

GREENVILLE UTILITIES COMMISSION  
FINANCE/AUDIT COMMITTEE  
GREENVILLE, NORTH CAROLINA  
March 11, 2019

The Finance/Audit Committee of the Greenville Utilities Commission met on Monday, March 11, 2019, at 12:00 p.m. in the Board Room with the following members and others present.

Committee Members Present:

Parker Overton, Committee Chair  
Don Mills, Committee Vice-Chair  
Minnie Anderson  
Tommy Stoughton

GUC Staff Present:

Tony Cannon, General Manager/CEO	Jonathan Britt
Chris Padgett	Molly Ortiz
Phil Dixon	Lou Norris
Jeff McCauley	
Keith Jones	
Randy Emory	
George Reel	
Anthony Miller	
Roger Jones	
Richie Shreves	
Sandy Barnes	
John Worrell	
David Springer	
Amy Wade	
Steve Hawley	

Others present included Ginger Livingston with The Daily Reflector.

Committee Chair Overton called the meeting to order at 12:00 p.m. and Commissioner Mills ascertained that a quorum was present.

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

Safety Brief

Tony Cannon, General Manager/CEO, provided a safety brief and explained the plan of action should there be an emergency at today's meeting.

### APPROVAL OF MINUTES (Agenda Item 1)

A motion was made by Ms. Anderson, seconded by Mr. Stoughton, to approve the October 10, 2018, 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 2018-19 and the key elements of the proposed FY 2019-20 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 includes:

- End-of-year projections for FY 2018-19 (current year)
- FY 2019-20 forecast developed last year
- Proposed FY 2019-20 Budget
- FY 2020-24 Financial Forecasts
- FY 2020-24 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 2018-19 provided appropriations of \$10.7M in capital outlay improvements, more than \$67M in operations, and transfers of \$4.5M to the capital project fund. The FY 2018-19 original budget was 1.0% 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 \$7.9M increase in revenues and a \$4.9M increase in expenditures due to increased purchased power costs, debt service, and transfers to rate stabilization and capital projects.

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 and AA- credit rating 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 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. It is anticipated the Electric Fund will end the fiscal year with \$1.4M fund equity, debt service coverage ratio of 5.00x, and a fund balance of 19.0% or \$33M.
- **End-of-Year Forecast for Water Fund After Transfers**  
It is projected that the Water Fund will end the fiscal year with approximately \$294K fund equity, debt service coverage ratio of 1.43x, and a fund balance of 14.4% or \$2.9M.
- **End-of-Year Forecast for Sewer Fund After Transfers**  
It is projected that the Sewer Fund will end the fiscal year with approximately \$1.2M fund equity, debt service coverage ratio of 1.63x, and a fund balance of 29.9% or \$6.4M.
- **End-of-Year Forecast for Gas Fund After Transfers**  
It is projected that the Gas Fund will end the fiscal year with \$65K fund equity, debt service coverage ratio of 3.74x, and a fund balance of 34.4% or \$12M.
- **End-of-Year Forecast for the Combined Enterprise Operation After Transfers**  
The combined funds are expected to realize revenues of almost \$261M, an increase of \$7.9M or 3.0%. Expenditures are projected to total approximately \$258M, a \$4.9M or 2.0% increase over the original budget. The combined funds' revenues (after transfers) are projected to end the year \$3.0M higher than expenditures providing an increase in fund equity approximately \$1.9M higher than originally budgeted.

### **Proposed FY 2019-20 Budget**

Mr. Cannon reported on the drivers and goals of each of the four funds and the highlights of the FY 2019-20 proposed budget are listed below.

- Expenditures budgeted for FY 2019-20 have increased by 2% or \$4.18M when compared to the FY 2018-19 budget. Key points are:
  - \$3.3M increase in purchased power
  - \$2.7M decrease in purchased gas
  - \$1.1M decrease in debt service
  - \$250K increase in transfers to rate stabilization
  - \$3.4M increase in transfers to capital projects
  - \$1.5M increase in operations
- No rate adjustment for the Electric Fund
- A 7.0% rate increase for the Water Fund, 0.6% less than projected last year
- No rate adjustment for the Sewer Fund, 3% less than last year
- No rate adjustment for the Gas Fund
- Funding for the employee market adjustment at 2.0% or \$585K effective July 1, 2019
- Funding for the employee merit program at 1.5% or \$448K
- 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 six permanent positions have been added to appropriately respond to needs within the combined enterprise operation
- Prefunding for Other Post-Employment Benefits (OPEB) \$500K
- Funding for increase in LGERS employer contribution from 7.75% to 8.95% - \$350K
- Transfer of \$150K to City's housing energy conservation program
- Investment of \$11.4M for capital outlay in order to maintain system reliability and comply with regulatory requirements in the combined enterprise operation
- Annual turnover or transfer of \$6.6M to the City of Greenville in accordance with the Charter issued by the North Carolina General Assembly

Additional components of the budget include:

- Rate Stabilization Reserves via Rate Stabilization Fund(s) for Electric and Gas will be established as needed.
- Proposed addition and revision to Electric Rate Schedule EL-2 (Rural Street Lighting Service) to offer more light fixtures and light options including LED and High-Pressure Sodium and to update some language regarding new developments. Rates will be based on the cost to serve.

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

Mr. Cannon reviewed the long-term financial forecast that included the five-year plan through FY 2023-24.

In summary, Mr. Cannon added that the proposed FY 2019-20 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 2019-20 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 \$39,000 and the projection under the five-year plan for the fiscal year 2019 audit was \$42,000. Cherry Bekaert, LLP is proposing that the audit fee for fiscal year 2019 be decreased to \$39,500, which is \$2,500 or 6 percent below the original projection and \$500 or 1.3% above last year's actual of \$39,000.

A motion was made by Mr. Mills, seconded by Mr. Stoughton, to concur with the proposed revised pricing of the auditing services contract with Cherry Bekaert, LLP to \$39,500 and recommend to the Board to proceed with executing the fiscal year 2019 auditing services contract with Cherry Bekaert, LLP. The motion passed unanimously.

#### ADJOURNMENT

A motion was made by Mr. Mills, seconded by Mr. Stoughton, to adjourn the meeting. The motion carried unanimously, and the Finance/Audit Committee meeting adjourned at 12:52 p.m.

Respectfully submitted,

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

Amy Carson Wade  
Executive Secretary