



Robert C. Edwards
Mayor

Susie Walters
Mayor Pro Tem

Cliff Ogburn
Town Manager

Town of Nags Head

Post Office Box 99
Nags Head, North Carolina 27959
Telephone 252-441-5508
Fax 252-441-0776
www.nagsheadnc.gov

M. Renée Cahoon
Commissioner

John Ratzenberger
Commissioner

Marvin Demers
Commissioner

MEMORANDUM

To: Mayor and Board of Commissioners

From: Town Manager

Date: May 17, 2017

Re: Recommended Budget for Fiscal Year 2017-2018

For your consideration is the manager's recommended budget for Fiscal Year July 1, 2017 through June 30, 2018, which has been prepared in accordance with the NC Local Government Fiscal Control Act, as required by NC General Statute Chapter 159-11. I would like to thank Finance Director Amy Miller for her oversight and direction in putting this budget together and especially for leading the transition to a two year budget. This budget was also a result of a great deal of hard work from a number of people, particularly Deputy Town Manager Andy Garman, Deputy Finance Director Kim Blankenburg, PIO Roberta Thuman, Human Resources Director Brie Floyd and department heads.

Our mission is to serve the citizens, property owners, businesses, and visitors of the Town of Nags Head through open governance. In doing so, Town department heads were asked to directly relate funding requests to the furtherance of this mission as well as to the Town's Values, which 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.

As in the past, the manager's recommendations also allocate funding towards the Board's five strategic areas, which include:

- Parks and Recreation
- Nags Head Promotion
- Stormwater Management
- Sanitation and Recycling
- Shoreline Management

With this budget cycle, the Town will now start using a two-year budget. The first year (Fiscal Year 2017-2018) represents the proposed operating budget for the coming year. The second year (Fiscal Year 2018-2019) represents the financial plan year. Since the budget provides a basis for all fiscal policy decisions during a particular period, this budgeting methodology allows the town to be more strategic in its budget planning, reviewing operating expenses, capital projects, and revenues within a two year window. The two-year budget is particularly useful in tracking shared revenues, which represent a significant portion of the town's overall revenue, since these fluctuate on a two-year cycle based on changes to the levies of other towns in Dare County. This can also illustrate significant changes to the town's overall debt, which can have a substantial impact on the town's available revenue from year-to-year. The benefits of a two-year budget include better tracking of future budget impacts on services and financial decisions, the ability to identify future budget issues early in order to provide ample time to prepare alternatives and contingency plans, and to provide quick "what if" scenarios when reviewing revenue or expenditure options. When preparing the budget, I have asked staff to anticipate and plan for expenses over a two-year period. Changes to the 2nd year financial plan should only occur due to unfunded mandates, changes in Board goals, or other unforeseen circumstances. In Fiscal Year 2018-2019, the Board will see only the Fiscal Year 2018-2019 proposed operating budget. Staff will provide a comparison between the original financial plan and the amended operating budget. This will provide the Board with a snapshot of how closely the town adhered to its original plan. The two-year budget cycle will start again in Fiscal Year 2019-2020.

Budget Overview for Fiscal Year 2017-2018

This year's General Fund budget totals \$16,935,105, an increase of \$931,016, or 5.82% from last fiscal year. Due to beach renourishment in fiscal year 2018 or 2019, the Municipal Service District (MSD) tax rate is recommended at \$.175 and keeping the town wide rate for beach nourishment at \$0.027 in order to help supplement the project's debt payment. \$0.01 in the MSD generates \$79,548. In addition to this revenue, Dare County has committed to at least half, or \$12,573,356 million, of the estimated \$25,546,711 million project cost. The contribution from the County along with the funds from town's existing capital reserve fund enables the town to cover the debt service for the project with a lower MSD tax rate than what was established for the original project. The town anticipates adding 2.3 million cu/yd of sand along 10 miles of its 11-mile shoreline.

Mandatory Town contributions to the State Retirement System are increasing from 7.32% to 7.56% for General and Water Fund employees and increasing from 8.00% to 8.25% for law enforcement officers.

Funds are budgeted for performance-based merit increases to implement recommendations from a pay and classification study conducted in early 2016. Funding of \$93,337 is budgeted in the General Fund and \$8,736 in the Water Fund. A salary adjustment for all employees is budgeted at \$136,513 for the General Fund and \$12,815 for the Water Fund.

This budget recommends a new engineering technician position with salary and benefits of \$90,367. This cost will be split 75% in Town Manager and 25% in Water Administration. An additional Sanitation Equipment Operator I is also recommended in this budget with salary and benefits of \$61,085. Funding has also been included to convert one Police lieutenant position to a deputy police chief position.

Due to higher claims in Fiscal Year 2016-2017, the Town will see a 7% increase to the medical premiums for both employees and retirees.

The breakdown for employees hired after July 1, 2010 is as follows:

MONTHLY PREMIUMS (medical, dental, vision)

	Current Premium	New Premium	New Town's Share	New Employee's Share
Emp. Only	\$652	\$698	\$698	\$0
Emp./Spouse	\$1,523	\$1,630	\$1,257	\$373
Emp./Child	\$1,014	\$1,085	\$930	\$155
Emp./Children	\$1,199	\$1,283	\$1,049	\$234
Family	\$1,980	\$2,118	\$1,550	\$568

The breakdown for employees hired prior to July 1, 2010 is as follows:

MONTHLY PREMIUMS (medical, dental, vision)

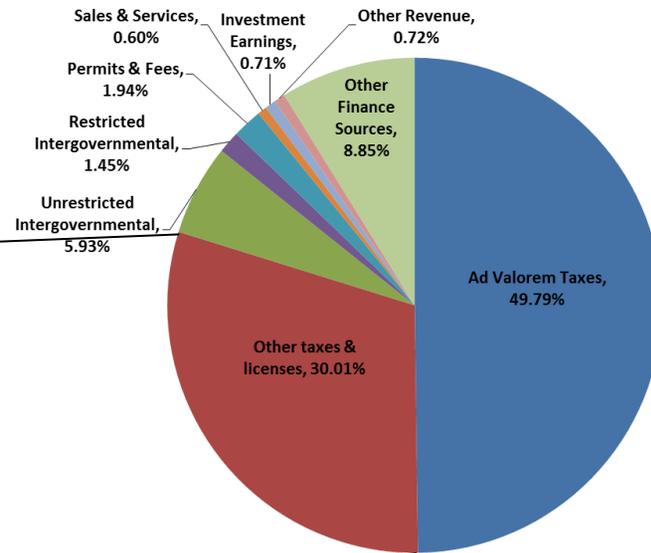
	Current Premium	New Premium	New Town's Share	New Employee's Share
Emp. Only	\$652	\$698	\$698	\$0
Emp./Spouse	\$1,523	\$1,630	\$1,397	\$233
Emp./Child	\$1,014	\$1,085	\$988	\$97
Emp./Children	\$1,199	\$1,283	\$1,137	\$146
Family	\$1,980	\$2,118	\$1,763	\$355

Budgeted Health Insurance	FY 2016-2017	FY 2017-2018	Difference
General Fund	\$1,373,262	\$1,430,842	\$57,580
Water Fund	\$175,996	\$ 196,040	\$20,044
Total	\$1,549,258	\$1,626,882	\$77,624

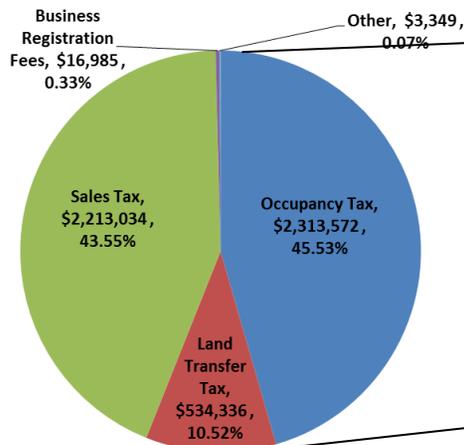
To defray the General Fund expense, a recommendation is included to use \$40,000 of the portion of fund balance committed for health insurance.

General Fund Property Values	Adopted 2016-2017	Recommended 2017-2018	Difference	Financial Plan 2018-2019
Real/Personal	\$2,314,829,805	\$2,336,131,230	\$ 21,301,425	\$2,352,484,149
Municipal Service District	-	\$ 797,476,137	\$797,476,137	\$803,058,470
Motor Vehicles	\$ 27,050,000	\$ 37,067,856	\$ 10,017,856	\$37,327,331
Total Valuation	\$2,341,879,805	\$3,170,675,223	\$828,795,418	\$3,192,869,950
General Fund Revenues				
Ad Valorem	\$6,951,016	\$8,431,670	\$1,480,654	\$8,729,014
Other Taxes & Licenses	\$5,528,294	\$5,081,276	\$(447,018)	\$5,816,152
Unrestricted Intergovernmental	\$978,000	\$1,005,000	\$27,000	\$1,009,000
Restricted Intergovernmental	\$731,218	\$246,218	\$(485,000)	\$1,370,377
Permits & Fees	\$328,850	\$328,800	\$(50)	\$334,300
Investment Earnings	\$110,000	\$120,000	\$10,000	\$125,000
Other Revenue	\$121,500	\$122,500	\$1,000	\$122,500
Sales & Services	\$80,948	\$100,750	\$19,802	\$100,750
Other Finance Sources	\$1,174,263	\$1,498,891	\$324,628	\$4,109,434
Total	\$16,004,089	\$16,935,105	\$931,016	\$21,716,527

Fiscal Year 2017-2018 General Fund Revenues



Fiscal Year 2017-2018 Other Taxes and Licenses



Shared revenues are sales, occupancy, and land transfer taxes, which are included in this budget as other taxes and licenses. The decrease in shared revenues is due to a lower total levy in Fiscal Year 2016-2017. These revenues are budgeted in Fiscal Year 2018-2019 to reflect a recommended higher Fiscal Year 2017-2018 levy due to the Municipal Service District tax levy.

	Adopted 2016-2017	Recommended 2017-2018	Difference	Financial Plan 2018-2019
Governing Body	\$191,944	\$195,383	\$3,439	\$194,083
Special Obligation Bond	\$0	\$0	\$0	\$2,661,872
Town Manager	\$874,660	\$959,934	\$85,274	\$1,001,297
Administrative Services	\$957,859	\$1,040,959	\$83,100	\$1,094,448
Information Technology	\$253,684	\$327,548	\$73,864	\$353,586
Legal	\$94,811	\$94,480	\$(331)	\$94,480
Planning and Development	\$894,653	\$836,926	\$(57,727)	\$1,535,869
Public Works	\$5,052,816	\$4,728,469	\$(324,347)	\$4,765,254
Police	\$2,454,508	\$2,607,594	\$153,086	\$2,653,532
Fire and Ocean Rescue	\$3,150,132	\$3,245,951	\$95,819	\$3,408,979
Contingency	\$125,000	\$125,000	\$-	\$125,000
Interfund	\$1,723,118	\$2,537,327	\$814,209	\$3,585,593
Stormwater	\$230,904	\$235,534	\$4,630	\$242,534
Total	\$16,004,089	\$16,935,105	\$931,016	\$21,716,527

A tax increase from 2016-2017 allowed us to stabilize the recommended Fiscal Year 2017-2018 budget even with a reduction in shared revenues.

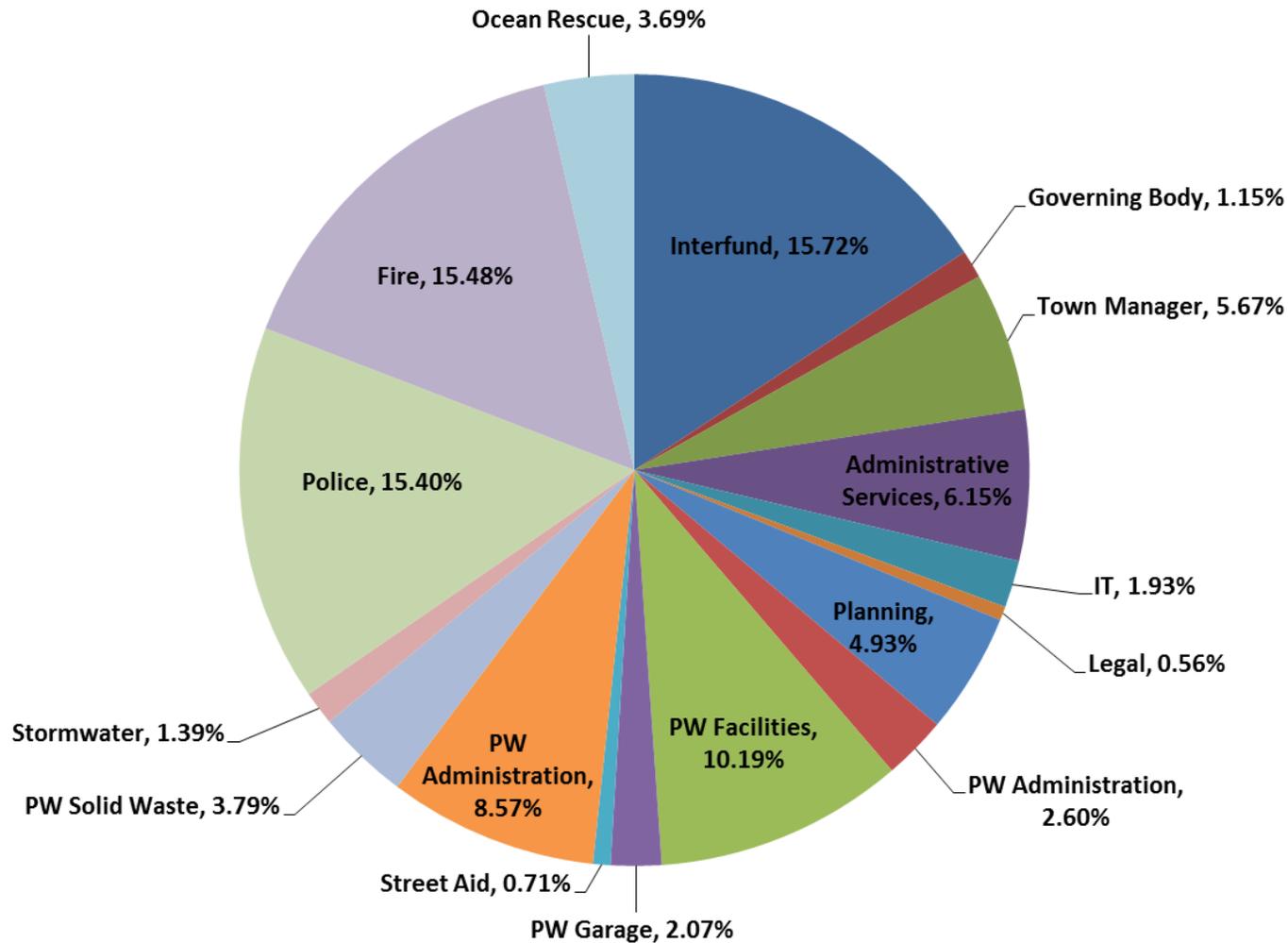
Contributions in Governing Body reflect \$10,000 for the partnership with Nags Head Woods Nature Conservancy. The contribution to the Capital Reserve Fund is the annual offset for the collection of facility fees budgeted at \$50,000, Municipal Service District taxes of \$1,392,090, and town-wide taxes of \$629,179 for repayment of the debt service bonds to be used for beach nourishment in Fiscal Year 2017-2018.

Also included is a \$.01 penny tax each (2 pennies total), or the equivalent of \$233,029 each (\$466,058 total), to set aside funding in the Capital Reserve Fund for both Parks and Paths and Stormwater.

Recommended expenditures from Parks and Paths funding for Fiscal Year 2017-2018 include:

- Dowdy Park purchase debt (year 5 of 5) \$101,180
- Dowdy Park phase II/III development \$106,820
- Beach Road multi-use-path repairs \$ 25,000

Fiscal Year 2017-2018 General Fund Expenditures



The \$235,534 Stormwater recommended budget is fully funded from the Stormwater Capital Reserve. A Stormwater Management Ten year master plan (at \$100,000/year) is recommended for funding as part of both the recommended Fiscal Year 2017-2018 budget and financial plan 2018-2019 budget. Stormwater Management Projects include: south Nags Head drainage improvements at \$50,000, Mall Drive drainage improvements at \$35,000, and Vista Colony pump automation at \$18,000.

Recommended facility fees include \$10,000 Police facility fees towards L3 Mobile Vision software/hardware and \$25,000 Fire facility fees towards the Fire Station 21 debt payment.

Capital Improvement Projects

Cash funded:

- Access control software \$ 6,800
- Street master plan-pavement condition survey \$50,000
- Taser Assurance Program \$ 7,476
- Brush truck skid unit \$18,500

Financed:

- Time/attendance software (\$36,248) debt service: \$12,560
- Boom tractor (\$155,000) debt service: \$34,096
- Bonnett St. Bath House (\$441,250) debt service: \$89,250
- Freightliner (\$160,000) debt service: \$35,196
- Police body cameras financed with vehicles \$ 2,121

Funded by Grants:

- Dowdy Park phase II/III \$10,000
- L3 Mobile Vision software/hardware \$24,500

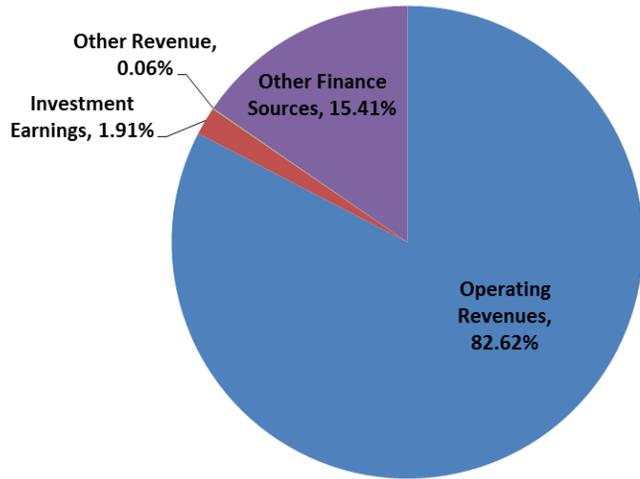
Water Fund

There are no water rate increases included in the recommended budget.

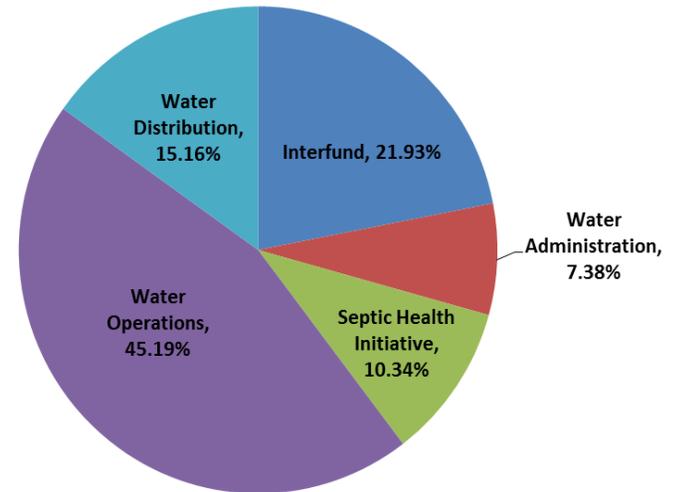
Changes to the Town's Consolidated Fee Schedule are recommended in conjunction with this fiscal year budget to include: water meter drop-ins, water tap connections, and replacement hydrants. A change to the Town's leak adjustment policy is also recommended to reduce the amount of water written off yearly below the present average of about \$60,000.

	Adopted 2016-2017	Recommended 2017-2018	Difference	Financial Plan 2018-2019
Water Fund Revenues				
Operating Revenues	\$2,747,500	\$2,657,069	\$(90,431)	\$2,748,969
Investment Earnings	\$45,750	\$61,250	\$15,500	\$63,750
Other Revenue	\$1,000	\$2,000	\$1,000	\$2,000
Other Finance Sources	\$285,096	\$495,567	\$210,471	\$814,346
Total	\$3,079,346	\$3,215,886	\$136,540	\$3,629,065
Water Fund Expenditures				
Water Administration	\$206,447	\$237,448	\$31,001	\$246,775
Septic Health	\$175,568	\$332,360	\$156,792	\$174,754
Water Operations	\$1,473,020	\$1,453,307	\$(19,713)	\$1,778,725
Water Distribution	\$617,481	\$487,414	\$(130,067)	\$723,454
Interfund	\$606,830	\$705,357	\$98,527	\$705,357
Total	\$3,079,346	\$3,215,886	\$136,540	\$3,629,065

Fiscal Year 2017-2018 Water Fund Revenues



Fiscal Year 2017-2018 Water Fund Expenditures



Capital Project

Total Cost

Decentralized Wastewater Management Plan

\$150,000 cash

Summary

In closing, below are the total budgets included in the Fiscal Year 2017-2018 budget.

General Fund	\$	16,935,105
Water Fund	\$	3,215,886
Capital Reserve Fund	\$	8,990,861

Looking ahead to Fiscal Year 2018-2019

- Projecting at least a \$0.01 tax increase due to anticipated legislation (SB 126) which reduces Article 40 and the hold harmless sales tax. We anticipate a loss in sales tax revenue estimated at \$271,000.
- Levy assumes .7% growth from Fiscal Year 2017-2018 levy
- Assumes the Town of Nags Head percentage of county-wide shared revenues increases to 8.89% from 7.4% in Fiscal Year 2017-2018 (assuming no change to levies for Dare County or other towns).
- Includes a 2.0% merit adjustment (no COLA) above Fiscal Year 2017-2018 recommended salaries.
- Includes a health insurance increase of 4.6% for employees and retirees above the Fiscal Year 2017-2018 rates and using the remaining \$40,000 in health care savings from Fiscal Year 2016-2017.
- Includes yearly Other Post Retirement Benefits (OPEB) funding contingent upon BOC approval of the initial \$100,000 investment.

Includes two new positions-

- Sanitation Operator
- Facilities Maintenance Technician

Recommended debt schedule and CIP is included as part of the budget document, but major initiatives include:

- First year debt payment of beach renourishment/first \$600,000 supplemental debt payment from Dare County going to the beach nourishment capital reserve fund along with an estimated \$430,855 restricted portion on sales tax from the municipal service district going to beach nourishment capital reserve fund.
- Pedestrian Plan Implementation-\$500,000 Outer Banks Visitors Bureau grant funded with the remaining \$1,109,000 financed over six years using the parks and paths capital reserve fund.
- Both the Dowdy Park (from Parks/Paths reserve) and Windmill Point land final debt payments are in Fiscal Year 2018-2019.
- New Fire pumper

Water Fund-

- A 4% increase assumed for water rates/sales. Rates will be formally recommended in the Fiscal Year 2017-2018 budget from the Water Master Plan and Fiscal Year 2018-2019 budget will be the first year we are able to implement and follow the Plan.
- South Nags Head tower cleaning, repairing and painting \$274,450.
- Barnes Street waterline extension and tie-in \$235,000.
- Diamond Street to Danube Street water line tie-in \$193,000.