



**LANSING BOARD OF WATER & LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING
January 16, 2024 – 6:00 P.M.
Board of Water & Light Headquarters – REO Town Depot
1201 S. Washington Ave., Lansing, MI 48910**

Finance Committee: Sandra Zerkle, Committee Chairperson; Beth Graham; David Price; and Dale Schrader; Alternates: Semone James, Tracy Thomas; Non-Voting: J. R. Beauboeuf, Robert Worthy, Brian Pillar

BWL full meeting packets and public notices/agendas are located on the official web site at <https://www.lbwl.com/about-bwl/governance>.

AGENDA

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of November 7, 2023 **TAB 1**
- 2. November YTD Financial Summary..... **TAB 2**
 - a. Capital Exceedance Request – Eckert 13 & 15 Cutover Resolution **TAB 2a**
 - b. Bond Update **INFORMATION ONLY**
- 3. Retirement Plan Committee (RPC) Updates **TAB 3**
 - a. DB Plan Investment Policy Statement (IPS) Revision and Resolution..... **TAB 3a**
- 4. Bi-Annual Internal Audit Open Management Response Updates **TAB 4**
- 5. Review and Approval of Board of Commissioners Second Quarter Budget & Expense Report..... **INFORMATION ONLY**
- 6. FY24 Internal Audit Work Plan and Resolution..... **TAB 5**

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
November 7, 2023

Finance Committee: Sandra Zerkle, Committee Chairperson; Beth Graham; David Price; and Dale Schrader; Alternates: Semone James, Tracy Thomas; Non-Voting: Commissioners J.R. Beauboeuf, Brian Pillar, Robert Worthy.

The Finance Committee of the Board of Water and Light (BWL) met at BWL Headquarters, REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI on Tuesday, November 7, 2023.

Finance Committee Chairperson Sandra Zerkle called the meeting to order at 6:59 p.m. and asked the Corporate Secretary to call the roll.

Present: Chairperson Sandra Zerkle; Commissioners Beth Graham, David Price, and Dale Schrader, Alternate: Commissioner Semone James; also present: Non-Voting Commissioner Robert Worthy (Delta Township)

Absent: None.

The Corporate Secretary declared a quorum.

Public Comments

There were no public comments.

Approval of Minutes

Motion by Commissioner David Price, **Seconded** by Commissioner Beth Graham, to approve the Finance Committee Meeting minutes of September 12, 2023.

Action: Motion Carried. The minutes were approved.

Baker Tilly External Audit Report and Resolution

Chief Financial Officer (CFO) Heather Shawa introduced external auditor Aaron Worthman, Partner and CPA at Baker Tilly US, LLP. Mr. Worthman presented and highlighted the external audit report which included an audit overview, observations and recommendations, and required communications to governing body. Mr. Worthman reported that there were no deficiencies in internal controls and that the BWL and all three pension plans received unmodified audit opinions, which is the highest level of assurance.

Commissioner Bob Worthy asked how many utilities Baker Tilly audits and Mr. Worthman responded that he completes 20 audits a year and the group completes about 100.

Motion by Commissioner David Price, **Seconded** by Commissioner Beth Graham, to forward the Resolution for the FY2023 Audited Financial Statements to the full Board for consideration.

Action: Motion Carried.

September YTD Financial Summary

Chief Financial Officer (CFO) Heather Shawa gave a review of the September 2023 Year-To-Date Financial Summary. CFO Shawa reported the following: the Days Cash on Hand is low due to the storm restoration in August which was not budgeted and is expected to be low for the remainder of the fiscal year. CFO Shawa added the Days Cash on Hand was also affected by payouts for the Clean Energy Program which will be reimbursed in January with bond proceeds. BWL policy states that if Days Cash on Hand goes below the target value, a budget is prepared for recommendation that states the budget is back on target.

Commissioner Price asked if any recovery is available for the storm costs and CFO Shawa responded that a request for just under \$7 million has been submitted to FEMA and the recovery process time is usually two years.

Commissioner James asked if Representative Slotkin was looking into reimbursement for the storm. GM Peffley responded that the state has funding available and it is a work in progress.

CFO Shawa reported that retail income was above budget but wholesale income was under due to low market pricing. Operating expenses were over budget due to the storm. There is not a recommendation to adjust the fiscal year net income yet but a net income has not been missed yet. The Debt to Total Assets is low due to debt for Delta Energy Plant but BWL has a bond resolution for the clean energy program to be approved at the November Regular Board Meeting. Days Sales Outstanding is a comparison to sales at this time last year. Bad Debt is a reserve for uncollectable debt and is a comparison to this time last year.

Commissioner James asked where BWL is on the Return on Equity to the City. CFO Shawa responded that BWL is in the positive and has paid the city more than what was expected.

Capital Project Report

CFO Shawa reported on the Capital Projects which are factored into the Days Cash on Hand forecast. Variances are affected by material and labor cost increases.

Third Supplemental Utility System Revenue Bond Resolution Executive Summary

Scott Taylor, Accounting, Finance and Planning Director and Jeff Aronoff, Principal and Managing Director at Miller Canfield presented the third supplemental utility system revenue bond executive summary. Mr. Taylor requested approval of the bond resolution.

Commissioner Schrader asked if the value of a bond decreases as the interest rate increases. Mr. Aronoff replied that the tender is a mechanism that allows the purchaser to become a new buyer of the bonds.

Motion by Commissioner David Price, **Seconded** by Commissioner Beth Graham, to forward the Resolution for the Third Supplemental Utility System Revenue Bond to the full Board for consideration.

Action: Motion Carried.

Retirement Plan Committee (RPC) Update

CFO Shawa presented the RPC update. Investment activity included the DB and VEBA International Equity Fund Manager change, VEBA portfolio rebalancing, and a DB asset allocation change to reduce overall portfolio risk. Administrative activity included approval by the RPC to review DB and VEBA plan operational compliance, documentation and governance by March 2024; and transitioning custodial services to Northern Trust by February 1, 2024.

Other

Finance Committee Chairperson Sandra Zerkle reported that the Corporate Secretary and Board of Commissioners monthly and quarterly expense reports were reviewed and approved.

Adjourn

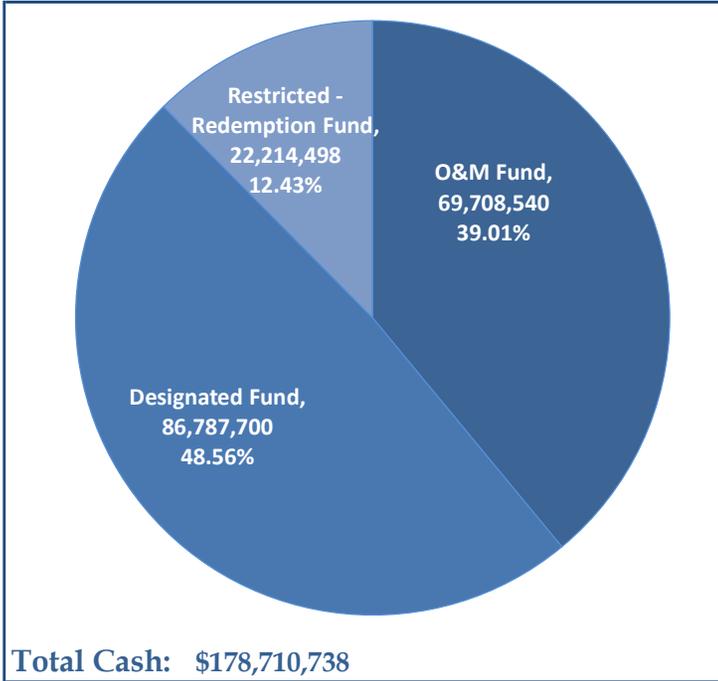
Chairperson Sandra Zerkle adjourned the meeting at 7:55 p.m.

Respectfully submitted
Sandra Zerkle, Chairperson
Finance Committee

Financial Summary - November 2023 - FY24



Cash



Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 157,656,181	\$ 155,379,427	\$ 2,276,754	1%
Wholesale	\$ 17,259,969	\$ 24,012,698	\$ (6,752,729)	-28%
Total Revenue	\$ 174,916,150	\$ 179,392,125	\$ (4,475,975)	-2%
Operating Expenses	\$ 153,346,308	\$ 148,011,717	\$ 5,334,591	4%
Non Operating Income/(Exp)	\$ (17,004,534)	\$ (17,907,165)	\$ 902,632	-5%
Net Income	\$ 4,565,308	\$ 13,473,243	\$ (8,907,934)	-66%
FY 2024 Budgeted Net Income		\$ 17,570,533		

Budget Status YTD

O&M Budget YTD (excluding fuel)					
	Actual YTD	Budget YTD	Difference	%	
FY 2024 Approved Budget	\$ 180,495,706	\$ 80,603,385	\$ 70,502,046	\$ 10,101,340	14%
% of Approved Budget	45%	39%			
Capital Budget YTD					
	Actual YTD	Budget YTD	Difference	%	
FY 2024 Approved Budget	\$ 84,070,285	\$ 21,425,724	\$ 29,610,926	\$ (8,185,203)	-28%
% of Approved Budget	25%	35%			

	Month End	Target
Days Cash on Hand	131	157
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	2.58	2.00

Days Cash on Hand:

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

Debt Service Coverage:

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

Return on Assets

Actual YTD	Budget YTD	Target
1.00%	1.73%	4.65%

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

Financial Summary - November 2023 - FY24



Ratios

Operating Ratio

<u>O&M Expense</u>	\$ 127,141,326	=	0.73	APPA Median 0.74
Revenue	\$ 174,916,150			

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

Current Ratio

<u>Current Assets</u>	\$ 213,931,584	=	2.47	APPA Median 1.80
Current Liabilities	\$ 86,607,920			

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

Debt to Total Assets

<u>LT Debt + Accrued Liabilities</u>	\$ 938,507,701	=	0.57	APPA Median 0.54
Total Assets	\$ 1,656,026,774			

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

Days Sales Outstanding

Average Accounts Receivable	x Days	\$ 33,046,431	x 30 =	32	Prior Year 34
Sales		\$ 32,498,495			

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

Bad Debt

<u>12 Month Rolling Bad Debt Exp</u>	\$ 1,909,490	=	0.45%	Prior Year 0.55%
12 Month Rolling Revenue	\$ 421,918,871			

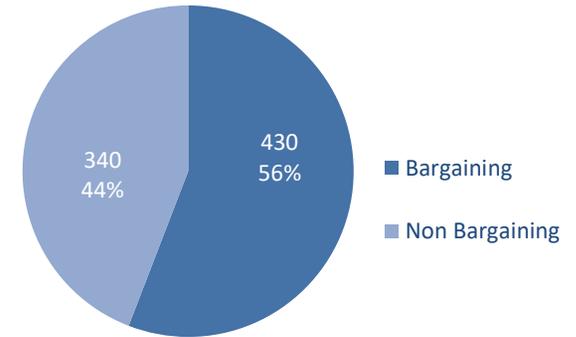
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	770
Budget YTD	813
Over/(Under) #	(43)

Full Time Equivalent	25
Temporary Employees	



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 32,378,557	\$ 33,432,597	\$ (1,054,040)	-3.2%	\$ 56.29
Overtime	\$ 4,302,163	\$ 3,232,840	\$ 1,069,324	33.1%	
Total	\$ 36,680,720	\$ 36,665,437	\$ 15,283	0.0%	
Total Hours Worked	623,350				
Labor \$/Hours Worked	\$ 58.84				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 7,578,818	\$ 7,305,645	\$ 273,173
Rx	\$ 1,974,036	\$ 1,960,854	\$ 13,181
Dental	\$ 560,797	\$ 555,290	\$ 5,507
Life	\$ 213,425	\$ 254,675	\$ (41,250)
FICA	\$ 2,662,366	\$ 2,509,325	\$ 153,042
Other	\$ 168,774	\$ 584,183	\$ (415,409)
Total	\$ 13,158,216	\$ 13,169,972	\$ (11,756)

RESOLUTION 2024-XX-XX
Capital Project Exceedance: PE-20230 Eckert 13 & 15 Cutover

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

WHEREAS, the previously approved budget for Capital Project PE-20230 Eckert 13 & 15 Cutover was \$1,882,818; and

WHEREAS, the projected final total cost for Capital Project PE-20230 Eckert 13 & 15 Cutover is \$2,180,905, should the project be completed; and

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

WHEREAS, BWL staff and management recommends that the Capital Project PE-20230 Eckert 13 & 15 Cutover projected spending be approved; and

RESOLVED, the BWL Board of Commissioners approve projected spending for Capital Project PE-20230 Eckert 13 & 15 Cutover with a projected final total cost of \$2,180,905.

Motion by Commissioner _____, **Seconded** by Commissioner _____, to approve the Resolution for the Capital Project Exceedance: PE-20230 Eckert 13 & 15 Cutover at a Board meeting held on _____.



RETIREMENT PLAN COMMITTEE (RPC)

Investment Activity Updates for Finance Committee: 1/16/2024

Investment Activity Update

- Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration Plan (VEBA)
 - DB & VEBA – International Equity Fund Manager Change
 - Lazard Int'l Equity Fund will be replaced with Marathon EAFE Equity Fund due to an extended period of underperformance. Transition is expected to occur this (3rd) quarter.
 - VEBA - Portfolio Rebalancing – Real Assets (ongoing)
 - Market value changes have brought the real assets back within the target range however due to the extended time requirements from liquidity constraints associated with rebalancing real assets, RPC will continue forward with the rebalancing until the target value of 15% has been reached.
 - DB – The RPC voted to recommend an asset allocation change to reduce overall portfolio risk. The recommendation to the Board is to increase the fixed income allocation from 40% to 50% and decrease the equity allocation from 55% to 45%. A proposed resolution to make this change in the Investment Policy Statement is included in this month's meeting packet.

Investment Activity Update

- Defined Contribution 401(a) & Deferred Compensation 457(b) Plans
 - The RPC held its quarterly review meeting with CapTrust and Nationwide in November.
 - Total assets declined for the quarter due to negative market performance in most asset classes.
 - Despite the negative performance for the quarter ended September 30th, investments have since seen a rebound and positive returns.



RETIREMENT PLAN COMMITTEE (RPC)

Administrative Activity Updates for Finance Committee: 1/16/2024

Administrative Activity Update

- Defined Benefit Plan (DB) & Voluntary Employee Benefit Administration Plan (VEBA)
 - DB & VEBA – The RPC approved an engagement for a compliance assessment.
 - The assessment includes a review of plan operational compliance, documentation, and governance.
 - The assessment is underway and expected to be complete by March 2024.
 - DB & VEBA – The process of transitioning custodial services to Northern Trust has begun with an expected effective transition date of March 1, 2024.
 - VEBA – The RPC voted to approve a change to the Medicare Part B substantiation requirements for CY 2024. This change allows reliance to be placed on a third-party enrollment report as substantiation rather than requiring supporting documentation to be submitted directly by each participant.

Administrative Activity Update

- Defined Contribution & Deferred Compensation Plans
 - The RPC voted to allow for an earlier effective date for participant changes to 457(b) plan deferrals. This allowance is now permitted under the Secure 2.0 Act and became effective for participants as of 1/1/2024. Under prior law, participant changes to deferrals were not allowed to become effective until the calendar month following submission.

Glossary

- **DB** Defined Benefit Plan - The plan is a noncontributory single-employer defined benefit pension plan for employees of the BWL. The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan that were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan.
- **VEBA** Voluntary Employee Benefit Administration - The Post-Retirement Benefit Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL.
- **DC 401(a)** Defined Contribution Plan - The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997. The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time. For employees hired before January 1, 1997, the BWL is required to contribute 15.0% of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 9.5% of the employees' compensation. In addition, the BWL is required to contribute 3.0% of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5% of the employees' compensation for all nonbargaining employees. No participant contributions are required.
- **DC 457(b)** Deferred Compensation Plan - The Deferred Compensation Plan covers substantially all full-time employees. The BWL contributes \$1,000 on behalf of each participant as of the first pay period of each year. Additionally, the BWL will provide a 100% match for each participant's contributions annually, up to \$1,500.
- **ASA** Administrative Services Agreement – The administrative services agreement is an agreement between the BWL and the VEBA trust regarding the payment of VEBA plan benefits. The agreement calls for the BWL to handle the processing of benefit payments and allows for the reimbursement for payment from the VEBA trust if certain conditions are satisfied. These conditions include both funding status and investment performance measures.

RESOLUTION 2024-XX-XX
Revised Defined Benefit Plan Statement of
Investment Policies, Procedures and Objectives

WHEREAS, the Lansing Board of Water & Light (the “Sponsor”) sponsors the Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions (the “Defined Benefit Plan”); and

WHEREAS, the Retirement Plan Committee, established by the Sponsor and delegated certain duties by the Trustees related to the investment of Defined Benefit Plan assets, periodically reviews the asset allocation of the plan and, as a result of its most recent review, recommends the total target allocation to equity investments be reduced to 45% of the plan from the current target allocation of 55% and the total target allocation to fixed income investments be increased to 50% of the plan from the current target of 40%; and

WHEREAS, the Retirement Plan Committee along with the General Manager recommends the Sponsor adopt the revisions which reflect these recommendations in the attached Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions Statement of Investment Policies, Procedures and Objectives; and

WHEREAS, the Sponsor wants to adopt the revisions reflected in the attached Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions Statement of Investment Policies, Procedures and Objectives;

THEREFORE, it is:

RESOLVED, that, after its review, and based on the recommendation from the Retirement Plan Committee along with the General Manager, the Sponsor adopts and approves the attached Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions Statement of Investment Policies, Procedures and Objectives.

Motion by Commissioner _____, Seconded by Commissioner _____ to approve the Resolution for Revised Defined Benefit Plan Investment Policy Statement.

Action: Motion Carried

Follow-up to Internal Audit Findings & Recommendations

Finance Committee 1/16/2024



Hometown People. Hometown Power.

Resolution #2018-07-05

Board Policy on Follow-up to Internal Audit Findings & Recommendations

Internal Audit

- Perform audits, report findings, provide recommendations, records management responses, verify completion of corrective actions

Management

- Responds to findings and recommendations, identify and execute appropriate and timely corrective actions

Follow-up of Open Management Responses to Audit Findings

- An open action item list is maintained for progress tracking by Internal Control.
- Management reports progress to the Finance Committee semi-annually (Jan. & July)

Audit Finding & Recommendation Update

- Retirement Plan Committee
 - Recommendation #2- Draft and adopt a formal Retirement Plan Committee Charter. (Status- Open)
 - Per Resolution #2023-05-08, the RPC will draft and adopt a formal charter to be approved by the Board. The charter is expected to be completed by June 2024.

Thank you!

Internal Audit FY24 Work Plan



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Internal Audit FY24 Work Plan & Timeline

Audits	Scope	Timeline
FY24 Rules & Regulations (Water & Electric)	Examination of the FY24 Rules & Regulations with the focus on fees and charges. Deposits, Disconnect and Reconnect Fees	January-April 2024
Follow-up PA 95	Follow-up audit to conclude if opting into PA-95 is a benefit to BWL customers	April-June 2024
Payroll Management (Tentative)	Examination of the payroll process and documentation with the focus on transactions during FY24 3 rd & 4 th quarters	Tentative June-July 2024



Thank You

- Contact Information:
elisha.franco@lbwl.com

RESOLUTION 2024-XX-XX
Internal Audit Plan for FY 2024

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Plan for FY 2024.

Motion by Commissioner _____, **Seconded** by Commissioner _____ to approve the Internal Audit Plan for FY 2024 at a Board meeting held on _____, 2024.

Action: