

Town of Apex, North Carolina FY 2021 – 2022 Annual Budget

Budget Message

April 15, 2021

The Honorable Jacques K. Gilbert, Mayor
Members of the Apex Town Council

Dear Mayor Gilbert and Apex Town Council:

In accordance with the Local Government Budget and Fiscal Control Act and NC General Statute 159-11, I am pleased to present the proposed Annual Budget for Fiscal Year 2021-2022 for your consideration.

Multiple factors influence the annual budget process, including the condition of the national, state, and local economies and the needs identified in our community by elected officials, staff, advisory boards, and citizens. While our citizen survey results from this past year were overwhelmingly positive, and the Town continues to receive AAA bond ratings from Standard & Poor's and Moody's, there are opportunities for improvement, and the Town will continue to strive to provide outstanding services. Taking into account the external effects of the economy, the needs identified for our community, and feedback from the citizens' survey, the proposed budget represents a significant amount of careful consideration and study in order for the Town to meet its obligations, fulfill its goals, and remain fiscally healthy.

In preparing the Fiscal Year 2021-2022 (FY21-22) Budget, town staff followed guidance from Town Council's strategic goals to develop a proactive budget that will balance improving current town programs and services with development of new programs and projects. Town Council's strategic goals are:

High Performing Government: We will deliver exceptional, responsive, and effective services by attracting and empowering a knowledgeable and diverse workforce that values transparency, financial stewardship, and collaboration with community, regional, and state partners.

Healthy & Engaged Community: We will promote the overall well-being of our residents and visitors with welcoming public spaces and high-quality recreational facilities and cultural activities; we will forge meaningful connections that fulfill a range of our community's needs.

Environmental Leadership & Responsible Development: We will plan our built environment in a way that respects and preserves natural resources and the small-town character of our community; we will offer housing and transportation options so that anyone who chooses to live in Apex can.

Economic Vitality: We will leverage partnerships to create a supportive environment for current businesses, and form relationships that foster new and continued economic opportunities in Apex.

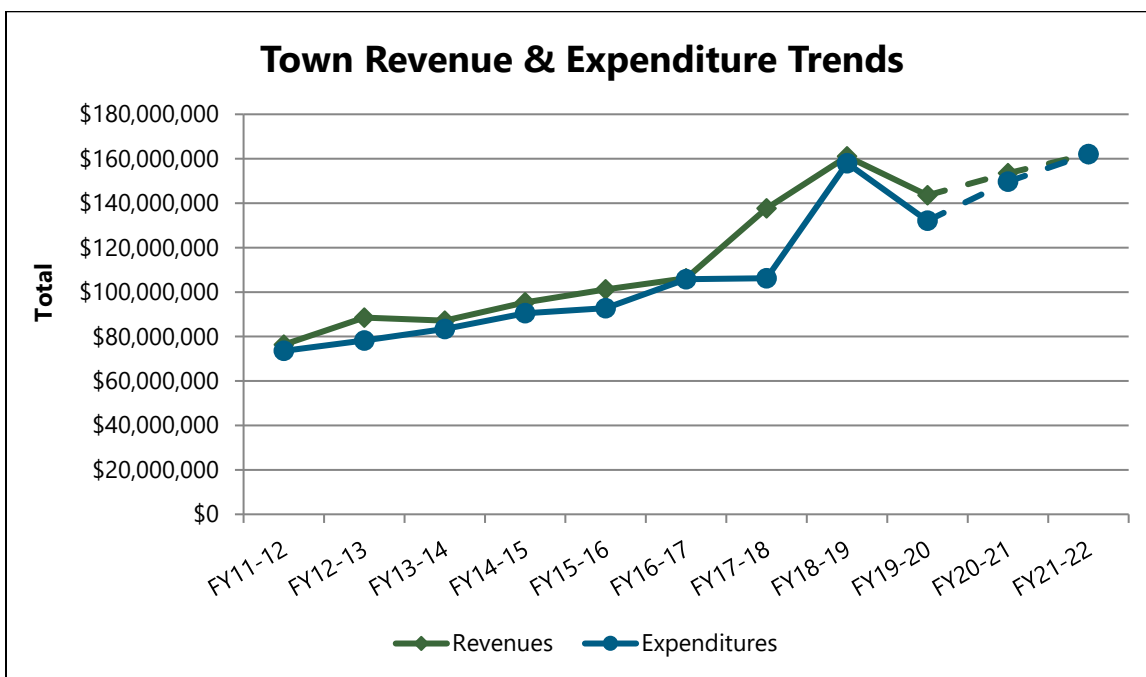
Safe Community & Reliable Infrastructure: We will ensure safe neighborhoods with reliable infrastructure through proactive, professional, and engaged public safety and infrastructure services.



FY21-22 Budget Highlights	
General Fund Expenditures	\$ 79,091,900
Electric Fund Expenditures	\$ 45,776,200
Water & Sewer Fund Expenditures	\$ 23,722,000
Non-major & Capital Fund Expenditures	<u>\$ 13,484,400</u>
<i>Total Budget</i>	\$162,074,500
Property Tax Rate \$0.39 per \$100 valuation <i>Property tax rate is \$.01 more than FY20-21</i>	
Electric Rates Residential- \$15.05 base charge, \$.0993 – .1029 per kWh energy charge <i>Rates are unchanged from FY20-21</i>	
Water Rates \$5.54 base charge, \$4.19 – 6.49 per 1000 gal. consumption (tiered)	
Sewer Rates \$10.04 base charge, \$7.17 per 1000 gal. consumption <i>Water rates are unchanged and sewer rates are 1.5% higher than FY20-21</i>	

Recommended Budget

The FY21-22 Recommended Budget totals \$162,074,500 for all town operations, capital improvements, and debt service requirements. This is \$3,601,725 (-2.17 percent) less than the FY20-21 Amended Budget as of April 1, 2021. Following Town Council’s direction, the budget is balanced with a tax rate of \$.39, an increase of one cent from the current tax rate. The budget includes no change in electric rates, no change in water rates, a 1.5 percent increase in sewer rates, and use of \$1,549,000 in fund balance from the General Fund.

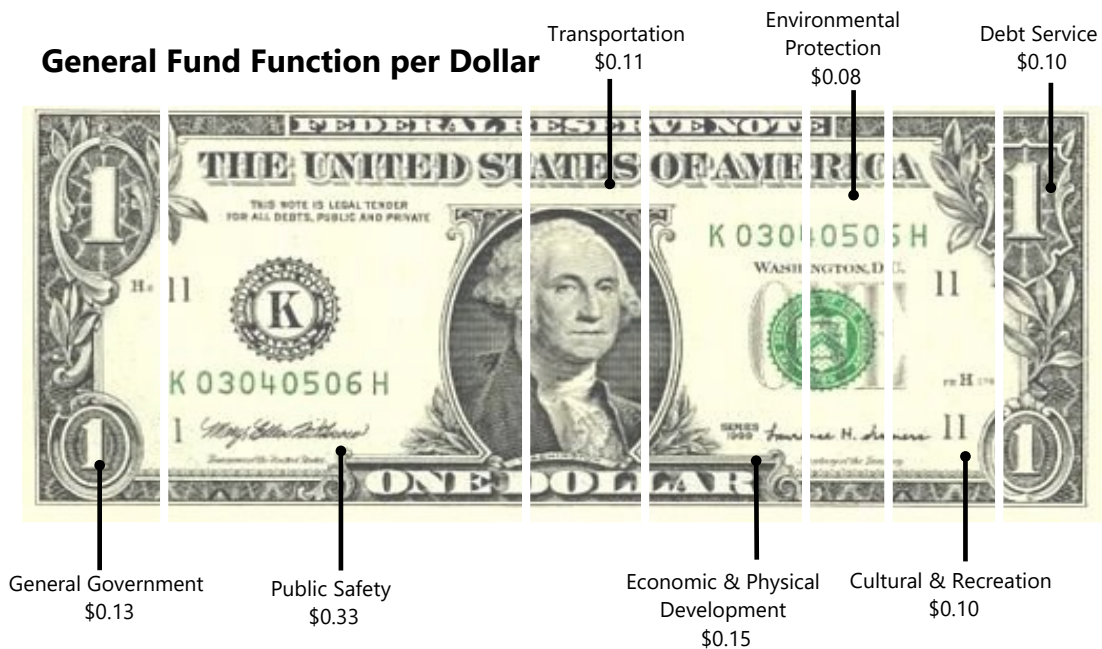


General Fund

The General Fund accounts for resources not required legally or by sound financial management to be accounted for in another fund. The General Fund includes services that cannot be operated as a business enterprise and rely on tax dollars as their primary source of revenue. The FY21-22 Recommended Budget for the General Fund totals \$79,091,900, which is 2.36 percent less than the FY20-21 Amended Budget of \$81,004,241 as of April 1, 2021.

General Fund Expenditures

Apex's population continues to grow at a rapid pace, with a five-year average of 7.62 percent. The new growth brings about increasing demands on town services. To keep pace with this demand and provide new services, the Town must provide for necessary resources in the budget. These resources include personnel, supplies, equipment, and investment in facilities and infrastructure. The Town of Apex is dedicated to sound financial management and diligently evaluates all expenditures to maintain a responsible budget and demonstrate good stewardship of public funds. The Town's 21 General Fund departments and divisions can be grouped into six primary function areas. One-third of every dollar spent in the General Fund goes toward public safety, which includes police, fire, and 911 communications.



The 2.36 percent decrease in the FY21-22 General Fund Budget is not consistent with the 10.01 percent average increase between 2016 and 2020, nor the estimated 18.78 percent increase from FY19-20 to FY20-21. The primary reason for this variance is the substantial allocation of fund balance in the FY20-21 Amended Budget, which includes \$3.29 million in purchase order carry-overs from the prior fiscal year, nearly \$2 million in developer agreement reimbursements, \$1.5 million for allocations to capital projects and purchases, and \$1.75 million for a land purchase for economic development that the Town will recoup by selling the land to a prospective industry.

Comparing the FY21-22 Budget to the estimated final expenses for FY20-21 reveals a modest increase of 3.76 percent. Debt service and operating expenditures are the primary drivers of the increase. The \$1.19 million increase in debt service is the result of the sale of \$5.0 million in transportation bonds from the 2015 referendum and the \$8.0 million in combined installment financing for Public Safety Station 6 and the new Permitting and Inspections office building. Increases in operating costs reflect new programs and projects per Town Council's strategic goals, including \$745,000 in transit



operations and studies, \$575,000 in additional commitment to the Affordable Housing Fund, \$135,000 for various sustainability initiatives, \$100,000 for the downtown stormwater study, \$75,000 for the tree planting program, and \$40,000 for various diversity initiatives. Additionally, Parks and Recreation operating costs will increase with the opening of the Apex Senior Center this summer and the first phases of Pleasant Park opening during the year.

General Fund Expenditures by Type					
Type	FY19-20 Actual	FY20-21 Budget	FY20-21 Estimate	FY21-22 Budget	Percent Change
Personnel	34,032,615	40,671,818	39,052,510	40,976,500	0.75%
Operating	15,537,370	20,547,665	17,541,869	20,225,100	-1.57%
Capital	7,131,382	12,842,258	12,690,167	9,752,400	-24.06%
Debt Service	7,467,181	6,942,500	6,942,500	8,137,900	17.22%
Total	\$64,168,548	\$81,004,241	\$76,227,047	\$79,091,900	-2.36%

General Fund Department/Division Budgets					
Department/Division	FY19-20 Actual	FY20-21 Budget	FY21-22 Budget	Percent Change	FY20-21 Variance
Town Council	296,708	213,300	422,600	98.12%	209,300
Town Clerk	-	215,500	297,600	38.10%	82,100
Administration	1,237,706	1,353,477	1,659,000	22.57%	305,523
Human Resources	1,101,602	1,743,015	1,371,700	-21.30%	(371,315)
Information Technology	1,790,621	2,857,476	2,549,900	-10.76%	(307,576)
Legal	424,362	482,442	500,000	3.64%	17,558
Economic Development	1,405,153	1,257,853	666,400	-47.02%	(591,453)
Finance	767,287	887,728	857,200	-3.44%	(30,528)
Planning	2,029,620	2,608,752	3,418,800	31.05%	810,048
Facilities	1,775,322	1,880,230	2,177,500	15.81%	297,270
Police	11,560,005	14,349,257	13,399,400	-6.62%	(949,857)
911 Communications	1,128,276	1,552,939	1,579,000	1.68%	26,061
Fire	9,429,145	11,715,248	11,204,500	-4.36%	(510,748)
Public Works-Transportation	1,124,044	1,446,478	1,451,500	0.35%	5,022
Utility Engineering-Water Resources	1,610,851	2,140,688	2,794,300	30.53%	653,612
Streets	4,522,209	6,211,662	4,853,100	-21.87%	(1,358,562)
Solid Waste	4,849,384	5,176,873	5,959,700	15.12%	782,827
Fleet	463,216	503,660	516,600	2.57%	12,940
Inspections & Permitting	2,712,537	3,138,052	3,102,100	-1.15%	(35,952)
Parks & Recreation	4,575,273	6,083,468	6,418,700	5.51%	335,232
Cultural Arts Center	575,927	750,476	846,200	12.76%	95,724
Cemetery	44,249	60,000	50,800	-15.33%	(9,200)
Special Allocations	130,669	180,500	69,000	-61.77%	(111,500)
Other Financing Uses	3,147,200	7,102,667	4,638,400	-34.69%	(2,464,267)
Debt Service	7,467,181	6,942,500	8,137,900	17.22%	1,195,400
Contingency	-	150,000	150,000	0.00%	-
Total	\$64,168,548	\$81,004,241	\$79,091,900	-2.36%	(\$1,912,341)



General Fund Capital Highlights

In order to continue providing outstanding services to the community, the Town intends to continue investing in infrastructure and other capital needs during FY21-22. During FY20-21, the Town delayed some capital projects as staff evaluated the financial impact of the COVID-19 pandemic. While some projects and purchases ultimately were able to occur during FY20-21 with revenues exceeding original estimates, others, including a fire engine replacement at Station 3, a chipper truck replacement, and various facility repairs, were delayed until FY21-22. Even with a more positive economic outlook post-pandemic, however, Town Council recognized that beginning construction on the proposed transportation projects presented a challenge while relying only on natural revenue growth. To address the challenge, Town Council chose to seek a bond referendum in November 2021 for \$42 million in transportation projects to be completed over the next decade. More information about capital projects, including project descriptions, expected funding sources, debt and operating impacts, and schedules, is located in the Capital Improvement Plan section of the budget document. Highlighted below are some of the significant capital projects included in the FY21-22 Recommended Budget. They are all related to General Fund activities and may be included in the General Fund budget or a corresponding capital project fund.

Annual Pavement Management – Street Resurfacing (\$1,871,000)

The Town is responsible for maintaining over 220 miles of municipal streets with the annual resurfacing contract providing for most of the pavement maintenance needs. Street mileage is growing annually with ongoing development. This annual program addresses deficiencies in pavement condition throughout Apex to prevent issues such as potholes, alligator cracking, and rutting in order to provide a safe and reliable transportation system. The Powell Bill program provides an annual funding allocation from the state based on public centerline miles of road accepted and maintained by the Town. Current and future resurfacing costs continue to exceed Powell Bill allocations. The proposed bond referendum includes \$5.0 million to address a backlog of pavement management projects.

Apex Peakway Southwest Connector (\$25,500,000)

This project completes a gap in the Apex Peakway by spanning South Salem Street and the CSX S-Line with a four-lane bridge to connect the existing sections of the Peakway. The existing intersection at South Salem Street will be relocated to a new four-lane loop road connector. Sidewalk will connect along the Peakway on both sides of the bridge, both sides of the new loop road, and along the north side of South Salem Street. Town Council has identified this project as one of its highest priorities but the costs and lack of outside funding have made beginning construction difficult. Funds from a 2015 bond referendum along with some Locally Administered Projects Program (LAPP) funding cover approximately \$10.50 million of project costs. The proposed bond referendum would provide the remaining \$15.0 million needed to fund the project.

Downtown Parking Expansion (\$1,200,000)

The Downtown Master Plan identifies goals to add 100 and 200 parking spaces within a three- or five-minute walk of downtown, respectively. To meet those goals and ensure adequate parking downtown, the Town is planning to add to and improve existing parking lots. Completing this project is critical to the Town moving forward with other downtown projects, including the Salem Street Streetscape and Resurfacing project.

Downtown Alley Improvements (\$500,000)

The Downtown Plan envisions creating vibrant places for people to gather by transforming the alley spaces along Commerce Street and Seaboard Street. Improving these spaces was identified as a "Top 10" priority in the plan. Truly engaging and activated spaces will require public and private investment. The Town is planning to consolidate dumpster enclosures, improve pedestrian facilities, enhance landscaping, and add decorative pavement treatments for public right-of-way.



Public Safety Station 6 (\$6,500,000)

Public Safety Station 6 will provide fire and emergency services to the White Oak Basin and Green Level areas of Apex. Development trends indicate construction of 2,100 new homes will occur in this area within the next few years. Response times from Fire Station 3 do not meet our standards due to the physical distance from the station to the area. This station will feature a new design to meet the needs of both fire and police departments. Station 6 will house a new engine and 12-14 fire personnel.

Annual Greenway Allocation (\$300,000)

This is a new, ongoing program to allow for the study, prioritization, and design of proposed greenway connections. This program is a direct response to increasing greenway request from residents and Town Council.

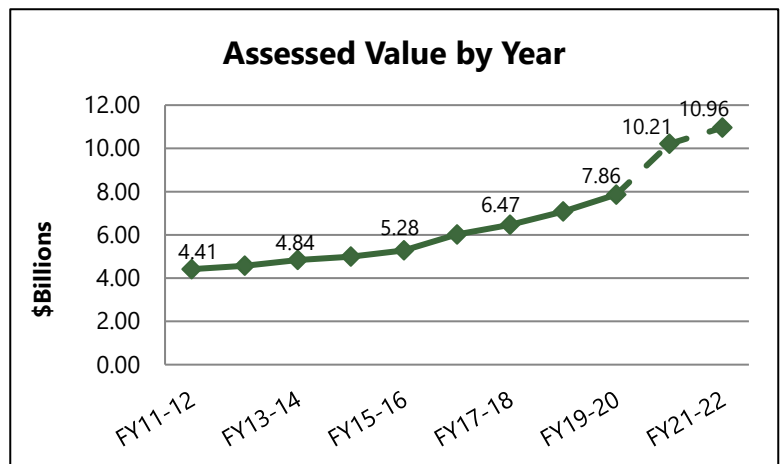
General Fund Revenues

The Town of Apex continues to experience growth in its primary revenue sources – ad valorem taxes and sales tax. This is despite the original projections from the beginning of the COVID-19 pandemic. A growing population has naturally contributed to a growing tax base that helps Apex retain a modest tax rate while providing exceptional services. The total assessed value in Apex has increased by 139.69 percent in the past ten years, including revaluations in 2016 and 2020. The FY21-22 tax base for Apex is projected to grow by \$748,525,280 (7.33 percent) to \$10,958,427,579, and each penny on the tax rate is equivalent to \$1,093,771 in revenue. Excluding property tax and sales tax revenues and use of fund balance, all other General Fund revenues collectively represent an 8.62 percent decrease from the FY20-21 Amended Budget. Overall, the FY21-22 Budget reflects a 2.36 percent decrease in revenues when compared to the FY20-21 Amended Budget. This decrease reflects a significant fund balance allocation in FY20-21 due to purchase order carry-overs from the prior fiscal year and COVID related expenses due to be offset by external emergency funding. Comparing the FY21-22 projected revenues to final estimates for the current fiscal year adjusts for the fund balance allocation and results in a more accurate picture of revenue trends with a revenue increase of 6.48 percent.

Ad Valorem Tax

Property taxes represent 54 percent of General Fund revenues. For FY21-22, the ad valorem tax base is an estimated \$10.96 billion, which will generate \$42.69 million in property tax revenue with a tax rate of **\$0.39 per \$100 valuation** at a 99.9 percent collection rate. This represents an increase in ad valorem revenue of \$3.89 million (10.01 percent). **The tax rate is \$.01 more than the FY20-21 tax rate.** In November 2017, Apex residents overwhelmingly approved \$48 million in general obligation bonds for parks and recreation facilities and amenities. In order to repay the debt service on the approved bonds, the Town will increase the tax rate by \$.045 in \$.015 increments. The FY21-22 tax rate includes the final \$.015 increment. Additionally,

Town Council intends to institute a stormwater fee within the Water and Sewer Fund as of January 1, 2022. This will convert stormwater operations to an enterprise fund and remove the associated expenses from the General Fund. Town Council asked staff to reduce the tax rate by an amount equating to half of the reduction in stormwater costs and dedicate the other half to affordable housing and community support activities. Staff estimates that the mid-year implementation of the stormwater fee will generate approximately \$1.0 million, corresponding to about a penny on the tax rate. Following Council's directive, the budget includes an additional \$500,000 dedicated to the Affordable Housing Fund and a half-cent reduction in the tax rate.



Local Option Sales Tax

Sales tax represents the Town's second largest revenue source in the General Fund at \$15.55 million (19.76 percent). The State of North Carolina collects sales tax and distributes it to the local units. Sales tax revenues are distributed on a proportional population basis in Wake County. The population growth in Apex has allowed the Town to increase its share of sales tax revenues. Sales tax revenues have increased the past several years with a strengthened economy, the natural growth in Wake County, and because of the State's expansion of sales tax to include some services. The impacts of the COVID-19 pandemic on sales tax revenues proved significantly less dire than original projections. Rather than a 20 percent reduction, as originally projected for the final quarter of FY19-20, the Town experienced only a one percent reduction in March and then was up one percent for the final quarter year-over-year. The positive trend continued into FY20-21, and the Town has experienced an average 22.2 percent year-over-year increase in sales tax each month. The FY21-22 sale tax estimates reflect this positive trend, albeit with a more modest growth rate of five percent over the current end of year projections.

Solid Waste, Recycling, & Yard Waste Fees

The Town currently contracts with a private hauler for solid waste and recycling collections. The solid waste and recycling fees offset the Town's contract cost. Solid waste fees will generate \$2,600,000 in FY21-22 and recycling fees will generate \$1,360,600. The Town conducts its own yard waste collection and covers the cost with a monthly yard waste fee. The yard waste fee will generate \$2,079,600 in FY21-22. **Solid waste and recycling fees will increase in accordance with our service contract in FY21-22.** A lack of demand for recycling materials continues to make it difficult to maintain current rates. To offset increasing recycling costs, the fee includes an additional \$1.27 beyond the standard adjustment for inflation of 2.50 percent included in the service contract.

Solid Waste, Recycling, & Yard Waste Monthly Charges		
	FY20-21	FY21-22
Yard Waste Collection	\$7.83	\$7.83
Residential Roll-Out Cart	\$8.72	\$8.94
Commercial Roll-Out Cart	\$17.88	\$18.75
Recycling (per Bin or Cart)	\$4.89	\$4.98
4-CY Dumpster Service	\$128.20	\$131.40
6-CY Dumpster Service	\$151.67	\$155.46
8-CY Dumpster Service	\$173.31	\$177.64

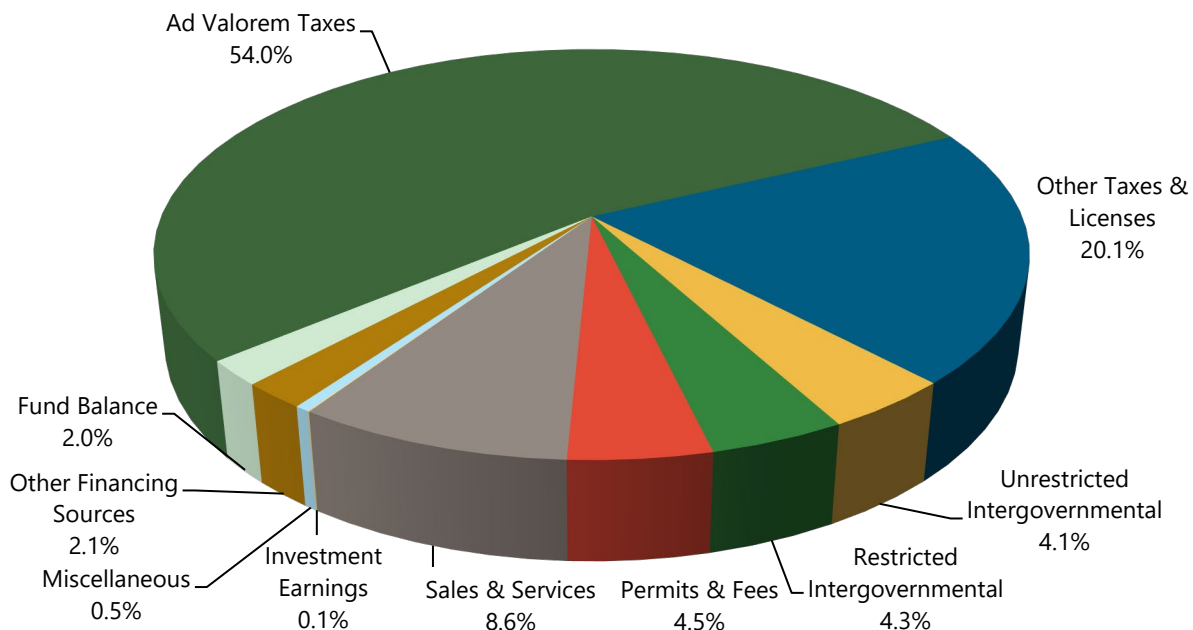
Fund Balance Appropriation

Fund balance is, simply explained, the amount of assets in excess of liabilities in a given fund. These funds enable the Town to meet financial obligations without interruptions due to cash flow, generate investment income, eliminate the need for short-term borrowing, and provide a reserve of funds to respond to emergencies or opportunities. Occasionally, the Town will use money from fund balance to cover one-time expenses such as specific capital items. The Town evaluates any decision to use fund balance carefully and often plans the use in advance to ensure adherence to the Town's fund balance policy. **The FY21-22 Recommended Budget includes a fund balance allocation of \$1,549,000,** including \$649,000 for a fire engine replacement, \$400,000 for Tunstall House Restoration, and \$500,000 for the Downtown Alley Improvement project.



General Fund Revenues by Source					
Source	FY19-20 Actual	FY20-21 Budget	FY20-21 Estimate	FY21-22 Budget	Percent Change
Ad Valorem Taxes	32,658,939	38,813,000	39,265,754	42,698,700	10.01%
Other Taxes & Licenses	12,255,508	11,854,900	15,120,313	15,882,400	33.97%
Unrestricted Intergovernmental	3,458,723	3,485,000	3,203,323	3,215,000	-7.75%
Restricted Intergovernmental	2,928,655	5,207,178	5,314,363	3,372,500	-35.23%
Permits & Fees	4,204,812	3,960,900	3,520,944	3,534,300	-10.77%
Sales & Services	5,418,897	6,423,900	5,869,326	6,809,900	6.01%
Investment Earnings	646,614	355,300	52,620	40,000	-88.74%
Miscellaneous	507,255	353,337	563,109	365,100	3.33%
Other Financing Sources	4,493,187	964,499	929,499	1,625,000	68.48%
Fund Balance	-	9,586,227	-	1,549,000	-83.84%
Total	\$66,572,590	\$81,004,241	\$73,839,251	\$79,091,900	-2.36%

General Fund Revenues by Source FY21-22



Enterprise Funds

The Town of Apex operates two major funds as enterprises – the Electric Fund and the Water and Sewer Fund. Enterprise funds provide governmental services that can operate similar to a business and are self-sustaining with user rates that generate all revenues to cover expenditures.

Electric Fund

The Electric Fund comprises all revenues and expenditures that result from the town's electric utility operations. Customer charges and fees generate enough revenue to support the fund completely. The FY21-22 Recommended Budget for the Electric Fund totals \$45,776,200, a 3.04 percent increase from the FY20-21 Amended Budget of \$44,426,529 as of April 1, 2021.



Electric Fund Expenditures

The increase in the FY21-22 Electric Fund Budget is primarily due to increases in personnel and capital costs. Personnel cost increases reflect new positions and associated benefit costs, as well as a recalibration of electric operations costs associated with personnel in other departments such as Finance and Administration. Capital costs are higher with the inclusion of \$750,000 for the first year of a three-year program to convert all streetlights to LED to meet Dark Sky guidelines, as well as the inclusion of a bucket truck that was delayed from FY20-21 due to the COVID-19 pandemic impact on revenues.

Electric Fund Expenditures by Type					
Type	FY19-20 Actual	FY20-21 Budget	FY20-21 Estimate	FY21-22 Budget	Percent Change
Personnel	4,866,704	4,888,200	4,870,384	5,668,100	15.95%
Operating	1,448,437	2,165,118	1,679,560	2,157,000	-0.37%
Sales Tax	2,766,473	2,856,500	2,920,000	3,039,000	6.39%
Purchase for Resale	27,658,546	28,861,700	27,500,000	28,558,800	-1.05%
Capital	5,851,699	4,404,711	3,661,277	5,104,500	15.89%
Debt Service	739,129	1,250,300	1,250,300	1,248,800	-0.12%
Total	43,330,989	\$44,426,529	\$41,881,521	\$45,776,200	3.04%

Electric Capital Highlights

Similar to the General Fund, the Town accounts for large capital projects associated with the electric utility system in a capital project fund. In addition to the capital projects mentioned above, the Electric Fund capital budget includes \$2.5 million for annual system expansion, \$1.0 million for smart grid meter installation, \$120,000 for water tower lighting, \$130,000 for SCADA System Fault Indicators, and \$250,000 for a line truck replacement.

Electric Fund Revenues

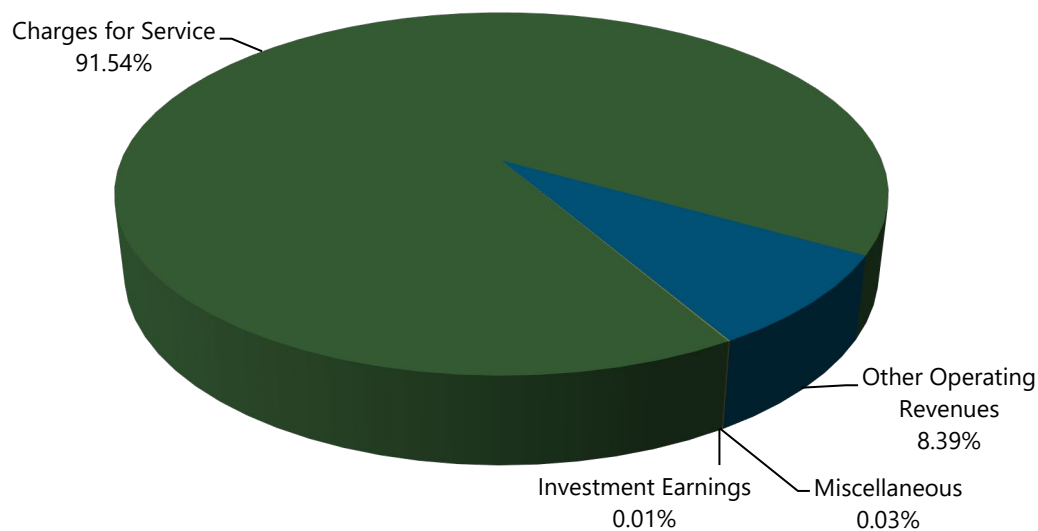
Electric Fund revenues for FY21-22 are up 3.04 percent from FY20-21. The Electric Fund generates charges for service through a base rate to cover fixed costs and an energy/demand rate to cover variable costs. The FY21-22 Recommended Budget includes \$41.91 million in revenue from charges for service with **no increases to the electric base charge or energy charge.**

Over the past two years, Apex's electric utility experienced an average of 9.55 percent customer growth. The Town has continued to experience customer growth despite the COVID-19 pandemic with a projected customer increase of 5.70 percent by the end of FY20-21. Even with the expected growth, lingering effects of the pandemic temper revenue projections for FY21-22. As households increasingly had difficulty paying utility bills, Town Council chose to suspend utility cutoffs and late payment penalties in March 2020. That suspension has continued through FY20-21 and currently has an expiration date of May 31, 2021. During the time of the cutoff and late fee suspension, past due amounts for electric bills have totaled to \$1,355,783 as of April 1, 2021. The Town cannot legally waive utility bills and is working to develop a customer assistance program and schedule payment plans for customers with past due amounts. The Town expects to recoup most of the past due amount over the next 12 to 18 months.



Electric Fund Revenues by Source					
Source	FY19-20 Actual	FY20-21 Budget	FY20-21 Estimate	FY21-22 Budget	Percent Change
Charges for Service	38,663,297	39,650,000	40,890,827	41,905,000	5.69%
Other Operating Revenues	4,028,343	4,260,900	4,190,689	3,842,200	-9.83%
Other Financing Sources	40,635	10,000	20,000	10,000	0.00%
Miscellaneous	32,685	35,000	87,592	13,000	-62.86%
Investment Earnings	87,061	75,000	8,000	6,000	-92.00%
Fund Balance	-	395,629	-	-	-100.00%
Total	42,852,021	\$44,426,529	\$45,197,108	\$45,776,200	3.04%

Electric Fund Revenues by Source FY21-22



Water & Sewer Fund

The Water and Sewer Fund comprises all revenues and expenditures that result from the town's water and sewer utility operations. Customer charges and fees generate enough revenue to support the fund completely. The FY21-22 Recommended Budget for the Water and Sewer Fund totals \$23,722,000, a 6.85 percent decrease from the FY20-21 Amended Budget of \$25,466,386 as of April 1, 2021. Beginning January 1, 2022, the Town intends to operate its stormwater activities as a self-supporting utility and it will incorporate stormwater expenses as a distinct division within the Water and Sewer Fund.

Water & Sewer Fund Expenditures

The FY21-22 Water and Sewer Fund Budget reflects a decrease in all expenditure categories except personnel and purchase for resale. Redistribution of personnel expenditures associated water and sewer operations from other departments such as Finance and Administration to the Water and Sewer Fund primarily account for the increases. During FY20-21, the Town refunded \$32 million of water and sewer debt. This refunding resulted in a lower annual debt service payment that will save the Town \$3.6 million over the next 15 years.



Water & Sewer Fund Expenditures by Type					
Type	FY19-20 Actual	FY20-21 Budget	FY20-21 Estimate	FY21-22 Budget	Percent Change
Personnel	6,096,227	6,620,700	6,212,532	7,111,000	7.41%
Operating	4,851,087	7,051,244	5,714,809	6,973,200	-1.11%
Purchase for Resale	1,972,741	2,174,800	2,170,000	2,248,000	3.37%
Capital	995,000	5,663,442	5,305,260	3,668,700	-35.22%
Debt Service	1,478,755	3,956,200	3,956,200	3,721,100	-5.94%
Total	\$15,393,811	\$25,466,386	\$23,358,801	\$23,722,000	-6.85%

The FY21-22 Recommended Budget includes \$135,000 as part of the Town's commitment to watershed protection in partnership with Cary. Personnel increases from redistribution and Public Works and Utilities facility renovations account for the increase in the Water-Sewer Administration division budget. Changes in the other Water and Sewer Fund divisions primarily result from differences in capital projects between FY20-21 and FY21-22. The Water and Sewer Fund budget includes \$1.0 million under other financing uses to offset stormwater costs that remain in the General Fund for FY21-22. This amount is equivalent to the estimated revenues from the new stormwater fee program beginning in January 2022. Beginning in FY22-23, the Stormwater Division within the Water and Sewer Budget will account for all stormwater expenditures and revenues.

Water & Sewer Fund Department/Division Budgets					
Department/Division	FY19-20 Actual	FY20-21 Budget	FY21-22 Budget	Percent Change	FY20-21 Variance
Water-Sewer Admin.	2,760,080	3,826,461	4,545,600	19.12%	731,639
Stormwater	-	-	-	-	-
Water Treatment	2,118,077	2,321,300	2,399,000	3.35%	77,700
Water Maintenance	2,195,890	4,251,003	3,649,400	-14.15%	(601,603)
Sewer Treatment	3,400,535	6,584,428	4,226,800	-35.81%	(2,357,628)
Sewer Maintenance	2,445,473	3,826,994	3,130,100	-18.54%	(709,394)
Debt Service	1,478,755	3,956,200	3,721,100	-5.94%	(235,100)
Other Financing Uses	995,000	550,000	1,900,000	245.45%	1,350,000
Special Appropriation	-	-	-	-	-
Contingency	-	150,000	150,000	0.00%	-
Total	\$15,393,811	\$25,466,386	\$23,722,000	-6.85%	(\$1,744,386)

Water & Sewer Capital Highlights

Similar to the General Fund, the Town accounts for large capital projects associated with the water and sewer utility system in a capital project fund as well as within the operating fund itself. The Water and Sewer Capital Project fund will include \$8,027,300 in FY21-22 for construction of a 1.5 million gallon elevated water tank (\$3.44 million), the Cash-Perkins Outfall project (\$2.33 million), continuation of the Western Transmission Main project (\$350,000), the water meter ERT replacement program (\$900,000), and the Cary-Apex water and sewer projects (\$1.09 million). Of this total, coverage for only \$900,000 will come from the Water and Sewer operating fund. Water and Sewer Capital Reserves will fund the remaining \$7.13 million. The Water and Sewer operating budget includes \$3,668,700 for facility renovations, barscreen replacement at the wastewater treatment plant, miscellaneous water meter installations and water main connections, and various vehicle and equipment replacements.

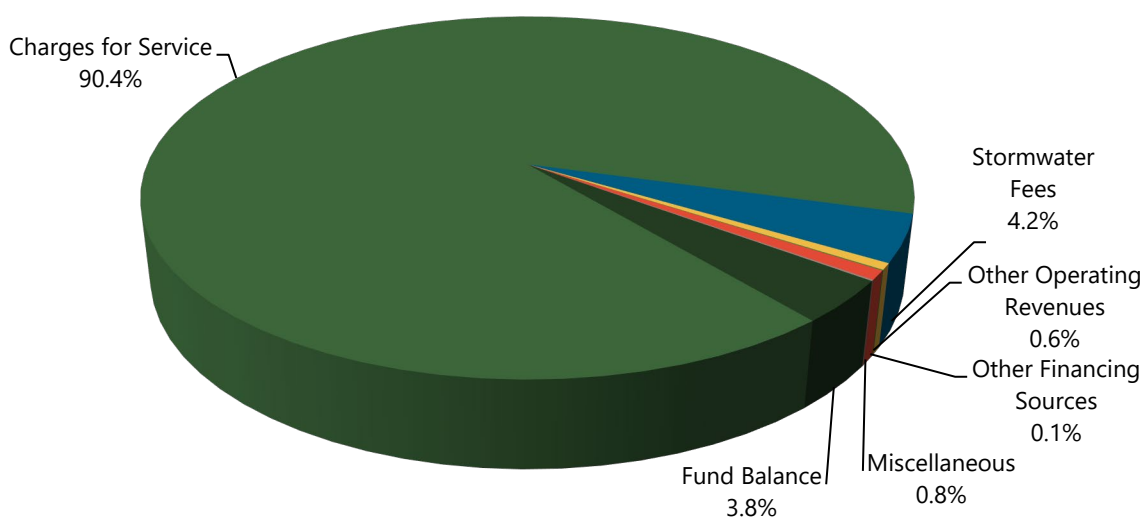


Water & Sewer Fund Revenues

Projections for Water and Sewer Fund revenues rely on many of the same variables as the Electric Fund, thus the impact of COVID-19 pandemic is similar for the two funds. The FY21-22 Recommended Budget includes \$21,452,000 in revenues from water and sewer charges, an increase of 6.09 percent. New customer growth has averaged 9.29 percent the past two years, with an estimated 7.0 percent by the end of FY20-21. The continued customer growth rate and an increase in sewer fees account for the increase in charges for service. The same suspension of utility cutoffs and late fees that Town Council instituted for the Electric Fund applied to the Water and Sewer Fund. During the time of the cutoff and late fee suspension, past due amounts for water and sewer bills have totaled to \$576,602 as of April 1, 2021.

Water & Sewer Fund Revenues by Source					
Source	FY19-20 Actual	FY20-21 Budget	FY20-21 Estimate	FY21-22 Budget	Percent Change
Charges for Service	19,529,932	20,221,400	20,680,000	21,452,000	6.09%
Stormwater Fees	-	-	-	1,000,000	-
Other Operating Revenues	166,078	180,000	135,000	135,000	-25.00%
Other Financing Sources	1,962,760	4,457,697	4,427,697	15,000	-99.66%
Miscellaneous	278,671	189,000	201,000	196,000	3.70%
Investment Earnings	349,448	175,000	30,000	24,000	-86.29%
Fund Balance	-	243,289	-	900,000	269.93%
Total	\$22,286,889	\$25,466,386	\$25,473,697	\$23,722,000	-6.85%

Water & Sewer Fund Revenues by Source FY21-22



Water & Sewer Rates

For FY21-22, the Town performed a new rate study to evaluate existing rates and rates structure. The study found that the sewer utility is generating a deficit while the water utility is generating a surplus. The consulting firm identified the rate adjustments that would be necessary to fund the delivery of these services, including system upgrades and expansion as described in the Town's Capital Improvement Plan. The study recommended annual review of water rates with no immediate change while recommending an initial increase of 1.5 percent for sewer rates. Town staff thoroughly reviews rates annually and recommends adjustments that ensure the utilities remain self-sufficient while avoiding the need for a significant increase in any one year.



The budget includes a recommendation to **keep water rates the same in FY21-22 and increase sewer rates by 1.5 percent**. The change would increase the sewer base charge from **\$9.89 to \$10.04** and volumetric rates would increase from **\$7.06 to \$7.17** per 1,000 gallons. Water and sewer rates are double for customers outside the town limits.

Water & Sewer Monthly Rates					
Water Rates	FY20-21	FY21-22	Sewer Rates	FY20-21	FY21-22
Residential Inside Base Charge	\$5.54	\$5.54	Inside Base Charge	\$9.89	\$10.04
Residential Outside Base Charge	\$11.08	\$11.08	Outside Base Charge	\$19.78	\$20.08
Commercial Inside Base Charge	\$4.19	\$4.19	Inside Volumetric	\$7.06	\$7.17
Commercial Outside Base	\$8.38	\$8.38	Outside Volumetric	\$14.12	\$14.34

It is important to note that the rate increases for sewer should have a minimal effect on the average user. For example, an average family of four or five that uses 5,000 gallons a month will see an increase of \$.68 on their monthly water and sewer bill. Additionally, when comparing Apex to other utility systems in the area, the town's rates are consistently in the lowest quartile while still providing adequate cost recovery and providing for future capital needs. It is important for the town to continue to evaluate rates annually to ensure the financial sustainability of the water and sewer utilities.

Stormwater Utility Fee

During FY20-21, Town Council asked staff to develop funding options for a self-supporting stormwater utility. At Town Council's budget retreat in February 2021, staff presented potential funding options using a tiered rate structure to address the Council's concerns about equity. The stormwater fee structure uses impervious surface area based on equivalent residential units (ERU). Preliminary analysis of Apex residential properties revealed an average ERU of 2,700 square feet of impervious surfaces such as rooftops, driveways, sidewalks, and parking lots per property. **The proposed tiered rate structure presents four tiers with a \$5.00 per month fee based on the ERU.** The table below includes the breakdown for each tier. Note that properties with less than 400 square feet would be exempt from the monthly fee due to minimal stormwater impacts.

Stormwater Rates				
Description Small	Small (400–1,500 ft ²)	Medium (1,500–3,000 ft ²)	Large (3,000–4,000 ft ²)	Extra-Large (> 4,000 ft ²)
Category Percent	15%	50%	25%	10%
Monthly Rate	\$1.50	\$5.00	\$7.50	\$10.00
Annual Amount	\$18.00	\$60.00	\$90.00	\$120.00

Staff intends to finalize analysis of all residential and non-residential properties within Apex and the proposed rate structure by September for final approval by Town Council. Upon approval, the Town will notify residents and businesses of appropriate rates to be billed beginning in January 2022. The FY21-22 Budget includes \$1.0 million in estimated stormwater revenue that will be transferred to the General Fund to reimburse a portion of stormwater expenses paid in that fund. Town Council chose to offset this amount in FY21-22 by reducing the tax rate by an amount equal to half of the stormwater revenue and committing the other corresponding half to affordable housing and community support. The FY22-23 Budget will include all stormwater operation expenses in the Water and Sewer Enterprise Fund.

Organization Review

To perform at an even higher level and ensure Apex remains "the peak of good living," the Town is continuing to develop its organization-wide strategic plan to help move toward performance management. Departments have developed their departmental missions and revised goals to ensure alignment with Town Council's mission, vision, and five strategic goals.



The budget will highlight Town Council's strategic goals throughout and a section has been dedicated to present elements from the strategic plan and selected performance indicators.

Core Values

Our Peak Principles, which represent our core values, are our foundation for how we interact with one another and the public as we serve our community.

Peak Pledge: We will perform at the highest level by empowering our peers, remaining accountable to each other and those we serve, and continuing the pursuit of knowledge.

Performance: Being stewards of public resources and trust, we will maintain a culture that values exceptional customer service through efficiency and focus on our work.

Empowerment: Knowing that good ideas come from employees at all levels across all departments and divisions, we will maintain a culture that empowers everyone to express their thoughts and provides opportunities to become part of real solutions.

Accountability: Knowing that we are entrusted to be stewards of the public's resources, we will maintain an atmosphere of openness and transparency to one another and to those we serve.

Knowledge: A workforce that pursues knowledge is one that will be better able to anticipate new challenges and respond to those presented.

Personnel

Employee Performance Evaluation and Compensation: The Town's performance evaluation and compensation system is structured around the Town's Peak Principles and the establishment of clear performance goals and objectives for each employee. Compensation under the system relies on adjustments based off the midpoint (job rate) of the employee's salary range, or actual salary, depending on which amount is higher. The FY21-22 Recommended Budget contains merit pay increases at an average of four percent. The Town awards merit pay in October following the annual employee performance reviews conducted between July 1 and August 31. Employees do not receive other pay increases during the year unless they qualify for a pay adjustment for position reclassification or receive a promotion with greater responsibility. The total estimated cost for FY21-22 is \$1.44 million across all funds. Beginning in FY20-21, the Town implemented a \$15.00 living wage as a baseline for the Town's compensation plan. Corresponding with an annual inflationary adjustment to the Town's salary range structure, the Town will adjust its living wage baseline by two percent to \$15.30 for FY21-22.

Employer Retirement Contribution: The North Carolina Local Government Retirement System has notified local governments that the Annual Contribution Rate (ACR) will increase in FY21-22. The employer contribution will increase from 10.15 to 11.39 percent for regular employees and from 10.90 to 12.04 percent for law enforcement officers. Local government employees currently contribute six percent of their salary. The Town's retirement contributions represent \$4,195,100 in FY21-22, an increase of \$500,980 (13.56 percent).

401(k) Contribution: The Town provides a five percent 401(k) contribution for all full-time employees. North Carolina General Statutes mandate 401(k) contributions for sworn law enforcement at five percent, a cost of \$320,500 in the FY21-22 Budget. Contributions for all other employees represent \$2,182,500 in FY21-22.

Health Insurance: The Town will experience a 2.82 percent increase for healthcare premiums in FY21-22. The rate increase alone accounts for \$406,000 in increased healthcare cost. The FY21-22 Recommended Budget includes \$5,457,300 for



healthcare premiums across all funds. The Town's self-funded dental plan will experience a 15.3 percent decrease in insurance premiums for FY21-22, which equates to \$13,605 in savings.

Retiree Medical Insurance: The Town offers qualifying retired employees a medical insurance benefit until they qualify for the Federal Medicare Insurance Program. The cost for the retiree insurance is classified as other post-employment benefits (OPEB). In addition to the annual retiree medical insurance cost, the FY21-22 Recommended Budget includes additional funds for an OPEB trust fund. To prevent long-term financial stress and follow sound financial practices, the Town allocates additional funds for long-term OPEB costs annually. The FY21-22 Recommended Budget includes \$350,000 for long-term OPEB expenditures - \$266,000 in General Fund, \$49,000 in the Electric Fund, and \$35,000 in the Water & Sewer Fund. The FY21-22 Budget includes a total of \$111,300 to cover pay-as-go Retiree Medical Insurance and long-term OPEB costs in all funds. As of July 1, 2020, the Town no longer offers the retiree medical insurance benefit to new employees. The purpose of eliminating this benefit is to reduce the Town's long-term liability, which currently stands at \$41 million. While the long-term liability will continue to increase some over the next few years, it will eventually begin to decrease with contributions to the trust fund and no additional participants to the program.

Police Special Separation Allowance: North Carolina General Statutes provide for special compensation to retired law enforcement officers meeting specified criteria. The statutes require the Town to compensate the officer until they reach age 62. The Special Separation Allowance budget in FY21-22 is \$150,000.

Position Reclassifications: The Town contracts with a consulting group to study approximately one third of the Town's positions each year to determine if the positions are correctly classified and if the salary ranges assigned to the positions are appropriate based on the area labor market. This year, the Town reviewed all positions in the Administration, Town Clerk, Human Resources, Information Technology, Legal, Economic Development, Finance, Planning, and Inspections departments, as well as professional and program support positions in all departments. The review consisted of 117 positions held by over 160 employees. A significant recommendation from the study is to remove Town Directors and Assistant Town Managers from specific salary grade assignments. These positions will remain on the Town's position classification plan, but salaries will be based on the prevailing job market for these executive-level positions. These positions will still be eligible for merit pay and other town-wide increases, and will have a top-out salary of 25 percent above market pay.

Additional Positions: The recommended FY21-22 General Fund budget includes 20 new full-time positions and the Electric Fund budget includes three new full-time positions. Town Council approved adding one of these positions, the housing programs manager, during the final quarter of FY20-21. The Water and Sewer Fund budget does not include any new positions. Town staff worked together to prioritize these positions from an initial request of 45 new full-time positions, including 41 in the General Fund and four in the Electric Fund. All new positions will bring the total approved full-time positions to 535 and increase personnel costs by \$1,747,100 for FY21-22. A breakdown of the recommended positions with costs is located in the Supplemental Section of the budget document.

Fund Balance

The North Carolina Local Government Commission recommends that local governments maintain a minimum unassigned fund balance of no less than eight percent of expenditures. The Town of Apex has adopted a formal fund balance policy of maintaining a fund balance for the General Fund of at least 25 percent of expenditures. The Town of Apex's estimated non-committed or non-restricted fund balance as of June 30, 2021, is \$26.53 million or 33.71 percent of FY21-22 expenditures. The recommended budget **does** include use of fund balance to cover some capital costs. The Town does not use reserves for operating costs and carefully evaluates the use of fund balance for unanticipated opportunities and capital expenses. The use of \$1,549,000 in FY21-22 will still keep the available fund balance above 25 percent.

The North Carolina Local Government Commission does not have a specific recommendation regarding how much fund balance or retained earnings a local government enterprise operation should maintain. The Town does not have a defined



goal for fund balance for either enterprise fund. The Town seeks to ensure both funds are financially stable and contain healthy reserves. The Town of Apex's estimated fund balance as of June 30, 2021 for the Water & Sewer Fund is \$22.36 million (95.71 percent). The estimated fund balance for the Electric Fund is \$13.04 million (31.14 percent of expenditures); however, most of this amount is restricted. The FY21-22 Recommended Budget **does not** include use of fund balance in the Electric Fund. The budget **does** include an allocation of \$900,000 in the Water & Sewer Fund.

In summary, the Recommended Budget is a balanced budget in accordance with state statutes, and it attempts to address the priorities set by Town Council for the 2021-2022 Fiscal Year. While it is typically difficult to fund all the requests made by departments or external agencies, the budget team did an excellent job in preparation of this budget to include as many requests as possible and ensure alignment with Town Council's strategic goals. The town has benefited from a less dire impact from the COVID-19 pandemic than originally predicted and is in a solid financial position going into FY21-22. The FY21-22 Budget is fiscally sound and addresses the top priority needs of the town. The Town's sound financial practices and conservative budgeting approach have positioned it to continue delivering high-level services for Apex citizens. This budget reflects our commitment to maintaining and improving our community and positioning Apex to be financially sound in the future.

I wish to extend my sincere appreciation to the Budget Office and Finance Department and other town team members who helped to prepare this budget.

I recommend this proposed budget for Fiscal Year 2021-2022 to the Apex Town Council.

Respectfully submitted,

Ralph Clark
Interim Town Manager

