

FY25 Budget Overview*

May 13, 2024



HILLSBOROUGH
NORTH CAROLINA

Strategic Plan – Resourced by the Budget

FOCUS AREAS



VALUES

- Vibrancy
- Equity & Inclusion
- Forward Thinking
- Public Service

Stormwater Fund Highlights

- ✓ First increases since the fund was implemented 8 years ago
- ✓ Last year “paused” increase and addition of a tier.
- ✓ Typical residence \$75 to \$90 per year
- ✓ \$15 increase for each of the next three years = \$45 total
- ✓ Board can adjust pace/timing to reach the ultimate \$45 increase

Stormwater Fund - Expenses

- ✓ Stormwater Master Plan Approved in FY24
- ✓ Stormwater improvement projects - \$25K/yr.
- ✓ Equipment Operator - \$80,000 Stormwater Technician (Year 2 - FY26)
 - Increase maintenance to improve flow/effectiveness of drainage systems
- ✓ FY27 Elizabeth Brady Culvert Rehab (\$275K)
- ✓ Unfunded: ~~Jet Vac Truck (\$608,020)~~

Stormwater – Bottom Lines

	Requested			Recommendation		
	FY25	FY26	FY27	FY25	FY26	FY27
Continuation Budget Surplus/(Deficit)	(288,470)	(290,166)	(318,891)	(288,470)	(290,166)	(318,891)
Fund Balance	637,510	347,344	28,453	637,510	347,344	28,453
Fund Balance %	62.0%	34.2%	2.7%	62.0%	34.2%	2.7%
Continuation + Expansion Surplus/(Deficit)	(193,470)	(146,941)	(919,450)	(268,470)	(246,856)	(134,107)
Fund Balance	732,510	585,569	(333,881)	657,510	410,654	276,547
Fund Balance %	69.5%	52.0%	-16.4%	58.3%	33.5%	22.0%

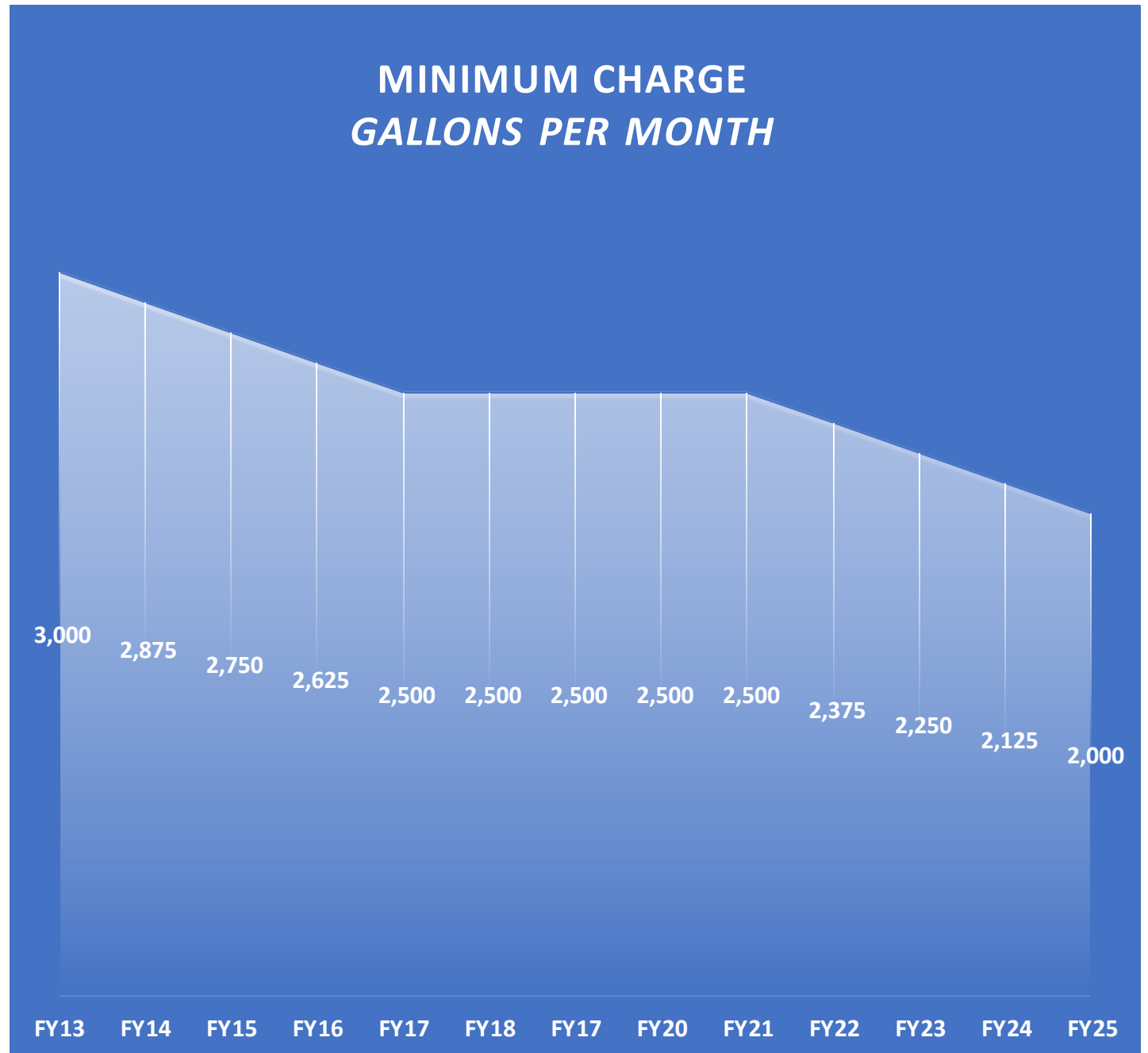
Even with fee increases fund runs a deficit and whittles savings down.

Water & Sewer Rate Model Update



RAFTELIS

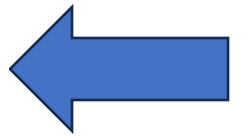
Water & Sewer Fund:
*Minimum Rate
Reduction Initiative
Completed!!*



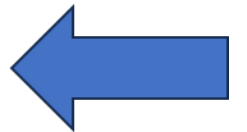
Cost Reduction for Low Volume Users

Via Minimum Rate Reduction Plan

	Gal/Month	Gal/Month	Monthly	Annual
In-Town Customer	2,500	2,000	Savings	Savings
Water	\$28.83	\$23.06	\$5.77	\$69.18
Sewer	\$40.55	\$32.44	\$8.11	\$97.32
Total Combined	\$69.38	\$55.50	\$13.88	\$166.50



Out-of-Town Customer				
Water	\$56.21	\$44.97	\$11.24	\$134.90
Sewer	\$79.07	\$63.26	\$15.81	\$189.77
Total Combined	\$135.28	\$108.23	\$27.06	\$324.68



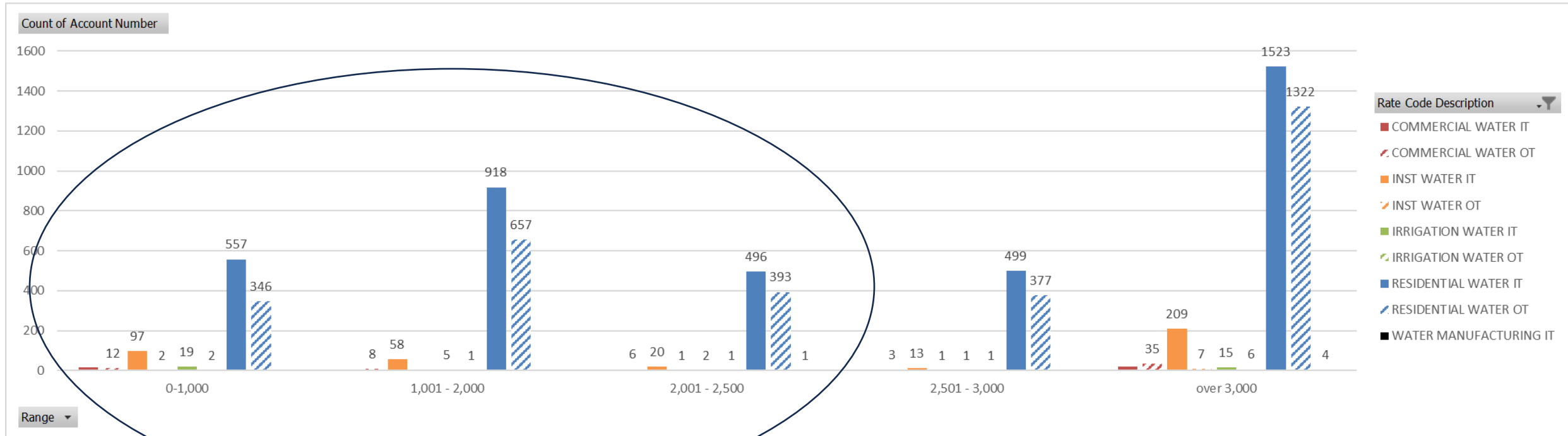
How Many Customers Have/Will Benefit From Lowering the Minimum Usage?



A large, three-dimensional red graphic of the text "45%". The characters are thick and blocky, casting soft shadows on the white surface below them. The percentage sign is stylized with a diagonal slash.

- From 2020 to 2023, about 45% of customers used less than the minimum!

Usage By Accounts



Flipside of the 45%

REVENUES



**Personnel, Operating, & Capital Costs
Plus, COVID Deferrals**

Water & Sewer Fund Highlights – Bottom Line

Rate	Water Operations				Sewer Operations		
	FY25	FY26	FY27		FY25	FY26	FY27
7.5%	\$ 418,725	\$ 869,229	\$ 1,353,897				
7.5%					\$ 414,975	\$ 861,598	\$ 1,342,243
Continuation + Expansion +/-	\$ (318,301)	\$ (392,605)	\$ (272,865)		\$ (86,987)	\$ 143,542	\$ (431,503)
				W&S Total	\$ (405,288)	\$ (249,063)	\$ (704,367)

Fund Balance (assumes rate increase & continuation + expansion)			
Fund Balance	\$10,371,052	\$10,121,990	\$ 9,417,622
Fund Balance %	77%	74%	63%

Gap: Even with these increases, there is no current funding source for major need over the next three years on smaller maintenance needs & projects beyond FY27!!

Rate Impact

FY23-24 → FY24-25

How much higher will water and sewer rates be per month after the rate increases?

	Average Household Consumption 4,000 gallons/month	Minimum Household Consumption 2,000 gallons/month
In-Town		
Water	\$3.20	\$1.60
Sewer	\$4.52	\$2.26
Out-of-Town		
Water	\$6.32	\$3.16
Sewer	\$8.80	\$4.40

Debt Service Coverage Ratio – Critical & Concerning!



Rate Covenant Calculation	FY23	FY24	FY25	FY26	FY27
Net Available for Debt Service	3,716,938	2,540,090	2,162,738	2,452,097	3,498,600
Parity Debt Coverage Ratio (min of 1.2x)	6.54	4.96	4.44	4.74	5.86
System Debt Service Coverage (min of 1.0x)	1.69	1.16	1.00	1.01	1.13
Days Cash on Hand	528	395	363	345	323

- ✓ Hillsborough's target ratio is 1.2
- ✓ Falling below 1.0 triggers issues with bond holders, requires immediate action and results to correct!
- ✓ Concern: significant cuts getting minimum 1.0, including critical maintenance & capital on aging assets.

Debt Service Coverage Ratio Formula

- Operating Revenue – Operating Expenses = Operating Income (Note: does not include debt or capital)
- + /- Non-Operating Revenues/Expenditures (e.g., SDF's)
- = Net Available for Debt Service

Why can't we spend our savings rather than raise rates?

1. The purpose of the Debt Service Coverage Ratio is to show a utility can pay its debt year after year.
2. That delays addressing the issues and makes the problem worse as the deficits can grow larger.

*Water & Sewer Fund – Non-Capital Highlights

- Jordan Lake Phase IV Allocation Evaluation (\$35,000) – FY25
- Sewer Lift Station Abandonment Analysis (\$95,000) – FY26
- Administrative Assistant (\$77,666) – FY25
- Billing & Collections Noise & Privacy Wall (\$20,880) – FY25
- Water Plant Finished Water Pump & Control Valve Rebuild (\$36,000) – FY25
- Water Plant Liquid Ammonium Sulfate Pumping System Replace (\$47,450) – FY25
- Hassell Street Water Tank Replacement Land Acquisition (\$31,478) – FY25
- WWTP Non-Potable Water Pump Rebuild (\$22,000) – FY25
- WWTP VFD & MCC Monitoring for Pumps & Electrical Motors (\$65,000) – FY25
- Rehabilitation/repairs when staff are unavailable or projects too large:
 - Water Distribution (\$110,000) & Wastewater Collection (\$110,000) Annually

Water & Sewer Fund – Expense Highlights

Water Plant & Distribution

- ✓ Main console replacement (\$100,000)
- ✓ Generator replacement (\$350,000): FY26
- ✓ Southern Booster Station (\$2+ million): FY26
- ✓ Water system master plan annual improvements (\$400,000): Starting FY27

Wastewater Collection

- ✓ Lawndale sewer basin rehabilitation project (\$2.1 million)
- ✓ Wastewater collection system rehabilitation projects (\$1.0 million): \$500,000 in FY25 + FY27
- ✓ Eno River sewer interceptors (\$5.05 million): FY26
- ✓ Exchange Club sewer interceptors (\$1.29 million): FY26
- ✓ River Pump Station (\$8.1 million): FY26
- ✓ Elizabeth Brady Pump Station design (\$400,000): FY27

Adron Thompson operational facility (\$7,295,600): FY24 and FY25. Debt service begins in FY26 with a half-payment of \$249,848, the starting full payments of \$499,848 in FY27.

Rates Already High But Going Up, Why?

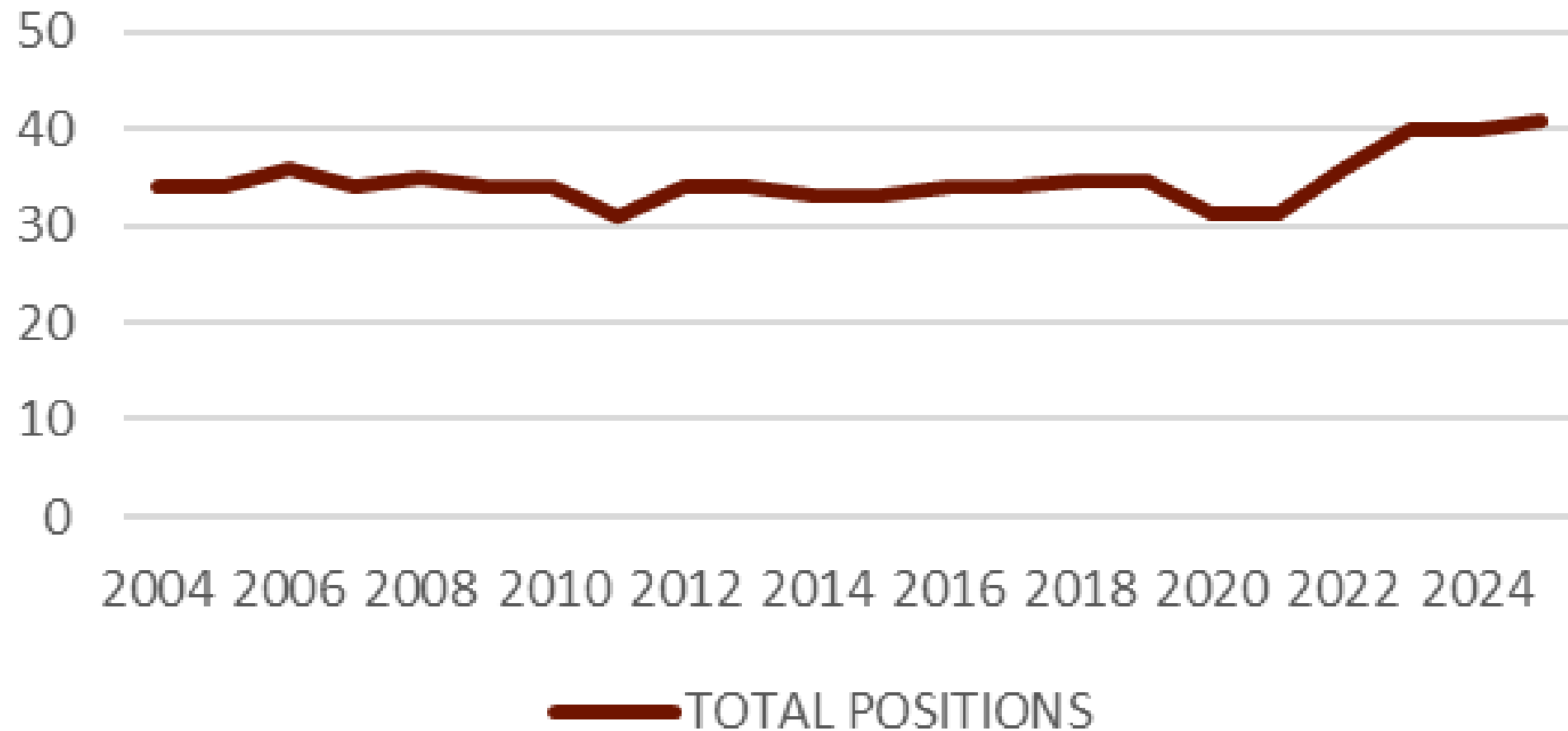
- ✓ **Existing Issues** - high debt to pay for major capital (reservoir, WWTP, tank, etc.)
Falls Lake Rules, 25 pump stations, economies of scale, aging system.
- ✓ **Decreased usage** – billable gallons less than in 2019
- ✓ **\$520,000 estimated annual loss by lowering monthly minimum charge (from 2,500 to 2,000 gallons per month)**
 - Final step in just FY25 from 2,125 to 2,000 = about \$130,000 loss.
 - Billing records from past 5 years show about 85% of homes have used less than 2,500, even if occasionally and thus would benefit from this change.
 - Right thing to do for equity & assisting low volume users, but such large revenue losses are tough on the budget.
- ✓ **Construction “slow down,” Inflation, and Major Rehab/Upgrade Needs**

10 Strategies for Long-term Stabilization of Water and Sewer Rates

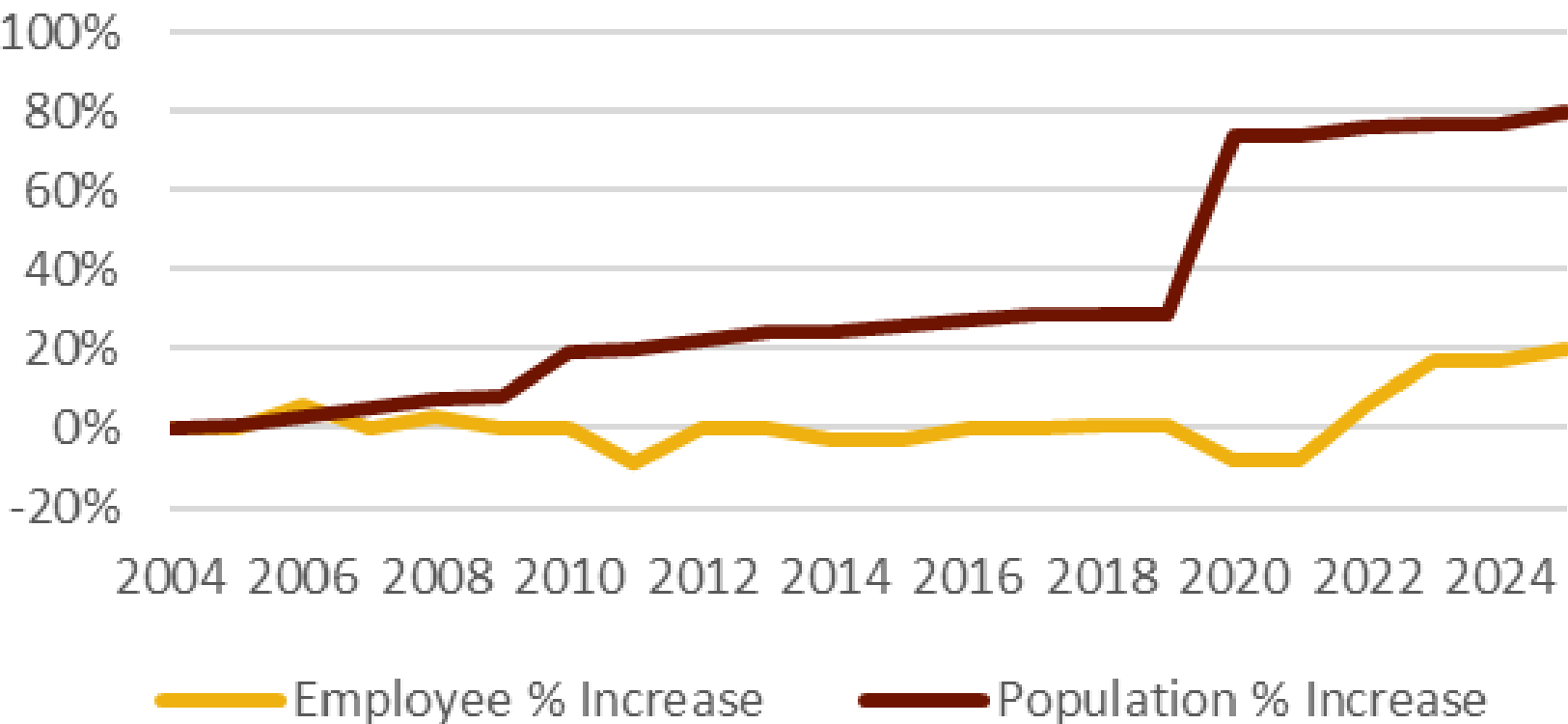
- 1. Use reserve funds, a portion of available savings and other one-time revenues to pay for long-term capital needs.**
- 2. Use system development fees (SDF) strategically.**
- 3. Delay and eliminate projects where practical. \$23.5+ million of capital projects deferred.**
- 4. Leverage assistance from national experts in utility financing.**
- 5. Gain increased economies of scale through new development.**
- 6. Limit staff additions.**
- 7. Re-evaluate interfund cost allocations.**
- 8. Reduce service areas.**
- 9. Reduce inflow and infiltration into the sewer system.**
- 10. Consider updating system development fee cost analysis.**

Staffing Levels

Water and Sewer Operations



Population v. Employee Growth Water and Sewer Operations



Cuts & Deferred Projects

- ✓ Hillsborough Station sewer pump station (**\$750,000**)
- ✓ Cates Creek Outfall upgrade (**\$8.1 million**)
- ✓ Elizabeth Brady Road Pump Station upgrade (**\$4.5 million**)
- ✓ Hassell Street water tank replacement (**\$3.7 million**) – 90 years old
- ✓ US-70A Business Water Line Improvements (**\$3.0 million**) – 50 years old
- ✓ Eno River West Sewer Interceptor Upgrade (**\$2.1 million**) - (100 years old)
- ✓ Fire hydrant and valve replacement project in oldest parts of town - **\$545,000** (many units are 90 years old)
- ✓ Water system improvements (**\$800,000**)
- ✓ Water Plant Expansion (Likely **\$10+ million**)

Context

- ✓ **1.0% rate increase generates about \$111,160**
- ✓ **Annual raises in Water/Sewer Fund (\$160,000) = 1.0% on rates**
- ✓ **500 new units, operating annual revenue from rates = \$600,000***
- ✓ **Hassell St. Water Tank Replacement (\$3.7M) = \$333,000 annual debt**
- ✓ **Neighboring utilities rates**

Gaps & Challenges



Northside PS - Poor entry holes (gaps), corrosion





Oakdale Clogged Pump with Rags. 1Timbers PS Wet Well - Note corrosion.



Coachwood PS - Design failure. Note corrosion. *Nameplate - From 1997. Beyond useful life and not efficient!*



Strouds Creek PS - A newer, "nicer" station. Note little corrosion, room to work. Wet well does have some grease though.

Challenges, Gaps, and Positives

☐ Rates

☐ Replacing aging/substandard assets

- ☐ Smaller needs covered by operational budget

- ☐ Large & expensive capital – CIP

- ☐ Operations workspace
(Adron Thompson Facility)

- ✓ Capacity to grow (Reservoir Expansion)
- ✓ Clean Wastewater Effluent into Eno
- ✓ Plants in good condition (WTP & WWTP)
- ✓ PFAS* - so far, low levels
- ✓ Workforce talent (experienced, skilled, training, retention, & recruitment)
- ✓ Equipment Vehicles
- ✓ One-time revenues & savings
- ✓ Grant leveraging (Lawndale, River Pump Station, Southern Water Booster)
- ✓ Reserves – projected to remain at AA rating acceptable level through 2030

General Fund Highlights



RIDGEWALK DESIGN



FAIRVIEW COMMUNITY WATCH



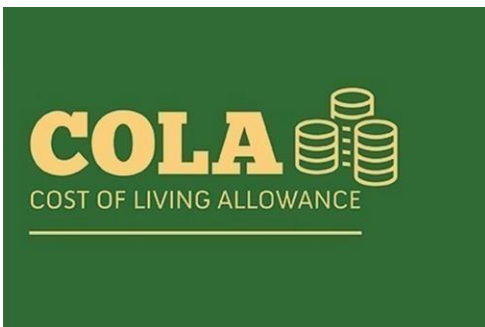
1. Train Station
2. Hillsborough Station - Transit Oriented Development Plan/Feasibility Study



**MERIT
RAISES**



COLA
COST OF LIVING ALLOWANCE



**Accounting
software**







General Fund Deficits -

With 2 cent tax increases in FY25 and FY26


FY25 - \$1.0M (5.0%)*

FY26 - \$913K (5.1%)

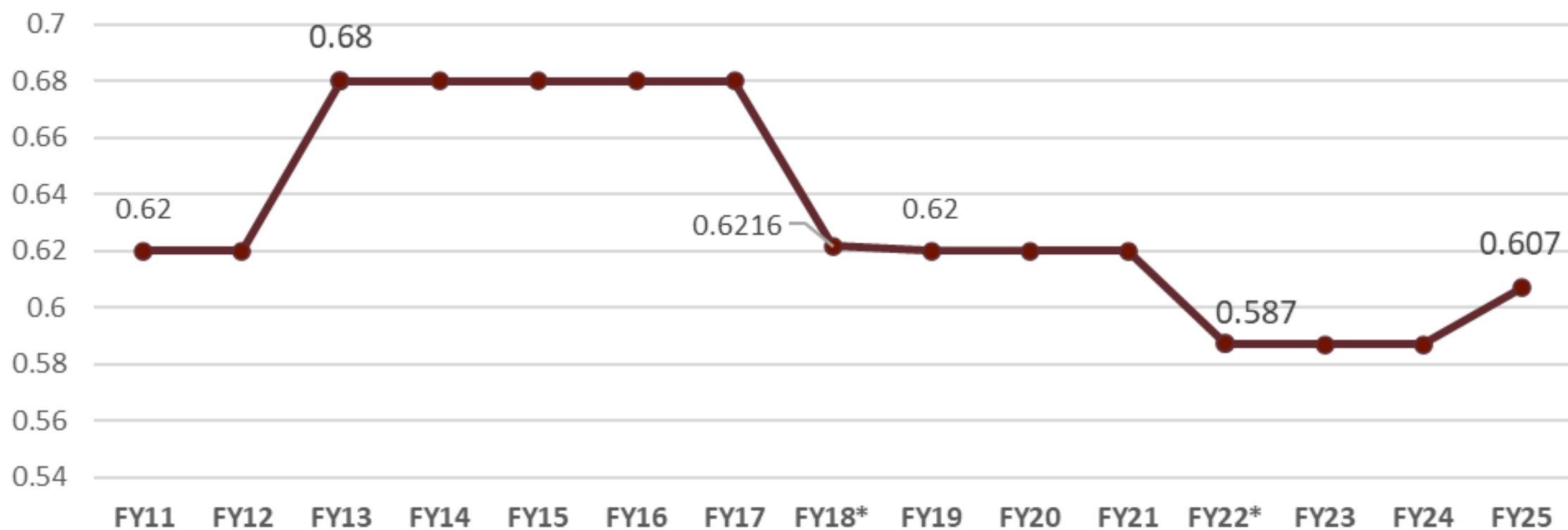
FY27 - \$1.4M (7.8%)

* Actual FY25 deficit is \$3,222,884 or 16.0% due to paying for the entire Public Works Relocation project with cash. This capital expense is removed to provide more accurate comparison of annual impacts.

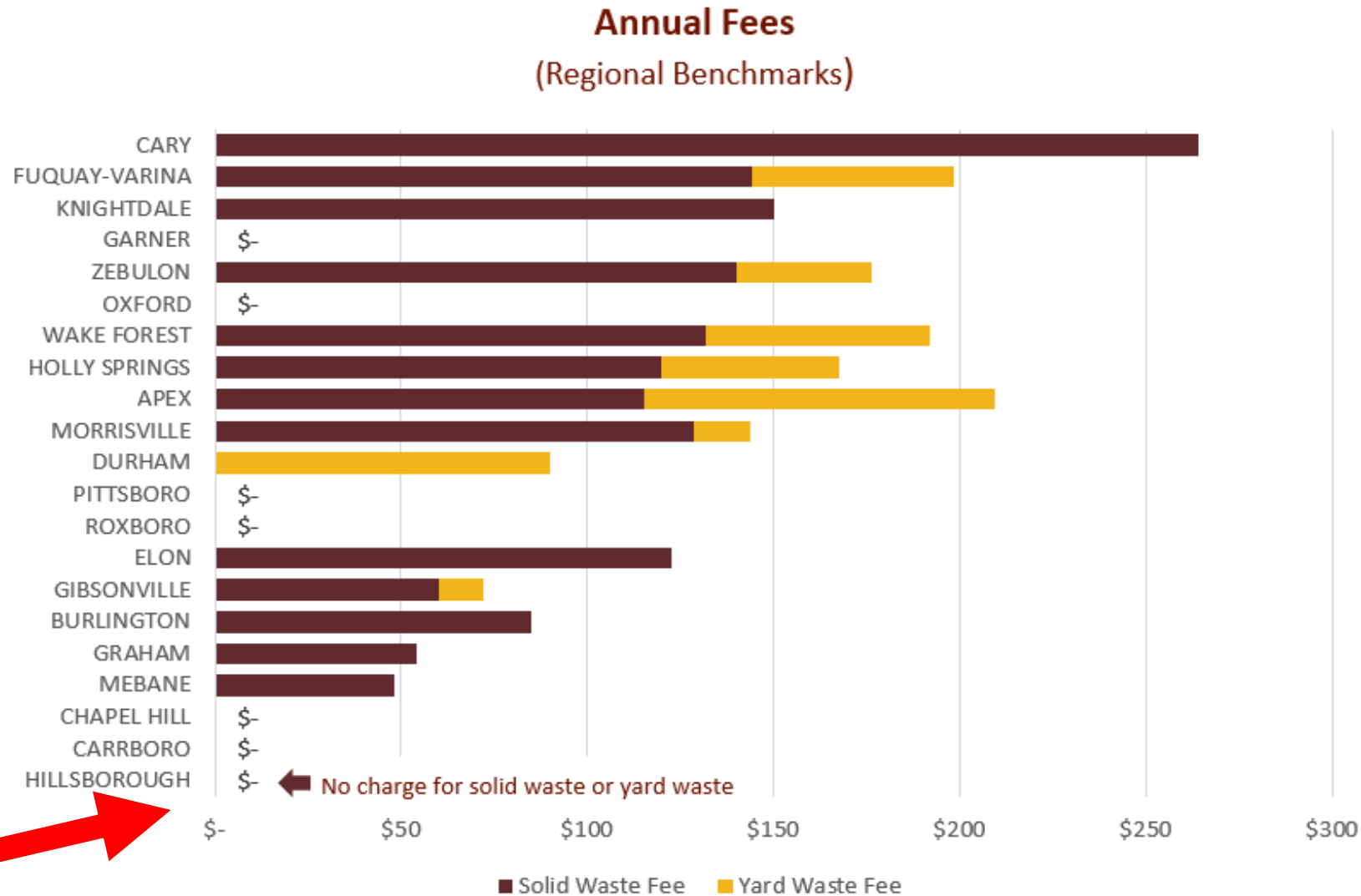
How much would my property bill change?

Home Value	FY23-24 58.7¢	FY24-25 60.7¢	Monthly Change	Annual Change
\$200,000	\$1,174	\$1,214	\$3.33	\$40
\$300,000	\$1,761	\$1,821	\$5.00	\$60
 \$400,000	\$2,348	\$2,428	\$6.66	\$80
\$500,000	\$2,935	\$3,035	\$8.33	\$100
\$600,000	\$3,522	\$3,642	\$10.00	\$120
\$700,000	\$4,107	\$4,249	\$11.83	\$142

Hillsborough Tax Rate



Charges for Solid Waste Charges in the Region



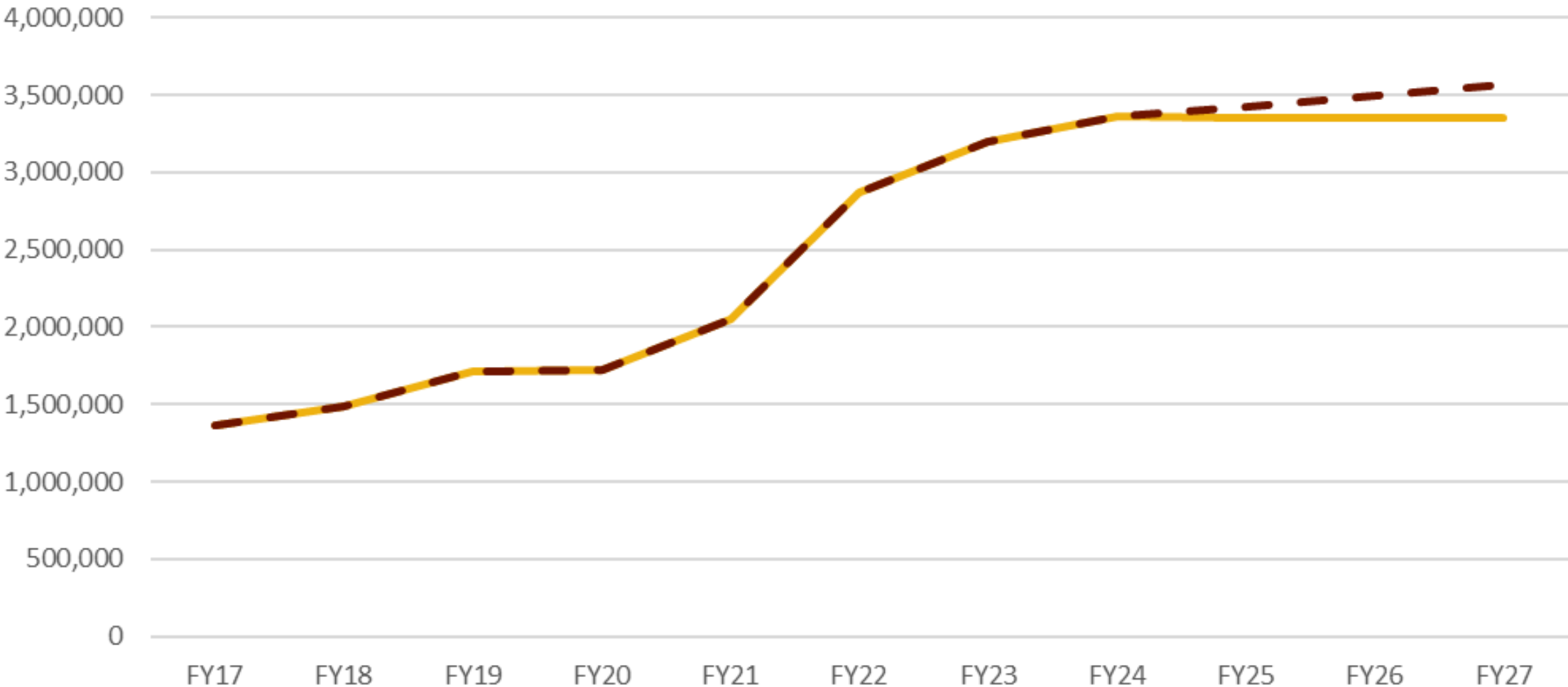
Project	Annual Cost	Tax Rate Equivalent (in cents)
NC-86 Facility Renovation	\$434,000*	2.71
Affordable Housing	320,000	2.00
Train Station	162,000	1.01
Fire Personnel Expansion	114,000	0.71
Fire Station	300,000	1.88
Ridgewalk Greenway	583,000	3.64
Police Social Worker	80,000	0.50
Accounting Software	100,000	0.63
Police Vehicle Replacement Fund	225,000	1.41
Streets Vehicle Replacement Fund	81,000	0.51
Solid Waste Vehicle Replacement Fund	335,000	2.09
Market Pay Adjustments	165,000	1.03
	Total	18.12 cents

* Reflects annual debt service if project were debt financed. Budget assumes paying for the project using cash.

General Fund – Cost Containment

- ✓ No staff additions for FY25-27
- ✓ Public Works Relocation Project – Use Cash to Avoid Debt
- ✓ Vehicle replacement funds to smooth costs, pay cash, & avoid debt
- ✓ Cut “ramp-up” savings to build new police department HQ
- ✓ Planning to use expiring debt from Riverwalk/Gold Park to help save and pay for Ridgewalk

Local Option Sales Tax



Local Option Sales Tax Current Projection Local Option Sales Tax: W/ 2% Annual Increase FY25-27

Employees

- ✓ Same as last year
- ✓ COLA's: \$1,500 per employee
- ✓ Merit: 3% to 5%
- ✓ Compensation Study: Year 2 (FY26)
- ✓ Funds if/when market rate gaps are identified in job classes
- ✓ Dependent Health Insurance - Affordability Supplement
- ✓ Health insurance – No Increase

Budget Review Suggestions

- ✓ Budget delivery ETA
- ✓ Question, Challenge, Make Suggestions, Request Information
 - It's a lot, things get missed, mistaken, & misinterpreted
 - Identify possible cuts/deferments
- ✓ Route through manager/budget team, we'll cc entire board
- ✓ Be flexible as figures may evolve, especially as work on water/sewer rate model continues (i.e., we may have more or less money to work with in each fund)

Suggested Budget Process

May 28 (Tuesday)

- Public hearing
- Raftelis presents rate model
- Rate model Q&A with Raftelis staff
- *Water & Sewer Fund*: budget workshop

June 3

- *Stormwater Fund*: budget workshop
- *General Fund*: budget workshop
- Water & Sewer Fund: continue workshop and rate model discussion, if needed

June 10 – Continue budget deliberations. Adopt if ready.

June 17 or 24* - Complete deliberations and adopt, if extra session is need.