

**COMMISSIONERS OF PUBLIC WORKS**  
**Minutes of September 25, 2008**

The regular meeting of the Board of Commissioners of Public Works was held on Thursday, September 25, 2008 at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

**In attendance:**

Gene P. Hancock	Steve D. Reeves, Jr.	Vickie Gorham	Lee Roper
Michael G. Monaghan	Ken Barnett	Jeff Meredith	Jay West
Henry O. Watts	Jeff Auman	Jeff Chapman	
	Carlos Cometto	Stacia May	
	Denise Ogletree	Vicki Knott	
	Jerry Smith	Jeff Elliott	

- I. Chairman Monaghan called the meeting to order.
- II. Chairman Monaghan gave the statement of compliance with the notification provision of the Freedom of Information Act.
- III. A motion was made by Commissioner Hancock and seconded by Commissioner Watts to approve the minutes as received for the August 14, 2008 regular meeting; the August 15, 2008 public hearing; and the August 28, 2008 regular meeting; the motion was unanimously approved.
- IV. Financial Statement:

Chairman Monaghan pointed out a dramatic increase in tapping fees amounting to \$526,000 and noted that was budgeted at \$192,000 for this year and \$189,000 the previous year. Ms. Ogletree responded that it came from new subdivisions with a large portion for the inventory put into the taps. Chairman Monaghan noted a decline in construction and building; Manager Reeves commented that it would be from either new construction or something that was misappropriated into the wrong category. Ms. Ogletree added that \$308,000 of that amount was for taps materials charged to customers. Mr. Chapman explained an increase to tap fees coming from meter pits not having been done the previous year due to problems with contractors not meeting standards. He reminded the Commissioners of a proposal brought to the Board last year whereby they would install them and pass that back to the customer since CPW owns the meter pits. Those figures were not in prior budgets; after the Board accepted the proposal then those costs started coming through late last year. He added that it is really a pass-along cost since we buy it and pass it on the customer. Chairman Monaghan

requested an e-mail explanation. Chairman Monaghan asked if total capital construction on page six in the amount of \$1.975 million came from reserves and if any amount of that came from bonds. Ms. Ogletree responded that it was not bond money since bond expenses are segregated. Chairman Monaghan stated that based on his understanding of page one, it appeared that \$1 million had been added to the reserves in the nine months up to this point. He asked why a rate increase was necessary if that was the case. Mr. Barnett responded that it is also necessary to look at the actual cash position on the balance sheet since liabilities were not shown on this side. Ms. Ogletree added that there are things on the balance sheet that are not reflected in the net income statement, such as the bond principal payments that are not considered an expense on an income statement but are cash flow items incorporated into the rate structure by Sheree Brown. The bond principal is not shown on the schedule on page one and would have to be subtracted. Chairman Monaghan asked if capital expenses of more than \$1 million are projected for the rest of the year. Ms. Ogletree responded that she would look at what was budgeted for capital projects and respond via e-mail. Chairman Monaghan referred to page 13 showing \$11.6 million in restricted cash that was not in investments. Ms. Ogletree explained that restricted cash is the money in the debt service reserve fund that is sent monthly to Bank of New York to make the interest and principal payments; they actually withdraw interest payments twice per year and principal payments in December. Ms. Ogletree noted that the \$1 million and \$2 million mentioned earlier is the amount accrued for the principal payments. Chairman Monaghan asked if the money shown on page six as bond principal in the amount of \$2,265,000 had been spent. Ms. Ogletree responded that it had not been sent to the bond holders yet, but payments had been made into the debt service reserve fund at Bank of New York in accordance with the bond requirements. Bank of New York had not yet issued the bond principal payment to the bond holders and would not do so until December. Chairman Monaghan asked if \$9 million would be left after subtracting \$2.3 million; Ms. Ogletree responded that \$9 million would be the approximate amount left unspent in the 2007 Bond Proceed Fund and invested at Countytrust in federated funds like the sweep monies. Chairman Monaghan inquired about a better return and a withdrawal schedule. Ms. Ogletree responded that money is pulled out every six months around July and February; Mr. Barnett stated that you have to be careful with bond construction funds to avoid getting into an arbitrage situation because the bond covenant limits how much you can earn and anything earned above that amount has to be returned to the federal government. Ms. Ogletree added that basically you cannot earn more than you are paying. Chairman Monaghan asked Ms. Ogletree to look into earnings and discuss it with him later. He then referred to page 20 showing two accounts on hold for legal action noting those accounts had been on hold for a long time. Ms. Ogletree stated that they had discussed passing those along to Mr.

Patrick's firm; Chairman Monaghan requested that some kind of concrete action be taken. Mr. Roper noted that legally you could only go after the franchisee with a national franchise.

V. New Business:

A. Mr. Jay West requested postponement of the Economic Alliance report until *Executive Session* at which time information would be shared on a contractual matter.

B. Mr. John Wiseman with Greenwood Capital reported on investment accounts based on requirements by state law with where money can be invested. He stated that there are federal agency bonds as well as treasury bonds in the portfolio and federal government had in effect over the past couple of weeks guaranteed the payments of those federal agency bonds including Fannie Mae and Freddie Mac. He noted that Federal Home Loan Bank is also guaranteed by the U. S. government as treasury debt and are under a little different arrangement being owned by their member banks so they are in a much better situation than Fannie Mae and Freddie Mac. He continued that given the short nature of the account, the bond indenture requires that a certain amount be kept in reserve funds in the money market fund at the Bank of New York; there is not really a lot of value added going out in the current environment that could help earn a great deal more interest. Mr. Wiseman stated that for the short period of time, they are doing what they should be doing there. Chairman Monaghan asked about a schedule of disbursements coordinated with the investors; Ms. Ogletree responded that Mr. Wiseman was referring to the Bank of New York debt service reserve and not the bond proceeds. Mr. Wiseman added that they do have a schedule planned out for the bond proceeds. Chairman Monaghan inquired about the long-term strategy for mortgage-backed investments like Fannie Mae. Mr. Wiseman responded that they do not own the actual mortgage-backed securities but own the entity of the government that has either owned or guaranteed these and sent them out into the marketplace; they own direct obligations of what was the federal agency at the time that has now become a U. S. treasury obligation. From that perspective, it was something that needed to be done to give the market some confidence. He stated that if there is something wrong with those investments, then there is something wrong with the U. S. government debt. Chairman Monaghan asked if they would take them out of the Fannie Mae type investments and do something different. Mr. Wiseman responded that they offer a spread over U. S. treasuries at a little more added yield so they would like to get the extra spread. Chairman Monaghan asked if the plan was to put any more into

Fannie Mae, and how they would decide where to place any money if there were a pot of money to invest. Mr. Wiseman responded that they probably would not; he provided an example with a pot of money whereby if investment A is at 5% and investment B which is being repaid by investment A, but if investment B yields 5 ½ %, they would invest in investment B. He commented that they are always cognizant of the mix among the agencies. Commissioner Watts asked if there was anything they should be concerned about. Mr. Wiseman responded that they should worry if the plan did not get passed, not based on their investments but on the whole functioning of everything. The spreads that people who are worried about U. S. government debt has increased; U. S. government treasuries, the so called safest security in the world has gone higher. There is a more global widespread problem if this \$700 billion plan does not get passed in Congress. Mr. Wiseman expressed an opinion that the CPW investments are not at risk.

C. Chairman Monaghan noted that discussion and consideration of a proposed power supply contract would take place during *Executive Session*.

VI. A motion was made by Commissioner Hancock and seconded by Commissioner Watts to go into *Executive Session* to discuss a contractual matter; the motion was unanimously approved.

The meeting returned to open session. Manager Reeves stated that discussion took place during *Executive Session* on a potential contract for proposed power supply with various vendors, and it would be appropriate at this time to authorize the Manager to execute a power supply contract with Duke Energy.

A motion was made by Commissioner Hancock, seconded by Commissioner Watts, and unanimously approved.

VII. With no further business, the meeting was adjourned.

Approved: \_\_\_\_\_, 2008

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Secretary

