

RESOLUTION NO. 2016-006

**A RESOLUTION OF THE BOARD OF COMMISSIONERS OF PUBLIC UTILITY DISTRICT
NO. 1 OF JEFFERSON COUNTY ("THE DISTRICT") ADOPTING A FINANCIAL POLICY
FOR THE DISTRICT.**

WHEREAS, the District has greatly expanded its operational and financial requirements with the acquisition of the Electrical Utilities in Eastern Jefferson County, and


WHEREAS, the District is a Rural Utility Service Borrower and must comply with their Loan requirements, and

WHEREAS, The Board of Commissioners has developed a Financial Policy that will help better meet the needs of the District, its customers, and promote the strategic goals of the District.

NOW, THEREFORE BE IT RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY AS FOLLOWS:

The District hereby approves and adopts the Financial Policy set forth in Exhibit "A", attached hereto.

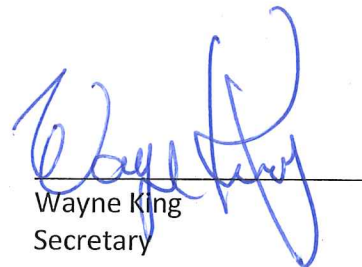
ADOPTED by the Commission of Public Utility District No. 1 of Jefferson County, Washington, at a regular open meeting held this 16th day of August 2016.



Kenneth Collins
President



Barney Burke
Vice President



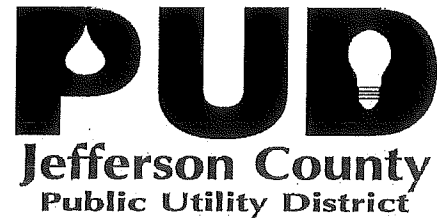
Wayne King
Secretary

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Corporation this 16th day of August 2016.

Wayne King, Secretary

(Corporate Seal)

Exhibit A – PUD Resolution 2016-006 PUD Financial Policy



FINANCIAL POLICY

PURPOSE: The PUD Financial Policy provides guidance and direction for the Board and staff to use in making sound financial decisions that ensure vital services are maintained and the Board's vision for the utility is achieved. The District is accountable to its ratepayers for the responsible stewardship of public funds.

The PUD Financial Policy provides direction for the financial management, risk management, budget, internal controls, and reporting with the intent of providing fiscal stability, maintaining a solid credit rating, and assuring ratepayers that the District is well-managed financially.

A. FINANCIAL MANAGEMENT

1. **Financial Ratios – RUS requirements.** The PUD shall design and implement rates for the utility to provide sufficient revenue (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the RUS required Coverage Ratios. In planning, the PUD shall assume average weather conditions will prevail. In calculation for RUS reporting, use the Average Coverage Ratios achieved in the two (2) best years out of the three (3) most recent calendar years and it must be not less than any of the following:

- a. Times Interest Earned Ratio or "TIER" = $(A+B)/A = 1.25$

A= Interest Expense on Total Long-Term Debt of the Electric System

B= Total Margins of the Electric System

- b. Operating TIER or "OTIER" = $(A+B)/A = 1.1$

A= Interest Expense on Total Long-Term Debt of the Electric System

B= Operating Margins of the Electric System (equals Operating Revenue less Total Cost of Electric Service, which includes Interest Expense on Long Term Debt of the Electric System)

- c. Debt Service Coverage Ratio or "DSC" = $(A+B+C)/D = 1.25$

A = Depreciation and Amortization Expense of the Electric System

B= Interest Expense on Total Long-Term Debt of the Electric System

C= Total Margins of the Electric System

D= Debt Service Billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year.

d. Operating Debt Service Coverage or "ODSC" = $(A+B+C)/D = 1.1$

A = Depreciation and Amortization Expense of the Electric System

B= Interest Expense on Total Long-Term Debt of the Electric System

C= Operating Margins of the Electric System (equals Operating Revenue less Total Cost of Electric Service, which includes Interest Expense on Long Term Debt of the Electric System)

D= Debt Service Billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year.

e. Actual debt service coverage for all non-electrical purposes will be as defined in the respective bond resolutions or loan documents.

2. **Reserves.** The District shall develop financial plans and rates to maintain end of year cash balances sufficient to:

a. Provide funding for a minimum of 90 days of expenses based on the planned year's budget.

b. Financial plans should provide for cash balances between 100% and 125% of the established minimum level.

Available cash is defined as cash and investments in non-restricted accounts and any available funds from a line of credit. Excess cash shall be defined as amounts above the 125% level. When actual end of year available cash balances exceed 125% of the targeted minimum cash balances for both the year end and subsequent operating year, the Board may direct staff to use the excess cash for debt retirement, a rate stabilization fund, rate reduction, customer rebates, or other legal purposes.

3. **Debt/Revenue Financing**

The District shall develop financial plans to maintain the funding of capital improvements through at least 60% from current revenue and no more than 40% from long term financing over a rolling ten-year period. Short-term debt should be retired within two years of initial borrowing

4. **Competitive Rates**

The chief objective of rate setting shall be to ensure that revenue requirements are consistent with the financial goals of the district including cash requirements, RUS ratio coverage requirements, debt service coverage, and debt financing limits. While the District desires to maintain competitive rates as compared to similar utilities, this objective is subordinate to the District's financial goals. Rates should be developed so as to minimize the subsidization of one rate class by another. Cost of service studies should be conducted every three to five years with results presented to the Board. Rates should be designed to incrementally increase more frequently to prevent large rate increases.

B. RISK MANAGEMENT

1. **"Ex Official" Treasurer.** In accordance with RCW 54.24.010, the District will continue to utilize the Jefferson County Treasurer as its "Ex Official" Treasurer until such a time as the Board feels a need to become its own Treasurer.
2. **Power Supply.** The PUD will continue its contract as full requirements Bonneville Power Administration (BPA) customer and maintain a membership in the Public Power Council (PPC) and other related organizations monitoring BPA's performance.
3. **Investment.** District cash reserves will be invested in a manner to provide maximum security, with a reasonable level of liquidity at the highest level of return (listed in order of importance).
4. **Insurance.** The District shall maintain insurance, reserves, or participate in an insurance pool to protect against risk of property, casualty, and liability losses, and this shall be reviewed annually.
5. **Procurement.** All material and service will be procured in accordance with State Statutes, including but not limited to Public Works and competitive bid laws.

C. BUDGET AND INTERNAL CONTROLS

1. Integrated Plans (Electric/Telecom/Water/Sewer)

The General Manager shall develop the following plans and forecasts for approval by the Board:

Retail Energy and Water Sales Forecasts
Capital Requirements Plans
Long-range Financial Plan
Annual Budget

2. Controls

The Board shall approve the District's budget as prescribed by State Law (RCW 54.16.080). The Commission shall prepare a proposed budget of the contemplated financial transactions for the ensuing year and file in its records on or before the first Monday in September. On the first Monday in October, the Commission shall hold a public hearing on the proposed budget.

The Board shall approve total amounts for each of the following budget categories:

PUD Revenues
Net Utility Expenses
Non-Utility Operating Expenses
Net Capital Additions
Debt Service

Budget amounts will be prepared using the accrual basis of accounting. Debt principal will be based on cash requirements. The General Manager shall notify the Board promptly when expenditures within each category are anticipated to exceed the budget and provide an explanation with justification for the overrun. Budget requirements will be presented to the Board in August of each year as necessary.

In order to ensure proper recording of expenditures for management analysis, financial statement reporting, and rate development, expenditures shall be charged to the general ledger account that best reflects the purpose of which the expenditure was made, not an account where an excess of budgeted funds may exist. All material and service will be procured in accordance with State Statutes, including but not limited to Public Works and competitive bid laws.

3. Reporting

Monthly financial reports will be provided to the Board including District operating statements, balance sheet, capital expenditures report, and cash expenditure report. Actual results will be compared to budgeted levels, with an explanation of significant variances. Investment portfolio updates shall be presented to the Board monthly, or as requested.

An Annual Financial Report, prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards (GAAS), shall be distributed to the Board, the public, and posted on the PUD website.

Effective:	2016- 1 September
Adopted Resolution No.	2016-006