

Bob Oakes
Mayor

Wayne Gray
Mayor Pro Tem

Cliff Ogburn
Town Manager



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Doug Remaley
Commissioner

Anna D. Sadler
Commissioner

M. Renée Cahoon
Commissioner

MEMORANDUM

To: Mayor and Board of Commissioners

From: Town Manager Cliff Ogburn

Date: May 19, 2010

Re: Recommended Budget for Fiscal Year 2010-2011

Mayor and Board of Commissioners:

It is my privilege to present for your consideration the proposed budget for Fiscal Year beginning July 1, 2010 and ending June 30, 2011. The budget has been prepared in accordance with the NC Local Government Fiscal Control Act as required by NC General Statute Chapter 159-11. We have prepared the General Fund proposed budget based on a 1 cent tax increase. The budget increases the current rate of \$.1475 to \$.1575 per \$100 of property valuation. The tax collection rate is budgeted at 99.5%. If the budget is approved with a tax rate increase, this will be the first increase since the 2006 revaluation, when the Town increased taxes \$.0155 above the revenue neutral rate of \$.132 to \$.1475. Additionally, this will only be the third tax increase in the last 14 years. The budget includes no fee increases in the General Fund, but does include a 10% increase in water rates due to a recommendation from the Local Government Commission and an effort to narrow the gap between expenditures and revenues.

Town department heads submitted their departmental budget requests with the understanding that the minimal funding necessary to provide the same level of service was to be requested. Town staff was asked for cost cutting measures and suggestions to save money town wide. As a result of being in the middle of an unparalleled economic recession, we are aware of the financial hardships that many of our taxpayers likely find themselves in. This budget continues the careful decreases in expenditures that we've made in previous operating budgets. The Board has taken money from fund balance to address the shortfalls in revenues in the past three fiscal years and

made it clear, through a series of budget workshops/discussions, that this practice needed to end. Therefore, a one cent tax increase is proposed in lieu of fund balance use for the fourth consecutive year.

The current economic times have forced us to look at our organizational efficiency. We have asked employees to do more with less in an effort to combat revenue loss. One of the decisions that has resulted in a considerable savings was made by the Board of Commissioners in 2008 to freeze positions that became vacant. Those positions now include: one sanitation supervisor, one sanitation equipment operator, two Public Works seasonal workers, one facilities maintenance technician, one police lieutenant, one police officer, two firefighters, one water plant operator and the deputy town manager. It is recommended that each of these positions remain frozen during fiscal year 2010-2011.

Funding to convert a part-time position in the IT Department to full-time with benefits is included. This conversion will help prevent the Town from falling further behind in technology needs and advancements. Part-time positions for residential trash cart-roll back/litter control and seasonal bath house cleaning are not recommended. In addition the position of deputy director of planning and development and one water plant operator, due to the closing of Fresh Pond, have been eliminated.

This budget submittal recommends a change in grade with no change in salary for four positions: human resources director from a grade 17 to a grade 21 and from non-exempt to exempt, fire marshal from a grade 21 to a grade 24, chief building inspector from a grade 20 to a Grade 22 and permitting coordinator from a grade 11 to a grade 13. These changes reflect a truer depiction of job responsibilities resulting largely from previously frozen positions.

This budget submittal also recommends that the close of the Ocean Rescue season be changed from October 15 to September 30, 2010, as was the case in 2009, conditions permitting.

This recommended budget, for the fourth budget year in a row, proposes no new programs and is presented as a budget to continue service level expectation at minimal cost.

General Fund Revenues

The total General Fund revenues for fiscal year 2010-2011 are recommended at \$10,813,140 versus the adopted fiscal year 2009-2010 budget of \$11,292,993, an overall decrease of \$479,853 or -4.25%.

The property tax base as of January 1, 2010 used for budgeting ad-valorem taxes for the fiscal year 2010-2011 budget year is \$3,089,935,959 versus \$3,075,324,928 in the previous fiscal year. A \$.01 (penny) on the tax rate, based on the January 1, 2010 valuation, is equivalent to \$308,994.

Powell Bill funds are reflected again at a lower per unit funding formula in this budget at \$104,390, a decrease of \$13,610 or -11.53% compared to the fiscal year 2009-2010 budget. Occupancy tax continues to decline and is budgeted at a decrease for 2010-2011 at \$1,670,000, for a \$130,000 or -7.22% decrease over the 2009-2010 amended budget of \$1,800,000. Combined sales tax revenues of

\$1,225,100 for 2010-2011 are also down compared with last year's budget with a decrease of \$224,900 or -15.5%. Land transfer tax for 2010-2011 is budgeted at \$348,000, an increase of \$68,000 or 24.29% versus the 2009-2010 budget amount of \$280,000. Land transfer revenue had been on a steep decline from 2004-2005 where land transfer tax revenues were \$1,518,682. This year's projected increase marks the end of a decline of \$1,238,682 or -81.52% since the 2004-2005 fiscal year.

Fiscal year 2009-2010 building permit revenue shows the trend continuing downward at \$32,500 compared to a decrease of \$7,975 in 2009-2010. Revenues from review fees have declined at \$20,000. Rents of \$434,010 are included to reflect the pass-through of the YMCA debt payments of \$301,010, the sixth full year of the lease for the former Outer Banks Medical Center building in the amount of \$35,000, and revenues from cellular tower leases of \$98,000.

Appropriated Fund Balance represents our standing carry forward of \$300,000, supplemented by a \$125,000 carry forward of unused Contingency Funds from fiscal year 2009-2010. This recommended Appropriated Fund Balance carry forward totals \$425,000 for fiscal 2010-2011.

The Capital Reserve Fund Contribution revenue of \$134,630 versus the prior year's \$149,131 reflects the use of facility fees and designated fund balances to fund various capital costs. Interest rates have continued to weaken during the current fiscal year and are expected to remain weak for most if not all of 2010-2011.

General Fund Expenditures

General Fund expenditures do not include recommended funding for any new capital improvement projects. Funds are included and recommended for capital purchases including: replacement of one residential trash truck, replacement of two police patrol vehicles, one Animal Control Officer truck and cage, three all-terrain vehicles in Ocean Rescue, mandatory funding for conversion to the 800mhz radio system in Police, ACO, Fire and Ocean Rescue, two air packs for Fire and Rescue, and street improvement projects.

Contribution to Capital Reserve Fund is the annual offset for the collection of facility fees budgeted at \$100,000. The fiscal year 2010-2011 budget submittal does not include any recommended funding for a cost of living allowance, merit pay, or the Town's Career Development program (inclusive of Career Development compensation, travel and training).

An increase of \$64,097 has been budgeted as a mandatory increase from 4.88% to 6.43% to the state retirement system.

Governing Body

Governing Body includes the regular funding for the operation of the Office of the Mayor and the Board of Commissioners. In addition, Governing Body funding includes: \$30,000 for erosion abatement, \$10,400 in contributions for environmental education, \$4,000 for the YMCA's Summer Camp Scholarship Program, \$100 for the League of Women Voters, \$3,000 for Interfaith Outreach, \$3,000 for the Community Care Clinic, and \$500 for Room at the Inn. Special projects show \$301,010 in pass-through of YMCA debt payments.

There are no funds included in the fiscal year 2010-2011 budget for the July 4th fireworks celebration.

Town Manager

The Town Manager's budget shows an overall decrease in total budgeted expenditures for fiscal year 2010-2011 of \$71,832 or -13.17% over the prior years adopted budget. No funds are budgeted for the deputy town manager position.

Administrative Services

Administrative Services includes property/liability insurance budgeted at \$136,000, for an increase of \$6,000 or 4.62% versus the 2009-2010 property liability premium of \$130,000 based on actual premium costs for 2009-2010 of \$135,389. Workers' compensation insurance for 2010-2011 is budgeted at \$132,000, which is a decrease of \$4,000 or -2.94% also based on actual premium costs for 2009-2010 of \$118,761 and the freezing of vacant positions and increasing the deductible to offset an increase from our experience rating. The amount budgeted for deductibles has also been increased. Flood insurance costs of \$35,000 remain flat relative to the prior fiscal year. The Town's portion of the employees' health care insurance premium for 2010-2011 is budgeted at \$982,277 (combined General, Water, and Storm Water Funds), for a decrease of \$35,686 or 3.51% from last year's 2009-2010 budget of \$1,017,963.

Legal

Legal fees for the town attorney and the Board of Adjustment attorney are budgeted based on the most recent billing history and reflect an increase of \$30,000, due mainly to the cost of litigating oceanfront homes that have been declared a nuisance, from the prior fiscal year to \$120,000.

Planning

The Planning and Development Department budget recommendation shows a decrease to \$789,746 for a decrease of \$89,405 or -10.17% for fiscal year 2010-2011 due to the elimination of the Deputy Planning Director.

Public Works

Public Works Administration reflects a slight decrease of \$7,139 or -1.74%. Public Works Administration includes the salaries of the public works director, deputy public works director, office manager, and office assistant.

Public Facilities Maintenance also shows a decrease of \$46,324 or -5.07%. An additional \$26,867 in salaries and benefits has been allocated to the Storm Water Fund for Public Works Facilities personnel to perform drainage improvement projects and other storm water projects. State Street Aid reflects a decrease of \$13,610 to match revenues of \$104,390.

Public Works Sanitation decreased to \$960,682 in expenditures, a decrease of \$76,747 or -7.40% from the 2009-2010 budget of \$1,037,429. Included in the fiscal year 2010-2011 budget is replacement of a residential trash truck financed over five years at \$64,481. Tipping fees reflect an increase in the rate of 3.00%, coupled with a 2% increase in estimated tonnage.

Police

The Police Department's recommended budget for 2010-2011 is \$1,761,222, for an increase of \$44,567 or 2.60% from the fiscal year 2009-2010 budget of \$1,716,658. Two unmarked patrol vehicles are budgeted for replacement and financed at \$16,847 each for three years. Funding for the 800 MHz radio system totals \$46,157.

Animal Control shows an increase of \$12,582 or 20.04% to \$75,359 in the 2010-2011 budget submittal and included the first year of a three year financing of a pick-up truck with cage at \$14,054. Funding for the 800 MHz radio system includes \$857.

Fire

The Fire Department is budgeted for fiscal year 2010-2011 at \$1,956,950, or a decrease of \$108,181 or -5.24% from the fiscal year 2009-2010 budget of \$2,065,131. Debt Service for the seventh year for the new south Nags Head Fire Station/Public Safety facility is \$130,411. Funding for the 800 MHz radio system is included at \$29,302 as are two air pack replacements at \$6,100 each. The Nags Head Volunteer Fire Department's recommended budget is \$17,414 for a decrease of \$2,873 or -14.16% and includes funding for the continuation of the volunteer incentive program.

Ocean Rescue is budgeted at \$517,291, an increase of \$31,297 or 6.44% over the 2009-2010 budget of \$489,994. Three replacement ATVs are included in this budget submittal. Funding for the 800 MHz radio system is included at \$32,962.

General Fund expenditures consist of \$5,096,416 in salaries, \$1,646,199 in benefits, \$2,534,309 in operating expenditures, \$435,132 in capital outlay and capital improvement, debt payments of \$876,084, interfund transfers of \$100,000, and a contingency of \$125,000. Overall group health insurance shows a decrease of \$32,783 within the General Fund for a total budgeted expenditure of \$856,971 based on an 8% increase in premium rates and includes a proposed HRA plan in place of Key Gap. Retiree group health insurance accounts for a total of \$44,857 within this budget.

Water Fund

The Water Fund reflects total budgeted revenues of \$2,509,994, a decrease of \$34,998 or -1.38%, due mainly to a decrease of \$32,000 in water quality testing. Continuation of the Septic Health Initiative is recommended for funding in 2010-2011 in the amount of \$112,347 a decrease of \$48,134 or 29.99%, compared to the 2009-2010 budget year due mainly to a reduction in water quality testing by \$32,000.

An increase of \$8,302 is shown to reflect the mandatory increase from 4.88% to 6.43% in state retirement system contribution.

Summary

The recommended budget, by fund, is as follows: General Fund – \$10,813,140; Water Fund – \$2,509,994; Storm Water Management Fund – \$212,896. The total recommended budget, excluding inter-fund transfers, is \$12,921,030. The proposed fiscal year 2010-2011 General Fund budget is -4.24% less than the adopted 2009-2010 budget.

For all Funds, \$7,476,415 (55.23%) of expenditures is for salaries and benefits; \$3,843,734 (28.40%) for operating expenses; \$442,159 (3.27%) for capital outlay and capital improvements; \$983,722 (7.27%) for debt service requirements; and \$790,000 (5.84%) for inter-fund transfers and contingency, \$615,000 and \$175,000, respectively.

This budget marks my first as town manager and I wish to thank the Mayor and Board of Commissioners for their support and patience during the budget planning process. This year's budget was very challenging as we tried to maintain service and recommend appropriate staffing levels in hopes of avoiding an inevitable tax increase. With revenues continuing to dramatically decline and with increases in mandatory radio communication conversion, and contributions to the state retirement system, a tax increase was unavoidable without jeopardizing jobs and services. Town staff has done an excellent job providing incomparable services within a bare bones budget.

Future budget years will be equally difficult and should focus on reinstating staffing at the right level for the future direction and philosophy that the Board deems appropriate. The effects of this recession have taken a toll on Town staff due to the need to freeze positions, the second year with no budgeted merit incentive pay, no cost of living allowance, a reduction in 401k from 3% to 1% (for general employees), reduced health benefits, the elimination of the Career Development program, along with cuts in travel and training and the operating budget. Future budgets should also return to funding necessary capital improvement projects.

I wish to thank all Town staff for their assistance and cooperation in preparing this year's budget and to especially extend my gratitude to Finance Officer Kim Kenny and Human Resources Director Bonita Hurdle for a job well done. I would also like to express my appreciation to Roberta Thuman for preparing this recommended budget for presentation to the Board. This was another year of difficult choices but we have a budget proposal that conveys an affordable tax rate along with a dependable workforce that will position us to come out of this financial hardship prepared to serve our citizens and grow our organization in a meaningful way.