

Ways and Means Committee
5:00 p.m., Thursday, January 31, 2019

The Special Meeting of the Ways and Means Committee was called to order at 5:00 p.m., Thursday, January 31, 2019 in Council Chambers of City Hall, 1207 Palm Boulevard, Isle of Palms, South Carolina. Attending the meeting were Councilmembers Bell, Buckhannon, Kinghorn, Moye, Rice, Smith and Chair Ward, Interim Administrator Fragoso, Treasurer Suggs and Clerk Copeland; a quorum of 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

Discussion of Revenue Sources

Interim Administrator Fragoso stated that Council understood that the City had some major multi-million dollar projects on the horizon in addition to its normal operating expenses and that, without additional revenue, the City could not begin to address them. This meeting was to discuss some additional revenue options the Treasurer and Interim Administrator have gleaned from earlier discussions and discussed with department managers for possible additional revenue.

Treasurer Suggs explained that the "Revenue Detail – All Funds" looked at the last five (5) years of audited financial data and the forecasts for the next five (5). The boxes on the sheets represent abnormalities that occurred in a particular year; for instance, the box in FY18 represents the settlement of the legal action related to the Public Safety Building. She reported that the City now has general estimates of the impact of the Wild Dunes project on building permits and business licenses; the forecast for FY19 is three hundred fifty thousand dollars (\$350,000) and for FY20, two hundred fifty thousand dollars (\$250,000). The notes pages represent the reasoning behind the calculations for any increases or decreases from the current year budget.

The additional revenue options begin with the residential rental licenses; these fees have not been increased since the short-term rental program was instituted in 2007. In FY 18, the City issued one thousand five hundred sixty-four (1,564) short-term rental licenses and one hundred ninety-six (196) long-term rental licenses. The short-term license fee is a combination a base fee of one hundred seventy-five dollars (\$175) and zero dollars for no more than two thousand dollars (\$2,000) of revenue with an additional two dollars thirty cents (\$2.30) for each additional thousand dollars or fraction thereof. Staff has offered three (3) possibilities for increasing revenue and recommended Option 2 that added fifty dollars (\$50) to the base fee and doubled the incremental rate to four dollars sixty cents (\$4.60). If this action were taken, the additional revenue would be approximately two hundred sixty thousand dollars (\$260,000). Staff recommended standardizing the building permit calculation to charge five dollars (\$5) per thousand dollars of building value. The City has an opportunity to increase the Comcast franchise fee by two percent (2%) to the maximum of five percent (5%). Franchise fees were also suggested for the Water and Sewer billings, the proposed surf camps and the beach chair and umbrella rental businesses. Another incremental increase available to Council was the annual stormwater fee; currently the fee is forty-eight dollars (\$48), but an increase to seventy-two dollars (\$72) was suggested.

Although the City has been successful in the past in securing grants, for the City to more aggressively pursue grants would require the assistance of contracted professional services;

opportunities are available for drainage improvements, infrastructure and other capital projects. Should Council decide to pursue grants for the multi-million dollar drainage projects, the City should hire a professional grant writer with the expertise to apply for and manage them. Additionally, the City will have to look to debt issuance in order to fund the large multi-million dollar initiatives, such as Phases 3-5 for drainage. Interim Administrator Fragoso and Treasurer Suggs had an exploratory meeting with the bond attorneys to learn more about structuring long-term debt while balancing service of the debt and debt limit restraints; the recommendation was that the City would be well served in hiring a financial adviser who specializes in bond issues.

State law allows an increase to the operating millage rate for property taxes by a small percentage each year, and in the past, Council has chosen not to increase taxes. A municipality can also accumulate up to three (3) years cumulative allowable cap, which for the City equates to a seven point eight percent (7.8%) increase to the operating millage rate, going from 0.0213 to .0230. The annual projected revenue from this increase would be three hundred forty-four thousand dollars (\$344,000).

Interim Administrator Fragoso stated that the Real Property Committee would be discussing pay-to-park options for island-wide beach parking. SCDOT has given municipalities the authority to regulate parking in the rights-of-way with their approval; beach communities that charge for parking have found that it does not impede reasonable access to the beaches.

Speaking for the Committee, Chair Ward thanked the Interim Administrator and the Treasurer for the presentation and the options it afforded as well as the level of information provided in the "Revenue Detail" spreadsheet; he commented that the spreadsheet afforded the Committee "more data than we [Council] have ever had before."

Councilmember Buckhannon supported an increase to the rental license fees and building permits. He would like to see the City initiate an impact fee based on lot overage, with a minimum fee charged for structures of twenty-five hundred (2,500) square feet in size and gradually increasing fees for greater than twenty-five hundred square feet. He also suggested that houses with multiple trashcans should be charged some type of fee for the extra manpower and time required to maintain them. He reported that the Recreation Committee would be discussing the possibility of renting space in the Rec Center for a variety of groups. He mentioned the City's having a quick response vehicle (QRV) would eliminate responding to a medical call with a full complement of fire equipment; to go one (1) step further and to generate revenue would require the acquisition of a transport vehicle to take people to hospitals.

Councilmember Moye expressed his advocacy for increasing the rental license fee and getting the most money from them assuming that the rates are comparable to other beach communities.

Director Kerr stated that the only community in the area that has many residential rental properties would be Kiawah and they do have comparable amenities; he said that he would get their schedule of rental permit fees to compare for reasonableness.

Another important factor when looking at revenue was determining who would be impacted by them, and Councilmember Moye placed those impacted into five (5) categories, i.e. residents, island guests, day-trippers, businesses and miscellaneous. The increase to rental license fees would impact the island's guests, but the revenue to the City was based on a macro-economy. He professed the belief that the revenues generated by tourism should fund Capital Projects since they could fluctuate while revenue that would be consistent and relatively unchanged should fund

the City's operating expenses. He also was in favor of the increases in building permit fees that would impact residents and island visitors. The franchise fees for Comcast and the Water and Sewer Commission he saw as veiled taxes to the residents and somewhat impactful to island visitors. The surf camp franchise fee could impact residents, visitors and day-trippers as all would have the opportunity to participate; to his knowledge, the island has only a couple of companies that rent beach chairs and umbrellas, and he would prefer to talk to them before taking a position.

The Interim Administrator stated that she has spoken with the owners of the two (2) chair and umbrella rental companies and both supported the City's implementing franchises noting that it helps them to provide better customer service. By franchising, they can assist the people who come to the beach, see the rental chairs and umbrellas and want to rent for themselves because they would be allowed to transact business on the beach.

Councilmember Moye would prefer to have stormwater fees calculated by lot coverage thereby putting the onus on those properties that contribute to the flooding problems, and the Interim Administrator responded that the fees for businesses were forty-eight dollars (\$48) per three thousand (3,000) square feet.

The stormwater fees vary from sixty dollars (\$60) in Mount Pleasant to seventy-two dollars (\$72) on Sullivan's Island to ninety dollars (\$90) in the City of Charleston; the staff recommendation for the Isle of Palms was a fee of seventy-two dollars (\$72) per year. The Interim Administrator noted that Charleston County collects and holds the stormwater funds for the City and uses them to reimburse the City for smaller stormwater projects on the island.

Councilmember Moye closed his comments on the ideas presented by saying that increasing the millage should be the last consideration when the City is looking for additional revenue.

Councilmember Moye informed the Committee that he has spoken with a SMART light provider who would be willing to purchase the rights-of-way from SCDOT and replace all of the streetlights with LED lights at no cost to the City; the light provider claimed that the LED lights would reduce the City's expense by sixty-five percent (65%). The cost per light would be approximately five dollars (\$5) per month.

Councilmember Bell indicated that he agreed with almost everything being said, but he did not understand why staff did not recommend opting for as much revenue as possible. He strongly encouraged the Committee to approve the small increase to the property taxes being recommended and that the City should always approve the small, incremental increases allowed by the state.

On the subject of the marina, Councilmember Bell noted that a reasonable amount of land was not under lease control, and 41st Avenue from Waterway to its terminus could be abandoned as a road and appended to the marina restaurant to somewhat alleviate parking issues. In addition, the Tidal Wave lease expires at about the same time as the restaurant providing the City with a substantial piece of property that will enhance the value of the restaurant for any bidder. He stated that he has spoken with Interim Administrator Fagoso to insure that the bid is written wide enough "to optimize the economic value and return to the residents."

Councilmember Rice also expressed concern that several of the options presented were, basically, taxes on the residents. Noting that previous Councils have worked diligently to prevent

any type of commercialism on the beach, she thought that the franchise fees would be setting a precedent that the residents do not want.

Director Kerr informed the Committee that South Carolina law regulates how cities may enact impact fees; he stated that the City would be required to document the impact, to come up with a cost to deal with the impact and to evenly spread the cost. He explained that staff had suggested increasing the building permit fees in lieu of impact fees because building permit fees are not as regulated.

Councilmember Kinghorn hoped that this Council would address the island's sewer issue; if not dealt with now, it would certainly come up again in the not-too-distant future, likely in the form of an environmental emergency.

Director Kerr explained the process to obtain the funds to build the sewer as one where the Water and Sewer Commission must come before City Council to get permission to incur the debt, then try to get a bond, but, from Director Kerr's understanding, they could get a bond only if the City enacted ordinances for a mandatory tie-in.

On the options presented for consideration, Councilmember Kinghorn said that he would support the first scenario on the increase to rental licenses, the staff recommendation on the building permits, a three percent (3%) franchise fee on the IOP Water and Sewer, and ninety dollars (\$90) for stormwater fees.

Councilmember Smith saw the franchise fee on surf camps as the best way to provide that service to the residents and visitors; she also favored the control the franchise agreements would give the City over the businesses to whom they were granted.

Interim Administrator Fragoso reported that the only time the City knew about a possible commercial activity happening on the beach was when a resident called in about what they were seeing or experiencing. The City does not have enough police officers to constantly monitor the beach for violators.

From a zoning administrator's viewpoint, Director Kerr stated that a week does not pass without his receiving a Facebook post about a yoga class or some other activity on the beach, and, as the law is currently written, it is easy to manage – all commercial activity on the beach is illegal. He also thought that the lack of commercialization on the beach was a point of pride to many residents of the island.

Chair Ward stated that franchise fees were always controversial to the residents, and they have been rejected repeatedly.

Councilmember Buckhannon said that he was reluctant to increase the stormwater fees for everyone; he thought that a family in a three- or four-bedroom house should not pay the same fee as a twelve- or fourteen-bedroom house. Since Charleston County establishes the stormwater fee on businesses by square footage, he could not understand why they could not do the same for residential properties.

As Councilmember Kinghorn suggested, a straw poll was conducted of the options presented for consideration for inclusion in the FY20 budget and the following were the results:

- Residential rental licenses, Option 1 6 to 1, approved

- Building permits as recommended unanimous approval
- Comcast franchise fee up to 5% 5 to 2, approve
- IOP Water and Sewer franchise at 3% 4 to 3, approve
- Surf Camp franchise agreement/fee 3 to 4, disapprove
- Beach chair/umbrella rental franchise 2 to 5, disapprove
- Stormwater fee – based on impervious square footage
 - \$72/year 5 to 2, approve
 - \$90/year 1 to 6, disapprove

Interim Administrator Fragoso noted that the preliminary decisions made at this meeting would be incorporated into the next version of the FY20 budget that would give a clearer picture of the difference between revenue and expenditures.

3. Adjournment

Chair Ward moved to adjourn the meeting at 6:35 p.m.; Councilmember Bell seconded and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk