

AGENDA

FINANCE COMMITTEE MEETING

May 12, 2015

6:00 P.M. – 1201 S. Washington Ave.

REO Town Depot

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of 4/14/15.....**TAB 1**
- 2. March Financial Highlights **TAB 2**
- 3. FY16 O&M and Capital Budget Resolution **TAB 3**

Other

Adjourn

FINANCE COMMITTEE

APRIL 14, 2015

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, April 14, 2015.

Finance Committee Chairperson Dennis M. Louney called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Dennis M. Louney, Margaret Bossenbery, Tony Mullen and Sandra Zerkle. Also, present Commissioners McCloud, Thomas, Price and Ward.

Absent: None

The Corporate Secretary declared a quorum.

Public Comments

There was no Public Comment

Approval of Minutes

Motion by Commissioner Mullen, Seconded by Commissioner Bossenbery to approve the Finance Committee meeting minutes of March 10, 2015 with a motion correction to include the seconded motion on page #4 of the minutes.

Action: Motion Carried

February 2015 Financial Highlights

Chief Financial Officer (CFO) Heather Shawa-DeCook provided the Committee with a brief overview of the BWL's February financials based on current or year to date information. CFO Heather Shawa-DeCook reported the following information:

- Cash balance days on hands, at the end of February is under our target, however as of April 10th, we are above target.
- Revenue year to date is 6% under budget; however, that is a 1% improvement over January.
- Net Income and Return on Assets year to date, is exceeding the budget even with revenues being under.

FY15 Update Year End Projections

CFO Heather Shawa-DeCook provided highlights from the recent review of the BWL's Fiscal Year End Projections. The highlighted information reported included:

- Cash balance days on hands is projected to be under target by the end of the fiscal year primarily due to Quarter 4 being heavy with annual projects and capital projects cash outflow.
- Revenue is projected at year end to be at a 5% shortfall from the original budget and as a result, the revenue is projected to be \$350 million versus an original revenue budget projection of \$369 million.
- Net Income Return on Assets is looking to exceed the initial budget and are projected currently at a \$4.8 million net income versus an initial budget net income of \$2.5 million. These numbers are based on key assumptions of 8 months of actual revenue and expenses and the remaining 4 months, factoring in a 3% reduction to the revenues that were budgeted originally and then the reductions that were put in place 2nd quarter from across the board from a management stance.

There was discussion regarding the goal set of a 6.18% return on assets and if it was reasonable. Commissioner Ward questioned if this subject could be revisited. After a conversation regarding the set return rate, Finance Committee Chair Louney stated that the Finance Committee could bring this issue up for discussion at a future Finance Committee meeting and take a comprehensive look and review the policy to explore and examine a better proposal to see what percentage amount the Board could establish and actually achieve.

IPS Amendment Resolution

Chief Financial Officer (CFO) Heather Shawa-DeCook presented the Committee with a proposed Resolution for the Investment Policy Statement for Operating Funds (IPS). Ms. Shawa-DeCook stated that this Resolution is being proposed due to organizational and title changes as well as to reflect updated industry practices.

Motion by Commissioner Mullen, Seconded by Commissioner Zerkle to forward the proposed Resolution to the full Board for consideration.

Action: Motion Carried

Other

Commissioner Mullen spoke about the staffing needs of the Board's appointed employees. He stated that he has had discussions with various people as to how to accomplish fulfilling the appointed employee's needs under the City of Lansing Charter confines. Commissioner Mullen stated that this can be accomplished by authorizing money specifically in the Corporate Secretary's and Internal Auditor's budget and they can hire the help they need, as they know

best what is needed. This need can be accomplished and implemented through the budget process and the Board can vote, as to whether or not to accept this action when voting on the budget. Board Chair Price stated that, as part of this dialogue there needs to be discussion as to whether or not there is internal capacity that is currently underutilized within the BWL that can be inserted to assist the employees, as an option.

Adjourn

On **Motion** by Commissioner Mullen, seconded by Commissioner Zerkle, the meeting adjourned at 5:49 p.m.

Respectfully submitted
Dennis M. Louney, Chair
Finance Committee

**FINANCIAL SUMMARY FOR
March-15**

Cash Balance

	Month End Balance	Target	Difference	%
O&M Fund	\$ 81,928,131	\$ 80,126,021	\$ 1,802,110	2%
Days Cash on Hand	169	180		
Credit Rating	AA-			
Debt Service Coverage - Rating Agencies	1.67	2.35		
Debt Service Coverage - Bond Covenants	2.23	1.25		

Total Cash	\$ 213,828,299 =	\$ 81,928,131 +	\$ 91,146,980 +	\$ 40,753,188
		O&M Fund	Designated Funds	Restricted Funds

Budget Status O&M - YTD

	Actual YTD	YTD Budget	Difference	%
Excluding Fuel	\$ 103,544,838	\$ 108,388,507	\$ (4,843,669)	-4%

Financial Statements YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	(%) +/-
Revenue	\$ 265,381,720	\$ 280,525,233	\$ (15,143,513)	-5%	\$ 264,910,014	\$ 471,706	0.2%
Retail	\$ 241,145,028	\$ 247,062,116	\$ (5,917,087)		\$ 236,980,277	\$ 4,164,751	1.8%
Wholesale	\$ 24,236,692	\$ 33,463,117	\$ (9,226,425)		\$ 27,929,737	\$ (3,693,045)	-13.2%
Oper Expense	\$ 231,433,592	\$ 248,514,699	\$ (17,081,107)	-7%	\$ 226,780,670	\$ 4,652,922	2.1%
Non Oper	\$ (23,450,182)	\$ (27,193,742)	\$ 3,743,560		\$ (22,941,927)	\$ (508,255)	2.2%
Net Income	\$ 10,497,946	\$ 4,816,792	\$ 5,681,154		\$ 15,187,417	\$ (4,689,471)	-30.9%

	Actual YTD	YTD Budget	Target
Return on Assets	2.75%	2.19%	6.18%

Ratios

Operating Ratio	O&M Expenses	/	Revenue	=	Measures efficiency	APPA Median
	\$ 202,482,182		\$ 265,381,720		0.76	0.719

Current Ratio	Current Assets	/	Current Liabilities	=	Measures Liquidity	APPA Median
	\$ 278,710,583		\$ 43,299,595		6.44	1.800

Debt to Total Assets	LT Debt + Accrued Liabilities	/	Total Assets	=	Measures Leverage	APPA Median
	\$ 409,862,432		\$ 1,162,513,722		0.353	0.579

Revenue per KWh	KWH	Electric Revenue	Revenue/KWH	Last YTD
Retail				
Residential	431,827,501	\$ 59,970,641	0.139	0.130
Commercial	866,744,922	\$ 100,888,614	0.116	0.112
Industrial	274,646,067	\$ 27,622,396	0.101	0.093
Wholesale	541,963,866	\$ 21,876,594	0.040	0.050
Other	28,343,706	\$ 10,610,993	N/A	N/A

Receivable Turnover	Sales	/	Accounts Receivable Balance	=	Turnover	Last YTD
	\$ 265,381,720		\$ 26,316,713		10.08	10.54

Bad Debt	Actual YTD	YTD Budget	Over/(under)	% of Revenue Total	Last YTD
	\$ 2,043,704.19	\$ 1,499,999.00	\$ 543,705.19	0.77%	0.57%

Employee Data

Employee Count	Actual YTD	YTD Budget	Over/(under)
	735	743	(8)
	Bargaining = 459	62.45%	
	Non Bargaining= 276	37.55%	

Payroll Data	Actual YTD	YTD Budget	Difference	Actual Prior YTD	Difference	(%) +/-
Total Labor	\$ 44,108,631	\$ 44,034,832	\$ 73,799	\$ 40,981,880	\$ 3,126,751	7.6%
Regular	\$ 38,114,443	\$ 39,399,132	\$ (1,284,689)	\$ 35,345,417	\$ 2,769,026	7.8%
Overtime	\$ 5,994,188	\$ 4,635,700	\$ 1,358,488	\$ 5,636,463	\$ 357,725	6.3%
Total Hours Worked	987,293			913,163		
Labor Expense/Hours Worked	\$ 44.68			\$ 44.88		
APPA Median	\$ 41.57					

Benefits Cost

(Including Retirees)	Actual YTD	YTD Budget	Difference
Health	\$ 10,417,365	\$ 9,660,595	\$ 756,770
RX	\$ 2,495,898	\$ 2,240,730	\$ 255,168
Dental	\$ 855,969	\$ 985,329	\$ (129,360)
Life	\$ 169,193	\$ 238,184	\$ (68,991)
FICA	\$ 3,243,854	\$ 3,300,432	\$ (56,578)
Other	\$ 1,367,471	\$ 2,621,947	\$ (1,254,476)
	\$ 18,549,750	\$ 19,047,217	\$ (497,467)

Operating Ratio - Measures the proportion of revenues to cover the operation and maintenance costs

Current Ratio - Measures whether current assets are sufficient to pay current liabilities within one year.

Debt to Total Assets Ratio - Measures the ability to meet its current and long-term liabilities based on the availability of assets.

* APPA Median Source is the APPA Selected Financial and Operating Ratios of Public Power Systems, 2013 Data. Specifically Utilities with over 100,000 Customer Class Size
This publication is always 2 years behind

PROPOSED RESOLUTION

Fiscal Year 2016 Operating and Capital Budget

RESOLVED, that the annual Operating Budget covering Fiscal Year 2016 is hereby approved as presented; and

RESOLVED, that the Fiscal Year 2016 Capital Budget is hereby approved as presented; and

RESOLVED FURTHER, 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: In accordance with the provisions of the Lansing City Charter, Article 5, Chapter 2, Section 5-203.5, staff recommends an operating and maintenance budget of \$294.6 million and a capital budget of \$65.1 million for Fiscal Year 2016. The capital budget is to provide for on-going services to our utility customers and to sustain our plant facilities for future operations. Staff recommends that the Finance Committee approve these budgets and resolution for presentation and adoption by the Board at its May 26, 2015 Board meeting.

FY 2016 Financial Plan



Finance Committee Meeting May 12, 2015
Board Meeting May 26, 2015

FY 2016 Financial Plan

- FY 2016 Financial Plan
 - Sales forecast
 - Operating expense assumptions
 - FY 2016 O&M Budget by Category
 - FY 2016 Budgeted Net Income & Cash Flow
 - Comparative Financials (FY 2016 vs FY 2015)
- FY 2016 Capital Budget
- Next Steps

Sales Volume Forecast

Utility	FY16 Budget	FY15 Budget	'16 Budget to '15 Budget
Electric-Retail (mwh)	2,141,490	2,189,661	-2.2%
Electric-Wholesale (mwh)	<u>1,024,306</u>	<u>871,399</u>	<u>17.5%</u>
Electric - Total (mwh)	3,165,796	3,061,060	3.4%
Water (ccf)	9,098,538	9,460,006	-3.8%
Steam (mlb)	764,969	730,936	4.7%
Chilled Water (tnhrs)	10,098,000	10,307,100	-2.0%

Electric:

- Retail sales volumes by customer class are expected to decrease slightly compared to FY 2015 Budget but increase slightly above actuals for FY 2015.
- Wholesale sales volumes are expected to increase as a result of fewer generation outages planned in FY 2016.

Water:

- Retail sales volumes are expected to decrease slightly in FY 2016 as a result of increased conservation and efficiency. Wholesale sales to East Lansing-Meridian are expected to decline due to loss of sales to State Road Interconnect.

Steam:

- Steam sales volumes have been increased slightly to better reflect actual experience over the last five years.

Chilled Water:

- Chilled water sales volumes have been decreased slightly to better reflect recent actual experience.

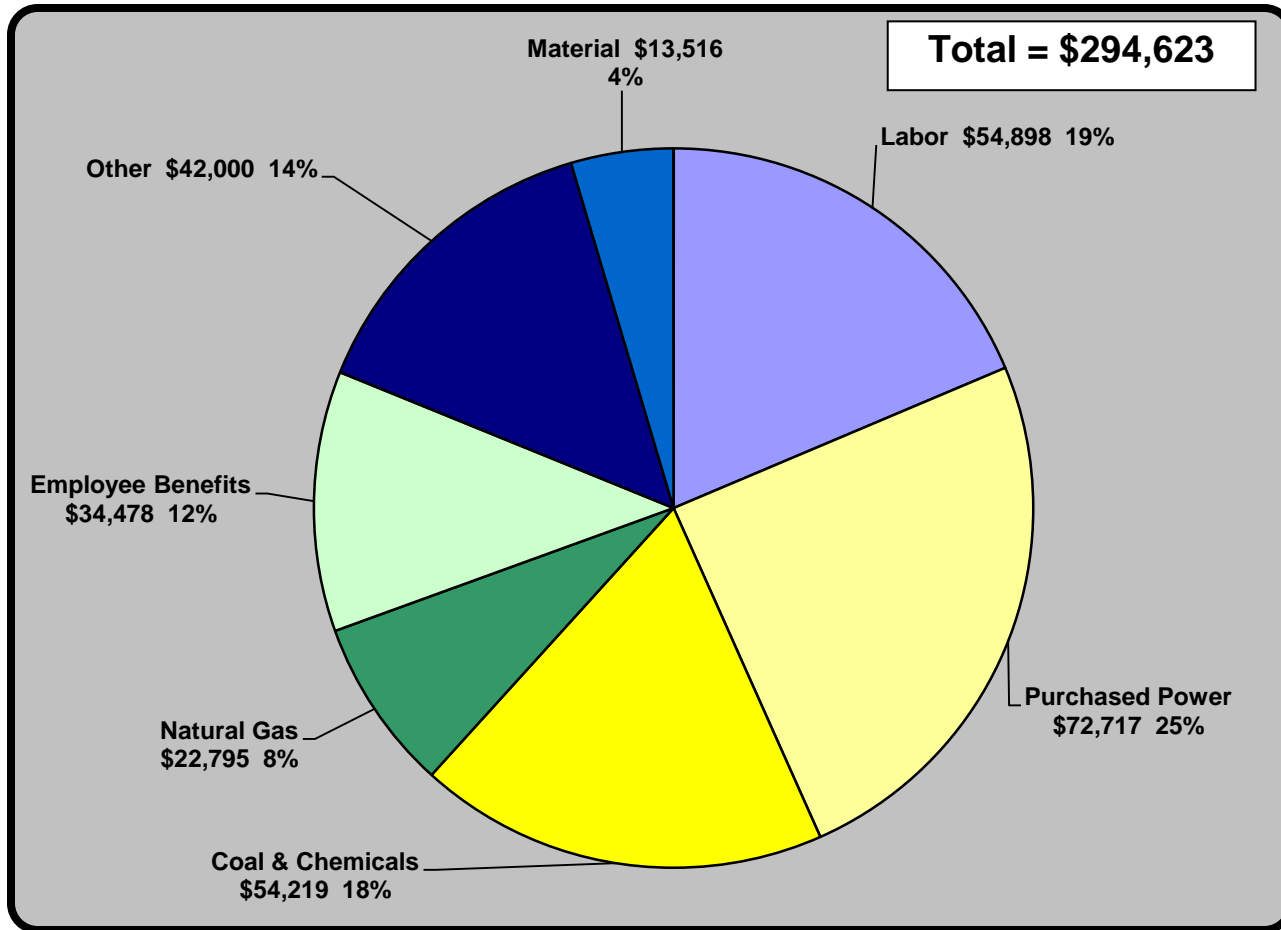
Operating Expense Assumptions

- Overall FY 2016 O&M increase of 2.2% compared to FY 2015 Budget. This increase is primarily attributable to inflationary pressure.
- Forecasted CPI Index 2.3% inflation*
- Budget assumes 754 FTEs – an increase of 1.1% over the FY 2015 budget

* The Budget and Economic Outlook:2015 to 2025 – Congress of the United States
Congressional Budget Office

FY 2016 O&M Budget by Category

-in \$000's, excludes depreciation



FY 2016

Income Statement by Utility

\$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
SALES (mwh, ccf, mlb, ton-hrs)	3,127,275	9,098,538	764,969	10,098,000	
Retail	\$ 277,182	\$ 36,516	\$ 13,187	\$ 5,782	\$ 332,667
Wholesale	\$ 40,471	\$ 3,537	\$ -	\$ -	\$ 44,008
OPERATING REVENUE	\$ 317,653	\$ 40,053	\$ 13,187	\$ 5,782	\$ 376,675
Operation & Maintenance Expense	\$ (256,399)	\$ (26,760)	\$ (9,133)	\$ (2,331)	\$ (294,623)
Depreciation Expense	\$ (32,000)	\$ (7,042)	\$ (2,669)	\$ (1,514)	\$ (43,225)
TOTAL OPERATING EXPENSE	\$ (288,399)	\$ (33,802)	\$ (11,802)	\$ (3,845)	\$ (337,848)
OPERATING INCOME (LOSS)	\$ 29,255	\$ 6,250	\$ 1,385	\$ 1,937	\$ 38,827
Return on Equity	\$ (19,144)	\$ (2,408)	\$ (794)	\$ (353)	\$ (22,699)
Other Non-Operating Income	\$ 262	\$ 779	\$ (173)	\$ 45	\$ 913
Other Non-Operating Expense	\$ (10,318)	\$ (1,928)	\$ (1,920)	\$ (614)	\$ (14,781)
NET INCOME/ (LOSS)	\$ 55	\$ 2,693	\$ (1,502)	\$ 1,015	\$ 2,261
RATE OF RETURN	2.3%	2.0%	0.6%	5.9%	2.2%

FY 2016 Cash Flow by Utility

\$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
BEGINNING OPERATING CASH	\$ 58,092	\$ 12,932	\$ 5,384	\$ 3,718	\$ 80,126
Sources of Cash					
Net Income	\$ 55	\$ 2,693	\$ (1,502)	\$ 1,015	\$ 2,261
Depreciation	\$ 32,000	\$ 7,042	\$ 2,669	\$ 1,514	\$ 43,225
Loss on Sale of Assets	\$ 711	\$ 371	\$ 260	\$ -	\$ 1,342
Reserve for Future Construction	\$ 18,573	\$ 4,135	\$ 1,721	\$ 1,189	\$ 25,617
Net Environmental	\$ 3,513	\$ -	\$ 114	\$ -	\$ 3,627
Pipeline Refund	\$ 2,390	\$ -	\$ 455	\$ -	\$ 2,845
SOURCES OF CASH	\$ 57,241	\$ 14,241	\$ 3,717	\$ 3,718	\$ 78,917
Uses of Cash					
Debt Principal	\$ (5,364)	\$ (1,694)	\$ (1)	\$ (1,425)	\$ (8,484)
Net Capital Expenditures	\$ (47,841)	\$ (11,304)	\$ (5,249)	\$ (677)	\$ (65,072)
Renewable Energy Plan	\$ (1,000)	\$ -	\$ -	\$ -	\$ (1,000)
Other Uses of Cash	\$ (3,431)	\$ (40)	\$ (17)	\$ (12)	\$ (3,500)
USES OF CASH	\$ (57,637)	\$ (13,038)	\$ (5,267)	\$ (2,114)	\$ (78,055)
Net Cash Increase/(Decrease)	\$ (396)	\$ 1,204	\$ (1,549)	\$ 1,604	\$ 862
ENDING OPERATING CASH	\$ 57,696	\$ 14,136	\$ 3,835	\$ 5,322	\$ 80,988

Beginning Operating Cash includes O & M Fund and Receiving Fund only, Designated funds and Restricted Bond Funds not included, (\$91.3 and \$40.2 million respectively as of March 31, 2015)

Comparative Income Statement

*Based on Initial Requests Prior
to Strategic Alignment and Review*

<i>In \$000's</i>			
	FY 2016 Budget	FY 2015 Budget	Increase/ (Decrease)
OPERATING REVENUE	\$ 376,675	\$ 369,652	1.90%
OPERATION AND MAINTENANCE EXPENSE			
GROSS LABOR:			
TOTAL GROSS LABOR	66,308	60,308	9.95%
MATERIAL	24,713	12,047	105.14%
OTHER - Including Benefits	56,269	53,070	6.03%
OUTSIDE SERVICES	44,309	26,021	70.28%
FUELS, WATER CHEMICALS & AMINE	149,730	149,930	-0.13%
Costs transferred to Capital Budget	<u>(13,077)</u>	<u>(12,980)</u>	0.75%
OPERATION AND MAINTENANCE EXPENSE	\$ 328,253	\$ 288,396	13.82%
Depreciation Expense	<u>43,225</u>	<u>41,818</u>	3.36%
TOTAL OPERATING EXPENSE	\$ 371,478	\$ 330,235	12.49%
OPERATING INCOME	\$ 5,197	\$ 39,417	-86.81%
Return on Equity	(22,699)	(22,271)	1.92%
Other Non-Operating Income/(Expense)	(13,867)	(14,613)	-5.11%
NET INCOME	\$ (31,368)	\$ 2,534	-1337.89%

Comparative Income Statement

After Strategic Alignment and Review

<i>In \$000's</i>			
	FY 2016 Budget	FY 2015 Budget	Increase/ (Decrease)
OPERATING REVENUE	\$ 376,675	\$ 369,652	1.90%
OPERATION AND MAINTENANCE EXPENSE			
GROSS LABOR:			
TOTAL GROSS LABOR	61,201	60,308	1.48%
MATERIAL	13,516	12,047	12.20%
OTHER - Including Benefits	54,101	53,070	1.94%
OUTSIDE SERVICES	30,037	26,021	15.43%
FUELS, WATER CHEMICALS & AMINE	149,730	149,930	-0.13%
Costs transferred to Capital Budget	<u>(13,963)</u>	<u>(12,980)</u>	7.57%
OPERATION AND MAINTENANCE EXPENSE	\$ 294,623	\$ 288,396	2.16%
Depreciation Expense	<u>43,225</u>	<u>41,818</u>	3.36%
TOTAL OPERATING EXPENSE	\$ 337,848	\$ 330,235	2.31%
OPERATING INCOME	\$ 38,827	\$ 39,417	-1.50%
Return on Equity	(22,699)	(22,271)	1.92%
Other Non-Operating Income/(Expense)	(13,867)	(14,613)	-5.11%
NET INCOME	\$ 2,261	\$ 2,534	-10.76%

FY2016 Capital Budget



May 26, 2015

FY 2016 Capital Budget Summary

Dollars in (000's)

UTILITY

ELECTRIC	\$ 38,962
WATER	\$ 8,106
STEAM	\$ 4,506
CHILLED WATER	\$ 300
COMMON	<u>\$ 13,197</u>
TOTAL BUDGET	\$ 65,072

LOCATION

ECKERT	\$ 8,026
ERICKSON	\$ 1,600
T&D	\$ 40,009
DYE/CEDAR	\$ 1,355
OTHER	<u>\$ 14,081</u>
	\$ 65,072

FY 2016 Capital Budget – Major Projects/Programs

<u>Project Title</u>	<u>Project Total</u>	<u>FY 2016</u>
SAP CRB (CARE)	14,828,000	6,907,000
* Erickson to Willow 138kV Line Extension	20,100,000	3,500,000
Moores Park Dam Gate Hoist and Phase 2 Dam Repairs	4,160,000	3,010,000
ESI Annual Rebuild T&D Systems	19,175,984	3,002,000
FY 2016 Lead Service Replacement	42,812,000	2,700,000
Smart Grid Implementation	30,950,000	2,500,000
Street, Building and Outdoor Protective Lighting	16,258,250	2,260,000
Services and Line Extensions	15,927,844	2,200,000
* Wise Substation double Ending	7,160,000	2,050,000
* North East Static VAR compensator	10,000,000	2,000,000
Eckert Unit 4, 5, and 6 Mercury Capture ACI System	2,249,441	1,967,441
Annual Purchase/Scrap Transformers/Regulators	8,847,013	1,385,000
Frandon Overhead 4160V Sub Cutover and Retirement	1,375,000	1,350,000
Michigan Ave Stm from Washtn to Alley 6	1,326,600	1,326,600
Substation Modernization - EOP 8	1,894,500	1,294,500
Forbes 4160V Substation Retirement	2,823,900	1,230,000
FY 2016, Budget Line 31: Annual Manhole Rplcmt	7,674,223	1,186,416
Eckert Steam Send-Out	1,090,000	1,030,000
* Wise Bus 2 Distribution	3,000,000	1,000,000
* Miller 8320 Cutover	1,500,000	1,000,000
ADMS	2,000,000	1,000,000

* These projects are part of the Electric Transmission & Distribution Plan

Next Steps

- Request the Board approve the FY 2016 Operating & Capital Budgets
 - *Requested approval at May 26th Board meeting*
 - *City Charter calls for budget adoption by June 1, 2015*
- File FY 2016 Operating Budget & Capital Budget with the City Clerk within 10 days after approval