

**BERKELEY COUNTY WATER AND SANITATION
MONCKS CORNER, SOUTH CAROLINA**

**BERKELEY COUNTY COUNCIL
AGREED UPON PRODECURES REPORT**

DECEMBER, 2009

**BERKELEY COUNTY WATER AND SANITATION
MONCK'S CORNER, SOUTH CAROLINA**

TABLE OF CONTENTS

DECEMBER, 2009

	<u>Exhibit</u>	<u>Page</u>
Agreed Upon Procedures Report		1
Executive Summary		3
Detailed Results of Agreed Upon Procedures		6
Exhibits:		
2003 Bond Project - Budget to Actual - As of June 30, 2009	A	22
2005 Bond Project - Budget to Actual - As of June 30, 2009	B	23
Timeline-Cross Area Water Project	C	24
Capital Improvements Program:		
Period Ending June 30, 2004-2005	D	25
Period Ending June 30, 2006-2008	E	27
2005-06 CIP Budget Map	F	30
Request for Qualifications for Professional Services - Cross Area Water Project	G	31
Standard Form of Agreement Between Owner and Engineer for Professional Services - Cross Area Water Project	H	49
Advertisements for Bids - Cross Area Water Project	I	54
Engineering Report - Included in Series 2005A Bond Issuance of the Combined Water and Wastewater Enterprise Funds	J	59
Timeline for Rate Increase Activity	K	103
Timeline for Addition to the Original Plans of the Administration Building on Highway 52	L	105
Summary of Administration and Operations Building Costs	M	108
Detail List of Building Contracts and Change Orders	N	109



Berkeley County Council
Moncks Corner, South Carolina

At your request and as summarized in our engagement letter dated May 20, 2009, we have performed the procedures enumerated below, which were agreed to by Berkeley County Council (“Council”), solely to provide Council with independently evaluated information regarding various matters as enumerated below. This agreed-upon-procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

From June through December, 2009 we performed the following agreed-upon procedures:


1. We conducted an entrance conference with Berkeley County Water and Sanitation, a dependent of Berkeley County (“BCWS”) to discuss the scope and timing of the agreed upon procedures project.
2. We obtained and reviewed copies of council and council committee minutes pertaining to all of the matters addressed in this project.
3. We obtained and reviewed copies of source documents regarding the 2003, 2005A and 2008A bond issues, including any supporting documentation regarding the original list of projects and budgets.
4. We obtained and reviewed supporting documentation for and prepared original sources and uses statements regarding each bond issue and current sources and uses statements that includes the actual and budgeted expenditures for each bond issue by project, actual versus budget for interest income, the justification for the issuance of the \$105 million at one time, and for the deferral of interest payments.
5. We obtained and reviewed supporting documentation for the “311 Project” and at least four (4) other rural water projects (for comparison purposes), including material and labor costs, time per the actual tap based on the material and labor costs (including any maintenance costs over the period of the project), and actual cost per tap for the projects.
6. We obtained and reviewed supporting documentation regarding the reasons for the 2008A refunding revenue bonds, including the thought process and explanations for replacing the variable rate bond issue and related interest rate swap agreement with a fixed rate instrument; we reviewed or prepared a summary of the costs associated with these issuances and agreements, as well as the costs if the County had continued with the original 2003 bond issue so various analyses can be prepared.
7. We obtained and reviewed supporting documentation regarding the Bank of America selection process and the termination of Ross, Sinclair and Associates.

8. We obtained and reviewed supporting documentation for the BCWS rate increases and the relationship between these increases and the bond issues and related swap agreement.
9. We obtained and reviewed supporting documentation for the sources of funding for the expenses (including relocation of BCWS) related to the chemical spill that occurred in the fall of 2004.
10. We obtained and reviewed supporting documentation for the approval process regarding the change order addition to the new BCWS facility on Highway 52.
11. Through this report we are providing a report to the Council that provides information, data and explanations regarding the matters mentioned in items 2 through 10 above.
12. We conducted exit conferences as necessary upon completion of the project.

Our findings from completing the above procedures are attached as Attachment A. We will be glad to follow up with you as necessary regarding our findings.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on the above information. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Berkeley County and is not intended to be and should not be used by anyone other than this specified party without the consent of Berkeley County.


Greene, Finney & Horton, LLP
December 4, 2009

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

EXECUTIVE SUMMARY

This executive summary provides brief highlights of the results of the agreed-upon procedures. To fully understand the results and what led to them we recommend the detailed results be read as well.

Bond Issuances and Capital Projects (Items #3 and #4)

Beginning with the 2003 Water and Sewer System Revenue Bonds, Berkeley County Water & Sewer (“BCWS”) has issued four Water and Sewer System Revenue Bonds (2003, 2005A, 2006A, and 2008A) summarized as follows:

	<u>Planned</u>	<u>Actual</u>
Principal amount of bond issuances	\$ 278,665,000	\$ 278,665,000
Net original issue premium	9,533,844	9,533,844
Accrued interest	291,791	291,791
Equity contribution from County	162,951	162,951
Transfer from debt service fund	2,678,702	2,678,702
	<u>\$ 291,332,288</u>	<u>\$ 291,332,288</u>
Deposit to construction funds	\$ 147,139,101	\$ 147,123,181
Deposit to escrow funds	73,024,775	73,126,839
Bonds refunded	55,867,239	55,867,239
Issuance costs	4,867,031	4,780,887
Capitalized interest	10,142,351	10,142,351
Accrued interest	291,791	291,791
	<u>\$ 291,332,288</u>	<u>\$ 291,332,288</u>

When you add interest income earned by the cash and investment balances in the construction fund, the total resources available for capital projects from the bond issuances and the status of the utilization of the funds as of June 30, 2009 is as follows:

Deposit to construction fund	\$ 147,123,181
Interest Income	14,004,778
Total funds available to be used for capital projects	<u>161,127,959</u>
FUNDS USED OR TO BE USED FOR PLANNED PROJECTS	
2003 bond projects approved by Council	47,906,596
2005A bond projects approved by Council	
Contracted	52,046,975
Planned to be contracted	47,117,722
Total funds used or to be used for planned projects	<u>147,071,293</u>
Remaining uncommitted funds as of June 30, 2009	<u><u>\$ 14,056,666</u></u>

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

EXECUTIVE SUMMARY (Cont'd).

The interest income was not budgeted, but was essentially used as a contingency fund in case actual project costs were higher than budgeted costs.

In regards to the justification for the issuance of \$105 million for the 2005A revenue bonds, as opposed to a smaller amount, we could not find any documented discussion about the size of the bond issuance.

Based on our review of the bond issuances and discussion with RSA, bond interest and principal payments were planned in order to smooth out the debt service payments thereby reducing significant fluctuations year to year. In addition, the utilization of capitalized interest to satisfy the initial interest payments is a common practice based on our experience.

Highway 311 (Item #5)

One of the capital projects funded with the above bond issues is the Cross Area Water Project, which has generated controversy due to the water infrastructure being included along Highway 311. The primary question is, was Highway 311 to be included as part of the Cross Area Water Project or was it not. Based on the work we performed, we found the communication and documentation regarding Highway 311 to be very poor and confusing; we could understand why there was much misunderstanding regarding this portion of the project. However, it appears there was information available that indicated BCWS continually intended for Highway 311 to be included as a portion of the Cross Area Water Project, even though this information was not very clear and not very easy to find or understand. Very poor communication and documentation led to controversy and confusion, which has cost BCWS and the County significant time and energy.

At a cost of just over \$12,400 per tap, Highway 311 had the highest cost per tap of all of the roads we evaluated, and was about 45% higher than the average cost per tap of the roads we examined.

2008A Refunding Bonds (Item #6)

The 2008A Refunding bonds were issued in order to refund the 2006A variable rate date; this was necessary because the County was paying significantly more in interest costs than it should have been based on the market due to:

- the credit rating of the bond insurance company that provided the guarantee for the repayment of the Series 2006A Bonds was downgraded, which led to
- the variable interest rate that was currently being paid on the bonds being significantly higher than the variable payment paid from the interest rate swap,
- the bottom line – it was costing the County more money to continue with the variable rate debt.

If the County had continued with the Series 2003 bonds and never issued the 2006A and 2008A refunding debt, the County would have saved \$8.5 million. However, if the County had continued with the Series 2006A bonds and never issued the 2008A refunding debt, it would have cost the County an additional \$13.4 million (based on rates in effect at that time). So, in hindsight, the least costly decision would have been to keep the Series 2003 debt and never issue the Series 2006A refunding debt. But once the Series 2006A debt was issued, the insurer was downgraded and the rates increased, the decision to issue the Series 2008A debt was a prudent one. The County's issuance of its Series 2008A Bonds eliminated the inherent risks associated with variable rate debt instruments and it provided stability for its future debt service requirements.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

EXECUTIVE SUMMARY (Cont'd).

Bank of America Selection (Item #7)

Bank of America was essentially selected by default when County Council adopted the issuance and sale of the Series 2006A Water and Sewer System Refunding Revenue Bonds. There was no separate RFQ or RFP for the selection of the Bank of America.

Ross, Sinclair & Associates (“RSA”) Termination (Item #7)

Based on our work, the only documentation we obtained regarding the termination of RSA was a letter from the County’s external attorney to RSA dated November 7, 2005 stating that Berkeley County Water & Sanitation Authority decided to no longer use the services of RSA as financial advisors and a letter of response from the attorney for RSA acknowledging the termination. We were not able to find any other discussion in the minutes of meetings regarding this matter.

Water and Wastewater Rate Increases (Item #8)

Prior to issuance of the 2005A Water and Sewer Revenue Bonds, BCWS requested an Engineering Study by Engineering Resources Corporation (“ERC”). The ERC Engineering Report was issued in July, 2005 and included an assumption that rate increases of approximately 20% would be implemented by BCWS effective July, 2007 in order to meet future debt covenants and cash flows operating requirements.

While a subsequent statement by a BCWS director and subsequent debt issuances may have caused confusion as to the reasons for the rate increases, the driving force behind the rate increases were always the debt covenants and cash flow requirements associated with the \$105 million Series 2005A bond issuance. Even if the variable rate debt had not been issued, the projected future debt service and operational costs would have required rate increases.

Source of Funding for Chemical Spill (Item #9)

It appears that BCWS was able to fund the expenses related to the chemical spill from operations as BCWS had more than adequate cash flow from operations to cover these costs.

BCWS Facility Addition Change Orders (Item #10)

The BCWS facility addition appeared to follow a routine pattern of approval through the Council Committee on Water and Sanitation and County Council in the spring of 2007. However it appears that two contract amendments/change orders were initiated by BCWS prior to final approval by County Council on May 29, 2007.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS OF AGREED UPON PROCEDURES

Item #3 and #4

We obtained and reviewed supporting documentation for and prepared:

- original sources and uses statements regarding the requested bond issues,
- current sources and uses statements that includes the actual and budgeted expenditures for each bond issue by project,
- actual versus budget for interest income, and
- the justification for the issuance of the \$105 million at one time and for the deferral of interest payments.

Original and Current Sources and Uses

2003 Bond Issue

The 2003 Water and Sewer System Revenue Bonds were issued in April, 2003 in the amount of \$98,725,000 plus a premium of \$5,631,047. Interest rates ranged from 2.0% to 5.25% with a final maturity of 2028. The sources and uses of the bond issuance were as follows:

	<u>Planned</u>	<u>Actual</u>
Principal amount of bonds	\$ 98,725,000	\$ 98,725,000
Net original issue premium	5,631,047	5,631,047
Accrued interest	291,791	291,791
Transfer from debt service fund related to bonds to be	2,678,702	2,678,702
	<u>\$ 107,326,540</u>	<u>\$ 107,326,540</u>
Deposit to construction fund	48,197,039	48,180,137
Bonds refunded	55,867,239	55,867,239
Issuance costs	1,537,722	1,554,624
Capitalized interest	1,432,749	1,432,749
Accrued interest	291,791	291,791
	<u>\$ 107,326,540</u>	<u>\$ 107,326,540</u>

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

The accrued interest resulted from the difference in time between the closing of the bond issuance and the receipt/disbursement of the bond proceeds. The capitalized interest was a planned portion of the bond issuance utilized to help make the interest portion of the first payments. Based on our experience, the utilization of capitalized interest for this purpose is a common practice for local government debt issuances.

The planned capital projects and amounts utilizing the construction fund deposit and the actual capital projects and amounts are summarized at Exhibit A, along with narrative explaining the changes in projects and amounts from the original plan.

2005A Bond Issue

The 2005A Water and Sewer System Revenue Bonds were issued in July, 2005 in the amount of \$105,750,000 plus a premium of \$3,432,321. Interest rates ranged from 3.5% to 5.00% with a final maturity of 2030. The sources and uses of the bond issuance were as follows:

	<u>Planned</u>	<u>Actual</u>
Principal amount of bonds	\$ 105,750,000	\$ 105,750,000
Net original issue premium	\$3,432,321	\$3,432,321
	<u>\$ 109,182,321</u>	<u>\$ 109,182,321</u>
Deposit to construction fund	\$ 98,942,062	\$ 98,943,044
Issuance costs	1,530,657	1,529,675
Capitalized interest	8,709,602	8,709,602
	<u>\$ 109,182,321</u>	<u>\$ 109,182,321</u>

The differences between planned and actual were due to issuance costs being slightly less than planned. The capitalized interest was a planned portion of the bond issuance utilized to help make the interest portion of the first payments. Based on our experience the utilization of capitalized interest for this purpose is a common practice for local government debt issuances.

The planned capital projects and amounts utilizing the construction fund deposit and the actual capital projects and amounts are summarized at Exhibit B.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

2006A Bond Issue

The 2006A Water and Sewer System Refunding Revenue Bonds were issued in February, 2006 in the amount of \$36,120,000, at variable interest rates, less an underwriter's discount of \$121,240, and included the purchase of a bond insurance policy of \$132,942. See more discussion of this issuance later in this report. The sources and uses of the bond issuance were as follows:

	<u>Planned</u>	<u>Actual</u>
Principal amount of bonds	\$ 36,120,000	\$ 36,120,000
	<u>\$ 36,120,000</u>	<u>\$ 36,120,000</u>
Deposit to escrow fund	\$ 35,571,825	\$ 35,586,668
Issuance costs	548,175	533,332
	<u>\$ 36,120,000</u>	<u>\$ 36,120,000</u>

The deposit to the escrow fund is to refund a portion of the 2003 bonds. The differences between planned and actual were due to actual issuance costs being less than planned.

2008A Bond Issue

The 2008A Water and Sewer System Revenue Bonds were issued in May, 2008 in the amount of \$38,070,000 plus a premium of \$470,477. Interest rates ranged from 3.00% to 5.00% with a final maturity of 2028. These bonds were issued to refund the Series 2006A variable rate bonds. The sources and uses of the bond issuance were as follows:

	<u>Planned</u>	<u>Actual</u>
Principal amount of bonds	\$38,070,000	\$38,070,000
Net original issue premium	470,476	470,476
Equity contribution from County	162,951	162,951
	<u>\$ 38,703,427</u>	<u>\$ 38,703,427</u>
Refunding of Series 2006A bonds	\$ 37,452,950	\$ 37,540,171
Issuance costs	1,250,477	1,163,256
	<u>\$ 38,703,427</u>	<u>\$ 38,703,427</u>

The differences between planned and actual were due to actual issuance costs being less than planned.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Actual Versus Budgeted Income

It appears the interest income earned in the construction accounts for each bond issuance were not budgeted, but were essentially used as a contingency fund in case actual project costs were higher than budgeted costs. If excess interest income funds remained, they could be used for future projects that were approved by County Council. The interest income earned by project and by year is as follows:

Bond Issue Totals	Fiscal Year							Total
	2003	2004	2005	2006	2007	2008	2009	
2003 bonds	\$ 50,232	597,801	491,752	252,575	16,617			\$ 1,408,977
2005A bonds				\$3,230,252	4,439,336	3,714,005	1,212,208	\$ 12,595,801

As noted above, portions of the 2003 and 2005A bond issuance proceeds were to be used for capital projects that were approved by County Council. In addition, the unused proceeds continued to earn interest. Below is a summary of the utilization of the bond proceeds for the approved capital projects as of June 30, 2009:

FUNDS AVAILABLE	
2003 bond issuance capital project funds	\$ 48,180,137
2005A bond issuance capital project funds	98,943,044
Total bond issuance capital project funds	<u>147,123,181</u>
Interest income	
From 2003 bond funds	1,408,977
From 2005A bond funds	12,595,801
Total interest income funds	<u>14,004,778</u>
Total funds available to be used for capital projects	<u>161,127,959</u>
FUNDS USED OR TO BE USED FOR PLANNED PROJECTS	
2003 bond projects approved by Council	47,906,596
2005A bond projects approved by Council	
Contracted	52,046,975
Planned to be contracted	47,117,722
Total funds used or to be used for planned projects	<u>147,071,293</u>
Remaining uncommitted funds as of June 30, 2009	<u>\$ 14,056,666</u>

More detailed information regarding the status of specific projects as of June 30, 2009 is included as Exhibits A and B to this report.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Justification for the Issuance of \$105 Million in Water and Sewer System Revenue Bonds in 2005

In the May 9, 2005 meeting of the Committee on Water and Sanitation, there was a review prior to first reading of a second supplemental ordinance providing for the issuance and sale of Series 2005-A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million. It was stated that greater detail of the projects would be provided as the approval process moved along. This first reading was approved unanimously. The remaining details of the dates and actions regarding this issuance are as follows:

- May 23, 2005 regular meeting of County Council- unanimous approval of first reading of bill no. 05-50 for the issuance and sale of Series 2005-A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million.
- June 13, 2005 regular meeting of Committee on Water and Sanitation -unanimous approval of a review prior to second reading for the issuance and sale of Series 2005-A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million.
- June 13, 2005 special meeting of County Council-unanimous approval of second reading of bill no. 05-50 for the issuance and sale of Series 2005-A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million.
- June 20, 2005 special meeting of Committee on Water and Sanitation- unanimous approval of a review prior to third reading for the issuance and sale of Series 2005-A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million. It was stated that:
 - the principal amount of the bonds would not be known until the bonds were priced in July,
 - interest would be capitalized for one and a half years, and
 - the interest rate was unknown.
- June 20, 2005 regular meeting of County Council-unanimous approval of third reading of bill no. 05-50 for the issuance and sale of Series 2005-A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million.
- Ordinance no. 05-06-47 dated June 20, 2005 estimates the costs of acquisition and construction of 2005A projects to be \$108,800,000. It also states that Council approved the Preliminary Official Statement, which was presented at the June 20, 2005 Council meeting.
- July 11, 2005 regular meeting of Committee on Water and Sanitation-unanimous approval of consideration of a resolution approving and adopting the engineering report dated July, 2005 prepared by Engineering Resources Corporation in connection with the Berkeley County Series 2005-A Water and Sewer System Revenue Bonds.
- July 11, 2005 special meeting of County Council-unanimous approval of a resolution approving and adopting the engineering report dated July, 2005 prepared by Engineering Resources Corporation in connection with the Berkeley County Series 2005-A Water and Sewer System Revenue Bonds.
- The official statement was dated July 21, 2005 and the bonds were issued that same month.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Note that the engineering report had a detail list of the planned projects that were to be funded by this bond issuance and this engineering report was included in the preliminary official statement and official statement. Portions of the Engineering report are included in Exhibit J. We could not find any documented discussion regarding the size of the bond issuance or any documented reasons for issuing \$105 million in bonds versus a smaller amount.

Deferral of Interest Payments

Based on our review of the bond issuances and discussion with RSA, bond interest and principal payments were planned in order to smooth out the debt service payments thereby reducing significant fluctuations year to year. In addition, as noted earlier in this report, the utilization of capitalized interest to satisfy the initial interest payments is a common practice based on our experience.

Item #5

We obtained and reviewed supporting documentation for the “311 Project” and at least four (4) other rural water projects (for comparison purposes), including material and labor costs, time per the actual tap based on the material and labor costs (including any maintenance costs over the period of the project), and actual cost per tap for the projects.

The “311 project” was actually a portion of a bigger project called the *Cross Area Water Project*. Based on records we obtained, the *Cross Area Water Project* was first included with a description in the BCWS Fiscal Year 2004 Capital Improvement Program that was presented to County Council in June of 2003 as number 28 on the priority list. Please see Exhibit C for a timeline of the *Cross Area Water Project* from that inclusion in the BCWS Fiscal Year 2004 Capital Improvement Program until April, 2008 when County Council approved the award of the construction for the project. The three issues we address in the report regarding Highway 311 are:

- Whether it appears Highway 311 was to be included in the Cross Area Water Project at the time County Council approved the project work
- Whether it appears the Highway 311 ending point was consistent throughout the life of the project
- The Highway 311 cost per tap compared to other costs per tap

Inclusion of Highway 311 in the Cross Area Water Project at the time of Council approval

Based on our review and study of the timeline and supporting documentation, we can understand how there is confusion regarding the BCWS’s intention about whether or not to include Highway 311 in the Cross Area Water Project. The primary reasons for the confusion appear to stem from the following:

- in the Capital Improvement Programs for fiscal years ending 2004 and 2005 Highway 311 was included in the description for the Cross Area Water Project; in addition, the description includes a full detail of the quantity and size of pipe to be added (Exhibit D),
- in the Capital Improvement Programs for fiscal years ending 2006, 2007 and 2008 Highway 311 was not included in the description for the Cross Area Water Project and the quantity of 8” pipe is missing;
- in the 2005-2006 Capital Improvement budget, the map did not include Highway 311 as one of the roads to receive water infrastructure (Exhibit F),

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Inclusion of Highway 311 in the Cross Area Water Project at the Time of Council Approval (Contd.)

- in the request for qualification issued on July 28, 2005 Highway 311 was not included in the description for the Cross Area Water Project, but on the map included in the request for qualification Highway 311 was included in the roads for which pipe will be added (Exhibit G),
- The signed contract between BCWS and ERC (signed December 9, 2005 by ERC and January 26, 2006 by BCWS) a map does include Highway 311 as part of the project, but Highway 311 is not included as part of the description (Exhibit H),
- The documents attached to the notarized advertisements for bid in the “The State” and “The Post and Courier” in February, 2008 did include spreadsheets and a map that includes Highway 311 as part of the project (Exhibit I).

The exclusion of Highway 311 from the various documents was a significant error and involved very poor review and monitoring of information being presented to Council. While some individuals verbally told GF&H that their understanding was that the Highway 311 portion of the Cross Area Water Project was cancelled (and therefore eliminated from the project), there was no supporting documentation in the minutes of any meetings or other documents provided to GF&H in order to support that claim.

It appears there was information available that indicated BCWS continually intended for Highway 311 to be included as a portion of the Cross Area Water Project. However this information was not very clear and Council should not have had to work as hard as they would have to understand the intent of BCWS management. The reasons for our conclusion are:

- The plan from the beginning was for 12 inch pipe to be added along Highway 311; even when Highway 311 was not included in the description, the quantity of 12 inch pipe included in the description did not change significantly from 2004 through 2008,
- Even when Highway 311 was not included in the description, Groomstown Road was included in the description and could only receive water infrastructure if pipe was added along Highway 311,
- Generally, even when the narrative description did not include Highway 311, the maps we found did include Highway 311 as part of the project, but it is unclear what maps were provided to Council.

It also appeared unusual that the unit of measurement for the quantities of pipe changed. The unit of measurement was feet in 2004 fiscal year capital improvement list, it was changed to miles in the fiscal year 2005 list and then changed back to feet in the fiscal year 2006 list. However, when converted, the quantities were very similar, whether in feet or miles.

In conclusion, even though we cannot determine how the exclusion of Highway 311 from the description of the Capital Improvement Programs for fiscal years ending 2006, 2007 and 2008 as well as from the description included in the request for qualification and ERC contract occurred, it is clear that communication from BCWS management to Council was very poor as was the document preparation and internal review process was inadequate.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Consistency of the Highway 311 Ending Point (as Part of the Cross Area Water Project)

Beginning in 2003, the detailed descriptions of the Highway 311 ending point were written as, “a 12” water main will extend westward along S.C. Highway 311 from its intersection with S.C. Highway 6 to approximately 2.4 miles beyond its intersection with County Line Road (S-8-59).” We see this description being used up through mid-2006, which is through the County Council approval of the design services contract with ERC and the surveying performed by Edisto Engineering and Surveyors.

GF&H measured 2.4 miles beyond Highway 311’s intersection with County Line Road; 2.4 miles beyond County Line Road takes you to just beyond Pickney Court.

We noted in other documents beginning in 2008 we see the description states, “from intersection with SC Highway 6 to intersection with Pickney Court.” This description is consistent with our own measurements and therefore, earlier descriptions.

Highway 311 Cost Per Tap

The cost per tap (based on the number of units at the time the lines were added) for Highway 311 and in comparison to other roads in the Cross Area Water Project are as follows:

	<u>Total Cost</u>	<u>Units</u>	<u>Cost / Unit</u>
Hwy 311	\$ 1,054,051.48	85	\$ 12,400.61
Oakland Drive	93,992.69	49	1,918.22
English Road	54,033.15	13	4,156.40
Ranger Drive	248,669.93	22	11,303.18
Shortcut Road	581,202.26	48	12,108.38
Trojan Road	293,112.83	40	7,327.82
Mudville Road	33,643.91	5	6,728.78
Groomstown Road	69,779.65	21	3,322.84
	<u>\$2,428,485.90</u>	Average	<u>\$ 8,581.22</u>

The overall average cost per tap for these roads is \$8,581.22. Of course, the cost per tap will generally be higher in the rural areas of the county, where there is less density. However, the highest cost per tap is Highway 311, which is about 45% higher than the average for the roads we reviewed.

Based on our experience with BCWS and other utility operations, cost is just one factor involved in the decision making process, but, obviously, it is an important factor. The original plan for financing the Cross Area Water Project was to request and use federal assistance in order to keep the BCWS from providing 100% of the funding (we have letters going back to 2003 from Berkeley County to federal legislators requesting federal assistance). While CDBG funds were received and utilized as part of the total Cross Area Projects, BCWS did not receive federal assistance for the Cross Area Water Project under review. As a result, the cost per tap was fully funded by BCWS.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Item #6

We obtained and reviewed supporting documentation regarding the reasons for the 2008A refunding revenue bonds, including the thought process and explanations for replacing the variable rate bond issue and related interest rate swap agreement with a fixed rate instrument; we reviewed or prepared a summary of the costs associated with these issuances and agreements, as well as the costs if the County had continued with the original 2003 bond issue so various analyses can be prepared.

The sources and uses for each bond issue are included earlier in this report. The Series 2003 bonds were issued in April, 2003. In February 2006, the Series 2006A variable rate bonds were issued to advance refund \$32,310,000 of the Series 2003 Bonds. This transaction was undertaken to lower the County's debt service on its indebtedness as the variable rates in effect at the time of issuance were lower than the fixed rate on the Series 2003 Bonds. The Series 2006A Bonds were issued at a variable rate, based on a rate that would enable the bonds to be resold at a price equal to its outstanding principal (defined as "Weekly Interest Rate"). If this Weekly Interest Rate is unavailable, then the rate would be the Bond Market Association Municipal Swap Index (BMA). The County entered into an interest rate swap with Bank of America, N.A., in connection with its Series 2006A Bonds. The intention of the swap was to effectively change the County's variable interest rate on the Series 2006A Bonds to a synthetic fixed rate of 3.475%. The County incurred a total of \$533,332 in issuance costs, which were funded with the proceeds from the new debt. See page 7 for the sources and uses of the Series 2006A bond issue. The original projected savings from the issuance of the Series 2006A bonds was \$2.2 million, which was discussed in the December 12, 2005 Committee on Water and Sanitation meeting and recorded in the minutes.

Originally planned net savings from issuance of Series 2006A bonds (not including remarketing and other fees):

Total debt service costs of the advanced refunded portion of Series 2003 bonds	\$ 61,449,600.00
Series 2006A debt service costs at the closing for these bonds	(58,679,056.93)
Series 2006A bond issuance costs	(533,332.00)
Planned Savings Bonds	<u>\$ 2,237,211.07</u>

For fiscal 2006 and 2007, this arrangement was effective, as the Series 2006A Bonds saved the County a total of \$37,364, compared to what it would have cost if the County had stayed with the Series 2003 Bonds.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

Actual net savings (loss) from issuance of Series 2006A bonds for 2006 and 2007 (not including remarketing and other fees):		
Net payments per original Series 2003 bonds-fiscal year 2006 (partial year)	\$ 823,212.50	
Net payments per Series 2006A bonds-fiscal year 2006 (partial year)	<u>(808,983.39)</u>	<u>\$ 14,229.11</u>
Net payments per original Series 2003 bonds-fiscal year 2007	1,646,425.00	
Net payments per Series 2006A bonds-fiscal year 2007	<u>(1,623,290.29)</u>	<u>23,134.71</u>
		<u><u>\$ 37,363.82</u></u>

However, during the winter and spring of fiscal 2008, due to circumstances beyond the control of the County, the municipal bond market began spiraling out of control. The credit rating of the bond insurance company that provided the guarantee for the repayment of the Series 2006A Bonds was downgraded. As a result, the variable interest rate that was currently being paid on the bonds was significantly higher than the variable payment paid from the interest rate swap. This negative basis spread continued to increase, which resulted in an increase in the interest paid by the County. The actual interest rate paid as of April 2008 was 7.066%, compared to the intended rate of 3.475%. For fiscal 2008, it cost the County an additional \$102,780, compared to what it would have cost if the County had stayed with the Series 2003 Bonds.

Actual net savings (loss) from issuance of Series 2006A bonds for 2008:	
Net payments per original Series 2003 bonds-fiscal year 2008 (until refunding)	\$ 1,646,425.00
Net payments per Series 2006A bonds-fiscal year 2008 (until refunding)	<u>(1,749,205.40)</u>
	<u><u>\$ (102,780.40)</u></u>

After exploring its options, the County decided to currently refund the Series 2006A Bonds by issuing the \$38,070,000 Series 2008A Water and Sewer System Refunding Revenue Bonds (Series 2008A Bonds), with fixed interest rates. This transaction closed in May 2008. The County had to pay a swap termination fee of \$1,790,000 to Bank of America and incurred a total of \$1,163,256 in issuance costs. The swap termination fee and issuance costs were funded with the proceeds from the new debt. This transaction was undertaken to replace the volatile variable rates and charges in effect on the Series 2006A debt and the related interest rate swap agreement with a stable fixed rate instrument.

If the County had not issued its Series 2006A Bonds but continued with the Series 2003 Bonds, the total remaining debt service from February, 2006 (date of issuance of the Series 2006A Bonds) until maturity in 2028 would have been \$61,449,600.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

If the County had not issued its Series 2008A Bonds in May 2008 but continued with the Series 2006A Bonds, the actual debt service from February 2006 through May 2008 and projected debt service thereafter until maturity in 2028 would have been \$82,612,153, using the interest rates of approximately 7.1% that were in effect during the spring of 2008. This does not include remarketing and other fees that would have been charged on a regular basis until maturity. These fees totaled \$208,431 from February 2006 through May 2008.

The total debt service on the Series 2008A Bonds will be \$62,291,294.

Based on the above information we have provided the following analysis:

1. If the County had continued with the Series 2003 bonds and never issued the 2006A and 2008A refunding debt, the County would have saved \$8.5 million.

Net loss due to issuing Series 2006A and 2008A bonds versus continuing with Series 2003 bonds:	
Total debt service costs of the advanced refunded portion of Series 2003 bonds	\$ 61,449,600.00
The actual debt service costs of the Series 2006A bonds until they were refunded plus the actual debt services costs of the Series 2008A bonds	(66,299,815.09)
Total issuance and other costs for Series 2006A and 2008A bonds	(3,695,019.00)
Total net loss	\$ (8,545,234.09)

If the County had continued with the Series 2006A bonds and never issued the 2008A refunding debt, it would have cost the County an additional \$13.4 million.

Net savings from issuance of Series 2008A bonds and refunding of Series 2006A bonds:	
If the Series 2006A bonds had not been refunded, the actual and projected costs of the Series 2006A bonds, based on the interest rate in place at the time of the refunding of the Series 2006A bonds (7.1%)	\$ 82,612,153.20
The actual debt service costs of the Series 2006A bonds until they were refunded plus the actual debt services costs of the Series 2008A bonds (this is what actually occurred)	(66,299,815.09)
Series 2008A bond issuance costs	(1,163,256.00)
Swap termination fee	(1,790,000.00)
Net savings from issuance of Series 2008A bonds and refunding of Series 2006A bonds	\$ 13,359,082.11

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

In hindsight, the least costly decision would have been to keep the Series 2003 debt and never issue the Series 2006A refunding debt. But once the Series 2006A debt was issued, the insurer was downgraded and the rates increased, the decision to issue the Series 2008A debt was a prudent one. The County's issuance of its Series 2008A Bonds eliminated the inherent risks associated with variable rate debt instruments and it provided stability for its future debt service requirements.

Item #7

We obtained and reviewed supporting documentation regarding the Bank of America selection process and the termination of Ross, Sinclair and Associates.

Bank of America Selection

Bank of America was "selected" through the issuance and sale of the Series 2006A Water and Sewer System Refunding Revenue Bonds. There was no separate RFQ or RFP for the selection of the Bank of America. The timeline associated with this issuance and sale is as follows:

- October 24, 2005 Regular Meeting of County Council
(#6 seat vacant)
First reading of Bill #05-98, the third supplemental ordinance providing for the issuance and sale of Berkeley County, South Carolina, Water and Sewer System Refunding Revenue Bonds, Series 2005B (later changed to 2006A), in the principal amount of not exceeding \$50,000,000. Motion passed unanimously.
- November 14, 2005 Committee on Water and Sanitation
(All Council members present except Mr. Charles Davis, Mr. Steve Davis and Mr. Dennis Fish; #6 vacant)
Review prior to second reading of Bill #05-98, the third supplemental ordinance providing for the issuance and sale of Berkeley County, South Carolina, Water and Sewer System Refunding Revenue Bonds, Series 2006A, in the principal amount of not exceeding \$50,000,000.
- November 28, 2005 Committee on Water and Sanitation
(All Council members present)
Approved an Interest Rate Risk Management Policy by majority vote; Mr. Davis voted "nay". Mr. Crosby asked for Bank of America to make a presentation to fully explain the interest rate contracts.
- November 28, 2005 Regular Meeting of County Council
(All Council members present except Mr. Pinckney)
Second reading of Bill #05-98, the third supplemental ordinance providing for the issuance and sale of Berkeley County, South Carolina, Water and Sewer System Refunding Revenue Bonds, Series 2006A, in the principal amount of not exceeding \$50,000,000. Motion passed unanimously.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

- December 12, 2005 Committee on Water and Sanitation
(All Council members present except Mr. Charles Davis and Mr. Steve Davis; #6 is vacant)
Review prior to third reading of Bill #05-98, the third supplemental ordinance providing for the issuance and sale of Berkeley County, South Carolina, Water and Sewer System Refunding Revenue Bonds, Series 2006A, in the principal amount of not exceeding \$50,000,000.
- Discussion included projected savings would be \$2.2 million
 - Mr. Edward Boyles was present from Bank of America to answer questions
 - Motion passed unanimously

- December 12, 2005 Regular Meeting of County Council
(All Council members present except Mr. Pinckney)
Third reading of Bill #05-98, the third supplemental ordinance providing for the issuance and sale of Berkeley County, South Carolina, Water and Sewer System Refunding Revenue Bonds, Series 2006A, in the principal amount of not exceeding \$50,000,000. Motion passed unanimously.

February 8, 2006 Delivery date of Series 2006A Refunding Revenue Bonds

Ross, Sinclair & Associates (“RSA”) Termination

Based on our work, the only documentation we obtained regarding the termination of RSA was a letter from the County’s external attorney to RSA dated November 7, 2005 stating that Berkeley County Water & Sewer Authority decided to no longer use the services of RSA as financial advisors and a letter of response from the attorney for RSA acknowledging the termination. We were not able to find any other discussion in the minutes of meetings regarding this matter.

The timeline for the selection and termination of RSA is as follows:

- February 17, 2005 Date of Request for Proposal (“RFP”) for financial advisory services
- March 1, 2005 Responses to the RFP were due to BCW&SA
- March 14, 2005 Committee on Public Works and Purchasing
(All Council members present except for Mr. Steve Davis)
Bid for financial advisor services awarded to Ross, Sinclair and Associates (“RSA”) by unanimous vote
- March 21, 2005 Memo from Kristy McMichael, Internal Auditor through Lee Moulder, Director of Finance, to Marc Hehn, Director recommending Ross, Sinclair and Associates based on a review of the proposals

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

- March 28, 2005 Regular Meeting of County Council
(All Council members present)
Bid for financial advisor services awarded to Ross, Sinclair and Associates by unanimous vote (based on recommendation of the Committee on Public Works and Purchasing)
- May 20, 2005 Letter from RSA to Mr. Hehn providing an overview of the proposed synthetic fixed rate advanced refunding (variable rate debt)
- May 31, 2005 Letter from RSA to Mr. Hehn recommending that the County not proceed with the synthetic fixed rate advanced refunding (variable rate debt)
- November 7, 2005 Letter from David Jennings to Ross, Sinclair and Associates stating that BCW&SA has decided to no longer use the services of RSA as financial advisors
- November 23, 2005 Letter from Keith Babcock (attorney for RSA) to David Jennings acknowledging the letter of November 7, 2005

Item #8

We obtained and reviewed supporting documentation for the BCWS rate increases and the relationship between these increases and the bond issues and related swap agreement.

It appears the rate increases in question were first brought to the attention of Council in the Engineering Report dated July, 2005 prepared by Engineering Resources Corporation. In the report they recommend and assume (for purposes of the financial projections) that an average of 20% increases in water and wastewater rates and fees will become effective on July 1, 2007. This engineering report was prepared in evaluating and planning for the Series 2005 bond issue. In making their conclusions that “the financial capability of the BCW&SA is strong” and “the issuance by the County of the 2005 Bonds...is financially feasible...” they are assuming that the rate and fee increases will become effective July 1, 2007. The applicable portions of the engineering report is included as Exhibit J.

In May, 2006, the Authority Director, while presenting the Authority’s proposed 2006-2007 fiscal year budget, stated “using cash flow projections, no water or sewer rate increases are anticipated for the next five years.” That statement was a significant change from the expectations and planning (based on the ERC engineering report and the issuance of the Series 2005A bonds) up to that point.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

In an April, 2007 meeting of the Water and Sanitation Committee meeting, the Authority Director (a different director than the one in May, 2006) announced that a rate study would begin in July, 2007. This rate study resulted in rate increases that were proposed by the Authority and adopted by Council in the fiscal year 2008-2009 fiscal year budget. Due to a number of factors it appears there was confusion on Council and in the public regarding the reasons and causes for the rate increases.

The driving force behind the rate increases continued to be the Series 2005A bond issuance and the ERC engineering report. The recommended and assumed rate increases were based on:

- The increased costs of debt service payments as a result of the 2005A bond issuance,
- The projected costs of BCWS operations, and
- The coverage ratio the Authority would have to continue to meet to be in compliance with the bond covenants. Essentially the coverage ratio compares cash flow to the debt service payments for the year; cash flow is required to be at least 1.2 times the debt service payments.

BCWS met the coverage ratio in 2006 and 2007, but not in 2008. In addition, per the ERC engineering report, County Council had last revised the water rates in 1994 and the wastewater rates in 2003. As a result, the 2007 rate study recommended an increase in rates for the 2008-2009 fiscal year. While the percentage of recommended increases were different in the 2007 rate study versus the 2005 engineering report, the reasons for the recommended increases were the same. While the variable rate refunding debt did increase the debt service payments in fiscal year 2008, it was not the reason for the rate increases. See Exhibit K for the timeline associated with the rate increase activity.

Item #9

We obtained and reviewed supporting documentation for the sources of funding for the expenses (including relocation of BCWS) related to the chemical spill that occurred in the fall of 2004.

BCWS incurred approximately \$700 thousand dollars in clean up costs related to the spill. It appears that BCWS was able to fund the expenses related to the chemical spill from operations as there is no documentation indicating otherwise. BCWS had more than adequate cash flow from operations to cover these costs.

Item #10

We obtained and reviewed supporting documentation for the approval process regarding the change order addition to the new BCWS facility on Highway 52.

The BCWS facility addition appeared to follow a routine pattern of approval through the Council Committee on Water and Sanitation and County Council in the spring of 2007. However there are two contract change orders that appears to have occurred prior to the final adoption of the ordinance by County Council.

Berkeley County Council Agreed Upon Procedures Report
December 4, 2009

DETAILED RESULTS (Cont'd.)

The site prep contract with was amended to include the preparation of the property for the building expansion on May 7, 2007. Due to the construction contract having a \$100,000 "allowance," this change order was technically to authorize additional time only. On May 15, 2007 a change order was approved with DA Architects for drawing changes based on the building addition and with Newton Builders for various changes, including moving the tower and generator. It should be noted that the moving of the tower and generator needed to occur regardless of when the building was expanded. In addition, the contractors were getting ready to leave the site; costs were much lower due to having this work completed before the contractors left the site. The Committee on Water and Sanitation approved the third reading of the supplemental budget ordinance on May 14, 2007 and County Council approved the third reading of the supplemental budget ordinance on May 29, 2007.

Therefore, it appears that contract amendments and/or change orders were initiated by BCWS prior to final approval by County Council on May 29, 2007.

The full timeline for the BCWS facility (Exhibit L) and the detail of change orders and construction costs (Exhibit M) are included as Exhibits to this report.

RECOMMENDATIONS

1. BCWS management should improve its internal review process for all documents prepared for Council and should ensure, to the best of its ability, its communication to Council are clear, consistent, and easily understood.
2. Council members and management should ensure that if they want to include information other than action items in the written minutes, they clearly state that intention during the meeting.
3. We believe it is also important to note that BCWS should not plan to or have a practice of relying on one-time fees to meet operating costs or to meet its debt coverage ratio. Instead, BCWS should ensure recurring revenues are sufficient to meet operating costs and the debt coverage ratio.

**Berkeley County Water and Sanitation
2003 Bond Projects - Budet to Actual
As of June 30, 2009**

EXHIBIT A

Project	2003 Bond Document		Total Spent	Difference from Original Budget	Notes:
	Source	Budget			
Shulerville / Honey Hill/Jamestown		\$ 6,385,600.00	5,943,467	\$ 442,132.67	The entire scope of this project was completed.
	Bond	4,200,000			
	EPA	2,185,600			
2003 Water Expansion Project		6,400,000	6,325,819	74,181	The entire scope of this project was completed.
	Bond	5,465,000			
	EPA	935,000			
Telemetry	Bond	55,000	24,816	30,184	The entire scope of this project was completed.
LBWWTP Upgrade		12,700,000	18,476,605	(5,776,605)	The entire scope of this project was completed.
	Bond	12,100,000			
	USN	600,000			
3-D Model & 10% Rule Analysis	Bond	250,000	253,367	(3,367)	The entire scope of this project was completed.
CBWWTP Upgrade	Bond	2,700,000	232,920	2,467,080	The project as designed was bid for construction. Bids received more that doubled the estimate. The project was eliminated and a larger plant was funded in '05 issue.
Telemetry	Bond	700,000	-	700,000	
Pump Station Elimination Project	Bond	2,495,000	781,762	1,713,238	PS# 1 & 2 odor control were completed and PS# 17 was reconfigured and completed; remaining projects were not completed for various reasons.
2003 Sewer Extension Project	Bond	4,290,000	7,480,215	(3,190,215)	Okatee Trunk, West Branch, Royle Road Force Main, Sangaree Parkway were completed; PS# 42 replacement, Crowfield Improvements and Oaks sewer improvement scopes were significantly increased.
2003 Sewer Renovation and Replacement Project	Bond	7,862,000	5,489,460	2,372,540	PS# 5 & 106 were completed; some engineering work was completed on the other projects before they were stopped.
Ancrum Sewer Trunk Main	Bond	8,550,000	6,618,765	1,931,235	PS# 7, 50, 51, 52, trunk A & trunk B were completed; PS# 54 & 55 were not
TOTAL		\$ 52,387,600	51,627,196	\$ 760,404	
Total-bond sourcing		\$ 48,667,000	47,906,596	\$ 760,404	
Total-other than bond sourcing		3,720,600	3,720,600	-	
TOTAL		\$ 52,387,600	51,627,196	\$ 760,404	
Total of projects completed, whether as planned or with changes in scope for various reasons		\$ 38,342,600	51,394,276	\$ (13,051,676)	
Total of projects not completed for various reasons		14,045,000	232,920	13,812,080	
TOTAL		\$ 52,387,600	51,627,196	\$ 760,404	