



**Greenville  
Utilities**

# AGENDA

**Finance/Audit Committee Meeting**

July 7, 2020

Zoom Meeting - 12:00 p.m.

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## **Call to Order**

*[Committee Chair Parker Overton]*

## **Roll Call and Ascertain Quorum**

*[Amy Wade]*

## **Acceptance of the Agenda**

*[Committee Chair Parker Overton]*

1. Approval of Minutes  
*[Committee Chair Parker Overton]*

April 7, 2020

2. Consideration of Authorization of the General Manager/CEO to Negotiation and Execute a Natural Gas Supply Agreement with Minnesota Municipal Gas Agency  
*[Anthony Miller : Freddie Martin]*

## **Adjournment**

*[Committee Chair Parker Overton]*



# Agenda Item # 1

Meeting Date: July 7, 2020

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<b>Board Committee:</b>	<b>Finance/Audit Committee</b>
<b>Item:</b>	Approval of Minutes
<b>Contact:</b>	Amy Wade
<b>Explanation:</b>	Finance/Audit Committee Meeting – April 7, 2020
<b>Strategic Plan Elements:</b>	Strategic Themes: <ul style="list-style-type: none"><li>• Exceptional Customer Service</li><li>• Shaping Our Future</li></ul> Objectives: <ul style="list-style-type: none"><li>• Exceeding Customer Expectations</li><li>• Embracing change to ensure organizational alignment and efficiency</li></ul> Core Values: <ul style="list-style-type: none"><li>• Exceed Customers' Expectations</li><li>• Support the Community</li><li>• Deliver Reliable Services</li></ul>
<b>Previous Board Actions:</b>	N/A
<b>Fiscal Note:</b>	N/A
<b>Recommended Action(s):</b>	Approve minutes from the April 7, 2020 Finance/Audit Committee Meeting as presented or amended.

GREENVILLE UTILITIES COMMISSION  
FINANCE/AUDIT COMMITTEE  
GREENVILLE, NORTH CAROLINA  
April 7, 2020

The Finance/Audit Committee of the Greenville Utilities Commission held a telephonic meeting on Tuesday, April 7, 2020, at 9:30 a.m. with the following members and others present via conference call, and Committee Chair Parker Overton presiding.

Committee Members Present:

Parker Overton, Committee Chair  
Tommy Stoughton, Committee Vice-Chair  
Minnie Anderson  
Peter Geiger

Other Board Members Present:

Joel Butler  
Kelly Darden  
Lindsey Griffin

GUC Staff Present:

Tony Cannon, General Manager/CEO	Jonathan Britt
Chris Padgett	Molly Ortiz
Phil Dixon	Amanda Wall
Jeff McCauley	Lou Norris
Keith Jones	
Roger Jones	
John Worrell	
Richie Shreves	
Amy Wade	
Steve Hawley	

Others present included Rick Smiley, City Liaison.

Committee Chair Overton called the meeting to order at 9:30 a.m. Ms. Amy Wade, Executive Secretary, called the roll and ascertained that a quorum was present.

A motion was made by Mr. Geiger, seconded by Ms. Anderson, to accept the agenda as presented. The motion carried unanimously.

APPROVAL OF MINUTES (Agenda Item 1)

A motion was made by Ms. Anderson, seconded by Mr. Geiger, to approve the March 9, 2020, Finance/Audit Committee minutes as presented. The motion carried unanimously.

UPDATE ON END-OF-YEAR FORECAST/DRAFT REVENUE AND EXPENDITURE PROPOSAL FOR UPCOMING YEAR (Agenda Item 2)

Mr. Tony Cannon, General Manager/CEO, stated that adjustments have been made to the end-of-year fiscal forecast and the preliminary revenue and expenditures proposal for FY 2020-21 in response to COVID-19.

**End-of-Year Projections**

COVID-19 end-of-year projection adjustments for FY 2019-20 since the March 9, 2020, Finance/Audit Committee Meeting are as follows:

- Reduced Electric & Gas final quarter small general service and medium general service/Commercial load projections by 10%
- Reduced Interest Income projection from \$1.8M to \$1.5M (\$300k)
- Reduced Electric and Water Reconnect Fee projections from \$694k to \$496k (\$198k)
- Increased Bad Debt Expense projection from \$642k to \$750k (\$108k)

The current budget adopted for FY 2019-20 provided appropriations of \$11.4M in capital outlay improvements, more than \$69.8M in operations, and transfers of \$8.25M to the capital project fund. The FY 2019-20 original budget was 3.0% higher than the previous year's budget and provided funding for operating and capital infrastructure improvements while maintaining competitive rates. Total adjustments of \$3M to the original budget are due to a \$3M increase in revenues as well as a \$3M increase in expenditures. The increased expenditures are from increased purchased power costs, capital outlay, and transfers to rate stabilization.

- **End-of-Year Projection for Electric Fund After Transfers**  
Revenues for the Electric Fund are projected to end the year higher than budgeted, as higher volumes of kWh were delivered to customers due to weather and overall system growth. It is anticipated the Electric Fund will end the fiscal year with \$50K in fund equity, a debt-service coverage ratio of 3.62x, and a fund balance of 16.3%, or \$29.7M.
- **End-of-Year Projection for Water Fund After Transfers**  
It is projected that the Water Fund will end the fiscal year with approximately \$15K in fund equity, a debt-service coverage ratio of 4.82x, and a fund balance of 15.2%, or \$3.6M.
- **End-of-Year Projection for Sewer Fund After Transfers**  
It is projected that the Sewer Fund will end the fiscal year with approximately \$15K in fund equity, a debt-service coverage ratio of 1.88x, and a fund balance of 22.9%, or \$5.7M.
- **End-of-Year Projection for Gas Fund After Transfers**  
It is projected that the Gas Fund will end the fiscal year with \$20K in fund equity, a debt-service coverage ratio of 4.25x, and a fund balance of 36.7%, or \$12.1M.

- **End-of-Year Projection for the Combined Enterprise Operation After Transfers**  
The combined funds are expected to realize revenues of approximately \$264M, an increase of \$3.0M, or 1.17%, over the original budget. Expenditures are projected to total approximately \$264M, a \$2.9M, or 1.13%, increase over the original budget. The combined funds' revenues (after \$8.9M in transfers) are projected to end the year \$100K higher than expenditures.

### **Proposed FY 2020-21 Budget**

COVID-19 proposed FY 2020-21 budget adjustments since the March 9, 2020, Finance/Audit Committee Meeting are as follows:

- Deferred the proposed 6.8% Water rate increase
- Revised Residential customer growth rate for FY21 to 0% for all funds
- Revised Commercial customer growth rate for FY21 to -2% for Electric and Gas
- Revised Commercial customer growth rate for FY21 to -1% for Water and Sewer
- Removed 2% market adjustment
- Revised 1.5% merit increase to 2.0%
- Reduced Interest Income revenue from \$1.35M to \$750k (\$600k)
- Reduced Electric and Water Reconnect Fee revenues from \$708k to \$375k (\$333k)
- Increased Bad Debt Expense from \$374k to \$450k (\$76k)

Highlights of the FY 2020-21 proposed budget are listed below:

- Expenditures budgeted for FY 2020-21 have increased by 3.7%, or \$9.7M, when compared to the FY 2019-20 budget. Key points are:
  - \$3.6M increase in operations
  - \$2.8M increase in purchased power
  - \$2.6M increase in capital outlay
  - \$2.0M decrease in purchased gas
  - \$1.9M increase in debt service
  - \$3.9M increase in transfers to capital projects
  - \$250K decrease in transfers to rate stabilization
- No rate adjustment for the Electric Fund
- No rate adjustment for the Water Fund, 6.9% less than projected last year
- No rate adjustment for the Sewer Fund
- No rate adjustment for the Gas Fund
- Funding for the employee merit program at 2.0%
- Continuation of a self-insured health insurance plan which includes a high deductible Health Savings Account option
- Continuation of self-insured dental insurance plan
- Funding to hire replacements prior to the retirement of key personnel to facilitate succession planning, leverage the knowledge and experience of long-term employees for training on critical issues and ensure smooth transitions

- Three part-time positions converted to permanent positions to appropriately respond to needs within the combined enterprise operation
- Seven permanent positions have been added to provide contracted professional services to the Greenville ENC Alliance
- Transfer to Other Post-Employment Benefits (OPEB) of \$500K
- Funding for the increase in the Local Government Employees Retirement System (LERS) required employer contribution from 8.95% to 10.15% - \$373K
- Transfer of \$150K to City's housing energy conservation program
- Investment of \$14.0M for capital outlay to maintain system reliability and comply with regulatory requirements
- Annual turnover or transfer of \$6.4M to the City of Greenville in accordance with the Charter issued by the North Carolina General Assembly

### **Long-term Financial Forecast**

Mr. Cannon reviewed the long-term financial forecast that included the five-year plan through FY 2024-25. COVID-19 proposed long-term financial forecast adjustments since the March 9, 2020, Finance/Audit Committee Meeting are as follows:

- Year 1 reductions in customer growth connections and load carry through each fiscal year
- Increased Electric Rate Stabilization Fund utilization by \$3.8M
- Added a 1.4% Electric Residential rate increase in FY23
- Reduced the Electric Residential rate increase in FY24 from 3.6% to 3.2%
- Increased the FY22 Water Residential rate increase from 6.4% to 7.0%
- Added Water Residential rate increases of 6.7% and 3.1% to FY23 and FY24, respectively

In summary, Mr. Cannon stated that the proposed FY 2020-21 budget is balanced and asked for the Finance/Audit Committee to endorse the end-of-year projections and the proposed preliminary budget. Following discussion, it was the consensus of the Finance/Audit Committee to move forward with appropriate actions related to the current end-of-year fiscal forecast and preparation of the proposed preliminary FY 2020-2021 budget as presented.

### **PREVIEW OF APRIL 16, 2020 AGENDA ITEMS (Agenda Item 3)**

Mr. Chris Padgett, Chief Administrative Officer, stated that consideration of an agreement with the Town of Bethel regarding the management and maintenance of their water and sanitary sewer systems will be presented at an upcoming Board Meeting. Mr. Padgett stated that a management and maintenance agreement will allow GUC to manage the water and sanitary sewer systems and allow GUC's Water Resources crews to do an assessment of the sanitary sewer system using grant funds the town has received for that purpose. A list of prioritized projects will be developed and provided to the state to secure funding.

Mr. Padgett also provided an update on the consideration of a furniture contract for the new operations center. The new site has 142,000 square feet of finished floor space located within three buildings and will be home to over 330 GUC employees. The following areas would need

to be furnished: offices, cubicles, conference rooms, copy rooms, storage, lobbies, crew areas, break rooms, medical clinic, etc.

Knoll was selected as the primary product that best met GUC's needs, and CBI, a preferred Knoll dealer, was selected as the vendor. GUC will receive discounts approximately 8.5% below the state contract pricing due to volume. In addition, local subcontractors will handle installation. The furniture budget was established at \$2.0M. The furniture contract will be below budget.

Mr. Cannon stated that it is the recommendation of the City and GUC to cancel the Joint Pay and Benefits Committee meeting and the Joint Board and City Council Meeting previously scheduled in April. The Board will make a motion to cancel these meetings at the April 16, 2020 Board meeting.

#### ADJOURNMENT

A motion was made by Mr. Stoughton, seconded by Mr. Geiger, to adjourn the meeting. The motion carried unanimously, and the Finance/Audit Committee meeting adjourned at 10:22 a.m.

Respectfully submitted,

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Amy Carson Wade  
Executive Secretary



## Agenda Item # 2

Meeting Date: July 7, 2020

**Board  
Committee:**

**Finance/Audit Committee**

**Item:**

**Consideration of Authorization of the General Manager/CEO to Negotiate and Execute a Natural Gas Supply Agreement with Minnesota Municipal Gas Agency**

**Contact:**

Anthony Miller : Freddie Martin

**Explanation:**

In an effort to further diversify Greenville Utilities Commission's (GUC's) natural gas supply portfolio and reduce costs, staff has evaluated the option of GUC participating in a natural gas pre-payment (prepay) transaction with Minnesota Municipal Gas Agency of Minnesota (MMGA) and Royal Bank of Canada (RBC). A prepay is a transaction where a municipal utility can issue tax-exempt bonds to prepay for delivery of gas on a long-term basis to achieve an ongoing discount to the prevailing market price. Under the proposed agreement, MMGA will be the issuer of the bonds. In executing such an agreement, GUC would be a purchaser of gas from MMGA at a discount to prevailing market prices and would not have any liability associated with the bonds issued by MMGA.

GUC is currently in year 14 of a 15-year prepay with Patriots Energy Group (PEG), year 3 of a 30-year prepay with Black Belt Energy (BBE) and year 2 of a 30-year prepay with Public Energy Authority of Kentucky (PEAK). The PEG prepay has saved GUC and its customers \$1,715,400 since November 2007 and the agreement ends on January 31, 2022. Delivery under the BBE prepay began on November 1, 2018 with projected savings of \$8,071,106 over the term of the agreement. Delivery under the PEAK prepay began on July 1, 2019 with projected savings of \$4,634,449 over the term of the agreement.

GUC has an opportunity to participate in a new 30-year natural gas pre-payment deal with MMGA. Closing of this agreement is targeted for October 2020. To participate in the prepay, GUC will need approval to execute a gas supply contract with MMGA by the end of September 2020.

The key provisions of the proposed agreement are listed below:

- GUC enters the agreement to purchase a volume up to, but not to exceed, 3,000 dekatherms per day for a term of 30 years.



- GUC receives a discount of \$0.33 or more per dekatherm from the applicable first-of-the-month gas index price through a combination of monthly and annual savings during an initial period.
- The discount to the prevailing market price will be reset periodically during the term of the contract, with a potential that the discount may increase from the initial discount. The discount may not be less than \$0.23 per dekatherm after the initial reset period. GUC pays an administrative fee of \$0.04 per dekatherm to MMGA to cover administrative costs related to billing, regulatory compliance, and other ongoing administrative tasks associated with the prepay transaction.
- Remarketing provision - if demand drops, MMGA will use commercially reasonable efforts to remarket the gas for an administrative charge of \$0.03 per dekatherm.
- Limited Liability Clause that keeps GUC from being obligated financially except as expressly described in contract.
- Compensation for failure to perform.
- Termination rights (bankruptcy, failure to issue bonds, etc.).

**Strategic Plan Elements:**

Strategic Themes:

- Safety, Reliability & Value
- Shaping Our Future

Objectives:

- Providing competitive rates, while maintaining the financial stability of the utility
- Safely providing reliable and innovative utility solutions
- Developing and enhancing strategic partnerships

Core Values:

- Exceed Customers' Expectations
- Deliver Reliable Services

**Previous Committee Actions:**

N/A

**Fiscal Note:**

By executing the agreement, GUC and its customers will be positioned to save approximately \$211,700 annually from February 2022 to January 2052, for a total of \$6,351,000 in reduced natural gas cost depending on total contracted volumes.

**Recommended Action(s):**

Staff recommends the Committee's authorization of the General Manager/CEO to negotiate and execute the natural gas supply agreement with MMGA for a volume up to, but not to exceed, 3,000 dekatherms per day over 30 years and recommends similar action by the full Board of Commissioners.

# Agenda Item # 2

*Anthony Miller : Freddie Martin*

**Consideration of Authorization of the General Manager/CEO to Negotiate and Execute a Natural Gas Supply Agreement with Minnesota Municipal Gas Agency**

# Natural Gas Prepayment Financing

- In 2003, the IRS published regulations allowing municipal utilities to use tax-exempt bond proceeds for prepayment of natural gas
- Savings are generated by the spread between the gas supplier's taxable discount rate and the tax-exempt cost of capital
- Municipal utilities can contract for an amount of gas up to the level that is used for residential, commercial or industrial users

# Natural Gas Prepayment Benefits

- Long-term, firm gas supply
- Index-based, take-and-pay supply contract with industry standard terms
- Monthly price discounts and annual rebates
- No bond or financial swap obligations

# Prepayment Market Timetable since 2006



# Current Natural Gas Prepayment Agreements

- **Patriots Energy Group (PEG)**
  - 8% of Annual Consumption\*
  - Annual savings of approximately \$128,000 per year for total of \$1,920,000
- **Black Belt Energy Gas District (BBE)**
  - 21% of Annual Consumption\*
  - Projected annual savings of approximately \$ 270,000 per year for total of \$8,100,000
- **Public Energy Authority of Kentucky (PEAK)**
  - 6% of Annual Consumption\* through 2022, then 12% of Annual Consumption\*
  - Projected annual savings of approximately \$ 153,280 per year for total of \$4,598,400

\* Based on Five Year Average Consumption

# Current PEG Natural Gas Prepayment Agreement Highlights

- Term of 15 years, effective February 1, 2007 to January 31, 2022  
2,000 dekatherms\* per day during winter [Nov to March]
- Discount between \$0.42 and \$0.47 per dekatherm minus \$0.015 administrative fee
- Termination by seller (PEG) default or by having a qualified municipal utility assume GUC's contractual responsibility

\* One dekatherm (DT) equals 1 MCF or 10 CCF

# Current BBE Natural Gas Prepayment Agreement Highlights

- Term of 30 years, effective November 1, 2018 to October 31, 2048  
2,500 dekatherms\* per day during Nov to March, 1,600 dekatherms per day during April to October
- Minimum net discount of \$0.37 per dekatherm below market index during Initial Rate Period of five years (discount resets every 5 to 7 years thereafter)
- GUC obligated to take delivery of gas provided that an average net discount of \$0.22 per dekatherm is achieved
- Remarketing provision if GUC does not have demand for the gas
- Termination rights (bankruptcy, failure to deliver, etc.)

\* One dekatherm (DT) equals 1 MCF or 10 CCF



# Current PEAK Natural Gas Prepayment Agreement Highlights

- Term of 30 years, effective April 1, 2019 to March 31, 2049  
2,000 dekatherms\* per day during Nov to March, 500 dekatherms per day during April to October
- Minimum net discount of \$0.38 per dekatherm below market index during Initial Rate Period of five years (discount resets every 5 to 7 years thereafter)
- Minimum net discount of \$0.23 per dekatherm in subsequent reset periods
- Requirements Only Contract - GUC not required to take gas if demand drops
- Compensation for failure to deliver at the actual cost of replacement gas
- Termination rights (bankruptcy, failure to issue bonds, etc.)

\* One dekatherm (DT) equals 1 MCF or 10 CCF

# Proposed Minnesota Municipal Gas Agency (MMGA) and Royal Bank of Canada (RBC) Prepayment Transaction

- Prepayment transaction with MMGA and RBC
- MMGA will issue the bonds to finance the prepayment for a 30 year supply of natural gas
- GUC will purchase gas from MMGA at a discount
- RBC will be the gas supplier
- Secure approximately 20% of annual load
- Projected annual savings of \$211,700 per year for total of \$6,351,000

# Minnesota Municipal Gas Agency Prepayment Agreement Key Provisions

- Term of 30 years, effective October 1, 2020 to September 30, 2050  
2,000 dekatherms\* per day during Nov to March, 500 dekatherms per day during April to October
- Minimum net discount of \$0.29 per dekatherm below market index during Initial Rate Period of five to seven years
- Minimum net discount of \$0.19 per dekatherm in subsequent reset periods or GUC is not obligated to take delivery of gas
- Remarketing provision if GUC does not have demand for the gas
- Compensation for failure to deliver at the actual cost of replacement gas
- Termination rights (bankruptcy, failure to issue bonds, etc.)

\* One dekatherm (DT) equals 1 MCF or 10 CCF

# Minnesota Municipal Gas Agency (MMGA) and Royal Bank of Canada (RBC) Prepay Natural Gas Transaction Schedule for Participants

January 2020	Initiation of interest, volumes, and delivery points
August 2020	Participants execute Board Resolution obtaining internal approval
August 2020/ April 2021	Execute Gas Supply Contracts prior to launching the transaction Price Transaction (establishing discount obtained for Participants)
October 2020/ April 2021	First gas delivery made
September-April 2025/2026	Initial Period end date (repricing of discount occurs)
September/April 2050	Final gas delivery

# Projected Prepaid Volumes and Savings

Fiscal Yrs	Volumes (Dekatherms)			% of Avg Consumption		Projected Savings		
	2020-2022	2023-2050	Total	2020-2022	2023-2050	2020-2022	2023-2050	Total
Patriots Energy Group	790,000	-	790,000	8%	0%	\$ 355,500	\$ -	\$ 355,500
Black Belt Energy	2,162,200	18,931,700	21,093,900	21%	20%	\$ 800,014	\$ 7,004,729	\$ 7,804,743
Public Energy Authority of Kentucky	636,500	11,120,500	11,757,000	6%	12%	\$ 230,731	\$ 4,403,718	\$ 4,634,449
<b>Total</b>	<b>3,588,700</b>	<b>30,052,200</b>	<b>33,640,900</b>	<b>35%</b>	<b>32%</b>	<b>\$1,386,245</b>	<b>\$11,408,447</b>	<b>\$12,794,692</b>
Proposed Minnesota Municipal Gas Agency	268,000	19,772,000	20,040,000	4%	20%	\$ 84,933	\$ 6,266,067	\$ 6,351,000
<b>Total</b>	<b>3,856,700</b>	<b>49,824,200</b>	<b>53,680,900</b>	<b>39%</b>	<b>52%</b>	<b>\$1,471,178</b>	<b>\$17,674,514</b>	<b>\$19,145,692</b>
Annual Average	1,285,567	1,779,436	1,731,642			\$ 490,393	\$ 631,233	\$ 617,603

# Staff Recommendation

GUC staff recommends the Committee's authorization of the General Manager/CEO to negotiate and execute the natural gas supply agreement with Minnesota Municipal Gas Agency for a volume up to, but not to exceed, 3,000 dekatherms per day over thirty years and recommends similar action by the full Board of Commissioners.



# Finance/Audit Committee Meeting

July 07, 2020