

**City of New Bern  
Board of Aldermen Work Session  
February 12, 2019 – 3:00 P.M.  
City Hall Courtroom  
300 Pollock Street**

Mayor Outlaw opened the meeting with prayer. The pledge of allegiance was recited.

**Roll Call:** Mayor Dana Outlaw; Aldermen Sabrina Bengel, Jameesha Harris, Robert Aster, Johnnie Ray Kinsey, Barbara Best, and Jeffrey Odham. Absent: None. A quorum was present.

**Also in Attendance:** Mark Stephens, City Manager; Michael Scott Davis, City Attorney; Brenda Blanco, City Clerk; and Charles Bauschard, Director of Public Utilities.

**1. Discussion and Consideration of Wholesale Electric Cost Increases.**

Mr. Stephens said the City is a member of the North Carolina Eastern Municipal Power Agency (“NCEMPA”) and consists of 32 entities, 31 of which are cities. They provide administrative and support services with regard to negotiating contracts for the City’s wholesale rate for electricity. By joining together as one large customer, that helps to drive the rate down for the City’s customers. NCEMPA negotiates with Duke, provides the legal services, rate recommendations and changes. The City’s representatives on NCEMPA are Mr. Bauschard, Alderwoman Harris and Mr. Stephens.

Mr. Bauschard shared a PowerPoint presentation that began with a brief review of some of the key points of the Department of Public Utilities’ strategic plan and identified goals. He noted the policy for days’ cash on hand is set at 90 days.

The City has a full-requirement purchase power agreement with Electricities and NCEMPA, which was adopted in April 2015. The contract is valid through 2043. Beginning April 1, 2019, wholesale power costs will go up 1.2%. That means the demand charges will increase from \$21.88/kWh to \$22.46/kWh, and energy costs will increase from 2.4 cents to 2.5 cents/kWh. If the increase were passed on to the City’s customers, the average residential customer would see a cost increase of about \$1.70 per month. The second increase is anticipated on April 1, 2020 for 2.4%. Very minimal increases are predicted for April 1, 2021 and beyond.

Mr. Bauschard first shared information showing the impact of the rate increases, should the City absorb those. He said staff would feel more comfortable operating with 120 days of cash on hand, instead of the current 90 days. If it did, the worst-case scenario is the City would maintain 120 days cash on hand and reduce the rate stabilization fund to about \$1 million in 2023.

A long-range electric system study was completed in approximately September 2018. A system growth model was utilized through 2038. The most important outcome of the study is the N-1 substation transfer contingency. The City currently has three substations and six transformers. If any one of the transformers were to be lost, the City would not be able to sustain peak load conditions. Alderman Aster asked for the age of the oldest transformer, and Mr. Bauschard said he did not know the oldest, but he knew that at least some are from the 1980's. He cautioned the heavier a transformer is loaded, the shorter its lifecycle. By moving some of the load from a transformer, the transformer should last a little longer. There is one transformer budgeted for replacement this year. The cost of a transformer is around \$1 million with installation around \$100,000-\$200,000. While the City needs redundancy, Mayor Outlaw said the City would not want an idle asset sitting around. Mr. Bauschard said he was identifying the City's needs and would be asking for funding to cover those needs. In addition to adding a transformer, other strategies can assist with the load. Alderman Odham asked about the longest term of financing that may be possible, and Mr. Sabatelli said possibly 15-20 years.

Mr. Bauschard detailed future plans and cost estimates. Phase 1 needs to be done within the next five years and has an estimated cost of \$10 million. Phase 2 also needs to be done in five years to distribute feeder changes, at a cost of \$73,000. Noting the difference in price, Mayor Outlaw asked if Phases 2 or 3 could be implemented prior to Phase 1. Mr. Bauschard stated that would not resolve the N-1 transformer contingency issue, and Mr. Stephens reminded everyone of the December incident.

Mayor Outlaw asked if it were possible to isolate large power usage during critical load issues. Mr. Bauschard said in prior situations, he has asked for voluntary load management. If that is a possibility, the Mayor said that is something the City may want to look into. Voluntary load curtailments come at no cost, according to Mr. Bauschard, but require public education and promotion. Alderman Aster asked if a second station were on the east side of the city whether that could have successfully back fed the system in December. Mr. Bauschard replied it would have been close.

Mr. Bauschard reviewed the same financial analysis he shared earlier in the meeting, but with the addition of a \$10 million revenue bond. Mayor Outlaw questioned the LGC requirements for enterprise funds, and Mr. Sabatelli said they would want at least 8% and would look to see if the days cash on hand is dipping too low. Mayor Outlaw then asked for the percentage of fund balance with respect to the enterprise fund. Fund balances for enterprise funds are not calculated, according to Mr. Sabatelli.

Alderman Bengel asked why consider increasing the days cash on hand to 120. Mr. Sabatelli said similar to the General Fund, this would set a range with 90 days as the floor and 120 as a ceiling. Anything above that would be put in a rate-stabilization fund. Alderman Bengel said she felt 100 days on hand would be sufficient and 120 days would be excessive based on the needs of the citizens and

some of the things the Board wants to do. Alderman Odham asked for the dollar amount associated with 90 and 120 days cash on hand. Mr. Sabatelli said roughly \$12.6 million for 90 days and \$16.8 million for 120 days. The last report in November showed the fund was sitting around 143 days per Alderman Odham's recollection. He asked where that is now, and Mr. Sabatelli responded it is still somewhere around that neighborhood. When asked, Mr. Bauschard said he is not expecting more expenses related to Hurricane Florence.

Alderman Bengel asked how much money was in the rate stabilization fund, and Mr. Sabatelli said there was currently \$1.57 million. She then asked about the difference between required days cash on hand and the actual 143 days on hand and why the excess was not put in the rate stabilization fund. Mr. Sabatelli said that requires Board approval, and he has not yet submitted it for an agenda. Noting there could potentially be more than \$6 million in the rate stabilization fund, Alderman Bengel said she had no problem going down to 100 days as long as the rates could be protected.

Alderman Odham said at the retreat that the wholesale cost increase was presented in a grim manner. When viewing the total days cash on hand and the rate stabilization together as one amount, if you extrapolate a 0% retail rate increase, factor in a 1.2% increase this year and 2.4% increase next year, the City would maintain a 90 day cash on hand balance. Without a revenue bond, the City would fall just below 90 days cash on hand in 2024-25. However, in 2025-26, about \$3.5 million in debt service would roll off, which could be used to build the fund back up. He was surprised to hear the City has transformers from the 1980's, and he stated that probably needs to be addressed. Alderman Odham suggested calculations begin on the cost to invest and grow the electric system. Noting Duke is the City's sole supplier, he suggested conversations continue with them, stating maybe now is the time to start looking at other options, such as partnering with them. There is an advantage to being on the City of New Bern electric; it is local and more responsive. He questioned whether the City could condense itself back to serving customers within city limits to right size its grid. Based on his calculations, he did not think there was a need to increase rates this year or next year and stated the City may be okay through the year 2025.

Mayor Outlaw said he liked what Alderman Odham said, but the projections he has read indicate everyone will be using less electricity in 50 years. Alderman Kinsey asked for a three-sentence summary from Mr. Bauschard on where the City is going and what it needs to do. Mr. Bauschard said the rate stabilization fund looks healthy enough to support both wholesale rate increases, and it can also support the \$10 million bond.

Alderman Bengel summarized the recent rate history and stated she was confident the City's rates are in line. She expressed the need to help people understand their bills and clearly draw a distinction between the electric, water and sewer charges on their statements. She voiced she was not in favor of an increase for

the next two times, and she suggested information be obtained on the bond process since upgrades are needed.

Mayor Outlaw asked for an update on an emergency plan if a situation were to happen again like that which occurred in December. Mr. Bauschard said Duke is in the process of making permanent repairs. The City is currently connected to a temporary tap. The repairs on the damaged area should be complete at the end of February. Once everything is put back together, nothing changes. This does not alleviate the N-1 contingency, but another substation would assist with this. Mr. Bauschard said his concerns are based on peak conditions, and he explained the issues with moving loads. He has started a formal process with Duke to request another tap for New Bern on the other side of the Trent River. The planning with Duke is probably a six-month process.

Alderman Odham asked if the footprint at the existing substations would allow for an additional transformer, and Mr. Bauschard said it does at Lewis Farm and Trent Road, but a transformer is needed in a different location. A new substation would cost approximately \$8 million. Alderman Odham then asked about adding an additional transformer at each station. Mr. Bauschard stated while that could be done, it would not help with the distribution of the load. A second substation is needed on the east side of the Trent River. Alderman Aster said he was in favor of exploring the bond option. Mr. Bauschard noted the bonding process does have an expense, so there is a need for the City to be serious about it. Mr. Sabatelli said legal counsel would be around \$25,000, and the Local Government Commission's cost would be about \$15,000. A private placement would likely be sought instead of a public bond sale. It is possible to have two staggering bonds, which would help stabilize the days of cash on hand.

Mayor Outlaw asked about the possibility of Duke Power having more grid potential than the City to serve the east side of the river. He asked if it would be worth discussing this with Duke before the City spends money. Mr. Stephens said from an economic development standpoint, it would be beneficial to know if you have property in a predefined area. Gray areas lead to confusion and is complicated for developers. Mr. Bauschard cautioned that giving up customers could have an impact on the General Fund. Mayor Outlaw noted it is not always a win-win to pick up new customers, as there are additional costs such as services for police, fire, etc.

Alderman Bengel asked about consolidating the different rate structures. Mr. Bauschard said he planned to follow up on that at the appropriate time.

Mr. Bauschard completed his analysis presentation. In summary, he said the City is okay with maintaining its funds until the year 2023, and it would be reasonable to pursue a bond. The summary utilizes the rate stabilization to offset both this year's and next year's rate increases, per Mr. Stephens, and determine what year the Board would effectively want to set the base minimums for days cash on hand.

Mayor Outlaw asked about Duke's projected rates. On the retail side, Mr. Bauschard said he was not familiar with their forecast. Alderman Bengel said it would be good to see that information and to educate the customer base as to what they are paying, as people are commenting New Bern has the highest rate in the state. She asked for kWh information from benchmark cities. In anticipation of that, Mr. Bauschard said staff put together a direct comparison, which he had placed at the Board's seats. Some of the comparisons are very favorable. Mayor Outlaw said in full disclosure, the City could share that information on the PEG channel.

Alderwoman Harris made a motion to not increase the utility rates for the next year based on information provided by the Director, to utilize the stabilization fund to make up the difference, and keep days cash on hand at 90 days, seconded by Alderman Odham. During the discussion, Mayor Outlaw stated he did not want to see an increase until 2025. At the Mayor's request, the Clerk re-read the motion. The Mayor noted he would not vote in favor of that motion.

Alderwoman Harris amended her motion to not raise rates up until the year of 2025, based on the information presented by the Director, to utilize the stabilization fund to make up the difference, and to keep the days cash on hand at 90 days. Attorney Davis pointed out that motion would not be binding going forward. He wanted to make sure everyone understood that is a statement today to capture the vision or plan for going forward, but this Board or a future Board could change their mind at a future meeting. While there is nothing wrong with the motion, the motion would not be "the law".

Alderwoman Harris amended her motion not to increase the utility rates until 2021 (which is the date the current Board's term expires), to utilize the stabilization fund to make up the difference, and to keep the days cash on hand at 90. Mayor Outlaw asked Alderman Odham if he still agreed with that motion. Alderman Odham said he did as long as the City was not backing itself into a corner and costs were to skyrocket tomorrow. The Mayor noted the motion was based on the present model.

Having said that, the Mayor said he was trying to send a message that this Board is very sensitive to the City's rate structures and that the Board desires investment in the City from both commercial and industrial customers. However, if catastrophic changes warrant action, the City would be able to amend the policy. Alderman Bengel made one clarification to note the City's residential rates are pretty much parity. Mayor Outlaw said his reference to being 20-25% more was years ago and that he was referring to rate adjustments prior to and after the buyout. At this time, the City is probably 10-11% higher than Duke. Mr. Bauschard encouraged the Board to have him provide an annual health check on the rates. Alderwoman Harris suggested that information be sent in an email, so as not to get the City in an uproar, which happens when it is on the agenda. Mr. Stephens said Mr. Bauschard was talking about providing the Board an annual update on

where things are financially, not necessarily to discuss electric rates. He stated this information could be added to the monthly report.

Mayor Outlaw asked if anyone objected to the statement that the spirit of the Board is that there be no rate increase based on the projections of the two wholesale rate increases, and several noted agreement. He then asked the City Clerk to read the amended motion, which she did as follows: not to increase the utility rates until 2021, to utilize the stabilization fund to make up the difference, and to keep the days cash on hand at 90 days.

Alderwoman Harris said she would not say 2021, as that makes it seem like the Board would raise the rates in 2021. Alderwoman Harris amended the motion to say the City would not increase the utility rates for 2019 and 2020 based on the projections provided by the Director in regards to this year's increase and next year's possible increase and to keep the days cash on hand at 90 days, seconded by Alderman Odham. Upon a roll-call vote, the motion carried unanimously 7-0.

Mr. Bauschard said he was looking for guidance as to whether the Board would like him to continue to look into a revenue bond up to \$10 million for capital improvements. Mayor Outlaw asked Mr. Bauschard if he thought discussions should first be held with Duke, and Mr. Bauschard felt both could be done concurrently.

Alderman Bengel made a motion to give direction to start the process of preparing for a bond for capital improvements, seconded by Alderman Aster. Alderman Odham asked for the annual debt projection on a \$10 million bond and when payments would start. Mr. Sabatelli said debt service payments would probably start in Fiscal Year 2021, and debt for a 20-year bond would be about \$731,000 per year. Mr. Sabatelli said he would also look at a 15-year bond.

Noting the possibility of paying off a loan early, Mr. Stephens suggested the Board give direction for staff to explore debt service options, not just revenue bonds. Alderman Bengel amended the motion to start the process to determine financing options for debt service on capital improvements up to \$10 million, seconded by Alderman Aster. Alderman Aster asked if Mr. Stephens would come back with a recommendation to finance the improvements or proceed with a bond. Mr. Stephens said if staff looks at the bond, the Board would have to approve the agreement for the bond counsel. Similarly, if staff looks at financing options, the Board would have to approve the financing. Upon a roll-call vote, the amended motion made by Alderman Bengel carried unanimously 7-0.

Mayor Outlaw asked Mr. Bauschard if he anticipated issues in the next year with some of the underground equipment. With respect to underground cabling, Mr. Bauschard said the City was not doing any predictive maintenance at this time. He noted sometimes that testing could be destructive and poses a risk.

Alderman Aster asked if the new line from Duke or lines from the new substation would be underground to prevent what happened in December. Mr. Bauschard said he would place as much underground as the City could afford. Where strategically possible, staff would look at underground first. Additionally, staff has skilled labor that can cut down on the cost and allow the City to put more infrastructure underground than if it had to hire a contractor.

Mr. Bauschard stated he would like to come back before the Board to follow up on rate consolidation and make a recommendation. The Board expressed agreement. The other items he would like to present to the Board are the results of the cost-of-service study, LED lighting rates, and a public utility advisory board. Mr. Bauschard noted rates do not exist now for LED lighting relative to street and area lights. The Board consensus was they trusted staff as far as cost of service. Mr. Stephens suggested Mr. Bauschard review, analyze and come back with a recommendation with respect to the rate for LED lighting, and the Board agreed.

(Mayor Outlaw stepped out at 4:48 p.m., and Mayor Pro-Tem Odham assumed his role.)

Mayor Pro-Tem Odham thought the City already had a public utility advisory board. Attorney Davis was not sure if the ordinance still provided for such a board, and the Board was just not active. Mr. Stephens stressed the advisory board did not need to be a complaint board, but instead, a board that gives preliminary guidance. Alderman Aster said he was comfortable with receiving recommendations from the Director and City Manager and did not see the benefit of an advisory board. Mr. Bauschard said a benefit of such an advisory group would be to provide him with a sounding board, but he could operate without it. Mr. Stephens said another option would be to have three representatives from the Governing Board work with Mr. Bauschard from time to time. This would eliminate all of the legal requirements that come with the advisory board, such as noticing meetings, preparing minutes, etc.

(Alderman Bengel stepped out at 4:51 p.m.)

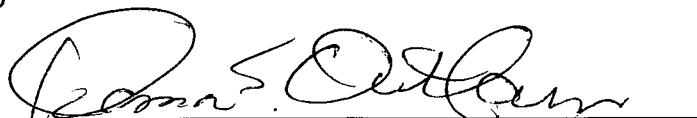
## 2. **Adjourn.**

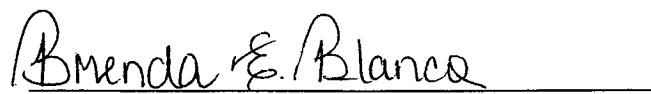
Alderwoman Harris made a motion to adjourn, seconded by Alderman Kinsey. The motion carried unanimously, time being 4:52 p.m.

The attached documents are incorporated herewith and are hereby made a part of these minutes.

NOTE: For additional details and information on the Board of Aldermen meetings, please visit the City of New Bern's website at [www.newbernnc.gov](http://www.newbernnc.gov). Video and audio recordings of the meeting have been archived.

Minutes approved: February 26, 2019

  
Dana E. Outlaw, Mayor

  
Brenda E. Blanco, City Clerk