



## **FINANCE COMMITTEE MEETING**

### **AGENDA**

**January 9, 2018**

**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 November 7, 2017.....TAB 1
2. November YTD Financial Summary.....TAB 2
3. Internal Audit Open Management Response Quarterly Report.....UPDATE
4. Notice of Intent to Issue Revenue Bonds Resolution.....TAB 3

Other

Adjourn

# FINANCE COMMITTEE Meeting Minutes November 7, 2017

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 5:30 p.m. on Tuesday, November 7, 2017.

Finance Committee Chair Ken Ross called the meeting to order at 5:30 pm and asked that roll be taken.

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

The Corporate Secretary declared a quorum.

## Public Comments

None

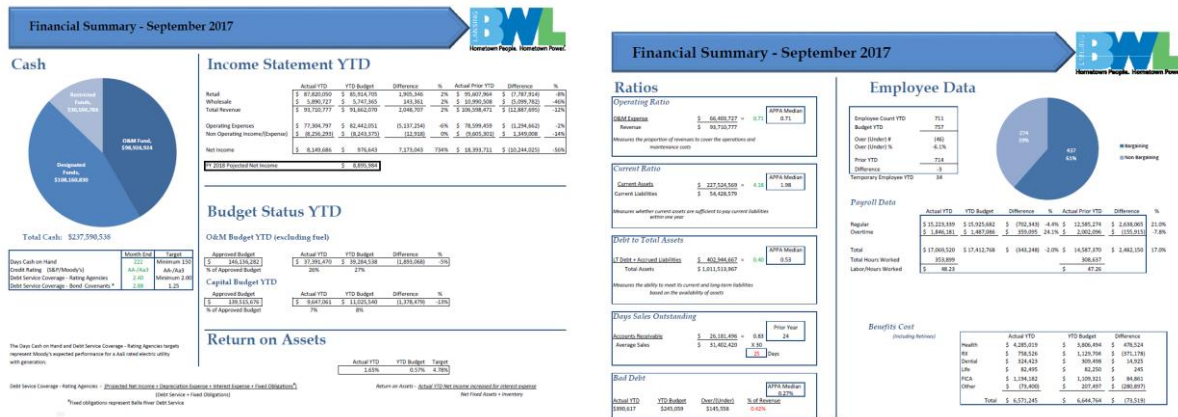
## Approval of Minutes

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to approve the Finance Committee meeting minutes of September 19, 2017.

**Action:** Motion Carried.

## September YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa presented the following:



Cash targets are green and continue to be on track. The Income Statement indicates that the quarter ended slightly beating the revenue budget and spending is down. The primary difference from actual YTD from this year compared to last year is due to the first quarter last year being hot and dry, along with additional units at Eckert. The projected fiscal-year-end net income has not been changed from the FY18 budget and based on the first quarter review expectations are to be at or slightly under budget. Ms. Shawa explained the differences between retail and wholesale in revenue. Retail includes residential, commercial, and industrial

customers; and wholesale includes excess that can be sold into the market. Residential customer quantity is about 80% of total quantity of customers and 20% of revenue. Ms. Shawa also mentioned that three out of the five ratios are above or at benchmark, Days Sales Outstanding is one day different, and Bad Debt is typical for first quarter review.

Commissioner Mullen inquired whether there was any significant difference between the Board's practices in writing off bad debt and the APPA. Ms. Shawa responded that there wasn't any difference in process and the APPA Median is the closest benchmark comparison available even though BWL is a large municipal utility and the comparison is with smaller municipal utilities.

Commissioner Ross asked whether the APPA Median is the actual median or average. Ms. Shawa stated that she will confirm and follow up that the number provided is intended to be the median rather than the average.

Commissioner Ross also inquired about the number of temporary employees and both Ms. Shawa and General Manager Dick Peffley responded that some temporary employees will roll into full time positions. Since meter readings will be discontinued with AMI, temporary employees were hired specifically for that length of time.

Commissioner Long inquired about wholesale being down this year and whether there was a surplus on the market. GM Peffley responded that only one of the three substations, the Eckert station, was run and staffed last year.

Commissioner Mullen asked whether the wholesale was reflected in the budget this year and GM Peffley responded that it was and is on target.

### **Capital Project Exceedance Approvals**

Finance Committee Chair Ross explained the Capital Project Exceedance Policy stating that a budget was set and approved and it was exceeded by 15% or \$200,000, therefore requiring management to come back to the Board of Commissioners and get approval for the excess amount.

CFO Heather Shawa introduced the Canal Substation Distribution Resolution, Project PE-20196, by briefly explaining that the project described in the resolution originally included two distribution feeders or circuits and also a direct tie-in service to a key customer. Part of the increase is to add a third feeder circuit which will accommodate expected growth and is required for the groSolar Project.

Commissioner Ross stated that an amendment to the proposed resolution for the Canal Substation Distribution was provided which corrected the budget amount of \$433,000 to \$443,000.

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to substitute the amended resolution for the Canal Substation Distribution and to accept the resolution as presented.

**Action:** Motion Carried

## Discussion

Commissioner Mullen asked what differences and changes were made in this project and Ms. Shawa responded that in addition to the increased load and the third circuit, there were a couple vendor issues involving design and testing, and to complete the project at the time stated costs were incurred.

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to approve the resolution for the Canal Substation Distribution and to forward to the full Board for approval.

**Action:** Motion Carried.

CFO Heather Shaw introduced the Capital Project Exceedance Enterprise Service Bus (ESB) Resolution, Project PG-40044, by briefly explaining that the project described in the resolution is part of the BSmart technology projects. ESB collects and communicates data to and from BWL's new technology projects in the BSmart portfolio and future technologies. Originally ESB had four testing, development, and live production environments and after review it was recommended and supported that there be ten environments. The cost increase is for the additional licenses and the additional environments to support an efficient and secure system, and also for labor.

Commissioner Long asked if there is an anticipated addition of more environments and Ms. Shawa stated that there is not at this time.

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to forward the Resolution for the Capital Exceedance Project Enterprise Service Bus to the full Board for consideration.

**Action:** Motion Carried.

## Internal Audit Open Management Response Quarterly Report

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

### STATUS OF MANAGEMENT RESPONSES TO AUDITS

OCTOBER 2017

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
45	Performance Evaluation & Compensation	Internal Audit recommended additional standardization of performance evaluation procedures.	Jan 2017	Human Resources	Further development of the BWL performance management process for non-union employees is underway, including additional participation throughout the year and goals and objectives in line with the new BSW Strategic Plan. The SMART concept already in use will be expanded upon (i.e., employee performance goals are SMART, which stands for Specific, Measurable, Action-oriented, Realistic and Time bound). Estimated completion date is 7/1/18.
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Human Resources will coordinate an update of job descriptions, in collaboration with each area throughout the organization. This project will incorporate multiple phases, beginning with planning and identifying needed resources. Estimated project completion is 9/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with remedial merit increases.	Jan 2017	Human Resources	Decoupling of base and merit increases is already underway, including budgeting of the two separate categories of increases for fiscal 2018 and development of corresponding instructional information. Project completion is expected by 7/1/18.
50	Follow-Up of Training & Development Audit	Internal Audit noted the need to reemphasize use of LMS and continue with refresher training.	May 2017	Training & Development	Refresher training in LMS will be provided by 3/31/18 and use of LMS will continue to be reemphasized. Five scenarios have been held to date, with the completion date being extended in order to provide more alternatives for required attendees with scheduling issues.
51	Follow-Up of Training & Development Audit	Internal Audit recommended Training & Development coordinate with department trainers to better ensure training completion are entered into LMS, along with considering the eventual use of LMS as the primary source for Balanced Scorecard Reporting of training time.	May 2017	Training & Development	Workshops for departmental trainers, including an online procedure for entering training completion to LMS, will be developed and delivered by 3/31/18. The date has been extended in order to provide more alternatives for required attendees with scheduling issues. The workshops will be followed by management's assessment of the accuracy and completeness of training documentation in LMS, concluding with a recommendation, by 3/31/18, regarding use of LMS data in Balanced Scorecard reporting.
52	COBIT Compliance	Internal Audit noted that actions should continue on as expeditious a schedule as possible to reach full compliance with the adopted IT governance framework.	June 2017	Information Technology	Multiple actions and completion dates are avoided, including higher-risk, in-part complete items #2 (Quality Management System) and #3 (Risk Management Plan) by 12/31/17, #2.4.5, #2, and #1 (all) to be provided via the new governance framework by 12/31/18, and #4 (replace City governance framework with COBIT), by 6/30/19. Progress to date on the higher risk items includes completion of a Three Year Technology Roadmap, which has been used to address items 1-6.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
54	Payroll Management	NEW The Internal Auditor would like the Internal Control section to coordinate an effort by the business areas to update the payroll internal control documentation used by Internal Audit for audit testing.	Oct 2017	General Accounting, Finance, & Human Resources	Documentation is in the process of being updated, with completion expected by 11/30/17.
E-6	IT Risk Assessment by External Auditor	NEW Enhance password requirements for systems that do not meet best practices (CS, Sage, and the network): password length at least 8-10 characters, expiration at least every 90 days, last 8-24 passwords disallowed, and account disabled and required to be relocked after 3-5 invalid login attempts.	July 2017	Information Technology	Out needed enhancement remains to be accomplished. CS password issue, with an expected completion date of 10/31/17. Password length and reuse for Sage have been set at the maximum amount possible, as the standards used by the external auditors are not achievable with the product.
<b>Closed Issues (since June 2017 report):</b>					
33	Outage Management System	The audit recommended more specific test criteria, being performed by the call processing vendor, development of test script, and a narrative of test results.	Oct 2015	Information Technology	Results provided as part of November 2016 stress test included development of specific test criteria, being performed by the call processing vendor, development of test script, and a narrative of test results. Based on cost-benefit analysis, the remaining recommendations from the stress test will be incorporated into the new OMS solution, scheduled for implementation in 2018.
44	Billing	To address safety concerns associated with high consumption residential customers, management is discussing possible revisions to existing Rules and Regulations and coordination of public safety initiatives with other public agencies.	Nov 2016	Planning & Development	Applicable language has been incorporated into BVI, Rules and Regulations. In addition, BVI, a complying with the City of Lansing's Home Occupancy Ordinance.
48	Collectors	Internal Audit supports adding a requirement to check customer credit prior to opening a new account.	March 2017	Customer Service	A new tool has been implemented, to help ensure deposits are consistently and appropriately applied to new customers.
53	New Water Service Order Management	NEW The Internal Auditor asks that the process for entering meter set-on dates in CS be standardized and the practice of auto-closing outstanding fee service installations be formalized.	July 2017	Water Distribution	Standardization and formalization of procedures have been achieved. In addition, a new locking device has been implemented on valves which supply water to fire service installations.

## Internal Audit Status Report

Internal Auditor Phil Perkins presented the following status report:



# Internal Audit Status Report

Presented by:  
Phil Perkins, Director of Internal Audit  
Finance Committee Meeting  
November 2017

- FY 2018 Audit Plan Progress Report
- Status of External Peer Review Open Recommendations
- Other Items



## FY 2018 Audit Plan Progress Report

### Engagements Completed:

1. Water Production Data Reporting Audit (FY 18)
2. Time Reporting Review #1
3. Surprise Cash Count #1
4. Payroll Management Audit (FY 17 carryover)

### Engagements in Progress:

1. Identity and Access Management Audit (FY 17 - estimated 90% complete)
2. Follow-up Hiring Process Audit (FY 17 – estimated 90% complete)
3. Succession Planning Audit (FY 18 – 25% complete)



## FY 2018 Audit Plan Progress Report (2)

### Remaining Engagements:

1. Cash Receipts Audit
2. Customer Payment Arrangements/Third Party Payments Audit
3. Contract Authorization & Approval Process Audit
4. Physical Access Management Audit
5. Time Reporting Review #2
6. Surprise Cash Count #2
7. Consulting - Various



## FY 2018 Audit Plan

Planned Audits:	Estimated Hours	Progress to Date
Cash Receipts	400	Start Jan 2018
IT Help/Service Desk Management	300	Probable deferral to FY19
Succession Planning	300	In progress
Customer Payment Arrangements	300	Start Feb 2018
Contract Authorization/Approval Process	300	Start Mar 2018
Physical Access Security Management	300	Start May 2018
Water Production Data Reporting	300	Completed
<b>Other Engagements:</b>		
Surprise Cash Counts (2)	50	1 count completed
Time Reporting Reviews (2)	150	1 review completed
Consulting – Various	350	One or more engagements in Winter-Spring 2018
<b>Total Estimated Hours</b>	<b>2,450</b>	



## External 5-Year Independent Review

- Status of Open Recommendations:
- The CEO Hotline should be an auditable area. Internal Audit response: Concur. Internal Audit will work with management to gain access to hotline complaints that involve potentially fraudulent or otherwise illegal or unethical behavior, with the objective being to address control or procedural improvements to prevent similar incidents in the future. Estimate completion of a working approach by July 31, 2017.
- Action: A working approach was agreed upon prior to July 31, 2017. It was agreed that when IA performs the annual risk assessment and audit planning, general information about the hotline activity over the past year should be provided, including any potential fraud cases and resolution. Internal Audit may request general or detailed hotline information at any time.



## External 5-Year Independent Review

- Status of Open Recommendations (cont'd):
- Audit planning should include consulting during System Development Life Cycle for major system development and acquisition. Internal Audit Response: Concur. Internal Audit is working with management to provide both informal and formal advice and consulting on current BWL major projects such as the ADMS, AMI, new plant construction, and replacement CI system, as well as any future such projects.
- Action: The Internal Auditor is now invited to monthly project status meetings on major system developments and the CFO is requesting Internal Audit consulting support as-needed for the major and other system development projects.



## External 5-Year Independent Review

- Status of Open Recommendations (cont'd):
- Risk assessment discussions between the Internal Auditor and the Finance Committee should be documented so that the approval of the annual audit plan and accompanying resources reflect the results of such discussions. Internal Audit Response: Concur. The Internal Auditor will include in his recommended audit plan why the number and type of audits and resources needed are optimal based on assessed risks, and this will be documented in Finance Committee meeting minutes accordingly.
- Action: In the July 2017 Finance Committee meeting, the Internal Auditor provided explanations based on risk assessment for the number and types of audits recommended in the proposed FY 2018 audit plan, along with presentation of estimated resources needed to perform the plan. This approach will continue going forward.



## Other Items

### Internal Auditor Continuing Professional Education/ Certification Status:

- Completed all CPE requirements for CPA, CIA and CISA designations this year to maintain current certification/licensing status.
- CPE includes a 24-hour course on SAP Security and Audit which will be valuable in future audit planning and performance.



### **Other**

None

### **Adjourn**

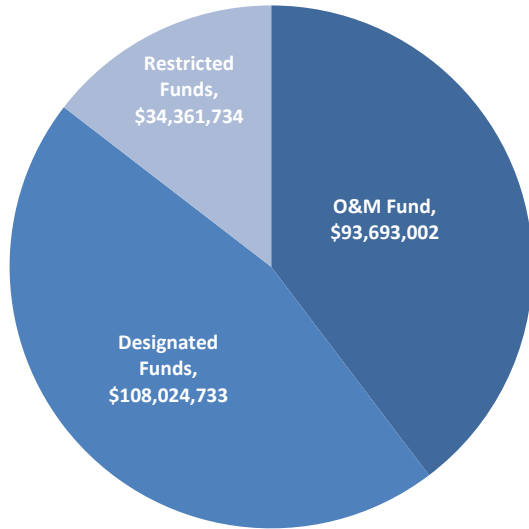
Commissioner Ross adjourned the meeting at 6:16 p.m.

Respectfully submitted  
Ken Ross, Chair  
Finance Committee

# Financial Summary - November 2017



## Cash



**Total Cash: \$236,079,470**

	Month End	Target
Days Cash on Hand	216	Minimum 150
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage - Rating Agencies	2.40	Minimum 2.00
Debt Service Coverage - Bond Covenants *	2.88	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies targets represent Moody's expected performance for a Aa3 rated electric utility with generation.

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

<sup>#</sup>Fixed obligations represent Belle River Debt Service

## Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	\$ 141,705,367	\$ 136,057,539	5,647,828	4%	\$ 149,370,514	\$ (7,665,147)	-5%
Wholesale	\$ 8,923,547	\$ 9,398,223	(474,676)	-5%	\$ 15,228,306	\$ (6,304,759)	-41%
<b>Total Revenue</b>	<b>\$ 150,628,914</b>	<b>\$ 145,455,762</b>	<b>5,173,152</b>	<b>4%</b>	<b>\$ 164,598,820</b>	<b>\$ (13,969,906)</b>	<b>-8%</b>
Operating Expenses	\$ 128,536,017	\$ 133,806,610	(5,270,593)	-4%	\$ 132,404,230	\$ (3,868,213)	-3%
Non Operating Income/(Expense)	\$ (14,023,019)	\$ (13,258,465)	(764,554)	6%	\$ (15,810,592)	\$ 1,787,573	-11%
<b>Net Income</b>	<b>\$ 8,069,878</b>	<b>\$ (1,609,313)</b>	<b>9,679,191</b>	<b>601%</b>	<b>\$ 16,383,998</b>	<b>\$ (8,314,120)</b>	<b>-51%</b>
<b>FY 2018 Projected Net Income</b>	<b>\$ 8,895,984</b>						

## Budget Status YTD

### O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 146,136,282	\$ 61,345,532	\$ 64,641,046	(3,295,514)	-5%
% of Approved Budget	42%	44%		

### Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
\$ 139,515,676	\$ 18,565,799	\$ 24,282,786	(5,716,986)	-24%
% of Approved Budget	13%	17%		

## Return on Assets

Actual YTD	YTD Budget	Target
2.01%	0.48%	4.78%

Return on Assets -  $\frac{\text{Actual YTD Net Income increased for interest expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

# Financial Summary - November 2017



## Ratios

### Operating Ratio

<u>O&amp;M Expense</u>	\$ 110,385,673	=	0.73	APPA Median
Revenue	\$ 150,628,914			0.71

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

### Current Ratio

<u>Current Assets</u>	\$ 225,853,033	=	4.01	APPA Median
Current Liabilities	\$ 56,262,630			1.98

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

### Debt to Total Assets

<u>LT Debt + Accrued Liabilities</u>	\$ 404,323,429	=	0.40	APPA Median
Total Assets	\$ 1,012,812,920			0.53

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

### Days Sales Outstanding

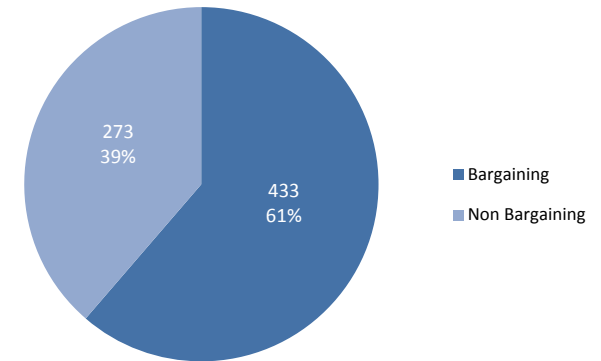
<u>Accounts Receivable</u>	\$ 24,994,780	=	0.88	Prior Year
Average Sales	\$ 28,459,069	X 30		23
			26	Days

### Bad Debt

<u>Actual YTD</u>	<u>YTD Budget</u>	<u>Over/(Under)</u>	<u>% of Revenue</u>	APPA Median
\$675,413	\$408,431	\$266,982	0.45%	0.27%

## Employee Data

Employee Count YTD	706
Budget YTD	756
Over (Under) #	(50)
Over (Under) %	-6.6%
Prior YTD	718
Difference	-12
Temporary Employee YTD	37



### Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	\$ 23,989,837	\$ 25,097,616	\$ (1,107,779)	-4.4%	\$ 23,009,310	\$ 980,527	4.3%
Overtime	\$ 3,012,518	\$ 2,455,819	\$ 556,699	22.7%	\$ 3,572,515	\$ (559,997)	-15.7%
<b>Total</b>	<b>\$ 27,002,355</b>	<b>\$ 27,553,435</b>	<b>\$ (551,080)</b>	<b>-2.0%</b>	<b>\$ 26,581,825</b>	<b>\$ 420,530</b>	<b>1.6%</b>
Total Hours Worked	554,545				574,733		
Labor/Hours Worked	\$ 48.69				\$ 46.25		

### Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	\$ 6,385,511	\$ 6,276,406	\$ 109,105
RX	\$ 1,329,473	\$ 1,872,340	\$ (542,867)
Dental	\$ 532,864	\$ 515,830	\$ 17,034
Life	\$ 141,488	\$ 138,750	\$ 2,738
FICA	\$ 1,886,488	\$ 1,996,556	\$ (110,067)
Other	\$ (140,555)	\$ 357,162	\$ (497,717)
<b>Total</b>	<b>\$ 10,135,270</b>	<b>\$ 11,157,044</b>	<b>\$ (1,021,774)</b>



**Lansing Board of Water and Light**  
RESOLUTION AUTHORIZING NOTICE OF INTENT  
TO ISSUE REVENUE BONDS FOR A  
NATURAL GAS COMBINED CYCLE FACILITY  
AND SYSTEM IMPROVEMENTS

- Notice of Intent to Issue Revenue Bonds in an amount not-to-exceed \$500,000,000 to finance a natural gas combined cycle facility and system improvements

WHEREAS, the City of Lansing (the “City”) provides in its City Charter that the Lansing Board of Water and Light (the “Board”) has general management over water, heat, steam and electric services and certain additional utility services of the City, and the Board operates facilities 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 (the “System”); and

WHEREAS, the Revenue Bond Act, Act 94, Public Acts of Michigan, 1933, as amended (“Act 94”) permits the Board to issue revenue bonds payable solely from the net revenues derived from the operation of the System (the “Revenue Bonds”) in order to finance plants, works, instrumentalities, and properties used or useful in connection with utility systems such as the System; and

WHEREAS, the Board has determined that it is necessary for the public health, safety and welfare of the City and the users of the System to acquire and construct a natural gas combined cycle facility to produce electricity, including all equipment and any appurtenances and attachments thereto and any related site acquisition or improvements, and the construction, improvement, and renovation of transmission and distribution infrastructure (collectively, the “Project”) at a total estimated cost of Four Hundred Thirty-Five Million Dollars (\$435,000,000); and

WHEREAS, the Board has determined that it is necessary for the public health, safety and welfare of the City to acquire and construct System Improvements including, but not limited to, construction, improvement, and renovation of transmission and distribution lines and related utility system facilities for the water supply, steam, and chilled water systems and electric transmission and distribution lines and related electric utility system facilities, together with any appurtenances and attachments thereto and any related site acquisition or improvements (collectively, the “System Improvements”) at a total estimated cost of Sixty-Five Million Dollars (\$65,000,000); and

WHEREAS, issuance of revenue bonds as permitted by Act 94 in an amount not-to-exceed Five Hundred Million Dollars (\$500,000,000) (the “Revenue Bonds”) appears to be the most practical means to finance the Project and the System Improvements; and

WHEREAS, a notice of intent to issue revenue bonds must be published before the issuance of the Revenue Bonds in order to comply with the requirements of Section 33 of Act 94; and

WHEREAS, the Internal Revenue Service has issued Treasury Regulation § 1.150-2 pursuant to the Internal Revenue Code of 1986, as amended, governing proceeds of debt used for reimbursement, pursuant to which the Board must declare official intent to reimburse expenditures with proceeds of such debt before making the expenditures.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. Publication of Notice of Intent. The Board shall publish a notice of intent to issue the Revenue Bonds once as a display advertisement at least one-quarter (1/4) page in size in substantially the following form:

NOTICE TO ELECTORS OF THE CITY OF LANSING  
OF INTENT TO ISSUE REVENUE BONDS FOR A  
NATURAL GAS COMBINED CYCLE FACILITY  
AND SYSTEM IMPROVEMENTS  
AND RIGHT TO PETITION FOR REFERENDUM

PLEASE TAKE NOTICE that the Lansing Board of Water and Light intends to authorize the issuance and sale of Revenue Bonds pursuant to Act 94, Public Acts of Michigan, 1933, as amended, payable solely from revenues received by the Board from the operations of the Water Supply, Steam, Chilled Water and Electric Utility System (the "System"). The Revenue Bonds would be authorized in the maximum aggregate principal amount of not-to-exceed Five Hundred Million Dollars (\$500,000,000). A portion of the proceeds in an amount currently estimated to be \$435,000,000 would be issued for the purpose of paying costs to acquire and construct a natural gas combined cycle facility to produce electricity, including all equipment and any appurtenances and attachments thereto and any related site acquisition or improvements, and the construction, improvement, and renovation of transmission and distribution infrastructure. A portion of the proceeds in an amount currently estimated to be \$65,000,000 would be issued for the purpose of paying costs of System improvements including, but not limited to, construction, improvement, and renovation of transmission and distribution lines and related utility system facilities for the water supply, steam, and chilled water systems and electric transmission and distribution lines and related electric utility system facilities, together with any appurtenances and attachments thereto and any related site acquisition or improvements. Costs financed with proceeds of the Revenue Bonds shall include funding of required bond reserve funds, capitalized interest and costs of issuance.

SOURCE OF PAYMENT OF REVENUE BONDS

THE PRINCIPAL OF AND INTEREST ON THE REVENUE BONDS SHALL BE PAYABLE solely from the net revenues received by the Board from the operations of the System. The revenues will consist of rates, fees and charges billed to the users of the System, a schedule of which is presently on file at [www.lbwl.com](http://www.lbwl.com). The rates, fees, and charges may from time to time be revised to provide sufficient net revenues to provide for the expenses of operating and maintaining the System, to pay the principal of and interest on the Revenue Bonds and any other bonds of the System, and to pay other obligations of the System. **The Revenue Bonds will not pledge the full faith and credit of the City. The Revenue Bonds will not be a general obligation of the City.**

The Revenue Bonds may be issued in one or more series and may be combined with bonds issued for other purposes, and each series will mature in not to exceed thirty (30) annual installments with interest at such interest rate or rates to be determined at public or negotiated sale but in no event to exceed such rates as may be permitted by law.

RIGHT OF REFERENDUM

THE REVENUE BONDS WILL BE ISSUED WITHOUT VOTE OF THE ELECTORS UNLESS A VALID PETITION REQUESTING AN ELECTION ON THE QUESTION OF ISSUING THE REVENUE BONDS, SIGNED BY NOT LESS THAN 10% OF THE REGISTERED ELECTORS OF THE CITY, IS FILED WITH THE CITY CLERK OF THE CITY OF LANSING WITHIN FORTY-FIVE (45) DAYS AFTER THE DATE OF PUBLICATION OF THIS NOTICE. If a valid petition is filed, the Revenue Bonds cannot be

issued unless approved by a majority vote of the electors of the City voting on the question of their issuance. This notice is given pursuant to the requirements of Section 33 of Act 94, Public Acts of Michigan, 1933, as amended.

ADDITIONAL INFORMATION may be obtained at the administrative offices of the Lansing Board of Water and Light, 1201 S. Washington Ave., Lansing, Michigan 48910.

M. Denise Griffin, Corporate Secretary  
Lansing Board of Water and Light

2. Sufficiency of Notice. The Corporate Secretary is hereby directed to publish the notice of intent in *The Lansing State Journal*, a newspaper of general circulation in the City qualified under State law to publish legal notices, which is hereby determined to be the newspaper that will reach the largest number of persons to whom the notice is directed. The Board hereby determines that the notice of intent and the manner of publication directed is the method best calculated to give notice to the electors of the City and the users of the System of the Board's intent to issue the Revenue Bonds, the purposes of the Revenue Bonds, the source of payment of the Revenue Bonds, and the right of referendum relating thereto.

3. Statement of Intent under Treas. Reg. § 1.150-2. The Board hereby makes the following declaration of intent for the purpose of complying with the reimbursement rules of Treas. Reg. § 1.150-2 pursuant to the Internal Revenue Code of 1986, as amended:

(1) The Board reasonably expects to reimburse itself for the expenditures described in (2) below with proceeds of debt to be incurred by the Board.

(2) The expenditures described in this paragraph (2) are to pay certain costs associated with the Project and the System Improvements which were or will be paid subsequent to sixty (60) days prior to the date hereof or which will be paid prior to the issuance of the debt from the funds of the System.

(3) As of the date hereof, the maximum principal amount of debt expected to be issued for reimbursement purposes, including reimbursement of debt issuance costs, is \$500,000,000, which debt may be issued in one or more series and/or together with debt for other purposes.

(4) A reimbursement allocation of the expenditures described in paragraph (2) above with the proceeds of the borrowing described herein will occur not later than 18 months after the later of (i) the date on which the expenditure is paid, or (ii) the date the Project and the System Improvements are placed in service or abandoned, but in no event more than three (3) years after the original expenditure is paid. A reimbursement allocation is an allocation in writing that evidences the Board's use of the proceeds of the debt to be issued for the Project and the System Improvements to reimburse the Board for a capital expenditure made pursuant to this Resolution.

(5) The expenditures for the Project and the System Improvements are "capital expenditures" as defined in Treas. Reg. § 1.150-1(b), which are any costs of a type which are properly chargeable to a capital account (or would be so chargeable with a proper election or with the application of the definition of "placed in service" under Treas. Reg. § 1.150-2(c)) under general Federal income tax principles (as determined at the time the expenditure is paid).

(6) No proceeds of the borrowing paid to the Board in reimbursement pursuant to this Resolution will be used in a manner described in Treas. Reg. § 1.150-2(h) with respect to abusive uses of such proceeds, including, but not limited to, using funds corresponding to the proceeds of the borrowing in a manner that results in the creation of replacement proceeds (within

Treas. Reg. § 1.148-1) within one year of the reimbursement allocation described in paragraph (4) above.

4. Financial Advisor. The Board hereby requests that Public Financial Management, LLC continue to serve the Board as Financial Advisor for the Revenue Bonds, including any bond anticipation notes which the Board might authorize in a future resolution.

5. 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 Revenue Bonds, including any bond anticipation notes which the Board might authorize in a future resolution. The Board acknowledges that Miller, Canfield, Paddock and Stone, P.L.C. has represented from time to time, and currently represents various underwriters, financial institutions, and other potential participants in the bond financing process, in matters not related to the issuance and sale of the Revenue Bonds.

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

I 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, January 23, 2018, 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.

I further certify that the following Members were present at said meeting: \_\_\_\_\_  
\_\_\_\_\_ and that the following Members were absent:  
\_\_\_\_\_.

I further certify that Member \_\_\_\_\_ moved for adoption of said resolution and that Member \_\_\_\_\_ supported said motion.

I further certify that the following Members voted for adoption of said resolution: \_\_\_\_\_  
\_\_\_\_\_ and that the following Members voted against adoption of said resolution: \_\_\_\_\_.

\_\_\_\_\_  
Corporate Secretary