MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO:	Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM:	Sue Fahey, Chief Financial Officer; Deborah Hart, Interim Finance Manager; TiaMarie Harwood, Interim General Accounting Supervisor
DATE:	May 24, 2018
SUBJECT:	Proceeds from the Riverfront Property
OBJECTIVE:	Board Direction

Issue

On April 17, 2018 the City of Eugene and EWEB finalized the purchase of the downtown riverfront property. This memo provides information on the division of sale proceeds between the Water and Electric Utilities as well as options for the potential use of the proceeds based on EWEB's strategic plans, Financial Policies, and the Electric and Water Utilities' financial conditions.

Background

In 2006, the Board authorized relocation of EWEB's water and electric utility engineering and operations functions that were then located at the downtown riverfront site. This decision followed Board agreement that most of the existing downtown operations facilities had outlived their useful lives and needed to be replaced, and operations functions were constrained by poor traffic access and inefficient yard circulations. The Board approved and issued approximately $74 million of debt to finance the acquisition and construction of the Roosevelt Operations Center (ROC), which was completed in the fall of 2010. In 2013, after relocating the operations and engineering functions to west Eugene, EWEB declared approximately 16 acres of the Utility's riverfront property as surplus property. In July 2016, the Eugene City Council authorized the city manager to negotiate the outright purchase of the surplus property and in April 2017, EWEB and the City of Eugene reached an agreement for the sale of the Utility's riverfront property.

Discussion

The fourteen tax lots that make up the 16.5 acres were acquired at various times throughout the past 110 years. Substantial improvements were made over time and uses of the property changed as well. It started with the acquisition of a private water system, a few years later the acquisition of a private electric system, and then several decades after that the steam plant was constructed to meet the growing demands for power.

Proceeds from the sale of surplus property are calculated according to each Utility's proportionate share of property ownership at the time it was declared as surplus. Electric's proportionate share of the proceeds was 77% and Water's was 23%, or $4.4 million and $1.3 million respectively.

A 2012 Memorandum of Understanding with the City of Eugene stated that it was intended for proceeds of the sale to be used to retire outstanding debt from the construction of ROC. Since that time, most of the outstanding debt for ROC has been refinanced at historically low rates. Outstanding debt related to ROC construction is approximately $50 million at 2.4% and is divided into the following issuances:

- Approximately $1 million in 2011 bonds related to ROC are outstanding. These bonds are not callable and defeasing them will result in a net present value that is negative.
- Most of the outstanding ROC debt was refinanced in 2016. These bonds were refinanced at extremely low rates and are not callable until 2026. Like the 2011 series, there is no economic benefit to defease 2016 bonds.

Due to the debt restructuring over the last few years, other outstanding bonds are not callable, carry low interest cost, or provide very little near term economic benefit. Accordingly, Management is not recommending that the Electric Utility use the Riverfront proceeds to defease current debt. The proceeds, however, could be used to reduce future borrowings. Approximately $16 million of the Electric Utility's rate stabilization fund is due to the 2017 transfer of the Carmen-Smith reserve and is intended to be used to reduce future borrowings. The sale proceeds could be similarly transferred and earmarked.

The Water Utility owes the Electric Utility approximately $9 million in principal for its share of construction costs for the ROC. The sale proceeds for the Water Utility could be used to pay down the intercompany debt, which has an interest rate of 2.45%. This would result in a savings of $803,000 in total interest costs and the intercompany obligation would be paid off in 2036, which is four years earlier than its original term year of 2040. Since the Water Utility has reserves above target and is not currently planning to issue significant debt for several years, using the proceeds to pay down intercompany debt would allow the Electric Utility to further reduce future bond issuances.

Recommendation

Management recommends depositing funds into the Rate Stabilization Fund for the Electric Utility in order to reduce future borrowings. For the Water Utility, Management recommends paying down the intercompany debt owed to Electric.

Requested Board Action

None at this time. Management is requesting that the Board provide direction on the use of proceeds from the sale of the surplus property.