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Lisa Anglin, Town Administrator

July 25, 2023

To The Taxpayers of Sunset Beach

Town Council realizes that any tax increase, no matter how big or small, may be a burden on the citizens of Sunset Beach. During the deliberations on the 2023-2024 budget that was recently passed by Town Council, major decisions had to be made regarding spending on the services to which citizens have grown accustomed. Do we cut staff, cut programs, or both, in order to avoid raising taxes?

As costs have gone up, our Town Government has not raised property taxes above 0.16 per hundred dollars of assessed valuation in nine years. The common practice has been to depend upon the Fund Balance, Accommodations Tax, and Sales Tax to make ends meet. Each year Councils have balanced the budget on the backs of these non-guaranteed sources of income.

Other concerns our Town is facing:

First, past Councils have generally set a goal of keeping the Fund Balance at a rate of 75% of the yearly budget based on guidance from the North Carolina Local Government Commission and the North Carolina School of Government. Both organizations realize that every municipality in North Carolina is different. One must look at the population of the municipality, ongoing operations expenditures, the likelihood of potential disasters (hurricanes), economic factors, reliance on revenues other than property taxes, future needs, etc. In comparison, Towns of our size in North Carolina (population 2,500-9,999) have an average fund balance of 77.29%. The Fund Balance of Sunset Beach is currently 74.82%.

Reviews of budgets dating back to 2018 show Councils have been able to maintain this 75% balance, and the 2023-24 budget continues this practice of having a Fund Balance of 75% of our yearly budget. However, the Fund Balance is meant to be a form of “savings account” for the Town, with the major purpose of guaranteeing monies are available for future emergencies, unforeseen events, and unexpected opportunities; to avoid short-term borrowing; to use funds to protect the Town’s credit rating; and to increase investment income. The practice in recent years has been for the Council to routinely vote on Budget Amendments which move money from the Fund Balance to meet the unplanned financial needs of the Town. During 2022-2023 for example, Council approved Budget Amendments seven times. We believe this is not a prudent policy for Beach communities where emergencies can occur at any time during the budget year. This practice

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also requires replenishing the fund balance each budget cycle to ensure the balance remains at 75% of the yearly budget.

Second, the North Carolina School of Government recommends that municipalities should collect property taxes equal to at least 40%-50% of yearly budget expenditures, since these taxes are the most reliable source of revenue for a town. The Town of Sunset Beach has not met that figure in five years. Other local beach communities will maintain the following percentage of property tax to total revenues for their 2023-2024 budgets: Ocean Isle Beach – 41%; Holden Beach – 63%; Oak Island – 43%. With the 2023-2024 budget, Sunset Beach will increase our percentage from 32% to 42%, meeting the recommended threshold for the first time in five years. Thus, our 2023-2024 budget will have less reliance on the non-guaranteed sources of income (Accommodations Tax, Sales Tax, and Fund Balance).

Third, an additional concern for Council was the lack of a Capital Reserve Fund (savings account) used to save money each year for recurring needs such as replacement of vehicles, upgrading of equipment, and improvement of infrastructure. In the new budget, a Capital Reserve Fund has been established for the first time as a place for our Town’s “savings” so that we have funds available for the needs mentioned above.

Fourth, the Town Council, in looking to the future, has identified long-term investment objectives labeled the “Strategic Plan” to meet the needs of our increasing population while maintaining and improving the level of services our citizens have come to expect, and that they deserve. As it stands now, the Strategic Plan includes an upgrade to Town Hall including a much-needed expanded police facility; office and storage space; improved meeting spaces; and electronic/media upgrade for public and staff needs. A second part of the Strategic Plan is to relocate and upgrade our DPW and Stormwater Maintenance Facility. This would include increased storage; covered structures for machinery, equipment, and vehicles; safe storage of fuels; and construction material storage. The Town currently owns land behind Firehouse #2 for this proposed facility. Finally, Council is also exploring the need for an improved training facility for our Sunset Beach Fire Department. Currently, our firefighters train in the parking lot behind Fire Station #1 and also utilize the training facility in North Myrtle Beach. The training facility would improve the performance of our firefighters as well as provide cost benefits of sharing it with other local fire departments.

With these objectives in mind, the Council determined the budgeting process we have used for years was not sustainable for the priorities identified which include: maintaining the Fund Balance at 75%; increasing the percentage that property taxes contribute to the overall budget from 32% to 42%; creating a Capital Reserve Fund; and beginning the planning process for our Strategic Plan. We believe this new direction will set a strong foundation for future budget development and planning.

How did we arrive where we are with the 2023-2024 budget? Council met from March to June in open meetings to create the new budget. The Town Staff and Departments presented and justified their operating and capital needs. Property owners and residents were encouraged to submit their recommendations for the budget. Taken together, it became clear early in our deliberations that the Town faced an increase in costs. As mentioned above, there has been no increase in tax rates above 0.16 in nine years. But, as we all know, when prices increase, costs to our Town also go

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up. Re-evaluation presented the Town a chance to leave the tax rate unchanged, but at the same time, obtain a reliable source of money to cover increased costs.

Citizens have asked why the budget increased \$1,500,000. Listed below are the line items in the newly passed 2023-2024 budget and the significant increases from the 2022-2023 budget.

Salaries / Wages	\$360,000 (7% COLA, 2% Merit / Bonus)
FICA	\$ 25,000 (With Raises)
LGERS Pension	\$310,000 (NC Mandated Change)
Engineering and Design	\$200,000 (Parks, Town Hall, DPW, FD Training)
Police Dept. Capital Expenses	\$270,000 (Replacement Vehicles, Communication)
Fire Dept. Capital Expenses	\$150,000 (Deposit New Fire Truck)
Capital Reserve Fund	\$150,000 (Initiate Fund for Future Capital Costs)
Natural Disaster Fund	<u>\$ 50,000</u> (Initiate Fund)
Total	\$1,515,000

So how is it that Brunswick County and neighboring coastal communities were able to handle the tax re-evaluations in a manner different from Sunset Beach? Three factors can help to explain the revenue differences.

First, one needs to consider the number of and type of property development. Brunswick County was able to prepare a budget with a slight increase from revenue neutral based on the tremendous influx of money they will receive from recent developments throughout the county since the last re-evaluation. According to recent information in the Wilmington Star News, there are more than 30,000 homes permitted and under construction throughout the county and in the municipalities. In addition, the Brunswick County Planning Department, is projecting 1,761 new Commercial Businesses in Brunswick County. These added properties and commercial developments, no matter where they are located in the county, produce considerable funds which increase the tax base of the County.

Many of the new developments we see around us are not within the town limits, but are located in our Extra Territorial Jurisdiction (ETJ) or solely within the county. People in the ETJ do not pay property taxes to the Town. For example, The Sanctuary, across from the post office, only has 12 homes of a total of a projected 363 within the Town limits. The large development occurring on Old Georgetown Road is mainly in the county with parts being in Calabash. The projected 1000 homes in Jaguars Lair are in our ETJ. Again, those property owners in the ETJ will not pay taxes to Sunset Beach. Therefore, in recent years, we have not had major development in our Town that could greatly impact our property tax base. While we have seen growth inside Town limits, it has been on a relatively limited scale. According to records from our Sunset Beach Planning Department, during the past three years 331 Certificates of Occupancy were issued for new housing units within town limits. In Sea Trail Plantation, there are two new developments and several additional new developments / condo units in the planning stage, but it could be several years before these units impact the Sunset Beach tax base.

Second, the amount of commercial properties within town limits impacts our property tax revenues because commercial entities are normally taxed at a higher rate than residential properties. According to Brunswick County Tax records, Residential Taxes make up 94.65% of the tax base

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in Sunset Beach, while Commercial Taxes make up 5.35%. Commercial Taxes in Brunswick County make up 13% of the tax base, while Ocean Isle receives 4.4%, Holden Beach 1.96% and Oak Island 5.7%. Even though we are not far different than other communities in terms of percentage of commercial development, we believe there is a need to continue our efforts aimed at attracting more development to the empty commercial properties in our town limits to ease the burden on residential properties.

Third, variable revenue (Accommodations Tax, State Sales Tax, Utility Tax, Fire Fees) varies significantly among communities in southeastern Brunswick County. Some nearby communities have been able to remain revenue neutral or create a slight tax increase because they receive a much larger amount of variable revenue to augment their property tax revenues.

For instance, a comparison of Accommodations Tax projected by local beach communities in their 2023-2024 budgets shows where Sunset Beach stands among local beach communities in this revenue category:

Ocean Isle Beach -	\$3,400,000
Holden Beach -	\$2,200,000
Oak Island -	\$2,795,000
Sunset Beach -	\$ 775,000

Sunset Beach Accommodations Tax is predicted to remain steady at \$775,000 in the 2023-2024 Budget, but in the future, we may see this decrease as less homes are put on rental programs. According to our Sunset Beach Budget Department, the trend on our island appears to show more homes becoming full-time residences. And, less properties are being constructed for rental income purposes.

In conclusion, after extensive deliberation, Town Council decided to leave the tax rate at the current level of .16, thereby increasing revenue through re-evaluation to carry out the above goals. We recognize that the impact on each property owner will vary based upon their new assessed value. We hope with this communication that you are able to understand the task that the Town Staff and Council faced in creating a budget that funds increased costs, and at the same time, plans for a secure financial future.

The Town of Sunset Beach is a very special and beautiful place to live. As your elected officials, we strive to give our citizens and visitors a safe and supportive environment while preparing for what the future may bring.

We thank you for your attention to this communication.

Sincerely,

TOWN OF SUNSET BEACH

Mayor Shannon Phillips
Councilman Charlie Nern

Mayor Pro-Tem John Corbett
Councilman Mike Hargreaves

Councilman Jamie Phillips
Councilman Tom Bormann

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