



**LANSING BOARD OF WATER & LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
Tuesday, May 13, 2025 – 6:00 P.M.
Board of Water & Light Headquarters – REO Town Depot
1201 S. Washington Ave., Lansing, MI 48910**

Finance Committee: Tony Mullen, Committee Chairperson; Semone James; Dale Schrader; and David Price; Alternates: Beth Graham, Sandra Zerkle; Non-Voting: J. R. Beauboeuf, Robert Worthy, Stuart Goodrich

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. Approval of the Finance Committee Meeting Minutes of March 11, 2025..... **TAB 1**
2. YTD Financial Summary **TAB 2**
 - a. Capital Budget Exceedance for Electric Annuals **TAB 2a**
 - b. Capital Budget Exceedance Request for Electric Annuals Resolution..... **TAB 2b**
 - c. Capital Budget Exceedance for REO Steam Turbine Generator Overhaul **TAB 2c**
 - d. Capital Budget Exceedance Request for REO Steam Turbine Generator Overhaul Resolution **TAB 2d**
3. Cash Reserve Policy Change **TAB 3**
 - a. Cash Reserve Policy **TAB 3a**
 - b. Cash Reserve Policy Change Resolution **TAB 3b**
4. FY26-31 Budget Presentation **TAB 4**
 - a. FY26-31 Budget Resolution..... **TAB 4a**
5. Cash Receipts Audit Results **TAB 5**
6. Internal Audit Status Report..... **TAB 6**

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
March 11, 2025

Finance Committee: Tony Mullen, Committee Chairperson; Semone James; David Price; and Dale Schrader;
Alternates: Beth Graham, Sandra Zerkle; Non-Voting: Commissioners J. R. Beauboeuf, Stuart Goodrich, Robert Worthy.

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, March 11, 2025.

Finance Committee Chairperson Tony Mullen called the meeting to order at 7:00 p.m. and asked the Acting Corporate Secretary to call the roll.

Present: Commissioners Semone James, Tony Mullen, David Price, and Dale Schrader; Also Present: Commissioners Chris Harkins, DeShon Leek, Sandra Zerkle; and Non-Voting Commissioners J. R. Beauboeuf (East Lansing) and Commissioner Robert Worthy (Delta Township)
Absent: None

Acting Corporate Secretary Maria Koutsoukos declared a quorum.

Public Comments

There were no public comments.

Approval of Minutes

Motion by Commissioner David Price, **Seconded** by Commissioner Dale Schrader, to approve the Finance Committee Meeting minutes of January 14, 2025.

Action: Motion Carried. The minutes were approved.

Financial Summary YTD

Assistant General Manager Heather Shawa presented the YTD Financial Summary. Days Cash on Hand fluctuates due to the timing of new energy contracts and is currently positive. Credit ratings from Moody and from S&P were affirmed with a stable outlook. Total revenue variance is due to wholesale which is affected by market pricing and some recent outages. Non Operating expense is affected by wholesale fuel costs. Net Income is positive primarily due to investment income. Capital and new energy products indicate an underspend due to timing and some schedule changes in planned capital. The Debt to Total Assets is underperforming against the benchmark due to outstanding revenue bonds and additional issuance of bonds but will reduce back to industry benchmark as the bonds are paid back. Benefits Cost is currently under budget due to lower than anticipated claims. Increased health costs will be presented in the budget in May.

Chairperson Mullen commented that the Budget YTD is what is expected currently in the annual budget and the Actual YTD is what is realized currently, so BWL is doing better than what is expected.

Commissioner James requested that the target heading be renamed Target YTD.

Commissioner James asked the difference in vacancy ratios between bargaining and non-bargaining employees. AGM Shawa responded that BWL would follow up with that information. GM Peffley responded that the contractual ratio is based on headcount and it is representative.

Commissioner Schrader asked what the effect of a Canadian power shut off would be on the wholesale electricity market. GM Peffley responded that the Canadian power shut off wouldn't affect BWL negatively, but the 25% increase on other companies would benefit BWL and make BWL more attractive in the wholesale market to customers in Northern Michigan. The market will continue to grow for BWL.

Capital Project Report

AGM Shawa presented the Capital Project Report. Currently there is nothing on the watch list from the top ten planned projects. There are two items on the project watch list due to repairs required for damage found during inspections and inventory control ordering for long lead times. Some inventory arrived early but it will have a positive impact on next year's budget.

Regulatory Account Approval for Other Post Employment Benefit Plan

CFO Scott Taylor presented the regulatory account approval for Other Post Employment Benefit Plan (OPEB). Approval is requested for a proposed change in accounting for OPEB expense in the VEBA plan due to changes that occurred in expense which affects rate setting. There isn't any impact on the plan itself. GASB 62, a regulatory accounting standard, allows for deferred accounting treatment with gradual changes over a period of time for certain regulated operations. The application of GASB Statement 62 will be effective Fiscal Year 2026.

Commissioner Harkins asked if there had been consideration of paying down further the target rate of return plan of 6.5% and whether there were other durations considered than the 25 year amortization plan. CFO Taylor responded that historically plans were higher in the 7% and 8% range but have taken the approach of being more conservative. Mr. Taylor added that BWL's plans are at 6.5% and 6.0%, are well funded, and the RPC and ACG advisors state that those are the appropriate targets for BWL right now. Mr. Taylor also responded that the 25 year amortization period was considered an appropriate length of time to level out expenses, but it can be reset if needed. GM Peffley responded that the Commissioners can make an appointment with CFO Taylor to further explain the plan.

Chairperson Mullen commented that information is provided well and readily by the BWL staff in appointed meetings.

Motion by Commissioner David Price, **Seconded** by Commissioner Semone James to forward the Resolution for the Application of GASB Statement 62 to OPEB Plan Expense to the full Board for approval.

Action: Motion Carried.

Approval of Payments Requested by Board Appointed Employees Resolution

Commissioner James requested that the process be reviewed thoroughly since there will be a change in the way the Board operates.

Chairperson Mullen presented the information for the resolution for the approval of appointee expenditures. The budget for the three appointed employees are presented together every year with the annual budget, and there have been questions about the expenses of the employees. The current procedures states the employees will sign off on the expenses and there is a set amount that can be approved. There was a question on who should approve the expenses of the appointed employees and the response received was the Finance Committee Chairperson and one other Finance Committee Member. A resolution should be formalized that states what the procedure will be going forward, and will include that the Finance Committee Chairperson and one another Board Member, not on the Finance Committee, who will be appointed by the Chairperson of the Board, will approve the appointed employees expense report. Commissioner Mullen also requested three separate presentations from the appointed employees, similar to the one the General Manager currently presents every year, be part of the procedure. A discussion followed.

Commissioner James stated that in the Credit Card Policy Resolution 2023-07-06 it was resolved that each appointed employee is allotted a specified expense amount and each month a purchasing card report is to be presented to the Finance Committee Chairperson and the second named voting Finance Committee member. The resolution also states that the appointed employees shall report their non purchasing card related expenditures to the Board of Commissioners consistent with other BWL procedures including procedures in the Travel & Expense Policy and procedures in their employment contracts.

Chairperson Mullen requested that the procedure state that purchases by the appointed employees are to be approved or signed off by the Board of Commissioners as a signing off procedure is stated for managers and directors.

Commissioner Price requested that the Credit Card Policy be amended, update it with the procedures Chairperson Mullen requested, and rename it the Appointees Purchasing Power Policy to encompass both purchasing card and non-purchasing card expenses.

Chairperson Mullen stated that the resolution would be returned to General Counsel Mark Matus for amendment.

Presentation of Appointed Employees' Department Budgets to Finance Committee Resolution

Commissioner Harkins asked if the budgets to which were being referred were the prospective budgets and Chairperson Mullen affirmed.

Motion by Commissioner Semone James, **Seconded** by Commissioner David Price to forward the Resolution for the Appointee Budget Approval to the full Board for approval.

Action: Motion Carried.

Internal Audit Status Report

Director of Internal Audit Elisha Franco presented the Internal Audit Status Report. Ms. Franco gave an overview of the Remittance/Cash Receipts Audit update; the remaining FY2025 Audit Plan; the AuditBoard update; and the acquiring of Plante Moran to consult with and assist with the internal audit strategic plan, quality assurance and improvement plan, organizational risk management and manual.

Internal Audit Department Assessment Results

Director of Internal Audit Elisha Franco presented the Internal Audit Assessment results. Ms. Franco reviewed the current state of internal audit practices and procedures, which includes issue priority; the gap analysis, which identifies areas for improvement with the internal audit function; and the implementation of Audit/Board.

Commissioner James asked about the selection of Plante Moran as the consultant and Ms. Franco responded that Plante Moran is on contract with the BWL for auditing services. Commissioner James also asked if there should be a separation between internal audit and management. Ms. Franco responded that she confirmed the independence between the service Plante Moran is providing for the Internal Audit Department and the service being provided for management. Commissioner James asked about the contract negotiated and if the statement of work can be provided to the Commissioners. Ms. Franco responded that she can negotiate cost within her budget and will provide the statement of work to the Commissioners.

Other

There was no other business.

Adjourn

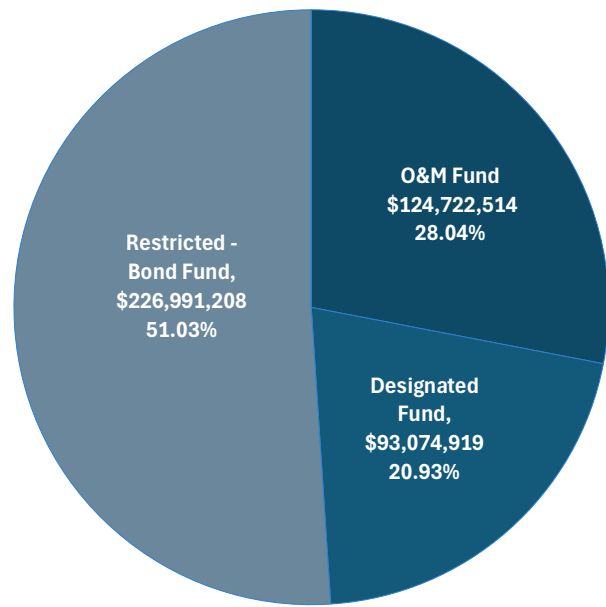
Chairperson Tony Mullen adjourned the meeting at 8:13 p.m.

Respectfully submitted,
Tony Mullen, Chairperson
Finance Committee

Financial Summary - March 2025 - FY25



Cash



Total Cash: \$444,788,641

	Month End	Target
Days Cash on Hand	182	149
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.16	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:

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

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 312,381,867	\$ 303,918,683	\$ 8,463,184	3%
Wholesale	\$ 38,316,178	\$ 56,441,236	\$ (18,125,058)	-32%
Total Revenue	\$ 350,698,045	\$ 360,359,919	\$ (9,661,874)	-3%
Operating Expenses	\$ 285,509,180	\$ 302,727,590	\$ (17,218,410)	-6%
Non Operating Income/(Exp)	\$ (37,243,289)	\$ (42,212,484)	\$ 4,969,195	-12%
Net Income	\$ 27,945,576	\$ 15,419,845	\$ 12,525,730	81%

FY 2025 Projected Net Income \$ 16,011,213

FY 2025 Budgeted Net Income \$ 12,559,678

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2025 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 194,854,057	\$ 142,456,659	\$ 143,753,836	\$ (1,297,177)	-1%
% of Approved Budget	73%	74%		

Capital Budget YTD

FY25 Approved CIP Budget	Actual YTD	Budget YTD	Difference	%
\$ 87,791,518	\$ 39,929,118	\$ 53,168,418	\$ (13,239,300)	-25%
% of Approved Budget	45%	61%		

FY25 New Energy Budget	Actual YTD	Budget YTD	Difference	%
\$ 99,764,537	\$ 70,799,562	\$ 74,057,272	\$ (3,257,710)	-4%
% of Approved Budget	71%	74%		

Return on Assets

FY25 ROA Budget	Actual YTD	Budget YTD	Target ROA*
2.90%	3.34%	2.67%	3.97%
Return on Assets = $\frac{\text{YTD Net Income} + \text{YTD Interest Expense} - \text{YTD Interest Income}}{\text{Net Fixed Assets} + \text{Inventory}}$			

*BWL forecast to reach target in FY2028

Financial Summary - March 2025 - FY25



Ratios

Operating Ratio

O&M Expense	\$	238,764,837	=	0.68	APPA Median 0.78
Revenue	\$	350,698,045			

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

Current Ratio

Current Assets	\$	281,633,342	=	2.76	APPA Median 1.71
Current Liabilities	\$	101,869,680			

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$	1,291,653,966	=	0.63	APPA Median 0.54
Total Assets	\$	2,038,871,227			

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

Days Sales Outstanding

Average Accounts Receivable	x Days	\$	28,757,221	x 31 =	25	Prior Year 25
Retail Revenue	\$	35,433,670				

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

Bad Debt

12 Month Bad Debt Exp	\$	1,968,961	=	0.47%	Prior Year 0.60%
12 Month Retail Revenue	\$	415,380,025			

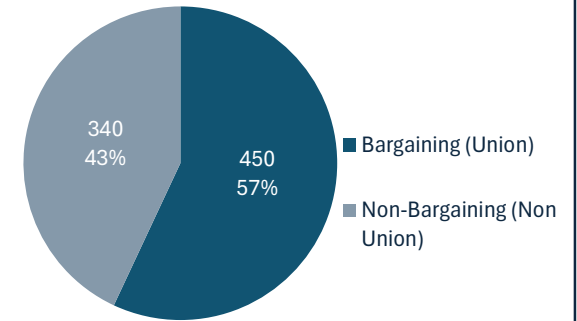
Measures the portion of each retail revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	790
Budget YTD	830
Over/(Under) #	(40)

Full Time Equivalent Temporary Employees	24
--	----



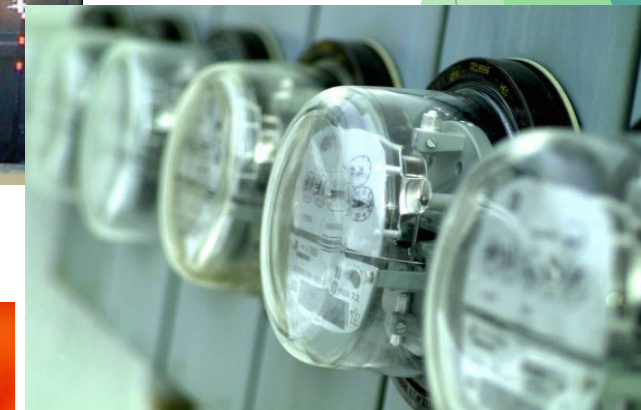
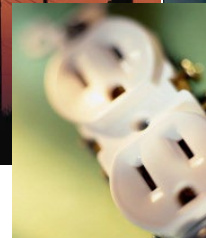
Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 61,534,119	\$ 60,910,914	\$ 623,205	1.0%	\$ 60.47
Overtime	\$ 5,701,822	\$ 6,021,967	\$ (320,145)	-5.3%	
Total	\$ 67,235,941	\$ 66,932,882	\$ 303,060	0.5%	
Total Hours Worked	1,091,370				
Labor \$/Hours Worked	\$ 61.61				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 12,207,572	\$ 13,739,667	\$ (1,532,094)
Rx	\$ 4,296,548	\$ 3,788,348	\$ 508,200
Dental	\$ 1,024,694	\$ 1,041,663	\$ (16,969)
Life	\$ 411,821	\$ 488,250	\$ (76,429)
FICA	\$ 4,969,352	\$ 5,014,716	\$ (45,365)
Other	\$ 699,030	\$ 1,034,670	\$ (335,640)
Total	\$ 23,609,018	\$ 25,107,314	\$ (1,498,296)

Electric Annual Exceedance



Annual Expenditures

- Reactive Emergent
 - Cable failures
 - Pole failures
- Other Budget Drivers
 - Transformer purchases
 - Pole replacements



Drivers of Electric Annual Exceedance

Line Items	Cost
T&D Systems Emergent Work (Significant Cable Failure Repairs)	\$ 2,200,000
Transformer Purchases	\$ 2,000,000
Pole Replacement (Net of Grant)	\$ 1,560,000

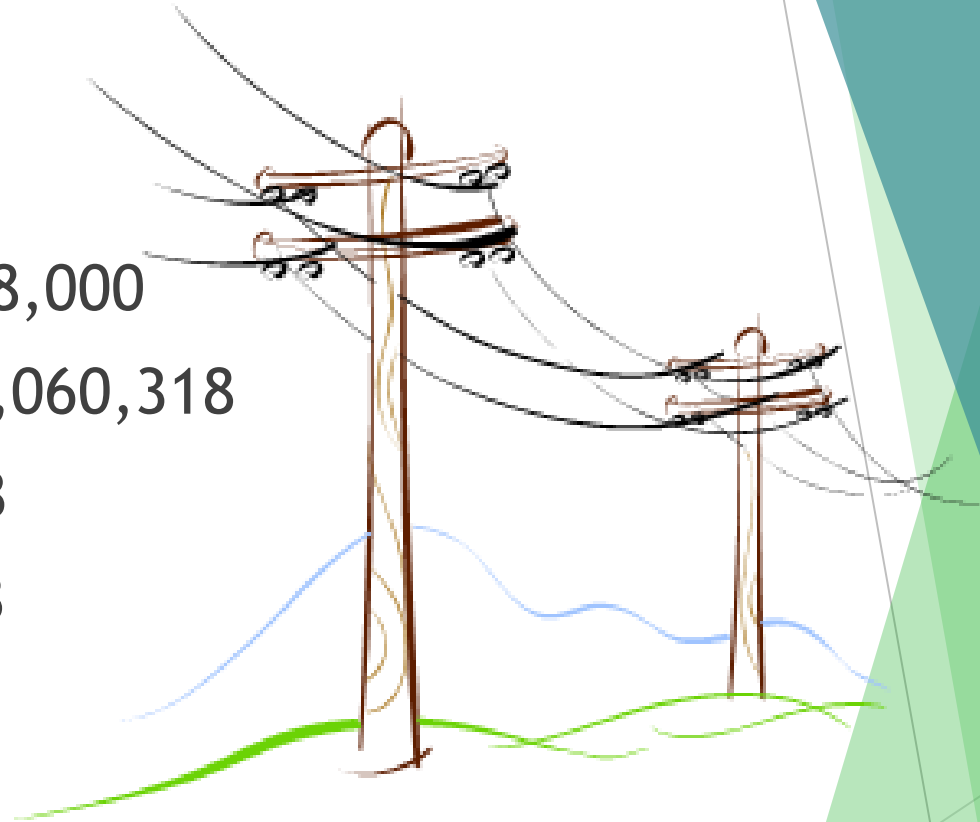


Annual Expenditures

- Reactive Emergent
 - Cable failures
 - Pole failures
- Other Budget Drivers
 - Transformer purchases
 - Pole replacements

Summary

- ▶ Authorized Annual Budget: \$14,638,000
- ▶ Amount Spent through March: \$15,060,318
- ▶ Expected Projections: \$20,431,843
- ▶ Projected Exceedance: \$5,793,843



RESOLUTION 2025-05-XX

Capital Project Exceedance: AE – Electric 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 AE – Electric Annuals was \$14,638,000; and

WHEREAS, the projected final total cost for Capital Project AE – Electric Annuals is \$20,431,843, 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

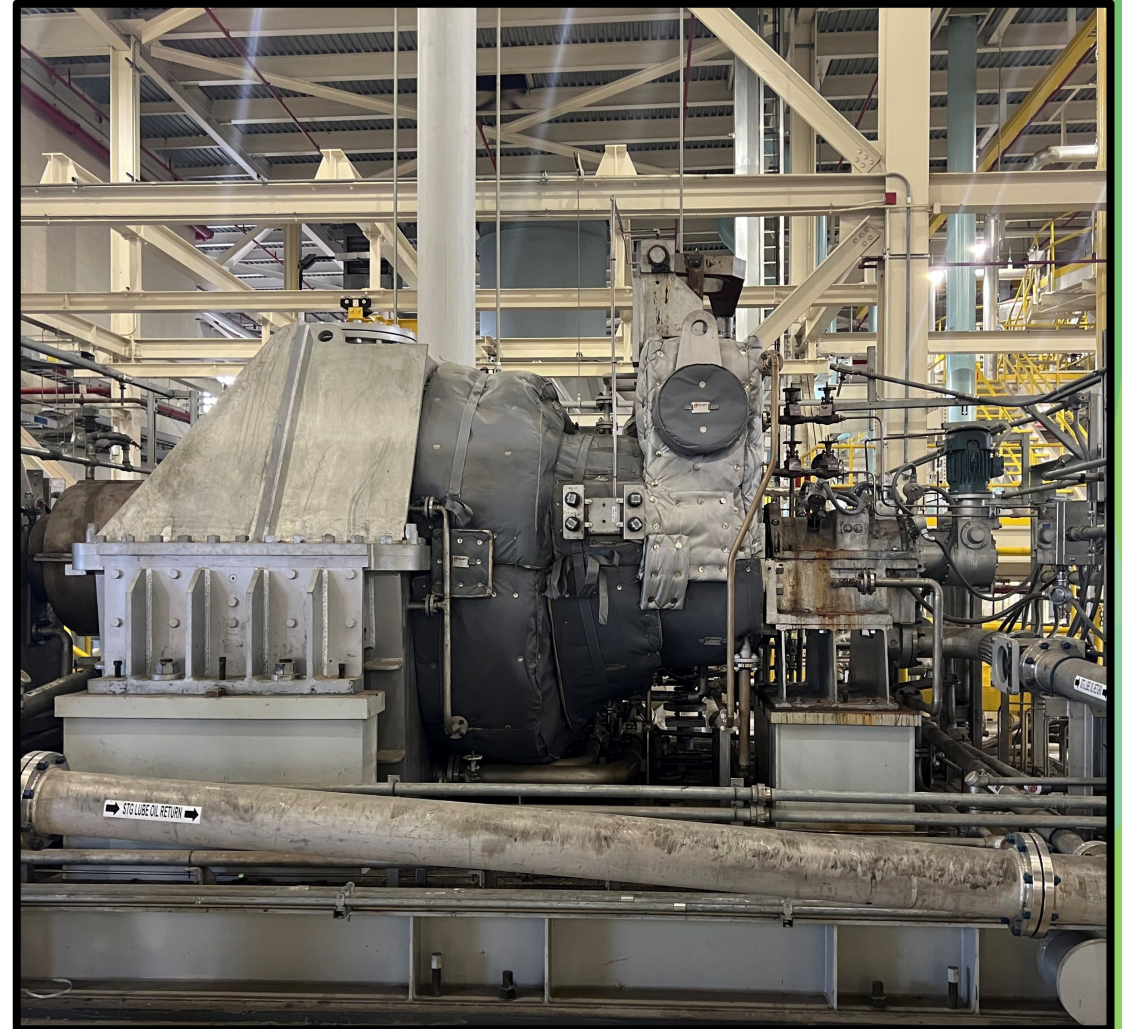
WHEREAS, BWL staff and management recommends that the Capital Project AE – Electric Annuals projected spending be approved.

THEREFORE, it is:

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Project AE – Electric Annuals with a projected final total cost of \$20,431,843.

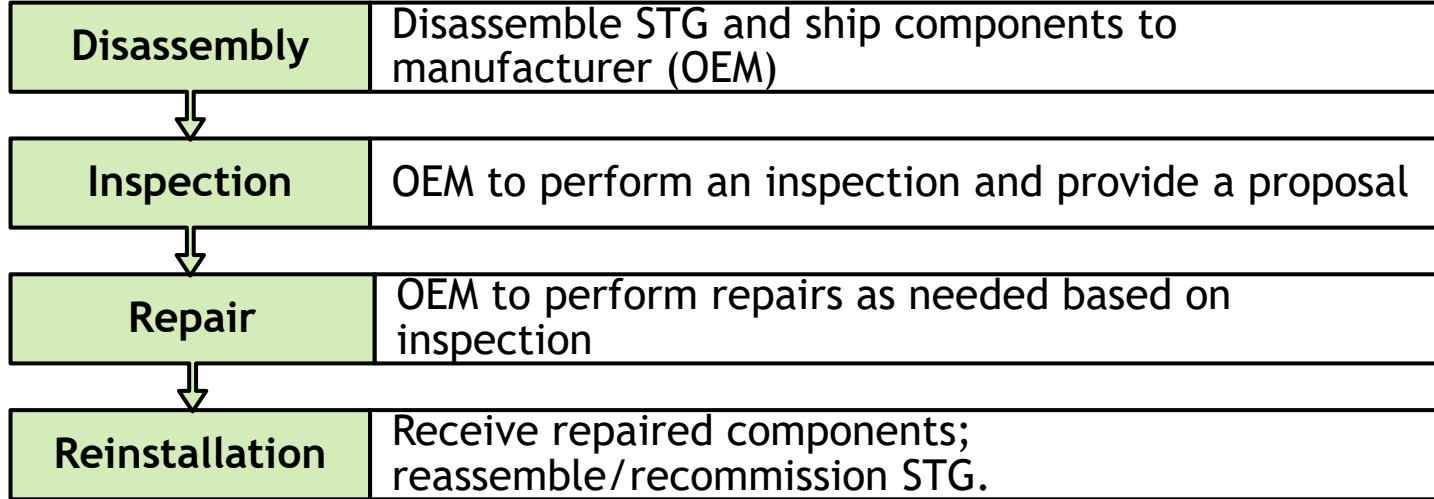
Motion by Commissioner _____, **Seconded** by Commissioner _____, to approve the Resolution for Capital Project Exceedance: AE – Electric Annuals at a Board meeting held on _____.

REO Steam Turbine Generator (STG) Exceedance

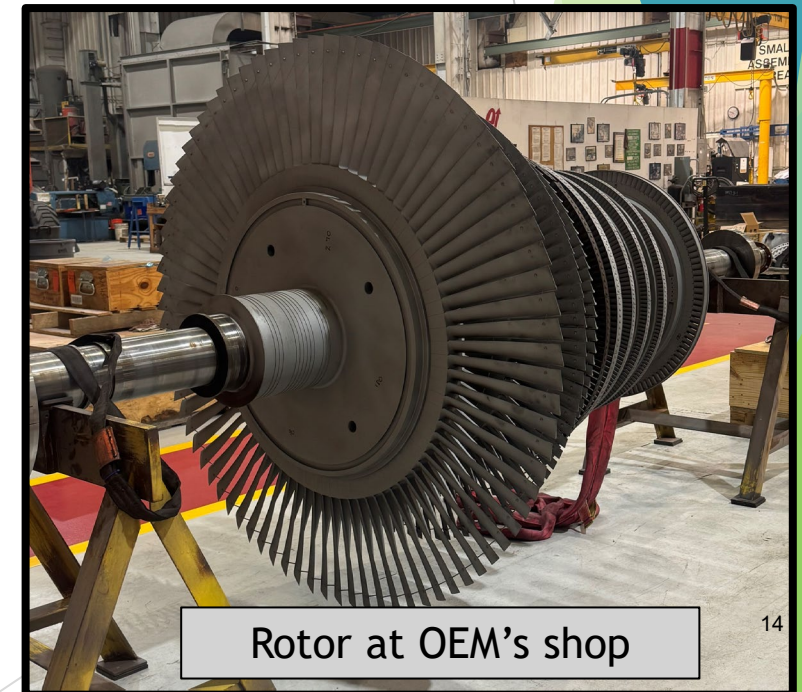
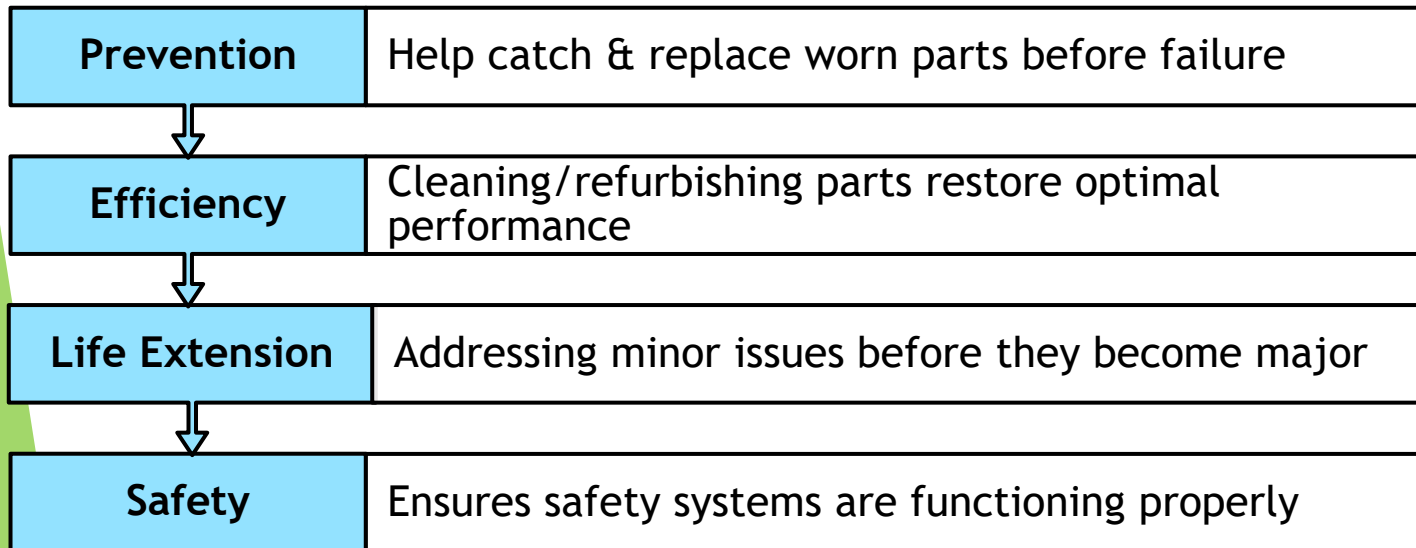


REO STG: Pre-overhaul

The process of an overhaul:



Why perform scheduled overhauls?

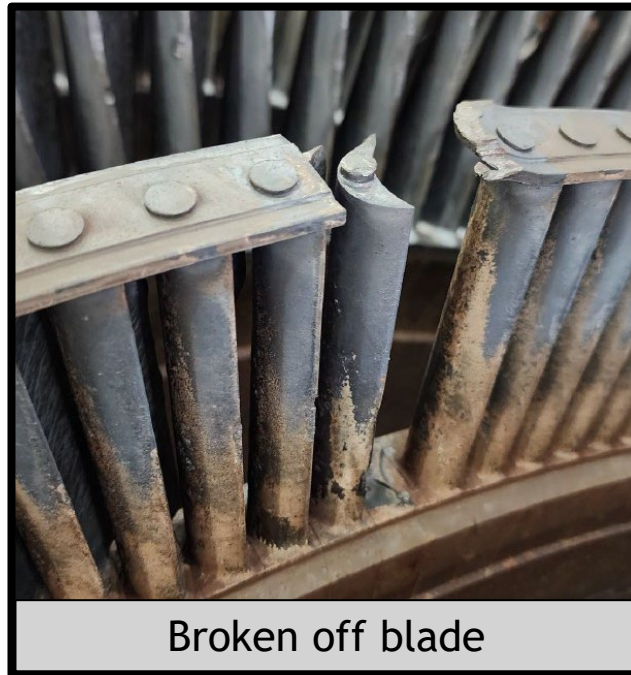


Funding Request

Escalation Trigger - costs exceeded 15% and \$200k of the designed budget amount.

Approved Budget: \$965,153

Current Estimate: \$2,595,067



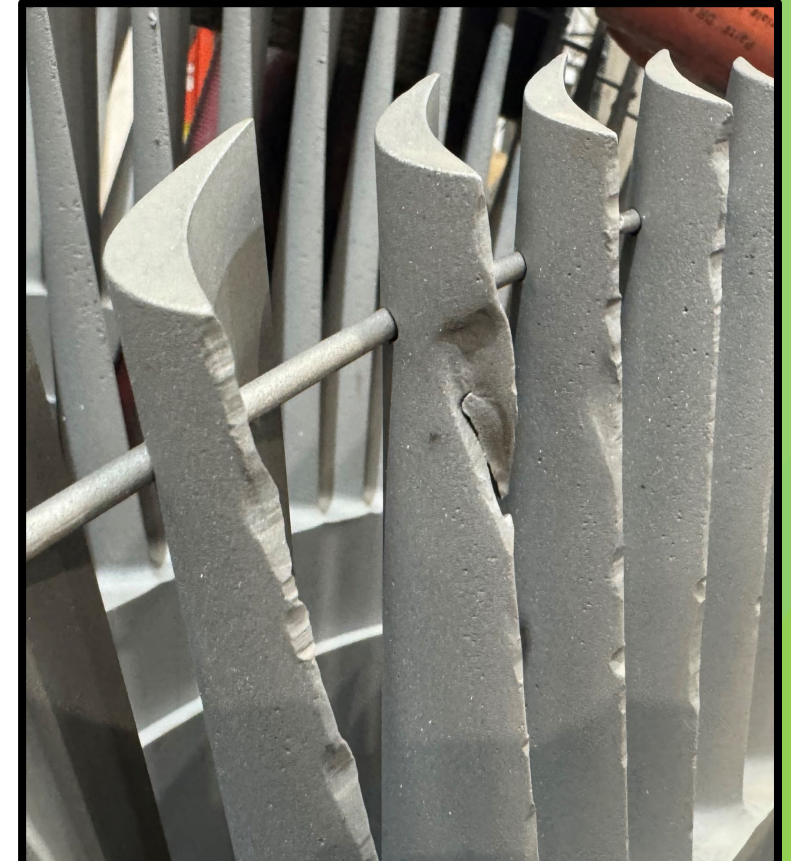
	Original Cost	Increased Cost	Total Increase Amount
Inspection & Repairs	\$ 73,453	\$ 1,675,169	\$ 1,601,716
Freight	\$ 2,200	\$ 11,250	\$ 9,050
High-Speed Balance	\$ -	\$ 24,500	\$ 24,500
Other	\$ 889,500	\$ 884,148	\$ (\$5,352)
Total	\$ 965,153	\$ 2,595,067	\$ 1,629,914

Lessons Learned

- Cost analysis shows that postponing maintenance is more expensive over time than conducting scheduled overhauls.

Organizational Response

- Ensure overhaul costs are incorporated into the capital budget on schedule.



Damaged blades

RESOLUTION 2025-05-XX
Capital Project Exceedance: PE-20274 REO STG Overhaul

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

WHEREAS, the previously approved budget for Capital Project PE-20274 REO STG Overhaul was \$965,153; and

WHEREAS, the projected final total cost for Capital Project PE-20274 REO STG Overhaul is \$2,595,067, 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-20274 REO STG Overhaul projected spending be approved.

THEREFORE, it is:

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Project PE-20274 REO STG Overhaul with a projected final total cost of \$2,595,067.

Motion by Commissioner _____, **Seconded** by Commissioner _____, to approve the Resolution for Capital Project Exceedance: PE-20274 REO STG Overhaul at a Board meeting held on May 20, 2025.

Minimum Cash Reserve Requirement Policy

Finance Committee - May 13, 2025



HOMETOWN PEOPLE. HOMETOWN POWER.

Background

BWL's Minimum Cash Reserve Requirement Policy ("Policy") is a Board policy that was created in May 2018 to help ensure financial stability and to support our credit rating.

Maintaining a cash reserve policy is a best practice. The BWL policy was modeled after training provided by the American Public Power Association (APPA).

The policy itself does not specify a fixed dollar amount and instead establishes a methodology for calculating a requirement that is dynamic based on changes in risk and financial activity of the BWL.

The minimum cash reserve requirement is recalculated annually for the next six-year period and integrated into the budget and forecast approval process.

If the actual cash balance ever falls below the required minimum, the policy requires that the next year's budget and forecast includes the necessary adjustments to return cash to the required levels by the end of the next fiscal year.

Summary of Changes

- The Return on Equity to the City risk factor is being reduced from 50% to 25% to reflect the increase in frequency of payment to the City from semi-annually to quarterly.
- The Debt Service risk factor is being increased from 8.3% of annual debt service to 25% for interest and 50% for principal to reflect the elimination of the debt service reserve fund.
- A minimum of 150 days cash on hand has been added to ensure our cash reserve requirement does not drop below this minimum level.
- Miscellaneous verbiage changes to clarify, enhance and/or update existing language.

Current vs Proposed Policy comparison

Current Policy

Debt Service Coverage risk factor at 8.3%

Return On Equity risk factor at 50% due to semi-annual payment

Fiscal Year	2026
Costs by Utility	All Utilities
O&M Expenses	\$ 399,441,269
Depreciation	\$ 68,660,360
Return on Equity	\$ 29,456,370
Principal Debt Service	\$ 16,451,218
Interest Debt Service	\$ 46,983,140
Six Year Capital Improvement Plan	\$ 742,268,329
Bond Proceeds for Six-Year Capital Improvement Plan	\$ 228,547,848
ITC for Six-Year Capital Improvement Plan	\$ 62,459,126
Net Six-Year Capital Improvement Plan	\$ 451,261,355
Accumulated Depreciation	\$ (813,491,841)
Historical Plant in Service (Total Assets)	\$ 2,403,726,007
Coverage Levels	
% Depreciated	33.8%
Historical Plant in Service Coverage %	1.0%
O&M Expenses Risk Factor	12.3%
Principal Debt Service Risk Factor	8.3%
Interest Debt Service Risk Factor	8.3%
Return on Equity Risk Factor	50.0%
Six Year Capital Improvement Plan Risk Factor	16.7%
Minimum Cash Requirements	
O&M net of Depreciation	\$ 40,686,052
ROE	\$ 14,728,185
Principal Debt Service Plan Coverage	\$ 1,365,451
Interest Debt Service Plan Coverage	\$ 3,899,601
Six-Year Net Capital Improvement Plan Coverage	\$ 75,360,646
Historical Plant in Service Coverage	\$ 24,263,251
Total Minimum Cash Reserve Requirement	\$ 160,303,186
Daily Expense	\$ 986,951
Days Cash on Hand Requirement	162

Fiscal Year	2026
Costs by Utility	All Utilities
O&M Expenses	\$ 399,441,269
Depreciation	\$ 68,660,360
Return on Equity	\$ 29,456,370
Principal Debt Service	\$ 16,451,218
Interest Debt Service	\$ 46,983,140
Six Year Capital Improvement Plan	\$ 742,268,329
Bond Proceeds for Six-Year Capital Improvement Plan	\$ 228,547,848
ITC for Six-Year Capital Improvement Plan	\$ 62,459,126
Net Six-Year Capital Improvement Plan	\$ 451,261,355
Accumulated Depreciation	\$ (813,491,841)
Historical Plant in Service (Total Assets)	\$ 2,403,726,007
Coverage Levels	
% Depreciated	33.8%
Historical Plant in Service Coverage %	1.0%
O&M Expenses Risk Factor	12.3%
Principal Debt Service Risk Factor	50.0%
Interest Debt Service Risk Factor	25.0%
Return on Equity Risk Factor	25.0%
Six Year Capital Improvement Plan Risk Factor	16.7%
Minimum Cash Requirements	
O&M net of Depreciation	\$ 40,686,052
ROE	\$ 7,364,092
Principal Debt Service Plan Coverage	\$ 8,225,609
Interest Debt Service Plan Coverage	\$ 11,745,785
Six-Year Net Capital Improvement Plan Coverage	\$ 75,360,646
Historical Plant in Service Coverage	\$ 24,263,251
Total Minimum Cash Reserve Requirement	\$ 167,645,435
Daily Expense	\$ 986,951
Days Cash on Hand Requirement	170

Proposed Policy

Debt Service Coverage risk factor at 25% for interest and 50% for principal

Return On Equity risk factor at 25% due to quarterly payment

Current vs Proposed Policy (cont.)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Days Cash on Hand Requirement (proposed)	170	169	161	159	156	153
Days Cash on Hand Requirement (current)	162	159	153	151	148	145
Net change in days	8	10	8	8	8	8



Questions?



THANK
YOU

LANSING BOARD OF WATER & LIGHT

POLICY

MINIMUM CASH RESERVE REQUIREMENT

EFFECTIVE:

7/01/2025

COMMISSION

POLICY

TYPE: COMMISSION

SCOPE: This Policy describes the calculations that determine the minimum cash reserve requirement for each year of the succeeding six-year forecast period and impacts the budget and forecast approved by the Board of Commissioners.

PURPOSE: BWL's Minimum Cash Reserve Requirement Policy ("Policy") is one of several planning tools used to help assure uninterrupted delivery of critical utility services. The Policy guides the organization's operations along a path of continued financial stability, in line with BWL's Strategic Plan. By defining BWL's minimum cash reserve requirement, the Policy promotes the utilization of effective planning strategies to maintain financial strength and continuity of operations.

The Policy was compiled using a review of best practices from credit rating agencies, utility experts, and other municipal utilities. Rather than setting a fixed dollar amount, the Policy establishes a methodology for the calculation of a minimum cash reserve requirement. The minimum cash reserve requirement will be recalculated each year and presented to the Board of Commissioners ("Board") during the annual budget and forecast process. The Board is responsible for approving and accepting the forecasted minimum cash reserve requirement as a component of the BWL's budget and forecast. For purposes of this Policy, minimum cash reserve includes all unrestricted cash and cash equivalents, including bank deposits and liquid investments, and will be measured in terms of days cash on hand.

The Policy enforces the Board's commitment to financial stability and desire to maintain or improve BWL credit ratings. Since strong credit ratings reduce the cost of borrowing, they are essential to maintaining low customer rates. BWL debt issuance is currently rated by the following agencies:

- A. Moody's – Most recent rating of Aa3 with stable outlook on 12/26/2023. This rating indicates an obligation of high quality with very low credit risk.
- B. Standard & Poor's – Most recent rating of AA- with stable outlook on 2/28/2025. This rating indicates an investment-grade obligation whose issuer has a very strong capacity to meet financial commitments.

POLICY: The minimum cash reserve requirement is determined using a risk-based calculation of five key cash requirements: Net O&M Expense, Return on Equity to the City of Lansing (the City), Historical Plant in Service, Debt Service, and Six-Year Net Capital Improvement Plan. Each cash requirement is multiplied by its associated risk factor and summed up to determine the minimum cash reserve requirement. This calculation is applied to each of the BWL's utilities individually and then aggregated to determine the overall BWL minimum cash reserve requirement. Listed below are descriptions of each cash requirement along with the associated risk factor.

1. Net O&M Expense – Net O&M Expense represents total annual operating expenses, excluding depreciation.
 - a. The risk factor reflects an estimated lag time in the revenue collection cycle.
 - b. The risk factor is calculated by dividing the estimated lag time in days by 365 days.
 - c. The risk factor for Net O&M Expense is 12.3% (the result of a 45-day lag time ÷ 365 days).

2. Return on Equity to the City (“ROE”) – ROE represents the estimated amount to be transferred to the City for a fiscal year.
 - a. The risk factor reflects the maximum amount to be transferred at any one time during the fiscal year.
 - b. The risk factor for ROE is 25% since the BWL makes quarterly payments.
3. Historical Plant in Service – Historical Plant in Service represents the full historical cost of BWL’s utility plant.
 - a. The risk factor is calculated based on the depreciation percentage, or age, of the system by dividing accumulated utility plant depreciation by historical investment.
 - b. The risk factor is assumed to be 1.0% where utility plant is less than or equal to 40% depreciated (newer system).
 - c. The risk factor is assumed to be 1.5% where utility plant assets are 41%-50% depreciated.
 - d. The risk factor is assumed to be 2.0% where utility plant assets are 51%-55% depreciated.
 - e. The risk factor is assumed to be 2.5% where utility plant assets are 56%-65% depreciated.
 - f. The risk factor is assumed to be 3.0% where utility plant assets are over 65% depreciated (older system).
4. Debt Service – Debt Service represents the BWL’s total annual debt service payments (bond principal + bond interest).
 - a. The risk factor reflects the BWL’s debt service obligation. This risk factor is limited due to the requirements already established for debt service in the form of bond covenants.
 - b. The risk factor for Principal Debt Service is 50% to provide for at least half of the annual obligation.
 - c. The risk factor for Interest Debt Service is 25% to provide for at least half of the semi-annual obligation.
5. Six-Year Net Capital Improvement Plan – The Six-Year Net Capital Improvement Plan represents the total six-year forecast cost for capital improvements, less any portion to be funded by external sources.
 - a. The risk factor reflects the average net annual capital improvement cash outlay over the six-year forecast.
 - b. The risk factor for the Six-Year Net Capital Improvement Plan is 16.7% (the result of 1 year ÷ 6 years).

The Board will annually review the proposed budget and forecast to ensure the minimum cash reserve requirements are met as defined in this Policy.

In addition, to help maintain BWL’s credit rating and ensure sufficient reserves, a minimum of 150 days of cash on hand is expected, therefore, the minimum cash reserve should be the higher of 150 days or the calculated days based on this Policy.

In the event actual results fall short of the budget to such a degree that the reserve balance falls below the required minimum, consistent with this Policy, the Board will require the succeeding year’s budget and forecast to include the corrective actions necessary to restore cash reserves to the required level by the end of the next fiscal period.

REFERENCES: Resolution 2025-05-xx

RESPONSIBLE AREA & DEPT NAME: Accounting, Finance & Planning Department

EXECUTIVE DIVISION: Assistant General Manager & Corporate Services

EXECUTIVE RECORD OF APPROVAL DATE:

POLICY REVIEW:

REVIEWED BY	DATE	DUE DATE NEXT REVIEW
REVIEWED BY - INTERNAL AUDITOR	DATE (*not to exceed 5 years)	COMMENTS

LANSING BOARD OF WATER & LIGHT

POLICY

MINIMUM CASH RESERVE REQUIREMENT

APPROVED/EFFECTIVE: 7/01/2025

COMMISSION

POLICY

TYPE: COMMISSION

SCOPE: This ~~p~~P~~olicy~~ describes the calculations that determine the minimum cash reserve requirement for each year of the succeeding, six-year forecast period and impacts the budget and forecast ~~process completed by the Chief Financial Officer and~~ approved by the Board of Commissioners.

PURPOSE: BWL's Minimum Cash Reserve Requirement Policy ("Policy") is one of several planning tools used to ~~help~~ assure uninterrupted delivery of critical utility services. The Policy guides the organization's operations along a path of continued financial stability, ~~in line with BWL's Strategic Plan.~~ By defining BWL's minimum cash reserve requirement, the Policy ~~bolsters financial strength, situational resilience, fiscal responsibility, and credit quality~~ promotes the utilization of effective planning strategies to maintain financial strength and continuity of operations.

The Policy was compiled using a review of best practices from credit rating agencies, utility experts, and other municipal utilities. Rather than setting a fixed dollar amount, the Policy establishes a methodology for the calculation of a minimum cash reserve requirement. The minimum cash reserve requirement will be recalculated each year and presented to the Board of Commissioners ("Board") during the annual budget and forecast process. The Board is responsible for approving and accepting the forecasted minimum cash reserve requirement as a component of the BWL's budget and forecast. For purposes of this ~~p~~P~~olicy~~, minimum cash reserve includes all unrestricted cash and cash equivalents, including bank deposits and liquid investments, and will be measured in terms of days cash on hand.

The Policy enforces the Board's commitment to financial stability and desire to maintain or improve BWL credit ratings. Since strong credit ratings reduce the cost of borrowing, they are essential to maintaining low customer rates. BWL debt issuance is currently rated by the following agencies:

- A. Moody's – Most recent rating of Aa3 with stable outlook on ~~1212/2126/20162023~~¹. This rating indicates an obligation of high quality with very low credit risk.²
- B. Standard & Poor's – Most recent rating of AA- with stable outlook on ~~122/2128/20162025~~³. This rating indicates an investment-grade obligation whose issuer has a very strong capacity to meet financial commitments.

POLICY: The minimum cash reserve requirement is determined using a risk-based calculation of five key cash requirements: Net O&M Expense, Return on Equity to the City of Lansing (the City), Historical Plant in Service, Debt Service, and Six-Year Net Capital Improvement Plan. Each cash requirement is multiplied by its associated risk factor and summed up to determine the minimum cash reserve requirement. This calculation is applied to each of the BWL's ~~four~~ utilities individually and then aggregated to determine the overall BWL minimum cash reserve requirement. Listed below are descriptions of each cash requirement along with the associated risk factor.

1. Net O&M Expense – Net O&M Expense represents total annual operating expenses, excluding depreciation.
 - a. The risk factor reflects an estimated lag time in the revenue collection cycle.

- b. The risk factor is calculated by dividing the estimated lag time in days by 365 days.
- c. The risk factor for Net O&M Expense is 12.3% (the result of a 45-day lag time ÷ 365 days).

2. Return on Equity to the City ("ROE") – ROE represents the estimated amount to be transferred to the City for a fiscal year.

- a. The risk factor reflects the maximum amount to be transferred at any one time during the fiscal year.
- b. The risk factor for ROE is ~~50~~25% since the BWL makes ~~semi-annual~~quarterly payments.

3. Historical Plant in Service – Historical Plant in Service represents the full historical cost of BWL's utility plant.

- a. The risk factor is calculated based on the depreciation percentage, or age, of the system by dividing accumulated utility plant depreciation by historical investment.
- b. The risk factor is assumed to be 1.0% where utility plant is less than or equal to 40% depreciated (newer system).
- c. The risk factor is assumed to be 1.5% where utility plant assets are 41%-50% depreciated.
- d. The risk factor is assumed to be 2.0% where utility plant assets are 51%-55% depreciated.
- e. The risk factor is assumed to be 2.5% where utility plant assets are 56%-65% depreciated.
- f. The risk factor is assumed to be 3.0% where utility plant assets are over 65% depreciated (older system).

4. Debt Service – Debt Service represents the BWL's total annual debt service payments (bond principal + bond interest).

- a. The risk factor reflects the BWL's ~~monthly~~debt service obligation. This risk factor is limited ~~to one month~~due to the ~~additional reserves and~~requirements already established for debt service in the form of bond covenants.
- b. The risk factor for Principal Debt Service is ~~8-350%~~ to provide for at least half of the annual obligation.(the result of 1 month ÷ 12 months).
- c. The risk factor for Interest Debt Service is 25% to provide for at least half of the semi-annual obligation.

5. Six-Year Net Capital Improvement Plan – The Six-Year Net Capital Improvement Plan represents the total six-year forecast cost for capital improvements, less any portion to be funded by ~~external sources~~~~bond proceeds~~.

- a. The risk factor reflects the average net annual capital improvement cash outlay over the six-year forecast.
- b. The risk factor for the Six-Year Net Capital Improvement Plan is 16.7% (the result of 1 year ÷ 6 years).

The Board will annually review the proposed budget and forecast to ensure the minimum cash reserve requirements are met as defined in this Policy.

In addition, to help maintain BWL's credit rating and ensure sufficient reserves, a minimum of 150 days of cash on hand is expected, therefore, the minimum cash reserve should be the higher of 150 days or the calculated days based on this Policy.

In the event actual results fall short of the budget to such a degree that the reserve balance falls below the required minimum, consistent with this ~~p~~Policy, the Board will require the succeeding year's budget and forecast to include the corrective actions necessary to restore cash reserves to the required level by the end of the next fiscal period.

REFERENCES: Resolution ~~2018~~2025-05-~~XX02~~

RESPONSIBLE AREA & DEPT NAME: ~~The Finance & Planning Department.~~ Accounting, Finance & Planning Department

EXECUTIVE DIVISION: Assistant General Manager & Corporate Services

EXECUTIVE RECORD OF APPROVAL DATE:

POLICY REVIEW:

REVIEWED BY	DATE	DUE DATE NEXT REVIEW
REVIEWED BY - INTERNAL AUDITOR	DATE (*not to exceed 5 years)	COMMENTS

RESOLUTION 2025-05-XX

Minimum Cash Reserve Requirement Policy

WHEREAS, the Board of Commissioners (“Board”) is committed to maintaining a financially stable and resilient utility; and

WHEREAS, the Board recognizes that a key element of preserving financial stability over extended periods of time and through varying economic conditions is maintaining adequate cash reserves; and

WHEREAS, the Board adopted a Minimum Cash Reserve Requirement Policy (“Policy”) on May 22, 2018 via Resolution 2018-05-02; and

WHEREAS, BWL staff have conducted a review of the Policy and recommends updating the Policy to strengthen its ability to preserve financial stability, better align with changes to risk and improve the policy language.

THEREFORE, it is:

RESOLVED, the Board approves the revised Minimum Cash Reserve Requirement Policy (Attachment A), which clearly defines a risk based methodology for establishing the Lansing Board of Water & Light’s minimum cash reserve requirements on an annual basis for each year of the succeeding six-year forecast period.

Motion by Commissioner _____, Seconded by Commissioner _____, to adopt the revised Minimum Cash Reserve Requirement Policy at a Board meeting held on May ____, 2025.

Action: _____.

BUDGET & FORECAST

FY 2026 – 2031

Finance Committee Meeting
May 13, 2025

Board Meeting
May 20, 2025



Hometown People. Hometown Power.

Overview

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

STRATEGIC OBJECTIVES – BWL YEAR IN REVIEW

Customer & Community

- Community Resource Fairs hosted – over \$3 Million in funds raised
- Customer Payment Assistance Received – \$1.3 Million applied to customer accounts
- Call Center Service Survey yielded a rating of 4.82/5
- Partnered with the City of Lansing Financial Empowerment Coalition to offer a flexible payment plan program that includes integrated financial counseling

Workforce Engagement & Diversity

- Energy Star & Silver Telly Awards
- Employee advancement - 48 promotions/progressions supporting career development
- Employee investment – 24,107 hours of training provided
- Foundations for Inclusive Management curriculum added to management orientation

Climate & Environment

- Completed the Erickson Ash Impoundments Closure Project, confirmed no impact on private wells
- Submitted 2025-2045 Renewable Energy Plan to MPSC, showing our roadmap to compliance including 264MW of new Renewable Energy Purchase Power Agreement
- Hometown Energy Savers programs exceeded 1.5% kWh savings in retail sales for residential and commercial
- The BWL reached 21% renewable energy, exceeding the current State of Michigan target of 15%

Operational Resiliency & Continuous Improvement

- Wood Road Water Tower Raised: Provides 2.5 Million gallons of storage to support system pressure
- REO CTG 1: Returned to service after overhaul on 07/15/2024
- Recognition of Excellence for August 2023 windstorm response by public relations society

Financial Stability

- Implemented natural gas prepay arrangement resulting in over \$2 Million annual savings
- Vendor negotiations resulting in over \$1.6 Million in savings
- Maintained strong credit rating of AA-/Stable with S&P

STRATEGIC OBJECTIVES – LOOKING FORWARD

FY 2026-2031

- **Financial Stability**

- Refine rate structure to maintain rate competitiveness
- Achieve target return for investment in infrastructure
- Maintain favorable bond rating

- **Operational Resiliency & Continuous Improvement**

- Target replacement of aging infrastructure to maintain resiliency and provide safe and reliable utility access for all
- Embed business continuity in processes and practices
- Improve internal processes for cost-effective decision-making, priority-setting and resource allocation
- Improve system availability, functionality, and support for technology assets and maintain cybersecurity resilience
- Maintain regulatory compliance

STRATEGIC OBJECTIVES – LOOKING FORWARD

FY 2026-2031

- **Customer & Community**

- Maintain high customer satisfaction
- Build accessible connections between external resources and vulnerable customers
- Increase community engagement and volunteerism
- Support the business community and economic development

- **Workforce Development & Diversity**

- Continuously pursue and enhance safety culture
- Increase retention and employee development
- Empower a culture of inclusion and respect where diverse perspectives drive success
- Identify and develop candidates for critical functions

- **Climate & Environment**

- Achieve BWL and regulatory renewable and clean energy targets
- Increase customer participation in innovative decarbonization and energy waste reduction programs
- Reduce organizational greenhouse gas emissions

STRATEGIC OBJECTIVES – TARGET METRICS

- **Maintain High Credit Rating**

- BWL is currently rated AA- (S&P) and Aa3 (Moody's) with stable outlooks
 - If the BWL were to have a one notch downgrade, the \$364M 2024A bond issuance would have cost an estimated \$5.5M in additional interest expense

- **Generate Adequate Return On Assets (RoA)**

- Adequate RoA is essential to municipal utilities
 - Ensures current ratepayers are not deferring costs to future generations and infrastructure is invested in order to maintain high levels of service
- An appropriate RoA recovers two main items:
 - Interest expense
 - Inflationary increase in infrastructure replacement costs
- Annual review of the return target is required by the Board (Resolution 2016-07-08)
 - Return on Assets FY 2026-2031 Target: 4.57%
 - **BWL is forecasted to reach this target by FY 2028**

- **Ensure Adequate Liquidity**

- BWL must be able to pay current obligations
 - Minimum cash reserve requirement per policy: **162/170* days for FY2026**
 - Debt service coverage minimum target: **2.00 x**

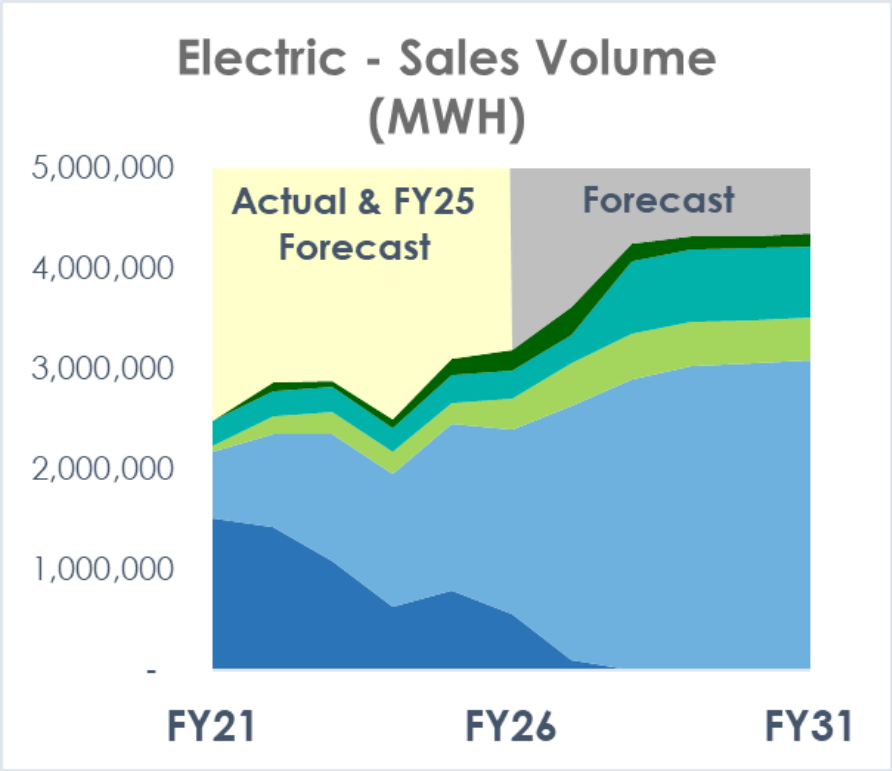
*Minimum cash reserve requirements shown reflect the calculation under both the current and proposed policies, respectively.

KEY BUDGET & FORECAST ASSUMPTIONS

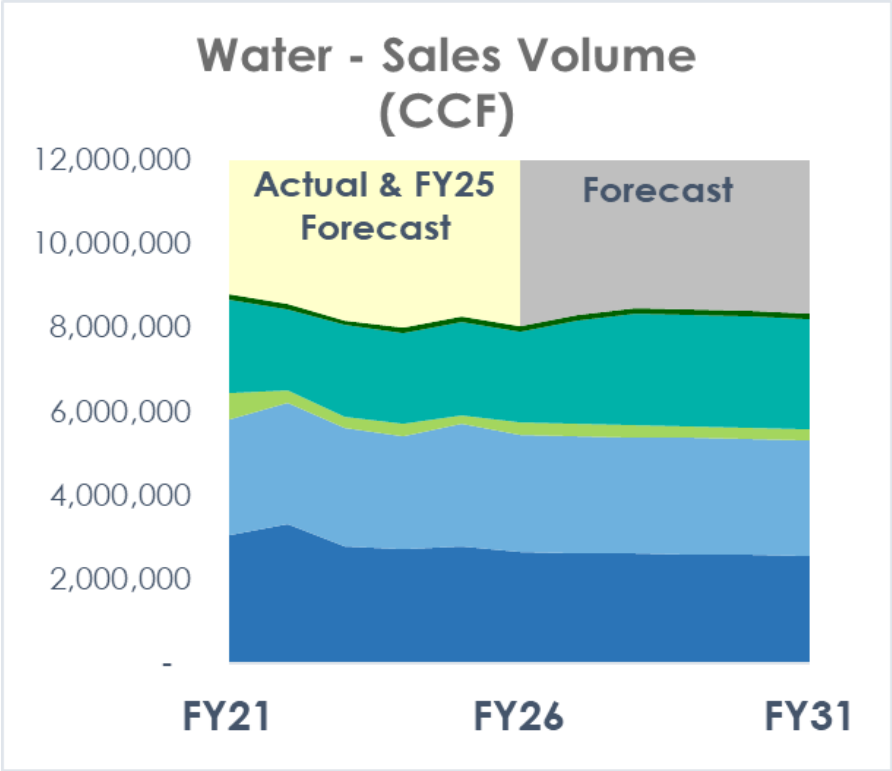
- Strategic Plan is supported by this budget & forecast.
- LG Battery Plant ramps up to full capacity in FY2027.
- Includes New Energy Projects and expected commercial operation dates.
- GM to discontinue Steam service in FY 2028
- Steam to Hot Water conversion 42% completed by FY2031
- Belle River, natural gas conversion, completed by FY2027
- Post-Retirement Benefits Plan (VEBA) achieves its target investment return.
- Eckert/Erickson decommissioning costs not included.
- Headcount holds at 829 throughout forecast period.
- Bargaining unit wage increases are not included due to the contract negotiation year.
- 2.4% inflation rate obtained from the Federal Congressional Budget Office.

SALES VOLUME HISTORY & FORECAST

Electric and Water



Electric Key:



Water Key:



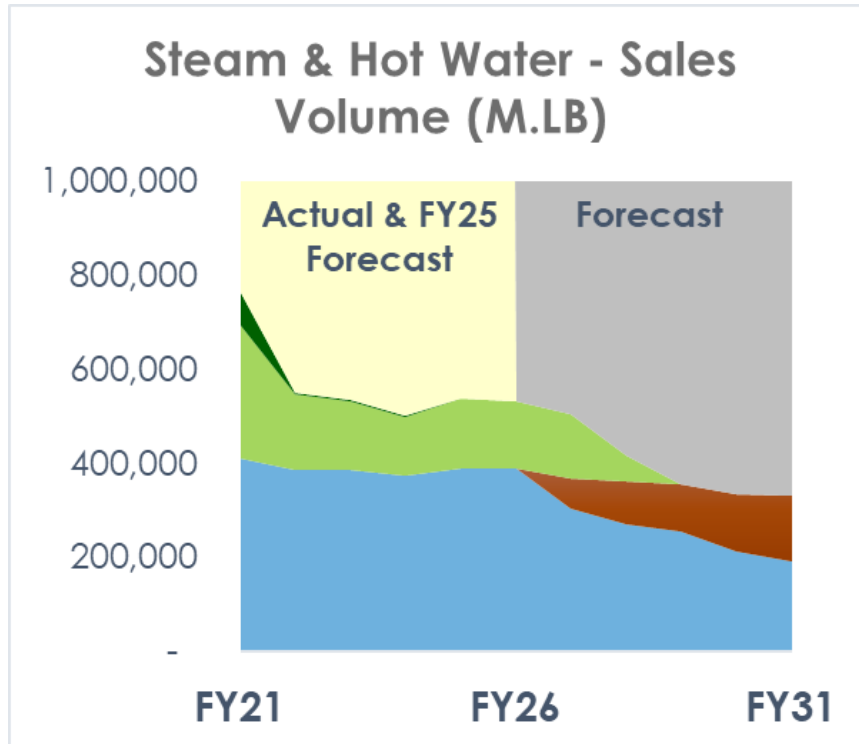
NEW RENEWABLE ENERGY ASSETS

Forecast Commercial Operation Dates

Project Name	Type	COD	Nameplate Capacity (MW)	Annual Output (MWh)
White Tail Solar	Solar	11/1/2025	115	204,750
Comfort Street Solar	Solar	1/1/2026	4	6,938
Lake Lansing Solar	Solar	2/1/2026	6	10,538
DEP Solar	Solar	10/1/2026	10	19,471
Watertown Solar I	Solar	12/1/2026	8	14,050
Watertown Solar II	Solar	12/1/2026	6	10,538
Moltke Ridge Wind	Wind	7/1/2027	149	440,000
Other Solar*	Solar	TBD	15	27,587
*Location TBD				

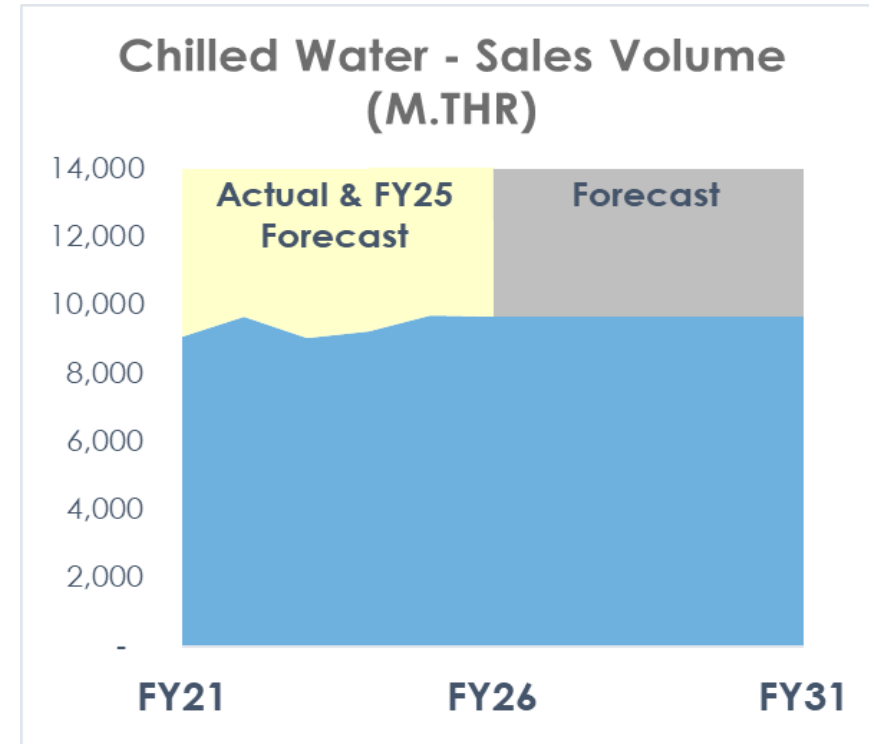
SALES VOLUME HISTORY & FORECAST

Steam & Hot Water and Chilled Water



Steam & Hot Water Key:

Commercial - Steam ■
Industrial - Steam ■
Other - Steam ■
Commercial - Hot Water ■



Chilled Water Key:

Commercial ■

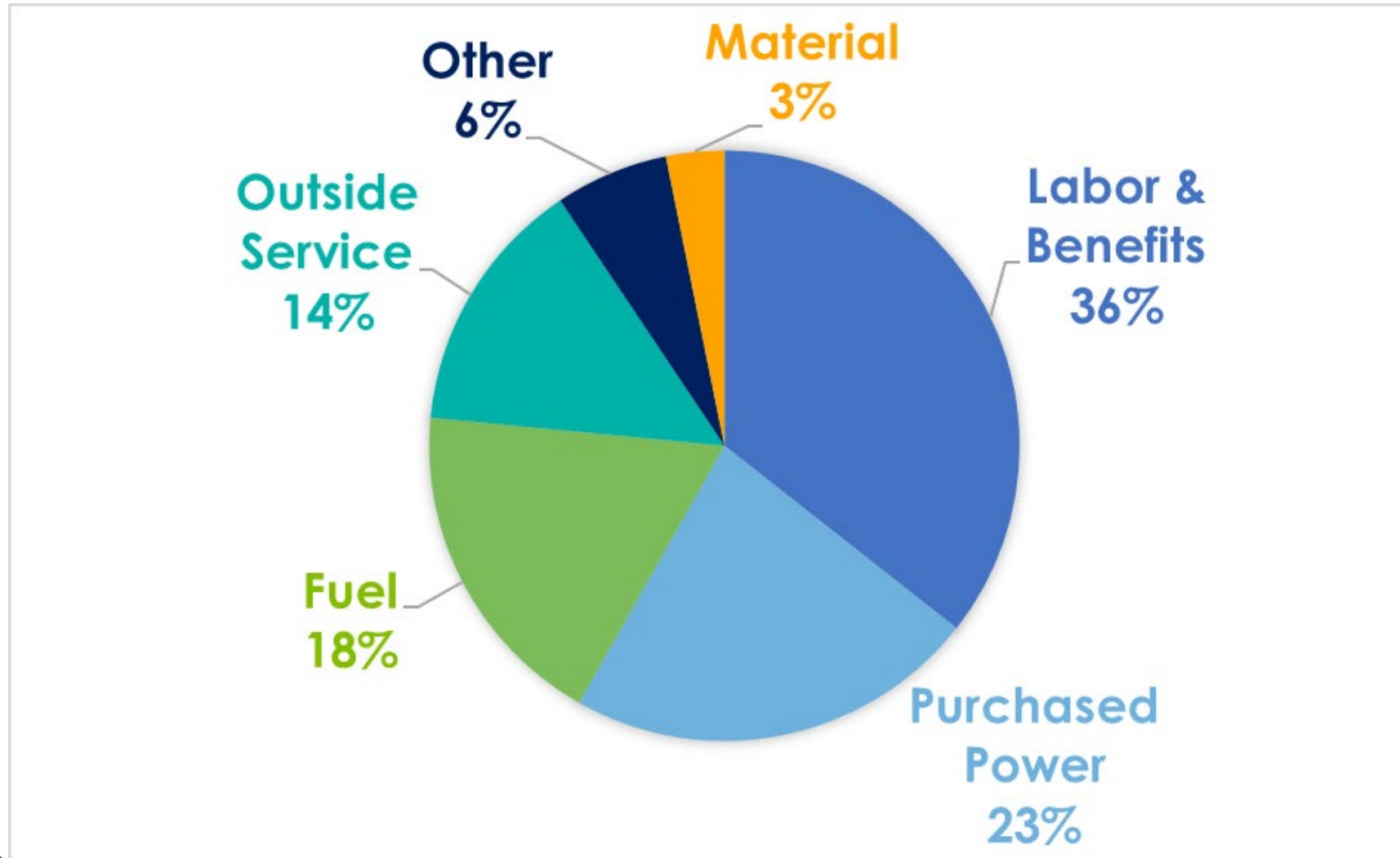
OPERATING BUDGET & FORECAST

FY 2026 Income Statement

FY 2026 Income Statement	Electric	Water	Steam & Hot Water	Chilled Water	Total
Sales (MWh, CCF, MLB, MTHR)	3,192,003	8,039,536	532,170	9,654	
Operating Revenue					
Residential	\$ 112,117,135	\$ 27,328,054	\$ 23,275	\$ -	\$ 139,468,464
Commercial	\$ 143,201,334	\$ 24,680,418	\$ 12,934,467	\$ 7,074,512	\$ 187,890,731
Industrial	\$ 74,933,496	\$ 2,239,703	\$ 5,658,261	\$ -	\$ 82,831,460
Wholesale	\$ 36,806,563	\$ 5,487,027	\$ -	\$ -	\$ 42,293,590
Other	\$ 33,103,876	\$ 5,329,131	\$ 22,240	\$ -	\$ 38,455,248
Total Operating Revenue	\$ 400,162,403	\$ 65,064,334	\$ 18,638,243	\$ 7,074,512	\$ 490,939,493
Operating Expenses					
Fuel & Purchased Power	\$ (126,354,596)	\$ (7,137,159)	\$ (4,159,369)	\$ (2,539,638)	\$ (140,190,761)
Depreciation	\$ (54,845,193)	\$ (9,777,742)	\$ (3,278,633)	\$ (758,791)	\$ (68,660,360)
Other Operating Expenses	\$ (146,379,021)	\$ (36,120,024)	\$ (5,435,946)	\$ (2,655,146)	\$ (190,590,137)
Total Operating Expenses	\$ (327,578,809)	\$ (53,034,925)	\$ (12,873,949)	\$ (5,953,575)	\$ (399,441,258)
Total Operating Income	\$ 72,583,594	\$ 12,029,409	\$ 5,764,294	\$ 1,120,937	\$ 91,498,234
Non Operating Income/(Expenses)					
Return on Equity to City	\$ (24,009,744)	\$ (3,903,860)	\$ (1,118,295)	\$ (424,471)	\$ (29,456,370)
Interest Expense	\$ (43,576,650)	\$ (1,629,245)	\$ (1,704,632)	\$ (72,614)	\$ (46,983,140)
Other Non Operating Income/(Expenses)	\$ 6,945,940	\$ 2,099,022	\$ 244,158	\$ 435,324	\$ 9,724,445
Total Non Operating Income/(Expenses)	\$ (60,640,454)	\$ (3,434,083)	\$ (2,578,768)	\$ (61,760)	\$ (66,715,065)
Total Net Income	\$ 11,943,140	\$ 8,595,327	\$ 3,185,526	\$ 1,059,177	\$ 24,783,169
Approved Rate Increase	6.00%	9.50%	9.75%	1.50%	
Return on Assets	4.12%	3.17%	5.51%	5.09%	4.02%
Target Return on Assets	4.57%	4.57%	4.57%	4.57%	4.57%

OPERATING BUDGET & FORECAST

FY 2026 Operating Expenses by Category



OPERATING BUDGET & FORECAST

Department of Internal Audit

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Labor¹:	\$ 181,997	\$ 220,997	\$ 220,997	\$ 220,997	\$ 220,997	\$ 220,997
Material:						
<i>A&G Supplies</i>	\$ 25,000	\$ 25,609	\$ 26,233	\$ 26,872	\$ 27,526	\$ 28,197
Outside Services:						
<i>Consulting Fees</i>	\$ 225,444	\$ 230,936	\$ 236,561	\$ 242,324	\$ 248,227	\$ 254,274
Total	\$ 432,441	\$ 477,542	\$ 483,791	\$ 490,193	\$ 496,751	\$ 503,468
¹ Non-Bargaining Labor increases budgeted outside of department						

- Budget decrease of 18.7% in FY 2026 compared to previously approved forecast, driven by cost rationalization and negotiating consulting fees.
- Labor includes the Director of Internal Audit and one full-time equivalent (FTE) position, which will remain vacant until after January 2026
- Consulting fees cover four comprehensive audits, including an IT/Cybersecurity audit with penetration testing, and access to three expert auditors
- Forecast dollars subject to change contingent on new mandatory audit compliance, standards or recommendations.

OPERATING BUDGET & FORECAST

Office of the Corporate Secretary

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Labor¹:	\$ 213,283	\$ 213,283	\$ 213,283	\$ 213,283	\$ 213,283	\$ 213,283
Material:						
<i>A&G Supplies</i>	\$ 733	\$ 751	\$ 769	\$ 788	\$ 807	\$ 827
Other:						
<i>Travel & Conf</i>	\$ 4,191	\$ 4,293	\$ 4,398	\$ 4,505	\$ 4,615	\$ 4,727
<i>General</i>	\$ 1,620	\$ 1,659	\$ 1,700	\$ 1,741	\$ 1,784	\$ 1,827
<i>Training</i>	\$ 1,100	\$ 1,127	\$ 1,154	\$ 1,182	\$ 1,211	\$ 1,241
Total	\$ 220,927	\$ 221,113	\$ 221,304	\$ 221,499	\$ 221,699	\$ 221,905

¹ Non-Bargaining Labor increases budgeted outside of department

- A&G (Administrative & General) Supplies include Office of Corporate Secretary office supplies
- General Expense includes business meeting expenses
- Training Expense includes the Corporate Secretary Society of Corporate Governance annual membership fee and Administrative Assistant SkillPath training fee

OPERATING BUDGET & FORECAST

Office of the Board of Commissioners

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Material:						
<i>A&G Supplies</i>	\$ 1,044	\$ 1,069	\$ 1,095	\$ 1,122	\$ 1,150	\$ 1,178
Other:						
<i>Travel & Conf</i>	\$ 33,492	\$ 34,308	\$ 35,144	\$ 36,000	\$ 36,877	\$ 37,775
Outside Services:						
<i>General</i>	\$ 13,619	\$ 13,951	\$ 14,291	\$ 14,639	\$ 14,995	\$ 15,361
Total	\$ 48,155	\$ 49,328	\$ 50,530	\$ 51,761	\$ 53,021	\$ 54,313

- A&G Supplies include Board of Commissioners meetings and office supplies
- General Outside Services include Board of Commissioners meetings meal expenses, new Commissioner professional photography fee and annual BWL records storage fee

OPERATING BUDGET & FORECAST

6-Year Income Statement

6-Year Income Statement	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operating Revenue						
Electric	\$ 400,162,403	\$ 421,708,128	\$ 459,264,201	\$ 475,635,500	\$ 491,560,652	\$ 508,486,179
Water	\$ 65,064,334	\$ 68,367,758	\$ 70,582,292	\$ 73,912,987	\$ 77,790,448	\$ 82,080,533
Steam & Hot Water	\$ 18,638,243	\$ 18,137,759	\$ 15,215,158	\$ 12,871,680	\$ 12,503,507	\$ 12,867,838
Chilled Water	\$ 7,074,512	\$ 7,228,373	\$ 7,267,950	\$ 7,327,741	\$ 7,394,974	\$ 7,456,787
Total Operating Revenue	\$ 490,939,493	\$ 515,442,018	\$ 552,329,602	\$ 569,747,908	\$ 589,249,582	\$ 610,891,338
Operating Expenses						
Fuel & Purchased Power	\$ (140,190,761)	\$ (142,873,137)	\$ (163,514,319)	\$ (163,738,195)	\$ (164,563,162)	\$ (166,299,172)
Depreciation	\$ (68,660,360)	\$ (70,830,337)	\$ (71,927,728)	\$ (70,363,082)	\$ (72,168,267)	\$ (73,729,160)
Other Operating Expenses	\$ (190,590,137)	\$ (204,597,149)	\$ (210,500,566)	\$ (223,336,561)	\$ (236,737,547)	\$ (250,969,805)
Total Operating Expenses	\$ (399,441,258)	\$ (418,300,623)	\$ (445,942,613)	\$ (457,437,838)	\$ (473,468,976)	\$ (490,998,137)
Total Operating Income	\$ 91,498,234	\$ 97,141,396	\$ 106,386,988	\$ 112,310,070	\$ 115,780,606	\$ 119,893,201
Non Operating Income/(Expenses)						
Return on Equity to City	\$ (29,456,370)	\$ (30,446,521)	\$ (32,647,512)	\$ (33,678,044)	\$ (34,833,057)	\$ (36,115,931)
Interest Expense	\$ (46,983,140)	\$ (49,055,701)	\$ (48,242,649)	\$ (47,292,016)	\$ (46,370,439)	\$ (45,403,378)
Other Non Operating Income/(Expenses)	\$ 9,724,445	\$ 8,515,772	\$ 6,913,853	\$ 6,310,007	\$ 6,134,170	\$ 6,504,271
Total Non Operating Income/(Expenses)	\$ (66,715,065)	\$ (70,986,450)	\$ (73,976,308)	\$ (74,660,054)	\$ (75,069,326)	\$ (75,015,038)
Total Net Income	\$ 24,783,169	\$ 26,154,945	\$ 32,410,680	\$ 37,650,016	\$ 40,711,280	\$ 44,878,163

OPERATING BUDGET & FORECAST

6-Year Target Metrics

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Return on Assets	4.02%	4.20%	4.57%	4.80%	4.88%	4.98%
Target Return on Assets	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%
Debt Service Coverage Ratio	2.21	2.06	2.15	2.19	2.25	2.32
Days Cash on Hand	176	184	213	222	219	208
Minimum Cash Reserve Requirement	162 / 170	159 / 169	153 / 161	151 / 159	148 / 156	145 / 153
Full Time Employees	829	829	829	829	829	829
Rate Increases	Approved		Forecast			
Electric	6.00%	2.00%	2.40%	2.40%	2.40%	2.40%
Water	9.50%	2.00%	3.00%	6.00%	6.00%	6.00%
Steam & Hot Water	9.75%	5.50%	5.50%	5.50%	5.50%	5.50%
Chilled Water	1.50%	0.00%	0.00%	0.00%	0.00%	0.00%

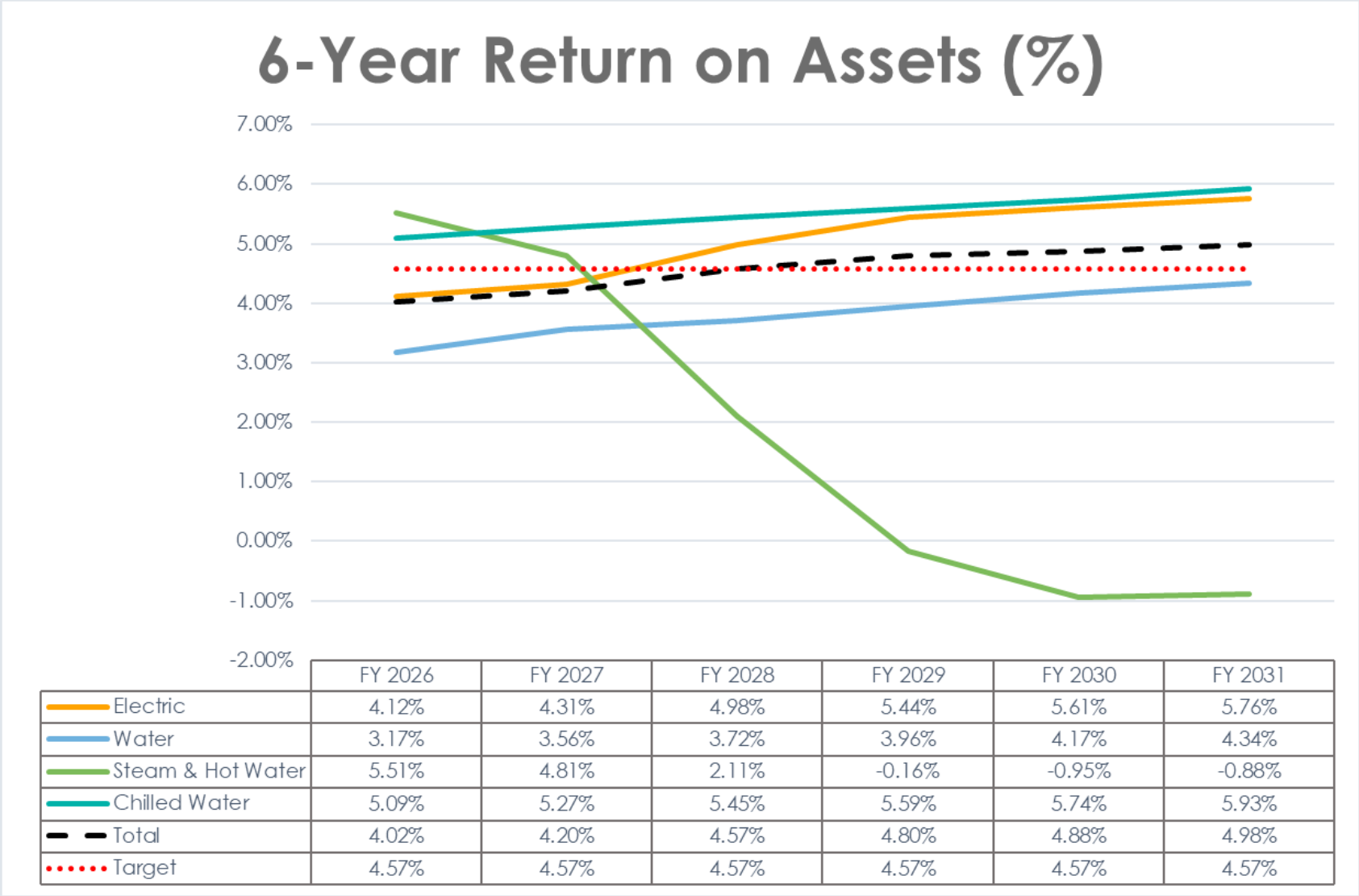
Rate Increase Comparison

FY25-30 Approved vs FY26-31 Proposed

	Approved	Forecast			
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
FY25-30 Approved Forecast					
Electric	6.00%	5.00%	4.00%	4.00%	4.00%
Water	9.50%	9.50%	9.50%	8.00%	2.50%
Steam & Hot Water	9.75%	9.75%	9.75%	9.75%	9.75%
Chilled Water	1.50%	1.50%	1.50%	1.50%	0.00%
FY26-31 Proposed Forecast					
Electric	6.00%	2.00%	2.40%	2.40%	2.40%
Water	9.50%	2.00%	3.00%	6.00%	6.00%
Steam & Hot Water	9.75%	5.50%	5.50%	5.50%	5.50%
Chilled Water	1.50%	0.00%	0.00%	0.00%	0.00%
Change					
Electric	0.00%	-3.00%	-1.60%	-1.60%	-1.60%
Water	0.00%	-7.50%	-6.50%	-2.00%	3.50%
Steam & Hot Water	0.00%	-4.25%	-4.25%	-4.25%	-4.25%
Chilled Water	0.00%	-1.50%	-1.50%	-1.50%	0.00%

OPERATING BUDGET & FORECAST

6-Year Return on Assets



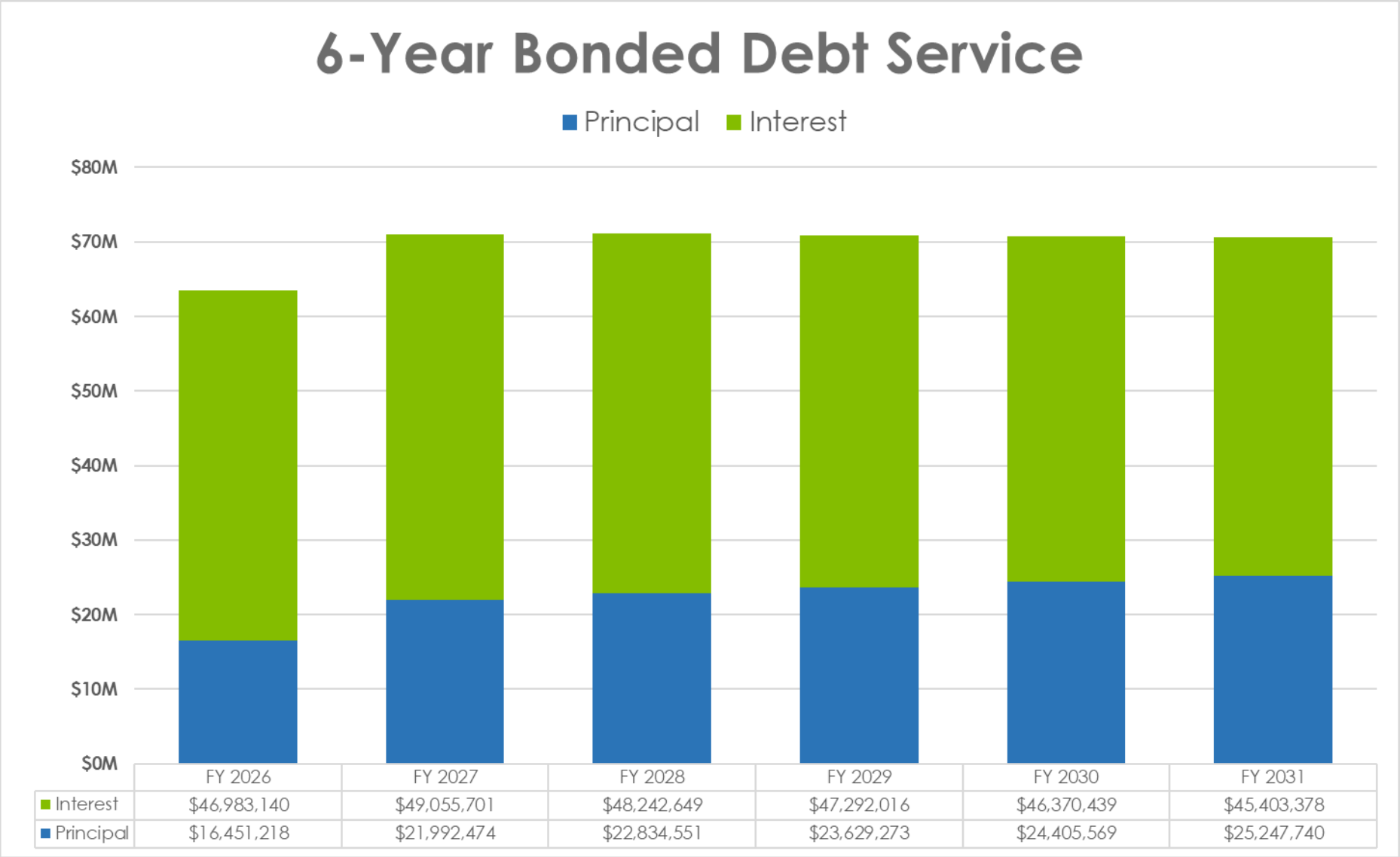
OPERATING BUDGET & FORECAST

6-Year Cash Flow

6-Year Cash Flow	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Beginning Cash (O&M & Receiving Fund)	\$ 106,692,584	\$ 118,620,754	\$ 136,517,823	\$ 185,262,106	\$ 207,773,091	\$ 214,497,405
Net Income	\$ 24,783,169	\$ 26,154,945	\$ 32,410,680	\$ 37,650,016	\$ 40,711,280	\$ 44,878,163
Depreciation	\$ 68,660,360	\$ 70,830,337	\$ 71,927,728	\$ 70,363,082	\$ 72,168,267	\$ 73,729,160
Loss on Disposal of Assets	\$ 2,562,884	\$ 2,438,021	\$ 2,484,256	\$ 2,531,618	\$ 2,580,134	\$ 2,459,832
DB and VEBA	\$ 12,267	\$ 53,510	\$ (174,535)	\$ 194,769	\$ 399,379	\$ 708,494
Use of Bond Proceeds	\$ 173,166,326	\$ 76,368,187	\$ 42,498,835	\$ 7,389,500	\$ -	\$ -
Commodity Cost Adjustment	\$ 5,437,374	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Credits	\$ -	\$ -	\$ 35,921,420	\$ 22,137,706	\$ 4,400,000	\$ -
Gas Pipeline Payment Refunds	\$ 6,769,540	\$ 10,217,717	\$ -	\$ -	\$ -	\$ -
Grants	\$ 5,175,318	\$ 3,353,235	\$ 345,000	\$ 345,000	\$ -	\$ -
Total Sources of Cash	\$ 286,567,239	\$ 189,415,952	\$ 185,413,385	\$ 140,611,691	\$ 120,259,060	\$ 121,775,649
Principal Payments on Bonds	\$ (87,326,218)	\$ (21,992,474)	\$ (22,834,551)	\$ (23,629,273)	\$ (24,405,569)	\$ (25,247,740)
Environmental Projects	\$ (1,621,756)	\$ 371,106	\$ (2,035,137)	\$ 5,538,777	\$ 5,621,446	\$ 5,711,267
Capital Expenditures	\$ (181,267,787)	\$ (146,387,863)	\$ (111,048,397)	\$ (99,580,054)	\$ (94,499,377)	\$ (102,962,621)
Other	\$ (4,423,308)	\$ (3,509,653)	\$ (751,017)	\$ (430,157)	\$ (251,247)	\$ (49,282)
Total Uses of Cash	\$ (274,639,068)	\$ (171,518,883)	\$ (136,669,102)	\$ (118,100,706)	\$ (113,534,746)	\$ (122,548,375)
Net Cash Increase (Decrease)	\$ 11,928,170	\$ 17,897,068	\$ 48,744,283	\$ 22,510,985	\$ 6,724,314	\$ (772,727)
Ending Cash (O&M & Receiving Fund)	\$ 118,620,754	\$ 136,517,823	\$ 185,262,106	\$ 207,773,091	\$ 214,497,405	\$ 213,724,679
Days Cash on Hand	176	184	213	222	219	208
Minimum Cash Reserve Requirement	162 / 170	159 / 169	153 / 161	151 / 159	148 / 156	145 / 153

OPERATING BUDGET & FORECAST

6-Year Bonded Debt Service



CAPITAL PORTFOLIO – BUDGET & FORECAST

New & Renewable Energy

Project	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Forecast Total*
DEP RICE	\$ 41,122,589	\$ 2,848,442	\$ -	\$ -	\$ -	\$ -	\$ 43,971,031
DEP Storage	\$ 46,159,164	\$ 11,214,049	\$ -	\$ -	\$ -	\$ -	\$ 57,373,213
DEP Solar	\$ 8,625,637	\$ 8,746,971	\$ -	\$ -	\$ -	\$ -	\$ 17,372,608
Comfort Landfill Solar	\$ 7,792,464	\$ 12,908	\$ -	\$ -	\$ -	\$ -	\$ 7,805,372
Lake Lansing Solar	\$ 7,688,544	\$ 9,965	\$ -	\$ -	\$ -	\$ -	\$ 7,698,509
Other Solar	\$ -	\$ 18,500,000	\$ 18,500,000	\$ -	\$ -	\$ -	\$ 37,000,000
Watertown Solar 1	\$ 13,230,717	\$ 4,250,000	\$ -	\$ -	\$ -	\$ -	\$ 17,480,717
Watertown Solar 2	\$ 7,851,067	\$ 2,500,000	\$ -	\$ -	\$ -	\$ -	\$ 10,351,067
Energy Storage	\$ -	\$ -	\$ 20,000,000	\$ 20,000,000	\$ -	\$ -	\$ 40,000,000
Total	\$ 132,470,182	\$ 48,082,335	\$ 38,500,000	\$ 20,000,000	\$ -	\$ -	\$ 239,052,517

*Gross capital spend, not including any Contribution in Aid of Construction (CIAC), Grants, or tax credits

*The amounts shown above exclude amounts expended prior to and/or following the forecast period

*Tax credits, which are not included in the amounts above, are projected to be 22-30% of eligible costs

CAPITAL PORTFOLIO – BUDGET & FORECAST

Hot Water Conversion

System Area	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Forecast Total*
Distribution Transmission	\$ 2,633,000	\$ 2,511,000	\$ 2,064,000	\$ 2,578,000	\$ 2,644,000	\$ 3,159,000	\$15,589,000
Distribution Services	\$ 267,000	\$ 1,538,000	\$ 1,124,000	\$ 789,000	\$ 1,054,000	\$ 971,000	\$ 5,743,000
Customer Conversion	\$ 798,000	\$ 2,014,500	\$ 2,332,500	\$ 2,339,500	\$ 2,764,000	\$ 2,917,500	\$13,166,000
Customer Disconnection	\$ 71,500	\$ 174,000	\$ 415,000	\$ 438,500	\$ 899,500	\$ 773,500	\$ 2,772,000
Production	\$ 4,216,667	\$ -	\$ 1,244,500	\$ 1,244,500	\$ 4,304,500	\$ 4,433,500	\$15,443,667
Total	\$ 7,986,167	\$ 6,237,500	\$ 7,180,000	\$ 7,389,500	\$ 11,666,000	\$ 12,254,500	\$52,713,667
*Gross capital spend, not including any Contribution in Aid of Construction (CIAC), Grants, or tax credits							
*The amounts shown above exclude amounts expended prior to and/or following the forecast period							

CAPITAL PORTFOLIO – BUDGET & FORECAST

Other Capital Projects by Utility and Location

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Forecast Total
Utility							
Electric	\$ 43,386,105	\$ 44,370,978	\$ 28,501,611	\$ 35,914,457	\$ 38,701,929	\$ 47,279,273	\$ 238,154,352
Water	\$ 22,628,430	\$ 18,028,568	\$ 19,010,214	\$ 26,361,408	\$ 27,661,645	\$ 27,119,079	\$ 140,809,344
Steam	\$ 2,064,000	\$ 2,067,000	\$ 2,070,000	\$ 2,073,000	\$ 2,076,000	\$ 2,079,000	\$ 12,429,000
Chilled Water	\$ 212,789	\$ 52,008	\$ 53,069	\$ 54,594	\$ 54,594	\$ 67,000	\$ 494,054
Common	\$ 6,072,605	\$ 7,510,756	\$ 11,078,202	\$ 5,588,269	\$ 13,276,287	\$ 16,358,646	\$ 59,884,765
Contingency	\$ 115,313	\$ 190,135	\$ -	\$ 151,379	\$ 151,379	\$ 622,423	\$ 1,230,629
Total Capital Portfolio	\$ 74,479,242	\$ 72,219,445	\$ 60,713,096	\$ 70,143,107	\$ 81,921,834	\$ 93,525,421	\$ 453,002,145
Location							
REO Plant	\$ 1,403,085	\$ 383,818	\$ 35,598	\$ 5,933,781	\$ 531,968	\$ 5,760,000	\$ 14,048,250
Delta Energy Park	\$ 62,904	\$ -	\$ -	\$ -	\$ 1,640,331	\$ 4,860,121	\$ 6,563,356
Water Production	\$ 6,087,495	\$ 3,213,359	\$ 5,454,092	\$ 5,241,845	\$ 5,562,320	\$ 4,720,362	\$ 30,279,473
Electric T&D	\$ 41,689,250	\$ 41,783,250	\$ 27,338,513	\$ 29,980,676	\$ 35,529,630	\$ 35,659,152	\$ 211,980,470
Water T&D	\$ 17,040,935	\$ 14,815,209	\$ 13,556,122	\$ 21,119,563	\$ 22,099,325	\$ 22,398,717	\$ 111,029,871
Steam T&D	\$ 2,064,000	\$ 2,067,000	\$ 2,070,000	\$ 2,073,000	\$ 2,076,000	\$ 2,079,000	\$ 12,429,000
Chilled Water T&D	\$ 52,008	\$ 52,008	\$ 53,069	\$ 54,594	\$ 54,594	\$ 67,000	\$ 333,273
Other	\$ 6,079,565	\$ 9,904,801	\$ 12,205,702	\$ 5,739,648	\$ 14,427,666	\$ 17,981,069	\$ 66,338,451
Total Capital Portfolio	\$ 74,479,242	\$ 72,219,445	\$ 60,713,096	\$ 70,143,107	\$ 81,921,834	\$ 93,525,421	\$ 453,002,145

*Net capital spend, including any Contribution in Aid of Construction (CIAC) or Grants

*The amounts shown above exclude amounts expended prior to and/or following the forecast period

CAPITAL PORTFOLIO – BUDGET & FORECAST

Major Projects and Annuals within Other Capital Projects

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Forecast Total
Planned Projects							
Stanley Substation - Construct a New 138kV Sub (LET)	\$ 350,000	\$ 3,000,000	\$ 2,000,000	\$ 3,275,000	\$ 15,440,000	\$ 15,440,000	\$ 39,505,000
Rundle Substation - Construct a New 138kV Sub (LET)	\$ 2,950,000	\$ 5,600,000	\$ 6,200,000	\$ 7,700,000			\$ 22,450,000
South Reinforcement - Transmission Line (LET)	\$ 17,859,874						\$ 17,859,874
LGR Substation (LET)	\$ 307,092	\$ 16,456,353					\$ 16,763,445
SAP Replacement					\$ 5,945,000	\$ 9,426,000	\$ 15,371,000
REO - Control System Upgrades			\$ 35,598	\$ 5,933,781	\$ 531,968		\$ 6,501,347
DEP - Control System Upgrades					\$ 1,640,331	\$ 4,860,121	\$ 6,500,452
Stanley Substation - Distribution (LET)	\$ 40,000	\$ 450,000	\$ 110,000	\$ 400,000	\$ 2,000,000	\$ 2,000,000	\$ 5,000,000
Utility Network Implementation		\$ 1,227,324	\$ 3,238,175	\$ 65,554			\$ 4,531,053
Network Security Monitoring	\$ 1,471,024	\$ 1,536,573					\$ 3,007,597
Total Major Planned Projects	\$ 22,977,990	\$ 28,270,250	\$ 11,583,773	\$ 17,374,335	\$ 25,557,299	\$ 31,726,121	\$ 137,489,768
Annual Projects ¹							
Electric ²	\$ 16,980,000	\$ 15,633,400	\$ 16,635,842	\$ 16,793,419	\$ 18,906,067	\$ 24,979,152	\$ 109,927,879
Water ³	\$ 18,736,794	\$ 17,023,568	\$ 16,346,447	\$ 23,922,054	\$ 24,914,341	\$ 26,703,079	\$ 127,646,283
Steam	\$ 2,064,000	\$ 2,067,000	\$ 2,070,000	\$ 2,073,000	\$ 2,076,000	\$ 2,079,000	\$ 12,429,000
Chilled Water	\$ 52,008	\$ 52,008	\$ 53,069	\$ 54,594	\$ 54,594	\$ 67,000	\$ 333,273
Common	\$ 6,071,014	\$ 6,165,766	\$ 6,609,433	\$ 5,674,094	\$ 7,482,666	\$ 7,555,069	\$ 39,558,042
Total Annual Projects	\$ 43,903,816	\$ 40,941,742	\$ 41,714,791	\$ 48,517,161	\$ 53,433,668	\$ 61,383,300	\$ 289,894,477

*The amounts shown above exclude amounts expended prior to and/or following the forecast period

(LET) - Projects support the Lansing Energy Tomorrow initiative

² Electric annuals average to \$12.2M per year for T&D Systems, Services & Line Extensions, Street, Building & Outdoor Lighting

¹ Annual projects have some level of spending each year

³ Water annuals average to \$14.7M per year for CSO - 8 Miles of Main Improvements

10 Largest Planned Projects make up 84% of Total Planned Capital

Next Steps



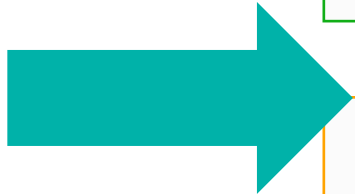
November 2024 – February 2025

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



March 2025 – April 2025

- Compile Budget & Forecast
- Internal Review and Approval



May 2025

- Finance Committee to approve the Operating and Capital Budget & Forecast for FY 2026 – 2031 and recommend it for the Board of Commissioners' approval on May 20, 2025.
- Board of Commissioners to approve, Corporate Secretary to file FY26 budget with the City Clerk within 10 days of approval and submit the Capital Improvement Plans for FY 2026 – 2031 to the Mayor prior to October 1, 2025.



THANK
YOU

RESOLUTION 2025-05-XX
Fiscal Year 2026-2031 Budget and Forecast

RESOLVED, that the Annual Operating and Capital Budget covering Fiscal Year 2026 is hereby approved as presented; and

RESOLVED, that the Operating and Capital Forecast for the Fiscal Years 2027-2031 is hereby accepted as presented; and

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

Staff Comments:

Staff recommends an operating and maintenance budget of \$399.4M and a capital budget of \$214.9M for Fiscal Year 2026.

The Operating and Capital Budget and Forecast for Fiscal Years 2026-2031 includes forecasted rate increases. The forecast rate increases are subject to revision and, in any case, prior to implementation, must be subject to the BWL's formal rate setting process as per Lansing City Charter, Section 5-205 which refers to the BWL's authority to set just and reasonable rates and defines the public hearing process.

In accordance with the provisions of the Lansing City Charter, Article 5, Chapter 2, Section 5-203.5 and Section 5-203.6, staff recommends the Finance Committee approve the budget and forecast for presentation and adoption by the Board at its May 20, 2025 board meeting.

Motion by Commissioner _____, **Seconded** by Commissioner _____, to approve the Resolution for the Fiscal Year 2026-2031 Budget and Forecast at a Board meeting held on May 20, 2025.

FY 2025 Cash Receipts Audit Results

Presented by:

Elisha Franco, Director of Internal Audit



HOMETOWN PEOPLE. HOMETOWN POWER.

Audit Scope & Methodology

- The **audit scope** was to examine the cash receipts and remittance process, procedures, and documentation.
- Audit procedures, documents, and data were reviewed from July 1, 2023, to June 30, 2024.
- The audit was carried out in compliance with ***The Institute of Internal Auditors Global Internal Audit Standards.***

Audit Objectives

Determine whether:

- The physical security and system access controls related to cash handling are effective.
- The timeliness and accuracy of cash receipts processing are maintained.
- Monitoring and reconciliation controls for cash receipts are effective.
- Cash handling procedures comply with BWL policies.
- Adequate segregation of duties exists within the cash receipts process to prevent and detect errors or fraud.



Audit Findings

Two medium-risk findings were identified during the audit:

- **Documentation and Review:** The lobby access report selected for testing was missing audit trail documentation confirming it had undergone review.
- **Incomplete Documentation:** A batch closing worksheet was submitted with incomplete data, resulting in a variance of approximately \$6,000. Missing values in multiple sections of the worksheet caused the discrepancy. Internal Audit entered the correct data and confirmed that no actual variance existed. The issue was attributed to improper completion of the worksheet.

Audit Process Improvement Recommendations

Five process improvement recommendations were identified during the audit:

- Implement a cash receipts checklist to strengthen documentation of preparation and review processes.
- Enhance reconciliations and workbooks by including clear evidence of review, such as “Prepared by,” “Date,” and “Reviewed by” fields where applicable.
- For miscellaneous billing, establish an implementation target date for the rollout of new procedures.
- Enhance reconciliations and workbooks by including a “Notes” section that should be used to identify the cause of variances.
- Develop and implement an annual fraud training program for all BWL employees.

General Opinion

Overall opinion rating of **Sufficient**:

- No critical or high-level risk areas were identified. The impact of identified control weaknesses exposes the payroll process in scope to limited risk. Some management effort is required to correct the findings and recommendations.

Internal Audit Status Report

Finance Committee Meeting
May 2025



HOMETOWN PEOPLE. HOMETOWN POWER.

Overview

- Audit Update
- Issue Status Update
- FY 2025 Audit Work Plan
- Other Items

Audit Update

Total Worksteps

94

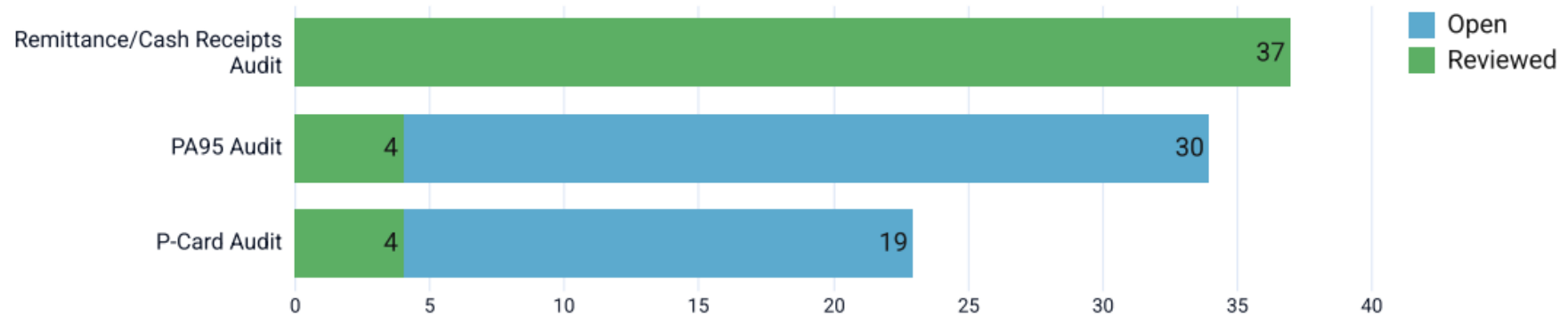
Percent (%) In Process / Not Begun

52.1%

Percent (%) Complete

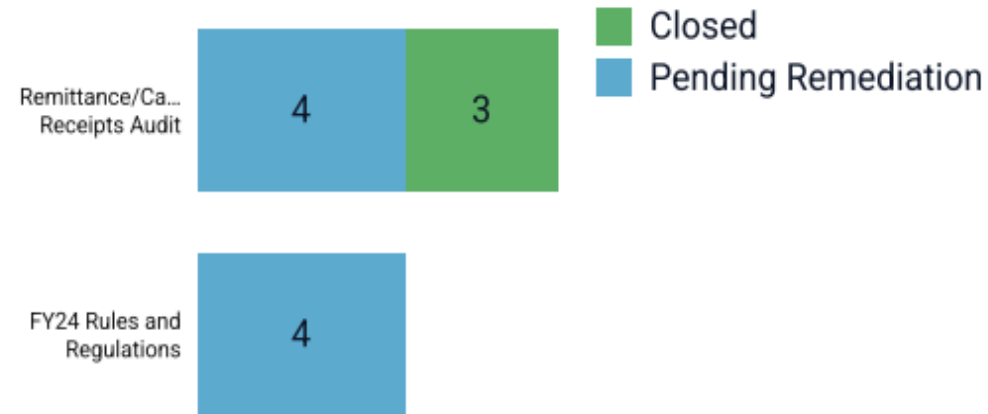
47.9%

Audit Status

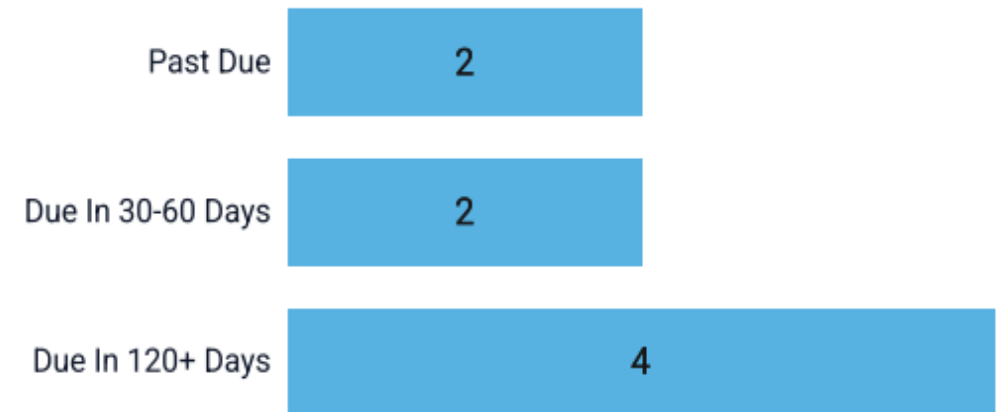


Issue Status Update

Issue Status by Audit



Issue Aging



FY 2025 Audit Plan



Payroll Management - Complete

Remittance/Cash Receipts - Complete

PA 95 F/U - April through June 2025

P-Card - April through June 2025

Other Items

Department Items

The Internal Audit Department will welcome an intern in May:

- Accounting major at Michigan State University
- Will help support department activities during the internship

Professional Engagement:

- The Director of Internal Audit has been elected to serve on the Board of Governors for the Institute of Internal Auditors Lansing Chapter

May is Internal Audit Month:

- Internal Audit will run a brief campaign during May to increase awareness of the Internal Audit profession through the BWL Tuesday Announcements and HPTV!

Other Items

Department Items

Department Updates on Procedure and Governance Documents:

- Internal Audit Strategic Plan - **In Progress**
- Internal Audit Quality Assurance and Improvement Plan (QAIP) - **Draft Complete**
- Internal Audit Organizational Risk Assessment - **In Progress**
- Internal Audit Manual - **Draft Complete**

FY 2026 Internal Audit Work Plan

- Internal Audit will be working to compile audits for the FY 2026 Work Plan.

Other Items

Department Items

Professional Development:

- Actively working toward fulfilling the professional education requirements for CIA certification.
- **Reminder:** The Institute of Internal Auditors is changing the CIA certification testing to align with the Global Internal Audit Standards beginning in May 2025.