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Wayne Gray
Commissioner

Bob Oakes
Commissioner

Doug Remaley
Commissioner

MEMORANDUM

To: Mayor and Board of Commissioners

From: Town Manager/Director of Public Safety

Date: May 6, 2009

Re: Recommended Budget for Fiscal Year 2009-2010

Mayor and Board of Commissioners:

I submit, for your consideration, the Town of Nags Head's recommended budget for Fiscal Year 2009-2010, which has been prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act. This recommended budget recognizes the present economy and its impact upon our residents and property owners. This budget submittal includes Board of Commissioner input received at the Board's 2009 annual retreat and input received as a result of two (2) separate budget input/update sessions held with each member of the Board of Commissioners. The FY 2009-2010 budget submittal does not include or recommend either an ad-valorem tax rate increase or a water rate increase. This budget submittal recommends and maintains the current tax rate of \$.1475 per \$100.00 valuation, which is based on an estimated tax collection rate of 99.0%.

The Town remains in sound financial condition as reflected in both the FY 2007-2008 annual and audit reports. The Town's continued sound financial condition is due to the diligence of present and previous Boards of Commissioners and by Town Administration,

Departments, Divisions, and Units who continue to recognize both the present economy and the current economic forecasts. This recommended budget, for the third budget year in a row, proposes no new programs and is presented as an austere/maintenance budget.

In addition, this budget submittal does not recommend the funding of any new full or part-time positions. It further recommends that the present vacant and frozen General Fund and Water Fund positions remain vacant, frozen, and unfunded for Fiscal Year 2009–2010.

General Fund

Present vacant/frozen positions are as follows: one (1) Sanitation Superintendent, one (1) Sanitation Equipment Operator, one (1) Facilities Maintenance Technician, one (1) Information Technology Support Technician, and one (1) Police Officer. Note: The present vacant/frozen police officer position has been submitted, with Board of Commissioners approval, for Federal Stimulus Package Law Enforcement Grant funding consideration. It is further noted that should additional police officer vacancies occur, it is Town Administration's recommendation that these positions be authorized to be hired so as not to compromise Nags Head's public safety.

In addition, two (2) seasonal part-time positions in the Department of Public Works were not hired for the 2009 summer season and are not recommended or included for funding consideration in the FY 2009-2010 budget submittal.

It is further recommended that the Department of Public Safety be eliminated as an authorized department and that the Fire and Rescue and Police Divisions be designated and re-titled as the Fire & Rescue Department and Police Department. These two proposed separate departments are the same concept that existed in the Town prior to July 1, 1998 when the Department of Public Safety was established by the Board of Commissioners. If approved, the Fire & Rescue Department and the Police Department would report to the Office of the Town Manager, the same as all other departments in the Town.

The position of Director of Public Safety is recommended to be deleted as an authorized (General Fund) position and funding for this position is not included in the FY 2009-2010 budget submittal.

Water Fund

Present vacant / frozen positions are as follows: two (2) Water Plant Operators

One (1) Water Plant Operator position is recommended to be deleted as an authorized (Water Fund) position and funding for this position is not included in the FY 2009 – 2010 Water Fund Budget submittal. The recommendation for one (1) Water Plant Operator position is due to the position no longer being needed because of Fresh Pond coming off-line as a water production plant as authorized in the Dare County Water Plan and Agreement. A Water Plant Operator retired with an effective date of April 1, 2009.

The second of the two (2) vacant/frozen Water Plant Operator positions is because of a recent resignation at the Water Plant. Sufficient Water Plant operator coverage is being provided by the temporary reassignment of a Full Time Employee (F.T.E.) from Water Distribution to the Water Plant.

The recent "systemic" change in the Town's Department of Public Works, which was directed by Town Administration, now permits greater flexibility in personnel assignment in Public Works to ensure that necessary services continue to be provided with existing personnel.

The Town's vehicle fleet is recommended to be reduced by two (2) vehicles – one (1) vehicle in the Police Division (Director of Public Safety assigned vehicle) and one (1) vehicle in the Planning Department.

This budget submittal also recommends that the close of the Ocean Rescue season be changed from October 15 to September 30, 2009.

This budget submittal recommends changing the Sanitation Unit (trash) collection schedule to twice a week between the highways. It is recommended that the three times a week sanitation collection continue both east and west of S. Old Oregon Inlet Road and along S. Virginia Dare Trail and in those areas west of S. Virginia Dare Trail that can only be accessed from S. Virginia Dare Trail. It is further recommended that the three times a week trash collection schedule be maintained in Old Nags Head Place.

This FY 2009 – 2010 budget submittal recommends the re-assignment of the Town's Human Resources Coordinator from the Department of Administrative Services to the Office of the Town Manager. This recommended re-assignment places the Human Resources Coordinator's position in the proper department (Office of the Town Manager), and is reflective of the duties and responsibilities of this most important position. This recommended position reassignment will allow this position to be a more effective part of the "Critical Leadership Group" (C.L.G.) concept that is needed by the Town Manager, both now and in the future.

The Human Resource Coordinator's position is also recommended to be re-titled as Human Resources Director with no recommended change to either salary or salary grade assignment. The Town's Finance Officer and the Office of the Town Manager supports and recommends the reassignment of the Human Resources function from the Administrative Services Department to the Office of the Town Manager.

General Fund Revenues

The total General Fund revenues for Fiscal Year 2009-2010 are recommended at \$11,292,993 versus the adopted FY 2008-2009 budget of \$12,157,217, an overall decrease of \$864,224 or -7.11%.

The property tax base as of January 1, 2008 used for budgeting ad-valorem taxes for the FY 2009-2010 budget year is \$3,075,324,928 versus \$3,046,607,165 in the previous fiscal year. A \$.01 (penny) on the tax rate, based on the January 1, 2009 valuation, is equivalent to \$307,533.

Powell Bill funds are reflected at a slightly lower per unit funding formula in this budget at \$118,000, a decrease of \$19,000 or -13.87% compared to the FY 2008-2009 budget. Occupancy tax no longer shows sustained growth and is budgeted at a decrease for FY 2009-2010 at \$1,800,000, for a \$140,000 or -7.22% decrease over the FY 2008-2009 amended budget of \$1,940,000. Combined sales tax revenues of \$1,450,000 for FY 2009-2010 are also down compared with last year's budget with a decrease of \$135,000 or -8.52%. Land transfer tax for FY 2009-2010 is budgeted at \$280,000, a decrease of \$220,000 or -44.00% versus the FY 2008-2009 budget amount of \$500,000. Land transfer revenue has continued a steep decline from Fiscal Year 2004-2005 where Land transfer tax revenues were \$1,518,682. This Land transfer decline from FY 2004-2005 to a projected Land transfer for FY 2009-2010 represents a decline \$1,238,682 or a decline of 81.56%.

Several grants are included in this recommended budget. These include wellness and safety grants from the North Carolina League of Municipalities and the Police Division's Governor's Highway Safety Program/Governor's Crime Commission grants. We also show reimbursement revenue for fire protection provided to the U.S. Coast Guard facility at Oregon Inlet. Included in the FY 2009-2010 budget submittal are matching funds for the Outer Banks Visitor's Bureau Grant of \$175,000 for the construction of Phase IIIA of the West-side Multiuse Path.

Fiscal Year 2009-2010 building permit revenue reflects a \$7,975 decrease based on the continued decline in building permit revenues. Revenues from review fees are flat at \$40,000. Rents of \$447,900 are included to reflect the pass-through of the YMCA debt payments of \$317,510, the fifth 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 \$95,390.

Appropriated Fund Balance represents our standing carry forward of \$300,000, supplemented by \$115,000 carry forward of unused Contingency Funds from FY 2008-2009, \$335,000 from use of fund balance budgeted in FY 2008-2009 that was not needed and is now recommended for carry forward funding for the FY 2009-2010 budget. This recommended Appropriated Fund Balance carry forward totals \$750,000 for FY 2009-2010. It should be noted that significant declines continue in land transfer tax, occupancy tax, sales tax and interest rate revenue sources.

The Capital Reserve Fund Contribution revenue of \$149,131 versus the prior year's \$223,052 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 at least the first half of FY 2009-2010, and then may possibly improve slightly for second-half of FY 2009-2010.

General Fund Expenditures

General Fund expenditures include recommended funding for only one (1) new Capital Improvement Project. Funds are included and recommended to finance capital purchases such as computer server and software upgrades, erosion abatement, replacement of four (4) Public Works vehicles, two (2) pick-up trucks, a recycle trailer, and a utility vehicle, replacement of two (2) Police patrol vehicles, two (2) self contained breathing apparatuses (SCBA) in Fire, two (2) all-terrain vehicles in Ocean Rescue, and street improvement projects.

Contribution to Capital Reserve Fund is the annual offset for the collection of facility fees budgeted at \$100,000. Funding has also been included in Administrative Services for each General Fund department for a 1% cost of living adjustment totaling \$55,627, which includes the increase in related benefits. The FY 2009-2010 Budget submittal does not include any recommended funding for merit pay, or the Town's Career Development program (inclusive of Career Development compensation, travel and training).

Other travel and training has been significantly reduced by over 50% in all departments and provides for only that training that is absolutely necessary.

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, \$14,000 in contributions for environmental education, and \$7,100 in miscellaneous contributions, which includes \$5,000 for the YMCA's Summer Camp Scholarship Program, \$100 for the League of Women Voters, \$500 for the Bike and Build program, with the remaining \$1,500 to be determined by the Board. Special projects show \$317,510 in pass-through of YMCA debt payments.

There are no funds included in the FY 2009-2010 budget for the July 4th fireworks celebration.

Town Manager

The Town Manager's budget shows an overall increase in total budgeted expenditures for FY 2009-2010 of \$57,984 or 11.75% over the prior year's adopted budget, primarily due to an increase in salaries and benefits for the reassignment of the Human Resources Coordinator (proposed position to re-titled as Human Resources Director) from Administrative Services to the Office of the Town Manager.

Administrative Services

Administrative Services includes property/liability insurance budgeted at \$130,000, for an decrease of \$3,000 or -2.26% versus the FY 2008-2009 property liability premium of \$133,000 based on actual premium costs for FY 2008-2009 of \$118,776. Workers' compensation insurance for FY 2009-2010 is budgeted at \$136,000, which is a decrease of \$19,000 or -12.26% also based on actual premium costs for FY 2008-2009 of \$129,000 and the freezing of vacant positions. Flood insurance costs of \$35,000 reflect an increase of \$3,000 or 8.57%. The Town's portion of the employees' health care insurance premium for FY 2009-2010 is budgeted at \$1,029,104 (combined General and Water Funds) for an increase of \$63,908 or 6.62% from last year's FY 2008-2009 budget of \$965,196.

Legal

Legal fees for the Town Attorney and the Board of Adjustment Attorney are budgeted based on the most recent billing history and reflect no increase from the prior fiscal year of \$90,000.

Planning

The Planning and Development Department budget recommendation shows a decrease to \$882,436 for a decrease of \$25,775 or -2.84% for FY 2009-2010.

Public Works

Public Works Administration reflects a slight decrease of \$8,498 or -2.02%. 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 \$12,936 or -1.39%, and includes funding of \$62,501 for a portion of the general fund costs for Phase IIIA of the West-side Multi-Use Path project and a replacement pickup truck. An additional \$27,108 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 \$118,000, including additional funding for Phase IIIA of the West-side Multi-Use Path project.

Public Works Sanitation decreased to \$1,044,451 in expenditures, a decrease of \$249,836 or -19.30% from the FY 2008-2009 budget of \$1,294,587. Included in the FY 2009-2010 budget are a replacement recycling trailer, a recycling truck, and a utility vehicle. Tipping fees reflect an increase in the rate of 3.00%, coupled with a decrease in estimated tonnage.

Public Safety

The Police Division's recommended budget for FY 2009-2010 is \$1,733,194, for a decrease of \$275,054 or -13.70% from the FY 2008-2009 budget of \$2,019,505. The Police Division shows zero of the actuarial funding for the police separation allowance of \$85,919. There was \$30,000 in funding of the police separation allowance in the prior fiscal year.

Animal Control shows a decrease of \$7,123 or -10.12% to \$63,266 in the FY 2009-2010 budget submittal.

The Fire and Rescue Division is budgeted for FY 2009-2010 at \$2,076,053, or a decrease of \$53,852 or -2.53% from the FY 2008-2009 budget of \$2,129,105. Debt Service for the sixth year for the new south Nags Head Fire Station/Public Safety facility is \$134,118. The Nags Head Volunteer Fire Department's recommended budget is \$20,287 and includes funding for the continuation of the volunteer incentive program.

Ocean Rescue is budgeted at \$486,389, a decrease of \$31,333 or -6.05% over the FY 2008-2009 budget of \$517,722. Two (2) replacement ATVs are included in this budget submittal.

General Fund expenditures consist of \$5,274,846 in salaries, \$1,816,173 in benefits, \$2,646,805 in operating expenditures, \$203,745 in capital outlay and capital improvement, debt payments of \$1,126,424, interfund transfers of \$100,000, and a contingency of \$125,000. Overall group health insurance shows an increase of \$79,998 within the General Fund for a total budgeted expenditure of \$898,098 based on a 12.9% increase in premium rates and no changes to the current plan. Retiree group health insurance accounts for a total of \$41,011 within this budget.

Water Fund

The Water Fund reflects total budgeted revenues of \$2,547,419, a decrease of 1,098,344 or -30.13% due primarily due to no funding for the grant/loan program for sand bottom septic tank replacement initiative in Septic Health or any capital projects. Expenditures in the Water Fund reflect a decrease in group health insurance of \$15,386 from two (2) fewer positions and the across-the-board 1.0% cost of living increase, with the total increase for salary and related benefits of \$5,662, which has been included in Water Administration. Continuation of the Septic Health Initiative is recommended for funding in FY 2009-2010 in the amount of \$160,970, a decrease of \$543,228 or 77.14% compared to the FY 2008-2009 budget year related to the grant/loan program.

This budget submittal does not include funding for Fresh Pond after June 30, 2009.

Summary

The recommended budget, by fund, is as follows: General Fund – \$11,292,993; Water Fund – \$2,547,419; Storm Water Management Fund – \$412,056. The total recommended budget, excluding inter-fund transfers, is \$13,637,468. The proposed FY 2009-2010 General Fund budget is -7.11% less than the adopted FY 2008-2009 budget.

For all Funds, \$7,829,944 (54.94%) of expenditures is for salaries and benefits; \$4,182,717 (29.35%) for operating expenses; \$203,745 (1.43%) for capital outlay and capital improvements; \$1,246,062 (8.74%) for debt service requirements; and \$790,000 (5.54%) for inter-fund transfers and contingency, \$615,000 and \$175,000, respectively.

The budget, as presented for Board of Commissioners consideration, has been in preparation since late April 2008, and reflects the reality of the existing economy on the Outer Banks. As previously stated, this budget does not contain or recommend either an ad-valorem tax rate increase or a water rate increase. As a result of recognizing the continuing reality of the existing economy, and concerns that revenue income sources are likely to continue to decrease during Fiscal Year 2009-2010, no new programs or employee positions are recommended in this budget submittal. This FY 2009 – 2010 budget submittal does not propose the elimination of existing and presently filled full or part-time employee positions in either the General or Water Funds.

The Town will continue to provide the current service levels as authorized by the Board of Commissioners. The Town also recognizes our responsibilities as stewards of the environment and we continue to participate in "Green Friendly" initiatives and programs. These "Green Friendly" initiatives/programs include the Septic Health Initiative; continued support of the UNC Coastal Studies Institute program; the

Jennette's Pier Project; and the NCDNR/ NCDOT partnership to ensure water quality in the Town's ocean outfalls through environmental monitoring/testing and improved outfall maintenance. Through a new partnership and Memorandum of Understanding with NCDNR and NCDOT, the Town is now participating in the establishment of a "first in North Carolina" ocean outfall water quality pre-treatment test facility that is being built at and on the Town's Conch Street beach access. Further, the Town is constantly striving to determine and implement energy efficiencies that are also good for the environment.

This budget represents a continuation of the high service levels that Nags Head's residents and visitors have come to enjoy and expect. The efficiency of Town operations have grown in the past along with the town. This austere/maintenance budget provides the continuation all Town operations at these high levels of operation and quality customer service while taking into consideration the demands of some limited continued development and growth as well as the present economic environment/forecast.

The Town's ability to provide services and manage its development requires strong financial stability and fiscal planning. This FY 2009-2010 recommended budget is scheduled to be presented to the Board of Commissioners at the May 6, 2009 meeting at 9 a.m. The Board will continue the budget review process through the scheduling of budget work sessions. The public hearing on the FY 2009-2010 budget will be held June 3, 2009 at 9 a.m., with Board of Commissioner consideration and adoption of a budget prior to June 30, 2009.

The submission of this budget finds senior Town administration and key budget team personnel already looking ahead, preparing for the Fiscal Year 2010-2011 budget and for even future budget years beyond FY 2010-2011. Future budgetary concerns remain employee and retiree health care costs, property liability insurance, and declining revenues.

I wish to express my appreciation to the Department Heads and the FY 2009-2010 Budget Team composed of: Deputy Town Manager Cliff Ogburn, Finance Officer Kim Kenny, Administrative Assistant/PIO Roberta Thuman, and Human Resources Coordinator Bonita Hurdle.

I thank you for the opportunity to present the Fiscal Year 2009-2010 recommended budget to the Mayor and Board of Commissioners and for the continued privilege to serve the citizens of the Town of Nags Head. This Fiscal Year 2009 -2010 budget is my last budget submittal as Town Manager / Director of Public Safety for the Town. It has been a distinct honor and privilege to have been allowed to serve the citizens of the Town of Nags Head during my tenure with the Town. I also wish to recognize and commend the Town's wonderful employees for all that they do in service to the Town, our citizens, property owners and visitors.