

2021 Proposed Budget & Rates

Administrative Board Meeting
September 18, 2020

Laura L. Kapustka, CFO & Vice President of Financial Services

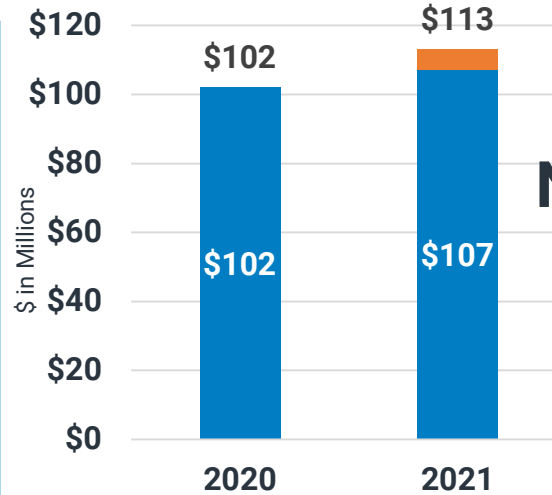
**There will
be no
action on
the budget
taken at
this
September
Board
meeting**

**The September Board
meeting is the chance
for the budget and rate
details to be shared with
the full Board**

2021 Budget & Rates Quick Glance

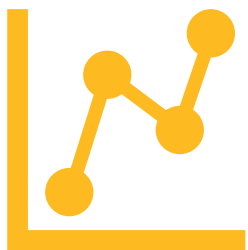


**No System-Wide
Rate Increase**
*Some rate component
changes are proposed*



**Net Power Costs
are Increased**

*Orange represents a ~\$6M
reclassification of wholesale
revenue to retail; net budget
impact is zero.*



**Achievement of
Financial Metrics
Challenging**



**Bond Refinancing
Easing Budget
Stress**

A detailed dive

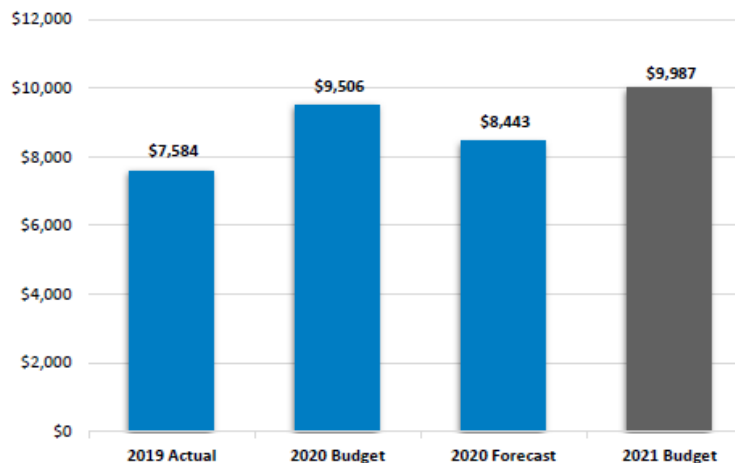


Corporate Operations 2021 Operating Budget

Division Recap

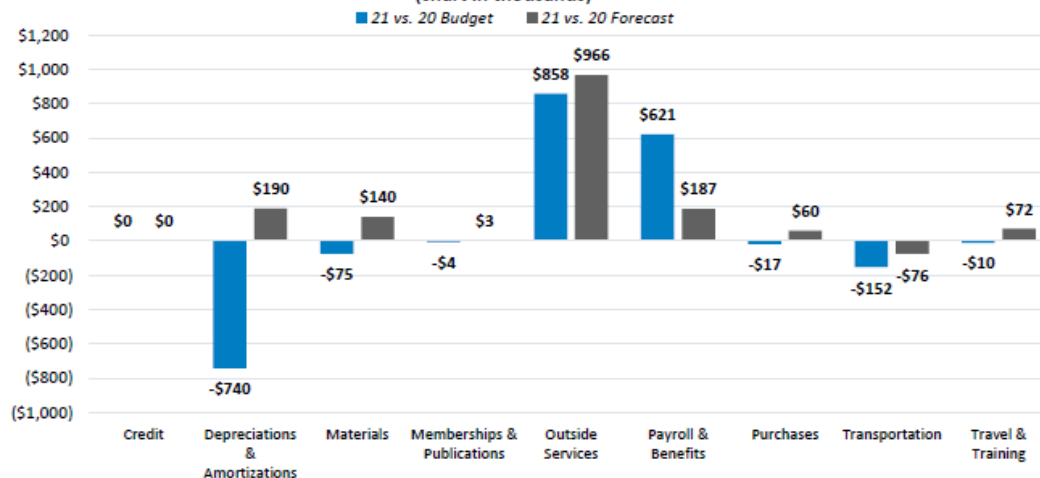
Total Budget

(chart in thousands)



2020 - 2021 Budget Variance

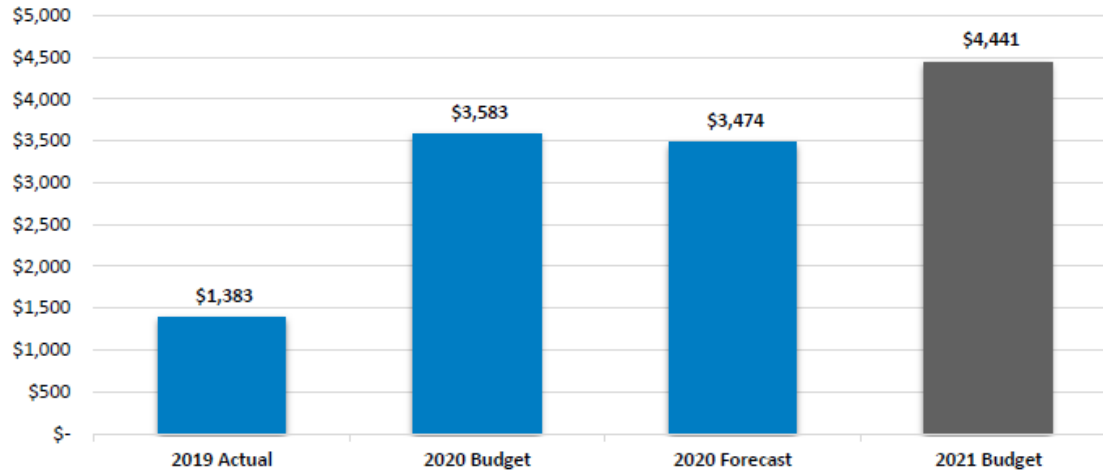
(chart in thousands)



Expenditure Type	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	21 vs. 20 Budget (\$)	21 vs. 20 Budget (%)	21 vs. 20 Forecast (\$)	21 vs. 20 Forecast (%)
Credit	\$626,247	\$0	\$0	\$0	\$0	0.0%	\$0	0.0%
Depreciations & Amortizations	\$1,240,502	\$1,580,000	\$650,000	\$840,000	(\$740,000)	-46.8%	\$190,000	29.2%
Materials	(\$446,276)	(\$129,586)	(\$344,848)	(\$204,635)	(\$75,049)	57.9%	\$140,213	-40.7%
Memberships & Publications	\$30,731	\$32,662	\$24,956	\$28,291	(\$4,371)	-13.4%	\$3,335	13.4%
Outside Services	\$1,382,894	\$3,582,616	\$3,474,433	\$4,440,838	\$858,222	24.0%	\$966,405	27.8%
Payroll & Benefits	\$5,425,526	\$5,514,209	\$5,947,312	\$6,134,729	\$620,520	11.3%	\$187,417	3.2%
Purchases	\$1,003,040	\$811,838	\$734,074	\$794,512	(\$17,326)	-2.1%	\$60,438	8.2%
Transportation	(\$1,834,571)	(\$2,001,288)	(\$2,077,001)	(\$2,152,799)	(\$151,511)	7.6%	(\$75,798)	3.6%
Travel & Training	\$155,441	\$115,706	\$34,268	\$106,163	(\$9,543)	-8.2%	\$71,895	209.8%
Grand Total	\$7,583,534	\$9,506,157	\$8,443,194	\$9,987,099	\$480,942	5.1%	\$1,543,905	18.3%

Outside Services

(chart in thousands)



Department	2020 Budget	2020 Forecast	2021 Budget	21 vs. 20 Budget (\$)	21 vs. 20 Budget (%)	21 vs. 20 Forecast (\$)	21 vs. 20 Forecast (%)
150 Corporate Services Administration	\$101,820	\$72,374	\$101,460	(\$360)	-0.4%	\$29,086	40.2%
152 Safety & Physical Security	\$237,380	\$201,621	\$299,080	\$61,700	26.0%	\$97,459	48.3%
153 Building & Grounds	\$2,752,454	\$2,804,519	\$3,486,178	\$733,724	26.7%	\$681,659	24.3%
154 Purchasing & Stores	\$7,240	\$29,872	\$7,480	\$240	3.3%	(\$22,392)	-75.0%
155 Human Resources	\$154,250	\$127,525	\$253,188	\$98,938	64.1%	\$125,663	98.5%
156 Employee Benefits	\$0	\$0	\$0	\$0	0.0%	\$0	0.0%
159 Toolroom	\$29,512	\$29,331	\$29,992	\$480	1.6%	\$661	2.3%
160 Garage	\$190,100	\$180,161	\$191,700	\$1,600	0.8%	\$11,539	6.4%
161 Facilities Administration	\$109,860	\$29,030	\$71,760	(\$38,100)	-34.7%	\$42,730	147.2%
Grand Total	\$3,582,616	\$3,474,433	\$4,440,838	\$858,222	24.0%	\$966,405	27.8%

Budget vs. Budget Variances

Outside Services

152

PRIME service agreement, +\$21K
Prox reader upgrade (new), +\$25K
Rekeying of Service Center (new), +\$6K
Securitas security services, +\$12K

153

Building maintenance expenses (LOC Phase 1 contract work), +\$84K
Courier service (new), +\$26K
Custodial contract expenses, +\$135K
Grounds maintenance expenses, +\$94K
LEB exit and move costs (new), +\$150K
LOC DEC expenses, +\$160K
SVC Site Assessment, +\$75K
SVC Updates, +\$9K

155

Compensation study (new), +\$115K
E-learning consulting, -\$4K
Employee training, -\$8K
Recruiting expenses, -\$3K

161

LEB parking garage expenses, -\$30K
Postage expenses, -\$8K

Budget vs. Forecast Variances

Outside Services

150

Diabetes Prevention Program expenses under in 2020 but planned in 2021, +\$2K
Restricted services in 2020 (due to COVID-19), +\$25K
Tobacco Cessation Program expenses under in 2020 but planned in 2021, +\$2K

152

PRIME service agreement, +\$21K
Prox reader upgrade (new), +\$25K
Rekey Service Center (new), +\$6K
Securitas security services, +\$46K

153

Building maintenance expenses (LOC Phase 1 contract work), +\$84K
Contracted temporary help, -\$20K
Courier service (new), +\$26K
Custodial contract expenses, +\$135K
Equipment maintenance contracts, -\$16K
Grounds maintenance expenses (including snow removal), +\$94K
LEB exit and move costs (new), +\$150K
LOC DEC expenses, +\$160K
Outside services (miscellaneous), -\$16K
SVC Site Assessment, +\$75K
SVC Updates, +\$9K

154

Warehouse operation assessment of Toolroom and Stores Ops in 2020, -\$22K

155

Compensation study (new), +\$115K
Employee training, -\$5K
Recruiting expenses, +\$20K

160

2020 expenses for vehicle damage and repair are less than planned, +\$12K

161

Parking expenses settled to Purchases instead of Outside Services, +\$40K



Corporate Operations Operating Budget Comparison

				2020	2021	Variance
Corporate Operations				9,506,157	9,987,099	480,942
150 Corporate Operations Administration				452,475	568,909	116,434
Memberships & Publications				494	494	-
WELCOA Membership	15050	515110-Employee Membership/Dues		395	395	-
Functional Movement Systems Annual Membership	15050	515110-Employee Membership/Dues		99	99	-
Outside Services				101,820	101,460	(360)
Audiogram Testing	15050	530725-Employee Testing		-	2,000	2,000
Fitness Center Reimbursement	15050	533425-Fitness Center Reimbursement Program		19,000	19,000	-
Flu Shots and Disease Prevention	15050	533410-Flu Shots		15,000	15,000	-
Maintenance & Repair of Fitness Equipment	15050	535720-Equipment Maintenance		4,000	4,000	-
Stretching Program	15050	533400-Stretching Program		45,000	45,000	-
Telephone/Mobile Device Expenses	15012	537010-Telephone		720	-	(720)
Wellness Program - Local Events & CHAT	15050	533415-Wellness Local Events & CHAT		5,700	5,700	-
Tobacco Cessation Program	15050	533420-Tobacco Reimbursement Program		3,000	-	(3,000)
Weight Management Program	15050	533405-Weight Management Programs		2,400	2,400	-
Annual Audiograms	15050	530725-Employee Testing		2,000	-	(2,000)
Diabetes Prevention Program	15050	533405-Weight Management Programs		4,000	4,000	-
Wellness Program - Safety Meeting Presentations	15050	533415-Wellness Local Events & CHAT		1,000	1,000	-
Safety Training -- CPR/AED and First Aid (TO/LS)	15010	533290-Safety Training		-	240	240
Tobacco Cessation Reimbursement Program	15050	533420-Tobacco Reimbursement Program		-	3,000	3,000
Safety Training -- CPR/AED and First Aid (JY)	15050	533290-Safety Training		-	120	120
Payroll & Benefits				330,111	410,160	80,049
Corporate Operations Labor	15010	505010-Labor - Regular		250,572	318,564	67,992
	15050	505010-Labor - Regular		79,539	91,596	12,057
Purchases				8,880	45,225	36,345
Choose Healthy Program Expenses	15050	520010-Purchases		960	960	-
Furniture and Equipment	15010	528210-Furniture & Equipment Purchases - Expensed		200	-	(200)
Misc. Purchases	15010	520010-Purchases		-	200	200
Office Supplies (Division)	15010	524010-Office Supplies		2,500	2,500	-
Stretching Program Equipment	15050	520745-Wellness Equipment Purchases		2,520	2,520	-
Holiday Challenge Items	15050	520740-Wellness Education Purchases		200	200	-
Community Wellness Events Shirts	15050	520740-Wellness Education Purchases		2,000	2,000	-
Health Education Materials	15050	520740-Wellness Education Purchases		500	500	-
LOC Fitness Room Equipment	15050	520745-Wellness Equipment Purchases		-	36,345	36,345
Transportation				120	120	-
Personal Vehicle Mileage	15050	550110-Personal Vehicle Mileage		120	-	(120)
Personal Vehicle Mileage (JY)	15050	550110-Personal Vehicle Mileage		-	120	120
Travel & Training				11,050	11,450	400
APPA Business & Finance Conference	15010	510110-Meetings & Conferences		2,750	-	(2,750)
RMEL Conference	15010	510110-Meetings & Conferences		1,800	-	(1,800)
Technical Development - Wellness	15050	510210-Schools & Seminars		1,000	-	(1,000)
2020 Health & Benefits Leadership Conference	15050	510110-Meetings & Conferences		2,500	-	(2,500)
Virgin Pulse Thrive Summit	15050	510110-Meetings & Conferences		3,000	-	(3,000)
Technical Development - Wellness (JY)	15050	510210-Schools & Seminars		-	1,000	1,000

Emerging from the details

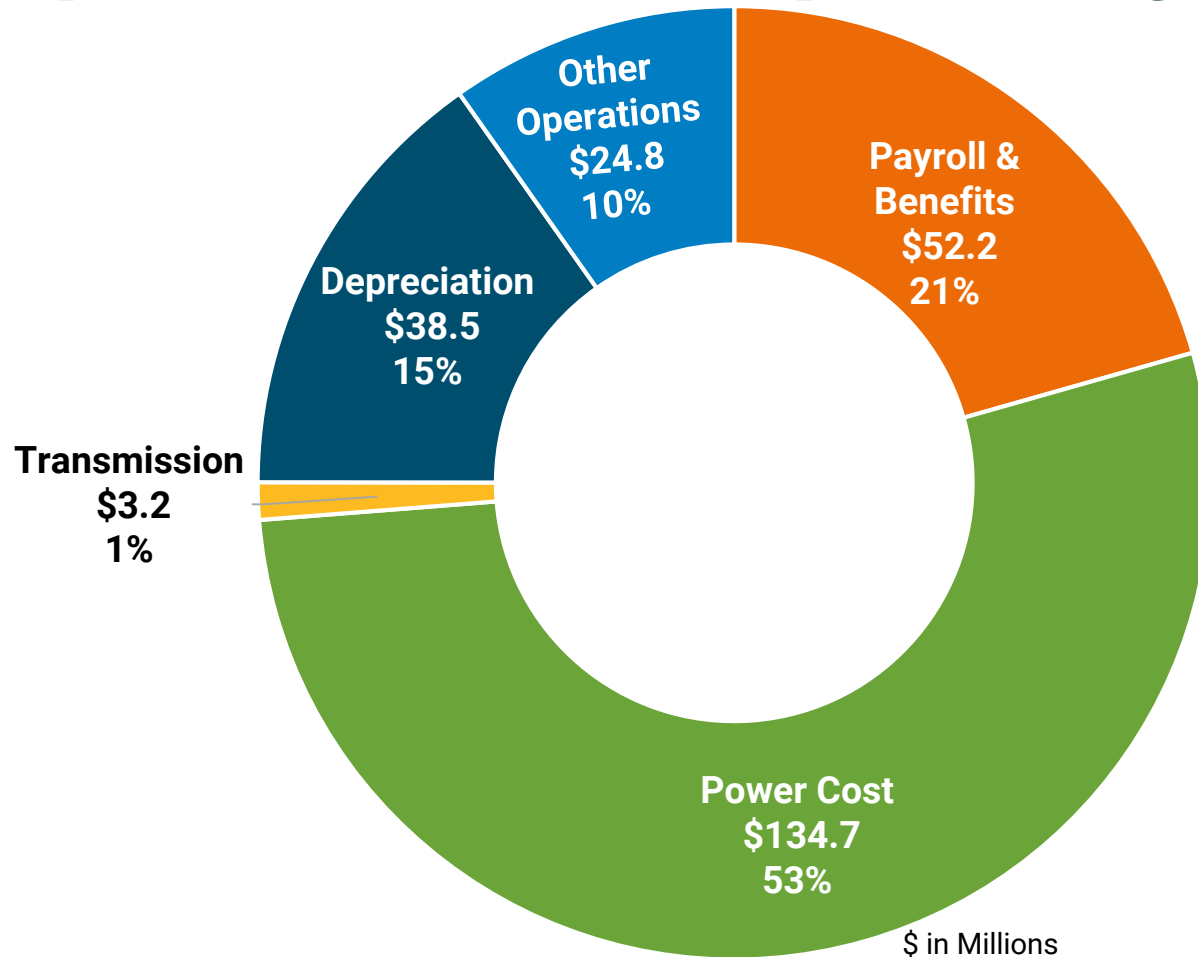
**Red-line Rate Schedules, Summary Budget documents and Detailed Budget documents
are available on the Board portal**

The 2021 Budget is \$35.7M less than the 2020 Budget

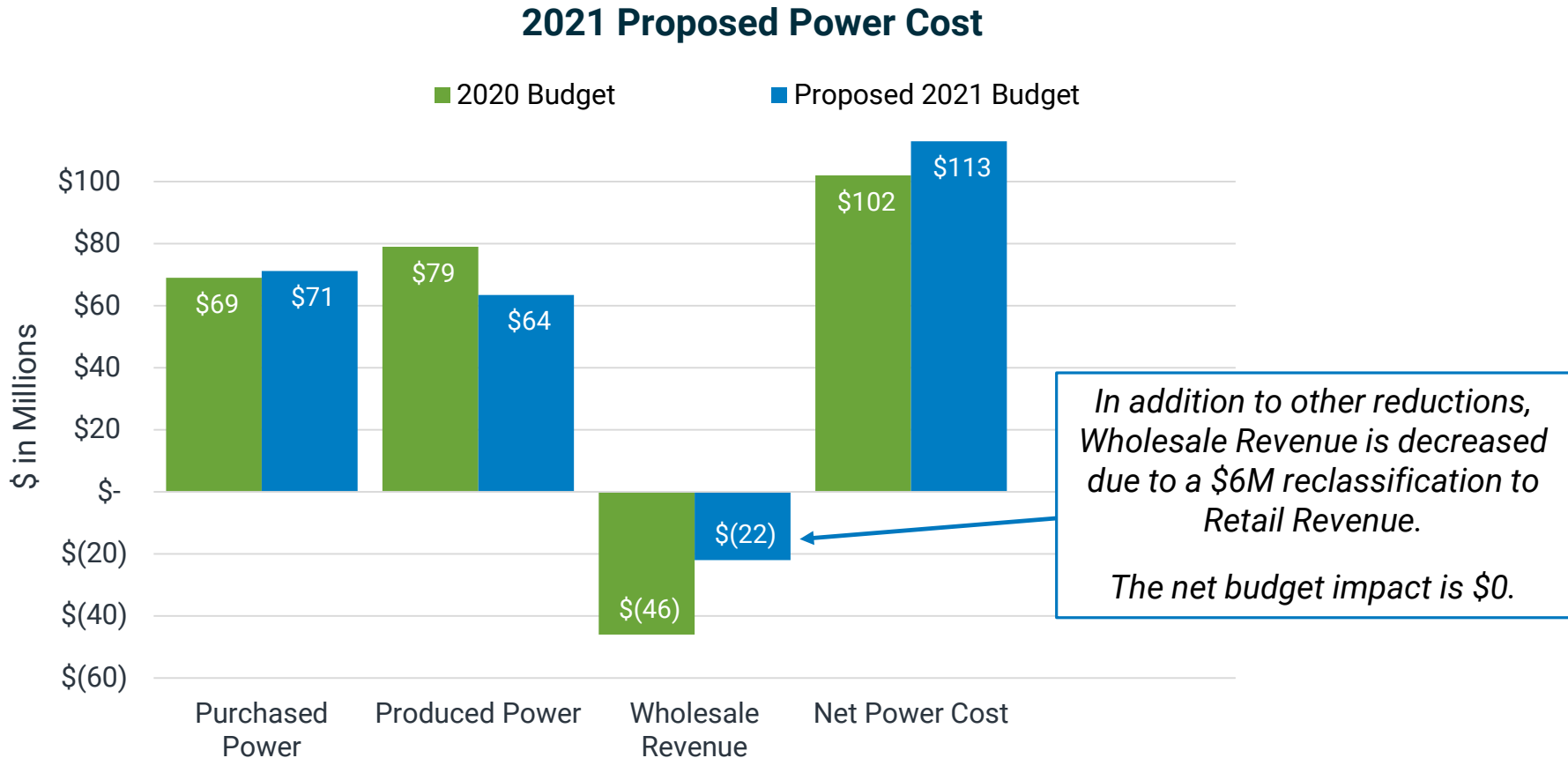
	2020 Budget	2021 Budget	Change
Operating Budget	\$269.4M	\$253.4M	-\$16.0M
Capital Budget	\$78.1M	\$58.4M	-\$19.7M
Total	\$347.5M	\$311.8M	-\$35.7M

*However, expenses aren't the full story . . .
Total Revenue is also projected lower in 2021*

Power Cost continues to be most impactful to the Operating Budget



Net Power Cost is increased \$11M; half is just a reclassification of revenue



LES continues to provide incentives and assistance to customers

Sustainable Energy Program



2020 Funding = \$1.75M

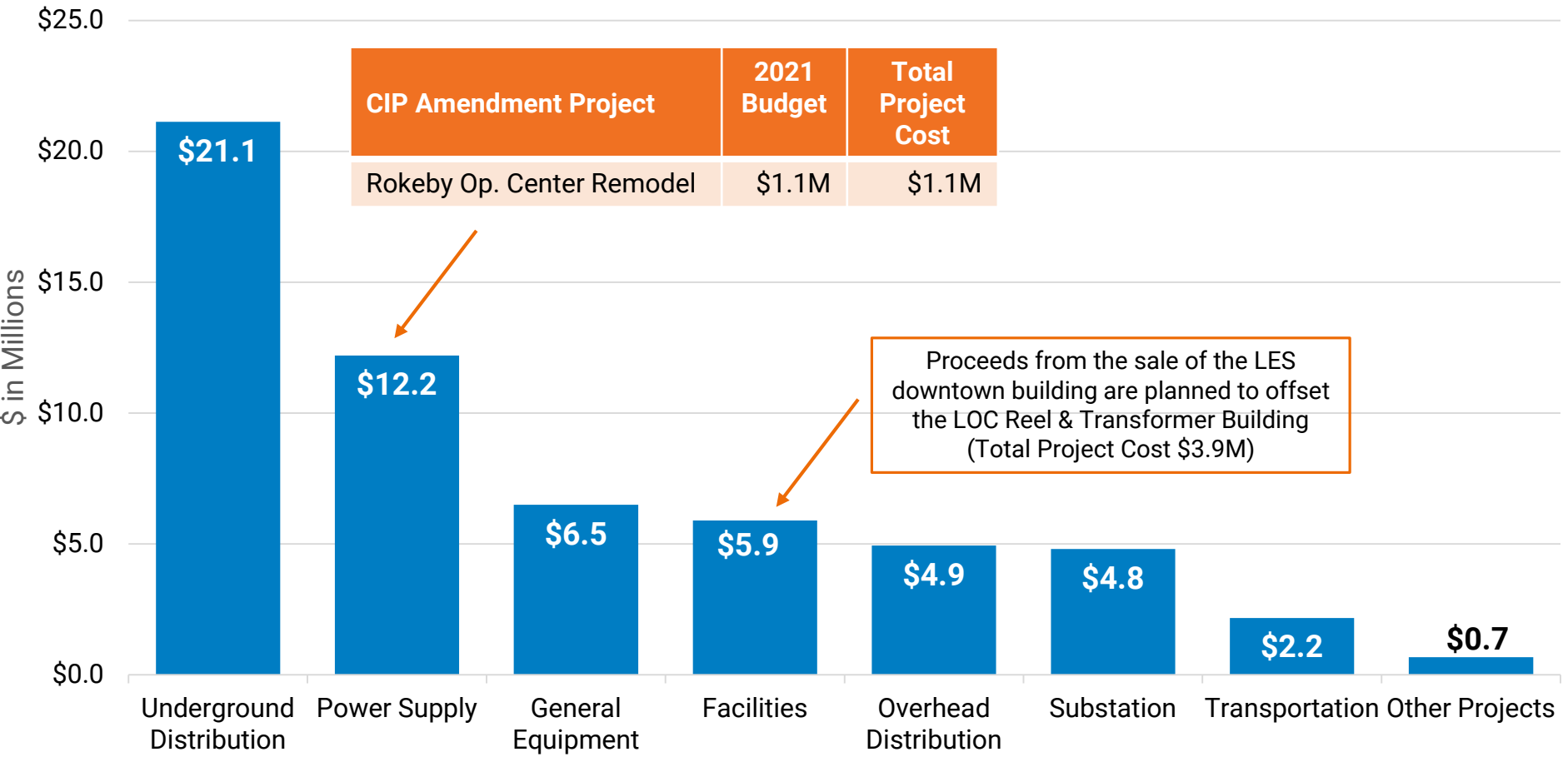
Energy Assistance Program



2020 Funding = \$322K

2021 Proposed Capital Budget is \$19.7M less than the 2020 Budget

Includes 1 project requiring amendment to the Capital Improvement Plan



Retail Revenue is expected to decrease due to slightly lower sales

2021 Revenue Projections

	2020 Budget	2021 Budget	
Retail Revenue <i>(w/o Supplemental Firm Power)</i>	\$276.6M	\$268.4M	-\$8.2M
Reclassification of Supplemental Firm Power from Wholesale		\$6.0M	+\$6.0M
Total Retail Revenue	\$276.6M	\$274.4M	↓ \$2.2M

The 2020 Forecast is \$267.3M or 2.6% below the 2020 Budget.

Despite customer growth of 1%, retail energy sales are projected to decrease 2% as compared to the 2020 Budget.

The reduction is primarily expected in the commercial class

Rolling it all up within the debt service coverage calculation

Dollars in Millions	2020 Budget	2021 Budget	Variance
Total Revenue (retail, wholesale, etc.)	\$341	\$315	\$26
Minus: Operating Expense (excluding depreciation)	\$229	\$215	\$14
Plus: Interest Income	<u>\$3</u>	<u>\$1</u>	<u>\$2</u>
= Available for debt service	\$115	\$101	\$14
Debt Service	<u>\$57</u>	<u>\$50</u>	<u>\$7</u>
Debt Service Coverage	2.04x	2.03x	.01x

Debt service for 2021 was \$56 million prior to the refunding – which would have resulted in a 1.80 debt service coverage

City Dividend change creates challenge for LES financial metrics

- Fall 2019 - CDFUO formula change discussions began with the City
- City desired to remove “cap” from the formula
- And, wanted no more than a \$0.20/bill increase to Residential for 2020-21
- August 24 – Ordinance change approved
- CDFUO payment grows in next 10 years
 - *2021 Now: \$8.85M; was \$7.93M*
 - *2029 Now: \$14.9M; was \$9.29M*
- City owns responsibility to communicate all CDFUO changes
- Discussed transfer percentage increase with rating agencies
 - Changes result in **decrease** in LES’ Fixed Charge Coverage Ratio

2021 financial metrics are helped by bond refinancing

Debt Service Coverage
2021 Budget: 2.03x
Target: 2.00x

Days Cash on Hand
2021 Budget: 114 Days
Target: 75 Days

Net Debt Ratio
2021 Budget: 7.55x
LES Peer Group: 6.46x

RSF Balance*
2021 Budget: \$37.8M
Target: \$32.3M

Fixed Charge Coverage*
2021 Budget: 1.40x
S&P AA: >1.40x

No financing required and
no use of/contribution to
the RSF planned

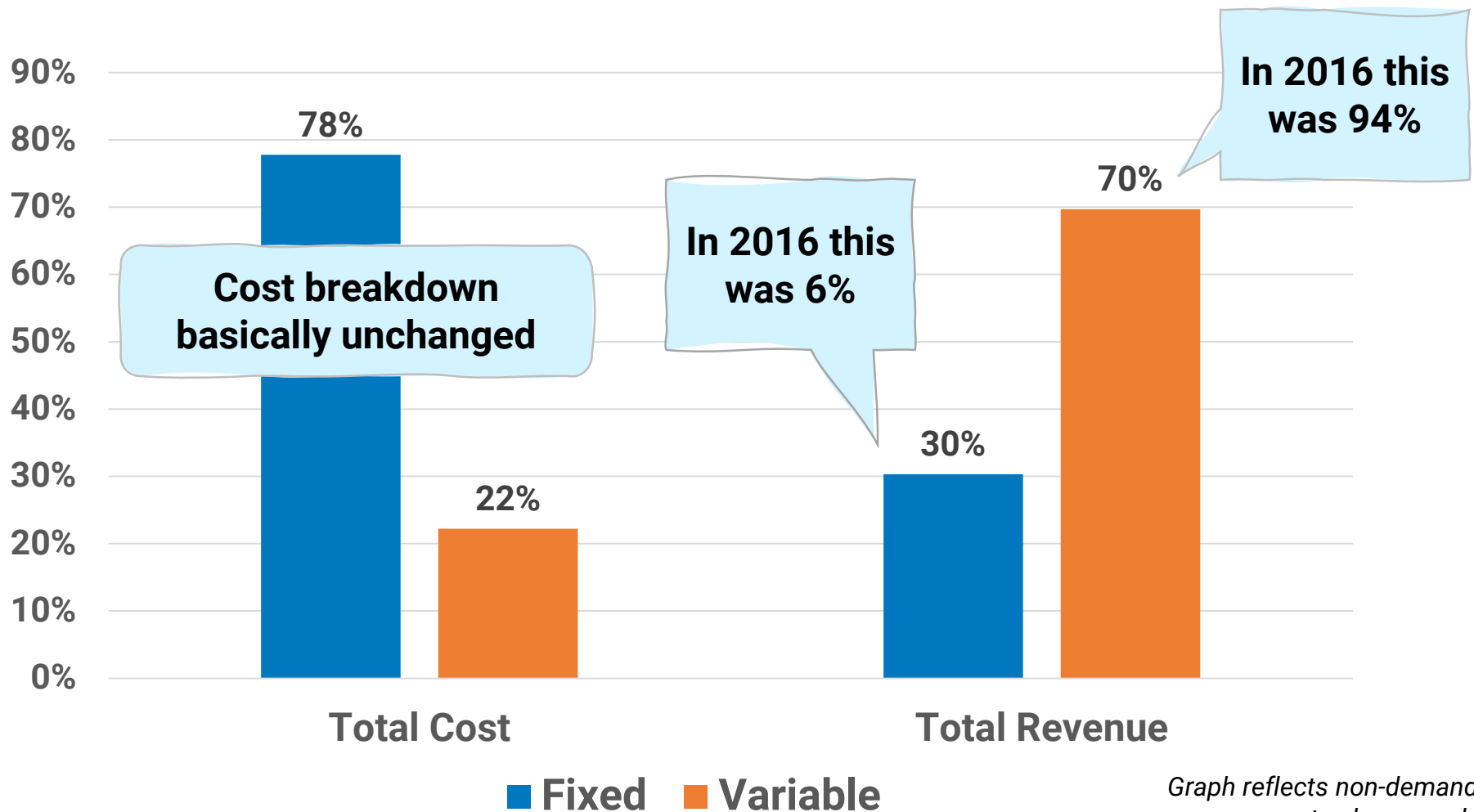
**S&P Calculation*

**\$1.35M available for low-income projects; \$4.7M available for energy efficiency from BNSF 2015 settlement*

All metrics are year-end projected amounts

**Rate component change
proposal...
to keep/achieve rate and
cost alignment**

Non-demand rates: 6 Years of progress has resulted in improvements



What is the result of the restructuring for non-demand customers?

Phase 1: About \$30 million moved from variable revenue to fixed revenue

- Completed in 2016 to 2019 timeframe
- Minor tweaking needed - nothing significant proposed currently

Phase 2: ~\$85 million remaining (with uncertain timing)

- Moving fixed (capacity) revenues from the variable energy revenue is not easy

Maintaining cost & rate alignment when underlying costs are moving is never-ending

Balancing the need to adjust rate vs. impact on customer bills

1. Demand Rate schedules – with no customers on them - moved to 100% cost of service

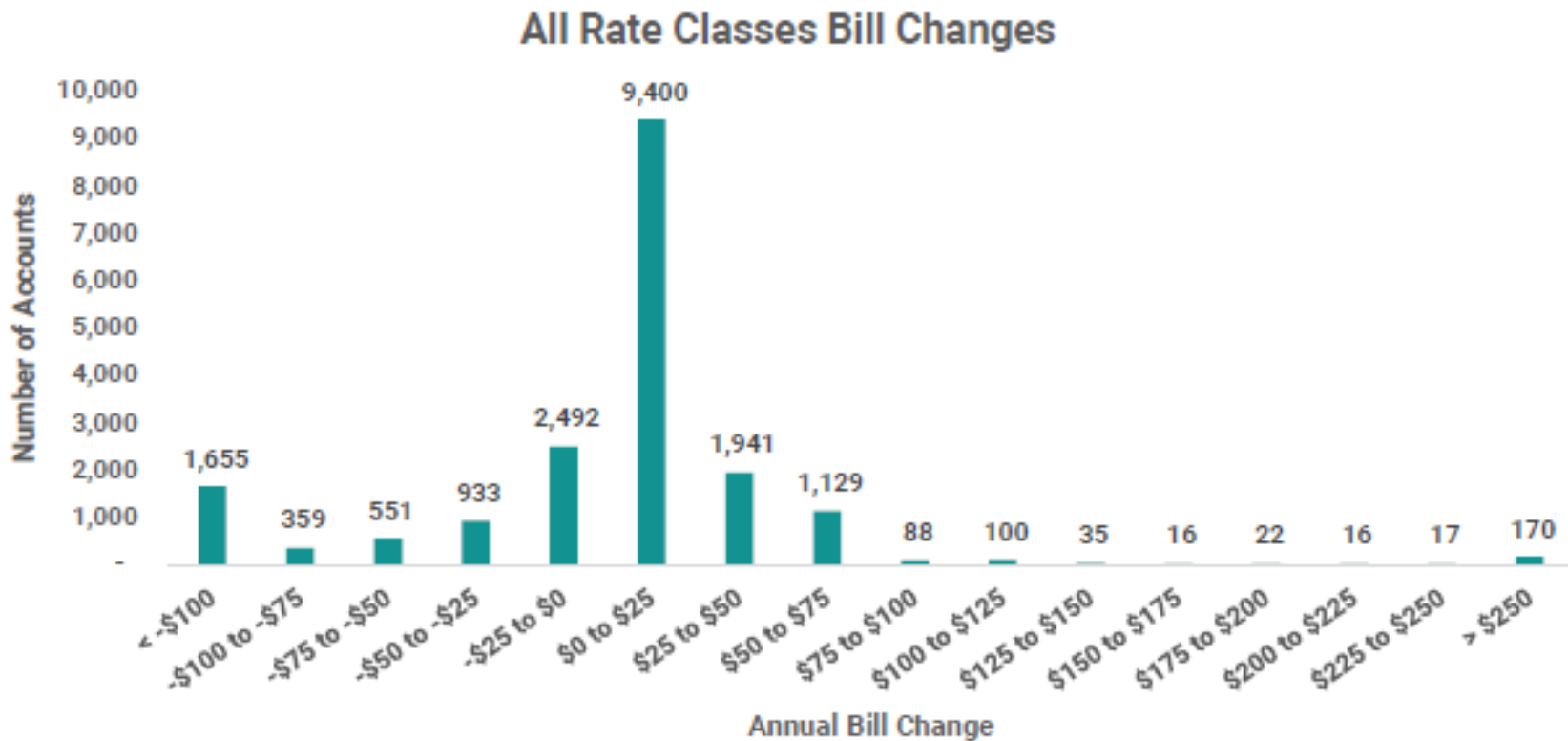
- General Service Demand - Dual Primary
- Large Light and Power Off-Peak - Dual Primary
- Large Power Contract:
- Primary - Dual Primary
- Primary Off Peak
- Primary Off Peak – Dual Primary
- Secondary
- Secondary Off Peak
- 35 kV Off Peak

2. Small changes made to other Demand Rate schedules

Rate	Charge Types	Season	Facilities Level	Prior Year Cost of Service	No Rate Change Cost of Service	Proposed Cost of Service	No Rate Change Target Indicator	Proposed Rate Change Target Indicator
Large Power Contract Secondary Off Peak	Customer	All	All	141%	125%	100%	◆	●
Large Power Contract Secondary Off Peak	Capacity	All	Off Peak Excess	82%	103%	101%	●	●
Large Power Contract Secondary Off Peak	Capacity	All	Summer Base	101%	116%	100%	◆	●
Large Power Contract Secondary Off Peak	Energy	Summer	All	140%	130%	100%	◆	●
Large Power Contract Secondary Off Peak	Energy	Winter	All	120%	102%	100%	●	●
Large Power Contract Secondary Off Peak	Facilities	All	Off Peak Excess	78%	87%	100%	◆	●
Large Power Contract Secondary Off Peak	Facilities	All	Summer Base	78%	87%	100%	◆	●
Large Power Contract Primary Off Peak	Customer	All	All	141%	125%	100%	◆	●
Large Power Contract Primary Off Peak	Capacity	All	Off Peak Excess	84%	105%	101%	●	●
Large Power Contract Primary Off Peak	Capacity	All	Summer Base	101%	116%	100%	◆	●
Large Power Contract Primary Off Peak	Energy	Summer	All	140%	129%	100%	◆	●
Large Power Contract Primary Off Peak	Energy	Winter	All	120%	103%	100%	●	●
Large Power Contract Primary Off Peak	Facilities	All	Dual Primary	35%	40%	100%	◆	●
Large Power Contract Primary Off Peak	Facilities	All	Off Peak Excess	78%	87%	100%	◆	●
Large Power Contract Primary Off Peak	Facilities	All	Summer Base	78%	87%	100%	◆	●
Large Power Contract 35 kV Off Peak	Customer	All	All	141%	125%	100%	◆	●
Large Power Contract 35 kV Off Peak	Capacity	All	Off Peak Excess	84%	105%	100%	●	●
Large Power Contract 35 kV Off Peak	Capacity	All	Summer Base	101%	116%	100%	◆	●
Large Power Contract 35 kV Off Peak	Energy	Summer	All	141%	129%	100%	◆	●
Large Power Contract 35 kV Off Peak	Energy	Winter	All	121%	103%	100%	●	●
Large Power Contract 35 kV Off Peak	Facilities	All	Off Peak Excess	35%	76%	101%	◆	●
Large Power Contract 35 kV Off Peak	Facilities	All	Summer Base	35%	76%	101%	◆	●

A summarized look at the annual impact

~20k (or 13%) customers will see a change



Bill change estimates use 2019 billing data

A few more rate changes

Increased Street Light rates to continue progress toward cost of service.

Clarified language in the Traffic Light schedule to address when a meter is required for camera equipment.

Added recovery of costs related to WAPA Allocations to the Transmission Facilities and Supplemental Firm Power rate schedules.

Where we are going...

	Dates	Action Item
✓	August 27	Budget & Rates Committee Meeting
✓	September 10	Budget & Rates Committee Meeting
☐	September 18	Board Meeting – Budget & Rates Presentation
☐	September 20	Begin customer outreach
☐	TBD (Sept 20-Oct 15)	Customer meetings (LIBA, LJS, Other) as requested
☐	September 23	Business Advisory Council
☐	September 30, 12:00 pm	Public Meeting on proposed 2021 Budget & Rates (Virtual)
☐	October 15	Budget & Rates Committee - Review public comments
☐	October 16	Board Meeting – Action on 2021 Budget and Rates
☐	October 19-October 23	Individual meetings with City Council members (as requested)
☐	November 2, 3:00 pm	City Council first reading on budget & rates.
☐	November 16, 3:00 pm	City Council public hearing on budget & rates
☐	December 7, 3:00 pm	City Council takes action on budget & rates