



LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
5:30 P.M. – February 22, 2022
1201 S. Washington Ave., Lansing, MI 48910
Board of Water & Light Headquarters – REO Town Depot

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 11, 2022..... **TAB 1**
- 2. December YTD Financial Summary & Capital Project Summary **TAB 2**
- 3. Retirement Plan Committee Updates..... **TAB 3**
- 4. Drinking Water State Revolving Fund (DWSRF)..... **TAB 4**
- 5. Internal Auditor Status Report presented by Interim Internal Auditor..... **TAB 5**

Other

Adjourn

Based on recommendations from the Centers for Disease Control the Lansing Board of Water and Light request that all meeting attendees wear a face covering.

FINANCE COMMITTEE

Meeting Minutes

January 11, 2022

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI on Tuesday, January 11, 2022.

Finance Committee Acting Chair David Price called the meeting to order at 7:24 p.m. and asked the Acting Corporate Secretary to call the roll.

Present: Commissioners Beth Graham, Semone James, David Price and Sandra Zerkle. Also, present: Commissioners Dusty Horwitt, DeShon Leek, Tracy Thomas and Non-Voting Commissioner Larry Merrill (Delta Township)

Absent: Commissioner Tony Mullen

The Acting Corporate Secretary declared a quorum.

Public Comments

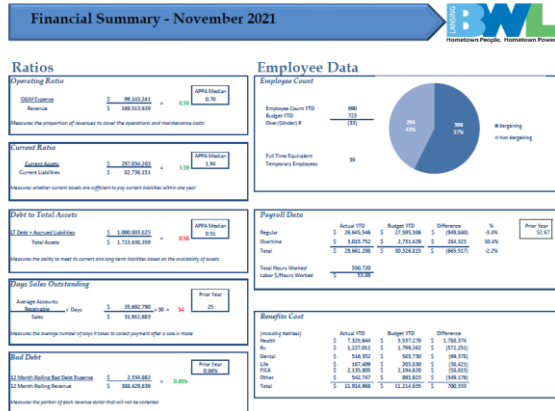
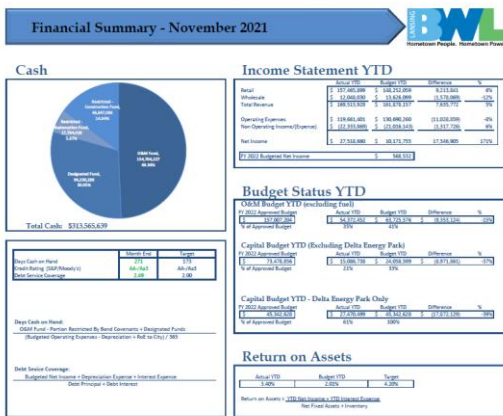
There were no public comments.

Approval of Minutes

Motion by Commissioner James, **Seconded** by Commissioner Graham to approve the Finance Committee meeting minutes of November 9, 2022.

Action: Motion Carried.

November YTD Financial Summary



* All APPL Metric numbers are for utilities with broader than 100,000 customers as obtained from the most recent "APPL Financial and Operating Metrics of Public Power Utilities Report" published in 2021.

Finance Manager, Scott Taylor gave a review of the November 2021 Year-to-date Financial Summary. Mr. Taylor reported that the Cash position is still strong. With the pandemic and bringing the new plant online, a conservative position is being maintained. The restricted construction fund will be decreasing and cash will be deployed for capital infrastructure when some items have been completed. Debt service coverage is above budget and retail sales for both commercial and residential are strong. An outage in the Erickson plant affected the wholesale numbers. Operating expenses and budget are down due to the new plant not being online and there is some impact from illnesses. Capital budget is under budget due to some delay in the supply chain. Three of the five ratios are above target. Debt to Total Assets is driven by the debt incurred with the Delta Energy Plant. Days Sales Outstanding is being affected by challenges customers have had making payments during the pandemic. Employee count and payroll data are consistent with previous data. Benefit costs have increased a little with an increase in claims but are offset with a decrease in prescription costs.

Commissioner Zerkle asked if the bad debt was decreasing toward normal levels. Mr. Taylor responded that bad debt was nearing former values from before the pandemic.

Bi-annual Internal Audit Open Management Response

Senior Internal Control Analyst, Elisha Franco, presented the bi-annual Internal Audit Open Management Response. Ms. Franco reported that mandatory training for P-Card holders is estimated to be completed by the end of January and Cyber Maturity is the only open action item under cyber security. Ms. Franco stated that the following closed action items were completed: revising and updating the P-Card manual and program on December 17, 2021 and December 21, 2021 respectively; implementing formal and written procedures for MPPA/MISO billings on August 18, 2021; and implementing a formal user access security review process for the OATI System on July 1, 2021.

Commissioner Zerkle thanked Ms. Franco for her clear, concise presentation.

Retirement Plan Committee (RPC) Updates

CFO Heather Shawa presented the Retirement Plan Committee (RPC) investment and administrative activity updates. Quarterly meetings were held with advisor ACG for the DB and VEBA Plans and with CapTrust and Nationwide for the Defined Contribution and Deferred Compensation Plans. The quarterly pension reports were emailed to the Board on December 17, 2021 and the final transition of assets from MissionSquare (ICMA-RC) to Nationwide was completed on December 21, 2021. A new account will be opened at Bank of America to handle the disbursement of pension payments for the DB Plan.

The Administrative Services Agreement for the VEBA Plan became effective January 1, 2022. A section will be added to the March 31, 2022 Quarterly Pension Report showing benefits paid on behalf of the Trust and, if applicable, the amount reimbursed from the Trust to the BWL operating account. An Approval of Plan Document Amendment was made to align with the

Centers for Medicare and Medicaid Services standards, and to clarify coverage eligibility for participants.

The Voluntary Correction Program response was filed in January 2021 to the IRS examiner for the October 29th follow-up request for the Defined Contribution & Deferred Compensation Plans. There is one item that remains for approval and acceptance of correction. The Miners Act and SECURE Act optional provisions recommended and adopted by the Board are reducing in-service distribution age from 70 ½ to 59 ½ for 457 (b) participants and allowing withdrawal of \$5,000 following birth or adoption without a 10% early withdrawal penalty.

Commissioner James asked how the amounts were selected for the optional provisions in the two acts. CFO Shawa responded that in the review meetings with the advisors, the optional provisions were determined to be an advantage to participants. Commissioner James asked if any other options were considered. CFO Shawa responded that those were the only two brought forward for the plan but the Board may suggest additional options they would like considered.

Internal Auditor Status Report

Acting Chair Price requested that the Internal Audit Status Report be postponed until the Regular Board meeting.

Other

Finance Committee Chair Tony Mullen provided by email the Commissioners with a proposed resolution to appoint BWL Principal Auditor Brian Schimke as the Interim Internal Auditor. The resolution submitted in the November 9, 2021 Finance Committee Meeting was removed from the agenda due to concerns raised by legal counsel. Legal counsel's concerns will be addressed by the BWL Human Resources Department administering this position through its normal process for interim positions.

Motion by Commissioner Graham, **Seconded** by Commissioner Zerkle to forward the resolution as amended to appoint BWL Principal Auditor Brian Schimke as the Interim Internal Auditor until the Charter Appointed position of (Director) Internal Auditor is filled by the Board of Commissioners to the full Board for consideration.

Commissioner James asked what the Interim Internal Auditor would be expected to produce for the Board during the interim period. Chair Price responded that Mr. Schimke will be producing the revised audit plan as it has been proposed. Commissioner James asked if the five-year peer review would be completed by the Interim Internal Auditor. Chair Price stated he did not have that information and requested that questions regarding the Interim Internal Auditor role be postponed until the full Board meeting.

Commissioner Zerkle asked if General Counsel Mark Matus could elaborate on why the wording in one of the Interim Internal Auditor documents included that BWL had the right to eliminate

the position when the position is appointed by the Board. Mr. Matus responded that it is standard language for contracts for interim positions.

Commissioner Thomas requested further clarification on management having the right to eliminate the position when it is a Board position. He requested that the resolution be amended to the Board having the right to eliminate the position. Mr. Matus responded that the resolution can be amended for the Board to have the discretion to eliminate the position.

Action: Motion Carried.

Adjourn

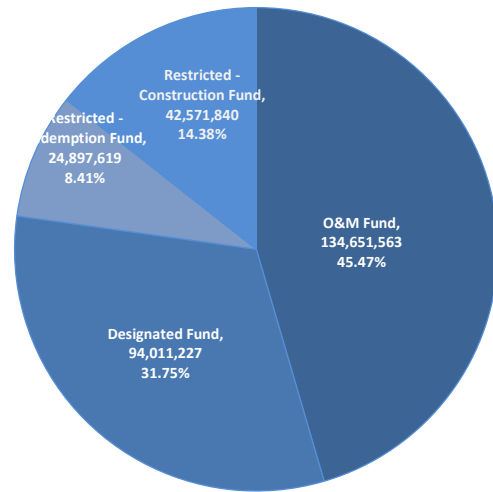
Chair David Price adjourned the meeting at 8:00 p.m.

Respectfully submitted
David Price, Acting Chair
Finance Committee

Financial Summary - December 2021



Cash



Total Cash: \$296,132,249

	Month End	Target
Days Cash on Hand	246	173
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.49	2.00

Days Cash on Hand:

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

Debt Service Coverage:

Budgeted Net Income + Depreciation Expense + Interest Expense
 Debt Principal + Debt Interest

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 186,628,628	\$ 175,521,156	11,107,472	6%
Wholesale	\$ 13,368,909	\$ 19,286,775	(5,917,866)	-31%
Total Revenue	\$ 199,997,537	\$ 194,807,932	5,189,606	3%
Operating Expenses	\$ 146,035,095	\$ 158,722,603	(12,687,507)	-8%
Non Operating Income/(Expense)	\$ (26,887,643)	\$ (25,223,780)	(1,663,863)	7%
Net Income	\$ 27,074,799	\$ 10,861,549	16,213,250	149%
FY 2022 Budgeted Net Income		\$ 568,532		

Budget Status YTD

O&M Budget YTD (excluding fuel)					
	Actual YTD	Budget YTD	Difference	%	
FY 2022 Approved Budget	\$ 157,007,204	\$ 68,449,017	\$ 75,256,314	\$ (6,807,297)	-9%
% of Approved Budget	44%	48%			
Capital Budget YTD (Excluding Delta Energy Park)					
	Actual YTD	Budget YTD	Difference	%	
FY 2022 Approved Budget	\$ 73,478,856	\$ 20,257,106	\$ 29,970,175	\$ (9,713,069)	-32%
% of Approved Budget	28%	41%			
Capital Budget YTD - Delta Energy Park Only					
	Actual YTD	Budget YTD	Difference	%	
FY 2022 Approved Budget	\$ 45,342,628	\$ 38,888,806	\$ 45,342,628	\$ (6,453,822)	-14%
% of Approved Budget	86%	100%			

Return on Assets

Actual YTD	Budget YTD	Target
3.53%	2.27%	4.20%

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

Financial Summary - December 2021



Ratios

Operating Ratio

<u>O&M Expense</u>	\$ 121,408,671	=	0.61	APPA Median 0.70
Revenue	\$ 199,997,537			

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

Current Ratio

<u>Current Assets</u>	\$ 289,929,477	=	3.31	APPA Median 1.94
Current Liabilities	\$ 87,577,548			

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

Debt to Total Assets

<u>LT Debt + Accrued Liabilities</u>	\$ 1,004,920,103	=	0.59	APPA Median 0.51
Total Assets	\$ 1,717,310,777			

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

Days Sales Outstanding

Average Accounts Receivable	\$ 35,761,267	x 31 =	36	Prior Year 25
Sales	\$ 30,483,608			

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

Bad Debt

<u>12 Month Rolling Bad Debt Expense</u>	\$ 2,589,146	=	0.67%	Prior Year 0.88%
12 Month Rolling Revenue	\$ 387,973,259			

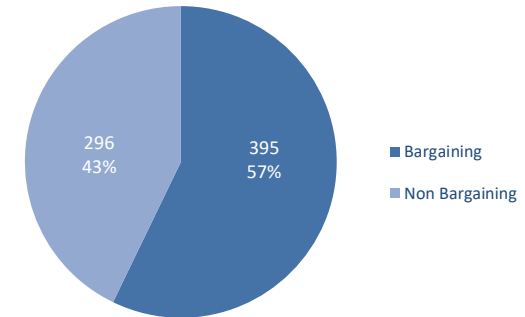
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	691
Budget YTD	723
Over/(Under) #	(32)

Full Time Equivalent	36
Temporary Employees	



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 31,613,364	\$ 32,596,060	\$ (982,696)	-3.0%	53.22
Overtime	\$ 3,801,166	\$ 3,228,052	\$ 573,114	17.8%	
Total	\$ 35,414,530	\$ 35,824,112	\$ (409,582)	-1.1%	
Total Hours Worked	645,230				
Labor \$/Hours Worked	\$ 54.89				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 8,718,266	\$ 6,275,156	\$ 2,443,110
Rx	\$ 1,520,220	\$ 1,965,010	\$ (444,790)
Dental	\$ 607,608	\$ 702,876	\$ (95,268)
Life	\$ 202,595	\$ 246,996	\$ (44,401)
FICA	\$ 2,518,849	\$ 2,555,123	\$ (36,274)
Other	\$ 572,478	\$ 1,040,195	\$ (467,717)
Total	\$ 14,140,016	\$ 12,785,357	\$ 1,354,660

Report as of December 31, 2021											
Projects Sorted by the Current Projection (Highest to lowest costs)		FY 22		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											
Advanced Metering Infrastructure	Phase 4 - Construction	\$ 873,373	\$ 1,399,322	\$ 37,187,288	\$ 37,716,593	\$ 529,305	1.42%	\$ 37,011,834	98.13%	8/6/2014	6/30/2022
Stanley Substation	Phase 1 - Feasibility	\$ 804,904	\$ 357,113	TBD	\$ 34,920,108	\$ -	0.00%	\$ 74,399	0.21%	3/15/2021	12/9/2027
Wise Substation - Rebuild	Phase 3 - Design	\$ 8,554,408	\$ 2,510,951	TBD	\$ 25,781,235	\$ -	0.00%	\$ 1,028,437	3.99%	2/1/2020	6/30/2024
Rundle Substation	Phase 2 - Funding Readiness	\$ 500,000	\$ 735,417	TBD	\$ 24,429,851	\$ -	0.00%	\$ 142,518	0.58%	3/15/2021	10/25/2025
South Reinforcement - Transmission Line	Phase 3 - Design	\$ 2,980,991	\$ 2,318,539	TBD	\$ 20,921,628	\$ -	0.00%	\$ 3,168,088	15.14%	9/20/2017	11/29/2024
LGR Substation	Phase 1 - Feasibility	\$ 49,438	\$ 403,657	TBD	\$ 17,987,179	\$ -	0.00%	\$ 102,032	0.57%	3/15/2021	6/9/2026
Customer Information System	Phase 4 - Construction	\$ 1,550,764	\$ 3,479,838	\$ 17,425,255	\$ 16,069,659	\$ (1,355,596)	-7.78%	\$ 13,570,568	84.45%	4/30/2019	6/30/2022
Dye Dry Chemical Handling	Phase 3 - Design	\$ 714,061	\$ 1,199,816	TBD	\$ 13,707,307	\$ -	0.00%	\$ 581,991	4.25%	8/17/2020	8/31/2026
REO GM Hot Water Service	Phase 1 - Feasibility	\$ -	\$ 155,375	TBD	\$ 9,702,660	\$ -	0.00%	\$ 2,137	0.02%	11/15/2021	2/28/2025
ESRI Implementation	Phase 4 - Construction	\$ 300,000	\$ 555,492	\$ 6,520,417	\$ 6,875,503	\$ 355,086	5.45%	\$ 6,524,003	94.89%	7/1/2015	6/30/2022
Total Top Ten Planned Projects		\$ 16,327,939	\$ 13,115,521	\$ 208,111,722				\$ 62,206,007			
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		\$ 19,695,033	\$ 12,848,394								
Water		\$ 2,317,000	\$ 1,974,072								
Steam		\$ -	\$ 482,671								
Chilled Water		\$ -	\$ -								
Common		\$ 3,098,404	\$ 3,460,263								
Total Remaining Planned		\$ 25,110,437	\$ 18,765,401								
Annual											
Electric		\$ 15,692,000	\$ 16,394,377			\$ 702,377	4.48%				
Water		\$ 9,234,050	\$ 8,457,262			\$ (776,788)	-8.41%				
Steam		\$ 1,746,132	\$ 1,437,606			\$ (308,526)	-17.67%				
Chilled Water		\$ 50,000	\$ 50,000			\$ -	0.00%				
Common		\$ 5,318,298	\$ 5,625,404			\$ 307,106	5.77%				
Total Annual		\$ 32,040,480	\$ 31,964,649								
Grand Total											
		\$ 73,478,856	\$ 63,845,570								

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



RETIREMENT PLAN COMMITTEE

Investment Activity Updates for Finance Committee: 2/22/2022

Investment Activity Update

- DB & VEBA
 - Quarterly meeting held with our advisor, ACG
- Defined Contribution & Deferred Compensation Plans
 - Nothing noteworthy since last update



RETIREMENT PLAN COMMITTEE

Administrative Activity Updates for Finance Committee: 2/22/2022

Administrative Activity Update

- Defined Contribution & Deferred Compensation Plans
 - Received Compliance Statements from the IRS for our VCP Submissions
 - IRS agrees with our corrective actions and changes to administrative procedures
 - We retain the plan's tax favored status
 - One remaining step of our corrective action plan still needs to be taken
 - Notification to certain affected participants that the overpayments they rolled over were not eligible for tax free rollover treatment
 - Participant notifications must be sent on or before June 26, 2022
- DB & VEBA
 - Nothing noteworthy since last update



Lansing Board of Water & Light Funding Proposal

Water Main Replacement

Project – Water Main Replacement with CSO Projects

- The Lansing Board of Water & Light (BWL) and the City of Lansing work together on the City's Combined Sewer Overflow (CSO) program. This is a great opportunity for BWL to also replace its aging water mains while streets and sidewalks are under construction and help to lower costs for both parties. Many of these water main pipes are the oldest in BWL's system and have severe tuberculation – the formation of small mounds of corrosion products on the inside of pipe - that could impact water quality and hydraulic performance. Additionally, main breaks in this era of pipe are generally 7 times more likely to occur than with new pipe.
 - ✓ *Estimated project cost FY2023-28: \$28.2 million, approximately \$4.7 million per year*
 - ✓ *Total project cost: \$115 million over 20 years*

Project – Water Main Replacement Outside of CSO Projects

- Aging infrastructure related to water main replacement is a major concern and the data shows there are needs outside of CSO project limits. The needs are for similar reasons as mentioned above, aging water mains with severe tuberculation. Additionally, the pipes that are currently being targeted in this category are 40 times more likely to break than with new pipe.
 - ✓ *Estimated project cost FY2023-28: \$44.2 million, starting at \$3 million in FY23 and gradually increasing to \$11-12 million in FY 26-28*
 - ✓ *Total estimated project cost: \$182 million over 20 years*

Aging Water Production Facilities and Supply Wells

Project – Replace and/or Rehabilitate Aging Wells

- Wells are a critical component to provide water to BWL customers as this is the only reliable source of water in the area. BWL owns over 120 wells pumping water from the Saginaw Aquifer 400 ft. below ground and 75% of those wells have reached and/or exceeded their expected useful life which can lead to potential reliability issues in the future. BWL will need to rehabilitate current wells and look to drill new wells.
 - ✓ *Estimated project cost FY2023-28: \$6 million*
 - ✓ *Total estimated project cost: \$20 million over 20 years*

System Reliability

Project – Elevated Storage or Reservoir Tank

- BWL currently relies on backup generators and pumps to supply pressure during power outages. If this backup system fails in an emergency, the water distribution system will lose pressure within minutes, and BWL would be unable to supply water to customers.
- To resolve this issue and ensure greater reliability, BWL would like to build a 2-3 -million-gallon elevated storage system that would provide approximately 2 hours of additional time where pressure in the system could be maintained.
- Additionally, an elevated storage system would minimize pressure fluctuations, which in turn would reduce water main breaks.
 - ✓ *Total project cost: \$8.5 million*



Internal Audit Status Report Finance Committee Meeting February 22nd, 2022

Provided by:

Brian W. Schimke, Interim Director/Principal
Auditor-Internal Audit

Overview

- 1. Proposed (Revised) FY22 Audit Plan**
- 2. Proposed (Revised) FY22 Audit Plan - Progress Report**
- 3. Other Notable Items**

Proposed (Revised) FY 2022 Audit Plan

1. Planned Audits

- Time Recording, Payroll Processing, Payment of Overtime and Review Access to Employee Master File (Human Resources: Last Audit - October 2017)
- Manage Mobile Devices (Information Technology: Last Audit - October 2017)

2. Alternate Audits

- Enterprise Information Management/Records Retention Management (Legal: Last Audit - March 2014)
- Outage Management System (Operations: Last Audit - April 2015 [Prior OMS System])

**Please note – Alternate audits may only be implemented if there is ample time left in the fiscal year to commence or if circumstances prevent IA from commencing a planned audit.*

Proposed (Revised) FY 2022 Audit Progress Report

Audit Engagements and Activities in Audit Plan Completed, Active, Scheduled to Start, or Changed.

- 1. Payroll Audit – Audit Status: Active, commenced preliminary work back on 08/23/2021**
- 2. Mobile Devices Audit – Audit Status: Scheduled to start after receiving approval of the proposed (revised) FY22 Audit Plan**

**Please note: A FY22 Audit Plan has NOT been approved, however, IA was given permission to engage in audit work related to the FY22 Payroll Audit.*

Other Items Internal Audit's Addressing

1. FY22 IIA Required Peer Review

- Required to be completed every five years to maintain compliance with IIA standards. The last Peer Review was completed in FY2017

2. Working on completing FY22 Goals

- Established to improve the efficiency and efficacy of Internal Audit

3. Composing an Audit Universe for Board of Commissioners

- Will provide the Commissioner's with a comprehensive list of previous audits and breadth of the universe

Any questions, comments, or concerns?

Thank you kindly, for your time.

Proposed Resolution
Internal Audit Plan for FY 2022

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Plan for FY 2022.