required at Heritage Park. This combination of work results in a requirement for approximately 98,000 tons of asphalt products for the 2003 construction season. At this level of production, our existing plant can operate very cost effectively and provide asphalt products at a cost equal to or less than the cost of competitive bids for supply by the private sector. This is based on an analysis of price quotes from the industry as well as a comparison to the bid prices received last year by Hennepin County.

This being the case, it is recommended that the City operate its asphalt plant for the 2003 construction season.

2004 and Beyond:

Our capital program and maintenance budgets for 2004 and beyond are not firm at this point and we believe that in the foreseeable future, it is unlikely that our demands for asphalt products will reach a level similar to 2003. We would want to determine our needs for the 2004 construction season by September 2003 so that if operation of the City plant is not viable for 2004 that we can use up materials on hand by the end of this season, mothball the plant for 2004, and take competitive bids for the supply of asphalt products for the 2004 construction season.