



Mayor
Elise Partin

Mayor Pro-Tem
Tim James

Council Members
Phil Carter
Hunter Sox
Byron Thomas

City Manager
Tracy Hegler

Deputy City Manager
Jim Crosland
Assistant City Manager
Michael Conley

**City of Cayce
Special Council Meeting
Budget Work Session
Wednesday, March 20, 2024**

The March 20, 2024, Special Council Meeting was held this afternoon at 2:00 p.m. in Council Chambers. Those present included Mayor Pro Tem Tim James and Council Members Phil Carter and Byron Thomas. City Manager Tracy Hegler, Deputy City Manager Jim Crosland, Assistant City Manager Michael Conley, Municipal Clerk Mendy Corder, Police Chief Chris Cowan, Fire Chief Steven Bullard, Finance Director Kelly McMullen, and Utilities Director Betsy Catchings were also in attendance.

Mayor Pro Tem James asked if members of the press and the public were duly notified of the meeting in accordance with the FOIA. Ms. Corder confirmed they were notified.

Call to Order

Mayor Pro Tem James called the meeting to order and Council Member Carter gave the invocation. Police Chief Chris Cowan led the assembly in the Pledge of Allegiance.

Discussion Items

A. Discussion of Proposed FY2024/2025 Utility Fund Budget

Ms. Hegler stated that the budget work session was an informal meeting and was one of her favorite meetings because she got to watch her team do what they do best. She stated that Ms. Catchings was going to discuss the FY25 Utilities Budget with Council. She stated that staff was presenting the draft budget to Council a few days earlier than normal therefore a lot of the benefits had not been finalized since staff was still waiting on some final information to come from the State. She stated that the budget was 75% complete but the departments had been working on their needs and things that they would like to see in the coming year were in the budget. Ms. Hegler stated that Ms. Catchings was going to go through some general background on the City's system and was going to be very honest in regard to the state of things. She stated that Ms. Catchings was going to tell Council what was needed to continue to be the best service provider. She stated that the City had a great system, great service, excellent water and staff was treated very well. She stated that staff was just the best. Ms. Hegler stated that after Ms. Catchings spoke, the consultants from Raftelis and Attorney Lawrence Flynn would speak. She invited council to ask any questions they might have but there would be many conversations held before first reading of the budget.

Ms. Catchings thanked Council for their time. She first reviewed the organizational chart for the Utilities Department. She stated that the Utilities Department was the largest branch of the City with almost 80 employees and had seven (7) departments. She stated that the City's Water Treatment Plant was rated for 9.6 million gallons per day, the Wastewater Treatment Plant was rated for 25 million gallons per day and the Septage and Grease Receiving Station was approved for 100,000 gallons per day. She stated that the City's water lines encompassed approximately 225 miles and the sewer lines encompassed approximately 285 miles. She stated that the City had 76 sewer pump stations, five (5) water tanks in the system, six (6) water booster pump stations and approximately 8,150 water customers and 13,140 sewer customers. She showed a map of the City's water systems that showed the City's water service area. She stated that 54% of the City's water lines were outside the City limits. Ms. Catchings stated that water service areas in general were not typically a legally defined area unless it was a Public Service District that had been set up by the Legislature. She stated that with the City's water system, whoever got there first could legally install lines.

Ms. Catchings stated that the water service area had been in place since the early 1990s which was along the lines of when the Joint Municipal Water and Sewer Commission was formed by the County. She stated that the City had a large system and tanks that stretched to Gaston and a water tank near the White Knoll area. She stated that 80% of the City's tanks were outside the City and the only tank that was inside the City was the newest tank on Alex Street. She stated that 50% of the City's booster pump stations were outside the City and while only 32% of the City's customers were outside the City, they made up for about 58% of the City's water revenue. She stated that there was a lot of potential for growth on the water side.

Ms. Catchings next reviewed the City's sewer map. She stated that a lot of the City's pump stations were outside the City and accounted for about 75% of the City's sewer pump stations. She stated that 65% of the City's lines were outside of the City as well. She stated that the City's management area, whether it was inside or outside the City, the City had the responsibility to make sure that it was managing and maintaining those areas. She stated that the Town of Lexington, the Joint Municipal Water and Sewer Commission and the City of West Columbia had their own management areas that border the City's. She stated that those boundaries had been established by DHEC and the Council of Governments went through an approval process years ago which was part of the 208 Water Quality Management Plan. Ms. Catchings stated that the only way that these boundaries could change was to go through an amendment process through the COG. She stated that the City had sewer service and sewer lines that went all over the place and eventually all that flow ended up in the City's Wastewater Treatment Plant. She stated that there was still a good many areas where there was room for growth. She stated that 57% of the City's sewer customers were outside city customers and approximately 84% of the City's revenue came from outside city and

include the two (2) major purchasers, the Town of Lexington and the Joint Municipal Water and Sewer Commission.

Ms. Catchings stated that the City had seen a lot of new developments over the last 18 to 24 months. She stated that there had been a lot of fill-in growth and some of that growth had been residential in nature. She stated that there had also been a lot of commercial developments that had come in the last two (2) years and even a few subdivisions which was not common for the City since it was so built out for the most part. She stated that the Utilities Department was involved in the development process because they had to ensure that water and sewer was available for the new developments and work with the engineers and come up with a plan for connections and also make sure they set up new customer accounts and get meters installed so they could be read for billing purposes. Ms. Catchings stated that the Utilities Department was also involved with the development process when things occur outside the City in its management area and even beyond. She stated that staff reviewed plans, permit things, conduct construction inspections and eventually meter readings and billing. She stated that included industrial parks from Lexington County that fall within the City's management area, as well as some water and sewer areas that the City served that were in West Columbia city limits. She stated that any new growth that comes from the Town of Lexington, the Joint Municipal Water and Sewer Commission, or Calhoun County impacted the City because it received the wastewater flow from those entities.

Ms. Catchings stated that the Utilities Department's biggest strength in her opinion was staff. She stated that the managers did an incredible job as well as the staff who work for them on a day in and day out basis. She stated that prior to coming to the City in 2021 she worked for the consulting world for about 20 years and worked with the City on a regular basis. She stated that she had worked with a lot of City staff and had a lot of respect for them. She stated that since she had been with the City her appreciation had increased tenfold because staff were such hard workers. She stated that even the staff members that she did not necessarily know or work with before, she had grown to really appreciate because they did such a good job.

Ms. Catchings stated that the Utilities Department had a number of employees that had invaluable knowledge and experience in the water and wastewater world. She stated that some of that was operations and technical expertise and knowledge that was irreplaceable and some was maintenance knowledge, where staff had learned to repair, fix and even rig a few things better than anyone. She stated that they worked very hard to make sure the City's system, pumps, tanks and treatment plants were operating well. She stated that they were very fiscally minded in spite of not always having the resources that they really needed to do an adequate job and to make sure the City's assets were appropriately managed. Ms. Catchings stated that was something they now recognized that they were going to be working a lot towards trying to improve upon. She stated that they were also very diligently working on trying to share the knowledge

of the experienced staff with the newer staff so they could train that next generation because a lot of staff were going to be retiring soon. She stated that they had to recruit and hire staff that were willing to learn and to be trained. She stated that the Utilities Department staff really cared and it was not just a job to most of them, but something that they enjoy doing and want to do their best at it. She stated that it was something they were proud of and they wanted to make sure that they were doing what they could to help the City's utilities. Ms. Catchings stated that could be seen in the customer service teams. She stated whether it was someone coming in to pay a bill and how excellent those folks were in the customer service area or when field operations staff are having to work in somebody's yard, because there's an emergency situation and having to communicate things, and they do an excellent job even at the receiving station with the truckers that come in. She stated that they also had great teams that worked very well as departments and they had learned to cross over departments within utilities, and to help each other out when a need arose in one department and there was somebody that could help out in another department, they did their best to try to make that happen and to make sure to fill the critical voids that were out there.

Ms. Catchings stated that next she was going to talk about the Utilities Department's challenges. She stated that the City was a large utility and with that came a lot of responsibility. She stated one of those areas of responsibility was in planning and another was operations and also asset management and managing the City's resources. She stated that it was critical that the City act in the best interest of its customers and of its system on both the water and the wastewater side. She stated that the City of Cayce was a 208 management agency on the sewer side and was legally required to "provide effective wastewater management to include establishment or continued implementation for location, modification, and construction of public wastewater treatment, including the conveyance facilities such as collection systems and trunk lines." Ms. Catchings stated that if the City was not going to do that, then they risked portions of that management area being taken away if there were others that were willing to step in and serve. She stated that the City had over 72 square miles in its sewer service management area that staff was responsible for overseeing and having a plan on how sewer could better serve this area is part of that responsibility. She stated that the City currently had a 25 million gallon per day Wastewater Plant which was the second largest plant in the river basin areas at Broad, Saluda and Congaree. She stated that Columbia was the only plant that was larger. She stated that the City also had the sixth largest Wastewater Treatment Plant in the state. She stated that the only places that had a larger plant were largely populated areas such as Columbia, Charleston, North Charleston, Myrtle Beach, and Greenville.

Mayor Pro Tem James asked if the larger plants were run by the municipality that they were located in. Ms. Catchings stated that two (2) out of the five (5) were service districts and the rest were municipalities. Council Member Carter asked how much of the twenty five million gallons the City was using. Ms. Catchings stated approximately 12 million. Council Member Carter asked if the directive Ms. Catchings read included

expansion as part of the City's work as part of a directive to maintaining and managing. Ms. Catchings stated that yes, it did and it included the conveyance facilities, such as collection systems and trunk lines, which was the system. She stated that it did not mean the City had to be the ones to install or pay for it but just had to have a plan.

Ms. Catchings stated that two (2) more challenges were renewal and replacement of existing systems, and asset management. She stated that she and her staff were working on starting to think proactively instead of reactively but unfortunately, that was not where they currently were. She stated that deferring replacements had started to catch up with them. She stated for example, Pump Station One and Six Mile were two (2) significant, major things that happened. She stated their goal was to get to the point where staff was doing those projects in a proactive way, rather than an emergency situation. She stated that when she became the Director of Utilities, she and staff started working on collecting a lot of data about the City's assets, system, equipment, pumps and features of the system. Ms. Catchings stated that she was shocked at what they learned from that process, and how much more they need to learn about the system. She stated that they currently did not have the tools to manage the City's assets as much as was needed. She stated that knowing where the City stood on the condition of its systems was a big first step so staff would know how to plan for those things. She stated that was where asset management really comes in with having a program where staff has responsible planning, something that helps them to identify what the needs were, how long the assets were going to last, how much it costs to replace those assets, and helps with managing a schedule to make sure those things are being taken care of. She stated that most large systems had an asset management program and it was something the City had to work towards.

Ms. Catchings stated that staff was still experiencing supply chain issues and there were items that they could not get from a supply yard and they had to wait for quite some time in some cases. She stated that this showed the need for having some plans in place to make sure that they were not dealing with as many emergency situations. She stated that if they were not able to get the supplies when they need them because of a supply chain issue, then they ran into more risks for sanitary sewer overflows or violations on the water or wastewater side. She stated that we do need to recognize that we operate a very serious business.

Ms. Catchings stated that the City had to start planning for growth since there were areas where they could potentially grow out on the sewer side which was an expectation of the City being a 208 management area. She stated that they had to know how to handle those things in the future and have a plan in place to know where they want the system to be developed. She stated that there was probably a future Wastewater Treatment Plant expansion coming in the next 10 years. She stated that staff had already been talking with the City's major purchasers on how much they needed. She stated that they anticipated needing to begin the design process and the COG process, which takes time to go in and get approval for an increase in discharge

flow to the river, to start that within the next five (5) years or less and then the construction of an expansion would occur in 10 years or less.

Ms. Catchings stated that rising costs had been a really big challenge for the Utilities Department over the last few years. She stated that the City's last rate increase went into effect July 1, 2019 and from that point to now, the general inflation index, not just utility items, but across the board across the country was about 21%. She stated that a lot of items within utilities increased significantly more than that. She stated that the City's sludge disposal had increased 264% since July 1, 2019. She stated that the chemical and materials cost had increased significantly. She stated that the Water Treatment Plant chemicals had increased by 150% and wastewater chemical costs had 85% or more. She stated that materials on hydrants and pipes had increased more than 100% and increases on meters and ERTs had increased by 40%. She stated that the City's operating expenses had greatly increased, but the City's rates had stayed the same. Ms. Catchings stated that they had less money for capital needs on an annual basis and the longer that continued, the more it would start reaching into operational expenses. She stated that the City had been fortunate to have survived without a rate increase, largely due to the ARPA and grant funds that it was able to get. She stated that they were able to use a lot of that money for some of the capital items that were badly needed, as well as some of the operating expenses. She stated that they had survived because the department had not been 100% staffed, which is something that hurt them on the production side and the operation side but from a money standpoint, it certainly helped.

Ms. Catchings stated that a rate study was approved in the FY24 budget and the City's bond attorney, Lawrence Flynn, had been working with the rate consultant, Raftelis, who would do a presentation on their recommendations at the end of the meeting. She stated that another challenge to overcome was the changing river conditions in the Congaree River. She stated that there was more influence from the Broad River than had ever been before, which from a water treatment perspective changed things significantly. She stated that the Saluda River was much cleaner but had low flows. She stated that this was the new norm and in order to combat that, the City had to change up its chemicals at some points which cost a lot more. Ms. Catchings stated that the river conditions would also impact the City's wastewater treatment plant permit once DHEC decided to issue that. She stated that it had been under review for close to two (2) years.

Ms. Catchings stated that there were new and potential mandates from the Federal side. She stated that there was new regulation on lead and copper that made things different and, in some cases, more stringent. She stated that there was also proposed regulation for limiting PFAS in drinking water and the EPA was also looking at classifying PFAS substances as hazardous waste, all of which could totally change the landscape of what water treatment was like. She stated that staff was watching this closely to make sure the City complied with any new requirements. She stated that next

on EPA's target lists with PFAS was biosolids and sludge disposal, which would impact that wastewater plant. She stated that PFAS is starting at the Water Plant but was going to come possibly sooner than later to the wastewater plant depending on what happens with the hazardous waste classification of PFAS.

Ms. Catchings stated that another challenge the Utilities Department faced was workforce development and staffing. She stated that when she started as Director, the department's vacancy rate was at 20%. She stated that the Water Plant and the Wastewater Plant's vacancy rate was significantly higher than 20%. She stated that the departments have made great strides in improving the vacancy rate but still had a way to go. Mayor Pro Tem James asked what the current vacancy rate was. Ms. Catchings stated that as of two weeks prior, they had five (5) vacant positions but shortly thereafter, notices of retirement were submitted. She stated that the EPA distributed information on what was going on nationally with water utilities facing challenges in recruiting, training and retaining employees. She stated that those challenges were exacerbated with roughly 1/3 of the water sector force eligible to retire in 10 years. She stated that the South Carolina Rural Water Association researched the issue and projected that this year, 2024, the state of South Carolina would have approximately 2,497 Operator vacancies across the state and by 2027, they were estimating that approximately 4,369 Operator vacancies might take place. Mayor Pro Tem James asked what were they basing those projections on. Ms. Catchings stated that they were basing it on retirement and growth. She stated that the City had approximately 27% of its Utilities Department employees that were eligible to retire in 10 years or less, trending with the EPA predictions, and almost 16% of Utilities staff could be eligible in five (5) years or less.

Council Member Thomas asked what percentage of students join the City's workforce directly from high school or did they have to have some college or technical experience. Ms. Catchings stated that she could get those numbers but to her knowledge, they had two (2) employees that came straight out of high school. One at our water plant and one in our field operations. Council Member Thomas asked if DHEC required a college degree. Ms. Catchings stated no, that it was on the job training and passing exams.

Ms. Catchings stated next she wanted to review the accomplishments that had occurred within utilities over the last year. She stated that Chris Mills was awarded the Capital District Water Treatment Plant Operator of the Year for the Water Environment Association of South Carolina and was also awarded the State Water Treatment Operator of the Year for the second year in a row. She stated that Lab Director Denis Bergeron was awarded Lab Analyst of the Year the previous year and won the State award this year. She stated that Legrand June was awarded the State Membership Award for WEASC. She stated that there had also been a good many licensing advancements as well. She stated the department was awarded a grant in the last year for the rehab of the first phase of the Six Mile Creek interceptor and a grant for

purchasing a generator for the Lloydwood Pump Station. She stated that Todd Shafer with the City's GIS Department had digitized all the water lines so now staff could click on the water line and get all kinds of information about that particular portion of the waterline - the size and the pipe material. Ms. Catchings stated that they had updated their digital work order system and record drawings. She stated that they had responded to 505,350 calls in the last year and the Water Billing Department fielded 16,866 calls, read 73,794 different meter reads and issued 153,138 billings. She stated that the septage and grease receiving station in January hit the highest revenue month ever. She stated that Candice Henderson, the City's fats, oils and grease inspector, had done some great things in that program and had gotten a lot of the restaurants to replace interceptors that the City was having issues with and that were basically allowing a lot of infiltration into the system. She stated that they also created a utilities PR and recruitment team because of the workforce issues and they knew they had to go to places and try to recruit people. She thanked Kay Hutchinson and Ben Wright for being the CO leaders really with that and making sure that things were set up and looking at opportunities for the department and Vince Osborne helped as well.

Ms. Catchings stated that next she and her managers would review each individual Utilities Department's budget. Ms. Kay Hutchinson stated that there were a few line items within her department's budget that increased. She stated that she had requested a new position, an additional Meter Technician therefore salaries and wages increased. She stated that the Water Billing Department not only handled billing but also had Meter Technicians who not only read meters but also replaced meters and boxes and did some repairs. She stated that in the past the city had contracted out the maintenance and installation of meters but by keeping it in house staff would have more control and one on one interaction with the customers and it could be more cost effective. She stated that the training and travel line item increased since they tried to ensure that all positions received the training offered through MASC, the South Carolina Utility Billing Association and the American Backflow Prevention Association. Ms. Hutchinson stated that she had requested backflow devices for the City's hydrant meters to protect the system and a new truck to replace a meter tech truck and add a mobile reading unit. Council Member Carter asked what the \$2 fee was for. Ms. Hutchinson stated that fee was for the web portal and for the merchant. Council Member Carter asked what other ways customers could pay their bills. Ms. Hutchinson stated that they could pay through automatic draft but the City would soon have other options for payment to include electronic checks and texts to pay. Council Member Carter asked if that would reduce the current costs. Ms. Hutchinson stated that it would reduce costs in the future. Council Member Thomas asked what percentage of residents use mailing, postage or email. Ms. Hutchinson stated that she could get that information for him. Council Member Thomas asked what ways the City was getting the various payment methods to the customers. Ms. Hutchinson stated that staff was currently working on that messaging and had created an insert to put in with the bills and it would be online as well. She stated that another free way for customers to pay

was bill pay which one sets up through their bank. She stated that it was currently a manual process, but soon it would be an electronic process.

Ms. Catchings stated that next department was Water Administration. She stated that they had requested funds for an outside consultant to assist staff in evaluating a Utilities Computerized Maintenance Management System, which was the CMMS for asset management. She stated that the first step in getting an Asset Management Program was finding the software and the tools to help staff begin that process therefore they wanted input from a consultant that specialized in that. She stated that they would plan to implement whatever program they found in FY26. She stated that the City was required with its bonds to annually evaluate its rates and coverage which was best done by a third party so there was a new line item for that. She stated that they had requested a master plan and system hydraulic model both of which were needed tremendously on the water and the sewer sides, but the sewer side needed it more since the City had obligations with the 208 Management Plan. She stated that the City needed to be able to plan for growth. She stated that staff also needed to know of any improvements and upgrades with the existing system that were needed and typically, the first step with that was a hydraulic model and then the master plan and a list of capital improvements that come from that. She stated that the City currently did not have any of that. She stated that lastly a request for a new vehicle for the City's Electrician was included in the draft budget per the fleet managers recommendation. Council Member Carter asked if she was proposing to get a handle on the age, condition and an estimate of when an item would need to be replaced as opposed to when it fails and try to figure it out at that time. Ms. Catchings stated that staff had done preliminary estimates internally but an asset management program would help track replacements on a regular basis. Council Member Thomas asked if the other larger systems in the state had asset management. Ms. Catchings stated that she was certain they would.

Mr. Vince Osborne, the Water Treatment Plant Superintendent, stated that staffing was his critical need for the last three (3) years and would continue to be for the next five (5) years. He stated that he had three (3) staff members that were eligible to retire within the next 18 months so he had requested another Operator Trainee position so that person could train with experienced staff. He stated that he had requested funds to clean the reservoir since staff tried to keep that on a three (3) year cycle and it had been three (3) years since it was last drained it and had the sediment removed. He stated that he had also requested funds to pay divers to inspect the City's wet wells and the screens that go out into the river. He stated that pump station had been online for 22 years now and they had not had anyone actually physically go in with a camera to see if there were any issues with the facility. He stated that he requested additional funds for testing PFAS and lead and copper. Last year's lead and copper results were all well within parameters. He stated that they were not certain as to what degree of testing would be required by DHEC. He stated that he had requested an additional raw water pump at the pump station for backup, redundancy and sustainability. He stated

that he currently had one (1) pump that was capable of pumping either from the river to the plant or from the river to the reservoir so he would like to add an additional pump that could duplicate that feature. He stated that he only had three (3) pumps that could pump water to the plant from the raw station. Council Member Carter asked if all three of the pumps were the same pump. Mr. Osborne stated that yes, they did not have a spare. He stated that he also requested another pump which was a continuation of their program of every year pulling one of those pumps then replacing it.

Mr. Ben Wright, the Superintendent of Field Operations, stated that most of his department's increases were due to inflation. He stated that they had to increase the asphalt and grading line item significantly because DOT had stricter requirements on how many cuts were allowed in a road. He stated that the large water meters line item increased because of a business like Chick Fil-A went out staff would have to replace that meter and they were quite large and expensive and could take a long time to get. He stated that he requested a new truck for the Assistant Superintendent as well as a 300k generator for the booster station. He stated that it was a critical booster station that pumped water to the White Knoll area tank. Mr. Wright stated that there were three (3) utility trucks that needed to be replaced due to mileage and significant repairs that had been done to each one of them. He stated that he also requested a utility trailer since some of the current trailers were close to their capacity limit of what they could carry. Mayor Pro Tem James asked Mr. Wright to elaborate on the heavy restrictions required by DOT. Mr. Wright stated that if the City had three (3) or four (4) cuts in a row, DOT would require them to pave the whole road and that was very costly. Ms. Hegler stated that it was a brilliant budgeting move on DOT's part. She stated that staff was going to talk with DOT since they recently said the City was going to have to do greater repairs and repaving of the street. She stated that staff knew they were going to have to build more into the budget based on the new requirements but were also going to work on questioning the veracity of the requirements

Mr. Legrand June, the Superintendent of the Wastewater Treatment Plant, stated that he had requested a new operator position to help with the increased sludge coming in due to the City's flows increasing that could help keep the run time up on the centrifuge and other dewatering systems. He stated that he also requested a terminal tractor which was a piece of equipment that moved the trailers around that the tractor trailers used to haul sludge. He stated that it would allow staff to shift the trailers around in different places as far as setting in the dewatering processes, stage them to do it, fill them up, meanwhile, another staff member was hauling to the landfill. He stated that he also requested an additional dump trailer that could be used to fill the trailers with the sludge when the landfill was not open and then haul it off at a later time. He stated that would also increase their capacity to fill while during downtimes. Mr. June stated that he requested a spare Variable Frequency Drive (VFD) and all the critical systems for the aeration since they did not currently have a spare at all for that. He stated that when a VFD went out it could be two months before it was repaired and shipped back. He stated that he requested clarifier gate actuators which would allow for better control

of clarifier blanket levels and would allow adjustments to be made remotely increasing safety by reducing the need to adjust on-call. He stated that he requested entrance gate controls which would allow better control at the back gate and give the IT Department the ability to control access into the plant which would increase security. He stated that he requested a submersible diesel pump that would be capable of pumping the deep basins at the plant to assist with frequent routine maintenance as well as a post aeration dual VFD and cabinet replacement that was needed to maintain the post aeration blower system. He stated that the fleet manager recommended replacing the tractor due to the 383,700 miles on it and its age as well as replacing one vehicle.

Ms. Catchings presented the Wastewater Collection Department's budget. She stated that the budget included a new GIS unit to help with collecting data in the field. She stated that staff was currently using a mobile generator that was not automatically transferred over with power at Pump Station Two and it was very difficult to get to at times so they had requested a permanent generator. She stated that a new mini excavator which staff used every day was on the list for purchase as well as a permanent bypass pump for the Barnwell Pump Station, which was one of the larger, more critical pump stations. She then reviewed the Septage and Grease Receiving Station proposed budget. She stated that the only capital request were a replacement truck that was recommended for replacement by the City's Fleet Manager, and replacement of a control panel for the older belt press.

Ms. Catchings stated that next was the presentation by Raftelis on the Rate Study. Mr. Peiffer Brandt stated that he was the President and CEO of Raftelis and he had been doing that type of work for 26 years. He stated that there were three (3) components of the project - calculate water and sewer development fees, prepare a water and sewer financial plan, including putting together a model that has a dashboard where various scenarios can be looked at, and developing rates and fees. He stated that Mihaela Coopersmith was going to present on the system development fees. Ms. Coopersmith stated that the system development fees, also known as impact fees, or capacity fees, were those one-time charges that were put on new development as a way for them to buy into the capacity of the system and allowed the City to recoup the costs for existing facilities from new growth. She stated that there were three (3) main methodologies for calculating these fees - the buy-in approach, the incremental/marginal cost approach, and a combined approach. The buy-in methodology focuses on existing assets, and it assumes there is enough available capacity to also serve new growth. She stated that the incremental or marginal cost was the exact opposite and was a future looking approach. She stated that it would be used if the City was at capacity currently and would have to expand out a whole lot of new capacity, then they would just focus on that additional capacity. She stated that the third methodology was a combined methodology where they look at both together to see what the fees would calculate under both.

Ms. Coopersmith stated that after discussions with staff and looking at the City's existing available capacity they calculated the water and sewer fees under the buy-in methodology, which meant they focused on the City's existing system assets. She stated that they looked at the City's fixed assets system which meant the fixed assets that come out of the City's financial system and they looked at the replacement cost new, less depreciation. She explained that they meant they took the City's current assets, their fully depreciated value currently and escalated them based on engineering indexes to bring them to the City's current replacement cost new, less depreciation. She stated that out of that total, they had to take things out like assets that were grant funded, they could not be included because the City did not pay for those, anything that might have been developer deeded to the City had to be excluded as well. She stated that they also excluded small infrastructure items that were not part of the big backbone of the City's utility, for example, vehicles. She stated finally, because these were fees that were paid by new growth that would eventually pay water and sewer fees on the City's system and pay for that service through that, they took out the outstanding principal on the City's water and sewer utilities, so they were not double charged for that piece. Ms. Coopersmith stated that left them with the net system value of about \$55 million on the water system, and about \$65 million on the sewer system. She stated that they then divided that into the City's total capacity of each of the systems and for water, they divided that into the 9.6, calculating a cost per gallon per day of \$5.74. She stated that on the sewer system, they removed out of the total assets, the piece of the plan that the Joint Municipal Water and Sewer Commission and the Town of Lexington paid for which was why it was only divided by the 7.92 MGD, which was the capacity that the City has allocated in order to keep that at a fair calculation. She stated that translated into a cost per gallon per day of \$8.18.

Ms. Coopersmith stated that for the sewer system it was to ensure that the City's customers bought into the system and that growth pays for growth which allowed for not charging future customers for the cost that the City needed to expend now and not charging current customers or future customers was equity. She stated that the fees they were going to present to Council were the maximum allowable fees. She stated that Council could certainly choose to implement a lower fee, but they would recommend that Council implement the maximum allowable that they calculated. She stated that they must be tracked in a separate fund and because this was to buy capacity to the City's system, their recommendation was to move to one single water and sewer system development fee. She stated that currently the City had an inside and an outside fee. She stated that currently for one (1) equivalent residential unit, the water fee inside the City was \$465 and the outside water fee was \$930. She stated that they had calculated an updated fee of \$1,720 so they would recommend moving forward with a water system development fee for the City of \$1,720. She stated that the current inside City fee for the sewer system was \$1,570 and the current outside fee was \$2,500. She stated that they calculated an updated system development fee of \$2,450 so their recommendation was to move to the one sewer system development fee of \$2,450. She stated that those would get scaled up by meter sizes in other ways.

Mr. Flynn stated it was hard to justify charging impact fees or development impact fees at a higher level to outside city customers, because there was not an additional cost of service with the City's existing capacity. He stated therefore they needed to be equitized because basically the cost of utilizing the asset needed to be standardized across all sets of customer classes. He stated that one (1) gallon of water was the same cost for an inside person as it is for an outside person. He stated that it was hard to differentiate on an impact basis, inside versus outside based on an asset termination system. He stated that was pretty much in line with what a lot of other utilities and vis-a-vie the cost of what it would be to build new. He stated that the City had sufficient capacity in both plants which was the reason Raftelis went the buy-in approach as opposed to one of the other hybrid methods or the portal method. He stated that at some point, those might get adjusted as growth continues to your capacity.

Ms. Coopersmith stated that they recommended updating the fees every five (5) years or so. She stated that they talked about including the plant expansion on the sewer system right now but it was a little bit out of the five (5) year window and it did not make sense to include it because the cost could significantly change by then. She stated that however they would recommend in five (5) years revisiting that to make sure that the cost of the Wastewater Treatment Plant expansion was included when that hit. Mr. Flynn stated that the reason for that being so important was a per ERU value of \$8 a gallon was so low that the City could not replace that capacity if they had to expand the system today. He stated that the numbers were astronomically expensive and the cost of expanding a system was something that was a material cost for capital into the future. He stated that the City definitely wanted to make sure they could recover because that was probably the most valuable asset that the City had and giving it away at a number below its actual value was asking existing customers to subsidize any of that new credit.

Mr. Brandt stated that next he would review the financial plan. He stated that utilities and enterprise fund must run like a self-supporting business and its revenues need to meet its revenue requirements. He stated that infrastructure investment required thoughtful planning for future needs and had to balance system reliability, sustainability, financial sustainability, along with customer impacts cost. He stated that the goals of the City's rate structure and rates that get passed was to generate sufficient revenues and to accomplish utility and stakeholder objectives. He stated that what was important to the community needed to be reflected in the rates and rate structure and want to be consistent with industry best practices. He stated that it had to be defensible. He stated that the City's stakeholders were first and foremost the City's customers, the citizens of the City, and also the regulators, outside City customers, wholesale customers and contractors. He stated that there were a lot of utility stakeholders and developers and groups that factor in and obviously, the community as well as anyone, had entrusted Council to represent them in making these decisions.

Mr. Brandt stated that the assumptions for the revenue requirements were based on the FY2025 budget and there were several increases. He stated that the hope was that would get the City over the hump of some of the increases and will have gotten to three new positions which are included, and then the City could get closer to inflationary increases of three (3) to five percent (5%). He stated that the City had to have and maintain target levels of reserves and have a certain amount of cash in the bank if an unforeseen event occurs. He stated that 180 days of operating expenses was the target and to maintain that level of reserves. He stated that the City had other revenues such as late fees, connection fees and system development fees which were projected to be flat throughout the forecast period. He stated that the City had not had a rate increase since 2019 and since that time, the City had 35% growth and operating expenses. He stated that there were two (2) components to the City's rates. He stated there was a minimum charge, which was a fixed charge, and there was a variable charge, which was every 1,000 gallons of water used. He stated that the fixed charge included billing costs, meter reading costs, meter repair and replacement costs. He stated that it did vary and was basically a monthly charge and the variable charges varied with the amount of water used. Mr. Brandt stated that they were recommending basically an across the board increase with both the fixed and the variable and increasing them the same percentage. He stated that he and his staff ran through a number of scenarios and thought it was best for the City to bite the bullet and do one (1) big rate increase this year. He stated that 40% was a large number but that was what puts the city in the best position.

Mr. Brandt stated that the City had a lot of different rates - minimum charges for each meter size, volumetric rates, not just residential and commercial, but in some different areas. He stated that it was common within the water industry to go to flat sewer charges. He stated that in certain places it just made sense because the volume of water used was not really as indicative of the cost of sewer treatment inflow and infiltration had a big impact. He stated that the city moving to flat sewer charges would be beneficial from an operational standpoint. He stated that a 40% increase for an average customer their bill would increase from \$56 to \$79. He stated that was an inside City customer using 5,000 gallons at 75 cents a day. Ms. Coopersmith stated that over 50% of utilities in South Carolina had done a rate increase in 2023 and that was not counting what they were planning to do this year. Mr. Brandt stated that the benefits of the 40% increase included getting the City to rate revenue sufficiency in 2025 and moving forward would be adding to the City's fund balance. He stated that by taking the step of doing the big increase now the City could go back to just doing more inflationary increases going forward such as a 5% increase.

Mr. Brandt stated that one of the challenges if the City did less than a 40% increase was having to use more fund balance. He stated that rates were going to have to go up around the country. He stated that utilities liked to brag about having really low rates, which he knew was a selling point, but for a utility it was not good. He stated that it meant they were behind the curve and it was not efficient. He stated that everyone

had aging infrastructure issues and workforce issues. He stated that the increase would help the City get in a good position to handle challenges going forward. Council Member Thomas asked if the increase came out to \$23 more a month. Mr. Brandt stated that it was 75 cents a day. Mayor Pro Tem James asked if they said there was a 35% growth in operating costs on the City's behalf over the past four (4) years. Mr. Brandt stated that was correct. Mayor Pro Tem James stated that it would be helpful to let the City's customers know about those unfunded mandate expenditures that were pushed onto cities. Mr. Brandt stated that other utilities pull unfunded mandates out of their rates to show that that cost was only because either the State or the Federal Government required us to do this and this would be the rates if they did not have to do that. Mayor Pro Tem James stated that it did separate things and it would make it easier for Council to communicate that and help people to understand.

City Manager Hegler stated that staff had already started to talk to Raftelis about what were next steps as the City proceeded with an informational campaign. Mr. Brandt stated that Raftelis had a strategic communications group led by Ms. Melissa Elliot who was the former President of the American Water Works Association. He stated that she was the best in the business. Mayor Pro Tem James stated that most of Council did not want to tout that the City was the least expensive place to live because sometimes that meant you were the least safe and had the least best drinking water and things of that nature. Ms. Coopersmith stated that there were plenty of utilities in South Carolina that had significant rate increases. She stated that Georgetown had to do anywhere from 15 to 25% on each of their utilities and Mt. Pleasant had three (3) years of nine (9) to 11% increases in a row. She stated that the City was not alone within South Carolina in having to increase rates. Mayor Pro Tem James stated that at the end of the day the City had to keep a very credible and reliable water and sewer plant and that was what their citizens expected. He stated that they had to recognize that facts were something that they had to respond to. He thanked Ms. Catchings and her staff for the very important work they did every single day.

Adjourn

Council Member Thomas made a motion to adjourn the meeting. Council Member Carter seconded the motion which was unanimously approved by roll call vote. There being no further business, the meeting adjourned at 4:33pm.

Tim James, Mayor Pro Tem

ATTEST:

Mendy Corder, CMC, Municipal Clerk