

ONEIDA



ENERGY TEAM

Energy Strategies for Our Community

**UW-Extension
Energy on Wisconsin**

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Energy Strategies for Our Community

Financial Considerations toward Capital Allocation for Energy Projects

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Key Areas of Discussion

- Identify Key Topic
- Brief Profile of the Oneida Nation
- Perspective of Financial Professionals (Typically)
- Macro-Micro Economic Environment
- Rate Environments' Effect on Capital Improvement Projects (Energy)

Key Areas of Discussion

- Benchmark Rates of Interest
- Mechanics of Rate of Return Metrics (Basic)
- Project Capital Sourcing
- Illustration
- Energy Audit: Importance
- Questions

Financial Considerations toward Capital Allocation for Energy Projects

Profile of the Oneida Nation



- 16,000+ member Native American Tribe Located in North Eastern Wisconsin
- Remain Part of the Iroquois Confederacy (Six Nations) originally located in the Northeast US;
- Business Process focused on:
 - Entertainment
 - Lodging
 - Retailing
 - Various For-Profit Tribal Corporations
- Approximately 3,500 employees (consolidated)
- Website: oneida-nsn.gov

Perspective of the Financial Professional

- Live in the World of Enterprise Risk Management....
- Generally Risk Averse
- Very Conventional Thinking (Data Oriented)
- Cost Oriented
- Desirous to Cut or Eliminate NVA (Non-Value Added)
- Financial Sustainability is the FOCUS
- Facilitates Capital Allocation Efficiently (Ideal)
- Resources are sliced in three time frames: Short/Intermediate/Long
- Role: Enabler or Inhibitor

Elements of the Current Economic Environment

- Challenging to grow Top-Line Revenue
- Pressure to Map Value Stream & Remove NVA
- LEAN is becoming Common-place out of Necessity in both Private & Public Sectors
- Ultra-Low Rate Environment
- Utility Rates increases will continue to exceed inflation Health Care Costs will continue to escalate (8 to 10% annually)*
- 2013 and beyond forecast VERY modest major investment index returns relative to historical averages;
- Organizations are being FORCED to look at expense activity beyond labor costs;

Rate Environments' Effect on Capital Improvement Projects

- Capital Markets are clamoring for returns
- Cost of Capital is Historically Low
- Improved Feasibility and Forecasted returns for Energy Upgrades
- Lowered Opportunity Costs
- Excellent timing for a demonstration project due to reduced rate risk**

Key Interest Rate & Related Benchmarks

- Fed Funds Rate
- LIBOR
- Prime Rate
- Rate of Return (ROR)
- Internal Rate of Return (IRR)
(Also Known as Hurdle Rate)

EXAMPLE OF METHOD TO ESTABLISH A HURDLE RATE: (IRR)

Historical Inflation Rate	+	10 Year Treasury	+	Cost of Capital	=	Hurdle Rate
3%	+	2%	+	5%	=	10%

Formula Example

$$\frac{\text{Annualized Utility Savings } \$250,000}{\text{Initial Capital Outlay } \$1,000,000} = 25\% \text{ Gross ROI}$$

$$25\% \text{ Gross ROI} - 10\% \text{ Hurdle Rate} = \text{Net ROI of } 15\% - \text{Weather } 5\% = \text{Adjusted ROI of } 10\%$$

Project Capital Sourcing

- Annual Budgets
- Debt Instruments
- Incentives/Rebates
- Revolving Funds from Savings
- Concept of CIP (Capital Improvement Projects) / EIP (Energy Improvement Projects)

Importance of Energy Audit

- Objective Project Ranking
- A framework to annually fund Energy Improvement Projects (EIP)
- Mechanism for Longitudinal Funding of Sustainability
- Benchmark to Convey Efficiency to Leadership
- Living Mission/Mission/Values (Stewardship)

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