

Ways and Means Committee
5:00 p.m., Tuesday, November 27, 2018

The regular meeting of the Ways and Means Committee was held at 5:00 p.m., Tuesday, November 27, 2018 in Council Chambers of City Hall, 1207 Palm Boulevard, Isle of Palms, South Carolina. Attending the meeting were Councilmembers Bell, Buckhannon, Ferencz, Kinghorn, Moye, Rice, Smith and Ward, Mayor Carroll, Interim City Administrator Fragoso, Treasurer Debbie Suggs, Attorney Copeland and Clerk Copeland; a quorum of Committee members were present to conduct business.

1. Chair Ward called the meeting to order and acknowledged that the press and public were duly notified of the meeting in accordance with the Freedom of Information Act.

2. Approval of Previous Meeting's Minutes

MOTION: Councilmember Bell moved to approve the minutes of the regular meeting of October 16, 2018 as submitted; Councilmember Moye seconded and the motion PASSED UNANIMOUSLY.

3. **Citizens' Comments** – None

4. **Financial Statements** – Treasurer Suggs

A. Financial Statement

Treasurer Suggs stated that General Fund revenues through October 31, 2018 were at a level expected for this point in the fiscal year despite the low numbers in Local Option Sales Taxes (LOST) and "from State" which were entirely attributable to timing differences. On the other hand, Business Licenses and Building Permits revenue were significantly higher than in FY18; an examination of the detail information found that several large residential buildings are under construction and that some of the on-line travel companies have paid for business licenses, which the City did not have for the same period in FY18. She noted that these numbers do not include the hotel construction that will start this year and provide additional revenue that was not included in the FY19 budget.

Based on these factors that were not in the budget, the Treasurer anticipates that revenue will be over budget at year-end. With a target for expenditures at thirty-three percent (33%), actual expenditures through October 31, 2018 were below budget at thirty percent (30%). Cash balances were four hundred fifty thousand dollars (\$450,000) greater than FY18 and cash flow was healthy.

B. Tourism Schedules

Treasurer Suggs noted that all of the tourism funds were showing an increase over FY18, and, in total, they were ahead by one hundred eighty-two thousand dollars (\$182,000). The Treasurer translated LOST as an indicator of the overall economic activity on the City, and, with only two (2) months collected, the collections were two and a half percent (2.5%) greater than FY18.

On to the parking revenue schedule, the Treasurer reported that the kiosks were covered as of the end of October and that next month's report will have the final collection for the fall. She noted

that revenue from the parking lots was down one hundred twenty-eight thousand dollars (\$128,000) from FY18. In addition, Treasurer Suggs reminded the Committee that the kiosks were changed to one dollar (\$1) per hour, but the kiosks on the street remained at a dollar and a half (\$1.50); if the parking lots were to charge the same as the on-street kiosks, the City could have recognized approximately ninety-eight thousand dollars (\$98,000) of additional revenue. Treasurer Suggs also made note of the fact that the number of transactions at the kiosks increased both in the lots and on the street.

C. Projects Worksheets

Payments made in October for the Phase II Drainage Project were for oversight by Civil Site Environmental and construction payout #12. The Treasurer informed the Committee that the City has received the reimbursement check from the Rural Infrastructure Grant in the amount of five hundred thousand dollars (\$500,000). For the replacement of the underground storage tanks, the fourth pay application was made to Jones and Frank as they finished up work at the Public Works site in the amount of approximately fifteen thousand dollars (\$15,000).

Chair Ward foreshadowed activities that the City must provide for in the next twelve (12) months and that will be discussed at the budget workshop. He stated

“Where we are now. Entering the budget cycle, the Isle of Palms must address critical infrastructure demands that have been left unaddressed until such time that we can no longer ignore them. These include one point eight million dollars (\$1,800,000) in deferred building maintenance – the number excludes the Public Safety Building requirements, the marina and associated structures (we must deal with soon), drainage, mandatory, critical repairs to the Public Safety Building (this is going to be a big number although we don’t know where it will come in, but it is sure to be material), and dock and infrastructure repairs at the marina, which again is going to be a big number.

Where we are headed. Historically predictive revenues are inadequate to fund critical needs in the future. The Isle of Palms has maintained a fiscal success measurement as no tax increase; however, it has not sourced adequate revenue to offset City expenditures rising at a rate of four point five percent (4.5%) per year without addressing the above needs. And most of that is eighty percent (80%) of the budget being payroll, fringe benefits and related costs. Our real estate property taxes remain the lowest in Charleston County, but we do not have large commercial entities here to offset rising expenses. So I think it is mandatory for the Isle of Palms’ Council to be thinking about it, and, in the Administration, discussions must occur beginning now to address resident critical needs.”

In addition, the Chair said that work on the FY20 budget would begin as early as next week because of the number of items to be addressed in the coming budget, revenues as well as expenditures.

5. Old Business – None

6. New Business

A. Consideration of the use of the metal detector with a trained attendant and the presence of an armed police officer for Ways and Means Committee meetings and for City Council meetings with an estimated annual cost of

\$3,500 (General Fund, pg. 9, In 55 – General Government, Professional Services and pg. 12, In 70 – Police Department Overtime Wages)

MOTION: Councilmember Bell moved to approve the use of the metal detector and trained attendant and attendance of an armed police officer for Ways and Means Committee and City Council meetings; Councilmember Smith seconded.

When Mayor Carroll asked about the cost to the City for the attendant for the metal detector, the Interim Administrator said that the cost would be two hundred dollars (\$200) per meeting, and it could be absorbed in the Professional Services for the balance of the current budget year.

Councilmember Bell quoted the Interim Police Chief in saying that “an armed officer was great after the first shot,” and he noted that this action was recommended by the Chief.

VOTE: The motion PASSED on a vote of 7 to 2 with Councilmembers Kinghorn and Rice casting dissenting votes.

B. Consideration of an expenditure in an amount not to exceed \$5,000 for a coyote study/count (General Fund, pg. 12, In 94 – Police Department, Contracted Services, \$15,000)

MOTION: Councilmember Smith moved to expend an amount not to exceed \$5,000 for a coyote study/count; with no second, the motion FAILED.

C. Consideration of an award of a contract to Thomas & Hutton in the amount of \$100,800 for Phase III Drainage project (Capital Projects Fund, pg. 23, In 54 – Public Works Drainage Contingency, Outfall Improvements, \$400,000)

MOTION: Councilmember Rice moved to award a contract to Thomas & Hutton in the amount of \$100,800 for the outfall improvements of Phase III Drainage Project; Councilmember Ferencz seconded.

Councilmember Ferencz noted that this action would only take Thomas & Hutton through Step 4; at that point, they will present the options to the City to decide whether the City could move forward with the project.

VOTE: The motion PASSED UNANIMOUSLY.

D. Consideration of approving the Engagement Letter from McCay Kiddy LLC in the amount of \$10,000 to perform certain accounting tasks with the marina tenants (Marina Fund, pg. 36, In 42 – Professional Services, CPA review of marina tenants' financial statements, \$50,000)

Chris Kerr, Manager of the Audit Department of McCay Kiddy LLC, was asked to move to the podium and review the Engagement Letter with Council. Mr. Kerr stated that, based on a meeting with Interim Administrator Fragoso, Treasurer Suggs and Councilmember Ward, the firm was hired to determine the accuracy of the marina tenants' financial statements as they apply to the lease agreements. The Engagement Letter identifies the agreed upon procedures they would be responsible for; it differs from an audit in that they will be concerned with the gross profit and not every single item on their financial statements. A key component to the procedures in the Engagement Letter was that they would address the accuracy of the sales and cost of goods sold; therefore, they will do haphazard samples, i.e. they will go through the general ledger and select

the highest risk items. They will also be looking at Marina Joint Ventures' sub-tenant lease agreements to ensure that they agree with the information the City has.

Chair Ward asked how they arrived at the sample size of twenty (20) transactions on revenue and cost of goods sold.

Mr. Kerr replied that the number was baseline since they would do internal control testing to become comfortable with each entity's internal controls and procedures.

Chair Ward asked whether they would expand the scope if variances were identified, and Mr. Kerr said that to do so was not part of the procedures. The Chair indicated that he would like to see that added.

Councilmember Bell commented that the fidelity of the transaction itself was one (1) part of the issue, but he was interested in seeing the transaction's source, i.e. he wanted to know if the rental of a slip, for instance, flowed through to revenue for the City. He wanted to be assured that all of the cash that flows through the marina and all of the properties that fall under a given lease were accounted for, and he questioned that could be accomplished in twenty (20) transactions.

Chair Ward said that he would be more comfortable with a larger sample size.

Mr. Kerr suggested that, if a variance was found, they would look at another set of transactions, and, if they found a second variance, they would look at another set of transactions; if they found no variances, no additional testing would be required. With a change in the scope of work for McCay Kiddy LLC, the Engagement Letter would have to be revised.

Treasurer Suggs suggested that the initial sample size would remain at twenty (20) with a sample size of five (5) when a variance was noted (5) and another five (5) with a second variance, and then to submit their findings with no further testing. The sample size for cash transactions would be five (5).

Councilmember Bell repeated that he was more interested in understanding the source and the process that insured the money was flowing appropriately; he wanted to understand the cash control procedures of the marina tenants in an auditable way. He stated that he thought the City would be wasting ten thousand dollars (\$10,000) if, in the end, Council was not assured that proper control processes were in place going forward.

AMENDMENT: Chair Ward moved to amend the motion to state "not to exceed \$20,000;" Councilmember Bell seconded and the amendment PASSED UNANIMOUSLY.

VOTE on Amended Motion: The amended motion PASSED UNANIMOUSLY.

E. Consideration of the approval of a proposal from Hill Construction in the amount of \$17,000 to perform a comprehensive assessment of the restaurant building at the marina

MOTION: Councilmember Bell moved to approve the proposal from Hill Construction for a comprehensive building assessment of the restaurant at the marina in the amount of \$17,000; Councilmember Rice seconded.

When Council decided to go out for bid rather than re-new the lease with Morgan Creek Grill, the Real Property Committee agreed that they did not know the condition of the building which they must know prior to advertising the request for proposal. Since Hill Construction won the contract for evaluating City owned properties two or three (2 – 3) years ago, staff called upon them to assess the condition of the restaurant. In the initial meeting with Hill representatives, Councilmember Bell asked them to provide the Committee with a list of items that must be fixed; from reading the proposal, one can see that that the assessment and subsequent remediation will leave the building open to any number of possibilities.

Chip Crane, a partner in Hill Construction, recalled that the evaluation of City buildings done a couple of years ago was to identify maintenance concerns that should be addressed at that time and to establish a schedule of building maintenance for each structure for the coming five (5) years. This request is for the forensics of the marina restaurant building, i.e. what needs to be fixed, what is deficient, code issues, zoning issues, parking issues, etc. The three (3) things they will try to do are as follows:

- 1) To identify what is broken and to fix it;
- 2) To bring the building up to “core and shell” condition, i.e. to provide a structure in good condition with electricity, HVAC, etc.;
- 3) To decide whether the building is worth the repair costs or whether it should be torn down and replaced with a smaller facility.

According to Mr. Crane, Hill will not provide “as built” upon the completion of the work, but they will produce an analysis of what is in place with a code review and recommendations to bring it up to code, to provide ADA accessibility, a site plan for the proposal that says to tear it down and build something smaller.

When Councilmember Moyer asked why the competitive bidding process was not used to select the firm to do the work, Interim Administrator Fragoso explained that Hill was selected two (2) years ago as the result of a competitive bidding process and that the procurement code allows an exemption to the bidding process for professional services.

Councilmember Bell added that another factor was the sense of urgency expressed by the current tenant; if an RFP was issued, it would have prolonged the process by two to three (2 – 3) months.

Councilmember Moyer was under the impression that Council had made its position clear a couple of months ago that it wanted goods and services to the City to come about as a result of competitive bidding. He opined that as often as the City was making exceptions, the exception would become the norm.

VOTE: The motion PASSED on a vote of 8 to 1 with Councilmember Moyer casting the dissenting vote.

F. Consideration of an approval for the marina manager to increase the non-resident annual launch passes to an amount not to exceed \$500

MOTION: Councilmember Bell moved to approve the marina manager increasing the non-resident annual launch passes to an amount not to exceed \$500; Councilmember Buckhannon seconded.

According to Councilmember Bell, the marina manager asked to have the discretion to increase the non-resident annual launch passes to a maximum of five hundred dollars (\$500).

VOTE: The motion PASSED UNANIMOUSLY.

G. Recommendations from the ATAX Committee

- 1. Consideration of an approval for a sponsorship for the 2019 Charleston Wine & Food in the amount of \$5,000**

Motion: Councilmember Rice moved to approve a \$5,000 sponsorship to the 2019 Charleston Wine & Food festival; Mayor Carroll seconded.

Councilmember Moyer recalled that last year his wife thought it was “ludicrous” that the City would provide a five thousand dollar (\$5,000) sponsorship to the Wine and Food festival; although the event might put “heads in beds,” he contended that the Wine and Food festival did not “in any tangible way promote the Isle of Palms.”

Councilmember Rice expressed the opinion that the Charleston Wine and Food festival was “a wonderful event” and her belief that “When Charleston wins, everybody wins.” She said that she knows people who stay on the island when they attending the festival and take advantage of happenings here. She added that the clientele who attend the Wine and Food festival were the very people the City wanted to attract and at a time when activity on the island was relatively slow.

Interim Administrator Fragoso informed the Committee that an event or the Wine and Food festival was scheduled here on the island; it was one (1) of the featured dinners at Coda Del Pesce.

Councilmember Smith reported that she had listened to the audio of the ATAX Committee meeting and found that there was little critical questioning by the members, such as how the sponsorship would benefit the City.

Since the City pays the Charleston Visitors Bureau in excess of half a million dollars each year, Councilmember Kinghorn suggested referring these people there.

VOTE: The motion FAILED on a vote of 1 to 8 with only Councilmember Rice supporting it.

- 2. Consideration of an approval for a sponsorship for the 2019 Family Circle Junior Tennis Championship in the amount of \$5,000**

MOTION: Councilmember Rice moved to approve a \$5,000 sponsorship to the 2019 Family Circle Junior Tennis Championship; Councilmember Bell seconded.

Councilmember Rice stated that many families stay in Wild Dunes for this event each year; Wild Dunes typically hosts practice rounds before and during the weekend. The tournament is scheduled for February 16-18, 2019 with play in Mount Pleasant, Daniel Island and the Wild Dunes Resort; typically each tournament participant will be accompanied by his/her parents and coach.

VOTE: The motion PASSED UNANIMOUSLY.

H. Report in Accordance with Chapter 20, Purchasing, Section 1-10-3(c), less than \$25,000 and in the budget

- 1. Parkeon, warranty, 8/1/18-7/31/19, for 18 kiosks, \$12,401.55**
- 2. American Dock & Marine, scrape floats free of debris at IOP Maria, \$11,068.00**

I. Discussion of FY20 Budget process

Councilmember Bell stated that he has been looking at historical employee costs and the growth in the number of employees over time. He noted that, when Chair Ward spoke about growth of four and a half percent (4.5%) in employee costs, he was not speaking of a one-time cost, but costs that are compounded year over year. From discussions with Treasurer Suggs, he has concluded that the City has an unsustainable rate of expense growth. He asked his fellow Council members to approach the new budget realistically with the understanding that the City does not have new sources of revenue to offset the rising expenses and the big projects that must be undertaken.

Interim Administrator Fragoso reiterated that this was going to be a challenging budget year and that she wanted to begin the process much earlier this year. Staff, coordinating with the Chair of the Ways and Means Committee and the Mayor, is planning to hold a budget workshop in mid-December; she has prepared a draft agenda that contains items staff needs guidance on, and she will distribute it to Council on Wednesday. She asked that, if anyone thought of something that should be added, to please call or email the information to her for inclusion; she also asked that Council members reach out to her or Treasurer Suggs about supporting documents they believe will be helpful as the various items are discussed.

J. Consideration of appraisal report on 1100 Palm Boulevard and authorization for staff to finalize the transfer

MOTION: Chair Ward moved to authorize staff to proceed with drafting of an ordinance to convey 858 square feet of Pavilion Boulevard as shown on the survey done by John Wade dated October 2, 2018 and described and appraised in a report by Mr. Hartnett dated November 20, 2018 for a payment of \$10,725 plus appraisal costs payable to the City of Isle of Palms; Councilmember Bell seconded.

The Interim Administrator reported that she has spoken with the property owner who apologized for not attending tonight's meeting; she stated that the City was in receipt of the deed information and other documentation. The approval of the sale of this property must be done through an ordinance, and the City's attorney will prepare that document for First Reading at the next Council meeting.

VOTE: The motion PASSED UNANIMOUSLY.

7. Miscellaneous Business:

Next Meeting Date: 5:00 p.m., Tuesday, January 15, 2019 in Council Chambers

8. **Executive Session** – not necessary

9. **Adjournment**

MOTION: Mayor Carroll moved to adjourn the meeting at 6:03 p.m.; Councilmember Buckhannon seconded and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk

DRAFT