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WA-18

2018 Financial Outlook

Following a public hearing December 12, 2017, the Klickitat PUD Board of Commissioners adopted the 2018 operating budget. It forecasts \$52.3 million in net revenues—an increase of about 5 percent compared to the 2017 budget of \$50.1 million. The good news is that there are no electric increases in 2018.

The 2017 budget forecasted the potential for several rate increases to meet our financial policy goals through 2021. These rate increases, if needed, totaled 17 percent through the period—about 3 percent a year—and accounted for about \$5.5 million a year in additional revenues. Through the work we have done—including cost containment, leasing water rights and our renewable natural gas project—we think we have reduced or eliminated the need for these increases.

The 2018 budget was approved with no rate increases through 2022. As mentioned in the December 2017 Ruralite article, there is no guarantee increases will not

happen in the future. However, Klickitat PUD will continue to work diligently to keep rate increases at bay.

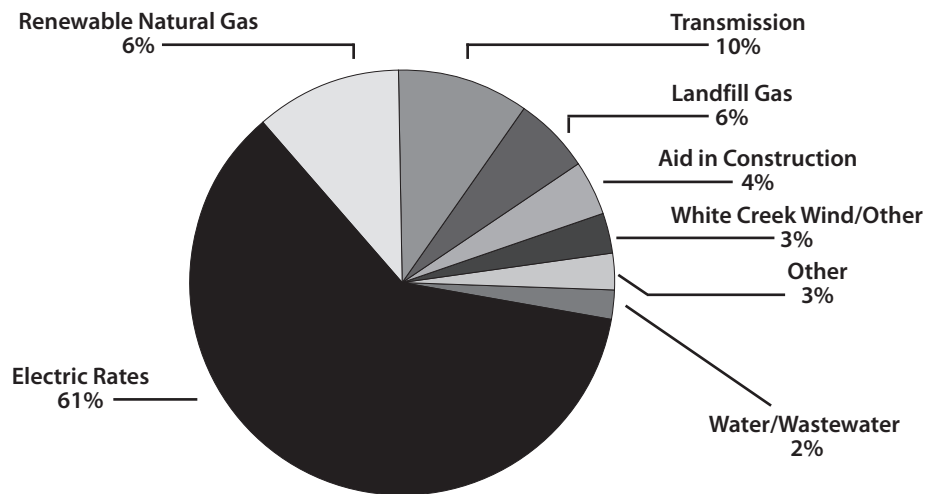
The landscape of the revenue figures changed a bit in comparison to 2017 with the addition of renewable natural gas. Electric rates still encompass most of the revenue at 61 percent, down less than 1 percent from last year.

Transmission and generation are made up of RNG, the H.W. Hill Landfill Gas Project, and White Creek Wind and Transmission, which accounts for 30 percent of the budget. That is an increase of 3 percent in revenues compared to last year's budget, which is due to the additional 11 percent from RNG. The water/wastewater rates and aid in construction revenues have slightly decreased in comparison to the overall budget due to growth in revenues from our other business lines.

The 2018 budget sets expenditures at \$52.6 million—an increase of almost 6 percent compared to the 2017 expense

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2018 Budget Revenue Sources



2018 Financial Outlook

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budget of \$49.7 million. However, we must remember that we have reduced budgets significantly the past 7 years and that our expenditures in 2012 were about \$51 million. We are proud of that cost control, which provided the basis for improvements in financial performance we are see today. This year's budget includes an increase in staffing and additional vegetation management. Even with staffing increases, we will still have fewer staff than in 2009.

On a year-by-year basis, some costs are difficult for us to control, such as wholesale power; depreciation and amortization of existing equipment; interest expense on our debt; and taxes. They make up 68 percent of our budget. That leaves 32 percent of our budget that staff can directly impact each year in our day-to-day work activities.

The expense budget for 2018 includes an estimated 6 percent increase in the cost of wholesale power we buy from the Bonneville Power Administration and a 4 percent increase for transmission costs. Wholesale power includes the cost to operate the McNary hydroelectric project, which we own as a 50-50 partnership with Northern Wasco PUD. Our 5-megawatt share directly serves our customers. KPUD's share of the McNary project provides about 12 percent of the power we use annually. Our cost to produce this power is less than our costs to buy and deliver power from BPA.

Operating expenses reflect our

day-to-day operations to keep the lights on; our water and wastewater service flowing; and serving you as our customers.

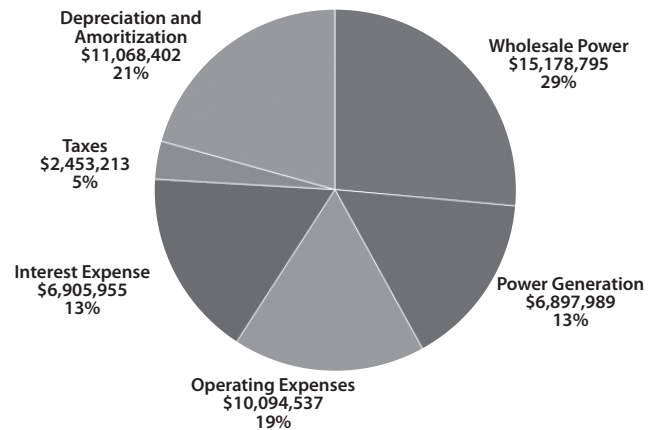
Power generation expenses are related to LFG, RNG and White Creek Wind.

Each year, Klickitat PUD invests money to improve and upgrade its electrical, water/wastewater infrastructure and generation assets.

The 2018 capital budget totals \$12.3 million, which is higher than past years. Major expenditures include completion of two substations, a 115-kilovolt switching station and a 115-kv transmission line extension. These capital improvements benefit our customers immediately and provide us with future expansion options. In addition, we are completing the RNG facility in 2018. The funds to complete this project come from a \$35 million construction loan.

Financial agencies that rate our bonds use a measure called debt-service coverage ratios to show our ability to pay debt. This is important because the ratings given determine, in part, the interest rates we pay for our bonds. This is similar to mortgage requirements to buy a home. Our board of commissioners has set a ratio

2018 Expense Budget



goal of 1.50 debt-service coverage for our utility.

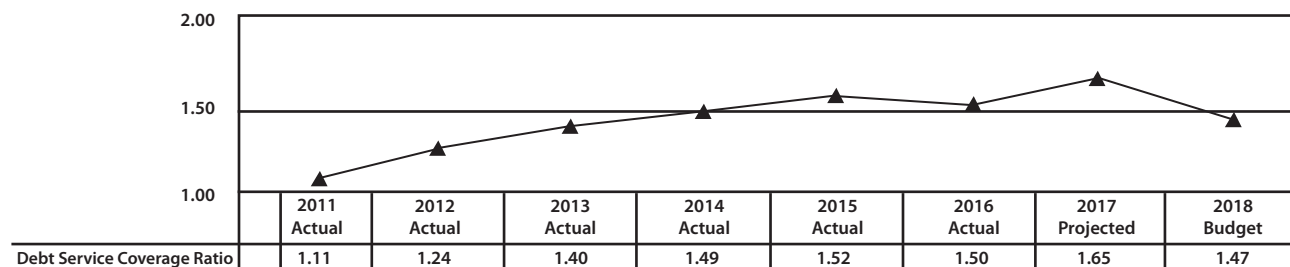
Your PUD has made many changes the past several years to improve the financial health of the organization. The chart below shows the impact of those changes implemented and the results to our debt-service coverage. The current 2017 projection far exceeds the 1.46 budgeted debt-service coverage for the year. The debt-service coverage for the 2018 budget is 1.47. We will monitor it through 2018 to keep you up to date.

All of us at Klickitat PUD are focused on working together with a common goal of providing customers with safe, reliable and low-cost utility services.

KPUD's audited financial information is available at www.klickitatpud.com.

Jim Smith
General Manager

Debt-Service Coverage Ratio



Conservation Districts Offer Native Seedlings

A core idea of ethical living on the land is to leave a property better than one found it.

For many properties in the area that have been neglected, over-used or struck by natural impacts such as ice storms and beetle outbreaks, one of the best investments to make them better is to plant a tree—or 100 of them.

Local conservation districts around the Northwest traditionally hold an annual native tree seedling sale. The idea is to make low-cost seedlings easily available to landowners.

Underwood Conservation District serves residents in western Klickitat and Skamania counties. Its annual tree sale is on now.

UCD is accepting orders for native conifers, deciduous trees and shrub species through February 28. To view a list of the available species and to order online, go to the UCD website at www.ucdwa.org. Click “Shop Native Plants” and start your search.

The website also has information on the benefits of native plants, how to choose the best plant and resource links.

You also can call the office at (509) 493-1936 or stop by during regular business hours, at 170 N.W. Lincoln in White Salmon—the Park Center building.

Seedlings generally are 2 years old, ready-to-plant and sell in bundles of 10. Choose from time-tested favorites such as Western red cedar, big-leaf maple and Pacific dogwood, and flowering shrubs such as serviceberry and mock-orange.

Prices vary, but most seedlings cost about \$1.25 each. There are significant discounts for large orders of conifer trees such as Douglas fir and Ponderosa pine. Quantities are limited, so order early for

best selection.

For those wanting plants in smaller quantities, individual seedlings are available at UCD’s second annual TreeFest and Fair in White Salmon on Saturday, March 24. TreeFest will also be the seedling pick up for those ordering large quantities online.

UCD is a non-regulatory special district that works to help residents of the greater Columbia Gorge and Mount Adams country enhance, repair and wisely use their natural resources. Conservation district technicians help residents reduce wildfire hazards, offer advice and program assistance for small farms and family forests, and work to support healthy streams and fish populations.

Wildlife scientist, forester and author Aldo Leopold wrote that one’s property—especially forested land—is a “historical document, which faithfully records your personal philosophy.”

UCD encourages landowners with properties large and small to consider what their land’s historical record will say to future generations.

Residents East of Klickitat River

Eastern and Central Klickitat Conservation Districts (E/CKCD) in Goldendale also host an annual plant sale. The districts accept orders January 2 through February 28. Seedling pick up is Saturday, March 10, from 9 a.m. to 1 p.m., at the Klickitat County Fairgrounds exhibit building.

A catalog with ordering information and a list of available species is available online at <http://ekcd.org> and <http://ckcd.org>. For more information, call Mindy at the districts’ Goldendale office at (509) 773-5823 ext. 5, or email cdoffice@ckcd.org. ■

COMMUNITY CALENDAR

February

7-11—Pacific Northwest Sportsmen’s Show, Wednesday through Friday, 11 a.m. to 8 p.m.; Saturday, 10 a.m. to 8 p.m.; Sunday, 10 a.m. to 6 p.m., Portland Expo Center

10—Valentine’s Day 5K Fun Run/Walk, 10 a.m., Lewis and Clark Festival Park, The Dalles

10—Second Saturday, 9 a.m. to 5 p.m., Western Antique Aeroplane & Automobile Museum, Hood River

13—KPUD Commissioners’ meeting, 2 p.m., Goldendale

15—TobyMac concert, 7 p.m., Toyota Center, Kennewick

16-18—Rad Con 7B 2018 Tri-Cities, 11 a.m. to 5 p.m., Red Lion Hotel, Pasco

17-18—KidFest, Saturday, 10 a.m. to 5 p.m., Sunday, 10 a.m. to 4 p.m., Portland Expo Center

19—Presidents Day, KPUD offices closed

20—Central Klickitat Conservation District annual irrigators meeting, Centerville. Call (509) 773-5823, ext. 5, for time and location.

22-25—Spring Home & Garden Show, Thursday through Saturday, 11 a.m. to 8 p.m.; Sunday, 11 a.m. to 6 p.m., Portland Expo Center

23-25—2018 Regional Home & Garden Show, Friday and Saturday, 10 a.m. to 7 p.m.; Sunday, 10 a.m. to 4 p.m., TRAC, Pasco

24—Fourth annual Three Rivers Craft Brew & Bacon Festival, 6 p.m. to 10 p.m., Three Rivers Convention Center, Kennewick

25—The Buddy Holly Story, 7 p.m., Toyota Center, Kennewick

27—Eastern Klickitat Conservation District annual irrigators meeting, Bickleton. Call (509) 773-5823, ext. 5, for time and location.

27—KPUD Commissioners’ meeting, 2 p.m., Goldendale