BUDGET MESSAGE
FOR FISCAL YEAR 2011

Mayor Weinbrecht and Members of Council:

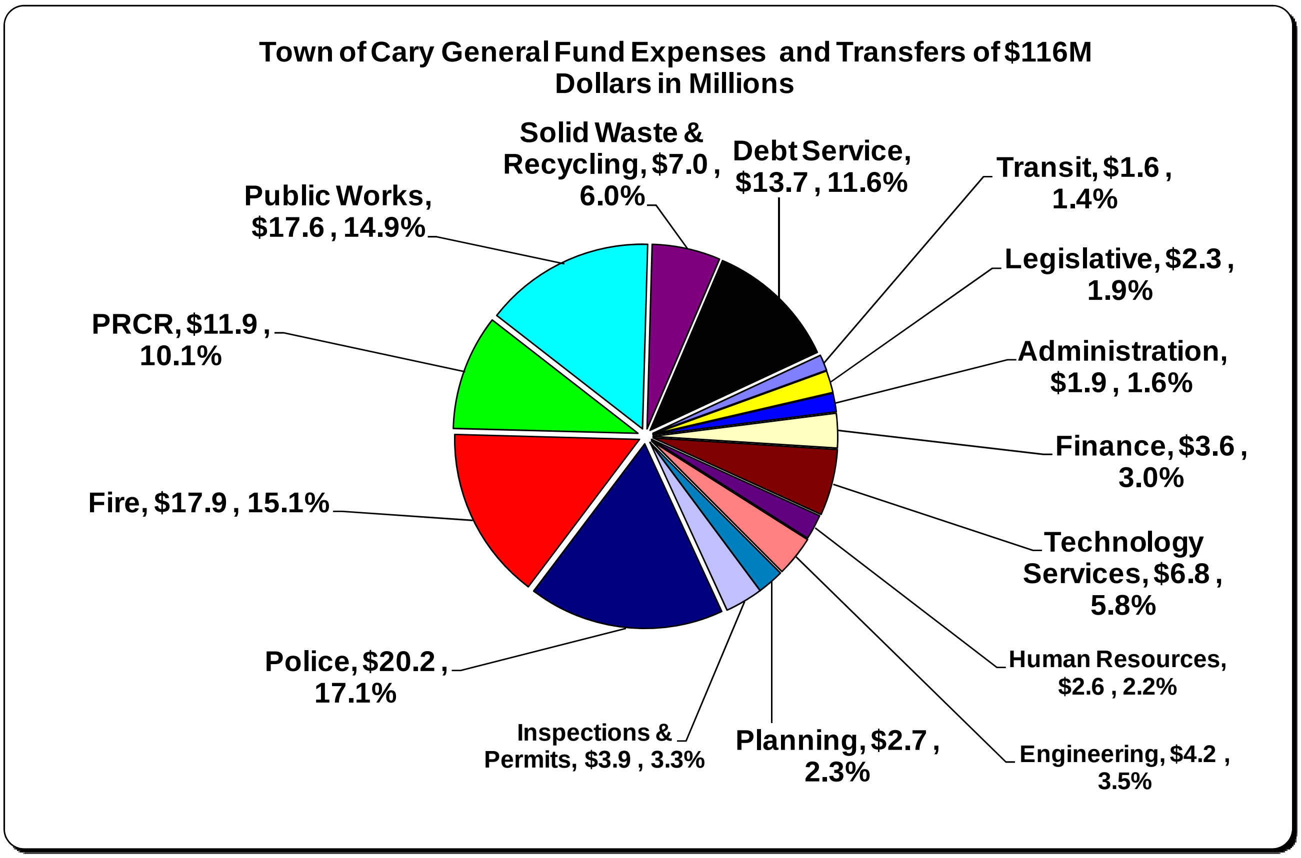
Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the recommended annual budget for fiscal year 2011 for the Town of Cary. The budget is balanced without a tax increase and identifies methods of raising and spending funds for specific programs during the coming 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 2011 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 statement of values and mission statement 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 which have continued to be impacted by the recession.

The pace of the economic recovery will largely determine our flexibility to adjust the service levels we provide every day given our general fund related capital debt financing and operating margin fund balance levels. It is extremely important that we do everything we can to maintain our strong financial position which was confirmed most recently in April, 2010 with Fitch Ratings' confirmation of a 'AAA' rating for the Town's combined system revenue bonds issued in 2001, 2004 and 2007. Highlights of the 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 uses about 4,918 gallons per month, and for them the increase is expected to be $4.03 per month, which is also about 7.4%. For a residential customer averaging 7,000 gallons per month, the increase is expected to be $5.60 per month, still about 7.4%. These rate increases are needed to pay increasing utility costs for capital infrastructure including the state mandated Western Wake Regional Wastewater Reclamation Facility.
New Debt Supported by the General Fund (taxes)	No	For the second 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. As the economy continues to slowly recover, revenue growth will help create capacity for the possibility of additional debt service in the future.
Elimination of Existing Vacant Positions	- 31.25	Since the beginning of FY 2008, vacancies in certain development related positions have been held open as signs of the slowing economy began to hit Cary. Since that time, we have held other positions vacant and remaining personnel have had to manage priorities to absorb the most critical duties. By officially eliminating the authority and funding for 31.25 vacant positions, approximately $1.5 million in budgetary savings will be realized.
New Positions	+ 12	12 new positions are being recommended: 4 to support the Cary Community Arts Center planned to open late in the fiscal year, 3 police to start a Crime Free Neighborhood program, 1 school resource police officer for the new Mills Park Middle School, 1 to support the 911 center computer applications, 1 engineer to focus on new stormwater quality regulations, and 1 tennis program coordinator, and 1 new Downtown Development Manager to help focus on bringing private redevelopment interests to fruition.

Despite the impacts of the recession on the Town's finances and operations that are discussed in detail later, the recommended budget for FY 2011 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. Identified in the chart below is a breakdown of where our $116 million general fund budget is broken down to carry out service provision in fiscal year 2011. This year's overall general fund operating budget represents a net increase of about $3.8 million or 3.4%.



In addition to the public safety and other operational duties covered by the general fund, the FY 2011 recommended budget provides funding for several very important capital preservation oriented projects as well as final funding needed for the state mandated Western Wake Regional Wastewater Management Facility. Some highlights of the capital plan for the coming year are shown in the table below.

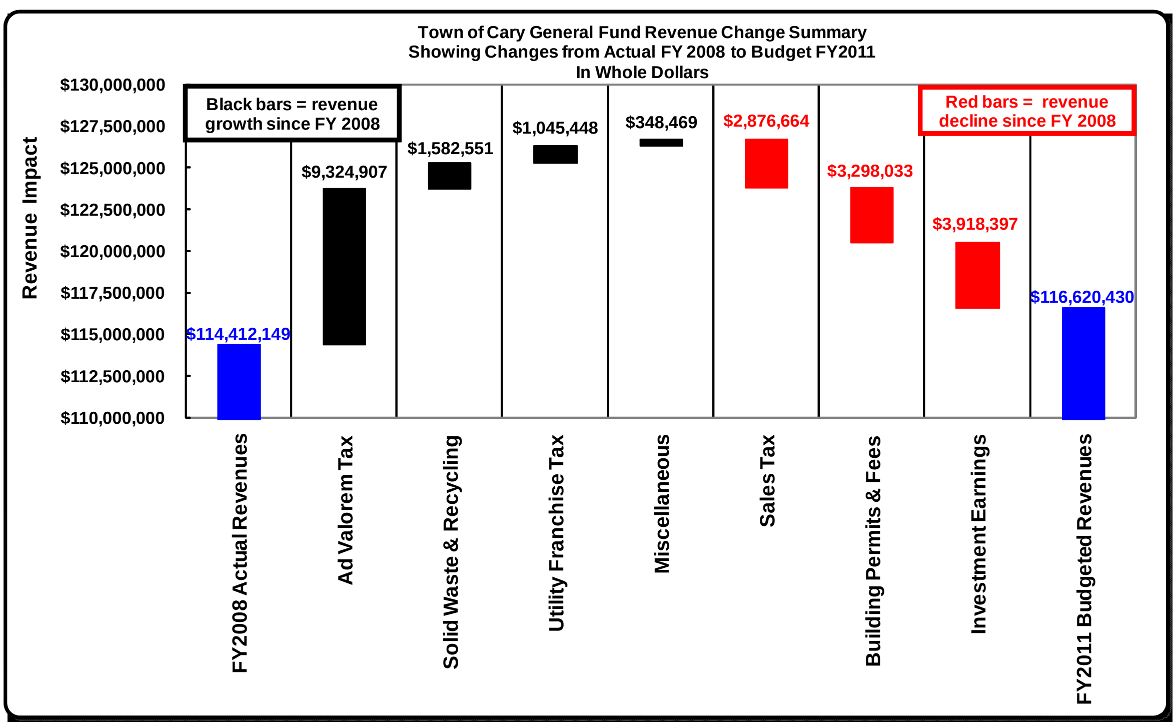
Project Title	**Brief Description**	**Funding**
Fire Station #8	A station at the Mills Park site on Green Level Church Road is necessary to ensure that response time goals continue to be met in the western portion of Town. The station is expected to start construction in FY 2011 and be operational in FY 2012. Funding to date is $4.1M with $833K needed this year to support related infrastructure requirements.	$833K
Fire Truck Replacements	Fully functioning and dependable equipment is critical to ensure prompt and reliable fire and rescue protection service delivery for citizens. This year an aerial ladder truck ($1.12M) and a rescue truck ($840K) are both nearing the end of their anticipated useful life and in need of replacement.	$1.96 million
Park and Greenway Renovation	Annie Jones Greenway, with portions constructed in 1979, is in need of reconstruction ($495K). MacDonald Woods Park has some specific drainage areas that need to be improved to allow full utilization of areas within the park ($185K).	$680K

Project Title	Brief Description	Funding
Western Wake Regional Wastewater Management Facility	This project is necessary for the Town of Cary to meet a mandate issued by the State of North Carolina to return water to the Cape Fear River Basin and address wastewater treatment capacity needs of the Town and its municipal partners (the towns of Apex, Holly Springs and Morrisville). All appropriations, including the $128M needed in FY 2011, total $330.4M. The partner shares generally break down as follows: Cary $198M or 60%, Morrisville $27M or 8%, Apex $89M or 27% and Holly Springs $17M or 5%.	$127.7 million
Water Treatment Plant Expansion Design	This funding supports design efforts for the Phase III expansion of the Cary/Apex water treatment plant from 40 million gallons per day (MGD) to 56 MGD. Approximately $46M has been identified in the FY 2012 capital improvements plan for construction of this facility.	$8.1 million

MAJOR ISSUES IMPACTING THE FY 2011 BUDGET

Recession 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 $6.2 million or 20% lower in FY 2011 than they were in FY 2008, just three years ago. The graph below compares the major revenue changes since FY 2008 compared to those projected as part of the FY 2011 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.



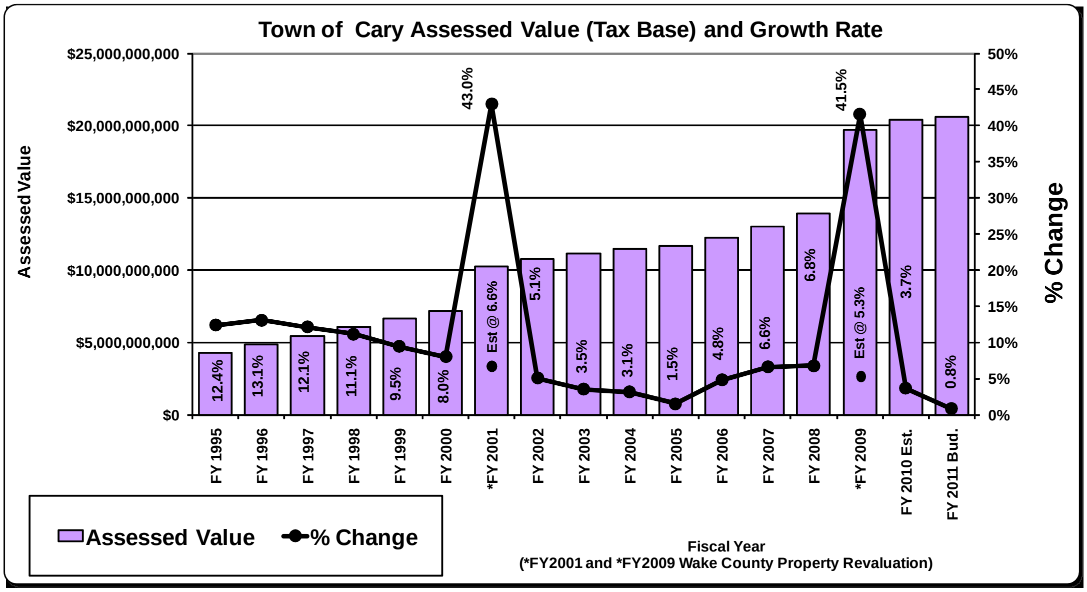
From FY 2008 to FY 2011, general fund revenues are expected to increase by $2.2 million or 1.9%. This small growth rate over three years averages out to about $736K or 0.6% growth per year (during the recession). This is dramatically lower than the average growth amount of $9M or 10% per year for fiscal years 2006 through 2008 (before the recession).

Tax Base Growth

Taxable property in the Town of Cary is comprised of real property (land and buildings), personal property (campers, boats, etc.), public service property (public utilities), and vehicles. In FY 2011, the taxable property is expected to equal $20.6 billion which reflects tax base growth of $167.3 million or about 0.8% over estimated FY 2010 levels. This total includes $299 million for property located within Cary's corporate limits of Chatham County. Chatham County revalues its property every four years instead of every eight years like Wake County. While Wake County revalued its property effective in FY 2009, Chatham County revalued its property 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 98.5% 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 8 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 2011, remaining at 33 cents for the third straight year.

During the early 2000s, the impacts of the poor economy, coupled with 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 74% 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. This is the largest single revenue source for the Town and, at $67 million, comprises 57% of all general fund revenues. The Town of Cary gradually bounced back from its recent low in annual tax base growth of 1.53% in FY 2005 to an estimated growth in tax base of 7% in FY 2009 before dropping again due to the early impacts of the recession to an expected growth level of only 3.7% for FY 2010. Due to the current recession's impact on the development community and the resulting drop in building permits being requested currently, the level of tax base growth for FY 2011 is projected to be only 0.8%.

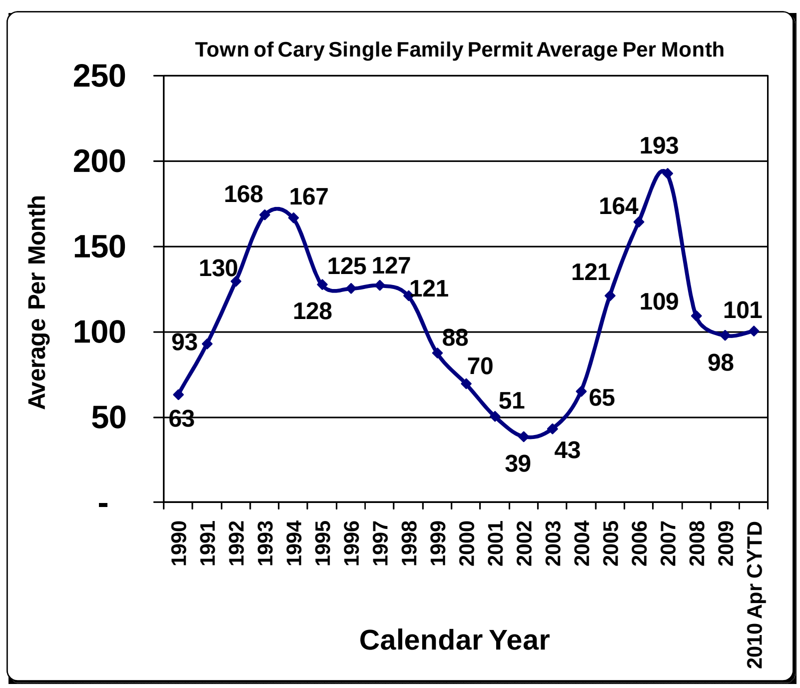
A historical perspective of the Town's assessed value (tax base) growth since FY 1995 is provided in the graph below. The extremely high growth rate in 2001 reflects a property revaluation conducted by Wake County that year. In FY 2001, the tax rate was reduced from 54 cents to 43 cents to maintain a 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.



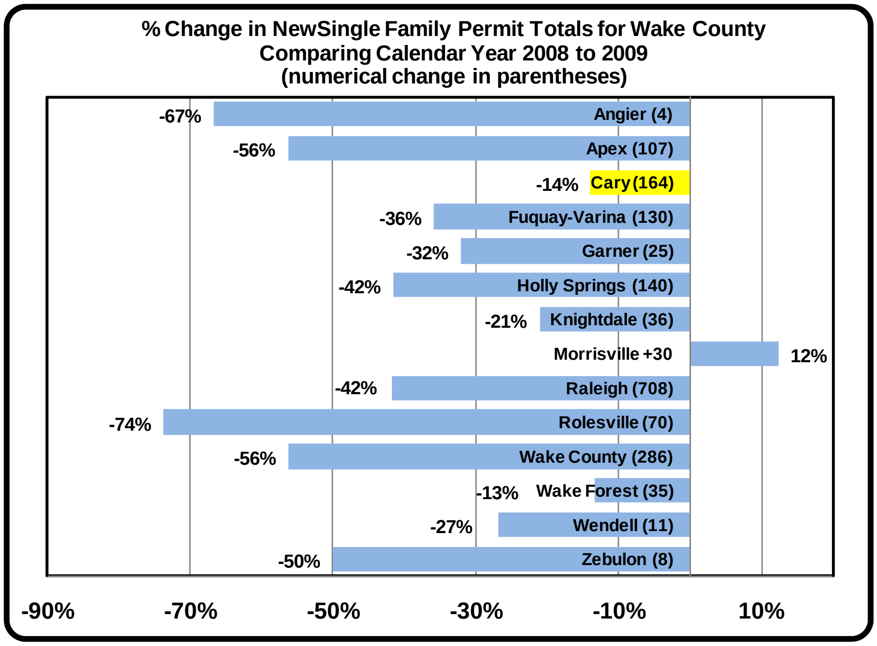
The assessed value on which tax receipts are calculated is based on what has been built by the prior January 1 meaning that FY 2011 revenues are based on tax values “on the ground” as of January 1, 2010. Since Cary’s tax base is much higher than it was in the mid 1990s, it takes more growth each year to have the same percentage increase.

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

Calendar Year	Average Number of New Permits Per Month	% Change
1990	63	
1991	93	47%
1992	130	39%
1993	168	30%
1994	167	-1%
1995	128	-23%
1996	125	-2%
1997	127	1%
1998	121	-5%
1999	88	-28%
2000	70	-20%
2001	51	-27%
2002	39	-24%
2003	43	12%
2004	65	51%
2005	121	86%
2006	164	36%
2007	193	17%
2008	109	-43%
2009	98	-10%
2010 Apr CYTD	101	3%



The Town of Cary is not without declines in single family permit activity in 2009. The graph below of all jurisdictions in Wake County is based on calendar year 2008 compared to 2009 single family permit levels. 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.

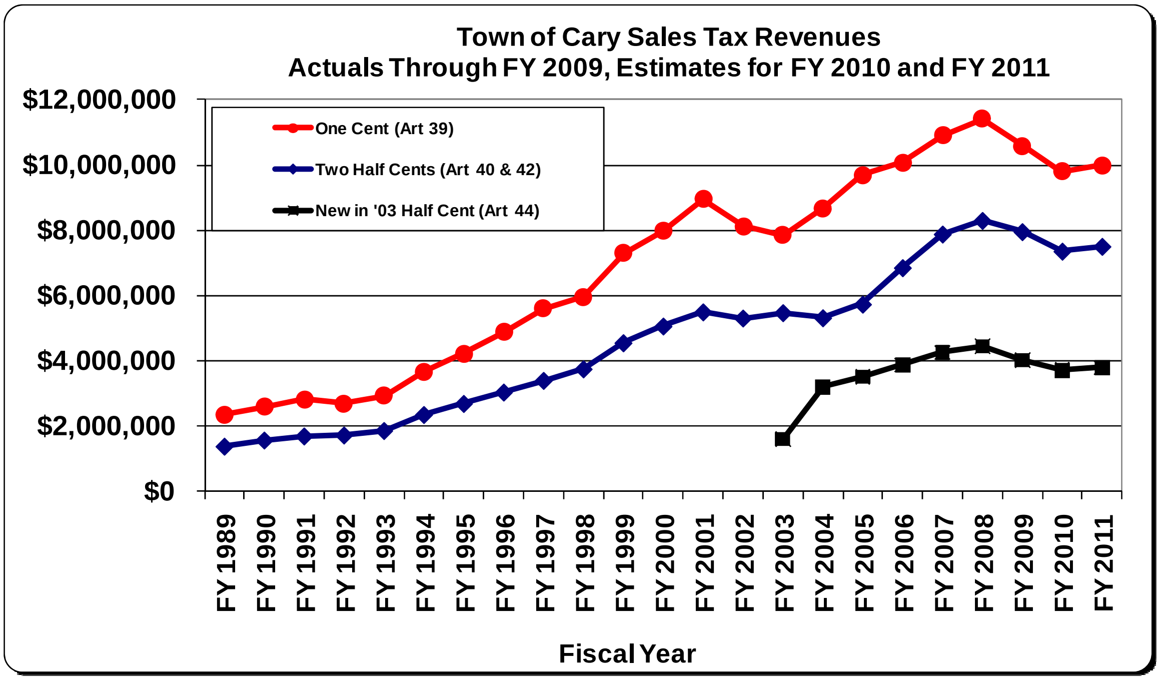


The average change across all Wake County jurisdictions from calendar 2008 to 2009 as shown in this chart was a drop of 37% versus the average drop of 48% from 2007 to 2008.

Sales Taxes

Projected sales tax revenues totaling $21.3 million in FY 2011 make up 18.3% 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 has shown signs as well. The recessionary impacts are expected to continue through FY 2010 with slight improvement expected in FY 2011 as the economy begins to slowly recover. Historical revenue levels are depicted in the graph below indicating a total decline across all three sales tax sources of $1.6 million or 6.6% in FY 2009 and another drop of $1.7 million or 7.5% estimated in FY 2010. Moderate growth of $426K or 2% is anticipated in FY 2011 generating approximately $21.3 million, which is still $2.9 million or 12% 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 $12 million or 36% higher than the $21.3 million being budgeted for FY 2011. In the FY 2011 budget, one penny on the tax rate is equal to $2M, so the property tax equivalent loss in sales tax revenue with typical growth is equal to 6 cents on the tax rate.

The graph below depicts the historical amount of sales tax revenues and includes 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. Sales taxes are distributed within Wake and Chatham Counties on a per capita basis.



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 2011 are expected to be about $4.2 million which is $15.7 million or 79% 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 $843K in FY 2011. For comparison purposes, each penny on the tax rate in FY 2011 is expected to generate $2 million in revenue, so the Town's much weaker investment earnings in the general fund are expected to generate less than half of one penny's worth of tax revenue. This is in stark contrast to general fund investment earning levels in FY 2005 when investment earnings of $5M equaled the value of just over 4 cents on the tax rate at the time.

Debt Service

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 maximize the level of general fund operating margin (the difference between revenues and operating expenditures that is 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 economy driving revenue growth lower, the operating margin before debt service anticipated for FY 2011 is only expected to be 13.7%. Over this same time period, the level of debt service being paid by the general fund has risen from $1.7 million in FY 2002 to $13.7 million in FY 2011.

Heading into development of the FY 2010 budget last year, it was clear that the recession was impacting the Town's revenue growth 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. 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. With 194 active general capital (transportation, fire, parks, general government) related projects, the task required a great deal of staff time and resources to bring Council a comprehensive prioritized strategy to reduce or eliminate debt. Ultimately, Council approved staff's recommendations resulting in the delay of 19 capital projects including $63.8 million of debt funding sources. Exactly when these projects are determined to 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 2011 budget. These changes resulted in lowering debt service in the general fund for FY 2011 by $2.6 million, or 19%, compared to what would have been required if the projects had proceeded as planned when the economy was stronger.

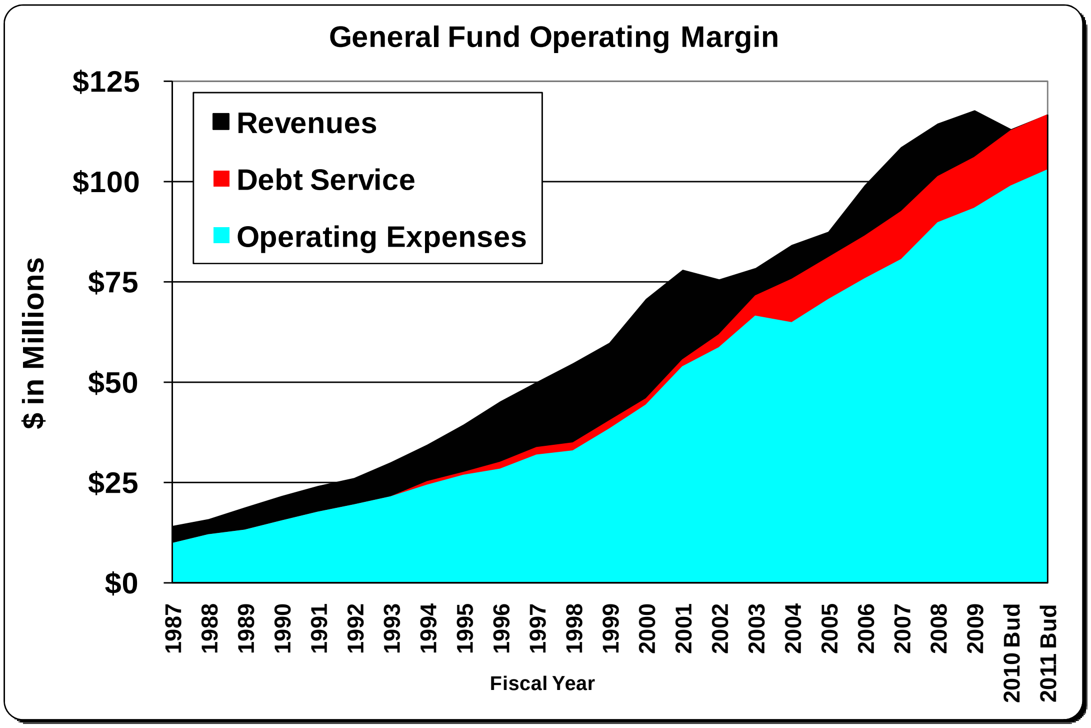
In addition to the 19 projects delayed, another 39 active capital projects were postponed indefinitely. To allow other projects to continue without adding debt burden, the postponed projects were closed and available cash balances along with capital reserves totaling about $24 million were reallocated to replace previously planned debt. Those projects selected for closure may return for future consideration 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 continued general capital investment without raising the level of operating margin to afford additional 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.

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 zero, with all anticipated resources being utilized for operating costs and debt service. With conservative budgeting practices such as assuming a variable interest rate of 3.25% for the year, we anticipate to accumulate operating margin through the year which is monitored very closely. For example, in FY 2010, we currently expect operating margin in the general fund to be approximately $4 million versus the adopted FY 2010 budget that reflected operating margin of $252K.



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 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.

The general obligation bond referendum authority being recommended for appropriation in FY 2011 includes the last $5.4 million for the Western Wake Regional Wastewater Management Facility. No other general obligation debt is recommended for appropriation in FY 2011. The current appropriation authority remaining from each of the Town's general obligation bond referendums after subtracting the authority being allotted to projects in FY 2011 is as follows:

- 2003 $130 million transportation bond: $46.9 million remaining
- 2003 $30 million park bond: $7.6 million remaining
- 2005 $110 million WWRWMF bond: None remaining; the final $5.4 million is being recommended in FY 2011

Debt Affordability

With $160 million in approved debt authority for streets and parks, there is an increased focus on long term capital priorities and affordability of the respective debt service payments. The cost of borrowed money 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.

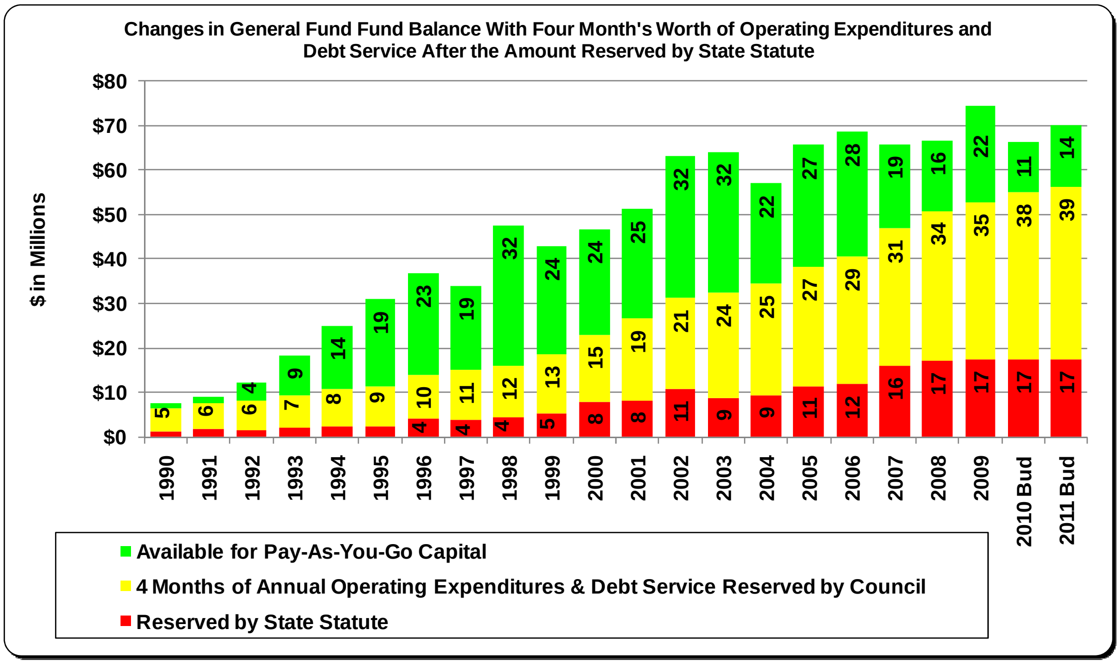
Debt service related to the 1999 bond authority for streets and parks, costs related to the widening of North Carolina Highway 55, an expansion of Town Hall and the debt issued from the 2003 street and park bonds have combined to increase debt related costs in the general fund to $13.7 million in FY 2011. If all of the projects with debt funding sources being delayed were to move forward, debt service could grow another $6 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 recent economic slowdown that 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 in 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. Since FY 2003, the size of a six month reserve has grown by $22 million from $36 million to an expected $58 million with the FY 2011 recommended budget.

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 $14 million available for capital by the end of FY 2011. 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 going to market in May, 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 experience for at least the next two years due to the current recession.

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 $14.00 per month and it is recommended that the solid waste fee remain unchanged in FY 2011 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 90% in FY 2011. 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 $482,000 in FY 2011).

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 2011 budget, each one cent on the tax rate is expected to yield about $2 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 11 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 $22 million in revenue. Due to the decisions made by Council last fall to reallocate cash sources from capital projects and to delay others (see "Debt Service" section above), general fund debt service is expected to remain about the same as last year at $13.7 million. To the degree that new debt sales are not required in the future, operating margin will be created as debt is paid down over time. The current rate of paydown generates lower debt service payments in a normal debt amortization year of about $600K 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 in the FY 2011 budget 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 2011 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 2011 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 90%
- delayed $47 million debt sale for already appropriated street and park projects beyond FY 2006; approved 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 (expected to generate about $150,000 annually)
- continuing the conversion to voice over internet protocol (VOIP) phone system begun in FY 2008; will save at least $171,000 annually upon full and complete implementation in FY 2011, 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 2011 by about $2.6 million compared to what it have been had the debt been sold as planned during a stronger economic environment.

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, cable television 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 facilities, strong financial support of Wake County school related responsibilities, 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 has averaged about $20 million per year since FY 2003 and is expected to be $13.7 million in FY 2011. However, over that same time period, debt service has grown from $5 million to $13.7 million. In order to continue supporting the level of services enjoyed by our community today and maintain the excellent financial condition of the Town, we will need some combination of an economic recovery, increased revenues through fees or taxes, or decreased expenditures in the future.

Town staff 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 several 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
- Discontinued residential plan review program
- Did not fill Recycling Coordinator vacant position (reassigned majority of duties and increased a 30 hour position to 40 hours to handle the remaining workload)
- 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
- 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 (two to new ninth grade centers, one to patrol and one to investigations)
- Adjusted classification and pay study approach so as not to have associated automatic increases with grade changes
- Required a 10% reduction across the board in training and travel expenses for FY 2006 after holding amounts flat for the previous two years
- Required a 3% reduction across the board in non utility operating and maintenance expenses for FY 2006

In addition to these activities, the current economic recession has required some additional measures to help the Town brace for anticipated drops 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) were studied, the task required a great deal of staff time and resources to bring Council a comprehensive prioritized strategy to reduce or eliminate debt. Ultimately, Council approved staff's recommendations resulting in the delay of 19 general capital projects including $63.8 million of debt funding sources. Exactly when these projects are determined to move forward within existing revenue sources, will be determined by the pace of the economic recovery. None of the capital projects delayed by Council are being recommended to resume with the FY 2011 budget. 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.
- Positions that were vacant and held open in FY 2009 were available for reconsideration through our budget development process. As a result, only one of those positions has been recommended to be filled. The net result in the FY 2011 budget is that 31.25 positions are being recommended for elimination 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 2011 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 of the Town. The Town's financial condition continues to be above average, providing adequate liquidity even in a struggling 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 that go to market in May, 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 revenue growth has continued, a slowdown in the growth rate has been experienced compared with that of the 1990s, with a slight resurgence from a recent low in tax base growth of 1.5% in FY 2005 to a projected 7% for FY 2009 back down to about 3.7% anticipated in FY 2010 and 0.8% in FY 2011. 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 has 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 are evident with the resulting increases in 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 in the future will be minimal. These changes will affect future operating budgets when considering additional debt service.

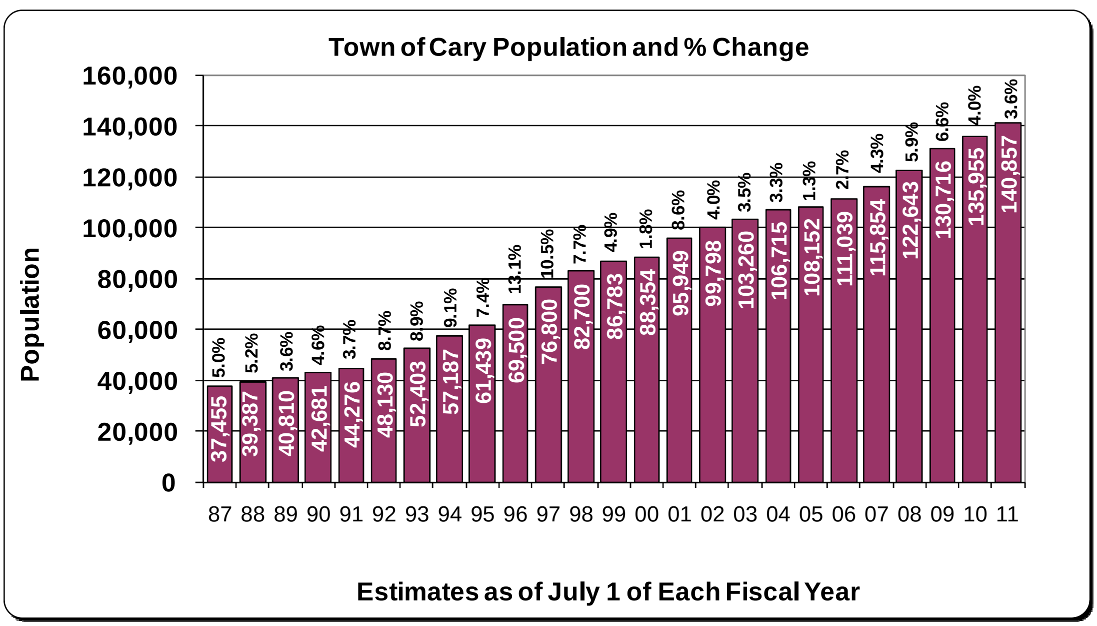
Acquiring additional debt without existing margin will require some combination of tax increases, additional revenue sources, and/or expenditure reductions to create the amount of margin necessary to service the debt load pending in the next few years (see "Debt Affordability" section above).

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 the Town's 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 is expected to reach about 140,857 people as of July 1, 2010, which reflects a growth rate of about 3.6%, significantly lower than the double-digit growth experienced during much of the 1990s (11.5% 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. Council's target is to have a 3% to 4% rolling five year average population growth, and that reflected in the historical graph below is 4.9 % from July 1 of FY 2007 through projected population as of July 1 of FY 2011. 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 population growth rate over at least the next couple of years will be significantly lower.

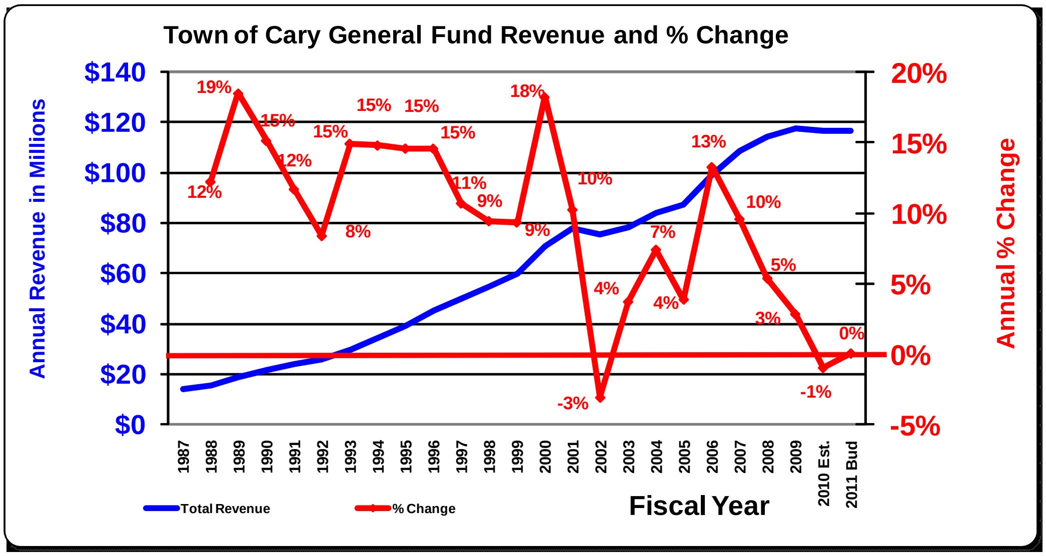


From a historical perspective, most of the Town of Cary's population growth has occurred in just the last thirty years having grown from a population of 21,763 in 1980 as seen in the table below reflecting historical decennial data and an estimate for 2010. This chart demonstrates just how much the average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

Town of Cary Decennial Census				
Year	Population	Increase	% Increase	Average Increase Per Year
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 Est.	*140,857*	*46,321*	*49%*	*4.9%*

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 tax, wine and beer tax, inventory reimbursement tax, cable TV franchise fees, and recycled goods.

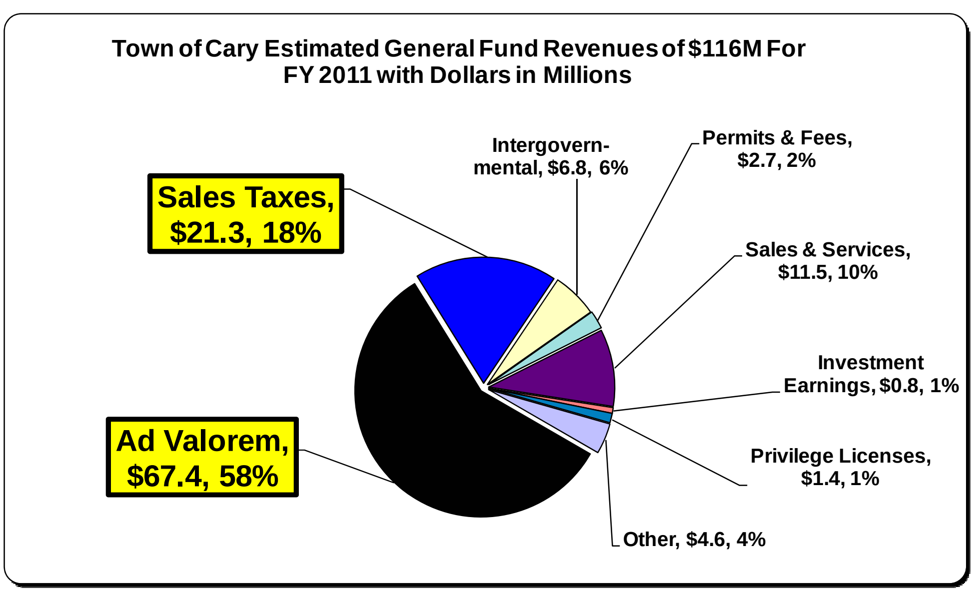
The general fund revenues for Fiscal Year 2011 are expected to total $116.6 million which is about the same as estimated revenue totals for Fiscal Year 2010. The chart below shows the level of general fund revenues (**blue line**) and the resulting rate of change (**red line**) in each year since FY 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 FY 2002 and that seen in FYs 2009 and 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.



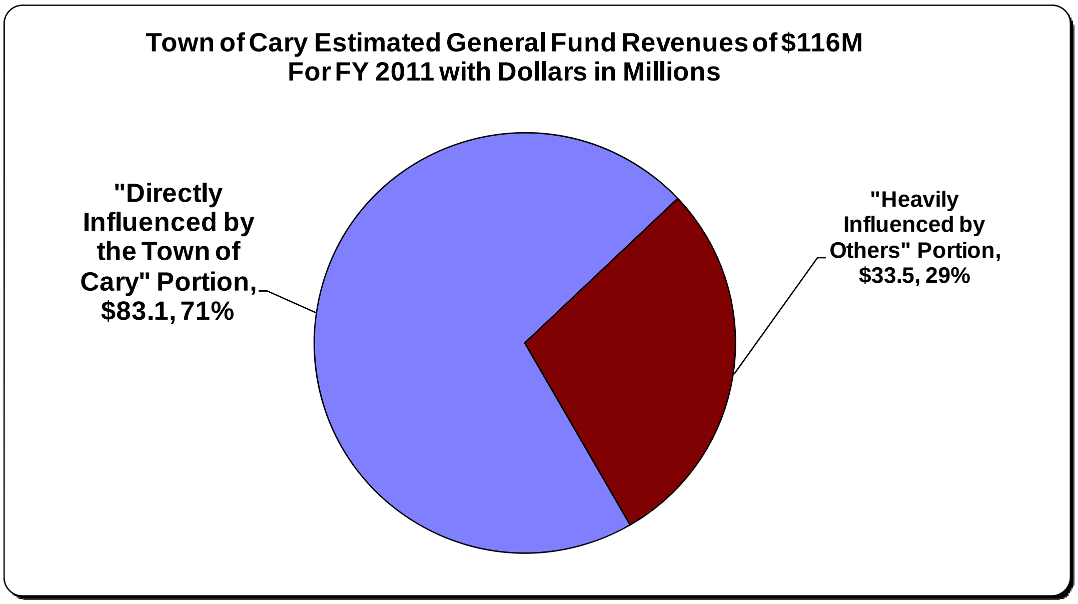
The Town's major source of revenue for FY 2011, the property tax, is based on January 1, 2010 assessments, which are projected to increase 0.8% over the estimate for FY 2010. This growth impacts revenue billings in FY 2011 and is based on new construction on the ground as of January 1, 2010 that is new since January 1, 2009.

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 annually in June. The tax rate for Fiscal Year 2011 is recommended to remain unchanged at 33 cents per $100 of assessed value. The tax base in FY 2011 is estimated at $20.6 billion, which includes real property (land and buildings), personal property (campers, boats, etc.), public service property (public utilities), and vehicles. This total includes $299 million for property located within Cary's corporate limits of Chatham County (about 1.5% of Cary's total). The 33 cent rate is expected to provide $67 million in revenue. One penny on the tax rate is expected to generate approximately $2 million in revenue for the Town in FY 2011.

The chart below provides a breakdown of the major revenue categories in the general fund, their amounts, and their respective percentages of the total $116 million in revenues expected in FY 2011.



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. Cary was able to get credit for its fast pace of growth during the 1990s by having a special census done in 1998 which increased its official population count relative to other municipalities in the county. The Town of Cary's share of sales tax revenue is dependent on its population as a proportion of Wake County and Chatham County since sales taxes are distributed within each county on a per capita basis. Cary has a comparatively small population in Chatham County, so the annual sales tax revenues of about $100,000 distributed to Cary based on its Chatham population is not as substantial as the Wake related revenues. Cary's population growth rate slowed compared to the rest of Wake County in the early 2000s and it received a smaller portion of the total distribution amount which fell to a low of 8.63% in FY 2006. With the population growth of the past few years, the Town of Cary's share has grown to 9.11%. If Cary's distribution percentage had remained constant at the 8.63% level of FY 2011, it would be receiving about $1.1 million or about 5.3% less, in FY 2011.

Projected sales tax revenues totaling $21.3 million in FY 2011 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, and after recovering in the mid 2000s, it took another hit with the most recent recession. With the global and domestic economies slowing once again however, the health of Cary's regional economy has slowed as well. Sales tax revenues have been severely impacted and projections of this major general fund revenue source show that compared to FY 2008 a drop of $2.9 million or 11.9% is expected in FY 2011. If sales tax revenues in FY 2009 through FY 2011 had each continued at the average annual growth rate of 10% which occurred over the previous five years, sales tax revenues in FY 2011 would have been expected to total $32 million which would have been about $10.9 million or 51% higher than the $21.2 million being budgeted.

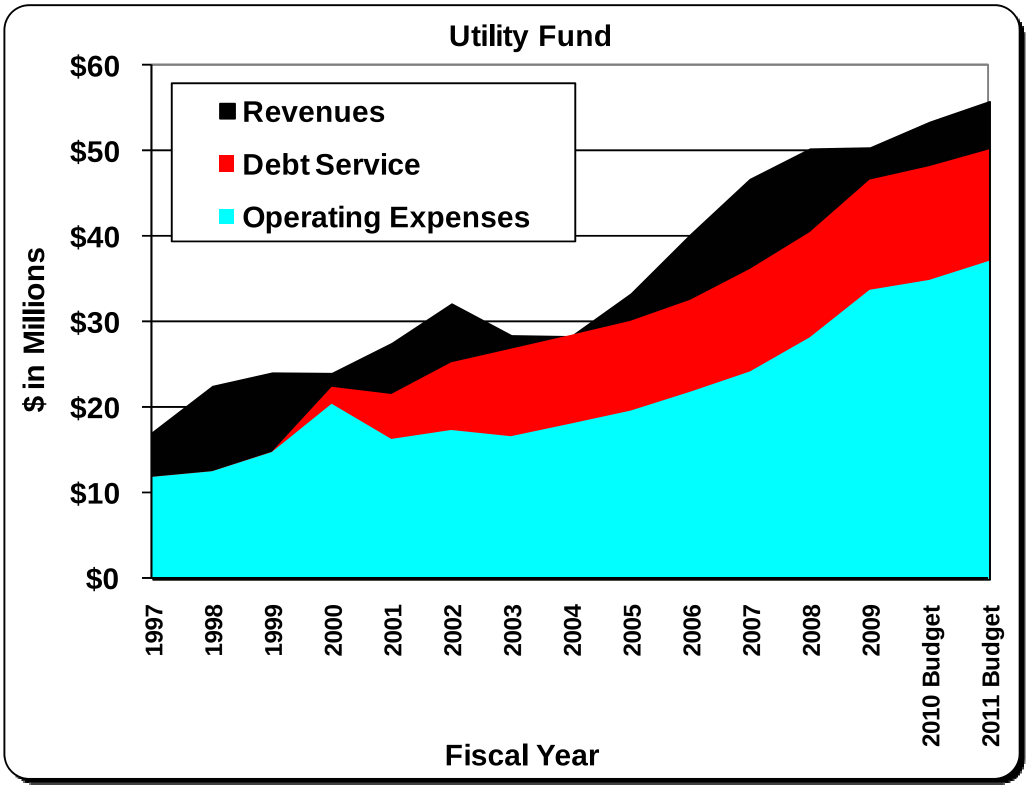
Utility Fund

Utility fund revenues are budgeted at $55.9 million for FY 2011, an increase of $2.3 million or 4.4%, and include Morrisville customer generated revenues following the April 3, 2006 merger of the Morrisville water and sewer system with the Town of Cary system. Per the merger agreement, Morrisville customers 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 increase 1.1% compared to FY 2010 estimates, while total sewer retail revenues are expected to increase 7.8%. These increases reflect a blended rate increase of 7.4% or $5.60 per month for a residential customer using an average of 7,000 gallons per month. 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 4,918 gallons per year, and they can expect to see an increase of $4.03 or 7.4% per month in FY 2011. Projected capital investment needs related to the state mandated Western Wake Regional Wastewater Management Facility could require additional rate increases of 8–10% per year through FY 2014. 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 FY 2014 to accommodate the debt requirements of the WWRWMF.

As was initiated in FY 2002, the utility rates generate $1 million annually for open space acquisition. The FY 2011 recommended budget appropriates $576,417 of the FY 2010 $1 million to the open space project for pay-as-you-go funding, while the remaining $423,583 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 $51.3 million anticipated at the end of FY 2011 which is in alignment with Council's April 2008 target of 100% of annual operating expenditures and debt service. Utility fund balance ensures cash flow needs are met and that sufficient reserves exist to buffer any dramatic weather changes that may occur (i.e. a very rainy season). 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 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 a new regional wastewater management facility and another $10 million general obligation bond referendum was approved on that date for the acquisition of open space. Including the FY 2011 budget, all of the $110 million wastewater bond and all $10 million of open space bond funding will have been appropriated.

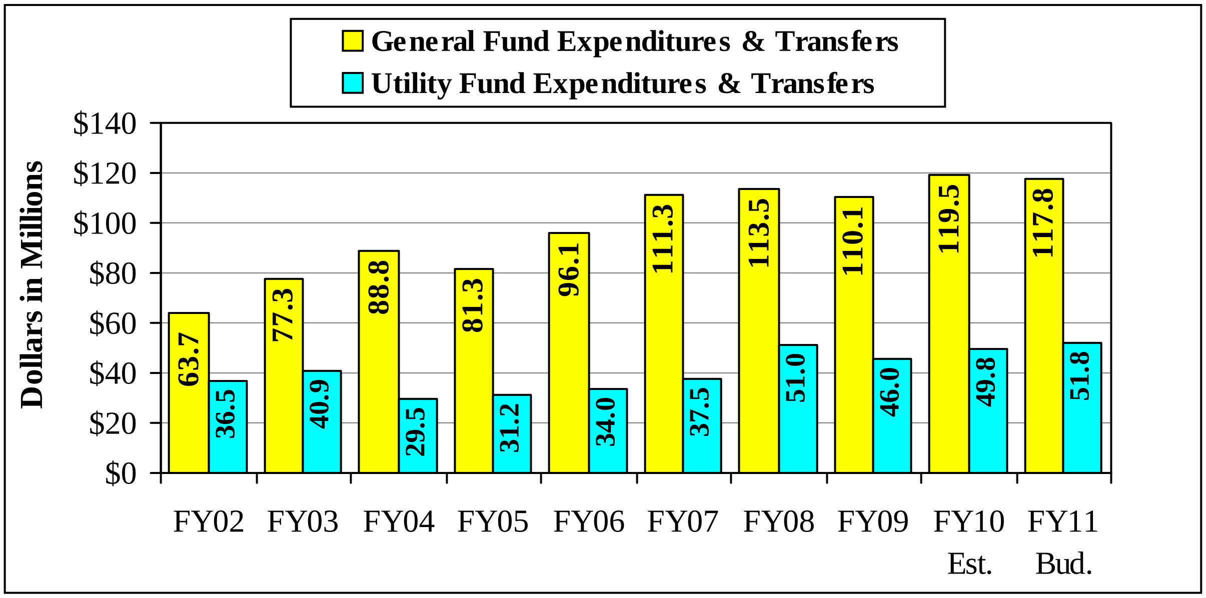
As the chart below illustrates, utility fund revenues have been increasing to help afford related debt service and operational cost increases. The rate of debt service growth (in red) and steadily climbing and heavily fixed operating expenses (in blue) have put increasing pressure on the rate of revenue growth (in black). Operating margin is demonstrated in the graph 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 $4.1 million or about 8% after transfers to capital. This contribution is being generated mostly by continuing the rate smoothing approach and the marginally higher utility rates in Morrisville per the merger agreement, and achieves the fund balance targeted level of 100%.



REVIEW OF EXPENDITURES

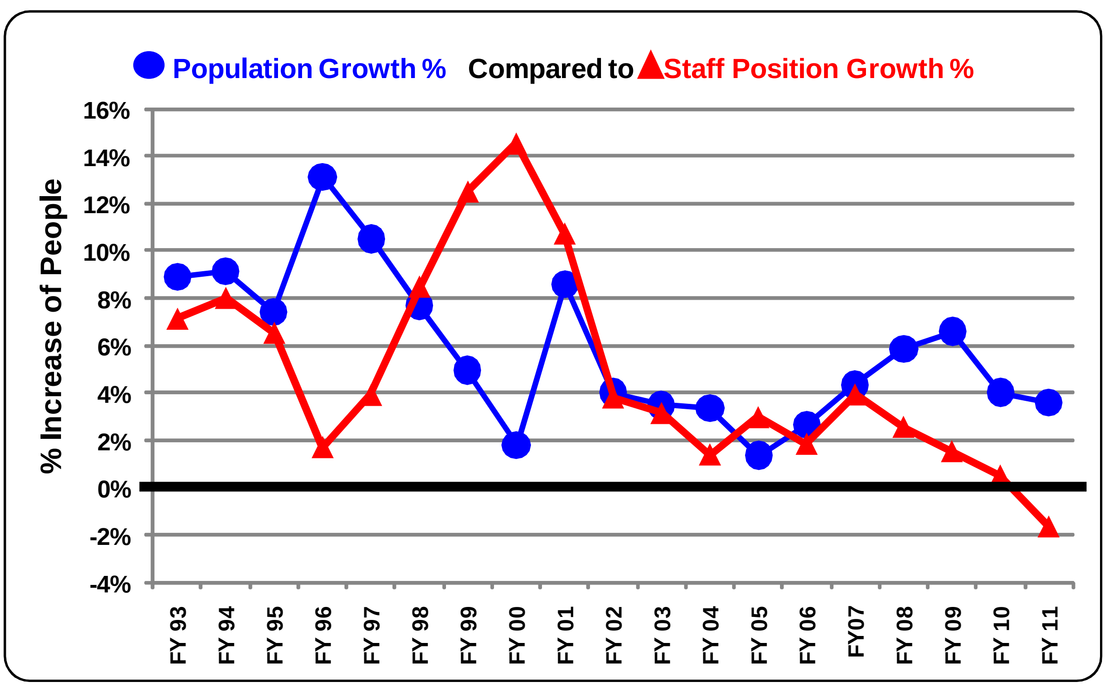
General Fund and Utility Fund Total Expenditures Summary

General fund expenditures and inter-fund transfers total $117.8 million for FY 2011. Included in this amount is $1,050,339 in the form of a transfer funding the annual contribution to the Town's sanitation and recycling truck replacement program. General capital related debt service is budgeted at $13.7 million in FY 2011, in stark contrast to last year's forecast of the need for debt service in FY 2011 which showed an increase to $16.4 million. In the fall of 2010, the 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 2011 by $2.7 million. Utility fund expenses and transfers total $51.8 million including the $424K transfer to the general fund for open space debt service and the $576K directed to the open space project. This total also includes $12.9 million to cover utility-related debt service requirements.



Major Personnel Impacts

Additional staff members have been needed through the years to help keep pace with the service demands of our growing population and the related infrastructure needs and to support additional parks, greenways, community centers, and key special facilities such as the WakeMed Soccer Park, USA Baseball, and the Tennis Park. The graph below shows the percentage change in population growth (**in blue**) compared to the change in Town full time equivalents (FTEs) or staff position growth (**in red**) 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 in FY 2010 and FY 2011 has been much more constrained than 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 which we expect recovery to occur, I am recommending elimination from the staffing document of a total of 31.25 positions representing various positions that are currently vacant. 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 conduct a thorough review of the position and its responsibilities to ensure it is absolutely necessary.

Meanwhile, the needs of the community continue to evolve, and to help meet those needs, twelve new positions are being recommended with the FY 2011 budget. In addition, one of the previously positions held open is recommended to be filled. The following pages of this budget message have been prepared to provide a one page summary of each program area 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:

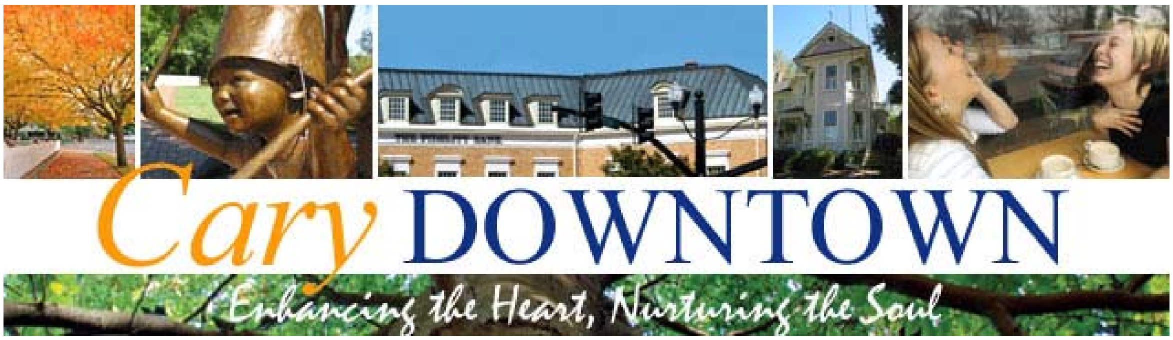
1 Downtown Development Manager to focus on bringing private development efforts to fruition
1 School Resource Officer for the new Mills Park Middle School
3 Police officers to help initiate a Crime Free Neighborhood Program (1 Lieutenant and 2 officers)
    2 additional police officers will likely be needed as the program is implemented in FY2012
1 Emergency Communications Center Computer Aided Dispatch Specialist
1 Stormwater Quality Engineer
4 Various positions (3 in Cultural Resources, 1 in Facilities Management) late in the year as the new Cary
    Community Arts Center (Cary Elementary renovation) comes on line late in the year
1 Tennis Program Coordinator

As referenced above, the position summaries that follow also include a Facilities Maintenance Worker II for which there is already existing and is recommended to be filled with Mills Park fields coming on line in the summer of 2010.

Downtown Development Manager

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One Downtown Development Manager position and funding of $80,672 to focus on facilitating private redevelopment efforts that will leverage past, current, and future Town efforts to revitalize the Town Center Area.



Appropriation Summary: **<u>$80,672</u>** will be needed for this position in FY2011. It will be funded by General Fund revenues and costs will be budgeted within the Town Manager's Office.

Cost Summary	**FY2011**	**Ongoing Annual Estimate**	**Description**
Personnel	55,672	101,073	Base pay and benefits (Grade 30; exempt; normal hiring annual salary range: $59,405 - $98,009)
Operating & Maintenance	25,000	-	Office reconfiguration with Administration area
Capital Outlay	-	-	
Total	80,672	101,073	

Background: The revitalization of the downtown Cary area has been a goal of various administrations and Councils through the years. The Town has invested, and continues to invest, a great deal of time, funding, and energy toward this ultimate goal that will likely take many years to evolve. Some of the more recent examples of tangible results include Council's decision to move forward with three major initiatives in the downtown area: the renovation of Cary Elementary into the new Cary Community Arts Center, the continued land acquisition efforts aimed at developing a Town Center Park, and right of way purchases related to the Walker Street Extension.

The revitalization effort is complex and will take quite some time to come to fruition. There needs to be a single point of contact now, while the economy is beginning to recover, who can focus on leveraging all the great work done by Town staff, Town Councils, and our community partners to bring private developers and partners together to create win-win projects specifically geared toward downtown revitalization through economic development.

This position is recommended for hire mid-way through FY2011 to give staff and Council time to determine together precisely what roles and responsibilities this position will entail, what tools for redevelopment are right for Cary, and what objectives will help us measure success.

School Resource Officer for Mills Park Middle School Opening August, 2010
Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One new "Police Officer I" position and funding of $99,964 to support the assignment of a new school resource officer to the Mills Park Middle School scheduled to open in August, 2010.

Appropriation Summary: **<u>$99,964</u>** will be needed for this position in FY2011. It will be funded by General Fund revenues and costs will be budgeted within the Police Department account categories as shown below:

Cost Summary	FY2011	Ongoing Annual Estimate	Description
Personnel	55,181	55,181	Base pay and benefits (Grade 21; nonexempt; normal hiring annual salary range: $38,292.80 - $59,342.40)
Operating & Maintenance	21,093	5,723	Includes initial vehicle setup, gun, taser, camera, and ongoing supplies and vehicle maintenance
Capital Outlay	23,690	-	Vehicle purchase
Total	99,964	60,904	

Background: The School Resource Team, a component of the Cary Police Department Operations Bureau, emphasizes early intervention in the lives of youth who are at risk. The team currently consists of nine uniformed officers assigned to the schools. The goal is to redirect negative behavior before it lands a student in the court system.

Team members are active in the Wake County Teen Court program, which diverts minor offenders from the juvenile justice system. Programs are designed to empower youth to take charge of situations that could adversely affect them. School resource officers and juvenile crime detectives work together and are regularly in contact with the same youths.

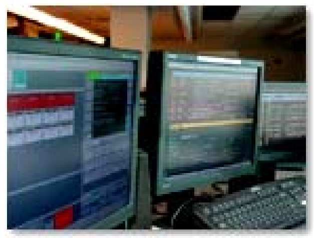
A full-time school resource officer (SRO) is assigned to each of the middle and high schools in Cary. The Town receives $151,352 from Wake County to help support the four high school SRO positions, and the Town funds 100% of the five existing middle school SROs. The officers work with school administrators on security and safety issues and investigate crimes in which students are victims or suspects. Although officers are not assigned to elementary schools, SROs are commonly called on to assist them when issues arise that require police attention.

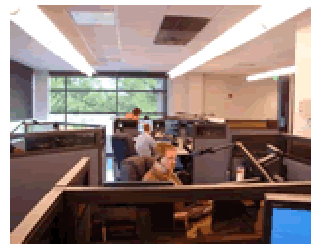
Programs initiated by school resource officers include Conflict Resolution & Peer Mediation, Law Enforcement Club, Students Against Destructive Decisions (S.A.D.D.), Students Against Violence Everywhere (S.A.V.E.), and community service projects. The officers give classroom presentations on law and crime prevention topics. They are also available for conferences with students, parents and faculty.

Emergency Communications CAD Specialist

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One Emergency Communications Computer Aided Dispatch (CAD) Specialist position and funding of $74,242 to implement the new CAD/Records Management system (RMS) and update and maintain the 911 Network Database and Master Street Addressing Guide (MSAG).





Appropriation Summary: **$74,242** will be needed for this position in FY2011. It will be funded by General Fund revenues and costs will be budgeted within the Police Department and work in the Emergency Communications Center.

Cost Summary	FY2011	Ongoing Annual Estimate	Description
Personnel	70,503	70,503	Base pay and benefits (Grade 22; nonexempt; normal hiring annual salary range: $40,206.40 - $62,316.80)
Operating & Maintenance	3,739	1,020	Includes furniture, computer, phone, and software
Capital Outlay	-	-	
Total	74,242	71,523	

Background: The Emergency Communications CAD Specialist will be instrumental in the implementation of the new CAD/RMS system that is projected to be up and running by January of 2011. CAD assists with the efficient handling of requests for emergency services. The system makes a recommendation of service units to dispatch taking into account the geographic location of the request and the availability of work units. The system recognizes different call types that require the dispatch of special equipment, provides information on hazards that may be present, and provides for special medical information and call history. Numerous statistical reports are provided to assist management in the proper allocation and scheduling of public safety personnel.

The CAD Specialist will be responsible for updating and maintaining the 911 Network Database and Master Street Addressing Guide. The setup of the new system will require the creation of complex routing recommendations. This position will be the point person for CAD training, troubleshooting CAD/MSAG problems as they arise, making CAD corrections and updates, and pulling statistics from the system when needed.

Currently, Technology Services Staff assist with most of this work, but their other workloads do not always allow them to address updates or projects from public safety agencies within the time frames desired. The CAD Specialist will manage all these tasks and allow public safety departments to more quickly meet internal operational and external interoperability goals. The CAD Specialist will provide better separation of duties as recommended by our accreditation and auditing agencies, as it is typically better Technology Services staff, who is responsible for ensuring the systems are up and running, do not also have data entry capabilities.

This position allows the Town to be better prepared as the Next Generation 911 is expected to bring text messaging, video, and data from outside sources such as On Star into the CAD and 911 Systems.

Three New Police Officers for the Initiation of a Crime Free Neighborhood Program

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One "Lieutenant" and two "Police Officer I" positions to begin developing a crime free neighborhood program to help our community focus more specifically on improving the quality of life in non-owner occupied residential dwellings.

Appropriation Summary: **$262,630** will be needed for these positions in FY2011. They will be funded by General Fund revenues and costs will be budgeted within the Police Department within the following categories:

Cost Summary	FY2011	Ongoing Annual Estimate	Description
Personnel	106,471	163,687	Base pay and benefits for one LT (start date 9/1/10) and two PO I's (start date 1/1/11)
Operating & Maintenance	85,089	18,429	Includes initial vehicle setup, gun, taser, camera, and ongoing supplies and vehicle maintenance
Capital Outlay	71,070	-	Three vehicles purchased.
Total	262,630	182,116	

Background: The Police Department will develop a program focused on working with property managers and tenants of multi-family housing properties to reduce crime and improve quality of life. A typical crime free neighborhood program is voluntary and addresses three aspects of what it takes to make multi-family housing properties safer for everyone:

- The rights and concerns of property management for profitability and liability
- Physical attributes of the structures and property environment
- The rights and concerns of tenants in acquiring a nice crime-free place to live.

The Lieutenant will be responsible for developing a program that works for the Town of Cary, forming relationships with property owners, and supervision of day to day operations. Police officers will be assigned multi-family neighborhoods to help build working relationships by interacting daily with property owners, managers, and tenants. Police staff will receive training and materials from the International Crime Free Association providing them the skills to:

- Train property managers in crime prevention theory, lease agreements, and eviction issues
- Conduct a thorough security survey of the properties looking for minimum lighting, lock, and landscape standards
- Work with property managers to train tenants in community awareness and crime prevention

The goal is to add two more officers to the program at the beginning of FY 2012 to address the program as currently envisioned with a total of five additional police staff (one Lieutenant and four officers). Bringing these resources on gradually through FY 2011 and the start of FY 2012 the program can be better tailored to meet Cary's specific needs.

Facilities Maintenance Worker II Off Hold List for Mills Park

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One Facility Maintenance Worker II position will be taken off the hold list and funding of $45,447 will be used as Mills Park becomes fully operational.

Appropriation Summary: **<u>$45,447</u>** will be needed for this position starting in August of FY2011 which will be funded by General Fund revenues and costs will be budgeted within Public Works/Utilities Facilities Management division.

Cost Summary	**FY2011**	**Ongoing Annual Estimate**	**Description**
Personnel	41,897	43,792	Base pay and benefits (Grade 14; nonexempt; normal hiring annual salary range: $27,206.40 - $42,182.40) FY2011 based off of start date of August 1st while ongoing estimate includes personnel costs for full a full fiscal year
Operating & Maintenance	3,550	400	Includes telephone, radio, and uniform
Capital Outlay	-	-	
Total	45,447	44,192	

Background: On February 1, 2010 Facilities Management accepted responsibility for 1 football stadium field, 2 soccer fields, 1 softball field, and one multipurpose field at Mills Park. Later this year Facilities Management will accept the rest of the facility which includes maintenance of general turf/grounds, a basketball court, a comfort station, and stormwater ponds. All fields were constructed with warm season turf and will not be programmed until August 2010. The increased workload resulting from maintenance which began this spring is currently being accomplished with existing staff.

However, with the programming of these fields planned to start in August of 2010, an additional Facilities Maintenance Worker II will be necessary at that time. The facility will be programmed meaning daily field prep and field painting on both football and soccer fields for scheduled games. Along with field use, an increase in required maintenance practices such as monthly aeration will occur. Moving of soccer goals and shifting of the field will be performed to extend the life of the turf. Increased trash and litter collection will also be required. A new Facilities Maintenance II position was initially requested during the FY 2010 budget process to be hired in the spring of 2010. The position and funding were not approved, however, due to budget constraints. Furthermore, during FY 2010 two existing Facilities Maintenance II positions became vacant: one allocated to landscaping and one to field maintenance. Existing staff is absorbing the work this spring by reducing landscape staff allocations in other areas. However, with the programming of the new Mills Park fields beginning in August 2010, it will be necessary to fill one of the existing vacant positions to adequately prepare and maintain these new fields.

Staffing for Cary Community Arts Center in Late FY 2011

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: Four new fulltime positions and the reclassification of two existing fulltime positions with funding of $100,237 to staff the new Cary Community Arts Center based on the estimated construction completion date of May 2011. The four new positions are: Box Office Manager, Customer Service Representative I, Technical Coordinator and a Facility Maintenance Mechanic I. The two positions for reclassification are the current Arts Center Supervisor to a Community Arts Center Supervisor and the current Performing Arts Coordinator to a Performing Arts/Operations Coordinator.

Appropriation Summary: **<u>$100,237</u>** will be needed for these positions in FY2011. They will be funded by General Fund revenues and costs will be budgeted within the Cultural Resources and Facilities Management account categories as shown below:

Cost Summary in Cultural Resources	**FY2011**	**Ongoing Annual Estimate**	**Description**
Personnel	28,963	148,141	Positions to be hired in May 2011
Operating & Maintenance	2,910	1,800	Includes computers and supplies for the additional staff
Facilities Management			
Personnel	17,964	46,352	Position to be hired in April 2011.
Operating & Maintenance	26,246	30,059	Includes supplies, radio, and vehicle fuel & maintenance
Capital	24,154	-	3/4 Ton Van
Total of both departments	100,237	226,352	

Background: As detailed in Staff Report PR10-12 with the bid award for renovation of Cary Elementary in November 2009, the construction of the Cary Community Arts Center is estimated to be completed May 2011. While the new Cary Community Arts Center will provide the opportunity for expanded programming, several components of the existing cultural arts program will be transferred to CCAC. These areas include all of Jordan Hall operations, Applause! Cary Youth Theatre, Marvelous Music Series, Cary Performs, as well as the activities involved with the coordination and facilitation of community groups. The facility will be staffed by the transfer of existing staff and the addition of these four new staff members. Staff will be monitoring the progress of construction very closely and adapt the recruitment and hiring dates of these new staff members as necessary. The full annual operating revenue and cost summary for a full year of operation as shown in the staff report are included to the right.

<u>Estimated Revenues</u>
Instructional Programs $412,313
Ticket sales $66,870
Rental $163,130
Concessions/Point of Sale $51,650
Sponsorship $11,000
<u>Total Estimated Revenue $704,963</u>

<u>Estimated Expenses</u>
Instructional Program $241,450
Performances $90,890
General Administrative $90,000
Regular, Full time Staffing $462,500
Temporary Staffing $91,995
Building/Site Services $300,000
<u>Total Estimated Expenses $1,276,835</u>

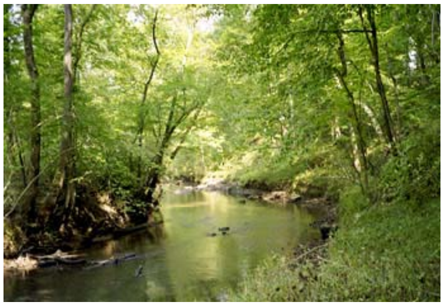
Estimated Net Operating Costs ($571,872)
Reduction in Current Net Operating Cost $507,335

<u>Total Net Estimated Cost ($64,537)</u>

Stormwater Quality Engineer

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One Stormwater Quality Engineer position and funding of $84,475 to allow the Town to stay in compliance with the new State Laws and regulations.



Appropriation Summary: **<u>$84,475</u>** will be needed for this position in FY2011 with an estimated start date of September 2010. It will be funded by general fund revenues and costs will be budgeted within the Engineering Department.

Cost Summary	FY2011	Ongoing Annual Estimate	Description
Personnel	83,115	98,251	Base pay and benefits (Grade 28; exempt; normal hiring annual salary range: $53,872 - $88,899)
Operating & Maintenance	1,360	1,360	Supplies and Dues
Total	84,475	99,611	

Background: The General Assembly of North Carolina through Session Law 2009-484 has enacted Senate Bill 838 which clarifies implementation of nutrient offsets under the Jordan Lake Rules and clarifies implementation of the Jordan Lake Rules related to Federal and State Entities. Part of the nutrient offsets section is the implantation of Jordan Lake Riparian Buffer Protection for lands within the Jordan Lake Watershed. The General Assembly through Session Law 2009-216 has enacted House Bill 239 that provides for the improvements in the management of the Jordan Watershed in order to restore water quality by implementation of the Stage 1 adaptive management program to control nutrient loading from existing development. New development in the Jordan Lake watershed will also be required to meet new nitrogen and phosphorus targets through the use of engineered stormwater best management practices (BMP) controls, much like the current Neuse River Rules which were enacted by the General assembly in 2001.

The Stage 1 program will require increased requirements for dry weather monitoring and storm drain inspection and mapping, illegal discharge detection and elimination, public outreach and involvement in targeted areas and location and design for retrofit opportunities in the Jordan Lake watershed. Riparian buffers are also included in the senate bill and local governments will be required to adopt ordinances to protect and preserve existing riparian buffers throughout the Jordan Lake Watershed. This will include stream determinations, site and subdivision plan enforcement, permits procedures, requirements and approvals to the riparian buffer impacts. The Town will also be required to perform site inspections for compliance and enforcement which will include civil and criminal penalties under the riparian buffer requirements.

This new position will allow the Town of Cary to stay in compliance with the new State Laws that did not carry with them any state supported funding mechanism. The Jordan Lake Water Supply Nutrient Strategy will have more requirements in the future. The Town of Cary has a NPDES Phase 2 permit that is currently under the renewal process. It will contain additional requirements for the implementation of a Water Quality Recovery Plan that will address the Swift Creek total maximum daily load (TMDL) which is defined as a calculation of the maximum amount of a pollutant that a waterbody can receive and still safely meet water quality standards. The Swift Creek TMDL will require the town to provide increased monitoring and public involvement within the Swift Creek Watershed to ensure requirements are met.

Tennis Program Coordinator

Town of Cary Fiscal Year 2011 Manager's Recommended Budget

Recommendation: One new Tennis Program Coordinator and funding of $66,604 to meet the increase in lesson demand and program participation to provide the expected levels of service. This position will administer increased program areas, supervise current staff and provide needed additional instruction.

Appropriation Summary: **$66,604** in new expenditure authority will be needed for this position in FY2011. It will be funded by General Fund revenues and costs will be budgeted within the Town of Cary Tennis Park under the following categories. It is expected that incremental revenues generated through program participants will recover the majority of the costs associated with this new staff member.

Cost Summary	FY2011	Ongoing Annual Estimate	Description
Personnel	66,604	66,604	Base pay and benefits (Grade 13; nonexempt; normal hiring annual salary range: $25,917 - $30,160), plus additional compensation for lessons and commission of $26,788
Revenue	(65,615)	(65,615)	Additional teaching revenue (conservative estimate)
Net Total Cost	989	989	

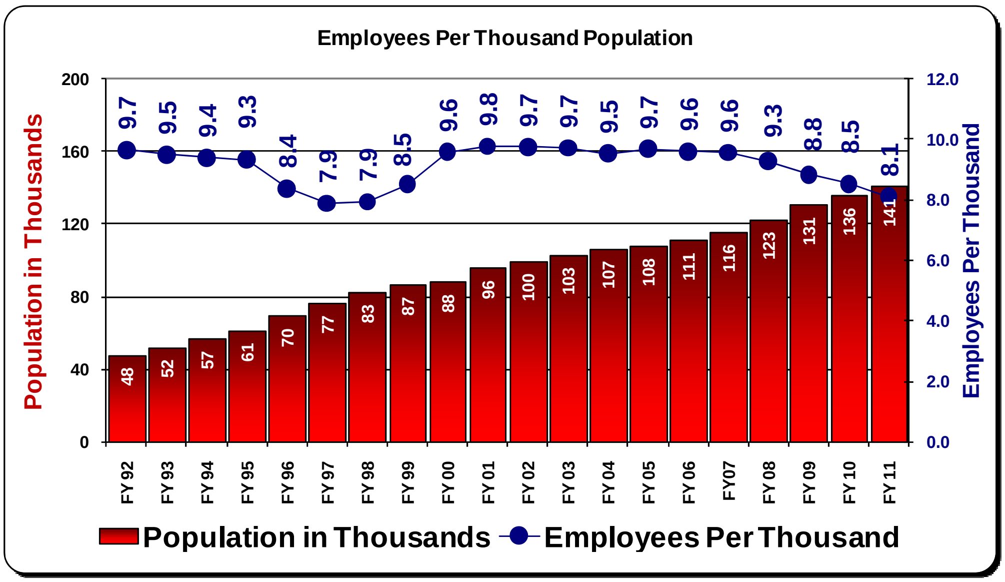
Background: The Tennis Park teaching programs are divided into two main teaching groups; the Academy, which is specifically for advanced/competitive juniors, and Tennis Programs, which includes all other junior programs, adult instructional programs and league coaching. Both of these program areas continue to grow, and with this growth in instructional programs the demand for private lessons has also increased. To deal with these increases, staff has implemented changes such as staggering time schedules of leagues and offering programming at selected satellite parks.

Even with these changes in programming, the demand for instruction has continued to grow. At this point, the part time staff is teaching a combined eighty hours per week of group programs in addition to private lessons. These part time staff do great job of teaching, but are unable to provide the other services that come with this many additional hours of teaching in a week. Full time staff is handling many of the administrative duties associated with current increased teaching hours (monitoring waitlists, coordinating staff schedules, lesson plans, communication and feedback with participants, parents and league coordinators). This is causing the full time staff to be spread too thin and staff is concerned with maintaining the quality that is expected by the patrons.

The present customer base of the Cary Tennis Park looks forward to the teaching staff maintaining constant feedback and making recommendations for player advancement to the next level of teaching. The financial commitment patrons are making to advance their level of play or those of their children through the programs offered requires that staff continually monitor the participant's development and progress. A new position will provide this needed level of service. Full time tennis staff professional positions typically create positive cash flow positions, meaning the direct revenue earned exceeds the total cost of the hourly salary, teaching rate and benefits. In addition to the teaching revenue, the success of the major revenue streams (i.e. pro shop sales, annual pass sales, tournament revenues) is directly related to the quality and quantity of the teaching staff.

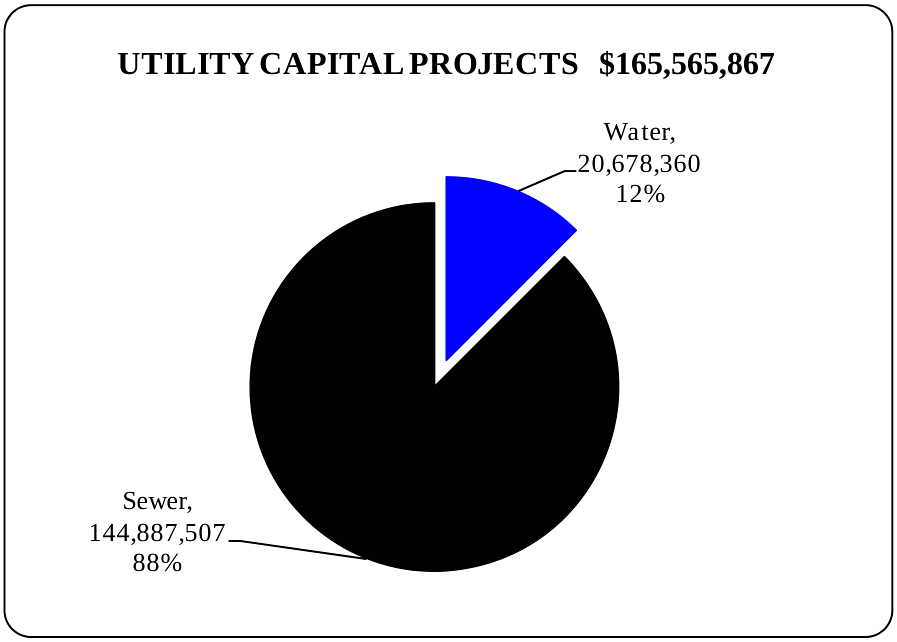
The anticipated annual savings associated with the 31.25 existing but currently vacant positions have been removed from the recommended budget and total $1.3 million in the general fund and $210K in the utility fund.

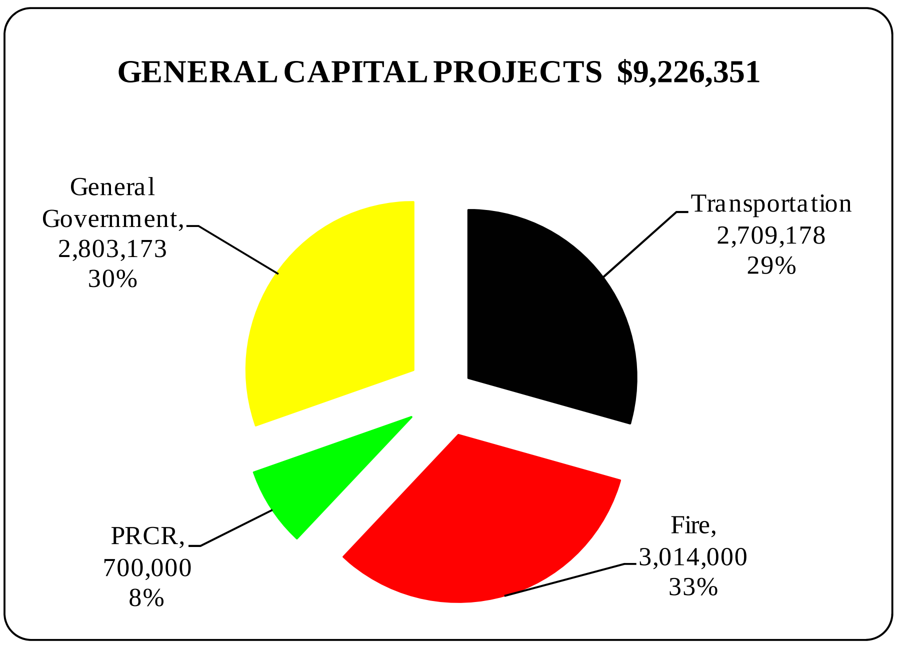
The staffing ratio for FY 2011 is expected to again drop compared to the last few years to 8.1 employees per 1,000 population as portrayed in the graph below. Part of the reason for the decline in FY 2009 is the elimination of seven positions from the Recycling division due to the new automated curbside recycling program that is rolling out in the spring of 2009. Fortunately we were able to plan far enough ahead by holding vacant positions generated through normal turnover such that each person occupying one of the eliminated positions was able to remain employed with the Town by filling one of the positions being held open with them in mind. Population figures shown in the table below are as of the beginning of each fiscal year and the July 1, 2010 population estimate is 140,857.



CAPITAL IMPROVEMENTS BUDGET

For the tenth 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 2011 are $165.6 million. General capital project recommended appropriations are $9.2 million yielding a total FY 2011 CIB of $174.8 million.





The $174,792,218 recommended Fiscal Year 2011 capital improvements project appropriation represents a 268% increase from the FY 2010 adopted CIB. This increase is primarily attributed to $127.7 million in recommended FY 2011 appropriations to the state mandated Western Wake Regional Wastewater Management Facility (WWRWMF). FY 2011 represents the last year of significant funding need for this project. With an estimated total cost of $330.4 million, the WWRWMF is funded by the towns of Cary, Apex, Holly Springs and Morrisville to meet state mandates and address capacity needs of these partner municipalities.

The FY 2011 recommended CIB demonstrates the Town's continued commitment to infrastructure maintenance and improvement despite the economic downturn. While $127.7 million or 73% of the $174.8 million FY 2011 recommended CIB supports the state-mandated WWRWMF, $23.1 million of the remaining $47.1 million supports infrastructure maintenance and improvement initiatives such as:

- pavement rehabilitation for existing roadways
- bridge and culvert repairs
- street storm drainage rehabilitation
- railroad grade crossing repairs
- aerial ladder truck and rescue truck replacement
- construction of Fire Station #8
- 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
- construction of an elevated water storage tank in west Cary to provide necessary storage capacity
- replacement of equipment at the Cary/Apex Water Treatment Plant
- construction of new force mains parallel to existing critical mains
- water main condition assessments

A specific priority in FY 2011 is to resume funding for infrastructure maintenance projects that have traditionally been funded annually but were not funded in the FY 2010 CIB. 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 2011 – 2021 recommended capital improvements budget and plan focuses on core infrastructure maintenance, necessary infrastructure improvements and prior commitments and mandates. Projects selected for the FY 2011 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 2011. Specific information related to recommended FY 2011 debt appropriations follows.

General Obligation Bond Debt

The FY 2011 recommended capital improvements budget includes a $5.4 million general obligation bond appropriation for the state-mandated Western Wake Regional Wastewater Management Facility. $104.6 million in general obligation debt has been appropriated to this project through FY 2010. Debt service associated with the FY 2011 debt appropriation is expected to come on-line in FY 2012 and will be paid for through the Town's utility rates, not through property taxes.

There are no transportation or PRCR general obligation bond appropriations in the FY 2011 recommended capital improvements budget. Limited general fund operating margin to support new debt service limits the Town's ability to utilize 2003 GO referendum funds in FY 2011.

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 fully 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 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 WWRWMF GO bond authority expires in May 2012.

2003 General Obligation Bond Debt Summary

	Total Approved by Voters in April 2003	Appropriated Through FY 2010	FY 2011 Appropriation	Remaining GO Debt Available for Appropriation
Transportation	130,000,000	83,138,674	-	46,861,326
PRCR	30,000,000	22,389,200	-	7,610,800
TOTALS	***160,000,000***	***105,527,874***	**-**	***54,472,126***

2005 General Obligation Bond Debt Summary

	Total Approved by Voters in April 2005	Appropriated Through FY 2010	FY 2011 Appropriation	Remaining GO Debt Available for Appropriation
WWRWMF*	110,000,000	104,626,015	5,373,985	-
Open Space	10,000,000	10,000,000	-	-
TOTALS	***120,000,000***	***114,626,015***	***5,373,985***	**-**

* WWRWMF = Western Wake Regional Wastewater Management Facility

Revenue Bonds

The FY 2011 recommended CIB includes $93.5 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.

$81 million of the recommended $93.5 million appropriation supports portions of Cary and Morrisville's contributions to the WWRWMF project while the remaining $12.5 million is directed to sewer infrastructure maintenance and improvements.

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

Utility Capital Reserve

The FY 2011 recommended CIB contains a $24.7 million appropriation of cash from utility capital reserve fund balance. Unrestricted fund balance comprises $3.9 million of the total fund balance appropriation, while restricted fund balance provides the remaining $20.8 million. Total utility capital reserve fund balance at the close of FY 2011 is anticipated to be $17.5 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 2010 have been maximized to continue leveraging currently available resources. The FY 2011 general capital improvements budget includes $5.3 million in appropriations from general capital reserve fund balance. $3.2 million of this figure is unrestricted, while the remaining $2.1 million is restricted. General capital reserve fund balance at the close of FY 2011 is expected to be $17.3 million with 42% of these funds restricted to certain types of transportation projects.

3. Guiding Principle: Minimize reliance on FY 2011 capital reserve revenues

Utility

The FY 2011 recommended capital improvements budget appropriates a total of $41.9 million of FY 2011 revenue in support of utility capital reserve projects. $38.4 million of this figure represents reimbursements from the Town of Cary's municipal partners for the Western Wake Regional Wastewater Management Facility. The Town of Cary reflects all needs for the WWRWMF in its CIB/CIP. The municipal partners provide their respective capital funding as revenue to the Town of Cary for their portions of the project.

The Town will also receive $2.2 million from the Town of Apex during FY 2011 in support of budgeted Cary/Apex Water Treatment Plant (C/A WTP) projects. 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 FY 2011 CIB includes three C/A WTP related capital projects. Apex's 23% share of the budgeted capital costs is $2.2 million. As with the WWRWMF, 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.

Lastly, the FY 2011 sewer capital improvements budget includes an appropriation of $1.5 million in anticipated restricted sewer development fee revenue. These funds help support growth-related infrastructure needs.

General

$1.1 million of anticipated FY 2011 general capital reserve fund revenue is programmed for appropriation in the recommended capital improvements budget. $26,874 of this amount is from estimated utility franchise fee revenue. The remaining $1,107,448 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 2011 capital improvements budget includes a $576,417 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 $576,417 of this $1,000,000 is available for open space land purchases in FY 2011. The remaining $423,583 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 $21,766 in utility fund transfer funding will be available annually for open space acquisition. The majority of the $1,000,000 generated annually for open space acquisition will support debt repayment. The table below notes the division of this funding between debt service and open space funding until debt repayment is complete.

Debt Service Schedule for 2005 GO Debt - Open Space

Utility rates generate $1 million annually for open space acquisition. This table identifies the portion of those funds utilized for debt service and the portion available each year for transfer to the open space acquisition capital project.

	Required for Debt Service	Available for Open Space
FY2010	423,583	576,417
FY2011	423,583	576,417
FY2012	978,234	21,766
FY2013	961,595	38,405
FY2014	945,898	54,102
FY2015	918,119	81,881
FY2016	890,339	109,661
FY2017	862,559	137,441
FY2018	834,779	165,221
FY2019	807,000	193,000
FY2020	779,220	220,780
FY2021	756,996	243,004

General Fund Transfers

$2.2 million in general fund transfers are included in the FY 2011 recommended capital improvements budget. $1,050,339 of this amount facilitates scheduled replacement of the Town's sanitation and recycling trucks. This funding is being generated through the $14 monthly fee that customers pay for their solid waste and recycling services.

$500,000 is directed to the Town's public property storm drainage improvement project, and $600,000 supports the Town's private-assistance storm drainage improvement initiative. The remaining $76,417 funds open space land purchases. FY 2010 debt service payments for issued open space debt were $76,417 less than originally estimated. These funds will fall to general fund fund balance at the close of FY 2010 and become available for transfer to the open space acquisition project in FY 2011.

Planning for major capital projects and the increased operational costs that often accompany them will remain critical. With so many potential projects, and recent 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.

SUMMARY

The FY 2011 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