

JICANet Update

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Report of JIA Finance Committee Meeting

Record of the Jekyll Island State Park Authority (JISPA) Finance Committee Meeting of 16 November 2009, in the Convention Center Room 9, as recorded for JICA

Chairman Mike Hodges called the meeting to order at 8:40 AM. Board members present by telephone were Chris Clark, Steve Croy, Bob Krueger, Sybil Lynn, and Richard Royal. Park Executive Director Jones Hooks was also present. Hodges announced that the purpose of the day's meeting was to discuss a couple of issues related to the current proposal for extension of the leases of residents of the Park.

Hodges observed that at the last Committee meeting, two issues that stood out were: 1) the potential addition of caps and floors to the changes in land values caused by increased appraisals by Glynn County; and 2) the method of sharing of rental revenues obtained by residents renting homes. David Shiver of the Park's leasing consultant (Bay Area Economics, BAE) was asked to review these two areas of potential change to the lease-extension proposal.

Director Hooks presented Shiver's recommendations. Hooks noted that Shiver had earlier recommended against inclusion of caps and floors in the lease-extension proposal. Shiver's reasoning was that use of a cap would complicate calculations and could lead to inequity among residential fees with respect to percentages of their land value that would be in effect after application of a cap. Shiver has repeated his recommendation against inclusion of a cap. He explains that he originally recommended that an extremely low percentage (0.4%) of land value be used to calculate the annual leasing fee, so that a cap would not be needed. He also states that generally, when caps on increases in leasing fees are set, they are set well above the long-term average increase, not near the increase expected. Shiver felt that a 6% cap would result in a significant loss of revenues to the Authority over the next 40 years, so he recommended that a cap of at least 8.2% should be used, if a cap must be included in the lease-extension offer, but this would still result in a significant loss of revenue to the Authority. If a cap must be used, then he would recommend application of a catch-up policy for residences that fall behind in percentage paid of land value. One catch-up

policy could be catch-up upon transfer of leases. He pointed out that these catch-up policies would cause the lease-extension offer to be complicated, and not conform to the Authority's goal of keeping the offer simple.

Accounting Director Marjorie Johnson provided examples of the results of using an 8% cap for percentage increases in land valuation as used in calculating leasing fees. Four properties in the Park were used, looking at the period 2003-2009. Two of these increased negligibly, but the other two increased dramatically (>60%). Application of the cap resulted in two lots (the ones with the >60% increase in appraisal) being charged lower percentages of land value than the others. Bob Krueger observed that this information makes it clear that use of a cap creates more problems (complexity, unfairness) than it solves, contrary to his first impression of the cap-and-floor idea. He also noted that any financial hardship caused by large appraisal increases would be mitigated by the 5-year 50% discount for early sign-up and the 10-year 50% discount for homesteaders. Richard Royal remarked that during his service in the State Legislature, he found that application of any type of artificial restraint upon land valuation for tax purposes resulted in infliction of inequitable consequences.

Chairman Hodges reiterated that the goal of the Committee is to provide a simple and fair lease-extension offer. He also remarked that, as a banker, he has found that the more complex a lease, the harder it is to obtain financing for it, potentially discouraging future purchasers of residences in the Park. Hodges and Director Hooks observed that the low percentage to be used in calculation of leasing fees, and the discounts for early signers-on and homesteaders, were not recommended by either of the leasing consultants (Bleakly and BAE), making the point that the Finance Committee did not just routinely accept their consultants' views. Bob Krueger made a motion that the residential leasing fee in the Authority's 2010 lease-extension offer be calculated as 0.4% of the land appraisal for each lot in the Park (omitting the cap-and-floor idea). The Committee approved the motion.

Chairman Hodges turned to the question of the potential license fee for renting of residences in the Park. Director Hooks reported that consultant Shiver was of the opinion that a license-fee cost of 3% of rental revenue was a good alternative to his earlier recommendation (annual cost 0.2% of value of land+improvements, regardless of duration of the rental period at each residence). Shiver also reported that similar rates at other locales, as percentages of rental revenue, were in the range of 3 to 5%, with some as high as 10%. Bob Krueger described discussions that he had had with Marjorie Johnson, during which she had noted that she could collect the licensing fee as a percentage of monthly reports of rental revenue. This was believed to be a better arrangement than basing the licensing fee on a prior year's revenue. Hodges observed that increased visitation due to revitalization (leading to more rental revenue) is not expected for a few years. Therefore, he proposed that the 3% licensing fee be reached in phases of two-year periods at 1% and 2%, prior to reaching the top figure of 3% in year 5. Krueger stated his support for this ramp-up idea. The Committee approved the proposal to recommend a 3% licensing fee, with a four-year ramp-up to the 3% figure.

Chairman Hodges concluded the discussion session by stating that the Committee would meet once more prior to the December Authority Board meeting, and prepare a written recommendation to the whole Board, for potential approval and adoption.

Tise Eyler expressed concern about the use of the term "property value" in the day's discussions. He wanted clarification: shouldn't it be "land value"? Answer: it is LAND VALUE, not "property value", that is to be used in calculation of leasing fees.

Frank Cerrato observed that application of a 3%-of-revenue fee for a rental license is rough when many renters have a negative cash flow for the rental of their residences. Cerrato asked whether the licensing-fee requirement would be tied to the new, extended lease? Answer: the intent of the rental-license proposal is not to tie it to the new lease. It will be part of a new residential-rental ordinance. This whole issue will have to be reviewed by the Attorney General. Cerrato also asked what qualifications would permit him to obtain a rental license? Answer: simply that you own a lease on a residence in the Park.

Sandy Cerrato inquired about the leasing-fee rates that would apply after 2019, since there will be no cap to the land-valuation changes? Answer: residents signing the lease extension during 2010 will be paying an annual leasing fee of 0.4% of land value in 2020.

Bob Lelli wondered when the one-year period for signing-on to option 2 of the lease-extension offer (the option involving 0.4% of land value as the lease-fee basis) would begin – would it be 1 January 2010, or would it be the day when the official lease offer is available for signing? Answer: it is planned to have the lease offer officially available for signing on 1 January 2010, and for the new lease to go into effect on 1 January 2011.

Skip Adamson suggested that the new, 1% rental-licensing fee should not go into effect until 2011, since rates for 2010 have already been set, so it would not be fair to apply the licensing fee in 2010. Chairman Hodges took this point under advisement. Adamson also asked whether the leasing fee for the 10-year discount period under the early-sign option would be set for 10 years at 0.2% of the land valuation at the beginning of the 10-year discount period? Answer: no; the discount rate will be 0.2% of the land valuation. If land valuation rises during the 10-year period, then the discount-leasing rate will rise with it.

Richard Royal interjected the point that it is the appraisal value of the land that will be used in calculation of leasing fees, not the "assessed" value; "assessed" value has lately often been confused with "appraised", or "fair-market" value. "Assessed" value can include legal tax-break discounts, which will not be included in calculation of residential leasing fees in the Park. Chairman Hodges agreed and thanked Royal for the clarification.

Gil McLemore made the point that it is not actually land value that will be used – rather it is the appraised value of the LEASES that the Park's residents hold. McLemore and Hodges agreed that the correct term is "leasehold estate".

Chuck McManus observed, with regard to the goal of having the new lease be fair, that under the new lease, even if there were a 6% cap on land valuations, he would probably be paying \$100,000 more over the next 40 years than if he kept his current contract. Without a cap, the amount of extra fee payments would probably be even greater. Chairman Hodges argued that one could make the same observation about anything

that he/she would buy over the next 40 years (e.g., gasoline, mortgage interest). McManus countered that he already has the current lease – it isn't something he would buy in the future like gasoline at inflated prices. Director Hooks remarked that it was the Jekyll Island Citizens Association that requested extension of the ground leases, because of the requirement of banks for 30 plus 10 years of lease duration when potential buyers of Park residences applied for mortgages. Bob Krueger interjected that the value of leasehold improvements would rapidly decline for lots without lease extension to 2089.

Pat Overholt expressed concern about stability of the Park community. She has noticed that there are now more homes for sale than at any previous time during the 33 years in which she has lived in the Park. She felt that the prospect of having to pay high additional costs to live in the Park has become frightening for some residents. She was concerned about not having received reassurance about the future shopping district, or the future of the Linger Longer plans for the Park. Chairman Hodges responded that the prospects for the revitalization of Jekyll are as good as they have ever been. He pointed to the \$50 million in general obligation bond proceeds that the State has provided, and he asserted that Linger Longer is raring to go. Overholt observed that the people of the Island are what make it stable, so the potential loss of significant numbers of those people is a matter of concern. Director Hooks stated that many of the Authority's projected goals are being reached, in spite of the difficulty of obtaining financing for new-hotel construction (e.g., the new gas station project is underway; the Great Dunes Park project will have its groundbreaking on 7 Dec). Overholt reiterated her concern about absence of adequate reassurance regarding the future of the Park, perhaps especially for visitors. Hooks reassured Overholt that there will be more communication regarding the continuity of operations and available of facilities during the transition to the opening of the new Beach Village and new Convention Center.

Bonnie Newell remarked that visitors seeing empty lots where hotels had been are not encouraged by that sight to feel that Jekyll Island State Park will be a good place to vacation in the future.

Joe Iannicelli expressed concern that fees for the proposed new residential leases in the Park could exceed the leasing fees charged to commercial leaseholders. Iannicelli felt that commercial lease fees should be divided by the number of floors in the commercial buildings before comparing the fees to those to be charged for residences on comparable land. If the commercial fees after division are lower than those of residences, this would be inequitable, and could be challenged.

George Miller stated that he rents his Jekyll residence, which can accommodate 8 guests, from May to September. He and his wife keep the rental house spotless, and provide barbecue grills, Beachview Club membership, etc., to keep the guests happy and comfortable. There is, thus, considerable expense connected to his rental business. If the Authority takes a substantial piece of his rental income, he may be forced to stop renting, which would force his patrons to use hotel rooms, at considerably greater cost to them than they had renting from him. Miller felt that the licensing fee was actually a punishment fee.

Jeff Shadrick, who rented his home before moving in some time ago, described his consideration of possibly buying other residences in the Park, to start a rental business. He found that he could not make a reasonable profit doing so. Shadrick observed that current residents who have purchased their homes from former residents have invested substantial amounts of money in their homes, and therefore, cannot rent them for amounts that balance their expenses. Shadrick also referred to the "bed tax" that is currently taken from the rental income of home-renters in the Park. It was his understanding that the Authority's portion of this tax is used for marketing. Shadrick felt that it might be more acceptable to renters if the new income stream (from the proposed rental licenses) were added to the rental bills as an additional "tax", as opposed to requiring purchase of a license. He reiterated that the new license fee would come out of home-renters' income, not from profit, so dealing with it as an expense for tax purposes would be easier if it could be listed as an additional tax on the rental bill.

Gloria Zocchi asked for further clarification of the terms "assessed" and "fair-market value". Chairman Hodges apologized for using the terms "assessed value" and "fair-market value" interchangeably. The County establishes the fair-market value of the leasehold estates in the Park, and then assesses a County property tax on a portion of that fair-market value. It is the fair-market value that will be used to calculate leasing fees for the new, extended leases in the Park.

Kay Hoffman remarked that the bonds which are providing the funding for the Great Dunes Park and the new Convention Center are municipal bonds. She felt that municipal bonds are the only type these days that are providing a decent return. She wondered whether Linger Longer has access to this type of funding? Answer: no; it must come from private lending agencies, such as banks.

Frank Mirasola wondered how much of the revenue collected in Jekyll Island State Park stays in the Park, and how much flows to general State income funds? Answer: (from Marjorie Johnson) all of the revenue generated in the Park stays in the Park, except for sales tax. Tise Eyer added that confusion on this point came a few years ago when it was stated in letters to the editor in the Atlanta Journal and Constitution that substantial monies had flowed from Jekyll Island State Park to the State government in Atlanta. It turned out that this was likely to have represented payment on a bond issue that had been used to fund renovation of the current Convention Center.

There were no further comments, so Chairman Hodges adjourned the meeting at 9:39 AM.

Steven Y. Newell, Jekyll Island Citizens Association

The Jekyll Singers Annual Concert of the Season

The Singers will present a beautiful variety of seasonal music to please everyone. Tuesday, December 8th, 7:30 PM Jekyll Island Convention Center, Beachside Hall. Come and bring a friend. Admission is free. The Jekyll Singers is a program of the Jekyll Island Arts Association.

Join in Toys for Tots

The Jekyll Island Fire & EMS and Georgia State Patrol has joined forces with the United States Marine Corps and will be serving as a collection point for the "Toys for Tots" program. Anyone wishing to donate a new unopened toy for a local child in need may do so at the GA. State Patrol Post #35 on the Jekyll Causeway, Maxwell's variety store in the shopping center and at the Jekyll Island Fire & EMS at 200 Stable Rd.

Please help spread the cheer of Christmas and donate to this worthy cause.

Reminders of Previously Announced Events

- JIAA Pottery Guild annual Holiday Sale, Sat Nov 28, 10:00 am – 4:00 pm, Guild Annex in the JI Shopping Center
- Annual Tree Lighting Festival, JI Historic District, Sat Nov 28 4:30 - 7:30 pm.
- JI Arts Assn Annual Advanced Member's Show, Goodyear Cottage, Opening reception Sat Dec 5 2:00 - 4:00 pm.
- Town Hall Meeting, Thur Dec 10 5:00 - 6:30 pm, upstairs at Morgan's Grill

---and that's the news from Jekyll Island where history lives, nature abounds and our turkeys are in hiding. Darrell Davidson, Interim JICANet Editor

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