WDI Project Contingency Usage Policy

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PURPOSE

To prescribe the intention and use of **Project Contingency** for Walt Disney Imagineering-managed capital projects and define related procedures including developing the **Risk Log**, categorizing Contingency usage, and establishing protocols within the **Change Management Request** process (see Figure A in Appendix for visual summary)

DEFINITIONS

I. **Project Contingency** *(hereafter "Contingency")*: A project reserve account in which capital budget is allocated to cover known or potential / unforeseen cost variances relative to the base CAR estimate (e.g., errors & omissions, field-driven conditions) throughout the project lifecycle, via established Change Management Request protocols

II. **Risk Log** *(also known as Risk Register or Risk / Opportunity Log)*: A comprehensive list of both known and potential (go-forward) risks and opportunities affecting a WDI-managed capital project, which defines the associated Responsible Individual(s), timing, ROM / Carried Value, and probability of occurrence to assess the resulting financial impact to the project and derive the required Contingency value

III. **Contingency Categorization**: A standardized set of phase / subtype categories into which non-discretionary Contingency usage is defined / budgeted at CAR and subsequently tracked throughout the duration of a project, as follows:
- Design
- Procurement
- Field & Implementation
- Administrative

IV. **Change Management Request** *(hereafter "CMR")*: The process through which usage of non-discretionary and discretionary Contingency (see Figure C in Appendix) is defined, justified, and approved prior to funding an exposure from, or facilitating a return to, Contingency budget (e.g., JFC, budget transfer)

V. **Executive Management**: The approving parties required for discretionary change usage, relative to the value threshold of the change request (see Figure B in Appendix)

PROCEDURES & GUIDELINES

As a Gate 3 deliverable leading to CAR, all known / potential risks must be identified and quantified in the **Risk Log** to develop the required Contingency value as part of the CAR estimate, and assigned to the relevant **Contingency Categorization.** This assessment serves as the basis of comparison for a project's actualized transactions and performance relative to CAR.

On a monthly or more frequent basis, the **Risk Log** must be updated to document an ongoing assessment of the Contingency risk analysis and reflect actualized draws (or returns) for risks that have been reduced, abated, or increased, as well as to identify new risks or opportunities.

In so doing, non-discretionary risks should be tracked in three (3) primary categories:

Primary Category	Phase / Subtype	Definition
Design Risk	Design	Related to the progression of design from Feasibility (or the point of budgeting), which could be driven by scope definition / understanding, code compliance, jurisdictional direction, early design errors & omissions, etc.
Buy Risk	Procurement	Related to procurement cost variation, which could be driven by market factors, competition, estimate pricing errors, etc.
Event-Based Risk	Field & Implementation Administrative	Related to potential impacts of events or discovery during the course of fabrication, construction, or installation; these items address field conditions, E&O during construction, weather impacts, staffing (internal and external), currency exchange, interest rate variation, non-discretionary scope change, visual intrusions, etc.

The subtype changes of each primary category are defined in the Type-Cause Matrix (see Figure C in Appendix).

PROCEDURES & GUIDELINES (continued)

When a risk is known or expected to materialize with a high degree of certainty, the **CMR** process and workflow must follow:

1. Identification and definition of risk, including Responsible Individual(s), timing, associated ROM / Carried Value, and probability of occurrence
2. Justification and determination of funding (e.g., Contingency-WBS account)
3. Review and approval by the Project Manager/Producer, Estimator, and Finance*
4. Funding execution and Risk Log adjustment / true-up to reflect the event

**In certain cases (e.g., discretionary usage), elevated approvals are required beyond the project team*

Transfers associated to all exposures and opportunities must be documented through Contingency, following the CMR process accordingly, and may not occur solely through transfers between budgeted lines (e.g., a WBS-WBS budget transfer to fund an over-committed or over-spent line from an opportunity elsewhere).

IMPLICATIONS

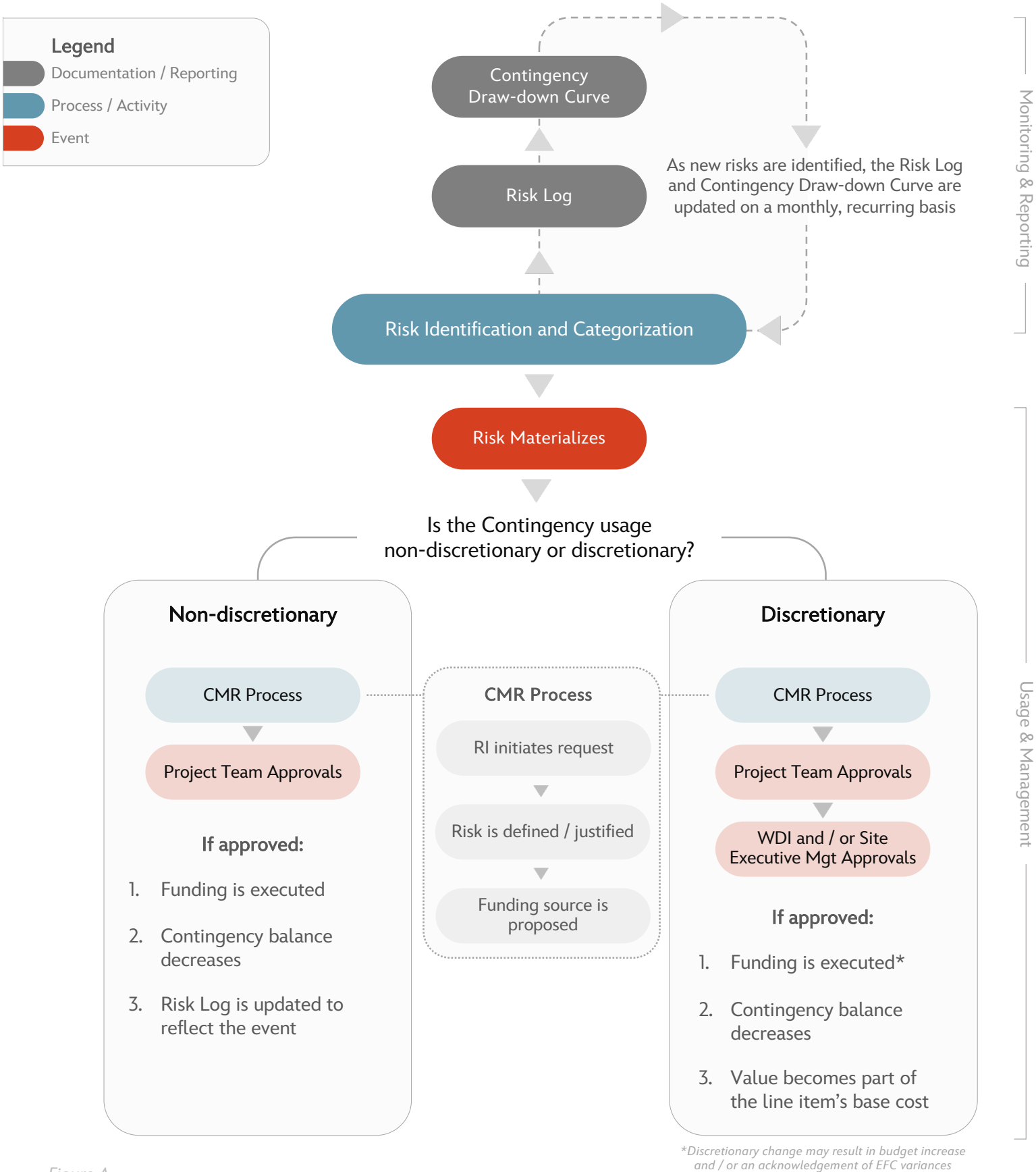
A project's Cost Trend is a function of the remaining / available Contingency budget and required Contingency assessment / go-forward need (i.e., **Risk Log**). To forecast usage and available Contingency, a Contingency Draw-down Curve (see Figure D in Appendix) must be developed at CAR and maintained throughout the project lifecycle, representing the original baseline, usage to date, and forecasted remaining usage.

LIMITATIONS & OTHER CONSIDERATIONS

Elective or discretionary Contingency usage must be approved by **Executive Management**. If use of Contingency for elective changes is approved by **Executive Management**, it is then deducted from the Contingency balance and becomes part of the applicable line item's Base Cost. Elective or discretionary changes may result in an increase to the project budget.

The procedures established herein apply solely to Contingency usage, and do not extend to other reserve accounts such as Management Reserve or Risk Reserve, which are governed by distinct policies and procedures.

Appendix



*Discretionary change may result in budget increase and / or an acknowledgement of EFC variances

Figure A

Appendix

DISCRETIONARY CHANGE APPROVAL MATRIX

Elective or discretionary change requests must be approved by **Executive Management** parties, in accordance with the approval threshold matrix below.

Discretionary Request Thresholds	Executive Management Approvers
Less than $100K	- Portfolio Creative Producer - Portfolio Creative Director - Portfolio Project Manager - Portfolio Project Integration Lead[1] - Executive DLE Producer[1]
$100K – $1M	All of the above, plus: - SVP Delivery, WDI - SVP Creative Development, WDI - SVP, DLE[1] - Site Representative[2]
Greater than $1M	All of the above, plus: - President and CCO, WDI - President, Site

Figure B

[1] *Only where applicable*

[2] *The VP level executive of the associated Site (e.g., VP - Park)*

Appendix

TYPE – CAUSE MATRIX

Relative to the Contingency Categorization outlined in this document, the below summarizes the subtype changes associated to each primary category.

		CODE			DESCRIPTION
NON-DISCRETIONARY		**N**			**Non-Discretionary**	Work required to complete the construction / installation and meet program, regulatory and business objectives.
		N	**1**		**Planned Work**	For use on 100% budgeted work (e.g. no source/use of contingency).
		N	**2**		**Design**	
		N	2	A	New Code	Change in requirement caused by a new code which took effect after the CAR was signed.
		N	2	B	Code Interpretation	A governing authority interprets an existing code in a more stringent way than we do.
		N	2	C	Safety/Security	Any unplanned requirement that is deemed necessary to ensure safety.
		N	2	D	Design Sequencing	Constraints cause the work to be designed in the wrong sequence with multiple iterations, re-dos and/or coordination of disciplines.
		N	2	E	Known Condition, Code, or Input Omitted	When information (as-builts/existing conditions, codes, given inputs) is available but missed or omitted in the drawings.
		N	2	F	Constructability	When construction/installation feedback is given & drives cost because initial design was not buildable. Could be result of in-field design conflicts.
		N	2	G	Errors & Omissions	Overall errors & omissions for mistakes in deliverables e.g. drawings, specs, scope of work, color boards, etc.
		N	**3**		**Procurement**	Scope Procurement, Bid Variance & Market Driven
		N	3	A	Buy Out/Estimate Variance	A bid received from a contractor/vendor or internal estimate which is different than the budget but for which the scope has not changed.
		N	3	B	Commodity/Contractor Labor Rate Escalation	Raw & finished material escalation as well as contractor labor escalation
		N	**4**		**Field / Implementation**	
		N	4	A	Safety/Security	Any unplanned requirement that is deemed necessary to ensure safety.
		N	4	B	Construction/Installation Sequencing	Constraints cause the work to be performed in the wrong sequence, with unplanned starts and stops and/or requires additional coordination of trades.
		N	4	C	Field Extension	Extending duration in the field.
		N	4	D	Schedule Recovery	Choice to buy recovery of schedule to stay on track and not get farther behind.
		N	4	E	Errors & Omissions	Overall errors & omissions for mistakes in deliverables e.g. drawings, specs, scope of work, color boards, etc.
		N	4	F	Scope Gaps	When a component of the scope is missed during buyout and/or not a part of the initial plan, but is necessary to complete the work.
		N	4	G	Unforeseen Site Conditions	A condition which was not possible to predict or see until the work exposed it.
		N	4	H	In-Field Clash	When multiple trades scopes' overlap in the field and must be correctly coordinated.
		N	4	I	Force Majeure	An act of god like the affects of a hurricane, earthquake, flood, fire, freeze etc.
		N	4	J	Weather	Inclement weather disrupts the productivity of field work.
		N	**5**		**Administrative**	Administrative choice to resolve contractor dispute,buy schedule recovery or resolve litigation. Includes unavoidable administrative fluctuation from an external source.
		N	5	A	Performance Overrun/Underrun	Self performance or T/M work, as it progresses, requires more time and money than anticipated.
		N	5	B	Incentives / Penalties	Financial or schedule incentives required to motivate or penalize vendor to achieve contractual obligations.
		N	5	C	Labor Harmony	Typically related to organized labor (union strikes) disputes and our need to take action to allow the work to continue.
		N	5	D	Currency Fluctuation	An unusual change in the exchange rate between currencies that is outside the project baseline assumptions.
		N	5	E	Business Decision / Litigation	Choice to make a payment to a contractor to resolve a dispute in the interest of relationship, fairness, or so that the balance of the work will progress harmoniously to avoid litigation, or payment required by court, arbitrator, or agreed in meditation.
		N	5	F	Internal Labor Rate Change	Internal labor rate change not covered by the project escalation budget.
		N	5	G	Capitalized Interest	An unusually high interest rate change imposed by corporate which is not within the budgetary limits of the project.
		N	5	H	Capital Re-Allocation	Rebaseline/realignment between Gates and/or phases, or studios. This includes shifting ofcontingency to/from Management Reserve.
		N	5	I	Vendor / Contractor Default/ Performance Issues	Cost associated with a change in Vendor or contractor realted to performance, solvency and / or default.
DISCRETIONARY		**D**			**Discretionary**	Work that is optional and not viewed as critical to program, regulatory or business objectives.
		D	**1**		**Schedule Acceleration**	The cost of an altered schedule to progress the work faster than planned or contracted.
		D	**2**		**Enhancements**	An improvement in an element of project scope.
		D	2	A	Visual Intrusion	Correction of visual intrusion.
		D	2	B	Not Good Enough	Deemed not good enough by executive management.
		D	2	C	Life Cycle Improvement	Additional cost based on improving the life cycle.
		D	**3**		**New Scope**	The addition of a new element to project scope.

Figure C

The most current version can be located under NexGEN[1] resources on the WDI Learning Support portal.

[1] NexGEN is considered the system of enforcement and management for Walt Disney Imagineering projects. Due to unique business circumstances, other project management tools may be in use, but do not supersede the terms of this policy.

CONTINGENCY DRAW-DOWN CURVE

A Contingency Draw-down Curve must be developed at CAR and maintained throughout the project lifecycle to monitor Contingency and include:

- Original baseline (i.e., CAR assessment)
- Usage / actuals to date
- Forecasted usage for the duration of the project

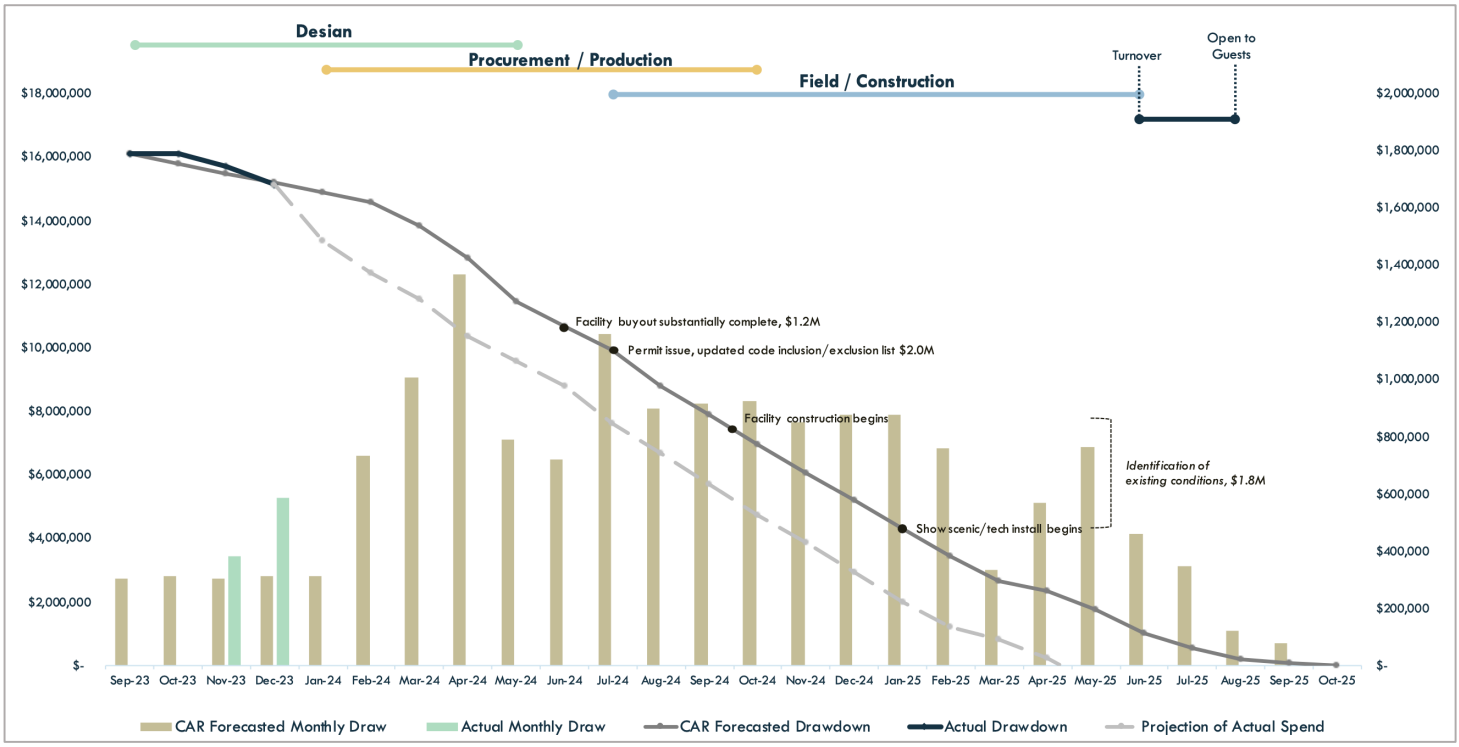


Figure D