



**LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
AGENDA – November 9, 2021
6:00 P.M. – 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>.

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of September 14, 2021 **TAB 1**
- 2. September YTD Financial Summary **TAB 2**
 - a. September Capital Report **TAB 2a**
- 3. Retirement Plan Committee (RPC) Update..... **INFO ONLY**
- 4. Internal Audit Status Report **TAB 3**

Other

Adjourn

Based on recommendations from the Centers for Disease Control, and in accordance with the City of Lansing, the Board of Commissioners are requesting members of the public, staff and Board Members to wear a face covering at Committee and Regular Board Meetings.

FINANCE COMMITTEE
Meeting Minutes
September 14, 2021

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, September 14, 2021.

Finance Committee Chair Tony Mullen called the meeting to order at 6:31 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Tony Mullen, Beth Graham, and Sandra Zerkle. Also, present: Non-Voting Commissioners Douglas Jester (East Lansing), Larry Merrill (Delta Township) and Brian Ross (DeWitt Township).

Absent: Commissioner Semone James

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

Motion by Commissioner Zerkle, **Seconded** by Commissioner Graham, to approve the Finance Committee meeting minutes of July 13, 2021.

Action: Motion Carried.

Baker Tilly External Audit Report and Resolution

Chief Financial Officer (CFO) Heather Shawa provided background information on the annual external audit report. Ms. Shawa introduced external auditor Aaron Worthman, Partner and CPA at Baker Tilly Virchow Krause, LLP. Mr. Worthman presented and highlighted the external audit report which included an audit overview, management's responsibilities, the audit approach and results, accounting changes relevant to BWL, and trending challenges and opportunities. BWL received an unmodified or clean opinion which is the highest level of assurance provided. Mr. Worthman stated that 30% of the audit process was internal controls, 40% was substantive testing and 30% was reviewing financial reports. Internal controls include disbursements, payroll, billing and information technology while substantive testing consists of reviewing cash and investments and fixed asset purchases. Mr. Worthman reported that there were no deficiencies in internal controls.

Mr. Worthman noted from the financial statements the income available for revenue bond debt retirement was \$52.7 million for 2021 and was a significant increase from \$29.7 million in

2020. Mr. Worthman also noted that operating revenues increased by \$15.9 million or 6% and was mainly due to increased rates in 2020. Operating expenses decreased \$18.3 million or 5.7% which was mostly due to decreased administrative expenses in health care and positive investment performance. Mr. Worthman also reported that there was a substantial increase in debt services due to capitalized interest payments on the last borrowings and this will level off in 2023.

Chair Zerkle asked if the COVID-19 pandemic was the reason for the greatest part of the increase in water and electric revenues. Mr. Worthman responded that the rate increase for 2020 was the reason for the increase in revenues. GM Peffley added there was an increase in residential electricity and water use due to employees working from home and it wasn't offset by a decrease in commercial consumption.

Mr. Worthman reported that the disclosures in the financial statements are neutral, consistent and clear. He stated that, when reviewing the financial statements and financial plans, assets and projected outcomes are an assumed value and the audit determines whether these are reasonable assumptions.

Chair Mullen commented that there were bound presentations of the audit on the side table for all of the Commissioners and thanked the CFO and Finance Department for their work on the audit.

Commissioner Merrill inquired about net fund assets with no allocation and whether there were any benchmarks or standards for balancing prudence and what customers are charged. Mr. Worthman responded that the Government Finance Officers Association (GFOA) website provides information on benchmarking and what should be reviewed. The information isn't specific to utilities but to governmental entities. CFO Shawa responded that recommendations are being reviewed and that information placed on the Financial Dashboard is benchmarked. Commissioner Merrill asked if information from other public utilities was compared for an industry standard. GM Peffley responded that information from all public utilities is reviewed for competitiveness through information obtained through American Public Power Association (APPA).

Motion by Commissioner Zerkle, **Seconded** by Commissioner Graham, to forward to the Board Meeting the Acceptance of the Resolution for the 2021 Audited Financial Statements.

Action: Motion Carried.

Advanced Distribution Management System (ADMS) Capital Project Exceedance Policy and Resolution

CFO Shawa stated that the ADMS project is part of the BSmart program and is the replacement of the prior Outage Management System (OMS). Phase I was fully implemented and Phase II is

the energy side of it. Additional approved scope is 50% of the ADMS project exceedance request and the other 50% is internal and outside labor and additional hardware purchases. GM Peffley responded that the regulations changed after the project was started and has been included in the exceedance request. CFO Shawa requested approval of the exceedance in order to complete the project.

Motion by Commissioner Graham, **Seconded** by Commissioner Zerkle, to forward to the Board Meeting the Advanced Distribution Management System Capital Project Exceedance Policy Resolution.

Action: Motion Carried.

July YTD Financial Summary

Finance Manager, Scott Taylor gave a review of the July 2021 Year-to-date Financial Summary. Mr. Taylor reported the following: revenues were budgeted at \$32 million and it is at \$31 million; operating expenditures were budgeted at \$26 million and \$23 million was spent; Net Income was budgeted just above \$ million and it is now a little under \$8 million. Mr. Taylor noted that as July and August are typically slower months financial factors are typically under budget.

Update on Federal Infrastructure Plan

GM Peffley reported that in response to Commissioners' request about funding from the government and will provide an update on water at the Regular Board meeting. Grants are requested through the city as the opportunities are available. CFO Shawa gave an update on the Federal infrastructure plan. The Federal infrastructure plan is being monitored as it is awaiting being passed. Clean drinking water, electric vehicles infrastructure, distribution planning and energy efficiency, and cybersecurity efforts are items of interest for BWL.

Chair Mullen inquired whether the funding that is being requested is in addition to what BWL would spend or is it in place of what would be spent. Commissioner Zerkle responded that it would be extra money to start a project that has been budgeted. GM Peffley added that the funding requested would be in addition in order that a project could be completed sooner.

Commissioner Zerkle commended the BWL program that assisted with the Financial Pandemic Relief Fair. GM Peffley responded that BWL shuts off less customers' utilities than any other utility in the state. GM Peffley added that there was increase of unpaid bills from \$1 million to \$11 million during the pandemic and that there was \$30 million of financial assistance available to pay past due bills. BWL hopes that at least \$5.5 million of the unpaid bills will be paid through the financial assistance available.

Other

Motion by Commissioner Zerkle, Seconded by Commissioner Graham, to excuse Commissioner Semone James from tonight's meeting.

Action: Motion Carried

Adjourn

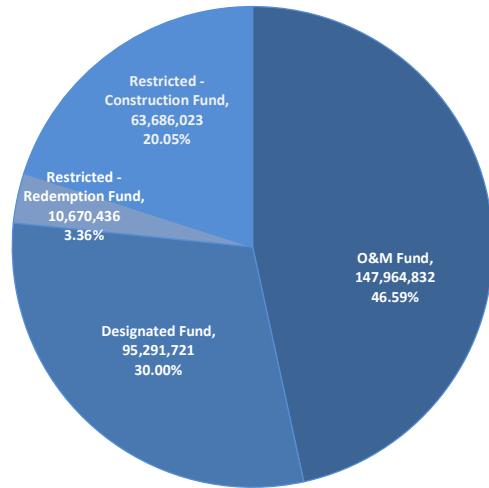
Chair Tony Mullen adjourned the meeting at 7:16 p.m.

Respectfully submitted
Tony Mullen, Chair
Finance Committee

Financial Summary - September 2021



Cash



Total Cash: \$317,613,011

| | Month End | Target |
|-----------------------------|-----------|---------|
| Days Cash on Hand | 264 | 173 |
| Credit Rating (S&P/Moody's) | AA-/Aa3 | AA-/Aa3 |
| Debt Service Coverage | 2.70 | 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 | \$ 94,728,894 | \$ 94,266,722 | 462,172 | 0% |
| Wholesale | \$ 8,079,363 | \$ 7,316,865 | 762,498 | 10% |
| Total Revenue | \$ 102,808,257 | \$ 101,583,588 | 1,224,669 | 1% |
| Operating Expenses | \$ 71,125,973 | \$ 79,380,956 | (8,254,984) | -10% |
| Non Operating Income/(Expense) | \$ (12,106,822) | \$ (12,604,844) | 498,023 | -4% |
| Net Income | \$ 19,575,463 | \$ 9,597,787 | 9,977,676 | 104% |

FY 2022 Budgeted Net Income \$ 568,532

Budget Status YTD

O&M Budget YTD (excluding fuel)

| FY 2022 Approved Budget | Actual YTD | Budget YTD | Difference | % |
|-------------------------|---------------|---------------|----------------|------|
| \$ 157,007,204 | \$ 32,224,470 | \$ 39,387,428 | \$ (7,162,958) | -18% |
| % of Approved Budget | 21% | 25% | | |

Capital Budget YTD (Excluding Delta Energy Park)

| FY 2022 Approved Budget | Actual YTD | Budget YTD | Difference | % |
|-------------------------|--------------|---------------|----------------|------|
| \$ 73,478,856 | \$ 8,855,496 | \$ 12,751,818 | \$ (3,896,322) | -31% |
| % of Approved Budget | 12% | 17% | | |

Capital Budget YTD - Delta Energy Park Only

| FY 2022 Approved Budget | Actual YTD | Budget YTD | Difference | % |
|-------------------------|---------------|---------------|-----------------|------|
| \$ 45,342,628 | \$ 17,062,372 | \$ 27,534,603 | \$ (10,472,231) | -38% |
| % of Approved Budget | 38% | 61% | | |

Return on Assets

| Actual YTD | Budget YTD | Target |
|------------|------------|--------|
| 2.22% | 1.57% | 4.20% |

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

Financial Summary - September 2021



Ratios

Operating Ratio

| | | | | |
|------------------------|----------------|---|------|---------------------|
| <u>O&M Expense</u> | \$ 58,815,095 | = | 0.57 | APPA Median 0.70 |
| Revenue | \$ 102,808,257 | | | |

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

Current Ratio

| | | | | |
|-----------------------|----------------|---|------|---------------------|
| <u>Current Assets</u> | \$ 280,800,534 | = | 3.74 | APPA Median 1.94 |
| Current Liabilities | \$ 75,135,589 | | | |

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

Debt to Total Assets

| | | | | |
|--------------------------------------|------------------|---|------|---------------------|
| <u>LT Debt + Accrued Liabilities</u> | \$ 994,421,003 | = | 0.59 | APPA Median 0.51 |
| Total Assets | \$ 1,699,312,340 | | | |

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

Days Sales Outstanding

| | | | | |
|--------------------------------|---------------|--------|----|------------------|
| Average Accounts Receivable | \$ 37,481,034 | x 30 = | 32 | Prior Year 27 |
| Sales | \$ 34,773,433 | | | |

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> | \$ 2,419,848 | = | 0.64% | Prior Year 0.80% |
| 12 Month Rolling Revenue | \$ 380,272,304 | | | |

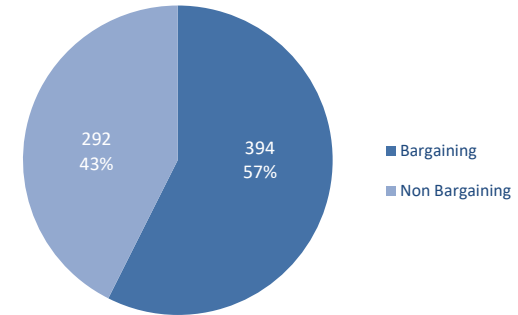
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

| | |
|--------------------|------|
| Employee Count YTD | 686 |
| Budget YTD | 721 |
| Over/(Under) # | (35) |

Full Time Equivalent
Temporary Employees 35



Payroll Data

| | Actual YTD | Budget YTD | Difference | % | Prior Year |
|-----------------------|---------------|---------------|--------------|-------|------------|
| Regular | \$ 16,993,467 | \$ 17,598,115 | \$ (604,648) | -3.4% | 53.61 |
| Overtime | \$ 1,910,219 | \$ 1,738,182 | \$ 172,037 | 9.9% | |
| Total | \$ 18,903,686 | \$ 19,336,297 | \$ (432,611) | -2.2% | |
| Total Hours Worked | 350,245 | | | | |
| Labor \$/Hours Worked | \$ 53.97 | | | | |

Benefits Cost

| (Including Retirees) | Actual YTD | Budget YTD | Difference |
|----------------------|--------------|--------------|--------------|
| Health | \$ 3,676,527 | \$ 3,636,342 | \$ 40,185 |
| Rx | \$ 760,033 | \$ 970,027 | \$ (209,994) |
| Dental | \$ 312,820 | \$ 351,438 | \$ (38,618) |
| Life | \$ 97,964 | \$ 123,498 | \$ (25,534) |
| FICA | \$ 1,380,430 | \$ 1,405,162 | \$ (24,732) |
| Other | \$ 284,402 | \$ 571,941 | \$ (287,539) |
| Total | \$ 6,512,176 | \$ 7,058,408 | \$ (546,232) |

Report as of September 30, 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 | \$ 1,307,289 | \$ 37,187,288 | \$ 37,624,560 | \$ 437,272 | 1.18% | \$ 36,718,382 | 97.59% | 8/6/2014 | 12/31/2021 |
| Stanley Substation | Phase 1 - Feasibility | \$ 804,904 | \$ 262,522 | TBD | \$ 34,825,517 | \$ - | 0.00% | \$ 48,137 | 0.14% | 3/15/2021 | 12/9/2027 |
| Wise Substation - Rebuild | Phase 3 - Design | \$ 8,554,408 | \$ 5,558,840 | TBD | \$ 25,684,005 | \$ - | 0.00% | \$ 722,702 | 2.81% | 2/1/2020 | 6/30/2024 |
| Rundle Substation | Phase 1 - Feasibility | \$ 500,000 | \$ 452,168 | TBD | \$ 21,749,506 | \$ - | 0.00% | \$ 95,577 | 0.44% | 3/15/2021 | 10/25/2025 |
| South Reinforcement - Transmission Line | Phase 2 - Funding Readiness | \$ 2,980,991 | \$ 2,934,677 | TBD | \$ 21,559,812 | \$ - | 0.00% | \$ 2,953,162 | 13.70% | 9/20/2017 | 11/29/2024 |
| LGR Substation | Phase 1 - Feasibility | \$ 49,438 | \$ 407,322 | TBD | \$ 17,876,481 | \$ - | 0.00% | \$ 97,694 | 0.55% | 3/15/2021 | 6/9/2026 |
| Customer Information System | Phase 4 - Construction | \$ 1,550,764 | \$ 3,481,974 | \$ 17,425,255 | \$ 16,071,795 | \$ (1,353,460) | -7.77% | \$ 13,002,179 | 80.90% | 4/30/2019 | 12/31/2021 |
| Dye Dry Chemical Handling | Phase 3 - Design | \$ 714,061 | \$ 2,632,250 | TBD | \$ 13,788,661 | \$ - | 0.00% | \$ 481,611 | 3.49% | 8/17/2020 | 8/31/2026 |
| Steam Backup Generation | Phase 5 - Operational Acceptance | \$ - | \$ 59,231 | \$ 12,368,802 | \$ 12,752,900 | \$ 384,098 | 3.11% | \$ 12,741,900 | 99.91% | 10/1/2019 | 12/31/2021 |
| ESRI Implementation-GIS Geographical Information System | Phase 4 - Construction | \$ 300,000 | \$ 838,784 | \$ 6,520,417 | \$ 7,158,795 | \$ 638,378 | 9.79% | \$ 6,352,711 | 88.74% | 8/6/2014 | 12/31/2021 |
| | Total Top Ten Planned Projects | \$ 16,327,939 | \$ 17,935,056 | | \$ 209,092,032 | | | \$ 73,214,055 | | | |
| 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 | \$ 14,938,970 | | | | | | | | |
| Water | | \$ 2,317,000 | \$ 1,774,899 | | | | | | | | |
| Steam | | \$ - | \$ 10,120 | | | | | | | | |
| Chilled Water | | \$ - | \$ - | | | | | | | | |
| Common | | \$ 3,098,404 | \$ 2,650,039 | | | | | | | | |
| | Total Remaining Planned | \$ 25,110,437 | \$ 19,374,027 | | | | | | | | |
| Annual | | | | | | | | | | | |
| Electric | | \$ 15,692,000 | \$ 16,069,319 | | | \$ 377,319 | 2.40% | | | | |
| Water | | \$ 9,234,050 | \$ 8,858,054 | | | \$ (375,996) | -4.07% | | | | |
| Steam | | \$ 1,746,132 | \$ 1,443,309 | | | \$ (302,823) | -17.34% | | | | |
| Chilled Water | | \$ 50,000 | \$ 50,000 | | | \$ 0 | 0.00% | | | | |
| Common | | \$ 5,318,298 | \$ 5,156,519 | | | \$ (161,779) | -3.04% | | | | |
| | Total Annual | \$ 32,040,480 | \$ 31,577,202 | | | | | | | | |
| | Grand Total | \$ 73,478,856 | \$ 68,886,285 | | | | | | | | |
| Note: | | | | | | | | | | | |
| For projects that are in Stage Gates 1-3, the <u>Expected Total Project Cost</u> are high level estimates that can have a significant margin error. | | | | | | | | | | | |
| For projects that are in Stage Gates 1-3, the <u>Expected Completion Date</u> is subject to change as organizational priorities or project plans are reassessed. | | | | | | | | | | | |
| Variances highlighted in red are over the \$200k and 15% thresholds. | | | | | | | | | | | |



Internal Audit Status Report Finance Committee Meeting November 9th, 2021

Provided by:
Brian W. Schimke, Principal Auditor

Overview

- **FY 2021 Audit Plan - Progress Report**
- **FY 2021 Audit Plan - Recently Closed Audit(s) Summary**
- **Tentative FY22 Audit Plan(Will Need to Be Revised)**
- **Tentative FY22 Audit Plan - Progress Report**
- **Other Notable Items**

FY 2021 Audit Progress Report

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

- 1. Unbilled Accounts Receivable – Audit Status: Completed, Audit Report Issued 3/17/2021**
- 2. Purchase Card Usage and Control – Audit Status: Completed, Audit Report Issued 3/30/2021**
- 3. MPPA and MISO Billings – Audit Status: Completed, Audit Report Issued 6/10/2021**
- 4. Cybersecurity, IT Vulnerabilities & Penetration Testing – Audit Status: Completed, Audit Report Issued 09/10/2021**

FY 2021 Audit Plan Recently Closed

Audit Summary

- **FY21-05 Cybersecurity, IT Vulnerabilities & Penetration Testing Audit**
 - **BDO was the vendor hired to conduct the audit, perform the penetration testing, and kicked off the Audit in April 2021.**
 - **BDO performed a Cyber Maturity Assessment and a Penetration Test of our Networks.**
 - **The BWL ranked above average in both facets of the audit and better than our industry peers in almost all categories.**
 - **Final Report was issued to the Commissioners back on September 10th, 2021.**
 - **BDO was very complimentary of the BWL's performance.**
 - **IA would like to publicly thank everyone who participated and contributed to the success of the audit.**

Tentative FY 2022 Audit Plan

**Please note: The FY22 Audit Plan has NOT been approved and may not be until a new Director of Internal Audit has been named. However, IA was given permission to engage in preliminary work only, for the FY22 Payroll Audit.*

1. **Time Recording, Payroll Processing, and Payment of Overtime – Payroll** (*First Time Audit*)
2. **Employee Master File (To Be Included in #1 Above)** – Human Resources, Last Audit: October 2017
3. **Manage Mobile Devices** – Information Technology, Last Audit: October 2017
4. **Outage Management System (Current Process)** – Operations (*First Time Audit*)
5. **Enterprise Information Management (Records Retention Management)** – Legal/Management/Board Processes, Last Audit: March 2014
6. **Capital Projects Management** – BWL Other (*First Time Audit*)

FY 2022 Audit Progress Report

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

- 1. Payroll Audit – Audit Status: Has Not Officially Commenced, Engaged in Preliminary Work Which Began on 08/23/2021**

Other Items Internal Audit's Addressing

- **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.
- **Improving/Evolving IA's Relations with Management**
 - Implementing strategies to improve efficacy, enhance communication, refine engagement, and foster synergies with Management.
- **Ensuring a Smooth Transition to New Director of Internal Audit**
 - Verifying all workpapers were saved accordingly in our database, reviewing IA's current processes and preparing recommendations for new Director, and ensuring the day-to-day operations of IA are being performed.

Any questions, comments, or concerns?

Thank you kindly, for your time.