

BUDGET MESSAGE FOR FISCAL YEAR 2010

Mayor Weinbrecht and Members of Council:

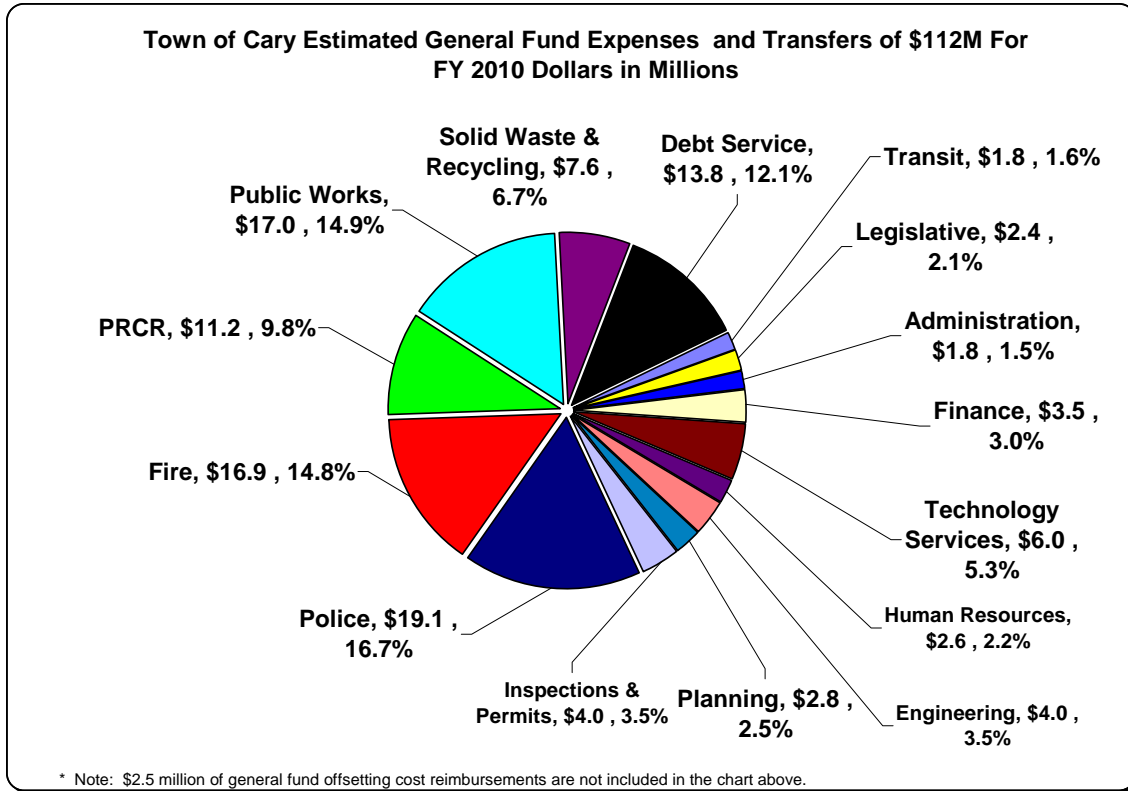
Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the recommended annual budget for fiscal year 2010 for the Town of Cary. The budget is balanced without a tax increase and identifies methods of raising and spending funds for specific programs during the coming 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 2010 Recommended Budget is to continue with a 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 has recently refined its statement of values and mission statement and even developed guiding principles and a vision statement to help improve and clarify both how we conduct ourselves and to provide a framework to describe the sense of community we encourage through our comprehensive goals and initiatives. With these guidelines and the program areas of interest confirmed at the Council / Staff Retreat in early 2009 in mind, we have worked through our budget development process with a focus on providing high quality services in an efficient manner while working within limits of our existing revenue sources which have been impacted significantly as a result of the current economic recession. As part of this process and in everything we do throughout the year, we strive to provide the pertinent information necessary for the Town Council to make the wide variety of policy and program decisions necessary to help determine the future of the Town of Cary. The longer the economic recession continues, the more critical our decisions will be regarding service levels we provide every day given our general fund related capital debt financing and fund balance levels. It is extremely important that we do everything we can to maintain our strong financial position which was recently confirmed with our bond sale in April 2009.

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	A 2.1% increase for tier 2 water rates (between 5,000 and 7,000 gallons) and a 13.3% increase for sewer volume charges. For a residential customer averaging 7,000 gallons per month, the increase is expected to be \$5.55 per month or about 7.9%. For a 5,000 gallon customer, the increase is expected to be \$3.85 per month or 7.5%. While there are no changes being recommended to base charges or tier 1 water rates (up to 5,000 gallons), rate increases are needed to pay increasing utility costs for capital infrastructure and to help buffer the impacts of wet weather and conservation efforts.
Development Fees	No	Rates were adjusted to 75% of their maximum for water, sewer and transportation with the adoption of the FY2009 budget. Incremental annual increases of 3% were mentioned during the related studies, but an increase is not recommended at this time.
Capital Funding Levels	Yes	Significant decreases in capital spending are needed due to the pending debt service already committed to and the impact the recession is having on the Town's general fund.
New Positions	Yes	27 new positions were identified during budget development, but only one new position is included given the recession's impact on the Town's finances. In addition, 22 existing vacant positions are expected to be held vacant in FY 2010.

Despite the impacts of the recession on the Town's finances and operations that are discussed in detail later, the recommended budget for FY 2010 provides a high quality level of service for our citizens while continuing to protect and maintain 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 \$112 million general fund budget is broken down to carry out service provision in fiscal year 2010. This year's overall general fund operating budget represents a net increase of about \$803 thousand or 0.7%.



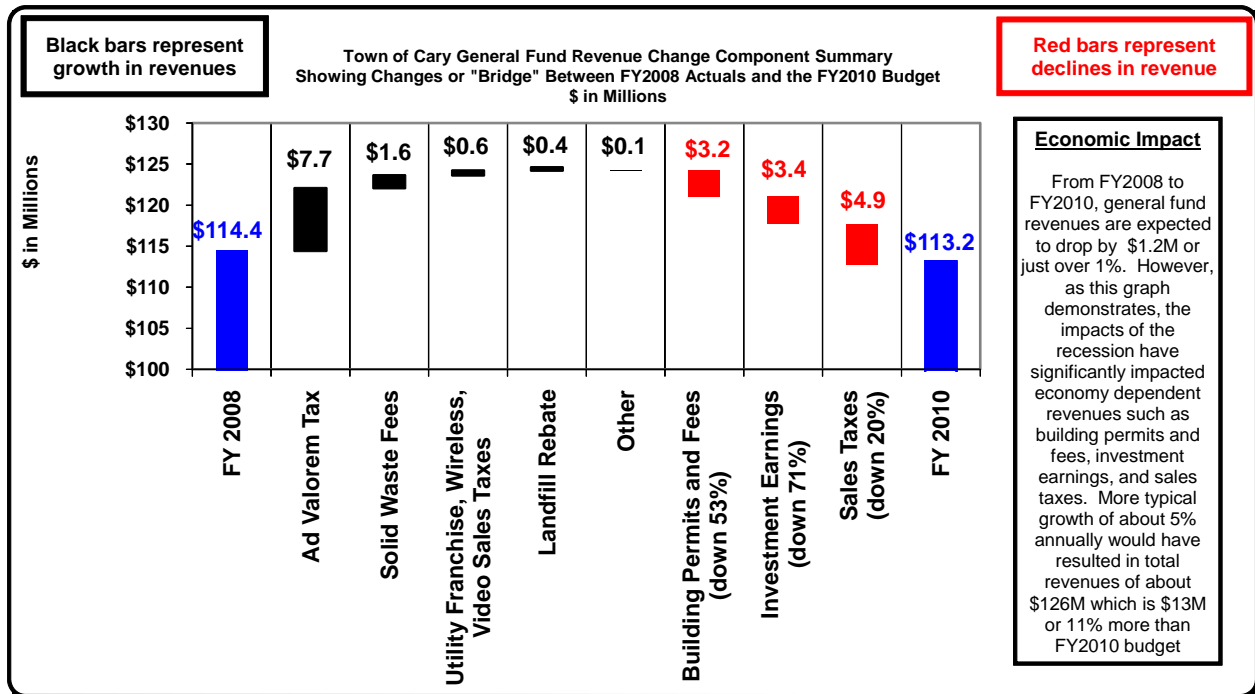
In addition to the public safety and other operational duties covered by the general fund, the FY 2010 recommended budget provides for the continuation of several very important capital projects that have received funding in recent years. While there is no new funding being recommended in the FY 2010 capital budget for the following projects, they do reflect the types of capital projects that have received funding in previous budgets that are continuing to move forward to help ensure we continue focusing on public safety and maintenance of our existing infrastructure:

Project Title	Brief Description	Prior Funding
Fire Station #8	A station at the Mills Park site on Green Level to Durham 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 early 2010 and be operational in early 2012.	\$4.1 million
Radio System Upgrade	The Town's 800 megahertz radio system provides the backbone for public safety and public works operational communications. This project updates the system and equipment for better functionality and dependability.	\$9.7 million
Computer Aided Dispatch System	The existing 911 communications center software and records management system is being upgraded to ensure data integrity and better utilization of resources throughout the public safety service delivery process.	\$1.7 million
Cary Parkway Repaving	The Cary Parkway pavement rehabilitation process is underway and will continue throughout 2009.	\$8.1 million
Water Treatment Plant Residuals and Chemical Feed Facilities	This project at the Cary/Apex water treatment plant provides new sludge thickeners, backwash settling, and polymer system improvements to expand the residuals treatment capacities necessary to provide required processing technology and capacity.	\$14.6 million

MAJOR ISSUES IMPACTING THE FY 2010 BUDGET

Recession and the Impact on Our Revenue Structure

The recession began to impact Town of Cary sales tax revenues and building permits and fees a few months into fiscal year 2009 (fall of calendar 2008). These two revenue sources combined are expected to be about \$8 million or 27% lower in FY 2010 than they were in FY 2008, just two years ago. The graph below compares the major revenue changes since FY 2008 compared to those projected as part of the FY 2010 recommended budget.

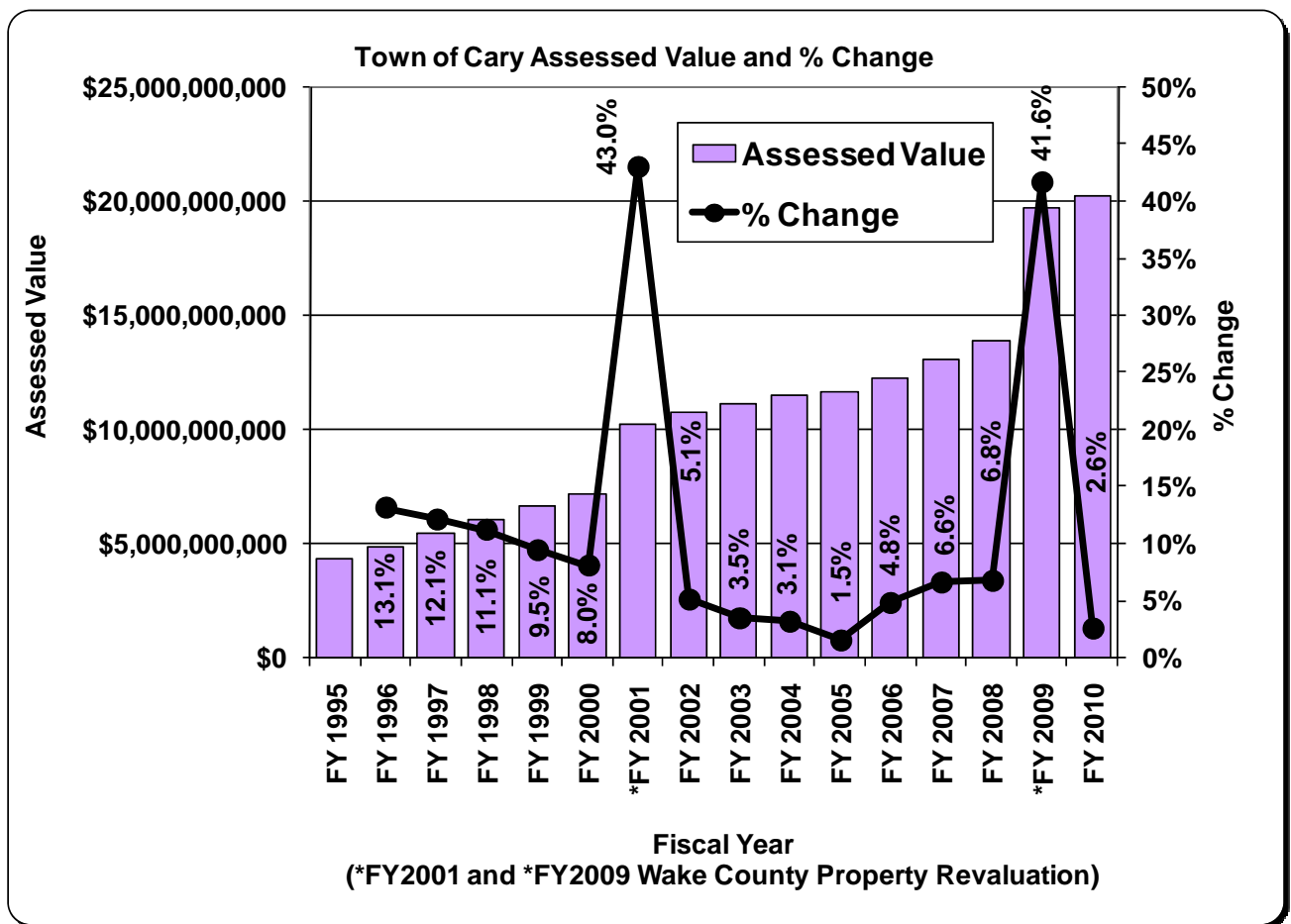


Tax Base Growth

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 2010, the taxable property is expected to equal \$20.2 billion which reflects tax base growth of about 2.6% over estimated FY 2009 levels. This total includes \$278 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. Because of the revaluation process this year, it is unclear just how much of the increase in Chatham County's value from \$172 million in FY 2009 to \$278 million in FY 2010 is due to new growth versus the revaluation process. According to the Chatham County tax assessor's office, the county-wide increase for residential property values averaged about 24% and the average increase for in the Cary portion of Chatham County was 21%. Since a municipality can only have one tax rate and Cary's tax rate was reduced from 42 cents per \$100 of taxable property to 33 cents in FY 2009, the Town of Cary property owners in Chatham County now are on effectively equal footing in terms of tax values to those that live in Wake County. The next property revaluation in Chatham County will impact values for FY 2014. The amount of Cary's total tax base in Chatham County represents about 1.4% of the total in FY 2010.

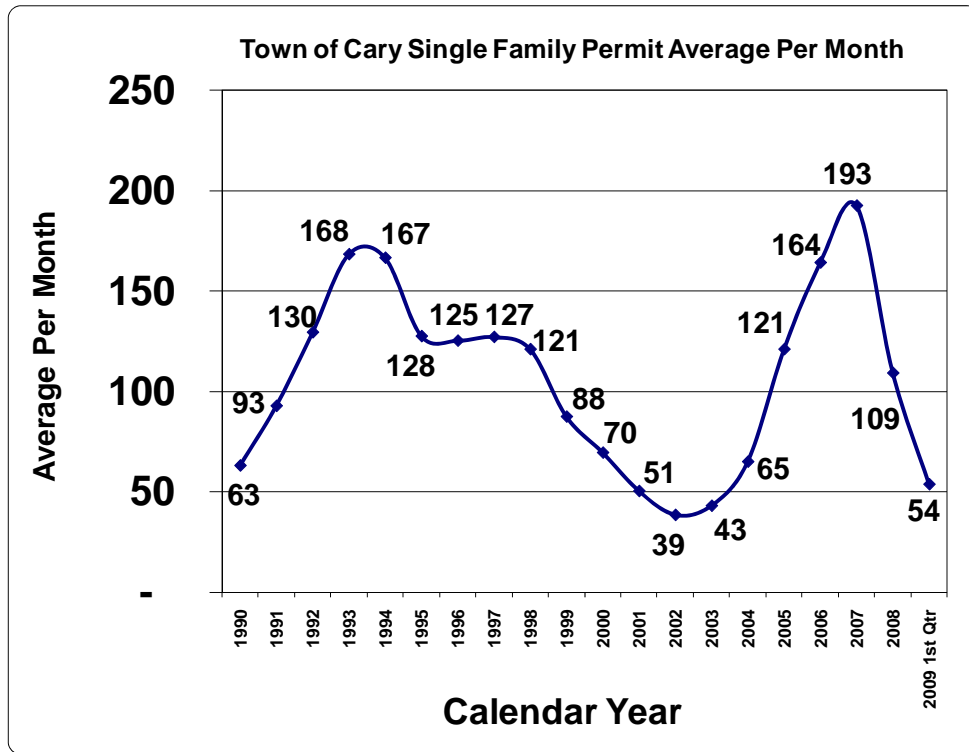
During the early 2000s, the impacts of the poor economy, coupled with the Town’s successful growth control measures, combined to slow the rate of revenue growth compared to that of the mid to late 1990s. Since the mid 1990s, the Town’s tax base has generally been comprised of about 70% residential and 30% non-residential. While commercial and office developments have continued locating in Cary, residential tax base has been added a little more quickly. 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 \$65.8 million, comprises 58% 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 in the fall of 2008 to an expected growth level of only 2.6% 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 expected to be much lower than 2.6%.

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.

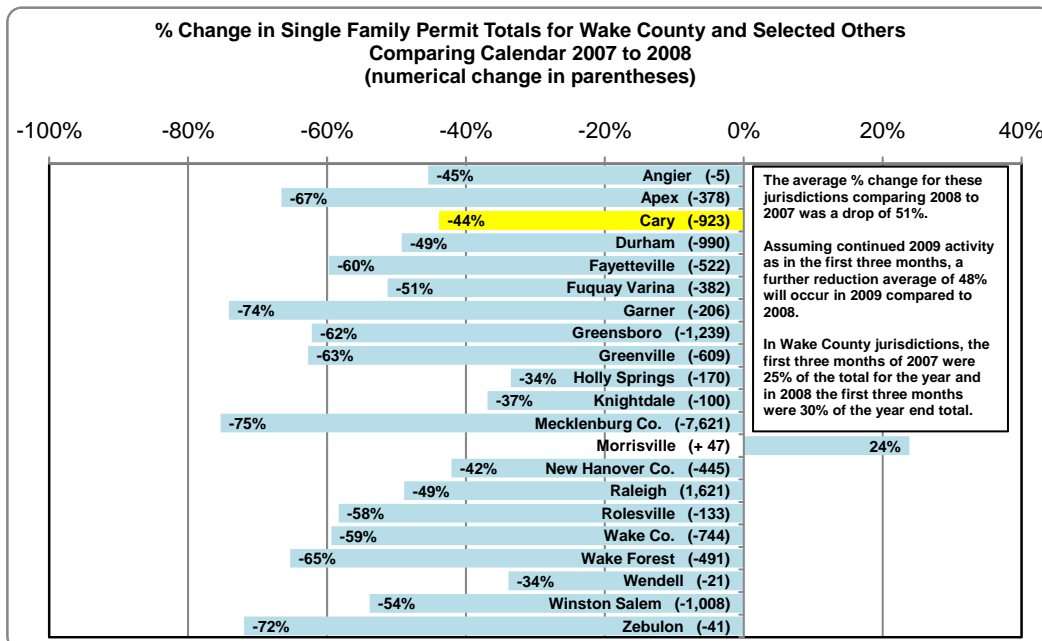


The assessed value on which tax receipts are calculated is based on what has been built by the prior January 1 meaning that FY 2010 revenues are based on tax values “on the ground” as of January 1, 2009. Since Cary’s tax base is much higher than it was in the mid 1990s, it takes more growth each year to have the same percentage increase.

The graph below shows new single family residential permits issued 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.



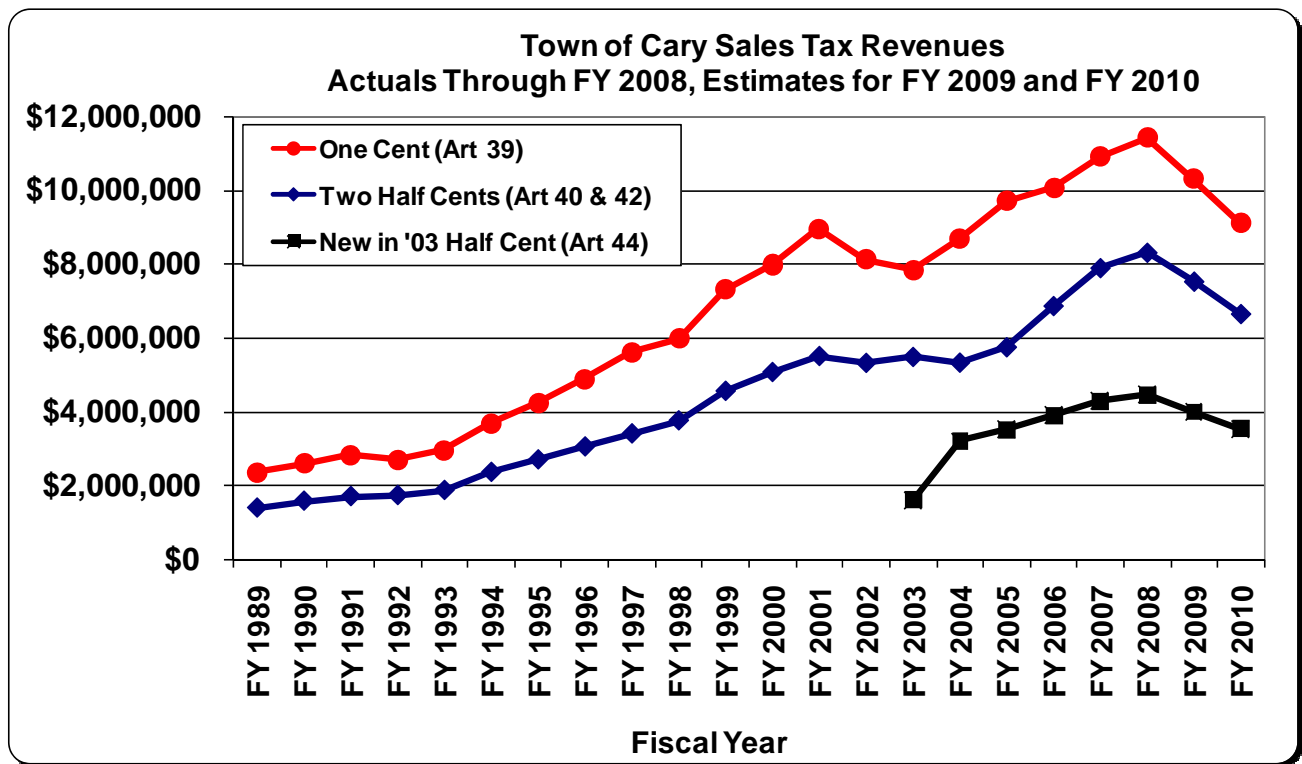
The Town of Cary is not alone in the precipitous decline in single family permit activity in 2008 and the first quarter of calendar 2009. The graph below of all jurisdictions in Wake County and several in North Carolina jurisdictions is based on 2008 compared to 2007 single family permit levels. Commercial 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.



Sales Taxes

Projected sales tax revenues totaling \$19.2 million in FY 2010 make up 17% 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 past few years 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 is now showing signs as well. The recessionary impacts are expected to continue through FY 2010 and are depicted in the graph below representing a total decline compared to FY 2008 of \$2.4 million or 9.8% expected in FY 2009 and a further decline of \$2.5 million or 11.7% in FY 2010. If sales tax revenues in FY 2009 and FY 2010 had continued at the average annual growth rate of 11.5% which occurred over the last four years, sales tax revenues in FY 2010 would have totaled \$32 million which would be about \$12.8 million or 67% higher than the \$19.2 million being budgeted.

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 County 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 in 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 past few years, investment earning levels improved, but as the economy has slumped again, total investment earnings for FY 2010 are expected to be

about \$6.9 million which is \$12.5 million or 65% 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 approximately \$1.4 million in FY 2010. For comparison purposes, each penny on the tax rate in FY 2010 is expected to generate \$1.98 million in revenue, so the Town's much weaker investment earnings in the general fund are expected to generate only about 70% of one penny's worth of tax revenue.

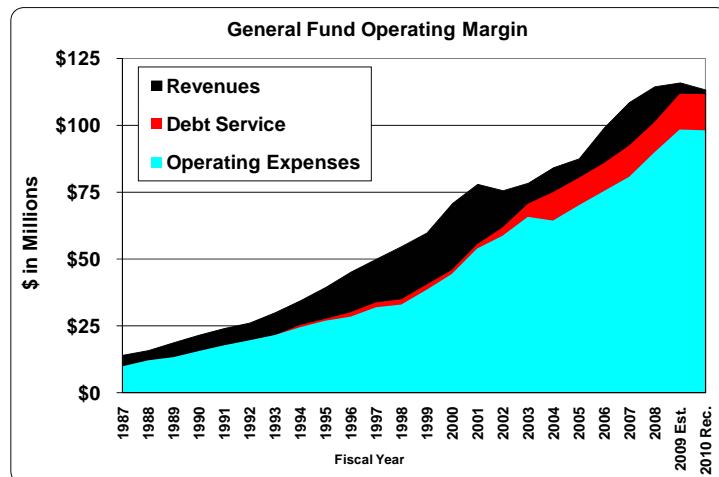
Debt Service

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 2010 is only expected to be 13.4%. 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 2010. In addition, general debt service is expected to increase to \$23.9 million in FY 2014 as principal and interest payments for debt sales from previously committed projects become due. Thus far, the level of operating margin available has been able to absorb debt service increases. However, because the level of anticipated general fund debt service is expected to continue growing as an additional bond issuance is needed to fund already committed projects, there will be additional operating margin needed.

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 revenue 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 approximately \$1.4 million or about 1.2%. All but about \$444,000 of this operating margin is being consumed by recommended pay-as-you-go funding for capital.



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 an inter-basin transfer certificate agreement to return water to the Cape Fear River basin by 2011. 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 2010 includes \$12.5 million for the Western Wake Regional Wastewater Management Facility. No other general obligation debt is recommended for appropriation in FY 2010. 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 2010 is as follows:

- 2003 \$130 million transportation bond: \$30.1 million remaining
- 2003 \$30 million park bond: \$6.7 million remaining
- 2005 \$110 million WWRWMF bond: \$3.5 million

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.

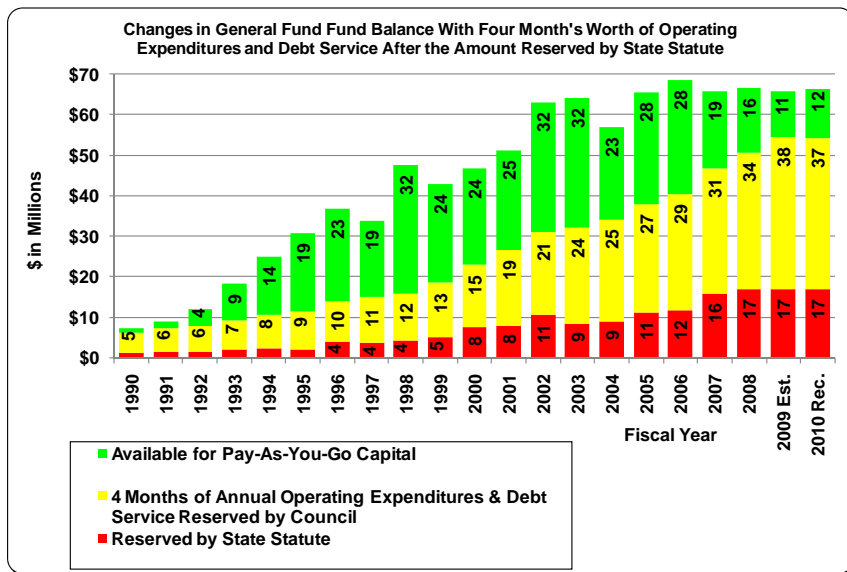
Debt service related to the 1999 bond authority for streets and parks, costs related to the widening of North Carolina Highway 55, an expansion of Town Hall and the debt issued from the 2003 street and park bonds have combined to increase debt related costs in the general fund to \$13.7 million in FY 2010 with expected increases of another \$10.2 million by the FY 2014 budget to total \$23.9 million if all projects funded with debt proceed as currently projected. 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 growth for FY 2010 and the near future will be key indicators of how strongly the Town will need to limit new debt appropriations, and potentially reconsider certain past capital appropriations. All of these actions strongly influence the level of additional funding necessary in the future which could include tax increases.

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 \$21 million from \$36 million to an expected \$56 million with the FY 2010 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 consider adjusting 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 today. However, the current definition of the amount set aside for emergencies is known to be more consistent with evaluation criteria utilized by bond rating agencies and is expected to leave approximately \$12 million available for capital by the end of FY 2010. 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 rating, which was confirmed again during the April 2009 bond sale, 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 2010 at \$14 per month. In April we began implementation to curbside recycling which is expected to save approximately \$600,000 annually. As a result of this fee increase and the comparative cost effectiveness of the curbside services, the cost recovery percentage for solid waste and recycling collection is expected to reach 79% in FY 2010 versus the target of 80%, with the remaining 20% being covered by other general fund revenues as the program benefits the entire community. 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 \$484,000 in FY 2010).

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 2010 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 \$21.8 million in revenue. Existing capital debt appropriations call for general fund debt service to grow from \$13.7 million in FY 2010 to \$23.9 million in FY 2014.

Other initiatives to help create and/or reduce the impact on operating margin totaling about \$9 million for the next couple of years (with \$5.8 million recurring annually) have been initiated recently including:

- raising the business license fees effective in FY 2007 for the first time since 1990 (generated an additional \$650,000 in FY 2008)
- reducing employee average raise amounts in FY 2006 (saving about \$320,000 annually)
- 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 2010 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 2010 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 79% vs. a target of 80%.
- 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.

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 slowed dramatically 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 \$15 million in FY 2010. 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 very near 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 seven 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 have occurred during the year, are being held open. Currently 22 positions are being held open and are expected to remain so throughout FY 2010 unless conditions warrant filling them sooner. Any positions that become vacant are being reviewed personally by me prior to the position being approved for recruitment.

GENERAL FINANCIAL CONDITION OF THE TOWN

FY 2010 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, 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 issuance completed in April 2009.

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 revenue growth has continued, an overall 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 2.6% anticipated in FY 2010. Past strong population and commercial development has 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 must be sought 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

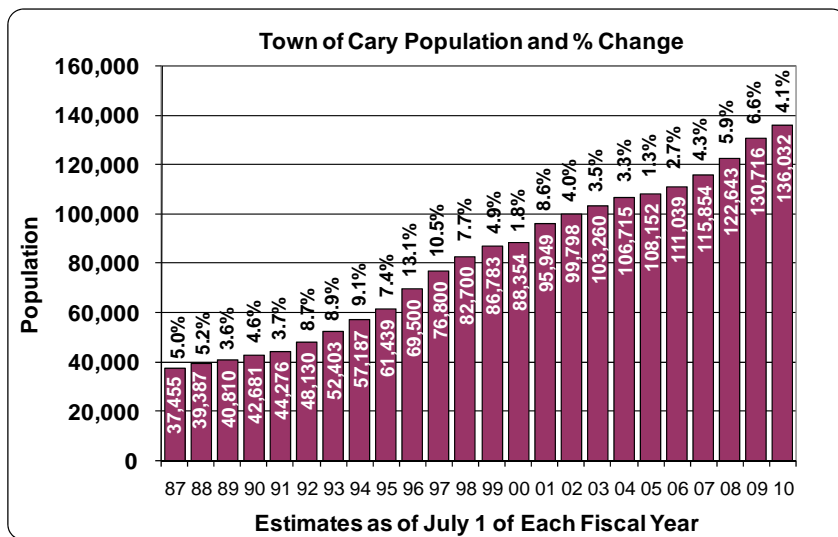
resulting increases in debt service. Financial reserves over and above Council’s four month goal for fund balance have been leveraged, but their ability to fund significant capital requirements in the future will be minimal. These changes will affect future operating budgets with increased debt service and investment income fluctuations reflecting shifts in cash balances. 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 financial actions should include consideration for 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 rate of population growth is expected to reach about 136,000 people as of July 1, 2009, which is an annual growth rate of about 4%, significantly lower than the double-digit growth experienced during much of the 1990s. 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 4.7 % from July 1 of FY 2006 through projected population as of July 1 of FY 2010. With the significant decline in the number of new single family permits experienced over the past six months and the continued recession, it is extremely likely that population growth rate over at least the next couple of years will significantly lower.

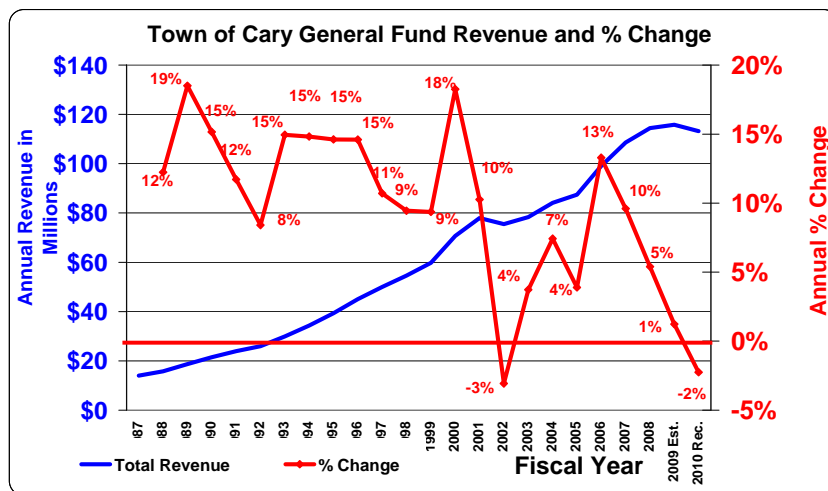


From a historical perspective, most of the Town of Cary’s population growth has occurred in just the last thirty years having grown from a population of 21,763 in 1980 as seen in the table below reflecting historical decennial data and an estimate for 2010. This chart demonstrates just how much the average 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.	136,032	41,496	44%	4.4%

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 2010 are expected to total \$113 million which is a 2% decrease versus estimated revenues for Fiscal Year 2009 and a 3.4% drop from what was anticipated in the adopted FY 2009 budget. 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 anticipated in FY 2010. Most economists are expecting the economic climate to gradually improve starting in late 2009/early 2010. Should this timing actually occur, we expect that our revenue picture will be slightly better in FY 2011 in sales taxes. However, the current slowdown in the building industry will almost certainly translate into a slower tax base growth rate in FY 2011.

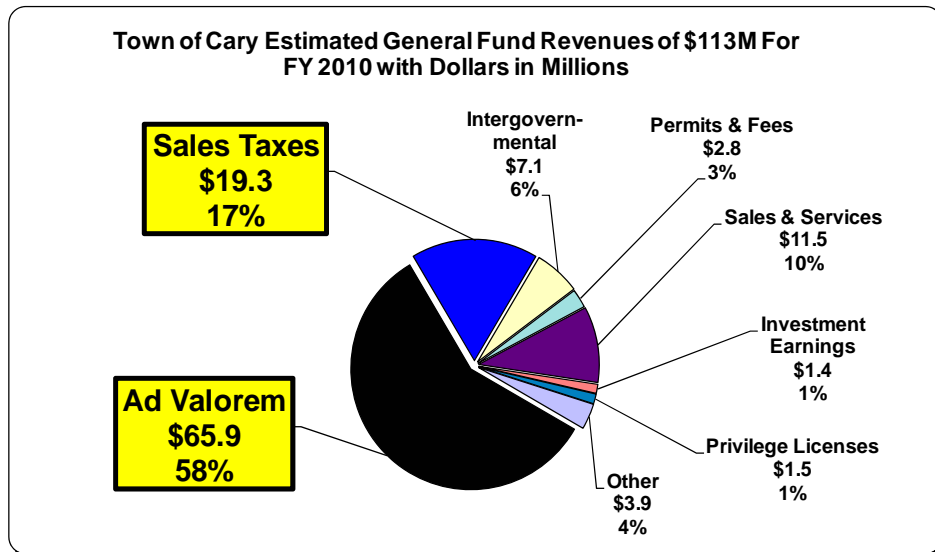


The Town's major source of revenue for FY 2010, the property tax, is based on January 1, 2009 assessments, which are projected to increase 2.6% over the estimate for FY 2009. This growth impacts revenue billings in FY 2010 and is based on new construction on the ground as of January 1, 2009 that is new since January 1, 2008.

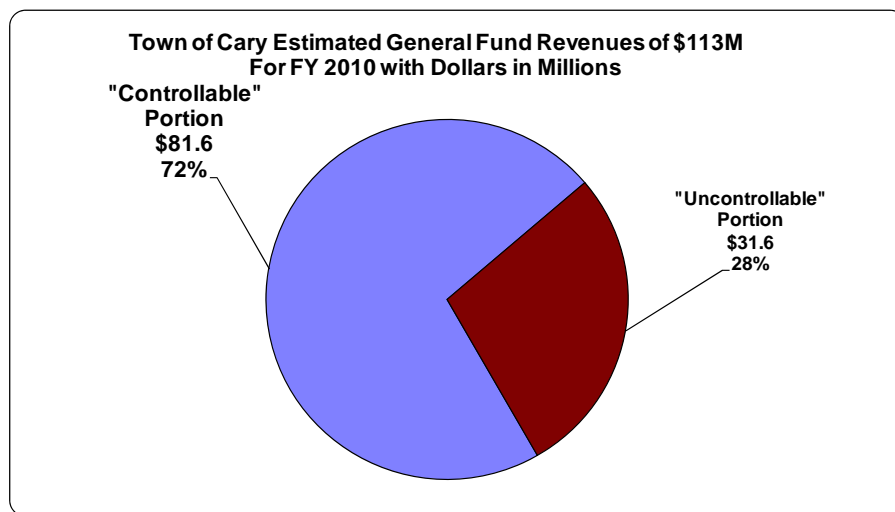
The Cary Town Council sets the tax rate, currently 33 cents per \$100 of assessed value, each year as part of the budget process. The tax rate for the year becomes official when the new budget is adopted annually in June. The tax rate for Fiscal Year 2010 is recommended to remain unchanged at 33 cents per \$100 of

assessed value. The tax base in FY 2010 is estimated at \$20.2 billion, which includes real property (land and buildings), personal property (campers, boats, etc.), public service property (public utilities), and vehicles. This total includes \$278 million for property located within Cary's corporate limits of Chatham County (about 1.4% of Cary's total). The 33 cent rate is expected to provide \$65.4 million in revenue. One penny on the tax rate is expected to generate approximately \$2 million in revenue for the Town in FY 2010.

The chart below provides a breakdown of the major revenue categories in the general fund, their amounts, and their respective percentages of the total \$113 million in revenues expected in FY 2010.



As is the case with most units of local government in North Carolina, the Town of Cary's controllable sources of revenue are relatively restricted in terms of number, but are generally fairly stable in comparison to other areas of the county that rely heavily on income tax revenues instead of property taxes. Included below is a breakdown of both controllable (property tax, solid waste fees, permits and fees, business licenses) and uncontrollable revenue sources (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. However, the 2000 decennial census caused a reallocation of the distribution of sales tax revenue

from retail sales. 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 \$15,000 distributed to Cary based on its Chatham population are not substantial compared to 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 8.93% which is almost back up to its peak of 8.94% experienced in FY 2001. If Cary's distribution percentage had remained constant at the 8.63% level of FY 2006, it would be receiving about \$650,000 or about 3.3% less, in FY 2010.

Projected sales tax revenues totaling \$19.2 million in FY 2010 make up 17% 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 past few years helped this source recover with an average annual growth rate of 11.5% for FY 2003 through FY 2007. With the global and domestic economies slowing once again however, the health of Cary's regional economy has started slowing as well and the recessionary impacts are expected to continue through FY 2010. 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 \$2.4 million or 9.8% is expected in FY 2009 and a further decline of \$2.5 million or 11.7% is anticipated in FY 2010. If sales tax revenues in FY 2009 and FY 2010 had each continued at the average annual growth rate of 11.5% which occurred over the last four years, sales tax revenues in FY 2010 would have been expected to total \$32 million which would have been about \$12.8 million or 67% higher than the \$19.2 million being budgeted.

Utility Fund

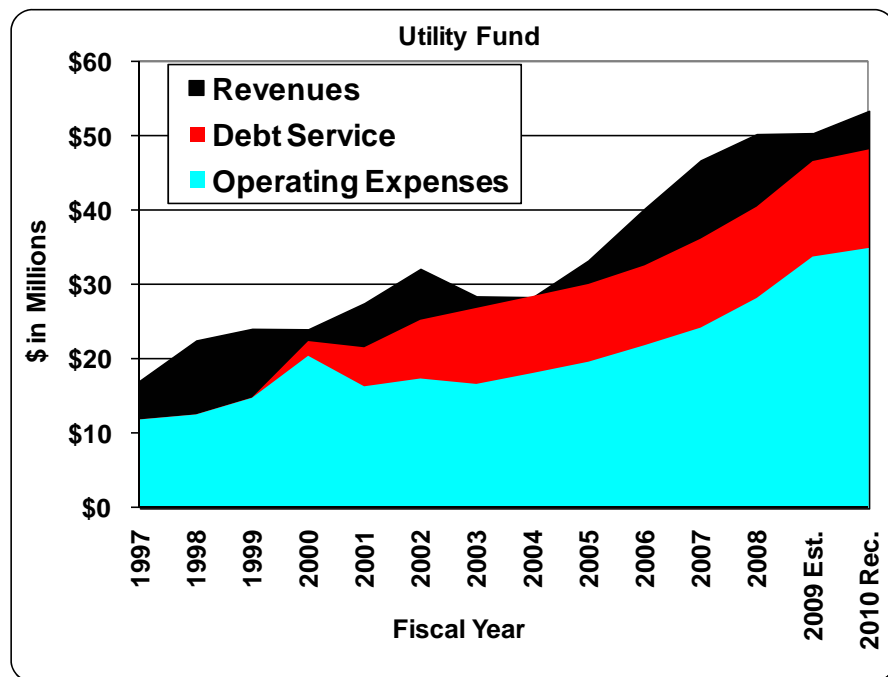
Utility fund revenues are budgeted at \$53.5 million for FY 2010 and include Morrisville customer generated revenues following the April 3, 2006 merger of the Morrisville water and sewer system with the Town of Cary system. Per the merger agreement, Morrisville customers will be paying slightly higher 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 3.1% compared to FY 2009 estimates, while total sewer retail revenues are expected to increase 11.6%. These increases reflect a blended rate increase of 7.9% or \$5.55 per month for a residential customer using an average of 7,000 gallons per month (\$3.85 or 7.5% for a residential customer averaging 5,000 gallons per month). Projected capital investment needs related to the Western Wake Regional Wastewater Management Facility are expected to require additional rate increases in the near future that could approach as much as 18% in FY 2013. 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 patterns. In order to collect enough revenue to recover the mostly fixed costs of the utility system, these combined rate increases 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 anticipated in FY 2013 by having smaller annual increases in each preceding year.

As was initiated in FY 2002, the utility rates generate \$1 million annually for open space acquisition. The FY 2010 recommended budget appropriates \$500,000 of the FY 2010 \$1 million to the open space project for pay-as-you-go funding, while the remaining \$500,000 is being transferred to the general fund to fund 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. Total revenues in the utility fund are projected to increase 6% compared to the FY 2009 estimated revenues. Fund balance levels are forecasted to increase with approximately \$48.8 million anticipated at the end of FY 2010 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 2010 budget, \$94.1 million of the wastewater bond and all \$10 million of open space bond funding, which was appropriated in FY 2007, will have been appropriated.

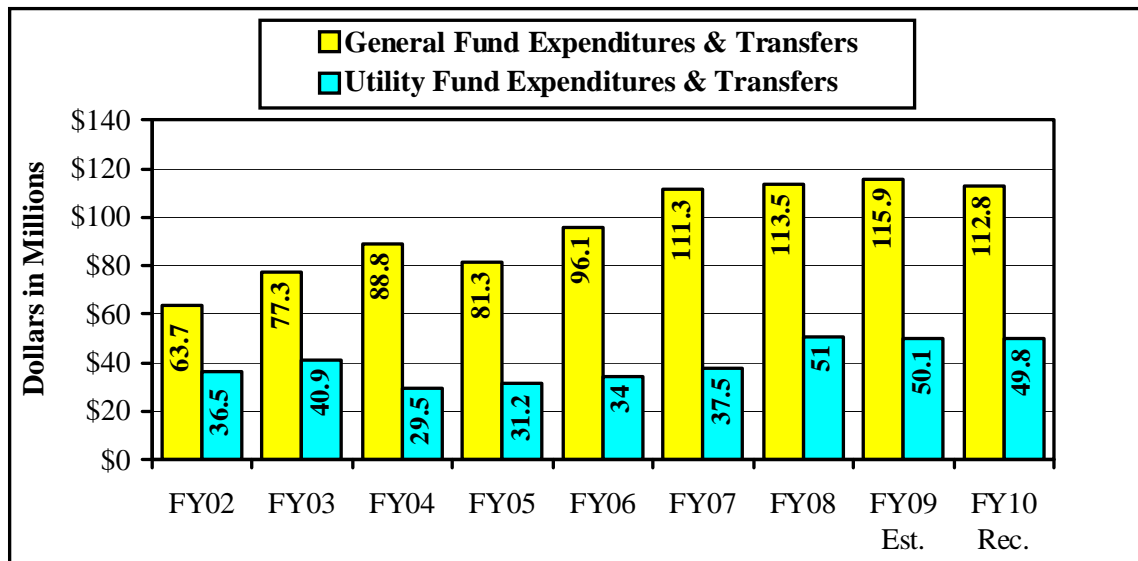
As the chart below illustrates, utility fund revenues have been increasing to help afford related debt service and operational cost increases. The rate of debt service growth (in red) and steadily climbing and heavily fixed operating expenses (in blue) have put increasing pressure on the rate of revenue 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 \$3.7 million or about 7.5% after transfers to capital. This contribution is being generated in part 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

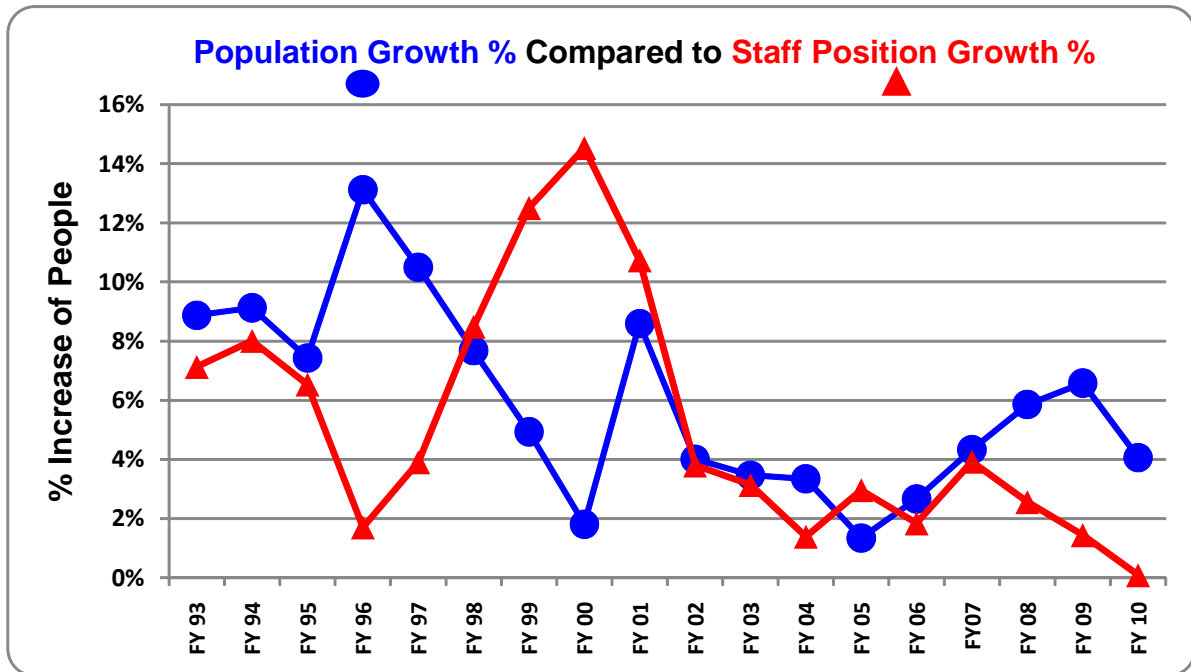
General Fund and Utility Fund Total Expenditures Summary

General fund expenditures and inter-fund transfers total \$113 million for FY 2010. Included in this amount is \$949,700 in the form of a fund balance transfer funding the annual contribution to the Town's sanitation and recycling truck replacement program. The FY 2010 transfer for capital reflects a \$3 million decrease compared to FY 2009. Debt service is budgeted at \$13.7 million in FY 2010 and is expected to increase to \$16.4 million in FY 2011. Utility fund expenses and transfers total \$49.7 million including the \$500,000 transfer to the general fund for open space debt service and the \$500,000 directed to the open space project. This total also includes \$12.8 million to cover utility-related debt service requirements that are expected to increase to \$17.5 million in FY 2011.



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 is much more constrained than that of a decade ago when healthy operating margins existed and debt service was practically nonexistent.

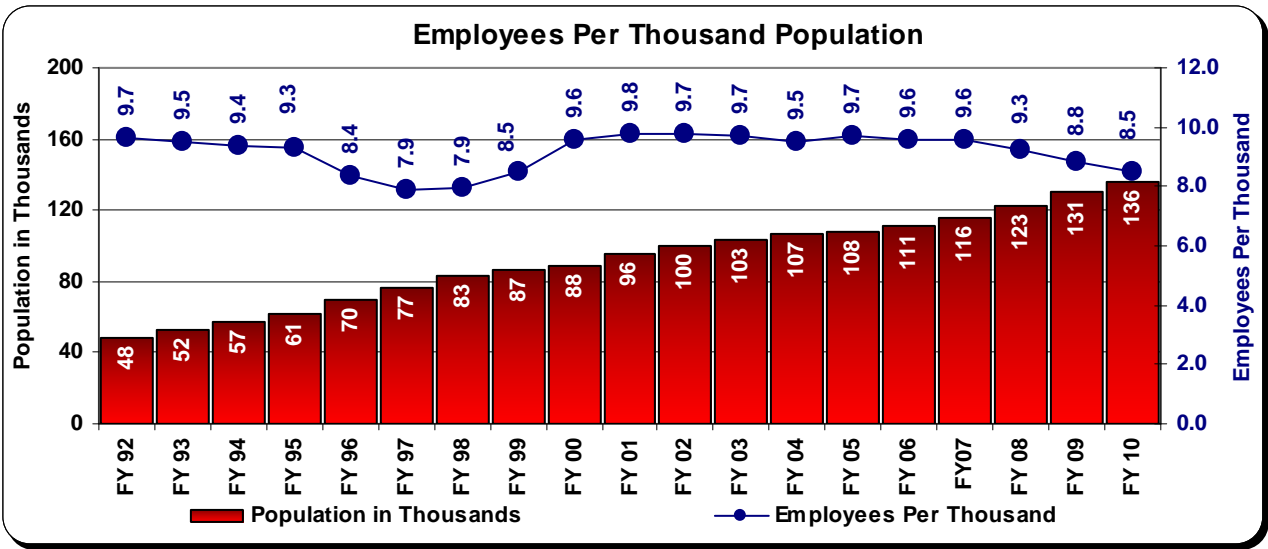


Based on today's conditions, we are planning to continue holding 22 existing positions vacant throughout FY 2010 and we are recommending only one new position out of the 27 requested in FY 2010. The position being recommended is a water resources engineer that is needed to support the increasingly complex planning and implementation strategies associated with ensuring the Town can meet its long term water and wastewater needs. This position will report to the Water Resources Manager within the Public Works and Utilities Department.

One of the other positions requested as part of the FY 2010 budget was addressed in FY 2009 with the conversion of a temporary Recreation Program Assistant position to a permanent position. This person is responsible for planning and directing the camp program including 23 week long track-out camps and 8 week long camps during the summer. Because 110% of camp costs are covered through recreation program fees, there is no negative impact to operating margin associated with this particular position.

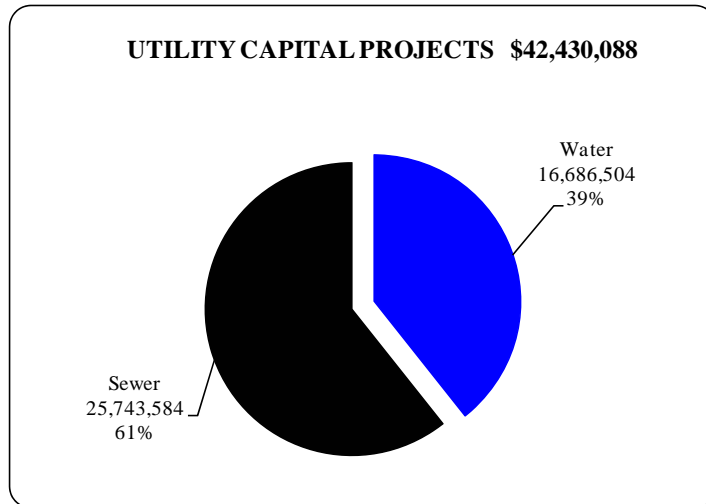
The anticipated annual savings associated with the 22 existing but currently vacant positions have been incorporated into the recommended budget and total \$737,879 in the general fund and \$278,331 in the utility fund. We are pursuing federal stimulus grants in a variety of areas, and one of the more crucial ones relates to providing core service levels in Police. Should the federal Community Oriented Policing (COPs) grant request for eight additional patrol officers and five police officers to help initiate a proactive healthy neighborhood initiative not succeed, we will once again review existing program needs and our revenue position to determine what options Council can consider to move forward with these very important initiatives.

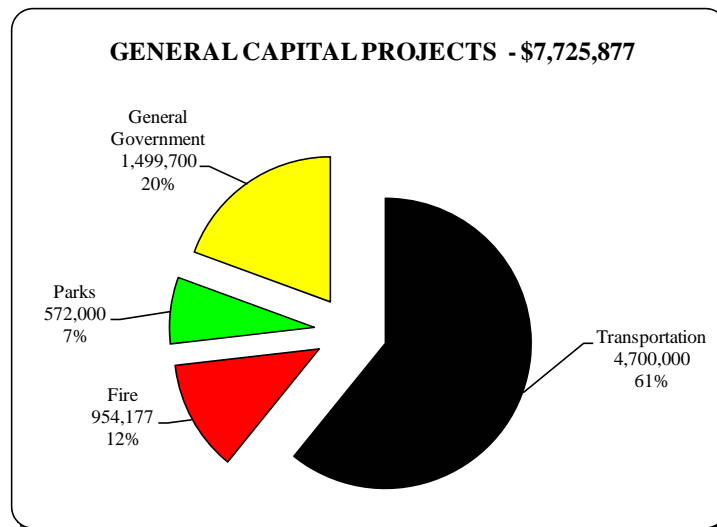
The staffing ratio for FY 2010 is expected to again drop compared to the last few years to 8.5 employees per 1,000 population as portrayed in the graph below. Part of the reason for the decline in FY 2009 is the elimination of seven positions from the Recycling division due to the new automated curbside 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, 2009 population estimate is 136,032.



CAPITAL IMPROVEMENTS BUDGET

For the ninth 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 2010 are \$42.4 million. General capital project recommended appropriations are \$7.7 million yielding a total FY 2010 CIB of \$50.2 million.





The Fiscal Year 2010 recommended capital improvements budget reflects a 61% decrease from the FY 2009 adopted CIB. This decrease is attributed to significant reductions in appropriations to five of the Town's six capital project categories (sewer, transportation, fire, PRCR and general government). The inclusion of \$6.8 million for conversion to an advanced meter infrastructure system and \$5 million for the construction of an elevated water storage tank on North Harrison Avenue account for the 47% increase in water project appropriations in FY 2010.

Although significantly less than the FY 2009 capital improvements budget, the FY 2010 recommended CIB demonstrates the Town's continued commitment to infrastructure maintenance and improvement despite the economic downturn. A total of \$19.9 million, or 40% of the FY 2010 recommended CIB, supports infrastructure maintenance and improvement initiatives such as

- pavement rehabilitation for existing roadways
- extension of South Harrison Avenue to Kildaire Farm Road to better address capacity issues in the downtown
- architectural services related to the relocation of Fire Station #2
- maintenance of existing PRCR facilities
- contributions toward sanitation and recycling truck replacement program
- installation of new water lines to reinforce existing lines and better address system demand
- video surveying and cleaning of the Town's sewer system
- inspection and rehabilitation of existing force mains
- construction of an elevated water storage tank on North Harrison Avenue to provide necessary storage capacity
- bar screen improvements at the North Cary Water Reclamation Facility
- construction of new force mains parallel to existing critical mains
- improvements to existing equipment at the Swift Creek regional pump station

The FY 2010 recommended CIB also includes \$18.1 million in Town of Cary and municipal partner reimbursements for continued development of the Western Wake Regional Wastewater Management Facility (WWRWMF). Appropriations to this initiative alone comprise 36% of the FY 2010 recommended capital improvements budget.

Projects selected for the FY 2010 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 principles guided its development:

- Utilize as little debt as possible to minimize additional debt service obligations

General Obligation Bond Debt

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 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 2010.

The FY 2010 recommended capital improvements budget does include a \$12.5 million general obligation bond appropriation for the Western Wake Regional Wastewater Management Facility. Debt service associated with the FY 2010 debt appropriation is expected to come on-line in FY 2011 and will be paid for through the Town's utility rates.

Revenue Bond Debt

The FY 2010 recommended CIB includes \$11.4 million in revenue bonds for water and sewer infrastructure needs. Revenue bond debt may only be issued for utility projects. 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 necessary to afford the incremental debt service associated with these appropriations.

- Maximize the use of existing capital reserve fund balances

Utility Capital Reserve

The FY 2010 recommended CIB contains a \$12.9 million appropriation from utility capital reserve fund balance. Unrestricted fund balance comprises \$3.3 million of the total fund balance appropriation, while restricted fund balance provides the remaining \$9.6 million. Total utility capital reserve fund balance at the close of FY 2010 is anticipated to be \$27.1 million with the majority of these funds restricted to growth-related water and sewer projects. These significant 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 2009 have been maximized to continue leveraging currently available resources. The FY 2010 general capital improvements budget includes \$7 million in appropriations from general capital reserve fund balance. \$5.9 million of this figure is restricted, while the remaining \$1.1 million is unrestricted. General capital reserve fund balance at the close of FY 2010 is expected to be \$16.2 million with approximately half of these funds restricted to certain types of transportation projects.

- Minimize reliance on FY 2010 capital reserve revenues

Utility

The FY 2010 recommended capital improvements budget appropriates a total of \$5.7 million of FY 2010 revenue in support of utility capital projects. \$5.4 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 \$18,400 from the Town of Apex during FY 2010 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 2010 CIB includes one C/A WTP related capital project. Apex's share (23%) of the budgeted capital costs is \$18,400. 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 provided during the course of the fiscal year and is accounted for as revenue.

Lastly, the FY 2010 sewer capital improvements budget includes an appropriation of \$300,566 in anticipated restricted sewer development fee revenue. These funds help support growth-related infrastructure needs.

General

Only \$17,107 of anticipated FY 2010 general capital reserve fund revenue is recommended for appropriation in the recommended capital improvements budget. This entire amount is categorized as transportation-restricted Powell Bill funding (a state-collected local revenue). This appropriation represents only 0.56% of total FY 2010 anticipated Powell Bill receipts.

- Limit transfers from the general and utility operating funds for capital purposes

Utility Fund Transfers

The FY 2010 capital improvements budget includes a \$500,000 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. This rate adjustment results in the generation of \$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 comes on-line in FY 2010, only \$500,000 of this \$1 million is available for open space land purchases. The remaining \$500,000 is directed to the general fund where it addresses debt service associated with issued 2005 open space general obligation bond debt.

General Fund Transfers

A \$949,700 general fund transfer is included in FY 2010 as an annual contribution to the Town's sanitation and recycling truck replacement program. Annual general fund transfers facilitating scheduled replacement of the Town's sanitation and recycling trucks started in FY 2007.

Annual general fund transfers of \$949,700 will be necessary during FYs 2010 - 2015, and \$1.1 million annually during FYs 2016 - 2019, to replace the Town's existing sanitation and recycling trucks. These transfer amounts also provide for the purchase of new trucks for new routes anticipated to be added during this time.

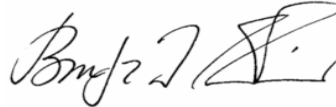
Planning for major capital projects and the increased operational costs that often accompany them will remain critical. With so many potential projects, and recent revenue trends indicating limited growth in income, the Town of Cary will continue to be forced to make difficult choices in the near future. 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 2010 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,

A handwritten signature in black ink, appearing to read "Benjamin T. Shivar". The signature is fluid and cursive, with a large initial "B" and "S".

Benjamin T. Shivar
Town Manager