



## **FINANCE COMMITTEE MEETING**

### **AGENDA**

**March 12, 2019**

**6:00 p.m.—1201 S. Washington Ave.**

**Lansing, MI — REO Town Depot**

**Board of Water & Light Headquarters**

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of January 8, 2019.....**TAB 1**
2. January YTD Financial Summary.....**TAB 2**
  - a. Central Sub Capital Exceedance Resolution .....**TAB 2a**
3. Bond Amendment Resolutions.....**TAB 3**
  - a. Amendment to the Fifteenth Supplemental Revenue Bond Resolution to Increase Maximum Aggregate Principal Amount of Notes – Resolution.....**TAB 3a**
  - b. Amendment to Amended and Restated Utility System Revenue Bond Resolution – Resolution.....**TAB 3b**
4. Internal Audit Status Report.....**TAB 4**

Other

Adjourn

**FINANCE COMMITTEE**  
**Meeting Minutes**  
**January 8, 2019**

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, on Tuesday, January 8, 2019.

Finance Committee Chair Ken Ross called the meeting to order at 7:02 pm and asked Corporate Secretary Griffin to take a roll call.

Present: Commissioners Ken Ross, Beth Graham and David Price. Also, present: Commissioners David Lenz and Sandra Zerkle and Non-Voting Douglas Jester (East Lansing) and Bill Long (Delta Township).

Absent: Commissioner Tony Mullen

The Corporate Secretary declared a quorum.

**Public Comments**

None.

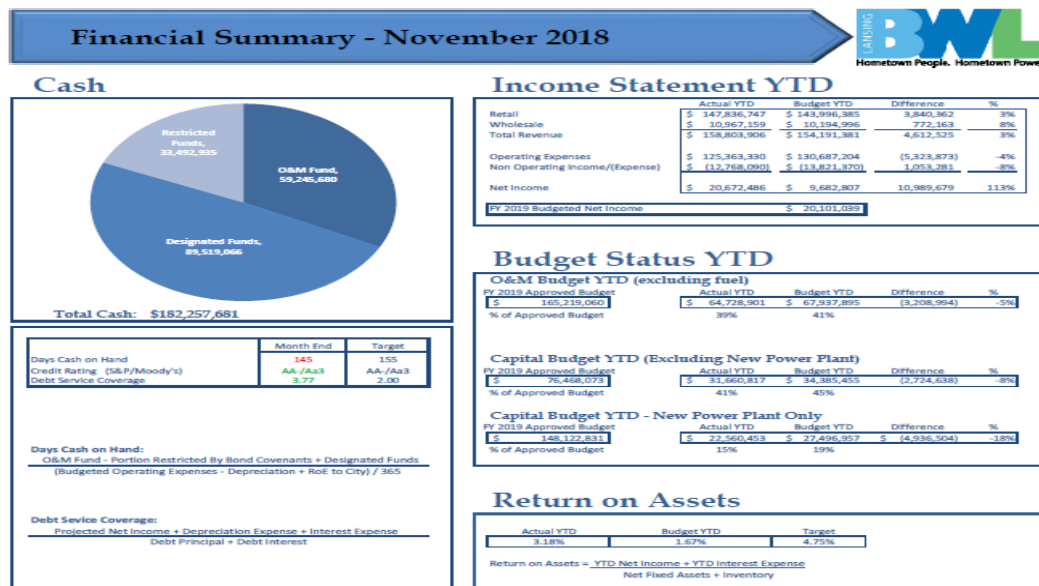
**Approval of Minutes**

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to approve the Finance Committee meeting minutes of November 6, 2018.

**Action:** Motion Carried.

**November YTD Financial Summary**

Chief Financial Officer (CFO), Heather Shawa presented the following Year to Date Financial Review:



## Financial Summary - November 2018



### Ratios

#### Operating Ratio

|             |                |   |      |             |      |
|-------------|----------------|---|------|-------------|------|
| O&M Expense | \$ 106,467,356 | = | 0.67 | APPA Median | 0.69 |
| Revenue     | \$ 158,803,906 |   |      |             |      |

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

#### Current Ratio

|                     |                |   |      |             |      |
|---------------------|----------------|---|------|-------------|------|
| Current Assets      | \$ 170,736,395 | = | 3.11 | APPA Median | 1.37 |
| Current Liabilities | \$ 54,513,578  |   |      |             |      |

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

#### Debt to Total Assets

|                               |                |   |      |             |      |
|-------------------------------|----------------|---|------|-------------|------|
| LT Debt + Accrued Liabilities | \$ 405,740,762 | = | 0.41 | APPA Median | 0.58 |
| Total Assets                  | \$ 996,911,128 |   |      |             |      |

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

#### Days Sales Outstanding

|                     |               |        |    |            |    |
|---------------------|---------------|--------|----|------------|----|
| Accounts Receivable | \$ 19,748,294 | x 30 = | 21 | Prior Year | 26 |
| Average Sales       | \$ 28,176,538 |        |    |            |    |

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

#### Bad Debt

|                           |                |   |       |            |       |
|---------------------------|----------------|---|-------|------------|-------|
| 12 Month Rolling Bad Debt | \$ 1,566,375   | = | 0.43% | Prior Year | 0.60% |
| 12 Month Rolling Revenue  | \$ 361,257,917 |   |       |            |       |

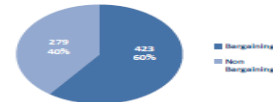
Measures the portion of each revenue dollar that will not be collected

### Employee Data

#### Employee Count

|                    |      |
|--------------------|------|
| Employee Count YTD | 702  |
| Budget YTD         | 754  |
| Over/(Under) #     | (52) |

Full Time Equivalent  
Temporary Employees



#### Payroll Data

|                       | Actual YTD    | Budget YTD    | Difference   | %     | Prior Year |
|-----------------------|---------------|---------------|--------------|-------|------------|
| Regular               | \$ 24,992,883 | \$ 25,966,727 | \$ (973,844) | -3.8% | \$ 48.69   |
| Overtime              | \$ 3,344,010  | \$ 2,621,830  | \$ 722,180   | 27.5% |            |
| Total                 | \$ 28,336,892 | \$ 28,588,557 | \$ (251,665) | -0.9% |            |
| Total Hours Worked    | 557,515       |               |              |       |            |
| Labor \$/Hours Worked | \$ 50.83      |               |              |       |            |

#### Benefits Cost

| (Including Retirees) | Actual YTD    | Budget YTD    | Difference     |
|----------------------|---------------|---------------|----------------|
| Health               | \$ 7,013,906  | \$ 8,120,271  | \$ (1,106,365) |
| RK                   | \$ 1,337,526  | \$ 1,338,743  | \$ (1,217)     |
| Dental               | \$ 552,916    | \$ 605,255    | \$ (52,339)    |
| Life                 | \$ 146,262    | \$ 147,393    | \$ (1,131)     |
| PCA                  | \$ 2,051,825  | \$ 2,039,241  | \$ 12,584      |
| Other                | \$ (238,513)  | \$ (66,697)   | \$ (171,817)   |
| Total                | \$ 10,863,922 | \$ 12,894,806 | \$ (1,520,884) |

\* All APPA Median Numbers Are For UTILITIES With Greater Than 100,000 Customers As Obtained From The Most Recent "APPA Financial And Operating Ratios Of Public Power UTILITIES Report" Published In December of 2017

Total Cash is just over \$182 million, Days Cash on Hand is 145, and Debt Service Coverage Ratio is 3.77. O&M cash decreased, causing the Days Cash on Hand to be below the target of 155. Ms. Shawa reminded the Commissioners that this target represents the Fiscal Year End (FYE) Minimum Cash Reserve Requirement, and the interim FY decrease was based on a conscious decision to save on overall interest costs to the BWL by not borrowing from our Bond Anticipation Note (BAN). Ms. Shawa stated that the Days Cash on Hand will likely drop again in December but is still on track to be above the Minimum Cash Reserve Requirement of 155 at FYE. Ms. Shawa also stated that revenue was about \$4.5M over budget and operating expenses were under budget, resulting in a net income of \$20.7M compared to a fiscal year to date of \$9.7M. Ms. Shawa mentioned that all five ratios are currently beating their relative benchmark and that we continue to see a positive claims experience related to our benefit cost.

Ms. Shawa updated the Commissioners on the O&M and Capital Budget and Forecast timeline. Ms. Shawa stated that both the FY20 O&M and Capital Budget and FY20-25 forecast processes have been underway since November. Ms. Shawa outlined a few of the main tasks that will lead to the May 14<sup>th</sup> Finance Committee and May 28<sup>th</sup> Board Meeting presentations.

Commissioner Zerkle requested that Ms. Shawa provide a budget process update in her monthly communications with the Commissioners and Ms. Shawa responded that she will provide this update in her future monthly communications.

### Internal Audit Open Management Responses Update

Chief Financial Officer Heather Shawa presented management's responses to audits as follows:

**STATUS OF MANAGEMENT RESPONSES TO AUDITS  
DECEMBER 2018**

*Updates in red*

| Issue # | Audit Name  | Audit Issue Description   | Response Date | Responsible Area           | Status of Management Response  |
|---------|---|---|---------------|----------------------------|--|
| 52      | COBIT Compliance                                      | Internal Audit noted that actions should continue on as expedited a schedule as possible to reach full compliance with the adopted IT governance framework.   | June 2017     | Information Technology     | Of 56 items involved, 42 are being reported by IT as complete, 10 on track, 3 overdue, and 1 ongoing. Internal Audit is in the process of verifying IT's reported status.  |
| 59      | Succession Planning                                   | Internal Audit supports identifying critical positions as soon as possible.   | March 2018    | Human Resources            | A focus group has piloted a tool to assist with identification of critical positions which will be implemented on an organization-wide basis by 6/30/19. Implementation was previously estimated to occur by 12/31/18.   |
| 60      | Succession Planning                                   | Internal Audit supports training and development of succession candidates.  | March 2018    | Human Resources            | Candidate assessment and development are underway, as part of the BWL Leadership Academy, and will continue through June 2019.   |
| 65      | Physical Security<br><i>NEW</i>                       | Internal Audit supports a periodic review of all facility access.   | Sept 2018     | Industrial Health & Safety | Security will report facility access to managers on an annual basis, for review and response. Manager responses for this year, along with implementation of any corresponding changes to physical access indicated as being needed, are expected to be completed by 12/31/18.  |
| 66      | Physical Security<br><i>NEW</i>                       | Internal Audit recommends controls over security personnel permitted to carry firearms on a concealed basis be enhanced.  | Sept 2018     | Industrial Health & Safety | Controls over security personnel authorized to carry firearms on a concealed basis will be enhanced by 12/31/18.   |
| 67      | Contract Signature Authority Compliance<br><i>NEW</i> | Internal Audit noted the need for alignment with the updated organizational structure and Procurement Procedure, inclusion of MOUs, and consistently obtaining the Corporate Secretary's signature. | October 2018  | Legal Services             | Management will enhance training and communication to help ensure Corporate Secretary's countersignature is obtained as required; update Contract Signature Authority and Special Delegation documents to reflect current organizational structure and include MOUs; and revise policy and procedure to require General Counsel's consultation on purchase orders; all by 3/31/19. |
| 68      | Contract Signature Authority Compliance<br><i>NEW</i> | Internal Audit noted that proper approval and supporting documentation need to be on file.  | October 2018  | Legal Services             | Management will develop policy establishing requirements for legal consultations and approvals, including documentation and approval requirements for direct payments involving agreements, as well as enhance training, communication, and document templates to help ensure proper approvals are obtained and documentation is on file, by 6/30/19.                              |

| Issue # | Audit Name | Audit Issue Description | Response Date | Responsible Area | Status of Management Response |
|---------|------------|-------------------------|---------------|------------------|-------------------------------|
|---------|------------|-------------------------|---------------|------------------|-------------------------------|

*Closed Issues (since June 2018 report):*

|    |  |   |              |                  |   |
|----|--|---|--------------|------------------|---|
| 46 | Performance Evaluation & Compensation                    | Internal Audit recommended job descriptions be updated.   | January 2017 | Human Resources  | Job descriptions have been updated.   |
| 47 | Performance Evaluation & Compensation                    | Internal Audit recommended increasing flexibility with awarding merit increases.  | January 2017 | Human Resources  | The plan for decoupling of base and merit increases has been completed.   |
| 58 | Succession Planning                                      | Internal Audit recommends that Succession Planning procedures be formally approved and updated annually.  | March 2018   | Human Resources  | An updated Succession Planning procedure has been approved by executive management.   |
| 63 | Customer Arrangements & 3rd Party Payments<br><i>NEW</i> | Internal Audit recommends setting a target success rate and monitoring for the degree of achievement of it, for Regular Arrangements, along with considering the possibility of a new payback period guideline.       | July 2018    | Customer Service | Customer Service has researched target success rates for customer payment arrangements in use by other utilities and confirmed the appropriateness of the standard length of time for payback in use with BWL customers. The Customer Service Business Analyst is conducting monitoring on a monthly basis. |
| 64 | Customer Arrangements & 3rd Party Payments<br><i>NEW</i> | Internal Audit recommends setting a target success rate and monitoring for the degree of achievement of it, for Special Arrangements, along with considering the possibility of a new supervisory approval guideline. | July 2018    | Customer Service | Customer Service is tracking success rates for both Standard and Special Arrangements on their department scorecard and has confirmed that established review/approval requirements remain appropriate.   |

**Other**

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to excuse Commissioner Mullen from tonight's meeting.

**Action:** Motion Carried

**Adjourn**

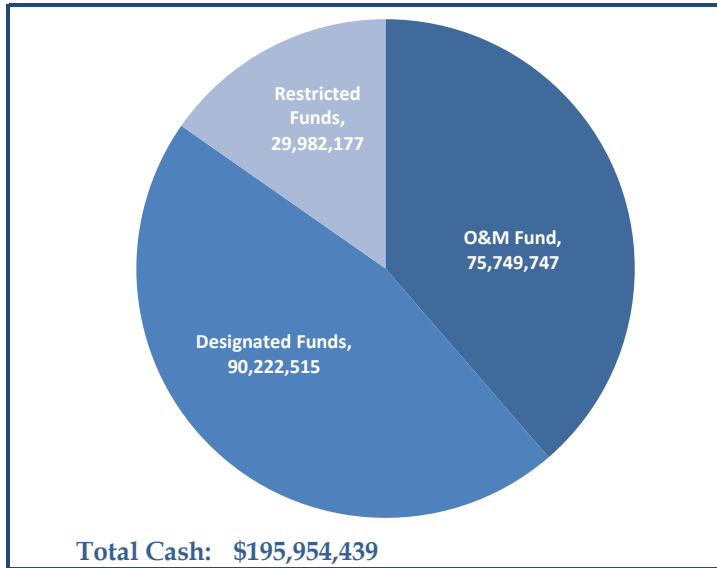
Commissioner Ross adjourned the meeting at 7:33 p.m.

Respectfully submitted  
Ken Ross, Chair  
Finance Committee

# Financial Summary - January 2019



## Cash



|                             | Month End | Target  |
|-----------------------------|-----------|---------|
| Days Cash on Hand           | 167       | 155     |
| Credit Rating (S&P/Moody's) | AA-/Aa3   | AA-/Aa3 |
| Debt Service Coverage       | 3.77      | 2.00    |

**Days Cash on Hand:**  

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

**Debt Service Coverage:**  

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

## Income Statement YTD

|                                    | Actual YTD            | Budget YTD            | Difference        | %           |
|------------------------------------|-----------------------|-----------------------|-------------------|-------------|
| Retail                             | \$ 203,492,337        | \$ 199,857,655        | 3,634,683         | 2%          |
| Wholesale                          | \$ 12,843,615         | \$ 13,971,559         | (1,127,944)       | -8%         |
| <b>Total Revenue</b>               | <b>\$ 216,335,952</b> | <b>\$ 213,829,213</b> | <b>2,506,739</b>  | <b>1%</b>   |
| Operating Expenses                 | \$ 174,293,313        | \$ 182,355,844        | (8,062,531)       | -4%         |
| Non Operating Income/(Expense)     | \$ (16,282,348)       | \$ (19,206,035)       | 2,923,687         | -15%        |
| <b>Net Income</b>                  | <b>\$ 25,760,291</b>  | <b>\$ 12,267,334</b>  | <b>13,492,957</b> | <b>110%</b> |
| <b>FY 2019 Budgeted Net Income</b> | <b>\$ 20,101,039</b>  |                       |                   |             |

## Budget Status YTD

| O&M Budget YTD (excluding fuel)                  |               |               |                      |      |
|--|---------------|---------------|----------------------|------|
| FY 2019 Approved Budget                          | Actual YTD    | Budget YTD    | Difference           | %    |
| \$ 165,219,060                                   | \$ 92,422,637 | \$ 95,664,196 | (3,241,559)          | -3%  |
| % of Approved Budget                             | 56%           | 58%           |                      |      |
| Capital Budget YTD (Excluding Delta Energy Park) |               |               |                      |      |
| FY 2019 Approved Budget                          | Actual YTD    | Budget YTD    | Difference           | %    |
| \$ 76,468,073                                    | \$ 42,121,888 | \$ 48,737,690 | (6,615,802)          | -14% |
| % of Approved Budget                             | 55%           | 64%           |                      |      |
| <b>FY 2019 Projected Capital Spend</b>           |               |               | <b>\$ 80,235,936</b> |      |
| Capital Budget YTD - Delta Energy Park Only      |               |               |                      |      |
| FY 2019 Approved Budget                          | Actual YTD    | Budget YTD    | Difference           | %    |
| \$ 148,122,831                                   | \$ 43,030,428 | \$ 52,702,171 | \$ (9,671,743)       | -18% |
| % of Approved Budget                             | 29%           | 36%           |                      |      |

## Return on Assets

| Actual YTD | Budget YTD | Target |
|------------|------------|--------|
| 3.86%      | 2.19%      | 4.75%  |

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

# Financial Summary - January 2019



## Ratios

### Operating Ratio

|             |                |   |      |                     |
|-------------|----------------|---|------|---------------------|
| O&M Expense | \$ 147,855,394 | = | 0.68 | APPA Median<br>0.69 |
| Revenue     | \$ 216,335,952 |   |      |                     |

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

### Current Ratio

|                     |                |   |      |                     |
|---------------------|----------------|---|------|---------------------|
| Current Assets      | \$ 189,324,158 | = | 3.90 | APPA Median<br>1.57 |
| Current Liabilities | \$ 48,588,517  |   |      |                     |

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

### Debt to Total Assets

|                               |                  |   |      |                     |
|-------------------------------|------------------|---|------|---------------------|
| LT Debt + Accrued Liabilities | \$ 442,844,199   | = | 0.43 | APPA Median<br>0.58 |
| Total Assets                  | \$ 1,039,102,371 |   |      |                     |

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

### Days Sales Outstanding

|                     |               |        |    |                  |
|---------------------|---------------|--------|----|------------------|
| Accounts Receivable | \$ 24,706,546 | x 31 = | 27 | Prior Year<br>30 |
| Average Sales       | \$ 28,766,023 |        |    |                  |

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

### Bad Debt

|                           |                |   |       |                     |
|---------------------------|----------------|---|-------|---------------------|
| 12 Month Rolling Bad Debt | \$ 1,600,937   | = | 0.44% | Prior Year<br>0.48% |
| 12 Month Rolling Revenue  | \$ 360,823,924 |   |       |                     |

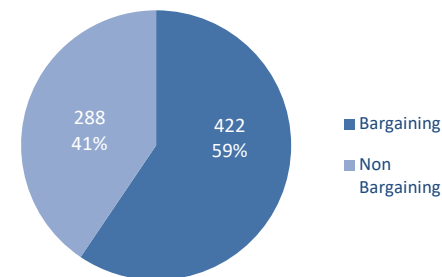
Measures the portion of each revenue dollar that will not be collected

## Employee Data

### Employee Count

|                    |      |
|--------------------|------|
| Employee Count YTD | 710  |
| Budget YTD         | 751  |
| Over/(Under) #     | (41) |

|                      |    |
|----------------------|----|
| Full Time Equivalent | 39 |
| Temporary Employees  |    |



### Payroll Data

|          | Actual YTD    | Budget YTD    | Difference     | %     | Prior Year |
|----------|---------------|---------------|----------------|-------|------------|
| Regular  | \$ 34,351,123 | \$ 35,510,799 | \$ (1,159,676) | -3.3% | \$ 50.58   |
| Overtime | \$ 4,579,770  | \$ 3,667,977  | \$ 911,793     | 24.9% |            |
| Total    | \$ 38,930,893 | \$ 39,178,776 | \$ (247,883)   | -0.6% |            |

|                       |          |
|-----------------------|----------|
| Total Hours Worked    | 745,534  |
| Labor \$/Hours Worked | \$ 52.22 |

### Benefits Cost

| (Including Retirees) | Actual YTD    | Budget YTD    | Difference     |
|----------------------|---------------|---------------|----------------|
| Health               | \$ 8,909,646  | \$ 10,524,902 | \$ (1,615,256) |
| RX                   | \$ 1,468,399  | \$ 1,990,730  | \$ (522,332)   |
| Dental               | \$ 770,090    | \$ 848,260    | \$ (78,170)    |
| Life                 | \$ 208,407    | \$ 208,233    | \$ 174         |
| FICA                 | \$ 2,869,282  | \$ 2,881,897  | \$ (12,615)    |
| Other                | \$ 934,048    | \$ 1,080,088  | \$ (146,040)   |
| Total                | \$ 15,159,872 | \$ 17,534,110 | \$ (2,374,238) |

**Capital Project Budget Exceedance Approval:  
PE-20175 Central Substation and PE-20199 Central Substation - Distribution**

WHEREAS, Lansing Board of Water & Light's (BWL) Policy 15-02, entitled Capital Project Exceedance Approval necessitates 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 previously approved budget for Capital Projects PE-20175 Central Substation was \$25,800,000 and PE-20199 Central Substation Distribution was \$1,600,000; and

WHEREAS, the projected final total cost for Capital Projects PE-20175 Central Substation is \$32,373,029 and for PE-20199 Central Substation Distribution is \$2,440,611, upon completion; and

WHEREAS, BWL staff and management reviewed the project cost in detail, which includes but is not limited to the rationale and circumstances for the increased budget projection; and

WHEREAS, BWL staff and management recommends that the Capital Projects PE-20175 Central Substation and PE-20199 Central Substation – Distribution projected spending be approved; and

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Projects PE-20175 Central Substation and PE-20199 Central Substation - Distribution with a projected final total cost of \$32,373,029 and \$2,440,611 respectively.

## Lansing Board of Water and Light

### RESOLUTION TO AMEND FIFTEENTH SUPPLEMENTAL REVENUE BOND RESOLUTION TO INCREASE MAXIMUM AGGREGATE PRINCIPAL AMOUNT OF NOTES

#### A RESOLUTION TO AUTHORIZE:

- An amendment to increase the maximum aggregate principal amount of bond anticipation notes authorized.

WHEREAS, the City of Lansing acting by and through the Lansing Board of Water and Light, has previously issued its utility revenue bonds payable from revenues of the water supply, steam, chilled water and electric utility system under the provisions of Act 94, Public Acts of Michigan, 1933, as amended; and

WHEREAS, the Board has previously issued its utility revenue bonds pursuant to the provisions of an Amended and Restated Resolution adopted on October 24, 1989, which has been amended or supplemented by fifteen supplemental resolutions; and

WHEREAS, on March 27, 2018, the Board approved the Fifteenth Supplemental Revenue Bond Resolution (the “Fifteenth Supplemental Resolution”) authorizing the issuance of bond anticipation notes to finance the costs of the Power Plant Project and System Improvements Project, both as defined in the Fifteenth Supplemental Resolution; and

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

WHEREAS, the Board wishes to increase the maximum aggregate principal amount of bond anticipation notes authorized to be issued pursuant to the Fifteenth Supplemental Resolution;

#### NOW, THEREFORE, BE IT RESOLVED THAT:

Section 1. Amending Resolution. The Board hereby adopts this resolution thereby amending and supplementing the Fifteenth Supplemental Resolution to increase the maximum aggregate principal amount of bond anticipation notes authorized to be issued, pursuant to Section 2 below. The adoption of this Resolution provides the Board with the option to issue additional bond anticipation notes, rather than bonds, upon the advice of its financial advisor.

Section 2. Amendment to Not-To-Exceed Amount. The principal amount of not-to-exceed amount of One Hundred Million Dollars (\$100,000,000) described in the first paragraph of Section 4 of the Fifteenth Supplemental Resolution is hereby increased as follows:

“In order to pay the costs of the Series 2019 Project which need to be paid before the Board issues the Series 2019 Bonds, the Board shall issue the Notes pursuant to the provisions of Section 413 of Act 34 in the aggregate principal amount of not-to-exceed **One Hundred Twenty**



**Million Dollars (\$120,000,000)** as finally determined by the Chief Financial Officer at the time of sale.

Section 3. 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 4. Conflicting Resolutions; Effective Date. All resolutions and parts of resolutions insofar as they conflict with the provisions of this resolution are hereby rescinded. This resolution shall become effective immediately.

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, March 26, 2019, at 5:30 p.m., prevailing 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

## **Lansing Board of Water and Light**

### **RESOLUTION TO AMEND AMENDED AND RESTATED UTILITY SYSTEM REVENUE BOND RESOLUTION**

#### **A RESOLUTION TO AUTHORIZE:**

- An amendment to the definition of “Reserve Requirement” in the Amended and Restated Bond Resolution.
- A corresponding amendment to the establishment of the Bond Reserve Account and amounts held therein set forth in the Amended and Restated Bond Resolution.

WHEREAS, the City of Lansing acting by and through the Lansing Board of Water and Light, has previously issued its utility revenue bonds payable from revenues of the water supply, steam, chilled water and electric utility system under the provisions of Act 94, Public Acts of Michigan, 1933, as amended; and

WHEREAS, the Board has previously issued its utility revenue bonds pursuant to the provisions of an Amended and Restated Resolution adopted on October 24, 1989, which has been amended or supplemented by fifteen supplemental resolutions; and

WHEREAS, on March 27, 2018, the Board approved an Amended and Restated Bond Resolution (the “Bond Resolution”) to replace the Amended and Restated Resolution adopted on October 24, 1989 and authorize the issuance of the Utility System Revenue Bonds, Series 2019 (the “Series 2019 Bonds”); and

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

WHEREAS, the Board wishes to revise the definition of “Reserve Requirement” in the Bond Resolution based on certain long-term unenhanced credit ratings of its Outstanding Bonds, and adjust, accordingly, the establishment of the Bond Reserve Account and amounts held therein pursuant to Section 18(B) of the Bond Resolution; and

WHEREAS, upon the delivery of the Series 2019 Bonds in an amount sufficient to cause the Registered Owners of the Series 2019 Bonds to equal not less than fifty one percent (51%) in principal amount of the total Utility System Revenue Bonds then outstanding, the Bond Resolution would replace the Amended and Restated Bond Resolution adopted on October 24, 1989.

WHEREAS, pursuant to Section 28(a)(iv) of the Bond Resolution, upon written confirmation from each rating agency rating Outstanding Bonds to which the foregoing amendments to the Bond Resolution would apply that the adoption of such amendments will not result in the reduction or withdrawal of any ratings on such Bonds, the Board wishes to amend the Bond Resolution to revise the definition of “Reserve Requirement” and adjust, accordingly the Bond Reserve Account and amounts held therein;

NOW, THEREFORE, BE IT RESOLVED THAT:

Section 1. Amending Resolution. The Board hereby adopts this resolution thereby amending and supplementing the Bond Resolution upon the consent of not less than fifty one percent (51%) in principal amount of the total Utility System Revenue Bonds then outstanding, in accordance with Section 28(b) of the Resolution.

Section 2. Amendment to Definition of Reserve Requirement. The definition of “Reserve Requirement” in Section 1(z) of the Bond Resolution is hereby deleted and replaced with the following:

(z) “Reserve Requirement” shall mean the following: (i) if the long-term unenhanced credit ratings of the Outstanding Bonds are in at least the “A/A2” category without regard to notching factors (or an equivalent rating in at least the third highest category of nationally recognized bond rating agencies), \$0, only upon the written direction of the Chief Financial Officer; or (ii) if the long-term unenhanced credit ratings of the Outstanding Bonds are reduced below the “A/A2” category without regard to notching factors (or an equivalent rating in at least the third highest category of nationally recognized bond rating agencies), the lesser of (1) 50% of the maximum annual debt service requirements on the Outstanding Bonds, (2) 62.5% of the average annual debt service requirements on the Outstanding Bonds, or (3) the total of 5% of the original aggregate face amount of each series of the Outstanding Bonds, reduced by the net original issue discount, if any; provided, however, that the Reserve Requirement shall not at any time exceed the amount allowed to be invested at an unrestricted yield pursuant to Treas. Reg. §1.148-2(f)(2) or any successor provision thereto applicable to the Bonds. For purposes of determining the Reserve Requirement, the long-term unenhanced credit ratings of the Outstanding Bonds shall be determined with regard only to the highest two long-term unenhanced ratings of such Bonds. Therefore, subsection (z)(ii) applies only if both such ratings are reduced below the “A/A2” category without regard to notching factors (or an equivalent rating as described above). The Board may rely on the advice of its financial advisor as to which rating category or categories its ratings are within.

Section 3. Amendment to Bond Reserve Account. Section 18(B), “BOND AND INTEREST REDEMPTION FUND” of the Bond Resolution is hereby deleted and replaced with the following:

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.

Out of the Revenues remaining in the Receiving Fund, after provision for the credit or deposit to the Operation and Maintenance Fund, there shall next be set aside, monthly, in the Redemption Fund a sum proportionately sufficient to provide for the payment of the principal of, mandatory redemption requirements, if any, and interest on the Bonds as and when the same shall become due and payable, subject to any credit therefor as provided in this Section 18(B). 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. If, as a result of a reduction in the long-term unenhanced credit ratings of the Outstanding Bonds to a category below “A/A2” without regard to notching factors (or an equivalent rating in at least the third highest category of nationally recognized bond rating agencies) as described in Section 1(z)(ii) (a “Ratings Downgrade Event”), the Reserve Requirement is increased from \$0, and amounts then held in the Bond Reserve Account are insufficient to meet the Reserve Requirement, then the Board must satisfy the Reserve Requirement either by:

- (i) transferring moneys to the Bond Reserve Account from an available source of funds (other than proceeds of Additional Bonds) an amount equal to the Reserve Requirement in six (6) semi-annual installments; or
- (ii) a letter of credit, a surety bond, or an insurance policy within 180 days of the Ratings Downgrade Event; provided, however, 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, surety bond, or insurance policy. ) equal semi-annual installments beginning on the date which is 180 days following the Ratings Downgrade Event; or
- (iii) transferring moneys to the Bond Reserve Account from proceeds of Additional Bonds within 180 days of the Ratings Downgrade Event; or
- (iv) purchasing a letter of credit

The Board must adopt a plan to satisfy the Reserve Requirement pursuant to either Subsection (i), (ii) or (iii) above within ninety (90) days of the Ratings Downgrade Event.

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 the 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.

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; provided, however, if the excess is allocable to proceeds of tax-exempt Outstanding Bonds (or proceeds of tax-exempt Bonds refunded by the Outstanding Bonds) then such excess shall be transferred to a segregated account to pay the costs of the Power Plant Project or the System Improvements Project, unless it is determined by nationally recognized bond counsel that such transfer is not required to maintain the tax-exempt status of each series of the Outstanding Bonds.

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, if any, 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 4. 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 5. Conflicting Resolutions; Effective Date. All resolutions and parts of resolutions insofar as they conflict with the provisions of this resolution are hereby rescinded. This resolution shall become effective immediately.

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, March 26, 2019, at 5:30 p.m., prevailing 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



# Internal Audit Status Report

Presented by:  
Phil Perkins, Director of Internal Audit  
Finance Committee Meeting  
March 2019

# Overview

- FY 2019 Audit Plan Progress Report
- FY 2020 Risk Assessment & Audit Planning
- Other

# FY 2019 Audit Plan Progress Report

## Engagements Completed Since Previous Presentation:

1. COBIT Compliance Follow-up Audit
2. Change Management Follow-up Audit
3. Time Reporting Review #2

## Engagements in Progress or Upcoming:

1. Metering Services (80% complete)
2. Vegetation Management (90% complete)
3. Accounts Payable (33% complete)
4. Procurement (underway)
5. Project Engineering (start in late March)
6. Cybersecurity Policies/Governance (start in early April)



# FY 2020 Risk Assessment & Audit Planning

- Meetings to be held with executive management and staffs to discuss current risk areas and potential audit topics for FY 2020.
- Draft audit plan for FY 2020 to be presented for Board approval not later than July 2019.

# Other

## Continuing Professional Education:

1. Director of Internal Audit: Participation in CPE as relevant for job, until retirement on 7/1/19.
2. Senior Internal Auditor:
  - On target to complete annual CPE requirements for CPA designation.
  - Passed Certified Information Systems Auditor (CISA) examination and is submitting relevant experience required to attain certification.

## Transition/Continuancy Plan:

- A plan has been developed to enable a smooth transition for the incoming Director of Internal Audit.
- The plan will be updated to include detailed status and remaining items to perform for any engagements still in progress.