



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Cathy Bloom, Finance Manager
DATE: April 26, 2013
SUBJECT: Reserve Fund Status and Transfers
OBJECTIVE: Approval of Resolution #1305

Issue

The Board considers annually how to allocate any excess funds to reserve accounts after the end of the operating year. This memo provides a recommendation for action based on previous Board conversations, staff review, and updated reserve targets and balances over the last year.

Background

The Board has established a number of reserves and designated fund accounts and has set up targets for the funding of the reserves. On an annual basis, after the audit, staff prepares a summary of the year end balances of the reserves with a comparison to the targets as referenced in the Board Financial Policies.

Below is a summary of changes to the reserves as a result of 2012 operating budget variances and other recommended reserve transfers and targets.

Discussion:

A) Power Reserve Target

The resizing of the Power reserve occurs annually during the budget process by taking factors such as 1) price of power, 2) generation levels (water), 3) load, and 4) projected budget draws in conjunction with the annual budget process. The new target based on the resizing is \$13.2 million. As a result, a reserve transfer of \$3,541,506 from the Power Reserve to the Unallocated Power fund is recommended based on this new target.

B) Budget variances and OPEB Trust transfer

The PERS and Post Retirement medical costs were slightly lower than budgeted by \$970,000. The favorable budget variance is recommended to be transferred to the pension fund as in prior years. There was also an additional \$4.5 million in other favorable budget variances that we recommend be transferred to the Unallocated Power Fund.

As part of the 2013 Budget, the Board approved a \$7 million transfer (\$5.7 million Electric and \$1.3 million Water) from the Pension and Post Retirement Medical Fund and Water working cash to deposit into the OPEB trust. The transfer is recommended at this time and is included in the attached resolution.

C) Unallocated Power Fund

The Unallocated Power Fund reflects funds available for one time expenditures to be allocated based on the Board's direction. Funds in this account reflect a combination of 1) money set aside during 2011 related to reimbursement of funds from the 2011 debt issue in which we used working cash in 2010 to fund a portion of the Roosevelt project and 2) funds in excess of the target for the Power Reserve over the years.

Based on the various demands of cash reserves listed below, Management recommends retaining the remaining amount in the fund to be discussed further at the Financial Board Hearing in July as part of the review of the long-term financial plan. Management will also be updating the Board Financial Policies regarding financial targets for the June Board meeting to help support the change in the financial standard from an average credit rating from AA to A and the corresponding financial targets.

Examples for the future use of these funds could be in part or a combination of uses such as the 1) funding of the unfunded liabilities for pension of \$94 million, 2) Margin reserve for posting collateral related to Power Trading activity of \$10 million and 3) AMI project of \$26 million.

Attached are spreadsheets detailing the balances at year end, the corresponding targets, and recommended transfers for 2013 based on 2012 year-end financial results.

D) Summary of Transfers

The recommendation is to transfer the funds as follows:

- 1) \$5.7 million from Electric Pension and Post Retirement Medical Fund to OPEB Trust
- 2) \$1.3 million from Water Working Cash to OPEB Trust
- 3) \$970,000 from Electric Working Cash to Pension and Post Retirement Medical Fund
- 4) \$3,541,506 from Power Reserve to Unallocated Power Fund
- 5) \$4.5 million from Working Cash to Unallocated Power Fund

Recommendation

Management recommends that the Board approve Resolution #1305 which authorizes the new reserve target for the Power Reserve and the transfers of funds as stated above. If you have any questions, please contact Cathy Bloom.

Requested Board Action

Approval of Resolution #1305.

RESOLUTION NO. 1305
May 2013
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 2012 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 do the following:

1. Set new Target for Power Reserve of \$13.2 million
2. Transfer \$5.7 million from Pension and Post Retirement Medical Fund to OPEB Trust
3. Transfer \$1.3 million from Water Working Cash to OPEB Trust
4. Transfer \$970,000 from Electric Working Cash to Pension and Post Retirement Medical Fund
5. Transfer \$3,541,506 from Power Reserve to Unallocated Power Fund
6. Transfer \$4.5 million from Working Cash to Unallocated Power Fund

Dated this 7th day of May 2013

THE CITY OF EUGENE, OREGON
Acting by and through the
Eugene Water& Electric Board

President

I, Debra J. Smith, 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 May 7, 2013 Regular Board Meeting.

Assistant Secretary

**Eugene Water & Electric Board
Cash Targets & Balances
December 31, 2012**

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	ELECTRIC SYSTEM			RESOLUTION RECOMMENDED TRANSFERS (OVER/UNDER) TARGET	BALANCE AFTER TRANSFER
		TARGET FLOOR	TARGET CEILING	BALANCE ⁽²⁾ 12/31/2012		
RESERVES						
1) Operating Reserve	Rate Stability Policy	\$ 1,000,000	\$ -	\$ 1,012,187		\$ 1,012,187
2) Self-Insurance Reserve	Rate Stability Policy	1,720,000	-	1,748,182		1,748,182
3) Power Reserve	Rate Stability Policy	19,800,000	-	16,741,506	(3,541,506)	13,200,000
4) Capital Improvement Reserve	Capital Reserve Policy	7,500,000	15,000,000	13,548,356		13,548,356
RESERVES TOTAL		\$ 30,020,000	\$ 15,000,000	\$ 33,050,231	\$ (3,541,506)	\$ 29,508,726
DESIGNATED FUNDS⁽¹⁾						
5) Unallocated Power Fund		-	-	17,320,600	3,541,506	25,362,106
Economic Development Loan Pilot Program Fund		-	-	2,006,105	4,500,000	2,006,105
Steam Transition Fund		-	-	1,993,057		1,993,057
Riverfront Master Plan Make-Ready Fund		-	-	504,174		504,174
Carmen-Smith Fund		-	-	20,007,667		20,007,667
6) Pension & Post Retirement Medical Fund		-	-	8,737,755	970,000	4,007,755
		-	-		(5,700,000)	
DESIGNATED FUNDS TOTAL		\$ -	\$ -	\$ 50,569,357	\$ 3,311,506	\$ 53,880,863
CASH FOR OPERATIONS						
7) Working Cash	Rate Sufficiency Policy	15,000,000	-	22,897,112	(970,000)	17,427,112
CASH TARGETS & BALANCES TOTAL		\$ 45,020,000	\$ 52,520,000	\$ 106,516,701	\$ (5,700,000)	\$ 100,816,701

Financial Policy - Total Targets included in ceiling

- 1) Operating Reserve - for emergency operating costs.
- 2) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit.
- 3) Power Reserve - amount of reserves to offset fluctuations in purchased power costs related to market price variability, uncertainty in regard to hydro generation, customer load and annual budgeted reserve draws.
- 4) Capital Improvement Reserve - reserve for capital improvements and target is based on one years depreciation.
- 5) Unallocated Power Fund - funds available for one time expenditures. To be allocated based on Board direction.
- 6) No Target - Amount designated to fund Supplemental Retirement Plan, and PERS or OPEB Trust.
- 7) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.

Notes:

⁽¹⁾ Designated funds are used for one time expenditures.

⁽²⁾ 12/31/12 balance includes transfers that were made in 2013 based on 2012 year-end activity

**Eugene Water & Electric Board
Cash Targets & Balances
December 31, 2012**

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	WATER UTILITY			RESOLUTION RECOMMENDED	BALANCE AFTER TRANSFER
		TARGET FLOOR	TARGET CEILING	BALANCE ⁽²⁾ 12/31/2012	TRANSFERS (OVER/UNDER) TARGET	
RESERVES						
1) Operating Reserve	Rate Stability Policy	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -
2) Self-Insurance Reserve	Rate Stability Policy	280,000	-	284,541		284,541
3) Capital Improvement Reserve	Capital Reserve Policy	3,500,000	7,000,000	2,339,353		2,339,353
RESERVES TOTAL		\$ 4,780,000	\$ 7,000,000	\$ 2,623,894	\$ -	\$ 2,623,894
DESIGNATED FUNDS⁽¹⁾						
4) Water Stewardship Fund- Septic Repairs		-	-	96,589		96,589
CASH FOR OPERATIONS						
5) Working Cash	Rate Sufficiency Policy	2,000,000	-	2,801,199	(1,300,000)	1,501,199
CASH TARGETS & BALANCES TOTAL		\$ 6,780,000	\$ 10,280,000	\$ 5,521,682	\$ (1,300,000)	\$ 4,221,682

Financial Policy - Total Targets included in ceiling

- 1) Operating Reserve - for emergency operating costs.
- 2) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit.
- 3) Capital Improvement Reserve - reserve for capital improvements and target is based on one years depreciation.
- 4) Funds available for one time expenditures. To be allocated based on Board direction.
- 5) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.

Notes:

⁽¹⁾ Designated funds are used for one time expenditures.

⁽²⁾ 12/31/12 balance include transfers that were made in 2013 based on 2012 year-end activity