

Fiscal Year 2019-20 Manager's Budget Transmittal Letter

May 14, 2019

To the Honorable Mayor and Town Council Members:

It is my pleasure to recommend to you the Fiscal Year 2019-2020 Operating Budget and Capital Investment Plan, which is structurally balanced and provides a strong foundation to meet the current and future needs of our community.

The recommended budget, which includes debt service, totals \$65,183,411, a 6.2% increase from the amended Fiscal Year 2018-2019 budget. Of this, the General Fund operating budget and debt service represents \$45,010,630, an 8% increase from the prior fiscal year. These figures are based on a 99.8% property tax collection rate with a tax base of \$5 billion. The budget includes a 5-cent property tax rate increase – solely dedicated to funding \$40 million of new transportation infrastructure investments approved by voters in November 2018. Twenty-two (22) new positions are recommended – focused on public safety and meeting growing service delivery needs and workload. The budget reflects strong economic growth and allocates resources to provide public services to over 37,000 residents and a thriving business community.

MAYOR AND COUNCIL PRIORITIES

On April 17, 2019, the Town Council adopted a new strategic plan that articulates the desired characteristics and quality of life for our community. Included are the most important priorities and goals needed to meet the daily service and infrastructure investment needs of our residents and businesses. The recommended budget translates these priorities (listed below) into resource allocations, policy guidance, and where staff efforts are focused most.

Vision

Holly Springs offers an unmatched quality of life that reflects the joys of small town living in a safe, family-friendly community that residents and businesses are proud to call home.

Strategic Priorities

- **Economic Prosperity & Diversity:** *Holly Springs provides a climate where a wide variety of businesses thrive with economic opportunity for all.*
- **Engaged, Healthy & Active Community:** *Holly Springs promotes fulfilling and rewarding lifestyles with abundant, healthy living options.*
- **Organizational Excellence:** *Holly Springs is a leader in responsible government with a high-performing organization that meets the public service needs of its residents.*
- **Responsible & Balanced Growth:** *Holly Springs will continue to plan for future infrastructure and support a quality, balanced mix of land uses, while preserving its small town charm, characteristics, and history.*
- **Safe & Friendly:** *Holly Springs is one of the safest communities in North Carolina with a welcoming spirit and inviting atmosphere.*

PROPERTY TAX RATE INCREASED FOR TRANSPORTATION INFRASTRUCTURE INVESTMENTS

The property tax rate is recommended to increase 5 cents to a total of 48.25 cents per \$100 property valuation. This funding investment is necessary to design, acquire right-of-way, obtain permits, and construct \$40 million of transportation infrastructure investments to reduce congestion, improve mobility across the town, and enhance motorist and pedestrian safety. This anticipated, required level of increase was communicated to voters as part of the 2018 Transportation Bond education efforts and is necessary to ensure the Town can sufficiently meet its debt obligation to repay the bonds.

I also recommend delineation of the property tax rate into two dedicated components: General Fund Operating and General Debt Service (current and projected debt service). This financial management approach is recognized by credit rating agencies as a best practice and provides the Town with the strongest and most affordable method to fund existing and potential, future debt obligations.

Recommended Property Tax Rate and Allocation (cents per \$100 valuation)

Fund	FY2019	FY2020	Difference
General Fund Operating	43.25¢	36.25¢	(7.0¢)
General Debt Service	0.00¢	12.00¢	12.0¢
Total	43.25¢	48.25¢	5.0¢

GENERAL FUND REVENUE HIGHLIGHTS

Property and sales taxes account for 69.5% of General Fund revenues. Together, they form the core funding sources necessary to provide basic municipal public services.

Property Tax – For the first time, the valuation of all property in Holly Springs exceeds \$5 billion. This growth in the tax base reflects strong economic expansion in commercial and residential sectors. Excluding the recommended property tax rate increase for the 2018 Transportation Bonds, the budget projects natural property tax revenue growth of 9%, or about \$1.8 million.

Sales Tax – Sales tax revenue is projected to grow 4.5% over the prior year’s budget. The total sales tax rate in Holly Springs is 7.25%, and includes 2.0% to the state, 4.75% to Wake County (which in turn distributes a portion to Holly Springs), and 0.50% for the Wake County public transit tax.

Solid Waste Fees

Recycling Fee – The global recycling market has undergone a dramatic shift due to other countries’ unwillingness to accept recycling material from the U.S. due to high “contamination” levels (i.e. refuse and trash mixed with recyclables). As a result, the recycling market in the United States has experienced a sudden and significant shift in affordability, and the Town’s private recycling vendor has notified the Town of an 18% price increase to maintain the Town’s current recycling program. Following prior Town practice, this increase in the cost of recycling service is recommended to be passed on to residents, increasing the monthly recycling fee for residents by 88 cents per month for a total of \$5.22/month.

Garbage Fee – The garbage fee includes an increase from the Town’s private hauler of 2% and reflects the cost of doing business. A homeowner’s monthly garbage fee rises 19 cents, for a total of \$9.88.

UTILITY FUND REVENUE HIGHLIGHTS

Water and Sewer Rates – The recommended water and sewer rate increase is kept low. In recent years, rate increases have generally reflected the specialized Consumer Price Index (CPI) that tracks water and sewer industry cost inflation. This year’s CPI rate is 3.7%. However, due to other tax and fee increases recommended in the budget, I recommend a lower, modest rate increase of 1.85% which is necessary to partially offset the cost of doing business in the Utility Fund. For the typical homeowner, the rate increase equates to a \$0.82 average increase per month. Assuming a 1.85% rate increase, a review of the UNC-Chapel Hill School of Government water and sewer rates database indicates that Holly Springs remains below other utility rate averages within a 100-mile radius.

Storm Water Rates – Storm water rates remain unchanged for FY2019-20, pending a thorough review of the Storm Water program mentioned below in the “Future Outlook” section.

OPERATING EXPENDITURE HIGHLIGHTS BY STRATEGIC PRIORITY AREA

Economic Prosperity & Diversity

- **Economic Development Website Update (\$23,000)** – A new website experience is recommended to simplify the user experience and elevate the Town’s web presence for business recruitment and retention.
- **Economic Development Site Recertification (\$25,000)** – Site certification by the Economic Development Partnership of North Carolina (EDPNC) provides assurance to prospective industries that an economic development land site has been thoroughly studied and is ready for development. The recommended budget includes funding to recertify one of the Town’s three sites and includes funding for new street banners in the Holly Springs Business Park.

Engaged, Healthy & Active Community

- **Parks and Greenway Planner (\$70,252)** – I recommend a new planner position to enhance planning for updates to current amenities, plan for future amenities, and ensure that new development maximizes integration into other Town parks and greenway infrastructure.

Organizational Excellence

- **Automated Council and Planning Board Meeting Agenda Development Software (\$15,650)** – The budget includes purchase of an automated agenda development software solution to increase organizational efficiencies and user ease of use.
- **Financial Positions (\$138,615)** – Two positions are recommended – a purchasing manager and accounting technician – to strengthen the Town’s procurement and internal controls.
- **Human Resources Analyst (\$69,762)** – The Town has not added Human Resources staff since 2005. Workload has increased to warrant a third staff member, which will provide capacity for the HR Director to develop new, supervisory professional development programs.
- **Information Technology (IT) Systems Analyst (\$85,056)** – Town IT staffing levels are below most peer towns, and the workload associated with managing the Town’s complex IT systems merits an additional staff position.
- **Fleet Services Manager (\$74,886)** – The coordination of maintenance and replacement of the Town’s 243 vehicles and 23 motorized equipment would be greatly enhanced through greater central management to reduce equipment downtime, manage maintenance staff, coordinate surplus, and create efficiencies through greater fleet standardization.

- **Lab Analyst (\$60,378)** – An additional lab analyst is recommended in Water Quality to address increased workload and enhance quality control, water monitoring, and offsite testing needs.
- **Investment in Employees** – This budget recommends significant investments to strengthen the Town’s ability to recruit and retain top talent and strengthen our reputation as an employer of choice in the Wake County region. These include:
 - **Professional Development** – \$114,966 added to expand leadership and technical skills.
 - **Pay Adjustments** – I recommend a 3.25% merit budget plus a 1.6% cost-of-living market adjustment to maintain competitiveness in the job market, together totaling \$603,006.
 - **Maternal/Paternal Paid Leave** – I recommend that the Town provide up to six (6) weeks of paid leave for the birth or adoption of a child. This recommendation matches similar offerings from the Towns of Apex and Wake Forest.
 - **Lower Optional Employee Health Insurance Premiums** – The number one complaint I receive from employees is the high cost of optional health insurance for family members beyond the employee. I recommend the employee premium cost for Employee+Spouse, Employee+Children, and Employee+Family premiums all decrease from current levels through a new Town contribution toward these plans. The budget includes an estimate of \$100,000 in additional Town cost share.
 - **Health Insurance** – The Town’s overall health premium increase is projected at 12.1%. Impact to the Town is estimated at \$199,544 to offset this increase which results from recent high exposure cases. Historically, increases have been minimal in recent years.
 - **Wellness Incentive** – Wellness programs improve overall employee health and help mitigate long-term health premium increase pressure. I recommend the Town begin a wellness incentive program that provides for additional insurance premium reductions for employees electing to enroll in the program. The recommended budget includes \$90,000 to offset premium reductions for employees who enroll.
 - **Town Holidays** – I recommend that Council adopt the State of North Carolina’s holiday schedule as published by the Office of State Human Resources (OSHR). This change would bring Holly Springs into alignment with other Wake County municipal governments and would result in the inclusion of a third day of Christmas holiday break every year (the Town currently provides two or three depending on the year).

Responsible & Balanced Growth

- **Tree Maintenance and Preservation (\$10,000)** – The budget raises the total allocation for tree maintenance and preservation to \$20,000 for replacement of dead and diseased trees.
- **Unified Development Ordinance (UDO) Rewrite Phase I (\$75,000)** – Following adoption of the new land use plan, efforts will be needed to update the UDO to reflect the new land use plan and community character elements.
- **Utility Engineer (\$80,530)** – Currently, the Town has no dedicated engineer for utility systems. Given the increased growth and complexity of the Town’s water, sewer, and reclaimed systems, I believe a dedicated utility engineer is now warranted.
- **Transportation Planner (\$73,512)** – The scope and complexity of the Town’s transportation planning needs has increased significantly in recent years. A dedicated transportation planner elevates the Town’s expertise to ensure that new development is designed to integrate seamlessly with other transportation infrastructure, focus on multi-modal integration across town, and maximize impact of forthcoming Transportation Bond projects.
- **Public Works Technician (\$47,081)** – The position will focus on yard waste collection and staff the proposed, new knuckleboom truck to increase yard waste collection effectiveness.

- **Planning Support Specialist (\$23,000)** – I recommend converting an existing part-time position in Planning & Zoning into a full-time position to improve front counter customer service and minimize administrative interruptions experienced by professional staff.
- **Refuse and Recycling Collection (\$121,922)** – The recommended budget includes a 2.0% consumer price index increase and an 18% recycling increase (as noted earlier) from the Town’s private hauler. The budget also reflects growth in new households.

Safe & Friendly

- **Seven (7) New Police Officers (\$903,070)** – I recommend six new patrol officers plus one School Resource Officer (subject to a suitable reimbursement agreement with Pine Springs Academy) to address increasing service needs and a growing population. The recommended budget amount includes salaries, benefits, equipment, and vehicles.
- **Four (4) New Fire Personnel (\$281,464)** – The budget includes one new fire inspector to address increasing commercial inspection workload and three new fire engineers to move the department closer to National Fire Protection Association best practice staffing levels.

CAPITAL INVESTMENT EXPENDITURE HIGHLIGHTS

Economic Prosperity & Diversity

- **Sewer Infrastructure to Improve Site Readiness (\$500,000)** – Water and sewer infrastructure can be a top economic development recruitment differentiator. I recommend reserving \$500,000 for sewer infrastructure at the Oakview Innovation site – subject to a suitable development partnership – to increase marketability for industrial development that brings tax base diversification and employment opportunities.

Engaged, Healthy & Active Community

- **Parks and Recreation Master Plan (\$175,000)** – A new Parks and Recreation Master Plan will replace the current plan (created in 2007) and outline future, strategic investment opportunities. Funding is recommended from Parks & Recreation Reserves.
- **Parks and Greenway Signage and Maintenance (\$100,000)** – New and updated signage is recommended to improve directional communication and patron information along with additional maintenance funding to enhance walkability on greenway trails. Greenway signage of \$60,000 is recommended from Parks & Recreation Reserves.
- **Ting Stadium Padding Replacement (\$60,000)** – This project replaces original outfield padding due to existing padding failing and separating from the outfield wall.

Organizational Excellence

- **“311” Customer Service Models Study (\$10,000)** – Many towns and cities in North Carolina use “311” call centers to receive and manage resident service requests and questions – ultimately improving and simplifying the customer experience. The first step in this effort is to assess the latest technologies and service models associated with 311 centers. The Town Managers of Apex and Fuquay-Varina and I are recommending \$10,000 each (for a total of \$30,000) to undertake a joint study. The study would assess opportunities for our three towns to share in technology infrastructure or other service components that would make future 311 center investments more cost effective and impactful to residents.
- **CityView Community Development Software (\$213,000)** – This recommendation completes funding for new community development software that will improve the Town’s capability to

internally coordinate development proposals and permitting, and ultimately provide a faster, more customer friendly experience for the development community.

- **Town Hall HVAC Replacement Phase I (\$150,000)** – The HVAC system is original to the building and is nearing end of life. Phase I replaces two of the four units that serve the building.
- **Public Works Service Equipment (\$502,500)** – Key equipment replacements are recommended for General Fund Public Works operations to replace aging equipment, reduce equipment downtime, and address service growth. These include a new knuckleboom truck (yard waste), leaf truck (yard waste), dump truck (varied service needs including snow removal), and a tractor-mower to address increased mowing needs.

Responsible & Balanced Growth

- **Storm Water Drainage Rehabilitation (\$250,000)** – Aging storm water infrastructure is placing an increasing maintenance burden on the Town. This limited funding will help address key maintenance concerns around the Town.
- **Storm Water Drainage Watershed Master Plan (\$25,000)** – A new watershed master plan will assess current flood and water quality issues and erosion areas and outline strategic investments and policy considerations to improve storm water management.
- **Wastewater Treatment Plant Master Plan (\$60,000)** – The current permitted daily treatment capacity at the Utley Creek Wastewater Treatment Plant is six million gallons per day. A new master plan will outline future treatment needs, timelines, and projected costs to increase treatment capacity to eight million gallons per day.

Safe & Friendly

- **Fire Engine Replacement (\$575,000)** – A new engine will replace a 1995 Pierce engine and improve Fire Department equipment readiness. Prior consideration of a new ladder truck is being deferred until FY2020-21.
- **Fire Station #3 Preliminary Design (\$30,000)** – If Council approves the proposed Carolina Springs development (which includes fire station land set aside), this funding will begin conceptual and preliminary design for the future station.
- **Police Radio Replacement Phase III (\$126,363)** – This funding represents the final allotment to replace the Police Department’s mobile radios and ensure reliable communication.
- **Police Vehicle Replacements (\$240,000)** – This budget replaces six existing police cruisers nearing end of life.

Fund Balance Policy – I recommend updating the Council’s Fund Balance Policy from the current “minimum of 10% of General Fund expenditures” to “a targeted range between 20-25% of General Fund expenditures with a minimum of 20%. Reserves beyond 20% may be used for one-time uses.” Fund balance serves as the Town’s savings account for economic and natural disaster emergencies or for taking advantage of unique/unforeseen opportunities. I anticipate this policy change to be viewed favorably by credit rating agencies and the Local Government Commission which will help the Town achieve lower interest rates when borrowing. The most recent Comprehensive Annual Financial Report listed actual fund balance at 21%. This update matches similar policy levels established by peer towns.

FUTURE OUTLOOK

Below outlines potential, key considerations that could impact future budget and policy decisions.

- a. **New Public Works Campus** – The current Public Works facility is severely inadequate. The FY2018-19 budget included \$350,000 to begin planning and design for a new facility. These funds are currently unspent and will be carried forward into FY2019-20 to be used pending the identification and acquisition of a suitable site. Funding from Utility and General revenues will need to be identified in the future to fund land acquisition and construction.
- b. **New Fire Station #3** – Fire Station #3 operates temporarily out of a house on Friendship Road. As noted above, a permanent station is contemplated as part of the proposed Carolina Springs development, with land set aside for a station. Final planning, design, and construction will need to be identified in a future budget.
- c. **Storm Water Program Review** – Storm water infrastructure installed in the 1990s is beginning to fail and require increased maintenance. As the Town continues to grow, storm water program and investment to mitigate flooding and protect our waterways will require greater attention and resources. Currently, the Town’s storm water policy and funding model is inadequate to cover basic operating program needs and capital maintenance and repairs. In the coming year, I recommend that the Council consider developing a new storm water program policy and associated funding model.
- d. **Implementation of 2011 Parks & Recreation Bond and 2018 Transportation Bond Projects** – \$8 million of 2011 Parks & Recreation Bonds remain. During this past year, the community and Council indicated direction to focus on greenway and park investments. Planning and design has begun on initial Transportation Bond projects, and the Town will seek funding partnerships with the N.C. Department of Transportation during FY2019-2020.
- e. **Economic Development** – Potential, large-scale economic recruitment efforts continue for the Town’s three primary business park industrial sites. These recruitments are highly competitive and the Town often competes with international locations. While the Town is well positioned for these recruitments, the Town could improve its competitiveness by adding utility infrastructure to the sites. Also, the addition of Duke Health and UNC Rex medical facilities will increase the attractiveness and desirability of our community to residents and regional visitors.
- f. **Future Land Use and Community Character Update Plan** – The new “Re:Vision” land use plan will guide where, what types, and the character of future development in Holly Springs. The plan will be completed in the Fall of 2019. Following Council’s anticipated adoption of the plan, the next step will be to embark on a 1-2 year effort to ensure the Town’s Unified Development Ordinance reflects the new land use plan.
- g. **Review of Employee Pay Plan Structure** – The Triangle’s job market is highly competitive, and the low unemployment rate of 3.6% exacerbates the recruitment and retention challenge. Over the next year I plan to review the Town’s compensation model to ensure the Town offers competitive salaries and appropriate recognition of high performance among our employees.

CONCLUSION

I believe this budget establishes a strong foundation for today and the future. This budget begins to address the priorities outlined in Council’s new Strategic Plan. In particular, the budget invests heavily in public safety, infrastructure, and our dedicated workforce that delivers high quality town services.

Development of the budget is a collective team effort. I want to first thank the Mayor and Council for your engagement, guidance, and direction preparing the budget. Our department directors and staff also have worked extremely hard supporting development of the new Strategic Plan and preparing their

budgets. Additionally, I want to recognize our Executive Leadership Team and especially the Finance Department for their outstanding work at all stages of budget development.

I look forward to discussing the recommended budget further to ensure it meets the expectations and priorities of the governing body and the community.

Respectfully submitted,

Randy J. Harrington
Town Manager