

Fiscal Year 2008/2009 Budget Message

The Town of Holden Beach Budget for Fiscal Year 2008/2009 is herewith presented in accordance with the North Carolina Local Government Budget and Fiscal Control Act.

Tax Rate. A tax rate of six and nine-tenths cents per one hundred dollars of valuation is proposed to be levied at a ninety-seven percent collection rate on an estimated tax base of two billion two hundred twenty one million six hundred seventy six thousand six hundred ninety six dollars. The proposed tax rate holds the current fiscal year's tax rate steady and the collection rate used to calculate the estimated tax revenue is the rate actually experienced during the current fiscal year. The estimated tax base is baselined from the Brunswick County tax registry taking into account recent decreases in valuations for approximately three hundred and sixty Holden Beach properties effected by the North Carolina Property Tax Commission and the Brunswick County Equalization and Review Board.

Debt Service. The town will begin debt service on a twenty year, three point eight one percent, four million dollar loan from BB&T for construction of its new on-island town hall currently under construction and scheduled for completion in January of 2009. Debt service on one million dollars for construction of the Town's new off-island Emergency Operations Center is anticipated to occur in the 2008/2009 Fiscal Year with the assumption of a forty year, four percent United States Department of Agriculture loan to pay back fund balance expended by the General Fund for construction of the Emergency Operations Center in the 2007/2008 Fiscal Year. Collectively, these two new facilities are currently programmed to cost the Town of Holden Beach an additional four hundred seven thousand dollars annually in debt service above its currently funded municipal services level and the existing annual debt service to BB&T of seven hundred seventy seven thousand for its sewer collection system. A contractual obligation of one million two hundred fifty six thousand dollars is owed to Brunswick County for the Town's portion of the West Brunswick Regional Wastewater Facility whose total financed construction cost of twenty six million four hundred fifty thousand dollars was underwritten by Brunswick County and

funded by a combination of a 2004A Series Revenue Bond issue, a 2004 State Revolving Fund Loan and a 2005 State Revolving Loan. Obligations of approximately one million two hundred thousand dollars annually by the Town to Brunswick County for the West Brunswick Regional Wastewater Facility are scheduled through Fiscal Year 2025/2026 at which time the Town's contractual obligations are programmed to decrease by one half to approximately six hundred thousand dollars annually for an additional three fiscal years. The Town has chosen to lease purchase eleven vehicles in the prior two fiscal years; seven in Fiscal Year 2006/2007 and four in Fiscal Year 2007/2008. Terms for each procurement are for three years and result in a cumulative obligation in the proposed budget for Fiscal Year 2008/2009 of one hundred thousand dollars. There are no new vehicles proposed for the Fiscal Year 2008/2009 budget.

Fund Balance. The October 2007 audit reported a General Fund undesignated fund balance of one million five hundred seventy five thousand dollars. One million dollars of the General Fund's undesignated fund balance was appropriated in the current 2007/2008 fiscal year to fund construction of the new off-island Emergency Operations Center with the understanding that the General Fund would be reimbursed by the one million dollar USDA loan as previously mentioned in the Debt Service paragraph above. This appropriation reduced the Town's General Fund Ratio - a gross measurement representing 30 days of General Fund expenses and required to be at least eight per cent by the North Carolina Local Government Commission – from eighty five percent to twenty three percent. This would appear to indicate adequate liquidity in the General Fund and is fairly close to the minimum General Fund balance ratio of twenty five percent established by the Town's fiscal policy but I strongly caution the Board of Commissioners that until the General Fund balance is paid back by USDA loan proceeds that absolutely no new services or obligations be paid for by undesignated General Fund balance appropriations.

General Fund Revenues.

The following table represents estimates of the projected revenues based on the proposed tax rate, proposed fees and the most recent actual revenues received to date.

Ad Valorem

1,486,968

Prior Years' Taxes	1,500
Vehicle Taxes	17,500
Penalties	2,000
Vehicle Decals	2,200
Business Privilege Licenses	8,500
Cable Franchise	58,800
Investment Interest	45,000
Franchise Utilities Tax	94,000
Sales on Comm - Utility Franchise	14,000
Powell Bill	48,500
Local Sales & Use Tax	220,000
Mosquito Contract	5,000
Building Permits	75,000
Cama Permits	7,000
Zoning Fees	150
Electrical Inspections	14,000
Mechanical Inspections	9,000
Plumbing Inspections	8,500
Admin Fee Inspections	2,500
Homeowner Recovery Fee	400
Prior Years Sales Tax Refund	7,500
Sale of Materials	500
Sale of Town Flags	250
Sale of Fixed Assets	5,000
Transfer from BPART	600,000
Transfer from Water and Sewer	139,080
Total General Fund Revenue	2,872,848

General Fund Expenditures

The following table summarizes general fund departmental expenses.

Governing Body	559,100
Administration	631,500

Police	823,248
Inspections	268,550
Public Works	486,900
Sanitation	103,550
 Total	 2,872,848

Generally speaking; even though the tax burden borne by the property owner is proposed to remain static, general fund expenditures will increase over the prior fiscal year by approximately twenty percent or four hundred sixty six thousand dollars due specifically to debt service and operating expenses of the new town hall and emergency operations center along with increases in gas prices by one third.

The proposed budget includes some significant retooling in the manner in which the General Fund and the Water/Sewer Fund provide services and how those services are accounted for. My review indicates that both the General Fund and the Water/Sewer Fund have been grossly subsidizing activities and projects more aptly supported by the Beach Parks and Recreation Tourism Fund. Proposed budget includes transfers to the General Fund from the Water and Sewer Fund of one hundred thirty nine thousand dollars and from the Beach Parks and Recreation Tourism Fund of six hundred thousand dollars.

Water/Sewer Fund

In terms of finances, capital facilities and operational complexity, the Water and Sewer Enterprise Fund represents the Town's largest operation.

Rates. The Town purchases wholesale water from Brunswick County for resale to its town customers. Retail sales of water provide revenue to operate the town's water distribution system. Current town rate is two dollars eighty cents for each one thousand gallons above a baseline of two thousand gallons which is paid for in each customer's base rate. This rate has not been increased in several years even though Brunswick County has annually increased its charge to the town based on the Town's agreement with Brunswick County wherein the wholesale rate charged is adjusted annually based on the Producer Price Index. The current

Brunswick County wholesale rate is two dollars forty cents for each one thousand gallons. The most recent advisory (10 May 2008) from the Director of Brunswick County Fiscal Operations indicates that the Brunswick County wholesale rate will increase by thirteen cents per one thousand gallons to two dollars fifty three cents per one thousand gallons. The Brunswick County retail rate charged to county customers is based on an increasing rate block structure with a rate of three dollars five cents charged per one thousand gallons for the first six thousand gallons. The County subsequently charges a higher rate per thousand gallons above the first six thousand gallons. It is recommended that the Town increase its retail rate by twenty cents above the baseline consumption to three dollars per one thousand gallons regardless of consumption. This represents a standard retail markup to counter increased costs to the Town for wholesale procurement and distribution. Sewer rates are proposed to remain at current levels.

Water and Sewer Enterprise Fund Revenues.

The following table represents estimates of the projected revenues based on the proposed water and sewer retail rates, fees and the most recent actual revenues received to date.

Interest on Investments Water	25,000
Interest on Capital Reserves	10,000
Rents and Concessions	115,000
Administrative Fees	250
Residential Impact Fee (100%)	20,000
Capital Charges County Sewer	1,220,000
Capital Charges Town Sewer	775,000
Sales Tax Refund Water	5,000
Water Use Charges	735,000
Special Charges for Utilities - Water	2,000
Sewer Use Charges	595,000
Tap & Connection Fees - Water	25,000
Tap & Connection Fees - Sewer	20,000
Reconnection Fees	1,500
Penalties & Interest	35,000
Total Water and Sewer Fund Revenues	3,583,750

Water and Sewer Enterprise Fund Expenditures

The following table summarizes the Water and Sewer Enterprise Fund departmental expenses.

Administration	122,250
Operations	3,461,500
Total Water and Sewer Expenses	3,583,750

Major expenses for the Water and Sewer Enterprise Fund include a one hundred fifty thousand dollar appropriation to upgrade approximately one half (twelve hundred) of existing water meters to radio read technology. This upgrade will standardize all Town retail customers' water meters and result in significantly increased meter read accuracy and service. There is also a sixty thousand dollar appropriation to fund the first year of a five year purchase agreement for a Sewer Vactor Truck. Acquisition of this asset is necessary to ensure that required annual maintenance is performed and to facilitate rapid recovery of sewer service in the event of a localized accident/disruption of the collection system or hurricane.

Beach Parks and Recreation Tourism Fund

The Beach Parks and Recreation Tourism Fund is a Special Revenue Fund authorized by act of the General Assembly which allows the Town to accrue five cents of an Accommodations Tax for the purposes of beach preservation and tourism related expenses. This year's projected revenue is one million four hundred twenty thousand dollars. As previously mentioned it is recommended that a transfer of six hundred thousand dollars be made from the BPART fund in recognition of tourism related expenses incurred by the General Fund and Water and Sewer Enterprise Fund. This is a departure from previous budgetary practice by the Town. However, in light of the fact that no accounting for the burden placed on Town services and facilities by non-residents is available for historical reference and the Board of Commissioners has provided "no tax increase" guidance to the Manager; it is logical to source the BPART fund in such a manner. Even though no accounting of previous expenses is available in such form as to readily justify the transfer; it is my opinion that expenses proposed to be incurred are in keeping with both the intent and letter of the law.

Capital Project Funds

The Town has several projects either planned or underway that are more appropriately delineated as “Capital Projects” in accordance with North Carolina General Statute 159-13.2. The Board of Commissioners has previously adopted a “New Town Hall Capital Project Ordinance” with one subsequent amendment to account for revenues and expenses associated with construction of the new town hall. That project ordinance is repeated herein without change for purpose of inclusion and portraying a more complete budget picture. Additional, separate capital project funds are proposed to account for the three canal systems’ dredging activities anticipated to occur this coming winter. Capital Project Funds are summarized as follows:

New Town Hall Capital Project Fund	\$4,000,000
Holden Beach Harbor Canal Dredging Capital Project Fund	\$ 335,937
Heritage Harbor Canal Dredging Capital Project Fund	\$ 302,270
Harbor Acres Canal Dredging Capital Project Fund	\$ 86,400

Note that projections for the Dredging Capital Projects are extremely soft in that no Professional Engineering Reports have been generated to accurately gauge projects’ costs. Additionally, current circumstances associated with the Holden Beach Harbor canal dredging contractor termination remain unresolved and further contribute to a state of flux regarding concise project estimates.

Budget Summary.

	Revenues	Expenses
General Fund	2,872,848	2,872,848
Water & Sewer Fund	3,583,750	3,583,750
BPART Fund	1,420,000	1,420,000
Town Hall Capital Project Fund	4,000,000	4,000,000
Holden Beach Harbor CDCP Fund	336,479	336,479
Heritage Harbor CDCP Fund	302,270	302,270
Harbor Acres CDCP Fund	86,400	86,400
 Grand Total All Funds	 12,601,747	 12,601,747

As required by the Local Government Fiscal Control the budget presented and attached hereto is balanced with revenues equaling expenses. Attached for your information and consideration is the proposed budget ordinance which contains line item detail of all revenues and expenses. I look forward to working with you all over the course of the next thirty days as we finalize the spending plan for the upcoming fiscal year.

Sincerely,

David W. Hewett
Manager
Town of Holden Beach, North Carolina

Atch: Proposed Budget Ordinance FY08/09