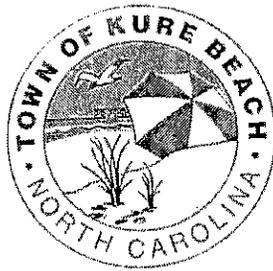


Dean Lambeth
Mayor

Emilie Swearingen
Commissioner

Steve Pagley
Commissioner



Chuck Keener
Mayor Pro Tem

David Heglar
Commissioner

Nancy Avery
Town Clerk

TOWN OF KURE BEACH

117 Settlers Lane • Kure Beach, NC 28449
(910) 458-8216 • Fax (910) 458-7421
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May 20, 2013

**RE: TOWN OF KURE BEACH, NORTH CAROLINA
FISCAL YEAR 2013/2014 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 2013/2014 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, 2013. 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 12, 2013 at 6:30 pm.

The proposed fiscal year 2013/2014 Town of Kure Beach Budget is balanced and totals \$6,102,900 for all operations. The budget is spread over the following seven funds: General Fund \$3,977,425; Water and Sewer Fund \$1,652,775; Storm Water Fund \$246,480; Beach Protection Fund \$96,000; Powell Bill Fund \$60,040; Federal Asset Forfeiture Fund \$50,000; and Sewer Expansion Reserve Fund (SERF) \$20,180.

The proposed budget supports the fiscal year 2013/2014 goals established by Town Council at their annual retreat held in January 2013. These goals are:

1. Maintain the current tax rate
2. Support the Fire Department staffing request
3. Maintain current service levels of all departments
4. Downtown utilities underground (east of 421)
5. Successfully implement the Ocean Front Park and recreation administration
6. Develop a long-term plan for beach nourishment
7. Review opportunities for dune infiltration systems
8. Review video surveillance of Town areas – define stakeholders and policy issues by August 31, 2013

BUDGET HIGHLIGHTS

Proposed Tax Rate for Fiscal Year 2013/2014

The tax rate being proposed for fiscal year 2013/2014 is 26.15 cents (\$0.2615), which is unchanged from fiscal year 2012/2013. Property taxes are the Town's largest single source of revenue. Fiscal year 2013/2014 property tax revenue is estimated at \$2,076,800. This includes both current tax year and prior tax year's collections and represents 52.2% of the General Fund revenue.

The estimated Kure Beach tax base, as provided by the New Hanover County Tax Department, is \$805,400,000. This is an increase of \$8,900,000 (1.1%) over the prior year estimated tax base. Based on historical data, the property tax collection rate is estimated at 98.5%.

General Fund Fees

An increase of \$2.00 per cart per month (from \$4.00 to \$6.00) is being proposed for the residential garbage collection fee. Also, an increase of \$8.75 per cart per month (from \$17.50 to \$26.25) is being proposed for the commercial garbage collection fee. This increase is necessary to cover costs associated with providing residential and commercial garbage collection services. There are no other General Fund fee increases being proposed.

Water, Sewer and Storm Water Rates

There are no changes to water, sewer or storm water rates being proposed for fiscal year 2013/2014. 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

The fiscal year 2013/2014 budget includes the addition of four full time employees. This will increase the Town's full time personnel to 40, which is consistently fewer than other beach towns of a similar size. All four positions are within the General Fund.

Three of the positions are being added to the Fire Department/Ocean Rescue. There are several factors contributing to the need for these additional employees:

1. A shrinking base of volunteers. Several older volunteers are retiring and it is becoming more difficult to recruit and retain younger volunteers. This trend is occurring throughout the state and country.
2. Additional training and time commitments are required of existing volunteers. Due to personal and business responsibilities, many of the volunteers have difficulty complying with these increased requirements.
3. The need to provide for 24/7 staffing in order to promptly respond to emergency calls. In particular, there has been a 30% increase in medical emergency calls to-date in 2013. These calls occur primarily in the overnight hours. Without Kure Beach manned services, the wait time for New Hanover County emergency personnel to respond to a medical emergency ranges from 10 to 22 minutes. Whereas, the response time from Kure Beach personnel is approximately 4.5 minutes.

The headcount within the Fire Department will increase by 2.5 full time equivalents (FTEs), while 0.5 FTEs will be allocated to Ocean Rescue. The full cost (salary, taxes, benefits, insurance, etc.) of adding these FTEs is estimated to be \$98,275 to the Fire Department and \$19,650 to Ocean Rescue.

Within the Administration and Finance Department, one FTE is being added to: (1) administer programs at the Ocean Front Park and Joe Eakes Park; (2) coordinate rentals of Town facilities; (3) perform marketing of Town amenities; and (4) to serve as backup to existing Town Hall staff. The full cost of adding this FTE is estimated at \$42,000.

This budget includes a proposed merit increase of 3.5% to reward those employees who are performing above expectations. No cost of living adjustment is included in the fiscal year 2013/2014 budget and 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/Sewer Fund. Also, the General Fund Governing Body budget includes funding for the Pleasure Island Chamber of Commerce Concert series (\$8,000), Kure Beach Christmas Show (\$3,300), Katie B. Hines Senior Center (\$2,000), The Help Center of Federal Point (\$1,000), Federal Point Historic Preservation Society (\$1,000) and the Island of Lights (\$1,000).

Debt Service

General Fund debt service totals \$226,530 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 \$108,491 (water tower, infrastructure and vehicles/equipment). The Storm Water Fund debt service totals \$80,133 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	5.7%
Water and Sewer Fund	6.6%
Storm Water Fund	32.6%

The Town's total outstanding debt (all funds) is estimated to be \$2,972,000 at July 1, 2013. 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 0.37% of the assessed value of property, well within LGC guidelines.

Operating Expenses

The budget for General Fund operating expenses (excluding capital outlay of \$342,000, contingency of \$184,000 and transfer of \$96,000 to the Beach Protection Fund) is 3.2% higher than the fiscal year 2012/2013 Amended Budget as of May 20, 2013. The primary factors contributing to this increase are the previously mentioned staffing additions, an expected increase in legal-related costs, employee compensation changes and general price increases in purchased services and materials.

The fiscal year 2013/2014 operating budget (excluding capital outlay) for the Water and Sewer Fund includes an increase of 2.5% over the fiscal year 2012/2013 Amended Budget as of May 20, 2013. This increase is the result of general price increases in purchased services and materials and employee compensation changes.

The fiscal year 2013/2014 Storm Water Fund operating budget (excluding capital outlay) is 37.7% greater than the fiscal year 2012/2013 Amended Budget as of May 20, 2013. This increase is due to moving a Public Works employee from the General Fund to the Storm Water Fund to accommodate the increase in storm water related work throughout the Town.

Capital Outlay

The General Fund capital outlay totals \$342,000, which includes the following:

- \$10,000 – Fire Department equipment
- \$32,000 – Replacement of Police vehicle (will be purchased using installment financing)
- \$100,000 – Dow Chemical intake structure remediation (will receive grant funds of \$50,000)
- \$200,000 – Underground utilities in downtown (east of 421) area (will use installment financing)

Fiscal year 2013/2014 budgeted capital outlay is \$238,300 (230%) greater than fiscal year 2012/2013.

The Water and Sewer Fund capital outlay includes potential infrastructure improvement projects totaling \$166,994 and the purchase of a service truck totaling \$30,000 (truck will be purchased using installment financing). The Storm Water Fund capital outlay includes \$61,961 for storm water infrastructure.

Establishment of the Beach Protection Fund

Beginning in fiscal year 2013/2014, a new fund is being established for future beach protection related activities. The Beach Protection Fund will be a reserve fund to accumulate funds for future beach related needs, the most significant being beach nourishment. The availability of state and federal funding of future beach nourishment projects is extremely uncertain. The Town may need up to \$1.2 million for the next nourishment project in three years. Therefore, planning and providing for this need must begin now. For fiscal year 2013/2014, \$96,000 will be transferred from the General Fund to the Beach Protection Fund. In addition to beach nourishment costs, the fund could be used for other beach protection type activities/costs.

Contingency

A contingency of \$184,000 (4.6 % of the budget) is included in the General Fund budget for fiscal year 2013/2014. 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. The original fiscal year 2012/2013 budget included a contingency of

\$156,000. The contingency remaining in the fiscal year 2012/2013 Amended Budget as of May 20, 2013 is \$133,000.

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. 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) The changes to staffing levels necessary to meet growing demands.
- 4) General price increases for purchased services and materials.

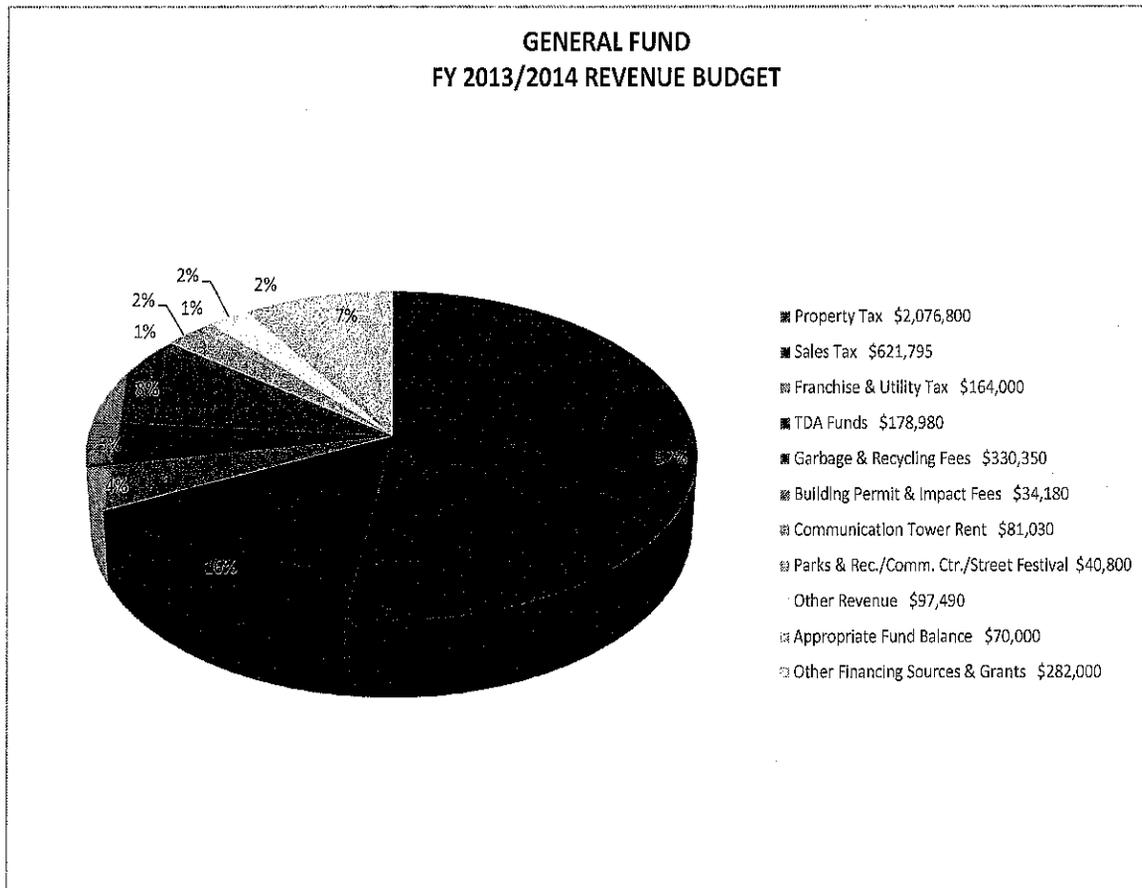
As noted earlier, the issues listed above have been addressed in the fiscal year 2013/2014 budget without an increase in the property tax rate. The only General Fund related fee that is being proposed to increase in this budget relates to residential and commercial curbside garbage collection. As indicated on page 2, the residential rate is increasing by \$2 per cart per month and the commercial rate is increasing by \$8.75 per cart per month. These rate increases will help to cover the expenses incurred to provide garbage collection services.

The General Fund budget also includes a fund balance appropriation totaling \$70,000. This appropriation is comprised of:

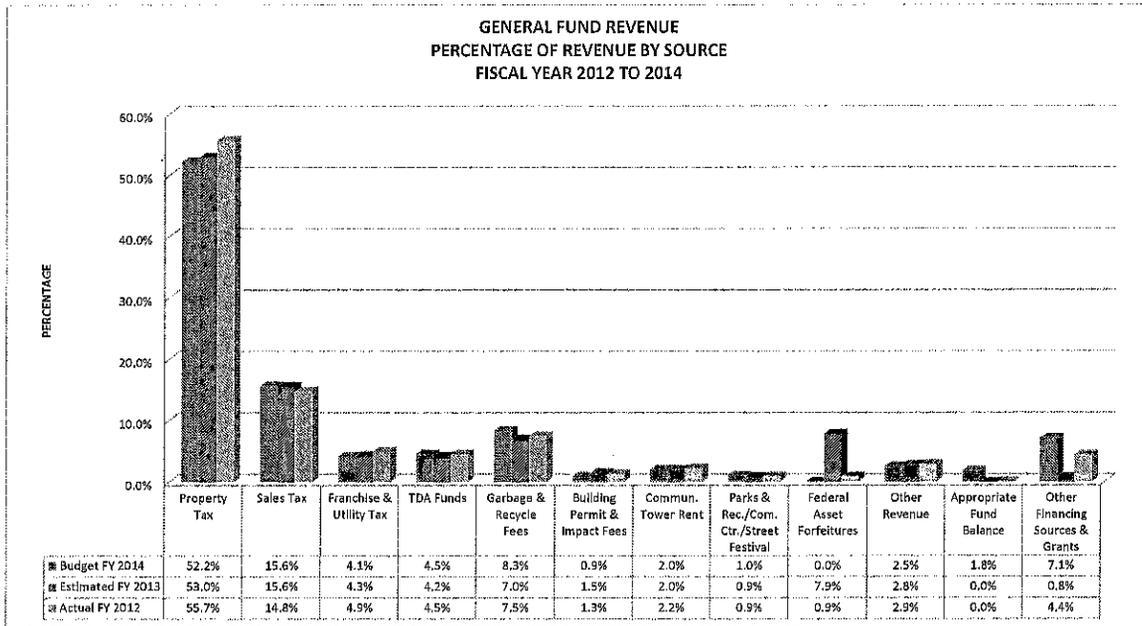
- 1) A donation of \$10,000 received from Progress Energy in fiscal year 2011/2012. This donation is to be used for educational programs conducted at the Ocean Front Park. These programs are included in the fiscal year 2013/2014 budget.
- 2) The balance of the Ocean Front Park bluefish fundraiser, totaling \$10,000, which was received in fiscal year 2012/2013. This amount will also be used to fund programs at the Ocean Front Park.
- 3) \$50,000 to be used as the Town's match to a grant from the Division of Water Resources (grant is also for \$50,000) for remediation of the Dow Chemical intake structure.

As previously highlighted, the fiscal year 2013/2014 budget for General Fund operating expenses is 3.2% higher than the fiscal year 2012/2013 Amended Budget. This increase is attributable to the items previously mentioned, while many other operating expenses have remained constant or decreased. When comparing the total fiscal year 2013/2014 General Fund budget to the fiscal year 2012/2013 Amended Budget, the total budget has increased by 6.7% (operating expense increase of 3.2%, capital outlay increase of 230%, fund transfer decrease of 59.5% and contingency increase of 38.3%).

The breakdown of budgeted revenue, by major source, for fiscal year 2013/2014 is as follows:

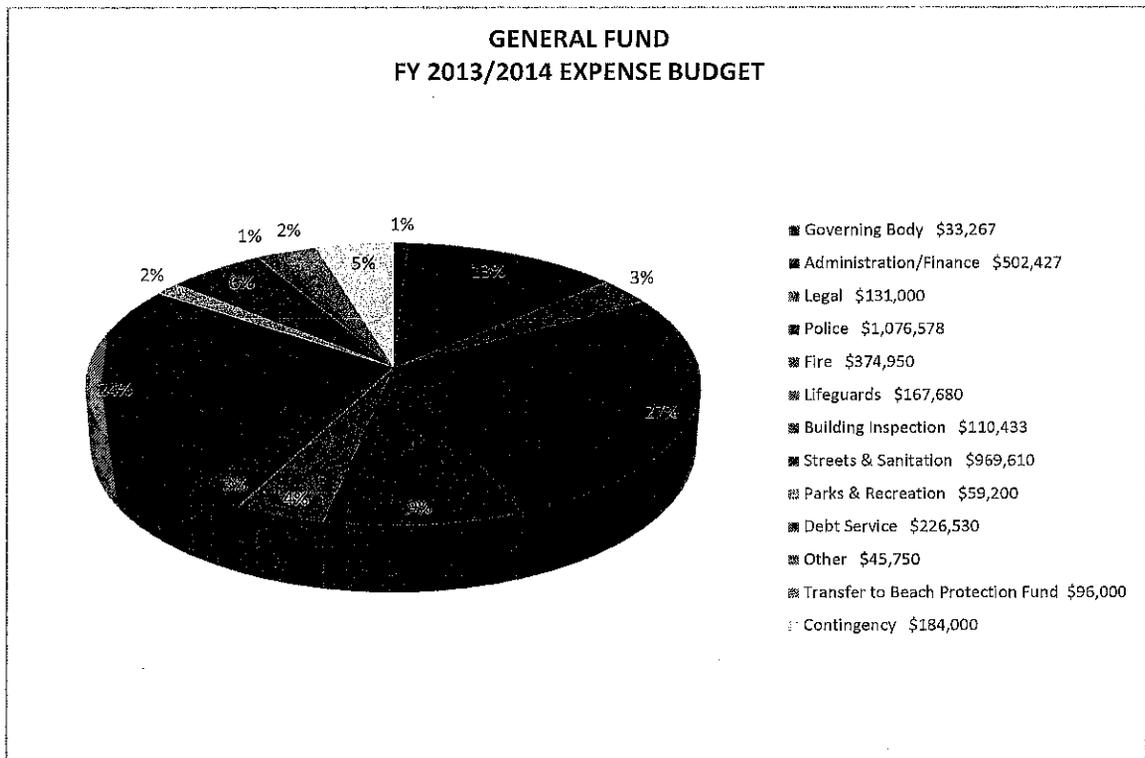


For comparative purposes, the chart on the next page presents the percentage of revenue by source budgeted for fiscal year 2013/2014 in relation to the estimated revenue for fiscal year 2012/2013 and the actual revenue for fiscal year 2011/2012.

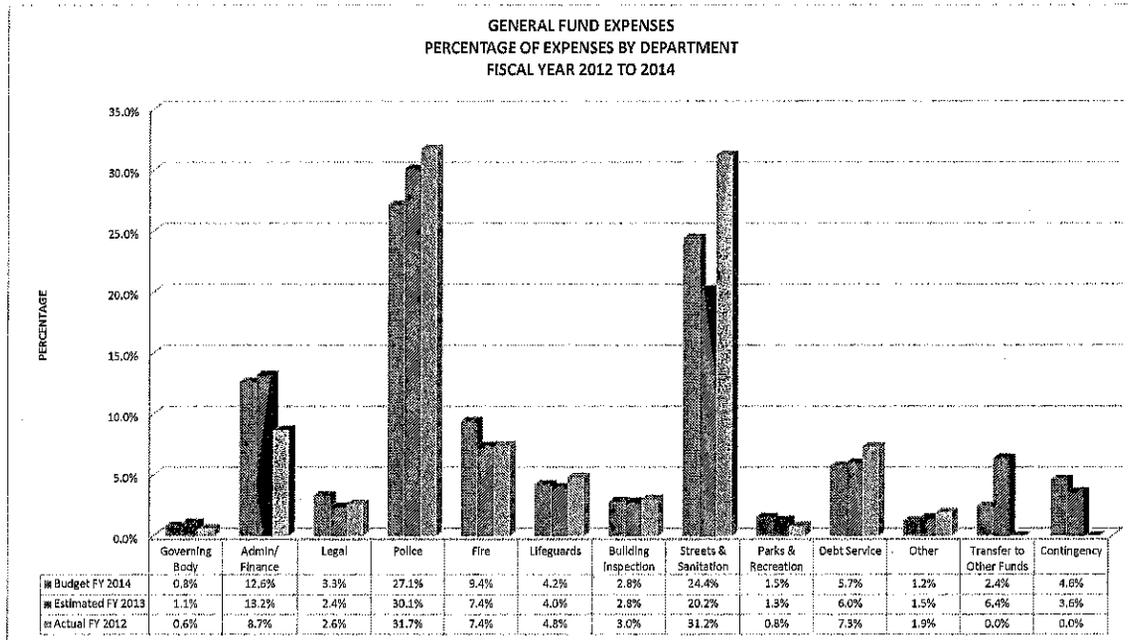


As the chart depicts, revenue from property taxes consistently exceeds 50% of the General Fund's total revenue. The other revenue categories have remained fairly consistent from year-to-year with the exception of other financing sources. Other financing sources, which are primarily installment loans, vary based on the level of capital outlay.

The breakdown of budgeted General Fund expenses, by department/function, for fiscal year 2013/2014 is as follows:



The chart below presents the percentage of expenses by department/function budgeted for fiscal year 2013/2014 in relation to the estimated expenses for fiscal year 2012/2013 and the actual expenses for fiscal 2011/2012.

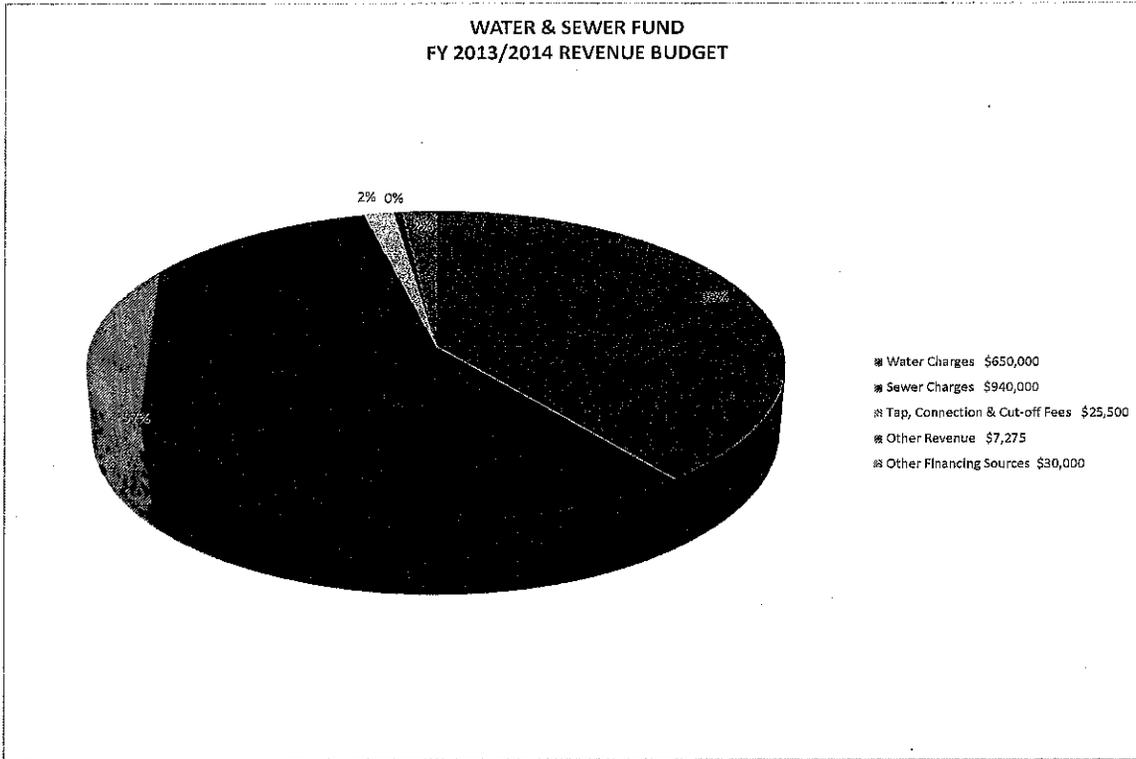


The percentage of General Fund expenses by department/function remains relatively consistent. Any fluctuations are primarily related to the amount of capital outlay for the given year and changes in budgetary responsibility for certain expenses (e.g., recycling was moved from Streets & Sanitation to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

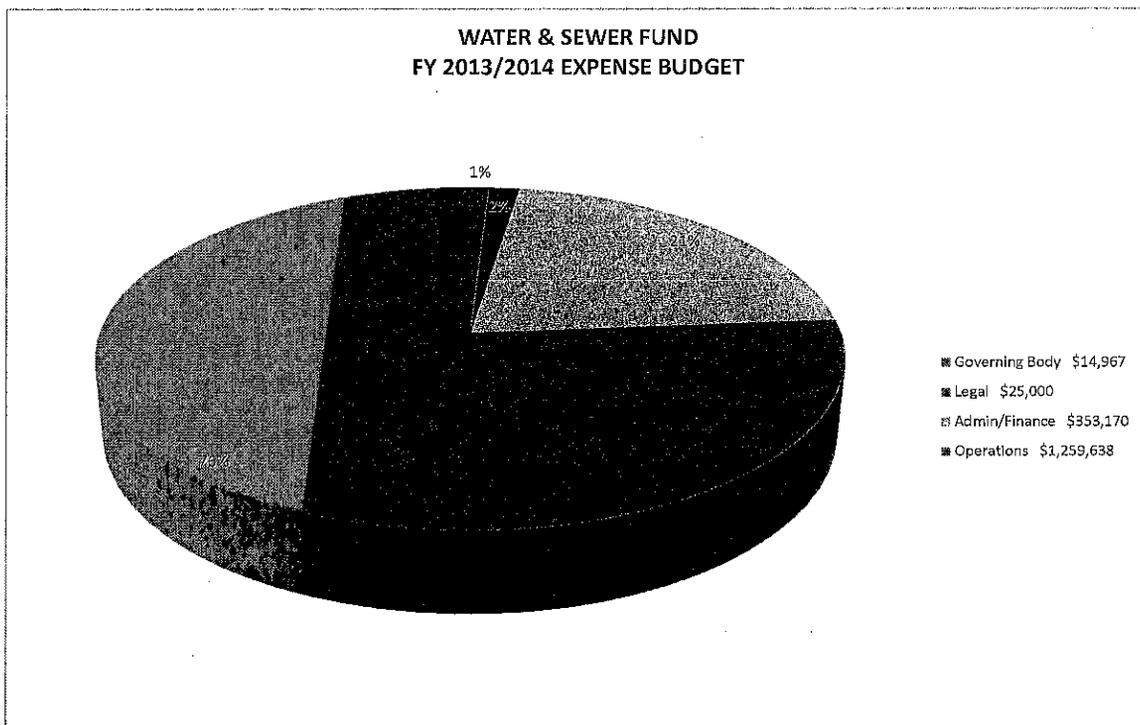
WATER AND SEWER FUND SUMMARY

Overall, the fiscal year 2013/2014 Water and Sewer Fund budget is approximately 3% less than the fiscal year 2012/2013 Amended Budget as of May 20, 2013. Whereas, operating expenses have increased 2.5%, capital outlay/reserves have decreased by 30.6%. The overall reduction in the Water and Sewer Fund budget is primarily attributable to lower projected system usage for fiscal year 2013/2014. 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 2013/2014 is as follows:



The breakdown of budgeted Water and Sewer Fund expenses, by department/function, for fiscal year 2013/2014 is as follows:

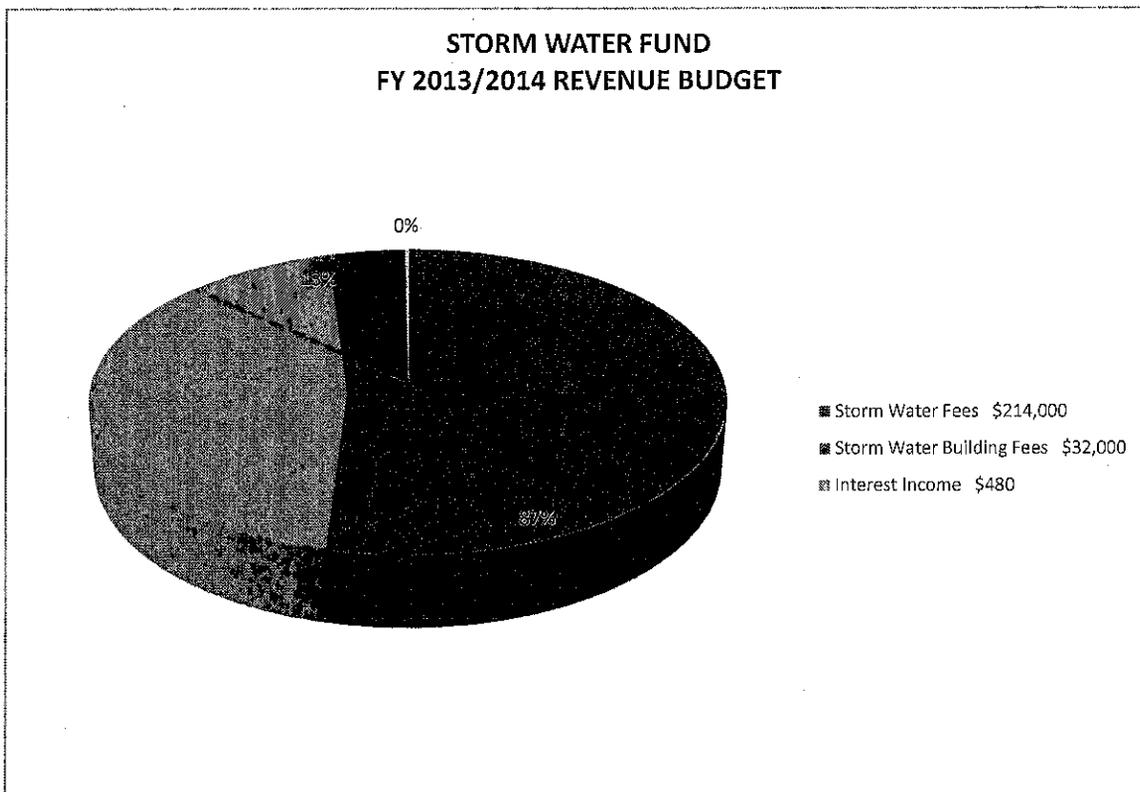


The percentages of revenue by source and expenses by department/function for the Water and Sewer Fund are consistent with prior fiscal years.

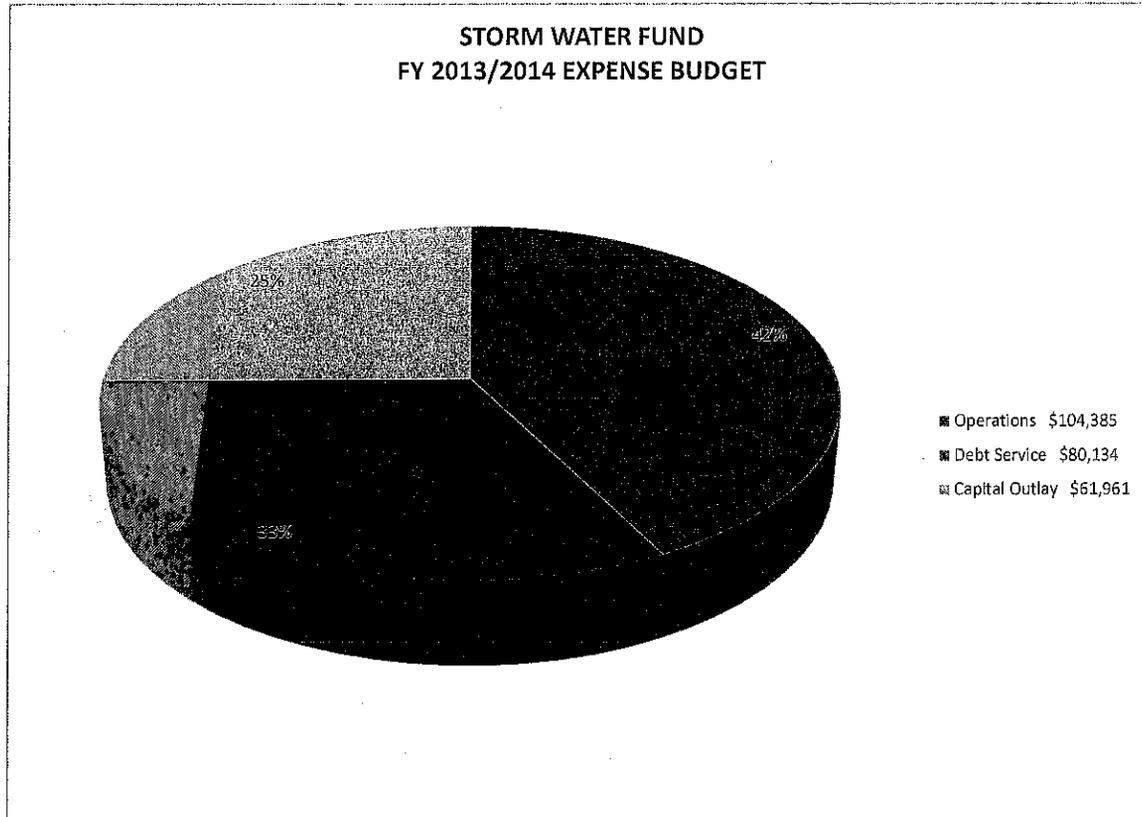
STORM WATER FUND SUMMARY

Overall, the fiscal year 2013/2014 Storm Water Fund budget is 5.9% higher than the fiscal year 2012/2013 Amended Budget as of May 20, 2013. Operating expenses are 37.7% higher; however, capital outlay (infrastructure projects) is 37.3% lower. As previously noted, operating expenses are increasing due to moving an additional Public Works employee to the Storm Water Fund due to the volume of storm water related work.

The breakdown of Storm Water Fund budgeted revenue, by major source, for fiscal year 2013/2014 is as follows:



The breakdown of budgeted Storm Water Fund expenses, by type, for fiscal year 2013/2014 is as follows:



The percentage of revenue by source is consistent with the current fiscal year. The expenses by department/function show an increase in operations due to moving a Public Works employee to the Storm Water Fund and a decrease in capital outlay as previously noted.

BEACH PROTECTION FUND SUMMARY

As previously discussed, the Beach Protection Fund is being established as part of the Kure Beach Budget Ordinance for fiscal year 2013/2014. It is being 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 is the driving force behind the establishment of this reserve. For fiscal year 2013/2014, the revenue source for the Beach Protection Fund will be a \$96,000 transfer 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 ¼ 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 2013/2014 is \$60,000 and interest income is estimated at \$40. Additionally, budgeted Powell Bill eligible expenditures total \$60,040.

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 2013/2014, 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 2013/2014, revenue for SERF is budgeted at \$20,180 (\$20,000 of user fees and \$180 of interest income) and accordingly, the increase in reserves is \$20,180.

SUMMARY

The fiscal year 2013/2014 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 and 2013, 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 the next tri-annual beach nourishment project could be approximately \$1.2 million based on current costs.

This budget includes a plan to build reserves for future beach nourishment needs. The Beach Protection Fund will serve as a reserve fund to accumulate funds for future beach related needs, the most significant being beach nourishment. A transfer of \$96,000 from the General Fund to the Beach Protection Fund is included in this budget. Also, all or a portion of the General Fund contingency, totaling \$184,000, 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 evaluated in future budget cycles.

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.

In conclusion, I believe the proposed fiscal year 2013/2014 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 2013/2014 budget.

Respectfully submitted,



Arlen Copenhaver
Finance and Budget Officer