

**MINUTES
FINANCE COMMITTEE MEETING
WINNSBORO TOWN COUNCIL
NOVEMBER 16, 2021**

Present: Chairman Demetrius Chatman; Mayor John McMeekin; Jason Taylor, Town Manager; Patti L. Davis, Town Clerk.

Others Present: Kathy Belton, William H. (Bill) Hancock of The Brittingham Group

The Finance Committee met on November 16, 2021, at 5:15 p.m. at the Winnsboro Women's Club. In accordance with the South Carolina Code of Laws, 1976, Section 30-4-80 (e), as amended, the following persons and/or organizations have been notified of the time, date and location of this meeting: The Independent Voice of Blythewood and Fairfield, The Country Chronicle and four hundred ninety-two other individuals.

1. CALL TO ORDER

Chairman Chatman called the Finance Committee Meeting to order at 5:16 p.m.

2. APPROVAL OF AGENDA

Motion made by Mayor McMeekin, seconded by Chairman Chatman, to approve the agenda. ***The motion carried.***

3. PRESENTATIONS

A. Kathy Belton – Monthly Finance Report. Mrs. Belton began her report discussing Section A, cash on hand and investments. The operating cash is increased compared to last month, but this is due to the ARP funds which have been deposited into the account. The unrestricted and ear marked investment changes represent interest. Principal and interest did shrink on the 2009 bond, and this is due to the bond payment that has to be made each quarter from this account. The revenue is decreased compared to last month. However, the bulk of the revenue comes in June for the general fund, so no need for worry at this time. Mayor McMeekin inquired concerning the transfer of capital. Mrs. Belton stated the bulk of this will be the business license, lost revenue and lost property taxes, and the bulk of this is received in June with taxes in July and August. General fund is looking good compared to last month; however, overall for the year, there is a negative balance. Combined utilities revenue is increased compared to last month. This will fluctuate each month until all billing is caught up. The combined utilities expense is decreased compared to last month, and overall for the year the Town is in the positive. No general fund capital

expenditures. The amount reflected under the water account is contributed to Ferguson for the AMI system. In comparison to last year, the general fund is decreased, and the Town is down a little over \$1,000 compared to the revenue. The general fund expenditures are lower compared to last month. The expense is divided between October and November for this year. The combined utilities section is increased compared to this time last year by almost \$260,000, overall for the year \$126,000. The billing is still not what it needs to be, but the revenue is trickling in. Expenses are increased, but again, this includes the expenditure for the purchase of water from the City of Columbia. Once this is straightened out, Mrs. Belton stated the expenses will look better, and the Town is still closing with a profit.

- B.** William H. (Bill) Hancock, The Brittingham Group – Financial Overview and Bond Requirements. Mr. Hancock joined the meeting via Zoom, stating that last week a meeting was held with Mayor McMeekin, Mr. Taylor, Mr. Clauson, Mrs. Belton and Mr. Lawrence Flynn, bond counsel. At this meeting, issues facing the Town in its utility fund were discussed, specifically in regard to the bond covenants that the Town has with the bond holders and trustees for the debt carried by the utility fund. It was brought to the Town's attention that the utility fund has to make a certain amount of money in order to cover the covenants entered into by the Town, meaning there must be a certain amount of cash flow in excess of the future debt service amount. Mr. Hancock reports that last year, the Town is getting over the 1.20 minimum coming in at 1.24. The reason this is being brought to the Town's attention is that if the Town were to have a 1.19 rather than 1.20 or greater, this would be considered a default of the bond covenants. Once this occurs, the trustee would have the ability to assume several important powers, one of which would be empowering the trustee to set rates as they see fit with no input from Council or anyone else. As is shown, the Town got by this year, but it was very close. Several remedies were discussed during the meeting, to include what Mrs. Belton just spoke about concerning the amount the Town is paying to the City of Columbia for wholesale water. This is very expensive and very detrimental to the health of the utility system. Other items discussed included payments of premium pay for the Town's employees. The ARP does have several tranches of it set aside to address this. If conditions are right, then this would be appropriate. However, if the Town at this time pays out additional money to employees, Mr. Hancock stated he would urge caution very strongly. If, after deliberation, the Town decides it wants to proceed, Mr. Hancock would advise very strongly that all of these payments come out of a budget line item that is not in the utilities fund. More appropriately, this should come out of the Town Manager's department or the Town Council's

department. Mr. Hancock's fear is if the utility employees were paid out of the utility fund, it would further increase the operating costs causing there to possibly not be sufficient revenues to cover these expanded costs. If that were the case, a default would be triggered. All means possible must be taken to prevent triggering a default in the utility system. Almost every year, a ratings call is held to discuss the system's financial viability and the prospects for its continued health. The Town would not want to have to explain why it entered into a default in part because bonuses were paid. From the outside looking in, one can imagine how a Wall Street trustee would view this. Mr. Hancock advises very strongly that the Town not go down this road. If, after careful deliberation, the Town decides to do the bonuses, it should come out of the general fund and no more additional expenses to the utilities fund. Mr. Hancock stated in the literature, the legislation prioritizes how the ARP money is to be spent. First of all, it is for revenue replacement of the Town and its operations to include the utilities. There is a tool that the Municipal Association has borrowed from the Governmental Finance Office Association on how to calculate the amount of "revenue loss". This is not just calculating amounts of lost revenue, but also amounts of revenue compared to an assumed growth rate. The second priority for these funds is small business, family units and nonprofits, which would not really apply to the Town because there is no existing program to include a revolving loan fund or something of this nature, and the personnel or infrastructure do not exist to begin it in a short period of time. The third priority is the premium pay to what was originally deemed essential workers. Originally, these folks were placed into a very at-risk group of employees. Later in the literature, it is very clear that this inclusion must be made to everyone who comes into contact with anyone else in the public or handles materials that someone else in the public has handled. Then, the guidelines go on to exclude the people who work from home remotely as not being eligible for premium pay. The next priority was for "infrastructure", the most weight being given to clean drinking water (this term is used over 100 times in the legislation), collection and processing of wastewater, broadband internet service and then finally storm water drainage. In conclusion, Mr. Hancock again wished to very strongly impress upon Council that if it moves ahead with compensating employees to the extent of what has already been budgeted, it should do this out of the general fund and do not cause anymore burden or financial distress to the utilities fund. Mrs. Belton stated Council has already voted for the ARP funds to go toward the AMI system. In order to not put any more of a burden on the utility system, Mrs. Belton inquired if it would be wise to make a transfer into the Town Manager's line item for employee appreciation. This is exactly what Mr. Hancock is suggesting if the Town

— decides to move ahead with these premium pays also known as bonuses. Mr. Hancock also wishes to make the Council and the Finance Committee aware of the optics of the mere fact that bonuses were paid when the system was not in the greatest of health. While it is perfectly okay according to the legislation to do this, he is asking Council to deliberate on whether or not this is a smart thing to do at this time. Mrs. Belton understands and agrees with what Mr. Hancock is saying; however, she feels the employees will frown upon this if the Town does not move forward with everyone else expending bonuses to their employees. We believe the best decision for the Town and its customers is to invest the ARP funds into the AMI system. Mr. Hancock believes this is very appropriate, and he is simply bringing to Council's attention concerning the optics of the whole situation. If for some reason the Town comes close or does not make the cash flow covenants next year, and he understands paying the employees out of an account in the Town Council's budget, but if the trustee asks what was done with all the ARP money and it is known that a large portion of money was paid out to the employees, is this a question the Town would want to have to answer. Mr. Hancock stated he feels it is his job to alert Council to the situation. Mrs. Belton stated no part of the ARP will be used for the employee bonuses. This total amount will be used to fund the AMI system. Mr. Hancock stated if Mrs. Belton is satisfied that she can make this argument to a Wall Street trustee, he does not have a problem with this. He is simply bringing to Council's attention the optics of the situation. Chairman Chatman stated he works in similar situations all day every day, and he has noticed that everyone's books are off because of the global pandemic. Government understands that no one's power was turned off if the bill was not paid, and the Town is not the only one in this bind. At this point, Chairman Chatman does not see a trustee coming in to shut down the Town. Chairman Chatman is hearing from Mr. Hancock to halt everything because we are in such a bad place. Mr. Hancock agrees from a practical standpoint, but he is bringing this information to Council based on the contract he has read that the Town has executed and is operating under. Mayor McMeekin stated he served on a bank board in the past and has experienced a similar situation. He, therefore, knows how Wall Street investment bankers and the federal government are, and when covenants are broken, laws and rules are also being broken, and they will come down to protect the people holding the bonds. It has nothing to do with the government or the pandemic. They will look out for their investors, and this is what is scary. Chairman Chatman inquired how long Mr. Hancock has been the Town's auditor, and Mr. Hancock stated somewhere around 2003 or 2004. Chairman Chatman inquired of the Town's financial standpoint prior to the pandemic. Per Mr. Hancock, this year the debt

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service coverage is 1.24 with last year being 2.49. It took a nosedive this past year, and the main reason for this is the purchase of wholesale water from the City of Columbia and increased personnel costs because of the overtime the Town is having to pay. From years prior to 2020, the Town never even came close to having a debt service coverage problem. The aforementioned reasons is why it is coming close this year, and Mr. Hancock is waving a flag to be cautious. Chairman Chatman stated the Town has a Manager to hold it in the road and the spending will be reduced with the budget amended to go forward. Mr. Taylor stated the water is a big issue, and everything is being done to take care of this. There are also a couple of options with the pay. The budget amendment has the pay listed as coming from the ARP money, but this can be switched to come from one of the investment accounts. This could be transferred to the general fund under the Town Manager's line item or Council's line item. It just cannot come out of operating or go through utilities in any way, shape or form. Chairman Chatman agreed that the ARP should be used for the AMI system to invest this back into the utilities. Mr. Taylor stated putting these funds into the water system is completely allowable. Mayor McMeekin also stated the only reason he was suggesting an incentive for the COVID shot was that this could come under the ARP funds, and further inquired of Mr. Hancock's thoughts on what is being discussed. Mr. Hancock stated this is all moot as long as there is not an event of default. In the event of default, and the Town came very close this year, he does not know what exact options would be taken by the trustee. They have a lot of power and could remove a lot of power from the Town Council. The Town would not be able to set rates or have a say in the compensation of the employees. The bond document is very punitive for the Town if there is an event of default. Bond Council was also stating this fact last week at the meeting. Once a default occurs, then bad things start to happen. The point of Mr. Hancock's statements today is to alert Council to exercise extreme caution and monitor the utilities fund very closely to make sure an adequate surplus is shown. We do not want to even come close to the bar that would trigger questions concerning the stewardship being exercised over the utility system. Mrs. Belton again reiterated as long as the ARP money is being invested into the revenue fund, no liability would be put on revenue at all. The money in question will be deposited into the general fund under the Town Manager's line item for employee appreciation. It will have nothing to do with the ARP funds or utilities. This should not affect revenue at all, and Mr. Hancock agreed with this statement. Mayor McMeekin stated Mr. Hancock used a good word, optics, which means "how it looks". Mr. Hancock again stated if there is no default, the Town is not being looked at. However, in the event of a default, they are going to look at a lot of

transactions, and if there is a default, they could look at transactions such as this and say why was there not more support given to the utility system when the resources were available. Chairman Chatman inquired of Mrs. Belton the current performance. Mrs. Belton stated she would like to see better performance, but generally she gauges everything by December. She believes the revenue will perform the way it should at the end of the year, and especially if the amount paid to the City of Columbia can be reduced or removed altogether. Mr. Taylor stated there are two more staff members in the water department, and it is close to being able to run 24 hours. The plant has to be staffed fully, and there is a little work that needs to be done to the plant itself. Beyond this, the Town will need to market the water because it has an excess capacity and must find customers to sell it to. Mr. Hancock again stated there has been an unexpected jump in the cost it takes to run the system, to include the increased amounts paid to the City of Columbia and the overtime of employees. This has been identified, and he believes the Town has identified a remedy for this. The question is can the remedies be implemented quick enough to affect what the year end result will be as of June 30, 2022. If this can be done and move away from the 1.20 debt service coverage amount, then life goes on, and there will be no issue to discuss. The Town can continue to govern in the manner it chooses and run things the way it wants to without risk of any outside parties coming in. Mr. Hancock is waving the flag to say that this past year was very close, and the Town needs to exercise caution, deliberate on the remedies and with this knowledge in hand, do not bring the Town to the edge of the abyss. Mr. Hancock thanked the Committee for hearing his concerns and hopes he has provided the needed information for Council to further deliberate. He is available for any further questions.

4. NEW BUSINESS

None.

5. OLD BUSINESS

None.

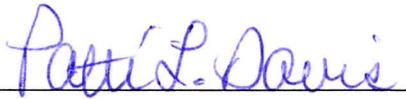
6. ADJOURN

At 5:54 p.m., it was moved by Mayor McMeekin, seconded by Chairman Chatman, to adjourn. ***The motion carried.***

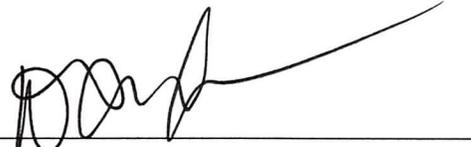
At 5:58 p.m., Mayor McMeekin made a motion to rescind the motion to adjourn, seconded by Chairman Chatman. ***The motion carried.***

With the Committee reconvened, Mr. Taylor stated the budget amendment will reflect that the \$791,000 ARP funds will go straight to the AMI system and that \$250,000 will come out of one of the investment accounts. Mayor McMeekin stated he wants to be sure everything is done in the correct way. Mr. Elliott stated using the ARP funds for the AMI system and using funds from an investment account are acceptable. He also agrees that in the event of a default, the trustee will want his money, so a default must be avoided. Mr. Elliott further stated that the rate stabilization is also a smart move. The recommendation from the Finance Committee will be to approve the budget amendment ordinance with modifications before second reading.

At 6:02 p.m., Mayor McMeekin made a motion, seconded by Chairman Chatman, to adjourn the meeting. ***The motion carried.***



PATTI L. DAVIS
TOWN CLERK



DEMETRIUS CHATMAN
CHAIRMAN