

RESOLUTION NO. 809


A RESOLUTION OF THE BOARD OF COMMISSIONERS FOR THE APPROVAL AND ADOPTION OF A BUDGET POLICY

WHEREAS, Kittitas County Public Utility District No. 1 finds that it will be beneficial to establish a Budget Policy; and


WHEREAS, A Budget Policy supports sound long-term planning, sustainable funding strategies and financial stability; and

NOW, THEREFORE, BE IT RESOLVED that the Commissioners of Kittitas County Public Utility District No. 1 approve and adopt the Budget Policy, as set forth in Exhibit A attached hereto.


IN WITNESS WHEREOF, the undersigned, being all the members of the Board of Commissioners of Kittitas County Public Utility District No. 1 have executed this Resolution of the Board of Commissioners on this 28th day of October, 2014.



President, Paul Rogers



Vice President, Roger Sparks



Secretary, Shan Rowbotham



Exhibit A

BUDGET POLICY

October 2014

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Policy Intent

Kittitas County Public Utility District No. 1 ("Utility") shall prepare a Budget annually to be adopted by the Board of Commissioner no later than December 31 proceeding the budget year. The Budget document shall include an annual Operating Budget, five year Financial Forecast and a minimum five year Capital Improvement Plan, however it is desirable to have a 10 year Capital Improvement Plan. The Budget document is a fiscal management tool based on historical, current and projected information used to evaluate current and future fiscal conditions, to guide financial decisions, mitigate risk, enhance transparency and accountability to customers.

Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the District's service objectives and financial challenges. An effective forecast allows for improved decision-making in maintaining fiscal discipline and delivering low-cost energy to customers. An accurate budget and forecast will direct, guide and control the sound financial future of the District.

The General Manager is responsible for organizing, reviewing and approving the final Budget and Capital Work Plan to present to the Board.

The Finance Manager is responsible for budgetary internal control and accurate reporting in accordance with GAAP.

Structurally Balance Budget

The District shall maintain a structurally balanced budget to support financial sustainability for multiple years in the future. Recurring revenues shall equal or exceed recurring expenditures. Reserves are the portion of fund balance set aside to hedge against risk. The use of reserve funds shall be approved in the final budget and noted in the resolution adopting the Budget. If an unforeseen event occurs and reserved funds fall below the Board's stated goals, a plan to replenish reserves and remediate the negative impacts shall be prepared by management and approved by the Board by resolution.

Financial Sustainability is the District's ability to manage finances in order to meet spending commitments, both now and in the future. It ensures future generations reasonable and equitable rates and adequate services as provided to the current customers.

Net Position

The net position is distinguished by separate categories to include net investment in capital assets, restricted and unrestricted. It is essential that net position be maintained at an adequate level to mitigate current and future risks, shortfalls, unanticipated expenditures to ensure stable rates.

The District shall attempt to maintain the net position at a level not less than 50% of total assets and deferred outflows or resources. The Finance Manager shall monitor financial trends to provide guidance for the Board on industry standard fund balance levels.

The Restricted fund balance shall comply with Bond covenants and Board approvals.

It is the goal of the Board to maintain a rating equal to or higher than "A" from nationally recognized rating services and maintain a 1.5 DSC.

Minimum Cash Reserves

The Finance Manager shall report reserves based on a Minimum Cash Reserve Approach. This approach takes into account the ages of assets and guarantees payment of debt. The following criteria are the basis of the reserve calculation:

- Annual Operating Expenses (excluding Power cost) X 12%
- Annual Power Costs X 10%
- Net Assets X 2%
- 5 Year Capital Improvement Plan less available debt funds X 20%
- Annual Debt Service Payment X 50-100%

In meeting the District's net position goals, capital projects shall be funded 50% from borrowed monies unless otherwise approved by the Board. The remaining costs shall be funded from the general fund unrestricted balance. The Finance Manager will report to the Board on a regular basis the funding sources for all capital projects.

Results and Outcome

Budgeting for results and outcomes links strategic planning, long-range financial planning, performance measures, budgeting and evaluation. It also links resources to objectives at the beginning of the budgetary process, to allow the primary focus on outcomes. Management shall include the following steps when preparing the annual budget:

1. Identify base revenues, new revenues and potential use of fund balance
2. Prioritize expenditures that are most important to the District's success
3. Allocate resources among the high priority results
4. Set measures for annual progress and monitor results
5. Measure performance (compares actual versus budget results)
6. Communicate performance results

Operating Budget

The operating budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated District revenues.

The basic requirements for demonstrating stewardship in maintaining District property are evidence that, the District knows what is required to preserve its property, follows an assessment program to identify needs and schedules maintenance. The District shall have adequate historical

data to make informed decisions about the costs of certain levels of maintenance and shall budget appropriately.

Special attention to recurring/fixed expenses of power purchases and labor costs that contribute to over 50% of the operating budget shall be closely monitored by the General Manager and Finance Manager. The General Manager shall monitor power availability and costs and secure long term power supply at the lowest rate possible. The Finance Manager will provide budget estimates based on historic and projected data and power cost contracts. Managers will adhere to best management practices to maintain adequate and qualified staffing to sustain low-cost services and reduce unnecessary overtime expenses. The operating budget shall provide the necessary resources for time, knowledge and oversight to facilitate and prepare accurate financial statements as required by Federal and State standards. The General Manager will approve new positions in accordance with the adopted budget. The General Manager will oversee and maintain employee benefits to minimize District costs and maintain the historic level of benefits.

Neither short nor long-term borrowing will be used to finance routine maintenance and operational needs without full financial analysis and prior approval by the Board of Commissioners.

Maintenance activities include the preservation, upkeep and repair of District assets.

Operation activities include the control, process and procedures of the District infrastructure.

Recurring and nonrecurring revenues and expenditures

Recurring (fixed) expenditures and revenues appear in the budget each year. Salaries, benefits, materials, services and asset maintenance are typically recurring expenditures. Non-recurring (variable) revenues and expenditures have a greater degree of flexibility to defer and may not appear in the budget each year. The Finance Manager's annual budget presentation to the Board shall clearly identify that the recurring expenditures align with or do not align with the recurring revenues.

Capital Improvement Plan

Capital planning assures the District's needs are fully assessed, prioritized and planned to provide continued sustainability of its infrastructure. The planning process shall consider all capital needs, assess fiscal capacity, plan for debt issuance and forecast the impact on reserves and operating budgets. The capital plan shall have a ten year forecast, including infrastructure and all other assets.

Infrastructure, buildings and land shall have a feasibility study completed a minimum of twelve months before acquisition or construction. This study shall include, but not limited to, a documented cost estimate by a professional in the respective field, feasibility of obtaining any local, state or federal permits if applicable, need and benefit justification. This study will minimize District risk for unknown costs without thorough investigation.

Specific infrastructure capital improvement projects for the 10 year plan will include the following support and documentation:

1. Projects scheduled in year 1 shall have 80% design completion, which includes updated cost estimate and permits obtained (or written confirmation on attainability). The design plans shall be finalized prior to beginning construction and approved by the General Manager
2. Projects scheduled in year 2 shall have a 35% design completion, which includes preliminary design and an engineer's costs estimate based on District labor, materials and equipment.
3. Projects scheduled in years 3 through 5 shall have a preliminary drawing and a comparable cost estimate. The comparable cost estimate shall be from District historic costs or other Utility District costs for similar projects constructed within the last 5 years plus a contingency.
4. Major projects scheduled in years 6 through 10 shall have conceptual plans from staff or engineering studies.

Vehicles, office equipment and other assets will be included in the capital improvement plan in accordance with the life expectancy. Prior to replacing and/or disposing of any asset, a costs justification shall be completed comparing replacement costs with continuing maintenance costs.

Long-Term Financial Planning

Long-term financial planning uses forecasts to provide insight into future financial capacities by aligning the District capacity with long-term service objectives.

The long-term financial plan will include the following elements:

- Time Horizon: Five year forecast for operations and ten year forecast for capital improvement plans.
- Scope: The plan will consider all available funding alternatives.
- Frequency: The plan will be updated annually.
- Content: The plan will include an analysis of revenue and expenditure forecasts, debt position and affordability analysis.
- Visibility: The plan should be available for the public to learn about the long-term financial prospects.

When developing long-term forecasts, information shall be gathered in historic revenue and expenditure trends, business cycles, statistical data, demographics and individual expertise. All assumptions will be documented on an annual basis.

Budget Preparation

The District Management team will prepare the draft budget documents to present to the Board for review. The sustainable budget will include:

- Annual Budget
- Capital Improvement Plan (aka Capital Work Plan)
- Long-term (forecast) Planning Budget

The Finance Manager will provide the General Manager and Operations Manager with the anticipated recurring revenue forecast to assist with the prioritization and proposed budgeting. The management team will budget for the specific responsibilities within the District. The Finance Manager will compile all budget requests into a preliminary budget. The management team will meet to review, discuss and modify the budget documents to present to the Board.

The Finance Manager, working closely with the General Manager will compile the preliminary Budget and Capital Work Plan for Management Team review prior to Board approval.

Managers shall complete the Budget Request by Account, Capital Infrastructure and/or Other Fixed Asset (examples provided as Attachment 2). For maintenance and infrastructure requests, the Managers shall provide specific locations (if known for maintenance) and scope of work to be performed in the Description of Activities. The Managers shall provide goals to be reached and the direct benefit to the District. All projected costs for the account or asset shall be included in the budget request form.

Annual Budget

The Annual Budget shall be created by line item expenditures. All line items will have documented or summarized cost estimate descriptions. Cost estimates will be based on historic expenses, individual expertise, statistical data and expenditure trends.

Managers are responsible to provide line item budget estimates for their respective responsibilities. The categories and Manager responsibilities include:

| | |
|----------------------------|---|
| Operations and Maintenance | Operations Manager |
| Customer Service | Finance Manager |
| Administration | Finance Manager and General Manager |
| Capital Improvement Plan | Operations, Finance and General Manager |

It is the respective Managers' responsibility to have complete knowledge and understanding of their budget line items and provide adequate documentation to demonstrate the need. This includes estimated labor, benefits, materials and all other costs. Alternatives and justification shall be documented.

Capital Improvement Plan (aka Capital Work Plan)

The Capital Improvement Plan shall be created by project with documented cost estimates. A matrix shall be established for all projects included on the plan for prioritization, as demonstrated in Exhibit B.

This matrix shall be completed independently by the Management Team and combined into one table. The Management Team shall come to consensus on the prioritization for all capital projects.

Once a consensus is made, a cost analysis shall be completed, based on the documented estimates by prioritization.

The Management Team will review the cost analysis and prioritize the capital improvement plan based on the matrix and funding availability.

Architectural and Engineering Costs

Architectural and engineering costs for identified capital projects will be charged to a deferred asset account (183.000). When the project is advanced to construction, the funds are transferred to the capital account. If the project is abandoned, the funds will be expensed. To be considered a capital project, there must be a service life of one year or greater and be depreciated.

Budget Preparation Calendar

The Board of Commissioners will adopt the budget no later than December 31 proceeding the budget year.

| Major Steps in Budget Preparation | Timeline |
|--|---|
| General Manager notifies Managers of budget process and requests forms and assumptions be prepared. | By first week in August |
| Finance Manager prepares preliminary estimated electrical revenues. General Manager request Managers to prepare detailed estimated expenditures and revenues for their responsible departments. | By Mid - September |
| Managers provide Finance Manager with estimated revenues and expenditures | By end of September |
| Board discussion and Board approval of Management assumptions. | Fourth Tuesday in September |
| Finance Manager reconciles draft budget for General Manager's review | By Mid - October |
| Finance Manager prepares comparison of current year estimated revenues and actual revenues received to date and any recommendations for modifications to rates or fees for the upcoming year for General Manager's review. | By first week in October |
| General Manager and Finance Manager finalize budget for Board of Commissioners review | Third week in October |
| Administrative Assistant publishes a notice of public hearing to consider and adopt the budget | Publish prior to fourth Tuesday in November |
| Board of Commissioners hold a public hearing(s) and adopt budget | No later than December 31 |
| | |

Budget Monitoring

The Finance Manager shall monitor the annual budget expenditures and revenues on a monthly basis. Line item variances greater than 10%, on a monthly basis, shall be reviewed by the

appropriate manager and the variance shall be investigated, documented and justified. The Finance Manager will provide quarterly budget reports to the Board.

From time to time, it may be necessary for a budget amendment. A requested amendment to the adopted budget will require thorough documentation from the appropriate Manager. Line item budgets may be amended without Board approval. Departmental budget amendments shall require Board approval. For example, Board approval is required to transfer from the Capital Improvement Plan to Operation Expenses. Board approval is not required to transfer from underground maintenance expense to overhead maintenance expense.

The District expenditures cannot exceed the adopted Budget without Board approval by Budget Amendment and thorough documentation.

Attachment 1

PRIORITIZATION MATRIX

September 2014

Example of Prioritization Matrix:

| CAPITAL IMPROVEMENT PLAN PRIORITIZATION | | | | |
|--|---|---------------------|-----------|---------------|
| | | Relative Importance | | |
| Project or Asset Description | Justification | Essential | Important | Discretionary |
| <i>Line Truck</i> | <i>Line truck is critical to maintain operation status</i> | X | | |
| <i>Excavator</i> | <i>Beneficial to PUD, rentals are available</i> | | X | |
| <i>Utility Vehicle</i> | <i>Current utility vehicle operational with low maintenance costs, replacement may avoid higher maintenance costs in future</i> | | | X |

Example of Matrix with Cost Estimates

| CAPITAL IMPROVEMENT PLAN PRIORITIZATION COST ESTIMATE | | | | |
|--|--|---------------------|-----------|---------------|
| | | Relative Importance | | |
| Project or Asset Description | Justification | Essential | Important | Discretionary |
| <i>Line Truck</i> | <i>Line truck is critical to maintain operation status</i> | 120,000 | | |
| <i>Excavator</i> | <i>Beneficial to PUD, rentals are available</i> | | 60,000 | |
| <i>Utility Vehicle</i> | <i>Current utility vehicle is operational with low maintenance costs, replacement may avoid higher maintenance costs in future</i> | | | 35,000 |
| <i>Total Estimate</i> | | 120,000 | 60,000 | 35,000 |

The Matrix with cost estimates will then be matched with available revenues and the projects prioritized within the 10 year capital budget forecast.

Attachment 2

BUDGET REQUEST FORMS

September 2014

BUDGET REQUEST BY ACCOUNT

**Account
Number**

Descr.

Description of activities

2015 Goals

| Cost Estimates | | | | | | |
|--------------------------------|-------|--------|---------|--------|------|-----------------|
| Labor Hours | Daily | Weekly | Monthly | Yearly | Rate | Yearly Estimate |
| Management | | | | | | 0 |
| Line Crew | | | | | | 0 |
| Admin | | | | | | 0 |
| Total Est Labor | | | | | | 0 |
| Benefits @ 44% | | | | | | 0 |
| | | | | | | |
| Transportation | | | | | | |
| Lg Trucks | | | | | | |
| Service Truck | | | | | | |
| Sm Trucks | | | | | | |
| Misc | | | | | | |
| Total Estimated Transportation | | | | | | 0 |
| | | | | | | |
| Materials | | | | | | |
| Work Order Estimate | | | | | | |
| Other: | | | | | | |
| | | | | | | |
| Other Costs | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Sub Total | | | | | | 0 |
| | | | | | | |
| 10% Contingency | | | | | | 0 |
| | | | | | | |
| 2015 Budget Estimate | | | | | | 0 |

BUDGET REQUEST - CAPITAL INFRASTRUCTURE

| | |
|--------------------------------------|--|
| Description of Infrastructure | |
|--------------------------------------|--|

| | |
|---|--|
| Specific Locations (scope of work) | |
|---|--|

| | |
|---------------|--|
| Proposed Year | |
|---------------|--|

| Cost Estimates - District Forces | | | | | | |
|-----------------------------------|-------|--------|---------|--------|------|-----------------|
| Labor Hours | Daily | Weekly | Monthly | Yearly | Rate | Yearly Estimate |
| Management | | | | | | 0 |
| Line Crew | | | | | | 0 |
| Admin | | | | | | 0 |
| Total Est Labor | | | | | | 0 |
| Benefits @ 44% | | | | | | 0 |
| Transportation | | | | | | |
| Lg Trucks | | | | | | 0 |
| Service Truck | | | | | | 0 |
| Sm Trucks | | | | | | 0 |
| Misc | | | | | | 0 |
| Total Estimated Transportation | | | | | | 0 |
| Materials | | | | | | |
| Work Order Estimate | | | | | | |
| | | | | | | |
| Total Materials | | | | | | 0 |
| Other Costs - or Dock Crew | | | | | | |
| | | | | | | |
| | | | | | | |
| Total Other Costs | | | | | | 0 |
| Sub Total | | | | | | 0 |
| 10% Contingency | | | | | | 0 |
| 2015 Budget Estimate | | | | | | 0 |

BUDGET REQUEST - OTHER FIXED ASSETS

| | |
|---|---|
| Description of Asset | |
| Proposed Acquisition Year | |
| Type of Request | |
| New Asset | |
| Replacement Only | |
| Replacement and Disposal | |
| Cost Estimates (list Vendors or justification source) | |
| | |
| | |
| | |
| | |
| Sub Total | |
| 10% Contingency | 0 |
| 2015 Budget Estimate | 0 |

1

2

3