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Town of Nags Head

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M. Renée Cahoon
Commissioner

J. Webb Fuller
Commissioner

Michael Siers
Commissioner

MEMORANDUM

To: Mayor and Board of Commissioners

From: Town Manager

Date: May 2, 2018

Re: Recommended Budget for Fiscal Year 2018-2019

For your consideration is the town manager's recommended budget for Fiscal Year July 1, 2018 through June 30, 2019, which has been prepared in accordance with the North Carolina Local Government Fiscal Control Act, as required by North Carolina General Statute Chapter 159-11. This budget was a result of a great deal of hard work from a number of people, particularly Deputy Town Manager Andy Garman, Finance Director Amy Miller, Deputy Finance Director Kim Blankenburg, Public Information Officer Roberta Thuman, Human Resources Director Brie Floyd, and the Town's department heads.

Our mission is to serve the citizens, property owners, businesses, and visitors of Nags Head through open governance. In doing so, Town department heads were asked to directly relate funding requests to the furtherance of this mission as well as to the Town's values, which are:

1. We value a healthy, natural environment.
2. We value a customer friendly, financially stable, and technologically-forward government.
3. We value livable, well-maintained neighborhoods.
4. We value a safe, nurturing, and family friendly environment.
5. We value high standard, efficient infrastructure.
6. We value our local businesses.

This is the second year of a two-year budget cycle. When preparing their budgets, staff was asked to anticipate and plan for expenses over a two-year period. Changes to the second year financial plan for Fiscal Year 2018-2019 occurred due to unfunded mandates, changes in Board goals, or other unforeseen circumstances. A comparison between the original financial plan and the recommended operating budget has been provided and gives the Board a snapshot of how closely the Town adhered to its original plan. The two-year budget cycle will start again in Fiscal Year 2019-2020.

Budget Overview for Fiscal Year 2018-2019

This year's General Fund budget totals \$19,062,987, an increase of \$2,163,508, or 12.80% from Fiscal Year 2017-2018. This represents a decrease of \$2,727,221, or 12.52% from the Fiscal Year 2018-2019 financial plan, due to the first beach nourishment debt payment anticipated to be made in July 2019, or Fiscal Year 2019-2020, rather than originally planned in June 2019. This budget recommends a one cent tax increase, bringing the ad valorem rate to \$0.28. This additional one cent will fund the Stormwater Capital Reserve for a new debt payment to phase in the initial recommendations of the Stormwater Master Plan. One cent in ad valorem generates \$235,409. Both the Municipal Service District (MSD) tax rate of \$0.175 and the town-wide rate for beach nourishment of \$.027 are recommended to be unchanged to help supplement the project's debt payment. One cent in the MSD generates \$80,300. In addition to this revenue, Dare County has committed to up to half, or \$12,573,356 million, of the estimated \$25,546,711 million project cost. The contribution from the County, along with the funds from Town's existing capital reserve fund, enables the Town to cover the debt service for the project with a lower MSD tax rate than what was established for the 2011 project. The Town anticipates adding 2.3 million cubic yards of sand along 10 miles of its 11 mile-long shoreline.

Mandatory Town contributions to the State Retirement System are anticipated to increase from 7.56% to 7.81% for General and Water Fund employees, while increasing from 8.25% to 8.50% for law enforcement officers.

A 2% performance based merit increase is recommended at \$125,455 in the General Fund and \$13,087 in the Water Fund.

This budget recommends two new full time positions effective July 1, 2018: a planning director with salary and benefits of \$111,465, and a facilities maintenance technician with salary and benefits of \$61,873. An additional sanitation equipment operator I is also recommended in this budget to begin on May 1, 2019, with salary and benefits of \$8,739 for Fiscal Year 2018-2019. Going forward, the cost of the equipment operator is \$60,977 annually, including salary and benefits. Additionally, two new seasonal part time positions are recommended: a cart roll back employee at \$17,811 and an events coordinator at \$8,529.

This budget is recommending continuation of the current once per week recycling collection on the Town's blue sanitation route. However, an additional \$25,000 has been budgeted in recycling to cover recycling tipping fees at \$15 a ton for 1,000 tons and \$10,000 in anticipation of a price increase for contracted recycling services. Tipping fees are anticipated to increase as well, projected at \$669,685 for 8,700 residential and commercial tons at \$73.15 per ton and 512 construction and demolition (C&D) tons at \$65 per ton.

As the Board is aware, the recycling contract expires December 2018. The Town will need to bid out this service and will request different options in order to find the best fit for the Town's needs.

Due to higher claims in Fiscal Year 2017-2018, the Town will see an approximate 7.0% increase to the medical premiums for both employees and retirees.

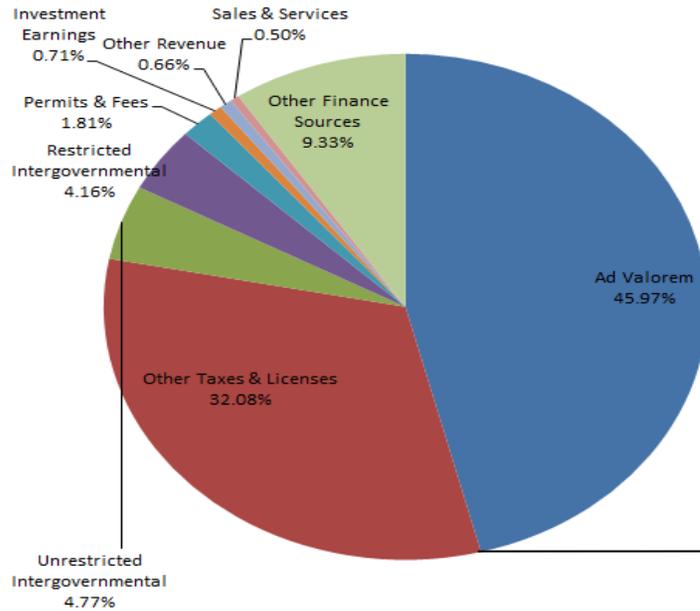
	FY 2017-2018	FY 2018-2019	Difference
Budgeted Health Insurance			
General Fund	\$1,430,842	\$1,478,522	\$47,680
Water Fund	\$196,040	\$ 172,920	\$(23,120)
Total	\$1,626,882	\$1,651,442	\$24,560

To defray the General Fund expense, a recommendation is included to use \$40,000 of the portion of fund balance committed for health insurance, realized from a carryover savings from Fiscal Year 2017 of \$80,000, of which \$40,000 was also used in Fiscal Year 2018.

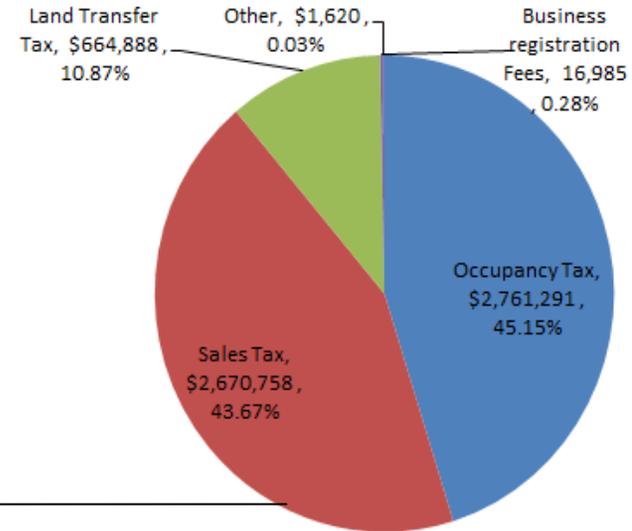
General Fund Property Values	Adopted 2017-2018	Recommended 2018-2019	Difference	Financial Plan 2018-2019
Real/Personal	\$2,336,131,230	\$2,359,987,073	\$ 23,855,843	\$2,352,484,149
Municipal Service District	\$797,476,137	\$ 805,467,587	\$7,991,450	\$803,058,470
Motor Vehicles	\$ 37,067,856	\$ 40,324,874	\$ 3,257,018	\$37,327,331
Total Valuation	\$3,170,675,223	\$3,205,779,534	\$35,104,311	\$3,192,869,950

General Fund Revenues				
Ad Valorem	\$8,431,670	\$8,763,292	\$331,622	\$8,729,014
Other Taxes & Licenses	\$5,080,147	\$6,115,642	\$1,035,495	\$5,815,023
Unrestricted Intergovernmental	\$1,005,000	\$910,000	\$(95,000)	\$1,009,000
Restricted Intergovernmental	\$236,218	\$793,468	\$557,250	\$1,370,377
Permits & Fees	\$328,800	\$344,150	\$15,350	\$334,300
Investment Earnings	\$120,000	\$135,000	\$15,000	\$125,000
Other Revenue	\$122,500	\$126,000	\$3,500	\$122,500
Sales & Services	\$100,750	\$96,000	\$(4,750)	\$100,750
Other Finance Sources	\$1,474,394	\$1,779,435	\$305,041	\$4,184,244
Total	\$16,899,479	\$19,062,987	\$2,163,508	\$21,790,208

Fiscal Year 2018-2019 General Fund Revenues



Fiscal Year 2018-2019 Other Taxes and Licenses



Shared revenues are sales, occupancy, and land transfer taxes, which are included in this budget as other taxes and licenses. The increase in shared revenues is due to a higher total levy in Fiscal Year 2017-2018 as a result of increasing the MSD tax rate to \$0.175, as well as increased growth factor projections.

Sales tax growth is projected at 3.5% locally and 4.5% at the state level, with the Town's distribution as a percent of the county share increasing from 7.52% to 8.40%. Occupancy and land transfer taxes are budgeted at 2.50% and 1.01% growth factors, respectively, with the Town's share increasing to 27.42% from 23.99%.

General Fund Expenditures	Adopted 2017-2018	Recommended 2018-2019	Difference	Financial Plan 2018-2019
Governing Body	\$195,383	\$192,088	\$(3,295)	\$194,083
Special Obligation Bond	\$0	\$0	\$0	\$2,661,872
Town Manager	\$950,822	\$1,004,983	\$54,161	\$991,497
Administrative Services	\$1,040,534	\$1,076,122	\$35,588	\$1,093,666
Information Technology	\$327,279	\$389,095	\$61,816	\$353,317
Legal	\$94,480	\$94,480	\$0	\$94,480
Planning and Development	\$836,254	\$1,700,857	\$864,603	\$1,535,466
Public Works	\$4,715,753	\$4,693,531	\$(22,222)	\$4,819,899
Police	\$2,597,316	\$2,661,850	\$64,534	\$2,650,975
Fire and Ocean Rescue	\$3,243,797	\$3,414,879	\$171,082	\$3,406,826
Contingency	\$125,000	\$125,000	\$0	\$125,000
Interfund	\$2,537,327	\$3,239,302	\$701,975	\$3,585,593
Stormwater	\$235,534	\$470,800	\$235,266	\$277,534
Total	\$16,899,479	\$19,062,987	\$2,163,508	\$21,790,208

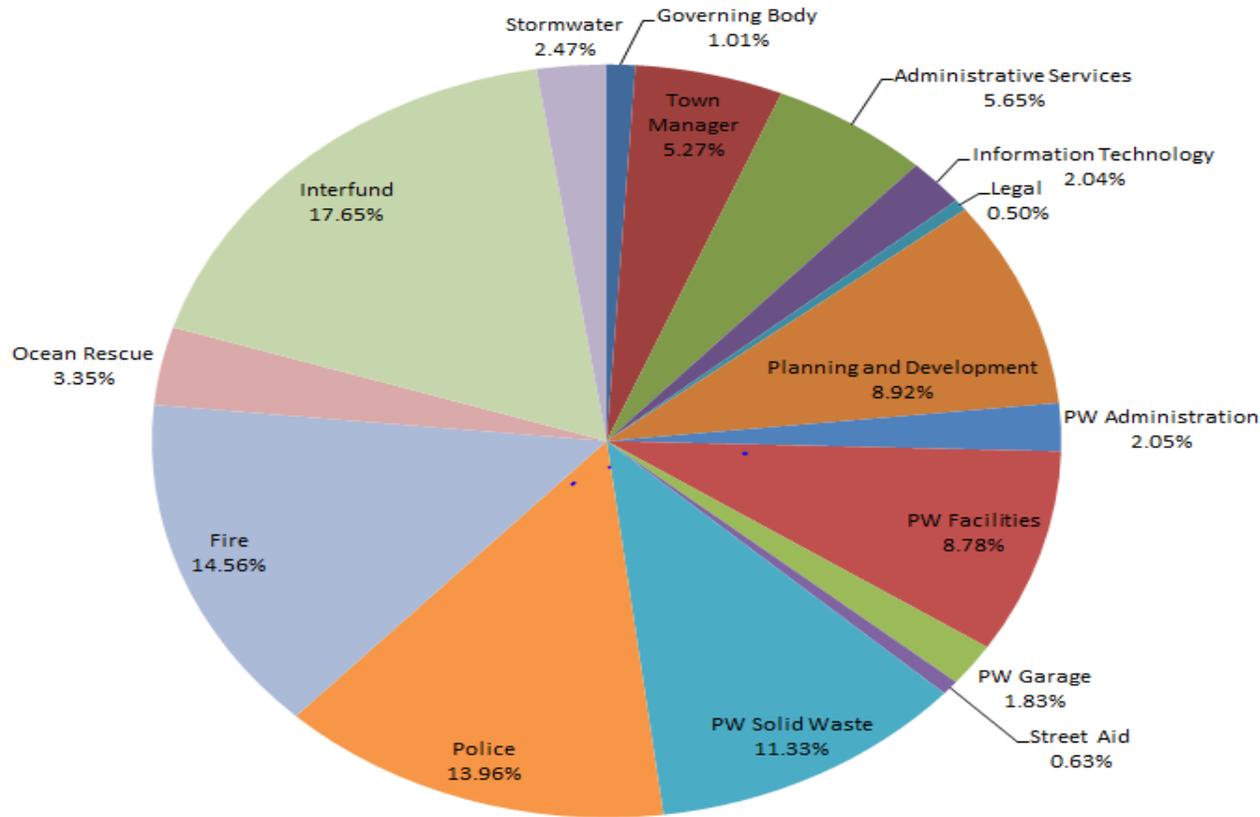
Contributions in Governing Body reflect \$10,000 for the partnership with the Nags Head Woods Nature Conservancy. The contribution to the Capital Reserve Fund is the annual offset for the collection of facility fees budgeted at \$50,000, Municipal Service District taxes of \$1,405,757, and town-wide taxes of \$646,463. An additional \$430,855 is budgeted per state statute transferred into the beach nourishment capital reserve as a result of the excess funding generated from the MSD. The town-wide beach nourishment taxes, MSD taxes, and resulting excess sales tax generated will be used towards repayment of the special obligation bonds to be used for the beach nourishment debt payment in Fiscal Year 2019-2020.

The continuation of a \$0.01 cent tax for Parks and Paths is included, and a \$0.01 cent tax increase is recommended for Stormwater, in addition to continuation of the \$0.01 cent tax included, or the equivalent of \$235,409 and \$470,818, respectively, to set aside funding in the Capital Reserve.

Recommended expenditures from Parks and Paths funding for Fiscal Year 2018-2019 include:

- Finance \$1,109,000 for the pedestrian plan implementation debt payment and \$1,250 LGC application fee \$186,083
- Beach Road multi-use-path repairs \$ 25,000

Fiscal Year 2018-2019 General Fund Expenditures



The \$470,800 Stormwater recommended budget is fully funded from the Stormwater Capital Reserve. Completion of the Stormwater Management Ten Year Master Plan at \$100,000 for the second year is recommended for continuation of funding. The initial phase of the study recommends five projects in Gallery Row area, Nags Head Acres/Vista Colony neighborhoods, the Village at Nags Head Seven Sisters Subdivision/South Virginia Dare Trail, Wrightsville Avenue area, and the North Ridge neighborhood. A one cent tax increase will fund the debt payment for these projects over a projected six years at an estimated cost of \$1,254,559, or \$235,400 per year in debt. Additional capital outlay items as approved in the CIP include a ditcher head attachment and quickview zoom camera equipment.

Recommended facility fees include \$36,500 in Recreation facility fees towards the Dowdy Park storage building budgeted at \$21,500 and design for the lighting and decking at Dowdy Park at \$15,000. Police facility fees will be used towards a software/hardware debt payment at \$5,630, and \$20,000 of Sanitation facility fees will be used towards the first debt payment of a replacement residential truck.

Capital Improvement Projects

Cash funded:

Applicant tracking system	\$ 6,323
Design for pedestrian plan implementation	\$ 50,000
Dowdy Park storage building	\$ 21,500
Dowdy Park lighting and decking design	\$ 15,000

Financed:

Scheduling software (\$26,284) debt service:	\$ 9,107
Pedestrian plan (\$1,109,000) debt service:	\$ 186,083
Dowdy Park lighting/decking (\$200,000) debt service	\$ 33,333
Motor grader (\$170,000) debt service:	\$ 37,396
Fire pumper (\$684,000) debt service:	\$ 84,363
Replacement residential truck (\$290,000) debt service:	\$ 63,793

(Sanitation facility fees of \$20,000 will apply to the initial debt payment)

Funded by Grants:

Pedestrian plan implementation	\$ 500,000
(use parks and paths capital reserve for financing \$1,109,000/LGC fee)	
Jacob Street public beach access parking	\$ 81,000
(local funding of \$24,000)	

Water Fund

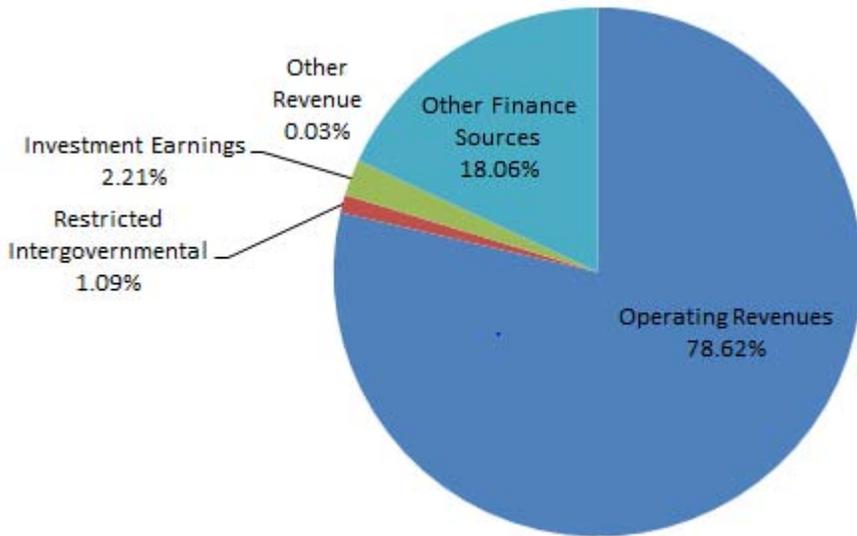
A water rate study has been conducted by the North Carolina Rural Water Association. A recommended 15% water rate increase to the minimum and commodity rates are included in this budget to meet operating expenses and capital improvements presented to the Board. Future water rates will be assessed to include operations and recommended CIP projects the Board will adopt and incorporate as part of a water master plan study.

In addition, a system development fee study has been conducted in accordance with House Bill 436, Chapter 162A of the North Carolina General Statutes. A service unit fee has been calculated at \$1.85/gallons per day (GPD) to use in accordance with the design flow rates table used to determine the minimum allowable daily flow for each land use type.

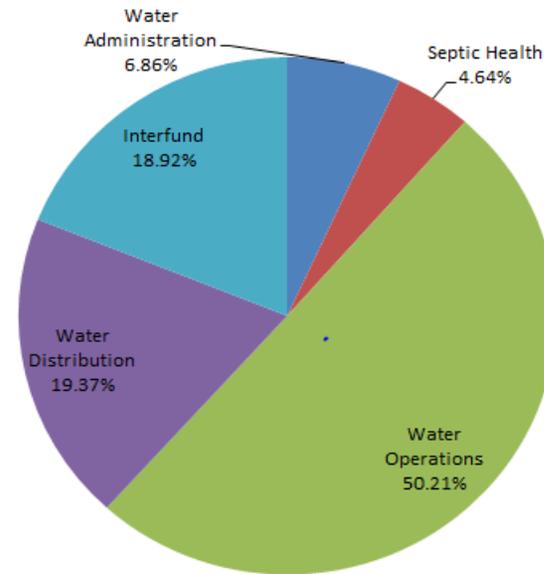
Additional changes to the Town's Consolidated Fee Schedule are recommended to increase in conjunction with this fiscal year's budget for 1.5" and 2" water tap connections and replacement hydrants.

	Adopted 2017-2018	Recommended 2018-2019	Difference	Financial Plan 2018-2019
Water Fund Revenues				
Operating Revenues	\$2,657,069	\$2,889,973	\$232,904	\$2,748,969
Restricted Intergovernmental	\$0	\$40,000	\$40,000	\$0
Investment Earnings	\$61,250	\$81,250	\$20,000	\$63,750
Other Revenue	\$2,000	\$1,000	\$(1,000)	\$2,000
Other Finance Sources	\$493,279	\$663,732	\$170,453	\$812,060
Total	\$3,213,598	\$3,675,955	\$462,357	\$3,626,779
Water Fund Expenditures				
Water Administration	\$237,179	\$252,068	\$14,889	\$246,506
Septic Health	\$332,226	\$170,492	\$(161,734)	\$174,620
Water Operations	\$1,452,499	\$1,845,800	\$393,301	\$1,777,918
Water Distribution	\$486,337	\$712,173	\$225,836	\$722,378
Interfund	\$705,357	\$695,422	\$(9,935)	\$705,357
Total	\$3,213,598	\$3,675,955	\$462,357	\$3,626,779

Fiscal Year 2018-2019 Water Fund Revenues



Fiscal Year 2018-2019 Water Fund Expenditures



Capital Projects

Total Cost

South Nags Head Tower Rehabilitation	\$274,450 cash
Diamond Street to Danube Street tie-in	\$225,000 cash
Eighth Street generator switch	\$ 25,000 cash

Budget Ordinance Summary

Below are the total amounts included in the Fiscal Year 2018-2019 budget ordinance:

General Fund	\$ 19,062,987
Water Fund	\$ 3,675,955
Capital Reserve Fund	\$ 7,859,104

Comparison of changes in the Recommended Fiscal Year 2018-2019 budget from the Financial Plan

General Fund changes-

- A \$.01 cent tax increase is included both in the Recommended and Financial Plan Budgets. A loss in sales tax for both Article 40 and hold harmless revenues was planned for a \$271,000 loss due to proposed legislation Senate Bill 126 in 2017. However, this legislation did not pass, and, as a result, sales tax is budgeted at a \$237,683 increase over the Financial Plan. The recommended \$.01 cent tax increase for Fiscal Year 2018-2019 will instead go towards funding the Stormwater Capital Reserve as a debt payment for the initial phase recommended by the Stormwater Management Master Plan.
- Property values increased by 1.11% compared to the planned .7% growth from Fiscal Year 2017-2018 valuations.
- Utility sales tax is on a trending decrease and that planned revenue has been cut by \$55,000. Additionally, local franchise cable fees have been eliminated, and are reflected as a \$40,000 decrease in planned revenue.
- Yearly Other Post Retirement Benefits (OPEB) funding of \$31,200 was planned and requested, but not recommended. Staff did not request a budget amendment for the initial \$100,000 investment in Fiscal Year 2017-2018.

- Tipping and recycling fees are recommended at a combined \$53,685 increase from the planned budget due to increased tonnage and a new recycling contract.
- Due to increased credit card usage, credit card transaction fees in contracted services were increased by \$8,000, from \$8,400 to \$16,400.
- Microsoft 365 implementation and annual subscription costs of \$23,300 are recommended as server support and off-site and cloud storage are being more utilized. This project has been identified as being a more valuable tool than the access control management and auditing software budgeted at \$6,800 in Fiscal Year 2017-2018, so that savings rolled into fund balance will help defray this additional unplanned cost.

New positions-

- A new planning director position at \$111,465 is recommended, but was not planned, for Fiscal Year 2019.
- A sanitation equipment operator I was planned for a full year at \$61,085. The recommended budget requests two months of funding at \$8,739 for this full time position beginning May 1, 2019.
- Part time positions not in the financial plan include an additional seasonal cart roll back employee at \$17,811 and an events coordinator at \$8,529. To fund the events coordinator, the Arts and Culture Committee initiatives were reduced and miscellaneous revenues were increased to account for additional funds generated by this position in order for it to have minimal budgetary impact.

Maintenance and repairs-

- Fire Station 16 HVAC replacement is recommended at \$24,490. A savings of \$9,490 will be realized on firefighter physicals being performed through the Town's annual wellness exams, which will help offset this expenditure.
- Town Hall carpet replacement of \$25,000 was planned but is not recommended.
- Fire Station 21 exterior painting was budgeted in Fiscal Year 2017-2018. Due to a unforeseen roof problem, this project is being requested to be re-budgeted in Fiscal Year 2018-2019.

Debt-

- The first year debt payment of beach renourishment/first \$600,000 supplemental debt payment from Dare County to the beach nourishment capital reserve fund will not occur until Fiscal Year 2019-2020. The debt payment is projected at \$2,615,872.
- A new motor grader is recommended at \$170,000, with an initial debt payment of \$37,396.

Capital Outlay and CIP-

- Jacob Street public beach access parking is being recommended at \$81,000 and \$24,000 grant and locally funded, respectively, totaling \$105,000. This project has been moved up from its original plan of \$135,000 in Fiscal Year 2019-2020 in anticipation of the Town procuring a CAMA grant. As a result, Islington Street access funding of \$86,500 has been moved to Fiscal Year 2019-2020.
- Replacement software totaling \$26,000 for the Public Works fuel and inventory systems is being recommended to provide a more integrated solution than the current system.
- Design work has been included at \$50,000 for the sidewalk pedestrian plan and \$15,000 for the Dowdy Park lighting and decking project. The Dowdy Park Design cost will be funded from Recreation Facility Fees.

Water Fund Changes-

- A 15%, rather than 4%, increase is recommended for water rates/sales. Rates were formally recommended by the North Carolina Rural Water Association and will help cover operating expenses and capital improvements as water sales in volume continue on a decreasing trend. Water Credit Units (WCU's) were eliminated and, in accordance with state statute, a Service Unit Fee (SUF) is proposed at \$1.85 gallons per day (GPD) to be used in conjunction with the Daily Flow For Design table included in the consolidated Fee Schedule.
- The Barnes Street waterline extension and tie-in were planned at \$235,000; however the recommendation is to defer this project until Fiscal Year 2019-2020. Instead, the Diamond Street to Danube Street water line tie-in is recommended at \$225,000. This project is a necessary part of constructing the pedestrian sidewalk recommended in the General Fund. The Diamond to Danube Street water line was included in the Fiscal Year 2017-2018 Adopted CIP at \$193,000 as a Fiscal Year 2019-2020 project.
- A recommendation is made to seek grant funding for a six inch dewatering pump at \$40,000.
- Additional recommended items that were not planned include a generator switch at Eighth Street, \$25,000, a motor mixer at Gull Street, \$17,400, and a six inch water line repair at West Forrest Street and Nags Head Golf Links, \$14,800.