

**Minutes
Finance Committee
Colorado Springs Utilities Board
July 17, 2023**

Committee members present via Microsoft Teams or Rosemont Conference Room:
Committee Chair Nancy Henjum, Lynette Crow-Iverson and Dave Donelson

Board Members present via Microsoft Teams or Rosemont Conference Room: Michelle Talarico

Staff members present via Microsoft Teams or Rosemont Conference Room: Tristan Gearhart, Lisa Barbato, Mike Francolino, Renee Adams, Adam Hegstrom, Somer Mese, John Hunter, Scott Shirola, Natalie Watts and Andie Buhl

City of Colorado Springs staff members present via Microsoft Teams or Rosemont Conference Room: Sally Barber, Renee Congdon and Chris Bidlack

1. Call to Order

Committee Chair Nancy Henjum called the meeting to order at 1:30 p.m. and read a statement regarding the Colorado Open Meetings Law and the City Charter and noted that public comment would not be a part of the meeting.

2. Review Minutes

Minutes from the June 19, 2023 Finance Committee meeting were reviewed and approved for posting.

3. Compliance Reports:

a. I-3 Financial Planning and Budgeting G-8

Mr. Tristan Gearhart, Chief Planning & Finance Officer, reviewed the I-3, which states:

The Chief Executive Officer shall direct that financial planning and budgeting is multi-year and includes planning assumptions, capital and operations expenses and projections of revenues and cash flow. Accordingly, the CEO shall:

1. *Maintain financial stability by meeting Utilities Board approved financial metrics that support a AA long-term credit rating.*
2. *Financially position the enterprise to meet long-range infrastructure funding requirements while moderating customers' average base bill adjustments.*
3. *Use planning assumptions that accurately forecast revenues and expenses.*

4. *Direct that a water reserve account is established and maintained to manage water sales volatility.*
5. *Use financial methods that share the cost of utility infrastructure between current and future customers.*
6. *Use risk-based modeling and a defined enterprise procedure to prioritize operations and maintenance infrastructure.*

Mr. Gearhart and Mr. Adam Hegstrom, Treasury and Finance Manager, provided an update from their meeting with the bond and credit agencies, and said they would share the results with the Utilities Board in the next couple weeks.

4. Electric Cost Adjustment (ECA)/Gas Cost Adjustment (GCA) Update

Mr. Scott Shirola, Pricing and Rates Manager, provided natural gas prices as of July 1, 2023, and highlighted prices during the heating season (November – March). He concluded with ECA and GCA projections for July 2023.

5. 2024 Budget Draft Review

Mr. John Hunter, Financial Planning and Risk Manager, reviewed the proposed 2024 budget (second preliminary draft) consisting of financial metrics, rate adjustments and proposed expenditures – all of which are responsibly balanced. He said Springs Utilities added a Fuel Contingency line item to the budget starting last year to mitigate the need for a supplemental appropriation given the fuel markets volatility. This contingency was added but not expected to be spent. For 2023, the organization added \$197,742,399 and in 2024, staff is proposing adding \$141,105,552.

Mr. Hunter explained the 2024 funding appropriations and reviewed the budget summary by line item:

- Capital projects (28.7% of proposed appropriation)
 - Debt funding – 51%
 - 2023 proposed budget (in thousands): \$412,795
 - 2024 approved budget (in thousands): \$432,687
 - Preliminary largest capital portfolio expenditures:
 - Operational fiber network \$68.4 million
 - Primary tasks for this project include design, huts, backbone, network and inspection.
 - Mr. Gearhart reviewed the progress and timeline for the fiber network project.
 - Sustainable Energy Plan (SEP) \$29.4 million
 - Electric infrastructure
 - Transmission lines \$1.9 million (new and improvements)
 - Substations \$19 million (new and expansion)

- Portfolio management \$3.7 million
 - Distributed generation resources \$4.8 million
 - Advanced Metering Infrastructure (AMI) \$14.3 million
 - Deploy zones 18-24
 - Electric \$5.5 million
 - Gas \$3.8 million
 - Water \$5 million
 - Ms. Somer Mese, Chief Operations Officer, provided a brief update about the progress of the AMI project.
- Operations & Maintenance (O&M) – Non-Fuel (27.1% of proposed appropriation)
 - 2023 proposed budget (in thousands): \$379,824
 - 2024 approved budget (in thousands): \$408,695
 - Key drivers:
 - Inflationary and system growth
 - Labor and benefits
 - Plant outages and maintenance
 - Information technology lifecycle upgrades
 - Mr. Hunter explained the growth of Colorado Springs has been challenging for Springs Utilities to keep up with and in return, the budget continues to be impacted.
- Debt Service (13.9% of appropriation)
 - 2023 proposed budget (in thousands): \$210,863
 - 2024 approved budget (in thousands): \$210,092
 - Key drivers:
 - 2023 new bond issue \$225 million, \$305.6 million in 2024
 - 51.8% bond funded capital program in 2023, 51% in 2024
- Total Labor and Benefits (including O&M and Capital)
 - 2023 proposed budget (in thousands): \$274,277
 - 2024 approved budget (in thousands): \$294,254
- Regular Base Pay (including O&M and Capital)
 - 2023 proposed budget (in thousands): \$202,160
 - 2024 approved budget (in thousands): \$214,912
 - Key drivers:
 - 70 new positions to the organization that support growth, regulation changes and business needs.
 - Mr. Gearhart, Ms. Mese, Ms. Lisa Barbato, Chief Systems Planning and Projects Officer, and Mr. Mike Francolino, Chief Customer & Enterprise Services Officer, reiterated the need for hiring 70 new positions due to the city growth.

- Economic Development and Donations
 - 2023 proposed budget (in thousands): \$1,193
 - 2024 approved budget (in thousands): \$1,698
 - Key drivers:
 - Affordable Housing Rebate Program addition of \$475,000
 - Chamber of Commerce & EDC increase of \$30,000

Mr. Hunter also reviewed the 2024 service level summary and corresponding financial metrics:

- Electric
 - 2023 proposed budget (in thousands): \$776,924
 - 2024 approved budget (in thousands): \$745,180
- Gas
 - 2023 proposed budget (in thousands): \$383,401
 - 2024 approved budget (in thousands): \$326,722
- Water
 - 2023 proposed budget (in thousands): \$307,413
 - 2024 approved budget (in thousands): \$319,415
- Wastewater
 - 2023 proposed budget (in thousands): \$108,936
 - 2024 approved budget (in thousands): \$128,605
- Streetlighting
 - 2023 proposed budget (in thousands): \$6,742
 - 2024 approved budget (in thousands): \$6,675
 - Mr. Gearhart explained that streetlights are owned by the city, but Springs Utilities maintains and installs them, so this line item would fall under the electric service category.
- Inter-service eliminations
 - 2023 proposed budget (in thousands): \$(21,763)
 - 2024 approved budget (in thousands): \$(17,809)

Mr. Hunter concluded with the 2024 service level financial metrics and next steps. Mr. Gearhart said a detailed review of the budget will be sent to the Utilities Board before the end of the month.

Chair Henjum reiterated that the budget and rate case filings occur in the fall due to a City Charter requirement.

Agenda item #5 action items:

- Chair Henjum requested to have the chart labeled as “base rate increase” on the appropriation pie graph.
- Chair Henjum requested a detailed overall budget vs. actuals comparison from 2023 to 2024 to reflect variances.

- Committee Member Donelson requested a fiber presentation at a future Utilities Board meeting.
- Chair Henjum requested to have more information about Springs Utilities full time employees (FTEs) hiring and onboarding process – and relate it to the budget regarding the budget’s Total Labor and Benefits and Regular Base Pay categories. Ms. Adams, Chief Human Resources Officer, said this item will also be discussed at the August Personnel Committee meeting.
- Chair Henjum requested to know how many people were hired in 2023 – and wants this information to be included in the overall budget comparison.

6. 10-year Financial Outlook

Mr. Hunter reviewed the 10-year forecast and highlighted that the streetlights rate increase has been added to the forecast. He also noted that the non-fuel typical bill increase will be high for 2024 and 2025 due to inflation and city growth. Committee Chair Henjum and Mr. Gearhart explained how this forecast may change, but it is a plan to accommodate service capacity due to city growth.

Mr. Shirola also highlighted how rate increases are system averages increases, so Springs Utilities does not expect every single rate class to see an increase; however, the residential rate class will be impacted most.

7. Water Revenue Report

Mr. Gearhart said the water operating revenue for the month of June is \$(7.4) million or 27.5% under the Annual Operating Financial Plan (AOF) and year-to-date revenue is \$(5.7) million or 5.6% under the AOF. He also said the water reserve account as of June 2023 is \$15.9 million. Mr. Hunter and Mr. Gearhart reviewed how the organization adapts when revenue is over and under projections. Finally, Mr. Gearhart reviewed 2023 water revenue by month.

8. Financial Monitoring Update

Mr. Gearhart gave an overview of June’s total revenues and expenses and gross margins for electric, gas, water and wastewater services.

9. Plan for Future Meeting: Monday, Aug. 14, 2023

The Finance Committee reviewed agenda/discussion topics for next month’s meeting and agreed to extend the August meeting by one hour to accommodate more in-depth discussions on the proposed 2024 budget.

10. Adjournment: The meeting adjourned at 3:17 p.m.