



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Mital, Schlossberg, Helgeson, Brown, and Carlson
FROM: Deborah Hart, Chief Financial Officer; Aaron Balmer, General Accounting & Treasury Supervisor
DATE: April 24, 2020
SUBJECT: Annual Reserve Transfers
OBJECTIVE: Board Direction

Issue

Annually the Board considers how to allocate funds as of December 31 among reserve and designated fund accounts after the independent auditors have issued their opinion on the financial audit. This memo provides recommendations for transfers based on EWEB's strategic plans, financial policies, and the Electric and Water Utilities' financial conditions.

Background

On an annual basis, staff prepare a summary of the year-end reserve balances, compare the balances to the Board Financial Policy targets, and recommend transfers and/or uses of funds above target. Additionally, staff review targets to ensure they are reasonable to cover the intended risks. For both the Electric and Water Utilities, cash balances at December 31, 2019 remained above target following a Board approved \$22 million PERS payment to receive \$5.5 million in matching funds from the state and reduce EWEB's employer contribution rates. In addition, debt service coverage requirements were met for the year.

Discussion

Since the creation of the 2020 budget, the COVID-19 outbreak has become an emergent issue impacting both the Electric and Water Utilities' cash position and financial flexibility.

The impacts due to COVID-19 are continually being evaluated and staff are studying the effects the outbreak will have on operations and cash flows. Management has implemented temporary measures intended to assist customers and mitigate operational and financial impacts. The measures taken to date, and additional measures that may be taken in the future, may lead to an increase of uncollected accounts and the decrease of timely payments from customers. In addition, due to business closures, consumption will likely be adversely affected. Management is monitoring budgets closely to review alignment with the strategic plan and determine if spending can, and should, be adjusted in response to COVID-19. If necessary, budget amendments will be submitted for the Board's review.

The February 2019 snow storm resulted in restoration costs of \$4.3 million. Staff have worked with state and federal program administrators to file for a grant to reimburse EWEB for 75% of eligible costs. Supporting documentation for qualifying costs has been provided to the Federal Emergency Management Agency, and a \$3 million reimbursement is anticipated in 2020, however exact timing is unknown.

Given the uncertainty around the timing and amounts of both Utilities' receipt of, and potential uses for cash, Management recommends leaving excess funds in working cash as noted below.

Water Utility

A) Working Cash

Management recommends transferring \$393,000, in accordance with Financial Policies, to the Pension & Post-Retirement Medical Fund. This would leave Working Cash at \$7.8 million above target to cover uncertainties pertaining to the impacts of COVID-19.

B) Capital Improvement Reserve

At December 31, 2019, this fund was approximately \$4.2 million over target and included \$1.25 million previously designated for 2020 meter upgrades. The budget is being closely monitored by both Water and Finance staff, and Management is not recommending a transfer at this time.

C) Pension & Post-Retirement Medical Fund

PERS costs during 2019 were lower than budgeted by \$393,000. Board Financial Policies require the variance to be transferred to this fund.

Electric Utility

A) Working Cash

Management recommends transferring a total of \$974,000 to the Pension & Post-Retirement Medical Fund.

B) Power Reserve

The level of funding for this reserve is evaluated annually. In determining sufficiency of this reserve, risks from prices, loads, resources, and credit exposure are considered. Based on the analysis, Management is not recommending a change to the Power Reserve at this time.

C) Pension & Post-Retirement Medical Fund

PERS costs were lower than budgeted by \$974,000. Board Financial Policies require the variance to be transferred to this fund.

Recommendation and Requested Board Action

Attachments 1 and 2 provide detail on reserve balances and recommended transfers for the Water and Electric Utilities, respectively. Management is requesting direction on the above strategies and based on that direction will request approval of transfers and reserve targets at the June Board meeting.

Attachment 1 – Water Utility Schedule of Cash Reserves

Attachment 2 – Electric Utility Schedule of Cash Reserves

ATTACHMENT 1
Water Utility Schedule of Cash Reserves

	FINANCIAL POLICY	BALANCE	RECOMMENDED	BALANCE
	REFERENCE	TARGET	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ (393,000)	\$ 11,185,709

DESIGNATED FUNDS

Operating Reserve	Rate Stability	\$ 1,000,000	\$ 1,012,184	\$ -	\$ 1,012,184
Self-Insurance Reserve	Rate Stability	280,000	288,712	-	288,712
Capital Improvement Reserve ¹	Capital Reserve	7,000,000	11,206,669	-	11,206,669
Rate Stabilization Fund	Rate Stability	1,000,000	1,000,000	-	1,000,000
Water Stewardship Fund- Septic Repairs		-	73,922	-	73,922
Business Growth & Retention Loan Fund		-	209,546	-	209,546
Alternate Water Supply Fund		-	5,861,521	-	5,861,521
Pension & Post Retirement Medical Fund		-	-	393,000	393,000
DESIGNATED FUNDS TOTAL		\$ 9,280,000	\$ 19,652,553	\$ 393,000	\$ 20,045,553
CASH & DESIGNATED FUNDS TOTAL		\$ 12,680,000	\$ 31,231,262	\$ -	\$ 31,231,262

1. The Capital Improvement Reserve includes \$1.25 million for meter installations in 2020

ATTACHMENT 2
Electric Utility Schedule of Cash Reserves

	FINANCIAL POLICY	BALANCE	RECOMMENDED	BALANCE	
	REFERENCE	TARGET	USE OF CASH	AFTER	
		12/31/2019			
Working Cash	Rate Sufficiency	\$ 36,000,000	\$ 37,664,070	\$ (974,000)	\$ 36,690,070

DESIGNATED FUNDS

Operating Reserve	Rate Stability	\$ 4,000,000	\$ 4,082,704	\$ -	\$ 4,082,704
Self-Insurance Reserve	Rate Stability	1,720,000	1,773,975	-	1,773,975
Power Reserve	Rate Stability	17,000,000	17,000,000	-	17,000,000
Capital Improvement Reserve	Capital Reserve	22,000,000	22,188,327	-	22,188,327
Rate Stabilization Fund ¹	Rate Stability	5,000,000	24,468,927	-	24,468,927
Business Growth & Retention Loan Fund		-	1,996,890	-	1,996,890
Pension & Post Retirement Medical Fund		-	-	974,000	974,000
DESIGNATED FUNDS TOTAL		\$ 49,720,000	\$ 71,510,822	\$ 974,000	\$ 72,484,822
CASH & DESIGNATED FUNDS TOTAL		\$ 85,720,000	\$ 109,174,892	\$ -	\$ 109,174,892

1. The Rate Stabilization Fund includes \$21.5 million previously designated to reduce future borrowings.