

Tacks in the Road

By Mayor John Brodman

My two-cents worth

Inflation watch. The Consumer Price Index (CPI) for all urban workers increased by 8.3% over the last 12 months to April 2022, down slightly from the 8.5% gain recorded in March. The CPI minus food and energy (the core CPI) rose by 6.2%. While one month does not make a trend, more commentators are viewing the indicators as evidence that inflationary expectations are becoming more embedded in the economy overall. The monthly rise (from March to April 2022) was a relatively mild 0.3%, as petroleum products, apparel and used vehicle prices actually fell for the month. Some of these prices, especially petroleum, have risen again since then, and Producer Price Indices (PPI, aka wholesale prices) are running in double digits in most places around the world due to supply chain shortages and the rise in commodity prices. The PPI in the US was up 11% in April from a year earlier. Wholesale prices and price increases usually find their way into consumer prices and price rises in the forward months.

Price rises really began in earnest in the summer months of last year, so as the year progresses, the annual changes will be calculated from a somewhat already-higher base, which could help moderate the rate of inflation in the coming months. Don't get me wrong, prices are high and will stay high; it's just that they won't rise as fast. Demand remains strong in the face of supply issues. The strong dollar vis-à-vis other currencies is also helping to moderate the prices of imports. The question was and still is: when will higher prices and interest rates really start to have an impact on consumer demand and business investment?

PKS budget overview. It's summertime, and while the living may be easy for some people, June is the month that municipal governments wrap up and approve their budgets for the coming fiscal year. Pine Knoll Shores is no exception, and we are feeling the effects of inflation across the board. While the numbers may not be final by the time you read this, I expect that we will be looking at a tax increase for the coming year and an upward adjustment in our water rates as well, since we haven't adjusted our water rates since 2010. This is a painful experience because our commissioners and town staff are extremely conscientious when it comes to expenditures, and we try to maximize the value of our citizens' tax dollars. Our staff and commissioners have examined the budget proposal with a fine-tooth comb several times and have engaged in a lot of hand-wringing debate, but the fact remains that we will need a tax adjustment if we hope to produce a workable budget that allows us to run the town, provide essential services, protect our citizens and preserve our future options.

Going into our May 11 Board of Commissioners (BOC) meeting, we were looking at a bare-bones budget that had been examined under a microscope several times and stripped of every possible unneeded expenditure. We canceled plans to hire a UNC Fellow Intern, postponed the purchase of a radar/speed sign trailer and delayed the installation of monitoring equipment at our water wells. *There are no funds for sidewalks in the proposed budget.* We used reserves where we could to fill some gaps, and we transferred 100% of the cell antenna revenues to the General Fund. Nevertheless, because of inflation in our costs of operations (covering wages, goods, and services), proposed expenditures for Fiscal Year (FY) 22-23 came in at \$5,090,000. This figure, while only slightly more than our

estimated final budget of \$4,923,396 for the current FY 21-22, does not have several capital expenditures or one-time revenue offsets that we received in the current fiscal year, so we're not really comparing apples to apples. As a result, we estimated that we would need a property tax (ad valorem) increase of 6.3 cents per \$100 of assessed value in order to balance the proposed budget without any additional offsets. We were also proposing to raise our water rates by an average of \$86 per year for a home using less than 5,000 gallons per month.

Bear in mind that every penny increase in our tax rate yields about \$100K in additional revenue, and, conversely, every \$100K we come up with from reserves, American Rescue Plan (ARP) funds or other sources allows us to lower the proposed tax rate increase by one cent. By using some of these tools, town staff presented several options for reducing the proposed tax rate increase of 6.3 cents per \$100 of assessed value, first to 5.3 cents by using \$100K of the ARP funds, and further to 4.3 cents using ARP funds and drawing \$100K from a designated reserve we had set aside for the purchase of a new fire truck, and further still to 3.3 cents by using ARP funds, fire truck reserves and a one-cent reduction in the beach (sand) tax.

Staff was recommending the 4.3-cent increase option, which used \$100K ARP funds and \$100K from reserves to lower the increase needed to balance the budget. The 4.3-cent proposed tax increase would raise the annual Pine Knoll Shores tax bill for a home valued at \$400K by \$172 from \$828 per year to \$1000 per year (the beach tax would remain unchanged at 5.5 cents for oceanfront and 1.5 cents for non-ocean). The tax increase and the water rate increase taken together would be an increase of \$258 per year for a home valued at \$400K using less than 5,000 gallons of water per month.

At our BOC meeting on May 11, every Commissioner had opinions, issues and ideas about some aspect of the proposed budget, and we took the time to let each one of them present their points of view, systematically examine all the issues raised, and come to an agreed-upon understanding. The main issues raised were related to staffing levels, salary and cost-of-living adjustments, use of ARP funds, the wisdom/perils of drawing from reserves, and a one-cent, temporary reduction in the beach tax rate.

Staffing and salaries. In the US, 40 million people have changed jobs since the pandemic began, and most of them moved for higher wages. I can't say it enough: we live in a competitive environment, and if we want to attract and retain excellent staff, we have to pay them a competitive wage. Real wages in the US, adjusted for inflation, were down by 2.6% in the 12 months to April. Some people have suggested we reduce staffing by contracting out some functions like tax collection and building inspections, reduce services, and replace full-time police and emergency personnel with part-time hires. We could cut yard waste pickup, close lot C, and stop mowing rights of way, but no one wants to give up these services. We also know that towns that have contracted out their tax collection function have abysmal collection rates, and our tax collector also has functional responsibilities related to building permits, inspections and accounts payable. Not many people are in favor of having ambulance drivers, firemen or policemen who are unfamiliar with our streets. The commissioners discussed the pros and cons of all these things, as well as the need for succession planning in several departments, and made no adjustments to the wage and staffing levels in the proposed budget.

Beach tax reduction. In the debate that followed, it became clear that most of the BOC was not in favor of reducing the beach tax, partly because of the ongoing threat of storms and partly because of expected problems in

(Continued on page 18)