



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Schlossberg, Brown, Carlson, Barofsky and McRae
FROM: Deborah Hart, CFO; Aaron Balmer General Accounting & Treasury Supervisor
DATE: September 1, 2021
SUBJECT: Rate Stabilization Fund History and Purpose
OBJECTIVE: Information Only

Issue

EWEB's Rate Stability Policy calls for certain funds to be held in reserve for the purpose of mitigating rate impacts from unanticipated events. Reserves held under this policy include the Power Reserve, Operating Reserves, Self-Insurance Reserve, and Rate Stabilization Fund. This is a brief description of the history and purpose of the Rate Stabilization Fund.

Background

As part of the annual reserve discussion in 2015, the Electric Unallocated Power Fund was renamed the Rate Stabilization Fund, and a new fund of the same name was also approved for the Water Utility. In 2017, the Rate Stabilization Fund was formally established within EWEB's financial policies. It is intended to enhance a Utility's agility during financial challenges and minimize rate impacts to customers. Funds may be used at the Board's discretion, however, typically should be used for one-time expenses, emergent items, and/or to reduce borrowing requirements. Ongoing expenses should be matched with ongoing revenues. Transfers to/from the fund require Board approval.

Discussion

The recommended targets of \$5 million for the Electric Utility and \$1 million for the Water Utility represent revenue approximately equal to a 3% rate impact over a single year. Current balances represent annual revenues approximately equal to a 14% rate impact to the Electric Utility and a 30% rate impact to the Water Utility.

	<u>Target</u>	<u>Balance 7/31/2021</u>
Electric Rate Stabilization Fund	\$ 5,000,000	\$ 24,469,000
Water Rate Stabilization Fund	\$ 1,000,000	\$ 10,000,000

In addition to mitigating rate impacts, the Rate Stabilization Fund is a unique reserve in the context of EWEB's Debt Service Coverage (DSC) calculation. DSC is a key financial metric under EWEB's master bond agreements and is observed by credit rating agencies to monitor EWEB's ability to make ongoing payments to bondholders. Under current master bond resolutions, transfers to the Rate Stabilization Fund are considered a reduction to revenues available for debt service. Accordingly, transfers *to* the rate stabilization fund reduce the DSC ratio. Conversely, transfers *from* the Rate

Stabilization Fund increase revenues available for debt service and therefore the DSC ratio is higher. In practice, EWEB has deferred revenue available for debt service following a strong financial year to benefit future DSC calculations.

Prior uses of Rate Stabilization Funds include payments to reduce outstanding debt and to participate in the PERS Employer Incentive Fund, where State funds provided a 25% matching contribution.

Based on Board direction at the time of earlier deposits, the planned use of current balances in the Rate Stabilization Fund is to reduce future borrowings required to fund large capital projects.

Recommendation & Requested Board Action

There is no recommendation or requested Board action.