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Bob Sanders
Commissioner

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Commissioner

Vacant
Commissioner

June 6, 2025

To: Board of Commissioners

From: Andy Garman, Town Manager

RE: Changes to fiscal year 2025/2026 recommended budget as a result of the May 21, 2025, budget workshop

At the May 21, 2025, budget workshop, the Board of Commissioners consensus was to increase the ad valorem tax rate for the fiscal year 2025/2026 budget to 23.20 cents (1.2 cents higher than the recommended budget). Fiscal year 2025/2026 is a revaluation year, and the revenue neutral rate is 20.87 cents per \$100 of valuation. The Town Manager's Recommended Budget included an ad valorem rate of 22 cents, a 1.13 cent tax increase above the revenue neutral rate. After the Town Manager's Budget was presented, staff compiled a list of the recommended tax increases for all six Dare County municipalities. Nags Head's recommended tax increase was the lowest. The other municipalities' recommended tax increases ranged from 2.45 cents to 4.7 cents. When these other towns raise taxes, it impacts the Town of Nags Head's distribution of shared revenues. Shared revenues are occupancy, sales, and land transfers taxes that are distributed to the towns by Dare County. These revenues are distributed in relation to the tax levy as a percentage of the whole. The percentage lags one year behind, so any levy changes in fiscal year 2025/2026 will adjust the distribution in fiscal year 2026/2027. Based on the research after all the budgets were presented, Nags Head is estimated to lose over \$400,000 in shared revenue compared to the financial plan for fiscal year 2026/2027. This was because Nags Head's share of the county-wide levy would decrease based on the other towns' tax increases. The Board gave direction to add an additional 1.2 cents to the fiscal year 2025/2026 budget. This would allow the Town to increase its shared revenue percentage in fiscal year 2026/2027, estimating a \$100,000 reduction in shared revenues compared to what was recommended in the financial plan. With the revaluation, one cent of ad valorem tax generates approximately \$500,000. Adding the additional 1.20 cents not only helps buffer the shared revenue loss, but it makes up for the \$100,000 financial plan shared revenue shortfall. This allows the fiscal year 2026/2027 financial plan year budget to be balanced with ad valorem taxes.

Because the Town Manager did recommend a balanced budget, the board gave direction on how the additional revenue should be reflected in the budget. The Manager's townwide ad valorem tax rate restricted 1.50 cents to be used for beach nourishment. This was an .08 cent decrease to the revenue neutral rate of 1.58 cents. The Board advised the Town Manager to increase the beach nourishment portion of the townwide ad valorem tax to 2.00 cents. An additional .50 cent would generate \$250,000 beyond what was included in the Recommended Budget. This is done in anticipation of a beach nourishment project occurring in fiscal year 2026/2027. The beach nourishment tax rates will likely be evaluated in that fiscal year when the Town will have a clearer picture of construction costs. The taxes raised from this increase will help defray

future tax increases needed to finance this project. An additional .70 cent will generate \$350,000 that will be used to reduce the fiscal year 2025/2026 fund balance appropriation of \$400,000 that was used to balance the budget.

Additionally, the University of North Carolina School of Government published an article on May 15, 2025, regarding budgeting for sales and use tax payments and refunds. North Carolina Local Governments initially must pay sales and use taxes to North Carolina and then seek reimbursement from North Carolina. The Town of Nags Head records the initial payments as a non-budgetary item, accounting for the reimbursement on the balance sheet. In order to follow appropriate budgeting and accounting practices to ensure compliance and transparency under [N.C.G.S. 159-8](#), all moneys received or expended by a local government unit must be included in the annual budget ordinance. Therefore, an appropriation sufficient to cover the full cost of the annual sales tax payments and reimbursement from the State is budgeted. This increases the budget ordinance, but the expenditure and refund reimbursement neutralize each other as they are both expected within the fiscal year 2025/2026 budget. Therefore, this does not have any further impact on revenues or expenditures.

Below is a reconciliation of changes to the General Fund budget:

Fiscal Year 2025/2026 Manager's Recommended Budget General Fund Ordinance		\$31,430,569	
Ad Valorem Revenues Current	Increase tax rate from 20.5 to 21.2 cents	\$345,479	Net Increase
Current Townwide Beach Nourishment Tax Revenues	Increase tax rate from 1.5 to 2.0 cents	\$246,771	Net Increase
Current DMV Revenues	Increase tax rate from 22.0 cents to 23.2 cents	\$8,025	Net Increase
Interfund Transfers from the General Fund to the Capital Reserve Fund	Increase Townwide Beach Nourishment Tax rate from 1.5 to 2.0 cents	(\$250,103)	Net Increase (includes DMV portion of taxes)
Appropriated Fund Balance	Reduce manager's recommended appropriation of \$400,000	(\$350,172)	Net Increase - Ad Valorem Revenues and DMV Revenues
Unrestricted Intergovernmental Revenues - Sales and Use Tax Reimbursement	Per N.C.G.S. 159-8	\$400,000	Estimate based on historical reimbursements
Sales and Use tax (Expenditure)	Per N.C.G.S. 159-8	(\$400,000)	Budgeted in Administrative Services Department
Fiscal Year 2025/2026 General Fund Budget Ordinance		\$32,080,672	Beach Nourishment/Sales Tax Increases