



**LANSING BOARD OF WATER & LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
Thursday, March 16, 2023 – 6:00 P.M.
Board of Water & Light Headquarters – REO Town Depot
1201 S. Washington Ave., Lansing, MI 48910**

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

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

AGENDA

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of January 10, 2023..... **TAB 1**
- 2. January YTD Financial Summary **TAB 2**
 - a. Capital Project Report **TAB 2(a)**
 - i. Capital Project Exceedance – Water Annuals Resolution **TAB 2(a)(i)**
 - ii. Capital Project Exceedance – Common Annuals Resolution..... **TAB 2(a)(ii)**
- 3. Retirement Planning Committee (RPC) Updates **TAB 3**
- 4. Drinking Water State Revolving Fund (DWSRF) Update **INFORMATION ONLY**
- 5. Internal Auditor RPC Audit Report..... **INFORMATION ONLY**

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
January 10, 2023

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI on Tuesday, January 10, 2023.

Finance Committee Chairperson Dusty Horwitt called the meeting to order at 6:38 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Dusty Horwitt, Semone James, Sandra Zerkle, Tony Mullen and Tracy Thomas; also present: Commissioners Beth Graham and DeShon Leek, and Non-Voting Commissioners Larry Merrill (Delta Township) and Maggie Sanders (Lansing Charter Township)
Absent: Commissioner David Price and Non-Voting Commissioner Douglas Jester (East Lansing)

The Corporate Secretary declared a quorum.

Public Comments

There were no public comments.

Approval of Minutes

Motion by Commissioner James, **Seconded** by Commissioner Zerkle, to approve the Finance Committee Meeting minutes of November 8, 2022.

Action: Motion Carried.

November YTD Financial Summary

CFO Shawa presented the November YTD Financial Summary. In response to Commissioner Zerkle, Ms. Shawa reported that the Budget YTD for O&M is \$5 million underspent. In response to Commissioner Mullen, Ms. Shawa reported that the debt to total assets ratio improves as we pay down Delta Energy Park debt. In response to Commissioner Zerkle, General Manager Peffley reported the cost of preparing for the storm, including employees, crews, lodging and meals, was a quarter of a million dollars.

Retirement Plan Committee (RPC) Updates

CFO Shawa reported on the investment and administrative activity from the Retirement Plan Committee. There will be an investment manager change in the DB and VEBA Plans, and a portfolio rebalancing in the real assets in the VEBA plan. In the Defined Contribution 401(a) and Deferred Compensation 457(b) Plans there has been a fund change and two fund share class changes. In the DB and VEBA Plans there will be changes to payment information and there was one more informational session planned in January that was held on January 6th. In response to Chairperson Horwitt, Ms. Shawa and GM Peffley reported that there was input provided and questions asked after the outreach letters were sent and during informational sessions conducted.

Bi-Annual Internal Audit Open Management Responses Update

BWL Internal Control Supervisor, Elisha Franco, presented on the internal control risk assessment completed by Plante Moran including how it relates to the Baker Tilly outside audit overview of internal controls and talked about the risk assessment results of key financial areas. She also talked about the next steps to follow up on the PA-95 internal audit.

In response to Commissioner Thomas, Ms. Shawa reported that she would provide the difference in control deficiencies from previous risk assessment results. In response to Chairperson Horwitt, Ms. Franco provided an example of a control deficiency that was remediated: a user access review was conducted on the SAP Financial system. There was no formal policy and procedure for the user access review and that was a deficiency.

PA-95 Audit Report

Director of Internal Audit Frank Macciocca presented the Internal Audit Report FY 2023-2 which included the decision by Customer Experience to forward to the Board the recommendation to opt into PA-95. In response to Commissioner Zerkle, Mr. Macciocca reported that the final result of the PA-95 audit report is that the recommendation to the Board is reasonable. GM Peffley added that the results of the distribution of the funds by agencies and the benefits to the customers will be evaluated. In response to Commissioner Zerkle and Commissioner Thomas, Mr. Macciocca provided information on the tasks and audits completed by the Internal Audit Department.

Other

Motion by Commissioner James, **Seconded** by Commissioner Zerkle for an excused absence for Commissioner David Price and Non-Voting Commissioner Douglas Jester.

Action: Motion Carried.

Adjourn

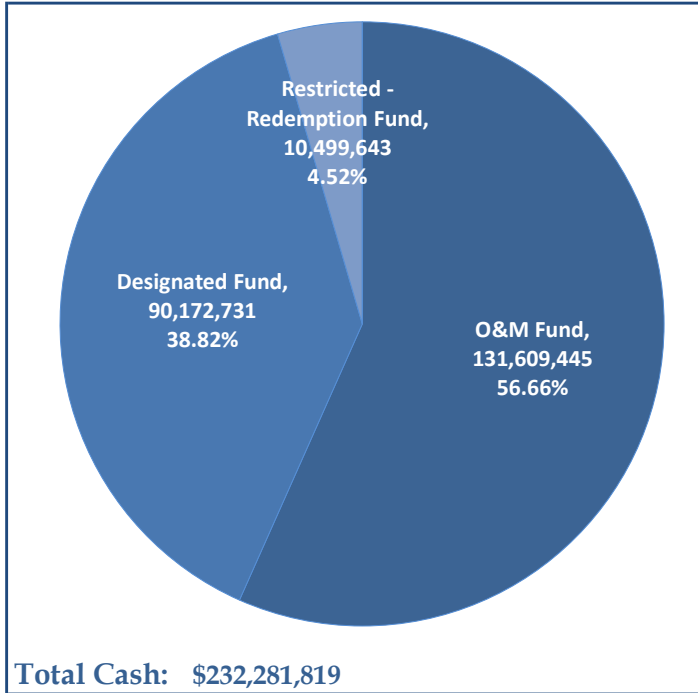
Chairperson Dusty Horwitt adjourned the meeting at 7:04 p.m.

Respectfully submitted
Dusty Horwitt, Chairperson
Finance Committee

Financial Summary - January 2023 - FY23



Cash



Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 212,818,566	\$ 193,880,697	18,937,869	10%
Wholesale	\$ 57,190,791	\$ 59,249,508	(2,058,717)	-3%
Total Revenue	\$ 270,009,357	\$ 253,130,205	16,879,152	7%
Operating Expenses	\$ 226,026,439	\$ 218,635,179	7,391,260	3%
Non Operating Income/(Exp)	\$ (29,024,408)	\$ (29,882,844)	858,436	-3%
Net Income	\$ 14,958,510	\$ 4,612,182	10,346,328	224%
FY 2023 Budgeted Net Income		\$ 5,867,605		

Budget Status YTD

O&M Budget YTD (excluding fuel)				
FY 2023 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 162,258,289	\$ 96,021,095	\$ 97,884,390	\$ (1,863,295)	-2%
% of Approved Budget	59%	60%		
Capital Budget YTD				
FY 2023 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 71,804,326	\$ 37,240,020	\$ 35,464,774	\$ 1,775,247	5%
% of Approved Budget	52%	49%		

	Month End	Target
Days Cash on Hand	218	166
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.41	2.00

Days Cash on Hand:

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

Debt Service Coverage:

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

Return on Assets

Actual YTD	Budget YTD	Target
2.43%	1.70%	4.01%

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

Financial Summary - January 2023 - FY23



Ratios

Operating Ratio

O&M Expense	\$ 184,905,713	=	0.68	APPA Median
Revenue	\$ 270,009,357			0.68

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

Current Ratio

Current Assets	\$ 250,877,366	=	3.25	APPA Median
Current Liabilities	\$ 77,079,929			1.47

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 962,938,891	=	0.57	APPA Median
Total Assets	\$ 1,674,802,327			0.54

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

Days Sales Outstanding

Average Accounts Receivable	\$ 35,549,069	x 31 =	32	Prior Year
Sales	\$ 34,909,340			32

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

Bad Debt

12 Month Rolling Bad Debt Exp	\$ 1,630,013	=	0.38%	Prior Year
12 Month Rolling Revenue	\$ 431,529,656			0.67%

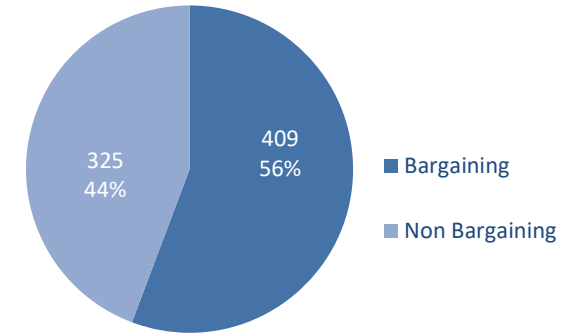
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	734
Budget YTD	756
Over/(Under) #	(22)

Full Time Equivalent	24
Temporary Employees	



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 42,268,518	\$ 43,915,967	\$ (1,647,449)	-3.8%	\$ 57.66
Overtime	\$ 4,720,033	\$ 4,873,208	\$ (153,175)	-3.1%	
Total	\$ 46,988,551	\$ 48,789,175	\$ (1,800,624)	-3.7%	
Total Hours Worked	791,651				
Labor \$/Hours Worked	\$ 59.36				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 8,850,137	\$ 11,217,121	\$ (2,366,984)
Rx	\$ 1,823,899	\$ 2,039,522	\$ (215,622)
Dental	\$ 739,910	\$ 824,484	\$ (84,574)
Life	\$ 235,919	\$ 331,919	\$ (96,000)
FICA	\$ 3,436,791	\$ 3,462,097	\$ (25,305)
Other	\$ 561,281	\$ 1,133,307	\$ (572,027)
Total	\$ 15,647,936	\$ 19,008,450	\$ (3,360,514)

Report as of January 31, 2023

Projects Sorted by the Current Projection (Highest to lowest costs)											
		FY 23		Total Project						Project Period	
Project Name	Current Phase	Budget	Projected	Designed Budget Amount	Current Projection	\$ Variance	% Variance	Total Cost Incurred To-Date	% Total Cost Incurred To-Date	Start Date	Projected Completion Date
Top Ten Planned Projects											
Stanley Substation	Phase 1 - Feasibility	\$ 508,243	\$ 141,282	TBD	\$ 34,755,348	\$ -	0.00%	\$ 116,159	0.33%	3/15/2021	12/9/2027
South Reinforcement - Transmission Line ^c	Phase 3 - Design	\$ 824,671	\$ 1,550,973	TBD	\$ 32,715,996	\$ -	0.00%	\$ 4,690,144	14.34%	9/20/2017	8/31/2025
Wise Substation - Rebuild	Phase 4 - Construction	\$ 17,893,687	\$ 11,189,874	\$ 31,520,194	\$ 29,429,339	\$ (2,090,855)	-6.63%	\$ 2,302,179	7.82%	2/1/2020	12/31/2024
Rundle Substation	Phase 2 - Funding Readiness	\$ -	\$ 49,467	TBD	\$ 24,418,502	\$ -	0.00%	\$ 515,934	2.11%	3/15/2021	6/30/2029
LGR Substation	Phase 2 - Funding Readiness	\$ 1,791,866	\$ 239,164	TBD	\$ 17,104,867	\$ -	0.00%	\$ 260,345	1.52%	3/15/2021	6/9/2026
REO CTG	Phase 4 - Construction	\$ -	\$ 13,600,000	\$ 14,600,000	\$ 14,600,000	\$ -	0.00%	\$ 10,000,000	68.49%	6/14/2022	9/29/2023
Elevated Storage	Phase 3 - Design	\$ -	\$ 1,850,764	TBD	\$ 14,350,992	\$ -	0.00%	\$ 39,303	0.27%	11/22/2022	2/1/2025
REO GM Hot Water Service	Phase 3 - Design	\$ 551,185	\$ 136,745	TBD	\$ 11,808,213	\$ -	0.00%	\$ 106,935	0.91%	11/15/2021	2/28/2026
ESRI	Phase 4 - Construction	\$ 200,000	\$ 234,928	\$ 6,520,417	\$ 6,858,243	\$ 337,826	5.18%	\$ 6,816,243	99.39%	7/30/2015	3/31/2023
Advanced Distribution Management System ^c	Phase 4 - Construction	\$ -	\$ 45,349	\$ 6,315,943	\$ 6,042,876	\$ (273,067)	-4.32%	\$ 6,042,876	100.00%	8/12/2015	3/31/2023
Total Top Ten Planned Projects		\$ 21,769,652	\$ 29,038,547					\$ 30,890,118			
Project Watch List - Projects \$150k and 10% over the Designed Budget Amount (Outside of Top Ten Planned Projects)											
Total Project Watch List		\$ -	\$ -					\$ -			
Remaining Planned											
Electric		\$ 6,461,493	\$ 9,800,314								
Water		\$ 3,507,162	\$ 2,639,372								
Steam		\$ -	\$ 156,911								
Chilled Water		\$ -	\$ -								
Common		\$ 2,103,908	\$ 1,662,943								
Total Remaining Planned		\$ 12,072,563	\$ 14,259,540								
Annual											
Electric		\$ 21,270,000	\$ 24,267,205			\$ 2,997,205	14.09%				
Water		\$ 9,372,000	\$ 12,090,735			\$ 2,718,735	29.01%				
Steam		\$ 1,245,900	\$ 2,640,814			\$ 1,394,914	111.96%				
Chilled Water		\$ 51,500	\$ 51,500			\$ -	0.00%				
Common		\$ 6,022,711	\$ 8,148,939			\$ 2,126,228	35.30%				
Total Annual		\$ 37,962,111	\$ 47,199,194								
Grand Total		\$ 71,804,326	\$ 90,497,281								

Note:
 For projects that are in Stage Gates 1-3, the Expected Total Project Cost are high level estimates that can have a significant margin of error.
 For projects that are in Stage Gates 1-3, the Expected Completion Date is subject to change as organizational priorities or project plans are reassessed.
 Variances highlighted in red are over the \$200k and 15% thresholds.
^c A portion of the projected fiscal year overage is carry over from the prior fiscal year.

Proposed Resolution
Capital Project Exceedance: AW – Water Annuals

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

WHEREAS, the previously approved budget for Capital Project AW – Water Annuals was \$9,372,000; and

WHEREAS, the projected final total cost for Capital Project AW – Water Annuals is \$12,090,735, 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 AW – Water Annuals projected spending be approved; and

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Project AW – Water Annuals with a projected final total cost of \$12,090,735.

Motion by Commissioner _____, **Seconded** by Commissioner _____, to approve the Resolution for the Capital Project Exceedance: AW – Water Annuals at a Board meeting held on _____.

Proposed Resolution
Capital Project Exceedance: AG – Common Annuals

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

WHEREAS, the previously approved budget for Capital Project AG – Common Annuals was \$6,022,711; and

WHEREAS, the projected final total cost for Capital Project AG – Common Annuals is \$8,148,939, 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 AG – Common Annuals projected spending be approved; and

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Project AG – Common Annuals with a projected final total cost of \$8,148,939.

Motion by Commissioner _____, **Seconded** by Commissioner _____, to approve the Resolution for the Capital Project Exceedance: AG – Common Annuals at a Board meeting held on _____.



RETIREMENT PLAN COMMITTEE (RPC)

Investment Activity Updates for Finance Committee: 3/16/2023

Investment Activity Update

- Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration Plan (VEBA)
 - DB & VEBA Investment Manager Changes
 - Loomis, Sayles & Company and Vanguard Russell 1000 Value will be replaced with Northern Trust S&P 500 Index Fund.
 - In progress
 - VEBA - Portfolio Rebalancing – Real Assets
 - Market value changes have brought the real assets back within the target range however due to the extended time requirements from liquidity constraints associated with rebalancing real assets, RPC will to continue forward with the rebalancing until the target value of 15% has been reached.

Investment Activity Update

- Defined Contribution 401(a) & Deferred Compensation 457(b) Plans
 - No significant new activity.



RETIREMENT PLAN COMMITTEE (RPC)

Administrative Activity Updates for Finance Committee: 3/16/2023

Administrative Activity Update

- **Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration Plan (VEBA)**
 - The quarterly calculation for the period ended December 31, 2022, was made under the terms of the VEBA Administrative Services Agreement. Investment returns and funded status were sufficient to provide for reimbursement of \$1,586,744 of \$5,905,496 in benefits paid by the Employer.
- **DB & VEBA Participant Communications**
 - As a reminder, changes have been made for administrative compliance; changes relate to how payments will appear in participant's accounts, how payments will be reported for tax purposes, and what forms and substantiation will be required for payment.
 - Human Resources continues to work with participants to ensure collection of all necessary documentation.
 - As of 3/8/23, the necessary documentation has been collected from all but 24 participants.
- **Defined Contribution & Deferred Compensation Plans**
 - No significant new activity.

Glossary

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