

Financial Planning Leads to Financial Stability



NACWA 2013 Summer Conference
Michael P. Slevin III, P.E., M.B.A.
City of Tacoma Environmental Services

Slide 1

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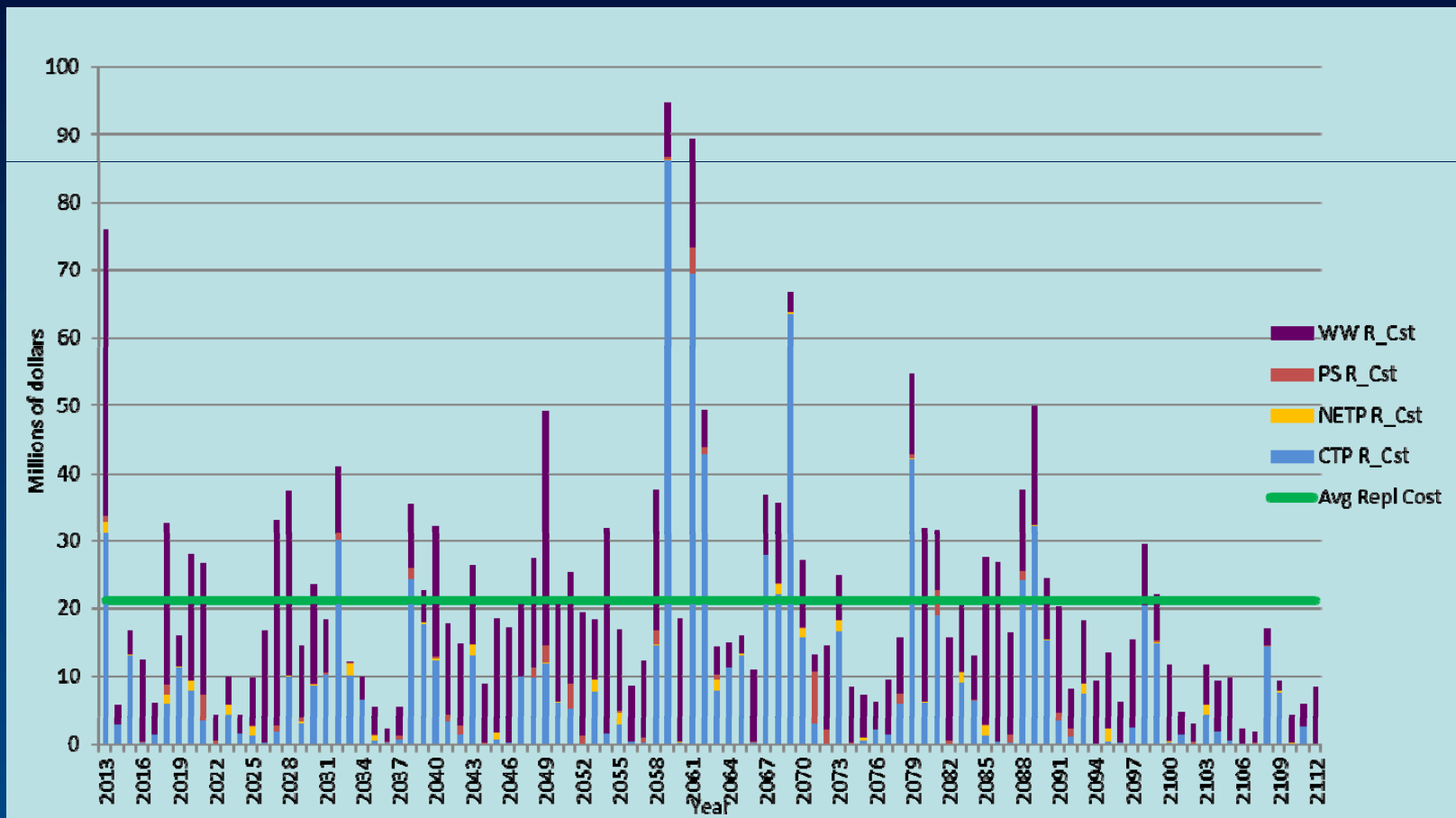
Michael P. Slevin III, P.E. ???

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Agenda

- The Issue- Sustainable Funding
- Tacoma Environmental Services
- SAP Integration Process
- Importance of Financial Planning and Financial Policies
- Financial Planning Process
- Financial Planning Tools

Sustainable Funding Requirements



Tacoma Environmental Services

- Historically, utility rates were developed separately from the City budgeting process
- Environmental Services desired a sustainable long term planning and rate process
- Needed to link asset management, CIP, and SAP financial software
- Rates and budget are now developed in sync so that rates can better reflect actual cost of service
- Rate models will be updated near real time to ensure that utility rates and costs are to plan

SAP Integration Process

- Automate updating process
 - Automatically download customer accounts and annual budget from SAP
 - Automatically download capital projects from e-Builder
- Still in progress due to issues with SAP reporting feature (Semi automated)
- e-Builder CIP software is in implementation stage
- Looking to complete automation by end of 2013

Slide 5

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Want to mention the tracking actuals to projections piece?

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Financial Planning

- **Financial Sufficiency for the Short- and Long-Term**
 - Short-term operating expenses
 - Anticipated capital expenditure
- **Preparation for the Future**
 - Identify known facts and variables (Asset Management Principles)
 - Anticipate unknown variables and evaluate associated risks
- **Tool for Agencies**
 - Minimize rate fluctuations from year to year
 - Assess risks and develop financial policies, budget goals and objectives

Financial Challenges of Managing Utility Systems

A FINANCIAL MODEL CAN BE A TOOL TO NAVIGATE THROUGH THESE CHALLENGES

Properties of Utility System

- Capital intensive
- Highly fluctuating capital cost
- Unknown liability
- Increasing regulatory demand



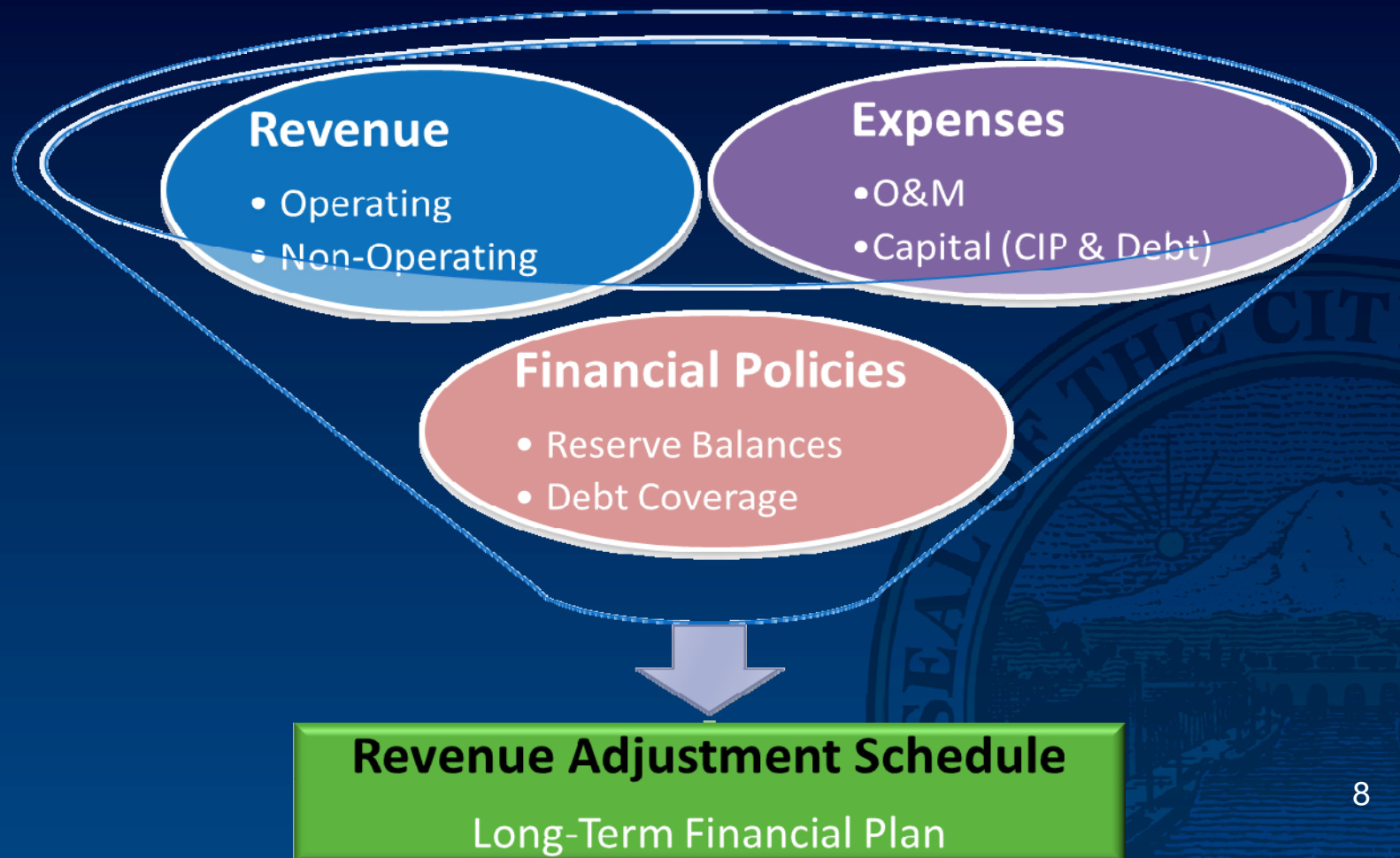
Political Acceptance on Rates

- Rate stability
- Affordability
- Equity
- Environmental stewardship



Key Financial Plan Components

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Slide 8

OJ2

CIP & Debt maybe should be PAY-GO & Debt

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Financial Policies at a Glance

- **Importance of Financial Policies**
 - **To maintain financial solvency**
 - Provide a basis for coping with fiscal emergencies (revenue shortfall, asset failure, emergency, etc.)
 - **To provide guidelines for sound financial management with an overall long-range perspective**
 - **To enhance financial management transparency**
 - Improve public's confidence and elected officials' credibility

Policy Objectives



Financial policies should be determined by each agency based on what the agency values most

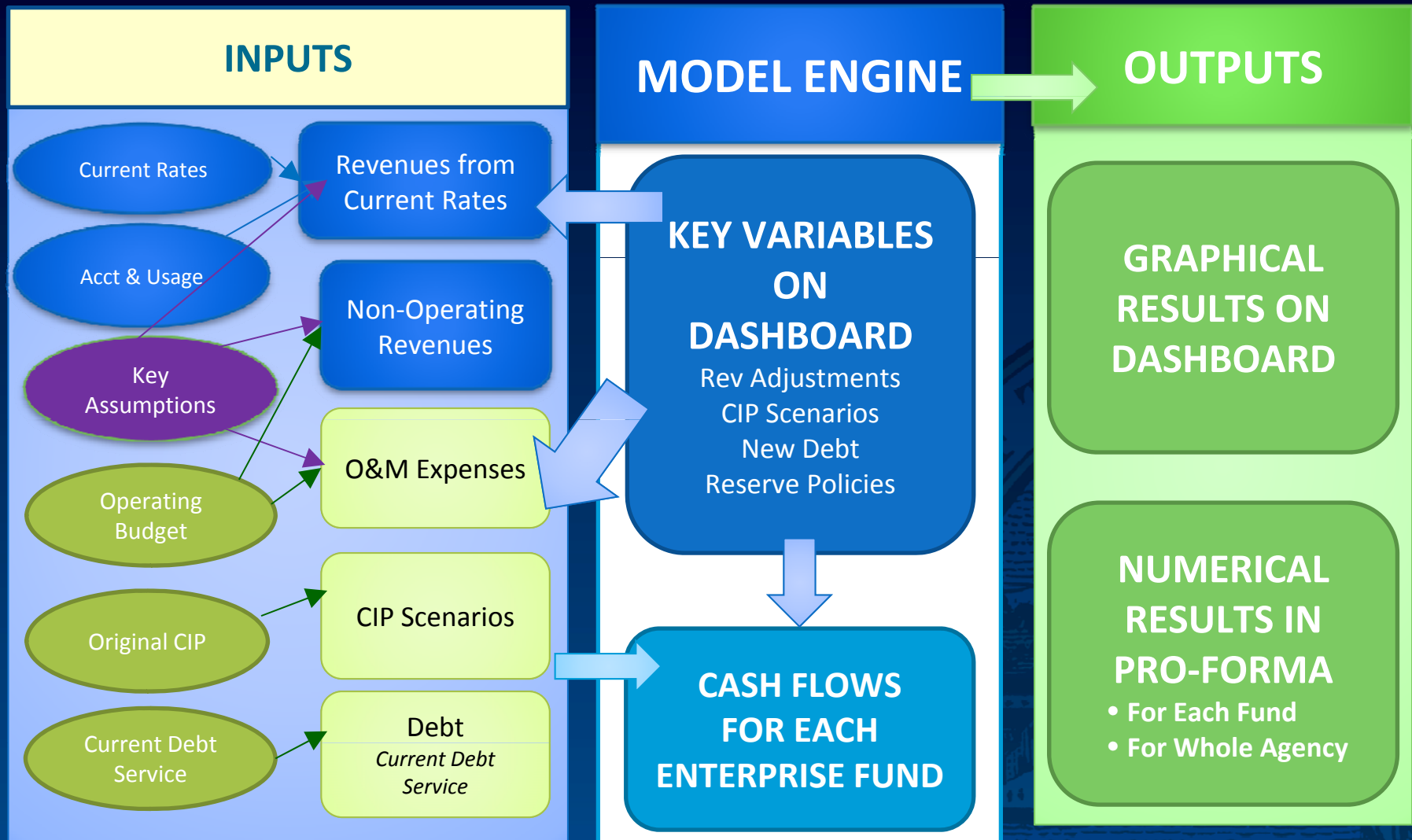
Types of Reserves

- **Operations and Maintenance (O&M)**
 - Used to provide working capital to support the operation, maintenance and administration of the utilities
 - Ex. 90 days (25%) of Operating Budget
- **Rate Stabilization**
 - Used to smooth rate increases caused by decreasing sales or unexpected increases in third-party cost and to maintain sufficient debt coverage

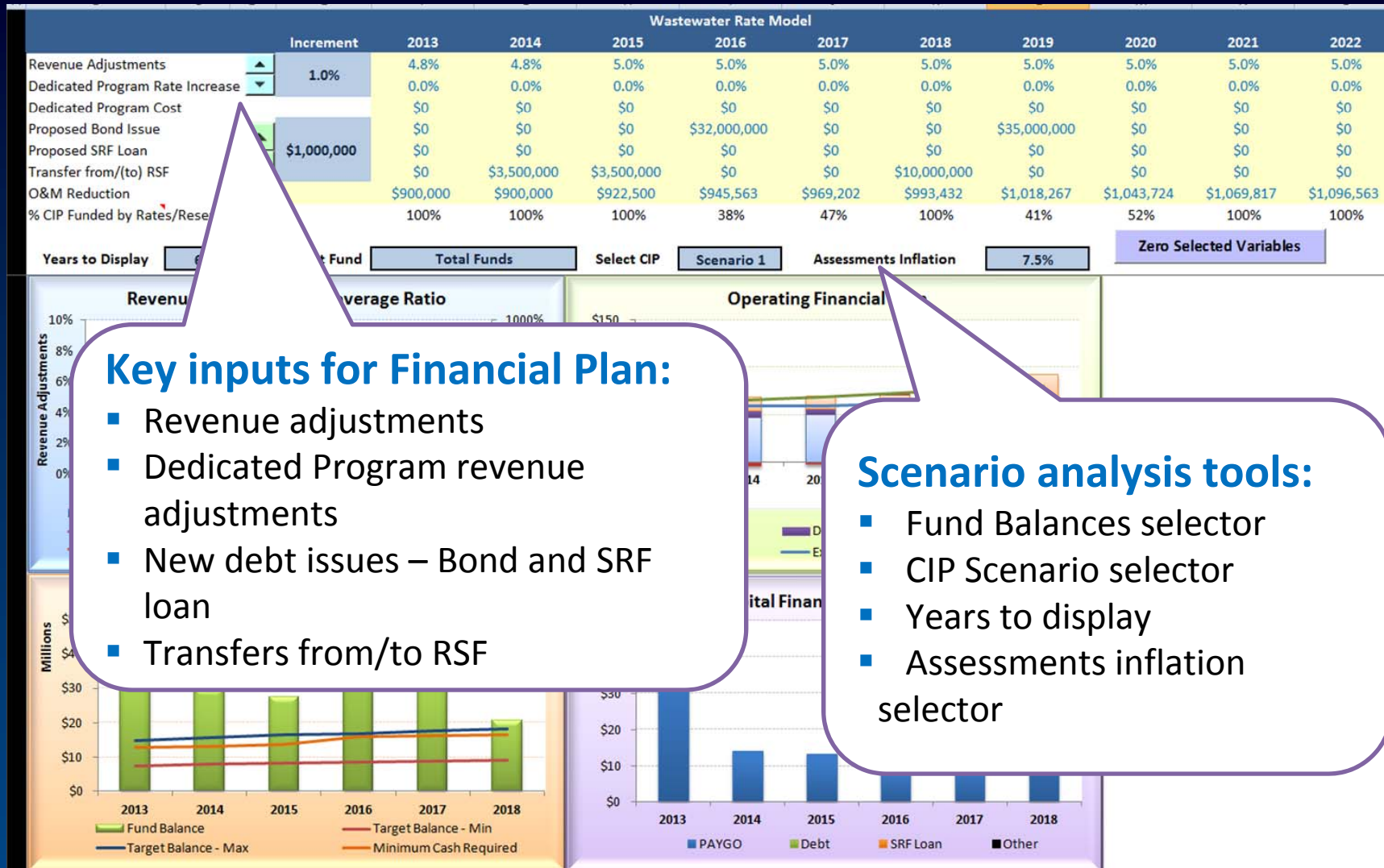
Types of Reserves (cont.)

- **Emergency**
 - Maintained to allow the utility to provide uninterrupted service in the event of a natural disaster or facility failure
- **Capital Refurbishment and Replacement (R&R): for future R&R expenditures / liabilities**
 - Utilities are capital intensive – R&R reserve is used to ensure the maintenance of necessary infrastructure
 - Ex. % of total asset value, % of CIP

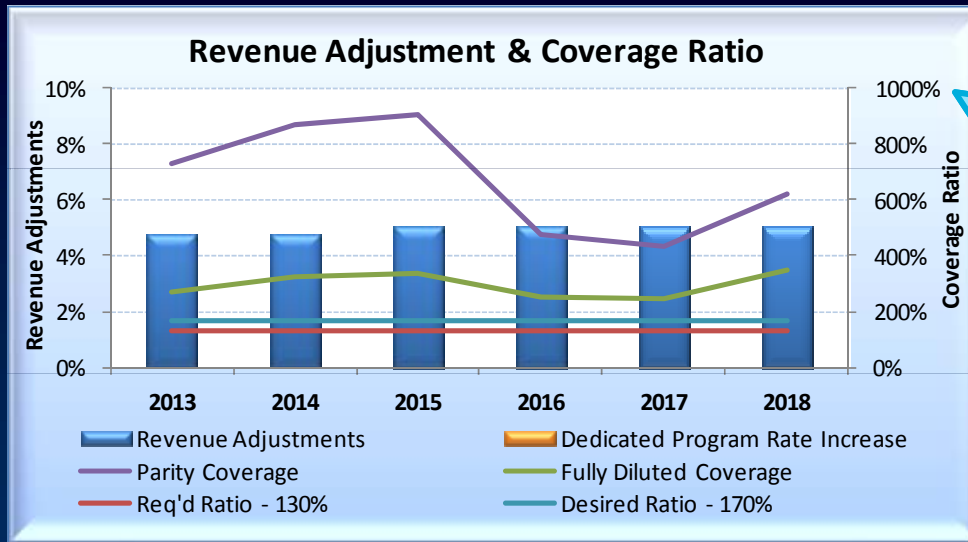
Financial Plan Model Overview



Financial Plan Dashboard Example

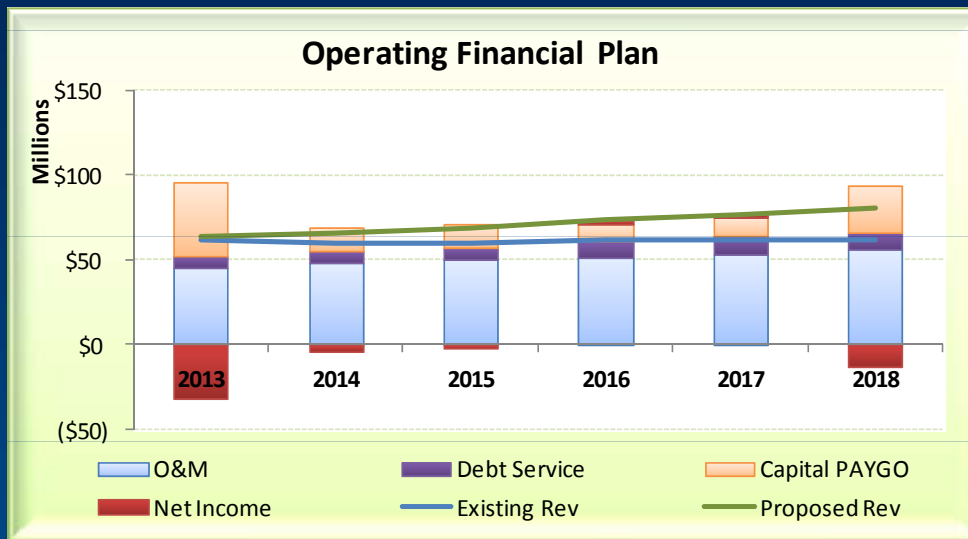


Financial Plan Dashboard Example



Rev Adjustments & Coverage Ratio

- Blue bars – 5% revenue adjustments
- Red line – Required debt coverage
- Light Blue line – Desired debt coverage
- Purple line – Parity debt coverage
- Green line – Fully diluted debt coverage

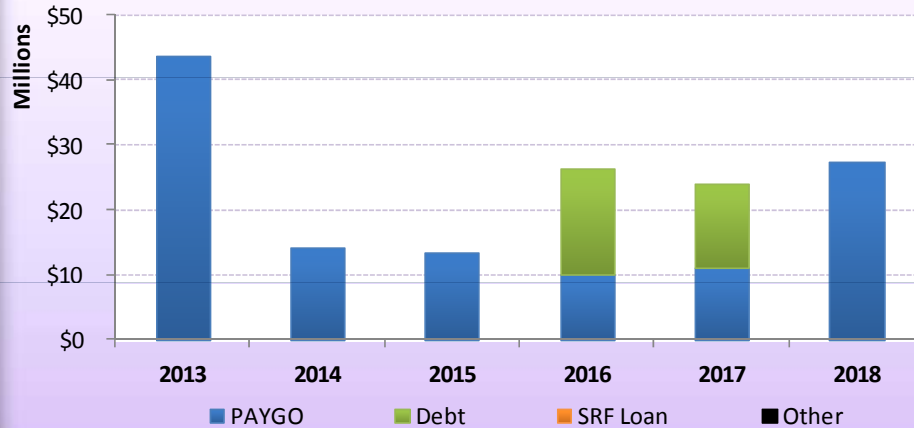


Operating Financial Plan

- Lines – revenues
 - Blue – current rates
 - Green – proposed rates
- Stacked bars – expenses
 - Red bars – net income

Financial Plan Dashboard Example

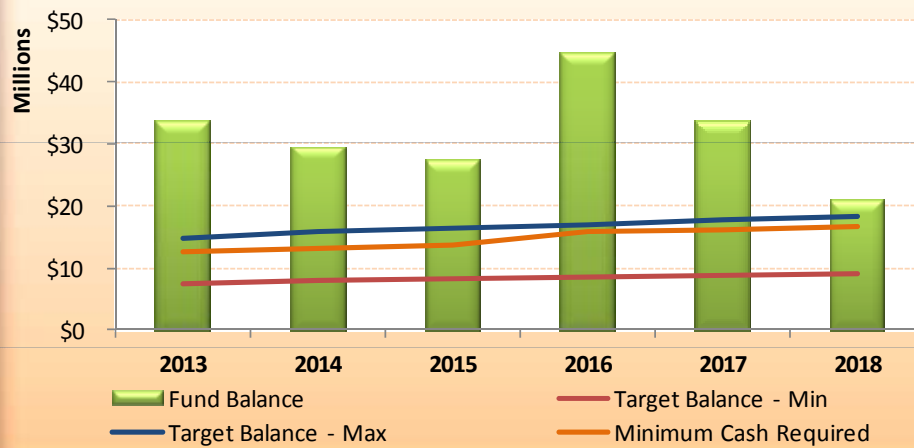
Capital Financing Plan - Scenario 1



Capital Financing Plan

- **Blue** bar – PayGo (rates/reserves)
- **Green** bar – new debt
- **Orange** bar – new SRF loan
- **Black** bar – other funding sources

Total Funds Balance



Fund Balances

- **Green** bar – selected fund's projected ending balances
- **Blue** line – maximum target balances (120 days cash)
- **Red** line – minimum target balances (90 days cash)
- **Orange** line – minimum cash required (90 days cash plus debt reserves)