



FINANCE COMMITTEE MEETING

AGENDA

July 16, 2019

5:00 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 May 14, 2019.....**TAB 1**
2. May YTD Financial Summary & Overview of Committee Reporting Framework.....**TAB 2**
3. Internal Audit Management Response Report.....**TAB 3**

Other

Adjourn

FINANCE COMMITTEE Meeting Minutes May 14, 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, May 14, 2019.

Finance Committee Acting Chair David Price called the meeting to order at 7:59 pm and asked that roll be taken.

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

Absent: Commissioner Ken Ross

The Corporate Secretary declared there was a quorum.

Public Comments

None.

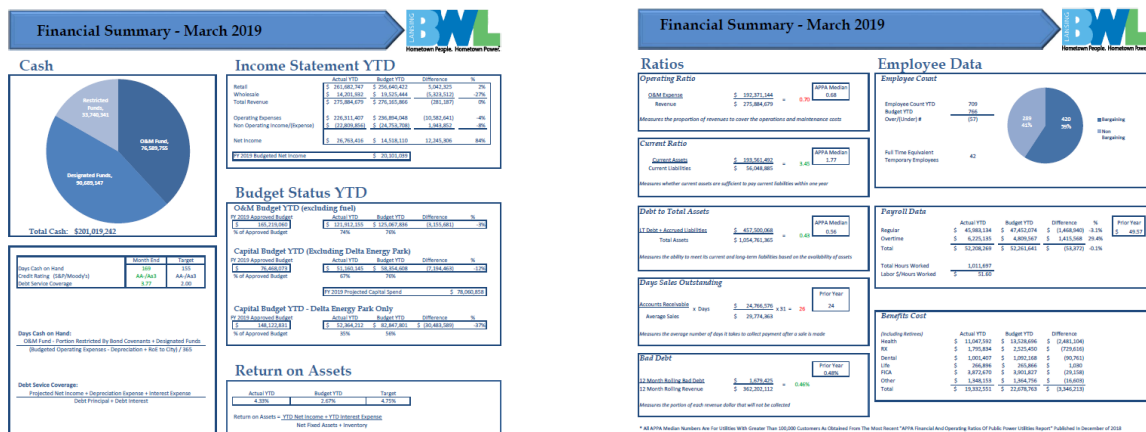
Approval of Minutes

Motion by Commissioner Graham, Seconded by Commissioner Mullen, to approve the Finance Committee meeting minutes of March 12, 2019.

Action: Motion Carried.

March YTD Financial Summary

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



Cash on hand is above target and is expected to remain above target the rest of the year. The Income Statement indicates that the total revenue is above budget and operating expenses are

4% under budget with YTD projections expected to end up at budget. Net Income is exceeding the initial budget with just over \$20 million being projected at the fiscal year end. Capital Budget is slightly under spend however with construction season arriving it is expected that the approved budget will be spent, along with an extra \$3 million for the Central Sub Exceedance. Ms. Shawa stated that the three of the five ratios are being met. Payroll regular labor data is under budget due to vacancies, however, overtime is up, in part due to the vacancies and capital project work, which were the central substation, the Erickson outage, and electric T&D annuals.

FY20 Operating Budget and Forecast Presentation – Resolution

CFO Heather Shawa presented the FY20 Operating Budget and Finance Manager, Scott Taylor presented the FY 20 Forecast. Ms. Shawa noted the forecasted increase in electric-consumption volume after the new plant is placed online. Ms. Shawa pointed out that additional security will be added to Eckert as it is being decommissioned. Mr. Taylor noted the increasing revenues in FY20-22 due to the new plant being online and the ROA key target which will be attained in 2024. Mr. Taylor also noted that one of the key factors of the ROA is the rate increases through 2024 that have been approved.

Operating Budget and Forecast

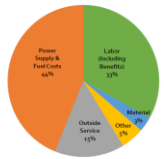
- FY 2020 Income Statement
- FY 2020 Operating Expenses by Category
- 6-Year Income Statement
- 6-Year Return on Assets
- 6-Year Cash Flow

Category	2019	2020	2021	2022	2023	2024	2025	2026
Operating Expenses	1,234,567	1,345,678	1,456,789	1,567,890	1,678,901	1,789,012	1,890,123	1,901,234
Operating Income	987,654	876,543	765,432	654,321	543,210	432,109	321,098	210,987

Operating Budget and Forecast

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FY 2020 Operating Expense by Category



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Operating Budget and Forecast

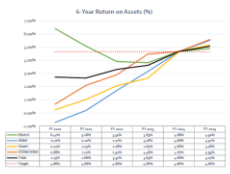
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6-Year Return on Assets (%)

Year	Category 1	Category 2	Category 3	Category 4
2019	12%	15%	18%	20%
2020	10%	13%	16%	18%
2021	8%	11%	14%	16%
2022	6%	9%	12%	14%
2023	4%	7%	10%	12%
2024	2%	5%	8%	10%
2025	1%	4%	7%	9%
2026	0%	3%	6%	8%

Operating Budget and Forecast

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Capital Budget and Forecast

- 6-Year by Utility and Location
- 6-Year Major Projects
- 6-Year Minor Projects
- Budget Adjustments

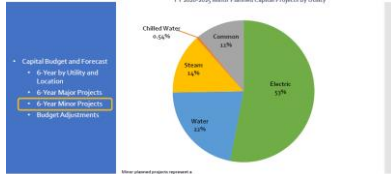
Project Name	2020	2021	2022	2023	2024	2025	2026
Water Treatment Plant	100	150	200	250	300	350	400
Power Plant Upgrade	200	250	300	350	400	450	500
Transmission Line	50	75	100	125	150	175	200

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Water Treatment Plant	100	150	200	250	300	350	400
Power Plant Upgrade	200	250	300	350	400	450	500
Transmission Line	50	75	100	125	150	175	200

Capital Budget and Forecast

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Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2020-2026 and recommend for Board of Commissioners' approval on May 28, 2019.
- Board of Commissioners to approve, as presented, the FY 2020 annual budget and file with the City Clerk within 30 days of approval.
- City Charter calls for budget adoption by June 1 and filing with the City Clerk within 30 days of adoption.
- Board of Commissioners to accept, as presented, the Operating and Capital Forecast for FY 2020-2026 and submit the Capital Forecast to the Mayor prior to October 1, 2019.
- City Charter calls for submission of the six-year capital improvements plan to the Mayor prior to October 1.

Commissioner Long inquired about the projected increase in wholesale. In response Ms. Shawa stated that this year the unplanned outage at Belle River and the outage at Erickson power was unable to be supplied. Delta Energy Park and Erickson will also be online at the same time in the future.

Commissioner Long requested a comparison of depreciation on existing assets and capital expenditures. Mr. Taylor referred to the 6-Year Income statement and the 6-Year Cash Flow and responded that depreciation is broken down by year and capital expenditures exclude Delta Energy Park.

Motion by Commissioner Thomas, Seconded by Commissioner Mullen, to forward for consideration the FY20 Operating Budget and Forecast Resolution as presented to the full Board.

Action: Motion Carried

Status of Managements' Response to Recommendations of Audit Report 2018-04-Customer Arrangements & Third-Party Payments

GM Peffley introduced Steve Serkaian, Executive Director of Customer Operations and Communication, who reviewed a response to a payment arrangement audit that was submitted on July 31, 2018. Recommendations and updates were provided.

Commissioner Long asked what percentage of customers that have arrangements are commercial and residential. Mr. Serkaian responded that 88% are residential. Commissioner Long also asked if there is an average amount of what is owed or if there are instances where the amount owed is so high that it will never be paid. Mr. Serkaian responded that extraordinary instances involve only a few customers and longer-term arrangements are made in those circumstances.

Other

Motion by Commissioner Mullen, Second by Commissioner Thomas to excuse Commissioners Ken Ross and Anthony McCloud from tonight's Meeting.

Action: Motion Carried

Adjourn

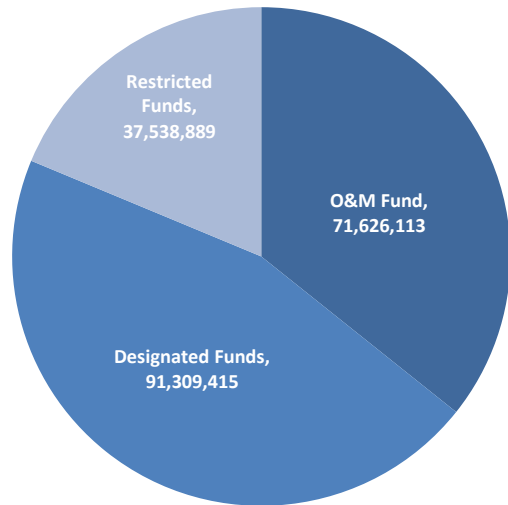
Commissioner Price adjourned the meeting at 8:39 p.m.

Respectfully submitted,
David Price, Acting Chair
Finance Committee

Financial Summary - May 2019



Cash



Total Cash: \$200,474,417

	Month End	Target
Days Cash on Hand	163	155
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.77	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

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 313,711,518	\$ 309,931,287	3,780,231	1%
Wholesale	\$ 16,038,940	\$ 24,967,086	(8,928,146)	-36%
Total Revenue	\$ 329,750,457	\$ 334,898,372	(5,147,915)	-2%
Operating Expenses	\$ 273,192,662	\$ 287,107,781	(13,915,119)	-5%
Non Operating Income/(Expense)	\$ (27,240,996)	\$ (29,524,066)	2,283,070	-8%
Net Income	\$ 29,316,799	\$ 18,266,526	11,050,274	60%

FY 2019 Budgeted Net Income \$ 20,101,039

Budget Status YTD

O&M Budget YTD (excluding fuel)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,219,060	\$ 149,354,116	\$ 151,788,700	(2,434,584)	-2%
% of Approved Budget	90%	92%		

Capital Budget YTD (Excluding Delta Energy Park)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 76,468,073	\$ 59,760,669	\$ 76,468,073	(16,707,404)	-22%
% of Approved Budget	78%	100%		

FY 2019 Projected Capital Spend \$ 73,290,839

Capital Budget YTD - Delta Energy Park Only

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 148,122,831	\$ 67,540,808	\$ 134,562,354	\$ (67,021,546)	-50%
% of Approved Budget	46%	91%		

Return on Assets

Actual YTD	Budget YTD	Target
4.73%	3.26%	4.75%

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

Financial Summary - May 2019



Ratios

Operating Ratio

<u>O&M Expense</u>	\$ 231,708,992	=	0.70	APPA Median 0.68
Revenue	\$ 329,750,457			

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

Current Ratio

<u>Current Assets</u>	\$ 189,701,390	=	3.57	APPA Median 1.77
Current Liabilities	\$ 53,155,435			

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

Debt to Total Assets

<u>LT Debt + Accrued Liabilities</u>	\$ 466,470,547	=	0.44	APPA Median 0.56
Total Assets	\$ 1,066,285,227			

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

Days Sales Outstanding

<u>Accounts Receivable</u>	\$ 21,628,668	x 31 =	25	Prior Year 24
Average Sales	\$ 26,932,889			

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

Bad Debt

<u>12 Month Rolling Bad Debt</u>	\$ 1,484,553	=	0.41%	Prior Year 0.51%
12 Month Rolling Revenue	\$ 360,879,155			

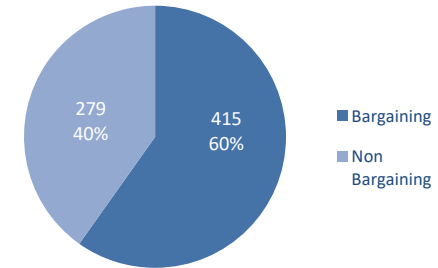
Measures the portion of each revenue dollar that will not be collected

Employee Data

Employee Count

Employee Count YTD	694
Budget YTD	766
Over/(Under) #	(72)

Full Time Equivalent	57
Temporary Employees	



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 55,103,741	\$ 57,005,094	\$ (1,901,353)	-3.3%	\$ 49.17
Overtime	\$ 7,131,366	\$ 5,809,801	\$ 1,321,566	22.7%	
Total	\$ 62,235,107	\$ 62,814,895	\$ (579,788)	-0.9%	
Total Hours Worked	1,219,196				
Labor \$/Hours Worked	\$ 51.05				

Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 13,725,435	\$ 16,587,510	\$ (2,862,075)
RX	\$ 2,327,996	\$ 3,073,122	\$ (745,126)
Dental	\$ 1,235,962	\$ 1,336,076	\$ (100,114)
Life	\$ 327,342	\$ 326,106	\$ 1,236
FICA	\$ 4,618,575	\$ 4,680,132	\$ (61,557)
Other	\$ 1,604,046	\$ 1,660,674	\$ (56,628)
Total	\$ 23,839,357	\$ 27,663,620	\$ (3,824,263)

* 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 2018

**STATUS OF MANAGEMENT RESPONSES TO AUDITS
JULY 2019**



In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Audit Issue Description	Response Date	Responsible Area	Status of Management Response
59	Succession Planning	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A tool for identifying critical positions has been developed and tested. Management will be trained on the use of the tool and all critical positions will be identified by 4/30/20.
67	Contract Signature Authority Compliance	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 has drafted the necessary revisions needed to create alignment with the new organizational structure, procurement procedures, and MOU's, and also includes requirements for the Corporate Secretary's signature. The revisions will be reviewed, approved, and delivered to the full management team by 8/31/19.
68	Contract Signature Authority Compliance	Internal Audit noted that proper approval and supporting documentation need to be on file.	October 2018	Legal Services	Policy development to address approval and documentation requirements is underway. Management will complete development, finalize the policy, and deliver to the full management team by 8/31/19.
69	COBIT Compliance Follow-Up <i>NEW</i>	Internal Audit noted that actions should continue on as expedited a schedule as possible to reach full compliance with the adopted IT governance framework.	February 2019	Information Technology	Of 55 items, 36 are complete and 19 are in process, with remaining completion dates ranging from 6/30/19 to 12/16/19.
72	Vegetation Management <i>NEW</i>	Internal Audit recommends that Electric System Operations and Forestry meet with project management experts in the organization to assist in enhancing the process.	May 2019	Electric System Operations - Forestry	Management will meet with project management experts within the BWL to identify opportunities to enhance the current process. The review will begin in July 2019 as the new cycle begins and will be completed by July 31, 2020 after the first year of the new cycle concludes.
73	Metering Services <i>NEW</i>	Internal Audit recommends that a centralized electronic version of records be generated, in addition to hard copy or local versions.	May 2019	Water & Steam Distribution	Calibration and maintenance records for large electric, steam and chilled water meters will be backed up electronically and in a centralized manner by December 31, 2019.
74	Metering Services <i>NEW</i>	Internal Audit recommends that risk management practices be enhanced.	May 2019	AMI Project	Third-party governance and risk management methodologies will be reviewed to assess relevant risk mitigations. Implementation of adopted methodologies will be completed by August 31, 2019.
75	Accounts Payable <i>NEW</i>	Internal Audit recommends temporary holding or clearing accounts are reconciled and monitored on a periodic basis.	June 2019	General Accounting	Management will reconcile the GR/IR account used for accounts payable transactions by July 31, 2019, and monthly thereafter.

Issue #	Audit Name	Audit Issue Description	Response Date	Responsible Area	Status of Management Response
76	Accounts Payable <i>NEW</i>	Internal Audit recommends accounts payable procedures which require monitoring and/or reconciliation activities are reviewed periodically.	June 2019	General Accounting	Management will review and update all relevant accounts payable procedures by September 30, 2019, and annually thereafter.

Closed Issues (since December 2018 report):

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.	February 2019	Information Technology	As a result of the COBIT Follow-Up audit, this items is been closed and has been replaced with open item #69.
60	Succession Planning	Internal Audit supports training and development of succession candidates.	March 2018	Human Resources	Candidate assessment and development were addressed as part of the the BWL Leadership Academy Emerging Leaders Program conducted April 2018 to April 2019.
65	Physical Security	Internal Audit supports a periodic review of all facility access.	Sept 2018	Industrial Health & Safety	Security has completed its first annual update of facility access per feedback from managers.
66	Physical Security	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 have been enhanced.