

FINANCIAL PLAN AND ANNUAL BUDGET



HOMETOWN PEOPLE, HOMETOWN POWER

FISCAL YEAR ENDING JUNE 2008

Adopted May 22, 2007

**BOARD OF WATER AND LIGHT
LANSING, MICHIGAN
FISCAL YEAR 2008
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Financial Goals

- Maintain credit quality
- Ensure adequate liquidity
- Maintain rate competitiveness
- Efficient & appropriate use of capital
- Financially Independent Utilities

Sales Forecast

Utility	FY08 Forecast	FY07 Budget	% '08 Forecast to '07 Budget
Electric-Retail	2,275,881	2,227,675	2.2%
Electric-Wholesale	909,322	974,802	-6.7%
Electric (mwh)	3,185,203	3,202,477	-0.5%
Water (ccf)	10,782,933	11,725,381	-8.0%
Steam (mlb)	749,719	784,350	-4.4%
Chilled Water (tnhrs)	8,613,560	8,600,691	0.1%

Electric:

- Modest residential & commercial load growth, 1-1.5%
- Industrial forecast is up 6.9% due to Delta Plant at full load
- Wholesale volumes reduced due to anticipated Major Belle River outage

Water:

- Retail load is approximately flat
- Wholesale volumes decreased over FY07 budgeted levels for Delta Township and ELMWA

Steam:

- Steam loads for GM approximately flat, reduction in Steam Commercial due to conservation efforts

Chilled Water:

- Chilled Water loads approximately flat

Revenue Assumptions

- Projected rate increases, March, 2008:
 - Electric: 7.0% = *\$2.0 million additional net revenue*
 - Water: 7.0% = *\$500,000 additional net revenue*
 - Steam: 6.0% = *\$200,000 additional net revenue*
 - *NOTE: Requires Public Hearing Process for implementation*
- Chilled Water based on minimum bill level, no rate increase
- Electric Wholesale
 - Lower revenue due to extended Belle River outage
 - Electric Wholesale margin:
 - *FY07 Budget = \$10.4 mm*
 - *FY07 Projected = \$20.4 mm*
 - *FY08 Budget = \$8.5 mm*
- Water Wholesale – rates being negotiated

Operating Expenses

- Reviews held with each department
- Increase of 3 FTE employees
- Salary increases
 - Bargaining = 3% effective 11-1-2007 per contract
 - Non-Bargaining = 3% effective 7-1-2007
 - +\$100K for equity adjustments / top performers
- Increase in Health Care cost = 12%
- 1st Full year of coal contract effective 1-1-07
- Continued amortization of Environmental Expenditures - \$1.1 mm
- Depreciation expense increased ~\$3m over FY07 budget, due to one time accounting change (~\$1m) and higher capital costs

Cash Flow Assumptions

- Use of accumulated cash balances to mitigate FY2008 net loss
- Total Capital expenditures = \$49.1 million
 - Electric: \$26.1 mm
 - Water: \$18.9 mm
 - Steam: \$3.6 mm
 - Chilled Water: \$.4 mm
- Proposed Bond Issue of \$40 million to fund water utility projects in FY08 and FY09
- Electric Utility fund for future environmental, new generation established at \$2 million per year

Projected Income Statement (by Utility)

\$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
PROJECTED INCOME STATEMENT FY 2008					
SALES (mwh, ccf, mlb, ton-hrs)	3,185,203	10,782,933	749,719	8,613,560	
Retail	168,161	25,566	9,677	4,591	207,995
Wholesale	<u>38,644</u>	<u>1,800</u>			<u>40,444</u>
OPERATING REVENUE	206,805	27,366	9,677	4,591	248,439
Operation & Maintenance Expense	(182,523)	(22,783)	(8,963)	(1,742)	(216,011)
Depreciation Expense	<u>(23,381)</u>	<u>(5,369)</u>	<u>(1,297)</u>	<u>(1,899)</u>	<u>(31,946)</u>
TOTAL OPERATING EXPENSE	(205,904)	(28,152)	(10,260)	(3,641)	(247,957)
OPERATING INCOME (Loss)	901	(786)	(583)	950	482
Payment to City	(8,133)	(1,077)	(387)	(184)	(9,781)
Other Non-Operating Income	5,983	1,866	231	103	8,183
Other Non-Operating Expense	<u>(1,723)</u>	<u>(1,071)</u>	<u>(28)</u>	<u>(1,831)</u>	<u>(4,653)</u>
NET INCOME (Loss)	(2,972)	(1,068)	(768)	(962)	(5,769)

Projected Cash Flow (by Utility)

\$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
PROJECTED CASH FLOW FY 2008					
BEGINNING OPERATING CASH	41,184	5,581	2,454	481	49,701
Sources of Cash					
Net Income	(2,972)	(1,068)	(768)	(962)	(5,769)
Depreciation	23,381	5,369	1,297	1,899	31,946
Working Capital Change	(1,637)				(1,637)
Bond Proceeds		<u>19,500</u>			<u>19,500</u>
SOURCES OF CASH	18,772	23,801	529	937	44,040
TOTAL BEG CASH AND SOURCES	59,956	29,383	2,983	1,418	93,741
Uses of Cash					
Debt Principal	(2,424)	(1,608)	(789)	(1,066)	(5,887)
Net Capital Expenditures	<u>(26,136)</u>	<u>(18,935)</u>	<u>(3,687)</u>	<u>(399)</u>	<u>(49,157)</u>
USES OF CASH	(28,561)	(20,542)	(4,476)	(1,465)	(55,044)
Cash Change in FY2008	(9,789)	3,259	(3,947)	(528)	(11,004)
ENDING OPERATING CASH	31,395	8,840	(1,492)	(46)	38,697

Beginning Operating Cash includes O & M Fund and Receiving Fund only, Designated funds and Restricted Bond Funds not included, (\$22.8 and \$22.3 million respectively as of March 31, 2007)

SUMMARY
ANNUAL CAPITAL ADDITIONS, PLANNED CAPITAL PROJECTS & BONDED CAPITAL PROJECTS
FISCAL YEAR 2007 - 2008 BUDGET
BOARD OF WATER AND LIGHT

Final

Dollars in (000's)	Total Project Estimates	Expenditures As Of 6/30/07	Expenditures Fiscal Year 2007-08	Total Project Balances	Fiscal Year 2007 - 2008 Funding			
					Cash Flow	Bond Fund	CIA^	Total
ELECTRIC								
Sub-Total Revenue	6,470	0	6,470	0	5,474	0	996	6,470
Sub-Total Non-Revenue	35,613	3,092	20,274	12,247	17,033	0	3,241	20,274
TOTAL ELECTRIC	42,083	3,092	26,744	12,247	22,507	0	4,237	26,744
WATER								
Sub-Total Revenue	11,412	0	11,412	0	0	0	11,412	11,412
Sub-Total Non-Revenue	52,613	13,564	17,224	21,825	16,839	0	385	17,224
TOTAL WATER	64,025	13,564	28,636	21,825	16,839	0	11,797	28,636
STEAM								
Sub-Total Revenue	825	0	825	0	805	0	20	825
Sub-Total Non-Revenue	2,596	0	2,596	0	2,596	0	0	2,596
TOTAL STEAM	3,421	0	3,421	0	3,401	0	20	3,421
CHILLED WATER								
Sub-Total Revenue	409	0	409	0	0	0	409	409
Sub-Total Non-Revenue	0	0	0	0	0	0	0	0
TOTAL CHILLED WATER	409	0	409	0	0	0	409	409
COMMON								
Sub-Total Revenue	855	0	855	0	855	0	0	855
Sub-Total Non-Revenue	6,631	275	5,555	801	5,555	0	0	5,555
TOTAL COMMON	7,486	275	6,410	801	6,410	0	0	6,410
CAPITAL BUDGET SUMMARY								
Sub-Total Revenue	19,971	0	19,971	0	7,134	0	12,837	19,971
Sub-Total Non-Revenue	97,453	16,931	45,649	34,873	42,023	0	3,626	45,649
TOTAL BUDGET	117,424	16,931	65,620	34,873	49,157	0	16,463	65,620

NOTE: Total FY2007 Budgeted Capital Expenditures = \$65,620 less \$16,463 (CIA) = \$49,157 less \$0 (Bond Funds) = \$49,157

^ CIA = Contribution in Aid