



Meeting: **Reservoir Committee Agenda Item 2.1**

November 18, 2022

Subject: **Update on Amendment 3 Work Plan and 2023 Annual Budget**

Requested Action:

Approve the following actions related to the Amendment 3 Work Plan:

- a) Acknowledge adjustments to total planned A3 work plan revenues and expenditures of less than 10% change to reflect updated conditions.
- b) Approve the 2023 Budget.
- c) Authorize invoicing the 2nd cash call of the A3 work period of \$100/af in January 2023.
- d) Authorize increases to total consultant contract authority for specified consultant contracts to cover new work scope items.

Detailed Description/Background:

The Sites Project Authority Amendment 3 Work Plan was approved in September 2021. It included a total scope of work with projected expenditures and revenues necessary to complete the scope within 36 months beginning January 1, 2022 and extending through December 31, 2024. Total expenses of \$119.6M and total revenues of \$142.9M were approved in the Amendment 3 Work Plan. The cash call amounts were \$100/AF in 2022, “up to” \$140/AF in 2023, and “up to” \$160/AF in 2024.

The approved work plan included annual reviews and approvals of scope updates and an annual budget, including final annual cash call amounts for the 2nd and 3rd years. The work plan update, 2023 annual budget, and 2023 cash call amount were shared with the Authority last month seeking feedback which has been addressed in this proposed budget for approval. The work plan update, 2023 annual budget, and 2023 cash call amount have also been reviewed and recommended for approval by the Joint Budget and Finance Committee.

The annual review of the work plan yielded the following key takeaways:

- Recommendation for an initial 2023 cash call in the amount of \$100/AF. The reduced cash call is partially offset by applying \$7.3M of the original \$9.3M in unanticipated Amendment 2 carryover funds. It may be necessary later in 2023 to invoice the additional \$40/AF that was previously projected, depending on the actual progress of the work and the amount of revenue received. Staff feels it is better to invoice for the \$100/AF at this time because there is some uncertainty that all planned work can be accomplished in 2023, as noted below.
- The 2023 budget reflects shifting of Geotech field activities dependent on land access as well as agency caused delays in permitting and the water right.

- The overall Amendment 3 Work Plan major scope items are not significantly changing and continues to be achievable. However, the total cost for the work plan is adjusted to account for changing conditions but remains within 10% of the total planned expenditures and revenues. Further changes will be likely be required as the work period progresses.

The proposed expense budget for 2023 remains unchanged from the draft which is \$65.9M. Budget allocation by subject area is summarized as follows:

- Communications - \$1.0M (The Leg and Outreach Committee suggests further review of the extra outreach activities which are included in this subject area at the RC's request (approx. \$425k of the total) prior to committing these funds. Staff proposes this subject area be approved as shown and Staff will withhold NTP of the extra outreach activities until after more detailed review of these planned expenditures occurs.)
- Engineering - \$36.1M
- External Affairs - \$324k
- General Project Activities - \$706k
- Permitting - \$11.3M
- Planning - \$3.3M
- Program Ops - \$10.3M
- Real Estate - \$2.8M

There is an Unrestricted Contingency of \$4.1M included within the above subject area budgets (i.e., 6% of \$65.9M). Unrestricted contingency are funds intended to cover unanticipated project expenses, including additional scopes of work. Unrestricted contingency can be assigned to a specific consultant or vendor within that subject area to be utilized according to the Budget Policy approved in July 2021.

The draft revenue budget for 2023 is \$51.8M based on the latest revenue assumptions. The revenue budget includes projected 2023 revenue along with unspent funds from previous periods. Staff has based these revenue projections on signed and a portion of pending contract amounts and feels confident in securing them through the year. Additional state and federal funding will be pursued but would require certain actions on the part of the agency and have not been incorporated here for conservatism. A summary of assumed revenue by category is as follows:

- Carryover from Amendment 2 - \$9.3M
 - Designated for Options Agreements (2022) - \$500k*
 - Designated for Options Agreements (2023) - \$1.0M
 - Designated for Options Agreements (2024) - \$500k*
 - Undesignated Amendment 2 Carryover - \$7.3M
- State (Prop 1 [WSIP]) Funding - \$8.8M
- Federal (WIIN Act) Funding - \$18.6M
- Reservoir Committee Cash Calls - \$15.6M
- Authority Board Seat Dues - \$460k**

*Funds designated for Options Agreements in 2022 & 2024, not shown in 2023 revenue total.

** Pending approval at November 2022 Board Meeting

The proposed expense and revenue budgets show expenses exceeding revenue by approximately \$14.1M in 2023. Table 1 in Attachment A provides a year-by-year comparison of expense and revenue budgets relative to the approved work plan.

Staff is proposing to manage the 2023 budget starting in a deficit of revenues to cover expenses for the following reasons:

- The deficit is partially offset by work deferred or delayed in 2022, resulting in approximately \$10.7M in additional funds available to start 2023. This leaves a projected cash negative position at the end of 2023 of \$3.4M. These numbers are based on latest forecasted expense estimates which are reviewed and updated monthly. Recent updates to expense forecast show a possible increase in additional funds at the start of 2023 of up to an additional \$800k, bringing the projected negative cash position at the end of 2023 down to \$2.6M.
- History has shown that actual expenditures consistently have come in under budgeted amounts and staff believes there is a likelihood of this occurring during 2023. The expenditures are what the consultants have estimated can be accomplished, assuming everything falls into place as planned. Property access is a key variable in 2023. Staff feels that authorizing the planned expenditures gives the best possibility of successfully completing the needed work. If the planned progress occurs, the Board will have the alternative at mid-year to either make the additional \$40/AF cash call or scale back the work of the consultants to fit existing revenues. Staff will also better understand the state and federal funds available at that time.
- Actual expenditures and forecasts will be closely monitored and reviewed throughout the year to always ensure a positive cash balance. The Board will continue to receive quarterly financial reports with updates on progress.

The proposed expense budget has resulted in a need to increase the not-to-exceed contract authority for several consultants to cover newly identified scope activities. These new scopes and associated budget changes have been determined after considering and accounting for projected underspend within the previously authorized cost ceiling of each contract. As a result, initial contract ceiling increases have been reduced from \$8.5M to \$7.5M or by a combined approximately \$920k through evaluating and applying cost savings from underspent 2022 budgets. A summary of the contract authority increases by consultants are as follows:

- HDR (Integration)
 - Contract ceiling increase by \$2,193,816
 - Description of new work includes:
 - Increased effort to finish the Final EIR/EIS, approval documents, and Administrative Record and Reservoir Management Plan.
 - Additional support of Prop 1 Public Benefit Agreement development and survey data management.
 - Added two additional real estate support staff.

- Added Geotech PM.
 - Increased time commitment to Engineering Integration Lead
 - Added new integration lead for WIFIA/USDA loan processing.
- BC (Project Controls)
 - Contract ceiling increase by \$886,559
 - Description of new work includes:
 - Business System Roadmap and Implementation including the evaluation of systems such as a Project Management Information System (PMIS) and Enterprise Resource Planning System (ERP) which includes financial and accounting functionality.
 - Development of an overall procurement strategy and needed standard contract templates based on the Authority's adopted Contract Strategy (e.g. CMAR RFP, CMAR contract, construction contract).
 - Increased support of WIFIA loan application.
 - Increased support for developing agency Agreement.
- Katz (Communications)
 - Contract ceiling increase by \$507,000
 - Description of new work includes:
 - Additional Final EIR/EIS and water right communications support.
 - The following items related to extra outreach activities: Development of additional project videos and updated informational materials. Increased social media/traditional media activities. Increased stakeholder/community engagement activities.
- ICF (Environmental Planning & Permitting)
 - Contract ceiling increase by \$3,407,511
 - Description of new work includes:
 - Increased effort to complete Final EIR/EIS and Administrative Record.
 - Increased efforts to conduct field studies associated with additional geotechnical monitoring efforts and conducting environmental field studies where land access is granted.
 - Increased efforts due to additional coordination with permitting agencies.
 - Accelerated development of the Stone and Funks Creek Survey Plan and Fish Monitoring and Technical Studies Plan.
- Perkins Coie (CEQA Legal Services)
 - Contract ceiling increase by \$400,000 (for 2023 costs)
 - Description of new work includes:
 - Increased efforts for planning and permitting activities.
- Nossaman (Real Estate & Inter-Agency Agreements)
 - Contract ceiling increase by \$140,000
 - Description of new work includes:
 - Additional effort related to the drafting of benefits and obligations contracts including the development of project payment annexes based on Participant funding methods.

- Development of standardized agreement templates and contract language.
- Additional support related to agency agreements.

Annual budget for fiscal year 2024 will be developed and reviewed with the Authority Board and Reservoir Committee in Q4 of 2023. At that time, planned budgets outlined in the Amendment 3 Work Plan will be reviewed and updated based on the latest Project progress and information. Unused unrestricted contingency, changes in revenue assumptions, changes in scope, and the previous year's budget status will be considered when providing a recommendation for the following year's cash call, not to exceed the amount provided in the work plan.

Prior Action:

October 2022 – Reviewed the Amendment 3 Work Plan Update and Draft 2023 Annual Budget.

Fiscal Impact/Funding Source:

Assuming the Board concurs, Staff will authorize the consultants for the planned amounts in the 2023 budget (less contingency) and make adjustments as needed through the year to maintain a cash-positive position at all times.

Staff Contact:

Marcus Maltby/Joe Trapasso

Primary Service Provider:

Brown and Caldwell - Project Controls

Attachments:

Attachment A: Annual Budget Summary Tables and 2023 Cash Flow Curve

Attachment A: Annual Budget Summary Tables and 2023 Cash Flow Curve

Table 1: Approved Work Plan vs Budget Status

Work Plan Summary	2022	2023	2024	Total
Expense	\$42.2M	\$46.1M	\$31.3M	\$119.6M
Revenue	\$51.6M	\$44.0M	\$47.3M	\$142.9M

Work Plan Check-in Status	2022	2023	2024	Total
Expense	\$28.3M	\$65.9M	\$31.8M	\$126.0M
Revenue	\$39.0M	\$51.8M	\$64.5M	\$155.3M

Note: Actual plus forecasted values are provided for 2022. Revised estimated values are provided for 2023 and 2024.

Table 2: 2023 Work Plan Expenses vs. Revised 2023 Expense Budget

Revised Expense Budget by Subject Area	Work Plan	2023 Budget
Communications	\$0.5M	\$1.0M
Engineering	\$30.5M	\$36.1M
External Affairs	\$0.3M	\$0.3M
General Project Activities	\$0.5M	\$0.7M
Permitting	\$4.7M	\$11.3M
Planning	\$1.2M	\$3.3M
Program Ops	\$7.4M	\$10.3M
Real Estate	\$0.9M	\$2.8M
Total	\$46.1M	\$65.9M

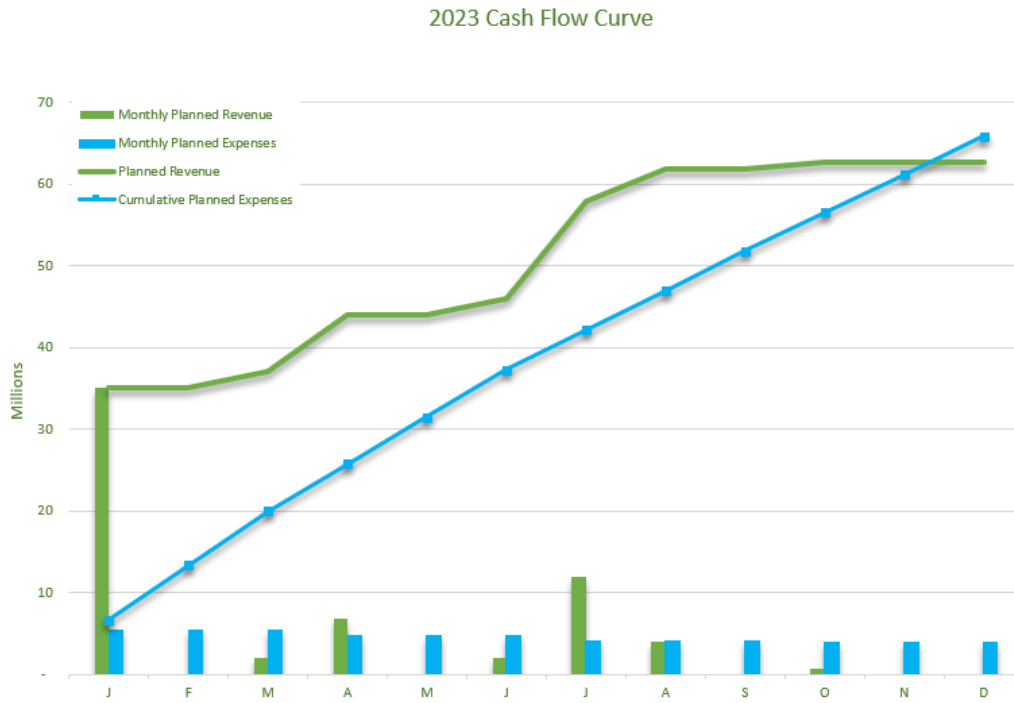
Table 3: 2023 Work Plan Revenue vs. Revised 2023 Revenue Budget

Revised Revenue Budget by Source	Work Plan	2023 Budget
Carryover from Amendment 2	--	\$9.3M
- Designated for Options Agreements 2022*	--	(\$0.5M)*
- Designated for Options Agreements 2023	--	\$1.0M
- Designated for Options Agreements 2024*	--	(\$0.5M)*
- Undesignated Amendment 2 Carryover	--	\$1.0M
Reservoir Committee Cash Call	\$23.5M	\$15.6M
Authority Board Seat Dues	\$0.5M	\$0.5M
Federal (WIIN Act) Funding	\$20.0M	\$18.6M
State (Prop 1 [WSIP])	--	\$8.8M
Total	\$44.0M	\$51.8M

Note: Revenue budget includes projected 2023 revenue and unspent funds from previous periods.

* Funds designated for Options Agreements in 2022 & 2024, not shown in 2023 total

Figure 1: 2023 Cash Flow Curve



Note: Revenue includes 2023 revenue along with unspent funds from previous periods