

**Dean Lambeth**  
*Mayor*

**Emilie Swearingen**  
*Commissioner*

**Steve Pagley**  
*Commissioner*



**Chuck Keener**  
*Mayor Pro Tem*

**David Heglar**  
*Commissioner*

**Nancy Avery**  
*Town Clerk*

## ***TOWN OF KURE BEACH***

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[www.townofkurebeach.org](http://www.townofkurebeach.org)

May 15, 2012

RE: **TOWN OF KURE BEACH, NORTH CAROLINA  
FISCAL YEAR 2012/2013 BUDGET MESSAGE**

The Honorable Mayor Dean 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 2012/2013 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, 2012. 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, 2012 at 6:30 pm.

**The proposed fiscal year 2012/2013 Town of Kure Beach Budget is balanced and totals \$5,378,849 for all operations. The budget is spread over the following funds: General Fund \$3,374,374; Water and Sewer Fund \$1,701,725; Storm Water Fund \$232,750; Powell Bill Fund \$60,000; and Sewer Expansion Reserve Fund (SERF) \$10,000.**

The proposed budget supports the fiscal year 2012/2013 goals established by Town Council at their annual retreat held in January 2012. These goals are:

1. Complete the Ocean Front Park
2. Address various storm water issues throughout the Town
3. Strengthen Water and Sewer Fund reserves for replacement of water lines in the Town's historical district
4. Provide for more financial stability, including funds for beach renourishment and replacement of a fire truck

**BUDGET HIGHLIGHTS**

Impact of Property Revaluation and Calculation of the Revenue-Neutral Tax Rate

Real property within New Hanover County was reappraised as of January 1, 2012. The impact for the county as a whole was a decrease in value of approximately 17 percent. However, the impact on Kure Beach was much more dramatic. The Town's tax base has decreased 32.8 percent, from \$1,185,650,035 to \$796,500,000.

As required by N.C.G.S., Section 159-11 (e), in each year that a general reappraisal of real property has been conducted, a statement of the revenue-neutral tax rate must be presented for comparison purposes. The revenue-neutral tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. To calculate the revenue-neutral tax rate, a rate that would produce revenues equal to those produced for the current fiscal year must be determined and then the rate is increased by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal. This growth factor represents the expected percentage increase in the value of the tax base due to improvements during the next fiscal year.

The revenue-neutral tax rate for Kure Beach is 24.15 cents (\$0.2415) after application of a negative growth factor of 0.15%. The calculation of the revenue-neutral tax rate is as follows:

FISCAL YEAR	ASSESSED VALUE	VALUATION INCREASE	PERCENTAGE CHANGE
2012/2013	\$796,500,000		
Revaluation 1/1/2012			
2011/2012	\$1,185,650,035	\$3,367,400	0.29%
2010/2011	\$1,182,182,635	\$2,276,875	0.19%
2009/2010	\$1,179,905,760	(\$10,714,840)	(0.90%)
2008/2009	\$1,190,620,600	(\$2,239,508)	(0.19%)
2007/2008	\$1,192,860,108		
Revaluation 1/1/2007			

The average annual growth since the 2007 revaluation is (0.15%).

Estimated revenue before revaluation:  
 $(\$1,185,650,035 / \$100) \times \$0.1625 = \$1,926,681$

Revenue-neutral tax rate:  
 $\$1,926,681 / (\$796,500,000 / \$100) = \$0.2419$

Revenue-neutral tax rate adjusted for growth factor:  
 $\$0.2419 \times (100\% - .15\%) = \$0.2415$

The revenue-neutral tax rate is intended to be revenue-neutral for the Town as a whole, not for individual property owners. Therefore, some taxpayers may receive a higher tax bill even if the revenue-neutral rate is adopted.

### Proposed Tax Rate for Fiscal Year 2012/2013

The tax rate being proposed for fiscal year 2012/2013 is 26.15 cents (\$0.2615), which is 2 cents over the revenue-neutral tax rate. After careful analysis, the 2 cent rate increase was determined to be the most effective manner in which to continue to pay for existing Town services, as well as to support the Council goal relating to financial stability. This tax rate provides a means to strengthen the Town's reserves that can be used for beach renourishment costs in the event that federal and/or state funds are unavailable and for a down payment on a fire truck.

From an overall perspective (both the county and Kure Beach), property taxes for the Town are estimated to be \$950,000 less than the current year. This estimate assumes that New Hanover County adopts a county revenue-neutral tax rate of 55.4 cents as previously announced by county officials. Under this assumption, the estimated annual county and Kure Beach property taxes on a property revalued to \$400,000 will be approximately \$3,262. The effect of the additional 2 cents over the Town's revenue-neutral tax rate contributes \$80 (\$6.67 per month) to this estimated amount.

Prior to deciding on the 2 cent tax rate increase, other potential revenue sources were evaluated by Town Council. The most significant being the concept of paid parking. After considering the primarily negative feedback from Town residents, the capital outlay that would be required and the expected net revenue from such an endeavor, paid parking was not deemed to be a viable alternative at this time.

### General Fund Fees

An increase of 36 cents per month (\$4.32 annually) is being proposed for the recycling fee. This would increase the current fee of \$4.52 per month to \$4.88. This increase is necessary to cover costs associated with providing residential and commercial curbside recycling and to provide recycling containers at the public beach accesses. Containers at public beach accesses will help to reduce the stream of recyclable material going into the landfill. There are no other General Fund fee increases being proposed.

### Water and Sewer Fund Rates

Presently, the water and sewer rates being charged to system users provide funds for the day-to-day operating costs of the Town's water and sewer systems. In addition to these daily costs, the service revenues should be providing for additions to the water and sewer reserve funds for future infrastructure repairs and replacement. To provide for sufficient accumulation of reserves for these projects, this budget includes proposed rate increases for water and sewer usage above the 3,000 gallon per month minimum. The monthly minimum will remain unchanged. The changes to the incremental rates (over the 3,000 gallon minimum) are as follows (rates are per 100 gallons):

- Residential Water - from 24 cents to 36 cents
- Residential Sewer - from 31 cents to 46.5 cents
- Commercial Water - from 37 cents to 55.5 cents
- Commercial Sewer - from 38 cents to 57 cents
- Out of Town Water - from 42 cents to 63 cents
- Out of Town Sewer - from 54 cents to 81 cents

### Staffing and Compensation

There are no proposed changes to the Town's staffing levels for fiscal year 2012/2013. The Town's full time personnel total 36, which is consistently fewer than other beach towns of a similar size. This budget includes a proposed cost of living adjustment of 2.6% for employees. This adjustment is consistent with the Consumer Price Index, as well as the increase in Social Security benefits effective January 2012. The last cost of living adjustment for Town employees was four years ago. A merit increase of 2% is also proposed in the budget to reward those employees who are performing above expectations. Employee benefits are consistent with prior years.

### Governing Body

The budget for Town Council related expenses includes reinstatement of compensation for Council members. With the exception of this current fiscal year, Town Council has received the following compensation: Mayor - \$3,600 annually, Mayor Pro Tem - \$2,700 annually, and Commissioners - \$2,400 annually. The aforementioned compensation will be reinstated, however, Council members decided to forego any type of cell phone allowance. Also, the Governing Body budget includes funding for the Pleasure Island Concert series (\$8,000) and the Kure Beach Christmas Show (\$3,300). Finally, in fiscal year 2011/2012, Council voted to provide \$15,000 towards dredging of the Carolina Beach Inlet. This amount is carried forward to the fiscal year 2012/2013 budget.

### Operating Expenses

The budget for General Fund operating expenses (excluding capital outlay and contingency of \$156,000) is 5.5% higher than the fiscal year 2011/2012 Amended Budget as of May 15, 2012. The primary factors contributing to this increase are significantly higher fuel costs, general price increases in purchased services and materials and the previously mentioned employee compensation changes.

The fiscal year 2012/2013 operating budget (excluding capital outlay) for the Water and Sewer Fund includes an increase of 3.6% over the fiscal year 2011/2012 Amended Budget as of May 15, 2012. This increase is the result of the factors noted above for the General Fund.

The fiscal year 2012/2013 Storm Water Fund operating budget (excluding capital outlay) is 4.2% lower than the fiscal year 2011/2012 Amended Budget as of May 15, 2012. This decrease is due to a reduction in the budget for minor equipment purchases and lower debt service payments.

### Capital Outlay

The General Fund capital outlay totals \$47,000, which includes the following:

- \$ 5,000 – OCR software
- \$10,000 – Fire Department equipment
- \$32,000 – Replacement of Police vehicle (will be purchased using installment financing)

Fiscal year 2012/2013 budgeted capital outlay is \$167,000 (78%) less than fiscal year 2011/2012.

The Water and Sewer Fund capital outlay includes potential infrastructure improvement projects totaling \$283,978. The Storm Water Fund capital outlay includes \$98,794 for storm water infrastructure.

### Debt Service

General Fund debt service totals \$221,700 and includes payments on existing loans for the Ocean Front Park (acquisition and development loans), Town Hall renovation and vehicles/equipment. The Water and Sewer Fund includes debt service totaling \$111,110 (water tower, infrastructure and vehicles/equipment). The Storm Water Fund debt service totals \$80,140 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	6.57%
Water and Sewer Fund	6.53%
Storm Water Fund	34.43%

The Town's total outstanding debt (all funds) is estimated to be approximately \$3,400,000 at July 1, 2012. 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 .43% of the assessed value of property, well within LGC's guidelines.

### Contingency

A contingency of \$156,000 (4.6 % of the budget) is included in the General Fund budget for fiscal year 2012/2013. This contingency appropriation is to provide for unanticipated increases in budgetary needs during the course of the year and to be a source of funds in the event that the Town must pay all, or a portion, of beach renourishment costs. Additionally, this contingency may be a partial source of funds for a fire truck down payment as discussed below. The fiscal year 2011/2012 budget included a contingency of \$75,000.

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.

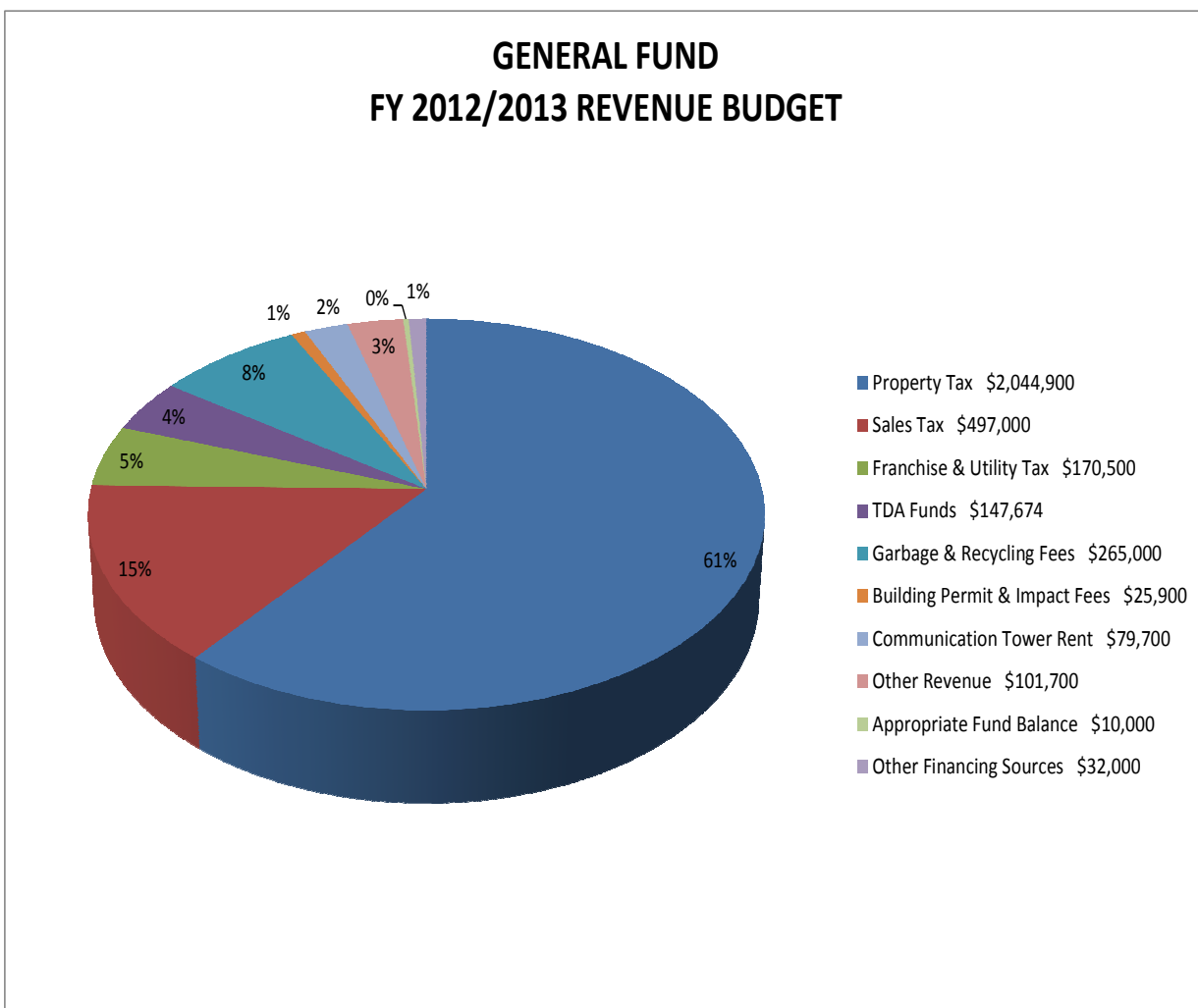
### **GENERAL FUND SUMMARY**

The budget preparation for the General Fund has again been particularly challenging. As noted earlier, increases in fuel costs, purchased services and materials, and employee compensation changes, as well as the need to increase reserves in anticipation of future beach renourishment costs (the future of the federal government paying for these costs is questionable) has resulted in the need to set the tax rate 2 cents above the calculated revenue-neutral tax rate. Additionally, in fiscal year 2014, the Town needs to purchase a replacement fire truck in order to maintain our existing fire rating. Maintaining the current fire rating allows Kure Beach property owners to continue to receive lower homeowners insurance rates. The additional revenue from this tax rate increase will also help provide for a down payment on this new fire truck. Finally, the increase in revenue will allow Town provided services to remain at the levels that residents have come to expect.

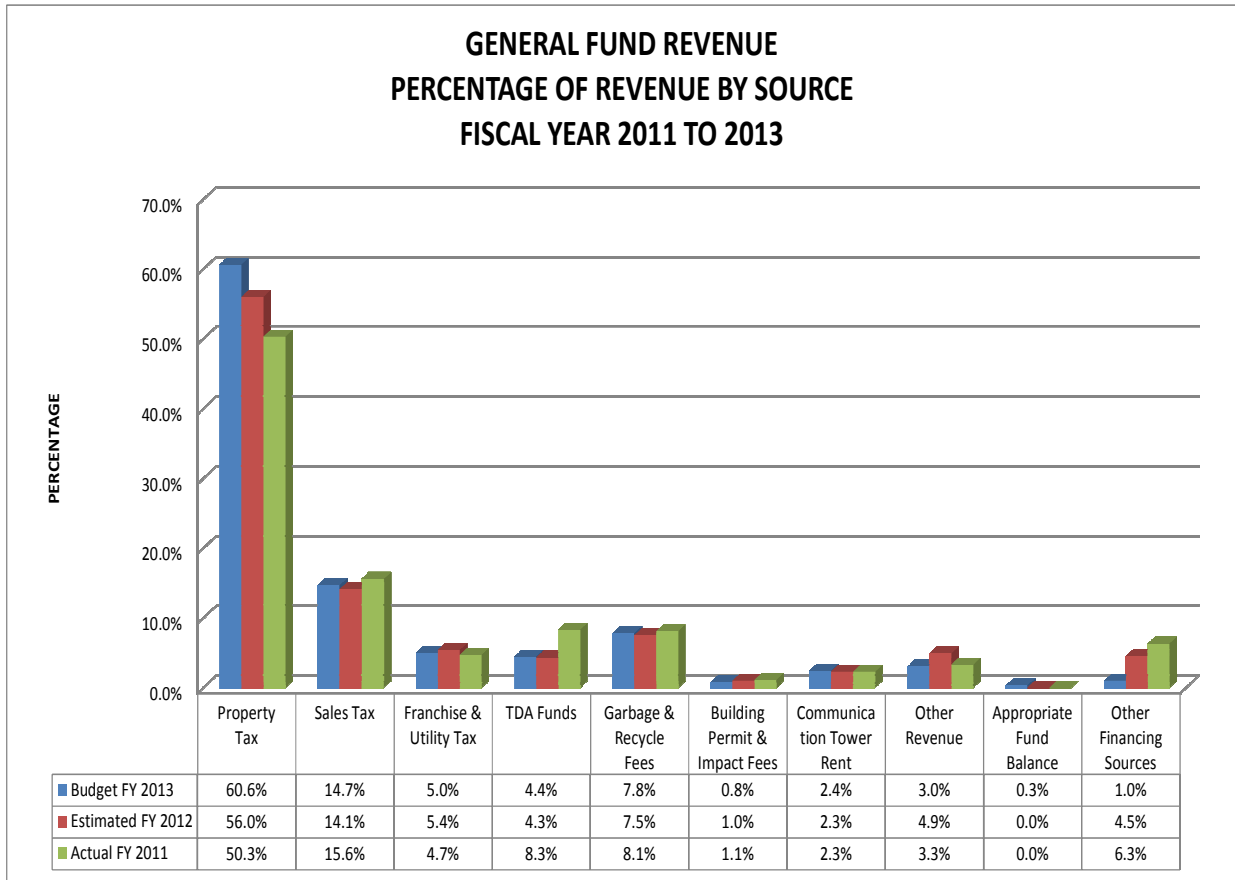
Several times over the past few years, balancing of the General Fund budget required significant appropriations of fund balance (i.e., using the Town's "savings" to pay for a portion of annual operating expenses). Although this is a permitted practice, the continual appropriation of fund balance will deplete the funds the Town has available for unexpected needs or emergencies. This budget includes an appropriation of fund balance totaling \$10,000. This relates to a donation received in fiscal year 2011/2012 for educational programs at the Ocean Front Park which cannot be expended until fiscal year 2012/2013.

As previously highlighted, the fiscal year 2012/2013 budget for General Fund operating expenses is 5.5% higher than the fiscal year 2011/2012 Amended Budget. This 5.5% increase is attributable to the items previously mentioned, while many other operating expenses have remained constant. When comparing the total fiscal year 2012/2013 General Fund budget to the fiscal year 2011/2012 Amended Budget, the total budget has increased by approximately 2.4% (operating expense increase of 5.5%, capital outlay decrease of 78% and contingency increase of 108%).

The breakdown of budgeted revenue, by major source, for fiscal year 2012/2013 is as follows:



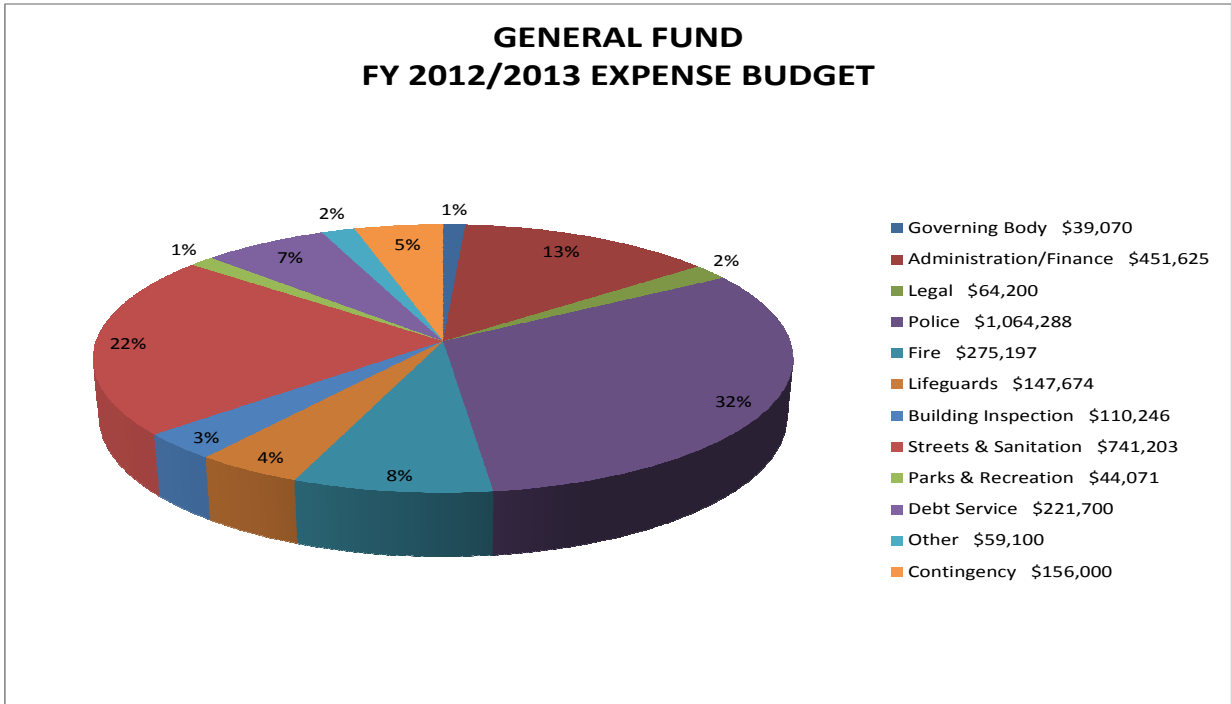
For comparative purposes, the chart below presents the percentage of revenue by source budgeted for fiscal year 2012/2013 in relation to the estimated revenue for fiscal year 2011/2012 and the actual revenue for fiscal year 2010/2011.



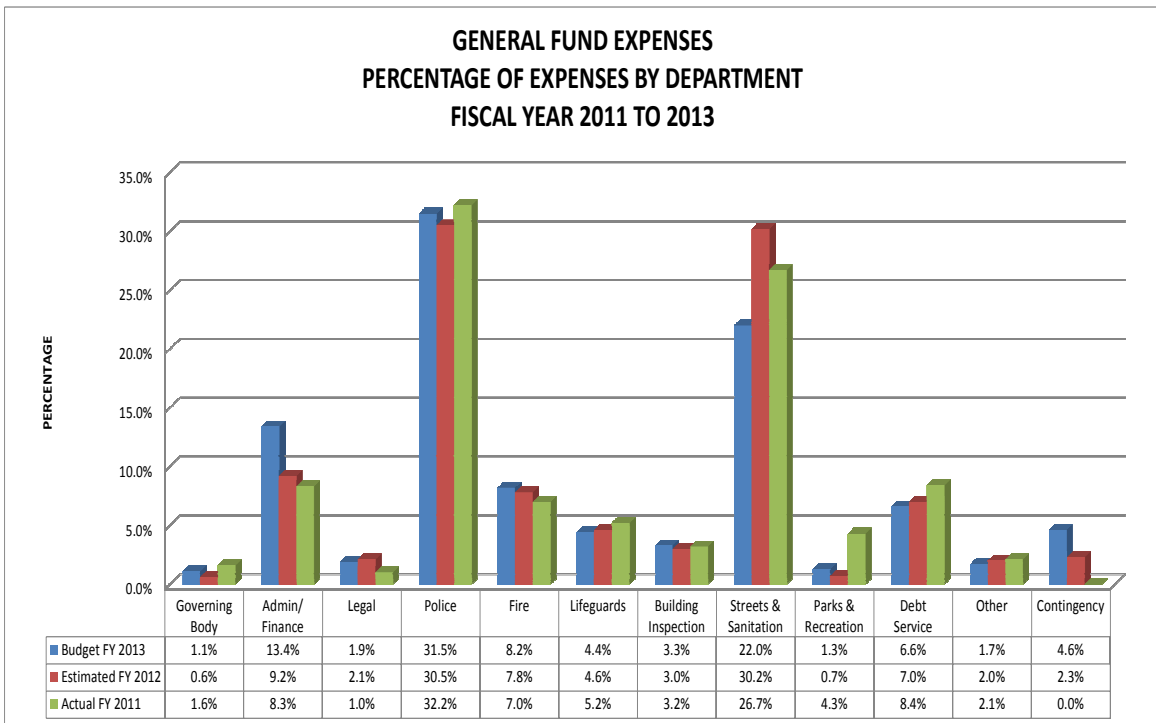
As the chart depicts, the percentage of the General Fund revenue from property taxes has been increasing while most other revenue sources remain consistent.



The breakdown of budgeted General Fund expenses, by department/function, for fiscal year 2012/2013 is as follows:



The chart below presents the percentage of expenses by department/function budgeted for fiscal year 2012/2013 in relation to the estimated expenses for fiscal year 2011/2012 and the actual expenses for fiscal 2010/2011.

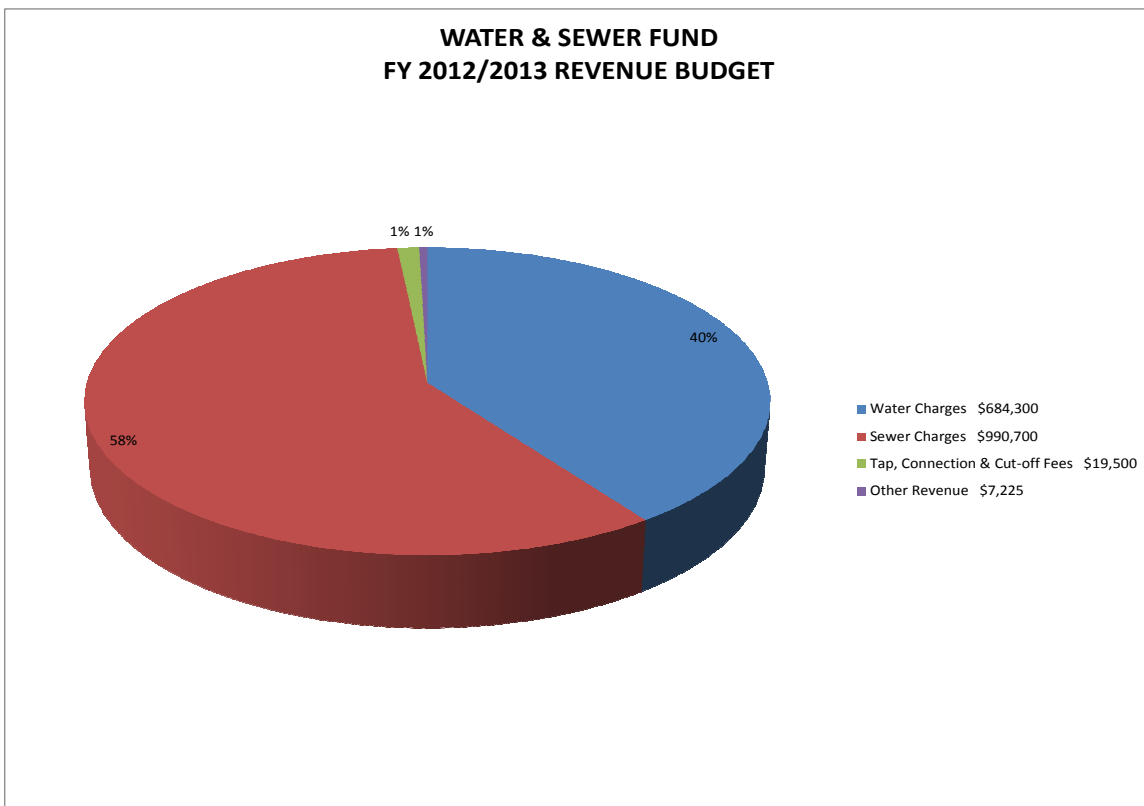


The percentage of General Fund expenses by department/function remains relatively consistent. Any fluctuations are primarily related to the amount of capital outlay for the given year and changes in budgetary responsibility for certain expenses (e.g., recycling was moved from Streets & Sanitation to Administration/Finance beginning in fiscal year 2012/2013).

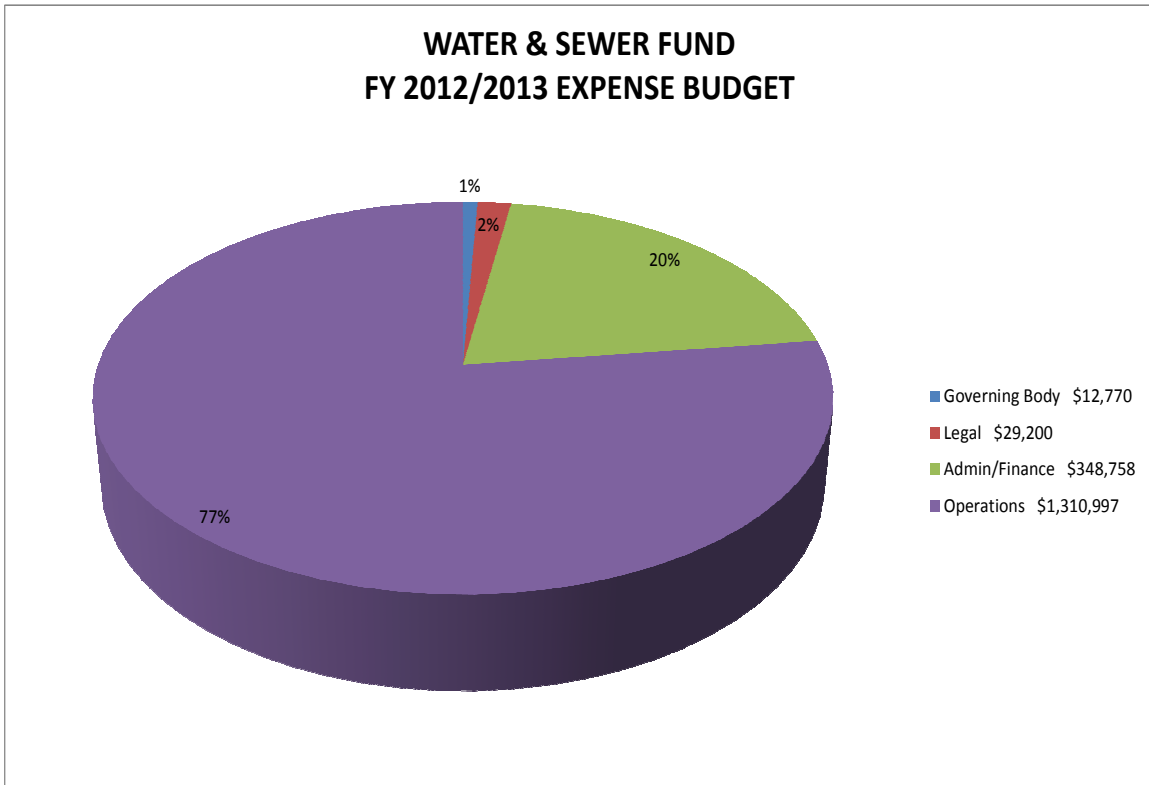
### **WATER AND SEWER FUND SUMMARY**

Overall, the fiscal year 2012/2013 Water and Sewer Fund budget is approximately 12.9% greater than the fiscal year 2011/2012 Amended Budget as of May 15, 2012. Whereas, operating expenses have increased 3.6%, the remainder of this increase relates to capital outlay/reserves which are 104% higher than the current year. Also, as previously noted, to provide for sufficient accumulation of reserves for infrastructure projects, increases to the rates for water and sewer usage above the 3,000 gallon per month minimum are being proposed. The monthly minimum will remain unchanged.

The breakdown of Water and Sewer Fund budgeted revenue, by major source, for fiscal year 2012/2013 is as follows:



The breakdown of budgeted Water and Sewer Fund expenses, by department/function, for fiscal year 2012/2013 is as follows:

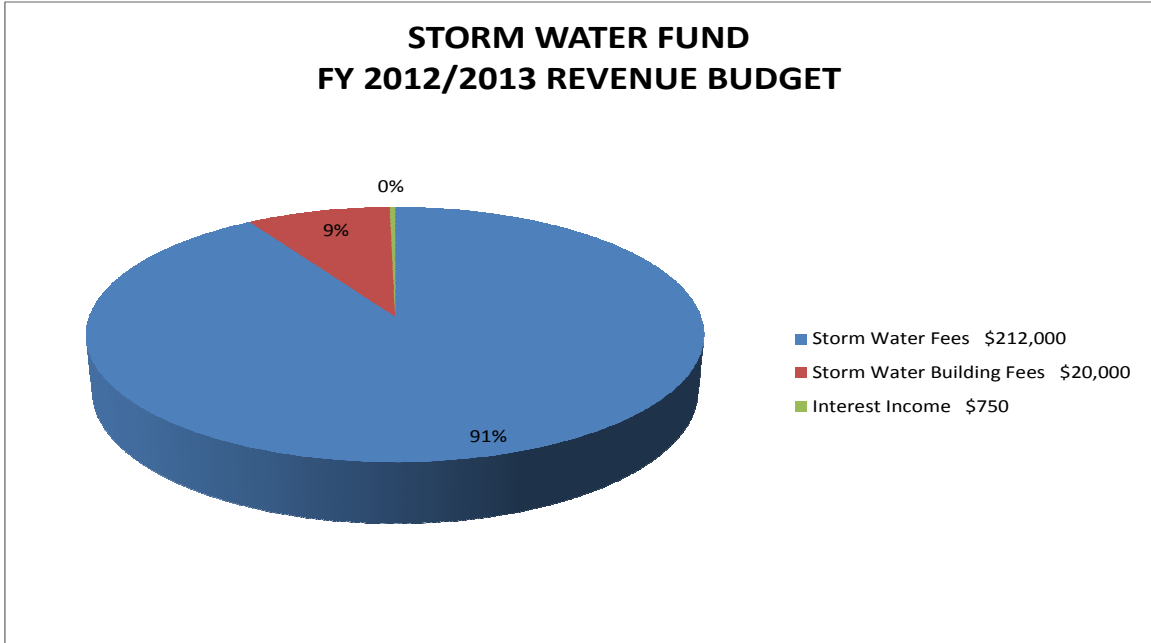


The percentages of revenue by source and expenses by department/function are consistent with prior fiscal years.

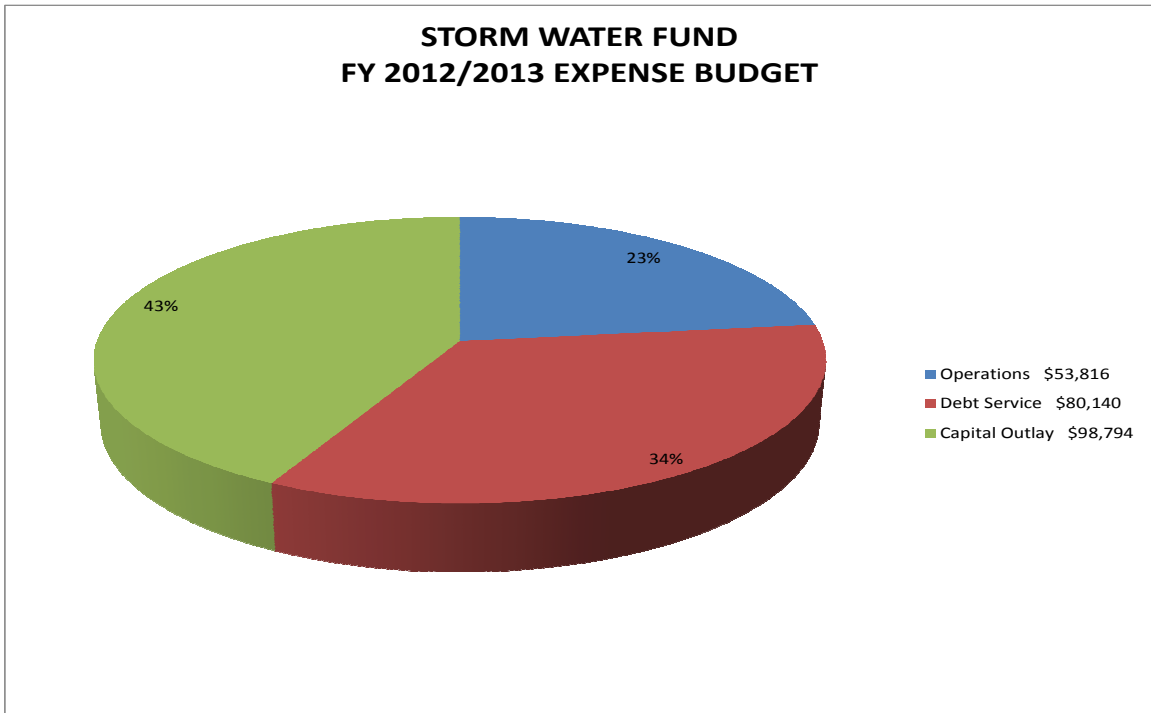
### **STORM WATER FUND SUMMARY**

Overall, the fiscal year 2012/2013 Storm Water Fund budget is \$475 (0.2%) higher than the fiscal year 2011/2012 Amended Budget as of May 15, 2012. Operating expenses are 4.2% lower; however, capital outlay (infrastructure projects) is 6.9% higher. The Storm Water Fee increase adopted in fiscal year 2011/2012 is providing funds for some of these projects.

The breakdown of Storm Water Fund budgeted revenue, by major source, for fiscal year 2012/2013 is as follows:



The breakdown of budgeted Storm Water Fund expenses, by type, for fiscal year 2012/2013 is as follows:



The percentages of revenue by source and expenses by department/function are consistent with the current fiscal year.

### **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 2012/2013 is \$60,000. Additionally, budgeted Powell Bill eligible expenditures total \$60,000.

### **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 2012/2013, revenue for SERF is budgeted at \$10,000 and accordingly, the increase in reserves is \$10,000.

## **SUMMARY**

The fiscal year 2012/2013 Town of Kure Beach Budget reflects a thorough review of Town expenditures and conservative, but reasonable, estimation of revenues.

As noted throughout the course of the current fiscal year, discussed at the Town's annual retreat in January 2012 and reported in the local news media, one of the most significant challenges facing Kure Beach, as well as other beach towns, is the future funding of beach renourishment projects. In the past, these projects have been federally funded. However, there is no guarantee that it is going to continue. Beach towns have been strongly encouraged to save for future beach renourishment needs. Since a renourishment project is not something that can be financed, we must begin to strengthen our reserves in the event renourishment expenditures are necessary. This budget proposal paves the way for continuing with existing Town provided services, addressing our daily operating requirements and "saving" for beach renourishment.

Additionally, the revenues of the Water and Sewer Fund are presently covering the daily operating costs. However, the reserves for future infrastructure projects are not being sufficiently replenished. With the uncertain future availability surrounding federal and state grants for water and sewer infrastructure projects, the Town needs to have funds available that, in conjunction with bank financing, can pay for the projects that will be necessary in the near future. The proposed increase in the water and sewer rates for usage above the 3,000 gallon minimum will start the process of building the necessary reserves.

I believe the fiscal year 2012/2013 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 2012/2013 budget.

Respectfully,

Arlen Copenhaver  
Budget and Finance Officer