

**CITY OF CAYCE
Special Meeting
April 24, 2006**

A Special meeting of Cayce City Council was held at 6:00 p.m. in the City Hall Conference Room. Those present included Mayor Avery B. Wilkerson, Jr., Councilmen Rick Myers, James Jenkins, Kenneth Jumper, and Robert Malpass, City Manager John C. Sharpe, and Tammy Barkley, Municipal Clerk. Mr. Bob Milhous and Mr. Jamie Michaelson of Robert E. Milhous, C.P.A., City Attorney, Danny Crowe, Mr. Frank Robinson, Director of Utilities, and Mr. Blake Bridwell, City Engineer were also in attendance. Mayor Wilkerson advised that members of the press and the public were duly notified of the meeting in accordance with the FOIA.

Mr. Jenkins opened the meeting with the invocation and Mayor Wilkerson led everyone in the Pledge of Allegiance.

Other

A. Discussion of Utility Rates, Debt Coverage and FY06-07 Budget

Mr. Milhous distributed an analysis or pro forma financial information regarding the Utility fund. He stated that he had previously provided Council in their packets with the proposed water and sewer rates by class and also a summary of what the average increase would be for inside and outside city customers with the proposed rates. He stated that the basis for looking at this report is to continue the process of reviewing where the city will be at the end of the current fiscal year in order to meet bond debt coverage elements. He stated the report also takes into consideration where the city utilities fund will be in the next fiscal year. He stated that the city is currently going through the budgetary process and he has provided information looking at the current rates based on volume for water and sewer along with O&M costs, etc., and meeting the 115% debt coverage test. He advised that one of the things that has been a variable for the past couple of years is dealing with the amount that is an obligation to the General Fund, or Indirect Cost. He reminded Council that several years ago, Council enacted a deferral of certain amounts. He stated that the report also provides an estimate of where the Council needs to be thinking towards FY 2007-2008 in dealing with the requirements for the Wastewater Treatment Plant expansion and debt service to be incurred with that project.

Mr. Michaelson advised that the report provided to Council has some information that takes the way the normal financial statement is presented and turns it into a coverage rate formula. He explained the columns and figures on the report. He stated a simple forecast was done to see where O&M costs were and revenue as well. He stated that a similar type of forecast was done last year and Council adopted a 4% increase in utility rates. He advised that on the water base revenue, the city actually achieved about 98% of what was forecast and that the volume overall was not as much as the average volume has been over past years. He stated that the bottom line is that the city will realize about 99% water and 101% of sewer revenue of the forecasted figures. He stated that the overall change in the city's water customer base is very small and that there is growth in the sewer area. Mr. Milhous stated that the city has experienced some growth in wholesale customers. Mr. Michaelson stated that the deferral would still be required in FY2005-2006 and FY 2006-2007 in order to meet debt service. He pointed out that the FY2007-2008 column on the report shows what the change in environment created by \$2 million in debt service for proposed capital improvements and those numbers also fully fund all of the indirect cost transfer. He stated that the debt service numbers are on a funding basis and that is the amount of money the utility needs to put in the bank to make future debt service payments. Mr. Milhous stated that the last column on the report looks at two years down the road, and is very consistent with what he has presented to Council over the past few years.

The City Manager distributed a memo from the City Attorney's office regarding the Midlands Utilities issue. Mr. Crowe stated that it has been very difficult to get information from them. In terms of the PSC process, Mr. Crowe advised that Mr. Cook had proofed the petition today and it would be filed tomorrow with the PSC, which should take four months to get the approval. He stated that he told Mr. Cook that the city would be willing to contact anyone we knew to help with the process and would be willing to get the city's legislators and senators involved to intervene if it would be helpful. He stated that this would extend the purchase date because the PSC approval has not been received.

Mayor Wilkerson inquired if the delay had an effect on the value of the Midlands system. Mr. Crowe advised that the value probably has gone up as new customers have been added to the system. Mr. Malpass noted that there was a cost associated with the delay in that Council reviewed the proposed purchase of the system two years ago in April and since that time, the city has lost the opportunity of the retail margin of approximately \$300,000 to \$400,000 per year. Mr. Milhous stated that the city has been blessed to have marginal increases to stay status quo with the debt coverage and that if the Midlands deal occurs next year, there may be some benefit to FY 2006-2007. He stated that the most important element is being able to get into the bond market. He stated that he believed it would be very difficult for the city you to get into the bond market without the new customers from the Midlands Utility purchase. To recap, Mr. Milhous stated that this does not take into consideration the capacity charges. He felt the city would come in at 116% by year-end and suggested a 5% across the board increase in water and sewer rates in order to meet the 115% and debt coverage.

Mr. Malpass stated he had a serious concern in expanding and upgrading the Wastewater Treatment Plant because of the outstanding promise of capacity from the Town of Lexington and the Lexington County Joint Water and Sewer Commission which has not materialized. He stated he understood that the city has not made any set plans for the infrastructure to deliver capacity to the customers. He stated he was also concerned that the city did not have a system in place to replace old lines and upgrades to the pump stations. Mr. Robinson stated that as far as the Water Plant is concerned, the city is set for years. The Plant is currently handling 3 million gallons per day on an average. He stated that the Wastewater Treatment Plant is being driven by the outstanding customers with capacity on hold. Mr. Malpass stated that he did not think it was a good idea to build bigger plants when the city does not have a routine plan to replace lines or upgrade pump stations. Mr. Myers suggested that the city rethink the agreements with the wholesale customers. Mr. Bridwell stated that a good goal is to try and replace 1% of a city's system per year. Mr. Myers suggested that in October, the utility system needed to be re-evaluated once the Midlands Utility purchase is completed. He also suggested that Mr. Milhous, at that time, do an analysis on wholesale customers. Mr. Milhous stated that even if those revenue changes occurred in the next fiscal year, the city is also trying to put into place stability and looking at debt coverage. He stated that if the fund had some surplus, the city should be able to roll that into an account to take care of the deferred amount.

Mr. Michaelson provided Council with a summary on the impact of a 5% increase as suggested. He stated that the customer's average use is 5,500 gallons per month. Using that average, the inside city customer would pay an additional \$3.00 per bill or \$18.00 a year; outside customers would pay \$4.67 a bill or just over \$25 per year. He stated that this is a minimum increase. Mr. Milhous also reminded Council that the increase would need to be used to meet debt coverage. Annually, he advised, it would provide an additional \$220,000 from water accounts and \$225,000 on sewer accounts or a little less than \$500,000. Mr. Milhous stated that with increased fuel cost, this will also impact the O&M fund and the 5% increase may not be enough because half way through the year, Council needs to monitor it because if economic decisions escalate, the Council may need to make an adjustment. He stated that noting that the intent of this body was to do some incremental increases on an annual basis, he tried to keep the numbers conservative. He stated that in FY 2007-2008, Council would be looking at a substantial increase in addition with the increase in wholesale customers. He stated that it was not out of the ordinary to anticipate those needs and to make decisions to help soften that particular impact. Mr. Myers suggested that Council review an additional analysis from Mr. Milhous at a workshop prior to Council's last vote on approving the budget which would provide Council with a better feel for any additional revenues needed which may help going toward a capital project upgrade plan.

B. Discussion of Expansion/Upgrade of Wastewater Treatment Plant and Issuance of Bonds

The City Manager advised that the construction permit was issued in January 2006 and the city has until 2009 to put it into operation. He pointed out that a recent letter from American Engineering indicates that the cost of the expansion/upgrade of the Wastewater Treatment Plant (including engineering) has increased to \$32,500,000. He stated that this amount does not include the upgrade to the pump station. Mr. Myers stated that the letter also states an estimate of \$29,500,000 which would be to redesign the plant. He inquired if there were any costs that could be reduced. Mr. Robinson advised that the cost has increased because basically the city would be building a new plant in order to meet regulations. He stated that to treat phosphorous by the regulations without rebuilding the plant, a separate building would have to be built to treat it. Mr. Robinson advised that currently the Wastewater Treatment Plant capacity is at 11.783 millions a day. He stated that the Town of Lexington has purchased 2 million gallons that the city has agreed to provide to them in 2007 and that the Commission still has purchased capacity available to them that they have not charged anything against. He stated that the Plant is currently treating 5.5 to 6 million gallons per day.

Mr. Myers suggested that the plans be reviewed to see if there are other ways to reduce the cost for rebuilding the plant. He suggested that the city hire another engineer to look at the plans to see if there are other options that could save the city money. Mr. Bridwell advised that the existing plant is really not operating efficiently at this time. The City Manager stated that one thing that will impact the timetable is the work that has to be done as required by FEMA. He stated that the city is currently trying to get a "no rise certificate" from the city engineer and if a certificate cannot be obtained, then the city will have to submit to FEMA application for a Conditional Letter of Map Revision "CLOMAR" to have the Flood Insurance Rate Map "FIRM" revised and this will take time to get approved.

There being no further business, the meeting was adjourned at 7:40 p.m.

Avery B. Wilkerson, Jr., Mayor

ATTEST:

Tammy P. Barkley, CMC, Municipal Clerk