

EUGENE WATER & ELECTRIC BOARD
REGULAR SESSION
EWEB BOARD ROOM
NOVEMBER 20, 2012
5:30 P.M.

Commissioners Present: John Simpson, President; John Brown, Vice President; Joann Ernst, Rich Cunningham, and Dick Helgeson

Others Present: Roger Gray, Debra Smith, Mark Freeman, Karen Lee, Sheila Crawford, Claire Elliker-Vaagsberg, Cathy Bloom, Megan Capper, Harvey Hall, Sue Fahey, Gail Murray, Toni Zechentmayer, Richard Jeffryes, Laurie Muggy, Marie Elbert, Lena Kostopulos, Mel Damewood, Todd Simmons, Roger Kline, Frank Lawson, Michelle Martin, Adam Rue, Edward Yan, Deborah Hart, Flo Hoskinson, Tracy Davis, Erin Erben, Kevin McCarthy, Colleen Wedin, Dave Churchman, Lance Robertson, Joe Harwood, and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

President Simpson convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m.

AGENDA CHECK

There were no items.

PUBLIC INPUT

President Simpson stated that a second Board meeting had not been planned for November, but is being held tonight to discuss employee salary increases which are a part of the proposed 2013 budget. He explained that there is potential to modify the budget, including the possibility of removing all cost of living adjustments (COLA) for EWEB's regular (MAPT) employees and IBEW (union) employees. He added that wages for EWEB's MAPT employees are presently under contract for an annual increase, and that they are coded into the labor contract and required, but he noted that the current contract will come to an end a few years from now and can be re-negotiated.

President Simpson then asked Commissioner Cunningham to speak, since he had requested this meeting.

Commissioner Cunningham stated that he had been hammered with numerous e-mails from customers regarding the proposed rate increases, saying that EWEB is not doing enough to help customers and keep their costs down, and that customers are irate, as they feel they have had to cut back and now they're asking EWEB to do the same. He added that he requested this meeting so that the Board could have a discussion about the upcoming COLA for EWEB's MAPT employees.

President Simpson then re-opened the public input portion of the meeting.

PUBLIC INPUT

Former EWEB Commissioner and EWEB customer **Sandra Bishop** requested that EWEB withdraw its money from Bank of America, and instead deposit it into a locally owned bank. She said she realizes that this is not technically a Board decision, but she believes it is within the parameter of the Board regarding policy issues. She added that most people know that Bank of America has not been a friend of EWEB's ratepayers. She also wondered if there could be a public push toward allowing credit unions to take deposits of public money, but noted that she is not advocating for that this evening. In closing, she reiterated her request that the Board ask General Manager Roger Gray to pull EWEB's money from Bank of America and deposit it into a locally owned bank, where it will go toward local investments instead of out of the area.

Commissioner Helgeson said that he would like to talk further with Ms. Bishop about her request.

Commissioner Ernst said that she is happy that Ms. Bishop brought this up because she has had customers approach her to ask who EWEB banks with, and she has provided that information via staff. She added that she knows that there has been a lot of grumbling about EWEB using Bank of America, and some of the other banks who are not friendly toward ratepayers. She said she would be happy and hopeful that at least two other Commissioners would give a head nod to at least look further into this issue.

President Simpson said that he appreciated Ms. Bishop's comment and that it is great to hear feedback like that. He said he also would like to chat more with her about that issue, and that he is not prepared to make a recommendation tonight.

Vice President Brown said that he doesn't disagree philosophically with Ms. Bishop's request, but that he had requested to change banks a long time ago, but was told it couldn't be done because of EWEB's legal representation out of Portland, Seattle, Washington, D.C., and California (because EWEB can't make a preference based on location). He asked that this issue be vetted to the City Council and, if they can give the Board pros and cons beyond the philosophical, he would welcome that.

Commissioner Cunningham deferred further comment.

President Simpson reiterated that he would like to talk to General Manager Gray about this opportunity, and that maybe this issue could become a starboard report item with the basics of what could be changed, and the pros and cons of the ability to do so.

General Manager Gray requested that staff not be held to the usual 48-hour turnaround time for a starboard report item, and that Cathy Bloom, Financial Services Manager, will be the contact person for this item. He noted that he will remove himself from this issue because his daughter works for Bank of America.

President Simpson asked that staff report back to the Board at the middle or end of next week.

The Board then continued their discussion about the upcoming COLA for regular employees.

President Simpson stated that there is a public perception problem, because the public believes they will be able to save money on their EWEB bill if the Board doesn't grant staff a salary increase next year. He said he realizes that the Board could go ahead and do that, and cut that money from the budget as a public feel-good action, but there would be practically no impact on the rate increase if that were done, i.e., about a .1% impact.

General Manager Gray explained that this would result in staff assuming no COLA for management, administrative, professional and technical (MAPT) employees (based on today's budget assumptions) and a 3% wage escalation if there is not a COLA across the board. He noted that there is more latitude for salary adjustments with MAPT employees, but he reiterated that the International Brotherhood of Electrical Workers (IBEW) salaries can't be adjusted due to contractual obligations, and that staff would have to negotiate with the union and/or talk to them about possible concessions. He noted that for 2013 there would be potential savings, but also potential cost, due to the previous layoffs and additional union negotiations that are already underway, and that he doesn't know how much of that cost could be offset.

General Manager Gray continued, saying that on the water side, the drivers are not employee salary increases, but loss of sales and changes in accounting procedures; and that for the electric side, the drivers are the Bonneville Power Administration (BPA) rate increase, the Carmen-Smith rebuild/relicensing, and the wholesale power market. He noted that he is not recommending any rate change calculations, and that staff would need Board permission to return to them with budget recalculations for 2013, and would also need some outcome from the union at that point.

President Simpson voiced concern about whether or not this concept is something the Board wishes to pursue, and about going ahead and taking this action when there would be very little rate impact on EWEB's customers. He wondered if this is only a perception problem with ratepayers and, if a different action is taken, would that be sufficient to manage that perception problem. He added that while he believes it is not appropriate for certain ratepayers to have the luxury of a salary raise and other ratepayers to not have one because of economic conditions and private vs. public sector, he has a lot of internal pain about this decision because it would have such a minimal effect on rates. He wondered whether the Board should begin to lead EWEB in a manner that isn't necessarily logical just because there is a public groundswell saying that EWEB is finally doing the right thing. He reiterated that he is not convinced that all of EWEB's ratepayers are asking for this, though there was much feedback and e-mails received, even without public testimony at tonight's meeting.

Vice President Brown commented that when General Manager Gray brought the budget to the Board two years ago, there was a split wage differential, and the Board changed that, and

at that time he had called other utility general managers and asked them what they were doing, and it was similar. On the other hand, he said that customers have told him that the recent cuts the Board and EWEB made in customer service, with elimination of the switchboard and cuts in conservation measures and energy management services, have affected customers negatively, but that customers have also asked what EWEB employees could give up, aside from 38 employees losing their jobs. He said that he can't speak for the other Commissioners, but he himself has better things to do on Tuesday evenings, and he is on this Board because he has a passion for clean water, among other interests. He added that he has received more customer feedback recently than he has ever received in the last six years, and he has to respond to that, and he noted that the Board could cut wages by 40% and lay off more people, but they would still face huge setbacks. He said that he is not on the Board to appease the electorate, but to respond to the community, and that there's no way he would be an electric lineman and risk his life every day. He also noted that EWEB has enough money, so the question is, does EWEB cut back on the quality of what it does, or do they cut more employees? He reminded everyone that EWEB's budget problems aren't over and that \$2 million still has to be borrowed, that BPA's rate increases and power delivery charges are astronomical, and that they will only get worse and not better. He said that if the Board votes against a wage increase, there will probably be more layoffs because the IBEW contract can't be broken. He closed by saying that it is his job to give General Manager Gray direction, and that he is willing to have this discussion with the Board.

Commissioner Ernst commented that this decision is a difficult one, and she acknowledged that she feels a lot of tension in the room from the employees who are present at tonight's meeting. She said that EWEB employees are very dedicated and do a wonderful job, and that she believes staff should separate out labor and non-labor expenses and list them as two separate items. She noted that she believes that the economy is slowly getting better, but very slowly, and that she realizes that many ratepayers only received a 25-cent per hour raise this year. She said it is difficult to assume that EWEB is going to grant a 3-4% COLA every year, and that she appreciates that the union negotiated and saved EWEB some money.

She wondered if EWEB could initiate a wage freeze for this year instead of not granting a COLA. She reminded the Board of the huge PERS debt that is hanging over EWEB's head, and that EWEB has to borrow a lot of money to make up that deficit, and that it was the State that lost that money even though EWEB did what it was supposed to. She said it is very unfortunate that the ratepayers have to help make up that deficit, and she would also like to see EWEB employees help with that deficit. She also suggested that the Board ask General Manager Gray to consider asking employees to pay 3% and EWEB to pay 3% of the PERS contribution, of which EWEB currently pays the full 6%.

She noted that she doesn't agree with President Simpson about public perception and that wage decreases won't help rate increases, and that she believes that even a .5% rate impact would help, which equates to approximately a \$3-4 per month savings per month, and maybe \$5-8 per month savings for a large household. She said her calculations are that a wage freeze would save about \$.75 million (\$750,000), which seems pretty significant for a rate increase of not quite 1%.

President Simpson asked what the difference would be between withholding the COLA and freezing wages. General Manager Gray explained that COLAs are EWYs, and that for most of the IBEW employees, a new formula was approved for the CPI, and that EWEB can either negotiate a GWI or follow the COLA. He said that a wage freeze is much more comprehensive, meaning no changes, period--which could be interpreted to be no promotions and no step pay increases, which in some positions if applied literally, in certain skill sets, could be catastrophic and would disrupt human resources functions. He noted that there could be potential savings in the first year for MAPT employees but not union employees (because of the negotiation cost), possibly in the hundreds of thousands of dollars, but that the savings aren't realized immediately in some cases, and that if a wage freeze is attempted on both the electric and water side, it would have to be negotiated, which would result in time loss. He added that if savings aren't achieved by negotiation, other provisions of the contract could be negotiated, along with the disruption factors, and all of that money could be leaked out in the first year with little savings.

President Simpson deferred comment.

Commissioner Cunningham noted that many other state and local government agencies and school district employees now take unpaid furlough days, and he wondered what the savings would be if EWEB closed the Customer Service Department one day per month.

General Manager Gray replied that this is only one example of all kinds of cost-saving concepts EWEB could pursue, but that for hourly personnel (line crews, etc.), that would end up costing more money because time would be converted from straight to double time, and reduced work equates to reduced services. Regarding closing the Customer Service Department for one day per month, General Manager Gray said that there would be a substantial wage reduction depending on how many hours the office would be closed for, but obviously there would be a service impact, and that if the office is open later and overtime is paid, then that would obviously cost more, the customer service lines would be longer, etc.

Regarding furlough days for salaried employees, General Manager Gray said it would depend on the nature of their work and each individual situation, and that most of the departments in which employees were reduced were those that have a low impact on customer service. He added that more layoffs and/or furlough days would affect customer service in some way.

Regarding the PERS deficit, Commissioner Cunningham added that the number is rapidly approaching \$100 million (though not for the 2013 budget), and that just the interest on that has a substantial impact on ratepayers.

Regarding MAPT salaries, Commissioner Helgeson asked if EWEB still grants step raises on a merit basis and if the COLA is still across the Board.

General Manager Gray replied that before he came to EWEB, MAPT and IBEW salaries were, on average, fairly similar, and MAPT loosely followed the union side. In 2011, IBEW employees received a 4% wage increase and the COLA for MAPT employees was 1.6%.

Commissioner Helgeson asked what the practical operational impact of not including a COLA for salaried employees would be compared to the previous process that was based on a merit matrix. He also asked if the COLA is rolled in with increases over a broad range, across the Board.

General Manager Gray replied that EWEB doesn't use the merit matrix any longer and that, if EWEB were to go forward with the MAPT COLA of 3%, it would not automatically be across the board, but would instead be based on performance, relativity to the job market, etc. He added that a combination of one-time monetary awards and base salary adjustments may be used, but that there is currently no pay plan for 2013 because the budget for 2013 has not yet been approved.

Ms. Smith added that for the last two years, EWEB has made salary adjustments that have been loosely non-performance-based, and has made more of a diligent effort to address under-performing employees and those who were not eligible for one-time adjustments. She said that this was also attempted last year, when it had been three years since EWEB had done market pricing, and money was set aside and adjustments made based on people who were on the green line (those under market and at risk), including some small COLAs. She noted that if a wage freeze is done, that would eliminate the opportunity to make those types of adjustments and, conversely, a general wage adjustment applying to everyone would allow General Manager Gray some flexibility to recommend adjustments where necessary without rolling everyone's salary or awarding everyone an increase.

General Manager Gray added that 3% is the generalized wage assumption for both MAPT and IBEW, and that if the 3% wage assumption is removed from the budget, it would make things difficult, but not impossible, as a position may not be filled because EWEB wouldn't want to lose employees.

President Simpson reiterated that much of the above is about public perception. He stated that EWEB employees are highly dedicated, skilled and reliable workers, and that he can't think of a better place to be a Commissioner. He said he doesn't agree that EWEB staff is overpaid, especially not when one looks at industry comparables, but that if one looks at private business wages, EWEB employees do stand above, but he doesn't believe that is an appropriate comparison. He reminded the Board about the e-mails they receive about high electric bills, i.e., from an apartment dweller who doesn't own a dishwasher whose water bill is \$60 a month. He surmised that this customer probably added up his fresh water, sewer and stormwater charges, and that was probably how they arrived at \$60. He also reiterated his comments at previous meetings that the perception problem is partially caused by the two City of Eugene fees that appear on EWEB's bill and somehow become EWEB's fault. He noted that EWEB is simply the collector of these fees and that they are City fees, not EWEB fees.

He continued, pointing out that another complaint the Board hears over and over is that the Roosevelt Operations Center (ROC) is the reason for a rate increase, and that this is false information. He explained that the ROC does cost money, but the Board made an overt decision

to reduce the budget for it, and it still came in under budget. He noted that the ROC was paid for by a one-time 2% rate increase that was enacted several years ago, and that EWEB won't be asking for any more rate increases to help pay for the ROC. He added that EWEB's public relations department produces plenty of educational material that gets into the newspaper from time to time and is well-written, and he appreciates that, but customers still aren't reading it or connecting the dots, and that it's human nature to jump to conclusions, even when they're wrong. He wondered how the public relations department's responses to each individual complaint could get published for the greater community to read, as he would love to see those get a greater audience.

Commissioner Ernst commented that she doesn't agree with everything President Simpson said, but that he is correct that some customers don't understand their bills, but even so, a bill is a bill. She noted that of greater concern to her is the large rate increase on the water side, and that the electric side is causing a lot of problems. She noted that many customers who live in apartments have ceiling heat and are at fixed income, on Disability, or seniors, and that with the proposed rate increases, their bills will go to \$95 or \$98, when these customers who still work are getting 25-cent raises. She acknowledged that EWEB's employees are dedicated and hard-working employees, the "cream of the crop," but that she thinks everyone needs to be in this together, and that it is a difficult decision for the Board.

She added that she ran her campaign based on the ROC, and that the bond should have been put to a public vote. She acknowledged that EWEB needed a new building, but many felt at that time that it could have been built for a lot less. She wondered if the previous 2% rate increase really did pay off the bond for the ROC.

General Manager Gray replied that the ROC was paid for through bonds and long-term cost structure with debt payments built into the rate structure, that the previous 2% rate structure is permanently in the rate structure, and that there are no incremental rate increases being caused by the ROC. He explained that in the 2013 8% rate increase, 4% represents the BPA increase late in the year, 2% is for Carmen-Smith bonds, and the remaining 2% to cover the wholesale power market and other factors.

Commissioner Helgeson stated that the Board has asked employees to do a lot for them already, and that substantial cuts in staffing are not the only issue from a culture and morale standpoint, but also that the employees who remain after the layoffs have to pick up the slack caused by the people who were laid off. He added that he struggles with the anger around the perceptions, but has to take a deep breath and realize that even though those are there, he doesn't necessarily agree with them, and ultimately he has to decide what is in the best interest of EWEB employees and the public.

Commissioner Helgeson continued, saying that his problem is that suspending a COLA for one year or instilling a wage freeze is a blunt instrument and doesn't have a significant impact on trajectory, mainly in the context of the trends in the economy. He reiterated that EWEB has asked their employees to do enough already, and that it is not going to make much difference in the rate action, and that it is more strategic to manage this issue over time. He said

that he would like to hear more input but, generally, he doesn't want to remove the COLA from the budget, and that if one segment of the population continues to grow and prosper while others have not seen a COLA in some time, that's a strategic problem for EWEB. He noted that he is more interested in the long-term strategy for this.

Commissioner Cunningham noted that the elderly and disabled will be receiving a 1.7% increase in their Social Security income in 2013, and that many employee contracts, COLAs, etc., are based on something along those lines. He said that this situation is a Catch-22, but that it would be reasonable for the IBEW contract to be reopened for discussion. He voiced his desire for the Board to authorize General Manager Gray to meet with IBEW leaders to investigate possibilities, and bring those back to the Board. He added that with only a 1.7% increase in Social Security income and a 4-6% rate increase, there is no way for the elderly and disabled to ever catch up.

Vice President Brown commented that Lane County Sheriff and Eugene Police employees are doing more with less and they aren't receiving a salary increase, that State employees are required to take 14 unpaid furlough days, and that many other employees in the area have taken substantial decreases. He said that EWEB employees have the best offices, equipment and training, and great benefits, and that EWEB has given its employees quite a bit over the years. He reminded the Board that when the \$750,000 energy education funding was discussed, he had said he would rather hire back the 36 employees who lost their jobs, but instead the Board voted to go ahead with the \$750,000 funding. He said he doesn't understand how $\frac{3}{4}$ of 1% doesn't translate to a rate adjustment, and that he is leaning toward having someone else help the Board make a decision on this.

General Manager Gray explained that if there was a zero wage increase or no COLA in 2013, there would be benefit and it would cause slight rate decreases—the water rate increase might go from 20 to 19.5%, and the electric increase might go from 8 to approximately 7.6% or so, but EWEB doesn't have union agreement to do that, so the union side would be lost immediately, and twice as many people would have to be laid off. He noted that the second-year savings would be 100%, but during the first year there would be leakage. He added that the union represents approximately 35% of EWEB employees, and that EWEB would probably continue to see a huge unionization effort, and that cost is significant, and would be a very contentious negotiation, in his opinion. He reiterated that if EWEB ultimately has to do layoffs, the savings will occur in 2013 because of the time it will take to do them and because of early departure incentives, and that the savings would be in year two.

Vice President Brown reminded the Board that EWEB is owned by the ratepayers and the Board is supposed to reflect their will.

In response to a question from Commissioner Helgeson, General Manager Gray explained how the 3% COLA relates to what EWEB anticipates that the actual labor inflation index will be.

Commissioner Helgeson then asked if that number would be different if the COLA was based on not representing the union contract next year but on a more traditional index like the Portland/Salem CPI or wage factors used in the past.

Ms. Smith replied that the COLA for the Portland/Salem CPI is 2.3% and in 2011 it was 1.6%.

Ms. Smith then explained that the COLA would be approached with the amount of money available to solve the most problems, i.e., if the Board chooses a 1.7% COLA because of the 2013 SSA increase, she is not sure staff would choose to allocate it as a general wage adjustment because funds need to be maintained to solve specific market-driven problems.

Ms. Gray added that EWEB has to follow the union contract, and then MAPT wages, and how staff chooses to use those dollars becomes more strategic. He added that he worries about the limited dollars becoming more and more precious. A brief discussion ensued on what situations may arise that EWEB will have to deal with. He said that staff has tried to depart from a COLA-based philosophy, and that Human Resources staff are careful about looking at comparators such as independently-owned utilities and consumer-owned utilities. He reiterated that EWEB's policy is to be in the middle of the pack for wages and benefits, and that EWEB is above some and below others in classifications, and that when EWEB is below others in critical positions, he starts to worry a lot. He reiterated that a global wage freeze could cause a lot of problems.

Commissioner Cunningham commented that he believes it comes down to being remiss to the Board's constituents to not ask General Manager Gray to go to the union and see if there's any concession available. He noted that he doesn't want contentious negotiations, and he hopes that there can be a "family discussion" to see if anything can be adjusted.

It was moved by Vice President Brown, seconded by Commissioner Cunningham, to direct General Manager Gray to begin discussions regarding the MAPT and IBEW proposed wage increases, and bring back to the Board the best financial recommendations available that are in the utility's best interest.

Vice President Brown stated that he doesn't want to bind General Manager Gray into making bad financial decisions, that he has trust and confidence in him, and that whatever Roger thinks he can do time-wise within the time frame of EWEB's budget should be the time frame.

Commissioner Cunningham asked if it is possible to delay the budget vote until after the December 4 meeting. General Manager Gray replied that he doesn't like to go into a new year without a clear idea of a budget and that, if the budget is decreased, there is less time to react. He reminded the Board that on the water side, the rate increase has been moved from May to February (including bills for January consumption), and that would be lost. He also reminded them that there is nothing that can be done on the union side before December 4 because of the

union's process. He further reminded the Board that nothing staff would do in the next few weeks would impact anything before 2013.

Commissioner Helgeson stated that this seems practical for both parties and for perception, and that this direction would have even less perceptual impact than a straight decision for the MAPT wages would. He said that he is inclined to support the motion, though he is not sure it deals with the perception issue that was discussed.

Vice President Brown stated that if the public asks what the Board has done, and even if it ends up they can do nothing, at least they tried. He reiterated that the Board needs to at least try to do something, as they represent 80,000 customers, and it's the Board's job to try.

Commissioner Ernst stated that she feels like the last hour will have been wasted if the above motion passes. She said that not granting a COLA could produce a lot of pushback, and would result in a lot of time spent on negotiations. She added that she hopes employees will realize what's happening in the community and will want to help the ratepayers.

She then stated she would like to amend Vice President Brown's motion to direct General Manager Gray to negotiate with IBEW to see what could happen, and to see if some adjustment could be made in the 3% to get a marker to determine what that could be, and whether to tie it to the CPI (the SSA increase of 1.7% or the Portland/Salem CPI of 2%), and then return to the Board. She added that she appreciates Vice President Brown's comment that EWEB has given their employees a lot over the years when times were good, but times are tough now, and even fire, police and City employees have had to take cuts.

Vice President seconded Commissioner Ernst's amended motion for purposes of discussion, and said he wants to treat everyone the same whether they're within EWEB's organization or not.

Commissioner Ernst stated that she believes the MAPT and IBEW employee groups are different, and that operations and maintenance jobs are hard work, not just for EWEB but also for other organizations.

Commissioner Cunningham stated that he doesn't believe the Board can direct General Manager Gray to negotiate, because the other side has to be willing to. He voiced agreement with Vice President Brown that any pay adjustment needs to be equal for everyone.

President Simpson asked for a vote on Commissioner Ernst's amendment to Vice President Brown's motion. The amendment failed 4-1 (Ernst voted yes).

General Manager Gray confirmed that Vice President Brown's motion is clear, and that staff will do their best to come back to the Board with something better that is also sustainable, rational, and doesn't create foolish outcome, although it can't be accomplished by December 4. He added that he will talk to union representatives, MAPT representatives, management,

financial services staff, and employees, and find ways to come up with a better budget, i.e., a variance that would be created in 2013.

Vice President Brown's motion passed unanimously (5-0).

President Simpson adjourned the Regular Session at 7:00 p.m.

Assistant Secretary

President