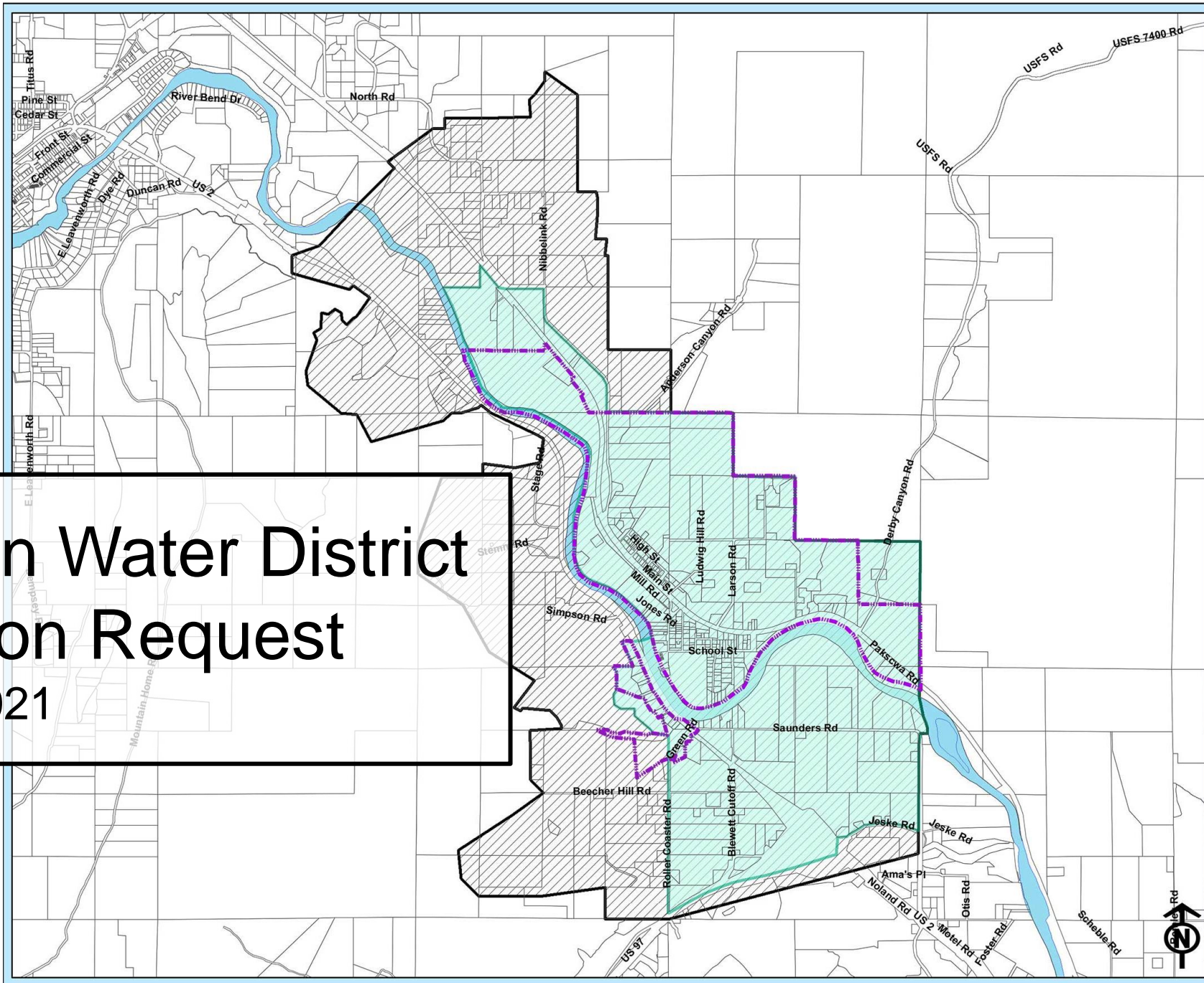


Peshastin Water District Acquisition Request

March 15, 2021



Desired Outcomes Today

- Inform
 - Nature of request
 - Initial evaluation approach
- Discuss
 - Evaluation considerations and objectives
 - Potential next steps
- Action
 - None today

Peshastin Water District (PWD) Request

- PWD has requested the District take over operations and ownership of the PWD system
- PWD has significant future capital improvement needs and recently implemented a multi-year rate plan to support these investments
- PWD leadership is committed to this effort and PWD outreach to customers indicates support

Initial Evaluation Approach

- 1. **Customer Impact** – Are customers aware and in support of PUD providing water services in the Peshastin area?
- 2. **System Health** – Are the assets of PWD in a quality operating condition and where not, does PWD have mitigation plans?
- 3. **Financial Sustainability** – Is the financial condition of PWD sustainable? Would the combining of systems impact sustainability for existing PUD water customers?
- 4. **Legal** – Are there legal hurdles that would impact any of the above or the achievability of acquisition, such as easements, agreements, liabilities, etc.

Initial Evaluation – Financial Discussion

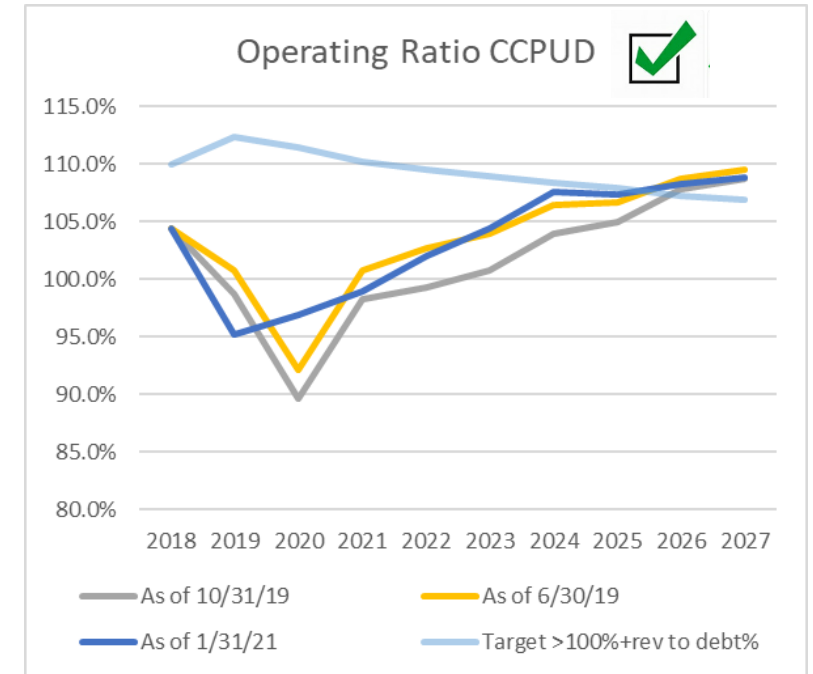
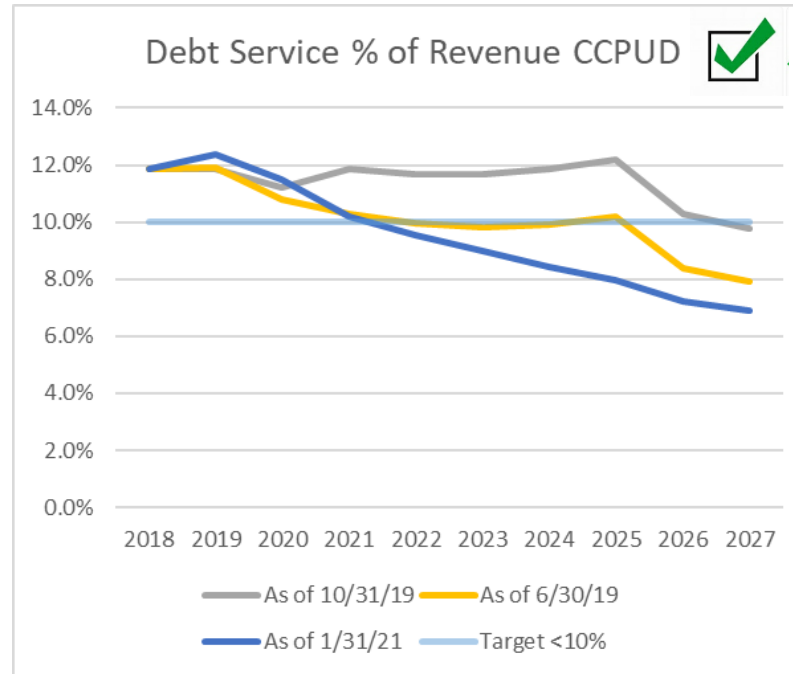
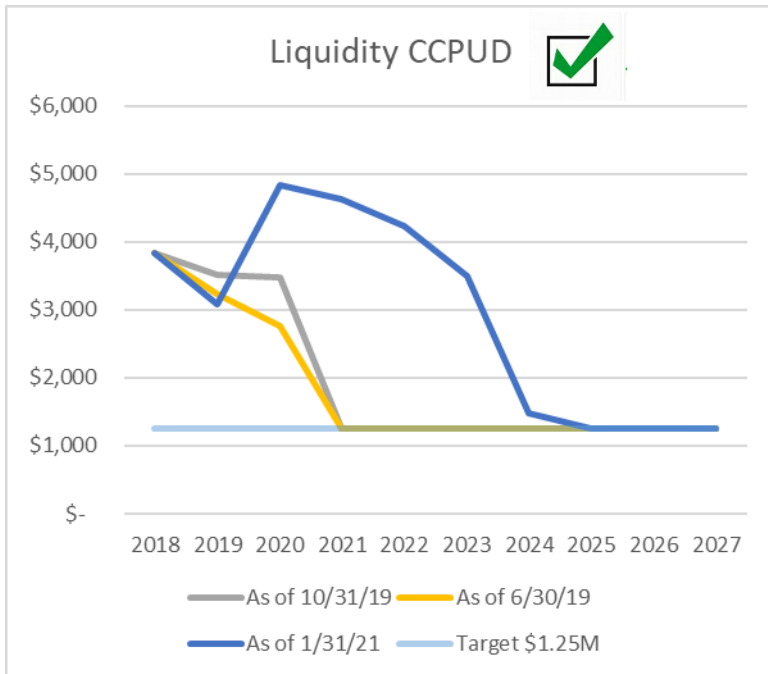
Background:

- To implement the District's strategic plan goal of Water system sustainability, staff developed a 10-year plan to achieve financial health
- Monitoring metrics were put in place based on best practices¹ to include:
 - Operating Coverage > 100% plus actual debt service %
 - Debt Service % of Revenue < 10%
 - Liquidity > \$1.25M

¹ Additional information available in January 20, 2020 Board Presentation and resolution 20-14438

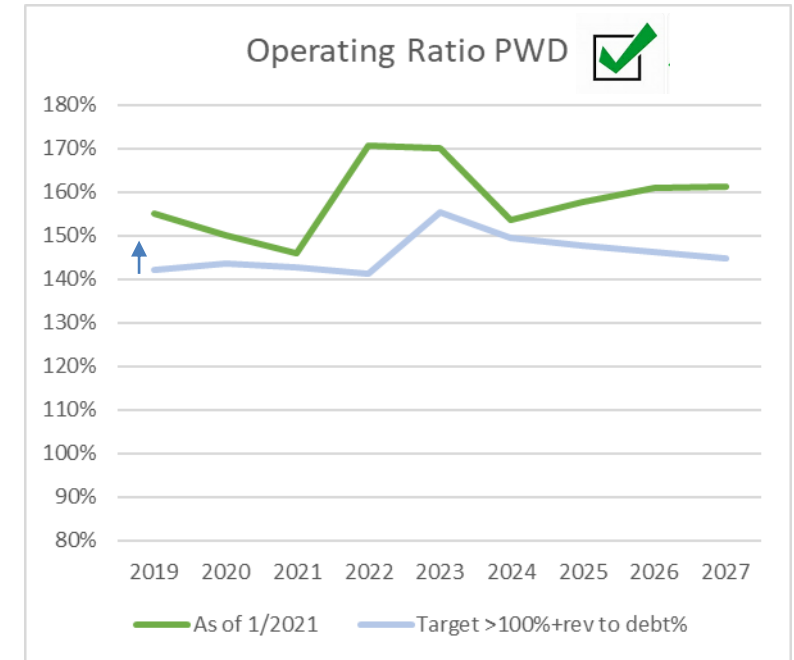
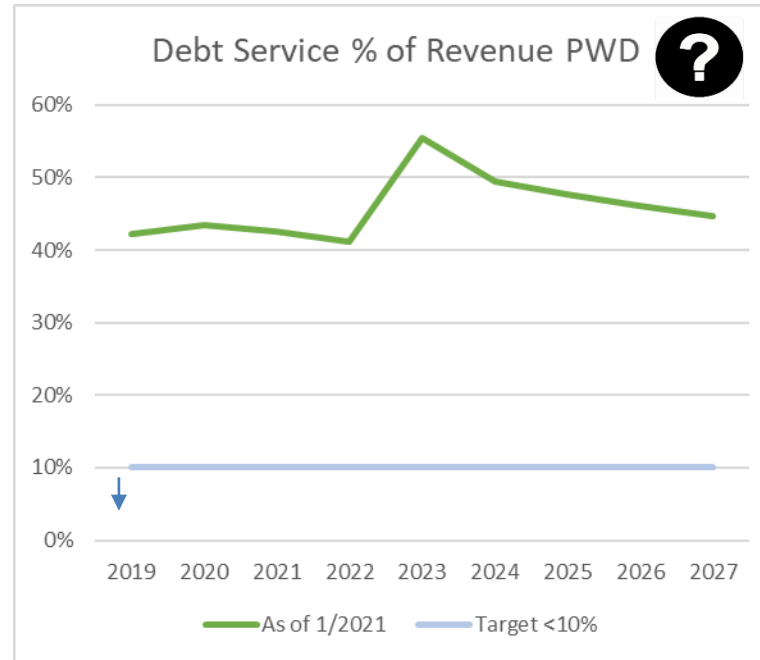
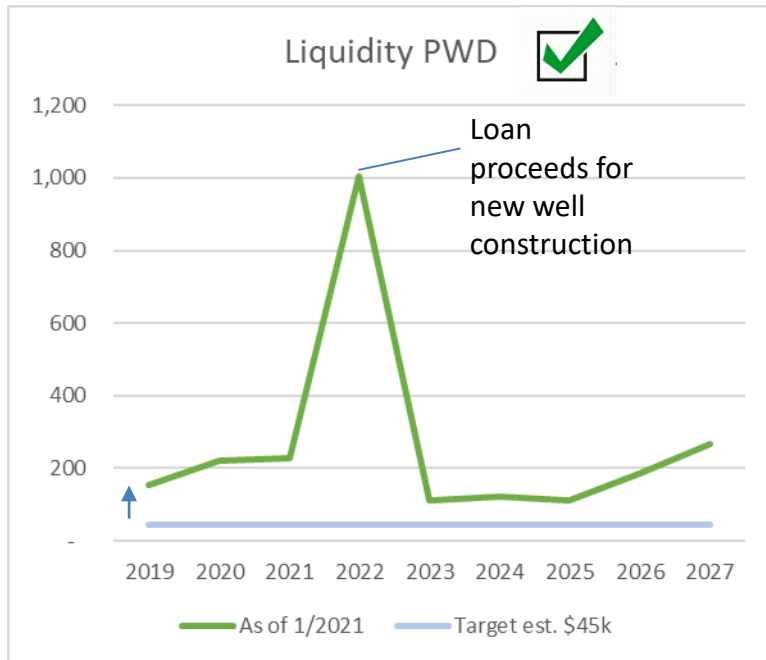
Initial Evaluation – Financial Discussion

Status of District sustainability efforts:



Initial Evaluation – Financial Discussion

PWD financial results



Based on financial budget data and assumptions provided by PWD. Includes PWD rate plan approved January 2021.

Initial Evaluation – Financial Discussion

- Combining systems could result in additional time required for PUD financial sustainability
 - Debt service % of revenues target would take an additional 7+ years to achieve
 - Operating ratio would take an additional 2+ years to achieve
- Potential opportunities to improve PWD results
 - Fund some improvements via reserves instead of incurring debt
 - Advanced paydown of debt/refinancing
 - Project grant funding or other funding, such as sale of water rights
 - Rate adders for PWD customers (early evaluation indicated additional ~\$5/mo per residential service)

Evaluation Considerations/Priorities

- Acquisition of PWD should have no negative impact on existing District water customers
- PWD customers must support PWD leadership's request
- The District should not take on significant known or unknown risk and thus should perform all necessary due diligence
- Based on other experience of others, this process could take 3+ years; impact to other District goals and priorities should be considered
- Other Board feedback?

Potential Next Steps

- Coordinated outreach with PWD to confirm community support
- Continued review of financial results to quantify potential rate adder impact for PWD customers
- Due diligence field review of system to identify any deficiencies not included in the PWD water system plan update
- Evaluate impact to current District goals and priorities
- Outline roadmap of actions that would be required for success (e.g. land, easements, contracts, loans, agreements, other obligations, etc.)
- Regular check-ins with management and Board