



**FINANCE COMMITTEE MEETING
 LANSING BOARD OF WATER & LIGHT BOARD OF COMMISSIONERS
 November 8, 2022 - 6:00 P.M.
 Board of Water & Light Headquarters – REO Town Depot
 1201 S. Washington Ave., Lansing, MI 48910**

Finance Committee: Dusty Horwitt, Committee Chairperson; Semone James, David Price, Sandra Zerkle; Alternates: Anthony Mullen, Tracy Thomas; Non-Voting: Douglas Jester, Larry Merrill, Maggie Sanders

BWL full meeting packets and public notices/agendas are located on the official web site at <https://www.lbwl.com/about-bwl/governance>.

AGENDA

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of September 13, 2022 **TAB 1**
- 2. September YTD Financial Summary & Capital Project Summary **TAB 2**
 - a. Steam Annuals Capital Project Exceedance - Resolution..... **TAB 2a**
- 3. Retirement Plan Committee (RPC) Update..... **TAB 3**
- 4. Internal Audit Status Update **INFORMATION ONLY**

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
September 13, 2022

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI on Tuesday, September 13, 2022.

Finance Committee Chairperson Dusty Horwitt called the meeting to order at 6:40 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Dusty Horwitt, Semone James, and Sandra Zerkle. Also, present: Commissioners Beth Graham, Tony Mullen, and Tracy Thomas; and Non-Voting Commissioners: Larry Merrill (Delta Township)

Absent: Commissioners David Price, Douglas Jester (East Lansing) and Maggie Sanders (Lansing Township)

The Corporate Secretary declared a quorum.

Public Comments

There were no public comments.

Approval of Minutes

Motion by Commissioner James, **Seconded** by Commissioner Zerkle, to approve the Finance Committee Meeting minutes of July 12, 2022.

Action: Motion Carried.

Baker Tilly External Audit Report and Resolution

Chief Financial Officer (CFO) Heather Shawa provided background information on the annual external audit report. Ms. Shawa introduced external auditor Aaron Worthman, Partner and CPA at Baker Tilly Virchow Krause, LLP. Mr. Worthman presented and highlighted the external audit report which included an audit overview, observations and recommendations, and required communications to governing body. Mr. Worthman reported that there were no deficiencies in internal controls and that the BWL and all three pension plans received unmodified audit opinions.

A Commissioner and external auditor question and answer discussion session followed.

Motion by Commissioner Semone James, **Seconded** by Commissioner Sandra Zerkle, to forward the Resolution for the FY2022 Audited Financial Statements to the full Board for consideration.

Action: Motion Carried.

July YTD Financial Summary

Chief Financial Officer (CFO) Heather Shawa gave a review of the July 2022 Year-to-date Financial Summary. CFO Shawa reported the following: revenues were budgeted at \$35.8 million and are at \$40.3 million; operating expenditures were budgeted at \$34.3 million and \$37.4 million was spent; Net Income was budgeted at \$1.5 million and it is now at \$3 million.

Rate Change Update

CFO Shawa reported that the rate change notice was published on September 2, 2022, and the rate schedules were sent to the City of Lansing on August 5, 2022 for the Public Hearing to be held on September 20, 2022. The resolution for Board approval of the rate changes will be considered at the Board Meeting on September 27, 2022. Recommended changes will not include a demand charge for residential customers but will include a time of use of rate. Residential customers will also receive a discounted rate for the first 2 CCF of water. CFO Shawa stated that customers will be provided information on how the time of use rate will be beneficial to them and the rate change transition.

Retirement Plan Committee (RPC) Update

Mr. Taylor gave the Retirement Plan Committee (RPC) update presentation. The investment activity updates included the DB and VEBA investment manager changes of replacing Loomis, Sayles & Company and Vanguard Russell 1000 Value with Northern Trust S&P 500 Index Fund, VEBA portfolio rebalancing due to AEW and Blackstone real asset holdings outperforming other asset classes, and Defined Contribution 401(a) and Deferred Compensation 457(b) Plans fund and fund share class changes. Administrative activity updates included no reimbursements being made from the VEBA Trust due to a shortfall in investment returns and communication will be made to participants regarding documentation needed for deductions and tax reporting.

Internal Audit Department Update

Internal Auditor Frank Macciocca presented the Internal Audit department update and requested approval of the FY2023 Internal Audit Plan.

Commissioner Zerkle asked whether the energy contract for the Battery cell venture would be audited and what part of shutting down the Erickson plant would be audited. Mr. Macciocca responded that the process and steps for the Battery cell venture and the shutdown of the plant would be audited in order to examine how to improve and streamline the entire process.

Motion by Commissioner James, **Seconded** by Commissioner Zerkle, to forward the Resolution for the FY2023 Internal Audit Plan to the full Board for consideration.

Action: Motion Carried.

Other

Motion by Chairperson Dusty Horwitt, **Seconded** by Commissioner Sandra Zerkle, to excuse Commissioners David Price, Douglas Jester and Maggie Sanders from tonight's meeting.

Action: Motion Carried

Adjourn

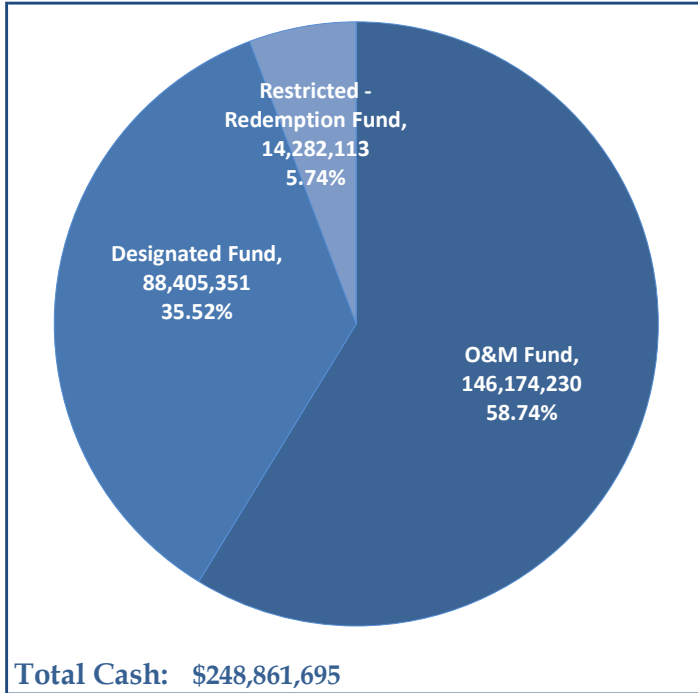
Chairperson Dusty Horwitt adjourned the meeting at 8:00 p.m.

Respectfully submitted
Dusty Horwitt, Chairperson
Finance Committee

Financial Summary - September 2022 - Q1 FY23



Cash



Income Statement YTD

| | Actual YTD | Budget YTD | Difference | % |
|------------------------------------|-----------------------|-----------------------|-------------------|-------------|
| Retail | \$ 89,394,215 | \$ 88,270,311 | 1,123,904 | 1% |
| Wholesale | \$ 42,414,618 | \$ 21,191,216 | 21,223,402 | 100% |
| Total Revenue | \$ 131,808,833 | \$ 109,461,527 | 22,347,305 | 20% |
| Operating Expenses | \$ 101,025,880 | \$ 89,948,502 | 11,077,378 | 12% |
| Non Operating Income/(Exp) | \$ (16,408,796) | \$ (12,577,390) | (3,831,407) | 30% |
| Net Income | \$ 14,374,157 | \$ 6,935,636 | 7,438,521 | 107% |
| FY 2023 Budgeted Net Income | | \$ 5,867,605 | | |

Budget Status YTD

| O&M Budget YTD (excluding fuel) | | | | |
|---------------------------------|---------------|---------------|----------------|------|
| FY 2023 Approved Budget | Actual YTD | Budget YTD | Difference | % |
| \$ 162,258,289 | \$ 33,691,320 | \$ 41,015,035 | \$ (7,323,715) | -18% |
| % of Approved Budget | 21% | 25% | | |
| Capital Budget YTD | | | | |
| FY 2023 Approved Budget | Actual YTD | Budget YTD | Difference | % |
| \$ 71,804,326 | \$ 20,124,459 | \$ 12,461,213 | \$ 7,663,246 | 61% |
| % of Approved Budget | 28% | 17% | | |

| | Month End | Target |
|-----------------------------|-----------|---------|
| Days Cash on Hand | 233 | 166 |
| Credit Rating (S&P/Moody's) | AA-/Aa3 | AA-/Aa3 |
| Debt Service Coverage | 2.41 | 2.00 |

Days Cash on Hand:

$$\frac{\text{O\&M Fund - Portion Restricted By Bond Covenants + Designated Funds}}{(\text{Budgeted Operating Expenses - Depreciation + RoE to City}) / 365}$$

Debt Service Coverage:

$$\frac{\text{Projected Net Income + Depreciation Expense + Interest Expense}}{\text{Debt Principal + Debt Interest}}$$

Return on Assets

| Actual YTD | Budget YTD | Target |
|------------|------------|--------|
| 1.95% | 1.20% | 4.01% |

Return on Assets = $\frac{\text{YTD Net Income} + \text{YTD Interest Expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

Financial Summary - September 2022 - Q1 FY23



Ratios

Operating Ratio

| | | | | | |
|-------------|----------------|---|------|-------------|------|
| O&M Expense | \$ 83,544,184 | = | 0.63 | APPA Median | 0.68 |
| Revenue | \$ 131,808,833 | | | | |

Measures the proportion of revenues to cover the operations and maintenance costs

Current Ratio

| | | | | | |
|---------------------|----------------|---|------|-------------|------|
| Current Assets | \$ 267,259,127 | = | 3.28 | APPA Median | 1.47 |
| Current Liabilities | \$ 81,497,009 | | | | |

Measures whether current assets are sufficient to pay current liabilities within one year

Debt to Total Assets

| | | | | | |
|-------------------------------|------------------|---|------|-------------|------|
| LT Debt + Accrued Liabilities | \$ 970,564,353 | = | 0.58 | APPA Median | 0.54 |
| Total Assets | \$ 1,671,832,338 | | | | |

Measures the ability to meet its current and long-term liabilities based on the availability of assets

Days Sales Outstanding

| | | | | | |
|-----------------------------|---------------|--------|----|------------|----|
| Average Accounts Receivable | \$ 43,217,895 | x 30 = | 28 | Prior Year | 33 |
| Sales | \$ 47,072,691 | | | | |

Measures the average number of days it takes to collect payment after a sale is made

Bad Debt

| | | | | | |
|-------------------------------|----------------|---|-------|------------|-------|
| 12 Month Rolling Bad Debt Exp | \$ 1,412,934 | = | 0.33% | Prior Year | 0.64% |
| 12 Month Rolling Revenue | \$ 426,149,741 | | | | |

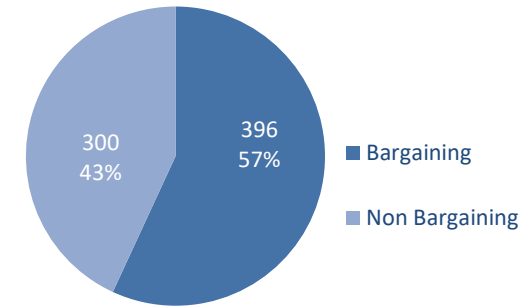
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

| | |
|--------------------|------|
| Employee Count YTD | 696 |
| Budget YTD | 755 |
| Over/(Under) # | (59) |

| | |
|----------------------|----|
| Full Time Equivalent | 23 |
| Temporary Employees | |



Payroll Data

| | Actual YTD | Budget YTD | Difference | % | Prior Year |
|-----------------------|---------------|---------------|----------------|-------|------------|
| Regular | \$ 17,919,886 | \$ 19,030,447 | \$ (1,110,561) | -5.8% | 53.97 |
| Overtime | \$ 1,939,685 | \$ 2,104,931 | \$ (165,246) | -7.9% | |
| Total | \$ 19,859,571 | \$ 21,135,378 | \$ (1,275,807) | -6.0% | |
| Total Hours Worked | 351,493 | | | | |
| Labor \$/Hours Worked | \$ 56.50 | | | | |

Benefits Cost

| (Including Retirees) | Actual YTD | Budget YTD | Difference |
|----------------------|--------------|--------------|----------------|
| Health | \$ 3,446,806 | \$ 4,836,180 | \$ (1,389,373) |
| Rx | \$ 655,071 | \$ 840,682 | \$ (185,611) |
| Dental | \$ 317,769 | \$ 350,844 | \$ (33,075) |
| Life | \$ 95,364 | \$ 142,251 | \$ (46,887) |
| FICA | \$ 1,445,102 | \$ 1,464,361 | \$ (19,258) |
| Other | \$ 257,529 | \$ 489,212 | \$ (231,683) |
| Total | \$ 6,217,642 | \$ 8,123,530 | \$ (1,905,887) |

Report as of September 30, 2022

| Projects Sorted by the Current Projection (Highest to lowest costs) | | FY 23 | | Total Project | | | | | | Project Period | |
|---|-----------------------------|---------------|---------------|------------------------|--------------------|----------------|------------|-----------------------------|-------------------------------|----------------|---------------------------|
| Project Name | Current Phase | Budget | Projected | Designed Budget Amount | Current Projection | \$ Variance | % Variance | Total Cost Incurred To-Date | % Total Cost Incurred To-Date | Start Date | Projected Completion Date |
| Top Ten Planned Projects | | | | | | | | | | | |
| Stanley Substation | Phase 1 - Feasibility | \$ 508,243 | \$ 1,122,978 | TBD | \$ 34,963,601 | \$ - | 0.00% | \$ 85,473 | 0.24% | 3/15/2021 | 12/9/2027 |
| Wise Substation - Rebuild | Phase 3 - Design | \$ 17,893,687 | \$ 10,436,229 | TBD | \$ 27,707,230 | \$ - | 0.00% | \$ 2,107,335 | 7.61% | 2/1/2020 | 6/30/2024 |
| Rundle Substation | Phase 2 - Funding Readiness | \$ - | \$ 52,990 | TBD | \$ 24,847,716 | \$ - | 0.00% | \$ 458,940 | 1.85% | 3/15/2021 | 10/25/2025 |
| South Reinforcement - Transmission Line | Phase 3 - Design | \$ 824,671 | \$ 1,595,627 | TBD | \$ 20,833,871 | \$ - | 0.00% | \$ 4,151,410 | 19.93% | 9/20/2017 | 11/29/2024 |
| LGR Substation | Phase 2 - Funding Readiness | \$ 1,791,866 | \$ 274,617 | TBD | \$ 18,207,957 | \$ - | 0.00% | \$ 173,849 | 0.95% | 3/15/2021 | 6/9/2026 |
| REO CTG | Phase 4 - Construction | \$ - | \$ 13,600,000 | \$ 14,600,000 | \$ 14,600,000 | \$ - | 0.00% | \$ 10,000,000 | 68.49% | 6/14/2022 | 5/30/2023 |
| REO GM Hot Water Service | Phase 1 - Feasibility | \$ 551,185 | \$ 147,506 | TBD | \$ 9,594,966 | \$ - | 0.00% | \$ 65,042 | 0.68% | 11/15/2021 | 2/28/2025 |
| ESRI | Phase 4 - Construction | \$ 200,000 | \$ 188,036 | \$ 6,520,417 | \$ 6,811,350 | \$ 290,933 | 4.46% | \$ 6,811,350 | 100.00% | 7/30/2015 | 12/31/2022 |
| Advanced Distribution Management System | Phase 4 - Construction | \$ - | \$ 142,512 | \$ 6,315,943 | \$ 6,140,040 | \$ (175,903) | -2.79% | \$ 6,010,728 | 97.89% | 8/12/2015 | 12/31/2022 |
| Dye-Cedar Dry Chemical Handling | Phase 4 - Construction | \$ 1,350,400 | \$ 1,175,999 | \$ 13,707,307 | \$ 5,831,097 | \$ (7,876,210) | -57.46% | \$ 1,102,174 | 18.90% | 8/17/2020 | 1/31/2023 |
| Total Top Ten Planned Projects | | \$ 23,120,052 | \$ 28,736,495 | \$ 169,537,828 | | | | \$ 30,966,300 | | | |
| Project Watch List - Projects \$150k and 10% over the Designed Budget Amount (Outside of Top Ten Planned Projects) | | | | | | | | | | | |
| Total Project Watch List | | \$ - | \$ - | \$ - | | | | \$ - | | | |
| Remaining Planned | | | | | | | | | | | |
| Electric | | \$ 6,461,493 | \$ 13,705,861 | | | | | | | | |
| Water | | \$ 2,156,762 | \$ 2,058,236 | | | | | | | | |
| Steam | | \$ - | \$ 105,602 | | | | | | | | |
| Chilled Water | | \$ - | \$ - | | | | | | | | |
| Common | | \$ 2,103,908 | \$ 2,379,624 | | | | | | | | |
| Total Remaining Planned | | \$ 10,722,163 | \$ 18,249,323 | | | | | | | | |
| Annual | | | | | | | | | | | |
| Electric | | \$ 21,270,000 | \$ 22,240,060 | | | \$ 970,060 | 4.56% | | | | |
| Water | | \$ 9,372,000 | \$ 10,508,120 | | | \$ 1,136,120 | 12.12% | | | | |
| Steam | | \$ 1,245,900 | \$ 2,680,360 | | | \$ 1,434,460 | 115.13% | | | | |
| Chilled Water | | \$ 51,500 | \$ 51,500 | | | \$ - | 0.00% | | | | |
| Common | | \$ 6,022,711 | \$ 5,784,884 | | | \$ (237,827) | -3.95% | | | | |
| Total Annual | | \$ 37,962,111 | \$ 41,264,924 | | | | | | | | |
| Grand Total | | \$ 71,804,326 | \$ 88,250,741 | | | | | | | | |

Note:

For projects that are in Stage Gates 1-3, the Expected Total Project Cost are high level estimates that can have a significant margin error.

For projects that are in Stage Gates 1-3, the Expected Completion Date is subject to change as organizational priorities or project plans are reassessed.

Variances highlighted in red are over the \$200k and 15% thresholds.

*This project is finalizing documentation to move into phase 5.

Proposed Resolution
Capital Project Exceedance: AS – Steam Annuals

WHEREAS, Lansing Board of Water & Light’s (BWL) Policy F1-13, entitled Capital Project Exceedance Approval, requires BWL Board of Commissioners approval for annual capital projects that are expected to exceed their previously approved aggregate total budget amount by both 15% and \$200,000 prior to completion of the project; and

WHEREAS, the previously approved budget for Capital Project AS – Steam Annuals was \$1,245,900; and

WHEREAS, the projected final total cost for Capital Project AS – Steam Annuals is \$2,680,360, should the project be completed; and

WHEREAS, BWL staff and management reviewed the project cost in detail, which includes but is not limited to the rationale and circumstances for the increased budget projection; and

WHEREAS, BWL staff and management recommends that the Capital Project AS – Steam Annuals projected spending be approved; and

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Project AS – Steam Annuals with a projected final total cost of \$2,680,360.

Motion by Commissioner _____, Seconded by Commissioner _____, to approve the Resolution for the Capital Project Exceedance: AS – Steam Annuals at a Board meeting held on November 15, 2022.



RETIREMENT PLAN COMMITTEE (RPC)

Investment Activity Updates for Finance Committee: 11/8/2022

Investment Activity Update

- Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration (VEBA)
 - DB & VEBA Investment Manager Changes
 - Loomis, Sayles & Company and Vanguard Russell 1000 Value will be replaced with Northern Trust S&P 500 Index Fund
 - In progress
- VEBA - Portfolio Rebalancing – Real Assets
 - The portfolio rebalancing will take additional time to complete due to the number of plans like ours that are also requesting liquidations. Each quarter, the fund reviews requests for liquidation, compares to available liquidity, and allocates available funds on a pro rata basis. For the first quarter, we were only granted 10% of our request.
 - There is no compliance concern as we have initiated the necessary actions to effectuate the rebalancing.

Investment Activity Update

- Defined Contribution 401(a) & Deferred Compensation 457(b) Plans
 - Fund Change – AMG Times Square Small Cap Growth will be replaced with Mass Mutual Select Small Cap Growth
 - In progress
- Fund Share Class Changes – MFS Value, Fidelity Contrafund, and Mainstay Winslow Large Cap Growth will change share classes
 - MFS will see 15 bps net savings – In progress
 - Fidelity will see 1 bps net savings – In progress
 - Mainstay will see 10 bps net savings – Unable to access new share class, continuing to monitor for an alternative



RETIREMENT PLAN COMMITTEE (RPC)

Administrative Activity Updates for Finance Committee: 11/8/2022

Administrative Activity Update

- DB & VEBA
 - The quarterly calculation for the period ended September 30, 2022, was made under the terms of the VEBA Administrative Services Agreement. Due to a shortfall in investment returns, no reimbursement will be made from the VEBA Trust.
 - Communications will be made to participants regarding documentation needs related to Medicare Part B premium reimbursement, cash in lieu payments, tax withholdings and other deductions as well as certain tax reporting changes in order to conform with requirements of the Internal Revenue Code Section 401(a) and our plan and trust documents. Letters are expected to be sent by November 7th.
- Defined Contribution & Deferred Compensation Plans
 - No significant new activity.

Glossary

- **DB** Defined Benefit Plan - The plan is a noncontributory single-employer defined benefit pension plan for employees of the BWL. The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan that were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan.
- **VEBA** Voluntary Employee Benefit Administration - The Post-Retirement Benefit Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL.
- **DC 401(a)** Defined Contribution Plan - The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997. The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time. For employees hired before January 1, 1997, the BWL is required to contribute 15.0% of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 9.5% of the employees' compensation. In addition, the BWL is required to contribute 3.0% of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5% of the employees' compensation for all nonbargaining employees. No participant contributions are required.
- **DC 457(b)** Deferred Compensation Plan - The Deferred Compensation Plan covers substantially all full-time employees. The BWL contributes \$1,000 on behalf of each participant as of the first pay period of each year. Additionally, the BWL will provide a 100% match for each participant's contributions annually, up to \$1,500.
- **ASA** Administrative Services Agreement – The administrative services agreement is an agreement between the BWL and the VEBA trust regarding the payment of VEBA plan benefits. The agreement calls for the BWL to handle the processing of benefit payments and allows for the reimbursement for payment from the VEBA trust if certain conditions are satisfied. These conditions include both funding status and investment performance measures.