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M. Renée Cahoon
Commissioner

John Ratzenberger
Commissioner

Marvin Demers
Commissioner

MEMORANDUM

To: Mayor and Board of Commissioners

From: Town Manager

Date: May 7, 2014

Re: Recommended Budget for Fiscal Year 2014-2015

For your consideration is the manager's recommended budget for Fiscal Year July 1, 2014 through June 30, 2015. The budget has been prepared in accordance with the NC Local Government Fiscal Control Act as required by NC General Statute Chapter 159-11. This budget was a result of a great deal of hard work from a number of people, particularly Finance Director Kim Kenny, PIO Roberta Thuman, Human Resources Director Bonita Hurdle and Town department heads.

As part of the budget process, department heads were asked to directly relate requests for new or expanded programs to the Town's vision/value statements. These statements were reaffirmed by the Board at their 2014 annual retreat and continue to be relevant to our community and integral to the budget process. These values 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.

Additionally, the Board developed five strategic areas in which to specifically focus the Town's resources. The manager's recommendations also allocate funding towards these areas, which include:

1. Parks and Recreation
2. Sanitation and Recycling
3. Nags Head Promotion
4. Shoreline Management
5. Stormwater Management

The Town focuses on providing effective, efficient programs to Nags Head's citizens while being mindful of current economic conditions. Our mission is to provide open governance lead by professionally trained decision makers who value the service needs of all the residents, businesses, and visitors of Nags Head.

Budget Overview

This year's General Fund budget totals \$18,064,027, a decrease of \$262,806 or -1.43% from last fiscal year. This budget maintains the current tax rate of \$.0257.

Mandatory Town contributions to the State Retirement System increased from 7.07% to 7.17% for General and Water Fund employees (a \$13,685 increase) and from 7.28% to 7.55% for law enforcement officers (a \$8,575 increase).

Recommended Personnel Changes

This budget recommends a half year of funding for firefighter career progression, starting in January 2015 at a cost of \$15,381. In addition, this budget recommends the reclassification of an office assistant (pay grade 11) to an office manager (pay grade 13).

A cost of living allowance is recommended at 2% per employee with a total amount of \$127,852 for the General and Water Funds.

Health insurance premiums were originally projected to increase by twenty percent. But, by increasing the staff deductible from \$1,000 to \$1,500 and the out of pocket maximum from \$3,000 to \$3,500, along with a historical credit for our wellness program and for low claims, we were able to reduce the increase in premiums to twelve percent. Also recommended in this budget are domestic partner benefits.

Budgeted Health Insurance		FY 2013-2014	FY 2014-2015	Increase
General Fund	\$	1,094,786	\$ 1,181,058	\$ 86,272
Water Fund	\$	134,466	\$ 163,135	\$ 28,669
Total	\$	1,229,252	\$ 1,344,193	\$ 114,941

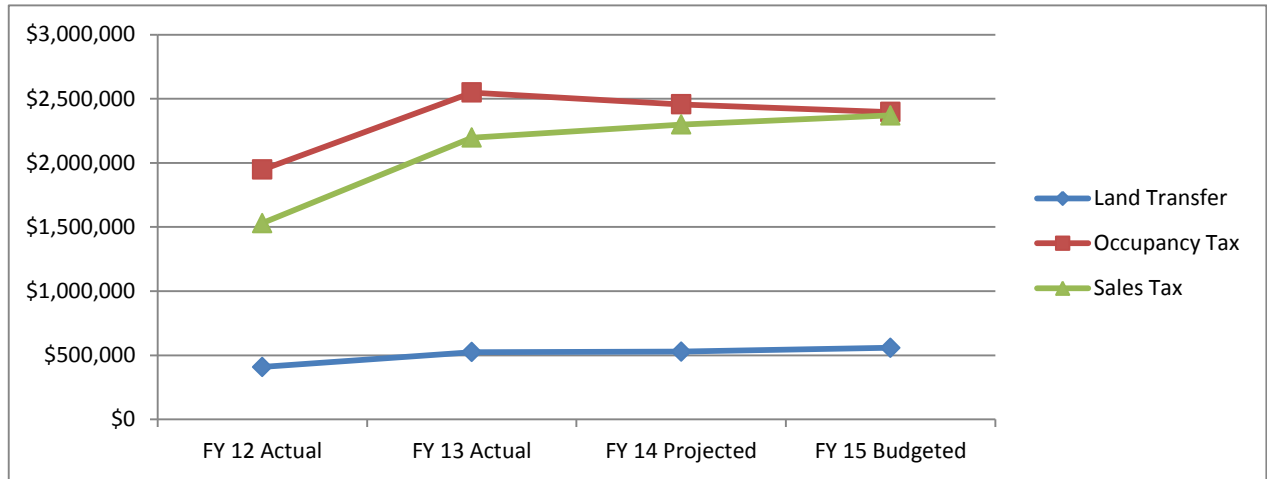
General Fund

Revenues

Property Values		FY 2013-2014	FY 2014-2015	Difference
Real / Personal		\$2,289,874,606	\$2,284,106,278	(\$5,768,328)
Motor Vehicles (16 months vs 12)		\$40,000,000	\$29,270,856	(\$10,729,144)
Total Valuation		\$2,329,874,606	\$2,313,377,134	(\$16,497,472)
Collection		FY 2013-2014	FY 2014-2015	Difference
Ad Valorem		\$7,745,797	\$7,745,314	(\$483)
Sales Tax		\$2,307,932	\$2,370,000	\$62,068
Powell Bill		\$114,000	\$115,000	\$1,000
Occupancy Tax		\$2,403,017	\$2,397,000	(\$6,017)
Land Transfer tax		\$543,800	\$558,000	\$14,200
Building Permit		\$150,000	\$175,000	\$25,000
Business License		\$36,000	\$85,000	\$49,000

Included is increased revenue from a recommendation to raise the flat rate business license fee from \$25 to \$100. The North Carolina General Assembly has discussed capping this fee at \$100 and doing away with gross receipts as a method of business license fees. This increase would put Nags Head more in line with the State standard and generate additional revenue for the Town.

Significant Revenue Trends



Expenditures

	FY 2013-2014	FY 2014-2015	Difference
Governing Body	\$195,694	\$195,977	\$283
Town Manager	\$532,441	\$548,382	\$15,941
Administrative Services	\$1,140,695	\$999,367	(\$141,328)
Information Technology	\$323,409	\$331,545	\$8,136
Legal	\$175,000	\$175,000	0
Planning	\$776,351	\$840,899	\$64,548
Public Works	\$4,356,954	\$4,384,712	\$27,758
Police	\$2,259,593	\$2,271,174	\$11,581
Fire, Volunteer Fire & Ocean Rescue	\$2,904,101	\$2,962,079	\$57,978

Non-Profit Funding Requests

- Nature Conservancy \$10,000
- Interfaith Outreach \$3,000
- League of Women Voters \$100
- Room at the Inn \$500

Contribution to the Capital Reserve Fund is the annual offset for the collection of facility fees budgeted at \$50,000, shared revenues from the municipal service district levy as described by General Statute budgeted at \$551,191, and \$623,052 in excess municipal service district and town wide taxes not needed for debt service on bonds from the excess of tax revenues received to fund beach nourishment debt over the annual debt service for repayment of the bonds to be used for beach nourishment in the future.

In the 2013-2014 fiscal year the Board approved a \$.01 (penny) tax increase, or the equivalent to \$227,269 to set aside funding in the Capital Reserve Fund for Parks and Paths. One hundred thousand dollars was expended in FY 2013-2014 for debt payment of Dowdy Park. Recommended expenditures from this funding for FY 2014-2015 includes:

Capital Reserve Fund Parks and Paths – Recommended Expenditures for Fiscal Year 2014-2015	
• Continuing West Side Multi Use Path	\$132,500
• Debt on Land Purchase for Dowdy Park	\$104,720
• Dowdy Park Planning	\$45,000
• S. Virginia Dare Trail Path Lighting	\$45,000
• Disc Golf Course	\$14,000

Capital Projects for Fiscal Year 2014-2015	
• Dune Stabilization	\$90,000
• Vehicle Diagnostic Tool	\$8,874
• Public Works Entrance Gate	\$11,750
• Fire Extinguisher Simulator (Grant Funded)	\$10,500
• Thermal Imaging Camera (Grant Funded)	\$13,500

To reduce expenditures as much as possible without affecting ongoing maintenance and operating budgets, this budget recommends that the Board defer, for one year, its plan to reimburse the Water Fund from the General Fund \$300,000 for the Town’s portion of the purchase of the Windmill Point property with the Outer Banks Visitor’s Bureau. The original plan called for six yearly payments of \$300,000 each. This would have been the third year of the plan.

Water Fund

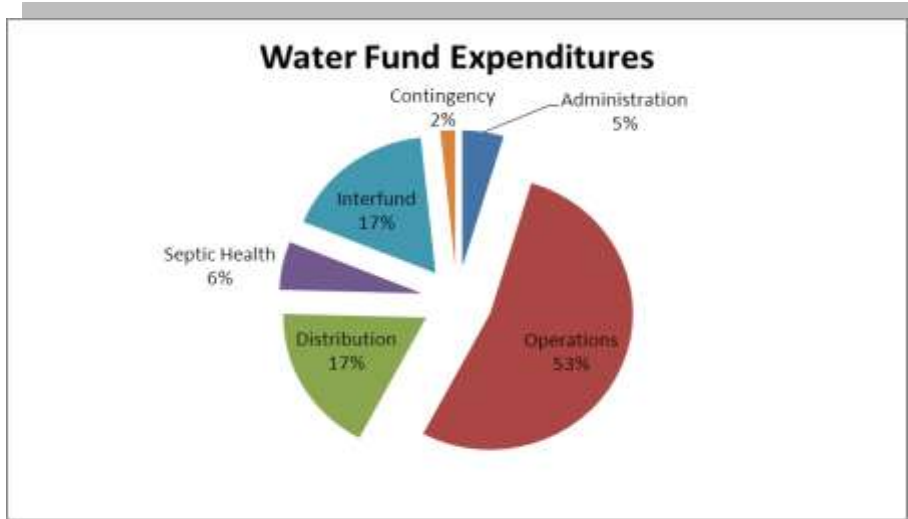
Revenues

The North Carolina Local Government Commission has, for the third time in five years, cautioned the Town on continuing to operate our Water Fund at a loss. They have stated that our revenues should be meeting our expenditures. Therefore a water rate increase is recommended for all customers in the amount of 10%. To expand and adjust the usage tiers, a tier has been added to provide a more equitable usage distribution over the fee structure, taking into account residential, vacation, and commercial operations. With this rate increase, the Town will narrow the gap from approximately \$435,000 to \$135,000.

Current		Proposed	
Usage Cost	Gallon Range	Usage Cost	Gallon Range
4.50	3,001-20,000	4.95	3,001-15,000
5.00	20,001-75,000	5.50	15,001-40,000
5.50	75,001-300,000	6.00	40,001-75,000
6.00	300,001 and above	6.60	75,001-200,000
		6.85	200,001 and above

Expenditures

	FY 2013-2014	FY 2014-2015	Difference
Water Administration	\$147,374	\$140,380	(\$6,994)
Septic Health	\$164,488	\$171,544	\$7,056
Water Operations	\$1,434,685	\$1,591,350	\$156,665
Water Distribution	\$505,039	\$528,968	\$23,929



Capital Projects

- Eighth Street Water Tower Mixer \$58,562
- Line Locater \$20,278

Stormwater Fund

FY 2013-2014	FY 2014-2015	Difference
\$149,400	\$127,500	(\$21,900)

The North Carolina Department of Transportation has agreed to repair the ocean outfall located near the 2400 block of S. Virginia Dare Trail in FY 2014-2015. The Town has been asked to contribute financially to this project as stormwater from some of our street rights of way flow through this outfall. The Department of Transportation has agreed to allow the Town's portion to be paid over two fiscal years. A \$125,000 expenditure is recommended in this fiscal year from revenue generated from the stormwater fee and use of stormwater fund balance.

Summary

The recommended budget, by fund:

General Fund	\$ 18,064,207
Water Fund	\$ 2,997,242
Stormwater Management Fund	\$ 127,500
Capital Reserve Fund	\$ 1,451,512