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**Report on establishment of three (3) proposed Municipal Service Districts
for beach erosion control, flood and hurricane protection works, and flood control and drainage
projects in accordance with GS 160A-535 – 160A-544**

1) Attached map identifies three (3) proposed Municipal Service Districts

District 3 – Eighth Street (northern town line) south to Bonnett Street
(includes all properties east of Wrightsville Avenue)

District 4 – Bonnett Street south to Gulfstream Street
(from Bonnett Street to Bainbridge Street - includes all properties east of Wrightsville Avenue; from Bainbridge Street to Hollowell Street – includes all properties with frontage on and east of Memorial Avenue; from Hollowell Street to Gulfstream Street – includes all properties east of US 158).

District 5 – Gulfstream Street south to southern town line
(includes all properties south of Gulfstream Street).

Also attached is a map identifying the two (2) existing Municipal Service Districts

Existing Municipal Service Districts, Districts 1 and 2 as listed below, were created in 2011 to levy taxes and generate funds to pay for project expenses associated with beach erosion control efforts and flood and hurricane protection works. These two districts include all properties east of NC 12 and SR 1243 south of Bonnett Street. These districts were utilized for both the 2011 and the 2019 projects and are still in effect.

District 1 – Bonnett Street south to Gulfstream Street
(includes east of NC 12 and SR 1243 - oceanside and oceanfront properties)

District 2 – Gulfstream Street south to Town Line
(includes east of NC 12 and SR 1243 - oceanside and oceanfront properties)

2) Statement indicating that services are needed in the districts to a demonstrably greater extent than the rest of the town

The Town of Nags Head has been actively engaged in the planning, design and construction of beach erosion control, flood and hurricane protection works projects for more than 20 years. The Town has successfully completed the construction of two major projects related to these purposes. The first project placed 4.6 million cubic yards of beach compatible sand over 10 miles of the town's beaches starting from Bonnett Street and ending at the southern town limits. The total cost of construction was slightly greater than \$36 million. The second project, which was a combined Town and FEMA public assistance project, placed 4.0 million cubic yards of sand over 10 miles of the town's beaches. The total cost of this project was \$40 million. In both projects other expenses included engineering analysis, design, environmental

permitting, surveying, turtle monitoring and compliance with the requirements for the federal Endangered Species Act, vegetative sprigging and sand fencing, extension of ocean outfalls, legal expenses associated with easement acquisition, and other incidental costs. Funds have come from a variety of sources including the Dare County beach nourishment fund, FEMA public assistance funds, and town property taxes. It is anticipated in the future that the Town will be required to pay a minimum of 50 percent of the cost of each project. From the 2011 to 2019 project, unit costs (cubic yards) for sand rose greater than 35 percent. The Town must assume for planning purposes that most expenses associated with nourishment and other shoreline management activities will continue to rise in future years. As the Town continues to plan for future beach erosion control and hurricane protection works projects, refinements to the approach and coordination with other local communities is necessary to capitalize on potential economies of scale that may offset anticipated cost increases.

To date, each project has been funded utilizing property tax revenue from a town-wide tax combined with revenue from two Municipal Service Districts (Districts 1 and 2). The town wide tax has paid for approximately 25 percent of the Town's share of project expenses. The remaining 75 percent of the cost has been borne by property owners in the two Municipal Service Districts.

These projects have been successful in demonstrating clear benefits to the Town and its property owners. These benefits include the protection of properties on the oceanfront and directly adjacent to the ocean from erosion and storm damage, protection of infrastructure such as roads, waterlines, septic systems, electrical services, and beach accesses, and maintaining a recreational beach that is attractive and usable by the public, free of structures and debris. These benefits can be assigned to different parts of the community at different levels, with oceanfront properties having the greatest benefit. Properties adjacent to but not directly on the ocean also benefit from reduced overwash flooding and impacts to infrastructure, as well as increased property values due to their proximity to a well-maintained recreational beach. The entire town also receives a series of benefits, but to a lesser extent than these other areas. The taxing structure currently in place has assigned most of the benefits to the oceanfront and oceanside owners (east of NC 12 and SR 1243) with the remainder of the town receiving a reduced but important set of benefits. It has however, not captured the benefits that have accrued to the areas directly west of NC 12 and SR 1243, as there is no current MSD west of NC 12 and SR 1243. The value of these properties is also closely tied to proximity to the beach. To illustrate, properties in the proposed districts are considered to be in an area of ocean influence by the Dare County Tax Assessor's office which generally increases property values. If the access points were damaged or destroyed or if the beach in these areas becomes degraded due to erosion or storm damage and debris, the value of these properties would be reduced to a greater extent than properties further from the ocean.

The goal of proposed municipal service districts would be to offset the cost of protecting these properties through future beach erosion control, flood and hurricane protections works projects. The basis for creating these new districts would be to tie the cost of these project activities at a proportionate and reasonable share to the benefits that they receive.

It is anticipated that the existing and proposed municipal service districts would be utilized and combined to fund future projects. Property owners east of NC 12 and SR 1243 (district 1 & 2) would be located within two separate districts and would likely be assessed two MSD tax rates. Property owners in the proposed municipal service districts (3, 4, & 5) would likely be assessed one MSD tax rate. For example, an oceanfront property owner directly south of Bonnett Street would be located in districts 1 and 4 and would be assessed both rates. A property owner directly west of NC 12 and south of Bonnett Street would be in district 4 only and would be assessed one rate. The new districts combined with the existing districts would allow for a modified distribution of project costs. For example, districts 1 and 2 (east of 12 and 1243) could be utilized to fund 50 percent of the project costs, while the new MSDs (districts 3, 4, and 5) could be utilized to fund 25 percent of the project costs. The remaining 25 percent could be funded utilizing the existing town wide tax that is dedicated for beach erosion control projects. It is important to note that the aforementioned funding scenario is

merely an example of how these districts could be utilized and in no way represents a formalized plan for establishing rates.

The Town has in recent years completed a number of drainage and flood control projects in areas east of 158. An example of this includes the extension of the ocean outfalls and the redesign and reconstruction of the conveyance system connecting to the Red Drum ocean outfall. The Town anticipates continuing to address this work in future years and is therefore including this as an established purpose of the proposed MSDs.

3) Plan for Providing in the Municipal Service Districts One or More of the Services Listed in 160A-536

Statutory Authority:

Section 160A-536 of the North Carolina General Statutes authorizes the Town to create one or more Municipal Service Districts (MSDs) to finance, provide, or maintain for the district(s) beach erosion control and flood and hurricane protection works as well as drainage projects; the work described herein is planned for the purpose of providing these services in the proposed MSDs. Section 160A-537(a) of the North Carolina General Statutes allows the Town to establish, by ordinance, service districts upon a finding that the proposed districts are in a demonstrably greater need than other areas of the Town for services authorized by §160A-536. In order to establish an MSD or MSDs, the Board of Commissioners must hold a public hearing on the proposed district(s). Prior to this public hearing, a report must be prepared that includes: 1. a map of the proposed district(s), showing its proposed boundaries; 2. a statement showing the proposed district(s) meet or meets the standards set out in §160A-537(a); and, 3. a plan for providing in the district(s) one or more of the services listed in §160A-536. This report is intended to provide the foregoing three requirements.

The Nags Head Board of Commissioners will hold a public hearing on the proposed Municipal Service Districts on Wednesday, May 6, at 9:00 a.m. in the Board of Commissioners Meeting room.

Within FY 2019-20 and FY 2020-21, the Town intends to enter into a contract with multiple consultants to conduct planning and design work for future beach erosion control and hurricane protection works projects. This work will include the following tasks:

- Establishing data collection protocols for the Town’s annual maintenance and monitoring plan.
- Establishing a schedule for annual surveys/monitoring.
- Establishing protocols and requirements for conducting assessments/surveys on an as-needed basis pre- and post-storm events.
- Examining the Town’s existing reports and historical data to understand past project performance.
- Analyzing data and developing/refining models that will become the basis for design criteria and future project assumptions. Adjusting reach boundaries accordingly to consider how the town aggregates areas with similar performance. Establishing protocols for and considering revisions to the Town’s maintenance and monitoring plan.
- Working with the Town Board of Commissioners and staff to establish preferred strategies for planning, permitting and design of future projects. This would include consideration of timing of future efforts in conjunction with other local projects, permitting strategies and timing, and providing input to assist with the development of the Town’s funding strategy.

Future work will include design, permitting and construction of the next project as well as ongoing shoreline management initiatives.