

PUBLIC WORKS COMMISSION
MEETING OF WEDNESDAY JANUARY 26, 2022
8:30 AM

Present: Evelyn O. Shaw, Chairwoman
Ronna Rowe Garrett, Vice Chairwoman
Donald L. Porter, Secretary
Wade R. Fowler, Jr., Treasurer (VIA WEBEX)

Others Present: Elaina L. Ball, CEO/General Manager
Chris Davis, City Council Liaison (VIA WEBEX)
Telly Whitfield, Assistant City Manager (VIA WEBEX)
Dennis Pidherny, Fitch Ratings (VIA WEBEX)

Absent: Jimmy Keefe, Cumberland County Commissioner, Liaison
Scott Meszaros, Hope Mills Town Manager
Media

REGULAR BUSINESS

Chairwoman Evelyn Shaw called the meeting of January 26, 2022, to order.

Approval of Agenda

Upon motion by Commissioner Ronna Garrett, seconded by Commissioner Donald Porter, the agenda was unanimously approved.

CONSENT ITEMS

Upon motion by Commissioner Donald Porter, seconded by Commissioner Ronna Garrett, the Consent Items were unanimously approved.

- A. Approve Minutes of meeting of January 12, 2022
- B. Approve bid recommendation to award contract for the Readvertisement of Annexation Phase V, Project XV, Construction Area 32 East, Section I to T. A. Loving Company, Goldsboro, NC, the lowest, responsive, responsible bidder in the total amount of \$14,735,075.00, and forward to City Council for approval.

This project will provide sewer service to the construction area at Area 32 East Section I for Phase V Annexation, consisting of approximately 15,992 linear feet of gravity sewer, 12,555 linear feet of water main, associated well abandonments, and sanitary sewer improvements with associated appurtenances (“this project” or “subject project”)

The funding for this project will be from the Phase V Annexation Reserve Fund (CPR1000130 and CPR1000095).

Bids were received on December 8, 2021, as follows:

Bidders

Total Cost

J. Smith Civil, LLC, Goldsboro, NC
T. A. Loving Company, Goldsboro, NC

\$13,155,618.20
\$14,735,075.00

COMMENTS: Notice of the bid was advertised through PWC's normal procedures on October 15, 2021, with an initial bid opening date of November 16, 2021. Addendum No. 1 was issued on November 11, 2021, in part, to extend the bid opening date to November 24, 2021. PWC did not receive the requisite three (3) bids. Notice of the bid readvertisement through PWC's normal procedures occurred on November 24, 2021, with a bid opening date of December 8, 2021. PWC received two (2) bids, which were timely opened and evaluated by PWC Water Resources Engineering for this project.

PWC staff requested interviews of the references submitted by the lowest bidder, J. Smith Civil, LLC. After evaluation of the reference interviews, bid, and prior performance of the contractor, PWC staff determined that J. Smith Civil, LLC was a non-responsible bidder for the size and scope of this project. PWC staff then requested interviews of the references submitted by the second lowest bidder, T.A. Loving Company. After evaluation of the reference interviews, bid, and prior performance, PWC staff concluded that T.A. Loving Company was the lowest responsive, responsible bidder for this project. It is therefore PWC staff's recommendation to award this project to the lowest responsive, responsible bidder, T.A. Loving Company, Goldsboro, NC.

SDBE/Local Participation: T.A. Loving Company is based in Goldsboro, NC, and has local offices in Fayetteville, NC. The company also pays Cumberland County property taxes. T. A. Loving Company anticipates spending \$397,519.37 (2.69%) to SDBEs with Fill Er Up Trucking of Tar Heel and Southeast Caissons of Kernersville. The company plans to subcontract \$1,330,853.00 (9.03%) locally with Forrest's Landscaping of Fayetteville and T&T Tree Service of Hope Mills.

END OF CONSENT

STRATEGIC PRIORITIES UPDATE – FINANCIAL HEALTH

Presented by: Rhonda Haskins, Chief Financial Officer (CFO)
Dennis Pidherny, Fitch Ratings

Ms. Ball stated this is the seventh discussion we have had around our strategic priorities. This is the first brief concerning financial health.

Ms. Haskins stated she will discuss the following:

- ▶ PWC At A Glance
- ▶ Commission Policies
- ▶ Strategic Plan Objective and Goals
- ▶ Discuss Financial Health Goals
 - Ratings
 - Liquidity
 - Budget Performance

Ms. Haskins stated there is another goal related to the Butler Warner Generation Plant that she will not discuss today. It will be discussed at another time.

- ▶ Strategic Initiatives
- ▶ Financial Health Monitoring

PWC At A Glance

- ▶ Annual Operating Budget: \$405.2 Million
- ▶ Total Assets: \$1.44 Billion

- ▶ Bond Rating: Aa2 (Moody's), AA (Standard and Poor), AA (Fitch)

Ms. Haskins stated there are three AA ratings (AA-, AA & AA+). Ms. Haskins stated we are in the middle at AA, and one notch and one step from the highest ratings we can receive, which is AAA. Ms. Ball stated doesn't believe there are any electric utilities that own power generation are AAA. She went on to stated, owning power generation is a huge benefit, it is also an operating risk. Commissioner Garrett asked do we have information on the percentages that are at the next highest rating. Mr. Pidherny will cover that information.
- ▶ Annual Local Purchases: \$25 Million
- ▶ Operations & Maintenance Expenses per Customer: \$432 (\$556 National Median)
- ▶ Annual Contributions to City of Fayetteville in Lieu of Taxes: \$11.4 Million
- ▶ Additional Services and Contributions to the City: \$14.2 million

Staff and Commission discussed PWC's contributions to the City.

PWC Policies

- ▶ Principles of Sound Financial Management
 - Policy framework and guidelines for overall fiscal planning and management
- ▶ Investment of Public Funds
 - Compliance with NCGS 159-30
 - Safety, liquidity, and yield
- ▶ Post Issuance Compliance
 - Compliance with federal tax laws
- ▶ Internal Controls
 - Accuracy, reliability, efficiency, and usefulness of records
 - Reporting/safeguarding of assets
 - Laws/regulations & policies/procedures followed
 - Fraud prevention and detection

Financial Health Strategic Objective

PWC will maintain its financial health to keep cost of borrowing low, customers' bills affordable, maintain safe and reliable utility services, and provide dependable financial support to the City of Fayetteville.

Goals

- ▶ Goal #1 - Bond Ratings - Achieve an AA Bond rating by all 3 agencies with a stable or positive outlook
- ▶ Goal #2 - Liquidity - Maintain 120 days of reserve for budgeted GAAP expenses
- ▶ Goal #3 - Generation Availability Factor >1.0

Ms. Ball stated Jon Rynne is leading an initiative to look at how we plan around our power generation resource. We have a great team at the plant. The assets are old and aging. Jon Rynne will give a presentation in March, and he will touch on the tide of financial health.
- ▶ Goal #4 - Capital Expenditures - Measure and improve capital expenditures plan to actual performance

Strategic Initiatives

Key Initiatives

- ▶ **Optimize savings opportunities in debt borrowings and grant offerings.**
- ▶ Maximize BWGP contractual performance to maintain availability factor.
- ▶ Complete an Integrated Resource Plan to determine power resource
- ▶ Supply Chain improvement - creating efficiencies in processes for planning, procuring, and storing materials. Identify and implement cycle time improvements in the procurement process.
- ▶ Re-establish Commodity Purchasing program to maximize savings on water and electric materials.
- ▶ **Define and develop meaningful and accountable budget performance reporting**

Expected Outcomes

- ▶ Provide low-cost funds for improvements and expansion of utility system infrastructure.
- ▶ Enhance supply chain management with improved cycle times, contract management, spend management benefitting resource allocation, cash flow, supply availability and pricing.
- ▶ Reduced cycle time for CIP projects. Cost savings with reduced activities.
- ▶ Compliance with DEP contract and optimal financial payments to PWC via tolling agreement and reduced power supply costs post FY 2024.
- ▶ Allow monitoring of budget performance in line with Strategic Priorities

Goal #1 – Bond Rating

The bond credit rating measures the creditworthiness of our bonds and is used by investment professionals to assess the likelihood the debt will be repaid

- ▶ Investment grade ratings range from BBB- to AAA
- ▶ PWC is currently AA rated by all 3 ratings agencies for all of its outstanding bonds
 - Achieved AA- level in 2008 and to current AA rating in 2014
- ▶ Each agency has their own rating methodology with some similarities in quantitative and qualitative measures
 - Debt service coverage
 - Liquidity
 - Leverage
 - Governance

Ms. Ball and Ms. Haskins discussed how PWC's bond ratings played into our most recent \$95M in debt issuance. Ms. Haskins stated our bond ratings impact our interest rate. For us to be able to finance the projects we discuss with the operations side of the house we achieved the lowest interest rate that we have achieved. It is 2.5% on 30 year debt. Our ratings come into play with our low interest rate.

Commissioner Garrett stated she assumes staff is shooting for the next level up. She asked if staff has a goal or timeline or is that an accurate assumption. Ms. Haskins responded staff has had that discussion. It would be an intentional goal we would need to commit to. We would have to raise our liquidity levels; look to policy; and strengthen some of our financial goals. Ms. Ball stated the incremental value of that is very small. We own generation, so we will not get to AAA. We receive a lot of criticism for carrying 120 days of cash, if we go for the higher rating, we will need to carry approximately 250 days of cash, and the way we would that is to raise rates. And we would get a little bit of interest benefit. She stated it is a great question, but we have had a very thorough look at it. Commissioner Garrett responded there are pros and cons to it, and you have to weigh it and make a very deliberate business decision. She was just curious if we have set that goal and all the work that would go behind it.

Ms. Haskins stated the willingness of the Commission to make decisions to raise or to lower rates is a key item. It is a negative for a board to say they will not raise rates and not consider our financial health. The willingness of the Commission to make good, sound business decisions goes a long way in the ratings.

She also stated the Commission’s ability to keep out of City Council rate decisions go a long way. You will see in every report that it is the Commission’s decision and does not rest with the City Council.

Goal #2 - Liquidity

Commission adopted Policy – These three policies cover our liquidity. They are also duplicated in our charter.

▶ 2.2.1 Necessity

The Electric and Water/Wastewater Utility Systems (the “System”) will maintain an Operating Reserve to pay for current obligations and to ensure that sufficient funds are available to meet unexpected needs. If the Operating Reserve drops below the required amount, the PWC will endeavor to replenish the Operating Reserve within a 12-month period of time.

▶ 2.2.2 Requirement Amount

The amount of Operating Reserve (Unrestricted Cash and Investments) on hand should equal a minimum 90 day requirement with a target of a 120 day requirement. The requirement shall be computed as $(x/360)$ of total budgeted expenses, including payments to the City, on a GAAP basis for the then current year.

▶ 2.2.3 Other Reserves

Other cash and investment restricted, and unrestricted reserves should be identified and recorded for debt covenants, legal requirements, resolutions, and other purposes.

Goal #4 – Budget Performance

Budget performance is measured through our ability to execute and manage the planned budget in a fiscally responsible manner

▶ Corporate Dashboard

- New reports are currently underway and in draft form for Management review

▶ Next steps are:

- To refine the draft and determine the next set of reports that meet the needs of those responsible for managing and executing budgets
- Set specific, measurable, achievable, relevant, and time-bound goals

Financial Health Monitoring

As a debt issuer and a NC local government, Financial Health is monitored at a minimum annually, examples include:

▶ Commission and City

- Corporate Dashboards
- Financial Presentations and monthly reports

▶ Local Government Commission

- Statutory authority to set rules
- Audited financial statements - annual
- Approves all debt and verifies debt payments monthly
- Monitors investments – semiannual reporting

Jason Alban discussed

▶ Rating Agencies

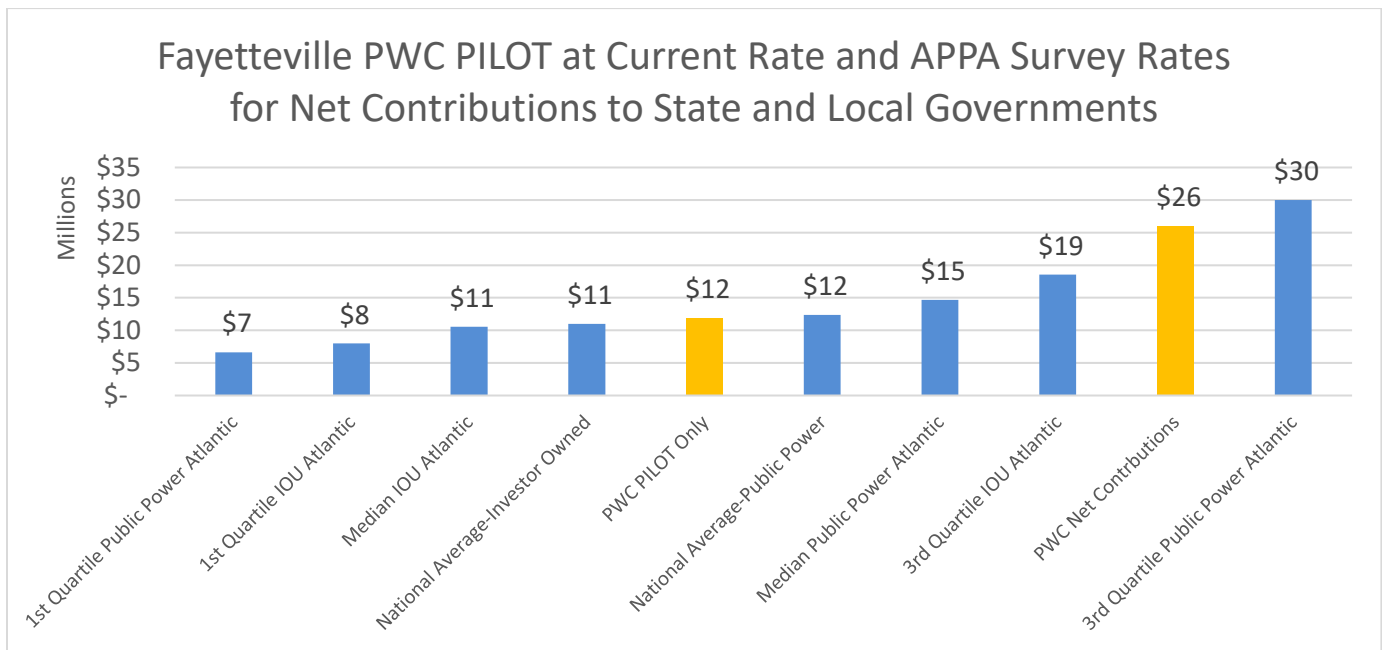
- Annual Surveillance
- ▶ Municipal Securities Rulemaking Board (EMMA)
 - Annual Continuing Disclosure'
 - Reportable events (16 reportable events SEC Rule 15c2-12)

Benefits of Financial Health

PWC's Financial Health reaches many impacted parties:

- ▶ PWC Customers – reliable utility service at competitive prices with rate structures and programs allowing customers more choices
- ▶ City of Fayetteville - Annual payment in lieu of taxes plus additional contributions
- ▶ Community – significant local spend and employment base
- ▶ PWC Employees – Competitive wages and benefits
- ▶ Bond Holders – Stable and reliable return

PILOT Benchmark



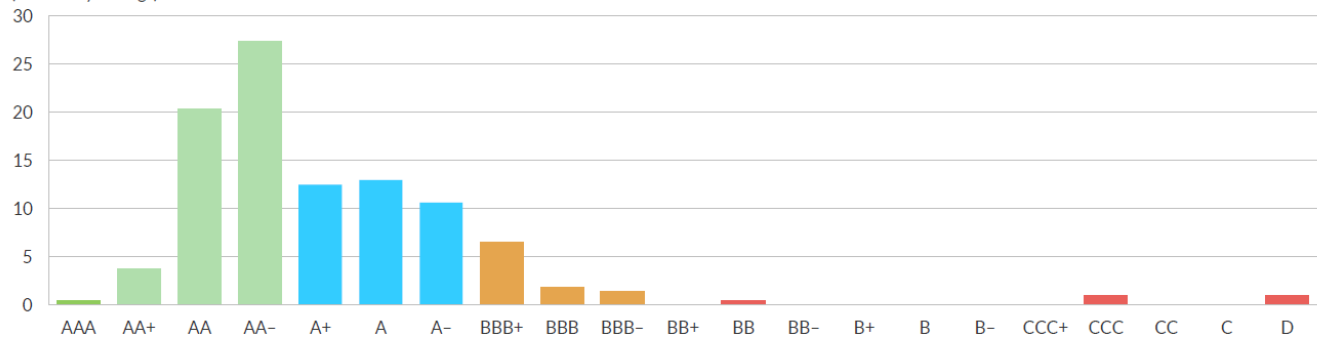
Ms. Haskins introduced Mr. Dennis Pidherny, Fitch Ratings Managing Director, U.S. Public Finance. Mr. Pidherny explained a rating and what it means. He stated a rating is an independent assessment of an enterprise's vulnerability to default. When we discuss the public sector that vulnerability is very low. Their ratings are relative and comparative.

Mr. Pidherny explained Fitch's ratings scale which spans from AAA to D. He responded to a previous question regarding how many utilities have earned an AA+ rating. He stated there are 4. Three of which do not own generation, and one owns some hydro-electric generation in the northwest. The lone AAA rating is the Tennessee Valley Authority which is owned by the federal government.

Rating Distribution

(As of Dec. 31, 2021)

(% Security Ratings)



Source: Fitch Ratings.

Mr. Pidherny emphasized Fitch does not give financial advice. He stated their responsibility is to provide an objective opinion. They do not have an agenda going into a ratings meeting/engagement. He stated Fitch's ratings criteria is on their website and available for anyone to read.

He discussed Fitch's ratings factors which include revenue defensibility; operating risk; and the financial profile.

Mr. Pidherny stated Fitch focuses on leverage perhaps more than any other agency. He stated they have found that it is a better indicator that it is an entity is under financial stress than any other metric they have analyzed or studied in the past.

He discussed transfers to the City and how Fitch views them. He discussed liquidity;

Liquidity Cushion

Metric to Support Assessment

- A liquidity cushion above 90 days is neutral to ratings, as long unrestricted cash is above 30 days. A liquidity cushion below 90 days or unrestricted cash below 30 days are considered "weak" and risk additive.

Council Member Davis asked Mr. Pidherny to explain his interpretation of transfers to the City. Are they negative or positive? Mr. Pidherny stated transfers are a well-established, well accepted means of returning capital to the host city for municipal utilities. They have seen policies that range from 0 transfers to percentages of revenue; percentages of net operating margin. They do not view transfers in and of themselves as negative to the credit quality of the enterprise. However, the magnitude of the amount that to transfer back to the city is factored into their analysis as cashflow that is not available to service debt. Their experience has been that even though there may be documentation protections of when those amounts can be paid or the priority of their payments. In most times of stress, those payments continue to be paid. There is nothing negative about it, but it must be factored into the analytics.

Council Member Davis and Mr. Pidherny also discussed various ratings (example: AAA, AA, and BBB).

Fayetteville Public Works Commission – Revenue Defensibility

KEY RATING DRIVERS - Revenue Defensibility: 'a'

Very Strong Revenue Source Characteristics Tempered by Midrange Service Territory Characteristics

- Fitch's revenue defensibility reflects the monopolistic revenue source characteristics of PWC's electric, water and wastewater utility system, but is tempered by the service territory's relatively weak economic metrics.
- PWC's revenue source characteristics are assessed at very strong reflecting the utility's captive customer base for each of its utility systems.
- PWC's service area characteristics are assessed at midrange, which reflects generally high unemployment and below-average income levels relative to the national averages.
- The area metrics are somewhat mitigated by the presence of the Fort Bragg military base, which has historically supported the area's steady growth, but limit the overall assessment.
- Fitch assesses PWC's rate flexibility as very strong reflecting the utility's autonomous rate-setting ability and

Fayetteville Public Works Commission – Operating Risk: 'a'

Renegotiated Power Contract to Reduce Operating Costs

- PWC's operating risk assessment reflects PWC's rising electric operating costs, which includes coal ash management costs passed through to PWC by Duke.
- While PWC's electric operating cost burden is projected to decline under the renegotiated agreement with Duke, Fitch still expects the operating cost burden will remain above 10 cents/kWh, in line with the assessment.
- Fitch assesses PWC's operating cost flexibility as neutral. Duke's power supply obligations are supported by a well-diversified portfolio of generating resources.
- PWC maintains adequate water supply, and treatment capacity remains sufficient. Operating costs at the water and wastewater systems appear manageable through the five-year forecast period ending 2025,
- Fitch assesses PWC's capital planning and management as strong reflecting an average age of plant of 18 years. Capex, which remain focused on the water and wastewater systems, are expected to remain elevated over the next five years for system expansion and maintenance.

Fayetteville Public Works Commission – Financial Profile: 'aa'

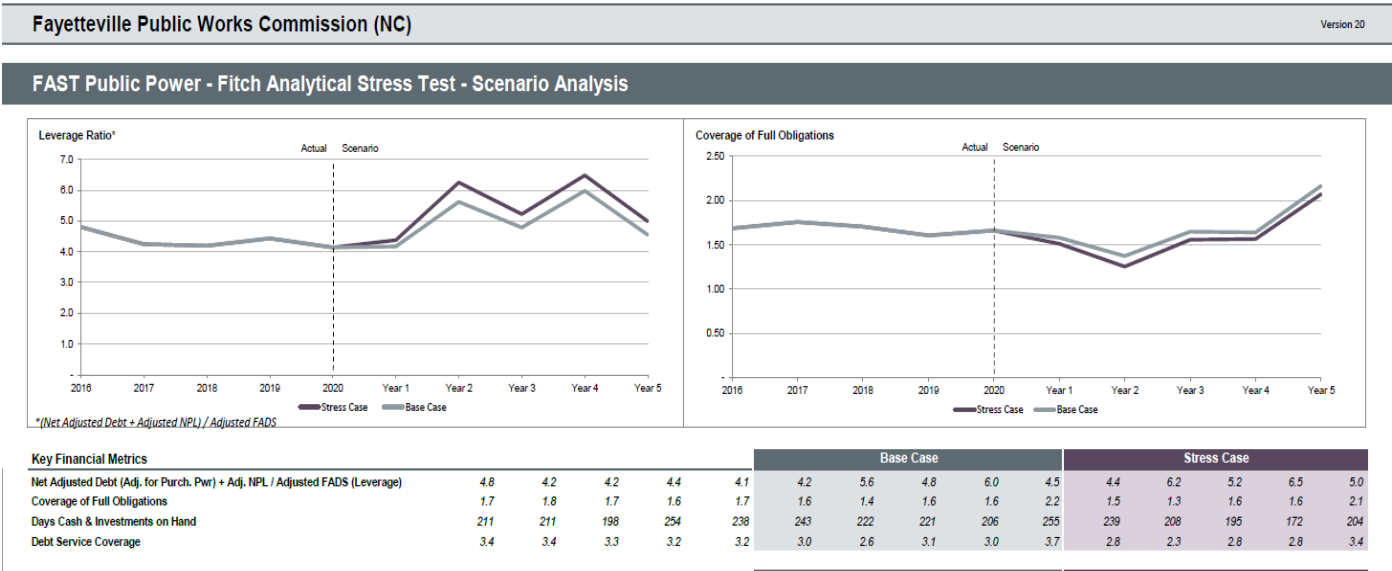
Increasing Leverage

- Fitch assesses PWC's financial profile as very strong, supported by strong operating cash flow, very low leverage, and sound liquidity.
- PWC maintains ample liquidity with 238 days cash on hand at FYE 2020. Fitch-calculated coverage of full obligations, which includes city transfers and a portion of purchased power as debt service, remained healthy at 1.7x in fiscal 2020.
- Leverage remained very low in fiscal 2020, declining slightly to 4.2x as the utility's debt amortized. Fitch's leverage calculation also includes \$395.5 million of other obligations including Fitch-calculated unfunded pension obligations and capitalized fixed charges for purchased power.
- Leverage is expected to climb during the next five years as the utility partially debt finances its expanded capital improvement plan.
- Leverage will be volatile and could rise to 6.0x during the next five years. However, ratios should moderate closer to 5.0x as rate increases are implemented. Under the stress case, PWC's leverage rises to 6.5x at FYE 2024, but is similarly expected to normalize closer to 5.0x in future years.

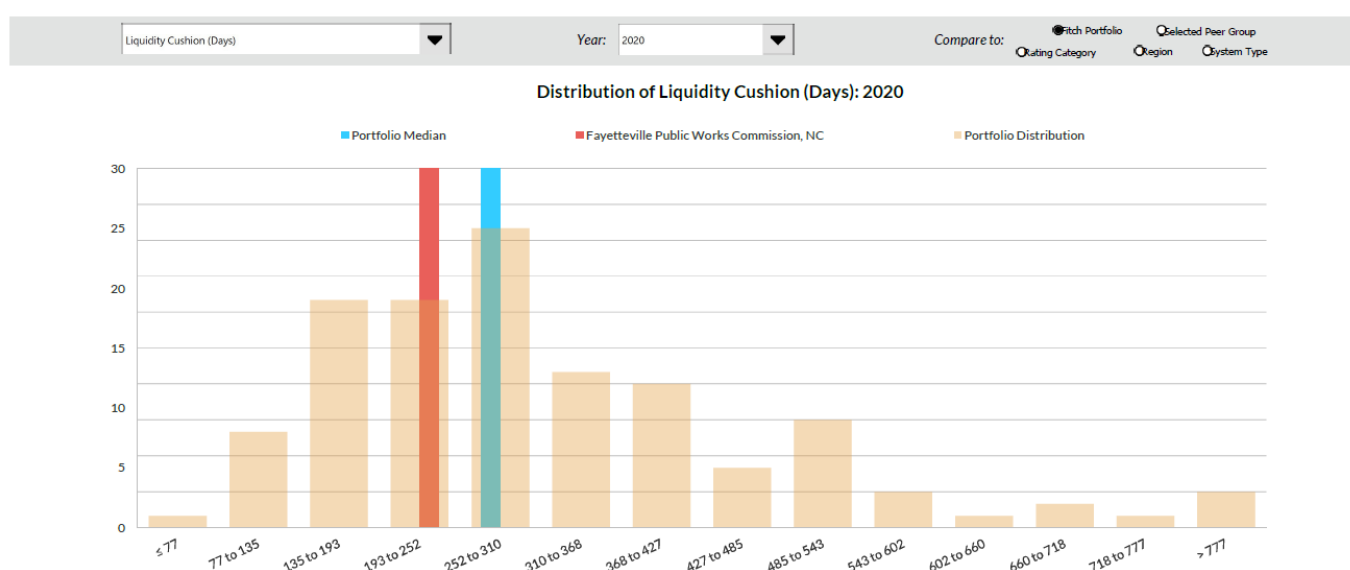
Fayetteville Public Works Commission – Asymmetric Additional Risk Considerations

No asymmetric additional risk considerations affected this rating determination

Fayetteville Public Works Commission – Scenario Analysis



Metric Analysis: Liquidity Cushion



Fayetteville Public Works Commission – Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A sustained leverage ratio below 4.0x in Fitch's base and stress cases;
- Sustained economic growth within the service area leading to significantly improved unemployment and income levels relative to national averages.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A sustained increase in the leverage ratio approximating 6.0x resulting from higher than expected capital investments or debt issuances;
- Failure to implement planned water and wastewater rate increases, which results in weakened operating cash flow or liquidity levels.

Mr. Pidherny responded to several questions from the Commissioners Fowler and Shaw regarding economic development and the impact of concession agreements on utility ratings. Additional discussion ensued.

Commissioner Shaw thanked Ms. Haskins and Mr. Pidherny for the financial presentation.

DASHBOARD REVIEW

Presented by: Elaina Ball, CEO/General Manager

Ms. Ball stated she plans to brief the Commission once a month on the strategic initiatives and the performance measures we have established. She thanked Ms. Laurie Shrauger, who is the Data and Analytics Manager.

Ms. Ball reviewed the Dashboard with the Commission. Ms. Ball stated the dashboard is available to all employees and we will also provide a PDF version for those who do not have continuous access to the internet. Ms. Ball stated we still a few measures we are designing and building.

We have seven strategic categories and key performance indicators. We will publish monthly, and some will update daily. Ms. Ball reviewed the safety indicators; the outages, and duration of outages; clarity of the

water coming out of both treatment plants; click rates on phishing; financial bond ratings; liquidity; capital expenditures; generation availability factor; engaged employees; customer satisfaction; community engagement; and conservation.

Ms. Ball and staff responded to questions from Commissioners.

GENERAL MANAGER REPORT

Ms. Ball thanked everyone who worked in preparation and in execution for the two storms we have experienced.

United Way

We planned to have a big event and a pie event on the 28th. We have moved it to a virtual event, and the pie event will be postponed until we get through this wave of COVID. We ended as the number one campaign in Cumberland County.

TEXFI

Ms. Ball stated we have a contaminated site at the former TEXFI manufacturing facility. The City has decided it will not fund the pilot program. PWC has decided it will fund it all, and as a result we will need to update the agreement, and the document will come back to the Commission in February. Ms. Ball responded to questions from Commission.

COVID

We have 83 employees out as of now. We are continuing all our protocols. Ms. Ball thanked all the field employees, Mr. Rynne, Ms. Fritzen, and Mr. Noland. They have worked extremely hard to find ways to sequester employees and keep the operations going.

Local and Small Business Program

We will have a briefing for Commissioner Shaw on the work we have done on the Local and Small Business Program. If any of the other Commissioners want to participate, please let us know. We can do 2 on 2 reviews.

Cost of Service Briefing

We are in the midst of reviewing our Cost of Service study for the electric system. We have several new rates we will propose with details to come. We want to make sure we are structuring our rates to support EVs., as well as unwind our distributed generation structure.

Metronet

Metronet has been hitting some of our customers' infrastructure. CityView will cover the story. Ms. Ball stated at the end of the day we want to make sure they are working safely. Mark and team are ensuring our customers are being made whole. She stated she is worried about Metronet hitting a gas line.

Other Items of Interest

- Bulk water still in process with Grays Creek.
- CityView ran a couple stories regarding Bernhard.
- We are working on several editorial articles with Business Journal.
- Will have a briefing on the water/wastewater system with Commission Porter immediately following this meeting. Will have a briefing on electric after the next meeting.
- Our grant team has kicked off. We have \$1.7T at the federal level. We are seeking grant opportunities for water and for electric. We are seeking grant opportunities to reduce our costs.
- On February 7th Ms. Ball will brief City Council on our Strategic Plan.

COMMISSIONER/LIAISON COMMENTS

Commissioner Ronna Garrett

Commissioner Garrett thanked the team for the positive community engagement and the hard work during the storm. She enjoyed the video that CCR sent out of Ms. Ball. She thanked Ms. Ball for her leadership.

Commissioner Donald Porter

Commissioner Porter also thanked the team for their great work during the storm. He stated the Wells Place Community Watch would like for PWC to attend their meeting.

Commissioner Wade Fowler

Commissioner Fowler also thanked the team for their efforts during the storm.

He stated looking at the report from Fitch, we need to be forward looking in increasing the load; increasing our customers; developing our EV program and storage behind the meter.

Council Member Davis

Council Member Davis stated he looks forward to having additional conversations about the TEXFI situation. He believes there has been a big misunderstanding. Ms. Ball stated she spoke to Mr. Hewett regarding other issues, and he suggested they place it on the agenda at the work session on Monday, Feb. 7th. Ms. Ball stated the City is a great partner, and Mr. Hewett is terrific, however she needs to get the project going.

Commissioner Evelyn Shaw

Commissioner Shaw stated that though we are customary to having brief meetings, it is not always the case. We have to take the time to run the business of PWC. She went on to state that the Commissioners appreciate that the information staff bring is user friendly, and they illicit questions from people who understand the information that has been brought before them. It is very important for Commissioners to understand the business of PWC.

Commissioner Shaw thanked Ms. Haskins for the presentation and for bringing Ms. Pidherny (Fitch) before them today. She thanked Ms. Fritzen, Mr. Rynne, and in-turn Ms. Shrauger for the dashboard information. She also thanked Mr. Noland, and Ms. Ball for assembling the presentations today.

REPORTS AND INFORMATION

The Commission acknowledges receipt of the following reports and information.

- A. Monthly Cash Flow Report – December 2021
- B. Payment Analysis – December 2021
- C. Recap of Uncollectible Accounts – December 2021
- D. Investment Report – December 2021
- E. Purchase Orders
 - November 2021
 - December 2021
- F. Position Vacancies
- G. Actions by City Council during the meeting of January 10, 2022, related to PWC:
 - Approved - Bid Recommendation – Steel Poles
 - Approved - Bid Recommendation – Black & Decker Substation Rebuild Structures and Equipment Contract
 - Approved – Black & Decker Substation Rebuild Installation Labor Contract

ADJOURNMENT

There being no further business, upon motion by Commissioner Fowler, seconded by Commissioner Porter, the meeting adjourned at 10:33 am.