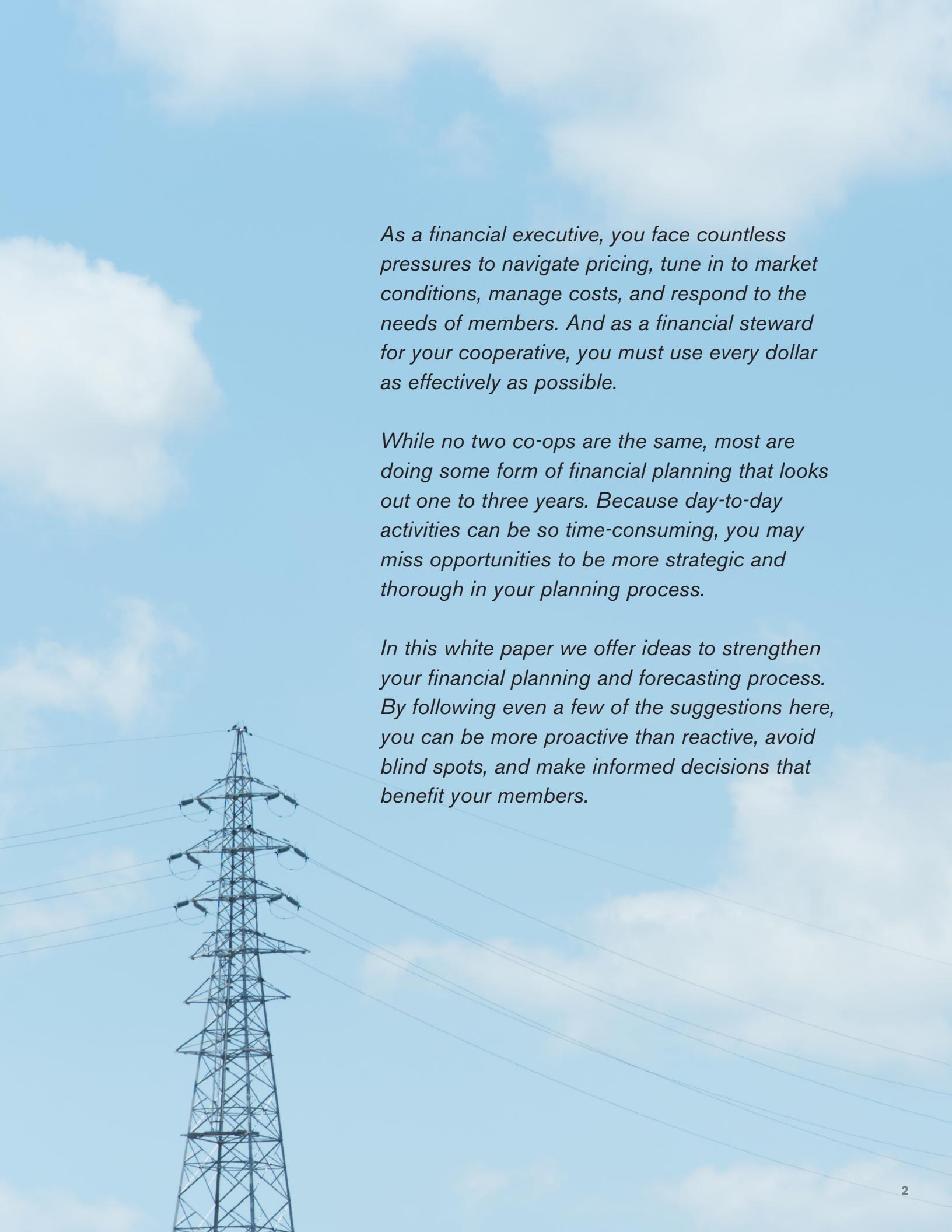




## STRATEGIC FINANCIAL PLANNING FOR COOPERATIVES:

Uncovering opportunities to create a  
more robust, more strategic financial plan





*As a financial executive, you face countless pressures to navigate pricing, tune in to market conditions, manage costs, and respond to the needs of members. And as a financial steward for your cooperative, you must use every dollar as effectively as possible.*

*While no two co-ops are the same, most are doing some form of financial planning that looks out one to three years. Because day-to-day activities can be so time-consuming, you may miss opportunities to be more strategic and thorough in your planning process.*

*In this white paper we offer ideas to strengthen your financial planning and forecasting process. By following even a few of the suggestions here, you can be more proactive than reactive, avoid blind spots, and make informed decisions that benefit your members.*

## First things first: start with a rock-solid forecast

You know very well that the heart of your broader financial plan is a detailed, baseline forecast. Ideally this forecast looks out a few years and is built to support dynamic scenario planning and sensitivity analysis that feeds into your longer-term financial strategy and your cooperative's strategic plan. But that can be easier said than done. If you aren't looking that far ahead already, where do you start?

At the most basic level, build your baseline using known costs for the coming year and assumptions for all other years. While unforeseen events may still arise, a solid baseline forecast sets the foundation for strategic financial planning and is a vital tool in balancing rates, capital needs, and revenue projections.

Your forecast model will center on your financial goals relative to equity, net margins, tier, debt service, or other targets. In addition to those success measures, evaluating the variables listed below can help you craft a holistic plan and make financial planning more valuable for your entire organization.

### Critical external factors to consider:

**Energy outlook.** What will your buying power be on the open market? Be sure to include any long-term power supply contracts and changes that may affect them. You'll also want to factor in any changes to capacity costs, as well as regional access costs, if applicable.

**Interest rate fluctuations.** Because tracking interest rates will help you model your present and future borrowing costs, your baseline forecast should include a blended portfolio interest rate, as well as any anticipated changes in your borrowing needs. While you can't predict every possible rate impact, scenario planning with a 1-3% rate swing in your model will give you a sense of how your purchasing ability might shift with rate changes. Build your forecast to automatically identify new long-term borrowing based on specific thresholds. You can add a line in the forecast that automatically adjusts borrowing based on key indicators. For example, your model could use a KPI such as net margin requirement to automatically calculate necessary rate increases—unless you can adjust costs enough to offset the need for an increase.

**Public policy outlook.** Are there any pending changes you may face? For example, are you assessing your opportunities that may come from the new infrastructure bill? Or if you plan to accept that or any other funding, what regulatory constraints might you face by accepting funding? Are there any unfunded mandates you may have to satisfy, or any regulatory changes that could affect your broader financial plan—and do you have systems for tracking them?

## Internal factors to consider:

**Workforce-related expenses and overhead.** Are there any changes you may be overlooking? What about payroll, health, pension plan and other costs? Will your benefits-related expenses change?

**Foreseen and unforeseen changes in your general operating expenses.** Do you have any multi-year or ballooning contracts that contain increases you may have forgotten to include in your forecast? Will you need to undertake any new builds, say, due to an increase in members? In contrast, you will also want to be sure you've examined and documented the impact of flat or decreasing revenues during a given period. Also be sure to include inflation-driven changes to your operational costs, such as rising fuel costs and their impact on your fleet maintenance budgets.

**Membership dynamics.** Are you growing in a way that allows costs to be redistributed, or do you face rising costs with no new members to share in them? Are your members using your "product" differently than originally designed? If so, it might be time to revisit your rate structure to account for the change in use. A well-designed forecast will show the impact of operating costs on rates (i.e., as you conduct scenario and sensitivity analyses, you can easily highlight the corresponding effect on rates).

**Capital projects and their priority.** There are those that are necessary for maintenance, those that are strategic, and some that are more aspirational. It's important to have a clear, transparent process (ideally tracked through systems) for resolving competing interests and the natural tension between needs and wants.

**Potential business initiatives.** Are you planning to sunset any services or expand into new services, such as broadband? If so, how will those impact expenses and revenues? There are also labor considerations – will you use contract or union labor, or will you need new hires or reskill current employees? What if an unanticipated opportunity presented itself? Will your financial plan be sharp enough to support quick, informed decisions to take advantage of new opportunities?



**Technology-related needs and expenses.** Gone are the days when technology was considered a back-office function that could be delayed or deferred repeatedly. Rapidly evolving customer demands, regulatory and reporting pressures, system compatibility, cybersecurity threats, and workforce turnover make your technology budget just as important as your construction and capital budgets.

Some key questions to consider: What technology and data do you need in the near term? How are your needs going to change over the next few years? Are you able to get what you need from your current systems or are they aging out? How much time is your staff spending on manual processes due to technology gaps? If you put off needed upgrades, how might that drive up your total expenses or create other unwanted impacts? Do your current systems help with continuity, or do they threaten it?

Data is also a critical component of your financial forecasting. Do you have what you need to manage your business strategically with the solutions you are using now? For example, are you able to use customer or meter data to forecast sales? Are you able to use customer billing data to determine usage and actual costs of service? How is your data stored and integrated across various systems? And do you have current, complete data on your fixed assets so that you can properly plan rates and capital investments? If not, your team should evaluate what you have, what you need, and what, if anything, may be standing in the way of using your data more strategically.



## How you get there: practical steps you can take

If you aren't already, adopting these best practices can give you a more balanced view of your financial picture and give all stakeholders line of sight into the impact of various budget tradeoffs. More importantly, they can help you create a culture of true partnership within your co-op to support the budgeting and planning process.



### Create a cross-functional planning process

Assign a rotating panel to hear out new budget requests. For instance, it can include a representative from each department and members can rotate annually. Ensure that cross-functional teams have access to this planning data, so they have a single source of truth to work from for planning and prioritization. Adjusting your process to be less focused on turf and more focused on outcomes can lead to real breakthroughs in collaboration by helping the team think holistically about budgeting and make more informed tradeoffs. More importantly, the team can help each other recognize gaps or blind spots, such as the common tendency to underestimate expenditures.



### Educate internal teams on financial strategy and tradeoffs

Focus on an active, ongoing education campaign and partnering effort. Embed a liaison from finance to be actively involved in other departments – taking time to understand their business, and in turn, helping them understand their department's impact on the financial strategy and how various decisions impact members and stakeholders. This can also enable you to provide department heads with clear information on their costs and support scenario planning. This empowers finance and other teams to better understand each other's challenges and partner together to support members.



### Develop a clear process for new requests

Set a threshold dollar amount at which business cases will be required for budget requests (whether capital or expense). Have these cases reviewed by the cross-functional team so they can make recommendations and evaluate tradeoffs. The resulting decisions can then be included in your financial forecast, ultimately building next year's budget while providing a strategic view of the short-term budgeting impact on your long-term financial strength.



### Conduct routine benchmarking

It can be challenging to find the time or resources to do benchmarking. And you may struggle to find peers of a similar size, location/terrain, and model. By making it a priority to review similar co-ops and their key metrics, you can see useful patterns and glean best practices. But benchmarking goes beyond numbers. It's important to build relationships with other similar co-ops, so you can share ideas and results. This type of qualitative benchmarking can be highly informative to your planning and pricing process, as you share learnings on what's working and what isn't within your co-op.

You'll also want to determine a consistent schedule for benchmarking that works for your co-op. Annually tends to be ideal, as a longer cycle of comparison may make it difficult to get a true measure and will require more effort to analyze.

If you aren't sure where to start, industry resources such as the National Rural Utilities Cooperative Finance Corporation (CFC) and the Association of Large Distribution Cooperatives (ALDC) can be extremely useful.



### Establish a timeline for financial plan updates

Publicize a schedule for updating your forecast and master plan throughout the year. Test it often. Have your accounting or auditing firm review it. The more eyes you have on it to catch any inconsistencies or gaps, the better. Use the forecast with your board. Help them understand the key impacts and factors they should consider. Store it in a central system or location, accessible to key stakeholders. And don't let your plan get stale. It's incredibly hard to stop and pull together a plan in haste, especially when you need to be particularly agile or responsive in a given situation. Your plan should be a living, breathing document intended to aid in planning and budgeting. And it can be the difference between surviving and thriving. It's well worth the discipline and effort it takes to first make sure it's thorough, then keep it up to date.



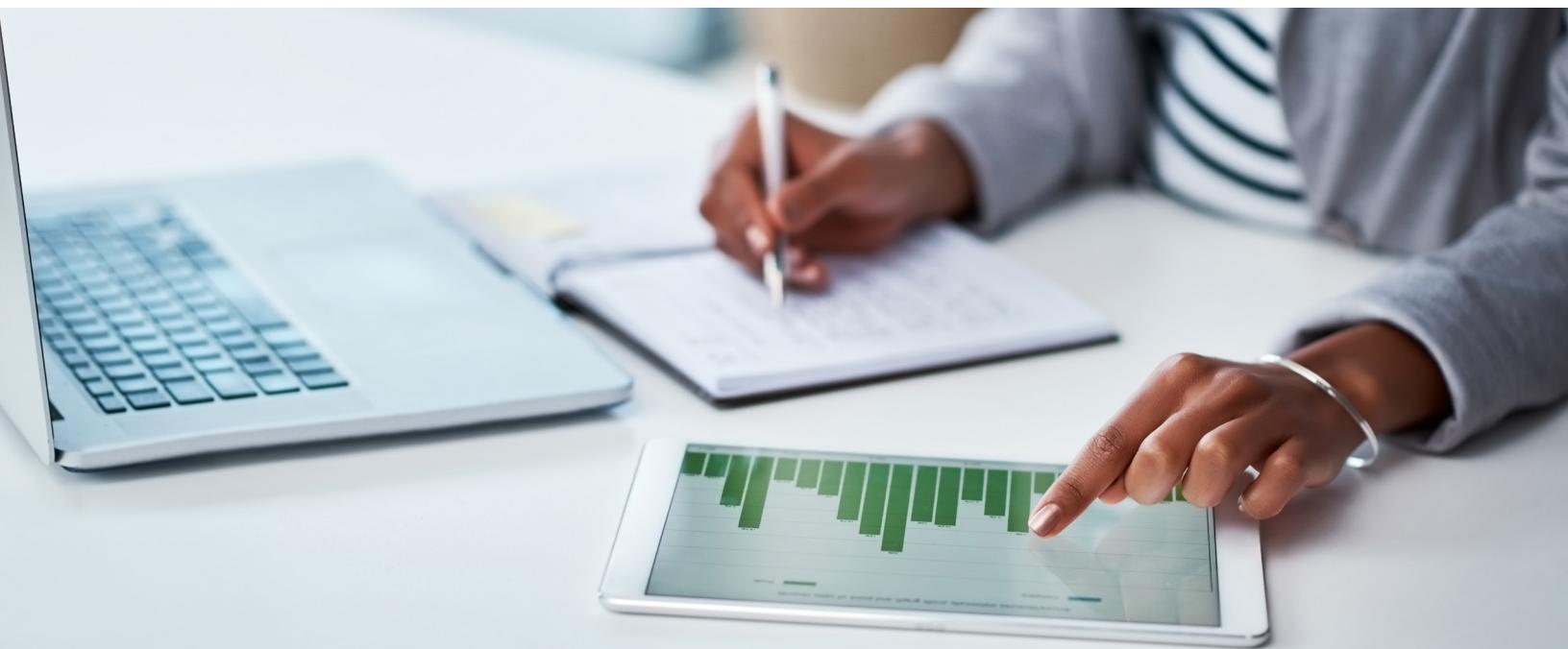
**Carefully consider how your technology plan will impact your future**

Evaluate your technology and internal infrastructure resources as you would maintain more obvious assets such as lines, wires and pipes. While technology changes rapidly, having a three-year tech plan provides a good perspective on keeping systems maintained and/or integrating new systems. A technology plan should outline your current hardware and systems, any upgrades needed, as well as new system purchases (including all costs for integration).

The plan should show capital and expense costs for all major systems. Working with other department heads, IT can determine which systems need to be replaced or upgraded and/or develop a plan for any new systems. New systems or major upgrades should be run through business cases for the annual budget process. By working cross-functionally, IT will have the support of key departments and vice versa.

The technology plan should be updated annually so that any changes are assimilated into day-to-day operations promptly. The goal is to have a clear plan for keeping your current systems up to date, while planning for new implementations.

Staying on top of technology and data tools can actually level your costs more effectively, ensure you have the systems and applications required to serve members, and provide much-needed confidence for financial decision-making when challenges and opportunities present themselves.





## The payoff for your business, members and employees

By pausing to look at your approach with fresh eyes, you can ensure your forecasting and planning is rock solid and that your financial plan is based on crossfunctional input and data you can trust. Even a slight refresher to your approach can have a positive impact on morale and culture. It fosters co-creation of your financial plan and encourages transparency and healthy debate.

In fact, a joint decision-making process—in which tradeoffs and priorities are analyzed by a broader team—can help you avoid adversarial dynamics between departments, make tradeoffs more visible, and give everyone a seat at the table. It can even take pressure off some managers by giving them thought partners in the decision-making process.

We are in an era when every dollar you and your members have matter now more than ever. By following some of these simple steps, you can more easily prioritize key initiatives, minimize shocks to the system, and maximize the value you create for members.

Most importantly, bringing more people into the process you can create a more robust approach, one that helps the entire team use resources more effectively and deliver more value to the members and communities you serve. And while it's impossible to plan for everything, having a solid forecasting model can help you weather any storm that might come along.



### **About the Author**

#### *Dena DeLucca, Former CFO – NH Electric Cooperative, Inc.*

Dena has more than 25 years' experience in nonprofit board governance, business operations, government/regulatory relations, and financial oversight of cooperative utilities. Her roles have included serving as CFO and vice president of corporate services for the NH Electric Cooperative, and positions with the Governor's Office of Energy and Community Services and Office of Emergency Management. Dena has a Master of Business Administration from Southern NH University and a Bachelor of Science in Business from Franklin Pierce College. She is the past president of the Northeast Association of Electric Cooperatives and a principal member of the SEE Action Utility Motivation & Energy Efficiency Working Group.

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### **About PowerPlan**

For over two decades, PowerPlan has worked closely with cooperative utilities nationwide to design a best-in-class solution for cooperatives of all sizes. We've recently enhanced our project accounting solution to help you master the tracking of capital assets, manage costs more strategically, and enable transparency for all stakeholders. We'd be happy to share how we can help you, too.



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