



Financial Policy Recommendations



June 14, 2010

Return on Net Utility Plant

$$\frac{\text{Change in Net Assets}}{\text{Net Utility Plant}}$$

Target Recommendations:

- ▶ **Target Range (expected conditions) = 4% to 6%**
 - ▶ Relatively consistent with peer group
 - ▶ Provides for reasonable levels of revenue generation & reasonable ability to meet other financial targets
- ▶ **Minimum Target (95% confidence interval) = 2%**
 - ▶ Promotes disciplined risk management strategy in order to mitigate downside revenue volatility
 - ▶ Can help mitigate need for large rate surcharges

Note: targets apply to 2012 and future years

Debt Ratio

$$\frac{\text{Total Debt}}{\text{(Total Debt + Net Assets)}}$$

- ▶ Target Recommendation:
 - ▶ Debt ratio of 60% or less
 - ▶ Consistent with comparably-rated peers and investor/rating agency guidelines
 - ▶ Achieve by 2015 and then maintain at those ratios or better in accordance with policy

Debt Service Coverage

$$\frac{\text{Net Revenue} + \text{Depreciation} + \text{Interest Expense}}{\text{("levelized") Debt Service Payments}}$$

Target Recommendations:

- ▶ Expected range on combined basis = 2.25x – 2.75x
 - ▶ Consistent with rating agency targets and comparably rated peers

- ▶ Minimum target = 1.25x at 95% confidence
 - ▶ Promotes disciplined risk management strategy in order to mitigate downside revenue volatility
 - ▶ Mitigates need for large rate surcharges

Note:

- Targets apply to 2012 and future years
 - Staff will continue to monitor all five actual lien calculations for compliance with bond covenants
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Financial Liquidity

Unrestricted Cash and Investments + Other Eligible Internal/External Sources

Target Recommendation:

- ▶ Adopt minimum financial liquidity target of \$175 million for 2010
 - ▶ Max \$25 million of “internal” secondary liquidity to count towards target

- ▶ Continue analysis to evaluate additional options/decisions that will impact financial liquidity in subsequent periods:
 - ▶ Timing for resumption of fiber build out (currently slated to resume in 2012)
 - ▶ Timing for AMR project (currently slated for 2012 and 2013)
 - ▶ Cost/benefit and feasibility of:
 - ▶ Reissuing \$53 million short term notes due in 2013
 - ▶ Reissuing \$30 million short term notes due in 2014
 - ▶ External line(s) of credit with Bank(s)
 - ▶ Options in new power contracts – optimal usage of Debt Reduction and Capital Recovery components
 - ▶ Etc.

Actions When Targets are Violated

- ▶ **Results are worse than targets:**
 - ▶ Squeeze out additional downside exposure (e.g., tighter hedging targets), where possible
 - ▶ **Cost Control Measures**
 - ▶ Stop “discretionary” projects
 - ▶ Reduce/defer O&M Expenses
 - ▶ Defer capital expenditures and major maintenance projects
 - ▶ Reduce pace of build-outs and multi-year projects
 - ▶ Increase rates with enough lead time to allow for smaller, incremental rate adjustments

Actions When Targets are Violated

- ▶ **Results are better than targets:**
 - ▶ Catch up on deferred maintenance and critical capital projects
 - ▶ Replenish “Rainy Day” funds
 - ▶ Establish Planning Reserves for planned future expenses
 - ▶ Discretionary projects with positive returns
 - ▶ Pay down debt
 - ▶ Debt avoidance (more pay-as-you-go)
 - ▶ Pay down existing debt before final maturity
 - ▶ Reduce rates/rebates to customers

Summary

- ▶ The actionable targets and policies we discussed today are designed to put the District on a reliable, sustainable path for the future
- ▶ If we adopt these metrics and action plans, we expect that our financial position will improve over the next several years
- ▶ We heard from our customers about managing debt, saving for a “rainy day” and avoiding large rate increases all at once and these policies are designed to help us do that
- ▶ Our surplus power sales present a great opportunity – if we manage according to our plan, we should be able to mitigate much of the downside risk and still capture the benefits