



Effect of Debt Management

A large portion of the Town of Hillsborough’s monthly water and sewer bill payments goes toward paying the debt on capital projects that help Hillsborough provide clean and reliable water and sewer service.

MAJOR PROJECTS CURRENTLY PAID FOR WITH WATER/SEWER PAYMENTS					
Projects	Cost	Funding Source	Build Start	Build End	Debt Payments
Wastewater Treatment Plant Upgrades	\$18.2 million	State Revolving Fund	2011	2014	About \$1.2 million annually over 20 years (2015-2035)
Reservoir Expansion	\$16 million	Revenue bonds sale	2018	2019	About \$1 million annually over 24 years (2018-2042)

Background

In Hillsborough, capital projects are projects that:

- Occur irregularly.
- Result in a fixed asset.
- Have a cost greater than \$100,000.
- Have a useful life greater than one year.

Governments finance capital projects through debt — or the borrowing of money. Unlike the personal debt you might have, the town’s debt cannot create a deficit. This means the town’s annual expenses — including its debt payments — cannot exceed the money it receives.

By law, governments must pass a balanced budget each year in which planned expenses do not fall below expected revenue. This helps avoid potential deficits. When creating its annual budget, Hillsborough also plans for two additional years to identify and prevent possible deficits before they occur.

Water/Sewer Fund

Because Hillsborough runs its operations through two separate types of funds, revenue from water and sewer bills pay for debt management only on:

- Water and sewer projects.
- A portion of town projects that support water and sewer operations. For instance, the Water/Sewer Fund is sharing in part of the costs for renovating a building to house the Human Resources Division because the division provides support to utilities employees.

The town's two types of funds are:

- General fund — with revenue primarily from taxes. This fund pays for operations such as planning, public works and police.
- Enterprise funds — with revenue from water and sewer fees and from stormwater fees. The two enterprise funds pay for the costs of their individual operations.

Effect on rates

Hillsborough's water and sewer rates are set to cover the costs of operating, maintaining and improving the water and sewer system and providing clean and reliable water. The town does not make a profit from providing water and sewer service nor does it use water and sewer revenue for other purposes.

Because the town's debt cannot create a deficit, rates must be raised at times to ensure the town's expenditures on water and sewer service do not exceed its revenue. Debt management and multi-year budget forecasting help Hillsborough to spread needed increases into smaller amounts over a number of years. Savings also can be used for short periods to help balance the budget.



Construction in 2012 to upgrade the Hillsborough Wastewater Treatment Plant

To manage debt on the Wastewater Treatment Plant upgrades, the town increased sewer rates by 8.8% annually between fiscal years 2012 and 2016. The town's fiscal year starts July 1 and ends the following June 30, so the first rate increases related to the Wastewater Treatment Plant upgrades became effective in July 2011. The increases provided reserve funding for the debt payments, and a portion of customers' current sewer payments still funds remaining debt payments on the upgrades.

The town raised water and sewer rates by 5% in Fiscal Year 2020, which began July 1, 2019, to help with the debt payments on the Wastewater Treatment Plant upgrade and the reservoir expansion. Additional rate increases are forecasted for the following two fiscal years to ensure the payments can be made.

Benefits

Debt management allows the town to:

- Move forward with large projects as needed.
- Spread the cost of a capital project over a number of years.
- Include future customers in sharing in the cost of an asset they will benefit from.