

**MINUTES OF BOARD WORKSHOP
HORRY COUNTY SOLID WASTE AUTHORITY, INC.
November 21, 2016**

The Horry County Solid Waste Authority, Inc. held a Board Workshop on Monday, November 21, 2016, at 1:00 P.M., at the Authority's Administrative Office, 1886 Highway 90, 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 the following Board Members: Pam J. Creech, Chairman; W. Norfleet Jones, Vice Chairman; Sanford C. Graves, Secretary; J. Michael Campbell; Treasurer and Board Members, Dan P. Gray and Michael H. Hughes. Board Member M. Lance Thompson was absent.

SWA staff members in attendance were: Danny Knight, Executive Director; Jan Bitting, Director; Esther Murphy, Director; Bill Hilling, Director; Mike Bessant, Director; and other staff members to include Cecil Terry, Susie Wofford and Jeff Mishoe.

The following individuals were also in attendance: Joe Readling, Allison Trulock and Jeremy Cook of HDR Engineering; County Council Members Johnny Vaught, Bill Howard, Harold Phillips and Danny Hardee; Horry County Government staff members Steve Gosnell and Justin Powell; Town of Aynor Mayor John Gardner; Bill Oliver, City of Myrtle Beach; Kevin Blayton, City of North Myrtle Beach; Reggie Jenerette, City of Conway; Tony Godfrey, Town of Aynor; Bo Ives, Keep Horry County Beautiful. There were no members of the media in attendance.

CALL TO ORDER

Chairman Creech called the workshop to order and asked Mr. Hughes to render the invocation.

PLEDGE OF ALLEGIANCE

Mr. Jones led the group in the Pledge of Allegiance.

Cost of Service and Rate Study

Mrs. Creech began by asking those around the table to introduce themselves. She then turned the meeting over to Mr. Joe Readling.

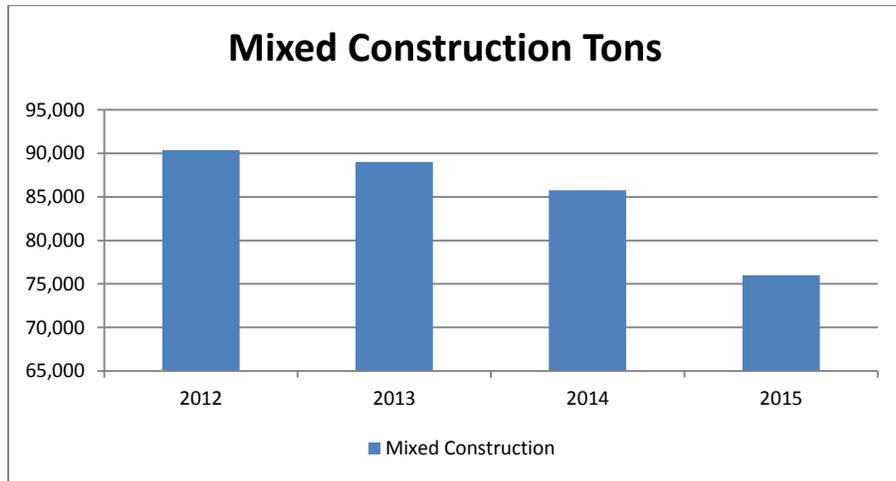
Mr. Readling thanked the Board for the opportunity to prepare and present the Cost of Service and Rate Study. He introduced Ms. Allison Trulock, Project Manager and Mr. Jeremy Cook, Senior Economist and then asked them to begin the presentation. A copy of the presentation is attached to and made a part of these minutes.

Ms. Trulock began by outlining the objectives of the study, which included reviewing historical data, projecting cost of service, determining whether adequate solid waste fees are being charged to recover the costs of providing services and providing recommendations regarding future rate adjustments. She then presented the following background information:

- MSW tipping fees have remained unchanged at \$29/ton since 1999
- HCSWA runs as a pay-as-you-go system (does not carry debt)
 - A fiscally wise position for the long-term financial health of the system

- HCSWA has deferred equipment purchases and projects such as road repair/repaving as a result of the loss in revenue in recent years
 - Loss in revenue due to loss in C&D tons
- Equipment purchase and maintenance project deferrals have compounded issues due to the further deteriorating equipment/roads coupled with the cost of money increasing over time

Ms. Trulock then reviewed the following chart that detailed the historical tonnage of construction and demolition (C&D) material:

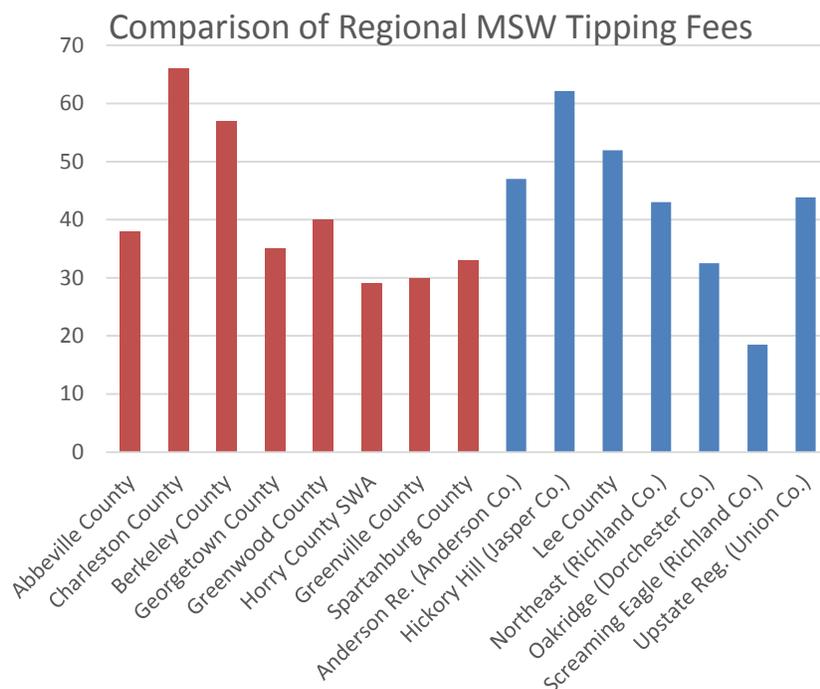


Ms. Trulock discussed the loss of C&D tonnage and indicated the SWA had experienced a loss in revenue due to the reduction in C&D tons that initiated in FY2015. She indicated the SWA will lose more C&D tonnage as more and more of these facilities come along.

Ms. Trulock then reviewed the current tipping fees as detailed below:

Waste Type	Current Tipping Fee (\$/Ton)
Solid waste	\$29.00
Yard waste	\$18.00
Mixed construction	\$26.50
C&D recycling	\$26.50
Tires w/o receipts	\$100.00
Tires w/receipts	\$ -
Tires off road	\$100.00
Clean wood	\$16.00
Shingles	\$19.00
Concrete, asphalt	\$10.00
Land-clearing debris	\$16.00

Ms. Trulock discussed regional tipping fees as outlined in the following chart.



She indicated the rates were for MSW disposal based on information from DHEC, internet research or telephone contact. Mrs. Trulock informed the group the red bars represented public sector facilities and the blue represented privately owned/operated facilities. She stated the average MSW tipping fee of the facilities listed was \$42.71 per ton, which was 42% higher than the SWA's current MSW tipping fee of \$29.00 per ton. Ms. Trulock then turned the meeting over to Mr. Cook to present the cost of service evaluation.

Mr. Cook began by reviewing the following steps of the cost of service evaluation:

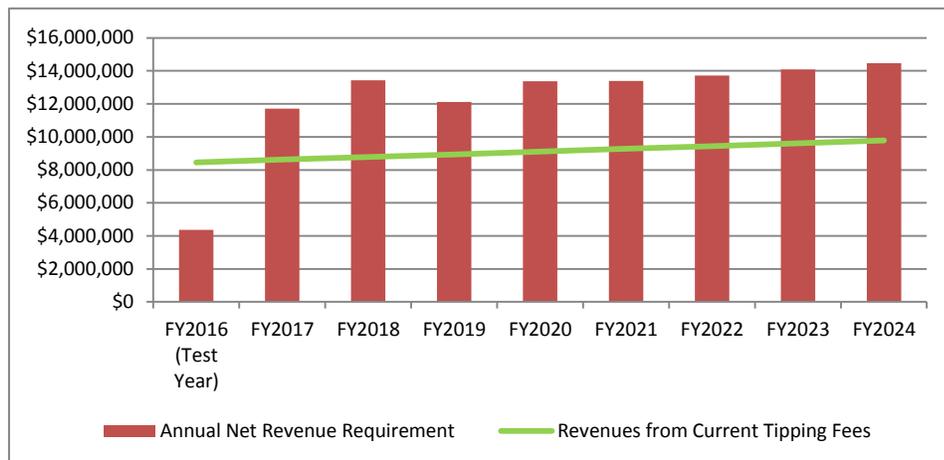
1. **Selection of the test year** – Mr. Cook stated the test year is a consecutive 12-month period deemed to be a representative year for a utility in terms of costs and revenues relative to the year that rates will be in effect. For this study, the test year is FY 2016.
2. **Review of historical expenses and revenues** – Mr. Cook explained the first step in the cost of service analysis focused on reviewing all historical data. Where necessary, expenses and revenues are allocated to the HCSWA service categories (e.g. MSW, C&D, C&D Recycling Program, etc.).
3. **Development of the revenue requirement for the test year** – Mr. Cook informed the group that the revenue requirement represents the total revenue needed to recover during a year in order to fund all expenses associated with the provision of solid waste services. HDR analyzed actual expenditures and non-tipping fee revenues for FY 2012 through FY 2015 as well as estimated expenses for FY 2016 in order to baseline the typical annual operating requirements of the HCSWA solid waste system. Based on total expenses, HDR developed the test year for forecasting revenue requirements for FY 2017 through FY 2024.

4. **Development of revenue requirement for FY2017 through FY2024** – Mr. Cook stated HDR worked with HCSWA staff to project future cost changes due to inflation, salary increases, additional personnel and additional equipment/vehicle needs. HDR reviewed historical inflation (annual percentages) to determine an escalation factor for certain costs; and determined revenue requirements accordingly for FY 2017 through FY 2024.
5. **Project future solid waste tonnage** – Mr. Cook indicated in order to project future tipping fee revenues, HDR developed projections of solid waste tonnage using an annual growth factor derived from the average population growth from FY 2012 through FY 2015 for Horry County.
6. **Project future review under current rates** – Mr. Cook stated HDR developed projections concerning the amount of revenue that the HCSWA would generate from current tipping fees.
7. **Calculate the cost of service** – Mr. Cook advised the group that the final step was to compare revenue requirements (Step 4) with projections of future revenue under current rates (Step 6) to estimate excess revenue/deficit in order to determine adequacy of existing tipping fee/disposal rates.

Mr. Cook then reviewed with the Board graphs which summarized the revenue requirements as compared to the revenues from existing tipping fees. Mr. Blayton inquired as to why there was a significant drop forecast in revenue from other sources from FY2017 to FY2018. Mr. Cook explained this decrease reflects the use of cash on hand, which will be utilized to cover expenditures, capital projects, equipment purchases, etc. during that timeframe.

For clarification, Mr. Gray asked if this meant all funding, tipping fees, cash on hand, designated accounts, etc. would be used to cover expenditures. Mr. Cook replied that all revenue, with the exception of the designated Landfill Post-Closure funds, was included in the revenue from other sources figure. He stated some designated funds have been used recently to cover capital and equipment purchases. General discussion ensued regarding the manner in which the revenue requirements were calculated.

Mr. Cook then reviewed the chart detailing the revenue requirement as compared to the revenue from existing tipping fees. He indicated the chart below shows there is a greater revenue requirement than the amount of revenues from current tipping fees.



With regard to the cost of service, Mr. Cook advised the group that during the test year, the SWA's revenue would more than meet the revenue requirement, in excess of \$4 Million, which would be carried over into FY2017. However, FY2017 is projected to have \$2 Million deficit, with subsequent fiscal years having a revenue deficiency, as detailed in the chart below:

Category	Test Year	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Expenses	\$24,521,552	\$21,815,716	\$19,585,103	\$18,420,525	\$19,813,895	\$19,969,586	\$20,452,648	\$20,975,830	\$21,514,145
Revenues from Other Sources	\$20,152,497	\$10,418,109	\$6,156,657	\$6,296,939	\$6,440,542	\$6,587,546	\$6,738,037	\$6,892,099	\$7,049,822
Annual Revenue Requirement	\$4,369,055	\$11,397,607	\$13,428,446	\$12,123,586	\$13,373,353	\$13,382,040	\$13,714,611	\$14,083,731	\$14,464,324
Revenues from Tipping Fees	\$8,462,113	\$8,624,745	\$8,779,298	\$8,942,249	\$9,105,390	\$9,272,931	\$9,442,836	\$9,616,213	\$9,792,591
Net Excess Revenue/Deficit	\$4,093,059	(\$2,772,862)	(\$4,649,148)	(\$3,181,337)	(\$4,267,963)	(\$4,109,109)	(\$4,271,776)	(\$4,467,518)	(\$4,671,733)
Cumulative Excess Revenue/Deficit	\$4,093,059	(\$2,772,862)	(\$7,422,010)	(\$10,603,347)	(\$14,871,310)	(\$18,980,419)	(\$23,252,195)	(\$27,719,713)	(\$32,391,446)

Mr. Cook discussed several factors that affected the revenue requirement and revenue deficit, which included the expense of the current Piggyback Expansion project as well as Phase 2 in the out years and the loss of C&D tonnage.

Mr. Cook reviewed with the group the following key findings of the cost of service evaluation:

- The current MSW tipping fee is lower than the average of facilities researched.
- HCSWA experienced a loss in revenue due to the reduction in C&D tons that began in 2015.
- HCSWA has adequate revenue to cover cost of service in the test year.
- HCSWA has deferred equipment purchases and projects such as road repair/repaving as a result of the loss in revenue in recent years.
- Equipment purchase and maintenance project deferral has compounded issues due to the further deteriorating equipment/roads coupled with the cost of money increasing over time.
- HCSWA is expected to experience short-falls starting in FY2017 through FY2024 under the current revenue model.

Mr. Blayton asked if the Horry County Host Fee was incorporated into the expenses, and if so, was it projected to increase, decrease or remain the same throughout the study period. Mr. Cook replied that the Horry County Host Fee was incorporated into the expenses and was anticipated to stay the same.

Mr. Cook presented three rate design scenarios to the group for their review and consideration. He indicated Scenario 1, as detailed in the chart below, was a single rate adjustment and stated this scenario would make the SWA fully funded today.

Waste Type	Current Rate (\$/Ton)	Required Rate (FY 2017- 2024, \$/Ton)	Percent Increase
Solid waste	\$29.00	\$43.00	48%
Yard waste	\$18.00	\$20.50	14%
Mixed construction	\$26.50	\$28.00	6%
C&D recycling	\$26.50	\$28.00	6%
Tires w/o receipts	\$100.00	\$110.00	10%
Tires w/receipts	\$0.00	\$0.00	-
Tires off road	\$100.00	\$110.00	10%
Clean wood	\$16.00	\$20.00	25%
Shingles	\$19.00	\$20.00	5%
Concrete, asphalt	\$10.00	\$15.00	50%
Land-clearing debris	\$16.00	\$20.00	25%

Mr. Cook advised the group this scenario ensured a continued pay-as-you-go system of capital and equipment improvements, builds in necessary capital and equipment purchases and avoids depleting the long term post-closure account. Mr. Cook reiterated this scenario would fully fund all SWA expenditures during the planning period and avoid the need to borrow from the designated accounts.

Mr. Gardner asked about the annual capital expenses. Mrs. Bitting commented the capital expenses were approximately \$8 Million. Mr. Cook concurred and indicated there was approximately \$10 Million in operations and about \$8 Million in capital. Mr. Gardner inquired about the current fund balance in the non-closure account. Mrs. Bitting replied there was approximately \$3 Million in net cash assets. She reminded the group that the SWA also maintained several designated accounts. Mr. Gardner asked how much funding was in the designated accounts. Mrs. Bitting replied about \$26 Million.

Mr. Cook then reviewed Scenario 2, which was a stepped tipping fee adjustment, with two options. He indicated these adjustments would equate to bi-annual rate adjustments to make the SWA fully funded by FY2024.

Mr. Cook stated the first option (Scenario 2A) offered annual modest rate adjustments of \$5 bi-annually for MSW, as outlined below:

Waste Type	Current Rate (\$/Ton)	FY 2017	FY 2019	FY 2021	FY 2023
Solid waste	\$29.00	\$34.00	\$39.00	\$44.00	\$49.00
Yard waste	\$18.00	\$20.50	\$20.50	\$20.50	\$20.50
Mixed construction	\$26.50	\$28.00	\$28.00	\$28.00	\$28.00
C&D recycling	\$26.50	\$28.00	\$28.00	\$28.00	\$28.00
Tires w/o receipts	\$100.00	\$110.00	\$110.00	\$110.00	\$110.00
Tires w/receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tires off road	\$100.00	\$110.00	\$110.00	\$110.00	\$110.00
Clean wood	\$16.00	\$20.00	\$20.00	\$20.00	\$20.00
Shingles	\$19.00	\$20.00	\$20.00	\$20.00	\$20.00
Concrete, asphalt	\$10.00	\$15.00	\$15.00	\$15.00	\$15.00
Land-clearing debris	\$16.00	\$20.00	\$20.00	\$20.00	\$20.00

Mr. Cook indicated that under Scenario 2A, the tipping fee would increase by \$5 in FY2017 and would increase by \$5 every two years. He stated in order for this scenario to work, SWA would have to borrow funds from the post-closure account between FY2017 and FY2020 to cover spending deficits. Mr. Cook commented that this option would ensure a continued pay-as-you-go system of capital and equipment improvements and builds in necessary capital and equipment purchases.

Mr. Cook stated the second option (Scenario 2B) offered a larger initial increase with smaller rate steps every two years, as shown below.

Waste Type	Current Rate (\$/Ton)	FY 2017	FY 2019	FY 2021	FY 2023
Solid waste	\$29.00	\$37.00	\$40.00	\$43.00	\$46.00
Yard waste	\$18.00	\$20.50	\$20.50	\$20.50	\$20.50
Mixed construction	\$26.50	\$28.00	\$28.00	\$28.00	\$28.00
C&D recycling	\$26.50	\$28.00	\$28.00	\$28.00	\$28.00
Tires w/o receipts	\$100.00	\$110.00	\$110.00	\$110.00	\$110.00
Tires w/receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tires off road	\$100.00	\$110.00	\$110.00	\$110.00	\$110.00
Clean wood	\$16.00	\$20.00	\$20.00	\$20.00	\$20.00
Shingles	\$19.00	\$20.00	\$20.00	\$20.00	\$20.00
Concrete, asphalt	\$10.00	\$15.00	\$15.00	\$15.00	\$15.00
Land-clearing debris	\$16.00	\$20.00	\$20.00	\$20.00	\$20.00

Mr. Cook explained with the Scenario 2B, the MSW tipping fee would increase by \$8 in FY2017 and would increase by \$3 every two years. He commented this option would also require the SWA borrow funds from the post-closure account between FY2017 and FY2020 to cover

spending deficits. In addition, Mr. Cook said, this option would also ensure a continued pay-as-you-go system of capital and equipment improvements and builds in necessary capital and equipment purchases.

Discussion followed regarding the amount of funds that would be borrowed from the post-closure account under Scenario 2A and 2B. Mr. Cook stated under Scenario 2A, about \$3.6 Million would be borrowed and under Scenario 2B, approximately \$2.2 Million would be borrowed from the post-closure account.

Mr. Vaught asked what would happen to the post-closure funding if the SWA did not borrow any of it. Ms. Creech indicated it would remain in the designated account. She advised the group that the designated accounts are currently below the required funding, due to the inability to fully fund the accounts over the past several years.

Ms. Creech commented that it was her opinion that the designated funds needed to remain designated funds. Ms. Creech stated that she believed the SWA should be collecting what is needed to cover expenses, and indicated the SWA was not looking to make any profit. She commented she believed the responsible thing to do was to collect the amount of funding needed to fully fund the SWA and to place funds in designated accounts as needed for construction, closure, etc. Ms. Creech stated if the SWA does not do that and begins to borrow from within, and lose 80% of C&D tonnage, the SWA may not have the funding to repay what was borrowed.

Mr. Vaught indicated he would have a problem with informing the public about a tipping fee increase when the SWA has millions of dollars in designated accounts. Mr. Vaught stated he understood Ms. Creech's point; however, he did not view borrowing internally to be a problem, especially since the funds would be repaid by 2024. Ms. Creech said she agreed; however, this scenario was based on many "ifs". She stated over past couple of years County Council removed C&D from flow control, which cost the SWA almost \$1 Million in tipping fees. She remarked that had the SWA borrowed money based on projected C&D tonnage, the SWA would not have had the funds to repay the loan. General discussion ensued regarding pros and cons of borrowing funds internally.

Discussion followed regarding when the landfill would close and the funding needed at that time. Mr. Howard indicated based on the landfill closing in 25 years, there is not enough funding to cover the estimated \$90 Million cost to close it. Ms. Creech concurred and said the SWA has not been collecting as much funding as needed to cover these costs and indicated this was the reason for the study. She reminded the group that the SWA has not raised tipping fees in more than 20 years and stated in order to balance the FY2016 budget the landfill construction account was not funded at the full level.

Mr. Blayton asked that the SWA, in conjunction with Horry County, look at suspending the host fee and running that as a increase scenario to offset the fee increases to the landfill users. Mr. Cook stated HDR did look at this scenario and it would reduce the rate increase by a couple of dollars. Mr. Powell commented that the funds collected through the host fee are used to subsidize the radio fees charged to the municipalities and stated if they are cut it would increase cost to the municipalities. Mr. Blayton stated he understood that; however, the County was placing the cost of the radio system on the users of the landfill and not on the entire population. Ms. Creech agreed and commented this was something the SWA and County Council would discuss.

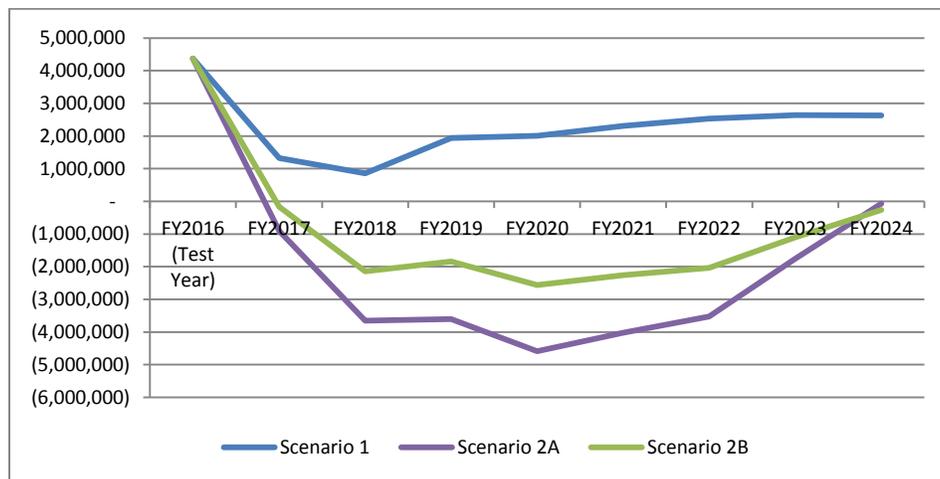
Mr. Vaught commented on the need to utilize a step increase plan in order for municipalities to be able to initiate this in a step process. Ms. Creech indicated how a tipping fee increase was implemented would be of importance all landfill users. She stated it was obvious to everyone that something would have to be done.

Mr. Blayton commented that there may be some unintended consequences to a rate increase, such as the loss of additional C&D tonnage. He asked if the possibility of losing additional C&D tonnage due to the rate increase was factored into the scenarios. He also asked if there was any evaluation done on how much noise would result from a rate increase, from a flow control standpoint. Mr. Gray indicated the noise would be loud enough to hear. Mr. Cook replied, with the exception of the projected 50% reduction in C&D tonnage, no additional C&D tonnage loss was factored in due to the rate increase. He indicated staff could evaluate that scenario.

Mr. Vaught commented that C&D tonnage is most likely going to continue to decrease and stated he believed C&D had the most negative affect on the life of the landfill. He stated the longer the life of the landfill could be extended the better off the County would be. Mr. Vaught stated the reduction in C&D tonnage was good in one aspect because it lengthens the life of the landfill; however, it also decreases the revenue stream. He stated balance was necessary.

Ms. Creech commented that a huge percent of C&D waste in Horry County is recycled, sold and sometimes reused on the landfill. She stated the SWA recycles approximately 60-70% of the C&D material and uses the end product to avoid spending money to purchase certain materials. Ms. Creech indicated the loss of C&D tonnage does not save as much landfill space as one might think. In addition, Ms. Creech said, there is a portion of the landfill that will have to be filled with C&D material and if enough tonnage is not received, the SWA will have to purchase it.

Mr. Cook reviewed with the group the following chart detailing the cumulative surplus/deficiency with updated tipping fees, based on each of the scenarios.



Ms. Trulock pointed out to the group that each scenario concluded with a different tipping fee at the end of the planning period (FY2024). She stated Scenario 1 concluded with at \$43 per ton tipping fee, Scenario 2A concluded with at \$49 per ton tipping fee and Scenario 2B concluded with at \$46 per ton tipping fee.

Mr. Gardner asked what amount of increase would the average homeowner expect on their taxes. Ms. Trulock indicated based on a \$10-12 per ton increase, and homeowners generating approximately one ton of garbage annually, about a \$12 annual increase would be expected.

Mr. Gray indicated that the SWA is losing revenue while expenses are increasing. He stated if nothing is done, at some point in time, the County will have to make up the deficit.

Mr. Vaught commented a few years ago the County was in the same situation as the SWA, in that the budget was being balanced through the use of reserved funds. He stated something has to be done and indicated County Council recognizes that. Mr. Vaught remarked the main issue now is what scenario would have the least painful impact on the people of Horry County.

Ms. Creech agreed and commented in the past few years landfill users have not been paying what they actually owe because the SWA did not collect enough revenue to cover expenses. She stated the longer this matter is put off, the burden will be placed on future users.

Mr. Graves thanked HDR Engineering for their efforts. Mr. Vaught concurred.

Mr. Blayton asked about the schedule moving forward since many would be working on their annual budgets soon. Ms. Creech commented the Board would be discussing the matter at its next meeting and believed the subject would be discussed at County Council's upcoming budget retreat. Mr. Knight stated by Christmas everyone should have an idea of what the Board will be recommending. Mr. Blayton expressed his aversion to Scenario 2A, due to the amount of the tipping fee in 2024.

In closing, Mr. Readling, distributed a chart detailing the impact C&D tonnage has on MSW tipping fee rates. Mr. Cook stated, utilizing the Scenario 1 rate structure, the chart shows what happens to the tipping fee rate if C&D tonnage remains at the current level, returns to the former level or if the current tonnage is reduced by an additional 50%, as anticipated.

Mr. Cook indicated in the past few years C&D tonnage has decrease approximately 30% and it is anticipated that it will drop an addition 50% from the current tonnage figures. Based on this scenario, the required MSW tipping fee increase would be 48%, raising it to \$43.00 per ton. Mr. Cook stated if the current C&D tonnage remains the same, the necessary MSW tipping fee increase would be 22.4%, resulting in a \$35.30 per ton tipping fee. Mr. Cook commented that if C&D tonnage had not decreased due to flow control, the MSW tipping fee increase would be 13.8%, raising the current MSW tipping fee to \$33 per ton. Mr. Cook stated this analysis demonstrates the effects C&D tonnage has on the MSW tipping fee.

Mr. Howard asked if it was possible to have a tipping fee that varied based on the amount of C&D tonnage being disposed of. Ms. Trulock indicated in theory it was possible; however, she was uncertain of the political ramifications of a fluctuating tipping fee.

Mr. Knight stated it would be staff's recommendation to accept and move forward with Scenario 1. He indicated it would be a large increase initially; however, the rate would remain the same in the out years. Mr. Knight commented there would be a lot of politics involved and a lot of choices to be made. Mr. Knight stated there would be an additional 50% loss in C&D tonnage

this year and commented next year's budget would reflect this decrease. Mr. Knight asked that any questions be submitted to Mrs. Bitting and indicated responses would be sent to the entire group. He indicated the process has been fast-tracked in order to get information to everyone in time for their budget preparation.

Mr. Vaught commended the Board and HDR Engineering for their timeliness in completing the study. Mr. Jones expressed his pleasure in having Mr. Phillips and Mr. Hardee at the meeting.

Ms. Creech encouraged anyone with questions to make an appointment with Mr. Knight and Mrs. Bitting to come in and discuss their questions.

MOTION TO ADJOURN

There being no further business to come before the Board, the meeting was adjourned at 2:40 P.M.

Minutes approved on December 8, 2016.

HORRY COUNTY SOLID WASTE AUTHORITY, INC.

BY: _____ (L. S.)
Pam J. Creech, Chairman

ATTEST:

Sanford C. Graves, Secretary

J. Michael Campbell

Dan P. Gray

Michael H. Hughes

W. Norfleet Jones

M. Lance Thompson