



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Helgeson, Brown, Mital, Simpson and Carlson
FROM: Sue Fahey, Chief Financial Officer; TiaMarie Harwood, Interim General
Accounting Supervisor
DATE: November 22, 2017
SUBJECT: PERS Liability Mitigation Strategy
OBJECTIVE: Board Action and Approval of Resolution No. 1731

Issue

Financial Policy 1.4 - Retirement Benefits Funding Policy requires that if the funded status of EWEB's pension plan drops to 70% or less, an assessment of accelerated funding will be performed. The December 31, 2015 actuarial valuation prepared for EWEB by the Oregon Public Employees Retirement System (OPERS) actuary indicated that EWEB's Unfunded Actuarial Liability (UAL) was in excess of \$112 million and funded at 69%.

In September, the December 31, 2016 OPERS system-wide results were released. The OPERS UAL rose from \$21.8 billion at the end of 2015 to \$25.3 billion, and the funded status dropped from 71% to 69%. OPERS will provide employer specific information later in November or December; however it is anticipated that EWEB's funded status will fall further.

Background

EWEB is an independent employer participating in OPERS. As such, the actuarial liability is calculated on EWEB's specific employee and retiree demographics, and EWEB assumes all risk for changes in those demographics. The largest components of the employer rates are the normal cost which is the projected cost of providing expected benefits for current employees, and the UAL which is the difference between the actual cost of pension benefits (liabilities) and assets (contributions plus investment earnings) at a particular point in time. All other assumptions being the same, when EWEB's PERS covered wages decrease, the normal cost rate would also decrease (less current employee benefits). The UAL rate would increase since the wages available to pay down the UAL are lower.

By the early 2000's the OPERS system-wide UAL was growing rapidly due in part to inaccurate retirement formula and mortality assumptions, underfunded reserves, poor investment returns and crediting employee accounts with earnings above the assumed rate. EWEB's employer contribution rate rose from 12.16% in the July 1997-June 1999 biennium to 21.76% for the July 1999-June 2001 biennium. EWEB, City of Eugene and several other public employers filed a lawsuit against the PERS Board (PERB) in 1999 claiming that the PERB failed their fiduciary responsibility and did not administer the system for long-term viability. The lawsuit was successful, and legislative changes were made in 2003 that slowed the UAL increase. Investment income accounts for approximately

75% of OPERS' revenues and investment returns were frequently below the 8% assumed earnings rate. Accordingly, the UAL continued to rise.

To mitigate the rising UAL, EWEB issued \$30 million of PERS bonds in May 2001. Those bonds were defeased in June 2017. In November 2006, EWEB also deposited \$7.2 million with PERS to pay down the UAL. OPERS places lump sum payments in a side account for the employer's benefit. EWEB's current rates are reduced by 1.22 percentage points for the side account which has approximately \$5 million remaining. One percentage point reduction in employer PERS rates reduces costs by approximately \$400,000.

EWEB's current melded employer rate is 24.11%; however OPERS 'collars' rate increases to shield employers from dramatic rate changes. EWEB's rates for the 2017-2019 biennium were reduced by 6.23 percentage points as a result of the collar calculation, and future rates will increase higher because of the collar.

Both Utilities have cash in excess of targets. As of November 16, 2017, the Electric Utility had \$137 million in working cash and Board designated funds, and the Water Utility had \$31 million. Targets for the Electric and Water Utilities are \$71.7 million and \$12.7 million, respectively. The Electric Utility has \$13.8 million in the designated pension fund, and the Water Utility has \$4.3 million. Per Financial Policy 1.4, over \$2.5 million is projected to be added to the pension reserve at the end of 2017. The Schedule of Reserves as of November 16, 2017 are included as Attachment 1.

At the November 7th Board meeting, Commissioners discussed five options regarding the PERS liability:

1. Do nothing and continue to pay the employer rate calculated biennially
2. Issue additional PERS bonds
3. Set up an EWEB managed trust
4. Deposit additional funds into a new side account
5. Join the State and Local Government Rate Pool (SLGRP) and pay off part or all of the Transition Liability

Commissioners directed staff to focus on options 4 and 5. Joining the SLGRP is only available to independent employers on January of even-numbered years.

Discussion

Deposit Funds into a New Side Account

Pros: Reduces PERS liability; reduces O&M costs; positive impact on debt service coverage, reduces rate pressure; minimal cost to set up account; reduced rates take effect shortly after deposit; opportunity to earn PERS returns on excess funds; potential incentive if the legislature approves

Cons: Reduces cash reserves; PERS investments carry higher risk than EWEB investments which are limited by statute

Additional Information: Investment earnings will vary with market; each \$5 million deposited is projected to reduce the rate .8% if deposit earns assumed rate of 7.2%

Join SLGRP and Pay Off Part or All of the Transition Liability

Pros: Mitigates independent employer risk (particularly in declining wage periods); reduces PERS liability; reduces O&M costs; positive impact on debt service coverage; minimal cost to join;

reduces rate pressure; PERS charges assumed rate (currently 7.2%) on transition liability. Using reserves earning less than 1.5% to pay off transition liability provides immediate savings (most recently calculated at a 4.7 percentage point rate reduction if paid off); two most recent valuations indicated EWEB PERS rates would drop two percentage points if EWEB had joined S'LGRP; retains cash for over a year; side account is still an option; potential incentive if the legislature approves

Cons: Reduces cash reserves if Board decides to pay off transition liability (most recent calculation was \$26.8 million); loss of independence and potential risk of pool defaults; transition liability and rates unknown at time of enrollment; rate reduction would not take effect until July 2019

Additional information: most recent transition liability was \$26.8 million which if paid off would reduce rates 4.7 percentage points; deposit would not be made until early 2018.

Recommendation

Management recommends joining the SLGRP and paying off or down the transition liability. The decision of how much to pay off and/or deposit in a side account would be made in 2018 after the legislature addresses options proposed by the PERS Task Force.

Requested Board Action

Management is requesting that the Board approve Resolution No. 1731 electing application for EWEB's entry to the Oregon Public Employees Retirement System State & Local Government Rate Pool.

Attachment 1: Schedule of Cash Reserves

ATTACHMENT 1

Water Utility Schedule of Cash Reserves

	FINANCIAL POLICY		BALANCE
	REFERENCE	TARGET	11/16/2017
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 9,637,859

DESIGNATED FUNDS

Operating Reserve	Rate Stability	\$ 1,000,000	\$ 1,012,184
Self-Insurance Reserve	Rate Stability	280,000	288,712
Capital Improvement Reserve	Capital Reserve	7,000,000	7,883,855
Rate Stabilization Fund	Rate Stability	1,000,000	1,307,263
Water Stewardship Fund- Septic Repairs		-	87,469
Business Growth & Retention Loan Fund		-	175,454
McKenzie River Trust Commitment		-	250,000
Alternate Water Supply Fund		-	6,119,843
Pension & Post Retirement Medical Fund		-	4,389,312
DESIGNATED FUNDS TOTAL		\$ 9,280,000	\$ 21,514,092
CASH & DESIGNATED FUNDS TOTAL		\$ 12,680,000	\$ 31,151,951

Electric Utility Schedule of Cash Reserves

	FINANCIAL POLICY		BALANCE
	REFERENCE	TARGET	11/16/2017
Working Cash	Rate Sufficiency	\$ 24,000,000	\$ 45,588,203

DESIGNATED FUNDS

Operating Reserve	Rate Stability	\$ 2,000,000	\$ 2,082,704
Self-Insurance Reserve	Rate Stability	1,720,000	1,773,975
Power Reserve	Rate Stability	17,000,000	17,000,000
Capital Improvement Reserve	Capital Reserve	22,000,000	23,575,448
Rate Stabilization Fund	Rate Stability	5,000,000	31,298,759
Business Growth & Retention Loan Fund		-	1,963,913
McKenzie River Trust Commitment		-	250,000
Pension & Post Retirement Medical Fund		-	13,849,929
DESIGNATED FUNDS TOTAL		\$ 47,720,000	\$ 91,794,728
CASH & DESIGNATED FUNDS TOTAL		\$ 71,720,000	\$ 137,382,931

RESOLUTION NO 1731
December 2017

EUGENE WATER & ELECTRIC BOARD
Application for Entry to the Oregon Public Employees Retirement System
State & Local Government Rate Pool

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 2001 Oregon Legislative Assembly amended ORS 238.227 to allow Oregon local government PERS employers to pool their pension costs with the state of Oregon; and

WHEREAS, the Board of Trustees of the Public Employees Retirement System has adopted Oregon Administrative Rule 459-009-0070, which allows formation of a State & Local Government Rate Pool; and,

WHEREAS, participation in the State & Local Government Rate Pool has been determined by this body to be a prudent action;

NOW, THEREFORE, BE IT RESOLVED that the Eugene Water & Electric Board, OPERS employer number 2132, has elected to apply for acceptance into the State & Local Government Rate Pool.

DATED this 5th day of December 2017.

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 December 5, 2017 Board Meeting.

Assistant Secretary