



APPENDIX G FUNDING

APPENDIX G

Funding

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1.0 INTRODUCTION

The purpose of this Appendix is to document the history and distribution of the Carteret County occupancy tax as it relates to the Bogue Banks municipalities along with an explanation of Local municipal taxes and how these funds (both County and Local) are to be used for the Bogue Banks Master Beach Nourishment Plan.

2.0 COUNTY OCCUPANCY TAX

2.1 Occupancy Tax History

The Shore Protection Office is funded 100% by the portion of the County's occupancy tax legislatively mandated for beach nourishment, which was instituted in 2001 via SL 2001-381 and after several changes related to a proposed convention center (SL 2005-120, SL 2007-112), is now codified as SL 2013-223. The remaining fund balance at the conclusion of each fiscal year is permitted to accrue in a reserve account, commonly referred as the "Beach Fund" in an effort to finance some of the large-scale shore protection projects and efforts. The County's occupancy tax rate was established at 5% overall rate via the enacting legislation (SL 2001-381) and the revenues were previously split 50-50 between beach nourishment and the Tourism Development Authority (TDA), representing a 2.5% overall collection rate for both the TDA and beach nourishment. Beginning in FY 2010-11 as stipulated in SL 2007-112, the TDA began receiving 3% of the 5% collection and the beach nourishment fund received 2%, which effectively changed the cost share from 50%-50% to 60%-40%. Recent changes in the occupancy tax law have been codified in SL 2013-223, which amended SL 2007-112 to allow the collection of an additional 1% (6% total) with the total proceeds being split 50-50 between the TDA and beach nourishment (or 3% a piece). This law also raised the cap of the beach nourishment fund from \$15 M to \$30 M. The effective date of this change is January 1, 2014. The following series of graphs and tables were prepared to identify trends in the occupancy tax collection. The collection rate was 3% prior to SL 2001-381 and where applicable all data were normalized to the 5% collection rate to provide for a common baseline. A summary of the important legislation and occupancy tax rate changes is shown in Table 2-1.

Table 2-1: Summary of Occupancy Tax Collection Rate Changes

Legislation	Collection Rate (TDA - Beach)	Effective Date
S.L. 2013-223	6% (3% - 3%) or (50/50)	1-Jan-14
S.L. 2007-112	5% (3% - 2%) or (40/60)	1-Jul-10
S.L. 2007-112	5% (2.5% - 2.5%) or (50/50)	1-Jul-07
S.L. 2001-381	5% (2.5% - 2.5%) or (50/50)	1-Jan-02

2.2 Occupancy Tax Distribution

The following sections show the monthly and yearly breakdowns of the occupancy tax as whole, as well as the distribution of how those funds are collected from the individual municipalities of Bogue Banks.

2.2.1 Monthly Distribution

The occupancy tax collection is reported in two predominant categories - hotel/motel stays and condo/cottage rentals. Condo and cottage rentals dominate the market on Bogue Banks and both sets of curves show peak collections during the summer months, which is expected. Figure 2-1 and Figure 2-2 show plots of the occupancy tax generated by month from 2006-2012 for the hotel/motel and condo/cottage sectors, respectively. Figure 2-3 shows the combined occupancy tax (hotel/motel and condo/cottage), generated each month, from 1993-2012. Table 2-2 tabulates the values from these figures. **Please note that all of the data and figures below were provided by the Carteret County Shore Protection Office.**

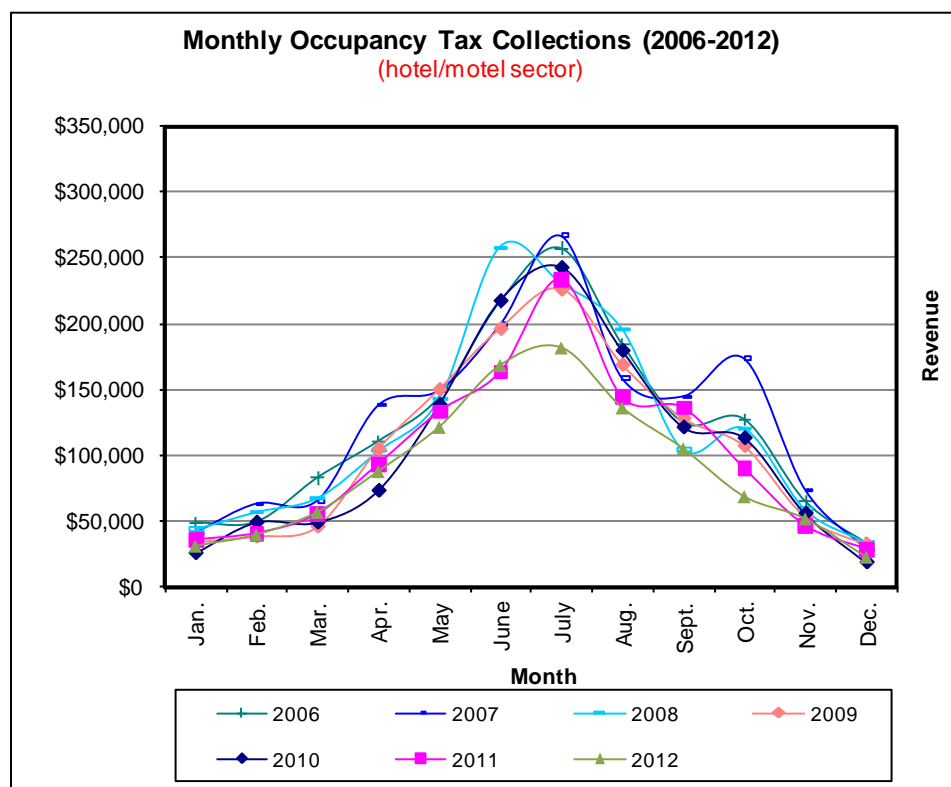


Figure 2-1: Monthly Occupancy Tax – Hotel/Motel

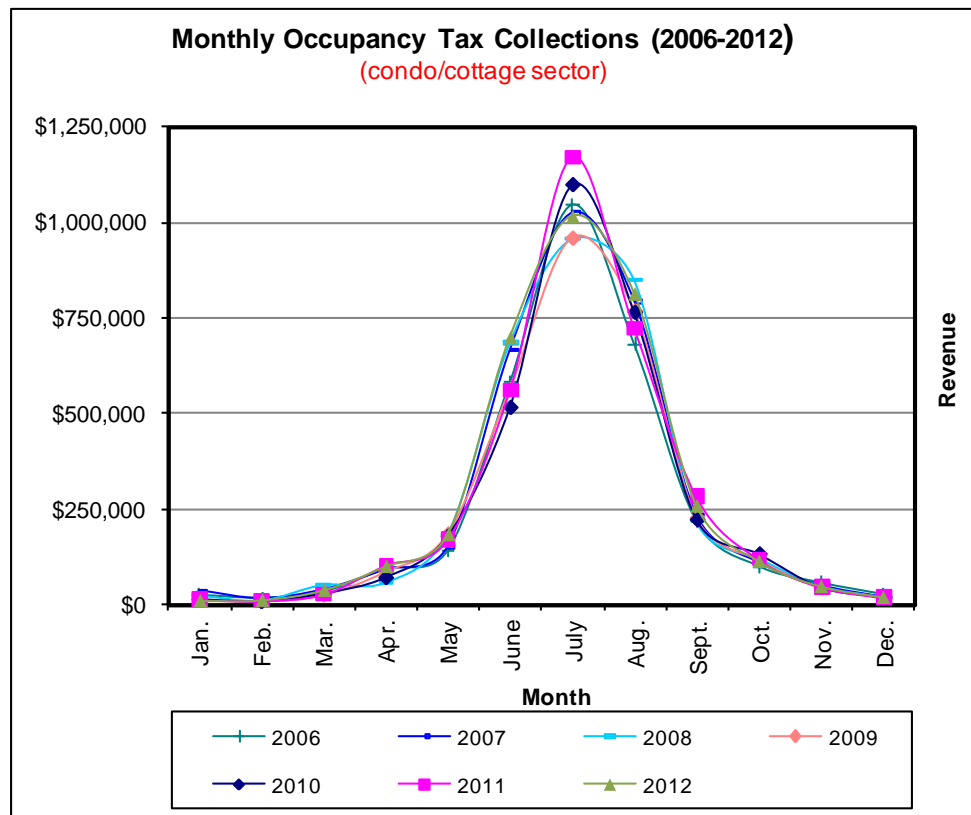


Figure 2-2: Monthly Occupancy Tax – Condo/Cottage

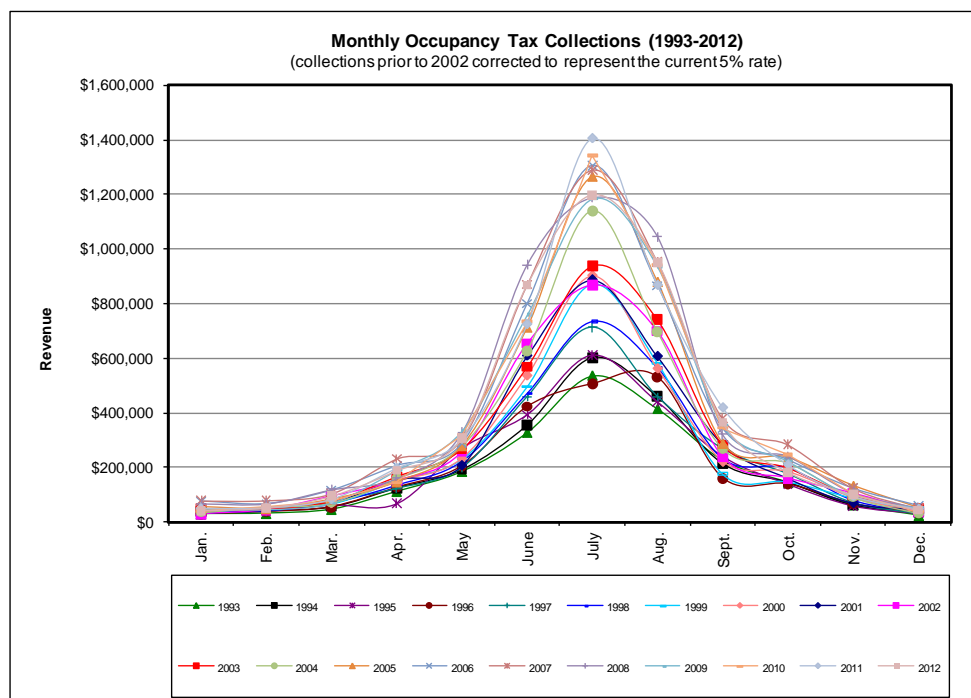


Figure 2-3: Total Monthly Occupancy Tax (1993-2012)

Table 2-2: Monthly Occupancy Tax Revenues – Hotel/Motel and Condo/Cottage Sectors (2006-2012)

Month	2012		2011		2010		2009		2008		2007		2006	
	hotel/motel	condo/cottage	hotel/motel	condo/cottage	hotel/motel	condo/cottage	hotel/motel	condo/cottage	hotel/motel	condo/cottage	hotel/motel	condo/cottage	hotel/motel	condo/cottage
Jan.	\$30,640	\$11,435	\$35,695	\$13,737	\$25,926	\$14,087	\$34,158	\$13,860	\$43,883	\$23,434	\$40,761	\$37,094	\$48,403	\$25,067
Feb.	\$39,288	\$12,866	\$40,634	\$11,176	\$49,240	\$8,386	\$38,335	\$8,145	\$57,109	\$10,297	\$62,784	\$16,390	\$48,936	\$17,143
Mar.	\$56,432	\$38,870	\$55,272	\$28,115	\$49,163	\$29,034	\$45,843	\$25,095	\$67,684	\$50,965	\$65,169	\$39,375	\$82,569	\$33,118
Apr.	\$87,547	\$101,021	\$93,199	\$103,864	\$73,343	\$70,761	\$104,675	\$85,491	\$103,174	\$56,858	\$137,854	\$91,665	\$110,391	\$93,086
May	\$121,322	\$184,082	\$133,085	\$170,858	\$138,493	\$179,306	\$149,748	\$184,606	\$142,477	\$183,725	\$149,365	\$151,138	\$143,940	\$140,566
June	\$168,442	\$698,774	\$162,971	\$561,126	\$217,472	\$515,931	\$195,887	\$562,103	\$257,884	\$684,442	\$199,364	\$665,585	\$216,823	\$580,591
July	\$181,930	\$1,014,710	\$233,599	\$1,170,283	\$242,630	\$1,098,621	\$225,767	\$958,010	\$230,232	\$956,515	\$267,044	\$1,023,955	\$257,262	\$1,046,120
Aug.	\$136,142	\$812,557	\$144,028	\$723,171	\$179,552	\$764,614	\$168,573	\$767,722	\$195,537	\$848,075	\$158,466	\$793,412	\$184,189	\$680,490
Sept.	\$104,971	\$258,858	\$135,854	\$282,724	\$121,432	\$222,414	\$127,804	\$227,125	\$104,187	\$217,126	\$144,602	\$233,748	\$124,590	\$217,539
Oct.	\$68,357	\$114,588	\$90,082	\$119,565	\$113,297	\$132,702	\$107,039	\$116,697	\$120,412	\$120,790	\$173,531	\$110,251	\$127,156	\$99,803
Nov.	\$51,456	\$49,143	\$46,631	\$47,158	\$56,013	\$45,038	\$53,522	\$43,380	\$59,218	\$48,179	\$73,603	\$50,429	\$64,833	\$56,846
Dec.	\$22,256	\$20,406	\$28,534	\$18,622	\$18,917	\$18,493	\$32,237	\$19,544	\$33,959	\$18,512	\$28,217	\$19,614	\$32,817	\$26,456
Total	\$1,068,784	\$3,317,311	\$1,199,583	\$3,250,400	\$1,285,479	\$3,099,387	\$1,283,588	\$3,011,777	\$1,415,755	\$3,218,917	\$1,500,761	\$3,232,655	\$1,441,909	\$3,016,826
% (+/-) Annual Average Over 6 years (hotel/motel)				-4.73%										
% (+/-) Annual Average Over 6 years (condo/cottage)				1.69%										
% (+/-) 2012 Compared to 2006 Only (hotel/motel)				-25.88%	(Note: the Sheraton in Atlantic Beach was closed for over 1 year after Hurrican Irene in 2011)									
% (+/-) 2012 Compared to 2006 Only (condo/cottage)				9.96%										

2.2.2 Yearly Totals

As mentioned previously, condo/cottage rentals dominate the market on Bogue Banks generating approximately \$3.2 million per year while the hotel/motel sector generates, on average, \$1.3 million per year. Figure 2-4 shows the yearly occupancy tax collections from the hotel/motel and condo/cottage sectors from 2006-2012. Figure 2-5 shows the combined occupancy tax (hotel/motel and condo/cottage), generated each year, from 1993-2012. Table 2-2 tabulates the values for these figures. Of course, when reviewing the data, one can see the effects of the economic downturn of 2008-2009, the Save our Summers efforts and the effect of the closing of the Sheraton for an extended period of time after Hurricane Irene in 2011 (see Figure 2-6). Nonetheless, it does appear that the trends should continue to rise into the future and that the worst effects of the economic downturn are over.

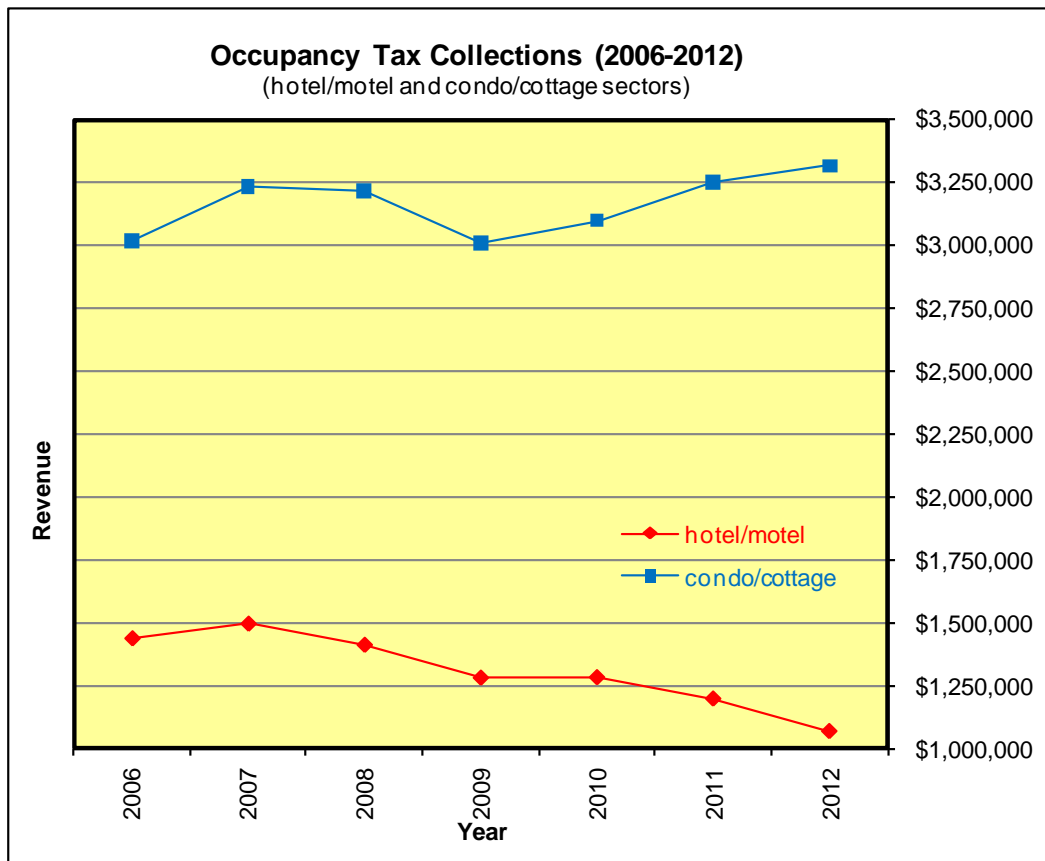


Figure 2-4: Yearly Occupancy Tax – Hotel/Motel & Condo/Cottage

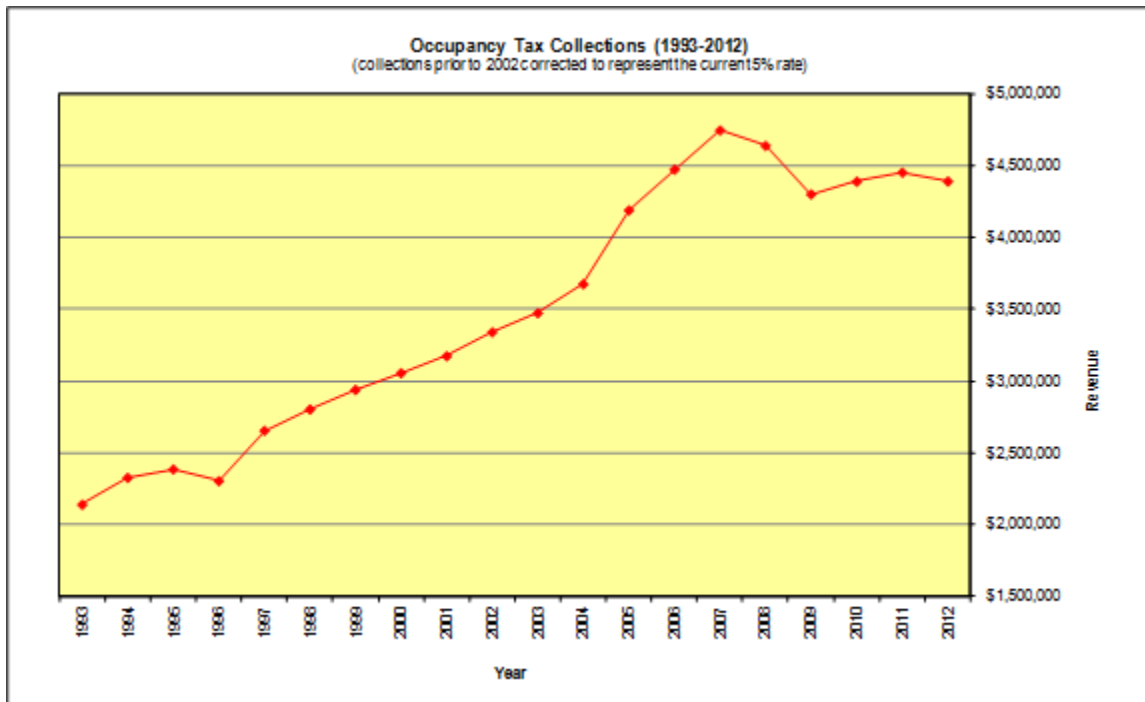


Figure 2-5: Total Yearly Occupancy Tax (1993-2012)

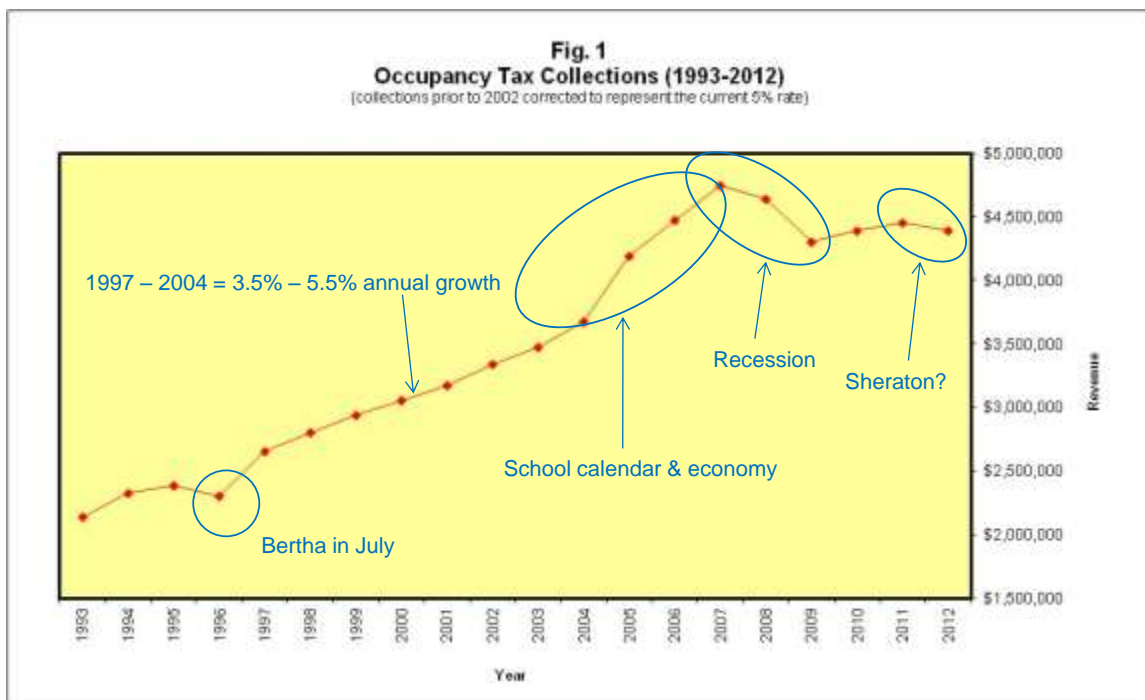


Figure 2-6: Occupancy Tax Trends

Table 2-3: Yearly Occupancy Tax Revenues – Hotel/Motel and Condo/Cottage Sectors (1993-2012)

Month	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Jan.	\$42,097	\$49,487	\$40,016	\$49,220	\$67,424	\$77,862	\$75,051	\$55,266	\$35,643	\$47,052	\$29,583	\$32,343	\$34,531	\$32,981	\$34,359	\$42,612	\$28,552	\$35,401	\$37,534	\$29,505
Feb.	\$52,195	\$51,810	\$57,626	\$46,848	\$67,406	\$79,240	\$66,079	\$49,663	\$55,405	\$45,956	\$44,501	\$44,309	\$49,675	\$52,115	\$39,045	\$39,308	\$36,384	\$39,479	\$41,900	\$31,479
Mar.	\$95,434	\$83,473	\$78,206	\$71,530	\$118,650	\$104,548	\$116,113	\$83,777	\$70,611	\$76,157	\$94,833	\$72,315	\$69,363	\$67,609	\$67,029	\$77,142	\$54,866	\$62,062	\$55,583	\$46,288
Apr.	\$188,585	\$197,151	\$144,164	\$190,697	\$160,055	\$232,503	\$205,425	\$147,566	\$158,758	\$166,506	\$151,237	\$155,407	\$146,779	\$152,134	\$133,201	\$122,826	\$125,735	\$67,206	\$125,168	\$111,901
May	\$306,687	\$304,315	\$319,001	\$334,806	\$328,625	\$302,984	\$288,001	\$280,079	\$279,286	\$267,000	\$258,209	\$207,274	\$232,260	\$231,687	\$221,003	\$199,477	\$204,688	\$270,633	\$192,429	\$185,009
June	\$868,113	\$724,754	\$734,326	\$759,466	\$942,499	\$870,801	\$800,439	\$714,075	\$628,041	\$568,346	\$654,333	\$608,660	\$535,945	\$495,985	\$470,699	\$458,730	\$422,185	\$392,945	\$355,941	\$327,704
July	\$1,196,963	\$1,405,328	\$1,343,491	\$1,184,624	\$1,187,108	\$1,291,446	\$1,306,013	\$1,266,721	\$1,140,099	\$938,334	\$868,462	\$886,846	\$901,635	\$870,294	\$734,585	\$712,052	\$505,730	\$610,995	\$602,614	\$536,005
Aug.	\$950,814	\$867,852	\$944,419	\$936,552	\$1,044,906	\$953,315	\$865,921	\$881,161	\$696,574	\$740,863	\$698,835	\$606,514	\$561,928	\$581,414	\$564,067	\$458,338	\$530,008	\$439,468	\$459,077	\$414,637
Sept.	\$364,387	\$419,086	\$344,430	\$355,957	\$321,355	\$378,791	\$342,258	\$288,621	\$269,793	\$282,377	\$238,742	\$285,458	\$220,645	\$176,340	\$230,479	\$267,859	\$160,312	\$240,170	\$214,109	\$226,295
Oct.	\$183,054	\$209,716	\$246,063	\$223,963	\$241,507	\$284,061	\$226,994	\$236,929	\$217,408	\$197,935	\$160,427	\$160,735	\$182,712	\$148,226	\$196,525	\$176,198	\$137,881	\$138,622	\$145,512	\$144,973
Nov.	\$100,811	\$93,816	\$101,058	\$96,906	\$107,397	\$124,194	\$122,378	\$133,928	\$91,618	\$95,790	\$105,153	\$69,096	\$88,093	\$89,153	\$77,236	\$70,646	\$66,469	\$58,947	\$61,712	\$62,833
Dec.	\$42,680	\$47,160	\$37,491	\$51,806	\$52,558	\$47,850	\$59,305	\$52,862	\$32,924	\$48,883	\$37,333	\$45,800	\$33,347	\$42,470	\$36,012	\$30,662	\$32,414	\$31,044	\$35,971	\$24,332
Total	\$4,391,821	\$4,453,946	\$4,390,291	\$4,302,375	\$4,639,488	\$4,747,595	\$4,473,977	\$4,190,647	\$3,676,159	\$3,475,199	\$3,341,648	\$3,174,756	\$3,056,914	\$2,940,409	\$2,804,240	\$2,655,850	\$2,305,225	\$2,386,972	\$2,327,550	\$2,140,961
% (+/-) Annual Average Over 19 Years				3.99%																
% (+/-) 2012 Compared to 1993 Only				105.13%																

2.2.3 Breakdown By Municipality

The occupancy tax collection varies in size by municipality due to the size of each municipality and the distribution of hotel/motel stays vs. condo/cottage rentals within each municipality. Emerald Isle generates a majority of the occupancy tax, averaging approximately 60% of the total in the past 9 years (2005 – 2013). This is due to the geographic size of the municipality and the fact that most of the occupancy tax is generated by condo/cottage rentals which generate the most revenue.

However, it should be noted that NC General Statue requires individual collection information to remain confidential. Please keep the following in mind while reviewing the data:

- The collectors location is identified by their monthly reports. The monthly report does not have a breakout per municipality. A hypothetical example is R&J Reality company's main office is in Atlantic Beach and rents houses, condos and time shares in each of the county's municipalities. All of R&J collections are recorded as an Atlantic Beach location.
- To maintain confidentiality the file combines the following locations:
 - Morehead City & Newport
 - Pine Knoll Shores, Salter Path, & Indian Beach.
- The locations listed as "Unincorporated" are collectors not located in a municipality.

Figure 2-7 shows the yearly breakdown by municipality of the occupancy tax collections for Bogue Banks from 2005-2013. Table 2-4 tabulates these values.

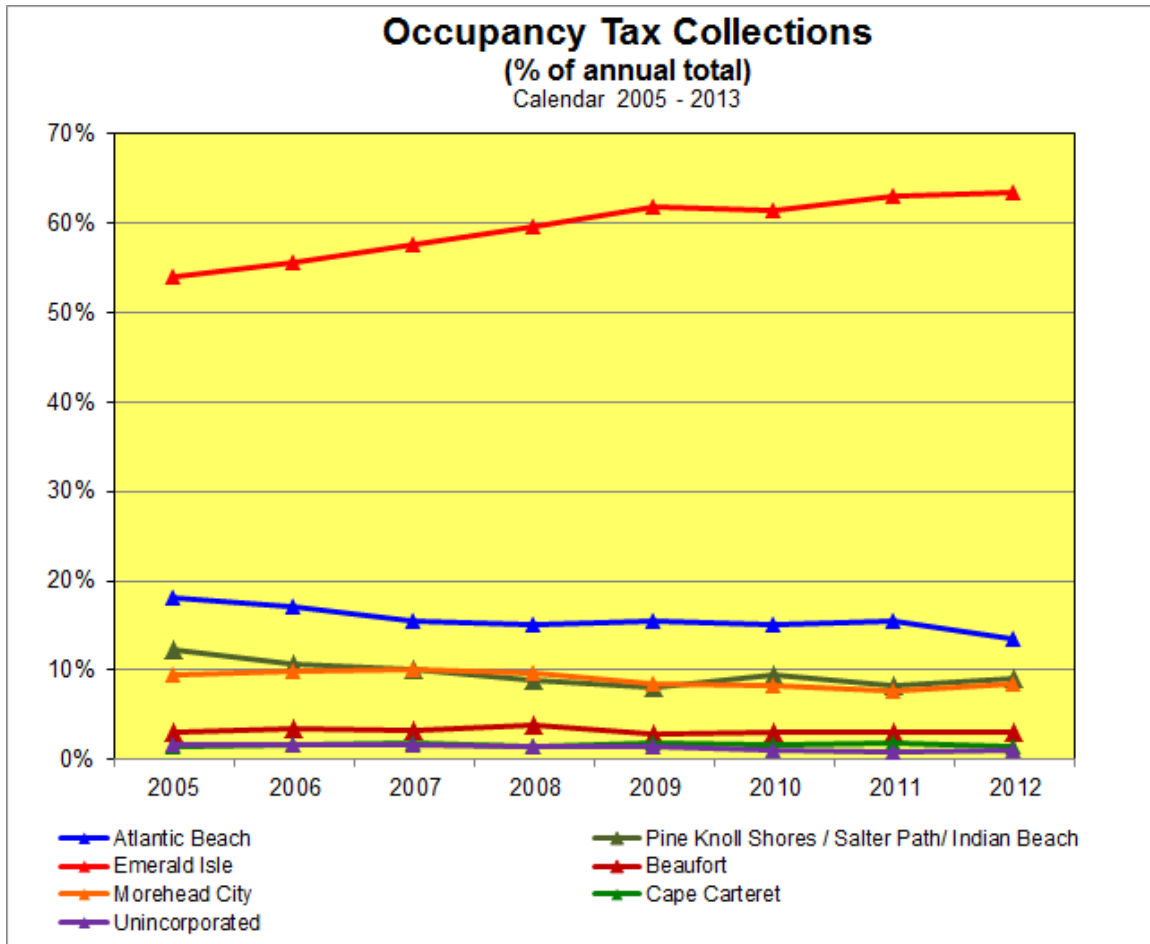


Figure 2-7: Yearly Distribution of Occupancy Tax by Municipality (2005-2013)

Table 2-4: Yearly Breakdown of Occupancy Tax by Municipality (2005-2013)

Property	2005 Collections		2006 Collections		2007 Collections		2008 Collections		2009 Collections		2010 Collections		2011 Collections		2012 Collections		2013 Collections		TOTAL	
Atlantic Beach	\$742,592	18%	\$765,111	17%	\$736,098	16%	\$701,096	15%	\$654,191	15%	\$654,234	15%	\$683,552	16%	\$599,127	13%	\$646,311	14%	\$6,182,312	15%
Pine Knoll Shores/Salter Path/Indian Beach	\$505,238	12%	\$473,142	11%	\$474,476	10%	\$415,640	9%	\$341,345	8%	\$412,223	10%	\$362,465	8%	\$405,481	9%	\$411,339	9%	\$3,801,349	10%
Emerald Isle	\$2,214,669	54%	\$2,488,408	56%	\$2,722,625	58%	\$2,770,525	60%	\$2,617,239	62%	\$2,667,355	61%	\$2,780,992	63%	\$2,818,859	63%	\$2,915,452	64%	\$23,996,124	60%
Beaufort	\$125,065	3%	\$153,645	3%	\$154,978	3%	\$182,835	4%	\$123,936	3%	\$129,233	3%	\$135,866	3%	\$132,642	3%	\$143,057	3%	\$1,281,257	3%
Morehead City	\$390,174	10%	\$444,345	10%	\$477,424	10%	\$445,552	10%	\$360,834	9%	\$355,876	8%	\$334,175	8%	\$374,617	8%	\$350,430	8%	\$3,533,427	9%
Cape Carteret	\$59,839	1%	\$74,318	2%	\$84,929	2%	\$63,566	1%	\$76,968	2%	\$74,948	2%	\$79,369	2%	\$61,056	1%	\$58,079	1%	\$633,072	2%
Unincorporated	\$68,233	2%	\$71,976	2%	\$76,214	2%	\$71,395	2%	\$59,412	1%	\$43,734	1%	\$32,962	1%	\$48,706	1%	\$41,772	1%	\$514,404	1%
TOTAL	\$4,105,810	100%	\$4,470,945	100%	\$4,726,744	100%	\$4,650,609	100%	\$4,233,925	100%	\$4,337,603	100%	\$4,409,381	100%	\$4,440,488	100%	\$4,566,440	100%	\$39,941,945	100%

3.0 LOCAL MUNICIPAL TAXES FOR BEACH NOURISHMENT PROJECTS

While the Shore Protection Office generates 100% of its funds for beach nourishment from the County Occupancy Tax (“County”), the local municipalities generate revenue from which they contribute to beach nourishment through their local property taxes (“Local”). Property taxes are divided into two sectors; oceanfront and non-oceanfront properties with the non-oceanfront properties paying less tax. Table 3-1 shows the current distribution of property tax rates and the associated revenue for the fiscal year 2013-2014.

Table 3-1: Local Property Tax Rates (FY 2013-2014)

Municipality	Oceanfront rate (per \$100 valuation)	Non-oceanfront rate (per \$100 valuation)	Estimated total revenue
Atlantic Beach	\$0.0000	\$0.0000	\$0
Pine Knoll Shores	\$0.0520	\$0.0140	\$316,500
Indian Beach	\$0.0850	\$0.0325	\$282,406
Salter Path (county)	tbd	tbd	tbd
Emerald Isle	\$0.0450	\$0.0150	\$675,000
<i>Average or Total</i>	\$0.0364	\$0.0123	\$1,273,906

4.0 USE OF FUNDS (COUNTY & LOCAL) FOR MASTER PLAN PROJECTS

With the two sets of funding streams above, various scenarios were investigated to determine the long-term financial sustainability of the Master Plan.

First, dredging/placement unit costs were developed from past projects (rates include mob/demob).

- Emerald Isle – Combination of Pipeline and Hopper - \$12 - \$18/ cy – Avg. = \$15/cy
- Indian Beach /Salter Path – All Hopper - \$13/cy
- Pine Knoll Shores – All Hopper - \$12.25/cy
- Atlantic Beach – Combination of Hopper and Pipeline - \$11.50 cy – USACE Project Good To Circle – 60% - Prorated Unit Rate for Entire Volume = \$4/cy

Utilizing the annualized volume needs estimated as part of the preferred alternative and the above unit rates, an annualized estimate of funding need was developed. As can be seen in Table 4-1, utilizing a 25% Town/75% County split would likely not be sustainable for the County fund because the annual need would be roughly \$3.4 M while \$2.4 M is likely to be generated (~50% of total occupancy tax collections). This scenario

also requires less cost share overall from the Towns than is currently being generated. However, a scenario with a 33% Town/67% County cost share was also run and the results look much more equitable between the two funding streams. The annualized need versus funds raised for the Towns is quite close to the current funding levels with the exception of Atlantic Beach which does not currently have a dedicated funding source. However, given the possible range of outcomes from the ongoing DMMP, the numbers in this table could become less or more. It will be important for Atlantic Beach to revisit the idea of a dedicated funding source after the DMMP is finalized. As for the County annual need versus funding level, the need is still higher (\$3.1 M vs. \$2.4M) but the fund currently has \$5.7M in reserve and it is hoped that 6 years will pass before the next project is needed. This should allow adequate time for the reserve to build up to a point to where the County fund is also sustainable long-term. The intra-local agreement signed by all the Towns and County also requires them to meet the funding needs even if new taxes or one-time loans are required.

Table 4-1: Annualized Estimate of Funding

Town	Annual Volume Loss (cy)	% of Total Annual Volume Loss	Avg. Placement Unit Cost Per Town (\$/CY)	25% Town/75% County Cost Share			Annually Generated Taxes for Beach Nourishment	33% Town/67% County Cost Share		
				Annual Town Cost (\$)	Annual County Cost (\$)	% of Total Annual County Cost		Annual Town Cost (\$)	Annual County Cost (\$)	% of Total Annual County Cost
Emerald Isle	139,913	31%	\$15.00	\$524,674	\$1,574,021	46%	\$675,000	\$692,569	\$1,406,126	46%
IB/SP	62,567	14%	\$13.00	\$203,343	\$610,028	18%	\$282,406	\$268,412	\$544,959	18%
PKS	84,795	19%	\$12.25	\$259,685	\$779,054	23%	\$316,500	\$342,784	\$695,955	23%
Atlantic Beach	164,945	36%	\$4.00	\$164,945	\$494,835	14%	TBD	\$217,727	\$442,053	14%
TOTAL	452,220				\$3,457,939				\$3,089,092	
				Avg. Annual County Occ. Tax Generated Over Next 6 years = \$2,440,664						

If the above results were then just multiplied out over the next 50 years, the preferred alternative needs would be fairly equal to the current funding levels at the 33% Town/67% County split.

- Annual Total Cost = \$4.61 M/yr * 50 yr = \$230.5 M
- Annual Total Revenue = \$3.93 M/yr * 50 yr = \$196.6 M

Thus, if all the variables (dredging/placement costs, tax revenue, etc.) escalate at the same rate, the 50-yr master plan will be 85% funded overall = \$196.6M/\$230.5M (*Assumes Atlantic Beach Starts Generating Taxes and participates in the master plan). If Atlantic Beach declines to participate in the master plan due to adequate

sand placement from the Morehead City Harbor Project, the 50-yr master plan will be 94% funded overall = \$185.7M/\$197.5M.

Of course, the above analysis is simplistic so a more formal cash flow analysis was completed as well. The cash flow analysis utilized the same assumptions as the Static Line Reports submitted to the state in 2010. These assumptions were reviewed and were found to still be valid with recent trends as well (especially with the economic recovery).

- Dredging Cost Increases = 2% Annually
- Interest Gained on Accounts = 2% Annually
- Accommodations and Tax Growth = 4% Annually (see Table 2-3)

As can be seen from Figure 4-1 and Figure 4-2, with the first project starting in 2019, the Town and County current funding levels are expected to be sustainable for 20 years into the future.

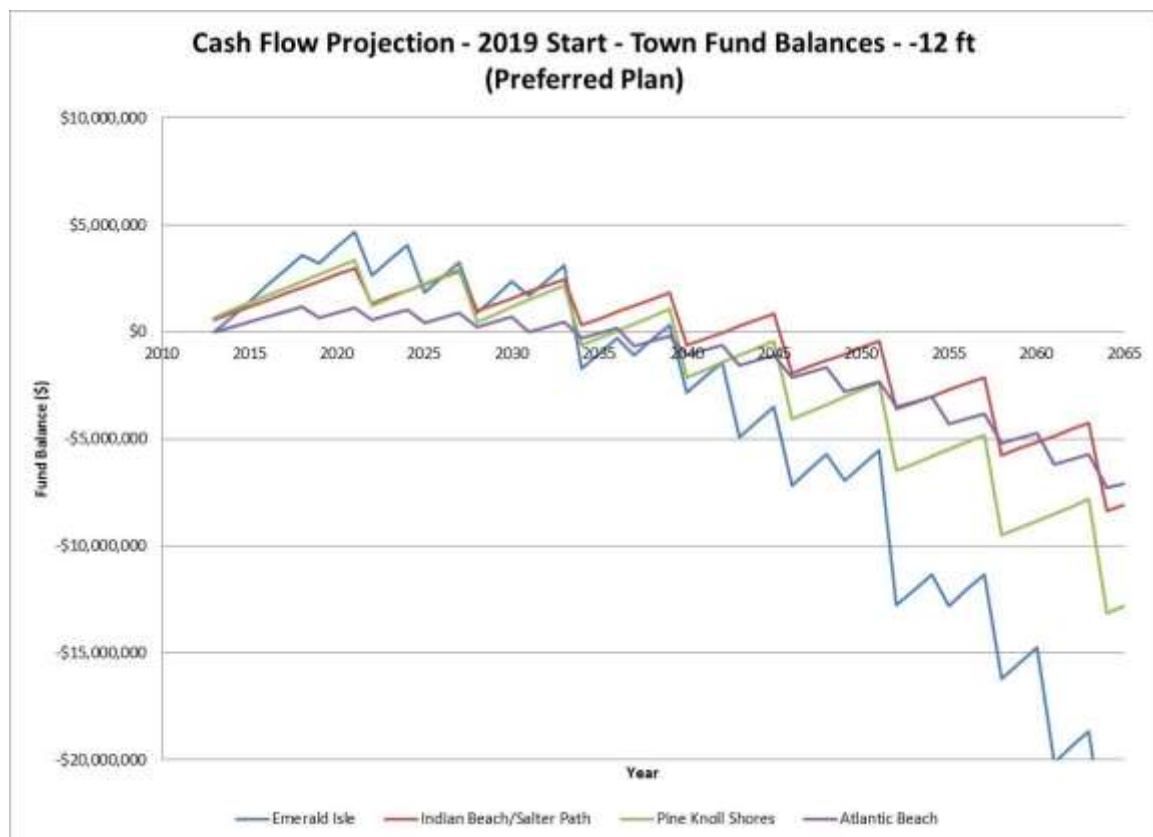


Figure 4-1: Cash Flow Projection - Town Funds

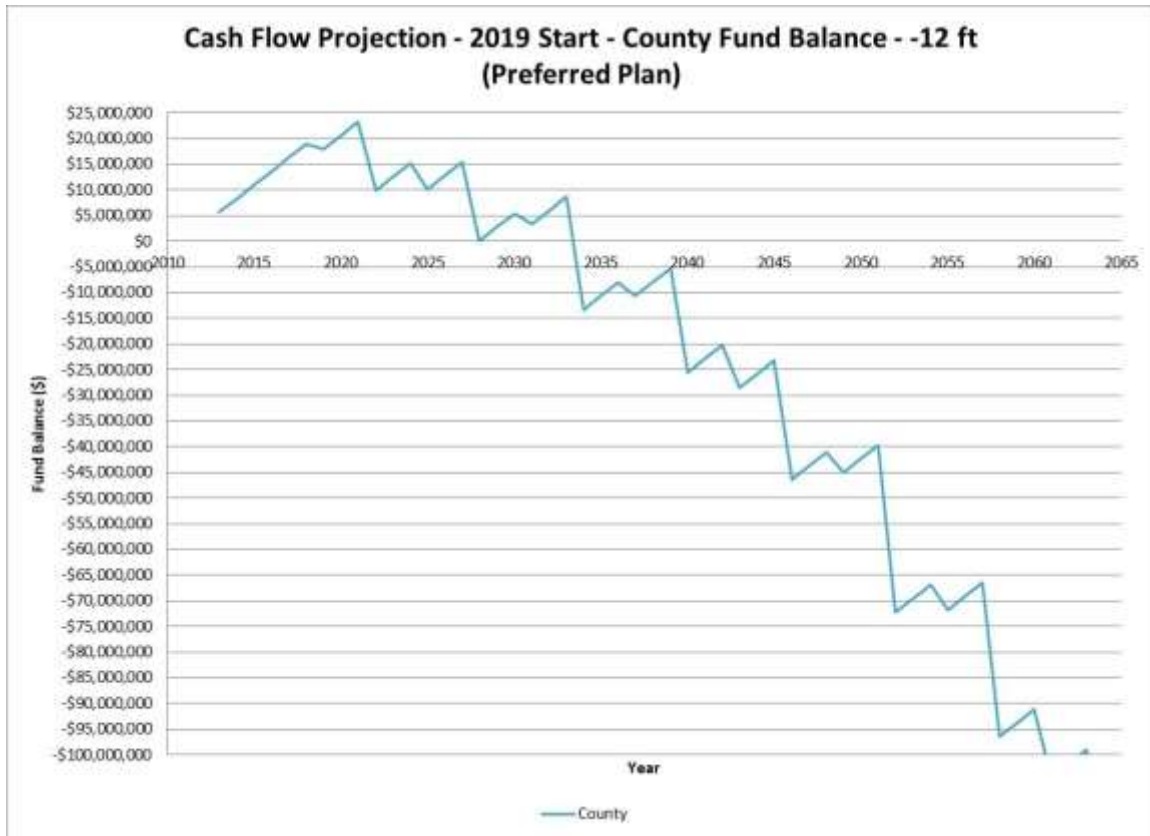


Figure 4-2: Cash Flow Project – County Funds

A comparison of these cash flow analyses for the master plan was also made to the Static Line projections for the County funds and the results were found to be similar (see Figure 4-3).

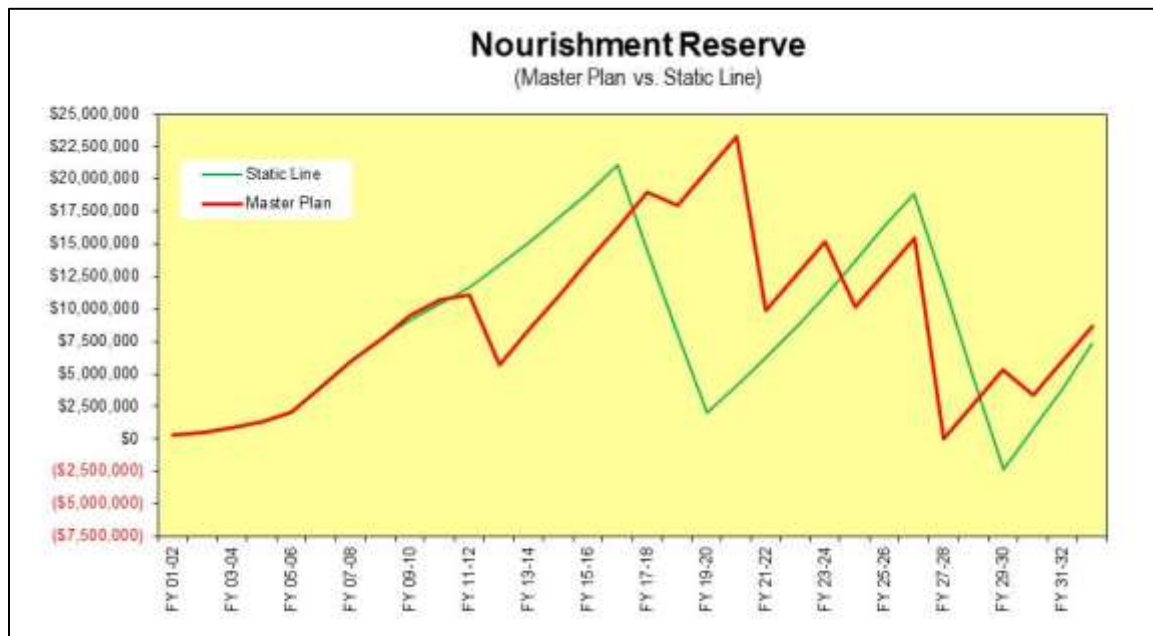


Figure 4-3: Nourishment Reserve Funds

Again, it is VERY IMPORTANT to note that the results are based upon average background erosion rates across the island. Storm effects and other factors could DRASTICALLY alter future nourishment requirements. It is also important to note that the all the funding analyses are for the background erosion rates and that FEMA funding is expected to cover the named storms (hurricane) erosion as has been done in the past.

The plan will nourish areas as they reach the nourishment triggers as well as in response to future storms which of course cannot be predicted. Accordingly, the goal of the plan is to apply the County's financial resources as needed in a spatial sense and chronologically speaking as well. The Carteret County Beach Commission also recognizes the variation in the municipal origin of room tax proceeds designated for beach nourishment and may consider this fact in making future project and funding decisions to the extent practicable.

Given the preferred plan is sustainable for 20 yrs, our recommendation is to track expenditures over next 5-10 years and adjust then as needed. Finally, it should be noted that all the above analyses does not include any State or Federal funding above that which is expected for the Morehead City Harbor Project. Any additional funds from these sources would extend the long-term sustainability of the project.