

CITY OF CAYCE
Special Meeting
May 20, 2008

A Special meeting of Cayce City Council was held this morning at 8:00 a.m. in the Conference Room. Those present included Mayor Avery B. Wilkerson, Jr., Councilmen Robert Malpass, Kenneth Jumper, and Rick Myers, City Manager John C. Sharpe, and Garry Huddle, Municipal Treasurer. Councilman Skip Jenkins was unable to attend. Mayor Wilkerson advised that members of the press and the public were duly notified of the meeting in accordance with the FOIA.

Mayor Wilkerson called the meeting to order. Mr. Jumper opened the meeting with the invocation and Mayor Wilkerson led everyone in the Pledge of Allegiance.

Other

A. Presentation by Mr. Bob Milhous Re Utility Rate Structure

Mr. Milhous and Mr. Jamie Michaelson appeared before Council to review information on what the proposed utility fund rates should be for FY08-09. He stated that the studies being performed is reviewing the current rates and looking at what it really costs the city to perform its utility operations, both water and sewer. He stated that it was important to have this baseline data information of costs regarding the update of contracts with the Town of Lexington and the Commission. Thirdly, he stated that this information builds on work that he will be doing down the road with respect to the impact of the city's rates with the revised contracts in dealing with the new bond issuance to build the new wastewater treatment plant. Today, he stated that today's presentation would concentrate on the utility fund rates.

Mr. Michaelson provided Council with an overview of the purpose, methodology, and special considerations taken into account. Mr. Milhous advised that recommendations on modifications to the rate formula for contract customers were near completion pending receipt of current wastewater flow data.

Mr. Michaelson stated that the thing to keep in mind about the future is the change in customer base and also a change in cost structure for the debt to build the sewer plant. He stated that a few years ago,

Cayce issued bonds for the upgrade of the water side of the system so the city has already taken the hit in water rates for the debt service for these improvements. This time, the city is working on the sewer side and the impact is going to be more significant than it was on the water side. Preliminary numbers show that the annual debt service is going to be in a \$2 million to \$2.5 million a year range. To keep that in perspective, he stated that the budget for the sewer side runs a little more than \$4 million. He stated that if you look at just a \$2 million impact on a \$4 million revenue base that is a pretty big hit. He stated that the city will also need to consider how that should be allocated and the overall impact to the system in the coming few years.

Mr. Milhous stated that when the new system is built the city will have O&M costs on a daily basis and will also need some cash reserves to take care of capital improvements. He stated that this is the element of the rate structure. He stated that the rate structure is based on concentration factors and different customer classes and then "return on investment". He stated that Cayce has investment dollars and it should recoup a return on investments. Mr. Michaelson stated that to put it into rate lingo, the city's rate has two pieces; the operation and maintenance component and the capital component. He stated that what Cayce has historically done is the capital component has almost exclusively been the debt service piece with a nominal amount of savings. He stated that in models reviewed, they include the service piece and a larger amount for the return on investment. He stated the city's cost of capital on existing debt is 4.5% and that is the market it is operating today. He stated that the revolving fund of 3.5% is good and that reduces the overall cost of capital. He stated the city's current rate is generating approximately 2% rate of return.

In reference to contract customers, he stated that the city can look at a venture of this magnitude and want to go in and participate in a joint venture or partial equity type of arrangements with the other parties, or the city can do it in a more traditional way of Cayce is the owner of the facility and it enters into some long term contract for some level of service with these customers. He stated that those two concepts have really different impacts on how the city does business, how it borrows the money, etc. In the approach that has been reviewed is from the aspect of these two customers being contract customers and not equity owners of the city's system. He stated that is an important distinction. The city charges them money for capacity and the city will charge them money for capacity in the form of debt sharing or actual cash, but those fees are not to be confused with buying ownership in the city's system versus paying for a contractual right to receive a certain level of service. Mr. Milhous stated that not only is the rate structure very critical to the contract, it is very critical to have the legal language in the document state that it is a contractual right to provide that service versus equity or ownership interest. Mr. Michaelson stated that the current contract has a formula and things have changed and the formula is not valid. He suggested that a formula not be included in the contract, but to include a framework that addresses the idea that Cayce will adopt its rate according to the framework and periodically the contract will be adjusted according to the results of the analysis of the framework.

Mr. Michaelson stated that the proposed 5% increase in base and volume rates is projected to generate revenue sufficient to meet the proposed budget and debt service requirements and that the projected overall rate of return for FY08-09 is 2.79%. He stated that this figure is less than Cayce's cost of capital of 4.45% as measured by its revenue bond interest rates. He stated that the system is making enough to do what it has to do, but not charging enough to set aside anything significant. Council reviewed the comparison of rates based on the proposed 5% increase. Mr. Milhous stated that the 5% brings the city to the 115% debt service and meets its O&M requirements, but it does not meet the need for capital improvements. Revenues of \$9.7 million helps get to that break even point in meeting the criteria at the very minimum.

Mr. Myers suggested the possibility of a proposed increase of 7.5%. He stated that the 2.5% additional funds would not be used to increase the budget but put aside for capital improvements and possibly ease the eventual increases in rates for the wastewater treatment plant expansion. Mr. Milhous stated that he would provide Council with a rate structure showing a 7.5% increase and disclose how much increment revenue the 2.5% would generate. After discussion, Mr. Myers recommended that a 7.5% increase be included for first reading approval.

- B. Approval of an Ordinance to provide for the amending of the provisions of the Amended and Restated Indenture of Trust Between City of Cayce, South Carolina As Issuer and Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated July 15, 2004 and other matters relating thereto – Second Reading

Council considered for second and final reading approval, an Ordinance to provide for the amending of the provisions of the Amended and Restated Indenture of Trust between City of Cayce, South Carolina as Issuer and Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated July 15, 2004 and other matters relating thereto.

Mr. Myers made a motion to amend the Ordinance which includes minor modifications to the indenture to replace the debt service reserve fund credit facility. Mr. Malpass seconded the motion which was unanimously approved. Mr. Myers made a motion to approve the Ordinance as amended on second and final reading. Mr. Malpass seconded the motion which was unanimously approved.

There being no further business, meeting adjourned at 9:15 a.m.

Avery B. Wilkerson, Jr., Mayor

ATTEST:

Tammy P. Barkley, CMC, Municipal Clerk