

Aiken City Council Minutes

May 2, 2005

WORK SESSION

Present: Mayor Cavanaugh, Councilmembers Clyburn, Cunning, Price, Smith, Sprawls and Vaughters.

Others Present: Roger LeDuc, Bill Huggins, Anita Lilly, Lex Kirkland, Al Cothran, Sara Ridout, and J.C. Lexow of the Aiken Standard.

Mayor Cavanaugh called the meeting to order at 4:05 P.M. and stated the purpose of the meeting was to discuss the Business License Ordinance and the proposed budget for fiscal year 2005-06.

BUSINESS LICENSE

Mr. LeDuc stated the first item to be discussed was a presentation regarding the business license and the recommendation to convert to the NAICS system from the SIC system. He pointed out a chart showing rate alternatives for the categories, leaving the base rate the same as in the SIC system. The alternatives include the SIC rates, revenue neutral rates converting to NAICS with an increase in the rate per \$1,000 of 4 cents, converting to the NAICS system but retaining the rates per \$1,000 under the present SIC system with a loss of revenue of \$40,000, converting to NAICS system but reducing the rates by 5 cents per \$1,000 under the present SIC system with a loss of revenue of \$100,000, and a proposal by Councilwoman Vaughters to increase the base rate by \$10 from the SIC rates and reduce the rates per \$1,000 to 40 cents for category 1 and increase each category incrementally by 5 cents per \$1,000. This proposal would reduce revenue by \$616,500. An alternative in Councilwoman Vaughters' proposal was to eliminate the declining rates. Mr. LeDuc pointed out eliminating the declining rate would increase the major licensed businesses such as the hospital. Eliminating the declining rate would increase the hospital's license by \$100,000.

A chart was presented showing the various categories and the difference in the license fee for the various proposals.

Another item discussed was contractors. Mr. LeDuc stated currently contractors are in Class 8 with a \$50 base fee and 50 cents per \$1,000. He pointed out 88% of the contractors pay \$200 or less for a business license. He stated some of this is due to small contractors doing one or two jobs in the city. He pointed out that 96% of the contractors pay less than \$500. He said the vast majority of contractors pay \$500 or less. It was pointed out that according to the consultant general contractors should be in a Class 3 rate and should have a base rate of \$40 and with revenue neutral a rate of \$1.19 per \$1,000. He said Council had discussed raising contractor's rates incrementally, possibly over a three year period, since putting them in the Category 3 rate would increase their rate significantly.

The next chart was a business license tax comparison with other cities in South Carolina, which showed that Aiken was lower in most categories than the seven cities compared.

Mr. LeDuc stated Council could change the base rate, the cents per \$1,000 and use whatever increments Council would like, but the more the rates are lowered the more Council will have to look at the budget to decide what services will have to be cut.

Mr. LeDuc stated he had suggested in his budget message some items that could be changed and items that had been added to this year's budget. He pointed out some of the major items added to the budget include \$36,000 for professional help to acquire federal funding, \$12,000 for help to try more DUI cases, \$30,000 for the spay/neuter program, \$35,000 for a new litter crew, \$25,000 for laptops for Public Safety, \$30,000 for the

façade grant program for downtown, and \$10,000 for art graphics for the design guidelines. He pointed out some programs that had been added over the last few years including northside work, Neighborhood Services, horse patrol, and planning documents.

On the business license, he said Council needed to decide whether to keep the fees revenue neutral or make changes.

Council then discussed at length the business license rates. In response to a question, Mr. LeDuc stated the proposed revenue for business license for 2005-06 is \$1,650,000. The revenue for the 2004-05 budget is \$1,550,000. If Council wants to reduce the revenue neutral rates by \$100,000 the license fees should bring in about \$1,550,000. It was pointed out under Councilwoman Vaughters' proposal that the major businesses would have to pay \$233,000 more if the declining rate were eliminated. Under Councilwoman Vaughters' proposal there would be a loss of revenue of \$616,000 for licenses if the declining rates were discontinued. The proposal with the declining rate would mean a revenue loss of about \$850,000.

Mayor Cavanaugh expressed concern about increasing other fees to make up a loss of revenue. He also listed a number of projects which he felt needed to be accomplished.

Councilwoman Vaughters stated she brought up license fees because she had had so many complaints about the license fees, especially from small businesses. She said her intention was to see if the license fees could be lowered and the fees made more equitable. She felt lowering the fees would be a good boost for the business community. She did not want to see anybody's fees increased. She pointed out contractors had had the advantage of a lower fee, and if it was good for contractors, then it would be good for other businesses as well. She felt the city should be saving money on trash pickup, since the city is using roll carts, as well as saving on picking up building materials and white goods. She pointed out Bobby's Barbecue had announced they left Aiken because they did not want to pay a business license fee. She felt Aiken would be better off with businesses within the city limits. She stated she did not want to eliminate the declining rate for big businesses as she did not want them to move outside the city. She stated she would like to have a listing of the businesses in the rate classes, so she would know how the businesses would be affected.

Councilman Cuning stated he would have a problem with Councilwoman Vaughters' proposal with a revenue loss of \$616,000. He said he had reviewed the budget, but he did not know where that much could be cut. He said he did feel that the budget could be cut \$100,000 and keep the business license revenue at \$1,550,000.

Council then discussed at length the proposal to increase the license fee for contractors, moving them to Category 3 would increase their fee per \$1,000 from \$.54 to \$1.19. It was pointed out that they should have already been a Category 3 rate. Councilman Cuning expressed concern about raising the fee for contractors so much.

Councilwoman Clyburn expressed concern about the business license fees, and stated she felt the city could not afford to do anything other than revenue neutral, as other services will be affected by a loss of revenue. She felt a loss of revenue of \$600,000 would greatly affect some services. She felt Council needed to decide how to proceed with the business license fees, as that affects the budget.

Mayor Cavanaugh again pointed out the Business License Tax Comparison chart, which shows the City of Aiken is lower in 62 categories than other cities our size in South Carolina. He stated it is always nice to lower taxes, but the city has many projects that need to be done.

Councilwoman Vaughters asked about the Reserve Funds and pointed out the funds had grown over the last year. It was pointed out the Reserve Funds are set aside for specific projects. The reserve funds help fund the capital projects. Mr. LeDuc stated he never uses Reserve Funds to support the operating budget.

It was pointed out that the proposed license fees would increase contractors' fees by about \$100,000 by moving them to a Category 3 rate. Councilman Cunning stated he felt the budget could be reduced by \$100,000, and would like to reduce some items in the budget and pass that savings along to the businesses across the board.

Councilman Cunning stated he felt Council was trying to put businesses in their correct category under the NAICS system, and also trying to reduce the rates that everyone is charged. He said he would also like to reduce some items in the budget to find another \$100,000 to be able to adjust the license rates.

The general consensus of Council was that contractors be moved from Class 8 and placed in Category 3, with a rate of \$40 base rate and \$1.10 per \$1,000. It was pointed out that contractors should have been in a Category 3 rate. Council also requested a listing of the Categories, with the business type in each category under the SIC system and the NAICS system.

It was pointed out that under the NAICS system, staff will not have to determine the category for a business license, as the category will be on the business' IRS return.

BUDGET 2005-06

Council then started reviewing the budget for Fiscal Year 2005-06, asking questions about various items to see if the budget could be reduced by \$100,000.

Mr. LeDuc pointed out he had recommended a 4% increase in salaries, with a 2% cost of living and a 2% merit increase. He stated only 2 additional full time people had been added in the proposed budget. He stated the budget for City Council had been increased to include \$36,000 for a consultant to help obtain Federal funds for highway projects. He stated revenue from vehicles had been increased to include taxes from vehicles if Gem Lakes is annexed, and he had also considered a decrease in revenues for water and fire services with the annexation of Gem Lakes. Mr. LeDuc explained that there is \$220,000 in revenue for ISTEPA, which is a grant for Whiskey Road improvements from Pine Log Road to Arby's, including sidewalks and curb and gutter.

Council asked if some of the capital items could be reduced, and Mr. LeDuc responded that funds are available for the capital items from Holding Funds and a transfer is made from the Holding Funds to revenue to cover these items. He stated he did not use Holding Funds money to fund operating expenses. He stated if funds are not available from Holding Funds for a capital item, many times that equipment is not approved. He stated if Council wanted to reduce the budget, the funds should come from the operating and maintenance budget not capital budget. He pointed out that capital items are generally vehicles and equipment to perform the job, and delaying purchase of equipment many times increases the operating expenses, as there are more repairs to the equipment.

Council asked if overtime for personnel could be reduced to help save expenses. Mr. LeDuc responded that he hoped the roll cart system for garbage pickup would reduce some of the overtime, and also the new regulations for trash pickup would help some. He pointed out there would probably always be some overtime, as every time there is a holiday there is some overtime.

In reviewing the budget, it was noted that the city was probably going to overspend on gas because the price of gas has continued to increase. It was also noted that SCE&G is going up 28% on the electric rates. The City was notified of this increase after the proposed budget had been prepared. He stated, particularly the Recreation Department, probably does not have enough in the budget for electricity.

Mr. LeDuc reviewed the policy on contractual employees in the Recreation Department who are instructors for some of the programs, such as karate, cake decorating, or ceramics. In response to a question regarding the craft show, Mr. LeDuc stated he had moved some of the expenses for the craft show to the tourism division. He also pointed out there was a revenue account for the craft show, and the show pretty much balanced. He also pointed out the Recreation Department had received some State

Accommodations Tax funds for some of the recreation programs. Council also reviewed the new Tourism Division.

Council continued to go through the budget by departments, asking questions regarding proposed expenditures, revenues and transfer of funds.

Mr. LeDuc pointed out some programs that the City supports that Council may want to consider whether they want to continue to support. These programs include the salaries for the Senior Tax Write Off Program, Contingency Fund for emergencies, Chamber of Commerce, Aiken County Library, ADDA, Downtown Decorations, Character Education, Safety Program, Annexation Incentive Program, and Historic Tax Rebate.

Mr. LeDuc pointed out that the city's Hospital and Medical Insurance had decreased this year, so this was good for the budget. He stated the City was promoting wellness programs, and it was felt this was helping with health insurance rates. Other items which have decreased are Worker's Compensation and fire and general liability insurance.

Council also reviewed the Utilities Fund revenue and expenditures, Stormwater Fund and the various other funds. Mr. LeDuc also reviewed the monies in the Reserve Fund and stated about 99% are designated funds for various projects. Council also discussed city vehicles, the Public Safety Take Home Program and the cost versus paying mileage.

Mr. LeDuc pointed out the budget was prepared with the goals set by Council at the Horizons meeting as a guide. He stated money was in the budget for assistance with the Downtown Design Guidelines, spay/neuter program, consultant for Federal grant assistance, litter crew, northside development, salaries for employees, and new water meters. He said the budget does reflect the proposed annexation of Gem Lakes. He pointed out there are no increases in taxes, water, sewer, or garbage in the proposed budget. He pointed out he will reevaluate the water and sewer rates about September to see if a rate adjustment needs to be made, but he is hoping that the revenues will have increased enough so a rate increase will not be necessary. It was pointed out the city is growing, and this growth has helped with revenues. He said the proposed growth is factored in the proposed budget. It was pointed out that people who are moving into the community are coming to the restaurants downtown to eat and are buying in our stores. He pointed out this is one reason the gross revenue for businesses has increased and increased the city's revenue from business license fees.

Council then discussed the business license rates again. Councilman Cunning stated last year \$1,550,000 was projected for business licenses, but \$1,650,000 was realized. He said if the city has that same growth, perhaps there could be some savings in the growth for the businesses.

Councilman Smith pointed out that if Council does the \$100,000 option, that would reduce the rates in all the categories and would be a tax decrease for every category based on the revenue from last year. The option would reduce each category by 5 cents per \$1,000, and at the same time move the contractors to Category 3 rates. He felt this would answer Councilwoman Vaughters' objections. He felt this would not increase businesses' license fees, except for contractors and the large retailers.

Mr. LeDuc stated his understanding of the general consensus of Council is that they would like for the city to adopt the NAICS system, which recommends that general contractors be moved to a Class 3, where they should have already been with the Class 3 rates, and that each Class rate be set as listed under the \$100,000 NAICS listing on the rate alternatives given to Council.

Councilwoman Clyburn stated she felt it was a good goal to reduce the taxes that businesses have to pay, but she did not believe that the proposed rates will be hurting that many of the businesses. She pointed out businesses seem to be flourishing.

Councilwoman Vaughters stated she felt reducing the rates would be showing the businesses that the city appreciates them, and it is a way of showing appreciation.

Mayor Cavanaugh pointed out again that the Business License Tax Comparison sheet indicates that the City of Aiken is lower than other cities in at least 62 of the license fees, compared to other cities in South Carolina. He also pointed out that the increase in SCE&G rates and gasoline will affect the budget with increased expenditures. He pointed out he had received no negative comments regarding the business license fees.

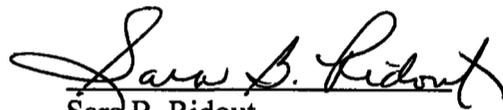
In response to questions regarding a surplus at the end of the fiscal year, Mr. LeDuc responded that generally the city has had a surplus for several years. He stated Council could do whatever they desire with the funds. He stated historically the city has put these funds in the Reserve Fund, and the funds pay for various items that Council wants to do, such as various studies that Council requested during the year, roll carts, and the roundabout at East Gate Drive. He pointed out, however, if the City did not have those surplus funds to put in reserves, at some point the City would not be able to do those special projects.

Councilman Smith stated he had to defend the surplus system, as he felt it worked much better than his experience with the Federal government, where the departments spend all the funds before the end of the year or their funds will be cut the next year.

Mr. LeDuc stated he will place first reading of the budget on the May 9, 2005, Council meeting as well as have second reading of the Business License Ordinance.

ADJOURNMENT

The meeting adjourned at 6:30 P.M.


Sara B. Ridout
City Clerk