

GREENVILLE UTILITIES COMMISSION
FINANCE/AUDIT COMMITTEE
GREENVILLE, NORTH CAROLINA
March 9, 2020

The Finance/Audit Committee of the Greenville Utilities Commission met on Monday, March 9, 2020, at 12:00 p.m. in the Board Room with the following members and others present.

Committee Members Present:

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

GUC Staff Present:

Tony Cannon, General Manager/CEO	Jonathan Britt
Chris Padgett	Molly Ortiz
Phil Dixon	Lou Norris
Jeff McCauley	
Keith Jones	
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 Stoughton ascertained that a quorum was present.

A motion was made by Mr. Stoughton, seconded by Mr. Geiger, 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 Mr. Stoughton, seconded by Ms. Anderson, to approve the October 1, 2019, 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 2019-20 and the key elements of the proposed FY 2020-21 budget. These areas included current status, capital investment, five-year capital plans, 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 2019-20 (current year)
- FY 2020-21 forecast developed last year
- Proposed FY 2020-21 Budget
- FY 2021-25 Financial Forecasts
- FY 2021-25 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 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 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 \$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 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 \$50K in fund equity, a debt-service coverage ratio of 4.92x, and a fund balance of 18.3%, or \$33M.

- **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 4.86x, and a fund balance of 19.8%, or \$4.6M.
- **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 1.90x, and a fund balance of 27.0%, or \$6.7M.
- **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 4.53x, and a fund balance of 39.3%, or \$13M.
- **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 1.1%, over the original budget. Expenditures are projected to total approximately \$264M, a \$2.9M, or 1.1%, increase over the original budget. The combined funds' revenues after transfers are projected to end the year \$100K higher than expenditures.

Proposed FY 2020-21 Budget

Mr. Cannon reported on the drivers and goals of each of the four funds and the highlights of the FY 2020-21 proposed budget are listed below.

- Expenditures budgeted for FY 2020-21 have increased by 2.7%, or \$7.1M, when compared to the FY 2019-20 budget. Key points are:
 - \$4.1M increase in operations
 - \$4.0M increase in purchased power
 - \$2.6M increase in capital outlay
 - \$2.0M decrease in purchased gas
 - \$1.9M increase in debt service
 - \$1.3M decrease in transfers to capital projects
 - \$250K decrease in transfers to rate stabilization
- No rate adjustment for the Electric Fund, 4.1% less than projected last year
- A 6.8% rate increase for the Water Fund, 0.1% less than projected last year
- No rate adjustment for the Sewer Fund
- No rate adjustment for the Gas Fund
- Funding for the employee market adjustment at 2.0% effective July 1, 2020
- Funding for the employee merit program at 1.5%
- 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
- Four permanent positions have been added to appropriately respond to needs within the combined enterprise operation
- Seven permanent positions have been added to provide 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 (LGERS) 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

Additional components of the budget include:

- Proposed addition and revision to GUC Utility Regulations Part D - Customer Service Policy – 7.0 Meter Tampering
- LED Streetlight Conversion: Currently in year 2 of 4-year conversion plan

Long-term Financial Forecast

Mr. Cannon reviewed the long-term financial forecast that included the five-year plan through FY 2024-25. In summary, Mr. Cannon added that the proposed FY 2020-21 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 2020-21 budget as presented.

RECOMMENDATION TO EXTEND AUDIT ENGAGEMENT AND 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.

The City and Commission staff are in concurrence that Cherry Bekaert, LLP has provided exceptional professional services during the previous five years of their engagement, and recommend extending the audit engagement with Cherry Bekaert, LLP for an additional three-year term; fiscal years ending June 30, 2020, 2021, and 2022.

Last year's audit fee was \$39,500. Cherry Bekaert, LLP is proposing that the audit fee for fiscal year ending 2020 of \$40,250, under the three-year plan, which is approximately a 2% increase from the previous year. The fee proposal for fiscal year ending 2021 is \$41,000, and for fiscal year ending 2022 is \$41,750.

A motion was made by Mr. Geiger, seconded by Mr. Stoughton, to concur with the proposed three-year extension of Cherry Bekaert's audit engagement and recommend to the Board approval of the three-year extension of the audit engagement and to also proceed with executing the fiscal year 2020 auditing services contract with Cherry Bekaert, LLP in the amount of \$40,250. The motion passed unanimously.

ADJOURNMENT

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 1:12 p.m.

Respectfully submitted,



Amy Carson Wade
Executive Secretary