

Special Ways & Means Committee Meeting

4:00 p.m., Thursday, June 13, 2019

A Special Meeting of the Ways and Means Committee was held at 4:00 p.m., Thursday, June 13, 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, Smith and Chair Ward, Mayor Carroll, City Administrator Fragoso, Treasurer Suggs, and Clerk Copeland. Department heads or a department representative present were Chief Cornett, Chief Graham, Director Pitts and Recreation Supervisor Sweet. Councilmember Rice was absent.

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

REVIEW AND DISCUSSION OF FY20 BUDGET

Chair Ward stated that this meeting was the fifth meeting to review and discuss the FY20 budget, and he wanted any reservations and/or concerns about it to be resolved at this meeting so that it could be adopted at the Council meeting of June 28th. He acknowledged that several discussions have focused on forecasting relative to the debt the City could incur over the next two (2) budget cycles, but he asked that members concentrate solely on FY20. He acknowledged that the marina was an issue, but the FY20 budget recognizes only one hundred forty-seven thousand dollars (\$147,000) for permitting, engineering and design. The dock rehabilitation project construction would not begin until FY21; therefore, the City would not incur debt until that time.

The budget document and associated schedules were attached to the Agenda and posted on the City's website; the presentation is attached to the historical record of the meeting.

Administrator Fragoso noted that Council has been working on the FY20 budget since December 18, 2018, and the budget for discussion at this meeting was the fourth version that incorporates the items approved at the May 21st meeting. She stated that she and the Treasurer have worked hard to insure that it reflects Council's priorities and initiatives; due to the number of priorities facing the City, this has been a challenging budgeting process. She opined that the forecasting that has been utilized for the FY20 budget has proven to be an effective tool. She noted that a couple of issues need to be resolved relative to the marina docks before the budget can be adopted, and they are relative to funding and permitting that are responsible for the project being moved out to FY21.

The FY20 General Fund Revenues are budgeted to be eleven million eight hundred fifty-four thousand dollars (\$11,854,000); the figure represents a sixteen percent (16%) increase over FY19. The drivers for the increase in revenue are as follows:

- 1% increase in property taxes based on the average increase due to re-assessment;
- 1.4 mills increase to debt service millage for the GO bond on the Phase III Drainage Project equal to \$287,000 annually; millage schedule is located at end of budget packet; millage increase will not go into effect until GO bond issued (likely FY21).

Councilmember Kinghorn stated that the City could avoid the millage increase if it chose to reduce expenses or if Council had stayed with its approval of a franchise fee on the IOP Water and Sewer Commission's billings.

MOTION: Councilmember Kinghorn moved to eliminate the debt service millage increase from the FY20 budget; Councilmember Ferencz seconded.

Councilmember Bell commented that the debt service millage would go away once the debt was paid off.

Councilmember Kinghorn said that he would find it helpful for Council to agree on the dollar amount to be maintained in fund balances.

Treasurer Suggs estimated the current total fund balances to be fifteen million dollars (\$15,000,000), and Councilmember Kinghorn asked if that was adequate. The Treasurer told the Committee that the City passed a resolution several years ago defining the fund balances the City should maintain; she recalled that the City was to have thirty percent (30%) of annual General Fund expenditures should be in the total General Fund balance at the end of the year. She stated that the FY20 budget as presented at this meeting will keep the General Fund steady.

Councilmember Kinghorn remarked that, if Council were to reverse its decision on water and sewer franchise fees, they could generate twice the amount of money as the increase to the debt service millage.

Councilmember Buckhannon reiterated that a fee imposed on the residents was a tax.

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VOTE: The motion FAILED on a vote of 2 to 6 with Councilmembers Ferencz and Kinghorn casting the only supporting votes.

The discussion proceeded with the drivers of increased revenues in FY20 as follows:

- Business Licenses were up 18% from the FY19 budget; building permits were up 89% from FY19 – the increase was due to the standardization of the building permit fees and the one-time fees from the Wild Dunes' project;
- Residential rental licenses were projected to increase by 114% based on normal growth and Council's decision to double the base fee and the incremental rate;
- Parking revenue has increased by 55% due to the increased per hour rate on the street to \$2, and the rates in the parking lots going to \$10 during the week and \$12 on the weekends;
- Transfers-in from tourism were reduced by 32% in response to Council's concerns about the city's dependence on tourism funds to cover fixed expenses.

Administrator Fragoso directed Council to the pie charts for expenditures and transfers out:

- Wages, salaries and temp labor were budgeted to be 66% of General Fund expenditures in FY20; this is a reduction of 7% from FY19;
- Debt service payments, principal and interest, exceeding \$1,000,000 include the original Public Safety Building bond, 60% of the Rec Center bond, 40% of Fire Station 2 and the debt service on the Phase III Drainage bond;
- Other expenditure percentages were documented in the chart.

Directing Council to page 3, Summary of Personnel Costs and FTEs, the FY20 budget for total personnel wages and salaries was shown to be approximately five million seven hundred thousand dollars (\$5,700,000) which represents a one point three percent (1.3%) decrease from FY19. Total personnel costs are budgeted to increase by point zero zero three percent (0.003%), i.e. total payroll costs are staying relatively flat into FY20.

The Administrator explained that several initiatives have produced the overall reduction in payroll costs for FY20, and they are as follows:

- Moving away from a 4.2% pool for COLA and merit increases, the COLA has been completely eliminated and a 2.5% pool will be available for merit-based increases in FY20 focusing on employees who are below the mid-point of their pay range; approximately 20% decrease in available funds for performance-based pay increases;
- Developing a model that limits percentage of merit increases depending on where an employee's wages fall relative to the mid-point; and
- Pursuing ways to reduce headcount through attrition in some departments.

Councilmember Bell asked that Council be provided with the mid-points for positions within the City, and the Administrator said it would be available to them for the Ways and Means Committee meeting.

After Councilmember Smith asked about the evaluation of the Police Department in terms of its positions and wages, the Administrator noted that staff was working on that. She reported that twenty thousand dollars (\$20,000) was earmarked in the FY19 budget for a third party to perform the assessment; in the interim, Chief Cornett has been hired and feels he could provide Council with an assessment of the Department.

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Councilmember Smith indicated that the City must maintain competitive wages and benefits to the surrounding local governments.

When Councilmember Ferencz asked if this assessment was being done only for the Police Department, Administrator Fragoso said that she and department managers will evaluate the need to fill specific positions as they become available.

Councilmember Buckhannon reminded Council that recently they were presented with an evaluation of wages in the Police Department and adjustments were made at that time in an effort to stem the outflow of personnel. He reiterated that many local police departments were short-staffed because they could not find qualified individuals, and he voiced confidence in the staff to recognize a problem and respond accordingly.

Chair Ward remembered hearing from councilmembers several years back how dissatisfied they were with the results of the Archer compensation study for all positions in the City and that the recommendations were discounted.

The Administrator suggested that, if Council thought that the City needed professional assistance to evaluate all positions within the City, the funding could be allocated in the FY21 budget. She stated that Folly Beach was currently having a professional assessment of their job positions and have agreed to share the final report.

Councilmember Kinghorn asked Treasurer Suggs about the state of the City's portion of the unfunded liability in the State Retirement Systems and if it was something that Council should be worried about.

According to the Treasurer, the Retirement Systems for the State of South Carolina, which all City employees participate, has an unfunded liability of approximately fifty billion dollars (\$50,000,000,000), and every local government has a share of that unfunded liability based on the number of participants. In recent years, the City must include this unfunded liability in its year-end financial statements; for the City of Isle of Palms, the share of the unfunded liability is point zero five percent (0.05%), or ten million dollars (\$10,000,000). This amount of money would only become a reality if South Carolina declared bankruptcy, which is a very remote possibility. She stated that the City is in a good position in that it has enough assets to cover its unfunded liability.

According to the Treasurer, the Plan itself was taking initiatives to reduce this liability, such as requiring a one percent (1%) increase to employer contributions to the fund for the last two (2) and coming three (3) years, changing the age for employees to access retirement funds, and changing other requirements to access retirement funds.

Other noteworthy initiatives included in the FY20 budget were as follows:

• Online financial transparency dashboard	\$12,000
• Short-term rental management software	14,000
• New performance evaluation tool	15,000
• Strategic Planning consulting	15,000
• Bond Attorney	30,000
• Grant Writing	30,000
• Financial Adviser	40,000
• Tuition reimbursement program	43,000
TOTAL	\$199,000

The Administrator informed Council that the City would be aggressively pursuing grants for the drainage project. At a joint meeting of City Council and the Planning Commission, Thomas & Hutton would review the alternatives for the Phase III Drainage Project and their associated costs, and then City Council would need to decide which option to pursue. Being cautious, the budget will plan for a three point nine million dollar (\$3,900,000) project.

Councilmember Bell expected that certain of these initiatives will be self-funding; therefore, he did not see them as expenses, such as the short-term rental software, the grant writer, and the financial adviser.

Councilmember Moyer inquired about the proposed millage increase if the grant writer were to succeed in getting the project costs completely funded.

According to Administrator Fragoso, the debt service millage would not be applied if the City was awarded grants to fund the entire project.

When discussing transfers-in and transfers-out, Treasurer Suggs pointed out that, in FY20, the transfers-in would be less than the transfers-out. She also noted that this version of the budget assumed that any net positive result from FY19 would roll into the Capital Projects Fund for use in FY20. She stated that, as an island resident, she did not like tax increases any more than other

residents, but she thought that a modest increase of one point four mills (1.4 mills) was necessary to fund a very worthy project, Phase III Drainage.

Councilmember Ferencz posed the question about the budget she anticipated being asked by residents, "Since the City has a million dollars left from FY19, why are my property taxes being increased?"

Chair Ward noted that the City has more major projects than it has ever has before and none can be ignored any longer.

Councilmember Ferencz continued that Council knew what it should have done but did not do in the past, and now Council was faced with making the hard decisions. She stated that the decisions should be made when they make sense and when it appears that one (1) hand was putting money in and the other hand was taking money away from the residents.

Chair Ward stated that this Council has learned its lesson and was setting aside funds based on the assessed value of City property for future maintenance. In his opinion, the only thing lost was Council's ability to put money aside for the future purchases of large equipment, i.e. fire and garbage trucks.

Councilmember Moye stated that the City was fortunate to have a million dollar positive net result to carryover to pay toward these projects; otherwise, the millage increase might have been larger.

Councilmember Buckhannon added that the City had a number of positions that went unfilled for an extended time and others that might not be filled that contributed significantly to the net positive result.

Councilmember Bell remarked that wages and headcount have increased by fifty percent (50%) in the past ten (10) years, and like most difficult decisions, the City would be forced to cut services, cut wages or cut the headcount. He did not think anyone on Council was taking those actions; he agreed with Mayor Carroll that, for the taxes paid, residents of IOP get amazing services. He commented that the City could not continue to increase wages by three and four percent (3% - 4%) a year and not have to raise taxes.

When Councilmember Ferencz asked how much tourism money was to be spent in the FY20 budget, Treasurer Suggs referenced page 52 of the budget document that has summary total for the various tourism funds. The total revenue to Municipal Accommodations Taxes, Hospitality Taxes and State ATAX was budgeted for approximately four point three million dollars (\$4,300,000), transfers-out were about nine hundred seventy thousand dollars (\$970,000) and total expenditures were approximately five point four five million dollars (\$5,450,000). The City will be tapping into tourism fund balances for the FY20 budget; the Treasurer reported that the biggest single impact to tourism funds was the two point two million dollars (\$2,200,000) being transferred out for the Public Safety Building remediation.

The Capital Projects Expenditures for FY20 were as follows:

- Public Safety Building repairs \$2,000,000
- Phase III Drainage 1,700,000
- Purchase of 75 ft. ladder truck 849,500
- Refurbishment of 95 ft. ladder truck 600,000

- 1 patrol vehicle 44,000
- Public Works generator – 50% 37,000
- TOTAL \$5,230,500**

Total revenues for the tourism funds have been budgeted at approximately four million three hundred sixty dollars (\$4,360,000) and it broke down as follows:

- Municipal Accommodations Tax (including Charleston County Pass-through) \$1,636,000
- Hospitality Taxes 828,400
- State ATAX 1,893,700

The tourism funds expenditures include the following:

- Public Safety Building repairs \$2,300,000
- Landscaping and beautification 233,000
- Small, impactful drainage projects 500,000
- Special events 84,000
- Patrol vehicles (4) 176,000
- Fire Dept. pickup truck 35,000
- Pedestrian & bike connectivity study 10,000
- Public education campaign 10,000
- Public WiFi at Rec Center (inside only) 9,000
- Debt service on 75 ft. ladder truck 105,000
- Public Works generator – 50% 37,000
- Tourism promotion (30% State ATAX) 587,000

The revenue for the Beach Preservation Fee Fund would equal the revenue for the Municipal Accommodations Taxes at approximately one million one hundred thousand dollars (\$1,100,000). The funds budgeted would be used for the matching provision for planting dune vegetation, post-storm sand scraping (if needed), beach surveying and monitoring, a Breach Inlet feasibility study about the need for a beach restoration project and general maintenance and improvements to dune walkovers and mobi-mat. For locations that need dune walkovers, the City would again aggressively pursue grant-matching funds because they were expensive to construct.

Recent discussions have taken place regarding the amount of money sent to the Charleston Visitors Bureau (CVB) and their use of those funds; Council would like to have a stronger voice in how the island is promoted. Some members of Council would like to see the function of promoting the island in-house and funds used in different ways rather than the CVB's promotion of the entire Charleston area. This subject will be investigated and considered during the coming year.

When Folly Beach assumed control of their advertising and promotion seven (7) or so years ago, the decision was somewhat controversial since the CVB was not happy to lose that amount of funding for their projects. Folly Beach hired a marketing team to develop marketing materials and tourism promotion materials emphasizing what they felt was important to tell people who might visit or were returning visitors to their community.

If the City wanted to eliminate using the CVB as the City's tourism promotion vehicle, the City Administrator thought it would be challenging in the beginning, but was certainly do-able.

Revenues for the Marina Enterprise Fund were budgeted at four hundred thirty thousand dollars (\$430,000); this was a reduction from FY19 of thirteen thousand five hundred dollars (\$13,500) for one-time rent abatement to the marina manager for the loss of approximately one hundred (100) linear feet of dockage. The administrator reminded Council that the City was responsible for maintaining the docks. Expenditures in the Marina Fund were budgeted at fifty thousand dollars (\$50,000) for a maintenance contingency, the real estate consultant for the marina restaurant at one hundred thirty-five thousand dollars (\$135,000), eighteen thousand dollars (\$18,000) to authorize a review of marina tenants' financial information and one hundred forty-seven thousand dollars (\$147,000) for the design, engineering and permitting of the marina dock rehabilitation.

The Administrator confirmed that ATM would be permitting and designing all of the marina docks, Morgan Creek and the Intracoastal Waterway.

Since the contractor missed his deadline for completion of the installation of the underground storage tanks at the marina by fifteen to seventeen (15 – 17) weeks, the City will be due liquidated damages from the contractor. The City intends to reimburse the marina tenants for any lost revenue during that timeframe from the liquidated damages received when it receives the revenue information for these weeks in 2018 and 2019 for comparison.

Councilmember Bell sought to clarify for Council that the Administrator was talking about two (2) separate issues of rent abatement with the marina operator. The first issue was the loss of revenue for the two (2) docks that collapsed over the past year, and the amount of that rent abatement was thirteen thousand five hundred dollars (\$13,500). The second rent abatement issue was derived from the loss of business incurred in the weeks that the contractor was unable to complete the installation of the underground storage tanks at the marina; the amount of liquidated damages the City would receive have been estimated to be between thirty and forty thousand dollars (\$30,000 – 40,000).

Based on discussions with her financial adviser, Councilmember Ferencz told the Committee that he had warned her about the likelihood of a coming recession. With that in mind, she asked Treasurer Suggs what the tourism revenues had been during the last recession; the Treasurer responded that, in 2008, revenues were two million three hundred thousand dollars (\$2,300,000), in 2009, two million two hundred thousand (\$2,200,000) and in 2010, two million one hundred thousand dollars (\$2,100,000). The FY20 budget has tourism revenues in excess of four million three hundred thousand dollars (\$4,300,000) and expenditures in excess of five million four hundred thousand dollars (\$5,400,000). She then asked Council, the Treasurer and City Administrator to tell her what the plan was should a recession actually occur bringing with it a reduction in tourism because families could not afford extras, like vacations.

Chair Ward commented that Council was trying to be less reliant on variable revenues for fixed costs, such as wages, and, now when the City was facing three (3) multi-million dollar projects, he was glad that the funds were healthy.

City Administrator Fragoso stated that an economic condition like a recession was one (1) reason that Council was provided with the schedule of fund balances and the changes that occurred over the past month at every Ways and Means Committee meeting.

Councilmember Moye said that he would welcome a long-term analysis of how the City would fare in a recession using best-case and worst-case scenarios.

Councilmember Buckhannon remarked that such an economic downturn was why the City has chosen not to deplete its fund balances.

Mayor Carroll thanked Treasurer Suggs and Administrator Fragoso for a job well done in the preparations and presentations of the FY20 budget; he opined that the presentations were clearer, more understandable and more transparent than in years past.

3. Adjournment

MOTION: Councilmember Buckhannon moved to adjourn the meeting at 5:17 p.m.; Councilmember Kinghorn seconded and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk