

REVENUE SOURCES AND TRENDS – GENERAL FUND FISCAL YEAR 2003

As a matter of general policy, Town revenue estimates have historically been budgeted conservatively in order to avoid possible shortfalls due to unanticipated changes in the local economy or a slow-down in the rate of construction activity. A substantial shift to a more realistic approach to budgeting revenues took place at the beginning of FY 1999. This most recent approach was used in the formulation of FY 2002 and FY 2003 revenue estimates.

FY 2003 permit and fee revenue estimates are budgeted to reflect the slower growth rate of approximately 3% per year. Revenues were estimated by analyzing the major drivers that affect each source, how these drivers are affected by the economy and adequate public facilities ordinances, and the timing of when revenue is received.

FY 2002 estimated General Fund revenues are projected to decrease 6.9% from actual FY 2001 revenues. FY 2003 budgeted revenues are projected to increase 5.6% from estimated FY 2002 revenues. Revenues are budgeted for FY 2003 based on a 3% population growth rate. New non-residential activity is projected at 500,000 square feet.

The General Fund's major revenue source, property tax, continues its upward trend. However, growth has slowed from double digit expansion in the 1990's to just 3% for FY 2003. The FY 2003 property tax rate is \$0.42 per \$100 of assessed value, the same as FY 2002.

Actions taken by the North Carolina General Assembly have also affected Cary and other North Carolina local governments. During the 1993 session, the Legislature changed the Beer and Wine and Utility Franchise Taxes to an automatic distribution with growth, effective in FY 1996. In 1998, the General Assembly removed the natural gas portion of the Utilities Franchise Tax and imposed a Natural Gas Excise Tax based on consumption. In April 1995, the General Assembly repealed the state's intangibles tax on stocks, bonds, and bank deposits, a portion of which was allocated to local governments. The state reimburses local governments for this lost revenue at a level based on prior years' allocations, with no growth built in.

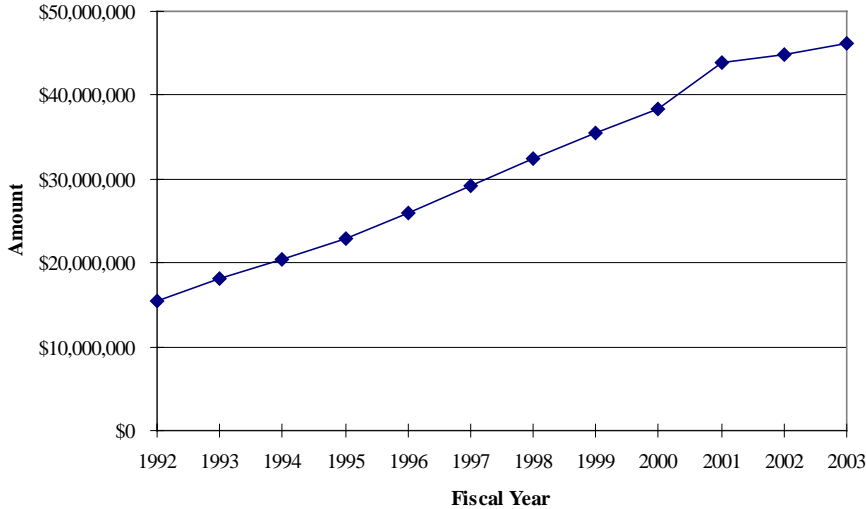
Fiscal problems at the state level directly affected local reimbursements during FY 2001. The state made the decision to retain the FY 2001 spring inventory reimbursement to assist in addressing state budget issues. These funds were later released by the Governor in June 2001. In May 2001, the state announced that it would also retain Emergency 911 revenues. The Governor also chose to release these funds in June 2001. While these actions ended up having no impact on the Town in FY 2001, financial constraints at the state level have led to other withholdings during FY 2002. The Town's FY 2002 revenue estimates assume that the revenues withheld by the Governor to help balance the state budget will not be returned (\$2.35 million). The Fiscal Year 2003 Budget assumes, however, that the revenues from these same sources will be distributed as normal (\$4.4 million) in FY 2003.

The Town of Cary and the U.S. Census Bureau conducted two special censuses during the 1990s to quantify Cary's rapid population growth. In effect, the Town updated its population numbers at a time when other Wake County municipalities did not. Because many shared revenues are distributed based on Cary's percentage of the Wake County population, the updated population figures allowed the Town to receive a higher proportion of shared revenues than other Wake County municipalities.

Subsequently, the 2000 Decennial Census resulted in only slight population growth over Cary's 1998 special census figures. Cary's Wake County neighbors, however, experienced high levels of growth since the 1990 census, and their portion of shared revenues increased significantly, leaving a smaller share for Cary. This trend is expected to continue as Cary transitions from a "rapid growth" community to one of "managed growth."

Descriptions of major revenue sources and their related trends follow. Graphs appear for each revenue category showing ten years of actual data, FY 2002 estimated revenues, and FY 2003 budgeted revenues.

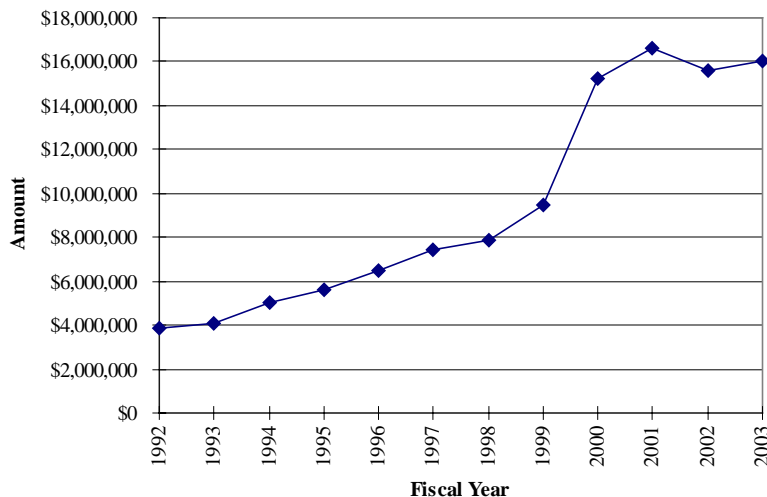
Ad Valorem Taxes: \$46,251,621



This includes not only the current Ad Valorem Taxes but also the Prior Year Property Taxes, and Penalties & Interest.

- Ad Valorem Taxes - \$45,851,621**
 The Ad Valorem tax on property is the major source of revenue for the Town. Property taxes are assessed and collected by the county and remitted to the Town on a regular basis throughout the year. The property tax rate for fiscal year 2003 is \$0.42 per \$100 of assessed valuation, the same as the FY 2002 rate. Ad Valorem Tax revenue continues to rise; however, the rate of the increase is slowing. A 3% increase from the FY 2002 estimate is budgeted for FY 2003.
- Prior Year Property Taxes: - \$330,000**
 This revenue consists of late property tax payments from previous fiscal years received in the current fiscal year. The FY 2003 budget is a 0.1% increase over the estimated FY 2002 level.
- Penalties & Interest - \$70,000**
 This revenue comes from the fines and interest applied to overdue property taxes. While the collection rate has increased, the dollar volume of this revenue has also expanded due to net growth and the 2000 revaluation. The FY 2003 budget reflects an increase of 12.1% over estimated FY 2002 revenue.

Other Taxes and Licenses: \$16,040,662

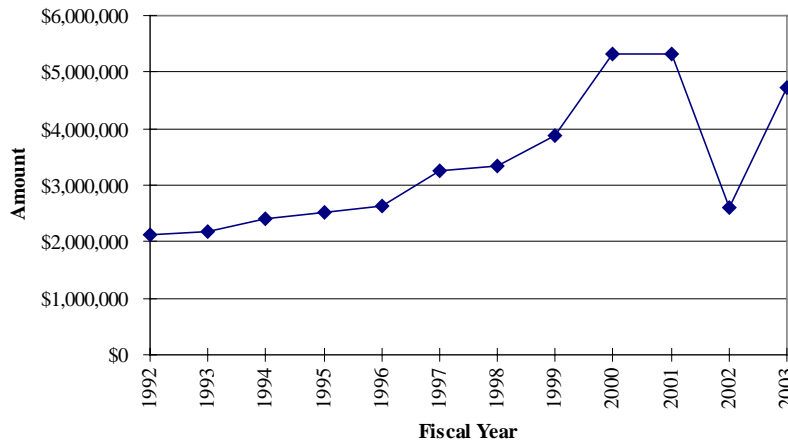


The major revenue source is Wake County Sales Tax, budgeted in FY 2003 at \$8,635,566 for the one-cent tax and \$5,315,267 for the two half-cent taxes. Prior to FY 2002, the two half-cent taxes were budgeted in the Capital Reserve Funds.

Also includes: ABC Revenue, Intangibles Tax Reimbursement, Privilege Licenses, Occupancy Tax, and Pet Licenses

- **ABC Revenue - \$247,629**
 ABC taxes are distributed quarterly by the county alcohol control board based on the ad valorem levy the previous year after expenses are deducted for law enforcement, education, and rehabilitation. The FY 2003 budget is a 2.3% increase over estimated FY 2002.
- **Intangibles Tax Reimbursement - \$878,712**
 In 1995, the North Carolina General Assembly repealed the tax on intangible personal property, such as money on deposits, bonds, shares of stock, and account receivables. The state reimbursement to localities is frozen at the 1994 level with no growth. Funds are distributed every August based on the previous fiscal year's Ad Valorem levy of each municipality within the county. This revenue source has remained relatively flat since 1995, and as a result the FY 2003 budget shows no growth over FY 2002 projected revenue levels.
- **Half Cent Sales Tax - \$5,315,267**
 The North Carolina General Assembly, as a local county option, authorized the Half-Cent Sales Tax with a portion going to the county, all municipalities and school systems. Two ½ cent sales taxes exist. Both are collected statewide and then distributed to counties and municipalities on a per capita basis. Prior to FY 2000, 70% of the total was budgeted in the General Capital Reserve and 30% in the Utility Capital Reserve. In FY 2000 the Local Government Commission began requiring all Wake County Sales Tax Revenue to be budgeted in the General Fund as unrestricted revenue. FY 2002 receipts decreased 3.5% from FY 2001 receipts due to the economic slowdown. FY 2003 total revenue is estimated to increase by 3.0% over estimated FY 2002. Sales tax receipts are received quarterly with the fourth and first quarter revenues being the highest and lowest, respectively.
- **Wake County Sales Tax - \$8,635,566**
 The county levies a local sales tax on all retail sales, lease or rental of tangible personal property, rental of motel or hotel rooms, and rendering of services. Proceeds of the one-cent sales tax budgeted in the General Fund are distributed to municipalities by a formula based on county point of sale. Once the county share is determined, municipalities receive funding based on population as recorded by the North Carolina Office of State Planning. Sales tax receipts are received quarterly with the fourth quarter traditionally being the highest and first quarter being the lowest. FY 2002 General Fund sales tax revenues are estimated to decrease by 6.3% from actual FY 2001 receipts. FY 2003 revenues are expected to increase by 3% over FY 2002 estimates.
- **Privilege Licenses - \$484,333**
 Local taxes are levied by the Town on the businesses, trades, and professions operating within corporate limits. The fee schedule is based on gross receipts and the nature of the business. FY 2003 revenues are projected to increase 0.1% over estimated FY 2002 revenues. Actual annual revenues can fluctuate considerably depending on whether fees are collected in June (the end of a fiscal year) or July (the beginning of the next fiscal year). This revenue source is not accrued from one year to the next, so the revenue shown is for privilege licenses paid as of June 30th. New privilege license requests have slowed considerably, but the majority of this revenue comes from renewals.
- **Occupancy Tax - \$474,655**
 The occupancy tax is 6% of the net receipts reported for all hotel and motel rooms in Wake County. Because Cary receives a flat 5% of the total Occupancy Tax revenues, there is very little correlation between hotel/motel activity in Cary and the amount of revenue the Town receives. FY 2003 revenue is projected to increase 3.0% over FY 2002 estimated revenues.
- **Pet Licenses - \$4,500**
 The Town collects a license fee from dog and cat owners. Revenue from this fee has declined since FY 1996 when the Town switched from an annual fee to a one-time fee. The current license fees are \$20 for non-neutered pets and \$10 for neutered pets. FY 2003 revenue is projected to decline 6.1% from the FY 2002 estimate based on prior year trends and the slowing rate of population growth.

Intergovernmental Revenues: \$4,738,987



The major revenue source is the Utilities Franchise Tax, which is budgeted at \$3,500,000 in FY 2003.

Also includes: Wine & Beer Tax, Wireless 911 Fund, COPS Grant, Inventory Tax Reimbursement, and High School Resource Officer Reimbursement.

- Utilities Franchise Tax - \$3,500,000**

The State of North Carolina levies this tax on utility company gross receipts at a rate of 3.22%. The state shares a portion of these taxes (3.09% of gross receipts of electric, gas, telephone, and street transportation companies) with local governments. Utilities Franchise taxes are received quarterly with the highest receipts received in the fourth. Beginning in July 1999, the tax on piped natural gas became an excise (consumption-based) tax instead of a franchise tax. The revenue from the Natural Gas Excise Tax is accounted for separately, but in FY 2003, the Town will continue to budget for these funds in this account. The North Carolina Department of Revenue has established a benchmark for each municipality based on FY 1999 receipts—\$533,792 for Cary. No city or town will receive more revenue from the new excise tax until all municipalities receive their benchmark amount. Governor Easley withheld a portion (\$1.7 million) of this revenue in FY 2002 to help balance the state budget. However, because the Town's tax structure assumes the receipt of this revenue, the FY 2003 budget includes the full estimate for this revenue source.

- Wine and Beer Tax - \$500,000**

The State of North Carolina levies this tax on alcoholic beverages. A municipality may share in the revenues if beer or wine is sold legally within its jurisdiction. The proceeds are distributed based on the Town's population as recorded by the North Carolina Office of State Planning. Governor Easley withheld a portion (\$400,000) of this revenue in FY 2002 to help balance the state budget. However, because the Town's tax structure assumes the receipt of this revenue, the FY 2003 budget includes the full estimate for this revenue source.

- Wireless E911 Fund - \$86,473**

Beginning in FY 2000, all cellular phone subscribers are charged \$0.80 per month to help purchase, operate, and maintain an enhanced 911 (E-911) system. The FY 2003 budget represents no change from the estimated FY 2002 figures.

- COPS Grant - \$139,000**

Funding for the COPS Universal Hiring Program has dropped sharply due to the transition from the Clinton administration to the Bush administration and the increased focus on homeland defense funding. As a result, Cary has not received any new COPS funding since FY 2001 and the existing officers are phasing out of the three-year grant program. There are currently twelve officers receiving funding, but the funding will run out during FY 2003. The FY 2003 budget represents a 64% decrease from the FY 2002 estimate.

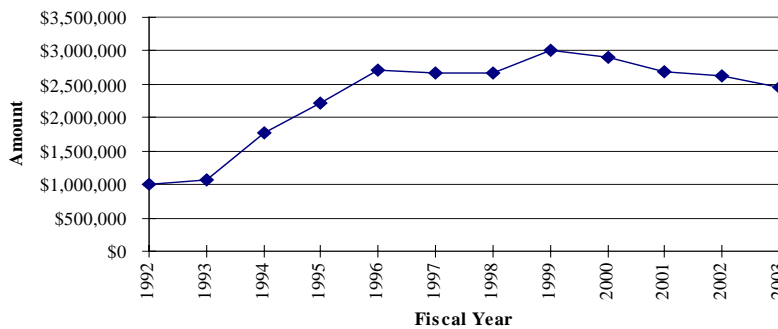
- **Inventory Tax Reimbursement - \$400,000**

Several years ago, the North Carolina General Assembly eliminated the tax on manufacturers' and wholesalers' inventories. The state replaced the tax with a reimbursement formula based on population as recorded by the North Carolina Office of State Planning and the previous year's Ad Valorem levy. The North Carolina General Assembly has frozen growth in this revenue source, so local governments divide the same amount of revenue each year based on the distribution formula. Governor Easley withheld a portion (\$200,000) of this revenue in FY 2002 to help balance the state budget. However, because the Town's tax structure assumes the receipt of this revenue, the FY 2003 budget includes the full estimate for this revenue source.

- **High School Resource Officer Reimbursement - \$113,514**

This state revenue is a fixed reimbursement (\$37,838 per officer) for the provision of one police officer in each of the three public high schools in Cary (Cary, Green Hope, and Middle Creek). There is no change in the FY 2003 revenue budget.

Permits and Fees: \$2,447,000



Building Permits are the major revenue source for this category, budgeted at \$1,500,000 in FY 2003.

This category also includes other various permits and fees listed below.

The revenues in the Permits and Fees category depend heavily upon the level of new construction activity.

- **Driveway Permits - \$25,000**

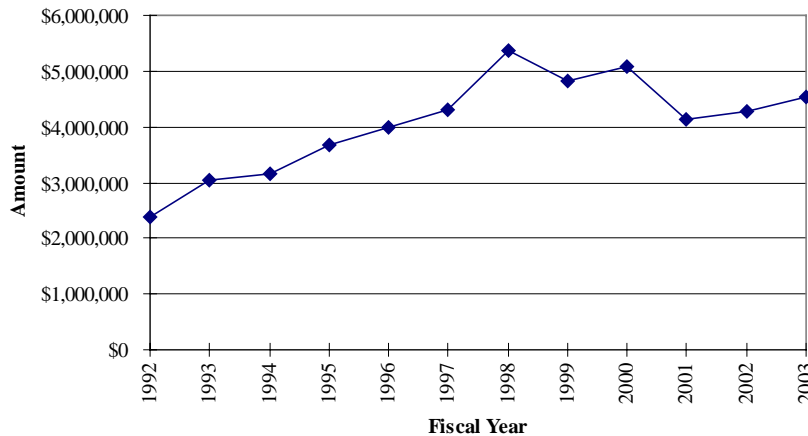
These fees are charged for the plan review and inspection of driveway installations that cross a right of way. FY 2003 is budgeted at the same level as the FY 2002 budget. However, this figure represents a 35.8% increase over estimated FY 2002 receipts. FY 2002 is estimated at a 25.8% decrease from budget. This revenue source is not solely dependent upon the rate of new construction. With new construction declining, it becomes evident that more renovation work is taking place. This increase in renovation work allows budgeting same as FY 2001 actual revenues.

- **Building Permits - \$1,500,000**

These fees are charged by the Town for providing construction permits, plan reviews and inspection services to applicants. Fees are paid prior to permit issuance. FY 2003 revenues are budgeted at a 10.4% decrease from estimated FY 2002 revenues. For single family residential construction, fees are based on the square footage of the residence. FY 2003 budget assumptions are based on issuing 500 permits. Commercial construction is assumed to continue at an estimated 0.5 million square feet per year.

- **Homeowners Recovery Fund - \$1,000**
 This fund is established to pay for repairs and damages to homes where there is a valid complaint against general contractors who cannot pay for the repairs themselves. The FY 2003 budget is set at the same level as the FY 2002 budgeted revenue.
- **Pavement/Curb Cuts - \$10,000**
 These are fees charged by the Town for permission to cut and repair a curb. This source remains relatively stable; thus, FY 2003 revenue is budgeted at the same level as FY 2002 estimated revenue.
- **Rezoning/Variance Fees - \$35,000**
 These are charges collected by the Town to cover the administrative and advertising costs of public hearings for a rezoning or variance. FY 2003 revenue is budgeted the same as estimated FY 2002 revenue.
- **Site Plan/Final Review Charge - \$80,000**
 The Town collects a fee from individuals to cover the costs of filing and reviewing site plans and for the final reviews of all subdivisions. FY 2003 is budgeted at an increase of 6.7% over the estimated FY 2002 level.
- **Inspection Fees - \$400,000**
 These fees include commercial site inspections, street sign inspections, extra inspections, and re-inspection fees. Commercial site inspection fees of \$515 per developed acre are paid when site plan approval is granted. Street sign inspection fees are \$45 per sign. Re-inspection fees are charged when an inspector is called back out to a site. Extra inspections are charged for inspections conducted at night or on weekends. The FY 2003 Inspection Fee revenue is budgeted at the same level as the estimated FY 2002 revenues.
- **Sign Permits - \$20,000**
 These fees are charged for the placement of temporary and permanent signs. FY 2003 is budgeted at the same level as the FY 2002 estimated receipts.
- **Traffic Impact Analysis Reimbursement - \$300,000**
 This fee was created in FY 1999. The fee is paid to the Town by developers before site plans are submitted for analysis of traffic impacts from development. The Town charges developers 90% of the cost and the Town pays for the remaining 10%. The Town also pays for traffic studies related to park and capital projects. The average cost of a study is approximately \$8,500. FY 2003 revenue is budgeted at the same level as FY 2002 estimated revenue due to the leveling-off of development activity.
- **Environmental Permits - \$42,000**
 These are fees charged to developers (commercial and residential) in proportion to the amount of denuded acreage disturbed by development. These fees were changed in FY 1999 from a flat fee to a \$165 flat rate per denuded acre for commercial and residential sites. The FY 2003 budget is based on the \$165 per denuded acre fee times the number of expected denuded acres. It is budgeted to remain the same as estimated FY 2002 revenue.
- **Other Minor Revenues**
Watershed Maintenance Fees - \$34,000 – A fee of 15% of the actual cost of a water quality structure is collected from the developer when the development project is completed. This is a State requirement to ensure that the water quality device will be maintained. This money is then set aside for the Town's use for future maintenance of the projects. The FY 2003 budget is based on historical averages.

Charges for Sales and Service: \$4,527,316



The major revenue source is the Sanitation Fee, which is budgeted at \$2,786,952 for FY 2003.

Other charges included in this category are Sanitation Fees, Used Appliance Fees, all Recreation related fees, and Sale of Assets.

- **Sanitation Fees - \$2,786,952**

The Town collects a fee from residential customers for once a week, backyard solid waste collection and curbside recycling. Recycling fees are also collected from approximately 200 cardboard recycling customers. In FY 2001, this fee was reduced from \$11.50 per month to its current rate of \$7.67 per month. FY 2003 sanitation fee revenue is expected to increase 3% over estimated FY 2002 figures.

- **Used Appliance Disposal Fees - \$18,746**

These fees are collected from residents who request that the Town Public Works / Utilities Department transport a used appliance to the county landfill. FY 2003 revenue is expected to remain unchanged from the estimated FY 2002 level.

- **Recreation Program Fees - \$540,000**

These fees are collected from participants in Town recreation activities. FY 2003 revenue is budgeted at a 10.43% increase over FY 2002 expected revenues but the same as FY 2002 budget. Program participation decreased during FY 2002 but an increase is anticipated in FY 2003.

- **Athletic Fees - \$565,618**

These fees are collected from participants in youth and adult sports programs such as softball, volleyball, and basketball leagues and short duration camps and clinics. FY 2003 revenues are budgeted 22.2% higher than expected FY 2002 receipts due to an increase in tournament rentals and four additional State/National Tournaments. All adult programs recover direct costs such as instructor costs and supplies. Youth programs are largely subsidized by the Town.

- **Arts and Crafts - \$205,000**

These fees are charged to participants in Town-sponsored arts and crafts activities. FY 2003 revenues are budgeted at the same level as FY 2002 estimated revenues.

- **Rents-Recreational Facilities - \$180,000**

These are fees collected by the Parks, Recreation and Cultural Resources Department for rental of Town recreational facilities. FY 2003 revenues are budgeted slightly higher than estimated FY 2002 receipts due to a full year of revenues from the Middle Creek Community Center.

- **Rents-Other - \$125,000**

These are fees collected by the Town Public Works/Utilities and Fire department for equipment rental and are budgeted at the same level as the FY 2002 estimated revenue figure.

- **Sale of Assets – \$50,000**

This revenue source includes funds from the sale of the Town’s surplus items, such as vehicles and furniture. FY 2003 Sale of Assets revenue is budgeted at the same level as in FY 2002.

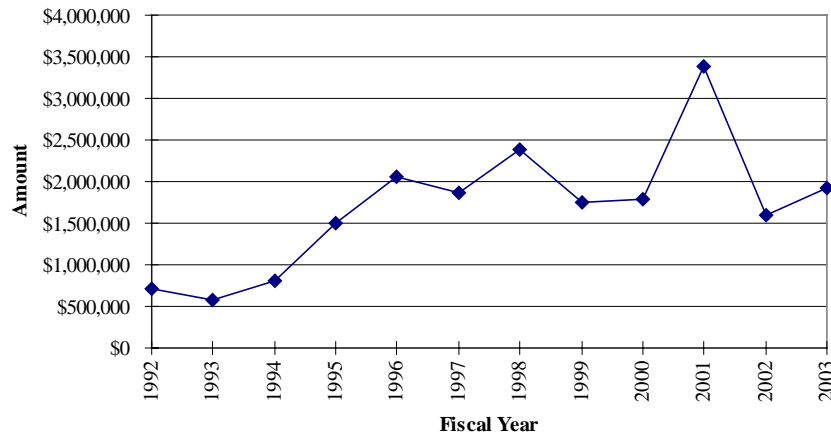
- **Other Minor Revenues**

Hemlock Bluffs Store - **\$26,000** - monies from the sale of articles by the Parks, Recreation & Cultural Resources Department.

Recreation Ticket Sales - **\$20,000** - tickets sold for various performances; youth theatre, music series, etc.

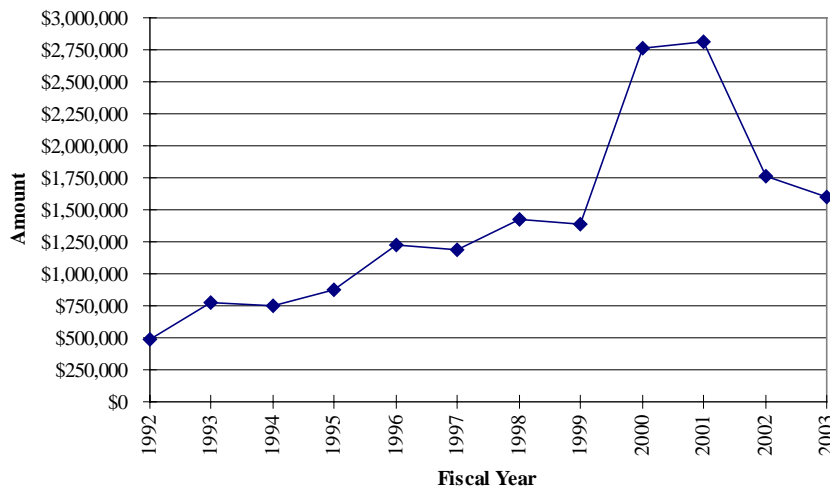
Hazardous Waste Reimbursement - **\$10,000** – a cost to clean up hazardous waste spills which are then reimbursed by the offender.

Investment Earnings: \$1,916,250



This interest is earned on the portion of investments attributable to the General Fund. Transfers to the General Capital Reserve can significantly reduce cash balances, and therefore investment earnings, in the General Fund. FY 2003 transfers from the General Fund include \$3.1 million dollars to Parks, Recreation, and Cultural Resources capital projects and \$0.9 million to Affordable Housing capital projects. FY 2003 investment earnings assume average interest rates of 3.0%. Earning levels are a function of interest rates, the amount available for investment, and the choice of investments.

Miscellaneous: \$1,594,802



The major FY 2003 revenues in this category are CATV Franchise Fees (\$441,143), Recycled Goods (\$367,159), and Cellular Tower Lease Proceeds (\$460,000).

Also includes: Court Costs, Recycled Goods and DMV Rental Revenue

- **Miscellaneous Revenues - \$260,000**
 These are revenues that do not fit into other revenue category. FY 2003 revenue is budgeted at the same level as the FY 2002 estimate.
- **Cable TV Franchise Fees (CATV) -\$441,143**
 The Town collects a franchise fee of 5% of the gross annual revenues of the local cable TV franchise. Sixty-percent of the revenue goes to the General Fund and forty-percent goes to the General Capital Reserve Fund. FY 2003 is budgeted 18.6% lower than the FY 2002 estimated revenue due to an FCC ruling that revenue from cable modem services should not be used in computing the franchise fee.
- **Court Costs - \$29,000**
 This revenue includes various reimbursements to the Town for civil or criminal penalties. FY 2003 revenues are budgeted to decrease 1.7% from estimated FY 2002 revenues.
- **Recycled Goods - \$367,159**
 This revenue results from the sale of recycled goods, like newspapers, glass, and plastic bottles, on the private market. This revenue source fluctuates substantially from year to year primarily based on the market price for the recyclables. FY 2003 revenues are projected to increase 3% from estimated FY 2002 levels.
- **DMV Rental Revenue - \$37,500**
 These funds are lease payments from the State Division of Motor Vehicles to operate a Licensing Examiner's facility in the Cary Depot.
- **Cellular Tower Lease Proceeds - \$460,000**
 These funds are from lease payments made by cellular telephone service providers to the Town for the lease of property on which cellular towers are built. These leases are short-term leases that can be cancelled within 30-90 days.