



INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD
CORPORATE SERVICES DIVISION

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TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst

FROM: Garilyn Johnston, Senior Financial Rate Analyst

June 30, 2009

RE: 2010-2019 Long-Term Financial Planning for the Water Utility

Issue

This memo provides an overview of the Water Long-Term Financial Plan and specific information regarding the current view of the plan.

Background

Since 2006, staff and the Board have used the Long-Term Financial Plan as a way to communicate the financial future of the water utility. The Plan includes a full view of the utility's financial obligations and resources over a 10-year period and attempts to give the Board a high level view of all major decisions and known issues.

In the recent years the utility has taken several rate actions in order to improve funding for the capital program and to align the financial forecast with long-term average of consumption. It is important to note that the financial results are weather and economy related. In spite of significant rate increases, water service from EWEB is still very affordable as compared to other communities in the northwest. A complete discussion of rate comparability has been included in this packet and will be discussed at the meeting.

Discussion

As with the electric utility, incorporated in the Plan are a great number of assumptions. While this level of detail is helpful in total, there are a few items that are particularly important as they have higher impact on the overall financial position of the utility. These items are described below.

Rate Assumption

The rate assumption for the water utility for 2010 is for a 7% increase. In the following year the rate drops to 4% until 2017 when moves up to 9% as a result of addition capital needs, specifically the second source of supply. The table below shows history of prior water utility increases for the past five years.

2009	2008	2007	2006	2005
18.1%	17%	9.2%	9.3%	0%
~\$3.00 Increase to average bills	~\$2.80 Increase to average bills	~\$1.50 Increase to average bills	~\$1.50 Increase to average bills	

Revenue

Operating revenues increase over the 10 year timeframe as a result of the rate adjustments described above and very slow growth in the system. The plan has been adjusted to zero growth in 2010 and 2011, and then in 2012 the growth in consumption will move back to .5% per year. These growth assumptions are based on recent experience.

Operating Expenditures

Labor costs including benefits increase slightly over 4% for non-represented (MAPT) employees and 5% for represented employees (IBEW) based on their collective bargaining agreement. The plan has 2.5 full-time equivalents added in 2010 for water and anticipates 2 employees per year thereafter.

Power expenditures follow the assumed rate increases for the Electric Utility and are similar to previous forecast except 2010 which was held at the 2009 level. In 2009 the Electric rate increase was thought to be 6% at the time of the forecast, but actually it didn't happen.

O&M Other is being held at the 2009 budget level for 2010 and 2011 reflecting no escalation of costs. The inflation assumption adds a 3% escalation to 2012 and every year after. Cost associated with PERS and OPEB unfunded actuarial liabilities are included in O&M Other.

Capital Budget

Capital Resources

The Water Long-Term Financial Plan includes a 10 year view of the resources and expenditures associated with capital. The Water Engineering staff will present the Board with an updated capital plan on July 21st. If the plan is adjusted at that time, we naturally make changes to this plan.

System Development Charges (SDC) funding which supports capacity increasing improvements for the water system, have significantly decreased since late last fall due to the economy. The 10 year plan has been adjusted to reflect lower collections from SDCs and the capital plan has a reduced amount of capacity increasing capital work.

The 10 year plan combines a few strategies to fund capital in future years. The first strategy incorporates a higher level of rate funding for capital. The second assumes that in 2011 a small bond issue will fund capital needs in 2011-2013. The third strategy draws on reserves to fund capital in years where there are specific, higher project needs. As changes come through in the next month to the capital plan, this dollar amount for the bond is likely to be adjusted in the next version. The bond funds issued in years 2017-2019 are for the development of a second source of water supply.

Capital Expenditures

In the last version of the Water Long-Term Financial Plan that the previous Board reviewed in November of 2008, capital spending was about \$3 million higher in both 2011 and 2012. The drop in expenditures is mostly coming from previously scheduled reservoir additions.

Roosevelt lease payment moved to capital from O&M and assumes water will start paying 30% of the cost after move in at the end of 2010. The reduction in lease payment due to the sale of property has been delayed outside of the 10 year horizon, so it is not included in the plan.

Recommendation/Actions

This material is provided for discussion only and no decisions are anticipated. A general consensus on the rate assumption and any other item having a significant impact to the 2010 budget would be helpful.

Please feel free to contact me at Garilyn.Johnston@eweb.org or at 344-6311 ext. 3286 with any questions regarding these materials.

WATER - Operating Budget

	2009 Projected	2009 Budget	2010 Projected	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
July 1, 2009												
Most Likely												
	May	May	May	May	May	May	May	May	May	May	May	May
Rate Strategy	18.1%	20.0%	7.0%	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%	9.0%	9.0%	0.0%
Revenue (\$000)												
Residential	12,749	12,869	14,113	14,725	15,240	15,875	17,644	17,968	18,777	20,247	22,171	22,947
General Service	9,373	9,553	10,376	10,826	11,204	11,671	13,098	13,338	13,938	15,030	16,458	17,034
Large Comm and Ind			-	-	-	-	-	-	-	-	-	-
Water Districts	1,614	1,614	1,787	1,864	1,929	2,010	2,213	2,253	2,354	2,539	2,780	2,877
Other	760	780	723	748	748	775	802	775	830	802	859	830
Total Operating Revenue	24,496	24,816	26,999	28,163	29,122	30,331	33,757	34,334	35,899	38,618	42,268	43,688
Interest Earnings	21	54	60	60	30	30	65	75	75	75	75	75
Total Income	24,517	24,870	27,059	28,223	29,152	30,361	33,822	34,409	35,974	38,693	42,343	43,763
Expenditures												
O&M Labor	8,076	8,076	8,509	8,587	9,091	9,619	10,174	10,757	11,367	12,008	12,680	13,384
Power	883	883	884	965	964	984	1,012	1,050	1,043	1,103	1,065	1,126
Chemicals	541	541	555	588	531	563	597	633	648	665	681	698
Rate Funded Conservation	417	417	525	525	543	562	582	602	623	645	668	691
O&M Other	4,652	4,774	4,652	4,652	4,792	4,935	5,083	5,236	5,393	5,555	5,721	5,893
Capital (Rate Funded)	7,813	7,851	9,000	9,000	9,000	9,000	10,000	10,000	10,000	10,000	9,000	9,000
Debt Service	1,954	1,954	2,942	2,815	2,813	2,820	2,818	2,817	2,821	2,821	2,821	2,821
Debt Service - New Capital										4,507	8,979	8,979
Bond Reserve Account	106	106	106	106	106	106						
Balance Sheet Changes	(316)	(316)	(316)				(118)	(118)	(118)	(118)	(118)	(118)
Total Expenditures	24,126	24,286	26,856	27,237	27,839	28,590	30,149	30,976	31,778	37,185	41,497	42,474
Net Operating Budget Position	391	584	203	986	1,313	1,771	3,673	3,433	4,196	1,508	846	1,289

Water Capital Budget

	2009 Projected	2009 Budget	2010 Projected	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Resources												
Rate Funded Capital	7,851	7,851	7,975	9,000	9,000	9,000	10,000	10,000	10,000	10,000	9,000	9,000
Rates for Debt Service (existing)	1,954	1,954	2,942	2,815	2,813	2,820	2,818	2,817	2,821	2,821	2,821	2,821
Debt Service on New Issues	620	-	-	-	-	-	-	-	-	4,507	8,979	8,979
Hynix for Debt Service	401	401	404	280	-	-	-	-	-	-	-	-
SDC Reimbursement for Debt Service	294	294	298	298	298	298	298	298	298	298	298	298
SDC Improvement for Debt Service	657	657	663	663	663	663	663	663	663	663	663	663
SDC for Capital	2,500	2,500	87	116	145	210	231	254	280	307	338	372
Bond funds	7,813	7,687	2,625	2,500	1,000	1,500			10,000	21,000	52,000	47,000
Contributions in Aid	445	919										
Draw from Reserves								4,000				
Total Capital Resources	22,535	22,263	14,994	15,672	13,919	14,491	14,010	18,032	24,062	39,596	74,099	69,133
Expenditures												
Source Additions and Production	9,593	8,949	2,745	2,928	1,991	2,084	1,810	3,730	6,772	26,027	50,849	45,364
Pump Station Improvements	1,024	937	1,399	1,293	701	626	213	1,103	1,608	118	718	125
Reservoir Additions	1,316	1,150	1,339	913	153	163	754	887	2,058	2,820	2,181	2,074
Services and Meters	501	501	116	120	123	127	131	120	111	103	93	95
Main Replacements, Improvements, Relocations	4,738	5,304	4,261	3,629	3,891	4,870	5,671	6,757	7,799	8,411	8,861	9,835
Water Plant Additions including SCADA	1,735	1,564	1,666	1,108	989	781	1,255	1,107	1,144	986	999	993
Total Capital Expenditures	18,907	18,405	11,526	9,991	7,848	8,651	9,834	13,704	19,492	38,465	63,701	58,486
Debt Service	3,927	3,307	2,942	2,987	2,813	2,820	2,818	2,817	2,821	7,328	11,800	11,800
Roosevelt Lease Payment			62	745	745	745	745	745	745	745	745	745
Repay Loan from Electric Utility												
Total Capital Expenditures	22,834	21,712	14,530	13,723	11,406	12,216	13,397	17,266	23,058	46,537	76,246	71,031
Draw or Deposit to Reserves	(299)	551	224	1,949	2,513	2,275	613	766	1,004	(6,941)	(2,146)	(1,898)
Total Draw or Deposit to Reserves	92	1,135	427	2,935	3,827	4,046	4,286	199	5,200	(5,433)	(1,301)	(609)

Ratio Analysis

	2009 Budget	2009 Budget	2010 Proj	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
Debt Service Coverage	4.83	4.94	3.92	4.42	4.53	4.68	5.81	5.73	5.99	2.55	1.82	1.86
Debt Ratio	37%	32%	31%	30%	27%	25%	22%	26%	23%	32%	36%	43%
Operating Ratio	59%	59%	56%	54%	55%	55%	52%	53%	53%	52%	49%	50%

Reserves

Unrestricted Reserves w/o Pension, SDC's		873800%										
	7,603	8,550	8,030	10,966	14,792	18,838	23,125	19,324	24,523	19,090	18,023	17,414
Target	12,480	12,580	13,380	12,040	13,980	14,080	16,280	16,280	16,380	17,580	16,780	16,880