



Business Line
Financial Policy Metrics
&
Rate Planning Confirmation

August 5, 2024

Why are we here

- Confirm guidance for business line financial policy metrics
 - Water, Wastewater & Fiber
- Confirm guidance for rate planning
 - Water, Wastewater, Fiber & Electric
- Review schedule for proposed rate actions

Business Line Financial Policies

- 2020-2024 Strategic Planning & Resolution 20-14438
 - Water, Wastewater and Fiber business lines working towards more financial self-sustainability over time
 - Financial Policy Metrics established to measure progress
 - Operating Cover, Cash Reserves, Debt Service
 - 2024 and 2029 Target Metrics
- Board Guidance from 7/1/2024
 - Keep existing target metrics to measure progress towards more self-sustainability
 - Explore options to achieve current 2029 targets
 - Board may re-evaluate business line financial policy metrics following Strategic Visioning process

Business Line Financial Metrics

Extended View

Business Lines	Water	Waste water	Fiber	Water	Waste water	Fiber
<i>Based on June 30, 2024 Forecast</i>	Forecast for 2024			Forecast for 2029		
Operating Cover Percentage (target)	>104%	>62%	>80%	102.4%	84.0%	90.0%
Operating Cover Percentage (forecast)	98.6%	58.2%	79.6%	95.1%	51.8%	99.5%
Cash Reserves (target)	>\$1.25M	>\$200K	>\$2.0M	>\$1.25M	>\$200K	>\$2.0M
Cash Reserves (forecast)	\$4.4M	\$1.3M	\$19.3M	(\$12.5M)	(\$4.3M)	\$17.0M
Debt Service as a % of Rev (target)	<12.0%	<2.0%	<10.0%	<10.0%	<10.0%	<10.0%
Debt Service as a % of Rev (forecast)	9.0%	18.5%	---	2.4%	16.0%	---

Metric being met

Metric within 10% of target

Metric not being met

2024 - targets based on forecast at 2020 budget

2029 - targets adopted per resolution

Rate planning proposals

- Jul. 1: Staff recommended continuing current 5-year rate plan to keep pace with rising operating costs
 - Resolution 20-14424 established annual rate adjustments
 - 4% Water
 - 4% Wastewater
 - 3% Electric (Incremental revenues held in Electric Rate Support Fund)
- Board favored a 2-year extension while Strategic Visioning progresses
- Fiber on track to meet 2029 metrics based on current forecasts
 - Rate and product review planned in separate effort

Proposed rate schedule

- ✓ Aug. 5 – Confirmation of Board Guidance
- Aug. 19 – Preview of rate and outreach plan
- Tentative public meetings Aug. 26 – Sep. 6
 - PUD Service Center
 - PUD Leavenworth Office
 - PUD Chelan Office
- Sep. 16 – Rate Hearing; public comment summary
- Oct. 7 – Resolution seeking adoption
 - If rate plans are adopted, by 30 days after adoption, customer notice outreach will commence
- Rate effective date: June 1, 2025 and 2026

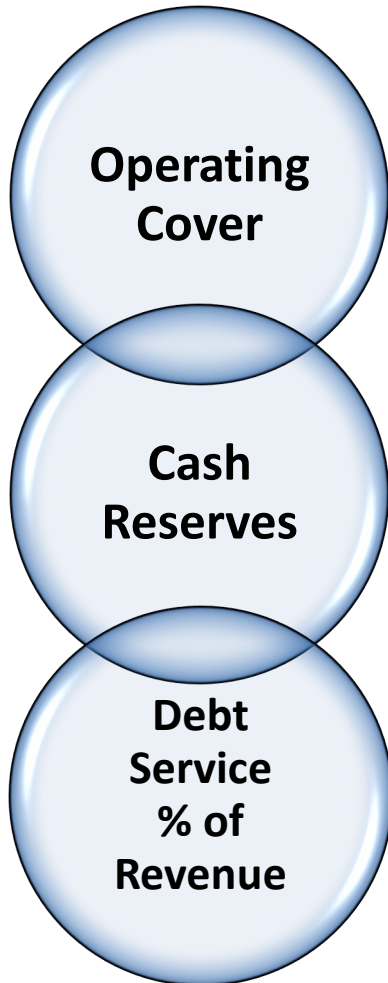
Next steps

- Schedule public meetings and begin 2025-2026 rate planning process as directed by Board

Appendix

Business Line Financial Policies

Water, Wastewater & Fiber



To monitor if rates are sufficient to cover most ongoing costs including operations, maintenance, debt service, and capital replacement, under 100% targets reflect assumptions of partial grant funding access or lower future capital replacement costs (Revenues/Operating Expense)

To support financial resiliency, minimum funds set aside to cover costs in the event of an emergency or revenue downturn

A measure of the level of debt incurred compared to rate revenue and an indicator of the affordability and potential impact of new debt (Debt Service/Revenues)

Business Line Financial Policies

- 2020-2024 Strategic Planning & Resolution 20-14438
 - Water, Wastewater and Fiber business lines working towards more financial self-sustainability over time
 - Financial Policy Metrics established to measure progress
 - Operating Cover, Cash Reserves, Debt Service
 - 2024 and 2029 Target Metrics
- 5-Year rate plans for 2020-2024 - Resolution 20-14424
 - Water 4% Wastewater 4% Fiber 3% Electric 3%
- Currently, there is no rate action approved for post-2024
 - 2029 Targets assumed 2% rate increases in 2025-2029 for Water and Wastewater

Business Line Financial Policies

- Options for moving forward for 2025 and beyond
 - Continue on current path with 2029 targets
 - Allow long term visioning to inform plan
 - Explore options for achieving targets
 - Consider extending rate plans (1-to-5-year extension)
 - Set new targets for 2029
 - Establish achievable targets based on current forecasts and rate plans
 - Consider extending rate plans (1-to-5-year extension)

Rate Planning

- Recommend continuing rate increases to keep pace with inflation at a minimum
 - One-to-Five-year extension of 2020-2024 plan
 - 4% Water
 - 4% Wastewater
 - 3% Fiber
 - 3% Electric

Strategic Planning Considerations

- Continue strategic planning process to inform approach for smaller business lines
 - Self-sustainability versus more financial support
- Public Power Benefit support
 - Fund a portion of capital spending
 - Transfer debt from smaller systems while retaining low-rate external financing
 - Ongoing transfer payments to cover rate gaps
 - Consider funds remaining from capacity reservation charges \$16 million

Operating Cover - Forecast

	2024 - Q1 Forecast Vs. Target	2029 – Q1 Forecast Vs. Target
Water	<p>98% vs. 104%</p> <p>↑\$529k Revenues (Peshastin Water District)</p> <p>↑\$1,032k Expenses (inflation, PWD, system growth)</p>	<p>97% vs. 102% (target varies w/Debt service)</p> <p>↑\$440k Revenues (PWD)</p> <p>↑\$1,203k Expenses (inflation, PWD, system growth & staffing)</p>
Wastewater	<p>58% vs. 62%</p> <p>↑\$25k Revenues</p> <p>↑\$136k Expenses (increased expenses despite lower depreciation)</p>	<p>53% vs. 84% (target varies w/Debt service)</p> <p>↑\$20k Revenues</p> <p>↑\$365k Expenses (Dryden plant expenses including depreciation, inflation)</p>
Fiber	<p>77.4% vs. 80%</p> <p>(93% excl. Make ready)</p> <p>↑\$681k Revenues</p> <p>↑\$1,308k Expenses (Make ready work ↑\$2,175)</p>	<p>92% vs. 90%</p> <p>↑\$251k Revenues (Growth)</p> <p>↓\$103k Expenses</p>

Takeaways:

- Water and Wastewater are materially off-track in reaching targets
- Lost ground over the last 5 years versus assumptions due to high inflation
- Wastewater operating revenues do not cover cash operating expenses
- Consider 2025-2029 rate action for Water and Wastewater to extend 5-year plan.

Cash Reserves - Results & Forecast

	2024 - Q1 Vs. 2020 Forecast	2029-Q1 Vs. 2020 Forecast
Water <i>Target</i> >\$1.25M	↑\$7.9 million (\$5.2M vs. -\$2.7M) ↓Net capital (project deferrals) ↑Revenues, ↑expenses, ↑interest income	↑\$1.1M (-\$6.8M vs. -\$7.9M) ↑Capital (projects added and shifted out from 2020-24 schedule)
Wastewater <i>Target</i> >\$0.2M	↑\$0.5 million (\$1.2M vs. \$0.7M) ↑Debt (Peshastin and Dryden) ↑PPB funding (Dryden) ↑Capital (Dryden upgrades) ↑Revenues, ↑expenses, ↑interest expense	↓\$1.5M (-\$1.7M vs. -\$0.2M) ↑Expenses ↑Debt service
Fiber <i>Target</i> >\$2M	↑\$14.0 million (\$19.0M vs. \$5.0M) ↑PPB for expansion ↑Net capital for expansion ↑Revenues, ↑interest income ↓Expenses excluding make-ready ↑Make-Ready work	↑\$9.6M (\$16.1M vs. \$6.5M) ↑Capital for expansion ↑Make-ready costs

Takeaways:

- No immediate cash need for any of the systems
- Water and Wastewater are forecasted to drop below targets and \$0 in 2027
- Capital funding of Wastewater will not entirely resolve cash shortfall
- PPB and/or capital contributions from distribution

Debt Service as % Revenue - Forecast

	2024 - Q1 Forecast Vs. Target	2029 - Q1 Forecast Vs. Target
Water	<p>↑9.0% vs. 12% target (8.6% 2020 forecast)</p> <p>↑Internal debt (\$1 million) related to Peshastin Water District</p> <p>↑Revenues</p>	<p>↑2.4% vs. 10% target (1.3% 2020 forecast)</p> <p>↑Internal debt (\$1 million) related to Peshastin Water District</p> <p>↑Revenues</p>
Wastewater	<p>↑18.5% vs. 2% target (1.4% 2020 forecast)</p> <p>↑Debt (Peshastin and Dryden)</p>	<p>↑16.0% vs. 10% target (1.3% 2020 forecast)</p> <p>↑Debt (Peshastin and Dryden)</p>
Fiber	0.0% vs. 10% target	0.0% vs. 10% target

Takeaways:

- Water is on track, although short cash position in 2027 introduces potential need to take on more debt to support capital plan or rely on PPB or cash transfers
- Wastewater cash position unable to pay down debt to meet metric
- Extending 5-year rate plan for 2025-2029 or other rate action would improve ratio and ability to service debt
- Wastewater metric may need to be reset

Business Line Financial Policies

Forecast as of 3/31/24

Cash Reserves (\$000)	2024	2025	2026	2027	2028	2029
Water	5,162	2,737	1,265	(2,962)	(4,494)	(6,826)
Wastewater	1,240	814	350	(143)	(1,049)	(1,673)
Fiber	19,010	14,980	14,356	14,171	15,409	16,080

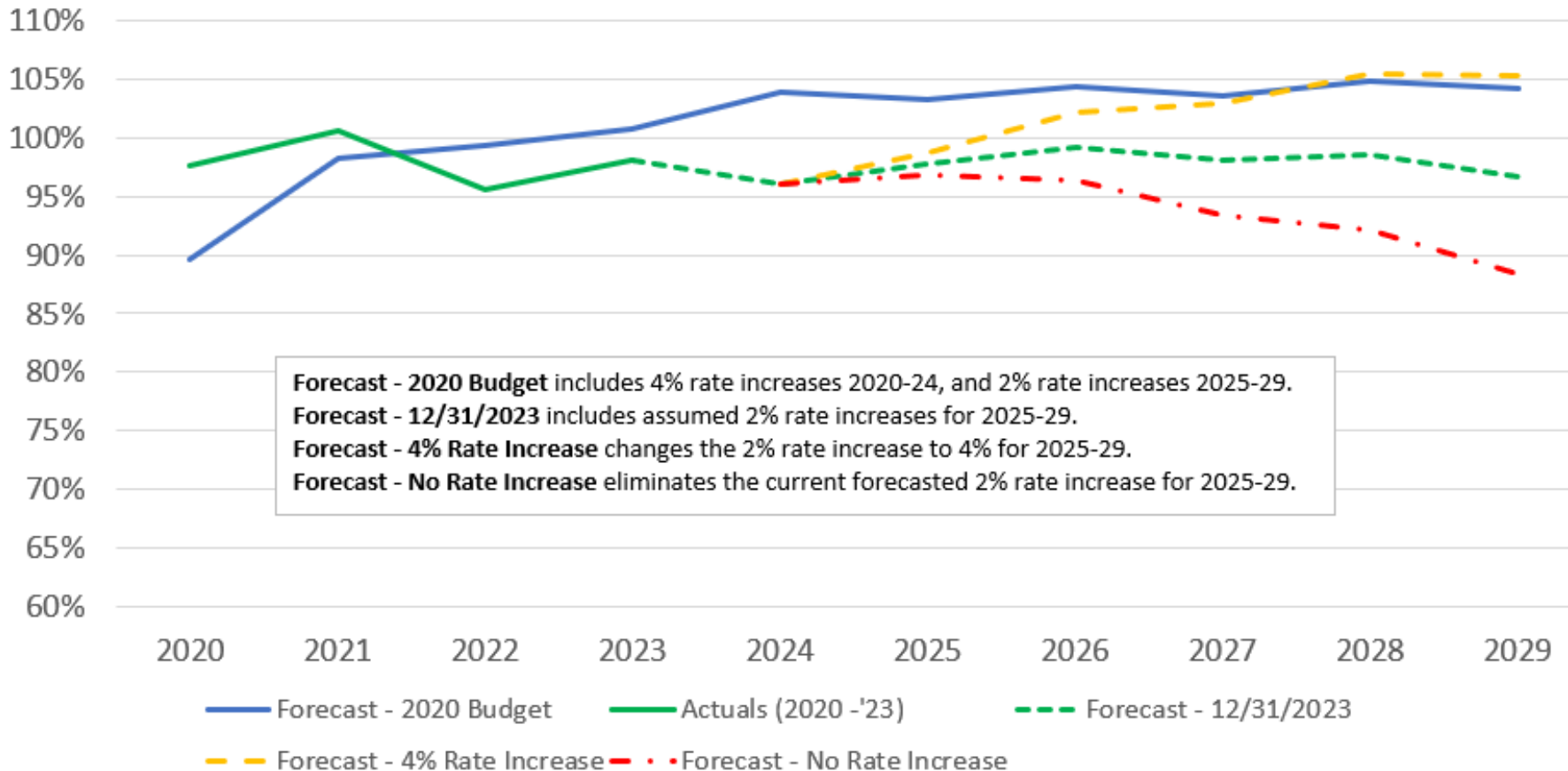
Debt (\$000)	2024	2025	2026	2027	2028	2029
Water	3,170	2,383	1,769	1,201	971	738
Wastewater	2,594	2,452	2,309	2,164	2,018	1,869

Debt Service as a % of Revenues	2024	2025	2026	2027	2028	2029
Water	9.0%	8.9%	6.7%	6.0%	2.5%	2.4%
Wastewater	18.5%	17.8%	17.3%	16.9%	16.5%	16.0%

Business Line Financial Policies

Water - Operating Ratio

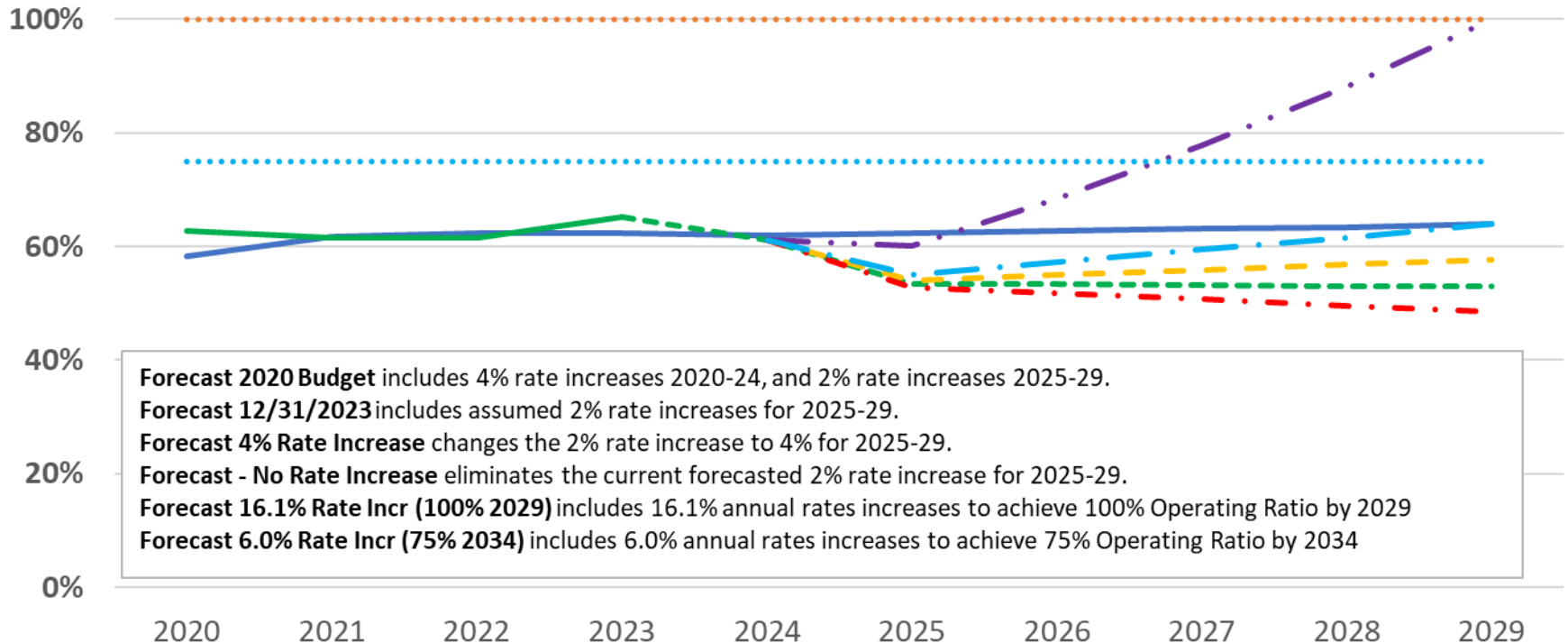
(Revenues/Operating Expenses)



Business Line Financial Policies

Wastewater - Operating Ratio

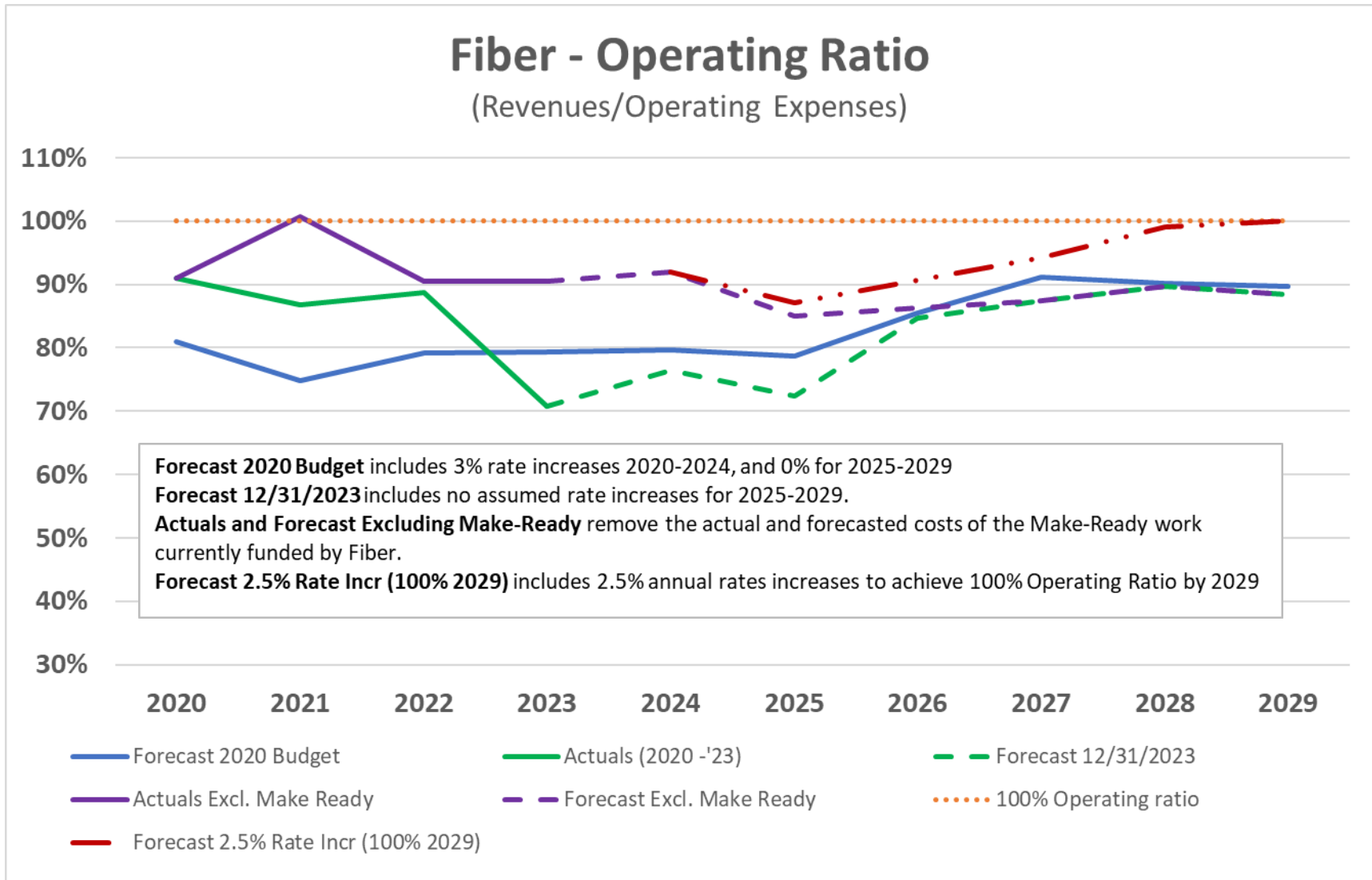
(Revenues/Operating Expenses)



Forecast 2020 Budget includes 4% rate increases 2020-24, and 2% rate increases 2025-29.
Forecast 12/31/2023 includes assumed 2% rate increases for 2025-29.
Forecast 4% Rate Increase changes the 2% rate increase to 4% for 2025-29.
Forecast - No Rate Increase eliminates the current forecasted 2% rate increase for 2025-29.
Forecast 16.1% Rate Incr (100% 2029) includes 16.1% annual rates increases to achieve 100% Operating Ratio by 2029
Forecast 6.0% Rate Incr (75% 2034) includes 6.0% annual rates increases to achieve 75% Operating Ratio by 2034

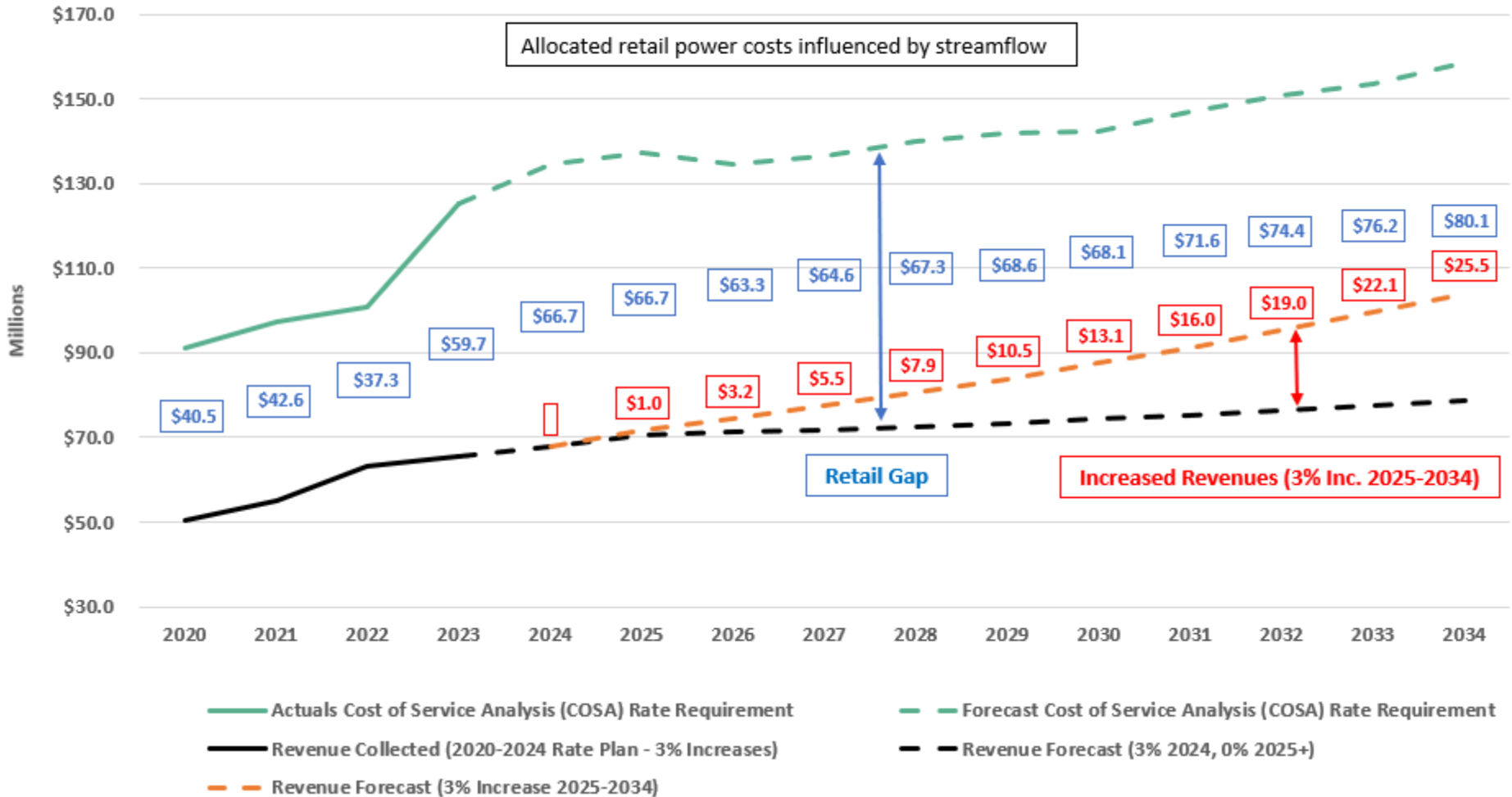
- Forecast 2020 Budget
- Actuals (2020-'23)
- - Forecast 12/31/2023
- Forecast 4% Rate Increase
- . Forecast - No Rate Increase
- 100% Operating ratio
- Forecast 16.1% Rate Incr (100% 2029)
- Forecast 6.0% Rate Incr (75% 2034)
- 75% Operating Ratio

Business Line Financial Policies



Electric Retail Gap

Electric Cost vs Revenue Collected Comparison
(All Rate Classes)



Electric Gap Takeaways

- Operating costs and investments in assets to support county growth and reliability continue to grow
- Absent rate increases, the gap continues to widen
 - Lost ground over the last five years due to higher inflation than expectations
- Increasing cost gap adds future rate pressure and adds risk of higher rate increases
- Puts more pressure and reliance on the wholesale market revenues to cover costs