

Town of Pine Knoll Shores

Financial Policy

A. Revenue Policy

1. As provided by the North Carolina Local Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
 - a. Any forecasted Assessed valuation shall be estimated based on historical trends and growth patterns in a conservative manner.
 - b. The estimated rate of collection of the levy shall not exceed the collection rate of the preceding fiscal year.
 - c. The General Fund tax rate shall be set each year based on the cost of providing general government services.
 - d. The Beach Fund tax rate will be set each year based upon the forecasted timeline and dollar requirement for PKS beach erosion control and flood and hurricane protection. See Section G.
2. The Town will set fees that will maximize user charges in lieu of Ad Valorem Taxes for services that can be individually identified and where the costs are directly related to the level of service:
 - a. To the extent possible, user charge fees for all water company enterprise activities will be sufficient to finance all operating, capital and debt service costs for said services.
 - b. To the greatest extent possible, Subdivision Plan review activities will be funded through user charges in the form of plan review fees.
 - c. To the extent practical, any general town service provided by any town department which is of a higher level to or benefits specific recipients shall be supported by user fees designed to recover costs from such recipients.
 - d. Where user fees are based on cost recovery, said costs shall be reviewed annually and fees adjusted as practicable.
3. The Town will project revenues for two years and will update the projections annually as part of the yearly budget cycle.
4. The Town will estimate revenues as close as possible within the guidelines provided by the North Carolina Local Budget and Fiscal Control Act.

B. Expense Policy

1. As provided in the North Carolina Local Budget and Fiscal Control Act, no expenditures are authorized beyond those provided in the annual budget ordinance.
2. Expenditures are budgeted for at the department level. Budget violations occur when the entire department has exceeded its annual budget.
3. Expenditures related to the Town's Capital Improvement Plan shall be introduced to the Board of Commissioners prior to March 1st of each fiscal year.
 - a. All planned capital expense above \$3,500 shall be included in the Capital Improvement Plan adopted as part of the annual budget ordinance.
 - b. All planned expenses below the \$3,500 threshold described above, which the Town Manager determines to be discretionary in nature, shall be presented to the Board of commissioners as part of the annual budget planning process.
4. As part of the annual budget planning process, Department Heads will meet with the Town Manager and Finance Director to present previous fiscal year expenditures, current year estimated expenditures, and requested expenditures for the upcoming fiscal year.
5. Requested Department expenses for all funds shall be briefed to the Board of Commissioners annually during the budget planning process.
6. When proposed expenditures exceed forecasted revenue amounts, the shortfall will initially be provided to the Board of Commissioners during the annual budget planning process then subsequently adjusted to ensure that the overall annual budget ordinance is balanced. The Board of Commissioners will be presented with options to solve the shortfall.
7. The Board of Commissioners will be advised of all unplanned expenses above \$4,000 over the course of the fiscal year. Board-approved budget amendments detailing the funding source will be made for any unplanned expenses not otherwise absorbable in the annual budget.

C. Wage & Compensation Policy

1. The Town relies on the same labor pool as the County and neighboring towns, therefore its pay plan must remain competitive to recruit and retain a qualified and dedicated workforce. To accomplish this, the Town establishes the following market-based wage policy:
 - a. A pay study shall be conducted every three years which compares the pay scales and actual pays for Pine Knoll Shores employees/positions compared to the same or similar job responsibilities in competing agencies (Atlantic Beach, Emerald Isle, Morehead City, and Beaufort being the top area competitors for our workforce). This pay study may be conducted internally or by an outside firm.
 - b. The pay plan for a standard employee of each job classification shall consider the midpoint of the pay plans for the same job responsibilities in competing agencies.
 - c. Individual salaries may be adjusted above or below that midpoint for an employee's experience, certifications, years of service, and other distinctions.
 - d. Cost of Living Adjustments (COLA) to the Town's pay plan may be made annually utilizing the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W for the Mid-Atlantic, not seasonally adjusted) twelve months' percentage change as of each December. The pay plan will not be adjusted by a negative COLA.
 - e. The same index from c. above may be used as a guide for the COLA applied to employee salaries during the budget process with an effective date of the new fiscal year.
 - f. COLA adjustments are mutually exclusive of, and not to be confused with, merit increases or market-based wage adjustments proposed during the budget process.
 - g. Annual longevity bonuses, as determined by the Town Manager, are included in the salary estimates provided to the Board of Commissioners during budget discussions.
2. It is also the Town's policy to offer a highly competitive benefit package to recruit and retain its full-time workforce. This package includes:
 - a. *Health Insurance* – Employer paid health insurance consisting of a top-tiered medical plan. This health insurance is also available to the dependents of employees at the employee's personal expense through payroll deduction.
 - b. *Health Insurance Opt-Out* – For those employees with proven health insurance coverage from another source (Military,

- Spouse's Employer, etc.), the Town offers an opt-out program where the employee and the Town share the cost savings equally.
- c. *Dental & Vision Insurance* – Employer paid dental and vision insurance. These insurances are also available to the spouses and children of employees at the employee's personal expense through payroll deduction.
 - d. *Life and AD&D Insurance* – Employer paid life, accidental death and dismemberment insurance (\$15,000 of coverage per plan).
 - e. *Supplemental Insurance* – A number of supplemental insurance plans (cancer, disability, life, etc.) are available at the employee's personal expense through payroll deduction.
 - f. *State Retirement Plan* – The Town participates in the Local Government Employees Retirement System pension plan which is administered by the State. The Town contributes a percentage of employees' salaries as mandated by the State each year. Employees are required to contribute 6% of their gross income into the retirement plan as well.
 - g. *Prudential 401K Plan* – North Carolina State Statute requires the Town to contribute 5% to all full-time Law Enforcement Officers' 401K plans. Employee contribution is completely voluntary. It is the Town's policy that this benefit is further extended to all full-time employees.
 - h. *Prudential 457B Plan* – A Prudential 457B Plan is available
 - i. *Paid Holidays* – The Town has twelve paid holidays each year.
 - j. *Annual Leave* – Annual leave is accrued each payroll period based on the employee's standard shift schedule and years of service. There is a maximum accumulation limit with the excess transferred to the employee's sick leave at the end of each calendar year.
 - k. *Sick Leave* – Sick leave is accrued each payroll period based on the employee's standard shift schedule. Sick leave is cumulative with no maximum limit.
 - l. *Tuition Reimbursement* – Eligible tuition and fees are reimbursable up to a limit of \$1,000 per semester or quarter with an annual limit of \$3,000 per employee. The maximum total tuition reimbursement is \$12,000 per employee. Eligible expenses, employment, and grade requirements are defined in the Employee Handbook.
 - m. *Health Membership* – Use of the Morehead City Sports Center is free to employees and family members can receive a discounted membership.
 - n. *Uniforms* – Employees required to wear a uniform are provided their uniforms at the cost of the Town.

- o. *Bereavement Leave* – Three paid days of bereavement leave are allowed per occurrence in the death of an immediate family member.
- p. *Take Home Vehicles* – Law Enforcement Officers who hold a General Certificate or have been employed with the Town for at least a year may commute to/from Town in their patrol vehicle with the maximum distance limit being 15 miles from the Town or to the County limits.

D. Operating Budget Policy

1. General operating revenues will be sufficient to support general operating expenditures.
2. Per State Statute, debt or long-term financing will not be used to finance general operating expenditures.
3. The Town will prepare a two-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
4. The Town will maintain a street/road reserve fund to provide for upgrading the Town's streets. Additionally, Powell Bill revenues will be available for this purpose.
5. It is the Town's policy that any balance from a General Fund budget cycle will be put into a Reserve Fund. See item F. for the General Fund Reserve Policy.
6. It is the Town's policy that any balance from a Water Enterprise Company budget cycle will be put into a Water Enterprise Reserve Fund or/and be utilized to pay down the Water Enterprise Company debt.

E. Capital Improvement Plan Policy

1. The Town will update and readopt annually a five-year Capital Improvement Plan (CIP) which details each capital project, the estimated cost, description and potential funding source.
2. The CIP should be tied to the Town's Strategic Plan, Land Use Master Plan and other planning documents to ensure that the capital items requested meet the future growth needs of the Town.
3. Operating expenditures will be used to maintain the items of the CIP and provide all salaries, operating costs, and smaller assets.

F. Accounting Policy

1. The Town will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act.
2. An annual audit will be performed by an independent public accounting firm which will issue to the Board of Commissioners and the State an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required. As is required by law, the Town will provide corrective action steps to the State Treasurer's Office. These corrective action steps are also published in the annual audit report.
3. Full disclosure of any compliance or stewardship violations will be provided in the financial statements and bond representations.
4. Financial systems will be maintained to monitor expenditures and revenues on a regular basis and report made to the Board of Commissioners on a monthly basis. Major shifts in expenses or revenues shall be reported to the Board of Commissioners finance committee for review and comment.
5. All revenue collections will be consolidated under the Finance Director.
6. The Town Cash Management Plan, which is attached to the Town Financial Policy, provides direction to the Town staff on the daily management of the financial affairs of the Town. This, along with the Town Financial Policy, is to be reviewed periodically by the Board of Commissioners Finance Committee. This committee will report requested changes to the Board of Commissioners for approval.

G. Debt Policy

1. Capital projects approved by the Board of Commissioners and financed through the issuance of bonds shall be financed for a period not to exceed 1.2 times the expected useful life of the project.
2. The Town is subject to the Municipal Finance Law of North Carolina which limits the amount of net bonded debt (exclusive of revenue and special assessment bonds) the Town may have outstanding to 8 percent of the appraised value of property subject to taxation. It is the policy of the Town of Pine Knoll Shores that this net bonded debt will strive not to exceed 2% of the appraised value of property subject to taxation.
3. Total General Fund debt service on tax-supported debt of the Town will strive not to exceed 15% of total general government operating revenue.
4. Interest, operating, and/or maintenance expenses will be capitalized only for

facilities of enterprise activities and will be strictly limited to those expenses incurred prior to actual operation of the facilities. Capitalized interest will be utilized only for enterprise projects that rely on revenue to support debt.

5. The Town will maintain its financial condition so as to maintain investment grade bond ratings.

H. General Fund Reserve Policy

1. The Town desires to maintain a General Fund Reserve (Designated and Undesignated) total fund balance of 50% of the general operating budget. As the Town has proper insurance coverage to provide needed financial backup, this level appears to be adequate. It will be reviewed as part of the yearly budget.

This total shall be defined as the sum of those Reserve funds that are Designated and Undesignated, excluding those monies that are restricted (Statute, Powell Bill) or non-expendable (inventories, pre-paid items). These Reserve funds will be used to avoid cash-flow interruptions, generate interest income, eliminate need for short-term borrowing, assist in maintaining an investment-grade bond rating and for use in the case of unanticipated emergencies and/or capital expenditures.

2. The monies in the Designated Reserve are “earmarked” for particular long-term purposes. These potential expense categories will be reviewed annually during budget planning. See Attachment A.
3. The monies in the Undesignated Reserve are not “earmarked” for any particular purposes.
4. After the budget year ends and the Audit determines any balance above the expenditures: it will be decided, after the close of the fiscal year, by Board of Commissioners vote as to how the balance is to be distributed into the Designated Reserve, by category, and Undesignated Reserve funds.

I. Beach Fund Reserve Policy

1. The Town has established two Beach Tax districts to generate funds for beach erosion control and flood and hurricane protection. The tax rate for these districts will be set, yearly during the annual budget preparation, considering likely Beach Nourishment requirements per the Town and County Inter-Local Agreement and Master Beach Plan and, if so decided by the Board of Commissioners, Dune Stabilization.
2. In addition to the taxes collected by the Beach Tax there will also be Sales and Use Tax monies generated by the Beach Tax collected. This amount or a portion of it yearly, will be utilized to pay for Beach Expenses other than Nourishment. These are Beach related payments for

Access Leases, Property Loans, and Maintenance.

3. The Beach Fund monies will reside in one or more of the following funds:
 - i. Beach Capital Reserve Fund (permanent fund for the purpose of saving for and funding the Town's share of the Master Nourishment Plan and other associated beach expenses as prescribed in the April 2011 *Resolution for the Establishment and Maintenance of the Beach Capital Reserve Fund and the Beach Expense Reserve Fund*. See Attachment B).
 - ii. Beach Expense Reserve Fund (permanent fund for the purpose of annual operating of the public beach accesses and other associated beach expenses as prescribed in the April 2011 *Resolution for the Establishment and Maintenance of the Beach Capital Reserve Fund and the Beach Expense Reserve Fund*. See Attachment B).
 - iii. Capital Project Fund for Beach Renourishment (a temporary fund established for the financing of a Beach Renourishment Capital Project which normally spans more than one fiscal year.)
4. Sources and appropriations of funds for the Beach Capital Reserve Fund and the Beach Expense Reserve Fund will comply with the April 2011 *Resolution for the Establishment and Maintenance of the Beach Capital Reserve Fund and the Beach Expense Reserve Fund*. See Attachment B.
5. Any monies left over at year end in the Beach Expense Reserve Fund in excess of that amount to be required in the next year's budget, will be transferred to the Beach Capital Reserve Fund.

J. Water Enterprise Fund Reserve Policy

1. The Town desires to maintain a Water Enterprise Fund total fund balance reserve (Designated and Undesignated) of 60% of the Water Enterprise Fund's annual operating budget. As the Town has proper insurance coverage to provide needed financial backup, this level appears to be adequate. It will be reviewed as part of the annual budget process.

This total shall be defined as the sum of those Reserve funds that are Designated and Undesignated, excluding those monies that are non-expendable (inventories, pre-paid items, etc.). These Reserve funds will be used to avoid cash-flow interruptions, generate interest income, eliminate need for short-term borrowing, assist in maintaining an investment-grade bond rating and for use in the case of unanticipated emergencies and/or capital expenditures.

2. The monies in the Designated Reserve are "earmarked" for particular long-term purposes. These potential expense categories will be reviewed annually during

budget planning. See Attachment A.

3. The monies in the Undesignated Reserve are not “earmarked” for any specific purposes.
4. After the budget year ends and the Audit determines any balance above the expenditures: it will be decided, after the close of the fiscal year, by Board of Commissioners vote as to how the balance is to be distributed into the Designated Reserves, by category, and Undesignated Reserve funds.

ATTACHMENT A

GENERAL FUND:	
Designated Reserve Category	Description and/or Historical Use of Funds
STORM EMERGENCY RESERVE	A designated reserve for either named or unnamed storm emergency expenses. Created in 2008 and funded by Water Fund's reimbursement of legal fees (\$440K) related to Water Co purchase.
BUILDING RESERVE	A designated reserve for scheduled capital improvements to public buildings. Historical use of funds include: Wachovia building downpayment, Town Hall renovations, Iron Steamer property, PSB roof & HVAC, etc.
FIRE VEHICLE RESERVE	A designated reserve for Capital Improvement Plan items such as ladder truck and fire engine purchases.
EMS VEHICLE RESERVE	A designated reserve for Capital Improvement Plan items such as ambulance purchases.
STREET RESERVE	A designated reserve, in addition to Powell Bill funds, for Capital Improvement Plan street repair and paving projects.
KEY EMPLOYEE RESERVE	A designated reserve for salary and replacement costs in the event of a key employee's extended absence.
UNEMPLOYMENT BENEFITS RESERVE	A designated reserve for unemployment benefits expenses. The Town maintains a balance at the Employment Security Commission and reimburses that on a "pay-as-you-go" basis.
WATER ENTERPRISE FUND:	
EMERGENCY RESERVE	A designated reserve for unanticipated emergency expenses.
CAPITAL EQUIPMENT RESERVE	A designated reserve for Capital Improvement Plan items such as automated meter reading equipment.

ATTACHMENT B

RESOLUTION BY THE PINE KNOLL SHORES BOARD OF COMMISSIONERS FOR THE ESTABLISHMENT AND MAINTENANCE OF THE BEACH CAPITAL RESERVE FUND AND BEACH EXPENSE RESERVE FUND

WHEREAS, there is a need in the Town of Pine Knoll Shores to fund its share of a long term Master Nourishment Plan and other associated beach expenses; and

WHEREAS, the Town has established two special municipal service tax districts in accordance with North Carolina General Statute 160A-536(A)(1) for beach erosion control and flood and hurricane protection works; and

WHEREAS, the Town receives sales & use tax proceeds associated with this additional tax levy; and

WHEREAS, the Town will bear the cost, in whole or in part, of beach-related capital expenditures and maintenance expenses.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Town of Pine Knoll Shores that:

Section 1. The Board of Commissioners creates a Capital Reserve Fund for the purpose of saving for and funding its share of the Master Nourishment Plan and other associated beach expenses. This fund will be named "Beach Capital Reserve Fund".

Section 2. The Board of Commissioners continues to maintain and operate its Beach Maintenance Reserve Fund, but hereby renames the fund "Beach Expense Reserve Fund".

Section 3. Funding sources include special service district beach tax revenues, sales & use tax revenues (attributable to the beach tax), beach access parking fees and investment earnings. The "Beach Capital Reserve Fund" will have start-up funds from residuals of the former sand tax, a U.S. Army Corps of Engineers refund, and investment earnings. The "Beach Expense Reserve Fund" will also have start-up funds from residuals of sales & use tax revenues (attributable to the former sand tax) and investment earnings.

Section 4. Allowable withdrawals from the "Beach Capital Reserve Fund" are transfers to the "Beach Expense Reserve Fund" or a Capital Project Fund for:

1. Local share of planned beach nourishment;
2. Emergency beach nourishment;
3. Property purchases, loan and lease payments for beach accesses and associated parking; and
4. Dune stabilization & vegetation

Section 5. Allowable appropriations from the "Beach Expense Reserve Fund" include all expenses referenced in Section 4 above, annual beach maintenance expenses to include signage, building supplies, landscaping, toilet facilities, engineering, legal costs, wages for trash collection and physical maintenance of the public beach accesses by the Public Services Department, and a transfer to the "Beach Capital Reserve Fund" of unused reserves less 115% of the previous fiscal year's beach maintenance expense at the end of the fiscal year.

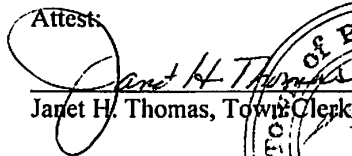
Section 6. This resolution shall become effective upon the adoption of FY 11-12 budget ordinance. The Governing Board may adopt from time to time such rules for use of the accumulated funds as may be necessary and prudent in compliance with applicable law and the intent of this resolution; however, in no case shall the funds accumulated in the "Beach Capital Reserve Fund" be used for any activity other than those defined as capital expenditures nor shall the proceeds from the special service district tax be used for any activity other than qualifying expenditures under the North Carolina General Statute for special municipal service tax districts for "beach erosion control and flood and hurricane protection works."

Section 7. Funds contained in the "Beach Capital Reserve Fund" and the "Beach Expense Reserve Fund" held by the Town shall be audited on an annual basis as are other funds held by the Town.

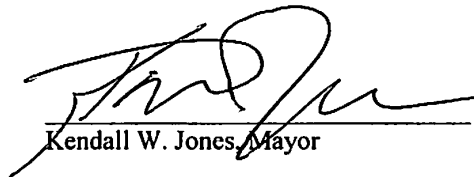
Upon motion of Commissioner Danehy and seconded by Commissioner Halada, said resolution was carried with a vote of 5 in favor, 0 against, and 0 absent.

Adopted this 29th day of April, 2011.

Attest:


Janet H. Thomas, Town Clerk




Kendall W. Jones, Mayor