



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Simpson, Helgeson, Manning, and Brown
FROM: Mel Damewood, Engineering Manager; Wally McCullough, Water Engineering Supervisor
DATE: November 20, 2015
SUBJECT: 2015 Water Capital Over-Runs
OBJECTIVE: Information Only

Issue

The Second and Third Quarter Water EL-1 Capital Reports reported significant over-runs in Main Replacement/Improvement work as well as in Services and Meters. A Budget Amendment is not required, however, the Q3 EL-1 Report stated that a backgrounder would be provided on this issue.

Background

According to Financial Policy EL1, budget amendments are required if the capital budget of the Water Utility (or Electric Utility) is projected to exceed the authorized budget amount. There are no rules regarding individual areas within the capital budget from running over, rather the intent is that the individual areas would be managed so the overall utility budget is not exceeded.

Discussion

Capital over-runs in 2015 have primarily been in the following areas:

- Main Replacements/Improvements - At the beginning of the year, EWEB had projected about \$2.6 million in work to be conducted by EWEB crews for the EmX project. Because of this predicted work load, Water Engineering also contracted out planned main replacement and improvement work that would have normally been conducted by EWEB crews. EmX work was value-engineered through-out the year which resulted in a reduction in EWEB related work for that project, which shifted crews back to other EWEB related main and service work, and hence caused a natural overrun on internally driven capital work. The projected over-run in this area is approximately \$1,500,000.
- Services and Meters - Due to new capitalization rules, a significant shift of work from O&M to Capital for service and meter work occurred. The projected over-run in this area is approximately \$950,000.

Both of the above areas were also influenced by a much higher level of development than what was anticipated. It is estimated that by year end there will be approximately \$1,200,000 more in non-

EmX reimbursable developer and customer work than what was anticipated. While this work is reimbursable, it still results in expenditures that fall under Policy EL-1.

Offsetting the above overages, at least in part is a correction made by Finance in November to move \$600,000 in equipment charges from capital to O&M.

In addition to the equipment charge issue, the over-run is offset in part by under-runs in several other areas. These include the EmX project which is projected to have an under-run of approximately \$500,000. In total, there is about \$850,000 in offsets resulting from jobs coming in under budget in 2015. This does not include the reimbursements for developer and customer driven work.

Even with the above offsets, there is still a significant over-run in the areas discussed. To ensure expenditures do not exceed the Water Capital Budget, the replacement of the Willamette Reservoir #1 has been deferred. Originally scheduled to begin construction in 2015, the project has been deferred to 2016-2017. Deferring this project along with some other minor delays in other projects will ensure the Water Utility capital expenditures stays in compliance with Financial Policy EL-1.

The Board can expect to see the deferment of the Willamette Reservoir project and the ripple effects presented to the Board as part of the 2016 April Budget True-Up.

Recommendation and Action

This is an information item only, no action required. If you have any questions please contact Mel Damewood a 541-685-7145 or email at mel.damewood@eweb.org