Chelan County PUD
Business Line Financial Policies

Continuation of updating and extending District-wide financial policies and guidance

Board Presentation
June 5, 2017
Completed

We are here

Chelan County PUD

District-wide financial policies update
(review, refresh, revise, if needed)

Business line financial policies update
Review, refresh, revise W, WW & Fiber, if needed
Establish Integrated Electric subsets

Debt policies-next level of detail
Use of DRC/CRC
External and internal loan guidelines
Long-term debt plan consistent with established policies

Revenue policies-next level of detail
Retail and wholesale revenues - balancing the portfolio
Retail electric revenues - manage the gap
Principals to guide detailed rate management (COSA, design, etc)

Implementation
Identify steps, actions, and timeline to implement recommendations
Agenda

- Review current business line financial policies
- Discuss planning guidance for 2020 & beyond
- Next up in the series

Seeking guidance for planning purposes only
Key Messages

• The strategic plan guided us in establishing financial policies for our business lines

• Business line financial policies were established per Board resolution for 2015-2019

• Financial forecasting extends to 2020 and beyond

• Requesting Board guidance for business line planning purposes for 2020 and beyond

• For planning purposes only – does not impact the discretion of the Board to set future rates
Overview - District Business Lines

Water

Wastewater

Fiber

Integrated Electric
Includes retail sales, long-term power contract sales, market based power sales & other corporate activity

Discuss today

Discuss next time
Recent History

2012: Established financial policies for each individual business line to “stand-alone” per strategic plan and financial policies

2014-2015: Community outreach demonstrated customers are willing to invest in Water, Wastewater & Fiber services as benefit of public power

2015-2019 Strategic Plan identified priority to sustain existing Water and Wastewater services and restart the Fiber system expansion


2015: Individual business line financial policies updated to reflect the 2015-2019 Strategic Plan guidance
## 2015-2019 Strategic Plan Guidance

<table>
<thead>
<tr>
<th>Fiber</th>
<th>Continue for 2020 and beyond?</th>
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<tbody>
<tr>
<td>1. Established that system would maintain a minimum cash reserve of ~ 3 months operations and maintenance costs</td>
<td>Yes</td>
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<tr>
<td>2. Established that system would cover operation, maintenance and taxes (excluding non-cash items like depreciation)</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Established that system would cover debt service and ratio</td>
<td>Yes</td>
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<tr>
<td>4. Established that system would cover replacement capital</td>
<td>Yes</td>
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<tr>
<td>5. Provided funding for shared capital investments (e.g. LT Facilities Plan, CIS Replacement) through 2019</td>
<td>Yes</td>
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<tr>
<td>6. Established that expansion capital would be covered in Public Power Benefit Program</td>
<td>Yes</td>
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<tr>
<td>7. Set expectation that rates would cover revenue requirements</td>
<td>Yes</td>
</tr>
</tbody>
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# 2015-2019 Strategic Plan Guidance

## Water and Wastewater

| 1. Established that systems would maintain a minimum cash reserve of ~ 3 months operations and maintenance costs | Yes |
| 2. Established that systems would cover operation, maintenance and taxes (excluding non-cash items like depreciation) | Yes |
| 3. Established that systems would cover debt service and ratio | Yes |
| 4. Provided funding for shared capital investments (e.g. LT Facilities Plan, CIS Replacement) through 2019 | Yes |
| 5. Provided funding for replacement and expansion capital investments through 2019 | Annual board decision |
| 6. Established 5-year rate plan through 2019 per subsequent Board resolution | Complete |
| 7. Set expectation of inflationary rate increases after 2019 | Yes |

*For planning purposes only – does not impact the discretion of the Board to set future rates*
Financial Strategy Sessions – Next Steps

Goal: Conduct series of Board strategy sessions to adjust and affirm long-term financial policies, Integrated Electric business line financial policies, rate philosophies, power contract guidelines, COSA guidelines and internal debt funding philosophies.

- Review and refresh District Financial Policies by the end of Q1
  - March 20, 2017

- Review, refresh and establish Business Line Financial Policies by the end of Q2
  - Q2 2017
    - Board guidance on Water, Wastewater and Fiber
    - June 5
    - Board guidance on Integrated Electric (part 1)
    - June 26
    - Board guidance on Integrated Electric (part 2)
    - July 10

- Establish long-term revenue guidance by 12/1
  - Q4 2017

- Establish long-term internal/external debt guidelines by 12/1
  - Q4 2017
Appendix

(Current business line metrics for information purposes only)
Current Financial Policies and Targets

Fiber Business Line

• Maintain a minimum **Cash Reserve** of **$2 million**
  – Primarily operating reserve (3 months O&M)

• Maintain an **Operating Expense Coverage Ratio** >= **1.2x**
  – Operating Revenue divided by Operations, Maintenance and Tax expenses excluding non-cash items
  – Ratio exceeds 1.0 to provide funding for replacement capital

• Maintain a **Debt Ratio** of **< 35%**
  – Consistent with District target
Current Financial Policies and Targets

Water Business Line

• Maintain a minimum **Cash Reserve** of **$1.25 million**
  – Primarily operating reserve (3 months O&M)

• Maintain an **Operating Expense Coverage ratio >= 1.2x**
  – Operating Revenue divided by Operations, Maintenance and Tax expenses excluding non-cash items like depreciation
  – Ratio is greater than 1.0 to provide funding for debt service

• Maintain a **Debt Ratio** of **< 35%**
  – Consistent with District target
Current Financial Policies and Targets

Wastewater Business Line

• Maintain a minimum **Cash Reserve** of **$200,000**
  – Primarily operating reserve (3 months O&M)

• Achieve an **Operating Expense Coverage Ratio** >= **1.0x** by end of 2019
  – Operating Revenue divided by Operations, Maintenance, and Tax expenses excluding non-cash items like depreciation

• Maintain a **Debt Ratio** of **< 35%**
  – Consistent with District target