

Town of Holden Beach

BPART Fund Balance Policy

Purpose and Scope

This Fund Balance Policy establishes guidelines for managing the Town of Holden Beach's Beach, Parks, Access, and Recreation, and Tourism (BPART)-~~special-revenue~~ fund. The policy ensures compliance with occupancy tax legal requirements, maintains financial stability through adequate reserves, and provides protection against catastrophic events that could ~~eliminate-reduce~~ tourism revenue while requiring massive capital investment for recovery.

The Town cannot purchase insurance coverage for beach conditions or tourism revenue loss. Federal disaster assistance through FEMA has become increasingly unreliable due to competing national priorities and funding constraints. Therefore, the Town must self-insure against catastrophic events through segregated reserves that protect different aspects of the community's economic foundation while ensuring legal compliance.

Legal Framework and Revenue Sources

Occupancy Tax Authority: The Board of Commissioners may levy two separate occupancy taxes on all rental accommodations:

- Primary Occupancy Tax: Up to 3% of gross receipts - may be used for "tourism-related expenditures" including criminal justice, fire protection, public facilities and utilities, health facilities, solid waste and sewage treatment, and waterfront erosion control. These funds cannot substitute for normal municipal services unless they "promote tourism and enlarge its economic benefits."
- Additional Occupancy Tax: Up to 2% of gross receipts - may be used exclusively for beach renourishment and protection. No other uses are legally permitted.
- Up to 50% of occupancy tax proceeds may be allocated for beach nourishment.

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Required Accounting Segregation: The Town ~~must-should~~ maintain separate reserves for the two occupancy tax revenue streams due to their different legal usage restrictions. Pooling these funds creates compliance risks including:

- Inability to track restricted beach funds,
- Risk of using beach-only money for general purposes,
- Unclear audit trails, and
- Potential loss of occupancy tax authority.

Therefore, the BPART fund ~~must-should~~ maintain separate accounting records to track primary tax revenue (3%) and additional tax revenue (2%), along with their respective expenditures and reserves. This segregated accounting increases transparency to the public by clearly showing how different occupancy tax revenues are collected and spent, enabling citizens to verify that beach-restricted funds are used exclusively for beach projects and general tourism funds support broader community tourism infrastructure. Documentation must demonstrate tourism promotion benefits for all primary tax expenditures and exclusive beach use for additional tax expenditures.

Fund Balance Definitions

Fund balance represents the difference between assets and liabilities at fiscal year-end, and should be categorized as:

- Restricted: Amounts constrained by external laws, regulations, or grant requirements
- Committed: Amounts formally designated by ordinance for specific purposes
- Assigned: Amounts intended for specific purposes but not formally committed
- Unassigned: Amounts available for discretionary use by the governing body

Segregated Reserve Requirements

Primary Tax Reserves (from the 3% Revenue Stream):

- Operating Reserve equal to 12 months of general non-discretionary BPART operations operating expenses (\$3.4 million in FYE 2026)
- General Catastrophic Reserve: \$5 million (to cover non-beach infrastructure repair, facilities reconstruction, and tourism-related emergency needs.)

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Additional Tax Reserves (from the 2% Revenue Stream):

- Beach Emergency Reserve: ~~to fund a \$5 million (post-hurricane beach restoration project as detailed in a Master Beach Nourishment Plan)~~
- Beach Renourishment Capital Reserve: ~~\$1 million per year for 20 years- to fund a (systematic long-term beach renourishment program as detailed in a Master Beach Nourishment Plan.)~~ The Beach Renourishment Capital Reserve ~~fund~~ shall accumulate ~~at least \$1 million annually from additional tax revenues to ensure~~ approximately half the funding needed for major beach renourishment projects ~~every 20 years~~. This systematic accumulation, combined with financing, FEMA assistance, or other funding sources, provides a sustainable approach to long-term beach maintenance. ~~The 20-year cycle reflects the typical lifespan of major beach renourishment projects and ensures adequate local matching funds are available when needed.~~

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Fund Balance Usage Guidelines

Primary Tax Funds (3% revenue): May be used only for qualifying tourism-related expenditures as defined in Section 2-8-99. All expenditures must include documentation demonstrating direct relationship to tourism promotion and enhancement of the town's ability to attract tourists.

Additional Tax Funds (2% revenue): May be used exclusively for beach renourishment and protection projects. No exceptions are legally permitted.

Capital Project Restrictions: All capital projects exceeding \$2 million require demonstration that the project either reduces long-term catastrophic risk or can be completed without reducing segregated fund balances below minimum reserve levels for the applicable revenue stream.

Fund Balance Replenishment

If segregated reserves fall below required thresholds, the Town shall develop a replenishment plan within 24 months through deferring non-essential capital projects, implementing cost-saving initiatives, or identifying additional revenue sources. Replenishment funds must be allocated to the appropriate segregated reserve based on revenue source.

Monitoring and Reporting

- The finance department shall provide quarterly reports to the Board of Commissioners including:
- Summary of segregated fund balance categories and amounts
 - Analysis of compliance with reserve requirements for each revenue stream
 - Assessment of regional tourism and storm risk indicators
 - Documentation of tourism benefits for primary tax expenditures
 - Verification of exclusive beach use for additional tax expenditures

Annual Review

The Board of Commissioners shall annually review segregated fund balances during the budget process, evaluate financial position against catastrophic risk scenarios, and ensure compliance with occupancy tax legal requirements.

Policy Amendments

This policy may be amended by the Board of Commissioners to reflect changes in financial conditions, catastrophic risk assessments, or legal requirements.

Effective Date

This Fund Balance Policy shall take effect immediately upon approval by the Board of Commissioners.

Conclusion

This policy ensures responsible financial stewardship, legal compliance with occupancy tax restrictions, protection against catastrophic events, and long-term sustainability through properly segregated reserves that match legal usage requirements.

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