



Richland County Council

Utilities Work Session

September 18, 2018 – 2:00 PM
Council Chambers
2020 Hampton Street, Columbia, SC 29204

1. **Call to Order**

The Honorable Joyce Dickerson, Chair
Richland County Council

2. **Background on State of Utility Systems**

3. **Rate Structure**

- a. Utilities Enterprise Funds Subsidies
- b. Implementation of Section 2(e) of Ordinance No. #029-07HR
- c. Rate and financing
- d. Legal Matters

4. **Closing remarks**

- a. Path forward

5. **Adjourn**



**September 18, 2018 Utilities Council Work Session
Briefing Document**

BACKGROUND

The County’s Utilities Department provides water and sanitary sewer services in the unincorporated areas of the County via the Broad River and the Lower Richland Utility Systems. These systems are comprised of several County-owned and operated water and waste water treatment facilities.

Broad River Utility System

The Broad River system includes a County-owned waste water treatment facility (e.g., treatment plant, collection system) and water distribution system.

- The Broad River Waste Water Treatment Plant was designed and constructed in 2007-08 and is permitted to treat 6 million gallons per day (MGD). The primary source of effluent is transferred to the plant from the waste water collection system serving the residential neighborhoods in the northwestern area of the County. The waste water rate for the Broad River Wastewater system is \$44.54 monthly / \$133.62 quarterly per REU. (residential equivalent unit).
- The Broad River Water Distribution network, commonly referred to as the White Rock Water System, was designed and constructed in June 1988 and includes a full distribution system with a small number of customers.
- The water service rate for the White Rock Water system, as detailed in the table below, is based off water usage and are the same as the Hopkins and Pond Drive Water System rates.

1st 1,000 gallons (Minimum base charge standard meter)	\$20.00
Next 8,000 gallons	\$4.67/1,000 gallons
Next 11,000 gallons	\$4.37/1,000 gallons
Next 10,000 gallons	\$4.12/1,000 gallons
Next 30,000 gallons	\$3.87/1,000 gallons
Next 60,000 gallons	\$3.87/1,000 gallons

- Debt
 - The County issued \$19,300,000 Sewer System General Obligation Refunding Bonds, Series 2011A, dated November 15, 2011 (the “2011A Bonds”), to refund a portion of the Broad River Sewer System General Obligation Bonds, Series 2003D. The un-refunded portion has since been retired.

- The County issued \$15,235,000 Broad River Sewer System General Obligation Refunding Bonds, Series 2016C dated December 16, 2016 (the “2016C Bonds”), to refund the Board River Sewer System General Obligation Bonds, Series 2007B.
- While the 2011A Bonds and the 2016C Bonds are general obligation bonds, the County anticipates the full debt service will be paid with revenues derived from the operation of the Broad River Sewer System. In the unanticipated event the debt funds do not have sufficient revenues, a County tax levy must be made to meet the payments of principal and interest, until such time as bonds can be re-structured or sewer rates are increased to levels sufficient to pay for the debt obligations.

The table below provides a summary of Broad River Utility System Debt via Bonds over the last 15 years.

Outstanding 7/1/2003	
1994A	5,945,000
Issued - New Money	
2003D	15,500,000
2007B	16,970,000
	32,470,000
Issued - Refunding	
2003E	6,275,000
2011A	19,300,000
2016C	15,235,000
	40,810,000
Bonds retired	
1994A	5,945,000
2003D	14,860,000
2003E	3,270,000
2007B	14,860,000
	38,935,000

The table below provides a summary of Broad River Utility System debt that is currently outstanding.

Summary of Activity:	
Bonds issued	38,415,000
Bonds issued for refunding	40,810,000
Bonds Retired	(38,935,000)
Principal paid on bonds	(10,840,000)
Currently Outstanding 7/1/2018	29,450,000
Interest paid over 15 years	(20,430,570)
Outstanding 7/1/2018	
2011A	14,725,000
2016C	14,725,000
	29,450,000

Lower Richland Utility System

The Lower Richland system includes a County-owned waste water treatment facility (e.g., treatment plant, collection system) and two (2) water distribution systems.

- The Eastover Waste Water Treatment Plant was designed and constructed in March 2012 and re-rated February 2016 to treat 0.75 MGD. The primary source of effluent to the plant is the residential neighborhoods in the southeastern area of the County, inclusive of the Town of Eastover. The system currently serves the Town of Eastover, a wholesale customer; and one commercial customer, Kemira. The waste water rate for the Lower Richland Wastewater system is \$37.60 monthly / \$112.80 quarterly per REU.
- Richland County also operates an old Lagoon type WWTP serving Franklin Park Subdivision in South East Richland Area, serving approximately 40 customers. Records indicate that that the asset (which was in a bare minimum operable conditions) was given to us by South Carolina Department of Health and Environmental Control (SCDHEC) (still owned by Piney Grove Utility) under receivership agreement adopted by the council on July 26, 2005. The service area was expected to become integral part of Lower Richland Sewer Project (LRSP), which is pending at the moment awaiting resolution commitment of City of Columbia’s transfer of customers. While the DHEC has substantially waived their regulatory expectations at the time of signing the receivership agreement, the continued operation of the asset “As Is” may pose regulatory & liability concerns over time. The waste water rate for this system is the same as rest of the Lower Richland Wastewater system (i.e. \$37.60 monthly / \$112.80 quarterly per REU).



Hopkins Water and Pond Drive Water Distribution Networks

The Lower Richland Water Distribution network includes the Hopkins Water distribution network and the Pond Drive Water distribution network in addition to a dedicated Water System serving Gadsden Elementary School (on behalf of the School District). It is the desire of the Utilities to connect standalone Gadsden system to Hopkins Water System should funding become available serving the best interest of the school and surrounding community.

- The Hopkins Water distribution network receivership agreement was entered with the South Carolina Department of Health and Environmental Control (SCDHEC) to assume operations of one wastewater treatment facility and two community water systems that were abandoned by a private utility in July 2005. An upgrade was designed and constructed in August 2012 and includes a full distribution system and serves 521 customers.
- The Pond Drive Water distribution network receivership agreement was entered with the South Carolina Department of Health and Environmental Control (SCDHEC) to assume operations of one wastewater treatment facility and two community water systems that were abandoned by a private utility in July 2005. An upgrade was designed and constructed in August 2012 and includes a full distribution system and serves 30 customers.
- The water service rates for the Hopkins Water and Pond Drive water systems as detailed in the table below, are based off water usage and are identical to the White Rock Water System rates.

1st 1,000 gallons (Minimum base charge standard meter)	\$20.00
Next 8,000 gallons	\$4.67/1,000 gallons
Next 11,000 gallons	\$4.37/1,000 gallons
Next 10,000 gallons	\$4.12/1,000 gallons
Next 30,000 gallons	\$3.87/1,000 gallons
Next 60,000 gallons	\$3.87/1,000 gallons

- Debt
 - The County issued its \$2,033,000 Waterworks System Improvement Revenue Bond (Hopkins Project), Series 2011 dated October 14, 2011, which was purchased by the United States Department of Agriculture, Rural Development. The Bond is payable monthly as to principal and interest over 40 years beginning November 14, 2011.
 - The payment for the bond is \$8,193 per month or \$98,316, annually. The currently balance of the bond as of August 31, 2018 was \$1,862,521.55.



ISSUE(S):

The waste water and water fees are determined periodically by rate studies and are set at levels to recoup the projected expenses of the operations, maintenance, upgrades, and debt service in a similar manner as a private business. All activities necessary to provide water and sewer service are expected to be accounted for each system, including but not limited to customer service, engineering, operations and maintenance in addition to R&R (renewal and replacement) and Capital Improvement/upgrades of the assets. Given that the systems are designed to operate as a private business enterprise, the revenues and expenditures are accounted for through the Broad River and the Lower Richland enterprise funds.

The County’s utility enterprise funds are designed to be self-supporting through user fees or charges for services. However, historically, the expenditures for the Lower Richland utility system have been higher than its revenues. As such, annually, the Broad River utility system and the County’s General Fund have subsidized the Lower Richland utility system. As illustrated in the table below, the amount subsidized has averaged a total of \$342,145 yearly over the past five (5) years, with subsidies for the Lower Richland Sewer and the Lower Richland Water averaging, \$172,802 and \$169,343, respectively (Exhibit A – Detailed Subsidy Overview).

Summary of Subsidies

Lower Richland Sewer

Fiscal Year	Subsidized Amount	
2013	\$133,943	
2013	\$96,065	
2015	\$184,000	
2016	\$225,000	
2017	\$225,000	
	\$864,008	Total Of Transfers In/Out
	\$172,802	Annual Average Of Transfers

Lower Richland Water

Fiscal Year	Subsidized Amount	
2013	\$23,895	
2013	\$121,621	
2014	\$20,133	
2014	\$112,790	
2014	\$223,275	
2015	\$145,000	
2016	\$100,000	
2017	\$100,000	
	\$846,714	Total Of Transfers In
	\$169,343	Annual Average Of Transfers

These subsidies conflict with the framework of a government enterprise fund, the County’s financial policies, and GAAP as the utility systems should be self-sufficient and should not rely on the County’s General Fund to address revenue deficits.

There are several factors contributing to the aforementioned conflicts:

- The rates are not uniform. There is a difference between the sewer rates for each system. As noted above, the waste water rates for the Broad River system is higher than those rates for the Lower Richland system. The water rates for each system are the same.
- Historically, the Broad River system generates sufficient revenue to cover the expenditures associated with the minimal day -to-day operations of the system but does not sustain the cost of aging infrastructure, upgrade and R&R. Whereas, the Lower Richland system does not generate enough revenue to account for the minimal expenditures associated with the operations of the system and cannot invest in its aging infrastructure.
- The need for the implementation of a water and sewer rate study. According to policy, the County should conduct a rate study every 3-5 years. Review of the archives attendant to this matter revealed that the County did not perform rates studies in accordance with its policy. A preliminary rate study was initiated more than a year ago, the results of which have not been finalized.
- Inadequate funding of the capital improvement / maintenance needs for both systems. Historically, the County has not adequately funded the capital outlay for both utility systems. This has contributed to failing infrastructure and the constant need to make emergency repairs.
- The County has a number capital improvement related commitments that should proceed and will require funding mechanisms supported by its Utility System, including the Cedar Cove and Stoney Point Utility System Improvement Project and the Lower Richland Sewer project via the Satellite Sewer Service Agreement with the City of Columbia. As such, Council's pending policy decision attendant to having a combined utility system must be timely.

Given the recent completion of the preliminary countywide rate study, along with the preliminary projection of long-term needs of the County's utility system, Council is facing a number of critical policy decisions. While the timeliness of those decisions cannot be understated, Council needs to review all of the available information and begin deliberations to address the critical needs of both utility systems. Given the aforementioned issues, staff is seeking to obtain direction from Council with regard to the following policy initiatives:

1. **Proceeding or not proceeding with a combined utility system.** It is advantageous for the County to move towards operating the utilities as one combined or regional system to provide equity and uniformity in its rates for all of its customers. Further, a combined utility system will set the foundation for the County to move toward a county-wide sewer and water system which can eliminate the many "pockets" of sewer service countywide.
2. **The Capital Improvement Plan (CIP) schedule as it relates to the County utility infrastructure.** There are a number of utility system infrastructure related improvements and upgrades impacting both utility systems via the County's Water and Sewer Master Plan which includes expansion projects. Further, there are planned capital expenditures, including R&R (refurbishment & replacement) for the assets and components of the utility system. Council will need to approve the CIP during its upcoming Biennium Budget II process, including the plan's funding sources. The



development of the County's ten year CIP is underway, with a tentative completion date in the Fall 2018

- 3. Implementation of utility rate adjustments vis-à-vis the Willdan Rate Study.** As noted, the County's utility systems are intended to be self-supporting through user fees or charges for services to the customers of the utility systems. Completion of the countywide rate study will allow for the proper development of funding mechanisms for the Utility System CIP. Once the CIP is completed and funding mechanisms are in place, the County can implement rate adjustments upon approval from County Council in order for the utility systems to be self-supporting and financially sustainable. Further, if Council approves moving forward with a combined utility system, the next steps would include equalization of rates adjusted to appropriate levels to eliminate transfers in or subsidies from the County's General Fund and fund necessary CIP projects. Currently, without the subsidy from the General Fund, utility customers would necessarily face large rate/fee increases in order to operate on a stand-alone basis. The adoption of final rate study results and associated CIP funding strategy will address the matters needing urgent attention of aging infrastructure, R&R and the upgrade needs for antiquated equipment. Lack of timely attention to the above can result in serious consequences including, but not limited to, Public Health/Environmental Impact together with possible regulatory violations and associated penalties.

RECOMMENDATION:

Pursuant to the aforementioned information, staff recommends that this item be forwarded to the September 25, 2018 D&S Committee meeting for its consideration with the following recommended actions:

- 1. Proceed with a combined utility system.** As noted above, the combined utility system will set the foundation for the County to move toward a county-wide sewer and water system which can eliminate the many "pockets" of sewer service countywide. This action will require an ordinance via three readings and a public hearing.
- 2. Accept the Capital Improvement Plan (CIP) schedule and priorities as it relates to the County utility infrastructure as information.** The preliminary capital improvement program ("CIP") as proposed by the Utilities Department and ranked by the CIP Review Team, will be included in the County's ten-year CIP for Council consideration during its normal budgetary process in Spring 2019.
- 3. Accept the preliminary utility rate study report vis-à-vis the Willdan Rate Study as information.** The proposed CIP, the proposed operation and maintenance budgets, the County's financial policies and currently outstanding utility debt, as well as any new and/or restructured or refunded debt, will collectively serve as the basis for establishing the proposed financing model and rates necessary to support the systems. Once the County's CIP is approved by Council, the recommended rates will be developed and presented for Council approval in Spring 2019.

Exhibits

Exhibit A: Detailed Subsidy Summary

Detailed Subsidy Summary				
	Date	Repayment Amount	Amount of Subsidy/Loan	Net
TRANSFER TO BROAD RIVER SEWER FROM LOWER RICHLAND SEWER:				
	6/30/2010	-	\$198,000	\$198,000
TRANSFER TO BROAD RIVER SEWER FROM STORMWATER:				
	6/30/2011	-	\$344,075	\$344,075
	4/30/2012	-	\$346,813	\$346,813
LOAN FROM GENERAL FUND TO BROAD RIVER SEWER:				
	6/30/2009	-	\$700,000	\$700,000
	6/30/2009	64,000.00	\$0	-\$64,000
	6/30/2010	64,000.00	\$0	-\$64,000
	6/30/2011	64,000.00	\$0	-\$64,000
	6/30/2012	64,000.00	\$0	-\$64,000
	6/30/2013	64,000.00	\$0	-\$64,000
	6/30/2014	64,000.00	\$0	-\$64,000
	6/30/2015	64,000.00	\$0	-\$64,000
	6/30/2016	64,000.00	\$0	-\$64,000
	6/30/2017	64,000.00	\$0	-\$64,000
	6/30/2018	64,000.00	\$0	-\$64,000
				\$60,000
TRANSFER TO LOWER RICHLAND SEWER FROM GENERAL FUND:				
	6/30/2018	-	\$35,232	\$35,232
TRANSFER TO LOWER RICHLAND SEWER FROM COUNTYWIDE BOND 2002B:				
	10/31/2010	-	\$1,200,000	\$1,200,000
TRANSFER TO LOWER RICHLAND SEWER FROM STORMWATER:				



6/30/2011	-	\$155,925	\$155,925
4/30/2012	-	\$153,187	\$153,187
3/31/2013	-	\$133,943	\$133,943
6/30/2015	-	\$184,000	\$184,000
6/30/2016	-	\$225,000	\$225,000
1/31/2017	-	\$225,000	\$225,000
6/30/2018	-	\$283,889	\$283,889
6/30/2013	-	\$155,000	\$155,000
LOANS FROM BROAD RIVER SEWER TO LOWER RICHLAND SEWER:			
3/31/2015	-	\$283,870	\$283,870
10/31/2015	-	\$98,521	\$98,521
1/31/2016	-	\$32,233	\$32,233
1/31/2017	-	\$38,601	\$38,601
1/31/2017	-	\$0	\$0
			\$453,225
TRANSFER TO LOWER RICHLAND WATER FROM RC CAPITAL PROJECTS CAPITAL FUND:			
6/30/2008	-	\$455,000	\$455,000
TRANSFER TO (POND DRIVE) LOWER RICHLAND WATER FROM STORMWATER:			
3/31/2013	-	\$23,895	\$23,895
TRANSFER TO LOWER RICHLAND WATER FROM STORMWATER:			
3/31/2013	-	\$121,621	\$121,621
3/31/2014	-	\$112,790	\$112,790
3/31/2014	-	\$20,133	\$20,133
5/31/2014	-	\$223,275	\$223,275



6/30/2015	-	\$145,000	\$145,000
6/30/2016	-	\$100,000	\$100,000
1/31/2017	-	\$100,000	\$100,000
6/30/2018	-	\$249,680	\$249,680
			\$1,551,394

