BUDGET MESSAGE
FOR FISCAL YEAR 2013

Mayor Weinbrecht and Members of Council:

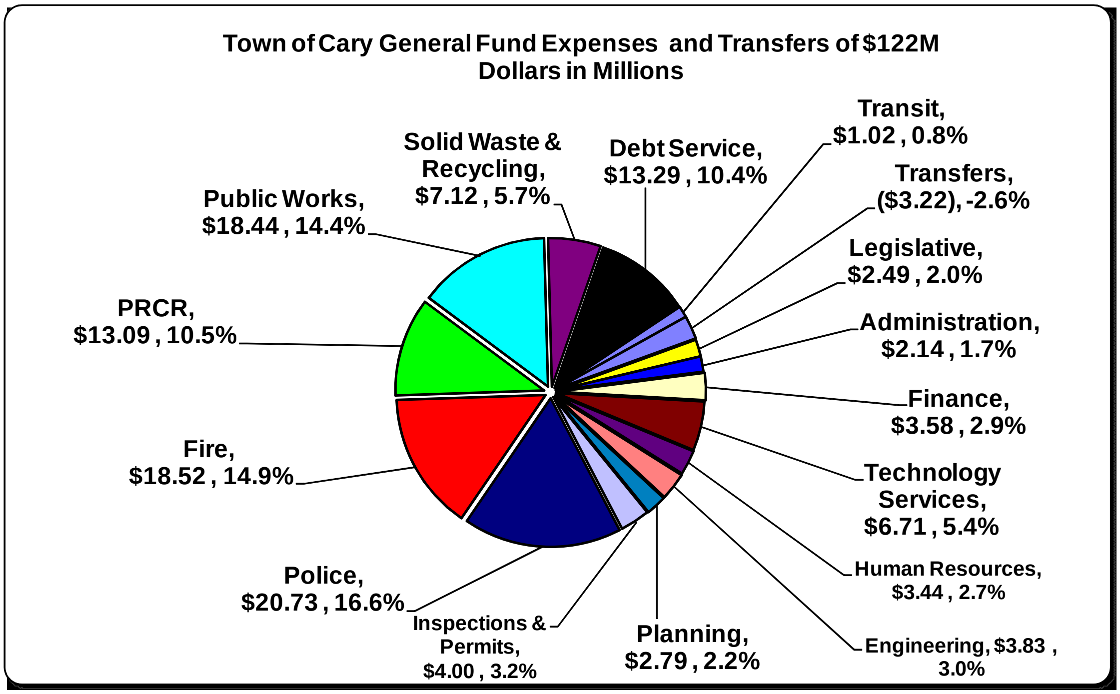
Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the recommended annual budget for fiscal year 2013 for the Town of Cary. The budget is balanced without a tax increase and identifies methods of raising and spending funds for specific programs during the coming fiscal year. 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 approach of the FY 2013 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. 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 while working within limits of our existing revenue sources.

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 2013 recommended budget are included in the table below:

Description	**Changes?**	**Notes**
Tax Rate	No	The tax rate is recommended to remain 33 cents per $100 of assessed value.
Solid Waste Fee	No	The solid waste and recycling fee is recommended to remain $14 per month.
Utility Rates	Yes; increase of about 6%	The Town's average residential customer who consumes 4,496 gallons per month is expected to see an increase of $3.33 per month or about 5.8%. For a residential customer averaging 7,000 gallons per month, the increase is expected to be $5.18 per month or about 6%. 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.
New Debt Supported by the General Fund (taxes)	No	For the fourth straight year, no new general fund supported debt is being recommended. Limiting new general capital project appropriations to only those available with cash has forced us to make difficult choices the past several years. The outcome of the $80 million general obligation bond referendum for transportation, parks, and fire on the ballot for Cary voters in November 2012 will have a direct impact on whether or not the Town has debt capacity available for these types of projects over the next few years.
New Staff Position Authority	7 total representing a 0.6% increase in total staff	1 Police Detective for the Cyber Crimes Investigation Unit (100% funded with drug forfeiture funds); 1 Downtown Theater Facility Supervisor to be hired in April 2013 for program planning and input into the theater renovation project on Chatham Street; 1 Transit Planner to monitor and analyze route efficiency with the door to door service and to assist with grant management (90% funded with ongoing grants); 2 WWRWMF Team Leaders to be hired in January 2013 to gain an understanding of the new system operational/maintenance requirements during construction; 1 Pretreatment Technician to support program development associated with WWRWMF; 1 Residuals Process Operator to support Water Plant treatment operations and monitoring processes.

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 2013 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 $122 million general fund budget is broken down to carry out service provision in fiscal year 2013. This year's overall general fund operating budget represents a net increase of about $3.4 million or 2.9%.



In addition to the public safety and other operational duties covered by the general fund, the FY 2013 recommended budget provides funding for several very important capital projects such as continued infrastructure improvements in the downtown, street resurfacing, intersection improvements, and greenway and park construction. Highlights of the capital plan for the coming year are shown in the table below.

Project Title	**Brief Description**	**Funding**
Downtown Infrastructure Improvements	This project dedicates funding for continued implementation of impactful and visible improvements to the downtown area. The Town is committed to bringing more people and new investment to the downtown area and infrastructure and other physical improvements are one way to help achieve this goal. $8 million was appropriated for this purpose in the FY 2012 budget, and a variety of infrastructure enhancements are being evaluated by staff for this additional funding. Examples range from simple improvements such as the addition of benches and trash receptacles to more involved options such as parking facilities, incentives for redevelopment, façade improvements, roadway overlays and re-stripings.	$1.35M
Street Improvement Project	This annual project provides asphalt patching and overlay funding for various Town maintained streets. Streets are selected for improvement based on a rating system. Staff will review specific street maintenance needs in early fall 2012 and formulate a list of streets to be approved by Town Council and addressed during Fiscal Year 2013. The FY 2013 amount of $2 million is $500,000 more than the FY 2012 appropriation.	$2 million

Tryon Road/Regency Parkway Intersection Improvements	This project supports turn lane improvements at the Tryon Road and Regency Parkway intersection. Preliminary review indicates that adjustments made to the Tryon Road westbound left turn lane would significantly improve signal timing. Further analysis and public input will occur to determine the most location-appropriate modifications. The $600,000 FY 2013 appropriation fully funds this project. Realigning the westbound Tryon Road left turn lane would eliminate multiple traffic signal phases and lost time resulting in a more efficient intersection. The Regional Transportation Alliance hosts a program inviting engineering firms to voluntarily review traffic engineering concerns in a community. Engineers from NC State University and a volunteer firm studied this specific intersection and showed that the delay for the northbound movements in the afternoon peak hour could be reduced by 50% with modifications to be funded by this project.	$600,000
Walnut Street and Maynard Road Intersection Improvements–Phase I	This project provides for improvements such as lengthening the left turn storage area at the Walnut Street and Maynard Road intersection. The $250,000 FY 2013 appropriation fully funds this project. Lengthening the turn lanes will improve safety and traffic flow at this intersection.	$250,000
Crabtree Creek Greenway	This project provides for easement acquisition, design and construction of 2.69 miles of the Crabtree Creek Greenway. 2.25 miles of this segment will extend from the existing Black Creek Greenway on the south side of Lake Crabtree, around the south side of the lake and westward to the intersection of Evans Road and Aviation Parkway. The Town of Morrisville is completing an adjacent portion of the Crabtree Creek Greenway which will pick up the trail at Evans Road and Aviation Parkway and continue over to the Davis Drive multi-use trail. Together these two projects complete 4.55 miles of contiguous trail between Umstead State Park, the Black Creek Greenway, and Davis Drive. A .44-mile segment of this trail will connect the existing portion of the Crabtree Creek Greenway located within Bond Park to the existing Cary Parkway pedestrian tunnel, the High House Road soccer fields and to the sidewalk/future multi-use trail along High House Road. The Town has received federal Congestion Mitigation and Air Quality (CMAQ) grant funding through the Capital Area Metropolitan Planning Organization (CAMPO) for the 2.25-mile segment of trail. Total grant award is $3,698,000. 80% of this amount, or $2,958,400, is grant supported. The remaining 20%, or $739,600, is a cash grant match funded by the Town of Cary. The $3,698,000 FY 2013 appropriation reflects all federal and Town financial commitments and addresses the full scope of the project. The Crabtree Creek Greenway will be a major east/west pedestrian/bicycle connection linking Cary's greenway system with the greenway networks of Raleigh, Morrisville, and ultimately, Research Triangle Park. The 4.55 mile east/west link will make employment centers, activity centers, Lake Crabtree County Park, Umstead State Park, North Cary Park, West Cary Middle School, Godbold Park, Morrisville Community Park and Community Center, Research Triangle Park, the NC Museum of Art, Meredith College, North Carolina State University and downtown Raleigh easily accessible by foot or bicycle.	$3,698,000 ($2,958,400 of this amount is grant funded)

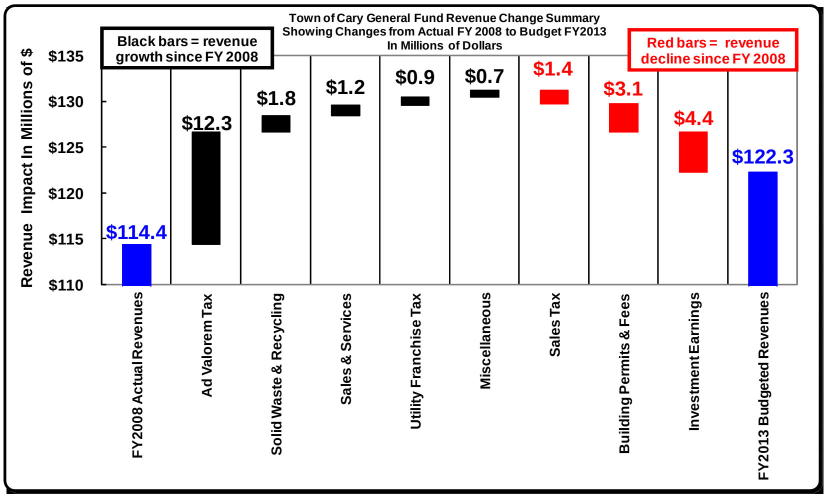
	The regional significance of this 4.55 mile trail is emphasized by the fact that it was identified as one of only four top priority trail corridors within the CORE Pedestrian-Bicycle-Green Space Plan (Center of the Region Enterprise), that was completed by Triangle J Council of Governments (TJCOG) in 2009. This planning effort was the result of coordination among six local governments and four partner organizations. The partners recognized that communities in the center of the Triangle area are growing rapidly and that the provision of safe and efficient bicycle and pedestrian transportation facilities is important in reducing traffic congestion and air pollution. The .44-mile segment of the Crabtree Creek greenway will connect the Town's largest park and hub of the Town's greenway system (Bond Park) to the existing soccer fields across Cary Parkway and tie in to the future multi-use trail along High House Road. An existing pedestrian tunnel under Cary Parkway will facilitate this connection, creating a safe grade separated pedestrian crossing between park sites.	
New Hope Church Road Trailhead Park	The New Hope Church Road Trailhead Park will be located on twelve acres of property on New Hope Church Road adjacent to the American Tobacco Trail. Plans for the park include amenities such as direct access to the American Tobacco Trail, public restrooms and parking for bicycles, vehicles and horse-trailers. Total project cost is estimated at $1,441,850. $335,000 has been appropriated to date for initial design, including $60,000 pledged by Chatham County in support of the project. The $1,106,850 FY 2013 appropriation provides for remaining design and construction. The Town has been awarded a $1,191,850 Congestion Mitigation and Air Quality (CMAQ) federal grant. $796,850 of this amount is grant funding for trailhead construction. The remaining $395,000 is Town matching construction funds. These funds, both grant and Town match, are part of the total project cost and appropriations discussed above. The American Tobacco Trail is a 23 mile trail which crosses over three North Carolina counties. It is one segment of the East Coast Greenway that connects cities from Maine to Florida. The Town of Cary is working collaboratively with Wake County, Chatham County and Durham County to develop and provide access to the American Tobacco Trail. Development of the Amberly Trailhead Park provides an extremely important access point to the segment of the trail located in northwestern Cary.	$1,106,850 ($796,850 of this amount is grant funded)
Green Level West Road Water Line – Phase I	This project provides for the installation of 7,600 linear feet of 30-inch water line along Green Level West Road from Wimberley Road to Green Level Church Road. Total project cost is estimated at $2,301,000. $1,301,000 has been appropriated to date for design and construction. The $1,000,000 FY 2013 appropriation completes construction and fully funds this project. The Green Level West Road Water Line – Phase I project will provide service redundancy in the event of line breaks or high fire fighting demand while creating a secondary feed and loop to the area. It will also increase the utility system's service area.	$1 million

Maynard Road Tank Replacement	This project provides for design and construction associated with the total replacement and relocation of the Maynard Road water tank from its current location near the intersection of Maynard Road and Walnut Street to Town-owned property behind the Cary Village Square Shopping Center at the intersection of Cary Towne Boulevard and Walnut Street. The new tank will have a one million gallon storage capacity as opposed to the existing tank which accommodates 500,000 gallons. The $3,500,000 FY 2013 appropriation fully funds this project. Upon completion, the new Maynard Road water tank will increase water storage capacity within the utility system. The additional storage capacity will enhance the utility system's ability to meet demand requirements for water pressure purposes, fire fighting need and periods of peak water usage. This project is growth-related and is required to serve increases in the Town's utility service area. This replacement will offset the need for upcoming required maintenance of the existing tank while adding storage to the Central Pressure Zone (CPZ) and facilitating better operation of overall CPZ water storage.	$3.5 million
Upgrade Water Lines	This project provides funding for upgrades to existing small diameter or otherwise deficient lines within the Town's water line system.	$831,600
Reclaimed Water Elevated Storage	This project provides for design and construction of a 0.6 million gallon elevated reclaimed water storage tank at the Town of Cary's Thomas Brooks Park. The tank will be located near the Green Level Church Road entrance to the park. Total project cost is estimated at $3,650,000. $1,500,000 has been appropriated to date. The $2,150,000 FY 2013 appropriation funds construction and project completion.	$2.2 million
Sewer System Repair/Rehabilitation	This annual project provides for maintenance of the Town's sewer system. Maintenance includes sewer main repair/rehabilitation, inflow/infiltration elimination, manhole repair and force main discharge manhole coating. Underground camera investigations and other field observation methods are employed to determine the system's maintenance needs. Repairs funded through this capital project are larger in scope than what can be performed in-house by the Public Works and Utilities department.	$500,000

MAJOR ISSUES IMPACTING THE FY 2013 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). These two major revenue categories combined are expected to be about $3.2 million or 11% lower in FY 2013 than they were in FY 2008, just five years ago. The graph below compares the major revenue changes since FY 2008 compared to those projected as part of the FY 2013 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 2013, general fund revenues are expected to increase by $7.8 million or 7%. This small growth rate over five years averages out to about $1.5M or an average of 1% growth per year. This is dramatically lower than the average growth amount of $9M or 10% per year for fiscal years 2006 through 2008, which was before the recession began.

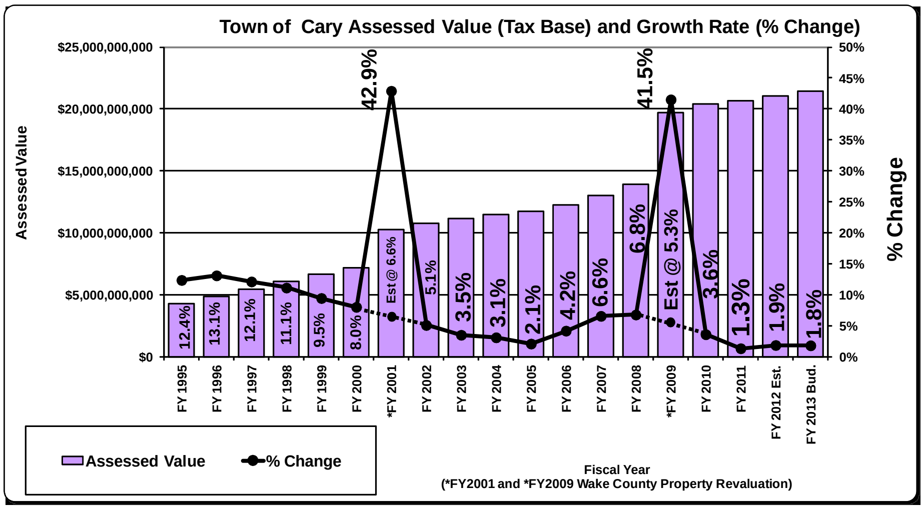
Tax Base Growth

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 2013, the taxable property is expected to equal over $21 billion which reflects tax base growth of $383 million or about 2% over estimated FY 2012 levels. This total includes approximately $410 million for property located within Cary's corporate limits of Chatham County, or about 1.9% 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 98.1% 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, and the tax rate is recommended not to change in FY 2013, remaining at 33 cents for the fifth straight year.

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 $69.9 million, comprises 57% 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 and tax base growth in FY 2013 is expected to be 1.8%.

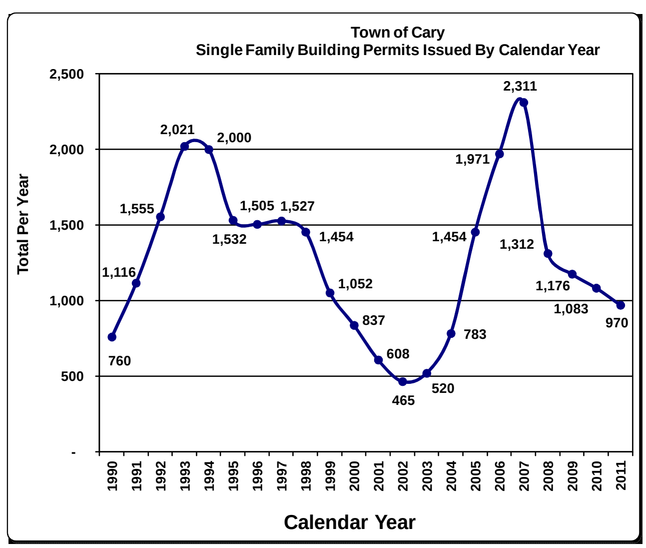
A historical perspective of the Town's assessed value (tax base) growth since FY 1995 is provided in the graph below. The extremely high growth rates in 2001 and 2009 reflect the property revaluation conducted by Wake County that became effective in those years. In FY 2001, the tax rate was reduced from 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 assessed value on which tax receipts are calculated is based on what has been built by the prior January 1, meaning that FY 2013 revenues are based on tax values "on the ground" as of January 1, 2012. 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 2013, $214 million of additional tax base would need to be added which would be the equivalent of 713 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	465	-24%
2003	520	12%
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%



Commercial activity has similarly seen dramatic declines which are further indications that tax base growth for at least the next couple of years will be sluggish at best.

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 $22.7 million in FY 2013 make up 19% 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 recent 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.

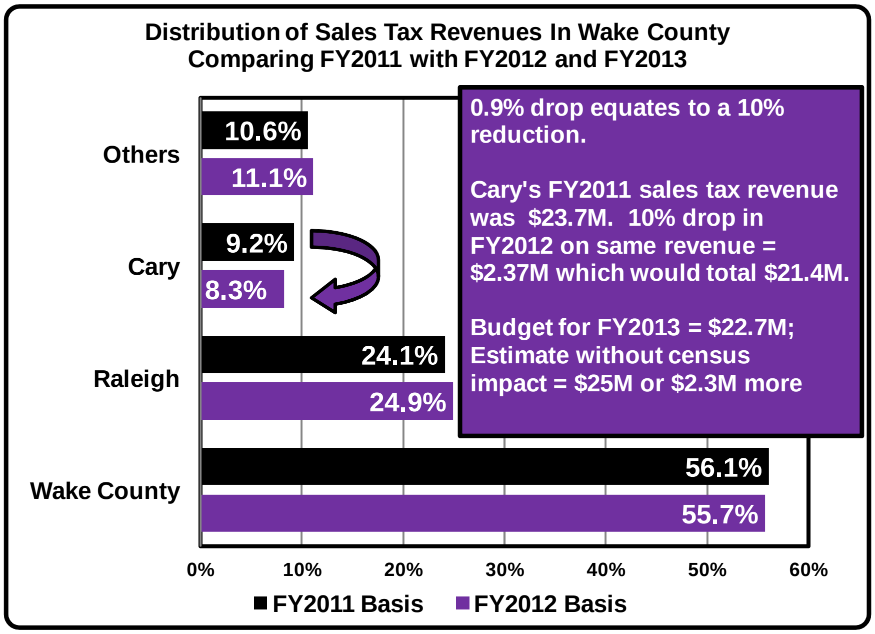
The results of the April 1, 2010 United States Census were utilized by the State of North Carolina Department of Revenue as the new basis for revenue distribution beginning in FY 2012. Cary's total population in both Wake and Chatham counties per the 2010 United States Census was 135,234. 133,812 of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

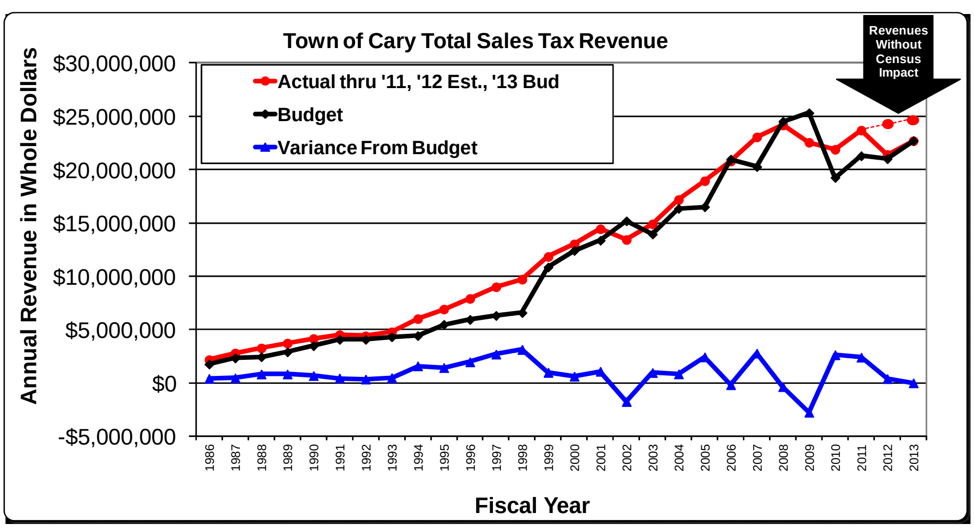
However, the state-prepared population estimate used the prior year for the Cary portion of Wake County was actually higher than that reported in the U.S. Census. The Wake County total used for Cary in the prior year of 146,548 represented 16.42% of Wake as compared to the Census data that reported 133,812 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)**
Fuquary-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

The graphic below specifically compares the impact of the change in distribution and summarizes the financial impacts for FY 2012 and FY 2013 which will continue to take place each year until the next decennial census in 2020. These changes will reduce Town of Cary sales tax revenues by about 10% compared to before the 2010 census results began having an impact on our revenue distributions of state collected local revenues.

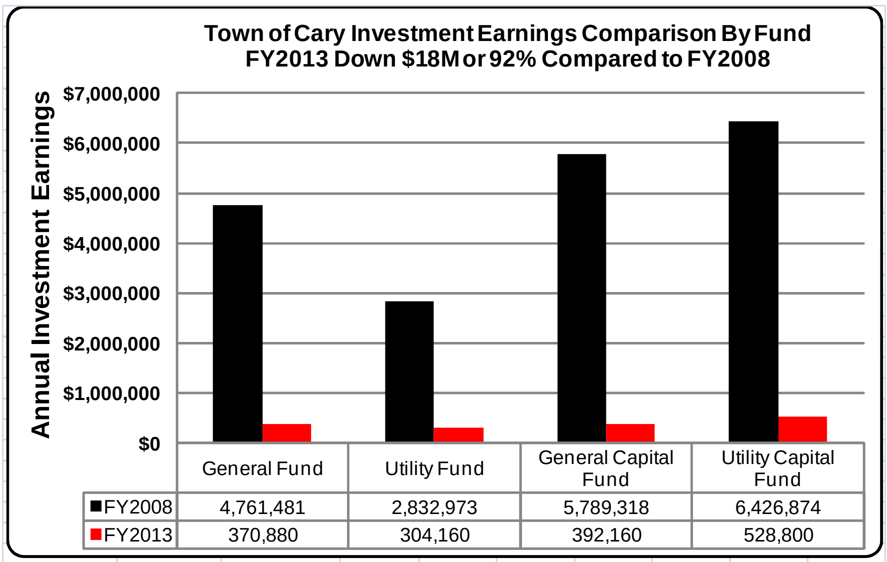


Historical sales tax revenue levels depicted below show a total decline across all three sales tax sources of $1.6 million or 6.7% in FY 2009, and another drop of $658 thousand or 2.9% in FY 2010. In FY 2011 there was an increase of $1.8 million or 8.2%. A decrease of $2.3M or 9.6% is expected in FY 2012, with growth of $1.2 million or 6% anticipated in FY 2013 generating approximately $22.7 million, which is still $1.4 million or 5.9% less than the peak year of FY 2008. If sales tax revenues in FY 2009, FY 2010, 2011 and FY 2012 had continued at the average annual growth rate of 11.5% which occurred over the previous four years, sales tax revenues in FY 2013 would be expected to total about $41.6 million, which would be $17.5 million or 72% higher than the $22.7 million being estimated for FY 2013. In the FY 2013 budget, one penny on the tax rate is equal to $2.1M, so the property tax equivalent loss in sales tax revenue compared to typical pre-recession growth is equal to 8.3 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 for FY 2013 are expected to be about $1.6 million which is $18.2 million or 92% 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 $4.7 million in FY 2008 to only $371K in FY 2013. For comparison purposes, each penny on the tax rate in FY 2013 is expected to generate $2.1 million in revenue, so the Town's much weaker investment earnings in the general fund are worth less than half of a 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 over 4 cents on today's tax rate.



	General Fund	Utility Fund	General Capital Fund	Utility Capital Fund
FY2008	4,761,481	2,832,973	5,789,318	6,426,874
FY2013	370,880	304,160	392,160	528,800

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 2013 is expected to be $14.1 million. 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 $13.3 million in FY 2013.

Heading into development of the FY 2010 budget two 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. None of the debt funded capital projects delayed by Council are being recommended to resume with the FY 2013 budget.

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 is 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 may not be 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. Without significant renewed levels of growth in the economy and the Town's tax base, providing significant additional capital investment without commensurate tax increases to pay for the debt service that may be necessary will remain 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, cash funding available, and impacts regarding several different funding scenarios. In addition to the appropriated debt already delayed, it was discussed that there is 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 that is unsold as of April 2013 will expire and will 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 $20 million is borrowed for a project, the first few years of debt service will cost about $2 million, which is equal to the value of one cent on the tax rate in FY 2012.

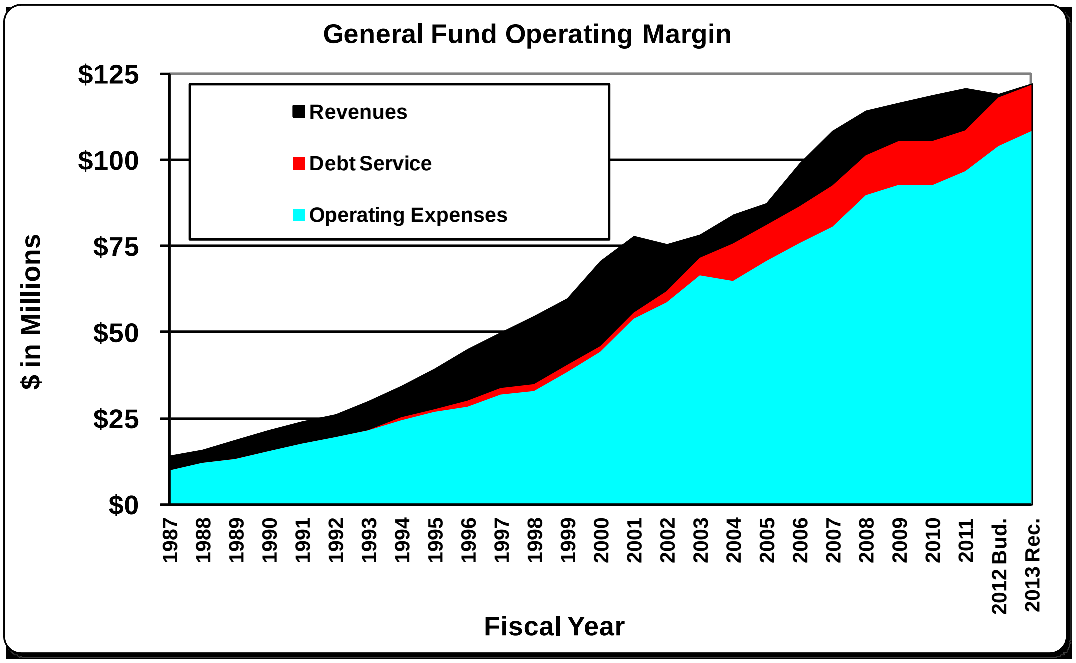
The Council decided to allow the Town's remaining 2003 voter approved general obligation bond authority to expire in April 2013. Council directed that a follow-up worksession be held with Council regarding the possibility of a future general obligation bond referendum. In March, 2012 Council decided 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, should the total referendum pass, there will 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**

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 2013. We have been fortunate with our operating margin performance thus far in FY 2012, as we currently anticipate having an operating margin of about $1.5 million in the general fund, versus the adopted FY 2012 budget that anticipated revenues of $119.2 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.

No general obligation debt is recommended for appropriation in FY 2013. The current appropriation authority remaining from each of the Town's general obligation bond referendums is as follows:

- 2003 $130 million transportation bond: $53.1 million remaining
- 2003 $30 million park bond: $7.6 million remaining
- 2005 $110 million WWRWMF bond: None remaining
- 2005 $10 million open space bond: None remaining

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.

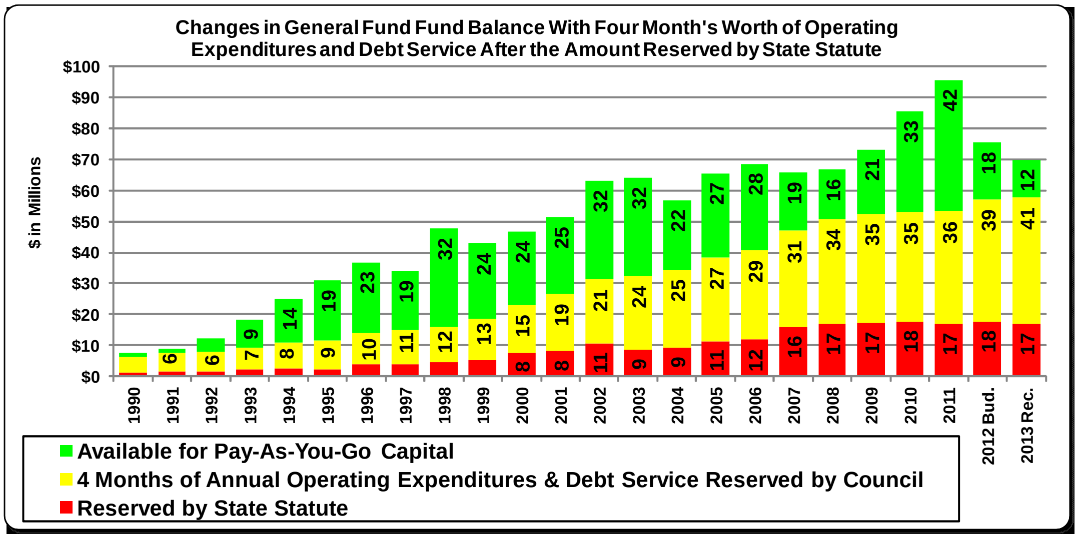
Debt service related to the 1999 bond authority for streets and parks, costs related to the widening of North Carolina Highway 55, an expansion of Town Hall and the debt issued from the 2003 street and park bonds have combined to increase debt related costs in the general fund. Following the FY 2006 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 on the ballot in November, 2012 will have a four cents tax increase associated with it by the time all of the debt is issued.

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 $12 million available for capital by the end of FY 2013. 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. Items considered heavily when awarding Cary's AAA bond ratings, which were confirmed again by FitchRatings in March, 2012 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.

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 boost 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 where it has remained since, and it is recommended that the solid waste fee remain unchanged again during FY 2013 at $14 per month. With the conversion to curbside recycling now complete, the cost recovery percentage for solid waste and recycling collection is expected to reach 94% in FY 2013. This represents 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 $14 monthly fee is expected to generate about $495,336 in FY 2013).

The largest cause for decreased levels of operating margin over the past decade is the growing amount of debt service that has been absorbed within the general fund with no tax increases. 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 2013 budget, each cent on the tax rate is expected to yield about $2.1 million in revenue. Since FY 1994, four bond referendums have been 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 $23 million in revenue. Debt borrowings and refinancing over the past several years have resulted in an anticipated peak of $13.8 million for general fund debt service in FY 2012. Because no additional general capital debt borrowings are anticipated in FY 2013, debt service is expected to drop to $13.3 million in FY 2013. To the degree that new debt sales are not required in the future, 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. If all or a portion of the $80 million bond referendum is approved by voters in November, 2012, the associated tax increases of two cents in FY 2014 and another two cents in FY 2016 will be directly tied to paying for the related increases in debt service for the projects approved.

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 (having this fee increase still in place in FY 2013 will generate about $2 million in additional revenue)
- increasing the monthly solid waste fee from $11.75 to $14.00 in FY 2009 (having this fee increase still in place in FY 2013 will generate another $1.1 million in additional revenue). With the fee remaining at $14 per month, cost recovery on the program is expected to be 94%
- 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 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, and the initiation of a transit program. 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 just over $14 million in FY 2013. 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 $13.3 million in FY 2013. In order to continue supporting the level of services enjoyed by our community today, and to maintain the excellent financial condition of the Town, we will need some combination of a stronger or quicker economic recovery, increased revenues through fees or taxes, or decreased expenditures in the future. 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 $519,000 are not enough to offset the operating costs of $1.7 million expected in FY 2013. 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 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 2003 – added three inspectors and one permit staff position back in FY 2007 and increased another three in FY 2008 given the resurgence in the number of new permits and resulting inspections
- 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. Previously, only those with dependents or those with premium coverage contributed directly to the Town for health 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 2013 budget is still 27% 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 has required some 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.

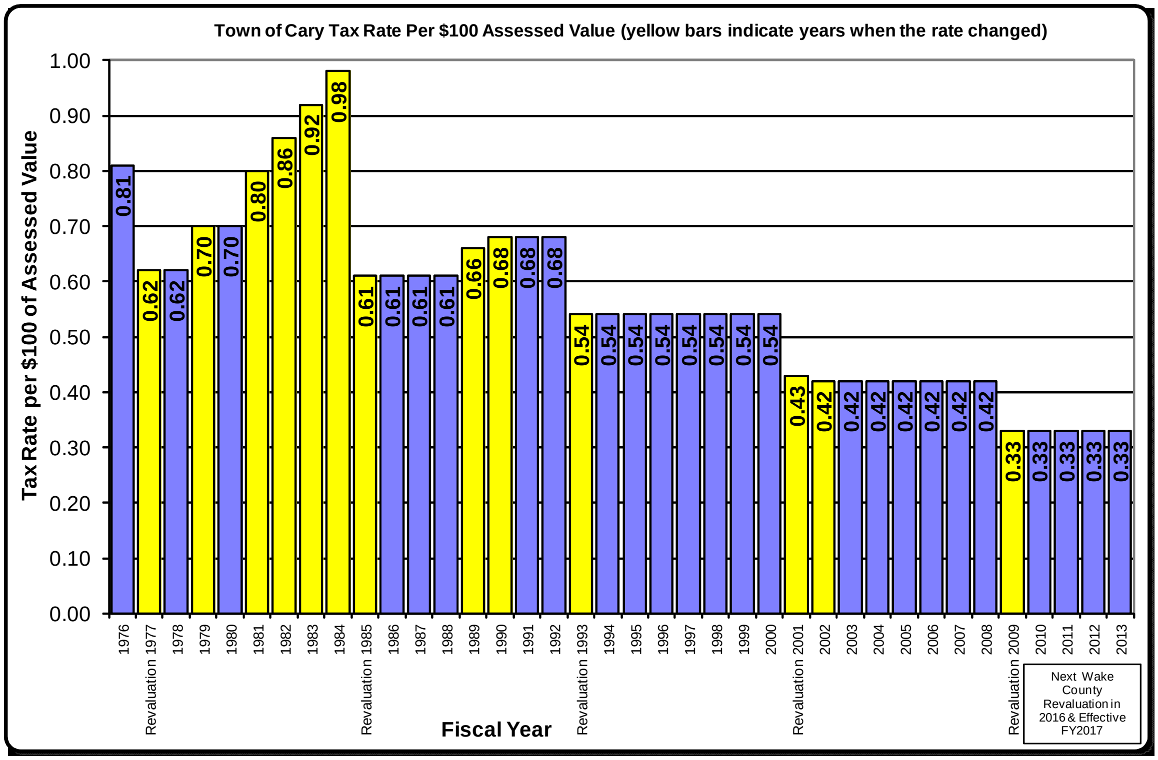
GENERAL FINANCIAL CONDITION OF THE TOWN

FY 2013 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.*
>
> ***FitchRatings Revenue Bond Key Rating Drivers:***
> *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.



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 the estimated level of 0.8% in FY 2011, and 2% for FY 2013.

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 for streets, parks, and fire on the ballot in November, 2012. 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).

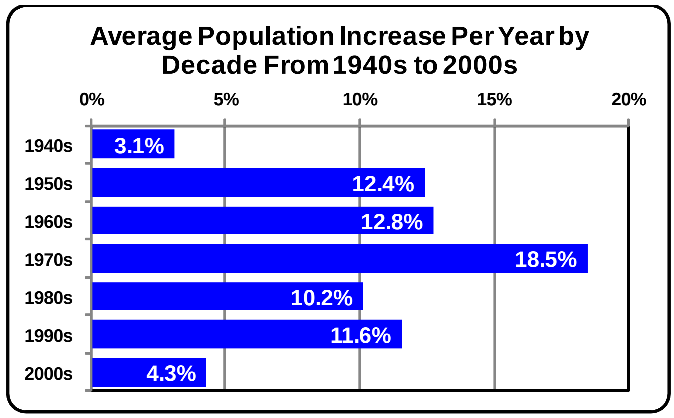
REVIEW OF REVENUES

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.

Town of Cary Decennial Census Results

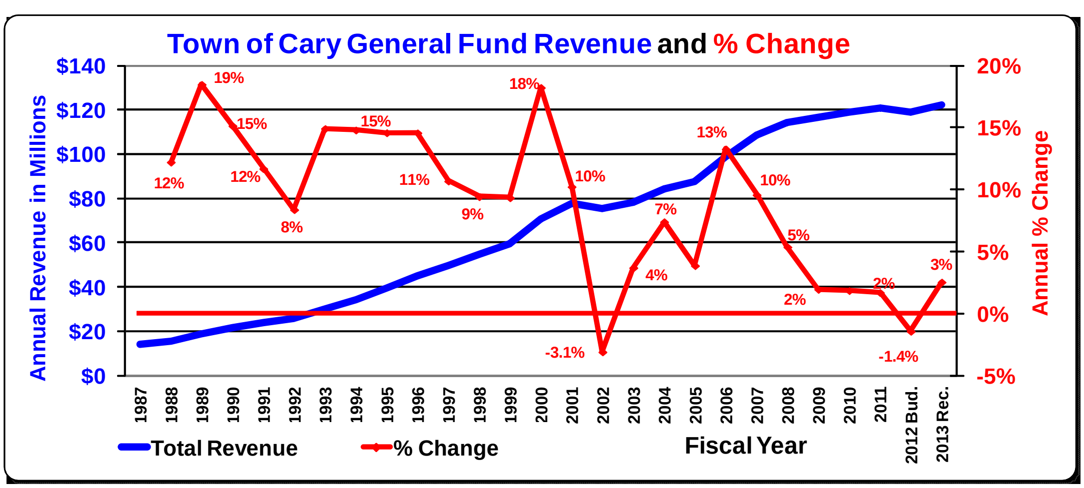
Year	Population	Increase	% Increase	Average Increase Per Year in The Prior Decade
1940	1,141			
1950	1,496	355	31%	3.1%
1960	3,356	1,860	124%	12.4%
1970	7,640	4,284	128%	12.8%
1980	21,763	14,123	185%	18.5%
1990	43,858	22,095	102%	10.2%
2000	94,536	50,678	116%	11.6%
2010	135,234	40,698	43%	4.3%



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 above reflecting historical decennial data. This chart demonstrates just how much the average population growth rate has declined in the 2000s, especially compared to that of the previous two decades.

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.

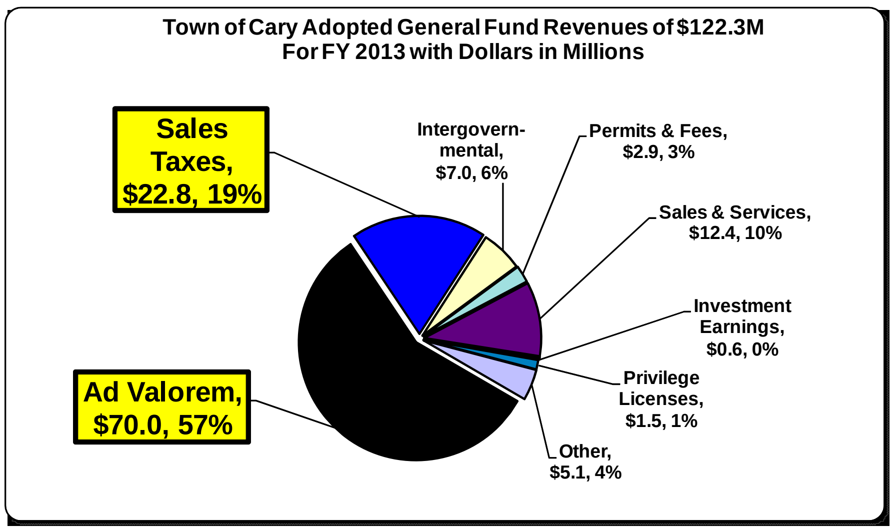
The general fund revenues for Fiscal Year 2013 are expected to total $122.3 million which is $2.8 million or 2.3% higher than estimated revenue totals for Fiscal Year 2012. The following chart shows the level of general fund revenues (**blue line**) and the resulting rate of change (**red line**) in 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.



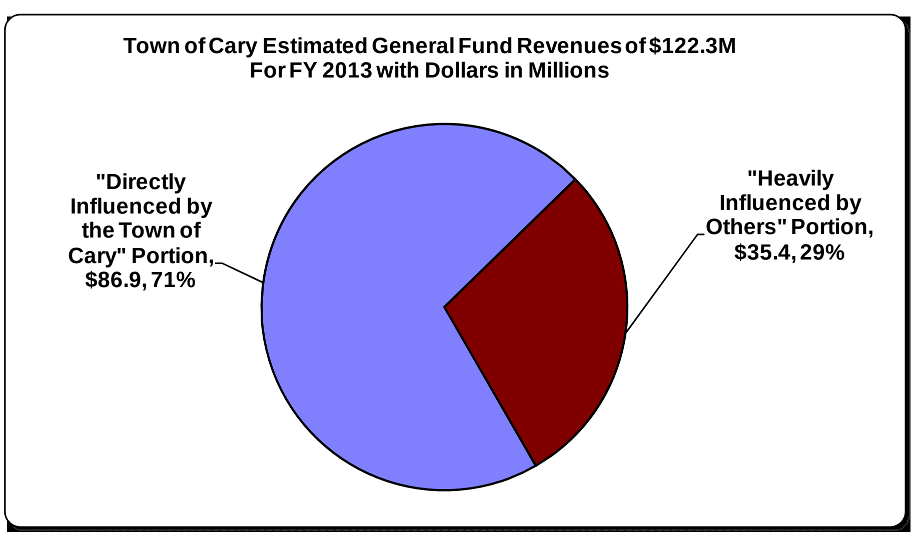
The Town's major source of revenue for FY 2013, the property tax, is based on January 1, 2012 assessments, which are projected to increase 1.8% over the estimate for FY 2012. This growth impacts revenue billings in FY 2013 and is based on new construction on the ground as of January 1, 2012.

The Cary Town Council sets the tax rate, currently 33 cents per $100 of assessed value, 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 2013 is recommended to remain unchanged at 33 cents per $100 of assessed value. The tax base in FY 2013 is estimated at $21.4 billion, which includes real property (land and buildings), personal property (campers, boats, etc.), public service property (public utilities), and vehicles. This total includes $410 million for property located within Cary's corporate limits of Chatham County (about 1.9% of Cary's total). The 33 cent rate is expected to provide $70 million in revenue. One penny on the tax rate is expected to generate approximately $2.1 million in revenue for the Town in FY 2013.

The chart below provides a breakdown of the major revenue categories in the general fund, their amounts, and their respective percentages of the total $122 million in revenues expected in FY 2013.



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).

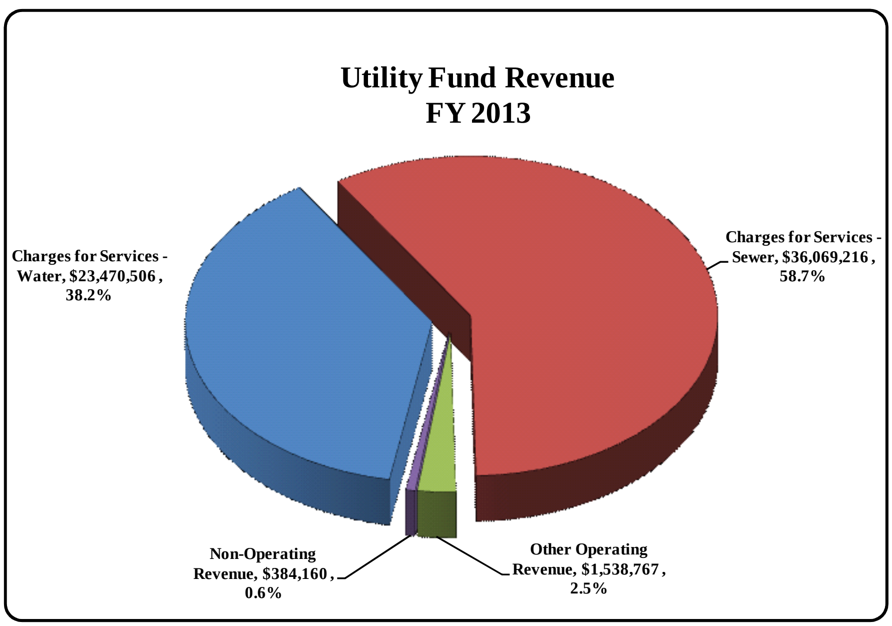


For the Town of Cary, the focus is also on the local issues and the effects of growth on our ability to maintain our revenue streams. One of the major revenue sources included in the "Heavily Influenced by Others" portion shown above is sales tax revenues, and at no time has that been more apparent than 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 2012, we expect sales tax revenues to increase about 2% in FY 2013. 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%.

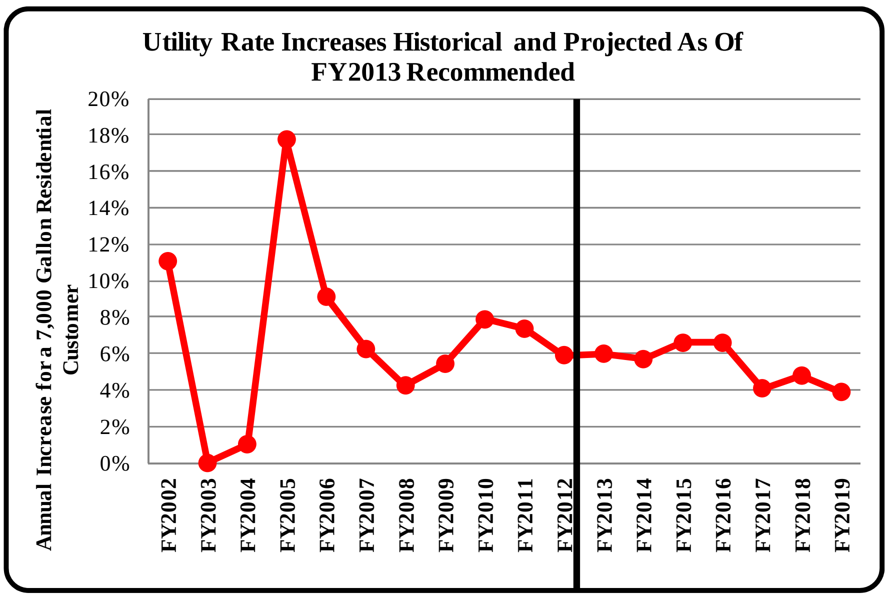
However, the state-prepared population estimates used the prior year in Wake County were actually higher than those reported in the U.S. Census. The Wake County totals used for Cary in the prior year of 146,548 represented 16.42% of Wake as compared to the Census data that reported 133,812 or 14.85%. 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 "Impact of the Decennial Census…" 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 $61.5 million for FY 2013, a decrease of $243,000 or 0.4%, and include 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 have been paying slightly higher rates to fund costs of the merger. Beginning in FY 2013, utility rates charged to customers in Morrisville will be same as those charged to Cary customers as the merger costs have been paid off through the rate differentials in place through the end of FY 2012.



Total revenue from water retail fees is expected to decrease $1.6 million or 6.6% compared to FY 2012 estimates, while total sewer retail revenues are expected to increase $1.4 million or 4%. A residential customer using an average of 7,000 gallons per month is expected to experience a blended rate increase of $5.18 or 6% per month in FY 2013. While 7,000 gallons is often used for comparative data across the years and from one utility to another, Cary's average residential customer currently consumes an average of 4,866 gallons per year, and can expect to see an increase of $3.60 or 5.9% per month in FY 2013. Projected capital investment needs related to the state mandated Western Wake Regional Wastewater Management Facility are expected to require additional rate increases of 6% to 7% per year through FY 2016, with lower rates of increase expected in the next few years. Just how much of an increase is required will depend on a number of factors including construction bid levels which have been better than budget amounts recently, 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. It is recommended that Council continue the rate smoothing approach started in FY 2009 to help ease the burden of a comparatively large increase in utility rates that would otherwise be necessary in fiscal years 2015 and 2016 to accommodate the debt requirements of the WWRWMF. 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.

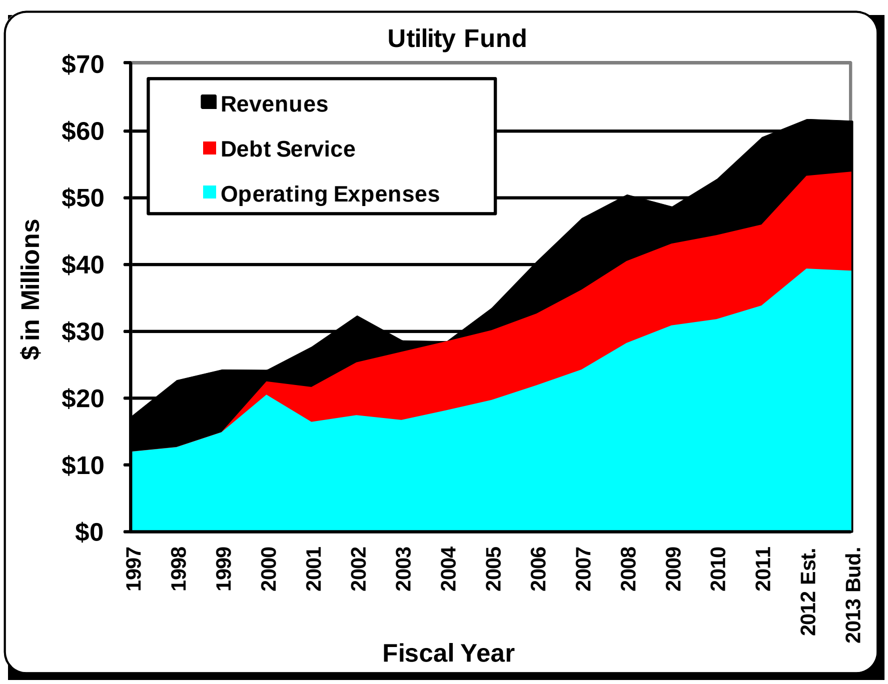


As was initiated in FY 2002, the utility rates generate $1 million annually for open space acquisition. The FY 2013 recommended budget appropriates $38,290 of the FY 2012 $1 million to the open space project for pay-as-you-go funding, while the remaining $961,710 is being transferred to the general fund 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.

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 forecasted to rise in FY 2013 to approximately $58.2 million by the end of the fiscal year. The FY 2013 recommended budget includes a $705,000 utility fund fund balance appropriation in support of four water and 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. Prior to FY 2013, this practice was 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). 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 $6.8 million or about 12%. This contribution is being generated mostly by continuing the rate smoothing approach which Council began in FY 2009.



REVIEW OF EXPENDITURES

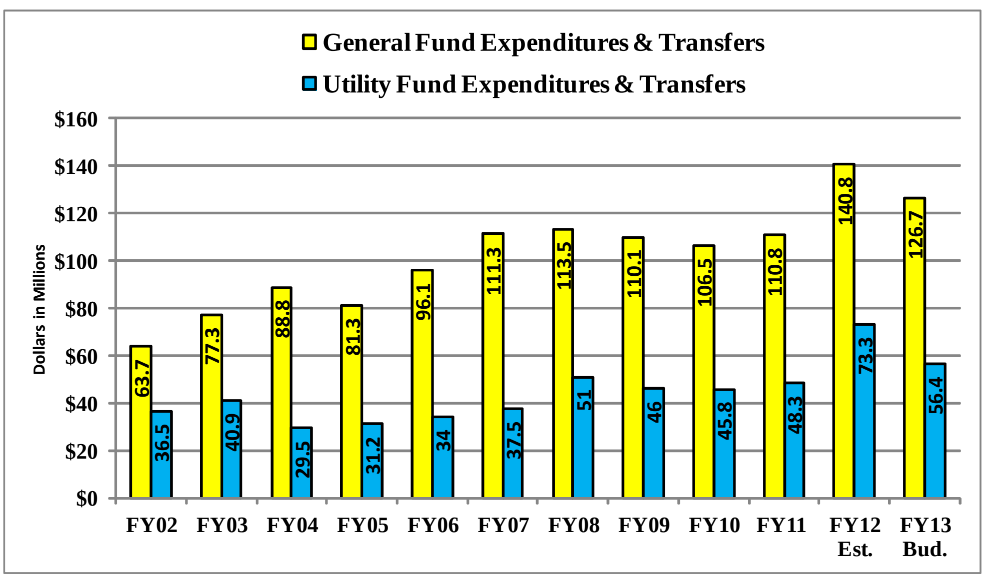
General Fund and Utility Fund Total Expenditures Summary

General fund expenditures and inter-fund transfers total $126.7 million for FY 2013. Included in this amount is $5 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 $13.3 million in FY 2013. While no new debt appropriations have been made for general capital projects 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, debt service in the general fund is $488,000 or 3.5% lower in FY 2013 than in FY 2012.

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.

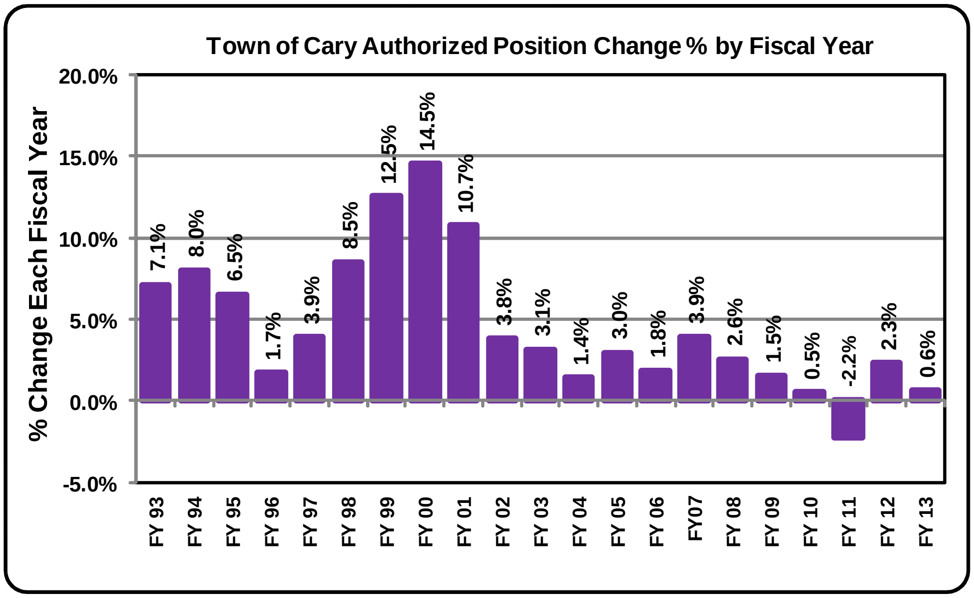
Utility fund expenses and transfers total $56.3 million including the $961,710 transfer to the general fund for open space debt service and the $38,290 directed to the open space project. This total also includes $14.7 million to cover utility-related debt service requirements.

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 to help meet those needs, seven new positions are being recommended with the FY 2013 budget. The next few pages of this budget message have been prepared to provide a one page summary of the program areas being addressed with each position, or group of positions, as well as what the current year funding needs are.

These are the seven positions being recommended as part of the FY 2013 budget:

- 1 Police Detective for the Cyber Crimes Investigation Unit (100% funded with drug forfeiture funds);
- 1 Downtown Theater Facility Supervisor to be hired in April 2013 for program planning and input into the theater renovation project on Chatham Street;
- 1 Transit Planner to monitor and analyze route efficiency with the door to door service and to assist with grant management (90% funded with ongoing grants);
- 2 WWRWMF Team Leaders to be hired in January 2013 to gain an understanding of the new system operational/maintenance requirements during construction;
- 1 Pretreatment Technician to support program development associated with WWRWMF;
- 1 Residuals Process Operator to support Water Plant treatment operations and monitoring processes.

One Police Detective for Cyber Crimes Investigation
Town of Cary Fiscal Year 2013 Manager's Recommended Budget

Recommendation: One Police Officer I (Detective) and funding of $117,574 to increase Town's electronic investigatory ability by adding a detective focused on cell phone and child pornography cases. This position is recommended to be hired July 1, 2012.

Appropriation Summary: **$117,574** will be needed for this position in FY2013.
It will be funded by Federal Drug Forfeiture proceeds. The Drug Enforcement Task Force believes the revenue supporting this position will continue for the foreseeable future.

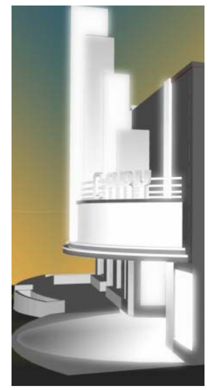
Cost Summary	FY 2013	Ongoing Annual Estimate	Description
Personnel	62,192	62,192	Base pay and benefits (grade 21); full-time; non-exempt
Operating & Maintenance	29,382	-	Includes vehicle setup, gun, taser, radio, workstation, computer, and training
Capital Outlay	26,000	-	Vehicle
Total	**117,574**	**62,192**	

Background: Each time a cell phone user accesses a feature on the phone, they give the forensic examiner details about the person. Through the use of cellular towers an individual's location can be found. This could be useful during criminal investigations. We have a software package that is specifically designed to enhance cell phone investigations, PenLink. However, we currently do not have the staff within the Criminal Investigation Division to properly utilize the software.

The position would handle all aspects of cellular phone investigations 70% of his/her time. This would include applying for court orders, receiving the data from the court orders and presenting the data in an understandable format to the case detective. In addition, all forensic exams on cellular phones would be administered by this position. The remaining thirty percent of time would be spent conducting Peer to Peer Child Porn investigations.

One Facility Supervisor at the Downtown Theater
Town of Cary Fiscal Year 2013 Manager's Recommended Budget

Recommendation: One Facility Supervisor position and funding of $20,483 to create a supervisory position for the Downtown Theater. This position is recommended to be hired in April 2013, so the funding in FY2013 supports four months worth of related costs.



Appropriation Summary: **$20,483** is recommended for this position in FY2013. It will be funded by general fund revenues and costs will be budgeted within the Downtown Theater division of the PRCR Department within the following categories:

Cost Summary	FY2013	Ongoing Annual Estimate	Description
Personnel	16,353	65,412	Base pay and benefits (grade 25); full-time; exempt
Operating & Maintenance	4,130	-	Workstation and computer with software, phone
Capital Outlay	-	-	
Total	**20,483**	**65,412**	

Background: It is anticipated that the Cary Theater project will be completed in the summer of 2013. While the project completion and start of operations may happen after July1, 2013, staff recommends hiring the facility supervisor effective April 1, 2013 to allow for planning and input into final construction. The Facility Supervisor will have overall responsibility for the cultural facility and programs including performing arts (theater such as smaller plays, play reading, comedy, improv; music such as local and regional bands, solo performers, teen bands, etc), community performances and rentals; movies (such as classics, locally produced films by both youth and adult, documentaries, etc); and possible use of rehearsal space, taking pressure off the already booked Cary Arts Center. Depending on the final use of the upper floors of the addition, some property management functions may be assigned to this position.

One Transit Planner in Planning

Town of Cary Fiscal Year 2013 Manager's Recommended Budget

Recommendation: One Transit Planner position and funding of $79,411 for Planning Department. This position is recommended to be hired in July 2013.

Appropriation Summary: **<u>Net $13,585 ($79,411 expense and $65,826 grant revenues)</u>** is recommended for this position in FY2013. The balance in funding of $13,585 will be provided by general fund revenues and costs will be budgeted within the Transit division of the Planning Department.

Cost Summary	FY 2013	Ongoing Annual Estimate	Description
Personnel	73,141	73,141	Base pay and benefits (grade 25); full-time; exempt
Operating & Maintenance	6,270	-	Computer with software, phone
Capital Outlay	-	-	
Total	**79,411**	**73,141**	

Background: This position is being recommended due to the tremendous growth of the C-Tran system and added complexity of management of the system and coordination with other regional transit providers. The door to door service is the most costly service, therefore this position will be hired to provide additional monitoring and analyzing route efficiency. This position will also assist in grant management development and reporting along with other planning and customer service follow up. The Federal Transit Administration 5307 grant program is a very stable funding source that will reimburse the Town 80% of salary and benefits for this position. There is also a state grant that will fund 10% of the salary and benefits. The cost to the Town is 10% of salary and benefits along with any operating costs.

Two WWWRF Team Leaders

Town of Cary Fiscal Year 2013 Manager's Recommended Budget

Recommendation: Two Western Wake Water Reclamation Facility Team Leader positions and funding of $154,567 to learn the systems and plan for operation of the WWWRF. These positions are recommended to be hired in January 2013.

Appropriation Summary: **$154,567** is recommended for these positions in FY2013. The costs for these positions will be funded by utility fund revenues and costs will be budgeted within the WWWRF portion of the PWUT department.

Cost Summary	FY 2013	Ongoing Annual Estimate	Description
Personnel	92,768	185,536	Base pay and benefits (grade 28); full-time; exempt
Operating & Maintenance	14,680	-	Computer with software, vehicle setup
Capital Outlay	47,119	-	Vehicles for plant site
Total	**154,567**	**185,536**	

Background: The recommended timing of hiring the two lead positions is related to the construction timeline and the importance of gaining an understanding of the systems operational/maintenance requirements being installed at the facility. Beyond the construction plans and specifications developed for the facility, many specific decisions affecting the way in which the facility/equipment will be operated and maintained will occur. Having these two positions directly involved in this process will allow for better understanding at start-up as well as continued successful operation of the facility. Beyond construction involvement, the knowledge and understanding gained by the lead positions will allow for positive hiring/training of operations and maintenance staff. It is also important to ensure the overall management/supervision staff (Manager and two Lead positions) have the time and exposure to being well versed in Cary's culture, mission, and approach.

One Residuals Process Operator at Water Treatment Plant

Town of Cary Fiscal Year 2013 Manager's Recommended Budget

Recommendation: One Residuals Process Operator position and funding of $52,349 to support increased Water Plant treatment and monitoring processes. This position is recommended to be hired in September 2012.

Appropriation Summary: **$52,349** is recommended for this position in FY2013. It will be funded by utility fund revenues and costs will be budgeted within the Water Treatment Plant portion of the PWUT department.

Cost Summary	FY 2013	Ongoing Annual Estimate	Description
Personnel	51,849	62,219	Base pay and benefits (grade 20); full-time; non-exempt
Operating & Maintenance	500	-	Uniform
Capital Outlay	-	-	
Total	**52,349**	**62,219**	

Background: The C/A WTP completed the Phase II Residuals and Chemical Improvements Project in January 2011. Since completion, staff has encountered an increased need to dewater residuals, resulting in five days per week centrifuge facility operation. This has prevented maintenance staff man-hours from being utilized in overall C/A WTP maintenance activities. In part because of this project and other added responsibilities, the C/A WTP Maintenance Management Work Order System backlog data shows that maintenance work order backlog has increased by approximately 8-9% per year since July 2008 (FY09). This position will handle all of the routine preventive maintenance and daily operation of the residuals facilities, while more complex corrective maintenance activities would continue to be handled by our core maintenance team.

One Pretreatment Technician I in Pretreatment Division

Town of Cary Fiscal Year 2013 Manager's Recommended Budget

Recommendation: One Pretreatment Tech I position and funding of $74,446 to support program development associated with the WWWRF and add capacity to handle new regulations by NC DENR and the EPA. This position is recommended to be hired in January 2013.

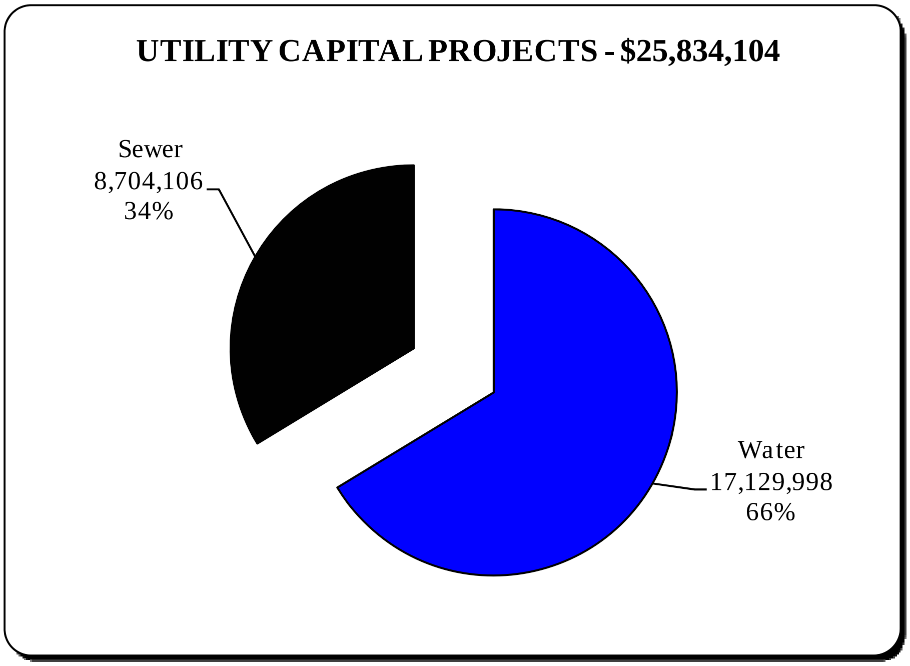
Appropriation Summary: **<u>$74,446</u>** is recommended for this position in FY2013. It will be funded by utility fund revenues and costs will be budgeted within the Pretreatment portion of the PWUT department.

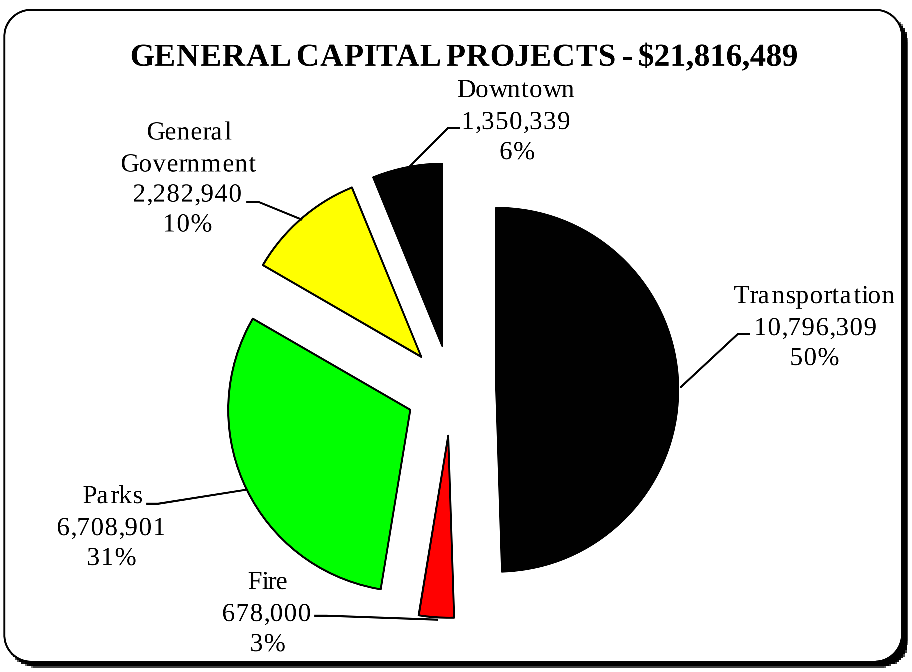
Cost Summary	**FY 2013**	**Ongoing Annual Estimate**	**Description**
Personnel	35,237	70,474	Base pay and benefits (grade 22); full-time; non-exempt
Operating & Maintenance	23,565	-	Workstation, computer software, radio
Capital Outlay	15,644	-	Vehicle
Total	**74,446**	**70,474**	

Background: A number of issues will contribute to an increased work load in the Pretreatment Division in the next 18 months. The construction of the Western Wake Water Reclamation Facility will require a number of pretreatment program elements that will require development. The Town is expected to be impacted by increased levels of clean sampling, identification of metals levels being discharged to the sanitary sewer system, and increased potential for regulatory non-compliance due to NC DENR's proposed reduction in metals standards for receiving streams and permitted wastewater treatment plant discharges. Finally, a new EPA categorical standard on dental facilities will require local pretreatment programs to implement the new standard and to identify dental facilities, oversee facility equipment installation, conduct facility inspections, and enforce the federal requirements. This additional position will allow program monitoring and inspection activities to be completed and the Utility Pretreatment Manager to focus on developing programs with the Western Wake Water Reclamation Facility, federal regulations, and support for department with tightening National Pollutant Discharge Elimination System permitting regulations.

CAPITAL IMPROVEMENTS BUDGET

For the twelfth consecutive year, 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. Prior to this, a five-year plan was used. The move to the ten-year period provides the Town of Cary with a longer planning horizon to better assess 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 2013 are $25.8 million. General capital project recommended appropriations are $18 million yielding a total FY 2013 CIB of $47.7 million.





The $47,650,593 recommended Fiscal Year 2013 capital improvements project appropriation represents a 14% increase from the FY 2012 adopted CIB. This increase is primarily attributed to a $10.9 million increase in appropriations to water projects in FY 2013.

The FY 2013 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 $19.3 million, or 40% of the FY 2013 recommended CIB, supports infrastructure maintenance and improvement initiatives such as:

- pavement rehabilitation for existing roadways
- downtown infrastructure improvements
- street storm drainage rehabilitation
- rescue truck replacement
- maintenance of existing PRCR facilities
- contributions toward sanitation and recycling truck replacement program
- installation of new water lines to reinforce existing lines and better address system demand
- water tank maintenance and renovations
- inspection and rehabilitation of existing force mains
- replacement of equipment at North and South Cary Water Reclamation Facilities and the Cary/Apex Water Treatment Plant
- pump station improvements

The Town's FYs 2013 – 2023 recommended capital improvements budget and plan focuses on core infrastructure maintenance, necessary infrastructure improvements and prior commitments and mandates. Projects selected for the FY 2013 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 2013. Specific information related to recommended FY 2013 revenue bond debt appropriations follows.

   Revenue Bonds

   The FY 2013 recommended CIB includes the appropriation of $4.9 million in revenue bonds for water and sewer infrastructure needs. 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 these appropriations.

   The $4.9 million in revenue bond debt budgeted in FY 2013 supports the following water and sewer infrastructure maintenance and improvement projects.

Project Name	Revenue Bonds
Maynard Road Tank Replacement	3,500,000
Upgrade Water Lines - FY 2013	831,600
Extend Reclaimed Water Mains - FY 2013	110,250
Sewer System Repair/Rehabilitation - FY 2013	500,000
	$4,941,850

   The FY 2013 revenue bond debt appropriation is 35% less than the $7.6 million budgeted in FY 2012.

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

Utility Capital Reserve

The FY 2013 recommended CIB contains a $19.8 million appropriation of cash from utility capital reserve fund balance. This represents an 83% increase from FY 2012 budgeted fund balance appropriations.

Unrestricted fund balance (generated by investment earnings) comprises $4.1 million of the total fund balance appropriation, while restricted fund balance (generated by water and sewer development fees) provides the remaining $15.7 million. Total utility capital reserve fund balance at the close of FY 2013 is anticipated to be $22.3 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 2012 have been maximized to continue leveraging currently available resources. The FY 2013 general capital improvements budget includes $9.8 million in appropriations from general capital reserve fund balance. This represents a 9% decrease from FY 2012 budgeted fund balance appropriations.

$1.8 million of the FY 2013 recommended fund balance appropriation is from unrestricted sources (such as investment earnings and utility franchise fee funds), while the remaining $8 million is restricted (generated by transportation and PRCR focused revenues). General capital reserve fund balance at the close of FY 2013 is expected to be $18 million with 64% of these funds restricted to certain types of transportation projects.

3. Guiding Principle: Minimize reliance on FY 2013 capital reserve revenues

Utility

The FY 2013 recommended CIB appropriates a total of $436,205 of FY 2013 revenue in support of utility capital reserve projects. $339,020 of this amount will be received from the Town of Apex in support of the five 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.

The remaining $97,185 of FY 2013 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.

General

$6.9 million of anticipated FY 2013 general capital reserve fund revenue is programmed for appropriation in the recommended capital improvements budget. This entire amount reflects federal grant funding that the Town will receive for the following four projects.

Project Name	Grant Funds
Cary Parkway/High House Road Intersection	2,976,000
Dowtown Cary Roundabouts	200,000
Crabtree Creek Greenway	2,958,400
New Hope Church Road Trailhead Park	796,850
TOTAL GRANT FUNDS	**$6,931,250**

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

Utility Fund Transfers
The FY 2013 CIB includes $743,290 in utility fund transfers. This is a considerable increase over the $21,649 utility fund transfer appropriated in FY 2012. The FY 2013 Recommended CIB includes a $705,000 transfer in support of the sewer capital projects noted below.

Project Name	Utility Fund Transfer Amount
Miscellaneous Pump Station Grinder Exchange/Rebuild Project	240,000
Mixer Replacements - North Cary Water Reclamation Facility	150,000
Replacement Laboratory Equipment - South Cary Water Reclamation Facility - Mass Spectrophotometer	175,000
Walnut Creek Pump Station Check Valve Replacement Project	140,000
Subtotal - Sewer	**705,000**
TOTAL UTILITY FUND TRANSFER	**$705,000**

The utility rate smoothing approach is in place to ease future larger annual increases, and as a result approximately $5 million is expected to be contributed to the utility fund balance in FY 2013. Utilizing this cash funding resource to support appropriate capital needs such as this 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 $38,290 of utility fund transfer dollars recommended for appropriation in FY 2013 supports the Town's open space 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 open space 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 $38,290 of this $1,000,000 is available for open space land purchases in FY 2013. The remaining $961,710 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 are 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, as little as $38,290 in utility fund transfer funding will be available annually for open space acquisition. 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 open space funding until debt repayment is complete.

Debt Service for 2005 GO Debt - Open Space

	Required for Debt Service	Available for Open Space
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

$5 million in general fund transfers are included in the FY 2013 recommended CIB. This is a 51% decrease from the FY 2012 budgeted general transfer amount of $10.3 million. FY 2013 funds support the fire, parks recreation and cultural resources, general government and downtown capital projects noted below.

Project Name	General Fund Transfer Amount
Fire Pumper Replacement - #1706	678,000
Subtotal - Fire	**678,000**
Athletic Field Fencing Amenities Replacement (Windscreen, Safety Cap, Padding, Netting) - FY 2013	60,000
Athletic Field Fencing Repair/Replacement - FY 2013	72,000
Greenway Resurfacing Projects - FY 2013	345,000
Indoor Athletic Court Resurfacing - FY 2013	35,051
Park and Greenway Renovations - FY 2013	200,000
Park and Greenway Sign Plan Implementation	37,960
Parks, Recreation and Cultural Resources Venue Wayfinding Signage	63,000
Play Area Renovations - FY2013	200,000
Playground Surface Repairs/Replacement - FY 2013	55,000
Tennis Court Renovations - FY 2013	84,000
US 1/64 Pedestrian Bridge Improvements - Phase II	50,000
Subtotal - PRCR	**1,202,011**
Application Software Replacement Project	500,000
Parking Lot Resurfacing and Renovations - FY 2013	169,650
Sanitation and Recycling Truck Replacement	750,000
Storm Drainage Project - Private Assistance	250,000
Storm Drainage Project - Town Properties	100,000
Subtotal - General Gov't	**1,769,650**
Downtown Improvements	1,350,339
Subtotal - Downtown	**1,350,339**
TOTAL GENERAL FUND TRANSFER	**$5,000,000**

With $15.6 million in general fund fund balance estimated to be available for capital programming at the close of FY 2012, a $5 million appropriation from this source in FY 2013 is reasonable. Factoring in this FY 2013 appropriation, staff estimates that $12.2 million of general fund fund balance will be available for transportation, fire, PRCR, general government and downtown capital projects at the close of FY 2013.

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 to make difficult choices in the near future. 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 funding is in place to allow adequate 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 2013 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