



Chelan County PUD

For the Quarter Ended Mar. 31, 2019



Board Presentation

April 29, 2019

Quarterly Financial Review



CHELAN COUNTY

4/30/2019

# What we will cover today

**Financial highlights**

**First quarter results**

**Five-year look ahead**

**Investment report**

**Key messages**

**Update only, no action required**

**Appendix: Additional detailed information not covered today**

# Q1 2019 Key Highlights

Bottom-line results better than budget

- Power contract revenues offset impacts from low stream flow conditions, unit outages and higher weather-driven retail load

Financial metrics meeting targets

Stay the course with our strategic goals

Reinvest in assets and people

Reduce debt

Continue public power benefit program

# Overview

## Revenue

- Service Revenue better than budget year-to-date (YTD) due to more usage from the colder than average temperatures in Feb and Mar: +\$600,000
- Net Wholesale Revenue below budget YTD due to lower generation (~83% of budget YTD) and increased retail load (~109% of budget YTD): - \$6.7M
- Hydro Long-Term Contract Revenue better than budget YTD due to retained surplus proceeds of ~\$18.4M YTD +\$16.3M
- Other Operating Revenue better than budget YTD due to variable component of real time agreement: + \$1.8M

**Total Revenues forecasted to be better than budget for the year: +\$11M**

4/30/2019

## Expense

- Operating Expenses below budget YTD but expected to catch up to ~99% of budget: (\$4.7M)
- Non-Operating Net Expense better than budget YTD with higher interest earnings from the higher cash balances: (\$0.4M)

**Total Net Expenses forecasted to be below budget for the year: (\$5.6M)**

## Bottom Line

- Combination of higher revenues and lower expenses result in a better Bottom Line YTD: + \$17.2M

**Better bottom line forecast for the year: \$93.4M: +\$16M**

# Overview

## Capital

- Capital expenditures overall are lagging the planned pace and below budget YTD: (\$0.5M)
- Primary driver for expenditures YTD is the Horan land purchase
- Primary drivers for remaining expenditures are Rock Island PH1 rehab work and RR-CM facilities upgrade

**Total Capital forecasted to hit \$152.2M which is above budget for the year: (\$2M) (but it's still early)**

4/30/2019

## Cash

- Positive bottom line has increased cash and investments YTD by \$14.5M

**Total cash balance forecasted to be better than budget at year end: \$529.1M**

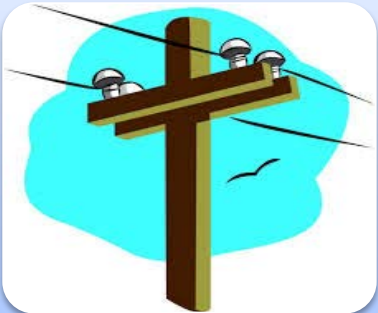
## Debt

- Total debt is the same as budget YTD

**Total debt forecasted to equal budgeted \$38.8M net reduction with balance at year end: \$474.7M (~\$41M planned reduction / ~\$2M new loan for Peshastin wastewater upgrade)**

# Financial Highlights

## Focus on Year-to-Date (YTD) cost per unit



### Electric delivered cost per avg kWh behind budget

**YTD ¢/kWh result: 5.95¢ vs. 5.30¢** (actual vs. budget)

Power production costs- 3.12¢ vs. 2.42¢ (actual vs. budget)

Power distribution costs- 2.83¢ vs. 2.88¢ (actual vs. budget)

(Note: Fully loaded cost is not a cost of service analysis which includes offsets)

(Lower generation and higher retail usage in Q1 negatively impact this metric)



### Hydro production cost per avg MWh better than budget

**YTD \$/MWh result: \$17.1 vs. \$18.7** (actual vs. budget)

#### Actual vs. Budget

Rocky Reach \$11.5 vs. \$13.3 (production costs ~86% YTD)

Rock Island \$29.0 vs. \$30.2 (production costs ~96% YTD)

Lake Chelan \$18.6 vs. \$19.9 (production costs ~93% YTD)

# Financial Highlights

## Focus on Year-to-Date (YTD) cost per unit



**Water cost per 1,000 gallons better than budget**

**YTD \$/1k gallons result: \$7.39 vs. \$7.79** (actual vs. budget)

YTD operating expense 95% of budget



**Wastewater cost per ERU higher than budget**

**YTD \$/ERU result: \$1,050 vs. \$1,001** (actual vs. budget)

YTD operating expense 105% of budget

(Small variances impact this metric as Q1 overage is approx. \$9,000)



**Fiber cost per active premise better than budget**

**YTD \$/premise result: \$407 vs. \$505** (actual vs. budget)

YTD operating expense 79% of budget

(expected to catch up next quarter; timing of expense)

# From Quarterly Results to Yearly Forecast

**The Microsoft contract began in Q2**

**Forecast line items for the year will look different than the Q1 results**

- **Service revenue will be higher for the year compared to budget (will show separately as an off-system sale)**
- **Net wholesale revenue will be lower for the year compared to budget (as selling more to retail and less surplus for wholesale)**
- **Bottom line – net positive impact compared to budget**

**We are still working through the new contract and how to show in this presentation, we will improve each quarter**



# 2019 Bottom-Line Results

(in 000s)	2019 Current Forecast	2019 Budget	% of budget
Service Revenue	86,652	69,512	125%
Net Wholesale Revenue	77,010	102,381	75%
<b>Sub</b>	<b>163,662</b>	<b>171,894</b>	<b>95%</b>
Hydro LT Contract Rev/Other PP	150,580	132,976	113%
Other Operating Revenue	24,400	23,060	106%
Other Operating Expense	(183,237)	(186,233)	98%
Depreciation & Tax Expense	(52,942)	(53,321)	99%
<b>Operating Income/(Loss)</b>	<b>102,463</b>	<b>88,376</b>	<b>116%</b>
Non-Operating Activity	(9,014)	(11,195)	81%
<b>"Bottom Line"</b>	<b>93,450</b>	<b>77,181</b>	<b>121%</b>

Revenues: > 100% of budget, positive for District / Expenses: < 100% of budget, positive for District

# Business Line “Bottom-Line” Results

(in 000s)	2019 Current Forecast	2019 Budget	% of budget
Integrated Electric	90,666	74,554	122%
Fiber & Telecom	2,605	2,521	103%
Water	524	495	106%
Wastewater	(346)	(390)	89%
<b>Combined "Bottom-Line"</b>	<b>93,450</b>	<b>77,181</b>	<b>121%</b>

Revenues: > 100% of budget, positive for District / Expenses: < 100% of budget, positive for District

# Capital Expenditures

(in 000s)	2019 YTD Actuals	2019 YTD Budget	% of budget	2019 Current Forecast	2019 Current Budget	% of budget
Electric Distribution	1,627	3,591	45%	23,495	21,885	107%
Network Transmission	499	587	85%	3,859	3,987	97%
Rocky Reach	324	919	35%	4,313	6,011	72%
Rock Island	3,401	6,998	49%	70,703	71,590	99%
Lake Chelan	(42)	12	-355%	63	111	57%
Internal Services	11,516	4,088	282%	35,009	34,745	101%
Fiber & Telecom	626	1,398	45%	9,849	7,273	135*
Water	32	163	20%	1,165	1,068	109%
Wastewater	228	1,030	22%	3,764	3,764	100%
<b>Total Expenditures</b>	<b>18,212</b>	<b>18,785</b>	<b>97%</b>	<b>152,221</b>	<b>150,434</b>	<b>101%</b>
Contributions	(846)	(1,122)	75%	(4,448)	(4,488)	99%
<b>Capital net of CIAC</b>	<b>17,366</b>	<b>17,663</b>	<b>98%</b>	<b>147,773</b>	<b>145,946</b>	<b>101%</b>

\* Note: Fiber forecasts include additional capital planning that is still in process. Plans will continue to be refined during Q2

# Overview of YTD - 2019 Cash Flow

	\$ Million
Bottom-line result (YTD - 2019)	\$ 38
Add back non-cash related items (depreciation)	\$ 11
<b>Estimated earned funds from operations</b>	<b>\$ 49</b>
Capital Project Expenditures	\$ 18
Net Debt Reductions	\$ ---
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	\$ 16
Added to cash reserves	\$ 15
<b>Estimated use of funds</b>	<b>\$49</b>

Cash and investments, beginning of year	\$ 591
Added to cash reserves	\$15
<b>Cash and investments, end of Q1</b>	<b>\$ 606</b>

# Cash & Investments Balance

(\$ Millions)	<u>3/31/19</u>	<u>12/31/18</u>
Unrestricted funds	\$353	\$407
Board Designated*:		
Headquarters/Service Center Strategic Facilities Fund	<u>50</u>	<u>50</u>
<b>Total Unrestricted Funds</b>	<b>\$403</b>	<b>\$457</b>
Restricted funds for hydro capital/debt	<u>112</u>	<u>50</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$515</b>	<b>\$507</b>
Restricted - bond reserve funds	58	53
Restricted - power contract deposits	24	19
Restricted - self insurance and other funds	<u>9</u>	<u>12</u>
<b>Total Cash and Investments</b>	<b><u>\$606</u></b>	<b><u>\$591</u></b>

\* Board Designated Funds qualify as unrestricted for liquidity and external reporting purposes

# Quarterly Reporting Requirement - Financial Policies

District Combined	2019	2020	2021	2022	2023
Liquidity (Greater calculated min \$190M-\$200M, Expected)	\$444M	\$344M	\$248M	\$192M*	\$197M*
Liquidity (Greater calculated min \$190M-\$200M, Unusual)		\$332M	\$224M	\$190M*	\$196M*
Debt Ratio (Expected case <35% by 2019)	30.3%	27.4%	24.6%	22.4%	20.1%
Debt Ratio (Unusual case <35% by 2019)		27.6%	25.0%	24.7%	23.4%
Days Cash on Hand (Expected case >250)	554	475	358	276*	273*
Days Cash on Hand (Unusual case > 250)		458	323	274*	272*
Combined Debt Cover (Expected case > 2.00x)	3.13	2.57	2.53	2.63	2.75
Combined Debt Cover (Unusual case >1.25x)		2.39	2.31	2.23	2.30
Rate of Return (Expected case > 4% thru 2019)	7.4%	Sunset			
Rate of Return (Unusual case > 2% thru 2019)					
<i>Bottom Line Results (Expected case)</i>	<i>\$93M</i>	<i>\$61M</i>	<i>\$57M</i>	<i>\$59M</i>	<i>\$66M</i>
<i>Bottom Line Results (Unusual case)</i>		<i>\$51M</i>	<i>\$45M</i>	<i>\$44M</i>	<i>\$50M</i>
<i>Debt Outstanding (Expected case)</i>	<i>\$475M</i>	<i>\$436M</i>	<i>\$394M</i>	<i>\$366M*</i>	<i>\$336M*</i>
<i>Debt Outstanding (Unusual case)</i>		<i>\$436M</i>	<i>\$394M</i>	<i>\$403M*</i>	<i>\$391M*</i>

\* - Financial Policy Metrics within 10% of target which requires Board communication per resolution. Action plan assumes issuance of debt in 2022 and 2023 to maintain liquidity and meet financial targets.

# Quarterly Reporting Requirement Individual Business Line Financial Policies

Business Lines	2019	2020	2021	2022	2023
<b>WATER Business Line</b>					
Operating Expense Coverage (target >120%)	132%	122%	131%	132%	127%
Cash Reserves – unrestricted (target > \$1.25 million)	\$3.1M	\$2.6M	\$0.5M	(\$0.5M)	(\$1.7M)
Debt Ratio (target <35%)	7%	4%	-%	-%	-%
<b>WASTEWATER Business Line</b>					
Operating Expense Coverage (target >100% by 2019)	87%	101%	100%	99%	98%
Cash Reserves – unrestricted (target > \$200K)	\$2.4M	\$2.7M	\$2.5M	\$2.3M	\$2.2M
Debt Ratio (target <35%)	19%	18%	23%	21%	21%
<b>FIBER Business Line</b>					
Operating Expense Coverage (target >120%)	146%	164%	153%	153%	154%
Cash Reserves - unrestricted (target > \$2.0 million)	\$10.4M	\$10.2M	\$11.8M	\$12.3M	\$14.0M
Debt Ratio (target <35%)	---	---	---	---	---

Financial Policy not met. Action plan is to address this through upcoming strategic planning process.

Financial Policy Metric within 10% of target which requires Board communication per resolution. Action plan is to monitor ongoing forecasts

# Quarterly Reporting Requirement Individual Business Line Financial Policies

Monitoring during test period

*\*These are “test” metrics, developed during 2018-2022 business planning*

Business Lines	2019	2020	2021	2022	2023
<b>Integrated Electric Business Line</b>					
<b>Retail Total Cost Ratio (target)</b>	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio	69%	72%	73%	73%	70%
<b>Retail OM&amp;T Cost Ratio (target)</b>	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio	104%	114%	118%	122%	116%
<b>Retail Rate Support Limit (target)</b>	\$26.5M	\$26.9M	\$27.6M	\$28.3M	\$29.0M
Retail Rate Support	\$27.0M	\$28.0M	\$30.0M	\$31.5M	\$36.5M
<b>Market Based Margin Limit (target)</b>	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$41.2M	\$30.6M	\$37.0M	\$47.7M	\$46.0M

**Test metrics are under re-evaluation as the District studies the off-system retail sales impacts to current metric methodologies**

“Test” Metrics are indicating that our electric revenues may not be keeping up with our costs as we continue to make significant investments in our assets.

Test metrics may be changed in the future as we continue to learn more by using them.



# Quarterly Investment Report

In compliance with District Banking and Investment Policy #16-14094

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	YTD 2019	WAM
Average Invested Book Value (\$M)	\$534	\$569	\$584	\$589	\$589	
District Yield	2.02%	2.25%	2.34%	2.52%	2.52%	947
Benchmarks:						
3 Month T-Bill	1.87%	2.06%	2.34%	2.43%	2.43%	90
S&P US Treasury 1-3 Year Index	1.50%	1.74%	1.96%	2.12%	2.12%	691

- Q1 2019 yield increased to 2.52% due to improved reinvestment rates (2019 budgeted rate is 2.41%)
- March 20, 2019 Federal Open Market Committee meeting report:
  - Labor market has remained strong but growth of economic activity has slowed from its solid rate
  - Inflation has declined and is running near the 2% longer-run objective
  - Federal funds target rate range remains at 2.25% to 2.50%
  - District anticipates relatively flat rates through 2019
- Uncertainty around changes in the political climate can influence financial markets, which may impact the District
- Laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility

## Policy Objectives & Compliance

- Safety
- Liquidity
- Return on Investment
- Diversification
- Maturity Length

*Full report is in the Appendix.*

# Q1 Key Messages

Early forecasts are better than budget

- Power contract revenues offset impacts from low stream flow conditions, unit outages and higher weather-driven retail load

Long-term financial metrics policies on track

Stay the course with our strategic goals

Reinvest in assets and people

Reduce debt

Continue public power benefit program

Stay tuned for more information on our first off-system sale in our Q2 Financial report

# Appendix

A scenic view of a dam and bridge over a river in a mountainous area. The dam is a concrete structure with multiple spillways, and the bridge is a simple beam bridge. The river flows through a valley with green hills and mountains in the background. The sky is blue and clear.

*The information in the appendix contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.*

*The following information includes the forecasted results associated with the off-system retail sales contract. More information to follow in the Q2 Financial Report.*

# Financial Highlights - Revenue

## Net Wholesale Revenue:

YTD result \$6.7 million below budget  
(\$15.5M vs. \$22.2M)

Annual forecast lower than budget  
(\$77.0M vs \$102.4)

### Drivers:

- Generation 83% of budget YTD
- Retail energy use 109% of budget YTD
- Forecast impact: new retail off-system sale shifts revenues from wholesale to retail service revenue. **More information to follow in Q2.**

## Hydro Long-Term Contract Revenue:

YTD result \$16.3 million above budget  
(\$48.3 vs. \$32.0M)

Annual forecast better than budget  
(\$150.6M vs \$133.0M)

### Drivers:

- Combined hydro “cost based” operating expenses below budget (92% YTD)
- + “Plus” contract charges above budget (304% YTD): retained surplus proceeds \$18.4M YTD

# Financial Highlights - Revenue

## Service Revenue:

YTD result \$0.6 million above budget  
(\$21.9M vs. \$21.3M)

Forecast results better than budget  
(\$86.7M vs \$69.5M)

### Drivers:

+ Retail energy use at 109% of budget:  
(Residential ~118%, Industrial ~106%,  
Commercial ~102%)  
+ New retail-off system sale shifts  
forecasted revenue to retail service  
revenue from wholesale revenue. **More  
information to follow in Q2.**

## Other Operating Revenue:

YTD result \$1.8 million above budget  
(\$7.9M vs. \$6.1M)

Forecast results better than budget  
(\$24.4M vs \$23.1M)

### Drivers:

+ Variable component of real-time  
agreement ~\$1.2M YTD

# Financial Highlights - Expenses

## Operating Expense:

YTD result \$4.4 million below budget  
(\$39.6. vs. \$44.0M)

Forecast results below budget  
(\$183.2M vs \$186.2M)

### Drivers:

- Hydro operations and maintenance at 78% of budget (expected to catch up by year end)
- Electric transmission at 74% of budget (expected to catch up by year end)

## Non-Operating Net Expense:

YTD result \$0.4M better than budget  
(\$2.4M vs. \$2.8M)

Forecast results better than budget  
(\$9.0M vs \$11.2M)

### Drivers:

- + Increased forecasted interest earnings on higher cash reserves

# Financial Highlights – Balance Sheet

## Capital expenditures below budget

- YTD - 2019 \$18.2 million vs. budget of \$18.8 million
- 2019 Forecast results above 2018 Budget (\$152.2M vs \$150.4M)

## Individual project adjustments:

- ↓ RI PH2 U1-U8 Rehab (~\$8M shifted to 2021)
- ↑ RI B7 Modernization (~\$4M shifted to 2019)
- ↑ RI B4 Modernization (~\$3M shifted to 2019)

## Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to decrease ~\$62 million in 2019
- Debt balance to decrease ~\$39 million in 2019

# Service Revenue

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Residential Electric	11,610	10,558	110%	Cold February and March: increased load
Commercial Electric	5,303	5,318	100%	In line with budget
Industrial Electric	1,323	1,255	105%	Small dollar variance
High Density Load	415	905	46%	Lower than expected load growth
Other Electric	71	73	98%	In line with budget
<b>Electric Service</b>	<b>18,723</b>	<b>18,109</b>	<b>103%</b>	
<b>Water Service</b>	<b>1,259</b>	<b>1,174</b>	<b>107%</b>	Small dollar variance
<b>Wastewater Service</b>	<b>192</b>	<b>184</b>	<b>104%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>1,741</b>	<b>1,798</b>	<b>97%</b>	In line with budget
<b>Service Revenue</b>	<b>21,915</b>	<b>21,265</b>	<b>103%</b>	

*Note: Excludes internal intersystem revenues*

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District



# Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2019	Budget YTD 2019	% of budget	Variance
Slice Contracts	17,560	17,560	100%	In line with budget
Net Block Trades	(174)	2,516	---	Lower generation / higher retail load
Other Net Wholesale	(1,858)	2,079	---	Lower generation / higher retail load
<b>Net Wholesale Revenue</b>	<b>15,528</b>	<b>22,155</b>	<b>70%</b>	
LT Hydro Contracts	48,679	32,356	150%	Retained surplus procees
Less: Other Purchased Power	(330)	(330)	100%	In line with budget
<b>Hydro LT Contract Rev/Other PP</b>	<b>48,349</b>	<b>32,026</b>	<b>151%</b>	
<b>Surplus Energy Revenue</b>	<b>63,877</b>	<b>54,181</b>	<b>118%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Operating Expense

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Hydro Operations & Maintenance	12,066	15,456	78%	Large unit repairs
Hydro Fish & Wildlife	2,895	3,084	94%	Small dollar variance
Hydro Parks & Recreation	1,129	1,396	81%	Small dollar variance
Electric Distribution	3,758	3,767	100%	In line with budget
Electric Transmission	2,793	3,791	74%	Peak RC dues / other contractual support
Misc. Power Supply Expenses	1,130	1,270	89%	Small dollar variance
Water & Wastewater	702	765	92%	Small dollar variance
Fiber Network	961	1,502	64%	Nokia support contract timing
Customer Accounts & Service	904	862	105%	Small dollar variance
Conservation & Customer Assist	807	1,091	74%	Amortization of regulatory asset
Insurance & FERC Fees	2,238	1,975	113%	FERC fees
Other Admin & General	10,214	9,026	113%	Corporate utilities offset to other categories for budget
<b>Total</b>	<b>39,596</b>	<b>43,984</b>	<b>90%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Non-Operating Activity

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Interest Earnings	3,608	3,428	105%	Higher cash balances / higher interest rates
Capital Contributions	988	1,264	78%	HDL crypto contributions below budget expectations
Interest Expense	(6,151)	(6,247)	98%	In line with budget
Other Inc/(Exp)	(830)	(1,243)	67%	Public power benefit placeholder
<b>Non Operating Activity</b>	<b>(2,384)</b>	<b>(2,798)</b>	<b>85%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Integrated Electric

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	18,744	18,131	103%	Increased load due to cold weather
Net Wholesale Revenue	15,528	22,155	70%	Lower generation / increase load
Hydro LT Contact Rev/Other PP	48,349	32,026	151%	Retained surplus proceeds
Other Operating Revenue	8,409	6,521	129%	Variable component of RTA
Other Operating Expense	(38,170)	(41,953)	91%	Hydro O&M / Transmission lagging YTD
Depreciation & Taxes	(11,884)	(12,151)	98%	Depreciation exp. assumption at budget
<b>Operating Income/(Loss)</b>	<b>40,976</b>	<b>24,729</b>	<b>166%</b>	
Non-Operating Activity	(4,933)	(5,338)	92%	Higher interest earnings
<b>"Bottom-Line"</b>	<b>36,042</b>	<b>19,391</b>	<b>186%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Fiber & Telecom

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	2,582	2,628	98%	In line with budget
Other Operating Revenue	0	0	38%	In line with budget
Other Operating Expense	(1,671)	(2,119)	79%	Nokia support contract timing
Depreciation and Taxes	(829)	(816)	101%	In line with budget
<b>Operating Income/(Loss)</b>	<b>83</b>	<b>(308)</b>	<b>---</b>	
Non Operating Activity	2,430	2,393	102%	In line with budget
<b>"Bottom-Line"</b>	<b>2,512</b>	<b>2,085</b>	<b>120%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Water

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	1,270	1,199	106%	Small dollar variance
Other Operating Revenue	18	16	113%	Small dollar variance
Other Operating Expense	(948)	(998)	95%	Small dollar variance
Depreciation and Taxes	(561)	(585)	96%	Small dollar variance
<b>Operating Income/(Loss)</b>	<b>(221)</b>	<b>(369)</b>	<b>60%</b>	
Non Operating Activity	110	141	78%	Small dollar variance
<b>"Bottom-Line"</b>	<b>(111)</b>	<b>(228)</b>	<b>49%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Wastewater

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	192	184	104%	In line with budget
Other Operating Revenue	0	0	69%	In line with budget
Other Operating Expense	(198)	(189)	105%	Small dollar variance
Depreciation and Taxes	(71)	(74)	95%	Small dollar variance
<b>Operating Income/(Loss)</b>	<b>(76)</b>	<b>(78)</b>	<b>97%</b>	
Non Operating Activity	9	7	135%	Small dollar variance
<b>"Bottom-Line"</b>	<b>(67)</b>	<b>(72)</b>	<b>93%</b>	

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

# Actual Cash Balance Comparison to Budget

(millions)	2019
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 502</b>
Key changes in cash forecast:	
Increase in capital projects	(\$ 2)
Improvement in operating activity	\$ 16
Other changes in A/R, A/P, inventory, etc.	\$13
<b>Total Cash – Current forecast year-end balance</b>	<b>\$ 529</b>
Prior quarter – 2019 year-end forecasted balance	\$ 508



# Five-year outlook

## Key modeling assumptions:

- Past water history and current forward price curve
- Water & Wastewater rate increase placeholders
- Planned expenditures from 5-year business plans
- Debt reduction plan based on 5-year business plans
- Hydro contract terms set at maximum rates
  - Debt Reduction Charge (DRC) - 3% (2018-22)
  - Capital Recovery Charge (CRC) - 50% (2018-22)
- Investment earning rate
  - (2019-23: 2.53%, 2.68%, 2.84%, 3.03%, 3.16%)

# Cash and Debt Funding Capacity

	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
<b>Cash Funding Capacity</b>	<b>\$269M</b>	<b>\$169M</b>	<b>\$72M</b>	<b>\$17M</b>	<b>\$22M</b>
“liquidity in excess of minimum \$175M target”					
<b>Debt Funding Capacity</b>	<b>\$113M</b>	<b>\$185M</b>	<b>\$257M</b>	<b>\$318M</b>	<b>\$382M</b>
“financing capability up to maximum debt ratio target of 35%”					
<b>Total Funding Capacity</b>	<b>\$382M</b>	<b>\$354M</b>	<b>\$329M</b>	<b>\$335M</b>	<b>\$404M</b>

Purpose of Slide: To show District’s ability to handle increased expenditures or decreases in revenues, while achieving established financial targets (liquidity and debt ratio). We will continue to refine our methodology, including incorporating the potential impact on Debt Service Coverage.

# Combined Five-Year Forecast

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Service Revenue	86,652	93,577	99,558	102,920	104,363
Net Wholesale Revenue	77,010	72,759	69,022	72,103	83,910
<b>Sub</b>	<b>163,662</b>	<b>166,336</b>	<b>168,580</b>	<b>175,023</b>	<b>188,273</b>
Hydro LT Contract Rev/Other PP	150,580	135,610	131,492	132,833	138,518
Other Operating Revenue	24,400	21,338	20,454	22,131	21,495
Other Operating Expense	(183,237)	(193,076)	(188,176)	(189,254)	(198,571)
Depreciation & Tax Expense	(52,942)	(59,395)	(64,691)	(69,970)	(73,940)
<b>Operating Income/(Loss)</b>	<b>102,463</b>	<b>70,813</b>	<b>67,659</b>	<b>70,764</b>	<b>75,775</b>
Non-Operating Activity	(9,014)	(10,309)	(10,778)	(11,304)	(9,770)
<b>"Bottom Line"</b>	<b>93,450</b>	<b>60,504</b>	<b>56,881</b>	<b>59,460</b>	<b>66,005</b>

<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>77,265</i></b>	<b><i>57,014</i></b>	<b><i>55,006</i></b>	<b><i>52,323</i></b>	<b><i>51,959</i></b>
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<b><i>Forecast at 2019 Budget</i></b>	<b><i>77,064</i></b>	<b><i>54,176</i></b>	<b><i>51,226</i></b>	<b><i>49,957</i></b>	<b><i>46,702</i></b>
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# Service Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
<b>Electric Service</b>	<b>72,414</b>	<b>78,648</b>	<b>84,177</b>	<b>87,023</b>	<b>87,864</b>
<b>Water Service</b>	<b>6,178</b>	<b>6,428</b>	<b>6,687</b>	<b>6,958</b>	<b>7,239</b>
<b>Wastewater Service</b>	<b>737</b>	<b>759</b>	<b>782</b>	<b>806</b>	<b>830</b>
<b>Fiber &amp; Telecom</b>	<b>7,323</b>	<b>7,742</b>	<b>7,912</b>	<b>8,134</b>	<b>8,431</b>
<b>Service Revenue</b>	<b>86,652</b>	<b>93,577</b>	<b>99,558</b>	<b>102,920</b>	<b>104,363</b>

<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>68,787</i></b>	<b><i>72,553</i></b>	<b><i>76,125</i></b>	<b><i>77,145</i></b>	<b><i>78,122</i></b>
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<b><i>Forecast at 2019 Budget</i></b>	<b><i>69,512</i></b>	<b><i>72,667</i></b>	<b><i>75,404</i></b>	<b><i>76,489</i></b>	<b><i>79,065</i></b>
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# Net Surplus Energy Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Slice Contracts	70,241	70,523	73,602	60,443	48,619
Net Block Trades	5,437	4,651	(1,020)	10,249	3,080
Other Net Wholesale	1,332	(2,415)	(3,560)	1,411	32,211
<b>Net Wholesale Revenue</b>	<b>77,010</b>	<b>72,759</b>	<b>69,022</b>	<b>72,103</b>	<b>83,910</b>
LT Hydro Contracts	151,900	136,930	132,812	134,153	139,178
Less: Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(660)
<b>Hydro LT Contract Rev/Other PP</b>	<b>150,580</b>	<b>135,610</b>	<b>131,492</b>	<b>132,833</b>	<b>138,518</b>
<b>Surplus Energy Revenue</b>	<b>227,590</b>	<b>208,369</b>	<b>200,514</b>	<b>204,937</b>	<b>222,428</b>

<b><i>Prior Quarter Reported Forecast</i></b>	<b>234,441</b>	<b>227,405</b>	<b>216,165</b>	<b>221,971</b>	<b>233,574</b>
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<b><i>Forecast at 2019 Budget</i></b>	<b>234,328</b>	<b>226,967</b>	<b>214,971</b>	<b>221,813</b>	<b>229,351</b>
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# Operating Expense

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Hydro Operations & Maintenance	63,649	65,516	58,916	56,957	60,506
Hydro Fish & Wildlife	16,790	19,461	20,626	19,456	20,120
Hydro Parks & Recreation	7,647	10,572	7,824	8,126	8,302
Electric Distribution	16,339	16,709	17,450	18,066	18,564
Electric Transmission	14,025	13,769	13,757	14,264	15,253
Misc. Power Supply Expenses	4,990	5,559	5,552	5,757	5,967
Water & Wastewater	3,064	3,486	3,226	3,310	3,653
Fiber Network	5,134	4,510	4,945	5,012	5,005
Customer Accounts & Service	4,490	5,034	5,203	5,356	5,543
Conservation & Customer Assist	3,706	3,983	4,471	4,700	5,013
Insurance & FERC Fees	8,453	8,753	9,060	9,343	9,542
Other Admin & General	34,950	35,724	37,146	38,907	41,101
<b>Total</b>	<b>183,237</b>	<b>193,076</b>	<b>188,176</b>	<b>189,254</b>	<b>198,571</b>

<b>Prior Quarter Reported Forecast</b>	<b>186,203</b>	<b>195,268</b>	<b>184,124</b>	<b>189,738</b>	<b>199,073</b>
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<b>Forecast at 2019 Budget</b>	<b>186,233</b>	<b>195,204</b>	<b>184,160</b>	<b>189,762</b>	<b>199,233</b>
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# Capital Projects

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Electric Distribution	23,495	31,024	32,706	27,461	24,524
Network Transmission	3,859	8,132	7,390	5,985	1,931
Rocky Reach	4,313	10,254	4,975	11,033	9,181
Rock Island	70,703	56,176	43,084	34,917	31,914
Lake Chelan	63	1,429	855	435	570
Internal Services	35,009	41,697	54,425	43,000	2,733
Fiber & Telecom	9,849	7,149	5,030	5,979	5,437
Water	1,165	1,221	3,414	2,258	2,302
Wastewater	3,764	926	927	72	74
<b>Total Expenditures</b>	<b>152,221</b>	<b>158,007</b>	<b>152,805</b>	<b>131,141</b>	<b>78,665</b>

<b><i>Prior Quarter Reported Forecast</i></b>	<b>155,871</b>	<b>153,132</b>	<b>149,078</b>	<b>128,060</b>	<b>77,088</b>
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<b><i>Forecast at 2019 Budget</i></b>	<b>150,132</b>	<b>149,458</b>	<b>143,516</b>	<b>135,016</b>	<b>77,088</b>
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# Financial Policy – Financial Liquidity & Days Cash on Hand

## Methodology Per Resolution #17-14124

COMBINED	2019	2020	2021	2022	2023
<b>District Total Liquidity Targets</b>	<b>\$199</b>	<b>\$203</b>	<b>\$198</b>	<b>\$188</b>	<b>\$193</b>
Base Case – expected (50% probability)	\$444	\$344	\$248	\$192*	\$197*
Base Case – unusual (10% prob. / cumulative)	\$440	\$332	\$224	\$190*	\$196*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$325	\$208	\$189*	\$196*
<b>Days Cash on Hand Target</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>
Base Case – expected (50% probability)	554	475	358	276	273
Base Case – unusual (10% prob. / cumulative)	549	458	323	274	272
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		436	288	260	259

\* Assumes external debt financing to maintain liquidity targets



# Financial Policy – Debt Ratio

*(Debt/(Debt + Equity))*

COMBINED	2019	2020	2021	2022	2023
<b>District Targets</b>	<b>&lt;35%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>
<b>Outstanding Debt Balance - YE(million)</b>	<b>\$475</b>	<b>\$436</b>	<b>\$394</b>	<b>\$366</b>	<b>\$336</b>
Scheduled Debt Retirements (million)	\$25	\$28	\$30	\$32	\$33
Planned Debt Accelerations (million)	\$16	\$11	\$12	\$12	\$13
Forecasted Debt Issuance - expected (million)	\$2**	\$-	\$1**	\$16*	\$18*
Base Case – expected	30.3%	27.4%	24.6%	22.4%*	20.1%*
Base Case – unusual	30.4%	27.6%	25.0%	24.7%*	23.4%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		27.6%	25.0%	25.9%*	26.0%*

\*\* Assumed small public works trust fund debt related to Peshastin Wastewater work

\* Assumed debt issuance to maintain adequate liquidity levels

# ***Financial Policy – Debt Service Coverage***

*(Net Funds from Operations/Computed Debt Service)*

<b>COMBINED</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>District Targets (expected)</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>
<b>District Targets (unusual)</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>
Base Case – expected	3.13	2.57	2.53	2.63	2.75
Base Case – unusual	3.06	2.39	2.31	2.23	2.30
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.36	2.30	2.14	1.92

# Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2019	2020	2021	2022	2023
District Targets (expected)	>4%	<b>Sunset</b>			
District Targets (unusual)	>2%				
Base Case – expected <i>Bottom-line expectation</i>	7.4% \$93M	- \$61M	- \$57M	- \$59M	- \$66M
Base Case – unusual <i>Bottom-line expectation</i>	7.2% \$90M	- \$51M	- \$45M	- \$44M	- \$50M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		- \$50M	- \$44M	- \$39M	- \$30M



## Quarterly Investment Report for the quarter ending March 31, 2019

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Portfolio Summary

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	YTD 2019	WAM	
<b>Average Invested Book Value</b>	\$534 M	\$569 M	\$584 M	\$589 M	\$589 M		
<b>Interest Earned</b>	\$2.7 M	\$3.2 M	\$3.4 M	\$3.7 M	\$3.7 M		
<b>District Yield</b>	2.02%	2.25%	2.34%	2.52%	2.52%	<b>947</b>	<b>Policy Objectives &amp; Compliance</b>
<b>Benchmarks:</b>							● Safety
3 Month T-Bill	1.87%	2.06%	2.34%	2.43%	2.43%	90	● Liquidity
S&P US Treasury 1-3 Year Index	1.50%	1.74%	1.96%	2.12%	2.12%	691	● Maturity Length
LGIP (State Pool)	1.80%	2.02%	2.30%	2.50%	2.50%	41	● Return on Investment
Fed Funds Effective	1.75%	1.93%	2.22%	2.40%	2.40%	1	● Diversification

#### Policy Objectives and Compliance:

The District continues to focus on meeting investment policy objectives and compliance limits. Safety of principal is the foremost objective of the District. Diversification limits mitigate credit risk and support the preservation of capital in the overall portfolio. The laddered investment structure continues to be our strategy to support liquidity and maturity objectives and mitigate interest rate volatility over time. However, the laddered structure can result in the District's yield lagging the shorter term 3 month T-Bill benchmark in both declining and rising interest rate conditions. Bank deposits and US Treasuries continue to be held in addition to other investments with higher yields such as US Agencies and Municipal Bonds. These opportunities offer a more attractive yield while still maintaining policy objectives and compliance. For Q1 2019, the District's yield increased to 2.52% on an average invested book value of \$589 million due to improved reinvestment rates as compared to maturing investments. The Weighted Average Maturity (WAM) decreased slightly in Q1 and the overall average continues to remain strong as the multi-year laddered investment strategy maintains investment maturities near 2 year average durations. All investments continue to be matched to specific cash flows or mature within 5 years as specified in the investment policy.

#### General Commentary:

The Federal Open Market Committee's March 20, 2019 meeting reported that the labor market remains strong but that growth of economic activity has slowed from its solid rate. Job gains have been solid, on average, and the unemployment rate has remained low. Recent indicators point to slower growth of household spending and business fixed investment. Overall inflation has declined, largely as a result of lower energy prices; inflation for items other than food and energy remains near the Committee's 2 percent objective. In view of realized and expected economic activity, labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 2.25 to 2.50 percent. In determining the timing and size of future adjustments, the Committee will be patient and assess economic conditions and a wide range of information relative to its dual maximum employment and 2 percent inflation objectives. The District anticipates relatively flat rates through 2019. Global and national events can influence financial markets, which may impact the District.



## Quarterly Investment Report for the quarter ending March 31, 2019

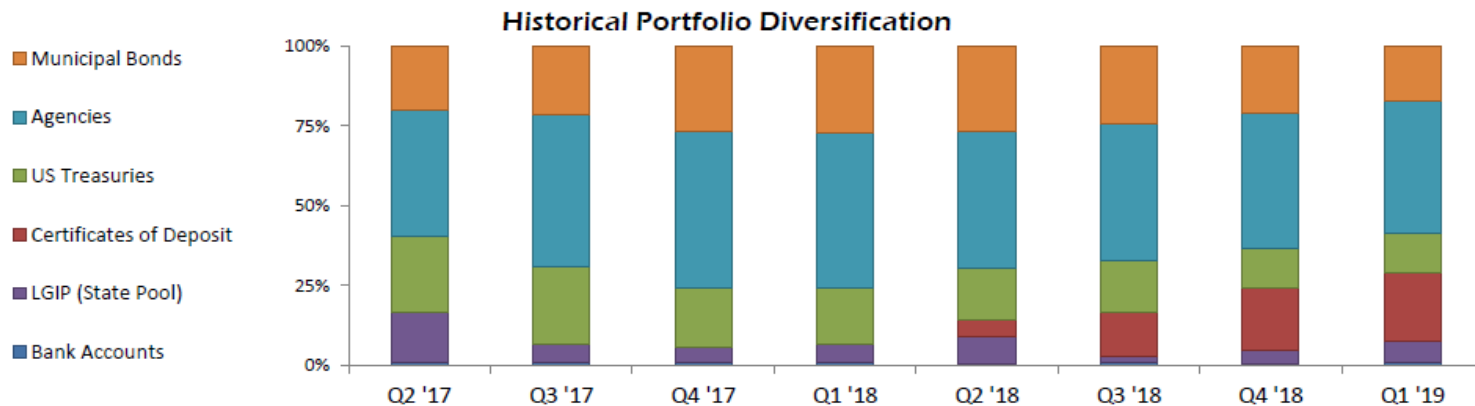
All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Investments by Type - as of March 31, 2019

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 4,044	\$ 4,044	\$ 4,044	0.7%	75%	1
Certificates of Deposit	\$ 131,645	\$ 131,645	\$ 131,645	21.7%	40%	1,326
US Treasuries	\$ 73,371	\$ 74,305	\$ 73,078	12.1%	100%	883
LGIP (State Pool)	\$ 40,930	\$ 40,930	\$ 40,930	6.8%	25%	1
US Agencies	\$ 251,798	\$ 251,160	\$ 251,633	41.6%	75%	886
Municipal Bonds	\$ 103,105	\$ 103,811	\$ 103,981	17.2%	30%	1,069
<b>Total:</b>	<b>\$ 604,892</b>	<b>\$ 605,895</b>	<b>\$ 605,310</b>			<b>947</b>

Numbers may not foot due to rounding





## Quarterly Investment Report for the quarter ending March 31, 2019

All \$ values are shown in '000s

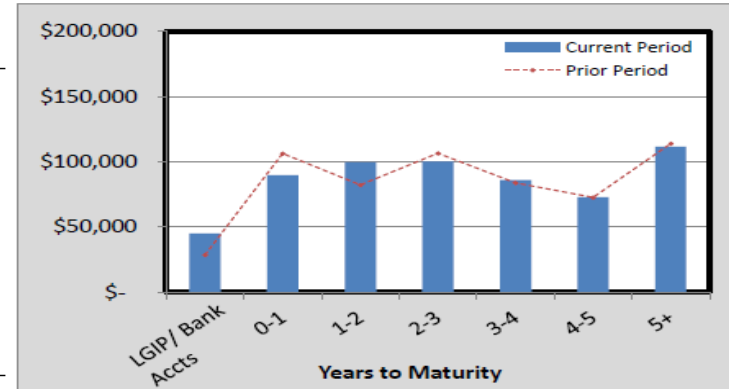
Prepared in accordance with District Banking and Investment Policy #16-14094

### Maturity Distribution - as of March 31, 2019

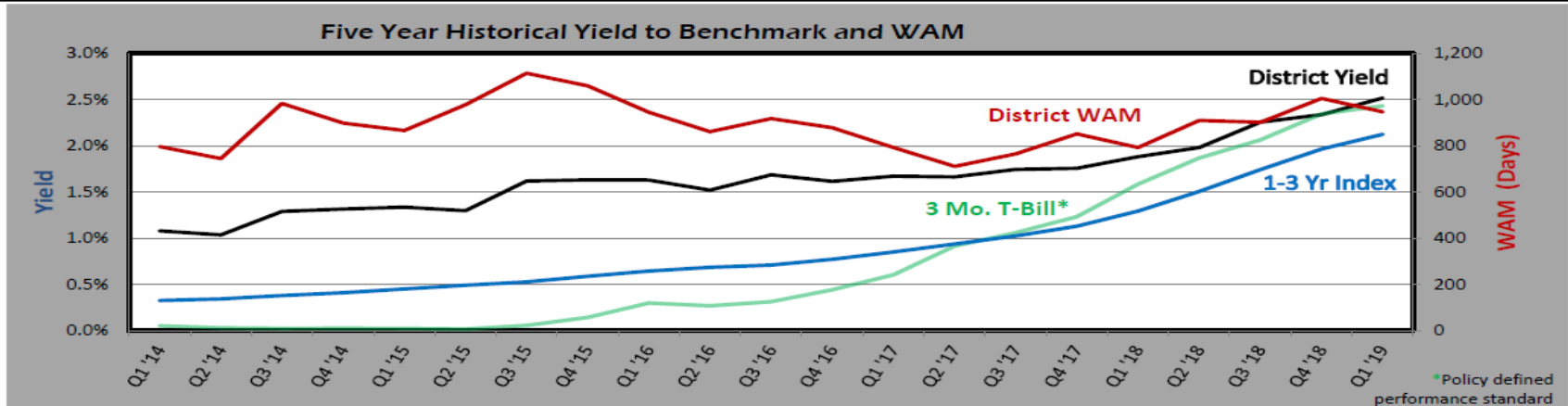
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 40,930	6.8%	6.8%
Bank Accounts	\$ 4,044	0.7%	7.4%
1-90 Days	\$ 69,361	11.5%	18.9%
91-180 Days	\$ 14,325	2.4%	21.3%
181-365 Days	\$ 5,947	1.0%	22.3%
1-2 Yrs	\$ 99,636	16.5%	38.7%
2-3 Yrs	\$ 100,278	16.6%	55.3%
3-4 Yrs	\$ 86,011	14.2%	69.5%
4-5 Yrs	\$ 72,854	12.0%	81.6%
5+ Yrs	\$ 111,507	18.4%	100.0%

**Total: \$ 604,892 100%**

Numbers may not foot due to rounding



### Historical Yields/Weighted Average Maturity(WAM), by Quarter



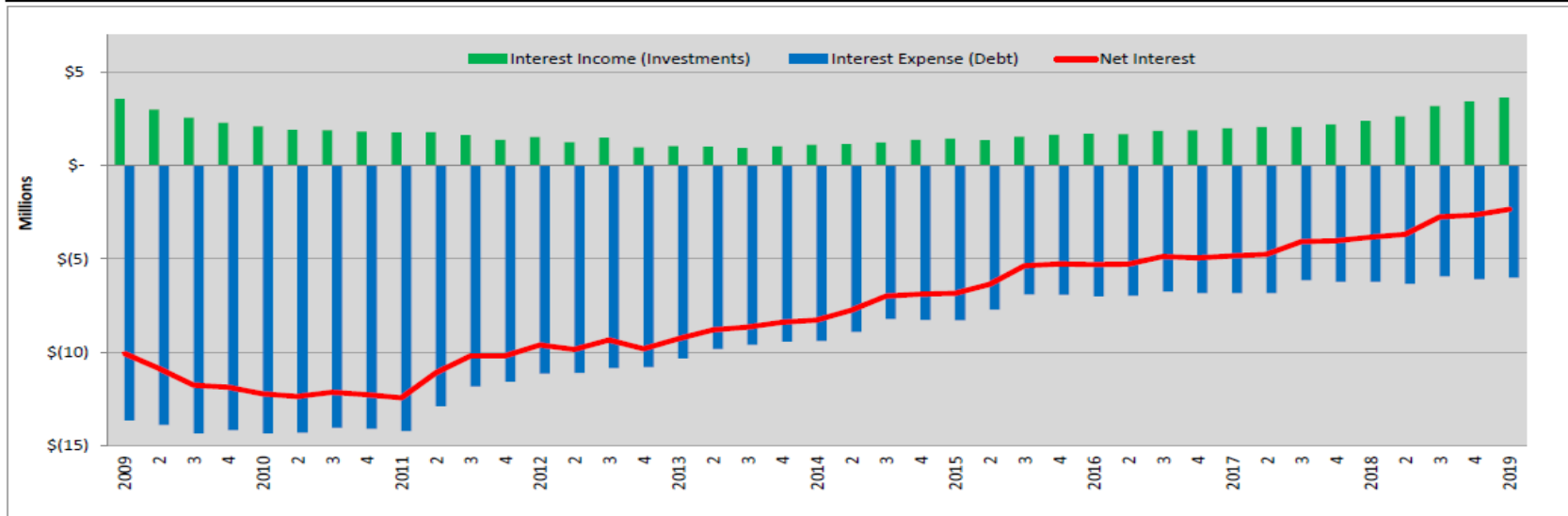


## Quarterly Investment Report for the quarter ending March 31, 2019

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Historical Net Interest, by Quarter





## Quarterly Investment Report for the quarter ending March 31, 2019

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Definitions

*All investment types listed below are authorized by the State Investment Board, RCWs, and District Policy*

**Average Rate of Return-** the amount earned on investments, expressed as an annualized percent of average book value.

**Bank Accounts-** a savings account, checking account or similar account at qualified public depositories. Demand deposit accounts, negotiable order of withdrawal (NOW) accounts, and automatic transfer service (ATS) accounts are examples of bank accounts.

**Book Value-** original cost of a bond less amortization.

**Commercial Paper (CP)** - short term unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 to 270 days, that is a promissory note of the issuer used to finance current obligations.

**Federal Agency Securities (Agency)** - interest bearing debt securities of U.S. departments and agencies which include the 12 Federal Home Loan Banks, the Federal National Mortgage Association, and the Federal Housing Authority. (e.g.: Fannie Mae (FNMA, FNDN), Freddie Mac (FHLMC, FMCDN), Federal Home Loan Bank (FHLB, FHDN) and Federal Farm Credit Bank Notes (FFCB)).

**Forward Purchase and Sale Agreement (FPSA)** - contract that provides for the delivery of specific types of securities on specified future dates at fixed yields.

**GASB 31 Market Value-** the securities' reported value, according to Government Accounting Standards Board Rule 31. If a security has a maturity of greater than one year at the time of purchase, it is reported at market value. If it has a maturity of less than one year at the time of purchase, it is reported at its book value.

**Local Government Investment Pool (LGIP)** - funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. These funds are completely liquid, there is no required holding period or fixed maturity date.

**Municipal Bonds** - Debt (bonds, notes, warrants, etc) issued by a state or local government or municipality as authorized by RCW 39.59.020.

**Par Value-** the stated or face value of a bond.

**Treasury Bills (T-Bill)** - short-term U.S. Treasury security with maturities of 13, 26, or 52 weeks.

**Treasury Notes (T-Note)** - intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of less than 10 years and paying interest semiannually.

**Unamortized Book Value** - remaining premium/discount on a fixed income security, equal to the difference between par and book value.

**Weighted Average Maturity (WAM)-** average amount of time for securities to mature, weighted by each security's book value.