



AGENDA

FINANCE COMMITTEE MEETING November 8, 2016 - 6:00 P.M. 1201 S. Washington Ave. REO Town Depot

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of September 13, 2016.....**TAB 1**
2. September YTD Financial Summary.....**TAB 2**
3. Capital Project Exceedance Resolution.....**TAB 3**
4. Revenue Bond Resolution.....**TAB 4**
5. Internal Audit Open Management Response Quarterly Report.....**TAB 5**
6. Internal Audit Status Report.....**TAB 6**
7. PA95 Low-Income Energy Assistance Fund.....**PRESENTATION/DISCUSSION**
8. Franchise Agreement – E. Lansing.....**PRESENTATION/DISCUSSION**

Other

Adjourn

FINANCE COMMITTEE

September 13, 2016

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, at 6:35 p.m. on Tuesday, September 13, 2016.

Acting Finance Committee Chairperson David Price called the meeting to order and asked that roll be taken.

Present: Commissioners Mark Alley, Dennis M. Louney and David Price. Also, present Commissioners Tony Mullen and Sandra Zerkle. Non-Voting Members Present: Commissioners Stuart Goodrich (Delhi), Bill Long (Delta Township) and Bob Nelson (East Lansing).

Absent: Commissioner Ken Ross

The Corporate Secretary declared a quorum.

Public Comments

None.

Approval of Minutes

Motion by Commissioner Alley, Seconded by Commissioner Louney, to approve the Finance Committee meeting minutes of July 12, 2016.

Action: Motion Carried.

Baker Tilly External Audit Report- Resolution

Heather Shawa-DeCook, Chief Financial Officer (CFO), introduced external auditor Jodi Dobson, Partner with the Certified Public Accounting Firm, Baker Tilly, Virchow Krause LLP, who presented and reviewed the auditing process, observations and recommendations, and also covered the required communication to the governing body for the various Board of Water and Light reports. The enterprise fund and the three pension funds, Defined Contribution Plan (DC Plan), Defined Benefit Plan (DB Plan), and the VEBA Benefit Trust, which all received an unmodified audit opinion.

Ms. Dobson's presentation was as follows:

LANCING BWL
Hometown People. Hometown Power.

Finance Committee Meeting -
September 13, 2016
2016 Audit Presentation

Agenda

- > Audit Overview
- > Observations and Recommendations
- > Required Communication to Governing Body

BAKER TILLY
INTERNATIONAL
Center. Insight. Results.

Board of Water and Light - City of Lansing
Audit overview

BAKER TILLY
Center. Insight. Results.

- Audit performed in accordance with *Generally Accepted Auditing Standards*
- Audit objective - reasonable assurance that financial statements are free from material misstatement
- Financial statements of BWL received an *Unmodified Opinion*

Financial Statements include

- Auditors' report
- Management discussion and analysis
- Enterprise fund statements
- Consolidated pension trust statements
- Notes
- Required supplemental information
- Additional information

LANCING BWL
Hometown People. Hometown Power.

Board of Water and Light - City of Lansing Audit overview

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Audit assesses internal controls

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

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

Board of Water and Light - City of Lansing Audit overview

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Controls reviewed in key transaction areas

- Disbursements
- Payroll
- Billings
- Cash and investments
- Capital assets
- Information technology
- Financial reporting

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

BAKER TILLY
Candor. Insight. Results.

- > Reported net income of \$900,000 after impairment on Eckert Power Station of \$15,763,000
- > Bond coverage was met in 2016
- > There were no material weaknesses reported
- > Combined deficiencies in control related to information technology resulted in a significant deficiency
- > GASB Statement No. 72 disclosures related to fair value were implemented as required

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

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Operating Revenues – Four-year Comparison (in thousands)

	2013	2014	2015	2016
Water	\$ 37,444	\$ 37,247	\$ 37,910	\$ 38,731
Electric	277,157	289,154	295,048	303,246
Steam	12,029	16,324	14,959	12,683
Chilled Water	5,140	5,397	5,568	6,276
Operating Revenue	\$ 331,770	\$ 348,122	\$ 353,485	\$ 360,936

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

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Operating Expenses – Four-year Comparison (in thousands)

	2013	2014	2015	2016
Production	\$ 176,677	\$ 182,244	\$ 187,752	\$ 178,958
Transmission and Distribution	15,647	23,093	20,870	21,593
Administrative and General	65,096	66,583	61,298	64,007
Depreciation	38,298	38,997	39,104	41,542
Operating Expenses	\$ 295,718	\$ 310,917	\$ 308,024	\$ 306,100

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

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Operating Income – Four-year Comparison (in thousands)

	2013	2014	2015	2016
Water	\$ 5,339	\$ 2,056	\$ 4,637	\$ 6,307
Electric	28,308	30,566	33,250	43,052
Steam	350	2,651	4,223	2,795
Chilled Water	1,504	1,953	2,351	2,651
Operating Income	\$ 35,495	\$ 37,206	\$ 44,461	\$ 54,805

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

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Future Debt Service Requirements (in thousands)

	2017	2018	2019	2020	2021
Principal	\$ 11,642	\$ 8,986	\$ 9,371	\$ 7,839	\$ 8,184
Interest	16,650	16,184	15,777	15,391	15,048


Debt service after 2021 includes remaining principal payments of \$339,970,000 and interest payments of \$270,158,000.

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

BAKER TILLY
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- > Separate financial statements issued for each pension plan
- > GASB Statement No. 72 was implemented for all three plans
- > All three plans received unmodified audit opinions

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



Future accounting standards

- > GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans other than Pension Plans* – effective for fiscal year 2017
- > GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* – effective for fiscal year 2018

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



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Contact Info



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Motion by Commissioner Louney, Seconded by Commissioner Alley to forward the Resolution for the acceptance of the Audited Financial Statements and the Enterprise Fund and Pension Fiduciary Fund to the full board for consideration.

Action: Motion Carried

Preliminary July Financial Highlights

Heather Shawa-DeCook, Chief Financial Officer (CFO), reported that the July Financial results are still underway and would be reported at a later date.

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



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



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Discussion



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Ms. Shawa-DeCook informed the Committee that the BWL is taking advantage of an opportunity for an advanced refunding of 2008 A-Bonds, which entails significant interest savings.

DB and VEBA Investment Policy Statements-Resolution

Chief Financial Officer Heather Shawa-DeCook provided an overview of the revised Investment Policy Statements (documents) in which the Board's approval is necessary. The reviewed documents include:

- 1. Revised Investment Policy Statement for Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions (the "Defined Benefit Plan")*
- 2. Revised Investment Policy Statement Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light (the "Retiree Medical Benefit Plan")*
- 3. First Amendment to the Pension Plan Trust*
- 4. First Amendment to the Retiree Benefit Plan Trust*
- 5. Resolution which captures the above 4 documents and creates a Retirement Plan Committee.*

Recommendations as indicated in the Executive Summary:

Summary Recommendation

Senior Management recommends approval of the Defined Benefit Plan IPS and the Retiree Medical Benefit Plan IPS. Senior Management also recommends approval of the First Amendment to the Defined Benefit Plan Trust, the First Amendment to the Retiree Medical Benefit Plan Trust, and the creation of the Retirement Plan Committee. The proposed Retirement Plan Committee members will consist of the Chief Financial Officer (Chair), Executive Director of Human Resources, and Manager of Finance.

After some dialogue regarding the use of the word "Trustee" in the proposed Resolution, the following motion was offered:

Motion by Commissioner Louney, Seconded by Commissioner Alley, to forward the proposed resolution with an amendment to state "Trustee(s)" in the document to the full Board for consideration.

Action: Motion Carried

Public Comment

None

Other

None

Excused Absence

Motion by Commissioner Alley, Seconded by Commissioner Louney, to excuse Commissioner Ross from tonight's meeting.

Action: Motion Carried

Adjourn

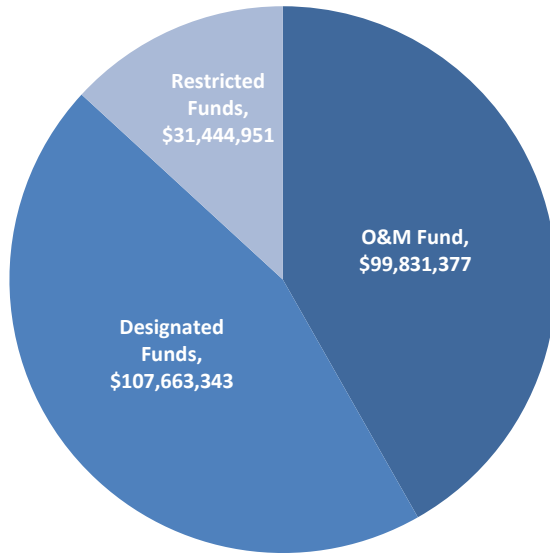
On Motion by Commissioner Alley, Seconded by Commissioner Louney, the meeting adjourned at 7:12 p.m.

Respectfully submitted
David Price, Acting Chair
Finance Committee

Financial Summary - September 2016



Cash



Total Cash: \$238,939,671

	Month End	Target
Days Cash on Hand	219	150-249
Credit Rating	AA-	AA-
Debt Service Coverage - Rating Agencies	2.22	2.00-2.49
Debt Service Coverage - Bond Covenants	3.08	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are provided by Moody's as expected performance for a AA- rated electric utility with generation.

Debt Service Coverage - Rating Agencies - $\frac{\text{Projected Net Income} + \text{Depreciation Expense} + \text{Interest Expense} + \text{Fixed Obligations}^*}{\text{Debt Service} + \text{Fixed Obligations}}$

*Fixed obligations represent Belle River Debt Service

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	\$ 95,607,964	\$ 88,297,365	7,310,599	8%	\$ 89,172,256	\$ 6,435,708	7%
Wholesale	\$ 10,990,508	\$ 7,533,608	3,456,899	46%	\$ 8,880,637	\$ 2,109,871	24%
Total Revenue	\$ 106,598,471	\$ 95,830,973	10,767,498	11%	\$ 98,052,894	\$ 8,545,578	9%
Operating Expenses	\$ 78,604,084	\$ 77,784,586	819,498	1%	\$ 74,415,328	\$ 4,188,756	6%
Non Operating	\$ (9,600,677)	\$ (8,762,581)	(838,096)	10%	\$ (8,335,723)	\$ (1,264,954)	15%
Net Income	\$ 18,393,711	\$ 9,283,807	9,109,904	98%	\$ 15,301,843	\$ 3,091,868	20%

Projected FY 2017 Net Income \$ 16,071,168

Budget Status YTD

O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 139,241,533	\$ 31,775,615	\$ 33,565,089	(1,789,474)	-5%
% of Approved Budget	23%	24%		

Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 60,817,651	\$ 8,542,319	\$ 13,718,465	(5,176,146)	-38%
% of Approved Budget	14%	23%		

Adjusted Net Income Return

Actual YTD	YTD Budget	Target
3.20%	1.80%	4.81%

Adjusted Net Income Return - Actual YTD Net Income increased for interest expense Net Fixed Assets + Inventory

Financial Summary - September 2016



Ratios

Operating Ratio

O&M Expense	\$ 68,088,515	=	0.64	APPA Median	0.71
Revenue	\$ 106,598,471				

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

Current Ratio

Current Assets	\$ 234,174,085	=	4.89	APPA Median	2.07
Current Liabilities	\$ 47,873,593				

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

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 408,113,581	=	0.40	APPA Median	0.61
Total Assets	\$ 1,022,597,766				

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

Days' Sales Outstanding

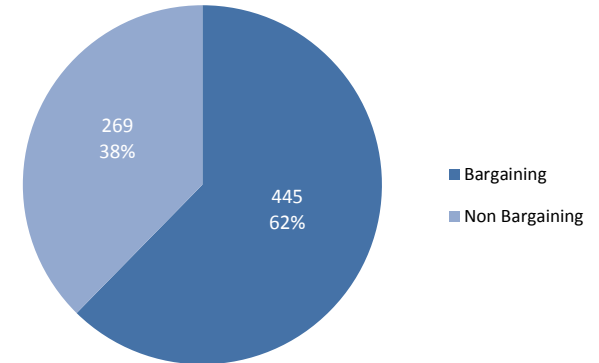
Accounts Receivable	\$ 28,237,430	=	0.81	Prior Year	23
Average Sales	\$ 34,962,824	X	30		
				24	Days

Bad Debt

Actual YTD	YTD Budget	Over/(Under)	% of Revenue	APPA Median
\$440,027	\$284,104	\$155,923	0.41%	0.28%

Employee Data

Employee Count YTD	714
Budget YTD	755
Over (Under) #	(41)
Over (Under) %	-5.4%
Prior YTD	720
Difference	-6
Temporary Employee YTD	33



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	\$ 12,585,274	\$ 13,039,998	\$ (454,724)	-3.5%	\$ 12,380,003	\$ 205,271	1.7%
Overtime	\$ 2,002,096	\$ 1,522,303	\$ 479,793	31.5%	\$ 1,705,522	\$ 296,574	17.4%
Total	\$ 14,587,370	\$ 14,562,301	\$ 25,069	0.2%	\$ 14,085,525	\$ 501,845	3.6%
Total Hours Worked	308,637				313,533		
Labor/Hours Worked	\$ 47.26				\$ 44.93		

APPA Median	\$ 44.13
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APPA Median data is based on 2014 numbers and does not reflect subsequent labor inflation.

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	\$ 2,715,458	\$ 2,602,064	\$ 113,394
RX	\$ 850,085	\$ 1,020,466	\$ (170,381)
Dental	\$ 289,199	\$ 293,883	\$ (4,684)
Life	\$ 80,789	\$ 92,646	\$ (11,857)
FICA	\$ 1,076,282	\$ 1,129,540	\$ (53,258)
Other	\$ 372,533	\$ 520,623	\$ (148,090)
Total	\$ 5,384,347	\$ 5,659,222	\$ (274,875)

RESOLUTION #2016-11

PROPOSED RESOLUTION

**Capital Project Budget Correction and Exceedance Approval:
Project PG-40020-15 Radio Upgrades**

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

WHEREAS, the original approved budget for the Capital Project PG-40020-15 Radio Upgrades project in FY2015 was \$653,447; and

WHEREAS, the FY2016 approved budget incorrectly provided a budget of \$533,000; and

WHEREAS, the projected final total cost for the project is \$793,000; and

WHEREAS, BWL staff and management reviewed the project cost in detail, which includes but is not limited to the correction of prior fiscal year input error, rationale and circumstances for the increased budget projection; and

WHEREAS, BWL staff and management recommends that the Capital Project PG-40020-15 Radio Upgrades be completed despite the projected increased cost; and

WHEREAS, BWL staff and management recommends that the Finance committee review and approve with a recommendation of support to the BWL Board of Commissioners at the November 15, 2016 full board meeting.

RESOLUTION #2016-__-__

Lansing Board of Water and Light

FOURTEENTH SUPPLEMENTAL REVENUE BOND RESOLUTION

A RESOLUTION TO AUTHORIZE:

- Present Value Savings by refunding all or part of the Series 2008A Bonds and Series 2011A Bonds through issuance of Refunding Bonds;
- Future Bond Reserve Requirement modified to be determined at time each series of Bonds is issued;
- Future Surety Bond requirement modified to equal the Bond rating;
- Appointment of Citigroup Global Markets Inc. as senior managing Underwriter;
- Chief Financial Officer to sell Refunding Bonds without further resolution;
- Other matters relative to issuance, sale and delivery of the Refunding Bonds.

WHEREAS, from time to time the City of Lansing, acting by and through the Lansing Board of Water and Light, has issued revenue bonds payable from revenues of the water supply, steam, chilled water and electric utility system (the “System”) under the provisions of Act 94, Public Acts of Michigan, 1933, as amended, and a Bond Resolution adopted by the Board and amended and restated on October 24, 1989 and further amended and supplemented from time to time (the “Bond Resolution”); and

WHEREAS, all terms not defined herein shall have the meanings set forth in the Bond Resolution; and

WHEREAS, under the terms of the Tenth Supplemental Revenue Bond Resolution adopted January 29, 2008, the Board issued the Water Supply, Steam, Chilled Water and Electric Utility System Revenue Bonds, Series 2008A dated April 23, 2008 (the “Series 2008A Bonds”); and

WHEREAS, under the terms of the Eleventh Supplemental Revenue Bond Resolution adopted May 10, 2011, the Board issued the Utility System Revenue Bonds, Series 2011A dated June 15, 2011 (the “Series 2011A Bonds”); and

WHEREAS, the Board’s Financial Advisor, Public Financial Management (the “Financial Advisor”), has advised the Board that it may be able to accomplish a net savings of debt service costs by refunding all or a portion of the outstanding Series 2008A Bonds and the Series 2011A Bonds (collectively, the “Prior Bonds”) through the issuance of revenue refunding bonds in an aggregate principal amount of not-to-exceed \$325,000,000 (the “Refunding Bonds”); and

WHEREAS, Section 18(b) of the Bond Resolution authorizes the issuance of Additional Bonds of equal standing and priority of lien with the outstanding Bonds for the purposes of refunding a part of the Outstanding Bonds and paying costs of issuing such Additional Bonds, if after giving effect to the refunding, the maximum amount of Aggregate Debt Service in each

future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding; and

WHEREAS, in order to take advantage of the most favorable market for sale of the Refunding Bonds and purchase of securities to be escrowed for payment of the Prior Bonds to be refunded, the Board wishes to authorize the Chief Financial Officer to sell the Refunding Bonds at negotiated sale without further resolution of the Board; and

WHEREAS, the conditions and requirements of the Bond Resolution for the issuance of Additional Bonds of equal standing and priority of lien with outstanding bonds have been met for the issuance of the proposed Refunding Bonds.

NOW, THEREFORE, BE IT RESOLVED THAT:

Section 1. Definitions. All terms not defined herein shall have the meanings set forth in the Bond Resolution, and whenever used in this Bond Resolution, except when otherwise indicated by the context, the following terms shall have the following meanings:

- (a) “Additional Bonds” means any Additional Bonds of equal standing with the Bonds which are issued pursuant to Section 18(a) of the Bond Resolution as amended by Section 13 of the Tenth Supplemental Revenue Bond Resolution.
- (b) “Bond Resolution” means the Bond Resolution adopted by the Board on September 26, 1989, as amended and restated on October 24, 1989, and supplemented by the First Supplemental Revenue Bond Resolution adopted by the Board on October 26, 1993, the Second Supplemental Revenue Bond Resolution adopted by the Board on January 11, 1994, the Third Supplemental Revenue Bond Resolution adopted on September 2, 1999, the Fourth Supplemental Revenue Bond Resolution adopted October 26, 1999 and amended on August 12, 2008 and June 9, 2009, the Fifth Supplemental Bond Resolution adopted by the Board April 24, 2001, the Sixth Supplemental Revenue Bond Resolution adopted by the Board on July 23, 2002, the Seventh Supplemental Bond Resolution adopted by the Board on July 23, 2002, the Eighth Supplemental Revenue Bond Resolution adopted on August 12, 2003, the Ninth Supplemental Revenue Bond Resolution adopted on July 26, 2005, the Tenth Supplemental Revenue Bond Resolution adopted on January 29, 2008, the Eleventh Supplemental Revenue Bond Resolution adopted on May 10, 2011, the Twelfth Supplemental Revenue Bond Resolution adopted on January 24, 2012, the Thirteenth Supplemental Revenue Bond Resolution adopted by the Board on January 22, 2013, this Fourteenth Supplemental Revenue Bond Resolution, and any other resolution which amends or supplements the Bond Resolution.
- (c) “Bonds” means the Series 2008A Bonds, the Series 2011A Bonds, the Series 2012A Bonds, the Series 2013A Bonds, the Refunding Bonds, and any Additional Bonds of equal standing hereafter issued.
- (d) “Chief Financial Officer” means the Board’s Chief Financial Officer.

- (e) “Escrow Agreement” means, for purposes of this Fourteenth Supplemental Revenue Bond Resolution, the Escrow Agreement described in this Resolution to provide for payment of principal of and interest on the Prior Bonds being refunded.
- (f) “Escrow Fund” means, for purposes of this Fourteenth Supplemental Revenue Bond Resolution, the Escrow Fund or Funds established pursuant to the Escrow Agreement to hold the cash and investments necessary provide for payment of principal of and interest on the Prior Bonds being refunded.
- (g) “Prior Bonds” means, for purposes of this Fourteenth Supplemental Revenue Bond Resolution, the Series 2008A Bonds and Series 2011A Bonds.
- (h) “Refunding Bonds” means, for purposes of this Fourteenth Supplemental Revenue Bond Resolution, the refunding bonds issued pursuant to this Fourteenth Supplemental Revenue Bond Resolution to be designated as the “Utility System Revenue Refunding Bonds, Series 2017A” or such other series designation as shall reflect the date of sale or delivery of the Refunding Bonds.
- (i) “Series 2008-2013 Bonds” means the Series 2008A Bonds, the Series 2011A Bonds, the Series 2012A Bonds, and the Series 2013A Bonds.
- (j) “Series 2008A Bonds” means the Water Supply, Steam, Chilled Water and Electric Utility System Revenue Bonds, Series 2008A.
- (k) “Series 2011A Bonds” means the Utility System Revenue Bonds, Series 2011A.
- (l) “Series 2012A Bonds” means the Utility System Revenue Refunding Bonds, Series 2012A.
- (m) “Series 2013A Bonds” means the Utility System Revenue Refunding Bonds, Series 2013A.
- (n) “System” means the complete facilities of the Board for the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, including all plants, works, instrumentalities and properties used or useful in connection with the supply and distribution of water and the generation and distribution of electricity, steam, chilled water, and heat, and all additions, extensions and improvements thereto existing or hereafter acquired by the Board.

Section 2. Conditions Permitting Issuance of Additional Bonds. Pursuant to Section 18(b) of the Bond Resolution, the Board hereby determines that the Refunding Bonds shall be issued as Additional Bonds for the purpose of refunding all or a portion of the Prior Bonds and paying costs of issuance of the Refunding Bonds, only if, after giving effect to the refunding, the maximum amount of Aggregate Debt Service in each future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding.

The Board hereby determines that the Board is not in default in making its required payments to the Operation and Maintenance Fund or the Redemption Fund.

Section 3. Refunding of Prior Bonds; Refunding Bonds Authorized; Applicable Law. If refunding all or a portion of the Prior Bonds will accomplish the required debt service savings, then the City, acting by and through the Board, shall borrow the sum of not-to-exceed Three Hundred Twenty-Five Million Dollars (\$325,000,000) as finally determined upon the sale thereof, and issue the Refunding Bonds therefor for the purpose of paying costs of refunding all or a portion of the Prior Bonds, including the payment of the costs of legal, financial, bond insurance (if any), underwriter's discount, and other expenses incident thereto and incident to the issuance and sale of the Refunding Bonds. The Refunding Bonds shall be payable solely out of the Net Revenues of the System. City Council shall not be requested to pledge the full faith and credit of the City for payment of the Refunding Bonds. The Refunding Bonds shall be sold and the proceeds applied in accordance with the provisions of Act 94.

Section 4. Refunding Bond Details. The Refunding Bonds shall be designated as the "UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2017A" or such other series designation as determined at the time of sale by the Chief Financial Officer to reflect the date of sale or delivery of the Refunding Bonds. The Refunding Bonds shall be issued as fully registered bonds registered in the denomination of \$5,000 or integral multiples thereof and shall be numbered in consecutive order of registration or authentication from 1 upwards. The Refunding Bonds shall be dated as of the date of delivery thereof or such other date as determined at the time of sale of the Refunding Bonds, shall mature as serial bonds or term bonds on such dates as shall be determined at the time of sale of the Refunding Bonds.

The Refunding Bonds shall be subject to optional and mandatory redemption prior to maturity at the times and prices finally determined at the time of sale of the Refunding Bonds, or shall not be subject to redemption prior to maturity, as finally determined at the time of sale of the Refunding Bonds

The Refunding Bonds shall bear interest at a rate or rates to be determined on sale thereof, payable on July 1, 2017, or such other date as provided at the time of sale of the Refunding Bonds, and semi-annually thereafter on January 1st and July 1st of each year.

The Refunding Bonds shall be executed by the manual or facsimile signature of the Chairperson and the Corporate Secretary of the Board. No Refunding Bond shall be valid until authenticated by an authorized representative of the Transfer Agent. The Refunding Bonds shall be delivered to the Transfer Agent for authentication and be delivered by the Transfer Agent to the purchaser in accordance with instructions from the Chief Financial Officer upon payment of the purchase price for the Refunding Bonds.

Section 5. Registration and Transfer. U.S. Bank National Association, Lansing, Michigan is hereby appointed to act as bond registrar, paying agent and transfer agent (the "Transfer Agent") for the Refunding Bonds. The Chief Financial Officer is hereby authorized to execute one or more agreements with the Transfer Agent on behalf of the Board. The Board reserves the right to replace the Transfer Agent at any time, provided written notice of such replacement is given to the registered owners of record of bonds not less than sixty (60) days

prior to an interest payment date. Principal of and interest on the Refunding Bonds shall be payable by check or draft mailed by the Transfer Agent to the registered owner at the registered address as shown on the registration books of the Board maintained by the Transfer Agent. Interest shall be payable to the person or entity who or which is the registered owner of record as of the fifteenth (15th) day of the month prior to the payment date for each interest payment. The date of determination of the registered owner for purposes of payment of interest as provided in this paragraph may be changed by the Board to conform to market practice in the future.

The Refunding Bonds may be issued in book-entry-only form through The Depository Trust Company in New York, New York (“DTC”), and the Chief Financial Officer is authorized to execute such custodial or other agreement with DTC as may be necessary to accomplish the issuance of the Refunding Bonds in book-entry-only form and to make such changes in the form of the Refunding Bonds within the parameters of this resolution as may be required to accomplish the foregoing. Notwithstanding the foregoing, if the Refunding Bonds are held in book-entry-only form by DTC, payment of principal of and interest on the Refunding Bonds shall be made in the manner prescribed by DTC.

The Refunding Bonds may be transferred upon the books required to be kept by the Transfer Agent pursuant to this section by the person or entity in whose name it is registered, in person or by the registered owner’s duly authorized attorney, upon surrender of the bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Transfer Agent. Whenever any bond shall be surrendered for transfer, the Board shall execute and the Transfer Agent shall authenticate and deliver a new bond of the same series in like aggregate principal amount, maturity and interest rate. The Transfer Agent shall require the payment by the bondholder requesting the transfer of any tax or other governmental charge required to be paid with respect to the transfer. Notwithstanding the foregoing, if Bonds are held by DTC in book-entry-only form, the transfer of Bonds shall be made in the manner prescribed by DTC.

Section 6. Deposit to Bond Reserve Account. On or prior to the date of delivery of the Refunding Bonds, the Board shall deposit into the Bond Reserve Account any amount necessary to cause the amount on deposit in the Bond Reserve Account to be equal to the Reserve Requirement.

Section 7. Refunding Bond Proceeds. From the proceeds of sale of the Refunding Bonds there first shall be immediately deposited in the Redemption Fund an amount equal to the accrued interest and premium, if any, received on delivery of the Refunding Bonds, and the Board may take credit for the amount so deposited against the amount required to be deposited in the Redemption Fund for payment of the next maturing interest on the Refunding Bonds. Notwithstanding the foregoing, at the discretion of the Chief Financial Officer, all or a portion of any premium received upon delivery of the Refunding Bonds may be deposited in the Bond Reserve Account or the Escrow Fund or Funds in consultation with Bond Counsel.

There shall next be deposited in the Bond Reserve Account an amount, if any, designated at the time of sale of the Refunding Bonds as necessary to cause the amount on deposit in the Bond Reserve Account to be equal to the Reserve Requirement.

There shall next be deposited in the Escrow Fund or Funds from the proceeds of sale of the Refunding Bonds cash and investments in Government Obligations or Municipal Obligations not redeemable at the option of the issuer. U.S. Bank National Association, Lansing, Michigan is hereby appointed to act as Escrow Agent under the Escrow Agreement. The Escrow Agent shall hold the Escrow Fund or Funds in trust pursuant to the Escrow Agreement which shall irrevocably direct the Escrow Agent to take all necessary steps to call the Prior Bonds being refunded for redemption as specified in the Escrow Agreement. The Chief Financial Officer is hereby authorized to execute and deliver the Escrow Agreement, to transfer any moneys as they may deem necessary from the Redemption Fund, or other fund or account of the Board, to the Escrow Fund or Funds, and to purchase, or cause to be purchased, escrow securities consisting of Government Obligations, including, but not limited to, United States Treasury Obligations – State and Local Government Series (SLGS), or Municipal Obligations, for deposit in the Escrow Fund or Funds. The Chief Financial Officer is directed to deposit to the Escrow Fund or Funds, from Refunding Bond proceeds and other moneys as necessary, an amount which, together with investment proceeds to be received thereon, will be sufficient, without reinvestment, to pay the principal of and interest on the Prior Bonds being refunded as they become due or upon call for redemption.

The remaining proceeds of the Refunding Bonds shall be deposited in a fund which may be established in the Escrow Agreement to pay costs of issuance of the Refunding Bonds and the costs of refunding the Prior Bonds. Any moneys remaining after payment of costs of issuance and costs of refunding the Prior Bonds being refunded shall be transferred to the Redemption Fund and used to pay interest on the Refunding Bonds.

Section 8. Amendment of Definitions of Government Obligations and Municipal Obligations. After payment or defeasance in full of the Outstanding Series 2008-2013 Bonds, the definitions of “Government Obligations” and “Municipal Obligations” in Section 1 of the Bond Resolution as amended and restated on October 24, 1989 are amended (amendments are shown by strikethrough or underline) to provide:

(r) “Government Obligations” means (i) direct obligations of (including obligations issued or held in book entry form on the books of) the United States of America, (ii) obligations the payment on which is guaranteed by the United States of America including, but not limited to, stripped interest components of obligations issued by the Resolution Funding Corporation (REFCORP) and non-callable, non-prepayable debt obligations of the United States Agency for International Development (US AID), which pay principal and interest at least three (3) business days prior to any respective escrow requirement dates, or (iii) non-callable, senior debt obligations of any government-sponsored enterprise or federal agency, corporation, or instrumentality of the United States of America created by an act of congress including, but not limited to, the Federal Home Loan Banks, Freddie Mac, Federal Farm Credit Banks Funding Corporation, and Fannie Mae;

(v) “Municipal Obligation” means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call on the date specified

in the notice, and (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this definition of Municipal Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this definition of Municipal Obligation, as appropriate, and (iv) which are rated, based on the escrow, in the highest rating category of either two of the following three ratings agencies: Standard & Poor's Corporation, Fitch Ratings, and Moody's Investors Service, Inc. or any successors thereto;

Section 9. Amendment of Reserve Requirement. After payment or defeasance in full of the Outstanding Series 2008-2013 Bonds, Section 11B of the Bond Resolution as amended and restated on October 24, 1989 is amended (amendments are shown by strikethrough or underline) to provide:

B. BOND AND INTEREST REDEMPTION FUND: There shall be established and maintained a fund designated BOND AND INTEREST REDEMPTION FUND, the moneys on deposit therein from time to time to be used solely, except for required deposits to the Rebate Fund, for the purpose of paying the principal of, redemption premium, if any, and interest on the Bonds. ~~The moneys in the Redemption Fund, including the Reserve Account, shall be kept on deposit with the bank or trust company which is the Transfer Agent.~~

After provision for the Operation and Maintenance Fund, there shall be set aside on or before the first day of each month, commencing December 1, 1989, in the Redemption Fund a sum proportionately sufficient to provide for the payment when due of the current principal of and interest on the Bonds, less any amount in the Redemption Fund representing accrued interest on the Bonds. Commencing December 1, 1989, The amount set aside each month for interest on the Bonds shall be 1/7 of the interest on the Bonds due July 1, 1990, and commencing July 1, 1990, and thereafter The amount set aside each month for interest on the Bonds shall be 1/6 of the interest on the Bonds next coming due.

The amount set aside each month for principal, commencing December 1, 1989, shall be 1/7 of the amount of principal due on the Bonds on July 1, 1990, and commencing July 1, 1990, and thereafter The amount set aside each month for principal of the Current Interest Bonds shall be 1/12 of the total amount of the principal of the Bonds due on the next July 1 and 1/12 of the maturing amount of Capital Appreciation Bonds due one year or less from the 1st day of such month. If there is any deficiency in the amount previously set aside, that deficiency shall be added to the requirements for the next succeeding month.

There shall be established a separate account in the Redemption Fund to be known as the BOND RESERVE ACCOUNT. On the date of delivery of any Additional Bonds issued pursuant to Section 18(a) or (c) of this Bond Resolution, the Board shall transfer to the Bond Reserve Account from the proceeds of the Additional Bonds or any other available source the lesser of (a) 10% of the proceeds of the Additional Bonds and (b) the maximum Aggregate Debt Service Requirement on the Additional Bonds for the then current and any subsequent operating year and commencing on the 1st day of the month following delivery of the Additional Bonds and on the 1st day of each month thereafter until the amount in the Bond Reserve Account equals the Reserve Requirement, 1/12 of the difference between the amount deposited on the delivery of the Additional Bonds and the Reserve Requirement.

Except as otherwise provided in this Bond Resolution, the moneys credited to the Bond Reserve Account shall be used solely for the payment of the principal of, redemption premium, if any, and interest on Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use moneys credited to the Bond Reserve Account for such payment, then the moneys so used shall be replaced from the Net Revenues first received thereafter which are not required for expenses of administration, operation and maintenance of the system or for current principal and interest requirements on any of the Bonds.

The Board may satisfy the Reserve Requirement by a letter of credit, a surety bond, or an insurance policy if the provider or issuer thereof shall be rated by any nationally recognized bond rating agency as high or higher than the Bonds at the time of purchase of the letter of credit, a surety bond, or an insurance policy. ~~Aaa by Moody's Investors Service and AAA by Standard and Poor's Corporation.~~

If at any time the amount in the Bond Reserve Account exceeds the Reserve Requirement, the excess may be transferred to such fund or account as the Board may direct.

The Supplemental Resolution authorizing Additional Bonds may either (i) provide that the Additional Bonds are equally and ratably secured by the Bond Reserve Account funded according to the Reserve Requirement, or (ii) provide for the creation of a separate bond reserve account securing that series of Additional Bonds and a different reserve requirement, or state that no bond reserve account is required.

Section 10. Bond Form. The Refunding Bonds shall be in substantially the following form with such revisions, additions and deletions as the Board may deem advisable or necessary to comply with the final terms of the Refunding Bonds established upon sale thereof:

BOND NO.

R-

UNITED STATES OF AMERICA
STATE OF MICHIGAN
COUNTIES OF INGHAM AND EATON

CITY OF LANSING
LANSING BOARD OF WATER AND LIGHT
UTILITY SYSTEM REVENUE REFUNDING BOND, SERIES 2017A

Interest Rate Date of Maturity Date of Original Issue CUSIP

Registered Owner: Cede & Co.

Principal Amount:

The City of Lansing, Counties of Ingham and Eaton, State of Michigan (the "City"), acting through the governing body of the Lansing Board of Water and Light (the "Board"), acknowledges itself to owe and for value received hereby promises to pay to the Registered Owner specified above, or registered assigns, only from the Net Revenues of the System as hereinafter provided, the Principal Amount specified above, in lawful money of the United States of America, on the Date of Maturity specified above, [unless prepaid prior thereto as hereinafter provided,] with interest thereon (computed on the basis of a 360-day year of twelve 30-day months) from the Date of Original Issue specified above or such later date to which interest has been paid, until paid, at the Interest Rate per annum specified above, first payable on [interest payment date] and semiannually thereafter. Principal of this bond is payable at the designated corporate trust office of [transfer agent], or such other transfer agent as the Board may hereafter designate by notice mailed to the registered owner of record not less than sixty (60) days prior to any interest payment date (the "Transfer Agent"). Interest on this bond is payable by check or draft mailed by the Transfer Agent to the person or entity who or which is as of the fifteenth (15th) day of the month prior to each interest payment date, the registered owner of record at the registered address. The Net Revenues of the System are irrevocably pledged for the prompt payment of principal and interest on this bond. The "System" is defined as the water supply and electric utility systems including the steam heat and chilled water distribution systems. The "Net Revenues" are the revenues received by the Board from the operations of the System after provision has been made for reasonable and necessary expenses of operation, maintenance and administration of the System. A statutory lien on the Net Revenues of the System has been created to secure the payment of the principal of and interest on this bond, when due; however, the pledge of Net Revenues and the statutory lien are on a parity with the pledge of Net Revenues and statutory lien in favor of the [Water Supply, Steam, Chilled Water and Electric Utility System Revenue Bonds, Series 2008A], Utility System Revenue Bonds, Series 2011A, Utility System Revenue Refunding Bonds, Series 2012A, and Utility System Revenue Refunding Bonds, Series 2013A.

This bond is one of a series of bonds of even Date of Original Issue aggregating the principal sum of \$[principal amount]. This bond is issued for the purpose of refunding certain outstanding bonds pursuant to a Bond Resolution adopted by the Board on October 24, 1989, as amended and supplemented from time to time, including by a Fourteenth Supplemental Revenue Bond Resolution adopted by the Board on [date of resolution] (collectively, the “Bond Resolution”). This bond is issued under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”).

For a complete statement of the revenues from which and the conditions under which this bond is payable, a statement of the conditions under which additional bonds of equal standing as to the Net Revenues may hereafter be issued, and the general covenants and provisions pursuant to which this bond is issued, reference is made to the Bond Resolution. Reference is hereby made to the Bond Resolution and any and all supplements thereto and modifications and amendments thereof, if any, and to Act 94, for a more complete description of the pledges and covenants securing the bonds of this issue, the nature, extent and manner of enforcement of such pledges, the rights and remedies of the registered owners of the bonds of this issue with respect thereto and the terms and conditions upon which the bonds of this issue are issued and may be issued thereunder. To the extent and in the manner permitted by the terms of the Bond Resolution, the provisions of the Bond Resolution or any resolution or agreement amendatory thereof or supplemental thereto, may be modified or amended by the Board, except in specified cases, only with the written consent of the registered owners of at least fifty-one percent (51%) of the principal amount of the bonds of the System then outstanding.

Bonds of this issue [maturing in the years [date], inclusive,] shall not be subject to redemption prior to maturity.

[Insert optional and mandatory redemption provisions if applicable]

This bond is transferable only upon the books of the Board kept for that purpose at the office of the Transfer Agent by the registered owner hereof in person, or by the registered owner’s attorney duly authorized in writing, upon the surrender of this bond together with a written instrument of transfer satisfactory to the Transfer Agent duly authorized in writing and thereupon a new registered bond or bonds in the same aggregate principal amount and of the same maturity shall be issued to the transferee in exchange therefor as provided in the Bond Resolution, and upon the payment of the charges, if any, therein prescribed. [The Transfer Agent shall not be required (i) to issue, register the transfer of, or exchange any bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of bonds selected for redemption under the Bond Resolution and ending at the close of business on the date of that mailing, or (ii) to register the transfer of or exchange any bond so selected for redemption in whole or in part, except the unredeemed portion of bonds being redeemed in part.]

THIS BOND IS A SELF-LIQUIDATING BOND AND IS NOT A GENERAL OBLIGATION OF THE CITY AND DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION, AND IS PAYABLE BOTH AS TO PRINCIPAL AND INTEREST SOLELY

FROM THE NET REVENUES OF THE SYSTEM AND CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE BOND RESOLUTION. THE PRINCIPAL OF AND INTEREST ON THIS BOND ARE SECURED BY THE STATUTORY LIEN HEREINBEFORE DESCRIBED.

The Board has covenanted and agreed, and covenants and agrees, to fix and maintain at all times while any bonds payable from the Net Revenues of the System shall be outstanding, such rates for service furnished by the System as shall be sufficient to provide for payment of the principal of and interest on the bonds of this issue and any other bonds payable from the Net Revenues as and when the same shall become due and payable, to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the same in good repair and working order, and to provide for such other expenditures and funds for the System as are required by the Bond Resolution.

It is hereby certified and recited that all acts, conditions and things required by law to be done precedent to and in the issuance of this bond and the series of bonds of which this is one have been done and performed in regular and due time and form as required by law.

This bond is not valid or obligatory for any purpose until the Transfer Agent's Certificate of Authentication on this bond has been executed by the Transfer Agent.

IN WITNESS WHEREOF, the City, acting through the Board, has caused this bond to be signed in its name by the Chairperson and Corporate Secretary of the Board, and a facsimile of the City's corporate seal to be printed hereon, all as of the Date of Original Issue.

LANSING BOARD OF WATER AND LIGHT

By [Chairperson to sign Bond]
Chairperson

(City Seal)

Countersigned:

By [Corporate Secretary to sign Bond]

Its: Corporate Secretary

[INSERT STANDARD FORMS OF CERTIFICATE
OF AUTHENTICATION AND ASSIGNMENT]

Section 11. Tax Covenant. The Board shall not invest, reinvest or accumulate any moneys deemed to be proceeds of the Refunding Bonds and Prior Bonds pursuant to the Internal Revenue Code of 1986, as amended in such a manner as to cause the Refunding Bonds or Prior Bonds to be “arbitrage bonds” within the meaning of the Internal Revenue Code. The Board hereby covenants that, to the extent permitted by law, it will take all actions within its control and that it shall not fail to take any action as may be necessary to maintain the exclusion of interest on the Refunding Bonds and Prior Bonds from gross income for federal income tax purposes, including but not limited to, actions relating to the rebate of arbitrage earnings, if applicable, and the expenditure and investment of Bond proceeds and moneys deemed to be Bond proceeds, all as more fully set forth in the Non-Arbitrage and Tax Compliance Certificate to be delivered by the Board on the date of delivery of the Refunding Bonds

Section 12. Financial Advisor. The Board hereby requests that Public Financial Management serve the Board as Financial Advisor for the Refunding Bonds.

Section 13. Bond Counsel. The Board hereby requests that Miller, Canfield, Paddock and Stone, P.L.C., Lansing, Michigan, continue to serve the Board as bond counsel for the Refunding Bonds. The Board acknowledges that Miller, Canfield, Paddock and Stone, P.L.C. has represented from time to time, and currently represents, Citigroup Global Markets, Inc. and various underwriters, financial institutions, and other potential participants in the bond financing process, in matters not related to the issuance and sale of the Refunding Bonds.

Section 14. Negotiated Sale of Bonds; Appointment of Senior Managing Underwriter. Based on the advice of the Financial Advisor, it is hereby determined to be in the best interest of the Board to sell the Refunding Bonds by negotiated sale in order to enable the Board to select and adjust terms for the Refunding Bonds, to enter the market on short notice at a point in time which appears to be most advantageous, and thereby possibly obtain a lower rate of interest on the Refunding Bonds, to achieve sale efficiencies so as to reduce the cost of issuance and interest expense, and to take advantage of the most favorable market for purchase of securities to be escrowed for payment of the Prior Bonds to be refunded.

Based on the advice of the Financial Advisor, the Board hereby names Citigroup Global Markets, Inc. as senior managing underwriter for the Refunding Bonds. The Board reserves the right to name additional co-managers and/or to develop a selling group, and the Chief Financial Officer is authorized to name additional co-managers and/or to develop a selling group in consultation with the Financial Advisor. By adoption of this resolution the Board assumes no obligations or liability to the underwriter for any loss or damage that may result to the underwriter from the adoption of this resolution, and all costs and expenses incurred by the underwriter in preparing for sale of the Refunding Bonds shall be paid from the proceeds of the Refunding Bonds, if the Refunding Bonds are issued, except as may be otherwise provided in the Bond Purchase Agreement for Refunding Bonds.

Section 15. Bond Ratings and Bond Insurance. The Chief Financial Officer is hereby authorized to apply for bond ratings from such municipal bond rating agencies as deemed appropriate, in consultation with the Financial Advisor. If the Financial Advisor recommends that the Board consider purchase of municipal bond insurance, then the Chief Financial Officer is hereby authorized to negotiate with insurers regarding acquisition of municipal bond insurance,

and, in consultation with the Financial Advisor, to select an insurer and determine which bonds, if any, shall be insured, and the Chief Financial Officer is hereby authorized to execute an agreement with the insurer relating to procedures for paying debt service on the insured bonds and notifying the insurer of any need to draw on the insurance and other matters.

Section 16. Official Statement. The Chief Financial Officer is authorized to approve circulation of a Preliminary Official Statement describing the Refunding Bonds and, after sale of the Refunding Bonds, to prepare, execute and deliver a final Official Statement.

Section 17. Continuing Disclosure. The Chief Financial Officer is hereby authorized to execute and deliver, prior to delivery of the Refunding Bonds, a written continuing disclosure undertaking as necessary in order to enable the underwriter or bond purchaser to comply with the requirements of Securities and Exchange Commission Rule 15c2-12. The continuing disclosure undertaking shall be in substantially the form which she shall, in consultation with bond counsel, determine to be appropriate.

Section 18. Sale of Refunding Bonds. The Chief Financial Officer is authorized, in consultation with the Financial Advisor, to accept an offer to purchase the Refunding Bonds without further resolution of this Board, if, after giving effect to the refunding, the maximum amount of Aggregate Debt Service in each future fiscal year shall be less than the Aggregate Debt Service in each future fiscal year prior to giving effect to the refunding. This authorization includes, but is not limited to, determination of original principal amount of the Refunding Bonds; the prices at which the Refunding Bonds are sold; the date of the Refunding Bonds; the schedule of principal maturities and whether the Refunding Bonds shall mature serially or as term bonds; provisions for early redemption, if any, including mandatory redemption of term bonds, if any; the interest rates and payment dates of the Refunding Bonds; and application of the proceeds of the Refunding Bonds. Approval of the matters delegated to the Chief Financial Officer under this resolution may be evidenced by her execution of the Bond Purchase Agreement for the Refunding Bonds or other offer to purchase the Refunding Bonds, or a certificate of award of sale, or the Official Statement.

The Refunding Bonds shall not be sold unless there shall be net present value savings equaling not less than 5.00% of the Prior Bonds being refunded after payment of costs of issuance of the Refunding Bonds and costs of refunding the Prior Bonds being refunded. The maximum interest rate of any maturity of the Refunding Bonds shall not exceed 5.50%. The first maturity of principal on the Refunding Bonds shall occur no earlier than July 1, 2017, and the final date of maturity shall occur no later than July 1, 2041. In making such determinations the Chief Financial Officer is authorized to rely upon data and computer runs provided by the Financial Advisor.

Section 19. Verification Agent. The Chief Financial Officer is hereby authorized, at her discretion, to select an independent certified public accountant to serve as verification agent to verify that the securities and cash to be deposited to the Escrow Fund or Funds will be sufficient to provide, at the times and in the amounts required, sufficient moneys to pay the principal of and interest on the Prior Bonds being refunded as they become due or upon call for redemption.

Section 20. Other Actions. In the event that the Chief Financial Officer is not available at the time that it becomes necessary to take actions directed or authorized under this resolution, then a person designated by the Chief Financial Officer or the General Manager is authorized to take the actions delegated to the Chief Financial Officer by this resolution. The officers, administrators, agents and attorneys of the Board are authorized and directed to take all other actions necessary and convenient to facilitate issuance, sale and delivery of the Refunding Bonds, and to execute and deliver all other agreements, documents and certificates and to take all other actions necessary or convenient in accordance with this resolution, and to pay costs of issuance including but not limited to rating agency fees, bond insurance premiums, transfer agent fees, escrow agent fees, verification agent fees, financial advisor fees, bond counsel fees, costs of printing the preliminary and final official statements, and any other costs necessary to accomplish sale and delivery of the Refunding Bonds.

Section 21. Applicability of the Outstanding Bond Resolutions. Except to the extent supplemented or otherwise provided in this resolution, all of the provisions and covenants provided in the Bond Resolution shall apply to the Refunding Bonds issued pursuant to provisions of this resolution, such provisions of the Bond Resolution being made applicable to the Refunding Bonds.

Section 22. Conflicting Resolutions. All resolutions and parts of resolutions insofar as they conflict with the provisions of this resolution are hereby rescinded.

Section 23. Severability and Paragraph Headings. If any section, paragraph, clause or provision of this resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this resolution. The paragraph headings in this resolution are furnished for convenience of reference only and shall not be considered to be part of this resolution.

Section 24. Publication and Recordation. In accordance with the provisions of Section 6 of Act 94, this resolution shall be published once in full in the Lansing State Journal, a newspaper of general circulation in the City qualified under State law to publish legal notices, promptly after its adoption, and shall be recorded in the minutes of the Board and such recording authenticated by the signatures of the Chairperson and Corporate Secretary of the Board.

Section 25. Effective Date. This resolution is hereby determined to be immediately necessary for the preservation of the public peace, property, health and safety of the City and the users of the System. In accordance with the provisions of Section 6 of Act 94, this resolution shall become effective immediately upon its adoption.

We hereby certify that the foregoing is a true and complete copy of a resolution duly adopted by the Board of Commissioners of the Lansing Board of Water and Light at a Regular meeting held on Tuesday, November 15, 2016, at 5:30 p.m., Eastern Time, and that said meeting was conducted and public notice of said meeting was given pursuant to and in full compliance with the Open Meetings Act, being Act 267, Public Acts of Michigan, 1976, and that the minutes of said meeting were kept and will be or have been made available as required by said Act 267.

We further certify that the following Commissioners were present at said meeting _____ and that the following Commissioners were absent _____.

We further certify that Commissioner _____ moved adoption of said resolution, and that said motion was supported by Commissioner _____.

We further certify that the following Commissioners voted for adoption of said resolution _____ and that the following Commissioners voted against adoption of said resolution _____.

We further certify that said resolution has been recorded in the Resolution Book and that such recording has been authenticated by the signature of the Chairperson and Corporate Secretary.

Chairperson

Corporate Secretary

**STATUS OF MANAGEMENT RESPONSES TO AUDITS
OCTOBER 2016**



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
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Open Issues:

12	Record Retention	Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.	March 2014	Human Resources	I-9 forms are on file for all active employees. An appropriate retention schedule for the asbestos bills of lading was determined and updated as part of the overall review of the Record Retention Schedule. An updated schedule was approved by the BWL Committee of the Whole on 3/8/16. BWL filed for State of Michigan approval on 4/14/16. State Administrative Board review is currently in process, with 1 of 2 preliminary approvals obtained to date. Final approval expected by 12/31/16.
13	Record Retention	The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.	March 2014	Enterprise Content Management	Enterprise Content Management has reviewed the existing Record Retention Schedule with the appropriate departments and cataloged all proposed revisions. An updated schedule was approved by the BWL Committee of the Whole on 3/8/16. BWL filed for State of Michigan approval on 4/14/16. State Administrative Board review is currently in process, with 1 of 2 preliminary approvals obtained to date. Final approval expected by 12/31/16.
17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	August 2014	General Accounting	A General Accounting Procedure Manual is being developed, with expected completion by 12/31/16.
27	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	IT has encrypted the laptops used by field personnel and established user guidelines. Guidelines instruct BWL users to encrypt sensitive data on their own mobile devices. Currently underway are efforts for data classification. Software with remote management capabilities for mobile devices has been researched and narrowed to three products, one of which will be procured by 11/30/16 and installed by 1/31/17.
29	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Software with remote management capabilities for mobile devices has been researched and narrowed to three products, one of which will be procured by 11/30/16 and installed by 1/31/17.
33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	The next stress test with our new vendor is scheduled for 11/1/16 with results expected to be available by 11/30/16. Completion expected by 12/31/16.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
34	Training & Development	Internal Audit supports plans for a new database for tracking training and use of standardized criteria for periodic training course review and training of trainers, on an organization-wide basis.	Dec 2015	Organizational Training & Development	LMS was implemented in February 2016 and training on use of the new system, begun immediately, continues to be in the process of being rolled out, at a slower pace than originally anticipated, due to delays in employees regaining the internet access required to access the system following the cyber incident. Completion, originally anticipated to be 6/30/16, is now expected by 12/31/16.
37	Hiring Process	Internal Audit has requested that an all-encompassing hiring policy be documented.	May 2016	Human Resources	An additional Board policy, one which addresses BWL hiring standards in their entirety, will be drafted by 12/31/16.
38	Hiring Process	Internal Audit recommended updating a hiring checklist, documenting rationale for selected hires, and storing job files in electronic form.	May 2016	Human Resources	Management will update the hiring checklist, document rationale for selected hires, and store job files electronically by 12/31/16.
42	Selected CRT-MPSC-BWL Recommendations	The Internal Auditor recommended annual updates to the Emergency Operations Plan.	May 2016	Emergency Management	There are 45 separate Emergency Operations Plans, all of which have either been updated during 2016 or are scheduled to be updated by 12/31/16. The intention is to continue to keep them updated, on an annual basis.
43	Selected CRT-MPSC-BWL Recommendations	The Internal Auditor recommended formally tracking the corrective actions resulting from restoration exercises.	May 2016	Emergency Management	Formal tracking of corrective actions resulting from an October 2016 restoration exercise is underway.
E-1 <i>NEW</i>	IT Assessment (by External Auditors)	Baker-Tilly's management letter officially noted that all users of financial applications should have a unique ID and generic, shared, temporary and system accounts should be removed. If a system account cannot be removed, it should be disabled.	Sept 2016	Information Technology	Generic user IDs for financial applications will be disabled by 11/30/16. For any generic IDs which cannot be disabled by that date, an explanation will be documented, along with a remediation plan.
E-2 <i>NEW</i>	IT Assessment (by External Auditors)	It was noted that network and financial application passwords settings need strengthening, including establishing requirements that passwords be changed every 90 days, be a minimum length of 8 characters, and include special characters. In addition, 8 prior passwords should be remembered and user accounts should be locked after 3-5 failed login attempts.	Sept 2016	Information Technology	Enhancement of network password settings was completed on 10/24/16. An evaluation of the feasibility and extent of enhancements to password settings for financial applications will be complete by 11/30/16.
E-3 <i>NEW</i>	IT Assessment (by External Auditors)	Management letter indicated that user account access should be reviewed annually by management for appropriateness, following the least privilege principle, with documentation of reviews retained.	Sept 2016	Information Technology	An annual review has been added to IT's schedule, with the anticipated process and annual review date expected to be established by 1/1/17.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
E-4 <i>NEW</i>	IT Assessment (by External Auditors)	Baker-Tilly recommended a cyberattack awareness program with surprise penetration testing.	Sept 2016	Emergency Management / Information Technology	Employees have been scheduled to undergo annual online cybersecurity awareness training. In addition, a new monthly live training program has been developed, which IT employees began on 10/25/16 and which the remainder of employees are expected to begin on 12/1/16.
E-5 <i>NEW</i>	IT Assessment (by External Auditors)	Baker-Tilly noted that the Windows 2003 operating system on which the DP250 database runs needs upgrading.	Sept 2016	Information Technology	Project scoping for the Mainframe Upgrade is almost complete, with project completion expected by 3/31/17.

Closed Issues (since June 2016 report):

30	Management of Mobile Devices	Internal Audit recommended disabling data ports on mobile devices where necessary.	Sept 2015	Information Technology	A large portion of the laptop user community is currently using USB ports to connect many legitimate business-related devices (mice, keyboards, printers, etc.). It has been determined that disabling these ports would be disruptive and they should, therefore, be left active. Antivirus software currently in use serves to mitigate the associated risk.
39	IT Change Management	Internal Audit recommended IT change management policy and procedures be documented.	May 2016	Information Technology	The IT change management process has been refined and a standard form and workflow developed. A Change Advisory Board is following ITIL guidelines.
41	IT Change Management	Internal Audit recommended specifically addressing emergency IT changes in the IT change management process.	May 2016	Information Technology	IT has defined what an emergency change is considered to be, documented a process flow, and developed a corresponding training plan and written guidelines.



Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
November 2016

Overview

- Current Audit Progress Report
- Remaining FY 2017 Audit Plan
- Other Items

Current Audit Progress Report

Engagements Completed in FY 17:

1. Surprise Cash Count #1.
2. Time Reporting Review #1.

Engagements in Progress:

1. Billing Audit (FY 16) – draft audit report issued for management responses; anticipate final report later this month.
2. Performance Evaluation/Compensation/Merit Pay Audit (FY 17) – fieldwork complete; draft audit report to be issued shortly.
3. Collections Audit (FY 17) – in progress, about 33% complete. Anticipate completion in January 2017.
4. Post-Cyber Incident Audit (FY 17) – just underway; anticipate completion in February 2017.
5. Training Audit Follow-up – just underway; anticipate completion in January 2017.

Remaining FY 2017 Audit Plan

Audits:

1. Payroll Management
2. New Service Order Management – Water
3. IT Help/Service Desk Management – to be deferred and replaced with another IT-related audit.
4. Follow-up – Hiring Process Audit

Other Engagements:

1. Vehicle Time Reporting Review
2. Surprise Cash Count #2
3. Time Reporting Review #2

Other Items

Internal Auditor Professional Development:

- On target to meet professional education requirements for certifications:
 - CPA
 - CIA
 - CISA
- Preparing for examination to attain Fundamentals of Cybersecurity certification.

Quality Assurance Improvement Program:

- An Internal Quality Review is being performed in preparation for the required 5-year External Peer Review.
- Anticipate the External Peer Review to occur in April or May 2017.