



The Town of Hilton Head Island
Finance & Administrative Committee
Tuesday, March 3, 2:00 p.m.
Conference Room 3
AGENDA

As a courtesy to others please turn off / silence ALL mobile devices during the Finance & Administrative Committee Meeting. Thank You.

1. **Call to Order**
2. **FOIA Compliance** - Public notification of this meeting has been published, posted, and distributed in compliance with the South Carolina Freedom of Information Act and the requirements of the Town of Hilton Head Island.
3. **Approval of Minutes**
 - a. Finance & Administrative Committee Meeting, February 18, 2020.
4. **Unfinished Business - None**
5. **New Business**
 - a. Review and Discussion of Commentaries from the Bond Rating Agencies about the Town of Hilton Head Island's Financial Results and Position.
6. **Executive Session**
 - a. **Contractual Matters:**

Discussion incident to proposed contractual negotiations relative to Designated Marketing Organization Services Pursuant to Section 6-4-10 of the South Carolina Code of Laws.
7. **Possible actions by Finance & Administrative Committee concerning matters discussed in Executive Session**
8. **Adjournment**

Please note that a quorum of Town Council may result if four (4) or more of their members attend this meeting



Town of Hilton Head Island
Finance & Administrative Committee Meeting

Tuesday, February 18, 2020 at 2:00 p.m.

Conference Room 3

MEETING MINUTES

Present from the Committee: Tom Lennox, *Chairman*; Bill Harkins *and* Tamara Becker
Council Members

Present from Town Council: John McCann, *Mayor*; Glenn Stanford and David Ames;
Council Members

Present from Town Staff: Josh Gruber, *Assistant Town Manager*; John Troyer, *Director of Finance*; Cindaia Ervin, *Finance Assistant*

Present from Media: None

1. Call to Order

The Chairman called the meeting to order at 2:00 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. Finance & Administrative Committee Meeting, January 7, 2020.

Mr. Harkins moved to approve the minutes from January 7, 2020. Mrs. Becker seconded. The motion was approved by a vote of 3-0.

4. Unfinished Business-None

5. New Business

- a. Review of Budget Ordinance 2019-15 Approving a Budget and Tax Levy for Fiscal Year 2019-2020 and Fiscal Year 2020-2021; and Discussion and Input for the Next Budget Recommendation by the Town Manager-Scheduled for May 2020.

Tom Lennox, Chairman, introduced John Troyer, Director of Finance who gave a brief history of the budget process. Mr. Troyer explained that with the approval of the last years 2 year budget, Town Council established spending authorization and a mileage rate for Fiscal Year 2020 and provided for a small surplus of \$336K to enhance reserves. The proposed Fiscal Year 2021 budget will be slightly less than 2020's. It will also include expected changes to the budget for the Lowcountry Celebration Park operating costs and possible increases from the implementation of the Town's recent pay and classification study. John McCann, Mayor, asked

how this would affect this year's budget and Mr. Troyer stated that depending on the proposed recommendation funding would need to be adjusted to the Town's Salaries and Benefits. 62% of the Town's General Fund is comprised of Salary & Benefits. Glenn Stanford asked if the Town was within an average range for Salaries & Benefits and Josh Gruber, Assistant Town Manager, stated that the Town is actually on the lower side due to the Town contracting out a number of its services; however, it is important for the Town to remain competitive and aware of the trends in the area.

For Fiscal Year 2021 the Town Manager will review all areas of the Town's budget. Using a streamlined approach, he will adjust the recommendations where appropriate, use the same tax rate as last year and present and updated plan to Town Council for consideration on May 5th. Mayor McCann stated that he feels that Town Staff does a great job educating Town Council on the budget; however, he would like to ensure that the public is equally educated. Mr. Gruber stated he would work with Staff to schedule public meetings at Town Hall during this year's budget process. Mr. Troyer stated that he expects that the budget review by Town Council will look similar to previous years excluding any unexpected funding changes that may occur along the way. Mayor McCann asked how the Town's Affiliated Agencies will be reviewed this year as in prior budget cycles each organization presented its proposed budget to the Finance & Administrative Committee. Mr. Troyer stated that with the approval of the biennial budget (Fiscal Year 2020-2021), a line item was held for each Affiliated Agencies second year budget and the Town would be sending correspondence explaining that. The Committee decided that in preparation of the budget they would like to request that all Town Affiliated Agencies provide its most current Annual Report and form 990 to help establish a starting point for evaluating the services provided on behalf of the Town.

Mr. Troyer asked for guidance and direction from the Committee on their thoughts and feelings of the adoption of a biennial budget. The overall discussion of the Committee was that they have no concerns, as long as they will still be able to meet at the Committee level to discuss any changes to expect and have the flexibility to adjust the second year's budget if needed. Mr. Troyer agreed that having Staff level meetings would be beneficial in educating Town Council and the Public of the upcoming budget. Mr. Lennox, asked for public comment on the topic. Many of the citizens had positive comments regarding the budget and process. Mr. Troyer suggested the citizens in attendance view the Town's monthly and annual financial reports on the Town's website for more information. After the close of public comment, Mr. Harkins made a motion to recommend to Town Council to again adopt a biennial budget format for the Fiscal Year 2021 and 2022 budget. Mrs. Becker seconded. The motion was approved by vote of 3-0. Mr. Lennox thanked Mr. Troyer and all present for the discussion.

6. Adjournment

At 2:47 pm Mrs. Becker moved to adjourn. Mr. Harkins seconded. The motion to adjourn was approved by vote of 3-0.

Submitted by: Cindaia Ervin, Secretary

Approved: _____

Tom Lennox, Chairman

Rating Agency Comments

- ▶ From the last General Obligation Bond Issue – Series 2019
- ▶ Sold in April 2019
- ▶ These bonds were issued for \$5million to provide for the new Fire Station and to finish the Sewer Main Extension project



Rating Agency Comments

- ▶ From the last General Obligation Bond Issue – Series 2019
- ▶ *On the next few slides are excerpts from the rating reports in no particular order . . .*



Moody's rates the Town's bonds AAA



Moody's Comments include:

▶
Sound Financial Condition,
Favorable Budget Tracking,
A History of Surpassing Formal Fiscal Policies,
Strong Finances With Robust Fund Balances,
Conservative Management,
Sizable and Growing Tax Base,
Manageable Debt Burden,
Strong and Expanding Economy,
Strong Commitment to Ample Reserves,
Low Pension Liabilities,
Established Tourist Destination
and more



Moody's Credit Challenges:

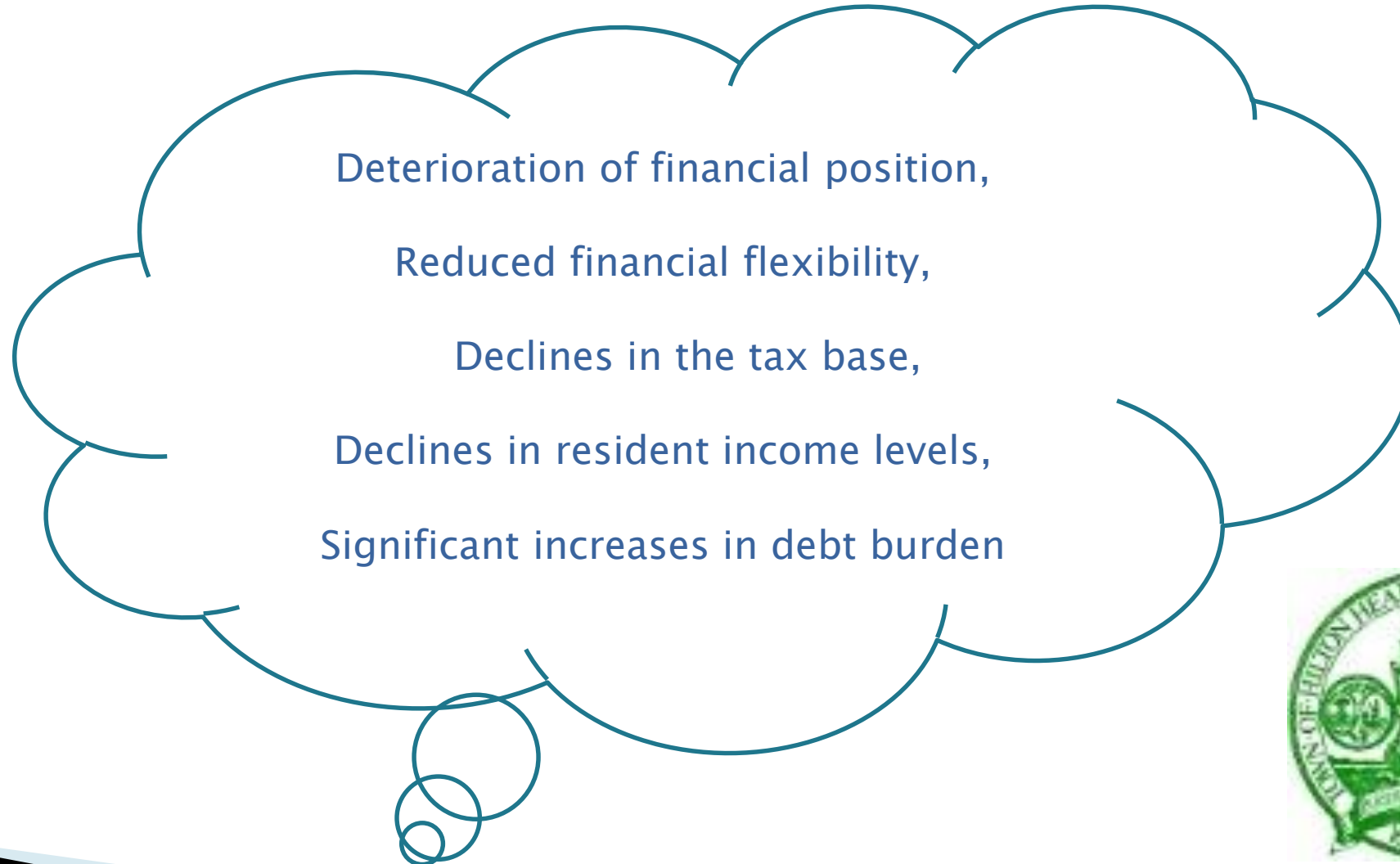
Dependence on more economically sensitive revenues,

Coastal location susceptible to weather-related events and rising sea levels, and

Limited revenue raising ability as a result of Act 388



Moody's Factors that could lead to a downgrade:



Standard & Poor's rates the Town's bonds AA+



Standard & Poor's Comments include:

Strong and Mature Economy,
Well-Established, Popular Tourist Destination,
Strong Financial Policies and Practices,
Strong Budgetary Monitoring and Performance,
Operating Surpluses,
Rapid Debt Amortization,
Diverse Taxpayer Base,
Adequate Debt and Contingent Liability Position
Conservative Budget Assumptions,
20% Debt Capacity Reserved for Disasters,
Budgetary Flexibility,
Access to External Liquidity,
Low Pension Carrying Charge
And More



S & P Upside Scenario says:



“Assuming all other credit factors remain stable, we could raise the rating if the town incorporates more comprehensive planning for potential weather-related impacts into its long-term capital and financial planning, given the town’s coastal location and tourism industry presence.”

S & P Downside Scenario says:



“We could lower the rating if the Town experiences financial pressure that resulted in structural budget imbalance or sustained declines in reserves.”

Fitch's rates the Town's bonds AA+



Fitch's Rating Service Comments include:

▶

Exceptional Financial Profile,
High Degree of Inherent Budget Flexibility,
Debt Levels are Moderate – Somewhat High % of
Spending and Above Average Principal Amortization
Prudent Debt and Reserve Policies,
Mitigate Future Storm Pressures,
General Fund Revenues – Diverse with Historical Growth
Solid Flexibility to Control Expenditures,
Core Service Obligations are Fairly Limited,
Reserves are Maintained Above the Policy Levels,
Demonstrated Resilience During Economic Stress,
20% Debt Capacity Reserved for Disasters,
Budgetary Flexibility,
And More



Fitch's Rating Sensitivities Comments include:



Key ratings factors are stable;

However rating pressure may stem from
Increased debt and carrying charges,
or

Ratings pressure may stem from a shift in Fitch's
Expectation for solid long-term revenue growth



Question for the Committee:

Was anything on these lists a surprise?



Observation for the Committee:

Only some of these factors listed are under Town Council's control



Observation for the Committee:



Only some of these factors listed are under Town Council's control . . .

these include tax rates, budgets, spending priorities, debt levels, financial policies, infrastructure, building codes and other factors



A Second Observation for the Committee:

*Town Council may be able to influence
some of these factors*



A Second Observation for the Committee:

*Town Council may be able to influence
some of these factors . . .*

*Including
Encouraging private investments that
help to grow the tax base,
Adopting policies that encourage
economic growth,
and other factors . . .*



A Third Observation for the Committee:

Town Council cannot control some of these factors . . .



A Third Observation for the Committee:

Town Council cannot control some of these factors . . .

*Including
We are a coastal community,
Weather events happen,
Much of our existing economy is tourism
dependent
and other factors . . .*



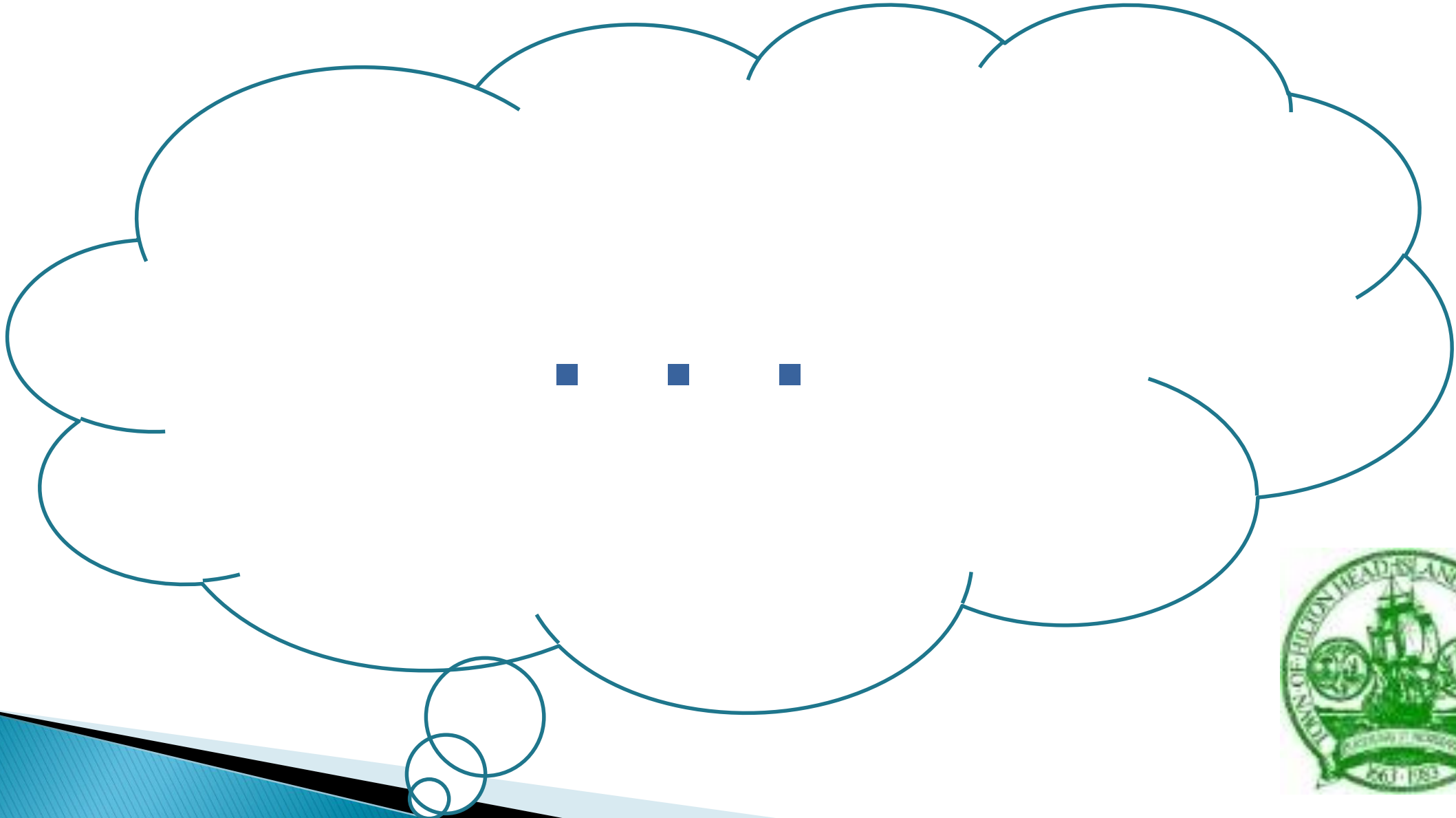
Question for the Committee:



How much of this is intuitive?



Comments from the Committee:



Comment for the Committee:

▶ *These reports are a look into the process
the rating agencies use to assess the
Town's*

- 1. Ability*
- 2. Willingness*

*to pay its debts on time and in full –
for many years to come.*



Comment for the Committee:

▶ *And in the mean time – Town Council can do what it does well –*

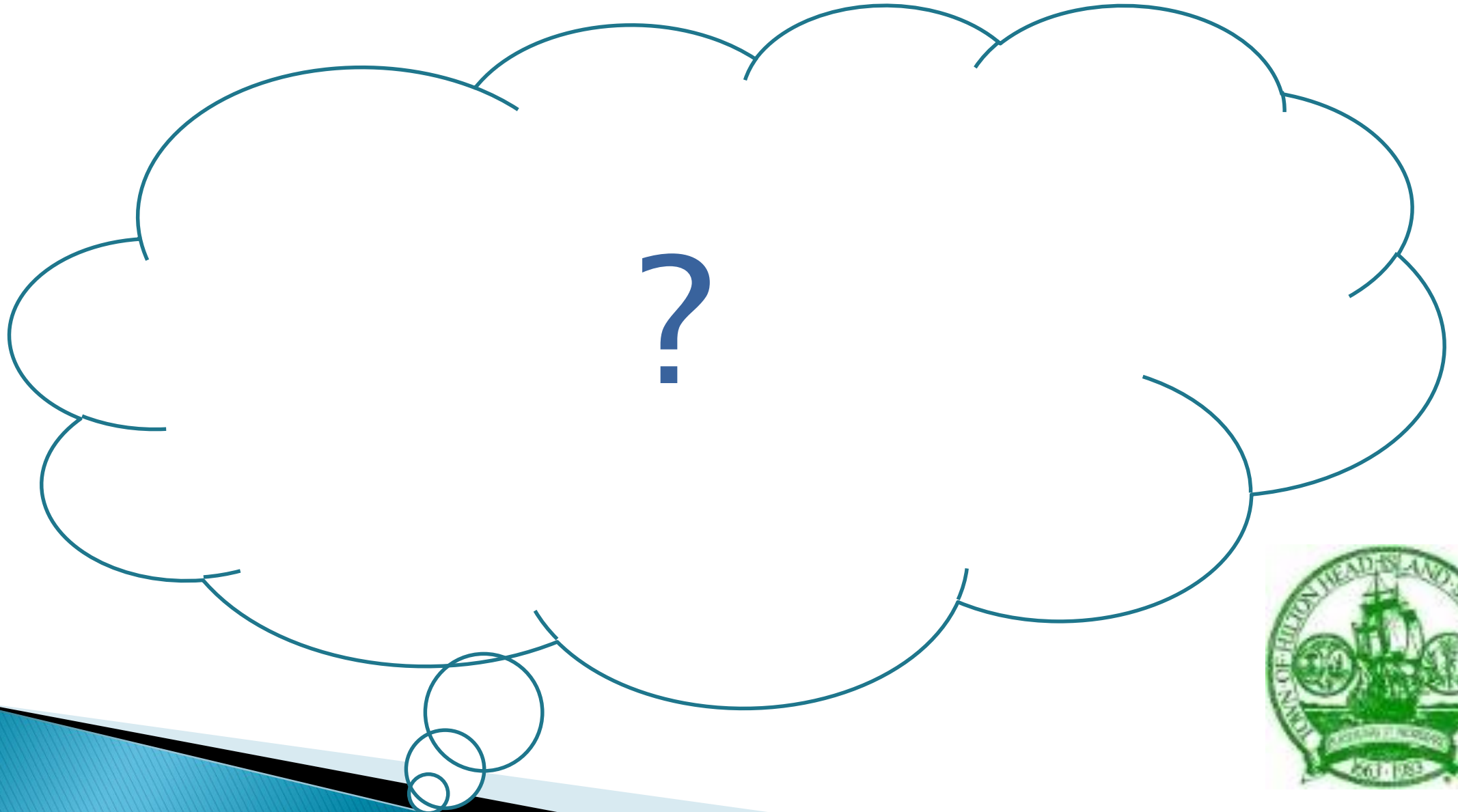
continue to focus on what it can control –

prudent policies & operation of the Town –

while encouraging investment and economic activity.



Questions from the Committee:



*Thank You
for your contributions toward*

*-- and attention to --
the Town's bond ratings!*

