A work session of the Beaufort City Council was held on October 20, 2009 at 5:00 p.m. in the Beaufort Municipal Complex, 1901 Boundary Street. In attendance were Mayor Billy Keyserling, Council members Donnie Ann Beer, Mike Sutton, and Mike McFee, City Manager Scott Dadson, Mack Cook, and Shirley Hughes. Councilman Gary Fordham was absent. 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.

CALL TO ORDER

The Mayor called the meeting to order at 5:00 p.m.

DISCUSSION REGARDING TIFs 1, 2 AND 3 WITH CITY'S BOND COUNCIL

Mr. Dadson introduced bond counsel Paul Trouche. Mr. Trouche said that TIF 2's horizon is approaching, and there's also a question of a TIF 3 overlay, which he says has been done in other municipalities. No TIF district will change taxes. Tax revenues won't be generated. If the school district and county don't consent to extend, the statute says they're no longer part of it. If that happened with TIF 3, there would still be benefits. TIF bonds are excluded from 8% debt and could be leveraged to fund infrastructure improvements without adding to that debt.

Mr. Trouche said a public hearing notice has to go out 45 days before a vote, and it's scheduled for December 8. The school district and county have to consent by then. Once a TIF district is established, the city has 10 years to issue first TIF obligations. As new growth occurred, at some point they could issue the first TIF obligations. They could do a series of obligations over time. A 40-year plan would give 10 years to issue debt and 30 years to pay it.

Mr. Dadson added that Mr. Cook had laid out how future cash flows would allow anything unsettled on tax rolls to jump start in the leverage of that increment. Mr. Cook said they need time to trend the cash flows. TIF 2 is happening now; some of those cash positions in TIF 1 are for expenditure in the Boundary Street Master Plan. There are penny sales tax dollars on the table for Phase 1 of Boundary Street Master Plan. Their importance to the general fund and debt cap are important, too. They take pressure off the general fund, and it gives the ability to be beyond that cap. Extension helps recoup the life of the asset.

Mr. Trouche said TIF 3 is the critical one, time-wise. Extension of the earlier TIFs is not as time-sensitive. TIF 3 improvements can be *any* publicly-owned improvement. Paul Trask asked if a parcel ready for redevelopment is sub-divided and new construction is done, if that automatically goes toward the increment. Mr. Trouche said yes. Mr. Trask asked about extending TIFs 1 and 2, if the school district and county are obliged to stay in for the period they're already in for, but for any extensions, they have the option to opt out. Mr. Trouche said they will be out of TIFs 1 and 2 when those 15-year horizons expire, if nothing else happens. Councilman McFee said improvements on property will improve increment growth.

Mr. Trouche said assessed value assigned each parcel identification number in the original boundaries is the base. "Downstreaming" those parcels produces collectively a portion to the common fund and anything above that is incremental growth. Mills can go down, but reassessment could mean 50% of what the taxpayer pays is incremental. Reassessment can be a friend in a TIF district as prices rise. Councilman Sutton asked if a lot is carved up, after the baseline is established, the point of sale is the

reassessment. The incremental growth is more rapid than it was based on the 5-year anniversary. Mr. Trouche said in a static one-parcel scenario, reassessment can frequently benefit the municipality. In Councilman Sutton's scenario, the base doesn't change. Councilman Sutton said the assessed values of taxes paid are above the base and stay in the fund as an increment. The recipients of the tax base don't see a change in what they receive; the new owner sees what the previous owner paid. Mr. Trouche added, "but the new owner doesn't pay more or less because it's in a TIF district."

Councilman Sutton said everyone benefits because the money stays in the redevelopment zone. He asked about the TIF 3 overlay and how it fits in state law. Mr. Trouche said the smaller overlay doesn't enjoy any of the incremental growth in TIF 2 until TIF 2 expires. Councilman Sutton said it's an overlay that doesn't add value until the other TIF disappears. So if by 2017, when an unextended TIF 2 would go away, there's no capital return. He added "And if we don't do TIF 3, everyone loses." If TIF 2 extends in 2017, the base stays the same as it started. Doing a TIF 3 now really only gives 7 years. Mr. Trouche said they could extend existing TIFs if they choose, and if the county decides not to partner, it's the same as creating a new TIF. Extending them offers value for everybody. He said property owners want to get into the TIFs to jumpstart infrastructure improvements that will benefit that particular area. It's complicated by a relatively short period of time to get things done. Mr. Dadson agreed that that's why there's frustration about the 15 years, which is why TIF 3 would be 30 years.

Mr. Trouche said if they knew if the county and school district were going to agree to extend TIFs 1 and 2, that might color their decisions about TIF 3. Ms. Hughes said TIF 3 picks up some additional properties that aren't in TIF 2. Everyone looked at a map and discussed TIF boundaries. Councilman Sutton asked why it would be worth it to go the TIF 3 path even if it had to be done alone. Mr. Dadson said that is what they have a redevelopment plan for: they have definitions for the qualifications for both the plan and a TIF. Councilman Sutton said in a planning scope with the redevelopment commission now, this doesn't mean it's the only area that needs redevelopment. Maybe it should be expanded if they have to go it alone without the county and schools.

Mr. Trouche said the improvements, as long as they benefit the redevelopment project area, don't have to be improvements *in that district only*. Councilman Sutton said the Boundary Street Master Plan is what makes it work. Mr. Dadson said there are other areas the city council and redevelopment commission should look at, and there's no limit on using other means on other areas, but there would need to be a redevelopment plan, etc. for them. Mayor Keyserling has concerns about starving the general population if the whole city becomes TIF'd. Mr. Dadson said they could use current revenue streams, bond measures, etc. which allow them to segregate revenue streams better. The states capped tax ability and they have to grow by investing those things that create 6% and 10 % property owners and other revenue streams as well as those things taxed from a sales perspective to gain diversity in the tax base. Ms. Hughes asked if a TIF district for whole city is possible. Mr. Trouche said it used to be 5%; Councilman Sutton said he'd seen 20%. Mr. Trouche said "You have to have a finding of blight."

Councilman Sutton said the redevelopment commission has been exploring, and there are blighted areas in the 4% property tax areas that need help. Mr. Trouche said typically those areas that don't see rising taxes don't "sizzle." He gave the example of a North Charleston tax district with low-income housing that struggles because the property values haven't risen. Mr. Dadson said the capital intensity differs in 4% residential and commercial; as intensive a stormwater district isn't necessary, for example. He went

on to break down mixed-use benefits and the layers of commercial and residential. He said the highest rents are on the first floor.

Councilman Sutton said the general fund is garnished through the residential base because most of the new incremental business growth is in TIFs. He said a TIF with a component of residential growth which is above itself incrementally adjusting with the general fund… Mayor Keyserling said the price is still frozen in that TIF; the 4% of a condo, for example, stays with it. MS said at the end of the TIF cycle, it would be a stronger city with priorities in the right area and a 30-40 year window of infrastructure. Mr. Trouche said successful TIF districts aren't all residential at their creation. Mayor Keyserling said the residential part stays within the TIF.

Councilman Sutton said he's looking for the argument against TIFs for the different players. 6% and 10% fees would be what partners would be losing out on. It's not apples to apples. All 3 – 4%, 6%, and 10% - are needed to make this work. Mayor Keyserling said the 4%-ers could grow and that's money they're not getting anyway. Councilman Sutton said 6% and 10% are growing now. Mr. Dadson said those drive another type of revenue growth, i.e., sales tax, business license, etc. as well as accommodations and hospitality taxes. The main project is still to have a road people travel through this city on. That keeps the 10%-ers at the table. Mr. Trask asked about non-owner occupied residential as in an apartment complex. That would be "6% stuff," so not all residential will be occupied at 4%.

Councilman Sutton asked, if there were no TIF extension and no TIF 3, "where would we be?" Mr. Dadson said with no TIF 1 extension, the general fund would continue to pay $500,000 a year in debt. They wouldn't have the opportunity to use other funds to relieve that pressure. The base does adjust upward, but the general fund won't adjust as much as they might think. Unless they spend that money out, they have to return it. With no TIF 2, there's a lack of impact fees, and extending TIF 2 fills that hole without raising taxes. So there'd be nothing to fill that hole with. The monies now until 2017 are not pledge-able. They can pay but can't collateralize. The zoning code says they really do need the road network, and "you need the bones in or the vertical has a hard time existing." Road improvement and more building make sense; their code is in line with their investment strategy, but if they don't do it, it's hard to justify the vertical. If they don't do TIF 3, it's harder to be in it for the long haul, potentially 100 years. TIF 3 is a strongly recommended tool. The redevelopment commission was pursuing a MID. They could still use that tool if they didn't do a TIF 3, but MID could be structured differently, and it would be "less Draconian." A district should pay for some of those things above and beyond itself.

Mayor Keyserling asked what the estimate is of what TIF 2 will produce by 2017. Ms. Hughes said it is estimated to produce an additional $10 million before it expires. Mr. Trask said incremental growth would be to the plus side of the estimate. Mr. Dadson said that that $10 million can't have a new bond issued, which is what they've planned into the Boundary Street Master Plan as Phase 1 exists now. Mayor Keyserling said it was sliced in half already. Mr. Dadson said Phase 2 gets them to $55 million. Mayor Keyserling said they only have about $17 million of that, and they will have to phase back because of the shortfall in impact fees. They're looking at a $6-8 million shortfall. Mr. Dadson said that's the reason to extend TIF 2. Councilman Sutton asked if that's the best guess based on preliminary engineering. Mr. Dadson said yes. Councilman Sutton said it was $18 million and went to $22 million at the first phase of engineering. Based on the numbers for the remainder of TIF 2, they'd get $20 million more if it's extended for 15 years. Mr. Dadson said the pledge-able number is $10 million. Councilman

Sutton said they MIGHT glean another $20 million. Mr. Dadson said for TIF 3, the jumpstart in the increment starts January 1.

Mr. Trouche said if they don't extend TIF 2, between now and 2017, some of it would flow into both, but "the beauty of it flowing into TIF 3" is they can leverage that money in TIF 3. Without TIF 3, they max out their ability to leverage debt from TIF 2. Councilman Sutton asked about the cost of the road networks. Mr. Dadson said generally that number comes from the comment that 80% of the tickets issued are from addresses outside of the city. People outside the city also pay the majority of business license taxes, for example. Councilman Sutton said he's continuing to reevaluate the Boundary Street Master Plan, whatever is being obligated for the future. If the redevelopment commission is successful with a TIF 3, in the development zone, employees may live in residential homes built inside that district. Councilwoman Beer said that might make the Northwest Quadrant attractive to live in if residents were close to their work. Mr. Dadson said Pigeon Point has been successful because of the success of downtown. The comp plan shows that there is more room here than many realize. There will be other successful neighborhoods as well as these areas are revitalized.

Mayor Keyserling asked about the restrictions against using funds for operations, how the assets are maintained that are put into the TIF districts. He asked if they could continue to operate and maintain the municipal building from TIF funds. Mr. Dadson said yes, as long as there are TIF funds. Councilman Sutton said they need a mechanism that allows a long capitalization period. Ms. Hughes said they build the building, and the bonds are paid off in 20 years. If they always rely on TIF money, what happens in that first year? They had better have a long-range plan to wean themselves off it when the time comes. Mr. Dadson said they have an expense line in their budget to remind them of the cost / expense of doing something.

Mayor Keyserling asked about other layered TIFs. Mr. Trouche cited Mount Pleasant. As far as a pure overlay, there are a lot of TIFs where some or all of which is a MID. Mayor Keyserling said the reality is they're not maturing yet, so they wouldn't know. Mr. Trouche said they had something that with very little tweaking met the statutes. They're very common tools. Councilman McFee said he understands better what TIF 3 does, but he asked about the overlay: with the growth of TIF 3, when the base, which is TIF 2, and the overlay, which is TIF 3, the increment is only the distance from the base set within the new TIF that is established that goes up. So with the overlay district for TIF 2, when it hits the base of TIF 3, is it no more? Mr. Trouche said no, for some time it's in both. The amount in both pots can be used in TIF 2 and borrowed against TIF 3. Mr. Dadson said when they established a road network, they were trying to accomplish all of it. The building out of the whole plan is what they want to do by extending TIF 2 and creating TIF 3. Councilwoman Beer said we just don't want it to be another 278.

Mayor Keyserling said there used to be a plan for Boundary from Ribaut to Carteret which never happened. He asked if it could be extended so that there's consistency, since they're making this big investment over time. Mr. Dadson said he wasn't here for the original charettes, etc. but it became politically hard to extend farther down Boundary to Bellamy Curve. There's a recommendation in the Boundary Street Master Plan that it continue down Boundary, but there are rules, i.e., "the vertical profile" is lower. Councilman Sutton said the funds could be used if they contribute to the area. They need a strong redevelopment commission that says it needs to be done when the main traffic area is done. They're dividing lots to potentially create two street fronts. The redevelopment commission needs to look at that and capitalize on it. Mr. Dadson said the question is what improvements they do with the

capitalization of that TIF. Councilman Sutton said there might be stormwater repairs. Mayor Keyserling said most parcels go through the whole block. Mr. Dadson said the planning process has taught them that the rules need to be discussed, i.e., how do the public property rules affect public property and vice versa. Boundary St. without the penny sales tax creates leveragability. If their total is $55 million they can borrow, and $17 million is on the table, they have $55 million + $17 million for leverage.

Mr. Trouche said Ross Jones and that council were trying to make it more palatable to the school district and county by making it 15 years. Mr. Trask asked if the school district and county opt out initially, if they can get in subsequently. Mr. Trouche said he thinks they can, because no one would complain about their joining. With TIF 1 and TIF 2, the baseline is the original baseline. Councilman McFee said with TIF 3, if they do it for 5 years and then the school district and county join in, "our baseline is THEIR baseline." Mr. Dadson said they won't put everything in one basket as far as debt structure moving forward. It depends on a lot of things, including what they want to accomplish. The Plan makes it clear what they want to accomplish.

Councilman McFee said the real benefit of TIF 3 in 30 years is that it captures the leveragability for all 3 groups, which is the benefit over just extending TIFs 1 and 2. Councilman Sutton said the percentage value for each player is 56 ($784,000)-22-22. The school district didn't have a choice on TIF 2 to start. State law changed. They're going to perceive that they're "losing" 50% of the tax increment. The county would "lose" 22%. Mr. Dadson referenced the memo he'd posted on the web and distributed to council. Councilman Sutton said the property value's gone up and strides made, and all players are benefiting. Mayor Keyserling said Waterfront Park is the greatest benefit. Councilman McFee said from a community standpoint, the gateway is the greatest benefit, but the Waterfront Park is more tangible, perhaps.

Mr. Dadson said the schools are in a position where the county exports dollars and receives nothing back. The argument for staying in is that it doesn't create a large impact on the school system. There's solid reason for the county to stay in on all 3. He gave some examples. Mr. Trask asked if Beaufort Middle School was an underused facility. Mayor Keyserling said AMES Academy is in there now, and they're full. Mr. Dadson said Northern Beaufort County is, as a whole, under capacity.

Councilman Sutton asked how percentages are set at 56-22-22. Ms. Hughes said the percentages are based on millage rate. Councilman Sutton asked if it has to be used that way; "could it be evened out?" Mr. Dadson said TIF 1 has more 4%. Ms. Hughes reiterated the total millage rates for all three partners, and added that it doesn't include the 4%. Councilman Sutton said if the divvying out is based on millage, there's no negotiating tool there with the partners. Mr. Trouche said they could offer to build them a school that's publically owned, not municipally. Mr. Dadson said improvements could be done for their benefit if they stay in, i.e., "Stay in and we'll give you a new administration building." The Boundary Street Master Plan talks about keeping civic space available and in that district.

Councilwoman Beer asked about King Street. Mr. Dadson said that in that district, in the Boundary Street Master Plan, the county facility is underutilized and in their capital improvement plan, they talk about needing more improvement. They could maximize by putting public facilities up to the road. Councilman Sutton said the jail needs improvement. Councilman McFee said it mitigates what the school district would be giving up. Councilman Sutton said he'd like them to stay in the city. Ms. Hughes said that will get them closer to where they want to be. Mr. Dadson said that's the art of it. They

still have to deal with TIF 3. Can they join later? Possibly. Do they issue a bond anyway? No. Mayor Keyserling said once they come in, they can't get out. Mr. Trouche said yes, according to statute, when they incur debt. Ms. Hughes said if they don't object, they're in. As soon as debt's issued, they're tied in. Mr. Dadson said it's smart to think out loud about roads and leveraging current dollars, etc. An additional argument for TIF 3 is to say, "How can we help school district and county build what they need on the main drag?"

Mayor Keyserling asked about the westernmost corner of TIF 2. Mr. Dadson said it's the Super Wal-Mart. Mr. Trask asked about sprawl increasing school district costs. The concept of more density within these districts ought to be thought out in terms of the positive benefits to the school district. Mr. Dadson said the sprawl is on point for Lady's Island, which already has two over-capacity schools and an under-capacity school. Mr. Trask said Robert Smalls is in good proximity to take advantage of some growth in the district.

Councilman Sutton said he supports TIF 3 and the extensions of TIFs 1 and 2. Councilwoman Beer said she's grateful for the people working with them. Mr. Trouche said he's impressed with the level of engagement in understanding this complex topic. Ms. Hughes asked how long TIFs have been available here. Mr. Cook answered 1984. Ms. Hughes said some jurisdictions started out with the right idea but made decisions like purchasing property that was un-taxable and made it taxable. She complimented council on getting their hands around what TIFs can and can't do. She warned them against decisions in the future that could put them in a bad position. Mr. Dadson wondered about rethinking the 56-22-22 formula to 25-25-25 with 75% for major improvements. And then the 25% balance is for schools' administrative needs or county's other type of needs. This idea might keep the county and school district in so they can maximize that increment. They want to keep them in the district; how can they help them do that? Mr. Dadson acknowledged that this was Mr. Cook's idea originally. Councilman Sutton asked Mr. Dadson to figure this out and come back with numbers.

Councilman McFee said TIF 3 is the immediate issue. He asked whether all questions had been answered with regard to that, in relation to TIF 2. Mayor Keyserling said all 3 TIFs have to be talked about at this point. Councilman Sutton said no one's winning now. Mr. Dadson said the sprawl cost them a lot.

COUNCIL MEETING SCHEDULES

Mayor Keyserling asked about meeting schedules. He feels workshop topics are backing up. He feels things like the tricentennial, how to go forward with managing appointments to redevelopment commission, getting to the sign people who are ready, etc. need to be addressed. Mr. Dadson said minutes are being kept in the work sessions. More workshops and fewer big meetings are more productive than the other way around. Minutes-taking and televising technologies allow workshops in the day and more frequently, so council is only doing one meeting a month. A conversation ensued about the configuration of the table for work sessions vs. council sessions. Mr. Dadson said it depends on the members' schedules to determine when work sessions could be. He thinks fewer formal meetings and more work sessions would be best, but not 4-5 hour-long ones.

A discussion ensued about the number and length of work sessions. Mayor Keyserling believes after-work hours are best for accessibility. Ms. Hughes said everything that needs to be done has been done for TV coverage. Councilman Sutton said the public won't fill the rooms unless it's a controversial

topic. Mayor Keyserling said the county channel could equip and put the council on the air, as county taxpayers. Ms. Hughes said the county tax money will go to something else. Mayor Keyserling said if they can send the crew on a Sunday to Hunting Island and most every county committee meeting, they should be able to provide that to the city's citizens who pay county taxes. Mr. Dadson said they tried that already. Councilman Sutton said anything done before 5:00 PM will draw complaints from people believing they're keeping it from the public.

Mr. Dadson said council is more productive in workshops. Mayor Keyserling said he prefers a second workshop a month and then see if they can ease out of a second council meeting each month if the workshops are making council meetings incrementally shorter.

ADJOURNMENT

There being no further business to come before city council, Councilman McFee made a motion to adjourn, seconded by Councilwoman Beer. The motion was approved unanimously, and the meeting was adjourned at 7:10 p.m.

ATTEST: _____

SHIRLEY HUGHES, ACTING CITY CLERK