

FY21 BUDGET HIGHLIGHTS

Taxes, Fees, and Rates

Property Tax Rate: No change. Tax rate remains at 62 cents for FY21. This will be the eighth consecutive year without a property tax rate increase.

Stormwater Fee: No change. This fee has not increased since it was originally adopted.

Water Rates: No increase. In-town rate remains at \$9.26 per 1,000 gallons. Out-of-town rates remain at \$18.06 per 1,000 gallons.

Sewer Rates: No increase. In-town rate remains at \$13.69 per 1,000 gallons. Out-of-town rates remain at \$26.69 per 1,000 gallons.

Expenditures

General Fund	\$	10,473,242
Stormwater Fund	\$	655,801
<u>Water and Sewer Fund</u>	<u>\$</u>	<u>10,849,141</u>
	\$	21,978,457

Snapshot

- ✓ Core Services – While the town manager’s recommended budget includes significant cuts and adjustments to requests that were originally presented to the town board in March, the town is not anticipating a reduction to the town’s core services.
- ✓ No employee layoffs or furloughs proposed.
- ✓ Health Insurance – Health insurance premiums will increase by 2%. The industry trend is 7%. The town is also offering employees another option for dependent coverage, offered at a lower premium.
- ✓ This is the first time in 23 years that the Town of Hillsborough’s Annual Budget is not presented in a multi-year planning format. While there are numerous advantages to using a multi-year format to review the town’s budget and operations, attempting to forecast revenue for Fiscal Year 2021 with confidence, let alone further than one year, proved challenging.

BUDGET-BALANCING STRATEGIES

The novel coronavirus is projected to have financial implications on each of the town’s three funds. With projected decreases to the town’s revenue sources in FY21, the town is proposing to address projected deficits and balance the budget by employing various short-term, budget balancing strategies.

- Hiring Freeze – Vacant positions that are deemed non-essential have been frozen indefinitely. The positions that have been frozen include the following:
 - Accounts Payable Technician – Accounting
 - Accounting Technician – Accounting
 - Planning Technician – Planning
 - Equipment Operator I – Solid Waste
 - Utility Maintenance Technician I – Distribution/Collection

- Utility Mechanic – Distribution/Collection
- No Merit Adjustments – The town typically budgets an average of 3.25% salary increase for employee merit pay. This translates to about \$100,000 in the General Fund and \$50,000 in the Water and Sewer Fund.
- Training – Employee training will be permitted to maintain certifications and licenses or training that does not require overnight travel, unless deemed a high priority and approved by the town manager.
- Delaying Capital – Capital projects vehicles, and equipment are being delayed where possible. While this is a necessary strategy, it is important to recognize that postponing these projects simply pushes the costs to the future, has impacts on the local economy, and delays needed improvements.
- Mission-critical Expenditures – Non-essential expenditures are delayed whenever possible. There were many requests that were unable to be included in the budget. A master list of unfunded items is included for each fund. Requests total between 1 to 2 million dollars in the General Fund and Water and Sewer Fund for FY21 alone, with similar projections for FY22 and FY23.
- Fund Balance/Reserves Appropriations – As mentioned in the town manager’s Budget Message, the town’s preferred approach is to primarily use fund balance or reserves for one-time expenditures, rather than to cover operating expenses.

GENERAL FUND

Revenue Highlights

- No property tax rate increase is recommended for FY21.
- Projected Revenue Declines*
 - Property Tax
 - FY20 – The majority of property tax revenue is collected in January of each year. COVID-19 is anticipated to have limited impact on FY20 collections.
 - FY21 – The budget assumes no tax base growth and a 90% collection rate, which represents a 7.2% decrease from FY20, or roughly a \$500,000 decline in tax revenue. At this time, it is unknown what impact the extension of the mortgage forbearance period from 3 to 12 months and the potential of inadequately funded escrow accounts will have on the collection rate.
 - Current Motor Vehicles – The state has granted a 5-month extension for registrations due between March 1 – August 1, 2020. As a result, the FY20 collection rate will likely be lower due to collections that would normally have occurred in FY20 being delayed until FY21.
 - FY20 – The budget assumes 50% of normal collection for April – June 2020.
 - FY21 – The budget assumes an 85% collection rate, down from 97% in FY19.
 - Sales Tax –
 - FY20 – The budget assumes a 20% reduction in revenues for March and a 40% reduction for April – June 2020. Due to the lag time between when sales taxes are charged and when the town actually receives the revenue, it is difficult to forecast the impact of the stay at home order. For example, March revenues

won't be received until June, and April – June revenues won't be received until after the start of FY21. Furthermore, the deadline for businesses to submit sales tax without having to pay a penalty has been extended until July 15.

- FY21 – The budget assumes 80% of FY20 collection for July – March and 80% of FY19 collection for April – June. While this represents a 2% increase over the FY20 year-end estimate, it is a 15% decrease from FY19 collections. During the Great Recession the town experienced an 8% decrease in sales tax revenue, while North Carolina as a whole saw a 13% decrease. At this time, it unknown whether Orange County will again fair better than the state as a whole.
- Franchise Tax
 - FY20 – The budget assumes 40% of FY19 4th quarter collection. The due date has been extended to July 15.
 - FY21 – The budget assumes 80% of FY19 collection.
- Food & Beverage Tax
 - FY20 – The budget assumes 50% reduction for April and 40% reduction for May and June.
 - FY21 – The budget assumes a 25% reduction in revenue.
- Occupancy Tax
 - FY20 – The budget assumes no collection for April – June; Current year-end estimate is the year-to-date actual.
 - FY21 – The budget assumes 25% of FY20 collection for Q1 and Q2, and 50% collection of FY20 Q3 and FY19 Q4.
- Investment Earnings
 - FY20 – The budget assumes May and June collection are the same as April. The town averaged \$17,000/month in interest earnings prior to April, when it dropped to \$5,000 due to falling interest rates.
 - FY21 – The budget assumes interest remains steady at \$5,000/month.
- Planning Fees
 - The town continues to receive calls from developers expressing interest in Hillsborough, however during the last recession Planning Fees decreased from \$75,000 in FY08 to just \$36,000 in FY09 and FY10. With this in mind, revenues are projected at approximately 50% of average collection.

*The current economic crisis is rapidly evolving as are measures being taken at the federal, state and local level to minimize the impact on citizens and businesses. Assumptions are based on the best available information at the time and will be reevaluated as new and/or additional information becomes available.

Expense Highlights

Expenses increase by 3.4% in FY21. Note that this increase reflects cuts and deferrals made in the last quarter of FY20 to offset the impact of reduced revenue collection during this same period. Most departmental requests, including routine replacements of vehicles and computers, have been deferred where possible. A limited number of projects and initiatives are funded in FY21. Should funding become available during the year, the town will look to the unfunded list for potential projects to fund.

Projects & Initiatives

- Connection Feasibility Study (\$45,000) – This request funds the town’s match to complete phase 2 of an engineering feasibility study to connect Eno Mountain Road with NC 86 as a replacement to the Orange Grove Road extension.
- Fire Chief (\$35,000) – Orange Rural Fire Department will be transitioning to a full-time fire chief. The town will share in the expense.
- Valley Forge Road Project (475,000) – Repairs damage to the stormwater culverts under Valley Forge Road and the washed-out roadway. Delaying this project could result in road failure if the stormwater pipes were to collapse.
- Garbage Truck (\$310,000) – Replace 2012 residential side arm garbage truck. Average life span of a garbage truck is 7-8 years. When the existing truck is down for repairs, an older rear loader is put into service, requiring 3 employees rather than 1 to operate.
- Comprehensive Plan (\$75,000) – This request is to cover consulting and other project expenses to develop the sustainability plan, which updates and consolidates several existing planning documents. The consultants will help provide direction around community engagement.
- Rail Station (\$34,000) – This funding covers the town’s contribution to construct a rail station building and parking.

WATER & SEWER FUND

The Water and Sewer Fund supports the town’s operations of the water and sewer systems.

Revenue Highlights

- No rate increases proposed for water or sewer. The FY20 budget had projected 5% rate increases to both water and sewer rates for FY21. These rate projections were driven by high utility system expenses, such as expanding the water reservoir, covering debt for the wastewater treatment plant, and the need to decrease reliance on non-recurring revenue sources. In order to provide relief to customers, the town manager recommends that rate increases be delayed by employing the financial strategies detailed above. Rate increases will be necessary in future years, however, to adequately maintain the utilities system.
- Projected Revenue Declines
 - Water and Sewer Charges
 - FY20 – The recommended budget is projecting a 17% decrease to water and sewer charges received for the remainder of FY20. The assumption based on impacts from local and state safer at home orders, school closures and limited business activity, and the temporary suspension of disconnections and delinquent fees.
 - FY21 – Anticipating a 5% decrease to water and sewer charges collected in FY21. There are many variables that can impact revenue in FY21, which leads to a high degree of uncertainty. Town staff will monitor the financial picture throughout FY21 and propose adjustments as needed.

Expense Highlights

Expenses increased by 10.4% in FY21 from the prior year budget estimates. It is important to note that this total reflects cuts and deferrals made to FY20 year-end expenditures and that FY21 includes projects that are funded with one-time revenue sources of water and sewer system development fees.

Projects & Initiatives

- West Fork Reservoir Expansion Debt Payment Increase (\$390,081) - Annual debt payments increase to \$840,550 due to the sale of the Series 2020 Revenue Bonds to pay for the last portion of the project that includes raising a nearby bridge and road to allow the reservoir to completely fill and avoid flooding roadways.
- Chemical Pumps (\$13,000) – Replace seven-year old chemical feed pumps at the Water Treatment Plant.
- Chlorine Analyzers (\$20,000) – Replaces aging unit, which monitors the chlorine levels on the Water Treatment Plant filters, pump wells, and water leaving the plant.
- 16-inch Water Main Interconnects (\$465,000) – Reroutes existing 16-inch water main through pipe under I-40, interconnects water main with other mains and builds a booster pump station to provide backup from Orange Water and Sewer Authority when needed.
- Risk & Resiliency Study (\$30,000) – This risk and resiliency study is federally mandated for water systems.
- Economic Development District Water Line Extension (\$259,404) – Installation of an 8-inch water line south of Interstate-40. This project is a cost share between Orange County and Hillsborough, with the county funding most of the expense. The town will use water system development fees to fund the remaining portion of the project.
- Wastewater System Evaluation – Phase II (\$75,000) – The town completed the first phase of the sewer system model in FY20. This modeling will calibrate the data provided in the first phase. This modeling was necessary to determine how to prioritize sewer infrastructure capacity and needs.
- Infrastructure Rehabilitation (\$150,000) – This request is to improve sewer infrastructure identified in the wastewater collection system modeling and repair various pump stations.
- River Pump Station Design (\$200,000) – The River Pump Station, the town’s largest pump station, is over 40 years old and approaching capacity limitations. Over half of the town’s wastewater flow travels through this pump station. This request will cover the design for upgrading or replacing this pump station and will be funded with sewer system development fees.
- Wastewater Treatment Plant Security Lighting (\$9,500) – Install LED lighting in critical areas at the wastewater treatment plant to enhance security.
- Access Hatch (\$3,000) – Replace the access hatches for the filtrate pumps at the Wastewater Treatment Plant. The current hatches are too small and make it difficult to remove or replace pumps and create a safety hazard for employees.

- Contingency (\$300,000) – The budget maintains a healthy contingency in the Water & Sewer Fund of \$300,000. These funds are intended to cover unintended expenditures or opportunities that come up during the year.

Resiliency was identified a top Water and Sewer priority for FY20. Maintaining system resiliency involves planning, regular maintenance and rehabilitation, and system redundancy. Building a resilient system is not something that is accomplished in one year. It requires a continued focus and dedication. While new requests were included in the FY21 budget, there were many requests that were not included and have been deferred due to an unpredictable financial picture. These requests will be important to fund in the future to ensure a resilient system.

STORMWATER FUND

The Stormwater Fund aims to reduce the amount of pollutants entering local streams and lakes and reduce the adverse impacts caused by stormwater runoff.

Revenue Highlights

- No fee increase proposed for stormwater.
- Projecting a 7% decrease to stormwater fee revenue in FY21.

Expense Highlights

Expenses increase by 11% in FY21.

Projects & Initiatives

- Valley Forge Stormwater Project (\$100,000) – To repair damage to the stormwater culverts under the Valley Forge Road and repair the washed-out roadway. This project is being cost-shared with the town's Streets and Powell Bill budget units.