



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital

FROM: Roger Gray, General Manager; Cathy Bloom, Finance Manager; Mel Damewood, Engineering Manager; Frank Lawson, Systems Engineering Supervisor; Wally McCullough, Water Engineering Supervisor; Sue Fahey, Fiscal Services Supervisor

DATE: December 31, 2013

SUBJECT: Proposed Revision to Board Policy EL1, Financial Controls

OBJECTIVE: Approval of Revised EL1

Issue

Board Policy EL1 was developed in 2000 to establish procedures for the annual budget and budget monitoring. Management believes that revising the policy and related procedures to align with industry standards will provide the Board with more proactive and effective budget monitoring information and allow for organizational flexibility. To provide consistent monitoring throughout 2014, Management is requesting approval of this change in January.

Background

The following grid compares the current EL1 procedures to the changes proposed by Management.

Current EL1	Proposed EL1	Comments
1. Board approved budget sets limit for spending authority. (Preamble)	No change	
2. Five-year capital plan approved annually. (Preamble)	Prior to budget approval, ten-year O&M and capital plans for each utility provided to the Board to ensure budget decisions take into consideration long-term financial impacts.	Policy should require both capital and O&M plans be presented. Ten years is more appropriate for a capital intensive business. Long-term planning informs Board decision-making, but is not a financial control. Ten-year plans will be approved at July Board meeting as part of Financial Policies.
3. Board approved budget amendments required for increases in spending authority to the following budgets: Electric O&M, Electric Capital, Water O&M, and Water Capital. (EL1.1 and EL1.3)	No change	

4. Board approved budget amendment if labor/benefits expected to exceed budget. (EL1.2)	Budget amendments only required for #3 above.	Provides organizational flexibility to make better business decisions. Allows General Manager to authorize internal budget transfers to cover unexpected overtime or use of EWEB staff in lieu of contractors. Aligns with industry standards.
5. Budget amendments required if major capital project expenditures exceed certain amount or are not in approved five-year plan. Requires update to five-year plan. (EL1.3a-c)	Budget amendments will only be required if additional spending authority requested. Quarterly capital reports will be provided to the Board indicating annual and total budgets, scope, timeline and progress.	Provides more proactive reporting to Board on all current year capital projects in the capital improvement plan regardless of expenditures. Current policy often results in approval after expenditures have been committed. Reporting format will mirror ten-year capital plan.
6. Definition of major capital project based on <i>annual</i> dollar amount. (\$500,000 Electric and \$250,000 Water)	Quarterly reports will include all projects in the capital improvement plan. Type II/III projects are further defined as those projected to cost \$1 million dollars for the <i>life of the project</i> .	Board will be provided with information on multi-year projects using the same criteria as single year projects. Provides alignment between capital plan and quarterly Board reports.
7. No financial report requirements stated.	Quarterly financial results comparing budget and actual results provided to Board. Requires an independent financial audit.	Policy aligned to match current procedures.

Attached is the current EL1 policy, the current EL1 indicating proposed revisions, and proposed EL1. Additionally, a draft format of the quarterly capital report is included as Attachment 4.

Recommendation Requested Board Action

Management recommends approval of revised Board Policy EL1.

Attachments

- Attachment 1 - Current EL1
- Attachment 2 - Current EL1 with Revisions
- Attachment 3 - Proposed EL1
- Attachment 4 – Quarterly Capital Report Format Draft

ATTACHMENT 1

Policy Number: EL1
Policy Type: Executive Limitations
Policy Title: Financial Controls
Effective Date: May 16, 2006

Consistent with the Financial Policy on Budget (SD6), staff will bring a balanced budget to the Board for approval on an annual basis. In its totality, the annual budget is the absolute maximum level of expenditure authorized by the Board. In addition to the annual budget, staff will bring a Five-Year Capital Improvement Plan for each utility to the board for approval on an annual basis. Conditions may arise during any given budget year that cause projected expenditures for either utility as a whole to be higher than those approved by the Board in the annual budget. In the following circumstances executive management is required to propose a budget amendment:

1. The operating budget of either the Water or the Electric utility is projected to exceed the authorized budget amount.
2. The total EWEB labor and benefit expenditures are expected to be more than the budgeted labor and benefit costs.
3. The capital budget of either the Water or the Electric utility is projected to exceed the authorized budget amount; or
 - a. Expenditures for a major capital project are projected to exceed or are actually expended in excess of the budgeted amount for that project by the lesser of 25%, or \$250,000 for Electric or \$125,000 for Water; or
 - b. A project that is not in the approved Five-Year Capital Improvement Plan that is projected to cost in excess of \$500,000 for Electric or \$250,000 for Water in the current year.
 - c. Budget amendments required under either "a" or "b" above will be accompanied by an updated view of the Five-Year Capital Improvement Plan, with the impact of the proposed amendment reflected in the plan. The update is for review purposes only; the Five-Year Capital Improvement Plan will only be approved once per year.

The Board will consider each proposed budget amendment and either approve or disapprove. In the event of disapproval, the General Manager will exercise established authorities in taking actions necessary to curtail spending within authorized levels.

All other budget variances will be managed at the discretion of the General Manager.

Note: Major Capital Budget Projects are defined as those projects in excess of \$500,000 for the Electric Utility or \$250,000 for the Water Utility. Lists of projects that meet these criteria are included in the budget document approved by the Board for both the Electric and Water Utilities.

Source: Jim Origliosso, Board Approved 2000, Ratified 04/19/2005, Amended 07/19/2005, Amended 01/17/2006, Amended 05/16/2006

ATTACHMENT 2

Policy Number: EL1
Policy Type: Executive Limitations
Policy Title: Financial Controls
Effective Date: May 16, 2006

Consistent with the Financial Policy on Budget (SD6), staff will bring a balanced budget to the Board for approval on an annual basis. Each utility shall have an operations & maintenance (O&M) budget and a capital budget. ~~In its totality, the annual~~ Each budget is the ~~absolute~~ maximum level of expenditure authorized by the Board. Prior to budget approval, ten-year O&M and capital plans will be provided to the Board to ensure that decisions take into consideration long-term financial impacts. ~~In addition to the annual budget, staff will bring a Five Year Capital Improvement Plan for each utility to the board for approval on an annual basis.~~

Conditions may arise during any given budget year that cause projected expenditures for either ~~utility~~ Utility's O&M or capital budgets ~~as a whole~~ to be higher than those approved by the Board ~~in the annual budget~~. In the following circumstances executive management is required to propose a budget amendment:

1. The ~~operating~~ O&M budget of either the Water or the Electric utility is projected to exceed the authorized budget amount; ~~or~~

~~2. The total EWEB labor and benefit expenditures are expected to be more than the budgeted labor and benefit costs.~~

~~3. The capital budget of either the Water or the Electric utility is projected to exceed the authorized budget amount; ~~or~~.~~

~~a. Expenditures for a major capital project are projected to exceed or are actually expended in excess of the budgeted amount for that project by the lesser of 25%, or \$250,000 for Electric or \$125,000 for Water; ~~or~~~~

~~b. A project that is not in the approved Five Year Capital Improvement Plan that is projected to cost in excess of \$500,000 for Electric or \$250,000 for Water in the current year.~~

~~e. Budget amendments required under either "a" or "b" above will be accompanied by an updated view of the Five Year Capital Improvement Plan, with the impact of the proposed amendment reflected in the plan. The update is for review purposes only; the Five Year Capital Improvement Plan will only be approved once per year.~~

The Board will consider each proposed budget amendment and either approve or disapprove. In the event of disapproval, the General Manager will exercise established authorities in taking actions necessary to curtail spending within authorized levels. All other budget variances will be managed at the discretion of the General Manager.

Throughout the year, staff will provide the Board with quarterly financial reports that compare actual results with budget. Additionally, staff will provide the Board with quarterly updates for all current year projects on the Capital Improvement Plans. General Capital Renewal and Replacement projects (Type I) will be reported by category (e.g., substations, shared IT infrastructure, transmission & distribution mains). Infrastructure Rehabilitation & Expansion (Type II) and Strategic Projects (Type

III) will be reported individually. Type II and III projects are further defined as those that are projected to be greater than \$1 million for the life of the project.

Annually, an independent audit of the Utilities' financial statements will be performed and the results reported to the Board.

Note: Major Capital Budget Projects are defined as those projects in excess of \$500,000 for the Electric Utility or \$250,000 for the Water Utility. Lists of projects that meet these criteria are included in the budget document approved by the Board for both the Electric and Water Utilities.

Source: Jim Origliosso, Board Approved 2000, Ratified 04/19/2005, Amended 07/19/2005, Amended 01/17/2006, Amended 05/16/2006

ATTACHMENT 3

Policy Number: Proposed EL1
Policy Type: Executive Limitations
Policy Title: Financial Controls
Effective Date:

Consistent with the Financial Policy on Budget (SD6), staff will bring balanced Electric and Water Utility budgets to the Board for approval on an annual basis. Each Utility shall have an operations & maintenance (O&M) budget and a capital budget. Each budget is the maximum level of expenditure authorized by the Board. Prior to budget approval, ten-year O&M and capital plans will be provided to the Board to ensure that decisions take into consideration long-term financial impacts.

Conditions may arise during any given budget year that cause projected expenditures for either Utility's O&M or capital budgets to be higher than those approved by the Board. In the following circumstances management is required to propose a budget amendment for Board approval:

1. The O&M budget of either the Water or the Electric Utility is projected to exceed the authorized budget amount; or
2. The capital budget of either the Water or the Electric Utility is projected to exceed the authorized budget amount.

The Board will consider each proposed budget amendment and either approve or disapprove. In the event of disapproval, the General Manager will exercise established authorities in taking actions necessary to curtail spending within authorized levels. All other budget variances will be managed at the discretion of the General Manager.

Throughout the year, staff will provide the Board with quarterly financial reports that compare actual results with budget. Additionally, staff will provide the Board with quarterly updates for all current year projects on the Capital Improvement Plans. General Capital Renewal and Replacement projects (Type I) will be reported by category (e.g., substations, shared IT infrastructure, transmission & distribution mains). Infrastructure Rehabilitation & Expansion (Type II) and Strategic Projects (Type III) will be reported individually. Type II and III projects are further defined as those that are projected to be greater than \$1 million for the life of the project.

Annually, an independent audit of each Utility's financial statements will be performed and the results reported to the Board.

Capital Plan Major Projects

2014-Q3 Quarterly Update Report - SAMPLE DATA ONLY

		2014			Project Total			Completion Date			Status/Comments		
		Budget	YTD Actual	Year-End Projection	Initial Plan	To-Date Actual	Project-End Projection	Start Date	Initial Plan	(Projected) Actual			
These categories and projects will match the Capital Improvement Plan (CIP) + additional qualifying projects.													
Type 1 - General Capital													
1	Electric Infrastructure - Generation	\$1,840,000	\$1,443,945	\$1,516,142	These categories will match the Capital improvement Plans (CIPs) submitted by Water & Electric. Type 1 - General Capital is budgeted Year-by-Year for recurring capital expenditures from January through December. Typical Type 1 Capital includes categorized collections of projects of less than \$1 million. Typical examples include "pole replacements" as part of Transmission & Distribution. This work typically involves many small projects that up to \$1.2-\$1.7 million per year.								Completed west-bank fish ladder at Leaburg
2	Electric Infrastructure - Substations & Telecom	\$1,455,456	\$2,142,626	\$2,249,757									Several 115kV breakers replaced in 2013
3	Electric Infrastructure - Transmission & Distribution	\$8,320,000	\$7,691,266	\$8,075,829									Progress made on Disaster Recovery
4	Shared IT infrastructure	\$2,332,000	\$3,507,910	\$3,683,306									Working on "opt-in" re-planning
5	Electric specific technology improvements	\$750,000	\$564,213	\$592,424									
6	AMI network and IT work	\$300,000	\$132,745	\$139,382									
7	WACFR - Work, Asset, Customer and Financials	\$2,753,847	\$3,680,485	\$3,864,509									
8	General Plant - Buildings & Land Management		\$151,217	\$158,778									
9	General Plant - Electric Fleet Capital	\$980,883	\$1,154,057	\$1,211,760									
10	LTD West Site EMX	\$0	\$54,245	\$56,957									
Type 2 - Infrastructure Rehabilitation & Expansion													
12	Back Up Control Center	\$303,000	\$822,002	\$822,002	\$1,467,474	\$1,237,446	\$1,237,446	Apr-2012	Jul-2013	Jul-2013		2013 BAM to \$850K; Met NERC deadline 7-1-13	
13	Landis & Gyr 5300/5500 RTU Replacements	\$600,000	\$193,707	\$343,707	\$1,250,000	\$254,283	\$1,500,000	Jan-2013	Dec-2014	(Dec. 2016)			
14	Downtown Network - Implementation of new system	\$4,226,125	\$2,289,735	\$2,789,735	\$15,500,000	\$3,311,735		Sep-2010	Dec-2014	TBD			
15	Extend WillowCk Fdr 5721 W on W 11th to Danebo Fdr 4923	\$1,008,000	\$1,001	\$1,001	\$1,008,000	\$2,861		Jun-2013	Dec-2013	TBD		Postponed to fund and resource DT Network Proj.	
16	River Road Breaker Enhancement	\$0	\$141,582	\$141,582	\$834,514	\$1,045,092		Nov-2011	Nov-2012	Mar-2013		Project delayed because of materials issues	
17	Energy Insight	\$90,013	\$517,069	\$650,000	\$750,000	\$778,435	\$1,100,000	Mar-2011	Apr-2013	Nov-2013		2013 BAM-11 \$749,641, Approved Nov.	
18	Metro Ethernet	\$1,274,000	\$980,925	\$980,925	\$5,725,000	\$4,489,066		Apr-2012	Jul-2013	Note		July 1, Working on post-commissioning bug fixes	
Type 3 - Strategic Projects & Programs													
20	AMI Deployment - Meter Acquisition Costs	\$0	\$5,436	\$5,436	\$12,400,000	\$5,436					Example - Early stages of a large project. Board gets early visibility even if present-year is under \$1MM		
21	Carmen Smith License Implementation	\$7,528,000	\$2,947,222	\$3,065,111	\$165,280,000						Example - Project over \$1 million that has been postponed. Board is aware when high-profile projects get delayed or postponed.		
Example - Project remains visible even when present-year drops below \$1 million threshold		Example - Evolving projects that pass \$1 million threshold that would never pass in any one year, but accumulate over time.											

Type 1, 2, 3 Description Here.... For Reference.

ATTACHMENT 4