

Fuquay-Varina Arts Center
Proposal for Major Facilities Capital Funding



Submitted by the Town of Fuquay-Varina

June 15, 2016

Title Page.....	1
Table of Contents.....	2
Letter of Transmittal.....	3
Executive Summary.....	4
Scope of Project (up to 15 points).....	6
Project Budget and Funding Sources (up to 20 points).....	11
Project Timeline (up to 15 points).....	11
Project Operating Plan (up to 20 points).....	12
Estimates of Visitors (up to 20 points).....	12
Organizational Information (up to 10 points).....	14
Attachments.....	15

Letter of Transmittal

Ms. Denise Foreman, Assistant to the County Manger

Wake County Finance-Procurement Services

301 South McDowell Street

Raleigh, NC 27601

Dear Ms. Foreman,

Attached please find our proposal for \$875,000 from the Wake County Occupancy and Prepared Food and Beverage Taxes, in support of the creation of an Arts Center in Fuquay-Varina that will benefit communities in the immediate vicinity as well as the county as a whole.

The proposed Arts Center will be owned and operated by the Town of Fuquay-Varina, with no operational budget impacts on Wake County (other than positive tax revenue impacts). The project is anticipated to attract thousands of area art lovers to the Center, which will include a theatre, dance studio, gallery space, and multiple rooms appropriate for classes and workshops in a variety of art media.

The Arts Center promises to be a hub of creative activity in downtown Fuquay-Varina, providing opportunities to entice visitation, revitalize activity and economy, and champion the arts.

Sincerely,

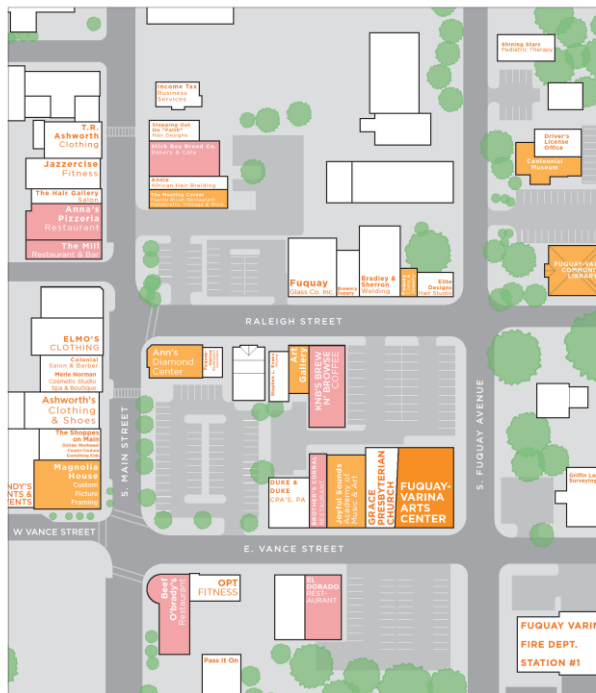
Adam Mitchell

Town Manager

1.0 Executive Summary

The Town of Fuquay-Varina, NC has developed a plan to create an Arts Center as part of the downtown landscape. The Arts Center, currently in design, is anticipated to complete renovation and construction to open to the public in fall 2017. The Center will include a 250-300 seat theatre, dance studio, multiple spaces for art classes and workshops, and gallery space, and will serve as the home for the Town's arts programs.

FUQUAY-VARINA Arts Center
Vicinity Map



To help realize its vision, the Town of Fuquay-Varina respectfully requests \$875,000 from the Wake County Occupancy and Prepared Food and Beverage Tax Fund. The total project budget for the Arts Center is \$3,675,000, of which \$575,000 has been spent on the acquisition of a downtown property. The remaining funds have been committed to the project by the Town of Fuquay-Varina (short of the requested \$875,000 being sought through this grant), and have been designated for the design, construction administration, and construction of the project. The funding committed by the Town is well above the 65% threshold of the overall project.

The goal of the Town is to provide a robust arts program which will include diverse offerings in the areas of theater, dance, and visual arts, and which will support a vibrant arts scene in Fuquay-Varina, particularly in Downtown. There is a clear demand for

these programs as evidenced by the popularity and growth in current cultural programs offered through the Town's Department of Parks, Recreation and Cultural Resources. A lively arts scene has been growing in Downtown Fuquay-Varina, thanks to a number of private galleries and the activities of a number of non-profit organizations. An Arts Center will serve as a catalyst in the continued social and economic revitalization of Downtown Fuquay-Varina.

Upon completion, the Fuquay-Varina Arts Center will provide substantial benefits:

1. Economic

The Arts Center will provide extensive opportunities for community and non-community visitation to downtown Fuquay. The Downtown area is already home to many galleries and is the site of many cultural activities sponsored by non-profit organizations. Choosing to place the Arts Center in this location unites the area as an arts district, and will help provide a stimulus for development of downtown, benefitting the town and Southern

Wake County. Programming at The Arts Center will increase the visitation to downtown by virtue of programming, additional restaurants, retail and other development, resulting in additional tax revenue.

2. Expanded Opportunities

The Arts Center will include specialized spaces allowing for an expansion in programming that will welcome residents and visitors alike. The inclusion of special performing events such as dance performances, theatre productions, concerts, musical entertainment, movies and digital projects will increase visitation to the Center; exhibit space and art classrooms will be used for specialized, professional level workshops, visiting artist series, lectures, films, and exhibits.

3. Quality of Life

By providing a cultural facility and new and expanded cultural opportunities that are not currently available in southern Wake County, the quality of life for the residents of the area will be greatly enhanced. The facility will provide a much needed venue for indoor performances, entertainment, and artistic opportunities.

The primary contacts for this project are:

Mark Matthews, Assistant Town Manager

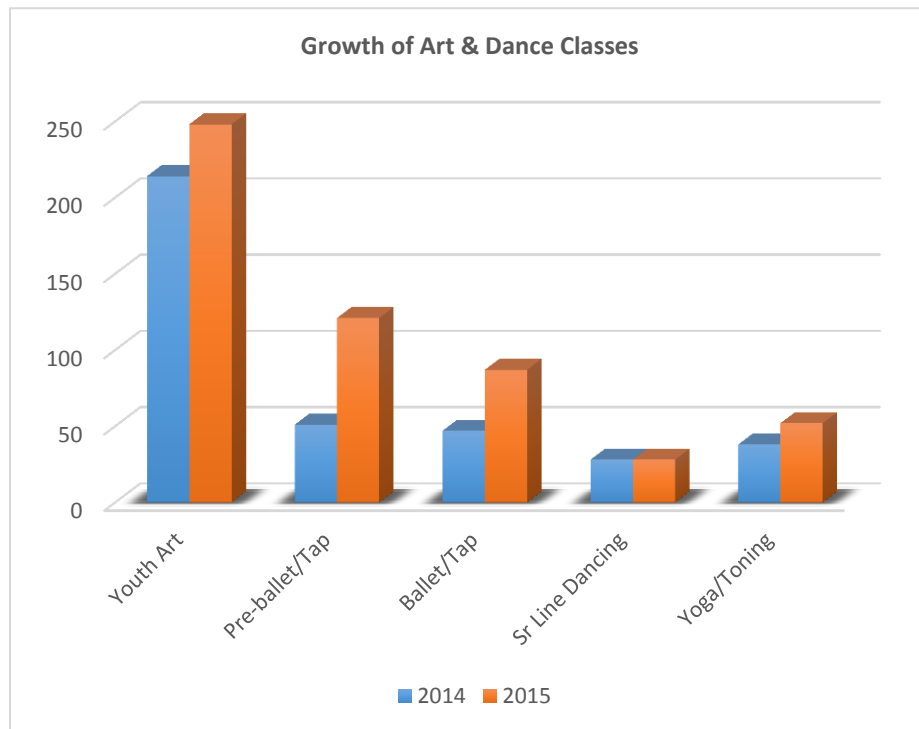
MMatthews@Fuquay-Varina.org; 919-552-1412

Maureen Daly, Cultural Arts Director, Town of Fuquay-Varina;

MDaly@fuquay-varina.org; 919-618-0042

2.0 Scope of Project

The Fuquay-Varina Arts Center will provide a cultural venue designed to attract residents, people in the surrounding market area, including Southern Wake, Northern Harnett, Eastern Chatham and Lee and West Johnston counties, and out-of-town visitors to come to Downtown Fuquay-Varina, thereby catalyzing the creative, social, and economic activity of Fuquay-Varina and southern Wake County. The facility will include a variety of usable, flexible spaces including gallery space, visual art classrooms, a dance studio, and a mid-size theatre. As the population of Fuquay-Varina and southern Wake County grow, the demand for cultural events and programming likewise grow, as evidenced by the growth in popularity and participation in dance and visual arts programming provided by the Town's Department of Parks, Recreation & Cultural Resources.



The Fuquay-Varina Arts Center is uniquely positioned to provide opportunities and events to a diverse population, including local residents and people from surrounding counties. There are no other presentation venues of similar size in southern Wake County or surrounding Harnett, Johnston, Chatham, and Lee Counties, and the cohesive design of the facility is attractive for conference and small convention business. As the hub of the Downtown Arts District, the Arts Center will provide attractive, well equipped, highly flexible opportunities for participants, visitors, and renters. More than 180,000 residents live within a 10 mile radius of Downtown Fuquay-Varina, and more than 852,000 live within a 25 mile radius.

<i>venue name</i>	<i>distance from Fuquay- Varina</i>	<i>seating capacity</i>
Halle Cultural Arts Center (Apex)	12.4 miles	150
The Cary Theatre	18.1 miles	176
Holly Springs	5.6 miles	184
Garner Performing Arts Center	16.0 miles	471
Cary Arts Center	18.0 miles	425
Clayton Center	21.7 miles	600

As Fuquay-Varina and southern Wake County continue to grow, the demand for recreational services and cultural amenities increases. In 2013, the Town Board requested an update to the 2009 Parks, Recreation & Cultural Resources Facility Master Plan so that the Department could realign facility needs to better match both recreation and Town growth trends. The Department worked with its Advisory Board to create the plan, and public input was gained through an online survey completed by more than 700 people, yielding significant information regarding additional facility needs in Fuquay-Varina. The development and construction of an Arts Center with a theatre component was one of the top priorities identified.

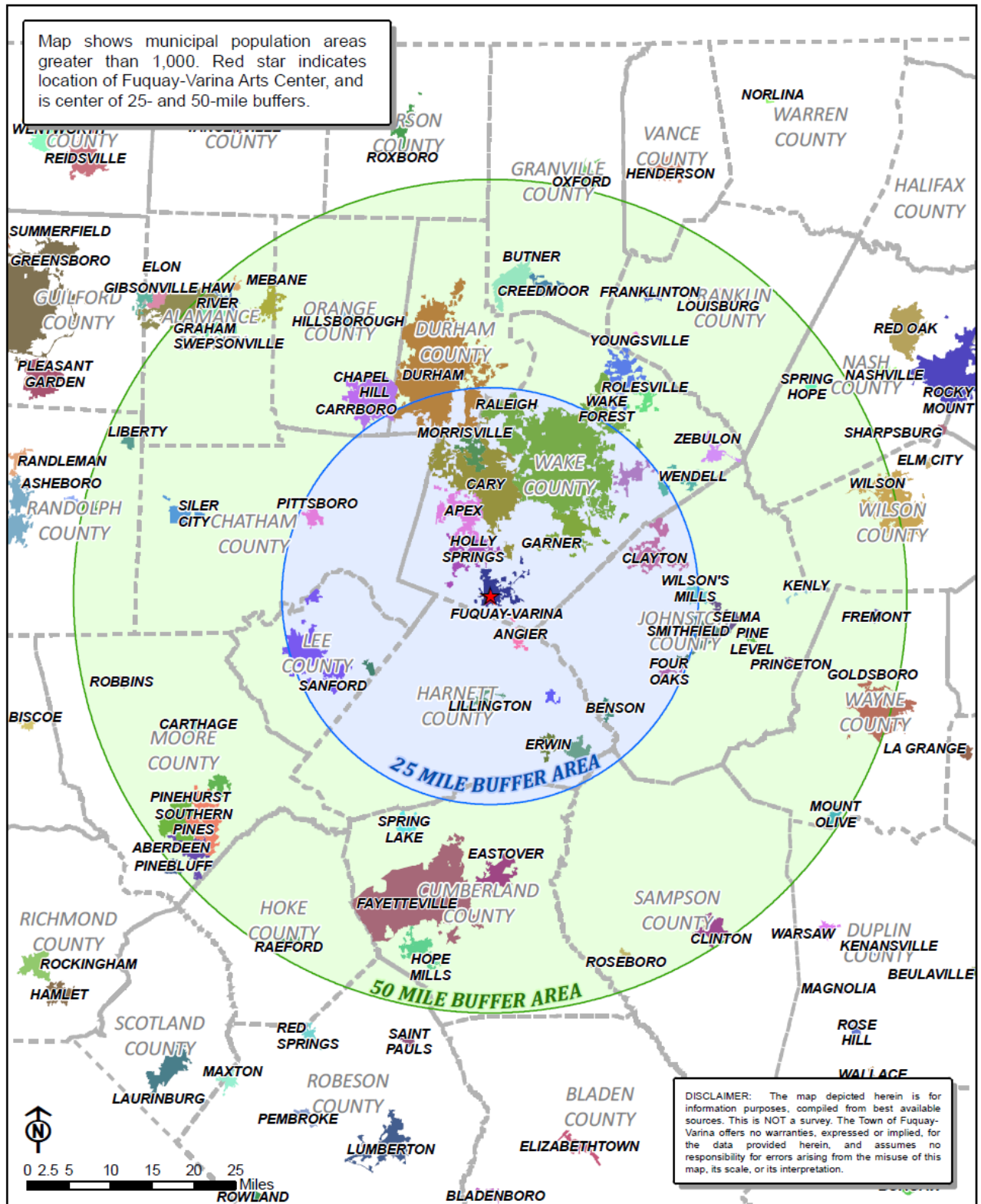
The Fuquay-Varina Arts Center will be an excellent resource not only for residents, but for others living in southern Wake County and surrounding counties. Program offerings will include a diverse array of classes, workshops, and events to encourage participation by residents and visitors alike. The Center will anchor the Downtown Arts District, will serve as a resource to schools and artists, and will be a magnet to attract small conference and convention business to Fuquay-Varina and southern Wake County.

Cultural Arts Visitation Market Area

Town of Fuquay-Varina Cultural Arts Center



Map shows municipal population areas greater than 1,000. Red star indicates location of Fuquay-Varina Arts Center, and is center of 25- and 50-mile buffers.



At present, visual art and dance classes and recitals take place in multi-purpose and athletic spaces in a community center, and represent a growing portion of the classes offered by the Parks, Recreation & Cultural Resources Department. There is no mid-size theatre or suitable performance space either in Town or the local area that appropriately supports theatrical, dance, music or digital arts presentations, making the growth of community theater activities or acting/theatre classes untenable. Similarly, growth in visual arts activities/events is limited by the scheduling needs at the Community Center and, in some cases, lack of spaces with appropriate equipment or accommodations. Delays in the development of the Arts Center reduce its viability as participants of the planned activities will find opportunities in other communities. Additionally, delays in the development of the Arts Center result in unmet needs, requiring significant reduction in the scope and scale, or reduction of, the overall project.

Downtown Fuquay-Varina is home to several private and non-profit, galleries, music and dance studios, as well as a number of cultural events, including Celebrate Fuquay-Varina, Follow Me 2 Fuquay-Varina Concert Series, Dinner on Depot, En Plein Air Paint Off, historic and cultural events at the nearby Fuquay-Varina Museums at Ashworth Park, and more. The Town regularly collaborates with many of these organizations and establishments, and the Arts Center will continue to invite and grow interaction, culminating in a vibrant, energetic arts scene. Identifying the area as an Arts District will lend credibility to the already established cultural activities and help create an area dedicated to creative enterprise.

In addition, the Arts Center will collaborate with public and private schools in southern Wake County to advance arts education and celebrate the accomplishments of students. Exposure and participation in the arts contributes to student success and achievement. Exhibits, programming with curricular tie-ins, and professional development opportunities for teachers will provide opportunity to impact and support schools.

Success at the Arts Center will be measured through class/event participation, number of events offered, and revenue generated, both in resident and non-resident numbers. On a community level, we will monitor and report the growth of downtown businesses and attendance at established events. Moreover, development of the Arts Center is likely to result in a measurable increase in downtown area businesses, as well as increased sales in food and beverage, demand in restaurants, and other similar consumer oriented uses, resulting in higher tax revenue.

Development of the Fuquay-Varina Arts Center addresses many of the goals established by the County Board of Commissioners:

Arts & Culture, Objective 1, Initiative 2

The Fuquay-Varina Arts Center will be home to an expanded and diverse array of classes, workshops, performances and events, increasing the awareness of and opportunities to cultural activities for residents of Wake County and neighboring counties.

Growth & Sustainability Goal, Objective 5, Initiative 1

The Arts Center addresses not only current needs, but anticipates growth in cultural activities in a manageable, sustainable facility. There is no similar theatre space in southern Wake County, nor is there an arts facility with the ability to accommodate a wide variety of specialized arts programming. The opportunities to expand and grow cultural programming and participation as the population of Fuquay-Varina and southern Wake County grow are substantial.

Education, Objective 1, Initiative 4

The Arts are an important component of educating and nurturing students. The Fuquay-Varina Arts Center will offer opportunities for teachers and students alike, in classes, in collaborative projects, and in shared resources, fostering an investment in the development of well-rounded, creative students. Substantial research underscores the benefits of arts education in developing students' abilities to become creative thinkers and, ultimately, to be prepared to participate in a global community.

Economic Strength

The Arts consistently play an important role in the revitalization and growth of communities. The Arts Center will be the hub of the Arts District, working to attract businesses and people to the area. By virtue of expanded programming, consolidated and cooperative events and planning, the District will be a business magnet, encouraging restaurants, retail, and service industries to an energized downtown area.

3.0 Project Budget and Funding Sources

PROJECT REVENUES

Year	Amount	Source	Percentage	Status
2015-16	1,300,000	Current Budget	35%	Confirmed
2015-16	1,000,000	Transfer from Public Svc Center (project savings)	27%	Confirmed
2016-17	875,000	Wake County Major Facilities request	24%	Pending
2016-17	500,000	Additional appropriation, unassigned fund balance	14%	Pending
Total	3,675,000		100%	

PROJECT EXPENDITURES

Year of Expenditure	Category		
June, 2015	Acquisition/Right of Way	Purchase of Building	\$575,000
2016	Planning, Design, and Construction Administration	Szostak Design	\$320,000-340,000
2016 & 2017	Construction		\$1.8M
2017	Equipment/Furnishings	Fixed assets	\$375,000+
2016 & 2017	Other		\$125,000
	Contingency	20%	\$450,000-480,000

The location of the Arts Center in Downtown Fuquay-Varina situates it in an area that has adequate sewer and water capacity to support and serve the facility. The location is highly accessible, and is part of a very walkable Downtown. The Town of Fuquay-Varina is currently assessing parking in the downtown area to ensure there is adequate space available as the area grows and develops.

4.0 Project Timeline

Project Action	Start Date	Finish Date
Study and Analysis of Project	March, 2014	February, 2015
Site Identification	January, 2015	May, 2015
Land/Site Acquisition	May, 2015	June, 2015
Architectural/Engineering Studies	November, 2015	July, 2016
Facility Construction	September, 2016	July, 2017
Equipment Purchase	January, 2017	August, 2017
Other—Scheduled to open to Public		Fall, 2017

5.0 Project Operating Plan

TYPE		Source	2018 Operating	2023 Operating	2028 Operating
Revenue		Visual Arts Programming	\$5,500	\$30,000	\$120,000
		Theatre Programming	\$21,000	\$60,000	\$100,000
		Dance Programming	\$20,000	\$31,000	\$40,000
		Special Events/Programming	\$3,000	\$6,000	\$20,000
		Rental Revenue	\$1,000	\$2,000	\$ 6,000
		Ticket Revenue	\$30,000	\$80,000	\$125,000
	Revenue Subtotal		\$80,500	\$209,000	\$411,000
Expense		Staffing/Maintenance	\$125,000	\$165,000	\$200,000
		Supplies	\$ 18,000	\$ 40,000	\$ 70,000
		Utilities	\$ 8,000	\$ 15,000	\$ 30,000
		Talent Contracts	\$ 40,000	\$85,000	\$125,000
	Expenses Subtotal		\$191,000	\$305,000	\$425,000
	Total		(\$110,500)	(\$96,000)	(\$14,000)

The creation of the Arts Center represents a significant and positive quality of life component for our community, as well as serving as a catalyst for Downtown revitalization and economic development. To that end, the Town does not anticipate the Arts Center showing positive revenue for at least the first five years of its programming life, and has built that expectation into the Town's 5-year budget plan.

6.0 Estimates on Visitors and Return on Investment

Visitor estimates for the Fuquay-Varina Arts Center are outlined based on Wake County's Visitor Estimates and Return on Investment Form in **Attachment 1**. What is not captured in visitor estimates/direct return on investment form for Hotel, Motel, and Prepared Food and Beverage Tax funding is the anticipated indirect economic impact of this project. The Fuquay-Varina Arts Center is expected to serve as an economic and cultural catalyst in the Downtown Fuquay area, anchoring Fuquay-Varina's "Arts District". A September 2014 study titled "The Economic Impact of the Proposed Fuquay-Varina Cultural Arts and Conference Center" conducted by the UNCG Center for Business and Economic Research predicted that in the first year of operations, the economic dollar impact of an Arts Center would be \$1.06 million rising to \$1.65 million in the fifth year.

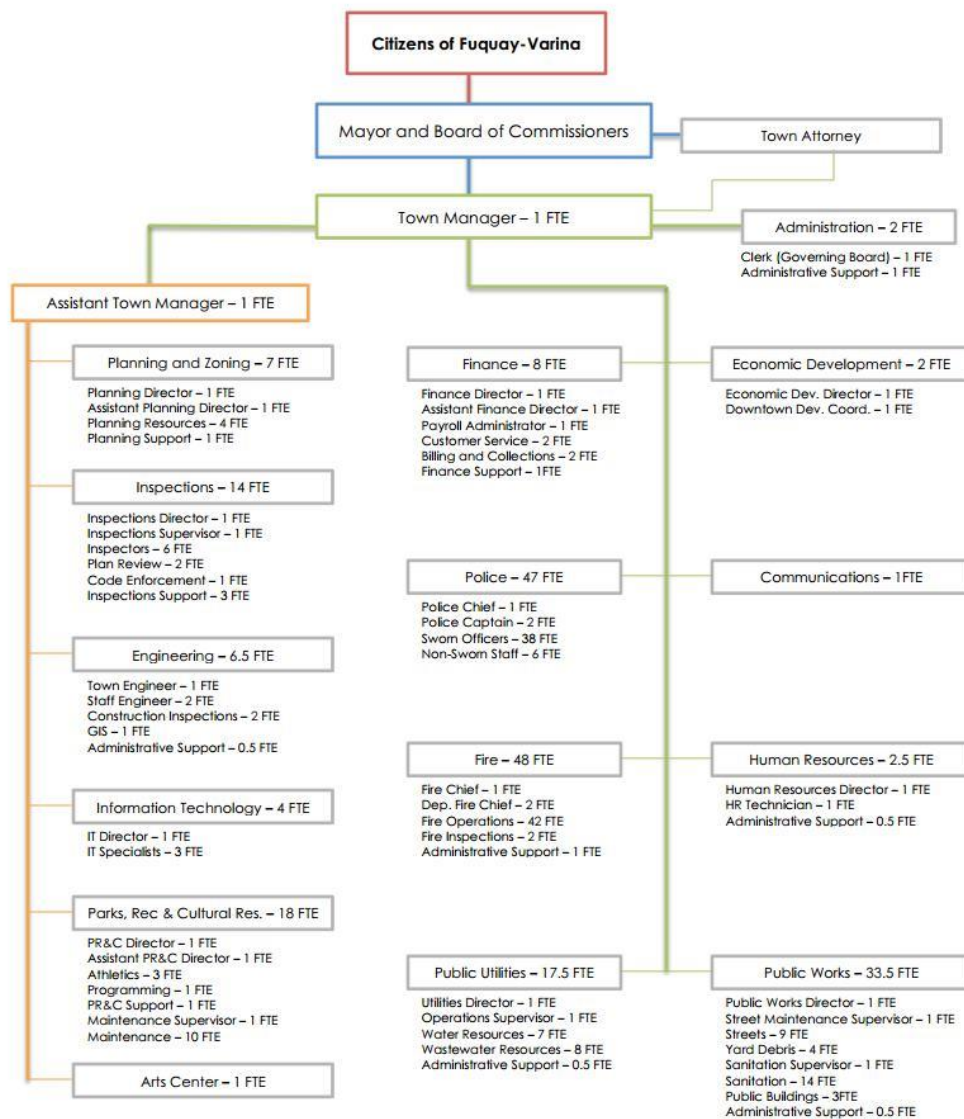
The success of this project will encourage the growth of private arts related shops, studios, and instructional spaces that already have a presence in the Downtown Fuquay area. Additionally, this increase in activity and restaurant demand will encourage investment in the downtown, particularly in the areas of mixed use, restaurant, and retail. This will support the Town's goal of mixed use infill development recruitment identified as part of the Town's Economic Development Strategy, and align well with the Town's current collaboration with the UNC Development Finance Institute in support of realizing this goal. All of these indirect impacts will positively impact the property tax and sales tax base, while creating income and jobs. In the

long term, promotion of arts, culture, and creative pursuits will have positive educational and economic impacts for the community, as numerous studies have proven that arts education and exposure to the arts prepares for students for the 21st century creative economy.

7.0 Organizational Information

The Town of Fuquay-Varina is a municipality, with operations overseen by Town Manager Adam Mitchell under the policy direction of a Mayor and 5 Commissioners elected at large. The board has recently indicated their support for this project through the adoption of the Fleming Loop Recreational Park Master Plan update in April 2016, submission of a PARTF application, and approval of funding to develop this project in the Town's 5 Year Plan. The Town has a Parks, Recreation, and Cultural Resources Facility Master Plan and has an extensive track record of investing in, developing, and operating parks and recreation facilities.

TOWN ORGANIZATION CHART



Total FTE Positions (FY 17): 214

ATTACHMENTS:

Attachment 1: Visitor Spending and Return on Investment Estimate

Attachment 2: FY 2015 Town of Fuquay-Varina CAFR: Management Discussion and Analysis

Visitor Estimates and Return on Investment

2018

Definitions:

Visitors -

- a. **Wake County resident** - visitor from within Wake County
- b. **Day Visitor** - visitor from within 50 mile radius of proposed project
- c. **Overnight Visitor** - Visitor from outside 50 mile radius of proposed project

Room Rate = \$95/per night

Meal Rate = \$50/per day

Visitor Estimates, Economic Impact and Taxes Collected

1. Estimated Wake County residential visitors (annual)= 21258

Estimated Food and Beverage Spending and Taxes Collected					
	Number of Visitors		Meal Rate		Meal Spending
2. Estimated Day Visitors (annual)=	<u>10000</u>	X	\$50	=	<u>\$500,000</u>
3. Estimated Overnight Visitors (annual)=	<u>1584</u>	X	\$50	=	<u>\$79,200</u>
4. Total Meal Spending				=	<u>\$579,200</u>
				X 1% Food & Bev Tax=	<u>\$5,792</u>

Estimated Food and Beverage Spending and Taxes Collected					
	Number of Visitors		Room Rate		Room Spending
5. Estimated Overnight Rooms (annual)=	<u>1584</u>	X	\$95	=	<u>\$150,480</u>
6. Total Room Spending				=	<u>\$150,480</u>
				X 6% Occupancy tax=	<u>\$9,029</u>

7. Return on Investment based on taxes collected (County funding/total taxes collected) = 59.04 (in years)

Visitor Estimates and Return on Investment

2023

Definitions:

Visitors -

- a. **Wake County resident** - visitor from within Wake County
- b. **Day Visitor** - visitor from within 50 mile radius of proposed project
- c. **Overnight Visitor** - Visitor from outside 50 mile radius of proposed project

Room Rate = \$95/per night

Meal Rate = \$50/per day

Visitor Estimates, Economic Impact and Taxes Collected

1. Estimated Wake County residential visitors (annual)= 28223

Estimated Food and Beverage Spending and Taxes Collected					
	Number of Visitors		Meal Rate		Meal Spending
2. Estimated Day Visitors (annual)=	<u>14000</u>	X	\$50	=	<u>\$700,000</u>
3. Estimated Overnight Visitors (annual)=	<u>4780</u>	X	\$50	=	<u>\$239,000</u>
4. Total Meal Spending				=	<u>\$939,000</u>
					X 1% Food & Bev Tax=
					<u>\$9,390</u>

Estimated Food and Beverage Spending and Taxes Collected					
	Number of Visitors		Room Rate		Room Spending
5. Estimated Overnight Rooms (annual)=	<u>4780</u>	X	\$95	=	<u>\$454,100</u>
6. Total Room Spending				=	<u>\$454,100</u>
					X 6% Occupancy tax=
					<u>\$27,246</u>

7. Return on Investment based on taxes collected (County funding/total taxes collected) = 23.88 (in years)

Visitor Estimates and Return on Investment

2028

Definitions:

Visitors -

- a. **Wake County resident** - visitor from within Wake County
- b. **Day Visitor** - visitor from within 50 mile radius of proposed project
- c. **Overnight Visitor** - Visitor from outside 50 mile radius of proposed project

Room Rate = \$95/per night

Meal Rate = \$50/per day

Visitor Estimates, Economic Impact and Taxes Collected

1. Estimated Wake County residential visitors (annual)= 38328

Estimated Food and Beverage Spending and Taxes Collected					
	Number of Visitors		Meal Rate		Meal Spending
2. Estimated Day Visitors (annual)=	<u>19000</u>	X	\$50	=	<u>\$950,000</u>
3. Estimated Overnight Visitors (annual)=	<u>7220</u>	X	\$50	=	<u>\$361,000</u>
4. Total Meal Spending				=	<u>\$1,311,000</u>
				X 1% Food & Bev Tax=	<u>\$13,110</u>

Estimated Food and Beverage Spending and Taxes Collected					
	Number of Visitors		Room Rate		Room Spending
5. Estimated Overnight Rooms (annual)=	<u>7220</u>	X	\$95	=	<u>\$685,900</u>
6. Total Room Spending				=	<u>\$685,900</u>
				X 6% Occupancy tax=	<u>\$41,154</u>

7. Return on Investment based on taxes collected (County funding/total taxes collected) = 16.12 (in years)

Report of Independent Auditor

Honorable Mayor and Town Board of Commissioners
Town of Fuquay-Varina
Fuquay-Varina, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fuquay-Varina, North Carolina (the "Town"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Town adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, net positions as of June 30, 2014 of the governmental and business-type activities, and fund balance of the proprietary fund have been restated. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplemental financial data as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund statements and schedules, other schedules and statistical section as well as the schedule of expenditures of federal and state awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules, other schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, other schedules and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Channing R. Burchett LLP

Raleigh, North Carolina
October 21, 2015

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

As management of the Town of Fuquay-Varina, North Carolina (the "Town") we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. Please read it in conjunction with the Town's financial statements, which follow this section.

Financial Highlights

The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows at the close of the fiscal year by \$130 million (net position). Of this amount \$34 million (unrestricted net position) may be used to meet the government's ongoing obligations to the citizens and creditors.

At the end of the fiscal year, the Town's governmental funds reported combined ending fund balances of \$29 million about 4% more than the prior fiscal year. The majority of this increase was due to an increase in the general fund and an increase in unassigned fund balance.

As of the close of the fiscal year, the Town's unassigned fund balance for the General Fund was \$15.4 million or 79% of total General Fund expenditures and transfers out for the fiscal year. This amount is considered available for spending at the government's discretion.

The Town's total debt decreased by \$2.7 million during the 2014-2015 fiscal year. Total debt decreased because no additional debt was issued during the fiscal year and payments were made as required. Shortly after the end of the fiscal year, the Town was notified that it had been upgraded to a Aa1 bond rating by Moody's Investor's Service. Its AAA rating by Standard and Poor's Corporation remained unchanged.

On a government-wide basis, the Town's program expenses exceeded revenues by just over \$18 million. Governmental activity expenses were \$18.3 million more than program revenues while business-type activities program revenues exceeded expenses by \$.23 million.

Overview of the Financial Statements

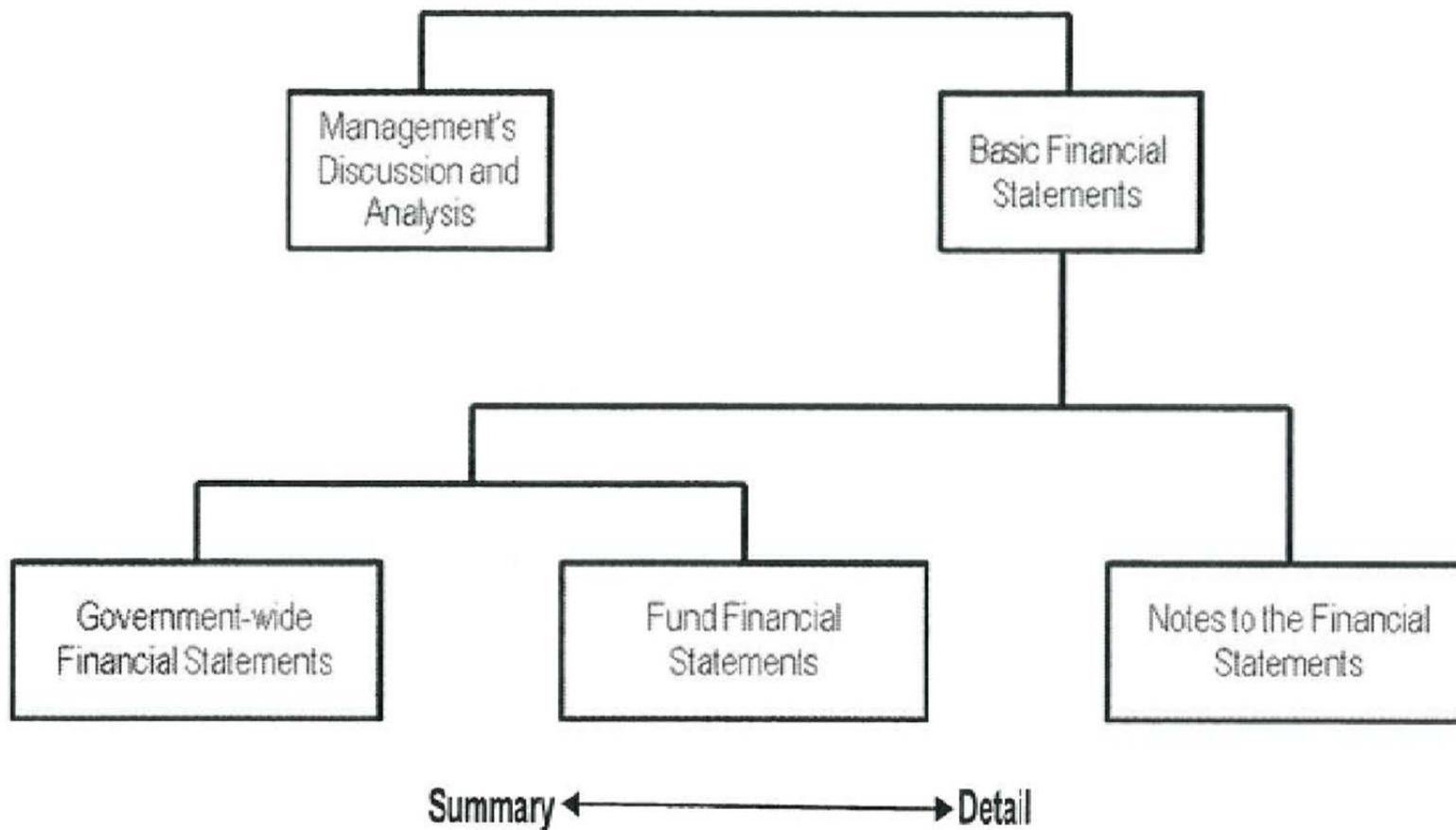
This discussion and analysis are intended to serve as an introduction to Fuquay-Varina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Fuquay-Varina.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Required Components of Annual Financial Report

Figure 1



TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide financial statements

The first two statements are government-wide financial statements that provide both short and long-term information about the Town's financial status, using the full-accrual basis of accounting, in a manner similar to a private-sector business.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. The Statement of Activities presents information showing how the Town's net position has changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Fuquay-Varina.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Fund financial statements

Traditional users of governmental fund financial statements will find the fund financial statements presentation more familiar. The fund financial statements provide a more detailed look at the Town's most significant activities.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Fuquay-Varina uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, such as the North Carolina General Statutes, and the Town's budget ordinance. All funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Governmental funds are reported using an accounting method called modified accrual accounting. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains four individual governmental funds. They are the General Fund, the Capital Projects Fund, the Debt Service Fund, and the Capital Reserve Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for each of these funds. The Town has two major funds (General Fund and Capital Projects Fund) and two non-major funds (Capital Reserve Fund and Debt Service Fund). As required by the General Statutes, the Town of Fuquay-Varina adopts an annual budget for its General Fund. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary Funds – The Town of Fuquay-Varina has one proprietary fund to account for water distribution and wastewater collection. An *enterprise fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. The proprietary funds financial statements can be found on pages 23-27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 28 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Fuquay-Varina's progress in funding its obligation to provide pension benefits to its law enforcement officers and other post-employment benefits to its retirees. Required supplementary information can be found on pages 66-70 of this report.

Combining and individual fund statements and schedules are presented immediately following the required supplementary information. The individual fund statements and schedules can be found on pages 71-85 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Fuquay-Varina exceeded liabilities and deferred inflows by \$130 million as of June 30, 2015.

The largest portion (71%) reflects the Town's net investment in capital assets. Net investment in capital assets is defined as the Town's investment in Town owned capital assets (e.g. land, buildings, vehicles and equipment) less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town of Fuquay-Varina's net position, \$3.5 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$34.2 million is unrestricted.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

The following table reflects the condensed Statement of Net Position:

Net Position

June 30, 2015

With Prior Year Comparisons

	June 30, 2014 Governmental Activities	June 30, 2015 Governmental Activities	June 30, 2014 Business-Type Activities	June 30, 2015 Business-Type Activities	June 30, 2014 Total	June 30, 2015 Total
Current and other assets	\$ 27,937,836	\$ 28,799,188	\$ 8,528,377	\$ 11,889,878	\$ 36,466,213	\$ 40,689,066
Restricted assets	2,152,021	2,041,893	1,722,388	385,310	3,874,409	2,427,203
Capital assets	66,228,848	62,253,737	57,920,883	56,821,381	124,149,731	119,075,118
Net pension asset	-	966,836	-	91,995	-	1,058,831
Deferred outflows of resources	-	569,118	-	219,765	-	788,883
Total assets and deferred outflows of resources	<u>96,318,705</u>	<u>94,630,772</u>	<u>68,171,648</u>	<u>69,408,329</u>	<u>164,490,353</u>	<u>164,039,101</u>
Long-term debt outstanding	11,884,641	11,219,758	21,534,403	17,881,324	33,419,044	29,101,082
Other liabilities	1,320,079	1,841,363	733,875	740,587	2,053,954	2,581,950
Deferred inflows of resources	2,482	2,444,639	-	231,876	2,482	2,676,515
Total liabilities and deferred inflows of resources	<u>13,207,202</u>	<u>15,505,760</u>	<u>22,268,278</u>	<u>18,853,787</u>	<u>35,475,480</u>	<u>34,359,547</u>
Net Position:						
Net Investment in Capital Assets	56,031,662	52,606,606	39,976,593	39,319,851	96,008,255	91,926,457
Restricted for:						
Stabilization by State Statute	1,429,646	1,794,612	-	-	1,429,646	1,794,612
Powell Bill	1,611,031	1,738,405	-	-	1,611,031	1,738,405
Other purposes	3,900	3,900	-	-	3,900	3,900
Unrestricted	<u>24,035,264</u>	<u>22,981,489</u>	<u>7,913,435</u>	<u>11,234,691</u>	<u>31,948,699</u>	<u>34,216,180</u>
Total net position	<u>\$ 83,111,503</u>	<u>\$ 79,125,012</u>	<u>\$ 47,890,028</u>	<u>\$ 50,554,542</u>	<u>\$ 131,001,531</u>	<u>\$ 129,679,554</u>

At the end of the current fiscal year, the Town was able to report positive balances in all categories of net position. As noted earlier, net position may serve over time as one useful indicator of a government's financial condition.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

The Town's net position decreased by \$1.3 million during the current fiscal year. Governmental net position decreased by \$4.0 million while business-type net position increased by \$2.7 million. The decrease in governmental net position was due to the loss of disposal of capital assets. The increase in business-type net assets was due to an increase in charges for services. The following table summarizes the changes in net assets.

Changes in Net Position
June 30, 2015
With Prior Year Comparisons

	June 30, 2014 Governmental Activities	June 30, 2015 Governmental Activities	June 30, 2014 Business-Type Activities	June 30, 2015 Business-Type Activities	June 30, 2014 Total	June 30, 2015 Total
Revenues						
Program Revenues						
Charges for Service	\$ 2,964,159	\$ 3,326,087	\$ 6,696,485	\$ 7,801,923	\$ 9,660,644	\$ 11,128,010
Operating grants and contributions	2,136,588	2,375,604	314,743	388,602	2,451,331	2,764,206
Capital grants and contributions	4,971,380	2,287,342	-	-	4,971,380	2,287,342
General Revenues						
Property taxes	9,285,897	9,747,060	-	-	9,285,897	9,747,060
Other taxes	195,918	171,209	-	-	195,918	171,209
Grants and Donations Not Restricted to Specific Programs	4,631,873	5,460,908	-	-	4,631,873	5,460,908
Other	104,774	160,401	1,518,811	1,641,413	1,623,585	1,801,814
Donation of Capital Assets	-	-	2,177,181	1,110,309	2,177,181	1,110,309
Total revenues	<u>24,290,589</u>	<u>23,528,611</u>	<u>10,707,220</u>	<u>10,942,247</u>	<u>34,997,809</u>	<u>34,470,858</u>
Expenses						
General government	2,069,541	2,060,407	-	-	2,069,541	2,060,407
Public safety	7,195,651	7,778,442	-	-	7,195,651	7,778,442
Transportation	2,086,194	10,284,260	-	-	2,086,194	10,284,260
Economic and physical development	1,554,042	697,657	-	-	1,554,042	697,657
Environmental protection	1,548,259	1,576,257	-	-	1,548,259	1,576,257
Cultural and recreation	612,999	1,866,561	-	-	612,999	1,866,561
Central services	1,466,950	1,596,833	-	-	1,466,950	1,596,833
Special Contributions	104,800	106,500	-	-	104,800	106,500
Interest on long-term debt	343,709	298,504	-	-	343,709	298,504
Water and Sewer	-	-	7,290,560	7,961,699	7,290,560	7,961,699
Total Expenses	<u>16,982,145</u>	<u>26,265,421</u>	<u>7,290,560</u>	<u>7,961,699</u>	<u>24,272,705</u>	<u>34,227,120</u>
Increase in net position before Transfers	7,308,444	(2,736,810)	3,416,660	2,980,548	10,725,104	243,738
Transfers	180,000	180,000	(180,000)	(180,000)	-	-
Increase in net position	7,488,444	(2,556,810)	3,236,660	2,800,548	10,725,104	243,738
Prior period adjustment	213,706	(1,429,681)	-	(136,034)	213,706	(1,565,715)
Net Position July 1	<u>75,409,353</u>	<u>83,111,503</u>	<u>44,653,368</u>	<u>47,890,028</u>	<u>120,062,721</u>	<u>131,001,531</u>
Net Position June 30	<u>\$ 83,111,503</u>	<u>\$ 79,125,012</u>	<u>\$ 47,890,028</u>	<u>\$ 50,554,542</u>	<u>\$ 131,001,531</u>	<u>\$ 129,679,554</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Changes in net position – Governmental activities. The Town's total governmental revenues were \$23.5 million. Forty-one percent of the Town's revenue comes from property taxes, with an additional thirty-three percent from grants and contributions. The vast majority of the grants and contributions category is infrastructure donated to the Town by developers and the operating funds for the fire station from Wake County.

Changes in net position – Business-type activities. The Town's total business-type revenues were \$10.9 million. Charges for services represented 71% of the business-type revenue.

The total cost of all programs and services was \$34.2 million. The cost of public safety programs (building inspections, police, fire and contracted rescue services) accounted for 23% of expenses. Water distribution and sewer collection costs accounted for another 23% of total government cost.

The following table presents the cost of each of the Town's programs, as well as each program's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial support provided by the Town's taxpayers.

Cost of Services June 30, 2015 With Prior Year Comparisons

	Total Cost of Services June 30, 2014	Total Cost of Services June 30, 2015	Net Cost of Services June 30, 2014	Net Cost of Services June 30, 2015
General government	\$ 2,069,541	\$ 2,060,407	\$ 2,023,249	\$ 1,965,875
Public safety	7,195,651	7,778,442	5,014,015	5,335,442
Transportation	2,086,194	10,284,260	(3,460,154)	7,387,841
Environmental protection	1,554,042	1,576,257	60,536	(64,281)
Cultural and recreation	1,548,259	1,866,561	806,024	1,023,492
Economic and physical development	612,999	697,657	550,889	626,182
Central services	1,466,950	1,596,833	1,466,950	1,596,833
Special Contributions	104,800	106,500	104,800	106,500
Interest on Long-Term Debt	343,709	298,504	343,709	298,504
Water and Sewer	7,290,560	7,961,699	279,332	(228,826)
	<u>\$ 24,272,705</u>	<u>\$ 34,227,120</u>	<u>\$ 7,189,350</u>	<u>\$ 18,047,562</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

The reported results for the fiscal year show that:

The cost of all program activities this year was \$34.2 million.

The amounts paid by those benefiting from the program or other governments and organizations that subsidized certain programs were \$16.2 million.

Program expenses exceeded program revenues by \$18 million. Water and sewer program revenues expenses revenue by \$.23 million while governmental program revenue fell short of expenses by approximately \$18.3 million.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$29 million, an increase of 4%. The increase was due to an addition of fund balance in the General Fund. Approximately \$15.4 million (53%) constitutes unassigned fund balance. The remainder of fund balance is restricted, committed or assigned.

The General Fund is the chief operating fund of the Town. As of the close of the fiscal year, the Town's unassigned fund balance for the General Fund was \$15.4 million or 79% of total General Fund expenditures and transfers out for the fiscal year. This amount is considered available for spending at the government's discretion.

The fund balance of the Town's general fund increased approximately \$1.6 million during the current fiscal year. The increase was due to an increase in sales tax and property tax over the budgeted amount and spending by departments well under the budgeted level.

The difference between the original budget and the final amended budget was \$1.8 million. The majority of this was due to the Town's decision to fund an intersection upgrade for Main and Judd Parkway. Other small adjustments were also done during the course of the year.

The final budget variance of revenues over expenditures prior to other financing sources and uses was \$.4 million. Actual revenues exceeded anticipated revenues by \$2.3 million. Property tax, sales tax, and building permit revenue were the primary reason for this excess. Actual expenditures were \$1.3 million less than appropriated. Responsible spending by departments allowed the Town to add to fund balance during the fiscal year.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Proprietary Fund. The Town's proprietary fund provided the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$11.6 million, 46 percent more than the previous fiscal year. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets as of June 30, 2015, amounts to \$119 million (net of accumulated depreciation). This investment in capital assets includes land, building improvements and equipment. The total net decrease in the Town's investment in capital assets for the current year was \$5 million.

	June 30, 2014 Governmental Activities	June 30, 2015 Governmental Activities	June 30, 2014 Business-Type Activities	June 30, 2015 Business-Type Activities	June 30, 2014 Total	June 30, 2015 Total
Land	\$ 19,624,483	\$ 20,474,157	\$ 406,716	\$ 410,709	\$ 20,031,199	\$ 20,884,866
Construction in Progress	9,795,044	3,149,796	1,989,196	467,365	11,784,240	3,617,161
Buildings	7,234,569	6,948,307	11,607	9,403	7,246,176	6,957,710
Other Improvements	773,104	1,153,460	43,968,596	44,409,530	44,741,700	45,562,990
Equipment	275,489	303,222	373,817	372,094	649,306	675,316
Vehicles	2,877,622	2,665,342	288,273	225,142	3,165,895	2,890,484
Infrastructure	25,648,537	27,559,453	-	-	25,648,537	27,559,453
Operating Plants	-	-	10,882,678	10,927,138	10,882,678	10,927,138
Total	<u>\$ 66,228,848</u>	<u>\$ 62,253,737</u>	<u>\$ 57,920,883</u>	<u>\$ 56,821,381</u>	<u>\$ 124,149,731</u>	<u>\$ 119,075,118</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Additional information on the Town's capital assets can be found on pages 41-44 of the notes to the financial statements of this report.

Long-term debt. The Town did not issue any debt during the fiscal year.

At the end of the fiscal year, the Town had total general obligation debt outstanding of \$13.3 million. Of the general obligation debt, 40 percent was issued for water and sewer capital projects.

The Town's total debt decreased by \$2.4 million during the fiscal year. Following is a chart which illustrates the composition of the debt for the Town.

	June 30, 2014 Governmental Activities	June 30, 2015 Governmental Activities	June 30, 2014 Business-Type Activities	June 30, 2015 Business-Type Activities	June 30, 2014 Total	June 30, 2015 Total
General Obligation Bonds	\$ 8,525,000	\$ 8,025,000	\$ 6,030,000	\$ 5,265,000	\$ 14,555,000	\$ 13,290,000
Promissary Notes	1,500,000	240,000	12,063,235	11,135,294	13,563,235	11,375,294
Installment Purchases	600,000	1,580,000	1,400,000	1,300,000	2,000,000	2,880,000
Net OPEB Obligation	593,842	700,903	-	-	593,842	700,903
Compensated Absences	552,624	568,236	42,444	48,832	595,068	617,068
Total	<u>\$ 11,771,466</u>	<u>\$ 11,114,139</u>	<u>\$ 19,535,679</u>	<u>\$ 17,749,126</u>	<u>\$ 31,307,145</u>	<u>\$ 28,863,265</u>

State statutes limit the amount of general obligation debt a governmental entity may issue up to 8 percent of the total assessed value of taxable property. The current debt limitation for the Town is \$202 million. This is significantly more than the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in the notes to the financial statements on pages 57-64 of this report.

Economic Factors and Next Year's Budget

In preparing the 2015-2016 Budget, the Town's administration assumed moderate growth and reflected increases in property tax, sales tax and building permit revenues. A total of 10.5 additional positions were funded due to the increase in growth experienced during the 2014-2015 fiscal year.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2015

Budget Highlights for Fiscal Year Ending June 30, 2016

Governmental Activities: The approved FY 15-16 General Fund budget was approximately 16% more than the FY 14-15 budget ordinance adopted in June of 2014. The increase was due to an increase in capital project expenditures for the 2016 Fiscal Year and the staff additions added to the budget. The General Fund tax rate remained at \$.385. A growth of \$75 million in the local property tax base and a 3 percent increase in local sales taxes were used to develop the 2015-2016 Budget. A \$225,000 balance appropriation was included in the 2015-2016 budget to fund a fiber optic project for the Town.

Ten and a half positions were added as a part of the budget. This included 2 new police officers, 2 new firefighters, one person in engineering and information technology and two in recreation. A two percent cost of living increase was also included in the budget for all full-time employees.

Business Activities: The approved FY 15-16 Enterprise Fund Budget was approximately eight percent more than FY 14-15 Budget adopted in June of 2014. As in the General Fund, a two percent raise was included for employees and significant project expenditures were included in the budget. Two additional employees were included in the Enterprise Fund.

Request for Information

This financial report is designed to provide a general overview of the Town of Fuquay-Varina's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, Town of Fuquay-Varina, 401 Old Honeycutt Road, Fuquay-Varina, North Carolina 27526.

Appendix C

***The Economic Impact of the Proposed
Fuquay-Varina Cultural Arts
and Conference Center***

**By Dr. Andrew Brod
Senior Research Fellow
Center for Business and Economic Research
The University of North Carolina at Greensboro**

September 2014

About The Researcher

Dr. Andrew C. Brod is a Senior Research Fellow in the Center for Business and Economic Research, in the Bryan School of Business and Economics at The University of North Carolina at Greensboro. He has served both public- and private-sector clients by conducting surveys, economic-impact analyses, industry-cluster studies, industry assessments, and regional profiles. Dr. Brod's research interests include regional economic development, industrial economics, and the home-furnishings industry, and he has published scholarly articles in the *Journal of Industrial Economics*, the *Canadian Journal of Economics*, and *Economics Letters*. He writes a monthly column on economic policy in the *Triad Business Journal* and is a frequent speaker in the community. He was named Outstanding Conference Speaker for both 2009 and 2010 by the North Carolina Association of CPAs. Dr. Brod has served on a series of committees for economic-development organizations and the City of Greensboro, most notably the city's Living Wage Study Committee, which he chaired.

Executive Summary

The town of Fuquay-Varina is considering a new Cultural Arts and Conference Center (CACC) that will feature a theater, meeting rooms, banquet facilities, and more. Cultural facilities like this are increasingly important to local economic development, and one dimension of that can be measured in terms of economic impact.

This study calculates the projected economic impact of both the construction and operations phase of the proposed CACC. The roughly year-long construction phase is projected to generate more than \$15 million in economic impacts and will support 115 jobs. But that's a one-time impact. The impact of each year of operations of the CACC, taken as the sum of spending by the CACC and new spending by visitors, is smaller than the construction impact but will accrue to the town of Fuquay-Varina year after year. In the first year of operations, the dollar impact will be \$1.06 million, rising to \$1.65 million in the fifth year. By the fifth year, the CACC will support nearly 31 jobs in the community.

1. Introduction

The town of Fuquay-Varina is considering the establishment of a Cultural Arts and Conference Center, in a building donated by local business owner Bob Barker. The CACC will house a theater, banquet facilities, meeting rooms, and space for other organizations to lease. It will generate fees and rents but will be operated and supported by the town.

Traditionally, cultural amenities like the proposed CACC were assessed on mostly cultural grounds. A commitment to the arts was a source of pride and a sign of a community's sophistication. Those considerations are still important and persuasive, but increasingly, cultural programs and facilities are expected to generate economic benefits as well. Fortunately for supporters of the arts, they do.

It is well-known that by enhancing a community's quality of life, cultural amenities are key factors in local economic development. The U.S. economy continues to undergo a structural transformation away from manufacturing and toward knowledge-intensive activities (and nowhere has this transformation been felt more acutely than in North Carolina). As it does, quality of life looms even larger than before. Businesses depend less on geographically fixed resources like rivers and waterfalls, and are more likely to choose a location based on local schools, recreational opportunities, interesting downtowns, etc.

A vibrant cultural life is also correlated with the presence of "creative class" workers, as defined by economic geographer Richard Florida.¹ This class of workers isn't limited to artists and musicians, but includes entrepreneurs, designers, consultants

¹ Richard Florida, *The Rise of the Creative Class*, Basic Books, 2002.

and others who make a living by manipulating concepts rather than physical materials. Such workers support businesses and cultural organizations that attract other like-minded people, and they become a source of skilled workers and innovative business leaders. Florida finds strong correlations between the presence of the creative class and the strength of the local economy.

There is a chicken-and-egg element in Florida's research: which comes first, the vibrant cultural environment or the vibrant local economy? But correlations aren't meaningless, and the conclusion many communities have drawn is that they should invest in both the chicken and the egg. Investing in cultural amenities shouldn't preclude doing the other hard work of economic development, from improving local infrastructure to marketing one's community to businesses in search of new locations.

The problem with these economic benefits is that their gestation period is long, and they are hard to isolate and measure. Attempts to quantify such benefits can end up being rather speculative. Therefore, this study focuses on the measurable and more tangible metric of *economic impact*.

The CACC will be part of the Fuquay-Varina economy by making purchases and employing people. That mercantile activity generates additional value, as each person hired or dollar spent generates a ripple effect of additional hiring and spending in the local economy. In the regional-economics literature, these ripples are referred to as *multiplier effects*, and they are the focus of this economic-impact analysis (EIA). This study measures the various multiplier effects of the construction and operations of a future CACC.

2. Methodology

An EIA takes a specified level of initial economic activity, expressed in terms of job creation, direct revenue, or direct expenditures, and calculates the short-run effects of that activity on a specified regional economy. The initial activity generates additional spending and employment in the region, which are calculated by tracing the linkages between the economic sector in which the initial activity takes place and all other sectors. In this report, I express the economic impacts of the Fuquay-Varina CACC in terms of final demand (comparable to aggregate gross sales revenues) and employment.

For a given dollar spent by CACC operations, the economic impacts are categorized as follows:

- Direct effect: The amount of money directly spent by CACC.
- Indirect effect: The spending or employment generated by businesses that trade with CACC.
- Induced effect: The spending or employment generated by businesses serving households of employees of CACC employees.

The “direct effect” is another term for the initial economic activity, which can take the form of either dollars spent or jobs created. The direct effect generates the indirect and induced effects, and the sum of the indirect and induced effects is the multiplier effect. The sum of all three effects, direct, indirect, and induced, is the economic impact.

There will be two phases for which to calculate impacts: construction and operations. The impact of the operations phase includes the impact of out-of-town visitor spending.

The analysis in this report was conducted using the IMPLAN (for “impact planning”) software in conjunction with regional economic data produced by IMPLAN

Group, LLC.² Data on construction costs were taken from a contractor's budget estimate³ and operational budgets were derived from a feasibility study of the project.⁴

3. The Impact Region

An EIA must specify a region in which to measure the economic impacts. The impact region for this study corresponds to the 27526 ZIP code in southern Wake and northern Harnett counties. This ZIP region contains the town of Fuquay-Varina and is as close to the town's boundaries as is possible in the IMPLAN framework. The alternative would be to use Wake County, which would not be a good fit given that the ultimate decision on the CACC is by Fuquay-Varina (though the county may provide some support). Table 3.1 provides some vital statistics for this area in 2012, via the IMPLAN data system:

Table 3.1: Regional Indicators for Impact Region

Indicator	Value
Area (square miles)	71
Population	38,895
Employment	11,914
Number of Households	15,721
Total Personal Income (millions)	\$1,689
Average Income per Household	\$107,489

Source: IMPLAN data

Because of the skewed nature of income distributions, household income is generally reported as a median rather than an average. As a rule, average income is higher than median income, hence the seemingly large number in the table. Even so, this impact region's average income is higher than the state average.

² The IMPLAN data are from 2012, the latest year for which such data are available.

³ Memorandum from Mike Mitchell, T.A. Loving Company, June 2014.

⁴ "Fuquay-Varina Arts & Conference Center Feasibility Analysis," Hunden Strategic Partners, June 2014.

4. Construction Impact

Construction of the CACC, including selective demolition and site work, as well as construction and upfitting, is projected to take slightly more than a year. The total projected cost of \$12,877,080 includes various contingencies, which I assume will be needed as the year of construction proceeds.

The primary category of activity for this impact is construction, which in this case corresponds to IMPLAN sector 34, construction of new nonresidential commercial and medical buildings. The CACC won't actually be new construction, but the renovations are significant enough that it appears to go well beyond maintenance/repair construction, which is the best alternative sector.

A portion of the total cost is expected to be spent on various kinds of specialized furniture and equipment, such as food-service equipment, the theater's sound system, and auditorium seating. Those spending categories are broken out in the EIA, as indicated in the following table.

Table 4.1: Sources of Economic Impact—Construction Phase

IMPLAN			
Category	Amount	Sector	Description
Construction	\$10,897,080	34	Commercial and medical bldgs
Specialized Equipment	\$1,980,000	Various	
Total	\$12,877,080		

Source: The client, analysis by author

Some of the equipment categories generate no economic impact in the 27526 ZIP region, as the products must be imported from elsewhere (even a purchase from Raleigh is considered an import in this context). The following table summarizes the economic impact on final demand:

Table 4.2: Final-Demand Impact—Construction Phase (\$ million)

Activity	Direct	Indirect	Induced	Total
Construction	10.897	1.456	1.891	14.244
Specialized equipment	0.667	0.086	0.052	0.816
Total	11.574	1.543	1.943	15.060

Source: IMPLAN analysis by the author

The next table contains the employment impacts, measured as the number of full- or part-time jobs:

Table 4.2: Employment Impact—Construction Phase (jobs)

Activity	Direct	Indirect	Induced	Total
Construction	86.0	9.9	16.4	112.3
Specialized equipment	1.4	0.4	0.5	2.3
Total	87.4	10.3	16.9	114.6

Source: IMPLAN analysis by the author

Therefore, the year (or so) of construction and investment in the CACC building will generate a total impact of \$15.06 million in the 27526 ZIP region and create 114.6 jobs.

5. Operational Impact

CACC Operations: The construction impact will be temporary, but the impact of CACC operations will be long-lasting and hence is more important to decision-makers in Fuquay-Varina. The feasibility study by Hunden Strategic Partners provides budget projections for the CACC in the first five years of operation. Expense categories include salaries and wages, supplies and equipment, maintenance and repairs, utilities, etc. The following table illustrates the evolution of spending over the first five years.

Table 5.1: CACC Total Expenditures (\$ thousand)

Year	Amount
1	588.6
2	617.8
3	649.1
4	680.1
5	709.4

Source: Hunden Strategic Partners

Tracking the spending categories yields the impacts for each year:

Table 5.2: Operational Impacts, Final Demand (\$ thousands)

Year	Direct	Indirect	Induced	Total
1	588.6	128.2	106.1	822.9
2	617.8	134.6	111.3	863.7
3	649.1	141.4	117.0	907.4
4	680.1	148.1	122.5	950.8
5	709.4	154.5	127.8	991.7

Source: IMPLAN analysis by the author

Table 5.3: Operational Impacts, Employment (number of jobs)

Year	Direct	Indirect	Induced	Total
1	15.5	1.3	0.9	17.7
2	16.3	1.3	1.0	18.6
3	17.1	1.4	1.0	19.6
4	18.0	1.5	1.1	20.5
5	18.7	1.5	1.1	21.4

Source: IMPLAN analysis by the author

So the fiscal impact of the CACC is projected to increase from \$822,900 in the first year of operations to \$991,700 in the fifth year.

One might think that the impacts are relatively small, but that is in part a function of the small impact region used in this analysis. Just as the ripples created when a stone is thrown in the water continue to spread outward, the spillover effects of an economic activity don't stop at municipal (or other) boundaries. The implied multipliers would be bigger if the impact region were, say, all of Wake County. That implies that a portion of

the economic benefits of the CACC will be enjoyed by people outside the 27526 ZIP region.

It is possible to identify the other industries most likely to be affected by the CACC's spending. The top handful are, in order: independent artists, writers, and producers; promoters of performing arts; and food service and drinking places (i.e. restaurants and bars). Of course the longer-term and harder-to-measure impacts include other industries, many of which are unrelated to cultural activities.

Visitor Spending: The visitor spending that is generally seen as relevant to an EIA is spending by outsiders who come into the impact region to attend events. For the CACC, another category of spending could be added to this: spending by locals who would otherwise attend cultural events or conferences outside of Fuquay-Varina. For purposes of an EIA, both categories represent new spending that results from the CACC.

A 2012 study by Americans for the Arts⁵ surveyed attendees at cultural events in Wake County and found that 20% of them came from outside the county. Because of the small size of the impact region for this EIA, as well as the broader definition of outside spending described in the previous paragraph, it is reasonable to assume that the proportion of outside spending at CACC events would be greater than 20%. Readers may employ their own assumptions, but the calculations that follow assume that 35%, or roughly a third, of all visitors will be from outside Fuquay-Varina (or are locals spending more money locally).⁶

⁵ "Arts and Economic Prosperity IV in Wake County," Americans for the Arts, 2012.

⁶ The other 65% are assumed to be locals who will attend events at the FVCACC instead of events previously attended elsewhere in Fuquay-Varina. Their spending is merely shifting from one part of town to another, hence it adds nothing to the economic impact.

The survey in “Arts and Economic Prosperity IV” also found that attendees from outside Wake County spent an average of \$36 per event on meals before or after the event, transportation, lodging, and incidentals. The lodging figure was quite small precisely because it’s an average: most surveyed attendees did not stay overnight.

The report by Hunden Strategic Partners projects the number of attendees, by year. The following table uses those projections and the estimates above to calculate new spending resulting from the opportunities provided by the CACC.

Table 5.4: Visitors and Visitor Spending

Year	Attendees	35% “Outsiders”	Spending @ \$36
1	14,600	5,110	\$183,960
2	21,855	7,649	\$275,373
3	30,540	10,689	\$384,804
4	38,050	13,318	\$479,430
5	41,265	14,443	\$519,939

Source: Hunden Strategic Partners, analysis by author

These aren’t necessarily unique people, but they don’t need to be. The 14,600 people projected to attend CACC events in Year 1 will almost certainly include “repeat attenders.”

The impact of this spending is calculated by constructing a consumer spending function in IMPLAN that captures the various retail categories identified in the above survey. The result of those calculations appear in the following tables:

Table 5.5: Visitor Impacts, Final Demand (\$ thousands)

Year	Direct	Indirect	Induced	Total
1	184.0	23.2	26.4	233.6
2	275.4	34.7	39.5	349.6
3	384.8	48.5	55.2	488.5
4	479.4	60.5	68.8	608.7
5	519.4	65.6	74.6	660.1

Source: IMPLAN analysis by the author

Table 5.6: Visitor Impacts, Employment (number of jobs)

Year	Direct	Indirect	Induced	Total
1	2.9	0.2	0.2	3.3
2	4.3	0.3	0.3	4.9
3	6.0	0.4	0.5	6.9
4	7.4	0.5	0.6	8.6
5	8.1	0.5	0.7	9.3

Source: IMPLAN analysis by the author

Therefore, the impact of visitor spending within the 27526 ZIP region is projected to start at \$233,600 in Year 1 and increase to \$660,100 in Year 5.

6. Summary

Table 6.1 combines the investment and operational impacts (taken as the sum of the center's operations and visitor spending) that are calculated in this report:

Table 6.1: Summary of Economic Impacts

Phase	Final Demand (\$ millions)	Employment (num. of jobs)
Construction	15.060	114.6
Operations: Year 1	1.057	21.0
Operations: Year 2	1.213	23.5
Operations: Year 3	1.396	26.5
Operations: Year 4	1.560	29.1
Operations: Year 5	1.652	30.7

Source: IMPLAN analysis by the author

Therefore, by Year 5, the center is projected to generate \$1.65 million in fiscal impacts and support 31 jobs. The construction impacts are much bigger than the operational impacts, but the former is a one-time impact whereas the latter will accrue to the impact region year after year. At some point beyond the five-year period analyzed in the Hunden Strategic Partners feasibility study, the operational impacts will exceed the construction impacts (this applies to final demand; as a rule, one shouldn't add jobs over time).

As noted earlier in this report, the economic impact of the CACC is just one measure of its significance to the economy of Fuquay-Varina, and a relatively short-term measure at that. The longer-term benefits of a vibrant arts environment could be even greater.