

## MUNICIPAL SERVICE DISTRICTS IN NORTH CAROLINA

### and the Town of North Topsail Beach

#### FAQs

MSDs<sup>1</sup>

#### **What is a municipal service district (MSD)?**

An MSD is a defined area within a municipality or county in which the unit's governing board levies an additional property tax in order to provide extra services to the residents or properties in the district. A service district is not a separate government. It is simply a mechanism whereby a local government may raise money to pay for services or projects from those property owners that most directly benefit from the services or projects

The General Assembly enacted S.L. 2011-72, which authorizes certain municipalities to establish one or more municipal service districts.

#### **For What Purposes May a Service District be Established?**

Under general law, a municipality may define one or more service districts for any of the following functions:

- Beach erosion control and flood and hurricane protection works
- Downtown revitalization projects
- Urban revitalization projects
- Transit-oriented development projects
- Drainage projects
- Sewage collection and disposal systems
- Off-street parking facilities
- Watershed improvement, drainage, and water resources development projects

#### **What is the purpose of the hearing on May 15<sup>th</sup>?**

To convene a public hearing to consider the establishment of Municipal Service Districts related to the Town of North Topsail Beach's (NTB) provision of beach erosion control and flood and hurricane protection services within the proposed Municipal Service Districts.

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<sup>1</sup> Please see the following, much of the information was copied or used from the UNC School of Government <https://canons.sog.unc.edu/municipal-and-county-service-districts/>

**Will any decisions be made at the hearing?**

No. It is a chance for the Board of Aldermen to receive feedback and input

**When will a decision be made regarding the MSD's?**

It is likely but not required that a decision will be made, for any impact on property taxes to first occur in the 2021/2022 budget, which should occur at the June meeting of the Board of Alderman. A special meeting might also be called instead, but in either event, the town will provide notice.

**Have MSD's been established/used in other coastal towns?**

Yes, for example

**Town of Duck**

- Created 2 MSD districts
  - MSD A: 1st couple of rows beachfront - approximately 1/2 the new revenue generated from this district
  - MSD B: rest of town - approximately 1/4 the new revenue generated
- also dedicated some property tax revenue from current town resources - approximately 1/4 the new revenue generated

**Town of Kill Devil Hills**

- Created 1 MSD district along the beachfront - raises about 60% of revenue generated
- Raised 3¢ town wide (general property tax) - raises about 40% of revenue generated

**Town of Kitty Hawk**

- Created 1 MSD district along the beachfront - approximately 50% of revenue generated
- Raised 4¢ town wide - approximately 50% of revenue generated

**Town of Southern Shores**

- In process of creating MSD district(s)
  - Currently looking at 2 plans
    - May Create 2 MSD districts & town wide tax -
      - MSD1 - beachfront - approximately 25% of revenue generated
      - MSD2 - next couple of rows to the "main road" approximately 15% of revenue generated
      - town wide tax - approximately 60% of revenue generated

**Town of Nags Head**

- Created 1 MSD district along the first few rows of beachfront - approximately 70% of revenue generated
- Town wide tax - approximately 30% of revenues

**If MSDs are established what impact will this have on my taxes?**

The only taxes impacted by an MSD are property taxes. No decision has been made as to the tax rates, of either of the proposed areas, or whether the MSD will have a different rate than the rest of the Town. One common misunderstanding is that "property" taxes paid by NTB residents are for the Town only. In fact, Onslow County charges, a rate (0.705) that is almost twice that of the Town rate (0.41). Only the Town portion of the property tax can be impacted.

**If an MSD is established and property tax rates increased, what must the “increased” property taxes be used for and is it limited to the US Army Corps of Engineers (USACE) Project?<sup>2</sup>**

Any “increased” property taxes which result from the establishment of the MSD will be used for beach erosion control and flood and hurricane protection services **within the proposed Municipal Service Districts**. Therefore, even in the unlikely event the USACE Project does not go forward any taxes collected as a result of the MSD will be used within the MSD for those purposes.

**Why is the Town considering MSD’s when previously beach nourishment projects were “paid by all”?**

This is the largest Town debt and impacts our ability to finance other necessary projects. The Phase 1 project or northern project occurred in 2012/13 at a cost of \$8 million. This was approximately 1/2 of the previous Phase 5 project which occurred in 2015 at a cost of approximately \$16 million, and the initial cost of the USACE project is even more. The previous Phase 5 project, which is in the exact same area as the current USACE Project, also provided considerable protection for property during three recent named storms (Hurricanes Matthew, Florence, and Dorian).

Assuming we go ahead with the USACE project, as currently described, we will be borrowing around \$16 million, and our financial advisor has indicated that the annual cost will be around \$3 million (The USACE Project requires a "renourishment" commitment which is larger than the initial cost but spread over 44 years). The result is that the Town will have around \$30 million in debt, which will all be for the Phase 5 area. While it is true that the "entire" town benefits from a great beach it is also true that the benefits are not equal (rental values reflect this)

Also, as set out below the Town is considering using paid parking revenues and contributions from Onslow County to offset the cost of the USACE Project, which means all N. Topsail Beach taxpayers are contributing to the funding.

**Why is Phase 5 excluded from the current truck haul?**

Phase 5 is not excluded from the current truck haul project. The project was delayed and split into two periods because turtle season begins May1st. . The Town did get a 3-week extension, but it is not possible to complete Phase 5 during that time, instead Phase 5 will be getting sand this fall (2020).

In addition, the previous Phase 5 project resulted in that beach becoming an "engineered beach". This means that the beach gets additional benefits in the event of a storm. The most recent example is the current truck haul project. The second phase of this begins in the fall and will result in around 637,000

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<sup>2</sup> The Project in Surf City and North Topsail Beach, generally referred to as the “Coastal Storm Damage Reduction” or CSDR hereinafter referred to as the “Project”.

cubic yards of sand, which is more than 4 times the sand placed for the remainder of the Town. (see attached slide).

**What is the town doing to reduce the burden on taxpayers?**

1. We initiated "paid parking". While little of this will be generated in the USACE Phase 5 area, the current plan is to use this for that project, and thus we are asking nonresidents to contribute to the cost of the beach. By using parking revenues, which are mostly generated outside Phase 5 for the project and seeking additional funding through accommodation taxes, all taxpayers in the town are partially funding the project, as these could be used elsewhere.

2. Accommodation taxes. The Town has taken a two-prong approach here. These taxes are already dedicated to the beach projects, but we have requested that the legislature pass a bill allowing us to collect another 1%. So far, they have refused to do so. Secondly, we have requested that Onslow County provide us additional funding, which could be accomplished in many forms, such as grants, reimbursements for beach projects, or in the form of a reduction in what they keep (the accommodation tax is 6% but this is split 3%--3% between us and the County--Pender County permits the local town--e.g. Surf City to keep all 6%)