



Town of Southern Shores

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May 2, 2023

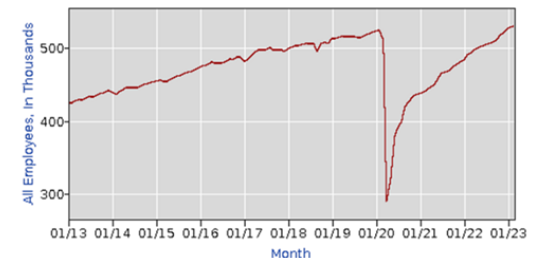
Recommended Budget for Fiscal Year 2023-2024

Mayor Morey, Mayor Pro Tem Neal, Councilwoman Sherlock, Councilmen Holland and Batenic:

Presented for your consideration is the Town manager's recommended budget for Fiscal Year July 1, 2023, through June 30, 2024, which has been prepared in accordance with the North Carolina Local Government Fiscal Control Act, as required by North Carolina General Statute Chapter 159-11. This budget is a result of a great deal of hard work from all staff, particularly Finance Officer Bonnie Swain.

Inflation continues to impact the Town's budget and personnel. Rising rapidly during 2021, the consumer Price Index (CPI) twelve-month percent change recently peaked at 9.1% in June 2022. While this index has since fallen to 6.0% as of February 2023, this is still significantly higher than the Federal Reserve's target of 2.0%. In order to combat inflation, the Federal Reserve has continuously raised interest rates since 2022, most recently raising them another quarter of a percentage point in March 2023.

Tourism continues to be very strong. The Dare County Tourist Bureau reported a 33.78% increase in gross occupancy collected for the 2021 calendar year. Growth continued in 2022 with an increase of 5.60%. Thus far in 2023, the months of January and February show a less than 1% increase which could signal a leveling out. A graph produced by the US Bureau of Labor Statistics shows a statewide recovery in the leisure and hospitality industry.



The Town continues to realize strong revenues for both sales and occupancy taxes. The pre-Covid budget, 2019-2020, saw sales and occupancy revenue at \$948,993 and \$1,001,880 respectfully. The Town is expected to receive approximately \$1,750,000 in sales and \$1,800,000 in occupancy for the current FY and is budgeting \$1,678,069 and \$1,815,928 for FY 2023-2024. The difference between shared revenues pre-covid as compared to FY 23-24 is 76.82% increase for sales and 81.25% increase for occupancy. This is equivalent to approximately \$1.5 million or a 9.24 cents tax increase. Staff recognizes that eventually these revenues will decline and are cautiously watching to see if these numbers go back to pre-covid figures in order to be able to maintain a sustainable budget. This expectation was accounted for in the planning of the current FY 22-23 budget. The Town did not experience the leveling out of revenues as expected except for land transfer. Although increases are expected in sales and occupancy taxes in the next fiscal year, a further drop in land transfer tax is anticipated.

Budget Overview for Fiscal Year 2023-2024

This year's General Fund budget totals \$9,731,450, an increase of \$940,674 or 10% from the Fiscal Year 2022-2023 adopted budget. Last year's budget noted "while a tax increase for General Fund Expenditures is not recommended at this time, a tax increase will likely be part of the FY 2023-24 budget". The same can be said this year looking forward. The tax rate had not increased for over nine consecutive fiscal years until 2021-22 when taxes were raised four cents town wide to pay the loan for the beach nourishment project. Over those years the Town experienced a decline in shared revenues consequently. With the increase of four cents, the impact on shared revenues was an increase of 2.17%. Last year, a tax increase of 2.2 cents would have balanced the budget. One cent in ad valorem taxes generates \$167,039. This year revenues will match expenditures, marking the first year since 2021 that an appropriation from Fund Balance was not necessary. Therefore, a tax increase is not recommended at this time. The budget recommends no change in the tax rates already established for the beach nourishment debt service.

Use of Fund Balance

Through several years of careful and deliberate conservative budgeting, the Town has accumulated a large fund balance. These funds can be used to balance the budget, pay for large capital items, and possibly be transferred to the Capital Reserve Fund for future project needs. Ideally, fund balance should be used for future projects rather than budgeted for annual operating expenses. Last year revenues exceeded expenditures negating the appropriation from fund balance.

While funding to replace the Trinitie/Juniper Trail Culvert is not accounted for in a line item, it is anticipated that as a result of planning and permitting efforts currently underway, a large use of Fund Balance will be used for construction.

The Town recently committed \$400,000 from Fund Balance for the purchase of the flat top home located at 13 Skyline Dr, which has been serving as the office for the Outer Banks Community Foundation.

Capital Improvements

Long-range plans articulate the Town's vision and provide a framework for how the Town should grow and develop, provide public services, and maintain the qualities that define the Town of Southern Shores. The Town Council has emphasized the need to address street maintenance as well as stormwater management. Staff will continue to identify projects and recommend funding those projects when they become construction ready.

In 2021 the Town Council approved a 10-year street improvement plan generated by an engineering firm. The recommended budget includes \$1 million for funding year three of this plan. The sidewalk from Triangle Park at the Duck Road and Ocean Blvd split up to East Dogwood Trail is budgeted at \$328,416, which includes a \$150,000 grant from the Outer Banks Tourism Bureau.

A new truck for the Public Works Department is also recommended for funding.

Capital Reserve Fund

The Town established a capital reserve fund in 2007 which was amended in 2012 and periodically appropriates money to the reserve fund. Establishing a capital reserve fund affords the Town a more formalized mechanism to save money for future capital expenditures. It also provides greater transparency than using fund balance because the Council must indicate how it ultimately intends to expend the moneys. It is a less flexible savings option, though. Once money is appropriated to a capital reserve fund, there it must be used for capital expenditures. The funds may not be used to fund operating expenses, even in an emergency situation.

	Beach			
	<u>Nourishment</u>	<u>Canals</u>	<u>Other</u>	<u>Total</u>
Beginning Balance 7/1/21	250,000	118,000	89,450	457,450
FY 22 contributions	1,707,927	20,000	-	1,727,927
Interest	742	-	-	742
Balance 6/30/22	1,958,669	138,000	89,450	2,186,119
FY 23 contributions FROM GF		100,000		
FY 23 contributions TO GF	(177,415)			
Interest	12,078			
	1,793,332	238,000	89,450	2,120,782

Beach Nourishment

FY 2023-2024 marks the third year of debt service payments for the 2022/2023 beach nourishment project, budgeted at \$11,325,189. Funding for this project consists of Dare County Occupancy Tax for Beach Nourishment at \$4,371,401, Department of Environmental Quality Grant Award of \$1,408,247 and Town contribution of \$5,545,541. The Town adopted two Municipal Service Districts to generate the necessary revenue to meet its contribution including \$0.715 for those in MSD 1 and \$0.03 for those in MSD 2. All properties in the Town paid an additional \$0.04 in taxes as part of this contribution which brought the tax rate from \$0.1958 to \$0.2358. Additionally, to lower the tax rate for all properties, the Town Council approved a total appropriation from Fund Balance of \$1,000,000. These rates can be set in any manner that generates the required revenue to cover the debt service for the project.

One cent in MSD 1 generates \$27,535 for a total of \$196,576. One cent in MSD 2 generates \$58,759 for a total of \$176,015, and one cent generates \$167,039 town wide for a total of \$668,156. Beach Nourishment Revenue had a 99.65% collection rate.

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Expenditures- Beach Nourishment	52,128	1,202,939	1,182,088	1,161,237	1,140,385	1,119,534
Debt Service to PNC						
	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Revenues - repay Debt Service						
MSD 1	195,127	197,602	196,576	196,576	196,576	196,576
MSD 2	174,324	176,716	176,015	176,015	176,015	176,015
Town Wide	638,338	641,738	644,404	644,404	644,404	644,404
each Fund Allocation from CRF to GF for Debt Payment		177,415	165,093	144,242	123,390	102,539
		1,193,471	1,182,088	1,161,237	1,140,385	1,119,534
Transfer to Capital Reserve for Beach Fund	1,707,927					

Personnel

Merit funds are budgeted at \$114,113. Merit increases are budgeted at a maximum of 5% depending on individual performance evaluations. COLA is recommended at 6.5% for each employee at a cost of \$122,022.

Mandatory Town contributions to the State Retirement System are anticipated to increase from 12.13% to 12.88% for general employees, while increasing from 13.04% to 14.10% for law enforcement officers.

Small groups medical insurance renewal rates are based on statewide claims for the year of all small groups. The Town will see an approximate 5% increase to the medical premiums for employees.

	<u>FY 2022-2023</u>	<u>FY 2023-2024</u>
Health Insurance	\$15,262 monthly	\$16,056 monthly (a yearly increase of \$9,521)

The Town provides a "Cafeteria Plan" to offset the cost of dependent health care of \$675 per month. A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements and regulations. A 3.7% increase is recommended equaling \$25 per month.

The Town has spent considerable efforts on attracting and retaining new employees. In an effort to incentivize long tenured employees, retiree health benefits are recommended for revision by removing the cap placed on retiree premium reimbursement. Retiree premiums are recommended to be reimbursed in full, providing the benefits are equal to or less than active employees. The 25-year requirement for retirees to receive benefits is recommended to be in accordance with a graduated scale of, 10-14 years receiving 50%, 15-19 years 75% and 20 years or more 100%.

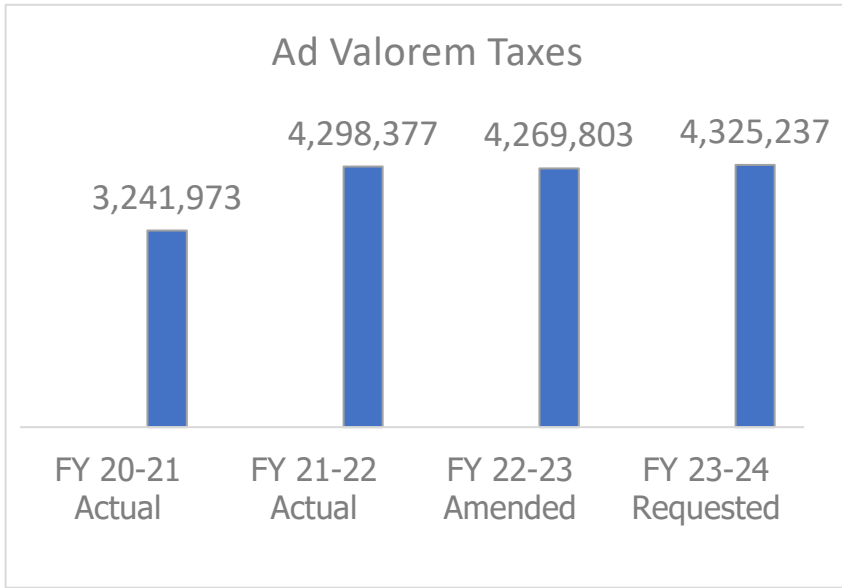
In recognition of the long tenured employees who have made a commitment to the Town, an increase in longevity pay is recommended.

	Present	Recommended
0-4 years	0	0
5-9 years	\$500	\$1,000
10-14 years	\$1,000	\$2,000
15-19 years	\$1,500	\$3,000
20-24 years	\$2,000	\$4,000
25 or more	\$2,500	\$5,000

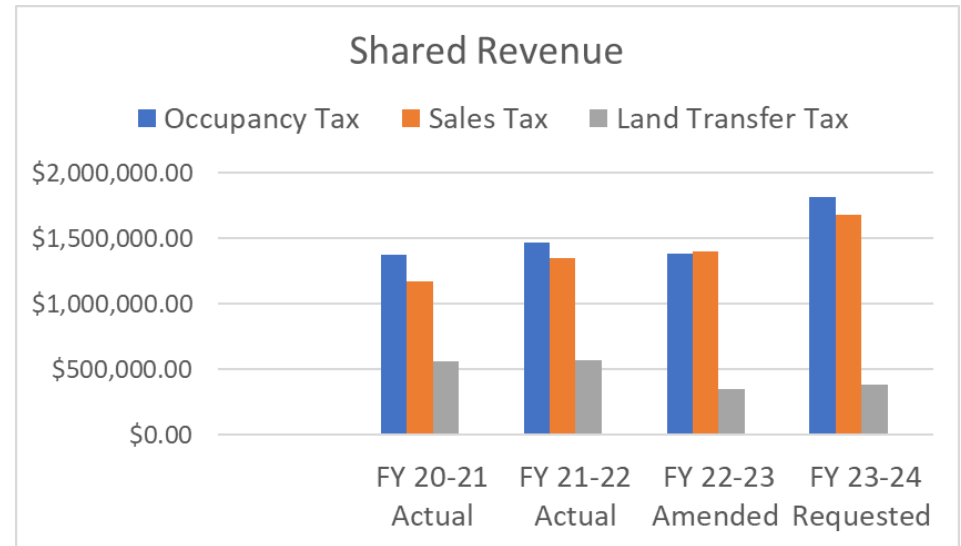
General Fund Summary

	FY 20-21 Actual	FY 21-22 Actual	FY 22-23 Amended	FY 23-24 Requested	FY 24-25 Planned
Revenues:					
Ad valorem taxes	3,241,973	4,298,377	4,269,803	4,325,237	4,352,700
Occupancy, Sales Tax & Land Transfer Tax:	3,112,145	3,389,529	3,132,670	3,876,770	3,663,701
UNRESTRICTED Intergovernmental Revenues	429,641	461,705	450,979	453,500	453,500
RESTRICTED Intergovernmental Revenues	492,519	166,963	212,000	310,000	160,000
Permit and Fees	185,560	180,405	172,500	197,250	197,250
Other revenues	16,880	41,487	303,768	403,600	403,600
SubTotal:	7,478,718	8,538,466	8,541,720	9,566,357	9,230,751
Transfer IN from Special Revenue Fund	-	471,354			
Transfer IN from Capital Project Fund		233,882			
Transfer IN from Capital Reserve Fund			177,415	165,093	165,093
Appropriated-Undesignated Fund Balance			2,218,293		
Total:			10,937,428	9,731,450	9,395,844
Expenditures:					
Administration Department	985,138	1,041,338	1,227,037	1,337,842	1,373,278
Planning & Code Enforcement Department	275,158	324,981	445,733	422,729	410,331
Police Department	1,614,448	1,818,315	2,246,071	2,334,697	2,525,712
Streets, Bridges and Canals	1,134,814	208,675	4,021,216	2,690,329	2,236,062
Public Works Department	519,555	576,770	818,824	679,569	716,454
Sanitation Services	787,762	826,717	880,555	921,500	967,013
Fire Contracted Service	866,333	964,378	1,004,243	1,073,539	1,073,539
Ocean Rescue Contracted Service	179,700	176,000	193,749	221,245	229,245
Total Operating General Fund Expenditures	6,362,908	5,937,174	10,837,428	9,681,450	9,531,634
REVENUES OVER (UNDER) EXPENDITURES	1,115,810	2,601,292			
Transfer OUT to Capital Reserve Fund- Canals	20,000	20,000	100,000	50,000	50,000
Transfer OUT to Capital Reserve Fund-Beach Fund		1,707,927			
		1,727,927	10,937,428	9,731,450	9,581,634
.01 = \$167,039					

Revenues



The increase in ad valorem revenues in FY 22 are due to the tax increase for the beach nourishment project. The County is planning a revaluation of all Dare County property in FY 2025.

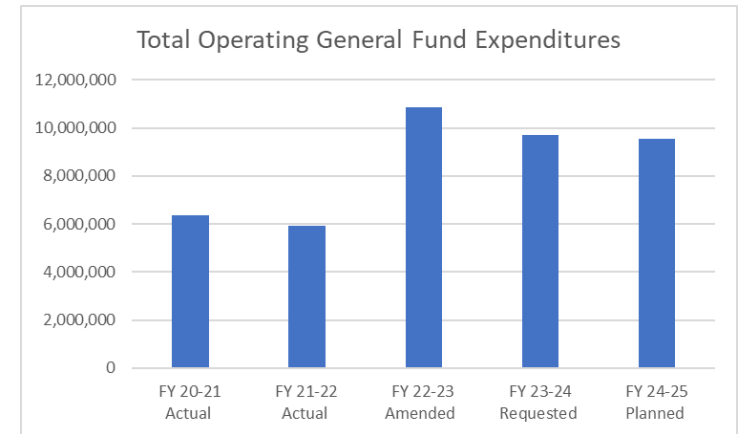


Occupancy, Sales Tax & Land Transfer Tax:

- Occupancy tax increase of 30% over prior year
- Sales Tax projected to increase by 34%
- Land Transfer tax projected to decrease by .02%

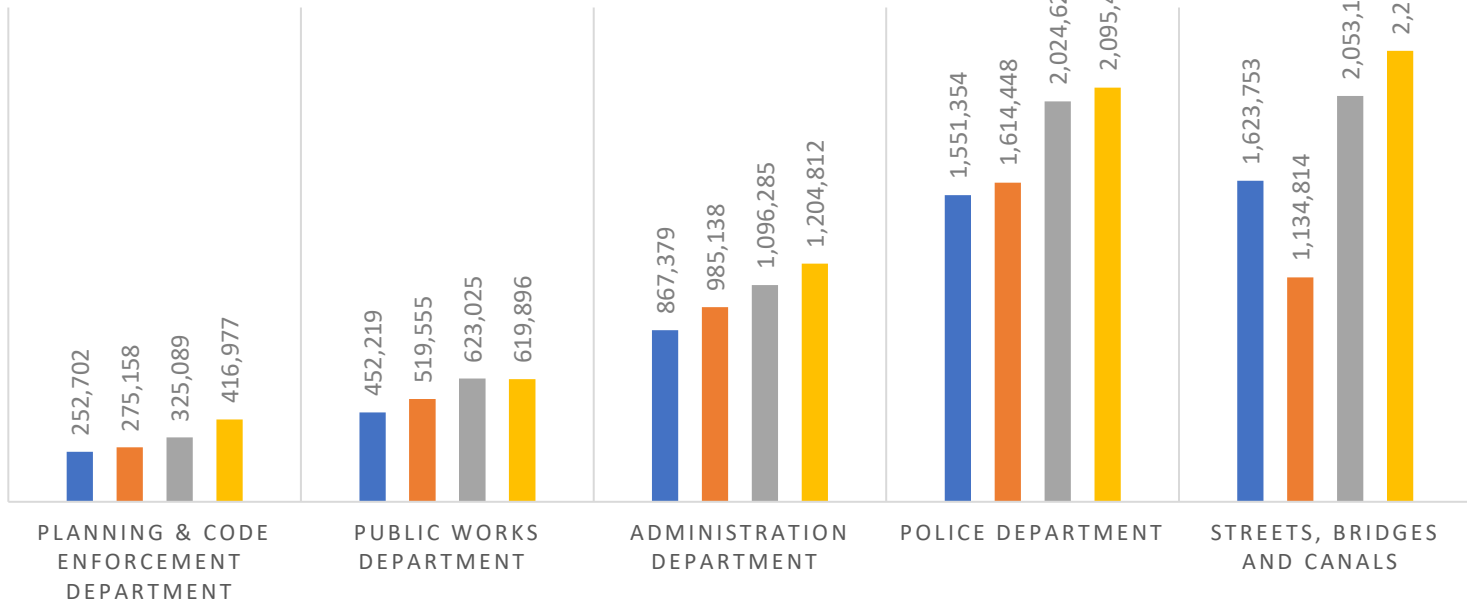
Expenditures

	FY 20-21 Actual	FY 21-22 Actual	FY 22-23 Amended	FY 23-24 Requested	diff	% change
Administration	985,138	1,041,338	1,227,037	1,337,842	110,805	9.03%
Planning & Code Enforcement	275,158	324,981	445,733	422,729	(23,004)	-5.16%
Police	1,614,448	1,818,315	2,246,071	2,334,697	88,626	3.95%
Streets, Bridges and Canals	1,134,814	208,675	4,021,216	2,690,329	(1,330,887)	-33.10%
Public Works	519,555	576,770	818,824	679,569	(139,255)	-17.01%
Sanitation	787,762	826,717	880,555	921,500	40,945	4.65%
Fire Contracted	866,333	964,378	1,004,243	1,073,539	69,296	6.90%
Ocean Rescue	179,700	176,000	193,749	221,245	27,496	14.19%
Total Operating General Fund	6,362,908	5,937,174	10,837,428	9,681,450	(1,155,978)	-10.67%

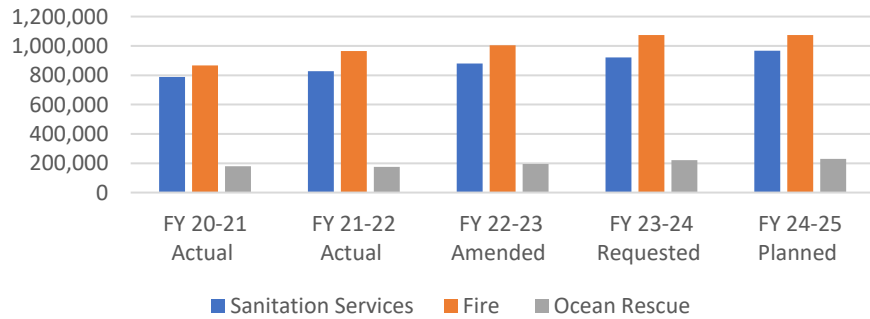


EXPENDITURES BY DEPARTMENT

■ FY 19-20 Actual
 ■ FY 20-21 Actual
 ■ FY 21-22 Amended
 ■ FY 22-23 Requested



Expenditures By Contracted Service



This marks the first year of the town endeavoring on a two-year budget, the second year being a planned year. By encouraging staff to think strategically over multiple years instead of simply balancing the budget for a single year, will better position the Town in the future. Town staff were directed to budget for the next fiscal year, which barring any unforeseen or mandated changes, will provide a strong basis to start the FY 2024-2025 budgeting process. FY 2025-2026 will then become the next planned year. Because the town can only adopt the budget annually, the plan year will have no binding impact.

The recommended budget will be posted on the Town's website and will be available for inspection at Town Hall by contacting Town Clerk, Sheila Kane. The public hearing to receive citizen comment and feedback on the recommended budget is scheduled for June 6, 2023, at 5:30 pm.

I want to express my sincere thanks to the Town's department heads and all of our employees for their efforts to make Southern Shores an even better place than it already is. I also want to thank the Mayor and the Council for maintaining a productive and pleasant work environment for myself and the Town's staff to work within. I remain grateful for your continuing support for the entire Town organization. It is a privilege to work for a community such as ours.