



Santa Clara Valley Water District

File No.: 19-0927

Agenda Date: 10/8/2019

Item No.: 6.1.

BOARD AGENDA MEMORANDUM

SUBJECT:

Consider the Validation Process and Financial Planning Schedule for Capital Projects, and Review and Provide Feedback on the Fiscal Year 2020-21 (FY21) Initially Validated, and Current Unfunded Projects.

RECOMMENDATION:

- A. Consider the Validation Process for Capital Projects, as follows:
 - i. Receive the Capital Improvement Program (CIP) Committee recommendation to support the current Validation Process as the decision-making tool for the Board to approve the Preliminary CIP;
 - ii. Provide feedback, if necessary, and approve the Validation Process as a robust and appropriate process;
 - iii. Review and comment on the list of FY21 Initially Validated at Deputy level, and Current Unfunded Projects; and
- B. Review the CIP Financial Planning Schedule.

SUMMARY:

The annual update of the 5-year Capital Improvement Program (CIP) includes a Validation Process to review and evaluate potential new projects for inclusion in the CIP. A PowerPoint that shows the steps in detail is included as Attachment 1.

New projects can be directed by the Board or requested by a Chief based on business needs or to improve Santa Clara Valley Water District (Valley Water) services.

Additionally, each year, Valley Water staff can submit new projects for consideration for inclusion into Valley Water's 5-Year CIP. For each potential new project, staff develops a business case to compare capital, non-capital, and non-asset alternative solutions; evaluates the lifecycle costs of these solutions; and identifies a recommended solution that minimizes lifecycle cost while balancing service levels and risk. Staff then submits the business case for review by their respective Deputy Operating Officer (DOO) or Deputy Administrative Officer (DAO).

If staff's respective DOO/DAO approves the project, it is submitted to the CIP coordinator. These newly-proposed, initially validated projects will be presented to the Board each fall (September-October), along with a list of currently unfunded projects, which have been validated during prior

years, for review and comment (Attachment 2). Staff will address the Board's feedback/comments when preparing the funding scenarios, which will include considering those unfunded projects for inclusion into the CIP.

The CIP coordinator then assigns a capital program engineer to review the business case for each newly proposed, initially validated project and develop a project proposal and initial capital cost estimate. The newly proposed, initially validated projects are then placed on the CIP's unfunded list.

In the fall of every year (October-November), CIP and Finance staff compile the data from existing CIP project plans, collect the operational forecast information, and run the financial models.

The CIP Evaluation Team (DOOs/DAOs of the divisions initiating, delivering, implementing, and operating capital projects) meets in November of each year to review the financial models and determine which, if any, unfunded projects should be recommended for inclusion in the CIP. To ensure Valley Water's high priority business needs are met in adherence to Board policy, the CIP Evaluation team reviews the projects based upon:

- Board Priorities
- Asset's remaining lifespan
- Available funding
- Urgency of investment

Based upon the outcome of its review, the CIP Evaluation Team provides recommendations to the Chiefs and CEO regarding whether the new proposed capital projects should be included in the upcoming Preliminary 5-year CIP or remain on the unfunded list. These funding scenarios will be presented to the Board CIP Committee for review and feedback in November.

Each winter (December- January), CIP and Finance staff update the funding scenarios to include staff and CIP Committee recommendations, which will be presented to the full Board during a Funding Scenario Workshop in January. The Board's direction from the workshop will be incorporated into the Preliminary CIP and presented to the Board at a subsequent meeting in January. Funding decisions will be made by the Board through its approval of the Preliminary CIP.

The full CIP Financial Planning Schedule is included as Attachment 3.

History of the CIP Development

Valley Water first began publishing and annually updating its 5-Year CIP in 2002. In 2011, a Capital Project Validation Process (Validation Process) was added to the CIP annual update. The purpose of this process is to establish a business case, for adding new capital investments to the CIP. The Validation Process requires staff to prepare a business case to compare alternative solutions for a given problem or failure using lifecycle cost analysis. Validation is not the same as prioritization. Validation evaluates the lifecycle costs of different capital, non-capital (changing maintenance frequency, changing operations), or non-asset-based (demand management, partnerships, outreach, etc.) solutions for addressing a problem. The Validation Process identifies a recommended solution that balances lifecycle cost with service levels and risk. The objective of the Validation Process is to

ensure Valley Water invests in the right solutions or projects at the right time for the right costs and for the right reasons.

Following the development of the Validation Process, it was applied to all 132 projects in Valley Water's 5-year CIP in FY 2010-11 and FY 2011-12. This included all projects on the unfunded list. Eighty-two of the 132 projects were deemed exempt from the Validation Process for one of the following reasons:

- Already in construction or in the close-out phase;
- Safe Clean Water project;
- Federally authorized;
- 90% or more grant or federally funded;
- Required environmental mitigation; or
- Part of a legal settlement or binding agreement.

The Validation Process was applied to the remaining 50 projects. The outcome determined that 19 were no longer needed, and these were removed from the CIP. Two additional projects were removed and changed to a maintenance effort, and three other projects were moved to a future start date beyond the 5-year CIP. The removal or delay of these 24 projects resulted in a reduction of approximately \$250 million from the 5-year CIP at the time; however, it should be noted that \$171 million of this amount was from projects that were already on the "unfunded" list.

The Validation Process and business case continue to be required for all capital projects that are proposed annually for addition to the CIP. Preparing a business case helps staff quickly assess if a capital infrastructure solution is the best or lowest lifecycle cost solution. Implementation of the Validation Process requires evaluation and documentation that an idea is a good investment. It is also beneficial because staff must decide whether a non-capital solution would be a better fit in lieu of a capital investment.

Additionally, the Validation Process has been benchmarked against other similar agencies and is consistent with their processes for capital project validation and prioritization.

FINANCIAL IMPACT:

There is no financial impact associated with this item.

CEQA:

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS:

Attachment 1: PowerPoint

Attachment 2: FY21 Validated/Current Unfunded Projects

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Attachment 3: CIP Financial Planning Schedule

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