



Ben Cahoon
Mayor

Michael Siers
Mayor Pro Tem

Cliff Ogburn
Town Manager

Town of Nags Head

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M. Renée Cahoon
Commissioner

J. Webb Fuller
Commissioner

Kevin Brinkley
Commissioner

MEMORANDUM

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

From: Cliff Ogburn, Town Manager

Date: June 17, 2020

Re: Changes from Recommended to Adopted Budget for Fiscal Year 2020-2021

General Fund

- Add a 2.5% cost of living adjustment for employees \$171,039
- Add within grade increases of 2.5% for employees whose salaries fall below the midpoint of their grade or 1.25% for employees whose salaries fall above the midpoint of their grade in accordance with the pay and classification study \$128,375
- Add a part-time seasonal Facilities Maintenance employee \$20,992
- Add hours for a part-time office assistant \$11,842
- Freeze funding for a part-time event coordinator

- Add new debt payments for vehicle replacements including a residential sanitation truck \$72,592 (\$5,000 will be defrayed through Sanitation facility fees), three new Police vehicles \$51,123, and a Facilities Maintenance truck \$11,781
- Add a stand on sprayer/spreader for Facilities Maintenance \$13,500
- Add HVAC contract maintenance agreements \$8,100
- Add special events at Dowdy Park \$5,000
- Increase to fund the proposed Sanitation cart roll back contract \$1,710
- Add to fund the increase in the North Carolina League of Municipalities annual membership dues \$130
- Add funding for Police firing range maintenance \$21,750
- Increase the excess sales tax contribution to the Municipal Service District as a result of increased sales tax revenue projections \$42,509
- Decrease postage in Administrative Services and Planning (\$3,395) and (\$1,500), respectively
- Increase sales tax revenue projection to 80% for July, 85% for August, and 90% for September \$272,304 (compared to 50% for July, 60% for August, and 70% for September)
- Increase occupancy tax revenue projection to 80% for July, 85% for August, and 90% for September \$278,244 (compared to 50% for July, 80% for August, and 80% for September)
- Increase transfer from the Capital Reserve Fund (Sanitation facility fees) towards the new Sanitation residential truck debt payment \$5,000

General Fund budget ordinance increased from \$21,341,556 to \$21,897,104

Water Fund

- Add a 2.5% cost of living adjustment for employees \$17,949
- Add within grade increases of 2.5% or 1.25% for eligible employees whose salaries fall below or above, respectively, the midpoint of their grade \$11,001
- Add water tower and tank maintenance contracts \$91,948
- Add a south Nags Head tank mixer motor \$15,000
- Increase charges for utilities revenue projection to reflect higher occupancy than originally recommended \$135,989

Water Fund budget ordinance increased from \$3,323,211 to \$3,459,109



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M. Renée Cahoon
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Kevin Brinkley
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Date: May 20, 2020

Dear Mayor Cahoon, Members of the Town of Nags Head's Board of Commissioners, Nags Head Residents, Property Owners, and our Nags Head Community:

It goes without saying that this has been one of the most difficult budgetary circumstances we have faced as a community. In late March, we delivered a proposed Capital Improvement Program for FY 2020-21. Just shortly after we provided copies to the Board, stay-home, stay-safe orders were put into place, the community was closed to visitors and non-resident property owners, and uncertainty over revenues became the primary focus for the coming year. We cancelled the CIP workshop and directed staff to limit any non-essential spending. At the direction of the Board of Commissioners, we began formulating revenue scenarios for the remainder of the year and for FY 2020-21, followed by recommendations for expenditure reductions that would balance the budgets. In the face of what appears to be a national recession that has all levels of government struggling to forecast how we recover, our community is now opening back up and we have a better picture of what to expect. We continue to adjust our assumptions and are presenting a budget that we believe is conservative. Revenue is forecasted well below prior years, but slightly above what we assumed in April at our mid-month Board meeting. This will allow us to fund operating expenditures and limited capital and maintenance expenses so that we don't fall too far behind. We are also proposing no fund balance utilization to balance the budget, either for the remainder of FY 2019-20 or in FY 2020-21. This allows us to be prepared for any uncertainty that remains. If revenues return at greater levels than we have budgeted, the Board may be in a position to fund some of the projects that were included in the CIP or return these funds to the fund balance.

We have continued to maintain services, partially with changes to our business practices, while keeping our staff safe and supporting the unique needs of our community. I cannot say enough about our Town staff, their dedication to our mission, and the continuity of services they have allowed us to maintain through this crisis. They have shown us that they are truly our greatest asset.

One additional complexity of this year’s budget is the establishment of new tax rates, which is required following the county-wide property revaluation. We have provided an analysis of our new values and are recommending a revenue neutral rate for the townwide property tax rate as well as the town’s Municipal Services. Districts. A presentation of this analysis and the proposed rates are included herein.

For your consideration is the town manager’s recommended budget for fiscal year July 1, 2020 through June 30, 2021, 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.

Budget Highlights – General Fund

Revenue Assumptions

The first step in preparing this year’s budget was to develop scenarios for revenue losses based on anticipated losses from various sources. Shared revenues, including sales, occupancy and land transfer taxes comprise a significant portion of the Town’s revenue. Staff consulted with other local agencies, including Dare County and the Outer Banks Visitor’s Bureau to understand how they were forecasting revenue. State data was also utilized, including information from the North Carolina Department of Revenue and the North Carolina League of Municipalities. Private businesses were also polled, including local real estate property management companies, to understand the climate for rental occupancies. It is important to note that many of these assumptions changed as more information emerged over the Spring regarding local and state orders affecting visitation and commerce. The table below describes how we forecast shared revenues for the first part of the fiscal year relative to what we received last year. For example, we anticipate sales tax revenue to be 50% of what it was in July of last summer. In total this represents over a \$1.1 million reduction in revenue in next year’s budget.

	July	August	September	October
Sales Tax	50%	60%	70%	100%
Occupancy Tax	50%	80%	80%	100%
Land Transfer	75% of prior fiscal year distribution			

Revenue losses

Loss from occupancy tax	(\$537,945)
Loss from sales tax	(\$331,350)
Loss from land transfer tax	(\$157,821)
Loss from investment income	(\$50,000)
Loss from building permits	(\$60,000)
Total general fund revenue losses	(\$1,137,116)

Comparison of FY 2019-20 to FY 2020-21

This year’s general fund budget totals \$21,341,556, a decrease of \$2,170,908, or (9.23%) from the fiscal year 2019-2020 adopted budget. Of this decrease, 52% is attributed to the general fund revenue losses described above, 9% is attributed to a reduction in restricted intergovernmental grant funding, and 24%, or \$527,895, is attributed to a reduction in beach nourishment special obligation bond debt; the coming year represents the second year of a five-year payment (through FY 2024). Not appropriating fund balance in the fiscal year 2020-2021 budget will account for a \$411,332 budget reduction from the prior fiscal year. Fiscal year 2020-2021 expenditure decreases offsetting revenue losses include no new debt payments and limited capital projects, suspension of the general fund’s annual repayment of the water fund’s real property purchase saving \$76,886, and suspension of the contracted recycling program saving approximately \$165,000.

A brief comparison between these two budgets is included below:

General Fund Revenues	Fiscal Year 2020-2021	Fiscal Year 2019-2020
Ad Valorem Taxes	\$9,161,401	\$9,085,047
Other Taxes and Licenses (occupancy, sales and land transfer taxes)	5,330,391	6,362,642
Unrestricted Intergovernmental	961,000	940,000
Restricted Intergovernmental	1,166,475	1,353,664
Permits and Fees	312,175	373,150
Investment Earnings	140,000	190,000
Other Revenue	201,750	171,000
Sales and Services	80,000	80,000
Other Finance Sources (bond debt and appropriated fund balance)	3,988,364	4,956,961
TOTAL	\$21,341,556	\$23,512,464

General Fund Expenditures

Fiscal Year 2020-2021

Fiscal Year 2019-2020

Governing Body	\$129,605	\$195,394
Special Obligation Bond Debt	2,521,353	3,049,248
Town Manager	947,280	1,070,299
Administrative Services	987,470	1,062,293
Information Technology	356,873	369,888
Legal Services	94,480	94,480
Planning and Development	1,270,709	1,714,391
Public Works Administration	394,787	392,183
Facilities Maintenance	1,676,457	1,942,963
Garage	341,028	363,419
State Street Aid-Powell Bill	30,500	120,000
Sanitation	1,157,533	1,656,606
Solid Waste Disposal	673,952	687,756
Stormwater Management	496,258	475,054
Police	2,652,007	2,815,541
Fire	3,032,527	2,759,201
Ocean rescue	663,395	684,032
Transfer to Capital Reserve Fund	3,790,342	3,857,831
Transfer to Water Fund	-	76,886
Contingency	125,000	125,000
TOTAL	\$21,341,556	\$23,512,464

Balancing the Budget

With a significant decrease in revenue forecast for fiscal year 2020-2021, staff was directed to prepare budgets using the following assumptions:

- Travel and training is limited to items required to maintain professional certifications or licensing requirements and/or mandatory departmental training.
- A minimum 10 percent reduction in supplies for all departments.
- Only limited vehicles or equipment are being replaced. Most items in the replacement schedule are being deferred.
- Capital projects are substantially reduced. The stormwater capital reserve is funded to include key projects such as the West Danube Street pipe replacement and other cross pipes that are required in advance of future paving projects.
- The parks and paths capital reserve is funded to pay the debt service on projects; limited funds have been included for multi-use path repairs and bulkhead replacement.
- No cost-of-living adjustment, within-grade, or merit raises have been included in the proposed budget. Funding for the career development programs for Police, Fire and Public Works and employee 401K contributions have not been cut.
- Fortunately, the town received no medical insurance cost increases for the coming year.
- No new positions and freezing certain full-time and part-time positions.
- No fund balance appropriation is planned for FY 2020-21. The unassigned fund balance at June 30, 2019 is \$6,981,462.

Explanation of the Revenue Neutral Tax Rate

As stated previously, the town must adopt new tax rates for FY 2020-21 due to the recent property revaluation completed by Dare County. The town received new valuations for real property on January 1, 2020. Combined with the valuations for corporate utilities, personal property and vehicles, the total valuation used for calculating the revenue neutral rate was \$2,965,706,256. As compared to our current valuation of \$2,454,339,981, this represents a 20% increase over the current valuation.

To get to the revenue neutral tax rate, the total levy from FY 2020 was multiplied by the Town's growth factor to calculate the new levy (this is considered the fiscal year 2020-2021 revenue neutral levy). The growth factor of .89% was calculated using the assessed value average growth from fiscal year 2013-2014 through fiscal year 2019-2020, or the first through the last fiscal year under the current valuation. Applying the growth factor to the fiscal year 2019-2020 levy, the fiscal year 2020-2021 levy is calculated at \$7,859,121. The revenue neutral tax rate is the rate that is necessary to generate the FY 2021 levy of \$7,859,121 based on the new adjusted valuation of \$2,965,706,256. The new revenue neutral tax rate was calculated at 26.5 cents per \$100 of assessed value. The current Nags Head property tax rate is 31.7 cents. A portion of the town's general tax rate is dedicated to beach nourishment. Currently, this is 2.7 cents of the 31.7 cents. The town-wide revenue neutral beach nourishment rate would drop from 2.7 cents to 2.25 cents based on the new valuation.

Using the same methodology as above and applying it to the town's Municipal Service District (MSD), the revenue neutral MSD tax rate was calculated at 14.3 cents. Currently this is 17.5 cents. One penny in the MSD generates \$100,217, compared to \$81,994 in fiscal year 2019-2020.

With the new valuation, one penny generates approximately \$296,571 of ad valorem revenue. Currently, one penny generates approximately \$247,000. Due to economic conditions, the tax collection rate is budgeted at 98.5%. This represents a \$96,730 loss in ad valorem tax revenue taking into consideration what that equates to in dollars for the Town, compared to the customary 99.75% collection rate budgeted.

With the change in what one penny generates, this budget includes a change in the funding method for the parks and paths and stormwater capital reserves. While the continuation of this funding is recommended, a respective flat rate contribution of \$200,000 and \$400,000 is budgeted with the goal of contributing an annual amount based on historical contribution amounts. While these amounts are lower than the current respective one penny and two penny contributions, the fund balances in these reserves will be combined with current year contributions to fund the debt payment on the pedestrian path, multi-use path repairs, and stormwater capital projects including the West Danube pipe replacement and the debt for stormwater project areas 1-3A.

Fiscal Year 2020-2021 Projects and Assumptions

Given limited funding available to the town this year, many of the town's projects will focus on necessary maintenance and repair of facilities and purchases of equipment that are partially grant dependent or that are not recommended for deferral. We have also included funding some of the projects in the capital reserves as described earlier in order to maintain our long-term plans for asset management. These items include:

Miscellaneous Beach Access Maintenance and Repairs	\$25,000
Painting Fire Station 16 Exterior Stucco	\$42,000
Multi-Use Path Maintenance	\$25,000 (Parks and Paths Funding)
Government Access Audio/Visual Equipment Replacement	\$5,000 (100% grant funded)
Replace AEDs (5)	\$9,000
Ocean Rescue – Replace Two ATVs	\$10,600 (total for two)
Sand Fencing	\$24,000 (funded by Dare County)

CAPITAL IMPROVEMENT PROJECTS – GENERAL FUND

Cash Funded (stormwater capital reserve):

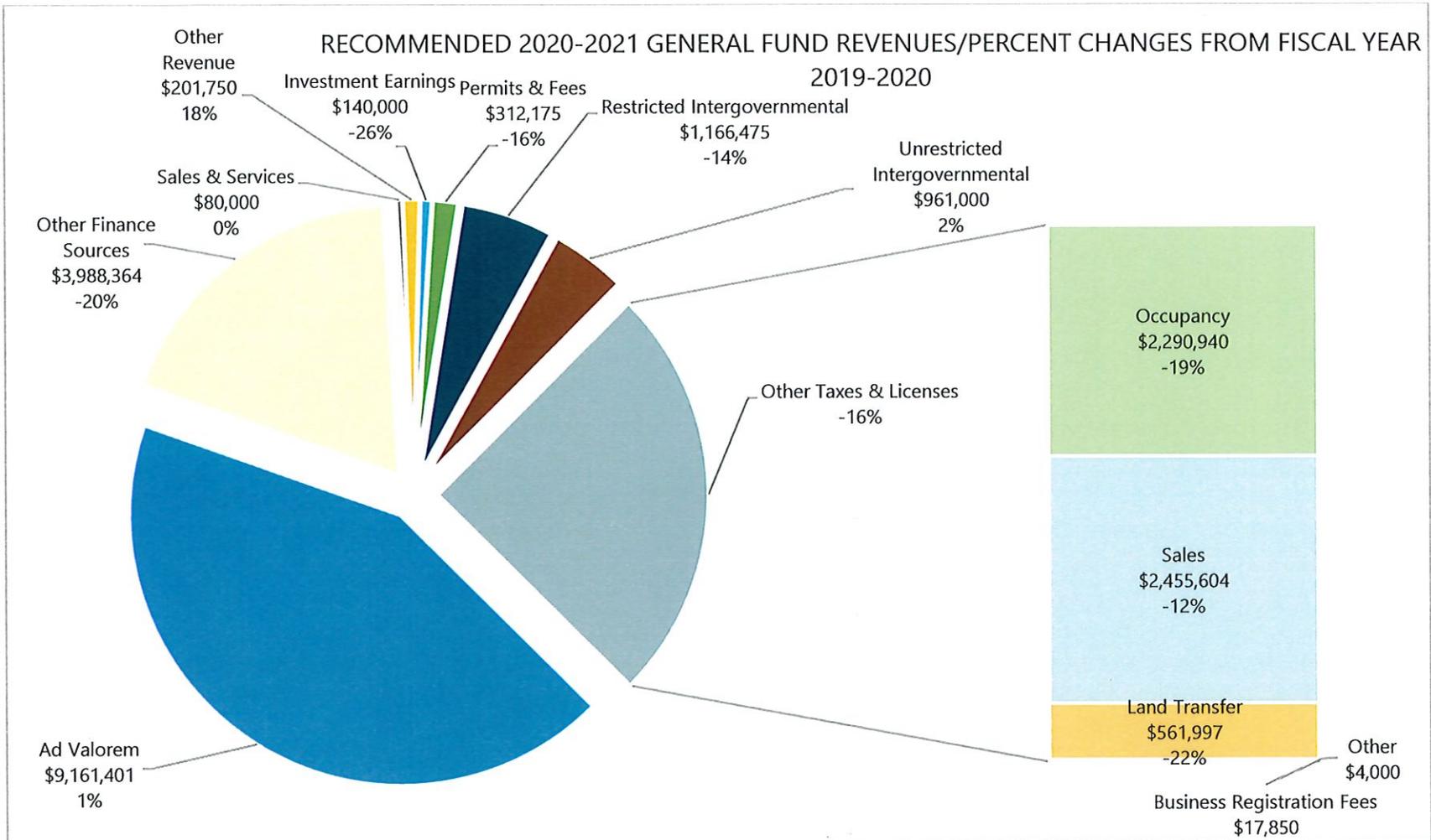
Kipper Court storm drainage system	\$44,000
West Danube pipe replacement	247,000
Wrightsville Avenue at Barnes Street pipe replacement	33,000

Financed:

Replace Police 800MHz radio system financed in arrears	\$242,202
Replace Ocean Rescue 800MHz radio financed in arrears	102,877

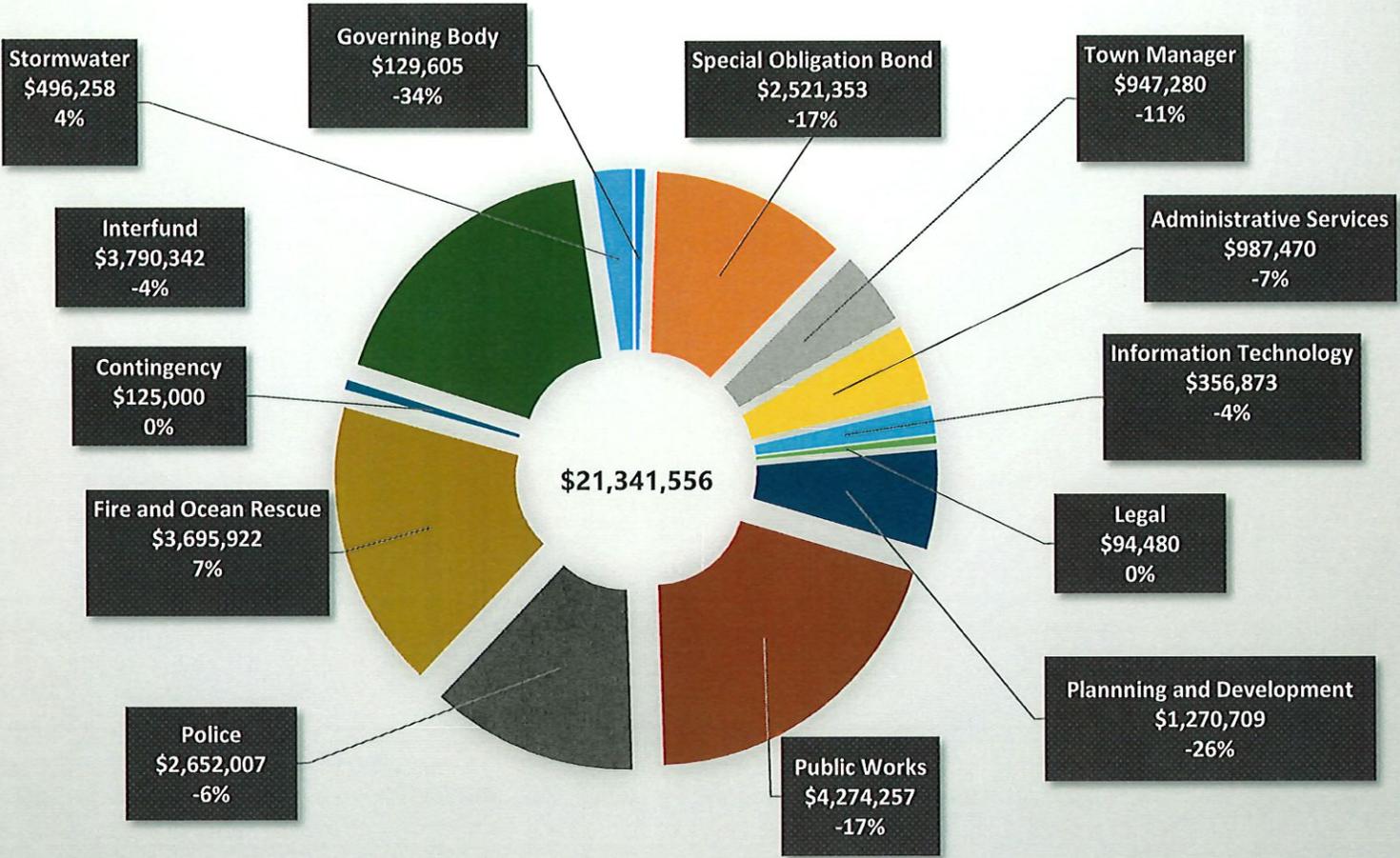
Funded by Grants:

Replace SCBA equipment for Fire (5% local match)	\$305,000
New fit testing equipment for Fire (5% local match)	9,100
Huron Street public beach access walkover (100% grant funded)	80,000



Shared revenues include sales, occupancy, and land transfer taxes and are shown in this chart as other taxes and licenses. Although the Town's percentages of shared revenues increased, the combined anticipated revenue loss is -16%

FISCAL YEAR 2020-2021 RECOMMENDED GENERAL FUND EXPENDITURES/
 PERCENT CHANGE FROM FISCAL YEAR 2019-2020



Interfund includes the following:

- Contribution to the capital reserves including parks and paths at \$200,000, stormwater at \$400,000, and facility fees at \$50,000.
- Contribution of \$89,500 is budgeted towards the Streets restricted fund balance. Based on a 20-year paving plan, those funds will be set aside towards the fiscal year 2021-2022 paving projects to provide an economy of scale and a more streamlined approach in order to combine multiple paving projects.
- Municipal Service District taxes of \$1,411,657, town-wide taxes of \$657,402, and \$381,783 of excess sales tax generated from the MSD are transferred into the beach nourishment capital reserve. The 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 bond to be used for the beach nourishment debt payment in Fiscal Year 2020-2021. The Town continues to obtain perpetual easements on those properties that the Town does not currently have which will solidify future beach nourishment projects.

Budget Highlights – Water Fund

In continuation of water rate planning and analysis, no water rate increases are included in this budget to meet operating and debt service costs. Future water rates will be evaluated and recommended to provide sufficient revenues to meet operations and capital improvements.

Changes to the Town's Consolidated Fee Schedule are recommended to increase for water tap installations and connections and replacement hydrants.

The wholesale water rate is \$1.924 per million gallons, a decrease from \$1.989 in fiscal year 2019-2020.

The water fund budget is \$3,323,211 for fiscal year 2020-2021, a decrease of \$866,750 or -20.69% from the prior fiscal year. This decrease is partially attributed to a \$77,435 reduction in wholesale water purchases and a \$442,303 decrease in capital improvement projects. Operating water revenues have been budgeted at a -5% decrease over the prior fiscal year to account for anticipated revenue losses. No retrained earnings have been used to balance the budget, as compared to \$595,383 in fiscal year 2019-2020.

Fiscal Year 2020-2021 Projects and Assumptions

- Purchase and installation of a fire hydrant on the north side of Villa Dunes Drive and Nags Way Court.
- Funds of \$36,000 are included for water quality testing. This will be performed by Planning staff rather than via contract.
- Funding of \$12,000 is included for pumping out the Town's septic systems.
- Funds are included for pumping credits for septic systems at \$45 each. This is an increase from the current credit of \$30.
- The Septic Health Initiative Loan program is funded at \$40,000. The loan maximum is \$7,500.

CAPITAL IMPROVEMENT PROJECTS – WATER FUND

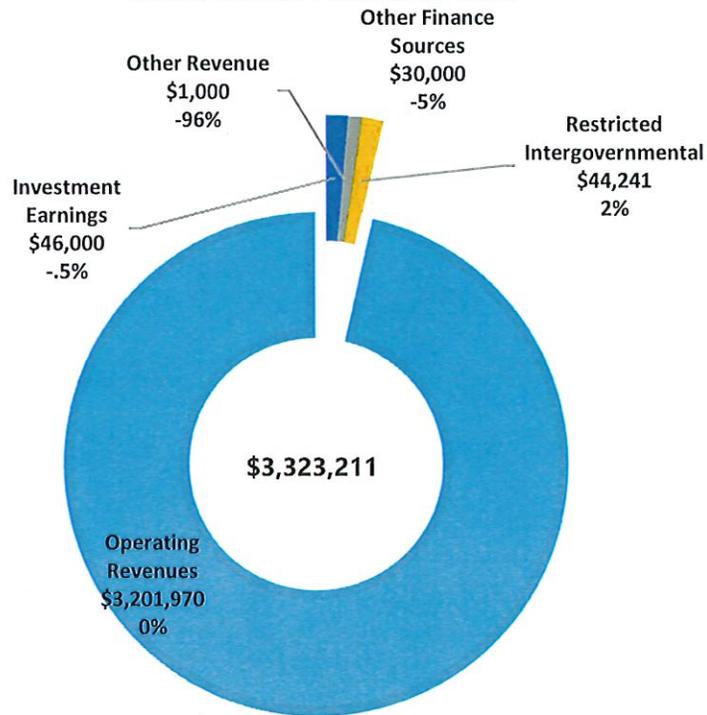
Cash Funded:

Miscellaneous asbestos cement pipe replacements \$300,000

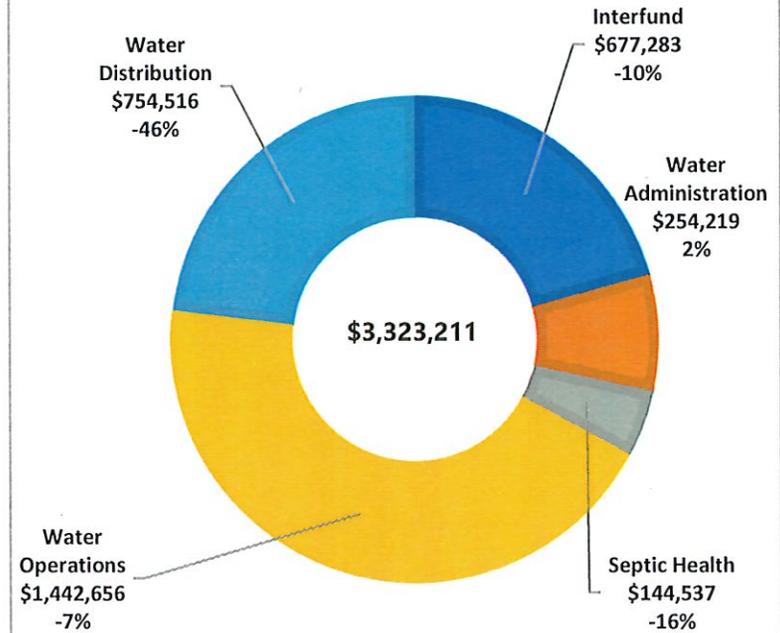
Funded by Grants:

Mobile six-inch dry prime pump (100% grant funded-carried over from fiscal year 2019-2020) \$ 44,241

FISCAL YEAR 2020-2021 RECOMMENDED WATER FUND REVENUES/PERCENT CHANGE FROM FISCAL YEAR 2019-2020



FISCAL YEAR 2020-2021 RECOMMENDED WATER FUND EXPENDITURES/PERCENT CHANGE FROM FISCAL YEAR 2019-2020



**Town of Nags Head
 Adopted Budget
 General Fund Revenues and Expenditures Summary
 For the Fiscal Year 2020-2021**

Description	Manager's Recommended 2020-2021	Adopted Budget 2020-2021	Financial Plan 2020-2021	Adopted Budget 2019-2020	Adjusted Budget 2019-2020	Estimated Actual 2019-2020	Actual 2018-2019	Actual 2017-2018
REVENUES								
Ad Valorem Taxes	\$ 9,161,401	\$ 9,161,401	\$ 9,407,878	\$ 9,085,047	\$ 9,085,047	\$ 9,184,562	\$ 8,869,938	\$ 8,559,752
Other Taxes & Licenses	5,330,391	5,880,939	6,531,330	6,362,642	6,362,642	5,004,604	6,328,767	5,374,255
Unrestricted Intergovernmental	961,000	961,000	944,000	940,000	940,000	999,500	998,244	917,075
Restricted Intergovernmental	1,166,475	1,166,475	794,833	1,353,664	8,973,991	9,093,900	9,435,201	639,116
Permits & Fees	312,175	312,175	373,150	373,150	373,150	277,180	306,623	388,359
Sales & Services	80,000	80,000	80,000	80,000	80,000	109,850	85,536	91,430
Investment Earnings	140,000	140,000	190,000	190,000	190,000	240,000	361,976	68,858
Other Revenue	201,750	201,750	171,000	171,000	172,400	179,237	181,769	164,292
Other Finance Sources	3,988,364	3,993,364	20,861,458	4,956,961	32,482,134	22,607,206	3,028,812	1,718,395
TOTAL	\$ 21,341,556	\$ 21,897,104	\$ 39,353,649	\$ 23,512,464	\$ 58,659,366	\$ 47,696,039	\$ 29,596,866	\$ 17,921,532
EXPENDITURES								
Interfund	\$ 3,915,342	\$ 3,957,851	\$ 4,074,784	\$ 4,059,717	\$ 18,823,065	\$ 18,708,356	\$ 4,355,856	\$ 2,993,287
Governing Body	129,605	130,708	191,897	195,394	179,099	147,169	166,641	153,364
Special Obligation Bond Debt	2,521,353	2,521,353	18,984,087	3,049,248	19,602,166	19,602,166	-	-
Town Manager	947,280	967,602	1,096,703	1,070,299	958,686	931,728	865,441	837,451
Admin. Services	987,470	1,022,449	1,085,509	1,062,293	1,083,478	994,735	1,015,261	931,326
IT	356,873	358,661	354,974	369,888	415,690	362,142	276,731	255,971
Legal	94,480	94,480	94,480	94,480	76,757	77,658	90,943	93,129
Planning	1,270,709	1,306,675	1,301,429	1,714,391	2,813,554	2,702,655	824,854	884,102
PW Admin	394,787	402,081	411,017	392,183	527,203	499,662	406,744	281,146
PW Facilities	1,676,457	1,759,138	1,833,191	1,942,963	2,496,274	2,298,891	2,727,910	2,053,903
PW Garage	341,028	351,246	357,915	363,419	315,922	287,118	288,015	289,350
Street Aid	30,500	30,500	120,000	120,000	120,000	113,718	117,909	46,221
PW Sanitation	1,157,533	1,247,415	1,691,386	1,656,606	2,286,356	2,032,502	1,566,188	1,484,969
PW Solid Waste	673,952	673,952	687,756	687,756	687,756	648,952	634,974	658,633
Stormwater	496,258	496,258	479,804	475,054	898,588	689,120	931,739	336,221
Police	2,652,007	2,795,137	2,925,505	2,815,541	3,026,843	2,828,948	2,684,114	2,745,291
Police Drug Forfeiture	-	-	-	-	12,221	12,221	3,186	17,700
Fire	3,032,527	3,117,189	2,933,397	2,759,201	3,651,676	3,570,000	2,786,588	2,603,485
Ocean Rescue	663,395	664,409	729,815	684,032	684,032	645,657	664,632	598,758
TOTAL	\$ 21,341,556	\$ 21,897,104	\$ 39,353,649	\$ 23,512,464	\$ 58,659,366	\$ 57,153,396	\$ 20,407,726	\$ 17,264,307