



2018 Operational Budget and Capital Improvement Plan Presentation

Tracy Golden, Chief Financial Officer

Dec. 18-2017

Board Meeting | Open Session

Subject:

2018 Operating Budget & Capital Improvement Plan (CIP)

Background:

The Board may consider and adopt an Operating Budget and Capital Improvement Plan for calendar year 2018

Financial Impact and Cost/Benefit Considerations:

Controllable expenses of approximately \$113 million and an additional expenditure of approximately \$159 million for CIP.



Controllable Cost Comparison by VP

	Full Time Equivalent (FTE)			Controllable Payroll & Benefits			Controllable Cost without payroll & benefits			Total Controllable				Contribution to Controllable Cost / meter
	2017 w/ Org Changes Budget	2018 Proposed Budget	change FTE Count Budget	2017 Approved Amended Budget	2018 Proposed Budget	CHANGE AMOUNT BUDGET TO BUDGET	2017 Approved Amended Budget	2018 Proposed Budget	change amount budget to budget	2017 Approved Amended Budget	2018 Proposed Budget	change amount budget to budget	change \$/meter budget to budget	
Board of Directors	-	-	-	-	-	-	629,706	697,204	67,498	629,706	697,204	67,498	0.22	\$ 2.28
Executive Office	2.5	2.5	-	611,361	676,001	64,640	373,901	410,709	36,808	985,262	1,086,710	101,448	0.33	\$ 3.55
Strategy & Research	1.0	-	(1.0)	304,194	-	(304,194)	504,968	-	(504,968)	809,162	-	(809,162)	(2.64)	\$ -
Communications	1.0	-	(1.0)	351,536	-	(351,536)	16,240	-	(16,240)	367,776	-	(367,776)	(1.20)	\$ -
Corporate Services	50.5	49.5	(1.0)	6,808,846	7,217,493	408,647	7,567,966	7,969,474	401,508	14,376,812	15,186,967	810,155	2.65	\$ 49.62
Engineering	95.0	102.0	7.0	5,390,158	5,027,182	(362,976)	12,238,742	12,017,348	(221,394)	17,628,900	17,044,530	(584,370)	(1.91)	\$ 55.68
Financial Services	28.5	28.5	-	2,696,750	2,817,500	120,750	973,178	945,551	(27,627)	3,669,928	3,763,051	93,123	0.30	\$ 12.29
Information Technology	47.5	47.5	-	4,047,026	6,249,724	2,202,698	12,062,125	10,830,493	(1,231,632)	16,109,151	17,080,217	971,066	3.17	\$ 55.80
Internal Audit	1.0	-	(1.0)	154,393	-	(154,393)	47,600	47,600	-	201,992	47,600	(154,392)	(0.50)	\$ 0.16
Legal Services	9.0	9.0	-	1,640,627	2,032,059	391,432	1,560,460	1,534,725	(25,735)	3,201,088	3,566,784	365,696	1.19	\$ 11.65
Member Services	140.0	127.5	(12.5)	13,115,391	12,833,494	(281,897)	6,243,891	6,033,219	(210,672)	19,359,282	18,866,713	(492,569)	(1.61)	\$ 61.64
Operations	373.5	370.5	(3.0)	13,065,313	15,864,703	2,799,390	6,097,078	6,364,455	267,377	19,162,391	22,229,158	3,066,767	10.02	\$ 72.62
Power Supply	12.0	11.0	(1.0)	863,692	621,454	(242,238)	1,072,263	628,449	(443,814)	1,935,955	1,249,903	(686,052)	(2.24)	\$ 4.08
Non-Department Costs *	-	22.0	22.0	1,103,350	3,198,179	2,094,829	9,577,686	9,136,828	(440,858)	10,681,036	12,335,007	1,653,971	5.40	\$ 40.30
Total	761.5	770.0	8.5	\$ 50,152,637	\$ 56,537,789	\$ 6,385,152	\$ 58,965,804	\$ 56,616,055	\$ (2,349,749)	\$ 109,118,441	\$ 113,153,844	\$ 4,035,403	\$ 13.18	\$ 369.68

292,760 306,090 average consumers
22,736.3 miles of line (MOL)

\$ 372.72 \$ 369.68 controllable cost/meter
\$ 4,977 controllable cost/ miles of line
13.5 meters / miles of line

*FTE included in Non-Department Costs are the 22 additional positions that have not been specifically identified by department. These positions were added to the budget at an average annual salary & benefits of \$86,594.

	2017		2018		Change
Capital Labor	30,185,253	47.1%	28,037,360	42.8%	(2,147,893)
Expense Labor	33,257,066	51.9%	36,956,738	56.4%	3,699,672
Transportation Labor	619,844	1.0%	571,823	0.9%	(48,021)
Total Payroll	\$ 64,062,163	100.0%	\$ 65,565,921	100.0%	\$ 1,503,758
Total Benefits	35,618,563	55.6%	36,061,256	55.0%	442,693
Loaded Payroll	99,680,726		101,627,177		1,946,451
Loaded Capitalized Labor	(46,968,254)		(43,457,908)		3,510,346
Loaded Transportation Labor	(964,697)		(886,326)		78,371
Loaded Transmission & Power Supply Labor	(2,698,489)		(3,230,548)		(532,059)
Controllable Expense KPI	1,103,351	3.5%	2,485,393	7.0%	1,382,042
Controllable Payroll & Benefits	\$ 50,152,637		\$ 56,537,789		\$ 6,385,152
Headcount in Payroll	761.5		770.0	8.5	
	meters / employee	384	398		

FERC Statements of Income

		ACTUAL	PROJECTED	APPROVED	PROPOSED	VARIANCE	
		2016	2017 (1)	Amended BUDGET	BUDGET	2018 vs 2017 BUDGET	
				2017	2018	\$	%
OPERATING REVENUES							
	SALES OF ELECTRICITY	\$ 538,253,632	\$ 568,457,103	\$ 577,498,216	\$ 598,114,982	20,616,766	3.6%
	OTHER REVENUE	27,505,058	26,853,967	27,329,147	27,415,332	86,185	0.3%
OPERATING REVENUES		565,758,690	595,311,070	604,827,363	625,530,314	20,702,951	3.4%
OPERATING EXPENSES							
	COST OF POWER	323,577,675	343,046,389	347,488,921	362,624,676	15,135,756	4.4%
	TRANSMISSION OPERATIONS	559,320	711,936	857,528	1,820,177	962,649	112.3%
	TRANSMISSION MAINTENANCE	3,520,898	3,639,217	3,525,656	4,106,250	580,594	16.5%
	DISTRIBUTION OPERATIONS	34,137,812	35,052,477	34,519,597	38,657,851	4,138,254	12.0%
	DISTRIBUTION MAINTENANCE	15,384,889	16,666,721	15,784,294	16,414,225	629,931	4.0%
	CONSUMER ACCOUNTS	23,762,962	24,175,571	26,234,662	26,159,643	(75,019)	-0.3%
	CONSUMER SERVICE & INFO	2,301,496	3,176,806	4,016,348	3,457,869	(558,479)	-13.9%
	ECONOMIC DEVELOPMENT	1,097,531	1,617,439	1,784,267	1,792,187	7,919	0.4%
	ADMINISTRATIVE & GENERAL	29,425,083	25,733,586	26,779,273	26,672,070	(107,203)	-0.4%
	DEPRECIATION	43,048,303	48,133,052	45,792,340	52,457,126	6,664,786	14.6%
	TAXES	3,197,281	968,522	930,750	981,050	50,300	5.4%
OPERATING EXP BEFORE INTEREST		480,013,250	502,921,717	507,713,635	535,143,124	27,429,488	5.4%
MARGIN BEFORE INTEREST		85,745,440	92,389,353	97,113,727	90,387,190	(6,726,537)	-6.9%
INTEREST EXPENSE							
	INTEREST ON L-T DEBT	32,408,041	34,901,767	36,129,168	36,466,986	337,818	0.9%
	INTEREST TO WIP	(1,943,730)	(2,328,000)	(2,100,000)	(2,280,000)	(180,000)	8.6%
	INTEREST EXPENSE-OTHER	248,051	332,216	306,448	231,896	(74,552)	-24.3%
INTEREST EXPENSE-NET		30,712,362	32,905,983	34,335,616	34,418,882	83,266	0.2%
MARGIN AFTER INTEREST		55,033,078	59,483,370	62,778,111	55,968,308	(6,809,803)	-10.8%
OTHER INCOME (EXPENSE)							
	INTEREST INCOME - OTHER	165,080	187,647	138,690	164,360	25,670	18.5%
	CAPITAL CREDITS EARNED	1,232,826	2,368,504	1,037,085	1,318,000	280,915	27.1%
	OTHER INCOME (EXPENSE)	366,746	(189,479)	(407,496)	(404,614)	2,882	-0.7%
OTHER INCOME (EXPENSE)		1,764,652	2,366,672	768,279	1,077,746	309,467	40.3%
NET MARGIN		\$ 56,797,730	\$ 61,850,041	\$ 63,546,390	\$ 57,046,054	\$ (6,500,336)	-10.2%
	TOTAL CONTROLLABLE EXPENSES	\$ 106,109,773	\$ 106,422,601	\$ 109,118,441	\$ 113,153,844	\$ 4,035,403	3.7%
	CONTROLLABLE EXPENSE PER AVERAGE CONSUMER	\$ 377.14	\$ 361.97	\$ 372.72	\$ 369.68	\$ (3.05)	-0.8%

(1) Projected 2017 is 9 months of actual plus 3 months of budgeted expenses.

Activity Statements of Income

	ACTUAL 2016	PROJECTED 2017 (1)	APPROVED BUDGET 2017	PROPOSED BUDGET 2018	VARIANCE 2018 vs 2017 BUDGET	
					\$	%
OPERATING REVENUES:						
Sale of Electricity	\$ 538,253,632	\$ 568,457,103	\$ 577,498,216	\$ 598,114,982	20,616,766	3.6%
Other Revenue	27,505,058	26,853,967	27,329,147	27,415,332	86,185	0.3%
Operating Revenue - Total	565,758,690	595,311,070	604,827,363	625,530,314	20,702,951	3.4%
OPERATING & MAINTENANCE EXPENSES:						
Purchased Power	323,428,974	341,685,644	345,389,482	359,781,510	14,392,028	4.2%
Payroll & Benefits	50,165,216	55,207,175	52,911,774	59,912,901	7,001,127	13.2%
Staff Expenses	1,898,441	1,844,130	2,393,813	2,212,858	(180,955)	-7.6%
Member Events	23,666	37,002	47,075	60,045	12,970	27.6%
Goods & Materials	2,680,513	2,542,395	3,144,641	2,681,051	(463,590)	-14.7%
Outside Services	39,040,832	34,123,194	40,056,753	37,516,643	(2,540,110)	-6.3%
Director Expenses	303,296	307,381	306,322	317,119	10,797	3.5%
Utilities	5,370,945	4,883,674	4,534,486	5,014,104	479,618	10.6%
Transportation	2,442,208	2,435,997	2,517,194	2,430,450	(86,744)	-3.4%
Misc / Other Expense	2,497,065	3,803,834	3,069,120	3,143,594	74,474	2.4%
Depreciation	43,048,303	48,133,052	45,792,340	52,457,126	6,664,786	14.6%
Taxes	9,113,791	7,918,238	7,550,634	9,615,722	2,065,088	27.3%
Operating & Maintenance Expenses - Total	480,013,250	502,921,717	507,713,635	535,143,124	27,429,488	5.4%
MARGIN BEFORE INTEREST	85,745,440	92,389,353	97,113,727	90,387,190	(6,726,537)	-6.9%
INTEREST EXPENSE	30,712,362	32,905,983	34,335,616	34,418,882	83,266	0.2%
MARGIN AFTER INTEREST	55,033,078	59,483,370	62,778,111	55,968,308	(6,809,803)	-10.8%
OTHER INCOME (EXPENSE)	1,764,652	2,366,672	768,279	1,077,746	309,467	40.3%
NET MARGIN	\$ 56,797,730	\$ 61,850,041	\$ 63,546,390	\$ 57,046,054	(6,500,336)	-10.2%

(1) Projected 2017 is 9 months of actual plus 3 months of budgeted expenses.

2018 Deferral Schedule

Description	2018 Beginning Balance	Additions	Less Amortizations	2018 Ending Balance
GIS Mapping (up to 15 years, through 2029)	\$5,298,646	\$0	\$444,000	\$4,854,646
Facilities Assessment (up to 5 years)	\$168,718	\$553,000*	\$213,200	\$508,518
Aerial Inspections (up to 3 years)	\$230,600	\$0	\$114,996	\$115,604
Facilities Relocation (up to 3 years)	\$0	\$270,000**	\$90,000	\$180,000
	\$5,697,964	\$823,000	\$862,196	\$5,658,768

* Resolution # 2014-87 - allows future year expense for facilities maintenance costs up to \$6M related to repairs & renovations over at period of up to 10 years. Expense to date is \$3,759,241.

** New deferral at 2018

Amortizations shown are budgeted expenses, but amounts could be increased if a favorable financial position allows.

2018 Community Support Budget Proposal

Initiative	Actual 2016	2017 Budget	2018 Budget	2018 Funding Sources
Community Grants Program	\$40,382	\$80,000	\$50,000	- Rates - \$10K and - Power of Change Round-Up Funds for the lesser of \$40K or fund balance
Educational Support Program (including Project Graduation in 2016)	\$45,000	\$24,000	\$24,000	Rates
Scholarship Program	\$50,000	\$100,000	\$100,000	Escheat
Employee Giving Corporate Matching Program (United Charities)	\$100,000	\$100,000	\$100,000	Rates - Matched up to \$100K
Member Assistance Program (MAP)	\$115,853	\$120,000	\$125,600	Rates (\$0.50/member)
Rebates Program	\$568,270	\$600,000	\$600,000	- Rates - 50% and - Escheat - 50%
	Total	<u>\$919,505</u>	<u>\$1,024,000</u>	<u>\$999,600</u>

Capital Improvement Plan Summary

(Draft as of 12-8-2017)

CIP Request	Potential Carry Forward	2018 CIP (new)\$\$	2018 CIP Total
Utility Plant:			
Transmission	-	11,175,000	11,175,000
Utility Plant (work plan) - Distribution	9,194,304	107,628,431	116,822,735
Total - Utility Plant	\$ 9,194,304	\$ 118,803,431	\$ 127,997,735
General Plant:			
Facilities	5,478,590	12,490,000	17,968,590
Information Technology	751,000	5,453,500	6,204,500
Vehicles (Fleet)	1,086,725	5,554,600	6,641,325
Tools and Misc Equipment	-	367,690	367,690
Total All General Plant	\$ 7,316,315	\$ 23,865,790	\$ 31,182,105
Total CIP - Proposed	\$ 16,510,619	\$ 142,669,221	\$ 159,179,840

Financial Summary Results

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Operating Revenues	\$565,758,690	\$604,827,363	\$625,530,314	\$650,429,341	\$671,891,442	\$690,366,409	\$705,729,157	\$721,340,942	\$749,732,247	\$779,168,225	\$809,724,826
Purchased Power	(\$323,577,675)	(\$347,488,921)	(\$362,624,676)	(\$377,929,604)	(\$390,371,286)	(\$400,821,208)	(\$408,878,198)	(\$417,189,472)	(\$438,236,176)	(\$460,242,675)	(\$483,271,195)
Operating Expenses without Power	(\$156,435,575)	(\$160,224,715)	(\$172,480,742)	(\$180,093,919)	(\$187,957,416)	(\$195,587,471)	(\$203,184,589)	(\$211,265,175)	(\$219,185,612)	(\$221,812,599)	(\$226,149,423)
Other Income and Interest Expenses	(\$28,947,710)	(\$33,567,337)	(\$33,378,843)	(\$37,207,775)	(\$39,592,843)	(\$42,006,162)	(\$44,196,443)	(\$46,265,232)	(\$48,147,710)	(\$49,898,510)	(\$51,509,363)
Net Margins	\$56,797,730	\$63,546,390	\$57,046,054	\$55,198,043	\$53,969,898	\$51,951,568	\$49,469,927	\$46,621,063	\$44,162,750	\$47,214,441	\$48,794,845
New Debt Issued	\$95,000,000	\$52,667,910	\$98,172,678	\$103,621,911	\$102,631,490	\$84,486,124	\$83,548,655	\$84,795,756	\$85,507,442	\$86,245,463	\$87,004,202
Principal Paid	\$29,130,995	\$38,832,110	\$41,161,962	\$45,104,018	\$48,414,704	\$32,676,806	\$34,092,358	\$37,745,853	\$41,030,074	\$44,491,513	\$48,145,318
Long-Term Debt per Consumer	\$2,423	\$2,347	\$2,441	\$2,544	\$2,685	\$2,760	\$2,816	\$2,863	\$2,900	\$2,926	\$2,992
Long-Term Debt to Assets	44.02%	42.93%	43.45%	44.01%	45.39%	45.78%	46.03%	46.27%	46.48%	46.54%	47.29%
Long-Term Debt	\$681,759,919	\$694,796,334	\$747,858,893	\$803,066,132	\$873,020,854	\$923,414,600	\$969,217,426	\$1,012,983,104	\$1,053,999,040	\$1,092,099,232	\$1,146,200,419
Debt Service Coverage Ratio	2.11	1.93	1.84	1.77	1.72	2.08	2.04	1.95	1.89	1.83	1.77
TIER Operating	2.79	2.90	2.59	2.41	2.30	2.18	2.07	1.96	1.88	1.91	1.91
TIER Net	2.85	2.92	2.62	2.44	2.33	2.21	2.09	1.98	1.90	1.93	1.93
Equity as Percent of Assets	37.81%	39.61%	40.06%	40.37%	40.69%	40.98%	41.23%	41.42%	41.58%	41.86%	42.20%
Cash at Year End	\$33,243,750	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Net Plant in Service	\$1,363,168,020	\$1,464,911,444	\$1,568,091,963	\$1,672,063,545	\$1,770,812,429	\$1,864,632,458	\$1,953,617,869	\$2,037,347,994	\$2,116,047,282	\$2,195,074,883	\$2,272,787,760
Capital Improvement Plan ("CIP")	\$161,395,045	\$165,169,728	\$159,180,000	\$165,000,000	\$165,000,000	\$165,000,000	\$165,000,000	\$165,000,000	\$165,000,000	\$165,000,000	\$165,000,000
% of CIP Borrowed	58.86%	31.89%	61.67%	62.80%	62.20%	51.20%	50.64%	51.39%	51.82%	52.27%	52.73%
Controllable Expenses	\$106,109,773	\$109,118,441	\$113,153,844	\$115,952,400	\$118,806,900	\$121,718,500	\$124,688,000	\$127,717,000	\$130,806,600	\$133,958,100	\$137,172,800
Average Meters	281,352	292,760	306,090	315,721	325,112	334,603	344,222	353,814	363,455	373,204	383,082
Controllable Expenses per Average Meter	\$377.14	\$372.72	\$369.68	\$367.26	\$365.43	\$363.77	\$362.23	\$360.97	\$359.90	\$358.94	\$358.08
Net Plant in Service per Average Meter	\$4,845.06	\$4,949	\$5,119	\$5,296	\$5,447	\$5,573	\$5,675	\$5,758	\$5,822	\$5,882	\$5,933

Data Sources:

2016 Actuals

2017 Approved Budget

2018 Proposed Budget

2019-2026 FF Model "PEC Financial Forecast with CCOS Working Model Sent 10-5-17 - Match Budget FINAL for BOD Presentation BASE V2 - 12.4.17



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