

# Balance 2007 STRATEGIC BUDGET PROCESS

**2007 Budget Update**

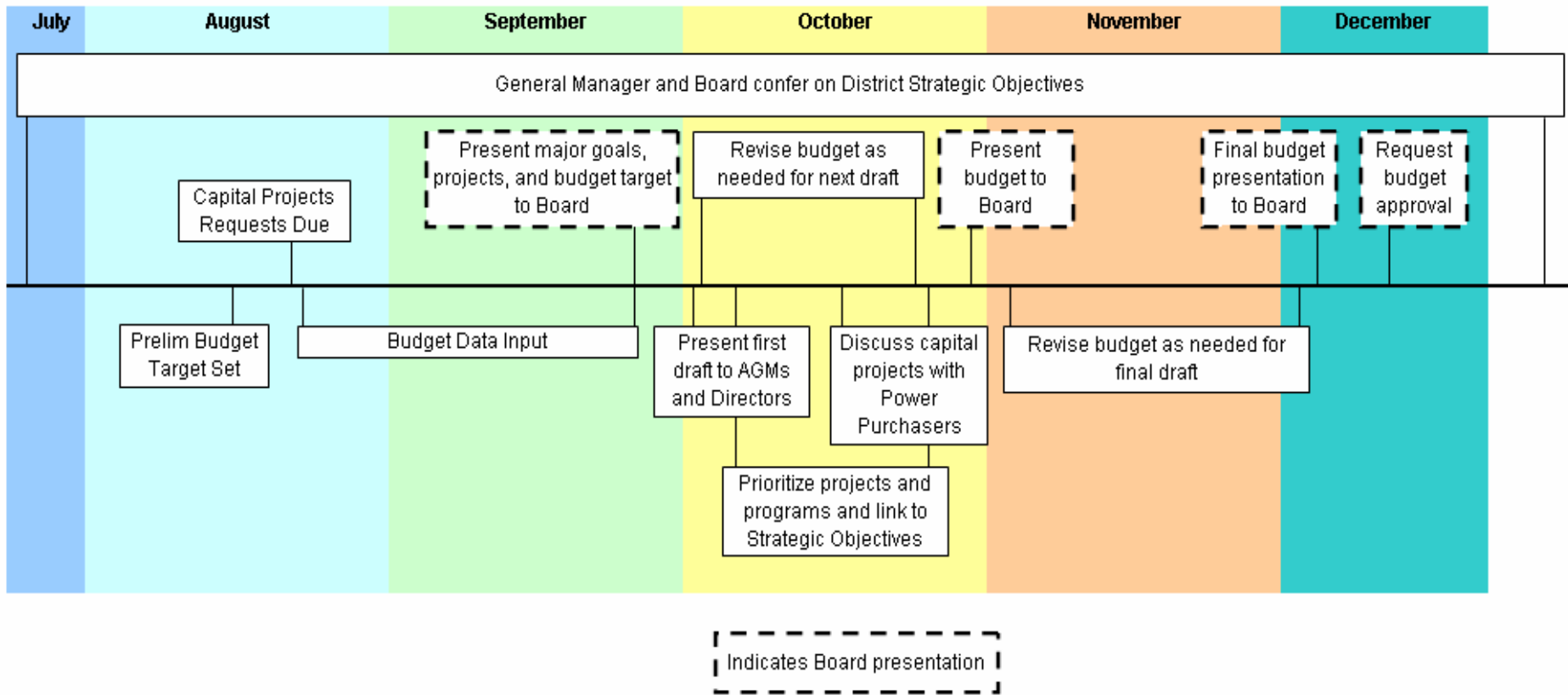
**November 27, 2006**



# Highlights

- Budget Status
- Changes since last presentation
- Other Post Employment Benefits (OPEB)
- Next Steps

# 2007 Budget Timeline



# 2007 Challenges

- Rocky Reach & Lake Chelan license implementations
- Aging Infrastructure - Hydro facilities, Electric and Water, Hatcheries, Parks
- Benefit cost increases
- Materials cost increases – fuel, steel, copper
- Contractor availability
- Wholesale Revenue Volatility

# Fine-tuning since last presentation

- A few of the major items:
  - Reduced Debt Service – (\$458k)
  - Reduced Regulatory Consulting - (\$100k)
  - Delayed Park Maintenance Projects - (\$76k)
  - Increased Retail Electric Revenue - \$1M
  - Medical Benefit increase (effective 8/07) - \$465k
  - CTC Rent Expense/Networks Revenue - \$220k
  - Additional LC license implementation - \$140k
  - Increased 401a match - \$100k

# Items not included in 2007 Budget

## ■ Major O&M reductions

- Hydro Projects (\$4.6M)
- Delayed Hatchery Work (\$695k)
- Travel and Training (\$500k)
- Tree Trimming/Pole Testing (\$485k)
- RR License Impl moved to 2Q07 (\$467k)
- Delayed Parks Maintenance (\$578K)
- Reduced ResourceSmart (\$200k)

## ■ Major Capital deferrals

- Utility Services land purchase (\$6M)
- Delayed Parks Projects (\$1.2M)
- Electric Automated Meter Reading-*Phase 1* (\$1M)
- Delayed Hatchery Projects (\$800k)

***Total O&M and Capital Reductions/Deferrals = \$27M***

# Other Post Employment Benefits (OPEB)

- Currently, the District subsidizes 30% of retiree's medical premium
- For 2006 plan year, the cost of the subsidy for retiree medical is about \$425k
- If nothing changed, the subsidy for the 2007 benefits plan year would cost about \$502k
- 20%+ annual cost escalation due to rising medical costs and increased retirements

# Other Post Employment Benefits (OPEB)

- The District has funded retiree medical on a “pay as you go” basis
- GASB45 requires public entities of our size to accrue now for the future cost of the subsidy, beginning in 2007
- Private employers have had to comply with these rules for the last 14 years
  - 26% of private employers offer retiree medical
  - 82% of public employers offer retiree medical, but most offer no subsidy

# Magnitude of the change required by OPEB?

- Under current plan, to fully fund the existing liability would cost \$14.9M, plus \$571k annual service cost
- Fully funding the liability significantly reduces cash
- If unfunded, the liability would be viewed as added debt for bond rating purposes
- The annual service cost is treated as additional O&M expense

# How does it impact us?

- Payments for retirees or their beneficiaries must be treated as compensation for services rendered while they are still active employees.
- Requires us to accrue for the retiree medical subsidy while an employee is still employed instead of using the “pay as you go” method when the employee retires and enrolls in retiree medical
- Actuarial liability to date must be recognized in the financial statements

# Plans to minimize the liability

- Continue retiree medical subsidy only as a bridge to Medicare (age 65)
- Limit retiree medical subsidy to 2006 amounts + inflation adjustment based on CPI-W\*
- 2006 Rates:
  - Retiree under 65: Cost = \$705.61/mo.; Subsidy = \$207.66/mo.
  - Spouse under 65: Cost = \$575.61/mo.; Subsidy = \$169.40/mo.
- Fund the accrued liability

\*The *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W) is produced by the [Bureau of Labor Statistics](#) (BLS). The CPI-W is used to [annually adjust benefits](#) to Social Security beneficiaries.

# Positive impact of changes to the District

- Reduces liability from \$14.9M to \$1.9M – Fund in 2006
- Reduces annual service cost from \$571k to \$53k
- Reduces 2007 Operating Expenses by \$2.4M

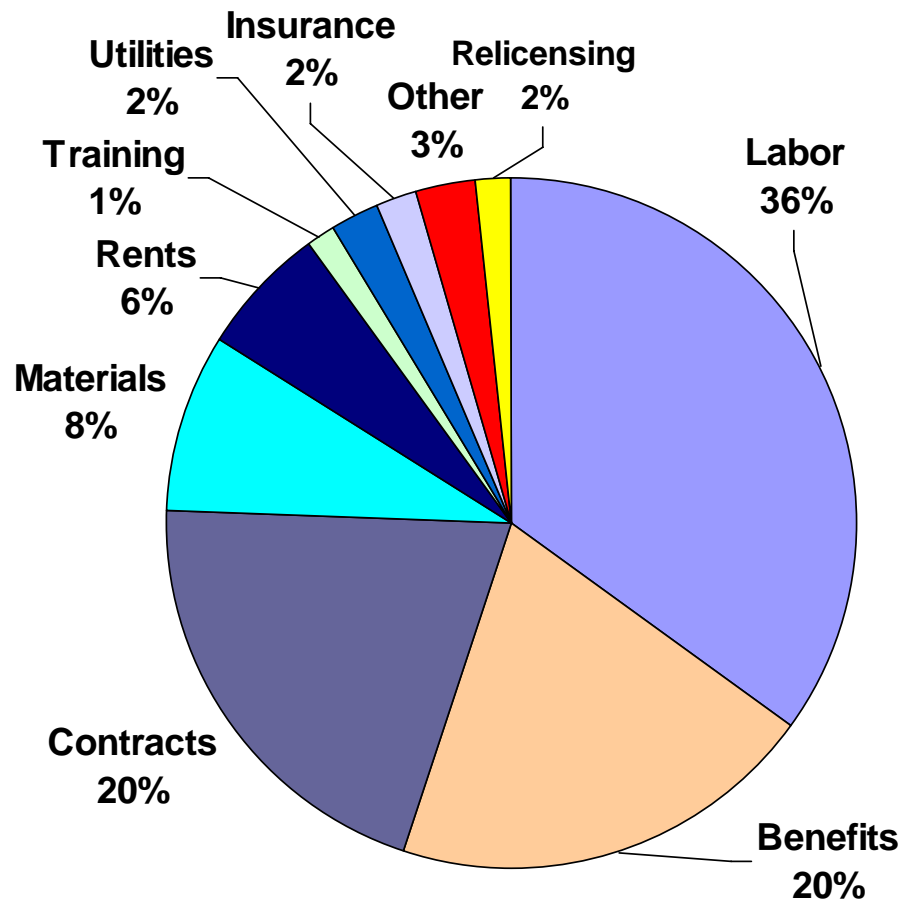


# Positive impact of changes to Retirees

- Now eligible for the full range of Medi-Gap plans
- Research shows retirees likely can get comparable coverage at a lower cost than PUD subsidized rate (as low as 1/3 the cost)
- With few exceptions, no pre-existing condition exclusions
- Benefits fair and personal interaction to help post-65 retirees transition

# 2007 Operating Expenses

*(Excludes Purchased Power, Depreciation, Debt Service)*

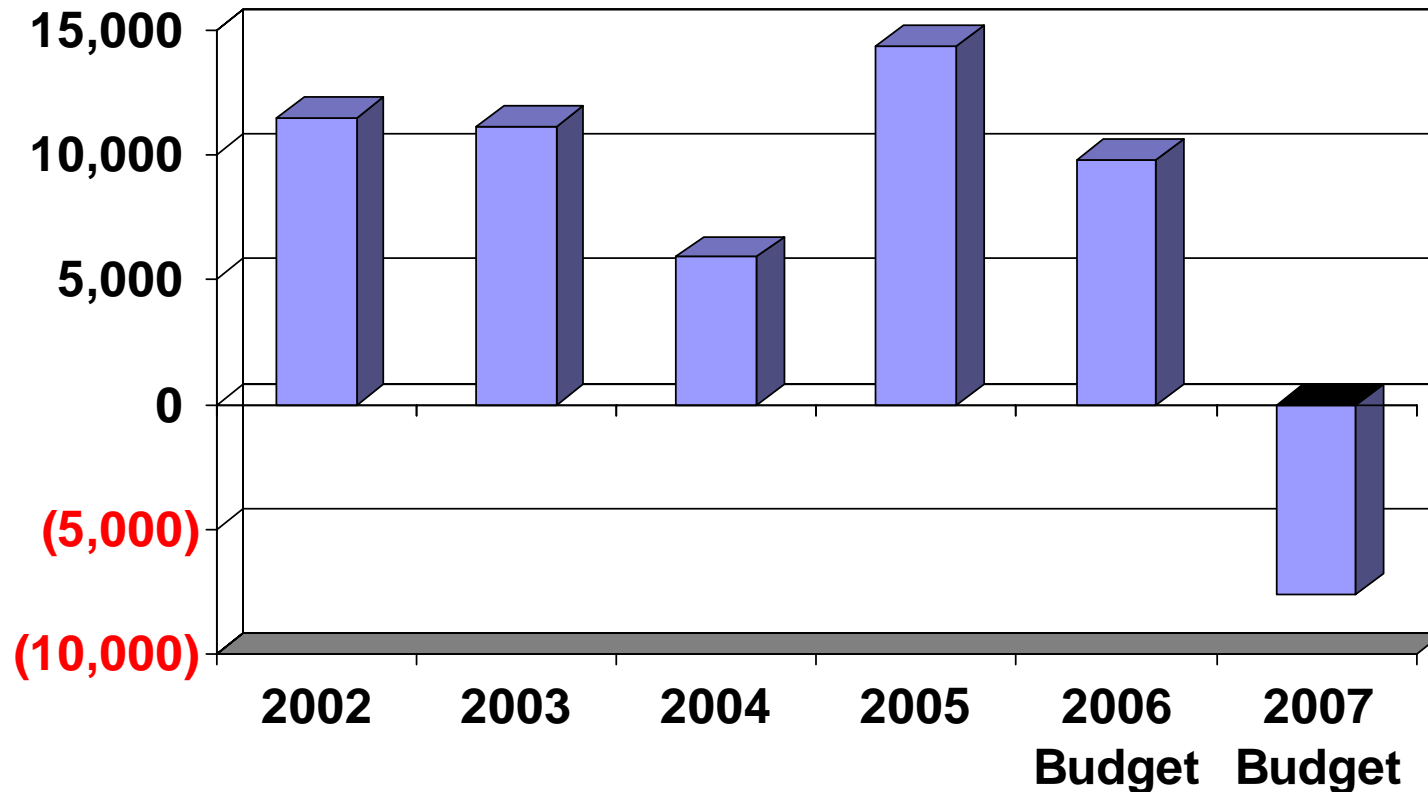


# Combined Revenue and Expense

(in millions)

	2007	2006	
	Budget	Budget	Variance
Operating Revenue	208.6	199.1	4.8%
Operating Expense	118.3	113.4	<b>4.5%</b>
Net Power Supply	21.7	(4.8)	---
Deprec/Amort/Taxes	44.5	40.1	10.9%
Non-Operating Expense	36.2	44.5	(18.7%)
Chg in Net Assets Before CIAC	(12.1)	5.8	---
Capital Contributions (CIAC)	4.4	4.1	6.9%
<b>Inc/(Dec) in Net Assets</b>	<b>(7.6)</b>	9.9	---

# Inc/(Dec) in Net Assets



# Budget Reduction Impact on Non-Hydro Debt Coverage

	2006 Budget	2007 as of 9/27/06	2007 as of 10/16/06	2007 as of 10/23/06	2007 as of 11/20/06
Operating Expenses	\$113.4M	\$125.0M	\$123.5M	\$119.6M	\$118.3M
Net Wholesale Revenue	58.1M	37.3M	36.5M	35.9M	35.9M
Debt Cover	3.18x	1.38x	1.36x	1.34x	1.53x
Net Revenue needed for 1.75	(\$15.6M)	\$3.4M	\$3.6M	\$3.8M	\$2.1M

# Potential Risks/Consequences

- Reliability
- Customer Service levels
- Availability
- Forced Outage Rate
- Sustainability
- Contingencies not included
  - Acquisition of Cashmere Electric System
  - Extension of Water system to Monitor
  - Weather/Fire related events
  - Additional Conservation requests



# Next Steps

- Continue to prioritize and refine budget
- Develop Contingency Plan
- Evaluate hydro funding options
- Integrate budget into long-term Strategic Planning Sessions
- Final Budget Hearing – December 4
- Request board approval – December 11