

Ways and Means Committee
5:00 p.m., Tuesday, June 18, 2019

The regular meeting of the Ways & Means Committee was held at 5:00 p.m., Tuesday, June 18, 2019 in Council Chambers, 1207 Palm Boulevard, Isle of Palms, and South Carolina. Attending the meeting were Councilmembers Bell, Buckhannon, Ferencz, Kinghorn, Moye, and Smith, Chair Ward, Mayor Carroll, Administrator Fragoso, Treasurer Suggs and Clerk Copeland; a quorum of the Committee was present to conduct business. 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. Approval of Previous Meetings' Minutes

MOTION: Mayor Carroll moved to approve the minutes of the Special Meetings of December 18, 2018 and May 21, 2019 and the regular meeting of May 21, 2019 as submitted; Councilmember Bell seconded and the motion PASSED UNANIMOUSLY.

3. **Citizens' Comments – None**

4. **Financial Statements – Treasurer Suggs**

A. Financial Reports

The financial reports for this meeting were for the period ending May 31, 2019, eleven (11) months into the fiscal year. The Treasurer stated that the budgeted decline in fund balances was three point four million dollars (\$3,400,000); this number represents the budgeted amount of revenues and transfers less expenses. The actual number through eleven (11) months is an increase in fund balances of approximately seven hundred fifty thousand dollars (\$750,000), a turnaround of four point two million dollars (\$4,200,000). The change in fund balances is largely attributed to delays in spending for several projects that have been rebudgeted to FY20; these items are the Public Safety Building remediation, Phase III drainage, debt service on the 75 ft. ladder truck, the marina docks rehabilitation, repainting the bulkhead, public safety equipment plus beach expenses totaling three hundred thirty-four thousand dollars (\$334,000). Categories of revenue that are performing very well compared to budget are Business Licenses, Rental Licenses, Building Permits and Parking fees; on the revenue side, the Treasurer forecasts ending the fiscal year eight hundred thirty-nine thousand dollars (\$839,000) higher than budget in the General Fund. Treasurer Suggs stated that the fourth edition of the budget assumes the net positive results will be transferred to the Capital Projects Fund because the City will need that money in the FY20 budget year. On the expenditure side of the General Fund budget, the Treasurer forecasts that the year-end balance will be less than budgeted by four hundred forty-six thousand dollars (\$446,000); these savings will be in Professional Services, Tuition Reimbursements and Wages due to vacancies in City Hall, the Police Department and the Public Works Department.

Included in the meeting packet is a resolution adopted in June 2011 stating that the City “will strive to maintain a yearly fund balance (as of June 30) in the General Fund (operating fund) in which the total fund balance is thirty percent (30%) of the total General Fund expenditures . . .” Treasurer Suggs directed Council’s attention to the Cash Balance schedule where the fund balances for FY18 and FY19 are displayed along with the percent of budget that each represents.

The May 31 schedule shows that the City's General Fund cash balance improved by four (4) percentage points over the past year. She reported that ninety-four percent of the City's cash on-hand was invested with the LGIP earning two point four percent (2.4%) interest; the balance was held at BB&T.

Tourism funds were performing as expected. Treasurer Suggs noted that tourism revenues were forecasted with a recurring three percent (3%) annual increase and that it might be optimistic to think that will continue for five (5) years. But the summary graphic on tourism does show that the City has experienced some significant increases in the past five (5) years ignoring FY15 when the Beach Preservation Fee fund was established.

B. Project Worksheets

For Phase II Drainage, the funds remaining to be spent on this project include the project retainage and a small amount of engineering and design fees for a total of approximately two hundred sixty-four thousand dollars (\$264,000); of that total, the City will not spend one hundred sixty-four thousand dollars (\$164,000). She recounted that the original budget for the project anticipated going into the General Drainage Reserve to fund a gap; the balance means that the City will not have to draw as much as anticipated from the drainage reserve to finish the project.

For the underground storage tanks removal and replacement project, eighty-two thousand dollars (\$82,000) remains in the retainage on that contract, and the schedule assumes no recovery under any provisions of the contract with Jones & Frank. Based on this information, the budget has about one hundred two thousand dollars (\$102,000) remaining to spend.

5. Old Business

Discussion of proposed FY20 Budget

MOTION: Chair Ward moved to delay consideration of the millage increase for Phase III Drainage project until FY21; Mayor Carroll seconded.

After further consideration over the weekend, the Chair realized it was unlikely that the City would get the necessary construction permits for the Phase 3 Drainage; the permitting process could take as much as a year. The "permitting and design processes will continue in FY20 and will not be delayed at all;" over the coming months, the City will see how the increased fees are impacting City revenues to learn whether the millage will need to be adjusted.

Since a millage increase is likely to come, Councilmember Bell suggested that the City begin a campaign to educate citizens about the needs to come and not to pretend that Council will be faced with making that decision for the next budget cycle.

Councilmember Ferencz thanked the Chair for reconsidering the decision on a millage increase, and she recommended that Council look at ways to reduce expenses when preparing the FY21 budget.

The Administrator recalled that the first edition of the budget included the Phase III Drainage project in FY21; both members of Council and the Planning Commission urged staff to begin the permitting process so that the project could move forward sooner rather than later. A delay in the decision about a millage increase will not impact the project's construction.

Administrator Fragoso voiced staff's support for delaying the millage increase decision and indicated that it was a more realistic approach to the project.

The Chair repeated that the residents of the Isle of Palms will not see an increase in their property taxes for this year.

The Administrator reviewed the changes that this delay will have on the FY20 budget as follows:

- Elimination of the debt service millage increase;
- Elimination of the principal and interest payment on debt to be incurred for the project;
- Elimination of \$1,500,000 of Phase III construction costs.

The remaining budgeted funds of two hundred thousand dollars (\$200,000) will be available for final design and permitting for Phase III Drainage.

VOTE: The motion PASSED UNANIMOUSLY.

The Treasurer announced that the FY20 budget up for adoption at the Council meeting will reflect these changes and be the fifth draft.

Chair Ward stated that the Treasurer and Administrator have worked hard on this year's budget and that he appreciated their efforts and hard work.

MOTION: Councilmember Kinghorn moved to adopt the FY20 budget as amended; Councilmember Buckhannon seconded.

Councilmember Ferencz stated that included in General Government expenditures was fifteen thousand dollars (\$15,000) for a software subscription for a new evaluation tool. She questioned that the City was prepared in this budget cycle to move forward with a new evaluation tool, and she asked about the involvement of department managers in selecting a new evaluation tool. She stated that the City has not spent money on an evaluation tool in the past.

MOTION: Councilmember Ferencz moved to remove \$15,000 from the FY20 budget for an evaluation tool; Chair Ward seconded.

Administrator Fragoso stated that this amount was staff's estimate and a placeholder for a new evaluation program for the City; currently staff was researching programs that were available to determine which would be most suitable to the City's needs. The selected product could be more expensive or less expensive or possibly could be mimicked in-house.

When he first got on Council, Councilmember Moyer was interested in learning about the City's employee evaluation process and tool, and he was "appalled" at the rigor and quality of the City's performance evaluation. He opined that the City was doing a disservice to its leaders and staff with the current process, and the Personnel Committee was solidly behind the need for a new process, but the cost was unknown. He did want funds available in the FY20 budget as a placeholder to acquire the proper tool; if it was not done this year, it would not be in use until January 2021.

According to Councilmember Bell, technology has progressed to the point that companies are no longer buying capital software; he said that software could be rented. He added that numerous

tools were available for every use and were free on the web; therefore, he was not in favor of spending fifteen thousand dollars (\$15,000). For him, the challenge was the way employees were evaluated, not the process of doing it. He stated that the City might be better served spending money to educate department heads on proper evaluations.

Council agreed that the description in the budget for this expenditure should not include the word “software” and it would be eliminated in the final budget.

VOTE: The motion FAILED on a vote of 2 to 6 with Councilmembers Ferencz and Chair Ward supporting the motion.

VOTE to adopt the FY20 Budget: The motion PASSED UNANIMOUSLY.

6. New Business

A. Presentation by McCay Kiddy – Agreed Upon Procedures for Marina Tenants

Chris Kerr, Audit Manager for McKay Kiddy was present to review their findings from “The Agreed Upon Procedures” for the City’s marina tenants, Morgan Creek Grill, Marina Outpost, Tidalwave Watersports and Marina Joint Ventures. Specifically, McKay Kiddy was engaged to review the financial accuracy and internal controls of the businesses noted above to determine if they have sound financial reporting practices. For each entity, they looked at general ledger sales and cost of goods sold; they compared sales transactions to cash register tapes; they compared cash receipts to bank statements, etc. McKay Kiddy’s independent Accountants’ Report was included in the meeting packet and can be found on the City’s website.

For Marina Joint Ventures and Marina Outpost, the auditors found the financial information to be organized, found no discrepancies in the samples tested and found no internal controls deficiencies in their processes. The auditors were told that Mr. Berrigan, marina manager, has retained a CPA who reviews his financial information every month. For Marina Joint Ventures, the auditors obtained a list of sub-tenants that indicated five (5) more sub-tenants than the schedule provided to the City. From the haphazard selection of five (5) sub-tenants, the auditors confirmed that the lease income reported on the general ledger was consistent with the lease agreements.

Morgan Creek Grill also was found to be very organized, and the staff produced all of the information the auditors wanted to see and answered all of their questions. The auditors did note certain deficiencies in internal controls but stated that they did not think the City should be concerned. Chair Ward added that, with a small staff, a segregation of duties was difficult to achieve.

At Tidalwave Watersports, the auditors found that the owner was maintaining the financial and payroll records for the business, and that the financial records for their businesses in Mount Pleasant and the City of Charleston were intermingled making it difficult to know the sources of revenue and the allocation of expenses. Mr. Kerr stated that supporting materials were not available for certain areas of the business. According to Mr. Kerr, they recommended to the owner that Tidalwave should have separate bank accounts for each location. Additionally, no supporting documentation could be provided on the proper allocation of payroll between the IOP and Mount Pleasant businesses; the same can be said about gas purchases. Tidalwave has recently hired an accountant to review their financial records on a regular basis.

The Administrator said that the problem was that the Tidalwave lease requires that they keep true and accurate records of the activities at the leased premises and that the lease does not require them to provide any information to the City about their other businesses. Since they have refused to provide information on their other businesses, the only avenue open to the City to obtain it would be to pursue it through legal means.

According to the Administrator, she has spoken to the owner and explained that this was the least the City expected going forward.

B. Consideration of FY19 merit increases

The PowerPoint presentation made at the meeting is attached to the historical record of the meeting.

The Administrator began with a reminder that the FY19 budget was built with a two percent (2%) cost of living adjustment (COLA) and a two point five percent (2.5%) merit pool; the COLA was approved by Council and paid out earlier in the year. Council has since decided to eliminate the COLA going forward and to maintain a two point five percent (2.5%) merit pool that would be based on a performance evaluation. She recalled that, in the past, merit increases were based on performance and were paid without regard to where a person was positioned in the pay range.

Based on budget discussions regarding the percentage of budget directly attributable to payroll, the consensus has been that that this expense must be reduced and the unsustainable growth of payroll expenses must be curtailed. The presentation will establish a more sustainable growth in wages and introduce an additional factor to the increases that would be paid and that factor is where an employee's wage fits into the pay scale for the position.

The program being presented creates a standardized scale for wage increases so that persons from the same or different departments who receive the same evaluation score will receive the same percentage increase. The wage ranges the City uses currently are adopted from the Archer compensation study done in 2008; every year, the ranges are adjusted upward by the CPI. Every job position has a salary range with low, median and high wage amounts; the difference between these levels was approximately twenty to twenty-five percent (20% - 25%).

The merit proposal also focuses on the mid-point of the wage range for each position or position category, for instance, firefighter, CDL driver or patrol officer. High-achieving employees who are at the lower end in the wage range would receive an additional boost to the merit increase allowing them to reach the mid-point of their pay range in a reasonable amount of time. The scale proposed follows:

<u>Evaluation Score</u>	<u>%age increase</u>
4.5 to 5.00	2.50%
4.0 to 4.49	2.00%
3.5 to 3.99	1.75%
3.0 to 3.49	1.50%
Below 3.00	no merit increase

The Administrator reported that approximately seventy percent (70%) of the City's employees are at or below the mid-point in their pay range.

For Councilmember Smith, Administrator Fragoso offered the meaning of the evaluation scores:

Below 3	Seldom meets expectations
3	Meets expectations
4	Meets expectations and occasionally exceeds expectations
5	Always meets or exceeds expectations

In the past, department managers were allowed to create the department's salary ranges for merit increases. By adopting this proposal, the evaluation tool has more credibility and the wage ranges would be consistently applied.

Councilmember Bell praised the work done to produce this program and noted that an evaluation score of 5 was rarely given; no one was perfect all the time.

Councilmember Moye opined that the new program would represent a big step forward from where the City has been relative to merit increases; he thought this was the right step at the right time to manage change and cultural change particularly and to get the City moving in the right direction.

For employees above the mid-point, the process for merit increases would follow the process below:

<u>Position to mid-point</u>	<u>Merit increase</u>
Less than or equal to 10% above	reduced by 25%
More than or equal to 11-20% above	reduced by 50%
At maximum of range or more than 21% above mid-point	no merit increase

When asked if staff had reached out to other municipalities, she reported that, although not as sophisticated, other local governments were changing the way they awarded merit pay increases in a similar manner, using mid-points analysis in the way increases were applied.

The Administrator commented that the savings in wages could be used to target the high-performing employees who receive an evaluation score of 4+ and who are less than or equal to ten percent (10%) over the minimum end of their wage range.

Reviewing the schedules on the page entitled "City of Isle of Palms Midpoint Adjustments to January 2019 Merit Pay", she noted that seventy three (73) employees received evaluations for 2018; eleven (11) employees were in their probationary period and not eligible for a 2018 evaluation and some employees have resigned.

Councilmember Bell asked to see how the total employee population scored on the evaluations to determine if there was a reasonable distribution curve.

The Administrator stated that City employees need a cultural shift in the way in the way evaluation tools were used and applied.

Councilmember Kinghorn asked whether the Administrator had vetted this proposal through the department managers, if they had provided input on it and if they supported the program as presented.

Administrator Fragoso replied that the need for change to the evaluation process, the payment of increases in a way to benefit the lower paid employees and a reduction in merit increases to the higher paid employees were discussed multiple times in department managers meetings. They discussed that they needed to follow City Council's directions to reduce the percentage of payroll expenses to the total General Fund budget. In general, she believed the department managers understood and agreed with the program, but concern was expressed about how it would disproportionately impact long-term employees. She also responded to Councilmember Kinghorn that she reviewed each evaluation and made the final decision about them. She stated that she would be looking for an evaluation tool that would provide for goals to be established and an explanation of the deliverables making it easier for the employee to see how well he/she was reaching that goal. She indicated that she would meet with employees two (2) or more times each year to review the goal(s) and look at progress toward achieving it.

The Administrator commented that Council could use the saving projected at twenty-two thousand six hundred twenty-seven dollars (\$22,627) to increase the merit increase percentages on the City-wide scale by possibly half a percentage point resulting in the lowest merit of two percent (2%) and the highest three percent (3%). Although merit increases have happened automatically in the past, with the change to a standardized merit scale, she would prefer that Council make its decision known through a motion.

MOTION: Councilmember Ward moved to approve the change in the merit pay process as described; Councilmember Kinghorn seconded.

Councilmember Bell suggested holding the savings as discretionary, prescriptive money to be used to fix problems; he commented that trying to find money to solve a problem was always more difficult than having money set aside for the specific purpose.

Treasurer Suggs noted that remaining funds were used to give wage increases to employees after they successfully complete their probationary period.

Councilmember Smith asked what argument the Administrator would make for increasing the merit percentages for 2018; she reiterated her concern that the City remain competitive with the surrounding communities.

Although she was not advocating an increase to the merit percentages, the Administrator said that a key reason to do it was to insure the City's competitiveness. She stated that the wages need to be closely monitored and evaluated over time to avoid salary compression. She indicated that tonight's proposal would be tested for 2018 and the Personnel Committee might want to make changes for next year's evaluations assuming a new tool was used. She also pointed that this was a significant decrease to what has been done in the past and was less than the average merit increase available to employees in other municipalities.

Councilmember Moye stated that the merit increase was not about staying competitive, but the City's wage ranges need to be competitive. He commented that the 2008 study that recommended an increase to the salary ranges based on the CPI might not be accurate today, and the Personnel Committee has discussed the need for a more up-to-date compensation study. On the subject of the savings, he reminded Council that the City was functioning understaffed by

twenty (20) people. In addition, he stated that just because funds were budgeted did not mean they must be spent, that many municipalities did not pay both a COLA and merit and that some pay neither.

Administrator Fragoso opined that Council needs to have a separate discussion about the confidence it has in the City's existing salary ranges which would involve hiring professionals to perform another compensation study. But, before spending any money, she recommended reviewing the compensation study that was currently underway at Folly Beach since the City was looking at the same market. She confirmed the need for Council and staff to be confident in the salary ranges being competitive and meeting market.

When Councilmember Ferencz asked the Administrator if she was confident of the consistency in the evaluations from department to department, she responded that she trusts her department managers. She pointed out that the department managers have been doing evaluations for a long time and were very fair.

VOTE: The motion PASSED UNANIMOUSLY.

7. Miscellaneous Business – none

Next Meeting Date: 5:00 p.m., Tuesday, July 16, 2019 in Council Chambers

8. Executive Session – not needed

9. Adjournment

MOTION: Councilmember Bell moved to adjourn the meeting at 6:24 p.m.; Councilmember Moye second and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk

Performance Based Merit Adjustments

Merit increases will be based on a combination of:

- Performance
- Position in salary range

Benefits:

- Meets the goal of slowing down the growth in pay for employees at the high end of their range and more rapidly adjusts the pay of high performing employees at the low end of their range. This approach also results in lowering total compensation costs over time.
- Performance is considered in making base pay adjustments; the higher percentage of merit increase only available to high performing employees.
- Maintains internal equity. A City-wide scale ensures consistency in the implementation of base pay merit increases.
- Process is based on objective measures.
- Credibility of evaluation tool and effective performance management training essential.

How the salary ranges were developed

In 2008, the City hired a third party consulting firm (Archer Company) to perform a compensation study. City Council adopted the salary ranges recommended by the report. Since then, the salary ranges have been adjusted by a CPI factor every year.

58.1%

Employees Below Midpoint of Salary Range

4.5 - 5.0	2.5%
4.0-4.49	2.0%
3.5-3.99	1.75%
3.0-3.49	1.5%
Below 3	



- 70% of employees are in this category
- Percentage increase based on their evaluation score

Employees Above Midpoint of Salary Range

Percentage increase based on evaluation score and the following criteria:

Merit increase reduced by 25% if employee is $\leq 10\%$ above midpoint.

Merit increase reduced by 50% if employee is 11% - 20% above midpoint

Eliminate annual base pay increase if employee is already at the maximum of the range (120% + of midpoint)

Example:

Employee X's position in salary range is 105% of the midpoint. X received a 3.5 evaluation score. According to the city-wide scale, X would be eligible for a 1.75% merit increase. Because X's current salary is 5% above the midpoint of the salary range, the merit increase is reduced by 25%. Therefore, employee X would receive 1.31% merit increase.

CITY-WIDE SCALE:	
4.5 - 5.0	2.50%
4.0-4.49	2.00%
3.5-3.99	1.75%
3.0-3.49	1.50%
Below 3	0.00%

City of Isle of Palms
Impacts of Midpoint Approach to Distributing 1/1/19 2% Merit Pool

	OPTION A +25/-25/-50	OPTION B +25/-25/-25	OPTION C +25/0/-25	OPTION D +25/0/0
1/1/19 -1/31/19 Cost of Merit Pay Increases based on eval scores and a City-wide scale - (NO MIDPOINT ADJUSTMENTS)	76,114	76,114	76,114	76,114
Increase merit adjustments by 25% for the <u>20</u> employees who are less than 90% of midpoint (All OPTIONS)	4,699	4,699	4,699	4,699
Decrease merit adjustments by 25% (OPTIONS A & B) or 0% (OPTION C & D) for the <u>10</u> employees that are between 100% and 110% of midpoint	(2,883)	(2,883)	0	0
Decrease merit adjustments by 50% (OPTION A), 25% (OPTIONS B & C) or 0% (OPTION D) for the <u>11</u> employees what are between 110% and the max of their wage range (120% of midpoint)	(5,638)	(2,059)	(2,059)	0
Cost of Merit Pay Increases adjusted using Midpoint Analysis	72,292	75,871	78,755	80,814
Total Savings/(Cost) with Midpoint Approach OPTIONS	3,822	243	(2,640)	(4,699)
Add 43% for fringe estimate (per FY20 Budget Draft #5)	43%	43%	43%	43%
Total Fully Loaded Savings/(Cost)	<u>5,466</u>	<u>347</u>	<u>(3,775)</u>	<u>(6,720)</u>

City of Isle of Palms
Impacts of Midpoint Approach to Distributing 1/1/19 2% Merit Pool

	OPTION A +25/-25/-50	OPTION B +25/-25/-25	OPTION C +25/0/-25	OPTION D +25/0/0
1/1/19 -1/31/19 Cost of Merit Pay Increases based on eval scores and a City-wide scale - (NO MIDPOINT ADJUSTMENTS)	76,114	76,114	76,114	76,114
Increase merit adjustments by 25% for the <u>20</u> employees who are less than 90% of midpoint (All OPTIONS)	4,699	4,699	4,699	4,699
Decrease merit adjustments by 25% (OPTIONS A & B) or 0% (OPTION C & D) for the <u>10</u> employees that are between 100% and 110% of midpoint	(2,883)	(2,883)	0	0
Decrease merit adjustments by 50% (OPTION A), 25% (OPTIONS B & C) or 0% (OPTION D) for the <u>11</u> employees what are between 110% and the max of their wage range (120% of midpoint)	(5,638)	(2,059)	(2,059)	0
Cost of Merit Pay Increases adjusted using Midpoint Analysis	72,292	75,871	78,755	80,814
Total Savings/(Cost) with Midpoint Approach OPTIONS	3,822	243	(2,640)	(4,699)
Add 43% for fringe estimate (per FY20 Budget Draft #5)	43%	43%	43%	43%
Total Fully Loaded Savings	<u>5,160</u>	<u>328</u>	<u>(3,564)</u>	<u>(6,344)</u>