

BUDGET MESSAGE

May 9, 2011

Honorable Mayor Stevens and Board of Commissioners:

I am pleased to submit Hillsborough's combined FY12 Annual Budget **Workbook** and Financial Plan. After experimenting with a seven-year financial plan we have changed back to the original three-year format. The shorter version makes it easier to review, identify key issues, and compare numbers. The out-years in the seven-year forecast suffered from accuracy issues and created so much data that it made the document "cluttered," making it hard to find the most important information. Finally, the shorter format saves time for staff and helps everyone focus on the most pressing issues. The seven-year format for the Capital Improvement Program remains intact.

The budget was prepared in accordance with the North Carolina Local Government and Budget Fiscal Control Act. The workbook represents the town manager's recommended budget. As this proposed document is transmitted from the town manager to the Board of Commissioners, it now becomes your budget. Hence, it is expected that the board will make changes to the proposed budget and financial plan. The town manager believes this document reflects the priorities articulated in the Town Strategy Map. The manager and staff are ready to respond with whatever information the board deems necessary in helping it make well-informed decisions regarding the budget and financial plan.

The Budget as a Decision-Making Tool

One of the critical purposes of this document is to encourage open dialogue, questions, and public deliberation as it relates to how best citizen tax dollars can be used to serve the community. This is especially true this year due to the impacts of the lingering recession and slow economic recovery that have stalled the many developments approved by the Town Board in prior years. Lack of new revenue in the General and Water/Sewer Funds has created a variety of financial and operational challenges for the town. Hillsborough faces difficult choices over the next several years that will affect the services citizens desire, counterbalanced by the price they are willing to pay on their annual tax bills. Ideally, the proposed budget will be successful in identifying key issues, needs, costs, and implications of decisions so the

governing board and public can decide how they want their municipal government to operate next year.

While this is the 14th year a multi-year financial planning format has been used in reviewing the town's budget and operations, this is only the fifth year that the balanced scorecard system is being used to implement and communicate the board's mission, vision, and strategic priorities.

The format is intended to articulate meaningful initiatives, performance measures, and targets of the departments' balanced scorecards. The scorecards are a response to the Town Strategy Map developed by the Board of Commissioners. This system was designed to help the town evolve into a "learning organization," where being analytical, adaptive, and responsive to the lessons we've learned become part of the organizational culture that helps the town successfully implement its strategy. This is best done by testing hypotheses that come in the form of new ideas intended to better serve the community. The success of these ideas is tested through "trial and error," via performance measures and targets that are linked in the scorecards. It is hoped that these businesslike techniques (used by over half of the Fortune 1,000 companies) will help the board, staff, and citizens determine how best to prioritize needs and allocate the town's resources in the future.

The multi-year forecasting component of the financial plan encourages the town to look toward the future and to identify, address, and mitigate potential problems while they are still small and manageable. The plan also allows everyone to see how "today's decisions" affect the financial condition of the town well into the future. The financial plan functions 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 to manage a municipality's financial and departmental operations likely would produce little advance notice of problems looming on the horizon. Limited response time to deal with problems often means a governing body faces unnecessary pressures and is forced to take drastic action. If the board is aware of a potential problem in advance, it has greater flexibility and time to calmly develop reasonable solutions to address the issue at hand.

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FY12 BUDGET HIGHLIGHTS

Property Tax Rate: 62 cents, *unchanged* for the past 3 years.

Water Rates: 5.9% *increase* (43 cents per 1,000 gallons for in-town customers and 84 cents for out-of-town customers).

Sewer Rates: 8.8% *increase*. (70 cents per 1,000 gallons for in-town customers and \$1.37 for out-of-town customers).

General Fund Operating Expenses	\$6,646,787
Water/Sewer Fund Operating Expenses	\$6,825,185
Total Operating Expenses:	\$13,471,972

General Fund:

- Operating budget expenses decrease by 17.4% over projected FY11 expenses and are 4.8% less than FY10.
- **Six positions or 10% of General Fund staff eliminated:** Police Accreditation Manager, Police Training Lieutenant (part-time), Police Officers (2), Code Enforcement Officer/Planner, and Assistant Town Manager/Public Works Director. All positions are vacant except the Assistant Town Manager/Public Works Director.
- Replace automated residential garbage truck: \$250,000.
- **Street repaving:** \$149,000 of FY12 funds will be combined with \$205,500 of monies carried over from FY10 and FY11 to perform the town's largest repaving project in July 2011.
- **Changes in solid waste collection starting Nov. 1:**
 - **Bulk items** (e.g., appliances, furniture, etc.) will be collected once per month instead of weekly.
 - **Leaf, limb, and yard waste** will be collected every other week instead of weekly. Weekly collection will remain for leaves from Nov. 1 through the end of January. Thus, loose leaf collection season with the vacuum truck will be shortened by one month.
- **Grant match for fare-free Hillsborough bus route** (\$22,900): Provides the 20% CMAQ grant match for an in-town circulator route from OPT. This is a three-year program.
- Health insurance increases 15% or about \$85,000.
- **Merit system funded at 50%** (\$33,625). Average 2.2% raise for employees.

Water/Sewer Fund

- Decreases by 9.1% compared to FY11 estimates.
- **No new positions.** A utility maintenance position is being unfrozen to prepare for the pending retirement of another employee in early FY13. Full-time Customer Collection Clerk eliminated. Replaced by one or two part-time clerks, for a savings of at least \$10,000 per year.
- **Wastewater Treatment Plant Upgrade** (\$17.5 million): Construction starts to avoid development moratorium.
- **Water System Maintenance Project** (\$950,000 financed over 10 years). Includes the following projects:
 - Dredge Lake Johnston (\$300,000)
 - Dam repair at Lake Johnston (\$180,000)
 - Replace backwash pumps at Water Plant (\$130,000)
 - Replace old and substandard lines in the Riverside Drive and Crawford Road areas (\$200,000)
 - Project contingency (\$140,000)
- Wetlands monitoring at reservoir (\$38,000). Required annually for the next five years.
- Equipment: \$85,000
- **Merit system for raises funded at 50%** (\$19,250).

GENERAL FUND

No Tax Increase, But Tough Decisions Ahead

The good news is the budget recommends keeping the tax rate steady at 62 cents for the third consecutive year. This was done through a combination of expenditure cuts, efficiency improvements, elimination of positions, and proposed service-level reductions. General Fund staffing is reduced to its FY05 level from seven years ago. Almost all departments and divisions have reduced their budgets from the previous year. Administration, despite eliminating a position, was not able to decrease its budget due to the town-wide insurance increasing for property and liability and workers compensation. The bad news is that despite preparing a lean operational plan, significant deficits are projected in the second and third years of the financial plan (\$449,808 in FY13 and \$751,670 in FY14). This would equate to property tax increases of 6.2 cents in FY13 and 4.1 cents in FY14.

To make matters worse, the town's savings level (or fund balance) has been depleted to a level where it will no longer be used, starting in FY13, to make up future budget deficits. The fund balance situation is discussed further in this message. The size of the projected deficits will require a thorough re-examination of priorities and the town's Strategy Map before work begins in the FY13 budget in early 2012. A combination of tax rate increases, new fees, and/or further cuts may be needed starting next year if the fiscal picture does not change for the town.

How can we still have deficits with all these cuts?

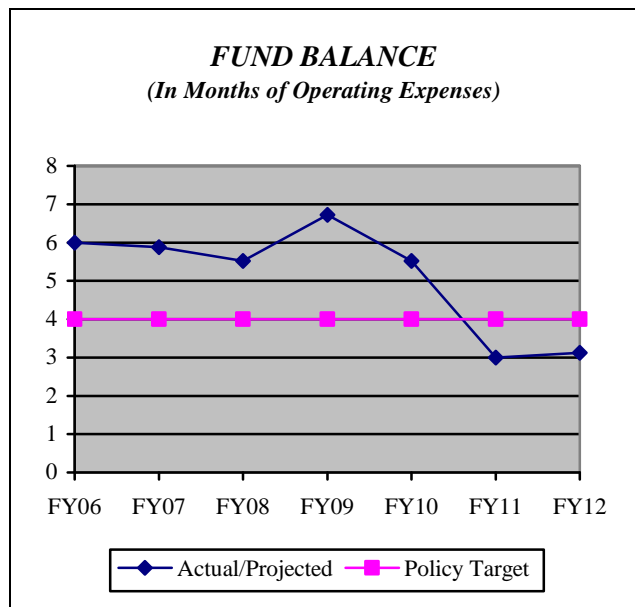
1. Fund balance was used for several years to help weather or ride out the economic downturn. This gap now has to be filled with expenditure cuts or new revenue sources.
2. Shrinking annual revenues: Since FY07, the town's income from investments has decreased \$208,000; zoning fees are down \$60,000 from FY08; and sales tax is expected to be down \$143,000 from FY08. **These three revenue sources alone total an annualized loss of \$411,000 or the equivalent of almost 6 cents on the tax rate.**
3. Population not keeping up with our fellow Orange County local governments means our share of sales tax receipts shrinks further. State street-aid revenues are projected to be impacted as well since they are population driven.
4. Change in Orange County sales tax distribution formula. If the county changes distribution methods, it could cost the town between \$70,000 and \$210,000 starting in FY13.
5. No new revenue sources and little if any growth in the property tax base for two to three years provides no means to pay for increasing expenses, such as fuel, insurance, supplies, and many other basic items.
6. Riverwalk Phase II will add about \$115,000 in annual debt payments starting in FY14 or about 1.6 cents on the tax rate.

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Why did fund balance (savings) drop so much?

In FY09, the town had over \$3.5 million in undesignated fund balance in its coffers or the equivalent of 56% of all operating revenues. By the end of FY11, that number is projected to be cut in half to \$1.97 million or 25%. These funds were used to subsidize the operating budget, address critical capital needs without incurring an additional debt load, and fund long-term investments deemed as a high priority. Some of the investments that were made possible by the fund balance appropriations are listed below in the next section.

The town's fund balance policy cites between 20 and 60% will be maintained. The target level is 33% or four months of operating expenses. While the projected FY12 level is within policy and well above the 8% minimum established by the Local Government Commission, it has fallen below our preferred watermark. Hence, any future use of savings should be reserved for emergencies until the fund balance is rebuilt to at least the target level.



Recent Investments & Leveraging Grant Funds:

The town has recently invested approximately \$2.1 million in the sidewalk, park/riverwalk, and wayfinding projects listed below. This does not include debt service payments on Gold Park. In return, the town is receiving more than \$2 million in grants and cost-sharing arrangements. This significant leveraging of outside funds will benefit Hillsborough residents for years to come. A town commissioner recently suggested that surplus land behind the Daniel Boone shopping area should be

considered as leverage in a future economic development deal as a way to fund improvements or the town's match if a rail station grant is awarded. This is a good idea. Otherwise, paying for the rail station project will be difficult. Recent projects that have been completed or are in process include:

- Nash Street Sidewalk Project: \$463,000 of town funds, over \$1 million of state/federal. This 1.3-mile project addresses a major public safety concern, connects two elementary schools, and increases accessibility to many Hillsborough neighborhoods, parks, services, and amenities.
- Margaret Lane Sidewalk Project: \$150,000 town funds, \$45,000 contribution from Orange County. Makes the new library accessible, improves pedestrian safety, and enhances area aesthetics.
- Riverbank stabilization project along Eno River in Gold Park: \$108,000.
- Riverwalk Phase II feasibility study, bridge designs for two river crossings, Calvin Street pedestrian access design and construction (\$244,000). Design to start in summer 2011.
- Riverwalk Phase II land acquisition (18 acres) \$544,000 town funds with \$432,000 in grants.
- Gold Park/Riverwalk Phase I: \$351,232 town funds, \$500,000 in grants, plus \$120,000 annual debt payments on a \$1.226 million 15-year loan.
- Wayfinding Signage Project (\$304,000) funded in FY11 with a \$48,000 contribution from Orange County is scheduled for installation in 2012.
- Rail station site or Collins Property acquisition (20 acres) for \$600,000 with annual debt payments of \$63,000. This acquisition has also preserved the HYAA ball fields.
- Hwy. 86 Facility (\$1.4 million) or \$110,000 annual debt payments for Fleet Maintenance, Safety, Wellness, Fire Marshal/Emergency Manager, Emergency Operations Center, and classroom for training/meetings. This facility allowed fleet maintenance to move out of its former facility that was infested with mold, leaking, and in a floodplain. Purchasing and retrofitting an existing facility proved to be more cost effective than constructing a new building.

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General Fund Positions Cut By 10%

Positions Recommended for Elimination in FY12, Service Impacts, and Projected Cost Savings:

The decision to recommend elimination of positions, especially the one that is currently filled, was difficult to say the least. While much can be said regarding the sincere disappointment of losing these positions, looking at the bottom line deficits for the next several years indicates that major steps have to be taken to protect the town's financial situation, control taxes, and prioritize the most important services. The \$400,000+ in annual savings from this step will go a long way in filling the financial hole created by tough economic times.

1. Police Accreditation Manager/Analyst. This position has been vacant since late FY10, and little crime analyst work was ever done from this position. Budget responsibilities have been distributed throughout the department. CALEA accreditation has been indefinitely put on hold. Estimated annual savings: \$75,000.
2. Police Training Lieutenant (part-time). Vacant since late FY10. Duties transferred to Special Events Sergeant and other personnel. Estimated annual savings: \$37,000.
3. Police Patrol Officers (2). Patrol has two vacancies, with one in the traffic enforcement unit. Grant funding obtained in 2007 to create a two-officer traffic unit ended in 2009. Eliminating the vacant positions still leaves patrol with 4 officers per shift. Overtime is increased to provide greater flexibility in addressing staffing gaps due to vacation, training, and sick leave. Elimination of these positions frees an additional car in the patrol division and reduces vehicle operation costs. Estimated annual savings: \$110,000.

Will losing these police positions affect public safety? While losing these positions is frustrating, it is important to note the Police Department will still have one of the highest police employees to citizen ratios and per capita spending amounts in North Carolina. Several benchmarking comparisons have been conducted to ensure the Police Department is still receiving a high level of support in terms of staffing and funding. All analyses indicate HPD is

always near the top, even after the recent cuts, when it comes to comparing resources with other agencies. The table below reflects one brief comparison:

Police Department Resource Comparison

Measures	N.C. Police Depts from School of Government Benchmarking Group (FY10 Average)	Hillsborough Police Department FY12 Proposed Budget	Difference
Police FTE's Per 1,000 Population	2.8	4.14	47.8%
Police Services Costs Per Capita	\$243	\$348	43.2%

4. Code Enforcement Officer/Planner. The code enforcement position was vacated about two years ago. A temporary planner was hired in lieu of a code enforcement officer to better assist the department during the process of adopting a Unified Development Ordinance. Operational impact: Loss of this position will place a greater burden on the planning staff to address code enforcement violations, handle citizen inquiries (via walk-in traffic, phone, and email), as well as perform their regular duties. Estimated annual savings: \$55,000.
5. Assistant Town Manager/Public Works Director. This position is currently occupied by a dedicated, experienced, and highly professional member of the town's management team. The elimination of this position will mean supervision of the public works, water/sewer, planning, parks and recreation, stormwater, fire marshal, and fleet maintenance operations will transfer to the town manager until some responsibilities can be reassigned. Fortunately, work on the Nash Street Sidewalk Project, which has been supervised by the assistant town manager and has taken a tremendous amount of her time, should be completed by July. The re-bidding of the grass-cutting and right-of-way maintenance and the commercial solid waste contracts have also recently been completed.

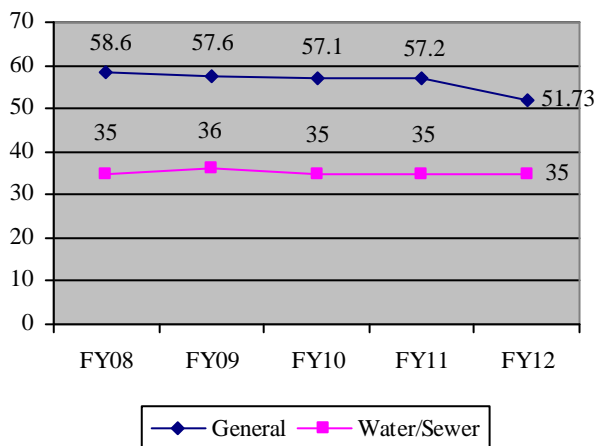
The loss of this position and the pending retirement of the Town Clerk/Human Resources Director in about two years will require an organizational analysis to take place in order to

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adjust to these two major changes. Delays are anticipated in responding to various requests as well as decreased capacity to manage new projects due to the loss of this position. Estimated annual savings: \$130,000. Note: Due to the extremely tight budget, if this position were not eliminated, two to three other positions would have had to be cut.

Time savings in Public Works operations due to service-level cutbacks and efficiency improvements should free almost 900 hours or the equivalent of 0.5 FTEs. While much of this time savings will be used to direct attention to service areas currently being neglected (e.g., street, stormwater, and park maintenance), some of the time can be used to delegate additional responsibility currently handled by the assistant town manager to staff in the Public Works Department.

**Full-Time Equivalent (FTE) Positions
By Operational Fund**



Helping Employees with Transition/RIF Policy

To help current and future employees affected by a Reduction in Force (RIF), a draft policy can be found at the end of this section. The policy provides a process and expectations and makes provisions to give employees a comfort level that they will be given plenty of notice, time, and assistance if their position is eliminated.

WATER/SEWER FUND

Significant Rate Increases Likely for Several Years

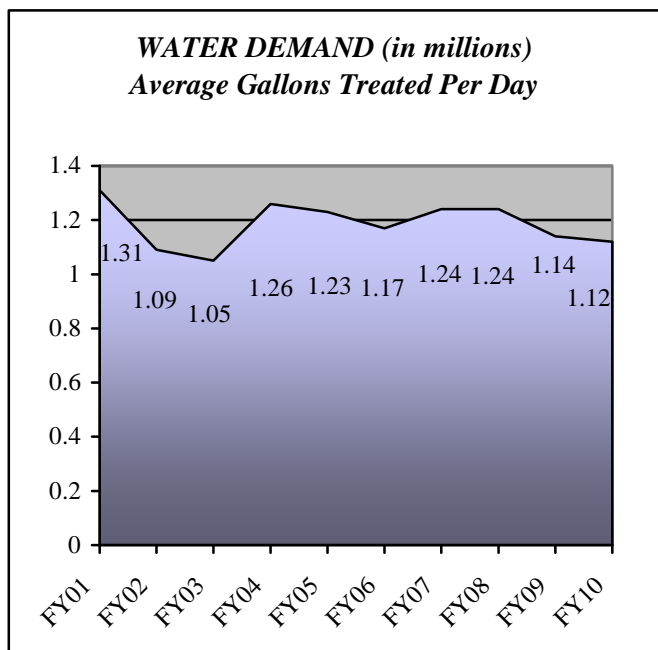
Little growth in town and declining water use over the past 10 years are making it difficult to pay for rebuilding much of the town's aging water and sewer system. In 2001, an \$11 million reservoir was completed to address decades of water shortages. In 2006, the water plant received a major upgrade and repairs, costing \$3.8 million. Lines and pumping stations are constantly being repaired, replaced or upgraded due to age or inferior installation decades ago. In FY12, a \$950,000 maintenance project, funded through a 10-year loan, will address critical system needs, such as repairing the old dam at Lake Ben Johnston, performing an overdue dredging to address capacity and quality issues at the intake point for the water plant, replacing old galvanized water lines that are insufficient to properly serve the Riverside Drive and Crawford Road neighborhoods, as well as other needs.

Now, a \$17.5 million upgrade/expansion to the 35-year-old Wastewater Treatment Plant is necessary to avoid a moratorium on new development and to meet new and highly stringent discharge requirements imposed as a result of the Falls Lake Rules. As a result, \$1.18 million in annual debt payments for this project will begin in FY15, thereby doubling the wastewater plant's current budget. To cover this debt service with no impact on current customers would require the equivalent of 2,736 new homes, each using 4,500 gallons per month of water. As a reference, the first phase of UNC Hospital will use the water/sewer equivalent of about 233 homes. At full build-out, years down the road, the hospital's water/sewer use will equate to 1,346 homes. You can read more details about the wastewater plant project in its section of the budget.

For a town Hillsborough's size, the debt from the wastewater plant project is a substantial burden to place on its customers. As an alternative to this project, the feasibility of sending Hillsborough's wastewater to the City of Durham for treatment was explored through a joint engineering study. *Unfortunately, the capital costs of having Durham treat Hillsborough's wastewater were determined to be three times more expensive than simply upgrading and expanding the existing plant. Sending Hillsborough's sewage to Mebane or OWASA was*

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not an option since their systems discharge effluent into a different river basin, which would not be permitted. Therefore, due to its location, Hillsborough cannot be absorbed and serviced by a larger utility system that can provide lower rates to its customers through the benefit of economies of scale. On the upside, the town's water supply is stable and having control of water/sewer utilities gives the community great leverage in determining what type of new development it wants or does not want.



Rates, Highlights, Issues & Complications

- Water/sewer usage is projected flat in the three-year financial plan. The rate model that extends further out has slight growth adjustments factored in. Any near-term growth in usage may be counteracted by customer conservation due to increasing rates or future drought. Until significant new growth comes in the form of new connections to the system, there will likely be little relief from the projected rate increases.
- Water: A 5.9% increase is recommended for FY12. Then, 6% increases are recommended in FY13 and FY14. Larger increases are anticipated in FYs16-17 due to Phase II of the reservoir, which needs to begin construction before the permit expires.
- Sewer: 8.8% increases per year for the next five years. *If the Wastewater Treatment Plant's construction project bids and construction administration/inspection come in greater than \$17.5 million, then those costs will have to be added into the rates.* The bid opening for this project is scheduled for early July, so we will soon be able to confirm construction costs and make necessary adjustments.
- Sewer rate smoothing and strategy to minimize budgetary "leakage" (i.e., prevent increases from being spent on other items). An expenditure line item was added in the Wastewater Treatment Plant's budget to transfer money generated from sewer rate increases into the capital reserve fund. In essence, part of the annual rate increases are being earmarked to ease the "shock" of the plant's upgrade debt payments starting in FY15. The funds accrued from FYs12-14 will also be used to assist with keeping the rates from jumping too much in FY15 and FY16, when both the \$1.1 million debt payments come due and the loss of the Efland-Cheeks customers is expected to occur.
- Efland-Cheeks Sewer System will disconnect from Hillsborough in 3 to 7 years (per projections from Orange County staff) and become part of Mebane's system. These customers generate approximately 8.6% or \$250,000 of Hillsborough's sewer revenue. Hence, the revenue loss projected to start in FY15 was included in the rate calculations to maintain a steady increase in rates.
- Financial reserves are healthy. The retained earnings level for the water/sewer fund is projected to be at 46% (or 5½ months of operating reserves) at the end of FY12. Retained earnings are forecasted to remain sound throughout the financial plan and rate model. The capital reserve on the water side did take a significant hit in FY11 to pay for the water quality ponds required at the reservoir (\$720,000). These funds were used in lieu of incurring additional debt. This dropped the water capital reserve fund down to approximately \$310,000. The sewer reserve is \$22,000 and nearly depleted after paying for the nongrant-funded portion of the Wastewater Treatment Plant's design.

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Policy Options to Consider as Rates Increase

Discussions will be necessary to address affordability and equity issues because rates will increase significantly in just a few years. While the in-town water and sewer rates currently fall into the “affordable” category on the UNC Environmental Finance Center’s North Carolina Water and Wastewater Rates Dashboard, it’s important to remember that out-of-town residents pay 195% more for their service. This means their rate increases will be nearly twice that of in-town customers. For example, the minimum bill for an out-of-town customer using water and sewer in FY13 (in a little more than one year) is projected to be \$103.23. An out-of-town customer using the typical 4,500 gallons per month (gpm) will be paying over \$150. In FY16, the minimum charge is projected to be \$129 and the 4,500 gpm charge \$193.50. Rate tables with detailed information can be found in one of the following sections. The rate levels should also be a concern as they relate to economic development and attracting future growth. Therefore, some of the ideas mentioned below are ones the Board of Commissioners, Water/Sewer Advisory Committee (WSAC), and public may be interested in exploring.

- Revisit billing methodologies and rate structure. Raftelis Financial Consultants presented a report to the Town Board and Water/Sewer Advisory Committee in 2005 that analyzed different rate structure options available to the town, such as minimum rates; a base service charge; rate differentials for inside vs. outside; and increasing, flat or decreasing block structures. For example, using a base charge or decreasing the minimum monthly charge from 3,000 to 2,000 gallons is more equitable for lower volume users. The downside of these alternatives is they make the revenue stream more volatile. Since conditions with rates are about to change dramatically over the next few years, reviewing options and the accompanying “pros and cons” will be important in striving to find the most equitable way to charge for what will be some of the most expensive water and sewer in the state.
- Annexation as a way to address cost and equity concerns from out-of-town customers. Unlike other municipalities in North Carolina, the Town of Hillsborough has been passive when it comes to involuntary annexation. It’s been over 15 years since the last such annexation occurred, when the

Cornwallis Hills area was brought into town. All annexations since that time have been voluntary or done at the property owner’s request (e.g., Waterstone, Hampton Pointe, Beckett’s Ridge). While the town has not recently received any formal requests for annexation from developed areas near or adjacent to Hillsborough, this may change. Therefore, the town should not be surprised if it is approached by neighborhoods wanting to explore the possibility of annexation to seek decreases in their water/sewer rates as well as to gain access to municipal services. Informal analyses performed in recent years by a subdivision just outside of Hillsborough showed it was still less expensive for the subdivision’s residents to pay the higher out-of-town water/sewer rate than to be annexed. Analysis performed by town staff reached a similar finding. As water/sewer rates increase quickly over the next few years, the “bottom line” may change for some neighborhoods and, thus, spark a renewed interest in this topic.

Many out-of-town customers do not have town sewer and instead use septic tanks. Fortunately for them, they will not be affected by the rate impact from the Wastewater Treatment Plant’s upgrade. This is important since the town should only consider annexation discussions with areas that are served by both water and sewer. If the town attempted to annex areas without sewer, it would then have to pay for the installation costs of new sewer lines, which would be significant.

- Continually seek more efficient ways to deliver water and sewer service. Seeking new ideas, solutions, or third-party verification of our current processes may mean hiring an outside consulting firm to review our utility operations.
- Boost efforts to inform customers regarding the operations of their water/sewer system. There is only so much cost-cutting and delay of repairs that can be done in a utility system. Governments are receiving failing grades around the country for failing to adequately maintain critical infrastructure. As a result, water and sewer service has historically been under-priced for decades. This system is owned by its customers, so the citizens of Hillsborough get to choose how they want it to be operated. Enhancing efforts to share information with customers on the challenges, complications, and expenses

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associated with operating their system will increase understanding and opportunities to address the challenges we are currently facing regarding high rates.

Looking Ahead

Fortunately, the town seems poised to exit the post-recession better than most towns due to our location in the Research Triangle region, our many current assets/attractions, the recent groundbreaking for the new UNC hospital, and other quality developments that have been approved by the board but have not yet gained momentum due to the economy (e.g., Waterstone, Forrest Ridge, and Oakdale Village). As we move into FY12, I recommend the following areas be given consideration:

- Economic Development & Invest in Hillsborough! General and Water/Sewer Fund operations will benefit from improved economies of scale. Hillsborough is a great place to live, work, eat, visit, and start a business — let's market it! More aggressive use of the Internet and other means of advertising should be taken. Steps are under way to do this. Town employees can help by facilitating this effort and by providing valuable services with the personal care one can only get in a small town.
- Consider user fees. A user fee for specific services, such as solid waste or stormwater, could lessen the reliance on the property tax as the sole means of raising money for General Fund operations. For example, charging \$10 per month for roll-out collection would raise at least \$240,000, improve the town's cash flow and allow property taxes to be lowered 3.4 cents. The downsides are 1) that collecting the user fees are more expensive than via the current method of paying through property taxes, and 2) homeowners lose the tax deduction. This may not be the right fit for Hillsborough, but the concept is worthy of deliberation.
- Continue refining operations. While many efficiencies have been found in recent years, this has to be a constant priority. In addition to reviewing positions as vacancies occur, new strategies to stabilize health insurance costs should be investigated. The town's insurance provider also is now offering 18 new policies,

which gives the town a huge array of options to evaluate over the next year.

Closing Comments

I hope Mayor Stevens and the Board of Commissioners find all the information necessary to thoroughly review and analyze the proposed budget. This budget is full of recommendations that were not pleasant to make but that I feel make good long-term business sense. This is the 21st budget I've prepared as a town manager, and it has clearly been the most challenging to develop. It reminds me of the old saying, "There is always a way to build a better mousetrap." I have no doubt that is also the case with this document. I'm counting on participation from the board, employees, and public to challenge recommendations and to propose better ideas to improve on this budget, financial, and operational plan. There is never a shortage of good thinking and excellent ideas in Hillsborough. It's my hope that this recommended budget workbook serves as the starting point so we can put together a successful plan to navigate our way through these choppy waters.

Please do not hesitate to contact me if you need additional information to help in your decision-making process. This document is now in the hands of Mayor Stevens and the Board of Commissioners. The 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!

The first budget workshop will take place at 7 p.m. Monday, May 23 in the Town Barn. The goal will be to complete the review of the General Fund's budget that evening. The second workshop will be used to review the Water/Sewer Fund. This will also serve as the Public Hearing for the FY12 Budget and takes place at 7 p.m. Thursday, June 2 in the Town Barn. If necessary, a third workshop date has been set for Tuesday, June 7. Hopefully, the budget will be ready for adoption at the board's June 13th regular meeting.

Sincerely,

Eric J. Peterson
Town Manager