

Wednesday, March 11, will be the town board of commissioners' retreat. The town is a *big spender* when it comes to putting on this annual event. It will not be at some out-of-town resort but rather at the Highlands Community Building next to the ball field. The only food and drink served are coffee and donuts to begin the morning, and a bag lunch at noon. There is no afterglow cocktail party in the evening; the retreat will unceremoniously end around 4 pm.

The retreat is opened to the public, and the press always attends. The presentations and discussion of this all-day event will be broadcast on the town website. A daylong agenda will be published for those people interested in specific topics and funding issues.

Let me review the current budget highlights to paint a picture of what department expenses the board will be reviewing. At each yearly retreat, department heads present their needs for the coming year. A major part of department budgets is dedicated to personnel salaries, so much of the town budget is pretty much set. And with only about 75 town employees, there is little, if any, room for savings by cutting personnel without also reducing critical services.

The town budget was \$40.9 million this fiscal year, a huge yet deceptive number. Some might say that the town is flush with money. The old saying is just let Highlands pay for it. Easy to say if you are living in unincorporated Macon County. Not so if you live in the town limits, where residents pay both county and town taxes. Let me say that again. Highlands residents pay both town and county taxes, which turns out to be a major part of all the taxes collected in the county.

Over half of the town budget comes from enterprise funds, that is, those fees collected from residents to run the water, electric, and sewer systems. Those utilities are major assets for town residents. These utilities are operated by the town, and the board of commissioners is the elected officials who are answerable to the customers. No corporate call centers involved, only the staff and town manager at the front desk of town hall, the workers in the field, and the board commissioners. These departments required \$23 million in funding this past year. For instance, the town paid Duke Energy about \$3.8 million for wholesale power last year, not to mention all the other personnel, material, and equipment expenses to run the electric department. Like a business, this utility earns a profit that supports the long-term operation of the electric system, including new electric circuits. The same can be said, to some extent, of our water and sewer operations. The good news is that no increase in electric rates is expected for this coming year, as has been the case for about 7 years. We did increase water and sewer rates this year, and stepped increases have been built into the systems for the coming years. The NC Local Government Commission mandated these increases after doing an analysis of our future operating and maintenance

needs. Simply put, they told us our rates were too low and that we needed to build stronger reserves for these departments.

The town must also show in the budget the current state grant funds. Our finance staff must carry over much of this funding from year to year until grant projects are completed and off the books. We have received grants for waterline replacements, water plant upgrades, Mirror Lake Dredging, and a new water plant generator. I am grateful that we have been the recipients of these grants. They alleviate some of the pressure on the town's tax and ratepayers.

A significant portion of the budget under review will be the general fund. That part of the budget funds critical departments, including police, roads, recreation, sanitation, general services, and administration. The general fund is normally around \$7 million.

The general fund comes from property taxes, sale taxes, local and state fees, and from reserve funds. The reserve funds are the town's savings account that has been built up over the years.

The town collects about \$3.2 million in property taxes that go to the general fund. Even more surprising is that we collected only \$1.56 million in sales tax this year. Of the 6.75 cents in sales taxes collected on each dollar spent, the state gets 4.75 cents. Two cents are sent to the counties, which distribute a part of that revenue to the towns in their counties. I believe Macon County, after the town distributions, netted about \$17 million in sales tax revenue this year.

Highlands receives \$550,000 from Macon County for the recreation department so that it is open to both town and county residents. The town also contributes several hundred thousand dollars to the department. The county also gives the town \$50,000 for the Highlands Police Department to staff an SRO at the Highlands School. The school is funded by the county.

The town also receives just under \$500,000 in general fund fees and state franchise taxes. All the revenues for the general fund total around \$5.5 to 6 million.

But usually, the general fund is at least \$7 million. What is the difference, and where does the make-up of the shortfall come from? Well, in the past, it has come from reserve funds to ensure items like road paving and sidewalks are built or maintained. Transfer of reserve funds in the past has been around 1.5 million or more each year.

The impending problem is that the reserved funds are dwindling each year. So, what will the board do? Raising property taxes is a possibility, but I do not see that prospect for this budget year. Reducing services and cutting back on projects would be hard options, but

they will certainly be on the table in the future. I am sure these issues will be a major topic in this year's retreat and going forward.

Another department that will be carefully reviewed is the fire department. The town, in cooperation with the county, increased the fire district tax several years ago from 1 cent per \$100 of property valuation to 1.9 cents. That increase resulted in the building of the new fire department, going to full-time staffing, and buying several new trucks. The state fire safety and rating agency requires that aging trucks be replaced on a scheduled basis.

This year, an increase in the fire tax will have to be considered. Inflationary pressures are in play. That needed pumper truck replacement no longer costs \$250,000. A new one is now over \$500,000. Continuing to pay for full-time staffing and increasing the response crews from two to three firefighters will also be on the table. The approval of the fire department budget is done by both the town and county commissioners.

Please let me or your commissioners know about any budget concerns.