



UPDATED

FINANCE COMMITTEE MEETING

AGENDA

May 14, 2019

6:00 p.m.—1201 S. Washington Ave.

Lansing, MI — REO Town Depot

Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of March 12, 2019.....**TAB 1**
2. March YTD Financial Summary.....**TAB 2**
3. FY20 Operating Budget and Forecast Presentation – Resolution.....**TAB 3**
4. Status of Managements’ response to recommendations of Audit Report 2018-04 –
Customer Arrangements & Third-Party Payments.....**DISCUSSION**

Other

Adjourn

FINANCE COMMITTEE Meeting Minutes March 12, 2019

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, on Tuesday, March 12, 2019.

Finance Committee Chair Ken Ross called the meeting to order at 6:22 pm and asked that roll be taken.

Present: Commissioners Ken Ross, Beth Graham, Anthony Mullen, and David Price. Also present: Commissioners David Lenz, Tray Thomas and Sandra Zerkle, and Non-Voting Commissioners Douglas Jester (East Lansing) and Bill Long (Delta Township).

The Corporate Secretary declared a quorum.

Public Comments

None.

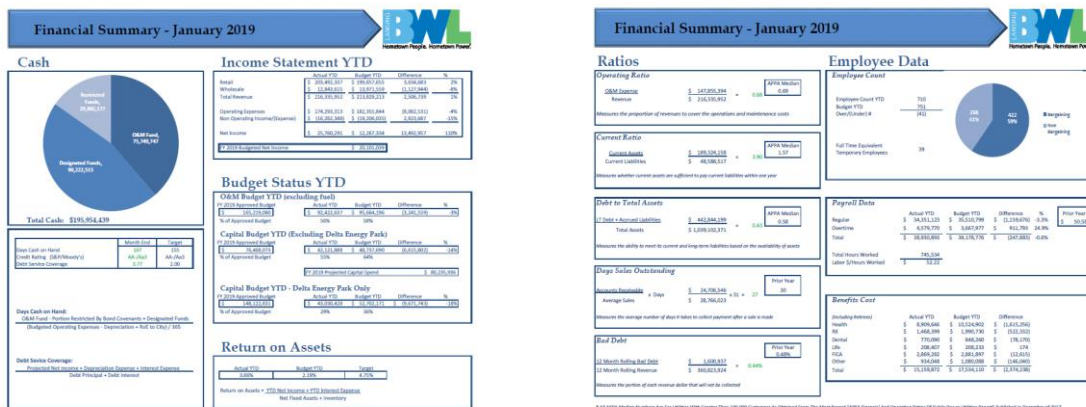
Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Graham, to approve the Finance Committee meeting minutes of January 8, 2019.

Action: Motion Carried.

January YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa presented the following:



Cash on hand is above target and is expected to remain above target the rest of the year with the possible exception of April. This is due to timing of reimbursement from the bond anticipation note. The Income Statement indicates that the total revenue is slightly above budget by \$2.5 million or 1%. Operating expenses are 4% under budget with YTD projections expected to end up at budget. Net Income is exceeding the initial budget with just over \$20 million being projected at the fiscal year end. Capital Budget is slightly under spend however with construction

season arriving it is expected that the approved budget will be spent, along with an extra \$3 million for the Central Sub Exceedance. Ms. Shawa stated that the five ratios are being met. Ms. Shawa noted that the 1st S.T.E.P. program students were included in the employee data. Payroll regular labor data is under budget due to vacancies however overtime is up, in part due to the vacancies and capital project work, which were the central substation, the Erickson outage, and electric T&D annuals.

Commissioner Ross commented that financial measures are being tracked throughout the year with the key measures the rating agencies track are debt service coverage and days cash on hand. The rating agencies focus on the last measure of the fiscal year end, June 30.

Commissioner Mullen questioned what the \$43 million spent to date was for at the Delta Energy Park. Ms. Shawa responded that 10% was put down for the turbines, other OEM equipment, as well as the design engineer, construction manager, and the owners' representative are now in place in addition to the five BWL employees dedicated to the project.

Commissioner Lenz asked from what fund would the additional \$3 million would be taken. In response CFO Heather Shawa responded the money would be taken from Operating cash.

Commissioner Long highlighted the bad debt ratio and reminded of a change that was made from using APPA median benchmark to using BWL prior year comparison. Commissioner Price commented that the APPA number represented only electricity and BWL provides electricity and water.

Commissioner Ross commented that if a further presentation was requested regarding the financial dashboard ratios to send him an email and it would be added to a future Finance Committee meeting.

Central Sub Capital Exceedance Resolution

General Manager Dick Peffley stated that the Central Substation will meet every design criteria and be available for summer load pickup as scheduled. The majority of the \$6.6 million cost variance was in two areas, the schedule and also testing and commissioning the substation. There was a fast track design to the schedule which was determined to not be as critical as the budget. Mid-way through the project a financial decision was made to stop production at the Eckert station which had an effect on the Central Substation timing. Equipment problems for the Central Substation also affected the schedule: one of the three transformers which take a year to acquire was dropped at the factory and had to be replaced; the switch gear which takes six to eight months to acquire was in a truck accident; the soil was deemed contaminated with arsenic and had to be hauled to a special landfill. If the schedule wasn't followed Eckert would have had to be brought back online so labor was doubled for testing and commissioning the substation.

Commissioner Ross explained that an exceedance resolution is for a cost overrun on a project. GM Peffley and CFO Shawa have been working to reduce excess contingencies in capital budgets which causes the likelihood of cost overruns to increase.

Motion by Commissioner Price, Seconded by Commissioner Mullen, to forward for consideration the Central Sub Capital Exceedance Resolution as presented to the full Board.

Action: Motion Carried

Commissioner Long asked for clarification on the replacement of the distribution system. GM Peffley responded that the distribution system will be the next large project for which crews have been hired. He also stated that there is currently not an ideal way to estimate the amount of good vs. bad cable that is underground until you dig up the concrete.

Commissioner Lenz questioned the breakdown cost for the overrun regarding labor and material and whether the labor over-run is a result of BWL buying equipment rather than having subcontractors buy the equipment. GM Peffley responded that 80% of the over-run is labor as the workforce had to be doubled for the testing and commissioning to meet the schedule, and extra labor had to be hired in addition to BWL employees. He also stated that labor costs would have been less to install the transformer and switch gear had the delays not occurred when the labor crew was previously scheduled and on duty.

Bond Amendment Resolutions:

Amendment to the Fifteenth Supplemental Revenue Bond Resolution to Increase Maximum Aggregate Principal Amount of Notes

Manager of Finance, Scott Taylor reviewed the Amendment to the Fifteenth Supplemental Revenue Bond Resolution to Increase the Maximum Aggregate Principal Amount of Notes. Mr. Taylor recognized BWL's bond counsel, Jeff Aronoff from Miller Canfield, who was in attendance at the meeting. Mr. Taylor stated that bond anticipation notes were the first phase of financing and BWL issued \$100 million of bond anticipation notes as an initial line of credit. In Phase 2 revenue bonds will be issued. Mr. Taylor explained that when bonds are issued it is to pay for something that will generate revenue in the future but as soon as you issue the bonds they generate interest cost. Usually, additional money called capitalized interest is borrowed to pay for the interest cost during construction of what will generate revenue. The most cost-effective issuance possible is desired and one idea that was suggested was to use additional bond anticipation notes to pay for the interest cost. There were eight variables evaluated and with current market rates there was not an overall advantage for using bond anticipation notes, so additional revenue bonds will continue to be used. If market conditions change it may be more advantageous to use bond anticipation notes. Mr. Taylor stated that, although there are no current plans to use the bond anticipation notes for the capitalized interest, the resolution is requested to be put in place so that when a final decision needs to be made and a final evaluation is done, if it is found that it is more beneficial to the Board and rate payers to use the bond anticipation notes, that is what will be done. Mr. Taylor stated that the resolution asks for an increase in the \$100 million originally requested to \$120 million. The additional \$20 million will be applied toward the capitalized interest cost.

Motion by Commissioner Price, Seconded by Commissioner Mullen, to forward for consideration and authorization the Amendment to the Fifteenth Supplemental Revenue Bond Resolution to Increase Maximum Aggregate Principal Amount of Notes.

Action: Motion Carried

Commissioner Ross explained that what is being considered is the authorization to select the most economical and efficient option for the issuance of the bonds.

Amendment to Amended and Restated Utility System Revenue Bond Resolution

Mr. Taylor spoke about the Amendment to Amended and Restated Utility System Revenue Bond Resolution which has to do with the debt service reserve fund. The debt service reserve fund is offered by issuers to provide investors additional security on their investment. The debt service reserve fund sets aside the money to pay for one full year of bond and interest payments in case of financial difficulty. Because of the strong credit rating of BWL and because the financial market demand for the debt service reserve fund has changed, issuers don't need to maintain a debt service reserve fund to sell bonds and retain their rating. It is more cost effective to eliminate the fund as it costs money to have \$25 million on hand. This resolution asks for additional language to be added to the resolution that previously asked to eliminate the debt service reserve fund. This language now includes clarifying what will happen if BWL's financial strength changes and will give investors assurance that security will be put aside.

Motion by Commissioner Price, Seconded by Commissioner Mullen, to accept a friendly amendment to the proposed Resolution that includes grammatical changes, and forward the Resolution as amended to the full Board of consideration.

Action: Motion Carried

Commissioner Price commented that instead of having a large guarantee fund, BWL is eliminating the need for it and relying on BWL's third party rating agencies to be the assurance for the bond holders. Mr. Taylor responded that money is set aside but because of BWL's strong rating, the investors are going to rely on AA rating, strong cash reserves and strong debt service coverage metrics. He added that money is set aside monthly and that we do not wait until an obligation is due. Commissioner Price added that there is additional assurance of BWL's credit rating and if that drops more money will be put into the reserve.

Commissioner Ross commented that if at some time in the future something detrimental happens this issue will need to be revisited. Commissioner Ross requested an explanation regarding previous bond holders, future bond holders and the existing \$25 million reserve. Mr. Taylor responded that making an amendment eliminating debt service reserve usually involves the vote of the bond holders because there is a security that is being eliminated. With the new issuance, BWL's outstanding debt will be 51% or more of the total outstanding debt. Through the act of issuing the new debt, there is approval by more than 51% of the bond holders. Commissioner Price stated that by buying the new bonds the bond holders are approving the contingencies on the bonds. Commissioner Ross commented that previous bond holders may

have questioned the loss of a security blanket and the benefit of the bond but the investors have been assured that it is a manageable risk.

Internal Audit Status Report

Internal Auditor Phil Perkins presented the FY 2019 Internal Audit Status Report.



Overview

Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
March 2019

- FY 2019 Audit Plan Progress Report
- FY 2020 Risk Assessment & Audit Planning
- Other



2

FY 2019 Audit Plan Progress Report

Engagements Completed Since Previous Presentation:

1. COBIT Compliance Follow-up Audit
2. Change Management Follow-up Audit
3. Time Reporting Review #2

Engagements in Progress or Upcoming:

1. Metering Services (80% complete)
2. Vegetation Management (90% complete)
3. Accounts Payable (33% complete)
4. Procurement (underway)
5. Project Engineering (start in late March)
6. Cybersecurity Policies/Governance (start in early April)



3

FY 2020 Risk Assessment & Audit Planning

- Meetings to be held with executive management and staffs to discuss current risk areas and potential audit topics for FY 2020.
- Draft audit plan for FY 2020 to be presented for Board approval not later than July 2019.



4

Other

Continuing Professional Education:

1. Director of Internal Audit: Participation in CPE as relevant for job, until retirement on 7/1/19.
2. Senior Internal Auditor:
 - On target to complete annual CPE requirements for CPA designation.
 - Passed Certified Information Systems Auditor (CISA) examination and is submitting relevant experience required to attain certification.

Transition/Continuancy Plan:

- A plan has been developed to enable a smooth transition for the incoming Director of Internal Audit.
- The plan will be updated to include detailed status and remaining items to perform for any engagements still in progress.



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Commissioner Zerkle inquired whether, in addition to meeting with staff, Mr. Perkins would make recommendations for next year's audit. In response, Mr. Perkins responded that he would contribute his preliminary assessments.

Commissioner Long commented that an audit review is scheduled twice a year and asked for clarification on the proper time to bring questions about the audits. Commissioner Ross clarified

that the open items list is provided twice a year and audits identify the issues that are placed on the open items list. If the Internal Auditor issues an audit report during the year, a discussion can be held at the next Finance Committee meeting. Ms. Shawa added that the open items list is designated for the January and July Finance Committee meetings. Ms. Shawa stated that CIO Rod Davenport will be invited to speak at the May COW Meeting to provide general IT updates and Kellee Christensen, Interim Enterprise Business Manager, to provide a BSmart program update.

Commissioner Price commented that if there is a glaring red flag, it is the Internal Auditor's responsibility to point that out and determine whether it requires immediate discussion or action.

Commissioner Ross stated that an individual Commissioners should not press management for a work product, particularly if it takes a lot of resources to answer questions, and that Commissioners should act collectively and direct as a group.

Other

None.

Adjourn

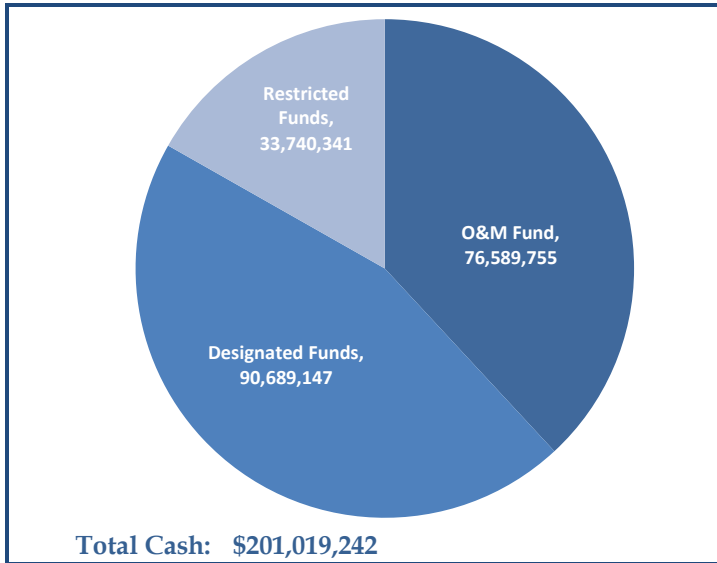
Motion by Commissioner Price to adjourn the meeting. Commissioner Ross adjourned the meeting at 7:11 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

Financial Summary - March 2019



Cash



	Month End	Target
Days Cash on Hand	169	155
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.77	2.00

Days Cash on Hand:

$$\frac{\text{O\&M Fund - Portion Restricted By Bond Covenants + Designated Funds}}{(\text{Budgeted Operating Expenses} - \text{Depreciation} + \text{RoE to City}) / 365}$$

Debt Service Coverage:

$$\frac{\text{Projected Net Income} + \text{Depreciation Expense} + \text{Interest Expense}}{\text{Debt Principal} + \text{Debt Interest}}$$

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 261,682,747	\$ 256,640,422	5,042,325	2%
Wholesale	\$ 14,201,932	\$ 19,525,444	(5,323,512)	-27%
Total Revenue	\$ 275,884,679	\$ 276,165,866	(281,187)	0%
Operating Expenses	\$ 226,311,407	\$ 236,894,048	(10,582,641)	-4%
Non Operating Income/(Expense)	\$ (22,809,856)	\$ (24,753,708)	1,943,852	-8%
Net Income	\$ 26,763,416	\$ 14,518,110	12,245,306	84%
FY 2019 Budgeted Net Income	\$ 20,101,039			

Budget Status YTD

O&M Budget YTD (excluding fuel)				
FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,219,060	\$ 121,912,155	\$ 125,067,836	(3,155,681)	-3%
% of Approved Budget	74%	76%		
Capital Budget YTD (Excluding Delta Energy Park)				
FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 76,468,073	\$ 51,160,145	\$ 58,354,608	(7,194,463)	-12%
% of Approved Budget	67%	76%		
FY 2019 Projected Capital Spend			\$ 78,060,858	
Capital Budget YTD - Delta Energy Park Only				
FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 148,122,831	\$ 52,364,212	\$ 82,847,801	\$ (30,483,589)	-37%
% of Approved Budget	35%	56%		

Return on Assets

Actual YTD	Budget YTD	Target
4.33%	2.67%	4.75%

Return on Assets = $\frac{\text{YTD Net Income} + \text{YTD Interest Expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

Financial Summary - March 2019



Ratios

Operating Ratio

$$\frac{\text{O\&M Expense}}{\text{Revenue}} = \frac{\$ 192,371,144}{\$ 275,884,679} = 0.70$$

APPA Median
0.68

Measures the proportion of revenues to cover the operations and maintenance costs

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$ 193,561,492}{\$ 56,048,885} = 3.45$$

APPA Median
1.77

Measures whether current assets are sufficient to pay current liabilities within one year

Debt to Total Assets

$$\frac{\text{LT Debt + Accrued Liabilities}}{\text{Total Assets}} = \frac{\$ 457,500,068}{\$ 1,054,761,365} = 0.43$$

APPA Median
0.56

Measures the ability to meet its current and long-term liabilities based on the availability of assets

Days Sales Outstanding

$$\frac{\text{Accounts Receivable}}{\text{Average Sales}} \times \text{Days} = \frac{\$ 24,766,576}{\$ 29,774,363} \times 31 = 26$$

Prior Year
24

Measures the average number of days it takes to collect payment after a sale is made

Bad Debt

$$\frac{\text{12 Month Rolling Bad Debt}}{\text{12 Month Rolling Revenue}} = \frac{\$ 1,679,425}{\$ 362,202,112} = 0.46\%$$

Prior Year
0.48%

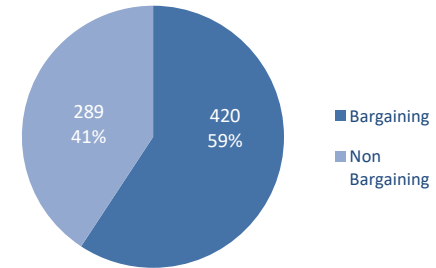
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	709
Budget YTD	766
Over/(Under) #	(57)

Full Time Equivalent
Temporary Employees 42



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 45,983,134	\$ 47,452,074	\$ (1,468,940)	-3.1%	\$ 49.57
Overtime	\$ 6,225,135	\$ 4,809,567	\$ 1,415,568	29.4%	
Total	\$ 52,208,269	\$ 52,261,641	\$ (53,372)	-0.1%	
Total Hours Worked	1,011,697				
Labor \$/Hours Worked	\$ 51.60				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 11,047,592	\$ 13,528,696	\$ (2,481,104)
RX	\$ 1,795,834	\$ 2,525,450	\$ (729,616)
Dental	\$ 1,001,407	\$ 1,092,168	\$ (90,761)
Life	\$ 266,896	\$ 265,866	\$ 1,030
FICA	\$ 3,872,670	\$ 3,901,827	\$ (29,158)
Other	\$ 1,348,153	\$ 1,364,756	\$ (16,603)
Total	\$ 19,332,551	\$ 22,678,763	\$ (3,346,213)

Budget and Forecast

FY 2020–2025

Finance Committee Meeting

May 14, 2019

Board Meeting

May 28, 2019



Overview

- BWL Strategic Objectives
- Key Budget and Forecast Assumptions
- Sales Volume History and Forecast by Utility
- Operating Budget and Forecast
- Capital Budget and Forecast
- Next Steps

- **BWL Strategic Objectives**

- **Core Competencies**

- Past & Present Budget and Forecast Cycle Focus
- Strategy 6: Financial Stability
- Target Metrics
- Minimum Cash Reserve Requirement Policy



- BWL Strategic Objectives
 - Core Competencies
 - Past & Present Budget and Forecast Cycle Focus
 - Strategy 6: Financial Stability
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 - Minimum Cash Reserve Requirement Policy

FY 18-23

- IRP 2016
 - Replacement of Eckert/Erickson
- Strategic Plan 2016
 - Customer Experience
 - Community Involvement
 - Operational Excellence
 - New Technologies
 - Workforce Development
 - Financial Stability
 - Industry Leadership

FY 19-24

- 3-yr rate strategy
 - Electric cost of service
 - Delta Energy Park
 - Feb 2018, 2019 & 2020 rate changes
- Setting ROA achievement date of FY 2024

FY 20-25

- 3-yr rate strategy
- Internal cost allocation studies
- Delta Energy Park
 - Construction June 2019 – June 2021

FY 21-26

- IRP 2020
- Rate strategy 2021-2024
 - Cost of service (water, electric, steam, and chilled water)
 - Time of use options
 - Renewable energy and new technology rates

FY 22-27

- Strategic Plan 2022-2026

- BWL Strategic Objectives
 - Core Competencies
 - Past & Present Budget and Forecast Cycle Focus
 - Strategy 6: Financial Stability
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy

- **BWL's Strategic Plan, adopted in 2016, details the following goals and objectives:**

- Strategy 6 Goal: Maintain the financial stability of the BWL
 - All of the BWL's ongoing efforts and strategic initiatives require funding. The balance between providing this funding and its impact on rates requires a comprehensive financial plan and rate strategy.
- Strategy 6, Objective 1: Practice good financial stewardship
 - 1) Develop a Financial Plan that includes a rate strategy that provides financing for the BWL's capital program and replacement generation needs while maintaining competitive rates
 - 2) Maintain an above average bond rating for municipal utilities
 - 3) Identify cost savings through process improvement initiatives and return on investments with minimal impact on operations or employees
 - 4) Commit to reviewing and consistently achieving targeted rate of return

- BWL Strategic Objectives
 - Core Competencies
 - Past & Present Budget and Forecast Cycle Focus
 - Strategy 6: Financial Stability
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy

- Maintain High Credit Rating
 - The BWL is currently rated AA- by S&P and Aa3 by Moody's
- Ensure Adequate Liquidity
 - The BWL should have the ability to meet near term obligations when due
 - Minimum Cash Reserve Requirement: **154 Days**
 - Debt Service Coverage Minimum Target: **2.00**
- Return on Assets
 - An adequate return on assets is essential to municipal utilities
 - It ensures that current rate payers are not "kicking the can down the road" or deferring cost recovery to future generations
 - An appropriate return on assets recovers two main items:
 - Interest expense
 - Inflationary increase of infrastructure replacement costs
 - Board of Commissioners approved ROA target calculation according to Resolution 2016-07-08
 - Return on Assets FY 2020-2025 Target: **4.66%**
 - We are projecting to achieve this target return in FY 2024
- Maintain Rate Competitiveness

- BWL Strategic Objectives
 - Core Competencies
 - Past & Present Budget and Forecast Cycle Focus
 - Strategy 6: Financial Stability
 - Target Metrics
 - Minimum Cash Reserve Requirement Policy

- **To ensure adequate liquidity, the Board of Commissioners adopted a Minimum Cash Reserve Requirement Policy in 2018 (Resolution #2018-05-02).**
- The policy bolsters financial strength, situational resilience, fiscal responsibility, and credit quality.
- The minimum cash reserve requirement is determined using a risk-based calculation of the following five key cash requirements:
 - Net O&M Expense
 - Return on Equity to the City
 - Historical Plant in Service
 - Debt Service
 - Six-Year Net Capital Improvement Plan
- Each cash requirement is multiplied by its associated risk factor and summed to determine the minimum cash reserve requirement.
- The calculation is applied to each of the BWL's four utilities individually and then aggregated to determine the overall BWL minimum cash reserve requirement.
- In accordance with this policy, the Board will ensure that the proposed budget and forecast meets the minimum cash reserve requirements as defined in the policy.

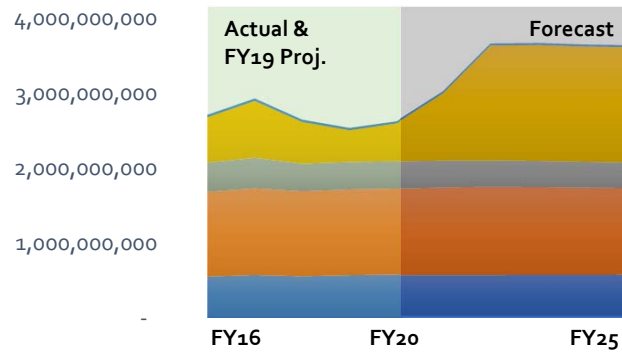
- Key Budget and Forecast Assumptions

- Eckert is not scheduled for operation and is only available for capacity and emergency until complete closure in December 2020.
- Total employee count is budgeted at 742 for FY 2020 and declines in each succeeding year through FY 2026 due to natural attrition.
- Return on Equity to the city remains at 6.1%.
 - The current agreement expires June 30, 2020.
- Expected commercial operation of Delta Energy Park is June 2021.
- Bond interest is capitalized during the plant construction period.
- Major steam customer contract expires October 2022. Forecast assumes contract is renewed at current terms.

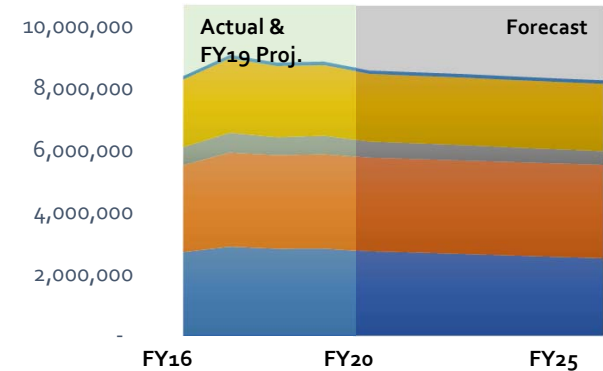
Note: Displayed dollars and percentages may not add due to rounding

- Sales Volume History and Forecast by Utility, FY 16-25

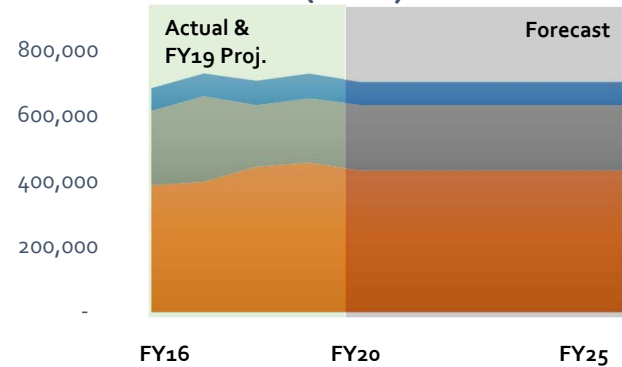
Electric - Consumption Volume (KWH)



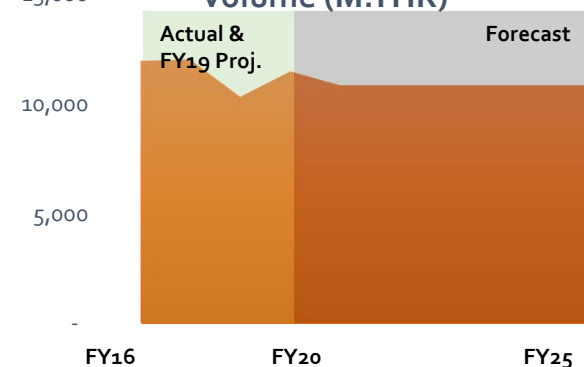
Water - Consumption Volume (CCF)



Steam - Consumption Volume (M.LB)



Chilled Water - Consumption Volume (M.THR)



■ Residential ■ Commercial ■ Industrial ■ Wholesale ■ Other

- Operating Budget and Forecast

- FY 2020 Income Statement

- FY 2020 Operating Expenses by Category

- 6-Year Income Statement

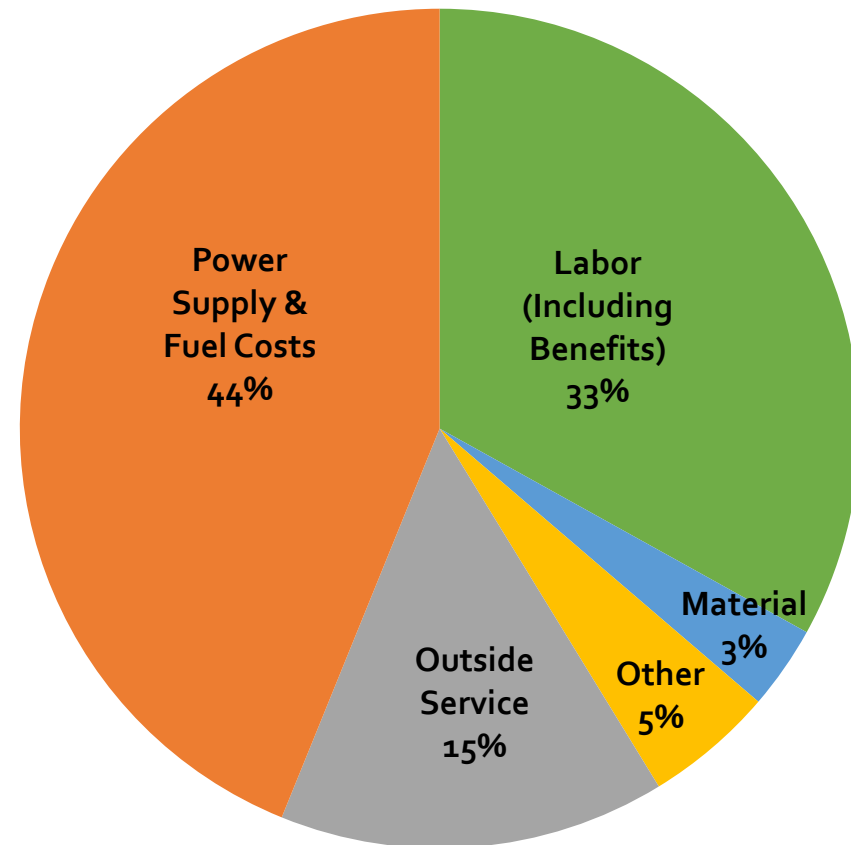
- 6-Year Return on Assets

- 6-Year Cash Flow

FY 2020 Income Statement	Electric	Water	Steam	Chilled Water	Total
Sales (MWh, ccf, Mlb, ton-hrs)	2,623,854,679	8,498,645	701,802	10,864	
Operating Revenue					
Residential	\$ 97,146,288	\$ 18,150,532	\$ 17,565	\$ -	\$ 115,314,385
Commercial	\$ 159,445,743	\$ 15,528,362	\$ 8,472,581	\$ 6,295,907	\$ 189,742,593
Industrial	\$ 44,654,998	\$ 2,116,928	\$ 3,174,091	\$ -	\$ 49,946,018
Wholesale	\$ 19,989,327	\$ 3,733,611	\$ -	\$ -	\$ 23,722,939
Other	\$ 13,136,138	\$ 6,844,898	\$ 1,407,320	\$ -	\$ 21,388,356
Total Operating Revenue	\$ 334,372,495	\$ 46,374,332	\$ 13,071,557	\$ 6,295,907	\$ 400,114,291
Operating Expenses					
Fuel and Purchased Power	\$ (118,817,397)	\$ (5,516,336)	\$ (3,666,562)	\$ -	\$ (128,000,295)
Depreciation	\$ (35,987,342)	\$ (7,866,012)	\$ (3,078,557)	\$ (1,529,719)	\$ (48,461,630)
Other Operating Expenses	\$ (113,234,869)	\$ (32,564,689)	\$ (5,292,196)	\$ (4,245,509)	\$ (155,337,263)
Total Operating Expenses	\$ (268,039,608)	\$ (45,947,037)	\$ (12,037,315)	\$ (5,775,228)	\$ (331,799,187)
Total Operating Income	\$ 66,332,887	\$ 427,295	\$ 1,034,243	\$ 520,679	\$ 68,315,103
Non Operating Income/(Expenses)					
Return on Equity to City	\$ (19,811,394)	\$ (2,741,207)	\$ (779,265)	\$ (377,754)	\$ (23,709,620)
Interest Expense	\$ (25,070,972)	\$ (3,083,546)	\$ (2,476,931)	\$ (898,324)	\$ (31,529,773)
Other Non Operating Income/(Expenses)	\$ 3,736,828	\$ 1,311,591	\$ 110,485	\$ 147,958	\$ 5,306,862
Total Non Operating Income/(Expenses)	\$ (41,145,538)	\$ (4,513,162)	\$ (3,145,711)	\$ (1,128,120)	\$ (49,932,531)
Total Net Income/(Loss)	\$ 25,187,350	\$ (4,085,867)	\$ (2,111,469)	\$ (607,442)	\$ 18,382,572
Approved Rate Increase - Effective 02/01/2020	3.0%	7.5%	7.5%	0.0%	
Return on Assets	6.42%	-0.71%	0.24%	0.68%	2.73%
Target Return on Assets	4.66%	4.66%	4.66%	4.66%	4.66%

- Operating Budget and Forecast
 - FY 2020 Income Statement
 - **FY 2020 Operating Expenses by Category**
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

FY 2020 Operating Expense by Category



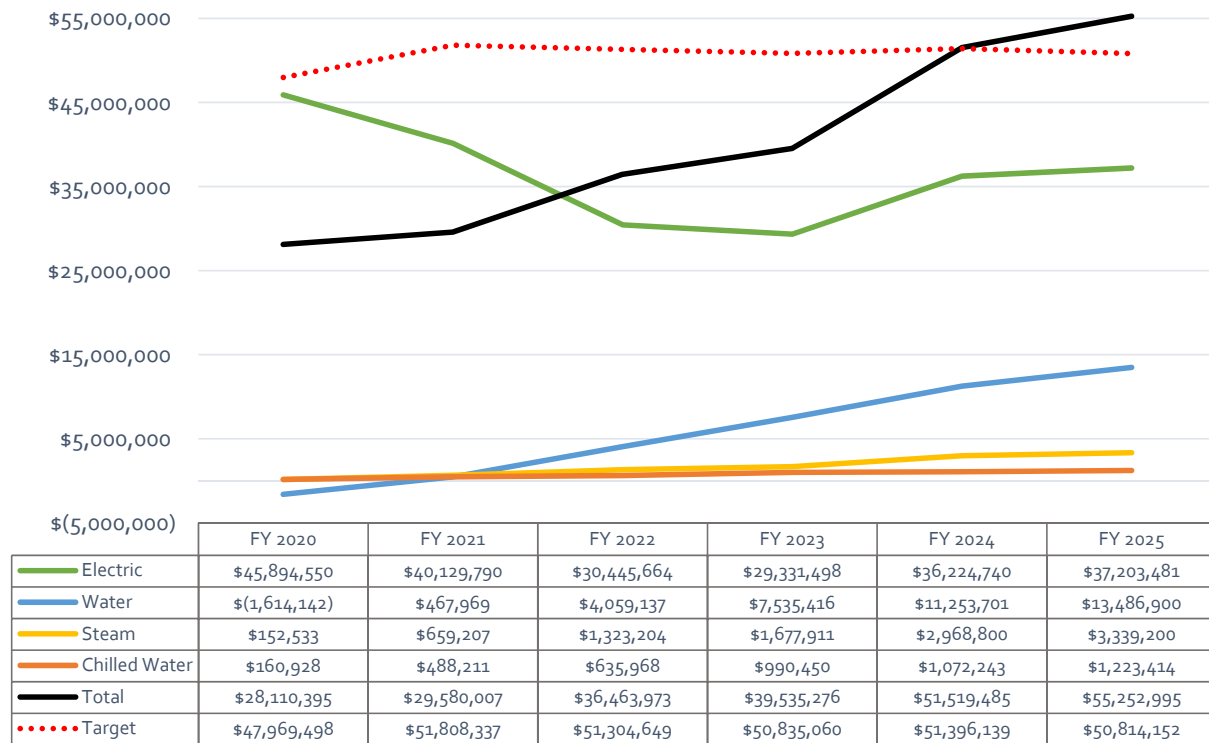
- Operating Budget and Forecast
 - FY 2020 Income Statement
 - FY 2020 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

6-Year Income Statement	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Operating Revenue						
Electric	\$ 334,372,495	\$ 333,721,668	\$ 356,074,112	\$ 362,520,374	\$ 370,333,306	\$ 373,239,334
Water	\$ 46,374,332	\$ 49,927,738	\$ 54,150,683	\$ 58,667,873	\$ 63,572,882	\$ 66,642,366
Steam	\$ 13,071,557	\$ 13,626,027	\$ 14,413,793	\$ 15,128,049	\$ 16,122,261	\$ 16,707,980
Chilled Water	\$ 6,295,907	\$ 6,402,699	\$ 6,683,175	\$ 6,938,292	\$ 7,201,091	\$ 7,358,790
Total Operating Revenue	\$ 400,114,291	\$ 403,678,132	\$ 431,321,763	\$ 443,254,588	\$ 457,229,540	\$ 463,948,469
Operating Expenses						
Fuel and Purchased Power	\$ (128,000,295)	\$ (120,305,973)	\$ (138,835,827)	\$ (142,991,819)	\$ (145,275,486)	\$ (146,088,692)
Depreciation	\$ (48,461,630)	\$ (58,069,667)	\$ (68,659,156)	\$ (70,072,214)	\$ (66,542,685)	\$ (68,607,604)
Other Operating Expenses	\$ (155,337,263)	\$ (159,824,097)	\$ (162,006,532)	\$ (164,582,886)	\$ (166,984,484)	\$ (166,698,123)
Total Operating Expenses	\$ (331,799,187)	\$ (338,199,736)	\$ (369,501,516)	\$ (377,646,919)	\$ (378,802,655)	\$ (381,394,419)
Total Operating Income	\$ 68,315,103	\$ 65,478,396	\$ 61,820,247	\$ 65,607,668	\$ 78,426,885	\$ 82,554,050
Non Operating Income/(Expenses)						
Return on Equity to City	\$ (23,709,620)	\$ (24,038,679)	\$ (25,661,733)	\$ (26,377,852)	\$ (27,212,859)	\$ (27,606,515)
Interest Expense	\$ (31,529,773)	\$ (33,210,745)	\$ (33,196,092)	\$ (32,710,313)	\$ (32,088,234)	\$ (31,362,915)
Other Non Operating Income/(Expenses)	\$ 5,306,862	\$ 3,291,974	\$ 2,815,866	\$ 2,829,716	\$ 2,843,566	\$ 2,857,416
Total Non Operating Income/(Expenses)	\$ (49,932,531)	\$ (53,957,451)	\$ (56,041,960)	\$ (56,258,449)	\$ (56,457,527)	\$ (56,112,014)
Total Net Income	\$ 18,382,572	\$ 11,520,945	\$ 5,778,287	\$ 9,349,219	\$ 21,969,357	\$ 26,442,036

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Return on Assets	2.73%	2.66%	3.31%	3.63%	4.68%	5.07%
Target Return on Assets	4.66%	4.66%	4.66%	4.66%	4.66%	4.66%
Debt Service Coverage Ratio	3.69	2.91	2.46	2.56	2.75	2.90
Days Cash on Hand	178	197	189	200	194	221
Minimum Cash Reserve Requirement	154	158	152	151	162	163
Full Time Employees	742	727	720	714	699	674
Rate Increases	Approved			Forecast		
Electric	3.00%	2.22%	2.22%	2.22%	2.22%	0.00%
Water	7.50%	8.77%	8.77%	8.77%	8.77%	0.00%
Steam	7.50%	7.52%	7.52%	7.52%	7.52%	0.00%
Chilled Water	0.00%	3.84%	3.84%	3.84%	3.84%	0.00%

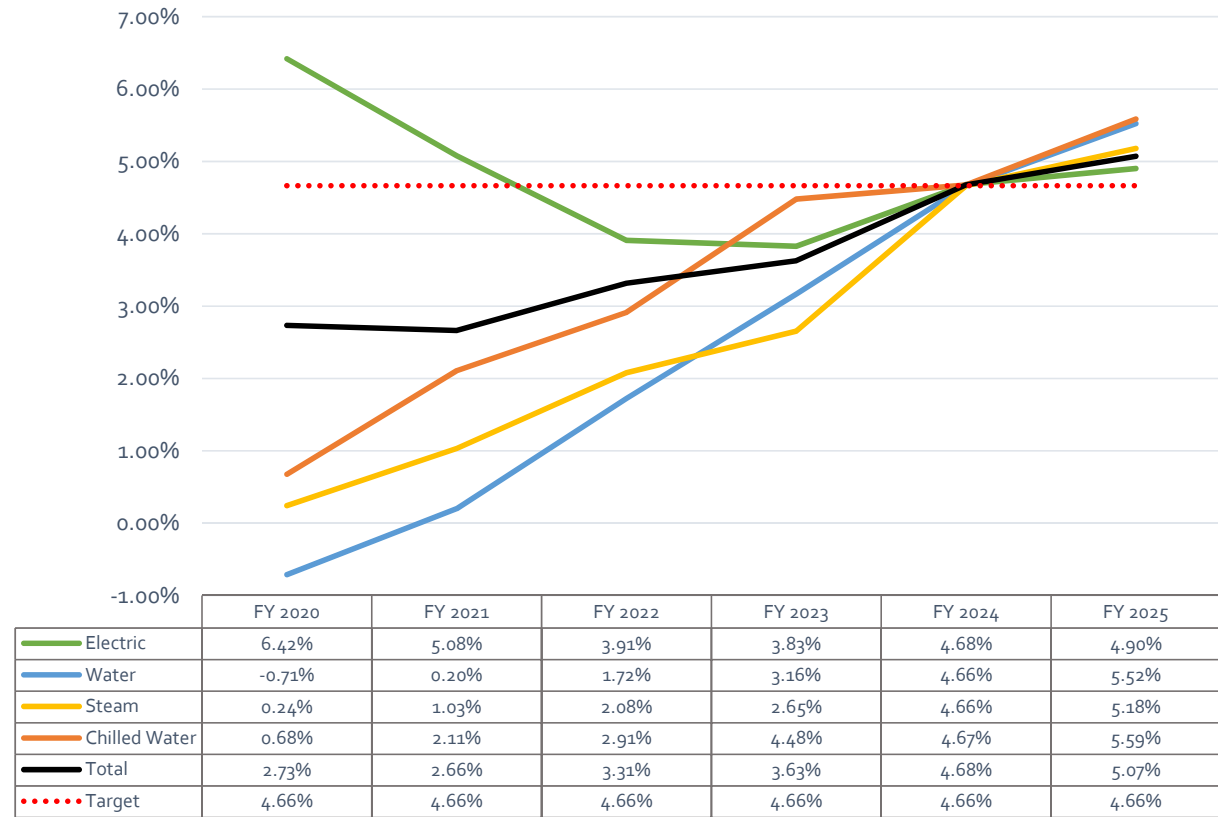
- Operating Budget and Forecast
 - FY 2020 Income Statement
 - FY 2020 Operating Expenses by Category
 - 6-Year Income Statement
 - **6-Year Return on Assets**
 - 6-Year Cash Flow

6-Year Return on Assets (\$)



- Operating Budget and Forecast
 - FY 2020 Income Statement
 - FY 2020 Operating Expenses by Category
 - 6-Year Income Statement
 - **6-Year Return on Assets**
 - 6-Year Cash Flow

6-Year Return on Assets (%)



- Operating Budget and Forecast
 - FY 2020 Income Statement
 - FY 2020 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

6-Year Cash Flow	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Beginning Cash (O&M & Receiving Fund)	\$ 72,000,000	\$ 80,048,721	\$ 80,080,538	\$ 80,041,381	\$ 80,029,152	\$ 80,058,214
Net Income	\$ 18,382,572	\$ 11,520,945	\$ 5,778,287	\$ 9,349,219	\$ 21,969,357	\$ 26,442,036
Depreciation and Loss on Disposal of Assets	\$ 49,875,575	\$ 59,156,996	\$ 69,746,485	\$ 71,159,542	\$ 67,630,014	\$ 69,694,932
DB and VEBA	\$ (826,062)	\$ (2,587,973)	\$ (1,426,066)	\$ (176,340)	\$ (5,500,393)	\$ (6,000,307)
Borrowing	\$ -	\$ 91,559,028	\$ -	\$ -	\$ -	\$ -
Withdrawal from / (Deposit to) Reserve for Future Construction	\$ (10,500,000)	\$ (14,300,000)	\$ (5,000,000)	\$ (14,200,000)	\$ 2,600,000	\$ (25,300,000)
Commodity Cost Adjustment	\$ (12,609,795)	\$ 648,355	\$ 1,795,133	\$ 734,652	\$ (523,175)	\$ (539,322)
Withdrawal from Bond Construction	\$ 271,701,998	\$ 6,884,070	\$ -	\$ -	\$ -	\$ -
Environmental	\$ 807,262	\$ 283,289	\$ (424,142)	\$ (465,794)	\$ (561,000)	\$ (561,000)
Gas Pipeline Payments (Refundable) / Refunded	\$ (17,840,000)	\$ -	\$ -	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Total Sources of Cash	\$ 298,991,551	\$ 153,164,709	\$ 70,469,697	\$ 73,401,280	\$ 92,614,803	\$ 70,736,339
Principal Payments on Bonds	\$ (7,145,000)	\$ (10,105,000)	\$ (10,615,000)	\$ (11,150,000)	\$ (11,710,000)	\$ (12,275,000)
Principal Payments on Other Debt (CSO)	\$ (657,988)	\$ (666,536)	\$ (676,276)	\$ (682,232)	\$ (693,330)	\$ (710,508)
Capital Expenditures (Excluding Delta Energy Park)	\$ (58,760,214)	\$ (62,842,220)	\$ (57,859,873)	\$ (60,004,046)	\$ (78,572,450)	\$ (56,129,548)
Capital Expenditures for Delta Energy Park (Excluding Gas Pipeline)	\$ (207,098,523)	\$ (71,813,731)	\$ -	\$ -	\$ -	\$ -
Gas Pipeline Payments (Non-Refundable)	\$ (11,280,000)	\$ (5,720,000)	\$ -	\$ -	\$ -	\$ -
REP/EWR	\$ (1,844,452)	\$ (203,914)	\$ (68,625)	\$ (274,302)	\$ (293,179)	\$ (322,618)
Bond Construction & Designated Fund Income & Deposit	\$ (4,156,653)	\$ (1,781,491)	\$ (1,289,080)	\$ (1,302,930)	\$ (1,316,780)	\$ (1,330,630)
Total Uses of Cash	\$ (290,942,829)	\$ (153,132,892)	\$ (70,508,854)	\$ (73,413,510)	\$ (92,585,740)	\$ (70,768,304)
Net Cash Increase (Decrease)	\$ 8,048,721	\$ 31,817	\$ (39,157)	\$ (12,230)	\$ 29,063	\$ (31,965)
Ending Cash (O&M & Receiving Fund)	\$ 80,048,721	\$ 80,080,538	\$ 80,041,381	\$ 80,029,152	\$ 80,058,214	\$ 80,026,250
Days Cash on Hand	178	197	189	200	194	221
Minimum Cash Reserve Requirement	154	158	152	151	162	163

- Capital Budget and Forecast

- 6-Year by Utility and Location

- 6-Year Major Projects
 - 6-Year Minor Projects
 - Budget Adjustments

6-Year Capital by Utility and Location	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Forecast Total
Utility							
Electric	\$ 24,757,558	\$ 31,534,214	\$ 38,425,296	\$ 40,760,462	\$ 57,849,391	\$ 34,549,191	\$ 227,876,112
Water	\$ 8,029,882	\$ 9,368,948	\$ 9,569,600	\$ 10,293,900	\$ 10,991,800	\$ 9,828,000	\$ 58,082,130
Steam	\$ 2,999,923	\$ 3,268,850	\$ 2,941,103	\$ 2,970,861	\$ 3,071,917	\$ 3,451,267	\$ 18,703,921
Chilled Water	\$ 450,465	\$ 10,706	\$ 10,952	\$ 1,772,801	\$ 2,412,011	\$ 11,500	\$ 4,668,435
Common	\$ 22,522,386	\$ 18,659,502	\$ 6,912,922	\$ 4,206,022	\$ 4,247,331	\$ 8,289,590	\$ 64,837,753
Capital Budget Excluding Delta Energy Park	\$ 58,760,214	\$ 62,842,220	\$ 57,859,873	\$ 60,004,046	\$ 78,572,450	\$ 56,129,548	\$ 374,168,351
Delta Energy Park	\$ 236,218,523	\$ 77,533,731	\$ -	\$ -	\$ -	\$ -	\$ 313,752,254
Total Capital Budget	\$ 294,978,737	\$ 140,375,951	\$ 57,859,873	\$ 60,004,046	\$ 78,572,450	\$ 56,129,548	\$ 687,920,605
Location							
Eckert	\$ 148,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,000
Erickson	\$ 1,236,546	\$ 618,047	\$ 31,761	\$ 32,492	\$ 33,239	\$ 33,239	\$ 1,985,324
REO Plant	\$ 280,000	\$ -	\$ -	\$ -	\$ 6,000,000	\$ 6,000,000	\$ 12,280,000
T&D	\$ 25,702,562	\$ 35,077,123	\$ 46,509,190	\$ 50,783,035	\$ 62,869,273	\$ 38,748,719	\$ 259,689,902
Dye/Cedar	\$ 2,553,882	\$ 3,288,948	\$ 3,004,600	\$ 3,220,900	\$ 3,021,800	\$ 3,058,000	\$ 18,148,130
Chiller Plant	\$ 562,000	\$ -	\$ -	\$ 1,761,597	\$ 2,400,807	\$ -	\$ 4,724,404
Moore's Park (Hydro)	\$ 1,308,968	\$ 1,098,600	\$ 901,400	\$ -	\$ -	\$ -	\$ 3,308,968
Delta Energy Park	\$ 236,218,523	\$ 77,533,731	\$ -	\$ -	\$ -	\$ -	\$ 313,752,254
Other	\$ 26,968,256	\$ 22,759,502	\$ 7,412,922	\$ 4,206,022	\$ 4,247,331	\$ 8,289,590	\$ 73,883,623
Total Capital Budget	\$ 294,978,737	\$ 140,375,951	\$ 57,859,873	\$ 60,004,046	\$ 78,572,450	\$ 56,129,548	\$ 687,920,605

- Capital Budget and Forecast

- 6-Year by Utility and Location
- 6-Year Major Projects
- 6-Year Minor Projects
- Budget Adjustments

6-Year Major Capital Projects	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Forecast Total ⁴
Planned Projects							
Stanley Substation - Construct a New 138K Sub ¹	\$ -	\$ -	\$ 500,000	\$ 4,654,150	\$ 21,817,500	\$ 8,980,300	\$ 35,951,950
Bsmart - CI Replacement ²	\$ 6,275,236	\$ 6,422,991	\$ 1,618,151	\$ -	\$ -	\$ -	\$ 14,316,378
Wise Substation - Rebuild ¹	\$ 250,000	\$ 1,000,000	\$ 12,128,000	\$ -	\$ -	\$ -	\$ 13,378,000
LGR Substation - Construct a New 138kV Sub ¹	\$ -	\$ 250,000	\$ 300,000	\$ 8,428,000	\$ 3,830,000	\$ -	\$ 12,808,000
REO CTG 50,000 Hour Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ 6,000,000	\$ 6,000,000	\$ 12,000,000
AMI - Smart Grid Implementation (AMI) ²	\$ 7,153,788	\$ 4,804,819	\$ -	\$ -	\$ -	\$ -	\$ 11,958,607
Rundle (South) Substation - Construct a New 138kV Sub ¹	\$ -	\$ -	\$ 1,350,000	\$ 3,799,997	\$ 6,000,000	\$ -	\$ 11,149,997
Cedar Street - Sub Cutover and Retirement	\$ -	\$ 1,712,000	\$ 1,724,000	\$ 2,645,000	\$ 2,345,000	\$ -	\$ 8,426,000
South Reinforcement - Transmission Line ¹	\$ 410,796	\$ 1,300,000	\$ 1,500,000	\$ 5,140,171	\$ -	\$ -	\$ 8,350,967
Penn/Hazel - Complex Relocation	\$ 650,000	\$ -	\$ -	\$ -	\$ -	\$ 4,000,000	\$ 4,650,000
Stanley Substation - Distribution ¹	\$ -	\$ -	\$ -	\$ 60,000	\$ 1,000,000	\$ 3,440,000	\$ 4,500,000
Magnolia Ave - Sub Cutover and Retirement	\$ 1,009,000	\$ 1,281,000	\$ 1,070,000	\$ 1,003,000	\$ -	\$ -	\$ 4,363,000
Peffley Plant - Capacity Upgrade from 7,000 to 10,000 Tons	\$ -	\$ -	\$ -	\$ 1,761,597	\$ 2,400,807	\$ -	\$ 4,162,404
Harvest Park - Solar Array Construction	\$ -	\$ 4,000,000	\$ -	\$ -	\$ -	\$ -	\$ 4,000,000
Total Major Planned Projects (Excluding Delta Energy Park)	\$ 15,748,820	\$ 20,770,810	\$ 20,190,151	\$ 27,491,915	\$ 43,393,307	\$ 22,420,300	\$ 150,015,303
Delta Energy Park	\$ 236,218,523	\$ 77,533,731	\$ -	\$ -	\$ -	\$ -	\$ 313,752,254
Annual Projects ³							
Electric	\$ 11,633,349	\$ 11,634,047	\$ 11,634,761	\$ 11,635,492	\$ 11,636,239	\$ 11,636,239	\$ 69,810,127
Water	\$ 5,760,000	\$ 6,145,000	\$ 6,230,000	\$ 7,238,000	\$ 8,135,000	\$ 6,935,000	\$ 40,443,000
Steam	\$ 908,423	\$ 1,298,464	\$ 1,328,944	\$ 1,796,674	\$ 1,897,730	\$ 307,772	\$ 7,538,007
Chilled Water	\$ 10,465	\$ 10,706	\$ 10,952	\$ 11,204	\$ 11,204	\$ 11,500	\$ 66,031
Common	\$ 4,023,183	\$ 4,083,286	\$ 4,144,771	\$ 4,206,022	\$ 4,247,331	\$ 4,289,590	\$ 24,994,183
Total Annual Projects	\$ 22,335,420	\$ 23,171,503	\$ 23,349,428	\$ 24,887,392	\$ 25,927,504	\$ 23,180,101	\$ 142,851,348

¹ These projects support the retirement of Eckert.

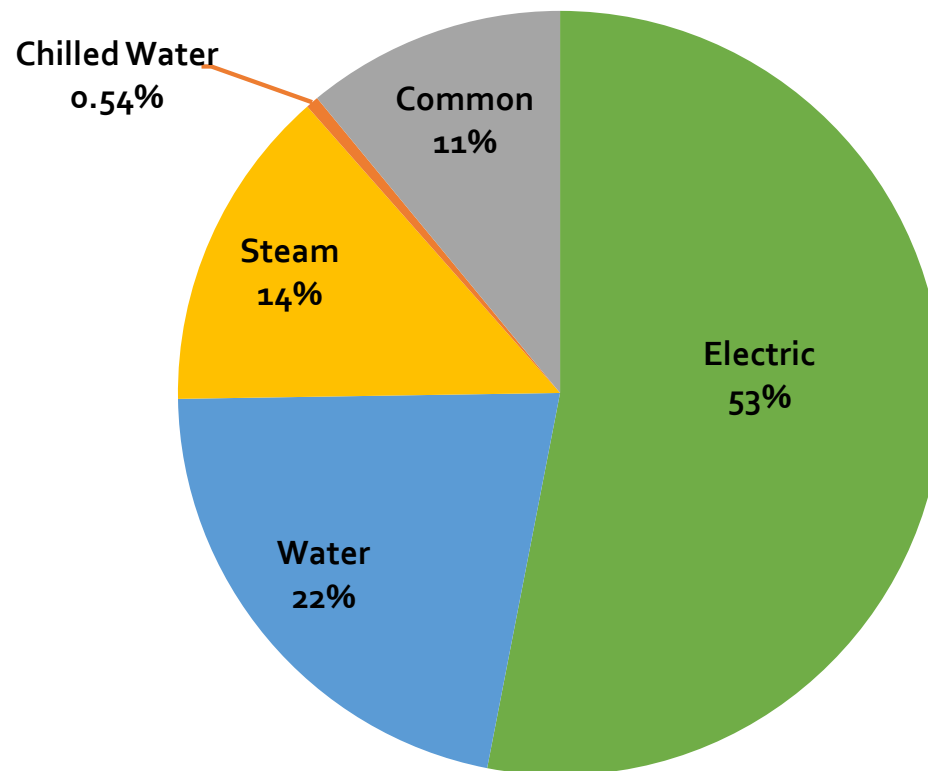
² These projects represent 2 of the 5 major BSMART projects.

³ Annual projects have some level of spending each year.

⁴ The forecast total represents 6-year spending. Spending before or after the 6-year period is not reflected in this total.

- Capital Budget and Forecast
 - 6-Year by Utility and Location
 - 6-Year Major Projects
 - 6-Year Minor Projects
 - Budget Adjustments

FY 2020-2025 Minor Planned Capital Projects by Utility



Minor planned projects represent a total of \$81M, or 35%, of the planned capital projects in the forecast.

- Capital Budget and Forecast

- 6-Year by Utility and Location
- 6-Year Major Projects
- 6-Year Minor Projects
- Budget Adjustments

Projects in Progress With Budget Adjustments of Over \$200,000 and 15%					
Project Name	FY 19-24 Project Total	FY 20-24 Project Total	\$ Variance	% Variance	
23186 AMI - Smart Grid Implementation	\$ 30,950,000	\$ 37,187,288	\$ 6,237,288	20%	
24586 ADMS	\$ 3,855,000	\$ 5,635,214	\$ 1,780,214	46%	
24738 Central Sub - Distribution ¹	\$ 1,600,000	\$ 2,440,611	\$ 840,611	53%	
24794 MP - Tainter Gate Trunnion Pin Replacement	\$ 1,123,300	\$ 1,653,565	\$ 530,265	47%	
23085 Dye - Fluoride Tank Replacement	\$ 436,800	\$ 710,000	\$ 273,200	63%	

¹ This budget adjustment was Board approved in March (Resolution #2019-03-01)

• Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2020 – 2025 and recommend for Board of Commissioners' approval on May 28, 2019.
- Board of Commissioners to approve, as presented, the FY 2020 annual budget and file with the City Clerk within 10 days of approval.
 - City Charter calls for budget adoption by June 1 and filing with the City Clerk within 10 days of adoption.
- Board of Commissioners to accept, as presented, the Operating and Capital Forecast for FY 2020 – 2025 and submit the Capital Forecast to the Mayor prior to October 1, 2019.
 - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1.

PROPOSED RESOLUTION

Fiscal Year 2020-2025 Budget and Forecast

RESOLVED, that the Annual Operating and Capital Budget covering Fiscal Year 2020 is hereby approved as presented; and

RESOLVED, that the Operating and Capital Forecast for the Fiscal Years 2021-2025 is hereby accepted as presented; and

FURTHER RESOLVED, that the Corporate Secretary be directed to make the appropriate filings with the Lansing City Clerk's office in accordance with the Lansing City Charter regarding the above actions.

Staff Comments:

Staff recommends an operating and maintenance budget of \$331.8M and a capital budget of \$295.0M for Fiscal Year 2020.

The Operating and Capital Forecast for Fiscal Years 2021-2025 includes potential rate increases in Fiscal Years 2021-2024. The potential rate increases are for forecast purposes only and have not been approved through a public rate hearing process. The forecast rate increases are subject to revision and, in any case, prior to implementation, must be subject to the BWL's formal rate setting process as per Lansing City Charter, Section 5-205 which refers to the BWL's authority to set just and reasonable rates and defines the public hearing process.

In accordance with the provisions of the Lansing City Charter, Article 5, Chapter 2, Section 5-203.5 and Section 5-203.6, staff recommends the Finance Committee approve the budget and forecast for presentation and adoption by the Board at its May 28, 2019 board meeting.