

Budget and Forecast

FY 2019 – 2024

Finance Committee Meeting

May 15, 2018

Board Meeting

May 22, 2018



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
 - Strategy 6: Financial Stability
 - Target Metrics

- 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
 - Strategy 6: Financial Stability
 - Target Metrics

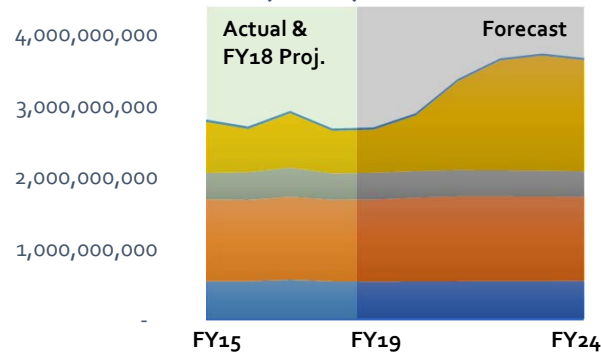
- Maintain High Credit Rating
 - The BWL is currently rated AA- by S&P and Aa3 by Moody's
- Ensure Adequate Liquidity
 - The BWL should have the ability to meet near term obligations when due
 - Minimum Cash Reserve Requirement: **155 Days**
 - Debt Service Coverage Minimum Target: **2.00**
- Return 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
 - Return on Assets FY 2019 Target: **4.75%**
- Maintain Rate Competitiveness

- Key Budget and Forecast Assumptions

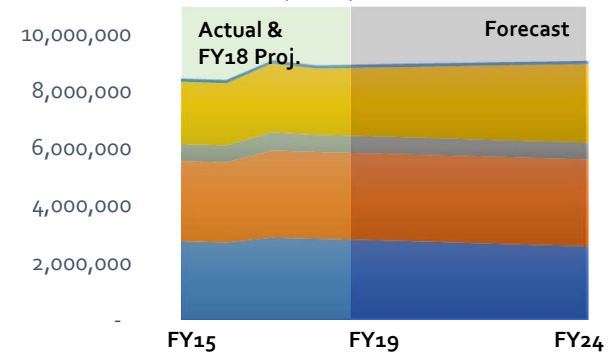
- All forecast O&M expense increases, excluding fuel, were capped at 2% of the previous fiscal year.
- Eckert transitions from baseload operation to a seasonal capacity resource effective January 2019.
- Total employee count is budgeted at 751 for FY 2019 and declines in each succeeding year.
- Return on Equity to the city remains at 6.1%.
- The new plant is operational in early calendar year 2021.
- Bond interest is capitalized during the plant construction period.
- Major steam customer contract expires October 2022. Forecast assumes contract is renewed.

- Sales Volume History and Forecast by Utility, FY 15-24

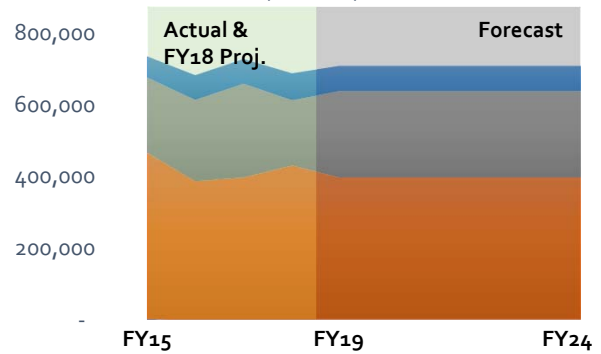
Electric - Consumption Volume (KWH)



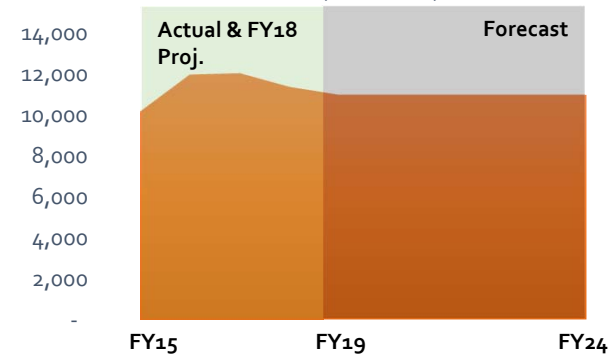
Water - Consumption Volume (CCF)



Steam - Consumption Volume (M.LB)



Chilled Water - Consumption Volume (M.THR)



■ Residential ■ Commercial ■ Industrial ■ Wholesale ■ Other

- Operating Budget and Forecast

- FY 2019 Income Statement

- FY 2019 Operating Expenses by Category

- 6-Year Income Statement

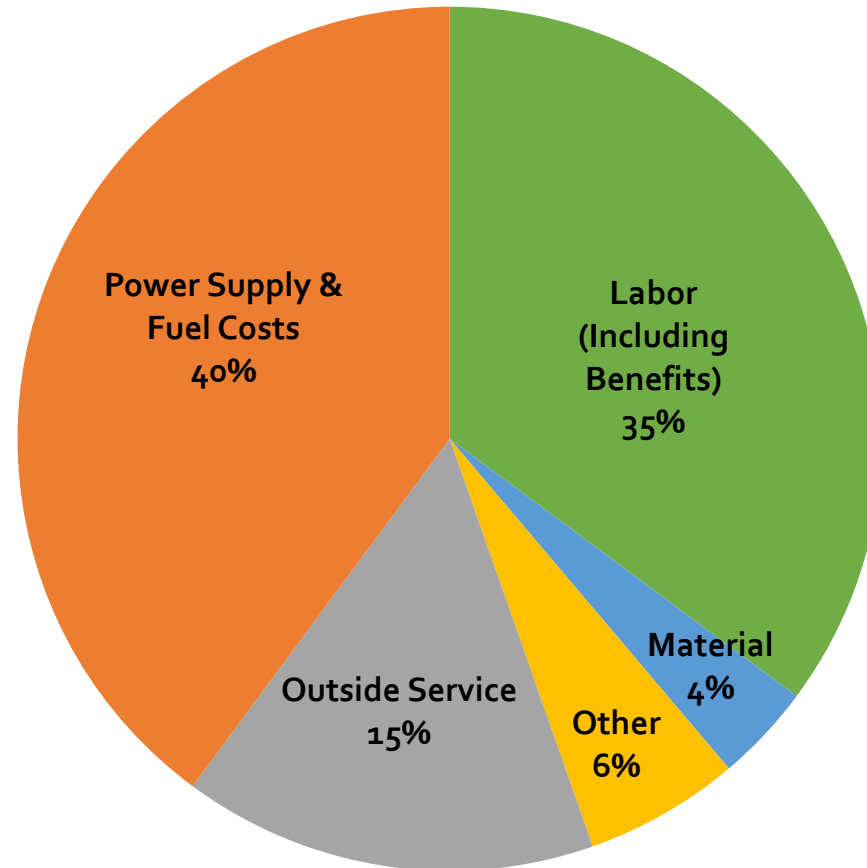
- 6-Year Return on Assets

- 6-Year Cash Flow

FY 2019 Income Statement	Electric	Water	Steam	Chilled Water	Total
Sales (MWh, ccf, Mlb, ton-hrs)	2,696,761,053	8,938,944	708,206	10,985	
Operating Revenue					
Residential	\$ 84,066,561	\$ 17,118,280	\$ 15,186	\$ -	\$ 101,200,027
Commercial	\$ 144,344,826	\$ 14,499,529	\$ 7,076,801	\$ 6,008,148	\$ 171,929,304
Industrial	\$ 41,025,826	\$ 2,207,253	\$ 3,173,342	\$ -	\$ 46,406,421
Wholesale	\$ 23,369,766	\$ 3,816,954	\$ -	\$ -	\$ 27,186,719
Other	\$ 12,098,013	\$ 6,321,381	\$ 1,270,459	\$ -	\$ 19,689,854
Total Operating Revenue	\$ 304,904,991	\$ 43,963,398	\$ 11,535,789	\$ 6,008,148	\$ 366,412,325
Operating Expenses					
Fuel and Purchased Power	\$ (99,490,673)	\$ (5,817,949)	\$ (4,190,244)	\$ -	\$ (109,498,866)
Depreciation	\$ (35,109,707)	\$ (7,747,189)	\$ (3,046,797)	\$ (1,530,175)	\$ (47,433,868)
Other Operating Expenses	\$ (123,880,597)	\$ (26,840,705)	\$ (3,604,596)	\$ (2,393,294)	\$ (156,719,192)
Total Operating Expenses	\$ (258,480,978)	\$ (40,405,842)	\$ (10,841,637)	\$ (3,923,469)	\$ (313,651,927)
Total Operating Income	\$ 46,424,013	\$ 3,557,555	\$ 694,152	\$ 2,084,679	\$ 52,760,399
Non Operating Income/(Expenses)					
Return on Equity to City	\$ (18,064,492)	\$ (2,596,104)	\$ (687,989)	\$ (360,489)	\$ (21,709,074)
Interest Expense	\$ (15,920,741)	\$ (2,297,098)	\$ (2,168,255)	\$ (610,635)	\$ (20,996,729)
Other Non Operating Income/(Expenses)	\$ 7,714,721	\$ 1,831,162	\$ 297,280	\$ 203,280	\$ 10,046,444
Total Non Operating Income/(Expenses)	\$ (26,270,512)	\$ (3,062,040)	\$ (2,558,963)	\$ (767,844)	\$ (32,659,359)
Total Net Income/(Loss)	\$ 20,153,501	\$ 495,515	\$ (1,864,812)	\$ 1,316,835	\$ 20,101,039
Approved Rate Increase - Effective 02/01/2019	3.0%	7.5%	7.5%	0.0%	
Return on Assets	4.92%	0.79%	-0.06%	7.02%	3.52%
Target Return on Assets	4.75%	4.75%	4.75%	4.75%	4.75%

- Operating Budget and Forecast
 - FY 2019 Income Statement
 - **FY 2019 Operating Expenses by Category**
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

FY 2019 Operating Expense by Category



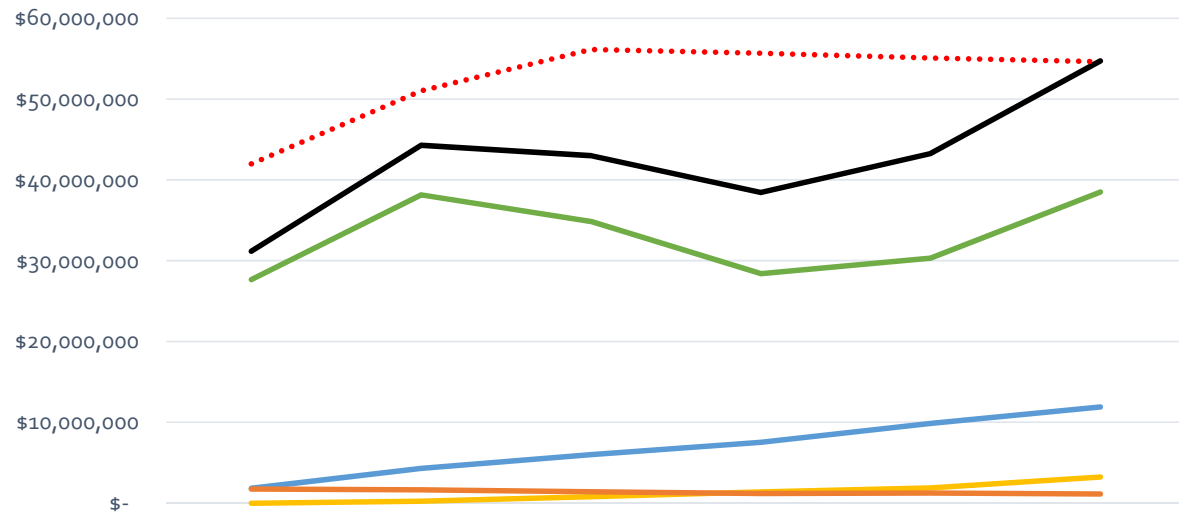
- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

6-Year Income Statement	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Operating Revenue						
Electric	\$ 304,904,991	\$ 323,068,743	\$ 346,875,902	\$ 358,098,806	\$ 369,333,178	\$ 378,761,748
Water	\$ 43,963,398	\$ 47,283,613	\$ 50,599,209	\$ 53,737,132	\$ 57,031,874	\$ 60,536,418
Steam	\$ 11,535,789	\$ 12,023,789	\$ 12,663,664	\$ 13,526,059	\$ 14,319,583	\$ 15,185,864
Chilled Water	\$ 6,008,148	\$ 6,029,358	\$ 6,049,089	\$ 6,110,739	\$ 6,140,356	\$ 6,169,973
Total Operating Revenue	\$ 366,412,325	\$ 388,405,503	\$ 416,187,863	\$ 431,472,737	\$ 446,824,992	\$ 460,654,003
Operating Expenses						
Fuel and Purchased Power	\$ (109,498,866)	\$ (117,702,430)	\$ (132,369,982)	\$ (136,576,812)	\$ (141,154,463)	\$ (141,841,251)
Depreciation	\$ (47,433,868)	\$ (49,705,978)	\$ (59,274,739)	\$ (70,199,084)	\$ (72,202,662)	\$ (69,795,929)
Other Operating Expenses	\$ (156,719,192)	\$ (153,828,118)	\$ (156,904,696)	\$ (160,699,602)	\$ (163,743,644)	\$ (167,008,511)
Total Operating Expenses	\$ (313,651,927)	\$ (321,236,525)	\$ (348,549,417)	\$ (367,475,498)	\$ (377,100,768)	\$ (378,645,692)
Total Operating Income	\$ 52,760,399	\$ 67,168,977	\$ 67,638,446	\$ 63,997,239	\$ 69,724,224	\$ 82,008,312
Non Operating Income/(Expenses)						
Return on Equity to City	\$ (21,709,074)	\$ (23,009,018)	\$ (24,763,813)	\$ (25,676,332)	\$ (26,587,627)	\$ (27,408,446)
Interest Expense	\$ (14,808,499)	\$ (12,412,653)	\$ (23,197,749)	\$ (33,447,373)	\$ (33,118,959)	\$ (32,025,192)
Other Non Operating Income/(Expenses)	\$ 3,858,213	\$ 5,690,692	\$ 3,889,797	\$ 3,564,032	\$ 3,573,464	\$ 3,583,051
Total Non Operating Income/(Expenses)	\$ (32,659,359)	\$ (29,730,979)	\$ (44,071,764)	\$ (55,559,673)	\$ (56,133,122)	\$ (55,850,587)
Total Net Income	\$ 20,101,039	\$ 37,437,998	\$ 23,566,682	\$ 8,437,566	\$ 13,591,102	\$ 26,157,725

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Return on Assets	3.52%	4.12%	3.63%	3.28%	3.73%	4.75%
Target Return on Assets	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
Debt Service Coverage Ratio	3.81	5.09	3.06	2.47	2.60	2.83
Days Cash on Hand	160	198	185	179	187	204
Minimum Cash Reserve Requirement	155	159	156	154	153	155
Rate Increases	Approved			Forecast		
Electric	3.00%	3.00%	3.24%	3.24%	3.24%	3.24%
Water	7.50%	7.50%	6.06%	6.06%	6.06%	6.06%
Steam	7.50%	7.50%	8.02%	8.02%	8.02%	8.02%
Chilled Water	0.00%	0.00%	0.40%	0.40%	0.40%	0.40%

- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - **6-Year Return on Assets**
 - 6-Year Cash Flow

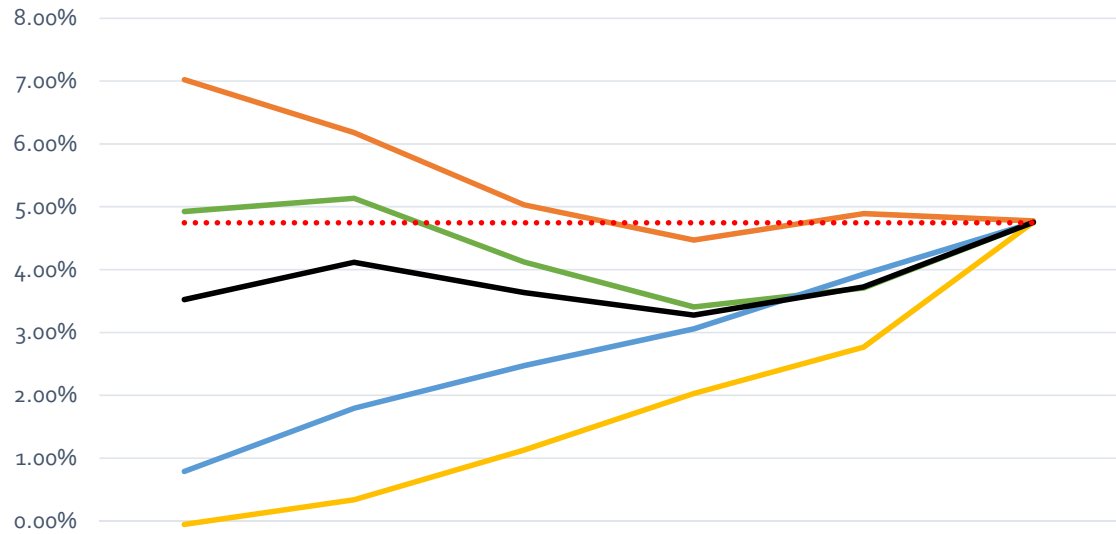
6-Year Return on Assets (\$)



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric	\$27,653,639	\$38,152,113	\$34,848,909	\$28,387,853	\$30,321,874	\$38,497,911
Water	\$1,819,774	\$4,272,666	\$5,990,618	\$7,517,807	\$9,842,333	\$11,889,603
Steam	\$(37,411)	\$229,277	\$766,855	\$1,369,776	\$1,865,421	\$3,217,997
Chilled Water	\$1,733,470	\$1,624,013	\$1,386,360	\$1,163,580	\$1,225,078	\$1,112,464
Total	\$31,169,472	\$44,278,068	\$42,992,742	\$38,439,016	\$43,254,706	\$54,717,975
Target	\$41,982,459	\$51,029,700	\$56,135,998	\$55,667,533	\$55,091,349	\$54,626,618

- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - **6-Year Return on Assets**
 - 6-Year Cash Flow

6-Year Return on Assets (%)



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric	4.92%	5.14%	4.12%	3.41%	3.71%	4.76%
Water	0.79%	1.79%	2.47%	3.06%	3.93%	4.75%
Steam	-0.06%	0.34%	1.13%	2.03%	2.76%	4.76%
Chilled Water	7.02%	6.18%	5.03%	4.47%	4.89%	4.77%
Total	3.52%	4.12%	3.63%	3.28%	3.73%	4.75%
Target	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

- Operating Budget and Forecast
 - FY 2019 Income Statement
 - FY 2019 Operating Expenses by Category
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow

6-Year Cash Flow	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Beginning Cash (O&M & Receiving Fund)	\$ 80,000,000	\$ 80,861,008	\$ 80,214,012	\$ 80,687,559	\$ 80,041,731	\$ 80,852,933
Net Income	\$ 20,101,039	\$ 37,437,998	\$ 23,566,682	\$ 8,437,566	\$ 13,591,102	\$ 26,157,725
Depreciation and Loss on Disposal of Assets	\$ 48,521,197	\$ 50,793,306	\$ 60,362,067	\$ 71,286,412	\$ 73,289,990	\$ 70,883,258
DB and VEBA	\$ (3,152,199)	\$ (4,936,343)	\$ (7,057,848)	\$ (6,258,826)	\$ (6,058,248)	\$ (7,481,184)
Borrowing	\$ 415,297,459	\$ -	\$ 73,570,910	\$ -	\$ -	\$ -
Withdrawal from Reserve for Future Construction	\$ 4,000,000	\$ (34,000,000)	\$ 1,000,000	\$ -	\$ (11,000,000)	\$ (18,000,000)
Commodity Cost Adjustment	\$ (275,722)	\$ 559,814	\$ (4,745,421)	\$ 1,994,660	\$ 798,843	\$ (752,925)
Withdrawal from Bond Construction	\$ -	\$ 200,969,783	\$ 35,052,145	\$ -	\$ -	\$ -
Environmental	\$ 25,153	\$ 820,724	\$ 324,019	\$ (483,774)	\$ (440,740)	\$ (561,000)
Gas Pipeline	\$ (32,155,000)	\$ -	\$ -	\$ -	\$ 7,000,000	\$ 7,000,000
Total Sources of Cash	\$ 452,361,928	\$ 251,645,283	\$ 182,072,554	\$ 74,976,038	\$ 77,180,948	\$ 77,245,874
Principal Payments on Bonds	\$ (6,820,000)	\$ (7,145,000)	\$ (11,430,000)	\$ (11,980,000)	\$ (12,545,000)	\$ (13,145,000)
Principal Payments on Other Debt (CSO)	\$ (644,654)	\$ (657,988)	\$ (666,537)	\$ (676,276)	\$ (682,233)	\$ (693,330)
Capital Expenditures (Excluding New NGCC Plant)	\$ (76,468,073)	\$ (59,372,820)	\$ (73,247,751)	\$ (60,327,954)	\$ (60,061,748)	\$ (60,003,451)
Capital Expenditures for New NGCC Plant	\$ (113,122,831)	\$ (180,969,783)	\$ (93,623,055)	\$ -	\$ -	\$ -
REP/EWR	\$ 299,849	\$ 208,525	\$ (77,346)	\$ (409,084)	\$ (842,780)	\$ (1,169,068)
Reserve & Designated Fund Income & Deposit	\$ (254,745,210)	\$ (4,355,213)	\$ (2,554,318)	\$ (2,228,553)	\$ (2,237,985)	\$ (2,247,572)
Total Uses of Cash	\$ (451,500,920)	\$ (252,292,279)	\$ (181,599,006)	\$ (75,621,867)	\$ (76,369,745)	\$ (77,258,422)
Net Cash Increase (Decrease)	\$ 861,008	\$ (646,996)	\$ 473,547	\$ (645,829)	\$ 811,203	\$ (12,548)
Ending Cash (O&M & Receiving Fund)	\$ 80,861,008	\$ 80,214,012	\$ 80,687,559	\$ 80,041,731	\$ 80,852,933	\$ 80,840,385
Days Cash on Hand	160	198	185	179	187	204
Minimum Cash Reserve Requirement	155	159	156	154	153	155

- Capital Budget and Forecast

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

6-Year Capital by Utility and Location	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Forecast Total
Utility							
Electric	\$ 32,064,391	\$ 24,242,093	\$ 44,684,727	\$ 37,772,928	\$ 28,482,912	\$ 41,586,739	\$ 208,833,790
Water	\$ 10,402,000	\$ 9,681,800	\$ 8,979,300	\$ 10,618,200	\$ 8,649,100	\$ 8,135,000	\$ 56,465,400
Steam	\$ 8,478,580	\$ 2,999,923	\$ 2,948,925	\$ 2,941,103	\$ 2,970,861	\$ 3,071,917	\$ 23,411,309
Chilled Water	\$ 10,230	\$ 2,212,062	\$ 2,411,513	\$ 10,952	\$ 11,204	\$ 11,204	\$ 4,667,165
Common	\$ 25,512,872	\$ 20,236,942	\$ 14,223,286	\$ 8,984,771	\$ 19,947,671	\$ 7,198,591	\$ 96,104,133
Capital Budget Excluding New NGCC Plant	\$ 76,468,073	\$ 59,372,820	\$ 73,247,751	\$ 60,327,954	\$ 60,061,748	\$ 60,003,451	\$ 389,481,797
New NGCC Plant	\$ 113,122,831	\$ 180,969,783	\$ 93,623,055	\$ -	\$ -	\$ -	\$ 387,715,669
Total Capital Budget	\$ 189,590,904	\$ 240,342,603	\$ 166,870,806	\$ 60,327,954	\$ 60,061,748	\$ 60,003,451	\$ 777,197,466
Location							
Eckert	\$ -	\$ 148,000	\$ -	\$ -	\$ -	\$ -	\$ 148,000
Erickson	\$ 4,129,667	\$ 2,069,349	\$ 772,897	\$ 861,761	\$ 702,492	\$ 33,239	\$ 8,569,405
REO Plant	\$ 5,758,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,758,555
T&D	\$ 34,830,399	\$ 29,669,532	\$ 50,658,661	\$ 41,865,122	\$ 37,835,485	\$ 52,606,621	\$ 247,465,820
Dye/Cedar	\$ 3,947,000	\$ 4,046,800	\$ 2,799,300	\$ 4,553,200	\$ 1,576,100	\$ 165,000	\$ 17,087,400
Chiller Plant	\$ 122,000	\$ 2,201,597	\$ 2,400,807	\$ -	\$ -	\$ -	\$ 4,724,404
Moore's Park	\$ 1,263,580	\$ 1,098,600	\$ 653,400	\$ -	\$ -	\$ -	\$ 3,015,580
New NGCC Plant	\$ 113,122,831	\$ 180,969,783	\$ 93,623,055	\$ -	\$ -	\$ -	\$ 387,715,669
Other	\$ 26,416,872	\$ 20,138,942	\$ 15,962,686	\$ 13,047,871	\$ 19,947,671	\$ 7,198,591	\$ 102,712,633
Total Capital Budget	\$ 189,590,904	\$ 240,342,603	\$ 166,870,806	\$ 60,327,954	\$ 60,061,748	\$ 60,003,451	\$ 777,197,466

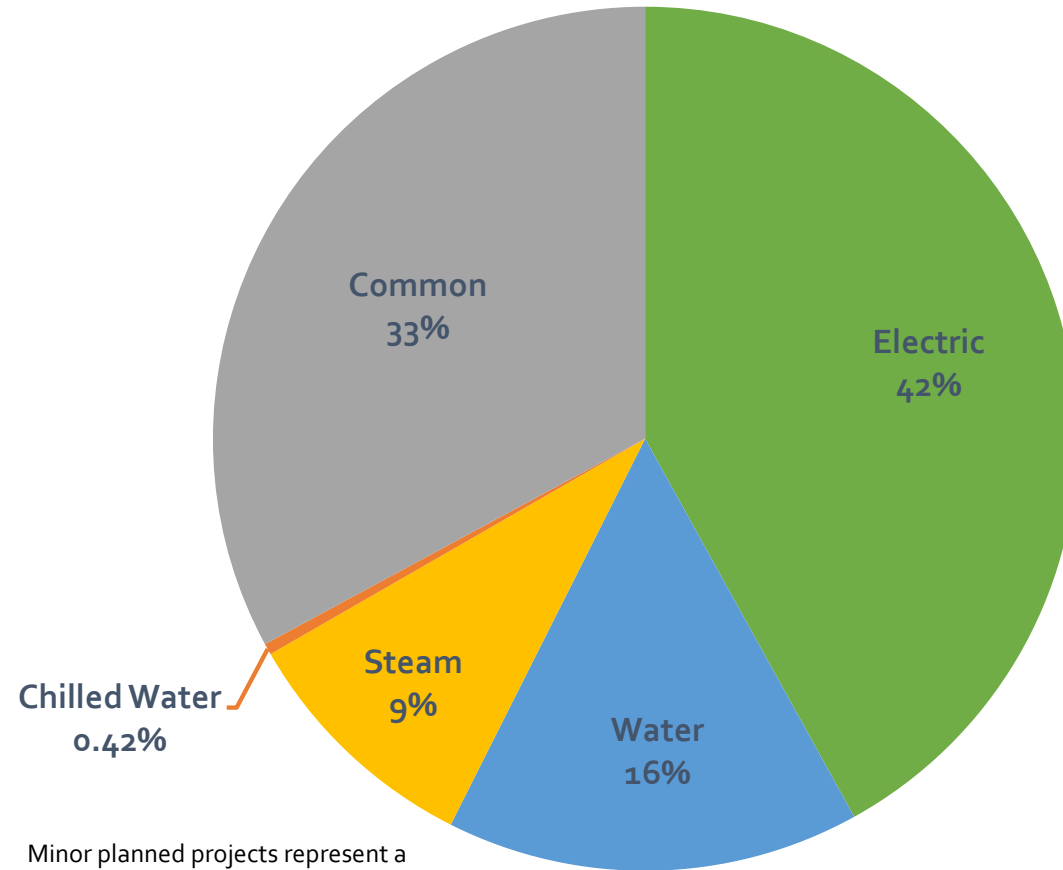
- Capital Budget and Forecast

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

6-Year Major Capital Projects	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Forecast Total ⁴
Planned Projects							
Stanley Substation - Construct a New 138kV Sub ¹	\$ -	\$ -	\$ -	\$ -	\$ 4,654,150	\$ 22,317,500	\$ 26,971,650
Smart Grid Implementation (AMI) ²	\$ 13,766,858	\$ 4,475,887	\$ -	\$ -	\$ -	\$ -	\$ 18,242,745
Customer Information System Replacement ²	\$ 1,000,000	\$ 7,000,000	\$ 6,000,000	\$ -	\$ -	\$ -	\$ 14,000,000
Wise Substation Double Ending ¹	\$ 200,000	\$ 1,000,000	\$ 12,178,000	\$ -	\$ -	\$ -	\$ 13,378,000
LGR Substation - Construct a New 138kV Sub ¹	\$ 200,000	\$ 300,000	\$ 8,428,000	\$ 3,612,000	\$ -	\$ -	\$ 12,540,000
Rundle (South) Substation - Construct a New 138kV Sub ¹	\$ -	\$ -	\$ 1,350,000	\$ 3,799,997	\$ 6,000,000	\$ -	\$ 11,149,997
Rundle (South) Reinforcement ¹	\$ 850,000	\$ 1,000,000	\$ 1,500,000	\$ 5,200,000	\$ -	\$ -	\$ 8,550,000
Electric Distribution - Automation Project	\$ 500,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,500,000	\$ 7,000,000
Central Substation ¹	\$ 6,445,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,445,000
REO - CTG Hot Section Replacement	\$ 5,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000,000
Cedar Street - 4160V Sub Cutover and Retirement	\$ -	\$ 1,206,270	\$ 1,206,270	\$ 1,206,270	\$ 1,206,270	\$ -	\$ 4,825,080
Peffley Plant - Free Cooling System Seasonal Changeover	\$ -	\$ 1,761,597	\$ 2,400,807	\$ -	\$ -	\$ -	\$ 4,162,404
Turbine Overhaul Outage	\$ 4,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,000,000
Solar Panel Construction	\$ -	\$ -	\$ 4,000,000	\$ -	\$ -	\$ -	\$ 4,000,000
Total Major Planned Projects (Excluding New NGCC Plant)	\$ 31,961,858	\$ 17,993,754	\$ 38,313,077	\$ 15,068,267	\$ 13,110,420	\$ 23,817,500	\$ 140,264,876
New NGCC Power Plant	\$ 113,122,831	\$ 180,969,783	\$ 93,623,055	\$ -	\$ -	\$ -	\$ 387,715,669
Annual Projects ³							
Electric	\$ 11,632,667	\$ 11,633,349	\$ 11,634,047	\$ 11,634,761	\$ 11,635,492	\$ 11,636,239	\$ 69,806,555
Water	\$ 6,670,000	\$ 5,760,000	\$ 6,145,000	\$ 6,230,000	\$ 7,238,000	\$ 8,135,000	\$ 40,178,000
Steam	\$ 1,420,454	\$ 908,423	\$ 1,298,464	\$ 1,328,944	\$ 1,796,674	\$ 1,897,730	\$ 8,650,689
Chilled Water	\$ 10,230	\$ 10,465	\$ 10,706	\$ 10,952	\$ 11,204	\$ 11,204	\$ 64,761
Common	\$ 4,339,869	\$ 4,063,183	\$ 4,123,286	\$ 4,184,771	\$ 4,247,671	\$ 4,283,591	\$ 25,242,371
Total Annual Projects	\$ 24,073,220	\$ 22,375,420	\$ 23,211,503	\$ 23,389,428	\$ 24,929,041	\$ 25,963,764	\$ 143,942,376
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. (Prior Years' spending is not reflected in this total)							

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

FY 2019-2024 Minor Planned Capital Projects by Utility



Minor planned projects represent a total of \$105M, or 43%, of the planned capital projects in the forecast.

• Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2019 – 2024 and recommend for Board of Commissioners' approval on May 22, 2018.
- Board of Commissioners to approve, as presented, the FY 2019 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 2019 – 2024 and submit the Capital Forecast to the Mayor prior to October 1, 2018.
 - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1.