

**A REGULAR MEETING**

Of The

**TRAVERSE CITY LIGHT AND POWER BOARD**

Will Be Held On

**TUESDAY, February 9, 2016**

At

**5:15 p.m.**

In The

**COMMISSION CHAMBERS**  
(2<sup>nd</sup> floor, Governmental Center)  
400 Boardman Avenue

Traverse City Light and Power will provide necessary reasonable auxiliary aids and services, such as signers for the hearing impaired and audio tapes of printed materials being considered at the meeting, to individuals with disabilities at the meeting/hearing upon notice to Traverse City Light and Power. Individuals with disabilities requiring auxiliary aids or services should contact the Light and Power Department by writing or calling the following.

Stephanie Tvardek  
Administrative Assistant  
1131 Hastings Street  
Traverse City, MI 49686  
(231) 922-4940 ext. 201

Traverse City Light and Power  
1131 Hastings Street  
Traverse City, MI 49686  
(231) 922-4940

Posting Date: 02-04-16  
4:00 p.m.

## AGENDA

### Pledge of Allegiance

#### 1. Roll Call

#### 2. Consent Calendar

*The purpose of the consent calendar is to expedite business by grouping non-controversial items together to be dealt with by one Board motion without discussion. Any member of the Board, staff or the public may ask that any item on the consent calendar be removed therefrom and placed elsewhere on the agenda for full discussion. Such requests will be automatically respected. If an item is not removed from the consent calendar, the action noted in parentheses on the agenda is approved by a single Board action adopting the consent calendar.*

- a. Consideration of approving minutes of the Regular Meeting of January 26, 2015. (Approval recommended) (p. 4)
- b. Receive and file minutes of the Customer Survey Ad Hoc Committee meeting of February 3, 2016. (Approval recommended) (p. 7)
- c. Consideration of approving the updated 2016 Strategic Plan. (Approval recommended) (Arends) (p. 8)

#### Items Removed from the Consent Calendar

- a.
- b.

#### 3. Unfinished Business

None.

#### 4. New Business

- a. 2014-15 financial audit presentation. (Myers-Beman) (p. 33)
- b. Consideration of 2016 Six Year Capital Plan. (Arends) (p. 83)

#### 5. Appointments

None.

#### 6. Reports and Communications

- a. From Legal Counsel.
- b. From Staff.

1. Review of 2016-17 Fiber Optics budget. (Myers-Beman/Menhart) (p. 95)
2. Customer Survey question review. (Schroeder) (p. 98)

c. From Board.

**7. Public Comment**

/st

**TRAVERSE CITY  
LIGHT AND POWER BOARD**

Minutes of Regular Meeting  
Held at 5:15 p.m., Commission Chambers, Governmental Center  
Tuesday, January 26, 2016

**Board Members -**

Present: Pat McGuire, Jeff Palisin, Amy Shamroe, Bob Spence, Tim Werner, John Taylor  
Absent: Jan Geht

**Ex Officio Member -**

Present: Marty Colburn, City Manager

**Others:** Tim Arends, W. Peter Doren, Scott Menhart, Karla Myers-Beman, Pete Schimpke, Kelli Schroeder, Rod Solak, Stephanie Tvardek, Mark Watson, Blake Wilson

The meeting was called to order at 5:15 p.m. by Chairman Taylor.

5:17 p.m. Bob Spence joined the meeting.

**Item 2 on the Agenda being Consent Calendar**

Moved by McGuire, seconded by Shamroe, that the following actions, as recommended on the Consent Calendar portion of the Agenda, be approved:

- a. Minutes of the Regular Meeting of December 8 and Study Session of December 15, 2015
- b. Receive and file minutes of the Customer Survey Ad Hoc Committee Meeting of January 15, 2016.
- c. Purchase order to Power Line Supply in the amount of \$86,965.20 for conductor for the LaFranier/Barlow Transmission Line Upgrade Project.
- d. Purchase order to Power Line Supply in the amount of \$84,690.48 for insulator, suspension and deadend clamps for the LaFranier/Barlow Transmission Line Upgrade Project.

CARRIED unanimously. (Geht absent)

**Items Removed from the Consent Calendar**

None.

**Item 3 on the Agenda being Unfinished Business**

None.



**Item 4 on the Agenda being New Business**

- a. Consideration of an updated organizational chart and approval of job descriptions.

The following individuals addressed the Board:

Tim Arends, Executive Director

Moved by Shamroe, seconded by Palisin, that the Board approves the changes to the organizational chart and job descriptions for the Computer Systems Specialist and Scheduling & Operations Coordinator as presented.

CARRIED unanimously. (Geht absent)

**Item 5 on the Agenda being Appointments**

None.

**Item 6 on the Agenda being Reports and Communications**

- a. From Legal Counsel.

W. Peter Doren reported as of January 1, 2016 the firm of Sondee, Racine & Doren is formally affiliated with Olson, Bzdok and Howard.

- b. From Staff.

1. Staff presented the 2016 Strategic Plan update.

The following individuals addressed the Board:

Tim Arends, Executive Director  
Karla Myers-Beman, Controller  
Marty Colburn, City Manager  
Pete Schimpke, Manager of Operations and Engineering  
Blake Wilson, System Engineer  
Rod Solak, Line Superintendent  
Scott Menhart, Manager of Telecom and Technology  
Kelli Schroeder, Manager of Human Resources and Communications

2. Staff presented the 2016 Six Year Capital Plan.

The following individuals addressed the Board:

Tim Arends, Executive Director  
W. Peter Doren, General Counsel  
Blake Wilson, System Engineer  
Marty Colburn, City Manager  
Scott Menhart, Manager of Telecom and Technology

Comments sent via email from Vice Chairman Jan Geht were read into the record.

W. Peter Doren responded to Vice Chairman Geht's comments and spoke regarding the City approved ordinance delegating the ability to provide telecommunication services to TCL&P.

3. Karla Myers-Beman presented the first quarter 2015-16 financial statements.
  4. Karla Myers-Beman presented the 2016-17 budget schedule.
- c. From Board.
- None.

**Item 7 on the Agenda being Public Comment**

Ben Munger, 1291 Lake Ridge Circle, Ratepayer  
Russel Schindler, Garfield Township, Non-Ratepayer

There being no objection, Chairman Taylor declared the meeting adjourned at 7:43 p.m.

/st

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Tim Arends, Secretary  
LIGHT AND POWER BOARD

**TRAVERSE CITY  
LIGHT AND POWER BOARD**

Minutes

*Customer Survey Ad Hoc Committee*

Held at 11:00 a.m., Light and Power Service Center via Conference Call  
Wednesday, February 03, 2016

**Committee Members -**

Present: Jan Geht, Pat McGuire, John Taylor

**Others:** Tim Arends, Kelli Schroeder, Cathlyn Sommerfield

The meeting was called to order at 11:01 a.m. by Chairman Taylor.

**1. Discussion regarding a customer survey.**

Committee members discussed customer survey instruments.

11:35 a.m. John Taylor departed the meeting.

**2. Public Comment**

No one from the public commented.

There being no objection, Vice Chairman Geht declared the meeting adjourned at 12:02 p.m.

/st


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John Taylor, Chairman  
LIGHT AND POWER BOARD



**TRAVERSE CITY  
LIGHT & POWER**

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**To:** Light & Power Board  
**From:** Tim Arends, Executive Director   
**Date:** February 1, 2016  
**Subject:** Consideration of Adopting Strategic Plan

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Included in your packet is the proposed TCL&P Strategic Plan – 2016 (“Plan”) for your consideration of adoption. At the last meeting staff presented the amended Plan and sought and received Board input.

Recognizing that times change rapidly in the electric utility industry due to legislative issues, technology, and customer needs and expectations, the proposed Plan allows for modifications at any given time to address those changes and keep the utility moving in a forward direction.

TCL&P is an important part of the community that helps make Traverse City such a great place to live, work and play. As exemplified in the Plan, the Board, staff and employees of the utility are focused on maintaining and improving the public power utility’s significance to the community by adding value to the city, its residents and all customers.

This item is appearing on the Consent Calendar as it is deemed by staff to be a non-controversial item. Approval of this item on the Consent Calendar means you agree with staff’s recommendation.

If any member of the Board or the public wishes to discuss this matter, other than clarifying questions, it should be placed on the “Items Removed from the Consent Calendar” portion of the agenda for full discussion.

If after Board discussion you agree with staff’s recommendation the following motion would be appropriate:

**MOVED BY \_\_\_\_\_, SECONDED BY \_\_\_\_\_,**

**THAT THE TRAVERSE CITY LIGHT & POWER STRATEGIC PLAN – 2016 BE**

**ADOPTED AS PRESENTED.**



TRAVERSE CITY  
LIGHT & POWER

Investing Our Energy In You

# Traverse City Light & Power Strategic Plan



**TRAVERSE CITY  
LIGHT & POWER**

Investing Our Energy In You

*Introduction from the Executive Director*

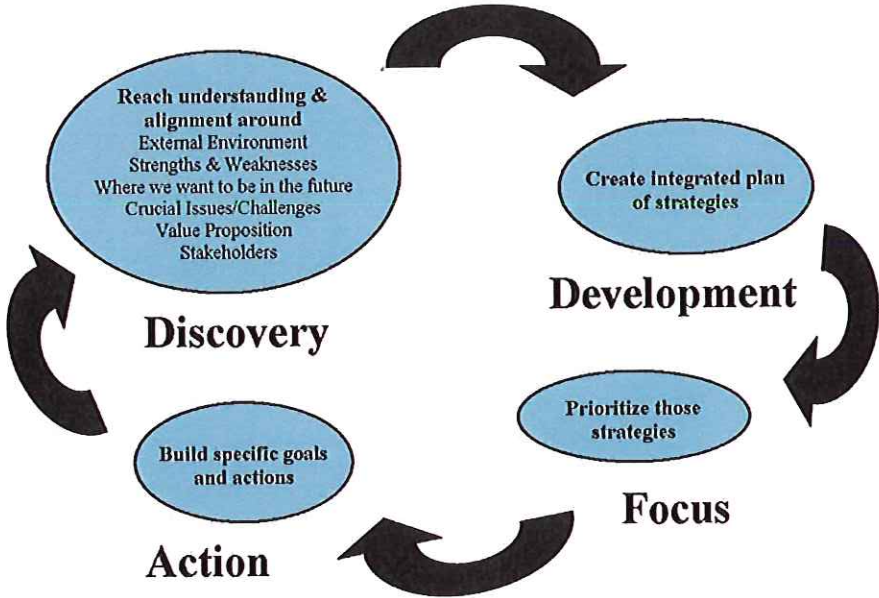
After successfully serving the City and surrounding areas for 103 years, the Board of Traverse City Light & Power (“TCL&P”) embarked on developing a new Strategic Plan (“Plan”) that could challenge the public power utility to exceed customer expectations while meeting the ever changing challenges of the electric utility industry. Safety, high reliability, low rates, transparency, exceptional customer service and communications are among the core values of the utility. This Plan was created with these basic core values always in mind.

The purpose of the Plan is to serve as a guiding document of the Board and utility staff and to support the vision and mission of the utility by achieving goals and objectives that enhance the value of the utility to its owners and the community it serves.

This Plan is the result of a very intense six month planning process facilitated by professional industry experts and the dedicated efforts of the Board, staff, and employees. The strategic plan process outlined in the diagram below also included obtaining invaluable information from the utility’s key account customers. The feedback gathered from these meetings allowed staff to better define the strategic direction of the Plan.

Going forward, the Plan provides a blueprint for strategic planning and goal setting into the future. Quarterly, the utility staff will report to the Board on its progress toward specific goals identified in the Plan. On an annual basis, staff and the Board will update the Plan to meet changes in the industry, economy, and to meet changes in customer needs and expectations. This annual review, as is required in the Strategic Plan Board policy, will enable the Plan to remain a relevant guiding document for TCL&P in this ever-changing utility industry.

Timothy J. Arends  
Executive Director



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## **1. Who We Are**

TCL&P prides itself on being a responsive and community-friendly electric utility. The core purpose of the utility is electric service, but has grown to provide traffic signals operation and maintenance, a complimentary downtown WiFi network, a dark fiber system and street lighting, all of which enhance the quality of life and make Traverse City a better place to live, work and play as exemplified in the utility's vision and mission statements:

- **Vision Statement**

"To build the long-term value of Traverse City Light & Power for the benefit of the City and its residents and all Traverse City Light & Power customers."

- **Mission Statement**

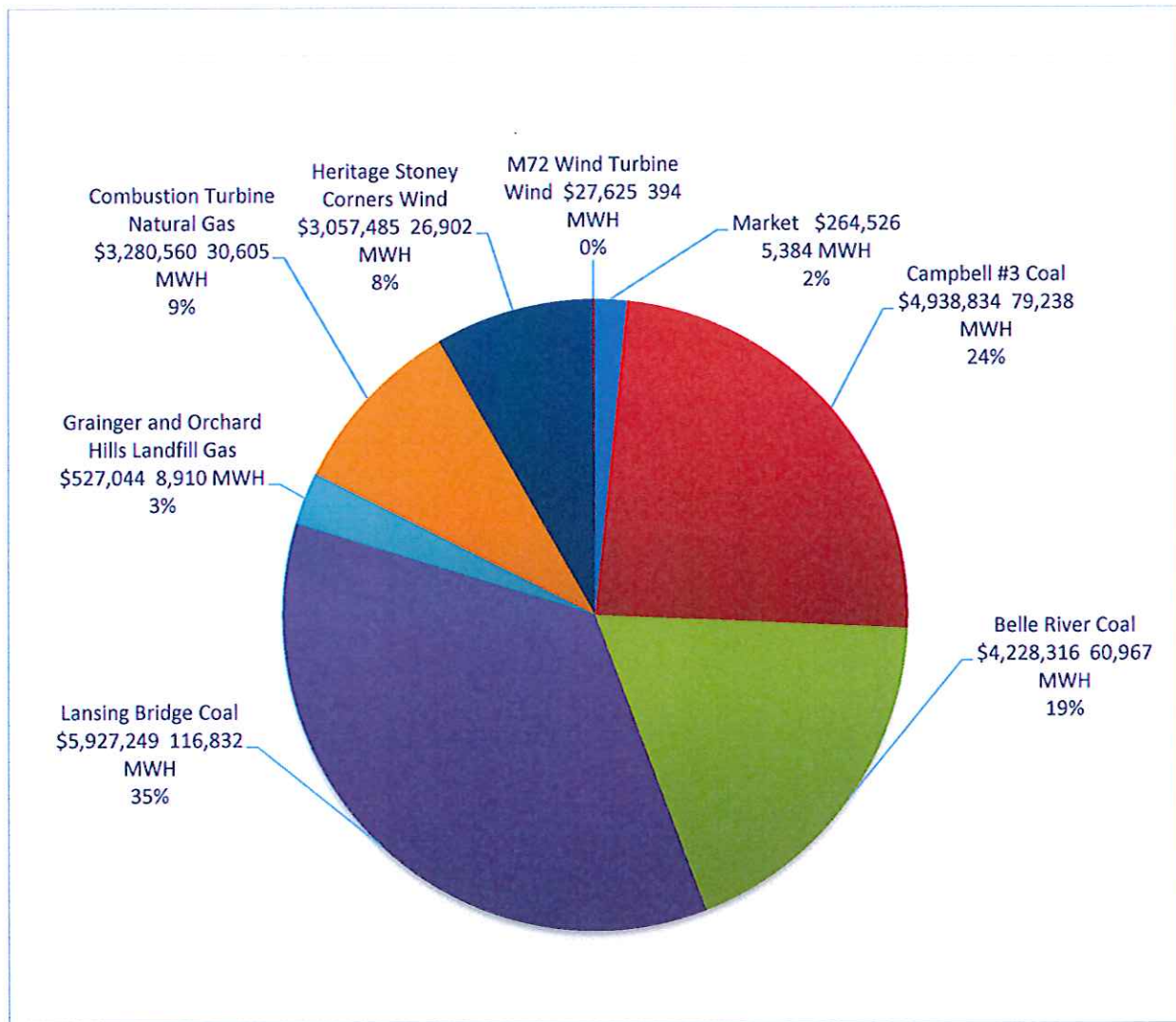
"The Mission of Traverse City Light & Power is to provide the Public Power benefits of safety, lower rates, high reliability, local control and exceptional customer service to the City and its residents and all Traverse City Light & Power customers."

TCL&P provides electric services to Traverse City and part of the outlying areas in Blair, East Bay, Elmwood, Garfield, Paradise and Peninsula Townships. The utility distributes electricity to these areas through an electrical infrastructure system consisting of three transmission substations, approximately thirty-five miles of transmission lines, five distribution substations, two hundred miles of overhead distribution lines, one hundred and fifty miles of underground distribution lines, seven thousand poles and two thousand transformers. Recent capital projects, such as construction of new transmission and distribution substations and upgrade of two key transmission lines have been completed as the utility transitions to a looped system. The result of which is increased reliability for all customers.

Currently, TCL&P is a \$33 million operation with net assets of \$70 million. The largest portion of net assets is TCL&P's investment in capital assets that are used to provide service to customers. The utility currently has no outstanding debt issuances and remains financially strong. Operations are maintained with forty full-time equivalent employees.

TCL&P, along with other Michigan municipal utilities, is a member of Michigan Public Power Agency ("MPPA"). The Agency was formed to acquire interest in certain electric generating plants and related transmission lines to service its members. TCL&P is able to provide reliable electric service through a diversification in purchase power contracts and ownership in various sources, a majority of which are with MPPA, as shown in the graph below.





As of fiscal year-end, June 30, 2015 the utility served an average of 12,465 customers and sold 319,687 mega-watt hours (“MWH”) of electricity. 75% of the utility’s customers are residential that provide 20% of the utility’s revenues; conversely, 25% are commercial customers that provide 80% of the utility’s revenues. An average residential customer uses 533 kWh per month, which equates to a monthly bill of \$57.84. In 2015, TCL&P surveyed the rates of forty-one utilities in Michigan, and ranked seventh lowest for residential, twenty-third lowest for small commercial, and eleventh lowest for large commercial.

Our residential, commercial and industrial customers enjoy reliable power at low rates because we are a community-owned not for profit public power utility. Public power is a collection of more than 2,000 community-owned electric utilities that serve over forty million people or about 15% of the nation’s electricity consumers. Public power utilities are operated by local governments to provide communities with reliable, responsive, not-for-profit electric service. Public power utilities are directly accountable to the people they serve through local elected or appointed officials.



TCL&P is governed by a Board of Directors which was created in 1979 as a discrete component unit of the City of Traverse City and is referred to in the City Charter as a Department. A separate board was created to manage all aspects of the utility, with the City Commission approving its budget.

The TCL&P Board is a seven member board appointed by the City Commission, plus one non-voting ex-officio member, the City Manager. At least five of the seven members are non-commissioner members with five year alternating terms. One of the five may be a non-city

resident, but must be a TCL&P customer. As part of the seven member Board, at least one member, but no more than two, must be a City Commissioner that serves a two year term.

In addition to the utility's budget the City Commission approves the six-year capital improvements plan, authorizes bond issues, ordinance change requests, agreements that directly impact the City, and provides for the utility's vehicle fleet needs through the Garage Internal Service Fund.

Local control, low rates and reliable service are the key pillars to providing the benefits of public power to the utility's customers and TCL&P looks forward to serving its customers with these principles for many years to come.

## **2. History**

In the early 1900's, as demand for electric power grew in Traverse City, competition to meet this demand grew as well. The Queen City Light & Power Company was in operation only a few short years as a direct competitor to Boardman River Electric Light and Power Company. In September 1912, the City of Traverse City purchased Queen City Light & Power for \$150,000. The purchase included sixty acres at Keystone and the property and flowage rights seven miles upstream including the Brown Bridge Dam area and pond. The new power company was known as the Traverse City Municipal Light and Power Department, known today as Traverse City Light & Power Department.



In the early days of TCL&P working conditions were challenging. Linemen camped in tents and worked with teams of horses to haul poles into place. Holes were dug by hand using picks and shovels. Linemen had to manually combat the elements, especially in winter.

Attracting new commerce to the Grand Traverse area required reliable and plentiful electric power. In 1920, the Traverse City Chamber of Commerce had to pause its efforts in pursuing new businesses because of the lack of such power. Fortunately, in 1921, the construction of Brown Bridge Dam began. Once completed in 1922, the dam produced reliable energy for TCL&P for the next eighty years.





In 1928, the first steam turbine was added to the Traverse City Waterworks building, which became the site of TCL&P's coal-fired Bayside Power Plant.

In 1937, TCL&P celebrated twenty-five years of supplying electricity to Traverse City. During this time, growth had continued to drive electric demand. A second steam turbine was installed in the Bayside Power Plant with an additional capacity of 1,000 kilowatts; the largest at that time and necessary to keep Traverse City growing and thriving.

In 1948, an \$850,000, five-year expansion program for the Bayside Power Plant was approved. This new capital would allow TCL&P to purchase new equipment to increase generation capacity. Throughout the late 40's and 50's, TCL&P added new and more powerful generators, opening the way for more growth and prosperity for the Traverse City area.

Other milestones and events occurred that would further impact the delivery of electricity to Traverse City residents and businesses. In 1950, Consumers Power Company purchased all assets of the Michigan Public Service Company. In 1961, the Keystone Dam washed out due to heavy rains and extensive flooding of the Boardman River. That dam was never rebuilt.

In 1964, the city explored the possibility of expanding the Bayside Power Plant at a cost of \$3.5 million. In 1965, voters approved the expansion by an over 2-to-1 margin and construction began. In 1967, the Bayside Power Plant expansion was completed. The peak of the new addition was almost ninety-nine feet; roughly the height of the top of the historic Park Place Hotel. The height was necessary to house the overhead coal conveyor and handling system.

During the blizzard of 1977, work crews had to brave snow depths of eighteen inches and more to restore power. Fortunately, because TCL&P had locally generated power, TCL&P customers had plenty of power for their consumption needs during that tough winter, while other major Midwest utilities had to ask customers to cut down on their consumption. The utility hit a lifetime peak production of 22,200 kilowatts on January 19, 1977.



In 1976, as the electric utility industry and how it operated had become more complex, the City Commission established an ad hoc committee to study the advisability of establishing a separate TCL&P Board. In January 1977 the ad hoc committee submitted its recommendation to create a two-year TCL&P Advisory Board which was approved by the voters in April 1977. In 1979 the TCL&P Advisory Board submitted a draft charter amendment to the City Commission, a public hearing was held, and the City Commission approved putting the draft charter amendment on the next ballot. After much analysis and public input, the voters approved the creation of the TCL&P Board on April 2, 1979.





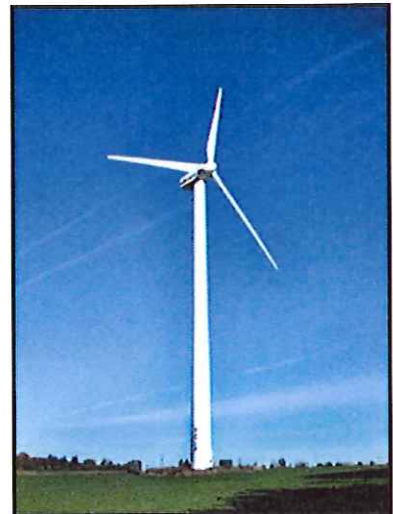
In 1981, the Department of Natural Resources (“DNR”) and TCL&P began discussing the development of a Fish Management Plan for the migratory fish, primarily salmon, that ran up the Boardman River each fall. After numerous meetings and approvals of the City Commission, the Michigan DNR, the Natural Resources Committee and the TCL&P Board, the Boardman River Trap and Transfer Harvest Facility was approved. The facility, located east of Hall Street, was completed in 1987.

In 1988, TCL&P held its first annual tree seedling giveaway at the Bayside Power Plant in celebration of Earth Day.

Seedlings were given away to customers and local community groups.

1996 was a major milestone year for TCL&P. The utility, long committed to exploring renewable energy sources, pioneered the first utility grade wind turbine in Michigan. The turbine was installed on M-72 and was, at the time of installation, the largest utility grade wind turbine in the United States.

Prior to the installation of the M-72 wind turbine, TCL&P developed the Green Rate. This rate allowed customers to voluntarily pay more on their monthly utility bill. The money collected went towards paying for the wind turbine, thereby supporting renewable energy. The Green Rate was the first of its kind in the country and is now used as a model nationwide.



As the new millennium approached, TCL&P was on the cusp of significant changes and innovations. In 2002, TCL&P, along with four other municipal electric utilities, participated in the Michigan Public Power Agency’s natural gas-fired combustion turbine project in Kalkaska, MI. The project continues to provide reliable energy to the electric grid during peak demand times in the summer and winter months.

In 2005, the Bayside Power Plant (located in Traverse City’s “Open Space” on West Grand Traverse Bay), which had been relegated to a lesser role of peak power support, was removed. Parts of the plant were sold to a Honduran company that planned to reassemble the power-generating portion of the plant in Guatemala.

In the fall of 2006, the license to generate electricity at the Boardman, Sabin and Brown Bridge dams was surrendered to FERC. The Brown Bridge Dam was removed in 2013 with plans to also remove Sabin and Boardman dams in the near future.

In response to Michigan Public Act 295 legislation, in 2009 TCL&P contracted to purchase all generation output from five, two-megawatt wind turbines located in McBain, MI. In the fall of 2010, when all five turbines were operational, TCL&P had the highest percentage of renewable generation to total generation of any utility in Michigan.



Also in 2010, stemming from TCL&P's announcement to construct a biomass generation facility, a ballot proposal was approved by voters to amend the City Charter to provide that any decision to build or acquire a power generation facility shall be subject to a referendum of city resident voters.

In 2012, TCL&P celebrated its 100<sup>th</sup> Anniversary. TCL&P's focus remains much the same as it has over its many years of service, providing customers with safe, reliable and affordable electricity.



In March of 2012, TCL&P experienced one of the worst winter storms in the utility's history. At the peak of the storm, approximately 8,000 of TCL&P's 11,500 customers experienced outages. Due to the extent of the storm, TCL&P enacted a mutual aid agreement to request assistance from other electric utilities to help in the restoration effort. This was the first time in utility history that TCL&P requested mutual aid. Crews from Lansing Board of Water & Light, Grand Haven Board of Light & Power, Zeeland Board of Public Works, Lowell Light & Power, Trees Inc. and NG Gilbert responded and provided

assistance. All TCL&P customers were restored within three days of the initial storm while some customers in the surrounding areas experienced outages for more than one week.

In the spring of 2013, TCL&P partnered with Cherryland Electric Cooperative to offer the first Community Solar Project in Michigan. The project allowed TCL&P customers to purchase a SUN Share (one solar panel) in the project and receive a monthly bill credit equal to the amount of energy produced by their share. In addition to the project being the first in the State of Michigan, it was also the first such partnership in the United States between a municipal and cooperative utility.

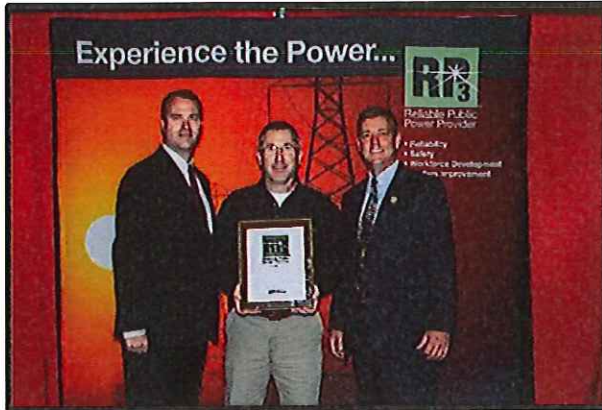
Also in 2013, after 18 years in operation, the TCL&P Board approved the decommissioning of the TCL&P wind turbine located on M-72 after a series of mechanical failures and unsuccessful attempts to repair the unit.

In December of 2014, TCL&P signed over ownership of the M-72 wind turbine to Heritage Sustainable Energy, LLC, owners of Stoney Corners Wind Farm in McBain, MI and entered into a Power Purchase Agreement to buy the output of the turbine.



In April 2014, TCL&P collaborated with the Downtown Development Authority ("DDA") to provide a complimentary WiFi internet service to the public within the DDA's jurisdiction. The DDA desired to have this secure municipal network to provide electronic parking services. TCL&P is responsible for installing and maintaining the WiFi system with the DDA reimbursing TCL&P for the costs. TCL&P will be fully reimbursed in 2025.





Rod Solak, TCL&P Line Superintendent, pictured center with Kenneth Stone, energy services and accounting manager at Braintree Electric Light Department of Braintree, Mass., (L) and Mike Hyland, APPA senior vice president of engineering services (R).



In February 2015, TCL&P received the prestigious RP3 platinum designation by the American Public Power Association (“APPA”). RP3 is APPA’s program to encourage public power systems to demonstrate basic proficiency in four important disciplines: reliability, safety, workforce development and system improvement. TCL&P had previously been awarded the gold designation in 2013.

On Sunday, August 2, 2015, a severe storm caused widespread outages to approximately 5,000 TCL&P customers. Due to the extent of the damage done to TCL&P’s electrical system, and the number of customers without power, TCL&P immediately called for mutual aid assistance from partnering utilities. Lowell Light & Power, Marquette Board of Light & Power, Lansing Board of Water & Light, Grand Haven Board of Light & Power, Zeeland Board of Public Works and Penn Line Service responded to the mutual aid request and assisted TCL&P for several days. A majority of TCL&P’s customers had power restored by August 7, with the remaining handful needing the assistance of an electrician to complete power restoration. During the restoration process, TCL&P, and the multiple mutual aid crews, did not experience any safety incidents.

### **3. Understanding the Current Utility Environment**

The energy landscape and traditional utility service delivery model is changing as a result of the emergence of new products, services, technologies, evolving workforce and increasing regulation.

Today’s customers covet instant and constant communication. These communications cover real time information regarding outages, consumption patterns and billings. Customers look to the utility to provide this information through a wide variety of channels such as social media, phone apps, e-newsletters and text messaging. It is the expectation of the customer that these value added benefits will be provided at no cost.

Offering these new technological communication avenues does come at an additional cost to the utility due to software, staffing and subscription fees. TCL&P’s current customer base is comprised of a large generational spread which requires the utility to maintain the traditional customer service model while also meeting the demands of new customer preferences.

Not only are customers seeking information regarding their electrical use, they are also wanting to take charge of their usage. For TCL&P today, it is becoming more common that the utility receives requests



from customers to install and generate their own power at a financial benefit to them. With the installation of a customer owned system, the traditional service the electric utility provided, which served as the primary feed, is now becoming the customer's secondary source for electric power.

TCL&P's distribution system was not designed to accommodate multiple distributed generation sites. These sites will impact the reliability of the system in having generation feed into the grid at multiple points. This creates the need for TCL&P to invest time and money in additional capital system upgrades to ensure the same level of reliability for all customers. Regardless of these distributed generation sites, TCL&P still has to maintain the system's infrastructure assets (substations, poles, transmission and distribution lines, etc.) for those customers when called upon as the secondary source. The cost of maintaining that infrastructure needs to be passed onto the customer irrelevant of their use. While the utility has to address the current customer desire for distributed generation, TCL&P must also plan for the next era. Energy storage is on the horizon and the utility expects it will have similar system and financial impacts that TCL&P is experiencing today with distributed generation.

Just as customers are evolving, so is the utility's workforce. TCL&P faces significant changes as 24% of the experienced workforce are eligible to retire in the next five years. Emerging technologies will also change the nature of utility operations, requiring new investments and training requirements. As a result of these trends, public power utilities will need to attract the next generation of workers with new skills, and must be able to offer career opportunities for current and incoming workers interested in technology, innovation, and customer service.

TCL&P will be required to develop resources to address workforce challenges, attracting and retaining new people to the industry, succession planning including knowledge transfer from departing employees and training for new employees in relevant areas, including new technologies and services.

Advancements in technology are driving change within the electric utility industry, specifically the amount of data technology is able to provide to the utility. The volume of data created by technology offers tremendous opportunities to mine both customer and operational related information.

Effective mining of this data can enhance preventative maintenance and storm response capabilities. However, it requires significant storage abilities and data analytics tools in order to use this information for proper decision making.

Technology also brings the need for defense against cyber security threats. The threat landscape continues to evolve and become ever more challenging, requiring constant attention and appropriate adjustments to the utility's defense strategy. In addition, there are many legislative and political challenges that require the attention and engagement of the utility.

In addition to the political challenges technology creates, there is also uncertainty among utilities regarding the federal and state legislative direction including many issues such as EPA's clean power plan, tax exempt financing, renewable energy, energy optimization, net metering, right to serve and customer choice.

The utility has already been impacted by past legislative actions including Public Act 295 which was signed into law on October 6, 2008. The Act, known as the Clean, Renewable and Efficient Energy Act, established a Renewable Energy Standard for all utilities in the State of Michigan. This Renewable

Energy Standard requires Michigan electric providers to achieve a retail supply portfolio that includes at least 10% renewable energy by 2015. Another large impact to the utility caused by federal regulations is the decommissioning of various coals plants within the state of Michigan. The utility has already made steps forward and continues to be proactive in planning for potential generation replacement. As it has in the past, meeting future mandates could financially impact the utility. But with proper planning and involvement with the legislative process, TCL&P hopes to mitigate the financial risks.



## **4. Strategic Issues**

At the beginning of the strategic planning process, the Board and staff participated in focused planning sessions to identify the top priorities of the utility now and into the future. Below is a summary of the six Strategic Issues that were identified through this process. In the following pages, each will be discussed further to show how the Strategic Issues impact the utility.

- Financial Stability
- Power Supply Strategy
- System Reliability & Power Quality
- Technology
- High Quality Workforce
- Customer Satisfaction

### **4.1 Financial Stability**

Financial stability is an important strategic issue because it is the function that allows the possibility for the goals to be achieved in every other strategic issue. It is not the sole function, but one that is necessary. Additionally, with management being financially responsible and transparent of its operations, it ensures the public's trust to continue with the strategic plan goals set forth by management and approved by the Board. The areas focused on for this strategic issue include:

- Provide transparent communications on the financial health of the organization.
- Maintain the public's trust by being accountable at all levels of management.

The Operating Strategy for Financial Stability is to:

**“Maintain positive operating cash flows and adequate capital reserves to sustain the financial health of the utility.”**

Four main Business Goals were identified to sustain and improve TCL&P's Financial Stability:

- 1. Enhance quarterly financial reporting to the Board and public (on-going).**  
Providing the Board with easy to understand quarterly financial statements and Capital Plan and Strategic Plan progress reports will allow for educated and well informed decision making that will positively impact the future of the utility.
- 2. Develop a board policy to provide guidance as to the appropriate utility contribution for city projects above the Charter required annual contribution.**  
Staff is working with the Ad Hoc Board Committee and an outside consultant to develop a survey to gather feedback from customers to be used in the development of a policy. This policy should provide the Board guidance on evaluating utility requested contributions to various city projects that will take into consideration cash availability, rate considerations, and the appropriateness of the contribution based on the type and extent of the request.

- 3. Review current workplace flows for efficiency enhancement through new developed process and procedures that will provide a proper planning environment and execution process for utility projects (on-going).**

Workplace flows at times may become complacent and it is beneficial for staff to hold brainstorming sessions to develop new processes and procedures that will lead to efficiencies within the organization. Included within the brainstorming sessions, staff will develop and implement a plan to incorporate the newly developed processes and procedures and continually monitor on an annual basis for improvement.

- 4. Develop and implement rate structures to promote financial stability while keeping in mind the impacts of environmental regulations, increased energy efficiency and distributed generation.**

The electric utility industry is in a new era of EPA regulations [that may affect all types of generation including](#) causing aged coal plants to be decommissioned, increase in energy efficiency programs along with new and improved technologies (renewable generation and battery storage) installed at the customer level reducing the overall customer usage and demand. Additionally, the utility may be incorporating new technologies such as AMI that allows for significant data collection for multiple benefits (energy efficiency, demand side management, distribution network management, improved data quality and accurate billing). Even with all of these impacts, the utility will be committed in providing competitive and equitable rates to their customers.



## 4.2 Power Supply Strategy

Power Supply Strategy is an important strategic issue because it represents 70% of TCL&P's operating costs and impacts Traverse City's local economy through the utility's rate structure. With industry experts providing knowledge to the Board and staff through planned education sessions, the utility is able to make knowledgeable decisions regarding TCL&P's power supply future. Having a diverse portfolio and implementing state and Board requirements, including energy efficiency and renewable energy, allows the utility to be in regulatory compliance while not at major risk with only one fuel source. The areas focused on for this strategic issue include:

- Manage load growth through energy efficiency programs.
- Create a diversified cost-effective generation portfolio.

The Operating Strategy for Power Supply Strategy is to:

**“Ensure sufficient power supply in a fiscally responsible manner.”**

Three main Business Goals were identified to sustain and improve TCL&P's Power Supply Strategy:

- 1. Implement recommendations from the Energy Optimization Program Planning Report that are in the best interest of the utility to achieve energy savings that manage load growth and are aimed at reducing on-peak demand, while also exploring other opportunities that may achieve the same results, but are not outlined in the report.** Knowing that *“the lowest cost energy is the energy that is saved,”* TCL&P has developed a plan outlining opportunities that have the biggest impacts on the utility and make financial sense. The utility will continue to focus special efforts on ways to optimize energy efficiency program offerings that directly manage load growth, therefore reducing the amount of capacity needed and reducing or shifting on peak demand to off peak.
- 2. Implement recommendations from the IRP report (on-going).**  
The IRP will be updated with the latest actual information and review and update recommendations for power supply purchases going forward. The utility will continue to work through the Michigan Public Power Agency to strategically structure purchases to allow for flexibility while insulating customers from the volatile power market.
- 3. Investigate generation opportunities that complement the power supply mix.**  
In combination with the state's new energy plan, the utility will work with the Michigan Public Power Agency in evaluating future power supply opportunities that provide stability in rates, while diversifying the power supply portfolio of the utility.

### 4.3 System Reliability & Power Quality

System reliability is the utility's plan that will help analyze and select system improvement projects based on a rating system of several criteria to increase the utility's reliability. TCL&P will be working closely with other city departments, utilities, and customers in order to maximize the effect of the project with joint construction efforts. The areas focused on for this strategic issue include:

- Enhance and develop new system maintenance programs.
- Define and implement system improvement strategies.
- Improve communication processes with customers, other utilities and city departments.

The Operating Strategy for System Reliability is to:

**“Take a proactive approach to maintain a high level of system reliability in a cost effective manner.”**

Four main Business Goals were identified to enhance TCL&P's System Reliability & Power Quality throughout the electrical system:

- 1. Annually review, enhance and develop system maintenance programs ensuring Average Service Availability Index (“ASAI”) remains above 99.970%. (on-going)**  
ASAI is the ratio of the total number of customer hours that service was available during a given time period to the total customer hours demanded (in 2014 it was 99.989). TCL&P plans to continue with its circuit rehabilitation program in 2016 with circuit BW-31. TCL&P has begun to implement inspection programs throughout the system from poles to pad mount cabinets. This data will be used as criteria within the rating system to determine which areas are in most need of maintenance.
- 2. Develop a rating system to prioritize capital system improvements, to be updated annually.**  
This system will be utilized annually in the utility's capital improvements project planning process. The system will help staff and the board prioritize projects over the next six years with the goal of increasing system reliability, accessibility and power quality to TCL&P customers.
- 3. Coordinate construction projects between TCL&P, other city departments, and other utilities (on-going).**  
TCL&P will continue to work with City departments through the City's annual capital improvements process in coordinating City and TCL&P capital projects. This coordination will create efficiencies and less inconvenience to ratepayers through the construction process. TCL&P will also work with other area utilities such as cable and telephone to coordinate projects. This is especially important when it comes to undergrounding as available right-of-way is limited in some areas. It is a priority of TCL&P to maintain communications with affected customer through e-newsletters, neighborhood meetings, direct mailers or door hangers regarding upcoming projects and throughout construction.

4. **Formalize written switching and tagging procedures.**

Switching and tagging procedures are a written set of instructions used to de-energize, energize or transfer load between equipment and or substations. Following these written instructions minimizes the risk of unnecessary outages, damage to equipment and helps ensure the safety of employees involved. Formalizing these procedures will ensure completeness and uniformity in the preparation of switching orders as well as the actual switching and tagging conducted in the field.



## 4.4 Technology

Technology plays a valuable role within all strategic areas and is at the forefront of the electric utility. In recent years, technical innovation has become a leading factor in modernizing the face of the electric utility by creating efficiencies within all aspects of the business. Therefore, it is necessary to embrace technology as a strategic issue. The areas focused on for this strategic issue include:

- Ensuring security for the integrity of the utility.
- Implementing energy efficiency technologies.
- Maximizing operational efficiencies.
- Enhancing communications.
- Keeping abreast of future technology opportunities.

The Operating Strategy for Technology is to:

**“Embrace technologies for the benefit of the customers and community.”**

Seven main Business Goals were identified to sustain and improve TCL&P’s Technical efficiencies:

- 1. Enhance video security monitoring at TCL&P’s facilities by spring of 2016.**  
TCL&P will install video monitoring systems at several of its substations and other facilities and has identified several benefits. Remotely monitoring substation access provides increased safety benefits for the crews that need to work in these potentially hazardous locations. It also will provide enhanced security to TCL&P’s primary assets by being able to monitor the locations 24/7.
- 2. Implement a new work order management system by April of 2016.**  
TCL&P will implement a new web-based work order management system to update or replace its current work order management system. Implementing a system that crews can utilize in the field will increase efficiencies by allowing for instantaneous data access and updates. This will provide better metrics for improved efficiencies in project planning, reporting, billing and crew management.
- 3. Full implementation of MilSoft’s Engineering Analysis Program.**  
After successfully completing a rollout of Milsoft’s Outage Management System, continued progress is underway to complete a full implementation of Milsoft’s Engineering Analysis Program. Currently, the modeling portion is scheduled to be completed by June of 2016. Full production use by staff will begin immediately following.
- 4. Update the utility’s Supervisory Control and Data Acquisition (SCADA) System to current technology by the end of 2016.**  
The new SCADA systems are designed from SQL database and web-based deployment and are much more convertible than the existing system TCL&P has today. Integrating the current SCADA technology ensures that as system updates and advances in functionality are needed TCL&P will be able to accept those updates seamlessly.

5. **Consider implementation of the Advanced Metering Infrastructure (AMI).**

TCL&P is looking to deploy an AMI network. There are many different reasons and benefits that a utility would look to gain in doing an AMI project. The Board and staff are currently in the process of educating themselves regarding the benefits of this technology and its appropriateness for TCL&P in advancing the strategic plan objectives.

6. **Safeguard the utility from cyber threats to stay current with industry standards (on-going).**

The cyber security threat environment is one that is constantly changing and evolving rapidly. The Federal Energy Regulatory Commission (FERC) and National Electric Reliability Commission (NERC) have guidelines and standards to follow for cyber threats. By following these guidelines TCL&P will maintain an electric system that is highly reliable against cyber intrusions that could affect TCL&P customers. On the business side, examples of cyber threats include data theft, denial of service attacks, website defacement and customer information disclosure or privacy breaches. On the operations side, cyber threats could target the generation and delivery of power. The greatest threat to electricity delivery is a sophisticated and coordinated cyber-physical attack on the operations side aimed at causing regional power outages. TCL&P will continue to adapt and follow guidelines provided by NERC and FERC to ensure system reliability.

7. **Effectively implement technology that will communicate pertinent utility information with customers (on-going).**

The utility will continue utilizing technology as a means of effectively getting information out to customers. Smart Phone applications and mass texting capabilities that notify customers regarding outages, weather and utility payment scams will be the focus in 2016.



## 4.5 High Quality Workforce

TCL&P recognizes the value and importance of employees who are an essential component to the successful operations of the utility. Promoting and encouraging a high quality workforce needs to continue and strengthen in order to ensure that TCL&P provides excellent service to its customers and community. The areas focused on for this strategic issue include:

- Maintain a safe work environment through collaborative efforts between management and the union.
- Foster a work environment that encourages professional development for the betterment of the organization.
- Ensure the organization's efforts attract and retain qualified candidates.
- Communication throughout the organization that will allow for transparency, accountability, trust and respect amongst management and union employees.

The Operating Strategy for High Quality Workforce is to:

**“Create and maintain an organizational culture that empowers and educates employees with the end result being a safe, motivated, and highly skilled workforce.”**

Four main Business Goals were identified to sustain and improve the quality of TCL&P's workforce:

- 1. Continue engaging in efforts towards employee professional development and performance management in order to ensure that the workforce has the knowledge, skills and abilities to evolve in their positions and are accountable in the work being performed (on-going).**  
The utility will continue to foster a work environment that encourages professional development, but at the same time stresses accountability in work performance. Management will work with the union to formalize a succession plan that will allow for successful internal growth within the union positions, while adhering to stipulations outlined in the Collective Bargaining Agreement. This will be in preparation for upcoming negotiations in spring 2017. Included in this framework will be implementation of an employee evaluation method that will assist in determining succession opportunities and eligibility by measuring an employee's performance and development needs.
- 2. Align work tasks, processes, and knowledge and skill requirements with both current and future needs of the organization.**  
The operations of the utility have and will continue to evolve in the future. It is imperative that the duties, knowledge and skill level requirements of each position match the needs of the utility. Therefore, a complete review and update of all positions along with a wage study will be performed in preparation for negotiations set to begin in early spring 2017.



- 3. Continue to engage employees on issues facing the utility through communication efforts that are transparent and effective (on-going).**

TCL&P will continue to enhance the techniques used to communicate information internally throughout the organization. In addition to more traditional approaches, technology has and will continue to be utilized which will require ongoing training of employees.

- 4. Continue to promote employer and worker awareness of, commitment to, and involvement with safety to affect positive change in the workplace culture through cooperative efforts and strong leadership (on-going).**

The Safety Development Plan was the first step in providing the framework focusing efforts on developing and implementing safety going forward. Staff will continue to use the actions and objectives identified in this Plan, however, the 2016 calendar year will result in additional programs and processes that will further encourage a culture of safety by engaging employees through participation and awareness efforts that act as a reminder to be safe in and out of the workplace.

## 4.6 Customer Satisfaction

Although Customer Satisfaction is affected by all of the previous Strategic Issues identified in this Plan, there are many ways for the utility to encourage, track, and modify the way services are provided to customers that will assist in striving for a high level of customer satisfaction. The areas focused on for this strategic issue include:

- Maintaining a high level of customer service.
- Improving current and developing new communication avenues with customers.
- Providing a variety of value-added programs to customers.
- Strengthening partnerships for the betterment of the community.
- Ensuring lowest rates possible while meeting customer expectations.

The Operating Strategy for Customer Satisfaction is to:

**“Sustain and improve the utility’s goodwill to all customers by going the extra mile.”**

Five main Business Goals were identified to sustain and improve TCL&P Customer Satisfaction levels:

- 1. Maintain a customer satisfaction rating above 95%.**  
The utility will continue to enhance efforts to ensure customers are satisfied with the services provided by the utility. Measurement of our efforts will be done using a variety of methods that may include extensive community wide surveys done every three to five years, automated phone surveys following customer service representative interaction and quick outage surveys done on a quarterly basis. Additionally, TCL&P will provide training opportunities for employees on effective customer service practices.
- 2. Maintain customer rates lower than other utilities in the area (on-going).**  
It has been communicated to staff by the Board that it is important to keep rates low when compared to other utilities within the local area as this is an important benefit of being a public power utility. TCL&P will measure the utility’s success in this area by completing a biennial rate survey of utilities throughout the state, and by completing a cost of service study no less than every five years to be used for a rate analysis. If this goal is not achievable or financially feasible, an explanation will be provided to the board and the operations or the goal will be revised.
- 3. Enhance the utilities communications efforts and community involvement by implementing the Communications Strategy.**  
TCL&P will continue to implement the communication channels outlined in the Communications Strategy. 2016 efforts will not only comprise ongoing efforts of community outreach, such as school presentations and demonstrations, but will also result in the finalization of the Welcome Packet for new customers.
- 4. The utility will begin to formulate a plan to address the evolving needs of its customer.**  
Utilities of the future need to be more than just a provider of energy. They need to provide the tools necessary to empower the customer to be in charge of their energy future. This plan will

include program options, implementation of technology outlined in the Technology Strategy and the timeframes for completion.

**5. Continually evaluate and implement services focused on assisting the unique needs of the utility's key account and critical service customers.**

Key account and critical service customers represent some of the utility's largest consumers and most impactful from a community service standpoint. Although all customers are of value to TCL&P, the distinct needs of this customer group require additional attention from staff due to the level of electrical consumption and the economic impact of their business on the greater community. Specific programs will be analyzed and implemented to assist these customers to successfully do business in the Traverse City region.



## 5. Conclusion

The fundamental purpose of TCL&P's strategic planning process was to identify, consider and act on the internal and external issues that are expected to have the greatest influence on TCL&P's ability to successfully achieve its vision and mission in the future.

Staff will provide quarterly updates to the Board on its progress towards implementing and/or achieving the identified goals. As the utility moves forward, this Plan will be used as a guide for future strategic planning.



Annually, the Board and staff, through the budgeting process, will review and update the Plan as necessary to reflect changing Board and customer expectations of its public power utility. The utility must stay in-tune with the evolving electric industry, economic conditions, and customer expectations. The strategic issues of today including financial stability, power supply strategy, system reliability and power quality, technology, high quality workforce, and customer satisfaction may not be the strategic issues of the utility in the future.

It is the intent of TCL&P staff and its Board that this Plan be modified from time-to-time to remain relevant and useful in managing the utility.

TCL&P has a very long and proud history of serving the electrical needs of the Traverse City community. The utility looks forward to implementation of this Plan for the betterment of the City of Traverse City, its residents and all TCL&P customers.



**TRAVERSE CITY  
LIGHT & POWER**

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**To:** Light & Power Board  
**From:** Karla Myers-Beman, Controller *KMB*  
**Date:** January 1, 2016  
**Subject:** Presentation of the 2014-15 Financial Audit

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The TCL&P Financial Audit for the fiscal year ended June 30, 2015 will be presented by the audit firm of Abraham & Gaffney, P.C. A copy of the audit is in your board binder. The public will be able to view the audit on-line at TCL&P's web page: [www.tclp.org](http://www.tclp.org).

If after the Board's questions have been answered and it is satisfied with the report, the following motion would be appropriate:

**MOVED BY \_\_\_\_\_, SECONDED BY \_\_\_\_\_,**

**THAT THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30,  
2015, BE ACCEPTED.**

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



**ABRAHAM & GAFFNEY, P.C.**  
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To the Honorable Chairman and Members of the  
Traverse City Light and Power Board  
Traverse City, Michigan

We have audited the financial statements of the business-type activities and each major fund of Traverse City Light and Power (the Department), a component unit of the City of Traverse City, for the year ended June 30, 2015. Professional standards require that we provide you with information about our audit responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 13, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements. As described in Note 15 to the financial statements, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, during the year ended June 30, 2015. Accordingly, the cumulative effects of the accounting changes as of the beginning of the year are reported in the applicable financial statements. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the business-type activities, the Light and Power Fund, and the Fiber Fund were:

Management's calculation of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Management's calculation of the current and non-current portions of accrued compensated absences is based on historical trends and annual use of paid time off.

Management's calculation of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

Required contributions were made to the Department's pension plan at an actuarially determined rate, which is based upon certain actuarial assumptions.

The value of other postemployment benefit assets is based on actuarial assumptions including, but not limited to rate of return on investment, life expectancy and inflation rate pertaining to healthcare costs.

The calculation of the net pension liability is based on an actuarial study which utilized certain actuarial assumptions.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Material misstatements were not detected as a result of audit procedures.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 30, 2015.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of changes in net pension liability and related ratios, and schedule of employer contributions, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on other supplementary information which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Traverse City Light and Power and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 30, 2015



**Traverse City Light and Power**

**(A Component Unit of the  
City of Traverse City, Michigan)**

**Financial Statements**

**For the Fiscal Year Ended  
June 30, 2015**

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

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Principals

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Chairman and Members of the  
Traverse City Light and Power Board  
Traverse City, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund of Traverse City Light and Power (the Department), a component unit of the City of Traverse City, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Changes in Accounting Principles***

As discussed in Note 15 to the financial statements, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year. As a result, the financial statements now recognize the Department's unfunded defined pension benefit obligation as a liability for the first time, and more comprehensively and comparably measures the annual costs of pension benefits. Our opinions are not modified with respect to this matter.

Also as discussed in Note 15 to the financial statements, the Department implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, during the year. As a result, the Department recognized a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Our opinions are not modified with respect to this matter.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Traverse City Light and Power, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, and schedule of employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information has not been subjected to the auditing procedures applied in the audit in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 30, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# TRAVERSE CITY LIGHT AND POWER

## Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. The Department's financial statements comprise three components:

1. Financial statements
2. Notes to the financial statements
3. Supplementary information

### Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Department is accounted for in two proprietary funds (Enterprise Funds). The Light and Power Fund and the Fiber Fund, both of which are considered major for reporting purposes.

*Enterprise funds* distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing electrical and dark fiber services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The *Statement of Net Position* presents information on all of the Department's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Department is principally supported by charges for providing electrical and dark fiber services to customers in Traverse City and Townships within the franchise area. The financial statements include only the Department itself. The Department has no legally separate component units for which the Department is financially accountable.

The Department adopts an annual appropriated budget for its funds as required by City Charter. Budgetary comparison schedules have been provided herein to demonstrate compliance with that charter provision.

The Department does not maintain any governmental or fiduciary funds.



**Notes to the financial statements.** The notes provide additional information that is essential to gain a full understanding of the data provided in the Department's financial statements.

**Supplementary information.** In addition to the financial statements and accompanying notes, this report also presents certain *supplementary information*, which includes this management discussion and analysis and schedules following the notes to the financial statements.

**The Department's Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by approximately \$70,240,000 at the close of the most recent fiscal year, June 30, 2015.

The largest portion of net position for the Department is its investment in capital assets (primarily land, construction in progress, buildings, distribution system and equipment). The Department uses these capital assets to provide services to customers. The remaining Department net position is unrestricted and available for Department activity. On the table below, the Statement of Net Position as of June 30, 2014 was restated due to the implementation of GASB Statements No. 68 and 71. The Statement of Changes in Net Position for the year ended June 30, 2014 was not adjusted.

**Traverse City Light and Power's Net Position**

Business-type Activities	June 30	
	2015	2014
Current and other assets	\$30,693,508	\$29,089,922
Capital assets	52,251,537	49,086,351
Total assets	82,945,045	78,176,343
Deferred outflows	640,900	-363,560
Long-term liabilities outstanding	10,612,247	9,962,907
Other liabilities	2,733,557	3,104,564
Total liabilities	13,345,804	13,067,471
Net position		
Invested in capital assets	52,251,537	49,086,351
Unrestricted	17,988,604	16,386,081
Total net position	\$70,240,141	\$65,472,432

**Traverse City Light and Power's Changes in Net Position**

Business-type Activities	June 30	
	2015	2014
Operating revenue	\$37,399,341	\$35,521,246
Operating expenses	(33,043,681)	(32,629,767)
Nonoperating revenue (expense)	412,049	1,170,951
Increase (decrease) in net position	4,767,069	4,062,430
Net position – beginning of year, as restated	65,472,432	70,845,490
Net position – end of year	\$70,240,141	\$74,907,920

### Business-type activities

The overall financial position of the Department remained strong in 2014-2015. There are no outstanding debt obligations except for the commitments through the power supply contracts with Michigan Public Power Agency ("MPPA") to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Kalkaska Combustion Turbine generation plants.

### Revenue

Overall revenues exceeded budget. Specifically, operating revenues were higher because commercial sales resulted in a higher per kWh sales than budgeted. The other rate classes were not impacted, residential sales had lower kWh sales and industrial class had a new metal melting rate approved that resulted in less revenues. Reimbursements are lower than budgeted because a special assessment did not occur that was tentatively planned for street lighting.

### Expenses

In fiscal year 2014-15, operating expenses was less than budget by approximately \$2.8M. This was primarily attributed to the purchase power cost having a lower price per kWh than what was forecasted.

### Capital asset and debt administration

#### Traverse City Light and Power Capital Assets (net of depreciation)

	June 30	
	2015	2014
Land and land improvements	\$1,395,691	\$1,395,691
Construction in progress	5,043,136	1,785,733
Buildings and improvements	4,487,246	4,487,246
Equipment and distribution system	67,372,811	66,047,946
Accumulated depreciation	(26,047,347)	(24,630,265)
<b>Total</b>	<b>\$52,251,537</b>	<b>\$49,086,351</b>

During the year, the Department sold the M-72 wind turbine to Heritage Stoney Corners, LLC.

Additional information about capital assets is provided in Note 4 to the financial statements.

Debt of the Department consists of amounts outstanding for accrued compensated absences. Additional information can be found in Note 5 to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

There is no proposed rate increase for fiscal year 2015-16. The Department's Lansing Board of Water and Light purchase power contract terminates as of December 31, 2015 and it has been replaced with firm energy contracts in a staggered amount over the next five years. The Department has seen an increase in capacity costs as result of planned coal plants closing due to the age of the plants and the inability to meet EPA emission standards. Power supply costs will impact the Department's future overall rate increases.

### **Requests for Information**

This financial report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information, should be addressed to Karla Myers-Beman, Controller, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

## **FINANCIAL STATEMENTS**

**TRAVERSE CITY LIGHT AND POWER**

(A Component Unit of the City of Traverse City, Michigan)

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

ASSETS	Light and Power Fund	Fiber Fund	Total
<b>Current assets</b>			
Cash and cash equivalents	\$ 9,098,003	\$ -	\$ 9,098,003
Investments	13,220,402	-	13,220,402
Receivables			
Customer, less allowances of \$312,927 for uncollectible accounts (Light and Power Fund)	3,044,311	280,298	3,324,609
Accrued interest	50,681	-	50,681
Taxes	18,663	-	18,663
Other	1,074,010	-	1,074,010
Inventories	1,730,496	5,956	1,736,452
Due from other funds	19,441	-	19,441
Prepaid expenses	17,808	-	17,808
<b>Total current assets</b>	<b>28,273,815</b>	<b>286,254</b>	<b>28,560,069</b>
<b>Non-current assets</b>			
Other postemployment benefit asset	1,149,539	-	1,149,539
Long-term advances - due from primary government	3,000	-	3,000
Asset held for sale	980,900	-	980,900
Land and land improvements	1,395,691	-	1,395,691
Construction in progress	5,043,136	-	5,043,136
Capital assets being depreciated, net	44,131,784	1,680,926	45,812,710
<b>Total non-current assets</b>	<b>52,704,050</b>	<b>1,680,926</b>	<b>54,384,976</b>
<b>Total assets</b>	<b>80,977,865</b>	<b>1,967,180</b>	<b>82,945,045</b>
Deferred outflows of resources - Pensions	639,314	1,586	640,900

The accompanying notes are an integral part of these financial statements.

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### STATEMENT OF NET POSITION JUNE 30, 2015

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Total
<b>Current liabilities</b>			
Accounts payable	\$ 1,952,316	\$ 30,279	\$ 1,982,595
Accrued expenses and other liabilities	218,647	451	219,098
Customer deposits	98,386	-	98,386
Unearned revenue	20,570	14,270	34,840
Compensated absences	3,150	-	3,150
Due to other funds	-	19,441	19,441
Due to primary government	363,259	12,788	376,047
<b>Total current liabilities</b>	<b>2,656,328</b>	<b>77,229</b>	<b>2,733,557</b>
<b>Long-term liabilities</b>			
Compensated absences	152,520	1,008	153,528
Net pension liability	10,431,954	26,765	10,458,719
<b>Total long-term liabilities</b>	<b>10,584,474</b>	<b>27,773</b>	<b>10,612,247</b>
<b>Total liabilities</b>	<b>13,240,802</b>	<b>105,002</b>	<b>13,345,804</b>
<b>Net position</b>			
Invested in capital assets	50,570,611	1,680,926	52,251,537
Unrestricted	17,805,766	182,838	17,988,604
<b>Total net position</b>	<b>\$ 68,376,377</b>	<b>\$ 1,863,764</b>	<b>\$ 70,240,141</b>

The accompanying notes are an integral part of these financial statements.



## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2015

	Light and Power Fund	Fiber Fund	Total
<b>Operating revenues</b>			
Charges for services	\$ 34,396,799	\$ 255,752	\$ 34,652,551
MISO income	2,481,500	-	2,481,500
Other	265,290	-	265,290
<b>Total operating revenues</b>	<b>37,143,589</b>	<b>255,752</b>	<b>37,399,341</b>
<b>Operating expenses</b>			
Generation	22,855,173	-	22,855,173
Distribution	3,530,929	-	3,530,929
Transmission	406,584	-	406,584
Customer accounting	568,692	-	568,692
Public service	513,302	-	513,302
General administration	834,938	-	834,938
Fiber	-	101,209	101,209
WIFI	-	23,225	23,225
Other	57,875	1,161	59,036
City fee	1,863,259	12,788	1,876,047
Depreciation	2,157,940	116,606	2,274,546
<b>Total operating expenses</b>	<b>32,788,692</b>	<b>254,989</b>	<b>33,043,681</b>
<b>Operating income</b>	<b>4,354,897</b>	<b>763</b>	<b>4,355,660</b>
<b>Nonoperating revenues (expenses)</b>			
Rental income	91,226	-	91,226
Reimbursements	143,048	296,122	439,170
Interest income	251,067	4	251,071
Change in fair value of investments	59,202	-	59,202
Loss on sale of assets	(428,620)	-	(428,620)
<b>Total nonoperating revenues (expenses)</b>	<b>115,923</b>	<b>296,126</b>	<b>412,049</b>
Change in net position	4,470,820	296,889	4,767,709
Net position, beginning of year, as restated	63,905,557	1,566,875	65,472,432
<b>Net position, end of year</b>	<b>\$ 68,376,377</b>	<b>\$ 1,863,764</b>	<b>\$ 70,240,141</b>

The accompanying notes are an integral part of these financial statements.

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 37,459,974	\$ 254,684	\$ 37,714,658
Cash payments to employees	(5,290,294)	(83,113)	(5,373,407)
Cash payments to suppliers for goods and services	(23,672,269)	(17,090)	(23,689,359)
Cash payments of City fee	(1,715,851)	(11,464)	(1,727,315)
<b>Net cash provided by operating activities</b>	<b><u>6,781,560</u></b>	<b><u>143,017</u></b>	<b><u>6,924,577</u></b>
<b>Cash flows from noncapital financing activities</b>			
Cash payments from primary government	302,836	-	302,836
Cash payments to/from other funds	(19,441)	19,441	-
Customer deposits paid	(1,463)	-	(1,463)
Rental income received	91,226	-	91,226
Reimbursements received	143,048	21,122	164,170
<b>Net cash provided by noncapital financing activities</b>	<b><u>516,206</u></b>	<b><u>40,563</u></b>	<b><u>556,769</u></b>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from sale of capital assets	1,126	-	1,126
Assets held for sale	(980,900)	-	(980,900)
Purchase of capital assets	(5,407,445)	(462,031)	(5,869,476)
<b>Net cash (used in) capital and related financing activities</b>	<b><u>(6,387,219)</u></b>	<b><u>(462,031)</u></b>	<b><u>(6,849,250)</u></b>
<b>Cash flows from investing activities</b>			
Sale of investments	2,632,005	-	2,632,005
Interest and dividends	315,875	4	315,879
<b>Net cash provided by investing activities</b>	<b><u>2,947,880</u></b>	<b><u>4</u></b>	<b><u>2,947,884</u></b>
Net increase (decrease) in cash and cash equivalents	3,858,427	(278,447)	3,579,980
Cash and cash equivalents, beginning of year	5,239,576	278,447	5,518,023
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 9,098,003</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,098,003</u></b>

The accompanying notes are an integral part of these financial statements.

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

	Light and Power Fund	Fiber Fund	Total
<b>Cash flows from operating activities</b>			
Operating income	\$ 4,354,897	\$ 763	\$ 4,355,660
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	2,157,940	116,606	2,274,546
Changes in operating assets and liabilities which provided (used) cash			
Receivables	291,471	(1,068)	290,403
Inventories	260,213	(5,956)	254,257
Prepaid expenses	(12,208)	-	(12,208)
Deferred outflow	(276,689)	(654)	(277,343)
Accounts payable	(35,079)	30,129	(4,950)
Due to other governments	147,408	1,324	148,732
Accrued expenses and other liabilities	(530,372)	451	(529,921)
Compensated absences	(12,959)	(218)	(13,177)
Net pension liability	658,032	1,640	659,672
Other postemployment benefit asset	(221,094)	-	(221,094)
<b>Net cash provided by operating activities</b>	<b>\$ 6,781,560</b>	<b>\$ 143,017</b>	<b>\$ 6,924,577</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Under provisions of the City of Traverse City (the "City") Charter, the Light and Power Board (the "Board") was created having jurisdiction and control of *Traverse City Light and Power* (the "Department"). The Board consists of seven members (two of which are City Commissioners) and one ex-officio member (the City Manager). The Department's annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City's General Fund as a city fee. For fiscal 2015, the city fee was \$1,876,047.

#### Reporting Entity

The Department is a discretely presented component unit of the City because the City appoints the Department's Board of Directors, it has the ability to significantly influence the Department's operations and it is financially accountable for the Department as defined under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements 39 and 61. Accordingly, the Department is an integral part of that reporting entity.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Department. There are no component units to be included. The criteria for including a component unit includes significant operational or financial relationships with the Department.

#### Basis of Accounting

The Department uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### Investments

Investments are stated at fair value. The change in fair value of the investments from the beginning of the year to the end of the year is reported in the "Nonoperating revenues" section of the "Statements of Revenues, Expenses and Changes in Net Position".

State statutes authorize the Department to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20, as amended.
- h. Long-term or perpetual trust funds consisting of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the Department has the same authority to invest the assets as is authorized by Public Act 314, as amended.

### Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

### Inventories

Inventories consist of materials to be used in the electric system and are valued at cost (first-in, first-out) not in excess of market. Maintenance and office supplies (immaterial at year end) are charged to expenses upon purchase.

### Prepaid Expenses

The Department incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the Department records an asset to reflect the investment in future services.

### Capital assets

Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years.

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated lives of the related assets as follows:

	<u>Years</u>
Transmission and distribution plant	30-50
General plant	10-50

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### Compensated Absences

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned. Sick pay is frozen for employees but upon death or retirement 50% of accumulated sick leave shall be paid to a maximum of 120 days. Two choices for sick pay cash out are available to employees with more than 30 days of sick leave and 10 years of service. Employees can use sick leave as allowing under the Short-Term Leave Plan or cash out all amounts of sick leave in excess of 30 days up to 120 days at the rate of 50% of employee's current pay rate. Days in excess of 120 will be added to the 30 day bank. This choice must be made as a one-time selection at any time after the employee reaches 10 years of service.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Department has items that qualify for reporting in this category related to the net position liability which is discussed in Note 7.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department does not have any items that qualify for reporting in this category.

### Pensions

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense; information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Operating Revenue versus Nonoperating Revenue

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services and "MISO" revenue. Operating expenses for the Department include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### Funds

The Department reports the following major proprietary funds:

The Light and Power Enterprise Fund is used to account for the operations of the Department's electric utility that provides electric service to customers on a user charge basis.

The Fiber Enterprise Fund is used to account for the operations of the Department's fiber optic utility that provides services to customers on a user charge basis and WIFI system located in the downtown area. The Fiber Fund was created in 2008 with an initial capital contribution from the Light and Power Enterprise Fund.

### Restricted resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

## 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2015 are composed of the following:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$9,098,003	\$1,960,640	\$11,058,643
Investments	-	11,259,762	11,259,762
<b>Total</b>	<b>\$9,098,003</b>	<b>\$13,220,402</b>	<b>\$22,318,405</b>

Deposits consist of various interest bearing cash accounts and certificates of deposit, held by the City of Traverse City Treasurer. The insured and uninsured bank balances for the Department's deposits are not available as these deposits are held in pools with other City funds.

The Department is authorized by Michigan Public Act 20 of 1943 to invest surplus monies in U.S. bonds and notes, certain commercial paper, mutual funds and investment pools that are composed of authorized investment vehicles.

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2015, the Department's Michigan CLASS investment and the U.S. Treasury notes are rated by Standard & Poor's. The Department had the following investments:

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury Note	12/05/2016	\$499,635	AA+
US Treasury Note	12/31/2016	937,197	AA+
US Treasury Note	06/30/2018	520,040	AA+
US Treasury Note	02/11/2020	999,910	AA+
US Treasury Note	02/15/2020	436,844	AA+
US Treasury Note	03/18/2020	997,430	AA+
US Treasury Note	06/24/2020	1,000,120	AA+
US Treasury Note	03/20/2023	494,790	AA+
US Treasury Note	03/31/2023	974,500	AA+
US Treasury Note	03/25/2025	960,230	AA+
US Treasury Note	08/27/2027	995,720	AA+
US Treasury Note	01/25/2028	970,500	AA+
US Treasury Note	02/14/2028	481,780	AA+
MPPA Investments Pool	Various	988,038	Unrated
Michigan CLASS	NA	3,028	AAAm
		\$11,259,762	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1. The Department's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Department's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. State law does not require and the Department does not have a policy for deposit custodial credit risk. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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*Custodial Credit Risk—Investments.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Department does not have a policy for investment custodial credit risk. Of the above \$11,259,762 of investments at June 30, 2015, the Department has a custodial credit risk exposure of \$10,268,696 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above investment pools the Department's custodial credit risk exposure cannot be determined because the Department does not own specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified above. The Department's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the Department, excluding government obligations explicitly guaranteed by the U.S. government and mutual fund investments, exceed 5% of the Department's investments.

### 3. ASSET HELD FOR SALE

On or about May 2, 2012, GRP entered into an agreement for professional services with Department for professional engineering design and construction management services associated with the South Substation Project. The project included the equipment for the substation which included two 69kv breakers, two 69kv:13.8kv transformers, five distribution circuit reclosers, associated bus work and switches and a relay control house including SCADA equipment. During the design phase, the procurement specifications for the power transformers were incorrect and discovered upon energization of the transformers in January 2015. Subsequent to this discovery the transformers were declared surplus by the Board and placed out to bid with Wyandotte Municipal Services being the highest bidder in the amount of \$601,969. A procurement agreement was entered into in May 2015 with the removal of the transformers occurring late September 2015. The difference between the original transformer cost and the bid amount along with installation costs will be recovered through GRP Engineering insurance carrier and acknowledged through the Settlement Agreement and Release entered into between the Department and GRP Engineering at the beginning of September 2015. For the fiscal year end June 30, 2015 the transformers have been reclassified to Assets Held for Sale with the sale and recovery of loss of the transformers plan to be recognized in the subsequent fiscal year.

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### NOTES TO FINANCIAL STATEMENTS

#### 4. CAPITAL ASSETS

At June 30, 2015, capital assets consist of the following:

	Beginning Balance	Additions &Transfers	Deletions & Transfers	Ending Balance
Capital assets not being depreciated				
Land and land improvements	\$ 1,395,691	\$ -	\$ -	\$1,395,691
Construction in progress	<u>1,785,733</u>	<u>5,176,026</u>	<u>1,918,623</u>	<u>5,043,136</u>
Total capital assets not being depreciated	<u>3,181,424</u>	<u>5,176,026</u>	<u>1,918,623</u>	<u>6,438,827</u>
Capital assets being depreciated				
Buildings and improvements	4,487,246	-	-	4,487,246
Equipment and distribution system	64,278,691	2,097,251	1,308,058	65,067,884
Fiber system	1,769,255	33,952	-	1,803,207
WiFi system	<u>-</u>	<u>501,720</u>	<u>-</u>	<u>501,720</u>
Total capital assets being depreciated	<u>70,535,192</u>	<u>2,632,923</u>	<u>1,308,058</u>	<u>71,860,057</u>
Less accumulated depreciation for				
Buildings and improvements	1,368,926	134,617	-	1,503,543
Equipment and distribution system	22,753,944	2,023,323	857,464	23,919,803
Fiber system	507,395	91,520	-	598,915
WiFi system	<u>-</u>	<u>25,086</u>	<u>-</u>	<u>25,086</u>
Total accumulated depreciation	<u>24,630,265</u>	<u>2,274,546</u>	<u>857,464</u>	<u>26,047,347</u>
Total capital assets being depreciated, net	<u>45,904,927</u>	<u>358,377</u>	<u>450,594</u>	<u>45,812,710</u>
<b>Total capital assets, net</b>	<b><u>\$49,086,351</u></b>	<b><u>\$5,534,403</u></b>	<b><u>\$2,369,217</u></b>	<b><u>\$52,251,537</u></b>

#### 5. LONG-TERM LIABILITIES

Long-term debt at June 30, 2015, consists of the following:

	Balance <u>07/01/14</u>	Addition <u>s</u>	Reduction <u>s</u>	Balance <u>06/30/15</u>	Due Within <u>One Year</u>
Accrued compensated absences	<u>\$169,855</u>	<u>\$ 234,349</u>	<u>\$247,526</u>	<u>\$156,678</u>	<u>\$3,150</u>



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 6. POWER SUPPLY PURCHASE

In September 2010, the Department entered into two 5-year agreements with the Lansing Board of Water & Light ("LBWL") to commence January 1, 2011. The purchase power agreement allows for the purchase of a minimum of 10 megawatts of electric energy up to a maximum of 45 megawatts to replace its deficient energy needs from the expired agreement with Michigan Public Power Agency ("MPPA") power pool. The estimated cost for the 5-year term is \$40,000,000. In addition, the energy service agency agreement provides for LBWL to act as the Department's agent with Midcontinent Independent System Operator ("MISO"). LBWL will enter into third party contracts to purchase energy and sell surplus energy into the MISO daily and hourly markets. The estimated cost for the 5-year term is \$375,000. For the year ended June 30, 2015, the Department recognized expenses totaling \$5,315,446.

The Department, along with other Michigan municipal utilities, is a member of the MPPA. The agency was formed to acquire interest in certain electric generating plants and related transmission lines to service its members. MPPA has acquired a 4.8% undivided interest in the Consumers Energy Campbell 3 plant, an 18.6% undivided interest in the Detroit Edison Belle River project, and 100% undivided interest in the Kalkaska Combustion Turbine project.

In 1983, the Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA's 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA's 18.6% interest in the Belle River plant. In 2002, the Department entered into a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA's 100% interest in the Kalkaska Combustion Turbine. In 2009, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Grainger Electric of Michigan, LLC. In 2011, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Northern American Natural Resources of Michigan. In 2014, the Department entered into an Energy Services Agreement with MPPA for the objective of accessing third party marketers in MISO for the purpose of reducing exposure to MISO market during volatile seasons. This is accomplished through MPPA soliciting bids and subsequently entering into contracts on behalf of DEPARTMENT for firm priced energy supply during more volatile months.

For the year ended June 30, 2015, Traverse City Light and Power recognized expenses totaling \$14,352,256 to purchase power under the terms of all contracts with MPPA. The price of the power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission and debt service costs.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

Under the terms of the contracts, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). Future operating costs are estimated based on 2014 costs adjusted for inflation. The total estimated future operating costs, which do not include the annual debt payments, are as follows:

Year Ended December 31	Operating Costs
2016	\$7,467,896
2017	4,945,127
2018	5,093,481
2019	2,814,665
2020	2,899,105
2021-2025	15,853,494
2026-2027	7,027,216
	\$46,100,984

The estimated total annual debt payments (assuming no early calls or refinancing) are as follows:

Year Ended December 31	Principal	Interest	Total
2016	\$2,871,939	\$1,166,712	\$4,038,651
2017	3,160,421	1,020,444	4,180,865
2018	3,300,335	880,189	4,180,524
2019	2,197,513	739,091	2,936,604
2020	2,276,835	656,765	2,933,600
2021-2025	9,321,865	2,019,013	11,340,878
2026-2027	3,392,730	256,542	3,649,272
	\$26,521,638	\$6,738,756	\$33,260,394

The MPPA and its member utilities were over-charged on their power sales contract agreements by Detroit Edison. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The Department's share of this trust fund was \$988,038 as of June 30, 2015.

In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stony Corners Wind Farm I, LLC to purchase up to 10 megawatts of electric energy and all associated renewable energy credits. For the year ended June 30, 2015, the Department recognized expenses totaling \$2,819,687.

In December 2014, the Department entered into a 20-year purchase power agreement with options to terminate on the 10<sup>th</sup> and 15<sup>th</sup> anniversary dates. The Agreement is with Heritage Sustainable Energy, LLC to purchase up to .6 MW of electric energy. For the year ended June 30, 2015, the Department recognized expenses totaling \$8,890.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

**7. RETIREMENT PLAN**

**General Information about the Pension Plan**

**Plan Description.** The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in MERS of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

**Benefits Provided**

<b>01 - Non Union – Open Division</b>	
	<b>2014 Valuation</b>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>COLA for Current/Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

<b>10 - Union closed to new hires, linked to Division 12</b>	
	<b>2014 Valuation</b>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 years
<b>Early Retirement (Unreduced):</b>	50/25
<b>Early Retirement (Reduced):</b>	55/15
<b>Final Average Compensation:</b>	5 years
<b>COLA for Current/Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### NOTES TO FINANCIAL STATEMENTS

12 - Union hired after 7/1/2012, linked to Division 10	
	2014 Valuation
<b>Benefit Multiplier:</b>	1.5% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	55/15
	50/25
<b>Final Average Compensation:</b>	5 years
<b>COLA for Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

- Benefits provided include plans with multipliers ranging from 1.5 to 2.25.
- Vesting periods range from 6 to 10 years.
- Normal retirement age is 60 with early retirement at 55 with 25 years of service.
- Final average compensation is calculated based on 5 years.
- There are no member contributions.

**Employees covered by benefits terms.** At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>38</u>
	<u>96</u>

**Contributions.** The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 7.27 to 21.26% based on annual payroll for open divisions. One division that is closed to new employees has an annual employer contribution amount of \$52,526.

**Net Pension Liability.** The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

**Actuarial assumptions.** The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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Inflation: 3%-4%

Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)

Investment rate of return: 8.25%, net investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to provide the long-term expected rate of return by weighting the expected future real rates of return of the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

**Discount rate.** The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Increase (Decrease)		Net Pension Liability (a) – (b)
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	
<b>Balances at 12/31/13</b>			
<b>Changes for the Year</b>	\$25,914,564	\$16,115,516	\$9,799,048
Service Cost	313,020	-	313,020
Interest on Total Pension Liability	2,083,781	-	2,083,781
Employer Contributions	-	773,230	(773,230)
Net investment Income	-	1,000,478	(1,000,478)
Benefit payments, including employee refunds	(1,626,244)	(1,626,244)	-
Administrative expense	-	(36,578)	36,578
<b>Net Changes</b>	<b>770,557</b>	<b>110,886</b>	<b>659,671</b>
<b>Balances as of 12/31/14</b>	<b>\$26,685,121</b>	<b>\$16,226,402</b>	<b>\$10,458,719</b>

**Sensitivity of the Net Position Liability to changes in the discount rate.** The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease 7.25%	Current Discount Rate (8.25%)	1% Increase 9.25%
<u>Net Pension Liability at 12/31/14</u>	\$ 10,458,719	\$ 10,458,719	\$10,458,719
Change in Net Pension Liability (NPL)	2,955,785	-	(2,504,941)
<b>Calculated NPL for your Notes</b>	<b>\$13,414,504</b>	<b>\$10,458,719</b>	<b>\$7,953,778</b>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015 the employer recognized pension expense of \$1,199,016. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$ 233,885	\$ -
Contributions subsequent to the measurement date*	\$ 407,015	\$ -
<b>Total</b>	<b>\$ 640,900</b>	<b>\$ -</b>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2015.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ 58,471
2017	58,471
2018	58,471
2019	58,472
	\$ 233,885

### 8. DEFERRED COMPENSATION

The Department participated in the City's Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The City has ICMA Retirement Corporation and Mass Mutual as administrators for the Plan. Participants may contribute zero to six percent of covered payroll based on the employee's employment or labor union contract. Plan provision and contribution requirements can only be amended by authorization of the Traverse City Light and Power Board. In the current fiscal year, the Department contributed \$155,230 and employees contributed \$210,026.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 9. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides post-retirement health insurance benefits in accordance with its personnel policies and union agreements. The benefit includes payment of the retirees' premiums until they reach the age of Medicare eligibility. The Department paid \$221,094 for 34 participants in fiscal year 2014-2015.

The Department participates in the City's MERS retiree health funding vehicle that covers substantially all employees. Annual contributions to the Plan are based on actuarial studies performed bi-annually. The Department's required contribution to the Plan for the fiscal year ended June 30, 2015, was \$264,231. The postemployment benefit asset for the current year is \$1,149,539. The required disclosures related to the Plan are provided in the City's financial statements.

### 10. COMMITMENTS

#### Property

During fiscal year 2003-04, the Department entered into an agreement with Maritime Heritage Alliance to lease a Department owned coal dock. The lease requires annual rental payments of \$1. Under the lease agreement, the lessee must maintain the property, carry adequate insurance and pay all assessments and property taxes on the property. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contributed revenue and lease expense. This lease expires July 2023.

#### Contracts

During the fiscal year, the Board authorized to fund the high level lighting, low level decorative lighting and the primary service of the City's West Front Street Project in the amount of \$527,000. There were no capital costs incurred as of fiscal year end.

At the April 14, 2015 board meeting, the Board authorized to execute a construction agreement in the amount of \$682,784 with CC Power LLC for the West Side Transmission Line Upgrade project in the amount of \$612,959 and the Hickory Hills Underground Line Project in the amount of \$69,825. Commencement of these projects occurred after fiscal year end.

At the April 28, 2015 board meeting, the Board authorized procurement agreement for two transformers for the South Substation in the amount of \$1,241,409. There were no capital costs incurred as of fiscal year end.

At the June 9, 2015 board meeting, the Board authorized to execute two construction agreements in the amount of \$255,745 with Severance Electric for the Union Street conduit installation and \$499,479 with Kent Power for electrical cable and equipment installation for the Pine and State Street – Overhead to Underground Conversion project. Additionally a purchase order was issued in the amount of \$407,928 for underground cable to Power Line Supply. Commencement of this project occurred after fiscal year end.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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At the June 9, 2015 board meeting, the Board authorized to execute construction agreement with Grand Traverse Construction for the Hastings Street Storage Facility in the amount of \$411,607. Commencement of this project occurred after fiscal year end.

### 11. CONTINGENCIES

In the normal course of business, the Department becomes a party in various legal actions and claims, some of which are uninsured. The outcome of these actions and claims is not expected to have a material effect on the financial position of the Department.

### 12. RISK OF LOSS

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Self Insurance Fund and commercial health insurance. The Department has had no settled claims resulting from these risks that exceeded their coverage in any of the past three years.

### 13. DESIGNATIONS OF NET POSITION

The following are designations of net position established by the Board and City Charter:

	<u>June 30, 2015</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	<u>9,675,000</u>
<b>Total</b>	<u>\$ 9,775,056</u>

### 14. SUBSEQUENT EVENT

On November 2, 2015 the City Commission certified the coal dock property as unnecessary for Traverse City Light & Power use, accepted the conveyance of the property to the City, assignment of all existing leases, and authorized a conveyance of the properties to Rotary Camps and Services for a purchase price of \$1 million.

### 15. RESTATED NET POSITION

Beginning net position of the Department was decreased by \$9,799,048 to record the net position liability in accordance with the implementation of Governmental Accounting Standards Board No. 68.

Beginning net position of the Department was increased by \$363,560 to record deferred outflows in accordance with the implementation of Governmental Accounting Standards Board No. 71.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 16. GASB PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Department is currently evaluating the impact this standard will have on the financial statements when adopted, during the Department's 2015-2016 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addressed reporting by OPEB plans, whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addressed accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Department will, after, adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Department is currently evaluating the impact of these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

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## **SUPPLEMENTARY INFORMATION**

**TRAVERSE CITY LIGHT AND POWER**

**REQUIRED SUPPLEMENTARY INFORMATION  
MERS DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<hr/>	
<b>Total pension liability</b>	
Service cost	\$ 313,020
Interest	2,083,781
Benefit payments, including refunds	<u>(1,626,244)</u>
Net change in total pension liability	770,557
Total pension liability, beginning of year	<u>25,914,564</u>
<b>Total pension liability, end of year</b>	<b><u>26,685,121</u></b>
<b>Plan fiduciary net position</b>	
Contribution - employer	773,230
Net investment income	1,000,478
Administrative expenses	(36,578)
Benefit payments, including refunds	<u>(1,626,244)</u>
Net change in plan fiduciary net position	110,886
Plan fiduciary net position, beginning of year	<u>16,115,516</u>
<b>Plan fiduciary net position, end of year</b>	<b><u>16,226,402</u></b>
<b>Department's net pension liability</b>	<b><u>\$ 10,458,719</u></b>
Plan fiduciary net position as a percent of total pension liability	60.81%
Covered employee payroll	\$ 2,862,491
Department's net pension liability as a percent of covered employee payroll	365.37%

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**TRAVERSE CITY LIGHT AND POWER**

**REQUIRED SUPPLEMENTARY INFORMATION  
DEFINED BENEFIT PENSION PLAN  
MERS SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2015**

Actual determined contribution		
Contribution in relation to the actuarially determined contribution	\$ 770,572	
Contribution deficiency (excess)	<u>(770,572)</u>	
	<u>                    -</u>	
 Covered employee payroll		 2,880,960
 Contribution as a percentage of covered employee payroll		 26.75%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.50%
Salary increases	4.50%
Investment rate of return	8.25%
Retirement age	Varies depending on plan adoption
Mortality	50% female/50% male 1994 group annual mortality table



## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2015

	Capital Assets - Cost			Balance at June 30, 2015
	Balance at June 30, 2014	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 1,065,565	\$ -	\$ -	\$ 1,065,565
Land - coal dock	248,023	-	-	248,023
Land improvements	82,103	-	-	82,103
<b>Total land and land improvements</b>	<b>1,395,691</b>	<b>-</b>	<b>-</b>	<b>1,395,691</b>
Buildings and improvements				
Distribution plant	4,340,829	-	-	4,340,829
Office structures	97,149	-	-	97,149
Other buildings	49,268	-	-	49,268
<b>Total buildings and improvements</b>	<b>4,487,246</b>	<b>-</b>	<b>-</b>	<b>4,487,246</b>
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	390	-	-	390
Wind generation unit	785,616	20,850	785,616	20,850
Transmission and distribution	62,507,718	1,854,999	368,801	63,993,916
General	960,957	221,402	153,641	1,028,718
<b>Total equipment and distribution system</b>	<b>64,278,691</b>	<b>2,097,251</b>	<b>1,308,058</b>	<b>65,067,884</b>
<b>Construction in progress</b>	<b>1,712,092</b>	<b>4,713,995</b>	<b>1,382,951</b>	<b>5,043,136</b>
<b>Total</b>	<b>\$ 71,873,720</b>	<b>\$ 6,811,246</b>	<b>\$ 2,691,009</b>	<b>\$ 75,993,957</b>

Balance at June 30, 2014	Accumulated Depreciation		Balance at June 30, 2015	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2015
\$ -	\$ -	\$ -	\$ -	\$ 1,065,565
-	-	-	-	248,023
-	-	-	-	82,103
-	-	-	-	<b>1,395,691</b>
1,347,495	131,621	-	1,479,116	2,861,713
10,054	1,226	-	11,280	85,869
11,377	1,770	-	13,147	36,121
<b>1,368,926</b>	<b>134,617</b>	-	<b>1,503,543</b>	<b>2,983,703</b>
22,030	715	-	22,745	1,265
373	12	-	385	5
427,196	10,445	436,702	939	19,911
21,844,413	1,901,049	298,750	23,446,712	40,547,204
459,932	111,102	122,012	449,022	579,696
<b>22,753,944</b>	<b>2,023,323</b>	<b>857,464</b>	<b>23,919,803</b>	<b>41,148,081</b>
-	-	-	-	<b>5,043,136</b>
<b>\$ 24,122,870</b>	<b>\$ 2,157,940</b>	<b>\$ 857,464</b>	<b>\$ 25,423,346</b>	<b>\$ 50,570,611</b>

**TRAVERSE CITY LIGHT AND POWER**

(A Component Unit of the City of Traverse City, Michigan)

**SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED)  
FIBER FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Capital Assets - Cost</b>			
	<b>Balance at June 30, 2014</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balance at June 30, 2015</b>
<b>Equipment and distribution system</b>				
Overhead	\$ 1,049,106	\$ 33,952	\$ -	\$ 1,083,058
Underground	258,363	-	-	258,363
Termination boxes	365,883	-	-	365,883
Wireless equipment	51,725	-	-	51,725
WIFI system	-	501,720	-	501,720
Other property	44,178	-	-	44,178
<b>Total equipment and distribution system</b>	<b>1,769,255</b>	<b>535,672</b>	<b>-</b>	<b>2,304,927</b>
<b>Construction in progress</b>	<b>73,641</b>	<b>462,031</b>	<b>535,672</b>	<b>-</b>
<b>Total</b>	<b>\$ 1,842,896</b>	<b>\$ 997,703</b>	<b>\$ 535,672</b>	<b>\$ 2,304,927</b>

<b>Accumulated Depreciation</b>				<b>Capital Assets - Net</b>
<b>Balance at June 30, 2014</b>	<b>Current Depreciation</b>	<b>Deletions</b>	<b>Balance at June 30, 2015</b>	<b>Balance at June 30, 2015</b>
\$ 295,827	\$ 53,304	\$ -	\$ 349,131	\$ 733,927
68,252	12,918	-	81,170	177,193
103,373	18,294	-	121,667	244,216
15,516	2,586	-	18,102	33,623
-	25,086	-	25,086	476,634
24,427	4,418	-	28,845	15,333
<b>507,395</b>	<b>116,606</b>	<b>-</b>	<b>624,001</b>	<b>1,680,926</b>
-	-	-	-	-
<b>\$ 507,395</b>	<b>\$ 116,606</b>	<b>\$ -</b>	<b>\$ 624,001</b>	<b>\$ 1,680,926</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2015

	Amended Budget	Actual	Positive (Negative) Variance
<b>Operating revenues - sales</b>			
Residential	\$ 6,600,000	\$ 6,612,011	\$ 12,011
Commercial	15,810,000	16,392,293	582,293
Industrial	10,770,000	10,788,926	18,926
Public authority	309,000	317,521	8,521
Street lighting	201,600	199,517	(2,083)
Yard lights	79,900	86,531	6,631
	<b>33,770,500</b>	<b>34,396,799</b>	<b>626,299</b>
<b>Total operating revenues - sales</b>			
<b>Other operating revenues</b>			
Forfeited discounts	58,000	73,522	15,522
Merchandise and jobbing	65,000	115,918	50,918
Sale of scrap	35,000	30,804	(4,196)
Recovery of bad debts	200	30	(170)
MISO income	2,461,000	2,481,500	20,500
Miscellaneous	36,500	45,016	8,516
	<b>2,655,700</b>	<b>2,746,790</b>	<b>91,090</b>
<b>Total other operating revenues</b>			
<b>Nonoperating revenues (expenses)</b>			
Rental income	45,000	49,046	4,046
Pole rental income	36,000	42,180	6,180
Reimbursements	353,600	143,048	(210,552)
Interest income	200,000	251,067	51,067
Change in fair market value of investments	-	59,202	59,202
(Loss) on sale of assets	(360,000)	(428,620)	(68,620)
	<b>274,600</b>	<b>115,923</b>	<b>(158,677)</b>
<b>Total nonoperating revenues (expenses)</b>			
<b>Total revenues</b>	<b>36,700,800</b>	<b>37,259,512</b>	<b>558,712</b>

Continued



## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2015

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Generation expense</b>			
Salaries and wages	\$ 100,600	\$ 104,905	\$ (4,305)
Payroll taxes and fringes	54,800	96,876	(42,076)
Wind generator - M-72 Traverse	-	60	(60)
Kalkaska combustion turbine	-	(2,776)	2,776
Purchased power	24,746,600	22,509,670	2,236,930
Coal dock	2,500	9,367	(6,867)
Trap and transfer	250	95	155
Union street fish ladder	250	-	250
Professional and contractual	95,000	113,124	(18,124)
Professional development	2,000	-	2,000
Operation supplies	3,700	2,706	994
Communications	500	1,084	(584)
Safety	5,000	2,201	2,799
Transportation	-	9,618	(9,618)
Equipment rental	7,000	8,243	(1,243)
<b>Total generation expense</b>	<u>25,018,200</u>	<u>22,855,173</u>	<u>2,163,027</u>

Continued

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2015

	Amended Budget	Actual	Positive (Negative) Variance
<b>Distribution expense</b>			
Salaries and wages	\$ 1,397,000	\$ 1,223,372	\$ 173,628
Payroll taxes and fringes	989,900	1,077,958	(88,058)
Substation	113,900	219,685	(105,785)
Overhead lines	160,000	160,495	(495)
Underground lines	50,000	33,519	16,481
Storm work	50,000	-	50,000
Electric meters	12,000	7,509	4,491
Street lighting	220,000	250,383	(30,383)
Traffic signals	70,000	4,120	65,880
Plant and structures	90,000	68,965	21,035
Professional services	95,800	122,274	(26,474)
Professional development	50,400	35,788	14,612
Operation supplies	271,000	153,020	117,980
Utilities	68,000	81,589	(13,589)
Safety	47,000	34,205	12,795
Transportation	37,400	29,496	7,904
Equipment rental	131,800	11,036	120,764
Inventory adjustment	-	12,687	(12,687)
Miscellaneous	6,500	4,828	1,672
<b>Total distribution expense</b>	<b>3,860,700</b>	<b>3,530,929</b>	<b>329,771</b>
<b>Transmission expense</b>			
Salaries and wages	216,200	288,744	(72,544)
Substation	23,600	13,725	9,875
Overhead lines	5,000	10,364	(5,364)
Load and dispatching	-	11	(11)
MISO	28,000	24,481	3,519
Miscellaneous	67,000	69,259	(2,259)
<b>Total transmission expense</b>	<b>339,800</b>	<b>406,584</b>	<b>(66,784)</b>

Continued

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2015

	Amended Budget	Actual	Positive (Negative) Variance
<b>Customer accounting expense</b>			
Salaries and wages	\$ 166,700	\$ 152,304	\$ 14,396
Meter reading	103,500	123,206	(19,706)
Payroll taxes and fringes	135,900	166,873	(30,973)
Office supplies	4,500	2,110	2,390
Postage	34,000	27,799	6,201
Stationary and printing	5,500	482	5,018
Professional and contractual	29,000	17,764	11,236
Uncollectible accounts	30,000	37,912	(7,912)
Collection expense	2,000	2,595	(595)
Data processing	20,500	16,509	3,991
Professional development	7,000	320	6,680
Transportation	5,500	3,055	2,445
Equipment rental	-	11,455	(11,455)
Miscellaneous	8,950	6,308	2,642
<b>Total customer accounting expense</b>	<b>553,050</b>	<b>568,692</b>	<b>(15,642)</b>
<b>Public service expense</b>			
Salaries and wages	59,900	39,575	20,325
Payroll taxes and fringes	24,400	28,427	(4,027)
Public service information	718,500	445,300	273,200
<b>Total public service expense</b>	<b>802,800</b>	<b>513,302</b>	<b>289,498</b>

Continued

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2015

	Amended Budget	Actual	Positive (Negative) Variance
<b>General administration expense</b>			
Salaries	\$ 356,000	\$ 362,235	\$ (6,235)
Payroll taxes and fringes	163,000	195,384	(32,384)
Professional development	20,000	21,303	(1,303)
Professional and contractual	80,000	101,647	(21,647)
Office supplies	69,000	21,557	47,443
Fees and per diems	80,000	60,976	19,024
Special services	9,200	11,813	(2,613)
Legal fees	60,000	49,631	10,369
Utilities	4,500	5,030	(530)
Printing and publishing	6,000	3,436	2,564
Transportation	2,500	1,267	1,233
Miscellaneous	6,500	659	5,841
<b>Total general administration expense</b>	<b>856,700</b>	<b>834,938</b>	<b>21,762</b>
<b>Other expenses</b>			
Insurance - general	68,000	57,875	10,125
City fee	1,889,500	1,863,259	26,241
Depreciation	2,132,000	2,157,940	(25,940)
<b>Total other expenses</b>	<b>4,089,500</b>	<b>4,079,074</b>	<b>10,426</b>
<b>Total expenses</b>	<b>35,520,750</b>	<b>32,788,692</b>	<b>(2,732,058)</b>
<b>Change in net position</b>	<b>\$ 1,180,050</b>	<b>\$ 4,470,820</b>	<b>\$ 3,290,770</b>

## TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)


### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2015

	Amended Budget	Actual	Positive (Negative) Variance
<b>Operating revenues - sales</b>			
Other sales	\$ 243,200	\$ 255,752	\$ 12,552
<b>Non-operating revenues</b>			
Reimbursements	5,000	296,122	291,122
Interest income	-	4	4
<b>Total non-operating revenues</b>	<b>5,000</b>	<b>296,126</b>	<b>291,126</b>
<b>Total revenues</b>	<b>248,200</b>	<b>551,878</b>	<b>303,678</b>
<b>Fiber expenses</b>			
Salaries and wages	30,960	49,165	(18,205)
Payroll taxes and fringes	20,930	35,167	(14,237)
Operation supplies	1,000	331	669
Overhead	3,000	4,085	(1,085)
Underground	1,000	-	1,000
Termination boxes	2,000	-	2,000
Customer installations	500	-	500
Professional development	2,000	-	2,000
Miscellaneous	11,400	12,461	(1,061)
<b>Total fiber expenses</b>	<b>72,790</b>	<b>101,209</b>	<b>(28,419)</b>
<b>WIFI Expenses</b>			
Operation and maintenance	-	23,225	(23,225)
<b>Other expenses</b>			
Insurance and bonds	1,100	1,161	(61)
City fee	12,160	12,788	(628)
Depreciation	90,000	116,606	(26,606)
<b>Total other expenses</b>	<b>103,260</b>	<b>130,555</b>	<b>(27,295)</b>
<b>Total expenses</b>	<b>176,050</b>	<b>254,989</b>	<b>(55,714)</b>
<b>Change in net position</b>	<b>\$ 72,150</b>	<b>\$ 296,889</b>	<b>\$ 224,739</b>



**TRAVERSE CITY  
LIGHT & POWER**

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**To:** Light & Power Board  
**From:** Tim Arends, Executive Director   
**Date:** February 1, 2016  
**Subject:** Six Year Capital Improvements Plan - 2016

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Attached for your consideration of approval is the Six Year Capital Improvements Plan – 2016 (Plan) as prepared and amended by staff after review with the Board at the last meeting.

After hearing input from the Board and adapting the Capital Improvements Decision Sequence proposed by General Counsel (emailed to the Board and enclosed), staff has made the following modifications to the Plan:

1. Reduced the Hastings Street Service Center allocation from \$380,000 to \$100,000 by eliminating the project allotment for the perimeter fence, sidewalk and tree lawn improvement as the Board felt at this time it was not a necessary aesthetic improvement.
2. Removed the Disaster Recovery Center and Small Cell and Distributed Antenna System (DAS) projects as the Board felt there was not enough information to include these projects at this time.
3. Removed the street lighting and corridor projects in accordance with the guidelines provided in the Capital Improvements Decision Sequence, because not enough information is available and utility participation, if any, has not been determined for these projects to be included in the capital improvements plan at this time.

At the Board's direction from the last meeting, the Fiber to the Premises Project remains within the Plan; However, staff will be prepared to review and discuss the proposed Capital Improvements Decision Sequence with the Board and further discuss whether now is the appropriate time to include the Fiber to the Premises Project within the Plan based on the parameters within the Capital Improvements Decision Sequence.

Staff recommends approval of the Plan as presented or as amended at the meeting. If after Board discussion you agree with staff's recommendation the following motion would be appropriate:

**(MOTION ON THE NEXT PAGE)**



FOR THE LIGHT & POWER BOARD MEETING OF FEBRUARY 9, 2016

MOVED BY \_\_\_\_\_, SECONDED BY \_\_\_\_\_,

THAT THE BOARD AUTHORIZES THE EXECUTIVE DIRECTOR TO SUBMIT THE SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016 AS PRESENTED (OR AS AMENDED) TO THE CITY MANAGER FOR REVIEW AND APPROVAL OF THE CITY COMMISISON AND CITY PLANNING COMMISSION.

## CAPITAL IMPROVEMENTS DECISION SEQUENCE

### Stages of Commitment:

1. Idea or Concern. “Are we interested in this?”
  - Staff or Board sees an opportunity or need for a capital improvement that might benefit the utility.
  - Staff prepares a report and analysis of that opportunity.
2. Preliminary Study. “We might want to do this.”
  - Board authorizes a preliminary study and rough cost estimate.
  - Possible public hearing or input.
  - Study and public input shows it to be a worthwhile endeavor.
3. Capital Improvements Plan. “We want to do this, if it is good for business.”
  - Added to the CIP.
  - Business plan prepared if appropriate.
  - Other studies or reports as may be appropriate for that project.
  - Dropped from CIP if business plan or study shows problem.
4. Project Authorization. “We will do this, if it is feasible financially and engineering-wise.”
  - Refined business and cost analysis.
  - Engineering design and cost estimate.
  - Critical path chart.
  - Customer contracts or market study if appropriate.
  - Referendum possibility if generation.
5. Contract. “We promise to do this.”
  - Procurement contract.
  - Construction contract.
  - Change order possibilities.



## SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016

### GENERATION:

#### Community Solar Garden Phase II

*Location: Local solar generation located at NMC Automotive Technology Building located in the Airport Industrial Park*

*Character: Free standing solar panels*

*Extent: Installation of solar panels to provide up to 30 KW of generation.*

*Estimated Cost: ~~\$80,000~~—Amount to be recovered through customers purchasing Sun Shares in the project*

*Fiscal Year(s): 2016-17*

### DISTRIBUTION and SUBSTATION:

#### Line Improvements, Extensions, and New Services

*Location: Throughout the entire service area*

*Character: Construction/replacement of overhead and underground distribution facilities involving the use of wire, poles, meters, cabinets, and transformers.*

*Extent: This is an annual project in which wages, benefits, and equipment charges are capitalized for upgrades to existing services or new customer services.*

*Estimated Cost: \$6.45 Million*

*Fiscal Year(s): 2016-17 through 2021-22 (Annual Program)*

#### Distribution Circuit Rebuild

*Location: Throughout the entire service area. In 2016-17, BW-31 circuit, which includes the commercial corridor North of Eighth Street between Barlow Street and Garfield Avenue ending at Peninsula/Center Road will be completed. Future projects have been evaluated and currently the planned replacement schedule for future years are HL-21, PC-32, HL-33, CD-30 and HL-22 circuits.*

*Character: Replace deteriorated overhead/underground facilities with new wire, conduit, poles, etc. to include conversion of overhead facilities to underground as appropriate.*

*Extent: New circuits and upgrade of existing circuits to improve reliability and serve anticipated growth to include undergrounding facilities as appropriate.*

*Estimated Cost: \$4.975 Million*

*Fiscal Year(s): 2016-17 through 2021-22 (Annual Program)*

#### Overhead to Underground Conversion Projects

*Location: Throughout the entire service area*

*Character: Conversion of overhead distribution facilities to underground.*

*Extent: Annual Program for approved projects. In the upcoming year, the focus area will be Orchard Heights Neighborhood.*

*Estimated Cost: \$4.275 Million*

*Fiscal Year(s): 2016-17 through 2021-22 (Annual Program)*





**SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016**

**DISTRIBUTION and SUBSTATION (continued):**

**Substations Switching Stations**

*Location: Parsons and Barlow Substation*

*Character: Addition of switching equipment to allow for switching load on the looped transmission system for increased reliability.*

*Extent: Installation of substation infrastructure and equipment.*

*Estimated Cost: \$3.17 Million*

*Fiscal Year(s): 2017-18 through 2018-19*

**Recloser Upgrades**

*Location: Barlow and Parsons Substation*

*Character: Upgrading recloser equipment already located at the substation to allow for reconfiguration of distribution systems and maintaining reliable service in the event of a fault.*

*Extent: This is a one-time occurrence of equipment upgrade.*

*Estimated Cost: \$166,000*

*Fiscal Year(s): 2016-17 through 2017-18*

**High Pressure Sodium to LED System Replacements**

*Location: Throughout the entire utility service area*

*Character: LED yard light replacements.*

*Extent: Removal of any old high pressure sodium yard lights and replace with LED lights.*

*Estimated Cost: \$215,000*

*Fiscal Year(s): 2016-17*

**Pole Replacements (NEW)**

*Location: Throughout the entire utility service area*

*Character: Pole replacements*

*Extent: Replace poles that did not meet the standards set forth in the pole inspection program.*

*Estimated Cost: \$650,000*

*Fiscal Year(s): 2016-17*

**Removal and transfer of Hickory Meadows distribution line to Randolph Street**

*Location: Hickory Meadows*

*Character: Removal of overhead line within Hickory Meadows and installation of new underground line.*

*Extent: Removal of current existing distribution line that runs north/south in Hickory Meadows and installation of new underground line feeding from Fulton Street down Randolph Street.*

*Estimated Cost: \$100,000*

*Fiscal Year(s): 2016-17*



## SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016

### TRANSMISSION and SUBSTATION:

#### Substation Transformer Upgrades

Location: *Parsons and Cass Road Substation*

Character: *Installation of higher rated transformers as recommended by Engineers.*

Extent: *Upgrade existing substation transformers for system reliability due to load growth.*

Estimated Cost: *\$3 Million*

Fiscal Year(s): *2020-21 through 2021-22*

#### Transmission Line Reconductor

Location: *Existing transmission corridor along LaFranier Rd/Barlow St, Grove St/Hannah St/Steele St/Eighth St, Wadworth St/Locust St/Twelfth St, and Cass St.*

Character: *Overhead transmission facilities to include new poles and wire.*

Extent: *Reconductor/rebuilding of existing 69kV transmission lines with new lines and higher poles to bring circuits to current day standards.*

Estimated Cost: *\$3.8 Million*

Fiscal Year(s): *2016-17 through 2018-19*

### FACILITIES AND OTHER:

#### Hastings Service Center Facility Improvements

Location: *1131 Hastings Street*

Character: *Site improvements to existing facility*

Extent: *Completion of perimeter fence and sidewalk along with tree lawn improvement and parking lot improvements at the service center the following year.*

Estimated Cost: *\$380,000*

Fiscal Year(s): *2016-17 through 2017-18*

### JOINT TCL&P, CITY OF TRAVERSE CITY, and DDA PROJECTS:

#### Automated Metering Infrastructure (AMI)

Location: *Entire service area*

Character: *Electric meters and software to accommodate advanced metering capabilities.*

Extent: *A program to provide for the migration to electronic advanced meters that will assist utility customers on energy use, reliability and provide reads to utility billing. Will also drive future system engineering planning as well as provide metrics on completed items to show project results.*

Estimated Cost: *\$5 Million*

Fiscal Year(s): *2016-17 through 2017-18*





TRAVERSE CITY  
LIGHT & POWER

SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016

JOINT TCL&P, CITY OF TRAVERSE CITY, and DDA PROJECTS  
(continued):

Disaster Recovery Center

Location: *DPS Building (former bowling alley) located on Woodmere Avenue*

Character: *Renovation of the DPS building to be used as a disaster recovery center.*

Extent: *Renovation of building and installation of equipment for backup operations center for TCL&P along with other city departments.*

Estimated Cost: *\$500,000*

Fiscal Year(s): *2016-17 through 2017-18*

Corridor Upgrade Improvements—OH to UG Improvements around major intersections

Location: *Various Locations*

Character: *Conversion of overhead facilities to underground or rerouting facilities, if possible.*

Extent: *This will entail various major intersections throughout the City. It is tentatively planned for conversion to take place at Eighth Street corridor in 2018-19 and Fourteenth Street corridor in 2021-22.*

Estimated Cost: *Unknown at this time*

Fiscal Year(s): *2018-19 and 2021-22*

Upgraded Front St Lighting Circuits and Receptacles

Location: *Downtown North and South along Front Street*

Character: *Upgrade circuit to accommodate increased load*

Extent: *New conduit, wire, and addition of event outlets*

Estimated Cost: *\$1.34 Million*

Fiscal Year(s): *2019-20*

Riverwalk Lighting (N Side of Boardman River)

Location: *North Side of Boardman River from Front Street to Dam*

Character: *New Boardman Riverwalk lighting*

Extent: *To be determined in coordination with City & Uptown Development.*

Estimated Cost: *Unknown at this time*

Fiscal Year(s): *2016-17*

Cass & Lake Street Streetscapes

Location: *Cass Street from Eighth Street to Cass Street bridge and along Lake Street from Cass Street to Eighth Street*

Character: *New street lighting installations in conjunction with planned streetscape.*

Extent: *To be determined in coordination with DDA.*

Estimated Cost: *Unknown at this time*

Fiscal Year(s): *2016-17*





# TRAVERSE CITY LIGHT & POWER

## SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016

### JOINT TCL&P, CITY OF TRAVERSE CITY, and DDA PROJECTS (continued):

#### Cass Street Bridge (NEW)

Location: Cass Street Bridge

Character: New street lighting installations

Extent: To be determined in coordination with DDA

Estimated Cost: Unknown at this time

Fiscal Year(s): 2016-17

#### East Front Street Streetscapes

Location: Along East Front Street from Boardman Avenue to Grandview Parkway

Character: New street lighting installations in conjunction with planned streetscape.

Extent: To be determined in coordination with DDA.

Estimated Cost: Unknown at this time

Fiscal Year(s): 2018-19

#### Garland Street Streetscapes

Location: Garland Street in the Warehouse District

Character: New street lighting installation in conjunction with planned streetscape.

Extent: To be determined in coordination with DDA.

Estimated Cost: Unknown at this time

Fiscal Year(s): 2016-17

#### Park Street Streetscapes

Location: From State Street to Grandview Parkway

Character: New street lighting installation and underground existing overhead services.

Extent: Removal of existing fixtures/poles/wires in coordination with DDA project.

Estimated Cost: Unknown at this time

Fiscal Year(s): 2016-17

#### Farmers Market Lighting (NEW)

Location: Farmers Market

Character: New lighting installation in the farmers market.

Extent: To be determined in coordination with the DDA.

Estimated Cost: Unknown at this time

Fiscal Year(s): 2018-19



## SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016

### JOINT TCL&P, CITY OF TRAVERSE CITY, and DDA PROJECTS (continued):

#### Parking Lot D Lighting (NEW)

*Location: Parking lot D*

*Character: New lighting installation in parking lot D*

*Extent: To be determined in coordination with the DDA.*

*Estimated Cost: Unknown at this time*

*Fiscal Year(s): 2016-17*

#### Boardman Lake Trail Lighting (NEW)

*Location: Trail around Boardman Lake*

*Character: New lighting installation*

*Extent: Lighting along the Boardman Lake Trail*

*Estimated Cost: Unknown at this time*

*Fiscal Year(s): Unknown at this time*

#### West Front Street Lighting (NEW)

*Location: From Division Street to Elmwood Avenue*

*Character: New street lighting installation*

*Extent: Installation of lighting along the roadway*

*Estimated Cost: Unknown at this time*

*Fiscal Year(s): 2016-17*

#### Division Street Lighting

*Location: Division Street from Fourteenth Street to the Parkway*

*Character: New street lighting installation and underground existing overhead services.*

*Extent: Removal of existing fixtures/poles/wires in coordination with City project.*

*Estimated Cost: Unknown at this time*

*Fiscal Year(s): 2016-17*

#### Eighth Street Decorative Lighting (Woodmere to Lake Avenue)

*Location: Eighth Street from Woodmere Avenue to Lake Avenue*

*Character: New street lighting installation and underground existing overhead services.*

*Extent: Removal of existing fixtures/poles/wires in coordination with City project.*

*Estimated Cost: Unknown at this time*

*Fiscal Year(s): 2018-19*





## SIX YEAR CAPITAL IMPROVEMENTS PLAN – 2016

### FIBER FUND PROJECTS

#### Small Cell and Distributed Antenna System (DAS) (NEW)

Location: *Downtown Service Area*

Character: *System to provide wireless carrier network access over TCL&P's fiber.*

Extent: *Install a new carrier agnostic system to provide wireless carriers access points in the downtown areas. A single system will reduce and eliminate the need for each carrier to build their own system, which will improve city aesthetics.*

Estimated Cost: *Unknown at this time*

Fiscal Year(s): *2017-18*

#### Fiber to the Premises (NEW)

Location: *Entire Service Area*

Character: *Telecommunications services to the Traverse City area.*

Extent: *A network that is built off of TCL&P's existing fiber network to run fiber to the premise. This network would be capable of pushing high speed internet services, television, and other telecommunication service offerings to customers.*

Estimated Cost: *\$20 Million*

Fiscal Year(s): *2018-19 through 2021-22*

DRAFT

**TRAVERSE CITY LIGHT & POWER  
SIX YEAR CAPITAL IMPROVEMENTS 2016**

*This worksheet is for illustration purposes only and is supplemental information to the Plan*

		Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	Project Totals	Project Notes	2015 Funding Level	Change
<b>Generation:</b>											
NO CHANGE	Community Solar Garden Phase II (project to be similar as the 2013 joint TCL&P/Cherryland project - No cost of land included - NMC College automotive technology building located within the Airport Industrial Park)	\$ 80,000	---	---	---	---	---	\$ 80,000		\$ 250,000	\$ (170,000)
<b>Total Generation</b>		<b>80,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>80,000</b>		<b>250,000</b>	<b>(170,000)</b>
<b>Distribution and Substation:</b>											
NO CHANGE	Line Improvements, Extensions, and New Services	950,000	1,000,000	1,050,000	1,100,000	1,150,000	1,200,000	6,450,000	Annual Program - In-house construction	6,300,000	150,000
NO CHANGE	Distribution Circuit Rebuild (completion of BW-31 in 2016-17)	675,000	900,000	825,000	925,000	875,000	775,000	4,975,000	Annual Program - In-house construction	6,450,000	(1,475,000)
NO CHANGE	OH to URG Conversion Projects (residential projects to enhance system reliability - 2016-17 includes Orchard Heights)	650,000	675,000	700,000	725,000	750,000	775,000	4,275,000	Annual Program to move inaccessible circuits to road	3,600,000	675,000
NO CHANGE	Substations Switching Stations (Parsons/Barlow)	---	1,560,000	1,610,000	---	---	---	3,170,000		1,050,000	2,120,000
NO CHANGE	Recloser Upgrades	90,000	76,000	---	---	---	---	166,000	Barlow & Parsons Substation	175,000	(9,000)
NO CHANGE	High Pressure Sodium to LED System Replacements	215,000	---	---	---	---	---	215,000		-	215,000
NEW	Pole Replacements	650,000	---	---	---	---	---	650,000		-	650,000
NO CHANGE	Removal and transfer of Hickory Meadows distribution line to Randolph Street	100,000	---	---	---	---	---	100,000	North/South Line removal	370,000	(270,000)
<b>Total Distribution and Substation</b>		<b>3,330,000</b>	<b>4,211,000</b>	<b>4,185,000</b>	<b>2,750,000</b>	<b>2,775,000</b>	<b>2,750,000</b>	<b>20,001,000</b>		<b>17,945,000</b>	<b>2,056,000</b>
<b>Transmission and Substation:</b>											
NO CHANGE	Substation Transformer Upgrades	---	---	---	---	1,500,000	1,500,000	3,000,000		3,000,000	-
NO CHANGE	Transmission Line Reconstruction (LaFranier Road in 2016-17)	1,836,500	1,375,000	615,000	---	---	---	3,826,500		4,365,000	(538,500)
<b>Total Transmission and Substation</b>		<b>1,836,500</b>	<b>1,375,000</b>	<b>615,000</b>	<b>0</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>6,826,500</b>		<b>7,365,000</b>	<b>(538,500)</b>
<b>Facilities and Other:</b>											
NO CHANGE	Hastings Service Center Facility Improvements	---	100,000	---	---	---	---	100,000		1,000,000	(900,000)
<b>Total Facilities and Other</b>		<b>0</b>	<b>100,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100,000</b>		<b>1,000,000</b>	<b>(900,000)</b>
<b>Joint TCL&amp;P, City of Traverse City, and DDA Projects</b>											
NO CHANGE	Automated Metering Infrastructure	2,500,000	2,500,000	---	---	---	---	5,000,000	In coordination with the City	2,250,000	2,750,000
NO CHANGE	Upgraded Front Street Lighting Circuits and Receptacles	---	---	---	1,340,000	---	---	1,340,000		1,300,000	40,000
<b>Total Joint TCL&amp;P, City of Traverse City and DDA Projects</b>		<b>2,500,000</b>	<b>2,500,000</b>	<b>0</b>	<b>1,340,000</b>	<b>0</b>	<b>0</b>	<b>6,340,000</b>		<b>3,550,000</b>	<b>2,790,000</b>
<b>TOTAL</b>		<b>\$ 7,746,500</b>	<b>\$ 8,186,000</b>	<b>\$ 4,800,000</b>	<b>\$ 4,090,000</b>	<b>\$ 4,275,000</b>	<b>\$ 4,250,000</b>	<b>\$ 33,347,500</b>		<b>\$ 30,110,000</b>	<b>\$ 3,237,500</b>



**TRAVERSE CITY LIGHT & POWER  
SIX YEAR CAPITAL IMPROVEMENTS 2016**

*This worksheet is for illustration purposes only and is supplemental information to the Plan*


		Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	Project Totals	Project Notes	2015 Funding Level	Change
<b>FIBER FUND PROJECTS:</b>											
NEW	Fiber to the Premises	---	---	---	---	---	---	-		-	-
<b>Total Fiber Fund Projects</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -

*(Actual fiscal year that a project may be undertaken may differ from the fiscal year depicted in this spreadsheet. Dollar amounts are estimates for information only and are not a part of the official Plan.)*



**TRAVERSE CITY  
LIGHT & POWER**

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**To:** Light & Power Board  
**From:** Tim Arends, Executive Director   
**Date:** February 2, 2016  
**Subject:** Presentation of the Fiber Fund 2016-17 Budget

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Enclosed is the Fiber Fund and related cash flow for the fiscal year end June 30, 2017.

**BUDGET**

This year the budget is relatively status quo to the last year's presented budget with a few exceptions.

Under operating revenue, overall fiber revenues increase because of a new connection(s) with Munson Medical Center and for the AMI system.

Under operating expenses, most line items increase by zero or small amounts except for the salaries and wages and fringe benefits, software and hardware, and professional expenses. Salaries and wages increased relating to staff changing the fiber technician allocation to one hundred percent to the Fiber Fund. Software and hardware increased relating to a planned purchase of mapping software to be used for the Fiber System. Professional expenses increased to accommodate the cost of a fiber to the premises business plan.

**CASH FLOW**

The projected six year cash flow represents inflationary increases in fiber revenue and related expenses, except for one time expenses such as the professional services related to the fiber business plan. Additionally, staff has included planned repayments to the Electric Fund for the initial investments into the Fiber Fund.



Traverse City Light & Power  
Fiber Optics Fund  
2016-17 Budgeted Revenues and Expenses

	FY 13/14 Actual	FY 14/15 Actual	FY 15/16 Budgeted	FY 15/16 Projected	FY 16/17 Recommended
<b><u>Operating revenues:</u></b>					
Charges for services	\$ 229,120	\$ 255,752	\$ 288,200	\$ 281,076	\$ 326,316
<b><u>Operating expenses:</u></b>					
Salaries and wages	-	49,165	31,000	56,000	72,072
Fringe benefits	-	35,167	21,000	37,000	57,632
Office & operation supplies	-	331	12,000	1,000	1,000
Supervision & maintenance	66,987	-	-	-	-
Overhead & Underground lines	19,522	4,085	-	-	-
Customer installations	2,187	-	-	-	-
Termination boxes	23,834	-	-	-	-
WIFI operations and maintenance	-	23,225	37,400	33,500	32,000
Hardware and software	-	-	-	5,400	4,000
Professional services	-	-	4,200	4,000	54,200
Legal services	-	-	2,200	2,500	2,700
City fee	11,464	12,788	14,435	14,100	16,400
Professional development	-	-	2,100	2,300	2,500
Insurance	791	1,161	1,200	1,300	1,400
Repair and maintenance	-	-	-	5,500	5,000
Vehicle rental	-	12,461	4,500	12,500	13,000
Miscellaneous	4,750	-	-	-	-
Depreciation expense	90,109	116,606	138,400	143,000	145,000
<b>C Total operating expenses</b>	<b>219,644</b>	<b>254,989</b>	<b>268,435</b>	<b>318,100</b>	<b>406,904</b>
<b>Operating income (loss)</b>	<b>9,476</b>	<b>763</b>	<b>19,765</b>	<b>(37,024)</b>	<b>(80,588)</b>
<b><u>Non-operating revenues:</u></b>					
Reimbursements	21,628	296,122	30,400	38,400	38,400
Interest revenue	167	4	500	500	500
<b>Total non operating revenues</b>	<b>21,795</b>	<b>296,126</b>	<b>30,900</b>	<b>38,900</b>	<b>38,900</b>
<b><u>Other financing transfers:</u></b>					
Transfer out	-	-	-	(175,000)	(175,000)
<b>Net income (loss)</b>	<b>\$ 31,271</b>	<b>\$ 296,889</b>	<b>\$ 50,665</b>	<b>\$ (173,124)</b>	<b>\$ (216,688)</b>

## Traverse City Light & Power - Fiber Fund


Fiscal Year:	Actual 2014/15	Projected 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2018/19	Estimate 2019/20
<b>Receipts</b>							
Charges for services - Fiber	\$ 254,684	\$ 281,076	\$ 326,316	\$ 332,842	\$ 339,499	\$ 346,289	\$ 353,215
Non Operating Revenues - Reimbursements	21,122	38,400	38,400	39,168	39,951	40,750	41,565
Non Operating Revenues - Other	4	500	500	500	500	500	500
Timing of receivables	-	275,000	-	-	-	-	-
Interfund cash deficit loan	19,441	(19,441)	-	-	-	-	-
<b>Total Receipts</b>	<b>295,251</b>	<b>575,535</b>	<b>365,216</b>	<b>372,510</b>	<b>379,951</b>	<b>387,540</b>	<b>395,280</b>
<b>Payments</b>							
Fiber Expense	88,442	141,600	229,904	183,502	187,172	190,916	194,734
WiFi Expense	23,225	33,500	32,000	32,640	33,293	33,959	34,638
Capital Investments	462,031	-	-	-	-	-	-
Timing of payables	-	43,000	-	-	-	-	-
Transfer to Electric Fund	-	175,000	175,000	175,000	150,000	150,000	150,000
<b>Total Payments</b>	<b>573,698</b>	<b>393,100</b>	<b>436,904</b>	<b>391,142</b>	<b>370,465</b>	<b>374,874</b>	<b>379,372</b>
<b>Cashflow Surplus/Deficit (-)</b>	<b>(278,447)</b>	<b>182,435</b>	<b>(71,688)</b>	<b>(18,632)</b>	<b>9,486</b>	<b>12,665</b>	<b>15,909</b>
<b>Opening Cash &amp; Investments Balance</b>	<b>\$ 278,447</b>	<b>\$ -</b>	<b>\$ 182,435</b>	<b>\$ 110,747</b>	<b>\$ 92,115</b>	<b>\$ 101,601</b>	<b>\$ 114,266</b>
<b>Closing Cash &amp; Investments Balance</b>	<b>\$ -</b>	<b>\$ 182,435</b>	<b>\$ 110,747</b>	<b>\$ 92,115</b>	<b>\$ 101,601</b>	<b>\$ 114,266</b>	<b>\$ 130,175</b>

Notes: Assumes 2.0% inflationary increase after 2016/17.  
Change from 2016/17 to 2017/18 under fiber expense is fiber to the premise business plan and 100% allocation of employee.



**TRAVERSE CITY  
LIGHT & POWER**

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**To:** Light & Power Board  
**From:** Tim Arends, Executive Director   
**Date:** February 4, 2016  
**Subject:** Customer Satisfaction Survey & City Project Funding Survey

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As indicated in the Strategic Plan, a customer survey was to be administered to determine both customer satisfaction along with gathering customer feedback on City project funding requests for use in developing a policy. Since mid-November, staff and the Customer Survey Ad Hoc Committee have been working with Cathlyn Sommerfield, CS Research & Consulting on a survey instrument that would capture this information. It was determined through discussions that two surveys, one for overall customer satisfaction and a smaller one for City project funding was needed in order to focus on each issue independently, and to ensure that the appropriate respondent was answering the questions.

The Ad Hoc Committee and staff are now bringing before you the attached survey instruments for the full Board's review and feedback.

# Traverse City Light and Power: Customer Survey 2012

Version: 2/01/2016

## Introduction

2. Overall, how satisfied are you with the services provided by Traverse City Light & Power?

- Very satisfied
- Satisfied
- Undecided
- Dissatisfied
- Very dissatisfied

3. Are you a residential or commercial customer? (Do Not Read)

- Residential
- Commercial

Now I will be asking you to evaluate a number of characteristics of service offered by Traverse City Light and Power. First you will indicate how important the characteristic is to you, and then you will rate Traverse City Light and Power on that characteristic.

### Providing electricity at low cost.

4. How *important* would you say this characteristic is to you?

- Very Important
- Somewhat Important
- Undecided
- Somewhat Unimportant
- Very Unimportant

5. How would you *rate* Traverse City Light and Power on providing electricity at low cost?

- Excellent
- Above Average
- Average
- Below Average
- Poor
- Don't Know (do not read)

### Providing reliable electric service with fewer outages and surges.

6. How *important* would you say this characteristic is to you?

- Very Important
- Somewhat Important
- Undecided
- Somewhat Unimportant
- Very Unimportant



7. How would you *rate* Traverse City Light and Power on providing reliable electric service?

- Excellent*
- Above Average*
- Average*
- Below Average*
- Poor*
- Don't Know (do not read)*

**Responsiveness to restoring power after outages.**

8. How *important* would you say this characteristic is to you?

- Very Important*
- Somewhat Important*
- Undecided*
- Somewhat Unimportant*
- Very Unimportant*

9. How would you *rate* Traverse City Light and Power on responsiveness to restoring power after outages?

- Excellent*
- Above Average*
- Average*
- Below Average*
- Poor*
- Don't Know (do not read)*

10. If you have had contact with a Traverse City Light and Power customer service representative within the past year, either on the phone, in person or by email, how satisfied were you with the outcome of this most recent contact?

- Very Satisfied (go to Q13)*
- Satisfied (go to Q13)*
- Undecided (go to Q13)*
- Dissatisfied (go to Q11)*
- Very Dissatisfied (go to Q11)*
- Did not have contact (go to Q13)*

11. What is the primary reason you were dissatisfied? (choose only one)

- Length of time between request and response*
- Problem/request was not resolved at all*
- Unfriendly or discourteous employees*
- Other (Do Not Read)*

Please specify:

---

12. Would you like to be contacted by a Traverse City Light and Power representative?

- Yes*
- No*

Name and number:



13. If you have had contact with a Traverse City Light and Power field representative (meter reader, lineman, or tree trimmer) within the past year, how satisfied were you with the outcome of this most recent contact?
- Very Satisfied (go to Q17)
  - Satisfied (go to Q17)
  - Undecided (go to Q17)
  - Dissatisfied (go to Q14)
  - Very Dissatisfied (go to Q14)
  - Did not have contact (go to Q17)

14. With what type of field representative did you have contact?
- Meter reader
  - Lineman
  - Tree Trimmer
  - Other (Do Not Read)
- Other, please specify.

15. What is the primary reason you were dissatisfied? (choose only one)
- Length of time between request and response
  - Problem/request not resolved at all
  - Unfriendly or discourteous employees
  - Other (Do Not Read)
- Please specify.

16. Would you like to be contacted by a Traverse City Light and Power representative?
- Yes
  - No
- Name and number:

18. What is your primary source of local news? (choose only one)
- Newspaper
  - Television
  - Radio
  - Facebook
  - Twitter
  - Internet
  - Blogs
  - Other (Do Not Read)
- Please specify:

19. Which local newspapers or magazines do you read on a regular basis? (Choose all that apply; Do Not Read) **Follow up question:** Do you read the paper version or electronic version most often?
- |                            | Paper                    | Electronic               | Both equally             |
|----------------------------|--------------------------|--------------------------|--------------------------|
| Traverse City Record Eagle | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Northern Express           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- |  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| Traverse City Business News/The Ticker | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| GT Women's Magazine                    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| NM3 (Northern MI Men's Magazine)       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Traverse (the Magazine)                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| GT Insider                             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other (Do Not Read)                    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Please specify:

Do Not Read

- |  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| Do not read local newspaper or magazine at all | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--|--------------------------|--------------------------|--------------------------|

**20. Which television channel do you watch most often? (Choose only one; Do Not Read)**

- |  |                                     |
|--|-------------------------------------|
| <input type="checkbox"/>                   | 7&4 (NBC)                           |
| <input type="checkbox"/>                   | 9&10 (CBS)                          |
| <input type="checkbox"/>                   | 29&8 (ABC)                          |
| <input type="checkbox"/>                   | FOX 33                              |
| <input type="checkbox"/> Go to 24.Go to 24 | Do not watch TV regularly or at all |
| <input type="checkbox"/>                   | Other or Cable TV (specify channel) |

Other or Specific cable channel:

**21. Do you watch either of the following local public access television stations? (Choose all that apply)**

- UpNorth TV - Channel 97 (analog) or 992 (digital)
- Government TV - Channel 191(analog) or 994 (digital)
- Do not watch local public access television stations (Go to Q23)
- Other (Do Not Read)

Please specify

**22. What type of programming do you watch on Public Access television? (Choose all that apply)**

- TCL&P Board Meetings
- City Commission Meetings
- County Commission Meetings
- Other (Do Not Read)

Please specify

**23. What time of day do you usually watch television? (Choose only one)**

- Morning
- Afternoon
- Evening
- Throughout the day
- Weekends only
- Other (Do Not Read)

Please specify.

**24. Which radio station do you listen to most often? (Choose only one; Do Not Read)**

- |                          |                        |
|--------------------------|------------------------|
| <input type="checkbox"/> | WTCM -AM (580)         |
| <input type="checkbox"/> | WTCM-FM (103.5)        |
| <input type="checkbox"/> | WCCW-FM (Oldies 107.5) |
| <input type="checkbox"/> | WCCW-AM (1310-Sports)  |



**27.** What is the best way for Traverse City Light and Power to successfully communicate information to you? (choose only one)

- Television
- Record Eagle (newspaper)
- Bill Insert
- Direct Mail, separate from your bill
- Radio
- E-Mail
- Outdoor advertising/Billboard
- Facebook
- Twitter
- E-newsletter
- Website
- Other (Do Not Read)

Please specify:

**28.** Which social media sources do you use? (Choose all that apply)

- Facebook
- Twitter
- You Tube
- Blogs
- Don't Use (Go to Q30)
- Other (Do Not Read)

Please specify:

**29.** Of those, which do you use most often?

- Facebook
- Twitter
- You Tube
- Blogs
- Other (Do Not Read)

If other, please specify:

**29a.** Do you use a smartphone?

- Yes
- No

If yes move to next question

**29b.** Would you be interested in utilizing a TCL&P Smart Phone Application that would provide pertinent utility information?

- Yes
- No

**29c.** Would you be interested in receiving a text message notifying you of an outage, phone scam or inclement weather?

- Yes



*No*

**29d. How do you pay your utility bill?**

- Online*
- Mail*
- Telephone*
- In person*
- Automatic Bank Drafting*

**30. How often do you read Traverse City Light and Power bill inserts?**

- Always (go to Q32)*
- Often (go to Q32)*
- Occasionally (go to Q32)*
- Never (go to Q31)*

**31. What is the primary reason you do not read bill inserts? (Do Not Read)**

- Not interested*
- No time*
- Not useful*
- Other*

*Please specify:*

**32. Have you visited the Traverse City Light and Power website?**

- Yes*
- No (Go to Q35)*

**33. How often do you visit the website? (Choose only one)**

- Daily*
- Weekly*
- Monthly*
- Other (Do Not Read)*

*Please specify:*

**34. For what purpose do you visit the TCL&P website? (Choose all that apply)**

- Bill Payment Information*
- Board Information*
- News Updates*
- Electric Rate Information*
  
- Information on Energy Efficiency Rebates*
- Utility Outage Map*
- Other (Do Not Read)*

*Please specify:*



**35.** How would you rate your interest level in each of the following types of information that could be made available on the website?

	<i>Very Interested</i>	<i>Somewhat interested</i>	<i>Not at all interested</i>
Information on Traverse City Light and Power Projects	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information on Rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Online reporting of service problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information on Energy News and Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information on Renewable Energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information on ways to improve energy efficiency in my home or business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Is there any *other* type of information you would like to have included on the website? Please specify. (IF NONE, LEAVE BLANK)

**36.** How interested would you be in Traverse City Light and Power offering the following additional services?

	<i>Very Interested</i>	<i>Somewhat Interested</i>	<i>Not At All Interested</i>
Cable Television	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High Speed Internet Service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Are there other services you would like Traverse City Light and Power to offer? Please specify. (IF NONE, LEAVE BLANK)

**36a.** How interested would you be in TCL&P upgrading its metering infrastructure to assist customers with real-time monitoring of energy consumption?

- Very Interested*
- Somewhat Interested*
- Not at all Interested*
- Uncertain/Don't Know (Do Not Read)*

**39.** Traverse City Light & Power is a municipal electric utility, governed by the citizens of Traverse City. Do you think it is a benefit to Traverse City and its citizens to have a municipal electric utility provider?

- Yes*
- No*
- Uncertain/Don't Know (Do Not Read)*

**40.** Are you aware that Light and Power: (RESIDENTIAL CUSTOMERS ONLY)

	<i>Yes</i>	<i>No</i>
Has an energy efficiency program which provides rebates for recycling older refrigerators?	<input type="checkbox"/>	<input type="checkbox"/>
Has incentives for buying energy efficient appliances and lighting?	<input type="checkbox"/>	<input type="checkbox"/>

**41.** Are you aware that Light and Power has an energy efficiency program which provides financial incentives for installing more energy efficient lighting and equipment at your business? (COMMERCIAL CUSTOMERS ONLY)

- Yes*
- No*

**42.** Have you participated in the energy efficiency program? (BOTH RESIDENTIAL AND COMMERCIAL CUSTOMERS)

- Yes*
- No (Go to Q44)*

- 42a.** For energy efficiency upgrades would you be interested in the utility offering On-Bill financing for those types of improvements.
- Yes*
  - No*
  - Would like more information*

- 43.** How long have you been a Traverse City Light and Power customer?
- Less than 1 year*
  - 1-5 years*
  - 6-10 years*
  - Over 10 years*

- 44.** To ensure that we talk to a representative sample of Light and Power customers, can you tell me what year you were born? \_\_\_\_\_

**That completes our survey.  
Thank you very much for giving us your feedback. Have a great day!**

Do not ask:

- 45.** General comments that the respondent had. If "none" leave blank.

- 46.** Gender (Do Not Ask)
- Male*
  - Female*

- 47.** Area Code
- 231*
  - 616*
  - 517*
  - 248*
  - 989*
  - 810*
  - 313*
  - 586*
  - All other area codes*

- 48.** Phone number (no area code -- 7 digit only, no dash)

\_\_\_\_\_

- 49.** Customer ID

\_\_\_\_\_

- 50.** Location

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**51.**

**Customer Type**

- P (Residential)*
- C (Commercial)*

**52.**

**Call Date**

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**53.**

**Caller Initials**

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Revised 2.3.2016

## Traverse City Light & Power

### Customer Survey - City General Fund Project Funding

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**Background:** TCLP is required by the City Charter to pay the City a fee of 5% of its gross revenue each fiscal year. You could think of this as a sales tax of 5% on your monthly electric bill. In 2015 the City had a \$15 million budget of which approximately \$1.8 million came from TCLP pursuant to this Charter requirement.

In the recent past the City has requested and TCLP has agreed to pay amounts in addition to the City 5% annual fee in order to fund certain other non-utility City projects such as the West Front Street Project in the amount of \$527,000 and the Clinch Park Redevelopment Project in the amount of \$1,000,000. Other such projects are being planned for which the City might request TCLP funding. This additional funding is not required by the City Charter, and is therefore at the discretion of the TCLP Board of Directors.

**Purpose:** The TCLP Board of Directors and Staff have commissioned this survey to solicit feedback from our rate payers as to the level of additional funding, if any, the utility might provide to the City in the future. The results of the survey will be used to assist the Board as it develops a City Project Funding Policy to ensure fair, consistent and transparent consideration of future City funding requests.

#### Questions:

1. On average, what percent of your monthly budget is your utility bill?
  - a. 0-15%
  - b. 16-30%
  - c. 31-45%
  - d. 46% or above
  
2. Do you support TCL&P spending rate payer dollars to fund non-utility related City general fund projects knowing it will contribute to a rate increase in the future?
  - a. Yes
  - b. No
  - c. Uncertain/Depends on the dollar amount (Do not read)\*\*\* if answer is no, survey stops
  
3. Knowing TCL&P has a \$35 million budget in 2015, what amount would you support going towards a non-utility related City general fund project(s)?
  - a. \$250,000 - \$500,000
  - b. \$500,000 - \$750,000
  - c. \$750,000 - \$1 million
  - d. \$1 million and above
  - e. Uncertain (Do not read)

4. Would you support a change in the City Charter that would set a maximum percentage of gross revenue to be transferred to the City specifically for general fund projects (above the required 5%)?

- a. Yes
- b. No
- c. Uncertain (Do not read)

\*\*\* if no, STOP

5. What additional percentage would be acceptable? (Amounts based on the current 2015 FY)

- a. 1%, currently \$375,000
- b. 2%, currently \$750,000
- c. 3%, currently \$1,100,000
- d. Uncertain (Do not read)

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