

# REGIONAL SEWER UTILITY FUND

An Enterprise Fund  
of the City of Eugene, Oregon

Financial Statements



Fiscal Year Ended  
June 30, 2017

# **REGIONAL SEWER UTILITY FUND**

## **REGIONAL SEWER UTILITY FUND**

An Enterprise Fund  
of the City of Eugene, Oregon

Financial Statements

Fiscal Year Ended June 30, 2017

(With Independent Auditors' Report Thereon)



1976 Garden Ave.  
Eugene, OR 97403  
541.342.5161  
[www.islercpa.com](http://www.islercpa.com)

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Councilors of the  
City of Eugene, and the Commissioners of the  
Metropolitan Wastewater Management Commission  
Eugene, Oregon

We have audited the accompanying financial statements of the Regional Sewer Utility Fund, a sub-fund of the City of Eugene's Wastewater Utility Enterprise Fund, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Sewer Utility Fund as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

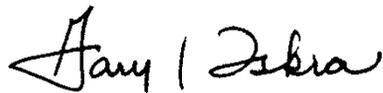
**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 3 – 4) and the schedule of the Fund's proportionate share of the net pension asset (liability) (page 24) and the schedule of funding progress – OPEB (page 24) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Regional Sewer Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Eugene, Oregon, as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

**ISLER CPA**

By: Gary Iskra, CPA, a member of the firm

Eugene, Oregon  
November 29, 2017

## Management's Discussion and Analysis

The management of the Regional Sewer Utility Fund (Fund), a sub-fund of the City of Eugene's (Eugene) Wastewater Utility Enterprise Fund, presents this narrative overview and analysis to facilitate both a short and a long-term analysis of the financial activities of the fund for the fiscal year ended June 30, 2017. This Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditors' report.

### Financial Highlights

The net position of the Fund (assets and deferred outflows of resources less liabilities and deferred inflows of resources) at June 30, 2017, decreased \$0.8 million from (\$5.7) million to (\$6.5) million. The primary cause for this decrease was the Fund's proportionate share of the City's net pension liability at June 30, 2017 increased \$5.5 million from a \$3.3 million to \$8.8 million. The increase was the result of the change in plan assumptions of lowering the discount rate from 7.75 percent to 7.50 percent and the plan's fiduciary net position decreased as benefit payments exceeded contributions and investment income.

### Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of two components:

1. Fund financial statements
2. Notes to the basic financial statements

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fund uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Fund is reported as an Enterprise fund.

Enterprise funds. Enterprise funds are used to account for ongoing operations and activities which are similar to those found in the private sector. The measurement focus is upon the determination of net income.

The basic fund financial statements can be found on pages 5-7 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. They are an integral part of the financial statements and should be read in conjunction with them.

### Fund Financial Analysis

<b>Regional Sewer Utility Fund's Net Position</b>		
	2017	2016
Current assets	\$ 2,190,727	2,758,793
Other assets and deferred outflows	4,660,758	822,182
Total assets and deferred outflows	6,851,485	3,580,975
Current liabilities	2,218,857	2,797,880
Bonds payable	2,263,413	2,365,193
Net pension liability	8,763,696	3,276,072
Deferred inflows	130,087	857,188
Total liabilities and deferred inflows	13,376,053	9,296,333
Net position:		
Unrestricted (deficit)	(6,524,568)	(5,715,358)
Total net position	\$ (6,524,568)	(5,715,358)

<b>Regional Sewer Utility Fund's Change in Net Position</b>		
	<u>2017</u>	<u>2016</u>
Operating revenues:		
Fees, fines, and charges for service	\$ 14,723,405	14,092,755
Miscellaneous	39,266	53,916
Total operating revenues	<u>14,762,671</u>	<u>14,146,671</u>
Operating expenses:		
Personnel services	7,184,053	7,033,665
Administration	907,291	879,879
Materials and supplies	3,009,952	2,761,181
Maintenance and utilities	1,684,739	1,449,675
Pension expense	1,610,255	3,252,523
Other expenses	1,008,641	1,100,733
Total operating expenses	<u>15,404,931</u>	<u>16,477,656</u>
Operating income (loss)	(642,260)	(2,330,985)
Nonoperating revenues:		
Interest revenue	331	0
Interest expense	<u>(167,281)</u>	<u>(204,404)</u>
Total nonoperating revenues	<u>(166,950)</u>	<u>(204,404)</u>
Change in net position	(809,210)	(2,535,389)
Net position, July 1	<u>(5,715,358)</u>	<u>(3,179,969)</u>
Net position, June 30	<u>\$ (6,524,568)</u>	<u>(5,715,358)</u>

#### **Next Year's Budgets and Rates**

For FY18, the following factors were taken into account when developing the regional sewer budget:

- Salaries for non-represented employees and employees covered under collective bargaining agreements were expected to increase 2.0% - 3.0%.
- Health benefit rates were increased by 4.8%.
- Retirement costs are expected to range from 24.4% to 33.4% of payroll, depending on which pension plan the employee participates in.

#### **Requests for Information**

These financial statements are designed to provide a general overview of the Fund's finances for all those with an interest in the Fund. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Douglas Lauderbach, CPA  
 Financial Reporting Manager, AIC  
 City of Eugene  
 100 West 10<sup>th</sup> Avenue, Suite 400  
 Eugene, Oregon 97401

REGIONAL SEWER UTILITY FUND  
 An Enterprise Fund of the City of Eugene, Oregon  
**Statement of Net Position**  
 June 30, 2017  
 (amounts in dollars)

Assets

Current assets

Equity in pooled cash and investments	129,447
Accounts receivable	269,247
Due from MWMC	1,253,470
Inventories	534,937
Prepays and deposits	3,626
<b>Total current assets</b>	<b>2,190,727</b>

<b>Total noncurrent assets</b>	<b>0</b>
--------------------------------	----------

Deferred outflows of resources

Related to pensions	4,660,758
<b>Total deferred outflows of resources</b>	<b>4,660,758</b>
<b>Total assets and deferred outflows of resources</b>	<b>6,851,485</b>

Liabilities

Current liabilities

Accounts payable	151,154
Wages payable	407,203
Compensated absences	511,745
Due to MWMC	393,844
Deposits	700,000
Interest payable	11,464
Bonds payable	43,447
<b>Total current liabilities</b>	<b>2,218,857</b>

Noncurrent liabilities

Bonds payable (net of unamortized discount)	2,263,413
Net pension liability	8,763,696
<b>Total noncurrent liabilities</b>	<b>11,027,109</b>

Deferred inflows of resources

Related to pensions	130,087
<b>Total deferred inflows of resources</b>	<b>130,087</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>13,376,053</b>

Net position

Unrestricted	(6,524,568)
<b>Total net position</b>	<b>(6,524,568)</b>

*The accompanying notes are an integral part of the financial statements.*

REGIONAL SEWER UTILITY FUND  
 An Enterprise Fund of the City of Eugene, Oregon

**Statement of Revenues, Expenses,  
 and Changes in Fund Net Position**

For the fiscal year ended June 30, 2017  
 (amounts in dollars)

<u>Operating revenues</u>	
Charges for services	14,714,455
Fines and forfeits	8,950
Miscellaneous	39,266
<b>Total operating revenues</b>	<b>14,762,671</b>
<u>Operating expenses</u>	
Personnel services	7,184,053
Contractual services	939,759
Materials and supplies	3,009,952
Maintenance	884,758
Utilities	799,981
Rent	17,231
Insurance	51,651
Administration	907,291
Pension expense	1,610,255
<b>Total operating expenses</b>	<b>15,404,931</b>
<b>Operating income (loss)</b>	<b>(642,260)</b>
<u>Nonoperating revenue (expense)</u>	
Interest revenue	331
Interest expense	(167,281)
<b>Total nonoperating revenue (expense)</b>	<b>(166,950)</b>
<b>Change in net position</b>	<b>(809,210)</b>
<b>Total net position, July 1, 2016</b>	<b>(5,715,358)</b>
<b>Total net position, June 30, 2017</b>	<b>(6,524,568)</b>

*The accompanying notes are an integral part of the financial statements.*

REGIONAL SEWER UTILITY FUND  
 An Enterprise Fund of the City of Eugene, Oregon

**Statement of Cash Flows**

For the fiscal year ended June 30, 2017  
 (amounts in dollars)

<u>Cash flows from operating activities</u>	
Cash received from customers	55,394,551
Cash received from MWMC for operating reimbursements	(14,694,422)
Cash paid to MWMC for sewer user and septic hauler fees collected	(25,575,411)
Cash paid to suppliers for goods and services	(5,824,477)
Cash paid to employees for services	(6,391,831)
Cash paid for interfund services used	(1,983,923)
Cash paid for central business functions	(907,291)
<b>Net cash provided by (used for) operating activities</b>	<b>17,196</b>
<u>Cash flows from noncapital and related financing activities</u>	
Principal payments on pension bonds	(131,038)
Interest payments on pension bonds	(137,090)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(268,128)</b>
<u>Cash flows from investing activities</u>	
Interest revenue	331
<b>Net cash provided by (used for) investing activities</b>	<b>331</b>
Net increase (decrease) in cash	(250,601)
Cash, July 1, 2016	380,048
<b>Cash, June 30, 2017</b>	<b>129,447</b>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	(642,260)
<u>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities</u>	
(Increase) Decrease in accounts receivable	343,676
(Increase) Decrease in due from MWMC	18,371
(Increase) Decrease in prepaids	(1,068)
(Increase) Decrease in inventories	(43,514)
(Increase) Decrease in deferred outflows related to pensions	(3,838,576)
Increase (Decrease) in net pension liability	5,487,624
Increase (Decrease) in due to MWMC	(617,697)
Increase (Decrease) in accounts payable	(18,343)
Increase (Decrease) in deferred inflows related to pensions	(727,101)
Increase (Decrease) in wages payable	27,151
Increase (Decrease) in compensated absences payable	28,933
<b>Net cash provided by (used for) operating activities</b>	<b>17,196</b>

*The accompanying notes are an integral part of the financial statements.*

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The financial statements of the Regional Sewer Utility Fund (Fund), a sub-fund of the City of Eugene's (Eugene) Wastewater Utility Enterprise Fund, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

The more significant of the Fund's accounting policies are described below.

(A) The Financial Reporting Entity

Regional wastewater facilities were constructed through the Metropolitan Wastewater Management Commission (MWWMC), established on February 9, 1977 by an intergovernmental agreement between Lane County and the Cities of Eugene and Springfield. On November 10, 1983, MWWMC entered into a contract with Eugene for the physical operation of the regional wastewater treatment facilities.

The Fund operates and maintains the regional wastewater treatment facility, sludge disposal system, and the seasonal industrial wastewater disposal site serving the metropolitan area.

(B) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured by the Fund. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

The Fund is accounted for using an economic resources measurement focus, whereby all assets and deferred outflows of resources and liabilities and deferred inflows of resources are included in the Statement of Net Position, and the Statement of Revenues, Expenses, and Changes in Fund Net Position present increases and decreases in net position. The Fund also uses the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Funds' proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements.

Operating revenues and operating expenses are intermediate components within the Fund's Statement of Revenues, Expenses, and Changes in Fund Net Position that include only those transactions that constitute their principal, ongoing activities exclusive of investing or financing transactions. Significant operating revenues include charges for services. Significant operating expenses include personnel, materials and supplies, and pension expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(C) Equity in Pooled Cash and Investments

The Fund invests cash through Eugene in various investments.

Policies adopted by the Investment Advisory Board and the Eugene City Council authorize Eugene to invest in obligations of the U.S. Treasury and its agencies, time certificates of deposit, governmental money market bank deposit accounts, bankers' acceptances, municipal bonds, corporate bonds, commercial paper, repurchase agreements, reverse repurchase agreements, and the Oregon Local Government Investment Pool.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies, continued

(C) Equity in Pooled Cash and Investments, continued

It is Eugene's policy to report at amortized cost all short-term, highly-liquid money market investments (including corporate bonds, commercial paper, bankers' acceptances, municipal bonds, and U.S. Treasury and agency obligations) and participating interest-earning investment contracts with a remaining maturity at time of purchase of one year or less. Such investments are stated at cost, increased by accretion of discounts and reduced by amortization of premiums, both computed by the straight-line method. Callable investments purchased at a discount are amortized to the maturity date, and callable investments purchased at a premium are amortized to the first call date. Investments with a remaining maturity, at time of purchase, of more than one year are valued at fair value.

Eugene maintains a common cash and investments pool for all City funds. Interest earned on the pooled cash and investments is allocated quarterly based on each fund's average cash and investments balance as a proportion of Eugene's total pooled cash and investments. For purposes of the Statement of Cash Flows, Eugene considers "cash" to include the pooled cash and investments, since the pool has the general characteristics of a demand deposit account, in that any participating fund may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

(D) Inventories

Inventories of materials and supplies are valued at cost, which approximates market, on a first-in, first-out basis of accounting.

(E) Compensated Absences

Liabilities for accumulated or vested vacation leave and compensation time benefits (compensated absences) are recorded in the Statement of Net Position. Sick leave does not vest and is recorded as taken.

(F) Administration Expense

Administration expense represents reimbursement to Eugene's General Fund for general services provided to all City funds including the Fund. The charge for general service costs is based on an approved overhead rate applied to direct costs.

(G) Accounts Receivable

Accounts receivable are accrued as revenue when earned. Management believes all accounts receivable are collectible, accordingly, no allowance for uncollectible receivables is considered necessary.

(H) Pensions

For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(2) Stewardship, Compliance, and Accountability

(A) Deficit Net Position

Although the Fund's annual operating expenses are paid by MMMC, for the year ended June 30, 2017, the Fund had a deficit net position of \$6.5 million. The Fund's deficit net position is the result of the recognition of long-term liabilities associated with its future pension obligations.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund

(A) Due from MWMC

Amounts due from MWMC at June 30, 2017 of \$1,253,470 are for services provided in the operation and maintenance of the regional sewer facility. The Fund does not require collateral on these receivables.

(B) Due to MWMC

All amounts due to MWMC at June 30, 2017, are for septic hauler and user fees.

(C) Contract with Metropolitan Wastewater Management Commission

The contract between Eugene and MWMC requires Eugene to perform the operational and maintenance functions relating to the regional sewage treatment facilities. Under the terms of the contract, Eugene must submit an annual budget to MWMC projecting the costs of performing the operational and maintenance functions, including the cost of supervision and overhead. The MWMC adopted budget, as it relates to the contract with Eugene, specifies personnel services, materials and services, capital outlay, and indirect cost expenditure appropriations for the following functions: Administrative and Management Services, Regional Wastewater Treatment Facility Operations, Regional Wastewater Treatment Facility Maintenance, Biosolids Management, Industrial Source Control (Pretreatment), Regional Environmental Analytical Services, Computer Services, and Projects Group.

Eugene submits monthly billings to MWMC for actual expenses plus indirect charges at the approved overhead rate. MWMC has the right to appeal or seek clarification of any billing within ten days of its receipt. Annually, Eugene is to provide MWMC with an accounting, consistent with generally accepted accounting principles (GAAP), of actual revenues and expenses incurred in performance of the operational and maintenance functions. Negotiations between Eugene and MWMC will be the primary means of settling disputes that may arise; arbitration proceedings are available to either party in the case of unsettled disputes or other matters.

In order to meet the working capital requirements of the Fund, MWMC has deposited \$700,000 with Eugene as of June 30, 2017. The deposit amount may vary in the future depending on changes in the working capital requirements of the Fund and is subject to repayment on demand.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(C) Contract with Metropolitan Wastewater Management Commission, continued

Billable contract expenditures incurred by Eugene for the year ended June 30, 2017 are reconciled as follows to the operating expenses presented in the accompanying financial statements:

	<u>MWMC budget</u>	<u>MWMC actual</u>
Personnel services	\$ 8,578,239	8,111,555
Material and services	4,267,768	4,005,717
Capital outlay and equipment replacement	163,100	1,742,198
Indirect costs	1,020,000	907,291
Billable contract expenditures	\$ 14,029,107	14,766,761
 <u>Adjust expenses for GAAP reporting:</u>		
Decrease in prepaids		(1,068)
Increase in accrued vacation not paid		28,933
Increase in inventory from beginning of year		(43,514)
Increase in pension expense		754,666
Decrease in pension bonds		(100,847)
Total operating expenses		15,404,931

(D) Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
Compensated absences payable	\$ 482,812	28,933	0	511,745	511,745	0
Bonds payable (net of unamortized discount)	2,407,707	0	(100,847)	2,306,860	43,447	2,263,413
Total noncurrent liabilities	\$ 2,890,519	28,933	(100,847)	2,818,605	555,192	2,263,413

(E) Risk Management

The Fund is a participant in Eugene's Risk and Benefits Internal Service Fund which accounts for and finances its risks of loss. The Risk and Benefits Fund has a self-insured liability program which covers personal injury, public official errors and omissions, automobile, and employer's liability, with a maximum self-insured retention of \$500,000 per occurrence for automobile liability, general liability, and \$1,000,000 per occurrence for employee benefit and employment practice liability. In addition, the Risk and Benefits Fund has a self-insured workers' compensation program which covers employees' work related illnesses and injuries, including employer's liability, with a maximum self-insured retention of \$1,000,000 per occurrence. During the previous three fiscal years, there were no general liability claims that exceeded the insurance coverage levels.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(E) Risk Management, continued

The Fund, as a participant in the Risk and Benefits Fund, retains a portion of the risk of loss for general liability. Coverage for workers' compensation, general liability, and employees' medical claims in excess of the self-insurance retention limit is purchased from commercial insurers. The Risk and Benefits Fund also purchases all risk property insurance coverage from a commercial insurer. The property insurance policy has a basic \$25,000 deductible, with earthquake and flood insurance coverages subject to the following deductibles: flood - \$100,000 deductible per occurrence except that buildings in Flood Zones A and V have a \$500,000 deductible per building; earthquake - 2% of the combined value of the property at the location, subject to a minimum deductible of \$100,000 per location and the deductible applies separately to each location. During the previous three fiscal years, there were no general liability claims that exceeded the insurance coverage levels.

(F) Retirement Plan – Oregon PERS (OPERS)

Plan Description

Employees of the Fund are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at: [http://www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx)

Plan Benefits

*Tier One/Tier Two Retirement Benefit ORS Chapter 238.*

The Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

Pension Benefits

The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67% for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a OPERS employer at the time of death,
- the member died within 120 days after termination of OPERS-covered employment,
- the member died as a result of injury sustained while employed in a OPERS-covered job, or
- the member was on an official leave of absence from a OPERS-covered job at the time of death.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

- (3) Detailed Notes on the Fund, continued
- (F) Retirement Plan – Oregon PERS (OPERS), continued

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360, monthly benefits are adjusted annually through cost-of-living (COLA) changes. All monthly pension and annuity benefits except unit purchases are eligible for postretirement adjustments. As a result of the Senate Bills 822 and 861 and the Oregon Supreme Court decision in *Moro v. State of Oregon*, automatic postretirement adjustments are based on a blended COLA rate.

The Supreme Court decision in *Moro* requires that members “will be entitled to receive during retirement a blended COLA rate that reflects the different COLA provisions applicable to benefits earned at different times.” The Supreme Court did not articulate a specific methodology for determining the blended COLA. For purposes of this valuation, OPERS has determined the blend based on creditable service earned before and after October 2013. This approach is consistent with OAR 459-005- 0510 adopted by the OPERS Board in September 2015.

Automatic COLA for benefits earned prior to SB 822 and SB 861

Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (Portland area - all items) as published by the Bureau of Labor Statistics. The maximum adjustment to be made for any year is 2 percent of the previous year’s benefit, except for 2013 when the adjustment is limited to 1.5 percent. Any CPI change in excess of the limit is accumulated for future benefit adjustments that would otherwise be less than the limit. No benefit will be decreased below its original amount.

Automatic Adjustments for benefits earned Post-2013

In 2014 and future years benefits will be increased annually based on a marginal rate schedule. The increase is calculated as 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on amounts above \$60,000 of annual benefit.

Plan Benefits

*OPSRP Pension Program (OPSRP DB)*

The OPSRP Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003.

Pension Benefits

This portion of the OPSRP pension program provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General service: 1.5% is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

continued

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

- (3) Detailed Notes on the Fund, continued
- (F) Retirement Plan – Oregon PERS (OPERS), continued

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives, for life, 50% of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45% of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210, monthly benefits are adjusted annually through cost-of-living (COLA) changes. All monthly pension and annuity benefits are eligible for postretirement adjustments. As a result of the Senate Bills 822 and 861 and the Oregon Supreme Court decision in Moro v. State of Oregon, automatic postretirement adjustments are based on a blended COLA rate based on when the benefits were earned.

Automatic COLA for benefits earned prior to SB 822 and SB 861

Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (Portland area - all items) as published by the Bureau of Labor Statistics. The maximum adjustment to be made for any year is 2 percent of the previous year's benefit, except for 2013 when the adjustment is limited to 1.5 percent. Any CPI change in excess of the limit is accumulated for future benefit adjustments that would otherwise be less than the limit. No benefit will be decreased below its original amount.

Automatic Adjustments for benefits earned Post-2013

In 2014 and future years benefits will be increased annually based on a marginal rate schedule. The increase is calculated as 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on amounts above \$60,000 of annual benefit.

Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the OPERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2014 actuarial valuation which became effective July 1, 2016. The rates in effect for the fiscal year ended June 30, 2017 were 17.50% for Tier One/Tier Two covered members and 10.05% for OPSRP Pension Program General Service Members. The Fund is also charged an internal rate of 6.00% of payroll to departments to fund the repayment of Eugene's pension obligation bonds, which were issued in 2002. The Fund's employer contributions for the fiscal year ended June 30, 2017 were \$660,132.

Pension Assets, Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Fund reported (\$8,763,696) for its proportionate share of Eugene's net pension asset (liability). The net pension asset (liability) was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset (liability) was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016. The Fund's proportion of the net pension asset (liability) was based on a projection of the Fund's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, Eugene's proportion was 1.3425%, which was an increase from its proportion measured as of June 30, 2015.

continued

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

- (3) Detailed Notes on the Fund, continued  
(F) Retirement Plan – Oregon PERS (OPERS), continued

Pension Assets, Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions, continued

For the fiscal year ended June 30, 2017, the Fund recognized pension expense (income) of \$1,610,255. At June 30, 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred</u> outflows of <u>resources</u>	<u>Deferred</u> inflows of <u>resources</u>
Changes in proportion and differences between Eugene's contributions and proportionate shares of contributions	\$ 110,260	130,087
Changes of assumptions or other inputs	1,869,086	0
Contributions subsequent to the measurement date	660,132	0
Difference between expected and actual experience with regard to economic or demographic factors	289,941	0
Net difference between projected and actual earnings on pension plan investments	1,731,339	0
	<u>\$ 4,660,758</u>	<u>130,087</u>

The \$660,132 reported as deferred outflows of resources related to pensions resulting from the Funds contributions subsequent to the measurement date will be recognized in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension income (expense) as follows:

<u>Fiscal year</u> <u>ending June 30</u>		<u>Deferred</u> outflows of <u>resources</u>	<u>Deferred</u> inflows of <u>resources</u>
2018	\$	(1,385,917)	40,544
2019		(725,785)	40,544
2020		(1,364,111)	40,544
2021		(1,036,367)	8,455
2022		(148,578)	0

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

- (3) Detailed Notes on the Fund, continued
- (F) Retirement Plan – Oregon PERS (OPERS), continued

Actuarial Valuations

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of 1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), 2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of 1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), 2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following:

Valuation Date:	December 31, 2014
Measurement Date:	June 30, 2016
Experience Study Report:	2014, published September 2015
Actuarial cost method	Entry Age Normal
Amortization method:	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset valuation method:	Market value of assets

**Actuarial assumptions**

Inflation rate:	2.5% (reduced from 2.75%)
Investment rate of return:	7.5% (reduced from 7.75%)
Discount Rate:	7.5% (reduced from 7.75%)
Projected salary increases:	3.5% (reduced from 3.75%)
Cost of living adjustments	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality:	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

continued

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

- (3) Detailed Notes on the Fund, continued
- (F) Retirement Plan – Oregon PERS (OPERS), continued

Actuarial Valuations, continued

GASB Statement No. 68 reporting requirements allows for the measurement date (June 30, 2016) to be 12 months prior to the reporting date (June 30, 2017) and the actuarial valuation date (December 31, 2014) to be 30 months prior to the reporting date. The new pension asset (liability) for the June 30, 2018 reporting data will be based on the December 31, 2015 actuarial valuation date.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the OPERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes.

Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset class/Strategy</u>	<u>Low Range</u>	<u>High Range</u>	<u>Target</u>
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	13.5%	21.5%	17.5%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			<u>100.0%</u>

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

- (3) Detailed Notes on the Fund, continued
- (F) Retirement Plan – Oregon PERS (OPERS), continued

Long-Term Expected Rate of Return, continued

<u>Asset class</u>	<u>Target</u>	<u>Compound annual return (geometric)</u>
Core fixed income	8.00%	4.00%
Short-term bonds	8.00%	3.61%
Bank/Leveraged loans	3.00%	5.42%
High yield bonds	1.00%	6.20%
Large/Mid cap US equities	15.75%	6.70%
Small cap US equities	1.30%	6.99%
Micro cap US equities	1.30%	7.01%
Developed foreign equities	13.13%	6.73%
Emerging foreign equities	4.12%	7.25%
Non-US small cap equities	1.88%	7.22%
Private equity	17.50%	7.97%
Real estate (Property)	10.00%	5.84%
Real estate (REITS)	2.50%	6.69%
Hedge fund of funds - diversified	2.50%	4.64%
Hedge fund - event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
	100.00%	
Assumed inflation – mean		2.50%

Depletion Date Projection

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(F) Retirement Plan – Oregon PERS (OPERS), continued

Depletion Date Projection, continued

The following circumstances justify an alternative evaluation of sufficiency for OPERS:

- OPERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Sensitivity of the Fund's proportionate share of the net pension asset (liability) to changes in the discount rate

The following presents the Fund's proportionate share of Eugene's net pension asset (liability) calculated using the discount rate of 7.50%, as well as what the Fund's proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	1% decrease (6.50%)	Current discount rate (7.50%)	1% increase (8.50%)
City's proportionate share of the net pension asset (liability)	\$ (14,150,448)	(8,763,696)	(4,261,315)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report

Changes in Assumptions and Other inputs

Changes in actuarial methods and assumptions implemented since the December 31, 2013 valuation are described in the 2014 Experience Study (Study), published September 2015.

Changes in assumptions from that Study are reported in the table of actuarial methods and assumptions on page 71. Modifications to the allocation of actuarial accrued liabilities, administrative expense assumptions, healthcare cost inflation, and mortality tables can be found in the Study at: <http://www.oregon.gov/PERS/Pages/Financials/Actuarial-Presentations-and-Reports.aspx>.

Changes in Plan Provisions Subsequent to Measurement Date

At its July 28, 2017 meeting, the OPERS Board lowered the investment return assumption to 7.20%. The rate takes effect January 1, 2018.

continued

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(G) Retirement Plan – OPSRP IAP

Plan Description

OPSRP Individual Account Program (IAP) is a defined contribution pension plan for Tier One/Tier Two and OPSRP plan members. All benefits of the system are established by the legislature pursuant to ORS Chapters 238 and 238A.

Plan Benefits

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5, 10, 15, or 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Recordkeeping

OPERS contracts with VOYA Financial to maintain IAP participant records.

Contributions

State statute requires that covered employees contribute 6.0% of their annual covered salary to the IAP plan effective January 1, 2004. Statute allows that the employer may elect to pay the employees' required IAP contributions.

Eugene has elected to pay all of the employees' required IAP contributions, except for employees who are members of the City's International Association of Fire Fighters (IAFF) union.

For the fiscal year ended June 30, 2017, the Fund's proportionate share of contributions to the IAP were \$292,391 (a total of 6.00% of covered payroll).

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(H) Other Post-employment Benefits (OPEB)

*Oregon Public Employees Retirement Systems' (OPERS) Retiree Health Insurance Account (RHIA)*

Plan Description

The Fund contributes to the Oregon Public Employees Retirement Systems' (OPERS) Retiree Health Insurance Account (RHIA), a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the Oregon Public Employees Retirement Board (OPERB). The plan, which was established under Oregon Revised Statutes 238.420, provides a payment of up to \$60 per month towards the costs of health insurance for eligible OPERS retirees. RHIA post-employment benefits are set by state statute. A comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by calling (888) 320-7377, or by accessing the OPERS website at <http://oregon.gov/PERS/>.

Funding Policy

Participating employers are contractually required to contribute to the RHIA at a rate assessed bi-annually by the OPERB, currently 0.53% of annual covered payroll. The OPERB sets the employer contribution rate based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Eugene's contributions to the OPERS RHIA for the past three years were as follows, all of which equaled the required contributions for that year:

<u>Fiscal year</u> <u>ending June 30</u>	<u>Contribution</u>
2015	\$ 355,476
2016	318,176
2017	307,063

*Eugene Healthcare Plan*

Plan Description

Eugene administers a single-employer defined benefit healthcare plan that provides post-retirement medical, dental, and vision coverage for eligible retirees, their spouses, domestic partners, and dependents on a self-pay basis. Benefit provisions are established through negotiations between Eugene and representatives of collective bargaining units. Eligible participants may select from one of Eugene's two self-insured healthcare plans: the City Health Plan or the City Managed Care Plan. The level of benefits provided by the plans are the same as those afforded to active employees. Coverage is provided to retirees, spouses, and domestic partners until they become eligible for Medicare, typically age 65, and to eligible dependents until age 26.

Eugene's post-retirement healthcare plan was established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulate that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees. Due to the effect of age, retiree claim costs are generally higher than claim costs for all members as a whole. The difference between retiree claims costs and the amount of retiree healthcare premiums represents Eugene's implicit employer contribution.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(H) Other Post-employment Benefits (OPEB), continued

Plan Description, continued

Eugene also provides post-employment life insurance benefits to fully disabled employees through a single employer defined benefit plan. The plan provides a waiver of life insurance premiums for employees who participate in Eugene's life insurance plan who become totally disabled; the plan is underwritten by Standard Insurance Company, whereby Eugene pays a premium rate for active and disabled employees, and Standard Insurance Company provides term life insurance coverage. In the event Eugene changes life insurance carriers, Standard Insurance Company does not retain any liability for future death benefits. In changing life insurance carriers, if the new carrier was unwilling to accept the liability for the disabled employees, Eugene would be responsible for any future death benefits.

Eugene's post-employment life insurance benefit for disabled employees is an elective benefit and is subject to collective bargaining agreements. The amount of life insurance benefits that a disabled employee receives is based on the amount of coverage and the reduction pattern in effect at the time of disablement. The coverage amount varies per employer group; the maximum benefit is \$250,000.

Eugene did not establish an irrevocable trust (or equivalent arrangement) to account for either plan. Instead, the activities of the plans are reported in Eugene's Risk and Benefits Internal Service Fund. Neither plan issues a separate report.

Funding Policy

Eugene has the authority to establish and amend contribution requirements. The required contribution is based on projected pay-as-you-go financing requirements. Since Eugene's healthcare plan is self-insured, the annual required contributions can fluctuate. For the fiscal year ending June 30, 2017, Eugene's combined plan contributions were \$1,137,267.

Annual OPEB Cost and Net OPEB Obligation

Eugene's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance within the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of Eugene's annual OPEB cost for the fiscal year ending June 30, 2017, the amount actually contributed to the plans, and changes in Eugene's net OPEB obligation:

Annual required contribution	\$ 1,576,964
Interest on net OPEB obligation	77,085
Adjustment to the annual required contribution	<u>(115,294)</u>
Annual OPEB cost (expense)	1,538,755
Contributions made	<u>1,137,267</u>
Increase (decrease) in net OPEB obligation	401,488
Net OPEB obligation, beginning of year	<u>2,055,605</u>
Net OPEB obligation, end of year	<u><u>\$ 2,457,093</u></u>

continued

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(H) Other Post-employment Benefits (OPEB), continued

Annual OPEB Cost and Net OPEB Obligation, continued

Eugene's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for 2017 and the preceding two years were as follows:

<u>Fiscal year ending June 30</u>	<u>Annual OPEB cost</u>	<u>Contribution</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2015	993,954	1,193,449	120%	3,050,124
2016	997,553	1,992,072	200%	2,055,605
2017	1,583,755	1,137,267	72%	2,457,093

Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$17,194,556, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$17,194,556. The covered payroll (annual payroll of active employees covered by the plans) was \$106,083,368, and the ratio of the UAAL to the covered payroll was 16.2%.

As of June 30, 2017, Eugene has set aside \$3,785,451 to pay for future post-employment benefits, which is included in the unrestricted portion of net position in the Risk and Benefits Internal Service Fund. Since these assets have not been placed in a qualified trust (or equivalent arrangement) they have not been recognized as part of the actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The June 30, 2017 actuarial valuations for the healthcare plan and the post-employment life insurance benefits for disabled employees were based on the entry age normal method. The actuarial assumption included an investment return of 3.75%. The actuarial valuation included a healthcare cost inflation trend rate of 6.5% in 2017 decreasing to 5.0% in 2031. The unfunded actuarially accrued liability and the gains and losses for both plans are amortized as a level dollar amount over an open period of 30 years.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund, continued

(l) Subsequent Event

At its July 28, 2017 meeting, the OPERS Board lowered its effective "assumed rate" from 7.5% to 7.2% effective, January 1, 2018. The assumed rate is the rate of investment return (including inflation) that the PERS Fund's regular account is expected to earn over the long term. Oregon Administrative Rule 459-007-0001(2) states that the assumed rate "means the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation."

The lowered rate is expected to increase the system wide OPERS net pension liability by an estimated \$2.0 to \$2.4 billion. Of this increase, the City's portion is estimated at \$27.0 to \$32.4 million.

REGIONAL SEWER UTILITY FUND  
An Enterprise Fund of the City of Eugene, Oregon

Notes to Required Supplementary Information

June 30, 2017

- (1) The Fund's proportionate share of Eugene's net pension asset (liability) is actuarially determined by comparing Eugene's projected long-term contributions to OPERS to the total projected long-term contributions to the plan from all employers.

Schedule of the Fund's Proportionate Share of the Net Pension Asset (Liability)

	2014	2015	2016	2017
Proportion of the net pension asset (liability)	1.35%	1.35%	1.31%	1.34%
Proportionate share of the net pension asset (liability)	\$ (3,057,368)	1,466,685	(3,276,072)	(8,763,696)
Covered-employee payroll	4,075,227	4,351,443	4,349,340	4,499,378
Proportionate share of the net pension asset (liability) as a percentage of its covered-employee payroll	-75.02%	33.71%	-75.32%	-194.78%
Plan fiduciary net position as a percentage of the total pension asset (liability)	N/A	103.60%	91.90%	80.50%

Schedule of the Fund's contributions

	2014	2015	2016	2017
Contractually required contribution	\$ 517,985	550,052	645,520	660,132
Contributions in relation to the contractually required contribution	(517,985)	(550,052)	(645,520)	(660,132)
Contribution deficiency (excesses)	\$ 0	0	0	0
Covered-employee payroll	4,075,227	4,351,443	4,349,340	4,499,378
Contributions as a percentage of covered-employee payroll	12.71%	12.64%	14.84%	14.67%

Information about the significant methods and assumptions used in calculating the actuarially determined contributions may be found below.

- (2) Schedule of Funding Progress – OPEB

Other Post Employment Benefits schedule of funding progress:

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded actuarial accrued liability as a percentage of covered payroll
06/30/13	0	14,171,194	14,171,194	0.0%	93,916,203	15.0%
06/30/15	0	13,181,876	13,181,876	0.0%	97,086,746	14.0%
06/30/17	0	17,194,556	17,194,556	0.0%	106,083,368	16.0%

Eugene's other post employment benefits include retiree healthcare and waiver of life insurance premiums for disabled employees. The actuarial cost method for retiree healthcare benefits is entry age normal; the cost method for waiver of life insurance premiums for disabled employees is projected unit cost.