

**TOWN OF HILTON HEAD ISLAND  
FINANCE AND ADMINISTRATIVE COMMITTEE MEETING**

**Date:** June 9, 2015 **Time:** 2:00 p.m.

**Members Present:** John McCann, *Chairman*; Bill Harkins, Tom Lennox, *Council Members*

**Members Absent:** None

**Staff Present:** Susan Simmons, *Director of Finance*; Tom Fultz, *Director of Administrative Services*; Brian Hulbert, *Staff Attorney*; Greg DeLoach, *Assistant Town Manager*; Victoria Shanahan, *Accounting Manager*; Jill Foster, *Deputy Director of Community Development*; Nancy Gasen, *Director of Human Resources*; Heidi Boring, *Finance Temporary Employee*

**Others Present:** Eleanor O'Key, *Lowcountry Inside Track*; Ray Deal, *Hilton Head Island-Bluffton Chamber of Commerce/VCB*; Lydian Altman (via telephone), *University of North Carolina*; and Members of the public

**Media:** None

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**1. Call to Order:**

The meeting was called to order at 2:05 p.m.

**2. FOIA Compliance:**

Public notification of this meeting has been published, posted, and mailed in compliance with the Freedom of Information Act and the Town of Hilton Head Island requirements.

**3. Approval of Minutes:**

- a. Mr. Harkins moved to approve the Minutes from the Finance and Administrative Committee Meeting on June 2, 2015 at 2:00pm. Mr. Lennox seconded, and the Committee voted unanimously in favor to approve the minutes.

**4. Unfinished Business:**

None

**5. New Business:**

**a. Discuss Bond Expense in dollar amount and percent of budget and Debt Cap philosophy**

Susan Simmons, Finance Director for the Town, distributed a packet of the Town's Bond Expense, noting that it included the Debt Service Fund section of the FY 16 budget book. She explained that the Town had 2 telephone interviews this year to confirm its bond ratings. One was done in May with Fitch, reaffirming the GO (General Obligation) bond rating, and the second was done in March with Standard and Poor (S&P), reaffirming the ratings of the Hospitality and Beach Preservation Fee Special Revenue Obligation Bonds. She described documents that were prepared by the Town's financial advisor Stiffel, formerly Merchant Capital. She explained the differences and reasons the Town has GO bonds and COPS (Certificates of Participation), which could have been pledged by the

same sources. Then she described the Hilton Head Public Facilities Corporation which was set up to own the assets and the COPS' liabilities. The COP bonds that were funded with GO type funding sources have all matured. The Town is considering whether to maintain the corporation or not. The GO Bonds and similar COPS are funded by Ad Valorem property taxes, and to some extent, Real Estate Transfer Fees.

Ms. Simmons then discussed debt funded by other pledged revenue streams. These liabilities used to be COPS but State law changed a couple of years ago and more recent debt has been issued as Special Revenue Obligation bonds. The Town's last full beach re-nourishment bond matured in this current year and the remaining bonds are for the project called the "Heel" or the Port Royal Fill project. The Town will be issuing new full re-nourishment bonds this year.

There are 2 outstanding Hospitality Fee bonds. One goes back to 2004, which was refunded in 2011; the Town issued a second new bond series at the same time in 2011. With the two outstanding issues and the amount used annually to fund the General Fund, there is very little left for capital projects funding.

The TIF (Tax Increment Funding) debt has also been retired recently. With the TIF extension, Ms. Simmons believes the Town will issue new bonds about the time the Town has to start making payments to USCB for the new campus. Until then, the Town is likely to be able to fund TIF project on a pay as you go policy. Mr. McCann asked when she thought this might be, and Ms. Simmons said she thinks construction is planned to begin in the summer of 2016, but was not positive.

Prior to Ms. Simmons' employment with the Town, the Town did some bond anticipation notes. She was not sure about leases, but if there were any, they would fall under debt obligations. The Town is very fortunate that that it does not need Tax Anticipation Notes (TANs), which some local governments must have each year to fund their operations until property taxes are received.

Ms. Simmons moved to the next section of the packet and discussed Referendum vs. Non-Referendum bonds. By State law, GO bonds must be in compliance with the 8% debt limit, without the government obtains voter approval via a referendum. The Town has used Referendum Bonds extensively to fund its Land Acquisitions programs. Presently, the Town has very little non-referendum debt: a 2009 and 2013 issue only. The 2013 GO bonds were issued as one bond issue, but have a \$5 million referendum component and a \$4 million non-referendum component. The Town's last referendum was not to exceed \$17 million dollars. The initial bond was issued for \$12 million dollars only and in 2013 the Town issued the remaining \$5million for the purchase of the golf course.

Ms. Simmons explained that the Town has a significant amount of capacity with the legal debt margin in which it could issue more debt, but she cautioned that it should probably not borrow that much money because of the significant referendum debt. The Town also has significant special obligation revenue bonds, even though they are pledged from those sources. There is capacity to issue more GO debt, but she cautioned against using too much of the \$46 million dollar margin.

She explained that what helps the Town with the bond rating agencies is its payoff ratio. The Town does a particularly good job with the 10 year payoff ratio. The per capita debt is large, but knowing that our tourism pays a lot of this debt also helps with the Town's rating.

Ms. Simmons noted that the one page in the packet is from the current budget book, and shows information dealing with all the bonds that are still outstanding. She explained that the policy for determining debt savings is to review it a few times a year which is done by staff and the Financial Advisors. Other sources are also involved and contact Ms. Simmons concerning possible savings. When possible, refundings are done when there are other bond issues to package together to get lower cost of capital. She explained that the Town is watching three issues right now including the 2010 Build America Bonds from the ARRA program. Ms. Simmons noted that if the Committee wanted to look at more information, the CAFR (Comprehensive Annual Financial Report) has more detail on the refunding and the source of revenue to repay them. Mr. Lennox asked Ms. Simmons if Special Obligation is the same as Special Revenue, and she stated that is the same. Mr. Lennox also asked about the series 2013 A & B, and she noted that the \$5 million is referendum and the \$4 million is non-referendum.

Mr. Harkins asked to go over the Fitch rating write up and the comment on the carrying cost. Ms. Simmons stated the primary reasons are that the population to debt ratio is high, but due to tourism and second home property taxes, the rating agencies show that our carrying costs are high, but manageable.

Mr. McCann asked about the 12.86% of consolidated FY 2016 budget for debt service. Ms. Simmons stated she does not like to address this percentage because it seems somewhat irrelevant. There could be a better way to track this. Last year, it was 20% because the capital project budget was a lot less. Because the Capital Project Fund budget varies, particularly this year it has the \$20 million dollar beach re-nourishment project in it, it has dropped to the 12%. Even though they are two different funds, it might be better to state it as the percent of the general fund or the combination of the General and Capital Projects Funds.

Mr. McCann asked about the money that is transferred into the reserve fund which is used to help balance the budget, specifically where the money comes from, and how we determine what money gets transferred into the reserve fund. Ms. Simmons stated that the general fund has been the focus of attention this year. This fund, per Town code, should have 25-30%, and once it is above 30%, it can be transferred to debt service to pay off debt early. The bond rating agencies look more favorably at a higher general fund reserve than an excess reserve in the debt service fund, so monies have not been transferred. The monies would be transferred, however, if good savings could be found on the general obligation debt, but that hasn't happened. The general fund has been as high as 40 – 50% for several years now, which is impressive that the Town was able to accomplish this during the recession. Mr. McCann asked where the monies come from to go into this account. Ms. Simmons stated that it is the excess revenues versus expenditures, or in other words, money left over from the previous year. Mr. McCann requested that the Committee take the packet, review it for the week and come back to the next meeting with some questions. The Committee thanked Ms. Simmons for a very informative presentation.

Before moving on to the next topic, Mr. Lennox suggested adding a third item to the Agenda to review the timeline for the completion and review of the Town Managers performance evaluation. Mr. Harkins made a motion to add the item, Mr. McCann seconded the motion, and the Committee voted unanimously to add the item.

**b. Telephone interview with prospective Facilitator for annual Town Council strategic planning workshop**

Mr. McCann explained the Committee has narrowed down the search for a facilitator for Town Council's annual off-site meeting to three facilitators including Lydian Altman with the University of North Carolina School of Business, Lyle Sumek, the Town's current facilitator, and Patrick Ibarra with The Mejorando Group out of Arizona. All three will be interviewed by telephone, with the purpose of talking about shrinking down the days from 2 ½ to 1 ½ with an abbreviated meeting agenda of 5 or 6 important items for Town growth, and a discussion of the importance of the facilitator interviewing each individual vs. a subsection of Town Council prior to the annual meeting.

Mr. Deloach recommended that the Committee identify one prospective facilitator after completing the interviews, and then request that facilitator to develop a scope of work including their costs, which will then come back to the Committee for review. If the scope is satisfactory to the Committee, the Committee will recommend the prospective facilitator to the full Council.

Mr. McCann started the telephone interview by introducing the first potential facilitator, Lydian Altman. Ms. Altman is employed by the School of Government at the University of North Carolina, and teaches elected appointed officials throughout the state. Most of the students are adults, practitioners and elected officials. The school deals with community problem solving, and some strategic planning and facilitating, as well. The Committee members asked Ms. Altman her opinion on several matters, starting with Mr. Harkins asking which particular process she finds most successful, and Ms. Altman explained they try not to have the "one size fits all" approach. She uses consultation to find out what successes and failures the group has had in the past. She referenced the Town's annual strategic planning effort, and stated that she would be curious to know how long the Town's lens is, how forward thinking the Town has been, what has been forecasted, what changes are happening and what will be impacted by the changes. Ms. Altman would look at how the Town approaches work, such as strategic public leadership, specifically the way the leaders develop, communicate and execute the plan. Mr. Harkins asked how much time she needs to get to know the client, and Ms. Altman stated that although she does not know South Carolina, she suspects that many of the challenges that we face are the same as North Carolina areas. She imagines she would start preplanning with a subset of the people that would be attending the retreat and explore with them to determine the objectives for the retreat, gather information on the group dynamics, etc. Mr. McCann asked how to avoid holding individual meetings with the Council members without hurting feelings, and Ms. Altman stated that for a successful retreat input is important prior to the retreat. This can be done by telephone, or email. Ms. Altman referenced examples of topics that could be facilitated, but emphasized she wants the client to tell her what they want to accomplish. Mr. Harkins asked how she would handle getting different direction from several people and how would she get arrive at a consensus, and Ms. Altman stated that she would work through it ahead of the retreat. Mr. McCann asked the benefits of offsite versus onsite retreats, and Ms. Altman said she feels it is less distracting if they are offsite, but realizes sometimes it is necessary to stay onsite. It is important that the participants are comfortable, relaxed and in an atmosphere conducive to creating a positive mind set. Ms. Altman added it is helpful to know what has been done before in order to know the boundaries around certain topics. She is not the expert on our topics, but is an expert on good process. As a facilitator she is neutral to the content but pays attention to good discussion guidelines and helps employ them, and doesn't need to know all the background to accomplish this. Mr. McCann asked what the clients usually end up with at the end of the retreat. Do they get a written plan? Ms. Altman stated it partly depends on the focus and purpose of the

conversation. She errs on sematic notes that capture the essence of the conversation and areas of agreement. Mr. McCann asked if there is an advantage of having two facilitators versus one facilitator. Ms. Altman feels that having two facilitators gives you the option of having two different perspectives on an idea. Also, when there is a group of 15 or more, it could be beneficial to have 2 facilitators, one to think about the bigger perspective and one to chase and diagnose the challenges and conversation. Mr. Harkins asked, as Town Council teases out a strategic direction for the next year or three to five year period, where the visioning process fits in, and Ms. Altman stated that what she likes to do when she maps out a retreat, is think holistically as to what the overall objectives are. She feels it's good to have a visioning process and use a paired interview process, where people are having fairly in-depth conversations with each other. Mr. Harkins asked what she has found the role of the Town Manager to be in the process of the strategic planning, and Ms. Altman stated that some of it depends on culture, sometimes councils can get passive and not set up vision that they should for whatever reason. The Manager should execute the vision as he has expertise that others do not have, and needs to depended upon for the feasibility questions of proposed actions. The values and visions are the Council's to set. Mr. Harkins asked Ms. Altman what she feels was a successful retreat when she leaves her clients. Ms. Altman said that if the needs were met, and the objectives were achieved, then the retreat was a success. She feels flexibility is key, but it is necessary to keep the group on focus, or makes sure the group changes direction together. Mr. Harkins asked how Ms. Altman is doing with repeat business, and Ms. Altman stated that they do have clients that want to use them year after year, but they do not have the capacity to do so. She doesn't feel that they should do repeat business because using the same consultants for too long can cause things to get stale. Mr. McCann closed the telephone interview and thanked Ms. Altman for speaking with the Committee.

**c. Time line for the completion and review the Town Managers Performance Evaluation**

Mr. Lennox stated that the Committee and Human Resources are working on finalizing the timeline for the completion, review and compilation, and delivery of the Performance Evaluation documents to Steve Riley, Town Manager. Nancy Gasen, Director of Human Resources for the Town, and the Committee discussed the process, reviewed the timeline, and finalized dates for key steps in the overall process. Ms. Gasen stated that the initial information will be ready to be sent to Council this week, and will include the finalized timeline, administrative guidelines, measurement criteria, and the form that the each Council member will use to provide their input.

**6. Adjournment:**

Mr. Harkins made a motion to adjourn and Mr. Lennox seconded. All members voted in favor and the meeting was adjourned at 3:35 p.m.

**Approved:** June 16, 2015

**Respectfully submitted:**

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**John McCann, Chairman**

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**Heidi Boring, Secretary**