

APPENDIX A



May 20, 2020

The Honorable Town Council
Town of Duck, North Carolina

Dear Council Members:

I am pleased to transmit the Proposed FY 2021 Budget to each of you for consideration. As you know, FY 2021 has many additional factors that will greatly influence the overall spending plan, including the recently completed Dare County revaluation of real property, the tax rates associated with the two Municipal Service Districts (MSDs) established to assist in funding the Town of Duck Beach Nourishment Project, and the potential financial impacts of the COVID-19 Pandemic. As it relates to the Dare County revaluation, I am recommending the adoption of the Revenue Neutral Rate of \$0.1964 for FY 2021 from the current tax rate of \$0.225. Similarly, I am recommending reducing the tax rates for the two MSDs. Under my proposal, the tax rate for MSD-A would drop from \$0.148 (Revenue Neutral Rate of \$0.1296) to \$0.068 and MSD-B from \$0.315 (Revenue Neutral Rate of \$0.285) to \$0.272. In terms of the COVID-19 Pandemic, my assumptions are a bit more optimistic than some revenue predictions; however, in the budget I have identified proposed spending that could be delayed or eliminated if revenues do not track with my projections.

To summarize briefly, the proposed FY 2021 Budget represents an overall 8.15% decrease in revenues from the FY 2020 Amended Budget. This decrease is due to multiple factors, including lower Municipal Service District (MSD) revenue, lower shared revenues, (sales, occupancy and transfer taxes), lower permit fees and lower investment earnings (as shown in *Miscellaneous: Other*). These decreases are not offset by increases in general ad valorem revenues and grant funds. I will not repeat my previous comments about the Dare County revaluation of real property and MSDs from above; except to note that the reevaluation showed an increase of real property values of 16% from \$1,568,779,000 to \$1,821,595,800; however, when appeals are processed, the total value of property is expected to drop by 5% to \$1,812,487,821. It is this lower number on which the Revenue Neutral Rate is based. More than any of the Town's revenue sources, shared revenues (sales, occupancy, and land transfer taxes) are the most vulnerable to impacts from the COVID-19 Pandemic. The proposed FY 2021 Budget has an optimistic take on the ability of these revenue sources to rebound from the losses currently being experienced at the end of FY 2020. Nonetheless, shared revenues for FY 2021 are expected to be 4.6% lower than what was budgeted for in FY 2020 and only 3.3% higher than FY 2020 end of year estimates, accounting for COVID-19. Further impacting shared revenues is a lower percentage of return from these revenue sources due to tax rate increases in other Towns, which impacts the distribution formula. In FY 2020 the Town of Duck received 14.4% of the occupancy and land transfer taxes returned to the Dare County towns and 4.45% of sales tax revenues. For FY 2021 these

percentages are expected to decrease to 14.08% of occupancy and land transfer tax revenues and 4.36% of sales tax revenues. Of the remaining revenue sources of the Town, Unrestricted Intergovernmental is expected to increase by 3.9% and Restricted Intergovernmental (grants) is expected to increase by 22%, while Permits and Fees are expected to decrease by 6.5%. Lastly, Miscellaneous revenue is expected to decrease by 8.6%. For FY 2021, the Town of Duck is not expected to enter into any installment purchase contracts. An interfund transfer will be made from the Capital Reserve – Beach Fund to pay for debt associated with the Town’s Beach Nourishment Project and beach profile surveys in the project area (\$1,258,233).

Overall, expenditures for the FY 2021 Budget are expected to decrease by a slight 8.15% when compared to the FY 2020 Amended Budget. This decrease is due to several different factors, including selected cuts of Capital Improvements Project (CIP) and operational items in anticipation of revenue shortfalls as a result of the impacts of the COVID-19 Pandemic. In addition, if it is necessary to consider further cuts or project delays to mitigate against revenue shortfalls as the revenue picture becomes clearer, several projects have been identified, including improvements/repaving to/of the Duck Trail, Phase IV of the Comprehensive Pedestrian Improvements, the Town of Duck Living Shoreline Project, and funding for Town Events, which represents a possible \$968,563 in expenditures that could be available to assist in meeting additional revenue shortfalls that are not expected at this time.

The FY 2021 Budget also includes several initiatives and projects in addition to those listed above and employee and operations costs. Among these are the following, which are elaborated upon in the individual departmental pages:

- funding for a Part-Time Building Technician Position (\$28,000);
- additional Part-Time Firefighter funding (\$38,500)
- contingency funding (\$75,000);
- direct appropriation to the fund balance (\$9,953); and
- transfer to the Beach Capital Reserve Fund related to the Beach Nourishment Project (\$671,820).

In addition, the FY 2021 Budget also includes funding for the following Capital Improvements Program (CIP) items. These items include the following:

- debt service for the construction of the Town Hall Complex, including the purchase of the property on which it sits (\$250,732);
- purchase of replacement Police Mobile Data Terminals (\$22,000);
- replacement of Fire Department turnout gear (\$15,000);
- debt service on Engine 111 replacement (\$57,722);
- funding for enhanced dune planting/fencing/fertilization/monitoring (\$151,000); and
- debt service on the Community Development vehicle (\$17,942).

Two additional projects that may come online during fiscal year 2021 are the final design of the Public Safety Building and permitting for the Town of Duck Beach Renourishment Project. If these projects do come online during the fiscal year, funding will need to be appropriated from the Fund Balance and the Beach Nourishment Capital Reserve Fund.

The Proposed FY 2021 Budget that I am transmitting to the Council today represents what I believe to be a pragmatic spending plan for the upcoming fiscal year. As the budget was developed, the following goals were used as a guide:

- strict use of the Revenue Neutral Rate for ad valorem taxes;
- lower the tax rates associated with the MSDs for the Town of Duck Beach Nourishment Project;
- develop realistic shared revenue estimates that accounts for impacts from COVID-19;
- identify expenditures that can offset lost revenues if estimates are not met;
- provide funding to meet all operational demands of the Town;
- review the CIP and eliminate or defer specific items;
- provide funding for the Beach Capital Reserve Fund;
- provide a 1.5% merit salary increase and a 3% a merit bonus for employees; and,
- provide a direct appropriation of revenue into the fund balance.

Of these goals, my Proposed FY 2021 Budget meets each of them, granted only narrowly in some cases. I look forward to discussing the budget in detail with you over the next several weeks.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chris', written in a cursive style.

Christopher J. Layton, MPA, ICMA-CM
Town Manager