BWL

LANSING BOARD OF WATER AND LIGHT

FINANCE COMMITTEE MEETING AGENDA

Tuesday, May 10, 2016
6:00 P.M. — 1201 S. Washington Ave.
Lansing, MI — REO Town Depot
Board of Water & Light Headquarters

Call to Order

Roll Call

1. Public Comments on Agenda Items

2. Finance Committee Meeting Minutes of March 8, 2016.....TAB 1

3. Update on Open Internal Audit Management Responses..... TAB 2

4. March YTD Financial Summary.....TAB 3

5. Financial Summary Section Overview (Employee Data).....TAB 4

6. FY 17 Budget Presentation/Resolution.....TAB 5

7. Public Comment

Other

Adjourn

MINUTES OF MARCH 8, 2016

NOT

AVAILABLE

AT THE

TIME OF PREPERATION

STATUS OF MANAGEMENT RESPONSES TO INTERNAL AUDITS
APRIL 2016

In accordance with Board Resolution #2014-07-05

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
Open Issues:					
12	Record Retention	Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.	March 2014	Human Resources	I-9 forms are on file for all active employees. An appropriate retention schedule for the asbestos bills of lading was determined and updated as part of the overall review of the Record Retention Schedule. An updated schedule was approved by the Committee of the Whole on 3/8/16. Filing for State Administrative Board approval occured on 4/14/16, with the approval process expected to take approximately three months.
13	Record Retention	The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.	March 2014	Enterprise Content Management	Enterprise Content Management has reviewed the existing Record Retention Schedule with the appropriate departments and cataloged all proposed revisions. An updated schedule was approved by the Committee of the Whole on 3/8/16. Filing for State Administrative Board approval occured 4/14/16, with the approval process expected to take approximately three months.
17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	August 2014	General Accounting	A General Accounting Procedure Manual is being developed, with expected completion by 12/31/16.
27	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	Work on identifying data on any mobile devices in need of encryption was able to begin once the mobile device usage guidelines (referred to under now-closed issue #26) were established. Completion by 6/30/16 is anticipated.
29	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Once any data accessed via mobile devices is determined to be in need of encryption (i.e., once issue #27 is addressed), it can be determined to what extent procuring and implementing software with remote cleaning capabilities would be cost beneficial. It is anticipated that this issue will be addressed by 9/30/16.
30	Management of Mobile Devices	Internal Audit recommended disabling data ports on mobile devices.	Sept 2015	Information Technology	Any needed disabling of data ports will be complete by 9/30/16.
33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	A successful stress test was performed 4/13/16. Management is reviewing vendor capacity reports and modifying documented procedure to include requirements for a narrative of test results and formal business owner acceptance of test criteria and results. Completion targeted for 6/30/16.
34	Training & Development	Internal Audit supports plans for a new database for tracking training and use of standardized criteria for periodic training course review and training of trainers, on an organization-wide basis.	Dec 2015	Organizational Training & Development	A new "LMS" database has been implemented and training and use of it is in the process of being rolled out, with completion expected by 6/30/16.

Closed Issues (since 12/31/15 report):

26	Management of Mobile Devices	The Internal Auditor noted that guidelines for mobile device management should be documented.	Sept 2015	Information Technology	Guidelines on the use of mobile devices have been completed.
28	Management of Mobile Devices	Internal Audit questioned whether contract terms and conditions covering data loss and manipulation are sufficient.	Sept 2015	General Counsel	Contract terms and conditions covering data loss and manipulation have been updated.
31	Outage Management System	The Internal Auditor found that procurement procedures regarding technical evaluation during the RFP process need clarification.	Oct 2015	Purchasing	Procurement procedures were updated effective 4/1/16.
35	Training & Development	Employee time which can be categorized as a form of training time was found to not always be identified as such.	Dec 2015	Organizational Training & Development	Refresher training of trainers, including the proper procedures for reporting training time, was completed on 2/20/16.
36	Training & Development	End-of-course evaluations are not always completed by attendees and Organizational Training & Development does not always provide a written summary analysis of evaluations back to trainers, particularly if there are no suggested improvements to consider.	Dec 2015	Organizational Training & Development	Refresher training of trainers, including review of expectations for course evaluation/feedback processes, was completed on 2/20/16.

Financial Summary - March 2016

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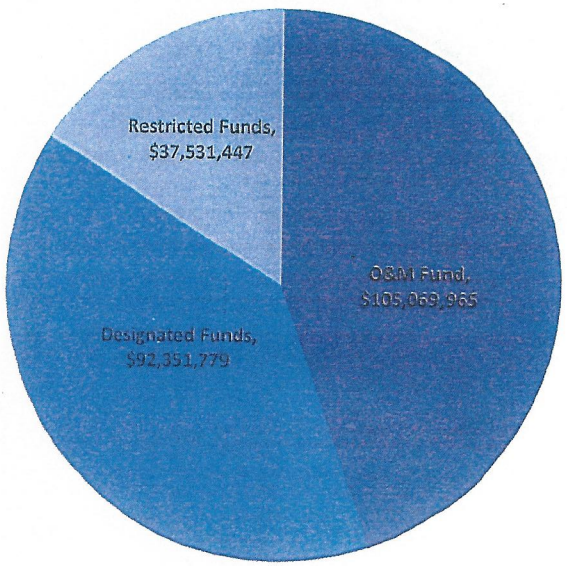
Cash



Total Cash: $234,953,191

	Month End	Target
Days Cash on Hand	189	150-249
Credit Rating	AA-	AA-
Debt Service Coverage - Rating Agencies	1.80	2.00-2.49
Debt Service Coverage - Bond Covenants	2.53	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are provided by Moody's as expected performance for a AA- rated electric utility with generation.

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	$ 252,504,882	$ 254,718,491	(2,213,609)	-1%	$ 241,145,028	$ 11,359,854	5%
Wholesale	$ 22,883,787	$ 33,839,390	(10,955,603)	-32%	$ 24,236,692	$ (1,352,905)	-6%
Total Revenue	$ 275,388,669	$ 288,557,881	(13,169,212)	-5%	$ 265,381,720	$ 10,006,949	4%
Operating Expenses	$ 228,555,422	$ 253,707,210	(25,151,788)	-10%	$ 231,403,725	$ (2,848,303)	-1%
Non Operating	$ (24,376,231)	$ (27,258,168)	2,881,937	-11%	$ (23,480,049)	$ (896,182)	4%
Net Income	$ 22,457,016	$ 7,592,503	14,864,513	196%	$ 10,497,946	$ 11,959,070	114%

Projected FY 2016 Net Income	$ 10,612,998

Budget Status YTD

O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
$ 151,856,345	$ 101,777,713	$ 112,366,043	(10,588,330)	-9%
% of Approved Budget	67%	74%		

Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
$ 65,071,605	$ 27,617,671	$ 44,640,318	(17,022,647)	-38%
% of Approved Budget	42%	69%		

Adjusted Net Income Return

Actual YTD	YTD Budget	Target
4.51%	2.52%	6.18%

Debt Sevice Coverage - Rating Agencies - (Projected Net Income + Depreciation Expense + Interest Expense + Fixed Obligations*) / (Debt Service + Fixed Obligations)

*Fixed obligations represent Belle River Debt Service

Adjusted Net Income Return - Actual YTD Net Income increased for interest expense / Net Fixed Assets + Inventory

Financial Summary - March 2016

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Ratios

Operating Ratio

				APPA Median
O&M Expense	$ 197,891,938	=	0.72	0.71
Revenue	$ 275,388,669			

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

Current Ratio

				APPA Median
Current Assets	$ 218,214,925	=	4.38	2.07
Current Liabilities	$ 49,815,752			

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

Debt to Total Assets

				APPA Median
LT Debt + Accrued Liabilities	$ 412,845,319	=	0.40	0.61
Total Assets	$ 1,026,447,248			

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

Days' Sales Outstanding

				Prior Year
Accounts Receivable	$ 19,546,921	=	0.68	26
Average Sales	$ 28,806,844		X 31	
			21	Days

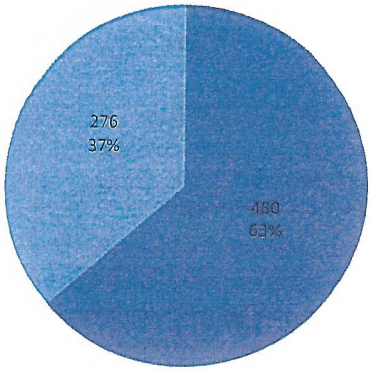
Bad Debt

APPA Median 0.28%

Actual YTD	YTD Budget	Over/(Under)	% of Revenue
$1,233,549	$1,393,350	-$159,801	0.45%

Employee Data

Employee Count YTD	756
Budget YTD	766
Over (Under) #	(10)
Over (Under) %	-1.3%
Prior YTD	735
Difference	21
Temporary Employee YTD	20



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	$ 39,878,119	$ 40,298,559	$ (420,440)	-1.0%	$ 38,114,443	$ 1,763,676	4.6%
Overtime	$ 5,455,470	$ 4,365,836	$ 1,089,634	25.0%	$ 5,994,188	$ (538,718)	-9.0%
Total	$ 45,333,589	$ 44,664,395	$ 669,194	1.5%	$ 44,108,631	$ 1,224,958	2.8%
Total Hours Worked	1,001,216				987,293		
Labor/Hours Worked	$ 45.28				$ 44.68		

APPA Median	$ 44.13

APPA Median data is based on 2014 numbers and does not reflect subsequent labor inflation.

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	$ 9,328,038	$ 10,401,415	$ (1,073,377)
RX	$ 2,322,401	$ 2,411,574	$ (89,173)
Dental	$ 761,999	$ 1,019,066	$ (257,067)
Life	$ 211,802	$ 238,477	$ (26,675)
FICA	$ 3,381,791	$ 3,351,705	$ 30,086
Other	$ 2,133,873	$ 2,577,189	$ (443,316)
Total	$ 18,139,905	$ 19,999,426	$ (1,859,521)

Financial Summary - March 2016

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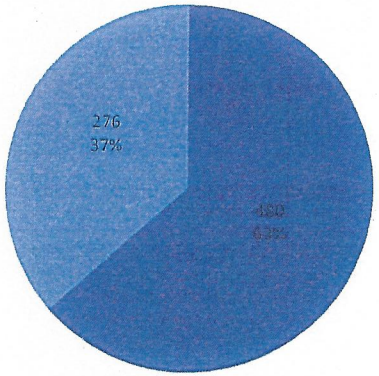

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PROPOSED RESOLUTION

Fiscal Year 2017 Operating and Capital Budget

RESOLVED, that the annual Operating Budget covering Fiscal Year 2017 is hereby approved as presented; and

RESOLVED, that the Fiscal Year 2017 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 $278.3 million and a capital budget of $60.8 million for Fiscal Year 2017. 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 24, 2016 Board meeting.

FY 2017 Financial Plan

Finance Committee Meeting May 10, 2016
Board Meeting May 24, 2016

FY 2017 Financial Plan

- FY 2017 Financial Plan
  - Sales forecast
  - Operating expense assumptions
  - FY 2017 O&M Budget by Category
  - FY 2017 Budgeted Net Income & Cash Flow
  - Comparative Financials (FY 2017 vs FY 2016)
- FY 2017 Capital Budget
- Next Steps

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Sales Volume Forecast

Utility	FY 17 Budget	FY 16 Budget	'17 Budget to '16 Budget	FY 16 Updated Forecast
Electric-Retail (MWh)	2,137,145	2,141,490	-0.20%	2,091,543
Electric-Wholesale (MWh)	767,770	1,024,306	-25.0%	749,546
Electric-Total (MWh)	2,904,915	3,165,796	-8.2%	2,841,089
Water (ccf)	8,534,134	9,098,538	-6.2%	8,446,952
Steam (mlb)	744,469	764,969	-2.7%	676,784
Chilled Water (tnhrs)	10,288,000	10,098,000	2%	11,430,000

Electric:

- Retail sales volumes by customer class are expected to decrease slightly compared to FY 2016 Budget. The slight decrease better reflects actual experience over the last five years.
- Wholesale sales volumes have declined as a result of a decline in expected future market prices. Generation is forecasted to be dispatched at lower levels due to the lower prices.

Water:

- Retail and wholesale water sales have been decreased to better reflect actual experience over the last five years.

Steam:

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

Chilled Water:

- Chilled water sales volumes have been increased slightly to reflect increased customer usage.

Comparative Income Statement

Based on Initial Requests Prior to Strategic Alignment and Review

In $000's	FY 2017 Budget	FY 2016 Budget	Increase/ (Decrease)
OPERATING REVENUE	**$ 366,415**	**$ 376,675**	-3%
OPERATION AND MAINTENANCE EXPENSE			
GROSS LABOR	65,908	61,201	8%
LABOR TO CAPITAL	(6,541)	(6,303)	4%
NET LABOR	59,367	54,898	8%
MATERIAL	14,209	13,516	5%
OTHER - Including Benefits	42,581	46,441	-8%
OUTSIDE SERVICE	40,050	30,037	33%
FUELS, WATER CHEMICALS & AMINE	143,202	149,730	-4%
OPERATIONS AND MAINTENANCE EXPENSE	$ 299,409	$ 294,623	2%
Depreciation Expense	43,153	43,225	0%
TOTAL OPERATING EXPENSE	**$ 342,562**	**$ 337,848**	1%
OPERATING INCOME	**$ 23,853**	**$ 38,827**	-39%
Return on Equity	(22,007)	(22,699)	-3%
Other Non-Operating Income/(Expense)	(12,810)	(13,867)	-8%
NET INCOME	**$ (10,964)**	**$ 2,261**	-585%

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Comparative Income Statement

After Strategic Alignment and Review

In $000's	FY 2017 Budget	FY 2016 Budget	Increase/ (Decrease)
OPERATING REVENUE	**$ 366,415**	**$ 376,675**	-3%
OPERATION AND MAINTENANCE EXPENSE			
GROSS LABOR	62,507	61,201	2%
LABOR TO CAPITAL	(7,255)	(6,303)	15%
NET LABOR	55,252	54,898	1%
MATERIAL	12,357	13,516	-9%
OTHER - Including Benefits	44,131	46,441	-5%
OUTSIDE SERVICE	27,502	30,037	-8%
FUELS, WATER CHEMICALS & AMINE	139,089	149,730	-7%
OPERATIONS AND MAINTENANCE EXPENSE	$ 278,331	$ 294,623	-6%
Depreciation Expense	43,153	43,225	0%
TOTAL OPERATING EXPENSE	**$ 321,484**	**$ 337,848**	-5%
OPERATING INCOME	**$ 44,931**	**$ 38,827**	16%
Return on Equity	(22,007)	(22,699)	-3%
Other Non-Operating Income/(Expense)	(12,810)	(13,867)	-8%
NET INCOME	**$ 10,113**	**$ 2,261**	347%

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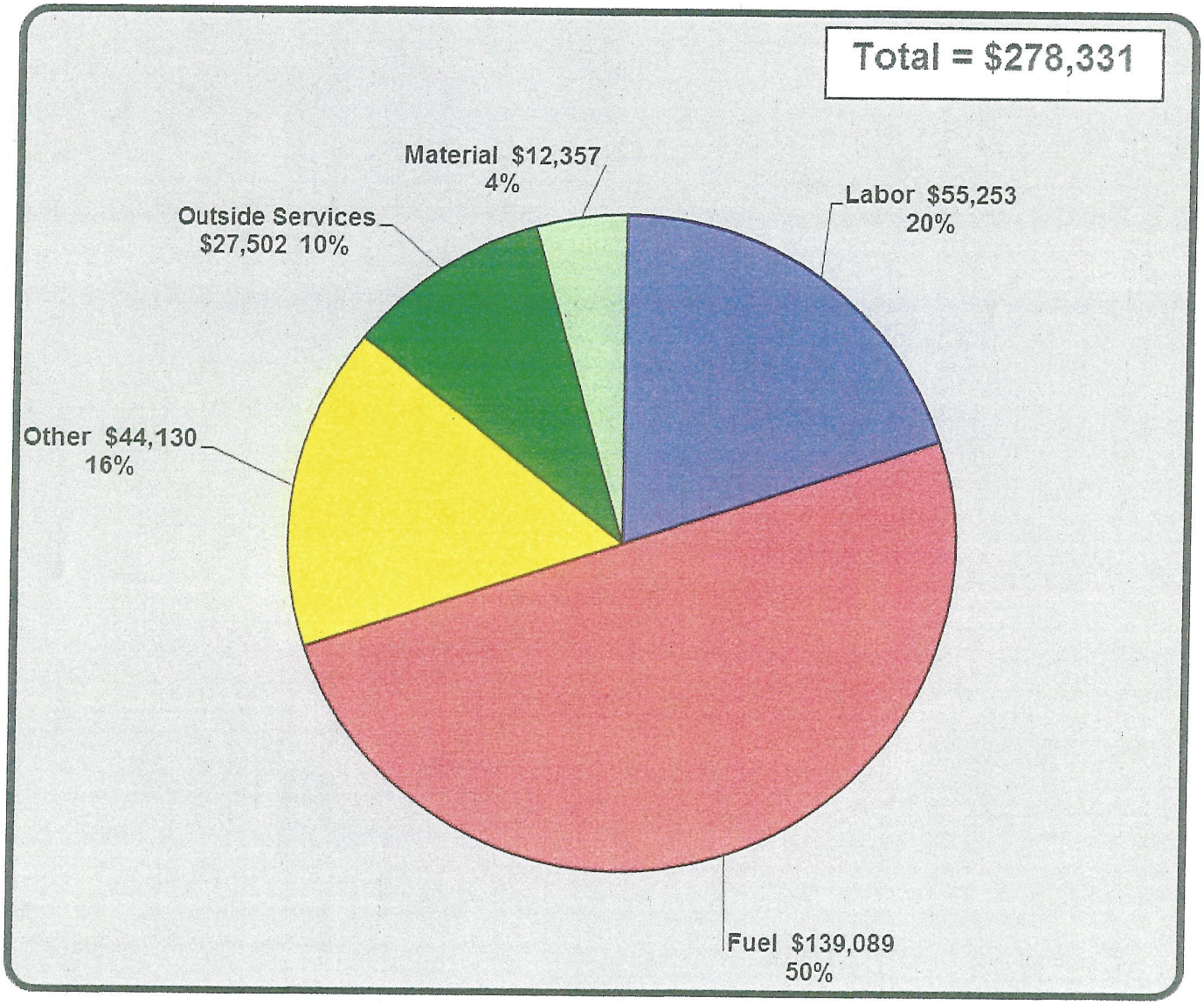
Operating Expense Assumptions

- Overall FY 2017 O&M decreased by 6% compared to FY 2016 Budget.
- Budget assumes 754 FTEs – the same as the FY 16 budget.

Forecasted CPI Index shows 2.4% inflation. (The Budget and Economic Outlook:2016 to 2026 – Congress of the United States Congressional Budget Office)

FY 2017 O&M Budget by Category

-in $000's, excludes depreciation



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FY 2017

Income Statement by Utility

$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
SALES (MWh, ccf, Mlb, ton-hr	2,904,915	8,534,134	774,469	10,288,000	22,501,518
Retail	$ 279,805	$ 36,257	$ 12,419	$ 5,707	$ 334,188
Wholesale	$ 28,916	$ 3,311	$ -	$ -	$ 32,227
OPERATING REVENUE	**$ 308,721**	**$ 39,568**	**$ 12,419**	**$ 5,707**	**$ 366,415**
Operation & Maintenance E:	$ (242,027)	$ (25,960)	$ (8,019)	$ (2,325)	$ (278,331)
Depreciation Expense	$ (30,830)	$ (8,013)	$ (2,563)	$ (1,748)	$ (43,154)
OPERATING EXPENSE	**$ (272,857)**	**$ (33,973)**	**$ (10,582)**	**$ (4,073)**	**$ (321,485)**
OPERATING INCOME	**$ 35,864**	**$ 5,595**	**$ 1,837**	**$ 1,634**	**$ 44,930**
Return on Equity	$ (18,528)	$ (2,384)	$ (747)	$ (348)	$ (22,007)
Other Non-Operating Incom	$ 20	$ 782	$ (168)	$ 39	$ 673
Other Non-Operating Expen	$ (9,341)	$ (1,706)	$ (1,881)	$ (555)	$ (13,483)
NET INCOME (LOSS)	**$ 8,015**	**$ 2,287**	**$ (959)**	**$ 770**	**$ 10,113**
RATE OF RETURN	**3.9%**	**1.8%**	**1.5%**	**4.9%**	**3.1%**

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FY 2017 Cash Flow by Utility

$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
BEGINNING OPERATING CASH	**61,533**	**13,699**	**5,703**	**3,938**	**84,873**
Sources of Cash					
Net Income	$ 8,015	$ 2,288	$ (960)	$ 770	$ 10,113
Depreciation	$ 30,830	$ 8,013	$ 2,563	$ 1,748	$ 43,153
Loss on Sale of Assets	$ 614	$ 321	$ 225	$ -	$ 1,160
Withdrawal from Construction Reserve	$ 4,881	$ 1,087	$ 452	$ 312	$ 6,732
Fuel Cost Undercollection	$ 2,329	$ (43)	$ 43	$ -	$ 2,329
Net Environmental	$ 4,558	$ -	$ 183	$ -	$ 4,741
Pipeline Refund	$ 2,390	$ -	$ 455	$ -	$ 2,845
SOURCES OF CASH	**$ 53,617**	**$ 11,666**	**$ 2,960**	**$ 2,830**	**$ 71,073**
Uses of Cash					
Debt Principal	$ (5,069)	$ (2,313)	$ (1)	$ (1,465)	$ (8,848)
Net Capital Expenditures	$ (42,349)	$ (14,010)	$ (3,606)	$ (853)	$ (60,818)
Renewable Energy & EO Plans	$ (1,151)	$ -	$ -	$ -	$ (1,151)
Other Uses of Cash	$ (183)	$ (41)	$ (17)	$ (12)	$ (253)
USES OF CASH	**$ (48,753)**	**$ (16,364)**	**$ (3,624)**	**$ (2,330)**	**$ (71,070)**
Net Cash Increase/(Decrease)	**$ 4,865**	**$ (4,698)**	**$ (663)**	**$ 500**	**$ 3**
ENDING OPERATING CASH	**66,398**	**9,001**	**5,040**	**4,438**	**84,876**

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Beginning Operating Cash includes O & M Fund and Receiving Fund only, Designated funds and Restricted Bond Funds not included, ($92.4 and $37.5 million respectively as of March 31, 2016) The March 31, 2016 Designated funds includes $64.9 million of Construction Reserve funds

FY2017 Capital Budget

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FY 2017 Capital Budget Summary

Dollars in (000's)

UTILITY	
ELECTRIC	$ 34,519
WATER	$ 9,847
STEAM	$ 2,901
CHILLED WATER	$ 180
COMMON	$ 13,371
TOTAL BUDGET	$ 60,818

LOCATION	
ECKERT	$ 3,280
ERICKSON	$ 1,941
REO PLANT	$ 144
T&D	$ 36,462
DYE/CEDAR	$ 3,039
CHILLER PLANT	$ 42
OTHER	$ 15,910
	$ 60,818

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FY 2017 Capital Budget – Major Projects/Programs

	Project Title	Project Total	FY 2017
	Planned Projects		
*	Erickson to Willow 138kV Line Extension	22,251,000	3,869,000
	ESRI Implementation	5,763,144	3,715,720
	New Mainframe	3,086,500	3,086,500
	GroSolar Interconnect	3,535,000	2,736,000
	Moores Park Dam Gate Hoist and Phase 2 Dam Repair	4,943,000	2,610,200
	Smart Grid Implementation	30,950,000	2,500,000
*	Burcham 4160V Sub Cutover and Retirement	2,235,000	2,235,000
*	Central Substation	25,800,000	2,000,000
	Lead Service Replacement	44,028,761	2,000,000
	ADMS	2,720,093	1,635,062
	Water Distribution Replacement - N Grand River	2,280,000	1,524,000
*	Forbes 4160V Substation Retirement	4,327,000	1,208,000
	Cedar Pump #1	1,083,700	1,083,700
	Annual Projects **		
	Services and Line Extensions	16,673,844	2,500,000
	ESI Annual Rebuild T&D System	19,124,883	2,395,000
	Street, Building, and Outdoor Protective Lighting	16,793,250	2,236,000
	Annual Manhole Replacement	7,228,149	1,222,008
	FY 17 Total Spending (Major Projects)		**38,556,190**

* These projects support the retirement of Eckert

** Annual projects have some level of spending each year.
The project total represents 6 year spending.

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Next Steps

- Request the Board approve the FY 2017 Operating & Capital Budgets
  - *Requested approval at May 24th Board meeting*
  - *City Charter calls for budget adoption by June 1, 2016*

- File FY 2017 Operating Budget & Capital Budget with the City Clerk within 10 days after approval

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