



Incorporated 1927

TOWN OF LAKE LURE

Office of the Town Manager

TO: Mayor and Commissioners
FROM: Chris Braund
DATE: June 1, 2010
RE: Budget Message and Proposed Budget for Fiscal Year 2010-2011

In accordance with Sections 159-11, 159-12, et. al. of the General Statutes of North Carolina, it is my duty to submit for your consideration the proposed balanced Budget for Fiscal Year 2009-2010. This budget was created in accordance with the schedule submitted to council earlier this year. This budget is a result of several meetings with the department heads in an effort to minimize capital requests while maintaining the high level of service expected by our property owners and residents. This budget is a result of a great deal of time and hard work of the town Finance Director Sam Karr, who with the assistance and input from the department heads through the months of March and April, prepared the initial draft of the document for the Town Council=s consideration. Additional meetings with department heads resulted in some very difficult project and capital item decisions in order to balance the budget. The cuts identified from the meetings with the department heads were submitted to Town Council at our budget workshops on May 20th and 27th. The priorities communicated by the Council are now reflected in this proposed budget. **In Summary, the budget is balanced at a recommended tax rate of \$0.21 per \$100 of property value, maintaining the rate in effect last year.** For the Lake Lure taxpayer, 28.3% of their property tax bill supports their Lake Lure budget. 71.6% supports Rutherford County=s budget.

This memorandum details all line items for the General Fund, Water/Sewer Fund and Electric Fund. The proposed major areas of revenue for the fiscal year commencing July 1, 2010 and ending June 30, 2011 are as follows:

REVENUES

I. GENERAL FUND

Ad Valorem and Vehicle Taxes	\$2,127,182
State Shared Revenues	\$1,009,325
Miscellaneous Revenues	\$118,060
Land Use Fees	\$19,650
Golf Course	\$36,084
Lake	\$276,700
Beach	\$48,000
Marina	\$40,000
Admin. charge from Water/Sewer Fund	\$25,000
Admin. charge from Electric Fund	\$25,000
Transfer from Electric Fund	\$25,000
Appropriated Fund Balance	\$0

TOTAL GENERAL \$3,750,001

II. WATER/SEWER FUND

Water and Sewer	\$664,050
Transfer from General Fund	\$13,767
Transfer from Hydroelectric Fund	\$15,000
TOTAL WATER/SEWER	\$692,817

III. ELECTRIC FUND

Electric Receipts	\$260,500
Appropriated from Fund Balance	\$90,000
TOTAL ELECTRIC	\$350,500

<u>GRAND TOTAL - ALL FUNDS</u>	<u>\$4,793,318</u>
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EXPENDITURES

I. GENERAL FUND

Governing Board	\$33,434
Administration	\$697,482
Police	\$722,743
Fire Department	\$650,742
Public Works	\$450,923
Sanitation	\$180,500
Golf Course	\$56,873
Lake	\$232,522
Parks & Recreation	\$30,000
Beach	\$5,000
Community Center	\$51,023
Community Development	\$302,513
Marina	\$9,820
Insurance/Bonds	\$144,865
Debt Service	\$117,023
Contingency Reserve	\$50,767
Transfer to Water/Sewer	\$13,767
Transfer to Equity	\$0

TOTAL GENERAL	\$3,750,001
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II. WATER/SEWER FUND

Sewer	\$389,045
Water	\$303,772
Transfer to Equity	\$0
TOTAL WATER/SEWER	\$692,817

III. ELECTRIC FUND

Operations	\$350,000
TOTAL ELECTRIC	\$350,000

<u>GRAND TOTAL - ALL FUNDS</u>	<u>\$4,793,318</u>
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FUND BALANCES

Our finance director has provided the following information regarding the fund balance or retained earnings for each of the town's three operating funds:

	<u>June 30, 2009¹</u>	<u>June 30, 2010²</u>
General Fund ³	\$812,295	\$965,350
Water/Sewer Fund ⁴	\$6,982	\$122,750
Electric Fund ⁴	\$261,178	\$475,000

- Notes:**
- 1 - from Audit Report for FY2008-09
 - 2 - estimates provided by finance director and based upon data available to him on May 30, 2010
 - 3 - General Fund amounts are fund balances
 - 4 - Water/Sewer Fund and Electric Fund represent retained earnings.

As always, there were many hard decisions associated with the formulation of this budget. The costs submitted by the staff to address the various needs, wants and desires of the town were in excess of the current array of means to pay for them. The result was a lengthy process of establishing priorities among the many competing good and worthy services and projects in need of funding. In all, nearly \$400,000 of requested budget items were eliminated.

This estimated budget for FY2010-11 is based upon the following:

1. There is an assumption that there will be no annexations or major growth in population served during the subject fiscal year.
2. We are proposing to maintain the tax rate at \$0.21 this year. This should generate about \$2,127,182 in tax revenue on real, personal and utility property, assuming a 97% collection rate. Note that the tax base is slightly decreased from 2009/2010.
3. Water and sewer operations are tracked in their own enterprise fund. In past years, excess revenues resulted in regular contributions to this fund. However, the fund has been depleted by major repair and improvement projects required by the state. Several factors have conspired to alter the balance of annual revenues and expenditures:
 - Long-deferred improvements to the sewer treatment plant and underwater collection system have added capital costs and debt payments.
 - Water system improvements and extensions have added capital costs and debt payments
 - Water and sewer rates that did not increase over a 10-12 year period, despite continuing escalation in costs. These have been adjusted over the last two years.

As in years past, a modest subsidy from general fund expenditures is recommended in order to close shortfalls in the water & sewer operations. For FY 10-11, this subsidy is expected to be \$13,767. Such a subsidy is appropriate in when a service essential to a municipality is unable to be fully funded by fee-paying users of the service. In Lake Lure, the unique challenges of our geography, age of the infrastructure and small customer base make it hard to cover costs without setting unreasonably high rates. Additional investments in utilities infrastructure were identified in the Comprehensive Plan as a needed strategy to support growth in key areas like schools, recreational and medical facilities.

4. Regular Operations – the overall budget for regular operations (excluding capital expenditures, projects and debt service) was reduced by over \$25,000 from FY 09-10.
5. Debt Service – the budget contains the following debt payments:

- Public Docks (payments through 2012)	\$15,523
- Fire Station (payments through 2013)	\$13,670
- Golf Course Renovation (through 2013)	\$86,500
- Water Line Extension to Ingles (through 2026)	\$76,891
- Joint Wrapping Program (0 % through 2029)	\$0 (payments begin in 2011)
6. Golf Course – the golf course is now under the operation of the Course Doctors management team. In FY 10, a total of \$355,000 in course renovations and irrigation system improvements were completed. \$155,000 of that amount was paid and the remaining \$200,000 is a promissory note to be repaid over the next three years. The FY 11 operating budget includes amounts for health

insurance payments for terminated employees (required for a number of months by federal law) and for exterior maintenance of buildings. All other expenses, as well as revenues, profits or losses will be part of the Course Doctors lease operations. The town budget includes a pass-through transaction whereby the town will acquire golf carts at the end of their current lease (\$36,084) and then sell these to the Course Doctors for the same price.

7. The budget INCLUDES \$570,551 in capital investments or special projects considered to be essential priorities:

- Silt Removal (regular maintenance dredging)	\$100,000
- Morse Park Improvements (drainage)	\$25,000
- Lake instrumentation (flows into and out of lake)	\$7,500
- Town Center Plan (offset by anticipated grant funds or gifts)	\$50,000
- Vacation Rental Program (contingency for legal defense fees)	\$15,500
- Firing Range – environmental assessment	\$7,500
- Golf Cart Purchase (at end of lease, offset by sale to Course Doctors)	\$36,084
- Visitor/Youth Center roof replacement (contribution to TDA remodel)	\$15,000
- Wastewater Treatment Plant improvements	\$25,000
- Long-Range Sewer Study (funded by a state grant)	\$60,000
- Sewer Line Replacement (post office to ABC store)	\$32,000
- Contingency for Settlement of Disputed WWTP Sludge Hauling Invoice	\$16,200
- Performance-Based Merit Bonus Program for employees	\$30,000

Beyond regular maintenance, no other capital improvements, projects or technology upgrades are planned. A needed telephone system upgrade is included in the budget as payments on a 3-year loan (offset by reductions in telephone line costs).

8. The budget EXCLUDES \$356,925 in requested capital investments or special projects:

- Salaries – Cost of Living Increases	\$70,000
- Admin - Document Management Software	\$5,000
- Police – replacement vehicle	\$20,000
- Police – vehicle camera	\$4,625
- Fire – annual payment on new fire engine loan (10 year)	\$45,000
- Parks & Recreation – additional Morse Park improvements	\$25,000
- Community Development – Old Landfill Site – environmental remediation	\$30,000
- Community Development – New Landfill Site – design/permit/construct	\$46,000
- Community Development – complaint/request tracking system	\$5,000
- Lake Operations – new floating docks at Lake Operations Office	\$45,300
- Marina – replace marina seawall	\$30,000
- Marina – replace marina docks	\$25,000
- Sewer – additional collection system improvements	\$6,000

9. Fund Balances – this budget anticipates no withdrawals from the general fund balance or water/sewer fund balance to cover expenses. There is a planned \$90,000 withdrawal from the hydroelectric fund balance to be used for improvements at the dam and plant. This is a use of excess revenues that were deposited into the hydro fund balance at the end of FY 2010.

The proposed budget has no provision for contributions toward restoring or enhancing the fund balances. The town is plaintiff in a lawsuit against a former town engineer and vendor for deficient work at the wastewater treatment plant. A mediation hearing is scheduled in July. Any award from this action would be used to replenish the water/sewer fund.

10. For the second year in a row, the budget includes no cost-of-living salary adjustment (COLA) for employees. It maintains current levels of contribution to retirement and healthcare benefits, which include:

- NC state employees retirement fund premiums (defined benefit plan)
- a 401K contribution of 5% of earnings for all employees
- Employee healthcare insurance premiums
- NC state retirees healthcare insurance premiums

Town costs for NC retirement and healthcare insurance premiums experienced 9-20% increases this year.

11. The budget includes no staff additions or reductions. Should staff attrition occur during the year, current practice is to evaluate either not filling the position or to contract externally. In FY 10, this resulted in the reduction of 6 full-time and 2 part-time staff from the town payroll.
12. Contingency – this line item is used to cover unanticipated costs or needs during the year that were not appropriated elsewhere. Contingency funds are used only upon approval by the Town Council in a budget amendment. In FY 10, the available contingency was \$80,000 and nearly all of it was used. In the FY 11 budget, there is a contingency of \$50,767. However, \$30,000 of that has been committed to a bonus pool for staff, to be used to pay performance-based, merit bonuses to individuals and departments. Thus, actual contingency funds are just \$20,000. In the event of significant, unplanned needs or opportunities arising during the year, Council will need to consider an appropriation from the general fund balance (which exists for to provide this very protection).
13. The budget includes no purchases of vehicles or major equipment. In FY 10, surplus vehicles, boats and equipment were sold to generate \$19,000 of revenues.
14. Due to extensive rainfall, diligent plant management and expenditures in plant maintenance and repairs, revenues in the Electric Fund were over \$500,000 in FY 10--the third highest year on record. This was a welcome reprieve from the droughts of prior years. In addition to extensive repairs, excess revenues (over \$100,000) were deposited into the hydro fund balance, which was already over 200% of annual operating expenditures. We are projecting conservative electricity generation revenues during 10-11 and a \$90,000 withdrawal from the fund balance to make continued progress on an extensive capital improvement plan. Any revenues above the cost of operations can be contributed to the silt removal fund or back into the hydroelectric fund. Additionally, two intra-fund transfers are planned:
- \$15,000 from the hydroelectric fund to the water & sewer fund to cover plant and collection system improvements.
 - \$25,000 from the hydroelectric fund to the Parks & Recreation department for Morse Park improvements (as Morse Park is the result of accreted sedimentation accelerated by rainfall)
15. The community development department budget includes \$50,000 toward planning activities related to a revitalized Town Center as an engine of economic development. This expenditure is offset by the same amount in anticipated revenues from grants or gifts. The planning process will proceed based on the availability of these funds. The priorities for the department in the coming year include the completion of GIS inventory of town utility infrastructure, the administration of the residential vacation rental program and the continued work to develop the NC Hwy 9 area.

16. The costs associated with the lake operations department (staff, supplies, fuel, lake dredging, fish stocking, outside services) are fully covered through boat permit fees, lake tours and fines.
17. Renovation and expansion of the Visitor Center is a strategic project that is proposed to be funded by a commercial lease arrangement with the Tourism Development Authority (TDA) and the Hickory Nut Gorge Chamber of Commerce. \$15,000 in capital improvements are included in the town budget (principally to cover the cost of a replacement roof and some exterior repairs) and are expected to be contributed to the renovation project.

In summary, the proposed town budget now before you is balanced as required by state law. In comparison to last year, overall revenues and expenditures are projected to increase by \$65,909 (1.4%).

	FY 09/10	FY 10/11	Difference	% Change
General Fund	\$3,823,502	\$3,750,001	-\$73,501	-1.9%
Water/Sewer Fund	\$751,407	\$692,817	-\$58,590	-7.8%
<u>Electric Fund</u>	<u>\$152,500</u>	<u>\$350,500</u>	<u>\$198,000</u>	<u>129.8%</u>
Total	\$4,727,409	\$4,793,318	\$65,909	1.4%

While this budget does not address every need, want, preference, desire, project, program, or requested capital item, it will provide for the continuation of the basic municipal services currently provided and at the level expected by our residents, while maintaining our tax rate in a difficult fiscal climate. The current and future councils need to consider carefully the aging infrastructure of the town and the continuing trend of deferring capital improvements and investments to future years. The council should to go through an exercise of adopting a formal capital improvement plan that anticipates maintenance *and eventual replacement* of all town assets. A draft plan provided to council shows between \$500,000 and \$1,000,000 of unfunded improvements EVERY year in order to maintain the town's dam, sewer system, water system, boardwalk and marina, buildings, roads and bridges, vehicle and boat fleets. This draft does not address future replacement costs for items like the dam. Then, with a sound capital improvement plan in place, the council needs to find ways to fund each year's expenditures rather than deferring them into the future.

I hereby request your formal adoption of the town budget for Fiscal Year 2009-2010.

xc: Sam Karr, Finance Director
Department Heads
Mary Flack, Town Clerk