



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Schlossberg, Helgeson, Brown, and Carlson
FROM: Deborah Hart, CFO; Aaron Balmer, General Accounting & Treasury Supervisor
DATE: May 22, 2020
SUBJECT: Highest & Best Use of Reserves; Resolution No. 2020 Reserve Transfers
OBJECTIVE: Board Action

Issue

Annually the Board considers how to allocate funds as of December 31 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 prepare a summary of the year-end reserve balances, compare the balances to the Board Financial Policy targets, and recommend transfers and/or uses of funds above target. Additionally, staff review targets to ensure they are reasonable to cover the intended risks. For both the Electric and Water Utilities, cash balances at December 31, 2019 remained above target following a Board approved \$22 million PERS payment to receive \$5.5 million in matching funds from the state and reduce EWEB's employer contribution rates. In addition, debt service coverage requirements were met for the year. Management's recommendations are the same as those presented in correspondence at the May meeting.

Discussion

Electric Working Cash balances are typically highest in the second quarter following customer payments from winter billings. Cash balances decline in summer and autumn due to reduced demand. Debt service payments are one of the largest payments made during the year, and in July a semi-annual debt service payment will draw \$12 million from Working Cash.

Water Working Cash balances are typically highest in the fourth quarter following customer payments from summer and early fall billings. Semi-annual debt service payments for the Water Utility will draw \$3 million from Working Cash in July.

Since the creation of the 2020 budget, the COVID-19 outbreak has become an emergent issue impacting both the Electric and Water Utilities' cash position and financial flexibility. Management has implemented temporary measures intended to assist customers and mitigate operational and financial impacts. The measures taken to date, and additional measures that may be taken in the future, may lead to an increase of uncollected accounts and the decrease of timely payments from customers. In addition, due to business closures, consumption will likely be adversely affected. April activity

indicated a 6% decline in consumption for the Electric Utility related to COVID-19 economic impacts. There were not any significant changes in consumption for the Water Utility during the month of April. Management is monitoring budgets closely to review alignment with the strategic plan and to determine how spending should be adjusted in response to COVID-19.

The February 2019 snow storm resulted in restoration costs of \$4.3 million. Staff have worked with state and federal program administrators to file for a grant to reimburse EWEB for 75% of eligible costs. Supporting documentation for qualifying costs has been provided to the Federal Emergency Management Agency, and a \$3 million reimbursement is anticipated in 2020, however exact timing is unknown.

Given uncertainty around the timing and amounts of both Utilities' receipt of, and potential uses for cash, Management recommends leaving excess funds in working cash as noted below.

Water Utility

A) Working Cash

Management recommends transferring \$393,000, in accordance with Financial Policies, to the Pension & Post-Retirement Medical Fund. This would leave Working Cash at \$7.8 million above target to cover uncertainties pertaining to the impacts of COVID-19.

B) Capital Improvement Reserve

At December 31, 2019, this fund was approximately \$4.2 million over target and included \$1.25 million previously designated for 2020 meter upgrades. The budget is being closely monitored by both Water and Finance staff, and Management is not recommending a transfer at this time.

C) Pension & Post-Retirement Medical Fund

PERS costs during 2019 were lower than budgeted by \$393,000. Board Financial Policies require the variance to be transferred to this fund.

Electric Utility

A) Working Cash

Management recommends transferring a total of \$974,000 to the Pension & Post-Retirement Medical Fund. This would leave Working Cash \$690,000 above target. Excess in Working Cash will help cover uncertainties pertaining to the impacts of COVID-19.

B) Power Reserve

The level of funding for this reserve is evaluated annually. In determining sufficiency of this reserve, risks from prices, loads, resources, and credit exposure are considered. Based on the analysis, Management is not recommending a change to the Power Reserve at this time.

C) Pension & Post-Retirement Medical Fund

PERS costs were lower than budgeted by \$974,000. Board Financial Policies require the variance to be transferred to this fund.

Recommendation and Requested Board Action

Management is requesting approval of Resolution No. 2020, authorizing cash transfers. Attachments 1 and 2 provide detail on reserve balances and recommended transfers for the Water and Electric Utilities, respectively.

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	12/31/2019	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 11,578,709	\$ (393,000)	\$ 11,185,709

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 ¹	Capital Reserve	7,000,000	11,206,669	-	11,206,669
Rate Stabilization Fund	Rate Stability	1,000,000	1,000,000	-	1,000,000
Water Stewardship Fund- Septic Repairs		-	73,922	-	73,922
Business Growth & Retention Loan Fund		-	209,546	-	209,546
Alternate Water Supply Fund		-	5,861,521	-	5,861,521
Pension & Post Retirement Medical Fund		-	-	393,000	393,000
DESIGNATED FUNDS TOTAL		\$ 9,280,000	\$ 19,652,553	\$ 393,000	\$ 20,045,553
CASH & DESIGNATED FUNDS TOTAL		\$ 12,680,000	\$ 31,231,262	\$ -	\$ 31,231,262

1. The Capital Improvement Reserve includes \$1.25 million for meter installations in 2020

ATTACHMENT 2

Electric Utility Schedule of Cash Reserves

	FINANCIAL POLICY		BALANCE	RECOMMENDED	BALANCE
	REFERENCE	TARGET	12/31/2019	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 36,000,000	\$ 37,664,070	\$ (974,000)	\$ 36,690,070

DESIGNATED FUNDS

Operating Reserve	Rate Stability	\$ 4,000,000	\$ 4,082,704	\$ -	\$ 4,082,704
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	22,188,327	-	22,188,327
Rate Stabilization Fund ¹	Rate Stability	5,000,000	24,468,927	-	24,468,927
Business Growth & Retention Loan Fund		-	1,996,890	-	1,996,890
Pension & Post Retirement Medical Fund		-	-	974,000	974,000
DESIGNATED FUNDS TOTAL		\$ 49,720,000	\$ 71,510,822	\$ 974,000	\$ 72,484,822
CASH & DESIGNATED FUNDS TOTAL		\$ 85,720,000	\$ 109,174,892	\$ -	\$ 109,174,892

1. The Rate Stabilization Fund includes \$21.5 million previously designated to reduce future borrowings.

**RESOLUTION NO. 2020
JUNE 2020**

**EUGENE WATER & ELECTRIC BOARD
RESERVE TRANSFERS**

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 has set up procedures for evaluating reserve status after the annual audit;

WHEREAS, the 2019 annual audit is complete;

WHEREAS, the Eugene Water & Electric Board has reviewed year-end results

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

Water Utility

1) \$393,000 from Working Cash to the Pension & Post-Retirement Medical Fund

Electric Utility

1) \$974,000 from Working Cash to the Pension & Post-Retirement Medical Fund

Dated this 2nd day of June 2020

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 June 2, 2020 Board Meeting.

Assistant Secretary