

## **MINUTES**

Having been duly advertised as required by law, a Special Called Meeting of Walterboro City Council was held at City Hall on Tuesday, April 16, 2019 at 5:00 P.M. with Mayor Bill Young presiding.

**PRESENT WERE:** Mayor Bill Young, Council Members: Carl Brown, Judy Bridge, Paul Siegel, Bobby Bonds, James Broderick and Greg Pryor. City Manager Jeff Molinari, Assistant City Manager Hank Amundson, and City Attorney George Cone were also present. There were 5 persons present in the audience. City Clerk Betty Hudson was absent.

There being a quorum present, Mayor Young called the meeting to order, and invited everyone to join in the invocation and the pledge of allegiance. Council Member Pryor gave the invocation and Council Member Bridge led the pledge of allegiance to our flag.

### **PUBLIC INPUT ON AGENDA ITEMS:**

There were no comments or questions on agenda items.

### **PRESENTATION:**

City Manager Molinari recognized Mr. Daryll Parker and Mr. Michael Cronan of Willdan Financial Services are present tonight. He said we have been working with them the last few months on a rate study for the City. From the staff's perspective, it has been a very beneficial process to look at each operation individually in the Enterprise Fund, which is our water, sewer and sanitation operations and also looking at our capital needs for each department. Darryl and Mike are going to present a lot of information to you, but I would encourage you to ask any questions that you may have. I envision this as more of an informal session with everybody around the table, as we go through the results of the rate study.

Mr. Daryll Parker of Willdan Financial Services, Inc. then addressed Council to discuss the results of the water, wastewater and sanitation rate study performed by his company for the City of Walterboro. He also recognized his colleague, Mr. Mike Cronan was also present. Mr. Parker said, we understand the significance and the need for this project and are happy to help out the City however needed.

He stated that they appreciated working with the City staff - Jeff, Hank, Amy, Wayne, and Mike, who gave them much of the data needed to do the project, and there has been a lot of input from staff. So, I am here tonight to show you the preliminary results of the rate study for water, wastewater and solid waste. Before beginning, Mr. Parker stated that he is not asking for any action from Council tonight. This is just basically an educational and information process and this is an informal setting as well. I do want you to see where we are at this point in the study, and it is pretty much ready to move forward as needed.

Firstly, we will look at the goals of the rate study:

- 1) The primary goals and objective of the rate study include:
  - Full cost recovery of utility expenditures. All that means is we've got to generate enough revenues in each system to meet the operating needs of the systems.
  - Cost-based rate structure.
  - Equity among customer classes.

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- Administrative efficiency. That's just the long way of saying we want your rates to be easy to understand and easy for you to implement.
- 5-year financial plan. We are not looking at just one year. For budget purposes, I assume that it's for this upcoming fiscal year. But we want to develop a plan that meets the next 5 year needs, because you have things that are going to be coming down the road, i.e., capital expenditures that you will need to prepare for.
- Consistency with common industry standards. We are going to talk about some rate structure things tonight. It's not because of anything that you are doing is wrong, it just not necessarily where you need to be from an industry standpoint.

Mr. Parker then showed a general illustration of what a rate study looks like. He said, as you will see, we have looked at every individual system separately, water, wastewater and solid waste, but they are all going to function the same way. These are the items we looked at to conduct the rate study.

1. Customer Accounts.
2. Usage/Flow Volumes.
3. Billing Frequency & Revenue Reconciliation Analysis.
4. Revenues Under Existing Rates.
5. Other Revenues.
6. Rate Design.
7. Total Revenue Requirements.
8. Operation and Maintenance Expenses.
9. Debt Service.
10. Capital & Other Expenditures.

Mr. Parker then said, not to scare anybody here, but if you don't change your rates, based on customer work projections, usage, characteristics, and all that, you are not going to generate enough money. For water, you are probably going to be okay. The wastewater will not do well. Sanitation is not horrible but still probably not where it needs to be, and there are some reasons for that too.

All this is to say, doing nothing is not an option, because you won't be able to meet your financial needs.

Let's move forward on what we do want to do or what we can do:

1. Status Quo Reserve Balance Fund Projections.  
You can probably go one year without doing anything for this fiscal year. After that you will spend more than you make, and I don't think you can function that way.
2. The Target number is where we would like to see those reserve fund balances at a minimum, and that target number is just based on six months of O&M. At a minimum you need to have a reserve fund at least about 6 months of your operating expenses. Obviously, we are not there under the Status Quo scenario.

**Water & Wastewater**

1. Rate Structure - The City has minimum charges (bimonthly). So, every other month, the customers receive a bill.
  - A. It's based on the size of the water meter. Not uncommon. One thing that we usually don't see is that you have different rates. If you've got this meter-based rate, usually it's just one set of rates, and it applies to every customer based on their meter size. You have separate rates and it's higher for outside the city customers. Not uncommon at all,

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especially in South Carolina. We typically see that the outside the city customers pay higher rates than inside the city customers. But you are going to see some variations that we'd like to see implemented.

Currently that minimum charge includes 2,000 gallons of water a month or 4,000 bi-monthly. We may want to make some adjustments to that as well.

For biometric rates, you have a declining block rate structure, which means that certain thresholds of flow, that next unit of flow actually drops. The unit cost is lower and that drops again. Typically, not historically in South Carolina, typically in mill towns, you'd have big, big water users, and they would be using 5,000,000 gallons a month, and they would actually generate some economies of scale for your operation because of their massive operations. And so they would get by the elected officials, some cost benefit. You don't see that much anymore, because the total dynamics of the industry has changed.

So, the outside charge for the biometric is 2 times the inside rate. So, that's where you are.

- B. Different for Residential vs. Commercial.
- C. Higher for Outside City customers.
- D. Includes 2,000 gallons of water per month.

**Proposed Rate Structure Revisions**

1. Minimum Charges. Every other month the customer receives a water bill. So, that minimum cost should be set to recover some of that fixed cost that you have had by making that service available. So, we'd like to see some mechanism put into place to recover some of the fixed costs for your sewer system.

The existing rates for residential are higher, like for meter sizes. This is common. The rationale behind that is your standard residential meter and for a larger meter 1" or 1 1/2," whatever, you have had to make more capacity available. You have had to build more capacity than the availability for those larger connections, just in case they decide to use it, and they've got the ability to use it, cause they have a larger connection, so you charge them a higher fee for that service availability. I was happy to see that.

The only kind of unusual part that we did see on the water side is the difference between residential and commercial. For whatever reasons, its about \$6.00 roughly at every level. Don't know where that came from, don't know why. It's an unusual situation because the purpose of this structure right here is to say that most of our residential is going to be these guys, a big portion of our commercial is going to be in here you've got a real estate office an insurance office - they are not going to have a big connection size, but a restaurant or a grocery store, you would have a bigger connection, so you would have to pay an incremental higher charge for that. The fact that you do this, you don't need a separate residential, commercial charges. You just need one basic set of rates basically.

We will talk about the outside the City rates. Structurally, the outside the city rates are good. We are just kinda of looking at some differential items to talk about.

We like to talk in terms of factors a lot of times. A little over \$11 a month, if we assume that's the base, with a factor of 1, then we divide every one of these numbers by that number, then it comes up with these factors right here. So, that gives us the basis for us to see how things compare to each other.

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If nothing else we'd like to see consistency and there's not consistency there.

- a. Increment in accordance with AWAA meter factors (same as Residential & Commercial).

What we have here is:

You see here, we've got what we call the AWAA, the American Water Works Association - that's the industry standard for the water and wastewater. Basically, their factors - engineering manuals have determined that the 1 inch meter can generate 2 ½ times the capacity of that standard 5/8 x 3/4 inch meter. The 1 inch meter can generate 5 times the capacity. What that does - those are based on physics. They give us a basis and science. To take numbers like this and say, o.k. well this number shouldn't be 1 ½ times, it should be 2 ½ times. The purpose for that is not to generate additional revenue, it's to have a legal and defensive basis, by chance if you are ever legally challenged. So you would say what is that charge 5 times that charge. You wouldn't have an answer for that. We would have an answer for this, because that the industry standard.

So, this is one of those things that we would suggest that if nothing else that these factors become industry norms, which means everything 1 inch and above are adjusted, and we will talk about that adjustment as we move forward.

Mayor Young asked, when you say industry norms, are you taking about other municipalities or counties who have water utilities? Mr. Parker responded, yes that and here again the American Water Works Association sets those standards for the industry and yes it's whatever utilities do, and what the people who write the manuals say to do.

Mayor Young then said, so when you say industry, are you talking about public service commissions and other people who have water utilities. Mr. Parker responded, it's the Public Service Commission.

Mayor Young then said, not arguing with you but whoever controls the price decides what that will be. Mr. Parker responded, yes and here again, it's not that this is wrong, it's just that we don't know where it came from.

Mr. Young then said, as far as the defensible part - you only need to defend it if somebody challenges it. Mr. Parker responded, right. He added, most likely as a City government, your rates are not regulated. I mean you can set the rates as high as you want. That's not to say that you would lose if you were challenged, it's just that you wouldn't have to answer.

Mayor Young stated, and the only reason I say that is I want to make sure it sounds like where you should be doing. We should be doing it in terms if we want to meet the industry standards, but not in terms of legally we should be doing it. Mr. Parker said, it's got nothing to do with legally. Legally defensible just means where those numbers came from - we can point to where they came from. So, in my mind anyway, you are not in any potential legal trouble for this, but we would just like to see you get to if you were asked, you would know where those numbers came from.

Now, here are the inside the City rates versus the outside the City rates. Now, we have said that they are higher outside. The outside number is divided by the inside number at every meter size. So, this first one is 27 times higher, the next one is 2.45 higher and so for and so on. Here again, we mentioned the word consistency. There

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is no consistency here. The standard for, I would say, typically in South Carolina, we would see the outside rate 2 times the inside rate, and some are maybe a littler higher, maybe a little bit less, but for the majority of the South Carolina utilities, the difference is 2 . So, that's another thing that we suggest that we work toward getting rid of is this kind of randomness in this outside surcharge charge and just adopt a policy of whatever this number is and whatever this number is 2 times.

Mayor Young asked, does the rate when you get up to the 8-inch size, does the rate go down? It doesn't have anything to do with the volumetric rate. How does that impact the 2 and ½ times factor if you factor in the volume?

Mayor Young said, I am just wondering, I mean, you would think if it would be 2 times as much, it would be 2 times down, if at the lower volumes the rates drop, that kinda of affects the 2.57 factor too.

Mr. Parker stated, we are proposing a five-year plan. We already saw that the rates need to go up and probably will need to adjust everything even though the water is still o.k. by itself, but even if we are adjusting these down, we set up our model so that these don't go down until they reach the 2 times difference. Remember, our ultimate goal is to generate enough revenue. So, we don't necessarily want to lose any revenue by making these numbers. Right now if we just make this number 2 times that, then we are talking \$2,700. So, it goes down a bunch. That would be a big step. You don't have that many of these customers, we are just using this set as an example. I think you might have two or three 8 inch lines. So, we are not talking about a big revenue impact either way. We want to make sure that we are at least staying where we are and not going backwards. So, our analysis model is set up to at least maintain that. I think you'll see more detail once we get there.

Declining block structure

What that means is you've got this first block what we call 0 - 2,000 gallons per month, and you are not getting anything from it. So, basically, you have a whole block of water that you are giving away for free. You can argue that maybe it's in the base charge. But that base charge probably isn't high enough to recover an extra thousand gallons of flow. So, basically, what you are doing is you are not getting any more revenue from it. On that base chunk of water, you are not getting any revenues from it until that goes over that amount. But still from an industry standpoint, it's not out there, but still it's not where we would like to see out there.

Mayor Young asked, what's the average usage? Mr. Parker replied, if I remember correctly your inside the city usage was around 5,000 gallons and the outside the city was closer to 6,000 gallons, I think. I am talking residential. If you factor in commercial usage, those numbers go higher. This is gallons per month for our residential.

So, block 2, this is where we would be see our base block for our analysis purpose. You will see a 1.98, 2.48, it's not exactly 2 times.

Your rate structure is not necessarily consistent with your financial goals.

This structure is what we would like to see:

The outside rate is only, here again, not consistent between water and wastewater, so as you will see as we move forward that the things that we propose are to getting everything consistent.

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Proposed Rate Structure:

Minimum Charges

1. Increment in accordance with AWWA meter factors. Make Residential and Commercial the same. No need to have a separate \$6 a month or whatever.
2. Apply a 5-year phasing approach to mitigate rate shock levels. We don't want to hit anybody really hard - up or down. Especially up, we don't want the billing department to get all kinds of phone calls.
3. Implement a wastewater minimum charge. When we look at that, wastewater is very expensive. The facilities are very expensive to build compared to water. I mean let's say a wastewater treatment plant versus a water treatment plant. I believe you might be able to build a water treatment plant for \$4 per gallon of capacity, whereas wastewater is going to be \$9 to \$10 per gallon of capacity. So, just building those facilities is so much more expensive, and we are getting no guarantee of fixed revenue from that at all. The problem is we are starting zero. We can't get where we ought to be in one step. We probably can get there in the next 5 years, but we can start doing something, and that's what we are going to propose here.

Volumetric Rates

1. Water - Eliminate minimum usage allowance. One thing, we would like to see is to eliminate that minimum usage. On that 2,000 gallons you are not getting any revenue. Here again, we are going to do that over a 5-year phasing in, so we are not shocking anybody.
2. Water - We'd also like to see you move away from the declining block structure. Let's just go to a uniform structure. If you use water, you pay for water at the rate per gallon. What we are looking for is administrative efficiency.
3. Wastewater - Increase for future needs.

So, this is for this upcoming fiscal year, the budget that you guys are working on now - I mentioned we separated everything out between the three Enterprise systems. This is a summary of what we would expect to happen. The budget numbers and based on revenue projections and the existing rates, if you didn't do anything you would probably be fine for Water. Wastewater, we see you are really going to have a hard time. Sanitation, it's not hurting bad, but compared to its revenue, it's not a big revenue source, so we are talking about a potential 18% shortfall. In total for the combined systems, which is what your auditors would look at too, it's not where it needs to be. Here again, you can't do nothing.

We do anticipate some growth - economic and whatever by chance you get some new customers whether it be some business, industrial or subdivision. So, this is where we are basing our assumptions on.

So, what's driving all of this, especially on sewer - it's your capital projects. But you have some big wastewater treatment plant needs out there. You have some upgrades and some expansion projects going on, and you have a little bit of sanitation projects in there, and a little bit of water. Actually the big water chunk is upcoming for this fiscal year. What's happening here is that these projects need to get done. No use arguing that, and it's going to cost a nice chunk of money. They are going to be funded with partial grants, partial debt. So, the grant part we don't have to worry about. That's free money. But the debt part, we do have to worry about. We will have to generate revenue to pay that debt service. So, when we are looking at numbers like these - why is this so negative, well that's why, we have a lot of debt service. So, when people ask you, why is this happening. This is why it's happening, it's capital driven, and that's very common for any utility system. So, that's especially where we see the shortfall as coming from on the sewer side.

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Please see attached proposed rate charts presented by Mr. Parker.

1. Proposed Minimum Charge Phasing (Water):
2. Proposed Volumetric Rate Phasing.
3. Proposed Rate Path - Water Inside City.

What we are doing in such a way is we are mitigating that impact that the rate charge to your customers. So, this is a good picture for water, and then we would phase in the outside rates. The outside rate is just 2 times the inside rate.

**Wastewater**

We mentioned you are getting nothing there. What we are proposing is a \$6.00 a month base charge, which is a little more than half of what you are currently charge.

As we mentioned, wastewater is a little more costly as a service to provide. So, it really should be quite higher than your water, but we can't get there in one step. So, this is \$6.00 a month, and then we will go up a couple of bucks a month til we get to \$28. It still isn't that much higher a number for water, but at least it's higher, at least it's getting us there to a point where we probably need to be. So, this is a \$14.00 a month charge that we compared to other utilities.

Mr. Young then said, So, does that mean the 2020 Outside the City sewer rate would be \$56.00 per month? Mr. Parker responded, that figure is for 2 months. We got to generate more revenues from the sewer system, so part of that is just to getting you where you need to be structurally. And the other part is for revenue to pay for the operations. Also, what you see going on here is the volumetric rates are going up. Now, remember this is over a 5-year period. So, it's not like we are jumping from here to here in a year. This is so your business can plan for and adjust their budgets accordingly.

Councilman Broderick then asked to go back to the water rate chart. He asked if the volumetric rate is the standard for the industry as far as amount of gallons. Mr. Parker responded, not really. I am glad that it's not because oftentimes we might see this number if they are giving away free water, it might be 4,000 or 5,000 gallons a month - that may be a little bit below the average, and so if you are a customer who uses less than the average, then you are fine for just that base charge.

Mr. Broderick then said, what if we attract industry, are those figures usually broken down more? Mr. Parker said, we would see a much bigger spread, like say your first block was 0 - 20,000, which is what we are proposing to get you out here to stay with the declining block. Kinda of the way you want to look at it is almost like your block structure should capture your residential. Your next block should capture your commercial and then anything over that. If you don't have like some giant industrial, they should fall into that. If you have a really big industrial, you might even do a fourth block. Here again, you might want to do 0 - 20,000, then 20,000 to 100,000. And then all over 100,000, you have a lot of relative size customers who are getting too much of a discount. 100,000 is really not providing you with an operating benefit. So, what we would see if maybe a fourth block where this block is 100,000 to 1,000,000. Mr. Broderick said, that does seem kinda of large to me, that's why I asked. Mr. Parker responded for a residential customer that would be but for some commercial customers, it really isn't.

Mr. Broderick then said, for anything over 100,000 that just seems like a large amount. Mr. Parker agreed and said, yes especially at such a low rate. Yes, you are right, but

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kind of where I was getting is if you were wanting to maintain a declining block structure, that's what's proposed for that block.

Assistant City Manager Hank Amundson then asked, do we have some customers using in the millions?

Mr. Amundson then said, you have to get a bigger volume to get a better discount. That discount is given away too early, basically.

Mr. Parker said, if you have a super large customer, like we do for the City of Sumter. They have a big chicken processing facility or something and they used about 50,000,000 gallons a month. And what they did (the City of Sumter) they put in a special rate for them, because they are so much different from any regular customer. It's okay to do that, if you've gotten an economic development incentive.

Mr. Parker explained that the larger commercial customer rate would be given for a certain amount of time. They maybe have a plan that phases over a 10-year time. You can to that kinda of thing too, if you wanted to avoid any preferential treatment.

There is nothing wrong with implementing a special rate for the larger commercial customer. Actually \$1.48 is really low for water rates, especially in this region. So, the fact that we are able to kinda of maintain that is a positive result, because typically we see the water rates in the \$2 to \$3 per thousandth range.

Mr. Amundson asked if the 2024 numbers are the same. Is that the high rate or the low rate as far as the base charge?

Mr. Parker continued. He said, this is partly revenue need and rate structure needs to meet those capital requirements.

Mr. Parker then displayed charts showing the comparison of charges with the City of Walterboro and other municipalities.

He said, it seems a lot but when you combine water and sewer customers, it's really not going up all that much. The higher user gets a higher bill or a higher increase

If over a 5-year period, this rate becomes 20% of that, and then next year, it's 40%. And we will see those. So, we can phase that block in and then phase, so basically we end up with just a uniform rate which is the industry norm.

Mr. Parker further discussed the results of the rate study. A copy of this report is attached as part of these minutes.

**EXECUTIVE SESSION:**

The Mayor then entertained a motion to go into an Executive Session. Council Member Pryor so moved and Council Member Broderick seconded the motion. All in favor. None Opposed. Motion carried. The Mayor then announced that the meeting will enter into an Executive Session to discuss the following contractual matters:

- a. Electric Franchise Agreement.
- b. I-95 Business Loop Project, Phase 1B/1E Lighting Agreement.

The meeting then entered into an Executive Session.

At approximately 6:18 P.M., a motion was made by Council Member Brown to exit Executive Session and return to Open Session. Council Member Pryor seconded the motion. All in favor. None opposed. Motion carried.



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The meeting returned to Open Session, and no action was taken as a result of the Executive Session. The Mayor announced that the next agenda item would be New Business.

**NEW BUSINESS:**

1. Resolution # 2019-R-02, A Resolution to Retract Previously Given Notice of City's Intent to Terminate the City's Franchise Agreement with South Carolina Electric and Gas Company

A motion was made by Council Member Pryor to adopt Resolution # 2019-R-02, A Resolution to Retract Previously Given Notice of City's Intent to Terminate the City's Franchise Agreement with South Carolina Electric and Gas Company. Council Member Broderick seconded the motion. All in favor. None opposed. Motion carried. A copy of said resolution is attached as part of these minutes.

2. Consideration of Lighting Agreement Between City of Walterboro and South Carolina Electric & Gas Company for Phase 1B/1E of the I-95 Business Loop Project

A motion was made by Council Member Bridge to approve the Lighting Agreement Between the City of Walterboro and South Carolina Electric & Gas Company for Phase 1B/1E of the I-95 Business Loop Project. Council Member Pryor seconded the motion that passed with all members voting in favor.

**ADJOURNMENT:**

There being no further business to consider a motion to adjourn was made by Council Member Bridge, seconded by Council Member Pryor and passed unanimously. The Mayor adjourned the meeting at 7:06 P.M. Notice of this meeting was distributed to all local media, posted on the City's website, and posted on the City Hall bulletin board at least twenty-four hours prior to meeting time.

Respectfully,

Betty J. Hudson  
City Clerk

Please note that Bobby Bonds did not vote on the motion to adopt these minutes, as he is no longer a City Councilmember as of the approval date: