SPU Financial Policy Review

Review Panel
November 5, 2019
Why do we care about financial policies?

- Financial health of the utility
- Debt doesn’t get too high relative to asset value
- Bond buyers assured we will pay our debts on time
- Guide to rate setting
- We keep enough cash to smooth rate changes
Examples of financial policies (planning targets)

• Debt service coverage (e.g., 1.7x)

• Cash financing of capital (e.g., 20%)

• Debt-to-asset ratio (e.g., no more than 70%)

• New One? Emergency reserve
# Financial Policies Differ by Fund

<table>
<thead>
<tr>
<th>Financial Policy</th>
<th>Water Fund</th>
<th>Drainage &amp; WW Fund</th>
<th>Solid Waste Fund</th>
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</thead>
<tbody>
<tr>
<td>Debt Service Coverage</td>
<td>1.7x</td>
<td>1.8x</td>
<td>1.7x</td>
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<td></td>
<td></td>
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<td>1.5x (less taxes)</td>
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<tr>
<td>Cash Financing of Capital</td>
<td>15% min. in 1 year</td>
<td>25% minimum (4 year rolling average)</td>
<td>Greater of 10% or $3.4 million</td>
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<tr>
<td>Debt-to-Asset Ratio</td>
<td>No more than 70%</td>
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Emergency Reserve?

The question: How much cash should SPU keep on hand for...

- Working Capital: Normal variation in revenue/expense cycles
- Contingency: Unplanned shortfalls in revenue or unexpected increase in expense
- Emergency: Reserve to deal with revenue disruptions by funding operations until additional financing can be obtained
Why are we reviewing policies now?

Good practice to review periodically
Most are from early 2000’s. Last reviewed in 2012. No changes made.

Rating agency concerns
In recent years, SPU has set rates to more stringent targets than Council-adopted policies to address bond rating agency concerns.

Accountability and affordability action
Accountability and Affordability Strategic Plan calls for the reassessment and update of SPU financial policies and reserves.
Work Plan-Financial Policies Review

• October 2019: Overview with E-Team
• November 2019: E-team review of Water Fund
• December 2019: E-team review-DWW Fund, SW Fund
• February 2020: Present proposals to Review Panel
• 1st Q 2020: Incorporate financial policies into forecasts for...
  • Strategic Business Plan rate path 2021-2026
  • Water rate proposal 2021-2023
  • Budget: O&M (2021-22) and CIP (2021-2026)