

Draft for Discussion

Occupancy Tax: Proposed Multi-Year Budget Plan *Summary*

For discussion by
Corolla Civic Association
with
Currituck County

4/6/18

Draft Ten Year OT Budget for Discussion with County

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The CCA was founded eight years ago to represent the interests of all of us on the Currituck Outer Banks (the Beach). Since most of our property owners don't live or vote in the County we have a weak voice in political matters. But our beach properties generate most of the County's tax revenues, so the CCA has tried hard to influence some of the County's spending to make our beach community a better place to live, work and invest. Over the years we have had some successes, such as pushing for safe pedestrian and bike paths, but it nonetheless took the bad publicity of three pedestrian deaths on NC12 before they took action.

As you know from our newsletters, more than a year ago CCA began to take a hard look at how little of the tax revenues we generate on the beach were being spent for the benefit of the local tourism community. Our focus was on the use of about \$100 million in Occupancy Tax (OT) revenues generated by our beach rentals over the past decade. Our review of the NC law that enables the County to collect this tax showed that the law was designed to increase tourism and had clear restrictions on how the revenues could be spent, including specifically allowing its use for beach nourishment. Our review of OT spending suggests that more than \$40 million was spent in apparent violation of the law.

This document is presented to the County as an alternative budget for the next ten years of spending of its OT revenues. It is fully compliant with the law and is designed to have maximum positive impact on the increase of tourist revenues for the County. We ask that the County seriously consider this proposal and work with us before adopting the FY19 and FY20 budgets in early June.

Summary

- Ten Year Occupancy Tax (OT) Resource Allocation Strategy To Optimize Positive Economic Impact for the County
- Minor Changes to OT Promotions Budget *(1/3 of OT)*
- Our Ten Year Budget Plan for OT Tourism Related Expenses (TRE) *(2/3 of OT)* Invests in Five Major Initiatives
 - Preserve and Enhance Our Beaches
 - Promote Family Fitness
 - Expand Ecotourism
 - Improve Corolla Heritage Park
 - Fund Mainland Tourist Venues
- Transition to Fully Compliant Use of OT Funds
 - Restructure Funding of Certain COBX Services
 - Maintain Significant Reserve in TDA Fund for Future Needs
- There is Wide COBX Community Support for this Plan to Discuss with County and Impact the County's 2019 Budget

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In our meetings and correspondence with the County over the past year we expressed our concerns about both the legality and effectiveness of their expenditures of OT funds. We presented them with an outline of an open and objective business-like process for choosing the best uses of this money to meet the legal objectives of increasing tourism, including use for fixing our beaches. We have used this process in the development of this proposal.

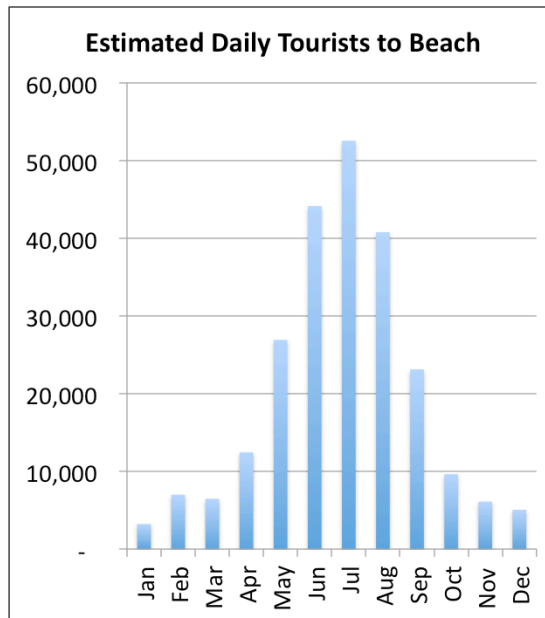
A third of OT must go to Tourism Promotion and we see only minor changes needed to this budget. Market research must be more objective, more focused and better communicated. Marketing should include all media, including signage. Promotions should include support for key non-profits that manage important elements that attract tourists, such as the Corolla Wild Horse Fund, Inc.

The remaining two-thirds of the budget has been prioritized based on the numbers of tourists that are attracted to and the duration of their use of the various venues. Our community suggested more than 50 candidate projects that were each reviewed and prioritized. Of these, 28 were selected as having good bang-for-the-buck to increase tourism. These were organized into five key initiatives as shown. Removed from the OT budget were three continuing expenditures for services, not authorized by the statute, that are general County responsibilities properly paid for by property tax. This freed-up almost \$3 million per year on projects that actually will increase tourism.

A draft of this plan was briefed to our beach community and circulated for comment. These suggestions have been integrated to create this version for discussion with the County. We are asking for a fair hearing of our plan.

Beach Tourism Economy in Perspective

- Our beaches are the most significant attraction
- 20,000+ rental bedrooms
- More than \$3 Billion in private investment
- Generates more than 65% of County tax revenues
- 1 Million beach tourists/year
- 7 Million tourist-days
- Tourist Spending >\$400 M
 - \$184 M base rents
 - \$138 M retail, restaurants, ...
 - \$ 60 M in groceries, beverages
 - \$ 21 M Sales Tax
 - \$ 11 M Occupancy Tax



Based on SOBWS and Tax Data

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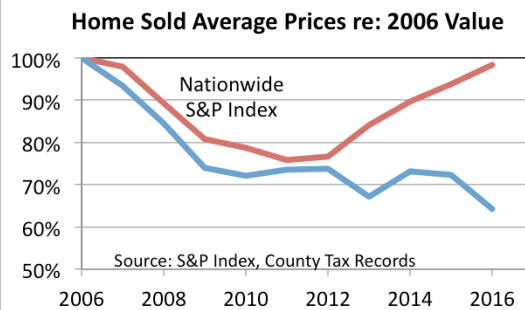
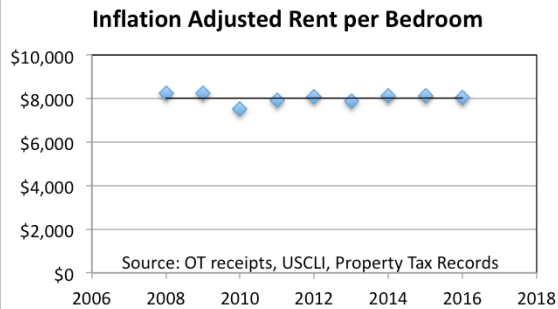
The Currituck Outer Banks (the Beaches) attracted outside investment during the 1990's due to its clean, wide beaches and uncrowded, family atmosphere. By 2005 more than \$3 Billion of private capital had been invested, largely in rental vacation homes. The beach communities, largely vacant during the off-season, required little County service. But because of the high property values, they generated most of the County's tax revenues. Thus all citizens of the County are able to enjoy good services and a tax rate well below the State average.

Beach tourism still is the dominant force in the County's economy as shown above. But the success of this outside investment has brought with it problems of its own. The graph to the right above is an estimate of the number of tourists staying in our beach communities. The peak of more than 50,000 tourists with their 10,000 cars are jammed into a mere ten square miles with a single north-south road. The crowding is worse than in most of our visitors' home cities. The rapid drop-off of tourists from the peak months, despite year-round good weather, speaks to the lack of off-season activities available.

To maintain and grow this tourism economy we need to address the issues of our core summer market, while expanding tourist opportunities during the off-season. This has been the focus of our community discussions and the heart of our proposed spending plan for OT funds over the next decade.

Our Investment Strategy Is Designed to Stop the Decline In Value of Currituck's Most Important Economic Asset

- In 2005 the County Raised OT Rate by 50% despite protest from Chamber of Commerce due to soft rental market
- Narrowing beaches and increased crowding are keeping real rental rates stagnant and real estate prices depressed
- Stagnant rental rates and failure of County to take significant action on beach erosion or crowding deters outside investors
- Beach home sales remain weak and property values declining
- Next property tax re-assessment in 2021 will most likely lead to another tax rate hike across the County as happened in 2013
- Our plan addresses both key issues and should mitigate the impact of the inevitable 2021 property tax hike for all County property owners



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In 2005 the good news was that development of the Beaches allowed the County to cut its property tax rate in half. But the bad news was on the horizon. In 2005 the Chamber of Commerce warned against a proposed 50% increase in the Occupancy Tax (OT) rate due to a soft rental market. Peak-month crowding was already a problem and the once wide beaches were narrowing, with a 2003 hurricane washing under some homes. But the County proceeded to increase the tax rate anyway, noting that the new law allowed use of the extra OT funds for beach nourishment.

Since 2005 the County did little to address the crowding issues and almost nothing to address the narrowing of our beaches. As shown above the weak rental market has continued with no real growth in rental income and falling property values. The rapid decline in Beach property values has hurt all County property owners since the tax rate had to be increased significantly in 2013 to balance the budget, as will likely happen again in 2021.

The OT tax increase has since generated about \$40 million in additional County income. Analysis of the County audit reports shows that all of this increase and more has been spent to offset the costs of County services normally paid by property taxes and for mainland projects with little or no tourist value, such as \$7.5 million for a YMCA, \$4 million for a horse farm, and several million for ball fields, neighborhood parks and rock climbing walls. The smallest of these projects, \$40 thousand for a fire hydrant in Grandy in 2013, was more money than was spent over the entire past decade on beach nourishment.

Our plan is designed to focus on the projects with the best chance to reverse the declining rental market and mitigate a likely future increase in property tax rate.

Resource Allocation Strategy Based on Commercial Best Practices

- Create a broad list of candidate projects
- Apply the legal requirements
- Estimate tourist-days of use for each project
- Estimate project impact, costs and timeline
- Prioritize projects based on “Tourist-Days” as an objective metric
- Allocate over time within budget profile
- Use TDA Fund as a reservoir to smooth funding

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During the past two years, as part of the County’s Land Use Plan activity, a number of meetings were held in the local communities to discuss community issues and identify opportunities for the County to improve their health and vitality. From these discussions and subsequent CCA meetings a number of candidate projects emerged. In addition, the County Planning Department had led several efforts to plan projects to connect and beautify Corolla. These ideas formed the basis of our plan.

We eliminated from consideration certain continuing OT expenditures for certain County services, paid for by property taxes in the rest of the County, and which were removed from the list of legal OT uses in 2004. For the remaining projects we estimated their likely impact on tourist use, using the metric “Tourist-Days”. A single tourist spending a week at the beach counts as seven Tourist-Days. A single tourist climbing the lighthouse or taking a tour of the Whalehead Club counts as one Tourist-Day. The data for each project is contained in the Appendix.

The most valuable projects were those that impacted the most Tourist-Days per dollar spent. To understand cost we had to estimate the project timeline and cost using historical benchmarks or industry estimates. We then allocated these over time in the budget based on an estimate of constant OT tax revenues. We used the Tourism Development Authority Fund, currently reported to have a balance of about \$12 million as a reserve to smooth out expenditures annually.

Most of the high priority projects were scheduled to begin with the first five years with a significant reserve for future projects that could be begun thereafter.

Tourism Promotion Receives 1/3 of Net OT Revenues, Exceeding \$3M/ year

We Recommend A Few Small Changes To Promotion Efforts In Line With Commercial Business Best Practices

- **Market Research** (about 10% of promotion budget since this informs expenditures of the entire OT budget)
 - Understand how our offerings compare with our competitors and what we must do to maintain a competitive edge
 - Understand the needs, likes/ dislikes, and decision processes for each of our targeted customer segments to identify our most attractive, distinctive, discriminating features
 - Dialog with our vacation industries to understand their issues and concerns and to ensure they understand what they should do to enhance their value to our market
- **Marketing/ Advertising** (20-25% of budget)
 - Target our desired market segments as informed by market research
 - Present our most attractive, distinctive, discriminating features
 - Present a broad catalog of Currituck's tourist attractions – public, private, non-profit
 - Include all traditional and modern media, including signage
- **Promotional Activities** (65-70% of budget to engage tourists or business travelers)
 - Designed and developed with our vacation industries including rental property owners
 - Continue to sponsor Fireworks, Whalehead Wednesdays, and Art Festivals
 - Consider more athletic/fitness events on hike/bike trails, beach and sound
 - Support key non-profits with tourist attraction missions like Corolla Wild Horse Fund

Objectively measure effectiveness and re-assess each year

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Our beach tourism industry is maintained and grown in large part by the annual investments made by the hundreds of business owners and the thousands of rental property owners as they maintain and update their properties and service offerings. In order to do this in the most cost-effective way they need information on their future customers' wants, needs and ability to pay. The property owners need to know how they can best distinguish their home or their business to attract and retain the best customers in the face of increasing competition. This should be the key focus of the County's market research paid by OT. The County needs to do a much better job in this area and devote sufficient resources each year for updates.

The Currituck beaches are a well-established beach community that, unfortunately, has been losing some of its traditional market of well-to-do families to vacationers seeking a bargain. As our service offering improves, our marketing focus should be to win back this core segment of our summer market. At the same time, as we expand our family fitness and eco-tourism opportunities, our shoulder season marketing needs to target the high-end of these customer segments. Our marketing material should cover all aspects of County tourism on both the beach and the mainland.

Our promotional efforts should be focused on continuing to sponsor our proven peak-season activities and on expanding those in the off-season. We need to continue to promote the non-profit organizations who maintain key tourist attractions consistent with business-like agreements that ensure a level playing field for commercial businesses.

Key Initiatives Supported by TRE Funding

Major Initiative	Key Projects
Enhance Our Beaches	Plan for and start renourishment of the worst portions of Corolla beaches within five years with continued upkeep as required as an on-going cost of beach tourism. Expand lifeguard services and maintain public beach accesses.
Promote Family Fitness	Our target markets include fitness and fresh-air friendly families. Complete all Connecting Corolla hike and bike paths with safety lighting and provide for timely trash pickup and maintenance for paths and landscaping
Expand Ecotourism	Create more space and activities for tourists by completing land swap deal with Federal and State agencies to give County rights to open the 2,000 acres north of Corolla for responsible eco-tourism: sand road, off-beach parking with restrooms and nature paths consistent with protection of the wild horses.
Improve Corolla Heritage Park	Charge competitive rates to transition toward non-profit break-even economics; with OT paying for grounds maintenance and special County promotional events like fireworks. Add playground and soccer field equipment.
Fund Mainland Tourist Venues	Provide annual budget for mainland tourist venues in proportion to their projected use by tourists (versus County residents)
Other Elements	Restructure support for Sheriff, EMS, Fire and local community road maintenance services to general property tax or special district tax revenues.
Strategic Reserve	Maintain a strategic reserve of at least \$10 M for tourism contingencies. Keep a tactical reserve for years 5-10 of at least \$7M for future projects.

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The five major initiatives of our budget plan each contain multiple projects to increase the quality of our tourist experience and thus attract and grow tourism and tourism revenues. The key is to make our tourist service offering more valuable compared to our competitors, allowing businesses and rental property owners to grow their profitability. Profitable growth of tourism businesses leads to enhanced property values. Keeping property values high in the beach communities is key to maintaining low tax rates for the rest of the County and quality services.

The single most important and time-critical element is restoring our beaches to be able to match the competition to our south and protect property values. Our northern beaches have already lost homes and valuable oceanfront property to beach erosion. Our southern beaches have faced narrowing beaches for more than a decade and now will face lost homes in the next decade. Individual oceanfront owners do their best, but their focus is building up dune height for protection of their property, not in widening the beach for the general public. That's the County's job and a major piece of our budget.

Expanding Eco-Tourism and Promoting Family Fitness build on current County efforts to complete the Connecting Corolla plan and capitalize on County work to make the large natural areas north of Corolla accessible for responsible eco-tourism without endangering the wild horses.

Existing County-owned venues such as Heritage Park and sites on the mainland should receive support in proportion to tourist use, and under the condition that they be operated in a business-like manner, not to make a profit; but to minimize the County's OT support required for routine operations.

Our 10 Year Plan Allocates Projected TRE Budget in Proportion to Projected Tourist Use

Initiative	10 year Investment Total	% \$	Estimated Tourist-days	% T-D
Preserve & Enhance Our Beaches	\$40,925,000	57%	7,117,000	84%
Promote Family Fitness	\$8,150,000	11%	502,000	6%
Expand Ecotourism	\$5,300,000	7%	328,000	4%
Improve Corolla Heritage Park	\$4,850,000	7%	252,000	3%
Fund Mainland Tourist Venues	\$3,120,000	4%	247,000	3%
Future Tourism Projects	\$8,988,950	13%	tbd	tbd
FY28 TDA Fund End Balance	\$11,773,137			

Approval of this long term budget now will stop further decline in beach property values, should enable real rental rate growth, thus limiting the size of property tax increase for all County property owners in 2021, and creating the foundation for future property value growth as these initiatives are completed.

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In preparing our budget we have made a conservative assumption that over the ten-year period Occupancy Tax receipts will not grow. We assume that the County will take its allowed administrative fee and that the remainder of the revenues will be split one-third for Promotions and two-thirds for Tourism Related Expenses (TRE). This table shows the top-level allocation between major initiatives for the TRE portion of the budget.

Shown in the table above are the total ten-year expenditures for each of the five major initiatives proposed and the estimated Tourist-Days of use each of these initiatives will effect. The two right-hand columns show the percent of budget consumed compared to the percent of Tourist-Days affected, confirming a rough proportionality of resource allocation among these initiatives.

In the Appendix to this report are the details of each of these initiatives and the estimated costs and timeline for their completion. This also includes year-by-year budget estimates for each of the 28 projects selected within these five initiatives.

See Appendix for More Details

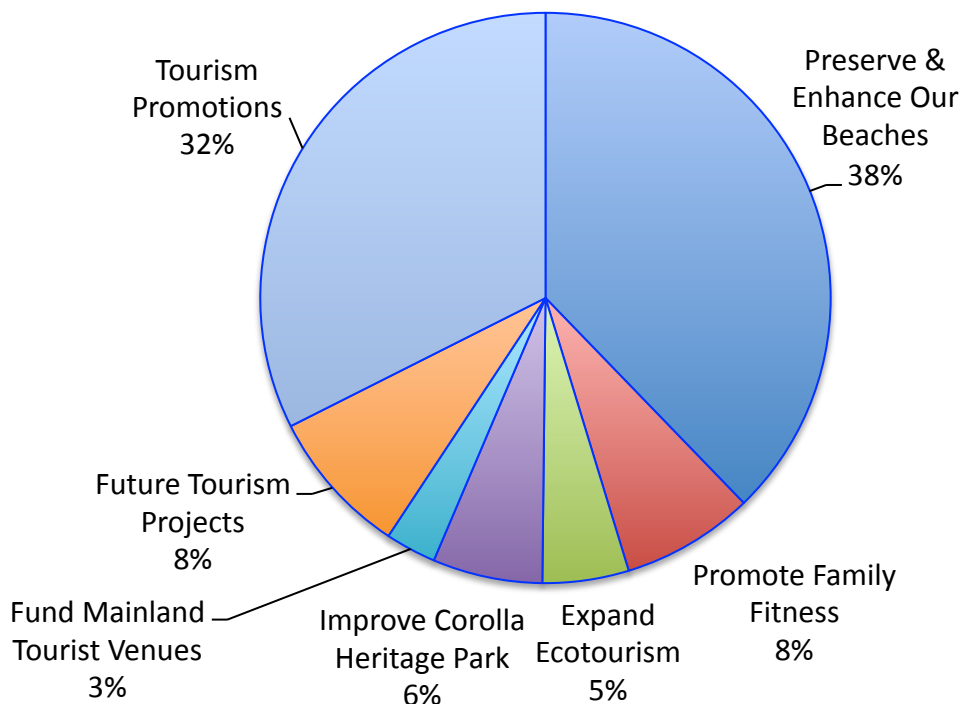
Preserve and Enhance Our Beaches.....	pages 3-11
Promote Family Fitness	pages 12-20
Expand Ecotourism	pages 21-26
Improve Corolla Heritage Park	pages 27-31
Fund Mainland Tourist Venues	pages 32-35
Restructure Funding of Certain Services	pages 36-41
Candidate Future Projects	pages 42-45
Resource Allocation Methodology	pages 46-58
Year-By-Year Resource Allocation	pages 59-61
Conclusions and Questions	pages 62-63

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Proposed Occupancy Tax 10 Year Spending



TEN YEAR OCCUPANCY BUDGET

TEN YEAR OCCUPANCY TAX BUDGET											
	18 to 19	19 to 20	20 to 21	21 to 22	22 to 23	23 to 24	24 to 25	25 to 26	26 to 27	27 to 28	
Total Projected Net Tourism Income	\$ 10,495,809	\$ 10,507,811	\$ 10,532,317	\$ 10,554,633	\$ 10,554,908	\$ 10,549,185	\$ 10,549,185	\$ 10,549,185	\$ 10,549,185	\$ 10,549,185	
Allocation to Tourism Promotion	\$ 3,498,603	\$ 3,502,604	\$ 3,510,772	\$ 3,518,211	\$ 3,518,303	\$ 3,516,395	\$ 3,516,395	\$ 3,516,395	\$ 3,516,395	\$ 3,516,395	
TEN YEAR PROPOSED TRE BUDGETS											
Heritage Park Operations (net from County)	\$ 500,000	\$ 425,000	\$ 350,000	\$ 275,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	
Salaries, O&M, Insurance,...	\$ 150,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	
Playground in Corolla Park north side	\$ 50,000	\$ 250,000	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Improve boat access to Heritage Park	\$ -	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Beach engineering data gathering & analysis	\$ 350,000	\$ 350,000	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ -	
Beach nourishment project planning	\$ 50,000	\$ 50,000	\$ 50,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	
Beach nourishment fund contribution	\$ 4,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	
Lifeguard Services	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000	
Carova Beach Park Maintenance	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	
Public Beach access maintenance	\$ 20,000	\$ 20,000	\$ 20,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	
Multiuse path Corolla Light to Monterey Shore	\$ 150,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Multi-use path Currituck Club Access connect	\$ 150,000	\$ 300,000	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Multiuse path Pine Island north	\$ -	\$ -	\$ 50,000	\$ 200,000	\$ 1,100,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	
Multiuse path Pine Island mid	\$ -	\$ -	\$ 50,000	\$ 200,000	\$ 1,100,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	
Multiuse path Pine Island to Dare line	\$ -	\$ -	\$ -	\$ 100,000	\$ 150,000	\$ 1,000,000	\$ 50,000	\$ -	\$ -	\$ -	
Around Food Lion Center	\$ -	\$ -	\$ 50,000	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2017 Beautify then Corolla Village path	\$ -	\$ 25,000	\$ 100,000	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
NC12 bike path lighting, maintenance, trash	\$ 150,000	\$ 150,000	\$ 175,000	\$ 175,000	\$ 200,000	\$ 225,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	
After Land Swap - Sand road NC12 to Swan Beach	\$ 100,000	\$ 600,000	\$ 800,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Off Beach parking lots	\$ -	\$ 50,000	\$ 300,000	\$ 300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Off Beach restroom facilities	\$ -	\$ -	\$ 50,000	\$ 300,000	\$ 250,000	\$ 50,000	\$ 100,000	\$ -	\$ -	\$ -	
Bike Path north to Swan Beach	\$ -	\$ -	\$ 50,000	\$ 250,000	\$ 250,000	\$ 750,000	\$ 250,000	\$ -	\$ -	\$ -	
Hiking trails to sound	\$ -	\$ 200,000	\$ 450,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
EMS transitioned to Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Sheriff transitioned to Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Road Maintenance to Special District	\$ 20,000	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Wild Horse Fund support in Promotions	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	
Mainland Tourist Venue Share of OT TRE	\$ 600,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	
Available for Future Tourism Projects	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 505,790	\$ 1,670,790	\$ 2,370,790	\$ 2,070,790	\$ 2,370,790	
Total TRE	\$ 7,022,000	\$ 7,067,000	\$ 7,357,000	\$ 7,002,000	\$ 7,752,000	\$ 7,032,790	\$ 7,032,790	\$ 7,032,790	\$ 7,032,790	\$ 7,032,790	

CCA's Objective with this Proposed Budget

- With CCA strong membership support ...
- Send to County Commissioners and County Management Team
- Ask County to review and identify questions and issues for discussion
- Request a public work session to discuss our proposals in detail and compare with what the County is proposing
- Work with County to develop a consolidated multi-year OT spending plan that is more closely aligned with the legislative language and intent, and better grow and enhance our tourism industry

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We have the very strong support of the Corolla community for these proposals.

We would like to sit down with County management and the relevant department heads to compare our proposed budget with what they are now in the process of preparing for approval by the Commissioners in June.

Hopefully by working together we can develop a better plan to use Occupancy Tax receipts to enhance tourism, improve the economics for commercial businesses and rental property owners. This should help improve the economics of our vacation rental industry, reverse the decline in beach property values and mitigate any future property tax increases for all in the County.