

Hillsborough, North Carolina



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| Population (2000) | 5,446 |
| Municipal budget (2006) | \$5.7 million ¹³³ |
| Per capita income (2000) | \$21,820 |
| Median household income (2000) | \$40,110 |
| Poverty rate (2000) | 13% |
| Minority population (2000) | 40% |
| Proximity to urban center | 14 miles to Durham, N.C. |
| Proximity to interstate highway | 2 miles |
| Strategic approach | Tourism Downtown development Managed growth |
| Time frame | 1991-2007 |

In 2007, the National Trust for Historic Preservation named Hillsborough one of the nation's dozen distinctive destinations.¹³⁴ Steeped in history, Hillsborough has taken bold steps to create a vibrant heritage tourism economy, but not at the expense of commercial and industrial development. The story of this community in eastern Orange County is about how to hold onto the old and embrace the new, all at the same time. "Living in Hillsborough is not about isolating the past in a time capsule," says an Alliance for Historic Hillsborough publication. "It is about managing change; integrating the old and new in ways that improve the quality of life in our community; and maintaining the unique qualities that make Hillsborough such a great place to live, work and visit." This story explores how Hillsborough bridges historic preservation and managed growth to achieve impressive economic outcomes.

The community and its history

Hillsborough, the county seat of Orange County, is located at the intersection of Interstates 85 and 40, along the western edge of North Carolina's Research Triangle region (Raleigh, Durham and Chapel Hill). Three major research universities – Duke, North Carolina State and UNC-Chapel Hill – are all within 40 miles of Main Street in Hillsborough. The town has a reputation as a place where history blends with economic progress in an eclectic Southern community. A bait-and-tackle shop just

With an identity proudly rooted in its small town history and a location ideal for commercial development, Hillsborough strikes a savvy balance between preservation of its past and growth for its future.

¹³³ Town of Hillsborough website: www.ci.hillsborough.nc.us. Accessed June 26, 2007.

¹³⁴ According to the National Trust for Historic Preservation, a distinctive destination is one in which residents have taken forceful action to protect their town's character and sense of place. Whether by enacting a local preservation law to protect historic buildings against demolition, rewriting zoning codes to prevent commercial sprawl, removing regulatory barriers to downtown housing, making downtown areas more walkable, enacting design standards or taking some other major step that demonstrates a strong commitment to their town, residents have worked hard to preserve the historic and scenic assets of their communities, with rewards that transcend town limits.

off Main Street, where customers can purchase live bloodworms, shares a wall with Cup-a-Joe, a trendy coffee shop where tattooed baristas prepare mocha lattes. "Everywhere I go, when I tell people I'm from Hillsborough they say, 'Oh, I love Hillsborough,'" Mayor Tom Stevens said.

Thanks to one of the nation's first historic districts, history is king in Hillsborough. More than 100 structures from the 19th and late 18th centuries are preserved in town. Musicians, artists and authors populate the historic district, bringing color and activity to the streets of town, day and night. According to Stevens, "Historic Hillsborough is happening."¹³⁵ And it's happening in more ways than one. Its location at the intersection of two interstates makes it prime real estate for distribution centers. Other types of commerce thrive as well. In the last two years, Hillsborough's nonresidential tax base has increased by 15 percent, from \$205 million to \$232 million.¹³⁶ Residential subdivisions are spreading out across the region as population growth continues along the urban corridor in Wake, Durham and Orange counties.

For more than 1,000 years before its official founding in 1754, Hillsborough was inhabited by the Occaneechee and other Native American Indian tribes. The town was founded on the spot where the Great Indian Trading Path crossed the Eno River. After European settlers drove most of the Occaneechee out of Hillsborough in the early 1700s, the town became a center of political activity during the Revolutionary period. Hillsborough hosted the state's Constitutional Convention in 1788, during which the convention delegates refused to ratify the Constitution until it included a Bill of Rights.¹³⁷ By the late 1800s Hillsborough, surrounded by tobacco plantations and textile mills, was a thriving stop on the North Carolina Railroad. Later, in the 1940s, a prophyllite mine (a material used for insulation) was established on Occaneechee Mountain, and the Occaneechee Speedway opened on the outskirts of town and hosted the first NASCAR professional auto racing season. Today, it is the only remaining racetrack from the sport's inaugural year.

In the 1950s, a local historian named Mary Claire Engstrom founded the Hillsborough Historical Society and initiated an effort to document the town's rich cultural and political history. Over time, additional nonprofit and civic organizations dedicated to the preservation and interpretation of the town's history evolved. By the early 1990s, there were seven independent organizations in Hillsborough with missions to either preserve or promote the town's heritage. These included the Historical Society, the Preservation Fund of Hillsborough, the Historic District Commission, the Arts Council, the Hillsborough/Orange County Chamber of Commerce and others. Around the same time, large-scale development associated with Research Triangle Park started to edge into central Orange County. Hillsborough, with its rural small-town amenities and convenient location on the highway, was an attractive bedroom community for many of the scientists and engineers working in the RTP.

¹³⁵ Malone, Michael. "Falling in Love with Hillsborough." From www.chocvb.org. Accessed June 26, 2007.

¹³⁶ "Orange County State of the Local Economy Report." Orange County Economic Development Commission, www.co.orange.nc.us/ecodev. Accessed June 25, 2007.

¹³⁷ Chapel Hill/Orange County Visitor's Bureau, www.chocvb.org/visitor/95/Fun-Facts.

In an effort to gain some control over development, local officials made two strategic decisions. First, in 1991, the town board appointed a Vision 2010 committee to draft a comprehensive plan for the community.¹³⁸ The community updated Vision 2010 in 2000 and inserted new language: “A vivid lesson of the twentieth century is that without eternal vigilance and courageous action a delightful community like Hillsborough may in the blink of an eye be swept up in the urban sprawl of some nearby megalopolis. This document serves as the first step toward having a town that has survived and has its defenses well in place, that has demonstrated the strength and foresight to save itself, and that has the will to hold to its principles.”¹³⁹ The Vision 2010 plan, produced with participation from across the community, set forth the goals and vision for future development in Hillsborough. One major part of the vision was to preserve and protect the community’s historic and cultural assets.

The second strategic decision came in 1993, when Hillsborough voters authorized the town to finance construction of a new reservoir on the Eno River. For decades prior, the community was challenged by an inadequate water supply for new developments and water use restrictions for existing customers. According to then-Mayor Horace Johnson, the community wanted and needed to expand its tax base, but was losing industries because water supply was limited.¹⁴⁰ In 1995, the Local Government Commission, a state agency that approves financial arrangements for town and county governments in North Carolina, granted Hillsborough permission to sell bonds. The new Hillsborough Reservoir, constructed at a cost of \$5.86 million, brought the town’s water supply capacity to 3 million gallons a day. The provision of water, which even with the new reservoir was adequate but limited, would play a major role in Hillsborough’s decision-making about growth and economic development.

In 2000, when residents of Hillsborough ushered in the new century, pressure from development, water resources and historic preservation were three of the most important issues with bearing on the community’s economic development future. Each issue brought with it both challenge and opportunity. The test was how to leverage each, without destroying, or devaluing, the others.

The strategy

Hillsborough’s strategy is twofold – promoting heritage-based tourism and managing growth for economic diversity and quality of life. It begins with using its heritage assets to attract tourists. Through the Alliance for Historic Hillsborough, the community coordinates and focuses its resources toward effective promotion and preservation. A local tax on prepared foods and beverages provides a long-term and sustainable revenue source for promoting historic Hillsborough. Events such as the Last Friday art and culture series attract thousands of visitors who spend money on food, entertainment and shopping. Second, in response to

¹³⁸ Town of Hillsborough’s Vision 2010 Plan, January 2000. Available at www.ci.hillsborough.nc.us.

¹³⁹ *Ibid*, p. 1.

¹⁴⁰ Murrell, Duncan. “Hillsborough gives landowners ultimatum over Eno reservoir.” *The Chapel Hill Herald*, November 12, 1996.

development pressure, the town of Hillsborough has implemented an innovative process of managing growth. It uses the annexation and permit review processes to facilitate development on the community's own terms.

Heritage tourism

By the late 1980s, seven organizations were working independently to preserve heritage assets and promote tourism in Hillsborough. There was a growing sense that they were competing with each other for financial and volunteer support. In 1991, all seven organizations came together to discuss a new arrangement. "Hillsborough needed an entity to promote everybody," said Cathleen Turner, a local proponent for historic preservation. "There needed to be less territorialism and more communication and partnership."¹⁴¹ In 1991, leaders from each organization agreed to form the Alliance for Historic Hillsborough. The alliance is an umbrella organization through which the member organizations coordinate efforts, raise funds together and "preserve, enhance, and increase awareness of the historical and cultural heritage of Hillsborough for residents and visitors."¹⁴²

Throughout the early 1990s, heritage tourism was a significant and growing contributor to the local economy in Hillsborough. Promotional events initiated by the alliance and highlighting the town's history and heritage were attracting thousands of visitors. In 1994, local leaders proposed a 1 percent sales tax on any food or beverage prepared within the municipal limits. Revenue from the prepared food tax was to be used toward promotional events and various beautification projects. Local restaurant owners were brought into the process early, and several restaurant owners helped the town to write the tax provision. The N.C. General Assembly approved the tax in 1993, and it was first levied in 1994.

Revenue from Hillsborough's prepared food tax is split 60-40 between the Alliance for Historic Hillsborough and the Hillsborough Tourism Board. The tourism board – which includes four local restaurant owners, one town board appointee, a Chamber of Commerce representative and an alliance member – was created as a public custodian for the prepared food tax. In 2006, the tax generated \$170,000, which, divided between the alliance and the tourism board, was used to operate the Orange County Visitors Center, print and distribute a local restaurant brochure, conduct a local tourism market analysis and provide grants to local tourism facilities, programs and services.

The prepared food tax has been an enormous success. "In theory the tax worked well," Turner said. "In reality, it works even better." One example of how the tax has improved Hillsborough's heritage tourism industry is the creation of the Last Friday series. In 1997, several local artists representing the arts council applied to the tourism board for a grant to fund a concert series featuring local musicians, artists and local vendors. Revenue from the prepared food tax financed the series. Nine years later, Last Friday draws nearly 1,000 people from throughout

¹⁴¹ Interview with Cathleen Turner on June 26, 2007.

¹⁴² From www.historichillsborough.org. Accessed June 14, 2007.

the region each month and creates visibility for local artists and performers. Restaurants benefit, too. "A few years ago, a restaurateur told me, 'I cover all of my payroll and overhead for the month from just Last Fridays. The rest of the month is just gravy,'" Turner said. More recently, the tourism board used the tax revenue to update the downtown streetscape and to provide seed funding to town's Hog Days festival (an event that drew 20,000 visitors to town this year). Current revenue is being applied to developing a branding strategy for Hillsborough.

Managing growth

The second part of Hillsborough's strategy is an outgrowth of the community's Vision 2010 planning process. It is also a response to the increasing pressure on municipal services created by residential development in and around Hillsborough. On average, residential development is a net loss for the municipal coffers. According to Diane Reid, executive director of the Orange County Economic Development Commission, for every dollar Hillsborough spends to provide municipal services to residential customers, the town recovers 76 cents. The same expenditure for commercial and industrial customers brings back \$4.30.¹⁴³ Although Hillsborough's tax base currently is 40 percent commercial property, community leaders know they cannot take it for granted. The growing market for residential development in Orange County means they must remain aggressive in their efforts to maintain a diverse tax base and to ensure the town's quality of life.

A strategic growth plan points the way. While Vision 2010 deals with a wide range of goals and corresponding action steps for the community, the strategic growth plan outlines how and where the community wants to grow and proposes a means for managing that growth over the next 20 years. It was structured as a town-county project, with a steering committee comprised of town and county representatives, out of recognition that planning for growth required a multi-jurisdictional approach. "It is intended to clarify the most desirable rate, timing and location for future growth occurring over the next 20 years within and around the Town of Hillsborough."¹⁴⁴ Its goals are to (1) preserve and enhance the Hillsborough core area, (2) preserve significant cultural and natural resources, (3) coordinate growth with water/sewer availability, (4) grow in a fiscally responsible way, (5) keep existing businesses healthy and (6) assure continuity in public service provision.¹⁴⁵ The community's values, including the importance of open space, parks, cultural resources, healthy existing businesses and fiscal responsibility, underpin the goals.

The plan, released in late 2006, concludes with several recommendations for using land use planning and the municipal zoning ordinance to encourage the maintenance of a diverse tax base. It also recommends using interlocal agreements as mechanisms to assign responsibility

¹⁴³ Hillsborough and Orange County Strategic Growth Plan, Meeting Summary – Steering Committee (3rd meeting March 22, 2006). Available at ci.hillsborough.nc.us.

¹⁴⁴ Hillsborough and Orange County Strategic Growth Plan, November 2006. Available at ci.hillsborough.nc.us.

¹⁴⁵ *Ibid.*

within the process of managing development. Some of the policies have been adopted and others have not. An interesting strategy for evaluating and approving new development has evolved directly from the vision established in Vision 2010 and the strategic growth plan. It involves two main components: (1) the use of water as a tool for managing growth and (2) requirements – as part of the rezoning and annexation processes – that developers include commercial space, parks and other public facilities in all new residential developments in Hillsborough.

Access to municipal water is a major point of leverage for Hillsborough. The new reservoir is adequate for existing needs, but it was never intended as a long-term fix to the town's water-related challenges. "We want to grow Hillsborough in an organic way," said Margaret Hauth, planning director. "Water pipes are our lever for doing this." Developers with options on properties outside of Hillsborough's municipal boundaries must apply for annexation to qualify for municipal water and sewer service.

This process has become Hillsborough's major point of leverage for managing growth. "If [water runs out] 15 years from now, we want to be able to say that we spent it on the right projects," said James Watts of the Hillsborough water and sewer advisory board.¹⁴⁶ For example, in June 2006, the town board denied a request to annex, rezone and issue a permit for a 118-acre development with 250 homes. The proposed Ashton Hall development was to include 20,000 square feet of commercial space, but lacked the other quality-of-life amenities consistent with Vision 2010 and the strategic growth plan. On the other hand, after four years of negotiation with the Trump Group (a developer based in Florida), the board approved a master plan for Waterstone in 2004. The initial proposal called for a typical 340-acre residential development. The final master plan includes significantly fewer residential units, with a variety of housing options (including 24 affordable housing units), community parks, trails, a hotel, retail and office space, a day care and a retirement community. The plan also reserves space for a satellite campus of Durham Technical Community College and requires the developer to make cash contributions toward fire and police protection. Waterstone was "rewarded" with the town board's commitment to reserve 350,000 gallons a day of water and sewer capacity for the development over the next 10 years.¹⁴⁷

Managing growth – by using the town's limited water supply and permit processes to make development decisions on the town's own terms – has been the second major element of Hillsborough's economic development strategy.

The outcomes

Outcomes that can be attributed to Hillsborough's strategy for economic development include:

¹⁴⁶ Sadgrove, Cheryl J. "Town may tie growth to water supply." *The News and Observer*, February 12, 2006.

¹⁴⁷ Graybeal, Geoffrey. "Hillsborough board approves Waterstone development." *The Herald-Sun*, March 9, 2004.

- Over 10,000 visitors annually to the Orange County Visitors Center, located in Hillsborough.
- From 1994 to 2005, an increase of 134 percent in visitors to the visitors center.
- From 1997 to 2005, visitor spending in Orange County increased from \$91.2 million to \$127.2 million.
- Creation of Hog Day, an annual barbecue and music festival that drew 20,000 people to Hillsborough in 2007.
- Slated development of Gold Park/Riverwalk, a \$1.7 million walkway and 24-acre park connecting downtown Hillsborough with the Eno River.
- 43 percent nonresidential tax base.
- Between 2004 and 2006, an increase from \$205 million to \$232 million in nonresidential tax base¹⁴⁸.
- Unemployment rate of 3.6 percent in 2006 (compared with 4.8 percent statewide).
- In 2007, named one of the a dozen distinctive destinations in the United States by the National Trust for Historic Preservation.
- Featured in *The New York Times*, *Small Towns*, *Motor Coach Magazine*, *The Charlotte Observer* and the N.C. Farm Bureau magazine.
- Significant increase in citizen involvement on town boards and commissions.

How and why the strategy is working

Given Hillsborough's success with blending heritage preservation and tourism with proactive growth management, the question becomes how and why this small community has been able to achieve such impressive outcomes. Location is a critical factor in Hillsborough's success. It lies at the intersection of two major highways and within commuting distance of major regional employment centers. Second, the community has taken a multi-jurisdictional approach to planning for growth by involving Orange County officials in strategic planning. The community was fortunate to have leaders, beginning in the 1950s, who recognized the importance of preserving historic assets. More recently, Hillsborough has put in place a funding mechanism to promote tourism. Finally, a spirit of volunteerism and risk-taking pervades the civic culture in Hillsborough.

Location, location, location. Hillsborough is fortunate to be situated in an ideal location for both residential and commercial development. It is an easy day trip for millions of potential tourists across central North Carolina. Its strategic location at the intersection of two interstate highways and within immediate reach of several research universities and the RTP means that companies and developers want to be in the Hillsborough market. Companies, especially those in distribution and trade, compete for locations along Hillsborough's interstate corridor.

¹⁴⁸ "Orange County State of the Local Economy Report." Orange County Economic Development Commission, www.co.orange.nc.us/ecodev. Accessed June 25, 2007.

Developers are willing to comply with greater than average stipulations from the town board because they want access to Hillsborough's market and location.

Multi-jurisdictional planning for growth. Hillsborough's Strategic Growth Plan, drafted in 2006, was a joint effort between the town and Orange County. As explicitly recognized in the growth plan, "Hillsborough and Orange County have a constructive history of collaborating and cooperating on land use management issues in the developing areas surrounding the town."¹⁴⁹ Although not every recommendation from the plan has been implemented, the process of creating a vision for growth that extends beyond the municipal boundaries is critically important. Given the tremendous growth pressures throughout Orange County and the overlapping nature of service provision between the town and county, Hillsborough had to involve county officials in the planning process. The results of the plan, including the recommendations to use interlocal agreements to clarify roles and responsibilities for managing growth, are necessary steps for successful development.

Foresight to see historic preservation as key to economic development. Beginning as early as the 1950s when Mary Claire Engstrom documented the town's history, Hillsborough's leaders have had the vision to understand the link between preservation and economic development. Current town leaders inherited a well-preserved cultural and physical environment. They were able to capitalize on it to offer visitors a unique tourism experience and residents a great quality of life.

Sustainable funding source to promote tourism. The decision by local leaders (including restaurant owners) to support the prepared food tax in 1994 provided the town with an innovative means for promoting heritage tourism in Hillsborough. Revenue from the sales tax provided a sustainable funding source dedicated to promoting tourism. "The meals tax provided an economic backbone for the alliance's and town's tourism effort," Turner said.

Spirit of volunteerism and service among citizenry. One aspect that makes Hillsborough rich is the commitment by a diverse range of local residents to serve on volunteer committees and boards. This includes both long-time residents and newcomers. "Folks that move here tend to be more involved," said town board member Mike Gerring. The representation of older residents and newcomers on volunteer boards and committees contributes to the town's progressive and proactive posture toward development and growth.

Willingness to assume risk. Armed with a coherent vision for the community and developers eager to access Hillsborough's market, local leaders have been consistently willing to take bold action. Risk-taking in Hillsborough began in the 1970s, with the creation of the historic district and local investments in preservation. Through the 1990s, the community took a major risk by implementing a prepared food sales tax and insisting that proceeds go toward promoting tourism. More recently, local officials are pushing the legal envelope to ensure that development is consistent with the community's vision for growth and economic development.

¹⁴⁹ Hillsborough and Orange County Strategic Growth Plan.

What are the lessons from this story?

Use public resources strategically. After financing and constructing a new reservoir, local officials were well aware of the limits of the existing water supply. Rather than grant water resources to any development or to the highest bidder, local officials used their municipal water resources to shape development. Development that was consistent with the community's vision was granted access. Development that was inconsistent with what the community wanted was denied access.

Know your market. Hillsborough's annexation and rezoning review processes have become important instruments for shaping development. Rather than entering negotiations with developers from a position of weakness, local officials in Hillsborough have leverage because they understand the value of their market to developers. The basis for negotiating with developers should be rooted in an assumption that developers ought to be responsible for providing adequate infrastructure for their development. Communities need to understand their local market conditions and be prepared to take tough stands on issues of infrastructure provision.

Use growth management to advance the community's vision for economic development. Hillsborough demonstrates that managing growth, or being proactive about how development proceeds in a community, does not stifle economic growth. In the last two years, Hillsborough's nonresidential tax base increased by almost \$30 million. This did not happen by chance. The community insisted that new residential developments be accompanied by commercial space. When done thoughtfully, and as part of a widely shared community vision, managing growth and economic development can complement each other.

Historic assets are economic development assets. This case demonstrates that a long-term and proactive effort to preserve a community's historic assets can pay major dividends in terms of growing a tourism economy and maintaining a unique quality of life for new and existing residents. Local officials in Hillsborough created a historic district and have been vigilant in maintaining the standards associated with that designation. Tourists are attracted to Hillsborough's historic and cultural attractions and tourists spend money in local businesses, restaurants and hotels. A local tax on prepared food captures a portion of this spending and recycles it into additional promotion of historic Hillsborough.

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