

Town of Apex, North Carolina FY 2020 – 2021 Annual Budget

Budget Message

May 27, 2020

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, the proposed Annual Budget for Fiscal Year beginning July 1, 2020 and ending June 30, 2021 is balanced and hereby submitted 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 most recent citizen survey results were overwhelmingly positive and the Town receives 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 2020-2021 (FY20-21) Budget, town staff followed guidance from Town Council's newly developed mission and vision statements and revised strategic goals to develop a proactive budget that will balance improving current town programs and services with development of new programs and projects. The Council retreat in January was the setting for positive discussion and collaboration as the Town Council developed a mission and vision for the town. It is important to note these statements and goals because they serve as the foundation for governmental activities in the upcoming fiscal year. Additionally, Town Council identified specific initiatives aligned with the goals. These initiatives include affordable housing, diversity and inclusion, public transit, watershed protection, and stormwater management. The budget message expressly recognizes these initiatives in the appropriate sections.

Vision: A community unified in the stewardship of our small town charm, natural environment, and a future where all succeed.

Mission: Provide exceptional public service that cultivates opportunity for the individual and community to live, thrive, and reach their peak.

Strategic Goals:

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, and 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.

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 through proactive, professional, and engaged public safety services, and maintain reliable transportation and utility infrastructure.

A note on COVID-19 and the ensuing recession. The full impact of the COVID-19 recession is unknown. Multiple forecasts exist for how long the pandemic and recession will last and each forecast offers a range of economic projections. It is clear that Apex will feel a negative effect on revenues because of the recession. The town began taking action to mitigate revenue shortfalls in FY19-20. The town has benefited from sales tax and new development fee revenues, both of which will suffer during a recession. In addition, sales tax collections lag by three months and data to assess the true impact of the recession may not be readily available. This message references where the pandemic-induced recession may affect the town's operations. Further discussion about rationale for revenue projections and lists of affected projects can be found in the Revenue Assumptions and Supplemental sections of the full budget document.

Recommended Budget

The FY20-21 Recommended Budget totals \$149,604,700 for all town operations, capital improvements, and debt service requirements. This is \$859,749 (-0.57 percent) less than the FY19-20 Amended Budget as of April 1, 2020. Following Town Council's direction, the budget is balanced with a tax rate of \$.38, a decrease of \$.035 from the current tax rate and a \$.0307 increase over the revenue neutral rate of \$.3493. The budget includes no change in electric rates, no change in water rates, a 4.5 percent increase in sewer rates, and use of \$2,370,000 in fund balance from the General Fund.

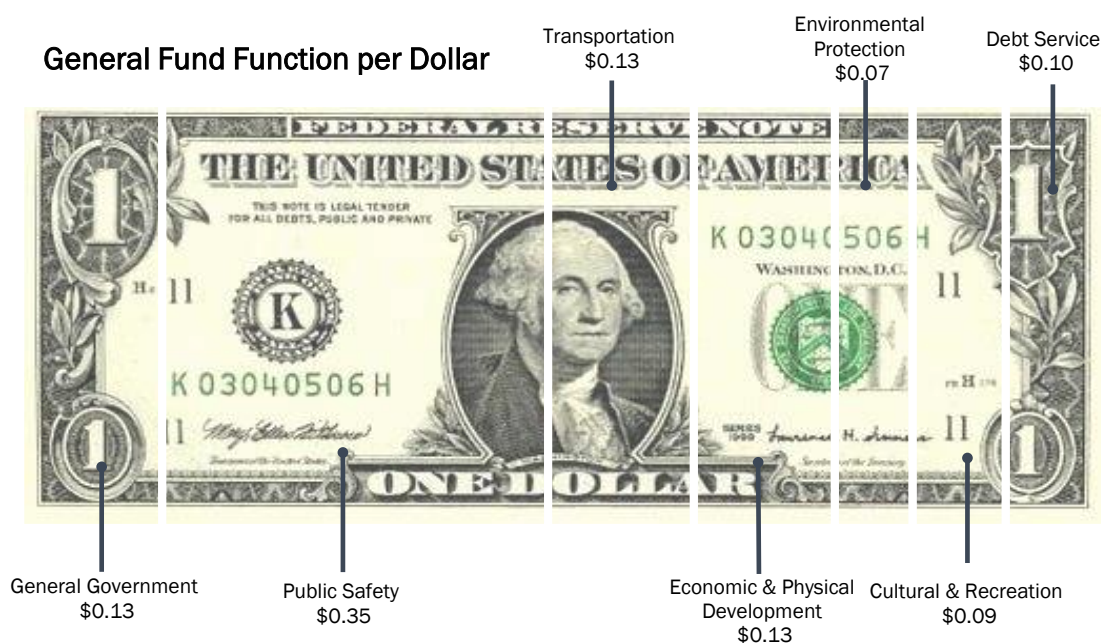
FY20-21 Budget Highlights	
General Fund Expenditures	\$ 71,134,100
Electric Fund Expenditures	\$ 44,030,900
Water & Sewer Fund Expenditures	\$ 22,725,900
Non-major & Capital Fund Expenditures	<u>\$ 11,713,800</u>
<i>Total Budget</i>	\$149,604,700
Property Tax Rate	\$0.38 per \$100 valuation <i>Property tax rate is \$.035 less than FY19-20 and \$.0307 more than the revenue neutral rate of \$.3493</i>
Electric Rates	Residential- \$15.05 base charge, \$.0993 – .1029 per kWh energy charge <i>Rates are unchanged from FY19-20</i>
Water Rates	\$5.54 base charge, \$4.19 – 6.49 per 1000 gal. consumption (tiered)
Sewer Rates	\$9.89 base charge, \$7.06 per 1000 gal. consumption <i>Water rates are unchanged and sewer rates are 4.5% higher than FY19-20</i>

General Fund

The General Fund accounts for resources not required legally or by sound financial management to be accounted for in another fund. Typically, 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 FY20-21 Recommended Budget for the General Fund totals \$71,134,100, which is 2.42 percent more than the FY19-20 Amended Budget of \$69,451,439 as of April 1, 2020.

General Fund Expenditures

Apex continues to grow at a rapid pace, with a five-year average of 6.34 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. Nearly \$.35 of every dollar spent in the General Fund goes toward public safety, which includes police, fire, and 911 communications.



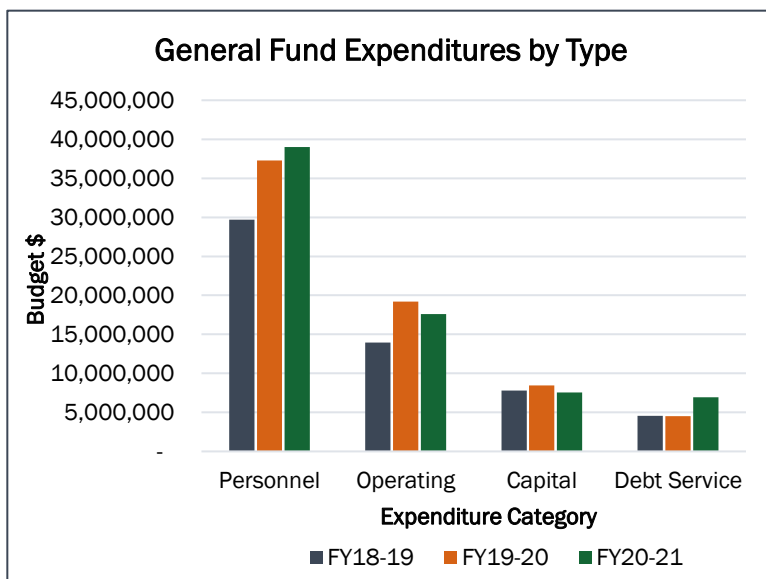
The 2.42 percent increase in the FY20-21 General Fund Budget is modest compared to the 9.34 percent average increase over the past five years. If not for the increase in debt service for the 2017 Recreation Bonds, the General Fund budget would be 1.08 percent less than the FY19-20 Budget. Growth in the General Fund expenditures is tempered by the impending recession caused by the COVID-19 pandemic. Personnel costs and debt service are the primary drivers of the increase. Increases in personnel costs are due to classification and compensation adjustments to keep the Town competitive with its peers in the employment market and increases in retirement rates. Fortunately, a 10.9 percent decrease in healthcare premiums helps offset other personnel costs with a savings of \$544,400. The North Carolina Local Government Retirement System is increasing employer contribution rates from 9.70 to 10.90 percent for

law enforcement officers (LEOs) and from 8.95 to 10.15 percent for all other employees. The retirement contributions represent a \$479,800 (21.20 percent) increase over FY19-20. The Town is also continuing its annual allocation to its Other Post-Employment Benefits (OPEB) trust for long-term OPEB liabilities. The FY20-21 Recommended Budget includes a transfer of \$266,000 to the trust fund. The \$2.43 million increase in debt service is the result of the sale of the remaining bonds from the 2017 Recreation Bond referendum. The General Fund budget includes more than \$2.10 million in personnel, operational, and capital expenditures for stormwater per Town Council’s direction to increase stormwater funding by at least \$500,000. Most of these funds are included in the Water Resources division budget. Also in accordance with Town Council goals, the Town began a diversity and inclusion program in FY19-20, and the FY20-21 Recommended Budget includes funding in the Human Resources Budget to continue diversity and inclusion efforts.

Reductions made to the budget because of the COVID-19 recession include several significant capital projects totaling \$1.51 million. The Station 3 Fire Engine replacement (\$740,000), Eva Perry Library repairs (\$438,000), replacement Chipper Truck and Chipper (\$165,000), and new Police Rescue Vehicle (\$165,000) have all been pushed to Year Two of the Capital Improvement Plan. These projects will be the first evaluated for reinsertion into the FY20-21 Budget as the economy improves. Other reductions in operating costs and small capital items are included in the supplemental section of the budget documents. Further reductions totaling between \$1.0 million and \$1.5 million may be necessary. The budget includes a list of capital projects and programs to be delayed or cut depending on revenue trends in FY20-21.

General Fund Expenditures by Type					
Type	FY18-19 Actual	FY19-20 Budget	FY19-20 Estimate	FY20-21 Budget	Percent Change
Personnel	29,714,279	37,286,000	34,401,110	39,023,600	4.66%
Operating	13,936,611	19,210,051	16,000,870	17,609,300	-8.33%
Capital	7,777,765	8,442,888	7,382,623	7,558,700	-10.47%
Debt Service	4,569,865	4,512,500	4,512,424	6,942,500	53.85%
Total	\$55,998,521	\$69,451,439	\$62,297,027	\$71,134,100	2.42%

The structure of the General Fund budget for FY20-21 includes two notable changes. First, the Office of the Town Clerk is now a separate department from Administration as Town Council has decided that the Town Clerk will report directly to the Mayor and Council. The FY20-21 Recommended Budget includes \$195,500 for the newly established department to cover personnel and other operating costs. Second, the Other Financing Uses section of the General Fund budget includes a line item for a transfer to the newly created Affordable Housing Fund. Town Council has established the fund to begin affordable housing initiatives in Apex. To fund the initiatives, Town Council has designated revenue equal to one-cent on the tax rate to the Affordable Housing Fund.



General Fund Department/Division Budgets					
Department/Division	FY18-19 Actual	FY19-20 Budget	FY20-21 Budget	Percent Change	FY19-20 Variance
Town Council	147,599	284,300	278,000	-2.22%	(6,300)
Town Clerk	-	-	195,500	-	195,500
Administration	1,090,693	1,285,674	1,224,800	-4.73%	(60,874)
Human Resources	992,436	1,438,999	1,530,300	6.34%	91,301
Information Technology	1,778,563	2,403,470	2,485,500	3.41%	82,030
Legal	376,633	435,872	475,700	9.14%	39,828
Economic Development	259,365	593,692	534,100	-10.04%	(59,592)
Finance	742,253	793,100	858,700	8.27%	65,600
Planning	2,045,377	2,299,102	2,399,700	4.38%	100,598
Facilities	1,450,244	2,433,780	1,405,500	-42.25%	(1,028,280)
Police	11,251,564	13,176,903	12,900,300	-2.10%	(276,603)
911 Communications	1,101,443	1,422,222	1,682,100	18.27%	259,878
Fire	9,025,733	10,376,023	10,631,600	2.46%	255,577
Public Works- Transportation	1,117,581	1,390,715	1,347,700	-3.09%	(43,015)
Water Resources Engineering	1,460,391	2,306,703	2,089,700	-9.41%	(217,003)
Streets	3,412,519	6,323,184	4,398,700	-30.44%	(1,924,484)
Solid Waste	4,085,268	5,001,887	5,102,600	2.01%	100,713
Fleet	444,160	504,059	460,900	-8.56%	(43,159)
Inspections & Permitting	2,223,479	3,146,470	2,977,100	-5.38%	(169,370)
Parks & Recreation	4,972,321	5,277,809	5,353,700	1.44%	75,891
Cultural Arts Center	541,376	695,775	731,900	5.19%	36,125
Cemetery	344	57,500	60,000	4.35%	2,500
Special Allocations	765,415	94,500	173,500	83.60%	79,000
Other Financing Uses	2,143,900	3,047,200	4,744,000	55.68%	1,696,800
Debt Service	4,569,865	4,512,500	6,942,500	53.85%	2,430,000
Contingency	-	150,000	150,000	0.00%	-
Total	\$55,998,521	\$69,451,439	\$71,134,100	2.42%	\$1,682,661

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 FY20-21, although the Town may delay some of these projects as staff evaluates the financial impact of the COVID-19 pandemic. Capital projects over \$100,000 are part of the Capital Improvement Plan (CIP) and receive thorough evaluation to determine the effects on operating costs and financial and debt indicators. Prior to FY17-18, the Town budgeted CIP projects within department budgets as part of the annual budget process. This inflated the operating budgets and created challenges in tracking projects and identifying trends to assist future fiscal planning. In FY17-18, the Town began budgeting larger projects through Capital Project Ordinances in their



respective funds – General Capital Project Fund, Street Improvements Project Fund, and Recreation Capital Project Fund. The large projects below highlight some of the capital projects included in the FY20-21 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 (\$1,821,000)

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, however, current and future resurfacing costs continue to exceed Powell Bill allocations. The \$1.82 million allocation for FY20-21 is an increase of \$221,000 from FY19-20.

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

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 a 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. Final design and property acquisition will be complete in 2020. This project is heavily dependent on grant funding to move forward. The town has submitted an application to receive funding for 50 percent of the project from the Locally Administered Projects Program (LAPP). **If the town does not receive at least a substantial portion of this request, it will likely have to delay the project until other revenues are identified and secured.**

Beaver Creek Commons at Zeno Road Improvements (\$500,000)

This project includes extending a second eastbound lane along Beaver Creek Commons Drive from the bus lane to Zeno Road, adding a new right-in/right-out (RIRO) driveway at the bank outparcel, converting the RIRO driveway at the bank/Panda Express to an inbound only driveway, and installing a traffic signal coordinated with the signal at NC 55.

GoApex Route 1 (\$630,000)

Apex will begin its first transit route in the coming fiscal year when it initiates the GoApex Route 1. The town expects to receive \$427,000 in LAPP funding to install 40 new bus stops for the circulator route. Depending on the location of the bus stop, some will include benches, bicycle parking, and trash receptacles.

Chatham Street Improvements (\$953,000)

Work for this project will be in conjunction with replacement of a water line along Chatham Street. Leveraging the opportunity to complete the sidewalk with the water line replacement increases cost efficiency and limits the disturbance to area residents and property owners. This project will include sidewalk to complete the gap along West Chatham Street between Saunders Street and Hunter Street along with improving the pedestrian crossing at Hunter Street and NC 55. The town has received LAPP funding for 40 percent of the construction costs.

Salem Street Downtown Streetscape & Resurfacing (\$300,000)

Identified as a top priority in the Downtown Master Plan, this project includes resurfacing Salem Street from Hunter Street to NC 55 with the removal of on street parking between Saunders Street and Chatham Street in order to widen sidewalk and provide planting beds, landscaping, and pedestrian amenities. The total project estimate is \$2.8 million with \$300,000 estimated for design and engineering and \$2.5 million for construction.

Beaver Creek Greenway (\$2,435,000)

This phase of the Beaver Creek Greenway connection involves approximately .25 miles and continues from Chapel Valley Lane, under the Apex Barbecue Road bridge, and to the Nature Park. The majority of costs are due to addressing environmental issues associated with the floodplain and wetlands and for construction of boardwalk.

Middle Creek Greenway (\$2,128,000)

The Middle Creek Greenway will provide trail connection from Reunion Pointe's existing greenway at the southern property line of Miramonte northward to the boundary of Pemberly. The trail will be a mixture of asphalt, concrete, boardwalk and further completes the eventual connection between Apex and Holly Springs.

General Fund Revenues

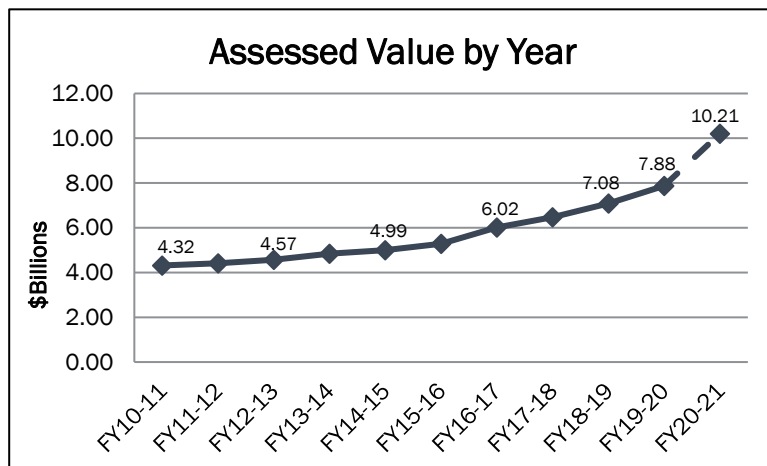
The Town of Apex continues to experience growth in its primary revenue sources – ad valorem taxes and sales tax. A growing population has naturally contributed to a growing tax base that helps Apex retain a modest tax rate while providing exceptional services. The total assessed value in Apex has increased by 136.60 percent in the past ten years including a revaluation in 2020. With the revaluation, the Apex tax base grew by \$2,330,202,299 (29.57 percent) to \$10,209,900,000 and each penny on the tax rate is equivalent to \$1,019,867 in revenue. The growth in tax base, the stable nature of property taxes, and the fact that property tax revenues account for more than half of the town's revenues potentially lessen the overall impact of the COVID-19 recession but they will not offset the revenue shortfall. Excluding property tax revenues, all other General Fund revenues collectively represent a 12.60 percent decrease from the FY19-20 Amended Budget. Original revenue projections for the General Fund were \$3.39 million higher, not including fund balance allocation. Some economists have begun to forecast a longer recession rather than a rapid rebound. If this is true, revenues could drop further, especially for sales tax, development related charges and fees, sales and services such as such as recreation participation fees, and investment earnings. Throughout FY20-21, the Town will monitor all revenues more closely and be prepared to make necessary adjustments to ensure financial integrity without sacrificing core services.

Ad Valorem Tax

Property taxes represent 54.56 percent of General Fund revenues. For FY20-21, the ad valorem tax base is an estimated \$10.21 billion, which will generate \$38.81 million in property tax revenue with a tax rate of **\$0.38 per \$100 valuation** at a 99.89 percent collection rate. This represents an increase in ad valorem revenue of \$6.34 million (19.53 percent). **The tax rate is \$.035 less than the FY19-20 tax rate but**



represents a \$.0307 increase over the revenue neutral rate of \$.3493 from the 2020 Wake County revaluation. 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 first increase was in FY18-19. The FY20-21 tax rate includes the second increment with the third and final increment planned for FY21-22.



Local Option Sales Tax

Sales tax represents the town's second largest revenue source in the General Fund at \$11.63 million (16.35 percent). The State of North Carolina collects the 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 FY20-21 Budget includes an estimated decrease of 0.45 percent in sales tax revenues from FY19-20 despite current year sales tax revenues being more than 17 percent over FY18-19. The COVID-19 recession will have a significant impact on sales tax revenues as social distancing practices have severely altered people's ability to spend. The onset of the COVID-19 pandemic triggered a reduction in sales tax revenue projections by \$2.02 million (14.82 percent) from an original estimate of \$13.65 million. Some financial models indicate another reduction of \$500,000 to \$600,000 may be in order.

Utility Sales Tax

Beginning in FY14-15, the sale of electricity and piped natural gas became subject to the general sales tax rate. The State distributes a portion of the tax proceeds to cities and towns. This revenue, part of unrestricted intergovernmental revenues, will generate an estimated \$3.0 million for FY20-21. Potential impacts from the current recession could reduce these revenues by 10 percent.

Powell Bill Street Allocation

These funds represent appropriations by the State for restricted use in maintaining, repairing, constructing, reconstructing, or widening any public street or thoroughfare within the town limits. Bridges, drainage improvements, curb and gutter, and other necessary appurtenances are approved uses of these funds. The State uses a formula whereby local street miles represent one quarter of the distribution and population, the remaining 75 percent. These funds represent \$1.42 million in the FY20-21 Budget, a 9.32 percent increase due to an increasing population and new road miles added to the town's transportation network.

Municipal Vehicle Tax

North Carolina General Statutes originally authorized a municipal vehicle tax of \$5 as a general-purpose tax. The General Assembly revised the law in 2016 to allow a tax up to \$30, but with restrictions. The initial \$5 remains general purpose, but the law assigns another \$5 to public transit and the remaining \$20 to street resurfacing, repairs, and maintenance. Beginning in FY18-19, the Town committed all municipal



vehicle tax revenue to the Transportation Capital Reserve Fund. The town's current rate is \$25. With the beginning of the town's first transit route in FY20-21, the FY20-21 Recommended Budget **includes a \$5 increase in the tax to \$30**. The additional \$5 will generate \$150,000 in FY20-21 for the circulator route and the remaining \$25 will generate \$850,000 for other transportation capital projects.

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 \$2,346,700 in FY20-21 and recycling fees will generate \$1,228,700. The Town conducts its own yard waste collection and covers the cost with a monthly yard waste fee. The yard waste fee will generate \$1,914,700 in FY20-21. **Solid waste and recycling fees will increase in accordance with our service contract in FY20-21.**

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 (an increase of \$.52 from FY19-20) beyond the standard adjustment for inflation of 2.50 percent. Revenue projections for waste collection fees include a reduced growth rate. Actual revenues could decline another \$150,000 if growth slows more.

Solid Waste, Recycling, & Yard Waste Monthly Charges		
	FY19-20	FY20-21
Yard Waste Collection	\$7.83	\$7.83
Residential Roll-Out Cart	\$8.51	\$8.72
Commercial Roll-Out Cart	\$17.44	\$17.88
Recycling (per Bin or Cart)	\$4.28	\$4.89
4-CY Dumpster Service	\$125.07	\$128.20
6-CY Dumpster Service	\$147.97	\$151.67
8-CY Dumpster Service	\$169.08	\$173.31

Inspection & Permit Fees

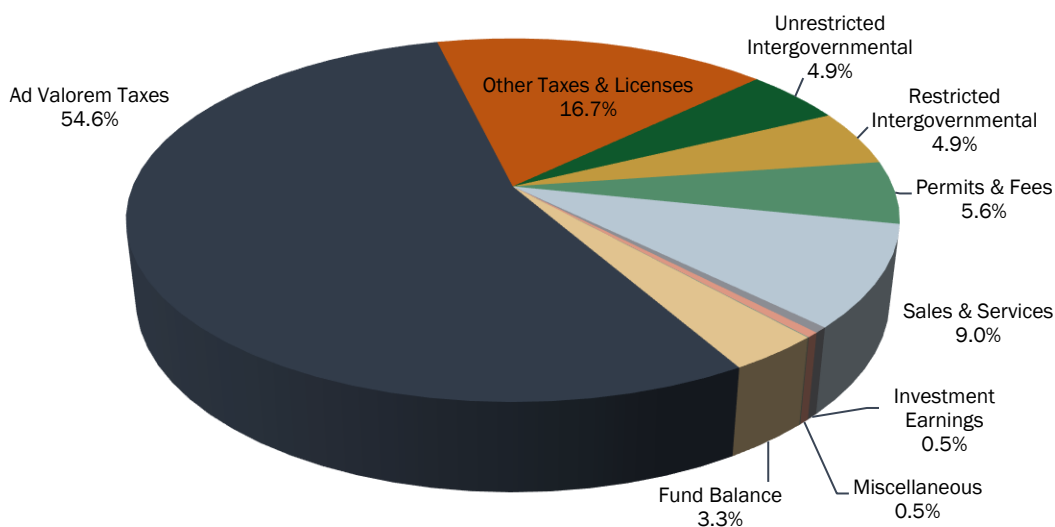
The FY20-21 Recommended Budget includes \$3,675,500 in revenues associated with the Inspections and Permitting Department. General Statutes restrict some of these fees specifically for inspections and permitting related activities. The restricted amount in the FY20-21 Budget is \$3.02 million. With new development expected to slow in current recession, these fee revenues could decrease further.

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. From time to time, 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 FY20-21 Recommended Budget includes a fund balance allocation of \$2,370,000 including \$750,000 for property at the Cash Corporate economic development site, \$570,000 for wetland mitigation for the Richardson Road extension, \$500,000 for improvements to the Beaver Creek Commons-Zeno Road intersection, \$300,000 for the Salem Street streetscape design, and \$250,000 for the Downtown Alley Improvement project.

General Fund Revenues by Source					
Source	FY18-19 Actual	FY19-20 Budget	FY19-20 Estimate	FY20-21 Budget	Percent Change
Ad Valorem Taxes	29,525,234	32,470,000	32,554,000	38,813,000	19.53%
Other Taxes & Licenses	11,120,463	11,758,000	12,069,000	11,854,900	0.82%
Unrestricted Intergov't	3,260,784	3,312,300	3,357,335	3,485,000	5.21%
Restricted Intergov't	2,865,667	2,649,700	2,764,462	3,516,100	32.70%
Permits & Fees	5,080,025	4,151,300	4,121,127	3,957,900	-4.66%
Sales & Services	5,282,372	5,602,500	5,563,263	6,423,900	14.66%
Investment Earnings	796,746	750,200	640,860	355,300	-52.64%
Miscellaneous	458,023	323,000	436,476	323,000	0.00%
Other Financing Sources	2,580,240	1,758,300	1,519,961	35,000	-98.01%
Fund Balance	-	6,676,139	-	2,370,000	-64.50%
Total	\$60,969,554	\$69,451,439	\$63,026,484	\$71,134,100	2.42%

General Fund Revenues by Source FY20-21



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 FY20-21 Recommended Budget for the Electric Fund totals \$44,030,900, a 1.47 percent decrease from the FY19-20 Amended Budget of \$44,687,614 as of April 1, 2020.

Electric Fund Expenditures

The decrease in the FY20-21 Electric Fund Budget is primarily due to a reduction in capital costs associated with system expansion for new subdivisions. This reduction is due to the anticipated slowing of growth in response to the COVID-19 pandemic. Despite the decreased growth rate, the Town will continue to make investments to enhance its electric utility. The investments made in system maintenance and improvements will allow the Town to maintain an impressive 99.98 percent system availability for customers. The slight decrease in personnel costs is the result of savings in health insurance premiums and workers compensation insurance offsetting salary and retirement increases. The doubling of debt service represents the first installment payment due in FY20-21 for the new electric office building. With the true impact of the recession not yet known, the Electric Department has identified capital projects totaling \$770,450 to delay in FY20-21. If revenues do not recover during FY20-21, these projects may be pushed to FY21-22, and if further expenditure reductions are needed, the department may look to cut back on the street light expansion program or reduce system expansion, as subdivision growth will likely slow.

Electric Fund Expenditures by Type					
Type	FY18-19 Actual	FY19-20 Budget	FY19-20 Estimate	FY20-21 Budget	Percent Change
Personnel	4,199,570	4,999,600	4,522,999	4,888,200	-2.23%
Operating	1,531,829	1,898,886	1,354,858	2,044,200	7.65%
Sales Tax	2,572,686	2,749,000	2,817,273	2,856,500	3.91%
Purchase for Resale	25,984,245	27,858,400	27,611,035	28,861,700	3.60%
Capital	5,414,238	6,542,528	5,601,511	4,130,000	-36.87%
Debt Service	636,454	639,200	639,134	1,250,300	95.60%
Total	\$40,339,021	\$44,687,614	\$42,546,810	\$44,030,900	-1.47%

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 response to feedback received from the 2017 Citizen Satisfaction Survey, the FY18-19 Budget included \$250,000 dedicated to installing new streetlights throughout the town. This program will continue in FY20-21 for the third consecutive year with a reduced amount of \$125,000 to begin replacing older streetlights with LED lights. The transfer of \$1.13 million to the capital fund project in FY20-21 is for upgrades to the Laura Duncan Substation and the final stages of the new electric office building.

Laura Duncan Substation Upgrades (\$575,000)

This project will replace existing regulator controls with modern units capable of being integrated into the SCADA system, and will perform preventative maintenance on existing regulators and upgrade them to accept new controls. The existing equipment is outdated, no longer supported by the manufacturers, and nearing the end of useful life. Upgrading this equipment will improve the reliability of the Town's system.

Electric Office Facility (\$550,000)

The final stages of the new Electric Office Facility include additional site work for sidewalks, streets, and landscaping. The street improvements provide an extension of Milano Avenue as a collector road to access the electric substation property and extend further west to

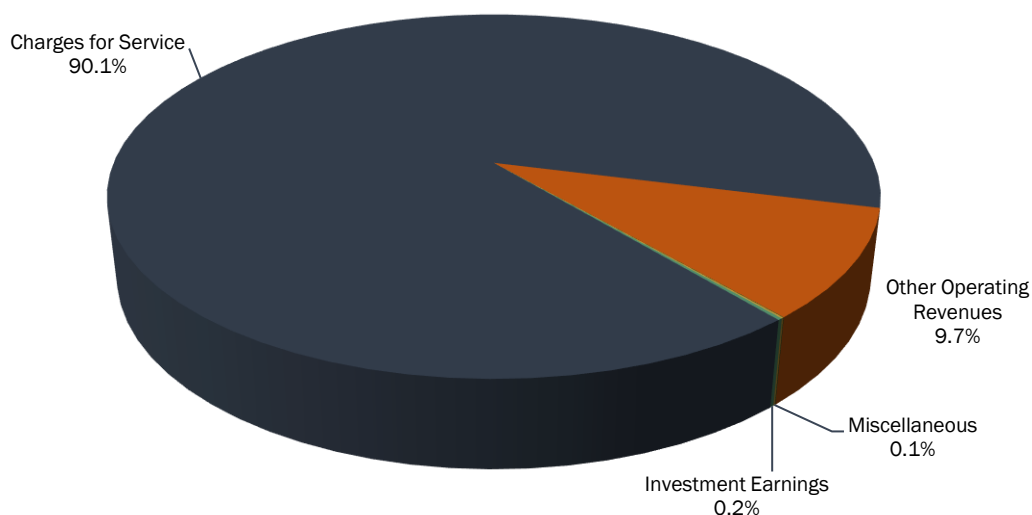
connect to Richardson Road through Buckhorn Preserve. The extension will complete the remaining gap between Richardson Road and Evans Road.

Electric Fund Revenues

Electric Fund revenues for FY20-21 are down 1.47 percent from FY19-20. 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 FY20-21 Recommended Budget includes \$39.65 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 7.80 percent growth, including 14.85 percent in FY19-20. Even with the recent high growth, initial revenue projections for FY20-21 used a customer growth rate of six percent and indicated a 2.85 percent increase in revenues. The onset of the COVID-19 pandemic and subsequent recession led to a reduction in revenue projections by \$1.83 million, primarily in projected commercial utility sales. For a revised residential sales revenue projection, the residential customer growth rate was cut in half to produce projections that are \$900,000 less than originally anticipated. Furthermore, the unknown impact of Executive Order 124 (EO124) complicates revenue projections for the Electric Fund. Issued by NC Governor Roy Cooper on March 31, 2020, EO124 prohibited utility cutoffs, late fees, and reconnection fees through May 31, 2020. Three weeks prior to EO124, Apex had already suspended cutoffs and late fees through June 5, 2020, and began offering payment arrangements. Town Council has since extended the suspension of cutoffs and late fees through August. The executive order outlines specific requirements for payment programs that utilities must offer. The Finance Department is currently tracking the effects of the executive order but the impact of delayed payments and uncollected fees is unknown. Due to the recession and the unknown impact of EO124, electric revenues could experience an additional reduction of at least \$400,000.

Electric Fund Revenues by Source					
Source	FY18-19 Actual	FY19-20 Budget	FY19-20 Estimate	FY20-21 Budget	Percent Change
Charges for Service	36,541,592	39,322,200	39,503,648	39,650,000	0.83%
Other Operating Revenues	4,196,415	4,368,300	4,393,581	4,260,900	-2.46%
Other Financing Sources	-	30,000	5,000	10,000	-66.67%
Miscellaneous	68,923	45,000	85,524	35,000	-22.22%
Investment Earnings	101,015	100,000	110,482	75,000	-25.00%
Retained Earnings	-	822,114	-	-	-100.00%
Total	\$40,907,945	\$44,687,614	\$44,098,235	\$44,030,900	-1.47%

Electric Fund Revenues by Source FY20-21



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 FY20-21 Recommended Budget for the Water and Sewer Fund totals \$22,725,900, a 5.04 percent decrease from the FY19-20 Amended Budget of \$23,932,546 as of April 1, 2020.

Water & Sewer Fund Expenditures

The FY20-21 Water and Sewer Fund Budget reflects a decrease in all expenditure categories except personnel. Redistribution of personnel expenditures associated with outfall mowing and maintenance to the Water and Sewer Fund primarily account for the increases. The FY20-21 Recommended Budget includes \$54,600 for OPEB expenses in the Water and Sewer Fund, including a transfer of \$35,000 to reserves for future OPEB liabilities. Like the Electric Fund, most of the budget decreases are attributable to the effects of COVID-19 on the economy and the anticipated drop in customer growth rate. The Water and Sewer Fund divisions have identified capital projects to delay or remove from the budget in FY20-21 if revenues do not recover during the fiscal year. The FY20-21 Water and Sewer Fund expenditures may need to be reduced by an additional \$1.2 million depending on the recession's impact on residential and commercial growth.

Water & Sewer Fund Expenditures by Type					
Type	FY18-19 Actual	FY19-20 Budget	FY19-20 Estimate	FY20-21 Budget	Percent Change
Personnel	5,285,800	6,159,800	5,756,352	7,796,900	26.58%
Operating	19,915,137	8,527,956	6,895,047	7,075,500	-17.03%
Purchase for Resale	1,710,932	2,403,100	2,100,000	2,174,800	-9.50%
Capital	3,680,063	2,865,290	2,647,548	1,705,000	-40.49%
Debt Service	3,953,737	3,976,400	3,976,116	3,973,700	-0.07%
Total	\$34,545,669	\$23,932,546	\$21,375,063	\$22,725,900	-5.04%

The FY20-21 Recommended Budget includes \$134,000 as part of the town's commitment to watershed protection with Triangle Land Conservancy. This amount along with personnel increases account for the increase in the Water-Sewer Administration division budget. Changes in the other Water and Sewer Fund divisions primarily result from the personnel distribution mentioned above and differences in capital projects between FY19-20 and FY20-21. The Water and Sewer Fund budget includes \$3.97 million for debt service payments resulting from improvements to the Cary-Apex Water Treatment Plant and Western Wake Regional Water Reclamation Facility. A transfer from the Water and Sewer Capital Reserve Fund covers a portion of the debt service.

Water & Sewer Fund Department/Division Budgets					
Department/Division	FY18-19 Actual	FY19-20 Budget	FY20-21 Budget	Percent Change	FY19-20 Variance
Water-Sewer Admin.	2,434,577	3,134,229	3,436,300	9.64%	302,071
Water Treatment	2,184,867	3,857,384	2,321,300	-39.82%	(1,536,084)
Water Maintenance	2,437,811	3,999,826	5,272,300	31.81%	1,272,474
Sewer Treatment	4,211,274	4,293,017	3,887,600	-9.44%	(405,417)
Sewer Maintenance	2,350,079	4,548,690	3,134,700	-31.09%	(1,413,990)
Debt Service	3,953,737	3,976,400	3,973,700	-0.07%	(2,700)
Other Financing Uses	2,315,225	-	550,000	-	550,000
Special Appropriation	14,658,099	-	-	-	-
Contingency	-	123,000	150,000	21.95%	27,000
Total	\$34,545,669	\$23,932,546	\$22,725,900	-5.04%	(\$1,206,646)

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 \$4,428,000 in FY20-21 for design of a new 1.5 million gallon elevated water tank (\$850,000), the Sunset Hills Pump Station Renovation (\$1,065,000), continuation of the Western Transmission Main project (\$500,000), the water line relocation at the Peakway and Salem Street interchange (\$100,000), the Lawrence Crossing Sewer Rehab project (\$575,000), and the Cary-Apex water and sewer projects (\$1,338,000). The Water and Sewer operating budget includes \$1,705,000 for the Chatham Street waterline, the Salem Street waterline rehab, miscellaneous water meter installations and water main connections, and various vehicle and equipment replacements.

1.5 MG Elevated Water Storage Tank (\$850,000)

Year one of this project includes \$850,000 for engineering and design of an estimated \$4.29 million project to construct a 1.5 million gallon elevated storage tank to ensure we meet the State's minimum requirement for elevated storage.

Sunset Hill Pump Station Renovation (\$1,065,000)

Renovation of the existing Middle Creek - Sunset Hills Pump Station includes installing a new deeper well that will allow the pump station to serve the area to the northeast including the future school site. The renovation will increase capacity for the area and allow the future school to use gravity sewer into the Sunset Hills pump station.

Western Transmission Main (Phase II) - Kelly Road Park to Apex BBQ (\$500,000)

Phase II of the Western Transmission Main Project includes the following sections: 1,000 feet of 24-inch waterline on Kelly Road from Olive Chapel Elementary School to Kelly Road Park, and 2,500 feet of 24-inch waterline from Kelly Road Park Pump station to Apex BBQ Road. The primary purpose of Phase II work is to provide adequate water flow at a manageable pressures to the entire water system as western portions of Apex, south of Olive Chapel Road, develop and demand grows. This work will also ensure that adequate flow and proper velocities are maintained in the other areas of Apex as growing demand to the west pulls water in that direction.

Lawrence Crossing Sewer Rehab (\$575,000)

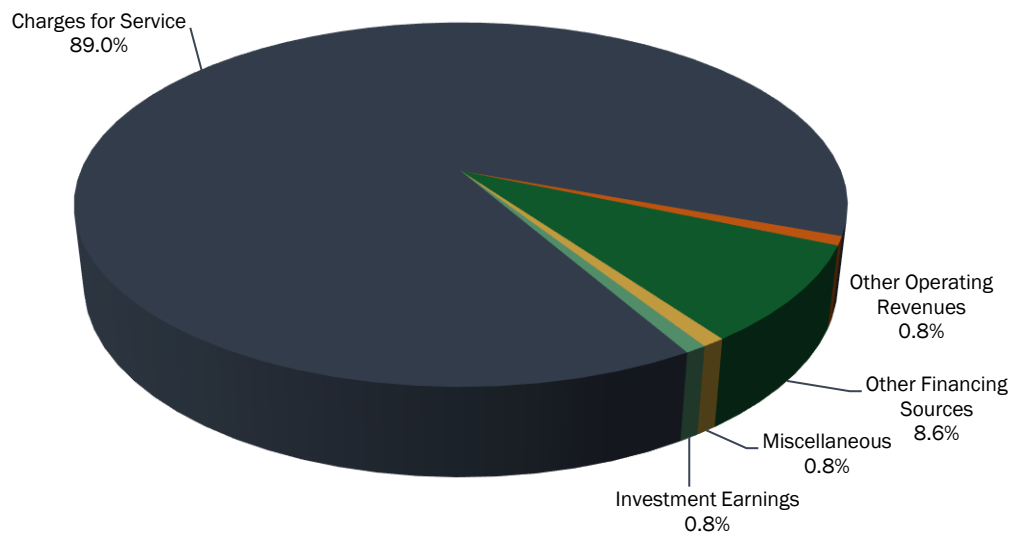
This project will replace an aging 24-inch gravity sewer outfall with a new 12-inch sewer line. The 24-inch line formerly conveyed over half of the town's sewer flow. The completion of the Western Wake Regional WRF in 2014 diverted most of this flow. It is more cost effective to replace and downsize to a 12-inch line than to install a liner in the 24-inch pipe.

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 and the recession is similar for the two funds. The FY20-21 Recommended Budget includes \$20,221,400 in revenues from water and sewer charges, a decrease of 3.83 percent. New customer growth has averaged nearly six percent the past few years, with an 11.58 percent growth for water customers and 11.65 percent growth for sewer customers in FY19-20. Before the COVID-19 pandemic, revenue projections included a 5.80 percent customer growth rate for water and sewer accounts. Adjustments due to the recession cut the growth rate in half and reduced revenue projections by \$579,000. If the growth rate slows further, revenues could potentially come in an additional \$1.2 million lower than originally projected. This does not include the potential effects of E0124 as discussed in the Electric Fund revenues section.

Water & Sewer Fund Revenues by Source					
Source	FY18-19 Actual	FY19-20 Budget	FY19-20 Estimate	FY20-21 Budget	Percent Change
Charges for Service	16,985,632	21,026,900	19,300,000	20,221,400	-3.83%
Other Operating Revenues	176,159	170,000	160,000	180,000	5.88%
Other Financing Sources	19,853,704	1,955,500	1,945,500	1,960,500	0.26%
Miscellaneous	245,618	171,000	255,667	189,000	10.53%
Investment Earnings	315,513	250,000	350,000	175,000	-30.00%
Retained Earnings	-	359,146	-	-	-100.00%
Total	\$37,576,626	\$23,932,546	\$22,011,167	\$22,725,900	-5.04%

Water & Sewer Fund Revenues by Source FY20-21



Water & Sewer Rates

In FY16-17, the Town performed a study on the existing rates and rates structure at that time. That study found that the sewer utility was generating a deficit while the water utility was 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 through FY24-25. The Town implemented the new rate structure in FY17-18 and began to adjust rates accordingly. The study recommended annual review of water rates with no immediate change while recommending continued increases of 4.5 percent per year 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 Town intends to perform an update on the rate analysis during FY20-21.

The budget includes a recommendation to **keep water rates the same in FY20-21 and increase sewer rates by 4.5 percent**. The change would increase the sewer base charge from **\$9.46 to \$9.89** and volumetric rates would increase from **\$6.76 to \$7.06** per 1,000 gallons. Water and sewer rates are double for customers outside the town limits.

Water & Sewer Monthly Rates					
Water Rates	FY19-20	FY20-21	Sewer Rates	FY19-20	FY20-21
Residential Inside Base Charge	\$5.54	\$5.54	Inside Base Charge	\$9.46	\$9.89
Residential Outside Base Charge	\$11.08	\$11.08	Outside Base Charge	\$18.91	\$19.76
Commercial Inside Base Charge	\$4.19	\$4.19	Inside Volumetric	\$6.76	\$7.06
Commercial Outside Base	\$8.38	\$8.38	Outside Volumetric	\$13.52	\$14.13

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 \$1.95 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.



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. Departments currently are working to revise objectives with performance indicators and strategies while identifying what data is available and what new data is needed.

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. For FY20-21, the Town plans to take a one-year hiatus from its standard merit-based practice to implement other compensation elements that will help the Town attract and retain employees and remain a great place to work. **The FY20-21 Recommended Budget includes the implementation of a \$15.00 living wage as a baseline for the Town’s compensation plan.** To adjust for the baseline change, minimize salary compression, and bring the Town’s compensation plan in line with peer communities, the budget includes a seven percent adjustment to the compensation plan’s pay ranges and a one-time, seven-percent increase to all employees holding a fulltime or part-time, benefited position as of October 2020. 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 FY20-21 is \$1.62 million across all funds.



Employer Retirement Contribution: The North Carolina Local Government Retirement System has notified local governments that the Annual Contribution Rate (ACR) will increase in FY20-21. The employer contribution is 10.15 percent for regular employees and 10.90 percent for law enforcement officers. Local government employees currently contribute six percent of their salary. The Town's retirement contributions represent \$3,650,000 in FY20-21, an increase of \$693,100 (23.44 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 \$339,200 in the FY20-21 Budget. Contributions for all other employees represent \$2,102,500 in FY20-21.

Health Insurance: During the 2019-2020 fiscal year, the Town issued a request for proposals (RFP) for medical, pharmacy, and stop-loss insurance plans. After thorough analysis of network availability, services and resources available to employees, and capabilities in care management, behavioral health, and wellness, the Town chose to switch carriers to Cigna. In addition to receiving more resources for Town employees, the Town will benefit from a 10.9 percent decrease for healthcare premiums in FY20-21. After the addition of new positions, the Town expects a savings of \$548,700 from decreased healthcare cost. The FY20-21 Recommended Budget includes \$5,255,600 for healthcare premiums across all funds.

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 FY20-21 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 FY20-21 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 FY20-21 Budget includes a total of \$618,600 to cover pay-as-go Retiree Medical Insurance and long-term OPEB costs in all funds. **As of July 1, 2020, the Town will no longer offer the retiree medical insurance benefit to new employees. Current employees will remain eligible for the benefit under the existing program.** The purpose of eliminating this benefit is to reduce the Town's long-term liability, which currently stands at \$35 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 FY20-21 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 evaluated all labor and maintenance positions in the Electric, Public Works and Transportation, Water Resources, Water and Sewer, and Parks, Recreation, and Cultural Resources Departments. In addition, town staff is recommending grade changes to law enforcement officer and fire services positions to remain competitive in starting pay for these highly competitive positions. The study reviewed 96 positions and 320 employees.

Additional Positions: The recommended FY20-21 General Fund budget includes 11 new full-time positions. Town Council approved adding two of these positions, an IT support specialist, and the deputy town clerk, during the final quarter of FY19-20. Neither the Water and Sewer Fund nor Electric Fund budgets contain new positions. Town staff worked together to prioritize these positions from an initial request of 26 new positions, including 25 in the General Fund and one in the Electric Fund. Two of the new positions, the sustainability program coordinator and the sustainability project analyst, will be dedicated to managing the Town's energy and environmental goals. All new positions will bring the total approved full-time positions to 513 and increase personnel costs by \$786,300 for FY20-21. 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 establishing a goal 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, 2020, is \$26.79 million or 37.66 percent of FY20-21 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 \$2,370,000 in FY20-21 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, 2020 for the Water & Sewer Fund is \$17.16 million (75.49 percent). The estimated fund balance for the Electric Fund is \$11.21 million (25.46 percent of expenditures); however, most of this amount is restricted. The FY20-21 Recommended Budget **does not** include use of fund balance in the Electric Fund or 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 2020-2021 Fiscal Year. While it is typically difficult to fund all the requests made by departments or external agencies, preparation of this budget proved more challenging than in recent years. The FY20-21 Budget will require closer monitoring than usual as the true impacts of the COVID-19 recession become clearer. Despite the challenges in preparing the FY20-21 Budget, it 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 weather this recession without sacrificing high-level services for Apex citizens. As stewards of public resources, we believe our role is to concentrate our budgeting efforts on maintenance of current services, Town-owned property, and infrastructure while attempting to keep rates and fees reasonable. This budget reflects our commitment to maintaining and improving our community and positioning Apex to be financially sound in the future.

Respectfully submitted,

Drew Havens
Town Manager

