

The Town of
Hillsborough

Citizens Annual Financial Report

Fiscal Year July 1, 2018– June 30, 2019

Hillsborough, North Carolina

What Is a Citizens Financial Report?

A citizens annual financial report is meant to update citizens 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.

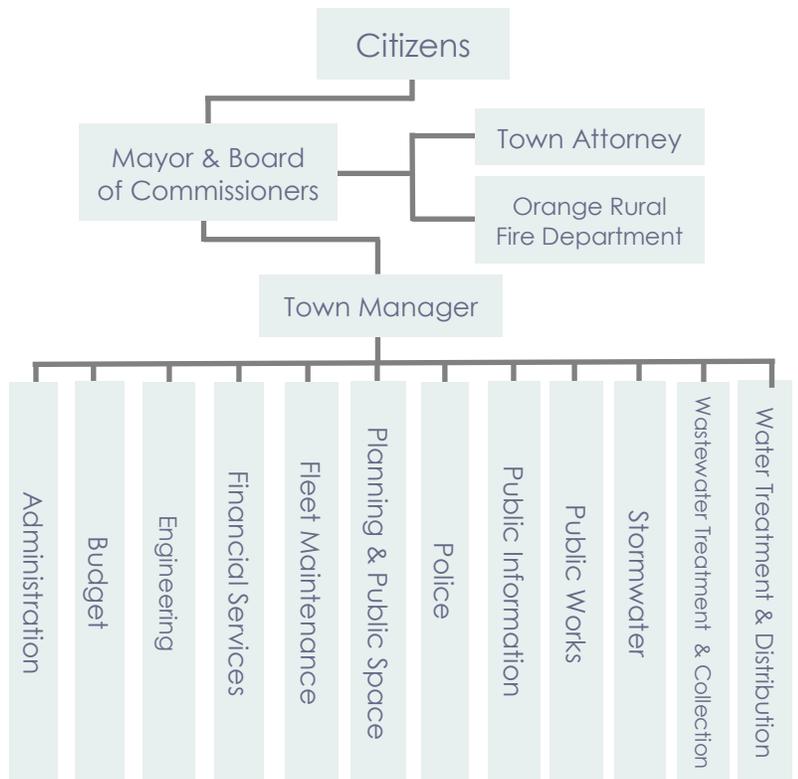
Anyone interested in more details about Hillsborough's finances should refer to the Comprehensive Annual Financial Report, which can be found at www.hillsboroughnc.gov/government/departments-and-divisions/financial-services/

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.

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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, 2019 — are *(from left)* Commissioner Kathleen Ferguson, Mayor Pro Tem Jenn Weaver, Commissioner Matt Hughes, Mayor Tom Stevens and commissioners Evelyn Lloyd and Mark Bell.

A Message from the Town Manager



The town's vision is to see Hillsborough a "prosperous town, filled with vitality, fostering a strong sense of community, which celebrates its unique heritage and small-town character." As stewards of this community, we work every day to work toward that vision.

Hillsborough is a unique town in many ways: It has unique strengths, like its historic heritage small-town character, and diverse, vibrant community. Hillsborough's community is growing at an extremely fast rate, which means that we need to respond quickly to the many different needs of our diverse citizens—without losing the effectiveness and personal approach to service that the town has been known for. There is no one right path to achieving goals, especially in a dynamic environment like the Town of Hillsborough.

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

Eric Peterson



SPRING CLEANING

Town employees dedicated one day in the spring to decluttering their offices and better organizing their workspaces. "Clean and organized work spaces will allow town employees to work more efficiently and better serve the community," said graduate intern Richard Carey, who led the town's spring-cleaning efforts.

The day was part of an effort to follow the lean management principle of 5S, which is a workplace organization method that helps employees remove distractions and work more efficiently. The methodology uses five Japanese words translated as: sort, set in order, shine, standardize and sustain. It involves employees thinking through practical ways to increase efficiency. The inaugural application of these principles included removing office equipment that was not in use, purging files that are not required to be stored, and putting practices in place for the organization and upkeep of common spaces. The intention is to make this an annual event that town employees build upon to better serve the community.



COLLABORATION ON CLEAN ENERGY GOALS

The Town of Hillsborough is collaborating with other North Carolina towns and cities to meet its clean energy goals. Zach Ambrose from the Cities Initiative, a program designed to help North Carolina municipalities reduce their greenhouse gas emissions, spoke with town residents and staff in Hillsborough at a public information meeting on July 30, 2018. Ambrose explained that the initiative, which has been organized by the nonprofit organization Environmental Defense Fund, encourages conversations about strategies for and barriers to reducing greenhouse gas emissions among staff and elected officials from municipalities across the state, including large cities and small towns.

The Hillsborough Board of Commissioners passed a resolution in the fall of 2017 with the goal to use 80 percent clean renewable energy for municipal operations by 2030 and 100 percent by 2050. Renewable energy strategists from the Triangle J Council of Governments, which the town is contracting with for assistance, represented the town at the first three Cities Initiative roundtables, with elected officials participating in the fourth and final roundtable. The strategists also are researching funding options and developing partnerships for the town.

2019 Operating Indicators



IN-HOUSE BILLING RETURNS TO THE TOWN

The Town of Hillsborough returned to in-house billing in February 2019 after ending its relationship with FATHOM, a third-party utility software and customer service provider that provided water and sewer software for the town for a short time. The town chose to pursue in-house billing after a lack of financial returns became apparent and due to citizen feedback.

The new in-house billing utilizes a different software, and water and sewer customers now have the option of paying through bank draft, online, phone, and in person.



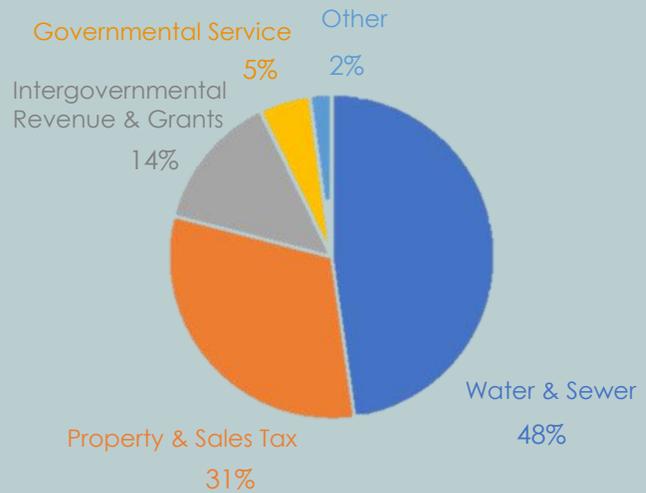
Sources of Town Funds

During Fiscal Year 2018-19, the Town of Hillsborough collected \$26.31 million in revenue (or income), an increase of \$3.36 million from Fiscal Year 2017-18. This increase in revenue occurred because of community growth and continued diligence in the collection of property taxes. The pie charts on the right separate categories of revenue by percentage of the total over time.

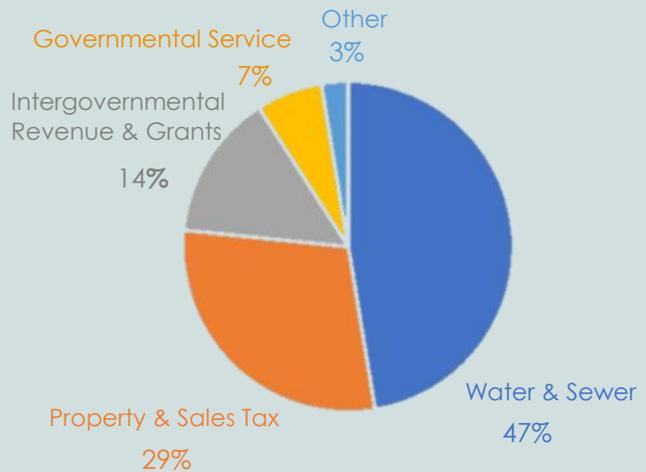
Charges for water and sewer services made up almost half of the town's revenue in Fiscal Year 2018-19. The Hillsborough Water and Sewer Fund and Stormwater Fund operate like separate businesses, which is why they are classified by accountants as enterprise funds. This means stormwater and water and sewer 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 approximately 31 percent of the town's total revenue. These funds are used to support general government functions. The Town of Hillsborough also relies on funds from other governments (such as the federal government and the State of North Carolina) and grants for approximately 14 percent of its revenue. 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.

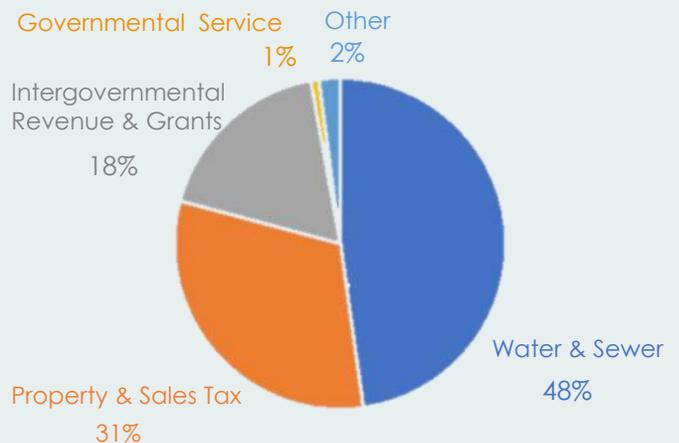
FY 2017



FY 2018

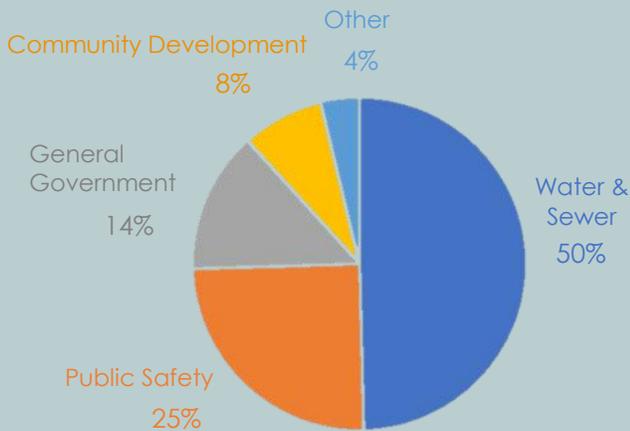


FY 2019

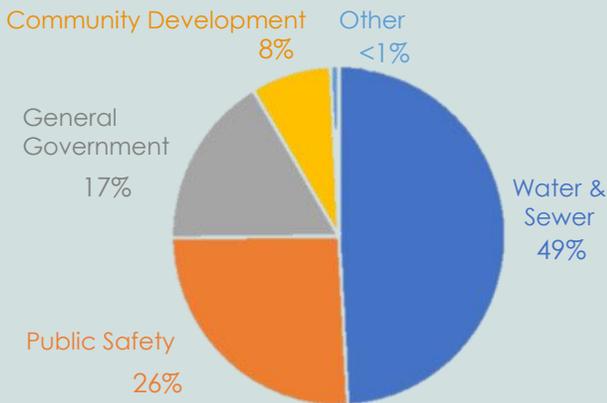


Uses of Town Funds

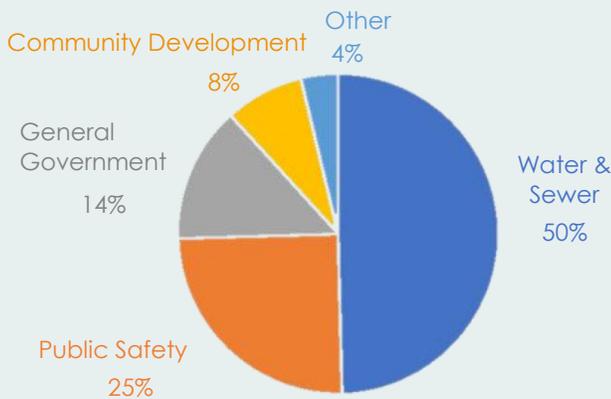
FY 2017



FY 2018



FY 2019



The Town of Hillsborough spent \$18.84 million in expenditures in Fiscal Year 2018-19. This was approximately a \$649,000 increase in expenditures from Fiscal Year 2017-18. This change was mainly due to retiring debt. 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.

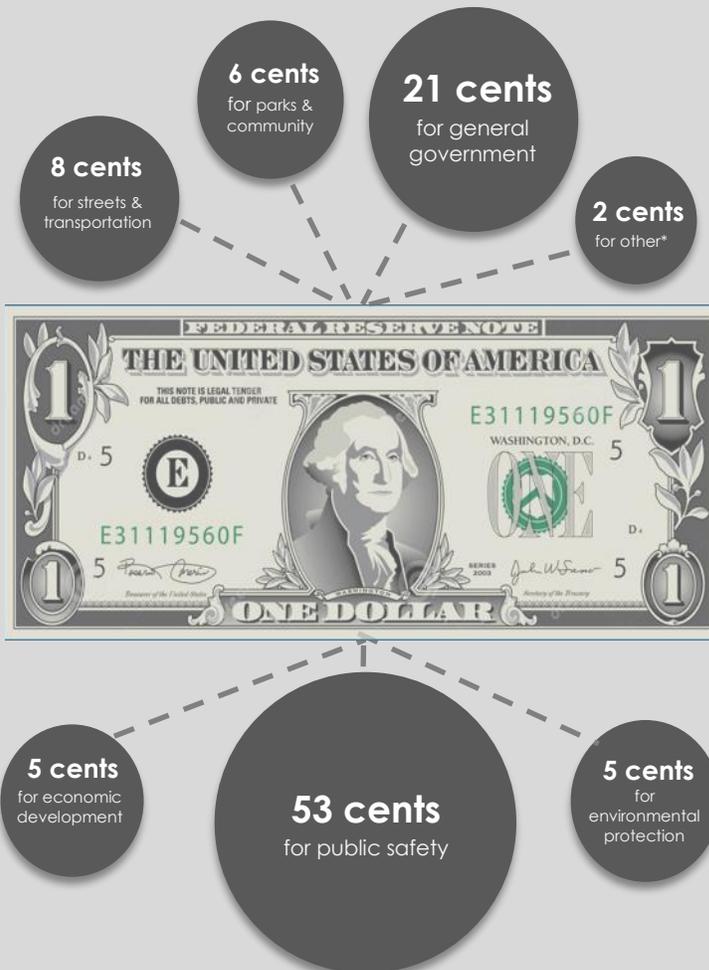
Major capital investments this year included street repaving, the West Hillsborough sidewalk connections funded with a Congestion Mitigation and Air Quality (CMAQ) grant, a stormwater project on Valley Forge Road and the second phase of the West Fork Eno Reservoir. The town also put the downtown sidewalk project and the North Campus improvements to the Town Hall Annex and Administration Building into service this year. A long-term project is put into service only after all construction and miscellaneous tasks have been completed.

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 2018-19	FY 2017-18	Change
	Total Assets and Deferred Outflows	\$34.41	\$32.90	\$1.51
	Total Liabilities and Deferred Inflows	\$(8.82)	\$(9.76)	\$0.94
	Total Net Position	\$25.59	\$23.14	\$2.45

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 2018-19	FY 2017-18	Change	NET POSITION (in millions of dollars)
Total Assets and Deferred Outflows	\$82.68	\$78.65	\$4.03	
Total Liabilities and Deferred Inflows	\$(30.02)	\$(31.02)	\$1.00	
Total Net Position	\$52.66	\$47.63	\$5.03	

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 citizens. The town's net position is similar to a private entity's net worth; it shows the value the town would have if all of 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 \$7.47 million during Fiscal Year 2018-19.

Budget for Fiscal Year 2019-20

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 the citizens, town employees, 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 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 total budget for Fiscal Year 2019-20 is \$21.99 million. For comparison, it was \$22.64 million in Fiscal Year 2018-19 and \$22.71 million in Fiscal Year 2017-18. Reducing spending and increasing the town's fund balance level was a major priority in this budget. Recently, part of the fund balance 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 remain the same at 62 cents per \$100 valuation. Water and sewer rates increased by 5%, due in part to the town's reservoir expansion and costs related to compliance with strict wastewater discharge limits. For the average in-town residential water customer, this equates to a \$1.70 increase per month. The average out-of-town residential water customer increase is \$3.32 per month. Sewer rates also increased by \$2.51 for the average in-town customer per month and \$4.91 for the average out-of-town residential customer.

The reservoir is being expanded now to complete the project under the original Army Corps of Engineers permit before it expires, saving the town millions of dollars. The loss of Efland-Cheeks sewer customers (who are now connecting to the City of Mebane's sewer system) will cost the town \$372,000 annually; however, this transfer of customers will be beneficial to the town in the long run as the customers in that area are a large source of costly inflow and infiltration of rain, surface water, and groundwater into the wastewater collection system.



The new spillway design (piano key weir) will increase overflow capacity.

Major projects in the General Fund include street repaving; relocating the public works staff; and increased minimum wage. The fund balances in both the General Fund and the Water and Sewer Fund are at a healthy level, meaning both have a few months of operating expenses saved.

The stormwater rate did not change for the Fiscal Year 2019-20 budget. Expenses in the stormwater fund decreased by 7.2% in Fiscal Year 2019-20. Stormwater projects in Fiscal Year 2019-20 will focus on the town's current stormwater infrastructure and nutrient reduction.

- 1. BAND-AIDS, BRIDGES, AND OPTIONS—BUYING TIME TO SPREAD OUT COSTS:** Hillsborough is facing many challenges. A premium must be placed on generating alternative ideas to serve as “band-aids” and “bridges” to buy time until long-term solutions are identified.
- 2. WEST FORK ENO RESERVOIR EXPANSION:** The expansion is a large investment for the town that will benefit the community for generations by doubling the water reserves. This is critical considering Hillsborough’s history of droughts.
- 3. STABILIZATION OF WATER AND SEWER RATES:** Significant rate increases have occurred over the past decade to pay for updating and expanding the Wastewater Treatment Plant, expanding the reservoir, and building the Waterstone water tank. Despite these challenges, the town is working to keep rates as low as reasonably possible.
- 4. EMERGENCY PREPAREDNESS:** The frequency and intensity of severe weather events have increased in recent years, putting pressure on the town to improve the organization’s capacity to respond to emergencies.
- 5. UNFUNDED CAPITAL NEEDS:** Funding has not been identified for several operational needs, including a new public works facility, police and fire stations, an enterprise resource planning system, and various road, pedestrian, bike and park projects.
- 6. RENEWABLE ENERGY GOALS:** Steps must be taken to gain a clearer understanding of how to achieve the town’s goals of using 80% renewable energy by 2030 and 100% by 2050 to run town operations.
- 7. CYBERSECURITY:** More local governments are being attacked, causing significant costs and service reductions with long-lived impacts. Elevating the town’s risk management efforts in this area is a must.
- 8. SUCCESSION PLANNING:** About one-third of the town’s employees are eligible for retirement within five years.
- 9. MINIMAL NEW POSITIONS:** Full-time new positions are costly when the full impact of benefits, vehicles, equipment and other job costs are considered. The town needs to put the brakes on new full-time employees whenever possible.
- 10. NOTHING WORTHWHILE IS EASY:** The town needs to explore ways to streamline and eliminate waste (time and money) for the long-term health of the organization.

Debt Management

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 utilizes 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 \$82.48 million. While the town’s total debt is \$31.71 million, only \$4.63 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 Town of Hillsborough utility system’s credit rating was assessed in Fiscal Year 2018 and was given a rating of “AA” from Standard and Poor. Standard and Poor noted it selected the high rating based on the Hillsborough utility system’s strong conservative management and on an expanding and diversifying local service area economy.

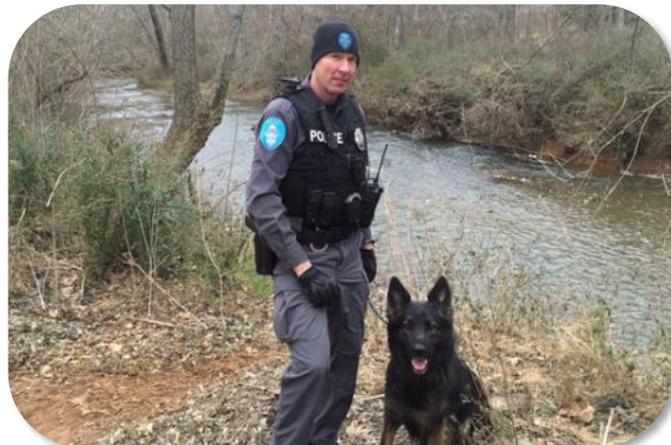
This rating makes the Town of Hillsborough among the highest rated municipalities in the United States. Standard and Poor expects the rating to be in place through 2020.

In the Spotlight



NEW UTILITIES DIRECTOR

A former resident and chair of the Water and Sewer Advisory Committee returned to lead the Hillsborough Utilities Department. Marie Strandwitz, formerly Doklovic, had called Hillsborough home for a dozen years before moving to Ohio. She brought over two decades of experience covering all aspects of her new post, having worked as a state water quality regulator, a water and wastewater engineering consultant, and a project manager for a local utility.



DEATH OF RETIRED K9 OFFICER

Retired K9 Officer Viper died in October 2018. He had been living with his last handler, Officer Mike Toellen. "Viper was a great police K9 and a fantastic asset for the department," said Lt. Davis Trimmer, commander of the Patrol Division. "He was so outgoing and social and a great representative of the Hillsborough Police Department. We have missed him since his retirement, and our hearts go out to Mike and his family. Our police dogs, even after retirement, are a part of the HPD family." Viper worked with Toellen for about two years, first working and living with Cpl. Mike Foushee before Foushee retired in 2015. Viper retired in fall 2017 after developing an unidentified medical condition that made him unable to work or walk long distances.



EXCELLENCE IN COMMUNICATIONS AWARDS

The Town of Hillsborough received two first-place Excellence in Communications Awards from the N.C. City and County Communicators, earning recognition for two videos produced by the Public Information Office. One of the videos focused on employee recruitment and was recognized for its strong story line, editing, and how the interviewees sounded "confident and comfortable in front of the camera." The second video was an animation about winter weather operations. This video explained how the decision is made to plow streets and how town limits affect plowing services.

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