BUDGET MESSAGE
FOR FISCAL YEAR 2012

Mayor Weinbrecht and Members of Council:

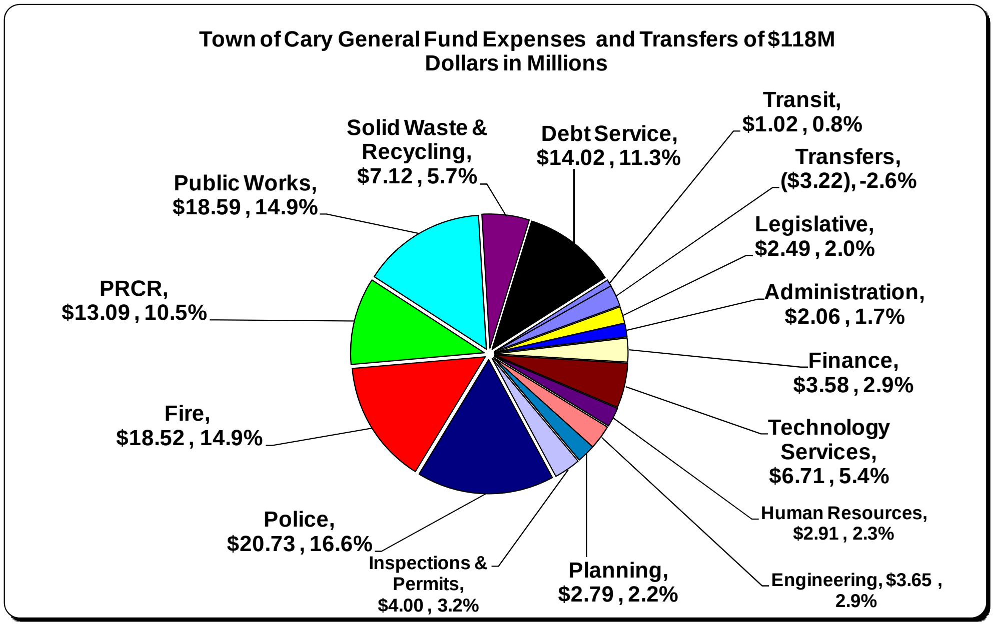
Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the recommended annual budget for fiscal year 2012 for the Town of Cary. The budget is balanced without a tax increase and identifies methods of raising and spending funds for specific programs during the coming 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 2012 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. It is extremely important that we do everything we can to maintain our strong financial position which was confirmed most recently in September, 2011 with all three rating agencies (Moody's, Standard & Poor's, Fitch) providing AAA ratings for the Town's General Obligation Public Improvement Bond refinancing. Highlights of the fiscal year 2012 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	The Town's average residential customer who consumes 4,866 gallons per month is expected to see an increase of $3.36 per month or about 5.8%. For a residential customer averaging 7,000 gallons per month, the increase is expected to be $4.83 per month or about 5.9%. 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 third straight year, no new general fund supported debt is being recommended. Limiting new general capital project appropriations to only those available with cash forces us to make difficult choices. The pace of the economic recovery will be a factor in how much capacity is available for additional debt service in the future.
New Staff Position Authority	27.75 total representing a 2.4% increase in total staff; 19.75 of them funded	15 Firefighters in March, 2012 to support Fire Station #8 opening in summer 2012; 8 overhires - six police officers and two 911 Call Center positions approved to recruit and hire if lapse salaries from other vacant positions exist to fund them, so there are no related increases to personnel budget associated with these overhires; 2 police officers to support Project PHOENIX; 1 business analyst in the Technology Services department; 1 Skate Park Teaching professional from temporary to permanent status in PRCR; 0.75 FTE (3/4 time) position to teach QuickStart and Junior Team Tennis programs at the Cary Tennis Park.

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 2012 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 $118 million general fund budget is broken down to carry out service provision in fiscal year 2012. This year's overall general fund operating budget represents a net increase of about $2.5 million or 2.1%.



In addition to the public safety and other operational duties covered by the general fund, the FY 2012 recommended budget provides funding for several very important capital projects such as infrastructure improvements in the downtown, preparing for the relocation of Fire Station #2, and the first phase of expansion to the WakeMed Soccer Park. Highlights of the capital plan for the coming year are shown in the table below.

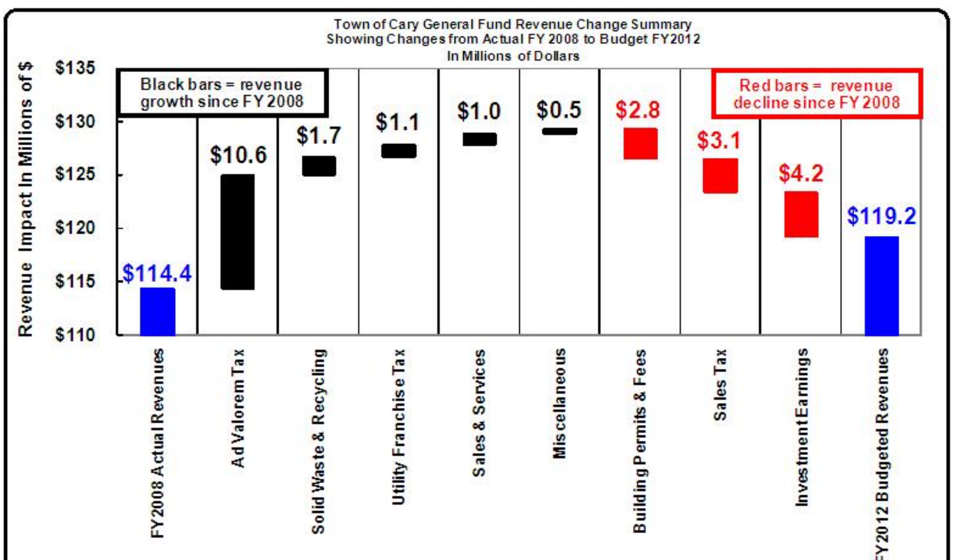
Project Title	**Brief Description**	**Funding**
Downtown Infrastructure Improvements	Short term, impactful, visible improvement ideas for the downtown were discussed during the 2011 Council/Staff Retreat in January. With the support of our new Downtown Development Manager, we are prioritizing that list along with new ideas and events that will bring people and new investment vitality to downtown. Having a dedicated amount of funding for this purpose is critical to prioritizing public support so that a commensurate short term plan of action can be formulated. Staff will be working with Council over the next few months to ensure this funding is allocated to the best opportunities available during the coming year.	$8 million
WakeMed Soccer Park Stadium Improvements – Phase I	This project includes the development of two additional locker rooms, media space, a large multi-purpose room, space for skyboxes, increased seating on the east side of the facility for approximately 2,300 and a large outdoor plaza area for 100 tables. The project also includes additional seating on the north side of the stadium for an expansion total of 3,000 which will bring overall stadium capacity to 10,000.	$3.7 million
Architectural Services, Land Acquisition and Construction – Fire Station #2	This project provides initial funding in support of the relocation of Fire Station #2. The existing station was built in 1975 to house one engine company. The station currently houses two engine companies in order to appropriately serve its assigned geographic area. FY 2012 funding supports design services and land acquisition. A funding need of $5.7 million has been identified in FY 2013 for construction.	$1.5 million

Street Improvement Project	This annual project provides for patching and asphalt overlay on Town maintained roadways. Street conditions are assessed annually and prioritized accordingly.	$1.5 million
TCAP – Walker Street Extension	This project provides for the extension of Walker Street from Cedar Street to Chapel Hill road to address traffic congestion in the downtown. FY 2012 provides additional funding for contracted services and land acquisition. A funding need of $23.8M has been identified in FY 2013 for a total project estimate of $31 million, including the $6.6 million already appropriated.	$576,000
Sewer System Repair / Rehabilitation	This annual project provides for the repair and rehabilitation of existing sewer lines. Lines are assessed using underground camera inspection and field investigations and then prioritized.	$1.4 million
Cary/Apex Water Treatment Plant – Raw Water Transmission Pipeline	This project provides for the construction of an additional 48-inch raw water transmission pipeline to serve the Cary/Apex Water Treatment Plant. The additional line will address the reliability and capacity limitations of the existing raw water conveyance pipelines. FY 2012 funding supports design, permitting and easement acquisition. An additional $17M has been identified in FY 2014 for construction.	$2.5 million
Upgrade Water Lines	This annual project provides funding for upgrades to existing small diameter or otherwise deficient lines within the Town's water conveyance system.	$792,000

MAJOR ISSUES IMPACTING THE FY 2012 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 $4.5 million or 16% lower in FY 2012 than they were in FY 2008, just four years ago. The graph below compares the major revenue changes since FY 2008 compared to those projected as part of the FY 2012 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.



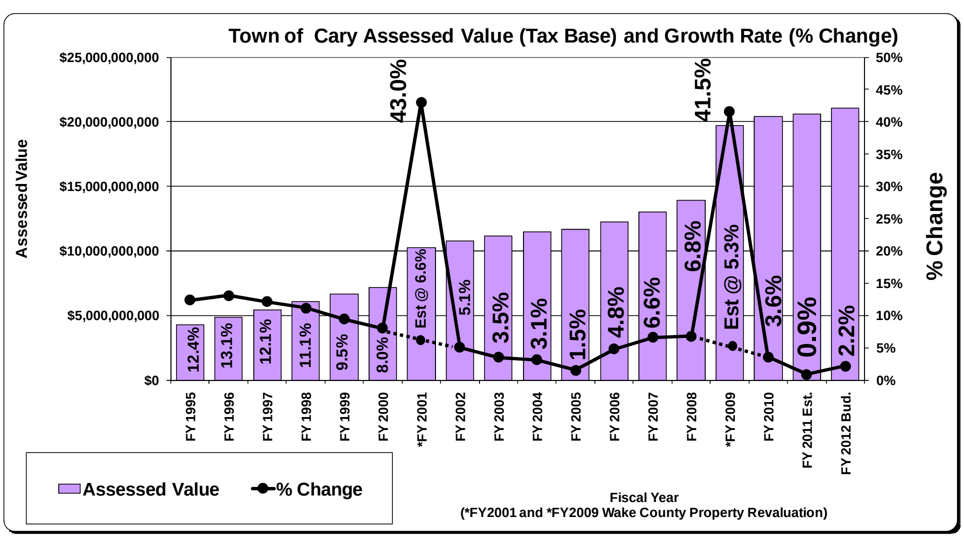
From FY 2008 to FY 2012, general fund revenues are expected to increase by only $4.8 million or 4%. This small growth rate over three years averages out to about $1.2M or an average of 1% growth per year. This is dramatically lower than the average growth amount of $9M or 10% per year for fiscal years 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 2012, the taxable property is expected to equal just over $21 billion which reflects tax base growth of $447.1 million or about 2% over estimated FY 2011 levels. This total includes approximately $365 million for property located within Cary's corporate limits of Chatham County, or about 1.7% of Cary's entire taxable property total. Wake County revalues its property every eight years and its last one was effective in FY 2009. Chatham County revalues its property every four years and its last one was effective in FY 2010. 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 98.3% 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 2012, remaining at 33 cents for the fourth 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 75% 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 $68.6 million, comprises 58% of all general fund revenues. The Town of Cary gradually bounced back from its low in annual tax base growth of 1.5% in FY 2005 to growth of 6.8% in FY 2008 before dropping due to the impacts of the recession in the three subsequent years. The Town of Cary is estimating its tax base growth rate to recover slightly in FY 2012 to about 2.2%.

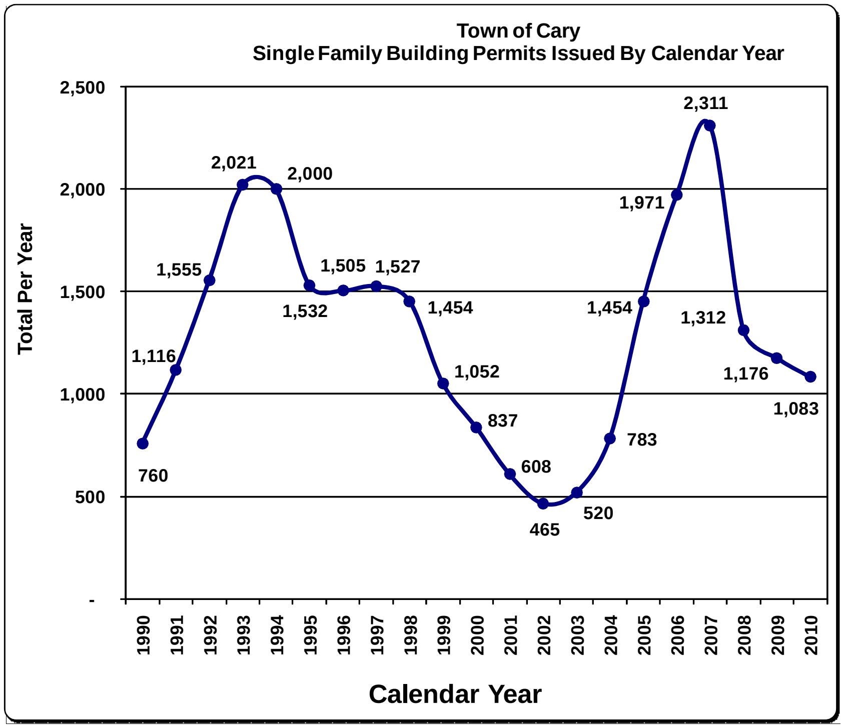
A historical perspective of the Town's assessed value (tax base) growth since FY 1995 is provided in the graph below. The extremely high growth rate in 2001 reflects a property revaluation conducted by Wake County that year. In FY 2001, the tax rate was reduced from 54 cents to 43 cents to maintain a 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 2012 revenues are based on tax values "on the ground" as of January 1, 2011. 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, $210 million of additional tax base would need to be added which would be the equivalent of 701 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%



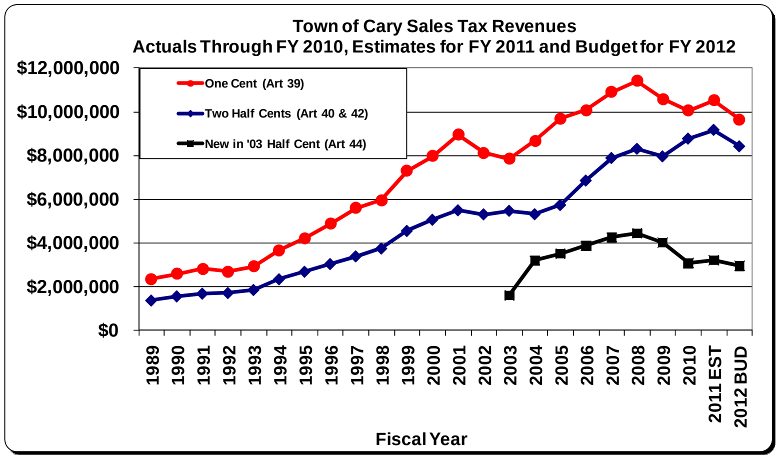
Commercial activity has similarly seen dramatic declines which are further indications that tax base growth for at least the next couple of years will be sluggish at best.

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) which is distributed based on a combination of both approaches mentioned. Article 44 was approved in December 2002 to replace the expiring Inventory Tax Reimbursement and Intangibles Tax Reimbursement revenue sources.

Projected sales tax revenues totaling $21 million in FY 2012 make up 18% of all general fund revenues. The historical growth rate of this major revenue source was greatly impacted by the economic slowdown of the early 2000s, but the economic recovery of the mid 2000s helped this revenue source recover, as evidenced by an average annual growth rate of 11.5% for FY 2003 through FY 2007. With the global and domestic economies slowing under the pressure of the 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.

Historical 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. Moderate growth of about $1M or 4.6% is anticipated in FY 2011 generating approximately $22.9 million, which is still $1.3 million or 5.3% less than the peak year of FY 2008. If sales tax revenues in FY 2009, FY 2010, and FY 2011 had continued at the average annual growth rate of 11.5% which occurred over the previous four years, sales tax revenues in FY 2011 would be expected to total about $33.5 million, which would be $10.6 million or 46% higher than the $22.9 million being estimated for FY 2011. In the FY 2012 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 5 cents on the tax rate.



Impact of the Decennial Census Driving Down Sales Tax Distributions Despite Anticipated Growth of 2%
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 will be utilized by the State of NC Department of Revenue as the new 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 $142K or 125%.

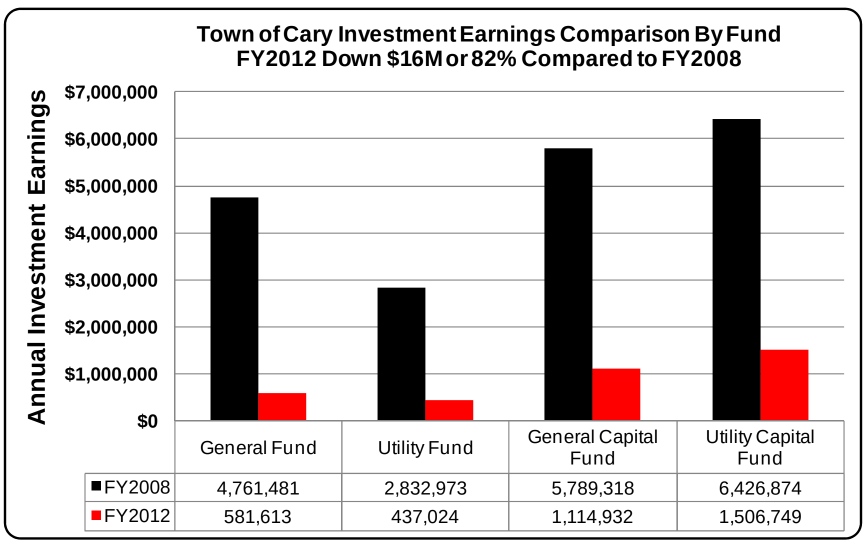
However, the State-prepared population estimates used the prior year in Wake County were actually higher than those reported in the U.S. Census. The Wake County totals used for Cary in the prior year of 146,548 represented 16.42% of Wake as compared to the Census data that reported 133,812 or 14.85%. 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 is expected to drop by $2.4M or 9.4% from previous estimates for FY 2012, had the population share remained the same for Cary. 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

Without the changes anticipated as a result of the population shares changing in FY 2012, the Town of Cary total sales tax revenue levels were expected to grow at the rate of 2%, compared to the drop of 8.2% reflected in the chart above for each of the individual sales tax revenue components.

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%. As these market changes have affected the Town's income over the past few years, the Town has had to adapt its expense and pay-as-you-go capital planning accordingly. With the economic recovery of the mid 2000s, investment earning levels improved, but as the economy slumped again, total investment earnings for FY 2012 are expected to be about $3.6 million which is $16.2 million or 82% less than those recorded in FY 2008. For the general fund specifically, investment earnings are expected to decrease from $4.7 million in FY 2008 to only $581K in FY 2012. For comparison purposes, each penny on the tax rate in FY 2012 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 equaled about 3 ½ cents on the tax rate at the time.



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 year 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 2012 is expected to be $14.9 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 $14 million in FY 2012.

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. Exactly when these projects should move forward within existing revenue sources will be determined by the pace of the economic recovery. None of the debt funded capital projects delayed by Council are being recommended to resume with the FY 2012 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. Those projects selected for closure may 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 in the near future as the economy slowly recovers. However, a greater challenge will be 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, we will continue to struggle providing significant additional capital investment without commensurate tax increases to pay for the debt service that may be necessary.

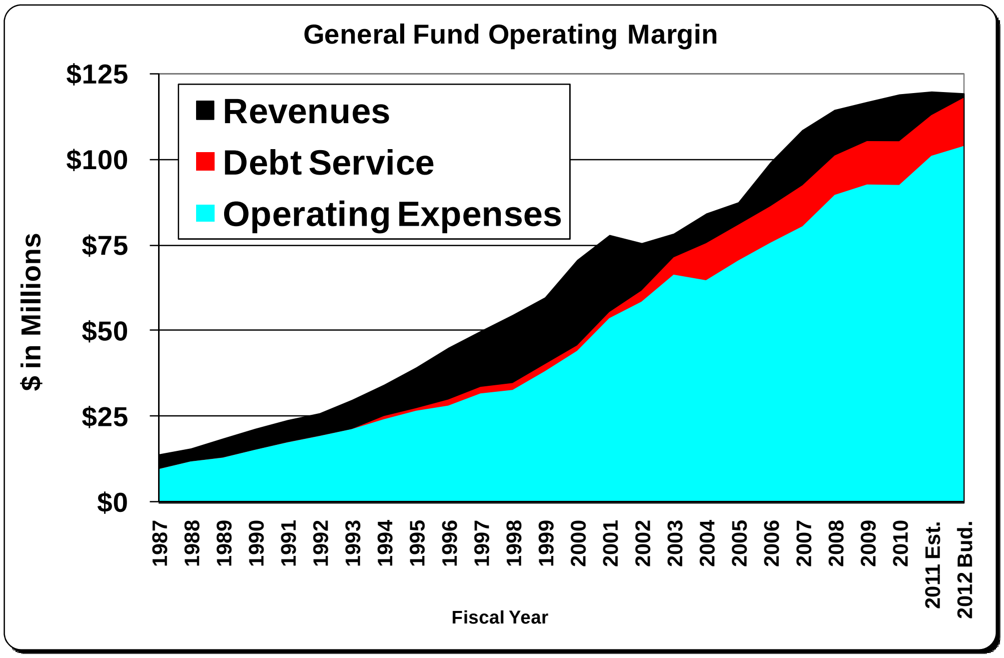
The Town's 2003 voter approved general obligation bond authority will expire in April 2013 if it has not yet been borrowed. In addition to the appropriated debt already delayed, there is also $48.3 million of transportation bond authority and $7.6 million of park project authority available for appropriation to new projects within these categories (transportation or parks). However, 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. Future considerations of additional debt, whether through the 2003 bond referenda authority or some amount yet to be approved by voters, will be challenging to afford within the near future given the current revenue structure and the expectations of a continued slow economic recovery.

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 $1.1 million 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 2012. We have been fortunate with our operating margin performance thus far in FY 2011, as we currently anticipate having an operating margin of about $4.3 million in the general fund, versus the adopted FY 2011 budget that anticipated revenues of $116.6 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, Apex, and Holly Springs. 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 2012. The current appropriation authority remaining from each of the Town's general obligation bond referendums is as follows:

- 2003 $130 million transportation bond: $48.3 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 new 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 can 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.

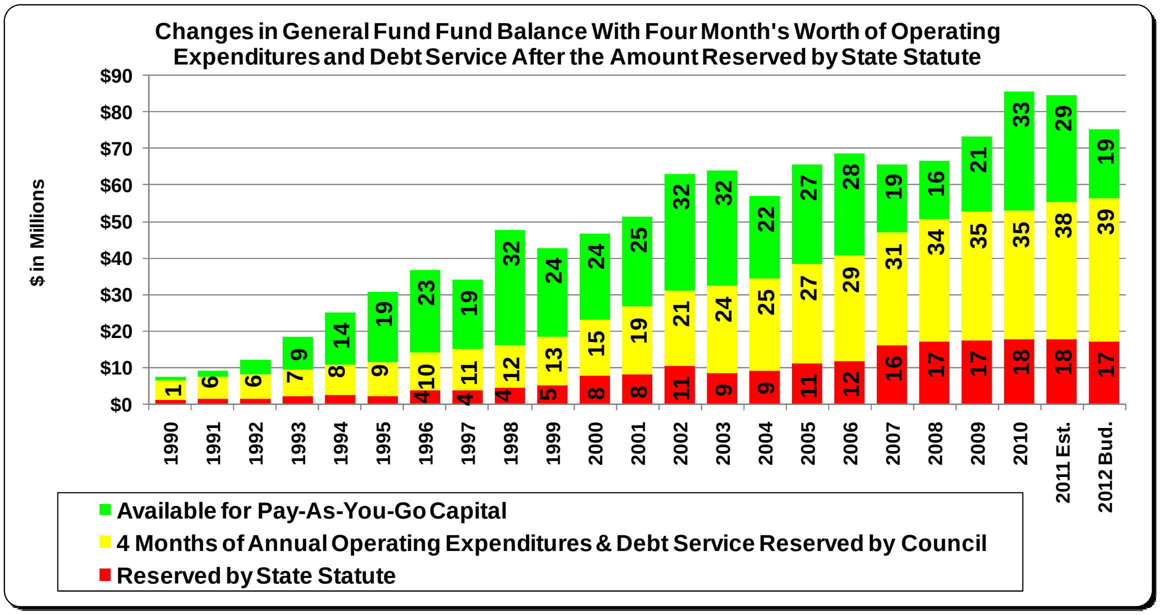
Debt service related to the 1999 bond authority for streets and parks, costs related to the widening of North Carolina Highway 55, an expansion of Town Hall and the debt issued from the 2003 street and park bonds have combined to increase debt related costs in the general fund to $14 million in FY 2012. If all of the projects with debt funding sources being delayed were to move forward, debt service could grow another $6.2 million. 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).

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 currently 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 $19 million available for capital by the end of FY 2012. 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 1989.



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 for the bond refinancing sale in September 2010, 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 2012 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 92% in FY 2012. 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 $488,000 in FY 2012).

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 2012 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). 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 about $14M for general fund debt service in FY 2012. If no additional general debt is issued in the interim, general fund debt service for FY 2013 is expected to drop by about $361K. 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 $400K when compared to the prior year.

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

- raising the business license fees effective in FY 2007 for the first time since 1990 (generated an additional $650,000 in FY 2008)
- increasing the monthly solid waste and recycling fee from $7.67 to $11.75 in FY 2006 (having this fee increase still in place in FY 2012 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 2012 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 92%
- 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 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 $139K 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 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 $15 million in FY 2012. Part of the major structural shift in operating margin components over that same time period has been debt service expense which has grown from $5 million in FY 2003 to $14 million in FY 2014. 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.

The Town has a history of being very frugal 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, the 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 – still below the related staffing levels in 2003
- Began contracting janitorial services, landscaping, right of way and town facility mowing
- Reduced the minimum staffing on aerial ladder units in the Fire Department from 4 to 3
- 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 participating in the health plan will 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 2012 budget is still 18% lower than the level budgeted in FY 2009

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 hedge against the signs that 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. Exactly when these projects should move forward within existing revenue sources will be determined by the pace of the economic recovery. None of the debt funded capital projects delayed by Council are being recommended to resume with the FY 2012 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 2012 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 the recent bond refinancing in September 2010.

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 2.2% for FY 2012.

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 may be 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. Acquiring additional debt without existing margin will require some combination of tax increases, additional revenue sources, and/or expenditure reductions to create the amount of margin necessary to service the related debt load (see earlier "Debt Affordability" section).

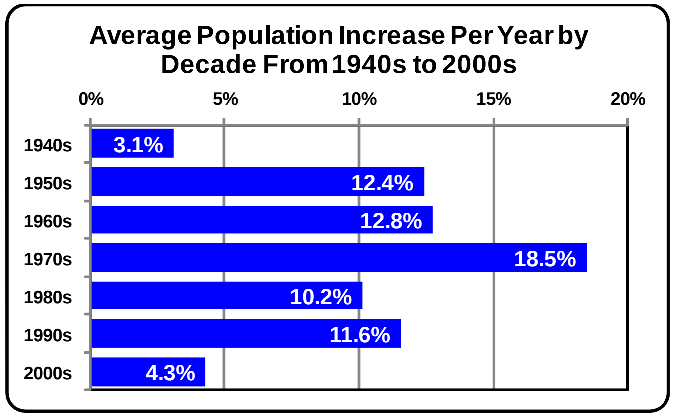
The Town's strong financial reserves have provided significant flexibility in the past allowing the Town to move quickly to take advantage of economic opportunities and/or begin new projects in the middle of the year. Plans for any additional capital investment in tax supported debt will continue to consider maintaining flexibility for periods of both economic growth and downturns such as those currently being experienced.

REVIEW OF REVENUES

General Fund

Most of Cary's general fund revenue sources are dependent on Cary's existing population, and 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 is 135,234, which reflects a growth rate of about 4.3% per year, 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 couple of years and the slow recovery from the recession, it is extremely likely that annual population growth rate over at least the next couple of years will be in the 2% to 4% range.

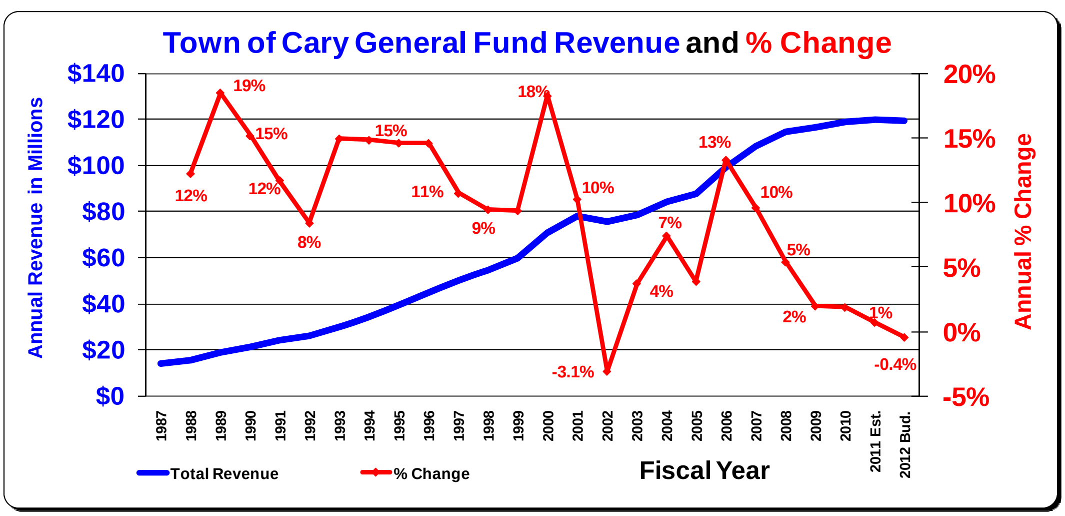
Town of Cary Decennial Census Results				
Year	Population	Increase	% Increase	Average Increase Per Year in The Prior Decade
1940	1,141			
1950	1,496	355	31%	3.1%
1960	3,356	1,860	124%	12.4%
1970	7,640	4,284	128%	12.8%
1980	21,763	14,123	185%	18.5%
1990	43,858	22,095	102%	10.2%
2000	94,536	50,678	116%	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.

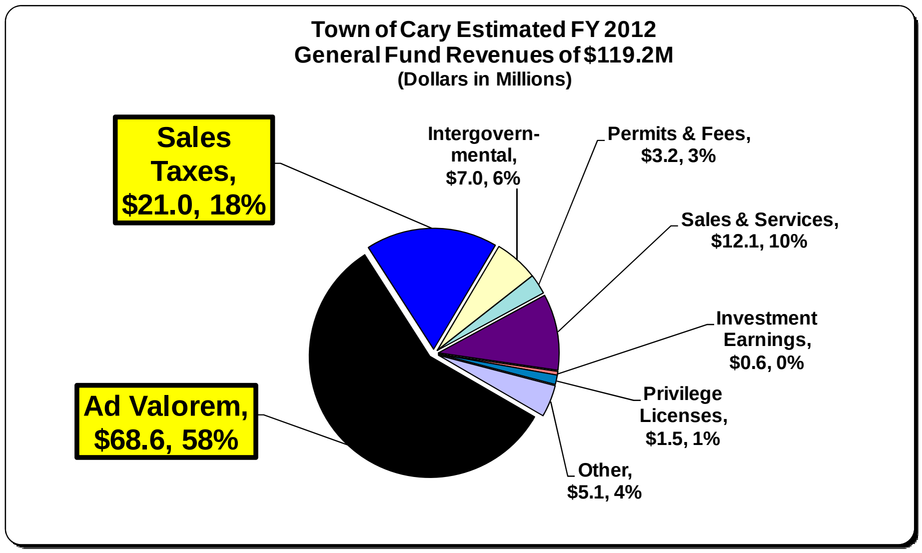
The general fund revenues for Fiscal Year 2012 are expected to total $119.2 million which is about the same as estimated revenue totals for Fiscal Year 2011. The following chart shows the level of general fund revenues (**blue line**) and the resulting rate of change (**red line**) in each year since FY 1987. It is clear from this data the dramatic impact that a recessionary period has on the Town's revenues with the only two years of decline being in FY 2002 and FY 2010. 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.



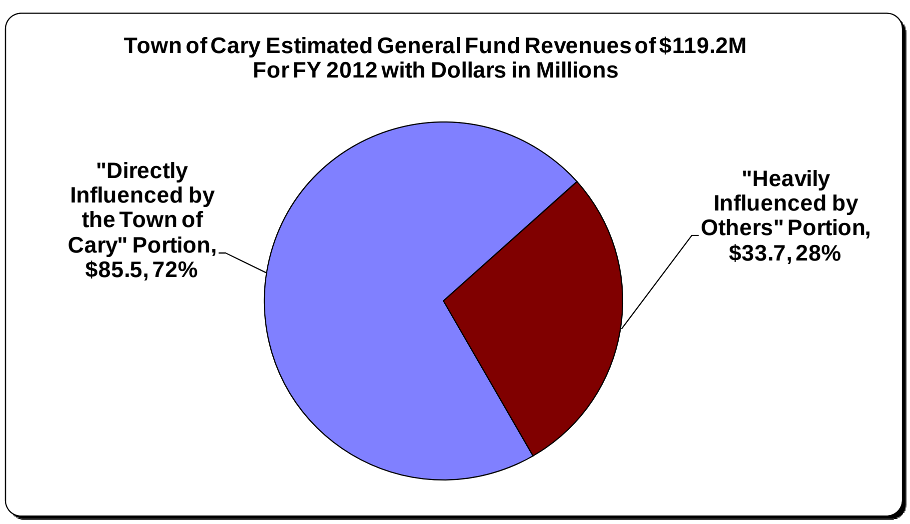
The Town's major source of revenue for FY 2012, the property tax, is based on January 1, 2011 assessments, which are projected to increase 2.2% over the estimate for FY 2011. This growth impacts revenue billings in FY 2012 and is based on new construction on the ground as of January 1, 2011.

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 2012 is recommended to remain unchanged at 33 cents per $100 of assessed value. The tax base in FY 2012 is estimated at $21 billion, which includes real property (land and buildings), personal property (campers, boats, etc.), public service property (public utilities), and vehicles. This total includes $366 million for property located within Cary's corporate limits of Chatham County (about 1.7% of Cary's total). The 33 cent rate is expected to provide $68.6 million in revenue. One penny on the tax rate is expected to generate approximately $2.1 million in revenue for the Town in FY 2012.

The chart below provides a breakdown of the major revenue categories in the general fund, their amounts, and their respective percentages of the total $119.2 million in revenues expected in FY 2012.



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 generally 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).

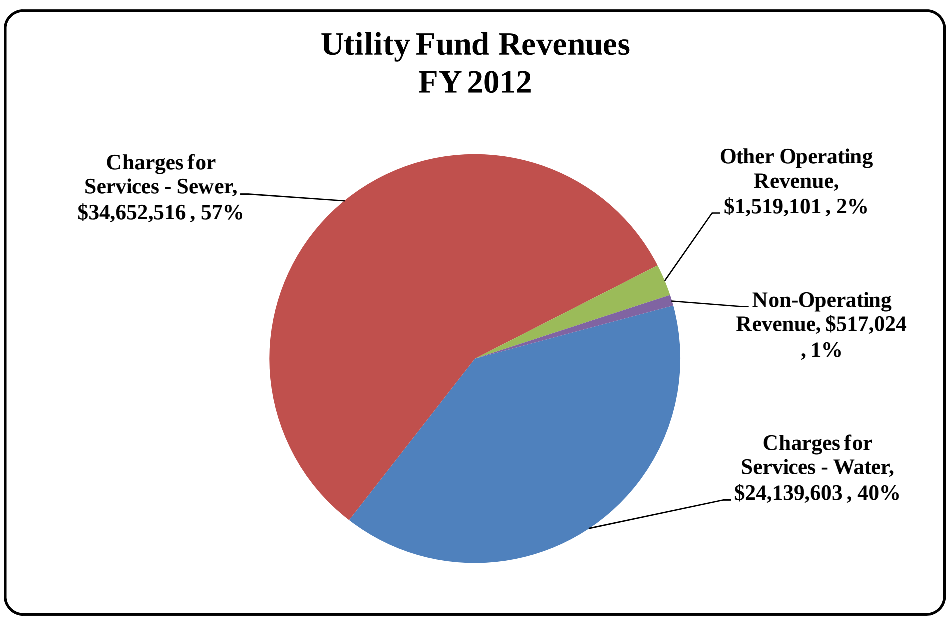


For the Town of Cary, the focus is also on the local issues and the effects of growth on our ability to maintain our revenue streams. One of the major revenue sources included in the "Heavily Influenced by Others" portion shown above is sales tax revenues, and at no time has that been more apparent than 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 are expected to rebound slightly in FY 2011 up to $22.9 million, an increase of 4.6% from FY 2010. Based on economists' estimates and trending data, we expect sales tax revenue activity to continue its slow climb back in FY 2012 with an increase of about 2%. However, 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 will be utilized by the State of North Carolina Department of Revenue as the new 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 $142K or 125%.

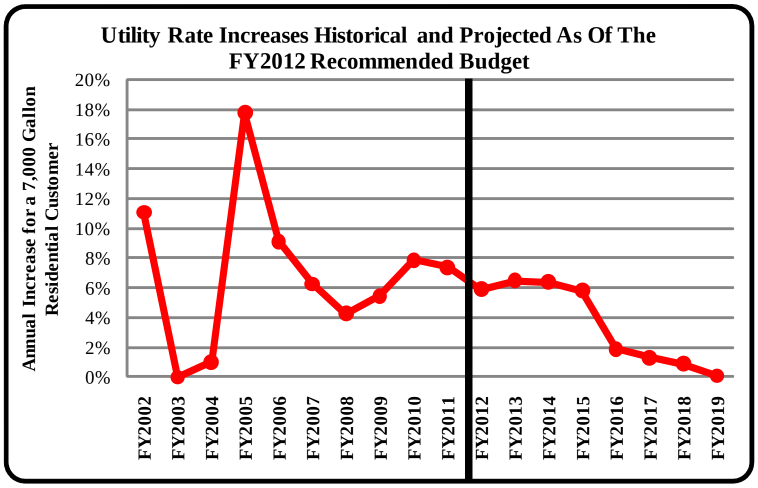
However, the State-prepared population estimates used the prior year in Wake County were actually higher than those reported in the U.S. Census. The Wake County totals used for Cary in the prior year of 146,548 represented 16.42% of Wake as compared to the Census data that reported 133,812 or 14.85%. 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 is expected to drop by $2.4M or 9.4% from previous estimates for FY 2012 as the population share remained the same for Cary. 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 $60.8 million for FY 2012, a decrease of $1.8 million or 2.9%, 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 will be paying slightly higher rates to fund costs of the merger over the anticipated cost recovery period of 15 years.



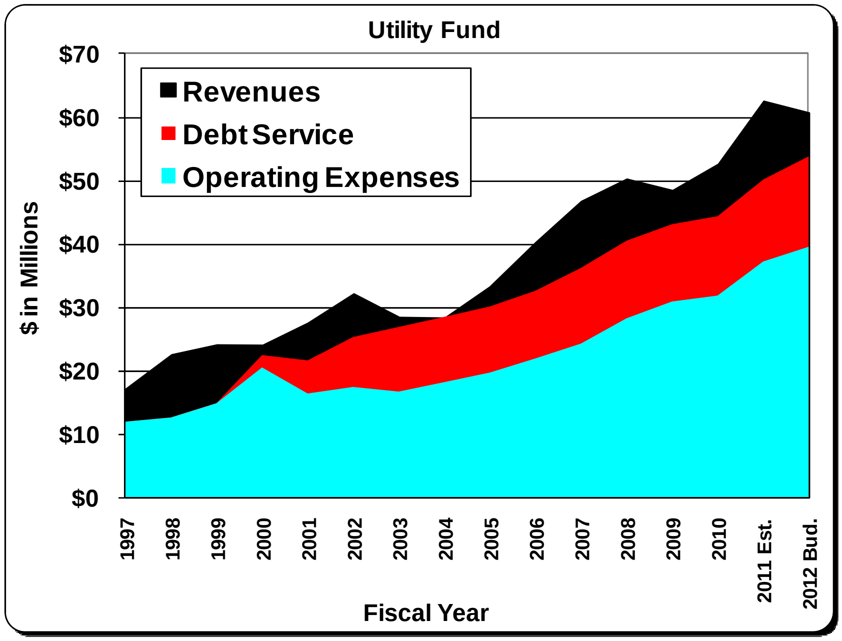
Total revenue from water retail fees is expected to decrease $3.2 million or 12.2% compared to FY 2011 estimates, while total sewer retail revenues are expected to increase $1.7 million or 5.2%. A residential customer using an average of 7,000 gallons per month is expected to experience a blended rate increase of $4.83 or 5.9% per month in FY 2012. 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 $3.36 or 5.8% per month in FY 2012. 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 2015. 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 2014 and 2015 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 2012 recommended budget appropriates $21,649 of the FY 2011 $1 million to the open space project for pay-as-you-go funding, while the remaining $978,351 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 increase with approximately $69.6 million anticipated at the end of FY 2012. As upcoming utility capital project related borrowings become necessary, this utility fund fund balance will be evaluated as a funding source to help offset future debt service costs. Utility 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 $5.3 million or about 9%. This contribution is being generated mostly by continuing the rate smoothing approach and the marginally higher utility rates in Morrisville per the merger agreement.



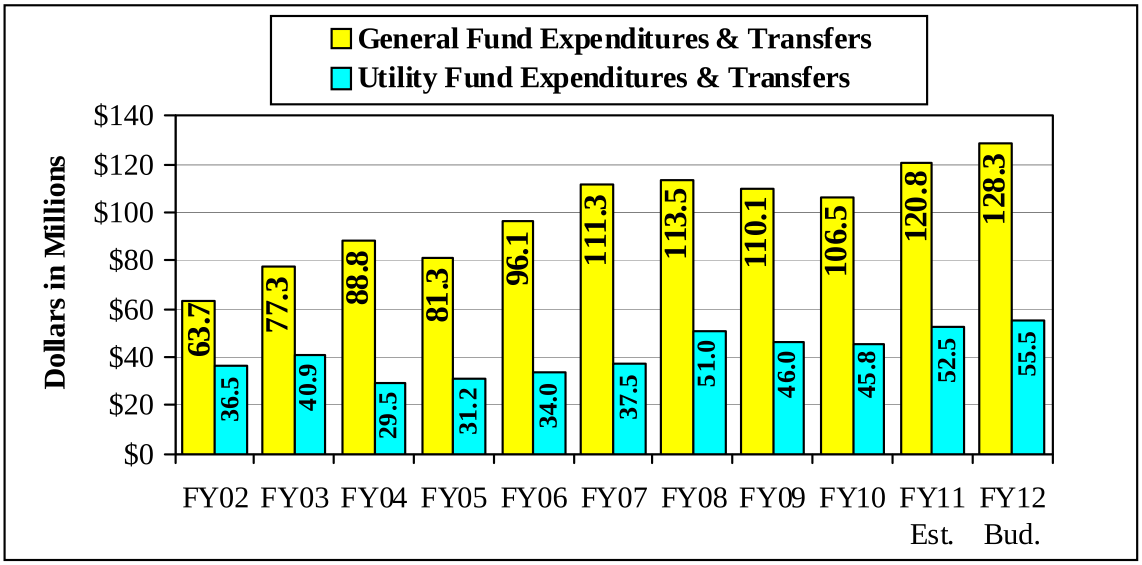
REVIEW OF EXPENDITURES

General Fund and Utility Fund Total Expenditures Summary

General fund expenditures and inter-fund transfers total $128.3 million for FY 2012. Included in this amount is $10.3 million in support of capital project transfers with $1 million of that for the annual contribution to the Town's sanitation and recycling truck replacement program. General capital related debt service is budgeted at $14 million in FY 2012, reflecting an increase of $2.1 million or 18% compared to FY 2011. 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 $700K in interest expense in FY 2011. The related first full year of principal payments on this debt are due in FY 2012. With no additional debt planned for issue in the remainder of FY 2011 or FY 2012, debt service in the general fund is expected to drop by $360K in FY 2013.

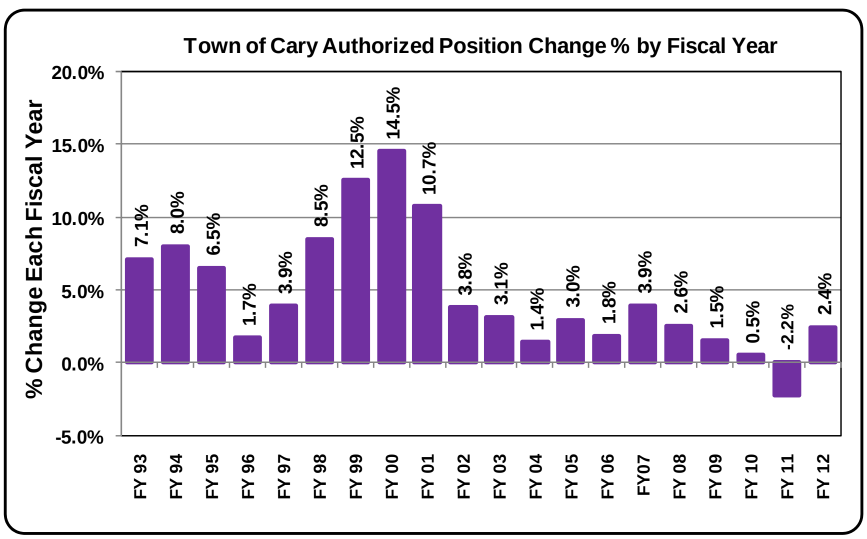
In the fall of 2009, Town Council directed staff to conduct a thorough review of all active capital projects. At the conclusion of the review, Council decided to delay 19 projects (with future debt needs of $63.8 million) and to postpone another 39 projects while reallocating the cash sources to eliminate the need for debt funding in those projects selected to continue. Compared to previous planned debt sales, these actions to help manage debt service expenditure growth reduced the debt service need in FY 2012 by $2.7 million. Utility fund expenses and transfers total $55.5 million including the $978K transfer to the general fund for open space debt service and the $21,649 directed to the open space project. This total also includes $14.2 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.



Based on the trends we have seen over the last couple of years regarding the economy and the relatively slow pace at which we expect recovery to occur, I recommended, and Council approved with last year's 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. Over the past three years, as vacancies have occurred in various areas, we have been holding them open to help manage affordability knowing that the recession's impacts were going to impact our workload, especially in new development related areas such as some groups within planning, engineering, and inspections and permits. 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, 27.75 new positions are being recommended with the FY 2012 budget. The following 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.

The following list provides a summary of the supporting information for each program area that follows in the next few pages:

15 Firefighters to staff new Fire Station #8 who are expected to be hired in March 2012
8 Overhire positions in the Police Department (six police officers and two 911 Telecommunicators) This authority allows the Police Department, as an example, to continue interviewing 5 qualified candidates if they only currently have 4 openings. Due to the length of the hiring and background checks associated with these types of positions, typically a new vacancy occurs by the time the 5th person is trained and available for work. The funding for the 5th position actually comes from the savings accumulated from when 4 of the funded positions were vacant, so there is no related increase to salary budgets, therefore, a one page summary has not been included below for these positions);
2 Police Officers related to the Crime Free Neighborhoods initiative (Project PHOENIX)
1 Business Analyst in the Technology Services Department
1 Skate Teaching professional at the Town's Skate Park to be converted from temporary to permanent
0.75 Part-time Tennis Professional III at the Cary Tennis Park
27.75 Total Additional Staffing Authority Recommended in FY 2012

Fifteen Positions to Staff Fire Station #8

Town of Cary Fiscal Year 2012 Manager's Recommended Budget

Recommendation: Fifteen Firefighter positions and funding of $351,646 to staff Fire Station #8. These positions are currently expected to be hired in March 2012. The actual hire date will be managed to coincide with the construction schedule of Station #8 which is currently expected to be completed in the summer of 2012.

Appropriation Summary: **<u>$351,646</u>** is recommended for these positions in FY2012. It will be funded by General Fund revenues and costs will be budgeted within the Fire Department.

Cost Summary	FY 2012	Ongoing Annual Estimate	Description
Personnel	253,681	761,043	Base pay and benefits (Grade 19; non-exempt; normal hiring annual salary range $34,736 - $53,830)
Operating & Maintenance	97,965	175,000	Uniforms, supplies, utilities, fuel, etc.
Total	351,646	936,043	

Background: 15 entry level Firefighters will be hired in March 2012. However the ultimate position titles will be: 3 Captains, 3 Engineer Drivers, 3 Master Firefighters and 6 Firefighters. This station opening will create opportunities for these and existing firefighters to compete for the respective new position levels at Fire Station #8. Staff will either be promoted or transferred to Station #8 upon its completion which is expected to take place in the summer of 2012.

Two Crime Free Neighborhood (Project PHOENIX) Officers

Town of Cary Fiscal Year 2012 Manager's Recommended Budget

Recommendation: Two Police Officer I positions to work with the one Lieutenant and two Police Officer I positions approved in the FY2011 Adopted budget as part of Project PHOENIX to help our community focus more specifically on improving the quality of life in non-owner occupied residential dwellings.

Appropriation Summary: **$176,944** is recommended for these positions in FY2012. They will be funded by General Fund revenues and costs will be budgeted within the Police Department within the following categories:

Cost Summary	FY2012	Ongoing Annual Estimate	Description
Personnel	114,578	114,578	Base pay and benefits for two PO I's (start date 7/1/11)
Operating & Maintenance	62,366	17,916	Includes vehicle setup, gun, taser, camera, and ongoing supplies and vehicle maintenance
Capital Outlay	-	-	
Total	176,944	132,494	

Background: The Town of Cary believes that community safety is directly tied to how involved citizens are with helping keep it safe. Project PHOENIX is designed to help residents, owners, and rental property managers keep drugs and other illegal activity off their property.

This initiative brings Cary police and apartment managers together to share information, review crime trends, and develop strategies for solving problems and reducing the fear of crime in and near multi-family housing developments. Team officers will partner with residents and management staff to become involved in community affairs and tailor services to the unique characteristics and needs of the participating properties.

The Project PHOENIX Team is currently made up of one lieutenant and two officers. The lieutenant began September 1, 2010 and the first two officers started on or about January 1, 2011. Staff recommends adding two additional officers as part of the FY2012 budget to join the program on or about July 1, 2011.

The participating communities are: Ashton Woods, The Apartments at the Arboretum, Boundary Village, Carybrook , Cary Pines, Chancery Village, Chatham Forest, Crescent Arbors, The Grove at Cary Park, Sedgebrook, The Stratford Apartments, Tradition at Stonewater, Woodcreek.

One Business Analyst in Technology Services

Town of Cary Fiscal Year 2012 Manager's Recommended Budget

Recommendation: One Business Analyst position and funding of $82,495 to help with higher volume workload due to the addition of large applications and to be the appointed staff member to help departments learn and better utilize SAS software applications.

Appropriation Summary: **<u>$82,495</u>** is recommended for this position in FY2012. It will be funded by General Fund revenues and costs will be budgeted within the Technology Services Department.

Cost Summary	FY 2012	Ongoing Annual Estimate	Description
Personnel	74,405	89,610	Base pay and benefits (Grade 30; exempt; normal hiring annual salary range $59,405 - $98,009)
Operating & Maintenance	8,090	-	Workstation and Computer with Software
Capital Outlay	-		
Total	82,495	89,610	

Background: The Town of Cary has added additional software applications including the new Computer Aided Dispatch, Police Records Management and Fire Management databases. Staff believes that a comprehensive review of these software programs would achieve efficiencies in data analysis through coordination of data sources. This position would also spend time in other departments helping staff determine how existing technology may be utilized to create further efficiencies.

This position would also assist departments in learning how to use SAS software more effectively, assess performance history and more accurately predict future growth and service need trends. In addition, the calls for service for the three existing Business Analysts have increased thirty two percent since fiscal year 2006 without any additional staff in this area. Not only has work load increased by nearly one third, but software applications have become more complex and several new programs have been added. These factors have significantly increased project management requirements for existing staff. For example, calls for service associated with this type of position have increased from 2,970 in FY2006 to 3,900 in FY2010.

Part-Time Tennis Professional III at Cary Tennis Park
Town of Cary Fiscal Year 2012 Manager's Recommended Budget

Recommendation: One Tennis Professional III position and net incremental revenue of $16,180 to create an additional part-time (3/4 time) position to teach and administratively support QuickStart (QST) and Junior Team Tennis (JTT) programs.

Appropriation Summary: **<u>$64,235</u>** is recommended for this position in FY2012. The costs for this position will be funded completely by new incremental tennis lesson revenue estimated at $65,615 and grant revenue of $14,800 that will be included and reflected in the Cary Tennis Park revenue portion of the General Fund.

Cost Summary	FY 2012	Ongoing Annual Estimate	Description
Personnel	26,727	26,727	Base pay and benefits (Part-time; non-exempt; this position is not graded)
Personnel	36,233	36,233	Additional compensation from lessons and commission
Operating & Maintenance	1,275	-	Computer with Software
Operating Cost Subtotal	64,235	62,960	
Revenue (lessons and grant)	(80,415)	(80,415)	
Net Funding Impact of Position	(16,180)	(17,455)	

Background: In recent years the United States Tennis Association (USTA) has introduced the QuickStart play format to make the game of tennis more accessible to youth across the country. As in other sports such as football, basketball, soccer and baseball, the equipment, field, goals, etc. are modified to fit the age of the participant. QuickStart is a play format for youth under the age of ten. Junior Team Tennis is a team tennis league for youth ages 5 to 18. QuickStart and Junior Team Tennis programs have grown in participation and revenues in recent years. In addition, as court space at the Cary Tennis Park has become limited and to meet the continued public demand, staff has begun to schedule these programs at selected Town satellite tennis courts. Using the satellite courts at selected times for these programs helps relieve the demand for court availability at the Cary Tennis Park and provides these program areas the opportunity to grow in the future. This is a revenue producing position with $80,415 in revenue budgeted as part of the FY 2012 budget.

Skate Instructor at the Sk8-Cary Park

Town of Cary Fiscal Year 2012 Manager's Recommended Budget

Recommendation: One Skate Instructor position and a net incremental funding of $3,032 to convert a temporary position to a permanent full-time position to improve the continuity between program areas, improve customer service and increase program revenue.

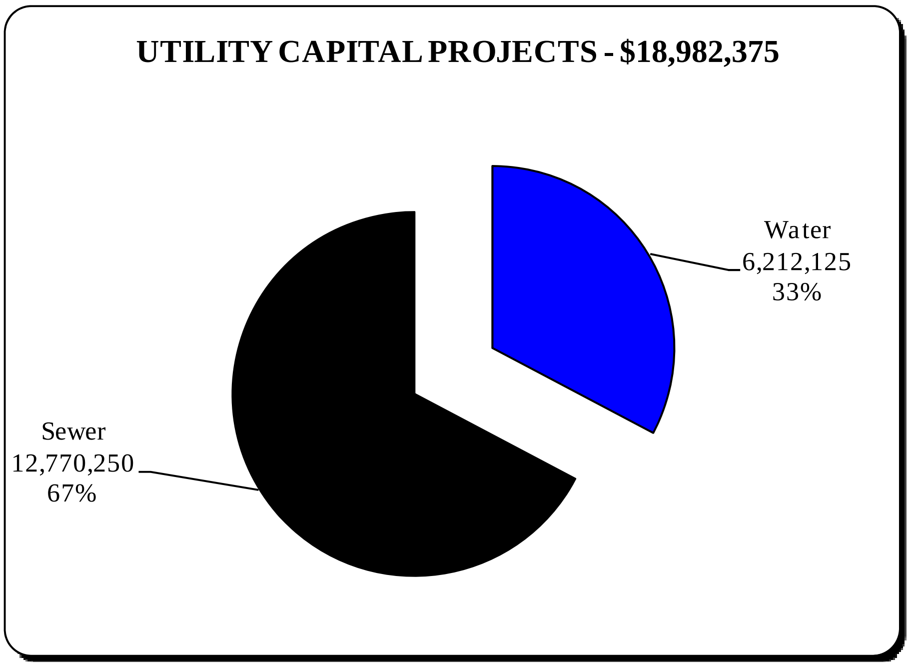
Appropriation Summary: **$13,532** is recommended for this position in FY2012. The majority of the cost for this position will be funded by new incremental skate program membership and pro shop revenue estimated to $10,500 that will be included and reflected in the Skate Park revenue portion of the General Fund.

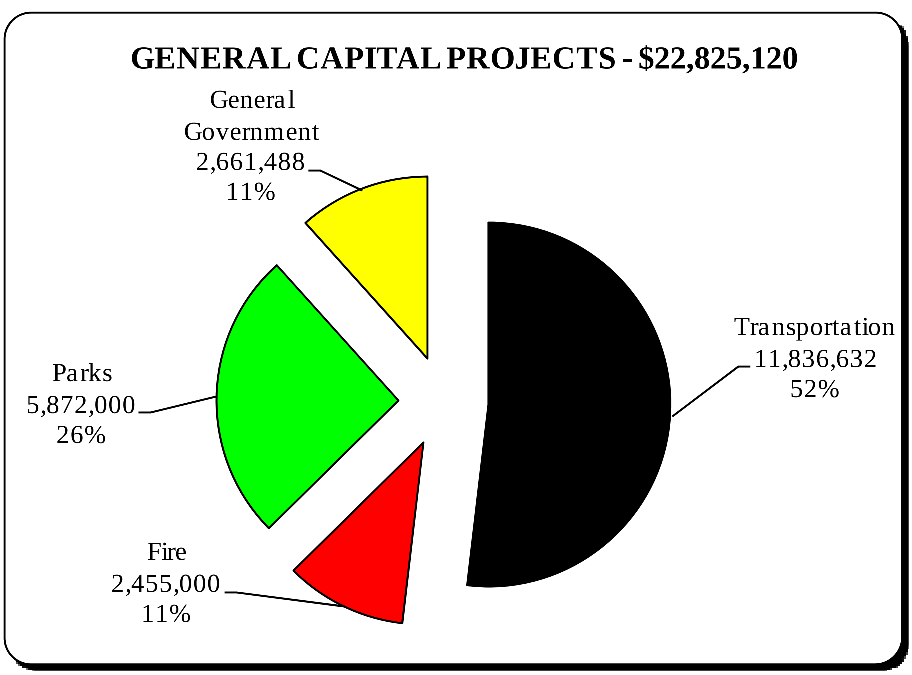
Cost Summary	**FY 2012**	**Ongoing Annual Estimate**	**Description**
Personnel	27,695	27,695	Base pay and benefits; (Full-time; non-exempt; this position is not graded)
Personnel	14,924	14,924	Additional compensation from lessons and commission
Temporary Salary Savings	(29,087)	(29,087)	Reduction of temporary postions
Operating Cost Subtotal	13,532	13,532	
Revenue	(10,500)	(10,500)	Additional program, membership and pro shop fees
Net Funding Impact of Position	3,032	3,032	

Background: The Skate Park has been employing skate instructors in a part-time capacity to teach summer camps, track out camps, private lessons and other instructional classes. While this model has been somewhat successful the staff turnover has limited the capacity to maximize program revenue. Having consistent instructors has proven to increase private lessons. For example, in the months of April thru August 2009, there were two consistent instructors on staff. These instructors completed 163 private lessons compared to 60 for all of FY 2009. Ensuring that a consistent instructor is on staff can improve the continuity between program areas, improve customer service, and increase program revenue. Private lessons can lead to increased participation in camps, group programs, and classes. Staff believes going to this model can significantly improve overall Skate program experience for citizens and customers which will also help improve revenues.

CAPITAL IMPROVEMENTS BUDGET

For the eleventh 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) and general government (gen'l gov't) projects. Total recommended appropriations for water and sewer projects in FY 2012 are $19 million. General capital project recommended appropriations are $22.8 million yielding a total FY 2012 CIB of $41.8 million.





The $41,807,495 recommended Fiscal Year 2012 capital improvements project appropriation represents a 76% decrease from the FY 2011 adopted CIB. This decrease is primarily attributed to the fact that the FY 2011capital improvements budget included $127.7 million in funding for design and construction of the state mandated Western Wake Regional Wastewater Management Facility (WWRWMF), while the FY 2012 CIB includes only $135,000 for project management. FY 2011 represented the last year of significant funding need for this project. With an estimated total cost of $330.4 million, the WWRWMF was initiated by the towns of Cary, Apex, Holly Springs and Morrisville to meet state mandates and address the waste water treatment capacity needs of these partner municipalities. The Town of Holly Springs has indicated that they will be leaving the project. The project partners' fiscal obligations to the project will be re-evaluated and adjusted accordingly.

The FY 2012 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 $29M or 69% of the FY 2012 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
- relocation of Fire Station #2
- 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
- video surveying and cleaning of the Town's sewer system
- inspection and rehabilitation of existing force mains
- maintenance of two water tanks
- replacement of equipment at the South Cary Water Reclamation Facility
- construction of new force mains parallel to existing critical mains
- water main condition assessments

A specific priority in FY 2012 is to continue funding for infrastructure maintenance projects that have traditionally been funded annually but were not funded in the FY 2010 CIB. Funding for many of these initiatives resumed in FY 2011, and the FY 2012 recommended CIB maintains this priority. Repeatedly delaying maintenance in order to respond to economic pressures is not a viable long-term solution. The Town's infrastructure must receive frequent and comprehensive maintenance in order to help ensure services are provided continuously in an efficient and effective manner.

The Town's FYs 2012 – 2022 recommended capital improvements budget and plan focuses on core infrastructure maintenance, necessary infrastructure improvements and prior commitments and mandates. Projects selected for the FY 2012 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 15% debt service ceiling, no general fund supported general obligation bond debt and no installment purchase (asset backed debt) is recommended for FY 2012. Specific information related to recommended FY 2012 debt appropriations follows.

General Obligation Bond Debt

The FY 2012 recommended capital improvements budget does not appropriate any general obligation bond debt. With limited general fund operating margin available to support new debt service, the Town is restricted in its ability to utilize remaining 2003 general obligation referendum funds.

The following charts provide brief summaries of general obligation bond appropriations to date and indicate funds available for future needs. General obligation bond authority is available for seven years after voter approval. If approved authority is not appropriated by that time, an application may be submitted to the North Carolina Local Government Commission (NCLGC) for a three year extension. The Town's 2003 Transportation and Parks, Recreation and Cultural Resources (PRCR) GO bond authority was set to expire in April 2010. However, in February 2010, the NCLGC approved the Town's request to extend this referendum's appropriation deadline to April 2013.

The 2005 open space and Western Wake Regional Wastewater Management Facility GO bond authority has been fully appropriated in advance of its May 2012 expiration.

2003 General Obligation Bond Debt History

	Total Approved by Voters	Appropriated Through FY 2011	Recommended for Appropriation in FY 2012	Remaining GO Debt Available for Appropriation
Transportation	130,000,000	81,738,674	-	48,261,326
PRCR	30,000,000	22,389,200	-	7,610,800
TOTALS	***160,000,000***	***104,127,874***	**-**	***55,872,126***

2005 General Obligation Bond Debt History

	Total Approved by Voters	Appropriated Through FY 2011	Recommended for Appropriation in FY 2012	Remaining GO Debt Available for Appropriation
WWRWMF*	110,000,000	110,000,000	-	-
PRCR	10,000,000	10,000,000	-	-
TOTALS	***120,000,000***	***120,000,000***	**-**	**-**

*WWRWMF = Western Wake Regional Wastewater Management Facility

Revenue Bonds

The FY 2012 recommended CIB includes $7.6 million in revenue bonds for sewer infrastructure needs. Revenue bond debt is secured by dedicated, non-tax revenue sources. This form of debt is secured 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 $7.6 million in revenue bond debt budgeted in FY 2012 supports the following sewer infrastructure maintenance and improvement projects.

Project Name	**Revenue Bonds**
Northwest Area Reclaimed Water Project - Phase II (Revised)	2,700,000
Sewer System Repair / Rehabilitation - FY 2012	1,294,052
Wastewater Pump Station Improvements	1,100,000
Morrisville Merger - Public Works Barscreen Additions	804,000
Swift Creek Regional Pumping Station Improvements (Existing Equipment Improvements)	500,000
North Cary Water Reclamation Facility Contingency Upgrades	355,000
Back-Up Generator Power for South Cary Water Reclamation Facility Treatment Processes	330,000
Glenridge Pump Station Upgrades	175,000
Wastewater Collection System Odor Control Improvements	175,000
Green Level Church Road Odor Control Improvements	150,000
TOTALS	**$7,583,052**

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

Utility Capital Reserve

The FY 2012 recommended CIB contains a $10.8 million appropriation of cash from utility capital reserve fund balance. Unrestricted fund balance comprises $5.8 million of the total fund balance appropriation, while restricted fund balance provides the remaining $5 million. Total utility capital reserve fund balance at the close of FY 2012 is anticipated to be $26.1 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 2011 have been maximized to continue leveraging currently available resources. The FY 2012 general capital improvements budget includes $10.8 million in appropriations from general capital reserve fund balance. $4 million of this figure is unrestricted, while the remaining $6 million is restricted. General capital reserve fund balance at the close of FY 2012 is expected to be $16.7 million with 62% of these funds restricted to certain types of transportation projects.

3. Guiding Principle: Minimize reliance on FY 2012 capital reserve revenues

Utility

The FY 2012 recommended CIB appropriates a total of $618,000 of FY 2012 revenue in support of utility capital reserve projects. $575,000 of this amount will be received from the Town of Apex in support of the Cary/Apex Water Treatment Plant (C/A WTP) Raw Water Transmission Pipeline project. 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 $43,200 of FY 2012 revenue recommended for appropriation represents reimbursements from the Town of Cary's municipal partners for the Western Wake Regional Wastewater Management Facility. 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

$1.7 million of anticipated FY 2012 general capital reserve fund revenue is programmed for appropriation in the recommended capital improvements budget. $30,000 of this amount is from anticipated reimbursements from the USA Baseball Organization. This organization is supporting a concept plan focusing on development of a new clubhouse at the USA Baseball National Training Facility located at the Town's Thomas Brooks Park. The remaining $1,699,738 is categorized as transportation-restricted Powell Bill funding (a state-collected local revenue).

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

Utility Fund Transfers

The FY 2012 CIB includes a $21,649 transfer from utility fund fund balance in support of 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 $21,649 of this $1,000,000 is available for open space land purchases in FY 2012. The remaining $978,351 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. Once full debt service payments begin, as little as $21,649 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.

General Fund Transfers

$10.3 million in general fund transfers are included in the FY 2012 recommended CIB. These funds support the transportation, fire, parks recreation and cultural resources and general capital projects noted below.

Project Name	General Fund Transfer Amount
Rail and Community Cohesion Impact Study	500,000
TCAP - Downtown Infrastructure Improvements	3,000,000
Subtotal - Transportation	**3,500,000**
Architectural Services, Land Acquisition and Construction - Fire Station #2	1,500,000
Fire Training Equipment	105,000
Subtotal - Fire	**1,605,000**
WakeMed Soccer Park Stadium Improvements	1,939,693
Greenway Resurfacing Projects	516,500
Professional Level Sand Based Athletic Field Renovation	450,000
Subtotal - PRCR	**2,906,193**
Sanitation and Recycling Truck Replacement	1,050,339
Storm Drainage - Town Properties	500,000
Storm Drainage - Private Assistance	400,000
TCAP - Downtown Improvements	220,000
Parking Lot Resurfacing Projects	78,000
Subtotal - General Government	**2,248,339**
TOTAL GENERAL FUND TRANSFERS - FY 2012 RECOMMENDED CIB	**10,259,532**

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 be forced 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 2012 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 who helped in preparing this budget.

Respectfully submitted,

Benjamin T. Shivar
Town Manager

CARY, NORTH CAROLINA

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