

TOWN OF HILTON HEAD ISLAND PUBLIC FACILITIES COMMITTEE

Date: September 7, 2010

Time: 2:00 P.M.

Members Present: John Safay, George Williams, Drew Laughlin

Members Absent: None

Staff Present: Steve Riley, Curtis Coltrane, Scott Liggett, Charles Cousins, Susan Simmons, Jeff Buckalew, Brian Hulbert, Tom Fultz, Jennifer Lyle, Julian Walls, Jayme Lopko

Others Present: Thomas D. Peebles, *Mayor*, Bill Ferguson, Bill Harkins, *Councilmen*, Erik J. Olsen, Christopher G. Creed, *Olsen Associates, Inc.*, Brent Robinson, *Merchant Capital, LLC*

Media Present: Tom Barton, *The Island Packet*

1. Call to Order.

The meeting was called to order at 2:00 P.M.

2. FOIA Compliance:

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

3. Committee Business:

Councilman Williams moved to approve the Minutes of August 3, 2010. Councilman Laughlin seconded. The Minutes of August 3, 2010 were unanimously approved.

Councilman Williams moved to approve the Minutes of August 26, 2010. Councilman Laughlin seconded. The Minutes of August 26, 2010 were unanimously approved.

Councilman Williams moved that we take the Beach Management Program first and the Disaster Related Debris Operations item second as it may take a long period of time for the Beach Management Program and we do not want to run up against time constraints. Councilman Laughlin seconded. The motion passed unanimously.

4. Unfinished Business: None

5. New Business

- **Beach Management Program Sustainability/Port Royal Shoreline Project Funding Proposal**

Scott Liggett, Director of Public Projects & Facilities stated that during the course of this past year's budget deliberations Council expressed an interest in an examination and an analysis regarding the long term sustainability of our Beach Management Program. Perhaps some of Council's concerns in place today largely driven by the apparent financial implications of moving ahead with a pretty significant out of cycle or emergency project there at the heel adjacent to Port Royal Plantation. We remain on track with respect for the need for that project but we are here today in an attempt to share some information as it relates to the analysis that has gone on to this point, both from a technical perspective and financial perspective. Today we have staff's presentation broken down into two discrete items – first being the technical piece and second being the financial piece. In regard to the technical piece, we are joined today by Erik Olsen and Chris Creed representatives of Olsen Associates who are both here today in support of the need.

With respect to what we intend to go over, there are essentially five discrete parts that we would like to review. They include:

- Program History
- Initial Program Philosophy
- "Heel" Shoreline change History
- Current and Expected Shoreline Conditions Island-wide
- Recommended Course of Action at "Heel" and Future Program Approach

We need to focus exactly on placing the sand where we can quantify and justify its need as opposed to being more liberal as we have done in the past. Net of all of this is we believe we have a technically preferred option for how we handle conditions both in short and long term. We will go ahead and try to detail how we see that coming together programmatically. From there I expect Susan Simmons, Director of Finance and Brent Robertson from Merchant Capital to pick things up and hopefully we have a meshing of a technically preferred option that has an optimal financing methodology. Both of those can come together and with the endorsement ultimately of Town Council we can proceed with the task that was requested by Town Council that we go through this discussion prior to any kind of bidding activity associated with the Port Royal project.

Erik Olsen, Olsen Associates, gave a Power Point presentation on the five bullet points above and advised that their recommendation is as follows:

- Proceed with the implementation of Port Royal Shoreline Restoration Project.
- Continue annual shoreline monitoring.
- Incorporate lessons learned from continued shoreline monitoring into the formulation of planned 2015 and 2023 renourishment projects.

Councilman Williams asked what the other alternatives they looked at were. Scott Liggett advised that they had a daylong session in Jacksonville a month or so ago trying to step their way through the different scenarios that perhaps were worth review. In no particular order, there was the notion of perhaps delaying or deferring doing anything for a period of time. There was an alternative that dealt with just the construction of the groin itself at Port Royal. There was the notion of not pursuing the groin and just placing

the sand without the complimentary structure. Essentially those were the options that we ran through.

Erik Olsen reviewed the options Mr. Liggett just mentioned and said the first option of delaying doing anything is a legitimate option, but there will be significant land loss. The biggest ramification of this is as the corner basically peels back and changes configuration. Our ability to address the problem with the type of solution that we have recommended becomes more difficult. It also begins to adversely affect the beach as you get toward the Westin. As the shoreline retracts, then pretty soon the abutting shoreline will begin to follow it. The application of the structure itself is not recommended. The structure will indeed solve the problem on part of the shoreline, but it will generate a problem on the Port Royal section of the shoreline. Of all the alternatives, the only one you would potentially want to evaluate is just the placement of sand. We can tell you that the placement of sand here will not last very long based on our time history and knowledge through the survey database that has been acquired. We are led to the cumulative solution that you have before you as the best value engineered solution and that is a structure with beach fill. Cumulative cost is higher, but the long term cost would be lower.

Chairman Safay asked could we not have foreseen this in 2007 and done something then that might have lessened the impact of what is going to go on in 2011. Mr. Olsen stated they have been studying for a long time and in our judgment it wasn't anywhere near as critical as it has become today or will become in the very near future.

Susan Simmons, Finance Director advised the process they went through:

- Gain an understanding of:
 - The Port Royal Fill Project
 - Overall Beach Renourishment Program
- Perform Initial Financial Analysis
 - Determine options for project costs/scope/timing
 - Analyze beach fee revenues, expenditures and transfers
 - Select initial scenarios
- Analyze and refine various financing options
- Recommend optimal financing plan for:
 - Port Royal Fill Project
 - Sustainable future Island-wide renourishment
- Upon approval of project and financing plan, issue bonds.

Ms. Simmons advised that since the 1990 original nourishment, the Town has done three renourishment projects; the last in 2006. The planned renourishment life is 8 to 10 years with an 8 year cycle as the ideal. This assumes no significant storms occur to alter recurring renourishment needs. The current Port Royal Fill Project is an out-of-cycle project which requires extensive financial analysis due to additional layering of debt. The likely date of the next renourishment is 2015.

Ms. Simmons stated they requested Merchant Capital to run multiple scenarios assuming the estimated revenues, expenditures and transfers and the results of the original scenarios indicated that the Port Royal Fill Project was feasible regardless of scenario

amount (\$6, \$9 or \$12.5 million amount, and the 2015 renourishment is feasible and subsequent renourishment was feasible with cost containment.

The recommendation is as follows:

- For the Port Royal Fill Project – up to \$13 million with approximately an \$11,000,000 bond issue with an eight year maturity and last payment date of 8/1/17.
- The remainder of the funding would come from \$1,000,000 Beach Preservation Fee Revenue – combination of current year revenues and prior year funds on hand.
- \$1,000,000 Beach Renourishment Grant

Future renourishment project costs (to be repaid with all bonds – no grants)

<u>FY</u>	<u>Est. Project Cost</u>	<u>Est. Bond Issue</u>	<u>Matures</u>
2015	\$17,523,567	\$19,365,000	8/1/23
2023	\$21,019,752	\$22,205,000	8/1/31

Councilman Williams had some questions on Beach Preservation Fee Fund Analysis slide pertaining to beach maintenance where 2010 shows almost \$1,000,000 and 2011 and everyone else has only \$170,000 from that point on and would like that clarified by the time this comes to Town Council.

Councilman Laughlin had some concerns also and said based on what he is hearing he is resigned to the idea that we are going to have to go forward with the heel project as we originally planned, but questions whether the fund will be able to sustain this thing over the long haul.

Brent Robertson, Merchant Capital, LLC gave an overview on what factors were considered in the debt portion of the finance plan and advised that interest rates are at an all time low. For the 2010 bond issue I have budgeted a seven year cost of funds of 2 ½%. In today’s market the actual seven year cost of funds on a triple-A transaction is 1.6%. That means that for what we are budgeting, there is a 90 basis point cushion here to address any sort of change in interest rates between now and when we issue the bonds and what is called the credit spread. This is not a triple-A transaction, but a double-A transaction. Going forward, we’ve assumed a 4% cost of funds for every other bond issue that we have layered in.

Chairman Safay stated that presuming we do this, are we doing anything that will jeopardize our bond rating right now? Mr. Robertson said no because you are not ignoring a problem and hoping it will go away. Tourism is the component that is the credit strength of this Island.

Councilman Laughlin moved that the Public Facilities Committee forward staff’s recommendations listed below to Town Council with our recommendation for approval. Councilman Williams seconded. The motion passed unanimously.

1. Proceed with the \$12.5 million Port Royal Fill Project as presented.
2. Amend the funding sources associated with the project.

		Capital Projects Fund	
		<u>Original</u>	<u>Proposed</u>
Revenues/Other Sources			
Transfer from Beach Preservation Fees		\$12,500,000	\$1,000,000
Beach Preservation Fee Bond Proceeds			\$11,000,000
Grant Revenues			\$1,000,000
Total		<u>\$12,500,000</u>	<u>\$13,000,000</u>

Expenditures/Other Uses			
Port Royal Fill Project		\$12,500,000	\$12,500,000
Bond Issue Costs			\$500,000
Total		<u>\$12,500,000</u>	<u>\$13,000,000</u>

3. Prepare a resolution authorizing the Town to make interim payments related to this project from existing beach preservation fee revenues or other funds on hand with the intent to reimburse these funds from the proceeds of taxable or tax-exempt debt.
4. Proceed with obtaining a grant of up to \$1 million. If the grant is not approved or the amount is reduced, staff should proceed with the project substituting the funding source with beach preservation fee revenues.
5. When permits, grant awards and projects bids are received, staff will formalize the final estimated costs and funding sources in a budget amendment ordinance.
6. Proceed with the issuance of up to \$11 million beach preservation fee revenue bonds with a repayment schedule up to fiscal year 2023.
7. Plan a sustainable beach renourishment program with the next beach renourishment in 2015 and a recurring eight (8) year cycle, on average.
 - a. Staff and the coastal engineers should ensure a sustainable beach renourishment program through continued efforts to minimize the renourishment areas and quantities and contain the related costs.
 - b. Debt for each renourishment should have an eight year maturity such that the final payment coincides with the issuance of new bonds for the next renourishment.

Chairman Safay stated the reality is that we have what is approaching an emergency situation on the Island with regard to Port Royal and we cannot ignore it. We have to move as quickly as we can within reason.

Chairman Safay stated they did not have enough time to discuss the second item on the Agenda at this meeting.

6. Adjournment:

Councilman Williams moved to adjourn. Councilman Laughlin seconded the motion. The meeting was adjourned at 4:00 p.m.

Respectfully Submitted,

Karen D. Knox
Senior Administrative Assistant