

A special work session of the Beaufort City Council was held on March 4, 2014 at 5:00 p.m. in the City Hall Planning Conference Room, 1911 Boundary Street. In attendance were Mayor Billy Keyserling and council members Donnie Ann Beer, George O'Kelley, Mike Sutton, and Mike McFee, and City Manager Scott Dadson.

In accordance with the South Carolina Code of Laws, 1976, Section 30-4-80(d) as amended, all local media were duly notified of the time, date, place, and agenda of this meeting.

DISCUSSION REGARDING REQUEST FROM BEAUFORT COUNTY REGARDING CAPITAL SALES TAX COMMISSION AND LOCAL OPTION SALES TAX (LOST)

Guests present

Van Willis
Joe Lee
Vernon DeLoach
Tom Klein
Mayor Sam Murray
Shirley Freeman
Karen Lavery
Mayor Lisa Sulka
Fred Hamilton
Mark Orlando

Mayor Keyserling said the municipalities had gone to the county and asked for the LOST to be put on the ballot, but they voted against it for a variety of reasons: they felt it shouldn't be done on an off-year election, there was not enough time, they thought **Bill Herbkersman's** penny sales tax would help the 6%-ers and non-occupied homeowners, and "some just didn't like it." Nothing else was heard from the county, and then three months ago, the county administrator recommended that the county council pass a capital sales tax, Mayor Keyserling said. They received an invitation to a committee meeting and "turned some minds around." They were then asked to write letters making requests of a capital sales tax, and they replied with the idea that their needs were not things they "wanted to grab out of a project fund"; they liked the idea of having funds for things that come up day to day.

Mayor Keyserling said the county is now putting together a commission of representatives from county council, the municipalities, one from Hilton Head Island to chair, and two to be appointed by the representative from Hilton Head Island. Mayor Keyserling said they hadn't yet determined whom Beaufort would send. No one who chairs or serves on another public commission/board/committee is allowed to serve.

The mission of the commission is to put together a list of projects that they could agree on. Mayor Keyserling still believes that if the people he and **Mayor Lisa Sulka** spoke with would vote like they said they would, a majority would vote for LOST, but if the county comes up with a list of favorite projects, then they might vote differently to appeal to their constituents. Both

taxes may be on the ballot, Mayor Keyserling said, and “maybe the municipalities could go toe to toe with the county.”

Mayor Sulka said they just had their strategic retreat, and they have 2 new council members. Both have expressed sentiments toward LOST but nothing official has been stated. The way the plans for the commission were written was that 2 additional people were to represent Beaufort, Bluffton and Port Royal, she said. The bridge to Hilton Head Island and beach reef nourishment are the projects that Hilton Head wants, and if there’s a chair from Hilton Head, she believes that’s what will happen. Mayor Keyserling asked how they can have a bridge to Hilton Head if they don’t know when it can be done, if the state supports it, and how much it costs. Mayor Sulka said there is some local opposition to the bridge because of the opposition of the state and federal governments.

Mayor Sam Murray said that the capital improvement tax “hasn’t been talked about much.” **Joe Lee** said he doesn’t know how effective they can be as a group “without Hilton Head Island at the table.” Mayor Sulka said the Hilton Head Realtor Association was adamantly against LOST, thinking Mr. Herbkerman’s penny tax would pass. Mr. Lee said the voters will go with LOST if they know about it. Mayor Keyserling said the realtors had no champion at that meeting, and he feels it would be difficult to vote against LOST.

Mayor Keyserling asked what the group thought would happen if both taxes were on the ballot. One would have to have 51% of the vote. Mayor Keyserling said he feels people would be split because of people who didn’t want to vote for the penny tax at all. Councilman Sutton said he read that county council members are trying to put together; he thinks it’s difficult to understand why the county is trying to pass a sales tax for capital improvements they’re not typically responsible for (that the state is supposed to do). Once that happens, “they will never be able to stop the state from passing the buck.” Mr. Lee said they’d do it through local government funds. Councilman Sutton said it seems like the county doesn’t feel the municipalities are county taxpayers, and everyone in the Beaufort County municipalities is a county citizen, so it sets aside as separate the work they’re doing. He feels the county chambers need to be filled with municipal leaders and their constituents. Councilman Sutton said they’ve tried to put it on the ballot twice, and it’s risky to combine them. The revenues are diminishing from the state across the board, so the LOST is the last opportunity to do something locally driven.

Mayor Keyserling said according to the numbers of the Beaufort County revenue fund, there’s just under \$3 million, yet they are talking about raising taxes to create a larger reserve fund balance, which doesn’t connect for him. He asked if the group would only be for one tax, and if “the one to be for and the one that best meets our needs is the LOST at this point in time.” Councilman Sutton said they can’t take both and get either one of them. Mayor Keyserling said **Paul Sommerville** had said that this commission may work for 3 years, 2.5 years down the line, and he doesn’t know if they can do the work, but at least it’s in place. And if he had to vote for one or the other to go first, he’d vote for LOST, but he wouldn’t be opposed to both of them being on the ballot at the same time.

Mayor Sulka said the commission is a good idea, she feels, but she wonders how to get the LOST back in front. Mayor Keyserling said the chair of the committee holds the cards in regard to keeping it up. Mayor Sulka asked if a committee member could call for a vote. Mayor Sulka asked if they could go back and ask to take it out of committee and put LOST on the ballot. Mayor Keyserling said that is logical, but “a committee chair holds a lot of sway.”

Mr. Lee asked if other counties had done this. Mayor Keyserling said most started with a LOST. Mayor Sulka said that the tax that was approved in all the counties that did it was LOST. Jasper County is going for its third tax; they got a LOST, then a capital, and are going to go for a third. Councilman McFee said Charleston has a LOST and a capital tax.

Councilman O’Kelley said, “this is found money,” as the tourists and people who come through pay a big chunk of the tax. It will put money back in people’s pockets as a tax savings, too. That’s what he thinks the approach should be. Mr. Lee said that’s how the penny tax got passed. Councilman O’Kelley said the state has dug in its heels about a gas tax increase, which is what’s needed for the roads and bridges.

Mayor Keyserling said the mood in the committee is that they have gotten where he’d feared they’d get on the first penny on Highway 170, which is to assume they’ll get nothing else from the state. Councilman Sutton said the capital penny and the land preservation penny taxes had passed. The community voted to support the preservation fund, and open land preservation, if it were to go up against LOST, would mean a penny that’s not there. Someone informed Councilman Sutton that it’s not on the ballot. Mayor Keyserling said he recalls when LOST failed twice. The issues then were that “it was aggressive and we were taxing food at the time” (which it wouldn’t do this time); people didn’t trust government, and to give them a “windfall” would be a bad idea.

Eddie Rodgers said she remembers that the “open-endedness” of the Robin Hood 5% “was a big problem.” Mr. Lee said the state legislature is upset with the counties, and they are looking more favorably at the municipalities as a result.

Mayor Keyserling said he has no illusions that this will be easy; they all need to go to service clubs, etc., but can’t spend public money on a campaign. Mayor Sulka said they have chambers, builders associations, etc. that they can go speak to. Councilman O’Kelley said it’s in the presentation. He compared it to the campaign to build City Hall.

Mayor Keyserling said if they look at what the LOST does for a municipality’s revenue fund and for tax relief, in Beaufort County it’s a 7.5% decrease credit. Mayor Keyserling said he feels comfortable that the city council is ready, and that they couldn’t come up with money from thin air now for capital needs. Hilton Head is missing from this group, but he doesn’t think Hilton Head will as a council work against anything. They don’t know what to do, he feels, and have a lot of things on their plates, plus a dollar and a mil mean something different to Hilton Head than to the other municipalities because of Hilton Head’s property prices.

Vernon DeLoach said he thinks it's a great idea; raising property taxes would be political suicide. Mayor Keyserling said he agrees with Councilman O'Kelley that tourists pay a lot of the money that goes into LOST, and he feels like that's fair. Mayor Keyserling said the answer is that the law is very specific about where every penny goes. Mr. DeLoach said that's good to tell people when you're asking them to vote for it. Councilman Sutton said it's important to tell communities that it's not a roll-back in property taxes. Mayor Keyserling said it's a credit based on a formula. Mr. DeLoach said they need a way to make it clear to the taxpayer. **Van Willis** said it was passed when he was in another town, and they eliminated local property taxes. It can be used that way, to roll back taxes, if it's the pleasure of the council. They will not be locked into specific projects like a capital projects tax makes them be.

Kathy Todd said the state requires 2 separate funds for the LOST collected, ending with 71% going into the property tax fund, and 29% into the county municipality fund. The property tax credit is allocated based on the city's populations if they participate, but they don't share if they don't participate in the referendum. Mayor Keyserling said it's a countywide referendum. **Shirley Freeman** said she wasn't clear on that. Mayor Keyserling said county council decides if it's on the ballot, so it has to be countywide. Ms. Todd said the allocation of the property tax credit fund is based on the population, and the distribution is based on population, too, which is how the 71% and 29% are divvyed up.

The State Department of Revenue report historical data was pulled, Ms. Todd said, so the allocations are conservative as to what potential net sales would be. They also focused on the last 5 years to include the recession, so as not to overinflate the potential collections. State law is very specific in that the money collected in the property tax fund has to be used as a credit against the property tax liability, or it rolls into the following year's credit to provide to property tax payers "for the greatest amount of credit without giving more than you have to." Ms. Todd said the determination of what the 29% is used for, can be as Mr. Willis said from his experience. Mayor Keyserling said they can start at 71% and avoid the roll-up to help make it more understandable.

Councilman Sutton asked if they have gone into the numbers enough to understand what a typical tax credit would be on an average home. Mayor Keyserling said in the city on a \$200,000 home, taxes today are \$532.88, and with LOST, they'd get a credit of 20% plus the county credit. Businesses and 6% are the big winners, Councilman Sutton said. Mayor Sulka said these are conservative numbers. Ms. Todd said the ratio works as property tax credit revenue that they estimate to collect, divided by taxable assessed value, and get a ratio, which is what is applied to the tax bill to determine what the credit is. Mayor Sulka said at a minimum, it's a 20% decrease, not including what the county share would be. Councilman Sutton said they pay less but get more in the way of infrastructure in terms of day-to-day capital needs. The city doesn't own the sidewalks but needs more; they also need park improvements, widening lanes, road improvements, etc.

Councilman O'Kelley said the state budget for road repair in Beaufort a few years ago was \$750,000. Mayor Keyserling suggested that they confer with their councils when they meet. And then Mayor Sulka, Mayor Murray, and he can divvy up the list of 6 or 7 people on the Government Affairs Committee and see if the support is strong enough to break it out of committee.

Mr. Lee suggested a rotating representative on the commission. Mayor Keyserling said they would have to talk to the chair of county council to ensure that no municipality is left out. Mayor Sulka said she would like to be respectful of what the commission is doing in the long-term.

Mayor Keyserling said the city's finances are a three-legged stool now: the legs being property tax, business licenses, and other fees. The state won't let the city change it or the city has maxed out amounts. This gives the stool a fourth leg, over which the municipalities have total control. The things that get repaired aren't the things the county understands as the things that affect the daily quality of life in a city. Mayor Sulka said she thinks they can get a majority of the committee to understand that.

Councilman Sutton said he doesn't think they can stop the committee from pushing the capital penny to the ballot, so to stand firm and say they won't support it will backfire. Mayor Sulka said she supports it long-range. Councilman McFee said the commission isn't going to decide to have a capital penny now. They can do it in 2016. Mayor Sulka said they should be respectful of what they're doing; they're very nervous about the timeframe (that they're doing it too late to win) so they should support LOST, get it on the ballot, and then work on the commission for the capital penny. Mayor Keyserling said they'd sent the commission the whole capital budget.

Mr. Dadson said the city has a 1-3 year CIP passed by ordinance, and the elected body looks at them every year. They "make a list, then live with it." There were "uncomfortable maneuverings" around the transportation one. The city "put \$12.5 million on the table because it was matched with impact fees which disappeared," Mr. Dadson said. The control of the system needs to be looked at. The voter benefits the most from LOST. "North of the Broad got the short end of the stick on roll-up in the aggregate," Mr. Dadson said; north of the Broad property taxes went up more. That's a new strategy north of the Broad to talk to the taxpayer about: you had less devaluation, more taxes, and this is how to maintain the quality of life here. Mr. Dadson said they should tell county council that they are willing to push for LOST for tax relief and a better distribution for the things people who live here want. They can recommend CIPs "for those things that bridge and connect people." Mr. Dadson said counties do one thing, and cities do others. Some people don't even know if they are in a municipality or the county, and they want the same access to services. They can tell them that LOST's redistribution would help people who live in the municipalities with quality of life issues and give tax relief, while the county takes care of those who live outside the cities. He thinks people should be educated on what their service levels are.

Councilman O’Kelley said the tourists don’t get a vote and will pay a lot of it. Mr. Lee asked the percentage of county vs. municipal residence. Statewide it’s 70-30, with 30% in the cities. Ms. Todd said 55% in Beaufort County live in the county, not municipalities. **Stephen Murray** said the Chamber of Commerce is withholding judgment to see what council is going to do. Ms. Rodgers asked how many of the counties that have adopted it “have been on the giving or receiving end.” Ms. Todd said the state annual report has a page about LOST distribution, and that data is available publically. Mayor Keyserling said the first year, 7 were similar receiving counties with the exception of Charleston, maybe. York is a giving county, as is Horry, Berkeley, and Trident. Colleton is an accepting county.

Ms. Todd placed a graphic about the various counties on the overhead. Mr. Dadson said some larger cities got state permission for special enhancements. Greenville is entirely fee-based. Other things have been done in SC that are exceptions: Horry County, Myrtle Beach, Charleston, etc. have different types of distributions and taxes. Mr. Dadson said the state collection of a tax would be the most efficient way to do it, but they don’t, so the way to do it is LOST and asking the voters what they think.

Councilman Sutton asked how to get it on the ballot. Mayor Keyserling said they have tried to get it done by a municipality rather than the county, “but those efforts have gotten nowhere.” Mayor Sulka said Bluffton council meets March 11, and Mr. Lee said the Town of Port Royal meets March 12. Beaufort city council also meets March 11, so they agreed to meet on the 13th. Councilman Sutton said they “should plan special meetings in the same place at the same time and ask for 5 minutes from the committee.”

Ms. Rodgers said she supports a capital tax when they have real projects. She doesn’t support LOST. Mr. Dadson said the county was trying to figure out ways to fund capital. They didn’t bring up LOST; the City of Beaufort brought it up and was told there wasn’t enough time to get it done. The county does have a CIP, and they thought the most effective way to fund it was *their* tax, but the City of Beaufort feels that LOST provides tax relief *and* a revenue source. The county is talking about a real estate tax rate as well.

PS was on the phone after calling Mayor Keyserling during the meeting. He heard what the group’s idea was for LOST and about the commission. PS feels that all fronts should be moved on so as not to appear to be stalling on one and moving forward on the other. Mayor Sulka said to PS that they want to get LOST on the referendum while supporting the commission for capital projects. PS said he feels it all needs to be moved forward, so it doesn’t appear that anyone has any bad intentions.

ADJOURNMENT

There being no further business to come before city council, the meeting was adjourned at 6:24 p.m.

ATTEST: _____

IVETTE BURGESS, CITY CLERK