BALANCING THE BUDGET

Budget Preparation & Enactment
UNC – School of Government
November 8, 2019
Eric J. Peterson, Hillsborough Town Manager

Priorities
- Operational challenges
- Gaps/issuses (needs, concerns, skills, service, resources, staffing, equipment, etc.)
- Clear direction needed from governing board
- Mission, Vision, & Strategic Reviews (Strategy Map)
- Does resource allocation = governing body expectations?
- Any noteworthy changes?
- What does success look like?
- What accomplishments, priorities, & strategies do they want to see?
- Are rate increases and/or new fees an option?
- Other

“Reality checks”
- Show resource limitations & availability
- Show the bottom-line!
- Critical decision points

Continuation budget – how do things look with nothing new?

Unfunded list

Options, strategy, & board feedback
FY20-22 Budget
Background, Key Challenges, & Options
To Consider in Developing the Town’s Financial Plan
March 11, 2019

What’s Our Foundation?
• Budget is tight & we’re under pressure to do more.
• Can’t do everything now.
• Still paying for Riverwalk, Gold Park, Collins property, other land and facilities investments.
• It’s disappointing but manageable. Already doing it.

What’s Our Foundation?

• Many others would trade places with us.

• Fleet replacement schedule
• IT Refresh
• Regular market studies
• Training investments
• Recruit & Retain
• Succession Planning
• Streets
• Stormwater systems
• Pumps, plants, water supply
• Fleet/equip. maint./replace schedules
• Buildings (gap)

“Take Care of What We’ve Got”

Bottom Line
Continuation Budget – General Fund

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/ (Deficit)</td>
<td>(941,000)</td>
<td>(339,000)</td>
<td>(68,000)</td>
<td>127,000</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>37%</td>
<td>35%</td>
<td>38%</td>
<td>36%</td>
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</table>

Property tax revenue trending to be $162,000 less than budgeted.
**General Fund – Unfunded Personnel**

<table>
<thead>
<tr>
<th>Position</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>Funds Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Tech</td>
<td>64,620</td>
<td>62,620</td>
<td>62,620</td>
<td>✓</td>
</tr>
<tr>
<td>PIO - PT to FT</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
<td>✓</td>
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<tr>
<td>Facilities Repair Coordinator</td>
<td>79,334</td>
<td>70,134</td>
<td>70,134</td>
<td>✓</td>
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<tr>
<td>Asst. Police Chief/Major</td>
<td>125,000</td>
<td>115,000</td>
<td>115,000</td>
<td>✓</td>
</tr>
<tr>
<td>Patrol Officers (4)</td>
<td>479,533</td>
<td>257,533</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire Inspector</td>
<td>78,783</td>
<td>50,783</td>
<td>50,783</td>
<td></td>
</tr>
<tr>
<td>Streets - Equipment Operator</td>
<td>51,539</td>
<td>51,539</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL: 420,737 859,609 637,609**

*Manager will try to provide prioritized rankings, with a brief rationale for the retreat.*

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**General Fund FY20-22 – Unfunded Capital**

- Murray Street Park – Access. Path ($17,500)  
  - No debt needed

- Public Works/Fleet Facility ($2.9 million)  
  - $222,000 / 20 years

- Fire & Police Station ($6.8 million)  
  - $517,000 / 20 years

- Fiber Conx Town Facilities ($2.0 million)  
  - $260,000 / 10 years

- ERP System - Accounting, HR, Budget + ($1.2M)  
  - $270,000 / 5 years

**TOTAL: $12.9 million**  
**Annual Debt: $1.27 million**

Organizational bandwidth limits # of projects staff can handle at one time.

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**Unfunded Connectivity & Parks**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Estimate</th>
</tr>
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<tbody>
<tr>
<td>Bellevue Mill crossing public safety</td>
<td>$37,000</td>
</tr>
<tr>
<td>Exchange Park – acquire &amp; upgrade</td>
<td>$350,000</td>
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<tr>
<td>Exchange Park Trestle</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>North Campus enhancements</td>
<td>$65,000</td>
</tr>
<tr>
<td>Sidewalk US 70 A - Enno Haven to Sportsplex</td>
<td>$50,000</td>
</tr>
<tr>
<td>Train Station connectivity</td>
<td>$250,000</td>
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<tr>
<td>US 70 A intersection Improvements</td>
<td></td>
</tr>
<tr>
<td>Cates Creek Park enhancements</td>
<td>$100,000</td>
</tr>
<tr>
<td>Eno Mountain/Mayo realignment</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Oakdale Drive extension east</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Orange Grove Ext sidewalk match</td>
<td>$60,000</td>
</tr>
<tr>
<td>S Churton sidewalk match</td>
<td>$140,000</td>
</tr>
<tr>
<td>Meadowland Drive - fill gaps</td>
<td></td>
</tr>
<tr>
<td>Sidewalk North Churton Street (Corbin - US 70)</td>
<td>$150,000</td>
</tr>
<tr>
<td>Bike/Ped bridge over I-85</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Eno Mountain Road sidewalk</td>
<td>$75,000</td>
</tr>
<tr>
<td>Latimer Street Boardwalk</td>
<td>$150,000</td>
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<tr>
<td>Reconfigure Corbin intersection with Churton</td>
<td></td>
</tr>
<tr>
<td>Shared use path NS US 70 (Lakeshore - NC 86)</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

**TOTAL: $13+ million**

*Others are certain to emerge (e.g., parking)
What Other Under or Unfunded Priorities?

- 2030/2050 Renewable Energy Goals
- Emergency, weather, disaster readiness
- What others?

FY24 Opportunity: What to do with pending debt retirements?

- FY23: Gold Park/Riverwalk $82,000
- FY24: Collins Property $44,000
- FY24: NC86 North/Fleet Facility $80,000
- FY24: Riverwalk Phases 2 & 3 $150,000

TOTAL $356,000

Could finance $3.8 million in capital needs over 15 years @ 4.5%
Pressures on the Town of Hillsborough Ops & Services
Same as the Issues the Board Must Balance

Priority #1: A Strong Foundation

Sounds obvious, but what does that mean in terms of serving the community?

Cost of Typical FTE

<table>
<thead>
<tr>
<th>Category</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>TOTAL</th>
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</thead>
<tbody>
<tr>
<td>Salary - Annual Rate</td>
<td>50,900</td>
<td>50,900</td>
<td>55,900</td>
<td>50,900</td>
<td>50,900</td>
<td>256,700</td>
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<tr>
<td>PCA (F 65+)</td>
<td>3,112</td>
<td>3,476</td>
<td>3,191</td>
<td>3,758</td>
<td>3,828</td>
<td>17,958</td>
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<tr>
<td>PACE</td>
<td>3,112</td>
<td>3,773</td>
<td>3,342</td>
<td>3,191</td>
<td>3,758</td>
<td>15,721</td>
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<tr>
<td>GDP</td>
<td>3,875</td>
<td>4,815</td>
<td>5,520</td>
<td>6,054</td>
<td>6,710</td>
<td>28,881</td>
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<tr>
<td>Health Inc.</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>50,000</td>
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<tr>
<td>Other</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>2,000</td>
</tr>
<tr>
<td>Life/Health/Vision</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>Equipment &amp; Tools</td>
<td>6,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Vehicle</td>
<td>67,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>67,500</td>
</tr>
<tr>
<td>Fuel &amp; Maint.</td>
<td>3,000</td>
<td>3,000</td>
<td>4,000</td>
<td>4,000</td>
<td>5,000</td>
<td>28,000</td>
</tr>
<tr>
<td>Training</td>
<td>500</td>
<td>500</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>2,500</td>
</tr>
<tr>
<td>Workers Comp.</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>7,200</td>
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<tr>
<td>TOTAL</td>
<td>124,103</td>
<td>73,281</td>
<td>77,259</td>
<td>80,934</td>
<td>83,904</td>
<td>439,481</td>
</tr>
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</table>

Note: Salary comprises only about half of total FTE costs!
Significant Retirement Contribution Increases Mandated Annual Cost For a $43,300 Salary

- FY19 (7.75%) = $3,356
- FY20 (8.95%) = $3,875
- FY21 (10.15%) = $4,395
- FY22 (11.35%) = $4,915
- FY23 (12.45%) = $5,391

Annual cost will increase $200,000 in the next four years!

*How much new growth to pay for 1.0 FTE?*

General Fund: $13 million = $80,600 or about 47 units

Water/Sewer Fund: Avg. Customer Bill = $1,049 (70 - 80 units)

Stormwater Fund: $75 per unit or about 1,000 units

- These don’t include vehicle costs.
- Annual raises and market rate adjustments = 104 new residential units per year or $28.6 million.
- Benchmarks: revenues, salaries & wages, departments
- *This doesn’t factor unfunded needs and trying to avoid/minimize rate increases.*

Biggest Decision-Making Errors Come From Failure To...

1. *Widen Your Options* (counters tunnel vision)
   - More options = higher batting average!
   - What’s the opportunity cost?
   - We must do better in this area!

2. *“Reality Test”* - Verify info, data, & assumptions (counters confirmation bias)

3. *“Let it bake”* via time & thought (counters short-term emotion)

4. *Consider “what if you’re wrong”* (counters overconfidence)
   - Unintended consequences
   - Overly cautious or optimistic about the worst-case scenario
   - No Plan B or C?
Strategic Bridges & Band-aids – Focus Area 1A
Buying Time via Spreading Out Costs

All financial forecasts have what in common? Therefore, we must be ready with options and plans.

Triage & Prioritization – Focus Area 1B

- Biggest impact for least cost
- Leverages funds or documented payback/ROI
- Pacing, spread out projects due to limited org capacity
- Streamline & waste elimination
- Re-orgs & delegate more responsibility (also helps w/ succession planning)
- 20% and 80% rules
- How do we do this?
  - Continually ask: Is it worth it, is it going to make a difference?
  - Free up time for critical thinking and analysis – working on too many things, always rushed.

What’s Our FTE Strategy Going Forward?

- Minimizes FTE’s: expensive long-term commitment, & constraint, & inhibits ability to take care of employees?
- Can’t hire our way out of these challenges, so how do we stop spreading ourselves too thin? Too much “just in time delivery” risks.
- How to address retirements + mobile workforce + growth demands?
- What takes priority: facilities, equipment, or FTE’s? School example.
Process Improvement & Succession Planning

- Top priority but constant issues block progress.
- Most important & often overlooked positions: technical, customer-facing, and field assigned.
- Unintended consequences to guard against.
- If done well & blended with other initiatives:
  - Decentralize to push more responsibility to employees, increases involvement and ownership.
  - Attack waste, find efficiencies.
  - Re-org, especially with pending retirements.
  - Build stronger culture of process improvement.
  - Complicated and no easy task!
- Temporary new FTE freeze to develop more options?
  - Buy time to dig for what and why issues.
  - Risk loss of understanding w/o a freeze?

What’s Next?

- Good news – it’s March 11
- After retreat
  - Management team strategy development
  - Start work on May recommended budget
- June adoption
- Next year +

<table>
<thead>
<tr>
<th>FY18 BUDGET PLANNING – TOWN BOARD FEEDBACK FORMS</th>
<th>GENERAL FUND &amp; COMBINED FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td>#</td>
<td>Item/Proposal</td>
</tr>
<tr>
<td>---</td>
<td>----------------</td>
</tr>
<tr>
<td>1</td>
<td>[Details for Item 1]</td>
</tr>
<tr>
<td>2</td>
<td>[Details for Item 2]</td>
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<tr>
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<tr>
<td>4</td>
<td>[Details for Item 4]</td>
</tr>
<tr>
<td>5</td>
<td>[Details for Item 5]</td>
</tr>
</tbody>
</table>
Initial Budget Balancing Steps

1. **Project revenue** (without rate increases)

2. **Total expenditure requests**

3. Determine the **“bottom line”** (i.e., size of deficit)

4. **Budget meetings to learn more about requests**

5. **Establish expenditure limit or “cost of government”**
   (Multi-step process and fluid)

6. **Refinement via cuts, deferments, phased implementations, creative solutions, etc.**
Financial Parameters For Responsible Budgeting

- Fund Balance/Cash Flow
- Taxes & User Charges (how high?)
- Debt levels
- Multi-year impact
- Others (financial dashboard)

When do expansions occur without key operational and financial foundations being satisfied? Why?

Deficit Reduction Strategies Traditional

- Debt financing
- Delay initial debt payment
- Triage: defer lower priorities
- Reduce employee pay/benefits
- Hiring “freeze” or position reductions
- Eliminate or reduce services/operations
- Provide “cut/deferment” list to the governing board so they can make adjustments
- Lean or similar processes

Increasing Flexibility & Options
Budget Presentation

Annual Budget Preparation & Enactment Course
UNC-School of Government
Eric J. Peterson, Hillsborough Town Manager

1

BUDGETING 101

“C’mon, C’mon—it’s either one or the other.”

2

A Budget Presentation Should...

1. Help Governing Body with Decision Making
2. Serve as Work Plan & Information Resource
3. Be Easy for the Media & Public to Understand
4. Build Credibility & Trust
5. Help the Manager & Staff Serve the Community (Focus)
6. Change & Adapt with the Times
7. Tie into a Multi-year Forecast

3
Easy to Read & Anticipate Questions
A Budget Presentation Should.....

1. Help the Governing Body with Decision Making
2. Serve as a Work Plan & Information Resource
3. Be Easy for the Media & Public to Understand
4. Build Credibility & Trust
5. Help the Manager & Staff Excel
6. Change & Adapt with the Times
7. Tie into a Multi-year Forecast

Multi-year Forecasting Enhances a Local Government's Emergency Response Capabilities

Multi-Year Budgeting: An Elected Official's View
Have a Nice Weekend
After a Week of Budgeting Classes – You've Earned It!!