

Capital Finance Metrics and 2021 Capital Budget

Bill Walker



Financing the CIP

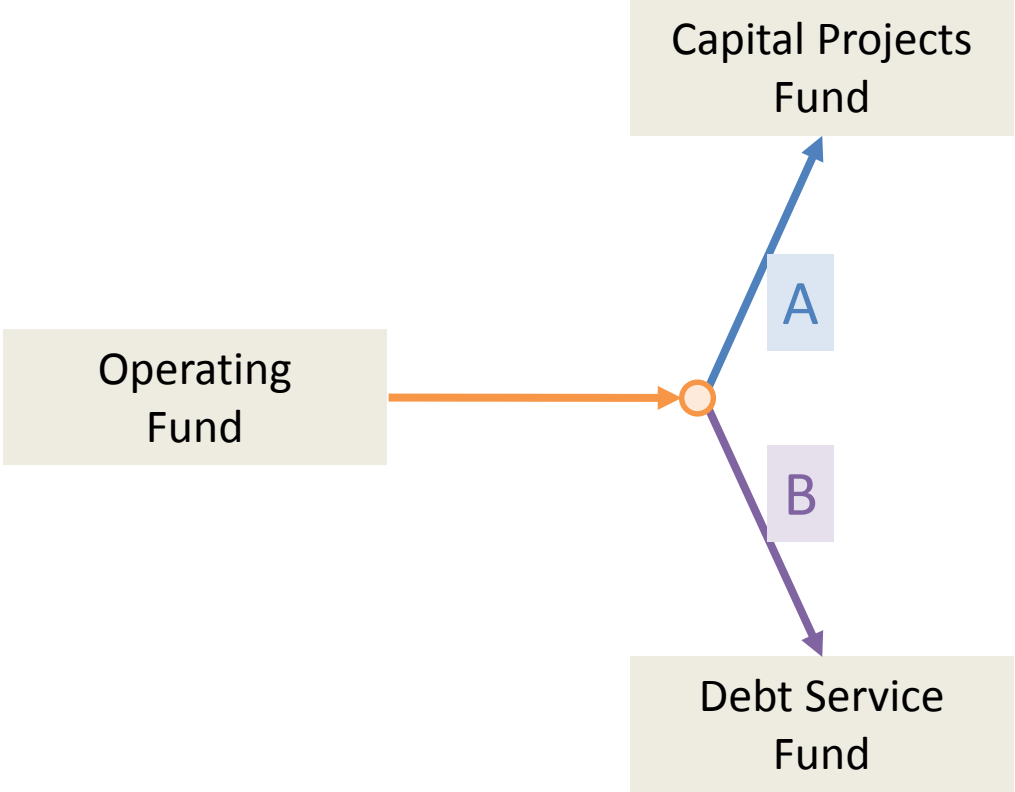
- Recommended financing plan
- More cash support
- Understand why

Questions

- Hold questions to end
- Unless I'm losing you

Six-Year CIP

- Years 2-5 change
- Year 1 locked in 2021 budget



Question for Next Time

- *Proposed* 2021 budget
- What spending plan...
 - Recommendation?
 - Alternative?

Agenda

- How developed
- The plan
- Alternative

How Developed

- Commission priorities
- Metrics
- Targets

Priorities

- Smooth **service charge** increases
- Limit **debt**
- Handle the **unexpected**

Measure performance
against priorities

...

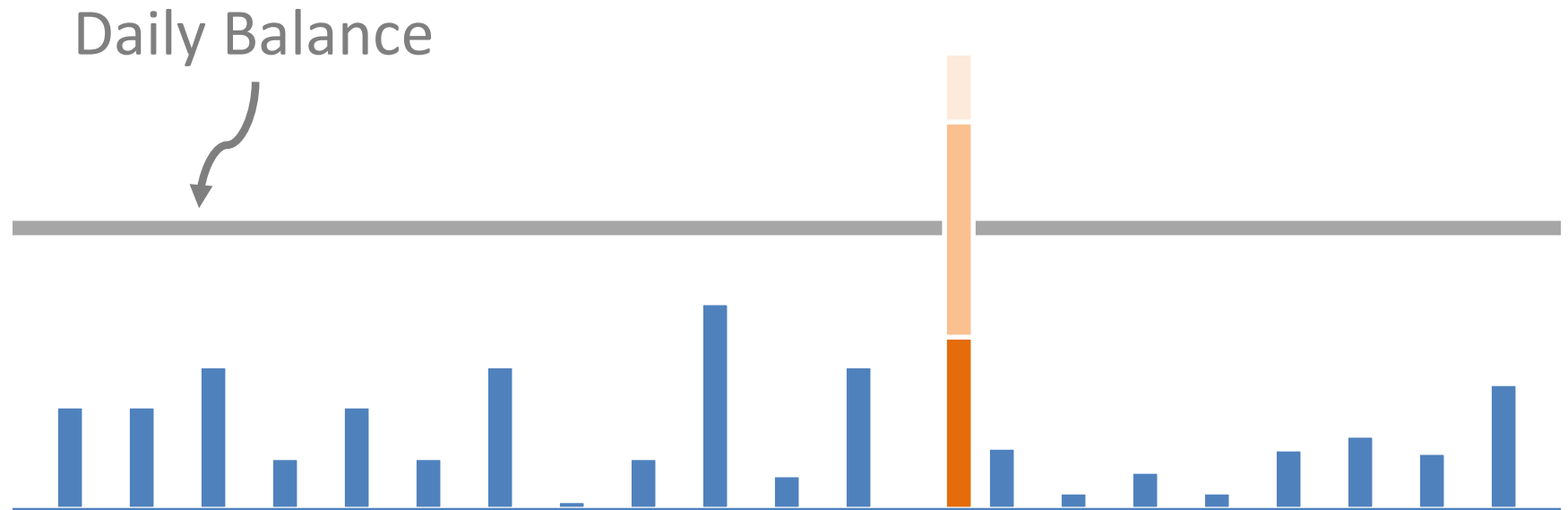
What targets?

Unexpected

Fund Balances

Two kinds of risk

Timing Risk



Our Timing Risks

- Delayed loan receipts
- Planned becomes crisis

Timing Risk Metric

Variable

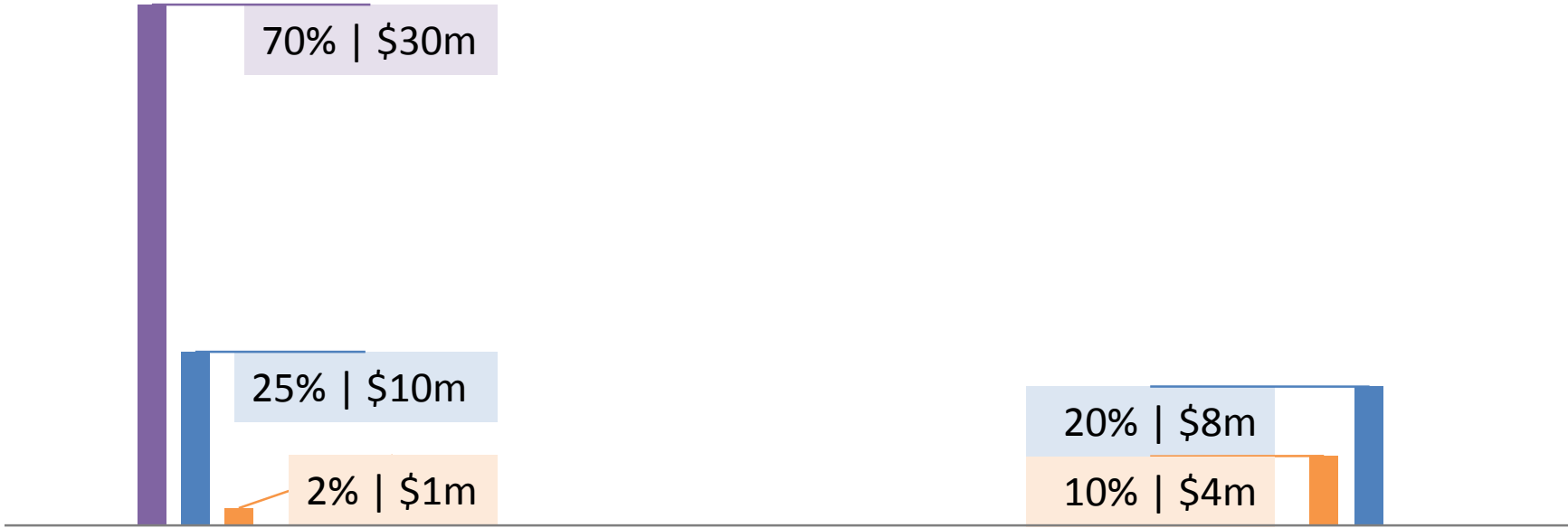
with size of
regular expenditures

Timing
&
Unplanned
(expenditures or lost revenues)

Unplanned Risk

Expenditure Risk

Revenue Risk



Timing Risk Metric

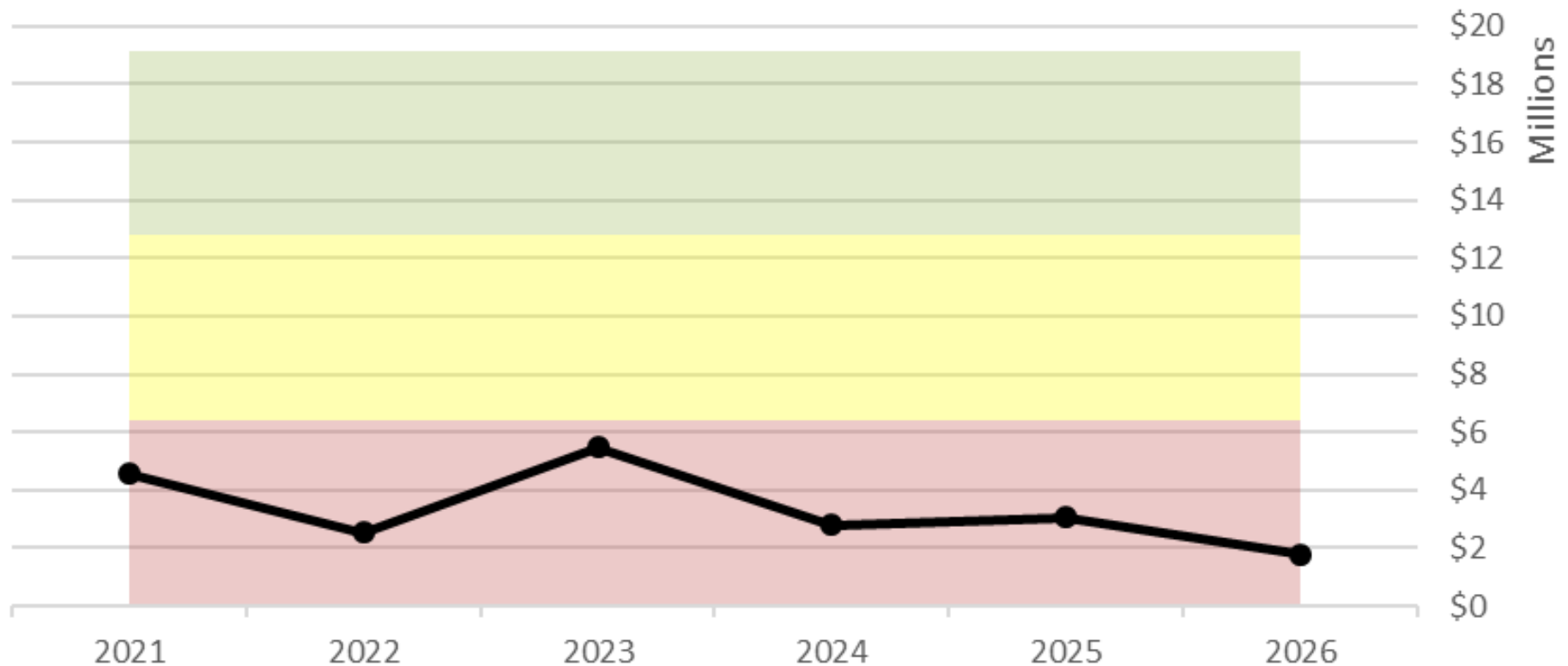
Annual Closing Balance

Target Zones

- Green: Fine
- Yellow: Explain
- Red: Fix

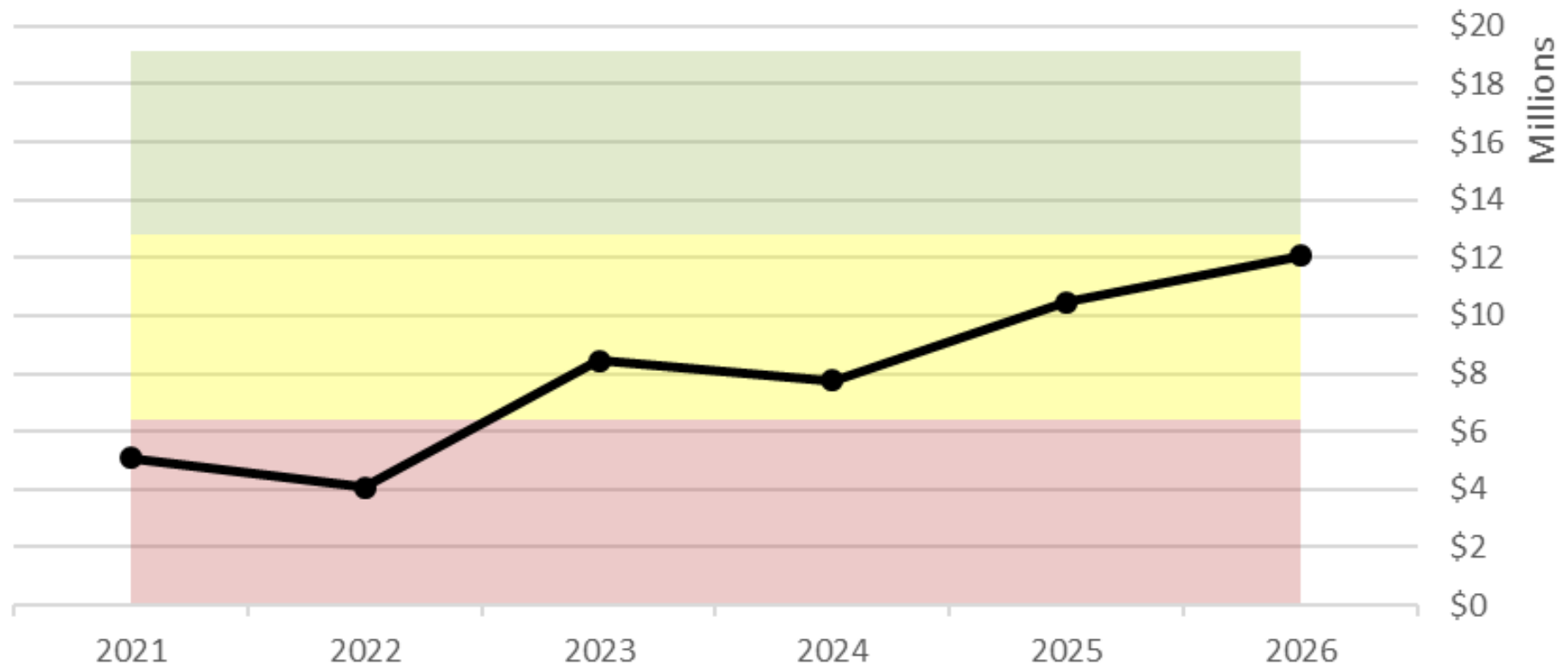
If Last Year's Funding Plan

Capital Fund Closing Balances by Year
(Red Zone: < 1x Average Annual Cash Expenditures;
Green: > 2x)



Proposed Plan

Capital Fund Closing Balances by Year
(Red Zone: < 1x Average Annual Cash Expenditures;
Green: > 2x)



Unplanned Risk Metric

Period Closing Balance

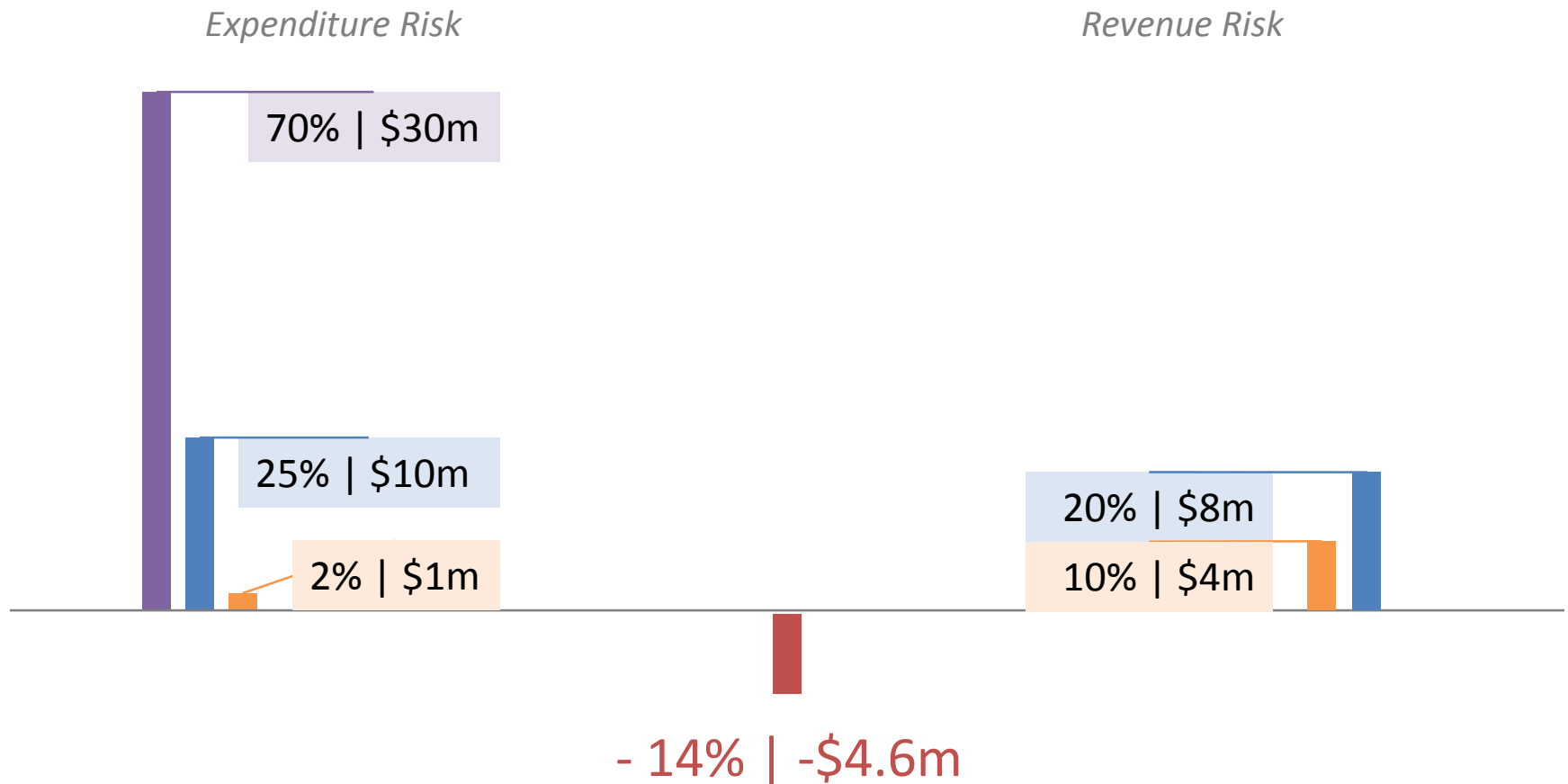
minus

Timing Reserve

(average annual spending)

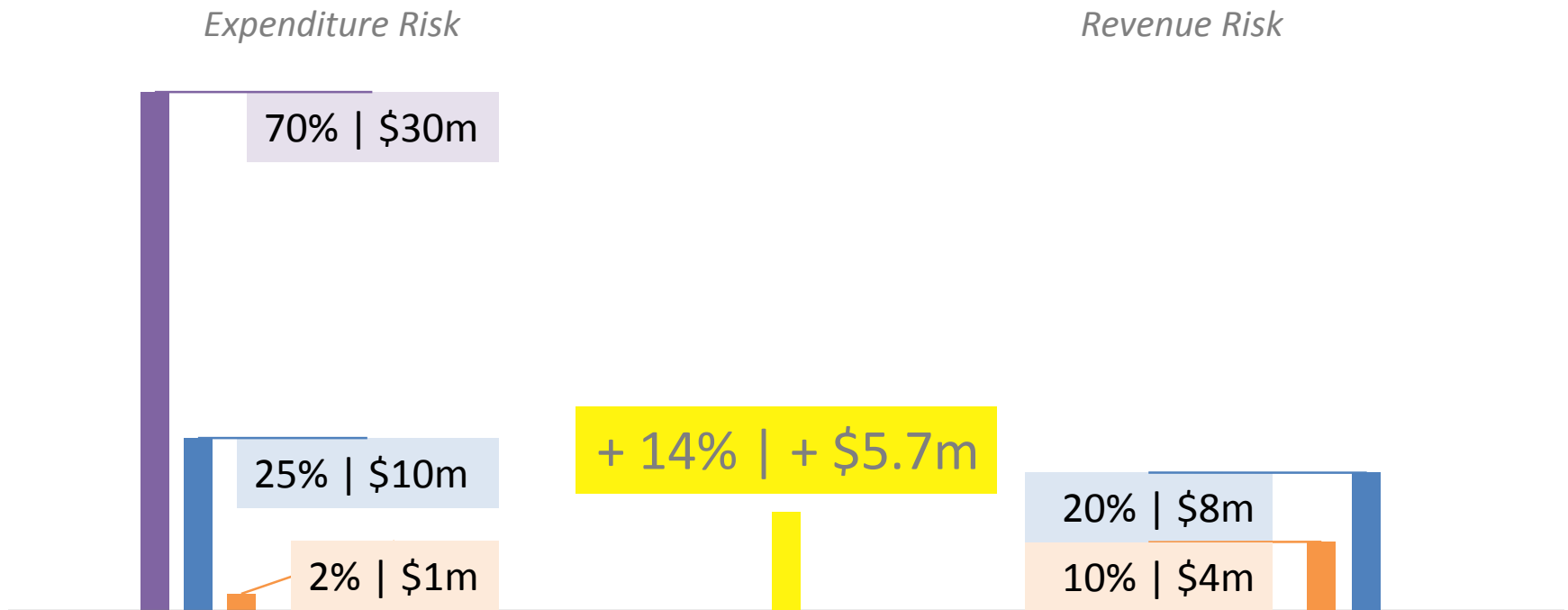
If Last Year's Funding Plan

Capital Fund Closing Balance Minus Timing Risk Factor (Percent of Planned Period Revenue)



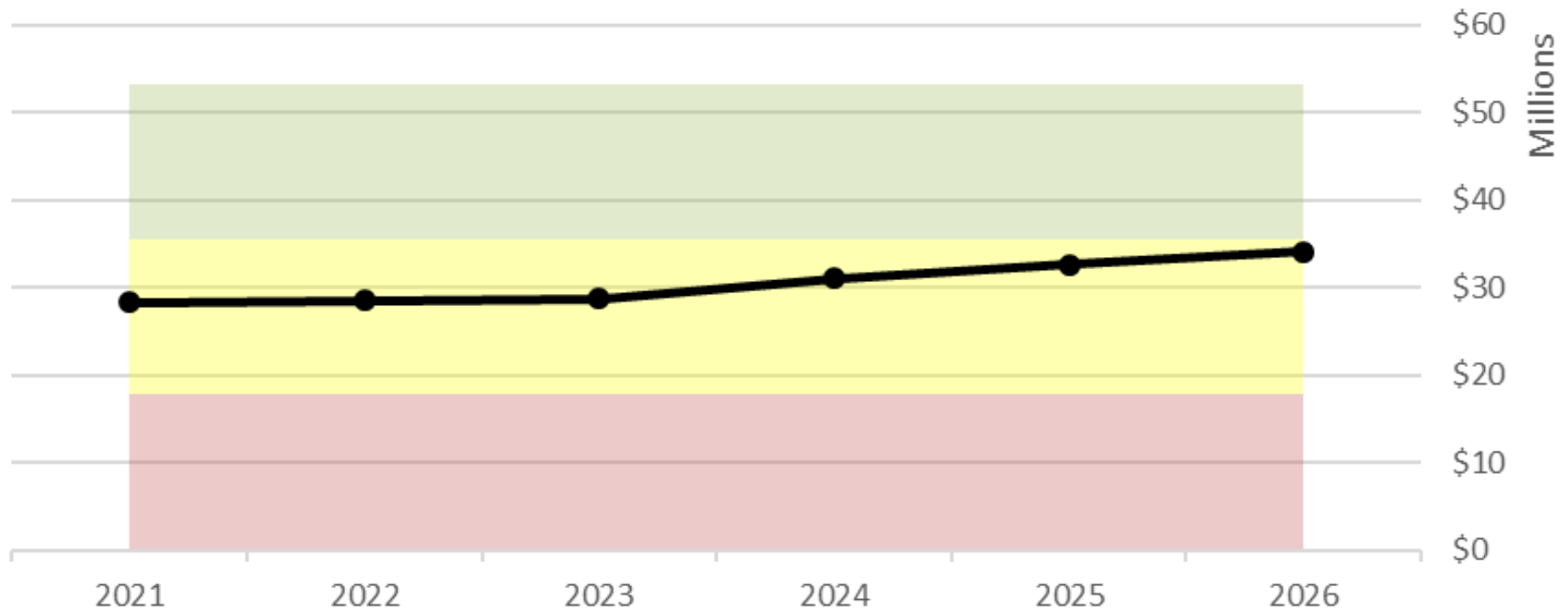
Proposed Plan

Capital Fund Closing Balance Minus Timing Risk Factor *(Percent of Planned Period Revenue)*



Proposed Plan == Last Year's Plan

Debt Fund Closing Balances by Year
(Red Zone: < 1x Average Annual Debt Service;
Green: > 2x)



Proposed Plan == Last Year's Plan

Debt Fund Closing Balance Minus Timing Risk Factor
(Percent of Planned Period Revenue)

Expenditure Risk

?

Revenue Risk

?

+ 12% | + \$13.1m



Debt Metrics

Relevant to the Commission?

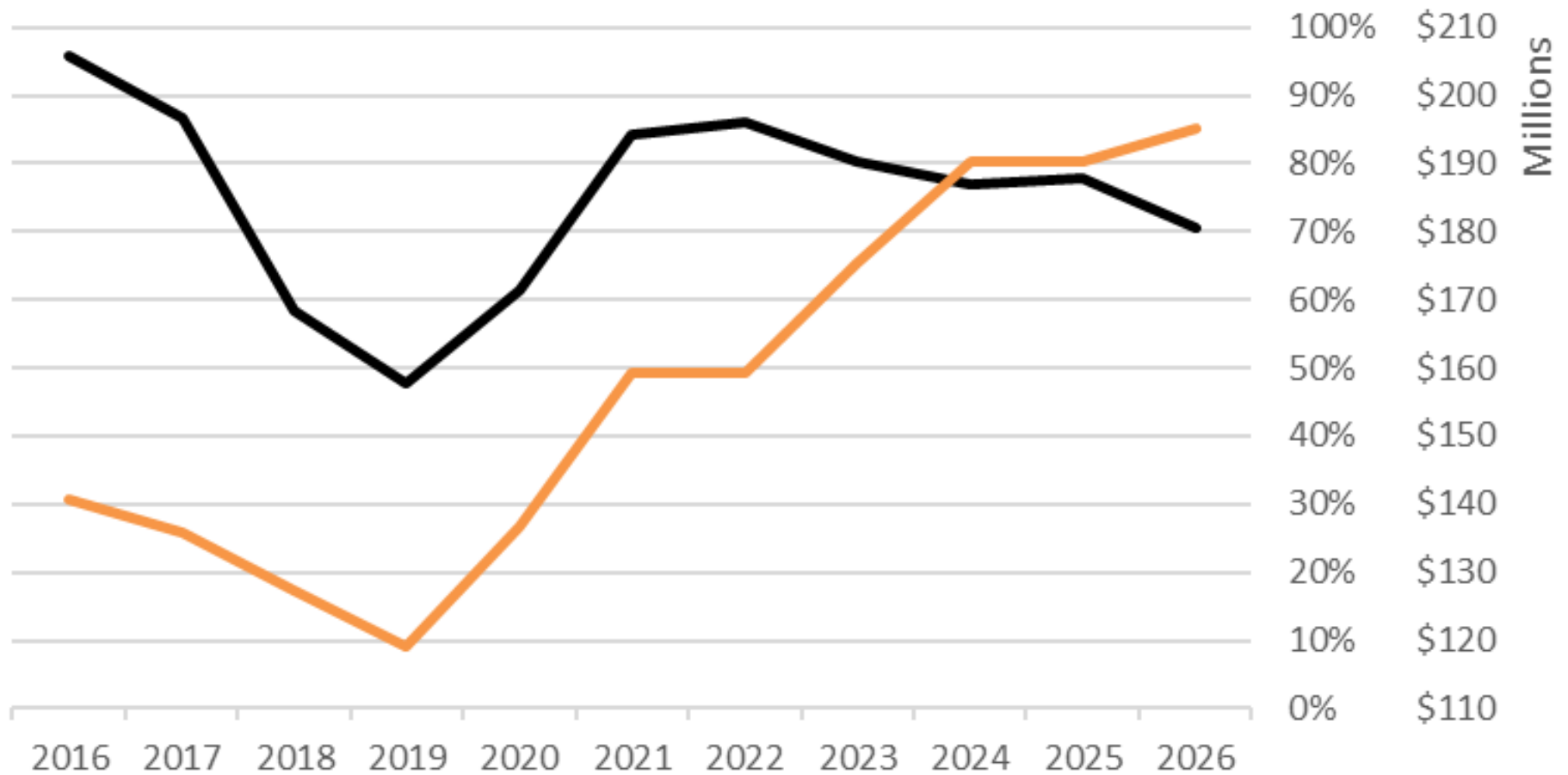
Percent CapEx Financed with Debt

(three year average)

Total Outstanding Principal

Debt

- Percent of Capital Expenditures Borrowed For, Three Year Moving Average
- Outstanding Principal Obligations

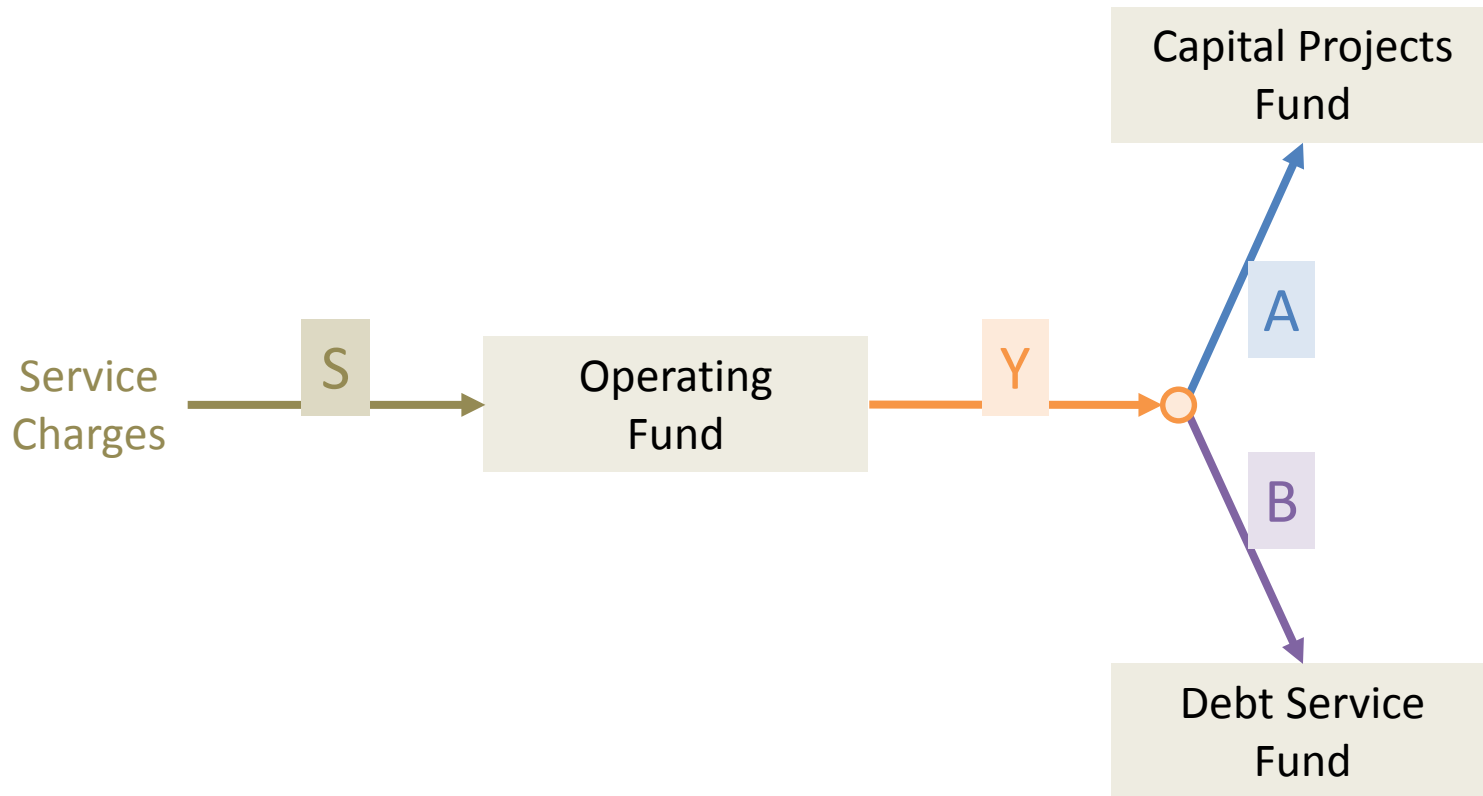


Why Proposal?

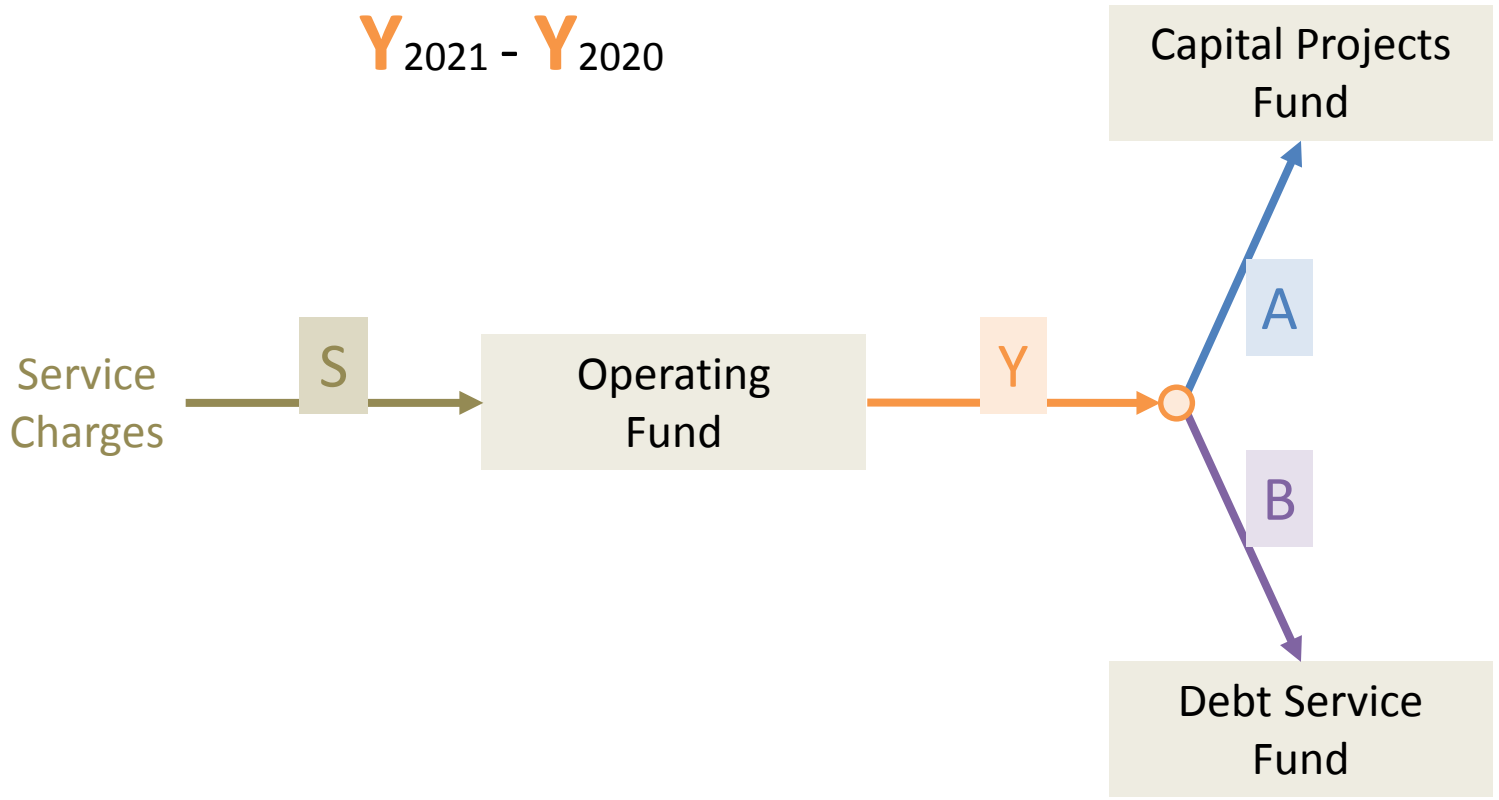
Solves Capital Fund Risk Problems

Begins Lowering Use of Debt

But what about service charges?...

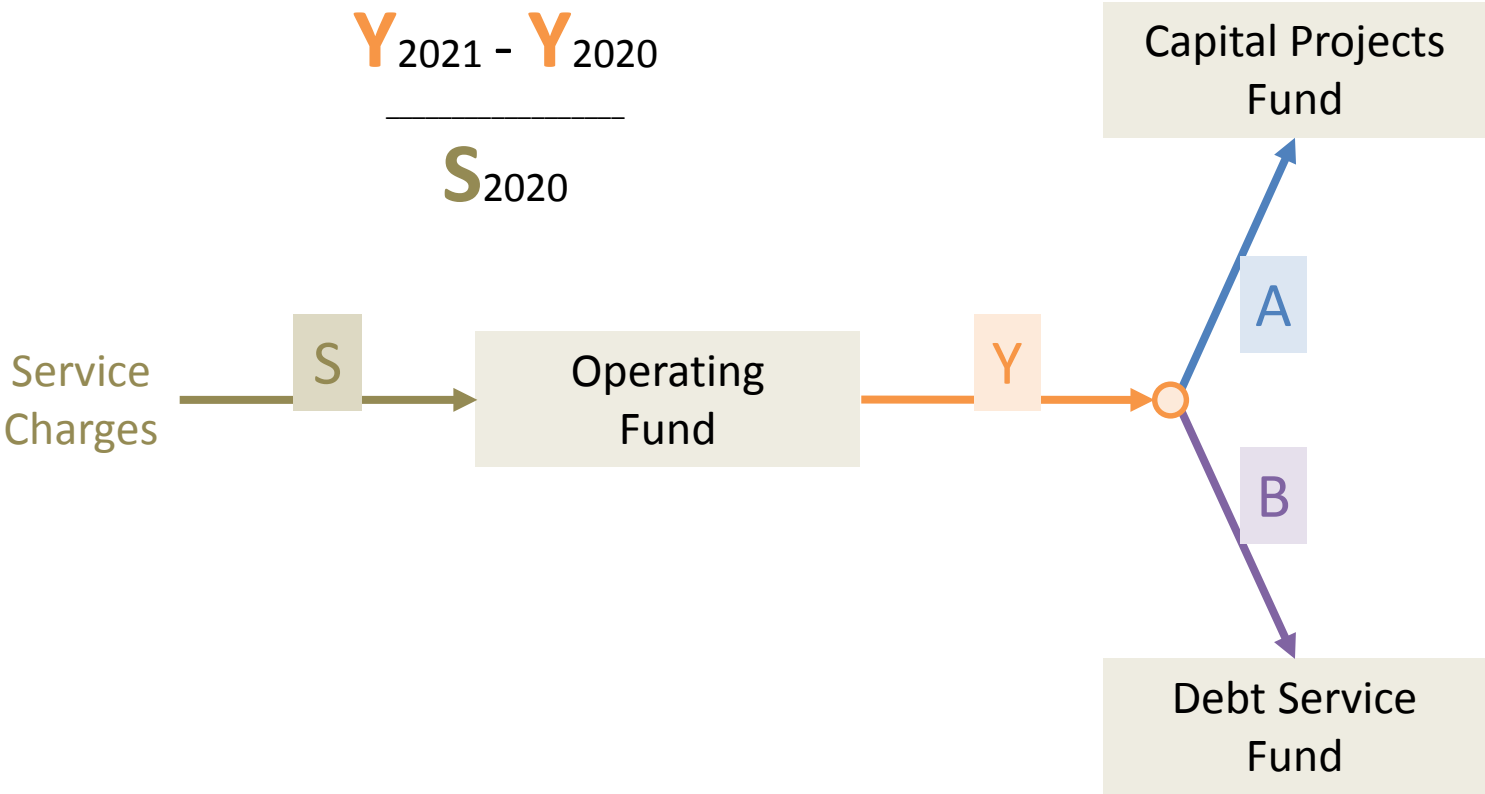


$Y_{2021} - Y_{2020}$



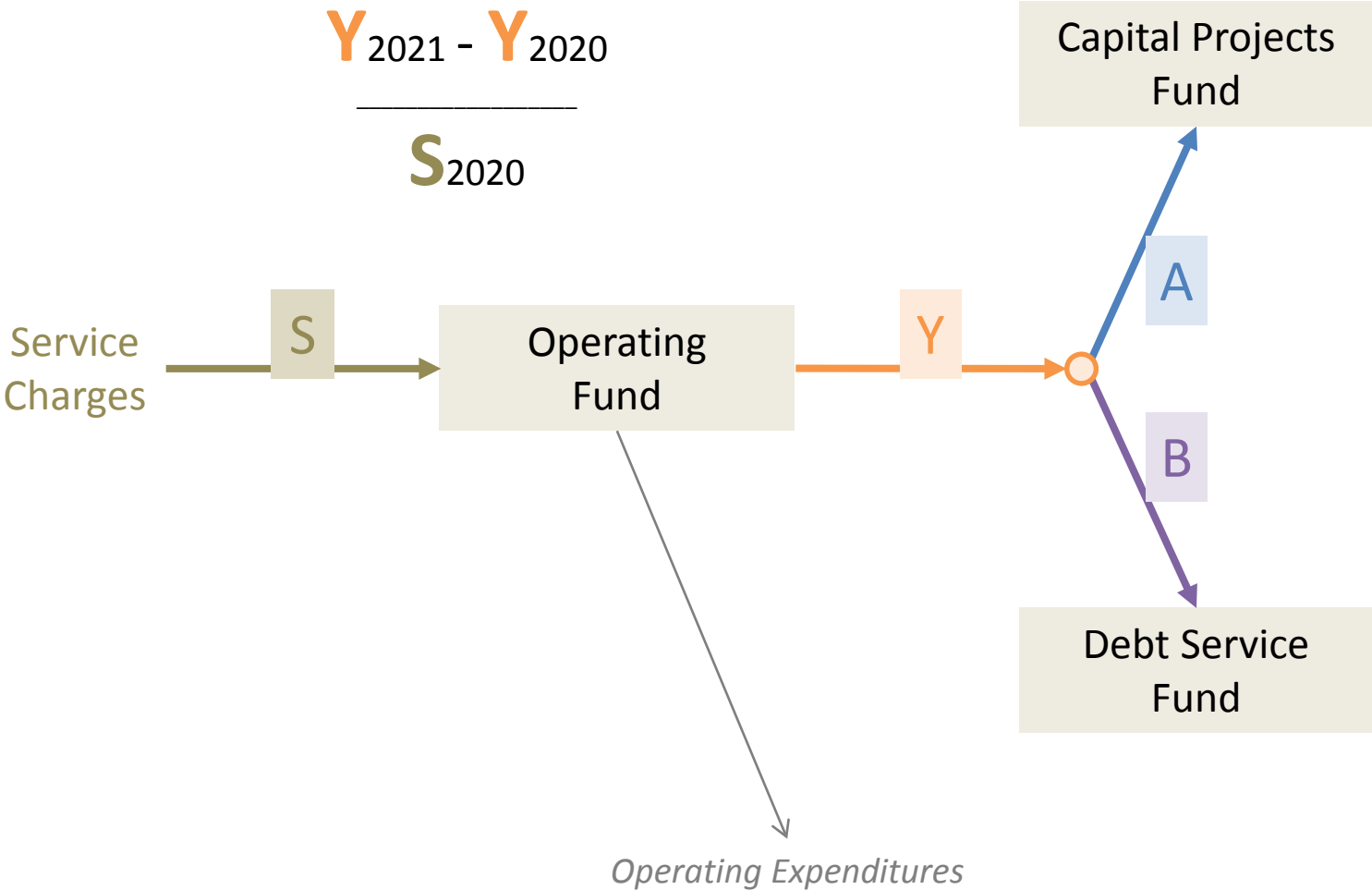
Percent increase in service charge support for the capital program from 2020 to 2021:

$$\frac{Y_{2021} - Y_{2020}}{S_{2020}}$$



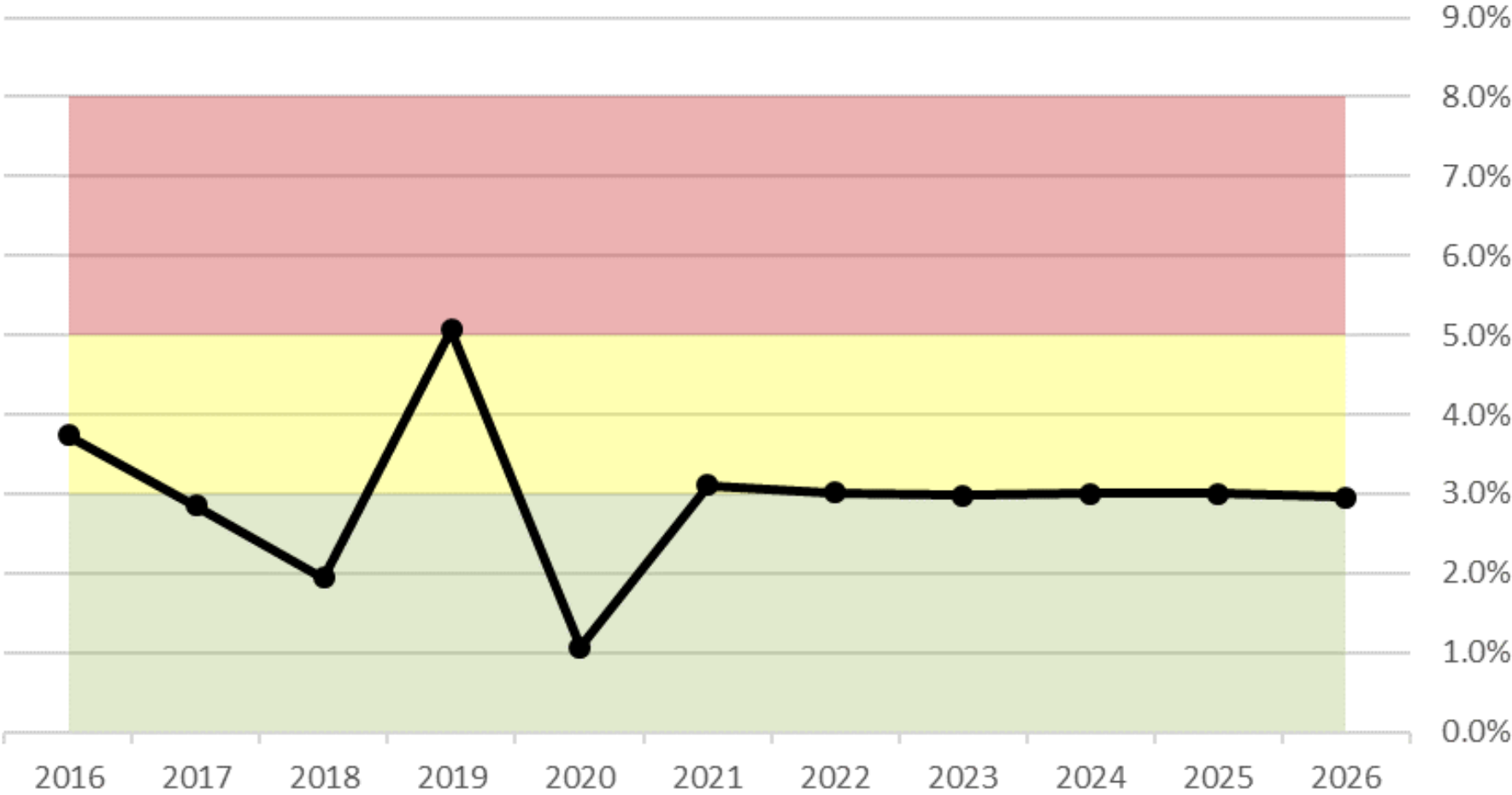
Percent increase in service charge support for the capital program from 2020 to 2021:

$$\frac{Y_{2021} - Y_{2020}}{S_{2020}}$$



Proposed Plan

Year-Over-Year Percentage Increase in Service Charges to Support Capital Program



The Plan

- Significantly greater transfer to **capital projects fund**
- Same transfer to **debt service fund**
- Reduce **borrowing** in 2025 (\$3m) & 2026 (\$8m)
- 3% year-over-year **service charge** increases to fund it

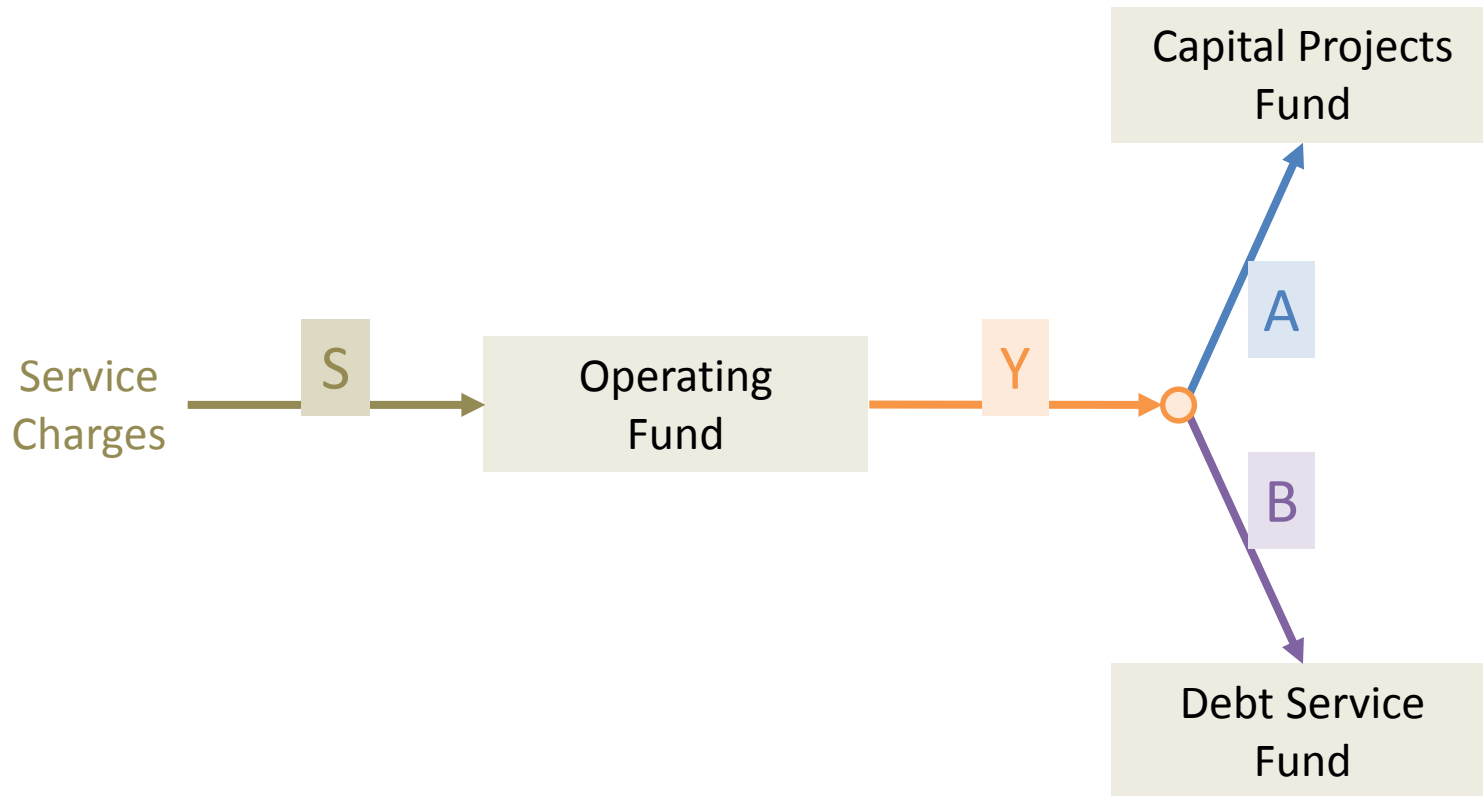


Alternative?

Needs to help the capital fund!

Limit 2021 service charge increase?



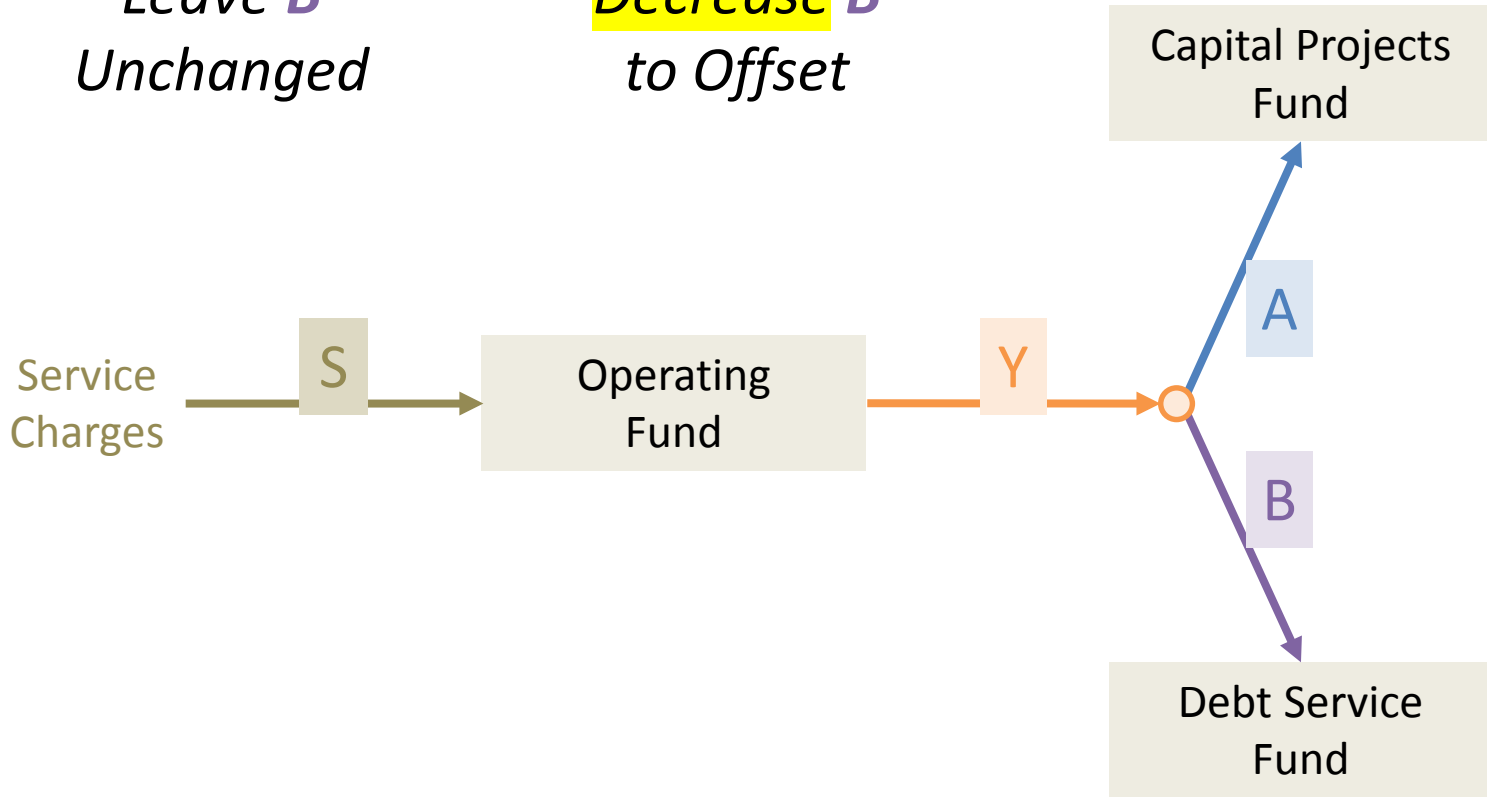


Proposal
Increase **A**

Alternative
Increase **A**

Leave **B**
Unchanged

Decrease **B**
to Offset



Question for Next Time

	Recommendation	Alternative
Operating Fund Transfer to:		
Capital Fund (A)	\$1,486,000	
Debt Service Fund (B)	\$16,552,000	\$16,027,000
Debt Service Fund Timing Risk	Yellow Zone	
Debt Service Fund “Unplanned Reserve” (% of revenue)	12%	11%
% Increase in Service Charges Needed:		
2021	3%	2%
2022	3%	4%

Which Option Should We Propose?

Recommendation

Start “high” with room to lower

Alternative

Start “low” with possible desire to raise

