



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown  
FROM: Sue Fahey, Finance Manager; Susan Eicher, Accounting and Treasury Supervisor  
DATE: May 26, 2015  
SUBJECT: Reserve Fund Status and Transfers  
OBJECTIVE: Approval of Resolution No. 1515

---

## **Issue**

The Board considers annually how to allocate funds to reserve and designated fund accounts after the annual audit. This memo provides recommendations for transfers and updated targets based on EWEB's strategic plan and the Electric and Water Utilities' financial conditions.

## **Background**

The Board has established a number of reserves and designated fund accounts and has approved financial policies with targets for several of the accounts. On an annual basis, after the financial audit, staff prepares a summary of the year end reserves and funds balances, compares the balances to the Board Financial Policy targets, and recommends transfers and/or changes to financial policies.

For both the Electric and Water Utilities, the cash balances at December 31, 2014 were higher than target due to budgeted and planned for reserve deposits, as well as positive contribution margin variances.

## **Discussion**

Attachments 1 and 2 provide the detail on recommended transfers for the Electric and Water Utilities, respectively. Management's rationale for the recommendations are summarized below.

### **Electric Utility**

#### **A) Working Cash**

Management recommends reallocating the \$12.1 million working cash above target to the Rate Stabilization Fund, the Power Reserve, and the Pension and Post-Retirement Medical Fund.

#### **B) Operating Reserve**

The \$6.1 million above target in the Operating Reserve is due to a 2014 budgeted transfer to support the Board's debt service coverage metric. The amount in excess of the \$2 million target is recommended to be transferred to the Rate Stabilization Fund.

### **C) Power Reserve**

Due to a 2015 projected negative contribution margin variance as a result of unseasonably warm winter weather, Management recommends transferring funds to increase the Power Reserve balance to \$5 million over target.

### **D) Capital Improvement Reserve**

Management is recommending an increase to the target ceiling of the Capital Improvement Reserve to \$20 million which more closely aligns with annual depreciation expense per the Board's Capital Reserve Policy. No transfers are recommended to the Capital Improvement Reserve.

### **E) Rate Stabilization Fund**

Management is recommending renaming the Unallocated Power Fund to the Rate Stabilization Fund. The name change more accurately reflects the purpose of the funds and complements the Board's strategic direction. Use of the Rate Stabilization Fund is intended to enhance the agility of funds during financial challenges and minimize rate impacts to customers. Funds will be used for one time expenditures and emergent items to be allocated based on the Board's direction. For example, current emerging issues include the pending impact of the Supreme Court PERS decision as well as future developments related to the Carmen-Smith FERC licensing.

### **F) Steam Transition Fund Dissolution**

The Steam Transition Fund was created to assist customers move to a different power source when the steam plant was removed from service. With all customers transitioned, Management recommends dissolving this fund. Future needs for steam decommissioning work will be funded through the regular budget process.

### **G) Pension Fund**

PERS costs were lower than budgeted by \$2.4 million. The favorable budget variance is recommended to be transferred to the Pension Fund as per Board Financial Policy.

### **H) Harvest Wind Fund**

The Harvest Wind Fund was dissolved on May 1, 2015 with the payment of the Harvest Wind Bank Anticipation Note. The Board approved creation of the fund in 2014 with the intention of paying off the note as opposed to refinancing with bonds. Board direction has been followed and the associated bank anticipation note has been paid in full.

## **Water Utility**

### **A) Working Cash**

Management recommends transferring the \$5.29 million in excess of target to the Operating Reserve, Rate Stabilization Fund, Alternate Water Supply Fund and Pension Fund.

### **B) Operating Reserve**

Management recommends bringing the Operating Reserve up to the financial policy target of \$1 million.

### **C) Capital Improvement Reserve**

No transfers are recommended to the Capital Improvement Reserve.

### **D) Rate Stabilization Fund**

Two years ago the Board adopted a rate smoothing strategy to begin accumulating reserves in an effort to eliminate rate shock due to fluctuations in future capital spending amounts. Given the uncertainty surrounding the impact of the recent Supreme Court PERS Ruling and spending requirements for the Alternate Water Supply, Management recommends creating a Rate Stabilization Fund. Like the Electric Utility, use of the Rate Stabilization Fund is intended to enhance the agility of funds during financial challenges and minimize rate impacts to customers. Funds will be used for one time expenditures and emergent items to be allocated based on the Board's direction.

### **E) Alternate Water Supply Fund**

The Alternate Water Supply (AWS) Fund was created in 2014 to be used for costs related to the AWS strategic initiative. Three percentage points of the 2014 rate increase are specifically dedicated to this fund. One of the first steps to developing an AWS is to acquire properties for intake and treatment sites. Management is recommending transferring an additional \$1 million to the AWS Fund which could assist in funding property purchases. With this additional transfer, approximately all revenues budgeted as a result of the 2014 6% rate action will be deposited in the AWS Fund.

### **F) Pension & Post-Retirement Medical Fund**

PERS costs were lower than budgeted by \$480,000. The favorable budget variance is recommended to be transferred to the Pension Fund as per Board Financial Policy.

## **Recommendation and Requested Board Action**

Management recommends that the Board approve Resolution No. 1515 which authorizes the transfers of funds as stated above. If you have any questions, please contact Sue Fahey, 541-685-7688.

**Eugene Water & Electric Board  
Cash Targets & Balances  
December 31, 2014**

**Attachment 1**

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	ELECTRIC UTILITY			RESOLUTION RECOMMENDED TRANSFERS (OVER/UNDER) TARGET	BALANCE AFTER TRANSFER
		TARGET FLOOR	TARGET CEILING	BALANCE 12/31/2014		
<b><u>CASH FOR OPERATIONS</u></b>						
1) Working Cash	Rate Sufficiency Policy	\$ 24,000,000	\$ -	\$ 36,467,766	(12,100,000)	24,367,766
<b><u>DESIGNATED FUNDS</u></b>						
2) Operating Reserve	Rate Stability Policy	\$ 2,000,000	\$ -	\$ 8,156,919	(6,100,000)	2,056,919
3) Self-Insurance Reserve	Rate Stability Policy	1,720,000	-	1,767,232		1,767,232
4) Power Reserve	Rate Stability Policy	22,100,000	-	23,360,630	3,800,000	27,160,630
5) Capital Improvement Reserve	Capital Reserve Policy	7,500,000	20,000,000	18,930,343		18,930,343
6) Rate Stabilization Fund		-	-	147,488	12,247,089	12,394,577
Economic Development Loan Pilot Program Fund		-	-	1,952,142		1,952,142
Steam Transition Fund		-	-	247,089	(247,089)	-
Carmen-Smith Fund		-	-	15,701,735		15,701,735
7) Pension & Post-Retirement Medical Fund	Retirement Benefits Policy	-	-	5,908,123	2,400,000	8,308,123
8) Harvest Wind Fund		-	-	26,941,010		26,941,010
<b>DESIGNATED FUNDS SUBTOTAL</b>		<b>\$ 33,320,000</b>	<b>\$ -</b>	<b>\$ 76,171,701</b>	<b>\$ 12,100,000</b>	<b>\$ 88,271,701</b>
<b>WORKING CASH &amp; DESIGNATED FUNDS TARGETS &amp; BALANCES TOTAL</b>		<b>\$ 57,320,000</b>	<b>\$ 68,920,000</b>	<b>\$ 112,639,467</b>	<b>\$ -</b>	<b>\$ 112,639,467</b>
<b><u>LEGALLY RESTRICTED RESERVES</u></b>						
Bond Funds - Type II & III				\$ 23,760,249		
Reserves & Investments for Debt Service				19,458,853		
<b>RESTRICTED FUNDS TOTAL</b>				<b>\$ 43,219,102</b>		

Financial Policy - Total Targets included in ceiling

- 1) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.
- 2) Operating Reserve - for emergency operating costs.
- 3) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit for both utilities.
- 4) Power Reserve - amount of reserves to offset fluctuations in purchased power costs related to market price variability, margin requirements, uncertainty in regard to hydro generation, and customer load.
- 5) Capital Improvement Reserve - reserve for capital improvements and target is based on one year's depreciation.
- 6) Funds available for one time expenditures. To be allocated based on Board direction.
- 7) No Target - Amount designated to fund Supplemental Retirement Plan, PERS, or OPEB Trust.
- 8) Harvest Wind Fund was used to payoff the Harvest Wind Bank Anticipation Note on 5/1/15.

**Eugene Water & Electric Board  
Cash Targets & Balances  
December 31, 2014**

**Attachment 2**

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	WATER UTILITY			RESOLUTION RECOMMENDED TRANSFERS (OVER/UNDER) TARGET	BALANCE AFTER TRANSFER
		TARGET FLOOR	TARGET CEILING	BALANCE 12/31/2014		
<b>CASH FOR OPERATIONS</b>						
1) Working Cash	Rate Sufficiency Policy	\$ 3,400,000	\$ -	\$ 8,750,418	(5,290,000)	\$ 3,460,418
<b>DESIGNATED FUNDS</b>						
2) Operating Reserve	Rate Stability Policy	\$ 1,000,000	\$ -	\$ 798,790	210,000	\$ 1,008,790
3) Self-Insurance Reserve	Rate Stability Policy	280,000	-	287,615		287,615
4) Capital Improvement Reserve	Capital Reserve Policy	3,500,000	7,000,000	4,915,296		4,915,296
5) Rate Stabilization Fund		-	-	-	3,600,000	3,600,000
Water Stewardship Fund- Septic Repairs		-	-	77,460		77,460
Economic Development Loan Program Fund		-	-	48,626		48,626
Alternate Water Supply Fund		-	-	890,369	1,000,000	1,890,369
6) Pension & Post-Retirement Medical Fund	Retirement Benefits Policy	-	-	481,682	480,000	961,682
<b>RESERVES TOTAL</b>		<b>\$ 4,780,000</b>	<b>\$ 7,000,000</b>	<b>\$ 7,499,838</b>	<b>\$ 5,290,000</b>	<b>\$ 12,789,838</b>
<b>CASH TARGETS &amp; BALANCES TOTAL</b>		<b>\$ 8,180,000</b>	<b>\$ 11,680,000</b>	<b>\$ 16,250,256</b>	<b>\$ -</b>	<b>\$ 16,250,256</b>
<b>LEGALLY RESTRICTED</b>						
7) Bond Funds - Type II & III				\$ 2,460,567		
System Development Charge Reserves				1,726,809		
Reserves & Investments for Debt Service				4,005,054		
<b>RESTRICTED FUNDS TOTAL</b>				<b>\$ 8,192,430</b>		

Financial Policy - Total Targets included in ceiling

- 1) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.
- 2) Operating Reserve - for emergency operating costs.
- 3) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit for both utilities.
- 4) Capital Improvement Reserve - reserve for capital improvements and target is based on one year's depreciation.
- 5) Funds available for one time expenditures. To be allocated based on Board direction.
- 6) No Target - Amount designated to fund Supplemental Retirement Plan, PERS, or OPEB Trust.

**RESOLUTION NO. 1515**

**JUNE 2015**

**EUGENE WATER & ELECTRIC BOARD  
RESERVE TRANSFERS**

WHEREAS, the Eugene Water & Electric Board is the body designated by the Eugene City Charter and City Code to administer the Electric and Water utilities of the City of Eugene;

WHEREAS, the Eugene Water & Electric Board has set up procedures for evaluating reserve status after the annual audit;

WHEREAS, the 2014 annual audit is complete;

WHEREAS, the Eugene Water & Electric Board has reviewed year-end results.

THEREFORE BE IT RESOLVED that the Eugene Water & Electric Board hereby authorizes the General Manager to do the following transfers:

Electric Utility

- 1) \$6,100,000 from Operating Reserve to the Rate Stabilization Fund
- 2) \$5,900,000 from Working Cash to the Rate Stabilization Fund
- 3) \$3,800,000 from Working Cash to the Power Reserve
- 4) \$2,400,000 from Working Cash to the Pension Fund
- 5) \$247,000 from Steam Transition Fund to the Rate Stabilization Fund

Water Utility

- 6) \$210,000 from Working Cash to the Operating Reserve
- 7) \$3,600,000 from Working Cash to the Rate Stabilization Fund
- 8) \$1,000,000 from Working Cash to the Alternate Water Supply Fund
- 9) \$480,000 from Working Cash to the Pension Fund

Dated this 2nd day of June 2015

THE CITY OF EUGENE, OREGON  
Acting by and through the  
Eugene Water & Electric Board

---

President

I, TARYN M. JOHNSON, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its June 2, 2015 Regular Board Meeting.

---

Assistant Secretary