

LAKELAND ELECTRIC
ANNUAL REPORT

'19



CELEBRATING 115 YEARS



Department of Electric Utilities
An Enterprise Fund of the City of Lakeland, Florida

LAKELAND ELECTRIC SERVICE AREA

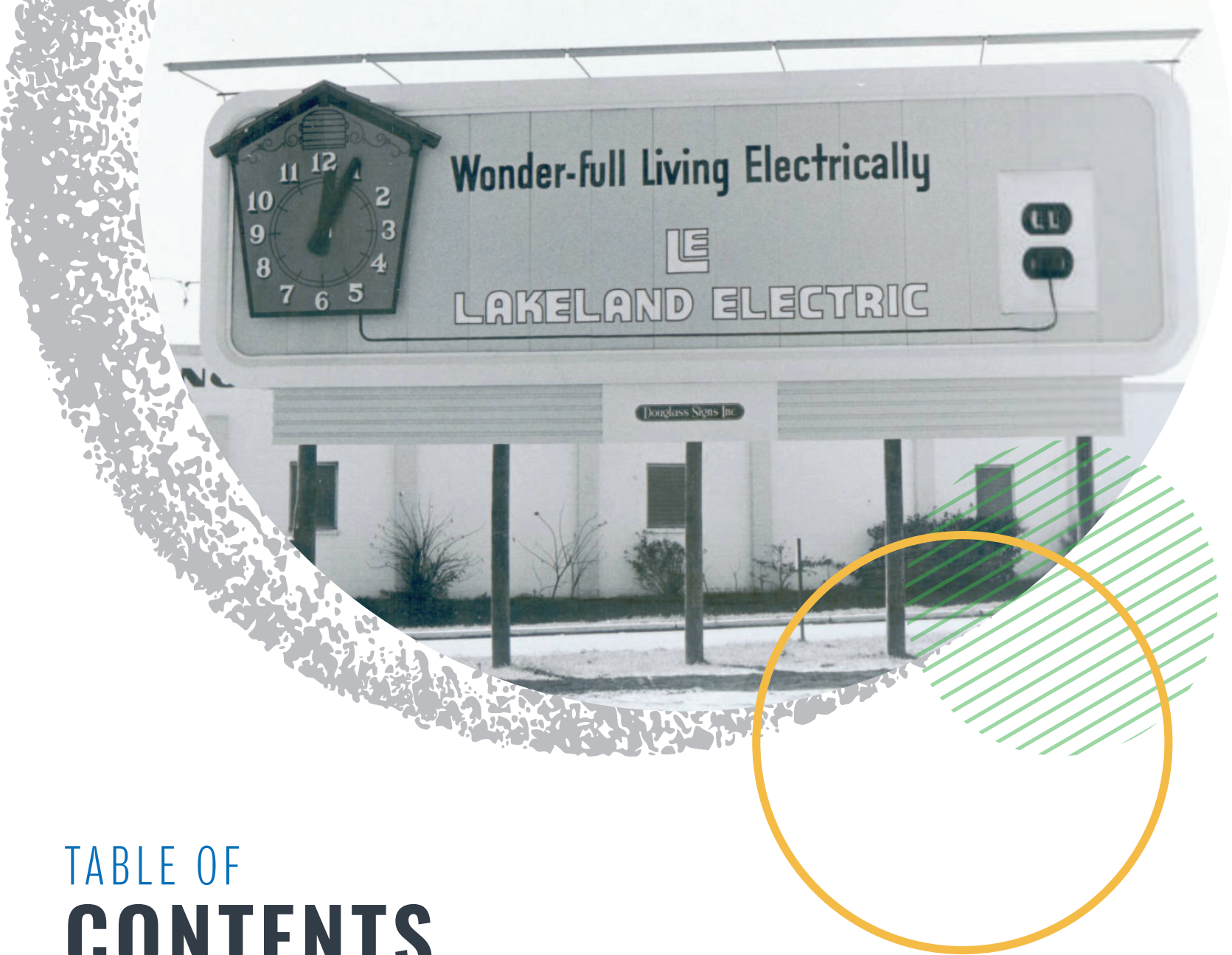
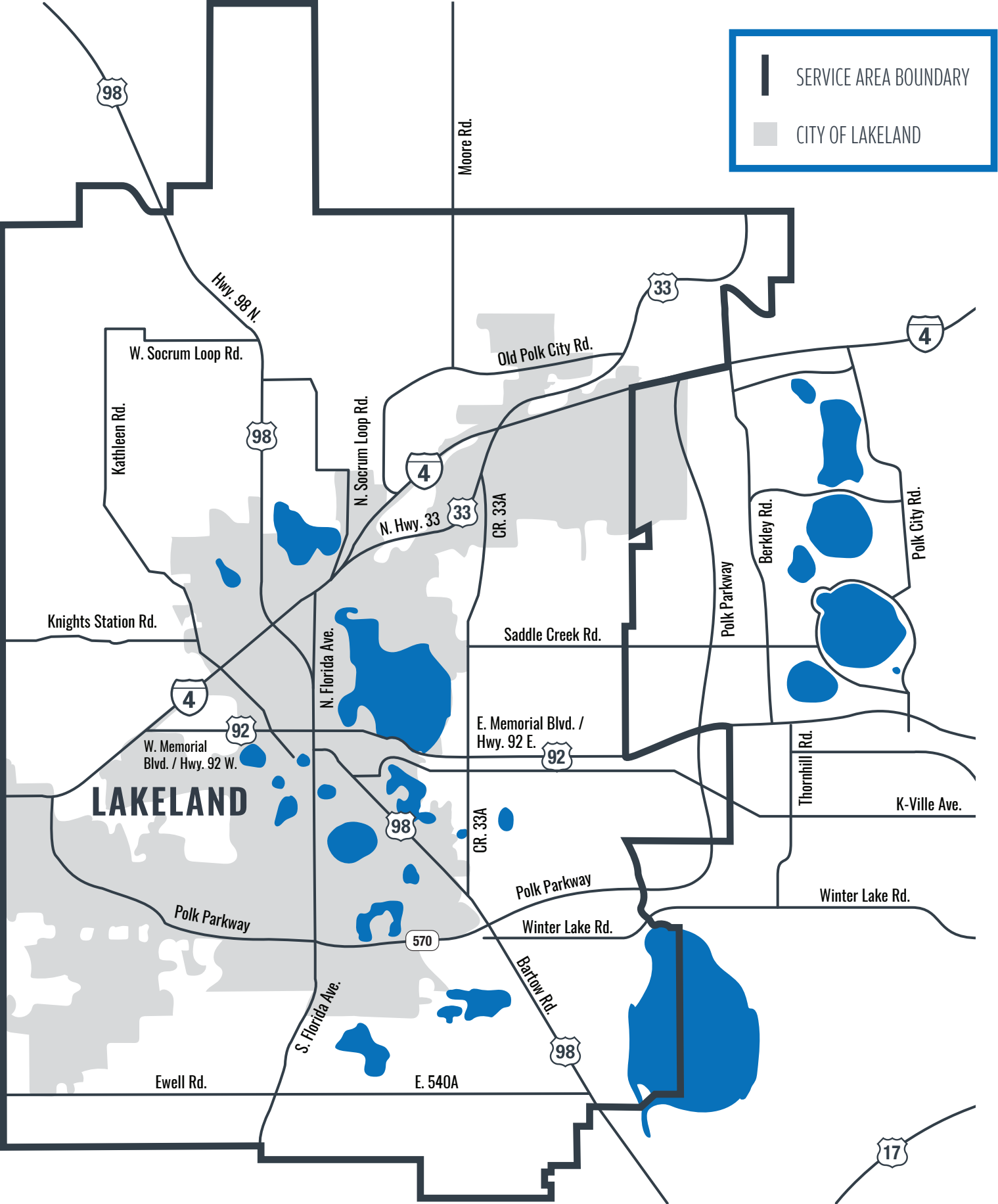


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OUR VISION

Powering our community with excellence in energy solutions.

OUR MISSION

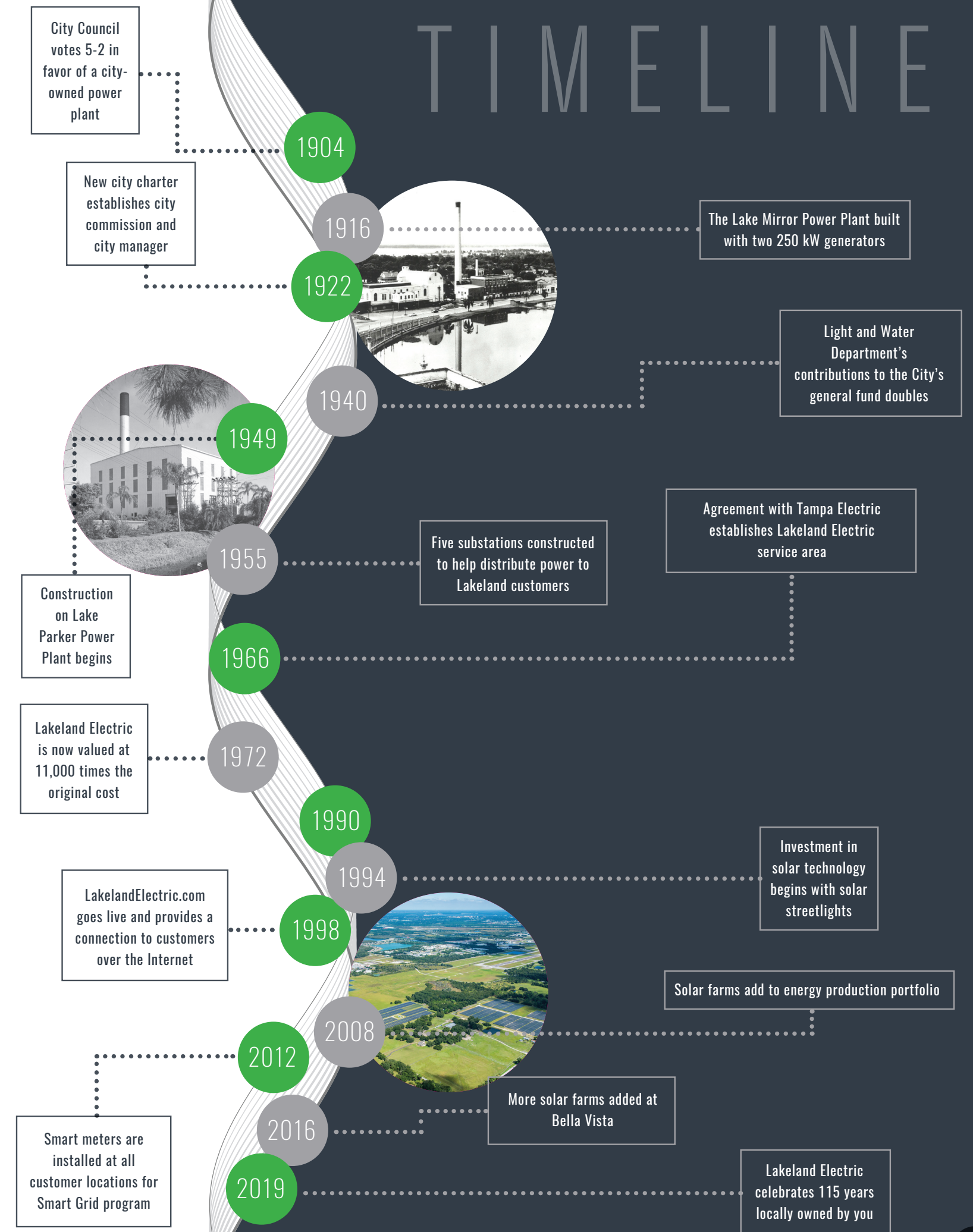
Committed to providing safe, reliable, competitive, and environmentally responsible energy solutions to enrich our customers' quality of life.

CORE VALUES

Appreciation, customer focus, safety, diversity, accountability, initiative, teamwork, integrity, open communication.

LAKELAND ELECTRIC 1904-2019

TIMELINE



LAKELAND ELECTRIC EXECUTIVE TEAM

JOEL IVY



General Manager

MIKE BECKHAM



Assistant General Manager - Production

JOEY CURRY



Assistant General Manager - Energy Delivery

GINA JACOBI



Assistant General Manager - Fiscal Operations

DAVID KUS



Assistant General Manager - Customer Service

JOEL IVY
General Manager



This Annual Report summarizes and recaps our fiscal year ending September 30, 2019. With the global pandemic caused by COVID-19, the fiscal year 2020 is bringing enormous challenges and changes. At the publication date of this report, we are working through many issues the world has not faced in the modern age. Our focus is on ensuring safety for our employees, providing dependable power for our customers, and helping those who are having financial challenges during this crisis. Next year's report will undoubtedly reflect our response to COVID-19, but rest assured we remain committed to providing you Affordable, Dependable, and Sustainable electric service no matter the challenges we face.

Dear Customer,

For over a century, Lakeland Electric has powered our community through sunny days, cold fronts, and damaging hurricanes. We are proud to be your public power utility, and we are committed to the City of Lakeland's mission to create a community that works together to achieve an exceptional quality of life.

As a public power utility, we are one of over 2,000 cities in the United States providing power to over 49 million people, proving that the benefits of public power are recognized beyond our own community. For our customers, the benefits are many. Lakeland Electric customers benefit by having some of the lowest electric rates in the state of Florida. They have easy access to those who oversee the utility and can make their voices heard. We hear and learn from you at Utility Committee meetings, advisory panels, customer forums, and community events throughout the year. This local focus distinguishes us from some other utilities and brings the benefits back to you.

This year we invited our customers to not only celebrate our 115th Anniversary through community events and promotions but to learn more about their locally owned utility. They learned about our history, our advancements, and the passion of our employees that drives our success. We also invited local artist, Bump Galletta, to create a special 115th Anniversary work of art, which you will see in this report.

This year we were pleased to earn an improved credit rating from Fitch Ratings. Our financial stability continues to improve as part of our long-term plan. Our customer service team moved its Customer Information System to a cloud-based platform yielding significant annual savings. Construction continued on our new peaking unit at McIntosh power plant, and our Energy Delivery team developed their own tool to improve damage assessment following a major storm. I am proud of our employee's ability to adapt, willingness to step-up when called upon, and determination to overcome challenges. They take pride in their work because our customers are their family, friends, and neighbors.

We are proud to recognize our 115th Anniversary as your public power utility, and we are looking forward to serving you far into the future. Lakeland Electric's future is bright, with a solid strategy, strong credit rating, dependable power production, and advanced technology to drive continued efficiency and reliability. We're here for the long-term.

Yours Sincerely,

Joel Ivy
General Manager

CITY OF LAKELAND
COMMISSION

WILLIAM "BILL" MUTZ



Mayor

STEPHANIE MADDEN



Commissioner At-Large

BILL READ



Commissioner - Northeast District

CHAD MCLEOD



Commissioner At-Large

SARA MCCARLEY



Commissioner - Southwest District

PHILLIP WALKER



Commissioner - Northwest District

SCOTT FRANKLIN



Commissioner - Southeast District

CITY OF LAKELAND
MANAGEMENT

TONY DELGADO



City Manager

SHAWN SHERROUSE



Deputy City Manager

EMILY COLÓN



Assistant City Manager

UTILITY COMMITTEE
CITIZENS

ASHLEY TROUTMAN



DARYL JOHNSON



JACK ENGLISH



JOE CHILDS



MIKE MCGEE



TERRY DENNIS



GINA JACOBI
Assistant General Manager
Fiscal Operations



March 2020

To the Ratepayers of Lakeland Electric:

We are pleased to present you with our Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), of Lakeland Electric for the fiscal year ended September 30, 2019. The following pages provide a summary of your electric utility's major initiatives, statistical data, and financial condition.

The financial information presented here is summarized and does not substitute for the Comprehensive Annual Financial Report (CAFR). The CAFR details Lakeland Electric's financial position and operating activities for each fiscal year, in conformity with Generally Accepted Accounting Principles (GAAP). This PAFR, by its summary nature, is not intended to conform to GAAP and associated reporting standards set forth by applicable governing bodies. Both the budget and CAFR have received awards for outstanding financial reporting from the GFOA.

We hope this report will give you a better understanding of Lakeland Electric and its financial condition. We welcome your comments and suggestions.

You may find other information regarding Lakeland Electric, including this Annual Report (PAFR), annual budget and CAFR, on the City of Lakeland's website: www.lakelandgov.net

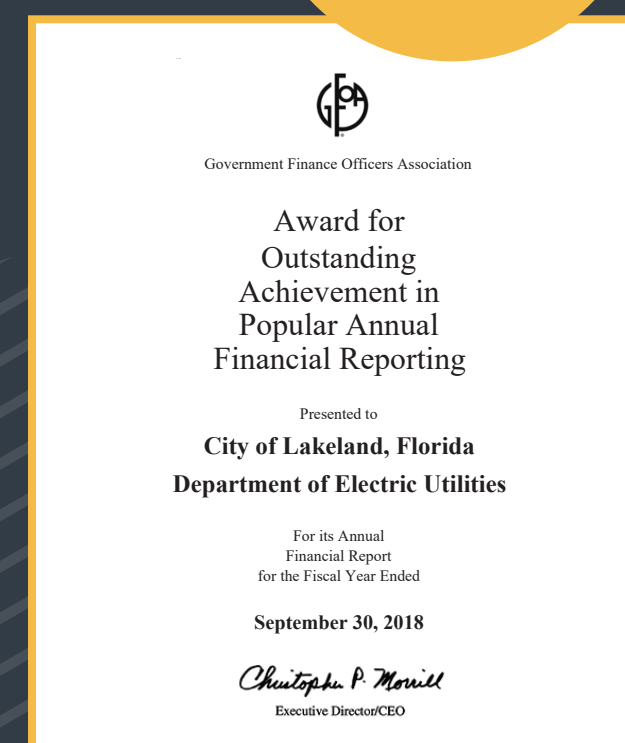
Respectfully submitted,

Gina Jacobi, MBA, CGFM
Assistant General Manager - Fiscal Operations

BY THE NUMBERS

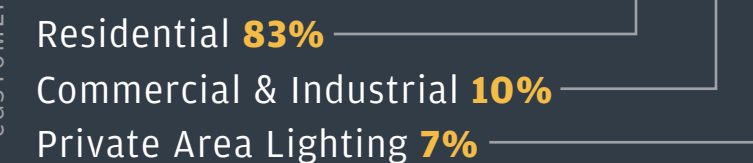
483
Employees

3.1 BIL
Retail kWh
Sold

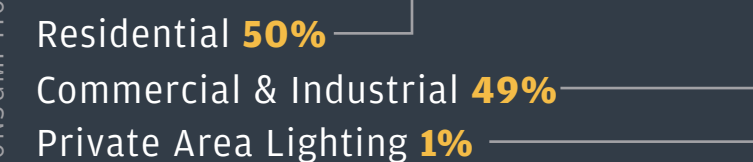


CUSTOMERS: **131,793**

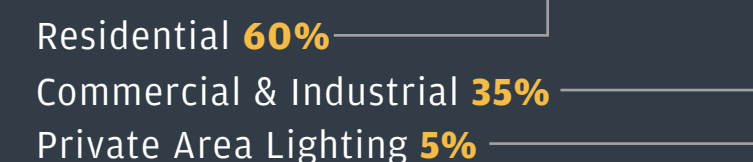
CUSTOMERS



CONSUMPTION



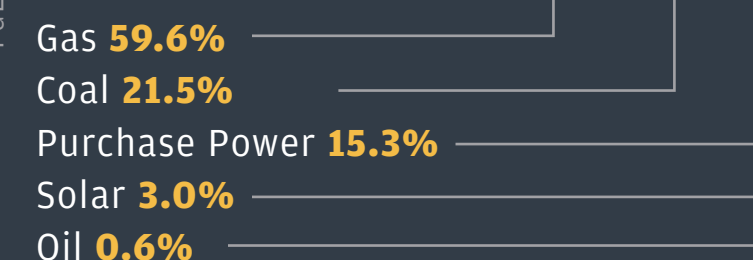
OPERATING REVENUE: **\$319.1 MIL**



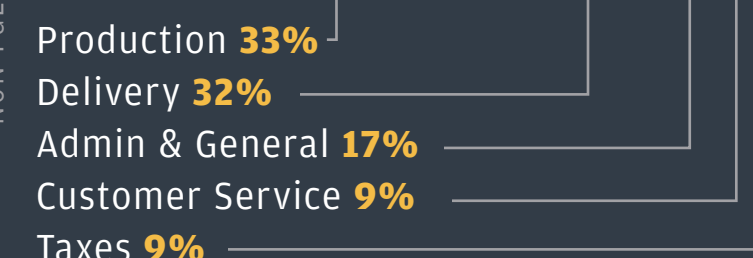
OPERATING EXPENSES: **\$209.4 MIL**



FUEL



NON-FUEL



LOCALLY OWNED BY YOU

We are always actively working in our community to improve the lives of the people around us and contribute to the traditions that make Lakeland a great place to live. Because Lakeland Electric is locally owned, our employees are your friends and neighbors who work, live, and play here. Since we do not have outside shareholders, Lakeland Electric pays a dividend to the City of Lakeland, which contributes to vital services, as well as parks, roadways, recreational amenities, and community organizations that enhance our quality of life.



As a public power utility, our customers are also our owners. The City of Lakeland Commission provides oversight to the utility. Having local control benefits customers because the decision-makers are local and accessible, ensuring you are our top priority.

LOCAL ACCOUNTABILITY

COMMUNITY GIVING

Lakeland Electric gives back to the community through S.T.E.A.M. scholarship for high school seniors, grants for non-profit organizations, supporting community events, and more. This year we saw a 37% increase in customer donations to our Project Care fund. The program, run in partnership with Catholic Charities of Central Florida, offers customers a chance to help low-income seniors and disabled members of our community pay their utility bills.

... FOR
115 YEARS

37%
increase in
customer donations
to Project Care

As one of Florida’s oldest electric utilities, we have seen many changes. We have grown and evolved with the city we love to serve. We have learned to plan for long-term community needs and to direct resources accordingly. We pledge to stay focused on the future and to continue providing the high level of service on which you have come to depend.

ADVANCED TECHNOLOGY

Lakeland Electric’s technology continues to be ahead of the curve, with a fully deployed smart grid that helps drive high reliability, better customer tools, automated billing, and better insight and control. Our smart control system is a marvel of high-tech information that drives outage monitoring, dispatch, response times, and crew safety. It is run by skilled employees who know our community and have both field experience and extensive training.

This year we launched the Damage Assessment and Restoration Tool Set. This tool was developed by our team and helps us make informed decisions quickly and captures better information during storm recovery. Staying on the leading edge of technological expertise, combined with solid financial footing, will lead Lakeland Electric into our next 115 years and sustain us as we grow and serve you even better.



AFFORDABLE RATES

Our rates are consistently among the lowest in the state. We are proud to offer excellent service at a great value. Our customer service regularly earns top quartile rankings in the Annual National Customer Service Benchmarking survey that compares utilities across the country. This year we earned top-quartile rankings in over 100 measures.



MONEY- SAVING SOLUTIONS

We are always looking for ways to be financially responsible while maintaining high standards. This year we moved some of our customer service operations to a cloud-based solution. This move allows us to continue providing excellent service while significantly reducing costs year over year.



DEPENDABLE POWER

Our diverse power production fleet gives us flexibility and dependability to meet customer’s needs. Throughout the year, we focus on storm hardening efforts and infrastructure investments to prepare our grid for major storm events and provide high power reliability to our customers. When outages do occur, our employees are ready to respond quickly because they live and work here. As a public power utility, we have access to a national network for mutual aid assistance during storm recovery, and we are ready to assist other communities when called upon.

OUTAGE NOTIFICATION ALERTS

Our new outage notification alerts let customers know when there is a power outage, their estimated restoration time, and keeps them informed with status updates by phone, text, or email. The new feature gives customers peace of mind when trouble strikes.



SUSTAINABLE FOR THE FUTURE

Sustaining our services begins with being financially solid, with a consistent trend of lowering debt and increasing credit ratings. We are committed to making good decisions and smart investments. With our excellent mix of residential, commercial, and industrial revenue, Lakeland Electric is financially stable and well-positioned for the future. While we are celebrating 115 years of affordable service to Lakeland, we're also planning for the long-term.

FITCH RATING INCREASED

In July 2019, Fitch Ratings upgraded Lakeland Electric revenue bonds' financial rating to AA from AA-. They cited improved financial performance and continued deleveraging while also commenting that Lakeland Electric's strong operating risk profile reflects its low-cost burden associated with owned-generating assets and access to the Florida Municipal Power Pool. Lakeland Electric is also rated as Aa3 by Moody's Investor Service and AA by Standard and Poors. Bond and credit ratings are a key indicator of the financial health of an organization.

A sustainable environmental future is also important. Lakeland Electric has a long history of energy conservation and environmental programs. Our investment in solar energy began in 1994 with the installation of solar-powered street lights and grew to the five solar farms we have today. We have worked hard to lower our carbon emissions and provide multiple incentives for customers to be more energy efficient through rates, rebates, free home energy audits, loans, and online tools.



SOLAR CALCULATOR

This year, Lakeland Electric added a solar calculator to its website for customers interested in residential solar power. The tool uses customer usage data to predict their bill with solar power and links to other resources. We know this is a big decision for customers, and we want to provide the facts they need so they can make the choices that fit their energy goals.

ELECTRIC VEHICLES

A new level two electric vehicle charging station was installed at City Hall this year for customers to charge quickly, easily, and affordably. Lakeland Electric expects to add more electric vehicle charging stations in 2020. Also, Lakeland Electric is working towards electrifying its light-duty vehicles by replacing gas-powered cars with electric vehicles as they come up in their replacement cycle.

RE-ENERGIZE LAKELAND



THE FUTURE IS EXCITING, AND WE ARE READY

Through investments in our employees and technology, we are creating better ways to meet the demands of our customer’s busy lives, encouraging environmentally responsible energy solutions, and providing reliable service.

MCINTOSH GAS TURBINE 2

Construction and testing of the 125-megawatt McIntosh Gas Turbine 2 continues. The natural gas turbine unit will serve as a peaking unit during times of day when energy demand is high. It can reach operating speed in just 30 minutes, unlike the 12 hours required for some other generating units, making us more flexible in responding to peak energy demand and better at integrating renewable energy in our portfolio. The unit is expected to be in operation by 2020.



MCINTOSH GAS TURBINE 2
125
megawatts

MODERNIZING OUR PORTFOLIO

We are focused on creating a utility that is optimized for the 21st century, and that includes modernizing our power generation portfolio. Our utility is making the changes necessary so we can continue making responsible decisions for our customers.

FINANCIAL OVERVIEW

Lakeland Electric’s operating income in Fiscal Year 2019 was up 19% from the previous year’s results, reflecting a 2.2% increase in load due to warmer weather and a 1.2% increase in customers. Also affecting the results was the impact of a 3% rate increase implemented in October 2018. This rate increase, approved by the City Commission, allows LE to keep up with inflation and provides the utility with the resources required to upgrade its aging infrastructure. In spite of the rate increase, Lakeland Electric’s rates still remained among the lowest in the state in FY2019. Total non-fuel operating expenses were also down due to reduced tree trimming and pension expenses.

For Fiscal Year 2019, the overall financial position of Lakeland Electric improved by \$36.2 million. Operating income was \$69.4 million compared to \$58.2 million in 2018.

KEY FINANCIAL TERMS

Operating Revenues:	Revenues that are earned as a result of the utility’s business operations
Operating Expenses:	Expenditures that the utility incurs as a result of business operations
Depreciation:	Allocation of the cost of an asset over its useful life
Investment Income:	Earnings on the utility’s investments
Transfer to Other Funds:	Yearly payment from the utility to city government based on MWh consumption
Asset:	Resources that the utility owns
Liability:	The utility’s legal debts or obligations
Net Position:	The difference between the utility’s assets and deferred outflows, and liabilities and deferred inflows
Deferred Inflows/Outflows:	Flow of resources into and out of the utility during the fiscal year that are related to future periods

CREDIT RATINGS

Fitch Rating
AA
STABLE

Moody’s
Investor Service
Aa3
STABLE

Standard & Poors
AA
STABLE

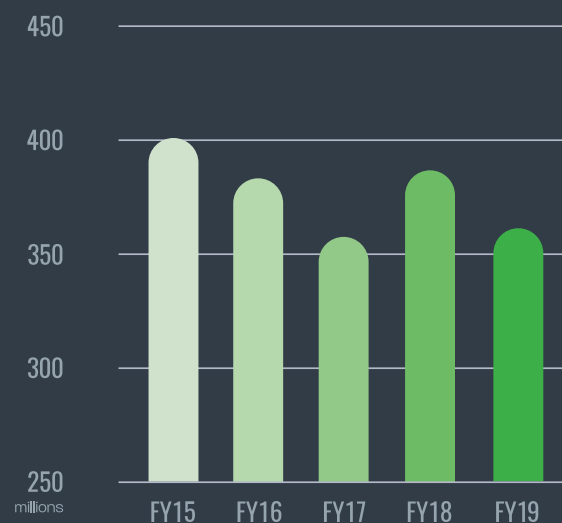
FINANCIAL ACTIVITY

Condensed Statement of Revenue, Expenses, and Changes in Net Position September 30, 2015 through 2019 - In thousands

OPERATING REVENUES	2019	(as restated) 2018	2017	2016	2015
Sale of energy - retail	\$302,655	\$299,669	\$291,555	\$283,302	\$296,955
Sale of energy & capacity sales - wholesale	7,168	7,952	4,643	5,789	5,521
Other electric operating revenue	9,321	7,421	7,286	7,462	7,027
	319,144	315,042	303,484	296,553	309,503
OPERATING EXPENSES					
Fuel and purchased power	120,231	127,076	120,510	109,466	124,528
Non fuel expenses	89,142	93,834	99,225	83,364	89,451
Depreciation (net)	40,407	35,945	38,267	41,784	40,734
	249,780	256,855	258,002	234,614	254,713
OPERATING INCOME	69,364	58,187	45,482	61,939	54,790
NON-OPERATING ACTIVITY					
Investment and other income	14,148	5,421	5,832	6,795	4,227
Interest and amortization	(16,062)	(15,881)	(17,660)	(18,385)	(18,786)
Transfer to other funds	(31,281)	(30,139)	(28,448)	(30,678)	(29,506)
	(33,195)	(40,599)	(40,276)	(42,268)	(44,065)
CHANGE IN NET POSITION	\$36,169	\$17,588	\$5,206	\$19,671	\$10,725

LONG TERM DEBT

At the end of 2019, the amount of debt outstanding totaled \$364.9 million. Approximately 26% of Lakeland Electric's debt is floating rate notes and the remainder is fixed rate.

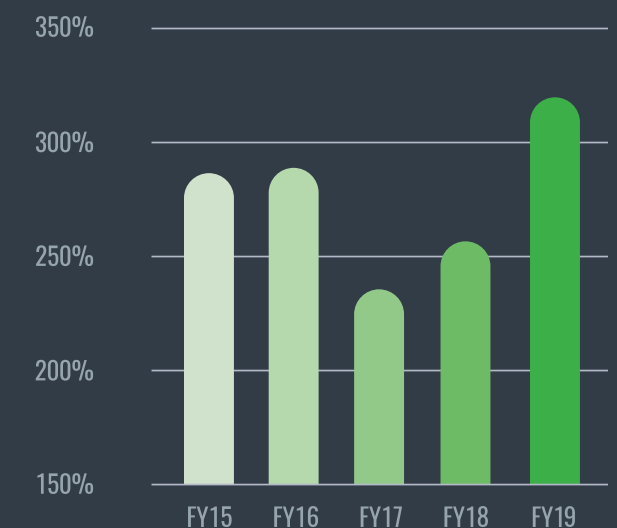


Condensed Statement of Net Position September 30, 2015 through 2019 - In thousands

ASSETS	2019	(as restated) 2018	2017	2016	2015
Current assets	\$170,291	\$156,794	\$167,326	\$165,568	\$150,372
Utility plant, net	681,818	665,301	649,740	656,497	666,644
Other noncurrent assets	120,016	127,891	90,183	96,469	86,158
	972,125	949,987	907,249	918,534	903,174
DEFERRED OUTFLOWS OF RESOURCES	73,942	57,696	70,391	92,266	70,498
LIABILITIES					
Current liabilities	55,771	50,508	56,990	49,636	42,995
Other noncurrent assets	543,970	558,553	552,941	560,461	550,149
	599,741	609,061	609,931	610,097	593,144
DEFERRED INFLOWS OF RESOURCES	92,957	81,421	68,097	67,045	66,541
NET POSITION					
Net investments in capital assets	248,056	209,309	222,755	211,864	203,263
Restricted - Capital Improvement	16,648	28,328	—	6,955	—
Unrestricted	88,665	79,563	76,857	114,839	110,724
NET POSITION	\$353,369	\$317,200	\$299,612	\$333,658	\$313,987

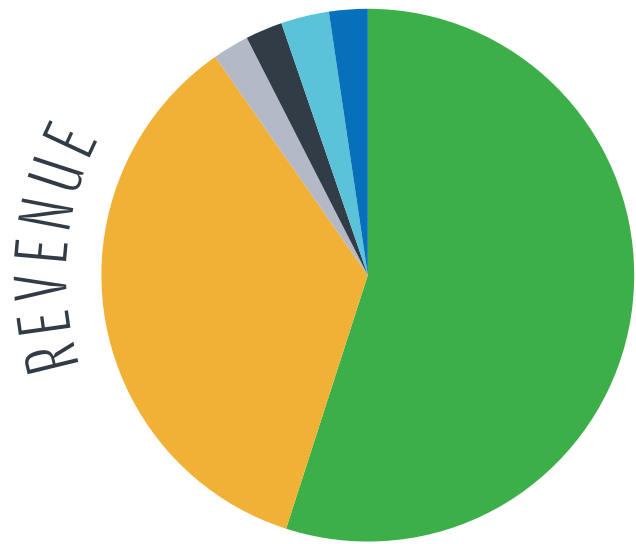
DEBT SERVICE COVERAGE

This ratio is a measurement that demonstrates an entity's ability to pay its annual debt service made up of both principal and interest. Lakeland Electric's bond covenant requires debt service coverage of at least 150%, but through a conservative approach to finances, an internal benchmark of 200% has been long established. Debt Service coverage exceeded the benchmark at 330% in 2019.



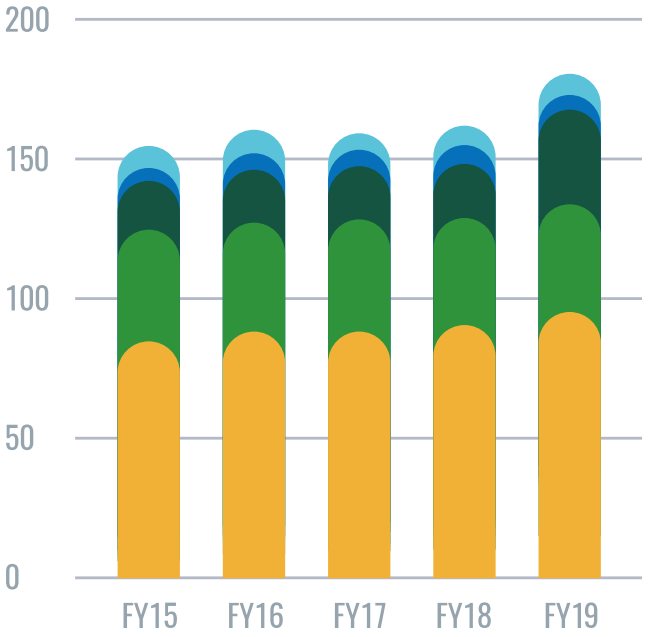
REVENUE
SOURCES

in millions

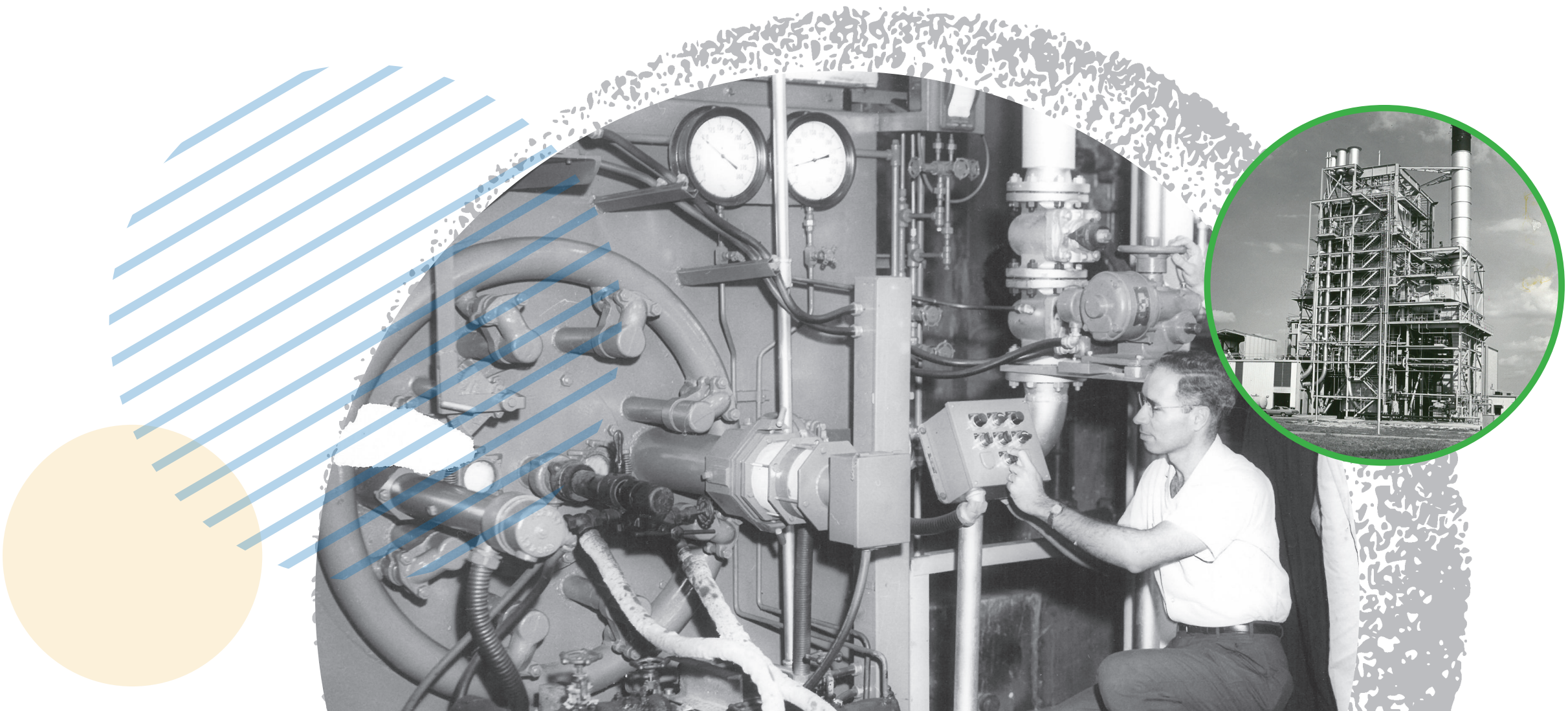


- Base **\$175.4 Mil**
- Fuel **\$112.7 Mil**
- Environmental **\$7.0 Mil**
- Wholesale **\$7.1 Mil**
- Other **\$9.3 Mil**
- Taxes **\$7.5 Mil**

OPERATING REVENUES

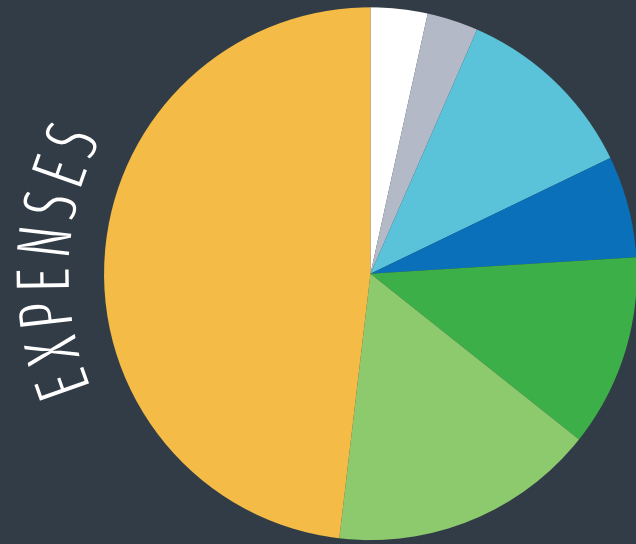


- Other
- Public Lighting
- Industrial
- Commercial
- Residential



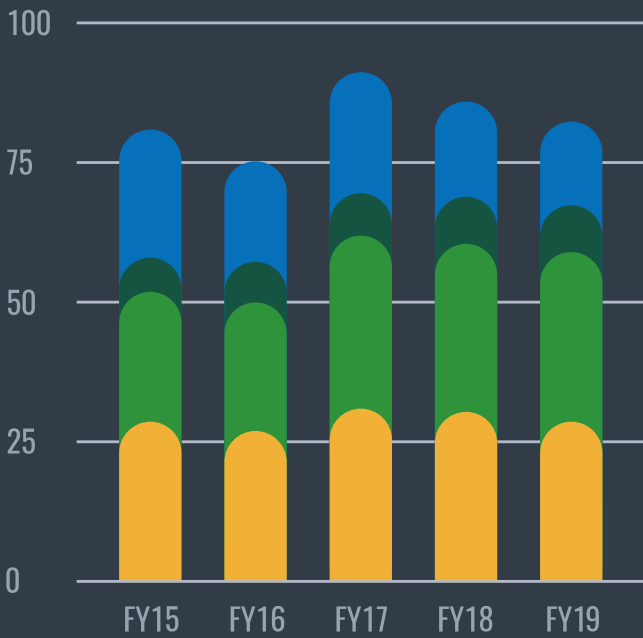
EXPENSE BREAKDOWN

in millions

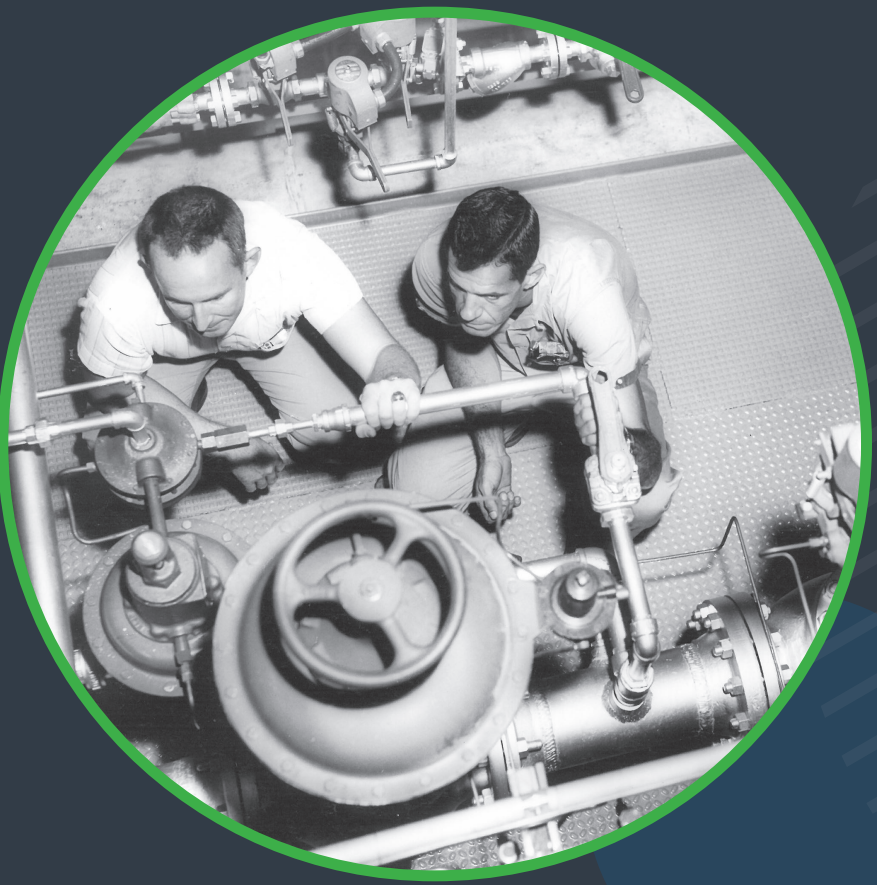


- Customer Service \$8.6 Mil
- Taxes \$7.8 Mil
- Delivery \$28.2 Mil
- Admin & General \$15.4 Mil
- Production \$29.1 Mil
- Depreciation \$40.4 Mil
- Fuel \$120.2 Mil

OPERATING EXPENSES



- Admin & General
- Customer Service
- Delivery
- Production



LOCALLY OWNED BY YOU!



Department of Electric Utilities, an enterprise fund of the City of Lakeland, Florida.

LAKELANDELECTRIC.COM