

Sacramento Suburban Water District

Capital Improvement Program PolicyAdopted: December 19, 2022

100.00 Purpose

The primary purpose of this policy is to provide Board guidance to the General Manager and District staff related to goals and objectives of the District's Capital Improvement Program (CIP). The goals of the CIP are:

1. Maintain alignment with goals and objectives of the District's Strategic Plan and other Board direction.
2. Promote District financial stability and long-term financial capacity to meet capital needs.
3. Promote accomplishing the Capital Improvement Program in a timely and cost effective manner.

200.00 Capital Improvement Program

The CIP is a continual program of capital asset life-cycle management necessary to meet service level goals and objectives. The CIP consists of the following major asset categories:

1. Wells, well sites and structures
2. Distribution System
3. Transmission Systems
4. Storage Facilities and their Pump Stations
5. Buildings and Structures
6. Meters and Remote Meter Reading

The CIP includes all land and land improvements, structures, transmission and distribution assets, source of supply and production assets, system replacements, storage facilities, and other related assets which result in a capitalized asset as these are defined by the Board in PL – Fin 002 Capital Asset Policy.

Future operating and maintenance costs associated with new capital improvements will be forecast and included in the annual operating budget.

For the purposes of this Policy, all capital expenditures in excess of \$100,000 shall be grouped into Projects. A Project is a set of related capital improvement tasks and accomplishments that culminate in a specific result.

300.00 Planning

The Water System Master Plan (WSMP) shall be the primary long-term planning document for CIP. The WSMP has a fifteen-year horizon and identifies the Project categories and their planning-level funding requirements. It will be updated periodically as the need requires (e.g., as significant changes to the long-term capital asset needs of the District occur based on updates to asset management plans, changing priorities, or changing assumptions such as costs or the remaining useful life of assets).

A Capital Improvement Plan (CIP Plan) shall be prepared and maintained. It is subject to annual review and modification by District staff with approval by the Board of Directors as part of the annual budget process. The CIP Plan shall consider the availability and allocation of existing and anticipated human and financial resources to replace, renew, expand, or acquire new capital facilities, and infrastructure.

The CIP Plan has a five-year horizon and identifies the Projects or Project categories, their priority, their scheduling and their funding estimates and sources to be undertaken over the planning period. The CIP Plan will be a management tool to guide capital planning and financing activities. The CIP Plan functions as:

1. A five-year rolling projection (planning horizon) of the District's capital needs.
2. A formal mechanism for decision-making related to planning and budgeting for capital asset acquisition/replacement.
3. A link to the District's long-range Asset Management Plans (AMPs) which guide the planning for renewal and replacement of water system assets.
4. A financial management tool for identifying future financial requirements for capital asset acquisition/replacement over the planning horizon.
5. Planning for each Project shall include a detailed Project schedule prepared by the District. The Contractor shall provide a detailed construction schedule for the construction phase within the project duration provided in the District schedule. The contractor shall be held accountable for completion on schedule and within budget. The District's Project schedule shall be prepared prior to Project initiation to include major milestones including completion of design, start of construction, completion of construction, start-up and commissioning, and in-service date. The Contractor shall provide a detailed activity schedule, which shall be approved by the District. Following the completion of design, the Project schedule shall be updated to include detailed Project milestones applicable to the Project including major equipment purchases, securing all permits, excavation, drilling, equipment and material installation, quality checks, start-up and commissioning, and placing in service. This updated schedule shall serve as the baseline schedule for the Project.
6. All schedules shall be completed with suitable scheduling software, such as Microsoft Project or Primavera as selected by the District. Contractor and District shall use the same scheduling software.

400.00 Budgeting

The CIP Plan represents the District's rolling five-year projection of capital needs which is a driver of anticipated future financial requirements. The CIP Plan does not impart spending authority, but rather it constitutes a foundational element for development of the annual capital budget. The cost projections in the CIP Plan are based on engineering estimates, historical Project costs or other common estimating methods. These cost projections may also originate from the various District AMPs. While the CIP Plan is a management tool, the annual capital budget is the Board's current year spending authorization for capital expenditures. The following relationship between the CIP Plan and the capital budget is established:

1. The District shall base the annual capital budget on capital Project priorities, schedules and budget estimates as established in the CIP Plan.
2. Multi-year Projects shall have their budget estimates divided into annual funding amounts based on engineering estimates and timing of Project activities. The Board will approve each years' funding estimate as part of the annual capital budget.
3. The annual capital budget will include the future year budget estimates for multi-year Projects.
4. Board approval of a Project includes approval of the entire Project budget. Engineering will determine the annual funding amounts which will be requested in each years' capital budget.
5. Accumulated unspent Project funds from each years' capital budget shall rollover to the subsequent year and be available for spending on the specific Project.
6. The Project budget shall be loaded month by month into the Project schedule and shall be reviewed monthly to assess progress and to allow for corrective action to bring schedule and budget in line with the baseline Project schedule and budget.

500.00 Funding

There are two general approaches applicable to funding:

- a) **Pay-as-you-go funding** – Capital Projects should be funded through current revenues. Pay-as-you-go refers to the use of current financial resources, including current revenues, reserve balances, and grants to fund capital improvements.
- b) **Pay-as-you-use funding** – Capital Projects may also be funded through authorized debt (Pay-as-you-use funding). Pay-as-you-use funding refers to the issuance of various debt instruments to fund capital improvements.

In considering which funding method to utilize, the District prefers to utilize Pay-as-you-go funding. However, certain Projects may require Pay-as-you-use funding which should be carefully evaluated for its effect on the District's financial position. If debt-funded, the term of the debt should generally not exceed the anticipated useful life of the asset.

While the CIP Plan can contain planning-level funding estimates for Projects and Project categories, the annual capital budget will be based on anticipated expenditures for each Project or Project category (such as well rehabilitation and main replacements) for the budget period.

Rollover Funds

Projects that do not reach completion at year-end and have unspent funds allocated to them will have their funds automatically transfer (“rollover”) to their funding for the subsequent year. Project Category funds not allocated to specific Projects may not rollover and shall be returned to District reserves. The following guidelines will control the use of rollover funds:

1. Rollover funds may only be expended for the rollover Project.
2. Rollover funds shall be expended first, followed by current-year funds.
3. Rollover funds not expended at Project completion shall be returned to reserves.

600.00 Contracting

All contracting will be conducted in accordance with the District’s Public Works Contracting Policy (PL-Eng 002) and Procurement Policy (PL-Fin 005) and related procedures.

700.00 Staffing

1. Each Project over \$250,000 shall have an assigned District staff member responsible for Project accomplishment, schedule and budget. It is intended that this staff member be a working-level employee to allow frequent field engagement with the Project contractor at the Project site and other locations in support of Project tasks.
2. Each District staff member responsible for a Project shall have received formal Project management training. College or University training is encouraged. Professional Project Management Certification training is also acceptable.
3. The designated District staff member responsible for a Project shall be at the project site at least weekly, and be available daily, when work is scheduled to occur to document safe work practices, quality work product, adherence to schedule, and to assist in problem solving. Notes shall be kept for the job record and progress photos are encouraged. When District action is needed to move the Project forward, it shall be the responsibility of the assigned staff member to facilitate the District action as their first priority.

800.00 CIP Plan Assessment

Assessment of the CIP will use both short- and long-term objectives.

1. **Short-term** - Progress of the CIP’s execution will be by comparison with the annual budget:
 - a. Percent encumbered (i.e., contracted) – target of at least 90%
 - b. Percent expended – target of at least 80%

2. **Long-term** - Accomplishment of the objectives in the CIP Plan:

- a. Asset replacements
- b. Funds expended versus the identified funding need within the planning horizon

Reassessment and updating of the CIP Plan will be based on both short- and long-term objectives, achievements, available human and financial resources, and changing priorities.

900.00 Reporting

Reporting will be accomplished through regular reports to the Board, such as capital budget reporting, the Engineering Report, and the annual capital spending and roll-forward analysis.

Weekly Project meetings will be held with the Primary Project contractor(s) at the jobsite, to allow District management to be apprised of progress, accomplishments, work in progress, issues to be resolved, schedule and budget. The assigned District employee shall prepare an executive summary of the weekly site meeting and shall present that to District Management within three days of the Site Meeting.

Each Project shall be listed in the Engineering Report to the Board at their monthly meeting. Deviations from the baseline schedule and budget shall be shown with the appropriate planned corrective action.

1000.00 Policy Review

This Policy shall be reviewed at least annually.