



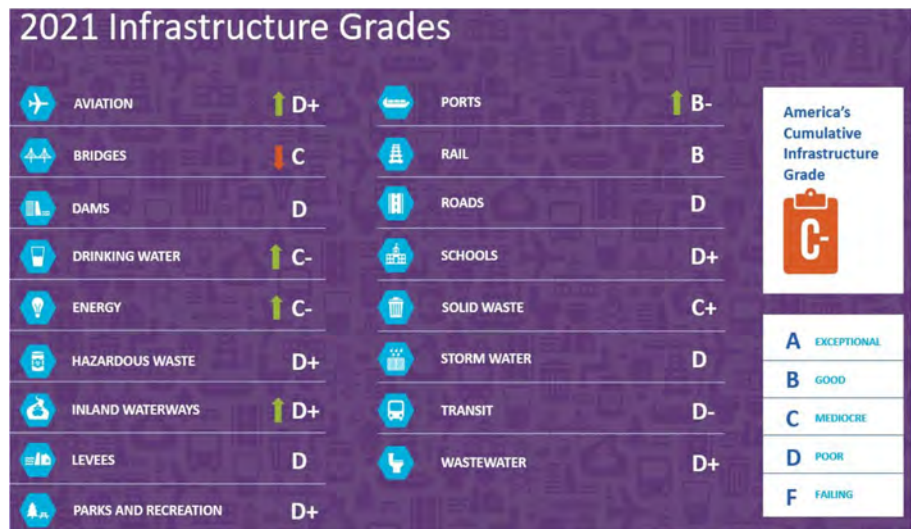
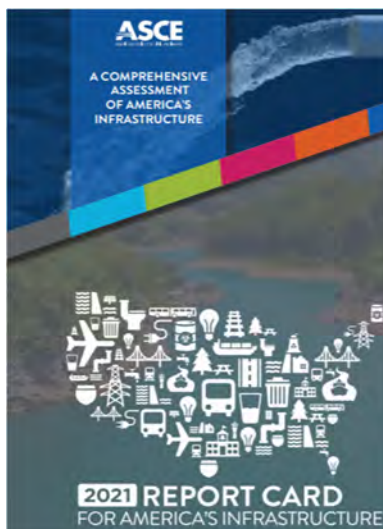
May 24, 2021

Honorable Mayor Weaver and Board of Commissioners:

Submitted is Hillsborough’s FY22-24 Annual Budget Workbook. The budget is prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act. As this proposed document is transmitted from the town manager to the Board of Commissioners, it now becomes the governing body’s budget to review, question, debate, adapt and ultimately adopt. It is expected that changes will be made to the proposed budget as new information becomes available and alternatives are considered. Town staff is ready to provide whatever information the board deems necessary to make well-informed decisions on the budget and financial plan. Therefore, the mayor, Board of Commissioners, advisory boards, and the community are encouraged to share their views regarding what should be funded or modified because this is ultimately your budget!

**Approach to Developing the FY22 Budget**

For quite a few years, the motto used by the town board and staff when building Hillsborough’s annual budget and multi-year financial plan has been: “take care of what we already have.” This refers to the town’s infrastructure, equipment, buildings, employees, and systems. The town’s mission, vision, strategic priorities, and objectives can’t be implemented if these basic tools of service implementation are not in working order. The longer a municipality waits to address, repair, or replace these assets (tangible and intangible), the more expensive it becomes in the long term. Governments are notorious for building capital assets and not adequately maintaining them. For example, ensuring the organizational structure and resources are in place to maintain parks is equally as important as building the parks themselves. Construction of new assets must be balanced with the personnel, equipment, and organization to operate and maintain them, which is critical in avoiding the overextension of resources. The recently released American Society of Civil Engineers report card, which comes out every four years, shows the poor state of our country’s infrastructure. This is an excellent reminder to avoid the mistakes that others routinely make and ensure we are properly maintaining Hillsborough’s assets!



Many cuts, deferments, and freezes occurred in the FY20 and FY21 budgets to prepare for possible negative economic effects from COVID-19. As typically happens after a recession or other events when purchases are delayed, expenses then increase to catch up with replacing older vehicles, equipment, computers, filling positions, and moving ahead with maintenance needs. As mentioned by the town manager during the January 25, 2021 workshop when budget priorities were discussed, addressing backlogged needs, or at least getting those plans in place before the Comprehensive Sustainability Plan is completed is important. This will then allow attention and resources to focus on implementing the new priorities that are certain to emerge from the Comprehensive Sustainability Plan expected to be completed by the fall of 2022.

The multi-year forecasting component of this document, used since 1998, encourages the town to look forward and identify, address, and mitigate potential problems while they are still manageable. The plan allows readers to see how today's decisions affect the town's financial condition in the future. The financial plan acts as a "fiscal radar," giving Hillsborough more time to proactively plan responses to problems and needs. This is crucial in avoiding unwanted surprises.

Using only an annual budget process or a one-year view, as most local governments do, to manage operations provides little advanced warning of problems looming on the horizon. If the town board, staff, and community is aware of a potential problem in advance, it has greater flexibility and time to develop reasonable solutions. Hillsborough is one of the only local governments in North Carolina that uses a multi-year budget format. While only the first year of the budget is legally binding, years two and three of the financial plan include critical information that provide a more accurate picture of the fiscal and operational challenges facing the town.

### **Format Changes**

To reduce the size of the document and simplify presentation of information, several departmental budget sections are in the process of being combined. The departmental sections being removed will stay in the budget document for the next two years to reflect prior year's expenses. Thus, it will take a couple of years to completely remove those sections and have all the information align.

- Streets and Powell Bill. The town's allocation of gas tax funds (Powell Bill) has been included on a separate budget page, even though all the expenses are part of the street department operations. To streamline the information, it will now all be budgeted in in the streets section.
- Fire Protection and Fire Inspections. The fire inspections section is being eliminated and moved to fire protection to include all matters related to fire service. This section includes the contracts with Orange Rural Fire Department for protection, fire-related capital, and Orange County for fire inspection services.
- Police department. The administration, patrol, community services and investigations divisions are combined into one unit. Due to the small size of the police department having one budget section will make it easier to present, review, track, and adjust the budget, as well as remove much unneeded duplication of information.

Budget format and strategic plan. This will be the last year for the current formatting of summary and departmental budget information as the new budget software will be used next year. Currently large and cumbersome Excel documents are used to prepare the numbers-focused parts of the document with Microsoft Word being used for preparing narrative-oriented sections. In addition to preparing this budget document, the budget team has also been populating that same information into the new software to prepare for next year. Thus, they've put a tremendous amount of time into this year's process, plus work has continued developing the new strategy map and strategic plan throughout this time.

### **General Fund Highlights**

- ✓ Property tax. *No rate increase is recommended*. Due to Orange County's property re-valuation the rate would decrease from the current 62 cents per \$100 of assessed valuation down to a revenue-neutral 56.7 cents. The rate decreases due to property values increasing, thus generating approximately the same amount of revenue had the values not changed. If approved, this would be the ninth consecutive year without a property tax increase.
- ✓ Climate and sustainability – \$150,000 annually plus option for additional funding dedicated to this priority. A major component of the Comprehensive Plan (Fall 2022 estimated completion) is developing actions and priorities related to climate and sustainability. Implementing those priorities is going to be expensive, so providing funds annually in the budget combined with the concept of raising property taxes and dedicating those funds towards climate and sustainability initiatives should be considered as this has been done recently by some local governments to combat the climate change crisis. For example, if the board approved raising the rate to two cents above the revenue-neutral rate to 58.7 cents, that would generate approximately \$300,000 per year. The proposed budget includes \$150,000 per year for climate and sustainability initiatives, so there will be some funds available moving forward, but this will likely not be nearly enough funding.
- ✓ Public Works facility and relocation (\$2.2 million). After many years of being located in the flood plain in substandard facilities, funds are allocated in FY22-24 to move the public works department from their Dimmock's Mill Road location to the N.C. 86 North facility, including construction of much needed storage buildings. Funds are included for design (\$200,000 in FY22) as well as for debt payments starting in FY23 for the estimated \$2 million facility. Annual debt is estimated at \$180,000 per year. Paying off the existing loan for the NC86 North Facility in FY23, that is already close to being retired, is necessary to be able to secure a loan from another lending institution for the improvements on this property. Having this debt paid off, along with the Collins property retiring in 2024 will free about \$100,000 annually to pay a large portion of the annual debt for this project. The remaining difference will need to come from other sources,

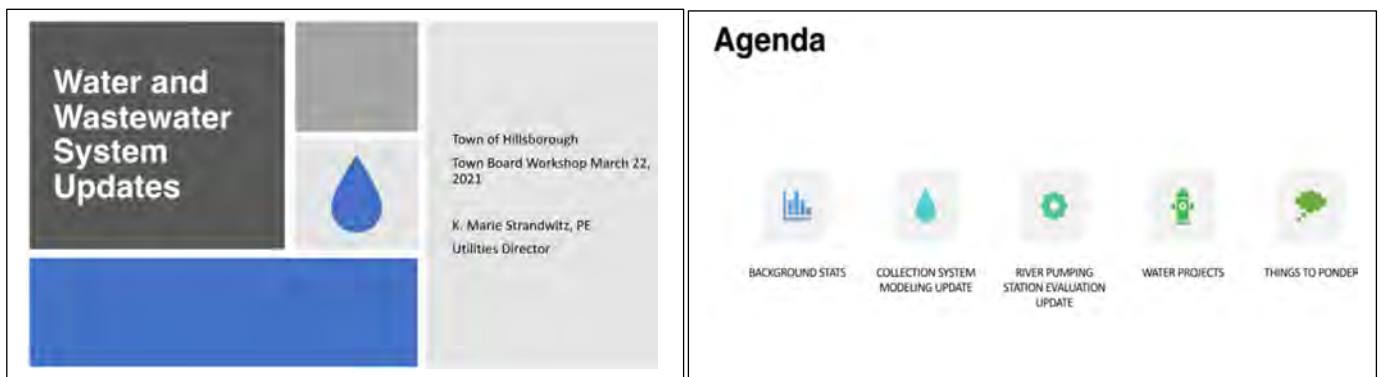
likely the current growth that is occurring in town. The current facility, the small old cinder block building known as “the shed” is adjacent to the Eno River and surrounded by floodplain. Their former storage facility, the adjacent old fleet maintenance facility, was torn down two years ago due to safety and environmental reasons. Storage was moved to a temporary location behind the old furniture store property on North Churton Street until the new facility can be completed at the N.C. 86 North location.

- ✓ Public works equipment (\$1,034,000). Replaces five pieces of major equipment: dump truck, boom mower, asphalt “hot box,” leaf truck, and knuckle-boom truck. An additional front-line one-arm solid waste truck to keep up with the new homes that are being added in town is also included. The Collins Ridge developers contributed \$60,000 towards the purchase of this truck. The interim public works director has been exploring the use of a contractor to cut sections or rights-of-way that require use of the boom mower but finding a contractor has been difficult. This would avoid the \$135,000 expense, maintenance and repair costs, plus free staff to do other work. If a reliable contractor can be acquired by the end of 2021, then replacing the boom mower may be avoided. Funds are included in contracted services in the hope that a company can be secured for this work. Large equipment usually serves about five years of front-line duty before being rotated to back-up duty for at least another five years. Thus, to maximize the life and usefulness of expensive equipment it’s important they be moved to back-up/support duty while still in good working order. The much older back-up equipment is then sold as surplus. This equipment will be funded through a five-year installment-purchase agreement.
- ✓ Fire protection. Annual payments for fire protection to Orange Rural Fire Department (ORFD) increase by 11.1% this year to cover the full cost of adding the full-time fire chief that was done in mid-FY21 as well increasing the annual contribution to support costs associated with the new Waterstone public safety station (housing fire and EMS). ORFD is the lead agency on this project and will be responsible for costs associated with the Waterstone facility.
- ✓ Downtown fire station. The town will be responsible for building and paying for the new downtown station at 604/618 North Churton Street, at the old furniture store site. The new downtown station is estimated to cost approximately \$4 million four years from now. Funds are included and increased each year by \$75,000 to “ramp up” to the eventual annual debt service amount of approximately \$250,000 - \$325,000. FY22 includes \$75,000, which goes to \$150,000 in FY23, and \$225,000 in FY24. Those funds will be placed in a capital projects fund to first help pay for design costs, then transition to funding the annual debt. Ramping up to the annual debt service amount prevents other items from crowding out the ability to fund this top priority. Relocating the old fire station provides a modern facility for ORFD, improves overall coverage, Emergency Operations Center for the town, and allows the current station and property to be redeveloped as part of an economic development project.
- ✓ Diversity, Equity, and Inclusion. The town became a member of the Government Alliance on Race and Equity (GARE) in 2020. GARE is a national network of governments working to achieve racial equity and advance opportunities for all. Becoming part of the GARE Learning Community provides access to training and other support to assist the town’s efforts to make strides within our town government and departments, as well as externally with the community. Hillsborough is currently collaborating with neighboring local governments to develop a countywide plan. Once the Orange County Plan is adopted later this year by the governing boards, staff will then be able to transition to develop a Hillsborough specific plan, including training, policies, and advance efforts in other town-government practices. Funds are included in the budget for these efforts. The budget includes \$24,00 annually for GARE, and an additional \$20,000 in FY22 for the development of a Hillsborough specific plan.
- ✓ Fairview Community Policing Station transitioning to a community center. Work has been ongoing with the Fairview Community Watch (FCW) to increase access and use of the Rainey Avenue building. This supports a wide variety of activities that FCW has identified as high priorities to support residents and add to the vitality to the neighborhood, northern Hillsborough, as well as the entire community. With the recent move of police patrol to the downtown annex, the timing is excellent to make the facility available for more community-based activities and functions. FCW applied for grant funds earlier this year that would have assisted with programming as well as upfits to the building. While the grant application was not successful, reapplying was encouraged. The town has agreed to continue general maintenance at the facility. The budget includes \$10,000 in FY22 to assist FCW so they have the resources to make some modest upfits and adjustments to improve the usability of the building. Staff felt these funds would help ease the transition of the building to use by the community. The police department currently has a small presence in the building, but options are being discussed regarding how long they will continue to be in the building as relocation plans have to be developed.

- ✓ Accounting and finance software replacement, also referred to as an ERP. A far more affordable replacement for the system has been found than the \$1.2 million systems that came out of the selection process about two years ago. Due to the costs, those proposals were not accepted. Annual costs of the new system are dramatically lower at \$86,550 in FY21 and about \$75,000 per year after that. This should significantly improve efficiency and reduce wasted time for the accounting division, as well as have a positive impact on all departments.

### Water & Sewer Fund Highlights

- ✓ Water rates. A 4.5% increase is recommended for each of the next three years. This is primarily to help pay for the debt service on the expansion of the West Fork Reservoir that will be completed later this year, significant upcoming capital projects, addressing other water system needs, complying with the covenants for the Series 2018 and 2020 revenue bonds to pay for the reservoir, as well as keeping the fund in a fiscally sound position.
- ✓ Sewer rates. A 2% increase for FY22, with increases in FY23 (3%) and FY24 (4%) to help pay for the upcoming \$7 million replacement of the Eno River Pump Station, as well as \$10 million more on wastewater collection system maintenance and projects needed in the next three years! An overview of these needs was provided during the utilities director's March 22 presentation to the town board during the budget mini-retreat. A copy of the water and wastewater systems updates presentation can be found in the supplemental information section of this document.



- ✓ Major Water/Sewer Fund Expenses
  - Maintenance, repair, and replacement is a focus of the FY22-24 plan. A few examples of some of the more expensive and important work includes: outdated fire hydrant and valve replacements (\$420,000), leak detection (\$80,000), Governor Burke Road line replacement (\$180,000), galvanized water line replacements (\$160,000), recoat wastewater plan clarifiers (\$190,000), filter repairs/rebuilds at the water plant (\$556,500).
  - Wastewater collection rehabilitation and replacement project. Evaluation of the system's condition and capacity should be completed by the fall, but early estimates indicate the collection system is going to require approximately a \$10 million project to address immediate needs by FY24.
  - River sewer pump station replacement is critical and needed now. FY22 includes \$200,000 for land acquisition for this \$7 million project. The largest of the two sewer pump stations feeding the wastewater plan is over capacity during times of high flow, is nearly 50 years old, and in such a state that an entirely new station must be constructed soon.
  - Adron Thompson Facility repairs and upgrades. Design funds totaling \$250,000 are included for this estimated \$2 million project to address serious deficiencies with this facility in terms of safety, lack of restroom facilities, space needs, and more.
  - Recommended financial analysis and funding/rate plan for these significant capital projects. The wastewater collection system, River Pump Station, US 70 Business line replacement, and Adron Thompson facility project represent about \$23 million of expenses over the next few years. Those needs on top of the already large debt expenses for the wastewater treatment plant upgrade and the soon to be completed West Fork Reservoir expansion project put further pressure on Hillsborough's already high water and sewer rates. Fortunately, the Water and Sewer Fund does have money in reserves to help pay for some of these expenses, along with access to American Rescue Plan (ARP) funds, but it's not nearly enough.

- ✓ Unfunded, but High Priority Needs
  - US 70 Business Water Main Improvement and Replacement Project (\$4 million). Replaces the old asbestos-concrete line that's almost three miles long, prone to breaking due to the material, and serves as the interconnect with Durham for emergency water. It is estimated to cost about \$4 million between FY23 and FY27 to complete this three-phase project. There are other key benefits to the project including pressure and redundancy improvements. This project is currently unfunded but is a major priority and thus should be included in the recommended capital financial analysis for the water and sewer fund discussed in the next item.
  - McAdams Road Water Main Replacement (\$381,000). Replaces 700 linear feet of existing 2-inch water main with 6-inch water main. This project will upsize a water main from the 1970s to provide improved water quality, reliability and fire flow and fire protection. Replacement of the main will lessen the occurrence of main breaks which can allow contaminants into the water system through a loss of pressure.
  - OWASA Booster Pump Station (\$650,000). This project involves re-routing an existing 16-inch water main south of Waterstone through an existing carrier pipe that has been installed along the underpass and building a booster pump station to receive water from OWASA during emergencies.
- ✓ Need for Financial Planning. It is critical before key funding decisions are made that the town engage a financial planning consultant that specializes in capital financial planning for utility systems, such as was done in advance of the Series 2018 revenue bonds and bond rating process that was a part of the reservoir expansion. This would provide an updated and holistic look at operational and capital costs in conjunction with rates considering the significant expenses facing the fund. Before this can take place, the wastewater collection modeling needs to be completed, thus allowing the prioritization of capital projects, updating the water capacity analysis, and subsequent wastewater system capacity analysis. All this information would then go to the town board and the planning board for guidance on updating areas where the town wants to provide, as well as not provide water and sewer service, from a land use perspective. Locations of future developments as well as deciding where the town will not accommodate development have a major impact on costs and priorities. A placeholder figure of \$25,000 is included in the budget for this financial planning assistance.

Many communities are using some or all their ARP funds to address capital needs of their water and sewer systems. Hillsborough will be receiving about \$2 million in funds over the next year. The FY22 budget includes use of about \$800,000 of the initial \$1 million that Hillsborough will receive, but that is a recommendation, and the town board will make the ultimate decision on what and where those funds will be spent. Once the budget is adopted, the town board and staff can then pivot focus this summer on how best to allocate the ARP funds.

### **Stormwater Fund Highlights**

- ✓ *No rate increase is recommended.*
- ✓ Continued work on improving water quality in the area as well as in the Upper Neuse River Basin.
- ✓ With increased frequency and severity of rain events, drainage is becoming an increasing concern throughout town, therefore funds are included for analysis, planning, engineering, as well as actual maintenance work.

### **Employees**

- ✓ Merit raises: 3.25% average increase for employees. There were no raises in FY21.
- ✓ Market rate adjustments: funds are included when analyses determine certain positions have fallen too far behind peer organizations.
- ✓ More affordable dependent health insurance options were approved by the town board earlier in 2021 to bring Hillsborough's rates more in line with peer organizations. Funding for at least the first year is paid for with savings available from our share of the insurance pool due to lower claim costs in recent years.
- ✓ Re-organization. Operations are better aligned by grouping functions that overlap and regularly interact together to improve opportunities for enhancing communication, problem-solving, streamlining, succession planning, and redundancy during absences/vacancies. Better use of town funds by delegating more responsibility to staff that are ready to take on additional responsibility, replacing vacant higher pay grade positions with more entry level staff to fill key needs, and bringing director-level positions more in line with an organization of Hillsborough's size.
  - Eliminate 3.8 full-time positions (HR director/town clerk, public works director, fire marshal/emergency management coordinator, part-time customer service representative, and part-time fire inspector). Fire inspections services are being contracted to Orange County.

- Adding a facilities coordinator, human resource analyst, and budget/management analyst are recommended in the budget. The initial proposal added no new net positions and only had one analyst in administration. The follow-up review by the administration team states that replacing the loss of the HR director/town clerk with only an analyst position for the entire department is inadequate 1) to meet administration's needs, especially as it relates to the town's enhanced diversity, equity, and inclusion efforts, and 2) support budget and the other administrative related functions. Thus, the administration team recommends two analysts to provide support in different areas: 1) human resources and 2) budget and administration. Please see the attached memo located in the supplemental information section for details. Other changes to the proposed restructuring are also recommended.
- Unfreeze the planning technician position. This is essential to making the restructuring work for the community services operations and preparing for the February 2023 retirement of the planning director/assistant town manager.
- Additional responsibility and reclassifications for the public works supervisor, economic development planner, public space manager, planning director/assistant town manager, HR analyst, HR technician/deputy town clerk, and assistant to the town manager/deputy budget director. Each position will go through the job description update/evaluation process and market analysis to determine new salary grade classifications and raises, assuming justifications support changes.

### **After the COVID-19 Crisis: Reassess Priorities and Looking for Opportunities**

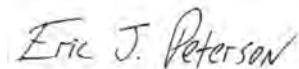
Lessons learned during this event, along with climate change, should significantly change organizational priorities in terms of previously planned capital projects, staffing, service levels, community needs/wants, financial policies, development patterns, focus on sustainability and resiliency, etc. Traditional ways of working, delivering services, expanding and designing facilities may now be outdated. If our priorities and ways we deliver service don't evolve, then a great opportunity will have been missed to learn from these experiences. As suggested by one of the town commissioners, staff and the board should continue to look for opportunities to help recover from the board impacts that COVID-19 will have on our community for years. Thus, looking at issues through a COVID lens may assist the many parts of the Hillsborough community impacted by the pandemic.

### **Moving Forward Towards Budget Adoption**

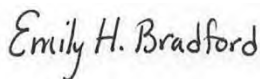
Thanks to all town employees, department and division heads, and the budget team for their work in preparing this year's document! A special acknowledgement goes to all the town employees, as well as the town board, who have all worked extra hours, often covering for vacant positions, and have endured highly challenging times since COVID-19 started impacting our community over 450 days ago.

Please do not hesitate to contact me, Budget Director Emily Bradford or Assistant to the Town Manager/Deputy Budget Director Jen Della Valle, if you need additional information. Town staff will make every effort to respond quickly and objectively to help you develop a budget that you feel best addresses the needs of the community!

Sincerely,



Eric J. Peterson  
Town Manager



Emily H. Bradford  
Budget Director



Jen Della Valle  
Assistant to the Town Manager/Deputy Budget Director