



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson  
FROM: Sue Fahey, Chief Financial Officer; TiaMarie Harwood, Interim General  
Accounting Supervisor  
DATE: April 20, 2018  
SUBJECT: Reserve Fund Status and Transfers/Use of Reserves  
OBJECTIVE: Board Direction

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## **Issue**

Annually the Board considers how to allocate funds as of December 31<sup>st</sup> among reserve and designated fund accounts after the independent auditors have issued their opinion on the financial audit. This memo provides recommendations for transfers based on EWEB's strategic plans, financial policies and the Electric and Water Utilities' financial conditions.

## **Background**

On an annual basis, 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 use of funds above target. In June 2017, the Board approved an update to the Financial Policies. One of the revisions was to increase the Electric Utility Days Cash target to support higher credit ratings received during the fall 2016 bond issuance. The Electric Working Cash target, however, was not adjusted to align with the increased Days Cash target. In conjunction with requesting approval of reserve transfers at the June 2018 Board meeting, Management will also request that the Board approve an increase in the Electric Working Cash target from \$24 million to \$36 million.

For both the Electric and Water Utilities, the cash balances at December 31, 2017 were higher than target due to budgeted and planned for reserve deposits, as well as positive budget variances.

Since the annual reserves transfer is based on year-end information, cash from the recent sale of the riverfront property is not included. Management is scheduled to discuss the division of sale proceeds between the Water and Electric Utilities and potential use of those proceeds at the June 5<sup>th</sup> Board meeting.

## **Discussion**

Since late 2017, there have been several internal and external developments that have the potential to impact EWEB's financial position and financial flexibility.

- In December 2017, the Board approved joining the State and Local Government Rate Pool in order to mitigate risks associated with PERS. EWEB's transition liability (TL) is unknown at this time and will not be available until fall of 2018. The most recently calculated TL was approximately \$26 million. It will carry a cost of 7.2% until paid in full.

- During the 2018 session, the Oregon Legislative Assembly established an Employer Incentive Fund for the purposes of providing a match for portions of certain lump sum deposits of employer PERS contributions. Although all of the details are not yet known, EWEB will be eligible to apply in the first application window and would be eligible for a match up to 25% of a qualifying deposit. Current information indicates that EWEB's maximum qualifying deposit is approximately \$6 million.
- Customer Solutions has begun research into Limited Income and rental unit energy efficiency programs. The needs of those programs have not been determined.
- The Board recently adopted an opt-out policy for advanced metering. In order to roll out meters over an 8 year period, the capital plan will require funding for meters.
- The Board has also discussed the possible use of Electric cash for a customer dividend. In February, that decision was deferred pending more certainty on other potential uses of cash.

Given the uncertainty around the timing and amounts of these potential uses for cash, Management is recommending that the Board only approve transfers to the Pension and Post-Retirement Medical Fund as required by Financial Policy 1.4 and to the capital reserve for increased meter installations. Management is recommending leaving Working Cash above target until more information is known and decisions are made later in the year. Another option would be to transfer the amount above target to the Rate Stabilization Fund. In accordance with bond covenants, transfers to the Rate Stabilization Fund negatively impact the debt service coverage ratio. Since it is likely that cash will be needed in 2018 to support strategic objectives and mitigate risks, Management is not recommending that option.

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

## **Water Utility**

### **A) Working Cash**

Management recommends transferring \$3.2 million in excess of target to the Capital Improvement Reserve and Pension & Post-Retirement Medical Fund. Working Cash will remain \$4 million above target.

### **B) Capital Improvement Reserve**

Management recommends transferring \$2.5 million from Working Cash for additional capital needs to support meter installations in 2019 and 2020. It is expected that by 2021, operational efficiencies will be achieved which will offset the customer impact of increased capital costs.

### **C) Pension & Post-Retirement Medical Fund**

PERS costs were lower than budgeted by \$682,000. Board Financial Policies require this variance to be transferred to this fund. Management is scheduled to make a recommendation on the use of these funds at the November Board meeting.

## **Electric Utility**

### **A) Working Cash**

Management recommends transferring \$7.0 million in excess of target to the Capital Improvement Reserve and Pension & Post-Retirement Medical Fund. Working Cash will remain \$13 million above the current target. If the Board approves increasing the target to \$36 million, Working Cash would be \$1 million above target.

**B) Capital Improvement Reserve**

The May 2018 capital true-up budget amendment indicates that \$2.5 million of capital reserves are needed to fund the 2018 capital plan, and meter installation costs are anticipated to be \$2.2 million in 2019. Management recommends transferring \$4.7 million from Working Cash to cover the additional capital expenditures.

**C) Pension & Post-Retirement Medical Fund**

PERS costs were lower than budgeted by \$2.3 million. Board Financial Policies require this variance to be transferred to this fund from excess working cash. Management is scheduled to make a recommendation on the use of these funds at the November Board meeting.

**Recommendation and Requested Board Action**

Management is requesting direction on the above strategies and will request approval at the June Board meeting.

Attachment 1 – Water Utility Schedule of Cash Reserves

Attachment 2 – Electric Utility Schedule of Cash Reserves

**ATTACHMENT 1**  
**Water Utility Schedule of Cash Reserves**

	FINANCIAL POLICY		BALANCE	RECOMMENDED	BALANCE
	REFERENCE	TARGET <sup>1</sup>	12/31/2017	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 10,610,632	\$ (3,182,000)	\$ 7,428,632

**DESIGNATED FUNDS**

Operating Reserve	Rate Stability	\$ 1,000,000	\$ 1,012,184	\$ -	\$ 1,012,184
Self-Insurance Reserve	Rate Stability	280,000	288,712	-	288,712
Capital Improvement Reserve	Capital Reserve	7,000,000	7,889,164	2,500,000	10,389,164
Rate Stabilization Fund	Rate Stability	1,000,000	1,307,263	-	1,307,263
Water Stewardship Fund- Septic Repairs		-	88,435	-	88,435
Business Growth & Retention Loan Fund		-	186,705	-	186,705
Alternate Water Supply Fund		-	6,308,060	-	6,308,060
Pension & Post Retirement Medical Fund		-	4,389,312	682,000	5,071,312
<b>DESIGNATED FUNDS TOTAL</b>		<b>\$ 9,280,000</b>	<b>\$ 21,469,835</b>	<b>\$ 3,182,000</b>	<b>\$ 24,651,835</b>
<b>CASH &amp; DESIGNATED FUNDS TOTAL</b>		<b>\$ 12,680,000</b>	<b>\$ 32,080,467</b>	<b>\$ -</b>	<b>\$ 32,080,467</b>

1. Targets per Financial Policies adopted at June 6, 2017 Board meeting.

**ATTACHMENT 2**  
**Electric Utility Schedule of Cash Reserves**

	FINANCIAL POLICY		BALANCE	RECOMMENDED	BALANCE
	REFERENCE	TARGET <sup>1</sup>	12/31/2017	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 24,000,000	\$ 44,014,801	\$ (6,993,000)	\$ 37,021,801

**DESIGNATED FUNDS**

Operating Reserve	Rate Stability	\$ 2,000,000	\$ 2,082,704	\$ -	\$ 2,082,704
Self-Insurance Reserve	Rate Stability	\$ 1,720,000	\$ 1,773,975	\$ -	1,773,975
Power Reserve	Rate Stability	\$ 17,000,000	\$ 17,000,000	\$ -	17,000,000
Capital Improvement Reserve	Capital Reserve	\$ 22,000,000	\$ 22,414,827	\$ 4,700,000	27,114,827
Rate Stabilization Fund	Rate Stability	\$ 5,000,000	\$ 31,298,759	\$ -	31,298,759
Business Growth & Retention Loan Fund		\$ -	\$ 1,967,570	\$ -	1,967,570
Pension & Post Retirement Medical Fund		\$ -	\$ 13,849,929	\$ 2,293,000	16,142,929
<b>DESIGNATED FUNDS TOTAL</b>		<b>\$ 47,720,000</b>	<b>\$ 90,387,764</b>	<b>\$ 6,993,000</b>	<b>\$ 97,380,764</b>
<b>CASH &amp; DESIGNATED FUNDS TOTAL</b>		<b>\$ 71,720,000</b>	<b>\$ 134,402,565</b>	<b>\$ -</b>	<b>\$ 134,402,565</b>

1. Targets per Financial Policies adopted at June 6, 2017 Board meeting.