



May 25, 2021

To: Mayor Pierce and Town Council Members

From: Bruce Oakley, Town Manager

Re: Recommended Budget for Fiscal Year 21-22

Attached is the recommended 2021-22 fiscal year budget for your review and consideration. After a year of economic uncertainty and challenges, I am pleased to propose a budget that not only includes infrastructure projects put off because of the COVID-19 pandemic, but also includes items to improve the health, safety, and recreation for the citizens of Carolina Beach. This budget also implements items that were recommended from the recent efficiency study that were not implemented earlier, including performance-based evaluations and pay, electronic timekeeping, improved codification, customer service training, and others.

An important factor in creating this budget was the recent real property reappraisal by New Hanover County which resulted in a significant increase in the total valuation of property in Carolina Beach. The increase in valuation means more potential tax revenue for the town and an opportunity to consider changes in the tax rate. This budget includes a proposed tax reduction that, while not a revenue neutral rate, it does lower the rate by over three cents.

The town also expects to receive \$1.87 million dollars, split over the next two years, from the American Rescue Plan that was recently passed in Washington. This money can be used for COVID-19 related expenses, for lost revenue due to the pandemic, or for water, sewer, and broadband investments. Since we have not received this money and are not sure of the timing of its release or

the associated stipulations, it is not shown as a revenue source in this budget. We believe that we will be able to use the money to complete additional storm water and other infrastructure projects with it. The Town operates with a general as well as utility fund. The general fund revenues include taxes from property, sales, alcohol sales (ABC), franchise, Powell Bill, parking, and occupancy taxes. To a lesser extent, fees and charges also support the revenues of the general fund. The utility fund revenues are primarily fees collected for water, sewer, and storm water services with rate requirements associated with planned capital improvements.

General Fund: The balanced budget for the general fund is \$16.627 million compared to \$15.44 million that was proposed in the current fiscal year. Total projected revenues are higher than last year mainly because of the property reappraisals, but also because of increased occupancy and sale taxes that result from a strong economy. The proposed tax rate is 21.5 cents per \$100 of value. Each penny of tax rate will generate approximately \$295,230 in revenue at the proposed rate.

There is also an additional 5 cents of tax recommended for properties located in the proposed Boardwalk/Marina area municipal service district detailed in the next section of this message. If the Municipal Service District is not approved, the proposed tax is recommended at 21.75 cents to cover the expenses of the proposed district.

As mentioned earlier, this was a property reappraisal year that resulted in the total valuation of property in the Town of Carolina Beach. The individual properties went up an average of 34% in value. Based on the North Carolina General Statute 159-11 (e), the Town must publish the revenue neutral tax rate as calculated by the method provided by the statute. The revenue neutral tax rate for Carolina Beach according to the calculation provided by the state law is 17.03 cents per \$100 of value.

A home valued at \$400,000 that saw the same overall increase of 34% would now be valued at \$536,000 and would owe an additional \$239.59 in property taxes at the proposed rate this year.

Municipal Service District: As mentioned previously, this budget proposes establishing a Municipal Service District for the Boardwalk/Marina area. North Carolina State law allows towns to establish these districts for areas where they provide more services than they do in other areas of town. The law also allows towns to institute an additional property tax on properties in the district. It is recommended that a tax rate of five cents per \$100 of valuation be levied for properties in the proposed district. Revenue from this tax can only be used for expenses associated with the district. This proposed tax will offset some of the costs of the extra services in the district and can establish seed money for future improvements to the area.

Personnel: The general fund supports funding for 82 employees. This includes one new position in operations to provide a quicker response to needed repairs to town facilities and to hopefully reduce the long-term amount paid for contracted services. It also includes an increase in seasonal positions for Ocean Rescue for the purpose of establishing a beach patrol to enforce town ordinances on the beach.

The Town's provision for a 401 (k) would remain as it is currently allocated which is 1% for all employees, and up to a 2% match based on employee contributions. There is a proposed 2% Cost of Living Allowance (COLA) to be implemented during the first full pay period in January for all employees. There is also a proposed 2% merit increase tied to performance evaluations as recommended by the recent efficiency study. The maximum increase in total salaries would be \$99,441.

Capital Projects: The general fund includes several capital projects that were delayed last year. The projects within the purview of the general fund include a new restroom facility at Mike Chappell Park, a new playground at Lake Park, the Hamlet Ocean Rescue/Restroom facility, a fire engine, a fire brush/high water vehicle, and three other vehicles. Staff will continue to pursue grants for improvements consistent with the CB Lake Master Plan. In addition, the town has requested funding through the Community Project Funding that was established in Congress earlier this year. If received, this money would be used to pay for the construction of a new bathroom and picnic shelter at Lake Park as well as the matching funds for the Lake Park playground.

Debt Service: The TCB debt service amortization for the general fund is listed below. Note the totals include CBP3 debt which is funded in the Non-Departmental budget.

FY21	\$1,042,583
FY22	\$ 921,258
FY23	\$ 900,641
FY24	\$ 879,627
FY25	\$ 883,627

Fund Balance: The Town of Carolina Beach had a general fund balance of \$7.3 million as of 6/30/20, or the beginning of this current fiscal year. The unassigned portion is 21% of the general fund budget. The Board has a short-term goal of 30% unassigned and 50% long-term unassigned fund balance. Additionally, receivables expected to be received in FY22 are conservatively estimated at \$542,000. Current projections of change in fund balance for FY21 show an expected growth of \$525,000. However, this is subject to change if sales tax and other revenues are lower than expected.

Utility Fund: The balanced budget for the utility fund is \$9.328 million compared to \$8.963 million last year. Revenues of \$9,045,000 are supported by fund balance appropriation of \$283,143. The revenue sources are primarily rates charged for water, sewer, and storm water. This budget includes a transfer to the general fund of \$400,000 for indirect services provided by the general fund. There is a proposed 2% increase in rates to lessen the impact future revenue bond issuances will have on rates.

Personnel: The utility fund employs 32.5 employees. Staff implemented more automation and other measures to improve customer satisfaction. We continue to see an increase of people requesting paperless billing and automatic bill payment. The Town operates two water treatment plants, 14 wells, 13 lift stations, a wastewater treatment plant, 30 miles of sewer, five miles of force mains, 35 miles of water lines, 4,721 water and sewer accounts, and manages the public stormwater system with four pump stations. There is a proposed 2% Cost of Living Allowance (COLA) to be implemented during the first full pay period in January for all employees as well as a 2% merit increase based on performance evaluations also beginning in January. The maximum amount of total pay increases will amount to \$15,894. The 401 (k) does not change from the current budget.

Capital Projects: The 2016 bond issue included Phase B, Lake Dredge, Birmingham directional drill to Henniker’s ditch, WWT Plant outfall pipe, Equalization Basin relining, Directional Drill for stormwater outfall from CB Lake to the Ocean of Driftwood, and the Lewis Drive Stormwater ditching along the south side of the road. The bond issue items are complete except for the Lake Dredge project. There is an unspent balance of \$1.4 million, including interest earned since the bonds were sold. There are several planned/pending projects including completing the Lake Dredge project, Phase C, and the North End Project. There are also several projects that are in planning stages that will impact future budgets including implementation of the 2020 water treatment study recommendations, WWT Plant headworks, and various stormwater system improvements across town.

As mentioned earlier, we expect money from the American Rescue Plan to help complete additional infrastructure projects and reimburse the utility fund for some projects in the budget. Staff will also closely monitor the proposed infrastructure bill that is being negotiated in Washington at the current time for other potential water, sewer, and storm water projects.

Debt Service:

The TCB debt service amortization for the utility fund is as follows:

FY21	\$2,580,288
FY22	\$2,525,698
FY23	\$2,515,328
FY24	\$2,358,859
FY25	\$2,273,946

We are in early years of the amortization of the Town’s utility fund debt and consequently, small changes in debt service are apparent. The Town has \$1.4 million remaining proceeds from the 2016 bond issuance including related interest earnings. The Town of Carolina Beach has multiple options in the usage of these proceeds including payment of existing debt service interest or funding of other water, sewer, and/or stormwater projects.

Fund Balance: The change in net position as of 6/30/20 was \$565,962 with a negative fund balance of \$256,383. The projection for 06/30.21 is an increase of \$600,000; \$283,000 of this will be used to balance the budget leaving \$317,000 in the Utility Fund balance.

The Town of Carolina Beach budget for fiscal year 2021-2022 includes several delayed projects and an actual increase in services with expanded police presence in the Boardwalk area and a new Beach Patrol. We are also optimistic that some of the proposed federal funding opportunities come through this budget year and allow us to complete more projects. While this budget does reduce the tax rate, property owners will see an increase in what they pay in property taxes because of the recent reappraisal of properties in New Hanover County. Hopefully, some of the federal funding we expect can offset some of the future burdens placed on taxpayers and utility customers for needed projects.

This budget process was a team effort and a sincere thank you is owed to the employees who helped put this one together. Their dedication to their jobs and to the Town of Carolina Beach is greatly appreciated. Gratitude is also owed to Mayor Pierce and all of Town Council for their continued support of town staff, dedication to the community, and their leadership during the budget process and throughout the year. Thanks also to the citizens and committee members who provided input. Their engagement is crucial for the Town’s success.