

**City of Cayce
Special Council Meeting
July 28, 2009**

A Special Council Meeting was held at 6:10 p.m. in Council Chambers. Those present included Mayor Elise Partin, Councilmen Steve Isom, James Jenkins, Kenneth Jumper, Rick Myers, City Manager John Sharpe, Municipal Clerk, Tammy Barkley, and Municipal Treasurer, Garry Huddle. Frank Robinson, Director of Utilities, City Attorney, Danny Crowe, City Auditor, Robert Milhous, and City Bond Counsel, Margaret Pope was also in attendance. Mayor Partin advised that members of the press and the public were duly notified of the meeting in accordance with the FOIA.

Mayor Partin opened the meeting and Mr. Jumper gave the invocation. Mayor Partin led everyone in the Pledge of Allegiance.

Presentation

- A. Presentation by Mr. Bob Milhous, City Auditor, Re Update on Proposed Utility Rate Structure

Mr. Milhous appeared before Council to discuss the City's proposed Utility Rate Structure for the new fiscal year. He stated that at a previous meeting James Michaelson had pass out a rate table which depicted a rate increase for water and sewer. He provided Council with a revised rate table stating the only difference in this table from the previous one is that an 8-inch rate code had been added since the previous rate table did not have provisions for that size meter. In addition, he stated that the increase in the percentages previously provided in the City Manager's memo was in anticipation of a higher debt service and that now, the debt service will not be as high as anticipated. He stated that the blended increase for water and sewer is on the attached table indicating an 8.95% increase which is lower than originally calculated. He stated that the increase in rates is needed to meet the City's indenture of trust of at least 115% of the net revenue available for debt service. He stated that his office has run the numbers in each of the rate categories and have concluded it does bring in just slightly higher than the 115% in FY 2009-2010. He stated that the Ordinance before Council states that the new rates would be implemented July 1, 2009 beginning with Cycle D. He stated that Cycle D has already been billed and that the city is now in cycle F. He proposed that the words that reference the specific Cycle in the Ordinance be removed and that the rates simply become effective July 1, 2009 and would not be retroactive for those accounts already billed.

Mr. Isom asked if the wording Cycle D should be changed to Cycle F. Mr. Milhous suggested that this wording be removed from the Ordinance since the City has

already billed customers at last year's rates and the new rates will not be retroactive for those customers. He recommended that there be no reference to a particular cycle. Mr. Jumper inquired if all the Cycles contained the same amount of customers. The City Manager advised that the cycles vary by number of accounts.

Mr. Milhous stated that in this proposed rate table, some of the base rates in fact have decreased and this is to get the city's rates in conformity with the American Waterworks Association. He stated that some of the base rates did not increase because of the allocation process that took place. He stated that in certain customer's cycles, they may see a lower cost. Mayor Partin asked for clarification of the rates between the first reading of the Ordinance and the rate table presented tonight. Mr. Milhous referred Council to the City Manager's memo, page two, third paragraph, which explains the breakdown of the increase. He stated that the actual effect on the rate tables for an inside city water customer with a $\frac{3}{4}$ " meter would be that the base charge for water would increase from \$7.54 to \$8.60 bi-monthly which is an increase of \$1.06 bi-monthly, the volume charge would increase from \$2.52 to \$2.71 per thousand or an increase of \$.19 per thousand gallons, the sewer base charge would increase from \$8.57 to \$9.33 or an increase of \$.76 bi-monthly, and the volume charge would increase from \$1.66 per thousand gallons to \$1.81 or an increase of \$.15 per thousand gallons. He stated the out of city residential rates would increase two times this illustration.

Mr. Myers asked that in reference to the timing of the new rates if Mr. Milhous would explain the advantages and disadvantages of putting the rates in place at this time rather than when construction on the new plant begins. Mr. Milhous stated that the advantage is to do what Council has done for a number of years in systematically looking at the costs and do annual rate adjustments versus the disadvantage of waiting and doing a huge rates increase when the new bonds take effect. Mr. Myers stated that then what is being proposed in regard to the new sewer plant bond issuance only, the advantage is to begin collecting the money now and inquired as to what percent of the 8.95% increase would be put aside for the bond. Mr. Milhous stated that under national standards of rate making methodologies which you are using too to look at revenue requirements and what has been stratified that has affected some base charges in water is a disproportionate share of debt from prior bond issuance to water. A cost allocation between water and sewer is part of the product this year to get it more in line with those costs associated with sewer operations. That's very important going forward under the contract with the other parties because they are specifically looking at the sewer utility portion. The second piece that was taken into account was in fact trying to level out the percentages that are going to be required in 2012. At fiscal year 2012 the, debt service is going to double and the disadvantage of not doing something now, is that in 2012 the city will face more of an increase. The advantage is to try and level the playing field. So potentially these proposed rates will be similar but not lesser amount or hopefully not greater than the percentage based on what we know today. Mr. Milhous stated that the proposed rate increase will help the City's Bond Counsel and the bond holders will be favorable. The City's rating agencies do call once a year to find out

what is going on, if Council is approving a budget that does have an increased rate and if the rate will meet the debt coverage requirement called for in the indenture.

Mr. Myers stated that philosophically he has a problem raising rates on existing customers without capturing and considering new customers. He stated that he did not think capacity was considered and that some years back, capacity was a big part of the proposed utility rate structure. He inquired as to the status of capacity fees currently and asked if Council should look at that as a percentage of this increase and wanted to know how competitive the City is in comparison to other municipalities. Mr. Milhous explained the procedures and processes used for calculating the rates and the three prong calculations for debt coverage (with and without capacity charges). Mr. Myers asked in reference to capacity fees for new services what portion of that goes towards paying down bonds. The City Manager stated that all the capacity payments are being placed in a restricted account which is currently around \$3 million. He stated that the City does not mix capacity payments with cash and that these reserves are being used for capital costs. Mr. Milhous stated that the City's current customers are getting the benefit of that. Mr. Myers stated that the construction bids were recently opened and came in significantly lower than expected. He asked how that breaks down once it is reviewed as to the percentage to Cayce, Town of Lexington, and the Commission and how that benefitted the City. The City Manager advised that the City would probably not receive full \$35 million SRF loan and that it did impact the City, but not as much as it may appear.

Ms. Pope explained that the City was given a commitment not to exceed \$35 million of eligible costs. She stated that the entire project is not eligible for an SRF loan and that there are ineligible costs, such as cost of the road relocation, cost of a water line, or approximately \$2 million that could not be placed in the project's eligibility column because DHEC and SRF said those are not going to be funded by the SRF loan. Mr. Myers stated that he did not understand why the City is not eligible for the entire \$35 million. Ms. Pope explained the reasoning behind the amount of the loan. She stated that because the eligible costs came in lower than anticipated on the bids, the SRF loan will be lower.

Mr. Myers inquired that with capacity and current increases in base and volume charges, how competitive would the city be from an economic development standpoint. The City Manager stated that the City is very competitive and will not be at a disadvantage. Mr. Myers suggested that a review of at capacity fees may be needed. The City Manager advised that rates on capacity have not been increased for quite some time. He stated that he and the City Auditors could review this issue and come up with a proposal for Council to review.

B. Approval of Ordinance Prescribing Rates for the City of Cayce Utility Rate Structure – Second Reading

Council considered for second and final reading the approval of an Ordinance prescribing the rates for the City of Cayce Utility Rate Structure. Mr. Myers made a motion to approve the Ordinance on second and final reading with the suggested wording revisions and the revised Utility Rate Structure as proposed by Mr. Milhous. Mr. Isom seconded the motion which was unanimously approved.

There being no further business, the meeting adjourned at 6:50 p.m.

Elise Partin, Mayor

ATTEST:

Tammy Barkley, CMC, Municipal Clerk