

TOWN OF CARY EXECUTIVE SUMMARY FISCAL YEAR 2005

Introduction

The *Budget in Brief* presents an overview of the annual budget for the 2005 fiscal year for the Town of Cary, North Carolina. This summary provides highlights of the Town's major funds including the General Fund, Utility Fund, and Capital Improvements Funds. The information is presented primarily in tables and graphs, with some accompanying text providing explanatory or supplemental information. Information covers a five-year period, including actual figures for fiscal years 2001, 2002, 2003, estimated figures for FY2004, and the adopted budget figures for FY 2005. In addition, this document includes the Town Council's goals and initiatives and a brief summary of each department's responsibilities.

Budget Development

Budget development began with departments submitting prioritized budget requests to the Budget Office. After reviewing the initial budget requests, the Town Manager, Assistant Manager, and budget staff met with departments to allow them to more fully explain and justify their requests. Emphasis was placed on maintaining a strong financial position, maintaining service levels in operations, identifying opportunities for further efficiencies in the organization, reducing costs, and ensuring that we look forward and plan for future needs. In addition, departments submitted streamlined budget narratives, which focused on program objectives and performance measures. Both quantitative and qualitative performance indicators are included to help measure progress toward program objectives. After deliberations by the panel, three worksessions with the Town Council, and a public hearing, Town Council adopted the FY 2005 Budget on June 24, 2004.

Review of Revenues

General Fund: Revenue assumptions driving estimated FY 2004 and budgeted FY 2005 figures were developed according to the effects of the slowing economy and the slower pace of growth which have impacted population, assessed value, and the volume of new building permits. Population growth affects several of the large revenue sources in the General Fund including Ad Valorem Taxes, Sales Tax, Utilities Franchise Tax, Wine and Beer Tax, building permit fees, building inspection fees, environmental permits, sanitation fees, and Cable TV franchise fees.

Cary's population continued to grow during FY 2004, but at a much slower pace than during the 1990's. It is anticipated that growth will continue in FY 2005 at approximately 1.2%. Fiscal Year 2001 included the impact of the periodic property revaluation by the County which occurs every eight years. The revaluation resulted in the average property value increasing by forty-seven percent (47%) from the last property revaluation impact which occurred in FY 1993. The Town Council adopted a resolution concerning the setting of the tax rate for FY 2001 that the level should be "revenue neutral". This meant the rate was to be set at a level that produced the same amount of property tax revenue as would have been raised before the revaluation. The \$5,369,361 increase in property tax revenue between the actual amount for FY 2000 and FY 2001 is due to growth in the Town's tax base (additional developed property), not its tax rate. The Town's assessed value for FY 2005 is estimated at \$11,633,161,432 reflecting a 1.5% increase over the FY 2004 estimated figure. The FY 2005 budget reflects the same tax rate as FY 2004, which is \$0.42 per \$100 of assessed valuation, yielding \$48,029,489 in revenue. One penny on the Town's property tax rate is expected to generate approximately \$1,143,559 in FY2005.

Some actions over the past decade by the North Carolina General Assembly have affected Cary and other local governments in the state. In the 1993 session the Legislature returned the Beer and Wine Tax and the Utility Franchise Tax to an automatic distribution with growth, effective in FY 1996. In April 1995, the General Assembly repealed the State's intangible tax on stocks, bonds, and bank deposits, a portion of which was allocated to local governments. The State elected to reimburse local governments for this lost revenue at a level based on prior years' allocations, with no growth built in until July, 2003 when this reimbursement was discontinued. 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, which became effective July, 1999. The North Carolina Department of Revenue established a benchmark for each municipality based on FY 1999 receipts. No city or town will receive more revenue from the new excise tax until all municipalities receive their benchmark amount. In the past this revenue source had increased 10 to 15 percent per year.

In FY 2001, the Governor decided to temporarily withhold payment in the second half of the year on Inventory

Reimbursement Tax due to a State budget shortfall. This was an approximate \$212,000 temporary impact on the Town of Cary as these funds were released in June, 2001. In FY 2002, the Governor withheld \$2.39 million of various State-collected local revenues from Cary. These were composed of Utility Franchise Taxes (\$1.7 million), Wine and Beer Tax (\$438,000), and Inventory Tax Reimbursements (\$247,000) which represented 45% of these revenue sources and 3% of all budgeted General Fund Revenues in FY 2002. With both the intangible and inventory tax reimbursements not being distributed in FY 2003 and their expiration in FY 2004, the Legislature allowed an additional one-half cent local county option sales tax to begin in December, 2002. Wake and Chatham Counties approved this one-half cent, and current projections indicate that this new revenue will recover approximately \$1.7 million more in FY 2005 revenue than the reimbursements which it replaced would have generated.

In FY 1998, the Town, in conjunction with the U.S. Census Bureau, conducted a special census showing a difference of approximately 7,000 residents more than the estimate prepared by the State of North Carolina. This information provided additional revenue from sales taxes and the Wine and Beer Tax in the General Fund. It also facilitated additional Powell Bill funding in the General Capital Reserve as the distribution of these funds is determined in part by percent of population in the county. It is estimated that the Town received approximately \$2.4 million in additional revenue for FY 1999 and FY 2000 as a result of the Special Census.

Prior to FY 2000, 70% of the two half-cent sales tax revenues (Articles 40 and 42) were budgeted in the General Capital Reserve and 30% in the Utility Capital Reserve. The General Statutes which authorized this were deleted in 1998 and the North Carolina Local Government Commission now requires all sales tax revenue be budgeted in the General Fund as unrestricted revenue.

In FY 2001, the monthly solid waste fee was reduced from \$11.50 per month to \$7.67 per month. In FY 2005, the revenues, budgeted at \$2,876,418 are based on continuing the \$7.67 per month rate. Recreation-related revenues are estimated at \$2,073,678. Other significant General Fund revenues include \$7,858,076 from the Article 39 one cent sales tax, \$5,655,573 from the Articles 40 and 42 half cent sales taxes, \$3,001,193 from the Article 44 half cent sales tax, \$1,837,500 from Building Permits, \$433,905 from Occupancy Tax, \$2,771,453 from the Utility Franchise Tax, and \$1,250,000 in interest from investments. Total General Fund revenues for FY 2005 are budgeted at \$81,317,612 which represents a 1.5% decrease from estimated FY 2004 revenues.

Utility Fund: FY 2005 Utility Fund Revenues are budgeted at \$32,064,365. In FY 1998, the Town undertook a utility rate study to review the rate structures, recommend a new rate structure to address the equity of cost recovery from different customer classes, and develop a model that provides a flexible planning tool for calculating utility rates. This resulted in the introduction of a tiered rate structure and a monthly base charge for all users. The tiered rate structure shifts more of the burden to the higher users that have substantial effects on the peak demand of the system. FY 2005 is the seventh year water and sewer retail revenues have been budgeted using this rate structure. The combined utility bill for a 7,000 gallon per month residential customer is expected to rise about 18% in FY2005 over FY2004 rates. The primary driver of these rate increases is the reduction in forecasted water usage due to wetter than normal weather patterns. Revenue from water retail fees is expected to increase 0.4% from estimated FY 2005 revenues, and sewer retail fee revenue is expected to increase 10.3%. Sewer retail fee revenue is growing significantly more than water due to the growing sewer related debt service requirements being placed on the system due to necessary sewer related capital investments. The major sources of revenue for the Utility Fund are water fees of \$14,699,465 and sewer fees of \$12,704,617.

Until August of 1993, the Town of Cary purchased all of its water from the City of Raleigh. Since its opening in 1993, the Cary/Apex Water Treatment Plant has provided water for both Cary and the neighboring town of Apex which owns 23% of the plant and bears 23% of the capital cost, as well as a portion of the plant's operating costs based on Apex's actual water usage. In addition, Cary began selling water to the Town of Morrisville and the Raleigh/Durham Airport in FY 1994 and entered into an agreement to sell raw water to Chatham County during FY 1996. The Town also provides water for Wake County's portion of the Research Triangle Park. In order to meet high peak demands, Cary also entered into agreements to purchase water from the cities of Raleigh and Durham to supplement the supply from the Cary/Apex Water Treatment Plant. Since the water treatment plant expansion was completed in the Spring of 2002, the Town of Cary is no longer reliant upon other municipalities for any of its water supply.

Review of Expenditures

Operating expenditures of \$81,762,809 are budgeted in the General Fund for Fiscal Year 2005, including \$11,376,675 for debt service. Debt service has grown substantially over the past few years as the Town has ramped up its Transportation and Parks capital programs. In FY 2000, debt service of \$1.6 million made up 3.4% of all General Fund Expenditures. In FY 2005, debt service of \$11.4 million makes up 13.9% of all General Fund Expenditures. This increase has been planned to help leverage borrowing capacity and to take advantage of the historically low interest rates that have been available in recent years. The amount of additional debt service affordability in the future will largely be determined by the extent of economic recovery which should help spur further growth in population and the tax base. Total General Fund expenditures including inter-fund transfers are anticipated to be \$83,538,602 in FY 2005. Transfers include \$910,000 to help fund portions of Transportation, Parks, and General Government capital projects.

Utility Fund expenses and transfers budgeted total \$32,382,332. Of this amount, \$11,237,391 is budgeted to cover utility-related debt service requirements, and \$11,199,823 is planned for the direct operating costs of the two water reclamation facilities and the Cary/Apex Water Treatment Plant.

Regarding staffing needs, the demand for services continues to grow and it becomes increasingly difficult to maintain quality service with current staffing levels. Consequently, 23.25 additional full time equivalents (FTEs) are included in the FY 2005 Budget. The staffing ratio for FY 2005 is 9.6 employees per 1,000 population, which is the same as it was in FY 2004.

These additional positions are needed in order to maintain current essential service levels and to support upcoming capital projects coming on-line such as the Fiber Optic Traffic Signal System and the USA Baseball Facility at Thomas Brooks Park.

Capital Budget Considerations

The FY 2005 Capital Improvements Budget (CIB) includes \$15,396,200 for water and sewer projects, and \$11,519,694 for General capital category including transportation, parks, fire and general government projects. In the Utility CIB, a transfer of \$1,000,000 from the Utility Fund is directed toward the Town's Open Space Acquisition initiative. In the General CIB, a transfer of \$980,000 from the General Fund supplements other revenues dedicated to general capital projects. Of this transfer, \$550,000 will be used to help fund General Government capital projects, \$360,000 will be directed toward Parks, Recreation and Cultural Resources projects and \$70,000 will be used to help fund Transportation projects.

Water CIB projects for FY 2005 total \$2,002,400. The most significant aspect of this appropriation is \$1,568,000 directed toward the addition of a centrifuge at the Cary/Apex Water Treatment Plant. Remaining funds address water and reclaimed water line upgrades, oversizings, and a pump station study.

The **Sewer CIB** totals \$13,393,800 in FY 2005. \$5,865,000 of this funding is for work related to the West Cary Pump Station and Force Main. \$1,751,000 is targeted for work on the White Oak Creek Interceptor and Pump Station Elimination project. Another \$1,657,500 is directed toward the Bachelor Branch Interceptor and Pump Station Elimination project, while \$1,500,000 is planned to help address odor control issues at the North Cary Water Reclamation Facility. Other projects addressed via funding in FY 2005 include placement of a digester at the South Cary Water Reclamation facility, video surveying of major sewer interceptors, manhole repair and maintenance, reclaimed water initiatives, sewer main replacement, and various studies.

Transportation CIB projects for FY 2005 total \$5,971,484 for projects ranging from the provision of alternate modes of transportation to major maintenance and road capacity projects.

The FY 2005 CIB does not contain an appropriation to the **Fire capital category**. Prior year capital improvements budgets have provided necessary equipment and facilities to meet the Fire Department's immediate needs through FY 2005.

The **Parks, Recreation and Cultural Resources CIB** totals \$3,241,960. The Town has planned projects in this area to

address parks, recreation and cultural needs of the citizens as outlined in the 2003 Master Plan. The FY 2005 CIB for Parks features a \$1,000,000 appropriation to the Town's Open Space Acquisition initiative, as well as a \$1,000,000 appropriation directed toward completion of the final phases of the White Oak Creek Greenway. Upgrades and renovations to existing park facilities are also addressed in the FY 2005 CIB.

The **General Government** portion of the CIB totals \$2,306,250, of which \$550,000 is for continuing the expansion of the Town's Operations Center. \$400,000 is directed toward the purchase of land to house maintenance facilities for the Town's Facilities Management division. The remaining FY 2005 appropriation addresses streetscape initiatives in the Town Center Area and culvert replacement, parking lot resurfacing, and storm drainage projects at various locations throughout town.

Conclusion

Growth management efforts and the economic downturn of the past few years have combined to create a dramatic decrease in the Town's population growth rate from a high of 14% in 1996 to around 2% in FY 2005. Despite this decline in the growth rate, the sound policies and management practices utilized in the Town of Cary have helped maintain the Town's solid financial condition as exhibited by its AAA debt rating with all three major rating agencies. By continuing to improve the efficiency and effectiveness of operations and service delivery, the quality of life in Cary will continue to flourish.

The FY 2005 budget addresses the goals and priorities established by the Town Council for the upcoming year. The budget is fiscally sound, addresses needs on a priority basis, and is balanced in accordance with State statutes.