



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD
CORPORATE SERVICES DIVISION

Rely on us.

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

FROM: Garilyn Johnston, Senior Financial/Rates Analyst

DATE: October 15, 2009

SUBJECT: Water Utility's Long-Term Operating Financial Plan and 2010 Budget Preview

Issue Statement

This memo provides an overview of the Water Long-Term Operating Financial Plan and an initial view of the 2010 budget.

Background

For the last several years, staff and the Board have used the Long-Term Financial Plan (LTFP) as way to communicate the financial future of the utility. The Plan includes a full view of the utility's financial obligations and resources over a 10-year period and attempts to provide the Board a high-level view of all major decisions and known issues.

In recent years, the utility has taken several rate actions in order to improve funding for capital program and align the financial forecast with the 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.

The Board last discussed the LTFP on July 7, 2009 acknowledging the need to build reserves and maintain capital expenditures to match the LTFP.

Discussion

Included in this packet is an updated version of the Operating LTFP that provides a comparison of 2009 projected revenues and expenditures to the 2010 budget and a view of future years through 2019. I have also included the Water Operating and Capital Budget for 2010 and 2009 for comparison at a more detailed level.

Long-Term Financial Plan

Revenue

Based on the July 7 Board discussion, the 2010 budget includes a rate assumption of 7 percent in 2010. In 2011, the rate assumption increases to 9 percent, and then has several years of 4 percent increases until 2017 when we borrow \$120 million for Second Source Supply. The rate increase is due to the additional debt service payments for Second Source Supply drives the rate up from between 8 and 34 percent in the last three years of the LTFP.

The plan has zero growth in consumption in both 2010 and 2011, and then 2012 the growth in consumptions moves back to .5% per year.

Rate Funded Capital

The capital expenditures in the LTFP match the 10-Year Capital Improvement Plan that Mel Damewood discussed with you on September 9, 2009, and the 5-year plan was approved on that date. The plan still does not include the Willamette River Crossing at Belt Line.

Water's capital lease for Roosevelt Operations Center is included on rate funded capital line (\$146,000 in 2011 for 2 months, and almost \$1.4 million starting in 2012 and beyond. The sale of the riverfront property is not included in the LTFP as the date and amount is uncertain at this time. At the time the property is sold, it will reduce the lease payment.

Debt Service New Capital

The LTFP includes a bond issue in 2011 for \$6.1 million for capital, another issue for \$10 million in 2016, and then \$120 million in 2017 mentioned on the first page.

Reserve Draws

In 2010, we will draw \$110,000 from the Operating Reserve and draw \$302,000 from the capital reserve to fund the projects in 2010. The LTFP includes a \$4.0 million draw from Capital Reserves in 2015.

O&M Labor Assumptions

In July, the O&M labor assumption in the LTFP was \$8.5 million in 2010; however, the 2010 budget is about \$340,000 higher. The budget has \$147,000 more overtime and 2.5 of additional Full-time Equivalents (FTE) which is .50 FTE higher than the 2.0 FTE planned in the LTFP each year. Pay increases in 2010 are an average of 4 percent increase for represented employees (IBEW) based on their collective bargaining agreement and 3 percent for non-represented employees. The LTFP has 4% for pay increase for both groups after 2011 to 2019.

Change in Non-Labor Costs

The 2010 LTFP base assumption was from the reduced 2009 dollar figure where each division went in and reduced the purchases by approximately \$110,000. The divisions took additional cuts in 2010 below the reduced 2009 level of about \$135,000 for water. The cuts came from training and travel, maintenance agreements, software, data processing, contract labor, equipment and office supplies.

2010 and 2009 Operating Budget Comparison

Revenue

Revenue for residential and commercial/industrial is about \$2 million higher than 2009, which reflects the outcome of the 7% and 18.1% rate increase in 2010/2009. Other operating revenue is \$100,000 higher mainly from an increase in sewer billing fees to the City. SDC collections and interest income are both lagging due to economic reasons.

Operating Expenses

Source and Treatment expenditures is up in 2010 \$469,000 of which \$345,000 is from labor and the rest of the increase is for consulting engineers in facilities planning and supplies for purification.

Transmission & Distribution expenditures are up \$390,000 of this amount \$230,000 is from labor and rest is maintenance purchases in distribution mains and transmission pumping.

Customer Accounting includes \$67,000 for Community Care that was discussed at a previous Board meeting.

Administrative and General (A&G) includes an increase of about \$400,000 for PERS and OPEB unfunded actuarial liabilities (UALS). It also includes setup cost for labor and training for the Enterprise Architect and Project Office new effort and an increase in utilities costs. The expenses were offset by the budget cuts in taken in 2009 and 2010.

Balance Sheet Changes

This line reflects the accrual of the capital lease and an increase in vehicle depreciation.

2009 and 2010 Capital Expenditures

Budgeted capital expenditures in 2010 match the 5-Year Capital Improvement Plan that you all ready approved.

Capital

The capital expenditures are down \$5.7 million in 2010. Hayden Bridge project was reflected on the Source and Treatment line, and it is now substantially complete.

SDCs and Contribution in Aid

SDC improvement fund draws for debt service and capital is down \$3.0 million because collections from builders in just trickling in. The SDC reimbursement fund is being used for debt service payments in 2010. Contribution in Aid is also down due to the slow construction building in Eugene.

Options/Actions

No action is required at this time. The purpose of this discussion is to inform the Board of the status of the 2010 budget and hear any information request prior to the official submission of the budget. .

Please feel free to contact me at ahead of the meeting to discuss any of the details included in these materials. I can be reached at Garilyn.Johnston@eweb.org or at 685-7161.

WATER UTILITY OPERATING BUDGET COMPARISON

as of October 15, 2009

CATEGORY	2010 Total Budget	2009 Total Budget	Amended 2009 Projected Budget	2010 vs 2009 Budget Difference
Rate Increase	7.0%	20.0%	18.1%	-13.0%
REVENUE (in 000's)				
Residential	\$ 13,873	\$ 12,869	\$ 12,732	\$ 1,003
Commercial and Industrial	12,110	11,166	10,753	944
Other Operating Revenue	829	726	767	102
Operating Interest	10	54	35	(44)
SDC Admin Fee	18	53	35	(35)
Less Rates for Capital and Debt Service	(11,194)	(9,805)	(10,385)	(1,389)
Total Revenue	15,645	15,064	13,938	581
OPERATING EXPENSES				
Source & Treatment	\$ 3,453	2,983	3,260	469
Transmission & Distribution	6,892	6,501	5,919	391
Customer Accounting	1,456	1,385	1,385	70
Conservation	438	417	417	22
Administrative & General	3,623	3,401	3,401	222
Total Expenses	15,862	14,687	14,382	1,175
OTHER EXPENSES				
Deposit to Operating Reserve		318	-	(318)
Balance Sheet Changes	(107)	59		(166)
Total Other	(107)	377	-	(484)
TOTAL EXPENDITURES	15,754	15,064	14,382	690
NET EFFECT ON WORKING CAPITAL	\$ (110)	\$ 0	\$ (444)	\$ (110)

WATER UTILITY CAPITAL BUDGET COMPARISON
as of October 15, 2009

CATEGORY	2010 Total Budget	2009 Total Budget	Amended 2009 Projected Budget	2010 vs 2009 Budget Difference
Rate Increase (in 000's)	7.0%	20.0%	18.1%	-13.0%
REVENUE				
Rate Funded Capital	\$ 9,176	\$ 7,851	\$ 7,851	\$ 1,325
Rates for Debt Service	2,019	1,954	2,534	65
2008 Bonds	2,625	7,687	7,685	(5,062)
Improvement Fee Usage	87	3,157	3,157	(3,070)
Hynix Demand Charge Usage	401	401	401	-
Draw from Capital Reserve	441	-	-	441
Reimbursement Fee Usage	952	294	294	658
Contributions in Aid	636	919	469	(283)
Total Revenue for Capital	16,336	22,263	22,391	(5,927)
CAPITAL				
Source & Treatment	2,883	8,949	9,711	(6,066)
Transmission & Distribution	8,678	7,892	6,392	786
General Plant	1,119	1,564	1,606	(445)
Total Capital	12,680	18,405	17,709	(5,725)
Debt Service	3,371	3,307	3,885	63
Roosevelt Lease Payment	146			146
Deposit Capital Improvement Res.		550	15	(550)
TOTAL EXPENDITURES	16,197	22,262	21,610	(6,066)
NET EFFECT ON CAPITAL IMPROVE. BALANCE	\$139	\$0	\$781	\$139
NET EFFECT ON OPERATING & CAPITAL	\$29	\$0	\$ 337	-\$30

WATER - Operating Budget

Thursday, October 15, 2009

	2009 Projected	2010 Budget	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
	May 18.1%	May 7%	May 9%	May 4%	May 4%	May 4%	May 4%	May 4%	May 21%	May 34%	May 8%
Rate Strategy											
Revenue (\$000)											
Residential	\$ 12,732	\$ 13,873	\$ 15,029	\$ 15,956	\$ 16,594	\$ 17,258	\$ 17,559	\$ 17,948	\$ 20,252	\$ 22,256	\$ 22,750
General Service	9,140	10,207	11,057	11,739	12,209	12,697	13,035	13,205	15,034	16,374	16,888
Large Comm and Ind		-	-	-	-	-	-	-	-	-	-
Water Districts	1,614	1,903	2,061	2,189	2,276	2,367	2,191	2,462	2,527	3,053	2,839
Other	767	847	864	881	898	916	935	953	973	992	1,012
Total Operating Revenue	24,253	26,829	29,011	30,765	31,978	33,239	33,721	34,569	38,786	42,675	43,488
Interest Earnings	21	10	30	30	30	65	75	75	75	75	75
Total Income	24,274	26,839	29,041	30,795	32,008	33,304	33,796	34,644	38,861	42,750	43,563
Expenditures											
O&M Labor	8,076	8,846	9,156	9,522	9,903	10,299	10,711	11,139	11,585	12,048	12,530
Power	883	880	880	911	966	1,014	1,075	1,045	1,129	1,065	1,185
Chemicals	541	586	586	607	628	650	673	696	721	746	772
Conservation	417	438	438	454	470	486	503	521	539	558	577
O&M Other	4,348	5,111	5,111	5,264	5,422	5,584	5,752	5,925	6,102	6,285	6,474
Capital (Rate Funded)	7,813	9,176	10,367	10,367	10,367	11,367	11,367	11,367	11,367	10,367	10,367
Debt Service	1,954	2,018	1,853	1,852	1,858	1,857	1,856	1,862	1,859	1,862	1,874
Debt Service - New Capital			233	466	466	466	466	848	5,473	9,716	9,716
Draw from Operating Reserve											
Bond Reserve Account	106		106	106	62						
Balance Sheet Changes	(316)	(106)	(118)	(118)	(118)	(118)	(118)	(118)	(118)	(118)	(118)
Total Expenditures	23,822	26,949	28,613	29,431	30,023	31,605	32,285	33,284	38,657	42,529	43,377
Net Operating Budget Position	\$ 452	\$ (216)	\$ 429	\$ 1,364	\$ 1,984	\$ 1,698	\$ 1,511	\$ 1,359	\$ 204	\$ 221	\$ 187

Ratio Analysis	2009 Projected	2010 Budget	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
Debt Service Coverage (Target 2.45)	4.86	5.17	5.87	5.79	6.13	6.57	6.49	5.65	2.56	1.90	1.90
Debt Ratio (less than .35)	0.37	0.30	0.29	0.26	0.24	0.22	0.26	0.24	0.31	0.37	0.43
Operating Ratio (Less than .74)	0.59	0.56	0.55	0.57	0.60	0.61	0.54	0.58	0.54	0.56	0.54

Annual Customer Bill	2009 Projected	2010 Budget	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
Average Residential Water 9 Kgal	\$ 274	\$ 303	\$ 316	\$ 328	\$ 341	\$ 355	\$ 369	\$ 384	\$ 412	\$ 449	\$ 462
Average Residential Electric (1,050 kWh)	1,026	1,098	1,113	1,165	1,233	1,299	1,370	1,425	1,487	1,531	1,562
Total Residential	1,300	1,377	1,430	1,493	1,574	1,654	1,739	1,809	1,899	1,980	2,025
Average Residential Cost/kgal	2.95	3.21	3.48	3.69	3.83	3.99	4.05	4.14	4.67	5.13	5.24
Medium General Service Water 102 Kgal	2,341	2,411	2,516	2,608	2,712	2,821	2,934	3,051	3,275	3,569	3,676
Medium General Service Electric (158,428 kWh)	101,784	104,838	110,429	115,582	122,324	128,848	135,935	141,373	147,499	151,924	154,962
Total Medium General Service	104,125	107,249	112,945	118,190	125,037	131,669	138,869	144,423	150,773	155,493	158,639
10											
Large General Service Water 1,706 Kgal	36,957	40,513	42,268	43,818	45,571	47,394	49,290	51,261	55,020	59,972	61,771
Large General Service Electric 529,221 Kwh	350,220	385,242	387,810	396,859	401,489	410,857	417,020	425,361	429,614	436,774	439,686
Total Large General Service	387,177	404,944	430,079	440,677	447,060	458,251	466,310	476,622	484,635	496,747	501,458
Min Reserves	\$ 6,651	\$ 7,275	\$ 7,923	\$ 8,022	\$ 8,129	\$ 8,738	\$ 8,853	\$ 8,957	\$ 9,084	\$ 8,690	\$ 8,832