

COMMISSIONERS OF PUBLIC WORKS
Minutes of February 25, 2010

The regular meeting of the Board of Commissioners of Public Works was held on Thursday, February 25, 2010 at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve Reeves	George Petersen	Vicki Knott
Michael G. Monaghan	Ken Barnett	Jeff Auman	Stacia May
Henry O. Watts	Carlos Cometto	Jeff Chapman	Allison Holland
	Denise Ogletree	Vickie Gorham	Roy Hemphill
	Jerry Smith	Richard Gentry	Lee Roper

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. Approval of Minutes:

A motion to approve the minutes of the regular meeting of January 14, 2010 and the regular meeting of January 28, 2010 was made by Commissioner Monaghan and seconded by Commissioner Watts; the motion was unanimously approved.

IV. Executive Session:

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

The meeting returned to open session. Mr. Roper stated that the Board had received a recommendation from legal counsel during *Executive Session* regarding the possible settlement of a lawsuit. He continued that it would be appropriate for the Board to make a motion authorizing the Manager to settle the lawsuit pursuant to the terms discussed in *Executive Session*.

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

V. Financial Statement:

Commissioner Monaghan asked about \$420,000 shown as depreciation expense on the combined department income statement. Ms. Ogletree responded that depreciation is estimated until everything is actually capitalized at year end and actual depreciation is calculated for the year. Commissioner Monaghan asked if they were dividing by twelve as they go along; Ms. Ogletree confirmed that was correct. Commissioner Monaghan pointed out that cost recovery notes showed \$570,000 from 2007 to be used to reduce gas cost to customers. Ms. Ogletree responded that it was postponed until after the winter months at the request of the Commissioners. Manager Reeves added that the suggestion was to delay setting that up as a rate stabilization fund until after the winter months when they would normally be hit with big winter bills and have negative numbers. Once they get through February, they could look at doing something. Commissioner Monaghan asked if that would take care of the 2007 monies; Ms. Ogletree responded that it would. Manager Reeves stated that any amount the Board chooses of the \$1,045,000 available could be used as a rate stabilization fund; however, staff would ask that some be kept aside in case of other negative months. Commissioner Monaghan expressed an understanding that this amount is over-recovery over what is charged, not over-recovery of market price. Ms. Ogletree confirmed that was correct. Commissioner Monaghan noted being \$109,000 under-recovered as of January with true-up done in June. He asked about waiting until the end of June to decide what to do with the over-recovery; Manager Reeves responded that the safe thing would be to wait until the end of June. Commissioner Monaghan stated that right now, we are over market by \$100,000 this month. Manager Reeves agreed that was the approximate amount; at least if they could come to market price, they would feel better about it. He continued that the danger is in using it and then needing it later. Mr. Smith stated that in January and February they had boosted the PGC in order to collect more and those results were still unseen. The other aspect is that the outlook for forward prices in natural gas is much more stable and favorable going forward, so there is less risk of a price spike occurring. In fact, the forward months have really been coming down; the contango in the market has declined. Mr. Smith suggested a decreased need for rate stabilization because of the rate outlook being fairly stable right now and the forward curve being fairly flat. Mr. Barnett commented that it would depend on what is meant by rate stabilization; if rate stabilization is just the cost of gas, he would tend to agree. A rate stabilization fund would be appropriate if you are looking at rate stabilization for the rest of the rate structure. Commissioner Monaghan expressed a desire to avoid rate increases through rate stabilization. He stated that he needed to reconcile the difference between what was said to be a million dollar deficit with the budget and the revenue versus expense summary that showed a positive amount of \$21,000, with \$3 million of capital construction and no depreciation. He pointed out that the budget showed we would need over \$1 million; now we are saying

we will be positive \$21,000. Chairman Hancock noted that was for January and February when all the money rolled in and would not be that way every month. Commissioner Monaghan clarified that he was referring to just the budget and not performance-to-budget; the question is with why it shows a positive. Ms. Ogletree responded that the "actual" column shows one month of activity; the "approved budget" column is for the entire year. Manager Reeves clarified that the question is that when they went through the budget process, there was a deficit of \$1.1 million; now it shows that they are in good shape. Ms. Ogletree responded that she would need to look closer for an answer; Manager Reeves added that could not be right. Commissioner Monaghan asked about total annual depreciation; Ms. Ogletree responded that it is around \$5.5 million. Commissioner Monaghan responded that could be the answer, if you don't show depreciation in the schedule and do show principal and capital at \$5,495,000, since depreciation is really for capital construction replacement. Chairman Hancock noted that a recommendation on true-up would be needed; Manager Reeves responded that would come in June. Commissioner Monaghan inquired about collection agency results. Ms. Ogletree responded that approximately \$600 was collected in the past month; the collection agency is not actively making phone calls right now because those accounts are with the Municipal Association for the set-off debt program. Commissioner Monaghan asked why both are not done simultaneously; Mr. Auman responded that there are some legalities involved. Mr. Roper commented that they do not think both can be done at the same time because of the procedures with debt set-off. Commissioner Monaghan asked which is more effective. Ms. Ogletree responded that it would be debt set-off at this time of the year. Mr. Auman responded that the best opportunity is during tax time; that would drop significantly once you get past April and May. Ms. Ogletree pointed out that those are then resent to the collection agency after they determine if there will be any income tax refund or an insufficient refund. Mr. Auman noted less being collected now as other agencies participate in the program. Ms. Gorham noted around \$100,000 that had just come in from set-off debt, most likely because they were able to get them in before the hospital this time. She commented on concerns with continuing to do both at the same time; this is being discussed with Mr. Roper and a recommendation will be made in the future. Commissioner Monaghan asked about restricted investment in operating cash, noting that it states that restricted investments include 2007 bond construction funds placed with Countytrust. Ms. Ogletree recalled that in the past with bond construction funds, the money was used to refund ourselves for projects and was kept in a regular bank account. The Board asked that they look at placing it somewhere with better interest. It was then placed at Countytrust; where the money is invested and only drawn out every six months or so to refund ourselves for projects. Commissioner Monaghan asked why it is called "restricted". Ms. Ogletree responded that it is because the money cannot be used

for any purpose other than those set by the bond for projects. Commissioner Monaghan asked if debt service was paid from O & M revenues. Ms. Ogletree responded that the money is sent every month from operating funds to Bank of New York for both the debt service reserve fund and the debt service funds; once it is there, those funds are invested and a payments is made in December and interest payments in June and December. While that money is sitting in Bank of New York, it is restricted for those purposes; we cannot pull it back to use for operating purposes. Mr. Barnett noted a legal obligation to use the monies only in certain ways. Commissioner Monaghan asked about a funding schedule; Ms. Ogletree responded that it is paid monthly.

VI. Business:

- A. Chairman Hancock noted that consideration of the Federal Building Agreement was postponed until a final accounting report was received.
- B. Chairman Hancock presented a recommendation for a change order from Chandler Construction Service in the amount of \$20,289 for the CDBG project. This is due to additional hydrants and service lines extended on this project.

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

- C. Chairman Hancock presented a recommendation to make a \$1,000 contribution to Preserving Lake Greenwood. He noted that all of the Commissioners had attended a meeting with this group where they had an outstanding discussion on conservation and preservation of Lake Greenwood. Chairman Hancock stated that he was in favor of supporting them after hearing their intentions. Commissioner Watts asked if there would be any legal problem with this type of contribution. Mr. Roper responded that CPW has an interest in preserving Lake Greenwood.

A motion was made by Commissioner Monaghan to approve a contribution to Preserving Lake Greenwood in the amount of \$1,000; the motion was seconded by Commissioner Watts, and unanimously approved.

VII. Other Business:

- 1. Manager Reeves informed the Commissioners of the annual SCAMPS Legislative Dinner in Columbia on April 13.

2. Manager Reeves noted that Duke Power used to serve electricity at the old propane plant that is now gone; however, the transformer and lines are still there. He first recommended that those be removed. Manager Reeves continued that the north regulator station is also served by Duke and CPW has the legal right to serve our own facility, but our legal right is stronger if it is annexed into the City. He asked for guidance from the Commissioners with whether to pursue annexation of the propane plant property; the Commissioners were all in agreement to proceed with annexation. The Commissioners expressed that they thought it was already annexed. Manager Reeves stated that Duke would be asked to remove their services completely; we would start serving the north regular station and then be in a position to serve anything else there. The line goes down the railroad bed so that we are right at the north regulator station.
3. Mr. Gentry reported that surveys were almost complete for the CDBG; maps and information had been sent to Ruth LaForge, and approval received from the City. Commissioner Monaghan asked if anything had been heard from the Washington people; Mr. Gentry responded that nothing had been heard. Mr. Barnett added that they were checking with them weekly. Commissioner Monaghan asked if anything had been determined about prices for glass bottles for bottling water. Mr. Chapman responded that he was looking into the pricing; the limiting factor is with the shipping weight. Commissioner Monaghan asked about marketing. Manager Reeves responded that the discussion before was not to get into marketing to compete with Dasani or Aquafina type products, this would be done in the Greenwood and surrounding areas for groups like the Chamber of Commerce. Manager Reeves agreed that there could be a market for glass bottles, if the price could be made competitive, but that would be a challenge. Mr. Chapman noted that if there were a local bottling facility, the shipping would not be that great, but still would be more than plastic for the bottles themselves. Commissioner Monaghan stated he thought we would do our own bottling; Mr. Chapman responded that would be getting into actual glass manufacturing which would be much more expensive. The shipping cost comes from buying the bottles and paying for the shipping to get the bottles; an empty glass bottle weighs a lot more than plastic resin. Mr. Chapman stated that he was working on a proposed business plan that would outline the pros and cons as well as address a marketing strategy.
4. Commissioner Monaghan asked about buying puts as the contango goes away and gas prices come down. Mr. Smith responded that they are looking at them on an opportunistic basis, like following a rally. The prospect of cold weather had kept them from exercising anything. Prices are already relatively

modest which makes puts look less attractive. Commissioner Monaghan stated that in looking at the difference between market price and what they are paying, would that not offset the cost of puts if you bought a put simultaneously with the pricing. Mr. Barnett responded that sometimes it would be "yes" and sometimes "no". Right now with prices being stable as they seem to be going forward, we are a little above market, but things Mr. Smith has done brought that average price way down. The difference in where we are above market and market are right in that area where the cost of a put typically stays. Because you are not getting this kind of flexibility now and staying stable, you have to really watch for opportunities where you can get a put so that it gives some advantage. Where they are staying above market is right about where the cost of a put always stays; one way or the other it is kind of a wash most of the time. Commissioner Monaghan asked if it would have cost more than \$100,000 if a put had been bought simultaneously. Mr. Smith responded that they would not necessarily have come out ahead; the premium for the put would have eaten up most of the perceived gain. He continued that they are looking opportunistically like if you hit a rally; a put will only pay for itself if the price declines enough to exceed the premium, so that is most likely to happen when the price is relatively high. Right now when prices are relatively low, you are not likely to get a return on your premium which is why they had agreed to an opportunistic approach. There has not been much of a rally this winter in spite of the weather. Commissioner Monaghan inquired about collars and calls; Mr. Smith responded that a collar is not a bad thing to look at right now. Mr. Barnett added that depending on the market conditions at the time, any one of those (puts, calls, or collars) could work out. Commissioner Monaghan stated that as long as they continue to look at it, he was pleased. Mr. Smith stated that they are looking at it, but there had not been a good rally to buy a put yet. He added that it was done once and did not really work out. With forward prices coming down, the price of a collar is less and is more attractive.

5. Commissioner Watts inquired about e-check payments. Mr. Auman responded that it had been live for two weeks and a good amount collected thus far. He added that notices of the limits would go out on March 15. Commissioner Watts asked if it should take five days when paying bills online. Mr. Auman responded that those are separate items from e-check; e-check is effectively a debit from the account that happens within 24 hours. The difference is that we get charged a flat fee which costs us a lot less money through e-check. He added that they are working on the bill pay. Commissioner Monaghan stated that he pays through Wachovia and the account is debited that same day; Mr. Auman noted that as being Wachovia's

bill pay service. Mr. Auman explained that Wachovia is debiting the account and then sending us a check and does not actually do it electronically; Ms. Ogletree confirmed that as being correct. Commissioner Monaghan stated that it shows as an EFT and not a check. Mr. Auman stated that he would take a look at one of those transactions to see how it came in on our end and how the bank is doing it; it may be different than the normal. Typically on bill pay, they actually cut us a check and that is the part that takes so long. They are in the process of getting that automated too. Ms. Ogletree clarified that if the company has an agreement with the bank, such as Bank of America has with Duke to e-bill, when you make a payment to them it is an EFT transaction as opposed to a check. Mr. Auman noted that on a bill pay that is set up to be done as a debit type transaction, even then it will sometimes take two or three days; that is usually the bank themselves limiting the time they will transfer it through between the two banking institutions. It is not us but it is the way the banks agreements are done. Ms. Gorham agreed that those are not done through EFT; they are sending a paper check to us. Mr. Auman stated that is one thing they are working on; there has to be a separate agreement directly with the bank, which would be with Countybank, so they would accept those payments rather than taking paper checks.

6. Chairman Hancock asked about collections; Ms. Gorham responded that it is going well, noting that some agreements are being made in light of the extreme cold weather and higher bills.

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

Approved: _____, 2010

Secretary