- **Board of Directors**
  Engineering and Capital Programs Committee

November 18, 2008 Board Meeting

7-4

Subject

Authorize agreement with Ritchie Bros. Auctioneers to sell surplus material and equipment from the Inland Feeder Arrowhead Tunnels Project

Description

This action authorizes an agreement with Ritchie Bros. Auctioneers to provide services to sell salvaged and surplus equipment and materials used for construction of the Arrowhead Tunnels. No funds are required in this action, as all fees paid by Metropolitan to Ritchie Bros. will be deducted from proceeds resulting from the auction sales.

Background

The Inland Feeder Program consists of approximately 44 miles of pipelines and tunnels to convey up to 1,000 cfs of supplies from the State Water Project from Devil Canyon Afterbay to Diamond Valley Lake. To date, approximately 36.3 miles of the Inland Feeder have been completed including four pipeline reaches and one tunnel segment.

The Arrowhead Tunnels are the final segment of the Inland Feeder Program to be completed. The project is currently under construction and consists of two tunnels through the San Bernardino Mountains north of the city of San Bernardino: the 3.8-mile-long Arrowhead West Tunnel (AWT) and the 4.3-mile-long Arrowhead East Tunnel (AET). Tunnel mining using two Tunnel Boring Machines was completed on the AET and AWT in May 2008 and August 2008, respectively. The remaining work consists of installation of the pipe liner and restoration of the portal areas.

In August 2006, Metropolitan's Board authorized a settlement agreement and amendment to the existing Arrowhead Tunnels construction contract with the contractor, a joint venture of Shea-Kenny. This action resolved past contractual issues between the two parties and revised the method of payment for work going forward on the project. Under the provisions of the amended contract, ownership of equipment and materials that were purchased by the Joint Venture for use in the project, and were reimbursed by Metropolitan, will transfer to Metropolitan ownership when no longer needed for the project. Accordingly, Metropolitan will dispose of the items as they become surplus to the project. Surplus items which cannot be reasonably redeployed within Metropolitan will need to be sold on the open market or disposed of for scrap value. In accordance with Metropolitan Operating Policy F-01, revenues from sales will be returned to the Inland Feeder Program appropriation.

Resale Options Considered

Sell Materials and Equipment Through an Auction Company – Under this option, Metropolitan would enter into an agreement with a professional auction company experienced in the sale of heavy construction plant, equipment, and materials to sell the project's excess property. Costs and revenues derived from this option would depend on which of two types of auction agreements Metropolitan enters into: either the Guaranteed Minimum Return option or the Owner at Risk option. Under the Guaranteed Minimum Return arrangement, the auctioneer would appraise the equipment and guarantee Metropolitan a minimum sale price for the items sold. The auctioneer would typically receive a commission of approximately 12 percent on this sales arrangement. Should sales receipts exceed the guaranteed minimum return, Metropolitan and the auctioneer would share the proceeds in a negotiated split. This guarantees a minimum, fixed return to Metropolitan, leaving risks such as market fluctuations to the auctioneer.

Under the Owner at Risk arrangement, the auctioneer would not guarantee a minimum sale amount, leaving Metropolitan's revenue solely dependent upon the amount of the sale. The auctioneer would receive a commission, which is typically less than 10 percent of total sales, and would receive reimbursement for fees and costs for document and title search, and for repair and restoration of articles to be sold. This option may or may not generate greater revenue for Metropolitan, as return is based solely on market conditions on the day of the auction.

Under both auction arrangements, Metropolitan will be responsible for shipping the excess equipment to the auction company site.

Negotiate Price and Sell the Surplus Materials and Equipment as a Single Package to Shea-Kenny – Staff has held discussions with Shea-Kenny concerning a potential sale, but preliminary offers received from Shea- Kenny and from other contractors lead staff to believe that Metropolitan would most likely receive less of a return than through an open, competitive auction.

Sell Individual Pieces of Surplus Materials and Equipment to Interested Parties – While Metropolitan staff has experience selling surplus equipment and materials common to Metropolitan's core business, staff does not have the requisite experience to market and sell heavy construction and mining equipment and materials at the highest market value and at lowest cost and risk. For example, Metropolitan would face significant costs to transport, off-load, and store the equipment and materials that it would otherwise avoid with the other options. Metropolitan may be unable to sell less desirable pieces of equipment.

Staff recommends that Metropolitan sell the surplus materials and equipment through an auctioneer, utilizing the Guaranteed Minimum Return approach. Under this approach, Metropolitan will minimize risks associated with market fluctuations, while the auctioneer is incentivized to maximize sales through advertising, equipment refurbishment, etc.

Agreement for Resale Services (No funds required)

In July 2008, Request for Qualifications (RFQ) No. PL-876 was issued to provide comprehensive auctioneering services for the Arrowhead Tunnels surplus materials and equipment. Services to be provided include, but are not limited to: appraisal of all articles to be sold; receiving, off loading, and storing articles to be sold; cleaning and refurbishing articles to be sold; marketing and advertising articles both nationally and internationally for sale at auction; performing title searches; auctioning articles at public competitive sales; collecting and remitting sale proceeds; collecting and remitting taxes and fees, vehicle licensing, and other services appurtenant to public auction of articles.

Responses to the RFQ were received from three firms. Based on a review of each firm's Statement of Qualifications employing pre-established evaluation criteria, staff selected Ritchie Bros. Auctioneers as the most qualified firm to provide the resale services.

This action authorizes an agreement with Ritchie Bros. Auctioneers, substantially on the terms outlined in this letter and in form approved by the General Counsel, for the resale of surplus equipment and material from the Inland Feeder Arrowhead Tunnels. No additional funds are required in this action, as the resale services will be paid on a commission basis from the proceeds received from auctioned items. This program has been evaluated and recommended by Metropolitan's Capital Investment Plan Evaluation Team, and funds have been included within the fiscal year 2008/09 capital budget.

This action is consistent with Metropolitan's goals for sustainability by maximizing the return on surplus personal equipment and materials from Metropolitan's construction projects.

Policy

Metropolitan Water District Administrative Code Section 8271: Disposal of Surplus Personal Property

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 through #4:

The environmental effects from the construction of the Arrowhead Tunnels were evaluated in the Inland Feeder Project Final Environmental Impact Report/Environmental Assessment (Final EIR/EA), which was certified by the board in February 1993. The board also approved the Findings of Fact (findings), the Mitigation Monitoring and Reporting Program (MMRP), the Statement of Overriding Considerations (SOC), and the Inland Feeder Project itself. Addenda have been prepared during the course of construction to address minor technical changes and additions to the project. In February 2008, Addendum No. 7 to the Final EIR/EA was prepared addressing the disposal of construction equipment acquired by Metropolitan under the contract amendment with Shea-Kenny Joint Venture. The change in ownership and disposal by Metropolitan of the construction equipment will not result in any new significant effects or any substantial increase in the severity of any significant effects previously identified in the Final EIR/EA and Addenda prepared for this project. The present proposed board action is solely based on entering into an agreement to auction or sell surplus material and equipment from construction of the Arrowhead Tunnels and not on any substantial changes to the original Inland Feeder Project. Hence, the previous Inland Feeder Project environmental documentation and the proposed actions fully comply with CEQA and the State CEQA Guidelines. Accordingly, no further environmental documentation is necessary for the Board to act on the proposed actions.

The CEQA determination is: Determine that the proposed actions have been previously addressed in the 1993 certified Final EIR/EA and related environmental documentation (i.e., findings, MMRP, SOC and Addendum No. 7) and that no further environmental analysis or documentation is required.

Board Options

Option #1

Adopt the CEQA determination and authorize agreement with Ritchie Bros. Auctioneers to auction Metropolitan's Arrowhead Tunnels surplus equipment and materials, under a Guaranteed Minimum Return arrangement.

Fiscal Impact: Revenue in a range of $1.5 million to $3.5 million based on auction results, less Ritchie Bros. commission**.** Minimum return to Metropolitan is guaranteed and will be determined based on a property appraisal performed prior to sale.

Business Analysis: Under this option, Ritchie Bros. would guarantee Metropolitan a minimum return. The minimum return will be determined shortly before the auction based on an appraisal of the equipment and analysis of market conditions. Typically this minimum amount is 80 to 90 percent of appraised market value less the negotiated commission, which is approximately 12 percent. Ritchie Bros. will be paid separately for document and title search and for repair and restoration of articles to be sold. For sales exceeding the guaranteed return, Metropolitan and Ritchie Bros. will share the proceeds in a negotiated split, which is usually 85 percent to Metropolitan. This option is recommended as it guarantees a minimum, fixed return to Metropolitan at 80 to 90 percent of appraised value, leaving risks such as market fluctuations to Ritchie Bros.

Option #2

Adopt the CEQA determination and authorize agreement with Ritchie Bros. Auctioneers to auction Metropolitan's Arrowhead Tunnels surplus equipment and materials, under an Owner at Risk arrangement.

Fiscal Impact: Unknown. Return to Metropolitan is not guaranteed and is dependent upon market driven auction results.

Business Analysis: This option guarantees no minimum return for Metropolitan, and leaves Metropolitan's return at risk because sales proceeds are based solely on market conditions on the day of the sale. Ritchie Bros.' commission on the sale (approximately 10 percent) would be lower than under Option #1. As with Option #1, Ritchie Bros. would receive reimbursement for fees and costs for document and title search, and for repair and restoration of articles to be sold.

Option #3

Do not authorize an auction agreement, and instead negotiate price and sell the surplus materials and equipment as a single package to Shea-Kenny.

Fiscal Impact: Unknown. Sales price would be negotiated and would not be open to competitive bidding.
Business Analysis: Preliminary offers received from Shea-Kenny and other contractors are estimated to be $500,000 to $1,000,000 less what would most likely be received through an open, competitive auction.

Option #4

Do not authorize an auction agreement and instead sell individual pieces of surplus material and equipment to interested parties.
Fiscal Impact: Unknown
Business Analysis: Metropolitan staff does not have the requisite experience to market and sell heavy construction and mining equipment and materials. Additionally, Metropolitan would face significant costs to transport, off-load, and store the equipment and materials that it would otherwise avoid with the other options. Metropolitan may be unable to sell less desirable pieces of equipment.

Staff Recommendation

Option #1

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Manager, Corporate Resources

Jeffrey Kightlinger 10/31/2008

Jeffrey Kightlinger *Date*
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BLA #6297