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M. Renée Cahoon
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TO: Mayor and Board of Commissioners

FROM: Greg Sparks/Interim Town Manager; Andy Garman, Deputy Town Manager;
Amy Miller, Finance Officer

DATE: June 2, 2021

RE: Board Guidance to modify the Recommended FY 2021-22 Budget from May 5, 2021

The FY 2021-22 budget was presented to the Board of Commissioners at its May 5, 2021 meeting. Since that time, the Board has held two workshops to discuss budget details. The first workshop focused on tax rate scenarios in the proposed municipal service districts followed by discussion of the pay and classification study and a review of departmental budgets. The second workshop was a continuation of departmental budgets with additional information on the pay and classification study. The following is a summary of Board guidance to modify the budget resulting from these discussions:

Municipal Service District Tax Rates/Beach Nourishment Capital Reserve Fund

The board discussed potential tax rates for the proposed municipal service districts with the goal of offsetting upcoming expenses for future nourishment efforts including planning, engineering and surveying costs as well as paying for the town's portion of the FEMA public assistance project related to Hurricane Dorian. Consensus of the board was to add ¼ cent to the townwide tax rate for beach nourishment bringing the overall rate from 2.25 cents per \$100 of assessed value to 2.5 cents per \$100 of assessed value. Additionally, for districts 3 and 6, which include all properties east of US 158 from Eighth Street to Gulfstream Street, an additional ½ cent was suggested primarily for planning and engineering costs related to future projects as well as development of a multi-decadal beach nourishment master plan. In district 4, which includes South Nags Head (from Gulfstream to the southern town limits), an additional 1 cent was suggested to cover planning and engineering costs for future projects as well as to pay for the town's share of the Hurricane Dorian project which will occur in South Nags Head.

It was noted that tax rates in the existing and proposed districts could be redistributed in future years to pay for project related expenses relative to benefits received. The board emphasized that all town property owners should bear a fair share of the tax burden. Debt from the 2019 project will be paid off in FY 2024. Therefore, FY 2025 would be the first budget year where the town would not have a debt payment from a previous project. Districts 1 and 2 are currently being assessed for the 2019 project. In FY 2025, the board will want to consider how taxes may be distributed for future projects between all MSDs.

General Fund

The board requested that staff investigate what would be required to provide a safe facility at the Nags Head Skate Park at the YMCA. The skate park has been removed from the budget pending this investigation.

Fire Truck – The board provided guidance to purchase a demo fire truck with the goal of receiving the equipment sooner. This would result in no change to the budget.

Stormwater – The budget includes \$255,000 to complete a stormwater project in Old Nags Head Place. The board provided guidance that utilizing these funds would be contingent upon the Old Nags Head Place homeowner's association contributing \$100,000 to the project for a total value of \$355,000.

Pay and classification study – at the first budget workshop, the board appointed Mayor Pro Tem Siers and Commissioner Cahoon along with staff and Becky Veazey of the Maps Group to review the draft pay and classification study and provide recommendations back to the board. Committee members reported that the value of the committee was to lead the market with respect to pay in the region. It was noted that additional funding would be required to accomplish this. The recommended budget included \$100,000 to fund the recommendations from the pay and class study. Staff calculates that an additional \$400,000 is needed to fund the study and accomplish the board's goals. The board directed staff to provide adequate funding in the budget to implement the pay and class study. The recommended budget included a one cent tax increase to fund general fund expenditures. The board acknowledged that an additional one cent tax increase may be necessary above the recommended budget to accomplish the town's goals for FY 2021-22. In brief, the goals included:

- Fully funding the town's equipment replacement schedule and no longer deferring needed equipment as has been done in prior years.
- Fully funding the capital improvement plan which includes maintenance of key assets including streets, stormwater, waterlines, beach accesses, vehicles and equipment, and funding planning and expenses to implement the public works master plan.
- Fully funding the recommendations of the pay and class study in order to lead the market in the region for local government employee compensation.
- Fund a 2.6% Cost of Living Adjustment (COLA) for all employees per the March 2021 Consumer Price Index (CPI) as opposed to the recommended 1.4% COLA per the January 2021 CPI, and move the pay scales accordingly. This aligns with committee guidance in leading the regional market with respect to pay.

Water Fund

No changes to the water fund budget were requested by the board from the two workshops, other than to include COLA and pay and class funding based on committee guidance.

The attached Budget Public Hearing Notice reflect the Town Manager's recommended budget from May 5, 2021.