Strategic Financial Planning
Why Strategic Financial Planning?

*Turn Earlier*
What Will be Covered Today?

1 The Ship
2 Current Course
3 Alternative Courses
4 Avoid & Obtain
5 Next Meeting?
Where Are We in the Annual Cycle?

Spring
Update Forecast

Summer
CIP

Winter
Adjust Course

Fall
Annual Budget

Learn
Where Are We in the Annual Cycle?

- **Spring**: Update Forecast
- **Summer**: CIP
- **Fall**: Annual Budget
- **Winter**: Adjust Course, Learn
- **Dec? Jan?**: Set Commission Priorities
- **Spring**: Update Forecast

Madison Metropolitan Sewerage District
2 What is Our Current Course?

- Expenditures
- Operating Outflows
- Capital Inflows
- Fund Balances
- Debt
- Service Charges
2 Course: Capital Fund Inflows
2 Course: Fund Balances

- Operating
- Capital
- Debt

[Graph showing the fund balances over years]
2 Course: Fund Balances ÷ Expenditures
2 Course: Fund Balances ÷ Expenditures
2 Course: Debt Payments
2 Course: Debt Usage

- Loans ÷ CapEx
- Interest ÷ (CapEx + OpEx)
- Linear (Loans ÷ CapEx)
2 Course: Cumulative Debt Obligations

![Graph showing cumulative debt obligations over years. The graph has two lines: one for principal and one for interest. The principal line starts at a lower value and increases steadily, while the interest line is consistently lower and remains relatively flat. The y-axis represents millions of dollars, ranging from $-100$ to $250$. The x-axis represents years from 2011 to 2040.]
## 2 Course: Current Policies

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Rule</th>
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</thead>
<tbody>
<tr>
<td><strong>Loan vs. Cash</strong></td>
<td>• Use CWF for all eligible CapEx&lt;br&gt;• $915,000 cash transfer escalating 5%</td>
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<tr>
<td><strong>Loan Duration</strong></td>
<td>• 20 Years</td>
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<tr>
<td><strong>Loan Uses</strong></td>
<td>• No policy</td>
</tr>
<tr>
<td><strong>Balances ... Capital Fund</strong></td>
<td>• $3m or 10% of next year’s CapEx</td>
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<tr>
<td><strong>Operating Fund</strong></td>
<td>• 180 days&lt;br&gt;• “Equipment replacement”</td>
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<tr>
<td><strong>Debt Fund</strong></td>
<td>• Next year’s obligation&lt;br&gt;• Staff-managed balance smoothing</td>
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</tbody>
</table>
3 How Might We Change Course?

Many options; model two:

• Less Borrowing
• 30-Year Debt Term
3 Less Borrowing

Annual Service Charges

- Blue line: 40% by 2040
- Red line: 50% by 2040
- Green line: Baseline

Millions
3 Less Borrowing

Annual Interest Payments

- 40% by 2040
- 50% by 2040
- Baseline
3 Less Borrowing

**Total Outstanding Interest Obligations**

- **Baseline**
- **40% by 2040**
- **50% by 2040**

The chart shows the total outstanding interest obligations over time, with lines indicating different borrowing targets by 2040.
3 Less Borrowing

Total Outstanding Principal Obligations

- Baseline
- 40% by 2040
- 50% by 2040

Millions

$-  $20  $40  $60  $80  $100  $120  $140  $160  $180  $200  $220  $240  $260

Years: 2020, 2022, 2024, 2026, 2028, 2030, 2032, 2034, 2036, 2038, 2040, 2042, 2044, 2046, 2048, 2050, 2052, 2054, 2056, 2058, 2060, 2062, 2064, 2066, 2068, 2070
Annual Service Charges by Debt Term

- 30 Year
- 20 Year
3 Longer Debt Term

Annual Interest Payments by Debt Term

- 30 Year
- 20 Year
Total Outstanding Interest Obligations by Debt Term
## 4 What Might We Avoid and Obtain?

<table>
<thead>
<tr>
<th></th>
<th>Interest Cost</th>
<th>Principal Obligations</th>
<th>Spread Costs Over Time</th>
<th>Handle Unexpected Costs</th>
<th>Rate Smoothing</th>
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<td>Loan vs. Cash</td>
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<td>Balance Management</td>
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## 4 Avoid & Obtain ... to Defer

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<tr>
<th></th>
<th>Int. Cost</th>
<th>Princ. Oblig.</th>
<th>Spread Costs Over Time</th>
<th>Handle Unexpected Costs</th>
<th>Rate Smoothing</th>
<th>Who Pays</th>
<th>Value Assurance</th>
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<tbody>
<tr>
<td>Commercial Loans</td>
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*Madison Metropolitan Sewerage District*
A. Recommendation:
   A. Commission ranks the five outcome categories
   B. (Then staff develops policy options to satisfy)
B. Alternative: Further study
   A. Topics?
   B. How soon?
Controls

• Loan vs. Cash
• Loan Duration
• Loan Uses
• Balance Management

• Commercial Loans
• Connection Charges
• Rate Design
• Property Tax
• CapEx Controls
• OpEx Controls
• Asset Management Risk

Outcomes Categories

• Interest Costs
• Principal Obligations
• Spread Costs Over Time
• Handle Unexpected Costs
• Rate Smoothing

• Who Pays
• Value Assurance