



The City of Holiday Island

Our Time to Incorporate is Now

2016 Committee to Study Incorporation

- * Bill Branum – Chairman
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- * Ken Mills – Vice Chairman

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* Participated in earlier studies

Presentation Overview

- Background
- The current study process
- Why incorporate now
- Sources of revenue
- Incorporation process
- Transition
- Summary
- Q & A

History and Background

- “White Paper” produced in November 2002 by an Incorporation Study Group
- “Incorporation Facts Report” produced in November 2002 by HISID and HISID’s attorney to supplement the white paper.
- A follow up fact sheet dated April 2003 was produced to answer questions raised in November.

Much of that information is still applicable today. No action was taken at the time due to mixed community support for incorporating. Since that time there has been periodic discussion on the subject also with no action being taken.

What has changed? Why incorporate now?

- In time, the assessed benefit base, the basis for the primary source of revenue for HISID, will be exhausted.
- As Holiday Island matures (ages) code enforcement becomes more critical and necessary.
- Marketing of Holiday Island has stagnated having a detrimental impact on revenue and property values.

Objective #1: Preserve the assessed benefit

New sources of revenue are necessary to prevent exhausting the assessed benefit balance.

- The assessed benefit, the amount that annual assessments are based on, has a declining balance similar to a mortgage. Once the balance goes to zero it is unsure how HISID would continue to raise revenue. At a 4% inflation rate this will happen in 2035.
- Some years (but not 2017) HISID has had to fund a portion of capital improvements from reserves. If reserves are depleted, it will be necessary to raise assessments which will accelerate exhausting the assessed benefit base.





Current assessed benefit amortization @ 4% inflation

		Current w/4% Inflation					
Date		Improved	Paved				
Assessed benefits base			\$13,000.00				
1/1/2017	Balance		\$10,557.96				
	Interest @ 6%		\$633.48	Payment is more than interest			
	Payment		\$728.00				
1/1/2018	Balance		\$10,463.44	Balance is declining			
1/1/2034	Balance		\$1,392.11				
	Interest @ 6%		\$83.53				
	Payment		\$1,300.00	Assessed benefit is exhausted			
1/1/2035	Balance		\$175.64				

So why not wait until 2035 to incorporate?

- The tax base for Holiday Island would only generate approximately 40% of the current HISID assessment revenue and -
- There is no guarantee that by 2035 the tax base will grow sufficient to replace assessments entirely.
- Incorporating now to subsidize the operation of HISID and extend the life of the assessment base is the “responsible” thing to do.

Sources of Revenue for Cities

- Sales tax turn back funds 
- State road tax turnback funds 
- County road tax 
- Property tax 
- Sales tax
- Hotel/motel tax
- Franchise fees
- Permits and fines

Funds from taxes already being paid by Holiday Island residents:

- Share of Road Taxes - \$156,000,
- Share of property tax for roads - \$88,000,
- Share of sales tax - \$201,000.
- This \$445,000 of added revenue could be used to reduce District assessments by approximately 18% by transferring a portion of district expenditures to the city or having the city contract with the district to provide services.

City Property Tax

The City could levy a property tax of up to 5 mills which would generate approximately \$294,000 of revenue.

- These funds could be used to cover expenditures currently funded by district assessments.
- This could bring the reduction in assessments to a total of approximately 34%.
- A property tax levy of more than 5 mills would have to be approved by a vote of the citizens.

Property Tax vs Assessments

- Property taxes levied by the City would be based on the fair market value of property owned. District assessments are levied equally on all properties in a property class.
- As a result, a reduction in District assessments reduces all assessments in a property class equally.
- As a result of gaining the new revenue (turnback funds) and the property tax, the vast majority of property owners should realize minimal change in over all cost.

Impact on R1 Improved Paved

R1 improved paved	2019	W/turnback funds & property tax			
	Projected	\$150,000	\$200,000	\$250,000	\$300,000
Property value					
Assessment	\$733	\$485	\$485	\$485	\$485
Sewer debt	\$54	\$54	\$54	\$54	\$54
Total assessment	\$787	\$539	\$539	\$539	\$539
City property tax	\$0	\$150	\$200	\$250	\$300
Total annual cost	\$787	\$689	\$739	\$789	\$839

Impact on R1 Vacant Paved

R1 vacant paved	2019	W/turnback funds & property tax			
	Projected	\$2,500	\$5,000	\$10,000	\$20,000
Property value					
Assessment	\$430	\$298	\$298	\$298	\$298
Sewer debt	\$54	\$54	\$54	\$54	\$54
Total assessment	\$484	\$352	\$352	\$352	\$352
City property tax	\$0	\$3	\$5	\$10	\$20
Total annual cost	\$484	\$355	\$357	\$362	\$372

This lessens the incentive to turn back lots.

HISID Assessment of Benefits Post Incorporation. Utilizing Turnback Funds Only

		W/Turnback only					
Date		Improved Paved					
Assessed benefits base		\$13,000.00					
1/1/2019	Balance	\$10,494.28					
	Interest @ 6%	\$629.66	←	Payment about equal to interest in 2019			
	Payment	\$620.84	←				
1/1/2020	Balance	\$10,503.10					
1/1/2040	Balance	\$944.66					
	Interest @ 6%	\$56.68					
	Payment	\$1,300.00					
1/1/2041	Balance	-\$298.66	←	Assessed benefit life extended only five years			

HISID Assessment of Benefits Post Incorporation w/Turnback Funds and 5 mill Property Tax

		After Incorporation				
Date		Improved Paved				
Assessed benefits base		\$13,000.00				
1/1/2019	Balance	\$10,623.87				
	Interest @ 6%	\$637.43			Interest is greater than payment thru 2027	
	Payment	\$486.07				
1/1/2020	Balance	\$10,775.23				
1/1/2034	Balance	\$10,985.16				
	Interest @ 6%	\$659.11				
	Payment	\$875.39			Balance preserved	
1/1/2035	Balance	\$10,768.88				

Options

- Maintain status quo
- Incorporate w/o property tax
- Incorporate (Receive turnback funds & 5 mill property tax)
- Incorporate w/city taking everything but amenities
- Incorporate and eliminate the SID

Issue With Option

- Risks future viability of Holiday Island
- Impact on preserving the assessed benefit insufficient
- 1st step that buys time to explore other options
- Would require voter approval of tax increases
- Would require voter approved tax increases

Summary of Options

			Improved-paved st.				Vacant	
							Paved St.	Gravel St.
Value R-1 property			<u>150,000</u>	<u>200,000</u>	<u>250,000</u>	<u>300,000</u>	<u>20,000</u>	<u>5,000</u>
<u>If City is not incorporated:</u>								
Total assessment			<u>783</u>	<u>783</u>	<u>783</u>	<u>783</u>	<u>480</u>	<u>420</u>
<u>If City incorporates but levies no property tax</u>								
Total assessment			<u>651</u>	<u>651</u>	<u>651</u>	<u>651</u>	<u>403</u>	<u>353</u>
<u>If City incorporates and levies a 5 mill property tax as provided by Arkansas law:</u>								
Total assessment and property tax			<u>685</u>	<u>735</u>	<u>785</u>	<u>835</u>	<u>355</u>	<u>300</u>
<u>If City incorporates and SID retains amenities only: (City levies voter approved property tax)</u>								
			Millage rate	<u>17.393</u>				
Total assessment and tax			<u>739</u>	<u>913</u>	<u>1,087</u>	<u>1,261</u>	<u>219</u>	<u>153</u>
<u>If all of HISID operations transferred to City: (City levies voter approved property tax)</u>								
			Millage rate	<u>22.941</u>				
Total assessment and tax			<u>742</u>	<u>972</u>	<u>1,201</u>	<u>1,430</u>	<u>146</u>	<u>77</u>

Sources of Revenue not being considered:

- The city sales tax: Imposition of a local sales tax would result in a loss of the \$201,000 share of sales tax provided by Arkansas Law.
- Hotel/Motel Tax: Could be voted in to fund economic development and tourism.
- Permits and Fines: Would be a future potential source but the amount would be difficult to project at this time.

Objective #2: Establish code enforcement

- Code enforcement (Declaration of Restrictions commonly called covenants) currently resides with the Planning Commission and unit property owners who's only leverage is threat of civil lawsuits paid by the property owners. This is rarely done due to cost and the time involved to reach a settlement.
- A city planning and zoning commission can replace the current commission and have funding as well as enforcement ability through the criminal courts.

City Planning and Zoning

- The City Council has the authority to establish by ordinance a Planning and Zoning Commission.
- The Commission would develop land use rules, adopt national technical codes for construction (building, electrical, plumbing, etc.), establish a system for permits, fees, and fines relative to enforcement, and establish ordinances regulating unsafe, unsightly, unsanitary, and dilapidated conditions of property.
- Code violations if not abated by the property owner would become a misdemeanor violation prosecuted in criminal vs. civil court.
- The Planning Commission could establish a process for re-platting (or re-plotting) lots in order to make them more attractive to investors. The Commission would work with HISID and the County to determine the impact on assessments and taxation.

What happens to the current covenants?

- Option #1: The city Planning and Zoning Commission could adopt zoning and land use regulations that would not conflict with the existing covenants.
- Option #2: HISID could establish a committee or committees to amend the covenants and by obtaining majority approval from the property owners in each unit assign zoning and land use authority to the city.

Animal Control

- There are currently no animal control ordinances other than those for the county in general.
- The city could pass an animal control ordinance (example: roaming or dangerous dogs) and have enforcement authority.

Objective #3: Address Stagnated Growth

- Marketing for Holiday Island historically was done by the Developer. However, development of Holiday Island is basically complete (all planned infrastructure is in place).
- HISID has no authority to be the “marketing” agent for Holiday Island residential development. The HISID advertising budget is restricted to approximately \$30,000 annual.

Advertising and Promotion

The city could choose to establish an advertising and promotion commission with broader authority to do the things necessary to stimulate growth.

Initial Plan

- Conduct a petition drive to incorporate as an Incorporated Town.
- Hold elections for mayor, city clerk, and at large aldermen, establish the basic city functions and initiate revenue streams.
- Contract with HISID and others to provide the services required by law (Roads, Fire Protection, Solid Waste Management)
- Retain the SID to continue performing existing functions either as currently structured or under contract with the city.

Longer Term

- Holiday Island would have a population sufficient to be a City of the 2nd Class. The city government would have to make the decision when (not if) to upgrade.
- A City of the 2nd Class requires establishing a minimum of 5 wards of approximately equal population.

Priority for Incorporation

The initial priority will be to do no more than is necessary to realize the objectives stated earlier.

- Bring in new sources of revenue and reduce the incentive to turn back lots
- Bring about code enforcement capability
- Stimulate growth in Holiday Island

The First Five Years

Actual decisions as to how the city and HISID would split the responsibilities for operating Holiday Island would be made by the elected officials. However, this presentation is based on the following assumptions:

- Roads – City contracts with HISID for road maintenance. Cost is shared.
- Fire Department – City contracts with HISID for fire protection. Cost is shared.
- Sewer & Water Department – Stays with HISID.
- Police contract stays with the County
- Amenities – Stays with HISID.
- Planning and Zoning – Transitions to the city.
- Advertising and Promotion – New function for city.
- Solid Waste (Trash pick up) – New function. City bids the contract.

The Petition to Incorporate

- A petition drive must be conducted to obtain approval to incorporate from the majority of the eligible voters. To be an eligible voter you must be registered to vote with Holiday Island being your permanent residence.
- The petition along with a description and map defining the area being incorporated, the name of the city, and the persons authorized to represent the petitioners is presented to the County Quorum Court Judge for approval.
- After determining that all the requirements of the petition have been met the County Court “makes an order” endorsing the petition, the county recorder records the petition, legal description and map and forwards a copy to the Secretary of State.
- Within 30 days after filing the petition a public hearing is conducted. Depending on the outcome of the hearing, the petition either stands or is annulled.
- The Secretary of State records the creation of the City of Holiday Island and makes the necessary communication of such.

Timeline of Major Activities

2017

- Conduct petition drive
- Hold elections for mayor, aldermen, and city clerk/treasurer
- Set up the basics for operation of the city government (office space, computer system, phone, accounting system, bank accounts, records keeping, etc.)
- Pass ordinances establishing meeting rules, special meetings, and emergencies.
- Establish agreements with the County and HISID to provide police, fire, roads services.
- Notify County if intent is to levy property tax
- Start to receive turn back funds.

Timeline of Major Activities “Future”

Subject to decisions made by the city government:

- Establish wards and upgrade to city of 2nd class
- Pass ordinance establishing a Planning and Zoning Commission
- Pass ordinances covering land use, technical codes, permits, fees, and penalties, animal control.
- Pass ordinance establishing an Advertising and Promotion Commission – set up city website.
- Contract for solid waste management
- Establish other ordinances, rules, procedures as required to form a fully functioning city. Examples: Personnel policies, traffic rules, rules for use of fire arms, etc.
- Determine if and when to start to transition major functions to the city.

Summary

- There is a compelling need to incorporate and the sooner the better.
- The resources are there to put Holiday Island on solid financial ground for the future.
- Promotion of Holiday Island can be re-started.
- Code enforcement capability can be established.

The time is now to do something bold and positive to move Holiday Island forward.

Two More Things!

We are going to need canvassers for the petition drive.

If you would like an electronic copy of the presentation e-mail me at dandtkees@cox.net

Questions?

Appendix

Pertinent Arkansas Codes

Codes	City
8-6-211	Municiple waste management codes. (Also ref. other legal requirements specified in Title 8)
14-37-103	Cities with a polulation between 500 and 2500 shall be deemed a city of the second class.
14-37-105 (a)	Again states that city with population 500 - 2500 is a city of the second class
14-37-107 (a1)	Duty of Govenor, State Auditor, Secretary of State (any 2) to determine population based on census
14-37-107 (a2)	Govenor to "cause a statement" indicating what class a city is.
14-37-101 (b)	Mayor to make notice at next mtg of intent to publish by laws or make ordinances relative to elections, duties, etc
14-38-108	Covers petition for incorporation
14-38-103	Covers the hearing on the petition
14-38- 104	Covers the Order of Incorporation
14-38-105	Completion of incorporation (notice of cities existence is taken in all judicial proceedings in State)
14-38-108	Covers first election
14-38-116	Map required with Arkansas Geographic Information Systems Office
14-44-101	City of second class to create wards of nearly equal population.
14-44-103	Covers when to hold elections, two year terms, alternative for four year terms
14-44-105	Covers election of mayor
14-44-109	Covers election of marshall, treasurer, recorder (clerk)
14-44-111	Covers alternative to appoint marshall
14-52-101	Authorizes the city to establish a police department but does not require it.
14-53-101	City of second class SHALL ESTABLISH a fire department or enter into an interlocal agreement with an existing fire department.
14-301-101 (1)	City Council SHALL have care, supervision, and control of the city streets, roads, and right of ways.
10-301-101 (2)	Must keep roads open, in good repair, and free of encumberances
26-25-102	Authorizes up to 5 mills property tax
26-79-104	Cities share 1/2 of 3 mills of County road tax collected on property within the city.

Pertinent Arkansas Codes

	SID
14-92-210 (1)	Covers SID authority to make and execute all contracts, leases, conveyances, and other instruments of the district
14-92-210 (2)	Covers SID authority to "join with other political subdivisions, municipalities, districts, or governmental agencies, either State or Federal, in the acquisition, construction, <u>maintenance, operation, and financing</u> of any of the facilities, works, or operations authorized by this subchapter or as to the performance of its functions."
14-92-220 (b)	"Any District shall have the power to sell or lease any improvement owned by it to any adjacent or nearby municipality, to any improvement district therein, to any public service corporations serving on behalf of the property owners, or to any other corporations, or organization, or person.