



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Sue Fahey, Finance Manager; Susan Eicher, Accounting and Treasury Supervisor
DATE: April 19, 2016
SUBJECT: Reserve Fund Status and Transfers
OBJECTIVE: Approval of Resolution No. 1612

Issue

The Board considers annually how to allocate funds to reserve and designated fund accounts after the annual audit. This memo provides recommendations for transfers based on EWEB's strategic plan and the Electric and Water Utilities' financial conditions.

Background

The Board has established a number of reserves and designated fund accounts and has approved financial policies with several targets. On an annual basis, after the financial audit, staff prepares a summary of the year end reserves and funds balances, compares the balances to the Board Financial Policy targets, and recommends transfers and/or changes to financial policies.

For both the Electric and Water Utilities, the cash balances at December 31, 2015 were higher than target due to budgeted and planned for reserve deposits, as well as positive budget variances.

Discussion

Attachments 1 and 2 provide the detail on recommended transfers for the Electric and Water Utilities, respectively. Management's rationale for the recommendations are summarized below.

Electric Utility

A) Working Cash

Management recommends reallocating \$4.8 million of the Working Cash above target to the Pension & Post-Retirement Medical Fund, to create a McKenzie River Trust Commitment Fund, and to the Rate Stabilization Fund. Working Cash will retain \$5.0 million above target for debt defeasance as approved at the April 5th Board meeting.

B) McKenzie River Trust Commitment

The Board has committed to a grant and matching funds up to \$750,000 for work performed by the McKenzie River Trust, half of which is attributable to the Electric Utility. Funds will be paid out in 2016 and 2017.

C) Power Reserve

Due to low retail loads as a result of warm winter weather in the first quarter, Management recommends maintaining funds within the Power Reserve at \$5 million over target.

D) Capital Improvement Reserve

The amount in excess of the \$20.0 million target is recommended to be transferred to the Rate Stabilization Fund.

E) Rate Stabilization Fund

Use of the Rate Stabilization Fund is intended to enhance the Utility's agility during financial challenges and minimize rate impacts to customers. Funds will be used for one time expenditures and emergent items and will be allocated based on the Board's direction. Management recommends \$1.5 million to be transferred from Working Cash and \$3.2 million from excess Capital Improvement Reserve funds.

F) Pension & Post-Retirement Medical Fund

PERS costs were lower than budgeted by \$2.9 million due to budgeting a higher PERS rate in anticipation of significant increases due to the Moro decision and low PERS investment earnings. Board Financial Policies require this variance to be transferred to the Pension & Post-Retirement Medical Fund. Management intends to make a recommendation on the use of these funds in 2017 after EWEB receives updated PERS information.

Water Utility

A) Working Cash

Management recommends transferring the \$6.3 million in excess of target to the Capital Improvement Reserve, Rate Stabilization Fund, Alternative Water Supply Fund and Pension & Post-Retirement Medical Fund.

B) McKenzie River Trust Commitment

The Board has committed to a grant and matching funds up to \$750,000 for work performed by the McKenzie River Trust, half of which is attributable to the Water Utility. Funds will be paid out in 2016 and 2017.

C) Capital Improvement Reserve

Management recommends transferring \$1.0 million from Working Cash to restore this reserve up to target.

D) Rate Stabilization Fund

Like the Electric Utility, use of the Rate Stabilization Fund is intended to enhance the Utility's agility during financial challenges and minimize rate impacts to customers. Funds will be used for one time expenditures and emergent items to be allocated based on the Board's direction. Management recommends transferring \$2.7 million to the Rate Stabilization Fund from Working Cash.

E) Alternative Water Supply Fund

The Alternative Water Supply (AWS) Fund was created in 2014 to be used for costs related to the AWS strategic initiative. Three percentage points of the 2014 retail rate increase are specifically dedicated to this fund which results in approximately a \$1 million annual transfer. One of the first steps to

developing an AWS is to acquire properties for intake and treatment sites. Management is recommending transferring an additional \$1.3 million to the AWS Fund which could assist in funding property purchases.

F) Pension & Post-Retirement-Medical Fund

PERS costs were lower than budgeted by \$925,000 due to budgeting a higher PERS rate in anticipation of significant increases due to the Moro decision and low PERS investment earnings. Board Financial Policies require this variance to be transferred to the Pension & Post-Retirement Medical Fund. Management intends to make a recommendation on the use of these funds in 2017 after EWEB receives updated PERS information.

Recommendation and Requested Board Action

Management recommends and requests that the Board approve Resolution No. 1612 which authorizes the transfers of funds as stated above.

**Eugene Water & Electric Board
Schedule of Cash Reserves
December 31, 2015**

ATTACHMENT 1

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	ELECTRIC UTILITY		RECOMMENDED TRANSFERS (FROM)/TO	BALANCE AFTER TRANSFER
		TARGET	BALANCE 12/31/2015		
<u>CASH FOR OPERATIONS</u>					
1) Working Cash	Rate Sufficiency Policy	\$ 24,000,000	\$ 33,760,985	\$ (4,760,000)	\$ 29,000,985
<u>DESIGNATED FUNDS</u>					
McKenzie River Trust Commitment				375,000	375,000
2) Operating Reserve	Rate Stability Policy	\$ 2,000,000	\$ 2,082,704		2,082,704
3) Self-Insurance Reserve	Rate Stability Policy	\$ 1,720,000	\$ 1,773,975		1,773,975
4) Power Reserve	Rate Stability Policy	\$ 22,100,000	\$ 27,359,486		27,359,486
5) Capital Improvement Reserve	Capital Reserve Policy	\$ 20,000,000	\$ 23,173,022	(3,173,000)	20,000,022
6) Rate Stabilization Fund		-	\$ 12,426,316	4,658,000	17,084,316
Economic Development Loan Pilot Program Fund		-	\$ 1,940,293		1,940,293
Carmen-Smith Fund		-	\$ 15,790,304		15,790,304
7) Pension & Post Retirement Medical Fund		-	\$ 8,236,889	2,900,000	11,136,889
DESIGNATED FUNDS TOTAL		\$ 45,820,000	\$ 92,782,989	\$ 4,760,000	\$ 97,542,989
CASH TARGETS & BALANCES TOTAL		\$ 69,820,000	\$ 126,543,974	\$ -	\$ 126,543,974
<u>LEGALLY RESTRICTED</u>					
8) Bond Funds - Type II & III			\$ 18,280,487		
Reserves & Investments for Debt Service			19,587,334		
RESTRICTED FUNDS TOTAL			\$ 37,867,821		

- 1) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.
- 2) Operating Reserve - for emergency operating costs.
- 3) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit.
- 4) Power Reserve - amount of reserves to offset fluctuations in purchased power costs related to market price variability, as well as uncertainty in regard to hydro generation, customer load and counterparty credit risk.
- 5) Capital Improvement Reserve - reserve for capital improvements and target is based on one year's depreciation.
- 6) Rate Stabilization Fund - funds available for one time expenditures and emergent issues. To be allocated based on Board direction.
- 7) No Target - Amount designated to fund Supplemental Retirement Plan, and PERS or OPEB Trust.
- 8) Bond Funds used to pay for capital projects.

**Eugene Water & Electric Board
Schedule of Cash Reserves
December 31, 2015**

ATTACHMENT 2

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	WATER UTILITY		RECOMMENDED TRANSFERS (FROM)/TO	BALANCE AFTER TRANSFER
		TARGET	BALANCE 12/31/2015		
<u>CASH FOR OPERATIONS</u>					
1) Working Cash	Rate Sufficiency Policy	\$ 3,400,000	\$ 9,739,163	\$ (6,339,000)	\$ 3,400,163
<u>DESIGNATED FUNDS</u>					
McKenzie River Trust Commitment				375,000	375,000
2) Operating Reserve	Rate Stability Policy	\$ 1,000,000	1,012,184		1,012,184
3) Self-Insurance Reserve	Rate Stability Policy	\$ 280,000	288,712		288,712
4) Capital Improvement Reserve	Capital Reserve Policy	\$ 7,000,000	6,127,822	1,000,000	7,127,822
5) Rate Stabilization Fund		-	3,612,468	2,739,000	6,351,468
Water Stewardship Fund- Septic Repairs		-	76,622		76,622
Economic Development Loan Program Fund		-	89,381		89,381
6) Alternative Water Supply Fund		-	2,884,511	1,300,000	4,184,511
7) Pension & Post Retirement Medical Fund		-	964,312	925,000	1,889,312
DESIGNATED FUNDS TOTAL		\$ 8,280,000	\$ 15,056,011	\$ 6,339,000	\$ 21,395,011
CASH TARGETS & BALANCES TOTAL		\$ 11,680,000	\$ 24,795,174	\$ -	\$ 24,795,174
<u>LEGALLY RESTRICTED</u>					
8) Bond Funds - Type II & III			\$ -		
System Development Charge Reserves			3,133,471		
Reserves & Investments for Debt Service			4,009,289		
RESTRICTED FUNDS TOTAL			\$ 7,142,760		

- 1) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.
- 2) Operating Reserve - for emergency operating costs.
- 3) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit.
- 4) Capital Improvement Reserve - reserve for capital improvements and target is based on one year's depreciation.
- 5) Rate Stabilization Fund - funds available for one time expenditures and emergent issues. To be allocated based on Board direction.
- 6) Alternative Water Supply Fund reflects transfer activity based on 2015 revenues
- 7) No Target - Amount designated to fund Supplemental Retirement Plan, PERS UAL or OPEB Trust.
- 8) Bond Funds used to pay for board directed capital projects.

RESOLUTION NO. 1612

April 2016

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 2015 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 Interim General Manager to do the following transfers:

Electric Utility

- 1) \$375,000 from Working Cash to the McKenzie River Trust Commitment
- 2) \$3,173,000 from the Capital Improvement Reserve to the Rate Stabilization Fund
- 3) \$1,485,000 from Working Cash to the Rate Stabilization Fund
- 4) \$2,900,000 from Working Cash to the Pension & Post-Retirement Medical Fund

Water Utility

- 5) \$375,000 from Working Cash to the McKenzie River Trust Commitment
- 6) \$1,000,000 from Working Cash to the Capital Improvement Reserve
- 7) \$2,739,000 from Working Cash to the Rate Stabilization Fund
- 8) \$1,300,000 from Working Cash to the Alternative Water Supply Fund
- 9) \$925,000 from Working Cash to the Pension & Post-Retirement Medical Fund

Dated this 19th day of April 2016

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

President

I, ANNE M. KAH, 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 19, 2016 Regular Board Meeting.

Assistant Secretary