



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Mital, Helgeson, Manning and Simpson
FROM: Cathy Bloom, Finance Manager, Susan Eicher, General Accounting and Treasury
Supervisor
DATE: April 29, 2014
SUBJECT: Reserve Fund Status and Transfers
OBJECTIVE: Approval of Resolution No.1409

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, management 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, management 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 2013 operating budget variances and other recommended reserve transfers and targets.

Discussion:

A) Operating Reserve Target and Transfers

The Operating Reserve is available for unanticipated operating costs, such as the recent ice storm. The Electric Utility budgets for some storm related repair and maintenance costs, but the cost of the January 2014 ice storm far exceeds the amount budgeted. Based on the increasing costs of storm repairs, management is recommending a revised operating reserve target from \$1,000,000 to \$2,000,000 and therefore a resulting transfer into the operating reserve of \$1,000,000 from working cash to fund the new target.

B) Pension Reserve transfer

PERS costs were lower than budgeted by \$2,640,000 due to the decrease in employer rates as the result of the 2013 legislation. The favorable budget variance is recommended to be transferred to the pension fund as in prior years with \$2,160,000 transferred to the Electric Utility Pension reserve from working cash, and \$480,000 transferred from Water Utility Working Cash to establish a Water Pension reserve. Due to the uncertainty of the pending litigation on the pension legislation and limited funding from the Water Utility, management is recommending continued accumulation of reserves for pension funds and making an election to pay down the unfunded actuarial liability by joining the employer pool for local governments in 2017.

C) Harvest Wind Fund

In order to improve our financial metrics in regard to debt service coverage, management is recommending paying off the Harvest Wind outstanding debt. In 2011 the Electric Utility issued a bank note to finance the Harvest Wind project, with the intent of refinancing with bonds at the end of the five year term of the note. Management has evaluated the merits of issuing bonds or paying off the note using reserves, and has found that paying off the note with reserves has a more positive impact on the Electric Utility debt service ratio than refinancing with bonds or using reserves to pay down our pension liability. The estimated amount needed to pay off the Harvest Wind bank note is \$27,000,000.

D) 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, management recommends retaining \$10,000,000 in the Unallocated Power Fund and transferring the balance above this amount, \$11,796,000, to the Harvest Wind Fund.

The remaining amount in the Unallocated Power Fund may be dedicated to future uses, such as a reserve for margining for power trading.

E) Carmen-Smith Fund

The balance in the Carmen-Smith fund was set aside from the issuance of bonds to reimburse prior Carmen-Smith expenses. At this time, the relicensing project has scaled back while awaiting the license from FERC. Management recommends transferring \$4,400,000 from the Carmen-Smith reserve to the Harvest Wind Fund.

F) Working Cash

Management recommends reallocating the amount in excess of the Electric Utility working cash target with a transfer of \$1,000,000 to the Operating Reserve and \$10,840,000 to the Harvest Wind Fund.

The Water Utility ended 2013 with Working Cash in excess of target. Management recommends transferring the amount in excess of target with \$796,000, transferred to the Operating reserve and \$480,000 transferred to establish a Water Utility Pension Fund.

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

G) Summary of Transfers

The recommendation is to transfer Electric Utility funds as follows:

- 1) \$1,000,000 million from Working Cash to the Operating Reserve
- 2) \$11,790,000 from Power Unallocated Fund to the Harvest Wind Fund
- 3) \$4,400,000 from the Carmen-Smith Fund to the Harvest Wind Fund
- 4) \$10,840,000 from Working Cash to the Harvest Wind Fund
- 5) \$2,160,000 from Working Cash to the Pension Fund

And to transfer Water Utility funds as follows:

- 6) \$796,000 from Working Cash to the Water Operating Reserve
- 7) \$480,000 from Working Cash to the Water Pension Reserve

Recommendation

Management recommends that the Board approve Resolution No.1305 which authorizes the transfers of funds as stated above.

Requested Board Action

Approval of Resolution No.1409.

Eugene Water & Electric Board
Cash Targets & Balances
December 31, 2013

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	ELECTRIC SYSTEM			RESOLUTION	BALANCE AFTER TRANSFER
		TARGET FLOOR	TARGET CEILING	ADJUSTED ^(b) 12/31/2013	RECOMMENDED TRANSFERS	
RESERVES						
1) Operating Reserve	Rate Stability Policy	\$ 2,000,000	\$ -	\$ 1,017,620	\$ 1,000,000	\$ 2,017,620
2) Self-Insurance Reserve	Rate Stability Policy	1,720,000	-	1,757,745	-	1,757,745
3) Power Reserve	Rate Stability Policy	13,200,000	-	13,321,345	-	13,321,345
4) Capital Improvement Reserve	Capital Reserve Policy	7,500,000	18,000,000	14,379,901	-	14,379,901
RESERVES TOTAL		\$ 24,420,000	\$ 18,000,000	\$ 30,476,611	\$ 1,000,000	\$ 31,476,611
DESIGNATED FUNDS^(a)						
5) Unallocated Power Fund		\$ -	\$ -	\$ 21,796,124	(11,790,000)	\$ 10,006,124
Economic Development Loan Pilot Program Fund		-	-	1,575,915	-	1,575,915
Steam Transition Fund		-	-	-	-	-
Riverfront Master Plan Make-Ready Fund		-	-	-	-	-
Harvest Wind Fund		-	-	-	27,030,000	27,030,000
Carmen-Smith Fund		-	-	20,058,528	(4,400,000)	15,658,528
6) Pension & Post Retirement Medical Fund		-	-	4,018,969	2,160,000	6,178,969
DESIGNATED FUNDS TOTAL		\$ -	\$ -	\$ 47,449,536	\$ 13,000,000	\$ 60,449,536
CASH FOR OPERATIONS						
7) Working Cash	Rate Sufficiency Policy	\$ 24,000,000	\$ -	\$ 38,072,147	\$ (14,000,000)	24,072,147
CASH TARGETS & BALANCES TOTAL		\$ 48,420,000	\$ 57,920,000	\$ 115,998,294	\$ -	\$ 115,998,294
LEGALLY RESTRICTED						
Bond Funds - Type II & III				26,155,126		
Reserves & Investments for Debt Service				18,665,941		
Contribution in Aid				1,209,915		
RESTRICTED FUNDS TOTAL				\$ 46,030,982		

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:

^(a) Designated funds are available for one time expenses.

^(b) Year-end cash balances are adjusted for transfers made after the close of the year that were based on 2013 activity.

**Eugene Water & Electric Board
Cash Targets & Balances
December 31, 2013**

CASH ACCOUNT	WATER UTILITY			RESOLUTION	BALANCE AFTER TRANSFER
	TARGET FLOOR	TARGET CEILING	ADJUSTED ^(b) 12/31/2013	RECOMMENDED TRANSFERS	
RESERVES					
1) Operating Reserve	\$ 1,000,000	\$ -	\$ -	\$ 796,000	\$ 796,000
2) Self-Insurance Reserve	280,000	-	286,071	-	286,071
3) Capital Improvement Reserve	3,500,000	7,000,000	3,414,597		3,414,597
RESERVES TOTAL	\$ 4,780,000	\$ 7,000,000	\$ 3,700,668	\$ 796,000	\$ 4,496,668
DESIGNATED FUNDS^(a)					
4) Water Stewardship Fund- Septic Repairs	\$ -	\$ -	\$ 81,367	-	81,367
5) Economic Development Loan Pilot Program Fund	-	-	19,097	-	19,097
6) Second Source Fund	-	-	-	-	-
7) Pension & Post Retirement Medical Fund	-	-	-	480,000	480,000
DESIGNATED FUNDS TOTAL	\$ -	\$ -	\$ 100,464	\$ 480,000	\$ 580,464
CASH FOR OPERATIONS					
8) Working Cash	3,400,000	-	4,675,793	(1,276,000)	3,399,793
CASH TARGETS & BALANCES TOTAL	\$ 8,180,000	\$ 7,000,000	\$ 8,476,925	\$ -	\$ 8,476,925
LEGALLY RESTRICTED					
Bond Funds - Type II & III			7,222,980		
System Development Charge Reserves			564,288		
Reserves & Investments for Debt Service			4,005,805		
RESTRICTED FUNDS TOTAL			\$ 11,793,073		

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) Funds available for Water portion of economic development loans.
- 6) Funds from the 2.7% rate increase dedicated to building a reserve to fund a second water source.
- 8) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.

Notes:

^(a) Designated funds are available for one time expenses.

^(b) Year-end cash balances are adjusted for transfers made after the close of the year that were based on 2013 activity.

RESOLUTION NO. 1409

May 2014

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 2013 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. Transfer \$1,000,000 from the Electric Working Cash to the Electric Operating Reserve
2. Transfer \$11,790,000 from the Power Unallocated Fund to the Harvest Wind Fund
3. Transfer \$4,400,000 from the Carmen-Smith Fund to the Harvest Wind Fund
4. Transfer \$10,840,000 from Electric Working Cash to the Harvest Wind Fund
5. Transfer \$2,160,000 from Electric Working Cash to the Pension Fund
6. Transfer \$796,000 from Water Working Cash to the Water Operating Reserve
7. Transfer \$480,000 from Water Working Cash to the Water Pension Reserve
8. Increase Electric Operating Reserve target to \$2,000,0000

Dated this 6th day of May 2014

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

President

I, TARYN M. JOHNSON, 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 6, 2014 Regular Board Meeting.

Assistant Secretary