

Incorporated 1927

## TOWN OF LAKE LURE

### *Office of the Town Manager*

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**TO:** Mayor and Commissioners

**FROM:** Chris Braund

**DATE:** June 6, 2012

**RE:** Budget Message and Proposed Budget for Fiscal Year 2012-2013

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 2012-2013 commencing July 1, 2012 and ending June 30, 2013. This budget was created in accordance with the schedule submitted to council earlier this year and is a result of several meetings and workshops. Along with the assistance and input from department heads in March and April, the initial draft was prepared for the Town Council's consideration. Workshops were held with the Town Council on March 22<sup>nd</sup>, May 17<sup>th</sup> and May 22<sup>nd</sup>. In these meetings, the Council reviewed and provided feedback on the departmental operating budgets and then on the Capital Improvement Plans and expenditure requests. The priorities and revisions communicated by the Council are now reflected in this proposed budget. **In summary, the budget is balanced at a recommended tax rate of \$0.246 per \$100 of property value, the revenue-neutral rate that considers the reduction in total property values in Lake Lure.**

This memorandum provides summaries and detailed discussion of the budgets for General Fund, Water/Sewer Fund and Electric Fund.

**REVENUES**

**I. GENERAL FUND**

Ad Valorem and Vehicle Taxes	\$2,147,185
State Shared Revenues & Grants	\$1,275,075
Installment Loan (fire engine)	\$425,000
Lake	\$223,675
Beach & Tours	\$83,000
Marina	\$85,500
Facilities Rentals	\$26,100
Miscellaneous Revenues	\$40,955
Land Use Fees	\$18,050
Admin. Charge from Water/Sewer Fund	\$10,000
Admin. Charge from Electric Fund	\$10,000
Appropriated Fund Balance – Bridge Preservation	\$20,000
Appropriated Fund Balance – General Fund	\$0
<b>TOTAL GENERAL</b>	<b>\$4,364,540</b>

**II. WATER/SEWER FUND**

Water and Sewer	\$672,962
Appropriated Fund Balance	\$12,478

**TOTAL WATER/SEWER \$685,440**

**III. ELECTRIC FUND**

Electric Receipts	\$271,090
Appropriated from Fund Balance	\$0

**TOTAL ELECTRIC \$271,090**

**GRAND TOTAL – ALL FUNDS \$5,321,070**

**EXPENDITURES**

**I. GENERAL FUND**

**Operations**

Governing Board	\$29,210
Administration	\$673,015
Police	\$717,717
Fire Department (excludes debt service shown below)	\$651,067
Public Works	\$331,814
Sanitation	\$204,900
Golf Course	\$81,000
Lake	\$175,534
Parks & Recreation	\$83,485
Beach & Marina	\$12,000
Community Development	\$241,848
Information Technology/Telecommunications	\$44,830
Insurance/Bonding	\$145,754
Contingency Reserve	\$49,095

**Capital Outlay and Debt Service**

Capital Outlay & Projects	\$811,413
Debt Service	\$111,858
Fire Service	\$25,970
Debt Service Excluding Fire	\$85,888
Transfer to Water/Sewer	\$0
Transfer to Fund Equity	\$0

**TOTAL GENERAL \$4,364,540**

**II. WATER/SEWER FUND**

Sewer Operations	\$356,260
Water Operations	\$174,411
Capital Outlay	\$16,768
Debt Service	\$138,001
Transfer to Equity	\$0

**TOTAL WATER/SEWER \$685,440**

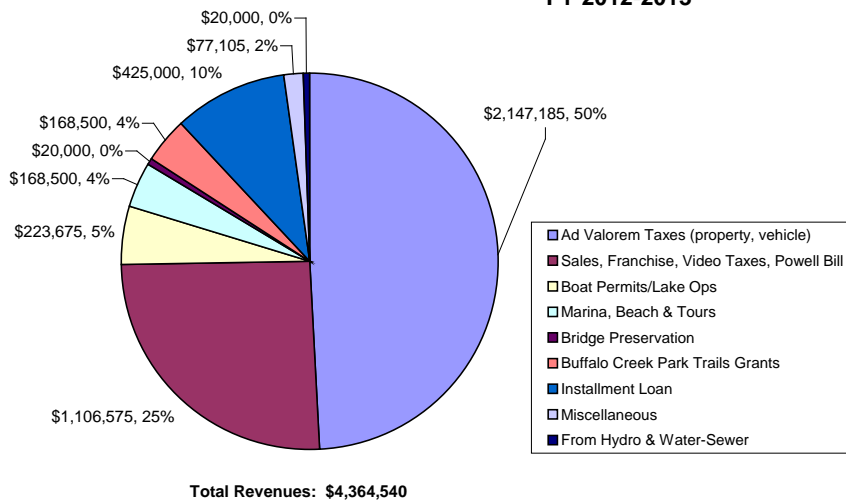
**III. ELECTRIC FUND**

Operations	\$159,765
Capital Outlay	\$111,325
Debt Service	\$0
Transfer to Equity	\$0

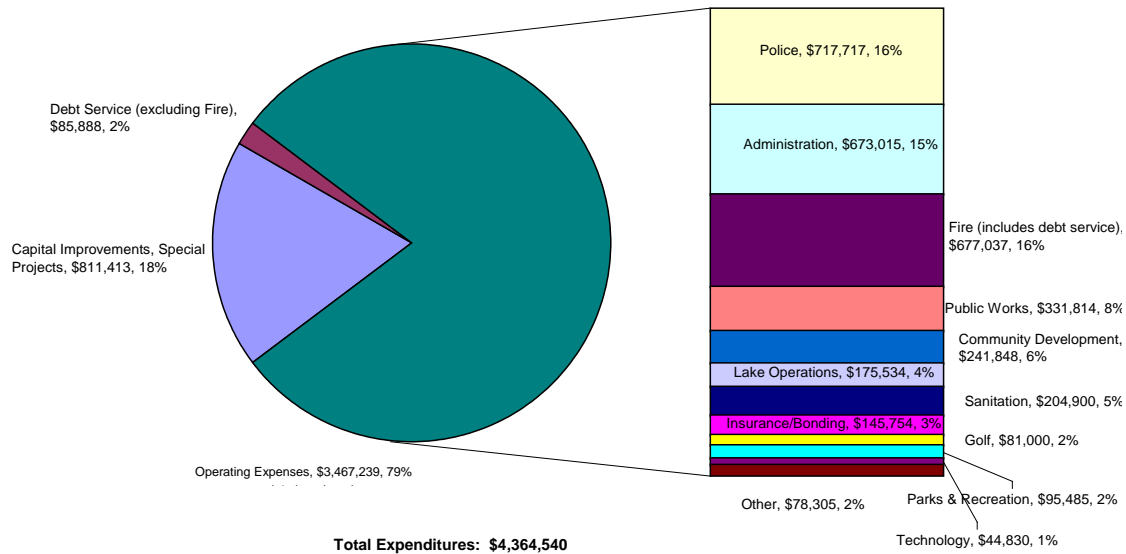
**TOTAL ELECTRIC \$271,090**

**GRAND TOTAL - ALL FUNDS \$5,321,070**

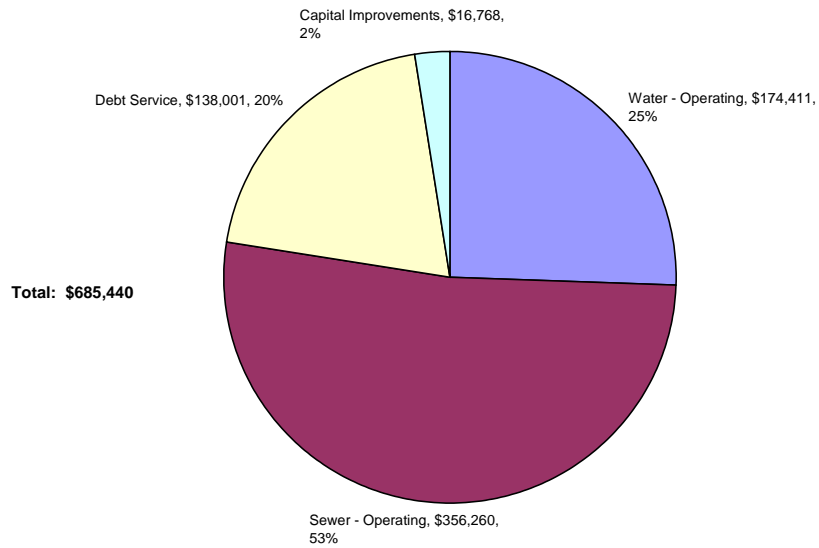
**Town of Lake Lure  
General Fund Revenues  
FY 2012-2013**



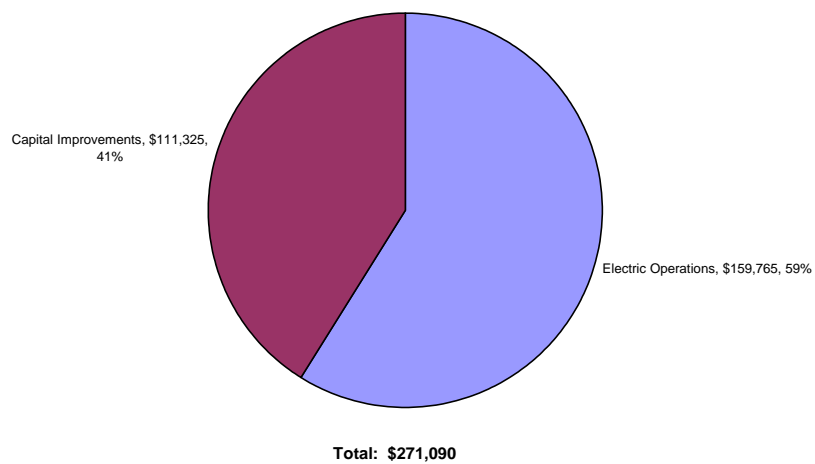
**Town of Lake Lure  
General Fund Appropriations  
FY 2012-2013**



**Town of Lake Lure  
Water-Sewer Budget  
FY 2012-2013**



**Town of Lake Lure  
Hydroelectric Budget  
FY 2012-2013**



**FUND BALANCES**

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

	<u>June 30, 2011<sup>1</sup></u>	<u>June 30, 2012<sup>2</sup></u>	<u>Budgeted Changes in FY 2012/13</u>
General Fund <sup>3</sup>	\$1,439,290	\$1,485,140	None
Water/Sewer Fund <sup>4</sup>	\$217,581	\$240,145	-\$12,478
Electric Fund <sup>4</sup>	\$431,367	\$435,500	None

	<u>June 30, 2011<sup>1</sup></u>	<u>June 30, 2012<sup>2</sup></u>	<u>Budgeted Changes in FY 2012/13</u>
Bridge Preservation Fund	\$0	\$100,000 <sup>5</sup>	-\$20,000
Silt Removal Fund	\$177,645	\$177,645	+\$100,000
Capital Reserve Fund	\$6,000	\$10,000	None

- Notes:**
- 1 - From Audit Report for FY2010-11
  - 2 - Estimates provided by finance director and based upon data available to him on May 30, 2012
  - 3 - General Fund amounts are fund balances
  - 4 - Water/Sewer Fund and Electric Fund represent retained earnings
  - 5 - The Bridge Preservation Fund was established with \$120,000 from the NCDOT for the long-term maintenance of the old bridge across the Rocky Broad river.

At the conclusion of the current budget year (FY11/12), the general fund balance is estimated to be increased by about \$45,000 due to the achievement of an operating surplus and increased collections of state shared sales tax. This increase was accomplished even though we had to transfer out \$138,000 for these unbudgeted events: Morse Park drainage project, Vacation Rental lawsuit settlement and an initial startup payment to Lake Lure Golf Management. The enterprise funds have maintained the fund equities throughout the fiscal year in spite the fact we had no new development and the hydro plant was shut down for two months during the lake drawdown.

In the 2012/13 budget, the only planned transfers into or out of the reserve funds are:

- a withdrawal from the water/sewer fund
- a withdrawal from the bridge preservation fund. This will be an advance for the creation of the Flowering Bridge attraction that will be paid back.
- A contribution to the silt removal fund

**PROPERTY TAX RATES AND REVENUES**

From 2008 to 2011, the tax rate for municipal services remained constant at \$0.21 per \$100 of property value. These taxes are used to fund general municipal services like fire, police, parks, maintenance – everything except water, sewer and hydroelectric utilities. The 21-cent tax rate generated about half of the annual budget, or about \$2,100,000 per year. The other half comes from external revenue sources (sales taxes and other state revenues, grants, ABC store profits, boat permit fees, beach and marina revenues, etc.)

<b>Year</b>	<b>Property Tax Revenues (\$0.21 rate)</b>	<b>Other Revenues</b>
2008	\$2,105,476	\$2,002,273
2009	\$2,060,812	\$1,743,706
2010	\$2,112,710	\$1,846,224
2011	\$2,156,324	\$2,161,819
2012	\$2,110,030	\$1,865,110

In 2012, Rutherford County re-assessed properties in Lake Lure and reduced their tax values by an average of 14%. In order to maintain essentially the same amount of municipal revenue in 2013, a rate of \$0.246 is needed. The council evaluated whether to keep the tax rate at the \$0.21 level, which would reduce the average local tax bill by 14%. Ultimately, the council determined that it could not justify the reduction in town services or expenditures in order to accommodate the loss of over \$300,000 in tax revenues. Here is the proposed tax rate and revenue projection:

<b>Year</b>	<b>Property Tax Revenues (\$0.246 rate)</b>	<b>Other Revenues</b>
2013	\$2,147,185	\$2,217,355

A revenue-neutral tax rate means that the town's overall tax revenues will stay about the same as in the prior year. This does not mean that tax bills will remain the same, though. Property owners may see their local tax bill increase, decrease or stay the same depending on whether their tax valuation changed by more or less than the 14% average decrease.

For the Lake Lure taxpayer, 29% of their property tax bill supports their Lake Lure budget and 71% supports Rutherford County's budget. The Town has no involvement in the setting of the county rates, the collection of the taxes or the spending priorities within the county budget.

**BUDGET DISCUSSION**

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.

As required by state law, the proposed town budget now before you is balanced. In comparison to last year, overall revenues and expenditures are projected to increase by \$400,424 (8.2%). This is mainly due to the addition of a \$425,000 fire engine and 10-year installment loan to finance it. Both revenues and expenditures were increased with this loan, offsetting each other. The net impact of this capital expenditure on the budget is the addition of annual debt payments. Excluding the fire engine, the budget is largely the same as in 2011-2012.

	<b>Budget FY 11/12*</b>	<b>Budget FY 12/13</b>	<b>Difference</b>	<b>% Change</b>
General Fund	\$3,975,140	\$4,364,540	+\$389,400	+9.8%
Water/Sewer Fund	\$669,150	\$685,440	+\$16,290	+2.4%
<u>Electric Fund</u>	<u>\$276,356</u>	<u>\$271,090</u>	<u>-\$5,266</u>	<u>-1.9%</u>
Total	\$4,920,646	\$5,321,070	+\$400,424	+8.2%

\*Amended as shown in "Budget Review Process" Report given to Council February 10, 2012.

The chart on the next page shows the proposed General Fund budget by department and the comparison to FY11/12. For each department, the portion of the total property tax assessment is shown. Property tax revenues supplement any other fees or revenues received from external sources.



**GENERAL FUND**  
**Comparison of proposed budget with prior year**  
**(Chart Updated to Reflect Final Budget Figures)**

	FY 2012/2013			FY 2011/2012		
Function	Appropriation	Portion Funded By Property Tax	Tax Rate Equivalent	Appropriation	Portion Funded By Property Tax	Tax Rate Equivalent
Police	\$717,717	\$479,582	5.50 cents	\$735,030	\$492,579	4.90 cents
Fire (2013 includes debt service)	\$677,037	\$453,804	5.20 cents	\$628,517	\$420,526	4.18 cents
Administration	\$673,015	\$437,650	5.01 cents	\$699,518	\$434,010	4.32 cents
Public Works	\$331,814	\$222,433	2.54 cents	\$277,772	\$186,802	1.86 cents
Community Development	\$241,848	\$150,024	1.72 cents	\$245,631	\$152,897	1.52 cents
Sanitation	\$204,900	\$127,216	1.46 cents	\$187,400	\$125,539	1.25 cents
Insurance/Bonding	\$145,754	\$97,707	1.12 cents	\$148,040	\$99,557	.99 cents
Capital Improvements	\$811,413	\$83,065	.95 cents	\$379,025	\$102,909	1.02 cents
Golf	\$81,000	\$54,298	.62 cents	\$6,000	\$4,035	.04 cents
Contingency	\$49,095	\$32,911	.38 cents	\$37,883	\$25,476	.25 cents
Debt Service (2013 excludes fire)	\$85,888	\$32,496	.37 cents	\$178,616	\$94,960	.95 cents
Technology/Telecomm	\$44,830	\$30,052	.34 cents	\$47,200	\$31,742	.32 cents
Town Council	\$29,210	\$19,581	.23 cents	\$32,396	\$21,786	.22 cents
Transfer to Bridge Preservation Fund				\$110,000	N/A	N/A
Parks & Recreation (including beach, marina and tours)	\$95,485	(\$41,363)	(.47 cents)	\$88,263	(\$42,673)	(.42 cents)
Lake Operations	<u>\$175,534</u>	<u>(\$32,271)</u>	<u>(.37 cents)</u>	<u>\$173,849</u>	<u>(\$40,115)</u>	<u>(.40 cents)</u>
Totals	\$4,364,540	\$2,147,185	24.60 cents	\$3,975,140	\$2,110,030	21.00 cents

This estimated budget for FY2012-13 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 establish the tax rate at \$0.246 this year based on the 2012 re-valuation of property in the county. This should generate \$2,147,185 in tax revenue on real, personal and utility property, assuming a 93.9% collection rate on motor vehicles and a 96.61% collection rate on property other than motor vehicles. Note that the tax base has decreased 14% from 2011/2012.
3. All fees and charges for town services have been reviewed and the budget assumes a 3% increase in utility rates. See the proposed FY 2013 rate schedule for details.
4. Fund Balances – this budget anticipates no withdrawals from the general fund or hydro fund balances to cover expenses. The proposed budget also has no provision for contributions toward enhancing these fund balances. The budget includes a planned withdrawal of \$12,478 from the water-sewer fund balance to cover anticipated costs of engineering activities to gain regulatory compliance at the wastewater treatment plant. We are currently evaluating different treatment approaches under a consent agreement with the state.
5. Increases in Operating Costs
  - Property & Liability Insurance costs increased 7%
  - Medical Insurance costs increased 6%
  - Electricity rates increased 7%
6. 47% of the General Fund operating budget goes to Police, Fire and Administration services, which is common among municipalities.
  - Service Area: With a permanent population of 1,200 and seasonal population estimated at 10,000, the Town of Lake Lure covers 14 square miles [*note: it is larger than the combined areas of Hendersonville, Flat Rock, Laurel Park and 1/3 of Fletcher.*] In the five surrounding counties, only Asheville and Mills River are larger in area than Lake Lure. We have over 2,000 housing units and 51 miles of public roads separated by a 720 acre lake. There is over \$879 million in property value within the town limits.
  - Police: To protect the Lake Lure area effectively and safely, we have 8 patrol officers, a lieutenant/detective, an administrative assistant and a Police Chief. We provide 24-hour coverage by 2 officers as a crime deterrent and to provide prompt response. Although we receive some support from county services (sheriff and EMS), these agencies cover a much larger region and have not committed to providing the service levels desired by the Town.
  - Fire: To provide fire protection, medical and rescue services throughout the town, we maintain a Lake Lure department (with 6 staff) and contract with 3 volunteer departments. This level of coverage affords a Class 6 insurance rating that directly reduces the costs of homeowner's insurance for each structure in town by as much as 50%. The savings to homeowners far exceeds the total fire protection budget. The Lake Lure fire budget represents about 5 cents per \$100 of property value. Elsewhere in the county, that cost ranges from 5 cents (Chimney Rock Village) to 18 cents (Forest City). Most common is 8 cents per \$100 (e.g., Bill's Creek.) In this budget, the contract payments to the 3 VFD's are now based upon the total property value in areas of the town that have added protection from each department.

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- Administration: the following functions are provided by 6 individuals and outside contractors in the Administration budget: Executive Management, Financial Management & Audit, Town Clerk/Recordkeeping, Human Resources, Customer Service, Legal services, Communication/Public Relations services.
7. Water and sewer operations are tracked in their own enterprise fund. In the last two years, we have stabilized these operations, continued a program of repairs and improvements and begun to build back the fund balance. Of most concern is sewer operations, where compliance issues and challenges with our old and undersized plant has dramatically increased our annual operating costs. With a 3% proposed increase in rates, utility revenues cover operations costs and one small capital improvement, although fund balance must be utilized to cover the added costs of engineering. 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 are identified in the Comprehensive Plan as a needed strategy to support growth in key areas like schools, recreational and medical facilities. However, the water and sewer revenues aren't sufficient to fund these strategic investments in infrastructure.
  8. Hydroelectric generation revenues in the Electric Fund are conservatively projected to be \$271,090. In addition to a \$50,000 contribution to the dredging/silt removal program, \$55,000 in plant improvements are budgeted as part of the multi-year capital improvement plan with over \$1 million in necessary maintenance and upgrades identified. The budget also includes capital in the amount of \$6,325 to upgrade alarm sirens.
  9. Golf Course – the golf course is now under the operation of the Lake Lure Golf Management, Inc., a family operation headed by Dale and Kathy Minick. The FY12/13 operating budget includes a \$75,000 subsidy to the course operator and \$6,000 for exterior maintenance of buildings. All other expenses, as well as revenues, profits or losses will be the responsibility of Lake Lure Golf Management.
  10. The costs associated with the lake operations department (staff, supplies, fuel, lake dredging, fish stocking, outside services) are fully covered through boat permit fees.
  11. Debt Service – the budget contains the following debt payments:

### General Fund

- Fire Station (payments through 2013)	\$13,670
- Telephone System (through 2015)	\$5,413
- Marina Renovation (through 2022)	\$65,000
- Fire Engine (through 2023)	\$12,300
- Interest on all loans	<u>\$15,475</u>
Total General Fund	<u>\$111,858</u>

### Water and Sewer Fund

- Water Line Extension to Ingles (through 2026)	\$55,955
- Sewer Joint Wrapping Program (through 2029)	\$63,990
- Interest on all loans	<u>\$18,056</u>
Total Water and Sewer Fund	<u>\$138,001</u>

Total Debt Service	\$249,859
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Total debt payments represent just 4.7% of our total budget, well under the 7% benchmark for municipalities.

12. The budget includes \$811,413 in capital investments or special projects considered to be essential priorities:

General Fund

- Fire Engine	\$425,000
- Buffalo Creek Park – Trails (\$168,000 funded with grants)	\$180,000
- Street Improvements (using state Powell Bill funds)	\$67,000
- Silt Removal (regular maintenance dredging)	\$50,000
- Morse Park Wetlands Enhancement (required final phase)	\$27,144
- Flowering Bridge Program (from the bridge preservation fund)	\$20,000
- Police Cars / Reserve Fund (covers annual payments for 2)	\$19,859
- Police – vehicle camera replacement (1)	\$4,910
- Asset Management Program Development (grant funded)	\$10,000
- Technology Upgrades (desktops & servers)	\$7,500
- Town Center: Market Assessment & Branding Study	\$0*

Water & Sewer Fund

- Sewer Collection System Replacement/Extension	\$16,768
- Wastewater Treatment Plant Improvements	\$0
- Water System Improvements	\$0

Hydroelectric Fund

- Capital Improvements at Dam/Hydro Plant	\$55,000
- Silt Removal / dredging	\$50,000
- Alarm siren upgrade (required)	\$6,325

The fire engine purchase will provide a modern truck for primary fire/rescue response. Our current first-out truck is 22 years old and deficient in a number of ways. It will be retained for use as a reserve. The fleet strategy is to always maintain 3 engines: a pumper/tanker (0-10 years old), a tanker (11-20 years old), and a reserve (21-30 years old). The engine will be purchased using a 10-year installment loan.

Grant funds have been awarded and will be used to construct up to 7 miles of multi-use trails at the town's new Buffalo Creek Park (south of the Grey Rock community.)

\* The next phase of planning for the Town Center is a market study to determine the scale and economic feasibility of an expanded downtown business district. We will be partnering with the Village of Chimney Rock and completing this activity in FY2012/13 with surplus funds appropriated from the FY2011/12 budget.

13. Staffing: the budget assumes no changes in staff positions. There are 36 full-time position and 7 part-time/reserve positions. The Town Council has placed a freeze on any new positions and will review recommended opportunities for position consolidation/elimination. As was done last year, an early retirement incentive will be offered to any eligible staff.
14. Salaries & Benefits: A 3% C.O.L.A. salary adjustment was implemented by Town Council effective April 1, 2012. The budget 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 full-time employees

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- Employee healthcare insurance premiums, which experienced a 6% cost increase.
- NC state retirees healthcare insurance premiums

In the coming year, the council will implement a reduction in some benefits policies for any new hires:

- Employer contributions to 401(k) plans will match employee contributions up to 5% of salary
- Employees share in the cost of monthly health insurance premiums
- Reduce the distance covered in the take-home vehicle benefit for qualifying positions

15. Vehicles & Watercraft – in the coming year, we will continue our practice of retiring and consolidating these assets to ensure the smallest and most efficient fleet required to provide needed town services. We have targeted for disposal three older boats utilized by departments on the lake: a Bennington pontoon, a McKee patrol boat and an old work pontoon. A few years ago, we extended the target lifespan for police vehicles (before replacement) from 80,000 miles to 120,000. We're going to extend that again to 140,000 or 160,000 miles and have budgeted for increased maintenance and repair costs.

16. Outsourcing: we will continue to seek opportunities for outsourcing, keeping employee headcount low by using public tax dollars to contract with the private sector to provide municipal services. We already contract for:

- garbage & recycling collection
- sewer treatment plant operation
- golf course operation
- beach and marina operation
- public information/town communications
- engineering
- legal
- financial audit

17. 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. If unused at the end of the year, they can be appropriated for other purposes or returned to fund balance. In the FY12/13 budget, there is a contingency reserve of \$49,095. 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 to provide this very protection).

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 holding tax revenues flat 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 development of an Asset Management Plan that is programmed for this year should greatly assist in the revision of a meaningful capital improvement plan that anticipates maintenance *and eventual replacement* of all town assets. A draft Capital Improvement Plan provided to council estimates 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 major items like the dam.

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As reviewed and discussed with the council, to fund the true cost of services and long-term management of assets would require something closer to a 31 cent tax rate (versus the proposed 24.6 cents.) That would put Lake Lure in line with other comparable municipalities that are more responsibly funding their operations, their capital improvements and capital reserves. We looked at other retirement/resort communities of similar populations and tax valuations and found that, comparatively, Lake Lure taxpayers pay less than their counterparts in these other communities and have a significantly lower debt burden. An alternative to increased taxes is to reduce the level of town services provided (staffing, assets and infrastructure.) This council and those in the future need to find ways to fund each year's needed expenditures rather than deferring them into the future.

I hereby request your formal adoption of the town budget for Fiscal Year 2012-2013.

xc: Sam Karr, Finance Director  
Andi Calvert, Town Clerk  
Department Heads