

# City of Myrtle Beach South Carolina



## **SUPPLEMENTAL INFORMATION**

PROVIDED PER CONTINUING DISCLOSURE AGREEMENTS IN CONNECTION WITH OUTSTANDING ISSUES OF DEBT AND OTHER OBLIGATIONS OF THE CITY FOR THE

**FISCAL YEAR ENDED JUNE 30, 2013**



**CITY OF MYRTLE BEACH, SOUTH CAROLINA**  
**SUMMARY OF OUTSTANDING INDEBTEDNESS AS OF JUNE 30, 2013**

**General Obligation Bonds:**

<u>Debt Issue</u>	<u>Original Issue Amount</u>
Series 2003A	\$11,200,000
Refunding Series 2003B	4,800,000
Series 2006A	6,950,000
Series 2006 B	2,730,000
Series 2006 C	2,500,000
Series 2008	12,300,000
Series 2009	625,000
Refunding Series 2011A	2,800,000
Refunding Series 2011B	15,800,000
Series 2012A	4,030,000
Series 2012B	7,560,000

**Certificates of Participation:**

<u>Debt Issue</u>	<u>Original Issue Amount</u>
Series 2002	4,130,000
Refunding Series 2010	9,820,000

**Hospitality Fee Revenue Bonds:**

<u>Debt Issue</u>	<u>Original Issue Amount</u>
Series 2004A	\$44,260,000
Series 2004B	5,400,000

**Limited Obligation Bonds:**

<u>Debt Issue</u>	<u>Original Issue Amount</u>
Series 2009	\$10,065,000

**South Carolina Jobs-Economic Development Authority (JEDA) Subordinate Revenue Bonds (Myrtle Beach Convention Center Hotel Project):**

<u>Debt Issue</u>	<u>Original Issue Amount</u>
Series 2001B	\$23,500,000

**Water Works & Sewer System Revenue Bonds:**

<u>Debt Issue</u>	<u>Original Issue Amount</u>
Series 2007	\$11,710,000
Series 2011	8,900,000

Note: The City also has outstanding Tax Increment Revenue Bonds, Series 2006A and 2006B, for which separate quarterly and annual reports of supplemental information are filed.

**City of Myrtle Beach, SC**  
SUPPLEMENTAL INFORMATION REPORTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Table of Contents**

<b>SECTION 1--GENERAL OBLIGATION BONDS .....</b>	<b>2</b>
FINANCIAL INFORMATION .....	2
GENERAL FUND BUDGET .....	3
CITY REVENUES .....	4
<i>Revenues from Ad Valorem Taxes .....</i>	<i>4</i>
<i>Revenues from Business License Fee.....</i>	<i>4</i>
<i>Revenues for Current Services.....</i>	<i>4</i>
<i>Intergovernmental Revenues .....</i>	<i>5</i>
LIMITED PURPOSE REVENUES.....	5
<i>Revenues from Local Hospitality Fees.....</i>	<i>5</i>
<i>State-Shared Accommodations Tax .....</i>	<i>5</i>
<i>Local Accommodations Fee.....</i>	<i>6</i>
<i>Local Option Tourism Development Fee.....</i>	<i>6</i>
<i>General Obligation Debt.....</i>	<i>6</i>
OUTSTANDING GENERAL FUND INDEBTEDNESS .....	7
GENERAL OBLIGATION AND CERTIFICATE OF PARTICIPATION DEBT ON PER CAPITA BASIS .....	7
COMPOSITE GENERAL FUND DEBT SERVICE .....	8
THE CONVENTION CENTER HOTEL PROJECT .....	8
OTHER CITY DEBT.....	9
LEGAL DEBT LIMIT OF COUNTIES, SCHOOL DISTRICTS AND SPECIAL PURPOSE DISTRICTS; OVERLAPPING DEBT ...	10
MISCELLANEOUS DEBT INFORMATION .....	10
FUTURE DEBT PLANS; OTHER CAPITAL NEEDS .....	11
<b>SECTION 2—PUBLIC FACILITIES CORPORATION OBLIGATIONS.....</b>	<b>12</b>
GENERAL DISCLOSURES .....	12
HOSPITALITY FEE-RELATED DISCLOSURES.....	12
<b>SECTION 3—HOSPITALITY FEE REVENUE BONDS.....</b>	<b>13</b>
HISTORICAL HOSPITALITY FEE COLLECTIONS .....	13
HOSPITALITY FEE DEBT SERVICE COVERAGE .....	14
<b>SECTION 4—MYRTLE BEACH CONVENTION CENTER HOTEL PROJECT .....</b>	<b>15</b>
CONVENTION CENTER MARKETING OVERVIEW .....	15
SELLING STRATEGIES—GOALS AND OBJECTIVES .....	15
BOOKING GUIDELINES AND PRIORITIES .....	16
STARWOOD / INTERSTATE HOTEL PARTNERSHIP UPDATE .....	17
<b>SECTION 5—WATERWORKS &amp; SEWER SYSTEM REVENUE DEBT.....</b>	<b>20</b>
DESCRIPTION OF THE SYSTEM .....	20
RETAIL SYSTEM, WHOLESALE WATER AND SEWER PURCHASE ARRANGEMENTS .....	20
SEWER SYSTEM .....	21
WATER AND SEWER RATES .....	22
WATER .....	24
SEWER .....	25
RATE REGULATION.....	25
WATER AND SEWER BILLING AND COLLECTION POLICIES .....	26
RATE HISTORY .....	26
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE .....	27

## SECTION 1--GENERAL OBLIGATION BONDS

### Financial Information

#### Five-Year Summary of General Fund Operations

#### CITY OF MYRTLE BEACH, SOUTH CAROLINA Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund Years Ended June 30, 2009 through 2013

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
<b>REVENUES</b>					
Ad Valorem Taxes	\$19,316,778	\$18,931,979	\$17,482,056 <sup>1</sup>	\$17,087,137	\$18,578,685
Licenses and Permits	20,797,480	20,383,674	21,014,534	22,135,007	22,952,056
Intergovernmental Revenue	2,691,693	2,744,397	2,547,357	2,423,618	2,561,079
Fines and Forfeitures	1,609,618	1,600,117	1,185,600	947,103	1,011,354
Charges for Current Services	2,477,084	2,509,483	2,480,006	2,556,219	2,677,081
Use of Money & Property	<u>3,008,974</u>	<u>2,521,735</u>	<u>3,076,946</u>	<u>3,711,988</u>	<u>3,020,736</u>
Total Revenues	<u>\$49,901,627</u>	<u>\$48,691,385</u>	<u>\$47,786,499</u>	<u>\$48,861,072</u>	<u>\$50,800,991</u>
<b>EXPENDITURES</b>					
Operation & Maintenance:					
General Government	\$11,002,924	\$10,627,804	\$10,503,356	\$9,552,390	\$9,232,183
Public Works	1,536,728	1,477,446	1,382,108	1,428,340	1,403,396
Public Safety	30,145,756	30,737,554	29,055,534	31,204,197	32,188,149
Transportation	2,725,111	2,966,934	3,112,385	3,208,773	3,441,234
Cultural & Leisure Services	10,852,931	10,739,304	10,358,263	10,818,679	11,459,680
Community Development	2,227,466	2,245,155	2,080,826	2,495,270	2,433,237
Capital Outlay	<u>610,395</u>	<u>221,530</u>	<u>46,346</u>	<u>246,595</u>	<u>358,419</u>
Total expenditures	<u>\$59,101,311</u>	<u>\$59,015,727</u>	<u>\$56,538,818</u>	<u>\$58,954,694</u>	<u>\$60,516,298</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,199,684)</u>	<u>(10,324,342)</u>	<u>(8,752,319)</u>	<u>(10,093,622)</u>	<u>(9,715,307)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers	7,877,424	7,686,037	9,409,420 <sup>1</sup>	10,308,329	11,382,934
Proceeds from Sale of Fixed Assets	25,441	13,836	13,226		11,020
Operating transfers out	<u>(295,334)</u>	<u>-</u>	<u>-</u>	<u>(106,055)</u>	<u>(198,371)</u>
Total other sources (uses)	<u>\$7,607,531</u>	<u>\$7,699,873</u>	<u>\$9,422,646</u>	<u>\$10,202,274</u>	<u>\$11,195,583</u>
<b>Net Change in Fund Balances</b>	<u>(1,592,153)</u>	<u>(2,624,469)</u>	<u>670,327</u>	<u>108,652</u>	<u>1,480,276</u>
Fund Balances	<u>12,182,105</u>	<u>10,589,952</u>	<u>7,965,483</u>	<u>8,635,810</u>	<u>8,744,462</u>
<b>Fund Balance, ending</b>	<u>\$10,589,952</u>	<u>\$7,965,483</u>	<u>\$8,635,810</u>	<u>\$8,744,462</u>	<u>\$10,224,738</u>

<sup>1</sup> In August 2010 (Fiscal Year 2011), per statutory requirements, the City began to credit accounts of owner-occupied properties in the amount of the operating millage paid and to reimburse the General Fund dollar for dollar with the proceeds of a 1% Tourism Development Fee, which is levied on all taxable sales inside the City. This explains the apparent reduction in property taxes and the concomitant increase in interfund transfers from that year forward.

Source: Audited financial statements for Fiscal Years ended June 30, 2009 through 2013.

## General Fund Budget

The following is a summary of the City's General Fund budget for Fiscal Year 2014.

	<u>2014 Budget</u>
Revenues	
Ad valorem Taxes	\$19,197,000
Business Licenses Fees	18,773,000
Other Licenses and Fees	4,694,400
Intergovernmental Revenues	1,886,843
Fines and Forfeitures	1,051,325
Charges for Current Services	2,965,731
Use of Money and Property	2,775,000
Total Revenues	\$51,343,299
Expenditures	
Operations and Maintenance:	
General Government	\$10,071,911
Public Works Administration	1,439,679
Public Safety	32,515,713
Transportation	3,784,777
Cultural & Leisure Services	12,493,516
Community Development	2,362,395
Capital Outlay	55,766
Total Expenditures	\$62,723,757
Excess (deficiency) of revenues over (under) expenditures	\$(11,380,458)
Other financing sources and (uses):	
Interfund Transfers In	11,394,860
Interfund Transfers Out	(86,573)
Appropriation from Restricted Fund Balance	72,171
Proceeds from Sale of Fixed Assets	-0-
Total other sources (uses)	\$11,380,458
Net Change in Fund Balances	-0-
Fund balance, Beginning of Fiscal Year	\$10,224,738
Estimated fund balance, End of Fiscal Year	\$10,224,738

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Prepared by: Office of Budget and Evaluation.

## City Revenues

### *Revenues from Ad Valorem Taxes*

The largest source of City operating revenues is the *ad valorem* tax levied on real property and certain classes of personal property within the City. A discussion of general tax information, tax rates and millage levied upon taxpayers of the City for City purposes is set forth in various sections below. All the revenues from *ad valorem* taxes and fees in lieu of taxes are either General Fund revenues and may therefore be used by the City on an unrestricted basis or are collected for the purposes of paying debt service on general obligation bonds of the City. For the five fiscal years shown below, the City has received the following amounts as revenues from *ad valorem* taxes:

<u>Fiscal Year</u>	<u>Taxes Collected<sup>1</sup></u>	<u>Total Taxes and TDF Transfers<sup>1</sup></u>
2013	\$25,112,930	\$28,037,455
2012	24,819,307	27,539,535
2011	25,551,735	28,342,390
2010	27,416,733	27,416,733
2009	29,015,342	29,015,342

<sup>1</sup> In 2010-11, the City adopted a tax credit for owner-occupied residences. The credit is in the amount of the taxes levied for operating purposes—approximately 87.6% of the total levy. The foregone property tax revenue is replaced in the affected funds by a transfer from the Tourism Development Fee (the “TDF”). This table shows the value of the net tax collections (Taxes Collected) as well as the total revenues resulting from the tax levy (Total Taxes and TDF Transfers).

### *Revenues from Business License Fee*

Every individual, firm, partnership, corporation or any other group or combination acting as a unit engaged or intending to engage in any calling, business, occupation or profession in the City is required to pay an annual license fee. The fee is comprised of a base fee ranging from \$100 to \$250 for the first \$2,000 of gross income received or accrued for the previous calendar year and a rate ranging from \$2.50 to \$10.00 for every \$1,000 thereafter (which rate declines after the first \$1,000,000 of gross income). The gross income is verified by inspection of returns filed with the Internal Revenue Service, the Department of Revenue or the South Carolina Insurance Commission. For the five fiscal years shown, the City has received the following amounts as revenues from business license fees allocable to all funds, including, without limitation, the General Fund:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$18,354,589
2012	17,795,885
2011	17,516,219
2010	17,149,465
2009	19,016,823

### *Revenues for Current Services*

These revenues are comprised primarily of revenues from parks and recreation fees and charges for suburban fire services. For the five fiscal years shown, the City has received the following amounts from current services allocable to all funds, including, without limitation, the General Fund:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$4,962,611
2012	5,090,014
2011	4,738,294
2010	4,448,104
2009	4,493,502

### *Intergovernmental Revenues*

Intergovernmental revenues are comprised of revenues shared by the State or collected by the State for administrative convenience. They include the state-shared accommodations tax, which now exceeds \$7,000,000 per year and also include discretionary grants that may cause unusual variations from that base amount. For the five fiscal years shown, the City has received the following amounts from intergovernmental sources allocable to all funds, including, without limitation, the General Fund:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$13,307,142
2012	12,193,868
2011	12,062,703
2010	14,148,733
2009	11,655,581

### **Limited Purpose Revenues**

The City has four major limited-purpose revenues: the local hospitality fee, a State-shared accommodations tax, the local accommodations fee and the local option Tourism Development Fee. All are accounted for in their own special revenue funds and are transferred into the General Fund or other special revenue funds when used in support of programs accounted for therein.

#### *Revenues from Local Hospitality Fees*

Hospitality fee revenues are set forth in the tables under the heading “HOSPITALITY FEE REVENUE BONDS” in this Supplemental Information document.

#### *State-Shared Accommodations Tax*

A two percent State-shared accommodations tax is imposed for a State-wide basis on the gross proceeds derived from the rental or charges for any rooms, campground spaces, lodgings or sleeping accommodations furnished to transients by any hotel, inn, tourist court, tourist camp, motel, campground, residence or any place in which rooms, lodgings or sleeping accommodations are furnished to transients for consideration. This tax does not apply where the facilities consist of less than six sleeping rooms, contained in a single building or where the period of stay is greater than 90 continuous days. Growth in the years indicated below has been heavier during the “shoulder seasons” of April through June and October through December. The tax is paid to the City and the County by the State 30 days after the end of each quarter (ending March 31, June 30, September 30 and December 31).

Historical accommodations tax receipts for the City and the County are shown in the table below:

<u>Year</u>	<u>City Collections</u>	<u>City Growth Rate</u>	<u>County Collections</u>	<u>County Growth Rate</u>
2013	\$8,888,878	16.72%	\$3,858,389	11.36%
2012	7,615,510	13.19	3,464,735	9.75
2011	6,728,035	5.00	3,156,813	5.66
2010	6,407,148	(3.27)	2,738,735	(7.24)
2009	6,623,960	(5.88)	2,952,741	(12.74)

<sup>1</sup> The City’s Office of Budget & Evaluation estimates that the true growth rate of recurring Accommodations Tax revenue for 2012 was about 4.1% and for 2013, about 6.6%. More than \$600,000 of the 2012 collections and about \$1.3 million of the 2013 collections resulted from settlements of lawsuits and the consequent collections of liabilities that had accrued over a period of ten to twelve years. Those portions of 2012 and 2013 collections will not become part of the recurring base of this tax. Recurring collections are estimated in the neighborhood of \$7.1 million for 2012 and \$7.5 million for 2013.

Sources: City Office of Budget and Evaluation and Horry County Finance Department

### *Local Accommodations Fee*

A .5 percent local accommodations fee is imposed within the city limits of Myrtle Beach on the gross proceeds derived from the rental or charges for any rooms, campground spaces, lodgings or sleeping accommodations furnished to transients by any hotel, inn, tourist court, tourist camp, motel, campground, residence or any place in which rooms, lodgings or sleeping accommodations are furnished to transients for consideration. This fee does not apply where the facilities consist of fewer than six sleeping rooms, contained in a single building or where the period of stay is greater than 90 continuous days. The fee is paid directly to the City by the fee payer 20 days after the end of each month.

The following table sets forth the amounts of local accommodations tax revenue collected during the Fiscal Years 2009 through 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$2,239,700
2012	2,216,260
2011	2,047,926
2010	1,831,529
2009	1,813,785

### *Local Option Tourism Development Fee*

Effective August 1, 2009, a one percent local option Tourism Development Fee was imposed for a ten-year term on all taxable sales inside the City limits. This fee is to be used for tourism promotion in markets outside of South Carolina. Beginning in Fiscal Year 2011, 20 percent of the fees collected were required to be used for either property tax relief or on tourist-related capital projects.

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$23,508,833
2012	23,500,800
2011	20,440,454
2010	14,195,982

### *General Obligation Debt*

Under the provisions of Article X, Section 14 of the State Constitution, an incorporated municipality may, in such manner and upon such terms and conditions as the General Assembly shall prescribe by general law, incur general obligation debt authorized by a majority vote of the qualified electors thereof voting in a referendum, without limitation as to amount, and incur, without an election, general obligation debt (in addition to bonded indebtedness existing on November 30, 1977, and bonded indebtedness authorized by a majority vote of qualified electors) in an amount not exceeding eight percent of the assessed value of all taxable property therein.

As of June 30, 2013, the amount of new general obligation debt that could be issued by the City without a referendum was \$5,550,283, according to estimates provided by the City's Office of Budget and Evaluation. The City's debt limitation as of June 30, 2013 is calculated as set forth in the following table:



### Assessed Value

Total Assessed Value (which includes all taxable property and 1987 assessed value of merchants' inventory)	\$383,941,035
Constitutional Debt Limit (8% of Assessed Value)	30,715,283
Less Debt Applicable to Debt Limit	<u>(25,165,000)</u>
Legal Debt Margin	<u>\$ 5,550,283</u>

Source: County Assessor, City Office of Budget and Evaluation.

### **Outstanding General Fund Indebtedness**

As of June 30, 2013, the City had a total of \$56,540,000 in general obligation bonded debt outstanding. The following table gives specific information concerning the general obligation bonds and the 2010 COPS of the City outstanding as of June 30, 2013:

<u>Outstanding Debt Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Balance as of June 30, 2013</u>
GO Bonds Series 2003B	March 2014	4.00%	\$ 540,000
GO Bonds Series 2006A <sup>1</sup>	March 2031	4.125 - 5.00	5,970,000
GO Bonds Series 2006B <sup>1</sup>	March 2031	4.00 - 5.00	2,345,000
GO Bonds Series 2006C	March 2026	4.00 - 6.00	1,865,000
GO Bonds, Series 2008	March 2033	4.50 - 5.00	9,180,000
GO Bonds, Series 2009A	March 2017	3.41	345,000
GO Bonds, Series 2011A	March 2017	2.00 - 3.00	1,645,000
GO Bonds, Series 2011B <sup>1</sup>	March 2028	3.00 - 5.00	15,430,000
GO Bonds, Series 2012A	March 2032	2.00-2.75	4,030,000
GO Bonds, Series 2012B (Taxable)	March 2032	3.00-3.50	7,560,000
2010 COPS <sup>2</sup>	July 2017	2.50 - 4.00	7,630,000

<sup>1</sup>Not subject to constitutional debt limit. Authority to issue was provided by referendum of November 6, 2001.

<sup>2</sup>Not subject to constitutional debt limit under statutes effective at the time of original issue.

### **General Obligation and Certificate of Participation Debt on Per Capita Basis**

The following table sets forth the amount of general obligation and 2010 COPS indebtedness of the City as of June 30, 2009 through 2013:

<u>Fiscal Year</u>	<u>GO and 2010 COPS<sup>1</sup> Indebtedness</u>	<u>Debt Per Capita<sup>2</sup></u>	<u>Debt per \$100 of Assessed Value</u>	<u>Debt per \$100 of True Value</u>
2013	\$56,540,000	\$2,085	\$14.72	\$0.79
2012	48,970,000	1,806	13.22	0.69
2011	53,095,000	1,958	14.33	0.72
2010	56,700,000	2,091	12.66	0.63
2009	60,150,000	2,218	14.65	0.73

<sup>1</sup> 2010 COPS Indebtedness includes, for periods prior to the issuance of the 2010 COPS, debt service on the certificates of participation refunded with the proceeds of the 2010 COPS.

<sup>2</sup> Debt per capita calculations are based upon 2010 census information on population.

## Composite General Fund Debt Service

The following table sets forth the debt service requirements for all outstanding general obligation and 2010 COPs indebtedness of the City. For purposes of the following table, totals may not add due to rounding.

Fiscal Year Ending <u>June 30,</u>	<u>EXISTING GO BONDS</u>		<u>2010 COPs</u>	Total Debt Service
	<u>Principal</u>	<u>Interest</u>	<u>Prin. &amp; Int.</u>	
2014	2,745,000	1,975,487	1,653,150	6,373,637
2015	2,470,000	1,874,109	1,660,250	6,004,359
2016	2,095,000	1,787,567	1,661,525	5,544,092
2017	2,230,000	1,701,323	1,668,700	5,600,023
2018	2,020,000	1,609,035	1,657,500	5,286,535
2019	2,550,000	1,518,160		4,068,160
2020	2,580,000	1,408,848		3,988,848
2021	2,690,000	1,297,673		3,987,673
2022	2,800,000	1,181,060		3,981,060
2023	2,910,000	1,072,003		3,982,003
2024	3,040,000	958,906		3,998,906
2025	3,150,000	840,050		3,990,050
2026	3,280,000	715,725		3,995,725
2027	3,220,000	586,050		3,806,050
2028	2,630,000	458,930		3,088,930
2029	2,000,000	354,168		2,354,168
2030	2,085,000	273,686		2,358,686
2031	2,175,000	187,731		2,362,731
2032	1,560,000	97,031		1,657,031
2033	<u>680,000</u>	<u>34,850</u>		<u>714,850</u>
Total	<u>\$48,910,000</u>	<u>\$19,992,392</u>	<u>\$8,301,125</u>	<u>\$77,143,517</u>

### The Convention Center Hotel Project

In 2001, the South Carolina Jobs-Economic Development Authority (“JEDA”) issued its \$40,845,000 Senior Revenue Bonds (Myrtle Beach Convention Center Hotel Project) 2001 Series A (the “Series 2001A Bonds”) and its \$23,500,000 Subordinate Revenue Bonds (Myrtle Beach Convention Center Hotel Project) 2001 Series B (the “Series 2001B Bonds” and, together with the Series 2001A Bonds, the “Series 2001 Bonds”). The proceeds of the Series 2001 Bonds were loaned to the Myrtle Beach Convention Center Hotel Corporation, a South Carolina nonprofit corporation and instrumentality of the City (the “Hotel Corporation”), in order to finance the construction of the Convention Center Hotel Project adjacent to the Myrtle Beach Convention Center. The Convention Center Hotel Project was completed and opened for business in February 2003. The Series 2001 Bonds were payable solely from revenues derived from the operation of the Convention Center Hotel Project and, in the case of the Series 2001B Bonds, amounts provided from the City's Limited Guaranty (as defined below).

In connection with the issuance by JEDA of the Series 2001B Bonds, the City agreed to replenish, out of legally available funds, balances required to be maintained in the debt service reserve account for the Series 2001B Bonds (the “Subordinate Debt Service Reserve Amount”) resulting from revenues from the Convention Center Hotel Project being insufficient to fund debt service on the Series 2001B Bonds (the “Limited Guaranty”). The initial reserve fund requirement with respect to the Series 2001B Bonds, which decreases over the term of the Series 2001B Bonds (and the City's maximum annual funding obligation with respect to the Series 2001B Bonds), is \$2,093,752. The obligation of the City to make payments under the Limited Guaranty is subject to annual budgetary appropriation by the City Council.

On May 27, 2004 the City issued its \$44,260,000 principal amount Hospitality Fee Revenue Bonds, Series 2004A and \$5,400,000 principal amount Taxable Hospitality Fee Revenue Bonds, Series 2004B (together, the “2004

Hospitality Fee Revenue Bonds”). The proceeds from the sale of the 2004 Hospitality Fee Revenue Bonds were applied primarily to refund the Series 2001A Bonds, fund operating expense and capital reserve funds for the Convention Center Hotel Project, replenish the debt service reserve account for the Series 2001B Bonds and pay interest on the 2004 Hospitality Fee Revenue Bonds through December 1, 2005.

The 2004 Hospitality Fee Revenue Bonds are payable from and secured by a pledge and lien on the Hospitality Fees on a parity with the pledge and lien on the Hospitality Fees securing the City's obligations with respect to the Refunded Certificates but junior to that securing the City's obligations with respect to the Prior Certificates. See “-Other City Debt.”

The City is the fee titleholder of the land upon which the Convention Center Hotel Project is located and leases the land to the Hotel Corporation pursuant to a Site Lease and Support Facility Sublease dated as of June 1, 2001, as amended (the “Site Lease”). Rentals payable by the Hotel Corporation to the City under the Site Lease, which are payable only from cash flow of the Hotel Corporation after payment of operating expenses, debt service on the Series 2001B Bonds and funding required reserves, include a component to reimburse the City (on a cumulative basis) for amounts paid by the City for debt service on the 2004 Hospitality Fee Revenue Bonds.

The Ordinance under which the 2004 Hospitality Fee Revenue Bonds were issued provides that the City may choose to apply, in lieu of Hospitality Fees, rentals under the Site Lease or other legally available moneys, if any, which the City Council in its sole discretion by budgetary appropriation shall determine to apply, to the required payments on the 2004 Hospitality Fee Revenue Bonds. Neither the lease rentals nor such other legally available moneys (other than Hospitality Fees) are pledged to the payment of the 2004 Hospitality Fee Revenue Bonds. The maximum annual debt service on the 2004 Hospitality Fee Revenue Bonds is \$3,955,119. As of the date of issuance of the Series 2014 Bonds, the 2004 Hospitality Fee Revenue Bonds will be legally defeased.

#### **Other City Debt**

In addition to the general obligation bonds and 2004 Hospitality Fee Revenue Bonds described above, the City has outstanding the following classifications of debt payable from specific sources of revenues.

(i) *Waterworks and Sewer System Revenue Bonds, Series 2007.* As of June 30, 2013, the City had outstanding \$10,305,000 Waterworks and Sewer System Revenue Bonds secured by a pledge of the revenues of the System.

(ii) *Waterworks and Sewer System Revenue Bonds, Series 2011.* As of June 30, 2013, the City had outstanding \$8,900,000 Waterworks and Sewer System Revenue Bonds secured by a pledge of the revenues of the System.

(iii) *Tax Increment Revenue Bonds (Myrtle Beach Air Force Base Redevelopment Project Area), Series 2006A and Series 2006B.* At June 30, 2013, the City had outstanding \$28,960,000 Tax Increment Revenue Bonds (Myrtle Beach Air Force Base Redevelopment Project Area), Series 2006A (the “2006A TIF Bonds”) and \$10,050,000 Tax Increment Bonds (Myrtle Beach Air Force Base Redevelopment Project Area), Junior Lien Series 2006B (the “2006B TIF Bonds,” and together with the 2006A TIF Bonds, the “2006 TIF Bonds”). The 2006 TIF Bonds are secured by a pledge of the revenues attributable to an increase in assessed value of certain real property located on the former Myrtle Beach Air Force Base, and in the case of the 2006A TIF Bonds, certain assessments imposed on a portion of such property.

(iv) *Hospitality Fee COPS.* In 1998, the City and Horry County financed a minor league baseball stadium in the City, the construction of which was completed in April 1999, through the issuance of Myrtle Beach Public Facilities Corporation Certificates of Participation, Series 1998 (City of Myrtle Beach Stadium Project) (the “Prior Certificates”). The outstanding principal balance of these obligations as of June 30, 2013 was \$4,110,000. The City's obligation requires the City to pay 70 percent of the debt service on the Prior Certificate and is secured by a pledge of the Hospitality Fees senior to the pledge of such Hospitality Fees securing the 2004 Hospitality Fee Revenue Bonds and the 2002 COPS. In 2002 the City financed, using an installment sale agreement with the Myrtle Beach Public Facilities Corporation (a nonprofit corporation), the construction of certain streetscape improvements, stormwater improvements, public parks and other tourism related development projects (the “2002 COPs”). The outstanding principal balance of these obligations as of June 30, 2013 was \$2,460,000.

(v) *2004 State Revolving Fund Loan.* In 2004 the City financed a series of stormwater system improvements in drainage basins receiving runoff from various areas bordering the Atlantic Ocean in order to redirect the flow of storm drainage away from the ocean. The outstanding principal balance of this obligation, which is secured by a pledge of stormwater fees, as of June 30, 2013, was \$7,984,272.

(vi) *Limited Obligation Bonds.* In 2009 the City issued \$10,065,000 Limited Obligation Bonds to finance certain improvements within the City's Redevelopment Project Area. The Limited Obligation Bonds are secured by a pledge of the revenues attributable to an increase in assessed value of certain real property located in the City's Oceanfront Redevelopment Project Area. The outstanding principal balance of this obligation as of June 30, 2013 was \$9,770,000.

(vii) *2009 State Revolving Fund Loan.* In 2009 the City financed stormwater system improvements in drainage basins located on 4<sup>th</sup> Avenue North. The outstanding principal balance of this obligation, which is secured by a pledge of stormwater fees, as of June 30, 2013 was \$2,377,257.

(viii) *Tax Increment Revenue Bonds (Myrtle Beach Air Force Base Redevelopment Project Area), Series 2010.* At June 30, 2013, the City had outstanding \$7,935,000 Tax Increment Revenue Bonds (Myrtle Beach Air Force Base Redevelopment Project Area), Series 2010 (the "2010 TIF Bonds"). The 2010 TIF Bonds are secured by a pledge of the revenues attributable to an increase in the assessed value of certain real property located on the former Myrtle Beach Air Force Base.

(ix) *Myrtle Beach Public Facilities Corporation Refunding Certificates of Participation (Myrtle Beach Convention Center), Series 2010.* At June 30, 2013, the City had outstanding \$7,630,000 Myrtle Beach Public Facilities Corporation Refunding Certificates of Participation (Myrtle Beach Convention Center), Series 2010 (the "2010 COPs"). The 2010 COPs are payable from such amounts, if any, as are annually appropriated by the City Council for such purpose.

## **Legal Debt Limit of Counties, School Districts and Special Purpose Districts; Overlapping Debt**

Under the provisions of Article X, Section 14 of the State Constitution, each county, incorporated municipality and special purpose district may, in such manner and upon such terms and conditions as the General Assembly shall prescribe by general law, (a) incur general obligation debt authorized by a majority vote of the qualified electors thereof voting in a referendum, without limitation as to amount, and (b) incur, without an election, general obligation debt (in addition to bonded indebtedness existing on November 30, 1977, and bonded indebtedness authorized by a majority vote of qualified electors) in an amount not exceeding eight percent of the assessed value of all taxable property therein. School districts are subject to similar constraints pursuant to the provisions of Article X, Section 15, except that the cut-off date for bonded indebtedness is November 30, 1982.

The following table sets forth the outstanding general obligation debt as of June 30, 2012 of each political subdivision which overlaps the City, either in whole or in part.

<u>Jurisdiction</u>	<u>Principal Outstanding</u>	<u>Percentage Applicable to the City of Myrtle Beach <sup>1</sup></u>	<u>Amount Applicable to the City of Myrtle Beach</u>
Horry County	\$108,600,000	18.5%	\$20,091,000
Horry County School District	357,575,000	18.5	66,151,375

<sup>1</sup> The percentage of debt applicable to the City is based on the percentage of assessed valuation of property located in the City.

Source: City Finance Department and Horry County.

## **Miscellaneous Debt Information**

The City has not defaulted in the payment of principal or interest, or in any other material respect, with respect to any of its securities at any time within the last 25 years, nor has the City within such time issued any refunding bonds for the purpose of preventing a default in the payment of principal or interest on any of its securities then outstanding. The City has not used the proceeds of any bonds or other securities for current operating expenses at any time within the last 25 years.

## **Future Debt Plans; Other Capital Needs**

The Fiscal Year 2013-2018 capital improvement plan and accompanying debt management plan contemplate the issuance in the calendar year 2017 of approximately \$1.7 million principal amount of general obligation bonds to finance the construction of Fire Station No. 7 on Harrelson Boulevard near the Myrtle Beach International Airport and Coastal Grande Mall. Another \$1 million for Fire Station No. 3 Expansion is in the plan for 2018. It is likely that both of these projects will move to 2019 in the plan to be adopted in June 2014.

In November 2013, voters approved a bond referendum authorizing the City to issue up to \$10 million in general obligation bonds for construction of a performing arts center adjacent to the Myrtle Beach Convention Center. Bonds issued under authority of the referendum must be issued within five years of the vote authorizing the issue. The project may be included in the capital improvements program to be adopted for the fiscal years 2015-2019 before July 1, 2014.

In 2005, the City and the State of South Carolina entered into an Agreement Relating to the Issuance of State General Obligation Economic Development Bonds, whereby the State agreed to issue \$7 million in bonds to be used for the purchase of a portion of the property for the eventual expansion of the Myrtle Beach Convention Center. The Agreement anticipated that the City would complete the project within ten years using a combination of City and federal funds. The Agreement further provided that, upon the sale of the meeting and exhibit space partially financed with proceeds of the State bonds or the failure of the City to (a) purchase the land within 18 months, (b) begin construction within five years or (c) complete construction within ten years of June 2, 2005, then the City would reimburse the amount of Bond proceeds used to the General Fund of the State, plus interest and any redemption premium that may be payable with respect to such Bonds. The City completed the purchase of the land within the prescribed time period and proceeded to the design phase. Efforts to obtain sufficient federal funding for the project, as originally conceived, proved unsuccessful and the City proposed an alternative plan for the expansion that was designed to meet the intention of the project as originally conceived, with a manageable investment of City resources, by June 2, 2015. City leaders worked with members of the General Assembly who sponsored the inclusion of the project in the 2005 State Bond bill to negotiate a change in the project definition to signify agreement between the City and the State with respect to the eligibility of the alternative development plan. An agreement was completed during the 2013 legislative session and the approved project is the object of the present financing.

With respect to enterprise projects and stormwater improvements, the City will apply for a State Revolving Fund low interest loan in the amount of \$8.5 to \$11 million, depending upon construction bid results, in order to construct an ocean outfall in the Downtown Redevelopment Area. The City may issue Water and Sewer Bonds of as much as \$11 million in 2015.

## **SECTION 2—PUBLIC FACILITIES CORPORATION OBLIGATIONS**

### **General Disclosures**

General disclosures required under Continuing Disclosure agreements with respect to Public Facilities Corporation Obligations are identical to those required for General Obligation Bonds and are provided in Section 1 above.

### **Hospitality Fee-related Disclosures**

Additional disclosures required under continuing disclosure agreements with respect to Public Facilities Corporation Obligation pertain to the Hospitality Fee revenues, which are pledged to the 1998 Stadium COPs, the 2002 COPs and the 2004 Hospitality Fee Revenue Bonds. These disclosures are provided in Section 3 below.

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### SECTION 3—HOSPITALITY FEE REVENUE BONDS

#### Historical Hospitality Fee Collections

The following table sets forth the monthly amounts of City Hospitality Fees collected during the 12-month period ended June 30, 2013, based upon unaudited information.

<u>Month</u>	<u>Amount Collected</u>
July	\$1,459,223
August	1,714,850
September	1,369,578
October	792,818
November	523,800
December	377,419
January	324,256
February	265,851
March	357,078
April	769,462
May	785,638
<u>June</u>	<u>876,784</u>
Total	<u>\$9,616,757</u>

The following table sets forth the amount of Hospitality Fees collected by the City during the fiscal years 2009 through 2013, based upon unaudited information, by general source. The amounts shown in the table are presented on a cash basis and may differ from the audited figures, which are presented on an accrual basis.

<u>Fiscal Year</u>	<u>Food and Beverage Sales</u>	<u>Accommodations Revenues</u>	<u>Admissions</u>	<u>Total Hospitality Fees</u>
2013 <sup>(1)</sup>	\$4,341,478	\$4,453,961	\$821,319	\$9,616,757
2012	4,260,488	4,353,525	925,857	9,539,870
2011	4,059,977	4,105,647	805,099	8,970,723
2010	3,775,692	3,557,191	768,096	8,100,959
2009	3,862,858	3,695,825	755,828	8,314,511

<sup>1</sup> No single collector of Hospitality Fees represented more than 2.5% of Hospitality Fees collected in Fiscal Year 2013.

**Hospitality Fee Debt Service Coverage**

	<u>FISCAL YEAR</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Hospitality Fee collections <sup>(1)</sup>	\$8,222,570	\$8,283,197	9,023,991	9,463,908	9,855,620
Debt Service on Prior Lien Bonds					
Series 1998 COPs (Stadium) <sup>(2)</sup>	566,943	565,034	565,629	565,034	566,714
Series 2002 COPs <sup>(3)</sup>	314,650	313,700	312,575	311,050	313,650
Series 2004A Bonds <sup>(3)</sup>	2,245,019	2,245,019	2,320,019	2,322,019	2,318,719
Series 2004B Bonds <sup>(3)</sup>	<u>300,306</u>	<u>300,306</u>	<u>780,306</u>	<u>779,506</u>	<u>782,363</u>
Total Annual Debt Service	<u>3,426,918</u>	<u>3,424,059</u>	<u>3,978,529</u>	<u>3,977,609</u>	<u>3,981,445</u>
Debt Service Coverage	2.40	2.42	2.27	2.38	2.48

<sup>1</sup> This table contains audited figures stated on an accrual basis. Hospitality fee collections shown in the preceding table are stated on a cash basis and may vary from audited figures.

<sup>2</sup> Series 1998 COPs financed the Stadium per the terms of the Prior Installment Sale Agreement. Figures show City Portion equal to 70% of total debt service on Prior Certificates.

<sup>3</sup> Series 2002 COPs, Series 2004A Bonds and Series 2004B Bonds will no longer be outstanding as of the date of issuance of the Series 2014 Bonds.



## SECTION 4—MYRTLE BEACH CONVENTION CENTER HOTEL PROJECT

### Convention Center Marketing Overview

At the close of the City's fiscal year (June 2013) the Myrtle Beach Convention Center reported an annual occupancy of 64%. Occupancy at the close of FY 11/12 was recorded at 63%. Along with the steady occupancy, event attendance slightly increased with an estimated 495,500 average daily attendance recorded for the fiscal year. The convention industry's measurement of occupancy includes all days that the exhibit hall was occupied, whether for a move in, move out day or show day and designates 70% as the threshold for full capacity.

The Convention Center's contribution to the local hospitality community can be measured several ways. With exhibit hall occupancy exceeding 60% and with an estimated attendance at convention center events at almost a half million persons, the contribution to the local economy is considerable. These attendees stay in local accommodations and contribute close to 200,000 "hotel room nights occupied" annually. Much of this business comes in the fall, winter and spring when the tourist demand is off its peak. Over the past five years the Convention Center has hosted approximately 150 events annually contributing a direct spending impact of \$35 million or more to Myrtle Beach and the Grand Strand. With occupancy of the exhibit hall continuing to exceed 60%, it is unlikely that the center's economic contribution to Myrtle Beach can increase until a new expanded facility exists.

The Convention Center's marketing initiatives are intended to complement the initiatives of the Myrtle Beach Area Chamber of Commerce/Convention and Visitors Bureau. These agencies coordinate the placement of advertising in meeting industry publications to allow maximum exposure for Myrtle Beach. Growing tourism for the community at large continues to be the primary focus of the Chamber and its members. The two agencies' joint investment in growing convention and meetings business brings steady business throughout the year and introduces Myrtle Beach to attendees who, given the Grand Strand's statistics on repeat business, will likely return for a family vacation in addition to another convention event in the future. Although primarily geared to increase tourism, the newly appropriated "out-of-market" advertising has and will continue to assist us in growing convention business as we have planned several group business initiatives in key feeder cities in the coming year. Funding directed to convention center advertising and sales development and selling strategies are geared to attract users of exhibit space, hotel rooms and the many entertainment amenities we have to offer. Maintaining and increasing the accommodations tax and city funds directed towards Myrtle Beach Convention Center marketing is the one way the City of Myrtle Beach can protect its extensive investment in the center and the Sheraton Myrtle Beach Convention Center Hotel. The future expansion of the Center will require more funding to properly promote the facility. However, until that time, Convention Center staff maintains that it can continue the booking pace of the current facility with minimal budget increases for marketing.

Any future discussions regarding the expansion of the Convention Center (and the funding required) should include a conversation about the need to increase the marketing initiatives in order to avoid an empty expansion at the time of opening.

The goal for the Convention Center is to contribute as much economic impact to the city as possible while limiting operating deficits and delivering the superior service to each client. The Center is fortunate to have the natural asset of a beach that attracts returning customers each year. However, the popularity of Myrtle Beach and the annual return of many conventions make it difficult to find availability for new customers at peak or near-peak times of year. Given that the Center's goal focuses upon economic impact, marketing staff are careful to solicit business that will make the most effective contribution during times when availability is commensurate with demand.

### Selling Strategies—Goals and Objectives

The Center's marketing and sales efforts recognize the following about the product:

- ✓ *Appeals to state and regional associations combining business with pleasure.*
- ✓ *Appeals to corporations selling product via tradeshows to local and regional customers wanting to combine business with pleasure.*
- ✓ *Appeals to competitive indoor sporting events whose participants want to combine the competition (business) with pleasure.*

The Center's marketing and sales efforts keep the following goals or objectives at the forefront of marketing efforts:

- ✓ *Work to maintain 65% occupancy of exhibit halls annually.*

- ✓ *Book events that will use approximately 200,000 hotel rooms annually.*
- ✓ *Add between 150,000 and 175,000 hotel room reservations annually for all future years*
- ✓ *Work closely with Sheraton Hotel management to insure the city's investment and that exhibit hall and citywide events compliment the hotel's goals and objectives.*

The Center's marketing and sales efforts promote the accomplishment of goals by selling and include:

- ✓ *Team members dedicated to researching and identifying new business leads for the city, convention center and adjoining hotel. Leads identified as not needing convention center facilities are either forwarded to the adjoining hotel or to the MBCVB for distribution to the community.*
- ✓ *Face to face interaction with customers is accomplished by attending an average of 15 national and regional tradeshow each year and direct selling in key feeder cities six to eight times a year. Typically direct selling opportunities are coordinated with the MBCVB as well as the Sheraton Hotel to make certain the most ground is covered. This team approach let's our potential customers know early on that our destination partners work well together, a very important component to attracting citywide conventions specifically.*
- ✓ *Negotiation with regular users to tighten up on their schedules and provide opportunity for new business to be able to consider us.*
- ✓ *Introducing the center and city to potential customers in a personal way with site inspections, familiarization tours and direct access to explore the possibilities of Myrtle Beach. Site visits produce results and are a big part of our overall strategy is to create the right experience for the planner who is visiting our city.*

### **Booking Guidelines and Priorities**

The Center maintains a booking policy that provides an opportunity for convention and trade show business that generates the most room-nights to pre-empt events that generate fewer room-nights. Furthermore, events which occur annually may book earlier than, and take priority over one-time or less frequent events, even though both events may generate the same number of hotel room-nights. This booking policy has the effect of generating more hotel room nights per event, and thus also generating a higher level of spending by the events' delegates on lodging accommodations, meals, entertainment and travel throughout the City. The policy is the primary tool by which the Center's sales staff makes the highest and best usage of the Center's facilities, which economically benefits the entire local hospitality business community. The Center's booking policy, as set forth in the Business Plan and amended by City Council in 1999, assigns the following priorities to potential bookings:

Priority	Can Book Event as Definite	If Peak-Night Hotel Rooms for Recurring Events Are*	If Peak-Night Hotel Rooms for One-Time Events Are*
First	Any time	More than 1,000	More than 1,500
Second	Up to 5 years prior	500 to 1,000	750 to 1,500
Third	Up to 2 years prior	300 to 500	500 to 700
Fourth	Up to 18 months prior	Up to 300	Up to 500

\* As determined by event planner.

Bookings are not considered definite until a contract has been signed and the required deposit (typically 25 percent of total rent) is received. Tentative events that do not meet a booking policy may be booked for use, but only with the understanding that the tentative booking is subject to replacement with future bookings for other events that meet the booking policy priority. In booking events, the Center staff attempts to avoid booking similar events competing for a specific local market within 30 days before or after an event. Although the booking policy contains a higher threshold of required peak-night room activity for one-time events, whenever a one-time, non-recurring high economic event is best considered to displace a lower-impact recurring event, the booking decision will be made considering the level of market demand justifying the displacement, the relative seasonal need to fill

hotel rooms in the community, and the likelihood of the sales staff replacing the one-time event in following years with events of higher economic impact than that of the recurring event being displaced.

### **Starwood / Interstate Hotel Partnership Update**

The Myrtle Beach Convention Center continues to enjoy a strong working relationship with our partners at the Sheraton Myrtle Beach Convention Center Hotel. The Center benefits by increasing leads for new business with the support of Starwood's Global Sales Force. These agencies advertise cooperatively when possible.

The City and the Hotel Corporation entered into a new Room and Support Facilities Block Agreement with the change in hotel operators (the "Room Block Agreement"), pursuant to which the City may require the Hotel Corporation and the Manager to offer up to 75 percent of all guest rooms (excluding any guest rooms that are unavailable due to casualty or condemnation, the "Available Rooms") of the Hotel (such block of Available Rooms being hereinafter referred to as an "Event Room Block") to Potential Center Customers (as defined herein) at a pre-determined rate as set forth herein; provided, however, that (a) the number of Event Nights (as defined in "OPERATION OF THE PROJECT--Room Block Agreement") requested in such Event Room Block does not exceed 14 nights per calendar month, and (b) the total number of rooms requested to be blocked does not exceed the number of rooms available for the Event Room Block on such night. A "Potential Center Customer" is a person, entity, group or association (or any combination thereof) who is planning a City-Wide Event (as defined herein) that will commence at least 24 months (or 18 months, as described under "OPERATION OF THE PROJECT--Room Block Agreement") after the date that the City requests from the Hotel Corporation an Event Room Block for such Potential Center Customer. If a Potential Center Customer and the Manager have signed a contract with respect to a City-Wide Event and the requisite deposit has been made, then the Support Facilities (if still available at the time such reservation is made) shall be made available to the Potential Center Customer at the usual and customary rates.

A "Citywide Event" is defined to mean a convention, trade show or other event during which (i) a Potential Center Customer proposes to use a minimum of 25,000 gross square feet of exhibit space in the Center and (ii) such Potential Center Customer, in anticipation of the event, requests that hotels in the City (including the Hotel) and the surrounding metropolitan areas provide 500 guest rooms or more, in the aggregate, for one day or more while the event is held at the Center.

Neither the Hotel Corporation nor the Manager is obligated to reserve rooms in the Hotel for Center events for any of the other days in such calendar month and the remaining 25 percent of rooms may be booked during the 14-day period contemplated by the Room Block Agreement subject to the discretion of the Hotel Corporation or the Manager as to rates and availability. The Center's management believes that there will exist a symbiotic relationship between the Center and the Hotel because the continued success, and future expansion, of the Center requires in large part a proven quality convention center hotel with immediate access to the Center's facilities. Because excess amounts on deposit in the Cash Trap Fund, if any, may be used to finance among other things expansions or renovations of the Center, the ability of the Hotel to book rooms to capacity is clearly a common goal of the management of the Center and the Hotel.

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**Sheraton Myrtle Beach  
Statement of Income  
Mar 2013**

Current					Year to Date			
Act vs Bgt	Last Year	Budget	Actual		Actual	Budget	Last Year	Act vs Bgt
0	12,400	12,400	12,400	Rooms Available	146,000	146,000	146,400	0
262	8,913	8,166	8,428	Rooms Sold	88,416	87,130	87,985	1,286
(20.13)	\$ 130.46	\$ 132.45	\$ 112.32	ADR	\$ 104.91	\$ 106.84	\$ 102.59	(1.92)
2.1	71.9%	65.9%	68.0%	Occupancy%	60.6%	59.7%	60.1%	0.9
(10.88)	\$ 93.78	\$ 87.22	\$ 76.34	RevPAR	\$ 63.54	\$ 63.76	\$ 61.66	(0.22)
(1.42)	\$ 163.97	\$ 126.33	\$ 124.91	Total RevPAR	\$ 99.04	\$ 95.40	\$ 94.73	3.64
(134,925)	1,162,816	1,081,552	946,627	Room Revenue	9,276,114	9,308,852	9,026,610	(32,738)
29,152	684,868	344,540	373,692	Food Revenue	3,695,353	3,241,420	3,452,084	453,933
10,148	76,961	50,821	60,969	Beverage Revenue	477,894	406,853	435,892	71,041
(848)	2,916	1,516	668	Telephone Revenue	13,504	16,351	20,280	(2,847)
78,820	105,624	88,096	166,916	Misc Dept Revenue	996,500	954,989	933,994	41,511
(17,653)	2,033,185	1,566,525	1,548,872	<b>Total Revenue</b>	14,459,365	13,928,465	13,868,860	530,900
(8,396)	294,016	246,261	254,657	Room Expense	2,938,250	2,713,117	2,692,726	(225,133)
(18,782)	317,301	212,321	231,103	Food Expense	2,216,853	2,041,421	1,986,684	(175,432)
1,914	19,220	17,508	15,594	Beverage Expense	148,233	150,929	150,231	2,696
(2,314)	9,827	9,869	12,183	Telephone Expense	114,099	110,393	108,383	(3,706)
952	3,470	3,694	2,742	Misc Dept Expense	22,220	37,973	33,389	15,753
(26,626)	643,834	489,653	516,279	<b>Departmental Expense</b>	5,439,655	5,053,833	4,971,413	(385,822)
8,020	90,836	145,378	137,358	Administrative and General	1,519,830	1,673,326	1,528,379	153,496
2,943	55,183	67,205	64,262	Sales and Marketing	800,125	819,853	766,943	19,728
19,346	53,381	76,892	57,546	Energy	750,927	796,916	761,893	45,989
(1,568)	59,697	53,334	54,902	Repairs and Maintenance	669,375	602,202	642,010	(67,173)
(4,021)	70,271	64,128	68,149	Franchise Fees	778,123	766,961	755,394	(11,162)
24,720	329,368	406,937	382,217	<b>Undistributed Expense</b>	4,518,380	4,659,258	4,454,619	140,878
(19,559)	1,059,983	669,935	650,376	<b>Gross Operating Profit</b>	4,501,330	4,215,374	4,442,828	285,956
<b>110.8%</b>				<b>&lt;&lt;&lt;&lt;Flow/Flex %&gt;&gt;&gt;&gt;</b>				<b>53.9%</b>
(1)	45,453	45,452	45,453	Management Fees	413,204	413,203	413,205	(1)
(19,560)	1,014,530	624,483	604,923	<b>Income before Fixed Expense</b>	4,088,126	3,802,171	4,029,623	285,955
(256)	23,919	23,747	24,003	Insurance	288,953	284,967	291,146	(3,986)
1,234	60,330	46,994	45,760	Leases- 3%	431,030	417,786	411,519	(13,244)
(67)	246,974	246,907	246,974	Leases	2,963,688	2,962,884	3,321,539	(804)
495	14,090	810	315	Other	(159,320)	(179,341)	(65,131)	(20,021)
1,406	345,313	318,458	317,052	<b>Total Fixed Charges</b>	3,524,351	3,486,296	3,959,073	(38,055)
(18,154)	669,217	306,025	287,871	<b>EBITDA</b>	563,775	315,875	70,550	247,900
(2,309)	90,580	88,271	90,580	Interest Expense Net	1,086,960	1,059,251	1,081,564	(27,709)
(26,677)	138,904	112,227	138,904	Depreciation & Amortization	1,666,851	1,346,719	1,026,838	(320,132)
28,986	229,484	200,498	229,484	<b>Other Expense</b>	2,753,811	2,405,970	2,108,402	347,841
(47,140)	439,733	105,527	58,387	<b>Net Income</b>	(2,190,036)	(2,090,095)	(2,037,852)	(99,941)

## March 2014 Budget Projections

	BudCast Apr 2013	BudCast May 2013	BudCast Jun 2013	BudCast Jul 2013	BudCast Aug 2013	BudCast Sep 2013	BudCast Oct 2013	BudCast Nov 2013	BudCast Dec 2013	BudCast Jan 2014	BudCast Feb 2014	BudCast Mar 2014	Total	Projection Mar 2013 T12	Projection Mar 2012 T12
Rooms Available	12,000	12,400	12,000	12,400	12,400	12,000	12,400	12,000	12,400	12,400	11,200	12,400	146,000	146,000	146,400
Rooms Sold	8,270	6,906	10,033	10,197	9,324	6,577	6,420	5,947	4,858	4,000	5,937	8,547	87,016	86,347	87,982
ADR	102.80	108.11	121.09	129.74	123.70	107.92	100.46	95.03	72.82	90.04	117.46	134.65	112.28	107.08	102.60
Occupancy%	68.9%	55.7%	83.6%	82.2%	75.2%	54.8%	51.8%	49.6%	39.2%	32.3%	53.0%	68.9%	59.6%	59.1%	60.1%
RevPAR	70.84	60.21	101.24	106.69	93.02	59.15	52.01	47.10	28.53	29.05	62.27	92.81	66.92	63.33	61.66
Total RevPAR	110.86	85.79	141.66	134.88	147.37	87.25	95.49	102.17	48.16	48.35	100.94	131.55	102.80	97.87	94.73
Room Revenue	850,139	746,607	1,214,878	1,322,990	1,153,408	709,768	644,961	565,167	353,760	360,175	697,376	1,150,852	9,770,080	9,245,768	9,026,610
Food Revenue	341,604	221,661	349,667	220,810	531,642	252,781	379,029	521,117	168,662	175,198	323,088	350,248	3,835,506	3,661,827	3,452,084
Beverage Revenue	29,362	30,248	44,222	29,650	40,665	26,155	52,358	75,657	28,294	27,112	46,240	49,251	479,214	473,905	435,892
Telephone Revenue	1,679	951	971	1,317	1,363	967	941	876	729	579	857	1,218	12,448	14,296	20,280
Misc Dept Revenue	107,524	64,353	90,228	97,742	100,303	57,328	106,804	63,227	45,702	36,427	62,939	79,595	912,174	893,763	933,994
<b>Total Revenue</b>	<b>1,330,309</b>	<b>1,063,820</b>	<b>1,699,966</b>	<b>1,672,509</b>	<b>1,827,381</b>	<b>1,046,998</b>	<b>1,184,093</b>	<b>1,226,043</b>	<b>597,147</b>	<b>599,491</b>	<b>1,130,500</b>	<b>1,631,164</b>	<b>15,009,422</b>	<b>14,289,560</b>	<b>13,868,860</b>
Room Expense	260,158	249,017	309,873	336,667	323,874	224,707	213,904	205,234	181,517	156,219	207,349	276,793	2,945,311	2,865,211	2,692,726
Food Expense	205,447	165,755	211,097	180,013	272,729	177,637	211,545	252,672	102,569	122,985	171,813	212,777	2,287,040	2,181,246	1,986,684
Beverage Expense	11,163	11,511	14,048	10,619	9,586	13,153	16,363	23,477	10,962	11,095	15,643	16,774	164,395	152,244	150,231
Telephone Expense	8,605	8,452	11,114	11,219	10,552	9,787	8,733	8,618	7,982	7,459	8,595	10,152	111,270	106,819	108,383
Misc Dept Expense	2,310	2,128	2,827	2,772	2,804	1,836	1,928	1,848	1,378	1,138	1,738	2,644	25,351	23,723	33,389
PTEB Dept Expense	0	(0)	0	0	0	0	0	0	(0)	(0)	0	0	(0)	(0)	(0)
<b>Departmental Expense</b>	<b>487,682</b>	<b>436,864</b>	<b>548,960</b>	<b>541,291</b>	<b>619,545</b>	<b>427,119</b>	<b>452,474</b>	<b>491,850</b>	<b>304,409</b>	<b>298,895</b>	<b>405,138</b>	<b>519,139</b>	<b>5,533,367</b>	<b>5,329,243</b>	<b>4,971,412</b>
Administrative and General	129,864	129,264	136,487	160,629	147,205	123,991	127,276	122,703	114,639	116,148	126,053	139,221	1,573,479	1,537,689	1,528,379
Sales and Marketing	73,204	66,577	88,286	73,592	94,480	66,382	63,022	62,206	62,456	66,333	63,359	69,988	849,884	798,497	766,943
Energy	60,281	54,520	73,806	87,064	79,361	61,403	60,247	64,122	60,931	48,528	60,048	79,834	790,146	758,597	761,893
Repairs and Maintenance	57,667	51,332	60,980	66,430	62,092	57,544	56,592	51,046	47,878	48,844	48,862	55,750	665,018	662,708	642,010
Franchise Fees	67,033	65,750	71,552	72,892	70,791	65,294	64,491	63,502	60,883	62,713	66,890	72,509	804,301	773,310	755,394
<b>Undistributed Expense</b>	<b>388,050</b>	<b>367,444</b>	<b>431,112</b>	<b>460,606</b>	<b>453,929</b>	<b>374,614</b>	<b>371,628</b>	<b>363,579</b>	<b>346,787</b>	<b>342,565</b>	<b>365,213</b>	<b>417,302</b>	<b>4,682,829</b>	<b>4,530,801</b>	<b>4,454,619</b>
<b>Gross Operating Profit</b>	<b>454,577</b>	<b>259,511</b>	<b>719,895</b>	<b>670,611</b>	<b>753,908</b>	<b>245,265</b>	<b>359,992</b>	<b>370,614</b>	<b>(54,049)</b>	<b>(41,970)</b>	<b>360,149</b>	<b>694,723</b>	<b>4,793,226</b>	<b>4,429,517</b>	<b>4,442,829</b>
Management Fees	52,808	35,205	26,403	127,618	52,808	22,003	30,804	0	0	8,801	35,205	48,406	440,061	413,203	413,205
<b>Income before Fixed Expense</b>	<b>401,769</b>	<b>224,307</b>	<b>693,491</b>	<b>542,993</b>	<b>701,100</b>	<b>223,262</b>	<b>329,188</b>	<b>370,614</b>	<b>(54,049)</b>	<b>(50,771)</b>	<b>324,944</b>	<b>646,317</b>	<b>4,353,165</b>	<b>4,016,314</b>	<b>4,029,625</b>
Insurance	24,084	24,084	24,084	24,084	24,084	24,084	24,084	24,084	24,084	24,084	24,084	24,084	289,008	288,134	291,146
Leases	287,054	279,059	298,143	297,320	301,966	278,554	282,667	283,926	265,059	265,129	281,060	296,080	3,416,017	3,397,677	3,733,057
Other	14,350	2,350	2,350	12,350	2,350	24,350	2,350	35,350	2,350	2,350	2,350	2,350	105,200	92,025	184,870
<b>Total Fixed Charges</b>	<b>325,488</b>	<b>305,493</b>	<b>324,577</b>	<b>333,754</b>	<b>328,400</b>	<b>326,988</b>	<b>309,101</b>	<b>343,360</b>	<b>291,493</b>	<b>291,563</b>	<b>307,494</b>	<b>322,514</b>	<b>3,810,225</b>	<b>3,777,836</b>	<b>4,209,073</b>
<b>EBITDA</b>	<b>76,281</b>	<b>(81,186)</b>	<b>368,914</b>	<b>209,239</b>	<b>372,700</b>	<b>(103,725)</b>	<b>20,087</b>	<b>27,254</b>	<b>(345,542)</b>	<b>(342,334)</b>	<b>17,450</b>	<b>323,803</b>	<b>542,940</b>	<b>238,478</b>	<b>(179,448)</b>
Interest Expense Net	87,464	87,464	87,464	87,464	87,464	87,464	87,464	87,464	87,464	87,464	87,464	87,464	1,049,568	1,080,033	1,081,564
Depreciation & Amortization	142,110	142,110	142,110	142,110	112,227	112,227	112,227	112,227	112,227	112,227	112,227	112,227	1,466,257	1,586,818	1,026,838
Net Extraordinary Items	0	0	(50,000)	0	0	(200,000)	0	0	0	0	0	0	(250,000)	(250,000)	(250,000)
<b>Other Expense</b>	<b>229,574</b>	<b>229,574</b>	<b>179,574</b>	<b>229,574</b>	<b>199,691</b>	<b>(309)</b>	<b>199,691</b>	<b>199,691</b>	<b>199,691</b>	<b>199,691</b>	<b>199,691</b>	<b>199,691</b>	<b>2,265,825</b>	<b>2,416,851</b>	<b>1,858,401</b>
<b>Net Income</b>	<b>(153,293)</b>	<b>(310,760)</b>	<b>189,340</b>	<b>(20,335)</b>	<b>173,009</b>	<b>(103,417)</b>	<b>(179,604)</b>	<b>(172,437)</b>	<b>(545,233)</b>	<b>(542,025)</b>	<b>(182,241)</b>	<b>124,112</b>	<b>(1,722,884)</b>	<b>(2,178,373)</b>	<b>(2,037,850)</b>
Raw Payroll	312,400	310,033	354,764	355,774	349,876	294,196	301,679	317,424	239,495	241,922	263,480	320,724	3,661,769	3,522,489	2,745,222
Incentives	9,942	9,942	20,441	9,942	9,942	9,942	9,942	9,942	9,942	9,942	9,942	9,942	129,799	134,718	114,556
Sick/Vacation/Holiday	8,080	13,235	12,512	13,151	7,983	12,856	7,905	12,864	12,864	12,864	7,905	7,905	130,122	133,181	117,259
PTEB Expense	73,942	70,482	84,425	78,437	72,142	72,556	66,446	71,846	69,908	69,887	73,163	80,952	884,186	838,436	789,664
Contract Labor	0	0	0	0	0	0	0	0	0	0	0	0	0	0	147,073
<b>Total</b>	<b>404,364</b>	<b>403,691</b>	<b>472,142</b>	<b>457,305</b>	<b>439,943</b>	<b>389,551</b>	<b>385,972</b>	<b>412,076</b>	<b>332,208</b>	<b>334,614</b>	<b>354,489</b>	<b>419,523</b>	<b>4,805,876</b>	<b>4,628,825</b>	<b>3,913,774</b>

## **SECTION 5—WATERWORKS & SEWER SYSTEM REVENUE DEBT**

### **Description of the System**

The System provides water services to approximately 17,426 water customers, including approximately 3,246 out-of-City customers, and wastewater services to approximately 15,455 customers, including approximately 2,548 out-of-City customers. The City employs approximately 56 people in managerial, clerical, maintenance and other capacities relating to the System.

### **Retail System, Wholesale Water and Sewer Purchase Arrangements**

The System is a wholesale customer of Grand Strand Water and Sewer Authority (“GSWSA”). The System acts as a retailer of water and sewer services, having sold its surface water treatment facility and its wastewater treatment facility (collectively, the “Treatment Plants”) to GSWSA in June 2006 pursuant to a Purchase and Sale and Water and Wastewater Service Agreement (the “Agreement”) between the City and GSWSA. The purpose of the sale was to gain efficiencies by virtue of GSWSA's greater freedom of movement in constructing new or expanded treatment facilities and its ability to distribute fixed costs across a broader customer base. The City expects that its contract with GSWSA will ensure adequate water and wastewater treatment capacity for the foreseeable future.

The proceeds derived from the sale of the Treatment Plants were used by the City to defease certain prior indebtedness of the City secured by a pledge of revenues of the System.

Under the Agreement, GSWSA covenants to operate and maintain its system and the Treatment Plants in a sound and efficient manner to provide wholesale water and wastewater treatment to the City. Water and wastewater service charges are based on metered flow and reflect costs of operation, maintenance, debt service, renewal, replacement, upgrade and expansion of the Treatment Plants and other costs directly associated with providing water and wastewater service to the City. GSWSA further covenants to expand its treatment facilities on a timely basis to insure adequate capacity to meet its obligations under the Agreement. Other than as set forth therein, the Agreement has no effect upon, and confers no rights to GSWSA in, the service area of the System. The Agreement has no termination provisions and shall inure to the benefit of any successors to the City or GSWSA.

### **Service Area**

The service area of the System includes the City and certain sections of unincorporated territory adjacent to the City to the north and west. The area presently served by the waterworks portion of the System is concentrated in developed areas within the service area and encompasses approximately 18 square miles. The sewer portion of the System is also presently concentrated in the developed areas of the City and the rest of the service area, but serves a slightly smaller area.

### **Water Distribution System**

The City’s water distribution system had its beginnings in the 1930s. The City presently maintains 375.45 miles of distribution lines varying in diameter from 2 inches to 48 inches. The City purchases treated water at wholesale rates from GSWSA.

The following table shows the growth in number of water customers and average daily water flow during the past ten years.

**Number of Customers and Average  
Daily Water Flow of the Waterworks System**

Customers As of	In City	Outside City	Total	Daily Flows (MGD) Billed from GSWS	
				Annual Average	Annual Peak
December 31, 2013	14,336	3,243	17,579	14.9	24.7
December 31, 2012	14,180	3,246	17,426	14.9	25.9
December 31, 2011	14,069	3,258	17,327	12.4	22.8
December 31, 2010	13,440	3,112	16,552	12.3	21.3
December 31, 2009	13,564	3,264	16,828	12.1	17.3
December 31, 2008	13,608	3,305	16,913	14.4	22.2
December 31, 2007	13,245	3,277	16,522	16.9	27.0
December 31, 2006	12,747	3,247	15,994	15.5	23.8
December 31, 2005	12,339	3,161	15,500	16.1	27.1
December 31, 2004	11,761	3,133	14,894	14.9	25.8

Source: City Revenue Division and Public Utilities Department

**Sewer System**

The City's wastewater collection system was initiated in the early 1940's utilizing the concept of separate sanitary and storm water collection systems. Due to the topography of the service area, the utilization of lift stations is necessary to avoid the construction of very deep collection lines. The City presently maintains 140 pump stations and approximately 109.71 miles of force mains within the System service area. In addition, the System consists of approximately 230.69 miles of gravity collection lines varying from six inches to 48 inches in diameter. The City contracts with GSWSA for wastewater treatment.

The following table shows the growth in customers of the sewer system and average daily wastewater flow during the past ten years.

**Number of Customers and Average  
Daily Wastewater Flow of the Sewer System**

Customers As of	In City	Outside City	Total	Daily Flows (MGD) Billed From GSWS	
				Annual Average	Annual Peak
December 31, 2013	13,034	2,554	15,588	7.51	16.93
December 31, 2012	12,907	2,548	15,455	7.52	17.1
December 31, 2011	12,824	2,563	15,387	7.33	22.6
December 31, 2010	12,263	2,510	14,773	8.41	19.9
December 31, 2009	12,381	2,557	14,938	9.34	12.5
December 31, 2008	12,431	2,596	15,027	10.9	14.9
December 31, 2007	12,135	2,575	14,710	10.5	14.2
December 31, 2006	11,709	2,559	14,268	8.7	12.3
December 31, 2005	11,403	2,494	13,897	8.9	13.7
December 31, 2004	10,902	2,484	13,386	10.4	17.1

Source: City Revenue Division and Public Utilities Department

**Customer Base**

Seasonal variations affect demand on the System. The following table reflects the ten largest customers of the System by revenues for fiscal year 2013.

<u>Customer</u>	<u>Type of Business</u>	<u>Revenues</u>	<u>% of Total Water and Sewer Revenue</u>
Felcor-Hilton	Accommodations	\$459,850	2.01%
Myrtle Beach Travel Park	Campground	347,815	1.52
Seawatch Plantation	Accommodations	332,428	1.45
Sea Mist Resort	Accommodations	276,261	1.20
Grand Strand Regional Medical Center	Medical Care	250,794	1.09
Magnolia Pointe HOA	Residential Association	220,715	0.96
Ocean Dunes/Sand Dunes	Accommodations	216,375	0.94
Sands Properties Homeowners 1 & 2	Residential Association	195,276	0.85
Best Western Land Mark Hotel	Accommodations	186,578	0.81
Ocean Watch Timeshare	Residential Association	<u>180,603</u>	<u>0.79</u>
Totals:		\$2,666,695	11.67%

Source: City Records.

### Capital Improvements to the System

During the past five Fiscal Years, the City has enlarged and extended the System with revenues derived from the System, from contributions for capital purposes and from the proceeds of borrowings. The City has spent approximately \$20,108,852 during this period. The following table shows the amounts spent for capital improvements during each of the last five fiscal years.

#### Capital Improvements, 2009-2013

Fiscal Year	Waterworks System		Total System
		Sewer System	
2013	\$ 1,058,536	\$3,347,484	\$4,406,020
2012	816,075	2,613,754	3,429,829
2011	1,823,667	2,064,866	3,888,533
2010	2,048,162	3,597,857	5,646,019
2009	1,170,292	1,568,159	2,738,451

Source: City Records.

The City has covenanted in the Ordinance to maintain and operate the System in good condition and to charge and collect such rates and charges for the services and facilities of the System so that the income and revenues of the System will be sufficient at all times to meet the requirements of the Ordinance and any Series Ordinances supplemental thereto.

### Water and Sewer Rates

Current water charges are billed monthly and are composed of a base charge and a tiered volume charge. The base charge varies by meter size. The volume charge is \$1.35 per thousand gallons for the first four thousand gallons, \$2.56 for gallons 5,000 through 30,000 and \$2.89 for all consumption over 30,000. These charges apply for all in-City customers. Out-of-City customers pay at a rate that is twice the in-City rate.



### Water and Sewer Rates

Meter Size (inches)	<u>Base Water Charge</u>		<u>Base Sewer Charge</u>		<u>Combined Monthly Base Charge</u>	
	<u>In City Base Charge</u>	<u>Outside City Base Charge</u>	<u>In City Base Charge</u>	<u>Outside City Base Charge</u>	<u>In City Total</u>	<u>Outside City Total</u>
3/4" and 5/8"	\$ 2.43	\$ 4.86	\$ 3.26	\$ 6.52	\$ 5.69	\$ 11.38
1"	4.05	8.10	5.46	10.92	9.51	19.02
1-1/2"	8.10	16.20	10.92	21.84	19.02	38.04
2"	12.96	25.92	17.46	34.92	30.42	60.84
3"	28.35	56.70	38.25	76.50	66.60	133.20
4"	40.50	81.00	54.64	109.28	95.14	190.28
6"	81.00	162.00	109.27	218.54	190.20	380.40

### Volumetric Charges (Per 1,000 Gallons)

<u>Gallons Used</u>	<u>Water Volume Charge</u>		<u>Sewer Volume Charge</u>	
	<u>In City Volume Charge</u>	<u>Outside City Volume Charge</u>	<u>In City Volume Charge</u>	<u>Outside City Volume Charge</u>
0-4,999	\$1.35	\$2.70	\$3.19	\$6.38
5,000-30,000	2.56	5.12	3.19	6.38
Over 30,000*	2.89	5.78	3.19	6.38

\*Note: All flow meters (cooling towers) and irrigation meters are assessed at this rate.

Source: City Records

The City also imposes special charges. A fee of \$25.00 is charged for returned checks on payment of an account; a \$25.00 reconnection charge for cut-off due to non-payment; and varying charges to pull a meter, either for non-payment or at the owner's request, in lieu of levying the minimum charge. These charges are as follows:

3/4" meter	\$113.83
1" meter	148.40
1-1/2" meter	260.52
2" meter	369.18

### Connection (Impact) and Tap Fees

Each new water or sewer connection is converted to a residential equivalent to determine the impact upon the System.

The connection (impact) fee schedule for water and sewer were amended in 2007 to provide for increases in the impact fees per the schedules appearing below.

## Water

For each new water connection to the System, a person, corporation or other legal entity applying for water or sewer service is required to pay a connection (impact) fee based upon equivalent residential units (ERUs).

<u>Fiscal Year</u>	<u>Fee Inside City</u>	<u>Fee Outside City</u>
2009	1,028	1,524
2010	1,080	1,620
2011	1,134	1,701
2012	1,134	1,701
2013	1,134	1,701

For each new water connection to the System, a person, corporation or other legal entity, in addition to the connection fee, pays a tap charge under the following schedule:

<u>Meter Size</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
5/8" to 3/4"	\$ 794	\$ 833	\$ 875	\$ 875	\$ 875
1"	1,068	1,123	1,179	1,179	1,179
1.5"	1,718	1,804	1,894	1,894	1,894
2"	2,023	2,124	2,230	2,230	2,230
3"	7,471	7,844	8,236	8,236	8,236
4"	8,355	8,772	9,211	9,211	9,211
6"	10,595	11,125	11,681	11,681	11,681

For irrigation meters, a person, corporation or other legal entity shall, in addition to the tap charge, pay a connection fee under the following schedule:

<u>Meter Size</u>	<u>Connection Fee</u>
3/4" Commercial	\$ 500
3/4" Residential <sup>1</sup>	850
1" Commercial	1,250
1" Residential <sup>1</sup>	1,662
1.5"	2,500
2"	4,000
3"	8,750

<sup>1</sup>Includes Backflow Device and Initial Testing.

The City has instituted a service to provide, install, and initially test approved double check valve backflow preventers for 3/4" and 1" irrigation meters on a residential customer's service line at the property line. The backflow preventers will become the property of the customer, and the customer will become responsible for future maintenance and annual testing. The cost of the initial installation and testing is included in the charge noted in this section.

## Fire Tap Charges

For fire suppression taps, a person, corporation or other legal entity pays tap charges according to the following schedule:

Line Size (Inches)	<u>Tap Charges</u>	
	Inside City	Outside City
<6"	\$ 250	\$ 250
6"	1,500	1,500
8"	2,000	2,000
10"	2,800	2,800
12"	3,500	3,500

Source: City Records

## Sewer

For each new sewer connection to the System, a person, corporation or other legal entity applying for sewer services pays a connection fee based upon ERUs. The connection fee per ERU for sewer is as follows:

<u>Fiscal Year</u>	<u>Fee Inside City</u>	<u>Fee Outside City</u>
2009	1,403	2,104
2010	1,473	2,209
2011	1,547	2,321
2012	1,547	2,321
2013	1,547	2,321

For each new sewer connection to the system, a person, corporation or other legal entity shall, in addition to the connection fee, pays a tap charge under the following schedule:

<u>Service Pipe Size</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
6"	\$3,010	\$3,160	\$3,318	\$3,318	\$3,318
8"	3,495	3,670	3,853	3,853	3,853
10"	3,892	4,086	4,291	4,291	4,291

Costs of service pipes of other sizes to be installed are determined on the basis of direct and indirect labor, direct material and overhead.

## Rate Regulation

The rates and collection procedures of the City are not subject to review by any administrative body except the City Council of the City. Such rates and procedures are subject to judicial review upon action of a ratepayer. City Council believes their rates and collection procedures are reasonable under applicable legal standards.

Water quality and sewer system effluent are subject to regulation by the United States Environmental Protection Agency and the South Carolina Department of Health and Environmental Control. Withdrawal of water from all sources is subject to regulation by the State of South Carolina.

## Water and Sewer Billing and Collection Policies

Deposits are not required of sewer customers. Deposits are required of water customers and are based upon meter size as set forth in the following table.

Water Deposits		
<u>Meter Size</u>	<u>Owner</u>	<u>Renter</u>
¾"	\$60	\$ 120
1"	90	180
1-1/2"	130	260
2"	170	340
3"	330	660
4"	550	1,100
6"	900	1,800

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Source: City Records

Bills are mailed to all customers on a monthly basis. Where customers receive both water and sewer services, combined bills are prepared. If the monthly bill is not paid within 21 days of the billing date, a penalty of 5% is added. When an account becomes more than seven weeks past due, water service is discontinued and a \$25 connection fee is levied. As a result, the City ultimately collects in excess of 99% of its water and sewer bills.

## Rate History

The following table shows a history of City rate increases over the past 20 years. The charge shown is based on a monthly water meter consumption of 7,500 gallons and reflects the combined charges for water and sewer services.

Effective July, 1	Charge	% Increase
1998	32.10	--
2000	33.07	3.0
2001	33.75	2.0
2002	34.80	3.1
2003	36.15	3.9
2004	36.75	1.7
2007	36.75	0.0 <sup>1</sup>
2008	38.37	4.4
2011	40.32	5.1
2012	42.11	4.4
2013	43.99	4.5

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<sup>1</sup> In 2007, the City adopted a structural change away from its previous minimum charge of 4,000 gallons of consumption and flat per thousand gallon consumption charge thereafter. It adopted a lower base rate and a variable consumption schedule that resulted in lower charges in the first tier of monthly consumption (0 to 4,000 gallons), was neutral in the second tier (4,001 to 30,000) and higher in the third tier (30,001 and above). The structural change was neutral to slightly positive for total water and sewer revenues at the time of its implementation.

## Summary of Revenues and Expenses

The table below provides a summary of audited revenues and expenses of operations of the System for the fiscal years 2009 through 2013. The table should be read in conjunction with the actual audited financial statements of the City for the fiscal years 2009 through 2013. The financial statements of the City for the fiscal years 2009 through 2013 were audited by Smith, Sapp, Bookhout, Crumpler and Calliham, P.A., Certified Public Accountants, Myrtle Beach, South Carolina.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operating Revenues	\$21,251,203	\$21,196,276	\$22,051,862	\$23,600,740	\$23,202,101
Operating Expenses	25,838,927	26,899,816	25,079,464	24,829,863	24,981,679
Operating Income	(4,587,724)	(3,703,540)	(3,027,602)	(1,229,123)	(1,779,578)
Non-operating Revenues/ (Expenses) <sup>1</sup>	\$203,894	(53,440)	(203,338)	(342,812)	(478,978)
Capital Contributions <sup>2</sup>	4,448,534	4,786,961	1,121,501	2,005,888	3,350,634
Other Expenses <sup>3</sup>	\$1,266,000	\$1,148,300	\$1,148,300	\$1,148,300	\$1,194,150
Change in Net Assets	\$(1,201,296)	\$ (118,319)	\$(3,257,739)	\$(714,347)	\$(102,072)

<sup>1</sup> Non-Operating revenues (expenses) include interest earnings, gains or losses on the sale of fixed assets, interest expense and bond amortization expenses.

<sup>2</sup> Capital Contributions include impact fees and dedications, the non-cash portion of which is excluded below for purposes of determining net earnings and debt service coverage.

<sup>3</sup> The Other Expense category is used to report the transfer of payments in lieu of franchise fees to the City's General Fund.

## Historical Operating Results and Debt Service Coverage

The following table presents operating results and debt service coverage for fiscal years 2009 through 2013.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net Income	\$(1,201,296)	\$ (118,319)	\$(3,257,740)	\$(714,347)	\$(102,072)
Exclusions from Net Income <sup>(1)</sup>	(4,020,472)	(2,689,319)	(400,831)	(638,557)	(2,424,857)
Additions to Net Income <sup>(1)</sup>	6,174,301	6,430,336	6,726,921	7,000,798	7,210,640
Net Earnings Available for Debt Service <sup>(1)</sup>	\$ 952,533	\$3,622,698	\$3,068,351	\$5,647,894	\$4,683,711
Debt Service	\$ 506,363	\$ 506,363	\$ 956,365	\$1,039,972	\$1,281,001
Debt Service Coverage	1.88x	7.15x	3.21x	5.43x	3.66x

<sup>1</sup>The master bond ordinance provides for certain adjustments to Net Income for the purposes of determining "Net Earnings" and debt service coverage. These include exclusions of non-cash capital contributions and restricted investment earnings. Also included are additions for depreciation, amounts paid as interest on bonds and amounts transferred to the General Fund as indirect costs.

## Management Discussion of Recent Operating Results

As the tables in the previous two sections indicate, operating revenues have risen from a 2010 low of \$21.2 million to over \$23 million for 2012 and 2013. Net Earnings available for Debt Service have exceeded budget for three consecutive years now. Factors contributing to the improved performance in Fiscal Years 2011 through 2013 include (1) a number of cost-control measures implemented over a two-year period, (2) renegotiation of a section of the billing agreement between the City and GSWA in a manner favorable to the System (3) repairs and replacement of large lines resulting in significantly lower treated water loss and (4) implementation of modest annual rate increases pursuant to the FY2012-2016 rate plan (the "Rate Plan").

The Rate Plan is based upon an independent rate sufficiency analysis completed in May 2011, which recommended a 7.5% increase in waste water rates, for a blended water and sewer increase amounting to 4.4%, for

FY2013 based upon operating projections and the Capital Improvements Program. The City adopted that increase effective in July 2012.

The Rate Plan provides for a similar waste water rate increase for FY2014. That increase was adopted and became effective in July 2013.

For fiscal years 2015 and 2016, the Rate Plan includes water increases of 1.5% per year and waste water increases of 3.5% and 3.0% respectively. Together with the larger increases of the past two years, these moderate annual waste water rate increases for the remainder of the five-year rate plan should restore balance to the system so that water revenues are no longer subsidizing the sewer system. The City's Budget Office evaluates the need for planned increases annually so that variations of actual results from the plan's assumptions can be taken into account when assessing the need to implement the increases planned in each respective year.

Management credits some of the operating revenue improvement in Fiscal Years 2011 through 2013 to the success of an out-of market advertising program, the funding mechanism for which the City adopted in May 2009. Tourism revenues, as shown by hospitality fee and accommodations tax collections, rebounded significantly in Fiscal Year 2011 after declining in 2009 and flattening out in the first three fiscal quarters of 2010 as the first of the \$15-\$18 million annual marketing programs was implemented. The trend continued throughout 2012. Water and sewer sales have tended to run parallel to that trend, except for the latter half of FY2013.

For FY2013, operating revenues falling slightly below 2012 levels are the result of (a) timing of meter reading activities, which caused a larger amount of revenue than normal to be accrued to June 2012 and (b) higher than usual rainfall in many months of 2013, which obviated the need for many customers to run their irrigation systems.

Non-operating revenues (expenses) have been impacted by (1) lower investment earnings due to the spend-down of bond proceeds that were on hand for much of 2008-2009 and (2) generally low earning rates on eligible investments. These factors have reduced earnings and led to that category's showing a net expense of approximately now approaching a half-million dollars per year.

Capital contributions increased in 2012 and 2013, due to increased construction and development activity—primarily residential construction in the Air Base Redevelopment Area. That activity remains healthy, with the value of building permits issued for the first half of Fiscal Year 2013-14 exceeding the value of permits issued for the same period of the prior year by nearly 25%.