

GENERAL FINANCIAL CONDITION - MAJOR FUNDS

Below is a general discussion of the financial condition of the major funds of the Town of Cary. Growth Management efforts coupled with a slowing economy have combined to significantly reduce population and revenue growth for the Town of Cary compared to the 1990's. Other major issues facing the Town in the last couple of years include the impact of the state's budget crisis on state-collected local revenues, adequate schools, parks and streets.

On February 2, 1999, voters approved a bond referendum authorizing \$66.5 million in water bonds to address capacity and tank needs at the Cary/Apex Water Treatment Facility, \$62.635 million in streets bonds, and \$10 million in parks bonds. A \$10 million bond authorization for an aquatics center was defeated. Once the bond referendum was approved, the Council was faced with the decision of whether to proceed with the construction of the plant expansion prior to receiving the Interbasin Transfer Permit. The Council held a joint worksession with the Town of Apex in July 1999 and voted to begin the bidding process for the construction of the plant expansion. The Cary/Apex Water Treatment Facility expansion was completed in the Spring of 2002. The Interbasin Transfer Permit was indeed granted in 2002, allowing the Town to begin pumping at levels up to 40 million gallons per day.

- **Revenues**

As a result of previously limited water resources, the Council approved a water allocation plan limiting residential building permits through spring 2002. Beyond that time, the Comprehensive Growth Management Plan put in place by the Town Council should help the Town target a population growth rate of 3% per year.

Some revenue sources, such as building permit fees, inspection fees (in part), environmental permit fees, water and sewer development fees and transportation development fees do not have a base revenue stream and rely solely on new development to generate income. Other sources such as sanitation fees, cable TV franchise fees, recycled goods, water and sewer fees, and ad valorem taxes have a base revenue. Intergovernmental revenues such as Wake County Sales Tax, Utilities Franchise Tax, Wine and Beer Tax, and Inventory Tax Reimbursement will be affected by a reduction in population growth or assessed value, as the basis for revenue distribution depends on the Town's proportionate share of the total population or assessed value for all municipalities within Wake County.

Total revenues for the General Fund are budgeted at \$77,516,638, which represents a 5.6% increase over estimated FY 2002 revenues. This increase would only have been 2.3% had all Governor withheld local revenues originally budgeted in FY2002 been received. Ad Valorem Taxes are the largest revenue source in the General Fund and represent 59% of total revenues. The property tax revenue is expected to continue to increase; however, due to reduced levels of new construction activity, the rate of revenue growth is expected to slow compared to that experienced in the 1990's.

Utility Fund revenues are budgeted at \$29,461,441, which is a 7.4% increase over estimated FY 2002 revenues. The largest revenue sources in the Utility Fund are the Water and Sewer Retail Fees, which represent 85% of total revenues. In FY 2003, Water Retail Fee revenue is expected to increase over FY 2002 estimates by 3.6%, while Sewer Retail Fees are expected to increase 4.2%. Supplementing these retail fee increases is a \$865,350 or 146% increase in Interest Earnings. This increase is due in large part to additional cash balances available to invest in FY 2003.

The Utility and General Capital Reserve Funds total revenues are \$12,747,828, which is a 10% decrease from estimated FY 2002 revenues. The majority of this decline is due to impact fee revenues (water, sewer, and transportation), which are directly dependent upon new construction activity. The primary revenue sources in the Utility Capital Reserve are the impact fees assessed on development to fund related infrastructure costs. The primary revenues in the General Capital Reserve are the Transportation Development Fees, Interest Earned and Powell Bill funding.

- **Expenditures**

The impact of the water allocation system on expenditures is less obvious than the revenue impact. It is primarily realized through a smaller growth rate in expenditures required to continue meeting service level expectations. For example, meter readers and sanitation crews are not added as soon or at all with the reduction in growth. However, as is evident in the CIB/CIP, there is a substantial increase in capital projects as the Town strives to meet infrastructure needs. As capital projects are completed, there may be annual staffing and maintenance impacts on the operating budget along with the substantial debt service payments.

Operating expenditures for the General Fund are \$78,139,334 (excluding all inter-fund transfers) which represents an 8.8% increase over Estimated FY 2002 expenditures. The primary drivers of this \$6.3 million increase include \$1.6 million or 43% in debt service related to capital needs, a 26% increase in Health Insurance Benefits, and salaries and related personnel costs associated with 34.575 new positions. The transfer to the Parks and General Government Capital Project Funds is \$3,949,400. This transfer is considerably less than the \$17,794,175 transferred to parks capital projects in FY2001 and \$7,676,756 in FY2002.

The Utility Fund operating expenses are budgeted to increase 4.9% over estimated FY 2002 expenses. The total expenses are \$21,076,035 excluding all inter-fund transfers. Inter-fund transfers include a transfer to the self-insurance fund of \$76,541, the reimbursement to the General Fund of \$4,984,109 for Public Works/Utilities Department work, and the payment of \$1,500,000 to the General Fund for indirect costs. Debt service is budgeted at \$10,655,632 which reflects a 50% increase over estimated FY 2002 debt service levels.

An annual contingency budget has been established in the General Fund to handle emergency and unanticipated expenses that arise during the fiscal year. The FY 2003 contingency budget for the General Fund is \$800,000. Expenditures using the contingency budget are approved by the Town Manager and reported to the Town Council.

The total Capital Improvement Budget for both utility and general projects is \$72,710,177. The capital budget in FY 2003 represents an 11% decrease from the FY 2002 CIB. Of the total projects, \$11,150,000 in the Utility Capital Projects is for a Thermal Biosolids Dryer to be located at the South Cary Water Reclamation Facility to help expand the Town's waste treatment capacity. In General Capital Projects \$14,155,000 is appropriated for transportation projects from the 1999 bond authorization and \$3,051,900 in park projects is funded by a transfer from General Fund fund balance.

- **Fund Balance**

The fund balance for the General Operating Fund is projected to be about \$56 million at the end of FY 2003. During the FY2003 budget process, it was determined that an acceptable level of fund balance was six months worth of operating expenditures and debt service. The difference between the six months worth of expenditures and debt service of \$37 million and the budgeted \$56 million ending fund balance, or \$19 million, has been designated for future capital programs.

The projected Utility Fund fund balance at the end of FY 2003 is expected to be about \$29 million. In FY 2002, \$10,195,084 of Utility Fund fund balance was transferred to a new capital project for the acquisition of Open Space. The original \$12.5 million transfer of fund balance for Open Space purchases was reduced by \$2,304,916 spent for open space purchases out of the Parks, Recreation and Cultural Resources site acquisition funds during FY 2001. Water Utility rates were increased about 3% in FY 2002 to generate a recurring revenue source which would generate \$1 million for the Open Space program. In FY 2003 this revenue will fall into fund balance to help ensure all the revenue bond covenant ratios agreed to during FY 2002 are satisfactorily met before transferring the \$1 million in fund balance to the Open Space program at the beginning of FY 2004.

The projected fund balance at the end of FY 2003 for the General Capital Reserve is \$2,016,405, a decrease of \$11.3 million from the estimated fund balance at the end of FY 2002. The street projects are funded in part by the remaining \$14.1 million 1999 street bond authority, and parks projects are partially funded by a transfer from the General Fund.

The projected fund balance at the end of FY 2003 for the Utility Capital Reserve is \$15,996,975, a decrease of \$9.9 million from the estimated fund balance at the end of FY 2002. Revenue bond financing represents the single largest source of financing for Utility projects in FY 2003 at \$17,350,000, or 53% of the program.

Further details on the General or Utility Operating Funds can be found in the appropriate fund section in this document. Further information on the General or Utility Capital Reserve Funds can be found in the CIB/CIP section.