



FINANCE COMMITTEE MEETING

AGENDA

November 7, 2017

5:30 p.m.—1201 S. Washington Ave.

Lansing, MI — REO Town Depot

Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of September 19, 2017.....TAB 1
2. September YTD Financial Summary.....TAB 2
3. Capital Project Exceedance Approval.....TAB 3
 - a. Canal Substation Distribution-Resolution
 - b. Enterprise Service Bus-Resolution
4. Internal Audit Open Management Response Quarterly Report.....TAB 4
5. Internal Auditor Status Report.....TAB 5

Other

Adjourn

**FINANCE COMMITTEE
Meeting Minutes
September 19, 2017**

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, September 19, 2017.

Finance Committee Chair Ken Ross called the meeting to order and requested a roll call.

Present: Commissioners Ken Ross, David Price, and Sandra Zerkle serving as an alternate. Also present: Non-Voting Commissioners William Long and Robert Nelson.

Absent: Commissioners Beth Graham and Dennis Louney

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

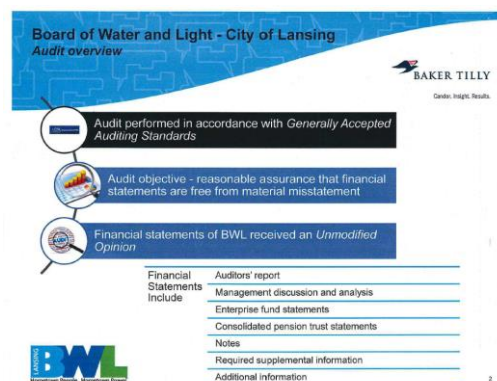
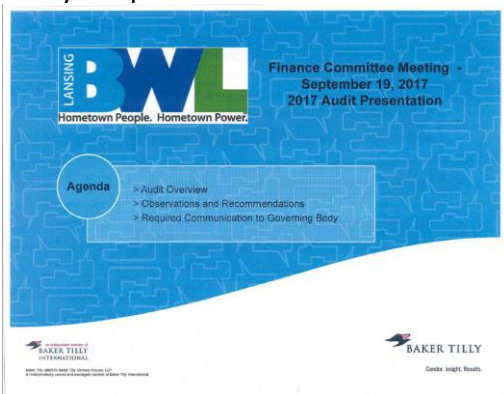
Motion by Commissioner Price, **Seconded** by Commissioner Zerkle, to approve the Finance Committee meeting minutes of July 11, 2017.

Action: Motion Carried.

Baker Tilly External Audit Report and Resolution

Chief Financial Officer Heather Shawa introduced external auditor Bethany Ryers, CPA and Senior Manager at Baker Tilly Virchow Krause, LLP. Ms. Ryers presented and highlighted the external audit report which included an audit overview, observations and recommendations, and the ICPA audit standards. BWL received an unmodified or clean opinion which is the highest level of assurance provided. No material weaknesses or significant deficiencies were noted.

Ms. Ryers' presentation was as follows:



Board of Water and Light - City of Lansing
Audit overview



Center Insight Results



Audit assesses internal controls



"...a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources."



Controls must meet the goal and objectives of Operations, Reporting and Compliance



3

Board of Water and Light - City of Lansing
Audit overview



Center Insight Results

Controls reviewed in key transaction areas

Disbursements

Payroll

Billings

Cash and investments

Capital assets

Information technology

Financial reporting



4

Board of Water and Light - City of Lansing
Observations and recommendations
Enterprise Fund



Center Insight Results

- > Reported net income of \$4,329,000 after impairment on Erickson Power Station of \$9,337,000
- > Bond coverage was met in 2017
- > There were no material weaknesses reported
- > The combined deficiencies in control related to information technology that were reported as part of the 2016 audit have been properly addressed to resolve this issue going forward



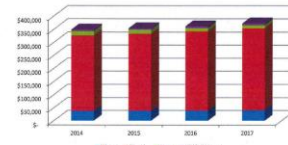
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Board of Water and Light - City of Lansing
Observations and recommendations
Enterprise Fund



Center Insight Results

Operating Revenues – Four-year Comparison (in thousands)



	2014	2015	2016	2017
Water	\$ 37,247	\$ 37,510	\$ 38,731	\$ 40,738
Electric	289,114	295,048	305,346	312,823
Steam	16,324	14,939	13,083	11,464
Chilled Water	3,397	3,588	6,776	6,383
Operating Revenue	\$ 346,122	\$ 351,085	\$ 364,236	\$ 374,414



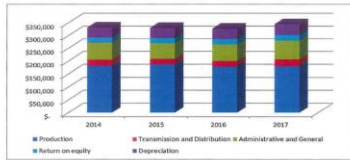
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Board of Water and Light - City of Lansing
Observations and recommendations
Enterprise Fund



Center Insight Results

Operating Expenses – Four-year Comparison (in thousands)



	2014	2015	2016	2017
Production	\$ 182,244	\$ 187,792	\$ 178,959	\$ 180,513
Transmission and Distribution Administrative and General	22,093	20,870	22,291	25,588
Administrative and General	66,583	61,298	64,007	73,449
Return on equity	20,608	20,840	21,034	21,862
Depreciation	38,997	39,301	41,541	42,539
Operating Expenses	\$ 340,525	\$ 329,861	\$ 327,832	\$ 344,951



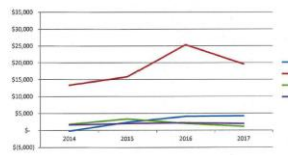
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Board of Water and Light - City of Lansing
Observations and recommendations
Enterprise Fund



Center Insight Results

Operating Income – Four-year Comparison (in thousands)



	2014	2015	2016	2017
Water	\$ (295)	\$ 2,388	\$ 4,099	\$ 4,237
Electric	13,369	15,863	20,885	19,619
Steam	1,802	3,352	2,047	1,177
Chilled Water	1,625	3,018	3,271	3,995
Operating Income	\$ 16,501	\$ 22,521	\$ 30,302	\$ 27,028



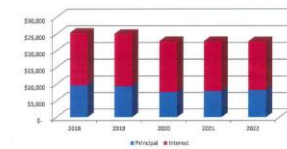
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Board of Water and Light - City of Lansing
Observations and recommendations
Enterprise Fund



Center Insight Results

Future Debt Service Requirements (in thousands)



	2018	2019	2020	2021	2022
Principal	\$ 9,615	\$ 9,997	\$ 7,624	\$ 7,956	\$ 6,264
Interest	15,748	15,396	15,381	14,848	14,493



Debt service after 2022 includes remaining principal payments of \$281,800,000 and interest payments of \$175,326,000.

9

Board of Water and Light - City of Lansing
Observations and recommendations
Pension Plans



Center Insight Results

- > Separate financial statements issued for each pension plan
- > GASB Statement No. 74 was implemented for the Retiree Benefit Plan and Trust
- > All three plans received unmodified audit opinions



10

Board of Water and Light - City of Lansing
Observations and recommendations

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Future accounting standards

- > GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* – effective for fiscal year 2018
- > GASB Statement No. 83 *Certain Asset Retirement Obligations* – effective for fiscal year 2019

11

Board of Water and Light - City of Lansing
Auditor communication to those charged with governance

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Area to be Communicated	Area to be Communicated
Our responsibility under Auditing Standards Generally Accepted in the United States	Other Information in Documents Containing Audited Financial Statements
Planned Scope and Timing of the Audit	Accounting Policies
Accounting Estimates	Financial Statement Disclosures
Difficulties Encountered in Performing the Audit	Corrected and Uncorrected Misstatements
Disagreements with Management	Consultations with Other Independent Accountants
Management Representations	Auditor Independence

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12

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We appreciate the help of the Board of Water and Light General Accounting & Finance Teams in preparing for and assisting in the audit!

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13

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Discussion

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14

Contact info

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15

Commissioner Nelson inquired about the IT issue from 2016 and Ms. Ryers responded that the deficiency was from the prior year and had been resolved.

Commissioner Ross commented about the GASB Statement No. 74 for retirement benefits being a new schedule, net position vs liability, how well funded the plan is and asked for an explanation for net liability as a percentage of covered employee payroll. Ms. Ryers responded that the information is required supplementary information based on the new GASB No. 74 standard and net liability as a percentage of covered employee payroll informs where the funding stands.

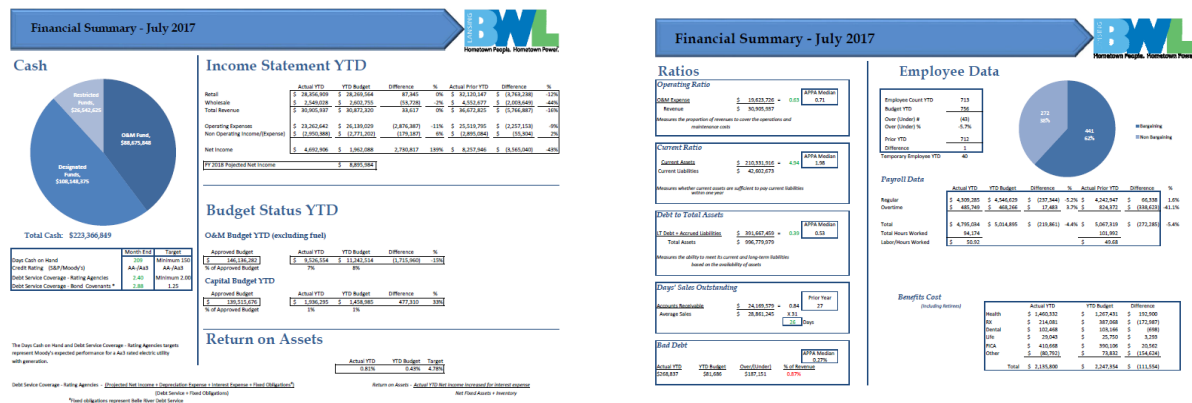
Commissioner Long inquired about the promissory note to the City of Lansing in the amount of \$13.2 million. Ms. Shawa responded that this note was for a CSO project and that annual payments of \$800,000 to \$900,000 are made and there will be a catch-up payment in fiscal year 2018 for 2017.

Motion by Commissioner Price, **Seconded** by Commissioner Zerkle, to forward to the Board Meeting the Acceptance of the 2017 Audited Financial Statements Resolution.

Action: Motion Carried.

July YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa, presented the following:



CFO Heather Shawa presented the July 2017 Year-to-date Financial Summary which indicated that the total Cash is over \$223M, Days Cash on hand is \$209M, and debt service coverage ratio is 2.40. The Year-to-date income statement as of July YTD is meeting budget by \$2.7M. The projected fiscal-year-end net income has not been changed from the FY18 budget and the revenue for the first month is at break even. Ms. Shawa also mentioned that four out of the five ratios are being met.

FY2018-2023 Financial Forecast Plan and Resolution

Ms. Shawa presented the FY2018-2023 Financial Plan.



FY 2018 – 2023 Financial Plan

- Six Year Operating Forecast
 - Financial Goals
 - Returns on Assets
 - Financial Assumptions
 - Financial Forecast
 - Metrics by Utility
- Six Year Capital Forecast
 - Total Capital Forecast
 - Major Capital Projects
- Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecasts for FY 2018 – 2023 and recommend for Board of Commissioners' approval on September 26, 2017.
- Board of Commissioners to adopt, as presented, the Operating and Capital Forecasts for FY 2018 – 2023 and submit the Capital Forecast to the Mayor prior to October 1, 2017.
 - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1.



Ms. Shawa noted that there is an assumption built into the forecast—that GM will renew its steam contract which expires October 1, 2022. Updates will be provided as the date approaches. In addition, an attrition factor of retirements and resignations plus possible increases in health care costs are built into the forecast.

Motion by Commissioner Price, **Seconded** by Commissioner Zerkle, to accept as presented the Operating and Capital Forecasts for FY 2018-2023 and to forward to the Board Meeting for consideration.

Action: Motion Carried.

Rate Strategy Recommendations FY 2018-2023

Chief Financial Officer Heather Shawa presented the Rate Strategy Recommendations for FY 2018-2023.

Ms. Shawa noted the Rate Strategy Timeline and a key date for a Special Board meeting on December 5, 2017.

Rate Strategy Timeline

- City clerk filing of proposed tariffs by October 16, 2017
 - The city clerk filing is due 45 days prior to public hearing.
- Publication of Notice by November 15, 2017
 - The publication of notice must be at least 14 days prior to the public hearing.
- Public hearing on November 30, 2017
 - The public hearing must be at least 30 days prior to rate implementation.
- Proposed Special Board meeting for final tariff approval on December 5, 2017
- Rate Strategy Implementation on February 1, 2018



Ms. Shawa reviewed the following highlighted BWL Rate Making Principles, Financial Stewardship, and Proposed Rate Strategy Impacts:

BWL Rate Making Principles

- In accordance with Resolution 2000-1-3, the board has established the following rate making principles.
- Rates shall be established at a level that will enable the Board of Water and Light (BWL) to meet its mission of serving the Greater Lansing area by providing high quality utility services, reliability, at the lowest reasonable cost.
- The BWL shall recover the costs of serving its customers through its rates. Rates and charges should be sufficient to cover all O&M expenses, payment to the city, depreciation expense, and a reasonable return on the BWL's capital investment.
- The return on the BWL's capital investment shall be sufficient to provide cash flow for debt service, bond coverage, and capital improvements.
- Those who benefit from the BWL's services should pay for those services.
- Rates for each class of customer should, as nearly as practicable, reflect the cost of providing service to that class.
- Each utility managed by the BWL should be self-supporting. No utility should subsidize any other utility.
- Rates should be reviewed annually and adjusted as deemed necessary to maintain the financial integrity of the BWL and minimize the financial impact on our customers.
- Rates shall be established and implemented according to Lansing City Charter, Section 4-205 refers to the BWL's authority to set just and reasonable rates and defines the public hearing process.



Financial Stewardship

Maintain Above Average Bond Rating

Key Metrics with No Rate Increases

Six Year Forecast: FY 2018 - FY 2023					
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Net Income and Financial Metrics WITHOUT Proposed Rate Increases					
Net Income (Loss)	\$ -4,864,479	\$ 15,827,295	\$ 15,099,492	\$ 15,921	\$ 128,007,203
Electric	\$ -	\$ -	\$ 14,827,176	\$ 14,827,176	\$ 14,827,176
Water	\$ 183,373	\$ 86,744	\$ 1,423,176	\$ 1,423,176	\$ 1,423,176
Steam	\$ 183,348	\$ 1,073,070	\$ 11,847,070	\$ 11,847,070	\$ 11,847,070
Other Water	\$ 88,133	\$ 975,989	\$ 1,024,084	\$ 1,024,084	\$ 1,024,084
Oil Refining Term	\$ 5,748,011	\$ 1,825,451	\$ 11,009,781	\$ 11,009,781	\$ 11,009,781
Key Cash on Hand Minimum Target: 150 Days Debt Service Coverage Minimum Target: 1.00 Board Approval Return on Assets as of FY 2018: 4.76%					
Cash on Hand	1,161	1,161	1,161	1,161	1,161
Debt Service Coverage	2.33	2.65	2.62	2.62	2.38
Return on Assets	0.26%	0.96%	1.30%	1.64%	1.13%
Net Income and Financial Metrics WITH Proposed Rate Increases					
Net Income (Loss)	\$ 4,084,693	\$ 11,933,160	\$ 20,027,136	\$ 17,703,991	\$ 1,654,701
Electric	\$ -	\$ -	\$ 14,827,176	\$ 14,827,176	\$ 14,827,176
Water	\$ 1,320,586	\$ 2,753,208	\$ 4,096,130	\$ 4,462,138	\$ 4,242,079
Steam	\$ 1,020,010	\$ 25,170	\$ 299,489	\$ 1,528,918	\$ 88,791
Other Water	\$ 938,113	\$ 975,989	\$ 1,024,084	\$ 1,024,084	\$ 1,024,084
Oil Refining Term	\$ 8,795,084	\$ 26,266,103	\$ 16,264,619	\$ 23,266,118	\$ 24,264,118
Key Cash on Hand Minimum Target: 150 Days Debt Service Coverage Minimum Target: 1.00 Board Approval Return on Assets as of FY 2018: 4.76%					
Cash on Hand	1,161	1,161	1,161	1,161	1,161
Debt Service Coverage	2.28	2.08	2.32	2.20	2.38
Return on Assets	0.26%	0.96%	1.30%	1.64%	1.13%



Impact of Proposed Rate Strategy
Reflects February 1st Implementation each Fiscal Year

FY 2018 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income		Return On Assets	
		Without Increases	With Increases	Without Increases	With Increases
Electric	3.0%	\$ 4,861,473	\$ 6,982,091	2.09%	3.03%
Water	5.0%	\$ 587,373	\$ 1,031,996	1.09%	1.98%
Steam	5.0%	\$ 833,468	\$ 1,026,026	1.79%	2.25%
Chilled Water	0.0%	\$ 528,333	\$ 528,333	0.73%	0.73%
All Utilities Total	3.0%	\$ 6,800,647	\$ 9,568,446	2.29%	3.00%

FY 2019 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income		Return On Assets	
		Without Increases	With Increases	Without Increases	With Increases
Electric	3.0%	\$ 5,927,046	\$ 8,515,382	2.15%	3.18%
Water	7.0%	\$ 86,344	\$ 1,521,008	0.62%	1.88%
Steam	7.0%	\$ 1,033,320	\$ 1,094,151	1.09%	1.09%
Chilled Water	0.0%	\$ 528,333	\$ 528,333	0.73%	0.73%
All Utilities Total	5.0%	\$ 7,535,043	\$ 11,658,874	2.65%	3.90%

FY 2020 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income		Return On Assets	
		Without Increases	With Increases	Without Increases	With Increases
Electric	3.0%	\$ 6,091,492	\$ 8,527,136	2.20%	3.04%
Water	7.0%	\$ 1,427,178	\$ 1,521,008	0.90%	1.90%
Steam	7.0%	\$ 1,037,302	\$ 1,094,151	1.09%	1.09%
Chilled Water	0.0%	\$ 1,033,333	\$ 1,033,333	1.40%	1.40%
All Utilities Total	3.0%	\$ 8,589,285	\$ 12,175,628	2.60%	3.40%

Commissioner Ross asked Ms. Shawa if she was able to monetize and estimate how much of savings there was and Ms. Shawa responded that we are not able to now but are able to looking forward.

Ms. Shawa introduced Mark Beauchamp, President of Utility Financial Solutions (UFS), BWL's Cost of Service Study Consultant, who talked about industry trends nationally and reviewed the following electric, water, steam and chilled water rate strategies:

Electric Cost of Service Process: Overview

- Annually, BWL completes a cost of service (COS) study
 - Historically, the results were not used to guide rate design for our general rate classes; rather, BWL applied the same percentage increase to each rate class.
 - In 2014, BWL started the process to move street lights to cost of service
- To better match the cost recovery with cost causation and remain competitive, BWL recommends to move rates towards cost of service for the first time
 - This is consistent with State of Michigan policy of establishing rates consistent with cost of service.
- BWL contracted with Utility Financial Solutions (UFS) to update our cost of service model
 - Cost of service studies compare revenues from each class of customers with the cost to provide service to each class
- Financial forecast called for a 3% overall increase; so BWL determined that all rate classes would receive at least a 2% annual increase, but no more than a 5% to move rates towards cost of service
 - This will cause a gradual movement towards cost of service

Electric Strategy: Overview, Annual Net Income Impact, Changes by Rate

- Staff reviewed and updated the cost of service model with the help of Utility Financial Solutions (UFS)
 - UFS is a well-established consultant for utilities
 - Frequently presents at American Public Power Association (APPA) conferences and works with many municipal utilities
- Summary of Recommendations from Study:
 - 3% overall increase each fiscal year
 - Move rates towards cost of service
 - Increase customer charges and demand charges
 - Add High Load Factor Rate
 - Add LED rates for street lighting and outdoor protective lighting
 - Update voluntary renewable program (Green Wise)
 - Update Rate 11 to all Unmetered Services
- Other Recommendations
 - Reduce Renewable Energy Plan (REP) surcharge to 50
 - Increase Energy Optimization (EO) surcharge
 - Update Modified Net Metering Language
 - Pole Attachments to move from Rules & Regulations to a tariff
 - Energy Cost Adjustment (ECA) baseline adjustment
 - Change name to Power Supply Cost Recovery (PSCR)

Electric Strategy: Overview, Annual Net Income Impact, Changes by Rate

FY 2018 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income		Return On Assets	
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All Utilities Total	3.0%	\$ 8,589,285	\$ 12,175,628	2.60%	3.40%

Electric Strategy: Overview, Annual Net Income Impact, Changes by Rate

Rate	COS	Feb-18	Feb-19	Feb-20
Rate 1, Residential	12.4%	3.90%	3.90%	3.90%
Rate 21, Senior Citizen Residential	46.4%	3.90%	3.90%	3.90%
Rate 22, Electric Vehicles	-14.3%	2.00%	2.00%	2.00%
Rate 3, General Service	1.9%	3.25%	3.25%	3.25%
Rate 5, Municipal Pumping	15.9%	4.50%	4.50%	4.50%
Rate 12, Space and Water Heating	-8.1%	2.00%	2.00%	2.00%
Rate 4, Large General Service	-1.7%	2.90%	1.90%	1.90%
Rate 5, Primary Service	-5.5%	1.55%	1.55%	1.55%
Rate 6, High Load Factor	NEW	NEW	3.00%	3.00%
Rate 8, Large Capacity Impact	3.2%	3.25%	3.25%	3.25%
Rate 11, Unmetered Services	130.1%	9.00%	9.00%	9.00%
Rate 5, Outdoor Protective Lighting	-3.3%	2.90%	1.90%	1.90%
Rate 31, Company Owned Street Lights	15.4%	5.20%	5.20%	5.20%
Rate 31a, Company Owned Street Lights	88.2%	5.20%	5.20%	5.20%
Rate 32, Customer Owned Street Lights	-3.0%	2.90%	1.90%	1.90%
Total Electric Increase		3.00%	3.00%	3.00%

Rate 1, Residential:

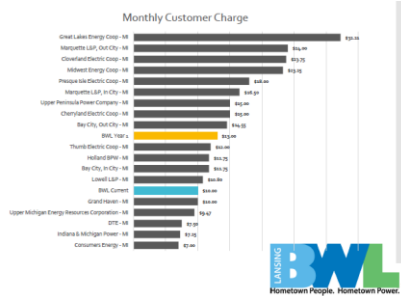
Overview

Billing Determinants

Customer Charge Survey

Comparison of Residential Electric Bills, 569 kWh Customer

Comparison to Consumers Energy, Rate Case U-18122



Water Rates:

Overview

Annual Net Income Impact

Comparison of Residential Water Bills, 6 ccf/Customer

- Rate Strategy
 - 5.5% Increase FY 2018
 - 7.5% Increase FY 2019
 - 7.5% Increase FY 2020
- Combining basic service charge for 5/8" and 3/4" meters in Rates 1 & 2 to conform to BWL standards
- BWL to review and update cost of service model in next three years



Water Rates:

Overview

Annual Net Income Impact

Comparison of Residential Water Bills, 6 ccf Customer

Utility	Proposed Rate Increase	FY 2018 Impact of Proposed Rate Increases		FY 2019 Impact of Proposed Rate Increases		FY 2020 Impact of Proposed Rate Increases			
		Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	\$ 4,861,479	2.59%	\$ 4,982,091	2.59%	\$ 4,982,091	2.59%	\$ 4,982,091	2.59%
Water	5.5%	\$ 587,673	1.05%	\$ 1,310,986	1.05%	\$ 1,310,986	1.05%	\$ 1,310,986	1.05%
Steam	5.5%	\$ 698,468	5.73%	\$ 1,046,026	5.73%	\$ 1,046,026	5.73%	\$ 1,046,026	5.73%
Chilled Water	0.0%	\$ 928,333	5.73%	\$ 928,333	5.73%	\$ 928,333	5.73%	\$ 928,333	5.73%
All Utilities Total		\$ 5,744,017	2.20%	\$ 8,895,984	2.20%	\$ 8,895,984	2.20%	\$ 8,895,984	2.20%

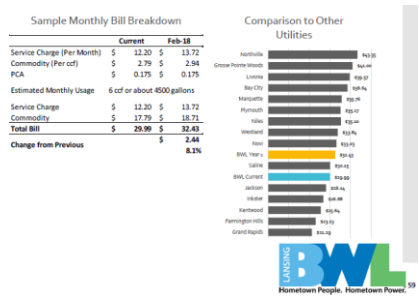


Water Rates:

Overview

Annual Net Income Impact

Comparison of Residential Water Bills, 6 ccf/Customer



Steam Rates:

Overview

Annual Net Income Impact

Comparison of Commercial Steam Bills, 100 Mlbs Customer

- Rates 1, 2, 5
 - 5.5% Increase FY 2018
 - 7.5% Increase FY 2019
 - 7.5% Increase FY 2020
- BWL to review and update cost of service model in next three years



Steam Rates:

Overview

Annual Net Income Impact

Comparison of Commercial Steam Bills, 100 Mlbs Customer

Utility	Proposed Rate Increase	FY 2018 Impact of Proposed Rate Increases		FY 2019 Impact of Proposed Rate Increases		FY 2020 Impact of Proposed Rate Increases			
		Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
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Water	5.5%	\$ 587,673	1.05%	\$ 1,310,986	1.05%	\$ 1,310,986	1.05%	\$ 1,310,986	1.05%
Steam	5.5%	\$ 698,468	5.73%	\$ 1,046,026	5.73%	\$ 1,046,026	5.73%	\$ 1,046,026	5.73%
Chilled Water	0.0%	\$ 928,333	5.73%	\$ 928,333	5.73%	\$ 928,333	5.73%	\$ 928,333	5.73%
All Utilities Total		\$ 5,744,017	2.20%	\$ 8,895,984	2.20%	\$ 8,895,984	2.20%	\$ 8,895,984	2.20%



Chilled Water Rates:

Overview

Annual Net Income Impact

- No General Increase
- Industry Factor Adjustment
 - Update language



Chilled Water Rates:

Overview

Annual Net Income Impact

Utility	Proposed Rate Increase	FY 2018 Impact of Proposed Rate Increases		FY 2019 Impact of Proposed Rate Increases		FY 2020 Impact of Proposed Rate Increases			
		Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	\$ 4,861,479	2.59%	\$ 4,982,091	2.59%	\$ 4,982,091	2.59%	\$ 4,982,091	2.59%
Water	5.5%	\$ 587,673	1.05%	\$ 1,310,986	1.05%	\$ 1,310,986	1.05%	\$ 1,310,986	1.05%
Steam	5.5%	\$ 698,468	5.73%	\$ 1,046,026	5.73%	\$ 1,046,026	5.73%	\$ 1,046,026	5.73%
Chilled Water	0.0%	\$ 928,333	5.73%	\$ 928,333	5.73%	\$ 928,333	5.73%	\$ 928,333	5.73%
All Utilities Total		\$ 5,744,017	2.20%	\$ 8,895,984	2.20%	\$ 8,895,984	2.20%	\$ 8,895,984	2.20%



Mr. Beauchamp stated that industry trends include having a power cost adjustment mechanism in place and that this is one of the most important financial policies of a foreign electric utility when it comes to bond ratings. Other policies to have in place are a cash reserve policy and a capital improvement program. Also, because of the economy, more utilities are putting economic development rights in place in a manner that doesn't harm existing repairs.

Mr. Beauchamp noted that current rates are based on pattern of usage rather than amount of usage and the industry is moving toward rates based on cost of usage. Recovery of fixed costs will be from increases in customer charges and demand charges. A new class of rates will be created for high load factor customers. Mr. Beauchamp defined demand ratchets as the

minimum that is billed in order to properly recover the investment or fixed costs in the distribution infrastructure when a customer's peak load volumes have significant variance at different times of the year.

Commissioner Nelson inquired if there was a way to give the low-income customer a separate rate. Mr. Beauchamp responded that most electric utilities do not consider themselves a social service organization. If they do provide lower rates it is at a discount based on a poverty percentage.

Commissioner Nelson inquired about the different rate increases related to cost of service and Ms. Shawa responded that those services with the larger gap will take longer to achieve cost of service so their rate increases are larger than 4.50%.

Finance Committee Chair Ken Ross recessed the meeting at 7:50 p.m. and reconvened the meeting at 7:54 p.m.

Commissioner Long inquired in reference to low income energy assistance whether it is considered a rate change or not. He suggested that some kind of language be included to leave an option for the board to opt in or opt out and to give the consumer or rate payer notice of rate changes. GM Peffley responded that if language isn't placed into the strategy then any changes are prohibited. Ms. Shawa responded that if PA95 is factored into the rate change, the residential rate increase would go to 5.1% when implemented.

Motion by Commissioner Price to include the PA95 opt in rate increase into the rate strategy.

Action: There was no second. Motion died.

Motion by Commissioner Zerkle, **Seconded** by Commissioner Price, to forward to the Board Meeting the FY 2018-2020 Rate Strategy Resolution to set the public hearing.

Commissioner Price offered a **Friendly Amendment** to change from whom the directive is coming in the resolution.

Action: Motion Carried.

Internal Auditor Charter and Resolution

Lansing Board of Water and Light
Internal Audit Charter - 2015 Revision

Mission:

The mission of internal audit is to provide independent, objective auditing and consulting services to the Board of Commissioners, enabling the Board to better serve customers, employees, and the community.

Purpose:

Internal audit's purpose is to add value and improve operations. It helps BWL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Independence:

The Internal Auditor is appointed annually by the Board of Commissioners, and reports to them through the Chair of the Finance Committee. For administrative purposes, the Internal Auditor also reports to the General Manager. To ensure independence, the internal audit function shall have no direct responsibility or any authority over any of the activities or operations of the BWL.

Authority:

Internal Audit shall have unrestricted access to all activities, records, properties, and personnel. All processes, activities, and responsibility areas are subject to audit.

Responsibility and Scope:

Management is responsible for establishing and maintaining risk management, control, and governance processes. Internal Audit is responsible to determine whether management's processes are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately accounted for and protected.
- Employees' actions are in compliance with policies, procedures, standards, laws, regulations and contracts.
- Programs, plans and objectives are achieved.

Regarding the scope of requested consulting activities, Internal Audit shall perform consulting and advisory services related to governance, risk management and control as appropriate for the organization.

1

Lansing Board of Water and Light
Internal Audit Charter - 2015 Revision

Standards:

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing (as shown in the purpose statement above), the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

As supplemental guidance for the performance of audits, the Internal Auditor shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

Internal Audit Plan:

At least annually, the Director of Internal Audit will submit to the General Manager and the Board an internal audit plan for review and Board approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. Any significant deviation from the approved internal audit plan will be communicated to the General Manager and the Board through periodic activity reports.

Periodic Assessment:

The Director of Internal Audit will communicate annually to the General Manager and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

2

Motion by Commissioner Zerkle, **Seconded** by Commissioner Price, to forward to the Board Meeting the Resolution for Acceptance of Internal Auditor Charter.

Action: Motion Carried.

Other

Motion by Commissioner Price, **Seconded** by Commissioner Zerkle, for the excused absences of Commissioners Beth Graham and Dennis Louney.

Action: Motion Carried.

Adjourn

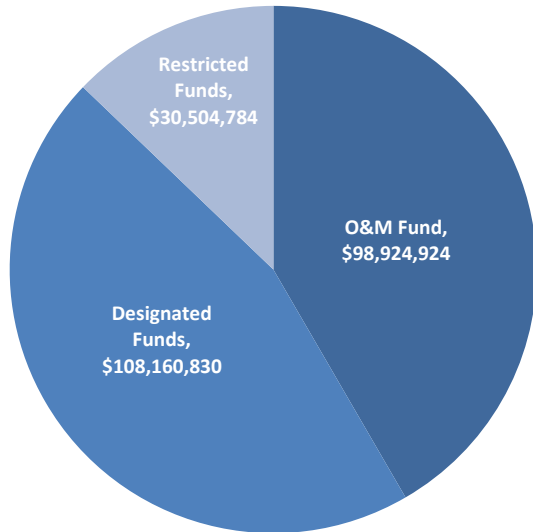
Chair Ken Ross adjourned the meeting at 8:36 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

Financial Summary - September 2017



Cash



Total Cash: \$237,590,538

	Month End	Target
Days Cash on Hand	222	Minimum 150
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage - Rating Agencies	2.40	Minimum 2.00
Debt Service Coverage - Bond Covenants *	2.88	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies targets represent Moody's expected performance for a Aa3 rated electric utility with generation.

Debt Service Coverage - Rating Agencies - $(\text{Projected Net Income} + \text{Depreciation Expense} + \text{Interest Expense} + \text{Fixed Obligations}^{\#}) / (\text{Debt Service} + \text{Fixed Obligations})$

[#]Fixed obligations represent Belle River Debt Service

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	\$ 87,820,050	\$ 85,914,705	1,905,346	2%	\$ 95,607,964	\$ (7,787,914)	-8%
Wholesale	\$ 5,890,727	\$ 5,747,365	143,361	2%	\$ 10,990,508	\$ (5,099,782)	-46%
Total Revenue	\$ 93,710,777	\$ 91,662,070	2,048,707	2%	\$ 106,598,471	\$ (12,887,695)	-12%
Operating Expenses	\$ 77,304,797	\$ 82,442,051	(5,137,254)	-6%	\$ 78,599,459	\$ (1,294,662)	-2%
Non Operating Income/(Expense)	\$ (8,256,293)	\$ (8,243,375)	(12,918)	0%	\$ (9,605,301)	\$ 1,349,008	-14%
Net Income	\$ 8,149,686	\$ 976,643	7,173,043	734%	\$ 18,393,711	\$ (10,244,025)	-56%

FY 2018 Projected Net Income \$ 8,895,984

Budget Status YTD

O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 146,136,282	\$ 37,391,470	\$ 39,284,538	(1,893,068)	-5%
% of Approved Budget	26%	27%		

Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 139,515,676	\$ 9,647,061	\$ 11,025,540	(1,378,479)	-13%
% of Approved Budget	7%	8%		

Return on Assets

Actual YTD	YTD Budget	Target
1.65%	0.57%	4.78%

Return on Assets - $\text{Actual YTD Net Income increased for interest expense} / \text{Net Fixed Assets} + \text{Inventory}$

Financial Summary - September 2017



Ratios

Operating Ratio

O&M Expense	\$ 66,403,727	=	0.71	APPA Median
Revenue	\$ 93,710,777			0.71

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

Current Ratio

Current Assets	\$ 227,524,569	=	4.18	APPA Median
Current Liabilities	\$ 54,428,579			1.98

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 402,944,667	=	0.40	APPA Median
Total Assets	\$ 1,011,513,967			0.53

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

Days Sales Outstanding

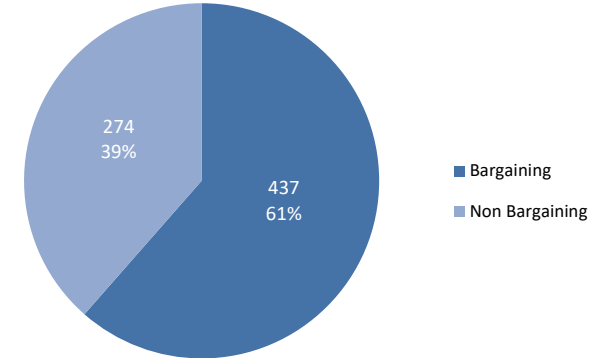
Accounts Receivable	\$ 26,181,496	=	0.83	Prior Year
Average Sales	\$ 31,402,420	X	30	24
			25	Days

Bad Debt

				APPA Median
Actual YTD	YTD Budget	Over/(Under)	% of Revenue	0.27%
\$390,617	\$245,059	\$145,558	0.42%	

Employee Data

Employee Count YTD	711
Budget YTD	757
Over (Under) #	(46)
Over (Under) %	-6.1%
Prior YTD	714
Difference	-3
Temporary Employee YTD	34



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	\$ 15,223,339	\$ 15,925,682	\$ (702,343)	-4.4%	\$ 12,585,274	\$ 2,638,065	21.0%
Overtime	\$ 1,846,181	\$ 1,487,086	\$ 359,095	24.1%	\$ 2,002,096	\$ (155,915)	-7.8%
Total	\$ 17,069,520	\$ 17,412,768	\$ (343,248)	-2.0%	\$ 14,587,370	\$ 2,482,150	17.0%
Total Hours Worked	353,899				308,637		
Labor/Hours Worked	\$ 48.23				\$ 47.26		

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	\$ 4,285,019	\$ 3,806,494	\$ 478,524
RX	\$ 758,526	\$ 1,129,704	\$ (371,178)
Dental	\$ 324,423	\$ 309,498	\$ 14,925
Life	\$ 82,495	\$ 82,250	\$ 245
FICA	\$ 1,194,182	\$ 1,109,321	\$ 84,861
Other	\$ (73,400)	\$ 207,497	\$ (280,897)
Total	\$ 6,571,245	\$ 6,644,764	\$ (73,519)

PROPOSED RESOLUTION

Capital Project Budget Exceedance Approval: Project PE-20196 Canal Substation Distribution

WHEREAS, Lansing Board of Water & Light's (BWL) Policy 15-02, entitled Capital Project Exceedance Approval necessitates BWL Board of Commission approval for specific capital projects that are expected to exceed their previously approved budget by both 15% and \$200,000 prior to completion of the project; and

WHEREAS, the previously approved budget for Capital Project PE-20196 Canal Substation Distribution was \$433,000; and

WHEREAS, the projected final total cost for Capital Project PE-20196 Canal Substation Distribution is \$943,000, should the project be completed; and

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

WHEREAS, BWL staff and management recommends that the Capital Project PE-20196 Canal Substation Distribution be completed despite the projected increased cost; and

WHEREAS, BWL staff and management recommends that the BWL Board of Commissioners approved the Capital Project PE-20196 Canal Substation Distribution to be completed as projected.

RESOLVED, the BWL Board of Commissioners approve completion of Capital Project PE-20196 Canal Substation Distribution with a projected final total cost of \$943,000.

PROPOSED RESOLUTION

Capital Project Budget Exceedance Approval: Project PG-40044 Enterprise Service Bus

WHEREAS, Lansing Board of Water & Light's (BWL) Policy 15-02, entitled Capital Project Exceedance Approval necessitates BWL Board of Commission approval for specific capital projects that are expected to exceed their previously approved budget by both 15% and \$200,000 prior to completion of the project; and

WHEREAS, the previously approved budget for Capital Project PG-40044 Enterprise Service Bus was \$1,055,000; and

WHEREAS, the projected final total cost for Capital Project PG-40044 Enterprise Service Bus is \$1,681,000, should the project be completed; and

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

WHEREAS, BWL staff and management recommends that the Capital Project PG-40044 Enterprise Service Bus be completed despite the projected increased cost; and

WHEREAS, BWL staff and management recommends that the BWL Board of Commissioners approved the Capital Project PG-40044 Enterprise Service Bus to be completed as projected.

RESOLVED, the BWL Board of Commissioners approve completion of Capital Project PG-40044 Enterprise Service Bus with a projected final total cost of \$1,681,000.

STATUS OF MANAGEMENT RESPONSES TO AUDITS

OCTOBER 2017



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
45	Performance Evaluation & Compensation	Internal Audit recommended additional standardization of performance evaluation procedures.	Jan 2017	Human Resources	Further development of the BWL performance management process for non-bargaining employees is underway, including additional participation throughout the year and goals and objectives in line with the new BWL Strategic Plan. The SMART concept already in use will be expanded upon (i.e., employee performance goals are SMART, which stands for Specific, Measurable, Action-oriented, Realistic and Time bound). Estimated completion date is 7/1/18.
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Human Resources will coordinate an update of job descriptions, in collaboration with each area throughout the organization. This project will incorporate multiple phases, beginning with planning and identifying needed resources. Estimated project completion is 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	Decoupling of base and merit increases is already underway, including budgeting of the two separate categories of increases for fiscal 2018 and development of corresponding instructional information. Project completion is expected by 7/1/18.
50	Follow-Up of Training & Development Audit	Internal Audit noted the need to reemphasize use of LMS and continue with refresher training.	May 2017	Training & Development	Refresher training in LMS will be provided by 1/31/18 and use of LMS will continue to be reemphasized. <i>Four sessions have been held to date, with the completion date being extended in order to provide more alternatives for required attendees with scheduling issues.</i>
51	Follow-Up of Training & Development Audit	Internal Audit recommended Training & Development coordinate with department trainers to better ensure training completions are entered into LMS, along with considering the eventual use of LMS as the primary source for Balanced Scorecard Reporting of training time.	May 2017	Training & Development	Workshops for departmental trainers, including an online procedure for entering training completions to LMS, will be developed and delivered by 1/31/18. <i>The date has been extended in order to provide more alternatives for required attendees with scheduling issues.</i> The workshops will be followed by management's assessment of the accuracy and completeness of training documentation in LMS, concluding with a recommendation, by 3/31/18, regarding use of LMS data in Balanced Scorecard reporting.
52	COBIT Compliance	Internal Audit noted that actions should continue on as expedited a schedule as possible to reach full compliance with the adopted IT governance framework.	June 2017	Information Technology	Multiple actions and completion dates are involved, including higher-risk, as-yet-incomplete items 8.2 (Quality Management System) and 9.3 (Risk Management Plan) by 12/31/17; 3.2, 4.5, 6.2, and 8.1 (all to be provided via the new governance framework) by 12/31/18; and 4.1 (replace Cobit governance framework with CMMI), by 6/30/19. <i>Progress to-date on the higher risk items includes completion of a Three-Year Technology Roadmap, which has served to address item 1.6.</i>

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
54	Payroll Management <i>NEW</i>	The Internal Auditor would like the Internal Control section to coordinate an effort by the business areas to update the payroll internal control documentation used by Internal Audit for audit testing.	Oct 2017	General Accounting, Finance, & Human Resources	Documentation is in the process of being updated, with completion expected by 11/30/17.
E-6	IT Risk Assessment by External Auditors <i>NEW</i>	Enhance password requirements for systems that do not meet best practices (CIS, Sage, and the network): password length at least 8-10 characters, expiration at least every 90 days, last 8-24 passwords disallowed, and account disabled and required to be unlocked after 3-5 invalid login attempts.	July 2017	Information Technology	One needed enhancement remains to be accomplished: CIS password reuse, with an expected completion date of 10/31/17. Password length and reuse for Sage have been set at the maximum amounts possible, as the standards used by the external auditors are not achievable with the product.

Closed Issues (since June 2017 report):

33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	Results provided as part of November 2016 stress test included: development of specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results. Based on cost/benefit analysis, the remaining recommendations from the stress test will be incorporated into the new OMS solution, scheduled for implementation in 2018.
44	Billing	To address safety concerns associated with high consumption residential customers, management is discussing possible revisions to existing Rules and Regulations and coordination of public safety initiatives with other public agencies.	Nov 2016	Planning & Development	Applicable language has been incorporated into BWL Rules and Regulations. In addition, BWL is complying with the City of Lansing's Home Occupation Ordinance.
48	Collections	Internal Audit supports adding a requirement to check customer credit prior to opening a new account.	March 2017	Customer Service	A new tool has been implemented, to help ensure deposits are consistently and appropriately applied to new customers.
53	New Water Service Order Management <i>NEW</i>	The Internal Auditor asks that the process for entering meter set-on dates in CIS be standardized and the practice of monitoring outstanding fire service installations be formalized.	July 2017	Water Distribution	Standardization and formalization of procedures have been achieved. In addition, a new locking device has been implemented on valves which supply water to fire service installations.



Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
November 2017

Overview

- FY 2018 Audit Plan Progress Report
- Status of External Peer Review Open Recommendations
- Other Items

FY 2018 Audit Plan Progress Report

Engagements Completed:

1. Water Production Data Reporting Audit (FY 18)
2. Time Reporting Review #1
3. Surprise Cash Count #1
4. Payroll Management Audit (FY 17 carryover)

Engagements in Progress:

1. Identity and Access Management Audit (FY 17 - estimated 90% complete)
2. Follow-up Hiring Process Audit (FY 17 – estimated 90% complete)
3. Succession Planning Audit (FY 18 – 25% complete)

FY 2018 Audit Plan Progress Report (2)

Remaining Engagements:

1. Cash Receipts Audit
2. Customer Payment Arrangements/Third Party Payments Audit
3. Contract Authorization & Approval Process Audit
4. Physical Access Management Audit
5. Time Reporting Review #2
6. Surprise Cash Count #2
7. Consulting - Various

FY 2018 Audit Plan

Planned Audits:	Estimated Hours	Progress to Date
Cash Receipts	400	Start Jan 2018
IT Help/Service Desk Management	300	Probable deferral to FY19
Succession Planning	300	In progress
Customer Payment Arrangements	300	Start Feb 2018
Contract Authorization/Approval Process	300	Start Mar 2018
Physical Access Security Management	300	Start May 2018
Water Production Data Reporting	300	Completed
Other Engagements:		
Surprise Cash Counts (2)	50	1 count completed
Time Reporting Reviews (2)	150	1 review completed
Consulting – Various	350	One or more engagements in Winter-Spring 2018
Total Estimated Hours	<u>2,450</u>	

External 5-Year Independent Review

- Status of Open Recommendations:
- The CEO Hotline should be an auditable area. Internal Audit response: Concur. Internal Audit will work with management to gain access to hotline complaints that involve potentially fraudulent or otherwise illegal or unethical behavior, with the objective being to address control or procedural improvements to prevent similar incidents in the future. Estimate completion of a working approach by July 31, 2017.
- Action: A working approach was agreed upon prior to July 31, 2017. It was agreed that when IA performs the annual risk assessment and audit planning, general information about the hotline activity over the past year should be provided, including any potential fraud cases and resolution. Internal Audit may request general or detailed hotline information at any time.

External 5-Year Independent Review

- Status of Open Recommendations (cont'd):
- Audit planning should include consulting during System Development Life Cycle for major system development and acquisition. Internal Audit Response: Concur. Internal Audit is working with management to provide both informal and formal advice and consulting on current BWL major projects such as the ADMS, AMI, new plant construction, and replacement CI system, as well as any future such projects.
- Action: The Internal Auditor is now invited to monthly project status meetings on major system developments and the CFO is requesting Internal Audit consulting support as-needed for the major and other system development projects.

External 5-Year Independent Review

- Status of Open Recommendations (cont'd):
- Risk assessment discussions between the Internal Auditor and the Finance Committee should be documented so that the approval of the annual audit plan and accompanying resources reflect the results of such discussions. Internal Audit Response: Concur. The Internal Auditor will include in his recommended audit plan why the number and type of audits and resources needed are optimal based on assessed risks, and this will be documented in Finance Committee meeting minutes accordingly.
- Action: In the July 2017 Finance Committee meeting, the Internal Auditor provided explanations based on risk assessment for the number and types of audits recommended in the proposed FY 2018 audit plan, along with presentation of estimated resources needed to perform the plan. This approach will continue going forward.

Other Items

Internal Auditor Continuing Professional Education/ Certification Status:

- Completed all CPE requirements for CPA, CIA and CISA designations this year to maintain current certification/licensing status.
- CPE includes a 24-hour course on SAP Security and Audit which will be valuable in future audit planning and performance.