

GREENVILLE UTILITIES COMMISSION  
FINANCE/AUDIT COMMITTEE  
GREENVILLE, NORTH CAROLINA  
March 6, 2018

The Finance/Audit Committee of the Greenville Utilities Commission met on Tuesday, March 6, 2018, at 11:30 a.m. in the Board Room with the following members and others present.

Committee Members Present:

Parker Overton, Committee Chair  
Rebecca Blount, Committee Vice-Chair  
Minnie Anderson

Tommy Stoughton was absent.

Other Board Members Present:

Don Mills

GUC Staff Present:

Tony Cannon  
Chris Padgett  
Jeff McCauley  
Keith Jones  
Phil Dixon  
Steve Hawley  
Amy Wade  
Lou Norris  
Jonathan Britt  
Roger Jones  
Jason Manning  
David Springer  
Steve Porter

Others present included Ginger Livingston with The Daily Reflector.

Committee Chair Overton called the meeting to order at 11:00 a.m. and ascertained that a quorum was present.

A motion was made by Ms. Blount, 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. Blount, seconded by Ms. Anderson, to approve the October 16, 2017, 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 2017-18 and the key elements of the proposed FY 2018-19 budget. 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 include:

- End-of-year projections for FY 2017-18 (current year)
- FY 2018-19 forecast developed last year
- Proposed FY 2018-19 Budget
- FY 2019-23 Financial Forecasts
- FY 2019-23 Capital Improvement Plan

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

**End-of-Year Projections**

The current budget adopted for FY 2017-18 provided appropriations of \$9.6M in capital outlay improvements, more than \$65M in operations, and transfers of \$7.8M to rate stabilization and capital project funds. The FY 2017-18 original budget was 3.3% lower than the previous year's budget and maintained steady rates for customers with no increases in rates.

Total adjustments of \$3.7M to the original budget are due to a \$3.6M increase in natural gas purchasing during colder than expected weather in early January and a \$3.3M increase in capital outlay improvements to meet customer demand and to repair critical infrastructure at the Water Treatment Plant. These adjustments are offset by a \$2.2M reduction in transfers to capital projects and rate stabilization funds, and \$1M less in contingencies. In addition, expenditures for supplies, salaries and administrative spending are projected to be slightly less than expected.

In reviewing the end-of-year forecast, the financial viability of each fund is considered to ensure that GUC is properly positioned to continue to meet its mission and future financial challenges. Key Performance Indicators such as end-of-year performance, debt service coverage, and fund balances are primary components of the review. These factors are also monitored by the 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 Aa2 rating with Moody's, AA- credit rating with Fitch, and A+ credit rating with S&P. 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 Forecast 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. The primary category requiring a budget adjustment is spending for capital outlay projects. It is anticipated the Electric Fund will end the fiscal year with \$1.3M fund equity, debt service coverage ratio of 6.83x, and a fund balance of 18.3% or \$32M.

- **End-of-Year Forecast for Water Fund After Transfers**

It is projected that the Water Fund will end the fiscal year with approximately \$200K fund equity, debt service coverage ratio of 1.84x, and a fund balance of 23.0% or \$4.5M.

- **End-of-Year Forecast for Sewer Fund After Transfers**

It is projected that the Sewer Fund will end the fiscal year with approximately \$200K fund equity, debt service coverage ratio of 1.43x, and a fund balance of 24.7% or \$5.6M.

- **End-of-Year Forecast for Gas Fund After Transfers**

The revised budget for the Gas Fund reflects a \$3.6M increase in purchased natural gas due to the extreme cold weather in early January. To minimize the impact on customer bills, rates were not adjusted to fully recover the margins eroded by the extremely high gas prices. It is projected that the Gas Fund will end the fiscal year with \$1M fund deficit, debt service coverage ratio of 2.45x, and a fund balance of 32.5% or \$12M.

- **End-of-Year Forecast for the Combined Enterprise Operation After Transfers**

The combined funds are expected to realize revenues of almost \$255M, an increase of \$4.3M or 1.7%. Expenditures are projected to total approximately \$254M, a \$3.7M or 1.5% increase over the original budget. The combined funds' revenues (after transfers) are projected to end the year \$680K higher than expenditures providing an increase in fund equity approximately \$900K less than originally budgeted.

## **Proposed FY 2018-19 Budget**

Mr. Cannon reported on the drivers and goals of each of the four funds and the highlights of the FY 2018-19 proposed budget are listed below.

- Expenditures budgeted for FY 2018-19 have increased by 0.67% or \$1.68M when compared to the FY 2017-18 budget. Key points are:
  - \$3.3M decrease in purchased commodities costs (electricity and gas)
  - No transfers to rate stabilization - \$1.45M less than last year
  - \$4.5M in transfers to capital projects
  - \$2.3M increase in operations
- No rate adjustment for the Electric Fund.
- A 7.6% rate increase for the Water Fund, 1.2% greater than projected last year
- A 3.1% rate increase for the Sewer Fund, 4.3% less than projected last year
- No rate adjustment for the Gas Fund
- Funding for the employee market adjustment at 2.0% or \$570K effective July 1, 2018
- Funding for the employee merit program at 1.5% or \$435K
- 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 bring replacements on board prior to the retirement of key personnel in order to facilitate succession planning, leverage the knowledge and experience of long-term employees for training on critical issues and ensure smooth transitions
- Existing positions have been reallocated and five permanent positions have been added to appropriately respond to needs within the combined enterprise operation
- Prefunding for Other Post-Employment Benefits (OPEB) \$500K
- Investment of \$10.8M for capital outlay in order to maintain system reliability and comply with regulatory requirements in the combined enterprise operation
- Annual turnover or transfer of \$6.7M to the City of Greenville in accordance with the Charter issued by the North Carolina General Assembly

Additional components of the budget include:

- Implementing, as planned, the fifth year of the phase-in adjustment in Electric Fees related to outdoor lighting installation, temporary services, and installation of permanent underground services.
- Implementing System Development Fees and High Strength Waste Surcharges that are required effective July 1, 2018. The System Development Fees are a one-time charge assessed against new development as a way to pay for facilities needed to support growth or to recoup costs for existing facilities. The High Strength Waste Surcharges are assessed to Significant Industrial Users for pollutants that are removed during the treatment process and that increase the cost for treatment.

In summary, Mr. Cannon added that the proposed FY 2018-19 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 preparation of the proposed preliminary FY 2018-19 budget as presented.

#### RECOMMENDATION TO AWARD AUDITING SERVICES CONTRACT (Agenda Item 3)

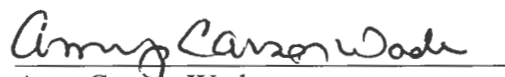
Mr. McCauley stated in accordance with GUC's Charter, a single auditing firm is used to perform the City's and GUC's audit. The costs associated with the audit are based on hours expended for each organization. In 2015, a five year engagement contract for auditing services was awarded to Cherry Bekaert, LLP, but subject to approval of a contract on an annual basis. Last year's audit fee was \$38,500 and the projection under the five year plan for the fiscal year 2018 audit was \$41,500. Cherry Bekaert, LLP is proposing that the audit fee for fiscal year 2018 be decreased to \$39,000, which is \$2,500 or 6 percent below the original projection.

A motion was made by Ms. Blount, seconded by Ms. Anderson, to concur with the proposed revised pricing of the auditing services contract with Cherry Bekaert, LLP to \$39,000 for fiscal year 2018 and recommends similar action by the Board. The motion passed unanimously.

ADJOURNMENT

A motion was made by Ms. Anderson, seconded by Ms. Blount, to adjourn the meeting. The motion carried unanimously and the Finance/Audit Committee meeting adjourned at 12:08 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Amy Carson Wade". The signature is written in black ink and is positioned above a horizontal line.

Amy Carson Wade  
Executive Secretary