



**Ben Cahoon**  
Mayor

**Susie Walters**  
Mayor Pro Tem

**Cliff Ogburn**  
Town Manager

## **Town of Nags Head**

Post Office Box 99  
Nags Head, North Carolina 27959  
Telephone 252-441-5508  
Fax 252-441-0776  
[www.nagsheadnc.gov](http://www.nagsheadnc.gov)

**M. Renée Cahoon**  
Commissioner

**J. Webb Fuller**  
Commissioner

**Michael Siers**  
Commissioner

### **MEMORANDUM**

**To: Mayor, Mayor Pro Tem, and Board of Commissioners**

**From: Cliff Ogburn, Town Manager**

**Date: June 5, 2019**

**Re: Changes from Recommended to Adopted Budget for Fiscal Year 2019-2020**

#### **General Fund**

- Eliminate the Deputy Public Works Director position split with the Water Fund (\$83,224)
- Eliminate the short-term rental tracking and registration software in the Planning department (\$32,000)
- Move Town Hall carpet replacement to the current fiscal year 2018/2019 using unspent funds (\$23,068)
- Move the unmanned aircraft system in the Town Manager department to fiscal year 2020/2021 (\$23,000)
- Decrease matching 401k contributions for those who contribute less than the 2% maximum (\$11,530)
- Levy a Town wide tax rate of \$.317 on all real estate, personal, and motor vehicle property in the Town of Nags Head
- Fund balance appropriation was increased from \$350,000 to \$411,332

General Fund budget ordinance decreased from \$23,684,335 to \$23,512,464

### **Water Fund**

- Eliminate the Deputy Public Works Director position split with the General Fund (\$27,398)
- Decrease matching 401k contributions for those who contribute less than the 2% maximum (\$1,716)
- Decrease retained earnings appropriation by \$29,114, from \$624,497 to \$595,383

Water Fund budget ordinance decreased from \$4,219,075 to \$4,189,961

### **Looking ahead to Fiscal Year 2020-2021**

- A one cent town wide tax increase is projected
- A one cent tax decrease from the manager's recommended to the fiscal year 2019/2020 adopted budget resulted in a \$134,360 reduction in the shared revenue projection including occupancy, land transfer, and sales taxes
- The unmanned aircraft system in the Town Manager department is planned to be purchased in fiscal year 2020/2021 \$23,000
- Fund balance appropriation was increased from \$350,000 to \$364,409



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Date: May 1, 2019

Dear Mayor Cahoon and Members of the Town of Nags Head's Board of Commissioners:

For your consideration is the town manager's recommended budget for fiscal year July 1, 2019 through June 30, 2020, 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 key staff including the town's department heads and departmental administrative staff.

Our mission is to serve the citizens, property owners, businesses, and visitors of Nags Head through open governance.

This is the first year of a two-year budget cycle. Fiscal year 2019-2020 represents the proposed operating budget for the coming year. Fiscal year 2020-2021 represents the financial plan. Since the budget provides a basis for all fiscal policy decisions during a particular period, this budgeting methodology allows the Town to be more strategic in its budget planning, reviewing operating expenses, capital projects, and revenues within a two-year window. When preparing their budgets, staff was asked to anticipate and plan for expenses over a two-year period. Changes to the financial plan should only occur due to unfunded mandates, changes in Board goals, or other unforeseen circumstances.

## Budget Highlights – General Fund

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This year's general fund budget totals \$23,684,335, an increase of \$4,997,022, or 26.74% from the fiscal year 2018-2019 adopted budget. Of this increase, 73% is attributed to the beach nourishment project; the coming year represents the first year of a five-year payment (through FY 2024) on the Town's beach nourishment special obligation bond at \$3,049,248, as well as the first year of Dare County's first debt supplement made to the Town towards the bonds at \$600,000. The remainder of the increase can be attributed to Board goals to continue efforts to address stormwater/flooding issues in the Town, enhance our parks and paths, continue with the Town's recycling program and improve sanitation services along the Beach Road, and provide a solid pay plan recommendation to honor our hardworking employees. A two-cent tax increase is recommended, bringing the ad valorem rate to \$0.30. One cent in ad valorem generates \$237,527.

### NO CHANGES RECOMMENDED TO BEACH NOURISHMENT TAX RATES



**Town-Wide Beach Nourishment Tax Rate**  
\$.027



**Municipal Service District Tax Rate\***  
\$0.175

\*One cent in the MSD generates \$80,386.

I believe the Board and I share a strong value that the town staff represents its greatest asset. This year we are looking to implement this value by demonstrating a commitment to our employees. For many years, the downturn in the economy limited salary adjustments to cost-of-living increases and reduced our ability to fund upward mobility within pay ranges. While we have remained competitive at the lower end of our salary ranges, we have found that many employees have stagnated within their salary range which has affected retention. This year we are recommending a multi-pronged approach to implement a pay plan that values our employees. This includes a combination of a cost-of-living adjustment (1.6%), within grade increases for employees who are meeting performance expectations to allow movement within salary ranges (2.5% for employees below the midpoint of the salary range/1.25% for employees at or above the midpoint), recommendations to address compression of specific employees, and a merit bonus for employees with exceptional performance. We would propose this plan for the two-year budget cycle and continue with this plan as funding allows. For FY 2019/20, these recommendations, with fringe benefits, total approximately \$278,700. Additional funding is included to implement changes to the Police and Fire Departmental Career Progression program. Finally, seasonal lifeguard hourly pay will be increased by \$1.00 an hour to stay competitive in our area. The cost of this increase is \$33,979.

To defray the General Fund expense, a recommendation is included to use \$68,884 of the portion of fund balance committed for Law Enforcement Special Separation Allowance to fund the special separation allowance for three retired Police officers.

Mandatory Town contributions to the State Retirement System are anticipated to increase from 7.810% to 9.01% for General and Water Fund employees, while increasing from 8.50% to 9.76% for law enforcement officers, costing the Town over \$106,000. Thanks to our employees taking better care of themselves, the Town's health, dental, and vision insurance rates have not increased from fiscal year 2019.

I am recommending elimination of the IT Coordinator Position and utilizing a contractor combined with one on-site help desk position to manage the Town's IT department. I am also recommending moving to a leasing program for IT hardware which will eliminate the need for Town staff to maintain these items as fixed assets. Most equipment, excluding servers, switches, and other specialized devices, will be placed on a four-year rotation schedule.

This budget recommends two new full-time positions, both in Public Works. We are proposing a change in Public Works to include a dedicated stormwater/streets division within the Facilities Maintenance. Our goal is to implement a more aggressive stormwater/drainage system maintenance plan. This will include two dedicated employees to these tasks. This will include one new position, a Facilities Maintenance Stormwater Technician 1, with salary and benefits, at \$63,516. Stormwater/Streets staff will perform proactive maintenance twice annually to the town's drainage system including ditch/swale cleaning/mowing/trimming, pipe jetting, bank stabilization, culvert/pipe replacement, and swale installation. This will also increase the town's capacity to perform reactive work during storm/flood events. We are also requesting reinstating a Deputy Director of Public Works position which has been vacant since 2013. The Public Works Department is the largest Department in the town, both from a proposed budgetary standpoint (\$8,241,702, including water operations and distribution) and the number of employees (currently 37.75 full time equivalent employees). There are two primary functions (water/public works) and six divisions. This is the only department in the town without a deputy director. The Deputy Director position will assist the Public Works Director in coordinating the daily activities of the department including personnel management/development, capital project execution and ongoing project management, implementation of strategic division operational plans, execution of facilities maintenance plans, and equipment procurement. This position is budgeted with salary and benefits at \$111,099 (split 25% with the Water Fund).

The Board has renewed the town's contract for seasonal recycling collection and it is modifying the sanitation/recycling schedule to improve services within the town. This includes modifying the blue route (beach road) to a predictable Monday and Friday schedule which is intuitive to visitors and includes collection of trash and recycling on the same day. The contract price is increasing due to the addition of one collection day as well as an increase in the cost of recycling processing. This represents a \$157,430 increase over current costs. Recyclable materials the Town picks up is budgeted at \$40,250, estimated 575 tons at \$70 per ton. This represents an additional cost to the Town. In FY 2018-2019, the Town did not pay a tonnage fee for recycling processing. Last budget year, the Board approved the addition of a sanitation driver to address growth in housing units and number of carts. This position was funded to begin in May with salary and benefits, at \$8,739 for Fiscal Year 2018-2019. The job value for an entire fiscal year 2019-2020 is \$63,072. Therefore, the cost of the position is not fully realized until FY 2019/20. Tipping fees are anticipated to increase as well,

projected at \$687,756 for 8,510 residential and commercial tons at \$74.21 per ton plus \$2.79 for a fuel surcharge for a total of \$77.00 per ton. We have budgeted for 500 construction and demolition (C&D) tons at \$65.00 per ton.

### GENERAL FUND PROPERTY VALUES



Adopted  
2018-2019

**Real & Personal Property \$2,359,987,073**  
**Municipal Service District \$805,467,587**  
**Motor Vehicles \$40,324,874**  
**Total Valuation \$3,205,779,534**



Recommended  
2019-2020

**Real & Personal Property \$2,381,221,481**  
**Municipal Service District \$808,536,199**  
**Motor Vehicles \$43,340,712**  
**Total Valuation \$3,233,098,392**



Financial Plan  
2020-2021

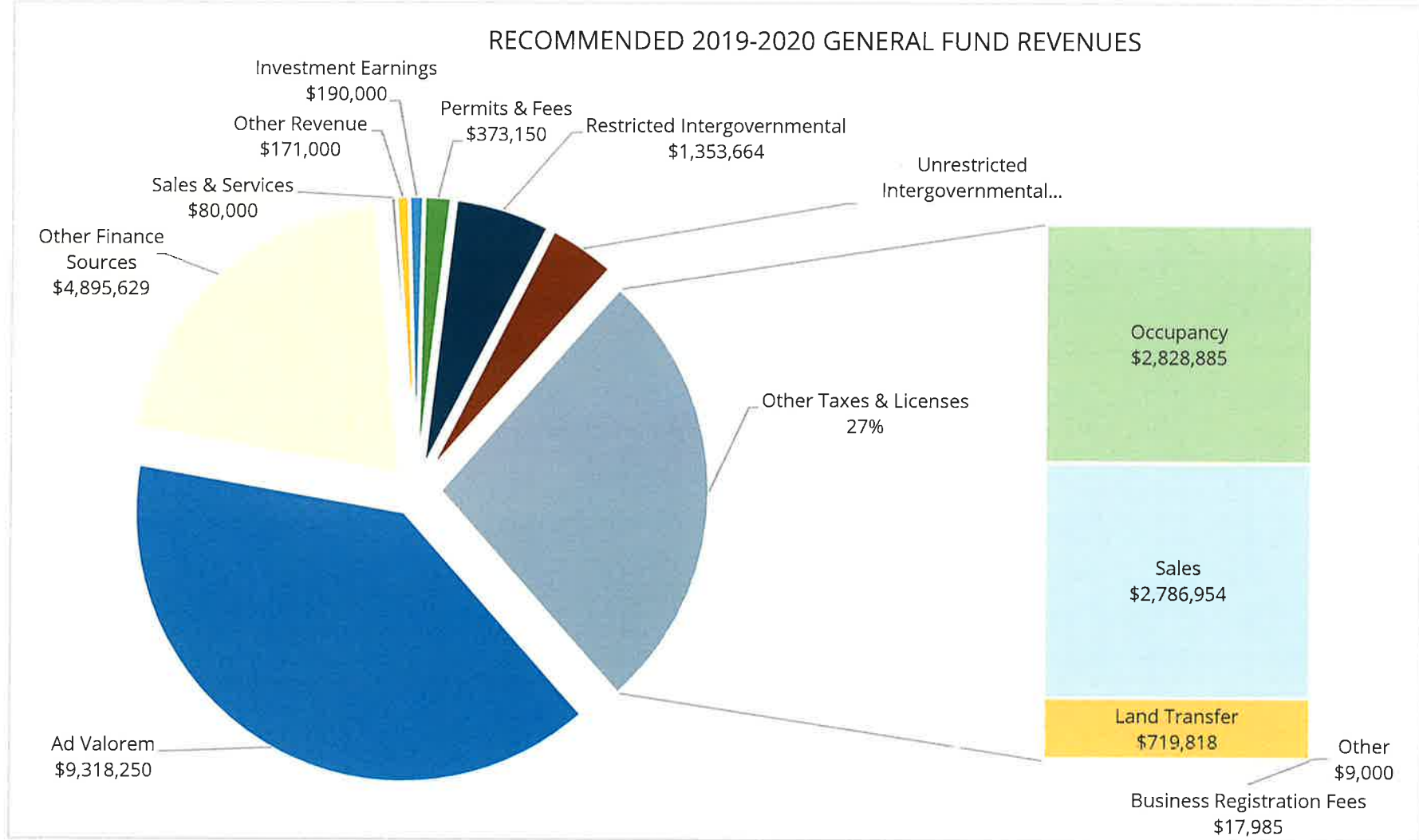
**Real & Personal Property \$2,405,033,696**  
**Municipal Service District \$809,344,735**  
**Motor Vehicles \$43,774,119**  
**Total Valuation \$3,258,152,550**

In fiscal year 2019-2020, real and personal property valuations have increased .9% for ad valorem taxes, .4% for MSD taxes, and 7.5% for motor vehicle taxes. For the financial plan, the levy valuations assume a 1% increase for real & personal property and motor vehicle taxes, and a .1% valuation increase for MSD taxes. As of April 24, the tax collection rate for fiscal year 2018-2019 ad valorem taxes is 99.97% and 100% in the MSD. Both the recommended budget and financial plan assume net levies at a 99.75% tax collection rate.

Basic fees for building permits have not increased in close to 20 years. In that timeframe, the Town has experienced increases in administrative costs, along with changes in development, and the addition of new responsibilities to our permitting functions. I am recommending increasing permit fees to allow for a greater percentage of the costs directly associated with permitting and inspections to be captured by associated fees; this would also allow for a greater percentage of the taxpayer funds currently subsidizing the permitting and inspections services to be allocated elsewhere. Based on this, I would recommend that fees for new construction for residential projects be increased to \$0.75 per sf for heated space and \$0.40 per sf for unheated space (currently \$0.50 and \$0.25 respectively), and that fees for commercial projects be increased to \$0.80 per sf for both heated and unheated space (currently \$0.60 and \$0.40 respectively). Likewise, I would recommend that the fees for additions, based on valuation, be increased by \$25 for each step in the current range of valuations. For example, the minimum permit fee would increase from \$75 to \$100 for jobs



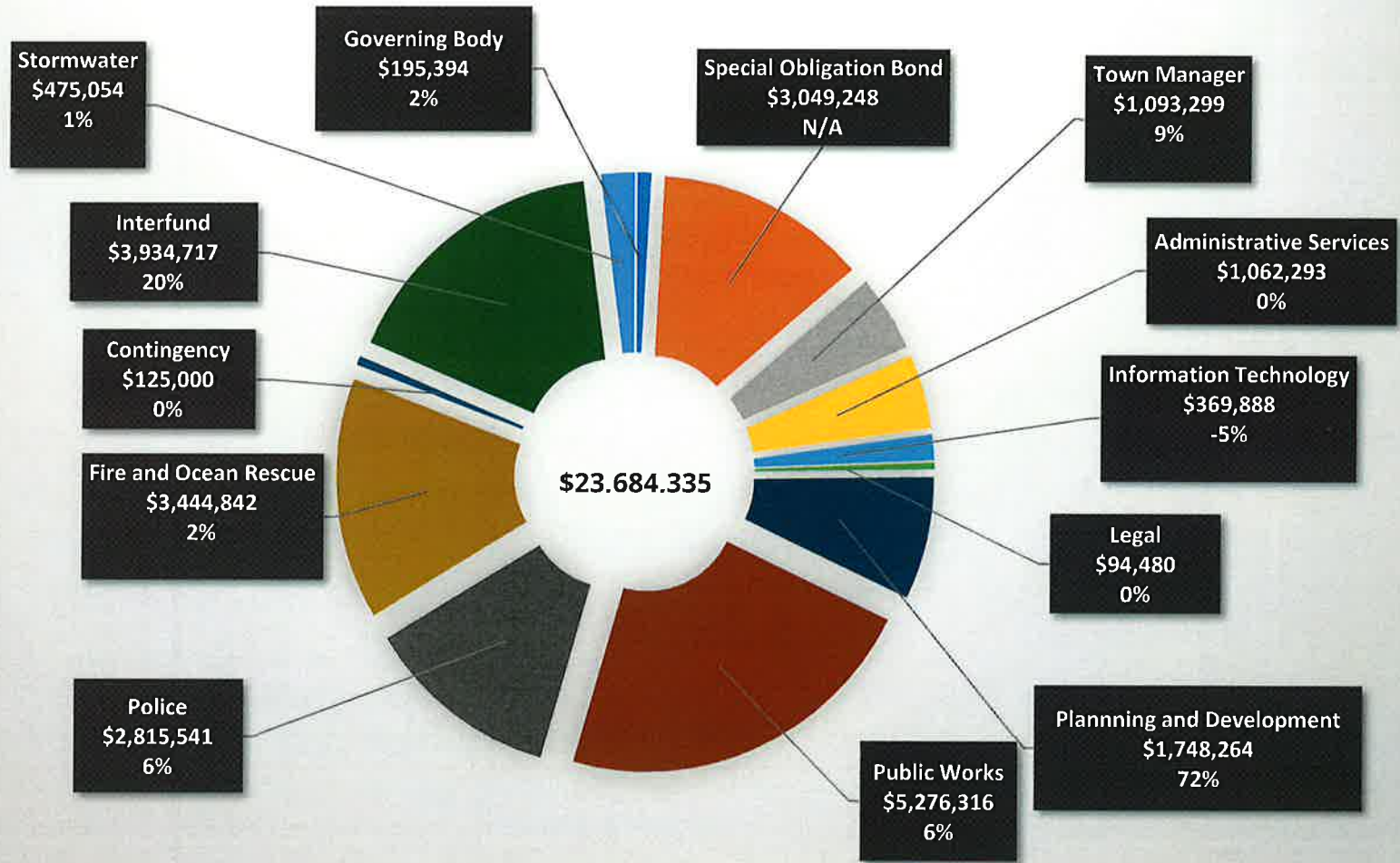
costing between \$0 and \$2,500. Jobs costing between \$2,501 and \$5,000 would increase from \$105 to \$130. Given the reduction in our water system development fees in last year's budget, many projects would still realize an overall decrease in permit fees from prior to July 1, 2018. The current fee proposal is directly in line with the fees of Kill Devil Hills, which is most like our departmental composition.



Shared revenues are sales, occupancy, and land transfer taxes, which are included in this budget as other taxes and licenses. The Town's percentage of sales tax revenues increased to 8.58%, up from 8.41%, and its share of occupancy and land transfer tax revenues increased to 27.73%, up from 27.48%. This increase in shared revenues is due to a higher total levy in Fiscal Year 2018-2019

as a result of increasing the ad valorem tax rate to \$0.28, as well as increased growth factor projections. These shared revenues equate to approximately \$.27 in ad valorem taxes.

FISCAL YEAR 2019-2020 RECOMMENDED GENERAL FUND EXPENDITURES/  
PERCENT CHANGE FROM FISCAL YEAR 2018-2019





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 \$1,411,400 and town-wide taxes of \$652,995. An additional \$430,855 is budgeted per state statute transferred into the beach nourishment capital reserve because of the excess funding generated from the MSD. The first special obligation bond debt service supplement from Dare County of \$600,000 is included as well. This debt service supplement, along with 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 Town will also begin the process of obtaining perpetual easements on those properties that the Town does not currently have, approximately half of the oceanfront, which will solidify future beach nourishment projects.

The continuation of a \$0.01 cent tax for Parks and Paths is included, and a \$0.02 cent tax for Stormwater, or the equivalent of \$237,527 and \$475,054, respectively, to set aside funding in the Capital Reserve.

Park/Pedestrian Improvements for fiscal year 2019-2020:

The Board continues to enhance community services related to parks and paths. For FY 2019/20, we are proposing a final phase of improvements to Dowdy Park including the addition of solar lighting, an observation/exercise deck near the playground area, and one additional pathway on the west side of the playing field. The scope of this project is much smaller than the previous two phases. Estimated at \$140,000, six annual debt payments for this project are budgeted from the General Fund. We are also planning continued implementation of the town's pedestrian plan, with extension of the multi-use path south of Jockey's Ridge, serving neighborhoods including Soundside Road, Southridge, Old Nags Head Cove, the south end of the Village at Nags Head, and Roanoke Shores. This will also connect to the Soundside Event Site and the traffic light at Gull Street, which will allow pedestrians to safely cross and access the Whalebone Junction area. We propose to conduct additional drainage work to address issues on the east side of Nags Head Cove in conjunction with this project. The budget includes financing \$1,121,068 for the pedestrian plan implementation debt payment and \$1,250 for the LGC application fee for a total of \$188,095. This will be taken from the parks and paths capital reserve. Grant funding of \$487,932 is anticipated from the Outer Banks Visitor's Bureau to fund the remainder of this project. The remainder of the parks and paths capital reserve fund will be dedicated to the South Virginia Dare Trail multi-use-path repairs at \$25,000.

Stormwater Capital Projects for FY 2019-2020

The \$475,054 Stormwater budget is fully funded from the Stormwater Capital Reserve. This is based on two cents of the town's tax rate being dedicated for this purpose. Three years ago, the town began work to develop and implement a stormwater master plan. This work resulted in the development of specific capital projects to address chronic drainage issues. In FY 2018/19, three of these projects were implemented: Gallery Row/Red Drum, NC 12/Village at Nags Head, and Nags Head Acres. The second of five annual debt payments at \$139,426 is included for these projects. For FY 2019/20, based on feedback we received from the Board during the capital improvement workshops, we propose to implement improvements in the areas of Carolinian Circle/Nags Head Pond, Old Nags Head Cove (Kipper Court), and two areas in South Nags Head along SR 1243. We are also continuing planning efforts for an

innovative drainage project in the area of Wrightsville Avenue near Nags Head Elementary School. This will include two phases and will involve the creation of a dune/parking lot subsurface infiltration system at the Bonnett Street bathhouse property. We propose to seek a grant from Clean Water Management Trust Fund to assist with this project. This will also involve the needed reconstruction of the Bonnett Street bathhouse parking lot. Stormwater capital reserve funds will be considered for these projects to initiate survey, design, permitting, bidding, construction administration, and to pay for the debt service associated with construction. The North Carolina Department of Transportation has also committed to providing \$100,000 towards the construction of the two South Nags Head projects.

Recommended Police facility fees include \$18,000 for a new message board and \$5,630 for a software/hardware debt payment. Sanitation facility fees of \$10,000 will be used towards the first debt payment of a replacement residential truck.

A \$76,886 General Fund transfer to the Water Fund is budgeted as the second of fifteen annual debt payments, amortized at 2%, continuing to repay an interfund debt on the Water Fund's purchase of real property.

<b>CAPITAL IMPROVEMENT PROJECTS - GENERAL FUND</b>		<b>COST</b>
<b>Cash Funded:</b>		
Unmanned aircraft system		\$ 23,000
Short term rental tracking/registration software		\$ 32,000
Ten-ton trailer		\$ 15,000
Physical agility test equipment		\$ 8,495
<b>Financed:</b>		
Fuel tank conversion (\$200,000, \$160,000/\$40,000 split with Water Fund) debt service		\$ 26,667
Pedestrian plan construction (\$1,121,068) debt service (debt payment funded from the parks and paths capital reserve)		\$ 186,846
Dowdy Park lighting/decking (\$140,000) debt service		\$ 33,333
Excavator (\$110,000) debt service		\$ 38,114
Replacement residential truck (\$300,000) debt service: (Sanitation facility fees of \$10,000 will apply to initial debt payment)		\$ 65,993
<b>Funded by Grants:</b>		
Pedestrian plan construction (use parks and paths capital reserve for financing \$1,121,068/\$1,250 LGC fee)		\$ 487,932
Islington Street public beach access parking improvements (grant portion \$47,232; local contributions: cash \$31,489, in-kind \$7,779)		\$ 86,500

## **Budget Highlights - Water Fund**

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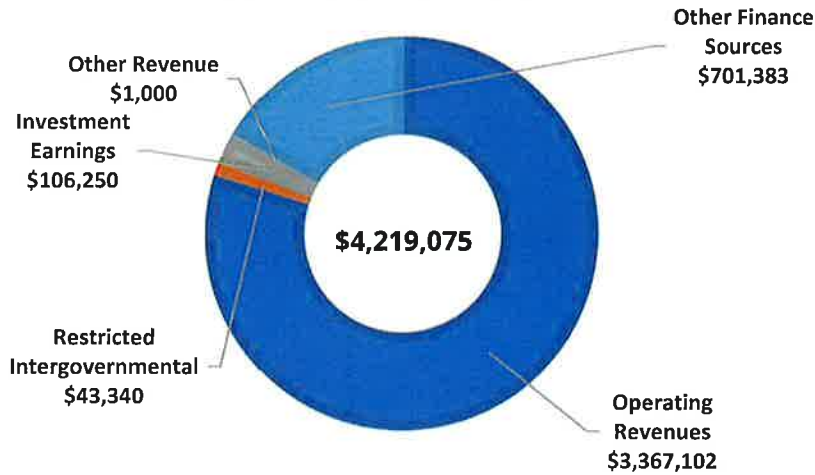
In continuation of water rate planning and analysis as recommended by the North Carolina Rural Water Association, a 15% water rate increase to the minimum and commodity rates are included in this budget to meet operating and debt service costs, as well as to address water sales in volume on a decreasing trend. Future water rates will be evaluated and recommended to provide sufficient revenues to meet or exceed operations and capital project improvements.

Additional changes to the Town's Consolidated Fee Schedule are recommended to increase in conjunction with this fiscal year's budget for 3/4", 1", and 2" water tap connections and replacement hydrants.

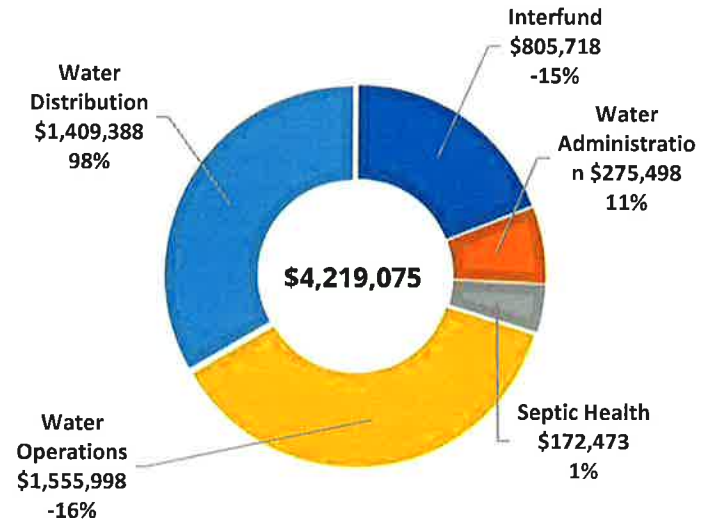
This budget recommends new full-time positions effective July 1, 2019. A deputy public works director with salary and benefits of \$111,099 (split 75% with the General Fund), and a water plant operator with salary and benefits of \$61,212. The Water Plant Operator will assist with maintenance tasks and will provide better coverage at the Water Plant, which is staffed from 8:30 am to 12 am, 365 days a year.

The wholesale water rate is \$1.989 per thousand gallons. The rate increased from \$1.891 to \$1.989, or 5.18%. The rate increase was driven by higher eligible capital costs and a decrease in gallons delivered.

**RECOMMENDED WATER FUND REVENUES/PERCENT CHANGE FROM FISCAL YEAR 2018-2019**



**RECOMMENDED WATER FUND EXPENDITURES/PERCENT CHANGE FROM FISCAL YEAR 2018-2019**



**CAPITAL IMPROVEMENT PROJECTS - WATER FUND**

**COST**

**Cash Funded:**

Barnes Street asbestos cement pipe replacement	\$ 235,000
Deering Street to Hollowell Street twelve-inch line	\$ 677,303

**Financed:**

Fuel tank conversion (\$200,000, \$160,000/\$40,000 split with General Fund)	\$ 6,667
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**Funded by Grants:**

Mobile six-inch dry prime pump (100% grant funded)	43,340
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**Looking ahead to Fiscal Year 2020-2021**

- No ad valorem tax increase is projected
- Levy assumes 1.0% valuation increases for real & personal property and motor vehicles from Fiscal Year 2019-2020 and a .1% valuation increase for the MSD

- Assumes the Town of Nags Head percentage of county-wide shared revenues increases to 9.07% from 8.58% for sales tax and to 28.97% from 27.73% for occupancy and land transfer taxes in fiscal year 2020-2021 (assuming no change to levies for Dare County or other towns)
- Includes a 1.5% cost of living adjustment for all employees, within grade increases for employees who are meeting performance expectations (2.5% for employees below the midpoint of their salary range/1.25% for employees at or above their midpoint), and merit bonuses for employees with exceptional performance exceeding expectations, with additional funding to implement changes to the Police and Fire Departmental Career Progression program
- Lifeguard hourly pay rates are increased by \$1 per hour above fiscal year 2019-2020 hourly pay rates
- Includes a health insurance increase of 5% for employees and retirees above the Fiscal Year 2019-2020 rates
- Includes an additional NC LGER system rate contribution increase of 1.20% for all employees above the fiscal year 2019-2020 rates

Recommended debt schedule and Capital Improvement Program is included as part of the budget document, but major initiatives include:

- Second of five annual beach nourishment debt payments on Special Obligation Bond Series A at \$2,521,353
- Final balloon debt payment on beach nourishment Special Obligation Bond Series B at \$16,462,734 (debt payments made through FEMA and NCDEM grant funding)
- Second of five \$600,000 supplemental debt payments from Dare County going to the beach nourishment capital reserve fund along with an estimated \$430,855 restricted portion on sales tax from the municipal service district going to beach nourishment capital reserve fund
- Parks and paths penny will be used for the second of six annual debt payments on the pedestrian path as well as maintenance of the multi-use path
- First of three annual replacements of the 800MHz radio system for Police, Fire, and Ocean Rescue; fiscal year 2020/2021 \$205,000 will be financed, total radio replacement project will finance \$578,947 over three fiscal years
- Designs of the Epstein Street bath house and the skate park are planned with construction beginning in fiscal year 2021-2022
- Powell Bill funds will be used for Baltic Street and West Oak Knoll Drive, as recommended from the Pavement Condition Survey
- Fire Station 16 interior and exterior painting totaling \$62,000

Water Fund-

- No water rate increase is projected



- Eighth Street water tower rehabilitation cleaning, repairing and painting \$315,618
- Asbestos cement pipe water main replacements commencing at \$300,000 annually