



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Helgeson, Brown, Mital, Simpson and Carlson
 FROM: Sue Fahey, Chief Financial Officer; Aaron Balmer, Interim General Accounting Supervisor
 DATE: July 21, 2017
 SUBJECT: Electric Utility Second Quarter 2017 Financial Report
 OBJECTIVE: Information Only

Schedule of Revenues, Expenses, and Changes in Net Position (Income Statement) - Page 4

Income before capital contributions (Net Income)

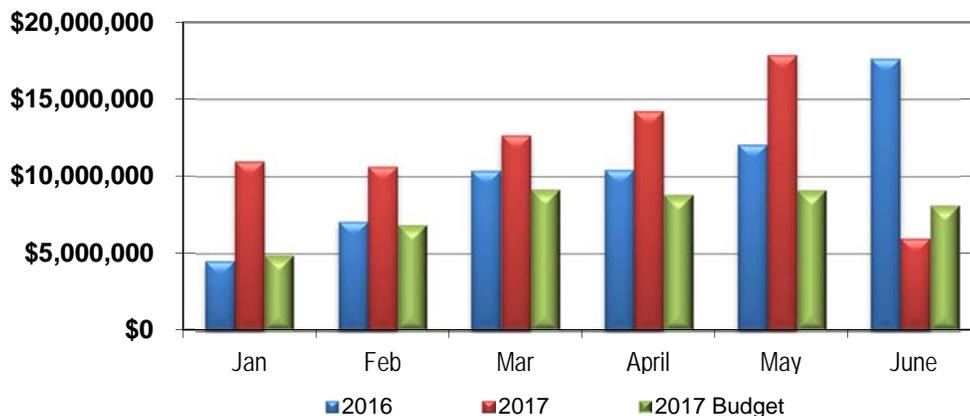
Net income for the electric utility is \$6 million. The variance of Net Income to the Year to Date (YTD) seasonally shaped budget is an unfavorable \$2.1 million due to the \$15.7 million accounting loss on defeasance of debt. Excluding the accounting defeasance loss, would result in a favorable \$13.6 million variance.

The variance detail compared to budget is as follows (unfavorable)/favorable:

	<u>Millions</u>
• Retail Revenue	\$ 2.2
• Wholesale and Other revenue	7.3
• Purchased Power	0.5
• Non-power Operating Expenses	0.5
• Other Non-operating revenues	2.9
• Other Non-operating expenses	(15.5)
	\$ (2.1)

For comparability purposes, the budget has been modified to reflect seasonal fluctuations in revenue, purchased power and wheeling.

Electric System Net Income
2017 YTD



Operating Revenues

The positive budget variance in **Residential** revenue is a result of colder than anticipated weather during the first quarter of the year.

Stream flows continue to be strong and are allowing for more hydro-generation than budgeted. The favorable variance in **Sale for resale and other** is a result of this added generation. A planned outage at Carmen Smith has also been delayed until 2018 also contributing to the amounts available for sale in wholesale markets.

Operating Expenses

Wheeling has an unfavorable variance of \$705,000 due to additional BPA transmission costs associated with favorable hydro generation and unbudgeted amortization of prepaid Harvest Wind transmission. The variance of \$318,000 to budget in **Generation** is primarily a result of EWEB electing to not take its share of IP generation delivery due to having excess power and low wholesale sale prices.

Customer accounting expenses are unfavorable compared to budget due to the pace of capital spending. With year to date actual capital spending slower than the seasonal budget, the corresponding overhead transfers from operations & maintenance (O&M) to capital are lagging. The rate of overhead transfers from O&M to capital also impacts the **Administrative and general** line, however Electric Utility budgeted contingency funds of \$1.2 million mask the unfavorable variance.

Conservation expenses are favorable due to low spending year-to-date for energy management services.

Non-operating Revenues

Investment earnings have an unfavorable variance due to the mark-to-market adjustment on derivatives. This is a non-cash transaction and required by generally accepted accounting principles (GAAP). There is no budget for the change in the market value for these investments.

In June, the Water Utility repaid \$11 million to the Electric Utility which resulted in a \$3 million favorable variance for **Interest Earnings, Water**.

Other Non-operating Expenses

The significant variance in **Other expenses** is caused by a \$15.7 million accounting loss on defeasance of debt. The Electric Utility used repayment proceeds from the Water Utility, along with other cash reserves to defease high interest debt. The loss is a result of the accounting treatment required when future debt principal and interest obligations are paid. The defeasance allows the new master bond resolution to take effect and accordingly, this loss will not be included in the debt service coverage calculation. Since this loss was not anticipated in the 2017 budget, the Board will likely be requested to approve a budget amendment in November.

Interest expense and related amortization has an unfavorable variance to budget. At the time the 2017 budget was created, the new amortization schedules related to the 2016 electric bond refunding were not finalized.

Contributions in Aid of Construction (CIA)

CIA is significantly higher than year to date budget due to \$1.9 million of CIA collected in 2016 being recorded in 2017 when the capital work was performed as required by GAAP.

Utility Plant in Service is \$2.5 million less than December 2016 due to a year-end reclassification required by GAAP. The reclassification moves construction work in progress to utility plant in service for work orders where the asset is substantially complete and the work order hasn't been closed. Accounting and Operations anticipate closing the work orders in the third quarter.

Due from Water System decreased by \$8 million as a result of the \$11 million repayment mentioned in the **Non-operating Revenues** section.

Long Term Debt has been reduced by \$21.5 million since the start of the year due to recurring premium amortization and the defeasance of debt as approved by the Board in June.

**Eugene Water & Electric Board
Electric Utility
Schedule of Revenues, Expenses, and Changes in Net Position
for the six months ended June 30, 2017**

	<u>Prior Year Comparison</u>		<u>Annual Working Budget</u>	<u>YTD Budget Comparison</u>		
	<u>6/30/2017</u>	<u>6/30/2016</u>		<u>Budget \$</u>	<u>Budget %</u>	<u>Budget Variance</u>
Residential	\$ 54,873,003	\$ 47,869,157	\$ 101,465,141	\$ 52,934,000	104%	\$ 1,939,000
Commercial and industrial	50,606,401	49,350,050	101,684,339	50,283,000	101%	323,000
Sale for resale and other	24,246,814	26,114,466	33,670,893	16,906,000	143%	7,341,000
Operating revenues	<u>129,726,218</u>	<u>123,333,673</u>	<u>236,820,373</u>	<u>120,123,000</u>	108%	<u>9,603,000</u>
Purchased power	54,513,023	55,728,900	112,087,636	55,001,000	99%	488,000
System control	2,493,661	2,994,565	5,538,297	2,769,000	90%	275,000
Wheeling	7,464,790	6,406,644	13,429,919	6,760,000	110%	(705,000)
Generation	5,553,797	5,478,312	11,744,955	5,872,000	95%	318,000
Transmission and distribution	11,000,620	10,389,896	22,331,009	11,166,000	99%	165,000
Customer accounting	4,362,554	4,169,545	7,884,707	3,942,000	111%	(421,000)
Conservation expenses	1,903,171	1,871,598	5,040,990	2,520,000	76%	617,000
Administrative and general	11,462,559	10,526,994	23,044,057	11,522,000	99%	59,000
Depreciation on utility plant	11,156,048	12,077,149	22,519,481	11,260,000	99%	104,000
Operating expenses	<u>109,910,223</u>	<u>109,643,603</u>	<u>223,621,051</u>	<u>110,812,000</u>	99%	<u>900,000</u>
Net Operating Income	<u>19,815,995</u>	<u>13,690,070</u>	<u>13,199,322</u>	<u>9,311,000</u>	213%	<u>10,503,000</u>
Investment earnings	756,991	2,181,050	2,028,478	1,014,000	75%	(257,000)
Interest earnings, Water	3,404,930	551,594	737,405	369,000	923%	3,036,000
Other non-operating revenue	1,764,310	6,871,352	3,325,150	1,663,000	106%	101,000
Non-operating Revenues	<u>5,926,231</u>	<u>9,603,996</u>	<u>6,091,033</u>	<u>3,046,000</u>	195%	<u>2,880,000</u>
Other expenses	16,246,877	541,900	2,025,935	1,013,000	1604%	(15,234,000)
Interest expense and related amortization	3,510,165	5,119,530	6,518,767	3,259,000	108%	(251,000)
Other Non-operating Expenses	<u>19,757,042</u>	<u>5,661,430</u>	<u>8,544,702</u>	<u>4,272,000</u>	462%	<u>(15,485,000)</u>
Income before capital contributions	<u>5,985,184</u>	<u>17,632,636</u>	<u>10,745,653</u>	<u>8,085,000</u>	74%	<u>(2,100,000)</u>
Contributions in aid of construction	3,216,125	4,208,551	3,219,000	1,610,000	200%	1,606,000
Contributed plant assets	937,201	604,145	-	-		937,000
Increase in Net Position	<u>\$ 10,138,510</u>	<u>\$ 22,445,332</u>	<u>\$ 13,964,653</u>	<u>\$ 9,695,000</u>	105%	<u>\$ 443,000</u>

Notes to the Financial Statements:

¹ Seasonal budget figure based on PPM forecast used for budgeting.

² Seasonal budget figure based on cyclical account activity averaged from the past four years.

Unmarked seasonal budget figures are not shaped and are allocated using a straight-line method
Budget variance column may not add up due to rounding.

Eugene Water & Electric Board
Electric System
Statement of Net Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>December 2016</u>
Assets			
Capital assets			
Utility plant in service	\$ 738,883,406	\$ 723,622,618	\$ 741,377,401
Less - Accumulated depreciation	(412,931,573)	(392,359,169)	(403,327,971)
Net utility plant in service	<u>325,951,833</u>	<u>331,263,449</u>	<u>338,049,430</u>
Property held for future use	827,449	827,449	827,449
Construction work in progress	24,623,958	14,279,792	11,489,223
Net utility plant	<u>351,403,240</u>	<u>346,370,690</u>	<u>350,366,102</u>
Current assets			
Cash and cash equivalents	13,791,343	34,290,769	6,423,227
Short-term investments	26,290,639	28,864,480	19,149,761
Restricted cash and investments	29,161,718	47,504,581	27,424,546
Designated cash and investments	91,972,007	101,384,102	52,930,042
Receivables, less allowances	25,922,950	27,194,955	35,212,662
Due from Water System	319,196	897,325	870,656
Materials and supplies, at average cost	3,918,584	4,248,067	3,675,617
Prepays	7,115,415	7,186,819	7,483,244
Total current assets	<u>198,491,852</u>	<u>251,571,098</u>	<u>153,169,755</u>
Non-current assets			
Long-term receivable, conservation and other	3,648,394	5,166,508	3,453,706
Due from Water System	8,944,597	16,923,252	16,612,001
Long-term investments	-	-	59,198,524
Investment in WGA	3,969,871	3,443,437	3,509,388
Investment in Harvest Wind	23,098,814	24,295,199	23,730,662
Nonutility Property	7,830,500	7,830,500	7,830,500
Other assets	52,107,739	63,442,819	61,900,158
Total non-current assets	<u>99,599,915</u>	<u>121,101,715</u>	<u>176,234,939</u>
Deferred Outflows			
Deferred outflows of resources	<u>55,521,362</u>	<u>8,245,275</u>	<u>57,024,020</u>
Total Assets and Deferred Outflows	\$ <u>705,016,369</u>	\$ <u>727,288,778</u>	\$ <u>736,794,816</u>
Liabilities			
Current liabilities			
Payables	\$ 14,914,754	\$ 17,175,857	\$ 26,292,077
Accrued payroll and benefits	5,360,211	5,256,752	4,754,554
Accrued interest on long-term debt	2,811,553	4,616,586	2,868,599
Long-term debt due within one year	9,175,000	13,510,000	11,165,000
Total current liabilities	<u>32,261,518</u>	<u>40,559,195</u>	<u>45,080,230</u>
Non-current liabilities			
Long-term debt	180,685,595	232,242,858	200,279,317
Net pension liability	86,824,424	37,311,057	86,824,424
Other liabilities	2,321,713	9,830,535	9,996,306
Total liabilities	<u>302,093,250</u>	<u>319,943,645</u>	<u>342,180,277</u>
Deferred Inflows			
Deferred Inflows of resources	<u>5,463,991</u>	<u>12,502,019</u>	<u>7,293,921</u>
Net Position			
Net investment in capital assets	185,839,883	149,999,320	178,261,000
Restricted	17,735,593	24,395,383	13,282,845
Unrestricted	193,883,652	220,448,411	195,776,773
Total net position	<u>397,459,128</u>	<u>394,843,114</u>	<u>387,320,618</u>
Total Liabilities, Deferred Inflows, and Net Position	\$ <u>705,016,369</u>	\$ <u>727,288,778</u>	\$ <u>736,794,816</u>

**Electric System
Financial Ratios
June 30, 2017**

	<u>YTD</u> <u>2017</u>	<u>Status</u>	<u>December</u> <u>2016</u>	<u>Performance</u> <u>Standard</u>
Current Ratio	6.15		4.71	3.250x
Debt as % of Net Book Value	58%		63%	≤ 60%
Debt Service Coverage - Annualized	3.35		1.65	1.75 to 2.0x
Age of System - Overall	56%		54%	< 60%
Distribution Plant			62%	
Electric Generating Plant			55%	
Days Unrestricted Cash	236		241	>150 days
Rate of Return - Annualized	7%		5%	Range 5-7%

Ratios

The current ratio remains well above Board targets due to balances in restricted and designated cash remaining classified as short term. A portion of these balances is reclassified annually in December to long term investments for external reporting. Securities held by the Board are highly marketable and could be liquidated if a need arose. Debt as a % of Net Book Value measures the overall leverage of system assets. As of 6/30/17, this metric is within the performance standard. However, this ratio is expected to increase in September due to the issuance of new debt. Annualized debt service coverage ratio is above performance standards at 3.35. Debt coverage is higher than the 2017 budget due to the defeasance of debt in June. The debt service coverage ratio as of December 2016 was below the performance standard due to December storm costs and the Carmen-Smith write-off. Greater detail was provided to the Age of System metric for informational purposes. As of December 2016, the age of the distribution plant system was outside the performance standard. Monitoring this metric is new and the detailed information presented for informational purposes will continue to be refined through discussions with management and engineering. At the end of the month, all other ratios are performing in line or better than the performance standards.

See next page for Ratio definitions and benchmark sources

Current Ratio

Total current assets to total current liabilities. This ratio measures the utility's short-term liquidity (ability to pay bills). The standard is set by EWEB financial policies and is meant to support a higher than average credit rating. Long term investments are included in the calculation since they are highly marketable and could be liquidated if the need arose.

Debt as % of Net Book Value (NBV)

Ratio of the amount of debt outstanding against the remaining Net Book Value of assets. This metric measures overall leverage of the system in an effort to align debt service payments with the useful lives of assets. The performance standard of 60% is derived from APPA publications and is typical of electric utilities involved in both generation and distribution.

Debt Service Coverage

Ratio of annualized net revenues available for debt service to total long-term debt service for the year. This ratio measures the utility's ability to meet its annual long-term debt obligation. The standard is meant to support a single A credit rating.

Age of System

Ratio of accumulated depreciation against the historical value of assets. This ratio measures how old the system is as compared to how much has been depreciated. Infrastructure over 65% depreciated should be watched for aging, while infrastructure less than 50% depreciated is representative of newer systems.

Days Unrestricted Cash

Ratio of total unrestricted cash and cash equivalents to average daily cash requirements for operating expenses (defined as yearly budgeted operating expenses net of depreciation divided by 365 days in the year). This figure measures the length of time the utility can carry on normal operations with available unrestricted cash not otherwise designated for future capital needs. Standard and Poor's Industry Standards for Investment Grade ratings are typically 60 to 90 days, however the APPA has indicated 150-200 days unrestricted cash is desired for high bond ratings. Long term investments are included in the calculation since they are highly marketable and could be liquidated if the need arose.

Rate of Return

Rate of return on investment, expressed as a percentage of the total amount invested in infrastructure. For mid-year calculations, year-to-date net operating income is annualized. This ratio measures the utility's ability to pay current infrastructure costs and future replacement costs. Per the APPA, a rate of return between 5-7% is an acceptable range.

Eugene Water & Electric Board
Electric Utility
Capital Budget Comparison
for the six months ended June 30, 2017

	<u>Current Month</u>	<u>Year to Date</u>	<u>Annual Working Budget w/Amendment</u>	<u>% of Budget</u>
Transformers (Pre-capped) ¹	\$ 141,594	\$ 897,884	\$ -	0.0%
Meters (Pre-capped) ¹	1,280	103,737	-	0.0%
Type 1 Capital				
2016-2017 ICS Events	-	89,200	-	0.0%
Buildings & Land	93,594	114,206	1,074,000	10.6%
¹ Distribution	742,306	3,740,824	6,915,000	54.1%
Electric Fleet	9,993	68,173	500,000	13.6%
Generation	109,331	381,615	1,196,000	31.9%
Information Technology	26,506	581,533	562,000	103.5%
Substation	171,199	573,426	1,780,000	32.2%
Telecom	3,071	61,667	250,000	24.7%
Transmission	2,014	58,663	150,000	39.1%
Total Type 1 Capital	<u>1,158,014</u>	<u>5,669,307</u>	<u>12,427,000</u>	<u>45.6%</u>
Type 2 Capital				
¹ AMI	1,126,078	1,533,842	1,650,000	93.0%
CIS Replacement	-	-	1,230,000	0.0%
Downtown Network	78,471	142,495	1,000,000	14.2%
Electric Master Plan	-	-	1,425,000	0.0%
Grid Edge Demonstration Project	-	-	837,000	0.0%
Holden Creek Substation	28,684	1,022,999	4,457,000	23.0%
Leaburg Dam Rollgates	16,685	54,752	-	0.0%
LTD West Side EMX	-	(6,460)	-	0.0%
Telecom Type 2 Projects	27,882	69,253	600,000	11.5%
Up River Re-configuration	-	-	-	0.0%
Total Type 2 Capital	<u>1,277,800</u>	<u>2,816,881</u>	<u>11,199,000</u>	<u>25.2%</u>
Type 3 Capital				
Carmen-Smith Re-license	949,907	2,718,710	11,700,000	23.2%
Total Type 3 Capital	<u>949,907</u>	<u>2,718,710</u>	<u>11,700,000</u>	<u>23.2%</u>
Total Capital before CIA	<u>3,528,595</u>	<u>12,206,519</u>	<u>35,326,000</u>	<u>34.6%</u>
Contribution in aid	<u>(219,198)</u>	<u>(3,216,125)</u>	<u>(3,219,000)</u>	<u>99.9%</u>
Grand Total	<u>\$ 3,309,397</u>	<u>8,990,394</u>	<u>\$ 32,107,000</u>	<u>28.0%</u>

¹ Meters and transformers are capitalized at the time of purchase. The budget for meters is included within the Distribution project and the AMI project. However, the actual costs are not included in project reporting in WAM and are included as their own line item.

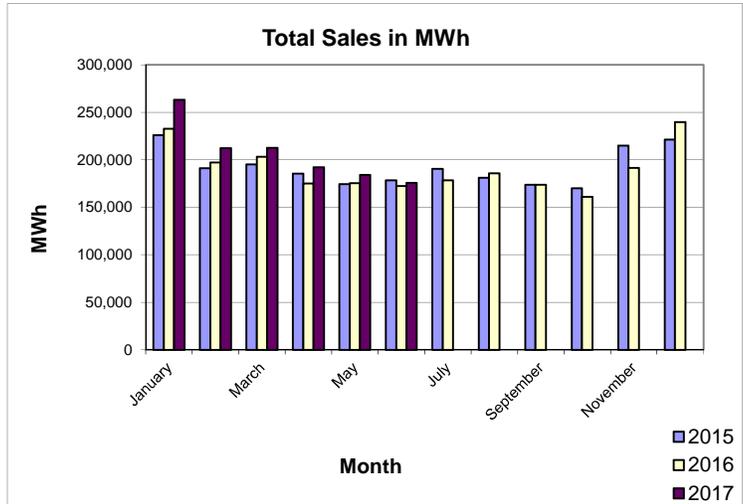
Capital

The capital budget is approved by the Board as the maximum amount allowed for all capital work. Annual budgets by type and by individual projects are prepared for planning and reporting purposes, but overall budget accountability to the Board remains at the total capital level. The Electric Utility has spent \$12.2 million or 34.6% of the capital budget, compared to \$9.9 million or 25.1% in year to date 2016.

Electric Utility Sales in MWh June 2017

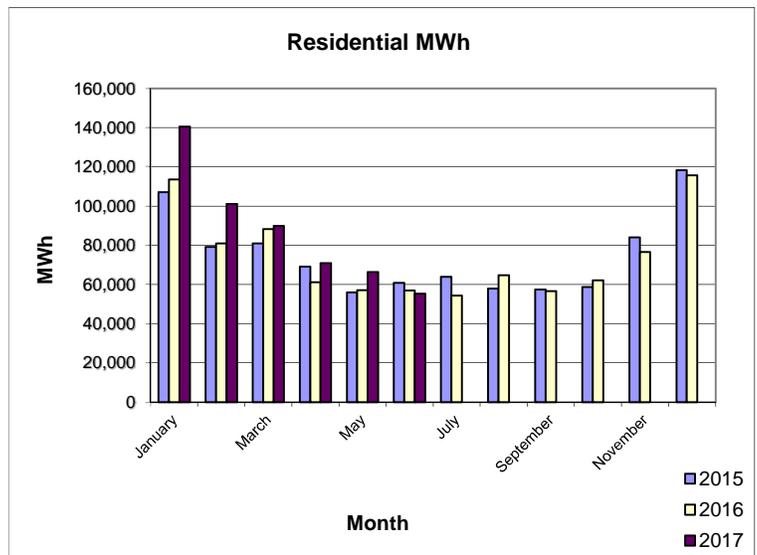
Total Electric Utility Sales in MWh

	2015	2016	2017
January	226,208	232,720	263,514
February	191,281	197,213	212,299
March	195,492	203,425	212,765
Q1 total	612,981	633,357	688,578
April	185,698	175,157	192,317
May	174,491	175,703	184,183
June	178,629	172,650	175,832
Q2 total	538,818	523,510	552,333
July	190,535	178,658	0
August	181,414	186,064	0
September	173,902	173,917	0
Q3 total	545,851	538,639	0
October	170,136	161,121	0
November	215,218	191,617	0
December	221,322	239,812	0
Q4 total	606,676	592,550	0
Annual total	<u>2,304,326</u>	<u>2,288,057</u>	<u>1,240,911</u>



Residential Sales in MWh

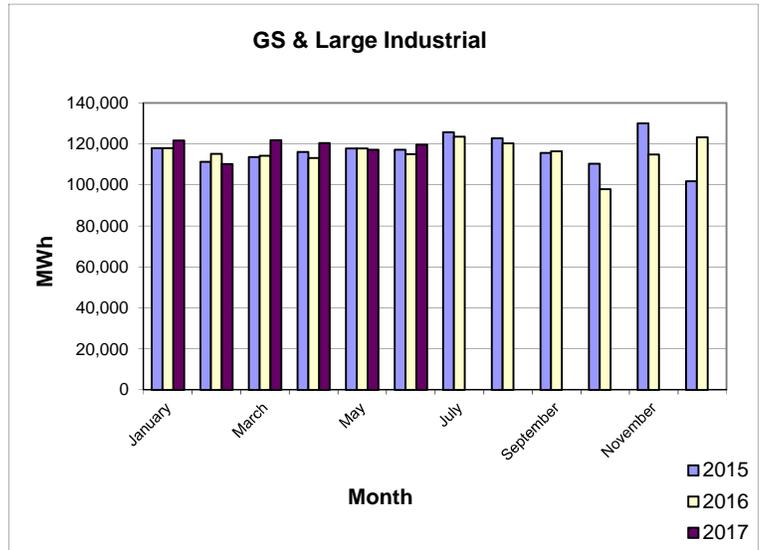
	2015	2016	2017
January	107,136	113,589	140,471
February	79,168	80,958	101,102
March	81,006	88,256	89,865
	267,310	282,803	331,439
April	69,023	61,190	70,920
May	55,898	57,055	66,270
June	60,721	56,918	55,295
	185,642	175,163	192,485
July	63,866	54,329	0
August	57,890	64,718	0
September	57,313	56,523	0
	179,069	175,570	0
October	58,717	62,095	0
November	84,028	76,508	0
December	118,236	115,600	0
	260,981	254,203	0
Total	<u>893,002</u>	<u>887,738</u>	<u>523,923</u>



Electric Utility Sales in MWh June 2017

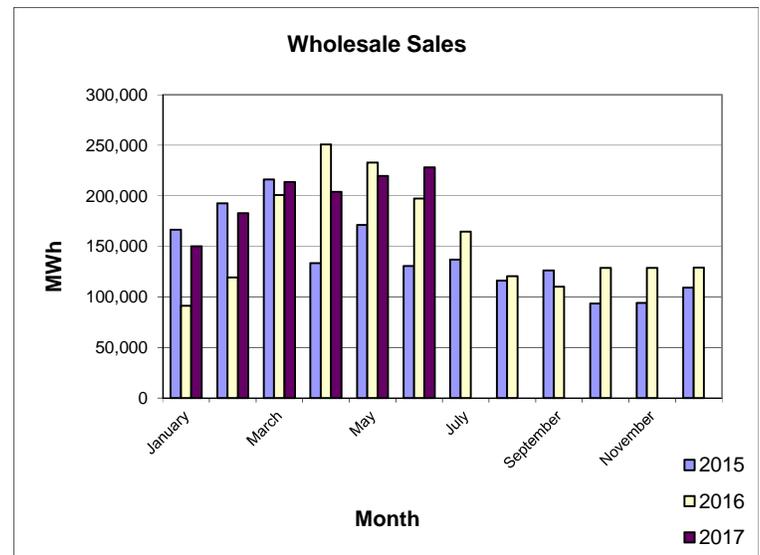
General Service & Large Industrial Sales in MWh

	2015	2016	2017
January	117,866	117,905	121,636
February	111,091	114,969	110,038
March	113,463	114,088	121,755
	<u>342,420</u>	<u>346,962</u>	<u>353,429</u>
April	116,038	112,987	120,325
May	117,742	117,677	117,010
June	117,015	114,827	119,584
	<u>350,795</u>	<u>345,491</u>	<u>356,920</u>
July	125,672	123,364	0
August	122,673	120,117	0
September	115,459	116,236	0
	<u>363,804</u>	<u>359,717</u>	<u>0</u>
October	110,229	97,802	0
November	130,010	114,712	0
December	101,752	123,126	0
	<u>341,991</u>	<u>335,640</u>	<u>0</u>
Total	<u><u>1,399,010</u></u>	<u><u>1,387,810</u></u>	<u><u>710,349</u></u>



Total Wholesale Sales in MWh

	2015	2016	2017
January	166,562	91,229	150,213
February	192,878	119,306	182,911
March	216,315	200,903	213,771
	<u>575,755</u>	<u>411,438</u>	<u>546,895</u>
April	133,635	251,173	204,220
May	171,384	233,001	219,982
June	130,835	197,619	228,488
	<u>435,854</u>	<u>681,793</u>	<u>652,689</u>
July	136,993	164,635	0
August	116,194	120,758	0
September	126,384	110,175	0
	<u>379,571</u>	<u>395,568</u>	<u>0</u>
October	93,491	128,793	0
November	94,117	128,802	0
December	109,166	129,274	0
	<u>296,774</u>	<u>386,869</u>	<u>0</u>
Total	<u><u>1,687,954</u></u>	<u><u>1,875,668</u></u>	<u><u>1,199,584</u></u>





MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Helgeson, Brown, Mital, Simpson and Carlson
 FROM: Sue Fahey, Chief Financial Officer; Aaron Balmer, Interim General Accounting Supervisor
 DATE: July 21, 2017
 SUBJECT: Water Utility Second Quarter 2017 Financial Report
 OBJECTIVE: Information Only

Schedule of Revenues, Expenses, and Changes in Net Position (Income Statement) - Page 3

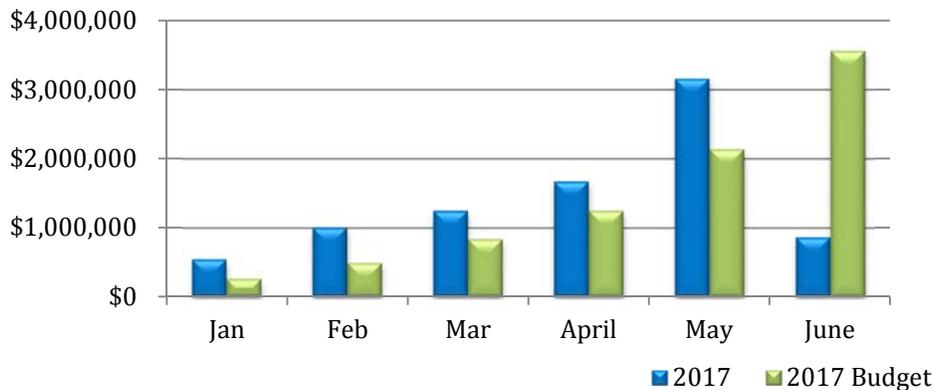
Income before capital contributions (Net Income)

Net income for the Water Utility as of June 30, 2017 is \$865,000 and is unfavorable to the seasonally shaped budget by \$2.7 million primarily due to Water’s \$3 million share of interest expense on the defeasance of Electric debt. Excluding the interest expense related to defeasance would result in a favorable \$386,000 variance. The variance from budget breakdown is as follows (unfavorable)/favorable:

	<u>Thousands</u>
Retail Revenue	\$ (405)
Wholesale and Other Revenue	66
Operating Expenses	574
Non-Operating Revenues	113
Non-Operating Expenses	<u>(3,039)</u>
	\$ (2,691)

The comparison of net income to annual budget before capital contributions in the chart below is seasonally shaped. Within the Water Utility, revenue and consumption peak in the summer. Construction and maintenance activities peak in the summer, as well, while production and delivery costs remain fairly constant throughout the year.

Water System Net Income
2017 YTD



Operating Revenues

For purposes of analysis, the revenue budget has been modified to reflect seasonal fluctuations. **Residential** consumption through June is less than projected resulting in total operating revenues being 2% below the seasonally shaped budget. In June, Accounting staff revised the method of recording unbilled revenue to more closely align with finished pumping information. This change resulted a one-time ‘true-up’ to revenue and consumption. Additionally, more customers have consumed at tier 1 levels (under 8,000 kgal) when compared to budget. Higher tier 2 consumption is anticipated throughout the summer months, and Finance staff will continue to monitor the shift between tiers, expecting to see more consumption in tier 2 as the summer months progress. **Sales for resale and other** includes sales to Water Districts, Willamette Water Company, as well as sales to the City of Veneta. Other operating revenue includes revenues from customer account related fees and reimbursements for billable work.

Operating Expenses

Operating expenses remain favorable and are 95% of budget. **Transmission and distribution** is below budget by \$727,000 due in part the water utility’s budgeted contingency funds, which have not yet been allocated for spending and contributes \$287,000 to the favorable budget variance. Position vacancies contribute \$343,000 to this positive variance. **Administration and general** expenses are over budget by \$434,000 due in part to the slower pace of capital spending, budgeted labor offsets for vacancies (\$160,000) and PERS savings (\$186,000). Although budgeted in **Administration and general**, the vacancy savings have been realized in the **Transmission and distribution** category.

Non-operating expenses

The Water Utility transferred \$11 million to the Electric Utility in June as payment on intercompany principal and interest, and \$3 million was recognized as **Interest Expense, Electric**.

Contributed plant assets include \$755,000 contributed for five completed subdivisions. **System Development Charges** stem from construction activity and is corollary to contributed assets and contributions in aid.

Statement of Net Position (Balance Sheet) - Page 4

Utility Plant in Service is \$5 million less than December 2016 due to a year-end reclassification required by GAAP. The reclassification moves construction work in progress to utility plant in service for work orders where the asset is substantially complete and the work order hasn’t been closed. Accounting and Operations anticipate closing the work orders in the third quarter.

The Water Utility transferred \$11 million to the Electric Utility in June as payment on intercompany principal and interest. **Amounts Due to Electric** decreased \$8 million on the balance sheet.

Financial Ratios - Page 6

The December 2016 **Debt Service Coverage** ratio was adjusted in June for the transfer from the Rate Stabilization fund. This transfer was based on 2016 results and was approved last month by the Board in Resolution No. 1710. The transfer of \$5 million resulted in an increase of the ratio to 7.89 from 6.32.

**Eugene Water & Electric Board
Water System
Schedule of Revenues, Expenses and Changes in Net Position
for the six months ended June 30, 2017**

	<u>Prior Year Comparison</u>		<u>Annual Working Budget</u>	<u>YTD Budget Comparison</u>		
	<u>6/30/2017</u>	<u>6/30/2016</u>		<u>Budget \$</u>	<u>Budget %</u>	<u>Budget Variance</u>
Residential	\$ 8,912,067	\$ 9,561,500	\$ 20,405,566	\$ 9,462,000 ¹	94%	\$ (550,000)
Commercial and industrial	6,526,120	6,577,228	13,925,378	6,381,000 ¹	102%	145,000
Sale for resale	770,852	817,386	1,983,128	758,000 ¹	102%	13,000
Other	785,707	745,762	1,466,002	733,000	107%	53,000
Operating revenues	<u>16,994,746</u>	<u>17,701,876</u>	<u>37,780,074</u>	<u>17,334,000</u>		<u>(339,000)</u>
Source of supply, pumping and purification	2,646,828	2,411,901	5,750,047	2,875,000	92%	228,000
Transmission and distribution	3,056,649	2,788,463	7,567,897	3,784,000	81%	727,000
Customer accounting	833,454	651,187	1,628,307	814,000	102%	(19,000)
Conservation expenses	165,676	109,269	394,212	197,000	84%	31,000
Administrative and general	2,251,563	2,012,252	3,635,250	1,818,000	124%	(434,000)
Depreciation on utility plant	2,990,679	3,041,050	6,063,784	3,032,000	99%	41,000
Operating expenses	<u>11,944,849</u>	<u>11,014,122</u>	<u>25,039,497</u>	<u>12,520,000</u>	95%	<u>574,000</u>
Net operating income	<u>5,049,897</u>	<u>6,687,754</u>	<u>12,740,577</u>	<u>4,814,000</u>	105%	<u>236,000</u>
Investment earnings	253,839	222,768	394,970	197,000	129%	57,000
Other revenue	60,590	65,803	7,200	4,000	1515%	57,000
Non-operating revenues	<u>314,429</u>	<u>288,571</u>	<u>402,170</u>	<u>201,000</u>	156%	<u>113,000</u>
Other revenue deductions	2,598	191,346	85,000	43,000	6%	40,000
Interest expense and related amortization	1,091,517	1,096,554	2,096,078	1,048,000	104%	(44,000)
Interest expense, Electric	3,404,930	551,594	737,405	369,000	923%	(3,036,000)
Non-operating expenses	<u>4,499,045</u>	<u>1,839,494</u>	<u>2,918,483</u>	<u>1,460,000</u>	308%	<u>(3,039,000)</u>
Income before capital contributions	865,281	5,136,831	10,224,264	3,555,000	24%	(2,691,000)
Contribution in aid of construction	518,086	593,748	1,133,000	567,000	91%	(49,000)
Contributed plant assets	876,272	102,213	-	-	0%	876,000
System development charges	644,877	804,765	412,000	206,000	313%	439,000
Increase in net position	<u>\$ 2,904,516</u>	<u>\$ 6,637,557</u>	<u>\$ 11,769,264</u>	<u>\$ 4,328,000</u>	67%	<u>\$ (1,423,000)</u>

Notes:

¹ Seasonal budget figure based on cyclical consumption activity averaged from the past five years. Unmarked budget figures are not shaped and are allocated using a straight-line method.
Budget variance column may not add up due to rounding.

Eugene Water & Electric Board
Water System
Statement of Net Position
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>December 2016</u>
Assets			
<u>Capital assets</u>			
Utility plant in service	\$ 262,734,725	\$ 254,647,514	\$ 267,601,807
Less - Accumulated depreciation	(114,326,287)	(108,589,038)	(111,343,682)
Net utility plant in service	148,408,438	146,058,476	156,258,125
Property held for future use	2,389,372	1,156,424	1,184,434
Construction work in progress	13,893,124	10,645,271	3,063,265
Net Utility Plant	<u>164,690,934</u>	<u>157,860,171</u>	<u>160,505,824</u>
<u>Current assets</u>			
Cash and cash equivalents	2,838,402	1,582,686	4,740,905
Short-term investments	-	-	845,370
Restricted cash and investments	19,251,771	19,897,843	19,562,392
Designated cash and investments	20,405,539	24,750,930	14,959,703
Receivables, less allowances	4,201,682	5,020,621	3,298,133
Material and supplies, at average cost	848,330	1,018,618	900,944
Prepayments and special deposits	1,396,372	1,454,851	1,254,709
Total current assets	<u>48,942,096</u>	<u>53,725,549</u>	<u>45,562,156</u>
<u>Non-current assets</u>			
Long-term investments - designated	-	-	12,286,276
Long-term investments - unrestricted	-	-	1,269,344
Long-term receivables, conservation and other	137,384	176,016	157,206
Other assets	4,103,766	2,294,262	4,124,167
Total non-current assets	<u>4,241,150</u>	<u>2,470,278</u>	<u>17,836,993</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources	<u>11,462,409</u>	<u>3,740,358</u>	<u>11,561,575</u>
Total Assets & Deferred Outflows	<u>\$ 229,336,589</u>	<u>\$ 217,796,356</u>	<u>\$ 235,466,548</u>
Liabilities			
<u>Current liabilities</u>			
Payables	\$ 416,280	\$ 548,629	\$ 1,201,768
Accrued payroll and benefits	1,292,940	1,326,438	1,094,980
Accrued interest on long-term debt	966,271	504,974	966,271
Long-term debt due within one year	1,840,000	425,000	1,840,000
Due to Electric System	319,196	897,325	870,656
Total current liabilities	<u>4,834,687</u>	<u>3,702,366</u>	<u>5,973,675</u>
<u>Non-current liabilities</u>			
Long term debt-bonds payable	59,088,259	61,354,839	59,273,233
Due to Electric System	8,944,597	16,923,252	16,612,001
Net pension liability	19,059,020	8,190,233	19,059,020
Other liabilities	224,375	283,522	267,484
Total liabilities	<u>92,150,938</u>	<u>90,454,212</u>	<u>101,185,413</u>
Deferred Inflows of Resources			
Deferred inflows of resources	1,009,432	2,160,135	1,009,432
Net Position			
Net invested in capital assets	106,345,639	94,537,138	97,536,117
Restricted	8,801,184	6,229,300	7,368,976
Unrestricted	21,029,396	24,415,571	28,366,610
Total net position	<u>136,176,219</u>	<u>125,182,009</u>	<u>133,271,703</u>
Total Liabilities, Deferred Inflows & Net Position	<u>\$ 229,336,589</u>	<u>\$ 217,796,356</u>	<u>\$ 235,466,548</u>

Eugene Water & Electric Board
Water System
Capital Budget Comparison
for the six months ended June 30, 2017

	<u>Current Month</u>	<u>Year-to-Date</u>	<u>Annual Working Budget</u>	<u>% of Budget</u>
Meters (Pre-capped) ¹	\$ 5,400	\$ 204,248	\$ -	0.0%
Type 1 Capital				
Buildings & Land	20,545	22,991	248,000	9.3%
Distribution Facilities	66,828	313,631	1,339,000	23.4%
Distribution Pipe & Services ¹	495,034	2,946,199	6,181,001	47.7%
Information Technology	5,818	127,654	123,355	103.5%
Source Of Supply	21,093	512,577	1,029,999	49.8%
Water Fleet	-	104,726	110,000	95.2%
Total Type 1 Capital	<u>609,318</u>	<u>4,027,778</u>	<u>9,031,355</u>	44.6%
Type 2 Capital				
AMI ¹	247,187	336,697	280,000	120.2%
CIS	-	-	270,000	0.0%
Distribution Facilities	1,741	108,813	712,000	15.3%
Distribution Pipe & Services	3,807	5,312	-	0.0%
Source Of Supply	16,172	96,210	2,245,000	4.3%
Total Type 2 Capital	<u>268,907</u>	<u>547,032</u>	<u>3,507,000</u>	15.6%
Type 3 Capital				
Source Of Supply	83,457	1,597,992	1,830,000	87.3%
Total Type 3 Capital	<u>83,457</u>	<u>1,597,992</u>	<u>1,830,000</u>	87.3%
Total Capital before CIA	967,082	6,377,050	14,368,355	44.4%
Contributions in aid	<u>(35,190)</u>	<u>(518,086)</u>	<u>(1,133,000)</u>	45.7%
Grand Total	<u>\$ 931,892</u>	<u>\$ 5,858,964</u>	<u>\$ 13,235,355</u>	44.3%

¹ Meters are capitalized at the time of purchase. The budget for meters is included within the Distribution Pipe and Services project and the AMI project. However, the actual costs are not included in project reporting in WAM and are included as their own line item.

Capital

The capital budget is approved by the Board as the maximum amount allowable for all capital work. Annual budgets by type and by individual project are prepared for planning and reporting purposes, but overall budget accountability to the Board remains at the total capital spending level. Information by project is provided in the quarterly EL1 report.

**Eugene Water & Electric Board
Water System
Financial Ratios
June 30, 2017**

	<u>YTD</u> <u>2017</u>	<u>Status</u>	<u>December</u> <u>2016</u>	<u>PERFORMANCE</u> <u>STANDARD</u>
Current Ratio	10.12		9.90	3.250x
Debt as % of Net Book Value	47%		49%	≤ 60%
Debt Service Coverage - Annualized	3.77		7.89	2.0 to 2.50x
Age of System - Overall	44%		42%	< 60%
Pumping Plant			67%	
Water T&D Plant			49%	
Days Unrestricted Cash	442		694	>150 days
Rate of Return - Annualized	9%		10%	Range 5-7%

Ratios

The current ratio is well above the Board performance target of 3.25, due primarily to the deposit of water bond proceeds in May 2016. Strong sales, lower expenses and the adoption of a rate smoothing strategy by the Board are allowing the utility to accumulate cash and reserves. Although the debt service ratio decreased in 2017 from December 2016 as a result of the 2016 debt issuance, it continues to be well above the target of 2.0. The debt service coverage ratio was adjusted in June 2017 for the net transfer from the Rate Stabilization fund based on 2016 results. All other ratios are performing better than the Board performance standards.

Note: See next page for ratio definitions

Current Ratio

Total current assets to total current liabilities. This ratio measures the utility's short-term liquidity (ability to pay bills). Long term investments are included in the calculation since they are highly marketable and could be liquidated if the need arose. The standard is set by EWEB financial policies and is meant to support a higher than average credit rating.

Debt as % Net Book Value (NBV)

Ratio of the amount of debt outstanding against the remaining Net Book Value of assets. This metric measures overall leverage of the system in an effort to align debt service payments with the useful lives of assets.

Debt Service Coverage

Ratio of annualized net revenues available for debt service to total long-term debt service for the year. This ratio measures the utility's ability to meet its annual long-term debt obligation. The performance standard is meant to support a double A credit rating.

Age of System

Ratio of accumulated depreciation against the historical value of assets. This ratio measures how old the system is as compared to how much has been depreciated. Infrastructure over 65% depreciated should be watched for aging, while infrastructure less than 50% depreciated is representative of newer systems.

Days Unrestricted Cash

Ratio of total unrestricted cash and cash equivalents to average daily cash requirements for operating expenses (defined as yearly budgeted operating expenses net of depreciation divided by 365 days in the year). This figure measures the length of time the utility can carry on normal operations with available unrestricted cash not otherwise designated for future capital needs. Long term investments are included in the calculation since they are highly marketable and could be liquidated if the need arose. Standard and Poor's Industry Standards for Investment Grade ratings are typically 60 to 90 days. The higher performance standard supports higher credit rating.

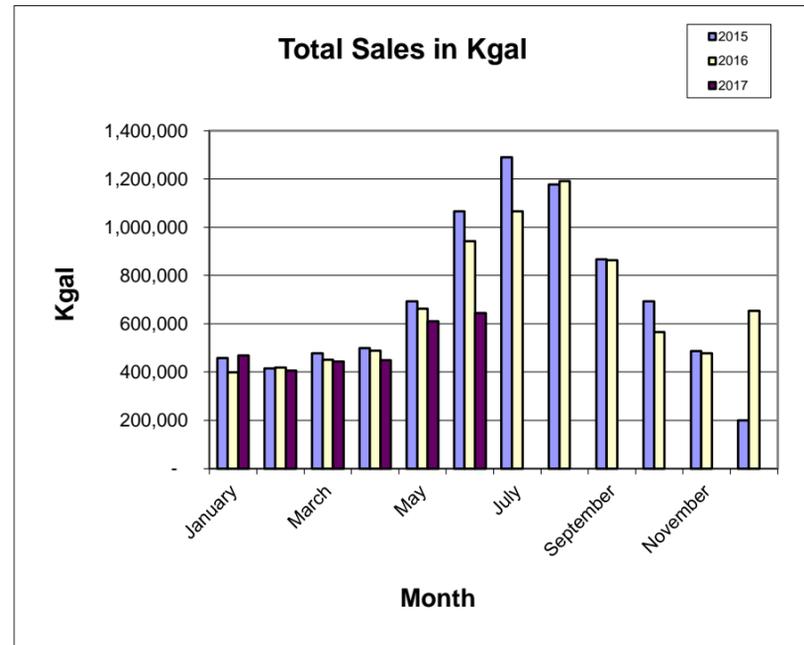
Rate of Return

Rate of return on investment, expressed as a percentage of the total amount invested in infrastructure. This ratio measures the utility's ability to pay current infrastructure costs and future replacement costs. Per the AWWA, a range of 5-7% is an acceptable range (the upper quartile for return on assets is approximately 6%).

Water System Sales in Kgal June 2017

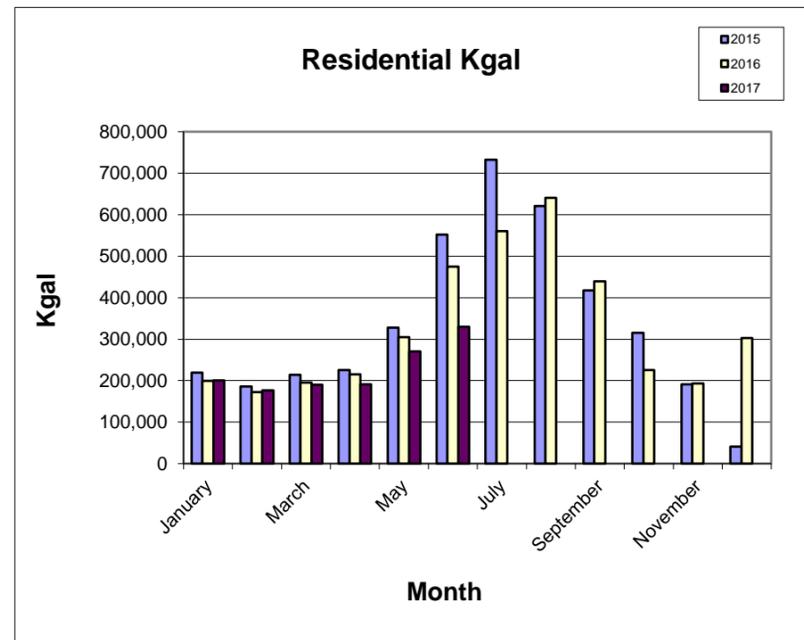
Total Water Sales in Kgal

	2015	2016	2017
January	459,108	399,369	469,493
February	404,303	419,161	405,815
March	467,462	450,547	444,552
Q1 total	1,330,873	1,269,077	1,319,860
April	487,636	488,756	450,168
May	679,838	662,977	610,855
June	1,051,349	942,995	643,822
Q2 total	2,218,823	2,094,728	1,704,845
July	1,255,528	1,066,322	0
August	1,145,986	1,190,789	0
September	840,585	863,372	0
Q3 total	3,242,099	3,120,483	0
October	674,261	566,078	0
November	473,737	478,000	0
December	187,717	653,434	0
Q4 total	1,335,715	1,697,512	0
Annual total	<u>8,127,510</u>	<u>8,181,800</u>	<u>3,024,705</u>



Residential Sales in Kgal

	2015	2016	2017
January	219,363	199,360	200,913
February	186,053	172,258	176,564
March	213,577	195,684	190,004
Q1 total	618,993	567,302	567,481
April	225,226	214,567	190,757
May	328,179	305,247	270,359
June	551,652	474,954	329,725
Q2 total	1,105,057	994,768	790,841
July	732,314	560,639	0
August	620,535	640,466	0
September	417,603	439,526	0
Q3 total	1,770,452	1,640,631	0
October	315,532	226,033	0
November	191,016	193,702	0
December	41,102	303,194	0
Q4 total	547,650	722,929	0
Total	<u>4,042,152</u>	<u>3,925,630</u>	<u>1,358,322</u>



General Service, Contract & Other in Kgal

	2015	2016	2017
January	239,745	200,009	268,580
February	218,250	246,903	229,251
March	253,885	254,863	254,548
Q1 total	711,880	701,775	752,379
April	262,410	274,189	259,411
May	351,659	357,730	340,496
June	499,697	468,041	314,097
Q2 total	1,113,766	1,099,960	914,004
July	523,214	505,683	0
August	525,451	550,323	0
September	422,982	423,846	0
Q3 total	1,471,647	1,479,852	0
October	358,729	340,045	0
November	282,721	284,298	0
December	146,615	350,240	0
Q4 total	788,065	974,583	0
Total	<u>4,085,358</u>	<u>4,256,170</u>	<u>1,666,383</u>

