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Charlie Cameron
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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 16, 2007

Re: Recommended Budget for Fiscal Year 2007-2008

Dear Mayor Cahoon and Board of Commissioners:

I am pleased to submit for your consideration the recommended budget for the Town of Nags Head for Fiscal Year 2007-2008. This budget has been prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act. The recommended Town budget for Fiscal Year 2007-2008 proposes no new programs and is presented as a maintenance budget. Also, the submitted budget does not recommend the funding of any new positions for either full or part-time employees. The budget submittal does, however, include recommended position re-classification changes for five (5) positions that reflect some of the personnel changes approved by the Board of Commissioners previously during this fiscal year. These recommended position re-classifications will help maintain, and in one department, improve, the service level expected by the Town's residents and visitors. This budget recommends the current tax rate of \$.1475 per \$100.00 valuation, which is based on an estimated tax collection rate for FY 2007-2008 of 99.5%. No increase in either the ad-valorem tax rate or water rate is recommended in this the FY 2007-2008 budget submittal.

General Fund Revenues

The total General Fund revenues for Fiscal Year 2007-2008 are recommended at \$12,205,695 versus the adopted FY 2006-2007 budget of \$12,209,151, an overall decrease of \$3,456 or -0.03%.

The property tax base as of January 1, 2007, that is used for budgeting ad-valorem taxes for the FY 2007-2008 budget year is \$3,025,919,536 versus \$2,966,256,884 in the previous fiscal year. A \$.01 (penny) on the tax rate, based on the January 1, 2007 valuation, is equivalent to \$302,592.

Powell Bill funds are reflected at a slightly higher per unit funding formula in this budget at \$139,000 an increase of \$10,525 or 8.19% compared to the FY 2006-2007 budget. Occupancy tax continues to show sustained growth and is budgeted for FY 2007-2008 at \$1,840,000 for a 6.36% increase over the FY 2006-2007 amended budget of \$1,730,000. Two of the three half-cent sales taxes continue to show moderate growth. Land transfer tax for FY 2007-2008 is budgeted at \$640,000 a decrease of \$60,000 or - 8.57% versus the amended FY 2006-2007 budget amount of \$700,000.

Several grants are included in this recommended budget. These include wellness and safety grants from the North Carolina League of Municipalities, two (2) Police Division Governor's Highway Safety Program grants and one (1) Fire and Rescue Division Federal Emergency Management Agency (FEMA) grant. The NC DOT Enhancement grant for the west side multi-use path is carried forward from the FY 2006-2007 budget. We also show reimbursement revenue for fire protection that is provided to the U.S. Coast Guard facility at Oregon Inlet.

Building permit revenue reflects a \$60,000 decrease based on both the decline in current fiscal year review fees and the continued decline in building permit revenues. Rents of \$506,170 are included to reflect the pass through of the YMCA debt payments of \$471,170 and the third full year of the lease for the former Outer Banks Medical Center building in the amount of \$35,000. Appropriated Fund Balance represents our standing carry forward of \$300,000, supplemented by \$32,940 for the Town's matching funds for the NCDOT Westside Multi-use Path Project, and \$265,470 from use of fund balance budgeted in FY 2006-2007 that was not needed and is now recommended for carry forward funding for the FY 2007-2008 budget. The Capital Reserve Fund Contribution revenue of \$158,679 versus the prior year's \$210,042 reflects the use of facility fees and designated fund balances to fund various capital costs. Interest rates have continued to remain strong during the current fiscal year and are expected to remain so for the first half of FY 2007-2008 and then possibly decline for second-half of FY 2007-2008.

General Fund Expenditures

General Fund expenditures include no recommended funding for new Capital Improvement Projects. Funds are included and recommended to finance capital purchases such as computer workstations, servers, and software upgrades, erosion abatement, replacement of three Public Works vehicles (two pick-up trucks and a sanitation truck), 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 each General Fund department for a 3.3% cost of living adjustment for each employee totaling \$174,470, which includes the increase in related benefits.

Governing Body includes the regular funding for the operation of the Office of the Mayor and the Commissioners. In addition, Governing Body funding includes: \$20,000 for July 4th fireworks, \$30,000 for erosion abatement, \$14,000 in contributions for environmental education, and \$5,100 in miscellaneous contributions, which includes \$5,000 for the YMCA's Summer Camp Scholarship Program and \$100 for the League of Women Voters. Special projects show \$471,170 in pass-through of YMCA debt payments.

The Town Manager's budget shows an overall decrease in total budgeted expenditures of 16.46% over the prior years adopted budget, primarily due to a decrease in salaries and benefits for

the Deputy Town Manager position and the sharing of 50% of the Town Manager/Director of Public Safety's salary and benefits with Public Safety.

Administrative Services includes property liability insurance budgeted at \$120,834 for an increase of \$23,257 or 23.83% versus the FY 2006-2007 property liability premium of \$97,577. The workers' compensation insurance for FY 2007-2008 is budgeted at \$159,000 which is just slightly less than last year's FY 2006-2007 premium. The Town's portion of the employees' health care insurance premium for FY 2007-2008 is budgeted at \$940,870 combined General and Water Funds for an increase of \$95,941 or 11.3% from last year's FY 2006-2007 budget of \$844,929.

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 \$10,000 and include the effect of requested and recommended increases to both the monthly retainer and hourly rates for the Town Attorney.

The Planning and Development Department budget recommendation shows an increase to \$919,546 for an increase of \$20,407 or 2.27% for FY 2007-2008.

Public Works Administration includes the salaries of the Public Works Director, Deputy Public Works Director, and the two (2) Office Assistants. It is recommended, in this budget submittal, that one (1) of these two (2) Public Works Office Assistant positions be re-classified from Salary Grade 11 to Salary Grade 13 with the title and duties as Public Works Office Manager.

Public Facilities Maintenance also shows an increase of \$128,451 or 13.56% increase in FY 2007-2008. This increase includes \$164,806 for the NCDOT West-side Multi-Use Path. State Street Aid reflects \$139,000 for use on the priorities identified in the pavement condition survey.

Public Works Sanitation increased to \$1,260,660 in expenditures, a growth of \$80,314 or 6.80% from the FY 2006-2007 budget of \$1,180,346. Included in this increase are \$20,000 for increase fuel costs and employee overtime directly related to the opening and location of the new Stumpy Point Land Transfer Station. Also included in the FY 2007-2008 budget is a replacement sanitation automated truck and a replacement pick-up truck for the Sanitation Superintendent. Tipping fees reflect an increase in the rate of 2.99% coupled with a slight decrease in estimated tonnage.

Public Safety – Police Division shows actuarial required funding for the police separation allowance of zero. The Police Division's recommended budget for FY 2007-2008 is \$1,986,705 for a decrease of \$11,539 or -0.58% from the FY 2006-2007 budget of \$1,998,244. This is due to Police Officer vacancies that have existed in FY 2006-2007, and a thorough review of the Police Vehicle Fleet by the Superintendent of Vehicle Maintenance and the Police Chief, which determined that due to the overall good to excellent condition of the police vehicle fleet, there are no replacement police vehicles included or recommended in this FY 2007-2008 budget.

Animal Control shows a \$733 or a 1.03 % increase to \$71,754 in the FY 2007-2008 budget submittal.

Public Safety – Fire & Rescue Division is budgeted for FY 2007-2008 at \$2,140,330 or a decrease of \$15,277 or -0.71% from the FY 2006-2007 budget of \$2,155,607. Debt Service for the fourth year for the new South Nags Head Fire Station/Public Safety facility is \$141,532. The Nags

Head Volunteer Fire Department's recommended budget is \$34,969 and includes funding for the continuation of the volunteer incentive program.

Ocean Rescue for FY 2007-2008 is budgeted at \$549,840, a decrease of \$12,885 or -2.29% over the FY 2006-2007 budget of \$562,725. Four (4) replacement ATVs are included in this budget submittal.

The General Fund expenditures consists of \$5,419,110 in salaries, \$1,792,435 in benefits, \$3,120,608 in operating expenditures, \$256,982 in capital outlay and capital improvement, debt payments of \$1,391,560, interfund transfers of \$100,000 and a contingency of \$125,000. Overall group health insurance shows an increase of \$72,489 within the General Fund for a total budgeted expenditure of \$928,179 based on an estimated 11.3% increase in rates. Retiree group health insurance accounts for a total of \$38,958 within this budget. All departmental budgets reflect higher automotive costs associated with the increases in the price of fuel.

Water Fund

The Water Fund reflects total budgeted revenues of \$3,436,155, an increase of 8.93% due primarily to a 4.8% increase in the wholesale water rate, costs to remove the old water tower estimated at \$50,000, and the Fresh Pond capital improvements of \$190,000. Expenditures in the Water Fund reflect the same 11.3% increase in group health insurance as in the General Fund (\$19,931) and the across the board 3.3% cost of living increase, with total funding for salary and related benefits of \$19,734. Continuation of the Septic Health Initiative is recommended for funding in FY 2007-2008 in the amount of \$398,841 an increase of \$1,394 or 0.35% compared to the FY 2006-2007 budget year. Capital improvement plan funding in the amount of \$366,400 for the costs of installing new water lines along U.S. 158 and Fresh Pond improvements in the amounts of \$176,400 and \$190,000, respectively, are recommended for funding in FY 2007-2008.

Town Personnel Policy and Allocation to Positions

This budget submittal recommends, for the Board of Commissioners consideration, a change in the Town's Personnel Policy that provides for the awarding of merit pay for all eligible and justified full-time employees to occur during the month of their official hiring date with the Town. This recommended policy change, if approved, will provide for the equitable awarding of merit pay for full-time employees, while at the same time spreading out throughout the budget year, the merit/performance evaluation review process now completed for all full-time employees, during the month of January each year.

This budget also formally recommends the following five (5) positions to salary grade changes:

- Customer Service/Cashier from salary 10 to salary grade 11;
- Customer Service/Cashier to Customer Service/Payroll Specialist from salary grade 10 to salary grade 11;
- Office Assistant (one of two Public Works Office Assistant positions) from salary grade 11 to salary grade 13 with the new position title as Public Works Office Manager;
- Deputy Public Safety Director/Police Chief from salary grade 24 to salary grade 26 with new position title as Police Chief; and

- Deputy Public Safety Director/Fire Chief from salary grade 24 to salary grade 26 with new position title as Fire Chief.

Summary

The recommended budget by fund is as follows: General Fund – \$12,205,695; Water Fund – \$3,436,155; Storm Water Management Fund – \$112,152. The total recommended budget, excluding inter-fund transfers, is \$15,239,002. The proposed General Fund budget is 0.03% less than the present FY 2006-2007 budget year.

For all Funds, \$8,007,324 (50.83%) of expenditures is for salaries and benefits; \$4,758,459 (30.20%) for operating expenses; \$623,382 (3.96%) for capital outlay and capital improvements; \$1,574,837 (10.0%) for debt service requirements; and \$790,000 (5.01%) for inter-fund transfers and contingency, \$615,000 and \$175,000, respectively.

The budget, as presented for the Board of Commissioners consideration, has been in preparation since late August 2006, and reflects the reality of the existing economy on the Outer Banks. This budget does not contain or recommend either an ad-valorem tax or water rate increase. As a result of recognizing the reality of the existing economy, concerns and expectations for even higher increased costs for fuel and petroleum based products, and concerns that interest rate revenue income, will probably decrease during the last half of Fiscal Year 2007-2008, no new programs or employee positions are recommended in the budget submittal.

The submission of this budget finds senior Town administration and key budget team personnel already looking ahead to the FY 2008-2009 budget year. The Town is presently considering the possibility of a joint partnership with the Town of Kill Devil Hills to cost share (50% each) for a fire apparatus, and with Nags Head providing a 1/3 share of Operations and Maintenance for a new fire station to be built by Kill Devil Hills just north of the Town boundary at Eighth Street. Other future budgetary concerns such as continually increasing fuel and petroleum products costs, rising employee and retiree health care costs, property liability insurance increases (25% increase) are issues that are included in this the FY 2007-2008 and are already being planned for in future budget years.

This budget submittal also does not recommend the funding of any large capital project(s). This recommendation is possible since previous budget funding Boards of Commissioners have funded an aggressive Capital Program in past budget years. The Town will continue to provide the current service levels as authorized by the Board of Commissioners.

This budget submittal also continues to provide for a good employee salary and benefit package.

This budget represents a continuation of the high service levels that the residents and visitors to the Town of Nags Head have come to enjoy and expect. Our operations have grown in the past along with the Town. This maintenance budget attempts to continue all Town operations at these high levels of operation and quality customer service while taking into consideration the demands of some continued development and growth as well as the present economic environment.

The Town's ability to provide services and manage its development requires strong financial stability and fiscal planning. This recommended budget is scheduled to be presented to the Board of

Commissioners at the May 16th, 2007 meeting at 7:30 pm. The Board will also schedule to continue the budget review process with budget work sessions. The public hearing on the FY 2007-2008 budget will be held on June 6, 2007 at 9:00 am with Board of Commissioner consideration and adoption of a budget prior to June 30th, 2007.

I wish to express my appreciation to the Department Heads and the FY 2007-2008 Budget Team composed of Deputy Town Manager, Bill Richardson; Finance Officer Kim Kenny; Administrative Assistant, Roberta Thuman; and Human Resources Coordinator, Bonita Hurdle.

I thank you for the opportunity to present the Fiscal Year 2007-2008 recommended budget to the Mayor and Commissioners for your consideration and for the continued privilege to serve the citizens of the Town of Nags Head.