



**TOWN OF AYDEN
GOVERNING BOARD MEETING
MINUTES**

September 15, 2015 – 5:00 pm (Special Called Meeting- conference call)
Ayden Town Hall Conference Room

I. CALL TO ORDER

A. Call to Order
Mayor Tripp called the meeting to order at 5:05 pm

B. Roll Call

Present:

Mayor Tripp

Commissioners Davenport, Harris, Mewborn, Ross and Skinner

Present Via Conference Call:

Mark Beauchamp, President of Utility Financial Solutions, LLC

Also Present:

Brandon Holland – Town Manager

Alicia Simpson – Finance Director

Sherri Scharf – Town Clerk

Phil Dixon – Town Attorney

II. DISCUSSION OF ELECTRIC RATE STUDY RESULTS

The purpose of the conference call/meeting was to discuss the results of Ayden's Electric Rate Study as performed by the consulting firm, Utility Financial Solutions (UFS). Mr. Beauchamp provided a Powerpoint handout which became the focus of the meeting. Once an understanding is reached on the study, UFS can then calculate Cost of Service Projections with various electric rate adjustments from which the Board can select a new rate.

Mayor Tripp led the meeting reminding the Board that being an Electricities member has helped the Town of Ayden mitigate risk and allows the Town to carry lower cash reserves compared to other cities that rely on power supply contracts where electricity is subject to price spikes due to market volatility. He asked the Board to remember that they are considering a 5-year financial projection to determine how much to decrease Ayden's electric rate keeping in mind that the wholesale purchase prices are expected to rise after this fiscal year.

Mr. Beauchamp confirmed this by stating that although the current 2015-16 fiscal year wholesale price decrease is 16%, DEP will increase its wholesale price to nearly 13% over the

next 5 years. Mr. Beauchamp then led the Board through the data his firm had compiled. He started by stating that although Ayden has a \$10,000,000 investment in its electric infrastructure, the net value of that investment is only \$3,156,675. Due to the age of its infrastructure, Ayden's depreciation rate is 69%, compared to a system average of 50%. The three main factors or "benchmarks" to be considered prior to setting a new rate are:

1. Debt coverage ratio (net annual income > debt service payments)
2. Level of cash reserves
3. Target operating income

Mr. Beauchamp gave a projection of the Town's financial position without a rate adjustment:

- Adjusted operating income = \$1,929,403
- Target operating income = \$319,679
- Debt coverage ratio = 2.94
- Cash balance = \$5,550,474

He suggested that Ayden maintain at least a 1.4 debt coverage ratio to incorporate a safety "buffer" to keep the Town from violating its bond covenant, which could result in the inability to secure a future loan. A strong cash reserve covers catastrophic events, provides funds for system improvements and bolsters the Town's credit rating, which is very important should Ayden consider issuing a bond for major capital improvements. The study recommends a minimum \$1,843,895 cash reserve. Mr. Beauchamp stated that target operating income has to be set high enough to cover the interest expense of debt and the costs of replacing aging electric infrastructure, which rise over time (inflation). His projected operating income for Ayden is \$1,929,403 with a target operating income of \$319,679.

Sample rate reduction charts of 4.8% and 8.5% rate were included in the UFS Powerpoint presentation. Mayor Tripp stated that according to the data presented, if we choose an 8.5% rate reduction now, the projected rate increase will be 3% in 2018 and 2019 and 2% in 2020. However, if we choose the UFS more conservative 4.8% rate reduction now, customers should see no rate increase until 2019 or 2020. Mr. Beauchamp replied that the Town could elect a rate reduction now while also increasing the monthly customer facilities charge as a way to stabilize revenues.

After much discussion among Board members it was agreed that more rate reduction scenarios needed to be offered as well as detailed YTD financial statements and projections from Town staff. It was suggested that the Governing Board meet again when this additional information is made available.

III. RECESS

Mayor Tripp called for a motion and votes to recess the meeting.

Motion: Commissioner Skinner

Second: Commissioner Harris

Discussion: None

Approved: 5-0

The motion to recess the meeting until September 17th at 5:45 p.m. was approved.

CERTIFICATION

Minutes from September 15th, 2015 meeting were adopted and certified this 6th day of October 2015 in Ayden, North Carolina.



ATTEST:

Sherri Scharf

Sherri Scharf, Town Clerk

AYDEN, NORTH CAROLINA

A handwritten signature in black ink, appearing to read "Stephen W. Tripp".

Stephen W. Tripp, Mayor