

Special Ways and Means Committee Meeting

9:30 a.m., Tuesday, December 18, 2018

A Special Meeting of the Ways and Means Committee was held at 9:30 a.m., Tuesday, December 18, 2018 in Council Chambers, 1207 Palm Boulevard, Isle of Palms, South Carolina. Attending the meeting were Councilmembers Bell, Buckhannon, Ferencz, Kinghorn, Moye, Rice, Smith and Chair Ward, Mayor Carroll; non-councilmembers attending the meeting were Interim Administrator Fragoso, Treasurer Suggs, Department Managers Chief Graham, Kerr, Page, Pitts and Interim Chief Usry, Human Resources Officer DeGroot and Clerk Copeland. A quorum of City Council was 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. Purpose: FY20 Budget Workshop

Chair Ward stated that City Council has challenges ahead that must be addressed. He noted that Interim Administrator Fragoso, Treasurer Suggs, Councilmember Bell and Scott Pearson put in many hours on the schedules included in the meeting packet. He added that this meeting was not set to make any decisions or determinations on the FY20 budget, but it was to be informative about where the City has been, where it is going and what the challenges are for the next three (3) years.

The Interim Administrator and the Treasurer produced a PowerPoint presentation relative to the FY20 budget to open the discussions, and a copy is attached to the historical record of the meeting. A calendar for the FY20 budget process was included that works toward the Second Reading of the Budget Ordinance at the May 2019 Council meeting. The Interim Administrator stated that the island's population has increased by five point five percent (5.5%) over the past seven (7) years or thirty-two (32) people moving to the City each year; this increase will impact the City through an increased demand on City services. The median value of homes on the island is eight hundred five thousand nine hundred dollars (\$805,900) which provides a stable property tax base for the City, and, through 2017, the island had a total of four thousand three hundred eighteen (4,318) housing units with approximately one-third ($\frac{1}{3}$) being owner-occupied. The following capital improvement projects will impact the FY20 budget and future budgets as well:

• Public Safety Building repairs	\$3-5 million dollars
• Phase III Drainage – Outfalls	4.2 million dollars
• IOP Marina Dock Repairs	3.0 million dollars
• 95 ft. Ladder Truck	1.4 million dollars
• Phase IV Drainage – basins to outfalls	<u>7.8</u> million dollars
TOTAL	20.4 million dollars

The cost for the remediation of the Public Safety Building will not be known until the walls are opened up to get an idea of the extent of the problems. Once the outfalls have been improved, the City is looking at the Phase IV Drainage Project that will be improvements to the infrastructure to get the stormwater from the basins on the interior of the island to the outfalls. The Planning Commission is already looking ahead to a Phase V Project with preliminary estimates of ten million dollars (\$10,000,000). The marina dock repairs are underway with the City's contract with ATM to do the design, engineering and permitting; the total project is estimated at three million dollars (\$3,000,000). The 95-foot ladder truck is included in the 10-year Capital Plan to be

purchased next year; staff is currently evaluating the feasibility of retrofitting the City's existing 95-foot truck at a cost of six hundred thousand dollars (\$600,000). Interim Administrator Fragoso informed the Committee that a representative of E-One will attend the January Ways and Means Committee meeting to explain the options available to the City. In the past, Council discussed the possibility of partnering with Wild Dunes for the cost of a new truck since its primary use will be the tall structures inside the gates. She reminded the Committee that consideration was given to the idea of asking Wild Dunes for a contribution toward the cost of the ladder truck since it would primarily be used in case of a fire or other emergency in the tall structures there.

Other projects not listed in the information distributed was the City's agreement to partner with the IOP Water and Sewer Commission on providing sewer to the entire island; preliminary estimates of the project's cost have come in at between forty and fifty million dollars (\$40,000,000 - \$50,000,000) and the costs include the relocation of the Wild Dunes plant. The island's primary attraction the beach must be maintained and will require a renourishment project every eight to ten (8 – 10) years; the City now has a dedicated source of funds for those requirements in the Beach Preservation Fee Fund.

These circumstances generate the question of where the funds will come from to meet these critical needs of the City and to continue to offer the same level of service to the residents.

The first schedule for review was the cash flow forecast through FY22, and, in general, the balances of the unrestricted funds decline because of the projects the City will undertake that it has saved for, and the tourism funds will remain relatively flat while the Beach Preservation Fund increases. The schedule begins with the October 31, 2018 cash balance and concludes with the June 30, 2022 projected balance; the schedule is a high-level view of total revenues and total expenditures by fund and categorized by type of fund. Funds included in unrestricted funds include the General Fund, the Capital Projects Fund, the Disaster Recovery Fund and the Marina Fund; activity in these funds is directed by City Council. The tourism funds are both State and municipal accommodations taxes, the County Pass-through and hospitality taxes; the use of these funds are restricted but do have some degree of flexibility. The Beach Preservation Fee fund column is more restricted in that it can only be used for beach nourishment and the costs associated with it, such as beach monitoring, and access to the beach. In this schedule, the balance in the unrestricted funds declines by approximately five and a half million dollars (\$5,500,000); the desire is for this decline to be reduced. This schedule is to be a tool for Council in preparation of the FY20 budget, and it will be constantly updated as the budget is changed, decisions are made that impact these numbers and the ending cash balance. The assumptions for this schedule are noted at its end.

The next schedule includes historical and forecasted payroll and fringe costs by department since 2014, any changes to the number of employees in each department and the percent of increase from 2014 through projected 2019. The schedule also presents two (2) scenarios for awarding wage increases going forward; Scenario A assumes the City continues with the increase levels decided upon two (2) years ago, and Scenario B assumes the City cuts the total merit and COLA to half its current levels.

When the Interim Administrator contacted other municipalities about what percentage of their annual operating budget was payroll related, she learned that IOP is on the higher end with seventy-three percent (73%) of the budget spent on wages and fringes; the average was between fifty-nine percent (59%) and sixty-three percent (63%). Personnel costs have increased thirty--three percent (33%) from 2014 to proposed 2019 numbers; if the City continues on its current course, the total expense could rise to fifty-two percent (52%) of the operating budget by FY22.

If the City were to reduce the current method for wage increases by half, the three-year savings would be seven hundred thirty thousand two hundred nineteen dollars (\$730,219). The fringe calculations borne by the employer assume that health insurance premiums would increase by four percent (4%) per year and retirement contributions would continue to increase at a rate of one percent (1%) compounding per year. The Interim Administrator noted that the City pays one hundred percent (100%) of an employee's health care premium and fifty percent (50%) of the premium for dependent care; she and the Treasurer are researching whether there would be benefits to asking City Council to change the policy shifting more of the burden to the employee.

Councilmember Bell stated that overtime wages were backed out of the payroll figures used for the calculations because the starting point must be the base pay per employee.

Treasurer Suggs related a wage increase scenario in which employees who were at or above their mid-range salary for the position would receive a lesser merit increase while those employees who were below the mid-range salary for the position could be awarded a higher percentage merit increase. She cautioned Council that police, firefighters and CDL drivers were wanted by other local governments in the area because the Isle of Palms has paid for their training; therefore, the City must retain parity with the surrounding communities.

Interim Administrator Fragoso noted that the City has lost three (3) police officers recently for higher paying positions in the Charleston area.

At the request of Councilmember Smith, the Interim Administrator explained that, a couple of years ago, City Council adopted a policy that the annual COLA would equal the CPI at the end of February and that the merit pool would be two percent (2%). Each year, the Treasurer computes the total merit pool of money and distributes it based on each department's percent of total base wages; the dollars in each pool are then distributed by the Department Manager based on an employee's score on the annual evaluation.

Councilmember Ferencz added that, prior to the adoption of this policy, the most prolonged debate at budget time was what percentage of wages would make up the merit pool, and it varied each year. When the COLA was re-instated, it meant that each and every employee got some kind of wage increase every year, and those employees who excelled would be rewarded with a merit increase as well paid from the merit pool of funds for the department.

Chair Ward reminded the Committee that the information being provided assumes that revenues are flat while expenses are increasing.

The Interim Administrator said that, with the high dollar projects in the immediate future and increasing personnel costs, a funding gap is apparent for FY20, and Council needed to decide what options were open to them to bridge the gap.

Two (2) additional schedules in the packet were a debt schedule that shows the City's current debt with the timing of the payoff, a new obligation for the drainage outfalls and a millage schedule showing the impact of increasing property taxes by the combined CPI from FY16, FY17 and FY18 for additional revenue. Other sources for revenue to consider are user fees, impact fees, franchise fees and licensing, an increase in the parking rates in the municipal lot, public-private partnerships, etc. The Interim Administrator also noted that a review of the Ten-Year Capital Plan would accomplish some savings in deferring or removing some items.

Discussing the debt schedule, the Treasurer commented that all loans that could be re-financed at a lower rate have been re-financed. The City currently has four (4) outstanding debt issues, and they are the purchase of the marina that will be paid off in February 2019, the addition to the Rec Center, Fire Station #2, and the Public Safety Building. Also presented on the debt schedule are two (2) possible additions: one (1) for the ladder truck at eight hundred forty-nine thousand five hundred dollars (\$849,500) and second for the drainage outfalls at four million, two hundred fifty thousand dollars (\$4,250,000).

A schedule prepared by Director Kerr was distributed that projected financial needs for phases 3, 4 and 5 of the City's drainage program:

- Phase 3 will be the outfall improvements at 30th, 36th and 41st Avenues;
- Phase 4 will improve the drainage systems inside the basins to the improved outfalls; and
- Phase 5 will address the drainage in the area from 28th Avenue to Breach Inlet.

The total cost for the three (3) phases is approximately twenty-three million seven hundred sixty thousand dollars (\$23,760,000) and the work should be completed in FY27. Interim Administrator Fragoso reminded the Committee that Phased II was nearly complete and that design work had begun for Phase III.

Mayor Carroll opined that drainage was more important than sewers; if the City could provide sufficient drainage, the septic tank problems would be greatly reduced.

According to Treasurer Suggs, State law does not allow the use of State ATAX funds to be used for drainage; they do not see drainage as a tourism-related activity. Currently in the State legislature is a bill that would allow the use of thirty percent (30%) of State ATAX funds for drainage, as well as local ATAX and local hospitality for flooding and drainage problems.

Interim Administrator Fragoso encouraged Councilmembers to advocate for its passage through the City's representatives Chip Campsen and Mike Sottile. She also noted that as the bill reads currently, the use of these funds for drainage would only apply for ten (10) years.

Treasurer Suggs commented that having those funds available would be helpful in funding that gap or serving a debt for any loans the City would need.

The Interim Administrator stated that the Municipal Association is urging passage, and the City of Charleston is working hard as well. In addition, the coastal communities have banded together to get legislators to pass this bill.

The Mayor announced that the South Carolina Beach Advocates will be meeting in February here on the island, and he has spoken to the President to insure that this topic is on the agenda for discussion.

The final page of the financial information included in the meeting packet is a schedule showing how the proposed combined CPI increase to property taxes would impact homes appraised from two hundred fifty thousand dollars (\$250,000) to five million dollars (\$5,000,000) for both resident-occupied homes and second homes. The proposed increase in property taxes would yield to the City three hundred forty-four thousand dollars (\$344,000).

Treasurer Suggs also distributed the same schedule for Sullivan's Island and for Mount Pleasant for the Committee members to compare to the Isle of Palms. The Treasurer explained that the

State limits increases to operating millage to the CPI amount and a factor of growth, which is very small for the City, and the City gets a letter from the State every year showing how much the City can increase the operating millage. For the past three (3) years, the City has not utilized this increase, and the State law allows a municipality to go back three (3) years to apply the increases it did not take, which total approximately 7.8 percent.

Having lived in several different areas, Councilmember Bell commented that IOP residents have the most free services of any place he has lived for the amount of property taxes they pay each year. He said that a discussion should be about whether the City can continue to provide all of these services.

When Councilmember Rice asked if this action could trigger a re-assessment, the Interim Administrator answered that re-assessments happen every five (5) years, and the next one (1) will be 2020 or 2021.

Although the State caps the millage for property tax increases, debt millage has no such limit. If the City were to issue a GO bond, it could then raise the debt service millage to cover the principal and interest payments. The Treasurer explained that another State law limits the maximum amount of debt a municipality can incur at eight percent (8%) of the assessed value; at this time, the City can legally incur approximately ten million dollars (\$10,000,000) in available debt. If the City were to have a referendum, it could exceed the ten million dollars (\$10,000,000).

Councilmember Kinghorn opined that Council should consider imposing user fees before it decides to increase taxes.

Stating that the City had limited options for user fees, the Interim Administrator noted that building permits have not increased in twenty (20) years; Council has expressed the need to consider increasing the parking fees for the municipal parking lots after a loss of over one hundred thousand dollars (\$100,000) year-to-date in FY19. In addition, City Attorney Copeland is currently researching what opportunities might be available for additional revenue from alternate uses of the parking lots in the off-season. The franchise fees for Comcast could be increased by one percent (1%); in the previous year, the Public Works Committee discussed the possibility of imposing an impact fee on new construction for drainage.

Treasurer Suggs stated that the stormwater fee could be increased from the current annual fee of forty-eight dollars (\$48) to an amount not to exceed seventy-two dollars (\$72); she said that a portion of this money was used for the wash-down facility at Public Works. These fees are collected and held by Charleston County for the City.

Responding to Councilmember Smith's question about impact fees, Director Kerr stated that other municipalities that have drainage impact fees set them based on the amount of lot coverage the new construction will use. He suggested that the City could increase the permit fees associated with new construction which are based on the cost of the project in lieu of a drainage impact fee.

Councilmember Kinghorn asked if the City would save money if its drainage projects were done simultaneously with sewer projects.

Mayor Carroll was told that to install sewer for the entire island would cost between forty-five and forty-seven million dollars (\$45,000,000 - \$47,000,000).

According to Councilmember Kinghorn, “the worst thing that could happen to the environment on this island would be to have untreated sewage issues.”

Eadie’s is currently doing the City’s stormwater project that will be followed by a sewer project on the same streets for the Water and Sewer Commission; therefore, Director Kerr went to them for an answer about possible cost savings by doing the two (2) projects in tandem. He was told that, when new sub-divisions are developed, the contractor will go down the right-of-way to install drainage lines and cover it over; a separate crew will come after and till up the soil to install sewer lines. Some savings would be seen in paving because the area would not be paved twice; in general, Eadie’s indicated that any cost savings would be minimal.

In a discussion with the Water and Sewer Commission about the outfall modifications on 30th, 36th, and 41st Avenues, Director Kerr learned that they are planning to apply for a permit from OCRM to discharge more water when the Wild Dunes’ system that is directed to the treatment plant on 41st and Waterway and then to the modified 41st Avenue outfall.

Interim Administrator Fragoso informed the Committee that mandatory tie-in to the sewer would be necessary to provide dedicated funding for the project.

Councilmember Moye remarked that the Committee had discussed possible new revenue sources, but they had not discussed ways to reduce expenses; he questioned what opportunities might be available to rein in expenses.

In January as the Committees study the operating budgets for the departments under their purview, discussions about reducing expenses will start, but she did not expect to find any substantial savings in the General Fund budget because it was already tight. The opportunities would be found in the Ten-year Capital Plan where planned expenses for FY20 might be moved out a year, deleted entirely or replaced by a newer version that could be less expensive, and the discussions with the department managers would also occur in January.

Councilmember Bell indicated that he was interested in seeing who was being paid overtime in the Police and Fire Departments – the more senior and, therefore, higher paid employees or the newer and lower paid employees. Possibly departmental practices need to be reviewed, and, as a Councilmember, he would be interested in understanding how the Fire and Police Departments scheduled the shift employees. In his opinion, the City’s payroll costs were “out of control.”

Councilmember Smith had several thoughts on wages she wanted to share with fellow Councilmembers. She cautioned the Committee about comparing the City’s payroll expense to that of other local governments because others might have revenue from additional sources, like water and sewer departments. She agreed that Council should consider other methods for compensating employees, but she did not agree that the percentage of the City’s budget going to payroll expenses was not necessarily a bad reflection on the City and its processes.

Changing the subject to the marina, Councilmember Ferencz expressed her opinion that the City needed to decide if it wanted to be in the real estate business or not. She indicated that she would not be opposed to selling or leasing the entire marina with the caveat that IOP residents would always have access to the water. If something like this was done, the City would not have to go into debt to make it safe for residents and visitors.

Councilmember Rice stated that she would be opposed to the City divesting itself of the marina.

Councilmember Bell stated that the estimated twenty-three million dollars (\$23,000,000) in repairs to the marina is something that must be done as part of the City's responsibility under the terms of the lease.

Councilmember Kinghorn said that one (1) source of revenue the Committee has not discussed was grants; he did not think the City applied for or received as many grants that it could qualify for each year. He suggested finding a way to incentivize departments to acquire more grants.

Councilmember Moye noted that many firms and municipalities have dedicated grant writers; he added the position tends to pay for itself relatively quickly.

Referring to the three or four (3 – 4) openings for police officers, Councilmember Smith asked if the Interim Chief could hold off filling the positions since it was the off-season.

Interim Chief Usry explained that she could not reserve space at the Justice Academy without having someone hired, and currently the wait list was for seven (7) months into the future. She stated that one (1) officer has been hired leaving three (3) openings; the person hired cannot go to the Academy until July 2019. She informed the Committee that the training at the Academy took thirteen (13) weeks to complete, and the officer would then return to the island for two and a half (2½) months of field training before becoming an independent officer.

Chair Ward voiced his thanks for the many hours of work that staff, department heads and Councilmembers had put into preparation for today's meeting.

Interim Administrator Fragoso asked that Councilmembers feel free to call, email or stop by the offices to see her or Treasurer Suggs with any questions they have in reviewing the material reviewed in this meeting; she acknowledged that they were given a volume of information in a short timeframe. If anyone wanted or needed additional data, staff would make every effort to provide it.

Councilmember Buckhannon said that he would like to know the gross costs of the City's operating the municipal parking lots that would include the BSOs, their uniforms and vehicles, the maintenance and upkeep, etc.

3. Adjournment

MOTION: Councilmember Bell move to adjourn the meeting at 11:20 a.m.; Councilmember Buckhannon seconded and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk