



● **Board of Directors**  
***Engineering and Operations Committee***

6/12/2018 Board Meeting

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8-3

**Subject**

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Adopt CEQA determination and appropriate \$10 million; and authorize capital program for projects costing less than \$400,000 for fiscal years 2018/19 and 2019/20 (Appropriation No. 15504)

**Executive Summary**

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This action provides funding and authorizes the General Manager to proceed with a biennial program to execute capital projects costing less than \$400,000 for fiscal years 2018/19 and 2019/20. Most of the projects included in the Minor Capital Projects Program address replacement or refurbishment of aging or deteriorated infrastructure.

The Minor Capital Projects Program enables staff to expeditiously execute small capital projects that arise throughout each fiscal year. The streamlined project approval process allows staff to move forward quickly on needed small projects while reducing administrative costs. Minor capital projects typically have well-defined scopes for all phases of work and are only recommended to proceed after passing the rigorous screening and evaluation process conducted by Metropolitan's Capital Investment Plan (CIP) Evaluation Team.

This action appropriates the total budgeted amount of \$10 million for fiscal years 2018/19 and 2019/20, which is the same level of funding authorized over the previous two biennial budget periods. The maximum value of capital projects to be executed under this program is recommended to be \$400,000; which is an increase over the \$250,000 level that has been in place for over 25 years. Funds for this action are available within Metropolitan's capital expenditure plan for fiscal years 2018/19 and 2019/20.

**Details**

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**Background**

Projects are required to be executed under a capital appropriation, rather than handled as operation and maintenance activities, when they cost more than \$50,000 and have an expected service life of five years or more. With capital projects, work is authorized and funds are appropriated through specific board actions. For the majority of Metropolitan's capital projects, authorization is accomplished via board letters which are considered throughout the fiscal year at the Board committee meetings. For small capital projects under the Minor Capital Projects Program, an expedited process is followed which appropriates funds and authorizes work through a single board action at the beginning of the biennial budget period. This expedited approach allows staff to move forward quickly on needed small projects while reducing administrative costs.

Upon approval of the Minor Capital Projects Program by Metropolitan's Board, staff identifies projects and prepares proposals for work to be addressed under the program. Proposals are submitted to the CIP Evaluation Team for consideration, and only those projects which pass the rigorous screening and evaluation process are recommended to proceed. Every project proposed for this program is reviewed in the same manner as larger capital projects.

Minor capital projects have well-defined scopes of work for their design and construction phases. Construction is performed either by Metropolitan forces or construction contracts, depending on the site and operational requirements, along with the need for specialized expertise. When utilized, construction contracts are advertised and awarded under the General Manager's Administrative Code authority.

The Minor Capital Projects Program is intended to simplify administrative procedures, reduce costs, and enable small capital projects to move forward without delay. Specific criteria have been established to streamline the approval process while ensuring oversight and control by management and the Board, including the issuance of Quarterly CIP Reports to the Board. In recognition of the unique requirements of small projects, staff has established specific administrative procedures for these projects, whose durations may range from a few months to several years. The longer durations may be necessary for some projects if shutdowns must be scheduled or construction contracts must be developed.

### **Increase in Maximum Value of Minor Capital Projects**

The Minor Capital Projects Program became a component of Metropolitan's CIP in the 1970s. Since 1991, the maximum value authorized for these projects has remained at \$250,000. Staff recently reviewed cost trends for minor capital projects and the construction industry over prior fiscal years, and observed the following:

- The number of minor capital projects whose value is at the top of the cost range (e.g., \$220,000 or above) has increased over the last three fiscal years. This trend is expected to continue.
- The Engineering News-Record Construction Cost Index for non-building infrastructure projects in Southern California increased by 96 percent over the period of 1991 to 2017.
- The General Manager has the authority under Metropolitan's Administrative Code to award construction contracts up to \$250,000. For minor capital projects, the effective maximum contract amount is significantly below this value, since the total of all project costs, including staff labor, materials, and contracts, must be below \$250,000. An increase in the minor capital project value to \$400,000 would enable full utilization of the General Manager's contract award authority.

Staff concluded that an increase in the maximum project value would increase efficiency in the execution of small projects and expedite the completion of urgent repairs.

### **Minor Capital Projects Program – Design and Construction (\$10,000,000)**

This program enables staff to efficiently execute smaller capital projects which are located throughout Metropolitan's conveyance and distribution system, and at the water treatment plants. These projects typically address unanticipated failures, safety or regulatory compliance concerns, or necessary replacements and refurbishments. Types of infrastructure usually refurbished or replaced under the Minor Capital Projects Program include pumps, valves, meters, structural components, plumbing, electrical systems, and water treatment equipment. The timing of the work may be expedited to take advantage of shutdown opportunities.

Examples of projects completed within fiscal years 2016/17 and 2017/18 include: (1) replacement of three acoustic flowmeters located at Diamond Valley Lake to monitor and control water flow at Wadsworth Pumping Plant; (2) installation of a cathodic protection system at the Eagle Rock Control Tower; and (3) fabrication and installation of a new gate at the Whitewater Siphons to augment the delivery of Colorado River water to the Whitewater groundwater storage basins by 40,000 acre-feet in 2017.

This action appropriates \$10 million for minor capital projects costing less than \$400,000 that are identified during fiscal years 2018/19 and 2019/20, and delegates authority to the General Manager to perform the work. Staff anticipates that a total of 25 to 30 projects will be handled under this program during the two fiscal years. All projects executed under the Minor Capital Projects Program are required to be evaluated and recommended by Metropolitan's CIP Evaluation Team.

The requested funds have been included in the capital expenditure plan for fiscal years 2018/19 and 2019/20. See **Attachment 1** for the Financial Statement. The cost breakdown for the Financial Statement was developed from historical information on previous minor capital projects.

## Policy

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Metropolitan Water District Administrative Code Section 5108: Appropriations

### California Environmental Quality Act (CEQA)

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#### CEQA determination for Options #1 and #2:

The proposed actions are categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The overall program will involve carrying out future preliminary studies and environmental analyses for proposed Minor Capital Projects that are unknown at this time. These preliminary studies and investigations would consist of basic data collection and resource evaluation activities, which do not result in a serious or major disturbance to an environmental resource. This may be strictly for information gathering purposes, or as part of a study leading to an action that a public agency has not yet approved, adopted, or funded. Accordingly, the proposed action qualifies as a Class 6 Exemption (Section 15306 of the State CEQA Guidelines). The funding mechanism in support of the proposed program is not defined as a project under CEQA and is therefore not subject to the CEQA process (Section 15378(b) of the State CEQA Guidelines). Metropolitan, as the Lead Agency, will be responsible for complying with the requirements of CEQA and the State CEQA Guidelines for each project that meets the program's criteria prior to approval of such project. As specific projects are proposed, Metropolitan staff will conduct CEQA review as applicable and prepare the appropriate environmental documentation for each project. Generally, the decision-making body responsible for approving Metropolitan projects is the Board (Section 15356 of the State CEQA Guidelines). With the proposed action, the Board will designate the General Manager as the decision-making body for purposes of reviewing, approving, and certifying any environmental documentation that may be required for such projects that fall within this program.

The CEQA determination is: Determine that the proposed actions are not defined as a project or are categorically exempt from CEQA pursuant to Sections 15306 and 15378(b) of the State CEQA Guidelines.

#### CEQA determination for Option #3:

None required

### Board Options

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#### Option #1

Adopt the CEQA determination that the proposed actions are not defined as a project or are categorically exempt from CEQA, and

- a. Appropriate \$10 million;
- b. Authorize the General Manager to initiate capital projects costing less than \$400,000 and perform all required work including the preparation of necessary environmental documentation; and
- c. Designate the General Manager as the decision-making body for purposes of reviewing, approving, and certifying any environmental documentation that may be required for such projects.

**Fiscal Impact:** \$10 million of capital funds under Appropriation No. 15504

**Business Analysis:** This option will increase efficiency in the execution of small capital projects. Delayed execution of these projects may result in increased cost of urgent repairs and service interruptions.

#### Option #2

Adopt the CEQA determination that the proposed actions are not defined as a project or are categorically exempt from CEQA, and

- a. Appropriate \$10 million;
- b. Authorize the General Manager to initiate capital projects costing less than \$250,000 and perform all required work including the preparation of necessary environmental documentation; and
- c. Designate the General Manager as the decision-making body for purposes of reviewing, approving, and certifying any environmental documentation that may be required for such projects.

**Fiscal Impact:** \$10 million of capital funds under Appropriation No. 15504

**Business Analysis:** This option will maintain the maximum value of Minor Capital Projects at the same level as in prior years. Due to escalating costs within the construction industry, projects that previously would have been handled under the Minor Capital Projects Program will instead be brought to the Board for approval individually.

**Option #3**

Do not appropriate funds and seek board approval for each small project individually.

**Fiscal Impact:** Unknown

**Business Analysis:** Approval of projects individually may impair staff's ability to respond to infrastructure needs in a timely manner, comply with regulatory requirements, and maintain service without disruptions.

**Staff Recommendation**

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Option #1

  
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Gordon Johnson  
Manager/Chief Engineer  
Engineering Services

5/24/2018  
Date

  
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Jeffrey Kighling  
General Manager

5/25/2018  
Date

**Attachment 1 – Financial Statement**

Ref# es12662489

**Financial Statement for Capital Appropriation for Projects Costing Less Than \$400,000 for Fiscal Years 2018/19 and 2019/20**

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A breakdown of Board Action No. 1 for Appropriation No. 15504 is as follows:

	<b>Current Board Action No. 1 (June 2018)</b>
Labor	
Studies & Investigations	\$ 82,000
Final Design	828,000
Owner Costs (Program mgmt., permitting, envir. planning)	518,000
Construction Inspection & Support	202,000
Metropolitan Force Construction	5,346,000
Materials & Supplies	794,000
Incidental Expenses	22,000
Professional/Technical Services (Hazardous material testing & removal)	124,000
Contracts	1,236,000
Remaining Budget	848,000
<b>Total</b>	<b>\$ 10,000,000</b>

**Funding Request**

<b>Appropriation Name:</b>	Capital Appropriation for Projects Costing Less Than \$400,000 for Fiscal Years 2018/19 and 2019/20		
<b>Source of Funds:</b>	Revenue Bonds, Replacement and Refurbishment or General Funds		
<b>Appropriation No.:</b>	15504	<b>Board Action No.:</b>	1
<b>Requested Amount:</b>	\$ 10,000,000	<b>Budget Page No.:</b>	230
<b>Total Appropriated Amount:</b>	\$ 10,000,000	<b>Total Appropriation Estimate:</b>	\$ 10,000,000