



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson  
FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Interim Finance Manager;  
Ben Ulrich, Interim General Accounting Supervisor  
DATE: October 26, 2018  
SUBJECT: Use of Reserves for Pension and Other Postemployment Liabilities  
OBJECTIVE: Board Action

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## **Issue**

EWEB has received its PERS actuarial valuation as of December 31, 2017. The valuation is based on EWEB participating in the State and Local Government Rate Pool (SLGRP) and includes EWEB's transition liability which resulted from joining the pool. When the Board approved joining the SLGRP at the December 5, 2017 meeting, Commissioners expressed interest in paying off the transition liability due to the high interest rate charged. In addition, the EWEB Retirement Benefits Trust (OPEB Trust) has fallen below EWEB's financial policy target of 70% funded status based on recent valuations. The trustees of the OPEB Trust have approved a recommendation to request that the EWEB Board approve a one-time contribution to improve the funded status.

## **Background**

### PERS UAL

EWEB became part of the SLGRP on January 1, 2018. As of December 31, 2017 (the last day of EWEB's status as a PERS independent employer), the PERS actuary separated EWEB's unfunded actuarial liability (UAL) into two categories – an allocated portion of the SLGRP UAL and a transition liability. The transition liability represents the difference of EWEB's independent employer actuarial factors versus those in the SLGRP. EWEB's transition liability as of December 31, 2017 is \$32.9 million. The unpaid transition liability is amortized over 18 years and charged a fixed interest rate of 7.2% (the assumed long-term rate of return for plan assets within the PERS fund).

The PERS actuarial valuation also included employer contribution rates for the July 2019-June 2021 biennium. EWEB's SLGRP rates including the transition liability are approximately 5 percentage points lower than the advisory rates EWEB received last year as an independent employer. Compared to those advisory rates, this is approximately \$2.4 million per year in PERS contributions savings. Choosing to pay the transition liability would reduce EWEB's contribution rates next biennium by 6.27 percentage points and reduce PERS contributions by \$3 million annually.

## OPEB

EWEB's other postemployment benefit (OPEB) costs are paid through the OPEB Trust which was established as a legally separate fund to accumulate assets and pay EWEB's OPEB obligations. EWEB Financial Policies require assessment of accelerated funding when the funded status of its retirement liabilities is at or below 70%. When the funding status of the plan is below 70% funded status, the plan is considered financially unstable and no longer self-funding based on actuarially determined contribution rates. As of August 31, 2018, the Trust's funded status was 65%. The OPEB trustees approved a recommendation to request that the Board make a one-time contribution of \$2 million from cash reserves to the Trust. A \$2 million contribution would bring the funded status to approximately 73%.

## Cash Balances and Reserves

For both the Electric and Water Utilities, working cash balances are higher than Board targets due to budgeted deposits, favorable revenue variances, and the Board's decision in May to leave excess funds in working cash until more information was known about PERS and other uncertainties. Additionally, both Utilities have Pension and Post-employment Benefit reserves. These funds, as well as Rate Stabilization funds, are possible sources for transition liability and OPEB payments.

## **Discussion**

In order to support responsible financial planning with an emphasis on customer value, establishing the impact on the long-term financial plan, price trajectory, and budget should be considered in any possible use of reserves. Staff have summarized their findings related to potential use of reserves for pension and OPEB liabilities below.

## PERS Transition Liability – up to \$37 million

The \$32.9 million transition liability has been accruing interest at 7.2% since January 1, 2018, which increases the balance approximately \$2.4 million per year. To determine the transition liability payoff, PERS requires an actuarial calculation which takes approximately 45 days to complete. To allow sufficient flexibility to pay the transition liability once it is calculated, staff is conservatively using \$37 million as a not to exceed estimate.

The Board can choose to pay all, a portion or none of the transition liability. Any outstanding transition liability balance will be treated as an 18 year loan, assessed an interest rate of 7.2%, and included in EWEB's PERS rates. Paying the transition liability in full is estimated to save approximately \$3 million per year in PERS contributions. Translating the annual savings into prices, the transition liability payment represents approximately 1.3% and 2.4% of electric and water prices, respectively.

The proposed 2019 budget was developed using the assumption that PERS rates for the next biennium would remain the same as the current biennium. In order to achieve that, approximately \$20 million of the transition liability would need to be paid off. The Electric Utility's portion would be \$16.7 million and the Water Utility's \$5.3 million. Paying the transition liability in full would produce an additional \$600,000 in savings over the proposed 2019 budget and \$1.2 million annually thereafter. Additionally, in order to take advantage of the Employer Incentive Fund discussed below, the transition liability must be paid in full first. Management is recommending paying the entire transition liability off as soon as possible to eliminate paying 7.2% interest on the \$32.9 million. The Electric Utility's portion of a \$37 million payoff would be \$28.1 million and the Water Utility's portion would be \$8.9 million.

### OPEB Trust Contribution – up to \$2 million

The OPEB trustees have requested that the Board make a one-time \$2 million contribution to the OPEB Trust to improve the funded status. A contribution of \$1.3 million would bring the funded status up to 70% from 65% as of the August 31, 2018 actuarial valuation. The trustees recommended contributing \$2 million rather than \$1.3 million to help mitigate falling below 70% funded status at the August 2019 valuation given that current OPEB Trust earnings are below the assumed long-term rate of return of 7%. Management is recommending contributing a one-time payment of \$2 million to the OPEB Trust. The \$2 million contribution represents using \$1.5 million and \$480,000 of Electric and Water Utility reserves, respectively.

### PERS Employer Incentive Fund

An Employer Incentive Fund (EIF) to provide matching funds to employers who make certain lump sum deposits to pay down their PERS liabilities was approved by the Legislature this year. The PERS board has yet to adopt final rules defining what deposits are eligible for the incentive and what the incentive will be. In April, the Board authorized management to apply for matching funds up to the maximum amount allowed by statute. EWEB will be eligible to apply in the first application window which is anticipated to open in early 2019. EWEB can submit an application in 2019 so that PERS will reserve funds for EWEB's incentive; however, EWEB would not be required to make a deposit until 2021. Accordingly, Management will not be recommending using cash for this purpose in the near future.

### Use of Cash and Reserves

Should the Board approve using reserves, Management recommends that the order of priority be the Pension and Post-Retirement Medical Fund with the remainder from Working Cash in excess of the Board target. Attachment 1 shows the impact of management's recommendations on reserves. After the recommended uses of reserves, all reserve balances are projected to remain at or above board targets through 12/31/2018. Historically, the Water Utility draws down working cash balances through June due to the seasonality of revenue. If 2019 is similar to 2018, working cash could fall approximately \$500,000 below board targets until seasonal revenue collection peaks in the summer months.

### **Recommendation**

In summary, Management is recommending that the Board approve:

- 1) Paying off of the entire PERS transition liability up to \$37 million as calculated by the PERS actuary
- 2) Making a one-time contribution of \$2 million to the OPEB Trust

### **Requested Board Action**

Approval of the above recommendations.

Attachment 1- Schedule of Cash Reserves

# Schedule of Cash Reserves

## ATTACHMENT 1

### Electric Utility Schedule of Cash Reserves

	FINANCIAL POLICY		BALANCE	TRANS. LIAB.	OPEB TRUST	BALANCE
	REFERENCE	TARGET	9/30/2018	USE OF CASH	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 36,000,000	\$ 52,230,218	\$ (11,977,071)	\$ (1,520,000)	\$ 38,733,147

#### 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 <sup>(1)</sup>	Capital Reserve	22,000,000	29,737,815	-	-	29,737,815
Rate Stabilization Fund <sup>(2)</sup>	Rate Stability	5,000,000	37,048,759	-	-	37,048,759
Business Growth & Retention Loan Fund		-	1,986,168	-	-	1,986,168
Pension & Post Retirement Medical Fund		-	16,142,929	(16,142,929)	-	-
<b>DESIGNATED FUNDS TOTAL</b>		<b>\$ 47,720,000</b>	<b>\$ 105,772,350</b>	<b>\$ (16,142,929)</b>	<b>\$ -</b>	<b>\$ 89,629,421</b>
<b>CASH &amp; DESIGNATED FUNDS TOTAL</b>		<b>\$ 83,720,000</b>	<b>\$ 158,002,568</b>	<b>\$ (28,120,000)</b>	<b>\$ (1,520,000)</b>	<b>\$ 128,362,568</b>

<sup>(1)</sup>The Electric Capital Improvement Reserve includes \$4.7 million designated to fund 2018 capital work and 2019 meter installation costs.

<sup>(2)</sup>The Electric Rate Stabilization Fund includes \$21.5 million designated to reduce future borrowing.

### Water Utility Schedule of Cash Reserves

	FINANCIAL POLICY		BALANCE	TRANS. LIAB.	OPEB TRUST	BALANCE
	REFERENCE	TARGET	9/30/2018	USE OF CASH	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 9,036,618	\$ (3,808,688)	\$ (480,000)	\$ 4,747,930

#### 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 <sup>(3)</sup>	Capital Reserve	7,000,000	12,286,926	-	-	12,286,926
Rate Stabilization Fund	Rate Stability	1,000,000	1,307,263	-	-	1,307,263
Alternate Water Supply Fund		-	6,377,023	-	-	6,377,023
Pension & Post Retirement Medical Fund		-	5,071,312	(5,071,312)	-	-
Other Designated Funds		-	299,588	-	-	299,588
<b>DESIGNATED FUNDS TOTAL</b>		<b>\$ 9,280,000</b>	<b>\$ 26,643,008</b>	<b>\$ (5,071,312)</b>	<b>\$ -</b>	<b>\$ 21,571,696</b>
<b>CASH &amp; DESIGNATED FUNDS TOTAL</b>		<b>\$ 12,680,000</b>	<b>\$ 35,679,626</b>	<b>\$ (8,880,000)</b>	<b>\$ (480,000)</b>	<b>\$ 26,319,626</b>

<sup>(3)</sup>The Water Capital Improvement Reserve includes \$2.5 million designated to fund meter installation costs in 2019 and 2020.

<b>EWEB GRAND TOTAL</b>		<b>\$ 96,400,000</b>	<b>\$ 193,682,194</b>	<b>\$ (37,000,000)</b>	<b>\$ (2,000,000)</b>	<b>\$ 154,682,194</b>
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