MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO:	Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson
FROM:	Deborah Hart, Assistant General Manager/CFO; Aaron Balmer, Acting Financial Services Manager; Rob Freytag, General Accounting & Treasury Supervisor; and Matthew Miller, Accounting Analyst Lead
DATE:	May 1, 2024
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 long term financial 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. As of December 31, 2023, both the Electric and Water Utilities' cash balances were above target, with the exception of the Electric and Water Capital Improvement Reserves. In addition, targets were evaluated for adequacy, and debt service coverage requirements were met for the year.

Discussion

Water Utility

Since the creation of the 2024 budget, the Water Utility finished 2023 with notable progress on significant capital projects. Spending to support capital efforts exceeded budget projections from earlier in the fall and the primary recommended transfer for the Water Utility is to reposition reserves to support budgeted funding designations.

Working Cash

Management recommends the following transfers from Working Cash:

- $3,700,000 to the Capital Improvement Reserve
- $140,000 to the Pension & Post Retirement Medical Fund

Working Cash would remain $1.4 million above target as of 12/31/2023.

Capital Improvement Reserve

Financial Policy benchmarks the Capital Improvement Reserve target to annual depreciation expense. 2023 depreciation expense was $8.7 million, and management recommends increasing the target to $9.0 million to correspond. A $3.7 million transfer from Working Cash is recommended to move the balance above target and align with budget expectations to draw on reserves as a funding source for 2024 capital projects.

Pension & Post-Retirement Medical Fund
Board Financial Policy states that in years where there is a difference between the PERS ordered contribution rate and the amount provided for in the annual budget, the excess amount will be set aside in a Board reserve for reduction of unfunded retirement liabilities in the future. PERS costs during 2023 were lower than budgeted by $140,000. Board Financial Policies require the variance to be transferred to this fund.

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.

The 2024 adopted budget included a draw of $7.3 million from Rate Stabilization Funds to fund capital projects. Accordingly, Management recommends the following transfer from the Rate Stabilization Fund:

- $7,320,000 to the Capital Improvement Reserve

Electric Utility
Funding sources identified in the 2023 Electric Utility budget included bond proceeds that would have required a bond issuance in 2023. Due to positive operating performance in 2022, the Electric Utility deferred the Electric Utility bond issuance to 2024. As such, 2023 capital activity resulted in the capital improvement reserve ending the year below target. The primary transfer recommendation for the Electric Utility is intended to reposition reserves to support capital investments in the 2024 budget.

Working Cash
The working cash target is based on the amount of cash needed to pay for ongoing operational expenditures and maintain an amount of working capital to support the day's cash ratio sufficient to maintain higher than average credit rating (>150 days). Management evaluates the working cash target annually and is recommending an increase to $45 million to support >150 days cash metric. Management recommends the following transfers from Working Cash:

- $13,000,000 to the Capital Improvement Reserve
- $2,000,000 to the Power Reserve Fund
- $109,000 to the Pension & Post Retirement Medical Fund

The resulting balance would be $4.6 million above target as of 12/31/2023, and $1.6 million above the new recommended target. In Q1 2024 cash decreased due to the impacts of the January ice storm, as well as poor operating performance due to milder temperatures over the winter months. Q1 results show working cash falling below target after recommended transfers are made. FEMA public assistance grants will reimburse up to 75% of the restoration costs from the ice storm, however those funds are not expected before year end.

Capital Improvement Reserve
Per Financial Policy, the Capital Improvement Reserve target is benchmarked to annual depreciation expense. Management recommends increasing the target by $1 million to $26.0 million to account for a meter replacement reserve and rising depreciation expense. At December 31, 2023, this fund was below target. Management is recommending a transfer from working cash of $13.0 million to bring the reserve back up to target.

Power Reserve
The level of funding for this reserve is evaluated annually. In determining the sufficiency of this reserve, risks from prices, loads, resources, and credit exposure are considered. Based on the

analysis, Management is recommending an increase to the Power Reserve target of $2.0 million primarily due to price risks. Wholesale power prices have remained relatively high and volatile and have increased the value of generation within the Utility's portfolio. Accordingly, this dynamic has increased the potential loss of value the Utility could experience in the event of lower generation. Increasing the reserve will help guard against potential negative price movement that could occur as the market experiences greater volatility. A corresponding transfer of $2.0 million is recommended from Working Cash to the Power Reserves to achieve the proposed target balance of $25 million.

Pension & Post-Retirement Medical Fund
2023 PERS costs were lower than budgeted by $109,000. Board Financial Policies require the variance to be transferred to this fund.

Rate Stabilization Fund
Funds above target in the Electric Rate Stabilization Fund have been modeled as a funding source for capital projects in the long-term financial plan and will help reduce future borrowing. Funds may be used for one-time expenses and emergent items to be allocated based on the Board's direction.

The 2024 adopted budget included a draw of $9.3 million from Rate Stabilization Funds for capital project funding. Accordingly, Management recommends the following transfer from the Rate Stabilization Fund:

- $9,336,000 to the Capital Improvement Reserve

Leaburg Reserve
As part of the planning process in 2023, the Board directed the establishment of a Leaburg Reserve to fund costs related to the Leaburg decommissioning project. Revenue requirements specific to Leaburg will be transferred on a monthly basis to increase the reserve, while costs specific to the decommissioning project will reduce the reserve. The 2024 budget anticipates a net deposit to the Leaburg reserve of $4.2 million over the course of the year. With movement of funds directed in the scope of the 2024 adopted budget, no transfers are requested as part of this agenda item.

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 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 3 – Blackline Financial Policy

Attachment 1

Water Utility Schedule of Cash Reserves

	FINANCIAL POLICY REFERENCE	TARGET	BALANCE 12/31/23	USE OF CASH	BALANCE AFTER
Working Cash	Rate Sufficiency	**$ 3,400,000**	**$ 8,624,402**	**$ (3,840,000)**	**$ 4,784,402**
DESIGNATED FUNDS					
Operating Reserve	Rate Stability	$ 1,000,000	$ 1,000,000	$ -	$ 1,000,000
Self-Insurance Reserve	Rate Stability	280,000	280,000	-	280,000
Capital Improvement Reserve	Capital Reserve	*8,000,000*	5,399,322	11,020,000	16,419,322
Rate Stabilization Fund	Rate Stability	1,000,000	15,300,000	(7,320,000)	7,980,000
Water Stewardship Fund- Septic Repairs		-	83,718	-	83,718
Alternate Water Supply Fund		-	3,651,958	-	3,651,958
Pension & Post Retirement Medical Fund		-	699,000	140,000	839,000
DESIGNATED FUNDS TOTAL		**$ 10,280,000**	**$ 26,413,998**	**$ 3,840,000**	**$ 30,253,998**
CASH & DESIGNATED FUNDS TOTAL		**$ 13,680,000**	**$ 35,038,399**	**$ -**	**$ 35,038,399**
RESTRICTED FUNDS					
Construction Funds		$ -	$ 35,645,436	$ -	$ 35,645,436
SDC Reserves		-	174,538	-	174,538
Debt Service Reserves		-	1,588,104	-	1,588,104
RESTRICTED FUNDS TOTAL		**$ -**	**$ 37,408,079**	**$ -**	**$ 37,408,079**

Recommended Target Changes:	Current	Recommended
Capital Improvement Reserve	$8,000,000	$9,000,000

Attachment 2

Electric Utility Schedule of Cash Reserves

	FINANCIAL POLICY REFERENCE	TARGET	BALANCE 12/31/23	USE OF CASH	BALANCE AFTER
Working Cash	Rate Sufficiency	**$ 42,000,000**	**$ 61,734,392**	**$ (15,109,000)**	**$ 46,625,392**
DESIGNATED FUNDS					
Operating Reserve	Rate Stability	$ 4,000,000	$ 4,000,000	$ -	$ 4,000,000
Self-Insurance Reserve	Rate Stability	1,720,000	1,720,000	-	1,720,000
Power Reserve	Rate Stability	*23,000,000*	23,000,000	2,000,000	25,000,000
Capital Improvement Reserve	Capital Reserve	*25,000,000*	12,569,401	22,336,000	34,905,401
Rate Stabilization Fund	Rate Stability	5,000,000	26,668,927	(9,336,000)	17,332,927
Pension & Post Retirement Medical Fund		-	1,446,000	109,000	1,555,000
DESIGNATED FUNDS TOTAL		**$ 58,720,000**	**$ 69,404,328**	**$ 15,109,000**	**$ 84,513,328**
CASH & DESIGNATED FUNDS TOTAL		**$ 100,720,000**	**$ 131,138,720**	**$ -**	**$ 131,138,720**
RESTRICTED FUNDS					
Harvest Wind Escrow		$ -	$ 512,308	$ -	$ 512,308
Debt Service Reserves		-	6,122,532	-	6,122,532
Wildlife Reserve		-	107,635	-	107,635
Customer Care Fund		-	809,503	-	809,503
Customer Deposit Reserves		-	1,492,794	-	1,492,794
RESTRICTED FUNDS TOTAL		**$ -**	**$ 9,044,772**	**$ -**	**$ 9,044,772**

Recommended Target Changes:	Current	Recommended
Working Cash	$42,000,000	$45,000,000
Power Reserve	$23,000,000	$25,000,000
Capital Improvement Reserve	$25,000,000	$26,000,000

Eugene Water & Electric Board

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Financial Policies

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1.0 RESERVE POLICIES

1.1 Rate Sufficiency Policy

Rates and charges will be adequate to provide revenues sufficient to maintain a degree of financial soundness over and above requirements for compliance with existing bond covenants. Performance standards are based on review with EWEB's Financial Advisor regarding financial market conditions and rating agency considerations, as well as industry benchmarks for comparable utilities. *(BP SD6)*

Discussion:

EWEB bond resolutions contain a rate sufficiency covenant that is a standard provision in municipal utility bond contracts. The covenant requires that rates and charges be set at a level that is high enough to pay the costs of operating and maintaining the utilities. This rate sufficiency policy is a higher standard than that required by the standard rate covenant contained in the bond resolutions. The policy is intended to supplement the weaker financial performance standards set out as minimum requirements in the bond resolutions. The financial standard implied by this policy is that rates and charges will be maintained at a level consistent with an average credit rating of A for the Electric Utility and AA rating for the Water Utility.

Credit rating agencies evaluate creditworthiness by assessing an organization's ability to adequately address issues of strategic importance. Credit analysis includes the track record of performance as reflected in widely used ratios and statistics. These measurements are compared with other similarly situated utilities to determine relative financial strength within the industry. An example of such a statistic is "debt service coverage ratio" which shows how many times debt service can be paid from net revenues. Minimum legal debt service coverage requirements are 1.35 times debt service for issuing new debt for the Electric Utility and 1.25 times debt service for the Water Utility. EWEB's long term target for debt service coverage ratio for the Electric Utility is 1.75 to 2.0 and the Water Utility is 2.00 to 2.50 times debt service.

	Performance Standard
Electric Utility	
Working Capital Days Cash	>150 days
Current Ratio	3.250x
Debt Service Coverage	1.75 to 2.0x
Water Utility	
Working Capital Days Cash	>150 days
Current Ratio	3.250x
Debt Service Coverage	2.0 to 2.50

Working cash balances are based on the amount of cash needed to pay for ongoing operational expenditures and maintain an amount of working capital to support the day's cash ratio sufficient to maintain higher than average credit rating. The target for working cash is $~~42~~45 million and $3.4 million for the Electric and Water Utility, respectively.

1.2 Rate Stability Policy

Certain funds will be held in reserve for the purpose of mitigating the customer rate impact of unanticipated events. *(BP SD6)*

Discussion:

It is the nature of budgets, financial projections, and other statements about the future to contain uncertainty. The intent of this policy is to set aside funds or other financial instruments to smooth out the financial impact on customers when assumptions about the future do not comport with actual events as they transpire.

Power Reserve

The Electric Utility owns or has contracted for power resources that exceed the amounts needed to serve customer load and is exposed to certain power portfolio and retail load risks that can have significant adverse effects on financial stability. Those risks include, generation, power price, retail load, and credit risks. EWEB has established a power reserve that is designed to provide funds sufficient to cover operational costs in the event of adverse fluctuations in these risks. The funds needed to mitigate financial impacts of fluctuations are estimated annually based upon the measurement criteria specific to each of the major risks. Generation risk is calculated by measuring the impact to revenues if water available for generation is at Firm levels which is approximately 70% of median. Power price risk is calculated by assuming prices decrease 30% from budget expectations, and retail load risk is calculated assuming a 4% decrease from budgeted load. Credit risk is a flat dollar amount that represents approximately 50% of counterparty exposure. The combined amounts are intended to cover operational cost for one calendar year and prevent sudden and significant impacts to customer rates. The Board of Commissioners may elect to supplement the calculated amounts at their discretion.

Operating Reserves

The Water and Electric Operating Reserve accounts are used in similar fashion to smooth out the effects of revenue shortfalls or unforeseen expenses.

Self-Insurance Reserve

The Self Insurance Reserve is to fund the out-of-pocket liability costs of third party claims. The target for the Self-Insurance Reserve combined for both the Electric and Water Utilities totals $2 million, which is based on the amount EWEB is self-insured. Excess liability insurance protects EWEB after the self-insurance retention is exhausted.

Rate Stabilization Funds

The Water and Electric Rate Stabilization Fund accounts are used to enhance the Utilities' agility during financial challenges such as unanticipated costs or reduced revenues, and minimize or smooth rate impacts to customers. This fund is intended to manage one-time events, emergent items or to reduce borrowing requirements. Allocations are made at Board discretion. Targets for the rate stabilization funds approximate a 3% rate impact for each Utility.

Electric Utility	**Target**
Power Reserve	$~~23~~25,000,000
Operating Reserve	$ 4,000,000
Self-Insurance Reserve	$ 1,720,000
Rate Stabilization Fund	$ 5,000,000

Water Utility	
Operating Reserve	$1,000,000
Self-Insurance Reserve	$ 280,000
Rate Stabilization Fund	$1,000,000

1.3 Capital Improvement Funding and Reserve Policy

Utility plant assets will be maintained to provide reliable, high quality service, including such capital additions as may be necessary to support growth in loads and customer base, and associated infrastructure. *(BP SD6)*

Discussion:

EWEB's approach to financing capital assets uses a combination of current rate revenue, capital improvement reserves, contributions in aid of construction, system development charges, and debt financing.

Capital projects are classified as Type 1, Type 2, or Type 3. Each year, an amount is budgeted from rate revenues to provide ongoing funding for a base level of capital additions and replacements. The base level amount is determined through an evaluation of the age and condition of basic capital infrastructure of the Electric and the Water Utilities taking into consideration capital reserve levels. This amount represents what is needed annually to maintain the desired level of service reliability on a long-term basis. These are considered Type 1 capital projects; projects that are ongoing capital infrastructure replacements.

Type 2 capital projects are large rebuilding or expansion projects in excess of $1 million that occur periodically and may be funded with rates or bonds. Type 3 capital projects are major strategic projects and are funded with bonds and/or reserves.

Capital funding requirements are determined by a Capital Improvement Plan (CIP). The CIP is a ten-year projection of capital needs that is updated annually and approved by the Board. The CIP sets out, for each utility, the anticipated need for utility and support infrastructure to meet customer demands and system reliability standards. Identified in the CIP is an indication of the proportion of funding from 1) rates, 2) accumulated reserves, and 3) debt proceeds.

The target amount for the Electric and Water Utility Capital Improvement Reserve is based on one year's depreciation expense adjusted for service reliability needs. In general, reinvestment in capital should be at the same rate as depreciation.

A system over 65% depreciated should be watched for aging.

Rate of return measures the ability to pay current and future infrastructure costs. Rates outside the performance standard should be evaluated to ensure current customers pay their share for the use of infrastructure. A higher rate of return signals current customers may be paying more towards future infrastructure costs, while a lower rate of return signals current customers may not be paying enough for current costs.

The Targets are:

Electric Utility: $~~25~~26 million

Water Utility: $~~8~~9 million

Performance Standard – Electric and Water:

Age of System < 60%

Rate of Return 5 - 7%

1.4 Retirement Benefits Funding Policy

All long-term liabilities that must be either disclosed and/or accounted for in the financial statements will be funded according to a rational and consistent plan that targets full funding of the liabilities over a specified period of time. *(BP SD6)*

Discussion:

Unfunded retirement liabilities result from pension and other post-employment benefit programs. The primary financial strategy with these plans is to pay the actuarially determined annual required contribution, which pays for the current costs and unfunded liabilities over a designated period of years. However, if the funded status of the plans reach 70% funded status or less, an assessment of accelerated funding will be performed. When the funding status of the plan is at or below 70% of funded status, the plan is financially unstable as the plan is no longer self-funding based on actuarially determined contribution rates. Below is a summary of the three plans.

1) **Pension Plan** - The Oregon PERS (OPERS) continues to experience volatility in regard to the rates employers pay to the state pension plan for benefits. EWEB pays the actuarially determined rate. In years where there is a difference between the PERS ordered contribution rate and the amount provided for in the annual budget, the excess amounts will be set aside in a Board reserve for reduction of unfunded retirement liabilities in the future.

2) **Other Post-Employment Benefits** – EWEB created a trust in November 2007 as a means through which assets are accumulated and benefits are paid for other post-employment benefits (OPEB), other than pension benefits. Eligible retirees and beneficiaries of EWEB receive health care and life insurance benefits.

3) **Supplemental Retirement Plan** – EWEB created a pension plan in 1968 to provide supplemental retirement benefits to employees. The objective of the plan was to provide a benefit on retirement, which together with benefit from the OPERS, will provide 1.67% of the highest 36-month average salary for each year of service. The plan was closed in 1988. EWEB contributes actuarially determined amounts to a designated pension fund that pays the annual cost for this closed plan. Due to the nature of the closed plan, it is more cost effective to pay-as-you go, than set up a trust.

1.5 Replenishment of Reserves

If a reserve balance falls below Board targets, the order of precedence and minimum length of time to replenish will be determined using the following criteria:

Order of Precedence: 1 – Rate Sufficiency Policy
2 – Capital Reserve Policy
3 – Rate Stability Policy

Length of time to replenish:

	Electric Utility	Water Utility
One year	<$2 million below target	< $500,000 below target
Three years	>$2 million and < $5 million below target	> $500,000 and < $1 million below target
Five years *	> $5 million below target	> $1 million below target

*Should a reserve fall drastically below target, a determination will be made whether cash should be secured by other means (i.e., Letter of Credit or bond issuance).

If a reserve falls below target, staff will propose a replenishment strategy to the Board for approval during the annual reserve transfer process or sooner if deemed necessary.

2.0 FINANCIAL MANAGEMENT POLICIES

2.1 Cost Management Policy

EWEB will take cost management actions that provide for authorized budgets and include actions to maintain expenditures within authorized budget levels. *(BP SD6)*

Discussion:

The annual budget is the primary tool for setting rates and controlling costs within a given year. For accounting and budgetary purposes, the budgets are broken into operating and capital components for each Utility. The operating budget of the Electric Utility further separates power and related costs as distinct from non-power operating costs. The reason for this is that the cost of power and related items generally varies with changes in sales volume. Non-power items are composed of mostly labor, services and materials that are less susceptible to variations in sales volumes.

The annual budgets are the maximum level of expenditure authorized by the Board. Conditions may arise during any given budget year that cause projected expenditures for either Utility's operations & maintenance and/or capital budgets to be higher than those approved by the Board. If any of the specific conditions occur as defined in Board Policy EL1 - Financial Controls, Management is required to propose a budget amendment.

The budget amendment proposal must state the causes of the projected non-budgeted expenditures, the offsetting actions taken to mitigate the increase, and the source of any additional funding requested. The Board will consider each proposed budget amendment and either approve or disapprove. In the event of disapproval, the General Manager will exercise established authorities in taking actions necessary to curtail spending within authorized levels.

To monitor the budget, cost management procedures involve the monthly review of variances from the authorized budget by supervisors and managers. The review of power-related items is performed by the Power Risk Management Committee and is separate from non-power items. Actual and projected capital and other non-power expenditures are monitored by the Leadership Team. With the assistance of financial staff, the Leadership Team determines what degree unfavorable variances in one department can be offset by favorable variances in another. In the event of a shortfall, the Leadership Team will determine whether to bring a budget amendment forward or curtail other activities to remain within authorized spending levels.

2.2 Budget Policy

The authorized annual spending plan will be balanced such that resources meet or exceed requirements in each fiscal year. *(BP SD6)*

Discussion:

Long-term financial stability can be assured only if, in each year, the annual spending plan is fully funded and results in a balanced budget. The budget is considered balanced when the following three conditions are met:

1) Expected annual operating revenues and use of reserves for one-time expenses equal or exceed anticipated operation and maintenance expenses.

2) Budgeted capital outlays are funded in full from a combination of net operating revenues, capital improvement reserves, accumulated system development charges, and debt proceeds.

3) Pro forma presentation of debt service coverage shows a ratio at or above the Board established performance standard (Rate Sufficiency Policy 1.1).

2.3 Debt Policy

Funds to acquire major capital improvements will be provided in accordance with the estimated useful lives of such assets. *(BP SD6)*

Discussion:

Prudent financial practice dictates the use of debt financing only in those cases where public policy, ratepayer equity, and economic efficiency favor the use of debt over current financing. In EWEB's case, debt is considered an appropriate funding option for Type 2 and Type 3 capital projects. (See the discussion under Capital Reserve Policy 1.3.) Debt service payments shall not exceed the useful life of the asset and should be structured to mirror the stream of benefits from the facility or project being funded.

Long-term debt financing will be considered for those major system improvements that meet two general criteria:

- The asset has a relatively long useful economic life (at least 10 years);
- The asset is a significant item included within the capital budget portion of the electric and/or water project plans.

However, if debt levels are too high the utility could become over-leveraged relative to its asset base and revenue producing capability. In all cases, management will balance the benefit of long term financing with the overall health of the organization as determined by appropriate measures of financial leverage.

Performance standards, are based on review with EWEB's Financial Advisor regarding financial market conditions and rating agency considerations, as well as industry benchmarks for comparable utilities.

	Performance Standard
Electric Utility	
Debt as a % of NBV	60% or less
Water Utility	
Debt as a % of NBV	60% or less

2.4 Billing and Collection Policy

Services will be billed in an accurate and timely manner and collected with fair and equitable consideration for all customers. *(BP SD6)*

Discussion:

Sound business and collection practices will be applied uniformly to all customers. EWEB maintains a customer credit rating system to provide fair and equitable consideration in deposit and collection practices for all customers. Decisions to extend payment terms for anyone are based on the customer's good faith, ability to pay, and payment history.

EWEB provides cost-effective customer assistance programs (*e.g.,* Budget Payment Plan, Customer Care, payment extension options, dispute/appeals recourse, *etc*.). EWEB will also cooperate with customers participating in social service programs such as the Limited Income Home Energy Assistance Program (LIHEAP) and other resources available to customers.

EWEB makes every reasonable and cost-effective attempt to secure payment of all accounts receivable. In accordance with bond covenants, products and services are not provided free of charge. Bills are issued based upon actual use of products and services, except that billings are estimated when EWEB service meters are inaccessible, or other considerations necessitate issuing estimated billings. Following an estimated reading, charges are adjusted to record and reflect actual consumption.

EWEB employees make a concerted effort to inform customers about the options available to them regarding payment for and controlled use of EWEB products and services as situations may deem advisable. In addition, EWEB has built strong partnerships with community social service organizations that create preventive strategies for avoiding disconnection of services.

Performance standards are as follows:

	Performance Standard
Write-offs as a % of Rate Revenue	.5% or less

3.0 FINANCIAL RISK MANAGEMENT POLICIES

3.1 Financial Risk Management Policy

Financial risks associated with EWEB operations will be proactively managed in a cost-effective and efficient manner consistent with prudent utility practice. *(BP SD6)*

Discussion:

The objective of financial risk management is ongoing identification and mitigation of the risk of financial losses including power risk, property damage and other insurable risks, vendor contract development and administration, and risks associated with administering Oregon Public Contracting laws and statutes. EWEB will transfer as much as is reasonably possible of its liability contractually, and retain those risks that can be self-assumed without seriously affecting the financial condition of the organization. EWEB will purchase sufficient insurance coverage when the risk is of a catastrophic nature or beyond the capacity of the organization to absorb, or when it is required by law or contract. However, insurance shall, of necessity, be limited to availability of coverage at reasonable cost, consistent with the probable frequency, severity and impact of losses on the financial stability of the organization.

Due to the nature and extent of commodity risks, power supply related risk management policies are separately addressed in the Power Risk Management Policy.

3.2 Power Risk Management Policy

Purchases and sales of electric power and related financial instruments will be managed to maximize the benefits to customers from wholesale transactions while minimizing the risk that wholesale activities will adversely affect retail prices. *(BP SD6)*

Discussion:

For many years the staff at EWEB has worked to reduce power purchase costs while managing or avoiding risks that might result in price shocks or supply interruptions. Rapid changes in the electric power industry since 2000 have challenged traditional methods and prompted EWEB to migrate to power management systems and controls similar to those used in commodity trading organizations.

The Board has established a Power Risk Management Policy to provide direction and oversight as referenced in Board Policy SD8 - Power Risk Management Policies.

3.3 Investment Policy

EWEB’s investment portfolio will be managed to achieve safety of capital, achieve market rates of return, and provide sufficient liquidity to meet disbursement schedules. *(BP SD6)*

Discussion:

EWEB's Investment Policy calls for the investment of excess funds in a manner which will preserve capital and provide sufficient liquidity to meet cash flow demands while conforming to all State statutes governing investment of public funds and bond covenants. The policy includes provisions with respect to diversification and the credit quality of securities purchased. EWEB's primary objectives are, in order of priority: safety of principal, liquidity and achieving a rate of return at least equal to the return on a comparably maturing U.S. Treasury bill. EWEB attempts to match its investments to anticipated cash flow requirements. Securities are intended to be held to maturity, unless the quality, yield or maturity characteristics of the portfolio can be improved by replacing one security with another.

4.0 ACCOUNTING POLICIES

4.1 Financial Entity Policy

EWEB will account for separate financial entities and will clearly define relationships among those entities to facilitate management decision-making. *(BP SD6)*

Discussion:

1) Financial Reporting and Budget

Financial accounting standards and Bond covenants require that EWEB maintain separate financial records for the Electric Utility and the Water Utility. Each entity has separate legal standing and revenues backing their respective bond issues and separate budgets. Often, the Utilities share personnel or other resources. The shared resources are allocated between the systems for accounting and ratemaking purposes.

2) Reporting Entity

For external reporting purposes, EWEB is required to follow Governmental Accounting Standards Board (GASB) definition of a reporting entity as EWEB is considered a primary government. The Electric and Water Utilities are reported separately with a combined total for both systems.

For internal reporting purposes, the results and financial position of the Electric Utility and the Water Utility will be reported separately. In addition, any component of either

Utility, which can be separately reported, and for which separate reporting would be useful, such as a major line of business, class of customer, or new operation will be separately reported as required by EWEB management from time to time.

EWEB also has various relationships with other parties. They are separate legal entities that are properly recorded within the Electric System and are fully disclosed in the footnotes of the financial statements.

4.2 Capitalization Policy

Major utility expenditures for labor, materials and/or services that result in revenue or benefits in future reporting periods will be capitalized and allocated to match such future revenue or benefits through periodic amortization or depreciation, using methodologies acceptable under accounting standards. Additions, renewals, and betterments with a minimum cost of $5,000 are capitalized. Repairs and minor replacements are recorded as operating expenses. *(BP SD6)*

Discussion:

1) Utility Plant in Service

The physical assets that make up the electric and water production, transmission and distribution systems, including the acquisition of land or construction of a building are capitalized and included in plant in service.

2) Preliminary Investigations and Regulatory Accounting

It is accepted utility practice to accumulate preliminary investigations, costs of projects the utility believes will be viable in the future. An example of this for EWEB is relicensing costs for the Carmen-Smith Project. Preliminary investigations are recorded as an "Other Asset" on the Statement of Net Position.

EWEB policy also permits the use of regulatory accounting, which allows for revenues and expenses to be charged to future periods to match the time periods when the revenue and expenses are included in rates. Revenues and expenses that are recorded using regulatory accounting may be treated as other assets or liabilities or deferred inflows or outflows, depending on the nature of the revenue or expense. An example of a regulatory other asset is unamortized bond issuance costs. An example of deferred inflows and outflows is the recording of the change in market value of hedging derivative instruments. Board approval, either by resolution or by inclusion in the annual budget, is required prior to using regulatory accounting.

REVISION HISTORY

Version	Section Revised / Description	Resolution No.	Created Approved
1	EWEB Financial Policies document created by Jim Origliosso		06/01/1995
2	Policy drafted to assist in ensuring the Electric and Water Utilities' long term financial sustainability. Board Approved		01/18/2000
3	Board Ratified Financial Policies with Strategic Direction 6 (SD)		04/19/2005
4	Amended: **Changes include the addition of Power Risk Management Policies and Interest Rate Swap Policies**. Where applicable, measurement indication and performance standards were added to provide information about how compliance with the policies is being measured.	Jim O. revised 6/1/2005	07/19/2005
5	Revised with Strategic Direction (SD6):		05/30/2011
6	Set new Working Cash Target for Electric and Water Utility to $24 million and $3.4 million, respectively Changes for Electric Utility: • Financial rating target from AA to A • Set new Debt Service Coverage Target • Changed Capital Improvement Reserve target to $18 million	1308	06/04/2013 Executed 07/16/2013
7	**Financial Policies reviewed and updated based on 2014 year-end results, the Board's targets, associated financial metrics and accounting standards. Also modified Board Policy SD6:** **Section 1.2-Rate Stability,** updated to reflect the change in methodology for calculating the power reserve. **Section 1.3-Capital Reserve,** renamed the Capital Improvement Funding and Reserve Policy. **Section 1.4-Retirement Benefits Funding**, updated wording for clarity. **Section 2.0-Financial Management**, edited to align with the 2014 revision of Board Policy El-1 and for clarity. **Section 3.0-Risk Management**, with the creation of an Enterprise Risk Function, this section was revised to focus on Financial Risk Management. Enterprise Risk Management will be covered in a separate policy. **Section 4.0-Accounting**, edited for clarity and to confirm with changes in accounting standards.	1518	07/21/2015

	Section 5.0-Reference Documents, Appendices referencing other Board policies were removed and cash and reserve targets summary were updated.		
8	**Financial Policies reviewed and updated based on 2016 year-end results, the Board's targets, associated financial metrics and accounting standards:** **Section 1.1-Rate Sufficiency,** increased Working Capital Days Cash to >150 days to support the higher credit ratings for each utility. **Section 1.2-Rate Stability,** included a Rate Stabilization Fund for both Utilities. Target of $5 million for Electric and $1 million for Water. Power Reserve target reduced to $17 million from $22.1 million. **Section 1.3-Capital Improvement Funding and Reserve,** Target for Electric increased to $22 million from $20 million. **Section 1.5-Replenish of Reserves** – added to establish criteria in the event a reserve falls below Board targets and specifies the order of precedence and length of time to replenish. **Section 2.3-Debt**, Debt/Asset and Debt/Equity ratios replaced by Debt as a % of Net Book Value (NBV) to reflect industry trends. **Section 5.0-Reference Documents**, revised Cash and Reserve Targets Summary.	1711	06/06/2017
9	Revision to increase **Electric Working Cash Target** to $36 million from $24 million to consistently align to retain AA bond rating.	1817	06/05/2018
10	Revision to change **Electric Operating Reserve Target** to $4.0 million from $2.0 million under Section 1.2 and Rate Stabilization Funds. Replaced Source with Revision History.	1913	06/04/2019
11	**Section 1.1-Rate Sufficiency Policy** - Increased **Electric Working Cash Target** to $42.0 million from $36.0 million. **Section 1.2-Rate Stability Policy** - Increased **Power Reserve Target** to $23.0 million from $17.0 million. **Section 1.3-Capital Improvement Funding and Reserve Policy -** Increased **Capital Improvement Reserve Targets** to $25.0 million and $8.0 million, from $22.0 million and $7.0 million for Electric and Water, respectively. **Section 4.**1**-Financial Entity Policy** - Removed reference to specific relationships with other parties.	2312	6/6/2023

5.0 APPENDIX A: CASH AND RESERVE TARGETS SUMMARY

	Cash and Reserve Accounts	Electric Utility Target	Water Utility Target
1)	Working Cash	$~~42~~45,000,000	$3,400,000
2)	Power Reserve	~~23~~25,000,000	
3)	Operating Reserve	4,000,000	1,000,000
4)	Self-Insurance Reserve	1,720,000	280,000
5)	Capital Improvement Reserve	~~25~~26,000,000	~~8~~9,000,000
6)	Rate Stabilization Fund	5,000,000	1,000,000
	Total	$~~100~~106,720,000	$~~13~~14,680,000

1) Working Cash – amount of cash needed to pay for ongoing operational costs during the year.
2) Power Reserve – amount of reserves to offset fluctuations due to the effects of risk exposures, and any budgeted draw on the reserve.
3) Operating Reserve – reserve for emergency operating costs.
4) Self-Insurance Reserve – reserve to pay for claims incurred during the year and target is based on the $2 million self-insured retention for both utilities combined.
5) Capital Improvement Reserve – reserve for capital improvements and target is based on approximately one year's depreciation.
6) Rate Stabilization Fund – reserve for one-time use at Board discretion; target amount approximates the dollar equivalent of a 3% price increase