

# Clallam PUD Financial Policy

June 28, 2021

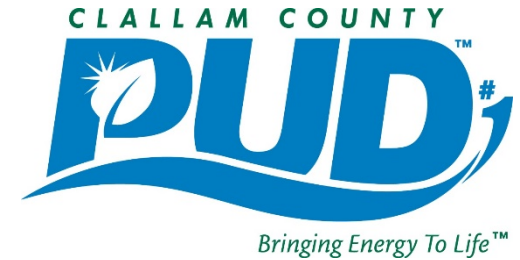


# Background

- 2021 Strategic Plan
  - Be Financially Responsible
    - Strategic Initiative 5
- Cost of Service
  - Formulated based on the adoption of this policy and the underlying constructs
- Promotes strong financial management
  - Guide for staff to direct fiscal operations
- Works in conjunction with Investment Policy
  - Submitted to Washington Public Treasurers Association (WPTA).
  - Bring to board for adoption once certified.



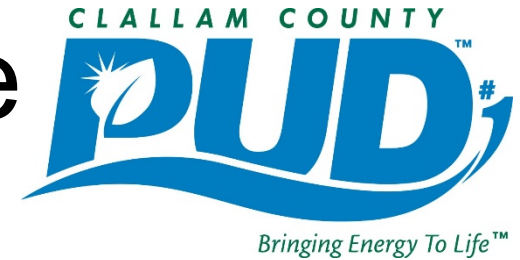
# Days Cash on Hand



- Formula
  - $(\text{Fund Balance} / (\text{power supply} + \text{conservation} + \text{total personnel} + \text{O\&M})) * 365$
- Underwriter, Cost of Service, APPA, Rating agencies are seeing the trend push toward 200+ days for the best ratings.
- 120-180 DCOH should preserve our Aa3 Moody's Rating.
- Good time to adopt with BP-22 rate case adoption pending.
- Reducing Forecasted rates from 3.5% increases to 2.25% under this policy and current load forecast.
- DCOH Projections
  - 2021 – 144
  - 2022 – 151



# Debt Service Coverage



- A measure of cashflow available to pay current debt obligations.
- Formula
  - $\frac{\text{Total operating and non-operating revenues less (power supply+personnel+O\&M+taxes)}}{\text{annual debt service}}$
- Bond covenants stipulate 1.25x available cashflow and our target is 2.0x.
- Ensuring we have excess capacity highlights our fiscal responsibility and ensures continued high rating with Moody's.

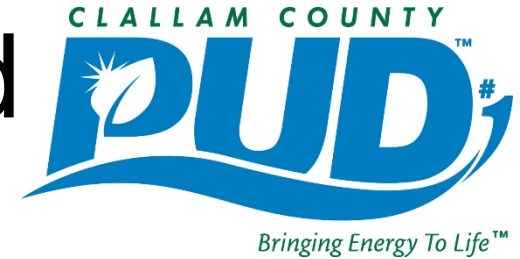


# Leverage Target

- Maintain debt to asset ratio of 40% or less.
- Formula
  - $\text{Long Term Debt} / (\text{Total Assets} - \text{Depreciation})$
- Cost of service calculation is projected to be 23.25% at end of 2021.
- Debt begins to fall off end of 2028 reducing ratio.
- Additional borrowing will increase ratio
  - Nothing projected in near term
  - Legislative mandates may necessitate future unknown borrowing



# Rate Stabilization Fund



- 6% rate revenue target
  - Originally established in 2010 and not updated since
  - Ensure adequate risk mitigation for unforeseen circumstances
  - 2021 calculation approximately \$3.7 million
  - 2022 calculation approximately \$3.9 million
- Used for emergency purposes
  - Avoid large fluctuations in rates and ensure compliance with strategic plan
  - Mitigate BPA Increases
  - Unforeseen legal
  - Unforeseen legislative mandates
  - Weather impacts
  - Utility arrearages

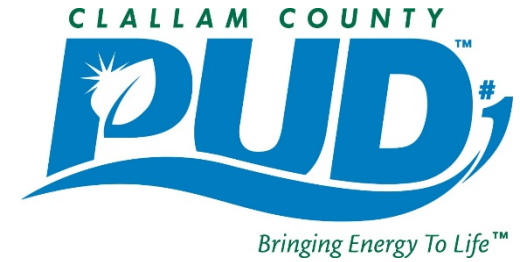


# Capital Fund (CETA)

- Board approved 2020
- Long term capital planning
  - Avoid Debt
  - Avoid market rate fluctuations
- More consistent budgeting
- Meets strategic plan objectives
- Proactive Planning
  - CETA Battery Project
  - Low Income Community Solar
  - Substation rebuilds
  - Transmission and Distribution upgrades
  - Specialty Vehicle procurements



# Staff Recommendation



- *Staff recommends the board adopt resolution 2202-21, adopting the District's Financial Policy as presented.*





# Questions?

