




# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD  
GENERAL MANAGER'S DIVISION

*Rely on us.*

TO: Commissioners Farmer, Brown, Cassidy, Cunningham, Ernst  
FROM: Ken Beeson   
DATE: August 6, 2009  
SUBJECT: EWEB Headquarters Analysis

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## ***Issue Statement.***

At the September 1, 2009 Board meeting, staff will review a concept level analysis comparing 1) maintaining customer service and other business functions downtown post 2010; and 2) relocation of all EWEB business functions to Roosevelt. This memo provides background for that review.

## ***Background.***

In February 2006, the EWEB Board decided to relocate the water and electric engineering and operations to the new Roosevelt site and maintain the remaining EWEB business functions (customer service, administration, accounting and finance, power resources, public affairs) downtown. Although the Board understood at that time that some level of remodel to the downtown HQ would be required to accommodate those remaining business functions, they agreed to postpone the final decision on any remodel until the Roosevelt development was further along.

In January 2009, the Board agreed with a staff recommendation that prior to starting any detailed design work related to remodel of the downtown site, a high level analysis comparing the "remain downtown" and "relocate" alternatives be completed.<sup>1</sup> It was understood that this "concept level" analysis could provide the Board with a general comparison of the two alternatives and be completed relatively inexpensively.

The remainder of this memo describes the results of this analysis and provides background for the September 1 Board discussion.

## ***Discussion.***

The analysis is summarized on Attachment A and described below.<sup>2</sup>

- This analysis defines and compares two alternatives for the EWEB Headquarters: remodel the existing facility with the intention of remaining downtown for the long term; and construct a new HQ

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<sup>1</sup> It is important to note that in January 2009, only one Board member remained from the 2006 Board that made the split operation decision. It is also noted that in the January 2009 discussion, several Board members indicated a preference for ultimately relocating all EWEB functions to the Roosevelt site.

<sup>2</sup> Attachment A is a summary of the analysis and should be used as reference when reviewing the next section of this memo. Attachment B is a more detailed version of the summary analysis and shows the discounted annual costs related to each alternative for the years 2009 – 2025. The actual analysis was completed for a 30 year period (through 2039) coincident with the estimated period of debt service for financing on any new building.

at the Roosevelt site and consolidate all EWEB business functions at one location.

- The basic approach to completing the analysis was to 1) identify the significant cost attributes for each alternative; 2) estimate the annual costs for each attribute over a 30 year time frame; and 3) then determine the present value of those annual costs.
- Cost estimates for the remodel and for the new building were prepared after several meetings with the Roosevelt project architect and engineers, the Roosevelt contractor, myself, and EWEB facility managers. Two Board members participated in some of the discussions. These cost estimates are generally based on those discussions as well as schematic design work for remodel and new building completed in 2005. As discussed below, both of these estimates are preliminary and are not intended as recommendations on possible building costs.
- The remodel estimate is approximately \$16 million and assumes a “medium” remodel of the entire building (100,000 sq ft). Work includes upgrade and replacement of the lighting systems and portions of the electrical systems and mechanical systems. It includes new carpet and paint through out as well as new open systems (cubicle) furniture systems. Some new walls and wall relocations are assumed to accommodate relocation of business functions. Site work includes a new street extended south across the property from 3<sup>rd</sup> and Mill to the operations portion of the property which is currently under master plan review.

A summary of this remodel estimate is provided on Attachment C and shows construction costs and owner’s costs. The estimate includes approximately \$2.8 million in contingency (design/estimating contingency and project or owner’s contingency).

A preliminary schedule for this remodel work is provided on Attachment D and provides the Board with estimated time frames for major components of the work including design/cost estimating, final approval from the Board, design development, bidding and construction. It is estimated that design and construction for a complete remodel for long term occupancy could take about 3 years.

- The new building estimate (\$52 million) in the “new headquarters” alternative has two components. It includes approximately \$49 million for a new 100,000 sq ft two story office building located at the Roosevelt site. It assumes concrete and steel construction, with electrical, mechanical and plumbing systems built to LEED Gold standards, substantial day lighting features and an eco-machine (similar to the new operations complex). It assumes a portion of the structure will be constructed to meet “essential facility” standards to house the EWEB electric dispatch center. The estimate also assumes public meeting rooms similar to those in the downtown north building.

This estimate also includes \$3.5 million for changes and upgrades to the EWEB fiber and communication system that will be required if the current building is vacated. There are several possible options for these changes including construction of anew facility near Willamette substation and reconfiguration of the system to allow complete operation form the Roosevelt site.

A summary of the “new building” estimate (building only) is provided on Attachment C and shows construction costs and owner’s costs. The building estimate of \$49 million includes approximately \$8.5 million in contingency (design/estimating contingency and project or owner’s contingency).

A schedule for the new building is provided on Attachment D. As with the remodel above, this schedule shows estimated time frames for the major components of this work including design/cost estimating, final approval from the Board, financing, design development, bidding and construction. It is estimated that design and construction of a new HQ building could take about 4 years.

- Both of these estimates (new building and remodel) are preliminary and are not intended as recommendations on possible costs for a new building or a remodel. Rather, they are intended to provide general estimates for use only in the overall analysis. Any estimates prepared for remodel or for a new building will require more time to complete and will include substantive input from the EWEB Board and staff to ensure collective understanding and agreement on the overall objectives and program assumptions (space, function requirements, etc) for the new or remodel construction.<sup>3</sup>
- Both alternatives also include estimates of annual operating costs and annual capital costs. These costs were determined by first estimating operating and capital costs for the existing HQ building using historical cost information and then estimating these costs for a new building at Roosevelt. It is generally assumed that these costs will be lower for new building at Roosevelt when compared to the existing 25 year old facility.
- The “remodel” alternative includes an estimate of the “additional costs related to a split operation” which quantifies those annual costs expected as a result of maintaining a split operation with the HQ remaining downtown. This estimate is \$500,000 per year and includes added personnel and/or equipment required for security, building operation and maintenance, and warehouse. I believe it is a “conservative” estimate as we have not included any estimate of “lost productivity” related to travel time back and forth between Roosevelt and downtown for various EWEB employees.
- The “new headquarters” alternative includes an estimate for “establishing a customer service presence downtown”. This estimate assumes leasing office space downtown and 5 employees to handle customer service related work downtown. This has not been reviewed formally with the Board or with the executive team and is provided in the analysis for reference.
- Finally, the “new headquarters” alternative includes an estimate of the proceeds from sale of the downtown HQ building, Midgley’s and associated parking areas. This estimate (\$21.5 million) is also preliminary. It was determined by taking a cost estimate for the buildings and property from the last formal appraisal completed for the EWEB site and escalating for possible sale in 2014. (The \$14 million shown in the Attachment A summary is the discounted value of that \$21.5 million.)

***Conclusion.***

Following are some observations about the results of the analysis and some suggestions for next steps. These are offered as possible points for Board discussion on September 1.

1. There does not appear to be a compelling economic case here that suggests the Board needs to make a final decision in the near term on whether to “remodel” or “construct a new HQ”.
2. To the extent there is a consensus view among the Board and staff that relocation of all EWEB functions to Roosevelt within the next 6 – 10 years makes sense, there are several possible next steps that might be considered:
  - Given that some renovation work will be needed in the downtown HQ in 2011 to accommodate

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<sup>3</sup> I also want to acknowledge here that there are concerns that both of these costs are high and that either a remodel or a new building could be completed for less cost. As indicated above, these are not cost recommendations for the Board; any recommendations would be developed after substantial design and program work including the Board and staff. I would also point out that reducing both of these costs by 10 – 20% does not affect the overall outcome of the analysis.

the remaining business functions, staff could be instructed to return with a more detailed plan for renovation work necessary to accommodate EWEB functions for 5 – 10 years. It would be helpful early in that work to meet with the Board in a work session and obtain Board direction on the scope of the renovation work.<sup>4</sup>

- There is an opportunity to review the estimated costs provided in the analysis in the 10 year financial plan. Such a review would allow for review of a potential new Headquarters in context with other approved or potential business initiatives.
  - There is an opportunity to obtain input from EWEB customers on the “remodel” vs “relocate” question.
3. It might also be argued there are benefits in putting the “new building” alternative on the back burner for several years and then reconsidering it once the utility has settled into the Roosevelt facility and has some experience operating with the separate (downtown and Roosevelt) facilities.

***Recommendation / Requested Action.***

There is no formal recommendation or requested action at this time. As mentioned above, we want to review the analysis with the Board on September 1 and hopefully use that review as a platform for Board discussion on next steps related to the Headquarters building, both in the short term (2 – 5 year) as well as the longer term (5 – 20 years).

Please call me if you have any questions or need additional information.

Attachments

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<sup>4</sup> Work on this analysis produced a considerable amount of review material related to the condition of the EWEB HQ electrical, mechanical, structural and plumbing systems. All of this material is available for use in developing a more detailed remodel plan.

revised: July 23, 2009

**EWEB Headquarters Planning Analysis**

**ATTACHMENT A**

**Net Present Value of Total Annual Expenditures (2009-2038)**

Notes

**A Remodel Downtown Headquarters Building**

1	Remodel cost	\$	13,500,000	Estimate \$16.3 million project cost
2	Operations and Maintenance - Downtown HQ	\$	6,200,000	Assume \$800,000 per year (includes energy costs)
3	Capital Expenditures - Downtown HQ	\$	8,300,000	Assume \$500,000/year for "basic" capital; assume \$20 million in "major" capital over 30 yr period
4	Additional Costs Related to Split Operations (assume \$500,000/yr)	\$	4,700,000	Estimated additional business and operating costs resulting from maintaining a "split" operation

**Total** \$ 32,700,000

**B Construct New Headquarters at Roosevelt**

1	Debt Service - New HQ Building + EWEB Comm system changes	\$	31,700,000	Financing costs for \$52.5 million (5% AT 30 yrs); includes \$49 million for new building + \$3.5 million in changes to EWEB fiber system
2	Operations and Maintenance - Roosevelt HQ	\$	5,000,000	Assume \$700,000 per year (includes energy costs)
3	Capital Expenditures - Roosevelt HQ	\$	5,800,000	Assume \$450,000 per year for basic capital; assume \$15 million in "major" capital over 30 year period
4	Establish Customer Service Presence Downtown	\$	3,700,000	Assume 2500 sf leased space downtown + 5 additional FTEs
5	Sell Headquarters Property	\$	(14,000,000)	Proceeds from sale of HQ building + Midgley's + property from river to High St; estimate sale price of \$21.5 m in 2014

**Total** \$ 32,200,000

revised: July 23, 2009

**EWEB Headquarters Planning Analysis**

**ATTACHMENT B**

		Expenditure Schedule (\$000)																	
Total (2009 - 2038)		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
<b>A Maintain Customer Service and Business Functions Downtown</b>																			
1	Remodel Downtown HQ (assume \$16.3 m)	13,473	500	1,194	6,746	5,033													
2	Operations and Maintenance - Downtown HQ	6,202	-	-	-	569	522	480	440	404	371	341	313	288	264	242	223	204	
3	Capital Expenditures - Downtown HQ	8,262	-	-	-	356	326	300	275	253	1,625	213	196	180	165	152	1,531	128	
4	Added Costs for Split Ops (assume \$500,000/yr)	4,685	-	-	422	387	356	300	275	253	232	213	196	180	165	152	139	128	
<b>Total (Remodel Alternative)</b>		<b>32,621</b>	<b>500</b>	<b>1,194</b>	<b>7,167</b>	<b>5,420</b>	<b>1,280</b>	<b>1,175</b>	<b>1,079</b>	<b>991</b>	<b>910</b>	<b>2,228</b>	<b>767</b>	<b>705</b>	<b>647</b>	<b>594</b>	<b>546</b>	<b>1,893</b>	<b>460</b>
<b>B Relocate all EWEB Business Functions to Roosevelt</b>																			
1	Debt Service - New HQ (\$52 m financed @ 30 yr)	31,670	-	-	2,850	2,617	2,403	2,207	2,027	1,861	1,709	1,569	1,441	1,323	1,215	1,116	1,025	941	864
2	Operations and Maintenance - Roosevelt HQ	5,071	-	-	-	142	457	420	385	354	325	298	274	252	231	212	195	179	
3	Capital Expenditures - Roosevelt HQ	5,830	-	-	-	-	-	270	248	228	209	1,044	176	162	149	136	960	115	
4	Establish Customer Service Downtown	3,663	-	-	-	142	326	300	275	253	232	213	196	180	165	152	139	128	
5	Sell Headquarters Property (\$21.5 million in 2014)	(14,038)	-	-	-	-	(14,038)	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>		<b>32,196</b>	<b>-</b>	<b>-</b>	<b>2,850</b>	<b>2,617</b>	<b>2,688</b>	<b>(1,047)</b>	<b>3,016</b>	<b>2,769</b>	<b>2,543</b>	<b>2,335</b>	<b>2,997</b>	<b>1,989</b>	<b>1,808</b>	<b>1,660</b>	<b>1,525</b>	<b>2,235</b>	<b>1,286</b>

revised: July 20, 2009

**EWEB Headquarters**

**Cost Estimates for Remodel and New**

preliminary (July 20, 2009)

**ATTACHMENT C**

**A Remodel Existing Headquarters Downtown**

Item	Area (sf)	Cost per Square Foot	Total Cost	Notes
Remodel (directs + contractor overheads + estimating contingency)	100,000	\$ 107	\$ 10,655,000	medium remodel + LEED silver
Site work			\$ 710,000	new parking south of HQ + Mill St extension
Total Construction Cost			\$ 11,365,000	
Owner Cost Multiplier (0.45)			\$ 4,935,000	design + overheads + contingency
Total Project Cost (2009 \$)			\$ 16,300,000	design + permits + owner direct cost + contingency
Escalate for 2011 Construction Start (5%)			\$ 16,800,000	

**B Construct New Headquarters at Roosevelt**

Item	Area (sf)	Cost per Square Foot	Total Cost	Notes
New Building (directs + contractor overheads + estimating contingency)	100,000	\$ 327	\$ 32,710,000	2 story + concrete/steel + LEED Gold
Site Work			\$ 4,810,000	
Total Construction Cost			\$ 37,520,000	designs + overheads + contingency
Owner Cost Multiplier (0.30)			\$ 11,530,000	design + permits + owner direct cost + contingency
Total Project Cost (2009 \$)			\$ 49,000,000	
Escalate for 2012 Construction Start (8%)			\$ 51,000,000	

