COMMISSIONERS OF PUBLIC WORKS
Minutes of January 22, 2009

The regular meeting of the Board of Commissioners of Public Works was held on Thursday, January 22, 2009 at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve D. Reeves, Jr.	Vickie Gorham	Bill Patrick
Michael G. Monaghan	Ken Barnett	Jeff Meredith	Mark Warner
Henry O. Watts	Jeff Auman	Jeff Chapman	Lesley Lane
	Carlos Cometto	Stacia May	Chris Trainor
	Denise Ogletree	Vicki Knott	Michael Nix
	Jerry Smith	Jeff Elliott	Rebecca Steifle
	Richard Gentry	Curtis Burnett	

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 November 20, 2008 regular meeting; the December 1, 2008 budget work session; and the December 11, 2008 regular meeting; the motion was unanimously approved.

IV. Financial Statement:

Commissioner Watts referred to a tapping fee increase of almost $500,000 in the report and inquired about the cause. Manager Reeves responded that it was due to several projects for large taps in subdivisions. Ms. Ogletree added that Charleston Place was quite large, and also the school districts. Chairman Monaghan asked if the impact fee was included in that cost; Ms. Ogletree responded that it was shown on a separate line under capacity fees. Chairman Monaghan referred to $800,000 shown under tapping fees and asked if any of that amount included impact fees; Ms. Ogletree responded that it was under capacity fees in miscellaneous revenues on page two of the report. Chairman Monaghan requested that it be split out in the future. He asked if that was reserved for capital projects, adding that it should be a special account reserved for capital projects because capacity fee is for growth, replacing new lines, etc. He continued that those funds should be earmarked for capital projects, possibly in the operating report. Manager Reeves agreed that the intent of a capacity fee is to replace capacity in the water plant that is being taken by new customers.

Chairman Monaghan added that the rationale of capacity fees is that current rate payers should not have to pay for expansion of the infrastructure to serve new people, so you charge a capacity fee that does not completely cover, but more closely represents the infrastructure that has to be established for new customers. Ms. Ogletree stated that she could separate it in order to have a section for income designated for capital projects. She referred to the question from Commissioner Watts earlier noting a listing of customers charged for tap fees, adding that it was primarily for supplies and equipment used for setting those taps. Commissioner Watts asked about the budget for next year; Ms. Ogletree responded that it was set a little higher at around $350,000. They did not expect as much growth going into 2009 with not as many subdivisions as in 2008. Chairman Monaghan asked Ms. Ogletree to take a look at the way bond projects are shown on pages 8 and 9, and commented that Metro's report is easier for him to follow. He noted that their report shows total project cost and year-to-date, what is spent in the current year, and where the funds came from. He added that text should be in the columns rather than just numbers. Ms. Ogletree noted that a report is provided when requests for reimbursement are made, and that report shows each project as well as what was spent during that six-month period.

V. New Business:

A. Ms. Steifle thanked the Board for the continued banking relationship, and noted a meeting with Ms. Ogletree to discuss introduction of several new pieces of technology. Mr. Michael Nix with Greenwood Capital then provided a quarterly investment report with results for the calendar and fiscal year ending December 31, 2008. He referred to realized gains and losses that are bond issues that had matured, were called, or sold during the period, and their cost basis. After noting no particular issues of concern there, he referred to page three of a report of current assets held in the CPW account. He noted a mix of securities under South Carolina statute including U. S. Treasury and Agency bonds, and the recent addition of a short-term U. S. Treasury note. Mr. Nix continued with the performance report for the account for the beginning of the year, or ending of the previous year December 31, 2007. He stated that the portfolio value showed accrued interest for the account, and noted several withdrawals during the period; realized and unrealized gains in the account; the interest generated; and ending value on December 31, 2008. He reported that interest income generated on the account came in slightly under what was budgeted last year, driven primarily by the withdrawals from the account, and particularly a large withdrawal in February that had impacted income generation potential going forward. Mr. Nix noted performance for 2008 was up 5.64% in a very difficult environment overall where there was some flight to quality with a lot of people moving into treasury bonds and agency bonds that helped those prices as yields came down. He continued by noting another withdrawal made in December, and the beginning of debt service reserve funds for 2001, 2003 and 2007 bonds starting in June amounting to roughly $74,000 per month. He stated that they are now starting to fund another debt service reserve for the 1998 bond. He explained that because the issue fee insurer on the bond issues credit ratings have changed, that triggered components of the debt covenants which are having to fund the debt service reserve funds. Mr. Nix stated that they were already positioned to start on the next issue in January for a term of 36 months, and would automatically come from the account on a monthly basis. Chairman Monaghan noted that Metro has a slightly different portfolio; however, they are saying that they do not have to fund these reserve accounts. Mr. Nix responded that it is insurer specific and depends on the covenants. He stated that probably going forward, a lot of municipalities will rewrite their covenants differently than in the past when there was no expectation of the impact that was seen to financial markets, and in turn the impact to bond insurers. He explained the bond insurer's position in that they insure municipal bonds, and as they renew derivative issues and new bond types of products coming out, they stepped outside of the traditional market and started insuring these credit default swaps, etc. He continued that with a typical insurer, whoever needs it first gets it. As a collapse in the credit default swap market and other derivative products was seen, the insurer decided that municipalities don't really need it and these guys do, so we are going to have to fund insurance on these other products. That impacted their financial condition, and in turn while municipalities are very healthy, they're current on principal and interest, they are being impacted nationwide in a lot of different ways, not only funding debt service reserves, but the ability to issue new debt. Mr. Nix stated that some municipalities got involved in some derivative markets that are essentially taking them into bankruptcy, with one of the most notable in Alabama. He reported that 2009 would continue to be a challenging year from an economic and market perspective, and even from a fixed income perspective. As yields have come down extremely low, we have almost hit an equivalent of an asset bubble with the treasuries; yields are expected to move up fairly aggressively at some point, possibly the latter half of this year or first of 2010, and with that, bond values will go down. He stated that if you are buying short-term bonds, yields are extremely low; but if you start buying longer term issues, then you risk yields moving up and the values going down. Mr. Nix stated that they would look at staying balanced when managing the portfolio to make sure they are positioned to meet income needs for the account, as well as long-term growth opportunity. Mr. Nix introduced the idea of a new federal program coming from the FDIC, which is a temporary guaranteed liquidity program that provides FDIC insurance for certain new issue financial bonds for three-year maturities, and the possibility of extending the program for ten-year maturities. He noted that a lot of big financial service companies are issuing these FDIC insured bonds, adding that it is a federal program with the full faith and credit of the U. S. government. Mr. Nix stated that they are reviewing them for inclusion in accounts subject to state statute that provide that you can invest in FDIC insured products where it could be attractive substitutes for treasuries and agencies. Mr. Nix continued that from a budgeting standpoint, when yields collapse as they have and you are trying to invest for income, that income becomes impacted. Fortunately, the money is used here for more of a backdrop to support operations rather than having to draw on it for specific funding. Mr. Nix concluded that it was going to be a challenging market going forward with the employment numbers just seen that morning worse than expected. He stated that their spin on the housing numbers is somewhat different in that with the permits and new starts coming down, that helps to work off the current inventory. In order to see a sustained overall market improvement, there has to be stabilization in employment and housing, and consumer and investor sentiment improvement. Mr. Nix stated that they would continue to explore FDIC insured bonds with staff with the approval of the Commissioners. Chairman Monaghan thanked Mr. Nix for the report.

B. Manager Reeves noted that the Metro Board had met that past Monday at which time they had approved a holiday in memory of Dr. Martin Luther King, Jr. He stated that he had discussed this with each Commissioner by phone at which time they agreed to authorize the holiday for CPW employees as well, with the intent of ratifying that action at the meeting today.

A motion was made by Commissioner Hancock to ratify the action to observe Dr. Martin Luther King, Jr., Day as a holiday; the motion was seconded by Commissioner Watts, and unanimously approved.

C. Manager Reeves presented a recommendation to transfer funds in the amount of $2,261,020.34 from the 2007 Bond Construction Fund into the General Operating Fund. He noted that bond projects are paid from the operating fund, and then the Board is asked to authorize transfers several times per year in order to reimburse the operating fund. Manager Reeves noted that this amount included an appropriation of $600,000 for the CPW's portion of the city pond sewer. He added that it may run more, and if so, additional funds would be transferred at a later date.

A motion to approve the transfer of funds as recommended was made by Commissioner Hancock, seconded by Commissioner Watts, and unanimously approved.

D. Manager Reeves stated that staff had revisited the original 2007 bond fund list of projects and had several recommendations for changes. He reminded the Commissioners that the original project list had included several hundred thousand dollars for upgrades to the propane gas plant, and we are now in the process of disposing of that facility. Some projects are either not needed or should be looked at more closely before proceeding. In addition, there are two projects that need to be added. Manager Reeves noted that one project is the city pond sewer line extension in the amount of $600,000, and another would be to extend fiber optics to the Hodges regulator station for the gas area. Chairman Monaghan indicated an understanding that the city pond was already included; Manager Reeves responded that it was not originally, but they would like to get it in now. After referring to a handout with the recommended revisions, Manager Reeves recommended that become the official listing of projects for the 2007 bond issue.

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

E. Chairman Monaghan suggested that the presentation of GIS upgrades should wait until after the completion of an IT audit. He added that he had also requested a ten-year capital improvement plan. Manager Reeves noted that it was not critical and had not been particularly timed to the IT audit, but rather to provide the Commissioner with information on the GIS system upgrades already approved. He noted that they were not prepared today anyway because the consultant had a conflict after the agenda went out. The Commissioners agreed to postpone the presentation until after the audit.

F. Manager Reeves presented a recommendation to accept the low bid in the amount of $11,777.20 submitted by McNaughton & McKay Electric Company for eight Ethernet rail switches for SCADA upgrades at the water treatment plant.

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

VI. Other Business:

1. Manager Reeves reminded the Commissioners of the annual employee award banquet that night at the COC starting at 6:00 p.m. with a benefits fair, followed by dinner at 7:00 p.m. He also reminded them of the Chamber of Commerce Dinner at Lander University on the following Thursday, starting at 5:30 p.m. with a reception.

2. Manager Reeves noted a request from the Greenwood Garden Club to consider changing their billing account from a commercial account to a residential account. He stated that he had discussed this with a member of the garden club and had explained that it does not meet the criteria of a residence. Manager Reeves noted an annual billing over the past twelve-month period of $1,802.11 on the commercial rate, and added that had it been residential, that would have amounted to a savings of $15.93. Chairman Hancock stated that rates are set up by classification by rate consultants who rate all customers. He stated that he did not see how we could subsidize them, and furthermore, we have to treat all customers in the same way. The consensus of the Board was to leave the account as is.

3. Commissioner Watts inquired about the status of using the collection agency. Ms. Ogletree responded that the programmer had been notified to begin the transfer of the accounts.

4. Commissioner Watts inquired about any loss of revenue from Solutia. Manager Reeves responded that Solutia is actually looking at starting up another line and nothing significant had been seen so far.

VII. Executive Session:

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

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

Approved: _______________, 2009

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Secretary