



May 5, 2014

**The Honorable Mayor and Town Council  
And the Citizens of the Town of Sunset Beach:**

In accordance with §159-11 of the North Carolina General Statutes, I am pleased to present the *Recommended Budget* for the Town of Sunset Beach for the fiscal year beginning July 1, 2014 and ending June 30, 2015.

The proposed operating budget for FY2014-2015 is \$5,753,895, a \$99,149 increase and represents a 1.7 percent increase over the current amended budget of \$5,654,746. In addition to property tax revenues and other assorted taxes and fees, the General Fund Revenues include a \$500,000 transfer from the Future Street Resurfacing: Fund 26 and a General Fund (Reserves) appropriation of \$304,356.

After applying several forecasting models through FY2018-2019 using the recommended budget, the results revealed that the Ad Valorem Tax Rate of 10.5 cents will not sustain day-to-day operations and a Capital Improvement Program beyond FY2014/2015 without reducing our General Fund (Reserve) Balance below the recommended 75 percent. Staff recommends a 3.30 cent increase to the Ad Valorem Tax Rate. This recommendation represents an increase to 13.80 cents per \$100 assessed valuation. A resident with property valued at \$250,000 would experience a projected increase of \$82.50 in Tax Year 2015.

**BUDGET OVERVIEW**

When the Town begins the budget process, staff utilizes a comprehensive list of sources (i.e. North Carolina National League of Cities, Bureau of Labor Statistics and historical trends) to project revenues and estimate expenditures to fund current programs and services with our existing workforce. In addition, the staff reviews processes and programs to discover any cost efficiencies.

Every Town Department Head contributed to the overall goal of creating a recommended budget that incorporates a fiscally responsible plan for the provision of quality services. Staff was directed to submit a conservative budget. The initial submissions exceeded the projected revenues by \$635,337. After additional one-on-one meetings with each department the budget was reduced by \$390,981. This recommended budget includes the following increases/reductions:

### **Revenue Noteworthy Items**

- Assessed value of all real property is \$1,810,189,414 (as of 2-25-2014), a decrease of \$38,254,333 or 2.1 percent. Real property values have decreased approximately 37% since 2010.
- Recommended Property Tax Revenue is based on the Ad Valorem Tax Rate 10.5 per \$100 assessed valuation.
- One cent (\$0.01) on the real property tax rate is equivalent to \$181,019.
- \$1,825,242 decrease in *Current Year Tax* reflects the total real value received from the Brunswick County Tax Office and applying the previous year's collection rate percentage of 96.62 percent.
- \$92,025 decrease in *Prior Year Taxes* reflects the historical collection amounts.
- Reductions in the *Local Options Sales Tax 39, 40 and 42* reflect a 3% increase from the previous year's adopted projections.
- \$98,097 increase in *City Hold Harmless* reflects the increase of sales tax from the State of North Carolina using the revenue calculator.
- \$50,000 reduction in the *Accommodation Tax* reflects the collection trend in recent years.
- \$6,462 reduction in *Utility Franchise Tax* reflects the receipt trends and remains dependent upon weather and the corresponding utility demand.
- \$4,619 reduction in the *Telecommunication Tax* reflects the national trend of replacing landlines with cell phones and will continue to trend downwards.
- \$50,000 reduction in *Building Permits* reflects the current trend in collections and current fee schedule.
- \$10,000 reduction in *Miscellaneous Revenues* based on historical trends.
- A one-time revenue of \$35,000 for the Underground Assessment relates to the North Shore Drive Project to bury the electric lines and reimburse the Town.
- \$500,000 Transfer from the Special Reserve Street Fund 26 to General Fund Revenues relates to the Street Resurfacing Program.

### **Expenditure Noteworthy Items**

- \$6,598 increase in *Governing Body* expenses includes the purchase of the start-up equipment for the PEG Channel.
- \$6,000 in alternate years under *Elections* reflects the year to be expensed.
- \$310,598 reduction in *Public Buildings* reflects the end of debt payments for the Fire Station #2 and Town Hall.
- \$266,971 increase in *Streets* includes the additional maintenance needed for recently developed public areas and the increased on-going expense (i.e. electricity and water) related to the Streetscape Project.
- \$25,000 increase in *Environmental Protection* reflects funding for Bulkhead Repairs, Storm Water Drainage and Natural Disaster Expenses.
- \$22,800 reduction in *Planning/Zoning* reflects reduced need for professional services, (i.e. engineering).
- \$15,000 reduction in *Cultural Resources* reflects reduced need for consulting services.
- \$5,000 reduction in *Human Services* reflects unfunded grant requests.
- \$3,800 reduction in *Mosquito Control* reflects the savings of the purchase of chemicals in bulk for multi-year application.

**Capital/Asset Replacement Noteworthy Items**

- \$30,000 to replace Police Department 2005 Impala
- \$60,000 to construct Emergency Access – 39<sup>th</sup> Street
- \$500,000 to resurface streets

**Personnel Noteworthy Items**

The Cost of Living Adjustment (COLA) adjusts an employee’s wages to offset inflation and protect the purchasing power of that employee and dependents. Employers use the U.S. Department of Labor Consumer Price Index (CPI) which reflects the changes in “real” buying power on a monthly and annual basis. The U.S. Department of Labor, Bureau of Statistics reported that the Consumer Price Index rose 1.5 percent in 2013. Since 2009, the following organizational COLA’s and Merit increases were adopted.

<u>YEAR</u>	<u>COLA</u>	<u>MERIT</u>
FY2009-2010	0	Up to 3%
FY2010-2011	2.5%	0
FY2011-2012	2.5%	0
FY2012-2013	2.5%	Up to 3%
FY2013-2014	2.0%	0

- Recommended Operating Budget FY2014/2015 includes a 1.5 percent Cost of Living Adjustment (COLA) for employees - \$29,401.
- No Merit increases are recommended.
- No additional personnel.
- Increase in the cost of health insurance- \$47,800 or 2.5 percent.
- Projected 1 percent increase in the Local Government State Retirement employer contribution rate from 12.47 percent to 13.47 percent - \$304,115.

**Financial Noteworthy Items**

Previous and current Town Councils have made commitments to maintain a sufficient amount of revenue in the General Fund Reserves for catastrophic events, future capital projects, and asset replacement while maintaining the following Ad Valorem Tax Rates:

FY2009-FY2010	09.0
FY2010-FY2011	09.0
FY2011-FY2012	10.5
FY2012-FY2013	10.5
FY2013-FY2014	10.5

From FY2009-FY2013 real property assessed values fell approximately 37 percent and it appears that current property values will decrease an additional 2.1 percent. Early indicators project that the property values after the reevaluation will be flat. The corresponding amount collected from FY2009-FY2013 was reduced by 19 percent. The increase in the Ad Valorem Tax Rate from 09.0 to 10.5 did not offset the lower collection amounts or the increased cost of providing services. The end result remains a \$1,717,458 non-project related reduction in the General Fund

Reserve over the past five years to balance adopted budgets. As we complete the various projects we need to begin generating revenue above our expenditures so that we can continue to contribute savings to the General Fund Reserves.

The rising costs of personnel, supplies, maintenance, equipment and asset replacement needs result in increased expenditures for providing the *same* level of service each year. The projected flat reevaluation of real property values and reduction in tax collection amounts coupled with new policy decisions and the desire to enhance and expand levels of service affect and cause the need for additional resources in the annual budget.

### **Fiscal Policy Recommendations**

1. The Town maintains unassigned General Fund (Reserves) Balance to pay for needs caused by unforeseen emergencies, to provide for unanticipated expenditures of a nonrecurring nature, or to meet unexpected increases in service costs. This reserve should be maintained at 75 percent of the current year adopted expenditures.
2. The Town utilizes surplus in excess of recommended reserve levels and cash flow requirements to invest in capital assets and/or retire debt through the creation of a General Capital Fund #40.
3. The Town pays for all current expenditures with current revenues. The Town will avoid budgetary procedures, (i.e. appropriating funds from General Fund Reserves to develop a balanced budget.)
4. The Town develops a *Comprehensive Financial Management Plan* that incorporates the recommended policies and includes a 5-Year Capital Plan.

### **Step 1: Fees**

The Town recently reviewed its fees as they relate to Chapter 95: Beach, Strand, Waterway, Channel and Canal Regulations. (Attachment 1) After reviewing neighboring community construction related fee schedules, the Building Department has made recommended increases to that fee schedule (Attachment 2). If adopted, these changes, based on current trends and proposed projects, should generate an additional \$30,000 in revenue. The Finance Director reviewed the copier contract and recommends two increases in copy fees to recover the actual cost. (Attachment 3)

### **Step 2: General Fund Expenditures (Over) Revenues**

Since FY2008-FY2009, the Town has appropriated funds from the General Fund (Reserves) to balance the recommended budget every year except in FY2010-FY2011 for a total amount equaling \$1,717,458. These General Fund (Reserves) appropriations included various asset acquisitions (i.e. vehicles, equipment) but did not include major capital projects that reduced the General Fund Balance and/or Special Revenue Funds.

In an effort to follow the recommended financial policies and develop a sound financial future, *Step 2* would require a 1.7 cent increase in the Ad Valorem Tax Rate for FY2014/2015 to generate \$307,732 to offset the increase in expenditures and service levels. This effort helps reduce our need to conduct budget amendments and eliminate our need to reduce our General Fund (Reserves) to balance the budget in FY2014-2015.

**Step 3: Capital Improvement Plan and General Capital Fund**

A Capital Improvement Plan (CIP) provides the community with the ability to develop a long-term plan and establish the corresponding revenues to fund projects and acquisitions. The Town spent several years increasing a General Fund (Reserves) or savings to reinvest into the community which includes the following projects:

<u>Year</u>	<u>Project</u>	<u>Amount</u>
FY2008-2009	Boat Ramp	\$1,903,230(1) (2)
FY2009-2010	Fire Station #2 Land	\$ 284,666
FY2011-2012	Town Park Land	\$2,630,316(3)
FY2013-2014	Roundabout	\$ 250,000
FY2013-2014	Streetscape	\$ 729,000
FY2013-2014	Park Phase I	\$ 796,000(4)
	<u>Subtotal:</u>	<u>\$6,593,212</u>
	Less: Grants	\$1,568,500
	<b>Total:</b>	<b>\$5,024,712</b>

- (1) Includes a \$500,000 Grant
- (2) Includes a \$250,000 Grant
- (3) Includes a \$400,000 Grant
- (4) Includes a \$418,500 Grant (Payment still Pending)

Additionally, *Step 3* includes creating a General Capital Fund #40 with an associated 5-Year Capital Plan. The initial General Capital Fund would be developed by combining the Future Street Resurfacing, Bike Path and Future Economic Development Funds into a single fund with an established 5-year plan. The projected beginning General Capital Fund Balance for FY2015-2016 equals \$1,332,051.

Projected Beginning General Capital Fund Balance FY2015-2016	
Fund 25: Future Street Resurfacing	\$ 443,940
Fund 23: Future Development	\$ 532,171
Fund 26: Bike Path	\$ 191,701
Plus: Streetscape Savings	<u>\$ 164,239</u>
Fund 40: General Capital	<b>\$1,332,051</b>

In an effort to create a dedicated funding source, staff recommends transferring 5 percent of the adopted revenue amount into the General Capital Fund. For example, FY2014-2015 adopted revenue equals \$5,753,895 and 5 percent of this amount equals \$287,695.

This new program would require a 1.6 cent increase in the Ad Valorem Tax Rate for FY2014/2015 to generate \$289,630 and placed in the General Capital Fund for capital projects

and acquisitions beginning FY2014-2015. Without an identified source of revenue, the Town will be unable to fund an Asset Replacement Plan (Attachment 4) or future capital projects without further reducing the General Fund (Reserves) Balance below 75 percent.

**Summary**

There are always competing demands for our limited financial resources. While a challenging situation, I am confident that if we align our practices with the recommended fiscal policies to guide us and adopt the three *Steps* to include an Ad Valorem Tax Rate increase to 13.80 cents per \$100 dollars assessed, those decisions will position us to meet the community and organizational future needs. These decisions will also allow us to avoid service level reductions, and this recommended budget also includes new service levels related to protecting and maintaining the community capital reinvestments that occurred during the past five years.

Moving forward, we will continue to look for opportunities to optimize our existing workforce and continue to improve efficiencies and will work closely with residents, business leaders and community partners to strategically invest in efforts to strengthen the financial health of our community.

I would like to thank the Town Council and the Community for their guidance and support throughout the development of the *Recommended Budget*. In addition, I would like to thank the Department Heads and staff who worked and reworked their budget submittals to make the *Recommended Budget* a reality.

We look forward to working with the Town Council as you consider this recommended budget.

Respectfully submitted this 5th of May, 2014

Susan Parker  
Town Administrator