

# Tualatin Valley Water District



Delivering the Best Water • Service • Value



## BOARD WORK SESSION AGENDA

January 29, 2019

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President Bernice Bagnall

Treasurer Jim Duggan

Vice President Dick Schmidt

Secretary Todd Sanders

Acting Secretary Jim Doane

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For online meeting information, Commissioner bios and more, visit [www.tvwd.org](http://www.tvwd.org).

### VISION

Delivering the best water • service • value

### MISSION STATEMENT

To provide our community quality water and customer service

### VALUES

Reliability • Integrity • Stewardship • Excellence • Safety

**WORK SESSION – 6:00 PM**

**CALL TO ORDER**

**ANNOUNCEMENTS**

**1. DISCUSSION ITEMS**

- A. Least-Cost Methodology (House Bill 3203 Follow-Up). *Staff Report – Carrie Pak and Paul Matthews*
- B. Capital Improvement Program (CIP) Projects. *Staff Report – Nick Augustus*
- C. Discussion of Future Financial Planning Scenarios. *Staff Report – Paul Matthews*
- D. CEO Direction for Developing the 2019-21 Budget. *Staff Report – Mark Knudson*

**ADJOURNMENT**

## Tualatin Valley Water District



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**To:** Board of Commissioners

**From:** Carrie Pak, PE, Chief Engineer

**Date:** January 29, 2019

**Subject:** Least-Cost Methodology (HB 3203 Follow-Up)

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### Key Concepts:

- Staff presented the “Public Improvement” definition at the December 4, 2018 Board work session. The term “Public Improvement” is defined by Oregon Revised Statute (ORS) 279A.010.
- Staff presented definitions of emergency work, minor alteration and ordinary repair and maintenance within the “Public Improvement” definition as allowed in ORS 279.
- Understanding that the District may elect to self-perform public improvements under certain circumstances, it is in the District’s best interest to define a standard “Least-Cost Methodology”, consistent with ORS 279.
- Staff will present proposed Least-Cost Methodology and receive feedback from the Board. Based on Board feedback, staff will present a resolution for consideration during February 20, 2019 regular meeting.

### Background:

As required by HB 3203, a least-cost analysis must be provided for public improvement projects an agency intends to self-perform with its own equipment or personnel if the estimated value of the construction work is greater than \$200,000. The analysis shall include:

- An estimate of the cost of contracting with a private contractor.
- An estimate of the cost self-performing the work with the agency’s own equipment or personnel including:
  - Labor cost
  - Equipment cost
  - Administration and overhead costs
  - Cost of materials and tools
  - Cost of any contracts the agency must enter

There are certain projects which the District desires to self-perform due to various reasons which could include level of complexity, experience with certain sites or for other reasons specific to the identified project. Occasionally the construction costs for those projects could exceed the \$200,000 threshold specified in HB 3203.

Pursuant to these requirements, the District has formulated a Least-Cost Methodology to justify self-performance of the work which follows these steps:

1. Identify the project
2. Determine project scope
3. Determine if the project is a public improvement (per definitions presented at the December 4, 2018 Board work session)
4. If the project is a public improvement, determine if the District is capable of self-performing the work.
5. If the District can self-perform, determine if the estimated construction cost is greater than \$200,000.
6. If the construction cost is greater than \$200,000, prepare cost estimates following the least-cost analysis as described above to determine if the District is allowed to self-perform the work.

The least-cost analysis for self-performance will include the following costs: design, equipment, labor, materials, paving and any other costs related to contracts entered into by the District as specified in HB 3203. Cost estimates will be determined based on historical costs and performance figures as captured in the District's accounting and work order software.

The least-cost analysis for entering into a contract with a private contractor will include: design, itemized bid items which include materials, labor and equipment costs, restoration, mobilization and District overhead that accounts for administration and contingency.

For all cost estimates, the District will use historical data that is appropriate for estimating current construction costs. The result of the least-cost analysis will be submitted to the Bureau of Labor and Industries.

**Budget Impact:**

This agenda item is for information only. There is no budget impact.

**Staff Contact Information:**

Carrie Pak, PE; Chief Engineer; 503-848-3045; [carrie.pak@tvwd.org](mailto:carrie.pak@tvwd.org)

Paul Matthews; Chief Financial Officer; 503-848-3017; [paul.matthews@tvwd.org](mailto:paul.matthews@tvwd.org)

**Attachments:**

None

**Management Staff Initials:**

Chief Executive Officer		Customer Service Manager	N/A
Chief Engineer		IT Services Director	N/A
Chief Financial Officer		Human Resources Director	N/A
General Counsel		Water Supply Program Director	N/A

## Tualatin Valley Water District



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**To:** Board of Commissioners

**From:** Nicholas Augustus, PE, Engineering Division Manager

**Date:** January 29, 2019

**Subject:** Capital Improvement Program (CIP) Projects

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### Key Concepts:

- The District's Capital Improvement Program (CIP) includes the planning, design and construction of infrastructure to properly maintain the water system and to provide reliable water service to the District's customers. The elements of the District's CIP include reservoirs, pump stations, transmission pipelines, small mains replacement and other appurtenances like pressure reducing valves (PRVs) and water quality monitoring stations.
- Staff will provide a review of key project drivers and how they are prioritized to form the CIP, including the mains replacement program.
- The list of planned projects is updated periodically during the biennium based on available funding, updated condition information and changes in District priorities.
- This background information is intended to aid the Board in providing guidance on investments in capital facilities, including funding for the mains replacement program, to be included in the proposed budget.

### Background:

The District's infrastructure needs are identified for a 50-year planning horizon in the Water System Master Plan. The District recently provided an update to this Master Plan, which was adopted on December 19, 2018. The CIP projects identified in the Master Plan includes improvements to reservoirs, pump stations, transmission pipelines, mains replacement and other appurtenances, like PRVs and water quality monitoring stations. Most of these projects are growth related and are directly dependent on demand. Staff closely monitors growth pattern and anticipates increased demand to meet these needs.

As part of this agenda item, staff will provide an overview of CIP project drivers and prioritization methodology. Staff will also provide a more detailed explanation of the ranking and prioritization methodology used for the mains replacement program.

### Mains Replacement Program:

The mains replacement program generally includes replacement of existing mains based on a range of drivers and considerations. The program generally includes mains that are 12-inches in diameter and smaller, with larger pipelines being planned and budgeted separately.

Existing water mains can fail in a variety of ways, which can impact customers and cause property damage depending on the severity and location of the failure. The Engineering Division receives feedback and input from field staff at the District to identify areas in need of replacement. In certain cases, additional investigations are performed to verify the condition and extent of the potential project. Engineering then utilizes a decision model to prioritize which pipes should be replaced by ranking the projects using the following scoring criteria:

- Pipe condition
- Criticality of the infrastructure
- Cost
- Key customer impact
- High flow
- Service area type
- Proximity to critical pipe
- Traffic impacts
- System capacity (proper size)
- Project coordination
- Installation method
- Leakage

Based on this decision model, the replacement projects are divided into two categories: 1) Self-performed mains replacements (internal); and 2) Contracted mains replacements (external). The priority for self-performed mains replacement projects may shift multiple times during a budget cycle as additional information becomes available. These projects are primarily designed in-house by District staff. The priorities for contracted mains replacements usually do not change during the biennium as these projects require additional planning and design due to the size and complexity of the project. These projects are typically designed by consultants due to schedule and/or capacity constraints.

Staff recently learned of pipes that were installed prior to 1960 that may have used lead-jointed cast iron. Cast iron pipes typically fail with shear breaks, which can be spot repaired – rather than replaced; however, this method of joining pipes may be more vulnerable to seismic failure as compared to conventional gasketed joints. With the latest information on joint material, staff is contemplating options for replacing these lines as part of the mains replacement program. Staff is seeking Board input and feedback on replacement projects to address pipe material.

**Budget Impact:**

The highest priority known projects are included in the proposed biennial budget based on available funding, with larger projects identified and listed individually and smaller projects typically grouped within the mains replacement program.

**Staff Contact Information:**

Nicholas Augustus, PE; Engineering Division Manager; 971-327-6292; [Nick.Augustus@twwd.org](mailto:Nick.Augustus@twwd.org)

**Attachments:**

None

**Management Staff Initials:**

Chief Executive Officer	<i>ME</i>	Customer Service Manager	N/A
Chief Engineer	<i>CEP</i>	IT Services Director	N/A
Chief Financial Officer	<i>PO</i>	Human Resources Director	N/A
General Counsel	<i>CS</i>	Water Supply Program Director	N/A

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## Tualatin Valley Water District



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**To:** Board of Commissioners

**From:** Paul L. Matthews, Chief Financial Officer

**Date:** January 29, 2019

**Subject:** Discussion of Future Financial Planning Scenarios

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### Key Concepts:

- As District staff prepares the requested and proposed budgets for the 2019-21 biennium, the level of capital spending proposed should reflect the Board's guidance related to appropriate risks, service levels and other similar policies.
- The levels of capital spending that will be included in the proposed budget will affect the District's finances, including future water rates (both level and timing), borrowing requirements and financial reserves.
- Staff requests guidance from the Board in identifying financial scenarios to be evaluated as part of the District's financial planning process. The resulting updated financial plan will guide staff in developing the proposed capital budget and inform the Budget Committee and Board during their subsequent consideration of the proposed budget.

### Background:

At the December 4, 2018 Board work session, staff proposed a three-step process to better integrate guidance from the Board on the funding of the District's capital needs over the District's 30-year financial planning horizon. The goal of this three-step process is to better integrate the Board's policy-making role into the Capital Improvement Plan development process. This presentation is the first step in that three-step process.

The three-step process includes:

1. Developing a list of financial planning scenarios based on guidance from the Board that examines the effects of varying levels of capital spending (and the associated levels of risks) and service levels on the District's rates and financial position.
2. Develop financial planning scenarios that examine the affects of the chosen scenarios on the District's future rate increases, borrowing needs and levels of financial reserves.
3. Present these financial planning scenarios to the Board at its March 5, 2019 work session.

As part of this item, staff will describe the benefits and risks of varying capital expenditure alternatives to the Board. Staff will also describe options for the timing of future rate increases to the Board. Based on those general descriptions, staff will elicit from the Board guidance on which alternatives to prepare

detailed financial planning scenarios. These financial planning scenarios will describe the rate and financial implications of each alternative.

The goal of this first step in the three-step process is to create a shortlist of financial planning alternatives for detailed analysis and further consideration by the Board.

**Budget Impact:**

The cost of preparing the presentation on the financial planning scenarios is within the District’s biennial budget; however, the guidance provided by the Board will provide staff direction in developing the 2019-21 biennial budget.

**Staff Contact Information:**

Paul L. Matthews; Chief Financial Officer; 503-848-3017; [paul.matthews@tvwd.org](mailto:paul.matthews@tvwd.org)  
Carrie Pak, PE; Chief Engineer; 503-848-3045; [Carrie.Pak@tvwd.org](mailto:Carrie.Pak@tvwd.org)

**Attachments:**

None

**Management Staff Initials:**

Chief Executive Officer		Customer Service Manager	N/A
Chief Engineer		IT Services Director	N/A
Chief Financial Officer		Human Resources Director	N/A
General Counsel	N/A	Water Supply Program Director	N/A

## Tualatin Valley Water District



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**To:** Board of Commissioners  
**From:** Mark Knudson, CEO  
**Date:** January 29, 2019  
**Subject:** CEO Direction for Developing the 2019-21 Budget

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### **Key Concepts:**

- As part of the budget development process, the CEO provides direction to the District managers to help establish expectations as they develop their requested budget concepts.
- This agenda topic will consist of an overview of the direction the CEO has identified for staff's continued development of the proposed budget for the 2019-21 biennium.
- The Board will be asked to provide input and feedback on the CEO's intended direction for the budget process.

### **Background:**

In developing the proposed budget for 2019-21, the District strives to maintain accountability, achieve strategic goals and meet the District's financial requirements. For the past few months, the TVWD Board has been actively involved in addressing the accountability and strategic direction components of the budget development process.

This agenda item consists of an overview of the direction the CEO has identified for staff's identification of District requirements and continued development of the proposed budget for the 2019-21 biennium. The Board will be asked to provide input and feedback on the CEO's proposed direction for the budget process.

### **Budget Impact:**

The resulting proposed budget for the 2019-21 biennium will be subject to review and approval by the Budget Committee and Board.

### **Staff Contact Information:**

Mark Knudson, PE; Chief Executive Officer; 503-848-3027; [mark.knudson@tvwd.org](mailto:mark.knudson@tvwd.org)

### **Attachments:**

Presentation handouts will be provided at the meeting.

**Management Staff Initials:**

Chief Executive Officer		Customer Service Manager	N/A
Chief Engineer	N/A	IT Services Director	N/A
Chief Financial Officer		Human Resources Director	N/A
General Counsel	N/A	Water Supply Program Director	N/A