



**FINANCE COMMITTEE MEETING via WEBEX  
LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS  
AGENDA**

**May 11, 2021**

**6:00 P.M. – 1201 S. Washington Ave., Lansing, MI 48910**

The BWL full meeting packet and public notice/agenda is located on the official web site at <https://www.lbwl.com/about-bwl/governance>.

Due to public safety concerns resulting from the COVID-19 Pandemic, this meeting will be conducted via WebEx Conferencing and all Board Members will participate virtually. Instructional options to be in attendance are as follows:

**1. Event address:**

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=ebc65b57b270f4406eb04c5dfd3387498>

**Event number:** 132 169 7679

**Event Password:** NqSimdxR332

**2. Audio conference:** United States Toll +1-408-418-9388


**Access code:** 132 169 7679

Call to Order

Roll Call

Public Comment

Public Comment (PC) can be made by choice of:

- Raising your hand by clicking on the hand icon button  in the **Participants** panel
- Submitting written comments to [mdenise.griffin@lbwl.com](mailto:mdenise.griffin@lbwl.com) (By the End of Public Comment)
- Submitting written comments to 1201 S. Washington Ave., Lansing, MI 48910

1.	Finance Committee Meeting Minutes of March 9, 2021.....	<b>TAB 1</b>
2.	March YTD Financial Summary .....	<b>TAB 2</b>
3.	Retirement Plan Committee (RPC) Updates	
	▪ Investment Activity Highlights.....	<b>INFO ONLY</b>
	a. Defined Contribution Plan and Trust 1 Investment Policy Statement.....	<b>TAB 3a</b>
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	c. 457 Plan and Trust Investment Policy Statement .....	<b>TAB 3c</b>
	d. Investment Policy Statements of the DC Plans-Resolution .....	<b>TAB 3d</b>
4.	FY22 Operating Budget and FY22-27 Forecast Presentation.....	<b>TAB 4</b>
	a. Fiscal Year 2022-2027 Budget and Forecast Resolution.....	<b>TAB 4a</b>
5.	Internal Audit Status Report .....	<b>TAB 5</b>

Other

## Adjourn

In compliance with the order from the Director of the Michigan Department of Health and Human Services and the order from the Ingham County Health Department, in an effort to protect the health and safety of the public, to mitigate the spread of COVID-19 and to provide essential protections to vulnerable Michiganders and this State's health care system and other critical infrastructure, it is crucial that all Michiganders take steps to limit in person contact, particularly in the context of large groups. Therefore, the above meeting will be conducted via audio/video conference in accordance with the Open Meetings Act, as amended by Public Act 228 of 2020 effective on October 16, 2020. Members of the public wishing to participate in the meeting may do so by logging into or calling into the meeting using the website or phone number and the meeting ID provided above.

Persons with disabilities who need an accommodation to fully participate in this meeting should contact the Office of the BWL Corporate Secretary at (517) 702-6033 or [mdenise.griffin@lbwl.com](mailto:mdenise.griffin@lbwl.com), or utilize TTY by dialing 7-1-1. A 24-hour notice may be needed for certain accommodations. An attempt will be made to grant all reasonable accommodation requests.

*\*A quorum of the Board of Commissioners may be in attendance.*

## FINANCE COMMITTEE

### Meeting Minutes

March 9, 2021

Due to public safety concerns resulting from the COVID-19 Pandemic, the Finance Committee meeting for the Lansing Board of Water and Light (BWL) was conducted via WebEx Conferencing in Lansing, MI on Tuesday, March 9, 2021.

Event Address for Attendees:

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=eb4523814816b781d6e68fc662d442021>

Event Number for Attendees: 132 820 5250      Event password: ugPEpxWT833

Audio conference: United States Toll +1-408-418-9388      Access code: 132 820 5250

Finance Committee Chair David Lenz, called the March 9, 2021, 6:00 p.m. Finance Committee meeting to order at 7:32 p.m.

Corporate Secretary Griffin took the roll call to acknowledge attendance.

The following Commissioners were present via audio/video:

David Lenz remotely, Lansing, MI (Member)	Ken Ross remotely, Port Charlotte, FL (Member)
David Price remotely, Lansing, MI (Member)	Sandra Zerkle remotely, Lansing, MI (Alternate)
Stuart Goodrich remotely, Holt, MI	Douglas Jester remotely, East Lansing, MI
Deshon Leek remotely, Lansing, MI	Larry Merrill remotely, Delta Township, MI
Tracy Thomas remotely, Lansing, MI	

Absent: Commissioner Beth Graham

The Corporate Secretary declared a quorum.

#### **Public Comments**

None.

#### **Approval of Minutes**

**Motion** by Commissioner Price, **Seconded** by Commissioner Ross, to approve the Finance Committee meeting minutes of January 12, 2021.

**Motion** Carried by the following Roll Call Vote:

Yeas: Commissioners Lenz, Price, Ross

Nays: None

**Action:** Motion Carried.

#### **Tabled Items from July 21, 2020:**

1) Current Internal Audit Charter, 2) Proposed Internal Audit Charter, 3) Resolution

**Motion** by Chair Lenz, **Seconded** by Commissioner Price, to remove the tabled items from the table and dissolve the items.

#### **Roll Call Vote:**

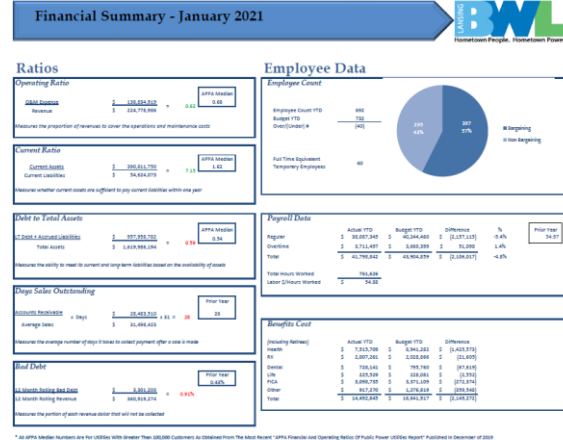
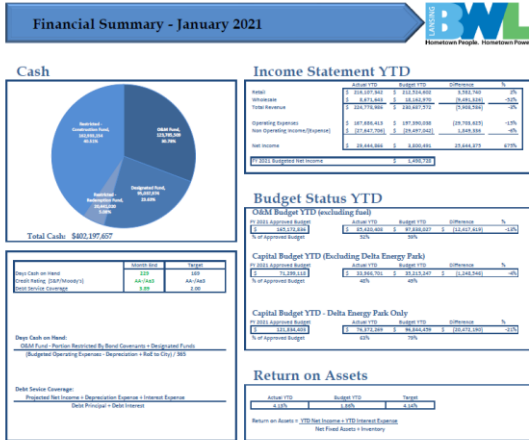
Yeas: Commissioners Lenz, Price, Ross

Nays: None

**Action:** Motion Carried.

# January YTD Financial Summary

CFO Heather Shawa gave a review of the January 2021 YTD Financial Summary.



Chief Financial Officer Heather Shawa reported that Total Cash increased as expected as bond proceeds were received for 2020-2021 A and B Series issuance. Days Cash on Hand ended the month at 229. FYTD net income was \$29.4M, compared to a budget of \$3.8M. O & M department budget spend is under budget; \$12M of it is due to COVID-19 impact; \$6M in variance is due to depreciation from Delta Energy Park being brought on line later.

Chair Lenz commented that GM Peffley mentioned that there was a lot of income generated from selling power to other parts of the country and asked what the impact was on income. CFO Shawa replied that \$2.7 M was the impact in February 2021

YTD Capital Budget, excluding Delta Energy Park (DEP), was in line with budget. Delta Energy Park, due to COVID19 and some timing from a large construction manager invoicing, was a little under spend but is expected to increase.

YTD RoA is 4.13%, and the target was 4.14%. Two of the five ratios are within benchmarks. Debt to Total Assets was a little high, as expected, due to bond issuance and the Bad Debt Ratio is high largely because the allowance was increased at the end of the year. Days Sales Outstanding is underperforming by two days.

Chair Lenz asked CFO Shawa to provide the normal value of the total Bad Debt amount prior to COVID-19. CFO Shawa responded that the normal 12-month value is \$1.2M to \$1.5M and during COVID-19 it has doubled, but that was projected to happen

Employee count YTD is 692 and the budgeted YTD is 732. In Payroll Data the Labor \$/Hours Worked metric has remained in line with year prior. Overall YTD benefits costs are underbudget, due to BWL experiencing lower than expected medical claims.

GM Peffley commented that the delay in the Delta Energy Park, that CFO Shawa mentioned, has been re-planned to have Delta Energy Park start on its original schedule. Just the equipment that

is needed to run the units with a simple cycle is being worked on. The units will run for a day to be entered into the capacity market. The rest of the plant, such as efficiencies, will be worked on after that.

Commissioner Zerkle commented on the payment plan for customers during COVID-19 and would like to see it kept in place for at least the rest of the year. GM Peffley replied that BWL would work with its customers through the rest of the pandemic.

Commissioner Ross commended GM Peffley and CFO Shawa on the financial strategy associated with getting the Delta Energy Park units up and running and saving the rate payers money. Commissioner Ross asked for what length of time customers will have the benefit of the capacity of the coal plants. GM Peffley replied that one of the Eckert units has been extended to May. The capacity from the DEP simple cycle units will offset the loss of the Eckert units. It will take approximately one year for the new plant to run completely efficiently with trained employees. Erickson station is expected to be shut down by 2023.

Commissioner Jester commented that he would like to discuss the capacity market with GM Peffley. Commissioner Jester noted that for low income customers there is a movement in other states for investor owned utilities to adopt a percentage of income payment plan that caps the customer's bill according to their income. He suggested that this be discussed during the next rate making cycle. Commissioner Jester added that he sent the Commissioners information from Ms. Jan Beecher regarding water rates, that could be applied to electricity rates for low income customers.

Commissioner Leek asked how much it will cost to decommission the old coal plant and what will be the savings once it has been decommissioned. GM Peffley replied that since the Eckert station is still a transmission distribution station and three more substations have to be built before the property can be left, it will be about seven years before it is decommissioned. Executive Director of Operations Mr. Dave Bolan stated that the cost of taking the station to a dry state and putting safety measures in place will be about \$1.2M and the savings will be about \$1.5 million.

Commissioner Thomas commented in response to Commissioner Zerkle that with the COVID-19 relief plan families will be receiving money that can be used to pay at least part of their utility bills.

Commissioner Lenz commented in response to Commissioner Jester and asked how the process to provide alternative rates to low income people would occur. CFO Shawa replied that increased rates are forecasted and included in the budget. A separate rate hearing process is held with public comments and with rates needing to be approved by the Board of Commissioners. GM Peffley replied that, in collaboration with the city, BWL is working on housing initiatives to help with utility bills.

Commissioner Ross responded to Commissioner Jester's comments regarding the low-income rate making process. The low-income rate making process would need to be a deliberative process and suggested considering whether Ms. Jan Beecher would be available to donate time to talk about the rate making process to the Commissioners. The rate making process is a systematic, regimented process where facts and figures are developed with public comment and management.

Commissioner Lenz commented that whether there will be continually increased unpaid utility bills depending on how COVID-19 plays out will have to be looked at seriously. CFO Shawa replied that when management provides a rate recommendation, an RFP is made for a consultant to review for a cost of service analysis.

#### **Investment Policy Statement (IPS) for DC Plans**

CFO Shawa reported that all the pension plans have investment policy statements (IPS) and it is a fiduciary process to review all IPS. The review is conducted annually by the Retirement Plan Committee with the plan investment advisor. CFO Shawa introduced Ms. Dori Drayton, Senior Vice President at CapTrust, as the financial advisor for the DC, 401, and 457 Plans. With the CapTrust review of the policies, some opportunities for improvement of the statements were identified and the revisions will be brought to the Finance Committee in May 2021.

#### **External Auditor RFP Bid Award and Resolution**

Chair Lenz presented a substitute resolution for the External Auditor RFP Bid Award Resolution. The substitute resolution includes the name of who was granted the bid.

**Motion** by Commissioner Lenz, **Seconded** by Commissioner Price, to accept the substitute External Auditor RFP Bid Award Resolution.

#### **Roll Call Vote:**

Yeas: Commissioners Lenz, Price, Ross

Nays: None

**Action:** Motion Carried.

CFO Shawa reported that the RFP was submitted and would like to recommend Baker Tilly as the Internal Auditor for the next five years from June 1, 2021 to June 30, 2025. Key evaluation areas were the approach to audit quality, the plan based on organization industry efficiency and peer reviews, team knowledge and experience, qualifications specific to BWL industry, value added services, and also, scope and pricing. Internal audit also participated in the evaluation process team. CFO Shawa added that, per the charter, the City Council of Lansing will need to approve the recommendation of the external auditor.

**Motion** by Commissioner Lenz, **Seconded** by Commissioner Price, to forward the substitute External Auditor RFP Bid Award Resolution to the full board for approval.

**Roll Call Vote:**

Yeas: Commissioners Lenz, Price, Ross

Nays: None

Action: Motion Carried.

**Internal Audit Status Report**

Internal Auditor, Mr. Wesley Lewis, presented the Internal Auditor Status Report.

**Audit Progress Report**

**Audit Engagements and Activities in Audit Plan Currently Underway and/or Scheduled to Start**

1. **Purchase Card Usage and Control** – *Audit Status: Reporting Stage*
2. **Unbilled Accounts Receivable** – *Audit Status: Reporting Stage*
3. **MPPA and MISO Billings** – This audit is in progress. The focus is on audit testing of a selected sample vendor invoice transactions. *Estimated Time of Completion: March 2021*
4. **Cybersecurity Process and IT Vulnerabilities** –Unfortunately, after trying to negotiate contract terms with BDO, we reached an impasse and had to move on from them too. Thus, we are in contact with another IT Audit Consultant that submitted an initial bid. *New Estimated Start Time: TBD New Estimated Time of Completion: TBD*
5. **Corporate Governance – Strategic Plan and Ethical Advocate System (Includes Hotline)** – *Update:* a) **Strategic Plan** – Due to the revamping of the current process into a new one, which has resulted from the January 2021 approval of the new plan by the Board, and through concurring discussions with the process owner, IA determined that it would make sense to postpone the audit engagement to a future fiscal period. B) **Ethical Advocate** – The same situation applies to this audit engagement. The new process went live in September 2020 and replaced the General Manager’s Hotline.
6. **Other Audit Activities** - Ongoing

*Note: Estimated Start and Completion Times of All Engagements Listed Above Are Subject to Change.*



Chair Lenz asked how long it is expected for the cybersecurity process and IT vulnerabilities audit to take. Mr. Lewis responded that is expected to take approximately six weeks depending on how much information can be provided to the audit team.

**Preliminary FY 2022 Budget**

**Proposed FY 2022 Internal Audit Budget**

Account Description	FY 2022 Proposed Budget	FY 2021 Approved Budget	FY22:FY21 Incr/(Decr)	FY22:FY21 Incr/(Decr) %	Explanation
Salaries	\$221,670	\$216,000	\$5,670	2.63%	Wesley Lewis, Internal Auditor and Brian Schinke, Principal Auditor (both are non-bargaining). The proposed increase pertains to the achievement of a professional development goal for the Principal Auditor. <i>Note:</i> This number is an estimate and does not include employee benefits. The HR Department owns the employee benefits part of this process and will provide the final numbers of both areas.
Supplies	2,500	2,000	500	25.00%	This is for anticipated supplies needs for the audit staff.
Travel and Conferences	12,000	12,000		0.00%	This includes anticipated CPE seminars, conferences, and webinars (including virtual) needed for audit staff to maintain compliance with the requirements of professional organizations.
Consulting Fees	85,000	75,000	10,000	13.33%	This is for anticipated assistance and resources needed from outside audit contractors to execute possible special audit engagements and other projects. This includes a mandatory peer review engagement (a once every 5 year engagement required by the Institute of Internal Auditors) and a possible audit engagement of the Board of Commissioners corporate governance process.
General Outside Services	8,000	8,000		0.00%	This includes professional membership annual dues, licenses, and certifications for the audit staff.
<b>Total Internal Audit Budget, Excluding Employee Benefits</b>	<b>\$329,170</b>	<b>\$313,000</b>	<b>\$16,170</b>	<b>5.17%</b>	



Commissioner Thomas asked what the consultant fees were prior to 2019. Mr. Lewis responded that \$60,000 was proposed in 2019 and that he increased the amount to \$75,000 due to the new cybersecurity process audit. Commissioner Thomas asked if Mr. Lewis had additional staff to help with the audits. Mr. Lewis replied that external consultants will be contracted. Commissioner Thomas also asked if Mr. Lewis had the same number of staff as the previous Internal Auditor and more consultants. Mr. Lewis replied he had the same number of staff as the previous Internal Auditor and consultants that are available for additional auditing.

Commissioner Lenz stated that the resolution for the budget isn't needed and doesn't need to be approved.

Commissioner Ross commented that a consultants' pool and resources have been available to the Internal Auditor for the past years. The consultants are available to expand the Internal Auditor's capacity.

Commissioner Price commented that a Principal Auditor was hired full time under the last Internal Auditor. GM Peffley commented that the previous Principal Auditor was also hired as part of the succession plan for the previous Internal Auditor.

**Other**

**Motion** by Commissioner Price, **Seconded** by Commissioner Ross, to approve the absence of Commissioner Beth Graham.

**Roll Call Vote:**

Yeas: Commissioners Lenz, Price, Ross

Nays: None

**Action:** Motion Carried.

**Adjourn**

Chair David Lenz adjourned the meeting at 8:45 p.m.

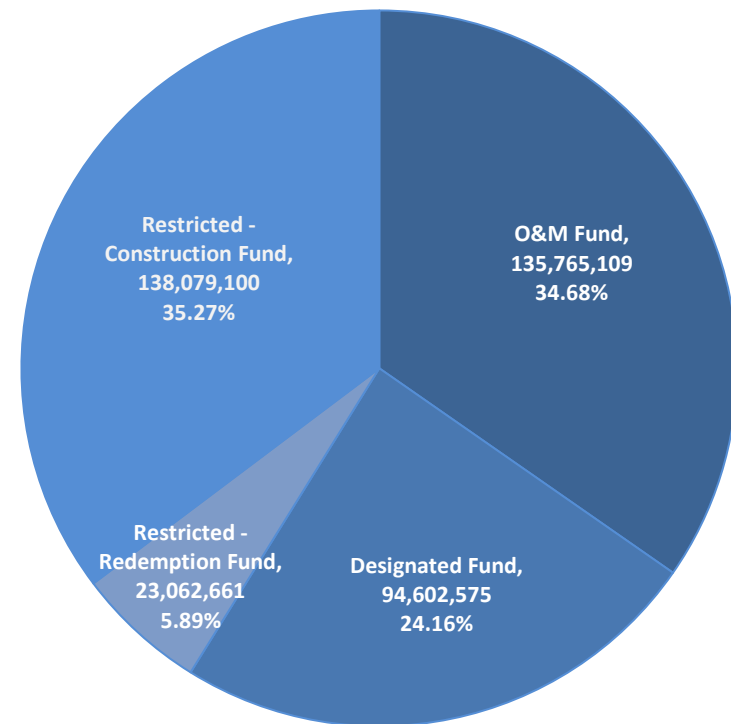
Respectfully submitted  
David Lenz, Chair Finance Committee



# Financial Summary - March 2021



## Cash



**Total Cash: \$391,509,445**

	Month End	Target
Days Cash on Hand	244	169
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.89	2.00

### Days Cash on Hand:

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

### Debt Service Coverage:

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

## Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 273,399,401	\$ 268,617,224	4,782,177	2%
Wholesale	\$ 15,823,354	\$ 24,488,364	(8,665,009)	-35%
<b>Total Revenue</b>	<b>\$ 289,222,755</b>	<b>\$ 293,105,588</b>	<b>(3,882,832)</b>	<b>-1%</b>
Operating Expenses	\$ 217,161,491	\$ 250,839,397	(33,677,906)	-13%
Non Operating Income/(Expense)	\$ (36,672,660)	\$ (37,930,731)	1,258,071	-3%
<b>Net Income</b>	<b>\$ 35,388,604</b>	<b>\$ 4,335,459</b>	<b>31,053,145</b>	<b>716%</b>

**FY 2021 Budgeted Net Income \$ 1,498,728**

## Budget Status YTD

### O&M Budget YTD (excluding fuel)

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,172,836	\$ 109,335,549	\$ 124,515,261	\$ (15,179,712)	-12%
% of Approved Budget	66%	75%		

### Capital Budget YTD (Excluding Delta Energy Park)

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 71,299,118	\$ 41,706,397	\$ 46,306,159	\$ (4,599,762)	-10%
% of Approved Budget	58%	65%		

### Capital Budget YTD - Delta Energy Park Only

FY 2021 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 121,834,403	\$ 113,074,217	\$ 110,783,367	\$ 2,290,850	2%
% of Approved Budget	93%	91%		

## Return on Assets

Actual YTD	Budget YTD	Target
5.01%	2.32%	4.14%

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

# Financial Summary - March 2021



## Ratios

### Operating Ratio

O&M Expense	\$ 180,091,935	=	0.62	APPA Median 0.70
Revenue	\$ 289,222,755			

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

### Current Ratio

Current Assets	\$ 259,731,327	=	3.46	APPA Median 1.94
Current Liabilities	\$ 75,084,831			

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

### Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 977,953,314	=	0.59	APPA Median 0.51
Total Assets	\$ 1,645,924,463			

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

### Days Sales Outstanding

Average Accounts Receivable	\$ 29,669,932	x 31 =	29	Prior Year 28
Sales	\$ 31,283,093			

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

### Bad Debt

12 Month Rolling Bad Debt Expense	\$ 2,828,558	=	0.77%	Prior Year 0.43%
12 Month Rolling Revenue	\$ 368,316,298			

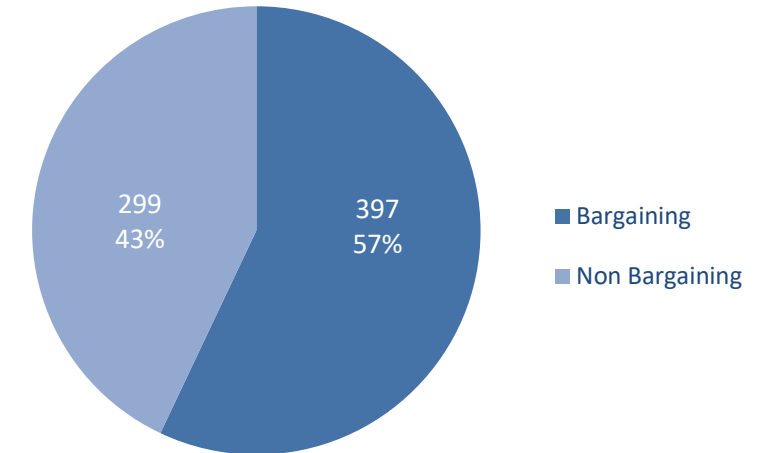
Measures the portion of each revenue dollar that will not be collected

## Employee Data

### Employee Count

Employee Count YTD	696
Budget YTD	731
Over/(Under) #	(35)

Full Time Equivalent	38
Temporary Employees	



### Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 47,774,407	\$ 50,312,303	\$ (2,537,896)	-5.0%	54.20
Overtime	\$ 4,559,207	\$ 4,574,940	\$ (15,733)	-0.3%	
Total	\$ 52,333,614	\$ 54,887,243	\$ (2,553,629)	-4.7%	
Total Hours Worked	972,762				
Labor \$/Hours Worked	\$ 53.80				

### Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 10,131,636	\$ 11,495,934	\$ (1,364,298)
RX	\$ 2,543,616	\$ 2,608,542	\$ (64,926)
Dental	\$ 954,300	\$ 1,023,120	\$ (68,820)
Life	\$ 293,550	\$ 293,247	\$ 303
FICA	\$ 3,883,571	\$ 4,334,283	\$ (450,712)
Other	\$ 1,278,205	\$ 1,641,624	\$ (363,419)
Total	\$ 19,084,879	\$ 21,396,750	\$ (2,311,871)



# **Investment Policy Statement**

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**Lansing Board of Water and  
Light Defined Contribution  
Plan and Trust 1**

May 2021



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## **-1- Statement of Funding Policy and Purpose**

This Investment Policy Statement (“IPS”) has been adopted by the Commissioners (the “Commissioners”) of the Lansing Board of Water and Light (“BWL”) to serve as a funding policy for the Lansing Board of Water and Light Defined Contribution Plan and Trust 1 (the “Plan”). The Plan covers the eligible employees of the BWL and its related entities according to the terms of the Plan documents, with the objective of offering participants and their beneficiaries the opportunity to save, manage, accumulate and preserve retirement account assets. Thus, the Plan’s funding policy focuses on both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments should also be sufficiently liquid to enable the Plan, on short notice, to make distributions in the event of termination, death or disability of a participant. In accordance with this funding policy, this IPS is structured for the Plan to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow for the construction of a portfolio intended to match most participants’ unique retirement investment objectives.

Assets within the Plan may consist of contributions made by both participants and by Lansing Board of Water and Light. All assets are subject to the investment direction of eligible participants or their beneficiaries.

This IPS is subject to the terms of the Plan and the trust agreement that is maintained pursuant to the Plan. To the extent of any conflict between this IPS and the terms of the Plan and/or trust, the terms of the Plan and/or trust shall control. This IPS does not provide any additional rights to any party other than those that are described in the Plan and trust documents.

## **-2- Policy Goals & Objectives**

The IPS is designed to provide meaningful direction for the Investment Fiduciaries of Lansing Board of Water and Light and the designated Investment Advisor in the management of Plan investment options. The policies within the IPS are not binding but serve as guidelines for the Investment Fiduciary in fulfilling their responsibility to exercise considered judgment in acting solely in the long-term interest of Plan participants and their beneficiaries. The IPS is designed to serve as a general guideline. There may be specific circumstances that the Investment Fiduciary determines warrant a departure from the guidelines contained herein. In general, the IPS:

- Establishes the roles and responsibilities of the Plan’s Investment Fiduciary and the Investment Advisor hired to assist in the fulfillment of the Investment Fiduciary’s duties;

- Identifies appropriate investment asset classes for inclusion in the Plan’s menu of investment options;
- Establishes a prudent process for selecting appropriate investment options to be made available for participant direction;
- Designates an investment option to which all assets will be directed by the Plan Sponsor in the absence of a positive election by a participant or beneficiary, which will either serve as the Plan’s default or Qualified Default Investment Alternative;
- Establishes a prudent process by which selected investment options generally will be monitored for compliance with this IPS; and
- Develops methods for adding new investment options and for replacing existing investment options that do not comply with the terms of the IPS.

### **-3- Roles & Responsibilities**

#### **Lansing Board of Water and Light Retirement Plan Committee as Investment Fiduciary:**

Although it is intended that participants will direct the investment of their accounts under the Plan, the Lansing Board of Water and Light Retirement Plan Committee (the “Committee”) (pursuant to delegations from the BWL and Trustees) shall serve as an Investment Fiduciary to the Plan. (In contemplation of the continued appointment of a Committee, the words “Committee” and “Investment Fiduciary” are used interchangeably in this IPS.)

The Committee will be formed and governed either by a separate document, or according to Lansing Board of Water and Light’s governance structure. The Committee is responsible for overseeing the administration of the Plan and investment of the Plan assets. Its duties include hiring, monitoring and evaluating investment options and service providers.

The Committee normally will review, at least on an annual basis, the acceptability of the universe of investment options made available within the Plan’s chosen administrative environment, e.g. the Plan’s record-keeper and trustee / custodian. The Committee will review the Plan’s investment options following the regimen outlined later in this IPS.

The Committee intends to discharge its fiduciary responsibilities with respect to the Plan with the assistance of an independent Investment Advisor.

## Investment Advisor:

Responsibilities of the Investment Advisor include:

- Educating the Committee on issues concerning the selection of investment options for the Plan;
- Assisting in the analysis and initial selection of investment options to be made available for participant investment;
- Assisting the Committee with the on-going review of the investment universe made available within the Plan's chosen administrative environment;
- Assisting the Committee with the review of the performance of the selected investment options, on at least an annual, but more often a quarterly basis, in comparison to their stated objectives and their relative performance and pricing as compared to their peers and designated benchmarks;
- Providing specific investment advice to the Committee with respect to the Plan on a regular basis, pursuant to a mutual understanding with the Committee that the advice will serve as a primary basis for the Committee's investment decisions, and that the advice will be individualized based on the needs of the Plan. Such advice may relate to the advisability of investing in, purchasing, holding, and selling securities or other property;
- Assisting the Committee in the selection of additional or replacement investment options to be made available for participant investment;
- Bringing information to the Committee, on an ad hoc basis as appropriate, that the Investment Advisor feels may alter the Committee's assessment of a given investment option, asset class or strategy.

## **-4- Plan Investment Asset Classes**

The Plan's investment menu is structured in accordance with modern portfolio theory, which holds that the asset allocation decisions among a broad range of investment alternatives is the most critical determinant of a portfolio's long-term success or failure. The Committee's goal is to offer a core set of diversified investment options that represent a broad range of different asset classes with different risk and return characteristics.

The Plan's investment menu may include, but are not limited to, options from the following broad asset classes: Capital Preservation, Fixed Income, Asset Allocation, including Balanced, Target Risk, Life Cycle and/or Target Date, Domestic Equity, International Equity and Specialty. These asset classes are described in more detail in supplemental material provided by the Investment Advisor.

## **-5- Investment Selection**

As mentioned, the Committee has structured the Plan to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics. Selection of these investment options is done in the context of the Plan's administrative environment which may impact the number, type and cost of investment options available to the Plan. The Committee may also consider the method and payment of Plan expenses, which may be altered by investment-related decisions.

Once the Committee has selected the range of asset classes to be represented within the Plan, the following screening criteria will be among those applied to the available actively managed options:

**Fees** – All investment options must charge “reasonable” fees to investors. The expense ratio for a given investment should generally fall below the average expense ratio for the peer group. Exceptions may be made for investment options that the Committee feels may produce performance that would justify higher than average fees.

**Style Consistency** – Since each investment option is chosen to fulfill a specific part of the Plan's overall investment menu, investment options should have demonstrated a consistency in investment style and performance. Some variation may be allowed when an investment option's given style moves in and out of favor, or when an investment option's successful investments outgrow their initial investment classification.

**Volatility and Diversification** – Unless chosen to deliver investment performance that is characteristic of a specific industry or sector of the investment spectrum, investment options generally will be broadly diversified portfolios and will avoid unreasonable overweighting in a given investment, industry or sector. Volatility, as measured by Standard Deviation of returns, should be within reasonable ranges for the given peer group. Other risk measures and ratios, including Sharpe ratio, information ratio and beta, may be used as well.

**Performance** – With few exceptions, all actively managed investment options should rank in the top 50% of their given peer group for the 3 or 5 year annualized period at the time of their selection. While past performance is not indicative of future returns, peer-relative performance offers the Committee perspective on how the investment option has performed over a reasonably demonstrative period of time relative to other choices. In addition to performance, the Committee should consider other variables including (but not limited to) fees, investment style purity, and risk management practices, in order to develop a holistic view about a strategy and its appropriateness within the Plan. Passively managed options do not need to meet the same ranking criteria; rather, measures such as tracking error to the stated benchmark are more important measures of performance for these options.

**Management & Organization** – Manager tenure and industry experience are values to be emphasized, as is the strength and expertise of an investment option's sponsoring organization. Sponsoring organizations are generally expected to adhere to accepted standards of ethical practice and to comply



with all appropriate securities regulations. When necessary, preference will be given to investment management organizations with a proven commitment to the interests of long-term investors.

**Additional Factors** – In addition to the above outlined factors, the Committee will also consider other factors, which may be less tangible, including fund specific situations and anomalies in the capital markets or in the Plan’s unique situation.

After inclusion in the Plan each investment option is expected to maintain a high level of acceptability as described in the Investment Evaluation section of this IPS.

## **-6- Investment Evaluation**

With the assistance of the Investment Advisor, the Committee will monitor the investment options made available within the Plan to ensure they remain compliant with the criteria used to initially select them for inclusion in the Plan under this IPS or such other or additional criteria as appropriate. As part of that process, the Committee may consider the ranking of investment options relative to their peers using a comprehensive review methodology as recommended by the Investment Advisor.

The following criteria provide an outline for the evaluation process:

- On a quarterly basis, the Plan’s Investment Advisor will provide the Committee with a comprehensive report of each investment option’s relevant performance and relative rankings against appropriate indexes, and within appropriate peer groups. The Investment Advisor will review the report with the Committee at least annually, or more often as necessary and appropriate.
- The Investment Advisor will also communicate with the Committee on an ad hoc basis, as appropriate, concerning any material changes affecting any of the selected investment options. Material changes may include management changes, changes to the investment option’s pricing structure or significant changes in the investment option’s fundamental policies and procedures that the Investment Advisor feels warrant Committee review.
- The Committee normally will meet with the Investment Advisor, at least annually, to evaluate each investment option as well as the overall status of the Plan’s IPS, if necessary.
- If the Investment Advisor’s proprietary Scoring System indicates that a given investment option may no longer meet the appropriate and reasonable standards required to remain included in the Plan’s menu, the Committee will take appropriate steps.

## **-7- Replacement of Selected Investment Options**

Since the intention of the Plan is to provide opportunities for long-term asset accumulation for participants and beneficiaries, it is not expected that either the investment asset classes or specific investment options will be changed or deleted frequently.

It is possible that changes may become desirable or necessary, however, based upon factors such as:

- The addition of a new asset class or investment alternative that was not a part of the Plan's initial menu. Such an addition will be subject to a similar selection regimen to that outlined earlier in the IPS;
- The elimination of a given asset class from the Plan's menu; and
- The desire to replace one of the Plan's investment options with another investment option that the Committee feels will more successfully deliver the desired asset class characteristics. Reasons may include, for example, the availability of options that were not initially open for Committee consideration, or a change in the performance or fee structure of a competing option. It may also be true that a given investment option is no longer available through the Plan's chosen administrative environment. Investment options can be removed or changed after a thorough comparative review using the regimen outlined earlier in the IPS; and
- The need to replace or eliminate one of the Plan's investment options after noncompliance with this IPS has been established, or appears likely.

## **-8- Conclusion**

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the Plan. Changing market conditions, economic trends or business needs may necessitate modification of this IPS. Until such modification, this document will provide the investment objectives and guidelines for the Plan's assets, subject to the caveats stated herein. The Commissioners retain the authority to approve, revise and update this IPS as necessary to ensure that it is consistent with BWL's investment philosophy. Any revisions or updates made to this IPS must be formally adopted by the Commissioners through a resolution.

**Approved by Lansing Board of Water and Light, and adopted on this \_\_\_\_\_ day of \_\_\_\_\_, 2021.**

## **Qualified Default Investment Alternative Addendum**

Qualified Default Investment Alternatives (QDIAs) are specific investment vehicles that are used when a plan participant or beneficiary fails to make affirmative investment elections. After reviewing the demographics of the Plan, the Committee has decided to use a target date fund suite to function as the Plan's QDIA.



# **Investment Policy Statement**

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**Lansing Board of Water and  
Light Defined Contribution  
Plan and Trust 2**

May 2021



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## **-1- Statement of Funding Policy and Purpose**

This Investment Policy Statement (“IPS”) has been adopted by the Commissioners (the “Commissioners”) of the Lansing Board of Water and Light (“BWL”) to serve as a funding policy for the Lansing Board of Water and Light Defined Contribution Plan and Trust 2 (the “Plan”). The Plan covers the eligible employees of the BWL and its related entities according to the terms of the Plan documents, with the objective of offering participants and their beneficiaries the opportunity to save, manage, accumulate and preserve retirement account assets. Thus, the Plan’s funding policy focuses on both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments should also be sufficiently liquid to enable the Plan, on short notice, to make distributions in the event of termination, death or disability of a participant. In accordance with this funding policy, this IPS is structured for the Plan to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow for the construction of a portfolio intended to match most participants’ unique retirement investment objectives.

Assets within the Plan may consist of contributions made by both participants and by Lansing Board of Water and Light. All assets are subject to the investment direction of eligible participants or their beneficiaries.

This IPS is subject to the terms of the Plan and the trust agreement that is maintained pursuant to the Plan. To the extent of any conflict between this IPS and the terms of the Plan and/or trust, the terms of the Plan and/or trust shall control. This IPS does not provide any additional rights to any party other than those that are described in the Plan and trust documents.

## **-2- Policy Goals & Objectives**

The IPS is designed to provide meaningful direction for the Investment Fiduciaries of Lansing Board of Water and Light and the designated Investment Advisor in the management of Plan investment options. The policies within the IPS are not binding but serve as guidelines for the Investment Fiduciary in fulfilling their responsibility to exercise considered judgment in acting solely in the long-term interest of Plan participants and their beneficiaries. The IPS is designed to serve as a general guideline. There may be specific circumstances that the Investment Fiduciary determines warrant a departure from the guidelines contained herein. In general, the IPS:

- Establishes the roles and responsibilities of the Plan’s Investment Fiduciary and the Investment Advisor hired to assist in the fulfillment of the Investment Fiduciary’s duties;

- Identifies appropriate investment asset classes for inclusion in the Plan’s menu of investment options;
- Establishes a prudent process for selecting appropriate investment options to be made available for participant direction;
- Designates an investment option to which all assets will be directed by the Plan Sponsor in the absence of a positive election by a participant or beneficiary, which will either serve as the Plan’s default or Qualified Default Investment Alternative;
- Establishes a prudent process by which selected investment options generally will be monitored for compliance with this IPS; and
- Develops methods for adding new investment options and for replacing existing investment options that do not comply with the terms of the IPS.

### **-3- Roles & Responsibilities**

#### **Lansing Board of Water and Light Retirement Plan Committee as Investment Fiduciary:**

Although it is intended that participants will direct the investment of their accounts under the Plan, the Lansing Board of Water and Light Retirement Plan Committee (the “Committee”) (pursuant to delegations from the BWL and Trustees) shall serve as an Investment Fiduciary to the Plan. (In contemplation of the continued appointment of a Committee, the words “Committee” and “Investment Fiduciary” are used interchangeably in this IPS.)

The Committee will be formed and governed either by a separate document, or according to Lansing Board of Water and Light’s governance structure. The Committee is responsible for overseeing the administration of the Plan and investment of the Plan assets. Its duties include hiring, monitoring and evaluating investment options and service providers.

The Committee normally will review, at least on an annual basis, the acceptability of the universe of investment options made available within the Plan’s chosen administrative environment, e.g. the Plan’s record-keeper and trustee / custodian. The Committee will review the Plan’s investment options following the regimen outlined later in this IPS.

The Committee intends to discharge its fiduciary responsibilities with respect to the Plan with the assistance of an independent Investment Advisor.

## Investment Advisor:

Responsibilities of the Investment Advisor include:

- Educating the Committee on issues concerning the selection of investment options for the Plan;
- Assisting in the analysis and initial selection of investment options to be made available for participant investment;
- Assisting the Committee with the on-going review of the investment universe made available within the Plan's chosen administrative environment;
- Assisting the Committee with the review of the performance of the selected investment options, on at least an annual, but more often a quarterly basis, in comparison to their stated objectives and their relative performance and pricing as compared to their peers and designated benchmarks;
- Providing specific investment advice to the Committee with respect to the Plan on a regular basis, pursuant to a mutual understanding with the Committee that the advice will serve as a primary basis for the Committee's investment decisions, and that the advice will be individualized based on the needs of the Plan. Such advice may relate to the advisability of investing in, purchasing, holding, and selling securities or other property;
- Assisting the Committee in the selection of additional or replacement investment options to be made available for participant investment;
- Bringing information to the Committee, on an ad hoc basis as appropriate, that the Investment Advisor feels may alter the Committee's assessment of a given investment option, asset class or strategy.

## **-4- Plan Investment Asset Classes**

The Plan's investment menu is structured in accordance with modern portfolio theory, which holds that the asset allocation decisions among a broad range of investment alternatives is the most critical determinant of a portfolio's long-term success or failure. The Committee's goal is to offer a core set of diversified investment options that represent a broad range of different asset classes with different risk and return characteristics.

The Plan's investment menu may include, but are not limited to, options from the following broad asset classes: Capital Preservation, Fixed Income, Asset Allocation, including Balanced, Target Risk, Life Cycle and/or Target Date, Domestic Equity, International Equity and Specialty. These asset classes are described in more detail in supplemental material provided by the Investment Advisor.



## **-5- Investment Selection**

As mentioned, the Committee has structured the Plan to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics. Selection of these investment options is done in the context of the Plan's administrative environment which may impact the number, type and cost of investment options available to the Plan. The Committee may also consider the method and payment of Plan expenses, which may be altered by investment-related decisions.

Once the Committee has selected the range of asset classes to be represented within the Plan, the following screening criteria will be among those applied to the available actively managed options:

**Fees** – All investment options must charge “reasonable” fees to investors. The expense ratio for a given investment should generally fall below the average expense ratio for the peer group. Exceptions may be made for investment options that the Committee feels may produce performance that would justify higher than average fees.

**Style Consistency** – Since each investment option is chosen to fulfill a specific part of the Plan's overall investment menu, investment options should have demonstrated a consistency in investment style and performance. Some variation may be allowed when an investment option's given style moves in and out of favor, or when an investment option's successful investments outgrow their initial investment classification.

**Volatility and Diversification** – Unless chosen to deliver investment performance that is characteristic of a specific industry or sector of the investment spectrum, investment options generally will be broadly diversified portfolios and will avoid unreasonable overweighting in a given investment, industry or sector. Volatility, as measured by Standard Deviation of returns, should be within reasonable ranges for the given peer group. Other risk measures and ratios, including Sharpe ratio, information ratio and beta, may be used as well.

**Performance** – With few exceptions, all actively managed investment options should rank in the top 50% of their given peer group for the 3 or 5 year annualized period at the time of their selection. While past performance is not indicative of future returns, peer-relative performance offers the Committee perspective on how the investment option has performed over a reasonably demonstrative period of time relative to other choices. In addition to performance, the Committee should consider other variables including (but not limited to) fees, investment style purity, and risk management practices, in order to develop a holistic view about a strategy and its appropriateness within the Plan. Passively managed options do not need to meet the same ranking criteria; rather, measures such as tracking error to the stated benchmark are more important measures of performance for these options.

**Management & Organization** – Manager tenure and industry experience are values to be emphasized, as is the strength and expertise of an investment option's sponsoring organization. Sponsoring organizations are generally expected to adhere to accepted standards of ethical practice and to comply

with all appropriate securities regulations. When necessary, preference will be given to investment management organizations with a proven commitment to the interests of long-term investors.

**Additional Factors** – In addition to the above outlined factors, the Committee will also consider other factors, which may be less tangible, including fund specific situations and anomalies in the capital markets or in the Plan’s unique situation.

After inclusion in the Plan each investment option is expected to maintain a high level of acceptability as described in the Investment Evaluation section of this IPS.

## **-6- Investment Evaluation**

With the assistance of the Investment Advisor, the Committee will monitor the investment options made available within the Plan to ensure they remain compliant with the criteria used to initially select them for inclusion in the Plan under this IPS or such other or additional criteria as appropriate. As part of that process, the Committee may consider the ranking of investment options relative to their peers using a comprehensive review methodology as recommended by the Investment Advisor.

The following criteria provide an outline for the evaluation process:

- On a quarterly basis, the Plan’s Investment Advisor will provide the Committee with a comprehensive report of each investment option’s relevant performance and relative rankings against appropriate indexes, and within appropriate peer groups. The Investment Advisor will review the report with the Committee at least annually, or more often as necessary and appropriate.
- The Investment Advisor will also communicate with the Committee on an ad hoc basis, as appropriate, concerning any material changes affecting any of the selected investment options. Material changes may include management changes, changes to the investment option’s pricing structure or significant changes in the investment option’s fundamental policies and procedures that the Investment Advisor feels warrant Committee review.
- The Committee normally will meet with the Investment Advisor, at least annually, to evaluate each investment option as well as the overall status of the Plan’s IPS, if necessary.
- If the Investment Advisor’s proprietary Scoring System indicates that a given investment option may no longer meet the appropriate and reasonable standards required to remain included in the Plan’s menu, the Committee will take appropriate steps.

## **-7- Replacement of Selected Investment Options**

Since the intention of the Plan is to provide opportunities for long-term asset accumulation for participants and beneficiaries, it is not expected that either the investment asset classes or specific investment options will be changed or deleted frequently.

It is possible that changes may become desirable or necessary, however, based upon factors such as:

- The addition of a new asset class or investment alternative that was not a part of the Plan's initial menu. Such an addition will be subject to a similar selection regimen to that outlined earlier in the IPS;
- The elimination of a given asset class from the Plan's menu; and
- The desire to replace one of the Plan's investment options with another investment option that the Committee feels will more successfully deliver the desired asset class characteristics. Reasons may include, for example, the availability of options that were not initially open for Committee consideration, or a change in the performance or fee structure of a competing option. It may also be true that a given investment option is no longer available through the Plan's chosen administrative environment. Investment options can be removed or changed after a thorough comparative review using the regimen outlined earlier in the IPS; and
- The need to replace or eliminate one of the Plan's investment options after noncompliance with this IPS has been established, or appears likely.

## **-8- Conclusion**

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the Plan. Changing market conditions, economic trends or business needs may necessitate modification of this IPS. Until such modification, this document will provide the investment objectives and guidelines for the Plan's assets, subject to the caveats stated herein. The Commissioners retain the authority to approve, revise and update this IPS as necessary to ensure that it is consistent with BWL's investment philosophy. Any revisions or updates made to this IPS must be formally adopted by the Commissioners through a resolution.

**Approved by Lansing Board of Water and Light, and adopted on this \_\_\_\_\_ day of \_\_\_\_\_, 2021.**

## **Qualified Default Investment Alternative Addendum**

Qualified Default Investment Alternatives (QDIAs) are specific investment vehicles that are used when a plan participant or beneficiary fails to make affirmative investment elections. After reviewing the demographics of the Plan, the Committee has decided to use a target date fund suite to function as the Plan's QDIA.



# **Investment Policy Statement**

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**Lansing Board of Water and  
Light 457 Deferred  
Compensation Plan and Trust**

May 2021



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## **-1- Statement of Funding Policy and Purpose**

This Investment Policy Statement (“IPS”) has been adopted by the Commissioners (the “Commissioners”) of the Lansing Board of Water and Light (“BWL”) to serve as a funding policy for the Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust (the “Plan”). The Plan covers the eligible employees of the BWL and its related entities according to the terms of the Plan documents, with the objective of offering participants and their beneficiaries the opportunity to save, manage, accumulate and preserve retirement account assets. Thus, the Plan’s funding policy focuses on both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments should also be sufficiently liquid to enable the Plan, on short notice, to make distributions in the event of termination, death or disability of a participant. In accordance with this funding policy, this IPS is structured for the Plan to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow for the construction of a portfolio intended to match most participants’ unique retirement investment objectives.

Assets within the Plan may consist of contributions made by both participants and by Lansing Board of Water and Light. All assets are subject to the investment direction of eligible participants or their beneficiaries.

This IPS is subject to the terms of the Plan and the trust agreement that is maintained pursuant to the Plan. To the extent of any conflict between this IPS and the terms of the Plan and/or trust, the terms of the Plan and/or trust shall control. This IPS does not provide any additional rights to any party other than those that are described in the Plan and trust documents.

## **-2- Policy Goals & Objectives**

The IPS is designed to provide meaningful direction for the Investment Fiduciaries of Lansing Board of Water and Light and the designated Investment Advisor in the management of Plan investment options. The policies within the IPS are not binding but serve as guidelines for the Investment Fiduciary in fulfilling their responsibility to exercise considered judgment in acting solely in the long-term interest of Plan participants and their beneficiaries. The IPS is designed to serve as a general guideline. There may be specific circumstances that the Investment Fiduciary determines warrant a departure from the guidelines contained herein. In general, the IPS:

- Establishes the roles and responsibilities of the Plan’s Investment Fiduciary and the Investment Advisor hired to assist in the fulfillment of the Investment Fiduciary’s duties;

- Identifies appropriate investment asset classes for inclusion in the Plan’s menu of investment options;
- Establishes a prudent process for selecting appropriate investment options to be made available for participant direction;
- Designates an investment option to which all assets will be directed by the Plan Sponsor in the absence of a positive election by a participant or beneficiary, which will either serve as the Plan’s default or Qualified Default Investment Alternative;
- Establishes a prudent process by which selected investment options generally will be monitored for compliance with this IPS; and
- Develops methods for adding new investment options and for replacing existing investment options that do not comply with the terms of the IPS.

### **-3- Roles & Responsibilities**

#### **Lansing Board of Water and Light Retirement Plan Committee as Investment Fiduciary:**

Although it is intended that participants will direct the investment of their accounts under the Plan, the Lansing Board of Water and Light Retirement Plan Committee (the “Committee”) (pursuant to delegations from the BWL and Trustees) shall serve as an Investment Fiduciary to the Plan. (In contemplation of the continued appointment of a Committee, the words “Committee” and “Investment Fiduciary” are used interchangeably in this IPS.)

The Committee will be formed and governed either by a separate document, or according to Lansing Board of Water and Light’s governance structure. The Committee is responsible for overseeing the administration of the Plan and investment of the Plan assets. Its duties include hiring, monitoring and evaluating investment options and service providers.

The Committee normally will review, at least on an annual basis, the acceptability of the universe of investment options made available within the Plan’s chosen administrative environment, e.g. the Plan’s record-keeper and trustee / custodian. The Committee will review the Plan’s investment options following the regimen outlined later in this IPS.

The Committee intends to discharge its fiduciary responsibilities with respect to the Plan with the assistance of an independent Investment Advisor.



## Investment Advisor:

Responsibilities of the Investment Advisor include:

- Educating the Committee on issues concerning the selection of investment options for the Plan;
- Assisting in the analysis and initial selection of investment options to be made available for participant investment;
- Assisting the Committee with the on-going review of the investment universe made available within the Plan's chosen administrative environment;
- Assisting the Committee with the review of the performance of the selected investment options, on at least an annual, but more often a quarterly basis, in comparison to their stated objectives and their relative performance and pricing as compared to their peers and designated benchmarks;
- Providing specific investment advice to the Committee with respect to the Plan on a regular basis, pursuant to a mutual understanding with the Committee that the advice will serve as a primary basis for the Committee's investment decisions, and that the advice will be individualized based on the needs of the Plan. Such advice may relate to the advisability of investing in, purchasing, holding, and selling securities or other property;
- Assisting the Committee in the selection of additional or replacement investment options to be made available for participant investment;
- Bringing information to the Committee, on an ad hoc basis as appropriate, that the Investment Advisor feels may alter the Committee's assessment of a given investment option, asset class or strategy.

## **-4- Plan Investment Asset Classes**

The Plan's investment menu is structured in accordance with modern portfolio theory, which holds that the asset allocation decisions among a broad range of investment alternatives is the most critical determinant of a portfolio's long-term success or failure. The Committee's goal is to offer a core set of diversified investment options that represent a broad range of different asset classes with different risk and return characteristics.

The Plan's investment menu may include, but are not limited to, options from the following broad asset classes: Capital Preservation, Fixed Income, Asset Allocation, including Balanced, Target Risk, Life Cycle and/or Target Date, Domestic Equity, International Equity and Specialty. These asset classes are described in more detail in supplemental material provided by the Investment Advisor.

## **-5- Investment Selection**

As mentioned, the Committee has structured the Plan to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics. Selection of these investment options is done in the context of the Plan's administrative environment which may impact the number, type and cost of investment options available to the Plan. The Committee may also consider the method and payment of Plan expenses, which may be altered by investment-related decisions.

Once the Committee has selected the range of asset classes to be represented within the Plan, the following screening criteria will be among those applied to the available actively managed options:

**Fees** – All investment options must charge “reasonable” fees to investors. The expense ratio for a given investment should generally fall below the average expense ratio for the peer group. Exceptions may be made for investment options that the Committee feels may produce performance that would justify higher than average fees.

**Style Consistency** – Since each investment option is chosen to fulfill a specific part of the Plan's overall investment menu, investment options should have demonstrated a consistency in investment style and performance. Some variation may be allowed when an investment option's given style moves in and out of favor, or when an investment option's successful investments outgrow their initial investment classification.

**Volatility and Diversification** – Unless chosen to deliver investment performance that is characteristic of a specific industry or sector of the investment spectrum, investment options generally will be broadly diversified portfolios and will avoid unreasonable overweighting in a given investment, industry or sector. Volatility, as measured by Standard Deviation of returns, should be within reasonable ranges for the given peer group. Other risk measures and ratios, including Sharpe ratio, information ratio and beta, may be used as well.

**Performance** – With few exceptions, all actively managed investment options should rank in the top 50% of their given peer group for the 3 or 5 year annualized period at the time of their selection. While past performance is not indicative of future returns, peer-relative performance offers the Committee perspective on how the investment option has performed over a reasonably demonstrative period of time relative to other choices. In addition to performance, the Committee should consider other variables including (but not limited to) fees, investment style purity, and risk management practices, in order to develop a holistic view about a strategy and its appropriateness within the Plan. Passively managed options do not need to meet the same ranking criteria; rather, measures such as tracking error to the stated benchmark are more important measures of performance for these options.

**Management & Organization** – Manager tenure and industry experience are values to be emphasized, as is the strength and expertise of an investment option's sponsoring organization. Sponsoring organizations are generally expected to adhere to accepted standards of ethical practice and to comply

with all appropriate securities regulations. When necessary, preference will be given to investment management organizations with a proven commitment to the interests of long-term investors.

**Additional Factors** – In addition to the above outlined factors, the Committee will also consider other factors, which may be less tangible, including fund specific situations and anomalies in the capital markets or in the Plan’s unique situation.

After inclusion in the Plan each investment option is expected to maintain a high level of acceptability as described in the Investment Evaluation section of this IPS.

## **-6- Investment Evaluation**

With the assistance of the Investment Advisor, the Committee will monitor the investment options made available within the Plan to ensure they remain compliant with the criteria used to initially select them for inclusion in the Plan under this IPS or such other or additional criteria as appropriate. As part of that process, the Committee may consider the ranking of investment options relative to their peers using a comprehensive review methodology as recommended by the Investment Advisor.

The following criteria provide an outline for the evaluation process:

- On a quarterly basis, the Plan’s Investment Advisor will provide the Committee with a comprehensive report of each investment option’s relevant performance and relative rankings against appropriate indexes, and within appropriate peer groups. The Investment Advisor will review the report with the Committee at least annually, or more often as necessary and appropriate.
- The Investment Advisor will also communicate with the Committee on an ad hoc basis, as appropriate, concerning any material changes affecting any of the selected investment options. Material changes may include management changes, changes to the investment option’s pricing structure or significant changes in the investment option’s fundamental policies and procedures that the Investment Advisor feels warrant Committee review.
- The Committee normally will meet with the Investment Advisor, at least annually, to evaluate each investment option as well as the overall status of the Plan’s IPS, if necessary.
- If the Investment Advisor’s proprietary Scoring System indicates that a given investment option may no longer meet the appropriate and reasonable standards required to remain included in the Plan’s menu, the Committee will take appropriate steps.

## **-7- Replacement of Selected Investment Options**

Since the intention of the Plan is to provide opportunities for long-term asset accumulation for participants and beneficiaries, it is not expected that either the investment asset classes or specific investment options will be changed or deleted frequently.

It is possible that changes may become desirable or necessary, however, based upon factors such as:

- The addition of a new asset class or investment alternative that was not a part of the Plan's initial menu. Such an addition will be subject to a similar selection regimen to that outlined earlier in the IPS;
- The elimination of a given asset class from the Plan's menu; and
- The desire to replace one of the Plan's investment options with another investment option that the Committee feels will more successfully deliver the desired asset class characteristics. Reasons may include, for example, the availability of options that were not initially open for Committee consideration, or a change in the performance or fee structure of a competing option. It may also be true that a given investment option is no longer available through the Plan's chosen administrative environment. Investment options can be removed or changed after a thorough comparative review using the regimen outlined earlier in the IPS; and
- The need to replace or eliminate one of the Plan's investment options after noncompliance with this IPS has been established, or appears likely.

## **-8- Conclusion**

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the Plan. Changing market conditions, economic trends or business needs may necessitate modification of this IPS. Until such modification, this document will provide the investment objectives and guidelines for the Plan's assets, subject to the caveats stated herein. The Commissioners retain the authority to approve, revise and update this IPS as necessary to ensure that it is consistent with BWL's investment philosophy. Any revisions or updates made to this IPS must be formally adopted by the Commissioners through a resolution.

**Approved by Lansing Board of Water and Light, and adopted on this \_\_\_\_\_ day of \_\_\_\_\_, 2021.**

## **Qualified Default Investment Alternative Addendum**

Qualified Default Investment Alternatives (QDIAs) are specific investment vehicles that are used when a plan participant or beneficiary fails to make affirmative investment elections. After reviewing the demographics of the Plan, the Committee has decided to use a target date fund suite to function as the Plan's QDIA.

Proposed Resolution  
Revised Investment Policy Statements of the DC Plans

WHEREAS, the Lansing Board of Water & Light (the “Sponsor”) sponsors the Lansing Board of Water and Light Defined Contribution Plan and Trust 1; Lansing Board of Water and Light Defined Contribution Plan and Trust 2; and Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust (the “DC Plans”); and

WHEREAS, the Retirement Plan Committee, established by the Sponsor and delegated certain duties by the Trustees related to the investment of the DC Plans’ assets in November 2018; and

WHEREAS, the Retirement Plan Committee also periodically reviews the DC Plans’ Investment Policy Statements (“IPSS”), and, as the result of its most recent review, recommends revisions to the Plans’ IPSS; and

WHEREAS, the Retirement Plan Committee along with the General Manager recommends the Sponsor adopt the revisions which reflect these recommendations in the attached Lansing Board of Water and Light Defined Contribution Plan and Trust 1 Investment Policy Statement; Lansing Board of Water and Light Defined Contribution Plan and Trust 2 Investment Policy Statement; and Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust Investment Policy Statement; and

WHEREAS, the Sponsor wants to adopt the revisions reflected in the attached Lansing Board of Water and Light Defined Contribution Plan and Trust 1 Investment Policy Statement; Lansing Board of Water and Light Defined Contribution Plan and Trust 2 Investment Policy Statement; and Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust Investment Policy Statement;

THEREFORE, it is:

RESOLVED, that, after its review, and based on the recommendation from the Retirement Plan Committee along with the General Manager, the Sponsor adopts and approves the attached Lansing Board of Water and Light Defined Contribution Plan and Trust 1 Investment Policy Statement; Lansing Board of Water and Light Defined Contribution Plan and Trust 2 Investment Policy Statement; and Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust Investment Policy Statement.

# Budget & Forecast

FY 2022–2027

Finance Committee Meeting

May 11, 2021

Board Meeting

May 25, 2021



# Overview

- Strategic Objectives
- Key Budget & Forecast Assumptions
- Sales Volume History & Forecast by Utility
- Operating Budget & Forecast
- Capital Budget & Forecast
- Next Steps



- Strategic Objectives

- BWL Year in Review

- 2016-2020 Strategic Plan: Financial Stability
    - 2021-2025 Strategic Plan
    - Target Metrics
    - Minimum Cash Reserve Requirement Policy
    - Budget & Forecast Cycle Focus

### FY 2021 Key Accomplishments for BWL:

- 90% completion of ISO Certification at REO Plant
- Issued Series 2021 A&B bonds
- Capacity Testing at Delta Energy Park
- Implemented Capital Projects Process (CPT)
- Adopted new Strategic Plan
- Continued BSmart deployments
- Transition to Nationwide for DC Plans
- Paused customer shutoffs due to COVID-19 Pandemic
- Continued cyber security resiliency
- Continued roll out and enhancements made in the organizational change management, performance management, and employee engagement processes
- Implemented cost-saving strategies to improve rate competitiveness and defer previously planned rate increases

- Strategic Objectives

- BWL Year in Review
- 2016-2020 Strategic Plan: Financial Stability
- 2021-2025 Strategic Plan
- Target Metrics
- Minimum Cash Reserve Requirement Policy
- Budget & Forecast Cycle Focus

- **BWL's prior Strategic Plan, adopted in 2016, detailed the following goals and objectives:**

- Strategy 6 Goal: Maintain the financial stability of the BWL
  - All of the BWL's ongoing efforts and strategic initiatives require funding. The balance between providing this funding and its impact on rates requires a comprehensive financial plan and rate strategy.
- Strategy 6, Objective 1: Practice good financial stewardship
  - 1) Develop a Financial Plan that includes a rate strategy that provides financing for the BWL's capital program and replacement generation needs while maintaining competitive rates
    - **FY2020 included the 3<sup>rd</sup> year of a 3-year rate strategy that has provided sufficient liquidity to fund initiatives and to provide stability though COVID-19**
    - **FY2021 rate increases were deferred due BWL's prudent measures in place in response to the COVID-19 Pandemic**
  - 2) Maintain an above average bond rating for municipal utilities
    - **Ratings reaffirmed during 2021A&B bond issuances**
  - 3) Identify cost savings through process improvement initiatives and return on investments with minimal impact on operations or employees
    - **100+ items received from workforce that continue to be vetted and implemented**
  - 4) Commit to reviewing and consistently achieving targeted rate of return
    - **Achievement of ROA targeted for FY2026 due to rate increase deferrals in FY2021 and FY2022**

- Strategic Objectives
  - BWL Year in Review
  - 2016-2020 Strategic Plan: Financial Stability
  - 2021-2025 Strategic Plan
  - Target Metrics
  - Minimum Cash Reserve Requirement Policy
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## Looking forward, the 2021-2025 Strategic Plan includes six key strategies that focus on our financial resiliency:

- **Customer & Community Strategy 4** (*SP Priority 1*):
  - Promote economic development and regional partnerships that create growth and synergy
- **Operational Resiliency & Continuous Improvement Strategy 1** (*SP Priority 4*):
  - Identify and respond to opportunities for continuous improvement that balance performance, cost and risk
- **Financial Strategy 1** (*SP Priority 5*):
  - Continue to refine our rate structure for existing and new customers
- **Financial Strategy 2** (*SP Priority 5*):
  - Sustain fiscal and fiduciary responsibility through planning, analysis, policies, practices and internal controls
- **Financial Strategy 3** (*SP Priority 5*):
  - Pursue opportunities and adopt practices that enhance BWL's competitiveness
- **Financial Strategy 4** (*SP Priority 5*):
  - Identify, evaluate and implement revenue diversification opportunities

- Strategic Objectives
  - BWL Year in Review
  - 2016-2020 Strategic Plan: Financial Stability
  - 2021-2025 Strategic Plan
  - Target Metrics
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- Maintain high **credit rating**
  - BWL is currently rated AA- (S&P) and Aa3 (Moody's) with stable outlooks
- Generate adequate **return on assets (RoA)**
  - Adequate RoA is essential to municipal utilities
    - Ensures current rate payers are not deferring costs to future generations and infrastructure is invested in to maintain exceptional levels of service
  - An appropriate RoA recovers two main items:
    - Interest expense
    - Inflationary increase of infrastructure replacement costs
  - Regular calculations required by the Board of Commissioners (Resolution 2016-07-08)
    - Return on Assets FY 2022-2027 Target: **4.20%**
      - **We are planning to reach this target in FY2026**
- Ensure adequate **liquidity**
  - BWL must be able to pay current obligations
    - **Minimum cash reserve requirement: 173 days**
    - **Debt service coverage minimum target: 2.00 x**

- Strategic Objectives
  - BWL Year in Review
  - 2016-2020 Strategic Plan: Financial Stability
  - 2021-2025 Strategic Plan
  - Target Metrics
  - Minimum Cash Reserve Requirement Policy
  - Budget & Forecast Cycle Focus

**To ensure adequate liquidity, the Board of Commissioners adopted a Minimum Cash Reserve Requirement Policy in 2018 (Resolution #2018-05-02)**

- The policy bolsters financial strength, situational resilience, fiscal responsibility, and credit quality
- The minimum cash reserve requirement is determined using a risk-based calculation of the following key cash requirements:
  1. Net O&M Expense
  2. Return on Equity to the City
  3. Historical Plant in Service
  4. Debt Service
  5. Six-Year Net Capital Improvement Plan
- Each cash requirement is multiplied by its associated risk factor and summed to determine the minimum cash reserve requirement
- The calculation is applied to each of the BWL's four utilities individually and then aggregated to determine the overall BWL minimum cash reserve requirement
- In accordance with this policy, the Board will ensure that the proposed budget and forecast meets the minimum cash reserve requirements as defined in the policy

- Strategic Objectives

- BWL Year in Review
- 2016-2020 Strategic Plan: Financial Stability
- 2021-2025 Strategic Plan
- Target Metrics
- Minimum Cash Reserve Requirement Policy
- Budget & Forecast Cycle Focus

**FY2020-2025 (Past)**

3-yr Rate Strategy  
 Internal Cost Allocation Studies  
 Delta Energy Park Financing Strategy

**FY2021-2026 (Current)**

COVID-19 Response  
 Rate Mitigation Plan  
 DEP Third Phase Financing

**FY2022-2027 (Upcoming)**

New Strategic Plan  
 COVID-19 Recovery  
 DEP Commissioning  
 Expanding Capital Investment

**FY2023-2028 (Future)**

Rate Strategy

- Rate Competitiveness
- New billing system (CIS) /enhancements

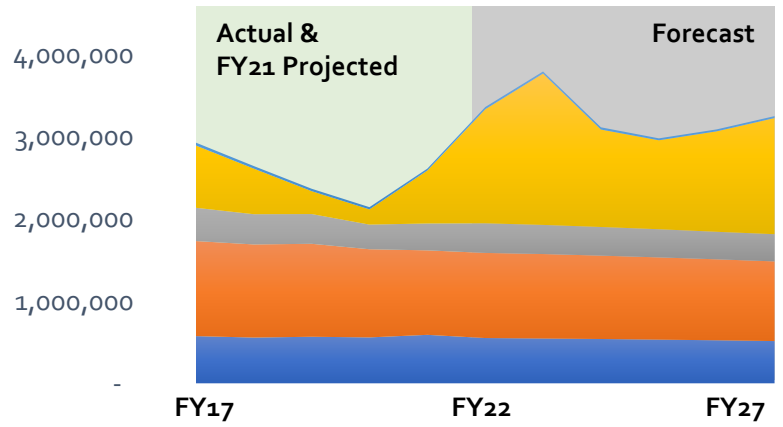
Coal Plant Closures  
 Continue Strategic Plan Execution

- Key Budget & Forecast Assumptions

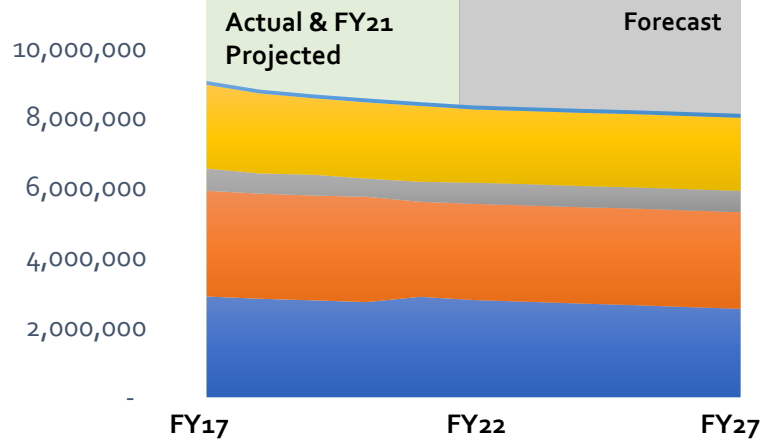
- Expected operation of Delta Energy Park September 2021.
- Erickson is closed May 2023.
- New strategic plan is supported by this budget & forecast.
- Defined Benefit and Voluntary Post Employment Benefits (DB/VEBA) investment returns are meeting target.
- Total employee count is budgeted at 720 for FY 2022 and declines in each succeeding year through FY 2026 (650) due to natural attrition.
- For the second year in a row, FY22 rate increases have been deferred due to COVID-19.
- Water main replacements achieve 8 miles per year FY2026 & FY2027.
- Return on Equity to the city based on current 2-year agreement expiring June 2022.
- Major steam customer contract expires October 2022. Forecast assumes contract is renewed at current terms.

- Sales Volume History and Forecast by Utility, FY 17-27

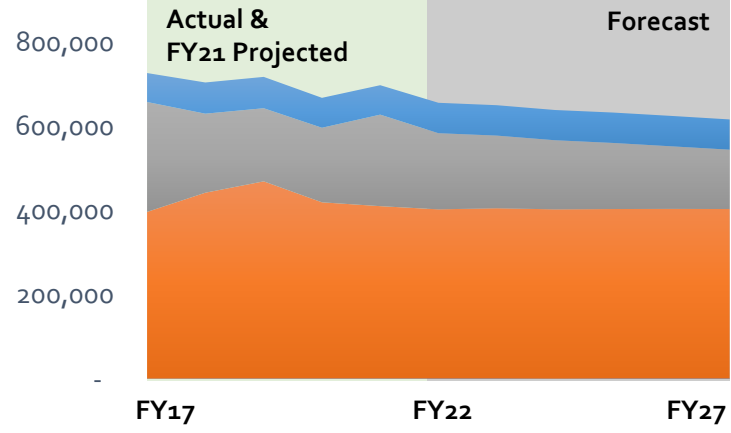
Electric - Consumption Volume (MWH)



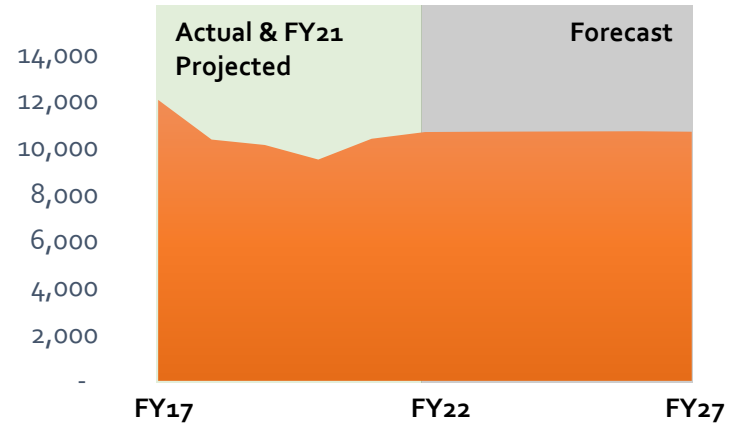
Water - Consumption Volume (CCF)



Steam - Consumption Volume (M.LB)



Chilled Water - Consumption Volume (M.THR)



■ Residential ■ Commercial ■ Industrial ■ Wholesale ■ Other



- Operating Budget & Forecast

- FY 2022 Income Statement

- FY 2022 vs FY2027 Operating Expenses by Category

- 6-Year Income Statement

- 6-Year Return on Assets

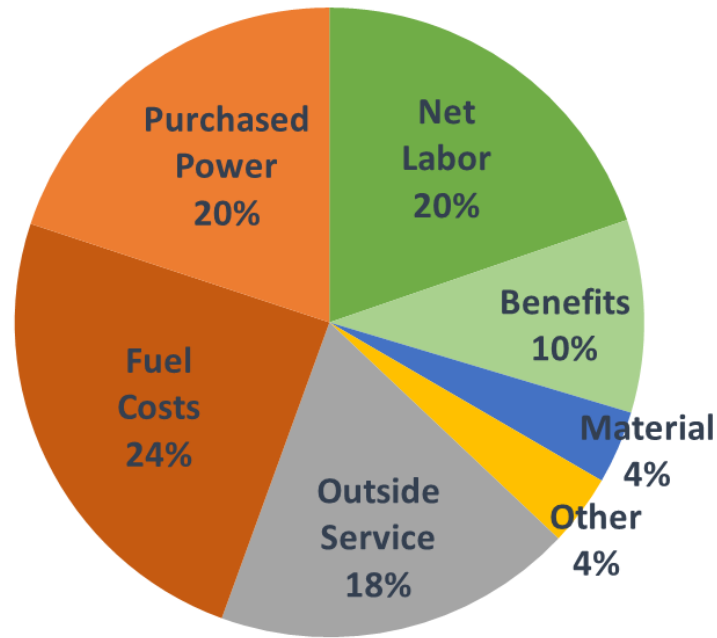
- 6-Year Cash Flow

- 6-Year Bonded Debt Service

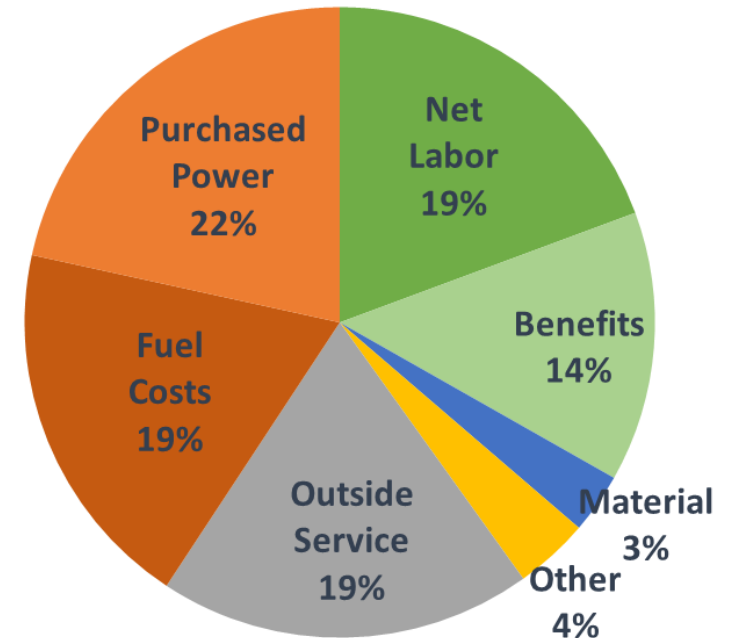
<b>FY 2022 Income Statement</b>	<b>Electric</b>	<b>Water</b>	<b>Steam</b>	<b>Chilled Water</b>	<b>Total</b>
<b>Sales (MWh, ccf, Mlb, ton-hrs)</b>	3,361,095	8,357,221	656,629	10,656	
<b>Operating Revenue</b>					
Residential	\$ 88,895,484	\$ 19,455,039	\$ 15,905	\$ -	\$ 108,366,427
Commercial	\$ 132,881,164	\$ 15,422,918	\$ 7,972,323	\$ 6,057,326	\$ 162,333,732
Industrial	\$ 40,951,242	\$ 2,526,652	\$ 2,708,401	\$ -	\$ 46,186,296
Wholesale	\$ 51,032,445	\$ 3,866,373	\$ -	\$ -	\$ 54,898,817
Other	\$ 12,258,272	\$ 7,007,525	\$ 1,466,441	\$ -	\$ 20,732,239
<b>Total Operating Revenue</b>	<b>\$ 326,018,607</b>	<b>\$ 48,278,507</b>	<b>\$ 12,163,070</b>	<b>\$ 6,057,326</b>	<b>\$ 392,517,511</b>
<b>Operating Expenses</b>					
Fuel and Purchased Power	\$ (116,608,367)	\$ (5,972,000)	\$ (3,003,074)	\$ -	\$ (125,583,441)
Depreciation	\$ (52,131,902)	\$ (8,899,382)	\$ (3,470,123)	\$ (1,575,896)	\$ (66,077,302)
Other Operating Expenses	\$ (108,841,249)	\$ (30,878,093)	\$ (4,509,885)	\$ (4,277,974)	\$ (148,507,202)
<b>Total Operating Expenses</b>	<b>\$ (277,581,518)</b>	<b>\$ (45,749,475)</b>	<b>\$ (10,983,083)</b>	<b>\$ (5,853,870)</b>	<b>\$ (340,167,946)</b>
<b>Total Operating Income</b>	<b>\$ 48,437,090</b>	<b>\$ 2,529,032</b>	<b>\$ 1,179,987</b>	<b>\$ 203,456</b>	<b>\$ 52,349,565</b>
<b>Non Operating Income/(Expenses)</b>					
Return on Equity to City	\$ (20,675,402)	\$ (3,146,386)	\$ (754,748)	\$ (423,464)	\$ (25,000,000)
Interest Expense	\$ (22,777,110)	\$ (1,758,936)	\$ (1,966,483)	\$ (364,739)	\$ (26,867,268)
Other Non Operating Income/(Expenses)	\$ (839,236)	\$ 790,632	\$ (125,497)	\$ 260,335	\$ 86,234
<b>Total Non Operating Income/(Expenses)</b>	<b>\$ (44,291,748)</b>	<b>\$ (4,114,690)</b>	<b>\$ (2,846,728)</b>	<b>\$ (527,867)</b>	<b>\$ (51,781,033)</b>
<b>Total Net Income/(Loss)</b>	<b>\$ 4,145,342</b>	<b>\$ (1,585,657)</b>	<b>\$ (1,666,741)</b>	<b>\$ (324,411)</b>	<b>\$ 568,532</b>
<b>Forecasted Rate Increase</b>	0.0%	0.0%	0.0%	0.0%	
<b>Return on Assets</b>	3.41%	-0.01%	0.36%	0.00%	2.41%
<b>Target Return on Assets</b>	4.20%	4.20%	4.20%	4.20%	4.20%

- Operating Budget & Forecast
  - FY 2022 Income Statement
  - **FY 2022 vs FY2027 Operating Expenses by Category**
  - 6-Year Income Statement
  - 6-Year Return on Assets
  - 6-Year Cash Flow
  - 6-Year Bonded Debt Service

**FY 2022 Operating Expense by Category**



**FY 2027 Operating Expense by Category**



- Operating Budget & Forecast

- FY 2022 Income Statement
  - FY 2022 vs FY2027 Operating Expenses by Category

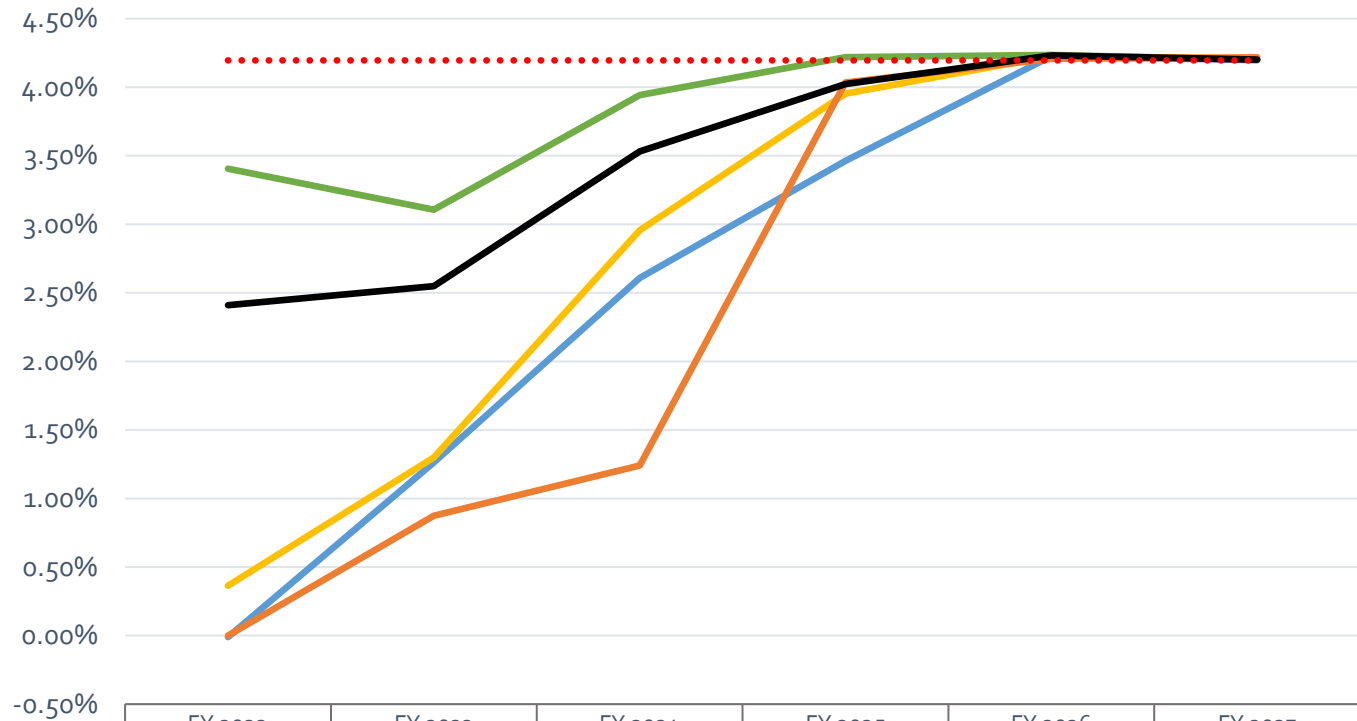
- 6-Year Income Statement

- 6-Year Return on Assets
  - 6-Year Cash Flow
  - 6-Year Bonded Debt Service

6-Year Income Statement	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<b>Operating Revenue</b>						
Electric	\$ 326,018,607	\$ 339,566,912	\$ 317,899,183	\$ 320,042,872	\$ 328,411,092	\$ 335,081,340
Water	\$ 48,278,507	\$ 50,529,432	\$ 54,392,354	\$ 58,571,568	\$ 63,007,246	\$ 64,504,437
Steam	\$ 12,163,070	\$ 12,365,114	\$ 12,593,931	\$ 13,194,040	\$ 13,734,385	\$ 13,890,464
Chilled Water	\$ 6,057,326	\$ 6,081,167	\$ 6,118,535	\$ 6,154,928	\$ 6,191,497	\$ 6,203,644
<b>Total Operating Revenue</b>	<b>\$ 392,517,511</b>	<b>\$ 408,542,625</b>	<b>\$ 391,004,003</b>	<b>\$ 397,963,408</b>	<b>\$ 411,344,219</b>	<b>\$ 419,679,886</b>
<b>Operating Expenses</b>						
Fuel and Purchased Power	\$ (125,583,441)	\$ (137,383,975)	\$ (111,806,351)	\$ (109,447,259)	\$ (113,650,383)	\$ (117,969,718)
Depreciation	\$ (66,077,302)	\$ (70,125,471)	\$ (65,680,608)	\$ (60,957,631)	\$ (63,353,533)	\$ (63,082,324)
Other Operating Expenses	\$ (148,507,202)	\$ (146,175,577)	\$ (148,714,735)	\$ (156,373,721)	\$ (159,457,025)	\$ (163,111,856)
<b>Total Operating Expenses</b>	<b>\$ (340,167,946)</b>	<b>\$ (353,685,023)</b>	<b>\$ (326,201,693)</b>	<b>\$ (326,778,611)</b>	<b>\$ (336,460,941)</b>	<b>\$ (344,163,899)</b>
<b>Total Operating Income</b>	<b>\$ 52,349,565</b>	<b>\$ 54,857,602</b>	<b>\$ 64,802,309</b>	<b>\$ 71,184,797</b>	<b>\$ 74,883,278</b>	<b>\$ 75,515,987</b>
<b>Non Operating Income/(Expenses)</b>						
Return on Equity to City	\$ (25,000,000)	\$ (25,888,015)	\$ (24,791,074)	\$ (25,244,612)	\$ (26,114,681)	\$ (26,651,517)
Interest Expense	\$ (26,867,268)	\$ (26,391,380)	\$ (25,152,866)	\$ (25,359,235)	\$ (24,928,670)	\$ (25,482,774)
Other Non Operating Income/(Expenses)	\$ 86,234	\$ 191,597	\$ 370,700	\$ 858,875	\$ 852,889	\$ 846,916
<b>Total Non Operating Income/(Expenses)</b>	<b>\$ (51,781,033)</b>	<b>\$ (52,087,798)</b>	<b>\$ (49,573,240)</b>	<b>\$ (49,744,973)</b>	<b>\$ (50,190,461)</b>	<b>\$ (51,287,376)</b>
<b>Total Net Income</b>	<b>\$ 568,532</b>	<b>\$ 2,769,804</b>	<b>\$ 15,229,070</b>	<b>\$ 21,439,824</b>	<b>\$ 24,692,817</b>	<b>\$ 24,228,612</b>
	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Return on Assets</b>	2.41%	2.55%	3.53%	4.02%	4.23%	4.20%
<b>Target Return on Assets</b>	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
<b>Debt Service Coverage Ratio</b>	2.49	2.33	2.27	2.66	2.79	2.57
<b>Days Cash on Hand</b>	251	226	231	230	238	243
<b>Minimum Cash Reserve Requirement</b>	173	170	182	190	188	187
<b>Full Time Employees</b>	720	715	699	661	650	650
<b>Rate Increases</b>	Forecast					
Electric	0.00%	2.65%	2.65%	2.65%	2.65%	1.55%
Water	0.00%	8.25%	8.25%	8.25%	8.25%	3.15%
Steam	0.00%	5.00%	5.00%	5.00%	5.00%	1.05%
Chilled Water	0.00%	0.50%	0.50%	0.50%	0.50%	0.00%

- Operating Budget & Forecast
  - FY 2022 Income Statement
  - FY 2022 vs FY2027 Operating Expenses by Category
  - 6-Year Income Statement
  - **6-Year Return on Assets**
  - 6-Year Cash Flow
  - 6-Year Bonded Debt Service

6-Year Return on Assets (%)

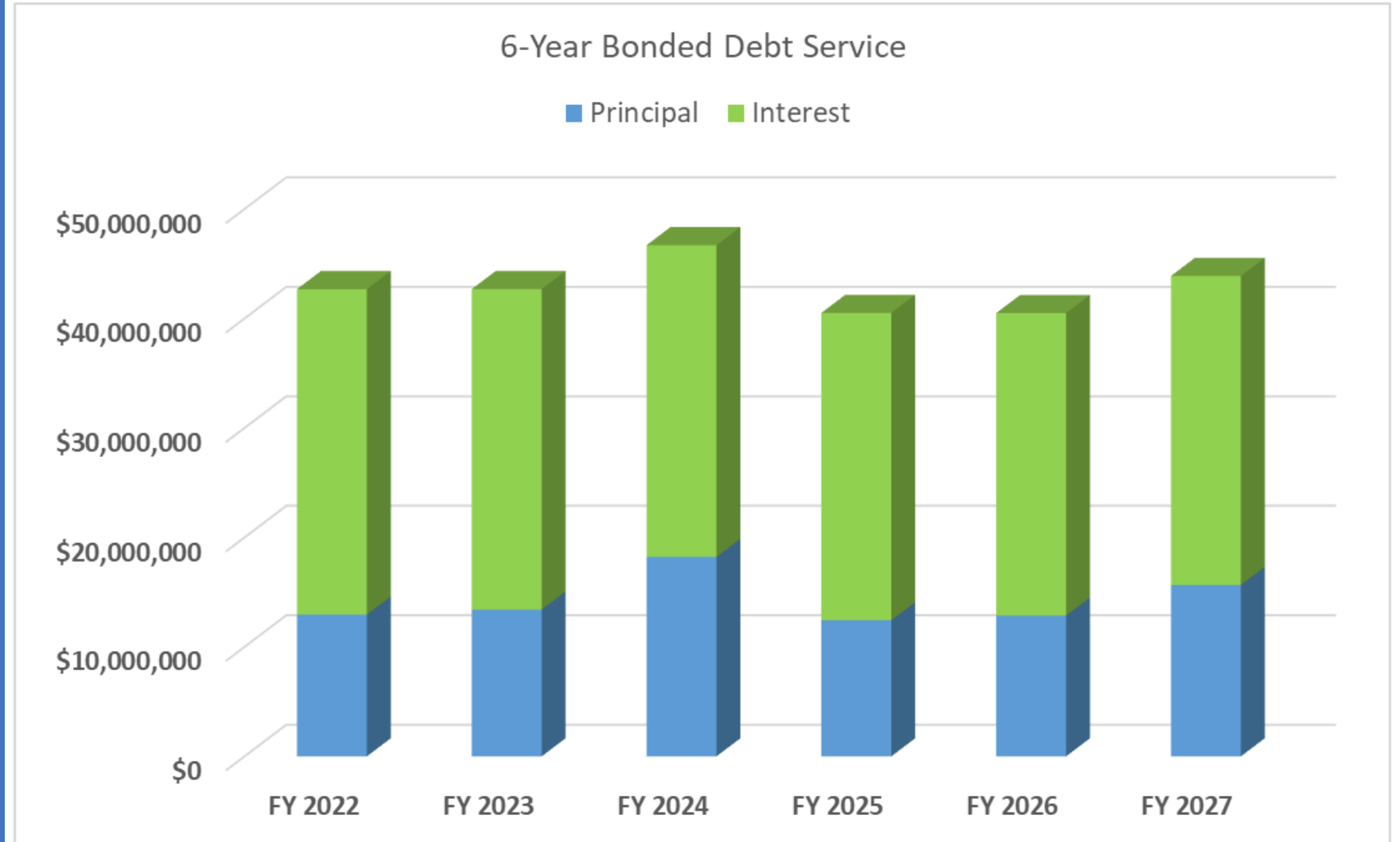


	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Electric	3.41%	3.11%	3.94%	4.22%	4.23%	4.20%
Water	-0.01%	1.26%	2.61%	3.46%	4.23%	4.20%
Steam	0.36%	1.30%	2.96%	3.95%	4.23%	4.21%
Chilled Water	0.00%	0.87%	1.24%	4.03%	4.21%	4.22%
Total	2.41%	2.55%	3.53%	4.02%	4.23%	4.20%
Target	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%

- Operating Budget & Forecast
  - FY 2022 Income Statement
  - FY 2022 vs FY2027 Operating Expenses by Category
  - 6-Year Income Statement
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  - 6-Year Cash Flow
  - 6-Year Bonded Debt Service

<b>6-Year Cash Flow</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Beginning Cash (O&amp;M &amp; Receiving Fund)</b>	<b>\$ 112,578,203</b>	<b>\$ 143,516,029</b>	<b>\$ 129,211,958</b>	<b>\$ 118,586,867</b>	<b>\$ 121,774,931</b>	<b>\$ 133,250,314</b>
Net Income	\$ 568,532	\$ 2,769,804	\$ 15,229,070	\$ 21,439,824	\$ 24,692,817	\$ 24,228,612
Depreciation and Loss on Disposal of Assets	\$ 67,814,049	\$ 71,879,584	\$ 67,452,263	\$ 62,747,002	\$ 65,160,798	\$ 64,907,662
DB and VEBA	\$ (8,344,564)	\$ (8,972,958)	\$ (8,094,039)	\$ (3,023,327)	\$ 2,476,984	\$ 2,958,102
Borrowing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commodity Cost Adjustment	\$ 1,434,824	\$ 610,866	\$ (226,881)	\$ 1,449,182	\$ 380,632	\$ (443,494)
Withdrawal from Bond Construction and Capitalized Interest	\$ 101,835,387	\$ -	\$ -	\$ -	\$ -	\$ -
Environmental	\$ (3,898,699)	\$ (2,564,910)	\$ 154,128	\$ 356,793	\$ 364,731	\$ 327,226
Gas Pipeline Payment Refunds	\$ -	\$ 7,001,546	\$ 7,001,546	\$ 7,001,546	\$ 7,001,546	\$ 7,001,546
<b>Total Sources of Cash</b>	<b>\$ 159,409,530</b>	<b>\$ 70,723,931</b>	<b>\$ 81,516,085</b>	<b>\$ 89,971,021</b>	<b>\$ 100,077,508</b>	<b>\$ 98,979,653</b>
Principal Payments on Bonds	\$ (12,950,000)	\$ (13,410,000)	\$ (18,220,000)	\$ (12,440,000)	\$ (12,860,000)	\$ (15,655,000)
Principal Payments on Other Debt (CSO)	\$ (802,581)	\$ (808,537)	\$ (819,636)	\$ (777,438)	\$ (766,153)	\$ (712,205)
Capital Expenditures (Excluding Delta Energy Park)	\$ (69,563,856)	\$ (70,534,882)	\$ (72,824,923)	\$ (73,282,526)	\$ (74,662,063)	\$ (72,849,578)
Capital Expenditures for Delta Energy Park	\$ (45,342,628)	\$ -	\$ -	\$ -	\$ -	\$ -
REP/EWR	\$ 187,362	\$ (274,583)	\$ (276,617)	\$ (282,993)	\$ (313,910)	\$ (355,683)
<b>Total Uses of Cash</b>	<b>\$ (128,471,703)</b>	<b>\$ (85,028,003)</b>	<b>\$ (92,141,176)</b>	<b>\$ (86,782,957)</b>	<b>\$ (88,602,126)</b>	<b>\$ (89,572,466)</b>
<b>Net Cash Increase (Decrease)</b>	<b>\$ 30,937,826</b>	<b>\$ (14,304,071)</b>	<b>\$ (10,625,090)</b>	<b>\$ 3,188,064</b>	<b>\$ 11,475,382</b>	<b>\$ 9,407,187</b>
<b>Ending Cash (O&amp;M &amp; Receiving Fund)</b>	<b>\$ 143,516,029</b>	<b>\$ 129,211,958</b>	<b>\$ 118,586,867</b>	<b>\$ 121,774,931</b>	<b>\$ 133,250,314</b>	<b>\$ 142,657,501</b>
Days Cash on Hand	251	226	231	230	238	243
Minimum Cash Reserve Requirement	173	170	182	190	188	187

- Operating Budget & Forecast
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  - 6-Year Bonded Debt Service



- Capital Portfolio Budget & Forecast

- Capital Portfolio Spending by Utility and Location
- Capital Portfolio Major Projects
- Capital Portfolio Gates and Phases
- Capital Portfolio Spending by Project's Current Phase
- Capital Portfolio Spending by Phase

6-Year Capital by Utility and Location	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Forecast Total
<b>Utility</b>							
Electric	\$ 48,276,774	\$ 51,272,777	\$ 46,747,800	\$ 48,022,841	\$ 48,049,630	\$ 45,009,986	\$ 287,379,808
Water	\$ 12,265,111	\$ 12,290,601	\$ 15,771,336	\$ 14,501,390	\$ 17,046,000	\$ 18,298,000	\$ 90,172,438
Steam	\$ 1,746,132	\$ 1,797,085	\$ 1,849,527	\$ 3,452,557	\$ 3,074,241	\$ 3,316,253	\$ 15,235,795
Chilled Water	\$ 50,000	\$ 51,500	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 323,420
Common	\$ 11,140,839	\$ 8,172,919	\$ 8,658,215	\$ 7,251,102	\$ 6,435,917	\$ 6,167,375	\$ 47,826,367
Capital Portfolio Excluding DEP	\$ 73,478,856	\$ 73,584,882	\$ 73,079,923	\$ 73,282,526	\$ 74,662,063	\$ 72,849,578	\$ 440,937,828
Delta Energy Park	\$ 45,342,628	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,342,628
<b>Total Capital Portfolio</b>	<b>\$ 118,821,484</b>	<b>\$ 73,584,882</b>	<b>\$ 73,079,923</b>	<b>\$ 73,282,526</b>	<b>\$ 74,662,063</b>	<b>\$ 72,849,578</b>	<b>\$ 486,280,456</b>
<b>Location</b>							
Eckert	\$ 895,000	\$ -	\$ -	\$ -	\$ -	\$ 795,000	\$ 1,690,000
Erickson	\$ 4,333,539	\$ 3,050,000	\$ 255,000	\$ -	\$ -	\$ -	\$ 7,638,539
REO Plant	\$ 1,500,000	\$ 8,800,000	\$ 9,500,000	\$ -	\$ 100,000	\$ -	\$ 19,900,000
Delta Energy Park	\$ 45,342,628	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,342,628
T&D	\$ 46,952,765	\$ 49,176,862	\$ 50,247,022	\$ 50,212,684	\$ 56,559,146	\$ 47,832,203	\$ 300,980,682
Water Production	\$ 3,042,061	\$ 3,325,101	\$ 3,984,686	\$ 3,365,740	\$ 1,940,382	\$ 2,081,382	\$ 17,739,352
Chiller Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ 16,755,491	\$ 9,232,919	\$ 9,093,215	\$ 19,704,102	\$ 16,062,535	\$ 22,140,993	\$ 92,989,255
<b>Total Capital Portfolio</b>	<b>\$ 118,821,484</b>	<b>\$ 73,584,882</b>	<b>\$ 73,079,923</b>	<b>\$ 73,282,526</b>	<b>\$ 74,662,063</b>	<b>\$ 72,849,578</b>	<b>\$ 486,280,456</b>

- Capital Portfolio Budget & Forecast
  - Capital Portfolio Spending by Utility and Location
  - Capital Portfolio Major Projects**
  - Capital Portfolio Gates and Phases
  - Capital Portfolio Spending by Project's Current Phase
  - Capital Portfolio Spending by Phase

6-Year Major Capital Projects	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Forecast Total <sup>3</sup>
<b>Planned Projects</b>							
Wise Substation <sup>1</sup>	\$ 8,554,408	\$ 12,166,381	\$ 2,000,000	\$ -	\$ -	\$ -	\$ 22,720,789
Rundle Substation <sup>1</sup>	\$ 500,000	\$ 850,000	\$ 3,100,000	\$ 10,966,273	\$ 6,385,226	\$ -	\$ 21,801,499
Stanley Substation <sup>1</sup>	\$ 804,904	\$ -	\$ -	\$ -	\$ 9,410,426	\$ 10,060,358	\$ 20,275,688
South Reinforcement - Transmission Line <sup>1</sup>	\$ 2,980,991	\$ 7,481,736	\$ 6,589,023	\$ 128,714	\$ -	\$ -	\$ 17,180,464
REO - CTG Overhaul	\$ -	\$ 6,000,000	\$ 6,000,000	\$ -	\$ -	\$ -	\$ 12,000,000
LGR Substation <sup>1</sup>	\$ 49,438	\$ -	\$ 3,412,737	\$ 4,961,855	\$ 3,229,978	\$ -	\$ 11,654,008
Cedar Street - Sub Cutover <sup>1</sup>	\$ 250,000	\$ -	\$ 2,303,000	\$ 1,086,000	\$ 2,293,000	\$ 1,651,000	\$ 7,583,000
Dye/Cedar Dry Chemical Handling	\$ 714,061	\$ 1,198,101	\$ 1,151,686	\$ 1,216,740	\$ 1,215,382	\$ 595,382	\$ 6,091,352
Asset Mgmt - CityWorks Implementation	\$ 1,371,404	\$ 1,484,450	\$ 1,784,893	\$ 410,234	\$ -	\$ -	\$ 5,050,981
<b>Total Major Planned Projects (Excluding Delta Energy Park)</b>	<b>\$ 15,225,206</b>	<b>\$ 29,180,668</b>	<b>\$ 26,341,339</b>	<b>\$ 18,769,816</b>	<b>\$ 22,534,012</b>	<b>\$ 12,306,740</b>	<b>\$ 124,357,781</b>
Delta Energy Park	\$ 45,342,628	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,342,628
<b>Annual Projects <sup>2</sup></b>							
Electric	\$ 15,692,000	\$ 15,692,000	\$ 12,192,000	\$ 12,192,000	\$ 12,192,000	\$ 12,578,000	\$ 80,538,000
Water	\$ 9,234,050	\$ 8,737,500	\$ 12,014,650	\$ 11,374,650	\$ 14,046,000	\$ 15,298,000	\$ 70,704,850
Steam	\$ 1,746,132	\$ 1,797,085	\$ 1,849,527	\$ 3,452,557	\$ 3,074,241	\$ 2,016,253	\$ 13,935,795
Chilled Water	\$ 50,000	\$ 51,500	\$ 53,045	\$ 54,636	\$ 56,275	\$ 57,964	\$ 323,420
Common	\$ 5,318,298	\$ 5,373,469	\$ 4,873,322	\$ 4,835,868	\$ 5,435,917	\$ 5,167,375	\$ 31,004,249
<b>Total Annual Projects</b>	<b>\$ 32,040,480</b>	<b>\$ 31,651,554</b>	<b>\$ 30,982,544</b>	<b>\$ 31,909,711</b>	<b>\$ 34,804,433</b>	<b>\$ 35,117,592</b>	<b>\$ 196,506,314</b>

<sup>1</sup> These projects support the Lansing Energy Tomorrow initiative.

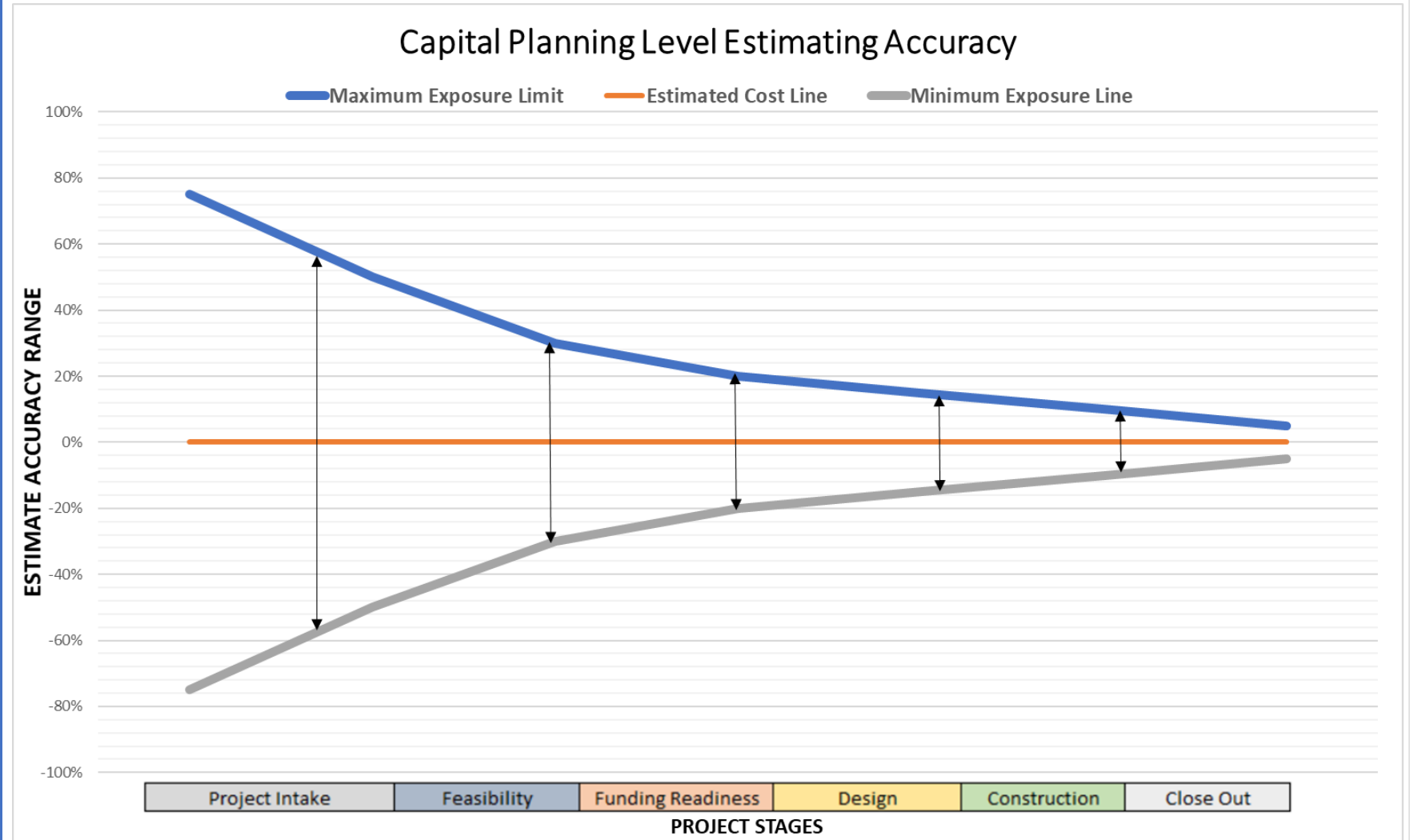
<sup>2</sup> Annual projects have some level of spending each year.

<sup>3</sup> The forecast total represents 6-year spending. Spending before or after the 6-year period is not reflected in this total.

**10** Largest Planned Projects make up 60% of Total Planned Capital



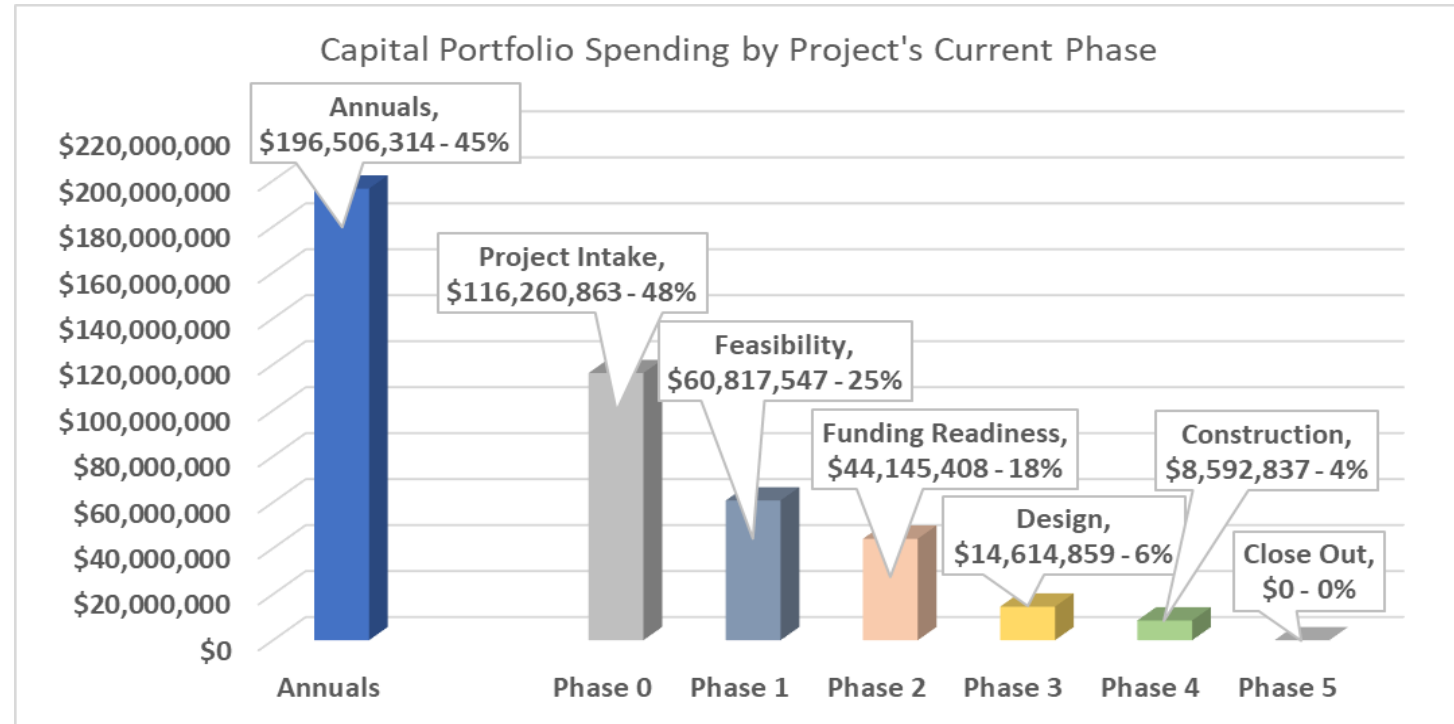
- Capital Portfolio Budget & Forecast
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**Board of Commissioners amended the Capital Project Exceedance Approval Policy (Resolution #2020-09-02) based on the portfolio approach.**

# At the start of FY 2022, where are the projects in the process?

- Capital Portfolio Budget & Forecast
  - Capital Portfolio Spending by Utility and Location
  - Capital Portfolio Major Projects
  - Capital Portfolio Gates and Phases
    - Capital Portfolio Spending by Project's Current Phase
    - Capital Portfolio Spending by Phase

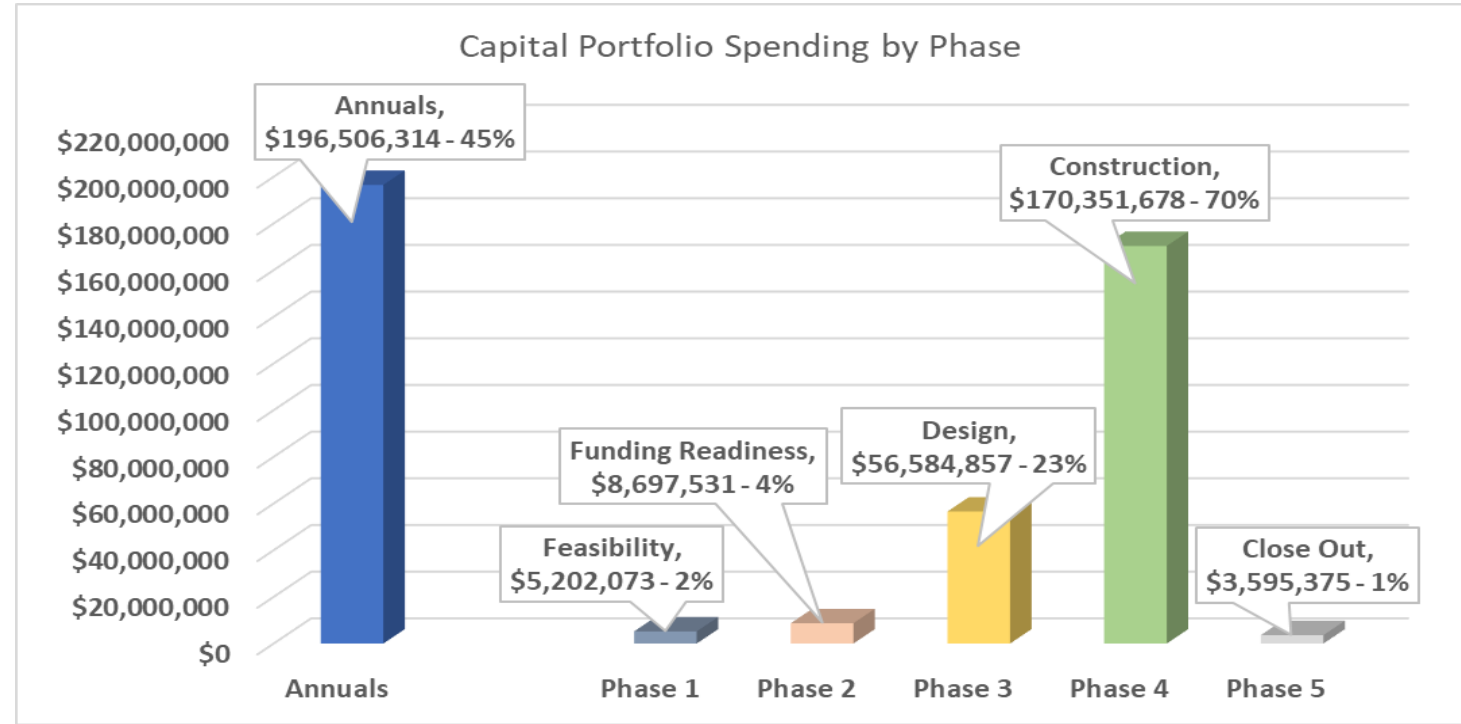


Capital Portfolio Spending by Project's Current Phase							
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Forecast Total
<b>Annual Projects <sup>1</sup></b>	\$ 32,040,480	\$ 31,651,554	\$ 30,982,544	\$ 31,909,711	\$ 34,804,433	\$ 35,117,592	\$ 196,506,314
Phase 0 - Project Intake	\$ 7,197,000	\$ 16,002,000	\$ 23,235,000	\$ 23,218,999	\$ 19,616,618	\$ 26,991,246	\$ 116,260,863
Phase 1 - Feasibility	\$ 2,568,403	\$ 2,543,101	\$ 7,664,423	\$ 17,144,868	\$ 20,241,012	\$ 10,655,740	\$ 60,817,547
Phase 2 - Funding Readiness	\$ 14,971,554	\$ 20,456,117	\$ 8,589,023	\$ 128,714	\$ -	\$ -	\$ 44,145,408
Phase 3 - Design	\$ 10,475,282	\$ 1,789,450	\$ 1,784,893	\$ 480,234	\$ -	\$ 85,000	\$ 14,614,859
Phase 4 - Construction	\$ 6,226,137	\$ 1,142,660	\$ 824,040	\$ 400,000	\$ -	\$ -	\$ 8,592,837
Phase 5 - Close Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Planned Projects</b>	\$ 41,438,376	\$ 41,933,328	\$ 42,097,379	\$ 41,372,815	\$ 39,857,630	\$ 37,731,986	\$ 244,431,514
<b>Total Capital Portfolio</b>	\$ 73,478,856	\$ 73,584,882	\$ 73,079,923	\$ 73,282,526	\$ 74,662,063	\$ 72,849,578	\$ 440,937,828

<sup>1</sup> Annual projects reoccur every year and require a relatively short period of time to complete.

# Throughout the life of the projects, where are the dollars going to be spent?

- Capital Portfolio Budget & Forecast
  - Capital Portfolio Spending by Utility and Location
  - Capital Portfolio Major Projects
  - Capital Portfolio Gates and Phases
  - Capital Portfolio Spending by Project's Current Phase
- Capital Portfolio Spending by Phase



Capital Portfolio Spending by Phase							
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Forecast Total
<b>Annual Projects <sup>1</sup></b>	\$ 32,040,480	\$ 31,651,554	\$ 30,982,544	\$ 31,909,711	\$ 34,804,433	\$ 35,117,592	\$ 196,506,314
Phase 1 - Feasibility	\$ 2,453,235	\$ 742,045	\$ 609,346	\$ 487,490	\$ 393,299	\$ 516,659	\$ 5,202,073
Phase 2 - Funding Readiness	\$ 4,252,983	\$ 2,861,194	\$ 430,399	\$ 339,660	\$ 430,519	\$ 382,775	\$ 8,697,531
Phase 3 - Design	\$ 10,088,407	\$ 5,206,198	\$ 9,298,928	\$ 7,361,396	\$ 11,855,167	\$ 12,774,762	\$ 56,584,857
Phase 4 - Construction	\$ 24,610,451	\$ 32,809,891	\$ 31,040,657	\$ 32,574,779	\$ 25,916,768	\$ 23,399,132	\$ 170,351,678
Phase 5 - Close Out	\$ 33,300	\$ 314,000	\$ 718,049	\$ 609,490	\$ 1,261,878	\$ 658,659	\$ 3,595,375
<b>Total Planned Projects</b>	\$ 41,438,376	\$ 41,933,328	\$ 42,097,379	\$ 41,372,815	\$ 39,857,630	\$ 37,731,986	\$ 244,431,514
<b>Total Capital Portfolio</b>	\$ 73,478,856	\$ 73,584,882	\$ 73,079,923	\$ 73,282,526	\$ 74,662,063	\$ 72,849,578	\$ 440,937,828

<sup>1</sup> Annual projects reoccur every year and require a relatively short period of time to complete.

# Next Steps



## November 2020 – February 2021

- Budget Process Start
- Prepare Capital Budget
- Set Financial Targets
- Request Department Budgets
- Revenue Projections



## March – April 2021

- Compile Budget & Forecast
- Internal Review and Approval



## May 2021

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2022 – 2027 and recommend for Board of Commissioners' approval on May 25, 2021.
- Board of Commissioners to approve, as presented, the FY 2022 annual budget and file with the City Clerk within 10 days of approval.
- Board of Commissioners to accept, as presented, the Operating and Capital Forecast for FY 2022 – 2027 and submit the Capital Forecast to the Mayor prior to October 1, 2021.

Proposed Resolution  
Fiscal Year 2022-2027 Budget and Forecast

RESOLVED, that the Annual Operating and Capital Budget covering Fiscal Year 2022 is hereby approved as presented; and

RESOLVED, that the Operating and Capital Forecast for the Fiscal Years 2023-2027 is hereby accepted as presented; and

FURTHER RESOLVED, that the Corporate Secretary be directed to make the appropriate filings with the Lansing City Clerk's office in accordance with the Lansing City Charter regarding the above actions.

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Staff Comments:

Staff recommends an operating and maintenance budget of \$340.2M and a capital budget of \$118.8M for Fiscal Year 2022.

The Operating and Capital Forecast for Fiscal Years 2023-2027 includes potential rate increases in Fiscal Years 2023-2027. The potential rate increases are for forecast purposes only and have not been approved through a public rate hearing process. The forecast rate increases are subject to revision and, in any case, prior to implementation, must be subject to the BWL's formal rate setting process as per Lansing City Charter, Section 5-205 which refers to the BWL's authority to set just and reasonable rates and defines the public hearing process.

In accordance with the provisions of the Lansing City Charter, Article 5, Chapter 2, Section 5-203.5 and Section 5-203.6, staff recommends the Finance Committee approve the budget and forecast for presentation and adoption by the Board at its May 25, 2021 board meeting.



# Internal Audit Status Report

Presented by:  
Wesley Lewis, Director of Internal Audit  
Finance Committee Meeting  
May 11, 2021

# Overview

- Audit Progress Report
- FY 2022 Risk Assessment Update
- Other Items

# Audit Progress Report

## Audit Engagements and Activities in Audit Plan Completed, Currently Underway, Scheduled to Start, or Changed

1. Unbilled Accounts Receivable – Audit Status: Completed, Audit Report Issued 3/17/2021
2. Purchase Card Usage and Control – Audit Status: Completed, Audit Report Issued 3/30/2021
3. MPPA and MISO Billings – Audit fieldwork is done. Now, this audit is in currently in issues discussion resolution with management. This has delayed the completion of the engagement. New Estimated Time of Completion: May 2021
4. Cybersecurity Process and IT Vulnerabilities – BWL and BDO reached an agreement on terms and conditions in late March, and now BDO has engaged in conducting this audit engagement. New Estimated Time of Completion: TBD (could be 4-6 weeks depending on how the engagement goes)
5. Corporate Governance – Strategic Plan and Ethical Advocate System (Includes Hotline) – Update: a) Strategic Plan – Due to the revamping of the current process into a new one, which has resulted from the January 2021 approval of the new plan by the Board, and through concurring discussions with the process owner, IA determined that it would make sense to postpone the audit engagement to a future fiscal period. B) Ethical Advocate – The same situation applies to this audit engagement. The new process went live in September 2020 and replaced the General Manager’s Hotline.
6. Other Audit Activities - Ongoing

Note: *Estimated Start and Completion Times of All Engagements Listed Above Are Subject to Change.*



# **FY 2022 Risk Assessment Process**

## **Update**

- 1. Initial input was received from Management during March and April 2021.**
- 2. Follow-up with them has taken place.**
- 3. IA has already started risk ranking business processes that are due for audit. This process will be done before mid-May 2021.**
- 4. A preliminary audit plan will be ready to share with the Finance Committee for initial feedback mid-May 2021. This will be reviewed and tweaked as necessary.**
- 5. IA will share the audit plan with the CFO toward the end of May for their review and feedback.**
- 6. IA will present the audit plan to Senior Management during the second week of June 2021 for their review and feedback.**
- 7. IA will present the audit plan to the Finance Committee for its consideration and approval during its July 2021 meeting.**
- 8. The Finance Committee will present the audit plan as part of its report to the BOC for its consideration and approval during its July 2021 meeting.**

# Other Items

1. Update on Ongoing Education and Certification of IA Staff