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P.Kwiatkowski

Issue: THB Revenues as part of an overall financial policy

Needed: A medium range plan defined as policy

Rationale:

On top of the normal administration and maintenance costs of the Town and planned capital expenditures, money will be needed in the longer term for important projects, e.g., the next Central Reach (ca. 2026); possible Sewer and Water Capacity increases; Sewer and Water infrastructure replacement (ca. 30 years out). Drawing from existing funds, borrowing money, imposing special assessments and raising taxes are all options when funding large cost projects becomes necessary. Evaluating whether revenue streams as we know them now are sufficient to save towards longer term projects is a useful exercise. In addition, looking for additional revenue streams warrants at least an annual discussion of the Board and Town Staff.

Background and Discussion:

Beach Renourishment:

The Town's contribution to beach renourishment must come from the BPart and General funds. The General Fund receives 76% of its revenue from property taxes and BPart gets its revenues from occupancy tax. Property and occupancy tax revenues from 2008 to 2017 are presented below in addition to the total of certificate of occupancy (CoO) orders granted each year.

Year	Valuation	Tax Rate	Total Levy	Collected/>YTY	#CoOs	Occ Tax
2008	2,269,292,464	6.9	1,564,752	1,547,016	8	1,487,243
2009	2,221,785,404	6.9	1,532,130	1,475,983	50	1,392,260
2010	2,200,697,769	6.9	1,524,836	1,465,512	17	1,345,386
2011	2,218,295,271	6.9	1,536,684	1,470,965 +0.004	20	1,520,605 +0.130
2012	1,222,148,869	12.7	1,552,129; 843,283@6.9	1,504,448 +0.023	32	1,679,856 +0.105
2013	1,228,883,464	12.7	1,560,682	1,519,610 +0.010	29	1,634,933 -0.027
2014	1,235,616,047	12.7	1,569,232	1,527,376 +0.005	25	1,654,637 +0.012
2015	1,239,190,551	12.7	1,573,772	1,538,824 +0.007	23	1,794,076 +0.084
2016	1,199,800,667	15	1,799,701; 1,523,747@12.7	1,775,215 +0.154/-0.032	30	1,783,709 -0.006
2017	1,212,760,909	22	2,668,074; 1,819,141@15	2,629,563 +0.481/+0.193	30	1,887,106 +0.058

Total tax levied and collected when compared to the previous year at the same tax rate does not reflect a major annual increase that might be attributable to the number of new home constructions (#CoOs); significant increases are more attributable to tax rate increases. Occupancy tax revenue has in general risen annually since 2011; variability is difficult to attribute to fewer or more new homes having been built the previous year. A combination of the number of total properties in the rental market each year and average rental rate per property might bear investigation for a better understanding of occupancy tax fluctuations.

For the sake of comparison, two 5-year scenarios are represented below, in both cases assuming no increase in the tax rate: one with growth of 3% annually for property tax (average of 2011-2017, adjusted values used, driven by 2017) and one assuming only 0.3% annual growth in property tax revenues for 2020-2022. For Scenario 1, a 5% annual increase in occupancy tax revenue is assumed over all 5 years; for Scenario 2 only 2% growth in occupancy revenue is assumed for 2020-2022. The impact of a downturn on major revenue streams is apparent when comparing values in the tables below.

Scenario 1

Year	Collected Tax +3%	Occupancy Tax +5%
2018	2,688,148*	1,981,461
2019	2,768,793	2,080,534
2020	2,851,856	2,184,561
2021	2,937,411	2,293,789
2022	3,025,534	2,408,478

*projection from 18/19 budget, 22 cent tax rate

Scenario 2

Year	Collected Tax +3-0.3%	Occupancy Tax +5-2%
2018	2,688,148	1,981,461
2019	2,768,793	2,080,534
2020	2,777,099	2,122,145
2021	2,785,430	2,164,587
2022	2,793,786	2,207,897

In 2018, a capital reserve fund (CRF) for beach renourishment activities was created (3 million from accrued BPart funds; ca. \$240K from 2 cent ad valorem transfer from the General Fund; eventual addition of \$1,461,600 of surety monies per Resolution 18-08: total ca. \$4.7 million of commitment). The last BOCM proposed that \$10 million should be saved towards the next major renourishment (estimating that would be approximately 50% of the cost). In addition, the BOCM set an annual 5% savings target for beach renourishment from occupancy tax revenues (ca. \$100K). Assuming this is

accomplished in 2018/19-2026/27, this will add another \$900K. Therefore, without taking interest income into account, the beach renourishment CRF has \$5.6 million in committed monies.

The last BOCM also proposed eventual transfer of General Fund excess to the beach reserve fund, but not before the General Fund Unassigned Fund Balance achieves its target 70% (unless the Board approves a transfer before the target is achieved, as with the 2-cent ad valorem in 2018). If the BOCM can continue to commit 1 or 2 cents of the ad valorem revenue to the CRF each year through 2026, this would contribute an additional ca. \$125 or \$250K per year, raising the total committed to between \$6.125 million and \$8.250 million before interest income consideration. However, this will be very difficult in the event of an economic downturn, since it seems unlikely town operating costs will drop below a 2% increase per year without reductions in services.

Whether the economy stays robust or not, other revenue sources contributing to the General or BPart Fund would be extremely useful to the Town. **IDEAS????** Please bring everything to the table-the town can evaluate whether an idea is permissible under State Law afterwards.

Ideas received to date:

1. ABC store
2. Non-agency affiliated rental house enforcement-look out undeclared VRBOs
3. Rental property safety and compliance certification fee-confirm # trash cans, deck and stair inspection, necessary safety equipment (fire extinguishers, upstairs window/deck egress) and maximum occupancy posted. Suggestion made for rental agencies (after town training) are to perform inspections to certify homes ready for rental each year. Town certificate 100\$ for a 3 bedroom, extra \$10 per bedroom.
4. Paid parking
5. Day parking lot for beachcombers at 5 to 8\$ per day similar to what is done in several northeastern states.
6. Canopy service and vacation rental equipment service company annual fees.
7. Pet tags (funds to enforce leash laws and pet cleanup).
8. Move to all e-billing for water sewer bills.
9. Allow food trucks, charging each truck an annual fee for a parking place.
10. Municipality 0.5 cent prepared food/meals tax (needs advocacy effort)
11. State/county annual match for municipality sand reserve fund contribution/401K concept (needs advocacy effort)
12. Town sponsored 5k races (25-35\$ fee, give t-shirt as memorabilia)
13. Paid children's summer camp
14. Impact fees for future construction.
15. Increase in fines for improper parking, littering, speeding and other code violations.
16. Increase in business license and other permit fees.
17. Property tax increase.
18. Possible increase in cell tower leases.
19. Ice cream carts on the beach

Infrastructure:

Funding sewer and water capacity increases and infrastructure replacement should come from a combination of sewer and water reserve funds (only recently created, as yet no monies) and the enterprise fund balance (which is being drawn upon heavily through 2020 to fund the lift station program). The plan for increasing water capacity by adding a second water tower is in development, and obtaining money for water tower 2 should be discussed starting no later than the 2019/2020 budget cycle. Assuming continued low-density development will be the result of the Land Use Plan update, it is possible the Town will have sufficient sewer capacity for the future. Sewer capacity discussions can be deferred until after the LUP is finalized.

Water and sewer infrastructure replacement are both >10 years out. Beginning to evaluate the possible scope of these activities is a worthwhile objective, but they will not be part of the current discussions.

Ideas received to date:

1. Set permanent development fees higher than temporary status quo (look at cost sensitivity).
2. Bump water /sewer rates by 5% per year for 3 years and escrow all additional revenue.