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# Balance 2008 STRATEGIC BUDGET PROCESS

## **2008 Budget Overview**

**September 10, 2007**

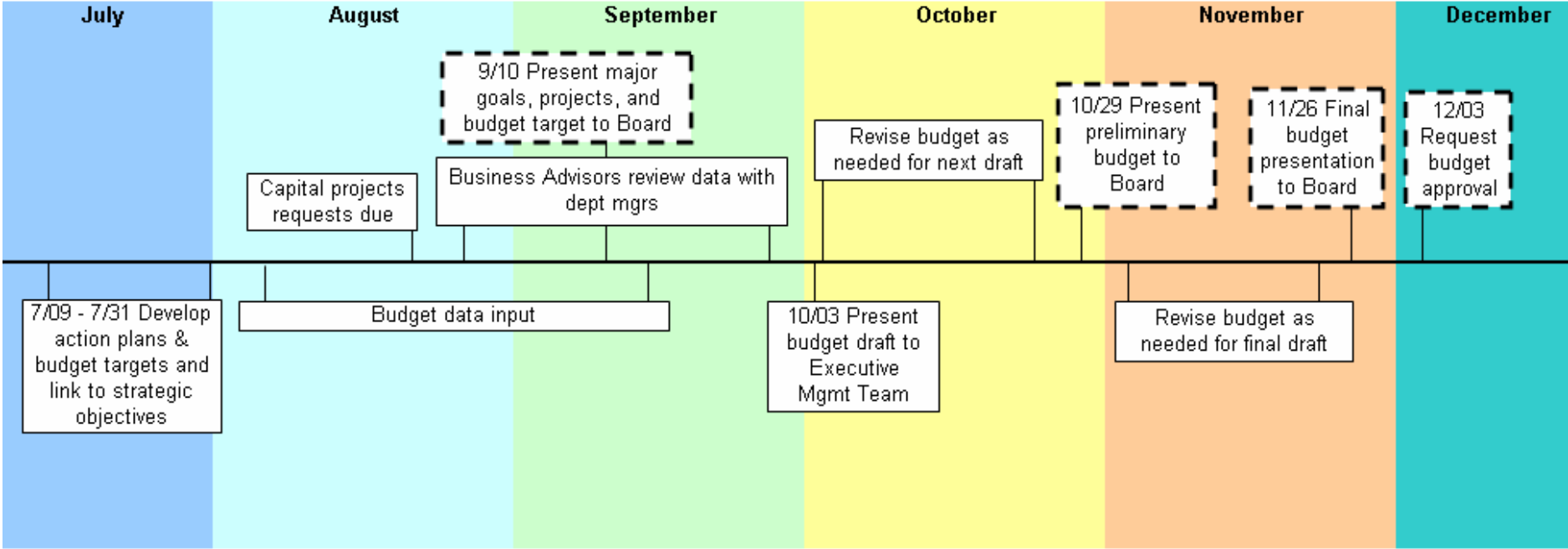


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# Overview

- Timeline
- Board financial policies/actions
- Key assumptions
- Major projects
- Budget targets
- Debt planning
- Challenges
- Salary & benefit planning
  
- No action requested today

# 2008 Budget Timeline



Indicates Board presentation

# Board Governing Financial Policies

- Provide integrated utility services
- Target an overall operating ratio of 80%-100% by 2011
- Target a positive Change in Net Assets (bottom line) by 2011
- Limit the potential surcharge to 14% at a 90% confidence level
- Allocate capacity reservation funds (completed in July 2007)

Electric: \$53M

Water: \$21M

Networks: \$18M

Wastewater: \$2M

# Board Directed Strategic Actions

- Initiate the public process required for rate increases of:
  - 5% for Electric
  - 9% for Water
  - 9% for Wastewater
  - 2% for Networks service providers
- Proceed with the Networks business line using the current build with an emphasis on deployment in rural areas
- Proceed with the Electric, Water and Wastewater business lines using the balanced strategy

# Key Financial Assumptions

- Rate increases:
  - 5% for Electric
  - 9% for Water
  - 9% for Wastewater
  - 2% for Networks service providers
- General inflation of 3%
- System load growth:
  - 2.2% Electric
  - 3.5% Water
  - 1.0% Wastewater
- Networks
  - 4,400 drops
  - 1,360 connections
- Normal temperatures
- Normal water
- Fish spill consistent with 2007
- Alcoa 2 pot-line operation



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# Budget Targets

O&M growth (estimated inflation plus real cost growth)	5.3%
Expected combined Utility Services systems operating ratio (includes cost of power from Hydros)	93%
Expected combined Utility Services systems change in net assets (includes cost of power from Hydros)	\$13 million
Expected retail surcharge (50% probability)	0%
Retail surcharge potential in unusual conditions (10% probability)	12.3%
Capital (including 2007 carryovers)	\$97.3 million

# Major Projects

	Preliminary Estimate
Lake Chelan license implementation	\$16M
Fiber optic build-out	13M
Hydro maintenance program	12M
Entiat 115kV transmission line	7M
Hatchery maintenance and modifications	5M
Monitor water system	5M
Fish studies	4M
Rocky Reach license implementation	3M
Walla Walla St. substation	3M
Andrew York switchyard expansion	2M
Chelan substation rebuild	2M

# 2008 Debt Planning

Clean Renewable Energy Bonds (CREBs) may be issued

- Stehekin has received a \$1.25M allocation, but bonds will only be issued if the project results in efficiency gains
- An additional \$37.7M in CREBs has been requested, but not yet granted, for Rock Island and Lake Chelan modernizations
- CREBs must be issued prior to December 31, 2008

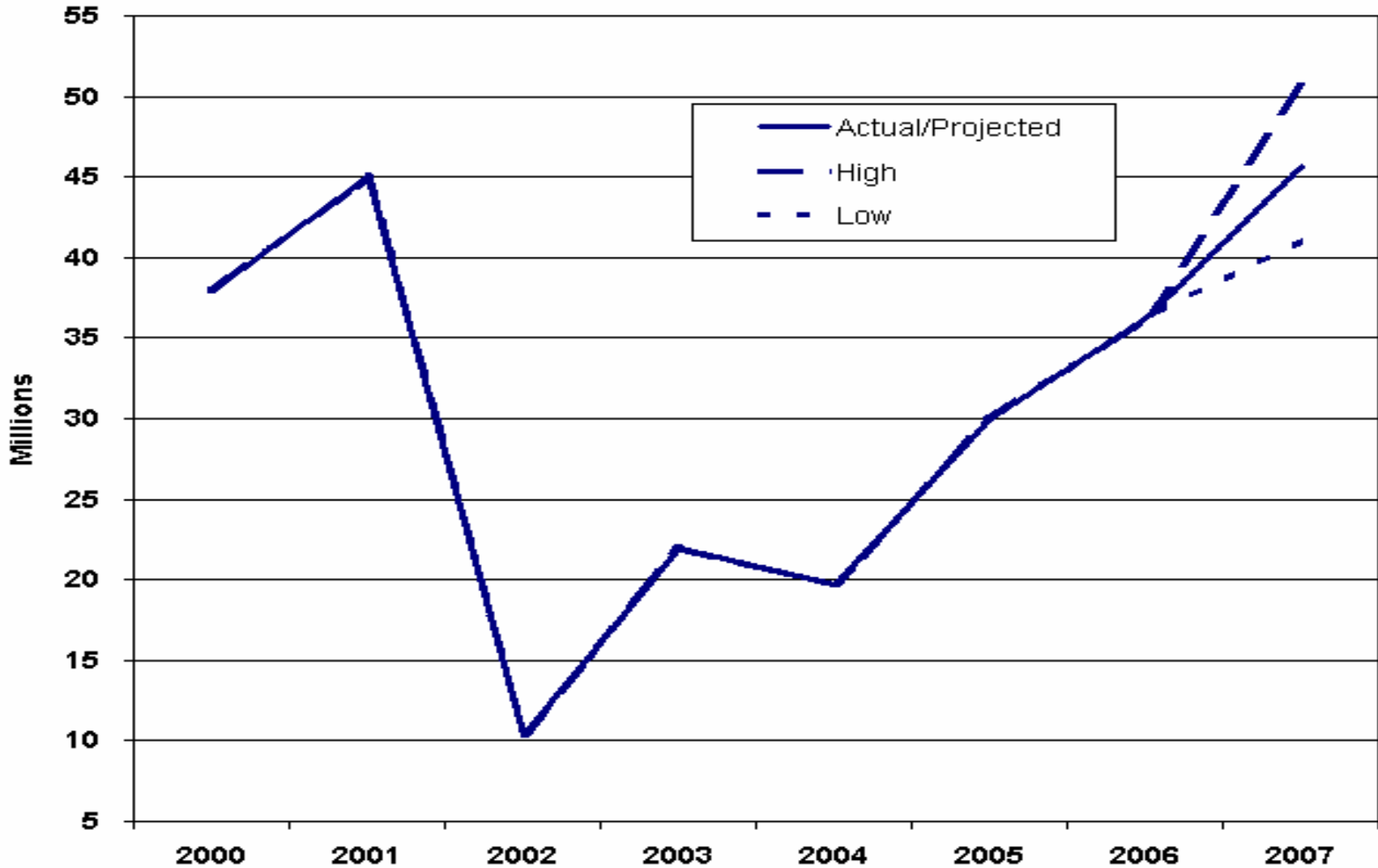
The debt portfolio and market conditions will continue to be monitored for refinancing/savings opportunities

# 2008 Budget Challenges

- Rocky Reach & Lake Chelan license implementations
- Aging Infrastructure requires increased maintenance/modernization - hydro facilities, electric and water, hatcheries, parks
- Mature workforce requires succession planning & training
- Materials cost increases – fuel, steel, copper
- Labor pay and benefit increases
- Contractor availability
- Wholesale Revenue Volatility

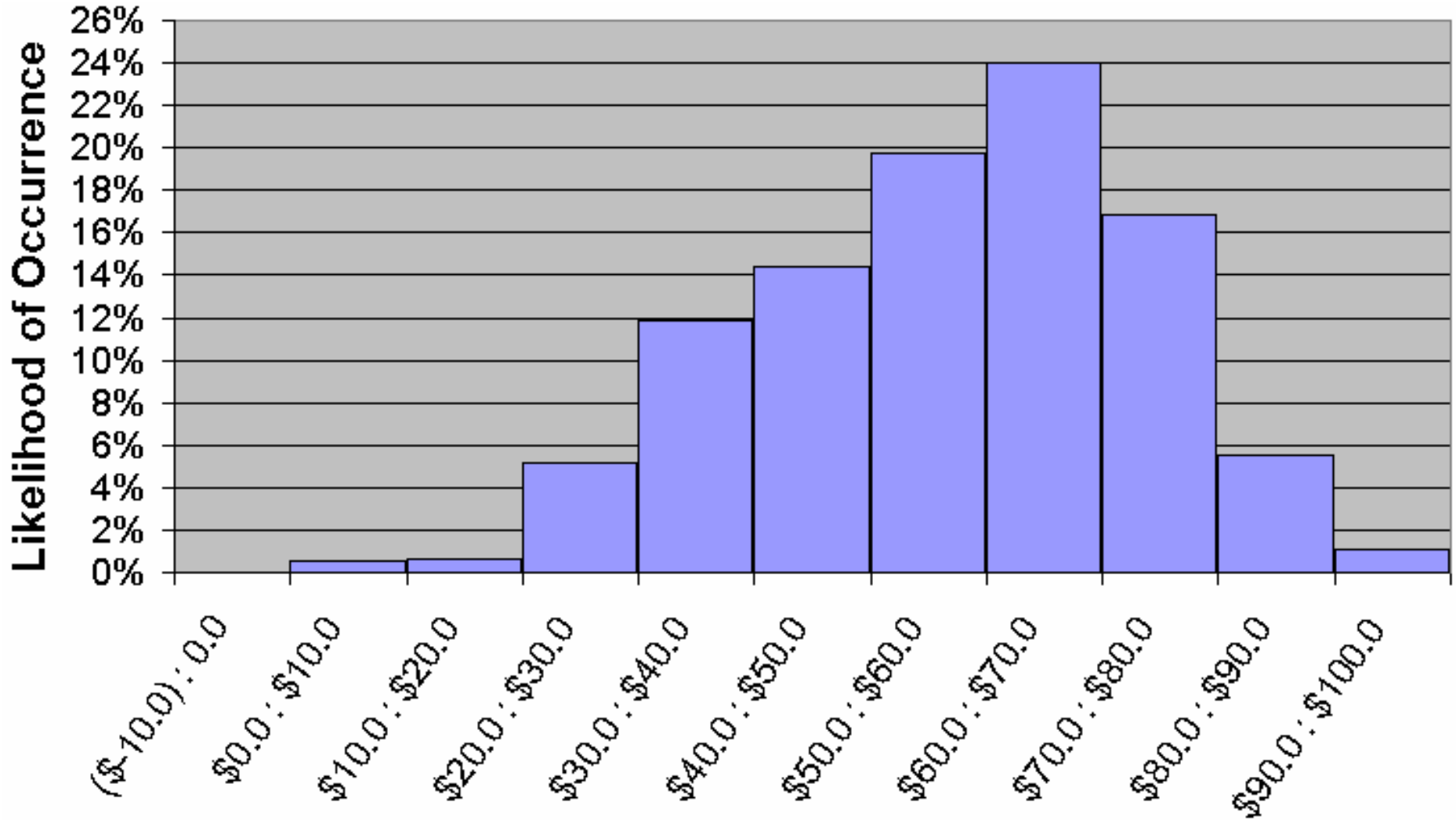
# Net Wholesale Margin

(in millions)



# Possible 2008 Wholesale Revenue Outcomes

A Probabilistic View  
(in millions)



# Operating Ratio Forecast

- (Utility Services Including Surplus Wholesale)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Expected Conditions (50% Probability)	93%	104%	110%	100%	77%
Unusual Conditions (10% Probability)	126%	135%	141%	130%	94%

Rate increases assumed in 2008, but not 2009-2012

- # Change In Net Asset Forecast
- (Utility Services Including Surplus Wholesale)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Expected Conditions (50% Probability)	\$ 13M	\$ 0M	(\$ 7M)	\$ 2M	\$ 46M
Unusual Conditions (10% Probability)	(\$ 18M)	(\$ 27M)	(\$ 33M)	(\$ 28M)	\$ 11M

Rate increases assumed in 2008, but not 2009-2012

Includes interest income, assumes operating reserves will be spent as currently planned

- **Surcharge Potential Forecast**
- (Utility Services Including Surplus Wholesale)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Expected Conditions (50% Probability)	0.0%	0.0%	0.0%	0.0%	0.0%
Unusual Conditions (10% Probability)	12.3%	26.7%	34.7%	24.8%	0.0%

Rate increases assumed in 2008, but not 2009-2012



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# Salary & Benefits Planning



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# Labor & Benefits Expense

## Cost Drivers

### Impact of Labor & Benefits Upon Operating Expense

- About 56% of Operating Expense

### The Four Main Cost Drivers:

- Staffing Levels
- Wages
- Market Positioning
- Benefit Costs

# Staffing Levels

## Realignment Activity as of August 31, 2007

- Realignment process has produced results:
  - Since April 1, 2007
    - 11.56 Full-Time Equivalents (FTEs) reduced, saving \$1,107,114 (salary & benefits)
  - Since May 1, 2006
    - 26.41 FTEs reduced (includes overtime hours); 18 headcount
  - Impact upon Monthly Wages (5/06 v. 7/07)
    - Only .01% increase despite non-Bargaining Unit merit increase, Bargaining Unit General Wage Increase (GWI) and normal seasonal hiring

# Wage Inflation

Budget Performance (through 7/31/2007)

## Bargaining Unit:

- GWI Budget: 2006-07 = 3.69% → 2007-08 = 3.43%
- Budget Variance: 96.5% of budget (wages = 92%; overtime=135%)
- Overtime = 15.8% of total union payroll (Operations & Maintenance)

## Non Bargaining Unit:

- 2007 Merit Budget: 3.8% + .75% + .25% = 4.8%
- Average merit increase: 4.41%
- Budget Variance: 95% of budget

# Wage Inflation

## Comparison of Year-Over-Year Increases

% Increase Yr.- over-Yr., Full-Year Employees Only				
12 Month Period	Bargaining Unit		Non Bargaining Unit *	
	Contract Amount	% Change	Merit Budget	% Change
08/02/04 to 08/01/05	3.00%	4.10%	4.50%	5.91%
08/02/05 to 08/01/06	3.00%	6.70%	4.70%	5.25%
08/02/06 to 08/01/07	3.69%	5.43%	4.80%	5.62%

\* The overall average February merit increases for all non-bargaining unit employees was 4.14%, 4.3% and 4.41% in 2005, 2006, and 2007, respectively. This chart shows the average wage increase only for full-time, regular employees on the payroll both at the beginning and the end of the period stated. Regular adjustments to pay were included, but not temporary pay. Since employees hired or terminated during the period are not included, the average increase listed for non-bargaining unit personnel is significantly higher than is the average of all non-bargaining unit personnel. That is because managers may redeploy money to existing employees rather than giving new hires an increase as long as they meet the overall merit pool target. In addition, 25% of salary money saved through staff reductions may be used to fund salary actions; salary recovery money is managed separately from the District's merit package.

# Wage Inflation

## Leading Consultant Projections for 2008

### 2008 Merit Budget Projections

<b>Consultant Projections (National)</b>	<b>Exempt Salaried / Supv.</b>	<b>Non-Exempt (Non-Union)</b>	<b>Officer / Executive</b>
World at Work (2426 company participants)	3.90%	3.80%	4.00%
Economic Research Institute	4.10%	3.80%	4.40%
<b>Average</b>	<b>4.00%</b>	<b>3.80%</b>	<b>4.20%</b>

Promotion Budget = 1.2% Average

# Wage Inflation

## World at Work Detailed Projections for 2008

### 2008 Merit Budget Projections

<b>World at Work Survey</b>	<b>Exempt Salaried/Supv.</b>	<b>Non-Exempt (Non-Union)</b>	<b>Officer/Executive</b>
National	3.90%	3.80%	4.00%
Western Region	4.00%	3.90%	4.00%
Utility Industry	3.80%	3.80%	4.00%
Public Administration	4.00%	4.00%	4.00%
Average	3.93%	3.88%	4.00%

# Wage Inflation

## Accuracy of 2007 Consultants' Projections

### 2007 Actual Salary Budgets

World at Work Survey	Exempt Salaried/Supv.	Non-Exempt (Non-Union)	Officer/Executive
National	3.9% par	3.8% par	4.1% ▲.1
Western Region	3.8% par	3.9% par	4.0% par
Utility Industry	3.9% ▲.1	3.8% ▲.1	4.2% ▲.3
Public Administration	4.3% ▲.2	4.2% ▲.5	4.2% ▲.2
Average	3.98%	3.93%	4.13%

▼ ▲ = Variance from 2007 forecast

# Market Positioning

## Wages Relative to Market

Competency Band	Salary (% of Market)	Age	Tenure
Strategic Leadership	93.0%	50.3	12.1
Business/Operational Leadership	103.2%	49.3	14.0
Professional Leadership	98.6%	43.2	8.6
Technical/Administrative Staff	95.2%	42.8	6.6

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# Wage Inflation & Market Positioning

## Summary

- Our 2007 merit package was slightly under the market
- Expect the market for 2008 merit increases to be at or about 3.9%
- To remain competitive, we will need to be in that range

# Benefits

## Program Changes

- Medical plan – No significant plan design changes
- 401(a)/457 – No plan design changes
- Dental plan – Changing to self-funded
  - Benefits and providers will remain unchanged
  - Recaptures rate stabilization reserve \$168,749

# Medical Benefit Costs

## Cost Increases for the Claims Year (8/01 – 7/31)

- Claims Year Cost Increase (5-Year Trend)
  - 2003-04: 0.0%
  - 2004-05: 0.0%
  - 2005-06: 0.0 %
  - 2006-07: 17.7%
  - 2007-08: 4.7%
- National medical cost “trend” rates suggest we budget for a 12.5% increase on 8/1/08, or a \$988,000 increase for fiscal 2008.

Item	2006-07	2007-08	\$ Change	% Change
Claims	\$7,431,473	\$7,808,117	\$376,644	5.1%
Stop Loss	\$372,775	\$393,650	\$20,875	5.6%
Administration Fee	\$503,436	\$513,102	\$9,666	1.9%
Life/AD&D	\$140,512	\$140,512	\$0	0.0%
Dental	\$956,376	\$1,021,289	\$64,913	6.8%
Long-Term Disability	\$186,397	\$167,765	-\$18,632	-10.0%
<b>Total</b>	<b>\$9,590,969</b>	<b>\$10,044,435</b>	<b>\$453,466</b>	<b>4.7%</b>

# Medical Benefit Costs

## Employee/Employer Cost Sharing

- Overall, the District pays 91.9% of employee benefits costs on a weighted average basis.

2007-08	#	Employee		Employer		Total Cost (Monthly)
		Cost	%	Cost	%	
Plan 1	356	\$129.79	11.94%	\$957.31	88.1%	\$1,087.10
Plan 2	209	\$64.34	6.30%	\$957.31	93.7%	\$1,021.65
Plan 3	173	\$20.35	2.16%	\$921.82	97.8%	\$942.17

# Medical Benefit Costs

## Chelan PUD Employees' Cost Advantage (Monthly)

District employees have a significant cost advantage compared to CWPU

Chelan PUD 2007-08	#	Employee		Employer		Total Cost
		Cost	%	Cost	%	
Plan 1	356	\$129.79	11.94%	\$957.31	88.1%	\$1,087.10
Plan 2	209	\$64.34	6.30%	\$957.31	93.7%	\$1,021.65
Plan 3	173	\$20.35	2.16%	\$921.82	97.8%	\$942.17

CWPU 2007-08	#	Employee		Employer		Total Cost
		Cost	%	Cost	%	
Plan 1	162	\$313.45	25.47%	\$917.44	74.5%	\$1,230.89
Plan 2	441	\$130.31	12.44%	\$917.44	87.6%	\$1,047.75
Plan 3	585	\$30.59	3.25%	\$910.49	96.7%	\$941.08
CDHP	22	\$30.59	3.73%	\$790.40	96.3%	\$820.99

	Plan 1		Plan 2		Plan 3	
Chelan PUD Employees' Cost Advantage	\$183.66	142%	\$65.97	103%	\$10.24	50%

# Medical Benefit Costs

## Pre-65 Retiree Medical Subsidy

- Over-65 retiree medical Medicare supplemental plan terminated 8/1/07
- Pre-65 retiree claims costs increased 12.69%
- Pre-65 retirees received a 2.76% increase in subsidy (CPI-W) on 8/1/07
- Subsidy is approximately \$186,000 per year

Retiree Medical 2007-08	#	Retiree		CCPUD		Total Cost
		Cost	%	Cost	%	
Retiree Under 65	41	\$581.78	73.16%	\$213.39	26.84%	\$795.17
Spouse Under 65	36	\$474.59	73.16%	\$174.08	26.84%	\$648.67
Children	2	\$398.08	73.16%	\$146.01	26.84%	\$544.09

# Defined Contribution Benefits

## 401(a)/457 Plan

- District's 401(a)/457 plan participation is approaching "best in class" status
- District match is projected to exceed \$1.5 million in 2008

	2007			2008 Projected		
	Employee Participation	Employee Contribution	Employer Match	Employee Contribution	Employer Match	Projected Change in Employer Match
	#	\$		\$		\$
<b>401(a) Plan 2007-08</b>	%	%		%		%
Bargaining Unit	296	\$1,542,237	\$618,900	\$1,715,204	\$670,156	\$51,256
	76%	5.90%		6.25%		8.30%
Non-Bargaining Unit	227	\$1,945,029	\$808,403	\$2,028,589	\$870,904	\$62,501
	80%	8.61%		8.55%		7.70%





## Public Employees Retirement System (PERS)

- PERS employer contribution rates have increased, and are expected to do so again:
  - 3.69% to 5.46% effective 1/1/07, and then again to 6.12% on 7/1/07
  - 6.12% to 6.13% on 9/1/07
  - 6.13% to 8.31% on 7/01/08 (36% increase)
  - Increases benefit costs by approximately \$784,000 in 2008

# 2008 Budget Challenges

- Rocky Reach & Lake Chelan license implementations
- Aging Infrastructure requires increased maintenance/modernization - hydro facilities, electric and water, hatcheries, parks
- Mature workforce requires succession planning & training
- Materials cost increases – fuel, steel, copper
- Labor pay and benefit increases
- Contractor availability
- Wholesale Revenue Volatility



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# Summary

Challenge is finding the right balance of our goals with our budget targets in a demanding environment

- Meeting the targets will be a challenge
- First budget presented to Commissioners will be refined from first draft
- Board budget presentation September 24
- Next District budget update: October 29