



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: November 21, 2018
SUBJECT: Use of Reserves for Pension and Other Postemployment Liabilities
OBJECTIVE: Board Action – Approval of Resolution No. 1830

Issue

When the Board approved joining the State and Local Government Rate Pool (SLGRP) in 2017, Commissioners expressed interest in paying off the transition liability due to the high interest rate charged and opportunity to lower annual PERS contributions. 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. Management has prepared a resolution for uses of reserves based on Board action at the November Board meeting.

Background

PERS Transition Liability – \$32.6 million

In October, EWEB received a 2017 actuarial valuation from PERS which included a \$32.9 million transition liability as of December 31, 2017. The unpaid transition liability has been accruing interest at 7.2% since January 1, 2018. Based on the high interest rate and the potential annual PERS rate reductions, at the November Board meeting the Board approved Management to pay the transition liability in full. To determine the payoff, PERS requires an actuarial calculation.

The PERS actuary has provided a \$32,567,784 payoff amount, assuming it is paid in December 2018. The payoff estimated by staff last month assumed an increase from December 31, 2017 due to interest and uncertainty regarding actuarial assumptions. However, the PERS actuary considered a portion of EWEB's 2018 PERS contributions as a reduction of the transition liability balance, and the payoff amount is slightly lower because the contributions offset the interest charged. Paying the transition liability in full will reduce EWEB's 2019-2021 contribution rates in the next biennium by over 6 percentage points and decrease PERS contributions by approximately \$3 million annually.

OPEB - \$2 million

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% because the plan is considered financially unstable. As of August 31, 2018, the OPEB 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 OPEB Trust. A \$2 million contribution would bring the August 2018 funded status to approximately 73%.

Discussion

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 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. After the recommended uses of reserves, all reserve balances are projected to remain at or above Board targets. Historically, the Water Utility draws down working cash balances through June due to the seasonality of revenue. If 2019 is similar to 2018, the Water Utility is not expected to fall below Board targets after updating projections for the actual transition liability payoff amount.

Recommendation and Requested Board Action

Management recommends approval of Resolution No. 1830, authorizing the use of reserves.

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	USE OF	USE OF	AFTER	
			CASH	CASH		
			10/31/2018			
Working Cash	Rate Sufficiency	\$ 36,000,000	\$ 56,653,478	\$ (8,608,587)	\$ (1,520,000)	\$ 46,524,891

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 ⁽¹⁾	Capital Reserve	22,000,000	27,652,786	-	-	27,652,786
Rate Stabilization Fund ⁽²⁾	Rate Stability	5,000,000	37,048,759	-	-	37,048,759
Business Growth & Retention Loan Fund		-	1,993,249	-	-	1,993,249
Pension & Post Retirement Medical Fund		-	16,142,929	(16,142,929)	-	-
DESIGNATED FUNDS TOTAL		\$ 47,720,000	\$ 103,694,402	\$ (16,142,929)	\$ -	\$ 87,551,473
CASH & DESIGNATED FUNDS TOTAL		\$ 83,720,000	\$ 160,347,880	\$ (24,751,516)	\$ (1,520,000)	\$ 134,076,364

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

⁽²⁾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	USE OF	USE OF	AFTER	
			CASH	CASH		
			10/31/2018			
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 11,841,113	\$ (2,744,956)	\$ (480,000)	\$ 8,616,157

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 ⁽³⁾	Capital Reserve	7,000,000	11,393,575	-	-	11,393,575
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		-	291,660	-	-	291,660
DESIGNATED FUNDS TOTAL		\$ 9,280,000	\$ 25,741,729	\$ (5,071,312)	\$ -	\$ 20,670,417
CASH & DESIGNATED FUNDS TOTAL		\$ 12,680,000	\$ 37,582,842	\$ (7,816,268)	\$ (480,000)	\$ 29,286,574

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

EWEB GRAND TOTAL		\$ 96,400,000	\$ 197,930,722	\$ (32,567,784)	\$ (2,000,000)	\$ 163,362,938
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**RESOLUTION NO. 1830
December 2018**

**EUGENE WATER & ELECTRIC BOARD
USE OF RESERVES**

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 Eugene Water & Electric Board made initial reserve transfers in June and elected to evaluate reserve balances after more information related to pension and other potential use of reserves was known;

WHEREAS, Eugene Water & Electric Board has received updated valuations for pension and other post-employment benefit (OPEB) obligations;

WHEREAS, the Eugene Water & Electric Board was assessed a transition liability as a result of joining the PERS State & Local Government Rate Pool;

THEREFORE BE IT RESOLVED that the Eugene Water & Electric Board hereby authorizes the General Manager to use the following reserves:

Water Utility

- 1) \$5,071,312 from the Pension & Post-Retirement Medical Fund to pay off the transition liability
- 2) \$2,744,956 from Working Cash to pay off the transition liability
- 3) \$480,000 from Working Cash to contribute to the EWEB Retirement Benefits Trust (OPEB Trust)

Electric Utility

- 1) \$16,142,929 from the Pension & Post-Retirement Medical Fund to pay off the transition liability
- 2) \$8,608,587 from Working Cash to pay off the transition liability
- 3) \$1,520,000 from Working Cash to contribute to the EWEB Retirement Benefits Trust (OPEB Trust)

Dated this 4th day of December 2018

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 4th, 2018 Board Meeting.

Assistant Secretary