



April 18, 2018

The Honorable Town Council
Town of Duck, North Carolina

Dear Council Members:

I am pleased to transmit the Proposed FY 2019 Budget to each of you for consideration. As you know from the Annual Retreat held in February 2018, this budget request will require that some tough decisions be made by the Council. I, of course, am referring to the request from the Police Department for two new police officers and the request from the Fire Department for three new firefighter/emt positions. Combined, these five positions will increase employee costs by \$274,189 for FY 2019, which is included in the Proposed FY 2019 Budget. To offset these costs, a tax rate increase of 1.5 cents is recommended for FY 2019 that would generate \$234,510. The proposed increase will not impact a loss in shared revenues (sales, occupancy and land transfer taxes) anticipated for FY 2019, but will reduce the impact of losses in shared revenues for FY 2020.

To summarize briefly, revenues in the Proposed FY 2019 Budget of \$9,983,718 represent a 6.4% decrease from the FY 2018 Amended Budget. The FY 2019 Budget is lower than the FY 2018 Amended Budget, despite the tax increase of 1.5 cents, due to lower shared revenues, grant revenues and interfund transfers and the lack of debt proceeds and fund balance transfers in FY 2019. Ad Valorem revenues will increase by a growth factor of 0.25% in total assessed values, plus the additional revenue from the 1.5 cent tax increase of \$234,510. The average tax levy increase of the tax rate change from 21 to 22.5 cents, based on the average house cost of \$569,960, would be \$85.49. Shared revenues (sales, occupancy, and land transfer taxes) are expected to decrease by 5% for FY 2019 when compared to the FY 2018 End-of-Year projections. This decrease in shared revenues is the result of a lower percentage of return from these revenue sources due to tax rate increases in FY 2018 by Dare County and the Town of Nags Head. Of the remaining revenue sources of the Town, all are expected to be the same or slightly above or below, in FY 2019 as was budgeted for in FY 2018, except for Restricted Intergovernmental (grants) and Miscellaneous revenues which are expected to be lower than FY 2018. Building related permits and fees are expected to remain strong in FY 2018.

On the expenditure side, the Proposed FY 2019 Budget is also expected to decrease 6.4% when compared to the FY 2018 Amended Budget. Notable projects and initiatives that are included in the budget are: the addition of two new police officer positions (\$110,032); the addition of three new firefighter/emt positions (\$164,157); funding for Phase II of the Comprehensive Pedestrian Plan Improvements (\$790,570); and debt service on the Town of Duck Beach Nourishment Project (\$1,469,611). In addition, funding is provided for the painting of the exterior of the Town Hall and Meeting Hall (\$30,000); the purchase of a new BDR Server and computer firewall (\$13,500); to outfit the new police officers with radios, gear and weapons (\$40,970); for two new police patrol vehicles for the new police officers (\$94,800); to change the status of the Community Development Administrative Assistant from part-time to full-time (\$27,996); and for updates to the Town of Duck Land Use Plan (\$40,000). The Capital Improvements Program (CIP) is also funded, with only a few changes from what was presented at the Annual Retreat.

The Proposed FY 2019 Budget that I am transmitting to the Council today represents what I believe to be a pragmatic spending plan for the upcoming fiscal year. It is never easy to recommend a tax rate increase; however, the argument has been clearly made by both the Police Chief and the Fire Chief that the need for the five requested positions, which is driving the tax rate increase, is required if current service delivery levels and goals are to be met. The alternative is to not meet these service delivery levels and goals, which is a decision best made by the Council.

As the budget was developed the following goals were used as a guide:

- develop an ad valorem tax rate increase that meets current, and to the extent possible, future needs of the Town;
- provide sufficient funding to meet all operational demands of the Town;
- fully fund the CIP, but delay certain items that can wait to be funded;
- provide sufficient funding for the Beach Capital Reserve Fund, not just from the Municipal Service Districts portion, but also the General Fund portion of the annual debt payments;
- provide a 1.5% merit salary increase and a larger percentage of a merit bonus for employees; and,
- provide a direct appropriation of revenue into the fund balance.

Of these goals, my Proposed FY 2019 Budget meets each of them. I look forward to discussing the budget in detail with you over the next several weeks.

Sincerely,



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