

Budget & Forecast

FY 2024 – 2029

Finance Committee Meeting
May 9, 2023

Board Meeting
May 23, 2023



Hometown People. Hometown Power.

Overview

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

- Strategic Objectives
 - BWL Year in Review
 - Target Metrics
 - Budget & Forecast Cycle Focus

FY 2023 Accomplishments

Customer & Community

- Ultium plant LTSA fully executed (P1:S2)
- United Way Corporate Partner of the Year (P1:S4)
- Community Resource Fairs (P1:S3)

Workforce Engagement & Diversity

- DEP – Zero Injury Safety Award (P2:S1)
- FTEs added to support growth and vacancy rate down to 2% from 10% (P2:S2)

Climate & Environment

- Erickson Power Station Retired November 2022 (P3:S1)

Operational Resiliency & Continuous Improvement

- APPA RP3 Diamond (P4:S2)
- DEP – ENR Midwest Regional Best Project for Energy/Industrial:(P4:S1)

Financial Stability

- Implemented Time-of-Use rate strategy for Residential and Commercial/Industrial customers (P5:S1)
- Grant position and framework implemented, \$55m funding awarded to date, additional \$93m being requested. (P5:S2)

Note: (P#:S#) identifies the priority and strategy numbers the accomplishment is associated within the Strategic Plan.

- Strategic Objectives

- BWL Year in Review
- Target Metrics
- Budget & Forecast Cycle Focus

- Maintain high **credit rating**
 - BWL is currently rated AA- (S&P) and Aa3 (Moody's) with stable outlooks
- Generate adequate **return on assets (RoA)**
 - Adequate RoA is essential to municipal utilities
 - Ensures current rate payers are not deferring costs to future generations and infrastructure is invested in to maintain exceptional levels of service
 - An appropriate RoA recovers two main items:
 - Interest expense
 - Inflationary increase of infrastructure replacement costs
 - Regular calculations required by the Board of Commissioners (Resolution 2016-07-08)
 - Return on Assets FY 2024-2029 Target: **4.65%**
 - **We are forecasted to reach this target for all utilities by FY2028**
- Ensure adequate **liquidity**
 - BWL must be able to pay current obligations
 - Minimum cash reserve requirement per policy: **157 days**
 - Debt service coverage minimum target: **2.00 x**

- Strategic Objectives

- BWL Year in Review
- Target Metrics

- Budget & Forecast Cycle Focus

FY2024 – FY2029

- **Operational Efficiencies**

- Distribution automation
- Plant control system standardization and integration
- 8 miles of water main replacement by FY28
- Coal Plant Decommissioning

- **Lansing Energy Tomorrow**

- These new T&D assets will decentralize load and minimize failure risk
- Provide operational flexibility and growth potential

- **Developing Plan to Achieve Carbon Neutrality with Known Load Growth**

- **Rate Structure Refinement**

- Competitiveness and economic development

- **Generative Safety Culture**

- **Workforce Engagement**

- Gallup employee engagement surveys and action plans
- New DEI Specialist role and training organization-wide

- **Pursue Infrastructure Grants**

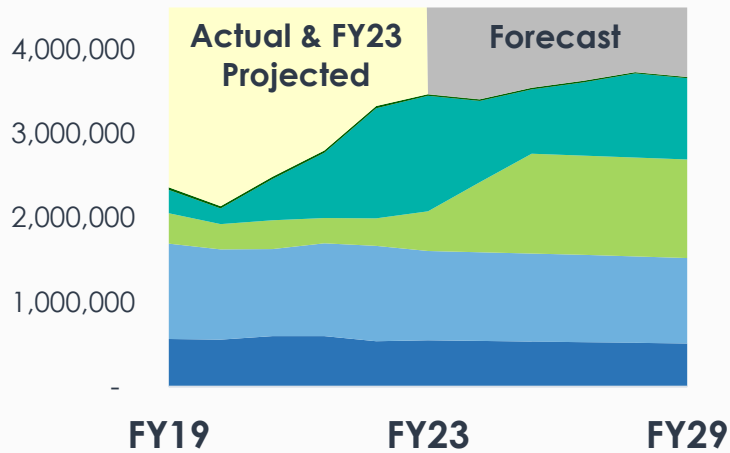
- Partnerships with local organizations to seek infrastructure bill funding
- Water infrastructure, EV charging, cyber security

Key Budget & Forecast Assumptions

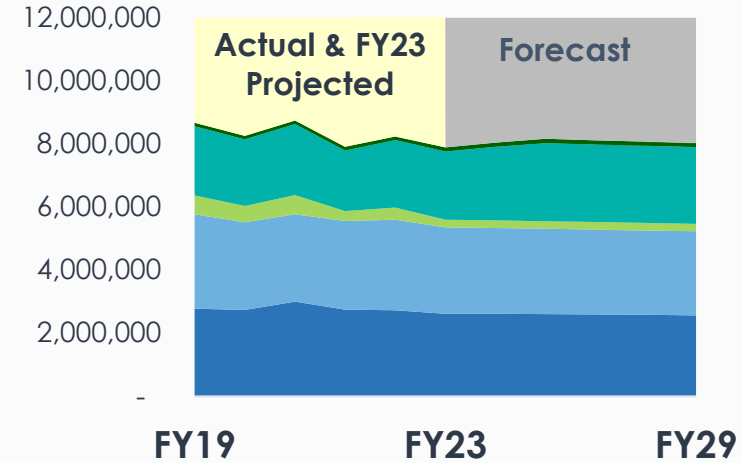
- Current strategic plan is supported by this budget & forecast.
- Water main replacements achieve 8 miles per year in FY2028.
- Ultium ramps up to full capacity for FY 2026.
- Erickson decommissioning costs currently include only CCR impoundment closure and redevelopment.
- Eckert decommissioning costs currently include only flume isolation and site maintenance.
- Defined Benefit Plan and Post-Retirement Benefits Plan (DB & VEBA) achieve target investment return.
- Return on Equity assumes 6% of total operational revenue, less inter-utility sales.
- 2.4% inflation rate.
- Does not include new generation from All Source RFP.
- Does not include funding from pending grant applications.

Sales Volume History and Forecast

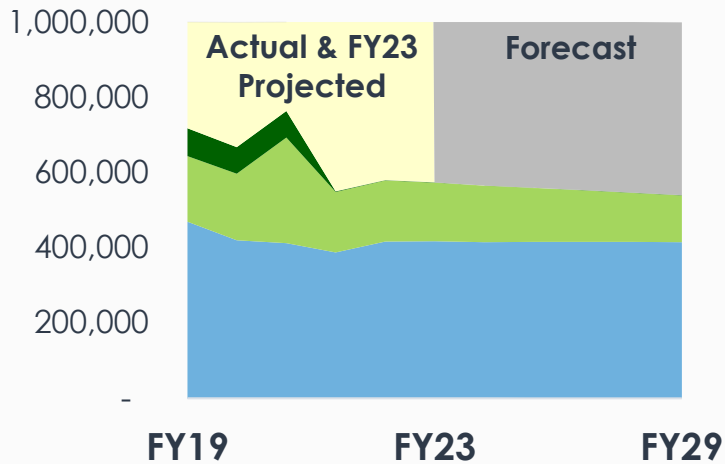
Electric - Consumption
Volume (MWH)



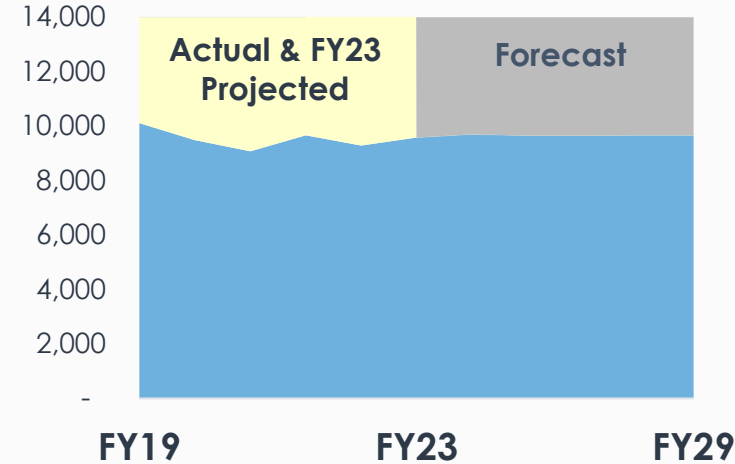
Water - Consumption
Volume (CCF)



Steam - Consumption
Volume (M.LB)



Chilled Water - Consumption
Volume (M.THR)



■ Residential ■ Commercial ■ Industrial ■ Wholesale ■ Other

- Operating Budget & Forecast

- FY 2024 Income Statement

- FY 2024 Operating Expenses by Category

- 6-Year Income Statement

- 6-Year Return on Assets

- 6-Year Cash Flow

- 6-Year Bonded Debt Service

FY 2024 Income Statement	Electric	Water	Steam	Chilled Water	Total
Sales (MWh, CCF, MLB, MTHR)	3,472,865	7,892,444	573,393	9,582	
Operating Revenue					
Residential	\$ 90,816,682	\$ 21,731,757	\$ 17,424	\$ -	\$ 112,565,863
Commercial	\$ 134,268,727	\$ 19,016,186	\$ 10,716,646	\$ 6,268,824	\$ 170,270,383
Industrial	\$ 45,700,019	\$ 1,430,797	\$ 2,647,812	\$ -	\$ 49,778,628
Wholesale	\$ 79,171,258	\$ 4,423,817	\$ -	\$ -	\$ 83,595,075
Other	\$ 19,889,415	\$ 4,798,852	\$ 63,839	\$ -	\$ 24,752,106
Total Operating Revenue	\$ 369,846,101	\$ 51,401,408	\$ 13,445,722	\$ 6,268,824	\$ 440,962,055
Operating Expenses					
Fuel & Purchased Power	\$ (138,159,770)	\$ (6,459,525)	\$ (3,251,761)	\$ (2,055,412)	\$ (149,926,468)
Depreciation	\$ (49,285,022)	\$ (9,682,626)	\$ (3,006,539)	\$ (1,669,118)	\$ (63,643,305)
Other Operating Expenses	\$ (125,993,197)	\$ (32,009,963)	\$ (4,902,264)	\$ (1,914,280)	\$ (164,819,703)
Total Operating Expenses	\$ (313,437,989)	\$ (48,152,115)	\$ (11,160,564)	\$ (5,638,810)	\$ (378,389,477)
Total Operating Income	\$ 56,408,113	\$ 3,249,294	\$ 2,285,158	\$ 630,014	\$ 62,572,579
Non Operating Income/(Expenses)					
Return on Equity to City	\$ (21,813,340)	\$ (3,031,630)	\$ (793,022)	\$ (369,732)	\$ (26,007,723)
Interest Expense	\$ (22,635,474)	\$ (1,516,293)	\$ (1,737,475)	\$ (152,815)	\$ (26,042,056)
Other Non Operating Income/(Expenses)	\$ 5,158,248	\$ 1,528,764	\$ 288,866	\$ 71,856	\$ 7,047,734
Total Non Operating Income/(Expenses)	\$ (39,290,565)	\$ (3,019,159)	\$ (2,241,631)	\$ (450,691)	\$ (45,002,046)
Total Net Income	\$ 17,117,547	\$ 230,135	\$ 43,527	\$ 179,323	\$ 17,570,533
Approved Rate Increase	2.05%	9.50%	9.95%	4.00%	
Return on Assets	3.81%	0.27%	1.93%	0.21%	2.88%
Target Return on Assets	4.65%	4.65%	4.65%	4.65%	4.65%

- Operating Budget & Forecast

- FY 2024 Income Statement

- **FY 2024 Operating Expenses by Category**

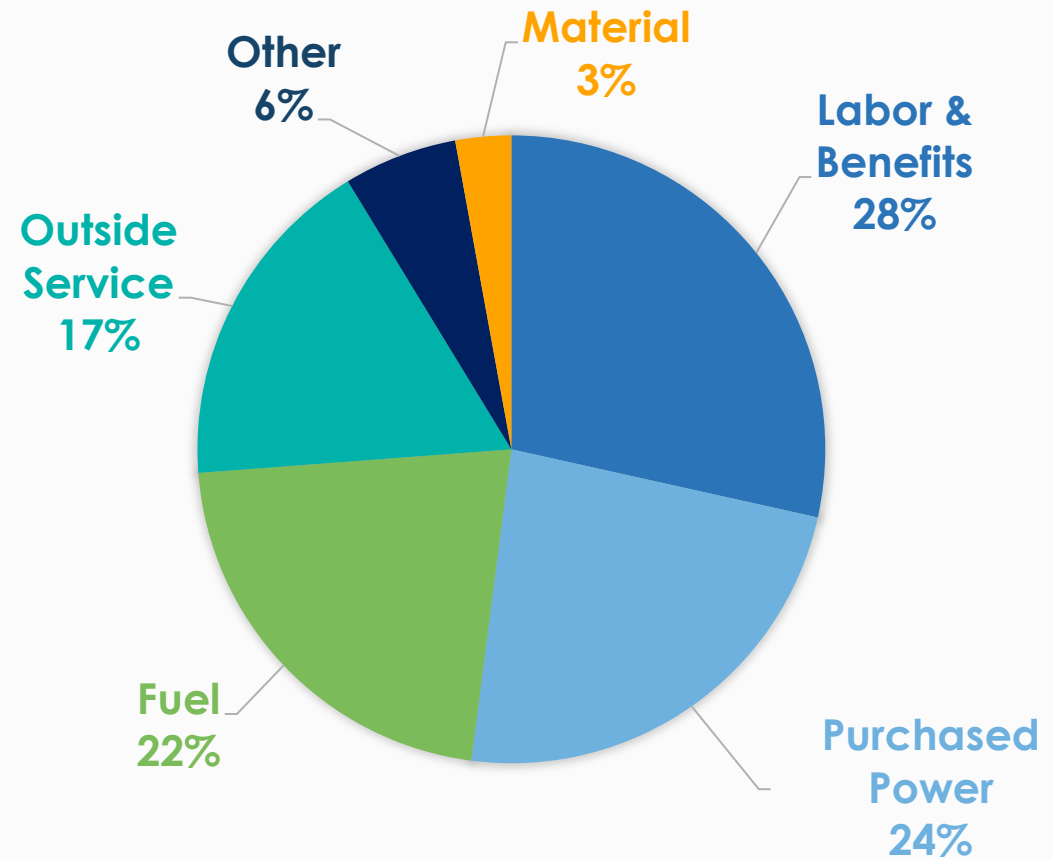
- 6-Year Income Statement

- 6-Year Return on Assets

- 6-Year Cash Flow

- 6-Year Bonded Debt Service

FY 2024 Operating Expenses by Category



- Operating Budget & Forecast

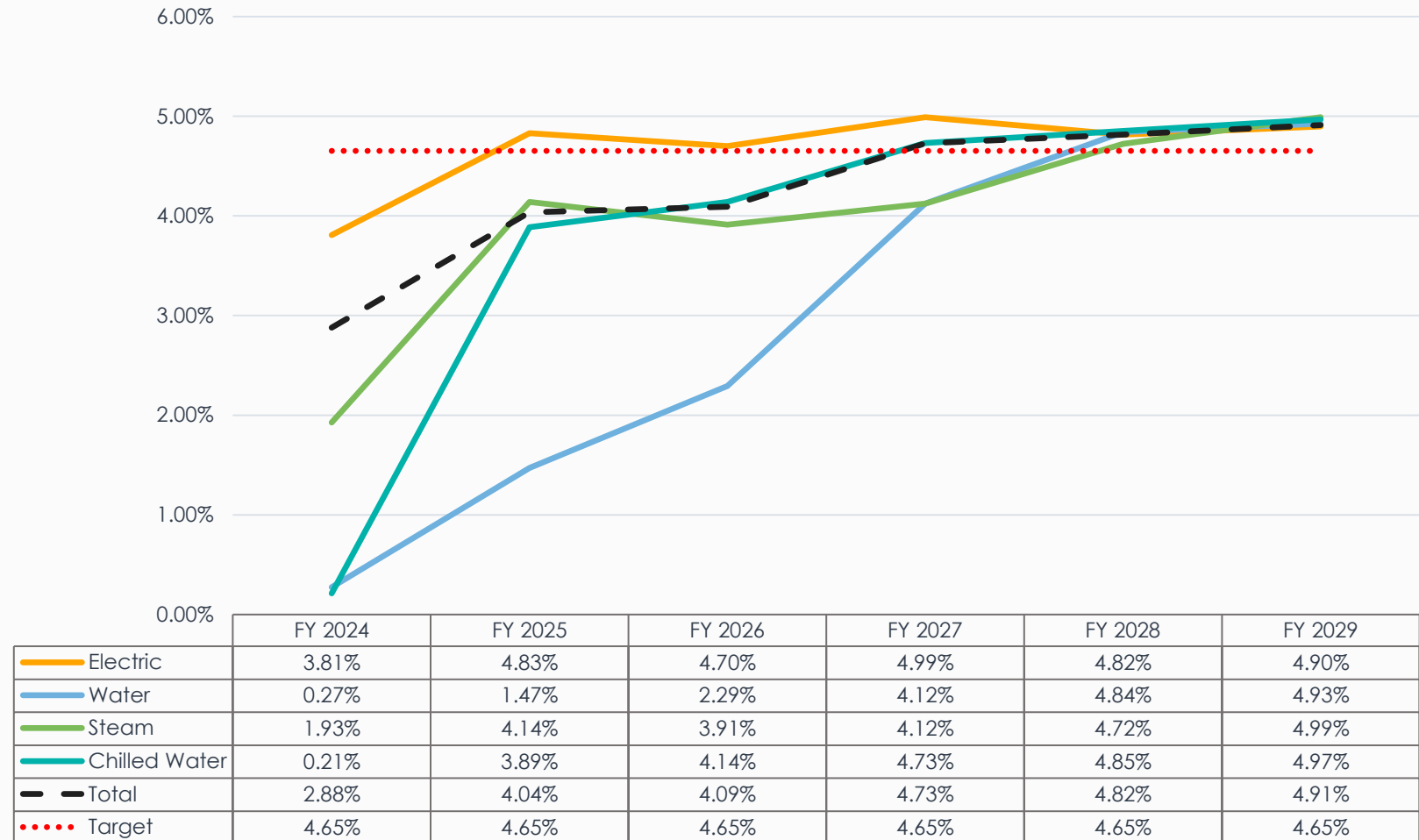
- FY 2024 Income Statement
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- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow
- 6-Year Bonded Debt Service

6-Year Income Statement	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operating Revenue						
Electric	\$ 369,846,101	\$ 388,384,538	\$ 397,112,624	\$ 396,740,604	\$ 402,311,553	\$ 411,093,481
Water	\$ 51,401,408	\$ 57,052,064	\$ 62,643,933	\$ 68,334,007	\$ 74,063,693	\$ 77,218,220
Steam	\$ 13,445,722	\$ 14,648,636	\$ 15,979,594	\$ 17,251,310	\$ 18,269,102	\$ 18,746,803
Chilled Water	\$ 6,268,824	\$ 6,502,450	\$ 6,698,541	\$ 6,874,222	\$ 7,019,483	\$ 7,140,412
Total Operating Revenue	\$ 440,962,055	\$ 466,587,688	\$ 482,434,691	\$ 489,200,142	\$ 501,663,831	\$ 514,198,916
Operating Expenses						
Fuel & Purchased Power	\$ (149,926,468)	\$ (159,730,745)	\$ (163,935,683)	\$ (160,543,977)	\$ (161,385,755)	\$ (165,193,436)
Depreciation	\$ (63,643,305)	\$ (60,432,148)	\$ (61,132,819)	\$ (62,166,548)	\$ (63,269,739)	\$ (62,944,245)
Other Operating Expenses	\$ (164,819,703)	\$ (167,218,540)	\$ (175,709,083)	\$ (175,539,007)	\$ (183,836,309)	\$ (190,054,940)
Total Operating Expenses	\$ (378,389,477)	\$ (387,381,433)	\$ (400,777,584)	\$ (398,249,532)	\$ (408,491,803)	\$ (418,192,621)
Total Operating Income	\$ 62,572,579	\$ 79,206,255	\$ 81,657,107	\$ 90,950,610	\$ 93,172,028	\$ 96,006,295
Non Operating Income/(Expenses)						
Return on Equity to City	\$ (26,007,723)	\$ (27,545,261)	\$ (28,496,081)	\$ (28,902,009)	\$ (29,649,830)	\$ (30,401,935)
Interest Expense	\$ (26,042,056)	\$ (25,617,842)	\$ (25,122,755)	\$ (25,900,911)	\$ (25,466,462)	\$ (23,893,924)
Other Non Operating Income/(Expenses)	\$ 7,047,734	\$ 7,269,936	\$ 6,722,893	\$ 5,548,117	\$ 5,750,706	\$ 5,869,776
Total Non Operating Income/(Expenses)	\$ (45,002,046)	\$ (45,893,167)	\$ (46,895,944)	\$ (49,254,803)	\$ (49,365,585)	\$ (48,426,083)
Total Net Income	\$ 17,570,533	\$ 33,313,088	\$ 34,761,164	\$ 41,695,807	\$ 43,806,443	\$ 47,580,211
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Return on Assets	2.88%	4.04%	4.09%	4.73%	4.82%	4.91%
Target Return on Assets	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%
Debt Service Coverage Ratio	2.51	2.79	2.83	2.96	3.02	3.14
Days Cash on Hand	161	164	174	199	229	240
Minimum Cash Reserve Requirement	157	162	159	161	159	157
Full Time Employees	813	813	813	809	809	809
Rate Increases	Approved	Forecast				
Electric	2.05%	2.50%	2.25%	2.00%	2.00%	2.00%
Water	9.50%	9.50%	9.50%	9.50%	8.50%	3.00%
Steam	9.95%	9.75%	9.00%	7.50%	6.00%	2.00%
Chilled Water	4.00%	2.50%	2.00%	1.50%	1.25%	1.25%

- Operating Budget & Forecast

- FY 2024 Income Statement
- FY 2024 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow
- 6-Year Bonded Debt Service

6-Year Return on Assets (%)



- Operating Budget & Forecast

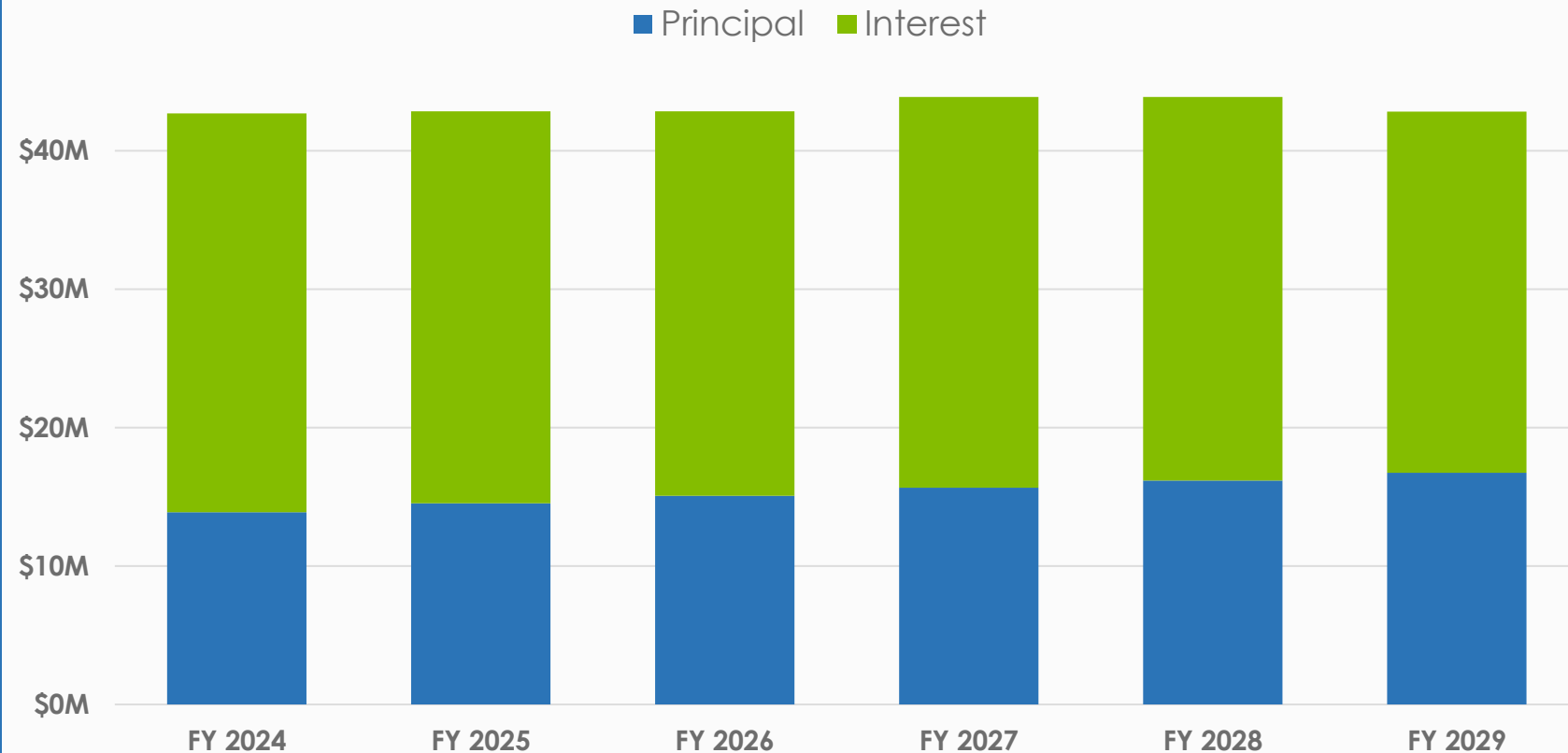
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6-Year Cash Flow	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Beginning Cash (O&M & Receiving Fund)	\$ 103,317,938	\$ 95,145,526	\$ 106,542,070	\$ 123,128,603	\$ 145,428,300	\$ 182,408,536
Net Income	\$ 17,570,533	\$ 33,313,088	\$ 34,761,164	\$ 41,695,807	\$ 43,806,443	\$ 47,580,211
Depreciation	\$ 63,643,305	\$ 60,432,148	\$ 61,132,819	\$ 62,166,548	\$ 63,269,739	\$ 62,944,245
Loss on Disposal of Assets	\$ 2,357,512	\$ 2,047,185	\$ 2,088,052	\$ 2,127,920	\$ 2,169,816	\$ 2,213,876
DB and VEBA	\$ (8,602,788)	\$ (7,725,224)	\$ 810,638	\$ (3,018,738)	\$ (2,159,773)	\$ (1,943,501)
Borrowing	\$ 8,873,767	\$ 8,246,233	\$ 6,300,000	\$ 6,800,000	\$ 3,600,000	\$ 3,550,000
Commodity Cost Adjustment	\$ 939,472	\$ 5,170,092	\$ (1,125,012)	\$ (2,575,643)	\$ 1,023,078	\$ (3,946,816)
Environmental	\$ (6,324,962)	\$ 3,756,753	\$ 1,103,552	\$ 811,667	\$ 841,079	\$ 824,835
Gas Pipeline Payment Refunds	\$ 5,562,903	\$ 5,562,903	\$ 5,563,903	\$ 5,562,903	\$ 10,005,088	\$ -
Total Sources of Cash	\$ 84,019,742	\$ 110,803,178	\$ 110,635,115	\$ 113,570,464	\$ 122,555,469	\$ 111,222,850
Principal Payments on Bonds	\$ (13,890,000)	\$ (14,545,000)	\$ (15,085,000)	\$ (15,655,000)	\$ (16,185,000)	\$ (16,740,000)
Principal Payments on Other Debt (CSO)	\$ (819,636)	\$ (934,327)	\$ (1,007,111)	\$ (1,051,646)	\$ (1,222,011)	\$ (1,259,478)
Capital Expenditures	\$ (77,007,442)	\$ (84,111,510)	\$ (77,731,671)	\$ (74,162,358)	\$ (67,656,211)	\$ (73,244,426)
Other	\$ (475,077)	\$ 184,203	\$ (224,800)	\$ (401,765)	\$ (512,011)	\$ (605,571)
Total Uses of Cash	\$ (92,192,155)	\$ (99,406,633)	\$ (94,048,581)	\$ (91,270,768)	\$ (85,575,233)	\$ (91,849,475)
Net Cash Increase (Decrease)	\$ (8,172,413)	\$ 11,396,544	\$ 16,586,534	\$ 22,299,696	\$ 36,980,236	\$ 19,373,375
Ending Cash (O&M & Receiving Fund)	\$ 95,145,526	\$ 106,542,070	\$ 123,128,603	\$ 145,428,300	\$ 182,408,536	\$ 201,781,911
Days Cash on Hand	161	164	174	199	229	240
Minimum Cash Reserve Requirement	157	162	159	161	159	157

- Operating Budget & Forecast

- FY 2024 Income Statement
- FY 2024 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow
- 6-Year Bonded Debt Service

6-Year Bonded Debt Service



- Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location

- Capital Portfolio Major Projects and Annuals

- Capital Portfolio Designed Budget Amounts

6-Year Capital by Utility and Location							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Forecast Total
Utility							
Electric	\$ 46,759,615	\$ 54,127,573	\$ 45,714,365	\$ 49,020,494	\$ 39,040,608	\$ 44,287,542	\$ 278,950,197
Water	\$ 22,787,739	\$ 16,672,861	\$ 22,133,586	\$ 19,301,586	\$ 19,851,586	\$ 22,005,586	\$ 122,752,944
Steam	\$ 4,680,365	\$ 10,919,007	\$ 5,336,713	\$ 2,632,478	\$ 2,646,689	\$ 3,611,645	\$ 29,826,897
Chilled Water	\$ 953,045	\$ 674,636	\$ 56,275	\$ 57,964	\$ 59,703	\$ 61,494	\$ 1,863,116
Common	\$ 8,889,521	\$ 7,372,830	\$ 6,397,717	\$ 6,620,632	\$ 7,854,434	\$ 9,235,431	\$ 46,370,563
Total Capital Portfolio	\$ 84,070,285	\$ 89,766,907	\$ 79,638,656	\$ 77,633,154	\$ 69,453,019	\$ 79,201,697	\$ 479,763,717
Location							
REO Plant	\$ 3,500,000	\$ 2,000,000	\$ 3,791,416	\$ 2,000,000	\$ 3,562,918	\$ 2,050,000	\$ 16,904,334
Delta Energy Park	\$ -	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 10,000,000
Water Production	\$ 10,022,160	\$ 3,010,055	\$ 4,533,586	\$ 3,321,586	\$ 2,071,586	\$ 1,835,586	\$ 24,794,558
Electric T&D	\$ 41,717,900	\$ 49,426,096	\$ 38,978,079	\$ 44,670,494	\$ 32,096,921	\$ 39,682,542	\$ 246,572,032
Water T&D	\$ 12,304,325	\$ 13,662,807	\$ 17,600,000	\$ 15,980,000	\$ 17,780,000	\$ 20,170,000	\$ 97,497,132
Steam T&D	\$ 3,755,805	\$ 2,599,643	\$ 2,952,959	\$ 2,632,478	\$ 2,646,689	\$ 3,611,645	\$ 18,199,219
Chilled Water T&D	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 59,703	\$ 61,494	\$ 343,116
Other	\$ 12,717,050	\$ 17,013,671	\$ 9,726,341	\$ 6,970,632	\$ 9,235,203	\$ 9,790,431	\$ 65,453,326
Total Capital Portfolio	\$ 84,070,285	\$ 89,766,907	\$ 79,638,656	\$ 77,633,154	\$ 69,453,019	\$ 79,201,697	\$ 479,763,717

* Ultium is included net of \$33M in grant funding

* Total Capital Expenditures are shown net of \$20M in grant funding to be received as principal forgiveness through the DWSRF program

- Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location

- Capital Portfolio Major Projects and Annuals

- Capital Portfolio Designed Budget Amounts

6-Year Major Capital Projects and Annuals							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Forecast Total ³
Planned Projects							
South Reinforcement - Transmission Line ¹	\$ 5,000,000	\$ 22,471,212	\$ 378,000	\$ -	\$ -	\$ -	\$ 27,849,212
Rundle Substation ¹	\$ -	\$ -	\$ 2,528,300	\$ 6,130,608	\$ 9,195,912	\$ 5,608,192	\$ 23,463,012
138kV Critical Line Rating Increase	\$ -	\$ -	\$ 4,019,229	\$ 17,124,615	\$ -	\$ -	\$ 21,143,844
Stanley Substation ¹	\$ -	\$ -	\$ 603,686	\$ 3,779,742	\$ 1,192,838	\$ 14,343,327	\$ 19,919,593
Wise Substation ¹	\$ 16,300,000	\$ 1,404,099	\$ -	\$ -	\$ -	\$ -	\$ 17,704,099
LGR Substation ¹	\$ 1,600,600	\$ 7,947,894	\$ 8,047,637	\$ -	\$ -	\$ -	\$ 17,596,131
GM Hot Water Service	\$ 924,560	\$ 8,319,364	\$ 2,383,754	\$ -	\$ -	\$ -	\$ 11,627,678
Elevated Water Storage Tank	\$ 6,327,000	\$ 4,218,000	\$ -	\$ -	\$ -	\$ -	\$ 10,545,000
CIS Continuous Improvement	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 2,400,000
Canal Substation - Transformer #1 Install	\$ -	\$ -	\$ 1,571,149	\$ 715,529	\$ -	\$ -	\$ 2,286,678
Total Major Planned Projects	\$ 30,552,160	\$ 44,760,569	\$ 19,931,755	\$ 28,150,494	\$ 10,788,750	\$ 20,351,519	\$ 154,535,247
Annual Projects²							
Electric	\$ 17,900,000	\$ 20,408,000	\$ 20,508,000	\$ 20,700,000	\$ 20,700,000	\$ 20,300,000	\$ 120,516,000
Water	\$ 15,630,911	\$ 15,577,393	\$ 19,362,586	\$ 17,771,586	\$ 19,596,586	\$ 22,005,586	\$ 109,944,648
Steam	\$ 3,755,805	\$ 2,599,643	\$ 2,952,959	\$ 2,632,478	\$ 2,646,689	\$ 3,611,645	\$ 18,199,219
Chilled Water	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 59,703	\$ 61,494	\$ 343,116
Common	\$ 6,953,976	\$ 6,972,830	\$ 5,997,717	\$ 6,220,632	\$ 7,454,434	\$ 8,835,431	\$ 42,435,018
Total Annual Projects	\$ 44,293,737	\$ 45,612,502	\$ 48,877,537	\$ 47,382,660	\$ 50,457,411	\$ 54,814,155	\$ 291,438,001
¹ These projects support the Lansing Energy Tomorrow initiative ² Annual projects have some level of spending each year ³ The forecast total represents 6-year spending. Spending before or after the 6-year period is not reflected in this total							

10 Largest Planned Projects make up 82% of Total Planned Capital

- Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location
- Capital Portfolio Major Projects and Annuals

Capital Portfolio Designed Budget Amounts

Designed Budget Amounts by Latest Estimate			
Project Name	Designed Budget	Latest Estimate	Current Phase
Ultium ¹	\$ 34,186,068	\$ 34,420,594	Construction
Wise Substation	\$ 31,520,194	\$ 29,324,699	Construction
REO CTG	\$ 14,600,000	\$ 15,300,000	Construction
Dye-Cedar Dry Chemical Handling	\$ 13,707,307	\$ 5,101,155	Construction
Magnolia Ave - 4160V Sub Cutover and Retirement	\$ 4,262,000	\$ 4,249,440	Construction
Dye Filter Controls Upgrade	\$ 2,165,755	\$ 2,299,688	Construction
Eckert 13 & 15 Cutover	\$ 1,882,818	\$ 1,683,365	Close Out
Lab HVAC	\$ 803,257	\$ 779,907	Construction
Cedar Street - 4160V Sub Cutover Circuit 24	\$ 702,495	\$ 711,470	Construction
ESRI Release 4	\$ 696,365	\$ 696,365	Construction
Dye Exterior Upgrades	\$ 767,457	\$ 617,277	Close Out
Moores Park Dam Gate Automation	\$ 666,692	\$ 592,442	Construction
T&D Training Center	\$ 559,852	\$ 571,510	Construction
Moores Park Steam Header Bypass	\$ 295,528	\$ 353,169	Close Out
Eckert 13.2kV Compressor Project	\$ 164,169	\$ 202,632	Close Out
Davis Substation Hydrogen Sensor	\$ 98,538	\$ 67,398	Construction

¹Ultium to receive \$33M in grant funding

*Latest estimates and current phase information are as of March 2023

*Projects exceeding the designed budget amount by \$200k and 15% are subject to Board reporting

Next Steps



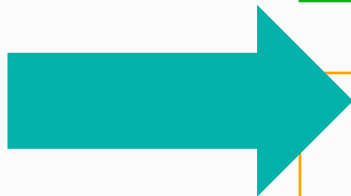
November 2022 – February 2023

- Budget Process Start
- Set Financial Targets
- Prepare Capital Budget
- Request Department Budgets
- Revenue Projections



March 2023 – April 2023

- Compile Budget & Forecast
- Internal Review and Approval



May 2023

- Finance Committee to approve the Operating and Capital Budget & Forecast for FY 2024 – 2029 and recommend it for the Board of Commissioners' approval on May 23, 2023.
- Board of Commissioners to approve, Corporate Secretary to file FY24 budget with the City Clerk within 10 days of approval and submit the Capital Improvement Plans for FY 2024 – 2029 to the Mayor prior to October 1, 2023.