

Dean Lambeth
Mayor

Emilie Swearingen
Commissioner

Steve Pagley
Commissioner



Craig Bloszinksy
Mayor Pro Tem

David Heglar
Commissioner

Nancy Avery
Town Clerk

TOWN OF KURE BEACH

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May 20, 2014

RE: **TOWN OF KURE BEACH, NORTH CAROLINA
FISCAL YEAR 2015 BUDGET MESSAGE**

The Honorable Mayor Lambeth and Town Council:

In accordance with Section 159-11 of the NC General Statutes (N.C.G.S.), I am pleased to present the proposed fiscal year 2015 Budget for the Town of Kure Beach for your review and consideration. The budget is a sound financial plan and has been prepared with the Council's goals and objectives adopted from their annual retreat and budget work sessions. All sections of the proposed budget are in conformance with the Local Government Budget and Fiscal Control Act as amended. A balanced budget for the next fiscal year, or an interim budget, must be adopted by July 1, 2014. Pursuant to N.C.G.S. 159-12, a public hearing on the proposed budget must be held before adoption. With the submittal of the budget proposal to Council, copies will be available for public inspection on the Town's website and in the Office of the Town Clerk. The public hearing has been scheduled for June 5, 2014 at 6:30 pm.

The proposed fiscal year 2015 Town of Kure Beach Budget is balanced and totals \$5,927,598 for all operations. The budget is spread over the following seven funds: General Fund \$3,795,402; Water and Sewer Fund \$1,600,156; Storm Water Fund \$287,370; Beach Protection Fund \$110,000; Powell Bill Fund \$62,030; Federal Asset Forfeiture Fund \$50,000; and Sewer Expansion Reserve Fund (SERF) \$22,640.

The proposed budget supports the fiscal year 2015 goals established by Town Council at their annual retreat held in January 2014. These goals are:

1. Complete the existing litigation on the Ocean Front Park
2. Develop a long-term plan for funding beach nourishment, including three new funding streams independent of property taxes
3. Review opportunities for dune infiltration systems
4. Maintain the current tax rate, if possible
5. Determine the storage and office space needs for the next five years for each Town department
6. Investigate the “Live-In Program” for the Fire Department

BUDGET HIGHLIGHTS

Proposed Tax Rate for Fiscal Year 2015

The tax rate being proposed for fiscal year 2015 is 26.15 cents (\$0.2615) per \$100 of valuation, which is unchanged from fiscal years 2013 and 2014. Property taxes are the Town’s largest single source of revenue. Fiscal year 2015 property tax revenue is estimated at \$2,100,250. This includes both current tax year and prior tax year’s collections and represents 55.3% of the General Fund revenue.

The estimated Kure Beach tax base, as provided by the New Hanover County Tax Department, is \$812,666,000. This is an increase of \$7,266,000 (0.9%) over the prior year estimated tax base. Based on historical data, the property tax collection rate is estimated at 98.75%.

General Fund Fees

There are no General Fund fee increases being proposed as part of this budget.

Water, Sewer and Storm Water Rates

There are no changes to water, sewer or storm water rates being proposed for fiscal year 2015. The fees currently charged for providing these services are covering day-to-day operating costs, as well as building reserves for future infrastructure repairs and replacement.

Staffing and Compensation

There are no changes to the number of full time employees being proposed for fiscal year 2015. The number of full time personnel will remain at 40, which is consistently fewer than other beach towns of a similar size. The full time personnel are allocated to Town funds based on the type of work performed, as follows:

<u>FUND</u>	<u>NO. OF EMPLOYEES</u>
General	29
Water and Sewer	9
Storm Water	<u>2</u>
Total	<u>40</u>

This budget includes a proposed merit increase of 3.5% to reward those employees who are performing above expectations. Also, a 1.5% cost of living adjustment (COLA) for all full time employees is included in the fiscal year 2015 budget. The COLA is consistent with the increase implemented by the Social Security Administration in January 2014. The employee benefits are consistent with prior years.

Governing Body

The budget for Town Council related expenses includes compensation for Council members (Mayor - \$3,600 annually, Mayor Pro Tem - \$2,700 annually, and Commissioners - \$2,400 annually), internet service reimbursement of \$2,400 (will be at Council members discretion), travel/training of \$5,000 and dues/subscriptions of \$6,000. The aforementioned expenses will be divided equally amongst the General Fund and Water and Sewer Fund. Also, the General Fund Governing Body budget includes funding for the Pleasure Island Chamber of Commerce concert series (\$8,800), Kure Beach Christmas Show (\$3,300), Katie B. Hines Senior Center (\$2,000), Friends of Fort Fisher (\$2,000), the Island of Lights (\$1,100), The Help Center of Federal Point (\$1,000) and the Federal Point Historic Preservation Society (\$1,000). Additionally, the General Fund budget includes \$4,950 for funding the portion of the Carolina Beach Inlet maintenance dredging requested from the Town.

Debt Service

General Fund debt service totals \$255,372 and includes payments on existing loans for the Ocean Front Park (acquisition and development loans), Town Hall renovation, downtown improvement project and vehicles/equipment. The Water and Sewer Fund includes debt service totaling \$100,360 (water tower, infrastructure and vehicles/equipment). The Storm Water Fund debt service totals \$80,134 relating to the Cutter Court infrastructure project.

Debt service for each fund, as a percentage of the applicable fund's total budget is as follows:

General Fund	6.7%
Water and Sewer Fund	6.3%
Storm Water Fund	27.9%

The Town's total outstanding debt (all funds) is estimated to be \$2,815,700 at July 1, 2014. The Local Government Commission (LGC) uses 8% of the assessed value of property subject to taxation as the maximum debt level. The Town's outstanding debt at July 1 will be approximately 0.35% of the assessed value of property, well within LGC guidelines.

Fire Department – “Live-In Program”

One of Town Council's goals for fiscal year 2015 is to investigate the “Live-In Program” for the Fire Department. Basically, this program consists of the Town paying the housing costs for several volunteer firefighters and, in return, they would perform station duty. The housing costs would include the rental of a house and the related utilities. The firefighters living in the home would be required to adhere to the policies established by the Town. This type of program has been successfully implemented throughout the country. The fiscal year 2015 General Fund budget for the Fire Department includes \$15,000 for the potential implementation of a “Live-In Program”. Further Town Council and Fire Department investigation and discussion is required prior to actual implementation of such a program.

Parks and Recreation Department

The fiscal year 2015 General Fund budget includes moving the personnel costs (salaries and benefits) relating to full and part time employees with parks and recreation responsibilities (approximately \$63,700) from the Administration/Finance Department budget to the Parks and Recreation Department budget. This provides for all parks and recreation related costs to be more efficiently accumulated and reported, and aids in more meaningful comparisons amongst fiscal years. Additionally, at the request of the Parks and Recreation Advisory Board, the fiscal year 2015 budget includes an increase for programs/entertainment at the Ocean Front Park.

Operating Expenses

The budget for General Fund operating expenses (excluding capital outlay of \$79,000, contingency of \$180,725 and transfer of \$110,000 to the Beach Protection Fund) is 2.1% greater than the original fiscal year 2014 budget, however, it is 4.6% lower than the fiscal year 2014 amended budget as of May 20, 2014. The primary factors contributing to the increase in relation to the original budget are the previously mentioned employee compensation changes, Fire Department “Live-In Program” and parks and recreation programs, as well as, increases in public safety personnel training costs and general price increases in purchased services and materials.

The fiscal year 2015 operating budget (excluding capital outlay) for the Water and Sewer Fund includes an increase of 1.2% over the fiscal year 2014 budget. This increase is the result of general price increases in purchased services and materials and employee compensation changes.

The fiscal year 2015 Storm Water Fund operating budget (excluding capital outlay) is 9.2% greater than the fiscal year 2014 budget. This increase relates to anticipated engineering fees, employee compensation changes and general price increases in purchased services and materials.

Capital Outlay

The General Fund capital outlay totals \$79,000, which includes the following:

- \$15,000 – Fire Department equipment
- \$64,000 – Replacement of two Police vehicles (will be purchased using installment financing)

The fiscal year 2015 budgeted capital outlay is \$263,000 (76.9%) less than fiscal year 2014.

The Water and Sewer Fund capital outlay includes potential infrastructure improvement projects totaling \$92,206 and the purchase of sewer/storm water equipment totaling \$70,000. This equipment will be split between the Water and Sewer Fund and the Storm Water Fund and will be purchased using installment financing. The Storm Water Fund capital outlay also includes \$50,827 for potential storm water infrastructure projects.

Contingency

A contingency of \$180,725 (5% of the budget) is included in the General Fund budget for fiscal year 2015. This contingency appropriation is to provide for unanticipated increases in budgetary needs during the course of the year and to be an additional source of funds in the event that the Town must pay all, or a portion, of future beach nourishment costs.

No actual expenditures can be made from the contingency appropriation. Funds must first be moved from the contingency appropriation to a department or function and then expended. This movement of funds shall be authorized by resolution of the governing body and will be deemed an amendment to the budget ordinance.

GENERAL FUND SUMMARY

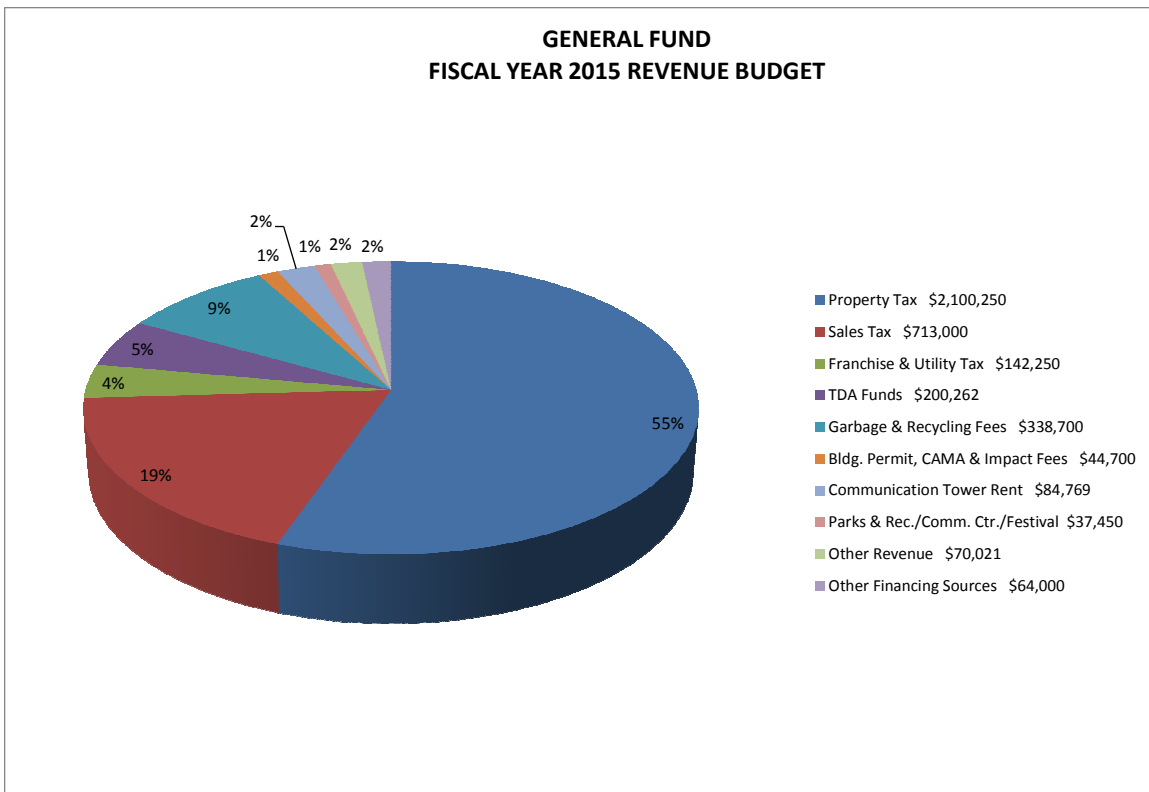
The budget preparation for the General Fund has, as in the past, been the most difficult of all of our funds. The number of non-utility services provided by the Town, as well as the general expenses of operating the government, makes the process of developing and balancing this budget challenging. Issues, including, but not limited to the following have made the allocation of finite General Fund resources difficult:

- 1) The need to build reserves in anticipation of future beach nourishment costs.
- 2) The desire to maintain the level of service provided to Town residents and property owners.
- 3) General price increases for purchased services and materials.

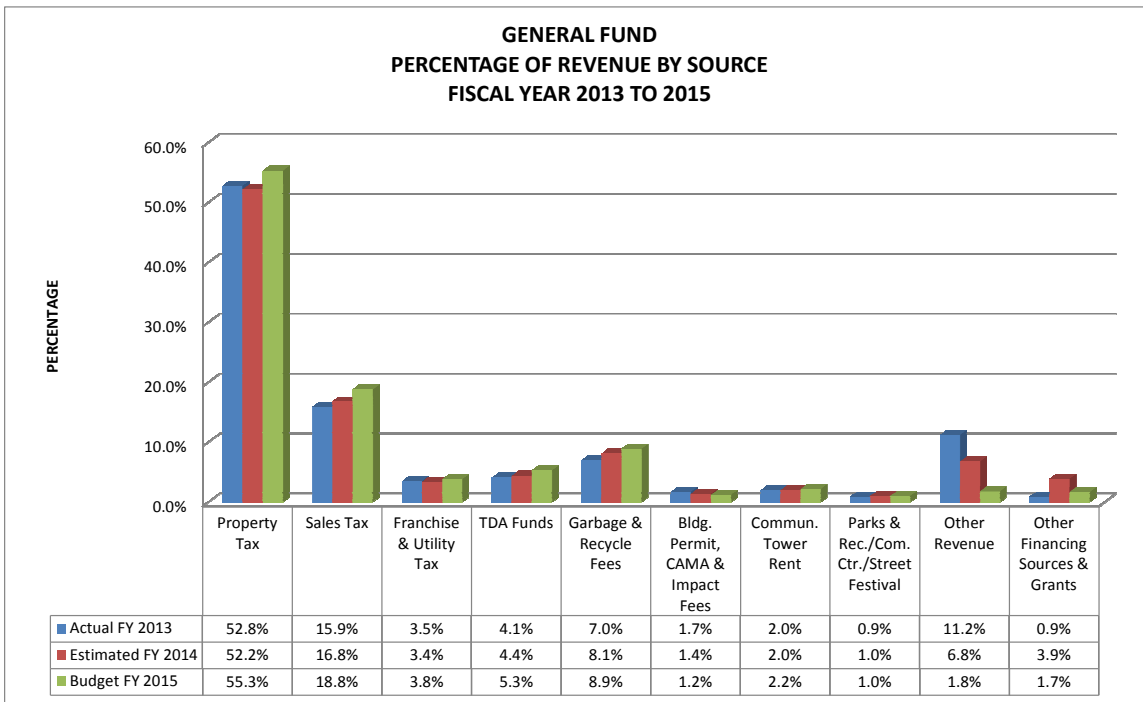
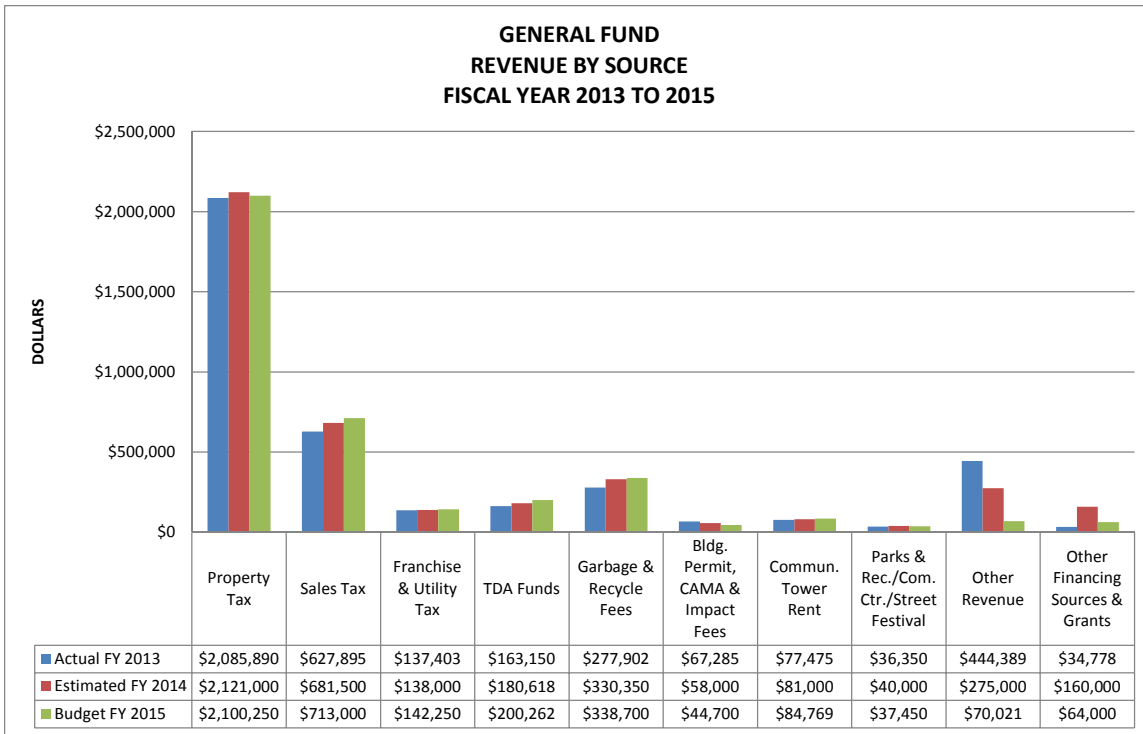
As noted earlier, the issues listed above have been addressed in the fiscal year 2015 budget without increases in the property tax rate or General Fund fees.

As previously highlighted, the fiscal year 2015 budget for General Fund operating expenses is 2.1% higher than the fiscal year 2014 original budget, but 4.6% lower than the amended budget as of May 20, 2014. This increase in relation to the original budget is attributable to the items previously mentioned, while many other operating expenses have remained constant or decreased. When comparing the total fiscal year 2015 General Fund budget to the fiscal year 2014 original and amended budgets, the total 2015 budget has decreased by 4.6% and 8.8%, respectively. In comparison to the fiscal year 2014 original budget, operating expenses have increased 2.1%, capital outlay decreased 76.9%, fund transfers increased 14.6% and the contingency decreased 1.8%.

The breakdown of budgeted revenue, by major source, for fiscal year 2015 is as follows:



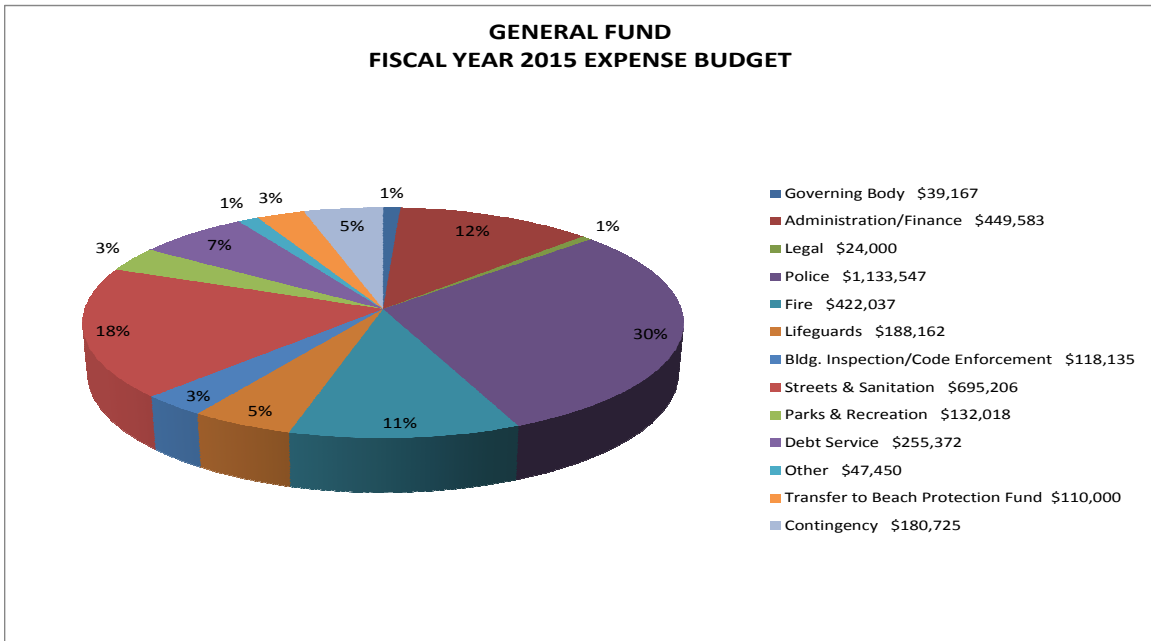
For comparative purposes, the charts on the next page present the revenue by source and the percentage of revenue by source budgeted for fiscal year 2015 in relation to the estimated revenue for fiscal year 2014 and the actual revenue for fiscal year 2013.



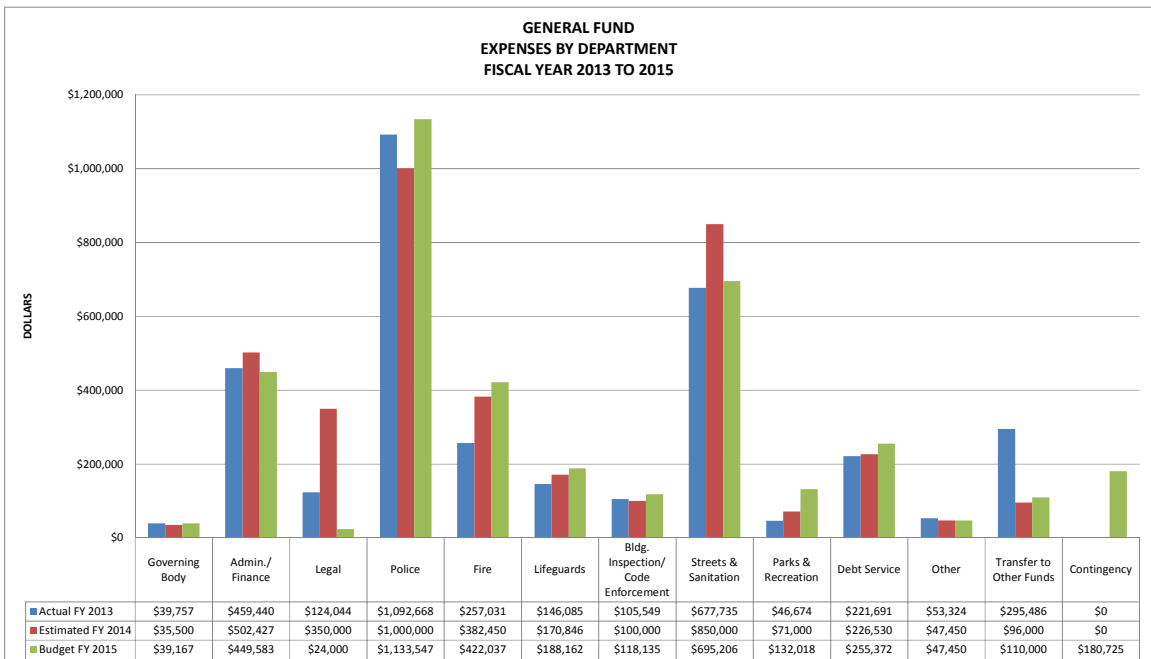
As the charts above depict, revenue from property taxes consistently exceeds 50% of the General Fund’s total revenue. The other categories have remained fairly consistent from year-to-year with the exception of “Other Revenue” in fiscal years 2013 and 2014 and “Other Financing Sources” in 2014. “Other Revenue” was impacted by Federal Asset Forfeiture receipts in fiscal year 2013 and a transfer from the Water and Sewer Fund in

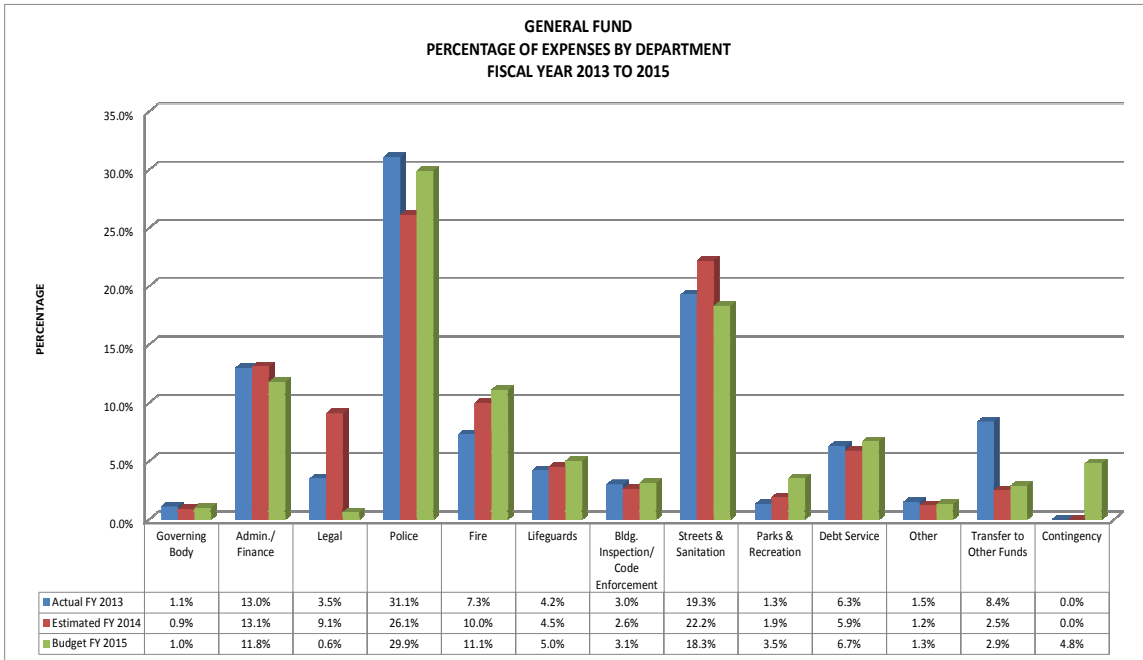
2014 relating to the Ocean Front Park litigation settlement. “Other Financing Sources”, which are primarily installment loans, vary based on the level of capital outlay.

The breakdown of budgeted General Fund expenses, by department/function, for fiscal year 2015 is as follows:



The charts below and on the next page present the expenses by department/function and the percentage of expenses by department/function budgeted for fiscal year 2015 in relation to the estimated expenses for fiscal year 2014 and the actual expenses for fiscal 2013.





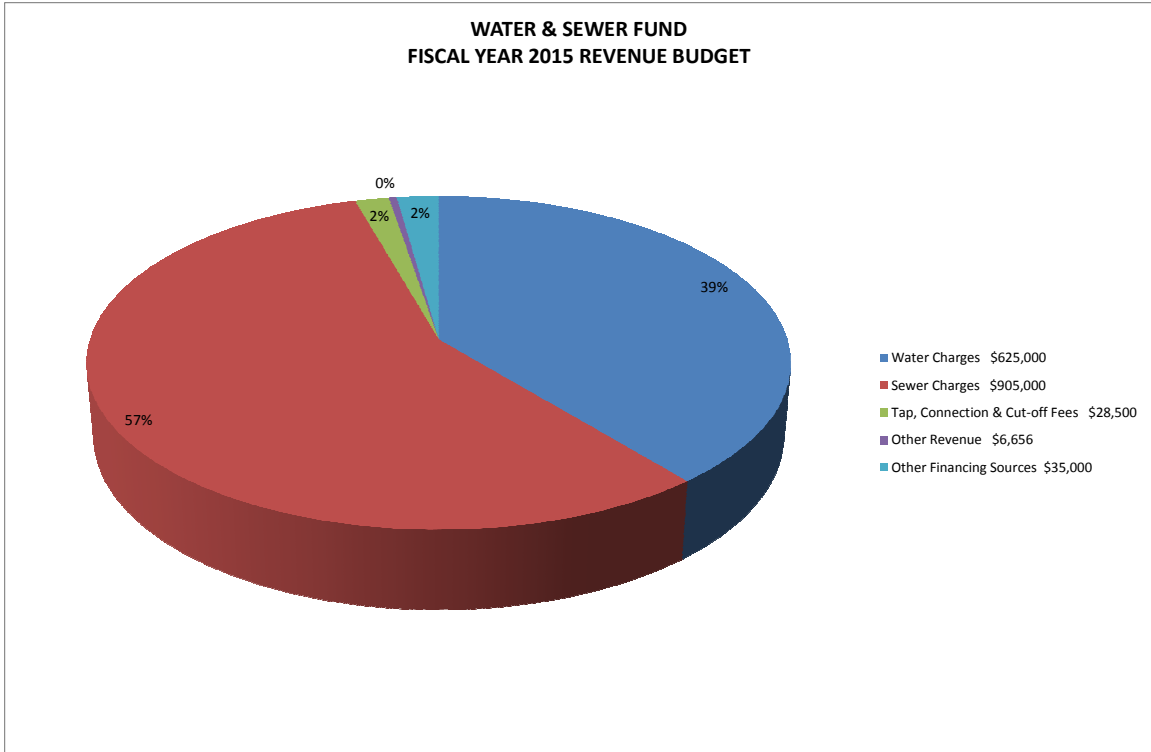
The General Fund expenses by department/function, both dollars and percentage, have remained relatively consistent. Many of the fluctuations relate to the amount of capital outlay for the given year. Also, the higher levels for legal expenses in fiscal years 2013 and 2014 relate to the Ocean Front Park litigation. Additionally, the “Transfer to Other Funds” in fiscal year 2013 pertained to the establishment of a separate Federal Asset Forfeiture Fund.

Refer to Exhibit A for a summary of the most significant changes, by General Fund department/function, between the budgets for fiscal years 2015 and 2014.

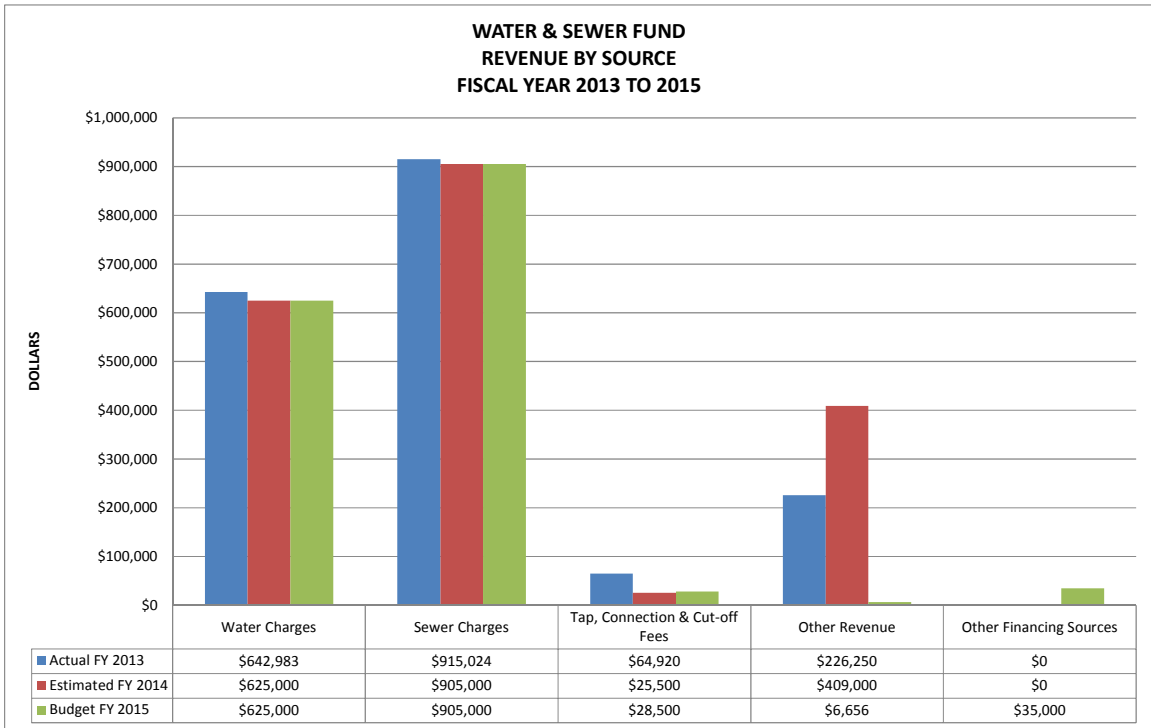
WATER AND SEWER FUND SUMMARY

Overall, the fiscal year 2015 Water and Sewer Fund budget is 3.2% less than the fiscal year 2014 original budget and 11.7% less than the amended budget as of May 20, 2014. In relation to the fiscal year 2014 original budget, operating expenses have increased 1.2% and capital outlay/reserves have decreased by 35.4%. The overall reduction in the Water and Sewer Fund budget for fiscal year 2015 is primarily attributable to the recent downward trend in system usage. Finally, there are no proposed fee changes for the upcoming year.

The breakdown of Water and Sewer Fund budgeted revenue, by major source, for fiscal year 2015 is as follows:

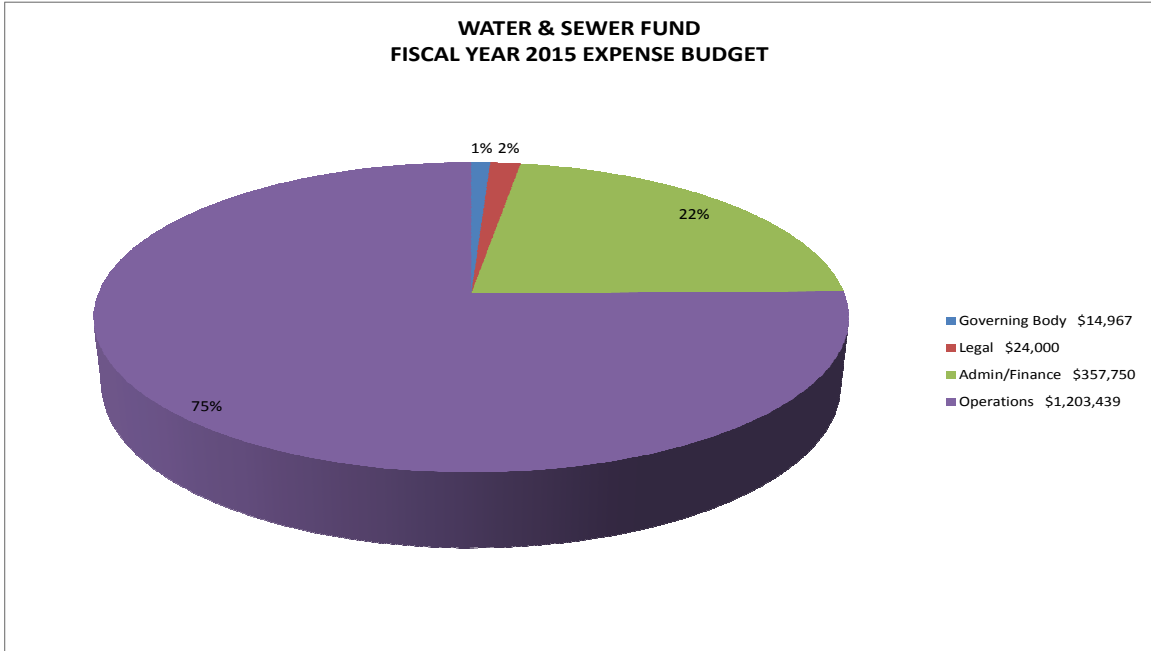


The chart below shows the Water and Sewer Fund revenue by source budgeted for fiscal year 2015 compared to the estimated revenue for fiscal year 2014 and the actual revenue for fiscal year 2013.

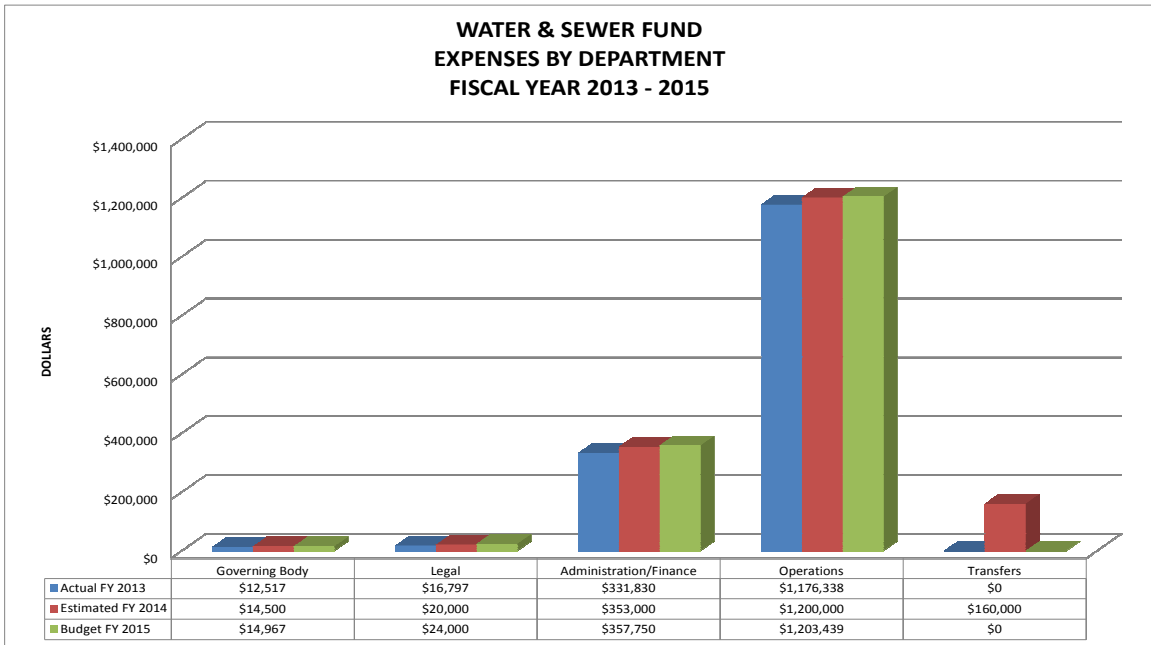


The most significant revenue sources, water and sewer charges, have remained relatively constant. “Other Revenue” was significantly higher in fiscal year 2014 due to a refund of Carolina Beach treatment facility charges pertaining to prior fiscal years. In fiscal year 2013, “Other Revenue” included 50 % principal forgiveness on an ARRA loan.

The breakdown of budgeted Water and Sewer Fund expenses, by department/function, for fiscal year 2015 is as follows:



The chart below shows the expenses by department for the Water and Sewer Fund budgeted for fiscal year 2015 in comparison to the estimated expenses for fiscal year 2014 and the actual expenses for fiscal year 2013.



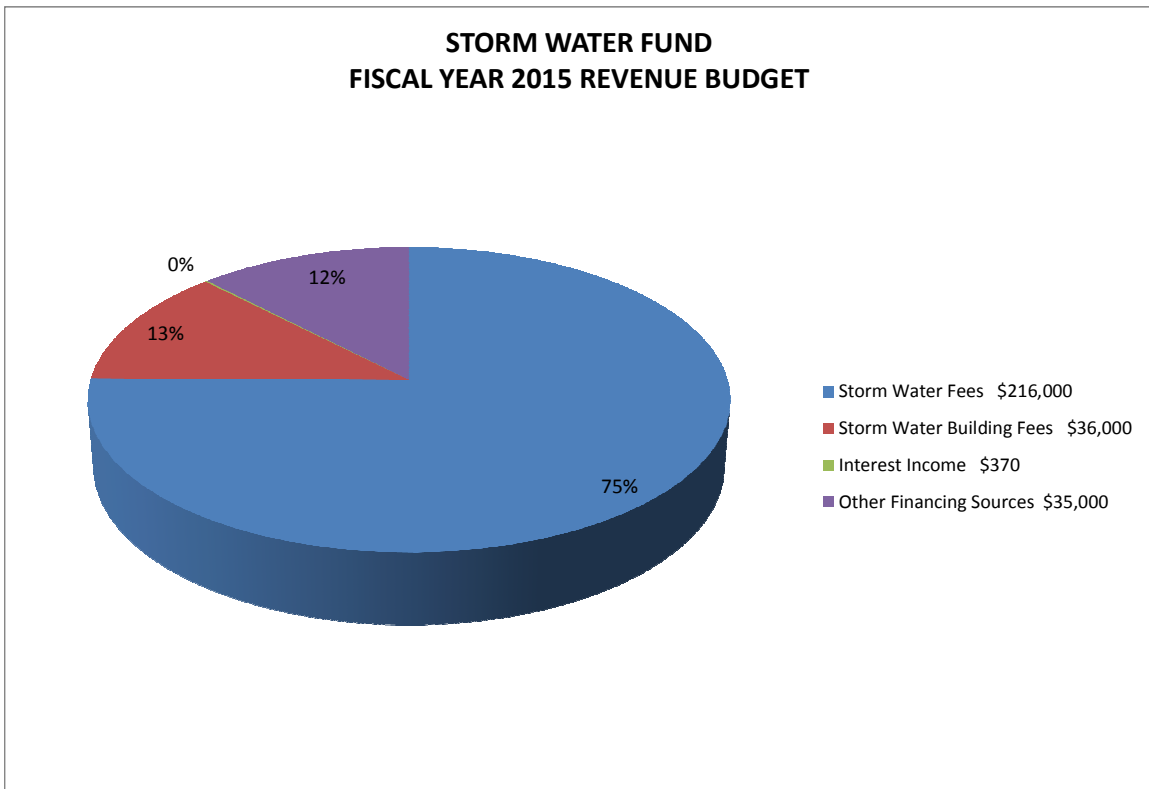
The expenses have remained consistent with the exception of Transfers. Fiscal year 2014 includes a transfer to the General Fund relating to the Ocean Front Park settlement.

Refer to Exhibit B for a summary of the most significant changes, by Water and Sewer Fund department/function, between the budgets for fiscal years 2015 and 2014.

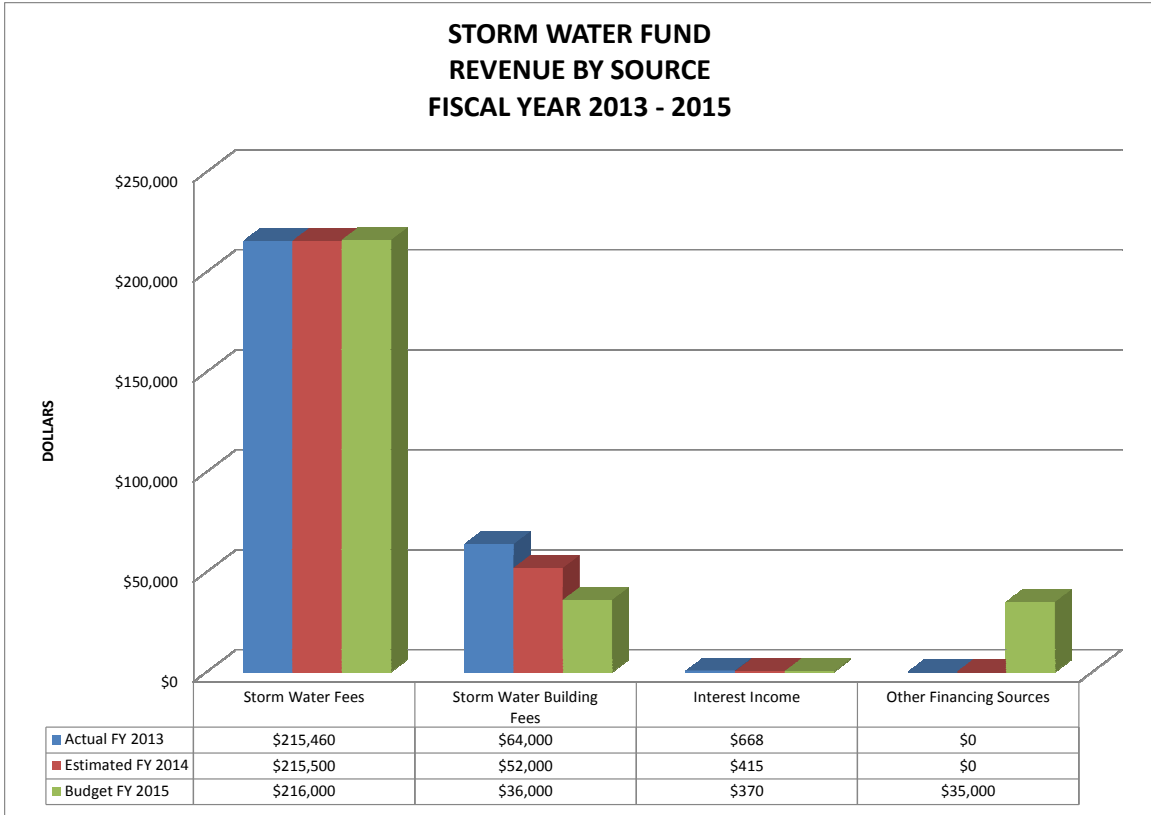
STORM WATER FUND SUMMARY

Overall, the fiscal year 2015 Storm Water Fund budget is 16.6% greater than the fiscal year 2014 budget. Operating expenses are 9.2% higher and capital outlay (infrastructure projects and equipment) is 38.5% higher. As previously noted, operating expenses are increasing due to additional engineering fees, general price increases and employee compensation changes.

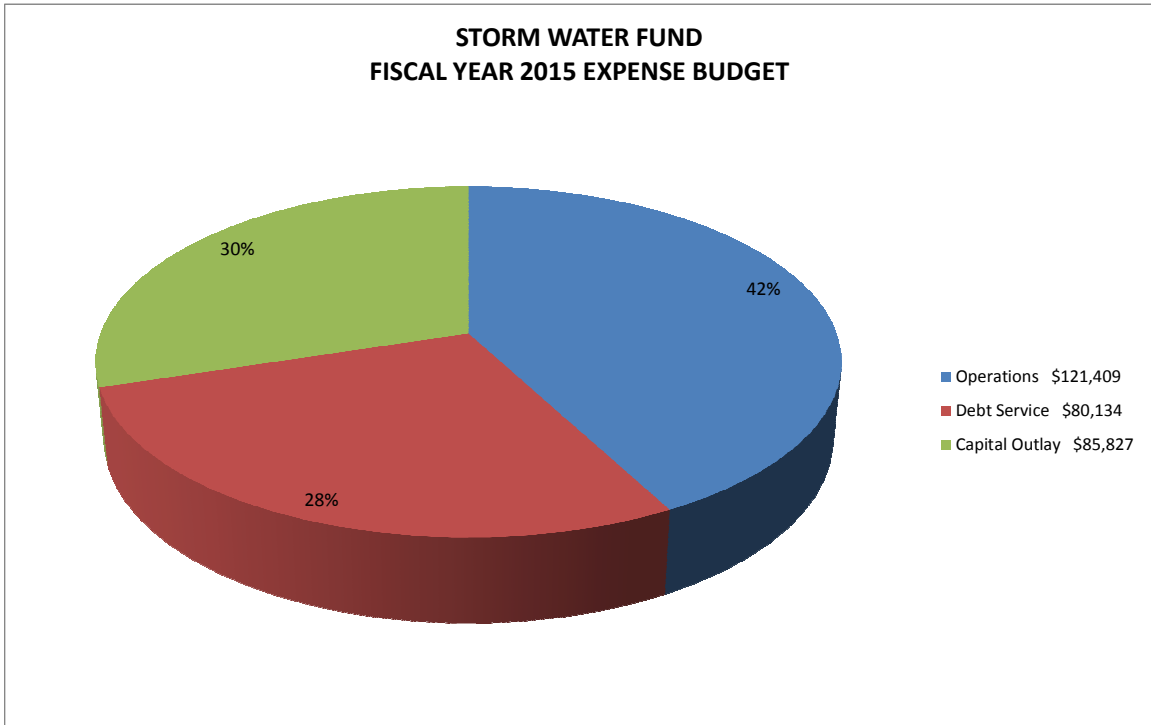
The breakdown of Storm Water Fund budgeted revenue, by major source, for fiscal year 2015 is as follows:



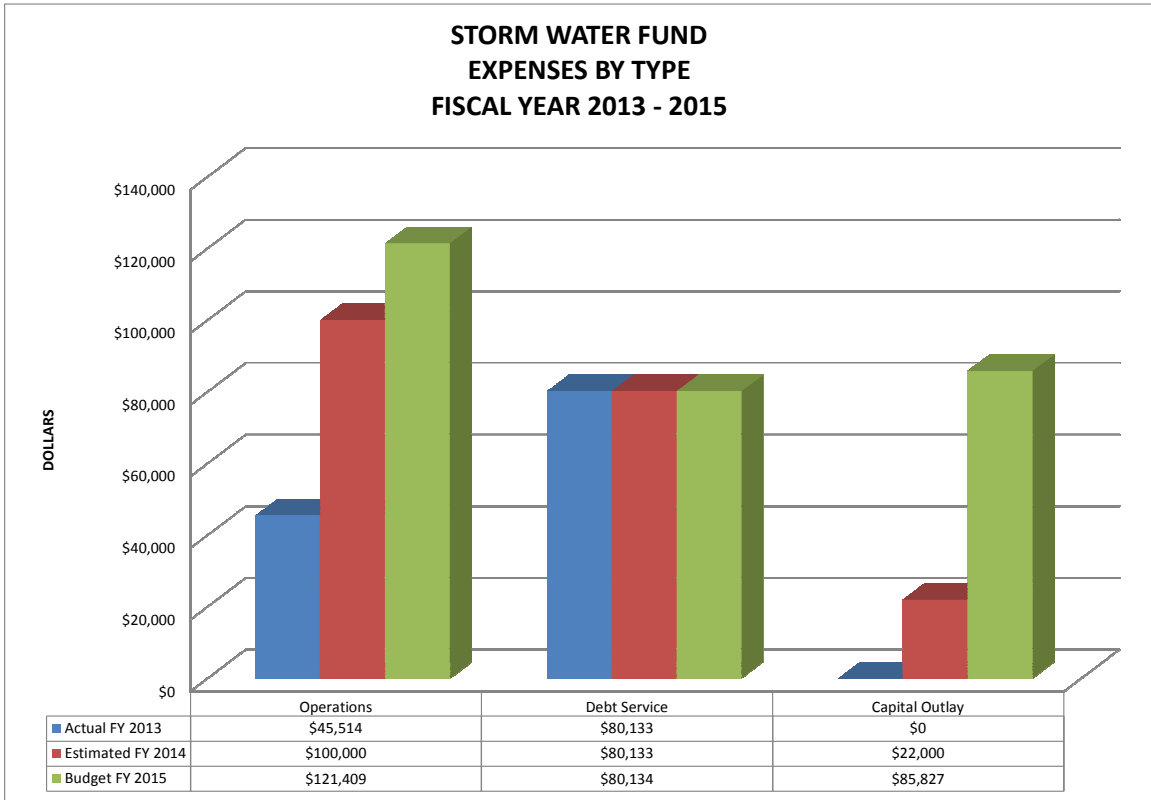
The chart on the next page compares the budgeted fiscal year 2015 revenue to the estimated revenue for fiscal year 2014 and the actual revenue for 2013. As depicted by the chart, the major revenue source, storm water fees, has remained steady. Storm water building fees fluctuate based on the amount of building activity and the fiscal year 2015 budget includes other financing (installment loan) for equipment.



The breakdown of budgeted Storm Water Fund expenses, by type, for fiscal year 2015 is as follows:



The following chart shows the budgeted fiscal year 2015 expenses by type in relation to the estimated fiscal year 2014 and actual 2013 Storm Water Fund expenses.



The expenses for Operations increased significantly in fiscal year 2014 when a Public Works employee was moved from the General Fund to the Storm Water Fund. This was necessitated by the volume of storm water related work performed by Public Works. Fluctuations in capital outlay relate to the number and size of projects to be performed in a given year.

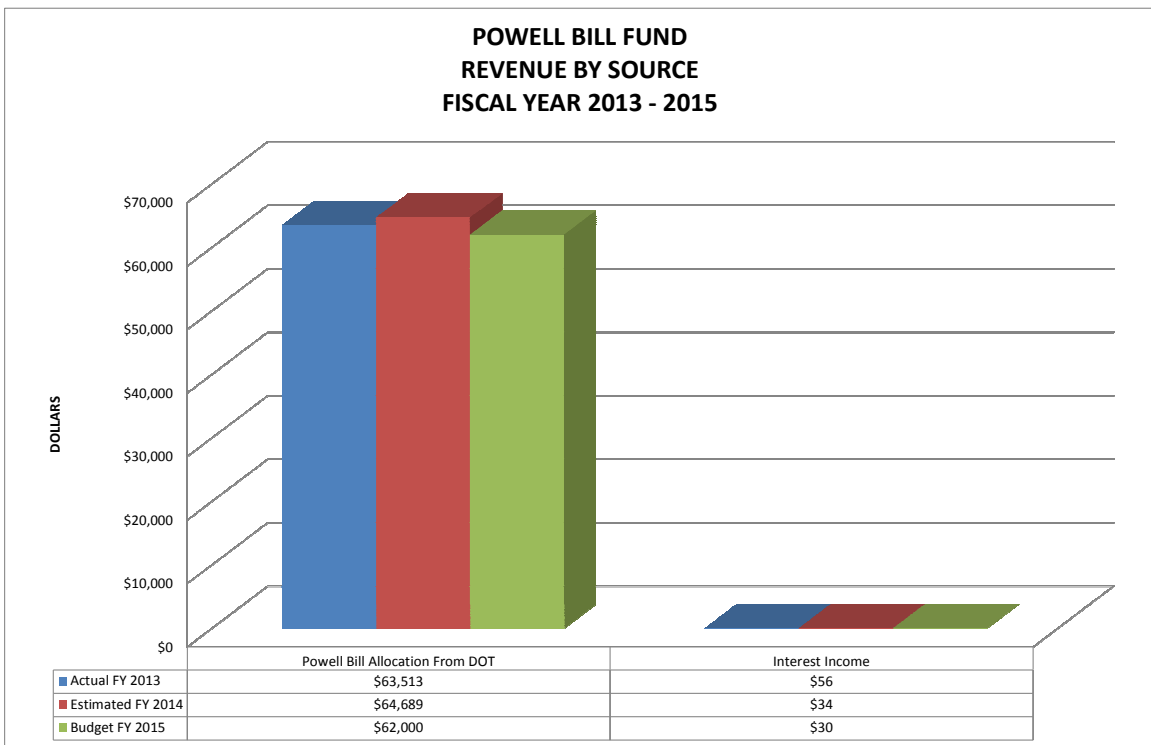
BEACH PROTECTION FUND SUMMARY

The Beach Protection Fund was established as part of the fiscal year 2014 Kure Beach Budget Ordinance. It was established as a reserve fund for future beach nourishment expenses, as well as other beach related expenditures including, but not limited to, beach access improvements/repairs, dune maintenance, dune plantings, beach protection signage, dune infiltration systems, etc. The uncertainties surrounding state and federal funding of future beach nourishment projects was the driving force behind the establishment of this fund. For fiscal year 2015, the revenue source for the Beach Protection Fund will be a transfer of \$110,000 from the General Fund. In fiscal year 2014, \$96,000 was transferred from the General Fund.

POWELL BILL FUND SUMMARY

Funds received through the Powell Bill may only be used for the purpose of maintaining, repairing, constructing, reconstructing or widening of any street or public thoroughfare including bridges, drainage, curbs and gutters and other necessary appurtenances within the corporate limits. The N.C.G.S. require the NC Department of Transportation to pay from the Highway Fund two allocations each fiscal year to all active and qualifying municipalities a sum equal to 1 ¾ cents on each taxed gallon of motor fuel. The total amount allocated to each qualifying municipality is 75% on the basis of relative population and 25% on the basis of relative non-State System local street mileage. The total budgeted allocation to Kure Beach for fiscal year 2015 is \$62,000 and interest income is estimated at \$30. Additionally, budgeted Powell Bill eligible expenditures total \$62,030.

The chart below shows budgeted Powell Bill Fund revenue for fiscal year 2015 in comparison to estimated fiscal year 2014 revenue and actual fiscal year 2013 revenue. As indicated by the data, revenue for this fund remains very constant.



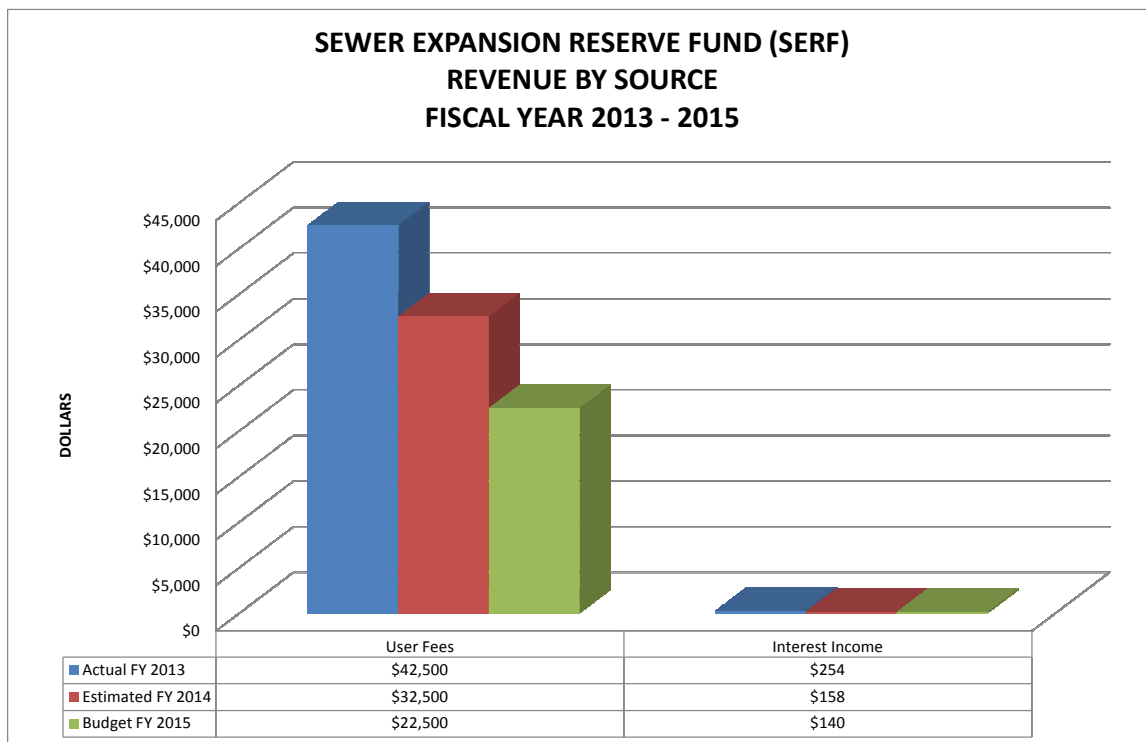
FEDERAL ASSET FORFEITURE FUND SUMMARY

On an as needed basis, the Kure Beach Police Department participates in investigations conducted by several federal agencies. The Police Department shares in the assets that are forfeited based on the outcome of the investigations and the level of resources provided. The funds received may only be used for Police related activities that are beyond the Police Department operating budget (which is a portion of the total General Fund budget). Under no circumstances, can the Police Department operating budget be funded with forfeiture proceeds. For fiscal year 2015, the use of asset forfeiture funds will be appropriated from the fund’s balance and is estimated at \$50,000.

SEWER EXPANSION RESERVE FUND (SERF) SUMMARY

As required by Town Ordinance (Sec. 17-127 – User Fees), user fees will be charged on new construction and these user fees shall be recorded in SERF for the purpose of future expansion, construction, repairs or alterations to the system. Currently, this fee is \$2,500. For fiscal year 2015, revenue for SERF is budgeted at \$22,640 (\$22,500 of user fees and \$140 of interest income) and accordingly, the increase in reserves is \$22,640.

SERF revenue budgeted for fiscal year 2015 is presented below in comparison to the estimated revenue for fiscal year 2014 and the actual revenue for fiscal year 2013. The revenue for this fund is fully dependent on the level of construction activity within the Town.



SUMMARY

The fiscal year 2015 Town of Kure Beach Budget reflects a thorough review of Town expenditures and conservative, but reasonable, estimation of revenues.

As discussed during the annual retreats in 2012, 2013 and 2014, during this budget process and as reported in the news media, the need to increase reserves in anticipation of future beach nourishment costs remains a very significant concern for Kure Beach, as well as other North Carolina beach towns. The availability of future federal and state funds for beach projects continues to be uncertain. As a result, Kure Beach's share of future tri-annual beach nourishment projects could be in excess of \$1.2 million.

This budget includes a process to continue to build reserves for future beach nourishment needs. The Beach Protection Fund serves as a reserve fund to accumulate funds for future beach related needs, the most significant being beach nourishment. A transfer of \$110,000 from the General Fund to the Beach Protection Fund is included in this budget, while fiscal year 2014 included a transfer of \$96,000. Also, all or a portion of the General Fund contingency, totaling \$180,725, may be available to further strengthen the Beach Protection Fund depending on the extent of contingency usage during the fiscal year. Additionally, in order to build the Beach Protection Fund to the level estimated for future projects, additional funding sources will need to be identified.

In regard to the Water and Sewer Fund and Storm Water Fund, they continue to address the day-to-day operations of these activities and are providing a reasonable level of reserve strengthening for future infrastructure projects. However, if usage within the Water and Sewer Fund remains at the forecasted lower levels, rates will need to be evaluated in future budget cycles.

In conclusion, I believe the proposed fiscal year 2015 Kure Beach Budget supports the goals established by Town Council, reflects the Council's service priorities and is responsive to the Town's needs. I would like to express my appreciation to all Department Heads, as well as all Town employees, who participated in the development of the fiscal year 2015 budget.

Respectfully submitted,

Arlen Copenhaver
Finance and Budget Officer