The following questions have been posed by Commissioners prior to the scheduled Board Meeting on December 5, 2017. Staff responses are included below, and are sorted by Agenda topic.

2018 Proposed Budgets, Revenue Requirements and Prices
►Sue Fahey, Chief Financial Officer

2018 Budget Compared Prior Years:
Building Operations, Physical Security and Fleet Services: Why are you proposing to increase Vehicle Fuel and Oil almost $100,000 from 2016?

Response: Fuel prices averaged $1.84/gallon in 2016, and 2018 is estimated to be $2.35/gallon. Usage is budgeted at 190,000 gallons which is slightly below 2017 projection.

Customer Service: Why is the proposed budget for Limited Income Services proposed to be decreased by $40,000?

Response: $48,000 of the Limited Income Services budget is dedicated to handling customer collections. With the recent reorganization, those funds are in the Finance Division budgeted in the Professional and Technical Services category.

Energy: How much of the $6 million increase (to $124,065,000) is due to the increase from BPA?

Response: The purchased power budget is $2 million higher due to the BPA rate increase. The rest of the increase is primarily due to portfolio balancing activities that are offset by associated revenue. In addition to BPA's increase in the purchased power budget, wholesale revenues were impacted negatively by $700,000 due to the anticipated impact of the spill injunction.

Energy: Why don't we have insurance budgeted for 2018?

Response: Insurance budgets are now consolidated in the Finance Division.

Finance: Why is contract labor budgeted to increase $117,000 in 2018?

Response: Contracted labor is budgeted to backfill staff working on the CIS conversion.

General Manager: Why don't we have legal services budgeted for 2018?

Response: Legal services are budgeted in the most impacted departments, for example Workforce/Human Resources, Power Planning, etc. General Counsel is budgeted in the Risk Management Department within Finance/Accounting Division.

General Manager: Who is included in the FTE for the General Managers budget?
Guessing the change is wages and benefits is due to bring Lobbyist in as a direct report to Frank…correct?

Response: The General Manager Division FTE includes the General Manager, Executive Assistant, Administrative Assistant III, and the Policy/Government Affairs Program Manager. In addition to the new FTE, wages and benefits increased based on the PERS rate increase and the budget assumption for wage increases.

February 2018 Water Price Proposal: Table 5: What is the driving factor behind the proposal to decrease the water volume charges (AWS change or something else)?

Response: It is the result of eliminating the 3% alternative water source rate change.

SCHEDULE 4 - Service to Santa Clara and River Road Water Districts: What are the underlying differences driving why all other classes are getting a rate decrease, but River Road and Santa Clara are proposed to be held constant/increase? (Says no change in price in description, but then the diagram shows it increasing…please clarify which it is.)

Response: The Santa Clara and River Road contracts require that rates be set using a basis that only charges for infrastructure costs after an asset is placed in service. Since the 2014 3% alternate water source rate increase was to fund future infrastructure costs, it did not apply to the water districts. Accordingly, no reduction is warranted by the elimination of that increase. Water district rate changes are effective in July. The revenue increase is a result of the 2017 rate increase impacting the first 6 months of 2018.

PERS Liability Mitigation Strategy, Resolution No. 1731
►Sue Fahey, Chief Financial Officer

How accurate is the assumed market rate of 7.2% compared to historical returns? If that is high, what is our estimated savings for a rate that is more accurate?

Response: If the average investment return for the next 20 years was 6.5% instead of 7.2%, the rate credit would be reduced primarily in the last 10 years by a total of $600,000 due to reduced interest earnings.

TRANSITION PAYMENT:
The amount was estimated previously at around $25 million based on 2014 data. You were hoping to get an updated figure from PERS using 2106 data, and are expecting that the final figure could be significantly higher. It concerns me that we have to commit now without knowing what the figure will be. Is it possible that we might receive an updated estimate later this month? If so, do we have the option of delaying our decision until later in the month?

Response: The transition liability based on 2015 data is $26.8 million. PERS has indicated that EWEB should receive 2016 independent employer specific information in December. The information is advisory in nature. If EWEB joins the pool, the transition liability will be calculated on the 2017 actuarial valuation which EWEB should receive in November 2018. We will have updated information for 2016 before year end which will provide a trend line, but the final transitional liability will not be set until late next year. A resolution electing to join the pool must be approved, signed and received by PERS no later than December 31st to be effective next biennium.

Additionally, PERS staff answered EWEB's question about paying off the transition liability yesterday afternoon. Like side accounts, transition liability payments would reduce EWEB's UAL dollar for dollar.

I'm still unclear about how it is that our return on the transition payment is "guaranteed" at 7 percent. Is that because there is an explicit guarantee with respect to those funds, or simply because if we pay up front in a lump sum we avoid paying 7 percent interest? If it's the later, I'm not convinced that avoided interest costs are the same as an actual return. It seems like whether in the form of a transition payment or simply a set-aside account our money just goes in to the PERS investment pool and earns whatever it earns over time. So at the end of the day, the asset value is ultimately determined by what the fund actually earns, just like any other money that goes to PERS, without regard to avoided interest costs. Sort of like if I buy a house and pay up front instead of taking out a mortgage at 4%. Yes I avoid associated interest costs, but that doesn't guarantee that my house will be worth my original principal escalated at 4% over 30 years. Regardless of actual or avoided interest costs, the future asset value will be determined by the market. So how is it guaranteed that the transition payment's future value is guaranteed to escalate at 7%?

Response: PERS actuarial calculations "charge" the assumed rate of return (currently 7.2%) on an agency's entire UAL balance for the entire UAL amortization period. If a transition liability exists, it will be charged 7.2% interest regardless of what actual earnings are until paid off. Paying off the transition liability reduces EWEB's UAL dollar for dollar (and also eliminates the 7.2% interest charge on the transition liability). Side accounts also reduce the liability, but would be considered a PERS asset for EWEB's benefit. The earnings would fluctuate with market so reducing the liability at the 7.2% rate is not guaranteed for the life of the side account like paying off the transition liability.

From the perspective of an investment decision, EWEB is investing its cash in a mix of investments that earns approximately 1.20%. Public agency investments are limited by statute to very high quality, low risk options. If EWEB had an opportunity to earn 7.20% on those funds and was assigned a transition liability after joining the pool, we would be indifferent between maintaining the investment and paying off the transition liability early. However, because EWEB earns substantially less than that on investments, it is actually incurring a net loss. If it is assumed that investment options do not improve over the next 20 years, that investment loss would equal 6%. So from that perspective, paying off a transition liability 'locks in' an investment return, or avoids an investment loss. The house analogy works if looked at it from the same perspective. In other words, if you had sufficient cash to pay off your mortgage, and your expectations were that you would not earn as much on your cash as you were paying in your loan, then it might make sense to pay it off early.

PERS RATE SAVINGS FROM POOLING:

You estimate that our PERS rate would drop by 6-7 percent of payroll if we join the pool. What does this represent in annual dollar savings, and how much of that savings is due to paying down our UAL, which can be accomplished either by joining the pool and making the transition payment, or by not joining but making another supplemental deposit to an employer side account. You said that we get about a 0.8 percent rate reduction for every $5 million we pay down. Does that mean that 4-5 percent of the anticipated rate reduction comes from paying down our UAL, not from pooling specifically? Am I correct in assuming that the remaining 2 percent of the rate reduction is the actual "pooling" benefit", and that the other 4-5 percent can be obtained with or without pooling?

Response: The rate reduction is based on PERS 2015 valuation. If EWEB had been in the SLGRP and paid off the $26.8 million transition liability, EWEB's PERS rates would be 6.7 percentage points lower. That represents approximately a $2.7 million reduction in annual PERS expense. You are correct that two percentage points would have been the result of joining the pool and 4.7 percentage points a result of paying off the transition liability. Assuming that the side account earns 7.2%, a deposit of approximately $40 million would be needed to achieve the same savings.

Am I correct that the net pooling benefit is obtained because EWEB's higher retiree costs are melded with other pool members lower costs? You referenced pooling in this case to be like insurance, where pooling diversifies the risk and costs go down for everybody in the pool, Is that really the case here (i.e. costs go down for everybody), or are we simply shifting some of our higher costs to the other pool members?

Response: You are correct that the 2015 calculated pooling benefit is a combination of EWEB's retiree costs and current demographics compared to the other pooled members. The transition liability is calculated to cover EWEB's demographic differences at the time of joining the pool. Changes in EWEB demographics after 2017 will impact other SLGRP employers to the extent that they are different than actuarial assumptions. Pooling diversifies the risks and spreads liabilities and assets for the purposes of determining rates to all pooled employers. That does not necessarily mean that costs go down for everyone in the pool.

How will we ever verify that we got the savings we expect, given that rates are expected to go up regardless, and once in the pool we won't know what they would have been otherwise?

Response: EWEB won't know. The decision is whether EWEB should continue to have PERS rates set on our independent demographics or join a pool with the state agencies and other public employers with a combined payroll of $5.7 billion. The only information available is historical and there are no guarantees about future rates.

POOLING DECISION CRITERIA:

Will it increase the likelihood that adequate funds are available to meet EWEB's future PERS obligations?

Response: The funds available to meet future PERS obligations will be the same as an independent or pooled employer, although the hope is that EWEB costs will be lower in the pool, thereby making those funds go further. The Board will decide in 2018 what level of reserve funding, if any, should be used to pay down EWEB's PERS obligations. But, as noted above, there are no guarantees.

Will it reduce year-to-year contributions to PERS that must be recovered in rates?

Response: The 2014 and 2015 valuations indicated that EWEB's annual PERS expense would be reduced by about $900,000 if EWEB had joined the pool which would have lowered the revenue requirement by that amount.

Will it help maximize the return on EWEB dollars used to fund our PERS obligation?

Response: Paying off/down the transition liability avoids the 7.2% interest charged on that portion of EWEB's UAL for the life of the UAL amortization. Side accounts would earn the same whether as an independent employer or pooled.

Will it lower EWEB's exposure to PERS risk and uncertainty?

Response: A major portion of PERS risks relates to PERS investments/earnings and actuarial assumptions which would be the same for an independent employer or a pooled employer. Additional risk as an independent employer is volatility of changing demographics. Pooled risks include the potential for employer default (there has been one small fire district to my knowledge) and some pool employers experiencing demographic changes that result in higher rates for the remaining pool employers.

Will it impact EWEB's ability to act independently and assert local control?

Response: The only ability to assert local control regarding PERS (other than depositing funds in a side account which is also available as a SLGRP employer) is to change EWEB's demographics. As an independent employer, if EWEB reduces covered salary PERS rates would go up higher than they would otherwise. Increasing covered salaries would result in lower PERS rates than otherwise, however all things being equal the revenue requirement would increase due to additional labor costs.

Carbon Market Study Presentation & Resolution No. 1736, Approval of EWEB's 2018 State Legislative Agenda ►Frank Lawson, General Manager

I note that the Carbon Study has been removed from the December meeting and that there is a placeholder for January 24th, has 350.org been notified of this change? I believe we let them know we were going to be discussing the carbon study in December. Just wanted to double check on that. Also was the discussion moved due to time constraints or something else?

Response: The general results of the Carbon Study are being presented to the Board and general public at the December Board Meeting, along with a resolution re-affirming EWEB's position on carbon legislation. On January 24th, EWEB will be sponsoring a specific public presentation of the E3 study, presented by E3, along with *a panel discussion of local impact. The pre-program communication plan includes specific outreach to individuals and groups, including Eugene350, Our Children's Trust, and other local and state officials.*

CONSENT CALENDAR

CONTRACTS

Luvaas Cobb for General Counsel Services. $750,000 (over 5 years).
►Sue Fahey, Chief Financial Officer

Given that we have worked with both Luvaas Cobb and Harrang Long Gary Rudnick PC could I get a brief overview of their work and the relative success or failure of each project. I understand this item may need to be confidential and not part of the Q&A attached to the minutes.

What is the resulting process if the board doesn't approve the Luvaas Cobb contract? (For example, do staff have to go back to request for proposals or do we then move to the next responsive and responsible bidder, or something else?)

Response: Historically, General and some Special Counsel have been classified as "Board Retained Professionals", which requires only Board ratification annually at the January meeting. The annual survey in December informs the Board regarding the performance of these retained professionals for the previous year. A few years ago, to help the Board, staff began using the RFP process to compare options which also provided the mechanism to develop longer contracts for these consultants (one-year renewals, up to five years) without annual ratification. Last year, only the contract with Moss Adams required a new RFP, which was completed and awarded during the year.

Luvaas Cobb is our only General Counsel, but the Board could appoint an additional or alternative General Counsel in January as a "Retained Professional" without an RFP process. If the Board does not approve the Luvaas Cobb contract, based on the RFP process, then specific reasoning must be provided that aligns with the requirements and scoring identified in the RFP. Generally, this requires a reissuance of an RFP with new criteria.

It should be noted that EWEB also contracts with several firms for Special Counsel, including Harrang Long Gary Rudnick (employment, human resources), Cable Huston (real estate, power markets and contracts), Jerry Weinstein (power markets, contracts), Stoel Rives (ODOE), Murphy & Buchal (BPA), and Mesereau & Shannon or Foster Pepper (bond counsel). Many of these are referenced in the confidential Quarterly Litigation Report provided to the Board. Because management selects Counsel based on area of expertise (specialty), we are generally satisfied with the results.

RESOLUTIONS

Resolution No. 1732 – Revisions to EWEB Public Contracting Rules as Required under Board Policy SD7, Purchasing Policies.
►Sue Fahey, Chief Financial Officer

Given that the state passed a bill making Woody Biomass and alternate energy source, is EWEB required to update our policies to conform to this language or could we choose to leave it out of our own contracting regulations?

Response: When the Legislature passes a bill, the language indicates whether it applies only to State Agencies or to all public contracting agencies. This bill applies to all public contracting agencies. Since EWEB is subject to the legislation, updating EWEB Public Contracting Rules is recommended as the rules are used to guide EWEB Purchasing activities.