



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Carlson, Mital, Helgeson, Schlossberg, and Brown
FROM: Sue Fahey, Assistant General Manager/CFO; Deborah Hart, Financial Services Manager; Leslie Kidd, Interim General Accounting Supervisor
DATE: September 20, 2019
SUBJECT: Use of Reserves for Public Employees Retirement System (PERS) Side Account
OBJECTIVE: Board Approval of Resolution No. 1927

Issue

Management has applied for, and EWEB was allocated, the maximum allowable match from Oregon's PERS Employer Incentive Fund. To receive the \$5.5 million match, EWEB must deposit \$22 million in a PERS side account. Board approval is required to use designated funds or reserves for the side account deposit.

Background

In 2018, the Oregon Legislature approved Senate Bill (SB) 1566, which gave public employers the opportunity to create PERS side accounts with deposits qualifying for up to a 25% match from an Employer Incentive Fund (EIF). Side accounts are employer accounts for lump-sum deposits which reduce the contributing employer's PERS rates. Side accounts earn the same return as the PERS fund, are typically amortized over a 20-year period, and the rate reduction is recalculated each biennium. The Board approved a resolution to apply for EWEB's maximum match from the EIF at the April 2018 Board meeting.

Management discussed the possibility of the contribution for matching funds with the Board as part of the annual reserve transfers discussion in May and with the long-term financial plan update in July. Senate Bill 1049, which was enacted during the 2019 legislative session, appropriated \$100 million to the EIF.

SB 1566 and SB 1049 have provided EWEB with an opportunity for an immediate 25% return on a \$22 million deposit. As a public agency, EWEB is restricted by statute to only invest funds in high quality, low-risk investments, and the current annual average return is 2.3%.

Discussion

PERS finalized rules for how EIF funds would be provided to employers in August, and on September 3, 2019 PERS began accepting applications for matching funds on a first-come, first served basis. Management submitted EWEB's application for an EIF match on a \$21,980,000 side account deposit as soon as the window opened, and PERS has allocated \$5,495,000 of EIF matching funds to EWEB, the maximum allowed. In order for EWEB's PERS employer rates to be reduced as soon as possible,

funds need to be deposited by November 1, 2019. PERS estimates EWEB's rates will be reduced 4.6 percentage points resulting in annual average savings of \$2.5 million and that the total \$27.5 million deposit will save \$47.5 million in PERS costs over the 20-year amortization period.

In 2015, the Board created the rate stabilization funds (RSF) to enhance the agility of funds during financial challenges and to minimize price impacts to customers. Funds are intended for one-time expenditures and emergent items and are allocated based on board direction. Management believes that using rate stabilization funds for the PERS side account deposit meets that intent.

The Electric Utility's share of the side account deposit is \$16.7 million. Management recommends using the following sources to fund the deposit:

- \$325,000 from the Pension & Post-Retirement fund. By Board Policy, budgeted PERS costs in excess of actual expenses are transferred to this fund. In December 2018, this fund was depleted to pay the PERS transition liability from joining the PERS State and Local Government Pool.
- \$3.8 million from excess Working Cash. Current projections do not anticipate working cash reducing further in 2019.
- \$12.6 million from the RSF. The RSF includes \$15.8 million transferred from the prior Carmen-Smith Reserve, transfers from other funds above target, and cash from the sale of the riverfront property with a current balance of \$37.0 million. To date, \$23.5 million from the Electric RSF has been used to defease debt. The long-term financial plan has historically presumed that \$21.5 million of the RSF would be used to reduce future borrowings due to the Electric Utility's previous debt service coverage challenges. Recent debt restructurings and defeasances have eliminated debt service coverage pressure based on current long-term financial plan assumptions. The proposed transfer will leave \$24.5 million, or 19.5 million above target, in the Electric RSF. The current long-term financial plan assumes the fund will be used for one-time or emergent expenses in 2019 and then reduced to its target in 2021 for \$15 million in capital costs. As always, the Board will have the opportunity to discuss reserve transfers in the second quarter of 2020.

The Water Utility's share of the side account deposit is \$5.3 million. Management recommends using the following sources to fund the deposit:

- \$147,000 from the Pension & Post-Retirement Medical Fund
- \$2.3 million from Working Cash
- \$2.8 million from the RSF, which would bring the fund to its \$1 million target.

Attachments 1 and 2 provide the reserve balances and recommended use of reserves for the Water and Electric Utilities, respectively.

Recommendation and Requested Board Action

Management is requesting approval of Resolution No. 1927, authorizing use of reserves for deposit to a PERS side account in order for EWEB to receive its 25% EIF match.

Attachment 1 – Water Utility Schedule of Cash Reserves

Attachment 2 – Electric Utility Schedule of Cash Reserves

ATTACHMENT 1

Water Utility Schedule of Cash Reserves

Reserve/Fund	Financial Policy Reference	Target	Balance 8/31/2019	In Excess of Target	Recommended Use of Funds	Balance After
Working Cash	Rate Sufficiency	\$ 3,400,000	\$ 7,314,120	\$ 3,914,120	(2,320,947)	\$ 4,993,173
Operating Reserve	Rate Stability	1,000,000	1,012,184	12,184	-	1,012,184
Self-Insurance Reserve	Rate Stability	280,000	288,712	8,712	-	288,712
Capital Improvement Reserve	Capital Reserve	7,000,000	11,241,325	4,241,325	-	11,241,325
Rate Stabilization Fund	Rate Stability	1,000,000	3,807,263	2,807,263	(2,807,263)	1,000,000
Water Stewardship Fund- Septic Repairs		-	73,922	73,922	-	73,922
Business Growth & Retention Loan Fund		-	209,546	209,546	-	209,546
Alternate Water Supply Fund		-	6,377,023	6,377,023	-	6,377,023
Pension & Post Retirement Medical Fund		-	147,000	147,000	(147,000)	-
Working Cash & Designated Funds Total		\$ 12,680,000	\$ 30,471,095	\$ 17,791,095	\$ (5,275,210)	\$ 25,195,885

ATTACHMENT 2

Electric Utility Schedule of Cash Reserves

Reserve/Fund	Financial Policy Reference	Target	Balance 8/31/2019	In Excess of Target	Recommended Use of Funds	Balance After
Working Cash	Rate Sufficiency	\$ 36,000,000	\$ 39,896,156	\$ 3,896,156	(3,800,000)	\$ 36,096,156
Operating Reserve	Rate Stability	4,000,000	4,082,704	82,704	-	4,082,704
Self-Insurance Reserve	Rate Stability	1,720,000	1,773,975	53,975	-	1,773,975
Power Reserve	Rate Stability	17,000,000	17,000,000	-	-	17,000,000
Capital Improvement Reserve	Capital Reserve	22,000,000	24,550,430	2,550,430	-	24,550,430
Rate Stabilization Fund	Rate Stability	5,000,000	37,048,759	32,048,759	(12,579,832)	24,468,927
Business Growth & Retention Loan Fund		-	1,999,416	1,999,416	-	1,999,416
Pension & Post Retirement Medical Fund		-	325,000	325,000	(325,000)	-
Working Cash & Designated Funds Total		\$ 85,720,000	\$ 126,676,440	\$ 40,956,440	\$ (16,704,832)	\$ 109,971,608

**RESOLUTION NO. 1927
OCTOBER 2019**

**EUGENE WATER & ELECTRIC BOARD
USE OF RESERVES FOR OREGON PUBLIC EMPLOYEES RETIREMENT
SYSTEM SIDE ACCOUNT**

WHEREAS, the Eugene Water & Electric Board (EWEB) 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 State of Oregon has established an Employer Incentive Fund (EIF) that provides a 25% match on qualifying side account contributions to encourage public employers to reduce their Oregon Public Employees Retirement System (PERS) unfunded actuarial liability;

WHEREAS, the PERS has established a process for distributing EIF money within the requirements of Oregon Senate Bills 1566 and 1049;

WHEREAS, EWEB's Board of Commissioners authorized EWEB management to apply for EWEB's maximum qualifying EIF match with Resolution 1812;

WHEREAS, EWEB Management applied to PERS for EWEB's maximum qualifying match from the EIF on September 3, 2019;

WHEREAS, PERS has approved EWEB's application to receive EIF matching funds based on a PERS side account deposit of \$21,980,042;

WHEREAS, PERS has allocated 25% of the intended contribution, \$5,495,000, in matching funds from the EIF, to apply to EWEB's side account;

WHEREAS, EWEB management has recommended to the Board sources of funds to make the deposit to PERS;

THEREFORE BE IT RESOLVED that the Eugene Water & Electric Board hereby authorizes the General Manager to use the following funds for a PERS side account deposit:

Water Utility

- 1) \$2,807,263 from the Rate Stabilization Fund
- 2) \$2,320,947 from Working Cash
- 3) \$147,000 from the Pension & Post-Retirement Medical Fund

Electric Utility

- 1) \$12,579,832 from the Rate Stabilization Fund
- 2) \$3,800,000 from Working Cash
- 3) \$325,000 from the Pension & Post-Retirement Medical Fund

Dated this 1st day of October 2019

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

President

I, ANNE M. KAH, 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 October 1, 2019 Board Meeting.

Assistant Secretary