

REPORT OF FINANCE & ADMINISTRATION COMMITTEE MEETING

June 21, 2016

A meeting of the Finance & Administration Committee was held on Tuesday, June 21, 2016 at 3:00 P.M. at the Authority's Administrative Office in Conway, South Carolina. In accordance with the Freedom of Information Act, notices setting forth the date, time, and place of the meeting were mailed to the news media.

Present were Committee Chairman Pam Creech and Committee Member Sanford Graves. Committee Member Lance Thompson was out of town. Also in attendance were Board Members Mike Campbell and Dan Gray. Executive Director Danny Knight, Directors Mike Bessant, Jan Bitting, Bill Hilling and Esther Murphy and staff member Susie Wofford were in attendance. There were no members of the media in attendance.

Ms. Creech called the meeting to order and she rendered the invocation. Mr. Graves led the group in the Pledge of Allegiance. Ms. Creech then turned the meeting over to Mrs. Bitting.

Charleston Update

Mrs. Bitting began the Charleston update by reviewing the summary page contained in the Committee Packet. She indicated the average price of commodities was \$133.94 per ton which is down from last month's \$146.17 per ton.

Mrs. Bitting pointed out the tonnage sold was up. In April the MRF sold 2391 tons compared to 2883 tons sold in May. She also commented that the total incoming tonnage for the month of May was 4870 tons up from 3790 tons in April. Mrs. Bitting advised the difference in incoming tonnage was due to MRF being down the last week in April. She stated that during that time Charleston recyclables were not being accepted, and the SWA tonnage was approximately the same as the previous month.

Mrs. Bitting stated that on a positive note the total reject percentage is down from 23.40% in April to 20.80% in May. She explained the reject percentage was higher in April due to hand sorting when the MRF system was down.

Mrs. Bitting indicated the revenue due from Charleston was \$5671.40. She said this amount does include some cost share amount due to the average price of commodities being below the \$135.00 per ton amount stated in the contract.

Mrs. Bitting said total MRF revenue for the month of May was \$391,758.05 and the MRF expenses being \$433,893.29 which is a difference of \$42,135 expenses over revenue. She reminded the Committee when the MRF was down at the end of April that staff knew the expenses would not be paid or incurred until May. Mrs. Bitting stated staff anticipated the expense associated with the MRF being down to be approximately \$45,000.00. She

commented that this expense was the majority of the deficit as well as the commodity prices being down.

Mrs. Bitting stated year-to-date numbers show the MRF revenue is \$3,948,536.64 and the year-to-date expenses are \$3,909,246.14. She indicated that revenue is ahead of expenses by \$39,290.50. Mrs. Bitting advised the Committee that staff's desire is for revenue to stay ahead of expenses or to break even by the end of the fiscal year.

Mr. Graves asked Mrs. Bitting if the SWA did not operate the MRF where would all the material go. Mrs. Bitting replied that it would all be put in the landfill. Mr. Graves stated monetarily it seems to be "a wash"; however, the SWA is very much ahead by extending the life of the landfill. Mrs. Bitting affirmed that and stated that in this fiscal year the MRF facility has already saved approximately sixty (60) days of air space.

Mrs. Bitting stated Mr. Bessant would give the Committee an update on the upgrade to the MRF system. Mr. Bessant stated that CP Manufacturing personnel arrived at the MRF on a Friday and the system was shut down Friday, Saturday, Sunday and part of the day that Monday. He informed the Committee there was also some upgrades on the compactors and chutes as well as some rewiring that had to be done. Mr. Bessant explained that rocks were found in the conduit where the wires were located; they appeared to have been there since the MRF was built eight years ago. Therefore, electricians had to be called in to rewire. Mr. Bessant advised staff took the opportunity to do some maintenance and general clean up while the system was down. He indicated that the MRF system is upgraded and definitely running more efficiently.

Mr. Bessant advised the Committee that this month was not going to look as good as far as the expenses are concerned. The MRF has broken even up to now; however with the expenses incurred during the month the MRF will be on the down side for June. Mr. Bessant stated the upgrade will pay for itself in the long run. He indicated the upgrade was definitely needed and has given staff the ability to manage the system from inside of the office instead of having to go to the line.

Mr. Bessant notified the Committee the MRF did not take any Charleston material while the upgrade was being done and Charleston now has approximately forty loads on the ground. He advised that staff was not sure whether or not the MRF could get it caught up before the material deteriorated to the point it was not any good. Mr. Bessant stated that all of Horry County recyclables were taken during the upgrade.

Ms. Creech asked if Mr. Bessant if he thought the cost would be more than the anticipated \$100,000.00. Mr. Bessant responded it would be close; he stated there were some decisions that had to be made to reduce any future wiring issues. The main problem that was found was the wiring; instead of running continuous wire from point A to point B the installer used wire nuts.

Mr. Bessant stated that staff had found the magnet that takes the metal cans off has a bad rectifier. He said the rectifier will cost about \$4000.00 and said staff has ordered it. He

advised that problems like that had not been anticipated. Mr. Bessant believed the total will be close to the \$100,000.00. He stated that all the final invoices have not been received.

Mr. Graves asked about how much better the equipment is running and indicated he would like to see the result of the investment. Mr. Bessant stated that it would take approximately a month or two to get those numbers.

Mr. Knight stated that if the SWA was not involved with Charleston this upgrade would have been a routine maintenance situation. However, due to the manner in which the SWA reports these expenses, there will be thoughts that the Charleston arrangement was the cause of it. Mr. Knight advised that the Charleston material did not have anything to do with the wire nuts and the wiring problems.

OPEB Study Update

Mrs. Bitting began by informing the Committee that she included in the packet the actuarial study that was conducted by Gabriel Roeder Smith & Company on the SWA's other post-employment benefits (OPEB). She stated that the SWA is required to have a study done every two years and said the SWA provides the company with the list of retirees, list of current employees, salary information as well as years of service. Mrs. Bitting indicated the company does an analysis of this information to come back to an amount of the SWA's liability and annual contribution.

Mrs. Bitting informed the Committee there are two options of funding in dealing with OPEB: pay as you go and fully funding. She explained if an organization uses the funding option they are required to put the money in an irrevocable trust. Mrs. Bitting said several years ago the SWA decided that was not the way the organization wanted to go. She indicated the SWA does have a designated account for OPEB which is for the required annual contribution.

Mrs. Bitting explained the company that performs the study does look at the SWA's policy that states what the SWA provides for their retirees. She said the Board did make a change to the policy concerning retiree benefits and stated this change did have a significant impact on the SWA's liability and annual contribution. Mrs. Bitting referred to page B-1 in the packet and pointed out that in the top square in 2013 the SWA's annual required contribution was \$228,930 as compared to \$119,937 for 2015.

Mrs. Bitting referred to the second box on page B-1, line C-The Actuarial Accrued Liabilities, and said in 2013 the amount was \$2,144,481 which is down to \$1,244,147 in 2015. She indicated that currently the SWA has \$1.8 Million in the OPEB designated account.

Mrs. Bitting indicated that she wanted the Finance Committee and the Board to know what kind of impact the personnel policy change made on the SWA's liability.

Mrs. Creech acknowledged that she was glad that the SWA was slightly overfunded because she feels strongly about honoring what the SWA has told their employees and having the funds available when needed.

General discussion followed regarding cost of living increases, health care cost increases, etc. Mrs. Bitting stated the SWA errs on the side of caution and budgets a 20% increase in health care cost each year. Ms. Creech asked about Statement 75 and Mrs. Bitting replied that she had performed some research on that; however, she wasn't comfortable in all the details. Mrs. Bitting said she had emailed David DeKleva for clarification and hopes to have more information by the Board Meeting.

Ms. Creech asked what would change on the balance sheet when the SWA had to recognize this liability. Mrs. Bitting acknowledged it is a liability that the SWA currently recognizes. Ms. Creech also inquired about who pays the additional amount of insurance if an employee uses tobacco products. Mrs. Bitting replied that the employees pay the entire amount of that charge.

Ms. Creech inquired how much the cost of the study was every two years. Ms. Bitting stated that it was \$5,000. Ms. Creech asked if the SWA could do the study in-house or if it had to be done by a third party. Mrs. Bitting replied that it had to be performed by a third party.

Mr. Graves asked Mrs. Bitting if she felt the funding policy the SWA has in place for OPEB is the right fit for the organization. She confirmed that she did feel comfortable because the SWA is funding it with their own method. Mrs. Bitting stated that the irrevocable trust was not an option the Board or staff was comfortable with. Mr. Graves asked if the 20% annual projection increase will meet the liabilities. Mrs. Bitting confirmed that they would.

Mulch Update

Mrs. Bitting informed the Committee that the SWA now sells colored mulch at \$60/ton. She said staff did some research to make sure out pricing was competitive and indicated the current colors are brown and red.

There being no further business to come before the Committee, the meeting was adjourned at 3:40 P.M.