

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