

RESOLUTION NO. **12-13722**

A RESOLUTION TO ESTABLISH LONG RANGE FINANCIAL POLICIES FOR THE FIBER & TELECOM SYSTEM AND ADOPT FINANCIAL TARGETS FOR 2012 AND BEYOND

FACTUAL BACKGROUND AND REASONS FOR ACTION

Pursuant to Resolution No. 10-13555, adopted by the Board of Commissioners (the "Commission") of Public Utility District No. 1 of Chelan County, Washington (the "District") on June 21, 2010, the Commission approved and adopted the District's Financials Policies, which included long-range targets for maintaining rate of return, debt ratio and debt service coverage ratio. Resolution No. 10-13555 also established a minimum financial liquidity target for 2010 and subsequently Resolution No. 11-13616, adopted by the Commission on January 24, 2011, established a financial liquidity methodology framework to be used to establish the 2011 and future financial liquidity minimum targets. All of the long-range targets are for the District as a whole on a combined basis.

The Board has been engaged in a strategic planning effort with regard to the Fiber & Telecom System. On April 16, 2012, the Board adopted Resolution No. 12-13719 setting a new Fiber & Telecom System strategic policy as outlined in "Alternative 2" of the General Manager's April 9, 2012 recommendation. This policy direction included, among other actions, that the District develop and implement comprehensive financial policies for the Fiber & Telecom System. District staff recommends that the Fiber & Telecom System specific financial policies include the same types of long-range targets as the District's Financial Policies.

The Commission has directed that the existing fiber optic network be operated as a self-sustaining business with no new cash or loans from other District sources. Accordingly, financial liquidity will be the primary financial policy for the fiber business. District staff recommends that the existing financial liquidity methodology framework adopted by Resolution No. 11-13616 be consistently applied to the Fiber & Telecom System as individual components are applicable to fiber operations to determine the minimum level of reserves required. This methodology 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 such as capital projects. However, it is recommended that a phased-in approach over five years (2012 – 2016) be used to implement the financial liquidity minimum targets. Based on the liquidity framework, staff recommends a fixed minimum reserve of \$4 million be reached by the end of calendar year 2016. Prior to the end of calendar year 2016, staff recommends, that for prudent financial planning purposes, an initial minimum reserve of \$1 million be accumulated before considering any expenditures for District-funded expansion of the fiber optic network outside of the

areas currently served by District fiber. Staff also recommends that after the initial 5-year phase-in period, or earlier if warranted for strategic planning, the liquidity minimums be re-evaluated consistent with the financial liquidity methodology.

Also included in the steps outlined by the General Manager on April 9, 2012 was the write-off of all Fiber & Telecom System outstanding loans in addition to the recommendation of not issuing any new loans from the District's Consolidated System. Therefore, it is anticipated that the Fiber & Telecom System will have no debt. As such, District staff recommends that the Fiber & Telecom System targets be effectively zero for both debt ratio and debt service coverage ratio.

The rate of return metric is also a way to determine if a business is self-sustaining in the long term. A positive rate of return indicates that the business is able to cover all of its costs, including depreciation. The Fiber & Telecom System has historically not been able to cover all costs and therefore has had a negative rate of return. Implementation of the strategic policy direction adopted by Resolution No. 12-13719 will move the Fiber & Telecom System towards a positive rate of return in the long term, but recognizes that depreciation will not be covered in the short term which will result in a negative rate of return. Accordingly, District staff recommends that the Fiber & Telecom System rate of return target be phased-in over time and that a break-even (greater than or equal to 0%) rate of return is targeted by the end of calendar year 2016.

The Chief Financial/Risk Officer and General Manager concur with staff's recommendations.

ACTION

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

Section 1. The Commission recognizes the need for rigorous financial planning to anticipate and respond to changes in the business climate and economic environment and the obligation to manage the District's liquidity sources and requirements to enable the District to provide stable, reliable, high quality services at a reasonable cost to its customers over the long term. In addition, pursuant to Resolution No. 12-13719, the Commission hereby further recognizes the importance of establishing Fiber & Telecom System specific Financial Policies. These Financial Policies are in support of the financial management section of the District's Strategic Plan to develop policies to assure financial stability for the long term.

Section 2. The Commission hereby adopts the Fiber & Telecom System specific Financial Policies to include:

1. A minimum financial liquidity target of \$4 million for the Fiber & Telecom System based on the financial liquidity methodology framework adopted by Resolution No. 11-13616 and consistent with Alternative 2. However, this

financial liquidity minimum target will be implemented in a five-year phased-in approach by the end of calendar year 2016. In addition, a minimum reserve of \$1 million must be accumulated prior to considering any expenditures for District-funded expansion of the fiber optic network outside of the existing areas currently served by District fiber. After the initial five-year phased-in period or earlier if warranted for strategic planning, the financial liquidity minimums will be re-evaluated consistent with the financial liquidity methodology adopted by Resolution No. 11-13616.

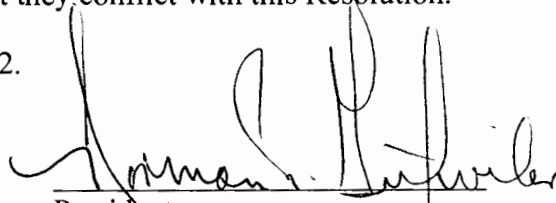
2. A debt ratio target of zero.
3. A debt service coverage ratio target of zero.
4. A rate of return target of break-even (greater than or equal to 0%) by the end of calendar year 2016.

Section 3. The District's Chief Financial/Risk Officer or designee shall report compliance with the Fiber & Telecom System's Financial Policies to the Commission on a quarterly basis. If projections reflect that future results will vary from established targets, the recommended corrective action will be presented for Commission consideration and action.

Section 4. This Resolution shall take effect upon its adoption.


Section 5. To the extent any prior resolutions of the District impose limitations or directions which are inconsistent with this Resolution, said prior resolutions are hereby amended and superseded to the extent they conflict with this Resolution.

DATED this 21st day of May 2012.

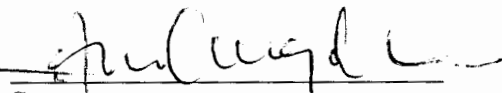


President

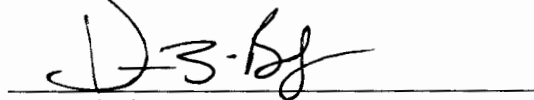
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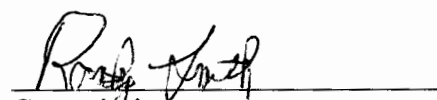
Vice President



Secretary



Commissioner



Commissioner

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