

COMMISSIONERS OF PUBLIC WORKS

Minutes of July 9, 2009

A regular meeting of the Board of Commissioners of Public Works was held on Thursday, July 9, 2009, at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve Reeves	Denise Ogletree	Vickie Gorham
Michael G. Monaghan	Ken Barnett	Carlos Cometto	David Tuck
Henry O. Watts	Vicki Knott	Jeff Chapman	Bill Patrick
	Jeff Auman	Chris Lindley	Chris Trainer
	Cary Bishop	Jeff Meredith	Laurie Smith
	Jeff Elliott	Stacia May	Gary Cook
	Richard Gentry		Senator Nicholson

- I. Chairman Hancock called the meeting to order. The invocation was given by Ken Barnett.
- II. Chairman Hancock gave the statement of compliance with the notification provision of the Freedom of Information Act.
- III. New Business:
 - A. Ms. Laurie Smith with Elliott Davis, LLC reported on the highlights of the annual audit report for fiscal years ended December 31, 2008 and 2007. She noted implementation of a new accounting standard related to other post employment benefits and the impact on the financial statements. She stated that Elliott Davis was the external independent audit firm for the preparative audit opinion. Ms. Smith stated that it was considered an "unqualified" or "clean opinion" as to the fair presentation of the financial statements in accordance with generally accepted accounting principles and governmental accounting standards. She referred to page 7 with a Statement of Net Assets; in comparing the two periods for 2008 to 2007, the year ended with total assets of \$108,167,500. In the prior year it was around \$112,000,000 so it is down about \$3.5 million for a 3% decrease in assets at the end of the audit period. Ms. Smith noted that 70% of the total assets are concentrated in the utility plants and construction in progress, ending at \$75,692,169 compared to the prior year that is flat; not a lot of change in capital assets. She referred to a note disclosure on page 18 showing the beginning of the year and additions of \$1,230,336 in construction in progress, and right at \$4 million in distribution systems and equipment. She stated that depreciation was based on estimated lives

of assets of around \$5.1 million. Ms. Smith stated that a lot was spent on capital improvements but also a little more was depreciated than was spent. She then referred to page 7, total assets that are considered cash and cash equivalents and investments, or liquidity. She noted an actual decrease in cash and investments; current assets and non-current assets went down around \$4.5 million in cash and investments in the current asset categories, and about \$1.9 million in restricted. Ms. Smith stated that was from using those monies for capital improvement because there was no debt issue during this period. Ms. Smith continued that 17% of total assets are in cash and investments, liquidity is very good. She referred to a note on page 14 relating to cash investments, pointing out that all deposits with financial institutions and that given the weak economy, all are fully collateralized; anything over and above FDIC insurance amount less collateralized by the underlying assets of the financial institutions that help those deposits. She noted deposits that do exceed that amount of FDIC coverage, and continued that all were legal investments allowed under state statute; none were unauthorized or not allowed by law. She commented on investment types shown by maturities and years adding that external auditors like to see you stay short term in those positions even though these are direct obligations such as U. S. Treasuries and U. S. Government Agencies. She pointed out there are very few investments in five to ten- year and those are fairly short term investments which actually decreases credit and liquidity risk in this type environment. Commissioner Monaghan asked what difference it would make whether it was long or short-term. Ms. Smith responded that there are really two different things; when talking about collateralization, she was referring to bank accounts, checking accounts, and CDs, those things that are considered deposits that are FDIC insured. When talking about investments, that is different and refers to things like U. S. Treasury notes and U. S. Treasury obligations. She explained that the reason you want to keep investments short-term is if you invested long-term on a bond and interest rates rose, that bond would be a little bit underwater and would not be worth as much as was paid; you would have to reposition and sell at a loss, or decide to hold it, for example, at 4% where it could have been reinvested in today's market earning 7%. She added that they are looking at risk; sometimes people tend to buy and hold, if they hold long-term and don't look at other alternatives during the period and lose, that would not be good cash management practices. Ms. Smith continued with page 7 noting the last concentration of assets in accounts received at year end of \$10.8 million, noting that was up from the prior year by about \$500,000. She stated that in this economy, there is worry about collecting accounts receivable. During the course of the audit, extra procedures were done on

accounts receivable from subsequent collections. She stated that they felt very good that there are no uncollectable receivables needing adjustment; the number is up a little, but is likely driven by the time of the year in December with gas. She continued that total liabilities ended with right at \$39.3 million compared to \$41.4 prior year. The good news is that liabilities are being paid off; liabilities decreased by about 5% or \$2 million. Ms. Smith stated that the biggest impact with concentration of liabilities is in the bonded debt; she referred to page 20 showing debt and outstanding bonds in a table summary starting at the beginning of the year. She noted that no new debt was added and \$3.4 million in bonded debt was paid off during the course of the year, driving the total reduction in liabilities. Ms. Smith referred to page 7 showing a new line for implementation of "Other Post Employment Benefit Obligation" (OPEB) under long-term liabilities; a liability of right at \$1.1 million was reported in that line. She stated that discussions took place in past meetings where the Commissioners had spent a great deal of time looking at actuarial reports and trying to get comfortable with numbers. She stated that reporting this liability is a big adjustment, and pointed out the impact in net assets for the year through the impact on unrestricted assets from prior year to this year; prior year was at \$16.5 million and current year is at \$13.8 million. Ms. Smith pointed out that most of that liability fell into the unrestricted block of equity leading to a decrease in total net assets of about \$1.5 million. Commissioner Monaghan asked about debt coverage ratio. Ms. Smith responded that other post employment benefits drove a change in debt service coverage; on page 28 prior year debt service coverage was 165% compared to the requirement of 115%. It impacted the reporting of the debt liability it impacted 157% so they are still well above the 115% required by the bond ordinance. Ms. Smith then referred to additional note disclosure related to the OPEB starting on page 23 where a lot of information on post-employment benefits including, a description of the plan, funding policy, OPEB cost and obligation, and normal annual cost of \$302,000. She added that \$2,000 is not very significant compared to amortization of unfunded liability that will be amortized over thirty years of \$1.2 million meaning the annual required contribution (ARC) is almost \$1.6 million. Contributions were put in amounting to \$482,146 which drove the \$1.1 million liability on the balance sheet. Ms. Smith noted that actuarial methods and assumptions were defined on page 24, and referred to a schedule of ten-year trends on page 43. She stated that since this is the first year of implementation note disclosure, there is only one year of information available but with time ten years of trend information would be accumulated. Commissioner Monaghan commented on sitting in on City and County meetings, adding that there had been no discussion of

GASB 45. Ms. Smith responded that GASB 45 was divided into three phases for implementation; larger governmental entities had to comply first, and then phases 2 and 3. School districts, colleges and universities are state supported and are not being impacted at their level because it is rolled up into the State of South Carolina plan. Counties, municipalities and special purpose districts are the only governmental entities in South Carolina having to deal with GASB 45 at the financial statement level. CPW was considered a phase 2 and required to implement as of December 2008; Greenwood County is also a phase 2 and required to implement as of June 30, 2009; the City may be phase 3 giving them another year. She noted that the only people seen so far being able to consider funding were special purpose districts. Commissioner Monaghan noted that a national health plan would change the impact; Ms. Smith agreed that would have a significant impact. Ms. Smith continued with page 8 showing a comparison of revenues and expenses for the audit period and the prior year. She pointed out operating revenues of almost \$82 million compared to \$71 million prior year, up about \$10 million. By category, water was fairly flat, but electric and gas were both up; electric was up about \$4 million and gas up by almost \$7 million. She compared operating income to prior year of \$2.2 million; this year was pretty flat at \$82,000 pointing out the OPEB liability that was booked at \$1.1 million with no significant impact in expenses. She referred to page 30 showing more detail in expenses as compared to prior year, and reported that with revenue for power and gas they gave it back in the expense category so those categories went up almost the same as with revenue. The biggest difference driving the bottom line was booking of the OPEB liability which is unfunded right now. Ms. Smith referred to a new report SAS 114 year-end report once only required for public companies but now required for all audited clients. She stated that it does not really have any numbers but goes over the auditor's responsibility to audit financial statements, and the responsibility of management and the Commission for the financial statements. She explained the requirement that they communicate certain things, such as that there were no unusual or significant transactions or difficulties noted during the course of the audit, there were no audit adjustments or uncorrected misstatements during the course of the audit that had to be proposed, and no disagreements with management. Ms. Smith discussed new standards highlighted on page 1 with one more likely in the future than the other. The first is for intangible assets where there could be some exposure. She noted the other was for pollution remediation liabilities that could possibly need further discussion. She continued that it is kind of a "sleeper" in that if you have old buildings, there could be asbestos or underground tanks that could fit

into that liability category. Chairman Hancock stated that all underground tanks were removed. Ms. Smith asked if federal funds were used; Chairman Hancock responded that it was done through the state. Manager Reeves noted that the Grace Street property still had some asbestos in the building. Mr. Patrick added that there is a report showing what is left. Ms. Smith continued that information on those standards would be provided to Ms. Ogletree on any exposure that is liability related. Ms. Smith continued by noting the back of the report with copies of the planning audit letter, a copy of the engagement letter, the representation letter, and internal control and compliance letters. Ms. Smith concluded that a clean compliance control letter was given showing no significant deficiencies or material weaknesses in internal control environment over financial reporting, and no instances of known compliance with laws or regulations. With no further questions, the audit report was accepted as information.

- B. Manager Reeves stated that as a result of receiving the annual audit, it would be appropriate to adopt a resolution should the Commissioners determine sufficient surplus funds are available. He read the resolution as follows: "Be it resolved by the Commissioners of Public Works of the City of Greenwood that simultaneously with the payment by the City of Greenwood to the CPW, the City's outstanding bills in the amount of \$722,210.58 which represents the CPW's charges for street lighting, fire hydrant rental, and other utility services provided to the City during the year 2008. The CPW does hereby determine that the CPW shall pay into the General Fund of the City the amount of \$722,210.58 plus \$503,005.85 which includes \$25,216.43 representing utility bills for the Federal Building, for a total of \$1,225,216.43, such amount having been determined by the Commissioners to be surplus monies based on information supplied to them by the CPW's auditors.

A motion to adopt the resolution as read was made by Commissioner Monaghan, seconded by Commissioner Watts, and unanimously approved.

- C. Manager Reeves referred to a summary sheet highlighting the SCANA Gas Supply Contract changes. He congratulated Mr. Smith and Mr. Barnett for negotiations with SCANA for an extension through June 2011. He noted that they were able to negotiate an increase to CPW for the capacity release revenue where in the past we had received 80% of the capacity release revenues and SCANA 20%, we would now receive 85% and SCANA 15%. Manager Reeves estimated an increase in revenue of

\$8,700 per year. He added that an increase had also been negotiated in the corporate guarantee from \$4 million to \$11 million and retention of current pricing. Manager Reeves noted that all of these bode well for CPW and recommended authorization of the contract for a two-year period, with a two-year extension at the end of this contract unless notified in writing by either party.

A motion was made by Commissioner Monaghan authorizing the General Manager to sign the contact; the motion was seconded by Commissioner Watts, and unanimously approved.

- D. Chairman Hancock noted the receipt of a memorandum from Mr. John Phillips outlining recommended changes to the health insurance plan.

A motion was made by Commissioner Monaghan to make no changes to the current health insurance plan; the motion was seconded by Commissioner Watts, and unanimously approved.

- E. Manager Reeves provided copies of the mid-year budget review. Commissioner Monaghan asked if such a position with gas was unusual. Manager Reeves referred to a meeting and discussion on the subject that week adding that sales are down by 15% which appears to be a nationwide trend. He continued that could be due to the downturn of the economy, but much is weather related. Commissioner Monaghan asked about the impact if any of methane. Mr. Bishop responded that they are operating on a pretty small scale. Manager Reeves continued that the top piece is a two page duplication of the recap sheet given out at the time of the original budget adopted at the first of the year. He noted the balance without depreciation included was \$6,290; when the budget was presented, not including depreciation, there was a positive balance of \$6,290. In looking at a comparison based on mid-year budget amendments, that number had increased to \$874,942. An improvement in position was made as a result of the mid-year adjustments, and that number includes the \$250,000 approved at the last meeting for the purchase of property for economic development. Commissioner Monaghan pointed out that means rates can stay where they are now; Manager Reeves responded that it is anticipated at this point that rates would be kept the same. He referred to page 2 showing the inclusion of the depreciation where at the beginning of the year, they were looking at a deficit of \$856,000 and ending now with a positive number. Manager Reeves urged the Commissioners to study the budget over the next two weeks. He pointed out a page highlighting the changes that could be

discussed in more detail at the next meeting, and they could decide at that time whether to fund GASB 45. Commissioner Monaghan expressed an inclination to wait at least a year to consider funding since it is an irrevocable funding, and to see if there are any changes with a national health care plan. Ms. Smith stated that it would be an irrevocable trust, and those funds could not be taken back out. Commissioner Watts asked if you could get the funds back should the health care plan change. Ms. Smith responded those funds could be used for the participants. Manager Reeves added that it would not be a lost investment; it would be used and applied to retirees. Ms. Smith added that you could adjust future funding and work your way out of it with time. Commissioner Monaghan complimented staff on tightening up the budget. Manager Reeves noted that it is still tight with a lot of the year remaining, adding that staff had been diligent in watching expenses and postponing things without detriment to customers. Chairman Hancock noted that they are always looking out for grant monies as well. Manager Reeves noted a potential grant application with the County that would have to come through either the City or County; the City was already obligated while the County was not and seemed willing to work with us.

IV. Other Business:

1. Senator Floyd Nicholson expressed appreciation to CPW for an excellent job overseeing the utilities in Greenwood. He stated that Commissioner Watts and he were working with a group of young students in an effort to keep them out of trouble and in school. He noted that Dr. Darrell Johnson, School Superintendent, had started the program called Mentoring for Success a couple of years ago. He explained that the program starts with sixth graders all the way through; positive roles models work with young black boys encouraging them to stay in school and to become successful. He stated that in that regard, funds must be generated to help these kids; many are underprivileged and want to participate in extracurricular activities but do not have the funds. He stated that a golf tournament would be held the following Thursday at the Greenwood Country Club and invited participation with a team or a hole sponsorship. Mr. Patrick asked where contributions might be sent. Senator Nicholson replied that donations could be mailed to his personal post office box at P. O. Box 1777, Greenwood, SC 29648 with checks made payable to Mentoring for Success.
2. Manager Reeves reminded the Commissioners of a ribbon cutting ceremony for Maxwell Street at noon at the Federal Building.

3. Manager Reeves provided the Commissioners with copies of the latest internal control reports.
4. Commissioner Monaghan noted examples provided earlier to the Manager of departmental manager reports. Manager Reeves responded that those would be available at the first meeting in August.
5. Mr. Gentry reported that nothing had been heard yet from the CDBG project grant; it may be the middle of July before anything is known. He reported on a meeting at COG on Department of Energy grants. He also reported that he and Mr. Chapman planned to go to Columbia on Friday to meet with the Office of Local Government to pick their brains on what they have. Chairman Hancock expressed appreciation for the ads.

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

Approved: _____, 2009

Secretary