



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Schlossberg, Brown, Carlson, Barofsky and McRae
FROM: Deborah Hart, CFO and Aaron Balmer, General Accounting & Treasury Supervisor
DATE: April 23, 2021
SUBJECT: Reserve Fund Status and Transfers/Use of Reserves
OBJECTIVE: Board Direction

Issue

Annually the Board considers how to allocate funds as of December 31 among reserve and designated fund accounts after the independent auditors issue 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, 2020 remained above target. In addition, targets remain adequate, and debt service coverage requirements were met for the year.

Discussion

COVID-19 impacts are continually being evaluated. Due to varying degrees of business closures, consumption has been and will likely continue to be adversely affected for the Electric System. For the Water System, consumption patterns have shifted from Commercial to Residential customer classes with overall consumption patterns remaining stable. 2021 budgets for both utilities reduced revenue assumptions because of the continued economic impacts and uncertainties from COVID-19, and budgets for rate funded capital and operating expenses were reduced in kind.

For the Water Utility, the Holiday Farm Fire had a devastating impact on the McKenzie Watershed and recovery efforts have been underway with future plans, partners, and possibilities still emerging.

For the Electric Utility, the 2020 wildfires resulted in emergency and ongoing restoration costs anticipated to be in excess of \$7 million. Staff are working with state and federal grant program administrators to reimburse EWEB for 75% of eligible costs. The majority of these costs have been incurred already, however, aspects of the Stone Creek transmission line restoration had been deferred subject to winter weather conditions and work has begun this spring. Upriver a number of meter and service line replacements are contingent on rebuilding decisions by residents displaced following the fires. Reimbursement for emergency costs and completed restoration work is anticipated later in 2021. Reimbursement for ongoing restoration projects may be next year.

Excess funds above working cash targets provide flexibility for strategic decisions needed on emergent items with respect to continuing COVID-19 impacts and recovery from the Holiday Farm Fire. Given a continued state of uncertainty, Management recommends leaving excess funds in working cash as noted below.

Water Utility

A) Working Cash

Management recommends transferring \$2,000, in accordance with Financial Policies, to the Pension & Post-Retirement Medical Fund and \$9.0 million to the Rate Stabilization Fund. This would leave Working Cash at \$7.1 million above target to readily fund watershed recovery efforts or navigate strategic uses in the near future.

B) Capital Improvement Reserve

At December 31, 2020, this fund was approximately \$5.1 million over target. With large capital projects on the horizon, Management is not recommending a transfer at this time.

C) Rate Stabilization Fund

The Rate Stabilization Fund is intended to enhance the Utility's agility during financial challenges and minimize or smooth rate impacts to customers. Under existing bond covenants, deposits to the fund reduce the Debt Service Coverage ratio, while withdrawals increase the ratio. Funds may be used for one-time expenses and emergent items to be allocated based on the Board's direction. Management recommends transferring \$9.0 million to the Rate Stabilization Fund which moves the 2020 Debt Service Coverage ratio from 4.5x to 2.2x and within the Board's target range of 2.0 – 2.5x. Water's bond covenant requires the ratio to be at least equal to 1.25x.

D) Pension & Post Retirement Medical Fund

PERS costs during 2020 were lower than budgeted by \$2,000. Board Financial Policies require the variance to be transferred to this fund.

Electric Utility

A) Working Cash

Management recommends transferring a total of \$32,000 to the Pension & Post-Retirement Medical Fund. This would leave Working Cash at \$5.5 million above target and provide for continued strategic response to lingering COVID economic circumstances.

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) Rate Stabilization Fund

Funds above target in the Electric Rate Stabilization Fund have been modeled as a funding source for future Carmen Smith capital spending in the long term financial plan.

D) Pension & Post-Retirement Medical Fund

PERS costs were lower than budgeted by \$32,000. Board Financial Policies require the variance to be

transferred to this fund.

Recommendation and Requested Board Action

Attachments 1 and 2 provide detail on reserve balances and recommended transfers for the Water and Electric Utilities, respectively. Management is requesting direction on the above strategies and based on that direction will request approval of transfers and reserve targets 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 ¹	12/31/20	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 19,544,518	\$ (9,002,000)	\$ 10,542,518

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	12,148,755	-	12,148,755
Rate Stabilization Fund	Rate Stability	1,000,000	1,000,000	9,000,000	10,000,000
Water Stewardship Fund- Septic Repairs		-	73,922	-	73,922
Alternate Water Supply Fund		-	5,449,521	-	5,449,521
Pension & Post Retirement Medical Fund		-	393,000	2,000	395,000
DESIGNATED FUNDS TOTAL		\$ 9,280,000	\$ 20,366,093	\$ 9,002,000	\$ 29,368,093
CASH & DESIGNATED FUNDS TOTAL		\$ 12,680,000	\$ 39,910,611	\$ -	\$ 39,910,611

1. Targets per Financial Policies adopted at June 4, 2019 Board meeting.

ATTACHMENT 2
Electric Utility Schedule of Cash Reserves

	FINANCIAL POLICY		BALANCE	RECOMMENDED	BALANCE
	REFERENCE	TARGET ¹	12/31/20	USE OF CASH	AFTER
Working Cash	Rate Sufficiency	\$ 36,000,000	\$ 41,534,696	\$ (32,000)	\$ 41,502,696

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	23,900,771	-	23,900,771
Rate Stabilization Fund	Rate Stability	5,000,000	24,468,927	-	24,468,927
Pension & Post Retirement Medical Fund		-	974,000	32,000	1,006,000
DESIGNATED FUNDS TOTAL		\$ 49,720,000	\$ 72,200,376	\$ 32,000	\$ 72,232,376
CASH & DESIGNATED FUNDS TOTAL		\$ 85,720,000	\$ 113,735,073	\$ -	\$ 113,735,073

1. Targets per Financial Policies adopted at June 4, 2019 Board meeting.