



- **Board of Directors**  
***Engineering, Operations, and Technology Committee***

6/11/2024 Board Meeting

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8-1

## Subject

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Approve and appropriate an increase of \$25 million to the Capital Investment Plan for fiscal years 2022/23 and 2023/24 for a new biennium amount of \$625 million; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

## Executive Summary

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In April 2022, Metropolitan's Board approved the biennial budget at \$600 million for fiscal years (FYs) 2022/23 and 2023/24. In the March 2024 CIP Quarterly report, staff showed that Capital Investment Plan (CIP) expenditures for the current biennium may exceed the \$600 million biennial budget at the close of the biennium. In the first quarter of 2024, Metropolitan commenced urgent rehabilitation activities on the Allen-McColloch Pipeline (AMP) in response to inspections conducted in late 2023. These inspections indicated significant deterioration of the prestressed concrete cylinder pipe (PCCP) over portions of the pipeline. Due to these urgent rehabilitations, it is now expected that the existing CIP budget of \$600 million will be exceeded by approximately \$25 million. Metropolitan's Administrative Code states that the General Manager must request that the Board appropriate additional CIP funding if total expenditures are expected to exceed the appropriated amount. The total CIP expenditures for the current biennium are expected to be approximately \$625 million due to unplanned urgent work on the AMP.

This action approves and appropriates an increase of \$25 million to the CIP for FYs 2022/23 and 2023/24 budget for a new biennium amount of \$625 million.

## Proposed Action(s)/Recommendation(s) and Options

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### Staff Recommendation: Option #1

#### Option #1

Approve and appropriate an increase of \$25 million to the Capital Investment Plan for FYs 2022/23 and 2023/24 budget for a new biennium amount of \$625 million.

**Fiscal Impact:** This action will increase the CIP appropriation for the FY 2022/23 and FY 2023/24 biennial budget to \$625 million. However, if some of the invoices are not able to be processed before June 30, 2024, some of the \$25 million may be carried over to the FY 2024/25 budget. The additional \$25 million in capital expenditures will be debt-financed, thereby increasing long-term debt service costs by about \$1.4 million per year.

**Business Analysis:** This option will enable the continued efficient management of the CIP.

**Option #2**

Do not increase the budget for the Capital Investment Plan for FYs 2022/23 and 2023/24 at this time.

**Fiscal Impact:** None

**Business Analysis:** Under this option, staff would delay payment of contractor invoices until the next fiscal year begins in July 2024. This option places Metropolitan at risk of contract litigation and late payment penalties and effectively reduces the amount of new work that can be conducted in the upcoming biennium.

**Alternatives Considered**

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Staff initially sought to identify opportunities to reduce the CIP expenditures and save money by staging resource expenditures, modifying project scopes, or deferring projects. However, since the urgent AMP rehabilitation is occurring near the end of the biennium, there was insufficient time to adjust the overall CIP expenditure plan. The recommended alternative to increase the biennium budget by approximately four percent to cover the sooner-than-expected rehabilitation of a portion of the AMP will protect Metropolitan's assets, enhance delivery reliability to member agencies, and complete rehabilitation of the most distressed PCCP pipe segments on the AMP in a timely manner.

**Applicable Policy**

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Metropolitan Water District Administrative Code Section 2431: Engineering and Operations Committee Duties and Functions Metropolitan Water

District Administrative Code Section 5108: Appropriations Metropolitan Water District

Administrative Code Section 11104: Delegation of Responsibilities

Administrative Code Section 5108: Appropriations

**Related Board Action(s)/Future Action(s)**

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By Minute Item 51353, dated October 9, 2018, the Board appropriated a total of \$290 million for projects identified in the Capital Investment Plan for Fiscal Years (FYs) 2018/19 and 2019/20; authorized the General Manager to initiate or proceed with work on all capital projects identified in the CIP for FYs 2018/19 and 2019/20 subject to any limits on the General Manager's authority and CEQA requirements; and amend the Administrative Code to (a) allow for an appropriation of planned CIP expenditures following the approval of the biennial budget and authorize work on all capital projects identified in the CIP subject to the requirements of CEQA and limits on the General Manager's authority; and (b) delegate responsibility to the General Manager to determine whether a project is exempt from CEQA.

**California Environmental Quality Act (CEQA)**

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**CEQA determination for Option #1:**

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities, personnel-related actions, and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)).

**CEQA determination for Option #2:**

None required

**Details and Background**

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**Background**

As part of Metropolitan's budget process, staff develops a recommended two-year budget expenditure plan for the CIP. The budget and expenditure plan for the CIP are reflected in the CIP Appendix and included in Metropolitan's overall two-year budget and associated budget documents. With the approval of the biennial budget, the Board also takes action to appropriate the funds necessary to fund the CIP in the upcoming biennium.

In addition, the Board authorizes the General Manager to initiate or proceed with work on capital projects identified in the CIP Appendix, subject to the requirement of CEQA and the limits of the General Manager's authority. This approach to appropriating funds for the CIP and authorizing the General Manager to conduct work has been in effect since October 2018. Since then, staff has utilized the streamlined approach to efficiently perform work on the CIP, resulting in a higher percentage of planned CIP work being conducted in a biennium compared to the prior authorization practices.

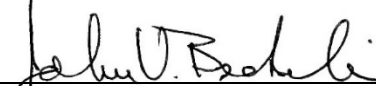
In April 2022, Metropolitan's Board approved and appropriated a \$600 million CIP budget for FYs 2022/23 and 2023/24. The resulting CIP for the biennium included a mix of projects that support Metropolitan's strategic plan and financial targets. Expenditures less than the proposed budget would defer priority rehabilitation work needed to maintain system reliability, increasing the likelihood of unplanned system outages and/or service disruptions. The biennium budget does not take into account unplanned priority projects that are identified during the biennium.

In November 2023, an electromagnetic inspection was conducted on the nine miles of the PCCP section of the AMP. In December 2023, Metropolitan received an inspection report that identified 81 new distressed pipe segments; 44 pipe segments had 20 or more wire breaks, with one pipe segment having 130 wire breaks. Staff evaluated the potential risks due to the prestressing wire breaks and concluded that the distressed PCCP segments need to be rehabilitated as soon as possible.

The AMP rehabilitation activities effectively accelerated Metropolitan's overall planned activities to rehabilitate the PCCP portions of the AMP ahead of the schedule that is currently shown in the current CIP Appendix. The rehabilitation of the AMP is proceeding in two stages. Stage 1 rehabilitates 4,500 feet of PCCP on the AMP. This work is being conducted through the use of change order authority on three existing contracts. In February 2024, the Board approved increasing the change order authority on three contracts (Contracts 2002, 2026, and 2088) in order to complete the urgent work in an expeditious manner. The approved increases in change order authority from the February 2024 actions for the three contracts totaled \$24.5 million. It is anticipated that approximately \$25 million will be spent in the form of construction contract change orders, in-house labor for design and construction management, and consultant support by the end of June 2024. The work will be 85 percent complete by that date. In May 2024, Metropolitan's Board awarded a contract for Stage 2 work, which will rehabilitate 2.4 miles of PCCP from July 2024 to December 2024. The total estimated cost to complete the urgent rehabilitation of the AMP is \$67 million. Due to these urgent rehabilitations, it is now expected that the existing CIP budget of \$600 million will be exceeded by approximately \$25 million.

In the March 2024 CIP Quarterly report, staff showed that CIP expenditures for the biennium could end above budget, although the exact amount was uncertain. Since the AMP expenditures occurred near the end of the biennium, there was insufficient time to adjust the overall CIP expenditure plan. Therefore, staff recommends increasing the CIP budget for the current biennium. Per Metropolitan's Administrative Code Section 5108, (e) "If, during the biennial budget period, the total Capital Investment Plan expenditures are expected to exceed the appropriated amount, the General Manager shall request that the Board appropriate additional funding and submit a report supporting said request."

This action approves and appropriates an increase of \$25 million to the CIP for FYs 2022/23 and 2023/24 budget for a new biennium amount of \$625 million to account for urgent rehabilitation of PCCP on the AMP that was conducted in the first six months of 2024.

  
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John V. Bednarski  
Manager/Chief Engineer  
Engineering Services

5/20/2024

Date

  
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Adel Hagekhalil  
General Manager

5/28/2024

Date

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