AGENDA

Finance/Audit Committee Meeting
May 10, 2021
2:00 p.m. – Zoom Meeting

Call to Order
[Committee Chair Tommy Stoughton]

Roll Call and Ascertain Quorum
[Amy Wade]

Acceptance of the Agenda
[Committee Chair Tommy Stoughton]

1. <u>Approval of Minutes</u>
   [Committee Chair Tommy Stoughton]

   March 5, 2021

2. <u>Consideration of Adoption of Other Post Employment Benefits (OPEB) Funding Policy</u>
   [Jeff McCauley]

Adjournment

Greenville Utilities

Agenda Item # 1

Meeting Date: May 10, 2021

Board Committee:	**Finance/Audit Committee**
Item:	Approval of Minutes
Contact:	Tony Cannon
Explanation:	Finance/Audit Committee Meeting: March 5, 2021
Strategic Plan Elements:	Strategic Themes: • Exceptional Customer Service • Shaping Our Future Objectives: • Exceeding customer expectations • Embracing change to ensure organizational alignment and efficiency Core Values: • Exceed customers' expectations • Support the community • Deliver reliable services
Previous Board Actions:	N/A
Fiscal Note:	N/A
Recommended Action(s):	Approval of minutes as presented or amended

GREENVILLE UTILITIES COMMISSION
FINANCE/AUDIT COMMITTEE
GREENVILLE, NORTH CAROLINA
March 5, 2021

The Finance/Audit Committee of the Greenville Utilities Commission met on Friday, March 5, 2021, at 9:00 a.m. in the Board Room and virtually via Zoom with the following members and others present.

Committee Members Present:
Tommy Stoughton, Committee Chair
Minnie Anderson, Committee Vice-Chair
Peter Geiger
Lindsey Griffin

Parker Overton, Board Chair, also attended.

GUC Staff Present:

Tony Cannon, General Manager/CEO	Jonathan Britt
Chris Padgett	Kevin Keyzer
Phil Dixon	Amanda Wall
Jeff McCauley	Molly Ortiz
Randy Emory	Lou Norris
Anthony Miller	
John Worrell	
Keith Jones	
Amy Wade	
Steve Hawley	
Andy Anderson	

Committee Chair Stoughton called the meeting to order at 9:00 a.m. and Ms. Anderson ascertained that a quorum was present.

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

Safety Brief

Kevin Keyzer, Risk and Facilities Manager, provided a safety brief and explained the plan of action should there be an emergency at today's meeting. Mr. Keyzer also reminded those in person of the CDC Safety Guidelines relating to COVID -19.

APPROVAL OF MINUTES (Agenda Item 1)

A motion was made by Ms. Anderson, seconded by Mr. Geiger, to approve the October 21, 2020, Finance/Audit Committee minutes as presented. The motion carried unanimously.

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

Mr. Cannon's presentation focused on end-of-year performance for FY 2020-21, and the key elements of the proposed FY 2021-22. These areas include current status, capital investment, five-year capital plans, rate models, and the long-term financial forecast. A memorandum and supplemental materials were provided in the agenda packet.

A highlight of the supplemental items includes:

- End-of-year projections for FY 2020-21 (current year)
- FY 2021-22 forecast developed last year
- Proposed FY 2021-22 Budget
- FY 2022-26 Financial Forecasts
- FY 2022-26 Capital Improvement Plan

Key metrics, such as fund balance and debt service ratios, were included in the materials.

End-of-Year Projections

The current budget adopted for FY 2020-21 provided appropriations of $14.0M in capital outlay improvements, more than $73.4M in operations, and transfers of $12.1M to the capital project fund. The FY 2020-21 original budget was 3.7% higher than the previous year's budget and provided funding for operating and capital infrastructure improvements while maintaining competitive rates.

Total adjustments of 2.8M to the original budget are due to a $2.8M decrease in revenues as well as a $2.8M decrease in expenditures. The decreased expenditures are from decreased operations and purchased gas costs, and transfers to capital projects.

In reviewing the end-of-year forecast, the financial viability of each fund is considered to ensure that GUC is positioned to meet its mission and future financial obligations. Key Performance Indicators such as debt-service coverage ratios, fund balances, and days cash on hand are primary components of the review. These factors are also monitored by the NC Local Government Commission (LGC) and credit rating agencies in determining GUC's ability to borrow funds at a favorable interest rate.

GUC's current credit ratings are Aa1 with Moody's and AA- with Fitch. These high ratings enable GUC to borrow funds at lower interest rates, thereby lowering the cost of borrowing for necessary investments in infrastructure to maintain our systems.

- **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 $155K in fund equity, a debt-service coverage ratio of 3.86x, and a fund balance of 17.6%, or $31.9M.

- **End-of-Year Projection for Water Fund After Transfers**
  It is projected that the Water Fund will end the fiscal year with approximately $146K in fund equity, a debt-service coverage ratio of 3.42x, and a fund balance of 20.5%, or $4.0M.

- **End-of-Year Projection for Sewer Fund After Transfers**
  It is projected that the Sewer Fund will end the fiscal year with approximately $162K in fund equity, a debt-service coverage ratio of 1.85x, and a fund balance of 25.0%, or $5.8M.

- **End-of-Year Projection for Gas Fund After Transfers**
  It is projected that the Gas Fund will end the fiscal year with $73K in fund equity, a debt-service coverage ratio of 2.85x, and a fund balance of 42.2%, or $13.1M.

- **End-of-Year Projection for the Combined Enterprise Operation After Transfers**
  The combined funds are expected to realize revenues of approximately $268M, a decrease of $2.8M, or 1.04%, from the original budget. Expenditures are projected to total approximately $267M, a $3.3M, or 1.23%, decrease from the original budget. The combined funds' revenues, after $11.2M in transfers (including $7 million of appropriated fund balance), are projected to end the year $536K higher than expenditures.

Proposed FY 2021-22 Budget
Mr. Cannon reported on the drivers and goals of each of the four funds and the highlights of the FY 2021-22 proposed budget are listed below.

- Expenditures budgeted for FY 2021-22 have decreased by 1.6%, or $4.2M, when compared to the FY 2020-21 budget. Key points are:
  - $2.3M increase in operations
  - $2.3M increase in purchased power
  - $1.3M decrease in capital outlay
  - $1.4M decrease in purchased gas
  - $1.1M decrease in debt service
  - $5.3M decrease in transfers to capital projects
  - $650K increase in transfers to rate stabilization
- No rate adjustment for the Electric Fund
- Rate increase of 6.6% for the Water Fund, 0.4% 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 1.5% and market adjustment 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
- One new permanent position for succession planning purposes and one new part-time intern position
- Continuation of investment in the Greenville ENC Alliance to promote economic development in our region
- Transfer to Other Post-Employment Benefits (OPEB) of $500K
- Funding for the increase in the Local Government Employees Retirement System (LGERS) required employer contribution from 10.15% to 11.35% - $418K
- Transfer of $150K to City's housing energy conservation program
- Investment of $12.7M for capital outlay to maintain system reliability and comply with regulatory requirements
- Annual turnover or transfer of $6.6M to the City of Greenville in accordance with the Charter issued by the North Carolina General Assembly

Additional components of the budget include:
- Proposed addition and revision to GUC Utility Regulations Part D - Customer Service Policy – 7.0 Meter Tampering to align with the current version of the N.C.G.S. 14-151 (v.2018) from N.C.G.S. 14.151.1 (v1994)
- Electric Rate Stabilization Reserves via Rate Stabilization Fund(s)
- Electric Rate Design Modifications (area and street lighting)
- LED Streetlight Conversion: Currently in year 3 of 4-year conversion plan
- Water Rate Design Modifications
- Sewer Utility Extension Cost-Sharing Policy Review/Update
- Gas Rate Stabilization Reserves via Rate Stabilization Fund(s)
- Gas Rate Design Modifications

Long-term Financial Forecast

Mr. Cannon reviewed the long-term financial forecast that included the five-year plan through FY 2025-26.

In summary, Mr. Cannon added that the proposed FY 2021-22 is a balanced budget and he 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 the proposed preliminary FY 2021-22 budget as presented.

RECOMMENDATION TO AWARD AUDITING SERVICES CONTRACT (Agenda Item 3)

Mr. Jeff McCauley, Chief Financial Officer, stated in accordance with GUC's Charter, a single auditing firm is used to perform the City's and GUC's audit. The costs associated with the audit are based on hours expended for each organization. In 2015, a five-year engagement contract for auditing services was awarded to Cherry Bekaert, LLP, but subject to approval of a contract on an annual basis.

Last year, the City and Commission staff recommended extending the audit engagement with Cherry Bekaert, LLP, for an additional three-year term: fiscal year ending June 30, 2020, 2021, and 2022.

Last year's audit fee was $40,250. The audit fee for fiscal year ending 2021 is $41,000, under the three-year plan, which is approximately a 2% increase from the previous year. The fee proposal for fiscal year ending 2022 is $41,750.

A motion was made by Mr. Geiger, seconded by Mr. Griffin, to award the fiscal year 2021 auditing services contract with Cherry Bekaert, LLP in the amount of $41,000 and recommend similar action be taken by the full Board. The motion passed unanimously.

ADJOURNMENT

With no further business to conduct, a motion was made by Ms. Anderson, seconded by Mr. Geiger, to adjourn the meeting. The motion carried unanimously, and the Finance/Audit Committee meeting adjourned at 10:31 a.m.

Respectfully submitted,

____

Amy Carson Wade
Executive Secretary

Greenville Utilities

Agenda Item # 2

Meeting Date: May 10, 2021

Board Committee:	**Finance/Audit Committee**
Item:	Consideration of Adoption of Other Post Employment Benefits (OPEB) Funding Policy
Contact:	Jeff McCauley

Explanation:

Greenville Utilities Commission (GUC) maintains a defined benefit OPEB plan that is funded through employer contributions, and the investment earnings resulting from those contributions. The level at which the employer contributes is determined by the Board of Commissioners.

The purpose of this OPEB Plan Funding Policy is to formulize a funding policy in accordance with Governmental Accounting Standards Board (GASB) statements 74 and 75 for the Greenville Utilities Commission OPEB Plan (Plan). The policy establishes benchmarks that will be used to measure progress, and the methods and assumptions that will be employed to develop the benchmarks.

Key highlights of the policy include:

Benchmarks

- In accordance with Governmental Accounting Standards Board (GSAB), the employer's portion of the actuarially determined contribution (ADC) will be set based on the valuation results produced as of the June 30th preceding the beginning of each biennium.
- Funded ratio should increase over time, before adjustments for changes in benefits, actuarial methods, and/or adjustments.

Methods of Assumption

- The assumptions are intended to represent the best estimate of anticipated experience and are intended to be long-term in nature.
- The unfunded actuarial accrued liability (UAAL) amortization period is set at 30 years beginning fiscal year 2016. The period will be closed and will decline one year each year until a funded ratio of 100 percent is reached.
- The UAAL will be developed using the level dollar payments methodology.

- The actuarial cost method will be in accordance with GASB statements 74 and 75.
- Long term rate of return will be 7% net of investment expenses.
- Future contributions will be annual benefit payment for retirees plus a cash amount determined by the Board (currently set at $500,000).
- Benefit payments will be paid directly by the employer.

Adoption of a formal funding policy demonstrates GUC's commitment to funding OPEB, which will allow a more favorable interest rate to be applied when measuring the OPEB liability and will result in the most positive presentation in the financial statements.

Strategic Plan Elements:

Strategic Themes:

- Exceptional Customer Service
- Safety, Reliability & Value
- Shaping Our Future

Objectives:

- Safely providing reliable and innovative utility solutions
- Exceeding customer expectations
- Providing competitive rates, while maintaining the financial stability of the utility
- Developing and enhancing strategic partnerships
- Embracing change to ensure organizational alignment and efficiency

Core Values:

- Exceed Customers' Expectations
- Act with Integrity
- Value Employees
- Deliver Reliable Services
- Prioritize Safety
- Support the Community

Previous Board Actions:

N/A

Fiscal Note:

Approval of this policy will have no impact on budget, but it will impact the annual financial statement presentation.

Recommended Action(s):

Finance/Audit Committee adopt the policy and recommend similar action to be taken by the Board of Commissioners.

Greenville Utilities Commission Other Post Employment Benefits (OPEB) Plan Funding Policy

I. Plan Overview

Greenville Utilities Commission (GUC) maintains a defined benefit Other Post Employment Benefits (OPEB) plan that is funded through employer contributions, and the investment earnings resulting from those contributions. The level at which the employer contributes is determined by the Board of Commissioners.

The purpose of this Statement of OPEB Plan Funding Policy (Funding Policy) is to state the overall funding goals for the Greenville Utilities Commission OPEB Plan (Plan), the benchmarks that will be used to measure progress in achieving those goals, and the methods and assumptions that will be employed to develop the benchmarks.

It is the intention of the Plan's governing body that the Funding Policy be considered a working document, recognizing there will be benefit and investment marketplace volatility and that actual benefit, economic, and demographic experience will differ from current expectations. As such, the Funding Policy should be reviewed periodically and, as necessary, altered in the future through formal action of the Plan's governing body. The final page of this document contains the review and revision/adoption history pertaining to the Funding Policy of the Plan.

II. Funding Objectives

The objective in requiring employer contributions to the Plan is to accumulate sufficient assets during an employee's term of employment to fully finance the benefits received in retirement. In meeting this objective, the Plan will strive to meet the following funding goals:

- To pre-fund benefits in a manner sufficient to maintain adequate asset levels so investment earnings are a primary source of revenue to pay benefits. Attaining this objective assures benefits are financed in a cost-efficient manner, lessening the need to rely on employer contributions.

- To maintain an increasing funded ratio (ratio of actuarial value of assets to actuarial accrued liabilities) that reflects a trend of improved actuarial condition. The long-term objective is to obtain a 100% funded ratio over a reasonable period of future years.

- To maintain adequate asset levels to finance the benefits promised to benefit recipients and monitor the future demand for liquidity.

- To develop a pattern of relatively stable and sufficient contribution rates that allow reasonable budget predictability for contributing entities and benefit security for benefit recipients.

- If required employer contribution amounts are larger than actual employer contributions, then any benefit improvements should be funded through increases in contribution amounts; and

- To support GUC's mission to provide reliable utility solutions at the lowest reasonable costs.

III. Benchmarks

To track progress in achieving the previously outlined funding goals, the following benchmarks will be measured as of the actuarial valuation date (with due recognition that a single valuation's results may not be indicative of long-term trends):

- **Actuarial Determined Contribution (ADC) –** Employer contribution rates should be sufficient from year to year when expressed as a percent of active employee payroll to adequately fund the promised benefits of the Plan. An actuarial valuation to determine the Actuarially Determined Contribution (ADC) rate to finance the Plan's obligations shall be performed biennially, beginning as of June 30, 2016. The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) the cost of administration. The employer's portion of the ADC, the Actuarially Determined Employer Contribution (ADEC), will be set based on the valuation results produced as of the June 30 preceding the beginning of each biennium.

- **Funded ratio –** The funded ratio, defined as the Actuarial Value of Assets (AVA) divided by the Actuarial Accrued Liability (AAL), should increase over time, before adjustments for changes in benefits, actuarial methods, and/or actuarial adjustments.

IV. Methods and Assumptions

The actuarial assumptions used in the actuarial valuation of the Plan shall be developed or reviewed for reasonability by the Plan's actuary in conformity with the applicable Actuarial Standards of Practice issued by the Actuarial Standards Board. The assumptions are intended to represent the best estimate of anticipated experience and are intended to be long-term in nature.

- **Unfunded Actuarial Accrued Liability (UAAL) amortization period –** The amortization period for the Plan's Unfunded Actuarial Accrued Liability (UAAL) will be set to 30 years as of June 30, 2016. The period will be closed and will decline one year each year until a funded ratio of 100 percent is reached. As the Plan is open to new hires of the employer, the amortization of the UAAL will be developed using the level dollar payments methodology.

- **Actuarial Cost Method -** The actuarial funding method used to develop the benchmarks will be Entry Age Normal (EAN), as described in Governmental Accounting Standards Board (GASB) Statements No. 74 (GASB 74) and No. 75 (GASB 75).

- **Asset Valuation Method -** The Actuarial Value of Assets (AVA) used to develop the benchmarks will be the Market Value of Assets (MVA), recognizing immediately each year's unanticipated investment income (gains and losses).

- **Long-Term Rate of Return -** The long-term annual investment rate of return assumption, as determined by the Plan's governing body, used to develop the benchmarks will be 7.00% net of investment expenses.

- **Other Economic and Demographic Assumptions -** The rates of inflation, salary growth, mortality, termination, disability, and retirement from the most recent pension valuation of the North Carolina Local Governmental Employees' Retirement System (LGERS) will be used, along with the OPEB-specific assumptions (e.g., per capita health care costs, rates of health care cost inflation, future participation) developed by the Plan's actuary based upon a review of the Plan's experience.

- **Future Contributions -** For the purposes of projecting future contributions to the Plan, the contributions from the employer are to be assumed to be (*select one*):
  - ☐ 100% of the ADEC, as determined by the most recent actuarial valuation.
  - ☐ ___% of the ADEC, as determined by the most recent actuarial valuation.
  - ☒ Contributions based upon a funding approach not directly related to the ADEC, as described below:
    <u>Annual benefit payments for retirees plus a cash amount determined by the Board, currently set at $500,000.</u>

  In making the contributions described above (*select one*):
  - ☐ Contributions will be paid to the trust and benefit payments, as they come due, will be reimbursed by the trust.
  - ☒ Benefit payments, as they come due, will be paid directly by the employer, with any remaining amounts deposited in the trust.
  - ☐ Other, as described below:
    ____
    ____
    ____
    ____

V. Funding Policy Review

The Plan's governing body will periodically review, at intervals not less than every five years, whether the goals and objective established in this Funding Policy are being met and authorize any necessary actions.

VI. Glossary of Funding Policy Terms—

- **Actuarial Accrued Liability (AAL):** The AAL is the value at a particular point in time of all past normal costs. This is the amount of assets the plan would have today, if the current plan provisions, actuarial assumptions, and participant data had always been in effect, contributions equal to the normal cost had been made, and all actuarial assumptions had been met.

- **Actuarial Cost Method:** The actuarial cost method allocates a portion of the total cost (present value of benefits) to each year of service, both past service and future service.

- **Asset Values**: Plans may use an asset smoothing technique that recognizes gains or losses in plan assets over some period of time so as to reduce the effects of market volatility and stabilize contributions.
  - **Actuarial Value of Assets (AVA):** The AVA is the market value of assets less the deferred investment gains or losses not yet recognized by an asset smoothing method, if employed.
  - **Market Value of Assets (MVA):** The MVA is the fair value of assets of the plan as reported in the plan's audited financial statements.

- **Entry Age Normal Actuarial Cost Method (EAN):** The EAN actuarial cost method is a funding method that calculates the normal cost as a level percentage of pay or level dollar amount over the working lifetime of the plan's members.

- **Funded Ratio:** The funded ratio is the ratio of the plan assets (AVA) to the plan's actuarial accrued liabilities (AAL).

- **Normal Cost:** The normal cost is the cost allocated under the actuarial cost method to each year of active member service.

- **Present Value of Benefits (PVB) or total cost:** The PVB is the value at a particular point in time of all projected future benefit payments for current plan members. The future benefit payments and the value of those payments are determined using actuarial assumptions regarding future events. Examples of these assumptions are estimates of retirement and termination patterns, salary increases, investment returns, etc.

- **Surplus:** A surplus refers to the positive difference, if any, between the AVA and the AAL.

- **Unfunded Actuarial Accrued Liability (UAAL):** The UAAL is the portion of the AAL that is not currently covered by the AVA. It is the positive difference between the AAL and the AVA.

- **Valuation Date:** The valuation date is the annual date upon which an actuarial valuation is performed; meaning that the trust assets and liabilities of the plan are valued as of that date.

Adopted: May ___, 2021
Amended: