

The Beaufort County Finance Committee met on Tuesday, March 16, 2021 at 3:00 PM, in Commissioner's boardroom located at 136 W. 2nd Street in Washington, NC with the following present:

Committee Members:

Chairman Frankie Waters
Commissioner Jerry Langley

On the Phone:

Commissioner John Rebholz

Staff Present:

Brain Alligood, County Manager
Anita Radcliffe, Chief Financial Officer
Katie Mosher, Clerk to the Board

Chairman Waters called the meeting to order and asked if anyone had a conflict of interest.

No one spoke.

Motion: Commissioner Langley motioned to approve the agenda. Commissioner Rebholz seconded. The vote was unanimous.

Motion: Commissioner Langley motioned to approve the minutes. Commissioner Rebholz seconded. The vote was unanimous.

Update on Debt Refinancing Opportunities

Ms. Radcliffe said the first handout that you have just behind your agenda is a schedule titled "Beaufort County Existing Debt for the Period Ending March 15, 2021". She said what I wanted to share with you today is a listing of all of our existing debt currently. She said as you can see, we've got about seven separate different types of debt and I wanted to let you know that I've gone through, with the help of our financial advisor on a couple of these but gone through and made sure to determine if these were a good candidate for refinancing right now or whether, for whatever reason, they are not. She said as we go down the list the first one on there is a Bank of America purchase installment contract. She said this is a guaranteed energy savings contract that we did probably back about 10 years ago, because I believe it was a 15-year term. She said we've only got five years left on that installment note. She said it matures in 2026. She said we've got a really great interest rate of 2.132%. She said you the outstanding balance there and I'm saying no, this is not a good candidate for refinancing right now because we've only got five years left and the rate is such a great rate and plus there is a 2% pre-payment penalty on that note of about \$22,000 if we refinance that. She said so moving on down the list we've got the David Francisco building which I believe we purchased that from Mr. Johnston and that was done about seven years ago. She said again, that was a fifteen-year note. She said we've paid on that for seven years; we've got eight years left. She said that's at a 4% rate, and I was getting kind of excited about that one because that was one I thought we either needed to take the fund balance and just pay it off or probably not refinance because you've got to look at the cost of issuance when doing all that but I did find out after a little bit of research that we actually cannot pre-pay that before October 5, 2024. She said so that actually is not a candidate at

Tuesday, March 16, 2021
Finance Committee Meeting

this time for refinancing. She said moving on down the list we have a, this is the most recent installment note that we have. She said this is for the water fund and that is that \$4.5 million borrowing that we did a couple years ago, actually 3 years ago. She said it's a 15-year term. She said we've paid three years on that note, so we've got twelve years left. She said that was borrowed to finance our water automated smart meter project and you can see that the rate there is 3.3644%, which, before rates went below 2% that would've been a really great rate but unfortunately, same thing here, there's no pre-payment on that note until March 2026. She said so that is not a candidate right now for refinancing either. She said the next two, those are state loans through DENR related to our water system for a couple of projects done there. She said I believe they're originally 20-year terms and we've paid for almost six years. She said we have 14 years remaining and of course the great thing about those loans, they're pretty much always at 0% interest and these are, that is the case with these so they are not a candidate for refinancing. She said I don't think we'd find anything better than 0% anywhere. She said moving on down to the ones that we are looking at for refinancing, that USDA loan, I mentioned that to you at your last board meeting. She said actually I'm working with our bond counsel, Bob Jessup, on this one. She said decided that we didn't really need the, need to utilize the financial advisors for this one. She said of course they were willing to help us. She said their fee was going to be about \$26,000 to handle this refinancing and I have done a USDA refinancing during my time at the City so I'm pretty comfortable with doing that so my thought is that we could save that \$26,000 and I'm just working with our attorney, Bob Jessup, kind of out there on our own. She said the two I'm not comfortable doing.

Commissioner Langley said let me ask you a quick question, what is the rate on that now.

Ms. Radcliffe said let me review that, I got ahead of myself. She said flip back two pages and you'll see a schedule that says "2013 USDA Loan". She said so right now that USDA loan, this is for the Allied Health building or the nursing building out at the college. She said we built that, borrowed that money back in 2013. She said USDA allowed us to borrow that money for 30 years. She said we've paid on that loan for eight years, so we've got 22 years left on that loan. She said it's got a current rate of 3.5% and you see the outstanding balance there of \$2.738 million. She said so right now, and I think this is still probably a good number but there's been some movement in rates in the last few weeks and what I can tell you is that all of the numbers I'm sharing today, as far as interest rates, amortization schedules, they are all based on current market conditions and they will change. She said one thing I will guarantee you is that the exact rate we end up with is not going to be the rate that you see here. She said hopefully we will be somewhere really close. She said based on some information that I had, some information that I got from our financial advisors, they've still been willing to help me with this even though we're not paying them that \$26,000, is that we should be able to refinance this loan for about 2%. She said they actually showed a slightly lower rate, but I wanted to be extremely conservative, so I used 2%. She said you might remember me telling you at the meeting last month that the term doesn't need to be any longer than twelve years because the Local Government Commission, their take on it is it's nice that USDA loans allowed you to borrow that money for 30 years, but we don't like that, we wouldn't have allowed you to borrow it for more than twenty. She said but they let us do it with USDA for thirty, but they really like twenty years or less and so for the LGC to approve this loan they would not want us to go any longer than the original twenty years that they would've allowed, minus the eight years we've already paid, leaving a twelve-year term. She said so they really wouldn't want us to go any longer than twelve years so that's what you see reflected here, a twelve-year term. She said that puts the estimated savings at about \$835,000. She said I guess the flip side, or slight downside of this is that those negative savings of \$77,548 you see there in the first twelve years is where our debt service, our annual debt service goes up but you can see the last however many years that is, like eight or nine or ten years at the bottom we save the \$175,718 because we pay it off ten years early. She said so I feel comfortable, based on just looking at preliminary budget numbers, looking at our sales tax numbers being so great, we've got a really healthy fund balance, I'm not concerned at all about raising our annual debt service to \$77,548 because we should have some reduction in debt service coming from a different area that I'm going to talk about in a second, to offset that increase. She said then, also, along those same lines, we're getting really close to that 35% fund balance target number and what our policy says that we will take any surplus over that 35% and

Tuesday, March 16, 2021
Finance Committee Meeting

we'll look at either paying down our debt or we'll look at setting up capital reserve funds for future projects. She said so with that in mind, with us having, with me anticipating that we're going to go over 35% on June 30th on our fund balance, I'm willing to take some of that fund balance, if we have to, to go ahead and defeat the debt much sooner and pick up all this savings over the long run. She said we're looking at picking up \$825,127 in savings over the long term. She said it goes along with the principal of what I try to do at my house, and I do try to manage the County finances like I do my own. She said it's like make a little extra principal payment on that house payment, so you get it paid off that much sooner, is basically what we're doing there. She said she said I've got a little bit of information on the notes. She said we've had a little bit of a hiccup in issuing the RFP. She said I had that drafted and ready to go and then sent it to our bond counsel and he realized there was probably some EDA grant money, Commissioner Langley you might remember because you were here then, but my understanding is not only was there USDA borrowing but part of that was an EDA grant to construct that building. She said so we've had our County Attorney, David Francisco, do a bit of research at the register of Deeds, pull some information on that because that needed to be included in the RFP. She said expectations that we will issue that RFP later this month, we'll have that due back to us sometime in April, it will be brought before you at the May meeting for you to review the bids and do, hopefully, a finding's resolution and then from there, if we decide to move forward the LGC will approve during their May meeting and we will close in June. She said then also, one other note there, we would also go ahead and make that May 1st payment that's due every year, that \$175,718, we would go ahead and make that as scheduled under the old note. She said another beautiful thing about this, and this is also the case with the GO Bonds, since we've issued that RFP we've not committed ourselves to anything so if things go completely crazy and we get an interest rate back of 3.6% we can say never mind, that doesn't make sense. She said then you don't do anything else, you don't move forward. She said so we'll have an opportunity to have those bids in place and make an informed decision about what the bids are, what kind of rate we're looking at, what term we're looking at to know if we want to move forward with that. She said so moving down the list we have General Obligation bonds. She said this is something you've not really heard about yet in a meeting setting because last month we talked about USDA and we talked about the LOBS but there does seem to be an opportunity for the GO Bonds. She said this, we are soliciting the help of our financial advisors, Davenport, and our bond counsel, Bob Jessup, and they've actually already issued those RFP's. She said it was done back in February. She said we're going to receive RFP's back on March 23rd and we're just kind of looking to see what we can get. She said again, it's just like the USDA loan, if it makes sense to refinance them we will come to you at your April meeting and we will say we need to do this, you'll adopt a bond order, a finding resolution, we'll apply to the LGC and we'll do the refinancing and one thing in those RFP's is we do require those banks to hold that interest amount, that bid amount for 60 days so we're locked in on that. She said so depending on how those bids come back in the next week and a couple days, we'll know whether it makes sense whether to move forward on that one or not. She said I did include, behind that USDA amortization schedule, the next piece of material is labeled refunding discussion materials. She said it's dated February 17th. She said this material relates to the GO Bonds and this is information that Davenport put together for us. She said it is a little stale because they did it back on February 17th and like I've said there has been some movement in the bond market since then however, if you'll go to page, let's look at page 2, we've got three GO School bonds. She said we've got the 2021 bonds, the 2015 and the 2017. She said that's columns B, C, and D. She said assuming that rates hold, which they changed a little bit but at that time in February the gross savings, you can see in row 25, would've been \$405,000. She said now that number has come down a little bit, I can tell you because I know it has because the LOBS have come down that savings has come down. She said it's probably come down about 25%, that was about what it came down on the LOBS so you're still looking at about \$300,000 right now, if we were to refinance today. She said but again, we will get those numbers back, we will look at them, we will see if it makes sense to go forward and if it does, we will and if it doesn't, we can say we tried but the market conditions just aren't where they need to be.

Commissioner Rebholz said is there any cost associated with refinancing these three.

Tuesday, March 16, 2021
Finance Committee Meeting

Ms. Radcliffe said there's a lot of cost associated, it is expensive and the reason it's expensive is because for the GO's and the LOBS you've got a financial advisor that's getting paid for their time. She said I can't tell you how many attorneys are probably involved. She said you've got bond counsel, you've got the underwriter, you've got the escrow agent, so lots of attorneys that make really decent money and you can look and see for the GO's the cost of issuance is \$100,000.

Chairman Waters said it's on page 2 under costs, line item 15.

Ms. Radcliffe said line 15, cost of issuance, \$100,000.

Commissioner Rebholz said two of these boxes, 15 and 17, we're already sitting on a 2.15% rate and a 2.22%. He said what would we have to get as a rate to break even.

Ms. Radcliffe said if you look at the next page, page 3, on February 17th they were looking at rates anywhere from 1% to 1.5%. She said they kind of give you three separate scenarios. She said you can see them there. She said now these numbers, these interest rates have moved up slightly but it's still below where we're at right now.

Mr. Alligood said correct me if I'm wrong but the good thing about those also is that Davenport is doing this work at risk so, and the other piece, so if this thing doesn't go through Davenport doesn't get paid, nobody gets paid. He said the other piece of that is they might try to force us into a bad decision because they're not going to get paid. He said the final check on this is the LGC. He said the LGC will look at these numbers and say you can move forward, or you can't move forward so they will be the final check on that and keep everybody in line.

Chairman Waters said but you're still looking at, roughly right now, a \$300,000 savings using current rates. He said that's still for, looking at a term of 7 years less that's still pretty good.

Ms. Radcliffe said it's still a good outcome and those savings, if they're realized, would offset, because this is general funds school bonds, that offsets the increased annual debt service for the USDA. She said it doesn't exactly net it to zero, but it gets us back where we need to be. She said the other point I would make is that the cost of issuance on the GO bonds, and next when we talk about the LOBS, the cost of issuance is quite expensive with those because they're very complicated. She said that is rolled up into the new debt issue cost, so they're financed, basically, is what I'm trying to say. She said the USDA, that's a different story. She said if we move forward with that, you're going to see me ask for a budget amendment to pay our bond counsel. She said he's charging us, if we move forward, if it makes sense, \$10,000 to do that project. She said so we would do a straight-out budget amendment for that and pay him for that. She said so we'll move onto the last one on the list which is the limited obligation bond. She said of course these were 40-year bonds I believe, borrowed back in 2012 and they have a maturity of 2041, so we've got 20 years left on those. She said current interest rate is 3% to 5%. She said we would be refinancing \$31.215 million and I have included the schedule on that. She said it's entitled "Taxable Refunding of LOB's Series 2012". She said it's dated March 12th from Davenport and these numbers did not change very much compared to what we presented to you during the March 1st meeting, but we can give them a quick review. She said on page 1, the last column there. She said the annual savings, with rates where they're at today, would be right at \$2.5 million. She said if you'll look at line 17, that net present value savings is 6.269% so the LGC, they don't like for that to fall below 3%. She said if it falls below 3%, they might say it doesn't make sense for you to actually do this refinancing so like Mr. Alligood said we've got big daddy watching over us to let us know if this makes good sense for us to do this.

Commissioner Rebholz said it's my understanding that the LGC determined what type of bond you can issue. He said can the decide on limited obligation versus general.

Ms. Radcliffe said no.

Commissioner Rebholz said it looks to me like the going interest rate for a limited obligation is generally higher than a general.

Ms. Radcliffe said it is and the reason for that is your GO Bonds are backed by the full faith and taxing power of the County and that's the difference. She said the LOPS are, the security interest for the LOBS is the water system itself, the equipment infrastructure.

Commissioner Rebholz said that goes back to why I voted against Commissioner Richardson thing about having to vote on everything. He said it takes away some of our legal options.

Mr. Alligood said well, it takes away, it does take away your options, but it is also a tremendous cost and a time consuming thing because you have to have voter approval, then you've got to go through all of this. He said it costs you a whole lot of money and it takes away your legally available options.

Ms. Radcliffe said so for example we're borrowing money right now, it's to pay off debt. She said we're refinancing but we're borrowing money and we're going to save money by doing that but if we had to go through and do voter approval on this the rates would flip, believe me, before we could ever get through the process.

Commissioner Rebholz said on a side note, just for information, Commissioner Langley, when you did the deal previously, that plan did not include a vote, correct.

Commissioner Langley said correct.

Commissioner Rebholz said what was the decision you took as to how you were going to guarantee things. He said was that using the facility as collateral.

Commissioner Langley said we were trying to do the general obligation bonds. He said that's what we were after.

Commissioner Rebholz said just a loan in general.

Mr. Alligood said no, through the USDA because they were the ones who held you up when they called them and said people are all upset about this and they said wait until you have the election.

Commissioner Langley said that was the LGC that did that to us.

Chairman Waters said the LGC would be the ones who approve the USDA loan.

Mr. Alligood said they should've had no business in that at all.

Commissioner Langley said what happened was Bill Cooke got to them and killed it.

Chairman Waters said that was a USDA loan secured by the jail but the LGC was involved because they had to approve it, right. He said on the water, did those things date back to 2001. He said is that when we started.

Ms. Radcliffe said they're 2012 so help me with my math, they mature when.

Chairman Waters said so they were 30 years.

Ms. Radcliffe said they were 30 years. She said we've paid 10 and have 20 left.

Chairman Waters but they were interest only, Commissioner Rebholz, in the front. He said I forget how many years it was that it was interest only on the loan because we've only been paying principal maybe three years.

Ms. Radcliffe said yes. She said I think the intent there was to get the water system up and running and to have sufficient revenue to be able to support the larger payments.

Chairman Waters said it was probably three years. He said most of them are three years.

Ms. Radcliffe said that sounds right.

American Rescue Plan

Ms. Radcliffe said yes, I might need Mr. Alligood's help on this. She said so the American Rescue Plan, that's the \$1.9 trillion stimulus package that the president just signed into law last week. She said so we just got information, this actually came from the League of Municipalities on what Beaufort County's estimated allocation is going to be and you can see we're about the 7th one down on the page. She said our estimated allocation is \$9.11 million, with the first amount to be received by May 15th of this year. She said so we don't have, at this point, this is pretty new so we don't have any real guidance yet on what we can spend that money on. She said I did participate in a SWIA webinar this morning and they did mention you will be able to spend it on infrastructure. She said whether that be broadband, utility infrastructure, they do feel like that will be one of the eligible expenses. She said so much more to come on that.

Commissioner Rebholz said the \$9.1 is net of the municipalities because theirs is going direct to them, is that right.

Ms. Radcliffe said that's right. She said that's my understanding so the \$9.11 million is all County funds.

Mr. Alligood said the City of Washington is going to receive about \$3 million, Pantego gets about \$40,000.

Commissioner Rebholz said initially they said you were not going to be able to use it for lost revenue, to cover lost revenue. He said so I don't think they were changing that.

Mr. Alligood said you can but you've got, the guidance is not out there from the treasury and for us it wouldn't work because you've got to look at last years revenue and ours has been higher. He said we haven't had any loss.

Ms. Radcliffe said my question would be do you get to pick and chose revenue or is it overall revenue because certainly, while our sales tax has been up tremendously, we have a couple areas like interest earnings that have been down. She said then, on the water side, we were under that executive order where we couldn't charge those penalties and interest. She said that particular revenue source, fees, interest, disconnection fees, that was down about \$160,000 down, however the water sales were up so I think it really is going to depend on how you look at the revenues. She said can you look at the individual types of revenue sources or do you look at the overall bottom line of your total. She said we don't know that yet.

Chairman Waters said Mr. Alligood, were you on the steering committee call yesterday afternoon. He said you might touch on the amount of money the school system is projected to get. He said \$7.6 million.

Mr. Alligood said it was near about \$8 million locally the school system is getting and I sent a note, I think I forwarded it to you all, that I sent to Mr. Cheeseman. He said I also sent a note to Mark Nelson asking him and he said he didn't know yet but there's money in there as well for higher education and that's not even, there is the American Rescue Plan on top of that so there's federal money that was passed through by the state and then there's this additional big money so the schools are going to get a ton of money. He said they should never come to you and asked for technology ever again.

Commissioner Langley said that's the thing I think about with this stimulus is people can pitch just about anything that's wrong right now and that everybody should be able to get so far out front that it should really make a difference for everybody, provided people do the right thing with it. He said that's the most important thing, whether they do the right thing with it.

Ms. Radcliffe said the County will spend it wisely.

Commissioner Langley said I'm sure we will.

Commissioner Rebholz said here's how I would like to see us progress. He said when we got the last stimulus money we had already come together with a list of priorities before Covid.

Ms. Radcliffe said I'm not aware of a list. She said maybe there's one I didn't see.

Commissioner Rebholz said I thought it came out of that study that was done in 2017.

Ms. Radcliffe said are you talking about the facilities study.

Commissioner Rebholz said yes.

Chairman Waters said I think what you might confuse it with is the one penny we had agreed on when we increased the tax that was going to go towards capital budgeted items, and we would choose what that money was going to be spent on each year.

Commissioner Rebholz said okay, I'll go back and look at it. He said I thought there was an overall evaluation of priorities. He said I'll go back and take a look at it. He said the reason I'm asking that is because when we got that money before you came forward with a list of things to be done and in my evaluation was none of those things were on the priority list.

Mr. Alligood said right, the money we got the Board used to off-set public safety salaries that were allowed to be reimbursed under that agreement. He said then those funds rolled to fund balance and we came back to you and said here are items related to Covid so that, we felt like they were in the same spirit of that money. He said we didn't say take this money and go buy vehicles or something like that. He said there was money for cleaning ducts, there was money for generators, there was money for the building at the health department, the ionizers, and the additional filtration in the HVAC system so what we tried to do was keep it close to the original intent of the money so that even if somebody came back and said what did you spend it on we could say here, it's related to that. He said I hear what you're saying. He said I think I've heard you say before that you want the Board to sit down and look at this and come up with some priorities.

Commissioner Rebholz said I would like to see us come up with a policy that defines where our priorities are for spending windfalls.

Mr. Alligood said remember, this is not a windfall. He said this is, you're going to have some requirements and we don't have those requirements yet. He said we have some very broad guidelines but

you're going to have some stuff within that and you're going to have to make it fit and quite honestly, I'm a little bit worried, unless you guys take some very bold steps, I'm afraid you're not going to have enough expense to cover all this. He said what I mean by that is \$9 million is a lot of money and we can't spend it on stuff we've already used money for or things that we're getting reimburse from FEMA that we're going to file with FEMA to get reimbursed. He said you can't double dip it or we'll get in trouble and have to pay it back so some of that, and I'll just throw it out there, the Association of County Commissioners is currently lobbying very heavily, they had a meeting last week with the telecommunications industry, because right now counties cannot put fiber in the ground and lease it back to broadband providers. He said that's against the law and they're trying to get Tom Warren and the others to do that and quite honestly, if you are making a, and this is where you're going to think I'm crazy but if you want to make a tremendous impact on education, health care, economic development and quality of life, you take \$7.5 million of the \$9 million and put in that fiber backbone that RiverStreet said would cost \$7.5 million to do across the entire County, It'll take \$7.5 million to do that, you put it in the ground and you can lease that fiber back to them to use and you take a one-time expenditure and you make a continuing revenue stream out of it. He said right now you can't do that, it's illegal to do that but that's what the Association is trying to do for us. He said but that's just me.

Commissioner Langley said then all these companies cannot hold the consumers hostage anymore. He said so that would be a great thing.

Mr. Alligood said that's why we did an engineering study.

Chairman Waters said it's going to require a change in the state statute for us to be able to do that.

Mr. Alligood said it would for us to make it a one-time expenditure and a continuous revenue stream. He said it wouldn't, if they keep it exactly the way it is you can still put it in and make a grant to your selected provider. He said you can still do that; the law allows you to do that. He said just like the \$500,000 you set aside of the CARES Act funding; you can do that. He said but you don't have, but it's a one time shot, and it's gone, you don't have control over it. He said but they're working really hard to try and get that through.

Chairman Waters said but it sounds like it's going to be for infrastructure, primarily.

Mr. Alligood said it's for infrastructure and when they say infrastructure the question then becomes is it for sewer, how do you define infrastructure, but they clearly say in the deal broadband. He said they say response to the pandemic and those kinds of things, but we're waiting for specific guidance from treasury.

“Distressed” Water System

Ms. Radcliffe said back in late February Chairman Waters received a letter from the Division of Water Quality stating that Beaufort County may potentially be designated as a distressed water unit. She said just to give you a little bit of background, this is all new, new to me anyway, it's been in the works for a while. She said I was kind of blindsided by this. She said but to give you a little bit of background, there was a session law 2020-79 that was enacted in July 2020 that actually tasked the Local Government Commission to work jointly with the State Water Infrastructure Authority, which is SWIA, so if you hear me say SWIA that's that State Infrastructure Authority, to work jointly to develop a criteria that they could go through and measure all the municipal and county water and sewer authorities to see how viable they were. She said the first part of this, of course, is they developed the criteria, we'll get to that in a second, there's 15 different items on the list and the LGC, they've already done their calculations and they've looked at it. She said it's like golf, the lower the score the better so you had to score below an 8 not to be considered distressed and we scored a 9. She said so we're right there on the bubble. She said so

Tuesday, March 16, 2021
Finance Committee Meeting

we scored a 9, you've got to score below an 8 to not be considered distressed and actually, going through the calculations Mr. Alligood and I met with Ms. Smith about two weeks ago and we went through the calculations and we could figure them all out except for one, which was an accounts receivable calculation. She said I've since been able to figure out how they did that, and that calculation is not right so once I tell them that calculation is wrong, I believe we're at an 8. She said so we're definitely on the bubble now.

Commissioner Langley said but on the same token, the level they've chosen is not set in stone yet because they're not even sure about it. He said we talked about this at the Water Committee.

Ms. Radcliffe said I can tell you that I participated in a webinar with SWIA this morning. She said they're the ones that are part of the committee with the LGC. She said the LGC has already looked at it and said yes, we think Beaufort County is distressed, the water system. She said SWIA is going to look at it at their April board meeting and we have until Friday, March 19th to have a response in writing to SWIA about whether we agree with it why we don't and why we don't agree with the rating we've been given. She said based on that webinar today my feeling is the criteria is set and it's not going to change. She said I don't feel it's going to change. She said people are going to lobby for it to change but I don't think it's going to change and the reason I don't think it's going to change is because, like I said, the LGC has already made their determination and honestly, even though the 15 criteria they picked are not perfect, they had to pick data that was available and measurable. She said there are a lot of things that they probably could've looked at and probably needed to be looked at and factored into the score, but they had to be able to pull audit reports and get hard numbers and do hard calculations on both the financial side and then the water quality report for the operational side to be able to come up with a score card for everybody. She said I may be wrong but I kind of got the feeling the criteria is not going to change but what we can do is we can respond to the letter. She said we can say I believe one of the calculations is wrong. She said I can demonstrate that with the numbers and then I think the other thing we do is demonstrate all the progress that we've made in the last five years, and I think we've made a lot. She said I went back, because I happen to keep a list of accomplishments because when I get feeling really down on myself, I just pull it out and I look at all the great things that have been done because I'm not very good about bragging about my team or what I do but there's been a lot done and I just want to share some of it quickly with you. She said it's things like our water collection efforts. She said we're now doing a consistent cut-off procedure. She said that's not always been done at the County, but it's been done for the last four or five years. She said we've instituted robocalls to remind customers about delinquent bills. She said we started a practice, even though it might not be a policy, that in order to get your account set up that if you've got an old balance you've got to pay that old balance off before we'll give you water again and start that new account. She said we got set up with the North Carolina debt setoff and collected over \$15,000 through that program and that's a free program. She said so we're collecting our old debts that way. She said we got set up with a third-party collection agency so if it's not collected through NC debt setoff that third party debt collection agency is going after that customer that left us with that bad debt. She said then we did things related to long term planning, such as the rate study we did about three years ago when we hired Mark McGill to look at our rates. She said remember we had seven different water rates across seven districts. She said we found ourselves a smart attorney, it's the same attorney that's helping us with the refinancing, he got us an interlocal operating agreement so that we could operate the system as one operating system. She said that helps because we did have a couple that were struggling, and we had a couple that were doing okay. She said you can kind of blend them together and look at them together that makes a better picture. She said it definitely makes it easier administratively. She said also, Ms. Smith put together a 10-year CIP. She said that's been factored into that rate analysis, so we've done a lot, we've come a long way, I think we write that letter and tell them the progress we've made, the long-term planning we've got in place. She said I'm only speaking for myself, but we've got a great manager in place, we've got a really smart engineer running that water system, I just think there are so many positives that we can tell them about Beaufort County. She said I certainly don't consider us distressed and I want to try and get our name off that list so that's my position on that. She said I had a pretty emotional reaction when I saw that but you kind of have to put your emotions aside and you put

Tuesday, March 16, 2021
Finance Committee Meeting

your engineer and your finance hat on and you say okay, here are the facts, here are the numbers and this is what we believe and that's the case we're going to present in that letter.

Chairman Waters said the thing that concerns me and really bothers me is that this is the first time I've even heard of this animal and they're just doing it at a really bad time on the refinance. He said does the bond counsel and Davenport, do they see, are we the only County involved in something like this. He said are they seeing it anywhere else.

Ms. Radcliffe said a couple of things, there are 121 potential distress water systems on the list in North Carolina.

Chairman Waters said I can understand, I'm saying, this is kind of a warning, you're in a yellow area, we're going to give you a probation period of one year or two years. He said I just don't like it when they through ratios on the County the size of Beaufort County and compare us to a county that has a dense population. He said you go to a county that has more customers per mile than we have, that affects the ratio. He said to me, two things you should emphasize in your response is the refinance and I don't know what it looks like now but the number I came up with is we were going to save \$12.00 per customer per year. He said the savings divided by, I think I used 13,000 water customers and then I would hit this density thing. He said I don't know whether Ms. Smith or Ms. Rose or whoever can come up with the number of customers per mile, if we know, the engineers can give us the total miles of pipe that we've got we should be able to come up with that. He said if it's three per mile, you can throw these ratios out there but to me the biggest thing is are you cash solvent. He said we may not have three times the debt service but I think as small as Beaufort County is, if we got any wiggle room in servicing the debt we should get some flags or flowers or something.

Ms. Radcliffe said that is definitely one thing I wish was weighted more heavily because we have over 100% fund balance and the water system, we've got about a \$7 million annual budget. She said we've got about \$4 million in the bank and unfortunately that's not something that they scored us on. She said if you're going to look at a debt ration you need to look at the cash in the bank to pay those debt payments, which we have. She said we'll definitely talk about the debt and the customer density as well and then just a quick response on the refinancing, I was very concerned about that. She said I talked with our financial advisor about that, and he said he didn't feel like it would have a negative impact on investors looking at us to buy our bonds because it's the County as a whole that is selling the bonds, not just the water districts.

Chairman Waters said one of the other things that you could point out to them is that we could reduce our repairs and just let the system run down and we could probably meet these ratios, and to me that's not good.

Mr. Alligood said I think part of it is, we've done all the right things. He said we've touched all the bases, we've got the CIP in place and we've done all the things that you should do and structurally there are some thing in our system, the miles, the density, whether you're a water system or a water and sewer system, there's just some things that we can't change and we're never going to be able to change but we've done all the right things and that's where if you're sitting right there in the middle you're kind of okay because I still don't know, eventually, what this might mean. He said they may start putting some grant money out there for systems they define as distressed to try and get them out of the hole and some of them, like the Town of Bath, they need that help. He said it may be a good thing to be on the bubble where you can say yeah, you can help us out a little bit but we're really not in distress.

Commissioner Langley said you know I've been around this water system ever since 2000 so if they really want to see something distressed, they should've seen it when I first got on this committee.

Chairman Waters said I really think we've done, like Mr. Alligood said, since you guys came we've done everything that you can do to make the system profitable and to improve on it.

Ms. Radcliffe said the new metering system, I failed to mention that when I listed accomplishments. She said that's been huge for us and we've seen an increase in revenue and a decrease in expenditures just by doing that.

Chairman Waters said if 8 is what you get as a score and we've got a 9, considering how small we are, with some of the bigger guys in the 121 others, I think we're looking good. He said don't beat yourself down over it.

Commissioner Rebholz said on this score card, on these two pages, which are the two areas that are hurting us the most.

Ms. Radcliffe said I was going to get to that.

Commissioner Rebholz said because on the first page, right in the middle it says sewer, water, population per mile, 29. He said I was wondering which of those calculations there was hurting us the most.

Ms. Radcliffe said the last column there, the bottom far right, the receivable ration, I think that one, that goes away. She said I think that's an error in the calculation but you can see the four just above that, just to the right, the revenue outlook, which has a lot to do with our declining population, that really hurt us.

Commissioner Rebholz said so we're getting hit because our population is going down.

Mr. Alligood said from an analysts position, if you look at that and say okay, you've already got what we consider to be poverty, not necessarily, I mean, there are folks that are living in, but if you have what they determine as affordability, right now looking at our poverty rate and things in the county, so your water rates are pushing affordability issues and you're saying oh my goodness, your population is going down so your number of customers is going down, you can see where they see from that it might become an issue. He said it's obviously something we look at too. He said we want to make sure we're expanding the system appropriately and getting more customers on and making sure we're accounting for every drop of water that's out there.

Commissioner Langley said the other thing is we've been proactive with our rates. He said we didn't just sit back. He said we've already been addressing our shortcomings, so I think all of that is good stuff instead of something to be punished for.

Chairman Waters said we just finished up with the last rate increase. He said what was it, 3% a year for four years, five years.

Ms. Radcliffe said actually we're in year three. She said I thought we were in year four and we went over this in our credit presentation with Moody's but we're actually in year three so we had the study done, I think, in 2018 so the first year was 19, 2020 was year two and we're in year three for 2021.

Chairman Waters said well, I'm going to tell you what I thought when I saw the letter. He said I had a reaction to it too and forwarded it to you and Mr. Alligood as soon as I got it.

Travel Expenses and Reimbursements

Ms. Sharon Rose said we had a few on-line classes and webinars and then we had Commissioner Deatherage had his travel to Pitt County and Dare County. She said he visited the solid waste sites.

Commissioner Langley said the visit to Dare County cost \$239.

Ms. Radcliffe said it was probably mileage.

Mr. Alligood said it was mileage and two or three meals.

Chairman Waters said was that approved by anybody.

Mr. Alligood said I think he's basing that off the Boards direction to him.

Chairman Waters said to study the sites.

Mr. Alligood said to study that and know how they do things.

Chairman Waters said put it on the agenda for him to update us on the recycling.

Commissioner Langley said can I ask a quick question, it's not about this and it's something that hasn't come up yet. He said according to the pay plan that we just implemented but what type of raise did the Sheriff's office get. He said I looked through our pay plan and I couldn't find it.

Mr. Alligood said it depends and each employee received a letter that talked about how, what their increase was and how we got to the increase so we looked at the spreadsheet that was put together for us, looked at where they should be in the market as well as the percentage per time in current position. He said so they looked at that and they compared that to what a 2% increase would've been. He said so everybody got something, and you got what was the larger of the two.

Commissioner Langley said so what I'm asking is I'm just making sure we have something in place where that gap never closes between a ten year and a one year.

Ms. Radcliffe said that would be a longevity increment and what we're committed to doing is bringing you a recommendation in next years budget on longevity so that we can put something in place to help with the compression issue that we've experienced in the past and to recognize the institutional knowledge and the longevity of our senior employees.

Mr. Alligood said part of that study did take into account how long you've been here because although it didn't go back to the first day you started with the County it looked at when you started in your current position so if you started 5 years ago it was 5 times 1.5% or something like that and she gave us three and we had to figure out what we could get and make it work. He said so it did put some distance and help with some of the compression but our proposal to you all that will come at budget time is a longevity. He said put the longevity back in that, normally what you see on a longevity piece is that we pay you one-time, not towards your base, a one-time payment only for the number of years you've been here. He said that may be a percentage of your existing salary or \$100 per year, something like that. He said our proposal to you is not going to be that. He said our proposal to you is going to be it goes to your base in an effort to try and spread that out and deal with some of that compression. He said so it's not going to be a traditional longevity.

Commissioner Langley said so it's not going to be a one-time lump, it will be a spread.

Mr. Alligood said it will be like a COLA and it will go towards your base so your base salary will increase, it won't just be a one-time lump sum, here it is. He said that's our hope that to modify that

longevity piece. He said we understand that there's not support on the Board to do a merit piece that would help separate that even more so we want to modify that longevity in some manner and we can continue to separate the people out.

Commissioner Langley said I'm not a big fan of merit either because I've seen bad things with merit pay because people did things based on how they felt about people instead of their actual work productivity. He said I'm all for longevity.

Mr. Alligood said I think, from our perspective, we tried for a couple of years to try to convince you all and came to the realization that we're not going to get there so that's why we're going to take and modify the longevity to apply it to the base instead of one time so we can try and spread that out a little bit more. He said because otherwise it wouldn't spread people out, it would just be a one-time Christmas bonus each year but if it goes towards the base, it will help spread everyone out.

Commissioner Langley said so everybody would get the longevity at the same time if you qualify. He said with the state, before I retired, every July I would get my longevity. He said matter of fact I would get it in June before my anniversary date in July but what you're talking about doing is every year at budget time, everybody gets it then.

Ms. Radcliffe said you could do it either way. She said you could do it on your anniversary hire date or you could do it on one day for all employees. She said we just have to explore what works best for us. She said the thing about doing it on a certain date is you can make it so that it corresponds with the budget and we can kind of know what our numbers are better, but I've seen it done both ways and we're just kind of taking a look at what other folks are doing. She said we're not going to reinvent the wheel. She said we're going to see what other municipalities and counties are doing and pick what we feel would work best and maybe copy theirs.

Mr. Alligood said to that, there are pluses and minuses of both ways. He said the downside to doing it on a one-time basis instead of on your anniversary is that, okay, I got hired in June and you start this in July, or I got hired in February and come July I don't get it because I haven't been here for a year. He said that means you have to go a year and a half before I get it. He said that may be okay and that's just the way it is and the person will just have to get over that but that's the argument you'll here from some folks and as you know, around here no good deed goes unpunished.

Next Regular Meeting

Chairman Waters said our next meeting is Tuesday, June 22nd.

Ms. Radcliffe said that's what I'm proposing. She said normally it's the third Tuesday, which would be the 15th, however I'm going to be out of town so that's why I'm proposing the 22nd, if that works for you. She said if not we can do the 15th and I'll let Ms. Rose lead it.

Chairman Waters said that looks like a good date.

Commissioner Rebholz said can I ask one more question. He said on the travel expenses, what are the responsibilities or what are the rules on that because I was up in the mountains and I went to the Watauga landfill. He said is there a rule.

Mr. Alligood said actually the Board is not bound by the personnel policy. He said there is not a rule. He said what we kind of do is hope that the Board kind of polices itself and you guys are responsible to your

Tuesday, March 16, 2021
Finance Committee Meeting

constituents and you probably would want something bad getting out to your constituents and have them find out you were doing something you probably shouldn't have done.

Chairman Waters said to answer your question, every time I've turned one in I've represented the Commissioners at some kind of function that we all knew about. He said I serve on the Ag steering committee so if I go to one of their meetings I charge mileage and I think maybe we can just ask for that report at our next meeting and see where that goes.

Commissioner Rebholz said it was just curiosity.

Chairman Waters said right, it was a good question. He said I think that we all have to be good stewards and make sure it is a function, it's not something personal.

Commissioner Rebholz said I just wanted to know if it was appropriate.

Commissioner Langley said well basically we haven't had problems with people doing things they're not supposed to be doing.

Chairman Waters said but we've not had a report recently, so we do need an update.

Motion: Commissioner Langley motioned to adjourn. Commissioner Rebholz seconded. The vote was unanimous.

Meeting adjourned at 4:17 PM

Respectfully submitted by:

Kathleen Mosher, CMC, NCCCC
Clerk to the Board