

Updated Fund Statements of Purpose

| Fund Name | Page Number |
|--|--------------------|
| Health Insurance Operating Fund | 1 |
| Hydroelectric Power Bond Redemption Fund | 3 |
| Hydroelectric Power Renewal Replacement Fund | 4 |
| Police Special Revenue Fund | 5 |
| Water Construction Fund | 6 |
| Water Fund | 7 |

Health Insurance Operating Fund

Managing Bureau: Office of Management and Finance, Bureau of Human Resources

Statement of Purpose: The Health Insurance Operating Fund provides funding for programs and services related to healthcare and other supportive benefits offered to City Employees and eligible participants (i.e. dependents, retirees, and Cobra participants). ~~accounts for funding and costs associated with City's self-insured medical and dental plans for all employees, dependents and retirees with the exception of Portland Police Association (PPA) members.~~

Sources of Revenue: Revenue sources for the fund include premiums collected from bureaus for their employees and premiums collected from retirees. Other sources include premiums collected from employees, administrative and other fees, and interest income.

Contingency Requirements: Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the fund.

Reserve Requirements: The fund maintains two reserve components.

- 1) The first component to the reserve is a restricted reserve covering the Incurred But Not Paid (IBNP) requirements. This component of the reserve is in accordance with standard industry practice and guidelines, and includes all liability components incurred but not yet paid. The recommended IBNP reserve is actuarially determined by the City's Health Fund Consultant.
- 2) In addition to the IBNP reserve, an additional Risk Based Capital reserve (~~RBC~~~~Risk Based Capital~~) has been set aside pursuant to National Association of Insurance Commissioners (NAIC) requirements. The four major components of RBC are: underwriting risk (insufficient premiums relative to expense), asset risk (default, reinsurance failure), credit risk (stop loss recoveries, fully insured medical, dental and vision premiums, ASO fees and prescription rebates), and business risk (expense overruns). The RBC reserve replaces previous reserve components (e.g. large claim and contingency). Large claims above \$1,000,000 continue to be covered by stop loss insurance and the City pays premium to its third party administrator for the coverage.
 - a. RBC policy ~~Furthermore, a new policy has been introduced to calculate when it is appropriate to use excess reserves to moderate future rate increases. The new policy recommends targeting any reserve surplus above 125% of RBC for use as a subsidy (buy-down) on future rate increases. Conversely, the policy also recommends targeting any reserve deficit below 75% of the RBC as the threshold by which the plan actuary would calculate a surcharge into future rate increases building up the RBC reserve to a fully funded level. Large claims above \$350,000 continue to be covered by stop loss insurance and the City pays premium to its third party administrator for the coverage.~~

Health Insurance Operating Fund

Disposition of Funds: In the event the fund is closed, all remaining resources shall revert to the General Fund.

Method for periodically testing the cost-effectiveness of pre-funding capital replacement versus leasing or lease purchasing for capital goods: Not applicable.

Equipment Replacement policies: Not applicable.

Method of accounting for equipment reserves and purchases for each bureau: Not applicable.

Policy and procedure for protecting capital reserves from being used for operating purposes: Not applicable.

Method for testing the cost-effectiveness of providing services internally: When the need for a service is identified, the manager decides on directing City staff to perform the services or contracting out the work depending on a number of factors including:

- Union agreements
- Costs/value
- When the work needs to be done
- Time required to deliver the service
- Capacity of staff
- Expertise of staff
- Availability of equipment required to provide service
- Any extreme risk associated with the work
- The existence of warranties
- Any requirements from the funding source

Hydroelectric Power Bond Redemption Fund

Managing Bureau: Portland Water Bureau

Statement of Purpose: The Hydroelectric Power Bond Redemption Fund pays the debt service due on revenue bonds that were issued to finance the construction of the Portland Hydroelectric Project (PHP) or that were subsequently issued to refund the original bonds. This fund is required by the PHP Power Sales Agreement (PSA) between the City of Portland and Portland General Electric (PGE). It is funded by the sale of power generated at the PHP. The Trustee for the City's Hydroelectric Power Revenue Refunding Bonds, Series 2006 holds this fund's assets in trust accounts as directed by the Trust Indenture for those bonds and also serves as paying agent for those bonds.

Sources of Revenue: The assets in this fund are restricted to paying debt service on the outstanding Hydroelectric Power Revenue Refunding Bonds.

Contingency Requirements: Oregon Administrative Rule 150-294.388(7) does not permit contingencies in a debt service fund.

Reserve Requirements: For the Hydropower Debt Service Reserve Account, on every October 2nd, the Trustee for the Hydroelectric Power Revenue Refunding Bonds, Series 2006 is required to determine what the "Series 2006 Reserve Requirement" is in dollars. That "Requirement" is defined as the maximum annual debt service on the Series 2006 Hydropower Revenue Refunding Bonds during any single future calendar year in which any of the Series 2006 Bonds are outstanding. Once they have made that determination, if there is more money than the "Requirement" in the DSR Account, the Trustee transfers the excess to the Series 2006 Debt Service Account to reduce the debt service payments being made to the City by PGE. If the amount in the DSR Account is less than the "Requirement" amount, then PGE is required to make additional payments to the City via the Bond Trustee to bring it up to the prescribed amount.

Disposition of Funds: Once the final reconciliation of the finances for the PHP have been prepared and agreed to by both the City and PGE, After the final debt service payment on the last outstanding bonds is made on October 1, 2016, all remaining resources shall revert to the Hydroelectric Power Operating Fund.

Hydroelectric Power Renewal Replacement Fund

Managing Bureau: Portland Water Bureau

Statement of Purpose: The Hydroelectric Power Renewal and Replacement (R&R) Fund is a sinking fund for the City of Portland's Portland Hydroelectric Project (PHP). It provides resources to fund the repair, renewal and/or replacement of equipment and facilities at the PHP that become damaged or worn out and that are not considered to be of routine maintenance in nature. The existence of this fund is required by the PHP Power Sales Agreement (PSA) between the City of Portland and Portland General Electric (PGE). It is primarily funded by the sale of power generated at the PHP. Its assets are held in trust accounts by the Trustee for the City's Hydroelectric Power Revenue Refunding Bonds, Series 2006.

Sources of Revenue: This fund was initially funded out of the bond proceeds from the 1979 Portland Hydroelectric Power Revenue Bonds sale. It was then further funded by means of annual power sales revenue from PGE. In 2006, as a part of the Series 2006 Hydroelectric Power Revenue Refunding Bond issue finances, all previous R&R Fund resources above a balance of \$8,000,000 were transferred out of the fund and were split evenly between the City of Portland and PGE. From 2006 to the present day, PGE makes monthly power sales payments to this fund based on the requirements contained in the PHP Power Sales Agreement with the City of Portland and the Trust Indenture for the Series 2006, Hydroelectric Power Revenue Refunding Bonds.

Contingency Requirements: Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the Hydroelectric Power Renewal Replacement Fund.

Reserve Requirements: There are no reserve requirements for this fund.

Disposition of Funds: At the conclusion of the current PHP PSA with PGE (08/31/2017), the value of the assets in the Hydroelectric Power R&R Fund will be used to offset any existing negative "Share the Savings" balance associated with the PHP PSA finances. As much of the R&R Fund balance as is needed to satisfy that negative amount would be transferred directly to PGE. Any amounts left in the R&R Fund after that reconciliation would then be split evenly between PGE and the City. The amount going to the City could either be used to set up a new R&R Fund for the PHP's future repairs or transferred to the General Fund. Once the final reconciliation of the finances for the PHP have been prepared and agreed to by both the City and PGE, a final disposition of the remaining funds in this Fund will be made. That transaction will likely take place in December of 2017 or January of 2018.

Police Special Revenue Fund

Managing Bureau: Portland Police Bureau

Statement of Purpose: The Police Special Revenue Fund was established by City Council in May 2009. The purpose of the fund is to account for restricted or committed law enforcement revenues and program-specific donation revenues.

Sources of Revenue: Revenues are received from other governments, donations, and interest on investments. Intergovernmental revenues are part of a local revenue sharing agreement between the City of Portland and the partnering agencies. Resources received from the Federal government are part of a cost-sharing formula governed by the US Department of Justice. These revenues have strict spending guidelines and will be subject to federal audit standards. State and local revenue cost sharing agreements have similar reporting and spending requirements. Donations to the Portland Police Bureau are booked as revenues in the Police Special Revenue fund. Funds go towards the ~~intended~~ donor's identified intended expense. If the donation does not have a specific program or project identified, then the donation is put to general law enforcement expenditures. The Regional Justice Information Network (RegJIN) is a law enforcement records management system operated by the City for the use of roughly 40 participating agencies across the five-county Portland metro area. Participating partner agencies pay fees for proportionate shares of RegJIN system expense, and those revenues and expenditures are accounted for within the Police Special Revenue fund.

Contingency Requirements: Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the Police Special Revenue Fund.

Reserve Requirements: There are no reserve requirements for this fund.

Disposition of Funds: Federal or state forfeiture proceeds are subject to requirements of the entity that provides those resources. The guidelines of the respective agency would prevail in determining the disposition of the funds in the event that the Police Special Revenue Fund or any sub-fund is closed. In the event the fund is closed, all resources remaining from donations shall revert to the General Fund.

Water Construction Fund

Managing Bureau: Portland Water Bureau

Statement of Purpose: The Water Construction Fund manages the capital revenues and expenditures related to the water system. By City Charter stipulation, this fund is the recipient of proceeds from bond sales and system development charges. Water sales revenues are transferred to this fund to finance a portion of capital expenditures for routine system repairs and replacements. Other sources of revenue include capital revenues for main extensions and service installations as well as sale of assets. The Water Construction Fund reimburses the Water Operating Fund for capital expenditures including direct capital costs, capitalized overhead, capitalized interest, and the cost of issuing bonds.

Sources of Revenue: Water Bonds sale proceeds are the primary source of revenue for the fund. Other revenue sources include: system development charges, water sales revenue for routine system repairs and replacements, capital revenues that are transferred from the Water Operating Fund, and interest revenue.

Contingency Requirements: Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the Water Construction Fund.

Reserve Requirements: There are no reserve requirements for this fund, however, the bureau targets a construction cash reserve of \$5.0 million or one-half of annual debt-financed capital expenditures, whichever is less.

Disposition of Funds: In the event the fund is closed, all remaining resources shall revert to the Water Bond Sinking Fund.

Water Fund

Managing Bureau: Portland Water Bureau

Statement of Purpose: The Water Fund is the operating fund of the Portland Water Bureau. All expenditures are made from this fund for operation, maintenance, and capital assets except for debt service payments. The primary revenue source for the Water Fund is water sales.

Sources of Revenue: Water sales are the primary source of revenue for the fund. Other revenue sources include: other water-related fees and charges as defined in the annual water rate ordinance, rents, miscellaneous revenues including interest, interagency revenues, capital revenues that are transferred to the Water Construction Fund, and reimbursement for capital expenditures from the Water Construction Fund.

Contingency Requirements: Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the Water Fund.

Reserve Requirements: There are no reserve requirements for this fund, however, the bureau targets a minimum fiscal year-end operating cash reserve of \$15.0 million ~~in addition to~~ and will maintain a minimum rate stabilization reserve of \$2.0 million.

Disposition of Funds: In the event the fund is closed, all remaining resources shall revert to the General Fund.