

Chelan County PUD

Quarterly Financial Review

For the Quarter Ended September 30, 2017

Board Presentation

November 6, 2017

What we will cover today...

Financial Highlights

Third Quarter Results

5-Year Look Forward

Key Messages

- Update only, no action required
- Appendix: Additional detailed information not covered today
- Implementation of Strategic Facilities Plan will be reflected in Q4 update (not reflected in this update)

Key Highlights

2017 Bottom-line results better than budget

- *YTD-2017 result \$83.4 million (\$16.8M better than budget)*
- *2017 forecast \$101.3 million (\$16.2M better than budget)*
- *Combination of higher revenues from colder weather and contract charges along with lower operating costs*

2017 Financial metrics meeting targets

- Financial Liquidity = **\$394M** Target > \$175M
- Days Cash on Hand = **615** Target > 250
- Debt Ratio = **37.7%** Target <45%-2017, <35%-2019
- Debt Service Coverage = **3.30** Target >2.00x
- Rate of Return = **9.0%** Target >4%

Recommend continuing strategic goals: Reinvest in assets and people, reduce debt, continue public power benefit program

Financial Highlights - Revenue

Net Wholesale Revenue:

YTD result \$1.2 million below budget
(\$88.6M vs. \$89.8M)

Annual forecast lower than budget
(\$112.5M vs \$114.1M)

Drivers:

- + Generation 102% of budget YTD
- retail energy use 110% of budget YTD
- Hedging program minimizes impact of 2017 flat price \$21.4 vs \$22.5 budget
- Low water forecast for remainder of year

Hydro Long-Term Contract Revenue:

YTD result \$0.2 million below budget
(\$93.2M vs. \$93.4M)

Annual forecast in line with Budget
(\$124.5M vs \$124.6M)

Drivers:

- Combined hydro “cost based” operating expenses below budget (93% YTD)
- “Plus” contract charges less than budgeted levels (93% YTD)
- + Retained surplus proceeds ~\$2.8M YTD

Financial Highlights - Revenue

Service Revenue:

YTD result \$3.4 million above budget
(\$49.8M vs. \$46.4M)

Forecast results better than budget
(\$67.1M vs \$63.4M)

Drivers:

- + Retail energy use at 110% of budget:
(Residential ~117%, Industrial ~107%,
Commercial ~104%)
- +Colder than normal winter

Other Operating Revenue:

YTD result \$3.9 million above budget
(\$19.5M vs. \$15.6M)

Forecast results better than budget
(\$24.6M vs \$20.9M)

Drivers:

- + ~\$3 million recognition of revenue
associated with the ~\$7 million deferral
payment from the Alcoa contract
(remainder spread over life of contract)
- + Variable component of real time
agreement

Financial Highlights - Expenses

Operating Expense:

YTD result \$9.0 million below budget
(\$112.6. vs. \$121.6M)

Forecast results below budget
(\$153.6M vs \$162.2M)

Drivers:

- Electric Transmission at 83% of YTD budget/expected to partially catch up by year end
- Hydro Operations and Maintenance at 89% of YTD budget/expected to partially catch up by year end

Non-Operating Net Expense:

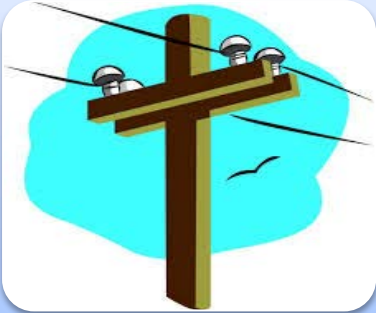
YTD result \$1.8 million better than budget (\$11.9M vs. \$13.7M)

Forecast result better than budget
(\$16.9M vs \$17.7M)

Drivers:

- + Higher contributions in aid of construction YTD (\$5.0M vs \$3.9M)
- +Line extensions (count: 200 YTD vs 153 PYTD: 31% increase)

Financial Highlights – Cost per unit



Electric fully loaded cost per avg kWh better than budget

YTD - 2017 ¢/kWh result – **6.03¢ vs. 6.14¢** (actual vs. budget)

Power production costs- 2.35¢ vs. 2.36¢ (actual vs. budget)

Power distribution costs- 3.68¢ vs. 3.78¢ (actual vs. budget)

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



Hydro production cost per avg MWh better than budget

YTD - 2017 \$/MWh result - **\$17.4 vs. \$18.3** (actual vs. budget)

Actual vs. Budget

Rocky Reach \$13.4 vs. \$13.6 (operating expense ~98% YTD)

Rock Island \$25.9 vs. \$27.9 (operating expense ~89% YTD)

Lake Chelan \$19.7 vs. \$22.4 (operating expense ~84% YTD)

Financial Highlights – Cost per unit

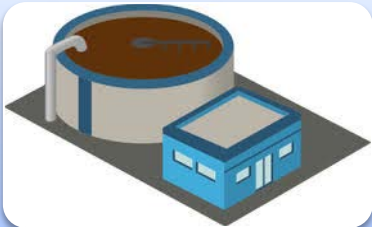


Water cost per 1,000 gallons higher than budget

YTD - 2017 result - \$5.61 vs. \$5.59 (actual vs. budget)

YTD - 2017 operating expense 100% of budget

*operational costs associated w/ unplanned pump repair



Wastewater annual cost per ERU higher than budget

Rolling 12 month result - \$1,275 vs. \$1,053 (actual vs. budget)

YTD - 2017 operating expense 130% of budget

*Reclassification of Dryden pipeline from deferred to O&M ~\$200K due to change in plans



Fiber annual cost per active premise in line with budget

Rolling 12 month result - \$420 vs. \$420 (actual vs. budget)

YTD - 2017 operating expense 102% of budget

Financial Highlights – Balance Sheet

Capital expenditures below budget

- 2017 YTD \$37.4 million vs. budget of \$72.4 million
- 2017 Forecast results below 2017 budget (\$84M vs. \$96M)

Individual project adjustments:

- ↑ RI B5 Modernization (\$1.2M shifted from future years to 2017)
- ↑ RI B8 Modernization (\$2.3M shifted from future years to 2017)
- ↓ RR Generator Fire Protect System (~\$1.6M shifted from 2017 to 2019)
- ↓ RI B7 Modernization (\$4.7M shifted from 2017 to future years)
- ↓ Distribution and Shared Fleet (\$1.2M shifted to 2018)
- ↓ BPON to GPON Completed (\$0.5M below Forecast at Q1)
- ↓ Microwave Network Replace (\$2.7M shifted to 2018)
- ↓ CIS Upgrade (\$1.9M shifted to 2018)
- ↓ RR Fire Alarm System (\$1.0M shifted to 2018)

Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to decrease ~\$2 million in 2017
- Debt balance to decrease ~\$52 million in 2017

2017 Bottom-Line Results

(in 000s)	2017 Current Forecast	2017 Budget	% of budget
Service Revenue	67,147	63,373	106%
Energy Resources Net Wholesale	112,508	114,138	99%
Hydro LT Contract Rev/Other PP	123,208	123,252	100%
Other Operating Revenue	24,616	20,886	118%
Other Operating Expense	(153,642)	(162,458)	95%
Depreciation & Tax Expense	(55,650)	(56,344)	99%
Operating Income/(Loss)	118,187	102,847	115%
Non-Operating Activity	(16,935)	(17,740)	95%
"Bottom Line"	101,252	85,106	119%

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



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Business Line “Bottom-Line” Results

(in 000s)	2017 Current Forecast	2017 Budget	% of budget
Cost-Based Activity	45,403	38,859	117%
Market-Based Activity	59,418	54,007	110%
Retail Activity	(18,388)	(20,606)	89%
Other Activity	10,064	10,131	99%
Integrated Electric	96,497	82,391	117%
Fiber & Telecom	4,629	2,274	204%
Water	535	620	86%
Wastewater	(410)	(179)	(229%)
Combined "Bottom-Line"	101,252	85,106	119%

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



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Capital Expenditures

(in 000s)	2017 YTD Current	2017 YTD Budget	% of budget	2017 Current Forecast	2017 Budget	% of budget
Electric Distribution	7,834	8,516	92%	12,373	12,595	98%
Network Transmission	1,498	2,949	51%	2,785	3,886	72%
Rocky Reach	5,238	11,342	46%	10,632	13,179	81%
Rock Island	15,971	36,258	44%	45,223	45,542	99%
Lake Chelan	41	402	10%	164	1,129	15%
Internal Services	3,811	9,168	42%	8,412	14,397	58%
Fiber & Telecom	2,434	2,972	82%	3,576	3,970	90%
Water	207	698	30%	1,061	1,116	95%
Wastewater	70	111	63%	305	418	73%
Total Expenditures	37,104	72,415	51%	84,531	96,232	88%
Contributions	(5,026)	(3,882)	129%	(5,405)	(5,177)	104%
Capital net of CIAC	32,078	68,532	47%	79,126	91,055	87%

Overview of YTD - 2017 Cash Flow

	\$ Million
Bottom-line result (YTD - 2017)	\$83
Add back non-cash related items (depreciation)	\$ 36
Estimated earned funds from operations	\$ 119
Capital Project Expenditures, net of contributions	\$32
Net Debt Reductions	\$52
Alcoa deferral payment (~\$7M less ~\$3M recognized)	(\$4)
Other Misc. Impacts (A/R, A/P, Inventory, Etc.)	\$34
Added to cash reserves	\$ 5
Estimated use of funds	\$ 119
Cash and investments, beginning of year	\$ 483
Added to cash reserves	\$ 5
Cash and investments, end of Q3	\$ 488



Cash & Investments Balance

(\$ Millions)	<u>9/30/17</u>	<u>12/31/16</u>
Unrestricted funds	\$309	\$306
Board Designated: Strategic Facilities Plan*	<u>20</u>	<u>0</u>
Unrestricted funds*	329	306
Restricted – DRC & CRC funds for Hydro capital/debt	<u>77</u>	<u>90</u>
Total Liquidity (policy minimum \$175M)	\$406	\$396
Restricted - bond reserve funds	48	55
Restricted - power contract deposits	22	20
Restricted - self insurance and other funds	<u>12</u>	<u>12</u>
Total Cash and Investments	<u>\$488</u>	<u>\$483</u>

* Board Designated Funds qualify as unrestricted (shown separately on this slide)

Quarterly Reporting Requirement - Financial Policies

Financial Policies do not include impacts associated with Strategic Facilities plan implementation. Impacts will be presented in next quarterly update.

District Combined	2017	2018	2019	2020	2021
Liquidity - \$175M Min (Expected)	\$394M	\$298M	\$238M	\$238M	\$221M
Liquidity - \$175M Min (Unusual)	\$393M	\$291M	\$225M	\$218M	\$192M
Debt Ratio (Expected <35% by 2019)	37.7%	32.0%	26.4%	23.6%	21.4%
Debt Ratio (Unusual <35% by 2019)	37.7%	32.2%	26.7%	23.9%	21.8%
Days Cash on Hand (Expected >250)	615	493	392	384	368
Days Cash on Hand (Unusual > 250)	614	482	371	351	320
Combined Debt Cover (Expected > 2.00x)	3.30	2.81	2.84	2.91	2.86
Combined Debt Cover (Unusual >1.25x)	3.29	2.70	2.71	2.74	2.64
Rate of Return (Expected > 4% thru 2019)	9.0%	5.9%	5.2%	Sunset	
Rate of Return (Unusual > 2% thru 2019)	9.0%	5.4%	4.7%		
Bottom Line Results (Expected)	\$101M	\$70M	\$64M	\$52M	\$49M
Bottom Line Results (Unusual)	\$100M	\$64M	\$58M	\$45M	\$40M
Outstanding Debt (Expected)	\$537M	\$452M	\$368M	\$331M	\$306M
Outstanding Debt (Unusual)	\$537M	\$452M	\$368M	\$331M	\$306M





The information in this schedule 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.

Quarterly Reporting Requirement Individual Business Line Financial Policies

Business Lines	2017	2018	2019	2020	2021
WATER Business Line					
Operating Expense Coverage (target >120%)	135%	140%	134%	138%	134%
Cash Reserves (target > \$1.25 million)	\$3.5M	\$3.4M	\$3.6M	\$2.8M	\$1.8M
Debt Ratio (target <35%)	13%	11%	10%	9%	7%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	74%	98%	104%	104%	103%
Cash Reserves (target > \$200K)	\$2.3M	\$3.0M	\$2.2M	\$2.6M	\$2.5M
Debt Ratio (target <35%)	---	---	9%	9%	16%
FIBER Business Line					
Operating Expense Coverage (target >120%)	194%	169%	158%	165%	155%
Cash Reserves (target > \$2.0 million)	\$12.6M	\$14.5M	\$12.1M	\$13.3M	\$15.2M
Debt Ratio (target <35%)	---	---	---	---	---

Quarterly Reporting Requirement Individual Business Line Financial Policies

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

Business Lines	2017	2018	2019	2020	2021
Integrated Electric Business Line					
Retail Total Cost Ratio (target)	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio 	74%	66%	67%	66%	67%
Retail OM&T Cost Ratio (target)	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio 	99%	87%	88%	88%	91%
Retail Rate Support Limit (target)	\$25.0M	\$25.6M	\$26.3M	\$26.9M	\$27.6M
Retail Rate Support 	\$18.4M	\$26.0M	\$25.4M	\$27.0M	\$26.3M
Market Based Margin Limit (target)	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin 	\$59.4M	\$47.8M	\$44.4M	\$33.8M	\$29.9M

Quarterly Investment Report

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

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	YTD 2017	WAM
Average Invested Book Value (\$M)	\$464	\$485	\$499	\$471	\$485	
District Yield	1.61%	1.67%	1.66%	1.74%	1.69%	765
Benchmarks:						
3 Month T-Bill	0.44%	0.60%	0.92%	1.06%	0.86%	92
Barclays Gov. 1-3 Year Index	1.02%	1.24%	1.31%	1.38%	1.31%	666

- Q3 2017 yield increased slightly to 1.74% due to holding less short term cash balances as annual debt service payments made at beginning of year
- September 20, 2017 Federal Open Market Committee meeting report:
 - Economic activity continued to strengthen at a moderate pace
 - Continuing to monitor inflation indicators and global developments, the near term outlook appears stable
 - Federal funds rate target unchanged and remains at 1.25%
 - Gradually increasing, although continued relatively low rates, are anticipated into 2018
- 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.

Key Messages

2017 results better than budget

- YTD 2017 Bottom-Line (*better than budget and forecast to be ~\$16M better for the year*)
- Combination of higher revenues from colder weather and contract charges along with lower costs

Long-term financial policies on track

- Bottom-line forecasts ~\$101M declining to ~\$49M (2017-21): reflecting a decline in forecasted electric wholesale prices over our planning horizon
- Total cash reserves forecasted to decline for planned beneficial uses to reduce debt and reinvest in core assets - lower balances still strong (2017-21)
- Implementation of Strategic Facilities Plan will be reflected in Q4 update
- Less revenue and needed investments mean borrowing and managing revenue will be needed sooner than previously forecast

Stay the course with strategic goals

- Reinvest in core assets and people
- Achieve <35% debt ratio by 2019
- Continue public power benefit program

Appendix

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.

Service Revenue

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Residential Electric	20,732	18,008	115%	Cold winter / high usage
Commercial Electric	12,594	12,102	104%	Partially weather driven usage
Industrial Electric	3,475	3,188	109%	Industrial & HDL in aggregate at 107% of budget.
High Density Load	1,335	1,290	103%	
Other Electric	1,429	1,660	86%	Weather driven variance
Electric Service	39,565	36,248	109%	
Water Service	4,419	4,631	95%	Small dollar variance
Wastewater Service	465	497	94%	Small dollar variance
Fiber & Telecom	5,315	5,004	106%	Internet Revenue
Service Revenue	49,764	46,380	107%	

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 2017	Budget YTD 2017	%	Variance
Slice Contracts	59,609	59,300	101%	In line with budget
Net Block Trades	24,796	25,622	97%	Retail usage offset by increased production due to high flows (Aggregate 95% of Budget)
Other Net Wholesale	4,208	4,854	87%	
Energy Resources Net Wholesale	88,614	89,776	99%	
LT Hydro Contracts	93,238	93,442	100%	In line with budget
Less Other Purchased Power	(992)	(990)	100%	In line with budget
Hydro LT Contract Rev/Other PP	92,246	92,452	100%	
Surplus Energy Revenue	180,860	182,228	99%	

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

Operating Expense

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Hydro Operations & Maintenance	37,261	41,882	89%	Timing of large unit repairs
Hydro Fish & Wildlife	9,471	11,422	83%	Fish passage ops and studies
Hydro Parks & Recreation	4,954	5,436	91%	Maint Parks and Rec Facilities
Electric Distribution	10,047	9,989	101%	In line with budget
Electric Transmission	8,178	9,832	83%	Peak RC/Peak RCTA dues
Misc. Power Supply Expenses	3,233	3,884	83%	OATI web trader timing
Water & Wastewater	2,311	2,159	107%	WW deferred costs to O&M
Fiber Network	2,941	2,972	99%	In line with budget
Customer Accounts & Service	2,834	2,829	100%	In line with budget
Conservation & Customer Assist	1,778	2,237	79%	Amortization of reg asset
Insurance & FERC Fees	4,860	6,191	78%	FERC fee true up
Other Admin & General	24,735	22,784	109%	Budget (payroll accrual timing)
Total	112,603	121,617	93%	

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

Non-Operating Activity

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Interest Earnings	5,846	6,011	97%	In line with budget
Capital Contributions	5,029	3,880	130%	Line extensions
Interest Expense	(20,293)	(20,346)	100%	In line with budget
Other Inc/(Exp)	(2,520)	(3,261)	77%	Gain on disposition 07B/07C
Non Operating Activity	(11,939)	(13,716)	87%	

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

Integrated Electric

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	39,633	36,311	109%	Cold winter / higher usage
Energy Resources Net Wholesale	91,414	89,776	102%	In line with budget
Hydro LT Contract Rev/Other PP	89,446	92,452	97%	Cost based portion below budget
Other Operating Revenue	20,647	16,365	126%	Alcoa contract deferral / Variable RTA
Other Operating Expense	(108,388)	(116,664)	93%	Hydro O&M/Trans. Exp below budget
Depreciation & Tax Expense	(38,347)	(38,034)	101%	In line with budget
Operating Income/(Loss)	94,404	80,207	118%	
Non-Operating Activity	(14,728)	(16,400)	90%	Line extension contributions
"Bottom Line"	79,675	63,807		

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

Fiber & Telecom

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	7,766	6,836	114%	Internal dark fiber / Internet
Other Operating Revenue	1	1	127%	Small dollar variance
Other Operating Expense	(4,627)	(4,518)	102%	In line with budget
Depreciation & Tax Expense	(1,907)	(2,337)	82%	Depreciation estimate refinement
Operating Income/(Loss)	1,233	(18)	---	
Non-Operating Activity	2,284	2,252	101%	In line with budget
"Bottom Line"	3,517	2,233		

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

Water

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	4,585	4,814	95%	Small dollar variance
Other Operating Revenue	47	45	104%	Small dollar variance
Other Operating Expense	(2,781)	(2,783)	100%	In line with budget
Depreciation & Tax Expense	(1,753)	(1,741)	101%	In line with budget
Operating Income/(Loss)	97	335	29%	
Non-Operating Activity	414	366	113%	Small dollar variance
"Bottom Line"	511	701		

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

Wastewater

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	465	497	94%	Small dollar variance
Other Operating Revenue	2	1	140%	Small dollar variance
Other Operating Expense	(671)	(516)	130%	Dryden pipeline: Deferral to O&M
Depreciation & Tax Expense	(204)	(188)	108%	Small dollar variance
Operating Income/(Loss)	(407)	(206)	198%	
Non-Operating Activity	91	65	140%	Small dollar variance
"Bottom Line"	(316)	(141)		

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

Actual Cash Balance Comparison to Budget

(millions)	2017
Total Cash – Budgeted year-end balance	\$ 439
Key changes in cash forecast:	
Decrease in capital projects	\$ 12
Improvement in operating activity	\$ 16
Alcoa contract deferral (\$7M less \$3M recognized in income)	\$ 4
Other changes in A/R, A/P, inventory, etc.	\$ 11
Total Cash – Current forecast year-end balance	\$ 482
Prior quarter – 2017 year-end forecasted balance	\$ 465

Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2017	2018	2019	2020	2021
District Total Liquidity Targets	\$191	\$175	\$175	\$175	\$175
Base Case – expected (50% probability)	\$394	\$298	\$238	\$238	\$221
Base Case – unusual (10% prob. / cumulative)	\$393	\$291	\$225	\$218	\$192
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$282	\$207	\$193	\$179*
Days Cash on Hand Target	250	250	250	250	250
Base Case – expected (50% probability)	615	493	392	384	368
Base Case – unusual (10% prob. / cumulative)	614	482	371	351	320
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		451	326	303	285

* Assumes external debt financing to maintain liquidity targets

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2017	2018	2019	2020	2021
District Targets	<45%	<40%	<35%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$537	\$452	\$368	\$331	\$306
Scheduled Debt Retirements (million)	\$23	\$24	\$25	\$25	\$26
Planned Debt Accelerations (million)	\$29	\$61	\$61	\$11	\$ -
Base Case – expected (50% probability)	37.7%	32.0%	26.4%	23.6%	21.4%
Base Case – unusual (10% prob. / cumulative)	37.7%	32.2%	26.7%	23.9%	21.8%
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		32.3%	26.8%	24.1%	23.3%*

* Assumes external debt financing to maintain liquidity targets

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2017	2018	2019	2020	2021
District Targets (expected)	2.00	2.00	2.00	2.00	2.00
District Targets (unusual)	1.25	1.25	1.25	1.25	1.25
Base Case – expected (50% probability)	3.30	2.81	2.84	2.91	2.86
Base Case – unusual (10% prob. / cumulative)	3.29	2.70	2.71	2.74	2.64
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.62	2.63	2.65	2.47

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2017	2018	2019	2020	2021
District Targets (expected)	>4%	>4%	>4%	Sunset	
District Targets (unusual)	>2%	>2%	>2%		
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	9.0% <i>\$101M</i>	5.9% <i>\$70M</i>	5.2% <i>\$64M</i>		
Base Case – unusual (10% prob. / cumulative) <i>Bottom-line expectation</i>	9.0% <i>\$100M</i>	5.4% <i>\$64M</i>	4.7% <i>\$58M</i>		
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		5.0% <i>\$61M</i>	4.3% <i>\$54M</i>		



Quarterly Investment Report for the quarter ending September 30, 2017

All \$ values are shown in '000s

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

Portfolio Summary

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	YTD 2017	WAM	
Average Invested Book Value	\$464 M	\$485 M	\$499 M	\$471 M	\$485 M		<u>Policy Objectives & Compliance</u> + Safety + Liquidity + Return on Investment + Diversification + Maturity Length
Interest Earned	\$1.9 M	\$2.0 M	\$2.1 M	\$2.1 M	\$6.1 M		
District Yield	1.61%	1.67%	1.66%	1.74%	1.69%	765	
Benchmarks:							
3 Month T-Bill	0.44%	0.60%	0.92%	1.06%	0.86%	92	
Barclays Gov. 1-3 Yr Index	1.02%	1.24%	1.31%	1.38%	1.31%	666	
LGIP (State Pool)	0.49%	0.66%	0.90%	1.10%	0.89%	36	
Fed Funds Effective	0.45%	0.70%	0.95%	1.15%	0.93%	1	

General Commentary:

For Q3 2017, the District's yield increased to 1.74% on an average invested book value of \$471 million due to holding less short term cash balances as annual debt service payments were made at the beginning of the quarter.

The Federal Open Market Committee's September 20, 2017 meeting reported that the labor market has continued to strengthen and that economic activity has been rising moderately. Job gains have remained solid and the unemployment rate has stayed low. Inflation is running below the Committee's 2 percent longer-run objective, but household spending has been expanding at a moderate rate and growth in business fixed investment has picked up. While the Committee continues to monitor inflation indicators and global developments closely, the near term outlook appears stable. The Committee did not change its current target range for the federal funds rate of 1 1/4 percent and expects with gradual adjustments in monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. The District anticipates gradually increasing, although continued relatively low, rates into 2018. Global and national events can influence financial markets, which may impact the District. The laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility overtime.

Portfolio Objectives and Diversification:

The District continues to focus on portfolio diversification while maintaining investment objectives. A portion of 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 diversification, safety of principal and liquidity.

Maturity Length:

The Weighted Average Maturity (WAM) increased in Q3 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.



Quarterly Investment Report for the quarter ending September 30, 2017

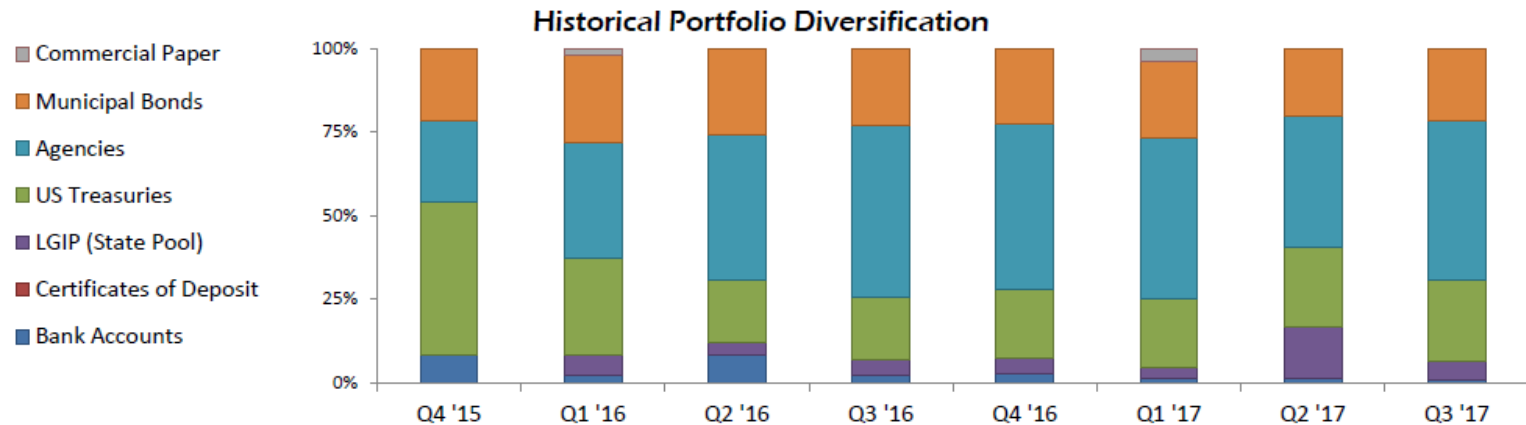
All \$ values are shown in '000s

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

Investments by Type - as of September 30, 2017

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 4,536	\$ 4,536	\$ 4,536	0.93%	75%	1
US Treasuries	\$ 120,282	\$ 121,150	\$ 119,184	24.45%	100%	948
LGIP (State Pool)	\$ 26,274	\$ 26,274	\$ 26,274	5.39%	25%	1
US Agencies	\$ 231,333	\$ 230,202	\$ 231,344	47.47%	75%	811
Municipal Bonds	\$ 104,255	\$ 105,741	\$ 106,024	21.75%	30%	682
Commercial Paper	\$ 0	\$ 0	\$ 0	0.00%	25%	-
Total:	\$ 486,681	\$ 487,903	\$ 487,362			765

Numbers may not foot due to rounding





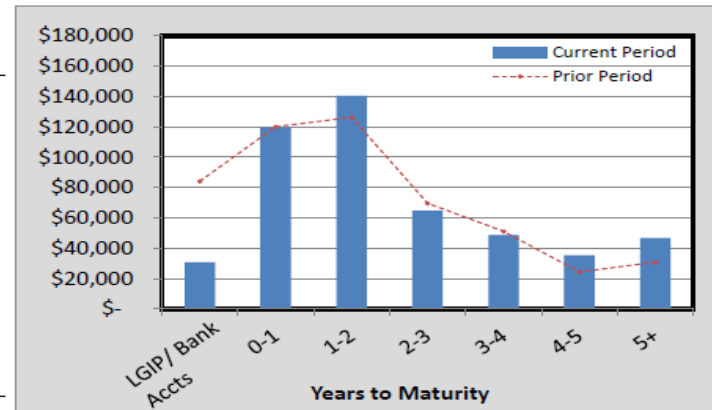
Quarterly Investment Report for the quarter ending September 30, 2017

All \$ values are shown in '000s

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

Maturity Distribution - as of September 30, 2017

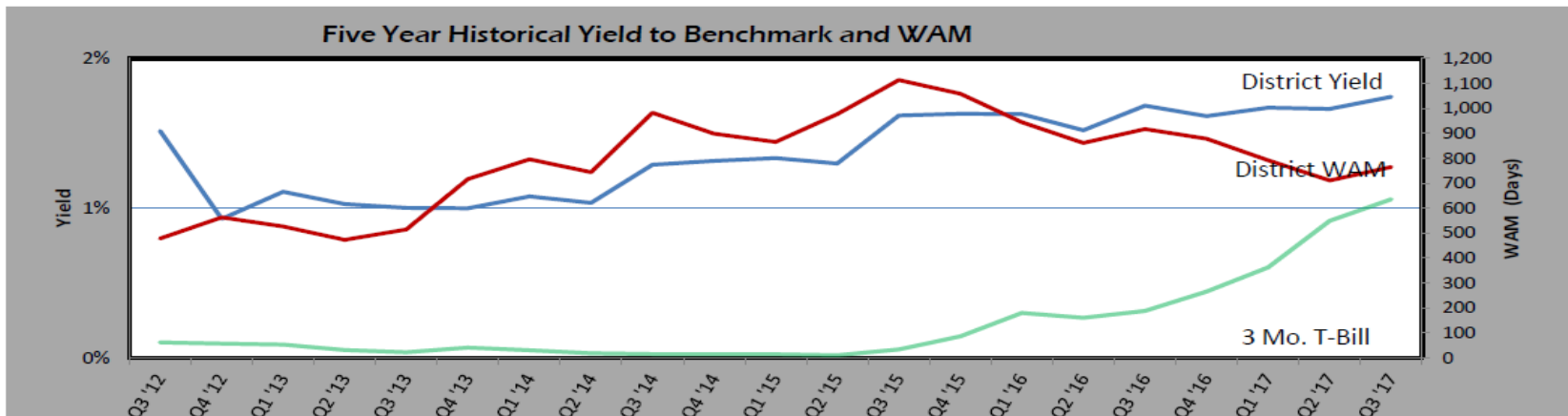
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 26,274	5.4%	5.4%
Bank Accounts	\$ 4,536	0.9%	6.3%
1-90 Days	\$ 10,900	2.2%	8.6%
91-180 Days	\$ 1,050	0.2%	8.8%
181-365 Days	\$ 107,607	22.1%	30.9%
1-2 Yrs	\$ 140,583	28.9%	59.8%
2-3 Yrs	\$ 64,650	13.3%	73.1%
3-4 Yrs	\$ 48,859	10.0%	83.1%
4-5 Yrs	\$ 35,360	7.3%	90.4%
5+ Yrs	\$ 46,861	9.6%	100.0%



Total: \$ 486,681 100%

Numbers may not foot due to rounding

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



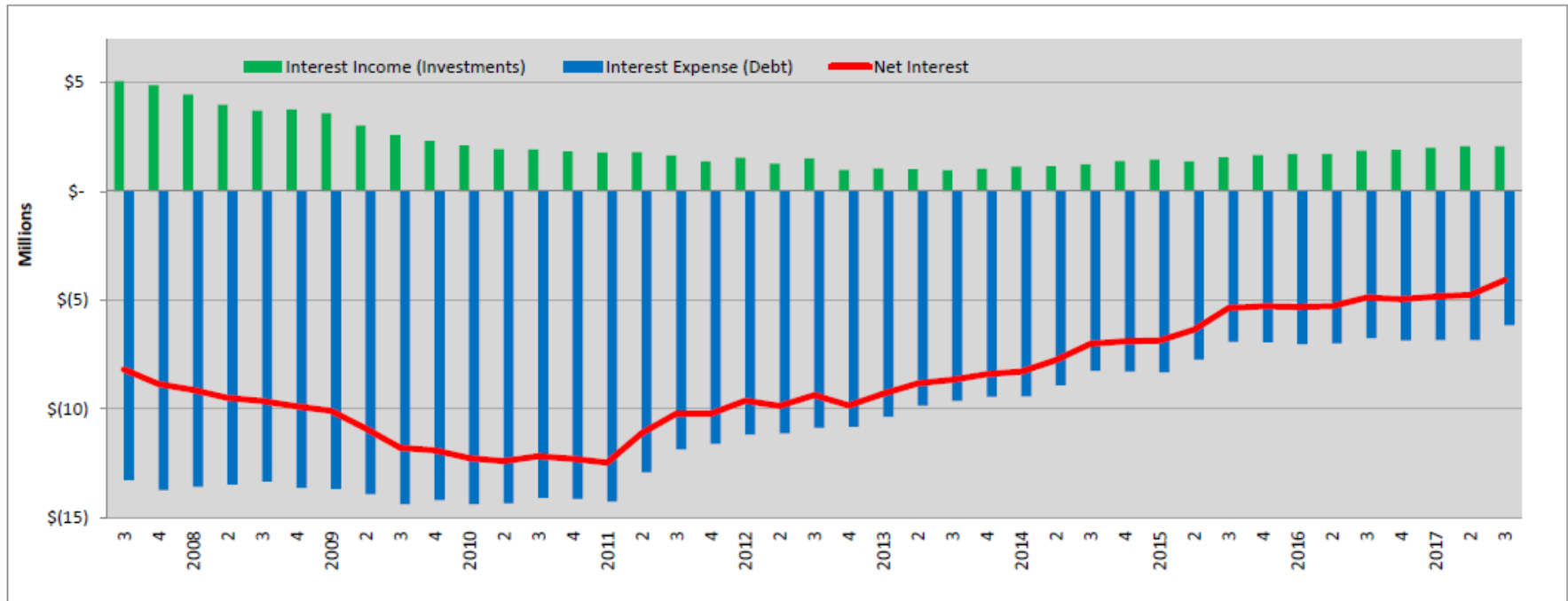


Quarterly Investment Report for the quarter ending September 30, 2017

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 September 30, 2017

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.