

Budget & Forecast

FY 2023–2028

Finance Committee Meeting

May 10, 2022

Board Meeting

May 24, 2022



Overview

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

FY 2022 Accomplishments

- Strategic Objectives

- BWL Year in Review

- Target Metrics

- Budget & Forecast Cycle Focus

- ISO 55000 Certification at REO Plant (P₄:S₃)
- Commercial Operation of Delta Energy Park (P₁:S₂)
- Customer Resource Fairs (P₁:S₃)
- Ultium Cells Battery Plant (P₁:S₄)
- Increased Customer Satisfaction (P₁:S₁)
- APPA Smart Energy Provider Designation (P₃:S₂)
- APPA RP₃ Diamond (P₄:S₂)
- BSmart Program Close Out (P₁:S₂)
- 80MW Solar (P₃:S₂)

LEGEND FOR STRATEGIC PLAN REFERENCES

(Priority # : Strategy #)

- 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 2023-2028 Target: **4.01%**
 - **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: **166 days**
 - Debt service coverage minimum target: **2.00 x**

- Strategic Objectives

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

FY2022-2027 (Current)

- COVID-19 Recovery
- DEP Commissioning
- Increased Capital Investment
- New Billing System (CIS)
- Continued Strategic Plan Execution

FY2023-2028 (Upcoming)

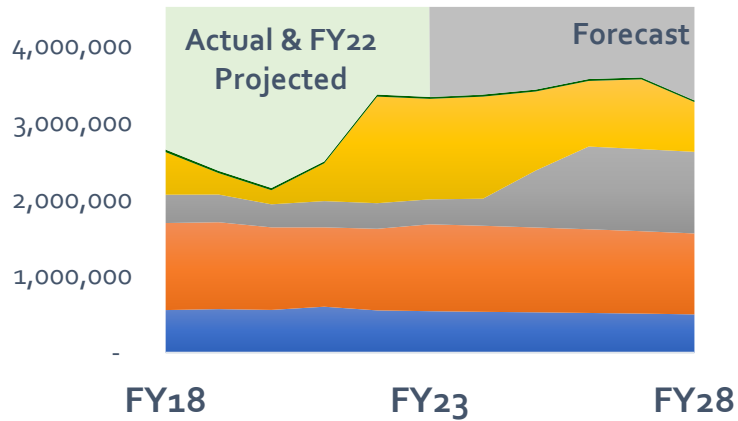
- Operational Efficiencies
- Lansing Energy Tomorrow
- Water Main Investment
- Rate Structure Refinement
- Coal Plant Decommissioning
- Develop Plan for Achieving Carbon Neutrality with Known Load Growth
- Workforce Engagement
- Generative Safety Culture
- Pursue Infrastructure Grants

Key Budget & Forecast Assumptions

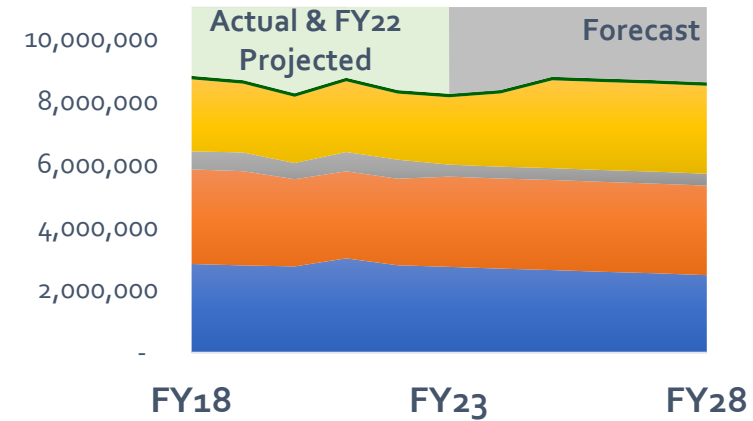
- Current strategic plan is supported by this budget & forecast.
- Water main replacements achieve 8 miles per year in FY2028.
- Defined Benefit and Voluntary Employees' Beneficiary Association (DB & VEBA) investment returns are meeting targets.
- Our final coal plant, Erickson, closes in FY2023.
- Rate changes and rate structure refinement - November 2022.
- Return on Equity assumes 6% of total revenue, less inter-utility sales.
- Potential grant funding not included.

Sales Volume History and Forecast

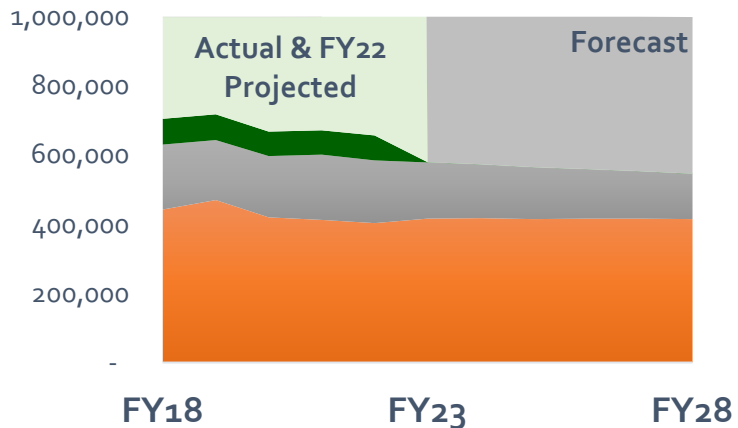
Electric - Consumption Volume (MWH)



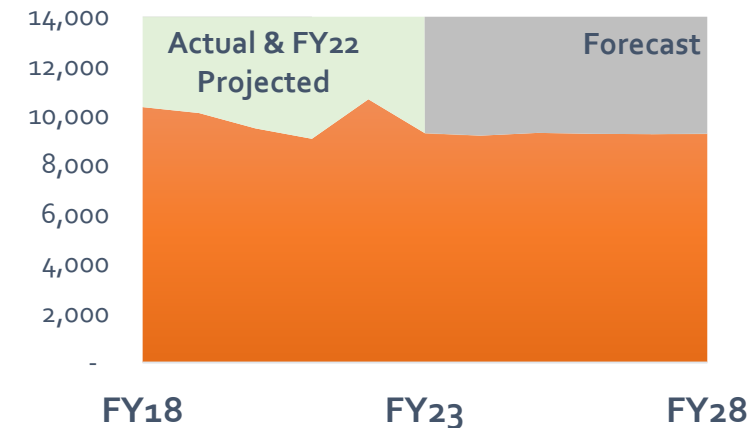
Water - Consumption Volume (CCF)



Steam - Consumption Volume (M.LB)



Chilled Water - Consumption Volume (M.THR)



- Operating Budget & Forecast

- FY 2023 Income Statement

- FY 2023 Operating Expenses by Category

- 6-Year Income Statement

- 6-Year Return on Assets

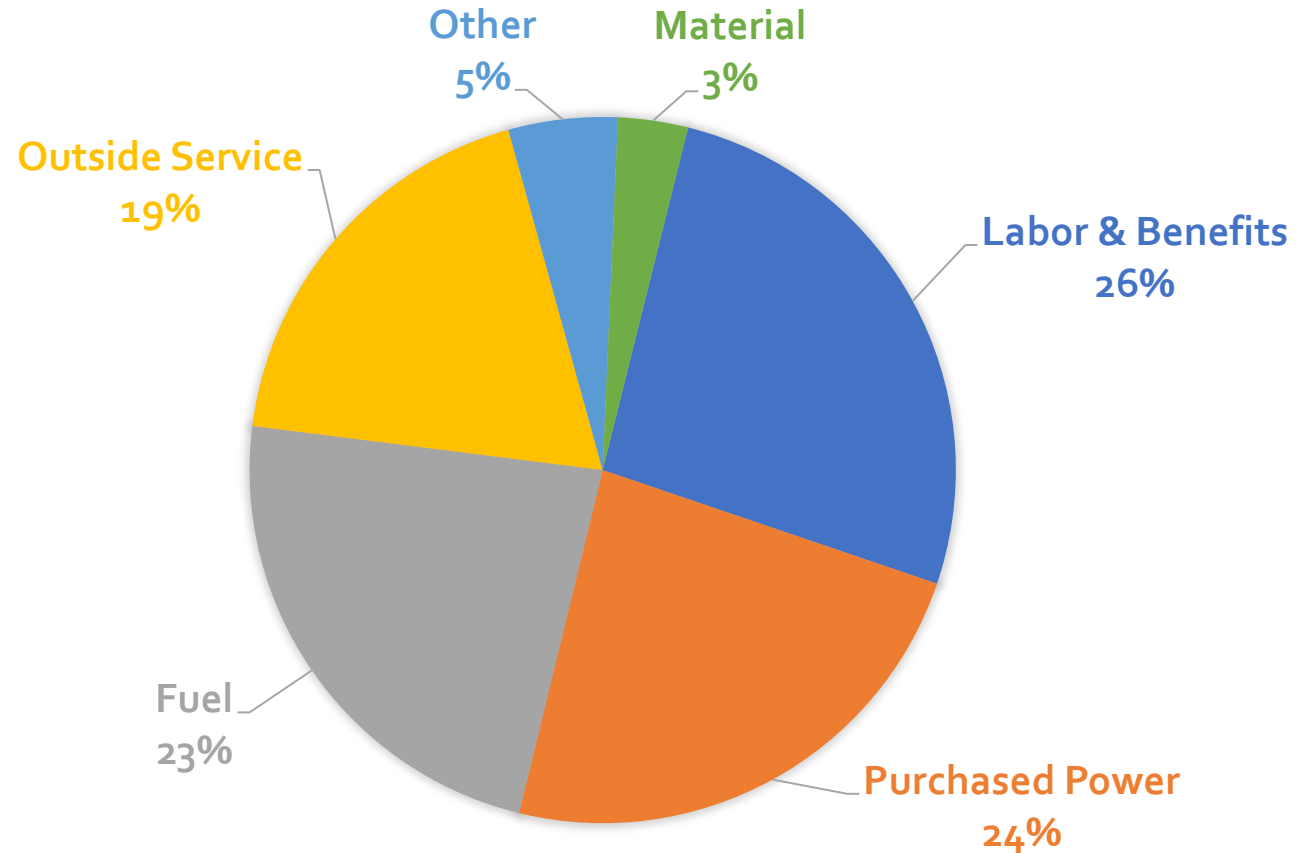
- 6-Year Cash Flow

- 6-Year Bonded Debt Service

FY 2023 Income Statement	Electric	Water	Steam	Chilled Water	Total
Sales (MWh, ccf, Mlb, ton-hrs)	3,330,219	8,241,032	579,159	9,284	
Operating Revenue					
Residential	\$ 82,397,876	\$ 20,285,434	\$ 16,345	\$ -	\$ 102,699,655
Commercial	\$ 130,401,758	\$ 16,647,724	\$ 9,622,011	\$ 5,837,807	\$ 162,509,300
Industrial	\$ 37,880,677	\$ 1,796,479	\$ 2,725,188	\$ -	\$ 42,402,344
Wholesale	\$ 86,397,402	\$ 4,127,965	\$ -	\$ -	\$ 90,525,368
Other	\$ 16,663,488	\$ 7,432,641	\$ 18,652	\$ -	\$ 24,114,781
Total Operating Revenue	\$ 353,741,202	\$ 50,290,243	\$ 12,382,195	\$ 5,837,807	\$ 422,251,447
Operating Expenses					
Fuel & Purchased Power	\$ (133,562,005)	\$ (5,401,005)	\$ (3,641,642)	\$ -	\$ (142,604,652)
Depreciation	\$ (55,409,905)	\$ (9,808,953)	\$ (3,778,721)	\$ (1,687,589)	\$ (70,685,168)
Other Operating Expenses	\$ (107,307,817)	\$ (31,780,277)	\$ (5,784,279)	\$ (4,885,911)	\$ (149,758,283)
Total Operating Expenses	\$ (296,279,727)	\$ (46,990,235)	\$ (13,204,641)	\$ (6,573,500)	\$ (363,048,103)
Total Operating Income	\$ 57,461,475	\$ 3,300,008	\$ (822,446)	\$ (735,693)	\$ 59,203,344
Non Operating Income/(Expenses)					
Return on Equity to City	\$ (20,847,485)	\$ (2,963,819)	\$ (729,736)	\$ (344,047)	\$ (24,885,087)
Interest Expense	\$ (22,861,557)	\$ (1,503,961)	\$ (1,764,566)	\$ (248,860)	\$ (26,378,943)
Other Non Operating Income/(Expenses)	\$ (2,818,611)	\$ 691,116	\$ (209,407)	\$ 265,193	\$ (2,071,708)
Total Non Operating Income/(Expenses)	\$ (46,527,653)	\$ (3,776,664)	\$ (2,703,708)	\$ (327,714)	\$ (53,335,739)
Total Net Income/(Loss)	\$ 10,933,823	\$ (476,656)	\$ (3,526,154)	\$ (1,063,407)	\$ 5,867,605
Forecasted Rate Increase	2.05%	9.50%	9.95%	4.00%	
Return on Assets	3.88%	0.33%	-2.74%	-4.46%	2.63%
Target Return on Assets	4.01%	4.01%	4.01%	4.01%	4.01%

- Operating Budget & Forecast
 - FY 2023 Income Statement
 - **FY 2023 Operating Expenses by Category**
 - 6-Year Income Statement
 - 6-Year Return on Assets
 - 6-Year Cash Flow
 - 6-Year Bonded Debt Service

FY 2023 Operating Expenses by Category

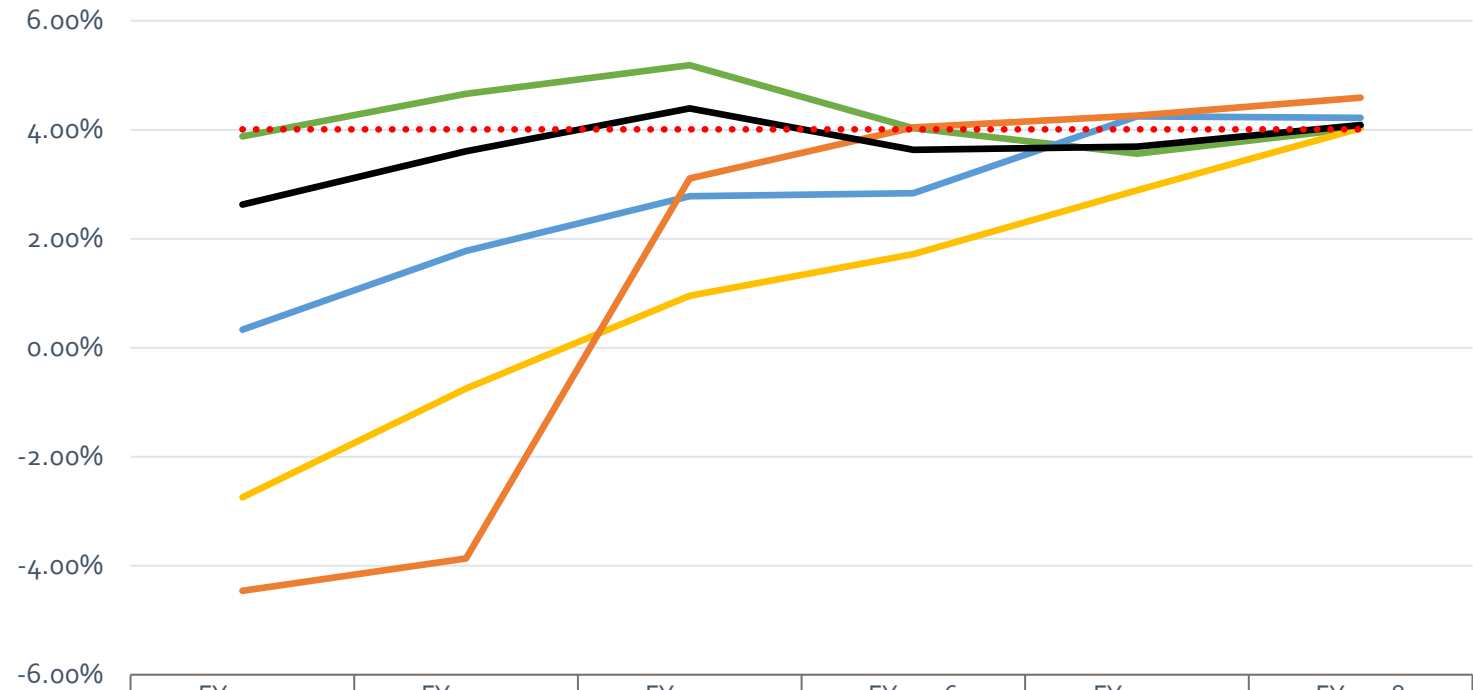


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6-Year Income Statement	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Operating Revenue						
Electric	\$ 353,741,202	\$ 350,628,808	\$ 356,089,227	\$ 367,877,389	\$ 376,205,889	\$ 381,620,905
Water	\$ 50,290,243	\$ 55,175,209	\$ 61,046,989	\$ 66,590,063	\$ 72,697,463	\$ 76,084,702
Steam	\$ 12,382,195	\$ 12,928,203	\$ 13,750,731	\$ 14,918,686	\$ 16,255,851	\$ 17,573,255
Chilled Water	\$ 5,837,807	\$ 6,068,139	\$ 6,324,615	\$ 6,582,365	\$ 6,679,944	\$ 6,681,770
Total Operating Revenue	\$ 422,251,447	\$ 424,800,359	\$ 437,211,562	\$ 455,968,504	\$ 471,839,147	\$ 481,960,633
Operating Expenses						
Fuel & Purchased Power	\$ (142,604,652)	\$ (135,734,560)	\$ (132,811,880)	\$ (140,284,572)	\$ (147,557,634)	\$ (144,409,086)
Depreciation	\$ (70,685,168)	\$ (64,956,899)	\$ (62,216,495)	\$ (63,125,049)	\$ (64,652,253)	\$ (66,402,214)
Other Operating Expenses	\$ (149,758,283)	\$ (150,017,616)	\$ (160,061,940)	\$ (177,969,271)	\$ (180,684,836)	\$ (187,833,198)
Total Operating Expenses	\$ (363,048,103)	\$ (350,709,075)	\$ (355,090,316)	\$ (381,378,892)	\$ (392,894,723)	\$ (398,644,497)
Total Operating Income	\$ 59,203,344	\$ 74,091,284	\$ 82,121,247	\$ 74,589,612	\$ 78,944,424	\$ 83,316,135
Non Operating Income/(Expenses)						
Return on Equity to City	\$ (24,885,087)	\$ (25,038,022)	\$ (25,782,694)	\$ (26,908,110)	\$ (27,860,349)	\$ (28,467,638)
Interest Expense	\$ (26,378,943)	\$ (25,152,682)	\$ (25,358,392)	\$ (24,900,955)	\$ (25,480,202)	\$ (25,274,954)
Other Non Operating Income/(Expenses)	\$ (2,071,708)	\$ (5,179,522)	\$ (2,631,759)	\$ (2,599,651)	\$ (4,967,287)	\$ (3,734,562)
Total Non Operating Income/(Expenses)	\$ (53,335,739)	\$ (55,370,225)	\$ (53,772,844)	\$ (54,408,716)	\$ (58,307,838)	\$ (57,477,153)
Total Net Income	\$ 5,867,605	\$ 18,721,059	\$ 28,348,402	\$ 20,180,896	\$ 20,636,586	\$ 25,838,982
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Return on Assets	2.63%	3.61%	4.39%	3.63%	3.69%	4.09%
Target Return on Assets	4.01%	4.01%	4.01%	4.01%	4.01%	4.01%
Debt Service Coverage Ratio	2.41	2.33	2.86	2.67	2.52	2.68
Days Cash on Hand	194	186	190	189	186	185
Minimum Cash Reserve Requirement	166	179	177	168	167	177
Full Time Employees	727	722	725	725	725	724
Rate Increases	Forecast					
Electric	2.05%	2.05%	2.05%	2.05%	3.15%	3.15%
Water	9.50%	9.50%	9.50%	9.50%	9.50%	2.50%
Steam	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%
Chilled Water	4.00%	4.00%	4.00%	4.00%	0.00%	0.00%

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 - **6-Year Return on Assets**
 - 6-Year Cash Flow
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6-Year Return on Assets (%)



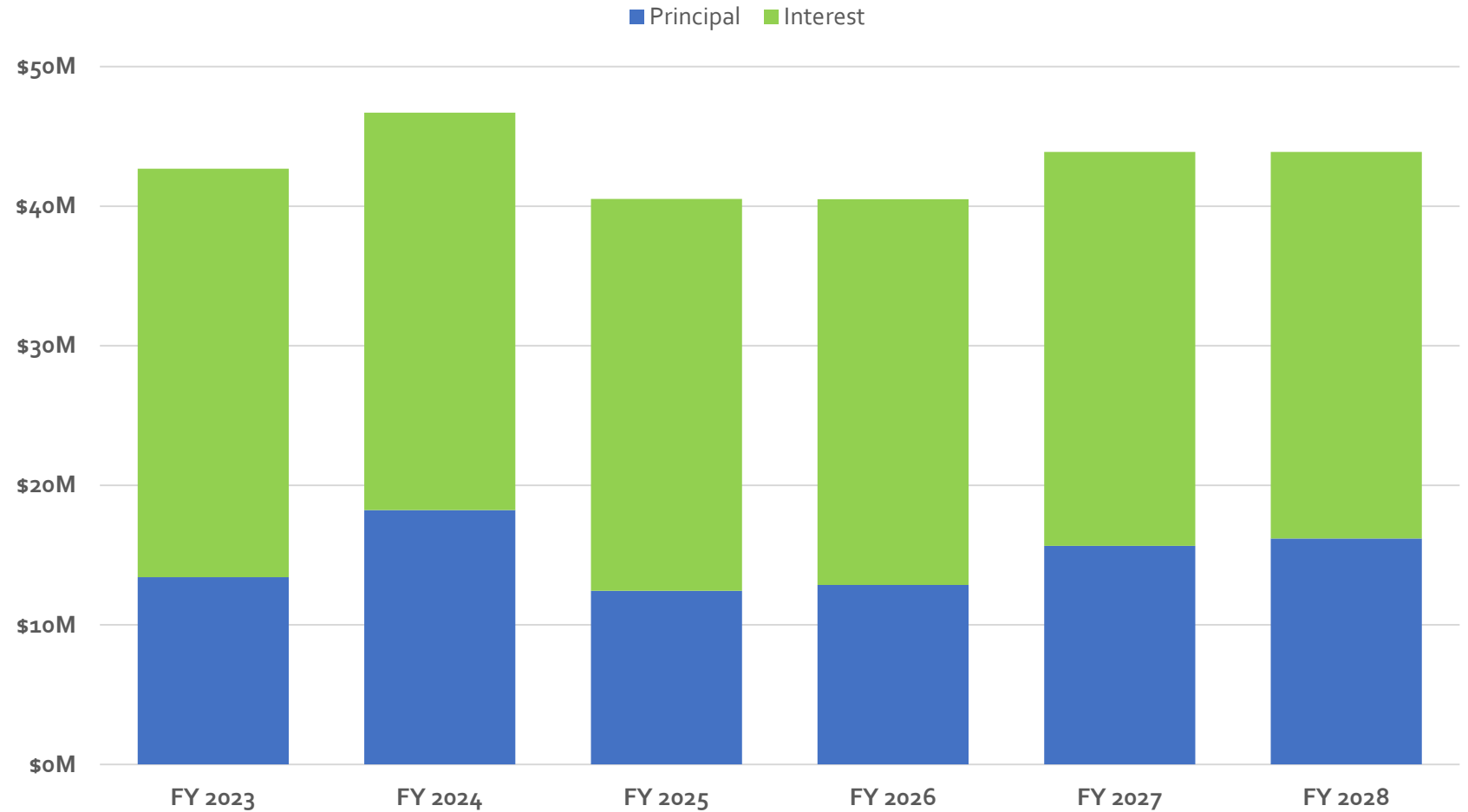
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
— Electric	3.88%	4.66%	5.19%	4.03%	3.56%	4.04%
— Water	0.33%	1.78%	2.78%	2.84%	4.25%	4.22%
— Steam	-2.74%	-0.75%	0.95%	1.72%	2.89%	4.03%
— Chilled Water	-4.46%	-3.86%	3.11%	4.04%	4.26%	4.59%
— Total	2.63%	3.61%	4.39%	3.63%	3.69%	4.09%
•••• Target	4.01%	4.01%	4.01%	4.01%	4.01%	4.01%

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 - **6-Year Cash Flow**
 - 6-Year Bonded Debt Service

6-Year Cash Flow	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Beginning Cash (O&M & Receiving Fund)	\$ 132,524,878	\$ 111,538,894	\$ 100,743,694	\$ 106,664,942	\$ 112,676,264	\$ 117,583,957
Net Income	\$ 5,867,605	\$ 18,721,059	\$ 28,348,402	\$ 20,180,896	\$ 20,636,586	\$ 25,838,982
Depreciation	\$ 70,685,168	\$ 64,956,899	\$ 62,216,495	\$ 63,125,049	\$ 64,652,253	\$ 66,402,214
Loss on Disposal of Assets	\$ 5,292,113	\$ 8,442,113	\$ 6,042,113	\$ 6,042,113	\$ 8,442,113	\$ 7,242,113
DB and VEBA	\$ (16,605,094)	\$ (15,923,205)	\$ (11,067,089)	\$ 1,448,068	\$ (1,409,037)	\$ (235,362)
Commodity Cost Adjustment	\$ 602,838	\$ 1,019,367	\$ 3,545,998	\$ (842,924)	\$ 896,154	\$ (5,133,424)
Environmental	\$ (4,681,464)	\$ (860,861)	\$ (10,209)	\$ 277,283	\$ 258,196	\$ 271,504
Gas Pipeline Payment Refunds	\$ 7,001,546	\$ 7,001,546	\$ 7,001,546	\$ 7,001,546	\$ 7,001,546	\$ -
Total Sources of Cash	\$ 68,162,711	\$ 83,356,918	\$ 96,077,255	\$ 97,232,031	\$ 100,477,810	\$ 94,386,027
Principal Payments on Bonds	\$ (13,410,000)	\$ (18,220,000)	\$ (12,440,000)	\$ (12,860,000)	\$ (15,655,000)	\$ (16,185,000)
Principal Payments on Other Debt (CSO)	\$ (808,533)	\$ (819,630)	\$ (777,433)	\$ (766,149)	\$ (712,200)	\$ (531,945)
Capital Expenditures	\$ (71,804,326)	\$ (68,835,752)	\$ (73,057,719)	\$ (73,691,597)	\$ (72,849,578)	\$ (71,591,478)
REP	\$ (275,838)	\$ (276,735)	\$ (280,856)	\$ (302,964)	\$ (353,338)	\$ (410,110)
Decommissioning	\$ (2,850,000)	\$ (6,000,000)	\$ (3,600,000)	\$ (3,600,000)	\$ (6,000,000)	\$ (4,800,000)
Total Uses of Cash	\$ (89,148,696)	\$ (94,152,117)	\$ (90,156,008)	\$ (91,220,709)	\$ (95,570,116)	\$ (93,518,533)
Net Cash Increase (Decrease)	\$ (20,985,985)	\$ (10,795,199)	\$ 5,921,248	\$ 6,011,322	\$ 4,907,694	\$ 867,494
Ending Cash (O&M & Receiving Fund)	\$ 111,538,894	\$ 100,743,694	\$ 106,664,942	\$ 112,676,264	\$ 117,583,957	\$ 118,451,451
Days Cash on Hand	194	186	190	189	186	185
Minimum Cash Reserve Requirement	166	179	177	168	167	177

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6-Year Bonded Debt Service



- Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location

- Capital Portfolio Major Projects and Annuals
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- Capital Portfolio Designed Budget Amounts

6-Year Capital by Utility and Location							
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Forecast Total
Utility							
Electric	\$ 48,749,960	\$ 42,282,331	\$ 48,138,534	\$ 47,079,164	\$ 45,009,986	\$ 41,594,924	\$ 272,854,899
Water	\$ 12,879,162	\$ 15,914,519	\$ 14,501,390	\$ 17,046,000	\$ 18,298,000	\$ 19,334,819	\$ 97,973,890
Steam	\$ 1,797,085	\$ 1,898,605	\$ 3,452,557	\$ 3,074,241	\$ 3,316,253	\$ 2,076,741	\$ 15,615,482
Chilled Water	\$ 51,500	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 1,247,889	\$ 1,521,309
Common	\$ 8,326,619	\$ 8,687,252	\$ 6,910,602	\$ 6,435,917	\$ 6,167,375	\$ 7,337,106	\$ 43,864,870
Total Capital Portfolio	\$ 71,804,326	\$ 68,835,752	\$ 73,057,719	\$ 73,691,597	\$ 72,849,578	\$ 71,591,478	\$ 431,830,450
Location							
REO Plant	\$ 2,261,832	\$ 1,500,000	\$ 2,956,400	\$ 4,708,500	\$ 1,500,000	\$ 1,500,000	\$ 14,426,732
Delta Energy Park	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 12,000,000
Water Production	\$ 3,269,162	\$ 3,594,519	\$ 3,601,855	\$ 2,410,365	\$ 2,715,097	\$ 2,052,386	\$ 17,643,384
Electric T&D	\$ 43,221,038	\$ 37,270,831	\$ 38,461,967	\$ 36,047,004	\$ 31,159,860	\$ 24,191,411	\$ 210,352,111
Water T&D	\$ 9,150,000	\$ 12,320,000	\$ 10,899,535	\$ 14,635,635	\$ 15,582,903	\$ 17,282,433	\$ 79,870,506
Steam T&D	\$ 1,245,900	\$ 1,849,527	\$ 3,452,557	\$ 3,074,241	\$ 2,016,253	\$ 2,076,741	\$ 13,715,219
Chilled Water T&D	\$ 51,500	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 59,703	\$ 333,123
Other	\$ 10,604,894	\$ 10,247,830	\$ 11,630,769	\$ 10,759,577	\$ 17,817,501	\$ 22,428,805	\$ 83,489,376
Total Capital Portfolio	\$ 71,804,326	\$ 68,835,752	\$ 73,057,719	\$ 73,691,597	\$ 72,849,578	\$ 71,591,478	\$ 431,830,450

- Capital Portfolio Budget & Forecast
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6-Year Major Capital Projects and Annuals							
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Forecast Total ³
Planned Projects							
Rundle Substation ¹	\$ -	\$ 2,594,746	\$ -	\$ 10,644,324	\$ 10,589,860	\$ -	\$ 23,828,930
Wise Substation ¹	\$ 17,893,687	\$ 4,675,343	\$ 160,313	\$ -	\$ -	\$ -	\$ 22,729,343
LGR Substation ¹	\$ 1,791,866	\$ 77,467	\$ 8,006,382	\$ 8,083,680	\$ -	\$ -	\$ 17,959,395
South Reinforcement - Transmission Line ¹	\$ 824,671	\$ 10,383,115	\$ 5,567,859	\$ -	\$ -	\$ -	\$ 16,775,645
Dye/Cedar Dry Chemical Handling	\$ 1,350,400	\$ 2,166,519	\$ 3,362,855	\$ 2,165,365	\$ 1,854,097	\$ 1,240,386	\$ 12,139,622
Stanley Substation ¹	\$ 508,243	\$ 1,026,924	\$ 3,585,402	\$ -	\$ -	\$ 2,835,527	\$ 7,956,096
Cedar Street - Sub Cutover ¹	\$ -	\$ 500,000	\$ 2,303,000	\$ 1,086,000	\$ 2,293,000	\$ 1,651,000	\$ 7,833,000
REO - Stack Heat Recovery	\$ -	\$ -	\$ 1,000,000	\$ 2,400,000	\$ -	\$ -	\$ 3,400,000
Electric System Protection	\$ -	\$ -	\$ -	\$ 573,000	\$ 1,250,000	\$ 1,250,000	\$ 3,073,000
Magnolia Ave. - 4160V Cutover & Retirement	\$ 1,014,930	\$ 847,260	\$ 814,610	\$ -	\$ -	\$ -	\$ 2,676,800
Total Major Planned Projects	\$ 23,383,797	\$ 22,271,374	\$ 24,800,421	\$ 24,952,369	\$ 15,986,957	\$ 6,976,913	\$ 118,371,831
Annual Projects ²							
Electric	\$ 21,270,000	\$ 18,800,000	\$ 18,808,000	\$ 18,983,000	\$ 18,850,000	\$ 18,850,000	\$ 115,561,000
Water	\$ 9,372,000	\$ 12,548,000	\$ 11,138,535	\$ 14,880,635	\$ 15,843,903	\$ 13,754,433	\$ 77,537,506
Steam	\$ 1,245,900	\$ 1,849,527	\$ 3,452,557	\$ 3,074,241	\$ 2,016,253	\$ 2,076,741	\$ 13,715,219
Chilled Water	\$ 51,500	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 59,703	\$ 333,123
Common	\$ 6,022,711	\$ 5,867,049	\$ 5,820,602	\$ 5,171,313	\$ 5,036,976	\$ 5,156,363	\$ 33,075,014
Total Annual Projects	\$ 37,962,111	\$ 39,117,621	\$ 39,274,330	\$ 42,165,464	\$ 41,805,097	\$ 39,897,239	\$ 240,221,861

¹ These projects support the Lansing Energy Tomorrow initiative.

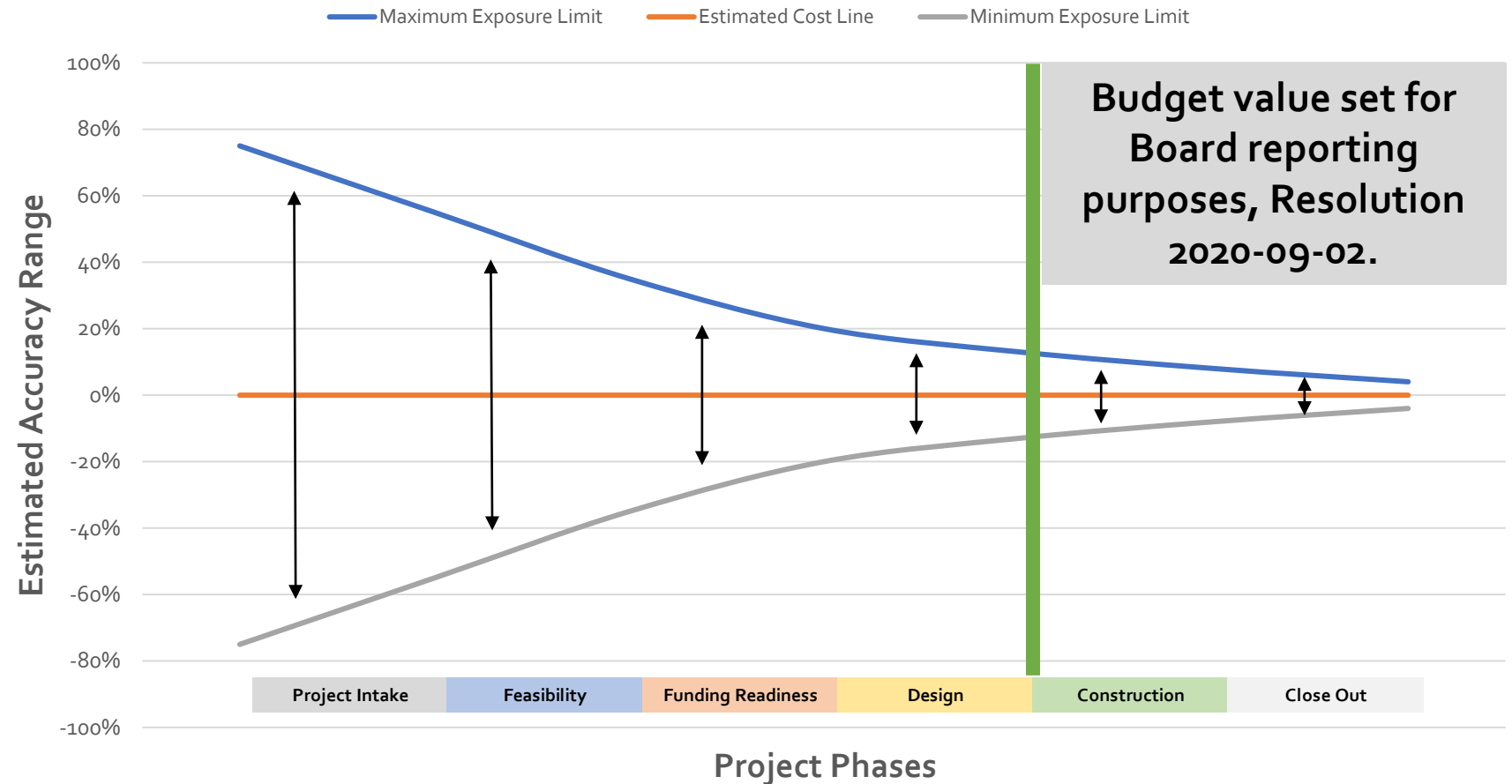
² Annual projects have some level of spending each year.

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 63% of Total Planned Capital

- Capital Portfolio Budget & Forecast
 - Capital Portfolio Spending by Utility and Location
 - Capital Portfolio Major Projects and Annuals
 - Capital Portfolio Gates and Phases
 - Capital Portfolio Designed Budget Amounts

Estimating Accuracy by Phase



Board of Commissioners amended the Capital Project Exceedance Approval Policy (Resolution #2020-09-02) based on the portfolio approach.

- Capital Portfolio Budget & Forecast
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Designed Budget Amounts by Latest Estimate			
Project Name	Designed Budget	Latest Estimate	Current Phase
Advanced Metering Infrastructure	\$ 37,187,288	\$ 37,708,129	Construction
Customer Information System	\$ 17,425,255	\$ 16,106,520	Construction
ESRI Implementation	\$ 6,520,417	\$ 6,863,542	Construction
ADMS - Advanced Distribution Management System ¹	\$ 6,315,943	\$ 6,259,609	Construction
Magnolia Ave. - 4160V Sub Cutover and Retirement	\$ 4,262,000	\$ 2,938,846	Construction
MP - Tainter Gate Trunnion Pin Replacement	\$ 2,010,909	\$ 2,003,099	Close Out
Central Distribution	\$ 2,440,611	\$ 1,980,575	Close Out
Eckert 13 & 15 Cutover	\$ 1,882,818	\$ 1,788,534	Construction
College H919 - Distribution	\$ 1,291,467	\$ 1,289,358	Construction
Erickson River Water Pump and Ash Pump Switchgear	\$ 1,583,468	\$ 1,153,229	Close Out
Dye Sludge Transfer Pumps 1 and 2 Replacement	\$ 1,139,725	\$ 1,141,961	Construction
SCADA Network Upgrade Phase 2	\$ 989,867	\$ 941,912	Construction
Fluoride Tank Replace	\$ 834,367	\$ 762,701	Construction
Substation Modernization - Distribution	\$ 635,848	\$ 714,085	Construction
ESRI Release 4	\$ 696,365	\$ 696,365	Construction
Dye Calciner Transformer Protection	\$ 441,500	\$ 380,790	Close Out
Wellfield Asset Management	\$ 298,474	\$ 248,677	Construction
Eckert 13.2kV Compressor Project	\$ 164,169	\$ 183,305	Construction
Enterprise Sub - Howard Line DFR Input Integration	\$ 198,534	\$ 161,215	Close Out
Davis Ave. Substation - Transient Recorder Replacement	\$ 375,310	\$ 131,594	Construction
Davis Substation Hydrogen Sensor	\$ 98,538	\$ 69,043	Construction

*Projects latest estimate and current phase as of March 2022
 *Projects exceeding the designed budget amount by \$200k & 15% are subject to Board reporting
¹ This was reported as an exceedance in September 2021. The revised budget amount is shown here

Next Steps



November 2021 – February 2022

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



March 2022 – April 2022

- Compile Budget & Forecast
- Internal Review and Approval



May 2022

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2023 – 2028 and recommend for Board of Commissioners' approval on May 24, 2022.
- Board of Commissioners to approve, as presented, the FY 2023 annual budget and file with the City Clerk within 10 days of approval.
- Board of Commissioners to accept, as presented, the Operating and Capital Forecast for FY 2023 – 2028 and submit the Capital Forecast to the Mayor prior to October 1, 2022.