

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

Financial Policy	Water Fund	Drainage & WW Fund	Solid Waste Fund
Debt Service Coverage	1.7x	1.8x	1.7x 1.5x (less taxes)
Cash Financing of Capital	15% min. in 1 year 20% over rate period	25% minimum (4 year rolling average)	Greater of 10% or \$3.4 million
Debt-to-Asset Ratio		No more than 70%	



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)

