



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Sue Fahey, Chief Financial Officer and Deborah Hart, Fiscal Services Supervisor
DATE: January 26, 2018
SUBJECT: Preliminary Use of Reserves
OBJECTIVE: Direction on Use of Reserves

Issue

Annually in May, the Board considers how to allocate funds among reserve and designated fund accounts after the independent auditors' have issued their opinion on the financial audit. In the fall of 2017, staff committed to bringing back to the Board in February a discussion of a potential \$5 million Electric customer dividend.

Background

For both the Electric and Water Utilities, cash balances at year-end are above Board approved targets. In July 2017, the concept of a customer dividend, as a use of some of the Electric Utility cash, was presented as a part of the long-term financial plan update and 2018 budget assumptions. At that time, the discussion was to consider using \$5 million of reserves for a residential customer dividend which represents approximately \$60/customer. At the May Board meeting, staff will present information on the status of reserve funds and make a recommendation on transfers and use of reserves.

Discussion

Since July there have been several internal and external developments that have the potential to impact EWEB's financial position and financial flexibility.

- With the passage of the 2017 Federal tax legislation, tax-exempt advance refunding is no longer permitted. In 2016, both utilities successfully used this strategy to reduce debt service costs. Since the Electric Utility's challenged financial metric is debt service coverage, this impacts EWEB's ability to manage debt service costs. Using cash to defease debt will be the primary option to reduce debt service costs for the foreseeable future.
- In order to mitigate risks associated with PERS, the Board approved joining the State and Local Government Rate Pool. EWEB's transition liability is unknown at this time and will not be available until fall of 2018. The transition liability carries a cost of 7.2% until it is paid in full.

- The During the 2018 regular session, the Oregon Legislature will be considering Senate Bill 1566 which would create an Employer Incentive Fund for PERS side account deposits. The bill includes a match not to exceed 25% of the qualifying lump sum payment up to a yet to be determined employer maximum.
- Customer Solutions has recently been formed and is beginning to look into Limited Income and rental unit energy efficiency programs. The needs of those new programs have not been determined.
- Staff is engaging in capital project discussions with the Board and depending on the outcome of those discussions, there may be unfunded capital needs.

Recommendation and Requested Board Action

Management is recommending that the Board defer action on using any reserves at this time, until information about alternative uses and the benefits of those uses to customer-owners is available later this year.