

1. Introduction

The Town of Hillsborough stormwater management program has had a very busy and successful FY24, with the completion of a state audit, approval of a new Stormwater Management Plan (SWMP), hiring of additional staff and completion of a successful Creek Week public engagement effort. This report is intended to provide an update to the Board and public of ongoing progress and future needs of the stormwater program.

2. Improved Compliance with Stormwater Permit

The state completed the town’s first ever stormwater program audit in August 2023. The audit identified some minor improvements to the town’s stormwater program to be addressed with its new stormwater permit expected to be issued in July 2024. This includes:

- Update written procedures for all minimum measures;
- Expand public input process, IDDE education/outreach, and stormwater training program;
- Stormwater technician position was funded for half of FY24 using fund balance to assist with workload and improvements identified in the audit. This position has been filled as of February 2024.

3. Approval of new Stormwater Management Plan

In January 2024, staff submitted a new Stormwater Management Plan (SWMP) in response to audit comments. In March 2024, staff received notice that the plan had been approved by the state. The SWMP covers background information on the town’s Municipal Separate Storm Sewer System (MS4) permit, stormwater program administration, public education/outreach/involvement/participation, illicit discharge control, construction site and post-construction runoff control and pollution prevention efforts. This plan will drive the workload of the Stormwater and Environmental Services division over the next few years, as well as influence the stormwater maintenance efforts of the Public Works division.

4. Stormwater Infrastructure Maintenance

The Public Works Division is responsible for operation and maintenance of town-owned stormwater infrastructure. The division also supports various water quality and watershed improvement projects implemented by Stormwater and Environmental Services. As such the stormwater utility fees currently fund one full-time position in Public Works. In order to improve level of service and meet stormwater permit requirements, additional needs and considerations include:

- Development of a stormwater capital improvement plan (CIP) and set aside funds for the future capital improvement projects;
- Addition of another Equipment Operator funded by stormwater to improve level of service;
- Dedicated jet vac truck for cleaning catch basins and pipes.

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5. Stormwater Fee Structure and Rate Analysis

Stormwater and Environmental Services staff have developed some background information on the current stormwater fee structure and rates and have some recommendations:

- Average collection rate for stormwater fees is 98%;
- Recommend keeping residential fees as a flat, annual rate;
- Recommend adding a sixth tier to the non-residential rates to address properties with significantly higher impervious surface.
- Since adding a new-tier would alter the midpoint of tier 5, recommend raising non-residential rates based on percentage of the residential rate increase as the most equitable solution;
- Analysis shows a budget deficit in each fiscal year if no rate increase.

It is important to note that the stormwater fund currently has a significant fund balance. One reason for the fund balance is due to Public Works being understaffed in recent years. Being understaffed did not allow Public Works to be as proactive in assessing stormwater maintenance needs. While they were able to address, smaller and some critical stormwater infrastructure maintenance projects, the desire is to create a true capital improvement plan for stormwater infrastructure maintenance. This proactive approach will identify larger projects that will require significant planning and funding. Doing so will increase level of service to the public. In addition, the Stormwater Fund is expected to make a significant contribution to the Ridgewalk Greenway project to cover drainage and water-quality aspects of that project, so some of the accumulated funds are being accrued for that purpose.

It is also important to note that a portion of the current fund balance will be used in FY24 to cover budget deficits. This includes paying salary and benefits for the recently hired Stormwater Technician position. This position was approved in the FY24 budget and will be instrumental in allowing the Stormwater and Environmental Services Division to improve compliance with the town's new stormwater permit expected to be issued July 1, 2024.

Staff analyzed various scenarios to determine a recommended rate increase, which will be presented as part of the comprehensive town budget recommendations. As mentioned above, the analysis showed a budget deficit in each of the three fiscal years without a rate increase. The analysis and results presented assume that the proposed Equipment Operator will be approved for FY26. Obviously, if the additional FTE is not approved during this three-year period, increases would not need to be as high.

Potentially using fund balance does provide flexibility in determining when and how much to raise stormwater fees. However, depleting fund balance is not recommended because costs continue to go up and as stated earlier, there is a need to develop a capital improvement plan to ensure adequate funding levels to meet both regulatory requirements and maintain level of service.

While additional development is probable and will help by distributing the burden across more properties, banking on future development is somewhat risky. Staff used very conservative estimates in future development over the next three fiscal years in the analysis. With this information in mind, staff developed three options to help guide a decision on raising fees. The three options are:

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1. Raise rates in FY25 to meet each budget year (“All In” option).
2. Use fund balance in FY25 and FY26 but raise rates in FY27 to balance the budget (“Hold the Line” option).
3. Raise rates incrementally in each of the three years, but at a lower percentage (“Step by Step” option).

Staff also developed a separate document that is a detailed benchmark comparison of stormwater utility fees across North Carolina. The comparison includes the town’s current fee structure as well as comparisons showing the three options for raising rates. The rate benchmark document will be provided as part of the budget.

Discussion/Conclusion

FY24 has been a banner year for the Town of Hillsborough Stormwater and Environmental Services team. To build upon the success of this year and the history of the stormwater program, in order to improve compliance with the town’s stormwater permit, become more proactive in maintaining town-owned stormwater infrastructure and develop a stormwater capital improvement plan, stormwater utility fees will need to be increased in the near future. While the stormwater fund currently has a significant fund balance, it would be depleted if fees are not increased.

Three basic options were presented: raise fees this year in one large increase, wait until FY27 to raise fees in one large increase, or raise fees incrementally each year. The latter two options require appropriating fund balance to meet budget shortfalls. Using fund balance provides flexibility when determining when and how much to increase in any given year, especially if one large increase is unpalatable by citizens.

The three options provided are essentially a framework to be used for further discussion. Some combination of these options or amounts may be the most appropriate. These options will be discussed as part of the town’s consolidated budget process.