

The Washington City Council met in a continued session on Monday, January 26, 2009 at 4:30 p.m. in the Council Chambers at the Municipal Building. Present were: Judy Jennette, Mayor; Doug Mercer, Mayor Pro tem; Richard Brooks, Councilman; Gil Davis, Councilman; Archie Jennings, Councilman; Jim Smith, City Manager; Cynthia S. Bennett, City Clerk; and Franz Holscher, City Attorney.

Also present were: Allen Lewis, Public Works Director; Bobby Roberson, Planning and Community Development Director; Ray Midgett, IT Director; Anita Radcliffe, Acting Finance Director; Keith Hardt, Electric Director; Jay Niver, with the Beaufort Observer; Paul Dunn and Mike Voss, with the Washington Daily News.

Mayor Jennette called the meeting to order and Councilman Brooks delivered the invocation.

Jim Smith, City Manager explained the documents Council received.

NCEMPA Talking Points:

- The Power Agency operates with an annual budget of \$700 million, yet has only a \$5 million Working Capital Policy. Working capital provides a cushion for slight fluctuations in budgeted expenses. Without sufficient working capital, any fluctuation in cost projections results in a rate increase. There is no opportunity to “wait and see” without the risk of significantly larger increases with little or no notice of change.
- The price of oil and gasoline has very little effect on Power Agency operations. The only effect the decrease in gasoline costs has is on the local level.
- While the drop in the spot market for coal is favorable, it does not have a significant effect on the Power Agency. Progress Energy negotiates contracts for coal on a long-term basis and the spot market price is only an indicator for future contracts. Through the years, long-term contracts have brought savings to the Power Agency. The current spot market price has not gone below average contract prices at this time.
- NCEMPA has outstanding debt from the purchase of ownership interests in the coal and nuclear plants. Current market conditions in this economic downturn have caused debt costs to increase.
- Due to the banking crisis and Wall Street collapse, interest rates have fallen well below projections, resulting in much lower interest income.

**HIGHLIGHTS OF 12-12-08 MEMO FROM CITY MANAGER:
SUBJ: Implementation of NCEMPA Electric Rate Increase**

After additional consideration of options for implementing the February electric rate increase by myself, Electric Director Keith Hardt, and Acting Finance Director Anita Radcliffe, we are prepared to propose an implementation strategy which would delay the effective date until July of 2009. Obviously, there is considerable risk due to the many unknowns facing us in the current unsettled economic climate. However, with Director Hardt monitoring changes in utilization and Acting Director Radcliffe monitoring accounts receivable on a monthly basis, we feel that the risks are worth taking. We all share the desire to avoid any further burden on consumers at the present time.

Fiscal Year 2008-09

There are three components to this new plan:

- Delayed capital spending
- Reduced dividends to the general fund from in-city customers
- Consumption of the programmed contingency in the current years' electric budget

We have reviewed the proposed capital expenditures in the Electric Department's 2008-09 budget. Replacement of two substation transformers and replacement of vacuum

circuit breakers are capital expenditures which are critical to accomplish. The vacuum circuit breakers are a major contributor to reliability and the transformers are major contributors to reducing lost purchased power. In 2007-8, approximately 18,500 kWh (\$920,000) was lost due to inefficiency in the system. We are not anxious to defer the purchase of capital items. However, we have now confirmed that long delivery times for the items will unavoidably delay their arrival until after the end of the present fiscal year. Therefore, the impact of delaying the ordering of these items and miscellaneous others until June, resulting in debt service beginning no sooner than July of 2009, will not have a major impact. \$247,590 was programmed in the Electric Department Budget for debt service. This expense can be delayed until after the end of the current fiscal year.

A second option that we have reviewed in detail is the dividends paid by Washington Electric to the City of Washington which in turn are used to pay for services such as recreation, library, transportation, and public safety which serve the entire region. Approximately 38% of the dividends come from sales to in-city customers and which in turn are used to defray the property taxes of essentially the same in-city customers. This amounts to approximately \$420,000 of the \$1,100,000 dividend which was part of the 2008-09 Electric Department budget. Many private sector entities are reducing dividends. If the dividend is reduced by \$420,000 this saving can contribute to avoiding a near term rate increase.

Finally, there is \$500,000 programmed as contingency in the FY 08-09 Electric Department budget. Closing the remaining \$1,141,000 end of year Electric Fund short fall, which was discussed with Council Monday evening, would require consuming \$475,000 of the contingency, leaving a very, very small margin for error. However, it does appear feasible if we carefully manage expenses and Booth & Associates projections hold reliably through the end of the fiscal year.

The loss of \$420,000 will have a negative impact on the General fund. We have updated the schedule of fund balances with the information derived from the recently completed 2007-08 audit. As you may remember, the gross end of year balance in the General Fund was \$8,569,052, reserved fund balance was \$2,581,840 and designated fund balance for public safety facilities was \$1,000,000. This leaves a net of \$4,987,212. Subtracting the 60 day recommended operating reserve of \$2.5 million and the reserve for cash flow of \$1,750,000 results in an estimated \$737,212 unrestricted and unreserved fund balance. Therefore, the \$420,000 reduction in dividend which had been planned to be transferred to the General Fund can be absorbed with an approximately \$300,000 margin. On a \$15,000,000 General Fund budget, a \$300,000 balance is very tight and will have to be watched very closely. It will reduce our options for FY 2009-2010.

Fiscal Year 2009-10

At this point it appears that enactment of the previously planned 5% rate increase effective July 2009 and collected for a full twelve months will be adequate to cover a full twelve months of the NCEMPA implemented wholesale power cost adjustment which becomes effective in February (approximately \$1,200,000). The risk will center on the full impact of reduced sales and account delinquencies. With an additional six months to observe these conditions we will have a better chance of an accurate projection at the end of the current fiscal year. **(END MEMO)**

Councilman Jennings stated, "We, as a community, can't afford a rate increase." Councilman Davis said that when it comes to implementing the 4-percent increase for the city's power customers, the city must "put it off as long as we can."

Council discussed the proposal from the City Manager; Anita Radcliffe, Acting Finance Director and Keith Hardt, Electric Director. The council wants to review several areas in the electric fund, including existing retail-rate categories, before deciding what will happen to electric rates in the upcoming fiscal year, which begins July 1.

On motion of Councilman Davis, seconded by Councilman Jennings, Council unanimously agreed to vote at this Committee of the Whole meeting.

On motion of Councilman Jennings, seconded by Councilman Davis, Council unanimously voted to defer installment note capital expenditures in the electric fund through June 30, 2009, consume the electric fund contingency, and decrease the transfer to the General Fund from the Electric Fund in FY08/09 in the appropriate amounts that would allow us to forestall the proposed rate increase through the rest of this fiscal year.

CLOSED SESSION - UNDER G.S. 143-318.11(A) (5) ACQUISITION OF REAL PROPERTY –PROPERTY LOCATED ON HARVEY STREET AND OWNED BY THE BEAUFORT COUNTY BOARD OF EDUCATION

On motion of Councilman Woolard, seconded by Councilman Brooks, Council agreed to go into closed session under G.S. 143-318.11(a)(5) Acquisition of real property: property located on Harvey Street and owned by the Beaufort County Board of Education.

On motion of Councilman Woolard, seconded by Councilman Brooks, Council agreed to come out of closed session.

On motion of Councilman Woolard, seconded by Councilman Brooks, Council adjourned the meeting at 6:10pm, until Monday, February 9, 2009 at 4:30 p.m. in the Council Chambers at the Municipal Building.

**Cynthia S. Bennett
City Clerk**