

BUDGET MESSAGE FOR FISCAL YEAR 2017

Mayor Weinbrecht and Members of Council:

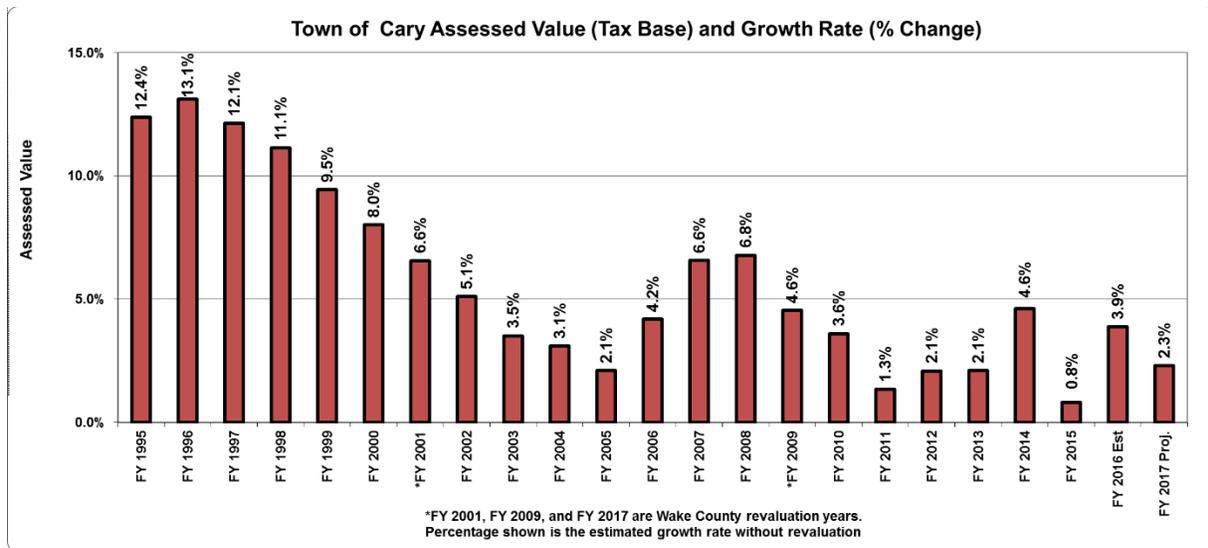
Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the recommended annual budget for fiscal year 2017 for the Town of Cary. As required by State law, the budget is balanced and identifies methods of raising and spending funds for specific programs during the coming fiscal year. The recommended operating budget is \$227.8 million, a 4.5 percent increase over the FY 2016 adopted budget. The recommended capital budget is \$91.4 million, a 17.3 percent increase from FY 2016. FY 2017 is a property revaluation year for Wake County and the budget recommends a tax rate of 35 cents, rounded up to the nearest cent from the revenue neutral rate of 34.95 cents.

All real property in North Carolina must be reassessed at least every eight years according to State law, and Wake County last revalued property for FY 2009 prior to the effect of the recession on property values. In Cary, the average increase in residential property value within Wake County for the current revaluation was 7 percent (4 percent for residential property and 15 percent for commercial property). State law requires that during revaluation years, each government must publish the tax rate that would keep total property tax revenue at the same level as if revaluation had not taken place, known as the revenue neutral tax rate. State statute includes a formula for calculating the revenue neutral rate to allow for the assumption of some natural growth in the tax base unrelated to revaluation. Using this formula, the Town's revenue neutral tax rate would be 34.95 cents. Based on this information, the Recommended Budget for FY 2017 includes a rounded tax rate of 35 cents. Rounding the rate would add \$1.50 to the \$1,048.50 tax bill of a home valued at \$300,000. Rounding the tax rate to the nearest whole number has been a long-standing practice of the Town.

The 35 cent tax rate is a decrease of two cents from the FY 2016 tax rate of 37 cents. The two-cent change in the Cary tax rate will affect properties located in both the Wake and Chatham County portions of Cary. Chatham property will not be revalued until next year, so property owners in Chatham County will experience a reduction in taxes for FY 2017 at the proposed rate, but likely will see an increase in their taxes for FY 2018 as their value is adjusted by Chatham County to reflect the current market.

In presenting the FY 2017 Recommended Budget, I believe that it is important to take stock of the Town's current and future fiscal situation. Several recent developments have affected the Town's resources and raised the prospect that future revenue growth will be more limited. The monetary policy of the Federal Reserve Board since the beginning of the 2008-09 recession has held interest rates to historic lows, reducing the amount of revenue that the Town's General Fund receives from investment of its cash balance from \$3-5 million per year to less than \$1 million. The General Assembly eliminated the privilege license tax, the only tax other than the property tax for which the Town could control the tax rate, resulting in the loss of \$1.7 million in revenue.

As shown in the chart on the next page, while the market has recovered from the recession, new construction has not returned to pre-recession levels. As a result, the Town's tax base grew dramatically during the 1990's, at a strong pace during the time between the 2001-02 and 2008-09 recessions, and a slower pace since the onset of the last recession.



Slower revenue growth will require the Town to make difficult fiscal choices. The Town's success has been based on three main foundations: 1) the creation of an attractive, well-planned, and livable community that has a distinctive sense of place; 2) the provision of exemplary services that enables our community to thrive and prosper; 3) sufficient revenue growth to maintain the first two foundations. These foundations are much like the legs on a stool. If one leg is shortened, then the others must be as well or the stool will topple. If revenue growth is reduced, then community quality and service excellence cannot be maintained in the same way that they have in the past.

For FY 2017, our initial projection of General Fund revenues and base budget expenditures, which included a four percent merit pay pool to reward our high performers, indicated that we would have less than \$200,000 in expansion funds available for improving services. Despite this limitation, we were able to make \$3.5 million available for service improvements through a diligent review of our expenses and revenues, with an eye to frugality and the most efficient use of limited resources. It is unlikely that in future years we can consistently produce this level of savings in the budget without making major changes in how we provide service, possibly affecting our level and quality of service to our citizens. This is not the first year since the 2008-09 recession that it has been difficult to generate funds for expansion, but in other years we saw unexpected increases in revenues and opportunities to reduce debt service that limited the amount of expense reduction.

In times of difficulty we must not lose sight of our achievements. Every year, Cary receives accolades as one of the best places to live in America, highlighting the safety, economic potential, and general well-being of our community. Our investments in downtown through the development of the Downtown Park and South Academy streetscape are underway and have helped to generate interest in private development for the area, some of which has already taken place in the form of the Mayton Inn and Bond Brothers Brewery. Our park and recreation facilities continue to provide outstanding facilities to the public and we soon will add Carpenter Park, Jack Smith Park, and five sports turf fields to our offerings. Over the past year, our Fire Department celebrated both the opening of Fire Station #2 on East Chatham Street. The Town recently received an ISO 1 rating, which lowered insurance rates for Cary's commercial property owners. The Town's water and wastewater facilities are state of the art and will provide the Town capacity for many years to come. Our expansion of the Cary/Apex Water Treatment Plant should be operational later this year and will take our maximum water production capacity from 40 million gallons a day to 56 million gallons a day.

FY 2017 Priorities

I believe the first priorities for the Town's resources always should be to maintain this high level of service for our citizens and to improve our operations anywhere that we are not meeting expectations for performance. I expressed these top priorities to our staff as they prepared their operating budgets. I also instructed staff to focus on improving customer service, leveraging technology and other innovative solutions, and improving the Town's capacity to base operational decisions on data and analysis.

Because our resources are limited, I also asked staff to review Town fees to ensure that we are appropriately recovering the cost of services that provide a greater benefit to those using them. To this end, the Recommended Budget includes a range of fee increases for services provided to review development plans. Current fees for these services recover about one-third of the cost of providing them. Because these services primarily benefit the parties submitting plans for review, the proposed fees would seek to recover approximately 60 percent of the cost of service. Fees would be adjusted in the future to maintain this cost recovery level. In addition, the Recommended Budget proposes the creation of fees for residential and commercial encroachment permits on the Town right-of-way. Prior to the recent expansion of gigabit fiber services in Cary, the Town received few encroachment permit requests each year. The permit is primarily to the benefit of the company digging in the right-of-way, so it is appropriate that some of the cost of service be recovered from the applicant.

As we developed our Capital Improvement Budget and Ten-Year Plan, I also placed priority on correcting any current deficiencies in the physical and operating condition of our existing facilities to avoid future deterioration. The majority of our capital resources are, and will continue to be, devoted to keep our facilities in outstanding condition to serve our citizens. However, if we are to continue being one of the most livable cities in America, we cannot be satisfied with merely maintaining what we have. Even moderate growth within the Town will begin to strain the capacity of our facilities to serve our citizens. In deciding where to apply our resources, we looked to the priorities set by our facility master plans and by Council at the October 2015 work session. It was not possible to address all of these priorities within our available capital resources, so this budget includes a recommendation for additional sources of funding for several of the highest priority projects.

Operating Budget

In each of the last two years, the budget message presented the operating expansion recommendations in terms of how they address the seven goals that Council established in January 2014 through its adoption of Priority Based Budgeting. Our last two budgets have focused most of the expansion budget on the six community goals for direct services to citizens. This year's budget also devotes the majority of the expansion spending to these goals, but the single goal to which the most funding is devoted is the Good Governance goal. This goal includes activities that supports decision-making with timely and accurate analysis; coordination of organization-wide projects and technology solutions; and assures regulatory and policy compliance. I believe our efforts over the past several years to devote our limited new resources to direct service programs, while necessary, left gaps in many support programs. These programs have great potential to improve our service to citizens by increasing the efficiency and decision-making capacity of our staff who provide direct services to citizens.

The expansion items in the FY 2017 Recommended Budget, which are highlighted below, include 25 new positions. The costs shown below for these positions include salary, benefits, equipment, and ongoing charges such as telephone service.

Good Governance

The FY 2017 departmental budget requests from departments included several positions to analyze workload, performance, and financial data to improve the management of Town operations. It is essential that the Town base its operational decisions on solid data and analysis, but providing each department with staff for this purpose did not appear to be the most efficient means of accomplishing this purpose.

Instead, I am proposing the creation of a strategic analysis and project management group within the Town Manager's office using four existing positions and one new project manager (\$125,069). The group would assist departments with their data reporting and analysis needs and would undertake project management and process analysis/improvement. Its workload priorities would be set by an interdepartmental work team. The existing Business Systems Analysts in the Manager's office would be assigned to this group, along with two vacant analytical support positions in Public Works and Finance, which would be upgraded to Business Systems Analysts at a cost of \$13,885. The new project manager position would both supervise the operations of this group and provide coordination for operational and data system projects involving multiple departments.

- Restructuring in the Technology Services Department is needed to more effectively respond to emerging technologies that support a mobile, social, accessible, and information driven work environment. This restructuring (\$97,329) will better define work team missions, enhance system security, customer service and accountability.
 - Create a Service Delivery team to enhance customer service by clearly defining, supporting and delivering information technology services. Upgrade one Technology Services Business Analyst (Grade 30) to Technology Project Manager (32), and convert another to Application Support Specialist (25).
 - Create an Infrastructure and Networking team to focus on enhancing the Town's technical architecture and developing an adaptable, flexible and responsive network environment.
 - Create an Analytics and Innovation team to develop an effective analytics and data management program including data standards and policies, architecture, and technology solutions. Upgrade the Open Data Specialist (30) to Analytics and Innovation Manager (34)
 - Create a Security team to review and maintain security policies, standards, guidelines and procedures, as well as conduct vulnerability audits and assessments. Upgrade a Technology Security Officer (31) to a Security Manager (34).
 - Retitle the Technology Services Senior Manager position to Chief Technology Officer to be more reflective of the position's responsibilities.
- The Technology Services supports well over a hundred and fifty applications and system interfaces. For many applications, there are single staff members familiar with the programming, leaving single points of failure. An Integration Developer position (\$121,330) would work to provide industry standard software development methodologies to these solutions and retire these custom applications by migrating them to a cloud based platform system. This will allow for applications to be understood and supported by multiple staff, increasing responsiveness to requests for changes in the programs and reducing the risk of failure.
- The conversion of the Mapinfo application to the ESRI enterprise GIS platform provides a more robust and feature rich GIS environment where location-based data may be displayed, analyzed, shared and integrated with other solutions. ESRI is a core platform in the ecosystem of solutions necessary to deliver service to our citizens, and the Town's GIS system is a critical data resource on which many operation business practices and decisions are based. The ESRI platform allows our location-based data to be updated and viewed on mobile devices, web browsers and desktops allowing our staff, developers and citizens the ability to utilize the platform anytime, anywhere and on any device. In order to take full advantage of this robust platform, a GIS Developer position (\$121,330) is required not only to assist with the current backlog of work, but also to accelerate the conversion from Mapinfo to ESRI and to meet increasing internal and external demands for feature-rich web-based geospatial tools. Current resources that work on maintain critical data in ESRI are not fully dedicated and workload balance is an ongoing issue.
- Technology Services currently supports numerous departmental specific applications, which require significant cost in staff time and resources to implement and maintain. By moving toward a cloud based platform approach that can support most information requirements of our departments, the Town can engage in better decision making, make operational improvements, and increase its ability to implement new services. A platform system will allow the Town to realize a comprehensive Customer Relationship Management (CRM) capability and enhance inter-department communication and improve service delivery within a consolidated information sharing environment. Migrating Town applications to a cloud platform, will decrease the system

administration burden on staff who are required to maintain our current server environment. Implementing this new platform will require \$500,000 in FY 2017.

- Building a secure high speed enterprise class wireless network on Town Hall Campus will allow employees instant access to information such as electronic plans, videos, presentations, etc. where and when they need it. It will remove the requirement for hard wired physical network connections that currently restrict staff's mobility. This mobility enhancement will boost productivity, allow for shared work space, speed up working processes and increase collaboration with other staff, citizens and business partners. It will also allow citizen and business partner internet access through a managed secure wireless network that is separate from the Town's internal network. This network also provides the foundation for future testing of smart city technologies/ internet of things. The cost of installing the network are included in FY 2016 existing operating funds, but the ongoing costs (\$200,000) of an integrated network require expansion funding.

Safe Community

- Although the Police Department has sufficient authorized positions (104) to staff its patrol operations, an average of 4.5 officers per month have been unavailable for daily duty over the last three years due to injury, illness, or military deployment. This figure would be as high as 7.7 per month, but the department is holding back some patrol officers from promotion or transfer to other duties in order to maintain staffing levels. Patrol staffing levels are maintained by requiring some officers to work on their days off, leading to officer fatigue. Three new Police Officer positions (\$300,432) would reduce the need to reassign staff to cover patrol operations.
- Since 2010, the emergency call center has experienced a 16 percent increase in its call volume and calls themselves have become more complex. The center has sought to handle the increased call volume by using supervisory personnel to process calls, but call processing time continues to be longer than the Town standard. Two Emergency Communications Officer positions (\$152,384) will help improve response time and service quality.
- The Fire Department requires 213 positions to fully staff its stations for three shifts a day. As the department has grown, efforts have been made to reduce the need for additional funding. One initiative was to add three Firefighter positions needed to fully staff operations, but to fund them through salary savings from vacancies rather than through additional appropriations. Current low vacancy rates in the department make this an unsustainable long-term solution. Converting the three overhire positions to funded positions (\$216,825) will appropriately fund station operations.
- Public safety staff have significant training and exercise needs that can only be met through travel to facilities outside of Cary, resulting in costs and operational impacts due to staff being out-of-service. Cary, Apex, and Morrisville plan to explore the feasibility of constructing a local and jointly operated facility to meet public safety training needs. A study to assess training needs could identify what new facilities are needed and where they could be located. The study cost would be \$75,000. Cary would pay \$52,000 and Apex and Morrisville would pay the rest.

Attractive, Well-Planned and Livable Community

- A new planner position (\$112,215) will address increasing review times for major site plans, rezonings, and minor alterations that have generated developer complaints and difficulty providing service to internal customers.
- An additional Development Liaison (\$124,081) will improve overall customer service and the effectiveness of the development liaison program by allowing the liaisons to spend more time with business owners and developers to proactively assist with downtown and other small business projects.
- The number of homes served per recycling route has increased by 25 percent over the last six years. Small trucks collecting multi-family routes often need to make more than one trip to the recovery facility per day due to the volume collected. As a result, collections regularly are pushed off to the next day. Converting the three current one-person crews to two, three-person crews

(\$218,932) would allow collections to occur on schedule and additional flexibility. The new configuration also would save on vehicle replacement costs over the next two years.

- Since the conversion to curbside garbage collection began, the number of households served by the Town's yard waste crews has risen 37%. There are numerous days when all collections are not completed on schedule. Adding a fifth permanent crew (\$216,687, net of temporary staff savings) would allow the Town to meet its service commitment.

Effective Transportation and Mobility

- To maintain operational signalized intersections, and to minimize interruptions that affect traffic patterns, upgrades are needed for signals at six key intersections. The upgrades are designed to replace aging wiring, rusted messenger support cables, incandescent signal heads, aging/rusted hardware, and to update detection systems. The cost of the upgrades (\$152,734) is net of reimbursements from NCDOT.
- The GoCary transit system relies on a time intensive staff process to manually evaluate how different route structures could maximize potential ridership and passenger revenues. The use of FTA-approved Remix routing software could reduce the time by 90 percent. FTA will pay for 80 percent of the cost, limiting the Town's cost to only \$2,430.

Quality Recreational, Leisure and Cultural Opportunities

- The PRCR Department has assisted the Police Department by providing programs and services at several underserved apartment communities. The Department has done this by making the program a secondary assignment for staff within its recreational, athletic, arts and cultural programs, and by hiring part-time staff. Even with this effort, as the 2016 Biennial Survey indicated, lower income citizen use of Town PRCR programs and facilities is low. By adding this fulltime Community Outreach position (\$95,488) we will create a closer relationship with various segments of our population and create more consistent, recurring programming year round.
- Production work at Cultural Arts facilities and events currently is provided by contractors. The number of vendors is small and prices are high. Because a full-time staff person costs less per hour than the contractors, adding a Technical Operations Assistant would reduce reliance on contractors at minimal cost, thereby requiring only \$1,677 in new funding for the new position.

Reliable, Sustainable Infrastructure

- As the types of construction projects become more complex and specialized there is a greater need for general quality control between major capital projects and for consistency between projects. A Facilities Construction Management Specialist (\$141,347) in our Transportation & Facilities Department would support engineers and Public Works facility technicians managing projects by undertaking tasks including constructability review, budgeting/estimating, bidding assistance, construction administration and coordination, specification enforcement, and development of facility standards.
- Currently, eight construction crews share three trailers to haul their backhoes to worksites. When the three trailers are all being used, crews must drive the backhoes to their worksites. Adding two 12-ton trailers (\$30,010) would allow Public Works to consistently haul backhoes rather than driving them to each worksite. Increased use of trailers will extend the useful life of the backhoes by approximately 3 years and decrease the time taken to get backhoes to jobsites by about 50%.

Capital Improvement Budget

Beginning last year, the Town changed its capital budget process to limit the projects included in the first five years of the Capital Improvement Plan (CIP) by the amount and types of funding that is projected to be available in each of the five years. For the first five years, projects are shown as either Programmed or Not Programmed for funding. This approach provides a more realistic assessment of what can be accomplished within the next five years within projected revenues for general capital projects. As such,

the Capital Improvement Budget (CIB) in any year should be similar to the list of Programmed projects shown for the year in the prior year's CIP. Even with such fiscally constrained capital planning, changing circumstances and changes in revenue estimates may require adjustments to the plan. The proposed FY 2017 Capital Improvement Budget is similar to the Programmed projects shown for FY 2017 in last year's CIP, but there are several notable exceptions.

Parks, Recreation, and Cultural Resources

- The CIP approved last year included Cameron Park as a Programmed project with funding for design in FY 2017, and showed Morris Branch Park as a Not Programmed project. Staff now believe that the Morris Branch Park would better serve the residents of northwest Cary due to its better proximity to this growing area at a lower cost. The reprogramming of \$100,000 between the parks in FY 2017 is the first step in a later, more significant shift of funding.
- The FY 2017 CIB shifts funds between several renovation and repair projects to reflect current priorities based on the condition of facilities and their level of use.
- The CIB reflects the reassignment of \$1,950,000 in Interlocal funding from Wake County between the WakeMed Soccer Park Project and the Cary Tennis Park expansion, as approved by Council in April 2016.

Fire

- An additional \$210,000 is included to replace all of the Fire Department's thermal imaging cameras which are at the end of their recommended life. These cameras are used to identify the location of fire within a burning structure,

General Government

- Last year the Town established a Heavy Equipment Replacement Project to provide funding for the replacement of trucks and other rolling stock that cost at least \$50,000. The project was funded at \$1.1 million annually based on the equipment to be replaced over the five year period. During this year's capital budget review, we determined that many of the more expensive vehicles on the replacement list were performing most of their work on water and sewer system activities. As a result, the replacement costs of these vehicles should be charged to the Utility Capital Fund, thereby reducing the amount of funding needed in FY 2017 to \$300,000 and allowing reductions in other years of the CIP.
- The CIP includes several projects to provide annual or semi-annual funding for the replacement of aging equipment and structures at Town facilities. The CIP did not previously include a project to replace aging roofs, and \$400,000 is included in the FY 2017 CIB for this purpose. Funds for this project are included in future years of the CIP as well.
- The FY 2017 CIB includes \$197,000 for replacement of Cary TV equipment to complete the conversion to digital transmission of programming.

Utilities

- The FY 2017 CIB reduces funding for the Basin W12 Regional Pump Station, Gravity Sewer and Force Main from \$4.2 million in last year's CIP to \$1 million. The \$4.2 million project cost was based upon providing the remaining site acquisition and all design and construction funding for the project in FY 2017. Staff have now determined that it would be better to address remaining site acquisition in FY 2017 and provide design and construction funding in FY 2018.
- The CIB includes a new project, Lower Swift Creek Parallel Interceptor, at a cost of \$2 million. A parallel interceptor along the existing Swift Creek Interceptor will ease the burden on existing interceptors during heavy rainfall and other wet weather events. This project previously noted a funding request in FY 2021, but staff have determined that it would be best to complete this work in a shorter timeframe, rather than phasing in improvements as was originally requested.

- The CIB includes a new project, North Cary Water Reclamation Facility – Partial and Diffused Air System, at a cost of \$4.3 million. An external consultant has reviewed capacity needs associated with the North Cary Water Reclamation Facility and determined that this project is the most efficient way of meeting the near-term capacity needs of the facility without moving from a two-train to a three-train operation. Additional aeration will allow the plant to process another 1 MGD within the existing two train system for at least another 5-7 years.
- The CIB includes a new project, RDU Center Pump Station Force Main Replacement at a cost of \$1.6 million. Recent inspection of sewer force mains found that the RDU Center Force Main showed significant loss in pipe wall thickness due to internal corrosion.

FY 2017-21 General Capital Improvement Plan

The first priority for programming of funds during the first five years of the CIP is to maintain the condition and functionality of Town facilities. The CIP approved last year devoted 65 percent of the funding available to maintaining existing facilities. The remaining 35 percent of the funding was used for the expansion or addition of a limited number of facilities. Some of the projects that could not be funded were a high priority, but simply were too expensive to program within our limited capital resources.

For these reasons, we provided Council with the opportunity in October 2015 to identify projects on the Not Programmed list that would be a priority for funding with additional resources, which could include debt or additional funding from the General Fund's fund balance above minimum requirements (green money). Council Members each identified four projects that were a priority to them, and the following projects were selected by at least two Council Members.

1. Downtown Library Parking and Capacity
2. Mills Park Community Center
3. Economic Development Opportunities
4. Downtown Park Future Phases
5. Northwestern Cary Fire Station

Council has since addressed one of these priorities by appropriating \$8.1 million for the library parking deck. Council also gave direction to use \$5 million in fund balance to support a residential and commercial economic development project at S. Harrison Ave and West Chatham St. This direction is reflected in the CIB.

Per Council's direction, we have considered what projects could be programmed for funding within the resources that the Town devotes to capital projects, and have developed a proposal for alternative funding of additional significant projects. In developing this proposal, we sought to support the remaining Council priorities while also addressing other capital needs. The proposal for funding capital from additional resources is based on three assumptions:

1. The Town can issue an additional \$50 million in debt over the next five years without impairing its financial standing;
2. Debt ideally should be subject to voter approval in a bond referendum in November 2018, but projects that are needed sooner could be financed with debt not subject to voter approval;
3. Up to \$5 million of additional fund balance (green money) could be used for projects for which the use of cash was more appropriate than debt.

The proposal is a multi-year plan, and only the projects for FY 2017 require Council approval this year. If Council gives direction about future projects and sources of financing during consideration of the FY 2017 budget, staff will return to Council at each stage of the process for further direction necessary approvals.

The proposal would address the Council priorities for a Mills Park Community Center and the Fire Station #10 on O'Kelly Chapel Rd. In addition to the capital costs of design and construction in FY 2020 and FY 2021, Fire Station #10 will have capital costs in FY 2022 for the purchase of a pumper. We expect

that this cost can be accommodated without debt. Both projects would have significant operating costs beginning in FY 2022, for both the equipment needed to upfit the facilities, and ongoing annual personnel costs, utilities, supplies, and maintenance. The debt for the construction of these facilities would be subject to voter approval. The additional debt service associated with the bonds and the operating costs of the facilities could be funded through either a tax rate increase (as with the 2012 bonds) or reductions to spending and service levels. In addition to these two Council priorities, the proposal includes several time-sensitive projects of importance. The full proposal is shown below:

Project	Type of Debt	FY 17	FY 18	FY 19	FY 20	FY 21
Sidewalk Facilities	2012 GO Referendum	\$1,027,700	-	-	-	-
Fire Station #9	2012 GO Referendum Installment Purchase	\$7,150,000	-	-	-	-
Police Evidence Room Capacity	Installment Purchase	\$2,000,000	-	-	-	-
Aerial Ladder Truck for New Company in NW Area	Installment Purchase	\$672,000	-	-	-	-
Downtown Development Project	Fund Balance (Green Money)	\$5,000,000				
USA Baseball National Training Center Facility Improvements	Fund Balance (Green Money)	\$3,197,500	-	-	-	-
Reedy Creek Road Widening	2012 GO Referendum	-	-	\$7,000,000	-	-
Aerial Ladder Replacement	Installment Purchase	-	-	-	\$1,260,000	-
Mills Park Community Center	Future GO Referendum	-	-	-	\$1,500,000	\$15,000,000
Fire Station #10	Future GO Referendum	-	-	-	\$750,000	\$7,000,000
Chapel Hill Road Widening	Future GO Referendum	-	-	-	-	\$5,850,000
Fire Pumper Replacement	Installment Purchase	-	-	-	-	\$655,200
TOTAL		\$19,047,200	-	\$7,000,000	\$3,510,000	\$28,505,200

NOTE: The amounts shown are not the full cost of the project, but are the portion to be funded by debt or additional General Fund fund balance.

The rationale for including the additional projects is summarized below:

- Sidewalk facilities – Sidewalks on Penny Road and Old Apex Road were part of the sidewalk program presented to voters in 2012 bond information, but they cannot be completed within the amount of debt issued for sidewalks because the cost of the other 2012 sidewalk projects is higher than expected due to the need to purchase additional right-of-way and easements. These two projects would be funded by using authorized but unissued 2012 bonds.
- Fire Station #9 – Fire Station #9 on Walnut St would improve service to areas of Cary, including Crossroads Shopping Center, where response time currently exceed standards. The station’s current building on NE Maynard Road has structural concerns and cannot serve as a long-term facility. The closure of the current station and construction of a new station was part of the plan when Fire Station #2 was proposed for construction as part of the 2012 bonds. The Station #9 project would be financed by a combination of authorized but unissued 2012 bonds and installment purchase debt, which pledges the asset as collateral and does not require voter approval.
- Police Evidence Room Capacity – The Police volume of material stored in the evidence room is rapidly reaching capacity, due in part to the requirement that evidence in some crimes against persons cases be kept for decades. The proposed funding is a preliminary estimate of the cost to build a new, secure evidence storage facility on Town property. The construction would be financed with Installment purchase debt.
- Aerial Ladder Truck for New Company in NW Area – The Town standard for structural fires requiring a ladder truck is that 90 percent of responses must take less than 10 minutes to provide an “effective firefighting force”. In the northwest part of Cary the figure is 19 minutes. Adding a

ladder company in this area would bring response time within the standard. Because the truck would require 13 new positions to staff all three shifts, the operating cost of this truck would be \$1.2 million beginning in FY 2018. This significant cost would require either a reduction in spending and service levels within the General Fund operating departments or a tax increase in that year of less than half a cent at current revenue projections. The purchase of the truck would be financed with installment purchase debt.

- Reedy Creek Road Widening – The project would widen Reedy Creek Rd from NE Maynard Rd to Harrison Ave to three lanes and provide curb and gutter, sidewalks, and street lighting. The Town has received \$360,000 in Federal funds to begin the design and permitting of the project and the Town contributed \$240,000. If the project is not completed by September 2021, the Town will be required to return the \$360,000. Construction funding would be needed by FY 2019 to meet this schedule. It is likely that additional federal funding will be available to offset some of the project cost and reduce the amount of debt that would be needed. The Town portion of the project would be financed with authorized but unissued 2012 bonds.
- Aerial Ladder Replacement – The scheduled replacement of a ladder truck could not be fully funded within designated capital funding sources in FY 2020 due to its cost. The purchase of the truck would be financed with installment purchase debt.
- Chapel Hill Road Widening – The project would widen Chapel Hill Road from N. Academy to Reedy Creek Road to a 3-lane section with curb and gutter, bike lanes, sidewalk, and street side trail in order to improve safety in corridor, provide safe pedestrian and bicycle links to the downtown area and spur economic redevelopment in the corridor. Most of this project would be funded by General Obligation bonds for which voter approval would be sought in November 2018.
- Fire Pumper Replacement - The scheduled replacement of a pumper truck could not be fully funded within designated capital funding sources in FY 2021 due to its cost. The purchase of the truck would be financed with installment purchase debt.
- USA Baseball National Training Center Facility Improvements – As part of its interlocal agreement with Wake County for use of occupancy tax funds, the Town committed to using part of its distribution of the funds to support half the cost of constructing a clubhouse facility and office space at the USA Baseball National Training Facility. The remainder would be paid by USA Baseball, which so far has not raised its share of the funding. In the last year, USA Baseball implemented an agreement with youth baseball organizations for the licensing of youth baseball bats, which will provide it with an ongoing revenue source to fund the improvements. USA Baseball has requested that the Town front the full cost of the construction project and that it be allowed to pay the Town back through a ten-year lease of the facility that would cover both the annual maintenance of the facility and the capital costs. This project would be funded with General Fund fund balance (green money). The capital portion of the lease payments would replenish fund balance.

It is possible to revise the Town's debt issuance schedule and debt repayment structure in order to avoid a tax increase for the debt-funded projects proposed for FY 2017 and FY 2019. The Town was planning to issue a second round of bonds to fund the 2012 referendum projects in September 2016. Given the pace of spending for the projects, this debt issuance date now appears premature. If the sale is delayed until September 2017, the funds that would have been used to pay the debt service on this issuance can be directed to an existing 2012 bond project (Carpenter Fire Station Rd Bridge and Intersection Improvements), thereby reducing the need to issue debt for that project. Rather than use the repayment structure that was planned, which involved high initial payments and much lower later payments, the debt could be issued with a more even repayment schedule, thereby allowing the debt to be issued at a lower annual repayment cost and allowing the additional debt proposed for FY 2017 as part of this proposal to be issued in May 2017 without a net increase in annual debt service. By funding these important projects with debt and fund balance (green money) the portion of the CIB devoted to expansion of existing facilities and development of new facilities would increase to 47 percent.

FY 2017-21 Utility Capital Improvement Plan and Utility Rates

The utility capital budget was developed as it has been in prior years, with a multi-year focus. All identified projects are funded with sources designated for utility projects, such as water and sewer development fees, transfers from the utility fund, or revenue bonds. The cost of the debt service for revenue bonds is factored into the rates charged to water and sewer customers. Future utility rates are calculated using the multi-year rate smoothing approach initiated in FY 2009, which is designed to avoid large rate increases in years when significant amounts of debt must be issued, and to generate funds that can be used to reduce the amount of debt that must be issued. Rate smoothing spreads the effect of large projects on the rates over several years, avoiding large rate increases in any one year.

Over 42 percent (\$55 million) of the capital funding over the first five years of the utility capital plan is devoted to the upgrading of water lines and the rehabilitation of sewer lines. Seven other projects valued at over \$3 million each account for 54 percent of the total funding.

The Recommended Budget also includes increases in the water and sewer utilities rates that equate to a \$2.85 (3.8 percent) increase in cost for a residential customer using 5,000 gallons per month. Because of rate smoothing, we currently project that utility rates will increase at an annual average rate of 3.74 percent over the next eight years.

Conclusion

In summary, I believe that this budget will move the Town towards the Council's stated goals and will do so in a fiscally responsible manner. The production of the Recommended Budget is truly a collaborative effort by our Town staff. Departments assess their needs and develop budget requests. The Budget Office coordinates the development of the budget and provides analysis of the departmental requests. The Finance Department develops our utility rate recommendations. The Executive Team reviews requests and advises me as I make decisions about the budget. I wish to recognize and extend thanks to staff in all Town departments for their invaluable assistance during the budget process and express my appreciation to the Town staff that helped in preparing this budget.

Respectfully submitted,



Michael J. Bajorek
Interim Town Manager