



The Town of
Hillsborough

Citizens Annual Financial Report

Fiscal Year July 1, 2019 – June 30, 2020

Hillsborough, North Carolina

What Is a Citizens Financial Report?

A citizens annual financial report is meant to update residents and other interested parties about the town's finances. This report is a summarized version of the Hillsborough Comprehensive Annual Financial Report (CAFR) and is not required to adhere to the same stringent requirements as the Comprehensive Annual Financial Report or conform to established generally accepted accounting principles (GAAP). This allows the town to present the information in a way that is more appealing and easy to understand. This document does not contain information about Hillsborough's component units, the Tourism Board and Tourism Development Authority.

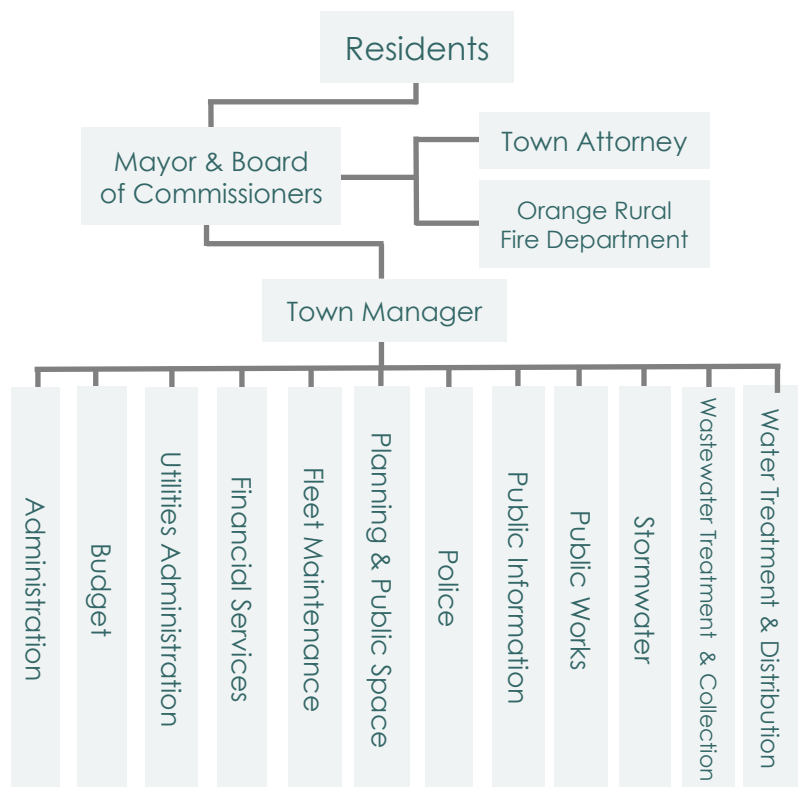
Anyone interested in more details about Hillsborough's finances should refer to the Comprehensive Annual Financial Report, which can be found on the Financial Services page of the town's website: www.hillsboroughnc.gov/government/departments-and-divisions/financial-services.

Hillsborough's Mission

We are stewards of the public trust who exist to make the vision for Hillsborough a reality.
 We manage and provide the infrastructure, resources and services that enhance the quality of life for the living beings and land within our town.

Table of Contents

| | |
|---------------------------------------|----|
| Introduction..... | 2 |
| Commissioners..... | 3 |
| Message from the Town Manager..... | 3 |
| Effects of COVID-19..... | 4 |
| Police Address the Community..... | 4 |
| Operating Indicators..... | 5 |
| Debt Management..... | 5 |
| Sources of Town Funds..... | 6 |
| Uses of Town Funds..... | 7 |
| Net Position..... | 8 |
| Budget for Fiscal Year 2020-2021..... | 10 |
| In the Spotlight..... | 11 |



Commissioners

The Hillsborough Board of Commissioners acts as the town's legislative body, establishing Hillsborough's policies and laws. It includes the mayor and five commissioners. The mayor and commissioners serve on a part-time basis and are chosen through town-wide nonpartisan elections. The mayor is elected to a two-year term, serves as the presiding officer at Board of Commissioners meetings, and acts as the head of the town for ceremonial purposes. The five commissioners are elected to staggered four-year terms.



Hillsborough's elected leaders — as of June 30, 2020 — are (from left) commissioners Robb English and Kathleen Ferguson; Mayor Jenn Weaver; Commissioner Evelyn Lloyd, Mayor Pro Tem Mark Bell and Commissioner Matt Hughes.

A Message from the Town Manager



We saw unprecedented times in Hillsborough during Fiscal Year 2020. Despite the enormous challenges associated with a global pandemic — a financial crisis, stay-at-home orders, and school closings — our community has continued to adapt and thrive.

The town has worked hard to address the challenges and uncertainty created by the COVID-19 pandemic. Although COVID-19 brought many new and unique challenges, such as delivering services while social distancing, the town has managed to maintain the effectiveness and personal approach to service for which Hillsborough is known.

There is no doubt that the pandemic is a tough situation and unlike anything we've dealt with before. However, constraints drive innovation — this is true in the worlds of government as well as business. The town plans to harness the lessons learned from this event when priorities are reassessed after COVID-19 and a comprehensive sustainability plan is developed in Fiscal Year 2021. Despite the enormous challenges 2020 brought, Hillsborough has continued to match the town's vision to be a "prosperous town, filled with vitality, fostering a strong sense of community, which celebrates its unique heritage and small-town character," as it will be for many years to come.

We care about what you think, so please contact us with any questions, concerns or recommendations. Community members like you are what makes Hillsborough such a great place to live and work.

Eric Peterson



EFFECTS OF COVID-19

Fiscal Year 2020 was challenging due to COVID-19's impacts. The Town of Hillsborough closed its offices to the public on March 16, 2020, and has not reopened. Many town employees continue to work remotely. As of June 30, 2020, the town had expended \$42,380 for COVID-19-related supplies and services. In June 2020, the town received \$79,973 of CARES Act Coronavirus Relief Funds from Orange County. On June 30, at the direction of the Board of Commissioners, the town distributed these funds to local government and nonprofit organizations to provide housing, food, and assistance with water and sewer utility bills to town residents.

"The Hillsborough Board of Commissioners was in strong agreement that we wanted our CARES Act allotment to go to fulfilling immediate and basic needs in our community," Hillsborough Mayor Jenn Weaver said. "Allocating those funds to housing assistance, food assistance and utilities assistance was an easy choice."

Effective March 20, 2020, the town suspended disconnections of water and sewer service for non-payment on all accounts. Under state executive orders 124 and 142, public utilities were prohibited March 31-July 29, 2020, from disconnecting service. The town resumed standard collection practices on Aug. 1, 2020. All water and sewer accounts in arrears from January to July 2020 were automatically set up on a 12-month payment plan of equal installments. As of June 30, 2020, there were 1,883 accounts past due in the amount of \$376,830.

POLICE ADDRESS THE COMMUNITY

After the tragic death of George Floyd on May 25, 2020, Police Chief Duane Hampton addressed community concerns in a letter: "Hillsborough is a unique and wonderful town, and our police force is a reflection of that. Being a small town gives us some significant advantages over the large municipalities — we have been able to do things our larger peers cannot, we have been able to do some things sooner than our larger peers, and we have been able to build a strong community-focused culture for our officers."



Hampton also outlined steps the Hillsborough Police Department has taken for years, including selective hiring practices; a diversity hiring program; a strict Use of Force Policy; the use of body-worn cameras for all patrol officers while on duty; audits of cameras' use; a complaint process that is checked on multiple levels; training on fair and impartial policing, use of force and de-escalation; advocacy for certification in Crisis Intervention Training; and efforts to engage with the community. Engagement efforts include events such as Crafts with a Cop, Trunk or Treat, and an annual Easter egg hunt for dogs. The Police Department tracks and recognizes officers for engaging in "positive policing," such as officers buying gas for stranded motorists, providing food for people in need, fixing a mailbox damaged in an accident, or shoveling an elderly person's driveway.

"The ultimate success totally is going to depend on getting the right people here, people who understand our way of doing business, understand our culture, who want to do what we do," Hampton said, adding the agency's core values, code of ethics and philosophy of policing at its best are emphasized. "We want to show all the good things that policing can do, and we push that internally."

2020 Operating Indicators

74.1 Acres
of Public Parks



7
Public Parks



33.52
Miles of Streets



2 mi
Streets
Resurfaced



15
Potholes
Repaired

66 Fires Extinguished

1
Fire Station



151
Miles of Water
Main

43.6
Miles of Storm Sewers



6.76 tons
Trash Collected/Day



705
Fire Hydrants

38.6
Median Age

16,233
Calls for Service



25

Water Main
Breaks Fixed



658
Physical Arrests

DEBT MANAGMENT

For the purposes of a government, debt is how capital projects are financed. Although the town's debt is similar to personal debt in many ways, the town's debt is different because it cannot create a deficit. In practice, this means that the town's expenditures (including its debt payments) cannot exceed its revenue. This practice is commonly referred to as passing a balanced budget, which the town is required to do every year by law. The town also uses multi-year forecasting, allowing town leaders to identify and preempt any potential deficits before they occur.

The Town of Hillsborough's legal debt margin is \$89.55 million. While the town's total debt is \$32.89 million, only \$3.79 million is applicable to the legal margin. Much of Hillsborough's debt is for short-term expenses (such as equipment, system improvements, property acquisitions and projects) that are essentially operational costs and thus not considered applicable to the legal debt margin. The town's total debt decreased by \$2.25 million in Fiscal Year 2019-20 due to retirement of existing debt.

CREDIT RATING

Standard and Poor

AA

The Hillsborough utility system's credit rating was assessed in Fiscal Year 2018 and given a rating of "AA" from Standard and Poor. Standard and Poor noted it selected the high rating based on the utility system's strong conservative management and on an expanding and diversifying local service area economy. This rating makes the Town of Hillsborough among the highest rated municipalities in the United States. Standard and Poor expects the rating to be in place through 2020.

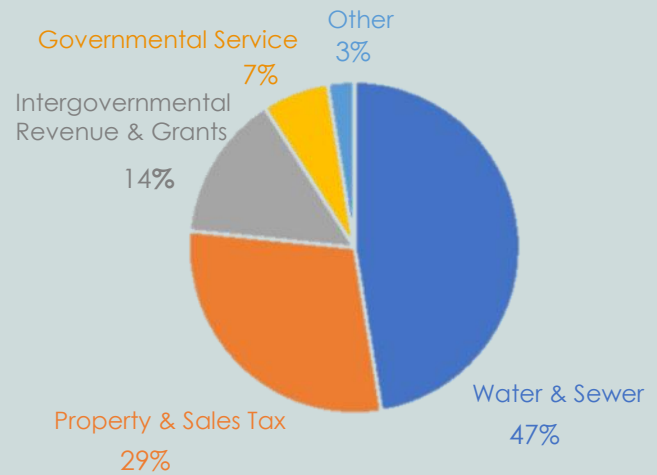
Sources of Town Funds

During Fiscal Year 2019-20, the Town of Hillsborough collected \$23.36 million in revenue (or income), a decrease of \$2.95 million from Fiscal Year 2018-19. Although the town did experience a decrease in revenue, 2020 revenue was still slightly higher than the revenue collected in 2018 (totaling \$22.95 million, a \$0.41 million increase). Property tax revenue increased by \$879,000, which can be attributed to 7% inflation, while water and sewer revenues decreased due to COVID-19. The pie charts on the right separate categories of revenue by percentage of the total over time.

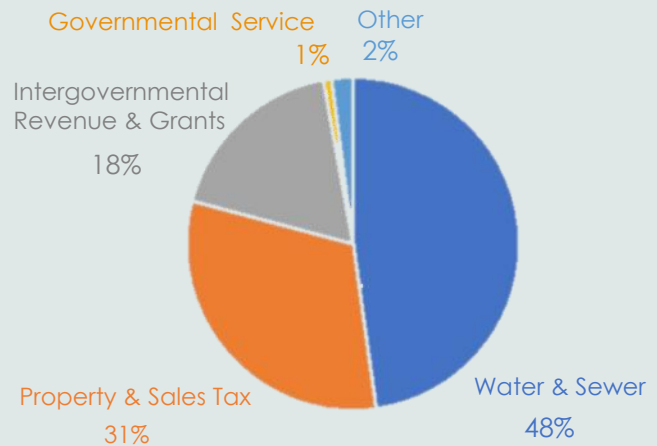
Charges for water and sewer services made up almost half of the town's revenue in Fiscal Year 2019-20. The Hillsborough Water and Sewer Fund and Stormwater Fund operate like separate businesses, which is why they are classified by accountants as enterprise funds. This means stormwater and water and sewer monies are kept separate from other town operations and used only to support their respective systems. The stormwater, water and sewer, and general funds do share common expenses in areas like fleet maintenance, human resources, finance, safety, administration, and public information. However, stormwater and water and sewer revenues are not used to support general government operations like police, fire, streets, solid waste, planning, public spaces and parks.

The second largest category of revenue for the town came from property and sales taxes, comprising about 39% of the town's total revenue. These funds are used to support general government functions. For approximately 11% of its revenue, the town relies on funds from other governments (such as the federal government and the State of North Carolina) and grants. These intergovernmental revenues typically are reserved for a specific purpose. Other government revenues derive from miscellaneous sources, such as the solid waste disposal tax or gross receipts on short-term rental property.

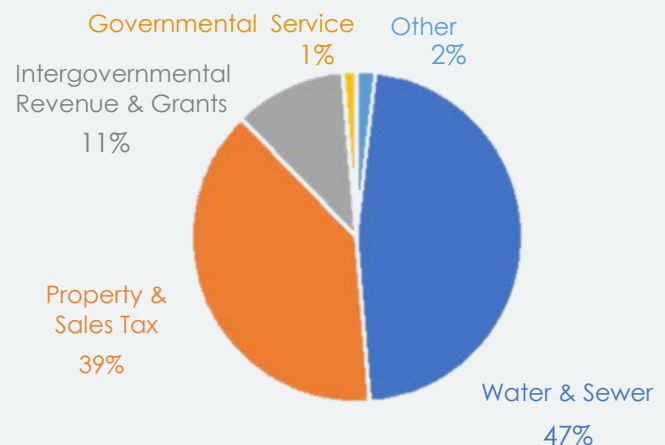
FY 2018



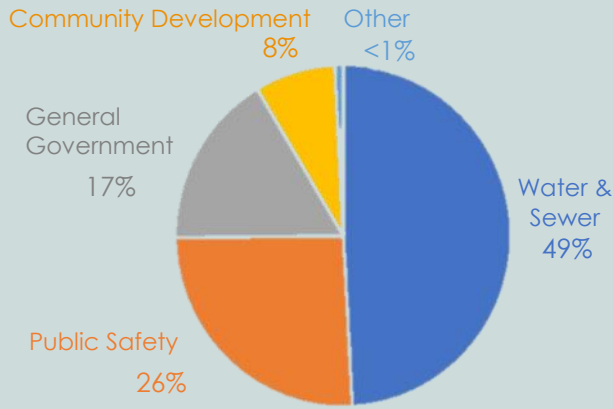
FY 2019



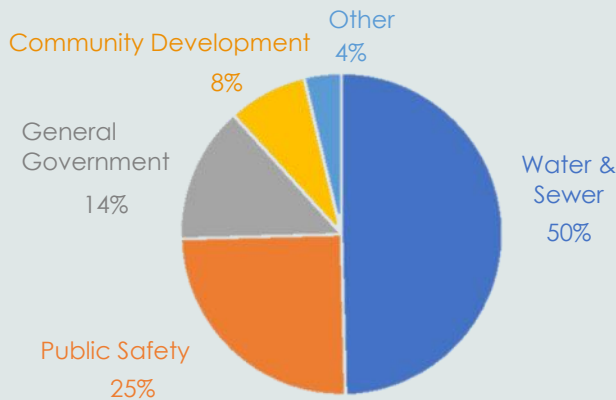
FY 2020



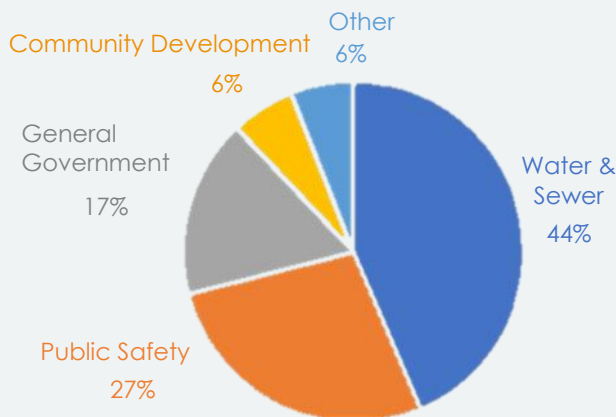
FY 2018



FY 2019



FY 2020



Uses of Town Funds

The Town of Hillsborough spent \$20.23 million in expenditures in Fiscal Year 2019-20. This was approximately a \$1.39 million increase in expenditures from Fiscal Year 2018-19. The town delayed just under \$1.5 million in expenditures due to COVID-19. The largest portion of the town's expenditures went toward providing water and sewer services. These services are funded solely by user charges rather than tax revenues.

The second largest expenditure category was public safety, which includes police services, fire services, the town safety officer, and fire inspections. The next largest piece of Hillsborough's expenditures was general government. This category includes the costs associated with planning, finance, motor pool and other various administrative costs. Other various expenditures included transportation (referring to street maintenance), community activities, environmental protection (referring to sanitation and some stormwater services), maintenance of Hillsborough's parks, and economic development. These expenditures were funded primarily by taxes.

Major capital investments this year included street repaving (\$210,150) and vehicle purchases (\$141,950). The town's total debt increased during Fiscal Year 2019-20 due to newly issued special revenue bonds of \$3.27 million. These special revenue bonds funded work needed for the reservoir expansion.

Governmental Fund Net Position

Governmental Fund ("General Fund")—Governmental activities are funded almost exclusively through taxes (such as property and sales tax) and grants. Most of the town's basic services are accounted for in governmental funds. In the Town of Hillsborough, governmental revenue supports services like public safety; infrastructure maintenance (roads, planning and inspections); parks and recreation; and general governmental administration (such as human resources and the town's website).

| NET POSITION (in millions of dollars) | | FY 2019-20 | FY 2018-19 | Change |
|--|--|----------------|----------------|---------------|
| | Total Assets and Deferred Outflows | \$34.46 | \$34.41 | \$0.05 |
| | Total Liabilities and Deferred Inflows | \$(8.24) | \$(8.82) | \$0.58 |
| | Total Net Position | \$26.22 | \$25.59 | \$0.63 |

How are your tax dollars spent?



*Other spending includes community activities and debt service.

Enterprise Funds Net Position

Enterprise Funds—An enterprise fund is a governmental fund that serves a business-like purpose and delivers a good or service. The town uses enterprise funds to account for its water and sewer activity and its stormwater activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities in the Comprehensive Annual Financial Report.

| | FY 2019-20 | FY 2018-19 | Change | NET POSITION (in millions of dollars) |
|--|------------|------------|--------|--|
| Total Assets and Deferred Outflows | \$87.14 | \$82.68 | \$4.46 | |
| Total Liabilities and Deferred Inflows | \$(31.98) | \$(30.02) | \$1.96 | |
| Total Net Position | \$55.16 | \$52.66 | \$2.50 | |

A statement of net position shows the following that a fund has:

- Total assets (like cash or the value of equipment).
- Deferred outflows (like future payments for obligations).
- Total liabilities (like debt and the cost of outstanding invoices).
- Deferred inflows (future acquisition of cash or assets).

Most of the town's value is in its capital assets, such as the land, buildings and equipment that the town uses to deliver services to residents. The town's net position is similar to a private entity's net worth; it shows the value the town would have if all its assets were sold and if all liabilities were paid in full.

An increase in the net position of a fund can be an indicator of an improvement in the town's financial position, while a decrease in net position would represent a decline. The town's total net position increased by \$3.13 million during Fiscal Year 2019-20.

Budget for Fiscal Year 2020-21

The Town of Hillsborough adopts a budget each year, as required by N.C. General Statutes. The budget is a legally binding document that incorporates input from residents, town employees and management and the decisions of the Board of Commissioners regarding which services to provide, at what level, and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current-period activities.

The Town of Hillsborough's budget process is unique when compared to other local governments in North Carolina because the town typically prepares a detailed draft of the budget by late February, months earlier than the traditional schedule. Preparing the budget this early allows all relevant stakeholders, including the Board of Commissioners, enough time to ask detailed questions and make the best decisions possible. The budget for Fiscal Year 2020-21 is the first budget in 23 years that was not in a multi-year format, due to the COVID-19 pandemic and the resulting difficulty in forecasting future trends accurately and the desire to focus on the most pressing current issues.

The budget process for Fiscal Year 2020-21 focused on prioritizing the necessities for the year ahead: core service delivery, asset maintenance, and retaining employees. The budget also focused on increasing financial flexibility using conservative projections.

The total budget for Fiscal Year 2020-21 is \$21.98 million. For comparison, it was \$21.99 in Fiscal Year 2019-2020, and \$22.64 million in Fiscal Year 2018-19. Reducing spending and increasing the town's fund balance level was a major priority in last year's budget; the town ended the fiscal year with 66.94% of general fund expenditures, surpassing the town's targeted fund balance between 20% and 60% of general fund expenditures. Part of the fund balance from prior years was used to help address pressures brought by new growth in Hillsborough, but the budget projects a significant portion of that fund balance being "paid back" in coming years.

Property taxes, water and sewer rates, and stormwater rates will not be increased in Fiscal Year 2020-21. In order to balance the budget with projected decreases to town revenue, the Fiscal Year 2020-21 budget includes hiring freezes on non-essential positions; no increases for salary merit adjustments; and delaying capital projects when possible. Even with these cost-saving measures, expenditures increased in the Fiscal Year 2020-21 budget by 3.4% due to the deferment of expenses in the last quarter of Fiscal Year 2019-20.



Gold Park Pollinator Garden

A small number of critical capital projects and initiatives will begin in Fiscal Year 2020-21. This includes repairing damage to stormwater culverts under Valley Forge Road; replacing a garbage truck; contributing to the economic development district water line extension; and contributing \$34,000 to the construction of a rail station. The town also plans to invest in a comprehensive plan and a wastewater sustainability evaluation.

In the Spotlight: Preservation Awards

The Hillsborough Historic District Commission presented its 2020 Preservation Awards to the people behind the renovation of Bellevue Mill and the Billy Strayhorn mural on South Churton Street.

BELLEVUE MILL COMPLEX



The 2020 Preservation Award for Best Adaptive Reuse of a Commercial Structure recognized the significant amount of time, effort and money put into renovating the Bellevue Mill complex on South Nash Street for residential use after a tragic fire destroyed 75% of the weaving building in 2016. Despite the extensive damage to the weaving building, the complex's "slow-burn" construction helped keep the fire from spreading to other parts of the complex.

The mill complex dates to 1909, with significant additions in 1920 and 1923. As part of the renovation, the weaving building was reconstructed following its original design and materials.

Bellevue Mill, which now offers over 100 apartments, was placed on the National Register of Historic Places in 2003 and awarded Local Landmark status by the Hillsborough Board of Commissioners on the recommendation of the Hillsborough Historic District Commission in 2014. Recognized are Bellevue Mill LLC, Belk Architecture and CT Wilson Construction.

BEST ARTISTIC REPRESENTATION OF LOCAL HISTORY

The 2020 Preservation Award for Best Artistic Representation of Local History recognized the mural of jazz composer Billy Strayhorn on the north wall of the Volume vintage record store at 226 S. Churton St. Recognized for their collaboration are artist Max Dowdle, business owners Tony Lopez and Nathan Andrews, Annie Charton, and building owners Mary and David Knox.

The striking mural pays homage to Hillsborough history on a local business devoted to music. The mural depicts both Strayhorn, who became interested in music and piano while living with his grandmother in Hillsborough, and a New York City Subway A train, which was the namesake for his most well-known composition, "Take the A Train."

Lopez and his girlfriend, Charton, worked with Dowdle on the concept for the mural, which the Knoxes were happy to have adorn their building. While modern and current in its execution, it is respectful of the building's architectural features.



For more information about the Hillsborough Financial Services Department, visit www.hillsboroughnc.gov.