



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD
General Accounting Department

Rely on us.

TO: Commissioners Farmer, Brown, Cunningham, Ernst and Cassidy
FROM: Cathy Bloom
DATE: April 10, 2009
SUBJECT: 2008 Reserve Fund Status and Transfers

Issue:

The Board considers annually how to allocate any excess funds to reserve accounts after the end of the operating year. This memo provides a recommendation for action based on previous Board conversations and the review by staff of the reserve targets over the last year.

Background:

The Board has established a number of reserve accounts and has set up targets for the funding of those reserves. On an annual basis, after the audit, staff prepares a summary of the year end balances of the reserves with a comparison to the targets.

Below is a summary of changes to the reserves as a result of 1) recommended revised reserve targets, 2) draws from the 2009 Budget and 2009 Budget Amendment No. 2 and, 3) recommended reserve transfers.

1) Revised Targets

Power Operating Reserve

In 2008 staff contracted with Beecher Carlson to review the reserve target for our Power Operating Reserve. The goal was to estimate the most appropriate amount of financial reserves which should be set aside to provide ready protection in the event of diminished hydroelectric generation among EWEB's "slice" of the federal based system, and its own generating resources, as well as increases in market electricity prices. As a result of their analysis, it was recommended that EWEB increase the reserve target from \$15 million to \$24.7 million. The increased funding level is to mitigate uncertainty in regard to 1) hydroelectric generation and 2) market pricing variability. As a result of their analysis, staff is recommending increasing the target by \$9.7 million, resulting in a new target of \$24.7 million.

Self-Insurance Reserve

EWEB is exposed to various risks of loss because of EWEB's self-insurance retention, up to the first \$1 million of exposure, per occurrence. Excess liability coverage protects EWEB after the self-insured limit is exhausted. In December of 2008, during the annual renewal process for 2009, the

cost for excess liability coverage increased almost 100% from the previous year. The cost increased from \$213,250 to \$415,706 for \$1 million of coverage. However, the cost for excess liability coverage for \$2 million of coverage was \$209,088. Based on the cost of the insurance in comparison to the coverage and risk, we increased the self-insurance level to \$2 million. Therefore, staff is recommending increasing the target from \$1 million to \$2 million (\$1,720,000 for Electric and \$280,000 for Water).

2) 2009 Budget & Budget Amendment No. 2

In December, during the 2009 Budget process, the Board approved drawing funds from the Power Operating Reserve to pay for \$4,173,000 in capital costs and \$800,000 of operating costs in 2009. These draws are reflected in the attached spreadsheets by reducing the Power Operating reserve by \$4,973,000.

Earlier in the year the Board approved a draw from the Power Operating Reserve for the Community Care Program. The details of the draw are summarized in Budget Amendment No.2 for \$4,272,230 (see Mark Freeman's information on the Budget Amendment). The draw is reflected as a reduction in the Power Operating reserve in the attached spreadsheets.

3) Recommended Reserve Transfers

After funding the above revised targets and the 2009 draws on reserves mentioned above, the excess funds available to transfer is \$1,538,000 for the Electric Utility. The Water Utility does not have any excess funds as all funds are needed to meet reserve target levels.

At the April Board strategic planning session, the Board indicated support for the allocation of excess funds for 2008 reserves to offset costs in the 2010 budget after the reserve targets were met. Based on the discussions regarding financial forecasts and uncertainty in regard to reduced price forecasts for wholesale revenues, the suggestion was to use the excess funds to help offset the reduced wholesale revenues projected in 2010. We are recommending transferring the \$1,538,000 to the Power Operating Reserve to offset the uncertainties of wholesale revenues in future years.

Attached are spreadsheets detailing the balances at year end, the corresponding targets and recommended transfers for 2009 based on the 2008 year-end financial results. Below is a summary by utility of the recommended transfers and changes in funding targets.

Electric Utility

The Working Cash account has \$2,454,000 in excess of the \$15 million target for 2008. The recommendation is to transfer funds from Working Cash to 1) Power Operating Reserve for \$86,000 to the target level, 2) Self Insurance Reserve for \$830,000 up to the target level, 3) remaining \$1,538,000 to Power Operating Reserve to offset the uncertainties of wholesale revenues in future years. Increase the funding target of the Power Operating Reserve to \$24.7 million and the Self-Insurance Reserve to \$1,720,000.

Water Utility

The Working Cash account has \$870,000 in excess of the \$2 million target for 2008. The recommendation is to transfer funds from Working Cash to 1) Operating Reserve for \$45,000 to the target level, 2) Self-Insurance Reserve for \$135,000 to the target level, 3) remaining \$690,000 to the Capital Improvement Reserve, bringing the balance to \$3,285,000, just \$115,000 short of the target. Increase the funding target of the Self-Insurance Reserve to \$280,000.

Recommended Action:

Staff recommends that the Board approve Resolution #0915 which authorizes the transfers of funds and new reserve targets as stated above. If you have any questions, please contact me at 344-6311 ext. 3277 or cathy.bloom@eweb.org

RESOLUTION NO. 0915

April 2009

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 2008 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:

1. Transfer \$1,624,000 from Electric Working Cash to the Power Operating Reserve.
2. Transfer \$830,000 from Electric Working Cash to the Electric Self-Insurance Reserve.
3. Transfer \$45,000 from Water Working Cash to the Water Operating Reserve.
4. Transfer \$690,000 from Water Working Cash to the Water Capital Improvement Reserve.
5. Transfer \$135,000 from the Water Working Cash Reserve to the Water Self-Insurance Reserve.
6. Increase funding target for Power Operating Reserve to \$24.7 million.
7. Increase funding target for Electric Self-Insurance Reserve to \$1,720,000 and Water Self-Insurance Reserve to \$280,000.

Dated this 21th day of April 2009,

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

President

I, KRISTA K. HINCE, 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 April 21, 2009 Regular Board Meeting.

Assistant Secretary

2008 Electric Utility Reserves and Targets
04/10/2009

Reserve Accounts	Target	Revised Target	Balance 12/31/08	2009	Over/(Under) Target/Revised	Resolution Recommended Transfers	12/31/2008 Ending Balance w/transfers & 2009 Budget
				Budget/ Amendments			
Working Cash	\$15,000,000		\$17,454,000	\$4,272,000 (3) 800,000 (4)	\$2,454,000	-\$2,454,000	\$20,072,000
Power Operating Reserve	15,000,000	\$24,700,000	33,859,000	-4,272,000 (3) -4,973,000 (4)	-86,000	86,000 1,538,000	26,238,000
Non-Power Operating Reserve	1,000,000		2,053,000		1,053,000		2,053,000
Self-Insurance Reserve	860,000	1,720,000	890,000		-830,000	830,000	1,720,000
Capital Improvement Reserve	15,000,000		12,873,000	4,173,000 (4)			17,046,000
New Resource Reserve		(1)	15,000				15,000
Carmen Smith Reserves	20,000,000		21,352,000				21,352,000
Pension & Post-Retirement Medical Reserve			3,330,000 (2)				3,330,000
Total	<u>\$66,860,000</u>	<u>\$26,420,000</u>	<u>\$91,826,000</u>	<u>\$0</u>	<u>\$2,591,000</u>	<u>\$0</u>	<u>\$91,826,000</u>

(1) - No reserve target at this time, budgeted deposits of \$1.5 million to be used for Harvest Wind Project

(2) - Amount designated to fund Supplemental Retirement Plan (\$2,698,000) and PERS or OPEB Trust (\$632,000)

(3) - Budget Amendment #2 for Community Care Program

(4) - 2009 Budget - approved draw from 2008 excess contribution margin (\$4,173,000 Capital Reserve and \$800,000 Working Cash) to fund approved projects

Note: Above 12/31/08 balances include transfers that were made in 2009 based on 2008 year end power and capital activity.

2008 Water Utility Reserves and Targets
04/10/2009

<u>Reserve Accounts</u>	<u>Target</u>	<u>Revised Target</u>	<u>Balance 12/31/08</u>	<u>Over/(Under) Target</u>	<u>Resolution Recommended Transfers</u>	<u>12/31/2008 Ending Balance w/ transfers</u>
Working Cash	\$2,000,000		\$2,870,000	\$870,000	-870,000	2,000,000
Water Operating Reserve	1,000,000		955,000	-45,000	45,000	1,000,000
Water Capital Improvement Reserve	3,400,000		2,595,000	-805,000	690,000	3,285,000
Self-Insurance Reserve	<u>140,000</u>	<u>280,000</u>	<u>145,000</u>	<u>-135,000</u>	<u>135,000</u>	<u>280,000</u>
Total	<u>\$6,540,000</u>	<u>\$280,000</u>	<u>\$6,565,000</u>	<u>-\$115,000</u>	<u>\$0</u>	<u>\$6,565,000</u>

Note: Above 12/31/08 balances include transfers that were made in 2009 based on 2008 year end capital activity.