

EUGENE WATER & ELECTRIC BOARD
BUDGET WORKSHOP
EWEB BOARD ROOM
500 EAST 4TH AVENUE
OCTOBER 20, 2009
5:30 P.M.

Commissioners Present: Ron Farmer, President; John Brown, Vice President; Bob Cassidy, Rich Cunningham, Joann Ernst.

Others Present: General Manager Randy Berggren, Sheila Crawford, Jim Wiley, Debra Smith, Bill Welch, Jim Origliosso, Patty Boyle, Garilyn Johnston, Tom Buckhouse, Dick Helgeson, Mark Freeman, Lance Robertson, Edward Yan, and Judy Chase of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Farmer convened the 2nd Budget Workshop for the Eugene Water & Electric Board (EWEB).

ELECTRIC 2010 BUDGET AND 10-YEAR FINANCIAL PLAN REVIEW

EWEB Treasurer, Jim Origliosso, was joined at the table by Fiscal Services Supervisor, Patty Boyle. They provided a PowerPoint presentation on the *Electric 2010 Budget and 10-Year Financial Plan Review*. Hard copies were provided to everyone present.

Mr. Origliosso reported that the electric division would under spend its labor budget by \$1 million in the current year and had also reduced its non-labor costs by an additional \$1.5 million. He said the utility had to increase reserve-specified items; on net they were predicting that the utility would under spend its budget by about \$1.5 million on the non-power side. He stated that the power budget was anticipated to have a \$4.5 million surplus but it now appeared to be "about even." The utility was approximately \$4 million off from what had been projected. He said they would carry over the philosophy of keeping costs low in 2010 and had, as a result, constrained the non-labor side of the budget and carried over some of the changes made in 2009 including restrictions on travel and curtailment of other discretionary items.

Ms. Boyle highlighted the *Long-Term Financial Plan Basics*. She reiterated that the Contribution Margin was the difference between the revenue and the expenses and reviewed the major drivers of the long-term financial plan.

Commissioner Cassidy asked if the long-term financial plan did not include anything the Bonneville Power Administration (BPA) might do. Ms. Boyle replied that the BPA rate actions were the second numbers listed in the table entitled *Long Term Financial Plan* under 2011 and 2013, 3.5 and 3 percent respectively.

Commissioner Ernst asked what the additional costs, aside from the BPA increases, were attributable to. Ms. Boyle responded that it included the additional cost from the BPA. She explained that the increases in purchased power included things such as increases from the BPA, power costs associated with the Harvest Wind project coming on line, and all other power costs.

Ms. Boyle related that EWEB was expecting some additional conservation reimbursement in 2012, but they mostly saw EWEB's expenses remaining relatively flat. She said while they did anticipate some additional funding to be placed into the reserves in 2010, this was not the case in the forward years. She stated that staff anticipated small draws to the reserve funds.

President Farmer observed that the water years could change quickly. He said trying to predict what the BPA would do was difficult and the price of electricity itself was volatile. He underscored that the assumptions they had for the next five or six years would be very subject to change.

In response to a question from Vice President Brown, Ms. Boyle said the 3.5 percent rate increase was projected for May, 2011, and the other 3.5 percent increase would be before the Board in November, 2011.

Vice President Brown noted that the wholesale sales revenue would drop dramatically after 2011 and wondered if that was a result of BPA deregulation. Ms. Boyle replied that two things were going on in that projection – the BPA decrement was the single largest and ongoing decrement and in the future years they were including the impacts of the outage and then the return of the Carmen-Smith hydro facility. She underscored that the BPA decrement was never going to come back.

Commissioner Cunningham asked staff if they could provide a graph delineating EWEB's hydro assumption and what it had actually been. Ms. Boyle replied that staff had the information, noting that they had last reviewed it in March. She said the actual experience had been better and sometimes significantly better than the assumption.

Commissioner Cunningham asked what the anticipated rate savings would be if the assumption was changed. Ms. Boyle said they could review the numbers and see what the result would be. She noted that it would depend on what time period they were looking at.

Commissioner Cunningham commented that from his perspective, if the utility had been above the assumption they could consider adjusting it. Ms. Boyle remarked that it was not exactly a linear equation. She explained that the increment between 85 and 86 percent could provide a dollar amount, but once they closed in on an average water year there could be an oversupply of power that would push down the price.

President Farmer observed that the cost of power would have to be fixed in order to have a more exact sense of what a change in the hydro assumption would translate to in rates. Ms. Boyle added that another factor that would weigh into the equation was when the power arrived. She explained that if it all came in the spring, that would change the cost effect.

President Farmer suggested that it would be valuable to provide the Commissioners with the study that had been conducted when the Board had reviewed the hydro assumption and decided to change it.

Ms. Boyle commented that it would take a relatively small change in the generation assumption to eliminate a \$2 million or 2 percent rate increase and it would take a very dry year to make it worse.

In response to a question from Commissioner Ernst, Ms. Boyle explained that debt service for the Roosevelt Boulevard facility would be retired in 30 years and that additional debt service would be brought on for the Carmen-Smith relicensing project. She said they had already issued a portion of the debt for the Roosevelt facility and were about to issue the second part. She stated that a third component was planned to be issued for Carmen-Smith once its reserve fund had been depleted.

In response to a question from General Manager Randy Berggren, Ms. Boyle clarified that the Harvest Wind project was in the budget for the present year. Mr. Origliosso added that EWEB had borrowed money for it in the current year and intended to refinance it.

President Farmer supported taking a conservative approach to budgeting. He preferred to retain the 85 percent assumption.

Vice President Brown asked if the actuarial liability for long-term health benefits was in the budget. Mr. Origliosso responded that the actuarial study would take into account the gain or the loss on the investment portfolio. He said the unfunded portion was considered to be a loan for ratemaking purposes for the actuarial studies. He explained that the loan was amortized, both principal and interest, over three years.

Commissioner Ernst asked if there had been any discussion of the potential need for more funding of the conservation program, should that program expand substantially. Ms. Boyle replied that the topic had not been brought up to her. Dick Helgeson, Director of the Power Resources Division, stated that EWEB had been meeting its current target of 2.5 average megawatts (AMW) per year. He said staff thought the budget as proposed was sufficient to maintain the current level of activity, though it was not enough to respond to the Northwest Power and Conservation Council's projections. He related that staff was in the process of reassessing its targets in light of the council's plan. He believed that the out year estimates for the level of the investment was significantly higher because staff anticipated that the costs would increase over time.

Bill Welch clarified that the target for 2010 was not yet known and staff would know more in the latter part of that year.

Commissioner Ernst asked if the budget was based on 2.5 AMW. Mr. Welch affirmed that it was. Mr. Helgeson added that EWEB was already spending five percent of the total revenues on it and conservation was the highest priority resource. He averred that tiered rates would help higher value relative to the power bumps. He said if they just simply translated the council's current projections, EWEB would have to double its current effort and this would actually exceed load growth.

Commissioner Cassidy suggested that a bulleted itemization of the thought process that went into the budget would be of benefit.

Vice President Brown noted that General Manager Randy Berggren would not likely be manager for the next budget process. He asked if the budget process was generally a collaborative endeavor or was more directed by the general manager. Mr. Origliosso replied that the Board was seeing a process that had evolved over a period of 20 years. He felt that new leadership would be another piece in the evolution of the process and a new general manager would either adopt the way that was currently undertaken or would bring something new to it.

General Manager Randy Berggren observed that the budget work had been “fairly collaborative.” He related that he looked to the experts in each of the areas, such as turning to Mr. Origliosso for interest assumptions and investment strategies and to Mr. Helgeson for advice on what the outcome of the BPA work would look like. He also relied upon his own sense and experience and the continuity of assumptions going back and going forward. He stated that one of the reasons for the July budget retreat was to inform the Board of what some of the critical higher level assumptions were. He said there were some assumptions they would not take on; it would be very difficult to walk into the board room with a risk and say that though he could not define the risk he wanted to raise rates for it. He underscored that if staff could not quantify it, they might try and advise that something could be coming but they would not address it if it was this uncertain. He explained that there were some events that were impossible to make reasonable assumptions about though it was known that they were coming.

President Farmer thought Vice President Brown’s question was well-taken. He said these types of questions would need to be asked in the budget process. He anticipated that there would be some changes whether they hired an internal candidate or an external candidate.

Ms. Boyle reviewed the slides of *Major Drivers on LTFP* (Long Term Financial Plan) and *2010 Capital Expenditures \$68.6 Million*.

In response to a question from Vice President Brown, Ms. Boyle explained that the Harvest Wind project was not included in the capital expenditures except under debt service. She noted that the project would be operational by the end of the year.

Continuing, Ms. Boyle noted that the reimbursements from the University of Oregon were included in the *Capital Funding Sources*. She stated that the *2010 Budget Assumptions* were based on the budget workshop held in July and outlined them as well as the *Features of the 2010 Budget*.

In response to a question from Commissioner Ernst, Ms. Boyle explained that the newly hired person to fill the sustainability coordinator position had been included in the 2009 budget and the cost was split between the electric and water utilities, 86 percent to 14 percent.

President Farmer asked what the total cost of the 12 FTE positions added in the 2010 budget. Ms. Boyle replied that the fully loaded cost would be \$1.5 million. She clarified that 14 positions were being added. Mr. Origliosso clarified that the fully loaded costs included the Public Employees Retirement System (PERS) costs and health benefits and more.

President Farmer asked if the cuts made in the non-labor operations and management budget were one-time cuts. General Manager Randy Berggren affirmed that they were one-time cuts in an effort to mitigate the impact.

In response to a follow-up question from President Farmer, Ms. Boyle stated that the employees hired to work on the Carmen-Smith relicensing project would be funded through the reserves or through bonding. She said the future years in the long-term financial plan, up to 2011, did not include an inflationary assumption on materials and supplies. After this they were included as ongoing expenses and would be part of any future rate action.

In response to a question from Commissioner Ernst, Ms. Boyle clarified that they had taken significant cuts in materials and other non-labor costs in order to accommodate the cost associated with new FTE and raises associated with current FTE. She said the net difference was still \$400,000.

Commissioner Cunningham asked if staff was considering the possibility that some type of health care reform would be instituted by the federal government. General Manager Randy Berggren responded that there were too many unknowns at this point.

Mr. Origliosso related that staff had engaged in lengthy discussions with the actuary at an Other Post-Employment Benefits (OPEB) meeting and it was very unclear what would prevail. He said at some point medical costs would become 30 or 40 percent of the gross domestic product, which was steep and unsustainable. The sense was that something needed to happen but no one could say exactly what that should be.

President Farmer observed that “no matter how you slice and dice it” the cost would have to go up for the first few years and maybe there would be savings after that.

General Manager Randy Berggren noted that the current increase was the largest that EWEB had faced since 2004. He related that they had averaged 5.9 percent in annual health cost increases, which was the lowest of five public sector employers that EWEB compared with.

Ms. Boyle explained that the increase in the Customer Accounting delineated in the pie charts for *Operating Expenditures* from 2009 to 2010 represented the cost of the Customer Care Program.

Commissioner Ernst asked if Customer Accounting costs included the additional employees that had been hired to answer the phones. Ms. Smith replied that there was no increase in the number of employees that had been approved for the 2009 budget.

Ms. Boyle asked for feedback on what further information the Board would like to have. Commissioner Cunningham requested a document that delineated costs by departments.

President Farmer responded that he would like to have a bullet-point information piece that would be accessible for the public. He noted that the Board received a lot of uninformed letters and emails. He added that General Manager Randy Berggren had done a good job in his

media interview with the *Register Guard* regarding the thought process in employee costs. He wanted to continue keeping the public informed.

Commissioner Cassidy suggested that staff do more to publicize the things that EWEB did over and above the Customer Care Program, such as scholarships and grants to different groups.

Vice President Brown asked for more elaboration on what cost increases a split in operations and services would incur. He wondered if costs would increase due to the doubling up of some of EWEB's services. Ms. Boyle replied that she could provide an overview of the cost projections.

Commissioner Cunningham requested information on the current budget assumptions that reconsolidation of EWEB would entail. General Manager Randy Berggren replied that the sale of the existing property was not currently in the 10-year financial view, but staff could provide Commissioner Cunningham with the information they had to date.

Commissioner Ernst said she would also like to see a breakdown on the costs associated with a split operation. Ms. Smith responded that it was still unknown if costs would be increased substantially by a split. She cited the example of the physical therapist, noting that one scenario would be to split the availability with one day at the riverfront facility and another at the Roosevelt facility. Mr. Origliosso added that this was also true for the fleet division; there would be the same number of vehicles but most of them would be located at the Roosevelt facility and all of them would be maintained there.

General Manager Randy Berggren noted that in July they had showed two years with a significant deficit and in the current projection some things had been shifted around and they now showed four years with smaller deficits. He said they cumulatively added up to another \$8 to \$10 million of deficit compared to the July view, but the current 10-year financial projections showed an additional \$8 to \$9 million of reserve building before EWEB arrived at the deficit years. He projected that they were still very close to having a surplus budget position above the reserve targets that would beat those four years. He stressed, however, that those projections were still very uncertain. He pointed out, as an example, that if the energy markets took off in the next few years they would see some dramatic changes in the projections.

President Farmer suggested that a "contingency priority list" be developed that bullet-pointed management's perspective of what the most pressing things for uses of funds, should the budget exceed projections. He commented that it seemed, at the Board level, that they had that conversation after the fact rather than before. He wanted staff to project what the most immediate needs would be in the 2010 or 2011 budget should there be more surplus in the budget. Ms. Boyle said staff could create such a list.

President Farmer called for a five-minute break at 6:36 p.m.

DICK HELGESON SALUTE

President Farmer thanked Mr. Helgeson on behalf of the Board and himself for what had been “obviously a tremendous career.” He said Mr. Helgeson was never at a loss for words and was someone who could provide a “more eloquent explanation than even I can.” He said, from a layman’s perspective, the input Mr. Helgeson provided was of “tremendous value.” He underscored that “beyond all the great leadership and competence,” he had always appreciated the way Mr. Helgeson had worked and the professional manner in which he had gone about it. He averred that what they would miss as a utility was the perspective and institutional knowledge that Mr. Helgeson would take with him.

Mr. Helgeson thanked him for the acknowledgement. He said it had been a privilege to work for EWEB and to engage the mission of service. He expressed particular appreciation for the Board for their voluntary service.

Mr. Helgeson received a round of applause.

2010 WATER BUDGET AND 10-YEAR FINANCIAL PLAN REVIEW

Garilyn Johnston, Senior Financial Analyst, presented the *2010 Water Budget and 10-Year Financial Plan Review* with PowerPoint slides, hard copies of which were provided to everyone present. She began by reviewing the budget assumptions used in the July budget workshop and comparing them with the current numbers. She said capital expenditures had increased from the projection by \$1.3 million and the amount estimated to come from the now-closed Hynix Semiconductor, Inc. facility was \$2,000 a month and not the \$100,000 in the original projections. She noted that the water utility’s share of the Roosevelt facility was now 25.1 percent based on the square footage that the water staff planned on occupying. She reiterated that the sale of the riverfront property was not included in the current budget projections because staff could not predict when the property would be sold or how much it would sell for at that time.

In response to a question from Commissioner Cassidy, Ms. Johnston clarified that the \$67,000 budget item for the Community Care Program was assistance money.

Ms. Johnston highlighted the *Water Long-Term Financial Plan*. She stated that the larger rate increases, beginning in 2017, were a function of the second source supply debt service payments coming into the plan. She said the strategy in the long-term plan was still aimed at building reserves and they hoped to have close to \$459,000 in operating reserves and \$1.5 million in capital reserves.

Commissioner Ernst asked what the \$6.1 million bond to be issued in 2011 was intended for. Ms. Johnston explained that it would pay for additional capital expenditures in that year. She added that the \$10 million bond issue planned for 2016 was intended for preliminary work on the second source water supply.

Ms. Johnston provided a slide that compared the 2010 budget with the 2009 budget.

President Farmer asked what the volume projection was. Ms. Johnston replied that they were projecting zero growth. President Farmer surmised that the projected revenue was all from the rate increases.

Ms. Johnston presented a graph delineating *Historic Sales (1,000 Gallons) Budget vs. Actual*. She attributed the differential between the higher amount EWEB had budgeted for 2008 and the lower amount that actually had come in due to the loss of the Hynix revenue. She said 2009 was also 1.8 percent off at this point in the year. She underscored that the utility could have a loss of growth instead of zero growth; it was uncertain at this point. She stated that if this was the case, staff would make some adjustments to the budget in the next year.

President Farmer ascertained from staff that over the past ten years they had budgeted for a higher level than had been achieved. He asked if staff felt a need to be more conservative. Ms. Johnston responded that personally she would support this, but it was a group decision. She reiterated that no one knew at this point if revenue would be down next year.

Mr. Origliosso observed that one percent was not a significant number. Given that a substantial portion of the decrease was attributable to losing the Hynix load, he did not foresee having a similar decrease in the years to come. He pointed out that the area had experienced a mild summer with rains during a portion of the time when the use of irrigation would ordinarily be high. He said the budget had been impacted somewhat by this weather-related component.

General Manager Randy Berggren thought a conversation regarding building stronger reserves would be worthy in the 2010 budget-building process. He felt this was the weak area in the water utility budget planning process at present.

In response to a question from Vice President Brown, Ms. Boyle said both the operating and capital reserves were impacted but moreso the operating reserves. General Manager Randy Berggren said that Systems Development Charges (SDCs) gave some flexibility to the capital budget.

Commissioner Ernst asked how goals were set for water conservation. Tom Buckhouse, Director of the Water and Steam Division, explained that the entire effort was concerned with wise use of water. He said the focus was on irrigation uses and efficient watering spread out over time in order to cut demand down during the peak hours.

General Manager Randy Berggren asked how the funding level for water conservation activities had been arrived at. Mr. Buckhouse replied that initially the goal had been to have it set at five percent of revenues. He said the amount had remained at that level and they had not added to it after the rate increases.

In response to a follow-up question from Commissioner Ernst, Mr. Buckhouse clarified that irrigation use during the peak times of the summer drove the conservation efforts. He said they were engaged in educating people to not waste water and to use it efficiently. General Manager Randy Berggren added that they also worked legislatively on plumbing codes and to ensure that people used water-efficient appliances.

In response to a question from Commissioner Cassidy, Mr. Buckhouse stated that the areas of waste were primarily comprised of leaks and poor irrigation systems. He said each year EWEB had a group of interns whose job it was to assess irrigation systems for leaks.

Vice President Brown observed that though the utility had made cuts in its administrative costs, the cost overall had still increased. He asked how this had happened. Ms. Johnston replied that they had cut the number of people in administration but the three to four percent increase in wages had accounted for a large part of the increase. Mr. Origliosso said it was also attributable to the unfunded liabilities issue with the Public Employee Retirement System (PERS) and the medical program costs. He added that anything that affected labor would have a disproportionate affect on the water utility because so much of its cost was labor costs. He noted that the electric utility was different in that the majority of its costs were related to power. Mr. Buckhouse added that labor comprised 70 percent of the water utility budget. General Manager Randy Berggren noted that labor comprised 17 percent of the electric utility budget.

Vice President Brown understood that the Spring Boulevard project had been delayed and asked if the \$1.5 million allocated for it would be carried over. Mr. Buckhouse affirmed that it would.

Vice President Brown asked if the water utility would have a vested interest in the Roosevelt Boulevard project after 20 years. Ms. Boyle responded that this had been the direction of the Board and this was how the lease had been arranged.

Vice President Brown expressed concern about the underground plume coming from the Weyerhaeuser plant that was close to the Hayden Bridge intake. He said that one utility was concerned enough about it to install a charcoal filter. He was concerned that it would become a long-term liability and asked if EWEB was doing anything about it. Mr. Buckhouse replied that the Springfield utility had an underground water source and the plume was migrating underground. He said it would not affect EWEB's intakes because it was a couple hundred feet below them. He noted that EWEB had charcoal filters needed to treat water affected by such a plume. General Manager Randy Berggren added that the utility monitored the Weyerhaeuser Company fields, noting that Mr. Morgenstern kept tabs on it. He offered to provide the Board with an updated risk assessment.

President Farmer adjourned the EWEB Budget Workshop at 7:20 p.m.

Assistant Secretary

President