

# REGIONAL SEWER UTILITY FUND

An Enterprise Fund  
of the City of Eugene, Oregon

Financial Statements



Fiscal Year Ended  
June 30, 2018



# REGIONAL SEWER UTILITY FUND

## **REGIONAL SEWER UTILITY FUND**

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Of the City of Eugene, Oregon

Financial Statements

Fiscal Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

Report Prepared by the City of Eugene  
Finance Division

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## 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

### **Report on the Financial Statements**

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, 2018, 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, 2018, 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.

**Emphasis of a Matter**

As discussed in Note 4(A) to the financial statements, the Regional Sewer Utility Fund has adopted the provisions of Government Accounting Standards Board Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Regional Sewer Utility Fund recognized a reduction to its beginning net position for the year ended June 30, 2018 in the amount of \$786,437.

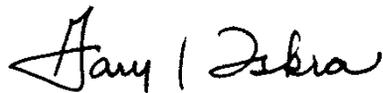
As discussed in Note 4(B) to the financial statements, a prior period adjustment, reducing total net position by \$534,937, was recorded in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This change was to recognize that the right to ownership of inventory had been previously transferred to MWMC.

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, 2018, 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.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 5 – 6) 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.

**ISLER CPA**

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

Eugene, Oregon  
November 30, 2018

## 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, 2018. 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, 2018, decreased \$2.1 million from (\$6.5) million to (\$8.6) million. The significant changes were a (\$0.5) million prior period adjustment in FY18 inventory, a (\$0.8) million change due to the recognition of an OPEB liability, and a (\$0.9) million decrease in deferred outflows related to pensions.

### 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 7-11 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>		
	2018	2017
Current assets	\$ 1,498,881	2,190,727
Other assets and deferred outflows	<u>2,837,934</u>	<u>4,660,758</u>
Total assets and deferred outflows	<u>4,336,815</u>	<u>6,851,485</u>
Current liabilities	2,058,470	2,218,857
Bonds payable	2,147,121	2,263,413
Net pension liability	7,876,281	8,763,696
Net OPEB liability	770,408	0
Deferred inflows	<u>95,609</u>	<u>130,087</u>
Total liabilities and deferred inflows	<u>12,947,889</u>	<u>13,376,053</u>
Net position:		
Unrestricted (deficit)	<u>(8,611,074)</u>	<u>(6,524,568)</u>
Total net position	<u>\$ (8,611,074)</u>	<u>(6,524,568)</u>

<b>Regional Sewer Utility Fund's Change in Net Position</b>		
	<u>2018</u>	<u>2017</u>
Operating revenues:		
Licenses and permits	\$ 96,577	0
Fees, fines, and charges for service	14,763,398	14,723,405
Miscellaneous	<u>25,444</u>	<u>39,266</u>
Total operating revenues	<u>14,885,419</u>	<u>14,762,671</u>
Operating expenses:		
Personnel services	7,350,915	7,184,053
Administration	938,075	907,291
Materials and supplies	2,528,226	3,009,952
Maintenance and utilities	1,823,333	1,684,739
Pension expense	1,910,824	1,610,255
Other expenses	<u>939,296</u>	<u>1,008,641</u>
Total operating expenses	<u>15,490,669</u>	<u>15,404,931</u>
Operating income (loss)	(605,250)	(642,260)
Nonoperating revenues:		
Interest revenue	0	331
Interest expense	<u>(159,882)</u>	<u>(167,281)</u>
Total nonoperating revenues	<u>(159,882)</u>	<u>(166,950)</u>
Change in net position	(765,132)	(809,210)
Total net position, July 1	(6,524,568)	(5,715,358)
Change in accounting principle	(786,437)	0
Prior period adjustment	<u>(534,937)</u>	<u>0</u>
Net position, July 1, as restated	<u>(7,845,942)</u>	<u>(5,715,358)</u>
Net position, June 30	<u>\$ (8,611,074)</u>	<u>(6,524,568)</u>

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

For FY19, 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% - 2.2%.
- Health benefit rates were increased by 0.8%.
- Retirement costs are expected to range from 25.7% to 29.7% 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:

Fionan Cronin, CPA  
Assistant Finance Director  
City of Eugene  
100 West 10<sup>th</sup> Avenue, Suite 400

REGIONAL SEWER UTILITY FUND  
 An Enterprise Fund of the City of Eugene, Oregon  
**Statement of Net Position**  
 June 30, 2018  
 (amounts in dollars)

Assets

Current assets

Equity in pooled cash and investments	182,697
Accounts receivable	268,488
Due from MWMC	1,047,696
<b>Total current assets</b>	<b>1,498,881</b>

Deferred outflows of resources

Related to OPEB	145,551
Related to pensions	2,692,383
<b>Total deferred outflows of resources</b>	<b>2,837,934</b>
<b>Total assets and deferred outflows of resources</b>	<b>4,336,815</b>

Liabilities

Current liabilities

Accounts payable	48,990
Wages payable	435,202
Compensated absences	503,518
Due to MWMC	315,296
Deposits	700,000
Interest payable	11,464
Bonds payable	44,000
<b>Total current liabilities</b>	<b>2,058,470</b>

Noncurrent liabilities

Bonds payable (net of unamortized discount)	2,147,121
Net pension liability	7,876,281
Net OPEB liability	770,408
<b>Total noncurrent liabilities</b>	<b>10,793,810</b>

Deferred inflows of resources

Related to pensions	85,957
Related to OPEB	9,652
<b>Total deferred inflows of resources</b>	<b>95,609</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>12,947,889</b>

Net position

Unrestricted	(8,611,074)
<b>Total net position</b>	<b>(8,611,074)</b>

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

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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, 2018  
 (amounts in dollars)

<u>Operating revenues</u>	
Licenses and permits	96,577
Charges for services	14,760,098
Fines and forfeits	3,300
Miscellaneous	25,444
<b>Total operating revenues</b>	<b>14,885,419</b>
<u>Operating expenses</u>	
Personnel services	7,350,915
Contractual services	862,876
Materials and supplies	2,528,226
Maintenance	773,378
Utilities	1,049,955
Rent	17,495
Taxes	6,582
Insurance	52,343
Administration	938,075
Pension expense	1,910,824
<b>Total operating expenses</b>	<b>15,490,669</b>
<b>Operating income (loss)</b>	<b>(605,250)</b>
<u>Nonoperating revenue (expense)</u>	
Interest expense	(159,882)
<b>Total nonoperating revenue (expense)</b>	<b>(159,882)</b>
<b>Change in net position</b>	<b>(765,132)</b>
<b>Total net position, July 1, 2017</b>	<b>(6,524,568)</b>
<b>Change in accounting principle (Note 4a)</b>	<b>(786,437)</b>
<b>Prior period adjustment (Note 4b)</b>	<b>(534,937)</b>
<b>Total net position, July 1, 2017</b>	<b>(7,845,942)</b>
<b>Total net position, June 30, 2018</b>	<b>(8,611,074)</b>

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

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REGIONAL SEWER UTILITY FUND  
 An Enterprise Fund of the City of Eugene, Oregon  
**Statement of Cash Flows**  
 For the fiscal year ended June 30, 2018  
 (amounts in dollars)

<u>Cash flows from operating activities</u>	
Cash received from customers	24,794,985
Cash received from MWMC for operating reimbursements	14,966,615
Cash paid to MWMC for sewer user and septic hauler fees collected	(24,669,648)
Cash paid to suppliers for goods and services	(4,857,492)
Cash paid to employees for services	(6,847,596)
Cash paid for interfund services used	(2,119,918)
Cash paid for central business functions	(938,075)
<b>Net cash provided by (used for) operating activities</b>	<b>328,871</b>
<u>Cash flows from noncapital and related financing activities</u>	
Principal payments on pension bonds	(180,308)
Interest payments on pension bonds	(95,313)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(275,621)</b>
Net increase (decrease) in cash	53,250
Cash, July 1, 2017	129,447
<b>Cash, June 30, 2018</b>	<b>182,697</b>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	(605,250)
<u>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities</u>	
(Increase) Decrease in accounts receivable	759
(Increase) Decrease in due from other governments	205,774
(Increase) Decrease in prepaids	3,626
(Increase) Decrease in deferred outflows related to OPEB	(145,551)
(Increase) Decrease in deferred outflows related to pensions	1,968,375
Increase (Decrease) in net pension liability	(887,415)
Increase (Decrease) in due to other governments	(78,548)
Increase (Decrease) in accounts payable	(102,164)
Increase (Decrease) in deferred inflows related to pensions	(44,130)
Increase (Decrease) in deferred inflows related to OPEB	9,652
Increase (Decrease) in net OPEB liability	(16,029)
Increase (Decrease) in wages payable	27,999
Increase (Decrease) in compensated absences payable	(8,227)
<b>Net cash provided by (used for) operating activities</b>	<b>328,871</b>

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

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

June 30, 2018

(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 Fund has implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB).

The Fund has implemented GASB Statement No. 85 Omnibus 2017, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

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 (MWMC), established on February 9, 1977 by an intergovernmental agreement between Lane County and the Cities of Eugene and Springfield. On November 10, 1983, MWMC 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.

continued

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

(1) Summary of Significant Accounting Policies, continued

(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.

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) 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.

(E) 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.

(F) 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.

(G) 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 market value.

continued

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

(1) Summary of Significant Accounting Policies, continued

(H) Other Post-Employment Benefits (OPEB)

The Fund is a participant in the City of Eugene's two separate OPEB plans. For reporting purposes the net OPEB asset (liability) and the deferred inflows and outflows related to OPEB for both plans have been combined on the statement of net position.

OPEB – Retiree Health and Life Insurance Plan (RHLI)

The fiduciary net position of Eugene's Healthcare Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB asset (liability), deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from Eugene's Health Plan fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

OPEB – Retiree Health and Life Insurance Plan (RHIA)

For purposes of measuring the net OPEB asset (liability), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 market value.

(2) Stewardship, Compliance, and Accountability

(A) Deficit Net Position

Although the Fund's annual operating expenses are paid by MWMC, for the year ended June 30, 2018, the Fund had a deficit net position of \$8,611,074. The Fund's deficit net position is the result of the recognition of long-term liabilities associated with its future pension and OPEB obligations.

(3) Detailed Notes on the Fund

(A) Due from MWMC

Amounts due from MWMC at June 30, 2018 of \$1,047,696 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, 2018, 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.

continued

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

(3) Detailed Notes on the Fund, continued

(C) Contract with Metropolitan Wastewater Management Commission, continued

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, 2018. 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.

Billable contract expenditures incurred by Eugene for the year ended June 30, 2018 are reconciled as follows to the operating expenses presented in the accompanying financial statements:

	<u>MWMC budget</u>	<u>MWMC actual</u>
Personnel services	\$ 8,992,185	8,660,685
Material and services	4,243,075	4,015,998
Capital outlay and equipment replacement	218,263	1,271,231
Indirect costs	<u>1,032,700</u>	<u>938,075</u>
Billable contract expenditures	<u>\$ 14,486,223</u>	14,885,989
 <u>Adjust expenses for GAAP reporting:</u>		
Decrease in prepaids		3,626
Increase in accrued vacation not paid		(8,227)
Decrease in OPEB expense		(151,928)
Increase in pension expense		1,036,830
Recognition of pension bond interest expense		(159,882)
Decrease in pension bonds		<u>(115,739)</u>
Total operating expenses		<u>15,490,669</u>
 <u>Proof:</u>		
Operating expenses from GAAP basis income statement		<u>15,490,669</u>

(D) Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2018 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	\$ 511,745	0	(8,227)	503,518	503,518	0
Bonds payable (net of unamortized discount)	<u>2,306,860</u>	0	(115,739)	2,191,121	44,000	2,147,121
Total noncurrent liabilities	<u>\$ 2,818,605</u>	0	(123,966)	2,694,639	547,518	2,147,121

continued

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

(3) Detailed Notes on the Fund, continued

(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.

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 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 PERS 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 (2.0% for police and fire employees, 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 (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60.

continued

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

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

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 PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) 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, PERS 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 PERS 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

*Oregon Public Service Retirement Plan Pension Program (OPSRP DB)*

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

continued

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

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

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:

Police and fire: 1.8% is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

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.

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.

continued

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

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

Contributions

PERS 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 PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2016 actuarial valuation which became effective July 1, 2017. The rates in effect for the fiscal year ended June 30, 2018 were 21.40% for Tier One/Tier Two covered members, 12.38% for OPSRP Pension Program General Service Members, and 17.15% for OPSRP Pension Program Police and Fire Members. The Fund is also charged an internal rate of 6.00% of payroll to departments to fund the repayment of the Eugene's pension obligation bonds, which were issued in 2002. Employer contributions for the year ended June 30, 2018 were \$847,882.

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

At June 30, 2018, the Fund reported (\$7,876,281) for its proportionate share of the net pension asset (liability). The net pension asset (liability) was measured as of June 30, 2017, and the total pension asset used to calculate the net pension asset (liability) was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017. 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, 2017, the Eugene's proportion was 1.3560%, which was an increase from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Fund recognized pension expense (income) of \$1,884,712. At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of <u>resources</u>	Deferred inflows of <u>resources</u>
Changes in proportion and differences between City contributions and proportionate shares of contributions	\$ 62,802	73,381
Changes of assumptions or other inputs	1,255,042	0
Changes in proportionate share	86,528	12,576
Contributions subsequent to the measurement date	847,882	
Difference between expected and actual experience with regard to economic or demographic factors	362,834	0
Net difference between projected and actual earnings on pension plan investments	77,296	0
	\$ 2,692,383	85,957

continued

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

- (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

The \$847,882 reported as deferred outflows of resources related to pensions resulting from the Funds contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset (liability) in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (income) as follows:

Fiscal year <u>ending June 30</u>	Deferred outflows and (inflows) <u>of resources</u>
2019	\$ 336,556
2020	911,541
2021	639,650
2022	(144,164)
2023	14,961

Actuarial Valuations

The employer contribution rates effective July 1, 2017, through June 30, 2019, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS 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 PERS 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.

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

(3) Detailed Notes on the Fund, continued

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

Actuarial Valuations, continued

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following:

Valuation Date:	December 31, 2015
Measurement Date:	June 30, 2017
Experience Study Report:	2014, published September 23, 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:	2.50%
Investment rate of return:	7.50%
Discount Rate:	7.50%
Projected salary increases:	3.50%
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.

GASB Statement No. 68 reporting requirements allows for the measurement date (June 30, 2017) to be 12 months prior to the reporting date (June 30, 2018) and the actuarial valuation date (December 31, 2015) to be 30 months prior to the reporting date. The new pension asset (liability) for the June 30, 2019 reporting data will be based on the December 31, 2016 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.

continued

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

(3) Detailed Notes on the Fund, continued

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

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 2015 the PERS 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>

<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%
	<u>100.00%</u>	
Assumed inflation – mean		2.50%

continued

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

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

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.

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

- PERS 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 the 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)	\$ (13,422,622)	(7,876,281)	(3,238,514)

Pension plan fiduciary net position

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

continued

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

(3) Detailed Notes on the Fund, continued

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

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 PERS Board lowered the investment return assumption to 7.20%. The rate takes effect January 1, 2018.

(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

PERS contracts with VOYA Financial to maintain IAP participant records.

continued

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

(3) Detailed Notes on the Fund, continued

(G) Retirement Plan – OPSRP IAP, continued

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. For the fiscal year ended June 30, 2018, the Fund's contribution to the IAP were \$223,890 (a total of 6.0% of covered payroll).

(H) Other Post-employment Benefits (OPEB) – Retirement Health Insurance Account (RHIA)

Plan Description

Employees of the Fund are provided with health insurance premium subsidies through the Retirement Health Insurance Account (RHIA). The Oregon Public Employees Retirement System (OPERS) administers the RHIA plan, a cost-sharing, multiple-employer defined benefit Other Post Employment Benefit (OPEB) 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

The RHIA was established by ORS 238.420 and authorizes a payment up to \$60 from the RHIA toward the monthly costs of health insurance for eligible OPERS members. The plan was closed to new entrants hired on or after August 29, 2003. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a OPERS-sponsored health plan.

A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS or (2) was insured at the time the member died and member retired before May 1, 1991.

Contributions

Employer contribution rates during the period were based on the December 31, 2015 actuarial valuation which became effective July 1, 2017. The rates in effect for the fiscal year ended June 30, 2018 were 0.07% of OPERS-covered salaries for Tier One and Tier Two members to fund the normal cost portion of RHIA benefits. OPERS employers contributed 0.45% percent of all PERS-covered salaries to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. Employer contributions for the year ended June 30, 2018 were \$23,416.

Employer contributions are advance-funded on an actuarially determined basis. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. As of June 30, 2017, the inactive RHIA plan participants currently receiving benefits totaled 44,769, and there were 61,208 active and 16,369 inactive members who meet the requirements to receive RHIA benefits when they retire

continued

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

(3) Detailed Notes on the Fund, continued

(H) Other Post-employment Benefits (OPEB) – Retirement Health Insurance Account (RHIA), continued

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

At June 30, 2018, the Fund reported \$20,009 for its proportionate share of the net OPEB asset (liability). The net OPEB asset (liability) was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset (liability) was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017. The Fund's proportion of the net OPEB asset (liability) was based on a projection of the Fund's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, Eugene's proportion was 1.01294%, which was a decrease from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Fund recognized OPEB expense (income) of (\$23,906). At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes in proportion and differences between City contributions and proportionate shares of contributions	\$ 0	385
Contributions subsequent to the measurement date	23,416	
Net difference between projected and actual earnings on pension plan investments	0	9,267
	<u>\$ 23,416</u>	<u>9,652</u>

The \$23,416 reported as deferred outflows of resources related to OPEB resulting from the Funds contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB asset (liability) in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense (income) as follows:

<u>Fiscal year ending June 30</u>		<u>Deferred outflows and (inflows) of resources</u>
2019	\$	(2,459)
2020		(2,459)
2021		(2,417)
2022		(2,317)
2023		0

continued

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

(3) Detailed Notes on the Fund, continued

(H) Other Post-employment Benefits (OPEB) – Retirement Health Insurance Account (RHIA), continued

Actuarial Valuations

See actuarial valuations included in note 5 (C) Retirement Plan – Oregon PERS (OPERS)

GASB Statement No. 75 reporting requirements allows for the measurement date (June 30, 2017) to be 12 months prior to the reporting date (June 30, 2018) and the actuarial valuation date (December 31, 2015) to be 30 months prior to the reporting date. The new OPEB asset (liability) for the June 30, 2019 reporting data will be based on the December 31, 2016 actuarial valuation date.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50%. 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 RHIA 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 OPEB plan investments for the RHIA plan was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return

See Long-Term Expected Rate of Return included in note 5 (C) Retirement Plan – Oregon PERS (OPERS)

Depletion Date Projection

GASB 75 generally requires that a blended discount rate be used to measure the Total OPEB 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 75 will often require that the actuary perform complex projections of future benefit payments and OPEB plan investments. GASB 75 (paragraph 82) 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.

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

- PERS 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 75 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.

continued

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

(3) Detailed Notes on the Fund, continued

(H) Other Post-employment Benefits (OPEB) – Retirement Health Insurance Account (RHIA), continued

Depletion Date Projection, continued

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 75 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 OPEB asset (liability) to changes in the discount rate

The following presents the Fund's proportionate share of the net OPEB asset (liability) calculated using the discount rate of 7.50%, as well as what the Fund's proportionate share of the net OPEB 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)	\$ (13,422,622)	(7,876,281)	(3,238,514)

OPEB plan fiduciary net position

Detailed information about the OPEB 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 PERS 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

(3) Detailed Notes on the Fund, continued

(I) Other Post-employment Benefits (OPEB) – Retiree Health and Life Insurance Plan (RHLI)

Plan Description

Eugene administers the RHLI, 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 Eugene Health Plan or the Eugene 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 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.

Plan Benefits

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.

Eugene's post-employment life insurance benefit for disabled employees is an elective benefit offered by Eugene, this benefit 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.

Contributions

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, 2018, the Fund's combined plan contributions were \$122,135. As of June 30, 2017 there were 1,426 active and 207 inactive members who meet the requirements to receive benefits when they retire.

Funding Policy

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

As of June 30, 2018, the Eugene has set aside \$4,043,943 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.

continued

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

(3) Detailed Notes on the Fund, continued

(l) Other Post-employment Benefits (OPEB) – Retiree Health and Life Insurance Plan (RHLI), continued

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

At June 30, 2018, the Fund reported (\$790,417) net OPEB asset (liability). The net OPEB asset (liability) was measured as of June 30, 2017, and the net OPEB asset (liability) was determined by an actuarial valuation as of July 1, 2016 rolled forward to June 30, 2017.

For the year ended June 30, 2018, the Fund recognized OPEB expense (income) of \$17,529. At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Contributions subsequent to the measurement date	\$ 122,135	0
	\$ 122,135	0

The \$122,135 reported as deferred outflows of resources related to OPEB resulting from the Funds contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB asset (liability) in the year ending June 30, 2019.

continued

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

(3) Detailed Notes on the Fund, continued

(I) Other Post-employment Benefits (OPEB) – Retiree Health and Life Insurance Plan (RHLI), continued

Actuarial Assumptions

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following:

Valuation Date: July 1, 2016  
 Measurement Date: June 30, 2017  
 Actuarial cost method: Entry Age Normal

**Actuarial assumptions**

Inflation rate: 2.50%  
 Discount Rate: 3.75% per year, based on all years discounted at municipal bond rate.  
 Projected salary increases: 2.5% per year plus the Salary Merit Scale below.  
 Participation: 100% of active employees eligible for post-employment life insurance benefits.  
                   50% of active employees currently enrolled in City medical plan are assumed to remain enrolled at retirement until Medicare eligibility.  
 Salary Merit Scale: Total payroll increase is overall payroll growth plus merit table below.

Duration	General Service	Police & Fire
0	3.95%	5.17%
5	2.24%	2.71%
10	1.22%	1.41%
15	0.71%	0.90%
20	0.52%	0.81%
25	0.45%	0.76%
30	0.29%	0.39%
31 +	0.00%	0.00%

Healthcare cost trend rate: Healthcare rates decrease 0.1% annually from 6.5% from the year ended June 30, 2017 to 5.0% for those years ending beyond June 30, 2031.

Mortality: Male:  
                   RP-2000 male table, combined active/healthy annuitant, blended 25% blue collar, 75% white collar, set back 12 months, and projected generationally with Scale BB.  
 Female:  
                   RP-2000 female table, combined active/healthy annuitant, blended 25% blue collar, 75% white collar, set back 12 months, and projected generationally with Scale BB.  
 Mortality rates for active male and female participants are 75% and 65% of the above rates, respectively.

Disabled mortality: RP-2000 male/female tables, disabled annuitant, no collar, and projected generationally with Scale BB.  
 For ages below 85, mortality rates for active male and female participants are 70% and 95% of the above rates, respectively.

continued

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

(3) Detailed Notes on the Fund, continued

(l) Other Post-employment Benefits (OPEB) – Retiree Health and Life Insurance Plan (RHLI), continued

Actuarial Assumptions, continued

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.

GASB Statement No. 75 reporting requirements allows for the measurement date (June 30, 2017) to be 12 months prior to the reporting date (June 30, 2018) and the actuarial valuation date (July 1, 2016) to be 30 months prior to the reporting date.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.75%, which is based on municipal bond rates.

Sensitivity of the Fund's proportionate share of the net OPEB asset (liability) to changes in the discount rate and trend rates

The following presents the Fund's net OPEB asset (liability) calculated using the discount rate of 3.75%, as well as what the Fund's the net OPEB asset (liability) would be if it were calculated using a discount rate that is 1 percentage-point lower (2.75%) or 1 percentage-point higher (4.75%) than the current rate:

	1% decrease (2.75%)	Current discount rate (3.75%)	1% increase (4.75%)
Fund's proportionate share of the net OPEB asset (liability)	\$ (858,407)	(790,417)	(728,281)

The following presents the Fund's net OPEB asset (liability) calculated using the healthcare cost trend rate of 7.00% graded down to 5.00%, as well as what the Fund's net OPEB asset (liability) would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower (6.00%) or 1 percentage-point higher (8.00%) than the current rate:

	1% decrease 6.00% graded down to 4.00%	Current trend rate 7.00% graded down to 5.00%	1% increase 8.00% graded down to 6.00%
Fund's proportionate share of the net OPEB asset (liability)	\$ (703,810)	(790,417)	(892,787)

continued

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

(3) Detailed Notes on the Fund, continued

(I) Other Post-employment Benefits (OPEB) – Retiree Health and Life Insurance Plan (RHLI), continued

Changes in Total OPEB Liability

Balance at 6/30/17	(772,888)
Changes for the year:	
Service cost	(37,893)
Interest	(28,818)
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	-
Benefit payments	49,182
Net changes	(17,529)
Balance at 6/30/18	(790,417)
Estimated covered payroll	4,782,661.55
Total OPEB Asset (Liability) as a percentage of payroll	16.52%

(4) Other Information

(A) Change in Accounting Principle

Based on the implementation of GASB Statement No. 75, the Fund restated the beginning net position for the Statement of Revenues to recognize their proportionate share of the OPEB liability and deferred outflows of resources as of July 1, 2017. Net position was reduced by \$786,437.

(B) Prior Period Adjustment

A prior period adjustment, reducing total net position by \$534,937, was recorded in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This change was to recognize that the right to ownership of inventory had been previously transferred to MWMC.

continued

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

Notes to Required Supplementary Information

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Notes to Required Supplementary Information

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

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

	2014	2015	2016	2017	2018
Proportion of the net pension asset (liability)	1.35%	1.35%	1.31%	1.34%	1.36%
Proportionate share of the net pension asset (liability)	\$ (3,057,368)	1,466,685	(3,276,072)	(8,763,696)	(7,876,281)
Covered-employee payroll	4,075,227	4,351,443	4,349,340	4,499,378	4,613,616
Proportionate share of the net pension asset (liability) as a percentage of its covered-employee payroll	-75.02%	33.71%	-75.32%	-194.78%	-170.72%
Plan fiduciary net position as a percentage of the total pension asset (liability)	N/A	103.60%	91.90%	80.50%	83.10%

Schedule of Fund contributions

	2014	2015	2016	2017	2017
Contractually required contribution	\$ 517,985	550,052	645,520	660,132	771,925
Contributions in relation to the contractually required contribution	(517,985)	(550,052)	(645,520)	(660,132)	(771,925)
Contribution deficiency (excesses)	\$ 0	0	0	0	0
Covered-employee payroll	4,075,227	4,351,443	4,349,340	4,499,378	4,613,616
Contributions as a percentage of covered- employee payroll	12.71%	12.64%	14.84%	14.67%	16.73%

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

Notes to Required Supplementary Information

(2) Schedule of Fund's Proportionate Share of the Net OPEB RHIA Asset (Liability)

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

	2017	2018
Proportion of the net OPEB asset (liability)	1.05%	1.01%
Proportionate share of the net OPEB asset (liability)	\$ (13,549)	20,009
Covered payroll	4,499,378	4,613,616
Proportionate share of the net OPEB asset (liability) as a percentage of its covered payroll	-0.30%	0.43%
Plan fiduciary net position as a percentage of the total OPEB asset (liability)	94.20%	108.90%

Schedule of Fund contributions

	2017	2018
Contractually required contribution	\$ 14,535	23,417
Contributions in relation to the contractually required contribution	(14,535)	(23,417)
Contribution deficiency (excesses)	\$ 0	0
Covered payroll	4,499,378	4,613,616
Contributions as a percentage of covered payroll	0.32%	0.51%

(3) Schedule of changes in the Fund's Total OPEB RHIA Asset (Liability)

	2018
Service cost	\$ (37,893)
Interest	(28,818)
Benefit payments	49,182
Net change in total OPEB liability	(17,529)
Total OPEB liability - beginning	(772,888)
Total OPEB liability - ending	\$ (790,417)
Covered employee payroll	\$ 4,782,662
Total OPEB Asset (Liability) as a percentage of payroll	16.52%