

**CHARLOTTE-MECKLENBURG UTILITIES
ADVISORY COMMITTEE
MINUTES OF MEETING
August 16, 2012**

The Charlotte-Mecklenburg Utilities Advisory Committee met Thursday, August 16, 2012, at 3:30 pm at 4222 Westmont Drive, Charlotte, North Carolina.

Members Present: Ron Charbonneau, Jim Duke, Frank McMahan, Ralph Messera, Eric Siekmann

Members Absent: Jim Merrifield

Guests: Scott Greer and Adam Guerino (Finance Department)

Staff Present: Barry Gullet Director
 Kim Eagle Deputy Director
 Regina Cousar Continuous Improvement Officer
 Steve Miller Customer Service Manager

Safety Minute

Slips, trips and falls – causes include obstacles and lack of attention.

Introduction of New Member

Eric Siekmann introduced himself to the committee and talked about his background and then introductions were made around the table. Eric is filling the “financial expert” opening created by the expiration of George Beckwith’s term.

Election of Chair/Vice Chair

Motion was made by Ron Charbonneau to nominate Jim Duke as the new Chair of the committee. Motion was seconded by Eric Siekmann, and Mr. Duke was elected by acclamation.

Motion was made by Jim Duke to nominate Ron Charbonneau as Vice Chair of the committee. Motion was seconded by Eric Siekmann, and Mr. Charbonneau was elected by acclamation.

Minutes

A motion was made by Ralph Messera and seconded by Ron Charbonneau, to approve the June 2012 minutes.

Ralph pointed out one change that should be made to the June 2012 minutes. In the paragraph under Resolution, Ralph Messera’s name should be changed to Frank McMahan.

Financial Planning Presentation/Q&A

Barry began the presentation by saying there were several points he wanted to make. One was that CMUD’s AAA bond rating by all three rating agencies (Moody’s, Fitch and Standard & Poor’s) gives us a lot of flexibility for capital financing. Secondly, CMUD has a strong long-term financial plan that supports the ratings. The presentation will go through and explain the major elements of the plan.

Copies of the most recent rating report from the three agencies were distributed as well as a copy of the Water and Sewer Projection Summary.

Scott Greer, City Treasurer, explained why the AAA bond rating is important to Utilities. The AAA rating is a coveted rating and has a great deal of value. It opens doors for financing and keeps the cost of capital lower. Utilities' rate structure and financial plan is based on the ability to issue bonds at a low cost when the cash is needed.

The Moody's report placed a negative outlook on our system rating. CMUD does not meet some of the numerical standards of most AAA rated utilities. Moody's has very high standards. They gave fewer than ten utilities a AAA rating. Moody's only recently upgraded CMUD's rating to AAA and Scott reported that it is possible Moody's will downgrade CMUD's rating back to AA+. A rerating back to AA+ probably won't have an impact on where we are in the marketplace. The City has demonstrated a strong management profile, strong planning and a history that will allow us to achieve a AAA rating. All of the City's credit entities have the best rating possible. There is very strong municipal credit throughout the state of North Carolina, so we are standing on a very strong foundation. AAA rating also allows CMUD to go to the bond market when we need to and to expect a good interest rate. This is the most important part of keeping the AAA rating.

The approach Charlotte takes is to work with enterprise funds to ensure that it's a collaborative process to maintain our credit scores. Keeping a rating is dependent on cash flows, revenue and expenditures. CMUD's plan includes maintaining a revenue stream that comfortably covers debt service and operations. Barry pointed out that we go to the bond market frequently to finance the capital investment program. Drought and the economic downturn have interrupted the plan but we are putting it back together and are almost there.

In the past, over 90% of CMUD's capital expenditures were financed with bonds. General obligation (GO) bonds were used until the mid 1990's when market and other conditions made revenue bonds more attractive. Revenue bonds provide more flexibility for planning and scheduling projects. The most recent revenue bond issue was in 2009 and the next issue is expected in 2013.

As debt service increased relative to revenue, the debt service coverage ratio declined. Bond rating agencies use this ratio as a key factor to establish ratings and CMUD's financial plan includes driving it higher over the next several years. The rating agencies like that CMUD has adhered to or exceeded performance projections in our financial plan. As long as we meet or exceed the projections in debt service coverage, we are expected to maintain good bond ratings. CMUD's goal is to increase Pay-As-You-Go (PAYGO) financing up to 40% of annual capital expenses.

The availability fee that was implemented last year as a part of the user fee/rate structure recovers 20% of debt service each year and improves revenue stability.

In 2011, CMUD's outstanding debt was \$1.8 billion. This included \$250 million in GO bonds. CMUD supports this debt with approximately \$100 million of debt service each year. CMUD compares extremely well to most other regional and national cities. Staff noted that information on how Utilities compares to other cities can be found on the UNC Chapel Hill School of Government website (<http://www.sog.unc.edu/>), where they dashboard this information for many cities in North Carolina.

A healthy fund balance also contributes to a good bond rating. CMUD is trying to keep fund balance at the right level and not grow too quickly. Fund balance is the cash in the bank at the end of the year. The standard is 50% of the annual operating and debt service cost combined. It was pointed out that CMUD's debt is completely separate from other non-utility projects in the City. CMUD finances are not influenced by things like the NASCAR Hall of Fame. CMUD was formed in 1972 by an agreement between the City and County that prohibits transfer of CMUD funds to non-utility purposes. In the 1980s, the towns became part of CMUD through similar interlocal agreements. Towns can accelerate the construction of water/sewer projects that are already included in CMUD's CIP by funding them themselves and being reimbursed by CMUD over time.

A question was raised as to what percentage of CMUD's capital expenditures are for capital maintenance. In December, there will be a presentation about the capital improvement planning process. As the area builds out, CMUD is shifting from expansion of the service area to maintaining and replacing existing systems. Rehabilitation and replacement may appear to accelerate more than it actually is because CMUD was doing rehab simultaneously with expansion projects. The rating agencies are interested in how we maintain the system and regulatory compliance. Roughly 85% of the pipe in CMUD's system has been built in the past 30 years.

Future Agenda Items

Barry distributed a list of agenda items for the committee meetings through June 2013. The November, December and February items should stay where they are but the other topics can be flexible. Jim Duke asked that handouts, graphs, charts, etc. be provided for each topic as these are very helpful. Regina suggested that binders are prepared for the committee to keep the handouts in.

Action

Karen Baldwin will schedule a half-day CMUD tour for any interested committee members.

Adjourned at 4:52 pm
Mindy Levine