

PUBLIC WORKS COMMISSION
MEETING OF WEDNESDAY, OCTOBER 10, 2018
8:30 A.M.

Present: Darsweil L. Rogers, Chairman
Evelyn O. Shaw, Vice-Chairlady
D. Ralph Huff, III, Secretary
Wade R. Fowler, Jr., Treasurer

Others Present: David W. Trego, CEO/General Manager
Mitch Colvin, Mayor, City of Fayetteville
Jay Reinstein, Assistant City Manager
Johnny Dawkins, City Council Liaison
Michael Boose, Cumberland County Liaison
PWC Staff
Media

Absent: Melissa Adams, Hope Mills Town Manager/Liaison

ADMINISTER OATH OF OFFICE:

- ❖ Mayor Mitch Colvin administered the Oath of Office to Wade R. Fowler, Jr., as Commissioner of the Fayetteville Public Works Commission. Commissioner Fowler was appointed to a second term by the Fayetteville City Council on Monday, September 10th. Commissioner Fowler's second term will extend thru September 30, 2022.

REGULAR BUSINESS

Chairman Fowler called the meeting of Wednesday, October 10, 2018, to order.

PUBLIC POWER WEEK PROCLAMATION

Mayor Colvin stated the City Council, during their meeting on Monday, October 8th, proclaimed the Week of October 7th thru October 13th, 2018 as Public Power Week in recognition of the Fayetteville Public Works Commission. He read the proclamation in the hearing of the Commissioners.

Mayor Colvin also stated the community really showed who we were during Hurricane Florence. PWC did an outstanding job. He also stated there was great communication between PWC and the City Council. He thanked PWC for the service provided.

Commissioner Fowler thanked the Mayor and the City Council for the cooperation PWC received. He thought it was a great situation and showed we are all on the same team. He stated the Mayor was critical in the process.

Commissioner Fowler stated part of the reason it went so well is because of Jay Reinstein, Assistant City Manager. We appreciate Jay Reinstein and the work he has done. He has been a consummate professional and an integral part in making it a team effort between PWC and the City. He stated we could not have asked for a better liaison.

Mr. Reinstein stated it has been overwhelming and he is humbled. He is going to greatly miss coming to the meetings; it has been great being here. It also has been good getting to learn each one better and learning about the PWC organization and the great things PWC is doing. He went on to state the relationships we have been able to build and improve over the last few years are tremendous and he hopes that it will continue and continue moving in the right direction.

Commissioner Rogers stated exemplar is what it requires for collaboration. He stated that is what we have experienced in Jay Reinstein's collaboration and cooperation across the organizations. Commissioner Rogers thanked him for being that example.

ELECTION OF OFFICERS FOR FISCAL YEAR 2018-2019

Commissioner Ralph Huff submitted the following slate of officers for FY2018-2019.

- Chairman – Darsweil L. Rogers
- Vice Chairman – Evelyn O. Shaw
- Secretary – D. Ralph Huff, III
- Treasurer – Wade R. Fowler, Jr.

The motion was seconded by Commissioner Shaw and unanimously approved.

Chairman Rogers thanked Commissioner Fowler for the outstanding work he has done across the community and for bringing his acumen; understanding of politics; what we do here; and his ability for communicating so effectively. Chairman Rogers stated he received fewer calls because of the tremendous effort Commissioner Fowler put into supporting the Commission over this last year and he thanked him.

Approval of Agenda

Upon motion by Commissioner Fowler and seconded by Commissioner Shaw, the agenda was unanimously approved.

CONSENT ITEMS

Upon motion by Commissioner Shaw and seconded by Commissioner Huff, Consent Items were unanimously approved.

- A. Approve Minutes of meeting of September 26, 2018
- B. Approve PWCORD2018-35 - Electric and Water/Wastewater (W/WW) Budget Amendment #3

PWCORD2018-35 is an Electric and Water/Wastewater Fund FY 2019 amendment increasing the Electric Fund \$14,400 to \$275.7 million and increasing the W/WW Fund \$836,900 to \$115.7 million.

Electric Fund

- Budgetary Appropriations (Revenue) is being increased by \$14,400 as a result of the anticipated Series 2018 Bond Proceeds that will cover the finance costs of the bond issuance (Electric Portion). Operating Expenditures is being increased by the same in Other Finance Costs.
- Budgetary Appropriations (Expenditures) is being increased by \$830,000 to fund the Transportation Equipment Capital Project Fund. This capital project fund is being set up to cover the expense of long lead time transportation equipment. Therefore, Electric Capital is being reduced by that amount.

W/WW Fund

- ❖ Budgetary Appropriations (Revenue) is being increased by \$836,900 as a result of the anticipated Series 2018 Bond Proceeds that will cover the finance costs of the bond issuance (Water/Wastewater Portion). Operating Expenditures is being increased by the same in Other Finance Costs.

- C. Approve PWCORD2018-36 – Electric Transportation Equipment Capital Project Fund.

The Electric Transportation Equipment Capital Project Fund (CPF) establishes a CPF for transportation equipment recommendations for FY 2019 – 2023. This CPF will be funded from annual transfers from the Electric Fund. A CPF is desirable to track these multi-year recommendations which have long lead time purchases and making the budgeting, tracking and pre-audit requirements more manageable to staff.

- D. Approve PWC Resolution # PWC2018.14 - Resolution Authorizing Fayetteville Public Works Commission to Engage in Electronic Payments as Defined by G.S.159-28

The 2015 legislature modified the GS 159-28 (d2) (local governments) to allow the LGC to adopt rules to address the execution of the pre-audit and disbursement process related to electronic transactions. The new pre-audit and disbursement rules were effective as of November 1, 2017 and exist as part of the North Carolina Administrative Code (20 NCAC 03.0409 and 20 NCAC 03.0410). Per Memorandum #2018-05, dated March 12, 2018, from the LGC, units of government can now be exempt from the pre-audit certificate and disbursement certificate requirements on electronic transactions if they follow the requirements as detailed in the new administrative code. The requirements are:

- ❖ Adopt a resolution to engage in electronic payments
- ❖ Adopt policies and procedures for electronic obligations or delegate authority to Finance Officer
- ❖ Adopt policies and procedures for electronic payments or delegate authority to Finance Officer

Adoption of the attached resolution will allow the PWC to utilize the following:

- ❖ Charge Cards
- ❖ Credit Cards
- ❖ Debit Cards
- ❖ Gas Cards
- ❖ Procurement Cards
- ❖ Electronic Funds Transfers

END OF CONSENT

PRESENTATION OF FINANCIAL HIGHLIGHTS AND ANNUAL AUDIT REPORT FOR FISCAL YEAR 2018 PREPARED BY RSM AUDITORS

(PWC STRATEGIC GOAL #1)

Presented by: Rhonda Haskins, CPA, Chief Finance Officer
Brenda Brown, CPA, Controller
Robert Bittner, III, CPA, MBA – RSM Auditors

Rhonda Haskins introduced Robert Bittner, Senior Manager for RSM. She stated he will present the audit results for fiscal year 2018. Mr. Bittner thanked PWC for allowing RSM to serve the Commission. They enjoyed working with the Finance Team. They were outstanding in getting to them the information RSM needed.

He began with several financial highlights. The net position is up \$43M. Overall Operating Income for the Electric Fund was \$26M and \$22M for the Water Fund. The overall Cash Position decreased \$25.5M in the Electric Fund and \$38.7M in the Water Fund. Remaining Unspent Bond Proceeds Outstanding is \$7.5M in the Electric Fund and \$14M in the Water Fund. He stated one of the big items this year was the implementation of GASB#75. He explained the implications of this item.

Regarding the audit itself, PWC earned a Clean Opinion or Unmodified Opinion. This is the highest level assurance they can provide. This means on a reasonable basis, they believe everything is stated appropriately as required in GAAP,

Regarding compliance, Mr. Bittner stated they found one Material Weakness related to the Construction in Process WAM system and being able to get the information from WAM back into the financial software and vice-versa. He is aware the process of re-implementing the system is currently still in process and as long as the process is still outstanding they cannot remove the Material Weakness.

One new finding which is classified as a Significant Deficiency was related to the reporting system that comes out of IT for the financial software. It resulted in an audit adjustment

which was related to accrued payroll in the Fleet Fund. The adjustment had no effect on statement of activities or revenues and expenses. He stated it was strictly a balance sheet classification. He also stated reporting is not allowing for timely and appropriate reconciliation of the balance sheet. So the uncorrected misstatement is about \$700,000 split between the water fund and the electric fund. Most of which are collections that cannot be identified in the general ledger. Some of which have been identified and some have not because the reporting is not detailed enough to reconcile the items.

Mr. Bittner discussed GASB#89 which is related the capitalization of interest during construction. It no longer allows for the capitalization of interest. Discussion ensued.

Following discussion, Commissioner Fowler motioned to accept the audit as presented. Commissioner Huff seconded and it was unanimously approved.

Ms. Haskins acknowledged and thanked staff for their efforts in compiling all the financial information. She then presented Brenda Brown, PWC Controller.

Ms. Brown stated the Fleet Maintenance Fund was established on July 1, 2005. The fund is used to account for the accumulation and allocation of costs associated with the City of Fayetteville and the Public Works Commission's Fleet maintenance activities. She stated the revenues decreased last year, with the largest decline in City Services. The expenditures also declined. She went on to state the biggest expenditures are in Materials and Supplies and then Salaries and Benefits.

Ms. Brown also highlighted other financial data:

Operating Revenues at year end were \$325.1 million, an increase of \$11.6 million, up from \$313.5M in fiscal year 2017.

Power Supply and Generation Expenses increased by \$13.8 million to \$155.6 million in FY2018 up from \$141.8 million in FY2017.

Payment in Lieu of Taxes to the City increased to \$10.4 million in FY2018, up from \$10.0 million in FY2017. Ms. Haskins stated the Payment in Lieu of Taxes to the City is based on the Electric Net Position. The Payment In Lieu of Taxes for 2018 was based on the 2016 Audited Net Position. She stated the 2017 Audited Net Position is what the Payment In Lieu of Taxes will be based on for 2019, which is budgeted at \$10,938,000. It will increase in 2020 to \$11,098,087.

Total assets increased to \$1.3 billion in fiscal year 2018, up from \$1.28 billion in fiscal year 2017.

The total net position increased to \$941.2 million at year end 2018, up from \$913.5 million in fiscal year 2017.

Ms. Haskins stated revenues exceeded budget in the Electric and Water/Wastewater Funds. The revenues continue to keep pace with the operating expenses. Ms. Haskins also noted the revenue trend by customer class. She stated the residential customers are our largest customer group in Electric and Water/Wastewater, making up approximately 70% of our sales revenue.

Ms. Haskins noted the Electric System Requirement and usage: our peak demand in FY2018 was 461.4MW, which is 2.8% higher than 2017. The Water System Treatment Capacity is 57.5 MGD. The average usage is 23.69 MGD, with a peak of 33 MGD. This is down .3% from the previous year. The Wastewater System Treatment Capacity is 46 MGD. The average usage is 23.7 MGD, with a peak of 24.9. This is down 13.67% from 2017. Ms. Haskins noted we had unusually high inflows in 2017 due to Hurricane Matthew. Discussion ensued.

Ms. Haskins discussed the weather which drives the load factor. She also reviewed the Purchase Power Cost five year trend; demand versus energy. She noted the demand costs were \$76M and the energy costs were \$58M for FY2018.

Ms. Brown highlighted the largest expenditures in the Electric Fund, excluding purchased power. She stated the largest is Personnel Services at \$24.2M. Capital Outlay is \$18.2M. Transfer to the City is \$11.6M. Debt Related Payments is \$3.8M and Appropriations is \$2.8M.

She stated in the Water Fund, the largest expenditures were Personnel Services (\$26.0M). Debt Related Payments were \$24.9. Other Operating Expenses for FY2018 were \$15.3M. Capital Outlay was \$13.2M. Appropriations were \$10.4M; and Contractual Services were \$6.1M. The Days Cash was slightly above the target (120 days) at 138 days.

Key financial ratios exceeded the standard of 2.1 for FY2018. The Current Ratio is 3.21, and the Quick Ratio is 2.91.

Ms. Haskins stated the Water/Wastewater Fund has 70% of PWC's Capital Assets. She reviewed PWC's Debt Service and Coverage.

The balance in the Electric System Rate Stabilization fund at the end of FY2018 was \$48.8M. The balance in the Coal Ash Reserve fund was \$18.8M at the end of FY2018. Ms. Haskins stated staff expects to use of the balance in the Coal Ash Reserve fund in this fiscal year and then begin to draw on the Electric System Rate Stabilization fund. Discussion ensued.

The balance in the Water/Wastewater Rate Stabilization fund at the end of FY2018 was \$578,287. Ms. Haskins stated in 2017 we had a withdrawal for Hope Mills.

Ms. Haskins discussed PWC's contribution to the City's General Fund. She stated the formula has changed over the last five years.

| FY | PILOT | Special Agreements | Annexation Agreement | Net Cash Transfer | Street Lighting Value | Total City Contribution |
|------|------------|--------------------|----------------------|-------------------|-----------------------|-------------------------|
| 2014 | 12,303,615 | (406,047) | (3,786,035) | 8,111,533 | 3,736,428 | 11,960,054 |
| 2015 | 12,527,760 | (385,200) | (3,142,560) | 9,000,000 | 3,754,435 | 13,017,246 |
| 2016 | 9,487,800 | - | - | 9,487,800 | 3,755,044 | 13,505,697 |
| 2017 | 9,966,765 | 1,200,000 | - | 11,166,765 | 3,769,579 | 14,936,344 |
| 2018 | 10,428,117 | 1,200,000 | - | 11,628,117 | 3,857,435 | 15,485,552 |

Over the past 5 years, PWC's total contribution to the city was \$68,904,893

Chairman Rogers requested for copies of the report to be delivered to the Commissioners in ample time before the meeting. He thanked Ms. Haskins and Ms. Brown for the FY2018 Financial Report.

GENERAL MANAGER REPORT

Hurricane Michael

Mr. Trego stated Hurricane Michael should begin to have impact in the Fayetteville area Thursday morning. He expects the storm to flow over Fayetteville on Thursday afternoon. We will have crews ready to respond to outages if necessary. Mr. Trego stated he does not expect to need to open the EOC. He stated the meteorologists are expecting 5-8 inches of rain. By Friday it should be out in the ocean. Mr. Trego stated we expect tropical force winds for about 12 hours as opposed to 2 days. It will be a lot less than Florence. We will assist with Mutual Aid, based on our systems here in Fayetteville.

Broadwell Development

Mr. Trego stated the Commission as part of their strategic plan identified the northern Fayetteville area as a strategic area. He stated about two years ago, PWC made a commitment to a development in the Spring Lake MIA (Hammond Property) that Spring Lake could not serve. They committed to PWC and we committed to getting water and sewer to them. It is located north of Elliott Bridge Road.

Broadwell has owned property south of Elliott Bridge Road for a significant period of time. They had a series of issues regarding being annexed into the City, so they reached out to Harnett County and had conversations with them concerning providing service (water and sewer).

Mr. Trego stated it never sat well with him that we would go through an area that another provider would service. He started with a conversation with Jay Reinstein and arranged a meeting to have an initial discussion to see if we could create a win, win, win situation. He stated the win, win, win would be our ability to serve a development that we are going to run by that we did not have a commitment from; the city would get roughly 500 homes into the tax base of the City of Fayetteville; and the developer would get the services from PWC and the City. He stated they had a series of meeting with the City and also a number of meetings with Broadwell; we had a lot of give and take on issues dealing with storm water and the UDO.

He stated he is pleased to say Broadwell has applied to the City for annexation and we have an agreement in principle to serve them with water and sewer. He stated this is a real win, win, win and a real case of PWC and City staff working in the best interest of the City and PWC. Though he does not know the decision of the City Council, staff was able to get it to their plate. Mr. Trego stated this agreement will add to the City tax base and add revenue to PWC, with roughly 500 homes, commercial development and a school. If we did not get this agreement, we would have had to pay for a right-a-way. He stated this is the result of efforts

by City Staff, Mick Noland's group, and Mark Brown's group; a lot of hard work has gone into making this happen.

Commissioner Huff stated he understands the Board of Adjustments and the Planning Board almost voted against this initiative. He stated the owner is concerned that it will not be a strong vote on the City Council. Discussion ensued.

Public Power Week

Mr. Trego stated as the Mayor stated in his proclamation, this is Public Power Week and we have a number of things going on in recognition of it. Ms. Justice-Hinson stated Public Power Week was established by the American Public Power Association (APPA). Communities all over the country celebrate Public Power. She stated we do this all year round. As part of the Commission's strategic goals we promote the value of public power in our community. Ms. Justice-Hinson stated we wanted to share some of the things we have had going on since last week.

- We did a PWC Day last Thursday.
- We participated in an Energy Careers Day at Southview Hospital (in conjunction with ElectriCities of NC.
- Taste of Fayetteville on Sunday
- WIDU Anniversary this week
- Sustainable Sandhills in the Indigo Moon Film Festival on Saturday
- Hosting about 50 high school students from the Poly Tech Cumberland County High School on Friday

Ms. Hinson went on to state we are also creating a publication that discusses the value of public power here in Fayetteville. This publication will highlight local control, fast response and higher reliability. It will also highlight the other value that public power brings which is hard to quantify such as, economic development, commitment to the environment, and local jobs. Discussion ensued.

Ms. Hinson displayed a logo from the American Public Power Association, entitled Community Powered. She stated this will be a part of our ongoing promotion. ElectriCities also developed a video with the same title which she played for the Commission.

COMMISSIONER / LIAISON COMMENTS

Commissioner Huff

Commissioner Huff stated he has explained the FTCC Program with several significant contractors. These contractors will be tuned-in to the graduates and possibly hire them.

Council Member Dawkins Comments

Council Member Dawkins inquired about the teams who came to assist PWC during Hurricane Florence. Mr. Trego stated we have a reciprocal agreement with other public power agencies. Council Member Dawkins asked if we will send teams to Florida to assist

them. Mr. Trego stated we are waiting for the requests to come in. The APPA coordinates it through ElectriCities. Jon Rynne, Chief Officer of Electrical Systems stated he has participated in the first call for mutual aid. He explained the process we will go through and respond to calls for help possibly by Friday.

Discussion also centered on PWC's readiness for Hurricane Michael which is expected to hit the Fayetteville area on Thursday.

Council Member Dawkins stated the City should have a map online regarding non-container yard debris by October 24th. Mr. Trego requested for the link to be sent to PWC and we will place it on our website.

Commissioner Boose stated PWC does not 'pat themselves on the back enough'. He also stated he attended PWC Day for the second time. He commented on PWC's staff; their professionalism; friendliness; and knowledge.

REPORTS AND INFORMATION

Commission acknowledges receipt of the following reports and information.

- A. Monthly Cash Flow Report
 - July 2018
 - August 2018
- B. Investment Report
 - July 2018
 - August 2018
- C. Personnel Report – September 2018
- D. Position Vacancies
- E. Approved Utility Extension Agreement(s):
 - Water and sewer services to serve Tru Hotel, located at 2065 Cedar Creek Road
- F. Actions by City Council during meeting of September 24, 2018, related to PWC:
 - Approved Bid Recommendation – Relocation of Electric Transmission and Distribution Facilities – US401 (Raeford Road)
 - Approved Bid Recommendation – Cross Creek Water Reclamation Facility Influent Pump Station Rehabilitation
 - Approved Bid Recommendation – 27 kV Class, 1200 AMP Feeder Vacuum Circuit Breakers
 - Approved Bid Recommendation – Highway #401 North Water Improvements Contract 1

ADJOURNMENT

There being no further business, upon motion by Commissioner Fowler, seconded by Commissioner Shaw and unanimously approved, the meeting adjourned at 9:52 a.m.