



Office of the Town Manager

TO: Mayor and Commissioners

FROM: Sam Karr, Interim Town Manager/Finance Director

DATE: June 1, 2016

RE: Budget Message and Budget for Fiscal Year 2016-2017

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 2016-2017 commencing July 1, 2016 and ending June 30, 2017. This budget is based on careful analysis of departmental operating budgets, Capital Improvement Plans and prioritized needs as identified by department heads and in conversations with Commissioners. **In summary, the budget is balanced at a recommended tax rate of \$0.276 per \$100 of property value, a rate unchanged from last year.** The proposed budget transfers \$300,000 from accumulated hydroelectric surpluses and the silt removal reserves in order to fund dredging expenditures again in Fiscal Year 2016-2017. The Fiscal Year 2015-2016 budget included \$300,000 for dredging but it is anticipated that not all of these expenses will be incurred.

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	\$2,384,146
State Shared Revenues & Grants	\$1,261,927
Installment Loan	\$182,595
Lake	\$304,000
Beach & Tours	\$102,500
Marina	\$97,300
Facilities Rentals	\$33,030
Miscellaneous Revenues	\$36,264
Land Use Fees	\$22,225
Admin. Charge from Water/Sewer Fund	\$10,000
Admin. Charge from Electric Fund	\$10,000
Transfer from Electric Fund	\$150,000
Transfer from Silt Reserve Fund	\$150,000
Transfer from Capital Reserve Fund	\$181,747
Appropriated Fund Balance	152,359

TOTAL GENERAL \$5,078,093

II. WATER/SEWER FUND

Water and Sewer	\$1,173,050
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TOTAL WATER/SEWER \$1,173,050

III. ELECTRIC FUND

Electric Receipts	\$350,500
Appropriated from Fund Balance	\$434,651

TOTAL ELECTRIC \$785,151

TOTAL REVENUES – ALL FUNDS \$7,036,294

EXPENDITURES

I. GENERAL FUND

Operations

Public Safety	
Fire Department	\$702,311
Police	\$724,219
Administration, Finance & Technology	
Administration	\$670,781
Insurance/Bonding	\$129,000
Information Technology/Telecommunications	\$99,050
Governing Board	\$29,210
Public Works & Maintenance	
Public Works	\$358,642
Sanitation	\$216,720
Recreation	
Lake	\$218,523
Parks & Recreation	\$140,867
Golf Course	\$81,000
Beach & Marina	\$12,720
Community Enhancement	
Community Development	\$320,256
Economic Development	\$49,500

Capital Outlay and Debt Service

Capital Outlay & Projects	\$802,942
Transfer to Capital Reserve Fund	\$255,831
Debt Service (all general fund depts.)	\$266,521

Transfer to Fund Equity \$0

TOTAL GENERAL \$5,078,093

II. WATER/SEWER FUND

Sewer Operations	\$411,052
Water Operations	\$178,487
Capital Outlay	\$0
Debt Service	\$132,843
Transfer to Equity	\$450,668

TOTAL WATER/SEWER \$1,173,050

III. ELECTRIC FUND

Operations	\$216,651
Capital Outlay	\$358,500
Debt Service	\$0
Transfer to Silt Reserve	\$50,000
Transfer to General Fund	\$160,000
TOTAL ELECTRIC	\$785,151

TOTAL EXPENDITURES - ALL FUNDS \$7,036,294

FUND BALANCES

The following information is provided regarding the fund balance or cash for the town's three operating funds and three reserve funds:

Operating Funds	<u>June 30, 2015¹</u>	<u>June 30, 2016²</u>	<u>Budgeted Changes in FY 2016/17</u>
General Fund ³	\$1,929,341	\$1,905,942	- \$152,309
Water/Sewer Fund ⁴	\$54,897	\$106,309	+ \$450,668
Electric Fund ⁴	\$610,184	\$810,184	- \$434,651

Reserve Funds

Bridge Preservation Fund ⁵	\$72,500	\$75,000	NONE
Silt Removal Fund	\$336,345	\$196,345	- \$140,000
Capital Reserve Fund	\$103,060	\$3,776	+ \$77,860

- Notes:**
- 1 - From Audit Report for FY2014-15
 - 2 - Estimates provided by finance director and based upon data available on April 30, 2016
 - 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. \$50,000 has been advanced to the Flowering Bridge organization and in 2014/15 they began to pay it back with a \$2,500 check.

At the conclusion of the current budget year (FY15/16), the Town is projected to have over \$3 million in various reserve funds. All but the water-sewer fund are healthy. The water-sewer fund balance remains far too low to provide adequate protection for unforeseen expenses, but the proposed FY16/17 budget plans for a

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\$450,668 increase in the fund balance.

In the 2016/17 budget, the planned transfers into or out of the reserve funds are:

- A \$150,000 withdrawal from the hydroelectric fund balance to be used for dredging operations
- A \$150,000 withdrawal from the silt removal reserve fund, to be used for dredging operations
- A \$181,000 withdrawal from the Capital Reserve Fund. Three cents of the ad valorem tax revenues are dedicated to capital improvements and infrastructure projects, funded either in the current budget year, for future capital expenditures or for debt payments on infrastructure improvements.
- A \$152,359 withdrawal from the general fund to balance the budget
- A \$50,000 contribution to the silt removal reserve fund from hydroelectric generation
- A \$450,668 contribution into the water/sewer fund to replenish reserves

PROPERTY TAX RATES AND REVENUES

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.

Year	Property Tax Revenues		Other Revenues
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	\$2,158,569	(\$0.21 rate)	\$1,660,374
2012/13*	\$2,124,073	(\$0.246 rate)	\$1,670,277
2013/14	\$2,335,023	(\$0.276 rate)	\$1,735,199
2014/15	\$2,327,797	(\$0.276 rate)	\$2,272,312
2015/16	\$2,337,636	(\$0.276 rate)	\$2,474,211
Projected			
2016/17	\$2,384,146	(\$0.276 rate)	\$2,693,947

*The year following a countywide revaluation of property

Composition of the Local Tax Rate:

Municipal tax	16.43 cents
Fire tax	8.17 cents
Capital improvements	<u>3.0 cents</u>
Total tax rate	27.6 cents
+ Rutherford County	60.7 cents (2015/16 rate)

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For the Lake Lure taxpayer, 32% 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 increase by \$539,306 (8.3%). Operating costs have been reduced in several departments.

	Budget FY 15/16*	Budget FY 16/17	Difference	% Change
General Fund	\$5,004,784	\$5,078,093	+\$73,309	+1.47%
Water/Sewer Fund	\$1,004,869	\$1,173,050	+\$168,181	+16.4%
<u>Electric Fund</u>	<u>\$487,335</u>	<u>\$785,151</u>	<u>-\$297,816</u>	<u>+61.1%</u>
Total	\$6,496,988	\$7,036,294	+\$539,306	+8.3%

*As amended by Town Council during the year

This estimated budget for FY2016-17 is based upon the following:

There is an assumption that there will be no annexations or major growth in population served during the subject fiscal year.

We are proposing to maintain the tax rate at \$0.276 this year, **although we propose to decrease the fire tax rate and offset it with an addition to the municipal tax rate.** On tax bills, citizens will see this in two component parts: a 19.43 cent rate for municipal services and an 8.17 cent rate for fire protection services. This should generate \$2,384,146 in tax revenue on real, personal and utility property, assuming a 99.98% collection rate on motor vehicles and a 98% collection rate on property other than motor vehicles. Real estate is valued at \$858,033,345 and motor vehicles are estimated to be \$11,900,000.

1. Fees and charges - All of the fees and charges for town services have been reviewed and the budget assumes no additional increase in those fees and charges.
2. Fund Balances - This budget anticipates a \$152,359 withdrawal from the general fund balance and an elimination of the contingency line item. The budget also includes a net \$160,000 withdrawal from the hydroelectric fund and \$150,000 from the silt reserve fund to go toward dredging operations. The proposed budget also utilizes \$181,747 from the capital reserve fund, accumulated from 3 cents of tax earmarked for capital improvements in prior years.

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3. Dredging - The proposed budget includes \$300,000 for dredging-related expenses. This is part of a 10-year commitment to this critical, high-priority task as recommended by the Lake Advisory Board.

In 2015/16, we did not spend as much on dredging as planned, as we encountered delays in obtaining new environmental permits. It must be noted again that the strategy of using accumulated fund surpluses is not sustainable year after year. To maintain this level of annual dredging investment, the Town must find

4. Additional revenues (through taxes, fees or growth in property values) or eliminate services and associated costs from the budget.

5. Increases in Operating Costs

- a. Medical Insurance costs increased 5%
- b. Utility costs have increased 2%

6. Fifty-seven percent of the General Fund operating budget goes to Police, Fire and Administration services, which is common among municipalities. These services are outlined below:

- 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 an 800-acre lake. There is over \$858 million in property value within the town limits.
- Police: To protect the Lake Lure area effectively and safely, we have 8 patrol officers, an administrative assistant and a Police Chief. We provide 24-hour coverage by 2 officers as a crime deterrent, to provide prompt response throughout our service area and as safety backup for an officer on duty. 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 collective savings to homeowners far exceeds the total fire protection budget. The Lake Lure fire budget represents 8.17 cents per \$100 of property value. Elsewhere in the county, that cost ranges from 3 cents (Chimney Rock Village) to 18 cents (Forest City). Most common is 8 or 9 cents per \$100.
- 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, and

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Communications/Public Information services.

2. Water and sewer operations: These 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. In Lake Lure, the unique challenges of our geography, age of the infrastructure and small customer base make it difficult to cover costs without setting unreasonably high rates. Several water and sewer projects are top priorities to be addressed using the Capital Reserve Fund and infrastructure loans. We will be setting aside surplus to help fund the Greenline extension to Spindale.
3. Hydroelectric generation revenues in the Electric Fund are conservatively projected to be \$350,000. In addition to a \$50,000 contribution to the dredging/silt removal reserve fund, \$358,500 in plant improvements are budgeted as part of the multi-year capital improvement plan with over \$1 million in necessary maintenance and upgrades identified.
4. 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 FY16/17 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. Course play and memberships continue to show a decline that matches overall industry trends. The Town has committed to this level of subsidy for another year, at which time the subsidy is anticipated to reduce by \$5,000 per year.
5. Parks & Rec: the proposed operating budget maintains \$10,000 of discretionary funding for projects as identified by the Parks & Recreation board.
6. 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, as well as a \$75,000 annual contribution to the dredging program.
7. Debt Service – the budget contains the following debt payments:

General Fund

- Telephone System (paid off)	\$0
- Public Works Trucks (through 2020)	\$27,915
- Police Vehicles (through 2020)	\$42,915
- Fire Dept. Truck (through 2020)	\$4,167
- Marina Renovation (through 2022)	\$65,000
- Fire Engine (through 2023)	\$41,312
- Memorial Hwy Strip Center	\$50,000
- Interest on all loans	<u>\$35,212</u>
Total General Fund	\$266,521

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>\$12,898</u>
Total Water and Sewer Fund	\$132,843

Total Debt Service \$399,364

Debt payments represent just 5% of our total budget.

8. Economic Development - the municipal budget includes direct investments to support economic development and enhancement of the community. In FY 16/17 the following investments are programmed:
- \$27,000 for Communications. We utilize a contract specialist for all public information and citizen education, including the authoring and design of newsletters, brochures, press releases, the Town website, and signage.
 - \$12,500 for Community Branding. This is continue the long-range deployment and implementation of the community branding and promotion recommended in the 2012 Market Study and Branding Initiative, a joint project between Lake Lure and Chimney Rock Village. This investment funds updated and/or new signs, marketing messages and print and digital promotional materials.
 - \$10,000 to support the Chamber of Commerce. The Chamber’s mission is to facilitate economic development, business support and business recruitment. With this investment, the Town is outsourcing some economic development activities and deliverables to the Chamber’s staff and board.
9. The budget includes \$1,161,442 in capital investments or special projects considered to be essential priorities. **Note that this is the largest level of capital spending in the last several years, but it is funded predominantly from accumulated reserves and not from current revenues.**

General Fund

- Silt Removal (regular maintenance dredging)	\$300,000
- Street Improvements (Parking Lot Repaving – ABC, Fire station, golf course)	\$82,065
- Street Improvements (Patching/paving using state Powell Bill funds)	\$68,600
- 2 Police Car replacement (funded by a loan)	\$68,700
- Fire: 1 replacement pickup truck (funded by loan)	\$30,000
- Comm. Development: Printer/Scanner	\$15,000
- Beach: refurbish main beach house exterior	\$15,000
- Public Works: Dump truck replacement (funded by loan)	\$48,600
- Public Works: Truck replacement (funded by loan)	\$35,295
- Public Works : Locator	\$3,907
- Police: Vehicle Cameras	\$5,500
- Police: Carpet replacement	\$5,275
- Technology: desktop/laptop replacements	\$5,000
- Comm. Development: Sidewalk existing ABC to new ABC	\$30,000
- Comm. Development: Sidewalk Boys Camp Rd to CRV	\$90,000

Water & Sewer Fund

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Hydroelectric Fund

- Rehab both butterfly valves	\$30,000
- Replace bearings on small generator	\$10,000
- Dam Inspection	\$18,000
- Calibrate Control Panel Relays	\$4,000
- Basement Re-wiring and lighting	\$10,000
- Install Electric-Taintor Gate Platform	\$12,000
- Generator	\$25,000
- Work Truck	\$45,000
- Cover Taintor Gate Hoists	\$75,000
- Replace/repair bearings on large generator	\$10,000
- Install new Turbine Water Seals	\$45,000
- Circulating Hydraulics Small Unit	\$15,000
- Temp repairs corrosion Penstock	\$25,000
- Install Electric Motor in Hoist	\$12,000
- New Roof on Lake Op's	\$22,500

Unfunded items on the 5-year Capital Improvement Plan

Buffalo Creek Park: develop expanded trailhead parking	\$20,000
Sewer: extend line to Point of View/Dam Marina	\$150,000
Dam Overlook Park	\$250,000
Firing Range Remediation	\$250,000
Morse Park Pedestrian Bridge (loan plus private grant)	\$500,000 to \$1,000,000
Town Center Improvements	TBD

10. Staffing: the budget assumes no changes in staffing, although two positions in Administration are less than 40 hours per week. There are currently 33.5 full-time equivalent positions, down from a peak of 43.5 in 2008-2009 and below the level in 2002.
11. Salaries & Benefits: A 2% cost-of-living salary adjustment (C.O.L.A.) 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

No other salary increases or bonus programs are accommodated in the balanced budget.

12. 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.
13. 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

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- golf course operation
- beach and marina operation
- public information/town communications and brand deployment
- engineering
- legal
- financial audit

14. Contingency – this line item is typically 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. To balance this year's budget, we have eliminated this line item. Thus, a significant, unplanned expenditure will need to be covered from accumulated fund balance in the General Fund upon approval by Town Council.

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 2016-2017.

cc: Town Council

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