



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Carlson, Mital, Helgeson, Schlossberg and Brown

FROM: Sue Fahey, Assistant General Manager/CFO; Deborah Hart, Financial Services Manager; Adam Rue, Fiscal Services Supervisor; and Nate Schultz, Senior Financial Analyst

DATE: September 23, 2019

SUBJECT: 2020 Draft Budgets and Long-Term Financial Plans Update

OBJECTIVE: Direction on 2020 Budget and Price Changes

---

## **Issue**

Board Policy SD6 and Oregon Statutes require that staff annually prepare Electric and Water Utility balanced budgets for Board approval by the end of the preceding calendar year. The foundation of the Electric and Water Utilities' budgets are the long-term financial plans (LTFP), which help ensure that the budgets approved provide long term financial stability for both utilities. Staff has prepared draft 2020 budgets and updated LTFPs for the Board's consideration. Based on Board direction provided at the October 1 meeting, staff will develop budgets and price proposals for consideration at the November 5 Board meeting and approval at the December 3 meeting.

## **Background**

In recent years, actions have been taken that have improved both the Water and Electric Utilities' financial resiliency. Those efforts include strategically reducing costs, joining the state and local government public employee retirement system (PERS) rate pool, strategically selling assets, reducing debt service obligations, and prudently using reserves to strengthen financial metrics. In 2018, EWEB paid in full its PERS transition liability, and in 2019 EWEB will take advantage of a \$5 million state match on a side account deposit to further reduce annual pension expenses. Coupled with strong water sales, these actions have greatly improved the financial stability of the Water Utility. In addition to the aforementioned measures, the Electric Utility has also reduced anticipated borrowing for the Carmen-Smith relicensing project, which has resulted in significant improvement to the debt service coverage ratio.

## **Discussion**

A primary focus for 2020 and beyond is updating infrastructure that supports EWEB's strategic direction in improving resiliency and fostering customer confidence, as well as the core values of Safety, Reliability, Responsibility and Community. The current financial plans incorporate the higher level of capital spending, presented in July, which will support these values and organizational priorities.

One way EWEB is fostering customer confidence is to maintain sustainable spending levels and assess how much of a customer's median household income (MHI) is spent on utility bills. Two

years ago EWEB developed an affordability target (percentage of utility cost to MHI) of 3.2%. Based on the most recent available income data from 2017, EWEB customers spend on average 3.71% of median household income on their electric and water bills. Over the last two years this metric has improved more than 9% with an overall reduction of .35%.

Management is committed to prudent stewardship of our customer-owners' financial resources and believes the assumptions used to develop the LTFP balance financial responsibility, operational resiliency, and affordability.

### *Overarching Forecast Assumptions*

The assumptions used in creating forecasts and budgets greatly influence the results. The following assumptions have been used in developing the current forecasts and are anticipated to be used in creating the 2020 budget. Utility specific assumptions are noted on the Attachments.

At the July Board Meeting, the Board directed staff to prepare the draft 2020 budgets based on the assumptions presented. Since July, the following assumptions have changed:

#### Both Utilities

- PERS – Incorporated the impact of the PERS 2019 side account deposit including state matching funds resulting in 7.6 percentage point reduction in PERS rates versus the 3 percentage points in July. Assumptions in the out years remain the same with an increase of 4 percentage points in 2021 and 5 percentage points in subsequent odd years.

#### Electric

- Wholesale revenue reduction of approximately \$3 million annually due to 15-20% lower projected wholesale prices in later years of the plan. This reduction did not impact 2020 revenue due to prior hedging activities but impacts the overall rate trajectory increasing the revenue requirement by 3% over the 10 year plan
- Shift from operations & maintenance (O&M) expenses to capital based on refinements in the capital budget. The July draft LTFP included assumptions around percentage of labor and overhead rates, which have been refined to reflect the nature of the capital work that is included in the draft budget
- Overall rate trajectory increased by 3 percentage points as result of these changes.

#### Water

- \$6 million debt service payment utilizing System Development Charge Reserves across 2020 and 2021, increased from \$4 million
- \$300,000 annual shift of labor from capital to O&M based on refinements in estimates in labor and overhead
- 
- The rate trajectory was reduced by 1.5% over the 10 year plan as a result of these changes.

Major assumptions unchanged from July include:

#### Both Utilities

- 2.0% non-labor increase based on review of EWEB purchasing contracts, State of Oregon Economic Forecast, and recent Bureau of Labor Statistics Prices Indices

- Labor/benefit changes:
  - 3.1% wage escalation
  - Health insurance increase – 11% in 2020 and 8% in subsequent years
- Contribution margin risk tolerance assumption included for the first five years of the plan with expected conditions in the latter years

**Long-term Financial Plan Price Assumptions and Outcomes**

Electric

Even with the strategic capital investments, the Electric Utility LTFP indicates no overall average revenue requirement change in 2020 and 2021. If achieved, for six out of the seven most recent years, the Electric Utility would have no overall increase in the residential revenue requirement. Through debt reduction and cost-saving actions, the Electric Utility is projected to be above the debt service coverage target, which has been a challenge in the past. The Electric LTFP outcome is included in Attachment 1. With the price assumptions noted, financial metrics are within Board targets for all years of the plan Attachment 2 provides financial metric information if wholesale prices decreased by 20%.

Water

The Water Utility is forecasting no additional revenue requirement through 2021. The years 2020 and 2021 will be the third and fourth years with no overall increase in revenue requirement. The financial plan models using \$6 million of System Development Charge reserves for debt service across 2020-2021. A placeholder for a \$55 million second filtration plant. Projected bond issuances in 2024 and 2027 total \$79 million and are expected to partly fund filtration plant construction costs, as well as pump station and reservoir work. All Board approved financial metrics remain within target across the ten year plan. The Water LTFP outcome is included in Attachment 3.

**2020 Budgets**

Draft budgets were developed in alignment with EWEB’s strategic priorities and total \$329 million for water and electric utilities. Some of the high priority capital projects include resiliency work, advance metering and other modernization upgrades, as well as continued Carmen-Smith relicensing work.

The total draft budget is \$23 million higher than 2019. The increase is due to the following net changes:

- Electric Utility Purchased Power is higher in 2020 by \$13 million. This was due largely to change in accounting treatment which increased both purchased power and wholesale revenue resulting in no bottom line impact on the Utility’s finances.
- Higher capital costs of \$14 million (\$11.8 million for Electric and \$2.6 million for Water)
- Lower Electric O&M expenses by \$4 million primarily due to lower labor related to PERS reductions and a shift of labor and overhead to capital

Although the total budgets are higher in 2020 as compared to 2019, there is no change in the overall revenue requirement for either utility. As a public utility, EWEB sets pricing based on the cost to serve each customer class. At the November meeting, staff will present the results of the cost of service analysis which may result in recommended price changes within customer classes.

**Recommendation**

Management recommends that the Board direct staff to prepare the 2020 proposed budgets using the assumptions set forth in this document.

**Requested Board Action**

Management is not requesting Board action at the October 1 meeting; however, staff is requesting that the Board provide direction on the assumptions included in the draft budget. At the November 5 Board meeting, Management will present the budgets and price change proposals which are scheduled to be approved at the December 3 meeting.

Attachment 1 - Summary of Electric LTFP Price Assumptions and Outcomes

Attachment 2 - Summary of Electric LTFP Outcomes with 20% Wholesale Price Decrease

Attachment 3 - Summary of Water LTFP Price Assumptions and Outcomes

Attachment 4 - Median Household Income (MHI) %

### Summary of Electric LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)

Key Metrics	Current Target	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Reserves and Cash	\$85,720	\$110,900	\$96,900	\$98,900	\$96,400	\$95,000	\$95,700	\$103,600	\$110,200	\$116,900	\$119,100
Debt Service Coverage Ratio	1.75	2.47	2.72	1.93	1.93	2.17	2.17	2.45	2.45	2.35	2.13
Days Cash	>150 Days	196	182	177	169	160	155	168	181	186	185

#### Revenue Requirement Assumptions:

Price Schedule	10 Year Total	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
General Rate Increase	5.60%				2.50%	2.00%	1.00%				
Carmen-Smith Debt	1.75%			1.75%							
BPA Increase	10.38%			2.50%		2.50%		2.50%		2.50%	
Average price impact resulting from change in revenue requirement	18.49%	0.00%	0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	2.50%	0.00%

#### Key Assumptions

- Retail load approximately the same as 2019 budget – 2.4 million MWh and flat in the out years with customer growth offset by conservation
- 2020 contribution margin risk tolerance of \$3.9 million which represents 90% generation or a 3% load reduction
  - Similar contribution margin risk tolerance through 2023 increasing to \$5.4 million, expected conditions 2024-2028
- Reflects BPA final pricing for FY 2020-2021 (October 2019 – September 2021) and 6% BPA increases in subsequent rate periods
- Melded mid-market price curve increasing from \$25 in 2020 to \$38 in 2029, which is roughly 20% lower than July and corresponds with \$3 million annual wholesale revenue reduction in later years
- Generating Resource assumptions:
  - Leaburg outage through December 2020
  - Single unit Carmen Smith outages in 2020 and 2021, which are not anticipated to have significant revenue impact
- Bond issuance: \$46 million in 2021 funding Carmen-Smith capital work
- Reserves assumptions:
  - Reduction of \$6 million due to unfavorable 2019 contribution margin,
  - Foote Creek bond payoff of \$4 million (less \$1.5 million proceeds from sale),
  - Draw of \$17 million for PERS side account in 2019
  - Draw of \$15 million for Carmen-Smith capital in 2021
  - \$1.0 million per year contribution to meter replacement reserve starting 2021 based on 12 year estimated life

**Summary of Electric LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)  
20% Wholesale Price Reduction**

<u>Key Metrics</u>	<u>Current Target</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Reserves and Cash	\$83,720	\$110,900	\$95,900	\$96,600	\$92,400	\$89,000	\$86,600	\$91,700	\$96,000	\$100,700	\$101,000
Debt Service Coverage Ratio	1.75	2.47	2.65	1.85	1.83	2.06	1.99	2.29	2.31	2.23	2.02
Days Cash	>150 Days	200	182	174	164	151	142	150	159	162	159

Revenue Requirement Assumptions:

<u>Price Schedule</u>	<u>10 Year Total</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
General Rate Increase	5.60%				2.50%	2.00%	1.00%				
Carmen-Smith Debt	1.75%			1.75%							
BPA Increase	10.38%			2.50%		2.50%		2.50%		2.50%	
Average impact resulting from change in revenue requirement	18.49%	0.00%	0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	0.00%	0.00%

## Summary of Water LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)

<u>Key Metrics</u>	<u>Current Target</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Reserves & Cash	\$12,680	\$22,600	\$19,800	\$17,300	\$15,100	\$22,200	\$30,900	\$35,700	\$18,100	\$18,000	\$17,300
AWS Reserve Balance		\$5,600	\$5,200	\$4,800	\$4,400	\$4,000	\$0	\$0	\$0	\$0	\$0
AMI Reserve		\$0	\$0	\$0	\$300	\$800	\$1,400	\$2,000	\$2,600	\$3,100	\$3,700
<b>Total Cash Reserves</b>	<b>\$12,680</b>	<b>\$28,200</b>	<b>\$25,000</b>	<b>\$22,100</b>	<b>\$19,800</b>	<b>\$27,000</b>	<b>\$32,300</b>	<b>\$37,700</b>	<b>\$20,700</b>	<b>\$21,100</b>	<b>\$21,000</b>
<b>Bond Funding</b>						<b>\$55M</b>			<b>\$24M</b>		
DSC	2.00-2.50	3.77	3.62	3.57	4.31	3.18	2.81	2.66	2.34	2.07	2.03
Days Cash	> 150 days	610	438	377	317	404	476	524	283	271	256
Average impact resulting from change in revenue requirement	23.41%	0.00%	0.00%	1.00%	4.00%	6.00%	5.50%	0.00%	0.00%	2.50%	2.50%

Key Assumptions

- 7.8 million KGAL consumption
- Contribution margin risk tolerance of \$950,000 annually through 2024 and then reverts to expected conditions 2025 forward
- Contributions to meter reserve starting 2021 based on 20 year estimated life
- \$79 million total bond issue, funding second filtration plant (2025 placeholder) and other capital work
- \$6 million System Development Charge reserve draw for debt service payments in 2020 and 2021

## Median Household Income (MHI) %

### Background

The source of each comparator's median household income (MHI) is from the United States Census Bureau website. The approach bases on the following data:

1. Monthly water and electric bill at average residential consumption per month.
2. Annual bills at same level of use.
3. Median Household Income in 2017

Currently, there is no national standard for what affordable percent (%) of MHI value is or is not. Consideration must be given to financial sustainability of the utility as a whole in addition to affordability of price. Setting artificially low prices may produce financial constraints to reinvesting in the system and eventually harm public health through poor product quality and service.

To address the limited income customer-owner bill impact, EWEB has maintained a customer care program for many years that provides assistance for bill payment and weatherization programs.

Included below are the combined *average* water and electric bill for residential customers (water is 7 kgal and electric is 1050 kWh) in Eugene, Portland, Medford, Vancouver, Tacoma, Seattle, and Everett. This average is annualized and compared as a percentage of MHI.

### Eugene, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$146.83
Annual bill at same level of use	\$1,762
Median Household Income (MHI) in 2017 for Eugene, Oregon	\$47,489
<b>Water &amp; Electric % MHI</b>	<b>3.71%</b>

### Portland, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$217.79
Annual bill at same level of use	\$2,613
Median Household Income (MHI) in 2017 for Portland, Oregon	\$61,532
<b>Water &amp; Electric % MHI</b>	<b>4.25%</b>

### Medford, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$129.10
Annual bill at same level of use	\$1,549
Median Household Income (MHI) in 2017 for Medford, Oregon	\$45,361
<b>Water &amp; Electric % MHI</b>	<b>3.41%</b>



**Vancouver, Washington**

Monthly water & electric bills at overall average residential consumption  
(Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)

Annual bill at same level of use

Median Household Income (MHI) in 2017 for Vancouver, Washington

**Water & Electric % MHI**

**Current Prices**

\$128.76

\$1,545

\$55,593

**2.78%**

**Tacoma, Washington**

Monthly water & electric bills at overall average residential consumption  
(Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)

Annual bill at same level of use

Median Household Income (MHI) in 2017 for Tacoma, Washington

**Water & Electric % MHI**

**Current Prices**

\$145.46

\$1,746

\$55,506

**3.15%**

**Seattle, Washington**

Monthly water & electric bills at overall average residential consumption  
(Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)

Annual bill at same level of use

Median Household Income (MHI) in 2017 for Seattle, Washington

**Water & Electric % MHI**

**Current Prices**

\$194.88

\$2,339

\$79,565

**2.94%**

**Everett, Washington**

Monthly water & electric bills at overall average residential consumption  
(Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)

Annual bill at same level of use

Median Household Income (MHI) in 2017 for Everett, Washington

**Water & Electric % MHI**

**Current Prices**

\$152.05

\$1,825

\$54,562

**3.34%**