

PUBLIC WORKS COMMISSION
MEETING OF WEDNESDAY, NOVEMBER 9, 2016
8:30 A.M.

Present: Evelyn O. Shaw, Chairman
Wade R. Fowler, Jr., Vice Chairman
D. Ralph Huff, Secretary (VIA TELECONFERENCE)
Darsweil L. Rogers, Treasurer

Others Present: David Trego, CEO/General Manager
Karen McDonald, City Attorney
Jay Reinstein, Assistant City Manager
John Ellis, Hope Mills Liaison
PWC Staff

Absent: Jim Arp, City Council Liaison
Kenneth Edge, County Liaison
Media

CALL TO ORDER

Chairman Shaw called the meeting of Wednesday, November 9, 2016, to order.

APPROVAL OF AGENDA

Upon motion by Commissioner Fowler and seconded by Commissioner Rogers, the Agenda was unanimously approved.

CONSENT ITEMS

Upon motion by Commissioner Rogers and seconded by Commissioner Fowler the Consent Items were unanimously approved.

A. Approve Minutes of meeting of October 26, 2016

END OF CONSENT ITEMS

HURRICANE MATTHEW LESSONS LEARNED

Presented by: David Trego, CEO/General Manager

David Trego, CEO/General Manager updated the Commission on lessons learned from Hurricane Matthew.

Mr. Trego stated the Fayetteville Area received over 15 inches of rain, which is in addition to 10 inches received a week before. He stated Fayetteville sustained winds over 30mph and 60mph gusts.

Forty thousand electric customers lost service. PWC also lost water pressure in the system due to washed out roads. Mr. Trego stated we worked with the Mayor and he issued a Stage 4 Mandatory Conservation Ordinance enacted & a boil-water advisory. A boil-water advisory means that the conditions are present that we might have a bacterial issue, rather than a mandatory boil water advisory which means that test results verify that we did.

The wastewater system was impacted by water levels over 100 year flood level. He stated PWC had to make submissions (along with other utilities) to the state of spills, although they were very diluted. Mr. Trego stated the water level was so high that the water could not be pushed into the river.

Ninety five percent of electric customers had power restored within 72 hours. Despite water pressure loss, Mr. Trego stated we did not require mandatory boil water. When we did our testing we received a clean bill of health. There were no bacteria in our system. He congratulated PWC crews who worked throughout Saturday day/night. He stated there was only about an hour to an hour and a half period when we pulled them in and did not allow them to work because of the high winds.

Mr. Trego stated coordination between PWC, City and County has been lauded. Though we do not have to do this very often, our system worked. He stated we continue to coordinate today, especially with the City. We have a number of properties that were flooded that require an electrical inspection and then a follow-up inspection by the City before we turn the power back on. We are committed to turn the power back on within 12 hours. In many cases it is within hours.

Mr. Trego stated it has been 17 years since Hurricane Floyd. Though we had some experience when the tornadoes went through our area. It is the first time in 17 years that all our systems, internal and external were completely taxed. He stated by all accounts PWC responded very well.....but what did we learn & what could we do better?

Quickly following the event and after most restorations were completed, on October 26th, he held a Lessons Learned meeting with over 40 employees from all departments who were a part of the initial response.

Lesson Learned: Mr. Trego stated in hindsight he should have opened the EOC fully on Friday. There were an estimated 5-8" of rain. We had coordinated department level contingency plans in place, but it is easier to close than open the EOC during a storm. Mr. Trego also stated our building is not as weather secure as we thought. Though the building is in the 500 year flood plain, there is a creek that runs through it that is in the 100 year flood plain. The building was within several inches of rain from getting water on the first floor. Discussion ensued.

Mr. Trego stated employees entering the front of the building waded through water up to their waists. We had to use boats in the rear of the building, taking employees from it to the line trucks. This building was basically an island.

He also stated water impacted the electrical system & the chiller plant. We also had flooding in the parking lots. Some PWC and City vehicles were impacted, though we moved them as quickly as we could.

Mr. Trego stated we had plans for evaluation of storm water control on the campus slated to occur. Now we have expanded the scope based on what we learned during the storm to determine how we can better control water on the campus. Susan Fritzen, Chief Corporate Services Officer stated staff has had preliminary discussions with an engineer, basically high level discussions. Staff is looking at creating a storm water management plan. We will consider raising parking areas; identify areas where we can move equipment ahead of an event; create somewhat of a staging plan to be prepared. Mr. Trego also stated we have some land. Perhaps we can possibly pump water to an adjacent site. Additional discussion ensued.

Mr. Trego stated back-up generation was our lifeline during storm at this facility as well as at the plants. He stated as part of our lessons learned, we need to look at automated controls and switchovers to make this process much easier.

One of the lessons learned were at the Hoffer plant. We restored and lost power several times. Every time we switch over takes a little bit of time. In hindsight, it would have been easier to run the generator until we were sure everything was secure. He stated without the back-up generation we probably would have lost the water system. And we would have had bigger issues at the sewer plants and at this campus.

He stated we also learned the impact Advanced Metering can have on recovery. We were able on the electric side to manually poll meters to see who was without power. We will examine electric outage management system options and water system monitoring tools, which are part of Phase 2 of Smart Grid.

Mr. Trego stated we found that communications and social media were very important to us. We were able to get vital information out quickly. Yet we need to have more regulated communication updates. The situation was so dynamic and there were several areas which required information from us and it appeared that our updates were not correct. We realized in hindsight that we need to give out information at specific periods of time. Discussion ensued.

Mr. Trego also stated we need to improve how we handle our outage orders. The Outage Management System evaluation should address this issue.

He stated we identified areas for training and development. We need to expand our training and improve our back-up for key skilled areas. He stated we also need to do more comprehensive disaster drill training. Mr. Trego suggested we propose to the County EOC and the City the concept of regional training to include the City, County, other utilities and municipalities.

Commissioner Shaw asked if there a mechanism other than manual for the outage orders that can be handled in a crisis. Susan Fritzen responded we do not have a full blown outage management system. We are utilizing the information we have now which is a manual process. There are small in between systems which may be available, where we can get some map information and know where there are outages. The other option is to get a full blown system. She stated we need an approach that looks at the short-term and also evaluate if we need a full blown outage management system.

Mr. Trego stated the smart meters we have installed provide much more information than we had in the past. Our new meters have a 'last gasp' signal. So if power is cut to a home, the meter will send out the last gasp signal which lets us know that it no longer has power. The last gasps are aggregated into a report but not a work order. The out of the box solution from Sensus means that the meter no longer has power, but it does not tell us why. We will explore our options from using Google Maps to a full outage management system. He said we will explore the option that gives us what we need as well as gives the customer what he/she needs. Commissioner Shaw stated that PWC needs to advance the progress on this. She stated customers are anxious when they are without service. Discussion ensued.

Mr. Trego stated Duke also has an Oracle System. They serve urban and rural areas and in rural areas that are a remote, a full blown outage management system is a real tool. He stated, here in Fayetteville (being more urban) we may be able to repair one line and 10,000 -15,000 customers will be back online. On the contrary, if this had been a typical hurricane and we had a lot of trees down, we may not have been able to turn on a lot of customers by repairing one line. This is where having a more detailed granular system really help. Mr. Trego stated that the ability to get customers back on within 72 hours was more a function of the storm than our systems. If we would have had more scattered outages it would have been more difficult. That is where that information is a key.

Commissioner Shaw asked if Oracle has this capacity. Ms. Fritzen confirmed and stated Duke also uses the smart meters as we do. They have a piece that goes between called the 'Smartgrid Gateway'. We also have this capacity. She stated she and several other employees will be going to a conference in January which is highly technical on the electrical side, but there will be a lot of information on outage management. Additional discussion ensued.

Mr. Trego stated while there are areas to improve, our systems did work. He also stated the Commissioners can take solace that the investments in electric, water and wastewater reliability that they have authorized us to implement and the plans we have in place have paid off. For example, upgrading a lot of our substations and putting in modern controls allowed us to get customers back on and reroute power; putting the relining on a lot of our pipes to keep the I/I down paid off; also the improvements on Glenville Lake Dam (the spillway). Making these investments on behalf of our customers paid off.

Mr. Trego also stated being a hometown utility is more than just words on a logo. Our employees showed their dedication in wanting to respond to our customers and also we have mutual aid through Electricities. We were able to call and get help from 11 people from

Wilson to give us a shot in the arm. When we were secure we were then able to send our employees to help others. Discussion ensued.

Mr. Trego stated the coordination between PWC, the City and the County and others worked well this time. The Fayetteville Observer stated it was 'government at its best'. We also received other positive responses from Facebook, the newspaper and others. He stated he would claim our restoration a success and the efforts of our employees exemplary. There are areas to improve and we are constantly looking for ways to improve.

Mr. Jay Reinstein, Assistant City Manager, stated the City is having their Lessons Learned meeting at 10:30 a.m. today and they hope to have their after actions report by early December. He also spoke very highly of the collaborative effort between PWC, the City, the County and others.

Mr. Noland also thanked the Hope Mills City Manager, John Ellis. PWC stayed in close contact with Hope Mills in monitoring the Hope Mills Dam. He stated we could not get out there but they were our eyes in that area. Discussion ensued.

Commissioners thanked Mr. Trego for the detailed report.

WATER AND WASTEWATER RATE SESSION

*Presented by: J. Dwight Miller, Chief Finance Officer and
Jeffery Hughes, UNC School of Government*

Mr. Dwight Miller, Chief Finance Officer introduced Mr. Jeffery Hughes, UNC School of Government. Mr. Hughes will discuss some of the features his program has done to help entities in North Carolina in establishing rates.

Mr. Hughes stated he has worked with PWC over the years and he is happy to be here to use this time as an informal discussion on what he is seeing in North Carolina and across the country.

He stated the Environmental Finance Center is a subgroup of the UNC School of Government. He stated half their work is outside NC and half their work in within the state. They look for projects that provide them the opportunity that they are interested in, such as: applied research; teaching and outreach; and program design and evaluation.

Today, Mr. Hughes plans to discuss financial management challenges; common financial management strategies and market trends.

He discussed the massive amount of outstanding W/S debt for local government utilities across NC as of 2013 in North Carolina. The local government water and sewer side is a huge industry and huge initiative in North Carolina and across the country.

He stated there are some common financial challenges which include the following:

- a. Water sales are falling faster than predicted.
- b. Build it and they may not come.

- c. There is a disconnect between pricing and cost structures. He stated there is a big disconnect between what the customers are billed and the cost to serve them.
- d. Condition of Assets.
- e. Household ‘affordability’
- f. Willingness to adjust rates

Mr. Hughes also discussed some of the biggest challenges to setting rates:

- a. Falling consumption trends/difficulty with projections
- b. Governing board’s unwillingness to raise rates
- c. Communities ability to pay more for water and wastewater service
- d. Pressure to keep rates comparable to other water utilities
- e. Rising cost of other governmental taxes and fees
- f. Other

He discussed the reductions in average household use in 2010 from 2007 levels for 275 NC Water Systems. He stated the bottom line is that 1 in 5 utilities in NC saw their sales go down 20% during this period.

Mr. Hughes provided an interactive tool to compare rates (bills) among all utilities, or utilities with similar characteristics. This tool can be used for rates comparison; financial benchmarks; characteristics and links.

He stated utilities across the state are conducting:

- a. Customer sales analyses
- b. Rates that generate revenue to support capital improvements
- c. Periodic rate increases
- d. Rate structures
 - a. Tiers – reduces impact on low volume users, but increases revenue vulnerability
 - b. Base rate – can provide some revenue strategy - *Mr. Trego stated he is seeing some utilities in NC dividing this rate by providing a FIF fee as a line item so the customers understand the rate. Discussion ensued. Commissioner Shaw stated the cellphone companies communicate data usage to users and inform them when they are going to a higher rate. She asked if utilities have begun this type of communication. Additional discussion ensued.*
- e. Replacement and rehabilitation targets
 - a. Set amount
 - b. Percentage of system
 - c. Targeted critical assets
- f. Reserves (rate stabilization, capital)
- g. Strategic system expansions and partnerships

Mr. Hughes reviewed the extent of revenue reliance by utilities on large customers. He offered staff to keep up to date with the Environmental Financing Blog at <http://efc.web.unc.edu>.

He also directed participants to the NC Environmental Center Site to view NC Rate Setting Resources such as:

- a. Guide to billing ..., Kara Millonzi Rates Book
- b. EFC Web Resources (data, guidelines, dashboard)
- c. LGC Data
- d. Painful Art of Rate Setting
- e. Rates Course May 2012
- f. Rate Setting Guide
- g. AWWA M1 Guide
- h. Rural Water Association
- i. Consultants
- j. NCLM/EFC Practices Survey

Discussion began on “rates versus fees” and “impact fees”. Mr. Hughes mentioned a court ruling that really shook up the municipal utilities. He stated some parts of the ruling were vague and others were detailed. He stated we will see more attention on how these fees are labeled.

PRESENTATION OF FINANCIAL HIGHLIGHTS AND ANNUAL AUDIT REPORT
FOR FISCAL YEAR 2016 PREPARED BY CHERRY BEKAERT LLP

(PWC STRATEGIC GOAL #1)

Presented by: J. Dwight Miller, Chief Finance Officer

Michelle Thompson, CPA, Partner - Cherry Bekaert LLP

Brenda Brown, CPA, Controller

Rhonda Haskins, CPA, Director of Financial Planning

Recommendation: Accept Audit as prepared and presented by Cherry Bekaert LLP

Dwight Miller, Chief Finance Officer informed the Commission the 2016 Fiscal Year End Audit is complete. Mr. Miller recognized and thanked members of the Finance staff for their assistance during the audit process. Mr. Miller also stated the Annual Audit Report will be posted on the PWC website.

He introduced Michelle Thompson, Partner with Cherry Bekaert LLP. Ms. Thompson briefly reviewed the results of the annual audit for fiscal year ended June 30, 2016. She stated again this year, PWC received an unmodified opinion which is a clean opinion and it is the highest level an audit firm can give.

Ms. Thompson also stated their Governance Letter is required to be issued or at least stated verbally to the board. This Governance Letter states Cherry Bekaert is independent. It will point out any significant changes in the accounting policy that may make comparison between the statements that the board needs to be made aware of. It will explain management’s judgments and estimates in the financial statements and list what they are. Ms. Thompson stated time passes and the estimates become actuals. At the time they issued this report that was the best estimate and they describe the kinds of things they consider when they audit the estimates and what management considers when they are developing the estimates.

Following Ms. Thompson's review of the audit, Dwight Miller, Brenda Brown and Rhonda Haskins gave an overview of the 2016 Comprehensive Annual Financial Report and presented a PowerPoint presentation which included additional detail concerning the audit.

Listed below are the financial highlights of the audit:

- ❖ The PWC's net position at year end was \$877.0 million, an increase of \$22.3 million, or 2.6 percent, up from \$854.7 million in fiscal year 2015.
- ❖ Total unrestricted and undesignated operating reserves were 133.7 days at June 30, 2016, up from 108.79 in the prior year.
- ❖ Income before Capital Contributions and Transfers was \$19.1 million compared to \$23.3 million in fiscal year 2015, down \$4.3 million or 8.3 percent.
- ❖ In March of 2016, electric rate adjustments were approved effective May 1, 2016 and May 1, 2017.
- ❖ In March of 2015, water/wastewater rate adjustments were approved effective May 1, 2015 and May 1, 2016.
- ❖ The Electric Rate Stabilization Fund net position was \$42.6 million at June 30, 2016, down from \$48.4 million in the prior year.
- ❖ The Water and Wastewater Rate Stabilization net position was \$5.0 million at June 30, 2016, up from \$4.7 million in the prior year.
- ❖ Water and Wastewater revenues were reduced by \$1.5 million as a result of the 2016 billings to Hope Mills' customers that were reclassified from outside-city to inside-city rates.
- ❖ PWC restricted \$10 million in FY 2016 in a Coal Ash Reserve to mitigate future potential coal ash costs passed on from its purchased power provider.
- ❖ Power Supply and Generation Expenses decreased by \$16.1 million to \$141.1 million in fiscal year 2016 down from \$157.27 million in fiscal year 2015.
- ❖ During fiscal year 2016, the PWC maintained its Aa2/AA/AA rating from Moody's and Standard and Poor's, and Fitch, respectively.
- ❖ PWC's senior lien ratio is 3.98, exceeding the minimum requirement of 1.10.
- ❖ In June 2016, PWC refunded \$47.0 million of its outstanding debt and achieved a net present value savings of \$4.8 million, or 10.29%.

Commissioner Rogers asked if anything was categorized differently now that PWC is a Public Authority. Ms. Thompson responded that the Fleet Fund is now presented as a business type fund instead of an internal service fund. This change is a result of the way PWC is presented in the City of Fayetteville Financial Statements as a discreetly presented component unit instead of just another set of funds. Also, there is a special item listed on the financial statements related to the Hope Mills refund.

Mr. Trego stated part of the decision to report the Fleet Fund this way was though the new charter did not come into effect until July 1st, we did have the judge's ruling prior to that and the consensus was to report it this way. Ms. Thompson also stated there was a meeting with the City of Fayetteville, PWC, the Institute of Government, LGC and Cherry Bekaert to go through the literature, and the rulings and the parties came to an agreement to determine how to present the data. Their concern was to ensure that it was not misleading.

Ms. Brown also stated that the “Transfer to the City” is now classified as “Payment in Lieu of Taxes” and any assessments that the City gaged to the citizens is now an “Assessment Receivable”. Ms. Thompson stated these are more presentation differences and not number differences. We are treating the City of Fayetteville as a third party. Additional discussion ensued.

Chairman Shaw thanked Mr. Miller and the Finance Staff for the Presentation of the Financial Highlights and Annual Audit Report.

Upon motion by Commissioner Rogers, seconded by Commissioner Fowler, the Commission unanimously approved to accept the FY 2016 Annual Audit Report as prepared and presented by Cherry Bekaert LLP and the 2016 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

Commissioner Rogers asked how Hurricane Matthew will affect the capital budget for this year. Mr. Miller stated we are utilizing (for the maintenance piece of it) contingency and may have to come to the Commission later with a budget amendment as we go further into the year. He also stated we expect to be refunded from FEMA. We will receive some of the dollars this year. We normally receive 70% to 80% fairly quickly and then it may take 5 to 6 years to receive the remainder. Mr. Trego stated we may have to request a budget amendment because the funds from FEMA will be recorded as revenue.

RECOMMENDED CHANGES TO PWC BACKFLOW PREVENTION INSPECTION FEE

*Presented by: David Trego, CEO/General Manager
Dwight Miller, Chief Finance Officer*

Recommendation: Approve changes to Backflow Prevention Inspection Fee

Mr. Trego stated PWC is required to do a periodic inspection of backflow devices. We went to bid for the inspections and the price has increased. Since 2007, this fee was \$0.90 per month for customers who have the backflow devices. He stated we need to increase the fee to \$1.60 per month to reflect the increase contractor charges from \$13.50/valve to \$24.50/valve. Discussion ensued regarding the increased contractor charges.

Upon motion by Commissioner Fowler and seconded by Commissioner Rogers the recommended changes to the PWC Backflow Prevention Inspection Fee was unanimously approved.

GENERAL MANAGER REPORT

Mr. Trego updated the Commission on the Hope Mills’ refunds. He stated PWC has received approximately 31% of the eligible claim forms (3,600). We have paid over 1,000 of the claims received which is approximately \$1.2M. He stated we have approximately 1,500 which will be moved to our Accounts Payable Dept. (ready for payment) which is approximately \$1.4M. We have approximately \$2.7M ready to be paid/already paid. There

were only fifty one claims denied and there was one claim received that was fraud and several others that are questionable. These have been given to law-enforcement. He also stated we have received about 300 pieces of undeliverable mail and we anticipate receiving more. Mr. Trego also stated a second wave of mailing will be sent out to customers.

Mr. Trego also stated we have seen several solar companies coming into the city. They are promoting the installation of solar panels to customers, but some of the solar manufacturers have not reviewed our website and have not given the proper information to the customer to contact us. The solar manufacturers are stating if a hurricane comes through they will have power all the time. But if the house goes underwater you will not have power all the time also when there is a hurricane, it is normally not a sunny day. They are also attempting to sell customers battery-backup. But typically a battery system to supply a whole home is very, very large. They are supplying something that might support a refrigerator and lights but not an HVAC system. We are making sure the customers are educated and we have contacted a couple customers who have submitted that they want to place solar on their property. We are supportive of their efforts, but we want to make sure they have the correct information.

COMMENTS:

Commissioner Rogers and Shaw requested an update on PWC's Purchasing Initiative and the Second Supplier Vendor Day for soft services.

Commissioner Rogers also requested an update on PWC's Technology and how integrations are working with Finance and the new technology. Susan Fritzen commented staff has engaged a new production support consultant who will be with us for the year. The consultant will support all of our applications and has worked with Kansas Power and Light for 10 years. We are planning a field trip (possibly in December) to discuss BI (Business Intelligence) with them. This is the reporting piece to see how they are utilizing it and what we need to do to move it to the next level.

Commissioner Fowler stated he is glad to see Venus back in the Commission Meeting.

Commissioner Shaw thanked Mr. Miller, Ms. Brown, Ms. Haskins and all the staff for the very user friendly Audit Presentation.

REPORTS AND INFORMATION

The Commission acknowledges receipt of the following reports and information.

- A. Monthly Incident Summary for October 2016
- B. Personnel Report for October 2016
- C. Position Vacancies

ADJOURNMENT

There being no further business, upon motion by Commissioner Rogers, seconded by Commissioner Fowler and unanimously approved, the meeting was adjourned at 11:37 a.m.