



## Office of the Town Manager

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**TO:** Mayor and Commissioners

**FROM:** Chris Braund

**DATE:** June 10, 2013

**RE:** Budget Message and Proposed Budget for Fiscal Year 2013-2014

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 2013-2014, commencing July 1, 2013 and ending June 30, 2014. 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 8th, April 24<sup>th</sup>, May 13<sup>th</sup> and June 5<sup>th</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 \$0.276 per \$100 of property value. This reflects a 3 cent increase over the effective tax rate in place since 2008, earmarked by Town Council for needed infrastructure improvements and capital expenditures.**

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	\$2,368,916
State Shared Revenues & Grants	\$1,293,275
Installment Loan (police vehicles)	\$56,000
Lake	\$223,875
Beach & Tours	\$83,000
Marina	\$83,500
Facilities Rentals	\$26,240
Miscellaneous Revenues	\$50,165
Land Use Fees	\$18,125
Admin. Charge from Water/Sewer Fund	\$10,000
Admin. Charge from Electric Fund	\$10,000
Appropriated Fund Balance – Bridge Preservation	\$10,000
Appropriated Fund Balance – General Fund (debt Service)	\$12,300

**TOTAL GENERAL \$4,245,396**

**II. WATER/SEWER FUND**

Water and Sewer	\$735,988
Appropriated Fund Balance	\$0

**TOTAL WATER/SEWER \$735,988**

**III. ELECTRIC FUND**

Electric Receipts	\$276,007
Appropriated from Fund Balance	\$100,000

**TOTAL ELECTRIC \$376,007**

**TOTAL REVENUES – ALL FUNDS \$5,357,391**

**EXPENDITURES**

**I. GENERAL FUND**

**Operations**

Public Safety	
Fire Department	\$689,762
Police	\$686,759
Administration, Finance & Technology	
Administration	\$671,468
Insurance/Bonding	\$145,754
Information Technology/Telecommunications	\$65,700
Governing Board	\$29,210
Public Works & Maintenance	
Public Works	\$283,381
Sanitation	\$207,300
Recreation	
Lake	\$188,760
Parks & Recreation	\$95,533
Golf Course	\$81,000
Beach & Marina	\$12,000
Community Enhancement	
Community Development	\$253,471
Economic Development	\$28,750

Contingency Reserve	\$50,000
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**Capital Outlay and Debt Service**

Capital Outlay & Projects	\$351,457
Transfer to Capital Reserve Fund	\$249,000
Debt Service (all general fund depts.)	\$158,195
Transfer to Water/Sewer	\$0
Transfer to Fund Equity	\$0

<b>TOTAL GENERAL</b>	<b>\$4,245,396</b>
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**II. WATER/SEWER FUND**

Sewer Operations	\$367,409
Water Operations	\$189,937
Capital Outlay	\$41,931
Debt Service	\$136,711
Transfer to Equity	\$0
<b>TOTAL WATER/SEWER</b>	<b>\$735,988</b>

**III. ELECTRIC FUND**

Operations	\$176,007
Capital Outlay	\$200,000
Debt Service	\$0
Transfer to Equity	\$0
<b>TOTAL ELECTRIC</b>	<b>\$376,007</b>

**TOTAL EXPENDITURES - ALL FUNDS**      **\$5,357,391**

## **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 reserve funds:

<b>Operating Funds</b>	<u>June 30, 2012<sup>1</sup></u>	<u>June 30, 2013<sup>2</sup></u>	<u>Budgeted Changes in FY 2013/14</u>
General Fund <sup>3</sup>	\$1,578,651	\$1,750,651	NONE
Water/Sewer Fund <sup>4</sup>	\$104,907	\$54,902	NONE
Electric Fund <sup>4</sup>	\$406,614	\$721,614	- \$100,000

## **Reserve Funds**

Bridge Preservation Fund <sup>5</sup>	\$100,000	\$80,000	- \$10,000
Silt Removal Fund	\$177,645	\$270,145	+ \$50,000
Capital Reserve Fund	\$10,000	\$14,000	+ \$249,000

- Notes:**
- 1 - From Audit Report for FY2011-12
  - 2 - Estimates provided by finance director and based upon data available on May 30, 2013
  - 3 - General Fund amounts are fund balances
  - 4 - Water/Sewer Fund and Electric Fund represent cash & cash equivalents
  - 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 (FY12/13), the Town is projected to have nearly \$3 million in various reserve funds. All but the water-sewer fund are healthy. The water-sewer fund balance was reduced to cover the higher costs of operating the wastewater treatment plant under a Consent Agreement with the State. The general fund balance was increased this year due to the re-classification of a prior loan to the water-sewer fund as an inter-fund transfer. Significant rainfall during the year enabled strong hydroelectric revenues and an increase in the electric fund balance.

In the 2013/14 budget, the planned transfers into or out of the reserve funds are:

- A withdrawal of \$100K of this year's hydroelectric surplus to be used for capital improvements at the dam
- 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
- A contribution to the Capital Reserve Fund. 3 cents of the ad valorem tax revenues will be contributed to this fund to be used for future capital expenditures or for debt payments on infrastructure improvements.

**PROPERTY TAX RATES AND REVENUES**

As evident in the chart below, the Town's revenues have stayed largely constant for the past six years, which was appropriate during the recession. Ad valorem taxes on real property contribute about half of the annual town revenues, with the remainder coming from the state, from grants and from local fees. In 2011, a countywide property revaluation occurred and reduced the total property value in Lake Lure, resulting in an increase in the ad valorem tax rate in order to keep overall tax revenues neutral.

<b>Year</b>	<b>Property Tax Revenues</b>		<b>Other Revenues</b>
2007/8*	\$2,105,476	(\$0.21 rate)	\$2,002,273
2008/9	\$2,060,812	(\$0.21 rate)	\$1,743,706
2009/10	\$2,112,710	(\$0.21 rate)	\$1,846,224
2010/11	\$2,156,324	(\$0.21 rate)	\$2,161,819
2011/12	\$2,110,030	(\$0.21 rate)	\$1,865,110
2012/13*	\$2,147,185	(\$0.246 rate)	\$2,217,355

\*The year following a countywide revaluation of property

During this same period, costs have risen sharply, particularly for fuel, electricity, supplies and healthcare insurance. In order to maintain balanced budgets without revenue increases to match the cost increases during these six years, the Town has economized, become more efficient, reduced staff and outsourced services to the private sector. But, mainly, we have deferred major capital outlays on infrastructure and extended the life of vehicles and equipment. Refurbishment and replacement projects on our multi-year capital improvement plan were regularly pushed into future years while the equipment continued to get older and more heavily used. As any homeowner or business owner knows, you can only balance the budget for so long by postponing maintenance and investment. The costs of repair and replacement only go up. We're now facing infrastructure needs of over \$1 million annually, yet only have the revenues to invest less than \$300,000 annually.

This year, the Town Council has recognized the need to increase revenues in order to fund a reserve that can be utilized for infrastructure and capital improvements. A 3-cent increase in the ad valorem tax rate will generate an additional \$249,000 that will be earmarked for current and future capital improvements. These funds will also be leveraged through infrastructure loans (at today's historically low interest rates), multiplying the impact of the 3 cent tax. This amount will not cover all of our needs, but will enable us to make headway on our capital improvement plan. The proposed budget is based on these revenue estimates:

<b>Year</b>	<b>Property Tax Revenues</b>		<b>Other Revenues</b>
2013/14	\$2,368,916	(\$0.276 rate)	\$1,876,480

When you compare the property taxes collected under this new rate with the tax bills and tax collections in 2007/8, it is a 12% increase over 6 six years, or 2% annual increase (which is about the rate of inflation).

As an example, the owner of property valued at \$300,000 will pay a total of \$828 in local taxes for fire protection, municipal services and the 3 cent capital improvement reserve.

For the Lake Lure taxpayer, 31% of their property tax bill supports their Lake Lure budget and 68% 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.

A tax rate of 27.6 cents puts Lake Lure in line with other comparable municipalities that are 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.) Based on extensive feedback from the community over the last two years and support for the visible progress and improvements, the Council supports the current range of services provided by the town. In addition, the Council is funding direct investments in economic development to enhance the local economy.

## **BUDGET DISCUSSION**

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 decrease by \$102,951 (1.8%). Operating costs have been reduced in several departments. Anticipated grants and loans are decreased in this year's budget.

	<b>Budget FY 12/13*</b>	<b>Budget FY 13/14</b>	<b>Difference</b>	<b>% Change</b>
General Fund	\$4,493,412	\$4,245,396	-\$248,016	-5.5%
Water/Sewer Fund	\$705,840	\$735,988	+\$30,148	+4.2%
<u>Electric Fund</u>	<u>\$271,090</u>	<u>\$376,007</u>	<u>+\$104,917</u>	<u>+39% %</u>
Total	\$5,470,342	\$5,367,391	-\$102,951	-1.8%

\*as amended by Town Council during the year

The chart on the next page shows the proposed General Fund budget by department and the comparison to FY12/13. 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**

Function	FY 2013/2014			FY 2012/2013		
	Appropriation	Portion Funded By Property Tax	Tax Rate Equivalent	Appropriation	Portion Funded By Property Tax	Tax Rate Equivalent
Fire (includes debt service)	\$743,362	\$738,048	8.50 cents	\$677,037	\$453,804	5.20 cents
Police	\$686,759	\$383,174	4.46 cents	\$717,717	\$479,582	5.50 cents
Administration	\$671,468	\$364,132	4.24 cents	\$673,015	\$437,650	5.01 cents
Transfer to Capital Reserve Fund	\$249,000	\$249,000	3.00 cents			
Public Works	\$283,381	\$158,411	1.85 cents	\$331,814	\$222,433	2.54 cents
Community Development	\$253,471	\$131,601	1.53 cents	\$241,848	\$150,024	1.72 cents
Sanitation	\$207,300	\$107,427	1.25 cents	\$204,900	\$127,216	1.46 cents
Insurance/Bonding	\$143,650	\$80,301	.94 cents	\$145,754	\$97,707	1.12 cents
Debt Service (excludes fire)	\$104,595	\$51,593	.60 cents	\$85,888	\$32,496	.37 cents
Golf	\$81,000	\$45,279	.53 cents	\$81,000	\$54,298	.62 cents
Technology/Telecomm	\$65,700	\$36,727	.43 cents	\$44,830	\$30,052	.34 cents
Capital Improvements	\$351,457	\$30,134	.35 cents	\$811,413	\$83,065	.95 cents
Contingency	\$50,000	\$27,950	.33 cents	\$49,095	\$32,911	.38 cents
Town Council	\$29,210	\$16,328	.19 cents	\$29,210	\$19,581	.23 cents
Economic Development	\$28,750	\$16,071	.19 cents			
Parks & Recreation	\$107,533	(\$47,631)	(.55 cents)	\$95,485	(\$41,363)	(.47 cents)
Lake Operations	\$188,760	(\$19,629)	(.23 cents)	\$175,534	(\$32,271)	(.37 cents)
Totals	\$4,245,396	\$2,368,916	27.60 cents	\$4,364,540	\$2,147,185	24.60 cents

This estimated budget for FY2013-14 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 \$0.276 this year based on the 2012 re-valuation of property in the county. On tax bills, citizens will see this in two component parts: a 19.1 cent rate for municipal services and an 8.5 cent rate for fire protection services. This should generate \$2,368,916 in tax revenue on real, personal and utility property, assuming a 92.66% collection rate on motor vehicles and a 97.98% collection rate on property other than motor vehicles. Real estate is valued at \$843,753,050 and motor vehicles are estimated to be \$11,300,000.
3. All fees and charges for town services have been reviewed and the budget assumes a 9% increase in water utility rates.
4. Fund Balances – this budget anticipates no withdrawals from the general fund or water-sewer fund to cover expenses. It does include a \$100,000 withdrawal from the hydroelectric fund to utilize a portion of FY 12/13 surplus for capital improvements. The proposed budget also has a provision to transfer \$249,000 to the Capital Reserve Fund.
5. Increases in Operating Costs
  - Medical Insurance costs increased 4.7%
  - Technology support service costs have doubled
6. 54% 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 \$855 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 8.5 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 or 9 cents per \$100 (e.g., Bill's Creek.)

- 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 few years, we have stabilized these operations and continued a program of minor repairs and improvements. Of most concern is sewer operations, where compliance issues and challenges with our old and undersized plant have dramatically increased our annual operating costs. A proposed 9% increase in water rates will enable water revenues to cover operating costs of the municipal water system. 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. Several water and sewer projects are top priorities to be addressed using the Capital Reserve Fund and infrastructure loans.
  8. Hydroelectric generation revenues in the Electric Fund are conservatively projected to be \$276,007. In addition to a \$50,000 contribution to the dredging/silt removal program, \$50,000 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 \$100,000 in 2012/13 surplus carry-forward to fund additional capital improvements at the dam. In 2012/13, the plant generated over \$500,000 in revenues.
  9. Golf Course – the golf course continues under the operation of the Lake Lure Golf Management, Inc., a family operation headed by Dale and Kathy Minick. The FY13/14 operating budget includes a \$75,000 subsidy to the course operator and \$6,000 for the 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, environmental management) are fully covered through boat permit fees.
  11. Debt Service – the budget contains the following debt payments:

General Fund

- Fire Station (payments through 2013)	\$6,835
- Telephone System (through 2015)	\$5,862
- Police Vehicles (through 2016)	\$20,000
- Marina Renovation (through 2022)	\$65,000
- Fire Engine (through 2023)	\$39,140
- Interest on all loans	<u>\$21,358</u>
Total General Fund	\$158,195

Water and Sewer Fund

- Water Line Extension to Ingles (through 2026)	\$55,954
- Sewer Joint Wrapping Program (through 2029)	\$63,990
- Interest on all loans	<u>\$16,767</u>
Total Water and Sewer Fund	\$136,711

Total Debt Service	\$295,906
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Debt payments represent just 5.5% of our total budget.

12. Economic Development – for the first time, the municipal budget includes a section dedicated to direct investments to support economic development and enhancement of the community. In FY 13/14, the following investments are programmed:

- \$10,000 for Community Branding. This is to begin implementation of the community branding and promotion recommended in the 2012 Market Study and Branding report, a joint initiative between Lake Lure and Chimney Rock Village. This will fund new signs, marketing and promotion materials.
- \$10,000 to support the Chamber of Commerce. The Chamber has been refocused, re-purposed and re-invigorated with a mission to facilitate economic development, business support and business recruitment. To succeed, they will require a dynamic executive director and initial seed funding from community investors. With this investment, the Town is outsourcing some economic development activities and deliverables to the Chamber.
- \$8,750 to MAHEC / Lake Lure Professional Park. To fulfill the community's desire for additional medical services, the town is contributing \$17,500 over two years as a match for a grant that supports the construction of a new medical facility near Ingles. The Mountain Area Health Education Center (MAHEC) expects to begin operation in 2014.

13. The budget includes \$592,988 in capital investments or special projects considered to be essential priorities:

General Fund

- Buffalo Creek Park – Trails (\$168,000 funded with grants)	\$168,514
- Police Cars / Reserve Fund (funded by a loan)	\$56,000
- Replacement Street Mower using state Powell Bill funds)	\$45,000
- Street Improvements (using state Powell Bill funds)	\$23,000
- Silt Removal (regular maintenance dredging)	\$23,743
- Flowering Bridge Program (from the bridge preservation fund)	\$10,000
- Town Center Plan Phase II (part 1)	\$10,000
- Technology Upgrades (desktops & servers)	\$8,000
- Police – vehicle camera replacement (1)	\$5,000
- Website enhancements	\$2,200

Water & Sewer Fund

- County-wide sewer study (all but \$7,505 funded by grant)	\$25,005
- Water Tank Antenna Mounts (paid by Duke Energy)	\$16,526
- Wastewater Treatment Plant Improvements	\$0
- Water System Improvements	\$0

Hydroelectric Fund

- Dam safety barrier & storm debris barriers	\$100,000
- Capital Improvements at Dam/Hydro Plant	\$50,000
- Silt Removal Fund Contribution	\$50,000

To fund additional projects, the Town Council has earmarked 3 cents of ad valorem tax to go to the Capital Reserve Fund, about \$250,000 each year. This fund will be used to support needed infrastructure refurbishments and improvements, vehicle and equipment replacement and engineering to support grants and loans. Top priorities that will be addressed starting this year include (**bold** indicates work or engineering anticipated in 2013/14):

<b>Streamside Systems – in-river silt removal</b>	<b>\$700,000 to \$1 million</b>
Morse Park Pedestrian Bridge (loan)	\$250,000
Firing Range Remediation	\$250,000
<b>Water: Firefly Cove well filtering</b>	<b>\$250,000</b>
<b>Sewer Plant Improvements</b>	<b>\$160,000</b>
Sewer: extend line to Point of View/Dam Marina	\$150,000
Police car replacements	\$90,000
Maintenance vehicle replacements	\$90,000
<b>Water: replace galvanized pipes</b>	<b>\$65,000</b>
Replacement 4WD dump truck w/snow plow	\$60,000
Town Center walkway to Chimney Rock Village	\$50,000
<b>Replace public docks at Pool Creek/ABC</b>	<b>\$40,000</b>
Town Center Improvements	TBD

14. Staffing: the budget assumes no changes in staff positions. There are 33 full-time positions, 6 part-time and 3 reserve positions. This reflects two fewer full-time positions than last year.
15. Salaries & Benefits: A 1.7% C.O.L.A. salary adjustment is included in the budget. 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 match of up to 5% of earnings for all full-time employees
  - Employee healthcare insurance premiums
  - NC state retirees healthcare insurance premiums
16. 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 will utilize loans and the Capital Reserve Fund to refurbish or replace needed assets at the end of their usable life.
17. 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

**Budget Message**

**June 10, 2013**

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18. 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 FY13/14 budget, there is a contingency reserve of \$50,000. It is our intent to utilize half of this amount for discretionary employee performance bonuses that may be earned through exceptional delivery of services, cost savings or revenue increases.

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 municipal services currently provided and at the level expected by our residents, while ensuring that we are maintaining the assets we have and making significant strategic investments in the community.

I hereby request your formal adoption of the town budget for Fiscal Year 2013-2014.

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