**FINAL DRAFT**

# City of Holiday Island

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# Holiday Island Suburban Improvement District

# Long Range Plan

**This plan has been endorsed by the Holiday Island City Council and the Holiday Island Suburban Improvement District Board of Commissioners.**

**08-27-26**

## FORWARD

On May 2nd, 2026 a study was presented in a public forum by the City of Holiday Island and the Holiday Island Suburban Improvement District (HISID) exploring the feasibility of the City taking over all the services currently provided by HISID. The presentation can be found on the City website, www.cityofholidayisland.com, by clicking on the About/Contact drop down menu, selecting services, and then clicking on the link to the May 2nd presentation. The over-arching objective of the study was to identify sources of revenue available to the City that would replace the $1.8 million HISID collects annually in assessments to cover operating expenses.

The study made some assumptions:

- A 5-mill property tax along with existing fuel tax turnback funds would be used to take over road maintenance.
- A 2.5% sales tax would cover increased administrative costs the City would assume by phasing out the HISID.
- The sewer and water department operation would transition to the City after the current bond is paid off.
- A Public Service Urban Service District reporting to the mayor would be established to operate the fire department and either continue with a sheriff deputy contract or establish a police department.
- A Parks and Recreation Urban Service District reporting to the mayor would be established to take over the recreational amenities.

The following plan to transition all services to the City and phase out HISID has been endorsed by the City Council (the City) and the Suburban Improvement District (HISID) Board of Commissioners. <u>However, it must be understood that planning is a process that develops over time and some portions of this plan may change or not materialize due to legal constraints, funding challenges, and community input.</u>

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|---|---|
| Dan Kees | David Rochefort |
| Mayor | Board of Commissioner Chairman |

## BACKGROUND

***The Assessed Benefit Dilemma:***

HISID is a special political subdivision of the State of Arkansas operating under Ark. Code Ann. §14-92-101 et. seq. and is <u>not</u> a POA or HOA. HISID obtains part of its funding to maintain and operate the assets that were gifted, purchased, or built by charging sewer and water fees, charging recreation fees, charging for marina slips, etc. The remaining revenue comes from an annual assessment on benefits authorized in Ark. Code Ann. §14-92-225. How this works is complicated. But a simple example would be:

*I own a lot that is worth $1000. HISID builds a road to my lot and now my lot is worth $5000. The "benefit" I realized from the construction of the road is $4000. So now HISID can tax me each year to maintain the road. But every time they tax me, my "benefit" balance is reduced by some amount. Once my "benefit" balance is reduced to zero, HISID can no longer assess the tax, and a big source of revenue goes away.*

The statute as written has an inevitability built into it that suburban improvement districts will have an end of life and were primarily meant to help build infrastructure. Not for long-term operations and maintenance. If nothing changes, at the current 3.5% annual rate of inflation, HISID would reach that point in 2037.

***The Reassessment Complication:***

Arkansas law provides suburban improvement districts with the authority to periodically review and adjust assessed benefits when appropriate. Communities across Arkansas have taken different approaches to addressing changing circumstances and long-term planning needs. This plan is being pursued to provide greater certainty for the future of Holiday Island and to support the long-term stability and sustainability of the community.

***Incorporation:***

The work to incorporate into a city began in 2017 with the desire to avoid the problems and outcomes that other districts across the state faced. It was known in 2017 that incorporating as a city would be necessary to provide a viable long-term financial foundation for the community. Holiday Island was officially incorporated in 2020 and has been able to provide services to Holiday Island since 2022 when the city first began to receive public funds. The services provided by the City of Holiday Island have allowed HISID to keep the annual assessment flat for the last three years despite inflationary pressures.

***The strategic benefits:***

- Long term financial viability not dependent on statutes that were written as a means of creating infrastructure without a plan for long term operation and maintenance.
- Making vacant lot ownership more affordable and increasing lot retention.

- Relieving the property owners of the financial burden of defending against lawsuits and lot foreclosures which has totaled tens of thousands of dollars over the years.
- Providing the stability that developers and business owners need to invest in the community.
- Providing the stability required to protect property values.

## PHASE #1: ROADS (2027)

Since the City's incorporation in 2020, HISID has dedicated 14 miles of roads to the City, and the City has resurfaced approximately 12 miles of roads. In total, through 2026, the City will have covered approximately $1.28 million in road resurfacing and maintenance costs.

HISID plans on dedicating the remaining approximately 55 miles of road to the City by year end and will transfer the road department assets to the City. The City will assume 100% of road maintenance responsibility starting in 2027.

The governmental revenue received from the State, sometimes referred to as turnback money, is based on population, not on miles of road. Holiday Island must maintain 69 miles of road whereas a typical City of 2500 people would only have 5-10 miles of streets. Consequently, Holiday Island's road maintenance budget is larger than a typical City our size.

Road department revenue and expense projection for 2027 (note that these are not firm approved budget numbers as of this printing):

| **City Road Budget @ 100% city responsibility** | 2027 | |
|---|---|---|
| **Beginning fund balance** | 655,369 | |
| **Revenue** | | Assume 4% annual increase |
| Electric Vehicle Registration | 998 | |
| Four Lane Highway | 0 | |
| Highway Severance | 2,707 | |
| County property tax for roads | 93,479 | |
| Interest income | 15,600 | |
| Property tax relief | 3,002 | Not in city 2026 budget but actually received |
| Special revenue (fuel tax) | 192,550 | |
| Wholesale fuel tax | 17,034 | |
| Arkansas State Ai9d Streets Grant | 400,000 | One time grant. Not annual revenue. |
| **Total governmental** | **725,371** | |
| Culvert installations & other | 2,000 | |
| Road cuts (For water line repair) | 60,000 | |
| Transfer from general fund (from 5 mill property tax revenue) | 150,000 | |
| **Total other** | **212,000** | |
| **Total revenue** | **937,371** | |

| | | |
|---|---|---|
| **Operating expense** | | 2027 = HISID 2026 + 10% |
| Chemicals - fertilizer | 1,650 | |
| Dues - fees | 330 | |
| Employee screenings | 550 | |
| Equipment purchases under $5000 | 4,400 | |
| Fuel | 16,500 | |
| Building repair | 2,200 | |
| Street lights | 1,650 | |
| Equipment repair | 6,050 | |
| Parts/materials | 4,400 | |
| Tires | 5,500 | |
| Vehicle maintenance | 3,850 | |
| Road materials | 22,000 | |
| Safety | 3,300 | |
| Snow/ice control | 16,500 | |
| Supplies | 3,300 | |
| Telephone | 2,530 | |
| Waste disposal | 1,320 | |
| Uniforms | 1,650 | |
| Utilities | 11,000 | |
| **Total operating expense** | **108,680** | |
| **Total expense** | **406,604** | |
| Vehicle & Equipment replacement | 90,000 | |
| Annual repaving (Woodsdale Drive and part of Stateline Drive) | 440,000 | From ARDOT for the Woodsdale/Stateline project |
| **Total expense** | **936,604** | |
| **Street fund net** | **767** | |

The transfer from the general fund shown in the revenue table is revenue from an ad valorem or property tax millage levied in 2026 that was passed in anticipation of the City taking over the roads. This millage must be set annually by the city council and is levied by the Carroll County Quorum Court.

The repaving of Woodsdale Drive and Stateline Drive from Holiday Island Drive to Woodsdale is planned and will be done primarily with a $400,000 grant. This is the second grant that the city has received but grant money is not available every year.

As part of the 2027 budgeting process, HISID passed a resolution committing to a reduction in assessments as a result of not having the road department expense. The actual amount will be determined during the budgeting process.

## ADMINISTRATIVE COSTS

Municipal administration costs refer to the total expenses incurred by local government to manage and operate its administrative functions and deliver public services. This can include:

- *Direct costs:* Salaries and benefits for administrative staff, materials and supplies, utilities, rent, travel, training, and other operating expenses directly tied to administrative activities.

- *Indirect costs:* Shared administrative expenses such as legal, finance, human resources, facilities maintenance, insurance, technology, and other support functions that benefit multiple departments.

Before proceeding with other transitions from HISID to the City, the City must consider what the increases in administrative costs will be for the City and the sources of funding to cover those increased costs.

| | City | HISID | Combined |
|---|---|---|---|
| **Current Administrative Expense** | **$203,087** | **$890,343** | **$1,093,430** |

The long-term projected administration expense is estimated to be approximately $640,000 or an increase for the City of $437,000. This is significantly less than the combined current City/HISID expense of $1,093,000 primarily due to lower anticipated salary expense, lower insurance costs, and lower legal expense. The HISID administrative expense would go away once all services are transitioned to the City and HISID is phased out. The resulting reduction in the annual assessment likely can be done in steps as Water and Sewer, the Fire Department, and recreational amenities are transferred. The amount would be determined annually during the budgeting process.

The incremental administrative cost is planned to be covered by a 2.5% sales tax which the City Council will have placed on the November 3rd election ballot where the voters will make the decision whether we are to move forward or not.

**A vote for the tax will mean that planning for the transition of the Water and Sewer Department and Fire Department can be started.**

**A vote against the tax will mean that all future transition planning will be put on hold and remain the responsibility of HISID with no reduction on Assessment of Benefits beyond that from the Road Department transfer.**

## PHASE #2: WATER and SEWER (2027/28)

In 2008, HISID issued a $5.6 million bond to upgrade the sewerage treatment plant. HISID has been making annual payments on that bond since 2012, and the bond is scheduled to be retired in October of 2031. Over the years collections have exceeded the debt service expense and as such, the reserve fund could potentially be sufficient to retire the bond as early as 2027 or 2028. Once the bond is retired, the complete Water and Sewer works will be transferred to the City.

Operation of the sewer and water utility is revenue neutral to HISID as it will be to the City. Arkansas law requires periodic rate studies to be performed and Water and Sewer rates must be sufficient to cover operating cost as well as providing a reserve for major repair and replacement. This law was enacted by the state in response to the fact that many utilities with aging infrastructure were not adequately planning for the long-term cost of repair and replacement thus putting their long-term viability at risk.

There are two reasons for transitioning the Water and Sewer department to the City.

1. A City, by statute, can put fees such as a sanitation fee (trash) on the water bill. This assures the City that all improved property owners are paying their fair share of certain expenses thus reducing the cost for everyone.

2. Transitioning the Water and Sewer Department to the City secures the long-term future and stability of the department, ensuring continued service and support as HISID phases out.

Once the sewer loan has been paid the Assessment of Benefits will be reduced by $54.25 as shown on the annual assessment bill and the Sewer Debt charges on the water bills will be eliminated.

## PHASE #3: FIRE DEPARTMENT (2028)

The Holiday Island Suburban Improvement District had an agreement with Carroll County for several years to provide deputy coverage. The City assumed responsibility for that agreement in 2021. A new agreement will be negotiated with the County unless it is felt that deputy coverage is not the best way to protect the safety of Holiday Island residents and property. In which case, the City can potentially establish a police department.

The current plan is to form a Department of Public Safety Urban Service District reporting to the mayor that would include both the policing activity and the fire department. There are no plans to change how the fire department operates. The Urban Service District is a mechanism by which a user fee for those benefiting from the service can be charged and added to the water bill. It is estimated that the monthly fee would be in the $50 to $56 per month range if the City continues to contract with the Sheriff's Department. The Urban Service District would only be formed if enough registered voters petition to have it formed. If the petition drive fails to receive enough signatures, the fire department would remain with HISID.

After this transition, there will be a corresponding reduction in the HISID assessment.

## PHASE #4: RECREATIONAL AMENITIES (2029)

The recreational amenities including the golf courses, sports complex, marina, clubhouse grill, hiking trails and the campgrounds would be transitioned to a Parks and Recreation Urban Service District reporting to the Mayor with the costs to be covered by revenue generated by the amenities plus an urban service district fee. The amount of the fee will be determined in 2029 and will be dependent on the amount of revenue being generated by the amenities at the time and any operational changes that may be made. The assessment will be reduced again after the transition.

## PHASE #5: PHASE OUT OF HISID (2030+)

HISID will make a commitment to phase out the district **<u>if and when</u>** all transitions are completed and operating under the City structure. A phase out of this nature is legally complex involving paying off all debts, liquidating remaining assets, dispositioning delinquent assessments and fees, determining the status of lots that are tax and assessment delinquent, record retention and dispositioning, and many more things yet to be determined. Due to the complex nature, no exact completion date can be projected at this time. However, the commitment  has been made that HISID will phase out when there is no longer a need for it.

The annual assessment will be eliminated once it is certain that all debts have been satisfied and there is no longer a need for annual suburban improvement district revenue.

## SUMMARY STATEMENT

This plan should not be taken as a statement that there is something inherently wrong with the City providing some services and the Suburban Improvement District providing other services so long as both effectively and efficiently serve the people and are financially viable. How these services are provided will be determined based on what is in the best interests of the people of Holiday Island. Every step will be taken with total transparency and with public input. The plan is also not a binding contract but rather a good faith projection of what the City and HISID are evaluating and undertaking. Portions of the plan and the financial projections may change as circumstances dictate.

We ask that all residents and property owners keep themselves informed as to the progression of this plan. You can do that by attending the City council meetings, the HISID BOC meetings and following postings on the City and other websites. And if you have questions, please contact the City, your city council representative, the HISID District Manager, or a HISID BOC member.