BUDGET MESSAGE
FOR FISCAL YEAR 2014

Mayor Weinbrecht and Members of Council:

Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the recommended annual budget for fiscal year 2014 for the Town of Cary. The budget is a plan that presents financial information summarized by major category of expense for each departmental budget and outlines the operations of the Town of Cary government and its component operating and capital programs.

The budget is balanced and identifies methods of raising and spending funds for specific programs during the coming fiscal year. The recommended budget includes an increase of two cents in the tax rate as communicated to voters in 2012 prior to the $80 million general obligation bond referendum for transportation, park and fire capital projects. The revenue of $4.2 million generated from the two cents increase in the fiscal year 2014 tax rate will all be dedicated to and is necessary for repayment of the associated borrowing of $40 million in capital funds planned for the fall of 2013. The other $40 million of borrowing is planned for the fall of 2015 and has an additional increase of two cents associated with paying it back beginning in fiscal year 2016.

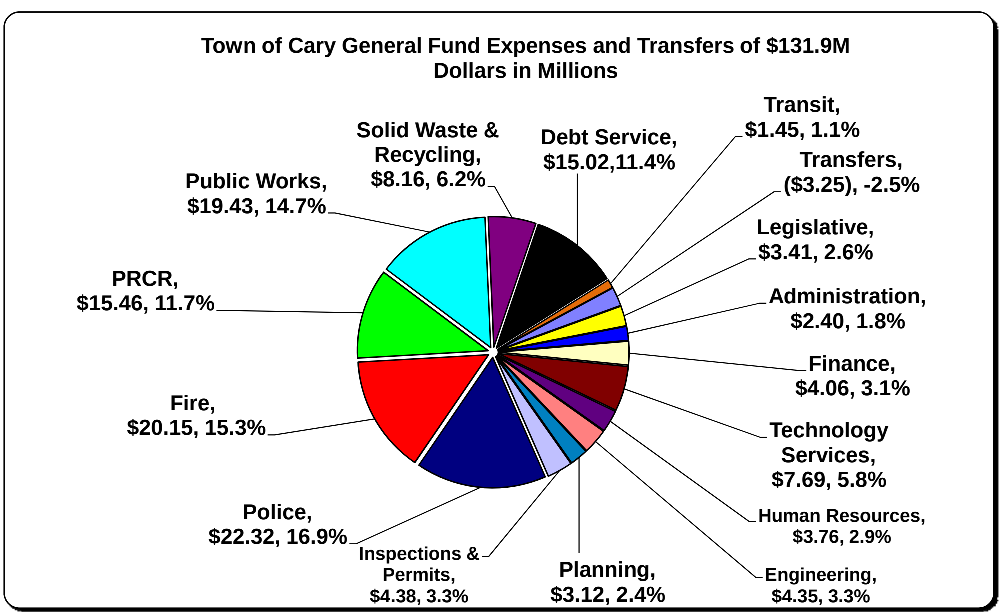
The approach of the FY 2014 Recommended Budget is to continue with a conservative budget structure and philosophy using basic business principals to guide decisions now and in the future for the provision of our core municipal services. Especially important this year, as we continue a very slow recovery from the 2008 recession, is to ensure we provide the resources necessary to prevent erosion of our service levels. Our organization is guided by the mission statement and statement of values to help improve and clarify how we can most efficiently and effectively work toward accomplishing our comprehensive goals and initiatives. We have worked through our budget development process with a focus on continuing to provide high quality services with recommended rate increases where necessary to sustain consistent service delivery and financial condition.

The pace of the economic recovery so far has been extremely slow and will likely continue at this pace for the next few years. We have had to adjust the service levels we provide every day in response to our declining operating margin (the difference between revenues and expenses) levels. Highlights of the fiscal year 2014 recommended budget and related actions are included in the table below:

Description	Changes?	Notes
Tax Rate	Yes, an increase of 2 cents to 35 cents per $100 taxable value	The tax rate is recommended to increase 2 cents from 33 cents per $100 of assessed value to 35 cents per $100 of assessed valuation. This entire increase is necessary to repay the debt service associated with the issuance of $40 million of the $80 million of general obligation bond debt approved by Cary voters in November 2012.
Solid Waste, Recycling, Yard Waste and Leaf Collection Fee	Yes, an increase of $1 to $15 per month	The solid waste and recycling fee is recommended to increase $1 from $14 to $15 per month. This is expected to place the service at a 98.2% cost recovery rate. This fee was last increased in FY 2009.
Utility Rates	Yes, an increase of about 4.8%	The Town's average residential customer who consumes 4,481 gallons per month is expected to see an increase of $2.82 per month or about 4.7%. For a residential customer averaging 7,000 gallons per month, the increase is expected to be $4.41 per month or about 4.8%. These rate increases are needed to pay operating costs and increasing debt service for capital infrastructure including the state mandated Western Wake Regional Wastewater Reclamation Facility.
Building and Permit Fees	Yes, an increase of 5%	The Town charges a variety of building and permit related fees which have not been increased since fiscal year 2002. The 5% increase is expected to generate about $100 thousand in additional revenue which is expected to cover the costs for the addition of a new Multi-Trade Code Enforcement Official in the Inspections and Permits Department to help the Town keep its commitment to next day inspections.

New Debt Supported by the General Fund (taxes)	Yes	The voters approved an $80 million general obligation bond referendum in November 2012 for transportation, fire and parks, recreation and cultural resources projects. Town Council appropriated the entire $80 million to specific projects in December 2012. The FY 2014 recommended budget reflects debt issuance and debt service associated with borrowing $40 million of the $80 million.
New Staff Position Authority	Yes; 29.75 total representing a 2.5% increase in total staff	1 Engineer (Utility Fund related) 1 Operations Analyst for the Engineering Department 1 Technology Services Network Analyst 1 Technology Services Specialist 1 Technology Services Manager 1 Technology Services Project Manager (.25) Conversion of vacant PRCR Customer Service Representative to a Therapeutic Recreation Specialist working 30 hours per week (.75 full time equivalent) 1.5 Tennis Teaching positions (2 at 20 hours each) 1 Downtown Program Specialist (converted from temporary to full-time, regular) 1 Multi-Trade Code Enforcement Official in Inspections and Permits Dept. 1 Customer Service Code Enforcement Official in Inspections and Permits Dept. 1 One Solution Software/Workflow Manager in Inspections and Permits Dept. 1 Domestic Violence Detective in the Police Department 17.5 Positions related to the Western Wake Water Reclamation Facility
Paying off 2003 General Obligation Bond Debt	Yes; $6 million	The Town currently has $6,030,000 worth of remaining general obligation bond debt outstanding that was borrowed in 2003 for transportation and park projects. This debt becomes callable in June, 2013 which means the Town has the opportunity to pay it off without penalty and eliminate the related $2.2 million debt service payment each of the next three years. It is recommended that the $6 million balance be paid in July, 2013 with existing transportation development fee and park payment-in-lieu fund balances. This will create operating margin in FY 2014 and provide some capacity to fund positions, vehicle replacements, and maintenance initiatives that would otherwise not be possible.

Despite the continued impacts of the slow economic recovery on the Town's finances and operations that are discussed in detail later, the recommended budget for FY 2014 continues to provide a high quality level of service for our citizens while protecting and maintaining the core infrastructure that is so vital to sustaining our quality of life. The general fund is where we account and pay for the majority of non-utility related services. The chart below identifies how our $131.9 million general fund budget is broken down to carry out service provision in fiscal year 2014. This year's overall general fund operating budget represents a net increase of about $10.1 million or 8.3%.



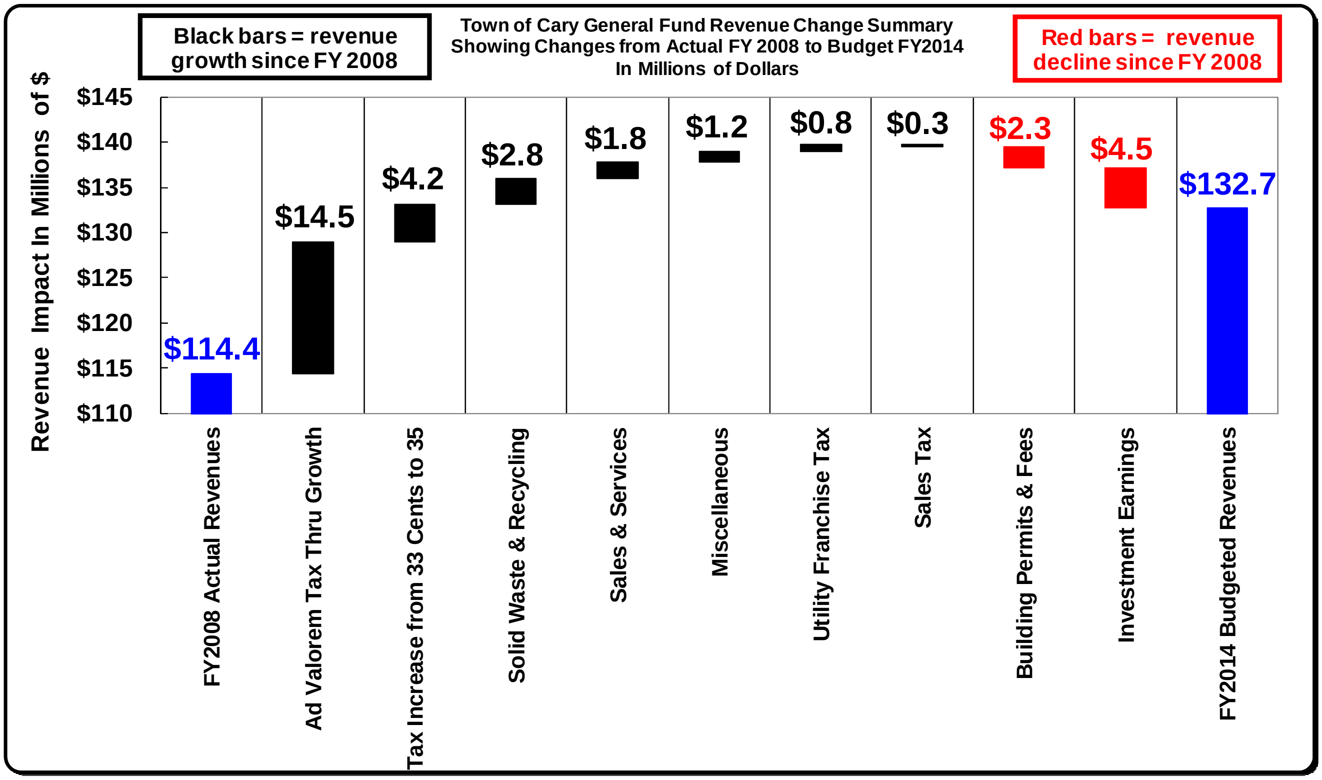
The FY 2014 recommended budget provides funding for several very important capital projects such as continued infrastructure improvements in the downtown, street resurfacing, park construction and expansion of the Cary/Apex Water Treatment facility. Selected highlights of the capital plan for the coming year are shown in the table below.

Project Title	Brief Description	Funding
Cary/Apex Water Treatment Plant Expansion – Phase III	This project provides for engineering evaluation, analysis, design and construction of an expansion that will increase the Cary/Apex Water Treatment Plant's (C/AWTP) water treatment capacity from 40 to 56 million gallons/day (MGD). The Town of Apex will reimburse the Town of Cary 23% of the project's cost as Apex owns 23% of the facility.	$66.4 million
Street Improvement Project	This annual project provides asphalt patching and overlay funding for various Town maintained streets.	$4 million
Morrisville Parkway Interchange with Triangle Expressway	Total project cost is estimated at $8,675,000. $1,075,000 has been appropriated through FY 2103 for preliminary engineering work. $80% of the appropriations to date, or $860,000, is supported by an STP-DA grant. The remaining $215,000 in already appropriated funds is supported by Town cash and constitutes the Town's 20% grant match. $4,100,000 is being requested in FY 2014 for right of way acquisition ($2,050,000 of this amount is the Town's portion and $2,050,000 is addressed via a LAPP grant with 50/50 cost sharing). An additional $3,500,000 funding need has been identified in FY 2016 for construction.	$4.1 million
LED Streetlights	This project will replace most Town streetlights with fixtures using the Light Emitting Diode (LED) technology. The purchase and installation of approximately 9,094 light emitting diode (LED) street light fixtures to replace existing fixtures is expected to save the Town about $600,000 per year in energy costs once completely installed. This is all of the streetlights in Cary but the highest lumen fixtures (50,000) for which there is no current LED equivalent.	$3.3 million
Downtown Infrastructure Improvements	This project dedicates funding for continued implementation of impactful and visible improvements to the downtown area. $740,000 of the $1 million recommended in FY 2014 would support downtown infrastructure and physical improvements, while the remaining $260,000 would support an infrastructure feasibility study.	$1 million
Dixon Avenue Citizen Convenience Center Improvements	This project provides for various site improvements at the Dixon Avenue Convenience Center to ensure continued compliance with stormwater and sanitary sewer pretreatment regulations, maintain effective customer service, improve aesthetics associated with public contact and increase efficient use of the property.	$750K

MAJOR ISSUES IMPACTING THE FY 2014 BUDGET

Slow Recession Recovery and the Impact on Our Revenue Structure

The recession began to impact Town of Cary sales tax revenues and building permits in early fiscal year 2009 (fall of calendar 2008). Building permit and fee revenue dropped from $6 million in FY 2008 to $2.9 million in FY 2011 and has been slowly increasing and is expected to total about $3.7 million in FY 2014. Sales tax revenues were hit even more dramatically since FY 2008 when they totaled $24.2 million before dropping to a recent low of $21.9 million in FY 2010. Sales tax revenues are finally expected to approach the $24 million level in FY 2014 at $23.9 million, six years later. These two major revenue categories combined are expected to be about $2.6 million or 9% lower in FY 2014 than they were in FY 2008. The graph below compares the major revenue changes since FY 2008 compared to those projected as part of the FY 2014 recommended budget. FY 2008 has been chosen for comparison in this table because it is the last full fiscal year before the Town began seeing impacts in revenue growth due to the recession.



From FY 2008 to FY 2014, general fund revenues are expected to increase by $18.3 million or 16%. This growth rate over six years averages out to about $3 million or an average of 2.7% growth per year. The revenue levels in FY 2014 have been bolstered by the $4.2 million generated by raising the tax rate two cents for the capital project debt approved by voters in November, 2012. Without this additional revenue, average annual revenue growth would only be about $2.3 million or 2% per year. This is significantly lower than the average growth amount of $9M or 10% per year for fiscal years 2006 through 2008, which was before the recession began and did not include the impact of any tax rate increases.

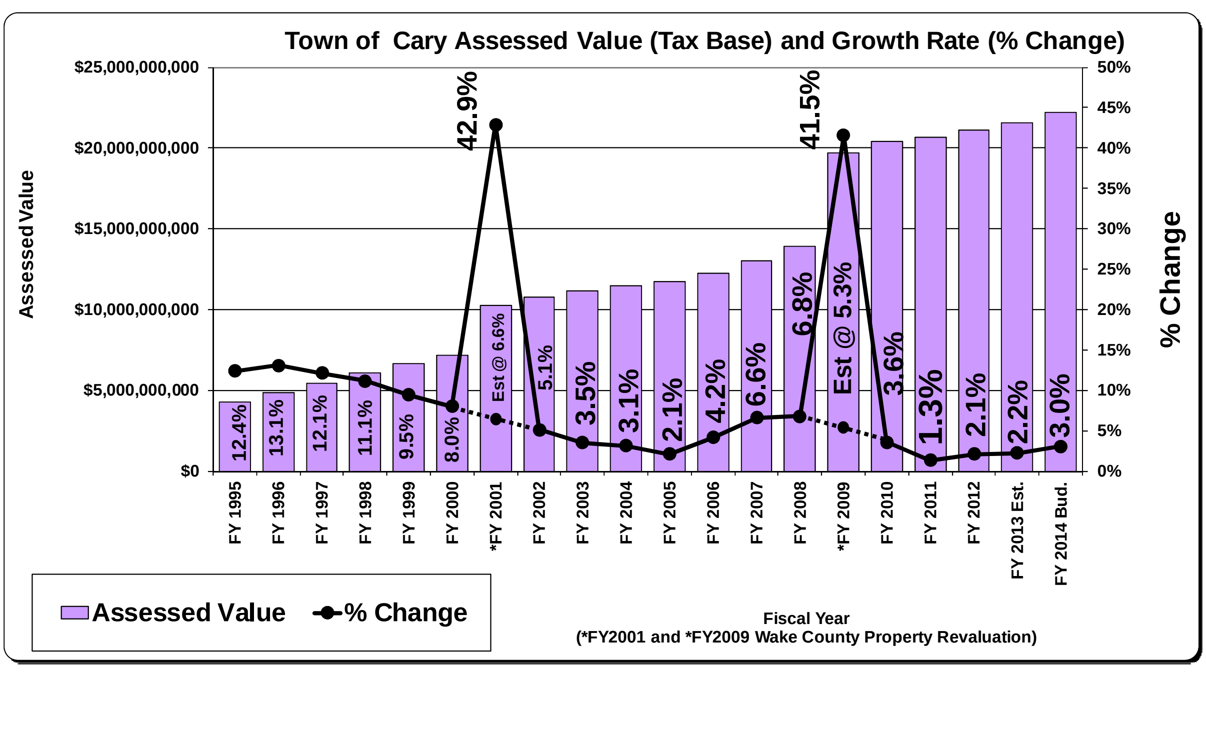
Tax Base Growth

Taxable property in the Town of Cary is comprised of real property (land and buildings), personal property (campers, boats, business machinery and equipment, etc.), public service property (public utilities), and vehicles. In FY 2014, the taxable property is expected to equal about $22.2 billion which reflects tax base growth of $655 million or about 3% over estimated FY 2013 levels. This total includes approximately $490 million for property located within Cary's corporate limits of Chatham County, or about 2% of Cary's entire taxable property total. Wake County revalues its property every eight years and its last one was effective in FY 2009, with the next planned for values as of January 1, 2016 that will be effective in FY 2017. Chatham County has typically revalued its property every four years. The last Chatham revaluation process took place for values as of January 1, 2009 and was effective in FY 2010. The next Chatham revaluation that had been planned for values as of January 1, 2013 has been delayed by the Chatham County Commissioners until January 1, 2015 and will take effect in FY 2016.

The goal of each property revaluation process is to adjust the taxable values of real property so that they approximate market value. This four or eight year process is not necessary for the other types of taxable property as those are automatically revalued every year according to predetermined depreciation schedules. Since a municipality can only have one tax rate and 98% of Cary's tax base is in Wake County, the tax rate is adjusted due to revaluation consistent with the Wake County schedule of every eight years. The tax rate was most recently adjusted effective in FY 2009 from 42 cents down to 33 cents per $100 of taxable value. With the slowing of growth rates since the recession and the related impacts to other revenue sources like investment earnings, the Town's existing revenues sources have been strained in recent years. With the $80 million general obligation bond referendum held in November, 2012, the education program reflected that if approved, there would be the need to raise the tax rate two cents with the first $40 million of borrowing in FY 2014 and another two cents in FY 2016 associated with the second $40 million of borrowing. Project spending has been planned in this manner to spread out the impact of the tax increase and to make the project workload more manageable for existing staff members. In November, 2012 all three questions on the ballot passed with very strong voter support as follows: $57.7 million for transportation received 70% approval; $15.9 for parks received 69% approval; $6.45 million for a replacing fire station #2 received 80% approval. Accordingly, the Town of Cary's tax rate is recommended to increase by 2 cents from 33 cents to 35 cents in FY 2014 (effective July 1, 2013) to address debt service associated with the first $40 million of general obligation bond debt approved by the voters in November, 2012. All of the $4.2 million increase in tax revenue associated with this increase will be necessary to begin making the debt service payments in FY 2014.

During the early 2000s, the impacts of the poor economy and the Town's successful growth control measures combined to slow the rate of revenue growth compared to that of the mid to late 1990s. Since the mid 1990s, the Town's tax base has generally been comprised of about 70% residential and 30% non-residential. While commercial and office developments have continued locating in Cary, residential tax base has been added a little more steadily. Today, approximately 76% of the Town's tax base is residential, so fluctuations in development patterns that impact the population growth rate typically have a significant effect on the growth rate of ad valorem tax base in Cary. Ad valorem tax revenue is the largest single revenue source for the Town and, at $76.6 million, comprises 58% of all general fund revenues. The Town of Cary gradually bounced back from its low in annual tax base growth of 1.5% in FY 2005 to growth of 6.8% in FY 2008 before dropping due to the impacts of the recession in the three subsequent years. Tax base growth in FY 2014 is expected to be 3% over FY 2013 estimated levels.

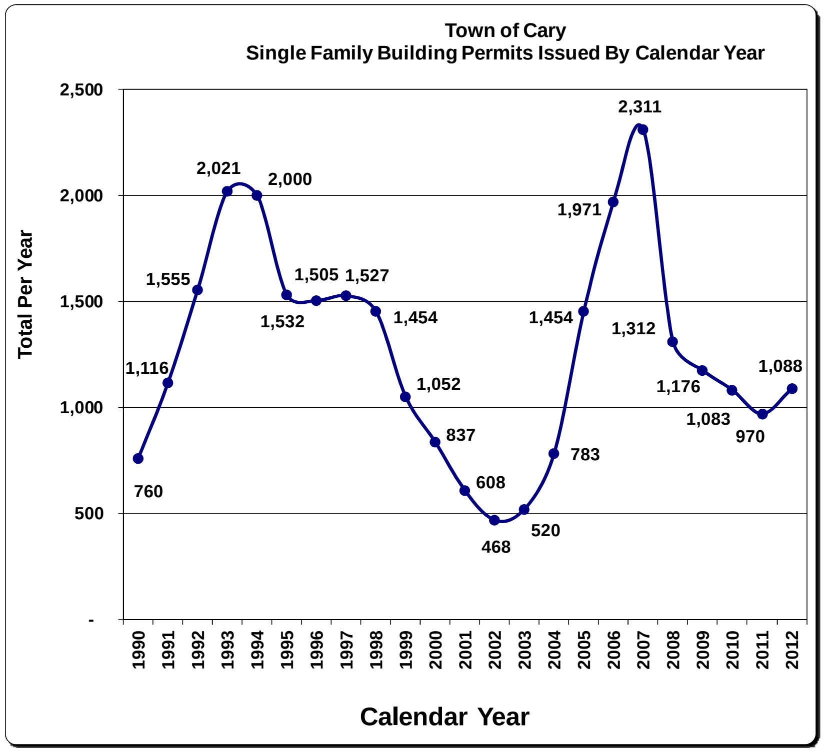
A historical perspective of the Town's assessed value (tax base) growth since FY 1995 is provided in the graph below. The extremely high growth rates in 2001 and 2009 reflect the property revaluation conducted by Wake County that became effective in those years. In FY 2001, the tax rate was reduced from 54 cents to 43 cents to maintain a revenue neutral tax rate. The tax rate was reduced by an additional penny to 42 cents in FY 2002. In FY 2009 another Wake County property revaluation took place and the tax rate was again reduced due to the revaluation, this time from 42 cents to 33 cents. The tax rate is being recommended to increase from 33 cents to 35 cents with the increased revenue of $4.2 million being dedicated to pay debt service (principal and interest) associated with implementation of the first $40 million of the $80 million general obligation bond referendum approved by voters in November, 2012 for transportation, parks, and fire capital projects.



The assessed value on which tax receipts are calculated is based on what has been built by the prior January 1, meaning that FY 2014 revenues are based on tax values "on the ground" as of January 1, 2013. Since Cary's tax base is much higher than it was in the mid 1990s, it takes more growth each year to have the same percentage increase. For example, in order to add 1% of growth in FY 2014, $222.4 million of additional tax base would need to be added which would be the equivalent of 741 new homes valued at $300,000 each.

The graph below represents the number of new single family residential permits issued each year since 1990. The dramatic reduction in the number of permits being issued for single family development during the recession of the early 2000s as well as the 2008 recession is demonstrated in the graph below.

Calendar Year	Number of New Permits Per Year	% Change
1990	760	
1991	1,116	47%
1992	1,555	39%
1993	2,021	30%
1994	2,000	-1%
1995	1,532	-23%
1996	1,505	-2%
1997	1,527	1%
1998	1,454	-5%
1999	1,052	-28%
2000	837	-20%
2001	608	-27%
2002	468	-23%
2003	520	11%
2004	783	51%
2005	1,454	86%
2006	1,971	36%
2007	2,311	17%
2008	1,312	-43%
2009	1,176	-10%
2010	1,083	-8%
2011	970	-10%
2012	1,088	12%



Commercial activity has similarly seen similar declines which are further indications that tax base growth for at least the next couple of years will continue to be rather slow compared to historical averages of non-recessionary periods.

Sales Taxes

Sales tax revenues include the one cent (Article 39) which is distributed based on sales delivered in Wake County, the two half cents (Articles 40 and 42) which are distributed state-wide based on the population of each county, and the one half cent (Article 44). Article 44 was initially approved in December 2002. It was based on a combination of both approaches mentioned and designed to replace the expiring Inventory Tax Reimbursement and Intangibles Tax Reimbursement revenue sources. In 2007, the State of North Carolina changed the Article 44 sales tax distribution in exchange for changes associated with Medicaid payments and revenue distributions to counties. The bottom line for municipalities is that this revenue stream continued as a "hold harmless" stream of revenue, meaning that municipalities were to receive the same amount as they would have before the change.

Projected sales tax revenues totaling $23.9 million in FY 2014 make up 18% of all general fund revenues. The historical growth rate of this major revenue source was greatly impacted by the economic slowdown of the early 2000s, but the economic recovery of the mid 2000s helped this revenue source recover, as evidenced by an average annual growth rate of 11.5% for FY 2003 through FY 2007. With the global and domestic economies slowing under the pressure of the 2008 recession, the health of Cary's regional economy also felt the impact with sales tax revenues dipping in FY 2009 and again in FY 2010 before beginning to rebound in FY 2011 before dropping again in FY 2012 due to the 2010 census.

The results of the April 1, 2010 United States Census were utilized by the State of North Carolina Department of Revenue as the new basis for revenue distribution beginning in FY 2012. Cary's total population in both Wake and Chatham counties per the 2010 United States Census was 135,234. 133,812 of this total comprised Cary's Wake County population, with 1,422 representing Cary's Chatham County population.

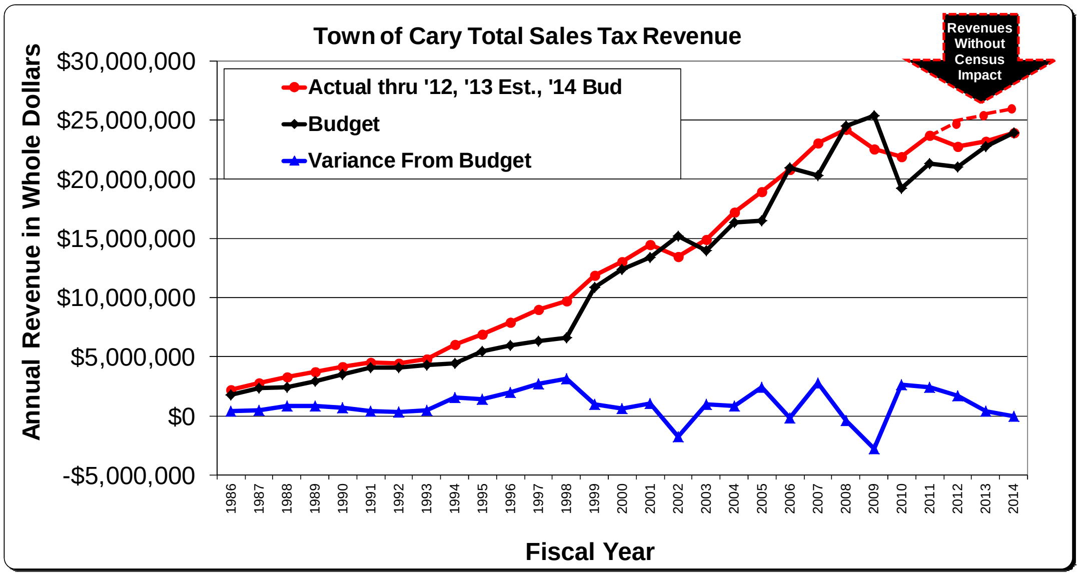
In both Wake and Chatham counties, sales tax revenues are distributed to municipalities based upon their proportionate share of population in the respective counties. Compared to the state-prepared population estimates used the prior year, the portion of Cary's population in Chatham actually grew from the previous year from 734 or 1.2% of the county to 1,422 or 2.2%. This helped contribute to a rise in estimated sales tax revenue attributed to the Cary portion of Chatham County of $142,000 or 125%.

However, the state-prepared population estimate used the prior year for the Cary portion of Wake County was actually higher than that reported in the U.S. Census. The Wake County total used for Cary in the prior year of 146,548 represented 16.42% of Wake as compared to the Census data that reported 133,812 or 14.85%. With the proportionate size of the Cary population in Wake County being smaller for sales tax revenue distribution in FY 2012, Cary's portion of sales tax revenue attributed to its Wake County population dropped by 10%. The table below shows how each jurisdiction in Wake County fared with the change in population estimates when comparing the FY 2011 distribution basis (estimated by the State of North Carolina) and the FY 2012 distribution basis (estimated by the United States Census).

	2009 Certified Data As Of July 1, 2009 Basis for FY2011		**2010 Census Data** As Of April 1, 2010 Basis for FY2012		**Change**	
Wake County	% of Total	Population	% of Total	Population	% of Total	Population
Angier	0.01%	78	0.01%	103	0.00%	25
Apex	3.62%	32,275	4.16%	37,476	0.54%	5,201
Cary (Part)	**16.42%**	**146,548**	**14.85%**	**133,812**	**-1.57%**	**(12,736)**
Fuquay-Varina	1.90%	16,965	1.99%	17,937	0.09%	972
Garner	3.03%	27,018	2.86%	25,745	-0.17%	(1,273)
Holly Springs	2.42%	21,599	2.74%	24,661	0.32%	3,062
Knightdale	1.39%	12,393	1.27%	11,401	-0.12%	(992)
Morrisville	1.79%	15,996	2.06%	18,576	0.27%	2,580
Raleigh	42.96%	383,355	44.71%	402,825	1.75%	19,470
Rolesville	0.33%	2,952	0.42%	3,786	0.09%	834
Wake Forest	3.13%	27,893	3.24%	29,218	0.12%	1,325
Wendell	0.67%	6,001	0.65%	5,845	-0.02%	(156)
Zebulon	0.62%	5,547	0.49%	4,433	-0.13%	(1,114)
County	21.72%	193,789	20.55%	185,175	-1.16%	(8,614)
Wake Total	100.00%	892,409	100.00%	900,993	0.00%	8,584

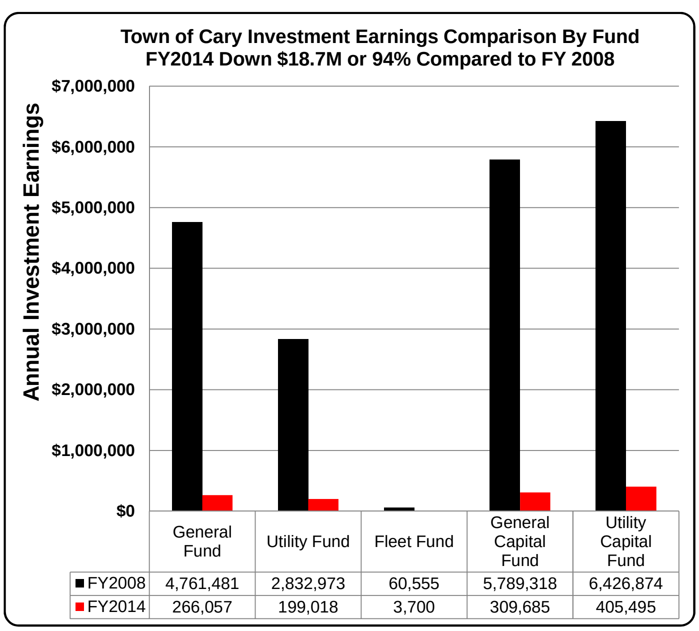
Historical sales tax revenue levels depicted below show a total decline across all three sales tax sources of $1.6 million or 6.7% in FY 2009, and another drop of $658 thousand or 2.9% in FY 2010. In FY 2011 there was an increase of $1.8 million or 8.2%. FY 2012 brought yet another decrease, this time down $961,000 or 4.1%. An increase of $468,000 or 2.1% is expected in FY 2013, with growth of $697,000 or 3% anticipated in FY 2014 generating approximately $23.9 million, which is only $269,000 or 1.1% less than the peak year of FY 2008**.**

The expected slow and steady increase in sales tax revenue is welcome, but it is very different from the pre-recession annual growth rates in this revenue source. If sales tax revenues in FY 2009 through FY 2014 had continued at the average annual growth rate of 10% which occurred over the previous four years, sales tax revenues in FY 2014 would be expected to total about $39 million, which would be $15 million higher than the $23.9 million expected in FY 2014. In the FY 2014 budget, one penny on the tax rate is equal to $2.2 million in revenue, so the property tax equivalent loss in sales tax revenue compared to typical pre-recession growth is equal to almost 7 cents on the tax rate.



Investment Earnings

Existing cash balances on hand due to current receipts, fund balances, and project funding are often invested temporarily to earn the Town income in the form of investment earnings to help augment the funding needed for Town services. While the sagging economy of the early 2000s drove debt service rates lower in the bond market, it also reduced the amount of return available for the Town's investments. Interest earnings in FY 2001 were $8.7 million across all governmental funds, while net investment earnings in FY 2004 for these same funds were only $1.3 million, which was a drop of $7.4 million or 85%. With the economic recovery of the mid 2000s, investment earning levels improved, but as the economy began slumping again in 2008, total investment earnings have continued to decline each year and for FY 2014 are expected to be about $1.2 million which is $18.7 million or 94% less than those recorded in FY 2008. As these market changes have affected the Town's income over the past few years, the Town has had to adapt both its operating budgets and pay-as-you-go capital planning accordingly. For the general fund specifically, investment earnings are expected to decrease from $4.8 million in FY 2008 to only $266K in FY 2014. For comparison purposes, each penny on the tax rate in FY 2014 is expected to generate $2.2 million in revenue, so the Town's much weaker investment earnings in the general fund are worth only about 13% of the revenue generated by one cent on the tax rate. This is in stark contrast to general fund investment earning levels in FY 2008 when investment earnings of $4.8M were worth about 4 cents on today's tax rate.



	General Fund	Utility Fund	Fleet Fund	General Capital Fund	Utility Capital Fund
FY2008	4,761,481	2,832,973	60,555	5,789,318	6,426,874
FY2014	266,057	199,018	3,700	309,685	405,495

Debt Service and Capital Project Trade-Offs

Historical financing decisions and the rate of capital investments have been shaped by a variety of funding philosophies and the health of the economy in general. Beginning in fiscal year 1999, the Town leveraged its debt capacity in the general fund to increase its rate of investment in Town infrastructure, including streets and parks. The flexibility to afford additional capital improvements with existing resources has changed dramatically over the past several years. By managing operating cost increases and adjusting programs and their related cost recovery rates, the Town has been able to manage the level of general fund operating margin (the difference between revenues and operating expenditures available to pay debt service). From Fiscal Years 2002 through 2008, the Town's operating margin before debt service averaged 22% per year. With the slow economic recovery continuing to hold down the rate of revenue growth, the operating margin before debt service anticipated for FY 2014 is expected to be only 12%. Over this same time period, the level of debt service being paid by the general fund has risen from $1.7 million in FY 2002 to $14.3 million in FY 2014.

Heading into development of the FY 2010 budget four years ago, it was clear that the recession was impacting the Town's revenues and that a variety of course changes had to be made right away regarding the previously planned capital projects that required substantial debt borrowings in the spring of 2010, thus increasing debt service payments in FY 2011 and beyond. In the fall of 2009, the Council held a series of worksessions focused on reducing the immediate debt burden of the general fund to address this very issue. Staff evaluated each of the Town's 194 active general capital (transportation, fire, parks, general government) projects and brought a comprehensive prioritized strategy for debt reduction or elimination to Council. As a result of this prioritization process, Council decided to delay 19 capital projects including $63.8 million of debt funding sources, none of which had yet been borrowed. These changes resulted in lowering debt service in the general fund for FY 2011 by $2.6 million, or 19%, compared to what would have been required if the projects had proceeded as planned when the economy was stronger.

In addition to the 19 projects delayed, another 39 active capital projects were postponed indefinitely. To allow other projects to continue without adding debt burden, the postponed projects were closed and available cash balances along with capital reserves totaling about $24 million were reallocated to replace previously planned debt. Council directed that those projects selected for closure could return for future consideration in the ten year capital improvement planning horizon along with other new capital project priorities.

Challenges certainly exist in balancing demands for operating service levels as the economy slowly recovers. However, a greater challenge has been reconciling community expectations for new general capital investments without additional revenue resources to afford related increases in debt service. Given the assumption that the current mix of high service levels will continue to be expected by our citizenry, it has not proven possible to cut existing operating costs low enough to provide the same services and provide substantial incremental operating margin to afford measureable amounts of additional debt service. Similarly, without significant renewed levels of growth in the economy and the Town's tax base, providing additional capital investment without commensurate tax increases to pay for the debt service has proven challenging.

For these reasons, the Council discussed the future of general obligation debt funding at the January, 2012 annual Council/Staff Retreat. Discussions included available debt capacity, potential cash funding, and impacts regarding several different funding scenarios. In addition to the appropriated debt already delayed, it was discussed that there was also $48.3 million of transportation bond authority and $7.6 million of park project authority available for appropriation to new projects within these categories (transportation or parks). Just as with the debt projects delayed, this remaining authority would have debt service implications when sold. Any unissued debt authority remaining from the 2003 bond referendum unsold was set to expire as of April 2013 and would no longer be available for appropriation. General obligation debt is typically structured so that payments are spread over 20 years with decreasing payment amounts over time. However, during the first few years of debt service payments, the amount due is equal to roughly 10% of the total amount borrowed. For example, if $22 million is borrowed for a project, the first few years of debt service will cost about $2.2 million, which is equal to the value of one cent on the tax rate in FY 2014.

The Council decided to allow the Town's remaining 2003 voter approved general obligation bond authority to expire in April 2013. Council directed that a follow-up worksession be held with Council regarding the possibility of a future general obligation bond referendum. In March, 2012 Council decided to put a referendum totaling $80 million before Cary voters on the November, 2012 ballot. The three separate bond questions before voters and the list of corresponding projects selected by Council for voter consideration are shown in the table below. As directed by Council, voters were informed as part of a comprehensive bond education program, that if all three questions on the ballot were approved, there would be a two cents tax increase in FY 2014 and another two cents tax increase in FY 2016 to pay the associated debt service necessary to afford the projects.

4 Cent Tax Increase Total (2 in FY14 + 2 in FY16) Annual Tax Impact for each $100K Home Value = $40.00; So for a $250K home value, annual tax impact is $100	**$80M Referendum**
Transportation	
Walnut Street Pedestrian and Traffic Improvements (US 1 Overpass)	7,000,000
Street Improvements (Resurfacing)	5,000,000
Reduce Congestion Through Intersection Improvements (Based on LOS)	3,000,000
Streetscape Improvements Along South Academy and Dry	8,000,000
Signal System	2,900,000
Sidewalks	780,000
Bike Facilities	1,000,000
Carpenter Fire Station Bridge and Intersection Improvements (No Widening)	17,000,000
Green Level West Road Widening (NC540 to NC55)	13,000,000
(72% of $80M) Subtotal - Transportation	**57,680,000**
Parks, Recreation and Cultural Resources	
Carpenter Park	2,000,000
Mills Park - Phase II	1,070,000
Downtown Park (including Farmers Market support facility)	2,000,000
Greenways - White Oak Creek - All Remaining Segments	3,000,000
Panther Branch Greenway (Cameron Pond/540 Segment to Mills Park)	1,400,000
Bartley Park Phase I (Penny Road Park)	4,400,000
Sports Turf Fields	2,000,000
(20% of $80M) Subtotal - Parks	**15,870,000**
Fire	
Architectural Services - Land Acquisition and Construction - Fire Station #2	6,450,000
(8% of $80M) Subtotal - Fire	**6,450,000**

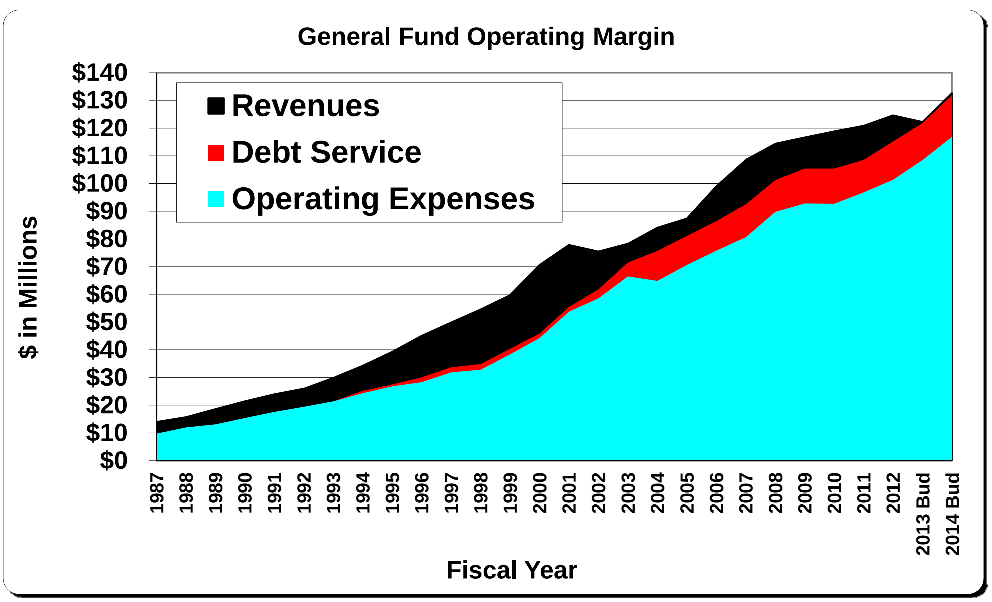
Each of the three different bond questions passed voter approval with Fire achieving 80%, Transportation 70% and PRCR 69%. Implementation of the $80 million program is planned to take place over several years with the first $40 million being borrowed in the fall of 2013. The incremental revenue of $4.2 million generated by the two cents tax increase in FY 2014 is necessary to pay the first debt service payment that will be due in FY 2014. The remaining $40 million is expected to be borrowed in the fall of 2015 and there will be another two cents tax increase in FY 2016 that will be necessary to make that related debt service payment as well.

Paying Off Older Debt
The Town currently has $6,030,000 worth of remaining general obligation bond debt outstanding that was borrowed in 2003 for transportation and park projects. This debt becomes callable in June, 2013 which means the Town has the opportunity to pay it off without penalty and eliminate the related $2.2 million debt service payment each of the next three years, beginning in FY 2014. It is recommended that the full $6,030,000 balance be paid in July, 2013 with existing transportation development fee and park payment-in-lieu fund balances. This will create operating margin in FY 2014 and provide some capacity to fund positions, vehicle replacements, and maintenance initiatives that would otherwise not be possible.

Maximizing Existing Resources to Protect the Quality of Life

Operating Margin

Operating margin is defined as the amount of revenues remaining after paying for operating expenses. Operating margins in the general fund from FY 1992 through FY 2002 averaged nearly $15 million annually. As the graph below illustrates, the rate of debt service growth (in red) and steadily climbing expense growth (in blue) has put increasing pressure on the rate of margin growth (in black). Operating margin after debt service is demonstrated in the graph by the area where the revenues, shown in black, are still visible since they exceed debt service and expenses. The recommended budget reflects an operating margin after debt service of $750K with that amount necessary to contribute to the capital project established for upcoming solid waste and recycling truck replacements. With more aggressive budgeting practices such as assuming a variable interest rate of 0.5% to start the year (versus 3.25% for FY 2011), we will continue watching our revenue levels very closely throughout FY 2014. We have been fortunate with our operating margin performance thus far in FY 2013, as we currently anticipate having an operating margin of about $1 million in the general fund, versus the adopted FY 2013 budget that anticipated revenues of $122.3 million to equal expenditures.



Debt Capacity

Fiscal Year 2003 marked two significant milestones in Cary's debt history. At the beginning of FY 2003, the Town appropriated the last of its bond authority for streets and park facilities that was approved by the voters in 1999 ($63 million for streets and $10 million for parks). Realizing that the Town intended to continue improving street capacity and park facilities, the Town held the largest combined municipal bond referendum in North Carolina in 15 years: $130 million for streets and $30 million for park facilities.

In 2005, Cary continued its tradition of ensuring infrastructure is in place when needed by beginning to execute plans for a major water reclamation facility necessary for future capacity and to meet a state mandated inter-basin transfer certificate agreement to return water to the Cape Fear River basin. This project is being undertaken regionally and includes as project partners the towns of Morrisville and Apex. To help finance the Western Wake Regional Wastewater Management Facility (WWRWMF) in the most affordable manner, Cary held a $110 million general obligation bond referendum in 2005 which was approved by Cary voters. Included on the same ballot was an additional question for voters regarding $10 million in general obligation bond authority for the purchase of open space which was also approved. Each of these authorities has been fully appropriated for their respective purposes.

The Council decided to allow the Town's remaining 2003 voter approved general obligation bond authority to expire in April 2013. In March, 2012 Council decided to put a referendum totaling $80 million before Cary voters on the November, 2012 ballot. As directed by Council, voters were informed as part of a comprehensive bond education program, that if all three questions on the ballot were approved, there would be a two cents tax increase in FY 2014 and another two cents tax increase in FY 2016 to pay the associated debt service necessary to afford the projects. The transportation ($57.7 million), PRCR ($15.9 million), and the Fire ($6.4 million) bond questions were all approved by Cary voters. The first of the two cents tax increases is recommended to begin in FY 2014 and the remaining two cents necessary to pay the associated debt service is anticipated in FY 2016. All of the 17 projects received their full appropriation in December, 2012 via Council approval so that work could begin on the projects. No general obligation debt is recommended for appropriation in FY 2014 as all existing authority has been appropriated.

Debt Affordability

With $160 million of debt authority approved in 2003 for streets and parks, an increased focus was placed on long term capital priorities and affordability of the respective debt service payments. The cost of borrowed money still remains relatively low compared to historical levels; however, the interest rates charged in bond markets change rapidly. While lower interest rates are a great incentive to leverage the Town's remaining debt capacity, being able to repay the related debt service each and every year is a major factor when deciding which projects to undertake and how much to borrow.

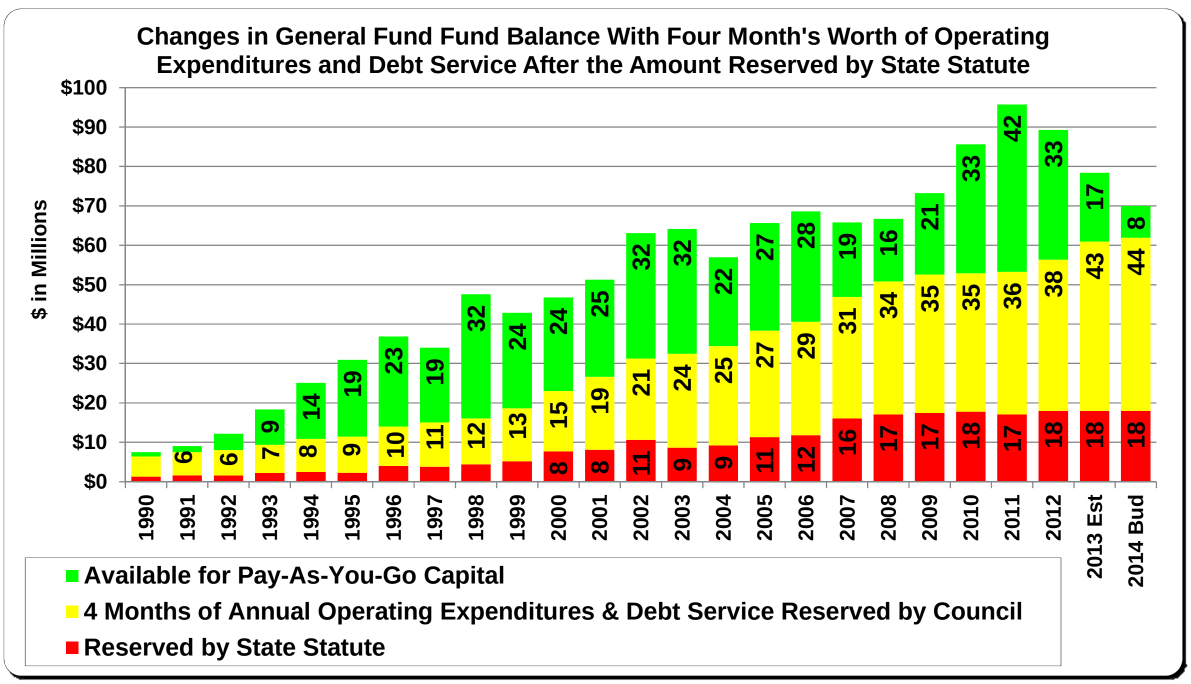
Debt service related to the 1999 bond authority for streets and parks, costs related to the widening of North Carolina Highway 55, an expansion of Town Hall and the debt issued from the 2003 street and park bonds have combined to increase debt related costs in the general fund. Following the FY 2006 budget development process, Council focused a great deal of attention on all previously funded capital projects including the liquidity of their various funding sources. Several work sessions were held to determine options related to minimizing the impact of pending debt service on the general fund without altering or delaying any projects already approved. The first approach involved using the Town's cash balances within existing projects that were not spending right away to prevent borrowing funding for debt funded projects that were ready to spend. This approach was used until the time that the variable interest rate market provided an opportunity for the Town to use its borrowing power and AAA credit rating in the spring of 2006. The Town borrowed $47 million with only interest payments due the first two years (fiscal years 2007 and 2008) and principal being due for the first time in FY 2009. Increased investment earnings on the bond proceeds during these two years helped pay the interest costs the first two years, while general fund debt service increased as the related principal payments came due in FY 2009.

The economic resurgence from late 2005 to early 2008 materialized in Cary in the form of increased levels of new residential construction, tax base growth, and sales tax growth for fiscal years 2006, 2007, and 2008. However, the 2008 recession began impacting Cary in early FY 2009 and its impacts on Cary's tax base and sales tax revenues were key factors in Council's previously mentioned decisions to reallocate cash resources from some projects and to delay others (see "Debt Service…" section above). If all of the projects with debt funding sources appropriated prior to FY 2010 had moved forward, debt service would have grown another $10 million by FY 2014. The incremental impact of debt service associated with new borrowings is why the $80 million bond referendum approved by voters in November, 2012 will have a 4 cents tax increase associated with it by the time all of the debt is issued. To help phase in the necessary increase in the tax rate and to smooth the workload for existing staff, the borrowings are planned to occur in two batches of $40 million with the first occurring in the fall of 2013 and the second in the fall of 2015. To pay the associated debt service in FY 2014 the tax rate is recommended to increase 2 cents from 33 cents per $100 of property valuation to 35 cents. Another two cents tax increase is anticipated in FY 2016.

Fund Balance

The Town of Cary's fast growth during the 1990s helped develop one of the highest levels of general fund fund balance in the state of North Carolina. This major cash reserve created by historically healthy annual operating margins helped facilitate a large number of cash funded projects and mid-year funding flexibility regarding special opportunities and emergencies. The Town Council decided during FY 2003 to reserve six months worth of operating expenditures and debt service for future needs, while designating the remainder for pay-as-you-go capital projects or for special opportunities versus the funding of on-going expenditures.

In the spring of 2008, the Council held a financial planning worksession in which the concept of adjusting the Town's definition of fund balance reservations and amounts was considered. Rather than total general fund fund balance, the decision was made to adjust the definition of fund balance set aside for emergencies to four months of unreserved fund balance (after the amount reserved by state statute). As it turns out, two months worth of operating expenditures and debt service are roughly equal to the amount that is reserved by state statute, so the amount available for capital in either approach is about the same currently. However, the current definition of the amount set aside for emergencies is known to be more consistent with evaluation criteria utilized by bond rating agencies and is expected to leave approximately $8 million available for capital by the end of FY 2014. The graph below shows the distinction between the reserved by state statute (red), the four month Council directed designation (yellow), and the remainder each year (green) since fiscal year 1990.



While fund balance levels are a key consideration when bond rating agencies (Moody's, Fitch, Standard & Poor's) evaluate the risks associated with future borrowings of the Town, there are many other factors considered as well. Cary's AAA bond ratings were confirmed again by FitchRatings in March, 2012 for its general obligation debt and again in December, 2012 for its revenue bond debt. Items considered heavily when awarding include evidence of a strong and proactive administration, effective debt management with moderate to low debt levels, a vibrant or diverse economy, and strong finances. As future capital opportunities arise and various financing options are considered, fund balance targets and appropriations should be considered very carefully and only as a one-time funding source. Fund balance is extremely difficult to replenish, especially during tough economic times and periods of slow tax base and population growth like that we expect to continue experiencing over the next several years. The opportunity to pay off $6 million of outstanding 2003 general obligation debt to eliminate $2.2 million of debt service in FY 2014 is an excellent example of leveraging existing cash resources to create ongoing operating margin to afford needed positions, equipment replacements and maintenance needs that would otherwise not be affordable.

Options for Creating Additional Operating Margin

The conversion to curbside solid waste collection and a fee increase implemented in FY 2006 have helped improve that service's cost recovery percentage and minimize the impact on other general fund revenue sources needed to support the general fund operating margin available for debt service. The solid waste fee had been reduced from $11.50 to $7.67 in FY 2001, which equated to about $1.5 million less in annual revenue until FY 2006 when the fee was raised to $11.75. FY 2008 was the first full fiscal year that all routes had been converted and provided a good foundation to analyze the economies of scale achieved with the new program. In FY 2009 the fee was increased to $14 per month. The FY 2014 recommended budget increases the solid waste fee by $1 dollar to $15 per month. It is expected that this increase will bring the solid waste and recycling program's cost recovery to 98.2% in FY 2014. As with other costs to deliver service, the costs associated with this program continue to rise. An important component of the program is the reservation of capital funds to support replacing the expensive solid waste and recycling trucks. The one dollar increase in the monthly fee allows the continuation of this approach with $750,000 being allocated for this purpose. The current levels of cost recovery represent a dramatic departure from the program's cost recovery low point of 47% in FY 2004. The cost recovery level associated with the automated curbside solid waste and recycling programs will continue to be monitored for improvement and possible fee adjustments in the future. Each $1 of the $15 monthly fee is expected to generate about $533,703 in FY 2014.

The largest causes for decreased levels of operating margin over the past decade are the growing amount of debt service that has been absorbed within the general fund with no tax increases in conjunction with the 2008 recession and its lingering impact on revenues. Over this same time period, a one cent decrease was approved in FY 2002, changing the rate from 43 cents to 42 cents. In the FY 2014 budget, each cent on the tax rate is expected to yield about $2.2 million in revenue. From FY 1994 to FY 2012, four bond referendums were approved by the voters, authorizing $242 million of general obligation debt for streets and parks with the understanding that the potential tax increase resulting from all of that debt could be as much as eleven cents on the tax rate once all the debt is issued (all tax rate impacts here have been adjusted for property revaluation impacts in 2000 and 2009). For comparison purposes only, eleven cents on the tax rate today generates approximately $24 million in revenue. With $40 million being borrowed in the fall of 2013 and another $40 million anticipated in the fall of 2015, debt service is expected to peak at $19.7 million for general fund debt service in FY 2017. The $80 million bond referendum approved by voters in November 2012 has associated tax increases of two cents effective July 1, 2013 (FY 2014) and another two cents on July 1, 2015 (FY 2016). These increases are directly tied to paying for the related increases in debt service for the projects approved by voters in November, 2012. To the degree that additional debt sales are not required beyond FY 2016, operating margin will continue to be created as debt is paid down over time. The current rates of paydown generate successively lower debt service payments in a normal debt amortization year of about $500,000 when compared to the prior year

Other initiatives to help create and/or reduce the impact on operating margin totaling about $8 million in savings over the past few years include:

- raising the business license fees effective in FY 2007 for the first time since 1990 (generated an additional $650,000 in FY 2008)
- increasing the monthly solid waste and recycling fee from $7.67 to $11.75 in FY 2006
- increasing the monthly solid waste fee from $11.75 to $14.00 in FY.
- increasing the monthly solid waste fee from $14.00 to $15.00 in FY 2014 will generate $533,703 in additional revenue and is estimated to bring the program's cost recovery to 98.2%.

- delaying $47 million debt sale for already appropriated street and park projects beyond FY 2006; approving a variable rate financing mechanism delaying principal payments until FY 2009
- leveraging the buying power of Blue Cross and Blue Shield as the Town's third party administrator for the health and dental self-insurance fund in FY 2006 (created savings versus budgeted funds of $1.3 million in just the first year)
- updating the parks and recreation fee system in FY 2006 generating about $150,000 additional annually
- continuing the conversion to voice over internet protocol (VOIP) phone system begun in FY 2008 saving $171,000 annually, or 17% of the Town's previously existing $1 million in phone related costs
- Council's decision in the fall of 2009 to reallocate cash funding sources within some capital projects and delay other debt funded projects reduced debt service payments in FY 2012 by about $2.6 million versus what it would have been had the debt been sold as planned during a stronger economic environment
- moving to an enterprise license for Microsoft is expected to save software related upgrade and renewal costs over five years totaling $139,000 and help smooth our related expenditures from year to year so they are more manageable within the operating budget. This license also includes upgrades to Outlook and Exchange and will allow the introduction of Sharepoint to the organization which is a very powerful collaborative document management tool
- the 2002 Certificates of Participation (COPS) debt totaling $11.3 million was put out for bid early in 2012 and we were successful in the refinancing effort getting lower interest rates that resulted in net present value savings of $800,000 or 7.4% with $58,000 being saved in FY 2012 and $550,000 lower debt service payments in FY 2013

The Balance Between Revenue Growth and Expenditure Growth

Historically, the North Carolina General Assembly has given local governments a limited range of responsibilities for services and capital facilities and a limited set of revenue sources to meet those responsibilities. Over an extended period of time, local governments need to develop and maintain a focus on community priorities within the limits of their responsibilities. Having this prioritization structure and focus assists local governments in the struggle to balance revenues and expenditures while maintaining a strong and stable financial position.

During the decade of the 1990s, the Town of Cary benefited financially from the booming economy and an exceptionally high growth rate in both population and assessed value. Many of the Town's major revenue sources are largely driven by population such as ad valorem taxes, building permits, solid waste fees, recreation fees, utility franchise fees and vehicle license fees. Other major revenue sources driven by population and distributed through the state or county on a per capita basis include sales taxes, wine and beer taxes, and Powell Bill funding for local street improvements. Due to growth management efforts and a slowing economy, both the Town's population and revenue growth rates declined in the early 2000s. One of the benefits of the high growth levels was large amounts of operating margin (revenues less expenses) that enabled the Town to self-fund with cash resources many large projects and new priorities. For example, from FY 1998 through FY 2002, the Town was able to fund $130 million, or about 52% of its entire general capital program with cash generated either from operating margin, grants, or capital reserve revenue sources.

The revenue reductions discussed have been coupled with significant service level increases in the form of new appropriations to roads, parks, specialized sport venue facilities, affordable housing, transit, and increased activities and facilities as part of the downtown revitalization efforts. In addition to the initial capital costs to build many of these facilities, some of them require additional staffing and/or contracting expenditures to maintain and program their use. General fund operating margin before debt service averaged about $20 million per year since FY 2003 and is expected to be $15.8 million in FY 2014. Part of the major structural shift in operating margin components over that same time period has been debt service expense which has grown from

$5 million in FY 2003 to $14.3 million in FY 2014. Now planning for the sixth year since the recession, it is clear that the slow pace of the economic recovery is not sufficient to both continue supporting the level of services expected by our citizens today and to maintain the excellent financial condition of the Town. To ensure we don't begin to suffer facility and service degradation, we are recommending a variety of tax and fee increases for FY 2014. The tax rate increase is recommended to increase by two cents to pay for debt service payments associated with the bond projects approved by voters in November, 2012. Building and permit related fees are recommended to increase by 5% in order to maintain our next day inspection commitment.

Assuming consistent permit activity volumes in FY 2014 with those experienced thus far this year, it is expected that this increase will generate enough funding to pay for the addition of one Multi-Trade Inspector. Using a 4,000 square foot home for comparison purposes which is the average size of new single family permitted square footage currently, this 5% increase is expected to cost $54 more, increasing the fees from $1,080 to $1,134. These fee levels have not been adjusted at all since FY 2002. The solid waste and recycling fee of $14 per month is recommended to increase by $1 per month to $15. This increase in revenue is expected to help the solid waste, recycling, yard waste, and leaf pickup program recover approximately 98% of the direct costs of the program. This fee was last increased in FY 2009. While the $15 million renovation of the old Cary Elementary building into the new Cary Arts Center has been very successful with the facility opening in the summer of 2011, the anticipated facility revenues of $581,000 are not enough to offset the operating costs of $1.8 million expected in FY 2014. In addition, the new theater on Chatham Street in downtown Cary is expected to open mid-way through the fiscal year, which will add about $340,000 of additional net operating costs that must be covered. Absorbing these types of cost increases in an environment of very little revenue growth puts extra financial pressures on the rest of the organization and reduces our flexibility to accommodate other requests for services and programs.

The Town has a history of being prudent in its application of new resources to accomplish both existing and new tasks by not adding people or new funding until absolutely necessary in order to achieve the Town's goals. In addition, there is recognition within the organization that most often, people are the most expensive solution to any problem. In response to the dynamics of the past few years, staff has taken an even harder look at operations to help reduce and control costs. Examples of some of these initiatives over that past decade are identified below:

- Began conversion to automated curbside solid waste collection and dual stream recycling in FY 2006 with full conversion in FY 2007
- Reduced eight positions in Inspections and Permits (5 inspectors, 3 permit staff) when the number of new permits being issued dropped in FY 2003
- Began contracting janitorial services, landscaping, right of way and town facility mowing
- Reduced the minimum staffing on aerial ladder units in the Fire Department from four to three
- Changed approach to rising health and dental insurance costs by encouraging more consumerism and development of a fitness promotion and health awareness program. In FY 2012, all employees began financially participating in health plan funding to further support the program through direct contributions each pay period. In FY 2014, all employees will begin financially participating in dental plan funding as well. Previously, only those with dependents or those with premium coverage contributed directly to the Town for health and dental plan costs.
- Initiated consultant studies on operations and staffing efficiencies at all utility plants and fleet operations
- Reallocated four sworn officer positions from elementary school resource officer positions to higher priority objectives effective in FY 2006 (two to new ninth grade centers, one to patrol and one to investigations)
- Required a 10% reduction across the board in training and travel expenses for FY 2006 after holding amounts flat for the previous two years; the budgeted level for training and travel expenses in the FY 2014 budget is still 15% lower than the level budgeted in FY 2009
- Reduced five Meter Reader positions in FY 2011 and then reduced another four Meter Reader positions effective at the end of FY 2012; both due to efficiencies created by the Aquastar automated meter reading project.

In addition to these activities, the 2008 recession required additional measures to help the Town brace for the related declines in economy driven revenues:

- Late in the FY 2009 budget development process, Council directed that a reduction to the general fund of $3.5 million be incorporated to help brace against signs the economy was beginning to slow.
- As the economy began to decline in the fall of 2008, contracted services of $1.6 million and training and travel expenditures of $226,000 were identified for delay through a prioritization process.
- Several of the new positions approved as part of the FY 2009 budget were delayed until later in the fiscal year and some of them, in addition to selected vacancies that occurred during the year, were held open.
- Council held worksessions in the fall of 2009 focused on reducing general fund debt service. Through this reprioritization effort, 194 active general capital (transportation, fire, parks, general government) projects were studied. Council decided to delay 19 capital projects including $63.8 million of debt funding sources, none of which had yet been borrowed. These changes resulted in lowering debt service in the general fund for FY 2011 by $2.6 million, or 19%, compared to what would have been required if the projects had proceeded as planned when the economy was stronger. None of the debt funded capital projects delayed by Council are being recommended to resume with the FY 2013 budget.
- Positions that were vacant and held open in FY 2009 were available for reconsideration through our FY 2010 budget development process. Only one new position was added in FY 2010, and through the FY 2011 budget, 31.25 vacant positions were officially eliminated from the staffing document, saving approximately $1.5 million town-wide, with $1.3 million of that being realized in the general fund.

GENERAL FINANCIAL CONDITION OF THE TOWN

FY 2014 budget recommendations have been made relative to the current overall financial condition of the Town and to meet the goals set by Council for the future. The Town's financial condition continues to be above average, providing adequate liquidity even in a slowly recovering economy. All three major national bond rating agencies have awarded the Town of Cary their highest possible rankings for both general and utility debt, a move that reaffirms Cary's financial strength. These AAA ratings allow the Town to save tax dollars when borrowing by gaining lower interest rates on bond issuances. In fact, all three rating agencies confirmed AAA bond ratings for a bond refinancing in September 2010.

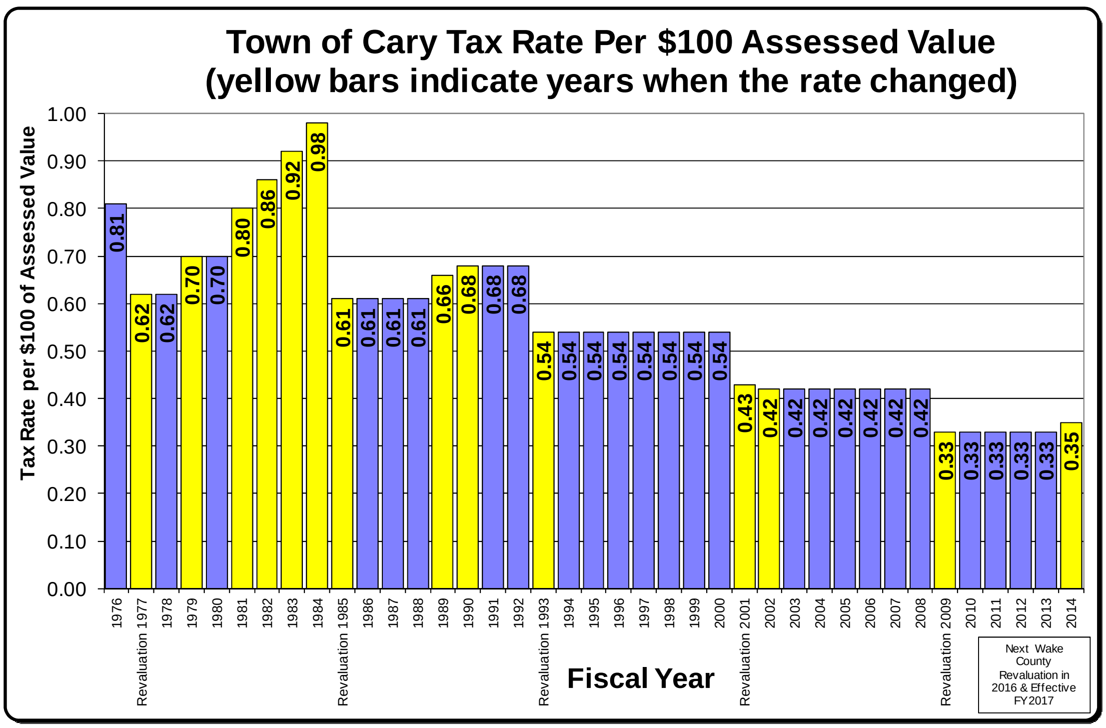
In addition, FitchRatings completed a routine surveillance of the Town in March 2012, and affirmed the Town's general obligation and revenue bond AAA debt ratings and its AA+ rating on its limited obligation refunding bonds and certificates of participation, all of which are the best possible ratings on the respective types of debt. Specific quotes from the respective reports are included below from the March, 2012 FitchRating report as evidence of our recent successes to continue with strong financial management principles to help guide us through these difficult financial times.

"FitchRatings General Obligation Bond Key Rating Drivers:
SUPERIOR FINANCIAL FLEXIBILITY: Financial flexibility is exceptional, including very high reserve levels and continued prudent cash funding of capital projects.
MODERATE DEBT AND SOUND POLICIES: The overall debt burden is moderate while the town continues to adhere to conservative financial and debt policies.
STRONG ECONOMIC BASE: The town's economy is strong and has excellent long-term potential for continued growth and development, combining the stability of the nearby state capital and a large higher education sector with the specialized high-technology industry.
SOUND LEASE ASSET ESSENTIALLITY: The rating for the lease obligations also incorporates debt service being subject to annual appropriation by the town. Appropriation risk is largely offset by the essential nature of the mortgaged properties, properties within the Town Hall Campus, which the trustee may foreclose upon if annual debt service payments are insufficient.

<u>FitchRatings Revenue Bond Key Rating Drivers:</u>
SOLID FINANCIAL PROFILE: Financial performance has been very strong with consistently strong debt service coverage of its revenue bonds and strong liquidity levels.

GROWING DEBT BURDEN: Debt levels are in the moderate range currently but are expected to rise considerably with the planned issuance of revenue and general obligation (GO) bonds to fund the construction of the wastewater treatment plant.
REGULATORY-DRIVEN EXPANSION: Capital needs, in addition to growth-related projects, require construction of a third wastewater treatment plant in order to meet state permit requirements.
RATE FLEXIBILTY DESPITE INCREASES: Rate increases, particularly on sewer rates to fund construction of the third treatment plant, have been sizable in recent years. Nevertheless, user charges remain affordable and well under Fitch's affordability threshold.
ADVANCED FINANCIAL PLANNING: Financial modeling efforts are robust and used to evaluate various rate and growth scenarios on an ongoing basis.
STRONG ECONOMIC BASE: The town's economy is strong, characterized by high wealth levels, low unemployment and long-term potential for continued growth and development."

The Town has historically maintained a strong cash position, driven predominantly by growth in population and property tax base during the 1990s, allowing the Town to avoid property tax rate increases since Fiscal Year 1990. Since then, any adjustments to the tax rate have been for revaluations, except in FY 2002, when the tax rate was dropped by one cent from 43 to 42 cents per $100 of property valuation. The tax rate is recommended to increase by two cents from 33 cents to 35 cents in FY 2014 to pay for the debt service associated with the voter approved $80 million general obligation bond referendum in November, 2012. This increase is consistent with the bond education program prior to the vote which also referenced the need to increase the tax rate an additional two cents in FY 2016. For a home valued at $250,000, this four cents increase will result in the owner paying an additional $100 per year in property taxes.



While overall tax base growth has continued, a slowdown in the growth rate has been experienced compared with that of the 1990s, with a slight resurgence from 1.5% tax base growth in FY 2005, to 7% in FY 2009 and then back down to 1.3% in FY 2011 with a gradual rise each year to the estimated level of 3% in FY 2014.

Past strong population and commercial development resulted in the need for a sizable and aggressive capital improvements program for both general and utility needs. Due to these growing infrastructure needs and a comparatively slower growth rate, the Town can no longer depend on its financial reserves to the extent it had in the past. Alternative financing options are needed to enhance funding flexibility and continue to ensure cost effectiveness. While the Town has traditionally funded major capital needs with cash, plans during the early 2000s to leverage the Town's borrowing power by increasing the use of debt financing resulted in higher levels of debt service. Financial reserves over and above Council's four month goal for fund balance have been leveraged, but the ability to fund significant capital requirements from these sources in the future will be limited. These changes will affect future operating budgets when considering additional debt service, which is why an increase in the tax rate of four cents is associated with the $80 million general obligation bond referendum approved by voters in November 2012 for streets, parks, and fire. Acquiring additional debt without the margin created by these tax increases to afford the additional debt would require significant expenditure reductions to create the amount of margin necessary to service the related debt load (see earlier "Debt Affordability" section).

REVIEW OF REVENUES

General Fund

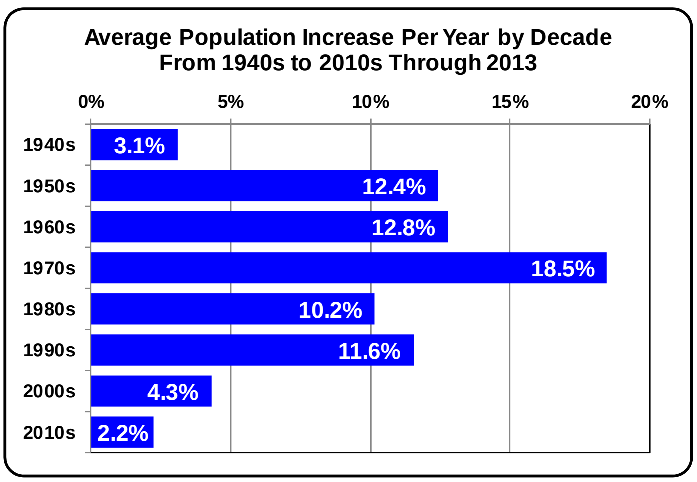
Most of Cary's general fund revenue sources are dependent on Cary's existing population, and revenue growth from year to year is heavily dependent on the number of new residents (permit fees, assessed value, sales taxes, etc.). Cary's population as of April 1, 2010 per the United States Census was 135,234, which reflected a growth rate of about 4.3% per year during the 2000s, which was significantly lower than the double-digit growth experienced during much of the 1990s (11.6% average annual growth rate from 1990 to 2000). While a slowing economy and growth management practices of the early 2000s combined to encourage a slower growth rate, the economic resurgence that began in 2005 resulted in a slight increase in the growth rate. With the significant decline in the number of new single family permits experienced over the past several years and the slow recovery from the recession, it is extremely likely that the annual population growth rate over at least the next couple of years will be in the 2% to 3% range.

From a historical perspective, most of the Town of Cary's population growth has occurred in the last thirty years having grown from a population of 21,763 in 1980 as seen in the table below reflecting historical decennial data. This chart demonstrates just how much the average population growth rate has declined in the 2000s, and again in the 2010s so far, especially compared to that of the previous two decades.

Town of Cary Decennial Census Results

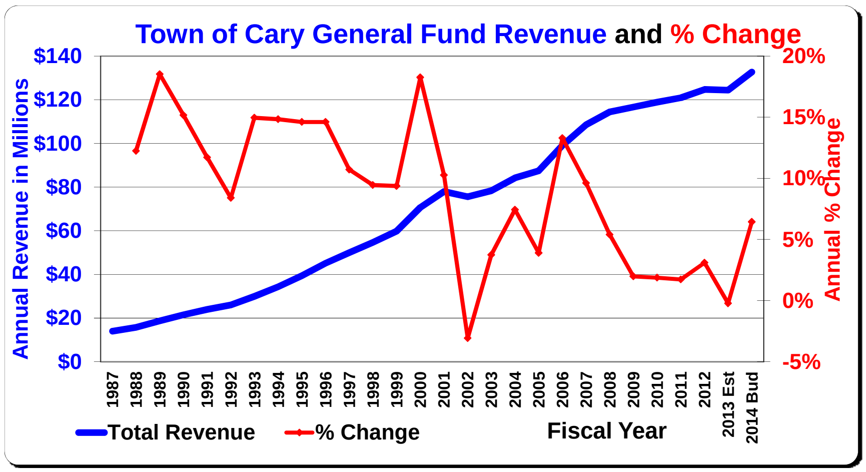
Year	Population	Increase	% Increase	Average Increase Per Year in The Prior Decade
1940	1,141			
1950	1,496	355	31%	3.1%
1960	3,356	1,860	124%	12.4%
1970	7,640	4,284	128%	12.8%
1980	21,763	14,123	185%	18.5%
1990	43,858	22,095	102%	10.2%
2000	94,536	50,678	116%	11.6%
2010	135,234	40,698	43%	4.3%
2013	144,316			2.2%

Note: Data for 2013 is an estimate for April 1, 2013.



Revenue assumptions have been developed according to the effects of the economy and estimated population growth levels as they directly impact many of the Town's revenues such as ad valorem taxes, permit and inspection fees, solid waste fees, sales taxes, utility franchise fees, wine and beer tax, inventory reimbursement tax, and recycled goods.

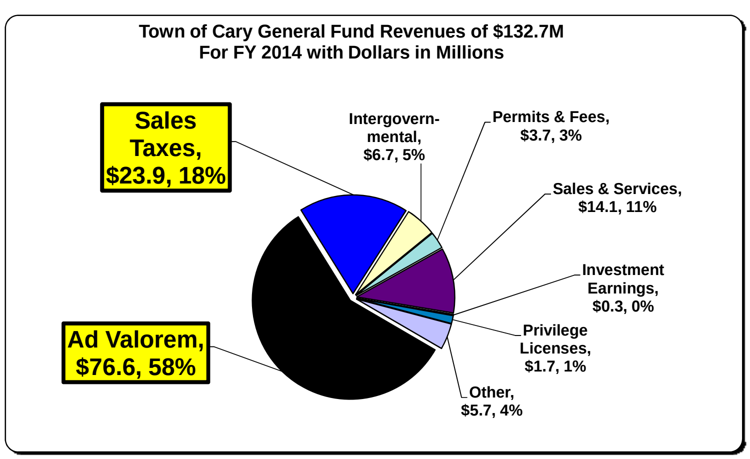
The general fund revenues for Fiscal Year 2014 are expected to total $132.7 million which is $8.3 million or 6.7% higher than estimated revenue totals for Fiscal Year 2013. Without the additional revenue from the recommended two cents tax increase ($4.4 million), the $1 increase in the solid waste and recycling fee ($0.5 million), and the 5% increase in building permit fees ($0.1 million), the revenue increase would only be $3.5 million or 2.8%. The following chart shows the level of general fund revenues (**blue line**) and the resulting rate of change (**red line**) in each year since FY 1987. It is clear from this data the dramatic impact that recessionary periods have on the Town's revenues with the drop in FY 2002 and the leveling of revenues in recent years. Most economists are expecting the economic climate to continue gradually improving. We expect that our revenue picture will continue to improve in the future, but at a slower growth rate than that seen in the 2005 to 2008 time frame.



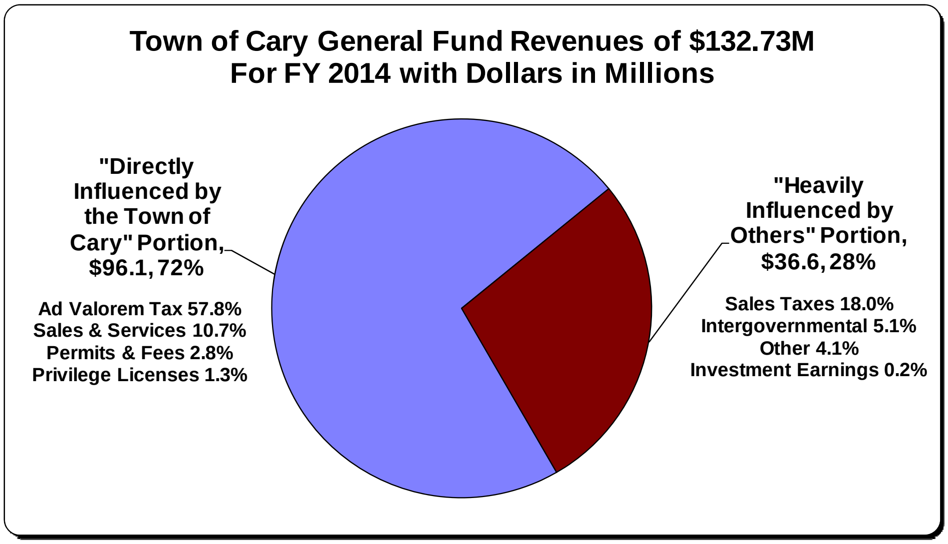
The Town's major source of revenue for FY 2014, the property tax, is based on January 1, 2013 assessments, which are projected to increase 3% over the estimate for FY 2013. This growth impacts revenue billings in FY 2014 and is based on new construction on the ground as of January 1, 2013.

The Cary Town Council sets the tax rate each year as part of the budget process. The tax rate for the year becomes official when the new budget is adopted each June. The tax rate for Fiscal Year 2014 is recommended to increase 2 cents from 33 cents to 35 cents per $100 of assessed value to pay for the debt service associated with the general obligation bond referendum approved by voters in November, 2012. The tax base in FY 2014 is estimated at $22.2 billion, which includes real property (land and buildings), personal property (campers, boats, etc.), public service property (public utilities), and vehicles. This total includes $490 million for property located within Cary's corporate limits of Chatham County (about 2% of Cary's total). The 35 cent rate is expected to provide $76.4 million in revenue. One penny on the tax rate is expected to generate approximately $2.2 million in revenue for the Town in FY 2014.

The chart below provides a breakdown of the major revenue categories in the general fund, their amounts, and their respective percentages of the total $132.7 million in revenues expected in FY 2014.



As is the case with most units of local government in North Carolina, the sources of revenue that are directly influenced by the Town of Cary are relatively restricted in terms of number, but are fairly stable in comparison to other areas of the country that rely heavily on income tax revenues instead of property taxes. Included below is a breakdown of both Town-influenced revenue sources (property tax, solid waste fees, permits and fees, business licenses) and those that are heavily influenced by others (sales taxes, state shared revenues, investment earnings).



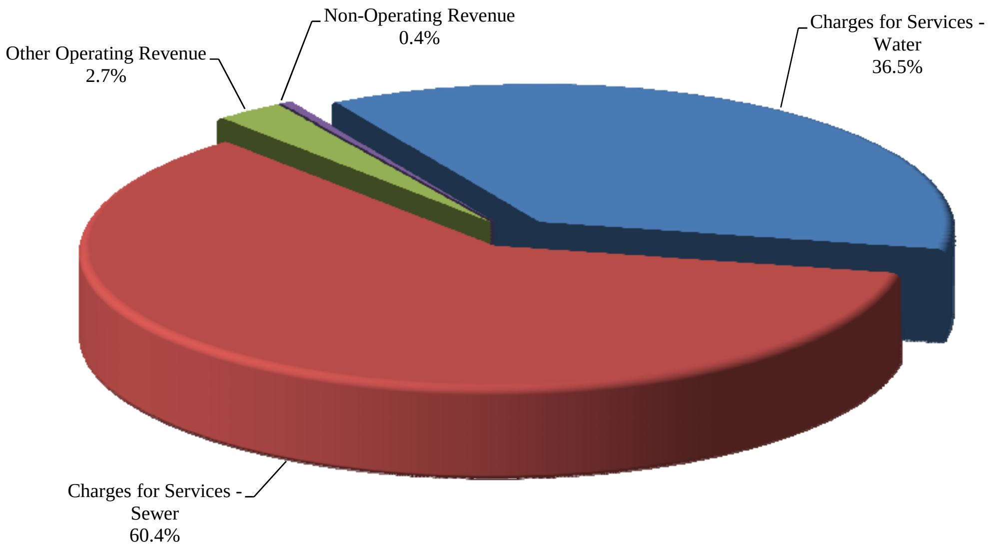
For the Town of Cary, the focus is also on the local issues and the effects of growth on our ability to maintain our revenue streams. One of the major revenue sources included in the "Heavily Influenced by Others" portion shown above is sales tax revenues, and at no time has that been more apparent than the last couple of years. With the 2008 recession's impacts and reduced buying activity locally and in North Carolina overall, sales tax revenues distributed to the Town of Cary dropped from a high of $24 million in FY 2008 to what appears to be a low of $21.9 million in FY 2010, a loss of $2.1 million or almost 9%. Indicative of the recovering economy, sales tax revenues rebounded slightly in FY 2011 up to $23.7 million, an increase of 8% from FY 2010. FY 2012 revenues were reduced 10% due to the change in the population estimates as a result of the 2010 census. With some real growth experienced in FY 2013, we expect sales tax revenues to increase about 3% in FY 2014. In both Wake and Chatham Counties, sales tax revenues are distributed to municipalities based upon their proportionate share of population in the respective counties. The results of the April 1, 2010 United States Census were utilized by the State of North Carolina Department of Revenue as the basis for revenue distribution beginning in FY 2012. Compared to the state-prepared population estimates used the prior year, the portion of Cary's population in Chatham actually grew from the previous year from 734 or 1.2% of the county to 1,422 or 2.2%. This helped contribute to a rise in estimated sales tax revenue attributed to the Cary portion of Chatham County of $142,000 or 125%.

However, the state-prepared population estimates used the prior year in Wake County were actually higher than those reported in the U.S. Census. The Wake County totals used for Cary in the prior year of 146,548 represented 16.42% of Wake as compared to the Census data that reported 133,812 or 14.85%. With the proportionate size of the Cary population in Wake County being smaller for sales tax revenue distribution in FY 2012, Cary's portion of sales tax revenue attributed to its Wake County population was impacted about 10% or $2.3 million. See the "Sales Taxes" section above for additional information and a table comparing how each Wake County jurisdiction fared with the Census results versus estimates prepared by the State of North Carolina.

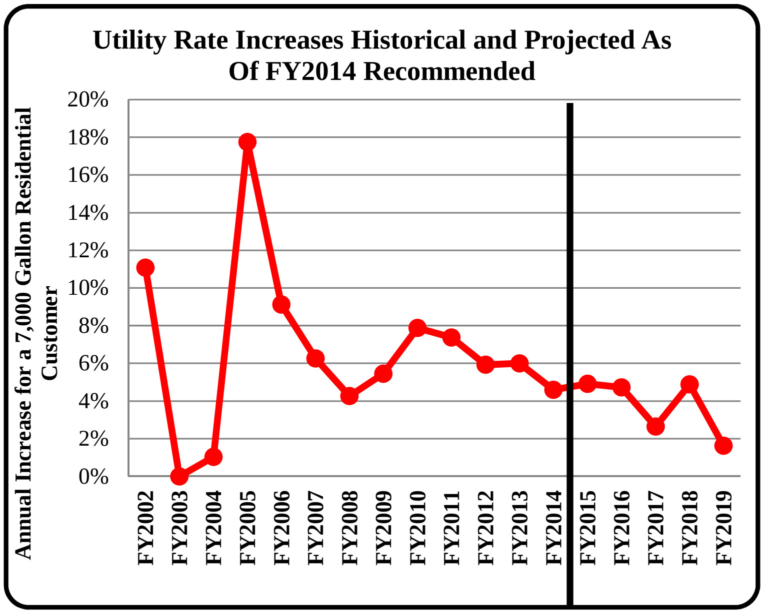
Utility Fund

Utility fund revenues are budgeted at $65.1 million for FY 2014, an increase of $3.8 million or 6%, and include Town of Morrisville customer generated revenues following the April 3, 2006 merger of the Morrisville water and sewer system with the Town of Cary system. Per the merger agreement, Morrisville customers were paying slightly higher rates to fund costs of the merger. Beginning in FY 2013, utility rates charged to customers in Morrisville became the same as those charged to Cary customers since the merger costs were paid off through the rate differentials in place through the end of FY 2012. Total revenue from water retail fees is expected to increase $1.1 million, or 5% compared to FY 2013 estimates, while total sewer retail revenues are expected to increase $2.9 million, or 8%.

FY 2014
Utility Fund Revenue Sources



The recommended increase in the blended utility rate for a residential customer consuming 4,500 gallons per month is $2.83 per month, or 4.7% as part of the multi-year rate smoothing approach initiated by Council in FY 2009 to prevent extremely high increases over the next few years. Similar rate increases are currently anticipated for the next three years to help pay for the state mandated Western Wake Water Reclamation Facility. Just how much of an increase is required will depend on a number of factors including the number of new customers added to the system over the next few years and the variability of weather patterns that affect irrigation needs of customers. In order to collect enough revenue to recover the mostly fixed costs of the utility system, these combined rate increases over the next few years are required to generate sufficient revenue levels to pay all of the related expenditures. Shown in the graph below are the historical and projected utility rate increases expressed in percentage terms that are projected to be necessary to help fund the ten year utility capital improvements plan.

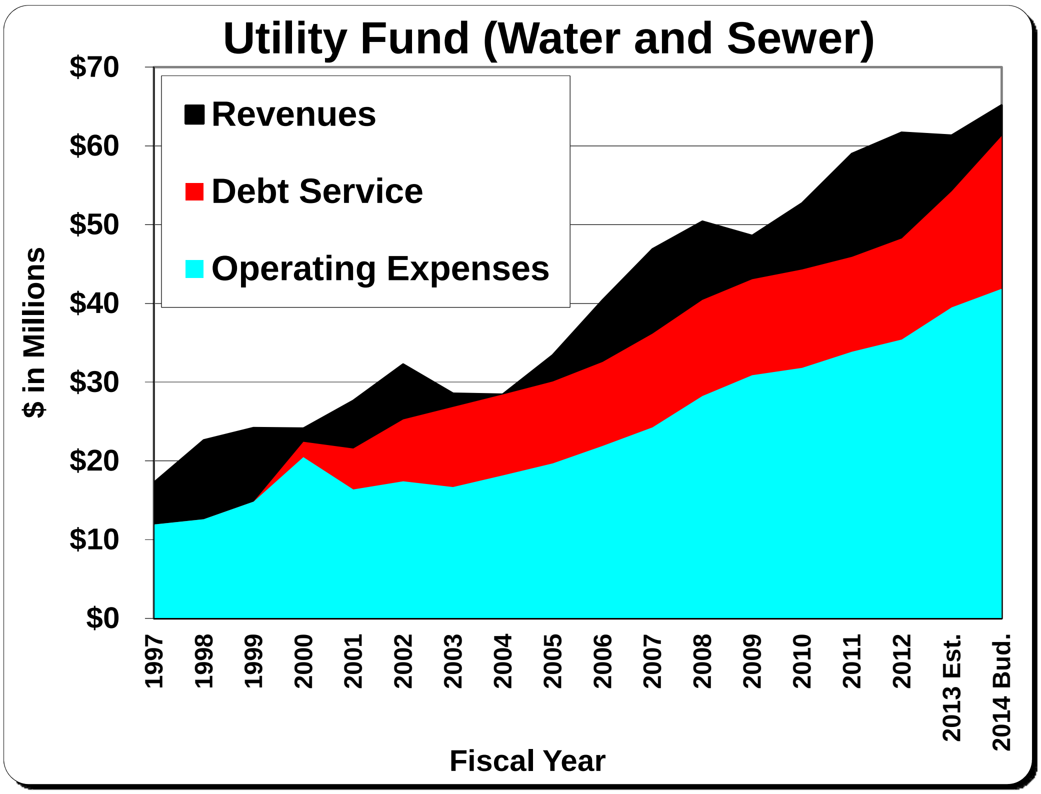


As was initiated in FY 2002, the utility rates generate $1 million annually for land banking. The FY 2014 recommended budget appropriates $53,988 of the FY 2014 $1 million to the land banking project for pay-as-you-go funding, while the remaining $946,012 is being transferred to the general fund to pay for debt service on the $10 million open space bond approved by Cary voters in 2005. The current tiered utility rate structure shifts a portion of the financial burden to the high-volume users who require additional capacity to support their peak demand. The rate structure also currently includes a monthly base charge for all users. With the Town's continued emphasis on water conservation measures, the rates provide a financial incentive for the higher volume users to conserve in accordance with the Water Conservation and Demand Management Plan adopted by Council in April 2000. In fact, the water conservation program along with changes in development patterns (e.g. high efficiency toilets, warm season grasses, etc.) have helped the Town reach its goal established in 1996 of reducing residential potable per capita consumption by 20 percent over 20 years. This reduction in consumption trend has helped to reduce the size of the Cary/Apex Water Treatment Plant expansion by 8 million gallons per day (MGD). Construction funding of $66.4 million is recommended as part of the water capital program in FY 2014 to increase the capacity of the plant from 40MGD to 56MGD. The project, with a two-year construction schedule, will be financially supported through the water rates paid by customers in Cary, Morrisville, the Raleigh Durham Airport Authority, the Wake County portion of the Research Triangle Park and the Town of Apex, who co-owns the plant with Cary.

Other revenue sources in the utility fund include connection fees, pretreatment fees, sewer wholesale service, bulk water sales, and interest income. Fund balance levels are forecast to rise in FY 2013 to approximately $62.5 million by the end of the fiscal year. The FY 2014 recommended utility fund budget includes a $7,063,000 fund balance appropriation to support five water and thirteen sewer projects. As upcoming utility capital project related borrowings become necessary, utility fund fund balance will continue to be evaluated as a funding source to help offset future debt service costs. This approach was also utilized in FY 2012 to support Aquastar capital project implementation eliminating the need to finance approximately $16 million. Utility fund fund balance also helps ensure cash flow needs are met and that sufficient reserves exist to buffer any dramatic weather changes that may occur (i.e. a very rainy summer that would cause customers not to irrigate as much). Another utility fund transfer was utilized in FY 2013 to support four water and sewer projects. Available fund balance amounts in the past have been used to fund an $11.2 million transfer for open space acquisition in FY 2002 and another $13.5 million transfer to help offset utility capital costs related to Town-initiated annexation areas in FY 2003.

Growing debt service needs related to infrastructure investments are continuing to increase revenue requirements in the utility fund. The May 3, 2005 general obligation bond referendum of $110 million was approved by Cary voters to help finance the Town's share of the new Western Wake Regional Wastewater Management Facility and another $10 million general obligation bond referendum was approved on that date for the acquisition of open space. All of the $110 million wastewater bond and all $10 million of open space bond funding has been appropriated to the respective projects.

As the chart below illustrates, utility fund revenues have been increasing to help afford related debt service and operational cost increases. The rate of debt service growth (in red) and steadily climbing and heavily fixed operating expenses (in blue) have put increasing pressure on the rate of revenue growth (in black). Operating margin is demonstrated in the chart by the area where the revenues, shown in black, are still visible since they exceed debt service and operating expenses. The recommended budget reflects an operating margin of approximately $2.2 million or about 3.5%. This contribution is being generated mostly by continuing the rate smoothing approach which Council began in FY 2009.



REVIEW OF EXPENDITURES

General Fund and Utility Fund Total Expenditures Summary

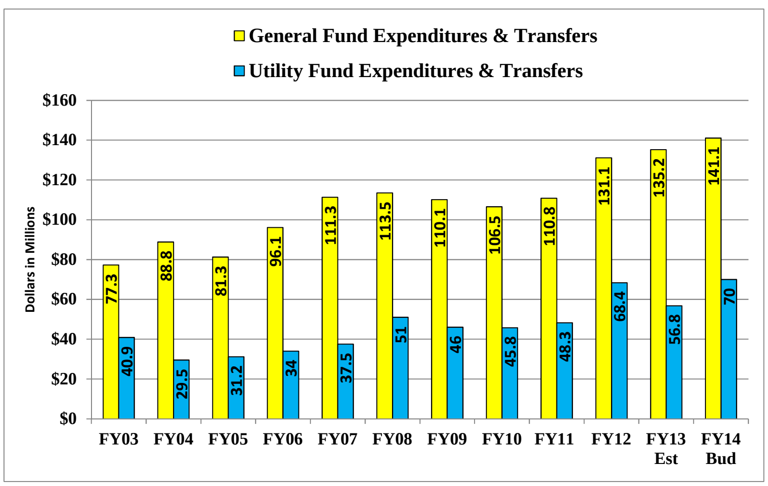
General fund expenditures and inter-fund transfers total $141 million for FY 2014. Included in this amount is $9.1 million in support of capital project transfers with $750K of that for the annual contribution to the Town's sanitation and recycling truck replacement program. General capital related debt service is budgeted at $15 million in FY 2014. The major change impacting debt service levels is the new general obligation debt associated with the $80 million bond referendum approved by voters in November, 2012. Following voter approval, the Town Council in December, 2012 approved all $80 million of general obligation debt authority for all 17 proposed bond projects allowing project planning to begin right away. Issuance of that debt and project spending is planned to take place in two major phases, each totaling $40 million. As communicated to voters prior to the bond vote, if approved, tax increases would be necessary to pay the related debt service: two cents in FY 2014 and another two cents in FY 2016. Somewhat offsetting the impact of this increase is the paying off of $6,030,000 worth of remaining bond debt associated with street and park projects that was issued in 2003. By paying off this debt with cash resources available in fund balance, the general fund debt service in FY 2014 will be approximately $2.2 million lower than it would have otherwise.

While no new debt appropriations have been made for general capital projects as part of the adopted budget process since the FY 2009 budget, the Town did issue debt in 2009 for street and park projects that had been budgeted in previous years. The structure of the payment schedule approved with that $28 million borrowing included the delay of the first principal payment of $1.5 million until FY 2012. In 2009 the Town also refinanced $15.2 million of previously existing debt and renewed it as limited obligation bonds to help save the Town approximately $700,000 in interest expense in FY 2011.   The related first full year of principal payments on this debt were due in FY 2012. With no additional debt issued in FY 2011 or FY 2012, and the refinancing of $11.3 million in FY 2012 that lowered the applicable interest rates and had net present value savings of $825,246 for the general fund with the majority of those savings realized in FY 2013 and FY 2014.

In the fall of 2009, Town Council directed staff to conduct a thorough review of all active general capital projects (transportation, fire, parks, recreation and cultural resources and general government). At the conclusion of the review, Council decided to delay 19 projects (with future debt needs of $63.8 million) and to postpone another 39 projects while reallocating the cash sources to eliminate the need for debt funding in those projects selected to continue.

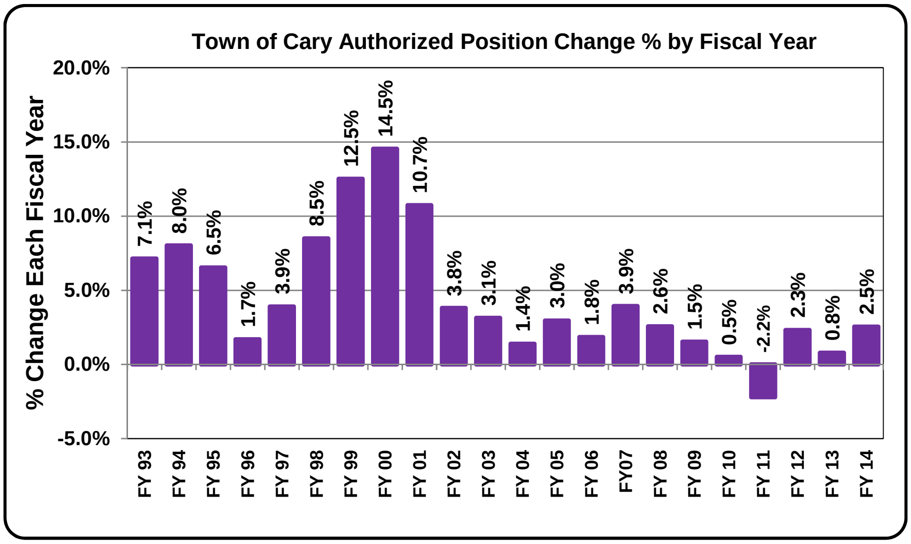
Utility fund expenses and transfers total $70 million including the $946,012 transfer to the general fund for open space debt service, the $53,988 directed to the land banking project and $7.1 million to water and sewer capital projects. This total also includes $19.4 million to cover utility-related debt service requirements.

Expenditures and transfers over time have increased to keep pace with the levels of service required to keep the Town of Cary well positioned for responsive, effective, and efficient service delivery for both general fund and utility fund related services.



Major Personnel Impacts

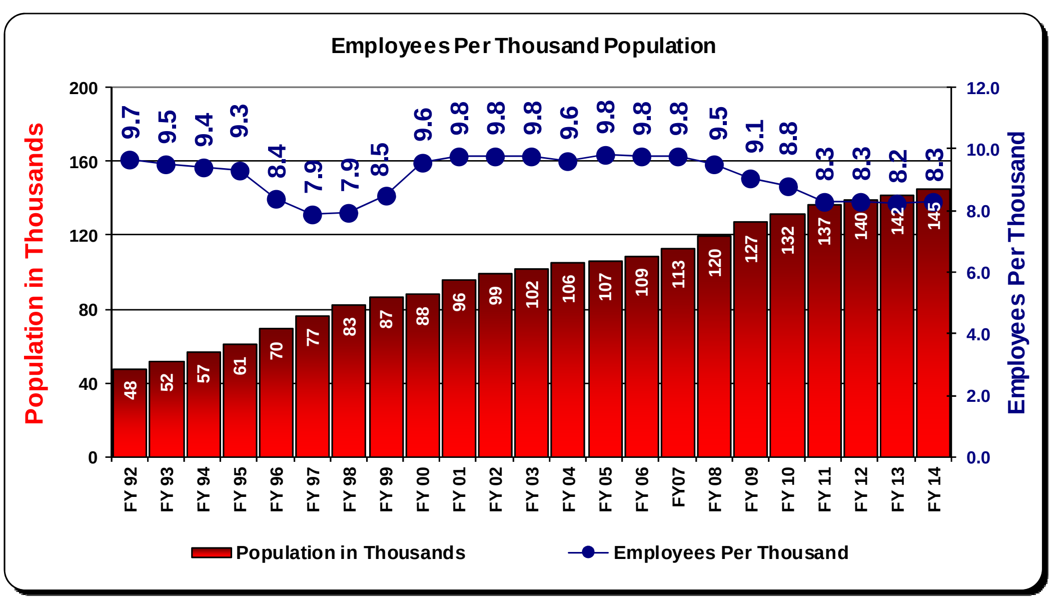
Additional staff members have been needed through the years to help keep pace with the service demands of our growing population. The development and expansion of transportation and utility infrastructure to meet the demands of growth, and the addition of new parks, greenways and special facilities like WakeMed Soccer Park, USA Baseball National Training Facility at Thomas Brooks Park, Cary Tennis Park and Cary Arts Center have all impacted staffing needs. The graph below shows the annual percentage change in the number of Town full time equivalents (FTEs) since FY 1993. In the late 1990s staff members were added to help serve the population growth of the 1990s. However, the economic climate and funding flexibility since the 2008 recession have constrained resources compared to that of a decade ago when larger operating margins existed and debt service was practically nonexistent.



Beginning in late 2008 as the recession began, we started holding vacancies open to help manage affordability knowing that the recession's impacts were going to affect our workload, especially in new development related areas such as some groups within planning, engineering, and inspections and permits. Based on the trends we saw regarding the economy and the relatively slow pace of development, I recommended, and Council approved with the FY 2011 budget the elimination from the staffing document of a total of 31.25 positions representing various positions that had been held open as vacancies occurred since the start of the recession. In other areas, as vacancies have occurred, just as we always have, we have continued to conduct a thorough review of the position and its responsibilities to ensure it is absolutely necessary before approving it being filled.

Meanwhile, the needs of the community continue to evolve and grow. Relative to our existing revenue levels and the pent-up needs that our organization has to sustain its service provision, this has been one of the most difficult budget development years since we began growing as a community in the early 1990's. While I am recommending 29.75 new positions to help meet some of those demands, there are many more that continue to be needed to help provide relief to staff members that have been going above and beyond the call of duty for several years. 18.5, or 62%, of the recommended positions are to support the water and sewer utility system with 17.5 of them coming on board later in the fiscal year to support the new Western Wake Regional Wastewater Management Facility.

Once a source of pride, the Town of Cary's employee per thousand population count has become a symbol of how lean and in need of additional resources we truly are. As seen in the graph below, our count of 8.3 employees per thousand for FY 2014, even after adding 29.75 new positions, is still 1.5 employees lower than it was in FY 2007.

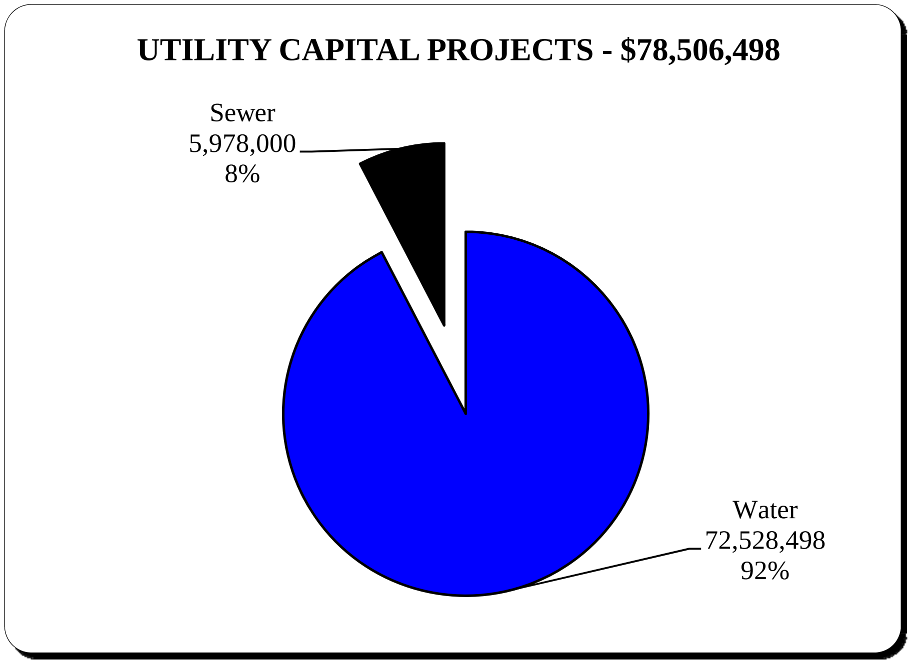


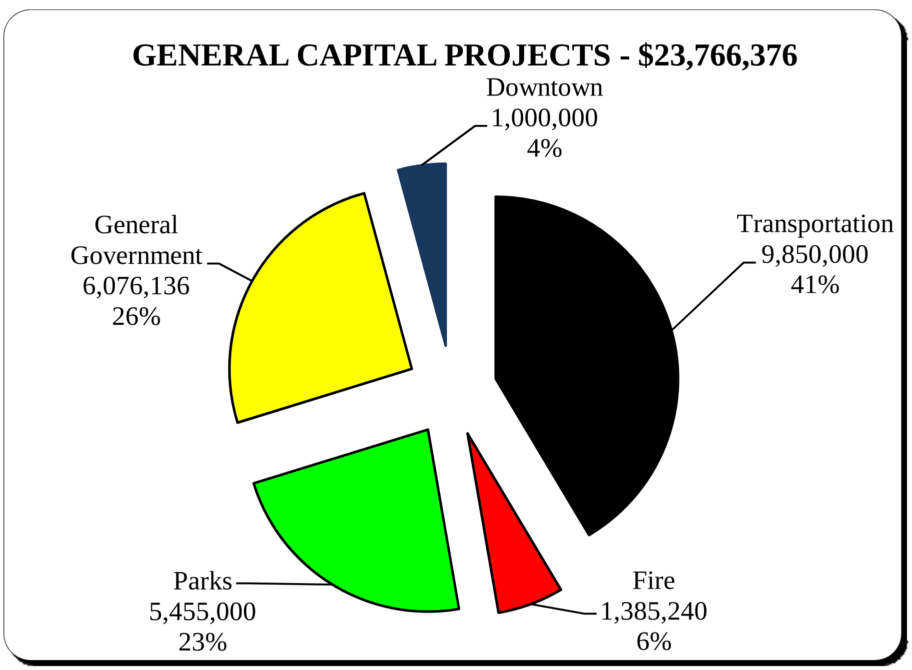
The table below has been prepared to provide a summary of each new position, their department, as well as what the current year funding needs are expected to be.

Full Time Equivalent	Position Title	Department	First Year Cost
1.00	Engineer (Utility Fund related)	Engineering	117,087
1.00	Operations Analyst	Engineering	92,851
1.00	Network Analyst	Technology Services	105,950
1.00	TS Specialist	Technology Services	88,383
1.00	Technology Services Manager	Technology Services	156,827
1.00	TS Project Manager	Technology Services	102,383
(0.25)	Convert vacant Customer Service Rep to create a Therapeutic Recreation Specialist (30 hours per week)	PRCR Recreation	30,204
1.50	Teaching Positions (2 @ 30 hours each)	PRCR Tennis	(3,749)
1.00	Convert Temp Downtown program Specialist to full time regular	PRCR Cultural Resources	36,470
1.00	Multi Trade Code Enforcement Official	I&P	95,680
1.00	Customer Service Code Enforcement Official	I&P	98,440
1.00	One solution Software/workflow Manager	I&P	99,804
1.00	CID Detective: Domestic Violence	Police Department	111,976
	Western Wake Water Reclamation Facility Related Positions		
1.00	Electronics Tech I	USM	67,917
1.00	USM Mechanic	USM	65,607
1.00	USM Mechanic	USM	59,831
1.00	USM Worker	USM	60,522
1.00	Sr. Electronics Tech	WWWRF	74,847
0.50	Administrative Assistant	WWWRF	28,499
1.00	Lab Supervisor	WWWRF	80,833
1.00	Lab Analyst	WWWRF	51,134
2.00	Maintenance Mechanic/Operator	WWWRF	73,510
2.00	Maintenance Mechanic/Operator	WWWRF	52,234
2.00	Bio Solids Mechanic/Operator	WWWRF	52,234
4.00	Treatment Mechanic/Operator	WWWRF	167,044
11.25	Subtotal General Fund Related	General Fund Costs	1,015,219
18.50	Subtotal Utility Fund Related (17.5 WWWRF)	Utility Fund Costs	951,299
29.75	Total Positions Recommended	Total Costs	1,966,518

CAPITAL IMPROVEMENTS BUDGET (CIB)

The Town’s capital improvement planning process includes the development of a recommended budget for the coming year as well as a ten-year capital improvements plan. The ten-year period provides the Town of Cary with a planning horizon that helps assess long term needs and help facilitate longer-term financial planning. The CIB funds water, sewer, transportation, fire, parks, recreation and cultural resources (PRCR), general government (gen'l gov't) and downtown projects. Total recommended appropriations for water and sewer projects in FY 2014 are $78.5 million. General capital project recommended appropriations are $23.8 million yielding a total FY 2014 CIB of $102.3 million.





The $102,272,874 recommended Fiscal Year 2014 capital improvements project appropriation represents a 112% increase from the FY 2013 adopted CIB. This increase is primarily attributed to a $66.4 million appropriation for construction for the Cary/Apex Water Treatment Plant expansion project in FY 2014. While the water plant expansion from 40MGD to 56MGD is a critical and expensive part of our capital program this year, I am proud of our long and successful water conservation program that has contributed toward our being able to reduce the size of this expansion by 8MGD compared to our original expansion plans. In 1996, the Town's water conservation program established the goal of reducing our residential potable per capita consumption by 20% over the next 20 years. As documented in our Long Range Water Resources plan completed in January, 2013, we have met that goal. Based on current growth patterns and anticipated development, it is expected that our next 8MGD expansion will not be needed for another 5 to 7 years.

The FY 2014 recommended CIB demonstrates the Town's continued commitment to infrastructure maintenance and improvement despite the slow rate of recovery from the 2008 recession. A total of $81.1 million, or 79% of the FY 2014 recommended CIB, supports maintenance and improvement initiatives for existing infrastructure such as:

- pavement rehabilitation for existing roadways
- downtown infrastructure improvements
- maintenance of existing PRCR facilities
- contributions toward sanitation and recycling truck replacement program
- expansion of the Cary/Apex Water Treatment Plant
- water tank maintenance and renovations
- inspection and rehabilitation of existing force mains
- replacement of equipment at the North and South Cary Water Reclamation Facilities
- pump station improvements

The Town's FYs 2014 – 2024 recommended capital improvements budget and plan focuses on core infrastructure maintenance, necessary infrastructure improvements and prior commitments and mandates. Projects selected for the FY 2014 CIB/CIP were chosen based on their alignment with Town goals, their relationship to other projects already funded, the existence of prior commitments or mandates, cost effectiveness, and overall benefit provided. Additionally, the following four principles guided its development:

1. Guiding Principle: Utilize as little debt as possible to minimize additional debt service obligations

Typically, the Town of Cary utilizes a combination of general obligation bond debt, installment purchase debt and revenue bond debt to fund major infrastructure needs. In order to help with affordability and remain in accordance with the Town's goal of a 15% debt service ceiling, no general fund supported general obligation bond debt and no installment purchase (asset backed debt) is recommended for FY 2014. Specific information related to recommended FY 2014 revenue bond debt appropriations follows.

Revenue Bonds

The FY 2014 recommended CIB includes the appropriation of $36.1 million in revenue bonds supporting construction of the Cary/Apex Water Treatment Plant Phase III expansion from 40 million gallons per day (MGD) to 56 MGD. Revenue bond debt is secured by dedicated, non-tax revenue sources. This form of debt is backed by the Town's ability to adjust utility rates. Utility rate increases will be used if necessary to generate the additional revenue needed to afford the incremental debt service associated with this appropriation. The FY 2014 revenue bond debt appropriation is 631% greater than the $4.9 million budgeted in FY 2013.

2. Guiding Principle: Maximize the use of existing capital reserve fund balances

Utility Capital Reserve

The FY 2014 recommended CIB contains a $19.8 million appropriation of cash from utility capital reserve fund balance. The amount is consistent with the cash fund balance appropriated in the FY 2013 budget.

Unrestricted fund balance (generated by investment earnings) comprises $1.3 million of the total fund balance appropriation, while restricted fund balance (generated by water and sewer development fees) provides the remaining $18.5 million. Total utility capital reserve fund balance at the close of FY 2014 is anticipated to be $21.9 million with the majority of these funds restricted to growth-related water and sewer projects. These cash resources will be utilized as the primary funding source for upcoming qualifying projects to minimize additional debt obligations.

General Capital Reserve

Appropriations of estimated restricted fund balances available at the end of FY 2013 have been maximized to continue leveraging currently available resources. The FY 2014 general capital improvements budget includes $10.2 million in appropriations from general capital reserve fund balance. This is unchanged from FY 2013 budgeted fund balance appropriations.

$1.9 million of the FY 2014 recommended fund balance appropriation is from unrestricted sources (such as investment earnings and utility franchise fee funds), while the remaining $8.3 million is restricted (generated by transportation and PRCR focused revenues). General capital reserve fund balance at the close of FY 2014 is expected to be $21 million with 66% of these funds restricted to certain types of transportation projects.

3. Guiding Principle: Minimize reliance on FY 2014 capital reserve revenues

Utility

The FY 2014 recommended CIB appropriates a total of $15,475,670 of FY 2014 revenue in support of utility capital reserve projects. $15,389,282 of this amount will be received from the Town of Apex in support of the three Cary/Apex Water Treatment Plant (C/A WTP) projects included in the Recommended Budget. The C/A WTP is jointly owned by the towns of Cary and Apex with Cary being financially responsible for 77% of the plant's operations and capital needs and Apex responsible for the remaining 23%. The Town of Cary budgets for the total capital needs of the C/A WTP within its capital budget. The Town of Apex's share is paid by the Town of Apex to Cary and is accounted for as project revenue as the respective projects are executed.

$80,135 of FY 2014 revenue recommended for appropriation represents reimbursements from the Town of Cary's municipal partners for the Western Wake Regional Wastewater Management Facility (WWRWMF). The Town of Cary reflects all capital needs for the WWRWMF in its CIB/CIP. The municipal partners provide their respective capital funding as revenue to the Town of Cary for their portions of the project. The remaining $6,253 represents FY 2014 water development fee revenue recommended for appropriation in FY 2014.

General

$4.4 million of anticipated FY 2014 general capital reserve fund revenue is programmed for appropriation in the recommended capital improvements budget. $1,000,000 of this figure is interlocal revenue supporting the WakeMed Soccer Park, Cary Tennis Park and USA Baseball National Training Complex expansion projects. $3.4 million is grant funding that the Town will receive for the four projects noted in the table below. $40,000 is an anticipated contribution from the Cary Road Race organization in support of the Symphony Lake Greenway Bridge Replacement project.

Project Name	Grant Funds
Cary Transit (C-Tran) Regional Facility	450,000
Morrisville Parkway Interchange	2,050,000
Chapel Hill Road Pedestrian Improvements	372,000
Old Reedy Creek Road Trailhead	490,000
TOTAL GRANT FUNDS	**$3,362,000**

4. Guiding Principle: Limit transfers from the general and utility operating funds for capital purposes

Utility Fund Transfers

The FY 2014 CIB includes $7,116,988 in utility fund transfers. $7,063,000 is directed to water and sewer projects, while $53,988 is recommended in support of the Town's land banking acquisition initiative. This $7.1 million FY 2014 total operating fund transfer amount is considerably higher than the $743,290 appropriated from this source in FY 2013. The table below notes the water and sewer projects recommended to receive utility fund transfer support in FY 2014.

Project Name	Utility Fund Transfer Amount
Upgrade Water Lines - FY 2014	1,000,000
Kit Creek Road Water Line Connection	725,000
Extend Water Mains - FY 2014	250,000
Harrison Elevated Water Tank Renovation	250,000
Old Apex Tank Improvements	150,000
Subtotal - Water	**2,375,000**
Jordan Lake Reclaimed Water Project	1,000,000
Supervisory and Data Acquisitions Control (SCADA) at the Tier I Wastewater Pump Stations	600,000
Swift Creek Regional Pumping Station Improvements (Existing Equipment)	500,000
Cleaning and Video Survey of Sewer Interceptors	463,000
South Cary Water Reclamation Facility Improvements Project	435,000
Holly Springs Road Sewer Rehabilitation	365,000
Blanche Drive Pump Station Expansion - Inflow and Infiltration Reduction	350,000
MM - Aviation Pump Station Upgrade and York Interceptor Basin Study	250,000
South Cary Water Reclamation Facility - Replacement High Efficiency Turbo Blower - FY 2014	250,000
Blanche Drive Area Sewer Improvements	175,000
SCADA Conversion - North Cary Water Reclamation Facility	150,000
Valve Replacement and Water Line Extension - North Cary Water Reclamation Facility	100,000
Back-Up Generator Power South Cary Water Reclamation Facility Treatment Processes	50,000
Subtotal - Sewer	**4,688,000**
Acquisition - Landbank	
TOTAL UTILITY FUND TRANSFER	**$7,063,000**

The utility rate smoothing approach is in place to ease future larger annual increases, and as a result approximately $2.3 million from operations is expected to help contribute to the $7.1 million capital transfer from the utility fund in FY 2014. Utilizing this cash funding resource to support appropriate capital needs such as these is another benefit of the rate smoothing approach, similar to the mid-year cash allocation of about $16 million for the Aquastar capital project in FY 2012 which eliminated the need to leverage debt for that project.

The remaining $53,988 of utility fund transfer dollars recommended for appropriation in FY 2014 supports the Town's land banking acquisition initiative. This funding is generated each year through water rates that were increased for this purpose by 3% in FY 2002, generating $1 million per year that is directed toward land banking acquisition.

As debt service associated with the issuance of $10,000,000 in 2005 open space general obligation bonds came on-line in FY 2010, only $53,988 of this $1,000,000 is available for land banking land purchases in FY 2014. The remaining $946,012 is directed to the general fund where it addresses debt service associated with the issued 2005 open space general obligation bond debt.

The debt service schedule associated with the $10,000,000 debt issuance is such that interest-only payments were required for the first two years (FYs 2010 and FY 2011) with full principal and interest payments beginning in FY 2012. With full debt service payments in effect, only $53,988 in utility fund transfer funding is available for appropriation in FY 2014. The majority of the $1,000,000 generated annually for open space acquisition will support debt repayment. The table below notes the division of this funding between debt service and land banking funding until debt repayment is complete.

Debt Service for 2005 GO Debt - Open Space

	Required for Debt Service	Available for Land Banking
FY 2011	423,634	576,366
FY 2012	978,351	21,649
FY 2013	961,710	38,290
FY 2014	946,012	53,988
FY 2015	918,229	81,771
FY 2016	890,446	109,554
FY 2017	862,663	137,337
FY 2018	834,880	165,120
FY 2019	807,097	192,903
FY 2020	779,314	220,686
FY 2021	757,087	242,913
FY 2022	734,861	265,139
FY 2023	712,634	287,366
FY 2024	690,408	309,592
FY 2025	668,181	331,819
FY 2026	645,955	354,045
FY 2027	623,729	376,271
FY 2028	601,503	398,498
FY 2029	579,276	420,724

General Fund Transfers

$9.1 million in general fund transfers are included in the FY 2014 recommended CIB. This is an 83% increase from the FY 2013 budgeted general transfer amount of $5 million. FY 2014 funds support the fire, parks recreation and cultural resources, general government and downtown capital projects noted below.

Project Name	General Fund Transfer Amount
Artificial Turf Fields	573,000
Greenway Resurfacing Projects - FY 2014	362,500
Cary Tennis Park Court Renovations	250,000
Old Reedy Creek Road Trailhead	210,000
Penny Road Elementary School/Park	175,000
Tennis Court Renovations - FY 2014	165,000
Park and Greenway Renovations - FY 2014	140,000
Public Art - Fire Station #2	110,000
Sertoma Amphitheater and Restroom Renovation	100,000
Parks, Recreation and Cultural Resources Venue Wayfinding Signage	94,500
Playground Surface Repairs/Replacement - FY 2014	80,000
Athletic Field Fencing Repair/Replacement - FY 2014	72,000
Indoor Athletic Court Resurfacing - FY 2014	70,000
Athletic Field Fencing Amenities Replacement (Windscreen, Safety Cap, Padding, Netting) - FY 2014	43,000
Public Art - New Hope Church Road Trailhead Park	30,000
Subtotal - PRCR	**2,475,000**
LED Street Lights	3,267,048
Sanitation and Recycling Truck Replacement	750,000
One Solution Software	300,000
Subtotal - General Gov't	**4,317,048**
Downtown Improvements	1,000,000
Subtotal - Downtown	**1,000,000**
TOTAL GENERAL FUND TRANSFER	**$9,142,048**

With $17.4 million in general fund fund balance estimated to be available for capital programming at the close of FY 2013, a $9.1 million appropriation from this source in FY 2014 is reasonable. Factoring in this FY 2014 appropriation, staff estimates that $8 million in general fund fund balance will be available for transportation, fire, PRCR, general government and downtown capital projects at the close of FY 2014.

SUMMARY

Planning for major capital projects and the increased operational costs that often accompany them will remain critical. With so many potential projects, and revenue trends indicating limited growth in income, the Town of Cary will continue having to make difficult choices in the near future. Even with the $80 million of voter approved general obligation debt authority approved in November, 2012, future funding for road priorities must be addressed along with other infrastructure such as parks, fire stations, water tanks and water and sewer lines. The Town must continue to ensure that both operating and capital funding is in place to allow adequate service delivery and infrastructure to maintain the quality of life for existing citizens, as well as for the future citizens of Cary. In looking to the Town’s future needs, all financing options must be thoroughly investigated to ensure that infrastructure requirements are met in a manner that maximizes resources, allows flexibility in funding decisions and maintains a strong financial position.

The FY 2014 Recommended Budget is balanced in accordance with state statutes and addresses the goals and priorities established by Town Council for the Town's future. The budget is fiscally sound, and although it does not fund all initial requests made by departments, it does address top priority needs. The long-term capital plan is indeed a plan, which will need to be adjusted according to changes in needs for projects and the availability of funding for capital investments.

I wish to recognize and extend thanks to staff in all Town departments for their invaluable assistance during the budget process and express my appreciation to the Town staff that helped in preparing this budget.

Respectfully submitted,

Benjamin T. Shivar
Town Manager

CARY, NORTH CAROLINA

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