

MWPAAC

Status of WTD Financial Planning Review

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Scope of Effort

- I. Review WTD Financial Planning Tools and Methods**
- II. Review Key Assumptions**
- III. Review Extent of Risk Assessment**
- IV. Develop Practical Forecast Metrics**

Why Ed Cebtron?

- **Co-Founder of FCS Group; over 40 years of financial, economic and rate consultancy to utilities throughout the western U.S. including many WTD contract agencies.**
- **Over 16 years as a water/sewer Commissioner at Woodinville WD**
- **Served on MWPAAC and as Rate & Finance Chair**
- **15 years as Senior Economist at Cascade Water Alliance**

Review Status

- I. Authorized by Sammamish Plateau Water on behalf of 15 contract sewer districts; began in January 2025**
- II. Some published data provided in February**
- III. A limited model review session held by WTD in March**
 - 1. Follow up questions and requests sent shortly thereafter**
- IV. June review session cancelled**
- V. 2026 Rates adopted by KCC in June**
- VI. September review session at WTD**
 - 1. Responses to questions from March session**
 - 2. A (locked) copy of the model was provided**
 - 3. Purpose and context of the model was discussed**
- VII. Outlined and developed sample metrics and reports in January 2026**

Current Status

- I. Model review has been completed
- II. Data development (capital programs) continues at WTD
- III. Quality of CIP data drives quality of financial forecasts; likely in flux until RWSP is adopted
- IV. Substantial unknowns remain in terms of:
 1. Future capital needs and costs
 2. Ability to execute on schedule and budget
 3. Evolution of asset management program
 4. New regulatory initiatives
- V. High uncertainty factor: limited risk analysis has been conducted (or at least shared)

Summary of Model Review

- I. **Financial model is robust and capable**
 1. Provides long-term analysis (35 years) and outputs tailored to RWQC direction (e.g. 20 year rate forecast)
 2. Thorough development of capital and operating cost forecasts, capital funding, and rate impacts
 3. Integrates fiscal policies as forecast requirements
- II. **Data development is less robust**
 1. Capital planning remains limited in timeframe
 2. High uncertainty due to scale of capital needs
 - a) High sensitivity to capital assumptions
 - b) Ability to ramp up and execute may be questionable
 3. Reasonable longer-term extensions of ongoing capital needs, like asset management/R&R, are generated and incorporated
 4. Provisions for new capital needs (e.g. regulatory) need to be generated and incorporated as alternative scenarios
- III. **Overall Assessment**
 1. The tools are ready while planning needs to evolve
 2. Output could continue to be tailored to provide better understanding of trends and risks based on continued MWPAAC, RWQC feedback and direction

Summary of Financial Risk Assessment

I. Generally still in development

- A. Some targeted sensitivity analyses have been recently developed and provided
- B. More robust packages of risk factors could be requested or directed
- C. Model allows for alternate capital packages to drive forecast
- D. Key questions include:
 - 1) Adequacy of capital cost estimates
 - 2) Fiscal policies regarding capital formation
 - 3) Ability to execute program on time and on budget
 - 4) Key outcomes and risks
- E. **Critical Next Step: Evolution from a financial forecast into a Financial Plan**
 - 1) Direction from RWQC, Input from MWPAAC are critical
 - 2) Once established, performance standards and accountability become essential

Answering Some Key Questions (continued)

- I. **Are things getting better or worse? GENERALLY BETTER**
 1. Ability to assess and forecast impacts has improved immensely
 2. Financial condition of WTD has also improved dramatically
 3. Financial (rate) forecast projects extreme impacts on contract agencies and ratepayers for period with known capital needs
 4. Forecast better after 2035 but primarily because it is not fully populated

- II. **Does WTD have the tools to evaluate and communicate financial/rate outcomes as things change/evolve? YES**
 1. The model is definitely capable
 2. Data quality and completeness remains elusive
 3. Need for clarity and focus of outputs to provide key information and avoid information overload and/or misunderstanding

- III. **Is the financial model in synch with rate/budget processes? YES**

Answering Some Key Questions (continued)

IV. Are fiscal policies adequate? **SOMEWHAT**

1. Current policies regarding debt coverage and depreciation funding provide a stable and substantial capacity for capital reinvestment
2. A reasonable balance of cash and debt funding is achieved
3. Even so, debt burdens will increase dramatically
4. The model can evaluate alternate fiscal standards
 - a) In most cases, these will trade short-term and long-term rate impacts unless they target funding levels

V. Where could fiscal polices be expanded/improved?

1. Reinvestment policies directing levels of reinvestment funding relative to replacement cost metrics (or multiple of original cost metrics)
2. System integrity policies defining acceptable ranges of remaining life
3. Priority policies (or fund restrictions) to ensure that funds remain committed to maintaining system integrity

VI. What is the Critical Next Step?

1. Evolution from a financial forecast into a Financial Plan
 - a) Direction from RWQC on policy, Input from MWPAAC on practices are critical
 - b) Specifically, define reporting content and format for communicating results

How Could We Improve Reporting?

I. Extend the Forecast Period

1. Longer term reporting is available; model extends to 2060
2. Should reasonably see far enough out for program completion and debt retirement

II. Incorporate Risk Scenarios and “Cone” of Outcomes

1. Define distribution of outcomes (probabilities) or
2. Define specific high and low scenarios

III. Improve Key Outcome Metrics

1. Rates
2. Financial performance
3. Financial Trends
4. Capital Reinvestment

Example of Risk Assessment Methods

“Bracket” the forecast with low and high scenarios:

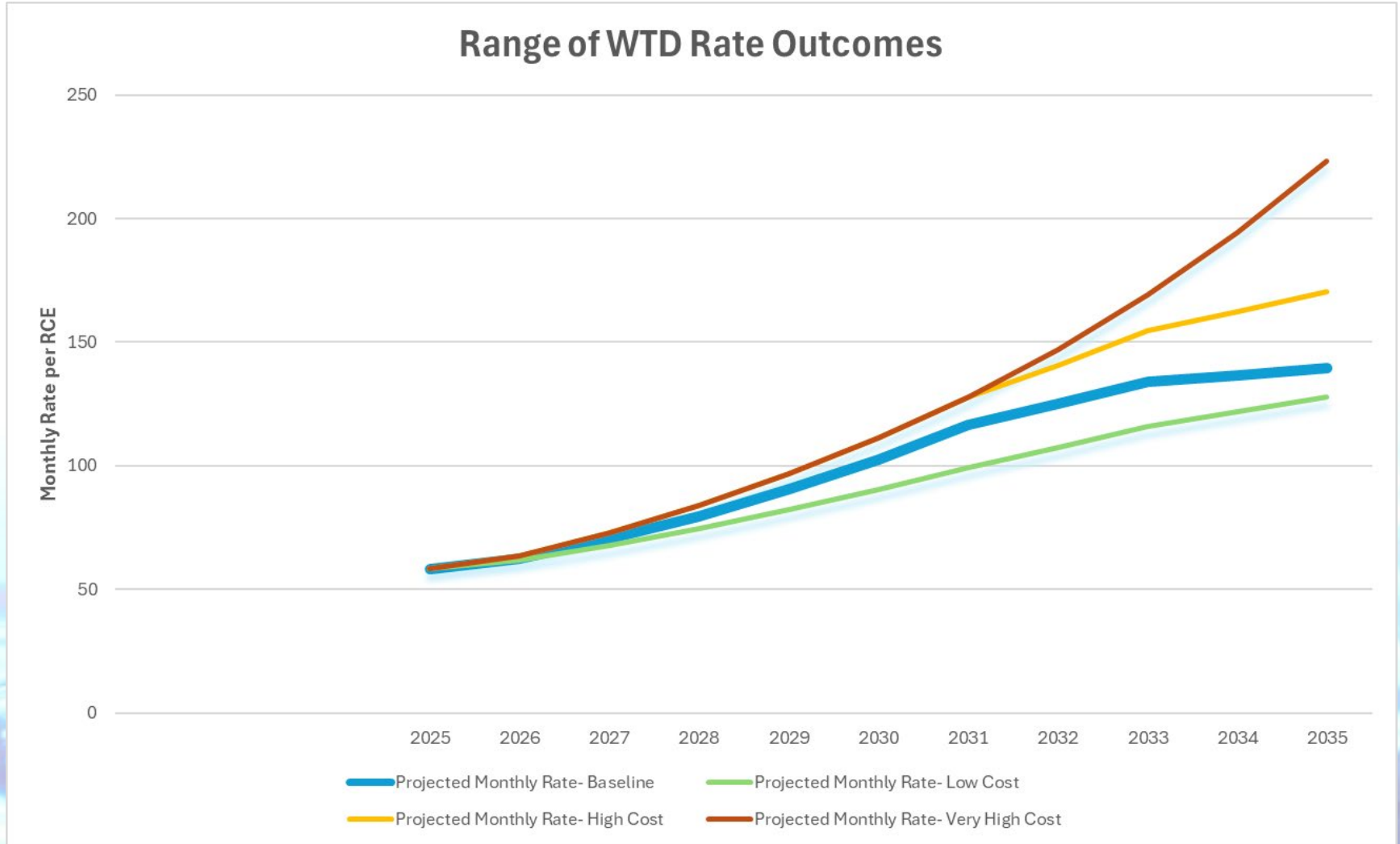
- 1) Low scenario could be:
 - a) Capital cost minus 10%
 - b) Added delay to project execution (extended timeframe)

- 2) High scenario could be:
 - a) Capital cost plus 25%
 - b) Increased reinvestment needs

- 3) Very high scenario would add:
 - a) Placeholders for new regulatory (& other) initiatives

The model is capable of storing multiple scenarios

Sample Risk Assessment Graphic



Sample Financial Performance Metrics

Potential WTD Financial Performance Metrics

	Description	What It Means	How to Use It	Precautions
Rates				
Average 10 year % increase	Portrays the average projected rate increase on a percentage basis	Illustrates the longer-term rate trend driven by projected program	Compare to inflation and to other scenarios to assess net impacts on ratepayers	Compounding effect can obscure or understate the actual \$ increase in rates
Annual Increases	Shows the projected annual rate increases on a percentage basis		Evaluate near-term rate strategy in the context of long -term needs	Changing any projected increases ripples through all later increases. For example, a lower first year rate would increase future annual increases
Monthly Rate per RCE	Shows the projected regional sewer rate each year of the forecast	Actual rate charged to generate revenues sufficient to meet forecasted needs	Consider rates in context of retail customer impacts. Compare to a simple inflationary trend line for rates.	Based on an inflation assumption. "Real" rates adjusted for inflation might better illustrate impact of rate trends.
Financial Performance				
Annual Rate Revenue (\$ millions)	Annual revenues from sewer rate charges.	Provides the scale of utility operations and the trend in program revenue needs.	Valuable for breaking down major cost components as a share of total rates.	Also based on an inflation assumption that would require increases just to maintain current activities and investment levels.
Debt Coverage Factor	Portrays the amount of funding generated in excess of cash operating needs. Expressed as a multiplier of debt service. The calculation excludes capital costs. Many utilities have bond covenants with required coverage and policy standards with higher targeted coverage.	Provides a basis for assessing ability to meet debt obligations and absorb changes in revenues or costs. Also provides a sense of funding available for direct capital funding. Also a common factor used by rating agencies to assess financial viability of utilities. Similar to Operating Cash Flow, the coverage factor is way to express capacity to reinvest in the utility.	The extent that the coverage factor exceeds 1.00 indicates utility's ability to generate capital funds. Too low a factor suggests inadequate reinvestment through rates, while too high a factor can suggest excessive burden on current ratepayers.	Standards vary between wholesale and retail utilities, with wholesale typically targeting lower coverage factors. May not compare directly to the retail contract agencies.
Operating Cash Flow (\$ millions)	Annual net revenue that can be used for capital investment and/or adjustments to fund balances.	Provides the level of capital funding that can be relied on before borrowing. Higher cash flow reduces borrowing needs and related rate impacts.	Consider operating cash flow relative to depreciation expense as an indicator of ability to sustain utility assets. Both original cost and replacement cost depreciation are relevant for this evaluation.	Cash flow ranging from original to replacement cost depreciation remains consistent with cost burden of current ratepayers; below suggests a declining asset base while above suggests subsidy of future customers.

Sample Financial Performance Metrics

Potential WTD Financial Performance Metrics (continued)

	Description	What It Means	How to Use It	Precautions
Capital Structure				
Debt to Asset Ratio	A measure of total debt relative to net fixed assets	Provides an indication of debt leveraging and trends in net asset value for the utility.	A high ratio suggests little net system value and limited flexibility for future capital funding. A low ratio suggests high levels of direct capital funding and greater flexibility to meet future needs.	Wholesale utilities often operate at higher debt ratios than retail utilities.
Debt Service as % of Rate	A measure of debt service as a percentage of current revenues.	Provides an indication of debt burden for ratepayers and ability to manage rate outcomes.	A high factor indicates that rates are dedicated to paying for past projects and relatively inflexible. A low factor indicates more budgetary control of rate outcomes and greater flexibility in funding approaches.	Most utility costs are relatively fixed, suggesting less flexibility to manage rate outcomes regardless of debt burden as compared to budgets with more discretionary spending.
Capital Reinvestment				
Annual Reinvestment Rate	An annual measure of reinvestment relative to accumulating replacement needs	The reinvestment rate measures the extent to which utility capacity to fund replacement is increasing or declining. It is a comparison between annual depreciation calculated on a replacement basis and the combined sum of Operating Cash Flow plus amount of debt principal being retired.	A reinvestment rate of 1.0 means that rates are funding asset depreciation through a combination of reinvestment and debt retirement. A higher rate suggests that funding exceeds the annual accumulation in replacement liability while a rate below 1.0 suggests that the replacement liability is growing.	A healthy utility can sustain its assets without compounding debt burden. A critical indicator for long-term financial viability and whether current ratepayers are adequately supporting the system.
Remaining Life Index	A measure of overall status of system aging versus ability to fund ultimate replacement needs. A cumulative measure of funding capacity and trends that complements the Annual Reinvestment Rate	The remaining life index compares the gross replacement cost of the system to net offsetting burden. The net offsetting burden is cumulative depreciation plus outstanding debt less available cash. The resulting index suggests the relative remaining system value adjusted for utility liabilities.	The index is most useful in indicating trends in utility ability to sustain its infrastructure. It reflects both age and financial structure as factors that influence ability to support long-term reinvestment needs. A higher index indicates more ability to sustain the system, as does an increasing trend.	Since this is a cumulative metric, it does not necessarily reflect current financial practices. It does indicate the degree to which fixed asset value has been retained and enhanced. Lower factors suggest greater urgency for improving reinvestment capabilities due to declining useful lives and ongoing liabilities from past funding practices.

Answering More Key Questions

Your Turn

Thank you.