

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
OCTOBER 24, 2006  
5:30 P.M.

Commissioners present: Sandra Bishop, Mel Menegat, John Simpson, Patrick Lanning, and Ron Farmer.

Others present: Randy Berggren, Dick Varner, Tom Buckhouse, Marty Douglass, Jason Heuser, Jim Origliosso, Dick Helgeson, Deborrah Brewer, Ken Beeson, Jim Wiley, Roseanna McArthur, Cathy Bloom, and Krista Hince of the EWEB staff; Pete Neuwirth, Actuary; Ruth Atcherson, City of Eugene minutes recorder.

President Bishop convened the work session of the Eugene Water & Electric Board (EWEB) at 5:37 p.m.

**LETTER OF SUPPORT FOR THE MAYOR'S SUSTAINABLE BUSINESS INITIATIVE**

The Commissioners reviewed the letter to be sent to the Mayor, City Council, and City in support of the Mayor's Sustainable Business Initiative. President Bishop determined that there were no questions. She thanked Intergovernmental Affairs Coordinator Deborrah Brewer for her work in the process and on the letter.

Ms. Brewer said Resource Projects Manager Jim Maloney had helped with it.

**POST-RETIREMENT BENEFITS – GASB IMPACT**

Treasurer Jim Origliosso reviewed the power point entitled *Other Post-Employment Benefits (OPEB)*, copies of which were circulated among the Commissioners.

Commissioner Simpson asked how retiree medical costs were recognized on the books. Mr. Origliosso replied that workers earn the benefits while working.

Commissioner Farmer observed that the changes being instituted by the Government Accounting Standards Board (GASB) were a matter of changing to cash value accounting as opposed to accrual accounting.

Mr. Origliosso continued his presentation on the OPEB and how the GASB 45 would affect them. He noted that the last major change in the benefits level had occurred in 2003.

In response to a question from President Bishop, EWEB Actuary Pete Neuwirth explained that EWEB would set the schedule of cash contributions and the value of the liabilities in this new approach to begin accounting for benefits.

Mr. Neuwirth highlighted the six different formulas for calculating the “answer,” noting that each one yielded a slightly different result. He said as the employer, EWEB would need to choose the method that best fits the organization.

In response to a question from Commission Farmer, Mr. Neuwirth affirmed that the GASB ruling dictated that the employee benefits should be considered in the books annually. He said it was a two-step process; EWEB would choose its assumptions and then arrive at the total value.

Commissioner Farmer asked if accounting for the benefits on an annual basis would mean a difference in the actuarial value. Mr. Neuwirth replied that it was a self-correcting process.

Mr. Origliosso summarized the concept. He explained that EWEB had been using an annual number, the amount earned by an active employee in a year. Now GASB would require that annual amount to be set aside plus the amortization of a “loan,” i.e. an amount financed to meet the unfunded actuarial liability (UAL) between the benefits owed and the cash in reserve. He said the active employees would pay the loan. Some kind of estimate of what EWEB employees would ultimately draw from the reserve would have to be arrived at.

Mr. Neuwirth provided a power point presentation entitled *Eugene Water & Electric Board Analysis of GASB 45* dated *October 24, 2006*.

Commissioner Farmer observed that the GASB 45 ruling would require EWEB to value on a true cost basis rather than paying as it went. He asked how EWEB had been recording the cost before. Mr. Neuwirth replied that EWEB used the method mandated by private employers. He noted that EWEB could continue with this practice but it would not exactly comply with the GASB 45 ruling.

Mr. Neuwirth stated that the accrued liability had decreased from \$31.7 million to \$29.2 million since 2005, and this was almost entirely attributable to a reduction in premiums.

In response to a question from Commissioner Simpson, Mr. Neuwirth affirmed that the word ‘experience’ in the report meant the number of times people accessed health care services.

Mr. Neuwirth proposed that EWEB implement the GASB 45 policy direction in its accounting practices. He said the GASB would allow amortization of the liability over the course of 30 years, though EWEB staff was proposing a 20-year time period. He added that staff was proposing to keep it to a level percentage of pay.

Commissioner Farmer asked if the amount to be amortized was \$27.6 million. Mr. Neuwirth replied that this was not the exact number; staff would use the amount of the current premiums but would need to reflect the implicit retiree subsidy. He explained that at present the premiums paid for employees not yet retired was the same as those who have retired. GASB calls this an understatement as retirees were older and tended to need to access medical care more than younger people. He said GASB asked that the employer determine the subsidy.

Mr. Origliosso added that the same premium would be charged, but the number would recognize that the person who was about to retire was more costly in health benefits.

In response to a question from Commissioner Simpson, Mr. Neuwirth said to do it correctly they would take the active costs and reduce them “by a little bit” for accounting purposes. He stated that the assumption was that EWEB would set aside legally accrued assets to meet medical costs and this amount could earn seven percent per year in interest. He indicated that this amount could be used to discount the premium rates.

Mr. Origliosso related staff’s proposal to have EWEB be part of a major trust fund utilizing assets that were not already designated for reserves or for needed cash.

Mr. Neuwirth reviewed graphs delineating *Retiree Medical Cost Impacts as Percentage of Pay*, *Retiree Medical Cost Impacts*, and *Retiree Medical Accrued Liabilities and Assets*.

Commissioner Farmer asked if there would be an actual cost. Mr. Berggren replied that it would increase the annual contribution.

Mr. Neuwirth explained that after ten years a healthy percentage of the liability was projected to be funded and after 20 years the accrued assets and the liability were projected to be even. He added that this was based on hiring more people and that the population would eventually turn over. He reiterated that every year an employee works the money would go into a trust and then when the employee retires the total value of the benefits should be there.

President Bishop asked if there was a margin for error. Mr. Origliosso responded that the projections assumed no significant impact from the current court cases brought against EWEB by retirees. Mr. Berggren added that the court cases were precipitated by the Unfunded Actuarial Liability (UAL) and EWEB’s decision to raise rates to compensate for it.

Mr. Neuwirth added that the assumptions were based on best estimates. He stated that staff needed the Board’s commitment to implement a formal legally segregated trust.

In response to a question from Commissioner Farmer, Assistant Treasurer Cathy Bloom stated that the trust was not part of the goal for the total amount of the reserve funds.

President Bishop asked why the money was not currently transferred out. Ms. Bloom replied

that it would take some time to find someone to administer and disperse the trust, but staff needed Board approval prior to finding that entity. Mr. Neuwirth stated that the trust would then make the benefit payments.

President Bishop asked where the interest would go. Ms. Bloom responded that it would go back into the reserve.

### **PUBLIC EMPLOYERS RETIREMENT SYSTEM (PERS)**

Ms. Bloom provided the *PERS Update*. She reviewed the current PERS litigation in relation to EWEB, as outlined in a confidential summary from legal counsel, Eric DeFreest. She explained the actuarial valuation of the system, which was performed every two years. She predicted the upcoming rates would reduce the employer rates by a small amount.

Commissioner Simpson asked if the valuations took a year. Mr. Origliosso replied that PERS normal process was to produce rates two years after the valuation; the current rates were based on 2004.

Ms. Bloom stated that staff's goal was to gain Board approval to join the PERS Alliance, a coalition of government employers, and to transfer pension reserves to PERS to pay down the UAL.

Ms. Bloom reviewed the PERS timeline of events from the rate increase of 1998 to the present.

In response to a question from Commissioner Simpson, Ms. Bloom stated that the PERS UAL was \$64 million, based on the rates from 2004. In response to a follow-up question, Ms. Bloom explained that the jump in rates from 2001 to 2002 was due to a change in legislation. Ms. Bloom stressed that had EWEB handled the PERS rate changes differently it would have a \$153 million UAL.

Ms. Bloom advocated for EWEB participation in the PERS Alliance as the alliance had a more neutral view than the PERS Board or labor. She said the alliance had funds to help with court legislation and coordination of lobbying efforts.

Mr. Origliosso supported joining the alliance as Ms. Bloom had spent a lot of time addressing PERS issue and "\$10,000 is a bargain to get her back here." He noted that Ms. Bloom had done a lot of support work for former-lobbyist Libby Henry in 2003.

In response to a question from President Bishop, Ms. Bloom stated that at this point there were five groups involved in the PERS Alliance including colleges. She said other groups were interested in joining. She added that it would cost \$10,000 for EWEB to join and the other employers had paid \$35,000.

President Bishop asked if unions could join the alliance. Ms. Bloom replied that they could not. Mr. Origliosso noted that labor unions already had their own alliance.

President Bishop asked if only one EWEB representative would be at the table in the alliance. Ms. Bloom responded that it was not limited to members. More than one person could go and everyone at the table had an equal voice.

In response to a follow-up question from President Bishop, Ms. Bloom said she was not aware that any large public employers were conspicuously absent from the alliance. She noted that the County had been very helpful with the alliance.

Commissioner Farmer asked what the actuarial predicted for 2008 and 2009. Ms. Bloom replied that the most current number was from the 2004 rates. She added that preliminary information from 2005 indicated that the rates could go down slightly.

Commissioner Farmer remarked that without charging the ratepayers \$30 million EWEB would be worse off than it was. Ms. Bloom responded that her concern lay in that PERS was making short-term decisions that were affecting the long-term viability of the system. She added that to their credit they had not “played with the numbers” like some states had.

In response to a question from Commissioner Lanning, Ms. Bloom affirmed that EWEB would have a seat on a five-member board in the alliance.

Ms. Bloom stated that staff would be back before the Board at future meetings to speak about the White litigation. She added that they would continue to assess the state pool over the next year.

Commissioner Farmer asked if the assessments were set at a “pay as you go” system. Ms. Bloom replied that it was based on a valuation conducted every other year.

Commissioner Farmer ascertained from Ms. Bloom that no one was being forced to “book” the future costs and how those costs should be paid. Ms. Bloom underscored that the Financial Accounting Standards Board (FASB) was now requiring the private sector to “book” retirement benefits and the trend was generally that the public sector followed the practices of the private sector though it took time. She did not think it would take 20 years.

Mr. Neuwirth related that PERS had consistently understated the problem and now the agencies that participated in PERS were seeing that the problem was much larger than PERS had admitted all along. He said PERS has “stopped the bleeding” but there were still many problems.

President Bishop adjourned the meeting at 7:20 p.m.

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Assistant Secretary

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President