

**Special Ways and Means Committee Meeting  
Budget Meeting #3**

5:30 pm., Thursday, March 28, 2019

The Special Meeting of the Ways and Means Committee was held at 5:330 p.m., Thursday, March 28, 2019 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 and Smith, Chair Ward, Mayor Carroll, Interim Administrator Fragoso, Treasurer Suggs, Clerk Copeland and Human Resources Officer DeGroot and Clerk Copeland; a quorum of the Committee 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 the FY20 Budget**

Chair Ward stated that staff has worked hard to put the presentation together for today's meeting and noted that it was valuable information about where the City was going financially and how it was going to get there.

Interim Administrator Fragoso started the presentation with the goals for the workshop; they were:

- a review of the FY20 budget with the recently approved revenues included;
- a review of the priority of expenditures as identified by Council;
- a discussion of the existing and forecasted fund balances with how they will be impacted;
- a confirmation that the FY20 budget as presented represents Council's priorities and policy directives as well as the budget assumptions included; and
- direction(s) given to staff for changes/additions to Draft #2 of the FY20 budget.

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An updated budget calendar was provided that anticipates Second Reading of the budget ordinance on Tuesday, April 23<sup>rd</sup>.

In reviewing the FY20 budget priorities, the first priority was financing, protecting and maintaining facilities and assets and improving the drainage infrastructure which consumes a large percentage of budget expenditures. On the subject of revenues, staff and Council need to secure stable sources to increase revenues and to project and maintain conservative but healthy fund balances. Relative to expenditures, staff and Council need to control growth in personnel expenses while remaining competitive, to decrease operational expenses and to reduce the use of tourism funds to cover personnel expenses. Instead, tourism funds need to be used to leverage toward tourism impacted projects and services.

As presented, the revenues in FY20 are expected to increase by approximately five million one hundred thousand dollars (\$5,100,000); the increase is achieved through the following:

- an increase in property taxes by 1% due to an increase in assessed value;
- permits and licenses fees revenue represent 37% of General Fund and 18% of total City revenue; in FY20, the City anticipates \$250,000 in one-time revenues from the Wild Dunes resort's construction of a new hotel;

- accommodations and hospitality tax revenues assume that the Charleston area and the island remain popular vacation destinations in order to continue the forecasted 3% growth; and
- increased short-term rental license tax, Comcast franchise fees, building permits and municipal parking rates totaling \$870,000.

The Interim Administrator noted that the GO bond to fund Phase III Drainage is the key driver of the increase in revenues. Staff continues to evaluate other revenue opportunities such as a utility franchise fee on Water and Sewer Commission billings, drainage impact fees and new or increased construction fees based on the size of the projects or the amount of lot coverage.

Impactful to expenditures in FY20 will be the following:

- decreased operational expenses of \$103,522;
- decreased personnel expenses of \$60,688 due to the turnover of high level positions;
- reduced the growth rate of incremental personnel expenses associated with wage increases;
- extended the vehicle rotation schedule for 6 to 7 years;
- deferred equipment purchases where possible; and
- decided to refurbish 95 ft. ladder truck rather than replace it.

For Capital and Special Projects, this budget includes four million dollars (\$4,000,000), split evenly between the Fire and Police Departments, for repairs to the Public Safety Building (PSB); by mid-May, Council should have the report from Trident Construction on their educated estimates of those repairs so that the numbers for the FY20 budget can be finalized. The four million dollar (\$4,000,000) estimate is based on the \$1,200,000 from the court settlement, \$2,000,000 in tourism funds and \$800,000 from Capital Projects. Dune walkover maintenance and mobi-mat total of \$115,000 will be funded with Beach Preservation Fees. The total for Building Maintenance for all City-owned buildings will be \$241,000 from the Capital Projects Fund.

Two (2) projects fall under Drainage Infrastructure; they are Phase III Drainage that deals with the outfalls and the smaller projects in the basins that lead to the outfalls. The outfall improvements totaling \$3,900,000 are to be funded by a GO bond with the debt service to be paid from the General Fund; the costs of the improvements to the basins are projected to cost \$500,000 and will be paid from the Capital Projects Fund.

Planned equipment expenditures for FY20 are the 75-foot ladder truck replacement at \$849,500 paid from a municipal lease with debt service to be paid from tourism funds; the refurbishment of the 95-foot ladder truck is expected to cost \$600,000 and will be funded evenly from tourism funds and the Capital Projects Fund. The five (5) Police SUVs, deferred from FY19, have increased in price by \$5,000 each for a total purchase cost of \$190,000 and will be paid from a combination of tourism funds and Capital Projects. The Capital Projects Fund will also be the source of funding for the Fire Department and Public Works pickup trucks.

When the discussion moved to the City's highest expenditure, wages and fringes, Interim Administrator Fragoso reiterated that personnel costs have accounted for 71% of the General Fund expenditures and 35% of overall City expenditures in FY19. An initiative for FY20 will be to shift to a more conservative performance-based program and away from rewarding high performing employees; the merit pool will be 2.5% for FY20 with wage adjustments targeted at employees who are at or below the mid-point of the pay scale for their position based on a favorable annual evaluation. The coming fiscal budget reflects maintaining current approved

staffing levels acknowledging that three (3) positions will become vacant soon through attrition; these vacancies will afford staff the opportunity to evaluate a possible reduction in headcount. In an effort to remain competitive in FY20, the HR officer and Interim Administrator will produce a robust professional development program as a second initiative, as well as continue the tuition reimbursement program with the changes made to the program over the winter.

The schedule entitled “Summary Personnel Costs and FTEs” is a look at personnel trends since FY14 and forecasting into FY24. Treasurer Suggs stated that the assumptions made in forecasting personnel costs begin with a 2.5% annual merit pool applied proportionally to employees below the mid-point in their salary range, an annual 1% increase in retirement contributions as mandated by the S.C. Retirement System in every year until FY23, and a health insurance increase of 8% per year. The schedule assumes full staffing at 92 employees and no turnover; the Treasurer commented that, when turnover occurs, salaries for that position will go down because the new hire would not be paid the same amount as the employee who left. The area of the schedule shaded in green illustrates the salary and fringes for the average full-time equivalent employee; that number increases from \$83,183 in FY19 to \$96,326 in FY24.

Drainage projects also take a sizable portion of the FY20 budget; the expenditures include the following:

- the ongoing stormwater maintenance contract with Eadie’s at \$184,538;
- smaller projects within the basins impacted by the outfall improvements at \$500,000 from Capital Projects;
- the drainage contingency of \$70,000; and
- the final design and construction of Phase III Drainage – \$1,700,000 to be funded through a GO bond with the debt service of approximately \$287,000 to be paid from the General Fund.

Interim Administrator Fragoso noted that two (2) approved uses of proceeds from local accommodations and hospitality taxes were (1) highways, roads, streets and bridges providing access to tourist destinations and (2) water and sewer infrastructure to service tourist-related demands. She also stated that a bill in the state legislature would expand the list of exclusive uses to include drainage improvements, but the payment of debt service was less clear. Based on this information and guidance from the Municipal Association, she and the Treasurer would propose for the second version of the FY20 budget that tourism funds (local accommodations and hospitality) be used for the drainage projects in the basins and the Eadie’s contract for ongoing stormwater maintenance. In addition to the GO bond for Phase III drainage, staff will be aggressively pursuing grants, i.e. Rural Infrastructure Authority, Community Development, Block grants, DHEC, Rural Development grants, etc. for which the City would be eligible.

For the marina, the FY20 budget included \$147,000 for the engineering and permitting of Area A (the fuel dock) in Phase I of the dock rehabilitation project; the forecast would suggest that the design and construction would be paid equally by the Marina Fund and State ATAX. Additionally, the forecast assumes no changes in the rent from Tidal Wave Watersports or the marina restaurant although the leases expire in September and October 2020 respectively; the forecast can be adjusted as the future of the leases is evaluated. Of note is that the forecast does not contemplate any capital improvements to the restaurant; the building assessment will be presented to the Real Property Committee next week and will dictate any adjustments to the budget.

The FY20 budget includes several new initiatives, such as starting the strategic planning process, hiring a grant writer, acquiring a new performance evaluation tool, acquiring short-term rental license management software, providing Wi-Fi at the Recreation Center, getting new time-keeping software, and establishing an online financial transparency center.

In the FY20 budget, the transfers-in from tourism funds to the General Fund to support personnel in the Police, Fire and Public Works Departments has been reduced by 32% eliminating the concern that the General Fund was relying too heavily on tourism to meet personnel expenses. Growth in the tourism funds has remained slow but steady at 3% per year over the past 10 years, and, with the reduction in transfers-in from the tourism funds, the balances will build significantly. A consequence of the reduction in transfers-in will be to limit the City's ability to transfer General Fund money to the Capital Projects fund.

Looking at cash flows and fund balances over time, Treasurer Suggs stated that any gain in the General Fund has been transferred out, typically to the Capital Projects Fund with a smaller portion going to the Disaster Recovery Fund; the fund balance remains static at approximately \$3,000,000. The tourism funds trend upward slowly but steadily year over year; expenditures reach their peak in FY20 based on the \$2,000,000 transfer-in to the Capital Projects Fund for the remediation of the Public Safety Building. The tourism funds balances begin to rebuild after FY20 to reach a high of \$6,500,000 in FY24. For the Capital Projects Fund, the balance peaks in FY20 -21 as the funds come in for the Public Safety Building and Drainage Phase III; the fund balance then declines until it reaches \$1,000,000 in FY22 which the Treasurer described as "critically low" To avoid the dramatically low fund balance, Treasurer Suggs said that tourism funds could be used for some of the Capital Fund expenses in FY20, such as the ongoing stormwater maintenance contract with Eadie's and the \$500,000 budgeted for the drainage projects in the basins. She commented that the General Fund typically has a positive net result that is transferred to the Capital Projects Fund, but such a gain/surplus is not budgeted, but that could prevent the Capital Projects fund from reaching such a dramatic low. Another option open to Council would be to take no action now and wait to see how FY20 ends and how FY21 ends.

When Councilmember Ferencz asked why the City did not budget for capital expenditures, the Treasurer responded that the FY20 budget and the forecast did just that. Councilmember Ferencz then asked why capital expenditures were not part of the General Fund expenses; she remarked that she was trying to figure out why the City put something in only to take it out when all along the City knows where the money is going and what it is going for. Treasurer Suggs replied that the City could increase the amount of the budgeted and forecasted transfers out in the General Fund, but they would need to make up that amount in some other way in the General Fund. Councilmember Ferencz was reminded that the only source of funds for the Capital Projects Fund was the General Fund, and this transfer amount was "the plug" amount that balances the budget.

To open the question and comment portion of the meeting, Councilmember Rice stated that she did not favor the idea of only employees below the mid-range of the pay scale with a good evaluation to be eligible for the full amount of an increase in the merit pool. She thought that every employee who receives a favorable evaluation should be eligible for the full value of the merit pool. She asked that staff fully research the uses of tourism funds for the Eadie's contract; she also asked the funds be made available to enhance the entrance to the municipal parking lot and to provide signage with direction arrows to drivers about the proper traffic flow in the lot.

Chair Ward stated that committees would have the opportunity to discuss matters that are brought forward in this workshop.

Councilmember Smith agreed with the need for improvements to the parking lot and added that the City need a better way of picking up the trash in the lot. She would also like to see funding for raised access paths for the paths that are low-lying and never seem to dry out; she did not want it to be postponed indefinitely.

Interim Administrator Fragoso commented that discussions have already occurred about using the City's Greenbelt Funds for such an initiative.

Councilmember Smith wanted assurances that the improvements to the multi-use path on Waterway will be done with or without County assistance. She asked to be informed when the mid-range increase formula was defined to insure that it was fair. Based on conversations with Front Beach business owners and discussions at the last Council meeting, she suggested that funds be identified for a strong advertising campaign about proper trash disposal at the beach. She questioned the need for Wi-Fi on the grounds and inside the Rec Center; she thought the Rec Center should be a place for people "to unplug".

Councilmember Buckhannon stated that the Wi-Fi was taken to the Rec Committee as the result of requests by citizens. He expressed his support for an anti-litter campaign and especially liked Councilmember Kinghorn's "Pack it in/Pack it out" slogan; he would like to see the business community give their support to it by placing signs in their windows and, possibly, near the registers.

Chair Ward encouraged the Committee members to study the budget between now and their next Committee meeting to keep the process on track for approval of the budget by June 30. He asked that they get to know the budget for the areas over which they have purview and to be specific about any additions, deletions or changes at the Committee meetings. He told the group that if they had questions or concerns about something in the budget but they were not on the committee that has oversight, they should contact the committee chair to ask that it be discussed.

The Interim Administrator noted that she would prepare a list of the action items from this meeting to distribute to the appropriate committee chairs.

Councilmember Kinghorn said that he would make his comments based on their priority to him, and he stated that he had not seen anything included in the budget referencing the island-wide sewer project that he thought could be funded through a franchise fee on the Water and Sewer billing and tourism funds. His second priority was the marina; he stated that, if the City was going to continue to own it and to have its name on it, the City should provide the funds, likely tourism, for it to be made attractive and not an eye-sore. The third priority was linking the island's bike and pedestrian paths; he estimates that the inter-connecting paths would total maybe two (2) miles.

Councilmember Ferencz was doubtful that \$30,000 was a sufficient amount of money for the grant writer.

According to the Interim Administrator, the grant writer would be focused on funding for drainage.

Councilmember Ferencz asked for an investigation into which beach paths could be made handicap accessible even if it were only to provide visual access.

Mayor Carroll opined that the roof of the Public Safety Building should be replaced and that patching it would be "a huge mistake."

With the proposed reduction in transfers-in from the tourism funds, Councilmember Smith asked how the tourism funds would be used.

Interim Administrator Fragoso replied that several initiatives mentioned in this meeting would qualify for tourism funds, and, once she gets feedback from the Committees next week, they will be incorporated into the budget and the source of funds identified.

Councilmember Rice explained her concern over tourism funds and the Eadie's contract stemmed from that fact that it was a long-term contract.

The Interim Administrator assured the Councilmember that she would confirm this decision with the City Attorney before Version 2 of the budget was published.

Mayor Carroll thanked Treasurer Suggs and Interim Administrator Fragoso for the "incredible job" they have done in putting the materials together for this meeting.

### **3. Adjournment**

**MOTION: Councilmember Buckhannon moved to adjourn the meeting at 6:50 p.m.; Councilmember Bell seconded and the motion PASSED UNANIMOUSLY.**

Respectfully submitted:

Marie Copeland  
City Clerk