Why Should Operators Care about Capital Planning

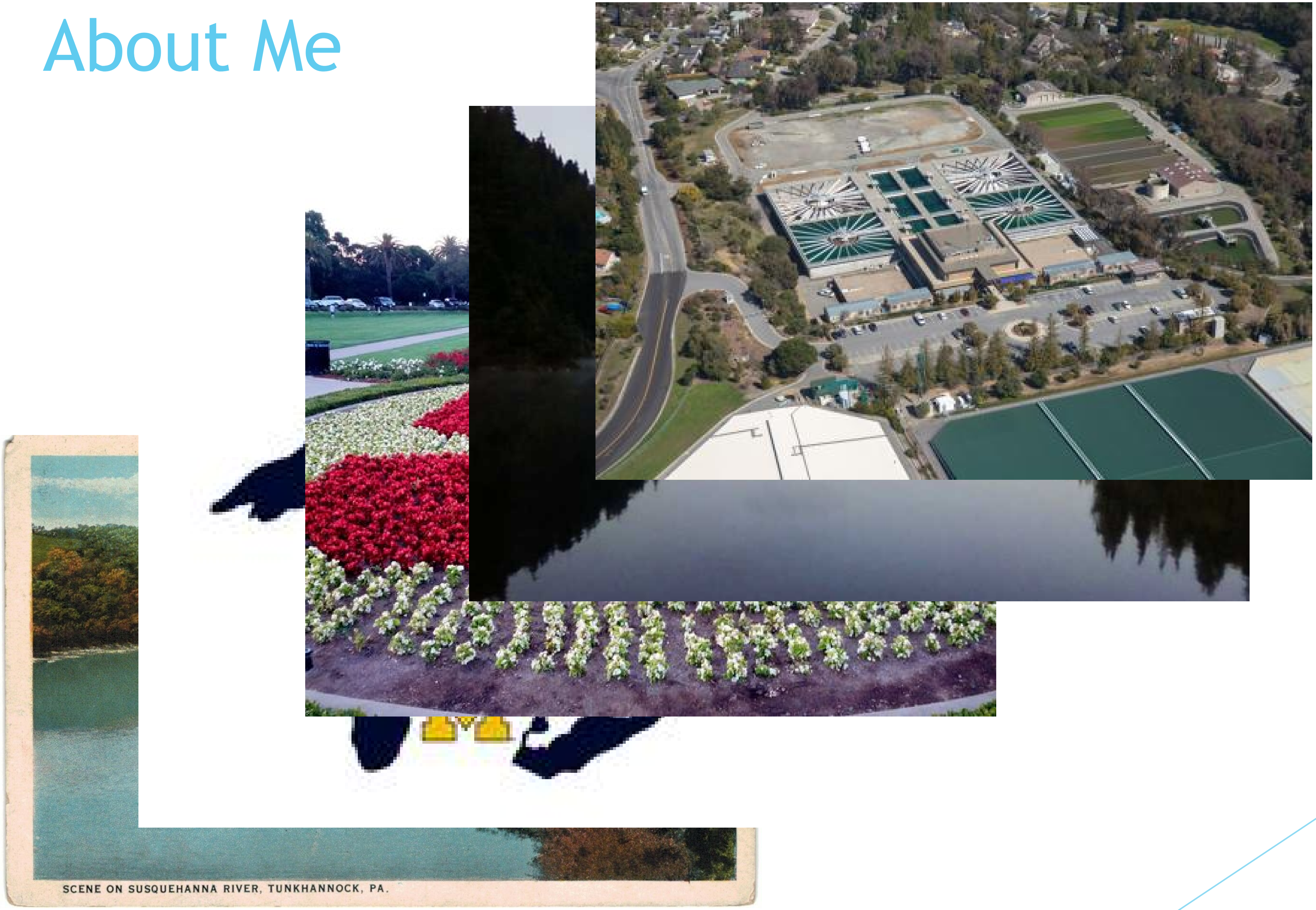
Lydia Rossiter, Valley Water

OR…

How to Be a

Capital *Ninja*

About Me



Today's Agenda

1. What are we trying to avoid?
2. What can good capital planning do?
3. Why you are a vital part of the equation?
4. What are we aiming for?
5. How do we get there?

Logistics

50 minute session today
Type questions in the chat box
(There are no ~~stupid~~ questions!)
Aimed at medium-sized agencies but scalable

What are We Trying to Avoid?

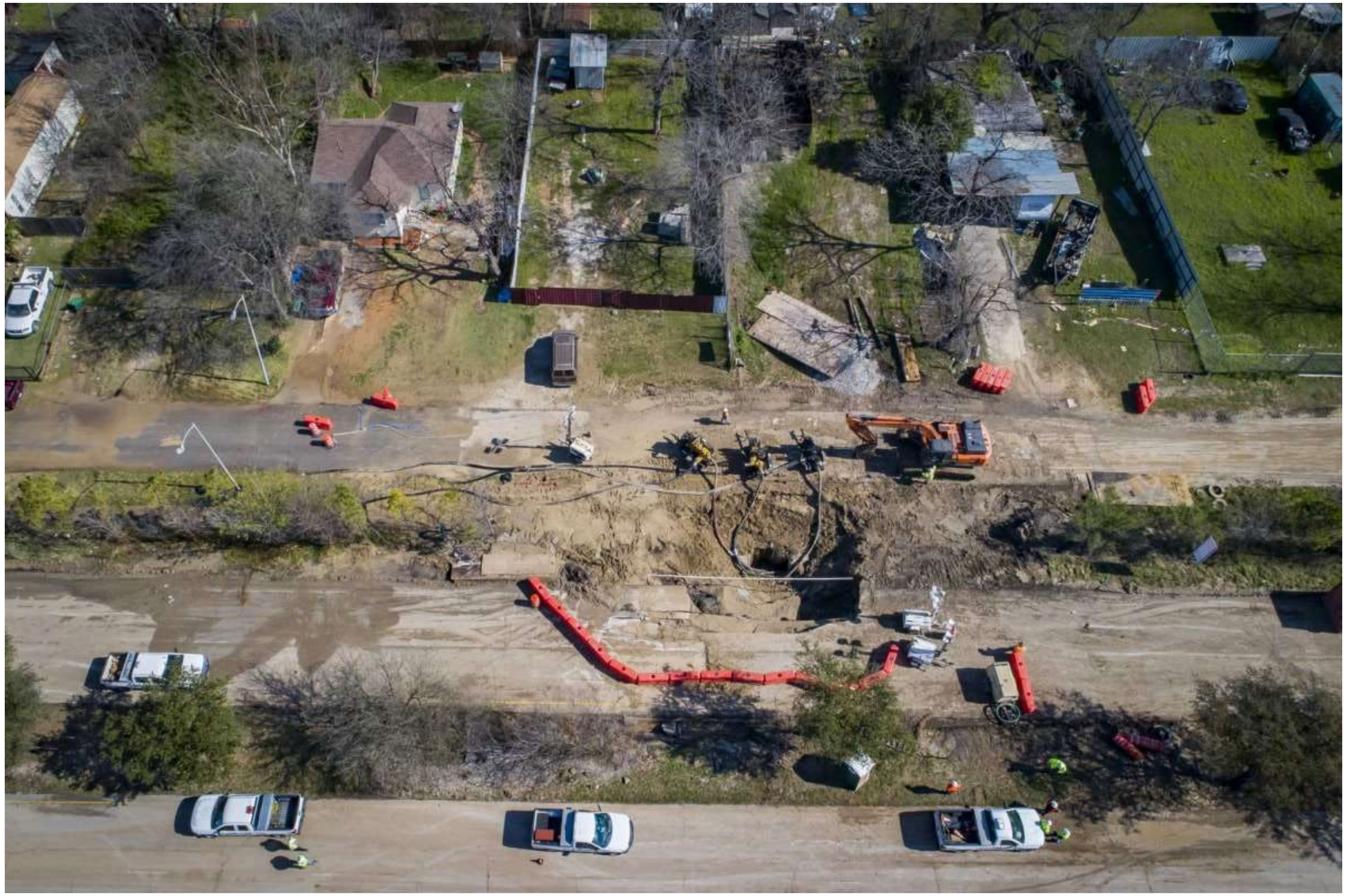


Photo credit: Houston Chronicle

SURPRISE!!!!

What are We Trying to Avoid?

Photo credit: Charles Roberts

Here’s a Secret

Everyone is dealing with limited resources.

Total capital spending on water infrastructure in the US fell $81 billion short of the capital need.

Good Capital Planning Empowers You To ...

1. Meet customer needs
2. Meet regulatory requirements
3. Improve safety and security
4. Support longer asset life
5. Budget money according to priorities
6. Assist in setting appropriate rates

The Ultimate Goal = Save Money

A good plan can increase life cycle cost savings by 20-30%

Why You?

1. You know the equipment and facilities best.
2. You want to avoid an emergency failure.
3. You have a role in forecasting future changes such as regulation changes and system growth.

Why You? (cont.)

1. Sequencing!
2. You know the peak/non-peak demand times when shutdowns will be easier.
3. You can help plan for seasonal variation (low demand, drought, etc.)

What is a Capital Project?

Capital	Maintenance
● Construction or expansion of a facility ● Other large one-time investments (such as technology, vehicles)	Regular repair/rehabilitation for normal operations
One-time major repair/rehabilitation	Replacement of parts or equipment which does not increase the value of the whole system
Dollar threshold	Usually low dollar amount
Planning, engineering, design work for one of the above	

Capital, Maintenance, or Operating?

Capital Project vs. Maintenance Project

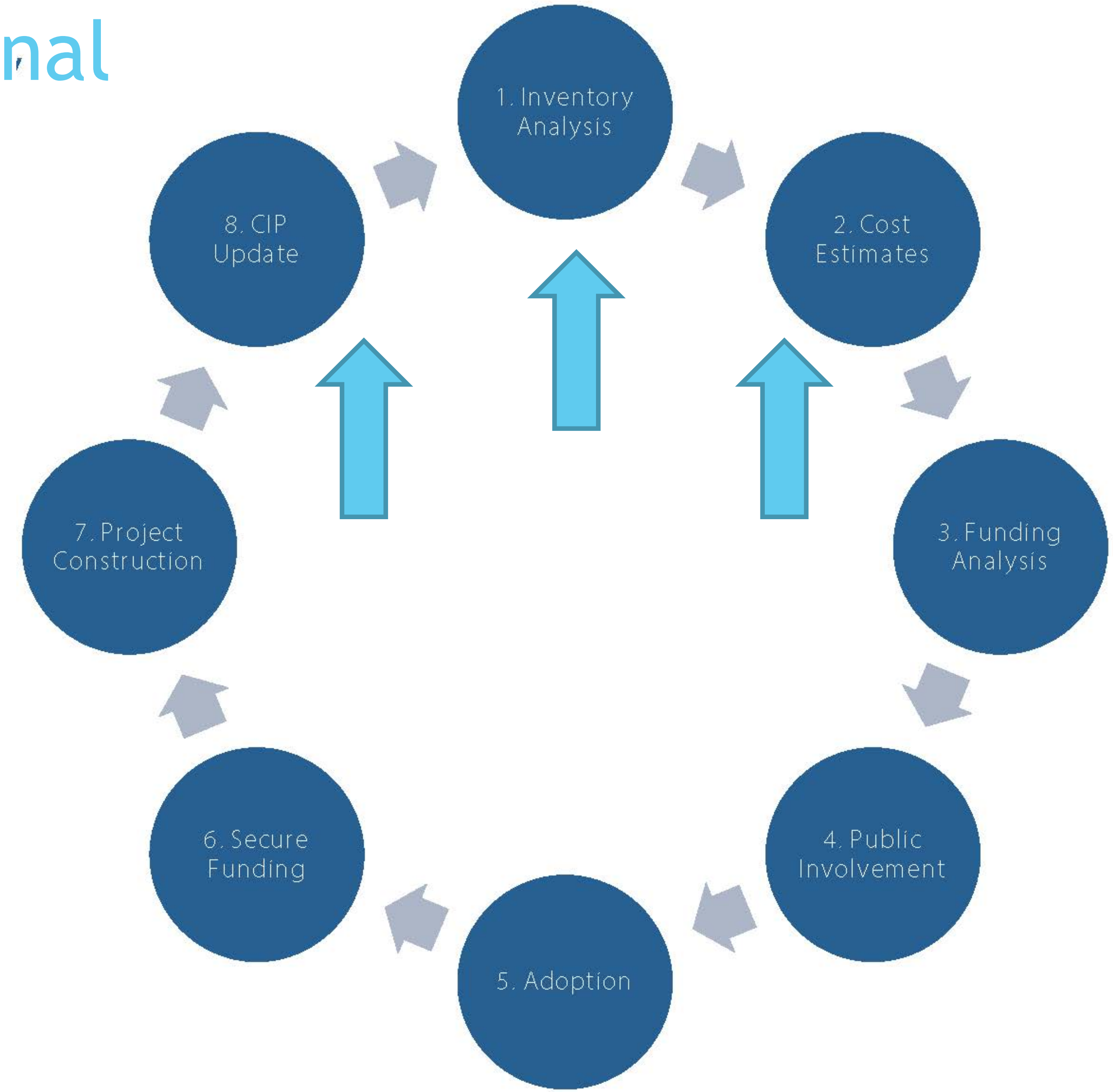
	Capital	Maintenance	Operating
Dog			
Car			

Your Goal

A long-term plan (10 years recommended)

- If your Finance Dept. only needs 3, that’s fine but you want more!
- A bit of work to develop upfront, update every year
- Give yourself lots of time if this is the first time you are developing one

Traditional Capital Budget Cycle



Credit: RCAC

Difference between Capital Improvement Plan and Long-Term Capital Planning

1. Number of years included
2. Level of accuracy needed
3. All those hypothetical projects

How to Tackle Capital Planning?

To be involved in capital planning, you need to:

1. Forecast what you need to repair/replace/build and when
2. If you don’t know, how can you find out?
3. Recognize the difference between capital project and maintenance budgets
4. Take into account time for regulatory approval
5. How long will it take to procure? Know your agency’s procurement methods and timelines

Inventory Analysis

1. What assets do you have?
2. How old are they?
3. What condition are they in?
4. Prioritize that list

Cost Estimates

1. Seek guidance on how to estimate
2. Don’t forget contingency
3. Plan for cost escalation
4. Do you have enough staff to manage the project? (Will you have to hire consultants? Project Managers?)
5. Categorize costs
6. Package like expenses together

Timing

1. Urgency
2. Sequencing
3. Lead Time
4. Project Management
5. Cash Flow

Example Capital Plan

(in thousands)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	Amended Budget	Proposed	Proposed	Proposed	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Valby Reservoir Replacement	Eng/Env		Construct								
	$800	$645	$5,000	$5,000							
McKinney Creek Diversion					Eng/Env		Construct				
					$300		$700				
Segal Wells Rehabilitation			Eng/Env		Construct						
			$450		$1,400	$1,400	$800				
Zeman Treatment Plant Flocculator Replacement					Eng/Env		Construct				
					$1,500		$1,500	$1,500	$1,500	$1,500	

Capital Plan Update

1. As soon as you give the plan to someone else, it’s out of date.
2. Ideally, update continuously throughout the year.
3. Pull out the plan again when you have a major change in asset condition.
4. At a minimum, review in advance of Finance’s budget cycle.

If This is Your First Capital Plan

1. Get your ideas down on paper.
2. Start somewhere; it doesn’t have to be perfect. SPOILER: It won’t be!
3. Think through the whole system from top down.
4. Check in with someone to see if you’ve missed something.
5. Go over it with your Finance person to make sure they understand it.
6. Don’t get discouraged if not everything is funded.
7. Keep notes throughout the year as ideas emerge.

You’re Not Alone

1. Use tools and ideas from other agencies
2. Always consider partnering

(if not on facilities, maybe on equipment)

Build that Capital Plan

What is one thing you can make a plan for in the next two weeks?

1. Think about condition and remaining life
2. Cost to replace
3. Timing

Keep in Mind

- Likely limited financial resources
- Prioritization criteria for competing projects (if you have a formal process)
- Management/Board/Council priorities
- Surprise expenses are not good news
- The next step is planning for the ongoing O&M from these improvements

Questions

Want to Know More?

- Rural Community Assistance Corporation
- California Rural Water Association
- International City/County Management Association
- Municipal Management Association of Northern California
- Search for “strategic asset management” or “long-term capital planning”

My contact information

Lydia Rossiter

lrossiter@valleywater.org

(408) 693-9548

www.linkedin.com/in/lydiarossiter/

THANK YOU!