

PUBLIC WORKS COMMISSION
MEETING OF WEDNESDAY, APRIL 26, 2017
8:30 A.M.

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

Others Present: David W. Trego, CEO/General Manager
Jay Reinstein, Assistant City Manager
Karen McDonald, City Attorney
Jim Arp, City Council Liaison (VIA CONFERENCE CALL)
Chancellor McLaughlin, Hope Mills Planning and Development Mgr.
Ola Ferm, IBI Group
PWC Staff
Media

Absent: Melissa Adams, Hope Mills Town Manager
Michael Boose, County Liaison

CALL TO ORDER

Chairwoman Shaw called the meeting of Wednesday, April 26, 2017, to order.

APPROVAL OF AGENDA

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

CONSENT ITEMS

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

- A. Approve Minutes of meeting of April 12, 2017
- B. Approve bid recommendation to award contract for construction of Annexation Phase V – Project VIII, Area 18, Section II – Southgate Subdivision to Sanford Contractors, Inc., Sanford, NC, the lowest, responsive, responsible bidder in the total amount of \$6,479,510.19 and forward to City Council for approval. The Annexation

Phase V – Project VIII, Area 18, Section II is a budgeted item (budgeted amount of \$6,690,350.10). Bids were received as follows:

<u>Bidders</u>	<u>Total Cost</u>
<u>Alternate Bid #2 (Permanent Pavement Patch)</u>	
Sanford Contractors, Sanford, NC	\$6,479,510.19
TA Loving Co., Goldsboro, NC	\$6,816,286.65
State Utility Contractors, Inc., Monroe, NC	\$7,347,035.00

<u>Alternate Bid #3 (Temporary Patch & Overlay)</u>	
Sanford Contractors, Sanford, NC	\$6,965,139.22
TA Loving Co., Goldsboro, NC	\$7,211,126.35
State Utility Contractors, Inc., Monroe, NC	\$7,716,242.00

**contingent upon agreement by the City of Fayetteville to pay additional cost for overlay versus permanent patch*

COMMENTS: The Commission is asked to approve award of the bid to Sanford Contractors, Inc., Sanford, NC, for Alternate Bid #2 (Permanent Pavement Patch), or Alternate Bid #3

(Temporary Patch and Overlay). Award of Alternate Bid #3 (Temporary Patch and Overlay) would be contingent upon agreement by the City of Fayetteville to pay the additional cost associated with overlay versus the permanent patch included in Alternate Bid #2. If the City does not agree to pay the additional cost, the Contract will be awarded for Alternate Bid #2.

Plans and specifications were requested by four (4) contractors with three (3) contractors responding. The project was advertised twice due to the fact that an insufficient number of bids were received on the first advertisement.

- C. Adopt PWC Resolution No. PWC2017.06 to declare personal property described as one (1) 2006 JCB 214-4WD Backhoe, VIN #SLP214TC6U0907934, as surplus and authorize its sale by public auction.

COMMENTS: North Carolina General Statute 160A-270 permits the sale of personal property with an estimated value of \$30,000 or more by public auction upon authorization by the governing board.

- D. Approve to accept Duke Progress Energy's offer to extend the Butler Warner Power Sales Agreement through December 31, 2023 and execute the 3rd Amendment to that Agreement.

Duke Energy has offered to extend the current Butler Warner Power Sales Agreement between PWC and Duke Energy an additional 2 ½ years. This would extend the term through December 31, 2023. This is the second extension of this Agreement. An amendment to the Agreement executed by the Commission in October 2014 extended the term 3 ½ years to June 2021. For this amendment all other terms and conditions of the original Agreement remain in place including the payment schedules to PWC for Capacity, Variable Operating Expenses, Per Start Charges and Performance Incentives. In FY2016 these payments totaled \$12.7 Million. These payments are included in electric revenues and are taken into consideration when determining the electric rates charged to PWC customers.

- E. Approve staff's recommendation to continue current plans and premiums for Health Benefits and increase the Dental Benefit Plan monthly premiums by 3% to:
1. Employee only \$35.00
 2. Employee Plus Child \$70.00
 3. Employee Plus Spouse \$70.00
 4. Employee Plus Family \$116.00

END OF CONSENT

PRESENTATION ON FINDINGS OF FLEET FACILITY ASSESSMENT

*Presented by: Susan Fritzen, Chief Corporate Services Officer
Ola Ferm, RA, Sr. Project Mgr., IBI Group*

Susan Fritzen, Chief Corporate Services Officer, gave a history of the Fleet Facility. She stated the facility was built in 1988. It was built to service 600 vehicles. In 2005 the PWC entered into an agreement with the City of Fayetteville to complete maintenance on their fleet as well. That took a facility that was sized to service 600 vehicles and almost tripled it. We were previously operating with one shift and changed to three shifts.

Ms. Fritzen stated in 2010, there was an assessment completed of the Fleet Operation at the request of the Commission. This assessment resulted in a report, known as the Mercury Report, which identified fifty plus recommendations of improvements we could do to make the Fleet Operation more efficient, some were significant and others not so significant. Some of their more significant recommendations were changing shifts from three to two shifts. They also recommended we convert a storage shed on the property to light duty bays. These recommendations were implemented as suggested. Another suggestion was PWC should look at our Fleet Facility because there were not enough bays and not enough technicians. Ms. Fritzen stated we cannot add technicians when we do not have a spot to place them.

Ms. Fritzen stated she began to oversee the Fleet Operation in 2012. They looked at the rest of the recommendations of which some were already in place and began to implement the remaining ones.

She stated they have not addressed the big one (adding bays and adding technicians). For the last five years PWC has been in limbo with the City. The City talked about taking back their own fleet and completing the maintenance themselves or taking back part of it.

Two years ago PWC created a new SLA (Service Level Agreement) with the City; changed our pricing structure; and put in place some extra metrics we could all live with. The SLA was completed before Steve Blanchard (former CEO) left and PWC signed it. The City has not signed it. So we have been operating under the agreement in place since 2005.

Ms. Fritzen stated we are at a cross-road at this point. In the last several months we have been outsourcing more of our services in an effort to keep our service level up. Since 2005, the fleet has increased in size. The City has added more police officers and with the officers

come more vehicles. We will continue to face a declining service level as the vehicles increase and the age of the vehicles increase. Ms. Fritzen stated the outsourcing of the parts department is just a short term fix to try to keep the vehicles moving. She stated we repair fire trucks and they are very specialized. We only have two techs to service them and they are backing up. We do not want to have a life-saving piece of equipment in our facility waiting to be serviced. We are trying to find ways to move the vehicles in and out as quickly as possible.

Ms. Fritzen stated again we are at a cross-road. We brought in a consultant last fall to complete a Space Needs Analysis to consider what the building should look like so we are not simply sticking bays on the end. It really needs a comprehensive look. The firm, IBI Group of North Carolina and their partners, Design Maintenance Group are experts in the area of fleet facilities. She stated we brought them onboard to assist us. In the last couple of months, we have gone through in depth discussions. It has been a lot of fun, but it has been very productive.

Ms. Fritzen then introduced Ola Ferm, of IBI Group. Mr. Ferm is an architect at IBI. Mr. Ferm stated the building was constructed in 1988 with 27,860 sf. to service about 600 vehicles. It was built in 1980s standards. In 1995 a 4,500 sf. addition was constructed on the east side of the building (the welding shop).

As Ms. Fritzen mentioned, in 2010, Mercury completed a comprehensive programming report. It was based on VEUs (Vehicle Equipment Units). They determined the needs as they saw it from an operational standpoint and a fleet standard and the services that should support that fleet as of 2010. Mr. Ferm stated at that time we were up to 1867 vehicles (676 for PWC and 1191 for COF). Their recommendation was we needed to add 27 bays for a total of 41 bays and to convert the storage shed to 7 light duty bays.

Mr. Ferm stated they approached the assessment on a fleet size; the makeup of the fleet size to come up with a right size fleet size for 2017 and 2037. They based it on a varying size of vehicles (light duty, medium duty and heavy duty). As of 2017 the total fleet size is 1,937 (588 PWC and 1,349 COF). In 2017 44 bays (79,000 SF with Support Spaces) are needed to service the fleet efficiently. In 2037 the industry standard would be 48 bays (83,000 SF Facility and Support Spaces).

Mr. Ferm stated the current bays are smaller than the current industry standard which makes it difficult to service some vehicles efficiently and safely. He also stated there are modern code issues that will need to be addressed if the building is touched. He mentioned there are locker rooms and offices upstairs with no alternate means of egress.

Mr. Ferm stated staff and consultants spent five days working on varying schemes. They came to the conclusion that they cannot support fire and refuse efficiently if they add on to the existing building and will require relocation of the wash facility.

He stated one option is an Addition and Renovation of the existing Fleet Operations Facility. This project would consist of four phases and would be a five year project. The estimated total project budget is \$31,573,000 with no Fire or Refuse capabilities.

A new facility on the campus is another option. This project would last 2 ½ years with a total projected budget of \$30,864,000 without Fire and Refuse; or total projected budget of \$33,129,000 with Fire or total projected budget of \$36,490,000 with Fire and Refuse. Staff and Mr. Ferm responded to questions from Commission.

Mr. Ferm also introduced a Hybrid Option which consisted of the construction of a Heavy Duty and Administration building; renovation and conversion of existing facility to a Light Duty facility. Total projected budget is \$24,917,000 without Fire and Refuse capabilities; total projected budget is \$27,181,000 with Fire capabilities; and total projected budget is \$30,542,000 with Fire and Refuse capabilities.

Commissioner Fowler asked if the current Council agreed to a 20 year agreement, would a future Council have the option to honor or not honor current Council's actions. Council Member Arp discussed the difference between Interlocal Agreements and contractual relationships and stated an Interlocal Agreement would not have the same level of commitment as a contractual relationship. Discussion ensued.

Commissioner Rogers stated it makes a lot of sense to have integrated services rather than redundancies. He stated if we can figure out a good rational way to do it, it would be good. Additional discussion ensued.

Mr. Trego stated he fears we are at the inflection point that if we do not do something service levels will begin to go down. We will begin to receive complaints from PWC Departments as well as City Departments. More discussion ensued.

Commissioner Fowler stated everything depends on whether the City Council decides if it will keep the City's facilities here or not and there needs to be some indication by the City.

Mr. Ferm continued to summarize the options presented:

Addition/ Renovation

Project Budget: \$31.5m

Cons: Will not support Fire or Refuse

5 year Multi -Phasing /Disruptive to Operations

New Facility Construction

Project Budget: \$31m – \$36.5m

Pros: No disruption to Current Operations/ Frees up space

Hybrid

Project Budget: \$25m – \$30.5m

Cons: Divided operation/ duplication of staff and services

Council Member Arp discussed the differing decisions the Council needs to make regarding their Fleet Operations and the costs which will be assigned to the City if the New Facility is built with the City's Fleet as part of the project. Additional discussion ensued.

Chairwoman Shaw asked Council Member Arp if there has been any recent discussion regarding the City's intent. She also asked if he is willing, as the board's liaison, to help facilitate discussion with the City. Council Member Arp stated there have been (within the last six months) side-bar conversations that Council needs to address this issue. He stated he is not an advocate of the City taking on the maintenance role. He stated he does not believe they (the City) can do it from a comparative manner (price and service standpoint) that can be done if it is outsourced. Council Member Arp also stated they (City Council) need to go through the decision making process to determine which is the best solution. He is willing, as the board's liaison to the Council to help and to facilitate discussions.

Chairwoman Shaw asked Mr. Ferm to elaborate on the safety risks or issues within the current facility. Mr. Ferm stated they have not completed a risk management evaluation. He stated his observation is based on the date the building was erected. Commissioner Shaw asked Mr. Ferm to elaborate on the length of the newer vehicles, the height of the newer vehicles and the employee's ability to work in tight spaces. Ms. Fritzen stated in her observation whenever the employees are in tight spaces and working in non-optimal conditions you are setting yourself up for potential accidents. This is something staff looks at very seriously. The techs have to jockey vehicles in and out all the time because they cannot pull them through (they are too big). Commissioner Shaw stated this is critical for her. Additional discussion ensued regarding the safety of PWC crews as well as those dropping off vehicles for repair/maintenance.

Staff and Commission discussed the differing Fleet Building Additions/Renovations with and without the City's Fleet.

Commissioner Fowler stated either way you look at it the City is outsourcing its Fleet maintenance to someone. They are outsourcing to PWC or to someone else. The Council needs to answer that question and so does PWC. The PWC is in the business of being a utility and not a repair facility. The City needs to decide if it wants its largest asset to expand itself outside of the utility business into the automobile repair/truck repair business. It needs to decide whether it's Fleet should be outsourced to someone whose sole emphasis is vehicle repair and have the utility focus on being a utility and not have to deal with this. He stated the cost for the utility would be significantly less and the City would be able to have the option to have it outsourced and save themselves some money as well.

Mr. Trego stated while servicing vehicles are not a core part of the utility business there is an aspect of it that makes it a critical part of our operation. Commissioner Fowler clarified by stating he is not referring to outsourcing PWC vehicles, but when it becomes an issue with fixing PWC vehicles or City vehicles, it takes from the core business of the utility. He stated since the City has not made its mind up, the City needs to look at an option which does not include PWC. Council Member Arp stated you should always look at the core function and mission and whenever you exceed the margins of your core function and mission that is where you find the areas that are costing you a lot of money. He stated they need to sit down and have an honest dialog. Additional discussion ensued.

Commissioner Rogers asked "how does the County manage their services"? He stated there may be some commonality in the City and County. Mr. Trego stated we haven't taken a look at all the options. There are so many. He stated the purpose of this presentation is to

get the discussion going. Commission, liaison and staff also discussed debt service, increased OEM costs and other costs associated with the new facility.

Commissioner Shaw asked Commissioners Huff, Fowler and Rogers to make up an ad hoc committee to pursue discussions with the City. She stated safety and ADA are a high priority for her.

DUKE COAL ASH SETTLEMENT DISCUSSION

Presented by: David Trego, CEO/General Manager

Jon Rynne, Chief Operations Officer – Electric

Mr. Trego stated staff has been discussing coal ash for a while, ever since the Dan River Spill. We have a settlement proposal from Duke to discuss with the Commissioners. He then presented Jon Rynne, Chief Operations Officer – Electric, to begin the discussion.

Mr. Rynne stated back in 2014 with the advent of the Dan River Spill, coal ash became a real issue, particularly in North Carolina. It also affected the EPA and the United States as a whole. With the Dan River Spill, coal ash turned from something people did not really think about; something that was really not considered a hazardous substance to being a regulated substance. In the past, it was just something that coal generation produced which was stored onsite or trucked to a landfill. Once the Dan River Spill occurred, coal ash was elevated to national prominence (what it was and what we needed to do with it). Federal regulations also became involved. The Coal Ash Management Act came into play and at that point utilities had to figure out a way to deal with coal ash that had been stored up from coal generation through numerous decades. Duke Energy was one of the first utilities impacted because it was their spill.

Duke Energy's estimated remediation costs are \$2.8 billion. PWC's share would be \$82.1 million through 2032 if fully allowed. If we were to terminate the contract early and exit in June 2014, our total exposure would be \$74.1 million.

Since PWC and ElectriCities of NC have similar Power Supply contracts, we have jointly entered into settlement discussions with Duke Energy. The FERC (Federal Energy Regulatory Commission) is the Commission who deals with wholesale power supply contracts and the impacts on us (the wholesale customers). Based on FERC regulations and recent rulings which indicate recovery of coal ash costs are in general recoverable. They are not going to take any actions in reducing the costs being passed on to customers. We expect FERC to say that Duke Energy Progress can pass their costs to us.

Duke Energy Progress (DEP) has made the following settlement offer to PWC and ElectriCities. Duke will pass on to PWC any cost disallowances that the NC Utility Commission requires Duke to take for retail customers. Duke will spread all costs incurred in the 2015-2017 timeframe over a 24 month period beginning in January 2018, with no carrying or interest charges. PWC will also be able to share in cost reductions through the beneficial reuse of coal ash.

Part of the coal ash cost recovery will not include any individual settlements with homeowners due to contaminated wells. All the coal ash expenses are subject to the normal year end “audit” and true-up of our Power Supply Costs.

Customer Impact – The Commission has been proactive in building balances in the Rate Stabilization and Coal Ash Funds, anticipating cost recovery by Duke to minimize future rate impact on customers. This was done assuming the following:

- No disallowance of costs at NCUC.
- Recovery of costs through 2024 of \$74.1 million.
- Reduction of the Coal Ash Fund to \$0 by 2024
- Reduction of Rate Stabilization to near the Commission minimum – 10% of power supply costs by 2024.
- The average residential customer would have a monthly electric bill impact of \$2.00 - \$2.25 per month through 2024 for Duke’s Coal Ash related costs.

Mr. Rynne stated without the proactive action in developing the Rate Stabilization and Coal Ash Funds, the monthly residential surcharge could have been 4 – 5 times higher. He stated the recommendation on the actual amount will be brought to the Commission as part of the Electric Rate discussions next year.

Mr. Trego stated when staff and Commission previously had rate discussions we anticipated having to make a one-time payment to Duke, not knowing what FERC would rule or what the offer would be. So having the balance there allows us to draw out of the fund and smooth it out for the customers when we are paying out the expenses over the 24 month period.

There are two options for the Commission.

- Option 1 – Accept Duke’s Settlement Offer
- Option 2 – Fight issue at FERC

Mr. Trego stated we were successful the last time at FERC with the Depreciation Case. He stated the dynamics are different this time. He stated FERC views this as a cost of doing business, though they may disallow some line items. He stated staff recommends for the Commission to accept Duke’s Settlement Offer and execute the revised Power Supply Agreement.

Mr. Trego also stated it is the consensus of PWC, ElectriCities staff, legal and consultants that the potential for cost recovery disallowance at NCUC is greater than at FERC.

He stated if we decide to fight it at FERC and we lose and the NCUC gives disallowances we will not receive them, because we are not regulated by the NCUC and those savings would not flow through to PWC. In Duke’s offer to settle, savings will flow to PWC.

Mr. Trego stated FERC uncertainty is magnified because currently only 2 of 5 Commissioners are in place and there is no quorum. We are awaiting Presidential appointments that will be an automatic majority.

Staff recommends for the Commission to accept Duke's Settlement Offer and execute the Power Supply Agreement. He stated we need to execute the agreement because FERC wants to have a completed agreement and not just an amendment to the agreement. He stated PWC has had our legal team and consultant to look at it and it meets the intent of the parties that we were going through negotiations.

Commissioner Fowler motioned to accept Duke's settlement offer under the recommendation of staff and execute the Agreement. Motion was seconded by Commissioner Rogers and unanimously approved.

Mr. Trego stated since PWC is a retail customer of Duke; we will intervene in the NCUC case. We will be involved at the state level. We are a retail customer at some of our lift stations. The City can also intervene because of street lights.

GENERAL MANAGER REPORT

ADVANCED METERS

Mr. Trego stated we have over 99% of all electric and water meters installed. We are on schedule to be completed by the end of the fiscal year. We currently have approximately 1300 meters (out of over 110,000 meters) left to install. We have a number of commercial meters that also need to be converted. We are acquiring a conversion socket that will allow us to perform this task a lot easier. We are expecting to have all of our advanced metering installed by the end of the fiscal year. Mr. Trego stated all the crews and those involved have done a great job.

LED CONVERSION PROJECT

We are in the midst of our LED Conversion Project. Mr. Trego stated we have been working with the Downtown Alliance and will make a decision regarding the downtown lighting. We have three different types of lights to test. We will install the lights and then have a tour with the Downtown Alliance to determine the best light overall. He stated the City has also been invited to participate in the tour.

HOPE MILLS

Mr. Trego stated he had a conversation with staff on yesterday. As the Commission knows, we sent out a second round of communication to those customers who we felt still lived in the area that were due a refund. We requested for them to return a confirmation form. The confirmation forms are only coming in 2 to 3 a week now. He stated we are on track to do what we proposed to the Commission which is to shut it down at the end of the fiscal year when we close our books. Once we reconcile everything we will send the required funds to the State Treasurer. So far we have refunded to the customers over \$5 Million out of a little over \$8 Million expected to be refunded.

DOGWOOD FESTIVAL

Mr. Trego stated the Dogwood Festival is this weekend. PWC will be there, promoting conservation and handing out water.

2ND ANNUAL PWC DAY

On May 4th will be our 2nd Annual PWC Day. On this day we bring in local leaders and prominent people within the community. We are expecting 25 community stakeholders. Christine Michaels, the new Chamber President, Robert Geons, head of the EDC, and Jay Reinstein, Assistant City Manager are expected to be there.

BUDGET DISCUSSIONS

Mr. Trego reminded Commission that PWC will have budget discussions at the next meeting, Wednesday, May 10th. The Operating and CIP Budgets are planned to be discussed.

COMMISSIONER COMMENTS:

Commissioner Rogers

Commissioner Rogers asked about the welfare of the Cape Fear River with all the rain. Mr. Noland stated considering the crest we experienced with Matthew, what we have experienced in the last couple of days is a non-issue.

Commissioner Shaw

Commissioner Shaw commended the staff on putting on the family oriented activities. She attended the basketball tournament on Saturday and there were family members in the bleachers who were so elated to support their spouses and family members in the games. She heard many positive comments about how these activities are good for the families. She also commended the PWC team members who engaged those in the bleachers.

REPORTS AND INFORMATION

The Commission acknowledges receipt of the following information and reports.

- A. Monthly Cash Flow Report – March 2017
- B. Recap of Uncollectible Accounts – March 2017
- C. Investment Report – March 2017
- D. Personnel Report – March 2017
- E. Position Vacancies
- F. Approved Utility Extension Agreement(s):
 - Valley End II, LLC, water and sewer services to serve Valley End II

ADJOURNMENT

There being no further discussion, upon motion by Commissioner Fowler, seconded by Commissioner Rogers and unanimously approved, the meeting was adjourned at 9:59 a.m.