

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY
327 N. WENATCHEE AVENUE
WENATCHEE, WA 98801**

REGULAR COMMISSION MEETING

March 20, 2017

AGENDA

STUDY SESSION

10:00 A.M.

1. Pledge of Allegiance and Safety Minute – Patty Watchel
2. Approval of the Agenda - Any item on the Regular Agenda shall be subject to transfer to the Consent Agenda upon request of any Commission member
3. Chelan and Leavenworth Substation Follow-up
4. Strategic Facilities Plan

BUSINESS SESSION

1:00 P.M.

5. Chelan Falls Park Hang Gliding / Paragliding Agreement
6. Fire Risk Assessment Study

Consent Agenda

7. Minutes:

March 6, 2017

8. Vouchers:

Accounts Payable Summary Report dated March 14, 2017:

- a) Vouchers totaling \$13,717,509.48;

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- b) Approval of Customer Deposit Returns and Conservation Incentive payments dated March 14, 2017 in the amount of \$18,963.96;
- c) Approval of the net Payrolls, Warrant Nos. 235085 through 235110 and Advice Nos. 629945 through 630681 for the pay period ending 3/5/2017 in the amount of \$1,759,874.38; and Approval of Warrant Nos. 23219 through 23243 totaling \$3,395.47 for claim payments from the workers' compensation self-insurance fund for the period ending March 13, 2017.

Regular Agenda

Resolutions

- 9. A RESOLUTION RESTATING AND REVISING LONG RANGE FINANCIAL POLICIES FOR THE DISTRICT WHICH AMENDS AND SUPERSEDES THE PRIOR RESOLUTIONS PERTAINING TO SUCH MATTERS, INCLUDING RESOLUTION NOS. 10-13555, 11-13616 AND 14-13878
- 10. A RESOLUTION PROVIDING NOTICE OF THE ESTIMATED BILLINGS EXPECTED FROM THE PUBLIC EMPLOYEES RETIREMENT SYSTEM DUE TO THE ACCUMULATION BY DISTRICT EMPLOYEES OF THEIR PERSONAL LEAVE AND NON RECURRING EARNINGS
- 11. Manager Items
- 12. Commission Items
- 13. Follow-up on Delegation of Action Items from Previous Board Meeting
- 14. Delegation of Action Items
- 15. Additional Public Comment*
- 16. Matters of general business as may necessarily come before the Commission
- 17. Executive Session: To discuss with legal counsel agency enforcement actions, litigation, potential litigation to which the District or its board is, or is likely to become, a party, and/or legal risks, as authorized by RCW 42.30.110(1)(i) and to consider matters affecting national security, as authorize by RCW 42.30.110(1)(a) and to review the performance of a public employee, as authorized by RCW 42.30.110(1)(g).

* Members of the public are encouraged to ask specific questions after each item presented. This agenda item is for additional comments/questions related to matters not on the agenda.

This agenda and resolutions (if any) may be revised by the Commission as appropriate.

RESOLUTION NO. _____

A RESOLUTION RESTATING AND REVISING LONG RANGE FINANCIAL POLICIES FOR THE DISTRICT WHICH AMENDS AND SUPERSEDES THE PRIOR RESOLUTIONS PERTAINING TO SUCH MATTERS, INCLUDING RESOLUTION NOS. 10-13555, 11-13616 AND 14-13878

FACTUAL BACKGROUND AND REASONS FOR ACTION

As part of the 2010 Strategic Plan, Resolution Nos. 10-13555 and 11-13616 establishing the District's Financial Policies were adopted by the Board of Commissioners (the "Commission") of Public Utility District No. 1 of Chelan County, Washington (the "District") on June 21, 2010 and January 24, 2011 respectively. In addition, in advance of the 2015-2019 Strategic Plan, Resolution No. 14-13878 was adopted by the Commission on May 28, 2014 to amend and extend the provisions of Resolution No. 10-13555 and 11-13616. These policies included long-range targets for maintaining Rate of Return, Debt Ratio, Debt Service Coverage Ratio and establishing a minimum Financial Liquidity target for 2015 to 2019. This Policy is in support of the ensuring financial stability objective of the District's Strategic Plan, which in turn supports the Strategic Plan's ultimate goal of doing the best, for the most, for the longest.

In 2016, the Commission engaged in a number of financial planning related processes such as High Density Load rate setting and affirmation of a Long Term Debt Philosophy. These efforts, and many others such as capital asset investment decisions, require a great deal of forward looking information. One critical component when considering financial forecasts for planning purposes is having metrics to compare against projected results, so that decisions may be made with an understanding of how results will compare to targets. In addition, the Commission receives quarterly reports of the District's five-year financial plans, forecast results and Financial Policy compliance. For the first quarter of 2017, this period will include 2017 to 2021. While the District does use planning targets generally consistent with adopted Financial Policies beyond 2019, these adopted Financial Policies currently only cover the period from 2015 to 2019.

A team consisting of a subset of the District's Financial Policies working group convened to discuss recalibration of the Financial Policies. This team held a series of meetings beginning in 2016 to re-evaluate the existing Financial Policies and to determine the appropriate metric recommendations for 2017 and beyond. The group identified guiding principles including maintaining a strong AA credit rating and a sustainable long-term plan to inform comprehensive and cohesive decision making while promoting:

- Transparency
- Achieving strategic objectives
- Accountability to our customers & customer satisfaction
- Long-term rate predictability for customers
- Operational excellence and fiscal health
- Prudent allocation and recovery of capital costs over time

- Uninterrupted access to the financial markets at the lowest reasonable cost
- Maintenance of long-lived, value-adding assets and responsible stewardship of the environment
- Proactive risk management

It was further recognized that the Financial Policies should continue to be responsive to the preferences outlined by our customers and also other financial stakeholders who have a vested interest in the financial health of the District. These financial stakeholders include the District's current and prospective bondholders, bond rating agencies, various banks that provide services to the District, power sales counterparties and other entities that have material business relationships with the District.

Staff's review of the Financial Policies included financial modeling incorporating current revenue and expense forecasts based on "expected" operations and market conditions – as well as "unusual" scenarios based on probabilistic net wholesale sales revenues over the 5-year planning horizon. The District has implemented numerous risk mitigation tools, such as the power sales hedging program, which are anticipated to help the District maintain financial stability throughout expected and unusual hydrological and market conditions, at least in the short run. In the event longer-term influences and pressures begin to put additional strain on the District's finances, it is the intent of these long range financial policies and the associated processes and forecasting tools, to anticipate such pressures in advance. In most cases, assuming appropriate financial discipline is followed, this process should allow for needed course corrections, other strategic actions, and/or any rate adjustments, if necessary, to be anticipated in advance and layered in incrementally over time.

The financial analyses, risk evaluations, benchmarking results and customer preferences were all incorporated into staff's recommendations, outlined herein. These recommendations are designed to refine and extend the existing financial policies to further promote long term rate stability and predictability for customers, reduced debt levels over time, prudent levels of financial liquidity/reserves and uninterrupted access to financial markets at the lowest reasonable costs. Staff presented their recommendations of financial policy options for consideration and discussion at the March 6, 2017 regular Commission meeting.

District staff recommends that it is in the best interest of the District to refine and extend the District's financial policies for 2017 and beyond as described below. Such metrics will be reported for a 5 year forecast period and evaluated on the basis of 1) Expected Conditions which are determined by applying the District's most current financial assumptions, which may change over time to match District philosophies, objectives, risk appetite or action plans. This expected outcome includes a 50% confidence level for net wholesale sales revenue, with a relative equal probability of those net revenues being better or worse, and 2) Unusual Conditions which are determined by applying the District's most current financial stress impacts, which may change over time to match the District's financial risk profile. This unusual outcome includes a 90% confidence level for the annual net wholesale sales revenue, with only a 10% chance of those annual net revenues being worse. The unusual outcome will be accumulated over the 5 year reporting period.

1. **Financial Liquidity** – Financial Liquidity is computed on a District combined basis in accordance with the Financial Liquidity Methodology, which is intended to provide a framework to ensure adequate liquidity to support operating reserves for normal business needs, contingency reserves for infrequent or unexpected events and planning reserves for future planned events. Sources of Financial Liquidity include Primary Liquidity, such as unrestricted cash and investments, and Secondary Liquidity, such as general bank lines or letters of credit or similar instruments and other internal sources, including certain Hydro system funds that could be used to meet the District’s short-term liquidity needs.. The minimum Financial Liquidity, in both the expected and unusual conditions, would be the greater of the requirements computed under the Financial Liquidity Methodology or \$175 million (Primary and Secondary liquidity). An illustrative example of the Financial Liquidity Methodology computation and the associated numbers is included as Exhibit A.
2. **Days Cash on Hand** – Days Cash on Hand is calculated as unrestricted cash divided by operating expenses (excluding depreciation) multiplied by 365 days. The result is intended to communicate financial flexibility relative to expenses. The target is to maintain Days Cash on Hand of > 250 days under both the expected and unusual conditions. This target is consistent with other highly rated peer utilities.
3. **Debt Leverage** – The Debt Leverage ratio is calculated as total outstanding debt divided by the sum of the total outstanding debt plus total net position. The target is to achieve a Debt Leverage ratio of < 35% by 2019 and beyond under both the expected and unusual conditions. This target is consistent with investor/rating agency guidelines.
4. **Debt Service Coverage** – The Debt Service Coverage ratio is calculated on a District combined basis and in accordance with the District’s bond covenants. The calculation would also be performed on each individual lien in accordance with the specific bond indenture requirements. The Debt Service Coverage ratio on the combined basis would be a target of > 2.00x under expected conditions and a minimum of > 1.25x under unusual conditions. The target range is consistent with rating agency targets and comparably-rated peers.
5. **Rate of Return** – The Rate of Return is calculated as the change in net position divided by net utility plant. The targeted range through 2019 is > 4% under expected conditions with a minimum of > 2% under unusual conditions, and then sunset this policy metric post 2019. The targeted range is relatively consistent with peer group performance and would provide for reasonable levels of revenue generation and ability to meet other financial targets.

The Chief Financial and Risk Officer or designee will monitor the District’s financial metrics and report compliance, including any key assumptions, with these financial policies to the Commission on a quarterly basis or more frequently if conditions warrant. In addition, staff will conduct a biennial review of the Financial Policies, or more often if circumstances warrant, and any recommended refinements to policy metrics will be presented to the Commission for consideration.

To facilitate proactive management to the financial metrics and create more advance awareness, communication to the Commission of potential challenges to metrics within the 5 year reporting period and corrective action or monitoring plans will occur when the forecast reaches 10% of any of the financial metric targets during the reporting process, for example, the District will report corrective action or monitoring plans to the Board when the forecast for Debt Service Coverage is $< 2.2x$ or Debt Leverage is $> 31.5\%$ in 2019 and beyond. Corrective action or monitoring will depend on the expected severity and duration of the variance, and the strength of other metrics.

The General Manager and the Chief Financial and Risk Officer have reviewed staff's recommendations and recommend that they be approved and adopted by the Commission.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. The Commission restates and revises the Financial Policies for the District for 2017 and beyond as follows:

1. Establish a minimum Financial Liquidity target of the greater of the computed Financial Liquidity Methodology or \$175 million of Primary and Secondary liquidity under the expected and unusual conditions. Refinements to the Financial Liquidity Methodology may be made by the General Manager or Chief Financial and Risk Officer and reported to the Board in the quarterly financial report but fundamental shifts or changes will be presented for Board consideration and approval.
2. Maintain Days Cash on Hand of > 250 days under both expected and unusual conditions.
3. Achieve a Debt Leverage ratio of $< 35\%$ by 2019 and beyond under both the expected and unusual conditions.
4. Maintain a Debt Service Coverage ratio on a combined basis of $> 2.00x$ under expected conditions with minimum Debt Service Coverage ratio of $> 1.25x$ under unusual conditions.
5. Maintain a Rate of Return of $> 4\%$ under expected conditions and a minimum Rate of Return of $> 2\%$ under unusual conditions through 2019, and then sunset this policy metric post 2019.

Section 2. The Commission hereby directs the General Manager to submit annual budgets and five-year financial plans to the Commission for consideration and approval as part of the District's typical budget cycle (December adoption). Such annual budget and five year financial plan will include key assumptions and identify compliance with these financial policies on a current and prospective basis.

Section 3. The District's Chief Financial and Risk Officer or designee shall report compliance with such Financial Policies for the 5 year forecast period to the Commission on a quarterly basis. If projections reflect that future results will be within 10% of the established targets for any of the financial metrics, the recommended corrective action or monitoring plans will be

presented for Commission consideration and action. In addition, the Chief Financial and Risk Officer or designee shall direct staff to conduct a biennial review of the Financial Policies, or more often if circumstances warrant, and any recommended refinements to policy metrics will be presented to the Commission for consideration.

Section 4. Resolution Nos. 10-13555, 11-13616 and 14-13878 are hereby amended and superseded by the provisions of this Resolution. To the extent additional prior resolutions of the District impose limitations or directions which are being amended or superseded by this Resolution and which are inconsistent with this Resolution, said prior resolutions are hereby rescinded and amended to the extent they conflict with this Resolution. This Resolution shall take effect upon its adoption.

DATED this 20th day of March, 2017.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

S E A L

EXHIBIT A - FINANCIAL LIQUIDITY

The sources for the District's Financial Liquidity include Primary Liquidity, such as unrestricted cash and investments. The sources also include Secondary Liquidity, such as general bank lines or letters of credit or similar instruments and other internal sources, including certain Hydro system funds, if available, that could be used to meet the District's short-term liquidity needs. Both Primary Liquidity and Secondary Liquidity sources must provide adequate liquidity to support and supplement the Total Liquidity Requirements derived through application of the Financial Liquidity Methodology illustrated below.

LIQUIDITY METHODOLOGY

Updated as of 12/31/2016 ***AMOUNTS ARE IN MILLION DOLLARS AND PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY***

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Methodology Description</u>
OPERATING RESERVES						
Working Capital	\$ 43	\$ 45	\$ 45	\$ 46	\$ 47	Operating Reserves: Amounts for normal business needs including a) three months average of combined District operation, maintenance and taxes expense, and b) additional amounts as may be deemed prudent.
Subtotal (full dollar impact)	\$ 43	\$ 45	\$ 45	\$ 46	\$ 47	
CONTINGENCY RESERVES						
Power Reserves*	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	Contingency Reserves: Amounts for infrequent or unexpected events including a) exposure to power transactions (margin, termination, collateral, default), b) revenue stabilization regarding energy revenue and interest rate volatility, c) combined contingency risks on uncorrelated risks identified and fire and weather risk, and d) additional amounts as may be deemed prudent.
Revenue Stabilization - Energy*	\$ 12	\$ 15	\$ 23	\$ 49	\$ 55	
Revenue Stabilization - Interest Rates*	\$ 2	\$ 2	\$ 1	\$ 1	\$ 2	
Other Enterprise Risk Reserves	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	
Fire and Weather Risk	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	
Subtotal (full dollar impact)	\$ 25	\$ 28	\$ 36	\$ 62	\$ 68	
PLANNING RESERVES						
Bond Requirements	\$ 63	\$ 18	\$ 17	\$ 18	\$ 24	Planning Reserves: Amounts to meet future planned events or expenditures including: a) capital reserves for a portion of annual capital requirements net of available sources (eg bond proceeds & Contributions in Aid), b) internally imposed bond sinking fund set aside 3 years in advance on bond maturity not already covered by covenant requirements and a portion of the next years required principal, & c) additional amounts as may be deemed prudent.
Future Capital Funding	\$ 51	\$ 39	\$ 33	\$ 36	\$ 64	
Subtotal (full dollar impact)	\$ 114	\$ 57	\$ 50	\$ 54	\$ 88	
PORTFOLIO EFFECT (RSS Computation)	\$ (4)	\$ (4)	\$ (4)	\$ (4)	\$ (4)	Portfolio Effect: A mathematical computation that reduces the sum of the certain liquidity components to reflect that not all of the risks of each component are likely to happen at the noted
Total Required Liquidity (rounded)	\$ 178	\$ 126	\$ 127	\$ 157	\$ 199	

SUMMARY OF RESERVE REQUIREMENTS	Year 1	Year 2	Year 3	Year 4	Year 5	
Operating Reserves	\$ 43	\$ 45	\$ 45	\$ 46	\$ 47	Total Computed Liquidity: The net of the Operating Reserves, Contingency Reserves, Planning Reserves, less the Portfolio Effect result in the computed Total Liquidity Requirements for which sources of primary and secondary liquidity should be secured for reasonable and prudent liquidity reserve levels.
Contingency Reserves	\$ 25	\$ 28	\$ 36	\$ 62	\$ 68	
Planning Reserves	\$ 114	\$ 57	\$ 50	\$ 54	\$ 88	
*Less Portfolio Effect (RSS)	\$ (4)	\$ (4)	\$ (4)	\$ (4)	\$ (4)	
Total Computed Liquidity (rounded)	\$ 178	\$ 126	\$ 127	\$ 157	\$ 199	
Minimum Requirement	\$ 178	\$ 175	\$ 175	\$ 175	\$ 199	Greater of the Computed Liquidity or \$175M

*Shaded amounts subject to the Portfolio Effect that not all events are likely to happen at the stated magnitude and at the same time.
Columns may not foot due to rounding.

RESOLUTION NO. _____

A RESOLUTION PROVIDING NOTICE OF THE ESTIMATED BILLINGS EXPECTED FROM THE PUBLIC EMPLOYEES RETIREMENT SYSTEM DUE TO THE ACCUMULATION BY DISTRICT EMPLOYEES OF THEIR PERSONAL LEAVE AND NON RECURRING EARNINGS

FACTUAL BACKGROUND AND REASONS FOR ACTION

RCW 41.50.152 provides that the governing body of a public employer must give notice at a public meeting of contracts that may result in excess compensation billings under the Public Employers Retirement System (PERS). Excess compensation consists of specific types of reportable compensation when the payment would increase the member's retirement allowance calculation. For employees who are members of PERS Plan 1, the District must fund excess compensation for retirement benefits due to personal leave cashed out at retirement in excess of 240 hours and that was accrued during the last 24 months prior to retirement. This includes both the funds sent to the Health Reimbursement Arrangement Voluntary Employee Beneficiary Association (HRAVEBA) and the funds paid directly to the employee. Other examples of excess compensation that must be funded are payments, including overtime payments and non recurring earnings that exceed twice the regular rate of pay as defined in RCW 41.50.150.

The District approved the terms and conditions of a Collective Bargaining Agreement with Local Union 77 of the International Brotherhood of Electrical Workers (the "CBA") for the period of April 1, 2017 through March 31, 2018, (Resolution No. 17-14115). The CBA carries forward from the prior contract a provision allowing employees to accrue personal leave that is in excess of 240 hours during the 24 months prior to retirement. The provision requires all accrued but unused personal leave be cashed out upon retirement with 90% of the cashed out amount sent to HRAVEBA and 10% of the cashed out amount paid directly to the employee.

Non-bargaining unit employees also may accrue personal leave in excess of 240 hours during the 24 months prior to retirement. Similarly, they are required to have all accrued but unused personal leave cashed out upon retirement, with 90% of the cashed out amount sent to HRAVEBA and 10% of the cashed out amount paid directly to the employee. They may receive other excess compensation payments as defined in RCW 41.50.150.

To comply with the public notice requirement of RCW 41.50.152, the District's estimate of excess compensation billings for its employees who are eligible to retire during the period April 1, 2017 through March 31, 2018 is \$168,025.13

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, as follows:

Section 1. The District’s estimate of excess compensation billings for its employees who are eligible to retire during the period April 1, 2017 through March 31, 2018 of \$168,025.13 is acknowledged.

Section 2. This resolution is intended to acknowledge compliance with the public notice requirement of RCW 41.50.152.

DATED this 20th date of March 2017.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

Seal