



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Simpson, Helgeson, Manning, Mital and Brown
FROM: Sue Fahey, CFO; Susan Eicher, Accounting and Treasury Supervisor
DATE: August 26, 2016
SUBJECT: Electric Utility June 2016 Financial Statements
OBJECTIVE: Information Only

Statement of Revenues, Expenses, and Changes in Net Position (Income Statement)–Page 4

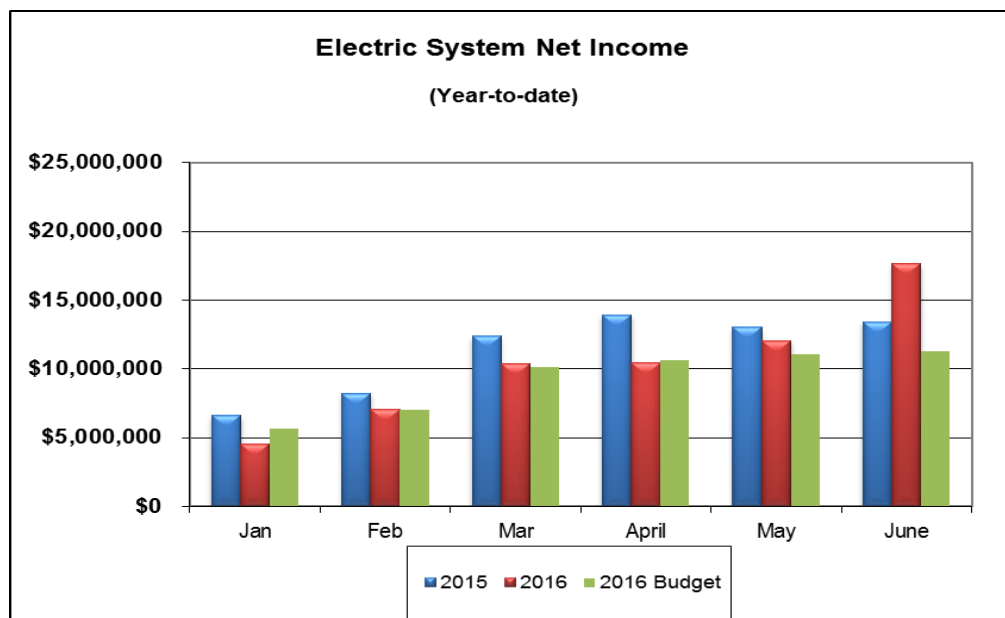
Income before capital contributions (Net Income)

Net income for the electric utility is \$17.6 million. The variance of Net Income to the Year to Date (YTD) seasonally shaped budget is a favorable \$6.4 million.

The variance breakdown is as follows: (Millions)

• Retail Revenue under budget	\$(5.9)
• Wholesale and Other revenue over budget	7.1
• Operating Expenses over budget	(2.8)
• Gain on Sale of Smith Creek Hydro Project	4.9
• Other Non-operating revenues over budget	<u>3.1</u>
	\$ 6.4

For purposes of analysis, the budget has been modified to reflect seasonal fluctuations.



Operating Revenues

Residential sales to electric residential customers are \$5 million lower than the seasonally shaped budget. The YTD lower consumption is driven by significantly fewer heating days than anticipated in the budget for January through May.

Compared to 2015, residential revenue is basically unchanged.

Commercial and industrial sales are not as subject to variation due to weather conditions, and are tracking with the seasonal budget.

Sales for resale represents sales of power in excess of our need for load and some sales related to hedging activity. With hedging activities and more power available for resale due to lower retail consumption, sales for resale are \$7 million above the YTD seasonally shaped budget. Currently, wholesale market prices per MWH are approximately 11% higher as compared to budget.

Other operating revenue includes customer account related fees, conservation reimbursements and billable operations & maintenance (O&M) work. Other operating revenues are in line with the seasonal budget.

Operating expenses

Operating expenses are \$2.8 million over the YTD seasonally shaped budget. **Purchased power** expense is over the YTD seasonally shaped budget by \$3.4 million. This increase is due to additional market purchases to take advantage of bookout (non-physical delivery) positions in the hedging program. Also contributing to the variance are higher than expected WGA purchases and BPA Slice True-up payable. Purchased power includes all purchases from BPA, other contracted resources and market purchases. Market purchases include purchases to serve load and purchases related to the hedging program.

Overall non-power operating expenses are under the YTD seasonally shaped budget by \$814 thousand. **Generation** is under budget by \$946 thousand, in part due to lower fuel costs for IP generation. **System control** is under budget due to lower costs in power planning, due primarily to a vacant position. The power planning budget also includes consulting expenses that will be incurred later in the year. **Transmission and distribution** costs are tracking lower than the YTD seasonally shaped budget in labor. **Customer accounting** is under budget due mostly to lower than expected costs in customer service contact center and meter reading. **Administrative and general (A&G) expense** is higher, largely due to increases in outside services, such as consulting, licensing and legal fees, particularly for work on large software conversion projects. Additionally, prior to WAM implementation overhead was applied to capital work and credited to a single account in the A&G group, reducing total A&G. Now overhead is credited to the functional areas that generated the overhead expense, including customer accounting, and engineering supervision, thereby reducing those expenses.

Non-power operating expenses combined are higher compared to 2015 primarily due to a shift in work from capital to O&M. At this time last year, the electric utility had spent a larger portion of the capital budget.

Contribution margin

Contribution margin (CM) is a measure of the amount power activity contributes to the fixed costs of the utility. CM is made up of retail, wholesale and other sales, net of the cost of purchased power, transmission and fuel. The CM revenues and expenses are shaped seasonally based upon forecasts and historical experience. At this time, the CM is forecasted to be \$6.1 million under budget at year end. The lower than budget retail sales and higher than budget purchased power costs discussed above are the primary drivers of the variance. The Board approved \$5 million above target for the Power Reserve fund to help mitigate the impact of lower sales.

Non-operating Revenues and Other Non-operating Expenses

Other non-operating revenues consist of investment earnings and miscellaneous revenues that are not related to the core business of the utility, such as rental income and sale of assets. As noted above, a \$4.9 million gain was recognized on the sale of Smith Creek Hydro Project. **Investment earnings** include interest on investments, and changes in fair market value of investments, as well as changes in the fair value of investment derivatives of \$932 thousand. Investment derivatives are a type of hedging trade. Investment market yields have slowly improved over the past three years, and unrealized fair market value changes have had a positive impact on investments and revenue since the beginning of the year.

Other expenses include non-debt related amortization, donations, the costs of environmental remediation at the former coal/gas site, and ongoing work at the riverfront property. Other expenses are low compared to the seasonally shaped budget due to changes in the accounting for pensions.

Contributions in Aid of Construction (CIA) / Contributed plant assets

Contributions in aid of construction received YTD is \$4.2 million; a \$443 thousand favorable variance to the seasonally shaped budget. The budget anticipates a total of \$10.1 million in CIA, including CIA related to the EmX project. The utility also recognized \$604 thousand in assets contributed by developers, for which there is no budget, due to the variable nature of this activity.

Eugene Water and Electric Board
Electric Utility
Statement of Revenues, Expenses, and Changes in Net Position
for the six months ended June 2016

	<u>Prior Year Comparison</u>		<u>YTD Budget Comparison</u>			
	<u>2016</u>	<u>2015</u>	<u>Annual Working Budget</u>	<u>Seasonal Budget \$</u>	<u>Seasonal Budget %</u>	<u>Seasonal Budget Variance</u>
Residential	\$ 47,869,157	\$ 47,132,297	\$ 103,236,829	\$ 52,895,000	90.50%	\$ (5,026,000)
Commercial and industrial	49,350,050	48,624,815	102,528,476	50,282,000	98.15%	(932,000)
Sale for resale and other	26,114,467	28,540,420	35,070,774	19,041,000	137.15%	7,073,000
Operating revenues	<u>123,333,674</u>	<u>124,297,532</u>	<u>240,836,079</u>	<u>122,218,000</u>	100.91%	<u>1,115,000</u>
Purchased power	55,728,900	53,053,999	106,407,402	52,288,000	106.58%	(3,441,000)
System control	2,994,565	2,952,655	6,537,435	3,263,000	91.77%	268,000
Wheeling	6,406,644	6,257,011	12,761,904	6,236,000	102.74%	(171,000)
Generation	5,478,312	5,767,742	13,052,855	6,424,000	85.28%	946,000
Transmission and distribution	10,389,896	10,401,308	21,697,711	10,334,000	100.54%	(56,000)
Customer accounting	4,169,545	4,001,765	9,508,596	4,343,000	96.01%	173,000
Conservation expenses	1,871,598	1,584,186	4,425,040	1,961,000	95.44%	89,000
Administrative and general	10,526,994	9,717,670	21,288,182	10,004,000	105.23%	(523,000)
Depreciation on utility plant	12,077,149	11,708,770	23,345,307	11,994,000	100.69%	(83,000)
Operating expenses	<u>109,643,603</u>	<u>105,445,106</u>	<u>219,024,432</u>	<u>106,847,000</u>	102.62%	<u>(2,798,000)</u>
Net Operating Income	<u>13,690,071</u>	<u>18,852,426</u>	<u>21,811,647</u>	<u>15,371,000</u>	89.06%	<u>(1,683,000)</u>
Investment earnings	2,181,050	288,372	861,695	237,000	920.27%	1,944,000
Interest earnings, Water	551,594	562,203	1,097,691	520,000	106.08%	32,000
Other non-operating revenue	6,871,352	224,553	2,911,855	810,000	848.32%	6,061,000
Non-operating Revenues	<u>9,603,996</u>	<u>1,075,128</u>	<u>4,871,241</u>	<u>1,567,000</u>	612.89%	<u>8,037,000</u>
Other expenses	541,900	595,260	1,847,645	801,000	67.65%	259,000
Interest expense and related amortization	5,119,530	5,898,520	9,430,063	4,876,000	104.99%	(244,000)
Other Non-operating Expenses	<u>5,661,430</u>	<u>6,493,780</u>	<u>11,277,708</u>	<u>5,677,000</u>	99.73%	<u>15,000</u>
Income before capital contributions	<u>17,632,637</u>	<u>13,433,774</u>	<u>15,405,181</u>	<u>11,261,000</u>	156.58%	<u>6,372,000</u>
Contributions in aid of construction	4,208,551	795,421	10,125,000	3,766,000	111.75%	443,000
Contributed plant assets	604,145	150,000	-	-		604,000
Increase in Net Position	<u>\$ 22,445,333</u>	<u>\$ 14,379,195</u>	<u>\$ 25,530,181</u>	<u>\$ 15,027,000</u>	149.37%	<u>\$ 7,419,000</u>

Net utility plant in service

The removal of the Smith Creek Hydro Project from plant in service resulted in a decrease in **utility plant in service**. A total of \$30 million of historical costs and associated accumulated depreciation was removed.

Cash and cash equivalents

Working cash balances include cash in the bank and investments. The balances in working cash are available for the day-to-day operating expenses of the utility and are, at this time, above the Board performance standard. The sale of the Smith Creek Hydro project is final. The proceeds from the sale of the Smith Creek Hydro Project in the amount of \$22.1 million remain in working cash as of July 31st and were used to defease debt on August 1st along with an additional \$5 million working cash.

Restricted cash and investments

Restricted cash and investments are primarily investments for debt service, and proceeds from bond issuance that are restricted for capital work, or Carmen Smith relicensing. Investments for debt service are accumulated to pay interest and principal to bondholders. The required February payment of interest to bondholders has been made, and balances will increase until the August payment of principal and interest.

Designated cash and investments

All reserves with Board approved performance standards are at, or above the performance standards. The Board approved the transfer of an additional \$5.0 million above the performance standard to the power reserve in anticipation of lower than expected operating results. In 2017, Finance will be discussing with the Board ways to pursue the highest level and best use of excess funds.

Investment in WGA

The **investment in WGA** represents EWEB's ownership interest in the Western Generation Agency, an intergovernmental agency with Clatskanie PUD. The balance of EWEB's investment in WGA increases when EWEB records a share of net income of WGA, and decreases when recognizing a net loss from WGA. In 2013, WGA experienced significant net loss due to a "steam hammer event" that resulted in an extended generation outage, and unexpected repair and maintenance expense. After repairs were completed, WGA returned to normal operations, and EWEB recorded net income from WGA.

Net pension asset or Net pension liability

The **Net pension asset** or **Net pension liability** represents EWEB's proportionate share of PERS system net pension liability or asset. In 2014, PERS system actuarial valuation resulted in a **net pension asset**. The 2014 valuation included cost saving changes to the PERS system that were subsequently overturned by the Oregon Supreme Court. As a consequence of the court decision, and other changes in actuarial assumptions, the 2015 PERS valuation resulted in a **net pension liability**.

Other assets

Other assets include the accumulated costs to date for Carmen Smith relicensing, and the EWEB share of certain non-cash pension expenses relating to changes in the actuarial valuation of the PERS System. EWEB has elected to use regulatory accounting to defer non-cash pension expenses, and will recognize pension expense as required employer contributions are paid.

Deferred inflows of resources

Changes in **Deferred inflows of resources** are primarily due to the deferral of non-cash pension expenses, as discussed above.

Long-term debt

The Electric Utility is required to defease bonds for the Smith Creek Hydro Project. Opportunities to defease and refund additional bonds are being pursued, and combined with the Smith Creek defeasance, debt service savings of approximately \$40 million over the lives of the bonds will be realized. The Board approved the resolution for defeasance at the April 5th meeting. A resolution to approve refunding up to \$156 million in bonds was presented to the Board, and approved at the June meeting. The refunding is expected to close in early September, with debt service savings of \$11 million, mostly concentrated in the next five years.

Recommendation/Requested Board Action

None at this time. This information is provided for informational purposes only.

**Eugene Water and Electric Board
Electric System
Statement of Net Position
June 30, 2016 and 2015**

	2016	2015	December 2015
Assets			
Capital assets			
Utility plant in service	\$ 723,622,618	\$ 730,470,098	\$ 752,863,250
Less - Accumulated depreciation	(392,359,169)	(383,830,375)	(393,797,388)
Net utility plant in service	331,263,449	346,639,723	359,065,862
Property held for future use	827,449	827,449	827,449
Construction work in progress	14,279,792	15,678,013	5,505,140
Net utility plant	346,370,690	363,145,185	365,398,451
Current assets			
Cash and cash equivalents	34,290,769	6,019,307	7,239,776
Short-term investments	28,864,480	31,295,244	16,165,484
Restricted cash and investments	47,504,581	49,645,395	42,121,803
Designated cash and investments	101,384,102	92,193,702	58,915,274
Receivables, less allowances	27,194,955	29,771,038	31,603,034
Due from Water System	897,325	877,209	887,148
Materials and supplies, at average cost	4,248,067	5,185,682	4,286,899
Prepays	7,186,819	6,865,722	6,931,033
Total current assets	251,571,098	221,853,299	168,150,451
Non-current assets			
Long-term receivable, conservation and other	5,166,508	4,822,675	5,160,480
Due from Water System	16,923,252	17,604,141	17,266,499
Long-term investments	-	-	43,657,619
Investment in WGA	3,443,437	955,010	2,786,808
Investment in Harvest Wind	24,295,199	25,624,563	25,067,481
Nonutility Property	7,830,500	7,930,604	7,830,500
Net pension asset	-	16,010,707	-
Other assets	63,442,819	58,944,197	64,320,426
Total non-current assets	121,101,715	131,891,897	166,089,813
Deferred Outflows			
Deferred outflows of resources	8,245,275	5,786,882	8,936,627
Total Assets and Deferred Outflows	\$ 727,288,778	\$ 722,677,263	\$ 708,575,342
Liabilities			
Current liabilities			
Payables	\$ 17,175,857	\$ 17,866,243	\$ 18,892,593
Accrued payroll and benefits	5,256,752	4,679,073	4,909,776
Accrued interest on long-term debt	4,616,586	4,829,232	4,616,586
Long-term debt due within one year	13,510,000	12,700,000	13,510,000
Total current liabilities	40,559,195	40,074,548	41,928,955
Non-current liabilities			
Long-term debt	232,242,858	247,039,842	232,865,868
Net pension liability	37,311,057	-	37,311,057
Other liabilities	9,830,535	10,082,717	10,339,481
Total liabilities	319,943,645	297,197,107	322,445,361
Deferred Inflows			
Deferred Inflows of resources	12,502,019	58,442,235	13,732,200
Net Position			
Net investment in capital assets	149,999,320	157,371,780	169,832,994
Restricted	24,395,383	24,229,865	17,528,492
Unrestricted	174,394,704	185,436,276	185,036,295
Total net position	394,843,114	367,037,921	372,397,781
Total Liabilities, Deferred Inflows, and Net Position	\$ 727,288,778	\$ 722,677,263	\$ 708,575,342

Capital Budget Comparison

The electric utility has spent \$5.7 million, net of contributions in aid, on capital work, compared to \$8.8 million in 2015. The largest balances were expended for improvements to the distribution system, AMI, Carmen Smith relicensing, and work for the EmX project. All project types are significantly under budget.

Note: the capital budget is approved by the Board as the maximum amount allowed for all capital work. Annual budgets by type and by individual projects are prepared for planning and reporting purposes, but overall budget accountability to the board remains at the total capital expense level.








Eugene Water and Electric Board Electric Utility Capital Budget Comparison for the six months ended June 2016

	<u>Current Month</u>	<u>Year to Date</u>	<u>Annual Working Budget w/Amendment</u>	<u>% of Budget</u>
Type 1 Capital				
Building & Land	3,157	212,742	510,720	41.7%
Distribution	761,946	3,645,192	8,200,000	44.5%
Electric Fleet	179,014	280,378	1,227,148	22.8%
Generation	46,186	152,462	915,999	16.6%
Information Technology	8,161	218,888	1,130,001	19.4%
Substation	504,617	693,294	1,650,001	42.0%
Transmission	23,931	167,345	150,001	111.6%
Total Type 1 Capital	<u>1,527,012</u>	<u>5,370,301</u>	<u>13,783,870</u>	39.0%
Type 2 Capital				
AMI	35,183	913,418	2,527,001	36.1%
CIS	-	-	1,230,001	0.0%
Downtown Network	-	7,103	2,000,000	0.4%
Holden Creek Substation	22,130	166,095	1,500,000	11.1%
Leaburg Dam Rollgate #2	9,989	37,715	1,570,000	2.4%
LTD West Side EMX	734,344	2,266,547	6,175,093	36.7%
Total Type 2 Capital	<u>801,646</u>	<u>3,390,878</u>	<u>15,002,095</u>	22.6%
Type 3 Capital				
Carmen Smith Relicensing	227,765	1,118,999	10,590,000	10.6%
Total Type 3 Capital	<u>227,765</u>	<u>1,118,999</u>	<u>10,590,000</u>	10.6%
Total Capital before CIA	<u>2,556,423</u>	<u>9,880,178</u>	<u>39,375,965</u>	25.1%
Contributions in aid	<u>(354,416)</u>	<u>(4,208,551)</u>	<u>(10,125,000)</u>	41.6%
Grand Total	<u>\$ 2,202,007</u>	<u>\$ 5,671,627</u>	<u>\$ 29,250,965</u>	19.4%

Ratios

The current ratio, a measure of current assets compared to current liabilities, increased significantly after the payoff of the Harvest Wind note in 2015, and is well above the board target. The annualized debt service coverage ratio is above performance standards at 2.25. This ratio should improve with the defeasance and refunding of bonds as mentioned on Page 5. All other ratios, including days cash, are performing better than the board targeted levels.

Electric System Financial Ratios June 30, 2016

	<u>June</u> <u>2016</u>	<u>Status</u>	<u>December</u> <u>2015</u>	<u>Performance</u> <u>Standard</u>
Current Ratio	6.203		4.010	≥ 3.250
Debt to Total Assets	0.457		0.474	≤ 0.600
Debt Service Coverage	2.251		2.048	≥ 1.750
Operating Ratio	0.791		0.811	
Days Unrestricted Cash	307		237	
Days Available Cash	212		148	≥ 90
Debt to Equity	68%		73%	≤ 91%

Notes:

Effective, 9/30/2015 - Rate Stabilization Fund was added to the calculation for Days Available Cash. While Board approval is required - this fund would be available for use in an emergency.

See next page for Ratio definitions and benchmark sources

Current Ratio

Total current assets to total current liabilities.

This ratio measures the utility's short-term liquidity (ability to pay bills).

Debt to Total Assets

Long-term debt plus current liabilities to total assets.

This ratio measures a utility's ability to meet its current and long-term liabilities based on the availability of assets.

Debt Service Coverage

Ratio of annualized net revenues available for debt service to total long-term debt service for the year. This ratio measures the utility's ability to meet its annual long-term debt obligation.

Operating Ratio

Total electric operation and maintenance expenses to total electric operating revenues.

This ratio measures the proportion of revenues received from electric sales and other electric activities required to cover operation and maintenance costs associated with producing and selling electricity.

Days Unrestricted Cash (Rating Agency Model)

Ratio of total unrestricted cash and cash equivalents

to average daily cash requirements for operating expenses (defined as yearly budgeted operating expenses net of depreciation divided by 365 days in the year).

This figure measures the length of time the utility can carry on normal operations with available unrestricted cash not otherwise designated for future capital needs.

Days Available Cash (EWEB Internal Model)

Ratio of total available cash (defined as working cash and equivalents plus general operating reserves) to adjusted average daily cash requirements for operating and other non-capital expenses (defined as actual YTD expenditures plus remaining pro-rated budget expenses for the year divided by 365 days in the year). This is a modification of Days Unrestricted Cash measuring the length of time (in calendar days) the utility can carry on projected non-capital related operations with readily available cash (defined as working cash and equivalents plus general operating reserves, including the power and rate stabilization reserves).

Debt to Equity

Ratio of total liabilities, net of current liabilities, to total equity (net assets), expressed as a percentage.

If the ratio exceeds 100% it means that outside borrowing (liabilities) exceeds the utility's own equity (net assets).

Benchmark Derived From

APPA - American Public Power Association Financial Ratios. The ratio information is taken from the most current report on standard utility ratios (2003 data, published May 2005).

Days Unrestricted Cash

Standard and Poor's Industry Standards for Investment Grade ratings

(Investment Grade Standard is 60 to 90 days unrestricted cash)

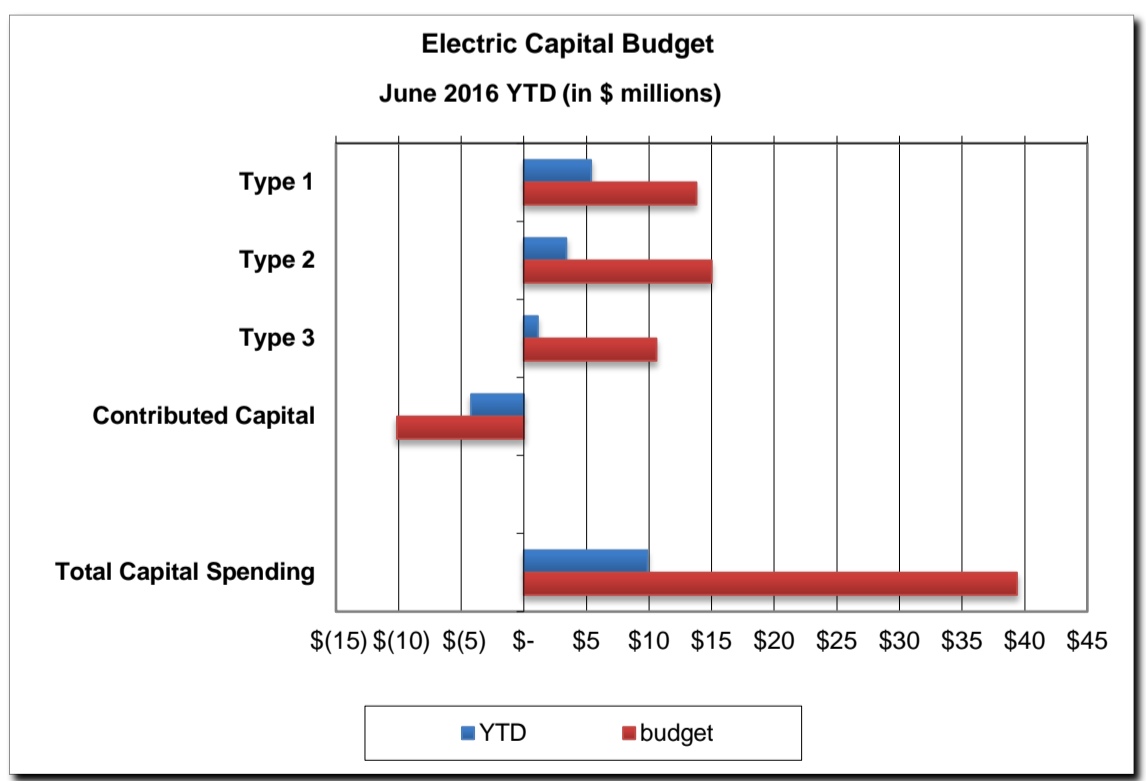
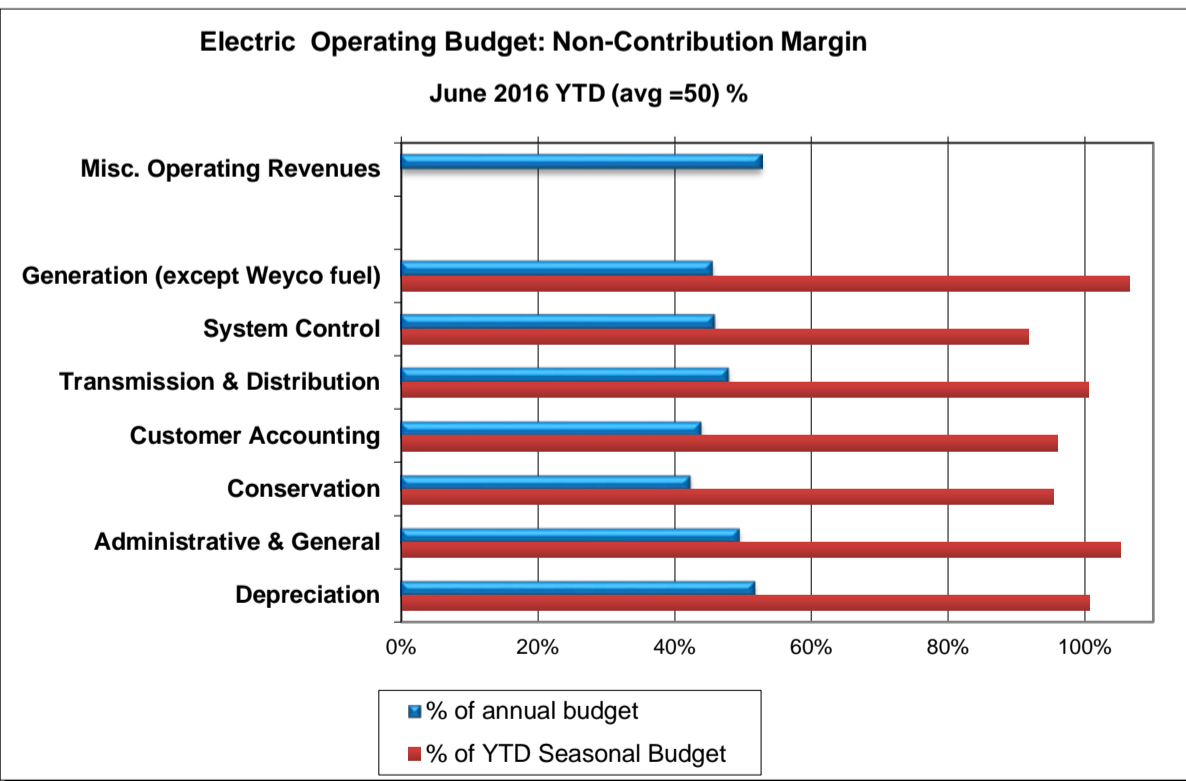
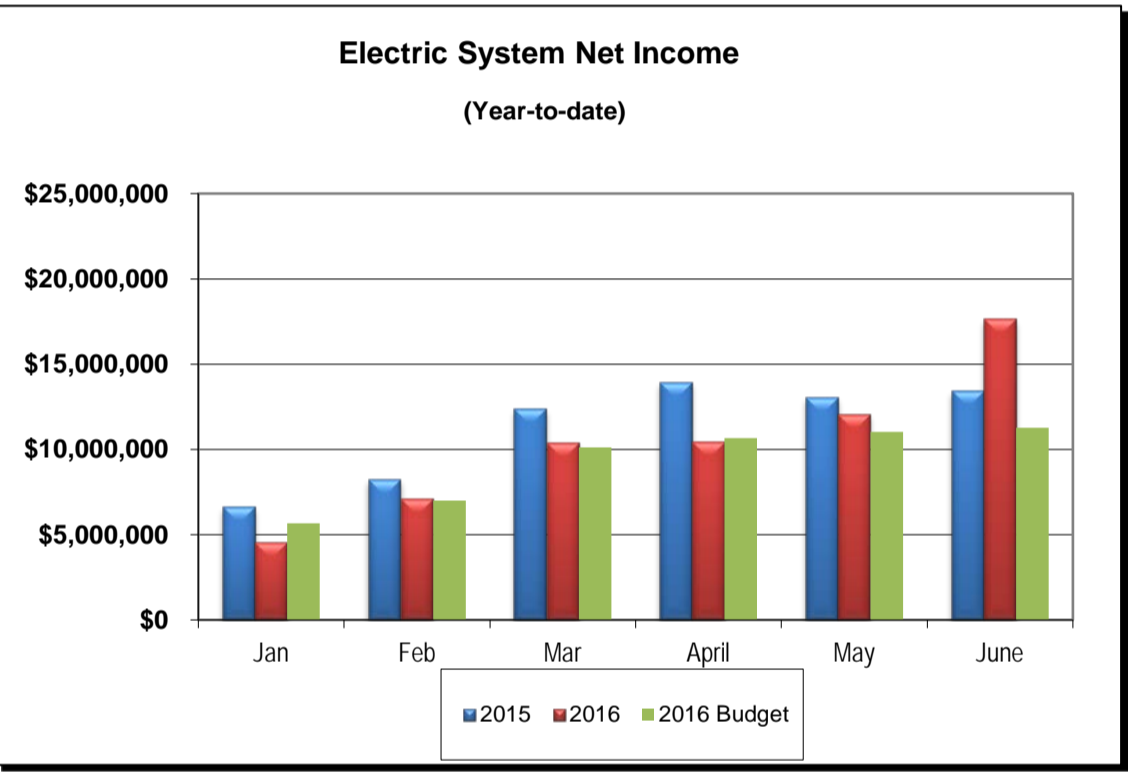
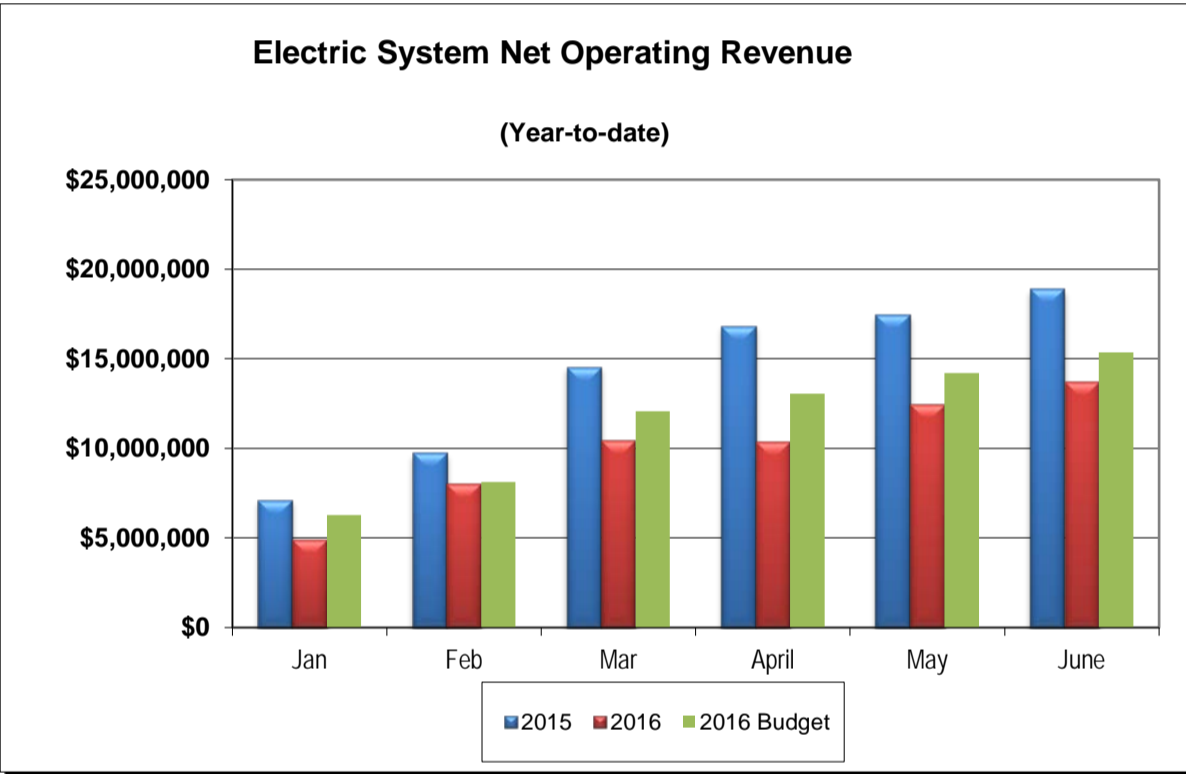
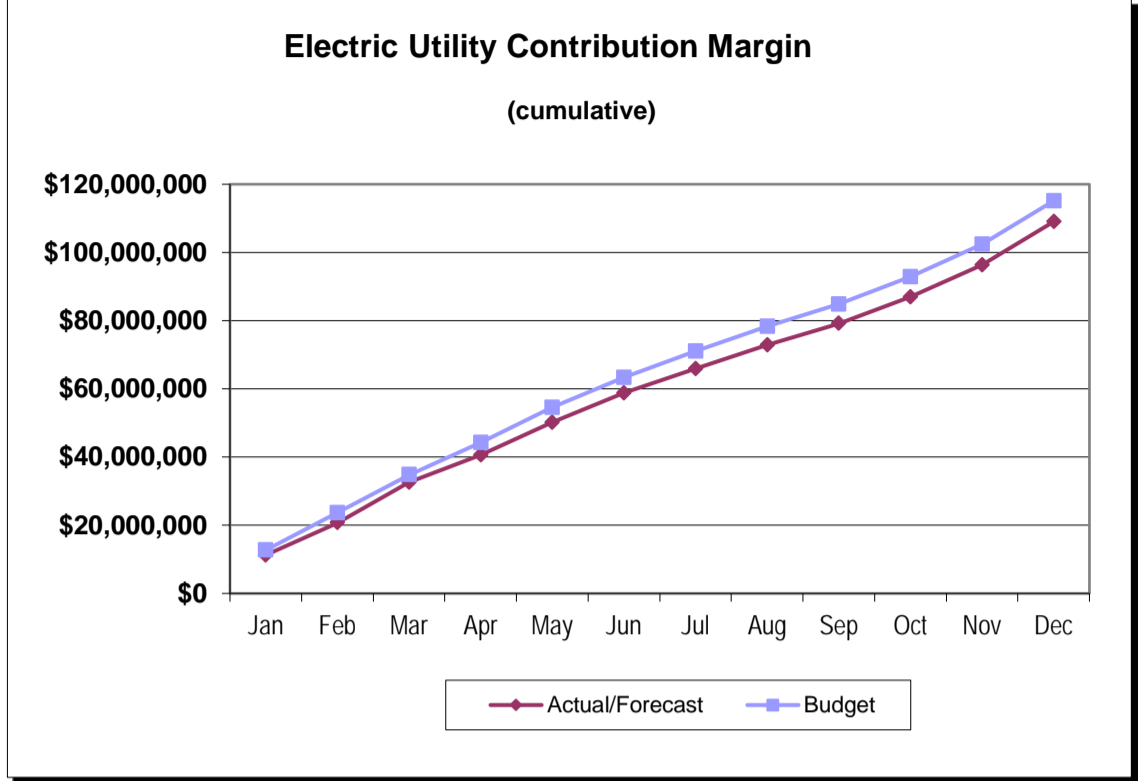
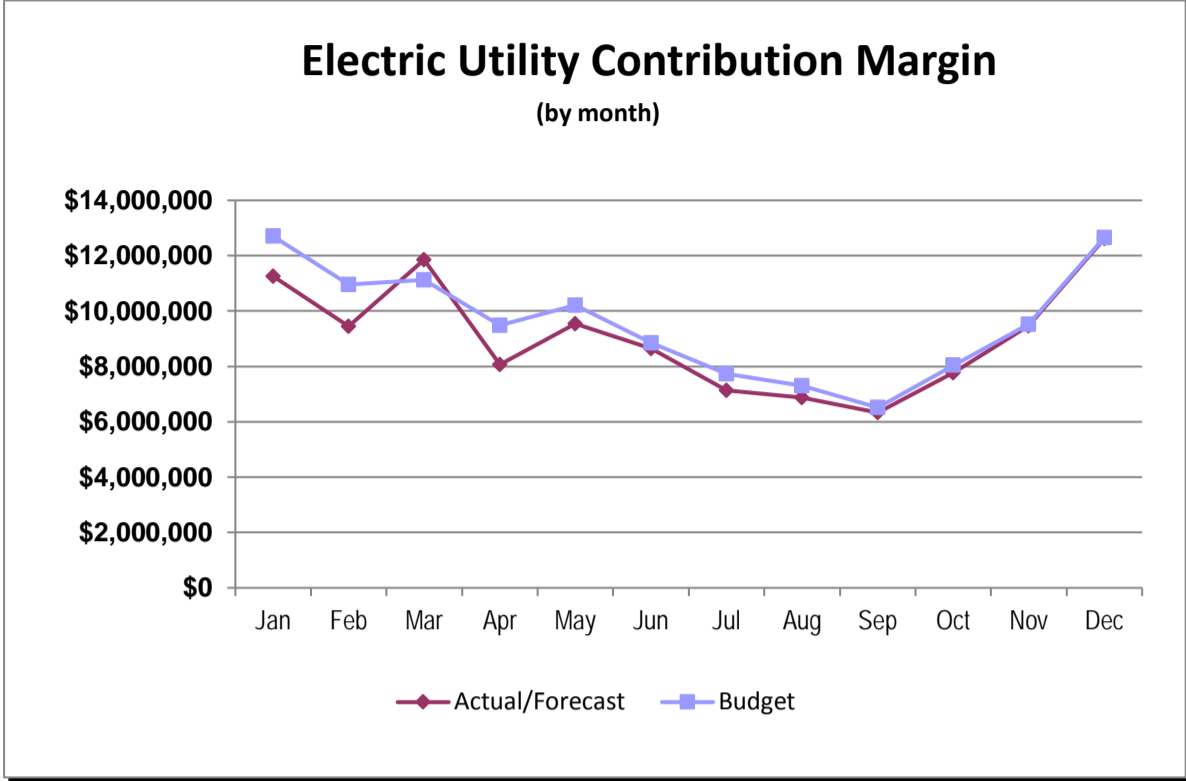
Days Available Cash

Set by management as minimum desirable level of available cash reserves

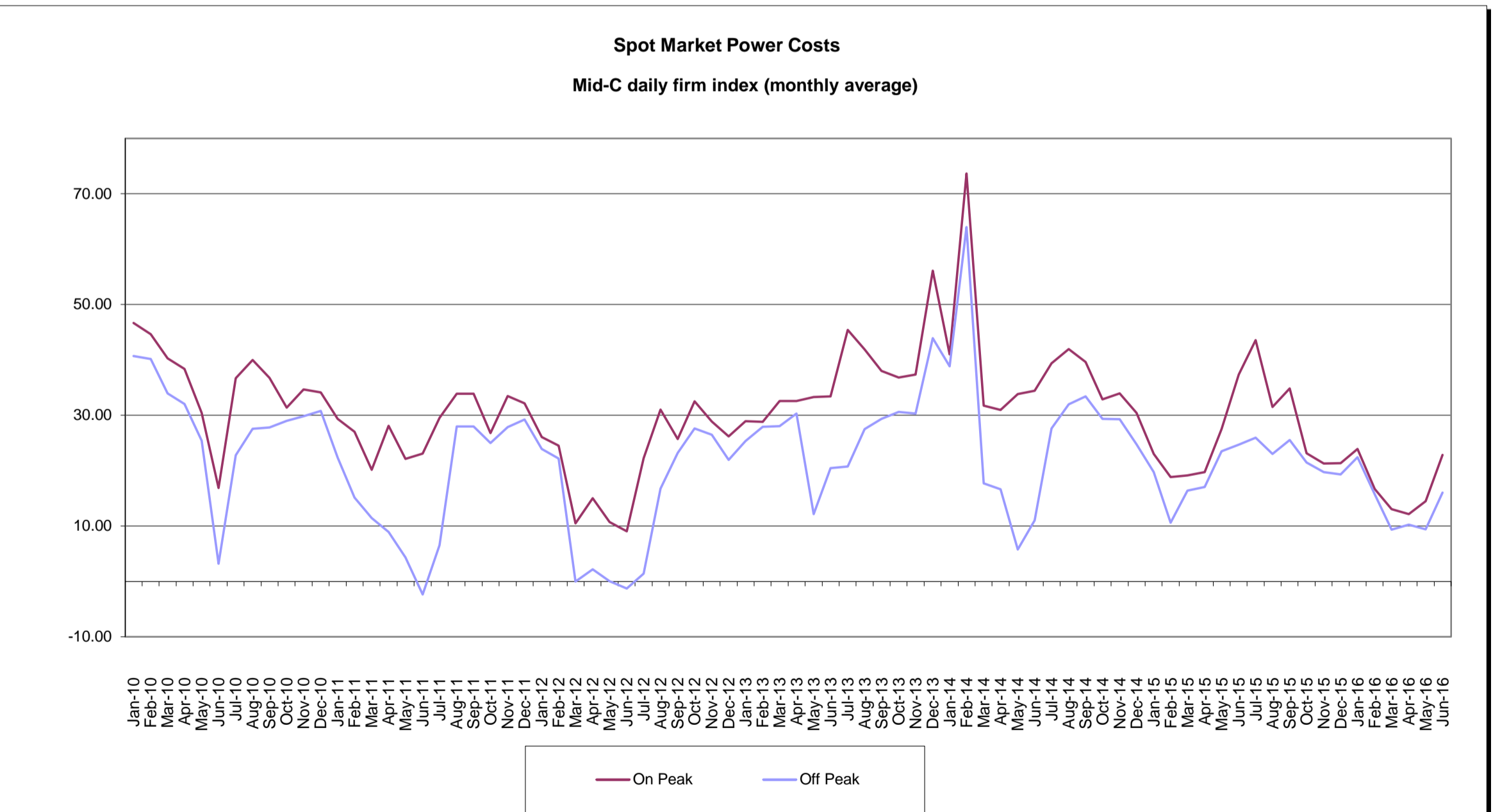
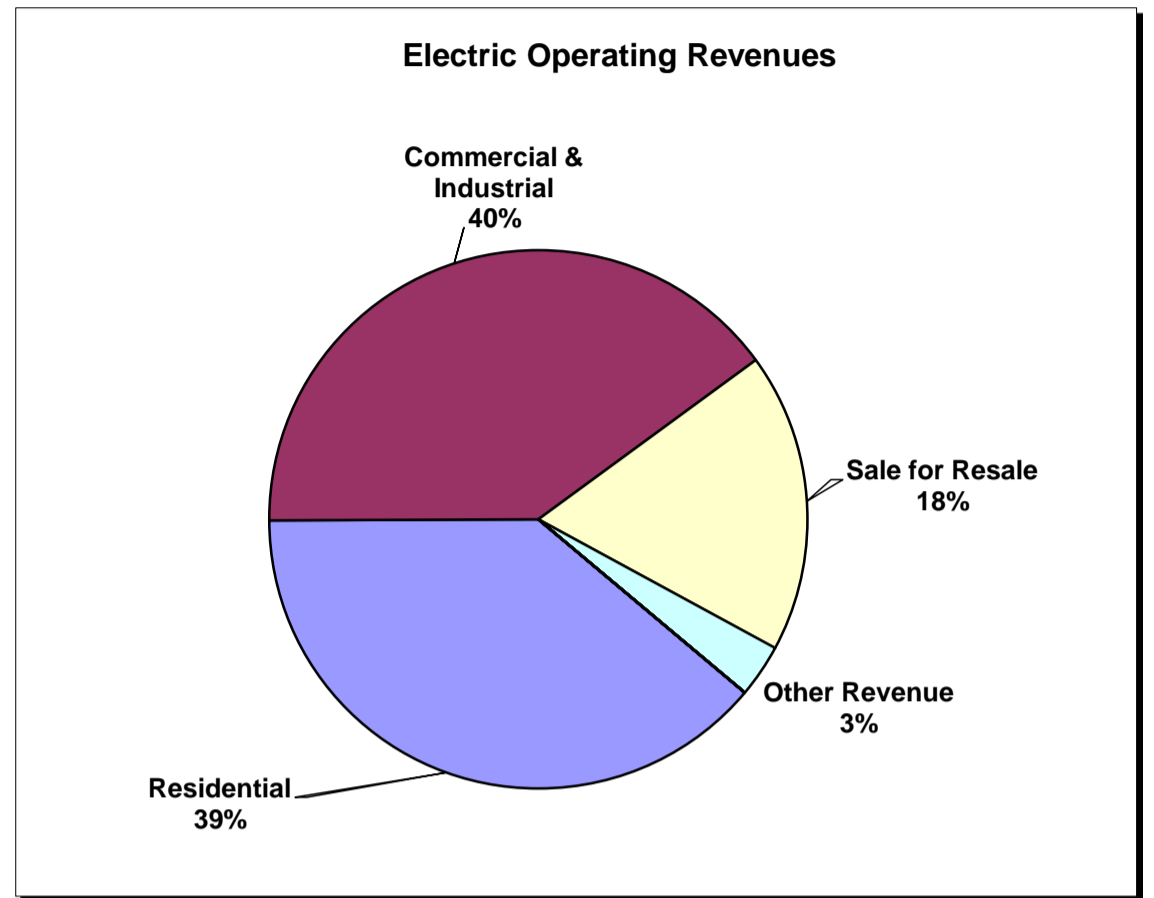
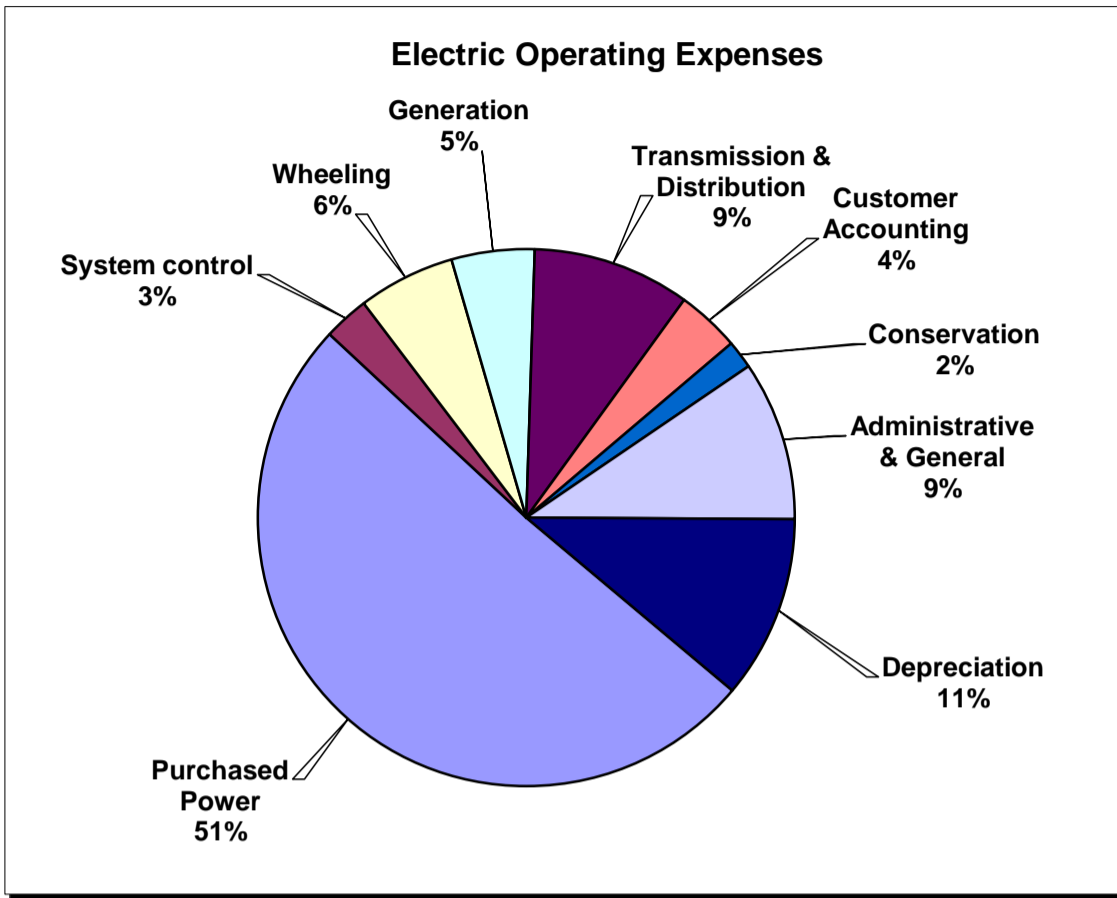
Eugene Water & Electric Board

Financial Graphs - Electric Utility

June 2016



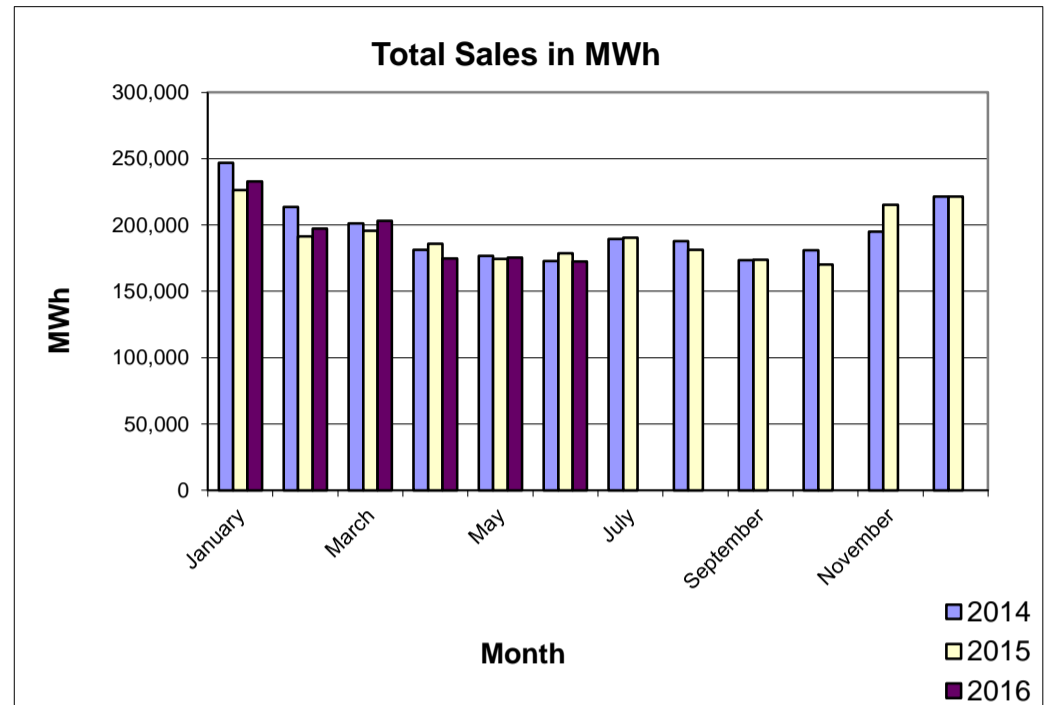
**Eugene Water & Electric Board
Financial Graphs-Electric Utility
June 2016**



Electric Utility Sales in MWh June 2016

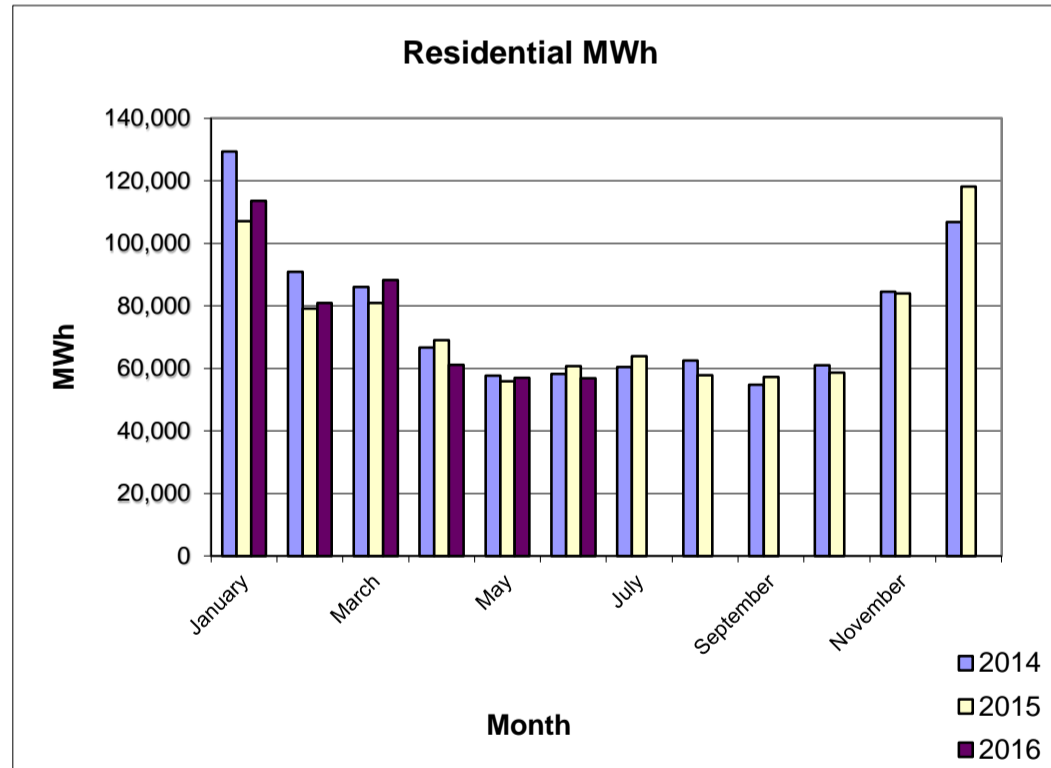
Total Electric Utility Sales in MWh

	2014	2015	2016
January	246,897	226,208	232,720
February	213,721	191,281	197,213
March	201,085	195,492	203,114
Q1 total	661,703	612,981	633,046
April	181,338	185,698	174,835
May	176,849	174,491	175,391
June	172,861	178,629	172,339
Q2 total	531,048	538,818	522,565
July	189,368	190,535	0
August	187,651	181,414	0
September	173,396	173,902	0
Q3 total	550,415	545,851	0
October	180,848	170,136	0
November	194,991	215,218	0
December	221,321	221,322	0
Q4 total	597,160	606,676	0
Annual total	2,340,326	2,304,326	1,155,612



Residential Sales in MWh

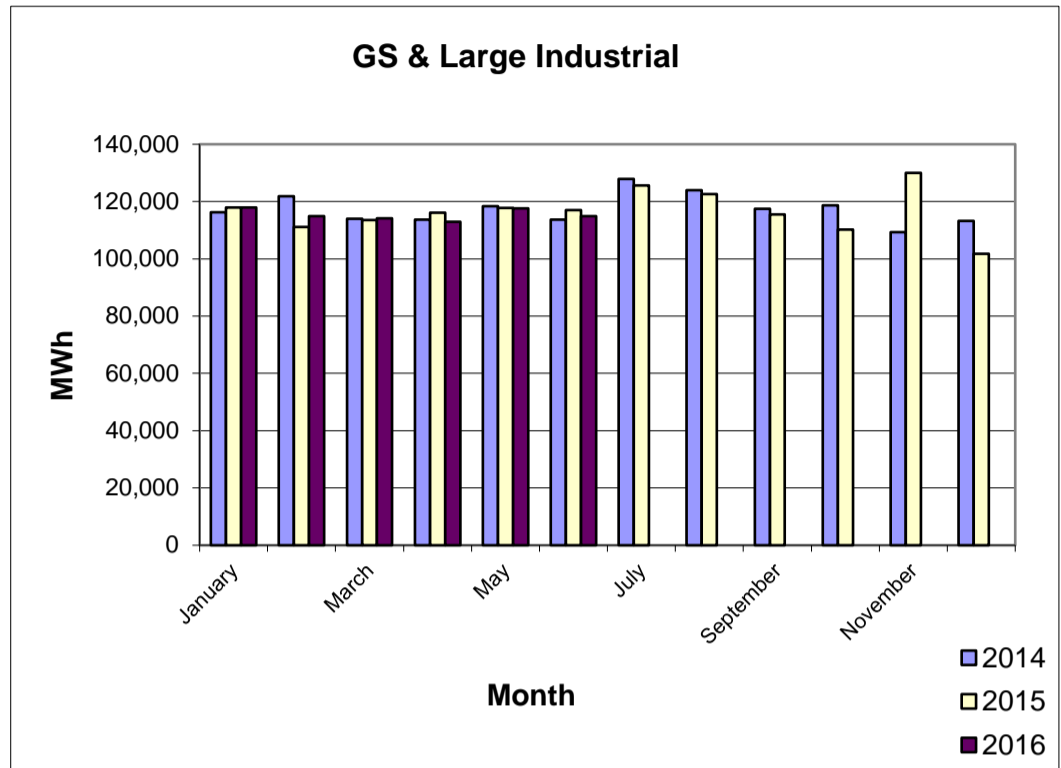
	2014	2015	2016
January	129,434	107,136	113,589
February	90,865	79,168	80,958
March	86,008	81,006	88,256
	306,307	267,310	282,803
April	66,739	69,023	61,190
May	57,652	55,898	57,055
June	58,311	60,721	56,918
	182,702	185,642	175,163
July	60,462	63,866	0
August	62,552	57,890	0
September	54,751	57,313	0
	177,765	179,069	0
October	61,020	58,717	0
November	84,506	84,028	0
December	106,876	118,236	0
	252,402	260,981	0
Total	919,176	893,002	457,965



Electric Utility Sales in MWh June 2016

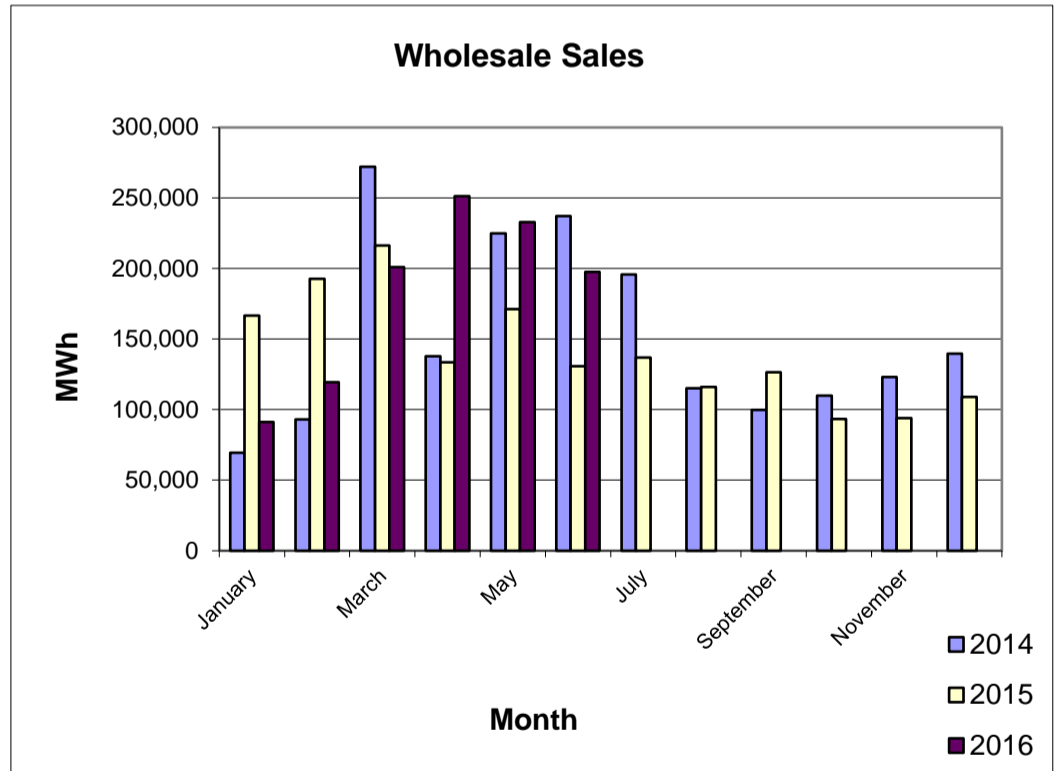
General Service & Large Industrial Sales in MWh

	2014	2015	2016
January	116,239	117,866	117,905
February	121,842	111,091	114,969
March	114,007	113,463	114,088
	<u>352,088</u>	<u>342,420</u>	<u>346,962</u>
April	113,740	116,038	112,987
May	118,322	117,742	117,677
June	113,703	117,015	114,827
	<u>345,765</u>	<u>350,795</u>	<u>345,491</u>
July	127,947	125,672	0
August	124,008	122,673	0
September	117,531	115,459	0
	<u>369,486</u>	<u>363,804</u>	<u>0</u>
October	118,635	110,229	0
November	109,278	130,010	0
December	113,195	101,752	0
	<u>341,108</u>	<u>341,991</u>	<u>0</u>
Total	<u><u>1,408,447</u></u>	<u><u>1,399,010</u></u>	<u><u>692,453</u></u>



Total Wholesale Sales in MWh

	2014	2015	2016
January	69,372	166,562	91,229
February	93,166	192,878	119,306
March	272,177	216,315	200,903
	<u>434,715</u>	<u>575,755</u>	<u>411,438</u>
April	137,930	133,635	251,173
May	224,853	171,384	233,001
June	237,088	130,835	197,619
	<u>599,871</u>	<u>435,854</u>	<u>681,793</u>
July	195,718	136,993	0
August	115,137	116,194	0
September	99,891	126,384	0
	<u>410,746</u>	<u>379,571</u>	<u>0</u>
October	110,036	93,491	0
November	123,128	94,117	0
December	139,559	109,166	0
	<u>372,723</u>	<u>296,774</u>	<u>0</u>
Total	<u><u>1,818,055</u></u>	<u><u>1,687,954</u></u>	<u><u>1,093,231</u></u>



Average Price Per MWh	\$ 31.75	\$ 22.96	\$ 20.29
Generation %	97%	85.5%	90.0% at 5/31/2016



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Simpson, Helgeson, Manning, Mital and Brown
FROM: Sue Fahey, CFO; Susan Eicher, Accounting and Treasury Supervisor
DATE: August 26, 2016
SUBJECT: Water Utility June 2016 Financial Statements
OBJECTIVE: Information Only

Statement of Revenues, Expenses, and Changes in Net Position (Income Statement)–Page 4

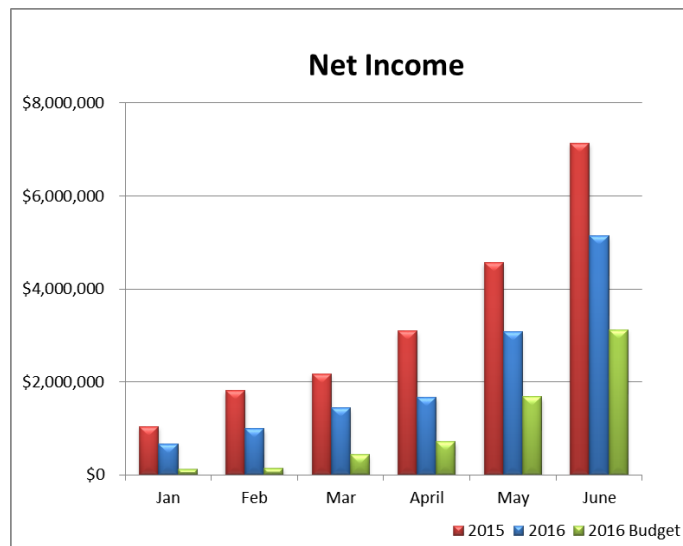
Income before capital contributions (Net Income)

Net income for the Water Utility as of June is \$5.1 million and is favorable to the seasonally shaped budget by \$2.0 million. This is due to a combination of higher than average revenues and lower than normal expenses for this point in the year.

The variance breakdown is as follows: (in thousands)

- Retail Revenue over budget \$ 583
 - Wholesale and Other revenue over budget 402
 - Operating Expenses under budget 762
 - Non-operating revenues over budget 109
 - Non-operating expenses under budget 157
- \$2,013

For purposes of analysis, the budget has been modified to reflect seasonal fluctuations. The comparison to annual budget in the chart below is seasonally shaped.



Operating Revenues

Residential sales to water customers are tracking slightly above the YTD seasonally shaped budget, but are slightly below prior year levels. **Residential** sales are dependent on weather patterns and, consumption is down compared to the prior two years due to the milder weather experienced in June of 2016.

Sales for resale and other includes sales to Water Districts and the Willamette Water Company, as well as sales to the City of Veneta. Other operating revenue includes revenues from customer account related fees and reimbursements for billable Operations and Maintenance (O&M) work. Revenues from billable work related to capital activity are recorded as **Contributions in Aid of Construction** and are mentioned below. **Sales for resale and other** is currently 34.6%, or \$402 thousand above the seasonally shaped budget. This is due to larger amounts of billable O&M work being performed.

Operating expenses

Operating expenses are 93.5% compared to the seasonally shaped budget. They have also increased compared to 2015, reflecting a shift in work from capital to O&M. At this time last year, the water utility was performing significant amounts of transmission and distribution capital work for the EmX project.

Source of supply and pumping is below the seasonally shaped budget by \$368 thousand, due to wage and benefit expenses being lower than budgeted. Expenses related to maintenance and construction services are also below budget for this point in the year, and are lower compared to the prior year. This is largely due to a higher percentage of wages from Water Distribution Operations & Maintenance posting to **transmission and distribution** expense. Finance is continuing to research these variances.

Transmission and distribution (T&D) is below the seasonally shaped budget by \$690 thousand due to lower wage and benefit expense, and lower equipment usage than was budgeted. Maintenance and construction expenses for **T&D** are also below budget for the year. The **T&D** budget includes the Water Utility contingency budget, which when used is transferred to a departmental budget. Compared to the prior year, **T&D** expense has increased. This is due to higher wages mentioned above, and a correction in recording equipment charges from vacuum trucks and other equipment that was made in October of last year. The prior year comparison variance will persist until October.

Customer accounting expense is lower than the seasonally shaped budget by \$363 thousand. The seasonally shaped budget comparison includes some years when certain shared services expenses were charged directly to **customer accounting**. A larger amount of shared services expenses is now charged only to **administrative and general (A&G)** expense, and is no longer charged directly to **customer accounting**. Compared to the prior year, **Customer accounting** expense is up due in part to lower transfers of overhead to capital work. Prior to WAM implementation, overhead was applied to capital work, and offset by a credit to a single account in the **A&G** group, reducing overall **A&G** expense. Now overhead is credited to the functional areas generating the overhead expense, including **customer accounting**.

Administration and general expense is higher than seasonally shaped budget by \$523 thousand, largely due to increases in outside services, such as consulting and legal fees. Specifically, consulting related to a storm water wetland project, and software consulting and licensing fees. Also, overhead transfers are lower due to reduced capital work compared to both the budget and prior year. And, as mentioned above, shared services labor is no longer charged directly to other areas, and credits for overhead are no longer applied to the **A&G** expense line.

Depreciation is a non-cash transaction that allocates the amounts spent to build or acquire capital assets over the useful lives of those assets.

Non-operating revenue

Other revenue, consisting of **investment earnings** and miscellaneous non-operating revenue is \$109 thousand over the seasonally shaped budget. Market yields have slowly improved over the past three years, and unrealized fair market value changes have had a positive impact on investments and revenue since the beginning of the year.

Non-operating expense

Year-to-date **Interest expense and related amortization** is below budget, and is expected to end the year below budget due to the better than expected interest rate for the water bond issuance.

Contributions in Aid of Construction (CIA) and System Development Charges (SDCs)

CIA is 108.5% of seasonally shaped budget. CIA is lower than 2015, primarily due to EmX work winding down.

SDCs are collected in advance of qualifying work, and revenue is recognized as projects qualifying for **SDCs** are completed. At this time, **SDC** revenue is \$805 thousand, which is 454.7% of the seasonal adjusted budget.

**Eugene Water & Electric Board
Water System
Statement of Revenues, Expenses and Changes in Net Position
for the six months ended June 30, 2016**

	<u>Prior Year Comparison</u>		<u>YTD Budget Comparison</u>			
	<u>2016</u>	<u>2015</u>	<u>Annual Working Budget</u>	<u>Seasonal Budget \$</u>	<u>Seasonal Budget %</u>	<u>Seasonal Budget Variance</u>
Residential	\$ 9,561,500	\$ 9,972,503	\$ 20,218,693	\$ 9,338,000	102.4%	\$ 223,500
Commercial and industrial	6,577,228	6,812,221	13,288,646	6,218,000	105.8%	359,228
Sale for resale and other	1,563,148	1,361,397	3,019,313	1,161,000	134.6%	402,148
Operating revenues	<u>17,701,876</u>	<u>18,146,121</u>	<u>36,526,652</u>	<u>16,717,000</u>	105.9%	<u>984,876</u>
Source of supply, pumping and purification	2,411,901	3,193,234	5,878,221	2,780,000	86.8%	368,099
Transmission and distribution	2,788,463	1,404,228	8,513,117	3,478,000	80.2%	689,537
Customer accounting	651,187	458,216	2,056,744	1,015,000	64.2%	363,813
Conservation expenses	109,269	45,319	250,793	113,000	96.7%	3,731
Administrative and general	2,012,252	1,301,582	3,188,058	1,489,000	135.1%	(523,252)
Depreciation on utility plant	3,041,050	2,837,137	5,827,124	2,901,000	104.8%	(140,050)
Operating expenses	<u>11,014,122</u>	<u>9,239,716</u>	<u>25,714,057</u>	<u>11,776,000</u>	93.5%	<u>761,878</u>
Net operating income	<u>6,687,754</u>	<u>8,906,405</u>	<u>10,812,595</u>	<u>4,941,000</u>	135.4%	<u>1,746,754</u>
Investment earnings	222,768	46,649	99,522	54,000	412.5%	168,768
Other revenue	65,803	35,970	315,200	126,000	52.2%	(60,197)
Non-operating revenues	<u>288,571</u>	<u>82,619</u>	<u>414,722</u>	<u>180,000</u>	160.3%	<u>108,571</u>
Other revenue deductions	191,346	82,193	207,277	226,000	84.7%	34,654
Interest expense and related amortization	1,096,554	1,106,760	2,465,265	1,243,000	88.2%	146,446
Interest expense, Electric	551,594	562,204	1,097,691	520,000	106.1%	(31,594)
Non-operating expenses	<u>1,839,494</u>	<u>1,751,157</u>	<u>3,770,233</u>	<u>1,989,000</u>	92.5%	<u>149,506</u>
Income before capital contributions	5,136,831	7,237,867	7,457,084	3,132,000	164.0%	2,004,831
Contribution in aid of construction	593,748	2,463,739	1,273,000	547,000	108.5%	46,748
Contributed plant assets	102,213	124,390	-	-	0.0%	102,213
System development charges	804,765	657,542	412,000	177,000	454.7%	627,765
Increase in net position	<u>\$ 6,637,557</u>	<u>\$ 10,483,538</u>	<u>\$ 9,142,084</u>	<u>\$ 3,856,000</u>	172.1%	<u>\$ 2,781,557</u>

Cash and reserve balances

Cash and cash equivalents of \$1.6 million are below the Board target of \$3.4 million. Staff anticipate cash levels returning to the performance standard over the summer months when monthly revenues typically peak and generate the highest cash inflows. Lower consumption in June as compared to prior years has impacted revenue and cash generation, but the water utility typically continues to generate significant cash well into the fall months as customer bills are paid from the last days of summer.

Restricted cash is higher at the end of June due to the 2016 water bond issuance. Investments for debt service are accumulated to pay interest and principal to bondholders. The required February payment of interest to bondholders has been made, and balances will increase until the August payment of principal and interest. The SDC reserve has increased \$450 thousand since year-end.

Designated cash balances are \$24.8 million, an increase of \$10.5 million compared to June of 2015. The changes are due to increases in the Alternative Water Supply fund, budgeted transfers to the Capital improvement reserve, and the creation of the Rate Stabilization, and Pension funds approved by the Board in May of 2015. The Alternative Water Supply reserve increases monthly based on 3% of residential and commercial sales. The capital reserve is funded by monthly transfers from rate revenue, and is drawn down as qualifying project expenses are incurred.

Net pension asset or Net pension liability

The **Net pension asset** or **Net pension liability** represents EWEB's proportionate share of PERS system net pension liability or asset. In 2014, PERS system actuarial valuation resulted in a **net pension asset**. The 2014 valuation included cost saving changes to the PERS system that were subsequently overturned by the Oregon Supreme Court. As a consequence of the court decision, and other changes in actuarial assumptions, the 2015 PERS valuation resulted in a **net pension liability**.

Other assets

Other assets include the EWEB share of certain non-cash pension expenses relating to changes in the actuarial valuation of the PERS System. EWEB has elected to use regulatory accounting to defer non-cash pension expenses, and will recognize pension expense as required employer contributions are paid.

Deferred outflows of resources

Changes in **Deferred inflows of resources** are primarily due to the deferral of non-cash pension expenses, as discussed above.

Debt and financing

Long-term debt includes bonds and amounts payable to the Electric Utility. The Water Utility issued bonds in May to fund ongoing capital work, and to take advantage of the current interest rate environment to refinance bonds and achieve debt service savings. The bonds provided \$16 million in new money and refinanced \$29 million of existing debt. The refinancing will result in debt service savings of approximately \$4.0 million. All three ratings agencies reviewed and affirmed their "double A" (AA) ratings of the Water Utility bonds.

Recommendation/Requested Board Action

None at this time. This information is provided for informational purposes only.

Eugene Water and Electric Board
Water System
Statement of Net Position
June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>December 2015</u>
Assets			
<u>Capital assets</u>			
Utility plant in service	\$ 254,647,514	\$ 236,009,541	\$ 254,512,937
Less - Accumulated depreciation	(108,589,038)	(103,472,496)	(105,624,389)
Net utility plant in service	146,058,476	132,537,045	148,888,548
Property held for future use	1,156,424	968,578	1,137,570
Construction work in progress	10,645,271	16,387,215	4,040,590
Net Utility Plant	<u>157,860,171</u>	<u>149,892,838</u>	<u>154,066,708</u>
<u>Current assets</u>			
Cash and cash equivalents	1,582,686	3,090,204	8,357,179
Restricted cash and investments	19,897,843	8,044,876	7,142,756
Designated cash and investments	24,750,930	14,221,612	9,702,084
Receivables, less allowances	5,020,621	6,435,688	3,353,602
Material and supplies, at average cost	1,018,618	885,694	1,011,704
Prepayments and special deposits	1,454,851	1,417,263	1,340,697
Total current assets	<u>53,725,549</u>	<u>34,095,337</u>	<u>30,908,022</u>
<u>Non-current assets</u>			
Long-term investments	-	-	6,735,916
Long-term receivables, conservation and other	176,016	205,282	196,101
Net pension asset	-	3,514,544	-
Other assets	2,294,262	874,563	2,145,501
Total non-current assets	<u>2,470,278</u>	<u>4,594,389</u>	<u>9,077,518</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources	<u>3,740,358</u>	<u>1,872,629</u>	<u>2,237,313</u>
Total Assets & Deferred Outflows	<u>\$ 217,796,356</u>	<u>\$ 190,455,193</u>	<u>\$ 196,289,561</u>
Liabilities			
<u>Current liabilities</u>			
Payables	\$ 548,629	\$ 654,175	\$ 1,200,732
Accrued payroll and benefits	1,326,439	1,208,507	1,181,216
Accrued interest on long-term debt	504,973	870,072	840,235
Long-term debt due within one year	425,000	1,840,000	1,920,000
Due to Electric System	897,325	877,210	887,148
Total current liabilities	<u>3,702,366</u>	<u>5,449,964</u>	<u>6,029,331</u>
<u>Non-current liabilities</u>			
Long term debt			
-note and bonds payable	61,354,839	45,855,477	43,925,956
Due to Electric System	16,923,252	17,604,141	17,266,499
Net pension liability	8,190,233	-	8,190,233
Other liabilities	283,522	417,802	385,843
Total liabilities	<u>90,454,212</u>	<u>69,327,384</u>	<u>75,797,862</u>
Deferred Inflows of Resources			
Deferred inflows of resources	2,160,135	12,041,796	1,947,248
Net Position			
Net invested in capital assets	94,537,138	85,158,593	90,478,405
Restricted	6,229,300	6,307,839	6,142,255
Unrestricted	24,415,571	17,619,581	21,923,791
Total net position	<u>125,182,009</u>	<u>109,086,013</u>	<u>118,544,451</u>
Total Liabilities, Deferred Inflows & Net Position	<u>\$ 217,796,356</u>	<u>\$ 190,455,193</u>	<u>\$ 196,289,561</u>

Capital

The capital budget is approved by the Board as the maximum amount allowable for all capital work. Annual budgets by type and by individual project are prepared for planning and reporting purposes, but overall budget accountability to the board remains at the total capital spending level. Year-to-date, the water utility has spent \$6.2 million, net of contributions in aid, on capital work. The largest balances were expended for improvements to the distribution system, distribution facilities, and source of supply. As of June, total capital spending, before CIA, is 45.1% of the annual capital budget. The 2016 capital budget net of contributions in aid is \$746 thousand higher than in 2015.








Eugene Water and Electric Board Water Utility Capital Budget Comparison for the six months ending June 30, 2016

	<u>Current Month</u>	<u>Year to Date</u>	<u>Annual Working Budget</u>	<u>% of Budget</u>
Type 1 Capital				
Buildings & Land	693	46,700	49,024	95.3%
Distribution Facilities □	231,408	688,396	1,355,056	50.8%
Distribution Pipe & Services □	686,398	2,958,342	5,916,000	50.0%
Information Technology	(2,095)	58,021	198,912	29.2%
Source Of Supply	2,252	20,309	312,032	6.5%
Water Fleet	59,816	59,816	494,976	12.1%
Total Type 1 Capital	<u>978,472</u>	<u>3,831,584</u>	<u>8,326,000</u>	46.0%
Type 2 Capital				
AMI	7,723	200,506	450,004	44.6%
CIS	-	-	270,048	0.0%
Distribution Facilities □	22,478	104,851	308,992	33.9%
Distribution Pipe & Services □	832	832	-	0.0%
LTD EMX - Water	70,495	310,145	140,000	221.5%
Source Of Supply	501,958	2,225,048	3,746,949	59.4%
Total Type 2 Capital	<u>603,486</u>	<u>2,841,382</u>	<u>4,915,993</u>	57.8%
Type 3 Capital				
Source Of Supply	24,513	118,773	1,814,949	6.5%
Total Type 3 Capital	<u>24,513</u>	<u>118,773</u>	<u>1,814,949</u>	6.5%
Total Capital before CIA	1,606,471	6,791,739	15,056,942	45.1%
Contributions in aid	<u>(128,200)</u>	<u>(593,748)</u>	<u>(1,273,000)</u>	46.6%
Grand Total	<u>\$ 1,478,271</u>	<u>6,197,991</u>	<u>\$ 13,783,942</u>	45.0%

Ratios

The current ratio, a measure of current assets compared to current liabilities, is well above the board performance target of 3.25, due primarily to the deposit of water bond proceeds in May. The measurement of days available cash is also very strong for this reason. Prior increases in rates and conservative budget measures are allowing the utility to accumulate cash and reserves. The debt service ratio continues to be well above the target of 2.0. All other ratios are performing better than the board performance standards.

**Eugene Water and Electric Board
Water Utility
Financial Ratios
June 30, 2016**

	<u>June 2016</u>	<u>Status</u>	<u>December 2015</u>	<u>PERFORMANCE STANDARD</u>
Current Ratio	14.511		6.243	≥ 3.250
Debt to Total Assets	0.425		0.396	≤ 0.600
Debt Service Coverage - Annualized	4.412		5.336	≥ 2.000
Operating Ratio	0.450		0.415	≤ 0.570
Days Unrestricted Cash	478		581	
Days Available Cash	178		306	≥ 90
Debt to Equity	63%		46%	≤ 89%

Notes:

Effective 9/30/15, the Rate Stabilization Fund was added to the calculation for Days Available Cash. While board approval is required, this fund is available for use in an emergency.

See next page for Ratio definitions

Definitions

Current Ratio

Ratio of current assets to total current liabilities. Measures the utility's short-term liquidity (ability to pay bills).

Debt to Total Assets

Ratio of long-term debt plus current liabilities to total assets. Measures a utility's ability to meet its current and long-term liabilities based on the availability of assets.

Debt Service Coverage

Ratio of annualized net revenues available for debt service to total long-term debt service for the year. This ratio measures the utility's ability to meet its annual long-term debt obligation.

Operating Ratio

Ratio of total water operation and maintenance expenses to total water operating revenues. This ratio measures the proportion of revenues received from water sales and other water activities required to cover operation and maintenance costs associated with producing and selling water.

Days Unrestricted Cash (Rating Agency Model)

Ratio of total unrestricted cash and cash equivalents, net of designated SDC reserves, to average daily cash requirements for operating expenses (defined as yearly budgeted operating expenses net of depreciation divided by 365 days in the year). This figure measures the length of time the utility can carry on normal operations with available unrestricted cash not otherwise designated for future capital needs (ie SDC reserves)

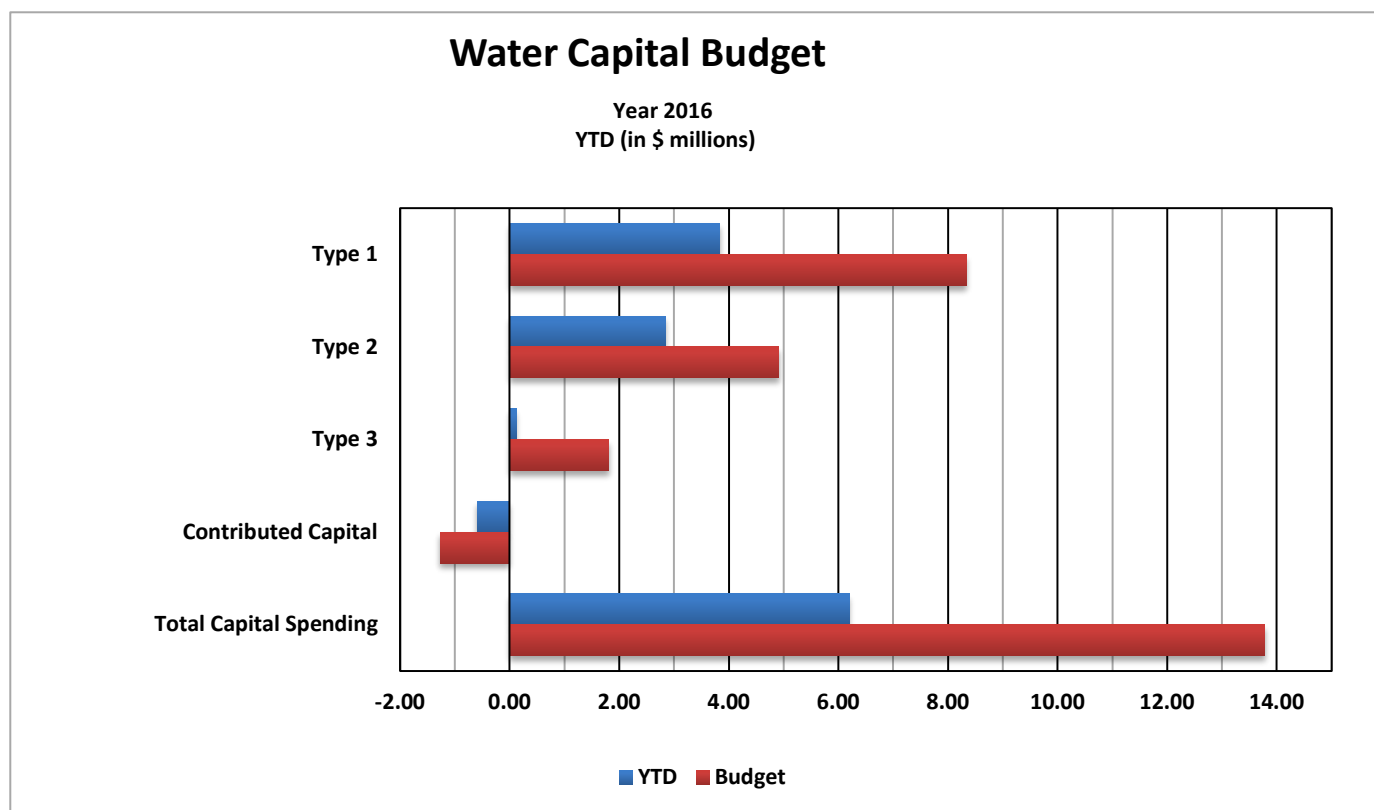
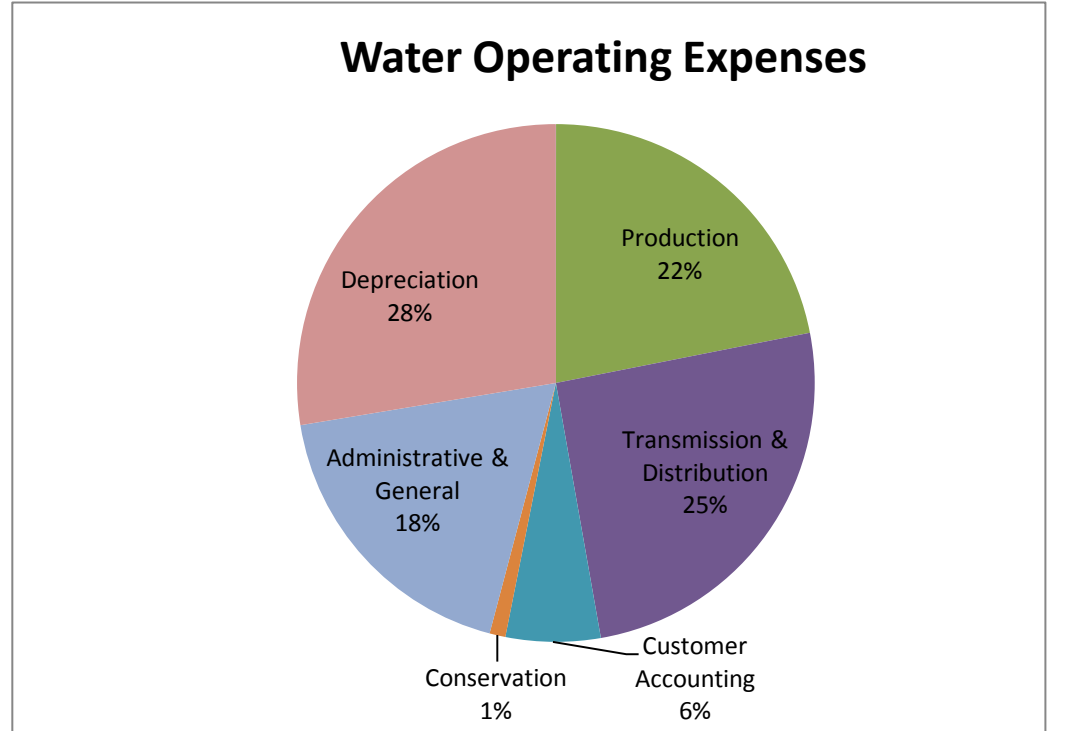
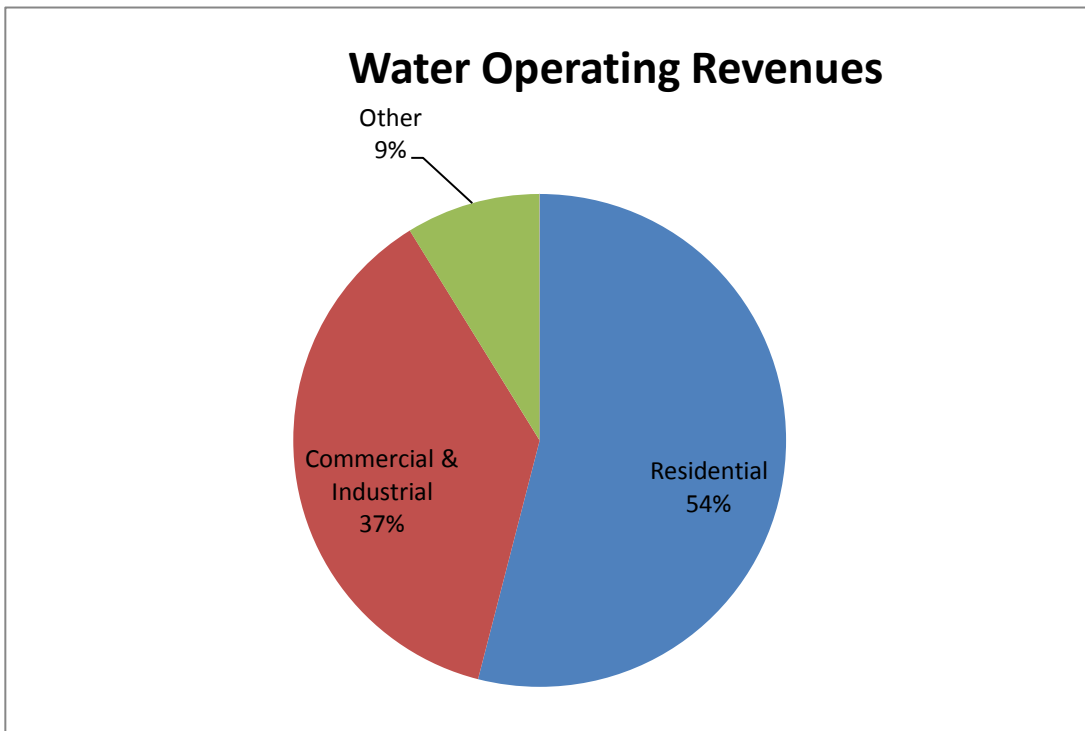
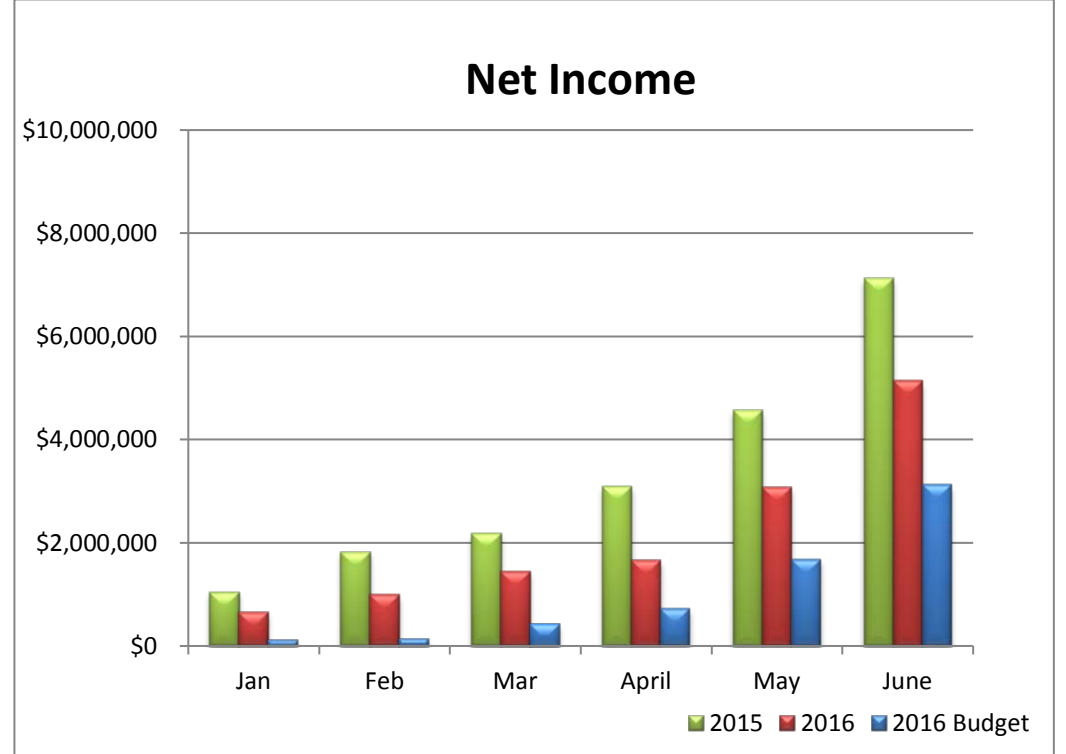
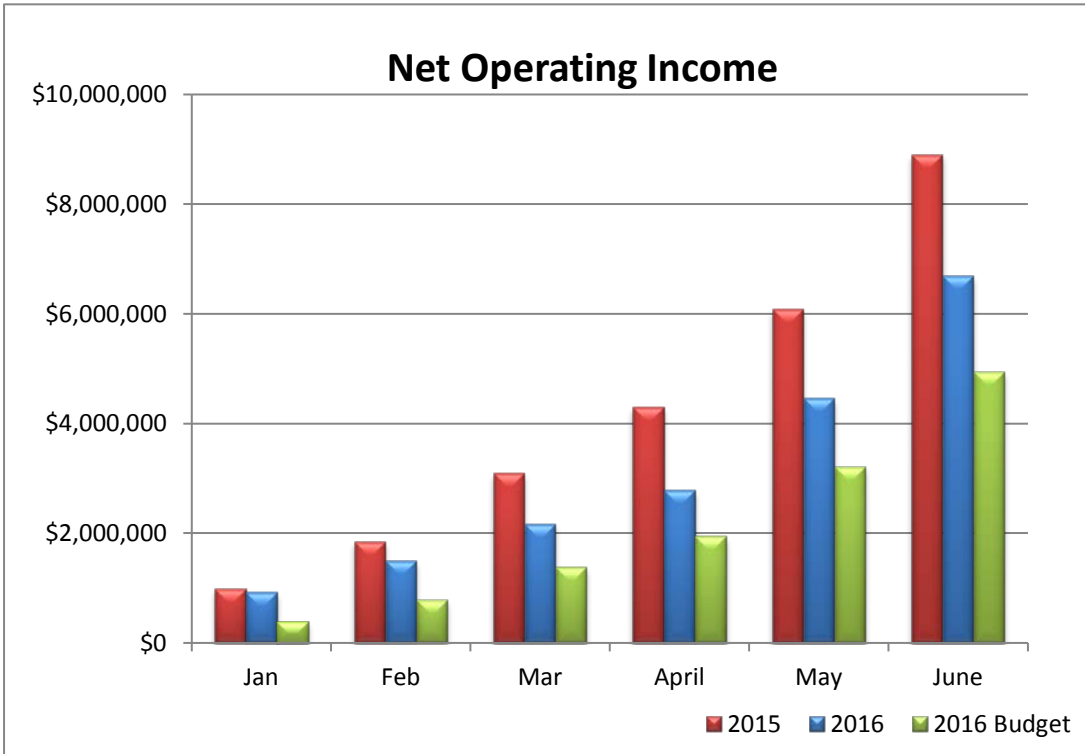
Days Available Cash (EWEB Internal Model)

Ratio of total available cash (defined as working cash and equivalents plus general operating reserves) to adjusted average daily cash requirements for operating and other non-capital expenses (defined as actual YTD expenditures plus remaining pro-rated budget expenses for the year divided by 365 days in the year). This is a modification of Days Unrestricted Cash measuring the length of time (in calendar days) the utility can carry on projected non-capital related operations with readily available cash (defined as working cash and equivalents plus general operating reserves, and the rate stabilization reserves)

Debt to Equity

Ratio of total liabilities, net of current liabilities, to total equity (net assets), expressed as a percentage. If the ratio exceeds 100% it means that outside borrowing (liabilities) exceeds the utility's own equity (net assets)

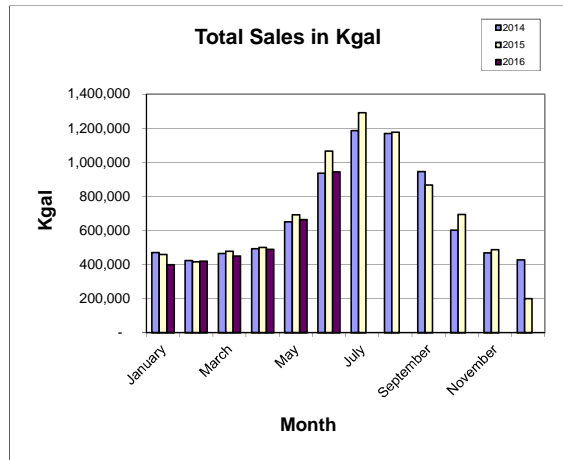
Eugene Water & Electric Board
Financial Graphs - Water Utility
JUNE 2016



Water Utility Sales in Kgal 2016

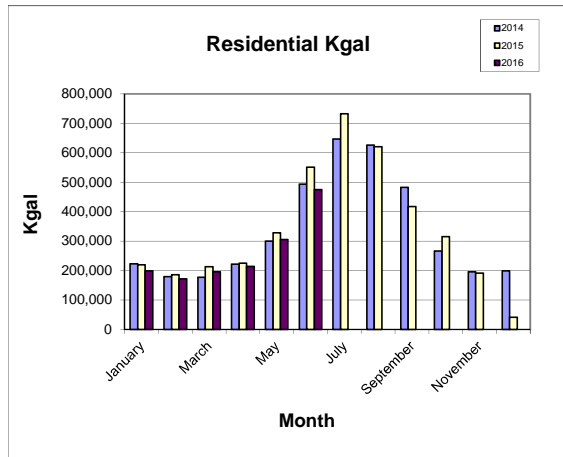
Total Water Sales in Kgal

	2014	2015	2016
January	469,967	459,108	399,369
February	424,408	404,303	419,161
March	463,973	467,462	450,547
Q1 total	1,358,348	1,330,873	1,269,077
April	493,852	487,636	488,756
May	650,078	679,838	662,977
June	935,507	1,051,349	942,995
Q2 total	2,079,437	2,218,823	2,094,728
July	1,185,522	1,255,528	0
August	1,168,830	1,145,986	0
September	946,113	840,585	0
Q3 total	3,300,465	3,242,099	0
October	601,568	674,261	0
November	468,583	473,737	0
December	427,484	187,717	0
Q4 total	1,497,635	1,335,715	0
Annual total	8,235,885	8,127,510	3,363,805



Residential Sales in Kgal

	2014	2015	2016
January	222,490	219,363	199,360
February	179,454	186,053	172,258
March	176,867	213,577	195,684
Q1 total	578,811	618,993	567,302
April	221,689	225,226	214,567
May	300,111	328,179	305,247
June	493,850	551,652	474,954
Q2 total	1,015,650	1,105,057	994,768
July	647,084	732,314	0
August	626,527	620,535	0
September	482,893	417,603	0
Q3 total	1,756,504	1,770,452	0
October	266,075	315,532	0
November	195,852	191,016	0
December	198,845	41,102	0
Q4 total	660,772	547,650	0
Total	4,011,737	4,042,152	1,562,070



General Service in Kgal

	2014	2015	2016
January	247,477	239,745	200,009
February	244,954	218,250	246,903
March	287,106	253,885	254,863
Q1 total	779,537	711,880	701,775
April	272,163	262,410	274,189
May	349,967	351,659	357,730
June	441,657	499,697	468,041
Q2 total	1,063,787	1,113,766	1,099,960
July	538,438	523,214	0
August	542,303	525,451	0
September	463,220	422,982	0
Q3 total	1,543,961	1,471,647	0
October	335,493	358,729	0
November	272,731	282,721	0
December	228,639	146,615	0
Q4 total	836,863	788,065	0
Total	4,224,148	4,085,358	1,801,735

