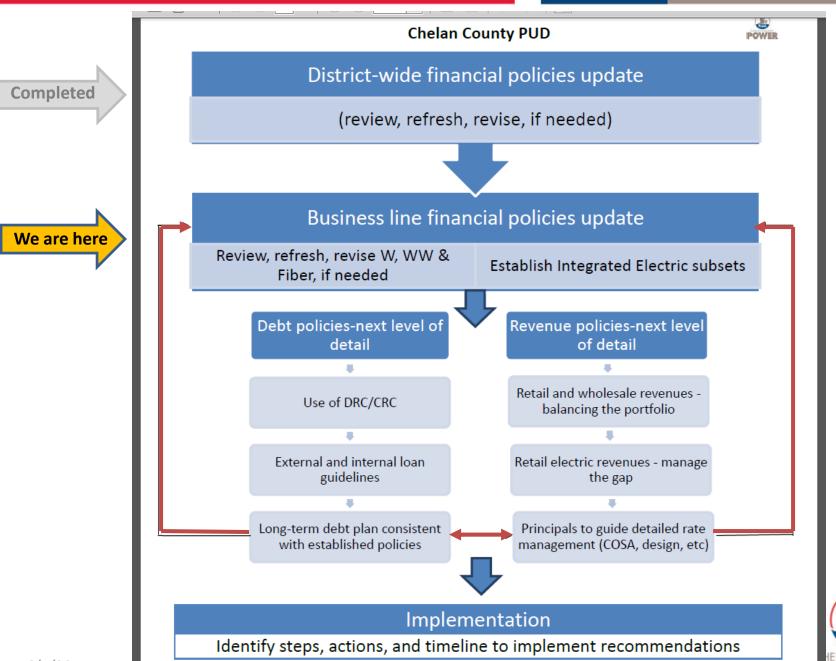
Chelan County PUD

Business Line Financial Policies

Continuation of updating and extending Districtwide financial policies and guidance

Board Presentation June 5, 2017





6/7/2017

Agenda

Review current business line financial policies

Discuss planning guidance for 2020 & beyond

Next up in the series

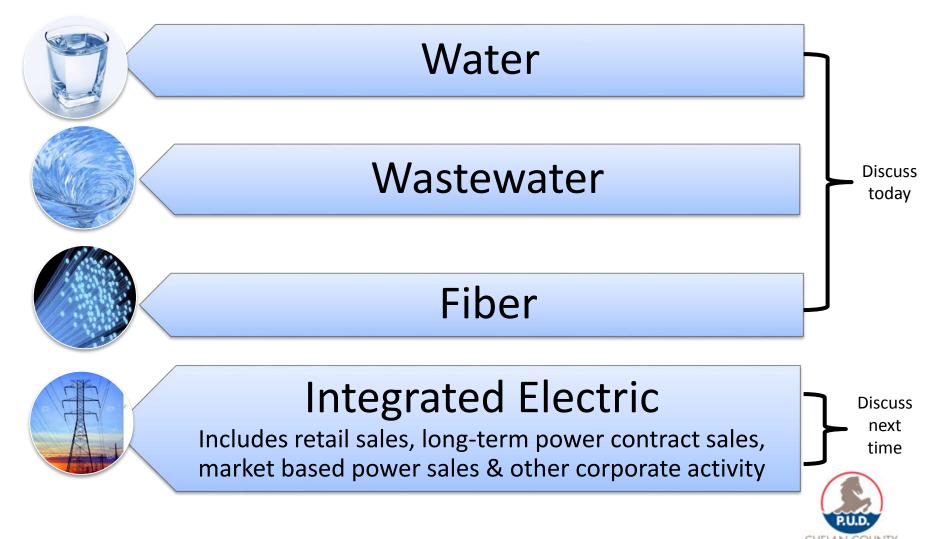
Seeking guidance for planning purposes only

Key Messages

- The strategic plan guided us in establishing financial policies for our business lines
- Business line financial policies were established per Board resolution for 2015-2019
- Financial forecasting extends to 2020 and beyond
- Requesting Board guidance for business line planning purposes for 2020 and beyond
- For planning purposes only does not impact the discretion of the Board to set future rates

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Overview - District Business Lines



Recent History

2012: Established financial policies for each individual business line to "stand-alone" per strategic plan and financial policies

2014-2015: Community outreach demonstrated customers are willing to invest in Water, Wastewater & Fiber services as benefit of public power

2015-2019 Strategic Plan identified priority to sustain existing Water and Wastewater services and restart the Fiber system expansion

2015: Internal funds allocated to business lines for 2015-2019 capital/other (Water \$8.7M, WW \$3.9M, Fiber \$4.5M, Electric \$16.1M)

2015: Individual business line financial policies updated to reflect the 2015-2019 Strategic Plan guidance



2015-2019 Strategic Plan Guidance

Fiber	Continue for 2020 and beyond? (Staff recommendation)
1. Established that system would maintain a minimum cash reserve of ~ 3 months operations and maintenance costs	Yes
2. Established that system would cover operation, maintenance and taxes (excluding non-cash items like depreciation)	Yes
3. Established that system would cover debt service and ratio	Yes
4. Established that system would cover replacement capital	Yes
5. Provided funding for shared capital investments (e.g. LT Facilities Plan, CIS Replacement) through 2019	Yes
6. Established that expansion capital would be covered in Public Power Benefit Program	Yes
7. Set expectation that rates would cover revenue requirements	Yes

2015-2019 Strategic Plan Guidance

Wa	ter and Wastewater	Continue for 2020 and beyond? (Staff recommendation)
	tablished that systems would maintain a minimum cash serve of ~ 3 months operations and maintenance costs	Yes
	tablished that systems would cover operation, maintenance defined taxes (excluding non-cash items like depreciation)	Yes
3. Es	tablished that systems would cover debt service and ratio	Yes
	ovided funding for shared capital investments (e.g. LT cilities Plan, CIS Replacement) through 2019	Yes
	ovided funding for replacement and expansion capital vestments through 2019	Annual board decision
	tablished 5-year rate plan through 2019 per subsequent pard resolution	Complete
7. Se	et expectation of inflationary rate increases after 2019	Yes

For planning purposes only – does not impact the discretion of the Board to set future rates

Financial Strategy Sessions – Next Steps

Goal: Conduct series of Board strategy sessions to adjust and affirm long-term financial policies, Integrated Electric business line financial policies, rate philosophies, power contract guidelines, COSA guidelines and internal debt funding philosophies



Review and refresh District Financial Policies by the end of Q1

March 20, 2017

☐ Review, refresh and establish Business Line Financial Policies by the end of Q2

Q2 2017

Board guidance on Water, Wastewater and Fiber

June 5

☐ Board guidance on Integrated Electric (part 1)

June 26

■ Board guidance on Integrated Electric (part 2)

July 10

☐ Establish long-term revenue guidance by 12/1

Q4 2017

■ Establish long-term internal/external debt guidelines by 12/1

Q4 2017



Appendix

(Current business line metrics for information purposes only)



Current Financial Policies and Targets

Fiber Business Line

- Maintain a minimum <u>Cash Reserve</u> of \$2 million
 - Primarily operating reserve (3 months O&M)
- Maintain an <u>Operating Expense Coverage Ratio</u> >= 1.2x
 - Operating Revenue divided by Operations, Maintenance and Tax expenses excluding non-cash items
 - Ratio exceeds 1.0 to provide funding for replacement capital
- Maintain a Debt Ratio of < 35%
 - Consistent with District target



Current Financial Policies and Targets

Water Business Line

- Maintain a minimum <u>Cash Reserve</u> of \$1.25 million
 - Primarily operating reserve (3 months O&M)
- Maintain an <u>Operating Expense Coverage ratio</u> >= 1.2x
 - Operating Revenue divided by Operations, Maintenance and Tax expenses excluding non-cash items like depreciation
 - Ratio is greater than 1.0 to provide funding for debt service
- Maintain a Debt Ratio of < 35%
 - Consistent with District target



Current Financial Policies and Targets

Wastewater Business Line

- Maintain a minimum <u>Cash Reserve</u> of \$200,000
 - Primarily operating reserve (3 months O&M)
- Achieve an <u>Operating Expense Coverage Ratio</u> >= 1.0x by end of 2019
 - Operating Revenue divided by Operations, Maintenance, and Tax expenses excluding non-cash items like depreciation
- Maintain a Debt Ratio of < 35%
 - Consistent with District target

