

The Town of Hilton Head Island
Special Town Council Meeting

Budget Workshop
Tuesday, June 14, 2011
Council Chambers
6:00 P.M.

AGENDA

1. **Call to Order**
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. **6:00 p.m.: PUBLIC HEARING ON THE MUNICIPAL BUDGET FOR FY2011-2012**
4. **Revised First Reading of Proposed Ordinance No. 2011-09**
Revised First Reading of Proposed Ordinance No. 2011-09 to raise revenue and adopt a budget for the Town of Hilton Head Island, South Carolina, for the fiscal year ending June 30, 2012; to establish a property tax levy; to establish funds; to establish a policy for acquisition of rights of way and easements; and providing for severability and an effective date.
5. **Adjournment**



MEMORANDUM

TO: Town Council

FROM: Stephen G. Riley, Town Manager

VIA: Steven Markiw, Deputy Director of Finance

DATE: June 14, 2011

RE: **Revised First Reading of Proposed Ordinance No. 2011-09**

Recommendation:

Staff requests that Town Council approve the revised FY 2012 budget.

Summary:

Town staff has made final revisions to the budgets for the General Fund, Debt Service Fund, Capital Projects Fund, and the Stormwater Utility Fee Fund (Enterprise Fund). The revised budgets are attached to this document. Proposed Budget Ordinance 2011-09 is also attached.

The second and final reading of the FY 2012 budget is scheduled for June 21, 2011.

Background:

Town staff presented the initial draft budget to Town Council on May 3rd, 2011. Town Council budget workshops were held May 5, May 10, May 24 and June 9. The changes made to the original proposed budget are summarized in the attached document.

AN ORDINANCE OF THE TOWN OF HILTON HEAD ISLAND

ORDINANCE NO. _____

PROPOSED ORDINANCE NO. 2011-09

AN ORDINANCE TO RAISE REVENUE AND ADOPT A BUDGET FOR THE TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA, FOR THE FISCAL YEAR ENDING JUNE 30, 2012; TO ESTABLISH A PROPERTY TAX LEVY; TO ESTABLISH FUNDS; TO ESTABLISH A POLICY FOR ACQUISITION OF RIGHTS OF WAY AND EASEMENTS; AND PROVIDING FOR SEVERABILITY AND AN EFFECTIVE DATE.

WHEREAS, Section 5-7-260(3) of the Code of Laws for South Carolina 1976, as amended, and Section 2-7-20 of the Municipal Code of the Town of Hilton Head Island, South Carolina, require that the Town Council act by ordinance to adopt a budget and levy taxes, pursuant to public notice; and

WHEREAS, Town Council desires to set aside funds for an Operating Reserve to provide for emergency-related expenditures and to offset fiscal year tax revenue income stream deficiency; and

WHEREAS, Town Council finds that it would be more economical and efficient to authorize the Town Manager to move forward with construction contract modifications, change orders, contract price adjustments, and execution of contracts for supplies, services, and construction where the contract amount involved does not exceed the budget line item or project budget as approved by Town Council in the Consolidated Municipal Budget.

NOW, THEREFORE, BE IT ORDERED AND ORDAINED BY THE COUNCIL OF THE TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA; AND IT IS HEREBY ORDAINED BY THE AUTHORITY OF THE SAID COUNCIL:

NOTE: Underlined and bold-face typed portions indicate additions to the Ordinance. ~~Stricken~~ Portions indicate deletions to the Ordinance.

Section 1. Adoption of the Budget. The prepared budget of estimated revenues and expenses, a copy of which is attached hereto and incorporated herein, is hereby adopted as the budget for the Town of Hilton Head Island for the fiscal year ending June 30, 2012.

Section 2. Establishment of Property Tax Levy. A tax to cover the period from July 1, 2011 through June 30, 2012, inclusive, for the sums and in the manner hereinafter mentioned, is and shall be, levied, collected and paid into the treasury of the Town of Hilton Head Island for its uses at a rate of mills on assessed value of real estate and personal property of every description owned in the Town of Hilton Head Island, except such property as is exempt from taxation under the Constitution and laws of the State of South Carolina. Said tax levy shall be paid into the Town Treasury for the credit of the Town of Hilton Head Island for its corporate purposes, for the purpose of paying current operational expenses of the said municipality 12.57 mills, Debt Service 6.01 mills, and Capital Projects Fund .75 mills making the total levy of 19.33 mills.

Section 3. Establishment of Funds. To facilitate operations, there shall be established and maintained a General Fund, a Capital Projects Fund, a Debt Service Fund, **a Stormwater Utility Fee Fund**, and other appropriate funds in such amounts as are provided for in the aforesaid Budget, as hereby adopted or as hereafter modified pursuant to law.

Section 4. Acquisition of Rights of Way and Easements. The Town Manager is charged with the duty of executing all necessary documents to obtain rights of way, easements, and other property interests necessary to complete duly authorized Capital Improvement Projects. If an expenditure is expressly authorized in an approved Capital Improvement Project, then the Town Manager is hereby authorized to execute all necessary documents and to expend such funds as are approved pursuant to the Capital Improvement budget. Provided, however, in the event that the costs of an acquisition of such real property interests materially exceeds the amount budgeted in the approved Capital Improvement Project and the Town Manager is unable to shift additional funds from other authorized sources, the Town Manager shall be required to obtain the approval of Town Council for such addition expenditures. Nothing herein shall obviate the requirement that no condemnations shall be commenced without the appropriate approval of the Town Council for the Town of Hilton Head Island.

Section 5 Severability. If any section, phrase, sentence, or portion of this Ordinance is for any reason held invalid or unconstitutional by any court of competent jurisdiction, such portion shall be deemed a separate, distinct, and independent provision, and such holding shall not affect the validity of the remaining portions thereof.

Section 6. Effective Date. This Ordinance shall be effective upon its enactment by the Town Council for the Town of Hilton Head Island.

Proposed Ordinance No. 2011-09
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**PASSED, APPROVED, AND ADOPTED BY THE COUNCIL FOR THE TOWN OF
HILTON HEAD ISLAND ON THIS _____ DAY OF _____, 2011.**

Drew A. Laughlin, Mayor

ATTEST:

Town Clerk

First Reading: May 3, 2011
Public Hearing: June 14, 2011
Revised First Reading: June 14, 2011
Second Reading:

APPROVED AS TO FORM:

Gregory M. Alford, Town Attorney

Introduced by Council Member: Kenneth S. Heitzke

Town of Hilton Head Island, South Carolina

Revised Proposed Consolidated Municipal Budget Fiscal Year July 1, 2011 through June 30, 2012



Get Your Plaid On at the 43rd Annual Heritage PGA TOUR Golf Tournament

Town of Hilton Head Island
Revised Proposed FY 2012 Budget
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MEMORANDUM

TO: Stephen G. Riley, Town Manager

FROM: Susan Simmons, Director of Finance

DATE: June 7, 2011

UPDATED FOR: June 14, 2011

RE: Review of FY 2011 projected actual figures

UPDATE: Revised 1st Reading

This document was prepared for the June 9th budget workshop. Council requested only minor changes. This document has an update on page 5 to summarize the changes which will be presented at the revised 1st reading workshop on June 14, 2011.

On May 24th, 2011 Town Council reviewed the Town's proposed FY 2012 operating budget. At that meeting Town Council expressed some interest in enacting a FY 2012 General Fund budget that did not exceed the estimated actual expenditures for FY 2011. Historically the estimated actual revenues and expenditures have been estimated early in January. They have not been thoroughly vetted again for the budget workshops. Given Town Council's interest in the estimated actuals for FY 2011 Finance requested staff to provide updated estimates based on current information near fiscal year-end. The results of that review are outlined below.

Results of review of FY 2011

In the original document presented to Town Council for FY 2011, expenditures were anticipated to exceed revenues by \$551,972. The revised FY 2011 projection reflects expenditures exceeding revenues by \$836,893. This is an increase of \$284,921.

The original FY 2011 projected actual revenues were \$31,501,927. Town staff reviewed the projection and it was subsequently revised to \$31,314,883. Anticipated revenues to be received from business licenses and the local ATAX were reduced. The net change in revenues between the original and updated amount is \$187,044.

The original FY 2011 projected actual expenditures were \$32,053,899. Town staff reviewed the projection and it was subsequently revised to \$32,151,776. There was an error in the projected salary amount and this was primarily offset by adjustments made to year-end operating expenditures. The net change in expenditures between the original and updated amount is \$97,877.

	FY 2011				FY 2012 Budget
	Revised	Original	Revised	Variance	
	Budget	Projection	Projection		
Personnel	21,030,800	20,148,441	20,645,471	497,030	20,753,090
Operating	9,550,480	9,259,667	8,929,475	(330,192)	9,771,690
Capital	571,493	219,050	218,091	(959)	503,770
Grants	2,346,923	2,426,741	2,358,739	(68,002)	1,703,170
	33,499,696	32,053,899	32,151,776	97,877	32,731,720

Current FY 2012 Recommendation

In the original document presented to Town Council for FY 2012 expenditures were anticipated to exceed revenues by \$339,370. The revised FY 2011 projection reflects expenditures exceeding revenues by \$659,710. This is an increase of \$320,340.

	FY 2011		FY 2012		
	Revised	Revised	Recommen. Budget	Variance to FY 2011	
	Budget	Projection		Revised Budget	Revised Projection
Revenue	32,096,253	31,314,883	32,072,010	(24,243)	757,127
Expenditures	33,499,696	32,151,776	32,731,720	(767,976)	579,944
Revenues Over/(Under) Expennditures	(1,403,443)	(836,893)	(659,710)		

General Fund Revenue

Anticipated revenues for FY 2012 are anticipated to be \$757,127 higher than the FY 2011 estimated actual revenues to be received. The major two increases in anticipated revenues are \$725,420 of property taxes and \$339,370 of hospitality tax transfer for the first payment on the Fire and Rescue apparatus lease.

The proposed revenue budget for FY 2012 reflects a millage rate increase of 6.67% and will provide \$725,420 in revenue. The Town must develop the budget prior to the State validating the allowable increases. The following chart depicts the original estimate, the final allowable, and the recommended millage rate increase for FY 2012.

	Final Allowable	Original Estimate	Final Recommended
CPI adjustment	1.64	1.70	1.64
Population Adjustment	8.32	5.06	5.03
	9.96	6.76	6.67
Additional Revenue	\$ 1,083,237	\$ 744,080	\$ 725,420

The primary revenue decreases are follows: transfer of Beach Preservation Fees of \$500,000; County decreases for dispatch and emergency medical services of \$150,000; and a reduction in State shared revenue of \$100,000.

During Town Council meetings in the fall of 2010 to approve the Port Royal fill project, the Town determined for the beach renourishment program to be sustainable it was necessary to limit the transfer of Beach Preservation Fees to the General Fund.

For a long time the Town has endeavored to reduce its reliance on property taxes to finance daily operations by adding alternative revenue sources based on tourism and real estate. In FY 1994, 67% of the Town's operating funds came from property taxes. In FY 2012 that percentage is 36%. The decline in the economy and the reduction in Beach Preservation Fees transferred to the General Fund based on Town Council direction, has necessitated a funding paradigm shift from tourism and real estate driven revenues to property tax revenues. It also should be noted that staffing levels and other operating expenditures have been reduced wherever possible as part of the realignment of the Town's budget to address the financial impact of the sluggish economy.

General Fund Expenditures

The budgeted expenditures for the General Fund are \$32,731,720 for FY 2012 compared to \$32,151,776 estimated actual expenditures for FY 2011. This reflects an increase of \$579,944 or 1.8%.

Personnel; The proposed payroll expenditures for FY 2012 are \$20,753,090 compared to estimated actual payroll expenditures for FY 2011 of \$20,475,641. Comparison of year over year figures must take into consideration the shift in personnel costs to the stormwater fund in FY 2012 {\$20,475,641 (FY 2011) to [\$20,753,090 + \$147,190 = \$20,900,280] variance = \$424,639 or 2.1%}.

Operating; Based on the review of anticipated expenditures for FY 2012 using May data, projected figures were reduced by an additional \$18,200 as detailed on page 6.

The chart below is a year over year comparison of major changes in General Fund expenditures.

	FY 2011	FY 2012			
	Est. Actual	Budget			
total expenditures	32,151,776	32,732,720			
heritage	(1,260,000)				
		(200,000)	lmo rewrite		
		(339,370)	debt service		
		(100,000)	recycling (public facilities)		
		(70,000)	recycling (beach services)		
		(50,000)	ATAX recovery project		
		(30,000)	business license rates study		
		(100,000)	retirement contribution (VC)		
		(181,300)	payroll increase		
		(325,445)	increase in advertising and promotion		
		(21,584)	fuel expense		
		(145,091)	vacant asst. cm position		
		(41,204)	legal expenses		
		(49,900)	fire and rescue expenses OSHA		
total adjusted expenditures	30,891,776	31,078,826			
variance		187,050			
		0.61%			

Comparison of Millage Rate

Town Council requested Town staff provide a comparison of the Town’s Total millage rate with other local governmental operations. In addition, we included the millage rates for Myrtle Beach and the City of Charleston. The Town has the lowest rate of those provided below and has raised its rates minimally over the Town’s twenty-eight year history.

	2010	2011
	Millage Rate	Millage Rate
Town of Hilton Head Island	18.54	18.54
Town of Bluffton	38.00	38.00
Town of Port Royal	69.00	69.00
City of Beaufort	60.62	60.62
City of Hardeville	153.00	153.00
Beaufort County	45.96	47.54
Beaufort County School Board - operating	90.26	90.26
Beaufort County School Board - debt	24.43	26.33
Jasper County	267.00	276.50
Myrtle Beach	62.90	66.10
City of Charleston	77.10	77.10

Debt Service Fund

Funds provided from real estate transfer fees were reduced by \$305,277. This funding reduction will be offset by property taxes. The reduction is necessitated by less revenue being received from this source due to the downturn in the real estate market. Sufficient property tax revenues are available to cover this realignment.

Capital Projects Fund and Stormwater Utility Fee Fund

The proposed budgets for these funds will be presented for the first time at the June 9th budget workshop. Previous drafts were placeholders as the budgets were being developed and presented to the Town's Committees.

Update: Revised 1st reading for June 14, 2011

Based on the June 9th Town Council budget workshop the following changes have been made to the proposed Capital Projects Fund budget:

- \$77,000 of surplus funds (2011 roll-forward amount) from the Compass Rose project will be moved to the Chaplin Park tennis court project. The \$40,000 earmarked for the Chaplin Park tennis court project in the proposed 2012 budget will be moved from the Park Upgrades line to a new project. The total budget available for the Chaplin Park project will be \$117,000 when the 2011 funds are rolled after fiscal year 2011 closes.
- Funding for Station 2 design work will be delayed until 2013. The \$275,000 which was estimated from fiscal year 2011 to 2012 will be lapsed and re-budgeted in fiscal year 2013. Funding for the construction of Station 2 has been moved to 2014.

No changes will be made at the present time for the following projects:

- Mainland transportation – Council will hold a separate workshop in the new fiscal year to determine direction, funding, and timing.
- Summit Drive – Staff will assess whether County intends to partner in the larger project. If not, during fiscal year 2012 staff will propose and establish a revised smaller project for curbing.

No changes are proposed as a result of the June 9th budget workshop for the following funds:

- General Fund
- Capital Projects Fund
- Debt Service Fund
- Stormwater Fund

Summary of Changes

General Fund

6.7.2011

General Fund FY 2012 Draft Budget Deficit

version 5

(339,370)**Adjustments:****Revenue**

1. Transfers In - Miscellaneous adjustments	(4,660)
2. Transfers In - Funding for two engineering positions moved to the Stormwater Fund	(147,190)
3. Adjustment to Act 388 proposed millage rate increase based on final allowable increase	(18,660)
4. County not renewing contract for emergency medical services to Jenkins Island	(125,000)
5. County reduction of funding for dispatch services (\$75,000 to \$50,000)	(25,000)
6. A reduction in anticipated funds from local ATAX	(111,180)
7. An increase in franchise fee cable revenues	80,000
8. An increase in revenue from investments	15,000
9. A reduction in business license revenue	(225,000)
10. An increase in permit fee revenue	78,230
	<hr/>
	(483,460)

Expenditures

1. Eliminate consulting for retirement studies (Human Resources)	25,000
2. Eliminate part-time Municipal Court Assistant (Municipal Court)	28,610
3. Reduce rent expense (Sheriff's budget)	11,120
4. Two Engineering positions moved to the Stormwater Fund (Engineering)	147,190
5. Increase funding for worker's compensation deductible (Townwide)	(15,000)
6. Increase funding for liability insurance (Townwide)	(12,000)
7. Increase funding for fuel (Townwide)	(40,000)
8. Reduction in operating expenditures; Administrative Support	4,600
9. Increase in operating expenditures; Public Projects and Facilities - Admin.	(500)
10. Reduction in telephone expenditures; Townwide	20,000
11. Reduction in printer supplies; Townwide	5,000
12. Reduction in equipment expenditures; Townwide	2,500
13. Increase in Palmetto Pass charges for Town vehicles; Townwide	(1,900)
14. Increase in electricity expenditures; Townwide	(14,500)
15. Reduction in postage expenditures; Townwide	3,000
	<hr/>
	163,120
Revised General Fund Deficit	<hr/>
	(659,710)

Debt Service Fund

1. Reduction in real estate transfer fees to fund debt service (will be offset by property taxes)	(305,277)
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General Fund

General Fund Analysis

The General Fund accounts for the revenues and expenditures necessary to carry out basic governmental activities of the Town such as police and fire protection, recreation, and legal and administrative services. All financial transactions not accounted for in other funds are recorded in the General Fund.

Department Expenditure Summary for Fiscal Year 2012 (General Fund)

Department	Personnel	Operating	Capital/Debt	Grants	Total Expenses
Town Council	\$ 85,080	\$ 358,250			\$ 443,330
Town Manager	721,310	25,000			746,310
Administration/Legal	3,647,310	1,209,220	93,000		4,949,530
Community Development	2,399,610	298,790			2,698,400
Public Projects and Facilities	1,612,750	1,936,990			3,549,740
Fire and Rescue	12,121,310	1,310,570	71,400		13,503,280
Sheriff/Other Public Safety		3,138,430			3,138,430
Non-Departmental (Townwide)	165,720	1,494,440	339,370	1,703,170	3,702,700
Totals	\$ 20,753,090	\$ 9,771,690	\$ 503,770	\$ 1,703,170	\$ 32,731,720

Revenues and Expenditures by Program/Department/Division Analysis - Historical, Estimated Actual, and Budget

	2011					2012				
	2008	2009	2010	Revised	Est. Actual	Original Proposed Budget	adjustments	Revised	% change	
				Budget	as of 10 months			Budget	FY 2011 Budget	FY 2011 Est. Actual
Revenues										
Property Taxes	10,138,385	10,715,950	10,920,696	11,066,860	10,970,595	11,719,990	(18,660)	11,701,330	6%	7%
ATAX Local 1%	2,319,342	2,150,536	2,012,520	1,952,360	2,168,330	2,361,180	(111,180)	2,250,000	15%	4%
Business Licenses:										
Business Licenses - Town	3,806,168	3,426,852	3,382,398	3,434,000	3,405,000	3,500,000	(100,000)	3,400,000	-1%	0%
Business Licenses - MASC	4,326,864	4,032,206	3,721,101	4,040,000	4,000,000	4,125,000	(125,000)	4,000,000	-1%	0%
Franchise Fees:										
Cable	566,940	586,852	760,735	606,000	692,259	610,000	80,000	690,000	14%	0%
Beach Fee	22,057	21,285	20,716	21,500	21,500	21,500	-	21,500	0%	0%
Recycling	-	-	-	-	-	100,000	-	100,000	100%	100%
Permit Fees:										
Construction	383,502	194,387	175,884	190,000	219,920	170,670	19,330	190,000	0%	-14%
Development	9,024	10,883	4,067	3,600	5,785	2,700	1,300	4,000	11%	-31%
Other	864,247	648,692	706,430	685,210	680,350	622,400	57,600	680,000	-1%	0%
Intergovernmental	1,105,671	1,054,891	884,672	788,580	752,988	651,080	-	651,080	-17%	-14%
Grants:										
Beaufort County - Hazmat	13,561	11,677	11,677	11,680	11,677	11,680	-	11,680	0%	0%
Beaufort County - E911	96,336	113,563	122,828	216,020	122,812	115,000	-	115,000	-47%	-6%
DEHC	6,641	5,556	7,293	6,000	4,710	6,000	-	6,000	0%	27%
FEMA	-	-	-	-	25,087	-	-	-	0%	-100%
SC Regional Task Force	35,000	-	-	-	-	-	-	-	0%	0%
SCMIT Fire Grant	602	-	-	-	-	-	-	-	0%	0%
Miscellaneous Revenue:										
Beach Services	167,779	188,060	178,247	185,000	204,160	185,000	-	185,000	0%	-9%
Donations	10,305	6,125	120	1,000	225	1,000	-	1,000	0%	344%
Municipal Court	465,065	407,422	423,042	416,220	380,164	390,000	-	390,000	-6%	3%
Other	217,924	298,663	138,603	150,000	120,000	100,000	-	100,000	-33%	-17%
Public Safety - EMS	1,292,928	1,210,300	1,216,699	1,200,000	1,293,690	1,305,000	-	1,305,000	9%	1%
Public Safety - County D/T	200,494	206,205	203,536	190,000	210,000	203,000	(150,000)	53,000	-72%	-75%
Town Codes	4,637	3,446	995	2,000	454	1,000	-	1,000	-50%	120%
Victim's Assistance	75,228	70,045	70,471	71,000	59,230	70,000	-	70,000	-1%	18%
Transfers In:										
ATAX State	1,268,346	1,266,741	1,089,096	1,329,400	1,329,400	1,332,950	-	1,332,950	0%	0%
Beach Preservation Fee	855,112	1,355,973	1,315,746	1,478,080	978,080	969,380	10	969,390	-34%	-1%
Electricity Franchise Fee	69,157	85,904	77,371	80,630	72,239	80,910	(690)	80,220	-1%	11%
Hospitality Taxes	2,004,206	2,214,864	2,464,955	3,269,553	2,930,183	3,269,550	-	3,269,550	0%	12%
Stormwater Utility Fee	-	303,830	302,763	389,730	389,730	385,010	(149,680)	235,330	-40%	-40%
Sunday Liquor Permits	-	-	-	37,500	37,500	37,500	-	37,500	0%	0%
TIF	-	226,260	193,790	184,330	184,330	182,970	(1,490)	181,480	-2%	-2%
Investments	402,416	87,069	95,768	90,000	44,485	25,000	15,000	40,000	-56%	-10%
Total Revenues	30,727,937	30,904,237	30,502,219	32,096,253	31,314,883	32,555,470	(483,460)	32,072,010	0%	2%

Revenues and Expenditures by Program/Department/Division Analysis - Historical, Estimated Actual, and Budget

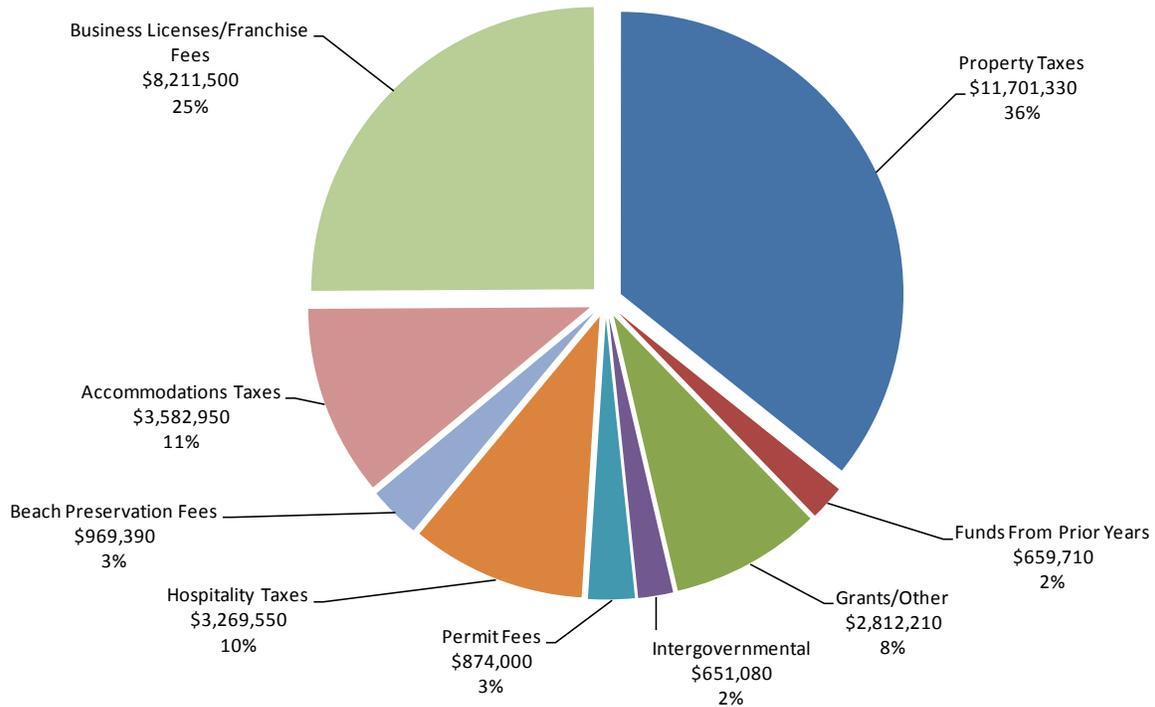
						2012				
	2008	2009	2010	2011		Original Proposed Budget	adjustments	Revised Budget	% change	
				Revised Budget	Est. Actual as of 10 months				FY 2011 Budget	FY 2011 Est. Actual
Expenditures										
General Government:										
Town Council	429,407	355,705	292,601	438,773	365,136	443,330	-	443,330	1%	21%
Town Manager	534,469	744,916	751,876	751,540	636,967	746,310	-	746,310	-1%	17%
Total General Government	963,876	1,100,621	1,044,477	1,190,313	1,002,103	1,189,640	-	1,189,640	0%	19%
Management Services:										
Administration/Legal										
Legal	616,719	430,531	428,878	471,090	408,382	443,780	-	443,780	-6%	9%
Administrative Services										
Administrative Support	182,793	215,541	193,428	237,830	224,995	218,440	(4,600)	213,840	-10%	-5%
Municipal Court	392,536	402,796	395,050	413,720	412,152	424,440	(28,610)	395,830	-4%	-4%
Information Technology	1,534,237	1,598,223	1,605,931	1,686,843	1,650,850	1,672,740	-	1,672,740	-1%	1%
	2,109,566	2,216,560	2,194,409	2,338,393	2,287,997	2,315,620	(33,210)	2,282,410	-2%	0%
Finance										
Administration	188,035	189,314	213,968	234,890	216,276	227,350	-	227,350	-3%	5%
Accounting	629,475	660,880	565,988	662,004	606,538	662,040	-	662,040	0%	9%
Revenue and Collections	478,151	566,623	659,308	792,670	726,133	788,180	-	788,180	-1%	9%
	1,295,661	1,416,817	1,439,264	1,689,564	1,548,947	1,677,570	-	1,677,570	-1%	8%
Human Resources	587,798	603,514	527,901	559,690	511,792	570,770	(25,000)	545,770	-2%	7%
Total Administration/Legal	4,609,744	4,667,422	4,590,452	5,058,737	4,757,118	5,007,740	(58,210)	4,949,530	-2%	4%
Total Management Services	4,609,744	4,667,422	4,590,452	5,058,737	4,757,118	5,007,740	(58,210)	4,949,530	-2%	4%
Community Services:										
Community Development										
Administration	397,850	545,247	541,226	551,340	564,085	572,540	-	572,540	4%	1%
Comprehensive Planning	434,925	379,969	356,859	366,510	371,115	352,220	-	352,220	-4%	-5%
Development, Review and Zoning	635,470	835,876	791,780	794,450	682,484	878,110	-	878,110	11%	29%
Building	1,308,838	759,928	667,371	679,850	608,506	617,150	-	617,150	-9%	1%
CD Services	-	380,358	334,221	341,680	294,421	278,380	-	278,380	-19%	-5%
Natural Resources	209,938	-	-	-	-	-	-	-	0%	0%
Total Community Development	2,987,021	2,901,378	2,691,457	2,733,830	2,520,611	2,698,400	-	2,698,400	-1%	7%
Public Projects and Facilities										
Administration	313,303	232,327	230,031	232,420	232,740	235,280	500	235,780	1%	1%
Engineering	609,123	646,190	719,746	828,280	786,806	832,840	(147,190)	685,650	-17%	-13%
Facilities Management	2,340,794	2,377,977	2,363,313	2,511,920	2,437,505	2,628,310	-	2,628,310	5%	8%
Total Public Projects and Facilities	3,263,220	3,256,494	3,313,090	3,572,620	3,457,051	3,696,430	(146,690)	3,549,740	-1%	3%
Total Community Services	6,250,241	6,157,872	6,004,547	6,306,450	5,977,662	6,394,830	(146,690)	6,248,140	-1%	5%

Revenues and Expenditures by Program/Department/Division Analysis - Historical, Estimated Actual, and Budget

	2008	2009	2010	2011		2012					
				Revised Budget	Est. Actual as of 10 months	Original Proposed Budget	adjustments	Revised Budget	% change		
									FY 2011 Budget	FY 2011 Est. Actual	
Public Safety:											
Fire											
Administration	496,021	494,930	285,385	346,140	293,250	358,500	-	358,500	4%	22%	
Operations	9,035,671	9,296,805	8,834,581	8,946,780	9,010,640	8,964,580	-	8,964,580	0%	-1%	
Fire Prevention	488,865	509,256	498,575	520,210	524,967	532,870	-	532,870	2%	2%	
Logistics/Maintenance	998,698	749,216	665,746	586,110	565,819	573,930	-	573,930	-2%	1%	
Communications	1,017,265	1,085,246	1,117,858	1,160,970	1,114,245	1,138,350	-	1,138,350	-2%	2%	
Training	679,290	605,888	586,398	628,920	641,445	667,680	-	667,680	6%	4%	
Emergency Management	52,803	219,496	206,415	227,400	221,630	224,140	-	224,140	-1%	1%	
E911 Communications	193,047	199,145	229,093	255,180	253,634	253,550	-	253,550	-1%	0%	
Support Services	742,722	723,914	849,905	815,460	728,999	789,680	-	789,680	-3%	8%	
Total Fire & Rescue	13,704,382	13,883,896	13,273,956	13,487,170	13,354,629	13,503,280	-	13,503,280	0%	1%	
EMS Bad Debt Write-Off	334,171	-	-	-	-	-	-	-	0%	0%	
Sheriff/Other Public Safety											
Police Services Contract	2,658,356	2,743,135	2,661,045	2,752,310	2,702,858	2,764,980	(11,120)	2,753,860	0%	2%	
Beach Services	178,031	184,394	184,192	189,060	189,090	196,930	-	196,930	4%	4%	
Stipend	105,700	124,950	124,950	150,820	122,500	130,000	-	130,000	-14%	6%	
Victims' Rights	49,721	57,130	54,253	53,010	53,010	57,640	-	57,640	9%	9%	
Total Sheriff/Other Public Safety	2,991,808	3,109,609	3,024,440	3,145,200	3,067,458	3,149,550	(11,120)	3,138,430	0%	2%	
Total Public Safety	17,030,361	16,993,505	16,298,396	16,632,370	16,422,087	16,652,830	(11,120)	16,641,710	0%	1%	
Townwide (non-departmental):											
Personnel	12,662	25,203	14,158	130,290	153,879	150,720	15,000	165,720	27%	8%	
Operating	811,422	1,013,801	1,242,722	1,495,243	1,480,188	1,456,540	52,000	1,494,440	0%	1%	
Grants	1,194,106	1,358,177	1,405,252	2,346,923	2,358,739	1,703,170	-	1,703,170	-27%	-28%	
Capital Outlay	-	-	-	-	-	-	-	-	-	0%	
Debt Service	70,650	-	-	339,370	-	339,370	-	339,370	0%	0%	
Total Townwide (non-departmental)	2,088,840	2,397,181	2,662,132	4,311,826	3,992,806	3,649,800	67,000	3,702,700	-14%	-7%	
Total Expenditures	30,943,062	31,316,601	30,600,004	33,499,696	32,151,776	32,894,840	(149,020)	32,731,720	-2%	2%	
Net change in fund balances	(215,125)	(412,364)	(97,785)	(1,403,443)	(836,893)	(339,370)	(334,440)	(659,710)			
Fund balance - beginning	16,426,738	16,274,131	15,861,767	15,763,982	15,763,982	14,927,089		14,927,089			
Prior period adjustment	62,518	-	-	-	-	-		-			
Fund balance - ending	16,274,131	15,861,767	15,763,982	14,360,539	14,927,089	14,587,719		14,267,379			

General Fund Revenues

General Fund Revenues (excluding use of funds from prior years) in Fiscal Year 2012 are projected to be \$32,072,010, which is slightly less than the FY 2011 budget.



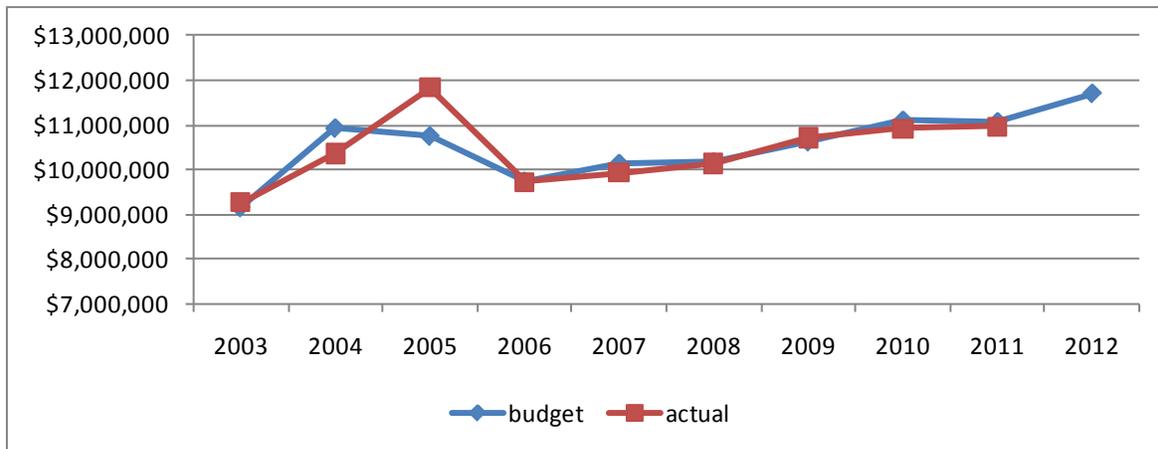
Property Taxes

Property taxes will be \$634,470 more than the FY 2011 Budget. The budget assumes collection of the majority of property tax revenues billed in FY 2012. The increase in revenue is due to the following:

- The value of a mill is expected to increase from \$916,846 (estimated actual) to \$923,053 an increase of less than 1%.
- The millage rate for the General Fund will increase from 11.78 to 12.57 an increase of 6.7%. This includes a 1.64% consumer price index and a 5.03% population adjustment. The allowable increase this fiscal year in accordance with state law is 9.96%.

General Fund Revenues (continued)

Property Taxes (continued)

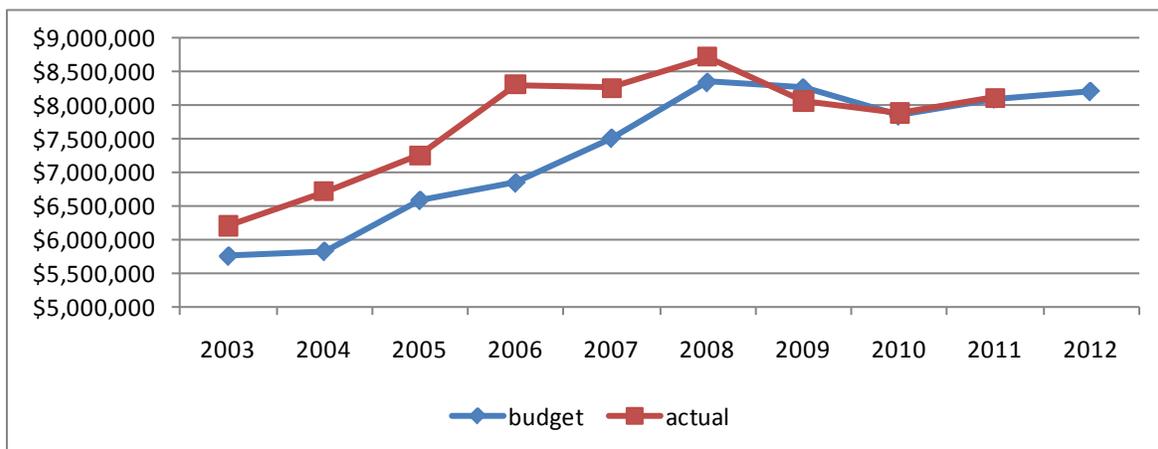


Business Licenses and Franchise Fees

Business licenses and franchise fees represent the second largest single revenue source for the General Fund.

The most significant source is the business license fee levied upon each \$1,000 of gross receipts, sales, or premiums of business conducted within the corporate limits of the Town. The Fiscal Year 2012 budget of \$7.4 million in business license receipts is 1.0% less than the Fiscal Year 2011 budget of \$7.5 million.

Franchise fee revenue is anticipated to be \$811,500 in Fiscal Year 2012, a 29.3% increase over the Fiscal Year 2011 budget of \$627,500. In FY 2012 a new recycling franchise fee has been added and is budgeted at \$100,000 for the upcoming fiscal year.



General Fund Revenues (continued)

Permit Fees

Permit Fees (new construction) – \$190,000

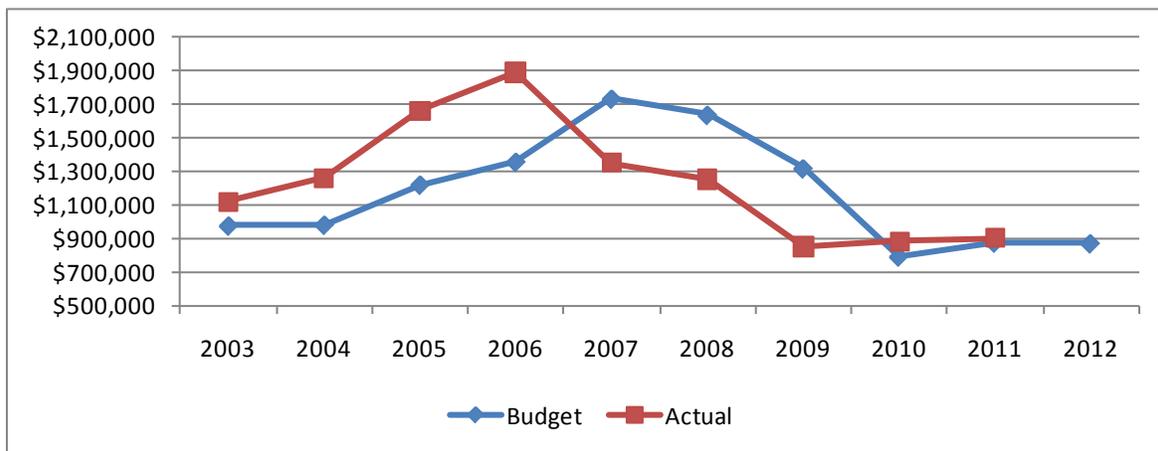
Permit fee revenue from new construction will be the same as the FY 2011 Budget of \$190,000.

Permit Fees (development) - \$4,000

Revenue from permit fees associated with development will be \$400 more than the FY 2011 Budget of \$3,600.

Permit Fees (other) - \$680,000

Revenue from other permit fees will be \$5,210 less than the FY 2011 Budget of \$685,210.



Transfer In – Accommodation Tax Local 1%

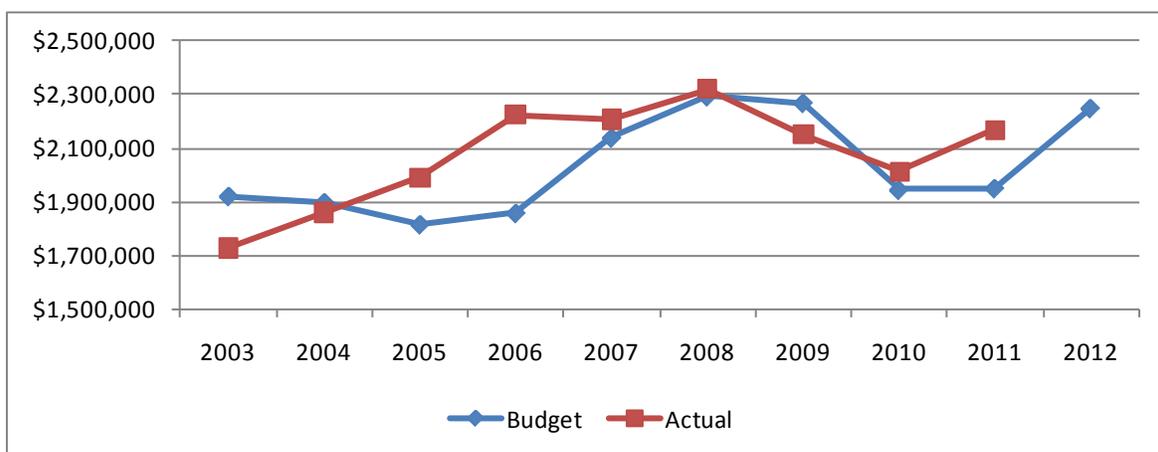
The 1% local accommodations tax will generate \$2.2 million in revenue. This figure is 15.0% higher than the prior fiscal year budget and 4.0% higher than this year's projected actual revenue. These funds may be used for tourism-related buildings, including, but not limited to, civic centers, coliseums, and aquariums; cultural, recreational, or historic facilities; beach access and renourishment; highways, roads, streets, and bridges providing access to tourist destinations; advertisements and promotions related to tourism development; water and sewer infrastructure to serve tourism-related demand; and, the operation and maintenance of those items previously enumerated, and police, fire protection, emergency medical services, and emergency-preparedness operations directly attendant to those facilities.

General Fund Revenues (continued)

Transfer In - Accommodation Tax Local 1% (continued)

The local accommodations tax is the third largest single revenue source for the General Fund. This tax is imposed on the gross proceeds derived from the rental of any rooms (excluding meeting rooms), campground spaces, recreational vehicle spaces, lodging or sleeping accommodations furnished to transients by any hotel, inn, condominium, motel, "bed and breakfast," residence or any other place in which rooms, lodging or sleeping accommodations are furnished to transients for consideration within the town. The gross proceeds derived from the lease or rental of sleeping accommodations supplied to the same person or persons for a period of ninety (90) days or more are not considered "proceeds from transients."

- **Festival fund** – The Town sets aside five (5) percent of this local accommodations tax for the promotion of festivals created after January 21, 1998, and shall select one (1) organization to manage and direct such fund expenditures. To be eligible for selection the organization must be local, organized as a nonprofit (501c), and whose membership consists of representatives from the lodging, restaurant, golf, tennis and related hospitality industry. The organization must employ a full-time executive director and provide an annual audited financial report in accordance with Generally Accepted Accounting Principles. The organization must not otherwise be designated as the official tourism agency by the town or any other governmental agency. The agency is required to submit an annual budget to the Town of Hilton Head Island's Accommodations Tax Advisory Committee prior to April 1 of each calendar year. The accommodations tax advisory committee will review and make recommendations to the Town Council by May 15 of each calendar year. Funds are distributed to the designated organization on a quarterly basis no later than thirty (30) days after the end of the quarter.
- **Reserve fund** – The Town sets aside, in a separate account, five (5) percent of the one (1) percent local accommodations tax, as a reserve fund for disaster management communications-oriented programs. These funds are used to provide for post disaster advertising, a communications link to emergency agencies, and media programs to provide public notice. Funds are distributed upon authorization by the Town Manager.



General Fund Revenues (continued)

Transfer In – Accommodation Tax (State)

The 2% State accommodations tax is imposed on the gross proceeds derived from the rental of any rooms (excluding meeting rooms), campground spaces, recreational vehicle spaces, lodging or sleeping accommodations furnished to transients by any hotel, inn, condominium, motel, "bed and breakfast," residence or any other place in which rooms, lodging or sleeping accommodations are furnished to transients for consideration within the town. The gross proceeds derived from the lease or rental of sleeping accommodations supplied to the same person or persons for a period of ninety (90) days or more are not considered "proceeds from transients."

It is anticipated that this line item will provide \$1.3 million in funds to the General Fund. This represents an increase of \$3,550 or less than 1.0% over the Fiscal Year 2011 budget.

Transfer In – Hospitality Tax

A uniform tax equal to 2% percent is imposed by the Town on the gross sales of prepared meals and beverages sold in establishments and also on the gross sales price of sales of prepared meals and beverages sold in establishments licensed for on-premises consumption of alcoholic beverages, beer or wine.

These funds are used to support the Public Safety function of Town Government. It is anticipated that this line item will provide approximately \$3.3 million in funds to the General Fund. This is the same as the amount budgeted in FY 2011.

Transfer In – Beach Preservation Fee

A uniform fee of 2% is imposed on the gross proceeds derived from the rental of any rooms (excluding meeting rooms), campground spaces, recreational vehicle spaces, lodging or sleeping accommodations furnished to transients by any hotel, inn, condominium, motel, "bed and breakfast," residence or any other place in which rooms, lodging or sleeping accommodations are furnished to transients for consideration within the town. The gross proceeds derived from the lease or rental of sleeping accommodations supplied to the same person or persons for a period of ninety (90) days are not considered "proceeds from transients."

It is anticipated that this line item will provide \$969,390 in funds to the General Fund. This represents a 34% decrease over the Fiscal Year 2011 budget. The significant decrease is due to a reduction in capital project support services funded through this revenue source.

Transfer In – Electricity Fees

A 3% fee is imposed on the total gross revenue received by Palmetto Electric Cooperative from its members for the provision of electric power and energy each franchise year. These funds are used for the undergrounding (placement underground) of all existing and future non-transmission lines owned by Palmetto Electric Cooperative.

It is anticipated that this line item will provide \$80,220 in funds to the General Fund. These funds are used to reimburse the General Fund for project management costs associated with the burial of power lines.

General Fund Revenues (continued)

Transfer In – Stormwater Fees

A fee is charged annually to property owners within Town limits to pay for the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits in concert with Beaufort County and other water resource management programs.

It is anticipated that this line item will provide \$235,330 in funds to the General Fund. These funds are used to reimburse the General Fund for project management costs.

Transfer In – Sunday Liquor Permit Fees

These fees are derived from the sale of permits to sell alcohol on Sunday. Funds from this source are rebates from the State.

It is anticipated that this line item will provide \$37,500 to the General Fund to fund the Public Art – Community Foundation Grant. Funding is the same as last fiscal year.

EMS

Funds received through Fire and Rescue for medical services rendered will be approximately \$1.3 million. This represents a 9.0% decrease over the Fiscal Year 2011 budget.

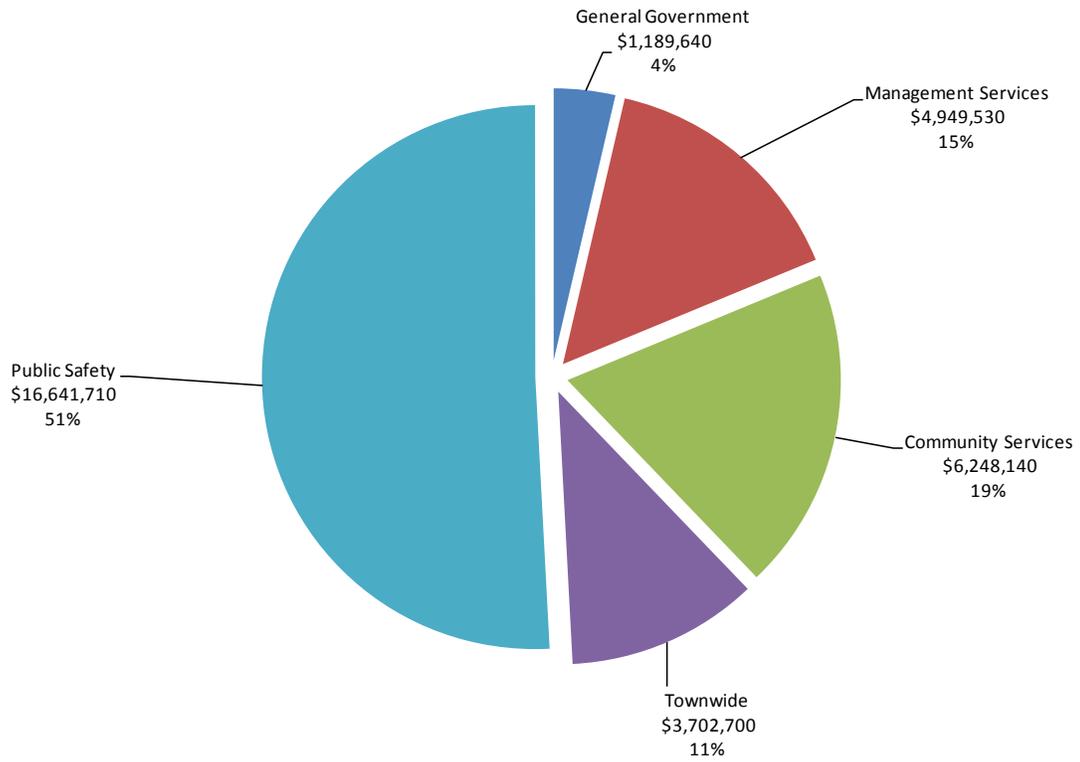
Funds from Prior Years (Fund Balance)

At the end of FY 2010 the Town had approximately \$14.0 million in undesignated funds held in reserve. In FY 2012 the Town will use approximately \$659,710 of these funds to balance the budget.

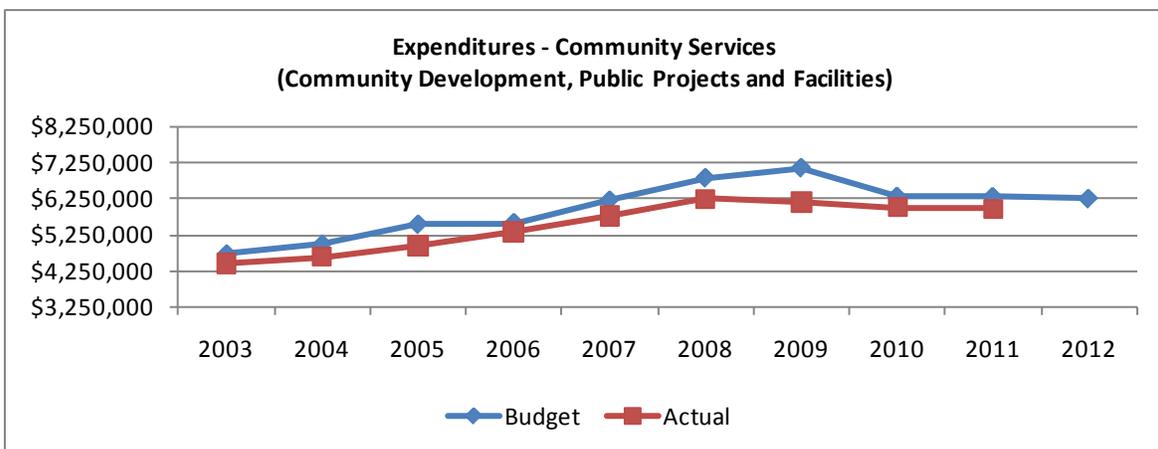
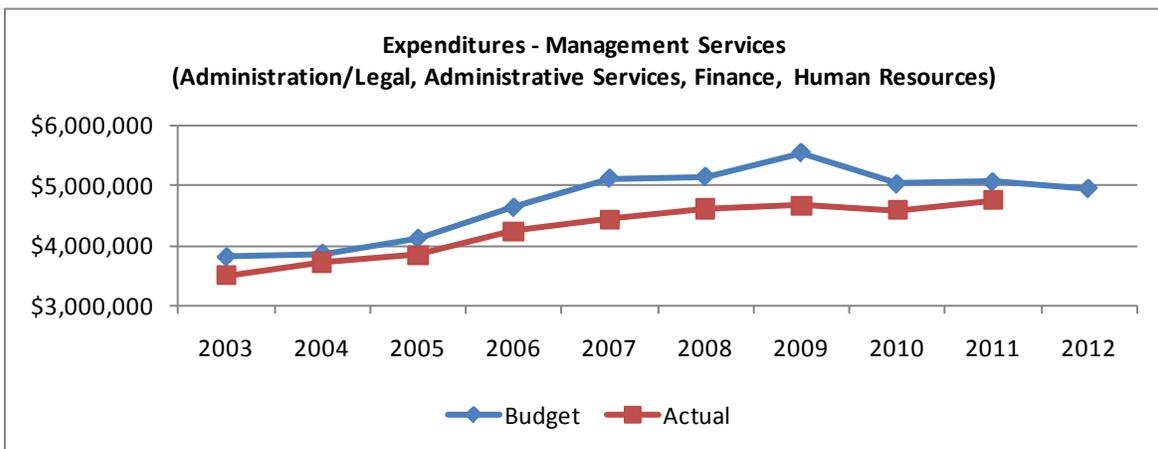
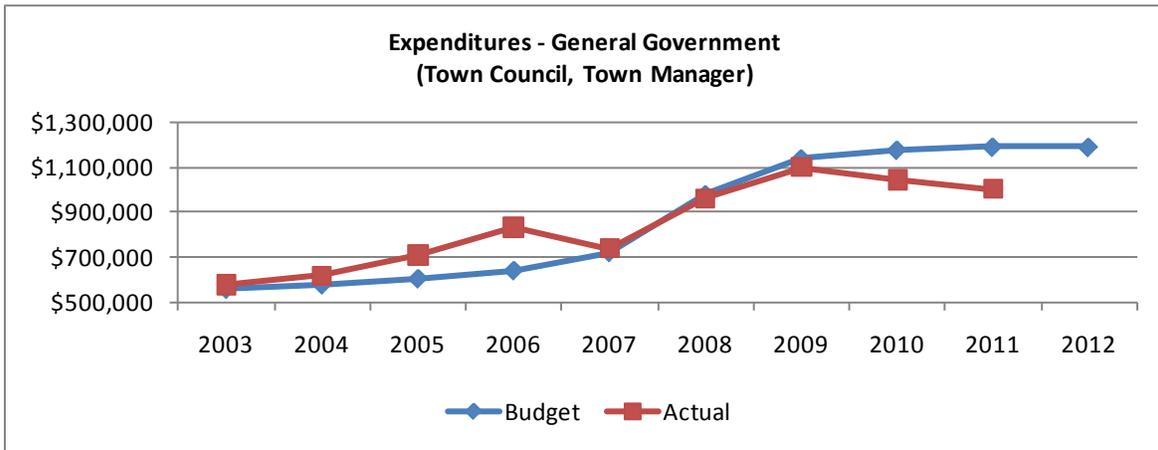
General Fund Expenditures

The Fiscal Year 2012 budgeted expenditures are programmed at \$32,731,720.

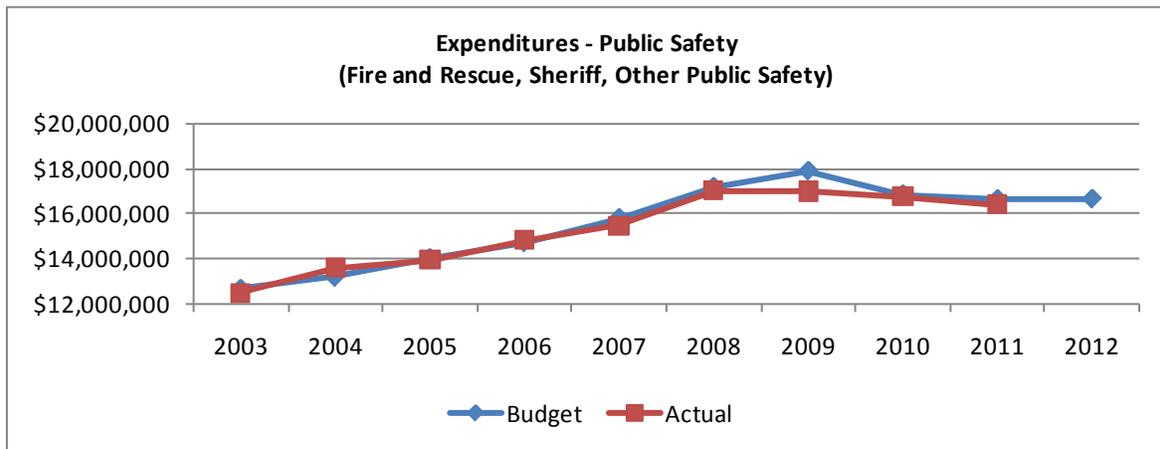
General Fund Expenditures by Program



Trend Analysis - Expenditures by Program



Trend Analysis - Expenditures by Program (continued)



Debt Service Fund

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest payments.

Revenues and Expenditures Analysis - Historical, Estimated Actual, and Budget

	2008	2009	2010	2011		2012 Budget	% change	
				Revised Budget	Est. Actual		FY 2011 Budget	FY 2011 Est. Actual
Revenues								
Property Taxes	4,602,493	4,734,076	5,529,403	5,540,040	5,507,370	5,544,650	0%	1%
Investments	399,235	206,739	55,566	130,000	6,000	6,000	-95%	0%
Bond Premium	414,398	-	34,061	-	-	-	0%	0%
Issuance of Bonds	-	-	5,005,000	-	-	-	0%	0%
Federal Reimbursement - BABS	-	-	-	207,870	207,870	207,870	0%	0%
Transfers In:								
Hospitality Taxes	720,803	758,236	756,508	760,120	760,120	758,230	0%	0%
Real Estate Transfer Fees	3,560,130	2,331,090	2,721,768	2,722,170	2,722,170	2,408,753	-12%	-12%
Stormwater Fees	1,247,392	1,250,275	-	-	-	-	0%	0%
Beach Preservation Fees	2,851,107	2,676,584	2,812,310	2,793,070	2,793,070	2,788,550	0%	0%
Tax Increment Financing	-	3,964,162	3,987,538	4,011,460	4,011,460	4,040,670	1%	1%
Total Revenues	13,795,558	15,921,162	20,902,154	16,164,730	16,008,060	15,754,723	-3%	-2%
Expenditures								
Administrative	248,738	23,535	17,131	17,490	17,490	20,490	17%	17%
Payment to Escrow Agent	-	-	5,248,484	-	-	-	0%	0%
Debt Issue Costs	-	-	127,144	-	-	-	0%	0%
Principal	8,010,000	11,220,000	11,415,000	12,305,000	12,305,000	11,385,000	-7%	-7%
Interest	5,267,567	5,679,190	4,335,765	4,524,460	4,524,460	4,070,360	-10%	-10%
Total Expenditures	13,526,305	16,922,725	21,143,524	16,846,950	16,846,950	15,475,850	-8%	-8%
Net change in fund balances	269,253	(1,001,563)	(241,370)	(682,220)	(838,890)	278,873		
Fund balance - beginning	10,586,391	10,884,048	9,882,485	6,974,490	6,974,490	6,135,600		
Prior period adjustment	28,404	-	(2,666,625)	-	-	-		
Fund balance - ending	10,884,048	9,882,485	6,974,490	6,292,270	6,135,600	6,414,473		

Note: for FY 2010, FY 2011, and 2012 Stormwater bonds are no longer budgeted in this fund; see the stormwater fund.

Debt Service Fund Expenditures

The Fiscal Year 2012 budgeted debt service expenditures are as follows:

Debt Service Payments

	Interest	Principal	Total
<u>Certificates of Participation</u>			
2004A - Certificates of Participation (\$9,060,000)	\$ 122,155	\$ 1,035,000	\$ 1,157,155
2005 - Certificates of Participation (\$1,055,000)	14,689	120,000	134,689
Total Certificates of Participation	\$ 136,844	\$ 1,155,000	\$ 1,291,844
<u>General Obligation Bonds</u>			
Series 2004A - General Obligation Bonds (\$15,000,000)	586,500	465,000	1,051,500
Series 2004B - General Obligation Refunding Bonds (\$5,365,000)	14,337	925,000	939,337
Series 2005A - General Obligation Refunding Bonds (\$24,265,000)	907,415	1,525,000	2,432,415
Series 2008A - General Obligation Refunding Bonds (\$12,215,000)	454,413	650,000	1,104,413
Series 2009 - General Obligation Refunding Bonds (\$5,005,000)	147,151	-	147,151
Series 2010 - General Obligation Bonds (BABS) (\$12,000,000)	547,750	360,000	907,750
Total General Obligation Bonds	\$ 2,657,566	\$ 3,925,000	\$ 6,582,566
<u>Revenue Bonds</u>			
2004 Hospitality Tax Bonds (\$10,775,000)	404,732	350,000	754,732
2006 Beach Preservation Fee Bonds (\$19,000,000)	380,554	2,405,000	2,785,554
2004 TIF Bonds (\$8,000,000)	149,730	850,000	999,730
2008 TIF Bonds (\$22,000,000)	340,935	2,700,000	3,040,935
Total Revenue Bonds	\$ 1,275,951	\$ 6,305,000	\$ 7,580,951
Grand Total	\$ 4,070,361	\$ 11,385,000	\$ 15,455,361

Calculation of the Legal Debt Limit

Assessed Value as of December 2010 (estimated 2011 assessed value)		\$ 923,053,000
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval		73,844,240
Council Imposed 80% Cap		59,075,392
Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds 2004B (Refunding of Series 1998B)	925,000	
General Obligation Bonds 2010 (BABS)	5,005,000	
Total Amount Applicable to Debt Limit		5,930,000
Legal Debt Margin without a Referendum		\$ 53,145,392

Article Ten (X), Section Fourteen (14) of the South Carolina Constitution of 1895 as amended provides that a City or Town shall incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote of qualified electors of the political subdivision voting in a referendum authorized by law. There shall be no conditions or restrictions limiting the incurring of such indebtedness except:

- a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;
- b. The provisions of Article Ten (X) Section 14; and
- c. Such general obligation debt shall be issued within five years of the date of such referendum and shall mature within forty (40) years from the time such indebtedness shall be incurred.

Outstanding Debt Issues

	Issue Amt.	Outstanding
<u>Certificates of Participation</u>		
2004A - Certificates of Participation	\$ 9,060,000	\$ 3,230,000
2005 - Certificates of Participation	1,055,000	370,000
Total Certificates of Participation	\$ 10,115,000	\$ 3,600,000
<u>General Obligation Bonds</u>		
Series 2004A - General Obligation Bonds	15,000,000	12,155,000
Series 2004B - General Obligation Bonds (Refunded portion of Series 1998B)	5,365,000	925,000
Series 2005A - General Obligation Bonds (Refunded portion of Series 1999A & 2001A)	24,265,000	21,460,000
Series 2008A - General Obligation Bonds (Refunded portion of Series 1998A)	12,215,000	10,795,000
Series 2009 - General Obligation Refunding Bonds	5,005,000	5,005,000
Series 2010 - General Obligation Bonds (BABS)	12,000,000	11,670,000
Total General Obligation Bonds	\$ 73,850,000	\$ 62,010,000
<u>Revenue Bonds</u>		
2004 Hospitality Tax Bonds	10,775,000	8,625,000
2006 Beach Preservation Fees Bonds	19,000,000	10,200,000
2004 TIF Bonds	8,000,000	3,645,000
2008 TIF Bonds	22,000,000	11,460,000
Total Revenue Bonds	\$ 59,775,000	\$ 33,930,000
Grand Total	\$ 143,740,000	\$ 99,540,000

1. **2004A Certificates of Participation; \$9,060,000 (Tax-Exempt), Dated March 1, 2004**

On March 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into Certificates of Participation with Wells Fargo Bank, N.A. for \$9,060,000 secured by Town properties.

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated tax exempt amount of certificates; (b) maximum annual debt service on certificate for any fiscal year; or (c) 125% of average annual debt on the certificates. At June 30, 2010 \$925,347 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. Ad Valorem tax revenues of the Debt Service Fund are used to repay these certificates of participation.

Outstanding Debt Issues (continued)

2. **2005 Certificates of Participation; \$1,055,000 (Tax-Exempt), Dated March 3, 2005**

On March 3, 2005, the Hilton Head Island Public Facilities Corporation refunded taxable Certificates of Participation issued with Wells Fargo Bank, N.A. in 2004 with tax-exempt certificates.

During that time, the Town issued \$1,055,000 in tax-exempt Certificates of Participation bearing an interest rate of 3.97% to refund \$1,450,000 of taxable Certificates of Participation with a variable interest rate. The Town contributed approximately \$450,000 from the Town's Debt Service thereby reducing the principal by \$400,000 on this issue and the balance being used to fund the cost of issuance. The net proceeds of \$1,002,362 (after payment of \$52,638 in issuance costs) were used to purchase United States government securities. The certificates were refunded to reduce total debt service payments over the next nine (9) years by \$519,451 and resulted in an economic loss (difference between the present values of the old and new debt service payments) of approximately \$17,760.

3. **Series 2004A General Obligation Referendum Bonds; \$15,000,000, Dated May 1, 2004**

On May 12, 2004, the Town issued \$15,000,000 general obligation bonds for general land acquisition.

4. **Series 2004B General Obligation Bonds; \$5,365,000, Dated October 1, 2004**

On October 26, 2004, the Town issued \$5,365,000 in general obligation bonds. The bonds were issued for the purpose of refunding the 2007 through 2011, inclusive, maturities of the \$6,000,000 General Obligation Bonds, Series 1998B, and to call the 1998B Bonds for redemption on December 1, 2006; and to pay for the cost of issuance.

5. **Series 2005A General Obligation Bonds; \$24,265,000, Dated March 1, 2005**

On March 15, 2005, the Town issued \$24,265,000 in general obligation bonds. The bonds are being used for the purpose of refunding the 2010 through 2024, inclusive, maturities of the \$12,000,000 General Obligation Bonds, Series 1999A, and to call the 1999A Refunded Bonds for redemption on December 1, 2009; refunding the 2010 through 2021, inclusive, maturities of the \$20,000,000 General Obligation Bonds, Series 2001A, and to call the 2001A Refunded Bonds for redemption on March 1, 2009; and to pay for the cost of issuance.

6. **Series 2008A General Obligation Bonds; \$12,215,000, Dated March 20, 2008**

On March 20, 2008, the Town issues \$12,215,000 obligation bonds to refund the remaining Series 1998A General Obligation Bonds dated April 1, 1998 and to pay for the cost of issuance.

Outstanding Debt Issues (continued)

7. **Series 2009 General Obligation Bonds; \$5,005,000, Dated September 9, 2009**

On September 9, 2009, the Town issued \$5,005,000 in general obligation refunding bonds to refund the General Obligation Bonds dated November 1, 1999. The anticipated amount of economic savings by refunding the bonds is \$845,592.

8. **Hospitality Tax Revenue Bonds; \$10,775,000, Dated June 1, 2004**

On June 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$10,775,000 secured by revenues collected from Hospitality Tax. The monies will be used for public safety capital improvement projects.

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificate for any fiscal year or (c) 125% of average annual debt on the certificates. At June 30, 2010, \$812,183 was the fair value of the amount held in the reserve fund.

9. **Beach Preservation Fees Bonds; \$19,000,000, Dated August 1, 2006**

On August 1, 2006 the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$19,000,000 secured by revenues collected from Beach Preservation Fees Tax. The monies will be used to undertake the re-nourishment of the beaches adjacent to certain areas within the Town; and such capital improvement projects that may be authorized by Town Council.

The Town is required to maintain a reserve for the beach preservation bonds. The original required deposit was 10% of the stated amount of the certificates or \$1,900,000. The Town has allowed the investment income to remain in the reserve. At June 30, 2010, \$1,900,080 was the fair value amount held in the reserve fund.

10. **Tax Increment Financing Bonds; \$8,000,000, Dated June 25, 2004**

On June 25, 2004, the Town issued \$8,000,000 tax increment bonds for paying principal and interest on the tax increment bond anticipation note of \$4,530,000 which matured June 25, 2004, and for financing redevelopment projects.

Outstanding Debt Issues (continued)

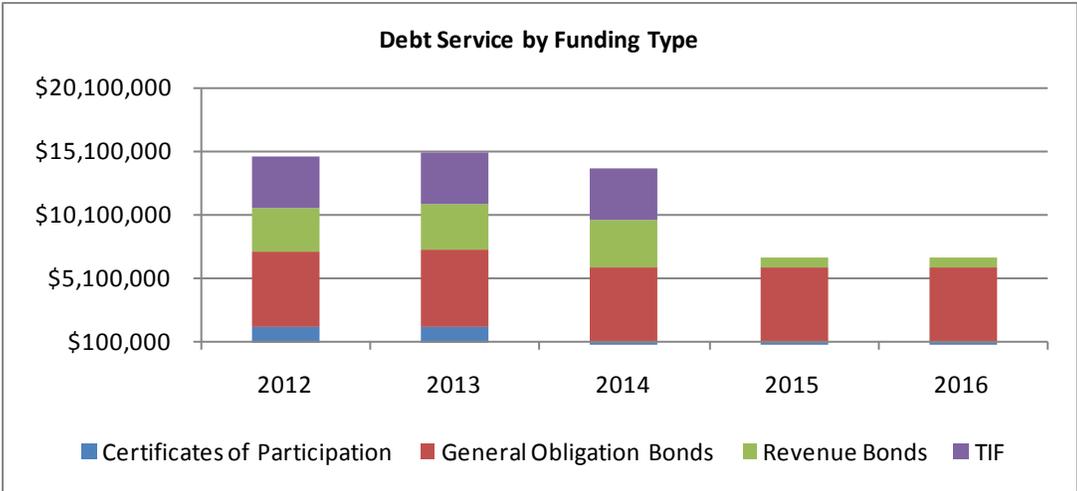
11. Tax Increment Financing Bonds; \$22,000,000, Dated April 17, 2008

On April 17, 2008 the Town issued \$22,000,000 tax increment bonds to fund capital redevelopment projects related to the Tax Increment Financing District.

The Town is required to maintain an additional security fund of \$1,000,000 to pay debt service in the event TIF Fund revenues are not sufficient. The Town is required to maintain the additional security fund until TIF tax revenues collected in each of two successive fiscal years are not less than 110% of the combined maximum annual debt service on the 2004 and 2008 TIF Bonds. At June 30, 2010 \$1,010,702 was the fair value of the amount held in the additional security fund.

Planned Debt Service for the Next Five Years

	2013	2014	2015	2016	2017
<u>Certificates of Participation</u>					
2004A - Certificates of Participation	\$ 1,156,105	\$ 1,167,855	\$ -	\$ -	\$ -
2005 - Certificates of Participation	129,925	135,161	-	-	-
Total Certificates of Participation	\$ 1,286,030	\$ 1,303,016	\$ -	\$ -	\$ -
<u>General Obligation Bonds</u>					
Series 2004A - General Obligation Bonds	\$ 1,040,925	\$ 1,035,725	\$ 1,029,475	\$ 1,022,175	\$ 1,015,175
Series 2005A - General Obligation Bonds	2,432,196	2,431,634	2,431,590	2,427,765	2,426,265
Series 2008A - General Obligation Bonds	1,104,600	1,104,662	1,097,137	1,092,837	1,088,562
Series 2009 - General Obligation Bonds	280,734	490,466	492,296	483,476	488,820
Series 2010 - General Obligation Bonds	981,810	976,250	967,677	963,053	955,343
Total General Obligation Bonds	\$ 5,840,265	\$ 6,038,737	\$ 6,018,175	\$ 5,989,306	\$ 5,974,165
<u>Revenue Bonds</u>					
2004 Hospitality Tax Bonds	755,733	756,133	755,553	753,765	755,930
2006 Beach Preservation Fee Bonds	2,786,216	2,781,330	2,767,500	-	-
2004 TIF Bonds	999,275	996,960	997,669	-	-
2008 TIF Bonds	3,065,610	3,097,161	3,125,291	-	-
Total Revenue Bonds	\$ 7,606,834	\$ 7,631,584	\$ 7,646,013	\$ 753,765	\$ 755,930
Grand Total	\$ 14,733,129	\$ 14,973,337	\$ 13,664,188	\$ 6,743,071	\$ 6,730,095

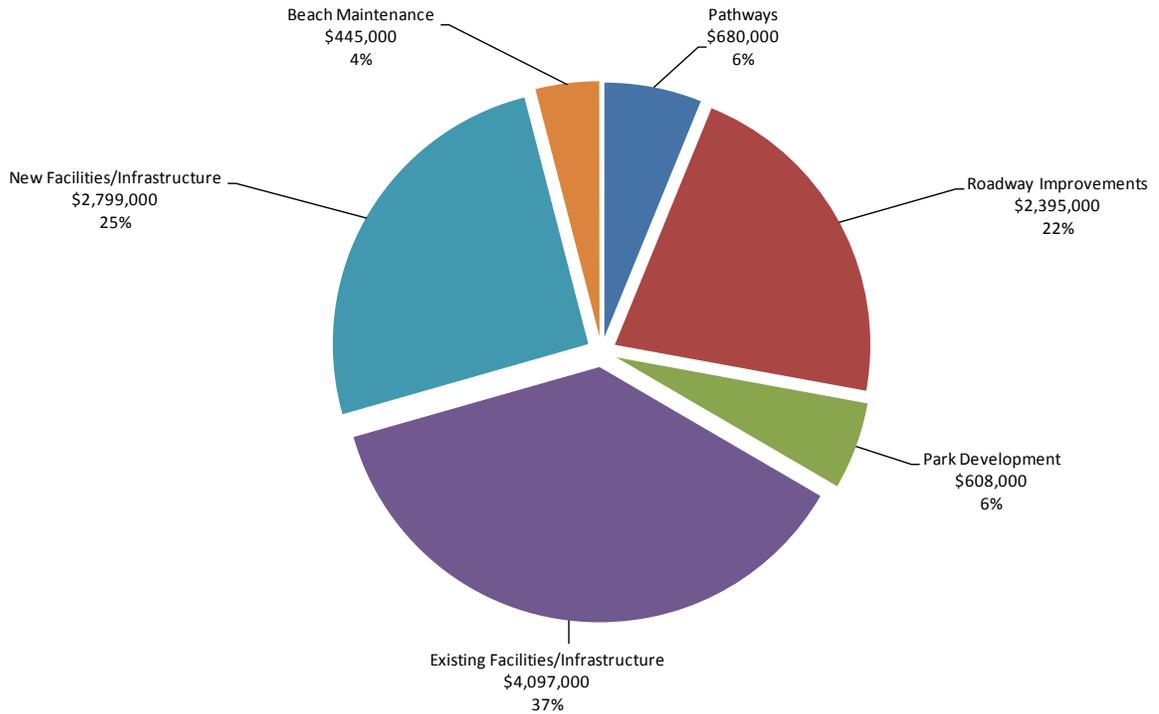


Capital Projects Fund

Fiscal Year 2012 Capital Improvements Program (CIP)

The Capital Projects Fund (CIP) budget for Fiscal Year 2012 totals \$11.0 million and consists of the following category funding levels:

Capital Projects Fund (CIP) Expenditures by Category



Revenues and Expenditures by Category Analysis - Historical, Estimated Actual, and Budget

	2008	2009	2010	2011		2012 Budget	% change	
				Revised Budget	Est. Actual		FY 2011 Budget	FY 2011 Est. Actual
Revenues								
Property Taxes	691,104	709,774	695,844	692,270	688,190	692,850	0%	1%
Investments	830,769	213,183	34,027	-	-	-	0%	0%
Grants	61,843	52,525	75,956	-	-	-	0%	0%
Contributions	8,000	8,500	7,500	100,000	-	-	0%	0%
Sunday Permit Fees	206,900	254,500	314,950	609,343	226,026	387,500	-36%	71%
Capital Sales Tax	886,120	703,258	331,639	15,000	5,000	-	0%	0%
Hospitality Tax	5,232,837	4,826,318	4,708,807	-	-	-	0%	0%
Impact Fees - Roads	90,799	43,071	55,643	149,535	15,072	139,000	-7%	822%
Impact Fees - Parks	33,445	15,675	19,437	-	-	50,000	0%	0%
County	-	300,000	-	134,601	-	-	0%	0%
Stormwater Fees	1,501,389	1,572,183	-	-	-	-	0%	0%
Sale of Property/Equip.	1,060,469	8,582	1,888,488	-	-	-	0%	0%
Premium on Bond Issuance	-	-	121,571	-	-	-	0%	0%
Hospitality Tax Bonds (new issue)	-	-	-	-	-	3,200,000	0%	0%
Bond Proceeds	22,000,000	-	12,000,000	3,463,670	3,463,670	1,200,000	0%	0%
Transfers In:								
ATAX State	30,600	-	-	-	-	-	0%	0%
Real Estate Transfer Fees	65,896	3,098,194	7,757	32,493	32,493	-	0%	0%
Beach Preservation Fees	908,642	2,942,158	1,541,701	13,624,642	440,721	476,000	-97%	8%
Tax Increment Financing	95,548	119,314	-	6,888,922	2,988,360	3,498,000	-49%	17%
Hospitality Tax	-	-	-	6,214,946	1,378,387	1,411,000	-77%	0%
Stormwater Fees	-	-	-	-	-	-	0%	0%
Miscellaneous	26,567	83,881	2,973	-	-	-	0%	0%
Lease	78,473	85,839	45,645	12,000	12,000	12,000	0%	0%
Total Revenues	33,809,401	15,036,955	21,851,938	31,937,422	9,249,919	11,066,350	-65%	20%
Expenditures								
Pathway Improvements	2,611,428	985,889	934,823	1,188,954	679,570	680,000	-43%	0%
Drainage Improvements	857,617	822,502	(192,411)	-	-	-	0%	0%
Roadway Improvements	10,553,294	4,797,316	916,560	6,055,238	1,318,333	2,395,000	-60%	82%
Park Development	1,847,015	1,447,812	724,232	1,392,376	305,544	608,000	-56%	99%
Existing Facilities	1,647,571	5,376,667	4,959,040	5,271,975	2,941,438	4,097,000	-22%	39%
New Facilities	428,789	4,344,044	923,844	1,919,568	776,827	2,799,000	46%	260%
Land Acquisition	4,925,773	8,452,181	1,152,741	2,776,350	2,776,350	-	0%	0%
Beach Maintenance	888,643	934,747	1,331,073	13,578,642	403,030	445,000	-97%	10%
Transfers Out	3,972,401	4,527,205	3,537,280	37,500	37,500	37,500	0%	0%
Debt Service/Issue Costs/Misc.	222,500	115,084	264,273	-	-	-	0%	0%
Total Expenditures	27,955,031	31,803,447	14,551,455	32,220,603	9,238,592	11,061,500	-66%	20%
Net change in fund balances	5,854,370	(16,766,492)	7,300,483	(283,181)	11,327	4,850		
Fund balance - beginning	24,274,938	30,133,566	13,367,074	20,532,570	20,532,570	20,543,897		
Prior period adjustment	4,258	-	(134,987)	-	-	-		
Fund balance - ending	30,133,566	13,367,074	20,532,570	20,249,389	20,543,897	20,548,747		

Note: for FY 2010, FY 2011, and 2012 Stormwater projects are no longer budgeted in this fund; see the stormwater fund.

Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

Category	Roll Forward Balance	FY 2012 Budget	THOUSANDS OF DOLLARS								County Bond	Grants / Other
			Impact Fees	FY 2012 Taxes	Beach Fee	TIF	Hospitality Tax	Sunday Liquor Fees	SCDOT			
Summary												
RE-OCCURRING PROJECTS												
Pathways		180		55				125				
Roadway Improvements	839	705		65				640				
Park Development	273	388		38					350			
Existing Facilities	491	897		530				355				12
New Facilities	524	1,679			31	333		115				1,200
Beach Maintenance	594	445			445							
SUBTOTAL	2,721	4,294	-	688	476	333		1,235	350	-	-	1,212
CARRY-OVER PROJECTS												
Pathways	510	300				300						
Roadway Improvements	3,904	1,690	40				1,650					
Park Development	740	20				20						
Existing Facilities	1,849	3,200										3,200
New Facilities	622	1,120				1,045		75				
Beach Maintenance	12,584	-										
SUBTOTAL	20,209	6,330	40	-	-	3,015		75	-	-	-	3,200
NEW PROJECTS												
Pathways		200	99					101				
Roadway Improvements		-										
Park Development	77	200	50			150						
Existing Facilities		-										
New Facilities		-										
Beach Maintenance		-										
SUBTOTAL	77	400	149	-	-	150		101	-	-	-	-
TOTAL	23,007	11,024	189	688	476	3,498		1,411	350	-	-	4,412

Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

THOUSANDS OF DOLLARS												
Category	Roll Forward Balance	FY 2012 Budget	Impact Fees	FY 2012 Taxes	Beach Fee	SWU Fee	TIF	Hospitality Tax	Sunday Liquor Fees	SCDOT	County Bond	Grants / Other
Pathways												
RE-OCcurring PROJECTS												
pathway rehabilitation		180		55				125				
SUBTOTAL		180	-	55	-	-	-	125	-	-	-	-
CARRY-OVER PROJECTS												
Palmetto Bay Road	8	-										
Mathews Drive (US 278 to Beach City Road)	60	-										
Dunnagan's Alley	371	-										
US 278 (Gardner Drive to Mathews Drive)	71	300					300					
SUBTOTAL	510	300	-	-	-	-	300	-	-	-	-	-
NEW PROJECTS												
US 278 (Wexford Circle to Fresh Market Shoppes)		40	20					20				
Leg O' Mutton Road		55	27					28				
Pembroke Drive		55	27					28				
Gardner Drive		50	25					25				
SUBTOTAL		200	99	-	-	-	-	101	-	-	-	-
TOTAL	510	680	99	55	-	-	300	226	-	-	-	-

Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

THOUSANDS OF DOLLARS													
Category	Roll		Impact Fees	FY					Hospitality Tax	Sunday		County Bond	Grants / Other
	Forward Balance	FY 2012 Budget		2012 Taxes	Beach Fee	SWU Fee	TIF	Liquor Fees		SCDOT			
Roadway Improvements													
RE-OCCURRING PROJECTS													
pedestrian/crosswalk refuges	90	220		40					180				
traffic signal mast arms	92	250							250				
roadway safety improvements	100	-											
intersection improvements	245	-											
F & R emergency access points	189	110							110				
private dirt road acquisitions	46	25		25									
directional/neighborhood signage	77	100							100				
SUBTOTAL	839	705	-	65	-	-	-	-	640	-	-	-	-
CARRY-OVER PROJECTS													
Horseshoe Road connector	17	-											
mainland transportation impr.	1,898	-											
US 278/Squire Pope Rd. intersection improvements	10	-											
Summit Drive realignment	22	-											
Dunnagan's Alley roundabout	790	-											
Honey Horn entrance	190	-											
US 278/Gateway improvements	185	-											
Mathews Drive/Beach City Road roundabout	280	-											
Mathews Drive/Marshland Road roundabout	40	1,150						1,150					
Mathews Drive/Chaplin Area connectivity	105	500						500					
Leamington/Fresh Market Shoppes/US 278	230	-											
intersection/crosswalk lighting	42	TBD											
Stoney secondary road south	95	40	40										
SUBTOTAL	3,904	1,690	40	-	-	-	-	1,650	-	-	-	-	-
NEW PROJECTS													
		-											
SUBTOTAL		-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	4,743	2,395	40	65	-	-	-	1,650	640	-	-	-	-

Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

THOUSANDS OF DOLLARS													
Category	Roll	FY 2012 Budget	FY					TIF	Hospitality Tax	Sunday Liquor Fees	SCDOT	County Bond	Grants / Other
	Forward Balance		Impact Fees	2012 Taxes	Beach Fee	SWU Fee	-						
Park Development													
RE-OCCURRING													
park upgrades	273	348		38					310				
SUBTOTAL	273	348	-	38	-	-	-	-	310	-	-	-	
CARRY-OVER PROJECTS													
Rock's/Remy's Tract	10	20					20						
Island Recreation Center	341	-											
Bristol Skate Park	389	-											
SUBTOTAL	740	20	-	-	-	-	20	-	-	-	-	-	
NEW PROJECTS													
Rowing and Sailing Center	█	150					150						
Yacht Cove Community Park	█	50	50										
Chaplin Tennis Courts	77	40							40				
SUBTOTAL	77	240	50	-	-	-	150	-	40	-	-	-	
TOTAL	1,090	608	50	38	-	-	170	-	350	-	-	-	

Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

Category	Roll Forward Balance	FY 2012 Budget	<u>THOUSANDS OF DOLLARS</u>										
			Impact Fees	FY 2012 Taxes	Beach Fee	SWU Fee	TIF	Hospitality Tax	Sunday Liquor Fees	SCDOT	County Bond	Grants / Other	
Existing Facilities & Infrastructure													
RE-OCCURRING PROJECTS													
rehabilitation and renovation of fixed capital assets	157	251		251									
clean up, maintenance of properties & demolition of structures	9	291		279								12	
apparatus and vehicle replacement	325	355							355				
SUBTOTAL	491	897	-	530	-	-	-	-	355	-	-	-	12
CARRY-OVER PROJECTS													
Fire Station 6 replacement	5	3,200										3,200	
Fire Station 6 demolition	271	-											
Fire Station 1	1,312	-											
Facilities surveillance cameras	46	-											
Coastal Discovery stabilization	1	-											
Town Hall renovation	214	-											
SUBTOTAL	1,849	3,200	-	-	-	-	-	-	-	-	-	-	3,200
NEW PROJECTS													
		-											
SUBTOTAL		-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	2,340	4,097	-	530	-	-	-	-	355	-	-	-	3,212

Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

Category	Roll Forward Balance	FY 2012 Budget	THOUSANDS OF DOLLARS									
			Impact Fees	FY 2012 Taxes	Beach Fee	SWU Fee	TIF	Hospitality Tax	Sunday Liquor Fees	County Bond	Grants / Other	
New Facilities & Infrastructure												
RE-OCCURRING PROJECTS												
Sewer service projects	520	1,564			31		333					1,200
Dispatch Center equipment upgrade	1	5						5				
Fire/medical systems and equipment replacement		40						40				
Public safety systems equipment upgrade	3	50						50				
Mobile computing AVL upgrade		20						20				
SUBTOTAL	524	1,679	-	-	31	-	333	115	-	-	-	1,200
CARRY-OVER PROJECTS												
Fire and Rescue computer systems CAD upgrade	2	75						75				
Coligny/Pope Avenue area improvements	301	495					495					
Dunnagan's Alley/Arrow Road initiative	229	550					550					
Town Hall site infrastructure	90	-										
SUBTOTAL	622	1,120	-	-	-	-	1,045	75	-	-	-	-
NEW PROJECTS												
		-										
SUBTOTAL		-	-	-	-	-	-	-	-	-	-	-
TOTAL	1,146	2,799	-	-	31	-	1,378	190	-	-	-	1,200

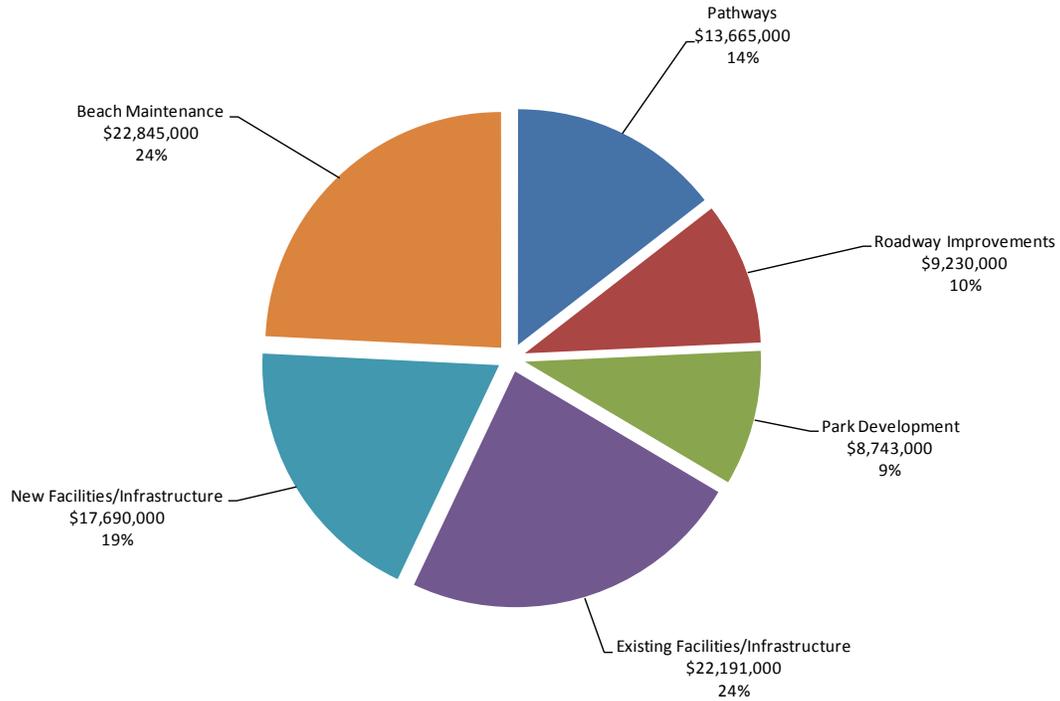
Capital Projects Fund (CIP) Expenditures by Funding Source - 2012

Category	Roll	FY 2012 Budget	<u>THOUSANDS OF DOLLARS</u>									
	Forward Balance		Impact Fees	FY 2012 Taxes	Beach Fee	SWU Fee	TIF	Hospitality Tax	Sunday Liquor Fees	SCDOT	County Bond	Grants / Other
Beach Maintenance												
RE-OCCURRING PROJECTS												
Beach management and monitoring	594	345			345							
Beach parks/access rehabilitation		75			75							
Dunes refurbishment and maintenance		25			25							
SUBTOTAL	594	445	-	-	445	-	-	-	-	-	-	-
CARRY-OVER PROJECTS												
Shoreline	137	-										
Port Royal fill project	12,447	-										
SUBTOTAL	12,584	-	-	-	-	-	-	-	-	-	-	-
NEW PROJECTS												
SUBTOTAL		-	-	-	-	-	-	-	-	-	-	-
TOTAL	13,178	445	-	-	445	-	-	-	-	-	-	-

Ten-Year Capital Improvements Program (CIP)

The anticipated capital expenditures over the next ten years are anticipated to be \$94.3 million. The estimated expenditures by program are as follows:

Ten-Year Capital Improvements Program Expenditures by Program



CIP Expenditures by Category 2012-2021

THOUSANDS OF DOLLARS

Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
<u>Total Capital Improvement Program</u>						
Pathways	680	1,405	1,045	880	3,435	6,220
Roadway Improvements	2,395	3,035	1,650	2,050	50	50
Park Development	608	1,225	1,700	4,010	200	1,000
Existing Facilities & Infrastructure	4,097	1,481	3,324	1,786	871	10,632
New Facilities & Infrastructure	2,799	1,016	5,750	730	223	7,172
Beach Maintenance	445	600	600	600	17,600	3,000
Total	94,364	11,024	8,762	14,069	10,056	22,379
						28,074

CIP Expenditures by Category 2012-2021

Category	<u>THOUSANDS OF DOLLARS</u>					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
Pathways						
pathway rehabilitation	180	185	195	200	210	1,050
US 278 (Gardner Drive to Mathews Drive)	300					
US 278 (Wexford Circle to Fresh Market Shoppes)	40	660				
Leg O'Mutton	55	560				
Pembroke Drive	55		480			
Gardner Drive	50		330			
US 278 (Stoney area)			40	300		
Jonesville Road				100	760	
US 278 (Fresh Market Shoppes to Shelter Cove)				160	1,320	
US 278 (Gardner Drive to Jarvis Park)				120	930	
US 278 (Gum Tree Road to Squire Pope Rd.)					65	550
Singleton Beach Road					40	300
US 278 (Squire Pope Rd. to Welcome Center)					110	600
US 278 (Jenkins Island to the bridge)						490
US 278 (Shelter Cove/Chaplin to Mathews north)						1,320
Leamington/Fresh Market Shoppes						1,910
Total	680	1,405	1,045	880	3,435	6,220

CIP Expenditures by Category 2012-2021

Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
Roadway Improvements						
Mathews Dr./Marshland Rd. roundabout	1,150					
Mathews Dr./Chaplin area connectivity	500					
US 278 gateway improvements at Windmill Harbor		300	400	2,000		
Leamington/Fresh Market Shoppes		1,125				
pedestrian crosswalks and refuges	220					
traffic signal mast arms	250	225	300			
F&R emergency access points	110	110	100			50
private(dirt) rd. acquisition	25	TBD	TBD	TBD	TBD	TBD
directional/neighborhood signage	100	100	50	50	50	TBD
intersection/crosswalk lighting	TBD	TBD	TBD	TBD	TBD	TBD
Stoney Secondary Road (south)	40	600				
roadway safety improvements		100				
Summit Drive realignment and refurbishment		400				
Lemoyne Avenue reconstruction		75	800			
Total	2,395	3,035	1,650	2,050	50	50

CIP Expenditures by Category 2012-2021

Category	<u>THOUSANDS OF DOLLARS</u>					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
<u>Park Development</u>						
Park Upgrades	388	200	200	200	200	1,000
Rock's/Remy's Tract	20					
Rowing and Sailing Center	150		1,500			
Yacht Cove Community Park	50			1,000		
Collier Beach Park		400				
Chaplin Linear Park Boardwalk		400		2,310		
Ford Shell Ring Park		25		500		
Total	608	1,025	1,700	4,010	200	1,000

Category	<u>THOUSANDS OF DOLLARS</u>					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
<u>Existing Facilities</u>						
rehabilitaion and renovation of fixed capital assets	251	251	251	251	251	1,255
clean up, maintenance of properties & demolition of structures	291	291	291	291	291	1,455
apparatus and vehicle replacement	355	414	282	1,244	329	7,922
Fire Station 6 replacement	3,200					
Fire Station 2 replacement		275	2,500			
Facilities surveillance cameras		100				
Town Hall renovations		150				
Total	4,097	1,481	3,324	1,786	871	10,632

CIP Expenditures by Category 2012-2021

Category	THOUSANDS OF DOLLARS					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
<u>New Facilities</u>						
sewer projects	1,564	66	35	100	100	
dispatch center equipment upgrade	5	5	20	5	5	77
Fire/medical systems and equipment replacement	40	70	405	360		1,030
Public safety systems equipment upgrade	50	135	135	50	90	380
Mobile computing AVL upgrade	20	90				120
Fire and Rescue computer systems CAD upgrade	75		25		28	65
Coligny/Pope Avenue area initiative	495	650	5,130			
Dunnagan's Alley/Arrow Rd. area initiative	550					
Public Safety WAN/PN				215		
law enforcement center						5,500
Total	2,799	1,016	5,750	730	223	7,172

Category	THOUSANDS OF DOLLARS					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017-2021
<u>Beach Maintenance</u>						
beach management and monitoring	345	500	500	500	500	2,500
beach parks/access rehabilitation	75	75	75	75	75	375
dunes refurbishment and maintenance	25	25	25	25	25	125
beach renourishment					17,000	
Total	445	600	600	600	17,600	3,000

Stormwater Fund

Stormwater Fund (Enterprise Fund)

This fund is to account for the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits of Hilton Head Island in concert with Beaufort County and other water resource management programs. The annual base fee per SFU will remain at \$108.70 for FY 2012.

Revenues and Expenditures Analysis - Historical, Estimated Actual, and Budget

	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011		FY 2012 Proposed Budget
				Revised Budget	Estimated Actual	
Revenues						
Stormwater Fees	-	-	2,553,971	3,325,450	3,575,795	3,575,795
Grants	-	-	-	300,000	7,000	-
Investments	-	-	83,128	-	-	-
New Bond Issue	-	-	-	-	-	7,000,000
Total Revenue	-	-	2,637,099	3,625,450	3,582,795	10,575,795
Expenses						
Personnel:						
Salaries	-	-	-	-	-	114,660
FICA	-	-	-	-	-	8,860
Retirement	-	-	-	-	-	10,890
Med Flex	-	-	-	-	-	1,000
Preventative Health Care	-	-	-	-	-	400
Preventative Dental Care	-	-	-	-	-	450
Medical & Life Insurance	-	-	-	-	-	10,000
Workers' Compensation	-	-	-	-	-	930
Personnel Adjustment	-	-	-	-	-	-
Subtotal Personnel	-	-	-	-	-	147,190
Operating:						
Water Quality Monitoring	-	-	-	-	-	45,000
NPDES Permitting	-	-	-	-	-	35,000
Beaufort County SWU Administration Fee	-	-	-	-	-	92,109
Subtotal Operating	-	-	-	-	-	172,109
Capital Improvements:						
Capital Projects and Upgrades	-	-	-	1,670,000	1,670,000	1,390,000
Drainage Maintenance and Repairs	-	-	581,839	-	-	1,183,000
Pump Stations	-	-	-	-	-	285,000
Inventory and Modeling	-	-	-	-	-	565,000
Subtotal Capital Improvement	-	-	581,839	1,670,000	1,670,000	3,423,000
Debt Service:						
Administrative	-	-	14,390	3,000	3,000	253,000
Interest	-	-	721,122	660,670	660,670	639,610
Principal	-	-	565,000	585,000	585,000	605,000
Subtotal Debt Service	-	-	1,300,512	1,248,670	1,248,670	1,497,610
Total Expenses	-	-	1,882,351	2,918,670	2,918,670	5,239,909
Transfer Out	-	-	302,763	389,730	389,730	237,820
Revenues Over/(Under) Expenses	-	-	451,985	317,050	274,395	5,098,066

THOUSANDS OF DOLLARS				
Roll Forward Balance	Category	Stormwater Utility Fee	Bond	Other
Infrastructure Upgrades and Improvements				
44	Port Royal Grasslawn CIPP			
985	Miller's Pond			
	Arrow Road		200	
293	US 278 Flooding (SCDOT funding?)			
	Port Royal Plantation culvert upgrades		100	
	Fish Haul culverts		150	
	Hilton Head Plantation pond control structures, dredging, and culvert upgrades		244	
	Port Royal Plantation canal dredging		100	
17	Shipyards canal/pond dredging and culvert upgrades		50	
	Palmetto Hall Plantation weir and inlet upgrades		85	
	Jarvis bypass channel (construction)		98	
	Gum Tree Road south outfall		20	
	Bay Pines Point Comfort outfall		150	
	Broad Creek Shelter Cove bmp retrofits		50	
	Wexford generator permanent mount		33	
	contingency services		110	
1,339	TOTAL	-	1,390	-

Stormwater Fund Expenditures by Funding Source - 2012

THOUSANDS OF DOLLARS				
Roll Forward Balance	Category	Stormwater Utility Fee	Bond	Other
Drainage Maintenance and Repairs				
Non-PUD Areas				
	Oakmarsh Road outfall - remove sediments, extend pipe	10		
	Mathews / Matilda - bank erosion	12		
	Shelter Cove Park sinkhole	2		
	Palmetto Headlands - ditch cleanouts	50		
	Mathews culvert outfall - remove pinch valves and replace with gates	80		
	Folley Field - channel cleanout	75		
	Woodlake Villas outflow backflow prevention weir installation	13		
	Old Woodlands - pond weir / channels up to Pineland Station	20		
	Shamrock Circle - roadside ditches / driveway pipes	80		
	Crossings Park vac haul and pipe jetting	25		
	FY 2012 miscellaneous, vac haul	50		
	channel cleaning	50		
	miscellaneous ditch mowing	25		
	video of miscellaneous suspect failing pipes	25		
350	contingency projects	100		
350	TOTAL	617	-	-
Shipyard - PUD				
	Cottages sinkhole and Shipmaster sinkholes	25		
	Galleon fairway flooding - adjust pipe and repair control structure	20		
	Tennismaster - add box, stub pipe and clean channel	25		
	jet pipe between old Island Packet building and golf lagoon	3		
	extend culvert, lower PSD line on Gloucester Road	5		
	ditch cleaning, vac-haul, stabilization	50		
	TOTAL	128	-	-

Stormwater Fund Expenditures by Funding Source - 2012

THOUSANDS OF DOLLARS				
Roll Forward Balance	Category	Stormwater Utility Fee	Bond	Other
Drainage Maintenance and Repairs (continued)				
Hilton Head Plantation - PUD				
	ditch cleaning, vac-haul stabilization	75		
	Dolphin Head Drive ditch cleaning	16		
	TOTAL	91	-	-
Port Royal Plantation - PUD				
	Scarborough channel widening / stabilization	50		
	ditch cleaning, vac-haul stabilization	20		
	Century Drive area ditch / channel cleaning	30		
	clearing siltation in hole 14 lagoon at end of Coggins Point	5		
	clearing d/s of 90 degree turn at the Links to Bridge	10		
	clearing u/s and d/s of pipes at the Links to Bridge	10		
	clearing siltation upstream of outfall lagoon to US 278 curve	10		
	Coggins Point at US 278 flooding - survey and add infiltration area	15		
	TOTAL	150	-	-
Indigo Run Plantation - PUD				
	vegetation trimming, vac-haul, ditch work	50		
	Owner's Club bank erosion survey only	12		
	TOTAL	62	-	-
Wexford Plantation				
	ditch cleaning, vac-haul, stabilization	10		
	ditch work along powerline easement	50		
	TOTAL	60	-	-
Drainage Maintenance and Repairs Contingency				
100	Drainage Maintenance and Repairs	75	-	-
450	GRAND TOTAL DRAINAGE MAINTENANCE AND REPAIRS	1,183	-	-

Stormwater Fund Expenditures by Funding Source -2012

THOUSANDS OF DOLLARS				
Roll Forward Balance	Category	Stormwater Utility Fee	Bond	Other
Pump Station Costs				
	pump maintenance	120		
	pump buildings, grounds, electrical, and utilities	40		
	Sea Pines pump work (reimbursal per contract)	50		
	emergency contingency	75		
	TOTAL	285	-	-
Inventory and Modeling				
	Broad Creek Shelter Cove - bmp retrofits		60	
30	Port Royal Plantation (1352 AC.)		160	
5	Hilton Head Plantation (3519 AC.) (purchase plans)		200	
150	Jarvis Creek (Gumtree - 100 AC.)		30	
	unaffiliated weatersheds		100	
	Indigo Run Plantation (1651 AC.) (purchase t&h plans)		15	
185	TOTAL	-	565	-

Stormwater Revenue Bonds; \$17,000,000, Dated December 1, 2002

On December 1, 2002, the Town issued \$17,000,000 revenue bonds to fund stormwater management projects.

For the Year Ended June 30	Interest Rate by Year (%)	Business-Type Activities		
		Interest	Principal	Total
2012	3.625	639,608	605,000	1,244,608
2013	3.750	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	4.000	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	5.250	496,030	740,000	1,236,030
2018	4.350	459,640	780,000	1,239,640
2019	5.125	421,919	810,000	1,231,919
2020	5.125	379,253	855,000	1,234,253
2021	5.125	334,409	895,000	1,229,409
2022	5.125	287,388	940,000	1,227,388
2023	5.125	237,931	990,000	1,227,931
2024	4.750	187,863	1,040,000	1,227,863
2025	4.750	137,275	1,090,000	1,227,275
2026	4.750	84,194	1,145,000	1,229,194
2027	4.750	28,500	1,200,000	1,228,500
		<u>\$ 6,002,674</u>	<u>\$ 13,740,000</u>	<u>\$ 19,742,674</u>

Accounting and Financial Policies

Accounting and Financial Policies

Accounting Policies

General Guidelines

The Comprehensive Annual Financial Report (CAFR) presents the status of the Town's finances on a basis consistent with Generally Accepted Accounting Principles (GAAP) [i.e., the governmental funds use the modified accrual basis of accounting.] In order to provide a meaningful comparison of actual results with the budget, the CAFR presents the Town's operation on a GAAP basis and shows fund expenditures and revenues on a budget basis for all of the Town's major funds.

Government-Wide Statements (CAFR)

The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, generally, are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. The Town does not report any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements (CAFR)

The fund financial statements provide information about the Town's funds of which all are considered government funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

General Fund. This fund is used to account for operating expenditures associated with administrative services, sheriff/other public safety, fire, community services, and public projects and facilities.

Capital Projects Fund. This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund. This fund is used for accumulating resources for the payment of interest and principal on general long-term obligation debt.

Fund Financial Statements (CAFR) (continued)

Tax Increment Financing (TIF) Fund. This fund is used to account for the revenues and expenditures associated with the Town's redevelopment districts.

Local Accommodations Tax Fund. This fund is used to account for the Town's receipts from the one percent (1%) tax levied on rentals of transient accommodations within the corporate limit. According to statutory provisions the purpose of these funds is to pay, in whole or in part, for the current and future needs of the town, for the following items: tourism-related buildings, including, but not limited to, civic centers, coliseums, and aquariums; cultural, recreational, or historic facilities; beach access and re-nourishment; highways, roads, streets, and bridges providing access to tourist destinations; advertisements and promotions related to tourism development; water and sewer infrastructure to serve tourism-related demand; and, the operation and maintenance of those items previously enumerated, and police, fire protection, emergency medical services, and emergency-preparedness operations directly attendant to those facilities.

State Accommodations Tax Fund. This fund is used to account for the Town's receipts from the two percent (2%) tax levied on rentals of transient accommodations within the corporate limit. According to statutory provisions, these funds are used for the promotion of tourism and the arts.

Beach Preservation Fee Fund. This fund accounts for the Town's receipts from the two percent (2%) fee levied on the gross proceeds derived from the rental for any rooms, campground spaces, recreational vehicle spaces, lodging or sleeping accommodations furnished to transients by any hotel, inn, condominium, motel, "bed and breakfast," residence or any other place in which rooms, lodging or sleeping accommodations are furnished to transients within the corporate limit.

Hospitality Tax Fund. This fund is used to account for the Town's receipts from the two percent (2%) percent tax imposed on the gross sales price of prepared meals and beverages sold in establishments and also on the gross sales price of sales of prepared meals and beverages sold in establishments licensed for on-premises consumption of alcoholic beverages, beer or wine. The tax is imposed throughout the corporate limits of the Town. According to statutory provisions, the purpose of these funds is to pay, in whole or in part, for the current and future construction, enhancement, preservation and maintenance of tourism-related buildings, including, but not limited to, civic centers, coliseums, and aquariums; cultural, recreational, or historic facilities; beach access and re-nourishment; highways, roads, streets, and bridges providing access to tourist destinations; advertisements and promotions related to tourism development; and water and sewer infrastructure to serve tourism-related demand.

Real Estate Transfer Fee Fund. This fund accounts for a fee equal to one quarter of one percent (.0025) of the purchase price upon the transfer of any real property interest in any real property situated within the corporate limits of the Town.

Fund Financial Statements (CAFR) (continued)

Real Estate Transfer Fee Fund (continued).

These funds are used (a) to acquire fee and less than fee interest in land while it is still available to be held in perpetuity as wildlife preserves or believed to be needed by the public in the future for active and passive recreation uses and scenic easements, to include the following types of land: ocean, harbor and pond frontage in the form of beaches, dunes and adjoining backlands; barrier beaches; fresh and saltwater marshes and adjoining uplands; land for bicycle paths; land protecting existing and future; public water supply, well fields, highway buffering and aquifer recharge areas; and land for wildlife preserves; and land for future public recreational facilities and (b) to acquire already developed land or development rights in order to convert its use to a public use, to restore the property to open space, or to redefine that property in accordance with the town's current comprehensive plan and dispose of it as soon as possible.

The Town reports the Community Development Block Grants, Palmetto Electric Franchise Fees, and the Home Grant Special Revenue funds as non-major governmental funds.

The Tax Increment Financing Fund (TIF), Accommodations Tax Fund, Beach Preservation Fees Fund, Real Estate Transfer Fee Fund, and Electricity Franchise Fee Fund budgets are reflected in the General Fund, Capital Projects Fund (CIP), and Debt Service Fund as “transfers in”. Any additional funds expended from these funds are approved at the time the funds are expended.

The Town reports the following proprietary fund:

Stormwater Utility Fee Fund. The Clean Water Act, signed into law 1973, requires local governments to manage stormwater pollution. As a result of this federal mandate Beaufort County established a Stormwater Management Utility (SWU). The utility is responsible for protecting the health of our valuable waterways and for reducing flooding due to storms in our vulnerable low-lying region. Beaufort County collects the stormwater fee and remits the funds to the Town minus an administrative over-head fee. The Town uses these funds for drainage infrastructure maintenance and any associated debt service costs.

Measurement Focus and Basis of Accounting

All funds of the Town are maintained during the year using the modified accrual basis of accounting.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Measurement Focus and Basis of Accounting (continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Taxpayer-assessed income and gross receipts are recognized as revenue when in the hands of intermediary collecting governments (state shared revenues, sales and accommodation tax revenue). Business license revenues are recognized when measurable and available. Property tax revenues are recognized when received or available for payment of liabilities of the current period. The Town considers property taxes as available if collected within 60 days after year-end.

Cash and Cash Equivalents

The Town considers cash on hand, cash with fiscal agents, demand deposits, and all other short-term investments that are highly liquid to be cash equivalents. Highly liquid short-term investments are those readily convertible to a known amount of cash, that at the day of purchase, have a maturity date no longer than three months.

Investments

In accordance with the provisions of two South Carolina Statutes, S.C. Code Ann. § 6-5-10 and S.C. Code Ann. § 11-1-60, the Town is authorized to invest in the following instruments:

- Government National Mortgage Association (GNMA)
- Federal Home Loan Banks (FHLB)
- Small Business Administration (SBA)
- U.S. Maritime Administration (MA)
- Tennessee Valley Authority (TVA)
- U.S. Export-Import Bank (Eximbank)
- Farmers Home Administration (FHA)
- Federal Financing Bank (FFB)
- General Services Administration (GSA)
- Department of Housing and Urban Development (HUD)
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

The Town's primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield.

Investments (continued)

Unrated investments (overnight funds) are invested in a money market "account" vs. a true "fund." That is, the funds are held by Wachovia Bank in an interest-bearing depository account.

As such, they are collateralized per Section 6-5-15 of the SC Code which outlines securing bank deposits.

Restricted Assets

Certain debt proceeds as well as certain resources that are set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

Capital Assets and Depreciation

In general, all capital assets including land, buildings, machinery and equipment, and infrastructure with an original cost of \$5,000 or more will be subject to accounting and reporting (capitalization). All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition. Software licenses and other intangibles of a consumable nature the value of which is \$50,000 or more and an estimated useful life of at least two years following the date of acquisition will be considered capital items.

Capital assets are reported in the applicable governmental column in the government-wide financial statements.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are assets of the Town as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized as assets in the government-wide statement of net assets. General capital assets are carried at historical cost. Where costs can not be determined from the available records, estimated historical costs have been used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair value at the date of acquisition. The Town's road network is deeded to the County and is not included in the Town's capital asset inventory.

Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized.

Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated lives for each major class of depreciable fixed assets are as follows:

Buildings	30 years
Infrastructure	25 years
Vehicles	8-15 years
Furniture, fixtures, equipment	5-20 years
Land	20-30 years
Roads	25-30 years
Waterway	30 years
Dams	30-50 years
Software	10 years

Physical Inventory

An annual inventory will be conducted to ensure the replacement, maintenance, and capital improvement program projections are accurate, and that sufficient internal control over capital items is exercised.

Compensated Absences

The Town has a policy to accrue compensated absences for employees when the obligation relating to the employee's rights to receive compensation is attributable to the employee's services already rendered, when the rights vest and accumulate and when the payment is payable. Vacation pay meets the above criteria for accrual, whereas sick pay does not. Sick pay does not vest until an employee reaches retirement age. In accordance with GASB no liability is recorded for non-vesting accumulative rights to receive sick pay benefits.

The sick leave termination benefit for employees who have a minimum of five years consecutive employment and are terminated for non-disciplinary reasons is computed based on a percentage of actual sick leave. The sick leave termination benefit is paid as a taxable lump-sum bonus at termination. Employees who were department heads or who were older than age 55 on July 1, 2000, were grandfathered under the prior plan of receiving their sick leave as a retirement benefit. The grandfathered employees are eligible for the greater of the sick leave termination benefit or the sick leave retirement benefit.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Bond Discounts/Issuance Costs/Deferred Losses on Advance Refundings

As mentioned above in the fund financial statements, bond discounts and issuance costs for governmental funds are recognized in the current period. For proprietary funds, bond discounts, issuance costs, and deferred losses on advance refundings are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts and deferred losses on advance refundings are presented as a reduction of the face amount of the bonds payable, whereas issuance costs are recorded as deferred charges in accordance with Governmental Accounting Standards Board Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Funds.

Bond Discounts/Issuance Costs/Deferred Losses on Advance Refundings (continued)

In the government-wide financial statements, bond discounts, issuance costs and deferred losses on advance refundings are accounted for in the same manner as in the proprietary funds.

Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund, Debt Service Fund, and Capital Projects Fund. The State Accommodations Fund budget is adopted by Town Council some time after the start of the fiscal year. The FY 2011 budget also includes special revenue fund budgets as well. Special revenue funds are used to fund expenditures in the three major funds. The Town's special revenue funds are tax increment financing (TIF), beach preservation fees, hospitality tax, stormwater fee, Palmetto Electric franchise fees, and real estate transfer fees (RETF.)

The Town Manager submits to Town Council a proposed operating budget for the General Fund, Debt Service Fund, and Capital Projects Fund (CIP) for the year which includes proposed expenditures and the means of financing them.

Public hearings are held for taxpayers' comments regarding the budgets for the General Fund, Debt Service Fund, and Capital Projects Fund (CIP).

The budgets and related millage rate are legally enacted by resolution.

Budgetary transfers between departments may be authorized by the Town Manager. Changes or amendments that alter the total expenditures of any fund must be approved by Town Council.

Budgets are prepared and adopted on a basis consistent with generally accepted accounting principles. All appropriations lapse at year end; however, encumbrances and amounts specifically designated to be carried forward to the subsequent year are re-appropriated in the following year.

Financial Policies

Revenues

The Town estimates its annual revenues by objective and analytical processes. Revenue forecasts for the General Fund for the next three years shall be conservative and will be reviewed and updated annually.

The Town shall maintain a diversified and stable revenue system to the extent provided by law to insulate it from short run fluctuations in any one revenue source.

The Town will avoid dependence on temporary revenues to fund day-to-day municipal services. One-time revenues will generally be used for one-time expenditures/expenses.

All potential grants will be carefully examined for matching requirements (both dollar and level-of-effort matches).

Current revenues will be sufficient to support current expenditures/expenses (balanced budget).

Expenditures/Expenses

All current operating expenditures/expenses will be paid for with current operating revenues. Budgetary procedures that fund current expenditures/expenses at the expense of future needs, such as postponing expenditures/expenses, accruing future revenues or rolling over short-term debt, will be avoided.

All assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs.

The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital infrastructure and equipment.

All equipment needs and replacements for the next five years will be projected and the projection will be reviewed and updated each year.

Future operating costs and maintenance will be determined to the extent estimable prior to construction of all new capital facilities.

Before any actions are taken or agreements are entered into that create fixed costs, the current and future years cost implications (both operating and capital) will be fully determined.

Where practical, performance measures and productivity indicators will be integrated into the budget.

Expenditure forecasts for the General Fund for the next three years shall be all-inclusive and will be reviewed and updated annually.

Capital Improvement Plan (CIP)

The Town will develop a ten-year Capital Improvements Plan and update it annually.

As part of the annual operating budget, the Town will adopt an annual capital improvement budget based on the multi-year CIP.

The Town will make all capital improvements in accordance with the adopted Capital Improvement Plan.

The Town will coordinate development of the CIP with development of the operating budget. Future operating costs associated with capital improvements will be projected and reported in the CIP and operating budget.

The CIP will contain multi-year projections of expenditures.

The annual budget will implement the first year of the CIP.

Projects funded with bonds, loans, or short-term notes will continue until the project is finished and closed on the general ledger. Staff must re-appropriate the budgets for these projects annually through the budget process.

Capital Improvement Plan (CIP) (continued)

Projects funded by cash will expire at year end with no funding roll-forward unless approved by Town Council.

Excess funds shall be used to fund future capital projects, over budget projects, or to refund financial instruments.

Projects that will exceed budget must have a revised budget and request for additional funding submitted to Finance at the earliest possible time. Additional funding may be identified through savings on other capital projects at the discretion of the Director of Finance or through Town Council action in accordance with the budget transfer policy.

Contingency

The Town will establish a contingency in each year's budget to:

1. Provide for temporary funding of unforeseen needs of an emergency or nonrecurring nature;
2. Permit orderly budgetary adjustments when revenues are lost through the action of other governmental bodies;
3. Provide a local match for public or private grants; or
4. Meet unexpected small increases in service delivery costs.

Financial Reserves/Bond Ratings

In an effort to maintain a sound fiscal condition, the Town continues to maintain stringent expenditure controls. Another measure of the Town's financial strength is the level of fund surpluses (i.e. revenues exceeding expenditures). For several years, the General Fund reserves have continued to grow as a result of growth related revenues, improved productivity and prudent financial management policies. These funds are held in reserve to protect the Town's assets against catastrophic events or to fund unplanned expenditures.

To the extent there is an imbalance between revenues and budgeted expenditures, it is important that reserves are used carefully and judiciously, since reserves are a one-time, nonrecurring funding source. Just as reserves are built up over time, drawing down on reserves should be done in measured amounts. The long-term health of the fund requires that a structural imbalance must be addressed promptly. If an imbalance occurs a plan should be developed to address the imbalance concurrently with the planned draw down of reserves.

As a result of the Town's prudent financial management, it has been rewarded with excellent bond ratings by all three rating agencies:

Moody's Investor Service	Aa ¹
Standard and Poor's	AA+
Fitch	AA

These ratings reinforce confidence in our efforts to maintain a fiscally sound operation through uncertain economic times.

Debt Management Policies

Market Review

The Town reviews its outstanding debt annually for the purpose of determining if the financial market place will afford the Town the opportunity to refund an issue and lessen outstanding debt.

Debt Issuance

When the Town finances capital projects by issuing bonds, it shall amortize the debt over a term not to exceed the average useful life of the project(s) financed.

The Town may confine long-term borrowing to capital improvements and projects that have lives of 4-50 years.

When appropriate, the Town may use special assessments or self-supporting bonds, so those benefiting from the improvements will bear all or part of the cost of the project financed.

Debt Service Levels

General statutes limit the amount of general obligation debt that a unit of government can issue up to eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The Town may incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote in a referendum as authorized by law.

Based on the estimated total assessed value of \$923,053,000, the legal debt margin for the Town of Hilton Head Island is \$73,844,240. Town Council has imposed an 80% cap which further limits this to \$59,075,392. The Town has \$5,930,000 in bonds issued at June 30, 2010, which are applicable to this cap, leaving \$53,145,392 available.

Bond Ratings

The Town shall periodically review possible actions to maintain or improve its bond ratings by various rating agencies.

The Town shall follow a policy of "full disclosure" in its Comprehensive Annual Financial Report and bond prospectuses.

Disaster Planning Reserves/Policies

To protect the Town's assets against catastrophic events the following reserves have been established:

Operating Reserve

The Town will establish and maintain an operating reserve based on a range with a **minimum of 25%** up to a **maximum of 30%** of the Town's adopted fiscal year operating budget. The operating reserve may be utilized for emergency purposes in post-disaster occurrences; to offset an early fiscal year tax revenue income stream deficiency; and to avoid emergency Town borrowing or use of tax anticipation notes. The Director of Finance is authorized to transfer the amount of undesignated fund balance above the 30% maximum into the debt service reserve fund to maintain an account reserved for the reduction of Town debt. This account shall be called debt defeasance. A report shall be given each year to Town Council, at the close of the fiscal year, identifying the potential excess funds that could be transferred.

Disaster Planning Reserves/Policies (continued)

Advertising Reserve

The Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster advertising reserve account. These funds are held in reserve for disaster management communications oriented programs. The fund will be used to provide post disaster advertising, a communications link to emergency agencies, and media programs to provide public notice. Funds may be distributed upon authorization by the Town Manager. The total amount of funds to be deposited in the reserve for this purpose will not exceed \$1 million. Annual interest earned on funds in the reserve will also be deposited into the account.

General Reserve

Once the Disaster Advertising Reserve reaches \$1 million, the Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster general reserve account. These funds may be used for pre-disaster planning and post disaster recovery efforts (non-communication related activities or debt service payments). The total amount of funds held in reserve for this purpose will not exceed 15% of the General Fund's annual operating revenue.

Debt Service Levels

General statutes limit the amount of general obligation debt that a unit of government can issue up to eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The Town may incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote in a referendum as authorized by law. In addition, Town Council has imposed an 80% cap on this amount. The remaining 20% is reserved for additional bonding associated with disaster recovery.

Real Estate Transfer Fee Debt Service Reserve

The Town will set aside \$1 million of real transfer fees into a disaster debt service reserve account in the Real Estate Transfer Fee Fund. The funds will be used to fund debt service payments during a disaster or financial crisis.

Beach Preservation Reserve

The Town will hold in an interest bearing account a portion of the amounts on deposit in the Town of Hilton Head Island Beach Preservation Fee Account. The amount to be held in this reserve account shall not exceed \$12 million.

Funds held in the reserve account may be used for the following:

- A. Direct expenditures to pay costs of any project or purposes identified in Section 4-9-70 as such may be amended of the Municipal Code and in Section 6-1-50 of the Code of Laws of South Carolina 1976 as amended.
- B. To pledge as security for or to use as debt service for any debt or financial obligation of the Town incurred for a purpose as identified in subsection (A) above.

Disaster Planning Reserves/Policies (continued)

- C. To advance monies needed by the Town to meet extenuating circumstances created by a storm or natural disaster, provided that the Town Council shall have a reasonable expectation that such amounts would be reimbursed, at least in part, from a local, state or federal source.

Authorization to utilize monies from the reserves shall be by resolution duly adopted by the Town Council if circumstances allow for the convening of a meeting of Town Council. In the event circumstances do not allow for the convening of a meeting of Town Council, the Town Manager may authorize the utilization of monies from the reserves, provided that such utilization is presented to Town Council at the first practicable opportunity for ratification.

In the event of a disaster the Town will adopt the following ordinances/resolutions:

1. Temporary non-residential occupancy of structures ordinance – This is an emergency ordinance to allow the use of manufactured modular structures as temporary replacement structures for local businesses.
2. Temporary housing ordinance – This is an emergency ordinance to allow the use of manufactured homes and travel trailers as temporary residences.
3. Declaration of local state of emergency (resolution).
4. The Town of Hilton Head Island succession list in the event of a disaster (resolution).
5. If necessary, the Town will adopt an emergency reimbursement resolution to provide immediate access to funds in the event of a disaster.
6. In an effort to expedite disaster recovery efforts, the Town currently has a contract in place with Phillips and Jordan for the purpose of providing disaster storm debris removal services.