

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
NOVEMBER 21, 2005
5:30 P.M.

Board Members Present: Ron Farmer, Sandra Bishop, Mel Menegat, John Simpson, and Patrick Lanning.

Others Present: Randy Berggren, Dick Helgeson, Dick Varner, Jim Wiley, Marty Douglass, Jim Origliosso, Debra Smith, Tom Buckhouse, Mel Damewood, and Krista Hince of the EWEB staff; Eric Gunderson, Mark Young, WBS Architects; and Ruth Atcherson, City of Eugene minutes recorder.

President Farmer convened the Work Session of the Eugene Water & Electric Board (EWEB).

UPDATE ON THE HEADQUARTERS MASTER PLAN – 30% DESIGN RESULTS ON THE HEADQUARTERS FACILITY RELOCATION COSTS

Assistant to the General Manager Debra Smith acknowledged the work of Master Plan Project Manager Mel Damewood on the project. She shared an email regarding the clean-up work that had been done on the site to date that listed various items that had been hauled away from there including tires, auto bodies, camper shells, and debris left behind in encampments. She thanked Don Wilson's group and Mark Oberle's group for the work they had done cleaning up "what was really an awful mess."

Mr. Damewood reviewed the scope of the 30 percent design. He said he was pleased with the level of detail that had come from it. He stated that the work had been designed to projections of where EWEB would be in 2020.

Mr. Young and Mr. Gunderson provided an overview of the 30 percent design work with power points, as delineated in the *Schematic Design Executive Summary*. Mr. Damewood reviewed the *Cost Estimates*.

In response to a question from President Farmer, Mr. Damewood stated that with regard to the split versus combined scenario the entire second floor of the existing building would be moved into the operations building. He said it was not an "apples to apples administration building to administration building" scenario as the utility would have to build an entire floor in the operations building. He stated that on a per square foot cost, an administration building was more expensive to build than a warehouse.

Ms. Smith reviewed the cost analysis with three different scenarios. The first scenario was to build in 2006 to 2008 with the assumption that some of the riverfront property would be sold at the 2004 appraised value. The second scenario assumed that the build would be delayed until 2011 and costs would increase in the interim, but the bond would be paid off and the present site could be presumably sold for \$34 million. The third scenario was to build in 2006 to 2008, but the current property would not be sold until 2011.

President Farmer asked when it was assumed that the rate increase would occur. Ms. Smith responded that it would occur in 2008.

President Farmer called for a five-minute break at the close of the staff presentation.

President Farmer stated, upon reconvening, that the Work Session would not follow a specific order as it was intended to be a discussion.

Commissioner Menegat conveyed his appreciation to the professional team and the thirty work groups from EWEB that spent time in the process of how best to perform their functions and serve the utility in order to communicate this to the architectural team. He said he had the opportunity to observe the earlier team presentation and many of his questions had been answered at that time.

President Farmer stated that he had copies of the list of all of the Leadership in Energy and Environmental Design (LEED) certified buildings in Oregon, which he would provide to the Commissioners. He had been surprised that there were only 24 in Washington and 22 in Oregon. The list was broken down into whether a building was just certified or whether it was “gold,” “silver,” or “platinum.” He added that there were no “platinum” certified buildings in the northwest.

Commissioner Simpson asked what the LEED target was for the project. Mr. Gunderson responded that if EWEB implemented all of the measures as currently planned it would be at the “silver” or “gold” level.

In response to a question from President Farmer, Mr. Damewood related that he had asked the architects what level the building was planned to attain and had been told that with all of the sustainability measures EWEB would, “if we really stretched ourselves,” possibly get a “platinum” certification. But if it took away those stand-alone sustainability measures, EWEB would likely be on the high “silver” or on the “border of gold.”

President Farmer said he heard there was \$6 million in the plan that would get EWEB to the “platinum” certification, but without that \$6 million it would be dropped back to a “gold.” Mr. Damewood affirmed that the architects had been more comfortable saying that the certification would reach the “gold” level rather than the “platinum,” and without the \$6 million the project would likely reach the “silver” certification level. He said measures to increase the level of certification could be considered, but were not fixed in the plan.

Mr. Young cited, as an example of further study that could be undertaken, the possibility of utilizing photovoltaic (PV) cells. He estimated the first cost of them to be roughly \$2 million for them, but with the help of EWEB’s energy management people they were looking into how grants and tax credits and other measures to reduce the costs.

President Farmer asked if the parking area was planned based on a required number of parking spaces. Mr. Young affirmed that it was. He noted that LEED certification would give credit for ways that the parking could be reduced. He said Lane Transit District (LTD) had helped the team do surveys of current bus use among employees and from that they had determined that approximately 85 percent of the employees drove to work.

President Farmer observed from the plan, the combined move plan in particular, that it seemed that half of the site was a “sea of concrete.” He thought this was the opposite thing from what EWEB was trying to do in terms of conservation.

Commissioner Menegat understood that the parking plan included swales for the runoff of the water from the surface. While the paved area was a large area, he felt EWEB had done what it could to make the parking area environmentally friendly.

Referring to page 14, President Farmer commented that if he simply divided the cost by square footage he arrived at a \$351 per square foot for a combined move and a \$400 per square foot for a split move. He commented that he was privy to commercial finance information and the projects he was aware of were not costing \$400 per square foot. Mr. Young responded that he understood the distinction. He said the tradition in cost estimation had been that one would compare the building square foot costs based on the building itself and not the total project budget. He stated that the reason for doing so was that site costs varied considerably. He pointed out that the Roosevelt Boulevard site would require a “huge amount of site work” as compared to Fire Station #1, which had almost no site around it. He thought if one compared total project costs between EWEB and the fire station, the EWEB project would look disproportionately much higher.

President Farmer asked if the architects had seen a project anywhere in Lane County over the last five years that had cost \$400 per square foot. Mr. Young replied that they were not used to comparing projects in that way. Mr. Gunderson added that on a building per square foot basis their firm was equitable with other projects that had happened in Lane County, but what differentiated EWEB from the rest of those projects was that it was a specialty utility and needed a lot of square footage for storage, which translated to paving and other expenses.

Ms. Smith commented that another cost driver was that EWEB was building among wetlands and was working to keep as much of that intact within that environment on a large piece of property.

Commissioner Simpson recognized that looking at it from a dollars perspective called out the expense but he felt it was important to realize that many people in the community valued the ethics that construction of this type brought into play. He predicted that the amenities in the facility would attract employees. He agreed that the total number divided by the square feet was large, but consideration of the site work brought sense to the numbers.

President Farmer stressed the importance of keeping “our eyes wide open” from the ratepayers’ perspective.

Vice President Bishop observed that a highway interchange could potentially be built from the Beltline Highway to Roosevelt Boulevard and asked how many acres would be required for it. Mr. Gunderson replied that it would take approximately eight or nine acres.

Vice President Bishop asked what the State would give for the land. Real Property Manager Mark Oberle replied that EWEB had purchased the property for circa 80 cents per square foot and now, with improvements they had made, the market value had increased to \$2 per foot. He said the Oregon Department of Transportation (ODOT) would give the market value for the property when the time came or perhaps a little more.

Ms. Smith stated that when planning for the wetlands, the potential off-ramp had been taken into account and no enhancements were planned for that corner of the property.

President Farmer asked if a five percent contingency was a normal number for the project once the 30 percent design work was completed. Mr. Gunderson responded that overall there was approximately an eight percent contingency, including five percent for change orders. He thought this contingency was relatively low. He said this number was chosen because they believed they had included solid assumptions for everything. He thought it would be possible to manage the project through the budget at this point.

Commissioner Lanning asked how much experience the organization had with the “living machine” they had spoken of. Mr. Young responded that the living machine was a proprietary system that the company would consult with. He estimated there to be 20 to 30 “living machine” buildings in the country at present, with the closest one located in Astoria. He related that he had visited one in Kansas City that was like a greenhouse. He said the main element was that the company would come in and work with EWEB on it, should EWEB choose to go that way.

Commissioner Simpson asked if the operation and maintenance costs for a “living machine” building were known. Mr. Young replied that there were some operation costs, but he was uncertain if they had included those costs in the analysis. He said some monitoring was necessary but the plants were in containers and “sort of took care of themselves.” He thought some cleanup and maintenance would be involved.

In response to a question from President Farmer, Ms. Smith stated that the rate impacts had been calculated for the third scenario. She explained that, should the Board choose to pursue a split move, the property would not be ready to sell until 2009. She said this was why the revenue was not considered in the finance scenario until 2011. She noted that the City had the right of first refusal and this made staff, from a point of caution, want to consider the possibility that it might take longer to recognize the proceeds from the sale of the property. She pointed out that there were several copies of significant documents in Board members’ folders, including a copy of the City’s memorandum of understanding (MOU) relative to their right of first offer as well as an ordinance that codified it that spoke to a five-year period the City had.

President Farmer asked to see some rate numbers that did not wait for six years to receive the money for the property. He did not necessarily agree that it would take six years to realize the revenue from the sale.

Vice President Bishop opined that it was unrealistic to assume that the appraised value of the property represented its real value. Ms. Smith responded that the rates had not been modeled with this number in mind. She assured Vice President Bishop that the numbers from the appraisal had only been used in the first scenario and the rates had been modeled based on a sale price of \$35 million and not \$25 million.

Vice President Bishop asked how EWEB could go about getting a realistic number for the value of the land. Mr. Damewood responded that many factors go into an appraisal. He thought one could come up with a realistic different number every day. He said one factor that held the value down in the 2004 appraisal was the value of the building, which had been heavily influenced by the value of some of the vacant buildings in the downtown area. He added that interest rates had also impacted values of property, noting that they were again on the rise.

Vice President Bishop reiterated that the EWEB property was unlike any other. She asked if anyone had looked at riverfront property in other communities. Mr. Oberle replied that it would not be a fair comparison given that each market had other unique characteristics that would influence property values. He said another big factor in the worth of a property was how much uncertainty existed for the future developer, such as what zoning the property would end up being governed by.

Vice President Bishop wondered about the feasibility of retaining the EWEB site in public ownership and developing it into "some sort of conglomeration of public entities." She felt it was a public asset and there was a possibility of keeping it in public ownership. President Farmer responded that should EWEB do so it would have to be prepared to increase rates accordingly to meet costs.

President Farmer commented that how to determine the property's value was difficult. He said professional appraisers had told EWEB what the site was worth and if the Board felt it was better at assessing the value than the professionals, the only way to prove it would be to put it on the market and see if the market agreed with the Board.

Commissioner Simpson said he certainly wanted to get the highest and best value from the property, whether from selling the entire piece or from breaking it into smaller pieces or from EWEB developing it. He hoped to keep the headquarters on site. He reiterated that the major decision yet to be made was whether to make a split or combined move. He asked if the answers about the individual questions on what the best value EWEB could get for its property affect that question. He asked how soon the decision on whether to split the move or not would be made.

Vice President Bishop opined that the right timing for that decision “was a long time ago.” She thought the Board would not be able to proceed in any way, shape, or form if it did not make that decision. She assumed that the Board would make that decision at the regular meeting scheduled for November 22.

President Farmer agreed that the Board needed to make that decision “sooner rather than later” but was uncertain whether the Board was ready to make it at the next meeting.

In response to a question from President Farmer, Fiscal Services Supervisor Dick Varner estimated that the rates would vary by .04 percent per million-dollar difference in appraised value. General Manager Randy Berggren surmised that receiving \$10 million more in value than the appraisal would reduce the rate increase from 2.4 percent to 2 percent.

President Farmer underscored that he wanted to get the maximum value from the property, but the value could be nearly doubled and it would not impact the rates all that greatly.

In response to a question from President Farmer, Mr. Varner said a 2.5 percent increase in rates would generate \$4 million to \$5 million a year. President Farmer thought this could raise \$30 million by 2011 and this would be an improvement over just paying interest until then. Mr. Varner affirmed that engaging in a rate increment in 2006 would bring about a “significant buy-down” of \$5 million to \$10 million. President Farmer thought this would benefit ratepayers in the long run by cutting 10 to 15 years from the debt service.

Mr. Berggren commented that the Board had been presented the “order of magnitude” information that affected both of the desired options. He said once the Board had made a choice as to how to proceed with a sense of timing, staff would be able to fine tune the financing, construction schedules, and so on.

Treasurer Jim Origliosso pointed out that it was the prerogative of the Board to have a rate increase but it would not necessarily mean that EWEB would get the authority to issue the bonds. He said the financing plan, whether it deployed one rate increase sooner or broke it up into pieces, would be part of the case that would be made to the electorate or to the City that would essentially get the bonds authorized. He underscored that the City had the option to deny EWEB’s request.

Vice President Bishop averred that EWEB would not be able to go forward with any of the scenarios without a bond. She thought the major roadblock was the old agreement with the hospital. She recommended that one decision point for the next meeting would be to exit from that agreement.

President Farmer wished to assure that the public understood that he did not intend to ask the ratepayers to step up to additional rate increases because the Board was not willing to sell the operational area of the site. He felt that even though the EWEB Board had not opted to sell to the hospital it did not mean that he was unwilling to sell the property to help underwrite the move.

Commissioner Simpson affirmed that the Board had a right to choose the next owner of the property and a duty to the public to make a good selection.

Ms. Smith summarized the points of discussion.

Mr. Berggren said there was a public perspective on whether to do a split or combined move that could potentially be a component of the discussion.

Vice President Bishop commented that she was unclear of what the decision points for the next meeting would be. Mr. Berggren explained that they were the decision to proceed with or cancel the agreement with McKenzie-Willamette/Triad Medical, a split versus a combined move, and the timing of the move once the preceding decision was made.

In response to a question from Vice President Bishop, Mr. Berggren clarified that the timeline to consider included the nuances of the design and construction, whether to pursue it immediately or whether to wait, whether to move in phases, whether to pursue the bond authorization. He said all of those decisions would impact the timing. He reiterated that the decision on whether to move the combined operations or split them up would provide the basis for further discussion.

In regard to the bond timeline, Mr. Varner stated that it would take 30 to 60 days before a bond could get onto a City Council agenda whether using the Uniform Revenue Bond Act (URBA) process or the other way. He said it would be another 60 days beyond that point before the URBA period expired.

Vice President Bishop advocated for looking into what the “do-nothing” would look like. She thought the public would ask about it when they see the numbers. Mr. Berggren said he made the assumption based on preliminary discussions they had before they started the work that the majority if not all of the Board had a sense that at least the field operations did not fit into the long-term vision of the downtown area. He did not believe it was an option to remain on the site. He agreed that one could follow the question of cost for remaining at the site, but he thought it unlikely to be a choice.

President Farmer said taking an action relative to the agreement they had in place at present the public would finally realize that EWEB was serious about moving and that it had not been driven by the hospital’s desire to be located on the EWEB site. At this time he did not believe it made sense to plan for a split move.

Vice President Bishop expressed appreciation for the work staff had done to “get out ahead” of the subject.

Commissioner Menegat said the Board would be talking about the different basic decisions and the more detailed decisions for some time to come. He felt he had the information he needed to make the initial decisions that needed to be made without having Mr. Oberle and Mr. Young come back.

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Commissioner Lanning concurred.

President Farmer adjourned the meeting.

Assistant Secretary

President